***SPRINGFIELD CONTRIBUTORY RETIREMENT SYSTEM***

***FINANCIAL STATEMENTS***

***YEAR ENDED DECEMBER 31, 2020***

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**FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2020**

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# *Financial Section*

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**Independent Auditor's Report**

To the Honorable Springfield Contributory Retirement Board
Springfield Contributory Retirement System
Springfield, Massachusetts

**Report on the Financial Statements**

We have audited the accompanying financial statements of Springfield Contributory Retirement System (SCRS) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Springfield Contributory Retirement System's financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Springfield Contributory Retirement System as of December 31, 2020 and the results of its operations and changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the Net Pension Liability and Related Ratios; the Schedule of Contributions; and the Schedule of Investment Returns be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2021, on our consideration of the Springfield Contributory Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Springfield Contributory Retirement System's internal control over financial reporting and compliance.

**Restriction on Use**

This report is intended solely for the information and use of the Springfield Contributory Retirement System, the Public Employee Retirement Commission and all member units and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan, LLC

August 30, 2021

# *Management's Discussion and Analysis*

As management of the Springfield Contributory Retirement System ("System"), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2020. The System complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB).

The GASB is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users can assess the financial condition of a public retirement system compared to others.

**Financial Highlights**

- The System's assets exceeded its liabilities at the close of the most recent year by $450.6 million (net position).
- The System's net position increased by $51.7 million for the year ended December 31, 2020.
- Total investment income was $44.7 million; investment expenses were $1.8 million; and the net investment income for the current year was $42.9 million.
- Total contributions were $97.9 million, including $78.1 million from employers, $18.4 million from members, and other contributions of $1.4 million.
- Deductions for retirement benefits, refunds, and transfers amounted to $88.2 million.
- Administrative expenses were $882,000 or approximately 1.0% of total deductions.
- The total pension liability was $1.355 billion as of December 31, 2020 while the net pension liability was $904.2 million.
- The Plan fiduciary net position as a percentage of the total pension liability (funding percentage) was 33.26%.

## *Overview of the Financial Statements*

This discussion and analysis is intended to serve as an introduction to the System's fiduciary financial statements. These fiduciary financial statements comprise four components: 1) management's discussion and analysis, 2) fiduciary financial statements, 3) notes to the financial statements and 4) required supplementary information.

**Fiduciary Financial Statements**

The *statement of net position* presents information on all assets and liabilities with the difference reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of changes in fiduciary net position* presents information showing how the System's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, additions and deductions are reported in this statement for some items that will only result in cash flows in future periods.

**Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the fiduciary financial statements.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the Net Pension Liability and Related Ratios; the Schedule of Contributions; and the Schedule of Investment Return be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

## *Financial Analysis*

As noted earlier, net position may serve over time as a useful indicator of the System's financial position. The System's assets exceeded liabilities (net position) by $450.6 million at the close of 2020.

The assets accumulated are held to provide pension benefits for qualified retirees along with active and inactive employees of the member units. At year end the System's net position include investments of $410.6 million, cash and cash equivalents of $5.2 million and accounts receivable of $34.8 million; less liabilities of $20,500.

In 2020, the System's total additions were $140.8 million while retirement benefit payments, transfers to other systems, and administration expenses were $89.1 million which resulted in a current increase of $51.7 million. In 2019, the System's total additions were $147 million while retirement benefit payments, transfers to other systems, and administration expenses were $85.9 million which resulted in a prior year increase of $61.1 million.

Net investment income was $42.9 million and $54 million in 2020, and 2019, respectively. The annual money weighted rate of return was 11.46% and 15.78% in 2020 and 2019, respectively. The system's investment policy is designed to achieve a long-term rate of return of 7.25% and some fluctuation in annual investment returns is expected.

