

FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)
Year Ended December 31, 2014
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Financial Statements and Required Supplementary Information

Year Ended December 31, 2014

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Report of Independent Auditors

The Management
Boston Retirement Board

Report on the Financial Statements

We have audited the accompanying financial statements of fiduciary net position and changes in fiduciary net position of the State-Boston Retirement System (the System), a component unit of the City of Boston, Massachusetts, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the State-Boston Retirement System's basic 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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 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 of 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the State-Boston Retirement System as of December 31, 2014, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Adoption of New Accounting Pronouncement

As discussed in Note 2 to the financial statements, as of January 1, 2014 the System adopted Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 3 through 7 and the schedules of changes in the net pension liability, contributions, and investment returns on pages 32 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic 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, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 also have issued our report dated December 16, 2015 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 System's internal control over financial reporting and compliance.



December 16, 2015

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and The Boston Retirement Board

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State-Boston Retirement System (the System), which comprise the statement of fiduciary net position as of December 31, 2014, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



December 16, 2015

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Required Supplementary Information –
Management’s Discussion and Analysis

December 31, 2014

The following discussion provides an overview and analysis of the fiduciary net position and changes in fiduciary net position of the State-Boston Retirement System (the System or Plan) by management for the year ended December 31, 2014.

Overview of the Financial Statements

The System’s financial statements comprise a statement of fiduciary net position, statement of changes in fiduciary net position, and notes to the financial statements.

The Statement of Fiduciary Net Position presents information on the System’s assets and liabilities and the resulting net position held in trust for pension benefits. This statement reflects the System’s investments at fair value, as well as cash, receivables, and other assets and liabilities.

The Statement of Changes in Fiduciary Net Position presents information showing how the System’s net position restricted for pension benefits changed during the year ended December 31, 2014. It reflects contributions by members and participating employers, along with deductions for retirement benefits, refunds and withdrawals, and administrative expenses. Investment income from investing and securities lending activities is also presented.

The Notes to Financial Statements provide additional information that is essential for the reader to gain a full understanding of the data provided in the financial statements.

The Required Supplementary Information includes management’s discussion and analysis and schedules of changes in the net pension liability, contributions, and investment returns.

Financial Highlights and Analysis

- Net position is available for payment of monthly retirement benefits and other qualified distributions to the System’s participants. Net position restricted for pension benefits was \$5.7 billion at December 31, 2014, compared to \$5.5 billion at December 31, 2013. The increase in net position of \$0.2 billion resulted primarily from an increase in the fair value of portfolio investments and investment income.

State-Boston Retirement System
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Required Supplementary Information –
Management’s Discussion and Analysis (continued)

- The System’s equity and fixed income investments comprised 57.3% of invested assets; the remaining 42.7% of investments were invested in real estate investments (6.4%), alternative investments, including private equity and hedge fund of funds investments (9.6%), PRIT general allocation account (25.2%) and short-term investments (1.5%).
- Receivables increased by \$11.3 million at December 31, 2014, primarily due to an increase in receivables from employers.
- Liabilities increased by \$23.7 million at December 31, 2014, primarily due to an increase of \$18.3 million in security lending activity.

Employers’ contributions are made in accordance with a funding schedule approved by the Massachusetts Public Employee Retirement Administration Commission. The System’s funding objective is to meet long-term benefit obligations through contributions and investment income. As of January 1, 2014, the funding ratio was 59.6%. All employers fully met the required funding amounts in 2014.

	2014	2013	Percentage Change 2014–2013
<i>(In Thousands)</i>			
Assets			
Cash and cash equivalents	\$ 159,364	\$ 174,657	(9)%
Receivables	62,846	51,561	22
Investments	5,523,443	5,331,560	4
Securities lending collateral investment pool	204,030	185,269	10
Total assets	5,949,683	5,743,047	4%
Liabilities			
Payables	71,215	66,211	8
Obligation to return securities lending collateral	204,321	185,639	10
Total liabilities	275,536	251,850	9
Net position restricted for pensions	\$ 5,674,147	\$ 5,491,197	3%

State-Boston Retirement System
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Required Supplementary Information –
Management’s Discussion and Analysis (continued)

	2014	2013	Percentage Change 2014–2013
<i>(In Thousands)</i>			
Additions			
Total contributions	\$ 460,807	\$ 425,070	8%
Net investment income	283,689	692,126	(59)
Intergovernmental reimbursements	6,448	9,258	(30)
Total additions	750,944	1,126,454	(33)
Deductions			
Benefit payments	528,022	508,689	4
Other	39,972	37,079	8
Total deductions	567,994	545,768	4
Net increase (decrease) in net position	182,950	580,686	(68)
Net position at beginning of year	5,491,197	4,910,511	12
Net position at end of year	\$ 5,674,147	\$ 5,491,197	3%

Plan Investments

- The total investment return for 2014 was approximately 4.9%. Short-term changes to investment asset allocation strategies from the Plan’s target policy had a negligible impact on performance. Active management, or the added value of investing outside of passive index funds, detracted 10 basis points.
- In 2014, the large cap equity composite returned 12.8% and underperformed the S&P 500 Index, which returned 13.7%. The small cap equity composite returned 5.9%, outperforming the Russell 2000 Index, which returned 4.9%.

