



OFFICE OF THE MAYOR

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

(617) 498-9090

M E M O R A N D U M

TO: Members of the Cambridge City Council

FROM: Alice K. Wolf *AKW*
Mayor

DATE: June 20, 1990

RE: Commissioner's Report on the Examination of the
Cambridge Retirement System

=====

The Mayor's office received the attached report regarding the administration of the Cambridge retirement system. It raises some serious concerns, many of which are being addressed by the Cambridge Retirement Board. However, as this is a very key area for our employees, I suggest that the City Council refer this report to the Government Operations Committee for consideration and recommendation.

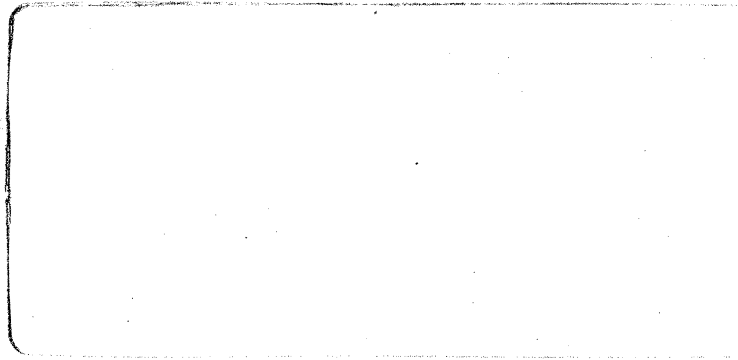
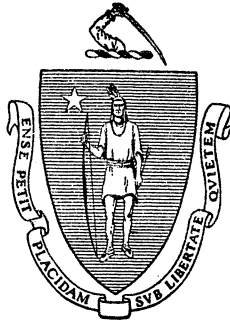
AKW/cmm

~~COMM. & REPORT FROM
CITY OFFICERS~~

~~Comm. from Mayor Alice K. Wolf trans-
mitting notification of the appointment
of a Blue Ribbon Committee on Traffic
and Parking to study the Traffic
Mitigation and Parking Supply Ordinance.~~

In City Council,

June 25, 1990



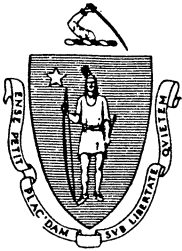
Commonwealth of Massachusetts

**Division of Public Employee
Retirement Administration**

COMMISSIONER'S REPORT
ON THE EXAMINATION OF THE
CAMBRIDGE CONTRIBUTORY RETIREMENT SYSTEM
JANUARY 1, 1986-DECEMBER 31, 1988
PERA 89: 18-025-03

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THE COMMONWEALTH OF MASSACHUSETTS

DIVISION OF PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION

JOHN W. MCCORMACK BUILDING

ROOM 1101

ONE ASHBURTON PLACE • BOSTON, MA 02108

727-9380

JOHN J. McGLYNN
COMMISSIONER

JOSEPH I. MARTIN
FIRST DEPUTY COMMISSIONER
BARBARA J. PHILLIPS
COUNSEL

March 14, 1990

The Division of Public Employee Retirement Administration has completed an examination of the Cambridge Retirement System pursuant to section 21 of Chapter 32 of the Massachusetts General Laws. The examination covered the period from January 1, 1986 to December 31, 1988. This audit was conducted in accordance with the accounting and management standards established by the Division of Public Employee Retirement in regulation 840 CMR 25.00.

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

In closing, I acknowledge the work of examiners James Gallagher, Paul Sweeney and Kevin Morrison who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

A handwritten signature in cursive script, appearing to read "John J. McGlynn".

JOHN J. McGLYNN
Commissioner

JJM/JW/ch

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 1988

1. FUNDING OF PENSION LIABILITY

The most recent study of the Retirement Law Commission determined the Cambridge Retirement System's unfunded pension liability as of January 1, 1987 to be \$105,421,000. That figure is based upon assets and liabilities of the system on that date. PERA is seeking data for the purpose of conducting up-to-date valuations. Such a valuation for Cambridge will be completed when the Cambridge Board provides PERA with the necessary data.