The following tables present summarized financial information for the past two years:

**Statement of Fiduciary Net Position**

| | 2020 | 2019 |
|---|---|---|
| Cash and cash equivalents........................ | $ 5,214,255 | $ 1,086,403 |
| Investments........................................... | 410,643,015 | 397,650,178 |
| Receivables........................................... | 34,760,869 | 176,944 |
| Accounts payable.................................. | (20,508) | (1,434) |
| **Net Position Restricted for Pensions........** | **$ 450,597,631** | **$ 398,912,091** |

The increase in receivables in 2020 relates to the Retirement Board authorizing the member units to fund their pension appropriations throughout their respective fiscal years for cash flow management purposes due to the uncertainties brought about by the COVID-19 pandemic.

**Statement of Changes in Fiduciary Net Position**

| | 2020 | 2019 |
|---|---|---|
| Additions: | | |
| Contributions: | | |
| Member contributions | $ 18,447,034 | $ 18,915,995 |
| Employer contributions | 78,087,018 | 72,757,453 |
| Other contributions | 1,381,114 | 1,344,678 |
| Total contributions | 97,915,166 | 93,018,126 |
| Net investment income: | | |
| Total investment income | 44,664,048 | 55,842,683 |
| Less; investment expenses | (1,808,393) | (1,877,347) |
| Net investment income | 42,855,655 | 53,965,336 |
| Total additions | 140,770,821 | 146,983,462 |
| Deductions: | | |
| Administration | 881,842 | 880,489 |
| Retirement benefits, refunds and transfers | 88,203,439 | 85,044,744 |
| Total deductions | 89,085,281 | 85,925,233 |
| Net increase/(decrease) in fiduciary net position | 51,685,540 | 61,058,229 |
| Fiduciary net position at beginning of year | 398,912,091 | 337,853,862 |
| Fiduciary net position at end of year | $ 450,597,631 | $ 398,912,091 |

## *Requests for Information*

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the System's Executive Director, 70 Tapley Street, Springfield, Massachusetts, 01104.

# Financial Statements

## STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2020

| | |
|---|---|
| **Assets** | |
| Cash | $ 5,214,255 |
| Investments: | |
| Investments in Pension Reserve Investment Trust | 410,543,943 |
| Alternative investments | 99,072 |
| Total investments | 410,643,015 |
| Receivables: | |
| Member make-up payments and redeposits | 188,699 |
| Pension fund appropriation due from the City of Springfield | 34,567,452 |
| Other | 4,718 |
| Total receivables | 34,760,869 |
| Total assets | 450,618,139 |
| **Liabilities** | |
| Accounts payable | 20,508 |
| **Net Position Restricted for Pensions** | $ 450,597,631 |

See notes to financial statements.

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2020

| | | |
|---|---|---|
| Additions: | | |
| Contributions: | | |
| Employer contributions | $ | 78,087,018 |
| Member contributions | | 17,169,940 |
| Member contributions - transfers from other systems | | 1,083,714 |
| Retirement benefits - 3(8)c contributions from other systems | | 923,472 |
| Retirement benefits - State COLA reimbursements | | 456,454 |
| Members' makeup payments and redeposits | | 142,308 |
| Reimbursement of 91A overearnings | | 51,072 |
| Other receipts | | 1,188 |
| Total contributions | | 97,915,166 |
| Net investment income: | | |
| Investment income | | 23,952,776 |
| Net change in fair value of investments | | 20,711,272 |
| Less, investment expenses | | (1,808,393) |
| Net investment income | | 42,855,655 |
| Total additions | | 140,770,821 |
| Deductions: | | |
| Administration | | 881,842 |
| Member contributions - transfers to other systems | | 862,973 |
| Retirement benefits - 3(8)c payments to other systems | | 2,631,137 |
| Retirement benefits and refunds | | 84,709,329 |
| Total deductions | | 89,085,281 |
| Net increase in fiduciary net position | | 51,685,540 |
| Fiduciary net position at beginning of year | | 398,912,091 |
| Fiduciary net position at end of year | $ | 450,597,631 |

See notes to financial statements.

