City of Manchester Employees' Contributory Retirement System

This Year's Cover is Dedicated to Those Who Serve

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Year Ended December 31, 2008

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CITY OF
MANCHESTER
EMPLOYEES'
CONTRIBUTORY
RETIREMENT
SYSTEM

1045 ELM STREET • SUITE 403
MANCHESTER, NH 03101-1824
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FAX (603) 624-6342

As Chairman of the Board of Trustees, I am pleased to present the 2008 Annual Report for the Manchester Employees' Contributory Retirement System, (MECRS). This report includes Financial and Actuarial Valuation summaries for plan year 2008, as well as a description of the Plan benefits. The report also includes management discussion and analysis of the events of the past year.

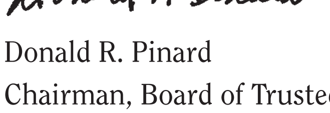
The MECRS is a defined benefit plan supported by contributions made by the membership, in conjunction with supporting contributions made by the employer. The Board of Trustees maintains a watchful eye on state and national events affecting public retirement plans and engages the services of actuaries, financial advisors, auditors and legal consultants to assess the condition of the Plan and to assist the Board in its policy and management decisions.

As a matter of practice, the Board of Trustees routinely monitors the System's asset allocation and investment performance in order to maintain an optimum blend of investment classes in the Plan's portfolio. The objective is to match earnings assumptions as closely as possible with long term liabilities of the Plan in order to create stability in the funded ratio and maintain or improve the Plan's financial strength. The services of seventeen professional investment firms are retained to actively manage the System's diversified investment portfolio. The System's Investment Policies and Guidelines are contained in the body of this report and are also kept current on the System's website.

The Plan's investment experience for 2008 was disappointing in that it saw unprecedented declines across all asset categories. Nevertheless, the return on investment exceeded market indices because of alternative investments designed to cushion against market volatility. Unlike other economic downturns, 2008 was broader in scope and affected virtually all investment categories in our asset allocation model. The encouraging news is that fundamentals appear to be returning to the marketplace and the portfolio should be well postured to participate in an eventual economic recovery.

In closing, on behalf of the Retirement System Board of Trustees and staff, I wish to thank the membership for its support and interest in the Board's activities throughout 2008, and to note that the Board remains committed to keeping the Plan financially sound while recognizing its obligations to retirees and the future expectations of active plan participants.

Sincerely,



Donald R. Pinard
Chairman, Board of Trustees
City of Manchester Employees' Contributory Retirement System

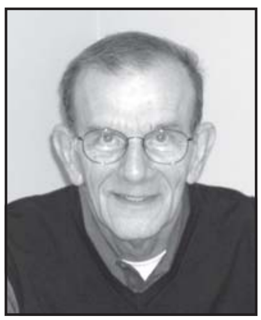
Board of Trustees

DONALD R. PINARD
Chairman
Employee Representative
Term expires January 1, 2009

WILLIAM SANDERS
Treasurer
City Director of Finance
Ex-Officio Member

MAYOR FRANK GUINTA
Ex-Officio Member

KEVIN G. BARRY
Citizen Representative
Term expires January 1, 2010



CHARLES HUNGLER
Mayoral Appointment
Term expires January 1, 2011

JENNIE ANGELL
Employee Representative
Term expires January 1, 2011

JEFFREY DUVAL
Aldermanic Appointee
Term expired January 1, 2009

Administrative Staff

GERARD E. FLEURY
Executive Director

SANDI ABOSHAR
Executive Assistant

SUZANNE WILSON
Administrative Assistant

CITY OF
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CONTRIBUTORY
RETIREMENT
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1045 ELM STREET • SUITE 403
MANCHESTER, NH 03101-1824
PHONE (603) 624-6506
FAX (603) 624-6342

Dear Plan Participant:

I am pleased to present this Annual Report of the Manchester Employees' Contributory Retirement System (MECRS) for the fiscal year ended December 31, 2008. This report is submitted in compliance with Chapter 218:6, II, Laws of 1973, as amended, is intended to satisfy public pension plan financial reporting requirements, and to assure plan members that the Board of Trustees is responsibly managing fund assets. The MECRS Annual Report is prepared each year to conform to the most current reporting Governmental Accounting Standards Board pronouncements and this year includes new footnotes and expanded schedules.