Chapter 697 of the Acts of 1987 includes an option for the legislative body of each governmental unit to accept the provisions of Section 22D of Chapter 32 and become a funding system. Retirement systems that become funding systems may be eligible to receive assistance from the state in the form of pension funding grants and are required to establish a 40-year funding schedule to retire their unfunded liability.

2. INVESTMENTS

PERA notified the Cambridge Retirement System on January 24, 1989 that it was not in compliance with the legal list, and advised that the Cambridge portfolio should take the following steps to bring the portfolio in compliance with the statute in a prudent fashion so as to minimize any loss to the system. During the audit period the Cambridge Retirement System was required to operate within the investment restrictions of Chapter 32. These restrictions require that all investments purchased must be on the "Legal List" of investments prepared by the Commissioner of Banking.

The following stocks held by the Cambridge Retirement System are not now, nor have they ever been a legal investment for systems investing according to the "Legal List." As a result of holding these securities, the Cambridge Retirement System has suffered a realized and unrealized loss of \$3,240,910.36.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 1988

2. INVESTMENTS (Cont 'd)

<u>No. of Shares 12/31/88</u>		<u>Cost</u>	<u>Proceeds from 1989 Sales</u>	<u>Price Per Share 12/15/89</u>	<u>Total Value 12/15/89</u>	<u>Gain/ (Loss)</u>
70,000	CFS Financial Corp. *	\$949,450.00	\$ 93,750.00	14.50	\$ 942,500.00	86,800.00
46,000	First Fed of Michigan *	1,254,500.00	874,000.00			(380,500.00)
174,000	BSB Bancorp * (Binghamton Svgs. Bank)	2,574,750.00	1,548,152.97	16.50	1,509,750.00	483,152.97
170,000	Boston 5 Svgs Bank *	1,155,750.00	1,039,530.77	5.00	500,000.00	383,780.77
89,587	Co-Operative Bancorp *	1,386,750.25	215,869.47	7.125	467,307.38	(703,573.40)
178,500	First Service Bank	1,412,437.50		.01	1,785.00	(1,410,652.50)
50,500	Heritage NIS Bank	782,187.50		4.625	233,562.50	(548,625.00)
36,000	U.S.A. Bancorp	360,000.00		4.50	162,000.00	(198,000.00)
75,000	Perpetual Savings Bank *	1,083,500.00	756,250.00			(327,250.00)
65,000	Waltham Corp. *	801,751.90	283,776.74	6.75	253,125.00	(264,850.16)
74,200	Workingmen's Corp.	988,675.00		5.50	401,100.00	(587,575.00)
100,000	Provident Bankshares *	1,250,000.00	1,185,038.91			(64,961.09)
25,000	First Woburn Bancorp	265,418.60		2.25	56,250.00	(209,168.60)
107,500	StarStates * (Wilmington Svgs. Fund)	1,022,437.50	956,250.00	7.25	235,625.00	169,437.50
75,000	Society for Savings *	1,536,525.00	1,809,843.00			273,318.00
38,000	U.S.F. & G. Corp. *	392,388.65	1,187,394.80			795,006.15
50,000	New Heritage Bank	550,000.00		10.50	525,000.00	(25,000.00)
50,000	Wainwright Bank & Trust	787,500.00		9.75	487,500.00	(300,000.00)
120,000	Perpetual American Pfd.	1,447,250.00		8.625	1,035,000.00	(412,250.00)
	TOTAL	\$20,001,271.90	\$9,949,856.66		\$6,810,504.88	(\$3,240,910.36)

EXPLANATIONS OF FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 1988

2. INVESTMENTS (Cont'd)

Chapter 32 requires that stocks purchased must be in the banking or insurance industries. The legal list required that stocks purchased prior to July 1, 1988 had to be rated A or better by a recognized research/rating service or be on the "Legal List". Stocks purchased since July 1, 1988 must be on the "Legal List".

