

PERAC AUDIT REPORT



Springfield
Contributory Retirement System



JAN. 1, 2007 - DEC. 31, 2009



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

March 23, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Springfield Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2009. 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 those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Scott Henderson, Kimberly Clairemont, and Harry Chadwick 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 FINDINGS AND RECOMMENDATIONS

I. Regular Compensation

Retirement deductions are not being taken from two of the Springfield Housing Authority's pay types that qualify as regular compensation. One type is the shift differential pay that is paid to the overnight employees. This is regular compensation based on 840 CMR 15.03 (3) (b) which states that wages shall include payments made "because of the time at which the work takes place as a condition of employment in a particular position." The other pay type is a \$100 weekly payment for being on call. This is regular compensation based on 840 CMR 15.03 (3) (a) and (b) which state, respectively, that regular compensation is wages for "services performed" (being on call is a service to the employer) and that wages include "pre-determined, non-discretionary, guaranteed payments." A weekly \$100 payment that is described in a contract fits this definition, even when it is rotated among department employees.

In some cases, payments to members from the City for holding certain licenses are not included in retirement deductions. These payments are considered regular compensation based on 840 CMR 15.03 (3) (b) that states in part "... 'wages' shall include ... payments for holding the training, certification, licensing or other educational incentives approved by the employer for the performance of services related to the position the employee holds ...".

The City also has multiple pay types that are vague and ill-defined as to whether or not they qualify as regular compensation.

Recommendation: The Board should instruct the Housing Authority and City to begin contributions from the pay types that clearly fit the definition of regular compensation. The rate of deduction must be the same as the members' other compensation plus the additional 2%, if applicable.

The Retirement Board should be provided with a complete description of all new and existing pay types, including the purpose for and timing when these payments are made, so that the Board may determine whether they qualify as regular compensation.

Board Response:

Retirement deductions are now being withheld properly from the Springfield Housing Authority's pay types that qualify as regular compensation including but not limited to "shift differential and on call". Also, our office has received, from the City Payroll Department, further explanations to the various pay types that were in question during the audit process along with the corrected list of all pay types showing what are pensionable and non-pensionable regular compensation.

2. Retirement Board Bank Accounts

The Retirement Board did not have the opportunity to negotiate with the bank for their cash accounts. The City of Springfield entered into a formal contract without consulting with the Retirement Board.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation: Since the Retirement Board is its own separate entity, they retain the responsibility to negotiate terms with vendors of their own preference.

Board Response:

The Retirement Board is aware that they should have the opportunity to negotiate a contract with any bank that holds a Springfield Retirement System cash account and will be involved at the next period of negotiations.

