

PERAC AUDIT REPORT



Lynn
Contributory Retirement System



JAN. 1, 2008 - DEC. 31, 2010



TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Finding and Recommendation	2
Statement of Ledger Assets and Liabilities.....	4
Statement of Changes in Fund Balances	5
Statement of Receipts.....	6
Statement of Disbursements.....	7
Investment Income	8
Schedule of Allocation of Investments Owned.....	9
Supplementary Investment Regulations	10
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions	11
Note 2 - Significant Accounting Policies	18
Note 3 - Supplementary Membership Regulations.....	20
Note 4 - Administration of the System	22
Note 5 - Actuarial Valuation and Assumptions.....	23
Note 6 - Membership Exhibit.....	24

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*
PAUL V. DOANE | JAMES M. MACHADO | DONALD R. MARQUIS | ROBERT B. McCARTHY | GREGORY R. MENNIS

JOSEPH E. CONNARTON, *Executive Director*

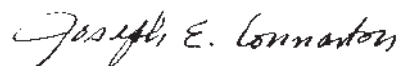
November 23, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Lynn Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2010. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of the finding presented in this report.

In closing, I acknowledge the work of examiners James Ryan and James Tivnan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDING(S) AND RECOMMENDATION(S)

I. Collection of Contributions Owed by Members

A prior audit cited a finding that many members who were hired after January 1, 1979 were not contributing the additional 2% deduction on regular compensation over \$30,000. The Board initiated an extensive evaluation of system membership and identified 123 members who had not contributed the additional 2%. It notified those members by letter, stating the error, conveying regrets and outlining suggested methods to recover the funds owed. The Board insisted upon a repayment plan and arranged with a municipal credit union to ease the financial burden on members. The System has collected 66% of the funds owed after more than five years.

The Board has been advised that the decision in Vatalaro vs. State Retirement Board (CRAB CR-9962) contains a procedure for modifying the retirement allowance in cases where money is owed to the Board. This procedure calculates the annuity and pension as if the member had contributed the amount owed, and then re-calculates the annuity based on the actual contributions. This lower annuity is paid until the amount owed is collected.

The current audit revealed that little progress has been made in the recovery of these funds since 2007. Since that date only 10% of the funds have been recovered to the present. The system staff reported that many members have elected to defer the payment of these funds until they are ready to retire. The staff also expressed frustration that there was no apparent remedy available to coerce recovery from these members prior to retirement. We noted that five members who we identified as owing funds to the system have already retired apparently without adjustment to the pension portion of their benefit. This indicates that the system does not have a reliable process for identifying these members who had 2% contribution deficiencies.

Recommendation: We commend the Lynn Retirement System for its efforts to recover missed deductions. The Board position that benefits upon retirement will be reduced for all members who do not respond to the incentives established to collect the funds owed the system is justified by the formula contained in the Vatalaro decision.

The Board must design a program that provides incentives for early recovery of these funds. Regular mailings requesting a response should be initiated on a bi-monthly schedule. The Board should initiate a supplemental regulation that provides for interest to be accumulated upon the unpaid balance on a regular basis. The interest rate applied should be equivalent to the assumed rate of return so as not to provide a disadvantage to the system. The Board should contact the credit unions affiliated with the police and firefighters, similar to the system used for municipal workers with much success. The Board could assist in the repayment process by providing promissory note documents with their mailings accompanied by automatic payroll deduction authorization forms to help assist these members in meeting their obligations to the retirement system. The Board needs an improved procedure for identifying these members prior to termination, transfer or retirement that requires a personal visit to the Board offices for mandatory counseling prior to initiating any financial transaction involving these members. The checklists and any similar tickler notification or reminder function should be changed to include a process for confirming that the member does not otherwise owe funds to the retirement system for this 2% issue or for any other reason.

Retirees who owe money should have their allowances recalculated using the Vatalaro formula.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

The Lynn Retirement Board continues in the ongoing task of recovering the missing 2% deductions from certain members that occurred in 2005. These efforts have resulted in the original list of 123 members owing \$52,561.99 being reduced to 30 members owing a total of \$15,498.89.

The Board appreciates and completely agrees with PERAC's suggestion to design a program that provides incentives for early recovery of the funds. At its meeting of August 22, 2011, the Board unanimously voted to start charging interest at one-half the assumed rate of return on the unpaid balances commencing January 1, 2012.