The following bonds were purchased which were not authorized pursuant to the provisions of M.G.L. Chapter 32:

<u>No. of Shares</u>				<u>Date of Purchase</u>	<u>Purchase Price</u>
\$100,000	MCI Comm. Corp.	9.5%	8/1/93	7/15/85	91,750.00
\$425,000	Phila. Electric Co.	8.25%	8/1/96	5/12/87	396,448.50
\$170,000	First Interstate *	8.65%	3/15/93	1988	166,110.40
\$250,000	RNC Funding Corp.	8.25%	3/15/96	1988	233,330.00
\$500,000	Citicorp. *	9.75%	8/1/99	1988	496,905.00
\$500,000	RJR Nabisco	9.25%	5/1/95	1988	496,465.00
\$200,000	Sears Crdt. Act.Trust	9.05%	9/15/93	1988	199,625.00
\$200,000	Bank of Montreal	9.80%	11/1/00	1988	200,000.00
\$250,000	Citicorp	9.375	3/1/16	1988	242,027.50

The provisions of the "Legal List" required that bonds purchased prior to July 1, 1988 had to be rated "A" or better by a recognized research/rating service or be on the "Legal List". Bonds purchased since July 1, 1988 must be on the "Legal List".

The securities which have been asterisked above have been partially or wholly sold as of the date of the most recent information received by PERA from the Cambridge Board.

RECOMMENDATION

The Cambridge Retirement Board must review its investment policy for adherence to statutory investment restrictions. The board should be aware of the two alternatives to the statutory restrictions. The board can hire an investment manager and receive a waiver from statutory restrictions and the board can join the PRIT Fund. The board must take steps to bring the portfolio in compliance with the statute in a prudent fashion so as to minimize any loss to the system. Board members, as fiduciaries, are required at all times to comply with the statute and should, in the event advice was given by third parties, take the appropriate steps to recover any losses.

EXPLANATIONS OF FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 1988

3. CUSTODY

The Cambridge Retirement Board had securities held by a broker during the period of this audit. The provisions of M.G.L. c.32,s.23 2(C) specify that outside custody of securities is limited to a bank or trust company organized under the laws of the Commonwealth of Massachusetts or the United States. The statute prohibits the use of a broker as custodian.

RECOMMENDATION

The Board must comply with statutory provisions regarding custody, and should consider the use of a custodian bank which will insure timely receipt of principal and interest. PERA highly recommends the use of a custodian bank.

4. TRAVEL EXPENSES

The Cambridge Retirement System paid travel expenses to board members without documentation such as receipts or invoices.

No payment should be issued without documented proof of allowable expenses. Travel expenses in 1986 were \$7,692, in 1987, \$10,374, and in 1988, \$7,352.

The retirement board members must provide documentation of such expenses or repay these amounts to the retirement system.

RECOMMENDATION

The Retirement Board must not approve any further payments unless invoices or receipts document such expenses. In addition, the Board should review the practice used in the periods prior to this audit period and seek restitution for all sums paid which are not supported by invoices or receipts.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

FOR THE PERIOD BEGINNING JANUARY 1, 1986
AND ENDING DECEMBER 31, 1988

FOR THE YEAR ENDING DECEMBER 31,	<u>1986</u>	<u>1987</u>	<u>1988</u>
Cash	4,238,465	4,443,750	1,063,820
Short Term Investments	-	2,039,000	11,169,507
Fixed Income Securities (at book value)	53,950,076	40,378,002	34,423,388
Equities (at market value)	27,104,511	41,067,761	49,471,923
Interest Due and Accrued	868,894	924,248	844,174
Accounts Receivable	-	996,061	649,900
Accounts Payable	-	(105,438)	-
<u>TOTAL</u>	<u>86,161,946</u>	<u>89,743,384</u>	<u>97,622,712</u>
<u>FUND BALANCES</u>			
Annuity Savings Fund	36,892,356	40,287,164	43,504,921
Annuity Reserve Fund	12,082,027	12,887,951	13,953,407
Pension Fund	24,788,193	19,938,775	19,211,631
Expense Fund	14,129	104,028	128,466
Pension Reserve Fund	<u>12,385,241</u>	<u>16,525,466</u>	<u>20,824,288</u>
TOTAL	<u>86,161,946</u>	<u>89,743,384</u>	<u>97,622,712</u>