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,		
	2009	2008	2007
Net Assets Available For Benefits:			
Cash	\$937,509	\$896,334	\$526,761
Pooled Alternative Investment Funds	5,263,238	5,889,130	6,590,758
PRIT Cash Fund	300,904	1,002,178	2,114,701
PRIT Core Fund	225,332,834	200,999,943	300,765,259
Interest Due and Accrued	0	0	0
Accounts Receivable	151,654.16	623,930.93	2,631,858.23
Accounts Payable	(5,302)	(17,484)	(588,849)
Total	<u>\$231,980,838</u>	<u>\$209,394,032</u>	<u>\$312,040,488</u>
Fund Balances:			
Annuity Savings Fund	\$131,191,905	\$127,174,577	\$121,777,932
Annuity Reserve Fund	51,085,908	50,693,433	51,618,262
Pension Fund	13,773,079	(0)	0
Military Service Fund	91,658	91,202	90,658
Expense Fund	0	0	0
Pension Reserve Fund	35,838,288	31,434,821	138,553,636
Total	<u>\$231,980,838</u>	<u>\$209,394,032</u>	<u>\$312,040,488</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 (2007)	\$117,270,972	\$51,648,303	\$0	\$90,244	\$0	\$122,963,253	\$291,972,772
Receipts	12,230,306	1,521,373	33,787,750	414	2,276,375	27,818,416	77,634,633
Interfund Transfers	(4,891,445)	4,910,501	12,208,976	0	0	(12,228,032)	0
Disbursements	(2,831,901)	(6,461,914)	(45,996,726)	0	(2,276,375)	0	(57,566,916)
Ending Balance (2007)	121,777,932	51,618,262	0	90,658	0	138,553,636	312,040,488
Receipts	12,909,404	1,523,547	31,678,547	544	2,080,249	(91,737,817)	(43,545,526)
Interfund Transfers	(4,662,678)	4,601,151	15,442,525	0	0	(15,380,998)	0
Disbursements	(2,850,082)	(7,049,527)	(47,121,072)	0	(2,080,249)	0	(59,100,930)
Ending Balance (2008)	127,174,577	50,693,433	(0)	91,202	0	31,434,821	209,394,032
Receipts	12,818,717	1,502,876	37,719,369	456	1,919,497	28,512,344	82,473,259
Interfund Transfers	(6,659,897)	6,117,581	24,651,193	0	0	(24,108,878)	0
Disbursements	(2,141,492)	(7,227,982)	(48,597,483)	0	(1,919,497)	0	(59,886,454)
Ending Balance (2009)	<u>\$131,191,905</u>	<u>\$51,085,908</u>	<u>\$13,773,079</u>	<u>\$91,658</u>	<u>\$0</u>	<u>\$35,838,288</u>	<u>\$231,980,838</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Members Deductions	\$11,709,054	\$11,586,282	\$10,670,358
Transfers from Other Systems	321,990	552,288	708,886
Member Make Up Payments and Re-deposits	145,900	63,504	169,663
Member Payments from Rollovers	31,523	0	0
Investment Income Credited to Member Accounts	<u>610,250</u>	<u>707,329</u>	<u>681,400</u>
Sub Total	<u>12,818,717</u>	<u>12,909,404</u>	<u>12,230,306</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>1,502,876</u>	<u>1,523,547</u>	<u>1,521,373</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	465,411	422,439	415,527
Pension Fund Appropriation	1,252,550	1,349,791	2,314,370
Settlement of Workers' Compensation Claims	35,919,195	29,906,317	31,057,853
	<u>82,213</u>	<u>0</u>	<u>0</u>
Sub Total	<u>37,719,369</u>	<u>31,678,547</u>	<u>33,787,750</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>456</u>	<u>544</u>	<u>414</u>
Sub Total	<u>456</u>	<u>544</u>	<u>414</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>1,919,497</u>	<u>2,080,249</u>	<u>2,276,375</u>
Sub Total	<u>1,919,497</u>	<u>2,080,249</u>	<u>2,276,375</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	343,140
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	17,839	26,779	22,997
Miscellaneous Income	72	(15)	200
Excess Investment Income, (Loss)	<u>28,494,433</u>	<u>(91,764,581)</u>	<u>27,452,079</u>
Sub Total	<u>28,512,344</u>	<u>(91,737,817)</u>	<u>27,818,416</u>
Total Receipts, Net	<u>\$82,473,259</u>	<u>(\$43,545,526)</u>	<u>\$77,634,633</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Refunds to Members	\$1,768,751	\$1,827,028	\$2,303,517
Transfers to Other Systems	<u>372,741</u>	<u>1,023,054</u>	<u>528,384</u>
Sub Total	<u>2,141,492</u>	<u>2,850,082</u>	<u>2,831,901</u>
Annuity Reserve Fund:			
Annuities Paid	6,873,192	6,673,750	6,284,899
Option B Refunds	<u>354,790</u>	<u>375,777</u>	<u>177,015</u>
Sub Total	<u>7,227,982</u>	<u>7,049,527</u>	<u>6,461,914</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	31,594,707	30,229,412	30,268,156
Survivorship Payments	2,079,876	1,457,387	2,262,958
Ordinary Disability Payments	492,081	483,609	499,738
Accidental Disability Payments	10,680,491	11,309,234	9,740,333
Accidental Death Payments	2,013,591	1,986,228	1,837,979
Section 101 Benefits	460,987	429,925	264,000
3 (8) (c) Reimbursements to Other Systems	1,275,750	1,225,277	1,123,562
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	<u>48,597,483</u>	<u>47,121,072</u>	<u>45,996,726</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	0	0	0
Expense Fund:			
Board Member Stipend	11,750	8,500	10,000
Salaries	340,363	330,241	324,777
Legal Expenses	51,695	57,994	64,623
Medical Expenses	4,563	0	919
Travel Expenses	991	1,537	690
Administrative Expenses	27,799	272,236	89,736
Professional Services	102,086	0	0
Furniture and Equipment	5,959	15,260	58,721
Management Fees	1,267,796	1,370,322	1,662,091
Custodial Fees	0	0	8,039
Consultant Fees	0	0	6,300
Rent Expenses	22,279	24,158	20,400
Service Contracts	51,494	0	0
Fiduciary Insurance	<u>32,722</u>	<u>0</u>	<u>30,078</u>
Sub Total	<u>1,919,497</u>	<u>2,080,249</u>	<u>2,276,375</u>
Total Disbursements	<u>\$59,886,454</u>	<u>\$59,100,930</u>	<u>\$57,566,916</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Investment Income Received From:			
Cash	\$11,331	\$39,528	\$31,448
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	20,482	0	194,535
Pooled or Mutual Funds	5,986,126	9,069,159	9,437,186
Commission Recapture	0	0	0
Total Investment Income	<u>6,017,939</u>	<u>9,108,687</u>	<u>9,663,169</u>
Plus:			
Realized Gains	4,916,963	9,052,713	22,756,643
Unrealized Gains	52,521,964	9,873,383	23,297,055
Interest Due and Accrued - Current Year	0	0	0
Sub Total	<u>57,438,927</u>	<u>18,926,096</u>	<u>46,053,698</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(14,592,065)	(14,944,040)	(694,720)
Unrealized Loss	(16,337,288)	(100,543,655)	(23,087,060)
Interest Due and Accrued - Prior Year	0	0	(3,446)
Sub Total	<u>(30,929,353)</u>	<u>(115,487,695)</u>	<u>(23,785,226)</u>
Net Investment Income (Loss)	<u>32,527,512</u>	<u>(87,452,912)</u>	<u>31,931,640</u>
Income Required:			
Annuity Savings Fund	610,250	707,329	681,400
Annuity Reserve Fund	1,502,876	1,523,547	1,521,373
Military Service Fund	456	544	414
Expense Fund	1,919,497	2,080,249	2,276,375
Total Income Required	<u>4,033,080</u>	<u>4,311,669</u>	<u>4,479,561</u>
Net Investment Income (Loss)	<u>32,527,512</u>	<u>(87,452,912)</u>	<u>31,931,640</u>
Less: Total Income Required	<u>4,033,080</u>	<u>4,311,669</u>	<u>4,479,561</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$28,494,433</u>	<u>(\$91,764,581)</u>	<u>\$27,452,079</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2009		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$937,509	0.4%
Pooled Alternative Investment Funds	5,263,238	2.3%
PRIT Cash Fund	300,904	0.1%
PRIT Core Fund	<u>225,332,834</u>	<u>97.2%</u>
Grand Total	<u>\$231,834,485</u>	<u>100.0%</u>