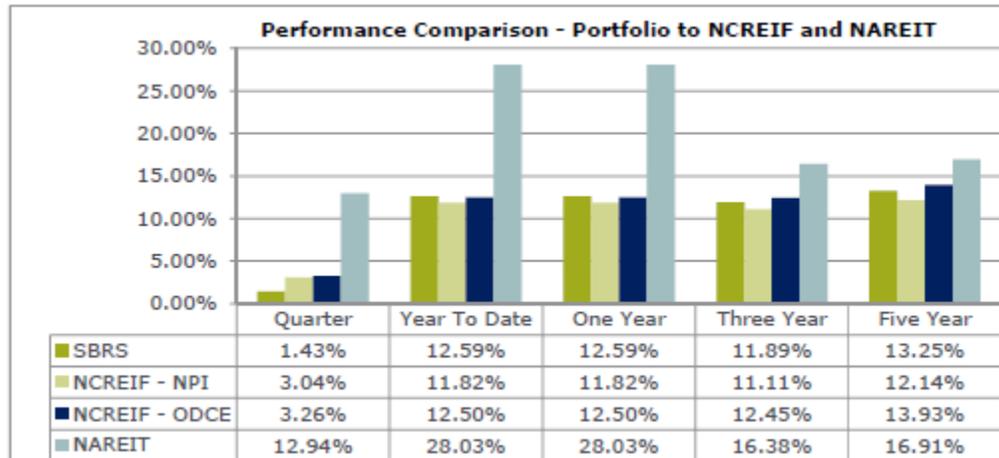
State-Boston Retirement System
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Required Supplementary Information –
Management’s Discussion and Analysis (continued)

- The international equity portfolio, which includes investments in both international developed (67% of the portfolio) and emerging markets equity (33% of the portfolio), posted a return of -2.6%. International emerging markets outpaced developed markets in 2014, with the Morgan Stanley Capital International (MSCI) EM outperforming the MSCI EAFE index by 3.0%.
- Domestic fixed income investments posted positive returns in 2014 and returned 6.4%, outperforming the Barclays Aggregate Bond Index, which returned 6.0%. On an absolute basis, the System’s high yield manager composite gained 0.7%, outperforming its benchmark, the Barclays Capital High Yield, by 140 basis points in 2014.
- The System’s global bond manager, Loomis Sayles, returned 0.7% in 2014, outperforming the Citigroup World Government Bond Index by 120 basis points. The lone emerging market debt and currency product, also managed by Loomis, outperformed the JP Morgan GBI-EM Diversified Index by 40 basis points in 2014.
- Real estate investments yielded a return of 12.6% in 2014. The System’s real estate is a combination of core, value-add and opportunistic investment strategies. In 2014, the System committed \$55 million to closed-end real estate managers; \$30 million to value-add and \$10 million to opportunistic. A comparison of the real estate portfolio’s performance for 2014 against the National Council of Real Estate Investment Fiduciaries (NCREIF) and National Association of Real Estate Investment Trust (NAREIT) benchmarks is shown below.

State-Boston Retirement System
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Required Supplementary Information –
Management’s Discussion and Analysis (continued)



- Private equity performance for 2014 was 9.21%. The System remains committed to the private equity portfolio and plans continued investment. During 2014, the System made additional commitments of \$20 million to secondaries, \$30 million to energy and an additional \$20 million to emerging markets.
- The System’s hedge fund composite returned 3.1% in 2014. For the same period, the Hedge Fund Research Indices Fund of Funds Index returned 3.4%.
- During 2014, the PRIT Core Fund returned 8.1%, outperforming the 50% MSCI All Country World Index/50% Citi World Government Bond Index blended benchmark by 627 basis points. At year-end, the estimated fair value of the PRIT investment was \$1.50 billion.

Other Information

This financial report is designed to provide a general overview of the System’s finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Boston Retirement Board, Boston City Hall, Room 816, Boston, Massachusetts 02201.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Statement of Fiduciary Net Position
(In Thousands)

December 31, 2014

Assets	
Cash and cash equivalents	\$ 159,364
Investments, at fair value:	
Short-term:	
Domestic	78,574
International	4,285
Equity:	
Domestic	1,096,996
International	1,019,665
Fixed income:	
Domestic	806,980
International	241,723
PRIT external investment pooled fund	1,393,111
Real estate	350,763
Alternative	531,346
Total investments, at fair value	<u>5,523,443</u>
Securities lending collateral investment pool	204,030
Receivables:	
Receivable for securities sold	28,332
Accrued interest and dividends	7,062
Other receivables	9,077
Contributions receivable from employers	18,375
Total receivables	<u>62,846</u>
Total assets	<u>5,949,683</u>
Liabilities	
Payable for securities purchased	56,066
Accounts payable, accrued expenses and other liabilities	15,149
Obligation to return securities lending collateral	204,321
Total liabilities	<u>275,536</u>
Net position restricted for pensions	<u>\$ 5,674,147</u>

See accompanying notes.

State-Boston Retirement System
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Statement of Changes in Fiduciary Net Position
(In Thousands)

Year Ended December 31, 2014

Additions

Contributions:

Employers	\$ 203,075
Commonwealth of Massachusetts	114,335
Employees	143,397
Total contributions	460,807

Investment income:

Interest and dividends	115,344
Net appreciation in fair value of investments	191,037
Less management and related fees	(23,600)
Net income from investing, other than from securities lending	282,781

Securities lending activities:

Securities lending income	1,220
Less borrower rebates and fees	(312)
Net income from securities lending activities	908
Total net investment income	283,689

Intergovernmental reimbursements

	6,448
Total additions	750,944

Deductions

Benefit payments to plan members and beneficiaries	528,022
Reimbursements to other systems	10,619
Refunds of contributions and transfers to other systems	18,791
Administrative and other expenses	10,562
Total deductions	567,994

Net increase in net position	182,950
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Net position restricted for pensions:

Beginning of year	5,491,197
End of year	\$ 5,674,147

See accompanying notes.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements

December 31, 2014

1. Plan Description

The following description of the State-Boston Retirement System (the System, SBRS or the Plan) is provided for general information purposes only. Participants should refer to Chapter 32 of the Massachusetts General Law (M.G.L.) for more detailed information. The Board of Trustees is primarily responsible for the administration of the System and consists of five members as follows: the City Auditor (who serves as an ex officio member), a second member appointed by the Mayor, a third and fourth member elected by active or retired members, and a fifth member chosen by the other four members (or appointed by the Mayor if the other four members do not agree on a selection within 30 days of a vacancy).

General

The Plan is a cost-sharing, multiple-employer qualified defined benefit governmental pension plan established under Chapter 32 of the M.G.L. The Plan provides pension benefits for participating employees of the following plan member governmental units:

- City of Boston (the City)*
- Commonwealth of Massachusetts (Other contributing entity – contributing towards City of Boston Teachers pensions)
- Boston Redevelopment Authority*
- Boston Housing Authority*
- Boston Water and Sewer Commission*
- Boston Public Health Commission*
- Sheriff of Suffolk County (Retirees as of December 31, 2009, funded by the City)*

* Indicates participating employer of the Plan

At January 1, 2014, System membership consisted of the following:

Active plan members	20,278
Retirees and beneficiaries receiving benefits	14,341
Inactive members entitled to a return of contributions	7,983
Inactive members entitled to, but not yet receiving benefits	808
Total membership	<u>43,410</u>
Number of participating employers	6

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

1. Plan Description (continued)

The Commonwealth of Massachusetts (the Commonwealth) is responsible for funding the employer portion of all teacher pensions in the Commonwealth. All teachers in the Commonwealth are members of the Massachusetts Teachers Retirement System, with the exception of teachers employed by the City (Boston Teachers), who are members of the System. Although Boston Teachers are members of the System, the Commonwealth is the responsible contributing entity. Additionally, the Commonwealth reimburses the Plan for all cost-of-living increases paid to recipients that were awarded before 1997. These reimbursements (\$4,850,385 during the year ended December 31, 2014) are excluded from the Actuarially Determined Contribution in the required supplementary information (RSI).

Benefits Provided

Participation in the System is mandatory for all permanent, full-time, and certain part-time employees immediately upon the commencement of employment. Participants who resign from employment or are receiving workers' compensation benefits and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. In addition, those participants who resign voluntarily with less than ten years of service are entitled to receive 3% per year interest; all others receive interest that has accrued on their cumulative deductions at the regular interest rate (0.1% at December 31, 2014).

Employees with ten or more years of service having attained age 55 are entitled to pension benefits; an earlier retirement is allowed upon completion of 20 years of service. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation (highest consecutive five-year average for those members who join the System on or after April 2, 2013). Benefit payments are based upon a participant's age, length of creditable service, regular compensation, and group classification. Participants become vested after ten years of creditable service. Effective July 1, 1998, Chapter 32 of the M.G.L. assigned the authority to establish and amend benefit provisions and grant cost-of-living increases for the Plan to the Boston Retirement Board.

If a member in service dies due to causes unrelated to his or her job, the surviving spouse and/or surviving dependent children may receive retirement allowance benefits, either in a lump sum or in the form of an annuity, based on the length of service, contributions, and age. In the event there are no spouse and/or dependent children named, other beneficiaries may be entitled to a lump-sum distribution. Participants who become permanently and totally disabled from further duty may be eligible to receive accidental or ordinary disability retirement benefits.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

1. Plan Description (continued)

Accidental disability is provided to members with incapacitation resulting from a work-related injury or hazard. Generally, annual pension benefits are provided based on 72% of the annual rate of regular compensation a member earned while an active employee on date of injury or average annual rate of regular compensation. Ordinary disability is available to any member whose permanent incapacitation is not work-related and has attained ten years of creditable service. Such benefits are provided as if the member had attained the age of 55 (or actual age if over 55) based on the amount of creditable service actually earned. Limits are placed on how much a disability employee can earn from other sources while collecting a disability retirement pension.

2. Summary of Significant Accounting Policies

Financial Reporting Entity

Because of the significance of its operational and financial relationship with the City, the System is included as a component unit reported as a pension trust fund in the City's basic financial statements. The System adheres to reporting requirements established by the Government Accounting Standards Board (GASB).

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting.

Cash Equivalents

Highly liquid investments with maturities of three months or less at date of purchase are considered to be cash equivalents.

Short-Term Investment Funds

Cash balances maintained by investment managers are recorded as short-term investments on the statement of fiduciary net position.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Contributions are recognized as additions in the period when they become due pursuant to formal statutory obligations. Investment income is recognized when earned.

Benefit Payments and Refunds of Contributions

Benefits and refunds to plan members and beneficiaries are recognized as expenses when due and payable in accordance with the terms of the Plan.

Intergovernmental, Reimbursements, and Transfers to Other Systems

When members transfer to or from other Massachusetts public retirement systems, their cumulative contributions are transferred from the prior employer to the respective Massachusetts public retirement system, and are recognized as receipts or expenses when paid. Additionally, the prior employer reimburses the respective system for a pro rata portion of such members' pension benefits (based on years of service) upon retirement.

Valuation of Investments

Investments are reported at fair value. Fair values of securities held directly are based on quotations from national securities exchanges, except for pooled funds, alternative investments, and real estate, for which fair values are estimated as detailed below.

Pooled Funds

The fair value of shares in managed investment pools is based on unit values reported by the funds.

Alternative Investments

Alternative investments include hedge funds, holdings through commingled limited partnerships of venture capital funds, including equity interests in early, middle, and later stage companies, as well as debt and equity interests in buyouts, acquisitions, restructurings, mezzanine structures and special situations, such as litigation or spin-off activities. These investments are carried at

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

the limited partnership interest or redemption value, the equivalent of net asset value, which approximates fair value. Values assigned to such investments are based on available information and do not necessarily represent amounts that may ultimately be realized in liquidation. Liquidation values depend largely on future circumstances, including marketability, and frequently cannot reasonably be estimated until at, or near, the liquidation date.

Real Estate

Real estate investments consist of interests in commercial properties held by various partnerships and other limited liability entities, some of which utilize debt financing. Fair values of such holdings are reported based on the net asset values of the entities, which are estimated using third-party appraisals and other information provided by property managers.

Basis of Investment Transactions

Purchases and sales of investments are recorded on the trade date. Transactions unsettled as of the measurement date are recorded as payables for securities purchased and as receivables for securities sold.

Foreign Currency Contracts

The System's investment policy permits it to enter into forward foreign currency contracts for the purpose of hedging foreign currency fluctuations. A forward foreign currency contract is an agreement between two parties to buy or sell a fixed quantity of currency at a set price on a future date. The System may enter into forward foreign currency contracts to hedge its exposure to the effect of changes in foreign currency exchange rates upon its non-U.S. dollar-denominated investments. The contracts are valued daily, and the changes in fair value are recorded by the System as unrealized gains or losses. When the contract is closed, the System records a realized gain or loss equal to the difference between the cost of the contract at the time it was opened and the value at the time it was closed.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Adoption of Recent Accounting Pronouncements

In 2014, the Plan adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position.

This Statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. This Statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in ten-year RSI schedules. The requirements of GASB Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which additional information is required to be presented.

The provisions of this Statement became effective as of January 1, 2014. The adoption of GASB Statement No. 67 affected the presentation of the financial statements, notes and RSI, as well as resulted in considerable modifications in the actuarial calculations of the total pension liability.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Accounting Pronouncements Issued But Not Yet Adopted

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued in February 2015. The scope of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. The Statement is effective for fiscal years beginning after June 15, 2015. The System is in the process of evaluating the impact of its adoption on the financial statements.

3. Cash Deposits, Investments, Securities Lending, and Derivatives

The following disclosures represent essential risk information about the System's deposits and investments.

Investment Policy

The provisions of M.G.L. chapter 32 § 23(2); 840 C.M.R. 16-19, 21, 23, 26; and, the Plan's own investment regulations (stated at <http://www.mass.gov/perac/investsup/bostonintsup.html>) govern the System's investment practice.

Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. chapter 32, § 3(3), the Prudent Person rule.

The System has retained an investment consultant to work with The Boston Retirement Board in a fiduciary capacity to assure that strategic investment diversification is attained, to employ investment managers with expertise in their respective asset classes, and to closely monitor the implementation and performance of the respective investment strategies.

The System is currently invested in stocks (domestic and foreign), fixed income securities (domestic and foreign), real estate, private equity, the Commonwealth's Pension Reserve Investment Trust (PRIT) and hedge funds.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

3. Cash Deposits, Investments, Securities Lending, and Derivatives (continued)

The following was the adopted asset allocation policy as of December 31, 2014:

Asset Class	SBRS Excluding Boston Teachers – Target Allocation	Boston Teachers – Target Allocation
Domestic equity	23%	19%
International developed markets equity	16	17
Emerging markets equity	9	7
Core fixed income	10	13
High yield fixed income	14	10
Real estate	10	10
Commodities	–	4
Short-term government money market	3	–
Hedge fund, GTAA, Risk parity	8	10
Private Equity	7	10
Total	<u>100%</u>	<u>100%</u>

Rate of return

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 5.72 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

3. Cash Deposits, Investments, Securities Lending, and Derivatives (continued)

Interest Rate Risk

The following is a listing of the System's fixed income investments (in thousands) and related maturity schedule (in years) as of December 31, 2014:

Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Treasury notes and bonds	\$ 94,113	\$ 6,609	\$ 52,227	\$ 11,114	\$ 24,163
U.S. agencies	53,601	-	481	1,676	51,444
Domestic corporate	589,798	24,577	85,611	138,165	341,445
Municipal	2,757	-	105	-	2,652
International corporate	201,860	5,497	10,639	17,012	168,712
International government	34,712	343	12,073	11,649	10,647
Asset-backed:					
CMOs	32,834	-	771	5,601	26,462
Other	39,028	-	17,900	12,749	8,379
	<u>\$ 1,048,703</u>	<u>\$ 37,026</u>	<u>\$ 179,807</u>	<u>\$ 197,966</u>	<u>\$ 633,904</u>

The System's guidelines do not specifically address limits on maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The managers of each fixed income portfolio are responsible for determining the maturity and commensurate returns of their portfolio.

The collateralized mortgage obligations (CMOs) held by the System as of December 31, 2014, are highly sensitive to changes in interest rates.

Credit Risk

The System allows investment managers to apply discretion under the Prudent Person rule. Investments are made, as a prudent person would be expected to act with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

3. Cash Deposits, Investments, Securities Lending, and Derivatives (continued)

The System's fixed income investments as of December 31, 2014, were rated by Standard & Poor's and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the Standard & Poor's rating scale:

Investment Type	Fair Value	AAA	AA	A	BBB	BB	B	CCC	Not Rated
U.S. agencies	\$ 53,601	\$ -	\$ 1,295	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,306
Domestic									
corporate	589,798	268	23,512	91,916	52,481	50,168	63,498	3,759	304,196
Municipal	2,757	-	926	1,831	-	-	-	-	-
International									
corporate	201,860	1,103	4,995	11,883	10,160	3,627	2,920	-	167,172
International									
government	34,712	5,490	1,567	3,469	1,319	-	-	-	22,867
Asset-backed:									
CMOs	32,834	10,736	1,736	369	494	-	-	-	19,499
Other	39,028	22,774	2,807	2,458	416	-	-	-	10,573
	<u>\$954,590</u>	<u>\$ 40,371</u>	<u>\$ 36,838</u>	<u>\$ 111,926</u>	<u>\$ 64,870</u>	<u>\$ 53,795</u>	<u>\$ 66,418</u>	<u>\$ 3,759</u>	<u>\$ 576,613</u>

In addition to the above schedule, the System has approximately \$94.1 million invested in U.S. government securities, which are explicitly guaranteed by the U.S. government.

Concentration Risk

Other than the PRIT fund, the System has no investments at fair value that exceed 5% of the System's total investments as of December 31, 2014.

The System adheres to the provisions of M.G.L. chapter 32 § 23(2); 840 C.M.R. 16-19, 21, 23, 26; and the Plan's own investment regulations when managing concentration risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Similar to the investments in domestic equities, the System employs or encourages its investment advisor to employ diversification, asset allocation, and quality strategies.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

3. Cash Deposits, Investments, Securities Lending, and Derivatives (continued)

Risk of loss arises from changes in currency exchange rates. The System's exposure to foreign currency risk is presented on the following table (in thousands):

Currency	Cash and Short-Term Investments	Fixed Income	Equity	Alternative	Total
Australian dollar	\$ 150	\$ 1,559	\$ 33,235	\$ 1,094	\$ 36,038
Brazilian real	–	540	–	–	540
Canadian dollar	96	2,094	4,398	–	6,588
Danish krone	31	769	15,974	–	16,774
Euro currency	927	13,272	194,871	7,926	216,996
Hong Kong dollar	202	–	23,590	–	23,792
Indonesian rupiah	2	808	386	–	1,196
Israeli shekel	2	–	1,147	–	1,149
Japanese yen	457	7,214	111,112	–	118,783
Malaysian ringgit	281	969	–	–	1,250
Mexican peso	177	2,420	–	–	2,597
New Taiwan dollar	19	–	–	–	19
New Zealand dollar	220	1,567	1,034	–	2,821
Norwegian krone	197	2,049	769	–	3,015
Philippine peso	–	351	–	–	351
Polish zloty	187	827	–	–	1,014
Pound sterling	420	5,003	130,579	1,150	137,152
Singapore dollar	67	604	7,588	–	8,259
South African rand	133	269	895	–	1,297
South Korean won	184	1,794	6,712	–	8,690
Swedish krona	542	871	18,128	–	19,541
Swiss franc	29	597	64,095	–	64,721
Thailand Baht	31	–	–	–	31
Turkish lira	26	280	1,118	–	1,424
Total securities subject to foreign currency risk	4,380	43,857	615,631	10,170	674,038
U.S. dollars (securities held by international investment managers)	–	31,527	41,555	–	73,082
Total international investment securities	\$ 4,380	\$ 75,384	\$ 657,186	\$ 10,170	\$ 747,120

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

3. Cash Deposits, Investments, Securities Lending, and Derivatives (continued)

PRIT External Investment Pooled Fund

The Massachusetts legislature enacted Section 17 of Chapter 112 of the Acts of 2010 that requires the System to invest all assets, current and future, related to Boston Teachers in the PRIT pooled fund. The PRIT pooled fund is an external investment pool that is not registered with the Securities and Exchange Commission, but is subject to oversight provided by the Pension Reserves Investment Management Board (the PRIM Board). The PRIM Board was created by legislation to provide general supervision of the investments and management of PRIT. PRIT is not a rated fund.

The fair value of the PRIT pooled fund is based on unit value as reported by management of the PRIT pooled fund. The PRIT fund issues separately available audited financial statements with a year-end of June 30.

On July 1, 2010, the System transferred 27% of its assets, or \$1.1 billion, to the PRIT pooled fund. As of December 31, 2014, the System had the following amounts invested in the PRIT fund (in thousands):

General allocation account	\$ 1,393,111
Cash fund	110,487
Total membership	<u>\$ 1,503,598</u>

As of December 31, 2014, the general allocation account is diversified into the following:

<u>Asset Class</u>	<u>Percentage</u>
Core fixed income	15.5%
Domestic equity	19.8
Emerging markets	6.5
Hedge funds	8.7
International equity	15.8
Private equity	11.1
Real estate	9.6
Cash overlay	0.5
Distressed debt	2.3
Timber natural resources	4.0
Value-added fixed income	6.2
Total	<u>100.0%</u>

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

3. Cash Deposits, Investments, Securities Lending, and Derivatives (continued)

Securities Lending Transactions

The Public Employee Retirement Administration Commission (PERAC) has issued supplemental regulations that permit the System to engage in securities lending transactions. Securities lending is an investment management enhancement that utilizes certain existing securities of the Plan to earn additional income. These transactions are conducted by the System's custodian, who lends certain securities owned by the System to broker-dealers and banks pursuant to a form of loan agreement. The System and the borrowers maintain the right to terminate all securities lending transactions on demand.

Securities lending involves the loaning of securities to approved banks and broker-dealers. In return for the loaned securities, the custodian, prior to or simultaneous with delivery of the loaned securities to the borrower, receives collateral in the form of cash (including both U.S. and foreign currency) or U.S. government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral to serve as a safeguard against possible default of any borrower on the return of the loan. The custodian does not have the ability to pledge or sell collateral unless the borrower defaults. Borrowers are required to deliver collateral in amounts equal to not less than 100% of the market value of the loaned securities. The collateral is marked to market on a daily basis. In the event the counterparty is unable to meet its contractual obligation under the securities lending arrangement, the Plan may incur losses equal to the amount by which the market value of the securities differs from the amount of collateral held. The Plan mitigates credit risk associated with securities lending arrangements by monitoring the fair value of the securities loaned on a daily basis, with additional collateral obtained or refunded as necessary. At December 31, 2014, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System.

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon, and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 2014. The cash collateral received by the custodian on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plans that invested cash collateral in the collective investment pool, which the System could not determine.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

3. Cash Deposits, Investments, Securities Lending, and Derivatives (continued)

The Plan maintains full ownership rights to the securities loaned and, accordingly, classifies loaned securities as investments. At December 31, 2014, the fair value of securities loaned by the System amounted to \$232,909,694, against which was held collateral at fair value of \$240,401,094 as follows (in thousands):

Short-term collateral investment pool	\$ 204,321
Noncash collateral	36,080
	<u>\$ 240,401</u>

Commitments

At December 31, 2014, the System had contractual commitments to provide \$141.2 million of additional funding to private equity funds and \$138.5 million to real estate funds.

Derivatives

The System trades financial instruments with off-balance sheet risk in the normal course of its investing activities to assist in managing exposure to market risks. The System uses forward foreign currency contracts to hedge against the risk of future foreign currency fluctuations.

4. Contributions and Funding Policy

Participating employers are required to pay into the System their share of the remaining actuarially determined contribution and plan administration costs, which are apportioned among the participating employers based on an actuarial computation.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

4. Contributions and Funding Policy (continued)

The participating employers' actual contributions to the System for the year ended December 31, 2014 were as follows (in thousands):

City of Boston	\$ 160,693
Commonwealth of Massachusetts (Boston Teachers)	109,485
Sheriff of Suffolk County	3,875
Boston Housing Authority	11,946
Boston Public Health Commission	15,364
Boston Redevelopment Authority	2,142
Boston Water and Sewer Commission	9,055
	<u>\$ 312,560</u>

As a condition of participation, employees are required to contribute 5% of their salary if hired prior to January 1, 1975; 7% if hired after January 1, 1975, and before January 1, 1984; 8% if hired after January 1, 1984, and before July 1, 1996; and 9% if hired after July 1, 1996. Employees hired after January 1, 1979, contribute an additional 2% of earnings in excess of \$30,000 per year. Additionally, teachers who became members of the System after June 30, 2001, or other teachers who elect this option, are required by law to contribute 11% of their salary. Overtime and certain additional earnings are not subject to these assessments and are not considered in the determination of final average salary.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

5. Legally Required Reserve Accounts

The balances in the System's legally required reserves at December 31, 2014, were as follows (in thousands):

		<u>Purpose</u>
Annuity Savings Fund	\$ 1,580,428	Active members' contribution balance
Annuity Reserve Fund	461,179	Retired members' contribution account
Military Service Fund	50	Members' contribution account while on military leave
Pension Reserve Fund	3,404,283	Amounts appropriated to fund future retirement benefits
Pension Fund	228,207	Remaining net position
	<u>\$ 5,674,147</u>	

All reserve accounts are funded at levels required by state statute.

6. Net Pension Liability of Participating Employers

The components of the net pension liability of the participating employers are as follows:

	<u>December 31 2014</u>	<u>January 1 2014</u>
Total pension liability	\$ 9,522,212,908	\$ 9,088,021,335
Plan fiduciary net position	5,674,147,000	5,491,197,000
Employers' net pension liability	3,848,065,908	3,596,824,335
Plan fiduciary net position as a percentage of the total pension liability	59.59%	60.42%

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

6. Net Pension Liability of Participating Employers (continued)

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of January 1, 2014, with update procedures used to roll forward the total pension liability to December 31, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 4.50%

Salary increases:

Years of Service	Boston Teachers	SBRs Excluding Boston Teachers		
		Group 1	Group 2	Group 4
0	7.50%	4.50%	4.75%	5.00%
1	7.10	4.50	4.75	5.00
2	7.00	4.50	4.75	5.00
3	6.90	4.50	4.75	5.00
4	6.80	4.50	4.75	5.00
5	6.70	4.50	4.75	5.00
6	6.60	4.50	4.75	5.00
7	6.50	4.50	4.75	5.00
8	6.30	4.50	4.75	5.00
9	6.10	4.50	4.75	5.00
10	5.90	4.50	4.75	5.00
11	5.70	4.50	4.75	5.00
12	5.20	4.50	4.75	5.00
13	4.70	4.50	4.75	5.00
14	4.35	4.50	4.75	5.00
15–16	4.20	4.50	4.75	5.00
17–19	4.10	4.50	4.75	5.00
20 and later	4.00	4.50	4.75	5.00

Investment rate of return 7.75% for SBRs excluding Boston Teachers and 8.00% for Boston Teachers, net of investment expenses, including inflation

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

6. Net Pension Liability of Participating Employers (continued)

Cost of Living Adjustments 3.00% of first \$13,000

Mortality Rates:

January 1, 2014 TPL

Healthy:

Pre-Retirement RP-2000 Employee Mortality Table projected generationally with Scale AA for SBRS excluding Boston Teachers and RP-2000 Combined Healthy White Collar Mortality Table projected 22 years using Scale AA for Boston Teachers

Post-Retirement RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale AA for SBRS excluding Boston Teachers and RP-2000 Healthy Annuitant Large Benefit Amount Mortality Table projected 17 years using Scale AA for Boston Teachers

Disabled RP-2000 Healthy Annuitant Mortality Table set forward three years for males only projected generationally with Scale AA for SBRS excluding Boston Teachers and RP-2000 Healthy Annuitant Large Benefit Amount Mortality Table set forward three years for males only projected seven years using Scale AA for Boston Teachers

December 31, 2014 TPL

Healthy: RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB2D from 2009 for SBRS excluding Boston Teachers and RP-2014 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB2D from 2014 for Boston Teachers

Disabled: RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB2D from 2015 for SBRS excluding Boston Teachers and RP-2014 Healthy Annuitant Mortality Table set forward four years projected generationally using Scale BB2D from 2014 for Boston Teachers

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

6. Net Pension Liability of Participating Employers (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2013, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	6.60%
International developed markets equity	7.10
Emerging markets equity	9.40
Core fixed income	2.20
High yield fixed income	4.70
Real estate	4.40
Commodities	4.40
Short-term government money market	1.80
Hedge fund, GTAA, Risk parity	3.90
Private equity	11.70

Discount rate: The discount rate used to measure the total pension liability was 7.75% for the SBRS excluding Boston Teachers and 8.00% for Boston Teachers. 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 the State-Boston Retirement System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan'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.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

6. Net Pension Liability of Participating Employers (continued)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the State-Boston Retirement System, calculated using the discount rate of 7.75% for the SBRS excluding Boston Teachers and 8.00% for the Boston Teachers, as well as what the State-Boston Retirement System’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75% for the SBRS excluding Boston Teachers and 7.00% for the Boston Teachers) or 1-percentage-point higher (8.75% for the SBRS excluding Boston Teachers and 9.00% for the Boston Teachers) than the current rate:

	1% Decrease	Current Discount	1% Increase
State-Boston Retirement System’s net pension liability as of December 31, 2014	\$ 4,923,853,094	\$ 3,848,065,908	\$ 2,940,970,873

7. Contingencies

There are various pending claims arising in the ordinary course of operations; however, management believes that the probable liability resulting from such claims and litigation would not materially affect the System’s financial position.

8. Commitments

During fiscal year 2008, the System signed a memorandum of understanding with the City for the purpose of financing the development, design, purchase, and installation of a pension management system. Upon completion of the pension management system, the City will transfer the completed asset to the System. The System is committed to repaying the City \$20 million, of which approximately \$10.9 million has been paid through December 31, 2014.

9. Tax Status

The Plan has received a determination letter from the Internal Revenue Service dated August 13, 2014, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the Code) and therefore, the related trust is exempt from taxation. Once qualified, the Plan is

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Financial Statements (continued)

9. Tax Status (continued)

required to operate in conformity with the Code to maintain its qualified status. The plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and therefore, believes the Plan is qualified and the related trust is tax exempt.

The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The plan administrator believes it is no longer subject to income tax examination for plan years prior to 2012.

Required Supplementary Information

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Schedule of Changes in the Net Pension Liability – Last Ten Years

Year Ended December 31, 2014

Total pension liability	
Service cost	\$ 184,938,621
Interest	705,610,897
Differences between expected and actual experience	–
Changes of assumptions	94,626,461
Changes of benefit terms	–
Benefit payments, including refunds of employee contributions	(550,984,406)
Net change in total pension liability	<u>434,191,573</u>
Total pension liability – beginning	<u>9,088,021,335</u>
Total pension liability – ending (a)	<u>\$ 9,522,212,908</u>
Plan fiduciary net position	
Contributions – employer	\$ 203,074,621
Contributions – non employer contributing entity	114,335,385
Contributions – employee	143,397,524
Net investment income	283,342,371
Benefit payments, including refunds of employee contributions	(550,984,406)
Administrative expenses	(10,215,495)
Net change in fiduciary net position	<u>\$ 182,950,000</u>
Plan fiduciary net position – beginning	<u>5,491,197,000</u>
Plan fiduciary net position – ending (b)	<u>\$ 5,674,147,000</u>
Net pension liability – ending: (a)-(b)	\$ 3,848,065,908
Plan’s fiduciary net position as a percentage of the total pension liability	59.59%
Covered-employee payroll	\$ 1,574,176,167
Net pension liability as a percentage of covered-employee payroll	244.45%

Note: Schedule is intended to show information for ten years. Historical information prior to implementation of GASB 67 is not required if the information is not available. Additional years will be displayed as they become available.

Note: Total pension liability and Plan fiduciary net position calculations were completed separately for the SBRS excluding Boston Teachers and the Boston Teachers.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Schedule of Contributions – Last Ten Years

Year Ended December 31, 2014
(In Thousands)

Year ended December 31	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 312,560	\$ 312,560	\$ –	\$ 1,574,176	19.86%
2013	288,458	288,458	–	N/A	N/A
2012	261,943	261,943	–	N/A	N/A
2011	245,280	245,280	–	N/A	N/A
2010	463,656	463,656	–	N/A	N/A
2009	250,823	250,823	–	N/A	N/A
2008	239,039	239,039	–	N/A	N/A
2007	227,822	227,822	–	N/A	N/A
2006	217,088	217,088	–	N/A	N/A
2005	191,132	191,132	–	N/A	N/A

Note: Schedule is intended to show information for ten years. Historical information prior to implementation of GASB 67 is not required if the information is not available. Additional years will be displayed as they become available.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Schedule of Investment Returns – Last Ten Years

Year Ended December 31, 2014

Annual money-weighted rate of return, net of investment expense	5.72%
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Note: Schedule is intended to show information for ten years. Historical information prior to implementation of GASB 67 is not required if the information is not available. Additional years will be displayed as they become available.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Required Supplementary Information

December 31, 2014

Changes of benefit terms.

As permitted by Section 63 of Chapter 139 of the Acts of 2012, the Plan has increased the Section 101 annual allowance from \$6,000 to \$12,000.

Changes of assumptions.

For non-teachers, the pre-retirement mortality assumption was changed from the RP-2000 Employee Mortality Table projected 20 years using Scale AA to the RP-2000 Employee Mortality Table projected generationally using Scale AA from 2014. The mortality assumption for non-disable retirees was changed from the RP-2000 Healthy Annuitant Mortality Table projected 15 years using Scale AA to the RP-2000 Health Annuitant Mortality Table projected generationally with Scale AA from 2014. The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table set forward three years for males only projected five years using Scale AA to the RP-2000 Healthy Annuitant Mortality Table set forward three years for males only projected generationally with the Scale AA from 2014.

For Boston Teachers, the pre-retirement mortality assumption was changed from the RP-2000 Employee Mortality Table projected 10 years using Scale AA with an additional 1.25% load on the actuarial accrued liability and normal cost to the RP-2000 Combined Healthy White Collar Mortality Table projected 22 years using Scale AA. The mortality assumption for non-disable retirees was changed from the RP-2000 Healthy Annuitant Mortality Table projected 10 years using Scale AA with an additional 1.25% load on the actuarial accrued liability and normal cost to the RP-2000 Healthy Annuitant Large Benefit Amount Mortality Table projected 17 years using Scale AA. The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table set forward three years for males only and an additional 1.25% load on the actuarial accrued liability and normal cost to the RP-2000 Healthy Annuitant Large Benefit Amount Mortality Table set forward three years for males only projected 7 years using Scale AA.

The salary increase assumption for non-teachers was lowered from 5.00% per year for all members, including an allowance for inflation of 4.50% per year to rates of 4.50% per year for Group 1 members, 4.75% per year for Group 2 members and 5.00% per year for Group 4 members, including an allowance for inflation of 4.50% per year.

State-Boston Retirement System
(A Component Unit of the City of Boston, Massachusetts)

Notes to Required Supplementary Information (continued)

The investment return assumption was lowered from 8.25% to 8.00% for the Boston Teachers.

Method and assumptions used in calculations of actuarially determined contributions.

The actuarially determined contribution rates presented in the schedule of contributions are calculated as of December 31, 2013. The funding requirements are established for the employers' fiscal year ended June 30, 2015 and later years and are analyzed based on the preceding two years' experience. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age normal cost method
Amortization method	Prior year's contribution increased by 7.75% for SBRS excluding Boston Teachers; prior year's contribution increased by 10% for fiscal 2015, 2016, and 2017, and 7% per year thereafter for Boston Teachers
Remaining amortization period	11 years remaining as of January 1, 2014 for SBRS excluding Boston Teachers; 22 years remaining as of January 1, 2014 for Boston Teachers
Asset valuation method	Sum of actuarial value at beginning of the year, contributions and investment earnings based on the actuarial interest assumption less benefit payments and operating expenses plus 20% of market value at end of year in excess of that sum, plus additional adjustment toward market value as necessary so that final actuarial value is within 20% of market value.
Inflation	4.5%
Salary increases	4.50% for Group 1, 4.75% for Group 2 and 5.00% for Group 4 for SBRS excluding Boston Teachers; varies by length of service with ultimate rate of 4.00% for Boston Teachers.
Investment rate of return	7.75% for SBRS excluding Boston Teachers; 8.00% for Boston Teachers

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