**NOTE 1 – PLAN DESCRIPTION**

The Springfield Contributory Retirement System ("System" or "SCRS") is a multiple-employer, cost-sharing, contributory defined benefit pension plan covering employees of the three member units (employers) of the SCRS: 1) the City of Springfield, Massachusetts, 2) the Springfield Housing Authority, and 3) the Springfield Water & Sewer Commission. All employees and retirees and beneficiaries of these member units, except for employees of the Springfield School Department who serve in a teaching capacity, are members of the SCRS. The pensions of school employees who serve in a teaching capacity are administered by the Commonwealth of Massachusetts' Teachers Retirement System. Membership in the SCRS is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 20 hours per week.

The System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the Plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

Massachusetts contributory retirement system benefits are, with certain exceptions, uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average for members hired after that date. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension.

Active members contribute between 5% and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Public Employee Retirement Administration Commission's (PERAC) actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' state law during those years are borne by the Commonwealth and are deposited into the Pension Fund. Cost-of-living adjustments granted after 1997 must be approved by the System and all costs are borne by the System.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current-year pension assessment. In past years, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside money for the future benefits of employees who are currently employed. Large unfunded liabilities resulted from operating under this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations. In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the Retirement Systems' unfunded liabilities, and in some Systems have actually reduced such liability.

Administrative expenses, which were previously appropriated from the governmental entities whose employees are members of the system, are now paid from investment income.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions.

Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Springfield Contributory Retirement System have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

SCRS is a special-purpose government engaged only in fiduciary activities. Accordingly, the financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, additions are recorded when earned and deductions are recorded when the liabilities are incurred.

### Cash and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities traded in the over-the-counter market. The fair value of private equities are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values. Real estate assets are reported at fair value utilizing an income approach to valuation along with independent appraisals and estimates by management.

### Fair Value Measurements

The System reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the System's financial instruments see Note 4.

Accounts Receivable

Accounts receivable consist of the pension fund appropriation due from the City of Springfield, member deductions, and other reimbursements. These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles. All amounts were received subsequent to year-end.

**NOTE 3 – PLAN ADMINISTRATION**

The System is administered by a five-person Board of Retirement consisting of two representatives of the City of Springfield government, two who are elected from and by the active and retired members of the system, and a fifth member, selected by the four who shall not be a member of the system.

| | | | |
|---|---|---|---|
| Chairman - Elected……….. | Thomas M. Scanlon | Term Expires: | 6/30/2023 |
| Elected Member………….. | Robert P. Moynihan | Term Expires: | 7/31/2022 |
| Appointed Member……….. | Haskell O. Kennedy, Jr. | Term Expires: | 6/30/2022 |
| Appointed 5th Member…... | Philip J. Mantoni | Term Expires: | 7/31/2021 |
| Ex-Officio…………………. | Patrick S. Burns | Term Expires: | Indefinite |

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 three persons designated by the Board.

The SCRS has obtained insurance policies to ensure that all retirement board members, employees, and the Treasurer-Custodian of the SCRS are bonded. The current policy provides a limit of $2,000,000 under a master policy issued through a layered program with Markel America Insurance Company. A separate policy issued through Travelers Casualty and Surety Company provides fidelity coverage for ERISA/Crime actions with a limit of $1,000,000.

**NOTE 4 – CASH AND INVESTMENTS**

Custodial Credit Risk - Deposits

At December 31, 2020, the carrying amount of the System's deposits totaled $5,214,255 and the bank balance totaled $6,153,230, which was covered by Federal Depository Insurance and the Depositors Insurance Fund.

Investments

The System's investments are as follows:

| | | |
|---|---|---|
| Pension Reserves Investment Trust (PRIT)......... | $ | 410,543,943 |
| Alternative Investments.................................. | | 99,072 |
| Total Investments..................................... | $ | 410,643,015 |

Approximately 99.9% of the Retirement System's investments are in Pension Reserves Investment Trust (PRIT). This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board. The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The Administration does not have the ability to control any of the investment decisions relative to its funds in PRIT.

Approximately 0.1% of the System's funds are invested in pooled alternative investments. The market values of assets in those funds are based on the quoted values obtained from each pool.

The System's annual money-weighted rate of return on pension plan investments was 11.46%. The money–weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested, measured monthly.