The Board mailed an updated letter on August 25, 2011 to the members still owing deductions informing them that interest will be charged at 4.125% commencing January 1, 2012 and also reminding them of the Vatalaro decision which could reduce their pension benefits. Shortly after this letter was mailed, we received payments from 6 members, including 2 that were retired.

The staff has been directed to put a distinguishing label on each file of the active members who still owe the funds. This should eliminate someone retiring or transferring without being notified of the possible reduction in their pension benefit. The staff has also been directed to send another notice to the members at approximately the same time that longevity payments are made at the end of November. The logic is that members will have additional money and hopefully will want to avoid paying any interest commencing on January 1, 2012. The staff will also send notices in 2012 on a bi-monthly schedule as recommended by the audit team.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2010	2009	2008
Net Assets Available For Benefits:			
Cash	\$1,013,607	\$1,352,618	\$93,570
Short Term Investments	0	0	561,948
Fixed Income Securities	0	0	337,804
Pooled Alternative Investment Funds	5,568,171	5,030,035	5,005,918
Pooled Real Estate Funds	10,666,847	7,464,552	13,305,634
PRIT Cash Fund	1,250,453	2,500,616	2,501,414
PRIT Core Fund	180,182,211	149,994,195	128,407,652
Interest Due and Accrued	0	0	7,938
Accounts Receivable	838,481	10,598,762	11,531,732
Accounts Payable	0	0	0
Total	<u>\$199,519,770</u>	<u>\$176,940,779</u>	<u>\$161,753,612</u>
Fund Balances:			
Annuity Savings Fund	\$73,303,699	\$70,257,671	\$68,563,891
Annuity Reserve Fund	26,627,216	27,148,424	26,010,638
Pension Fund	6,366,538	6,307,465	6,133,298
Military Service Fund	13,406	13,366	11,087
Expense Fund	0	0	0
Pension Reserve Fund	93,208,912	73,213,852	61,034,697
Total	<u>\$199,519,770</u>	<u>\$176,940,779</u>	<u>\$161,753,612</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2008)	\$65,495,588	\$25,903,445	\$5,643,891	\$11,021	\$0	\$126,716,393	\$223,770,338
Receipts	6,728,625	778,381	22,723,606	66	1,772,097	(62,917,647)	(30,914,872)
Interfund Transfers	(2,924,435)	2,929,516	2,758,968	0	0	(2,764,048)	0
Disbursements	(735,885)	(3,600,704)	(24,993,167)	0	(1,772,097)	0	(31,101,854)
Ending Balance (2008)	68,563,891	26,010,638	6,133,298	11,087	0	61,034,697	161,753,612
Receipts	6,426,645	751,371	23,270,237	58	1,651,769	14,698,405	46,798,484
Interfund Transfers	(4,130,809)	4,155,785	2,492,053	2,221	0	(2,519,250)	0
Disbursements	(602,056)	(3,769,370)	(25,588,122)	0	(1,651,769)	0	(31,611,316)
Ending Balance (2009)	70,257,671	27,148,424	6,307,466	13,366	0	73,213,852	176,940,779
Receipts	6,425,598	799,923	24,749,939	40	1,442,355	21,792,139	55,209,995
Interfund Transfers	(2,660,422)	2,664,680	1,792,823	0	0	(1,797,081)	0
Disbursements	(719,148)	(3,985,811)	(26,483,689)	0	(1,442,355)	0	(32,631,004)
Ending Balance (2010)	<u>\$73,303,699</u>	<u>\$26,627,216</u>	<u>\$6,366,538</u>	<u>\$13,406</u>	<u>\$0</u>	<u>\$93,208,911</u>	<u>\$199,519,770</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Members Deductions	\$5,986,443	\$5,968,670	\$6,242,386
Transfers from Other Systems	145,873	46,156	18,809
Member Make Up Payments and Re-deposits	73,965	30,931	19,340
Member Payments from Rollovers	10,067	51,868	69,987
Investment Income Credited to Member Accounts	<u>209,251</u>	<u>329,020</u>	<u>378,103</u>
Sub Total	<u>6,425,598</u>	<u>6,426,645</u>	<u>6,728,625</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>799,923</u>	<u>751,371</u>	<u>778,381</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	183,203	174,107	232,497
Pension Fund Appropriation	1,035,536	1,086,230	1,747,359
Settlement of Workers' Compensation Claims	23,500,000	22,000,000	20,743,750
	<u>31,200</u>	<u>9,900</u>	<u>0</u>
Sub Total	<u>24,749,939</u>	<u>23,270,237</u>	<u>22,723,606</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>40</u>	<u>58</u>	<u>66</u>