For the year ending December 31, 2009, the rate of return for the investments of the Springfield Retirement System was 14.38%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Springfield Retirement System averaged 2.64%. For the 25-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Springfield Retirement System was 8.23%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 18.22%. For the five-year period ending December 31, 2009, the composite rate of return for the investments of all retirement systems averaged 3.97%. For the 25-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.30%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Springfield Retirement Board voted on June 13, 2005 to invest all of the system's assets, with the exception of some alternative investments, with the PRIT Fund. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Springfield 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 no later than the end of month they attain 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.
- 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.

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. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

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”.

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. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. 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 \$729.84 per year (or \$312.00 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. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. 32, §. 7(2)(e) has been adopted.

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 \$729.84 per year, per child (or \$312.00 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.

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 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 cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

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 remains unmarried for a member whose retirement becomes 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") 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" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

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 is considered to be funds on deposit with banks and is 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 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 or loss 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 Springfield Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

March 4, 2010

Membership and Creditable Service for the City of Springfield, Springfield Water & Sewer Commission and the Springfield Housing Authority.

The purpose is to define membership eligibility requirements and creditable service. The following regulations cover the membership of the City of Springfield, Springfield Water & Sewer Commission and the Springfield Housing Authority (further known as Units of the Springfield Retirement System). The employees of these Unit's, full-time and part-time hours, vary from each Employer. The supplemental regulations will be considered for each specific employer based on their specific hours of employment.