Fair Market Value of Investments

The System holds significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the System's activities, the plan shows greater disaggregation in its disclosures. The System chooses a tabular format for disclosing the levels within the fair value hierarchy.

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The System has the following recurring fair value measurements as of December 31, 2020:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| Investment Type | December 31, 2020 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Investments measured at fair value:** | | | | |
| Alternative investments | $ 99,072 | $ - | $ - | $ 99,072 |
| **Investments measured at net asset value:** | | | | |
| Pension Reserve Investment Trust (PRIT) | 410,543,943 | | | |
| Total investments | $ 410,643,015 | | | |

Pooled Alternative Investments classified in level 3 are valued using either a discounted cash flow or market comparable companies technique.

PRIT Investments are valued using the net asset value (NAV) method. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board (PRIM). The fair values of the positions in each investment Pool are the same as the value of each Pool’s shares. The System does not have the ability to control any of the investment decisions relative to its funds in PRIT.

## NOTE 5 – MEMBERSHIP

The following table represents the System’s membership at December 31, 2020:

| | |
|---|---|
| Active members | 3,253 |
| Inactive members | 842 |
| Retirees and beneficiaries currently receiving benefits | 2,813 |
| Total | 6,908 |

**NOTE 6 – ACTUARIAL VALUATION**

Components of the net pension liability as of December 31, 2020 were as follows:

| | | |
|---|---|---|
| Total pension liability | $ | 1,354,758,000 |
| Total pension plan's fiduciary net position | | (450,597,631) |
| Total net pension liability | $ | 904,160,369 |
| The pension plan's fiduciary net position as a percentage of the total pension liability | | 33.26% |

The total pension liability was determined by an actuarial valuation as of January 1, 2020, using the following actuarial assumptions that were applied to all periods as of the December 31, 2020 measurement date:

| | |
|---|---|
| Valuation date | January 1, 2020. |
| Actuarial cost method | Entry Age Normal Cost Method. |
| Amortization method | Total payments increase 9.2% per year until FY32 with a final amortization payment in FY33. |
| Remaining amortization period | 12 years from July 1, 2021. |
| Asset valuation method | Market value for GASB 67/68. For funding purposes, gains and losses each year are recognized over 5 years. |
| Investment rate of return | 7.25%, net of pension plan investment expense, including inflation. |
| Discount rate | 7.25% |
| Inflation rate | Not explicitly assumed. |
| Projected salary increases | Select and ultimate by job group; ultimate rates 4.25% for Group 1 and 4.75% for Group 4. |
| Cost of living adjustments | 3% of the first $13,000 of retirement income. |
| Mortality rates | Pre-retirement rates reflect the RP-2014 Blue Collar Employees table projected generationally with Scale MP-2018 (gender distinct).<br>Post-retirement rates reflect the RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2018 (gender distinct).<br>For disabled retirees, the rates reflect the RP-2014 Blue Collar Healthy Annuitant table set forward 1 year projected generationally with Scale MP-2018 (gender distinct). |

*Investment policy:* The System's policy in regard to the allocation of invested assets is established by PRIT. Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the pension plan.

The investment return assumption is a long-term assumption and is based on capital market expectations by asset class, historical returns, and professional judgment. The market expectations analysis used a building-block approach which included expected returns by asset class and target asset allocation. The 30 year expected returns are shown on a geometric return basis.

Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2020, are summarized in the following table:

| Asset Class | Long-Term Expected Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic equities | 23.10% | 6.40% |
| International equities | 14.40% | 6.60% |
| Emerging international equities | 5.80% | 8.40% |
| Hedged equities | 8.80% | 5.70% |
| Core fixed income | 15.80% | 2.25% |
| Value added fixed income | 7.40% | 6.20% |
| Private equity | 12.60% | 10.20% |
| Real estate | 8.30% | 6.00% |
| Timberland | 3.30% | 6.60% |
| Portfolio completion | 0.50% | 5.20% |
| Total | 100.00% | |

*Discount rate*: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rated. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate:* The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

| | 1% Decrease (6.25%) | Current Discount (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| Springfield Contributory Retirement System | $ 1,049,564,000 | $ 904,160,369 | $ 780,576,000 |

*Contributions*: Governmental employers are required to pay an annual appropriation as established by PERAC. The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the System's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The pension fund appropriations are allocated amongst employers based on covered payroll.