Sub Total	<u>40</u>	<u>58</u>	<u>66</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>1,442,355</u>	<u>1,651,769</u>	<u>1,772,097</u>
Sub Total	<u>1,442,355</u>	<u>1,651,769</u>	<u>1,772,097</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	174,625	200,468	158,582
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	4,821	16,352	7,221
Miscellaneous Income	3,135	4,707	27,066
Excess Investment Income (Loss)	<u>21,609,558</u>	<u>14,476,878</u>	<u>(63,110,515)</u>
Sub Total	<u>21,792,139</u>	<u>14,698,405</u>	<u>(62,917,647)</u>
Total Receipts, Net	<u>\$55,209,995</u>	<u>\$46,798,484</u>	<u>(\$30,914,872)</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Refunds to Members	\$450,363	\$560,613	\$356,250
Transfers to Other Systems	<u>268,785</u>	<u>41,442</u>	<u>379,635</u>
Sub Total	<u>719,148</u>	<u>602,056</u>	<u>735,885</u>
Annuity Reserve Fund:			
Annuities Paid	3,860,664	3,648,638	3,461,350
Option B Refunds	<u>125,147</u>	<u>120,732</u>	<u>139,354</u>
Sub Total	<u>3,985,811</u>	<u>3,769,370</u>	<u>3,600,704</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	17,464,773	16,893,025	16,350,345
Survivorship Payments	1,682,506	1,652,885	1,609,741
Ordinary Disability Payments	283,508	273,613	260,980
Accidental Disability Payments	4,563,306	4,305,306	4,078,346
Accidental Death Payments	1,465,848	1,479,542	1,480,697
Section 101 Benefits	342,166	320,036	328,187
3 (8) (c) Reimbursements to Other Systems	494,134	476,930	696,565
State Reimbursable COLA's Paid	187,449	186,785	188,305
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>26,483,689</u>	<u>25,588,122</u>	<u>24,993,167</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,250	18,000	18,000
Salaries	151,486	151,748	165,344
Legal Expenses	72,410	53,627	30,632
Medical Expenses	0	0	33
Travel Expenses	8,643	2,200	6,289
Administrative Expenses	27,942	16,891	19,757
Education and Training	5,980	1,250	0
Management Fees	1,115,452	1,338,174	1,411,291
Custodial Fees	0	12,619	28,974
Consultant Fees	0	6,000	42,000
Service Contracts	26,311	33,838	33,260
Fiduciary Insurance	<u>18,882</u>	<u>17,421</u>	<u>16,517</u>
Sub Total	<u>1,442,355</u>	<u>1,651,769</u>	<u>1,772,097</u>
Total Disbursements	<u>\$32,631,004</u>	<u>\$31,611,316</u>	<u>\$31,101,854</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Investment Income Received From:			
Cash	\$13,198	\$1,746	\$0
Short Term Investments	0	4,753	192,184
Fixed Income	0	17,583	1,214,433
Equities	0	0	544,316
Pooled or Mutual Funds	5,071,615	4,635,585	4,132,287
Commission Recapture	0	0	5,435
Total Investment Income	<u>5,084,814</u>	<u>4,659,666</u>	<u>6,088,655</u>
Plus:			
Realized Gains	4,968,749	3,845,117	12,921,950
Unrealized Gains	27,490,626	36,515,643	5,443,402
Interest Due and Accrued - Current Year	0	0	7,938
Sub Total	<u>32,459,375</u>	<u>40,360,760</u>	<u>18,373,291</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	(93,363)
Realized Loss	(179,059)	(10,255,966)	(26,142,918)
Unrealized Loss	(13,304,003)	(17,547,426)	(57,981,935)
Interest Due and Accrued - Prior Year	0	(7,938)	(425,599)
Sub Total	<u>(13,483,063)</u>	<u>(27,811,331)</u>	<u>(84,643,814)</u>
Net Investment Income (Loss)	<u>24,061,127</u>	<u>17,209,095</u>	<u>(60,181,868)</u>
Income Required:			
Annuity Savings Fund	209,251	329,020	378,103
Annuity Reserve Fund	799,923	751,371	778,381
Military Service Fund	40	58	66
Expense Fund	1,442,355	1,651,769	1,772,097
Total Income Required	<u>2,451,569</u>	<u>2,732,218</u>	<u>2,928,647</u>
Net Investment Income (Loss)	<u>24,061,127</u>	<u>17,209,095</u>	<u>(60,181,868)</u>
Less: Total Income Required	2,451,569	2,732,218	2,928,647
Excess Income (Loss) To The Pension Reserve Fund	<u>\$21,609,558</u>	<u>\$14,476,878</u>	<u>(\$63,110,515)</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2010		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$1,013,607	0.5%
Pooled Alternative Investment Funds	5,568,171	2.8%
Pooled Real Estate Funds	10,666,847	5.4%
PRIT Cash Fund	1,250,453	0.6%
PRIT Core Fund	<u>180,182,211</u>	<u>90.7%</u>
Grand Total	<u>\$198,681,290</u>	<u>100.0%</u>