STATEMENT OF CHANGES IN FUND BALANCES
3 YEARS ENDING DECEMBER 31, 1988

	<u>Annuity Savings Fund</u>	<u>Annuity Reserve Fund</u>	<u>Pension Fund</u>	<u>Pension Reserve Fund</u>	<u>Expense Fund</u>	<u>Total All Funds</u>
BEGINNING BALANCE (1986)	34,291,388	10,953,147	19,447,569	9,209,993	(100,477)	73,801,620
Receipts	5,911,028	337,576	20,063,247	3,143,663	278,320	29,733,834
Interfund Transfers	(1,986,790)	1,959,678	(29,695)	31,585	25,222	-
Disbursements	(1,323,270)	(1,168,374)	(14,692,926)	-	(188,936)	(17,373,506)
<u>ENDING BALANCE (1986)</u>	<u>36,892,357</u>	<u>12,082,027</u>	<u>24,788,194</u>	<u>12,385,241</u>	<u>14,129</u>	<u>86,161,948</u>
Receipts	6,471,208	366,173	19,804,679	4,140,224	194,755	30,977,039
Interfund Transfers	(1,716,402)	1,725,860	(85,459)	1	76,000	-
Disbursements	(1,359,998)	(1,286,109)	(24,568,639)	-	(180,855)	(27,395,601)
<u>ENDING BALANCE (1987)</u>	<u>40,287,165</u>	<u>12,887,951</u>	<u>19,938,775</u>	<u>16,525,466</u>	<u>104,029</u>	<u>89,743,386</u>
Receipts	6,769,083	396,309	18,077,045	4,299,135	201,477	29,743,049
Interfund Transfers	(2,051,214)	2,065,971	(16,917)	(313)	2,473	-
Disbursements	(1,500,112)	(1,396,824)	(18,787,271)	-	(179,513)	(21,863,721)
<u>ENDING BALANCE (1988)</u>	<u>43,504,922</u>	<u>13,953,407</u>	<u>19,211,631</u>	<u>20,824,288</u>	<u>128,466</u>	<u>97,622,714</u>

STATEMENT OF INCOME

FOR THE PERIOD BEGINNING JANUARY 1, 1986
AND ENDING DECEMBER 31, 1988

FOR THE PERIOD ENDING DECEMBER 31,	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Annuity Savings Fund:</u>			
Members Deductions	3,789,655	4,346,108	4,647,068
Transfers From Other Systems	29,179	147,041	98,252
Member Make Up Payments and Redeposits	309,305	37,746	42,932
Investment Income Credited to Member Accounts	1,782,889	1,940,313	1,980,831
Sub Total	<u>5,911,028</u>	<u>6,471,208</u>	<u>6,769,083</u>
<u>Annuity Reserve Fund:</u>			
Investment Income Credited Annuity Res. Fd.	337,576	366,172	396,309
<u>Pension Fund:</u>			
3(8)(c) Reimbursements From Other Systems	140,660	46,067	95,988
Received From Commonwealth For COLA and Survivor Benefits	1,696,707	2,161,268	1,613,825
Profit on Sale of Investments	1,920,406	1,622,779	1,091,944
Increase in Market Value of Equities	5,856,477	5,653,293	4,638,647
Pension Fund Appropriation	10,448,997	10,321,272	10,636,641
Sub Total	<u>20,063,247</u>	<u>19,804,679</u>	<u>18,077,045</u>
<u>Expense Fund:</u>			
Expense Fund Appropriation	278,320	194,755	201,478
<u>Pension Reserve Fund:</u>			
Pension Reserve Appropriation	-	-	250,000
Interest Not Refunded	-	16,479	29,217
Excess Investment Income	3,143,663	4,123,745	4,019,918
Sub Total	<u>3,143,663</u>	<u>4,140,224</u>	<u>4,299,135</u>
TOTAL RECEIPTS	<u>29,733,834</u>	<u>30,977,038</u>	<u>29,743,050</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD BEGINNING JANUARY 1, 1986
AND ENDING DECEMBER 31, 1988