## NOTE 7 – COMMITMENTS AND CONTINGENCIES

The System has no significant commitments or contingencies at year end.

Various legal actions and claims are pending against the System. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at December 31, 2020, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the System at December 31, 2020.

## NOTE 8 – IMPLEMENTATION OF GASB PRONOUNCEMENTS

In May of 2020, the GASB issued Statement #95, *Postponement of the Effective Dates of Certain Authoritative Guidance.* The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. This Statement postponed the required implementation of many of the upcoming Statements for one year or longer.

There were no GASB pronouncements required to be implemented in 2020 that impacted the Retirement System's financial statements.

None of the issued GASB statements that are required to be implemented in future years are anticipated to impact the System's financial statements.

## NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 30, 2021, which is the date the financial statements were available to be issued.

# *Required Supplementary Information*

## SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

| | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| **Total pension liability:** | | | | |
| Service cost | $ 17,151,000 | $ 17,923,000 | $ 22,097,000 | $ 23,091,000 |
| Interest | 77,538,000 | 79,578,000 | 84,605,000 | 87,036,000 |
| Differences between expected and actual experience | - | 12,434,000 | - | (11,096,000) |
| Changes in assumptions | - | 54,000,000 | - | 35,400,000 |
| Benefit payments | (68,031,686) | (71,092,314) | (74,245,640) | (77,594,360) |
| Net change in total pension liability | 26,657,314 | 92,842,686 | 32,456,360 | 56,836,640 |
| Total pension liability, beginning | 1,001,475,000 | 1,028,132,314 | 1,120,975,000 | 1,153,431,360 |
| Total pension liability, ending **(a)** | $ 1,028,132,314 | $ 1,120,975,000 | $ 1,153,431,360 | $ 1,210,268,000 |
| **Plan fiduciary net position:** | | | | |
| Member contributions | $ 12,150,386 | $ 13,184,024 | $ 14,098,033 | $ 14,658,679 |
| Employer contributions | 45,805,630 | 47,710,101 | 50,572,700 | 57,652,878 |
| Net investment income (loss) | 20,681,621 | 1,890,211 | 20,912,155 | 50,175,997 |
| Other additions | - | 785,488 | 295,507 | 121,215 |
| Retirement benefits and refunds, net | (68,031,686) | (71,092,314) | (74,245,640) | (77,594,360) |
| Administrative expenses | (751,843) | (722,933) | (830,694) | (796,923) |
| Net increase (decrease) in fiduciary net position | 9,854,108 | (8,245,423) | 10,802,061 | 44,217,486 |
| Fiduciary net position at beginning of year | 286,552,206 | 296,406,314 | 288,160,891 | 298,962,952 |
| Fiduciary net position at end of year **(b)** | $ 296,406,314 | $ 288,160,891 | $ 298,962,952 | $ 343,180,438 |
| **Net pension liability - ending (a) - (b)** | $ 731,726,000 | $ 832,814,109 | $ 854,468,408 | $ 867,087,562 |
| Plan fiduciary net position as a percentage of the total pension liability | 28.83% | 25.71% | 25.92% | 28.36% |
| Covered payroll | $ 139,681,000 | $ 152,161,000 | $ 152,161,000 | $ 154,471,000 |
| Net pension liability as a percentage of covered payroll | 523.86% | 547.32% | 561.56% | 561.33% |