Definitions: unless a different meaning is defined by statute, an advisory opinion or 840 CMR Regulations of PERAC or by a ruling of a court of competent jurisdiction, the following definitions will apply:

“Employee” is any person hired, employed, elected or appointed to a position within the City of Springfield, Springfield Water & Sewer Commission and the Springfield Housing Authority, who is regularly employed with a regular work schedule with a commensurate salary or wages.

“Full-time employee” is an employee who regularly works the required hours as designated by each Unit of the Springfield Retirement System.

“Part-time Employee” is an employee who regularly works the required hours as designated by each Unit of the Springfield Retirement System.

1. A member whose entire service is in a part-time position shall receive one year of creditable service for each year worked, provided the member works the number of hours required by the position.

2. A member employed on a part-time basis who becomes full-time, shall receive credit for his part-time service, on a pro-rated basis as it relates to a full-time position.

3. A member employed on a full-time basis who becomes part-time shall receive credit for his part-time service on a pro-rated basis as it relates to a full-time position.

4. Creditable service for all part-time, provisional, temporary, temporary provisional, per diem, seasonal or intermittent employment and/or service shall be computed to credit the member for

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

that proportion of a normal year which the number of days actually worked during that year bears to the normal working year from the department under which the employee works.

5. Membership eligibility requires that all employees must work a minimum of 20 hours per week. You have indicated that the intent of #1 is to recognize that full-time employment is 37.5 to 40 hours per week, but if the employer budgets for a 32 hour position the Board will consider that to be full-time for purposes of granting creditable service.

August 8, 2002

Regular Compensation/Educational Incentive Compensation

Educational Incentive Compensation provided in the contract between the City of Springfield and the International Association of Firefighters AFL-CIO, Local 648 are regular compensation for retirement purposes. Pursuant to 840 CMR 15.03(1)(e), any amounts paid as educational incentives are regular compensation.

February 28, 2000

Election Regulations

1. Call of the Election and Notice of Election - Not less than 120 days prior to expiration of the term of office an elected member of the Retirement Board, the Director shall notify the Retirement Board of a duly called meeting of the Retirement Board of the need to conduct an election. At this meeting of the Retirement Board, the Board shall designate an Election Officer who maybe a member of the Board or a staff member. The Election Officer shall have the duties and be governed by the procedures set forth in 840 CMR 7.03.

At this meeting of the Retirement Board, the Board shall provide a notice of election which notice shall provide for an election date at least ninety days after date of the mailing of the notice of election to all retired members and posting of the notice pursuant to 840 CMR 7.03(2).

The notice of election shall state the time, date, place and manner of election and shall describe nomination and election procedures, including if the election is conducted at a polling place, procedures for voting by absentee ballot.

2. Nomination Procedure - Any member of the retirement system may qualify as a candidate by filing with the Retirement Board a nomination paper or papers, containing the signatures and addresses of at least twenty (20) members of the retirement system. Nomination papers, in blank, shall be made available to candidates at least ninety (90) days prior to the date of the election. The nomination paper or papers, containing the necessary number of qualified signatures and addresses shall be filed no later than forty-five (45) days prior to the date of the election. If the Retirement Board determines that a candidate has filed nomination papers containing less than the required number of qualified signatures, the Retirement Board shall declare the nomination papers invalid and shall notify the candidate of its determination.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

3. Election by Declaration - If the Retirement Board determines that only one candidate has been nominated, the Retirement Board shall declare said candidate to be the elected member of the Board, no election shall be held, and said candidate shall take office and serve in all respects as though he or she had been chosen by election.

4. Official Election Ballot - If the Retirement Board determines that more than one candidate has been nominated, the Board shall immediately prepare an official election ballot. Qualified candidates shall be listed on the official ballot in an order determined by a random drawing of the names of the candidates by the Retirement Board or Election Officer. If the incumbent elected member is nominated, he or she shall be identified as the incumbent on the official ballot.

5. Elections Conducted by Mail or at a Polling Place - Elections shall be conducted either entirely by mail or at one polling place open for not less than ten hours, the time and place to be determined by the Retirement Board. In elections conducted at a polling place, members shall cast their votes on the official ballot in person at the polling place except as provided in Section 6 below.