For the year ending December 31, 2010, the rate of return for the investments of the Lynn Retirement System was 12.20%. For the five-year period ending December 31, 2010, the rate of return for the investments of the Lynn Retirement System averaged 2.10%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Lynn Retirement System was 7.94%.

The composite rate of return for all retirement systems for the year ending December 31, 2010 was 13.67%. For the five-year period ending December 31, 2010, the composite rate of return for the investments of all retirement systems averaged 4.39%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.46%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Lynn Retirement System has more than ninety per-cent of their funds invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to holdings of Pooled Alternative Investments and Pooled Real Estate Funds could not be abrogated and remain under the care and custody of the Lynn Retirement System. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by the Public Employee Retirement Administration Commission and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written request and can be accessed via the internet at the following address: <http://www.mass.gov/perac/investsup/Lynnintsup.html>

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Lynn Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation. For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17).
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Members who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, §. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$751.80 per year (or \$312 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, § 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$751.80 per year, per child (or \$312 per year in systems in which the local option contained in G.L. c. 32, §. 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

NOTES TO FINANCIAL STATEMENTS (Continued)

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, § 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. Presently that amount is \$12,000. Each increase must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is unmarried at the time of retirement for a member whose retirement becomes

NOTES TO FINANCIAL STATEMENTS (Continued)

effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member’s total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member’s service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Lynn Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Membership

May 24, 1991

All employees must be considered a permanent employee of the City, the Housing Authority, the Water and Sewer Commission, or the Retirement Board to be eligible for membership. A permanent employee must have a regularly scheduled work week of twenty hours or more per week with a commensurate salary paid on regular pay roll, not a stipend or bill. All permanent employees must join the system.

Temporary or seasonal employees shall be ineligible to join the system; however, upon becoming permanent, the employee shall have the option of purchasing prior service, as allowed by the Board.

June 20, 1990

All new employees hired by the City, the Housing Authority and Water and Sewer Commission shall become members of the retirement system at the time of hire with no probationary period.

Creditable Service

May 24, 1991

Full time employees will receive one full year of credit for each year employed. Part time employees whose position has always been part time will be granted full creditable service. A part time employee who becomes full time will have part time service prorated as allowed by the Board. School Department: Full time employees working an entire school year (40 weeks) receive one full year of creditable service. Cafeteria workers, teacher aides, and other school employees who work less than 40 hours per week shall be given full service credit provided they work the normal number of hours of their particular job title as defined by the School Department.

Reserve Police or Call Fire Fighters: The Board shall credit as full time service not to exceed five years that period of time during which a reserve or permanent intermittent police officer or reserve permanent intermittent or call fire fighter was on his/her respective list and was eligible for assignment to duty subsequent to his/her appointment, further, that such service shall be credited only if later appointed as a permanent member of the police or fire department.