FOR THE PERIOD ENDING DECEMBER 31,	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Annuity Savings Fund:</u>			
Refunds to Members	1,211,514	1,201,151	1,428,895
Transfer to Other Systems	111,756	158,847	71,217
Sub Total	<u>1,323,270</u>	<u>1,359,998</u>	<u>1,500,112</u>
<u>Annuity Reserve Fund:</u>			
Annuities Paid	1,087,995	1,184,033	1,310,117
Option B Refunds	80,379	102,076	86,707
Sub Total	<u>1,168,374</u>	<u>1,286,109</u>	<u>1,396,824</u>
<u>Pension Fund:</u>			
Pensions Paid			
Regular Pension Pymts.	5,785,691	6,186,610	6,716,369
Survivorship Payments	512,617	772,398	811,187
Ordinary Disability Payments	315,282	361,494	396,649
Accidental Disability Payments	3,430,291	3,501,649	3,610,891
Accidental Death Payments	1,048,100	1,130,021	1,199,062
Section 101 Benefits	41,590	51,631	70,555
3(8)(c) Reimbursements To Other Systems	750,329	83,073	535,487
COLA's Paid			
Loss on Sale of Investments	407,500	26,516	934,891
Decrease in Market Value of Equities	2,401,526	12,455,246	4,512,180
Sub Total	<u>14,692,926</u>	<u>24,568,638</u>	<u>18,787,271</u>
<u>Expense Fund:</u>			
Salaries	138,849	155,809	151,954
Legal Expenses	1,127	-	-
Medical Expenses	300	925	384
Travel	7,692	10,374	7,352
Administrative Expenses	38,777	13,202	15,929
Furniture and Equipment	2,191	545	3,894
Sub Total	<u>188,936</u>	<u>180,855</u>	<u>179,513</u>
TOTAL DISBURSEMENTS	<u>17,373,506</u>	<u>27,395,600</u>	<u>21,863,720</u>

INVESTMENT INCOME

FOR PERIOD BEGINNING JANUARY 1, 1986
AND ENDING DECEMBER 31, 1988

FOR THE PERIOD ENDING DECEMBER 31, Investment Income received from:	<u>1986</u>	<u>1987</u>	<u>1988</u>
Cash	21,927	294,379	206,914
PRIT Cash Fund	263,906	105,951	487,109
Short Term Investments	3,641,409	3,362,823	3,293,782
Equities	561,753	2,209,719	2,090,291
Total Investment Income	<u>4,488,995</u>	<u>5,972,872</u>	<u>6,078,096</u>
 Plus:			
Increase in Amortization of Fixed Income Securities	1,116,747	716,437	637,030
Interest Due and Accrued on Fixed Income Securities-Current Year	<u>868,894</u>	<u>924,248</u>	<u>844,174</u>
Sub Total	<u>1,985,641</u>	<u>1,640,685</u>	<u>1,481,204</u>
 Less:			
Decrease in Amortization of Fixed Income Securities	(209,250)	(16,890)	(15,280)
Paid Accrued Interest on Fixed Income Securities	(24,014)	(69,564)	(56,825)
Management Fees Paid (Used when management Fee offsets investment income)	-	(228,005)	(166,192)
Interest Due and Accrued on Fixed Income Securities-Prior Year	<u>(977,243)</u>	<u>(868,894)</u>	<u>(924,248)</u>
Sub Total	<u>(1,210,507)</u>	<u>(1,183,353)</u>	<u>(1,162,545)</u>
 NET INVESTMENT INCOME	 5,264,129	 6,430,204	 6,396,755
 Income Required:			
Annuity Savings Fund	(1,782,889)	(1,940,313)	(1,980,831)
Annuity Reserve Fund	<u>(337,576)</u>	<u>(366,146)</u>	<u>(396,005)</u>
 TOTAL INCOME REQUIRED	 (2,120,465)	 (2,306,459)	 (2,376,836)
 Net Investment Income	 5,264,129	 6,430,204	 6,396,755
Less: Income Required	(2,120,466)	(2,306,469)	2,376,836
 EXCESS INCOME TO THE PENSION RESERVE FUND	 <u>3,143,663</u>	 <u>4,123,745</u>	 <u>4,019,919</u>

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED
(percentages by category)