The MECRS is a tax-qualified governmental retirement plan under sections 401(a) and 414(d) of the United States Internal Revenue Code, as amended, and was established under the provisions of New Hampshire Chapter 218, Laws of 1973 on January 1, 1974. Its purpose is to provide service and disability retirement benefits to those City employees who are not Police Officers, Firefighters, or Teachers and who are not eligible to participate in the New Hampshire Retirement System.

The MECRS is administered by a seven-member Board of Trustees whose responsibilities include the formulation of policy and determination of employee eligibility for participation and benefits. The Board also oversees the daily administrative, fiscal and investment operations of the System.

As part of the Board's ongoing efforts to keep the System's statutory basis up-to-date, a legislative housekeeping amendment was passed into law during 2008. The measure added a definition for "spouse" necessitated by civil unions legislation from the previous legislative session, removed an obsolete reference to the City Finance Director's role, established minimum participation standards for plan members, repealed a problematic workers compensation offset requirement, and clarified the tax treatment of contributions by members.

For the fifth year in a row, the MECRS applied for and received a compliance award from the Public Pension Coordinating Council for having met professional standards for plan design and administration. In order to receive the award, plans must meet requirements on funding, financial reporting, member benefits, actuarial and audit practices.

In closing, on behalf of the Board of Trustees, I want to reiterate our commitment to stakeholders in the Plan and to prompt and accurate service to our constituent members.

Gerard E Fleury

Gerard E. Fleury
Executive Director

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2008

Presented to

Manchester Employees' Contributory Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

Portfolio Managers, Advisors, and Service Providers

AS OF DECEMBER 31, 2008

INVESTMENT ADVISOR

New England Pension Consultants

ACTUARIAL CONSULTANT

Gabriel, Roeder, Smith & Company

CUSTODIAN

State Street Bank & Trust Co

INDEPENDENT AUDITOR

Berry, Dunn, McNeil & Parker

LEGAL ADVISOR

McLane, Graf, Raulerson & Middleton

DOMESTIC EQUITY

State Street Global Large Cap Value (Group Trust)

Cadence Large Cap Growth (Group Trust)

Vanguard Admiral Mid Cap (Group Trust)

INTERNATIONAL EQUITY

Gryphon International (Group Trust)

Causeways International (Group Trust)

EMERGING MARKETS EQUITY

City of London (Group Trust)

ALTERNATIVE EQUITY

Boston Millennia (Group Trust)

BankAmerica Private Equity Portfolio (Group Trust)

HEDGE FUNDS – FUND OF FUNDS

Attalus Capital Management (Group Trust)

Archstone Offshore Fund (Group Trust)

PORTABLE ALPHA

Benchmark Partners (Group Trust)

Gottex Fund Management (Group Trust)

FIXED INCOME

Income Research and Management (Group Trust)

Loomis Sayles (Group Trust)

REAL ESTATE

Morgan Stanley (Group Trust)

PRISA (Group Trust)

Cigna (Group Trust)

TIMBERFUNDS

RMK Timberland Group (Group Trust)

TACTICAL ASSET ALLOCATION

Mellon Global 130/30 Funds (Group Trust)

Investment Objectives and Guidelines

This statement of investment goals and objectives is set forth in keeping with the fiduciary requirements under existing state and federal laws. Its purpose is to set forth an appropriate set of goals and objectives for the Plan's assets and to define guidelines within which the investment managers may formulate and execute their investment decisions.

1. Achieving a total return, consistent with prudent investment management, greater than the earnings assumption for the Plan in order to satisfy long term plan liabilities and maintaining an acceptable funded ratio is the primary goal of the Plan. The total return target is 7.5% net of fees compounded annually, which considers the actuarial rate of return of 7.5% Total return, as used herein, includes income plus realized and unrealized gains and losses on Plan assets. In addition, assets of the Plan shall be invested to ensure that principal is preserved and enhanced over time.
2. The total return for the overall Plan shall meet or exceed the Plan's Policy Index. As a secondary comparison, the Plan shall also be compared with comparable public pension funds as represented by the Consultants Public Pension Fund peer group universe (ICC Universe), with the understanding that the Plan's funded status and overall investment risk profile may differ from the average public pension fund in that universe.
3. Total portfolio risk exposure and risk-adjusted returns will be regularly evaluated and compared with a universe of similar funds for the Plan and each investment manager. Total portfolio risk exposure should generally rank in the mid-range of comparable funds. Risk-adjusted returns are expected to consistently rank in the top-half of comparable funds.