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

| 2018 | 2019 | 2020 |
|---|---|---|
| $ 23,719,000 | $ 24,786,000 | $ 26,681,000 |
| 88,350,000 | 90,693,000 | 94,486,000 |
| - | 21,761,000 | - |
| - | 22,900,000 | - |
| (80,146,000) | (82,779,000) | (85,961,000) |
| 31,923,000 | 77,361,000 | 35,206,000 |
| 1,210,268,000 | 1,242,191,000 | 1,319,552,000 |
| $ 1,242,191,000 | $ 1,319,552,000 | $ 1,354,758,000 |
| $ 15,900,608 | $ 17,994,472 | $ 17,584,061 |
| 67,724,281 | 72,757,453 | 78,087,018 |
| (7,964,337) | 53,965,336 | 42,855,655 |
| 889 | 151 | 1,188 |
| (80,163,472) | (82,778,694) | (85,960,540) |
| (824,545) | (880,489) | (881,842) |
| (5,326,576) | 61,058,229 | 51,685,540 |
| 343,180,438 | 337,853,862 | 398,912,091 |
| $ 337,853,862 | $ 398,912,091 | $ 450,597,631 |
| $ 904,337,138 | $ 920,639,909 | $ 904,160,369 |
| 27.20% | 30.23% | 33.26% |
| $ 154,471,000 | $ 171,720,000 | $ 171,720,000 |
| 585.44% | 536.10% | 526.50% |

## SCHEDULE OF CONTRIBUTIONS

| Year | | Actuarially determined contribution | | Contributions in relation to the actuarially determined contribution | | Contribution deficiency (excess) | | Covered payroll | Contributions as a percentage of covered payroll |
|---|---|---|---|---|---|---|---|---|---|
| December 31, 2020……… | $ | 78,087,018 | $ | (78,087,018) | $ | - | $ | 171,720,000 | 45.47% |
| December 31, 2019……… | | 71,639,466 | | (72,757,453) | | (1,117,987) | | 171,720,000 | 42.37% |
| December 31, 2018……… | | 65,724,281 | | (67,724,281) | | (2,000,000) | | 154,471,000 | 43.84% |
| December 31, 2017……… | | 57,652,878 | | (57,652,878) | | - | | 154,471,000 | 37.32% |
| December 31, 2016……… | | 50,572,700 | | (50,572,700) | | - | | 152,161,000 | 33.24% |
| December 31, 2015……… | | 47,710,100 | | (47,710,100) | | - | | 152,161,000 | 31.36% |
| December 31, 2014……… | | 45,009,537 | | (45,009,537) | | - | | 139,681,000 | 32.22% |

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

## SCHEDULE OF INVESTMENT RETURNS

| Year | Annual money-weighted rate of return, net of investment expense |
|---|---|
| December 31, 2020 | 11.46% |
| December 31, 2019 | 15.78% |
| December 31, 2018 | (2.33%) |
| December 31, 2017 | 17.04% |
| December 31, 2016 | 7.45% |
| December 31, 2015 | 0.58% |
| December 31, 2014 | 7.24% |

Note: this schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**NOTE A – CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**

The Schedule of Changes in the Net Pension Liability and Related Ratios includes the detailed changes in the system's total pension liability, changes in the system's net position, and the ending net pension liability. It also demonstrates the System's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

**NOTE B – CONTRIBUTIONS**

Governmental employers are required to pay an annual appropriation as established by PERAC. The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The total appropriations are payable on July 1st and January 1st of each year. Employers may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual employer contributions may be less than the "total appropriation". The pension fund appropriations are allocated amongst employers based on covered payroll. In addition, an employer may contribute more than the amount required.

**NOTE C – MONEY WEIGHTED RATE OF RETURN**

The money weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. A money weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Inputs to the money weighted rate of return calculation are determined monthly.

**NOTE D – CHANGES IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS**

Changes in Assumptions:

The following changes were reflected in the January 1, 2020 valuation.

- The discount rate was decreased from 7.40% to 7.25%
- Mortality tables were updated.

Changes in Plan Provisions:

None.

# Audit of Specific Elements, Accounts, and Items of Financial Statements

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**Independent Auditor's Report**

To the Honorable Springfield Contributory Retirement Board
Springfield Contributory Retirement System
Springfield, Massachusetts

We have audited the accompanying schedule of employer allocations of the Springfield Contributory Retirement System (SCRS) as of and for the year ended December 31, 2020, and the related notes. We have also audited the total for all entities of the rows titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, total covered payroll, total pension expense and contributions included in the accompanying schedule of pension amounts by employer of the SCRS Pension Plan as of and for the year ended December 31, 2020, and the related notes.