FOR THE YEAR ENDING DECEMBER 31, 1988

	<u>AMOUNT OWNED IN DOLLARS</u>	<u>PERCENTAGE OF TOTAL ASSETS</u>	<u>PERCENTAGE ALLOWED</u>
<u>Non-waived Systems</u>			
FIXED INCOME			
Telephone	3,224,508	3.35	35
Public Service	13,354,889	13.89	50
Group Insurance Contracts	4,757,053	4.95	100
Miscellaneous	<u>13,086,937</u>	<u>13.62</u>	15
SUB-TOTAL, Fixed Income	34,423,387	35.81%	
EQUITIES			
Bank	27,186,353	28.28%	25
Group Insurance Contracts	22,285,570	23.18%	100
SUB-TOTAL, Equities	49,471,923	51.46	
CASH	<u>12,233,327</u>	<u>12.73</u>	100
GRAND TOTALS	<u><u>96,128,637</u></u>	<u><u>100.00%</u></u>	

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Cambridge employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Teachers Retirement Board.

Instituted in 1937, 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.

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. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members joining the retirement system after January 1, 1979 are subject to a cap of \$30,000 on the level of compensation upon which their benefit is calculated.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, 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 a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80 - 85% pension and 15 - 20% annuity.

Active members contribute either 5, 7 or 8% 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 Commissioner of PERA according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted since 1981 and any increase in other benefits imposed by state law after that year are borne by the state.

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 payments as determined by PERA's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

NOTES TO FINANCIAL STATEMENTS (Continued)

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 are appropriated from the governmental entities whose employees are members of the system.

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 upon 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 state 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. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions.

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

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 Commissioner of Public Employee Retirement Administration.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7 or 8% of their gross regular compensation. Voluntary contributions, redeposits, 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 PERA. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, a 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 members 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 months'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 appropriated by the governmental units for the purposes of administering the retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Pension Fund contains the amounts appropriated by the governmental units as established by PERA to pay the pension portion of each retirement allowance. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Fund.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. 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 all income derived from interest and dividends of invested funds. At the end of the year the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund. (Chapter 661 of the Acts of 1983 allows the retirement board--with the concurrence of the chief executive and local legislative body--to transfer 100% of calendar year 1984 excess, two-thirds of calendar year 1985 excess, and one-third of calendar year 1986 excess,--to the Pension Fund to offset the governmental units appropriation obligation rather than transfer the remainder to the Pension Reserve Fund.)

The Investments of the system are valued as follows:

Bonds are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity.

Stocks are reflected at their quoted market value.

Investments as of December 31, 1988 are summarized as follows:

Non-waived Systems

	<u>Book Value</u>	<u>Market Value</u>
BONDS		
Telephone	\$ 3,224,508	\$ 2,953,688
Public Service	13,354,889	13,007,553
Group Annuity Contracts	4,757,054	4,757,054
Other	13,086,936	7,429,201
STOCKS		
Bank	27,186,354	27,186,354
Group Annuity Contracts	22,285,570	22,285,570
CASH	<u>12,233,326</u>	<u>12,233,326</u>
TOTALS	<u>\$96,128,637</u>	<u>\$89,852,746</u>

NOTE 3 - ADMINISTRATION OF THE SYSTEM

The System is administered by a three person Board of Retirement consisting of the city auditor who shall be a member ex officio, a second member who shall be elected by the members in or retired from the service of such system, and a third member chosen by the other two members.

Ex officio Member: Arthur F. Libitz

Elected Member: Sheila Tobin Term Expires: 10-1-89

Appointed Member: Joseph E. Connarton Term Expires: 12-1-90

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

The investment of the systems' funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERA Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

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

Treasurer - Custodian:)
Ex Officio Member:)\$50,000,000 Aetna Life and Casualty
Elected Member:)
Appointed Member:)
Staff Employee:)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Retirement Law Commission as of January 1, 1987.