CETA: Employees who previously worked for the Lynn CETA program may purchase this service credit provided they are active members of the Retirement System.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Buy-Backs

August 24, 1994

The Retirement Board will not accept service credit liability of less than 13 consecutive weeks (minimum 20 hours per week) for former Lynn governmental employees who were ineligible at the time of their employment in the Lynn Retirement System. This regulation would not apply to an employee who has established membership in the Lynn Retirement System.

June 20, 1990

Effective immediately the Retirement Board will not accept extra retirement deductions on the weekly payroll for the purpose of buying back creditable service. In order to buy back service credit, the employee must make payments either in a lump sum or periodically, directly to the retirement board office.

(The Lynn Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Lynn>).

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Comptroller who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Position currently open

Appointed Member: Claire Cavanaugh Until a successor is appointed

Elected Member: Richard Biagiotti Term Expires: 6/30/2013

Elected Member: Buzzy Barton Term Expires: 6/30/2012

Appointed Member: Michael J. Marks Chairman Term Expires: 1/1/2012

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$50,000,000 Fiduciary Insurance and
Ex-officio Member:)	\$1,000,000 Fidelity Insurance
Elected Members:)	MACRS Policy
Appointed Members:)	Travelers, National Union
Staff Employees:)	Fire, and Arch Insurance Companies

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2009.

The actuarial liability for active members was	\$204,552,605
The actuarial liability for vested terminated members was	1,616,857
The actuarial liability for non-vested terminated members was	548,837
The actuarial liability for retired members and survivors was	<u>236,910,819</u>
The total actuarial liability was	<u>\$443,629,118</u>
System assets as of that date were	<u>186,016,654</u>
The unfunded actuarial liability was	<u>\$257,612,464</u>
The ratio of system's assets to total actuarial liability was	41.9%
As of that date the total covered employee payroll was	\$69,357,106

The normal cost for employees on that date was 8.5% of payroll

The normal cost for the employer was 5.0% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum
 Rate of Salary Increase: Service based table with ultimate rates of 4.75%, 5.00%, and 5.25% for groups 1, 2 and 4 respectively.

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2009	\$186,016,654	\$443,629,118	\$257,612,464	41.9%	\$69,357,106	371.4%
1/1/2007	\$198,161,361	\$412,239,249	\$214,077,888	48.1%	\$67,205,922	318.5%
1/1/2006	\$186,958,827	\$400,012,538	\$213,053,711	46.7%	\$65,444,873	325.5%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Retirement in Past Years										
Superannuation	30	40	90	27	25	25	21	34	44	25
Ordinary Disability	1	1	1	0	0	0	0	1	1	0
Accidental Disability	2	4	4	6	11	20	12	9	8	10
Total Retirements	33	45	95	33	36	45	33	44	53	35
Total Retirees, Beneficiaries and Survivors	1,276	1,252	1,307	1,295	1,277	1,247	1,249	1,298	1,213	1,214
Total Active Members	1,851	1,802	1,593	1,459	1,491	1,794	1,735	1,385	1,348	1,294
Pension Payments										
Superannuation	\$10,036,392	\$10,811,073	\$12,626,488	\$15,575,794	\$15,599,005	\$15,820,908	\$16,117,038	\$16,350,345	\$16,893,025	\$17,464,773
Survivor/Beneficiary Payments	1,475,552	1,248,837	1,390,460	1,478,614	1,495,522	1,528,114	1,559,431	1,609,741	1,652,885	1,682,506
Ordinary Disability	257,512	270,161	308,176	274,626	258,969	251,315	245,667	260,980	273,613	283,508
Accidental Disability	3,118,492	3,148,980	3,154,844	3,282,587	3,433,399	3,590,129	3,872,447	4,078,346	4,305,306	4,078,346
Other	2,174,634	2,213,401	1,961,532	2,043,328	2,408,165	2,731,571	2,485,763	2,693,754	2,463,294	2,974,556
Total Payments for Year	<u>\$17,062,582</u>	<u>\$17,692,452</u>	<u>\$19,441,500</u>	<u>\$22,654,949</u>	<u>\$23,195,060</u>	<u>\$23,922,037</u>	<u>\$24,280,346</u>	<u>\$24,993,167</u>	<u>\$25,588,123</u>	<u>\$26,483,689</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac