

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM - FUND B

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

**APPLICATION OF STATEMENT NO. 25 OF THE
GOVERNMENTAL ACCOUNTING STANDARDS BOARD**

DISCLOSURE OF PENSION INFORMATION

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM - FUND B

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Note that the information shown in this report follows the requirements under Statement No. 25 of the Governmental Accounting Standards Board (GASB). On June 25, 2012 GASB released Statement No. 67, which will supersede the requirements of Statement No. 25, effective for the financial reporting period commencing July 1, 2013. None of the GASB 67 changes in requirements have been reflected in this report.

A. Plan Description

1. The Municipal Employees' Retirement System (MERS) is a cost sharing multiple employer public employee retirement system (PERS) established by the State of Connecticut and administered by the State Retirement Commission to provide pension benefits for the employees of participating municipalities. MERS is considered to be a part of the State of Connecticut's financial reporting entity and is included in the State's financial reports as a pension trust fund.
2. Any local government authority in the State of Connecticut, including towns, cities, boroughs, regional school districts, housing authorities, or other special districts, may elect to participate for one or more of its departments, including elective officers; only teachers who are covered under the Connecticut State Teachers' Retirement System are ineligible. As of July 1, 2011, there were 186 participating local government units (counting departments of municipalities which joined or report separately as separate units).

Actuarial valuations are performed biennially rather than annually and the next full valuation will be as of July 1, 2012. The results presented in this report have a measurement date of July 1, 2011 and are based on i) actual asset information as of June 30, 2011 and ii) the same membership data, plan provisions, actuarial assumptions and methods as summarized in the July 1, 2010 actuarial valuation report. At July 1, 2010, the MERS membership consisted of:

	Retirees & Beneficiaries	Terminated Vested	Active Vested	Active Non-Vested	Inactive Non-Vested
Police & Fire					
a. Without Social Security	317	19	510	256	30
b. With Social Security	242	23	275	135	32
General					
a. Without Social Security	2,175	236	2,021	758	188
b. With Social Security	2,971	442	3,236	1,388	591
Withdrawn					
Municipalities*	7	0	N/A	N/A	N/A
Total Members	5,705	720	6,042	2,537	841

* The head count shown is included in the groups above.

3. Plan provisions are set by statute of the State of Connecticut. MERS provides retirement benefits, as well as death and disability benefits. Annual cost of living increases are applied to disabled and non-disabled retirement benefits and vary based upon member age and date of retirement. For members that retired prior to January 1, 2002, increases between 3.0% and 5.0% are paid to those who have reached age 65 and (effective January 1, 2002) increases of 2.5% are paid to those who have not yet reached age 65. For members that retire after December 31, 2001, increases between 2.5% and 6.0% are paid, regardless of age. Benefits vest after 5 years of continuous service or 15 years of active aggregate service. Vested members who retire after age 55 or after 25 years of service, irrespective of age, are entitled to an annual retirement benefit, payable monthly for life, in an amount for each year of service equal to:
 - If not covered by Social Security: 2% of the average of earnings for the three highest paid years of service.
 - If covered by Social Security: 1-1/2% of the average of earnings for the three highest paid years of service not in excess of the year's breakpoint, plus 2% of the average of earnings for the three highest paid years of service in excess of the year's breakpoint. The year's breakpoint for 2011 is \$58,100.

4. Covered employees are required by State statute to contribute 2-1/4% of earnings upon which Social Security tax is paid plus 5% of earnings on which no Social Security tax is paid. Each participating municipality is required to contribute the amounts necessary to finance the remaining costs of the plan. Employees not covered by Social Security are required to contribute 5% of all earnings.

B. Summary of Significant Accounting Policies and Plan Asset Matters

1. Basis of Accounting

MERS financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.

2. Method Used to Value Investments

Retirement trust funds can invest in the following investment pools maintained by the State of Connecticut.

Mutual Fixed Income Fund - Investments consist principally of bonds and notes.

Mutual Equity Fund - Investments consist principally of common stocks.

Real Estate Fund - Investments consist principally of interest in commingled equity real estate funds.

Mutual Commercial Mortgage Fund - Investments consist principally of interest in commercial mortgages.

Mutual Venture Capital Fund - Investments consist principally of interests in venture capital partnerships which have common stock interests in emerging businesses.

Mutual International Stock Fund - Investments consist principally of international equity securities.

Liquidity Fund - Investments consist principally of money market instruments.

Private Equity - Investments comprised of various limited partnerships, limited liability companies and securities.

Investments in the pooled funds are valued at cost. Market values of the investment pools are determined by the Master Custodian based on the performance of the underlying securities. Investment income is recognized as earned. Gains and losses on sales and redemptions of investments are recognized on the transaction date. There are no investments in any organizations that represent 5% or more of the net assets available for benefits.

C. Funding Status and Progress

1. The actuarial accrued liability is a measure that uses the benefit provisions and is intended to (i) help users assess the plan's funding status on a going-concern

basis, and (ii) assess progress being made in accumulating sufficient assets to pay benefits when due. Allocation of the actuarial present value of projected benefits between past and future service was based on service using the entry age actuarial cost method. Entry age was established by subtracting credited service from current age on the valuation date. Assumptions, including projected pay increases, were the same as those used to determine the annual required contribution between entry age and assumed exit age.

The actuarial value of assets is based on a market-related method that recognizes i) 20% of any difference between actual and expected investment income (gain/loss) in the valuation year and ii) 20% of any previous years' unrecognized investment gains/losses. Such smoothed actuarial asset value shall not be less than 80% or greater than 120% of the market value of assets.

2. In lieu of a full valuation as of July 1, 2011, updated asset information was provided and plan liabilities were rolled forward from the previous year to determine the funding requirements and status of the System. All roll forward calculations were based on the same membership data, provisions, actuarial assumptions and methods as those used in the July 1, 2010 valuation.
3. Significant actuarial assumptions used include:
 - a. Rate of return on the investment of present and future assets of 8.25% per year compounded annually.
 - b. Projected salary increases of 3.75% per year compounded annually, attributable to inflation.
 - c. Additional projected salary increases ranging from 7.50% to 0.75%, per year, attributable to seniority/merit.
 - d. Annual cost of living increases are applied to disabled and non-disabled retirement benefits and vary based upon member age and date of retirement. For members that retired prior to January 1, 2002, increases of 3.50% are assumed for those who have reached age 65 and (effective January 1, 2002) increases of 2.5% are assumed for those who have not yet reached age 65. For members that retire after December 31, 2001, increases of 2.6% are assumed, regardless of age.
4. Actuarial Accrued Liability as of July 1, 2011 \$1,985,267,907
5. Actuarial Value of Assets 1,753,331,163
6. Unfunded Actuarial Accrued Liability \$ 231,936,744
7. During the year there were no changes in benefit provisions or actuarial assumptions.

D. Contributions Required and Contributions Made

1. Each covered municipality is required by State statute to pay an actuarially determined percentage of covered payroll to provide for benefits based on service from the municipality's date of participation in MERS. This percentage varies for police and fire versus general employees, and within those two groups, may vary for populations covered by Social Security versus those not covered by Social Security. The statute also requires each municipality to pay an annual amount for benefits based on service prior to the unit's date of participation, if any. This amount is a level dollar amortization (including interest and principal) over varying time periods depending upon the unit's date of participation and other factors.
2.
 - a. The contributions are actuarially determined using the entry age normal method.
 - b. The actuarial assumptions are the same as those used to compute the actuarial accrued liability discussed in Section C above.
 - c. Contributions totaling \$74,663,477 (\$59,306,770 employer and \$15,356,707 employee) were made for the plan year ending June 30, 2012 in accordance with the contribution requirements approved by the Retirement Commission based on the measurement of the System as of July 1, 2010. These contributions consisted of: (a) \$52,180,274 normal cost and (b) \$22,483,203 amortization of the unfunded actuarial accrued liability. The employer and employee contributions represent 13.5% and 3.5% of the expected covered payroll, respectively, for the fiscal year ending June 30, 2012.

Schedule of Employer Contributions

Fiscal Year 7-1/6-30	Valuation Date 7-1	Percentage of ARC Contributed
2004-05	2003	100.0%
2005-06	2004	100.0
2006-07	2005	100.0
2007-08	2006	100.0
2008-09	2007	100.0
2009-10	2008	100.0
2010-11	2009	89.0
2011-12	2010	100.0

Note that for the fiscal years ending June 30, 2010 and prior, the sum of the actual employer contributions made plus a credit from the stabilization reserve resulted in 100% of the ARC being contributed.

E. Ten Year Historical Trend Information

Ten-year historical trend information designed to provide information about MERS' progress made in accumulating sufficient assets to pay benefits when due is presented in the supplement immediately following these notes to financial statements.

MUNICIPAL EMPLOYEES' RETIREMENT FUND

REQUIRED SUPPLEMENTARY INFORMATION

ANALYSIS OF FUNDING PROGRESS

(IN MILLIONS OF DOLLARS)

Fiscal Year Ending	Value Of Assets (1)		Rate Of Return (2)		Actuarial Accrued Liability (AAL) (3)	% Funded (4) = (1) / (3)		Unfunded AAL (5) = (3) - (1)		Annual Covered Payroll (6)	Unfunded AAL as a % of Covered Payroll (7) = (5) / (6)	
	Actuarial	Market	Actuarial	Market		Actuarial	Market	Actuarial	Market		Actuarial	Market
2002	\$1,403	\$1,187	6.02%	(6.47)%	\$1,319	106.4%	90.0%	\$(84)	\$132	\$322	(26)%	41%
2003	1,418	1,175	3.46	1.89	1,379	102.8	85.2	(39)	204	326	(12)	63
2004	1,434	1,306	3.80	14.49	1,393	102.9	93.8	(41)	87	333	(12)	26
2005	1,512	1,398	6.51	9.89	1,465	103.2	95.4	(47)	67	352	(13)	19
2006	1,588	1,509	7.19	10.39	1,550	102.5	97.4	(38)	41	366	(10)	11
2007	1,701	1,729	8.96	16.60	1,640	103.7	105.4	(61)	(89)	388	(16)	(23)
2008	1,779	1,632	6.32	(4.03)	1,722	103.3	94.8	(57)	90	412	(14)	22
2009	1,619	1,349	(6.86)	(15.10)	1,821	88.9	74.1	202	472	427	47	111
2010	1,663	1,479	5.38	12.98	1,881	88.4	78.6	218	402	422	52	95
2011	1,753	1,705	7.51	17.65	1,985	88.3	85.9	232	280	439	53	64

MUNICIPAL EMPLOYEES' RETIREMENT FUND

REQUIRED SUPPLEMENTARY INFORMATION

REVENUES BY SOURCE AND EXPENSES BY TYPE

(IN MILLIONS OF DOLLARS)

Revenues by Source						
Fiscal Year	Employee Contributions	Employer Contributions*	Investment Income	Realized Gains	Other	Total
2002 - 03	\$11.2	\$15.9	\$52.1	\$1.4	\$0.0**	\$80.6
2003 - 04	11.7	16.3	51.6	7.9	0.0	87.5
2004 - 05	12.2	21.8	54.0	0.2	0.0	88.2
2005 - 06	12.9	28.7	53.2	1.6	0.0	96.4
2006 - 07	13.1	39.4	61.0	19.3	0.0	132.8
2007 - 08	17.6	38.8	66.1	135.5	0.0	258.0
2008 - 09	14.8	35.9	48.5	1.5	0.0	100.7
2009 - 10	14.7	38.4	40.4	49.9	0.0	143.4
2010 - 11	16.1	51.1	56.1	7.2	0.0	130.5
2011 - 12	15.4	59.3	47.2	26.8	0.0	148.7

Expenses by Type		
Benefits	Refunds	Total
\$59.7	\$1.1	\$60.8
63.6	0.9	64.5
68.4	1.3	69.7
72.8	1.2	74.0
78.9	1.5	80.4
83.5	1.1	84.6
89.3	1.3	90.6
93.9	1.1	95.0
98.9	1.1	100.0
105.3	0.9	106.2

* Contributions were made in accordance with contribution rates approved by the Retirement Commission.

** Transfer of assets from Fund A of \$9,977.