The actuarial liability for active members was	\$109,843,000
The actuarial liability for retired members was	\$86,293,000
The total actuarial liability was	\$196,136,000
System assets as of that date were	\$86,224,000
The unfunded actuarial liability was	\$107,912,000
As of that date the total covered employee payroll was	\$60,632,000
The normal cost for employees on that date was	6.3% of payroll
The normal cost for the employer was	4.1% of payroll

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

Mortality:	1971 Mortality Tables (six year set back for females, one year set back for males) (for disabilities 9 years set forward for males and 4 years set forward for females)
Investment Return:	8.0% per annum
Individual Salary Increase:	6% per annum
Payroll Growth	4.5%
Cost of Living Adjustments(State Cost):	none
Employee Turnover:	Crocker, Sarasan and Straight T-3 Boston Groups 1 & 2, T-5 Locals Group 1 & 2, Group 4 none
Rates of Retirement:	Based on actual experience
Rates of Disability:	Based on actual experience
Actuarial Cost Method:	Entry Age Normal Cost Method

NOTE 4-ACTUARIAL VALUATION AND ASSUMPTIONS- (Cont'd).

GASB STATEMENT NO. 5, DISCLOSURE INFORMATION
AS OF JANUARY 1, 1988

Current Employees

Employee Contributions	\$33,975,000
Employer-Financed Vested	\$40,855,000
Employer-Financed Non-Vested	\$32,522,000

Non-Active Participants

Retirees and beneficiaries currently Receiving Benefits and Terminated Employees Not Yet Receiving Benefits	\$86,293,000
Total Pension Benefit Obligation	\$193,645,000
Assets at Market Value	\$88,224,000
Unfunded Pension Benefit Obligation	\$105,421,000

NOTE 5 - MEMBERSHIP EXHIBIT

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Retirement in Past Year</u>										
Superannuation	47	44	87	81	58	59	46	64	51	63
Ordinary Disability	1	3	3	2	1	1	2	2	6	2
Accidental Disability	<u>28</u>	<u>19</u>	<u>24</u>	<u>26</u>	<u>17</u>	<u>11</u>	<u>10</u>	<u>8</u>	<u>10</u>	<u>10</u>
Total Retirements	76	66	114	109	76	71	58	75	67	75
Total Retirees	784	830	909	968	1004	1025	1020	1062	1087	1108
Total Survivors/ Beneficiaries	217	229	243	242	253	256	264	272	278	288
Total Active Members	2971	2963	2833	2790	3248	3631	3975	3941	3865	2737
<u>Pension Payments</u>										
Superannuation	2,710,992	2,979,236	3,354,420	3,833,634	4,147,336	4,541,963	4,926,540	5,785,692	6,186,610	6,716,369
Ordinary Disability	216,388	242,813	256,283	284,037	287,522	271,490	292,406	315,282	361,494	396,649
Accidental Disability	1,829,039	2,022,781	2,345,629	2,707,400	2,992,388	3,184,424	3,307,301	3,430,292	3,501,649	3,610,891
Survivor/Beneficiary Payments	429,105	460,692	479,778	494,974	553,703	636,220	739,567	512,617	772,399	811,187
Other	<u>811,867</u>	<u>979,580</u>	<u>946,814</u>	<u>1,036,260</u>	<u>979,985</u>	<u>997,534</u>	<u>1,101,900</u>	<u>2,293,842</u>	<u>1,264,725</u>	<u>1,805,104</u>
Total Payments in Past yr.	5,997,391	6,685,102	7,382,924	8,356,305	8,960,934	9,631,631	10,367,714	12,337,725	12,083,877	13,340,200



OFFICE OF THE MAYOR

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

(617) 498-9090

MEMORANDUM

TO: Members of the Cambridge City Council

FROM: Alice K. Wolf *AKW*
Mayor

DATE: June 20, 1990

RE: Commissioner's Report on the Examination of the
Cambridge Retirement System

The Mayor's office received the attached report regarding the administration of the Cambridge retirement system. It raises some serious concerns, many of which are being addressed by the Cambridge Retirement Board. However, as this is a very key area for our employees, I suggest that the City Council refer this report to the Government Operations Committee for consideration and recommendation.

AKW/cmm

4.

5/645

COMMUNICATIONS & REPORTS FROM
CITY OFFICERS

Comm. from Mayor Alice K. Wolf transmitting a copy of the Commissionerr's Report on the Examination of the Cambridge Retirement System with the recommendation that said report be referred to the Government Operations Committee.

In City Council,

June 25, 1990

*Referred to
Government Operations
Committee
Copy sent to Government
Operations Committee
6/28/90 DW*