**Management's Responsibility for the Schedules**

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, total covered payroll, total pension expense and contributions for the row totals of all participating entities for the Springfield Contributory Retirement System as of and for the year ended December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

## Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Springfield Contributory Retirement System as of and for the year ended December 31, 2020, and our report thereon, dated August 30, 2021, expressed an unmodified opinion on those financial statements.

## Restriction on Use

This report is intended solely for the information and use of the Springfield Contributory Retirement System management, the Springfield Contributory Retirement System employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

August 30, 2021

## SCHEDULE OF EMPLOYER ALLOCATIONS

FOR THE YEAR ENDED DECEMBER 31, 2020

| Employer | FY2021 Pension Fund Appropriation | Additional Appropriation E.R.I. | FY2021 Total Appropriation | Share of Net Pension Liability | Percent of Total Net Pension Liability |
|---|---|---|---|---|---|
| City of Springfield | $ 66,195,880 | $ 2,939,024 | $ 69,134,904 | $ 800,049,243 | 88.485% |
| Springfield Housing Authority | 2,887,211 | 87,794 | 2,975,005 | 34,598,657 | 3.827% |
| Springfield Water & Sewer Commission | 5,909,409 | 67,700 | 5,977,109 | 69,512,469 | 7.688% |
| Total | $ 74,992,500 | $ 3,094,518 | $ 78,087,018 | $ 904,160,369 | 100.000% |

See notes to schedule of employer allocations and schedule of pension amounts by employer.

The City of Springfield has made additional contributions to reduce the City's share of the net pension liability. The additional contributions by the City, and interest on them, have been allocated 100% to the City. The remaining assets have been allocated in proportion to the total pension liability.

## SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

FOR THE YEAR ENDED DECEMBER 31, 2020

| | City of Springfield | Springfield Housing Authority | Springfield Water & Sewer Commission | Totals |
|---|---|---|---|---|
| Net Pension Liability | | | | |
| Beginning net pension liability | $ 813,906,113 | $ 36,080,960 | $ 70,652,836 | $ 920,639,909 |
| Ending net pension liability | $ 800,049,243 | $ 34,598,657 | $ 69,512,469 | $ 904,160,369 |
| Deferred Outflows of Resources | | | | |
| Differences between expected and actual experience | $ 12,439,267 | $ 537,944 | $ 1,080,789 | $ 14,058,000 |
| Changes of assumptions | 20,994,913 | 907,939 | 1,824,148 | 23,727,000 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 5,321,703 | - | - | 5,321,703 |
| Total Deferred Outflows of Resources | $ 38,755,883 | $ 1,445,883 | $ 2,904,937 | $ 43,106,703 |
| Deferred Inflows of Resources | | | | |
| Differences between expected and actual experience | $ 2,477,589 | $ 107,145 | $ 215,266 | $ 2,800,000 |
| Net difference between projected and actual investment earnings on pension plan investments | 17,885,538 | 773,472 | 1,553,990 | 20,213,000 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 2,205,453 | 3,116,250 | 5,321,703 |
| Total Deferred Inflows of Resources | $ 20,363,127 | $ 3,086,070 | $ 4,885,506 | $ 28,334,703 |
| Pension Expense | | | | |
| Proportionate share of plan pension expense | $ 76,650,368 | $ 3,300,017 | $ 6,630,093 | $ 86,580,478 |
| Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions | 2,186,762 | (813,139) | (1,373,623) | - |
| Total Employer Pension Expense | $ 78,837,130 | $ 2,486,878 | $ 5,256,470 | $ 86,580,478 |
| Contributions | | | | |
| Statutory required contribution | $ 69,134,904 | $ 2,975,005 | $ 5,977,109 | $ 78,087,018 |
| Contribution in relation to statutory required contribution | (69,134,904) | (2,975,005) | (5,977,109) | (78,087,018) |
| Contribution deficiency/(excess) | $ - | $ - | $ - | $ - |
| Contributions as a percentage of covered payroll | 45.50% | 45.27% | 45.27% | 45.47% |
| Deferred Outflows(Inflows) Recognized in Future Pension Expense | | | | |
| June 30, 2022 | $ 6,734,321 | $ (560,302) | $ (993,019) | $ 5,181,000 |
| June 30, 2023 | 8,180,106 | (224,054) | (227,052) | 7,729,000 |
| June 30, 2024 | 723,657 | (727,633) | (551,024) | (555,000) |
| June 30, 2025 | 2,754,672 | (128,198) | (209,474) | 2,417,000 |
| Total Deferred Outflows/(Inflows) Recognized in Future Pension Expense | $ 18,392,756 | $ (1,640,187) | $ (1,980,569) | $ 14,772,000 |
| Discount Rate Sensitivity | | | | |
| 1% decrease (6.25%) | $ 928,710,119 | $ 40,162,681 | $ 80,691,200 | $ 1,049,564,000 |
| Current discount rate (7.25%) | $ 800,049,243 | $ 34,598,657 | $ 69,512,469 | $ 904,160,369 |
| 1% increase (8.25%) | $ 690,695,212 | $ 29,869,570 | $ 60,011,218 | $ 780,576,000 |
| Covered Payroll | $ 151,947,000 | $ 6,571,048 | $ 13,201,951 | $ 171,720,000 |

See notes to schedule of employer allocations and schedule of pension amounts by employer.

**NOTE I – Schedule of Employer Allocations**

Governmental Accounting Standards Board (GASB) Statement #68 requires employers participating in a cost-sharing pension plan to recognize pension liabilities as employees provide services to the government and earn their pension benefits. For the first time, employers participating in cost-sharing plans are required to recognize their proportionate share of the plan's collective pension amounts for all benefits provided through the plan including the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense.

GASB Statement #68 requires the allocation of the collective pension amounts be consistent with the manner in which contributions to the plan are determined. As permissible under GASB Statement #68, The Schedule of Employer Allocations is used to demonstrate the allocation of Springfield Contributory Retirement System's collective pension amounts.

Massachusetts General Law (MGL) Chapter 32 Section 22 Paragraph 7c dictates that Massachusetts cost sharing defined benefit pension plans allocate the annual required pension fund appropriation to employer units based on their proportionate share of the aggregate of the annual rates of regular compensation of all members in service of the system who are employees of any government unit at the close of business on the September 30th immediately preceding the fiscal year. Accordingly, the proportionate aggregate rates of regular compensation as of the close of business on September 30, 2019, were applied to allocate the System's fiscal year 2021, pension fund appropriation by member unit.

When a member unit accepts an Early Retirement Incentive Program (E.R.I. or ERIP), PERAC completes an analysis of the costs and liabilities attributable to the additional benefits payable in accordance with the ERIP. The accrued liability for the members who accept the ERIP as retirees, including the ERIP less the accrued liability for the members as active employees excluding the ERIP, represents the increase in accrued liability due to the ERIP. The net increase is amortized for each member unit accepting the ERIP and is separately identified in the system's funding schedule. The ERIP payments extend out through 2028.

The allocation percentage of the total net pension liability is a blended rate of the following two items. (1) The proportionate share of active employer's covered payroll is applied to the fiscal year 2020, pension fund appropriation calculated by the actuary. (2) ERIP is a direct charge calculated by PERAC for only the employers that accepted the ERIP.

**NOTE II – Schedule of Pension Amounts by Employer**

The Schedule of Pension Amounts by Employer presents the net pension liability, the various categories of deferred outflows of resources and deferred inflows of resources, and pension expense for all participating employers including differences between expected and actual economic experience; differences between projected and actual investment earnings, net; and changes of assumptions. Additionally, the changes in proportion and differences between employer contributions and proportionate share of contributions are presented in accordance with GASB Statements.