6. Absentee Ballots - In elections conducted at a polling place members retired from service may vote by absentee ballot and an absentee ballot shall be mailed to each retired member. A member in service may, upon timely request, vote by absentee ballot only if he or she:

(a) will be absent from the City of Springfield during the hours that the polling place will be opened:

(b) will be unable to cast his or her vote in person on the day of the election for reasons of religious belief, or

(c) will be unable to cast his or her vote in person at the polling place by reason of temporary physical disability.

Requests for absentee ballots shall be in writing and shall be filed no later than the business day prior to the election. Absentee ballots shall be counted only if received by the Retirement Board no later than the time fixed for the closing of the polls on the day of the election.

7. Tabulation of Ballots - Ballots shall be tabulated by persons designated by Election Officer and may include Retirement Board staff members and/or Election Department employees. The Election Officer shall notify each candidate of the time and location of the tabulation of the ballots and shall permit all candidates, or their representatives, to be present at the tabulation.

8. Election Results - The Retirement Board shall notify each candidate, in writing, and shall give public notice of the results of the election within seven days after the election.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

9. Preservation of Ballots - All ballots received by the Retirement Board, including those determined to be invalid, shall be preserved by the Retirement Board for ninety days following the date of the election.

November 3, 1992

Membership

To accept Springfield Police Cadets employed by the City of Springfield on a full-time basis into the Retirement System as Group I members, beginning on the first day of employment or if presently employed by the city, effective on the date of the Commissioner of Public Employee Retirement Administration's approval.

January 10, 2003

The Springfield Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulation available upon written request.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants, Inc. as of January 1, 2008.

The actuarial liability for active members was	\$258,972,240
The actuarial liability for inactive members was	8,133,975
The actuarial liability for retired members was	<u>431,919,583</u>
The total actuarial liability was	\$699,025,798
System assets as of that date were (actuarial value)	<u>296,522,245</u>
The unfunded actuarial liability was	<u>\$402,503,553</u>
The ratio of system's assets to total actuarial liability was	42.4%
As of that date the total covered employee payroll was	\$126,477,597

The normal cost for employees on that date was 8.10% of payroll
 The normal cost for the employer was 2.5% of payroll

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

Investment Return: 8.50% per annum
 Rate of Salary Increase: Varies by year

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2008

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)
1/1/2008	\$296,522,245	\$699,025,798	\$402,503,553	42.4%	\$126,477,597	318.2%
1/1/2005	\$276,285,563	\$649,022,965	\$372,737,402	42.6%	\$115,382,642	323.0%
1/1/2004	\$291,016,758	\$615,605,168	\$324,588,410	47.3%	\$109,937,408	295.2%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Retirement in Past Years										
Superannuation	62	89	277	97	129	40	118	75	64	79
Ordinary Disability	2	0	2	1	3	3	0	3	2	1
Accidental Disability	7	5	0	22	24	18	6	25	13	16
Total Retirements	71	94	279	120	156	61	124	103	79	96
Total Retirees, Beneficiaries and Survivors	2,692	2,733	2,844	2,835	3,273	2,721	2,953	2,979	2,940	2,934
Total Active Members	5,219	5,239	5,104	3,413	3,577	3,780	3,639	3,793	3,998	3,530
Pension Payments										
Superannuation	\$19,821,166	\$20,669,537	\$24,179,186	\$26,168,641	\$28,460,693	\$28,885,543	\$29,443,445	\$30,268,156	\$30,229,412	\$31,594,707
Survivor/Beneficiary Payments	1,444,132	1,525,505	1,654,324	1,716,427	1,790,226	1,882,857	2,150,364	2,262,958	1,457,387	2,079,876
Ordinary Disability	441,789	406,552	406,625	434,466	452,625	492,838	498,390	499,738	483,609	492,081
Accidental Disability	6,730,857	6,819,444	7,208,655	7,711,156	8,450,111	8,720,295	9,164,964	9,740,333	11,309,234	10,680,491
Other	2,708,555	2,728,068	2,368,811	3,153,775	3,719,089	3,331,990	3,186,479	3,225,541	3,641,430	3,750,328
Total Payments for Year	<u>\$31,146,499</u>	<u>\$32,149,106</u>	<u>\$35,817,601</u>	<u>\$39,184,465</u>	<u>\$42,872,744</u>	<u>\$43,313,523</u>	<u>\$44,443,642</u>	<u>\$45,996,726</u>	<u>\$47,121,072</u>	<u>\$48,597,483</u>

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