Investment managers shall exceed the return of the designated benchmark index noted below and rank in the top-half of the appropriate asset class and style universe.			
Asset Class	**Benchmark**	**Asset Class Universe**	**Style Universe**
Domestic Large Cap Equity	S&P 500, Russell 1000 Growth or Value Index	Equity Funds	Large Core, Growth or Value
Domestic Mid Cap Equity	Russell Midcap Growth or Value Index	Equity Funds	Mid Cap Core, Growth or Value
Domestic Small Cap Equity	Russell 2000 Growth or Value Index	Equity Funds	Small Growth or Small Value
Developed Int'l Equity	MSCI EAFE Index	Developed Int'l Equity Funds	NA
Emerging Int'l Equity	MSCI Emerging Markets Free	Emerging Int'l Equity Funds	NA
Domestic Fixed Income	Lehman Aggregate	Fixed Income Funds	Core Bonds, Core Plus Bonds
Real Estate	NCREIF	Real Estate Funds	NA
Timber	NCREIF Timber, Real Return of 8% per annum	NA	NA
Portable Alpha - Equity	S&P 500 Index	Portable Alpha Managers	NA
Global Tactical Asset Allocation	60% MSCI World Half Hedge (net of dividend) & 40% Citigroup WGBI Index Half Hedged	NA	NA
Private Equity	Cambridge Private Equity	NA	NA
Hedge Fund of Funds	HFRI Fund of Funds	NA	NA

4. The Retirement Board is aware that there may be deviations from these performance targets. Normally, results are evaluated over a three- to five-year time horizon, but shorter-term results will be regularly reviewed and earlier action taken if in the best interest of the Plan.
5. Equity investments, i.e., common stocks, convertibles, warrants and rights are permitted; subject to specific guidelines. Equity specialists may vary equity commitment from 90% to 100% of assets under management. The managers should determine that the securities to be purchased are of an investment grade suitable for this Plan. American Depository Receipts (ADRs), which are dollar denominated foreign securities traded on the domestic U.S. stock exchanges, e.g., Reuters, Nestle, Sony, may be held by each domestic stock manager in proportions which each manager shall deem appropriate.
6. Domestic fixed income investments are permitted, subject to specific guidelines, and may include U.S. Government and Agency obligations, mortgage backed securities; including non-agency mortgages and commercial mortgage-backed securities; asset-backed securities; corporate bonds; debentures; commercial paper; and taxable municipals.
7. The minimum quality rating of any fixed income issue held in an investment grade portfolio shall be B as rated by Moody's, or the equivalent as defined by Fitch or Standard & Poors, and the overall weighted average quality shall be A or higher. The ratings in this Policy Statement are for guidance only; the investment managers are responsible for making an independent analysis of the credit worthiness of securities and their suitability as investments regardless of the classifications provided by rating agencies.
8. The average duration (interest rate sensitivity) of an actively managed fixed income portfolio shall be within +/- 30% of its benchmark index.
9. Securities of an individual issuer, excepting the U.S. government and agencies and sovereign nations and their agencies, shall not constitute more than 5% of an investment manager's portfolio at any time, at market value.
10. Investment managers may maintain reserve and cash equivalent investments. However, these investments should be made on the basis of safety and liquidity, and only secondarily by yield available. Such securities shall carry the equivalent of S&P A1 or A2 ratings.

INELIGIBLE INVESTMENTS

Unless specifically approved by the Plan, certain securities, strategies and investments are ineligible for inclusion within separately managed accounts in the Plan's asset base. Among these are:

- Derivative instruments except as permitted in the Derivatives Policy or specifically provided for in individual manager guidelines.
- Privately-placed or other non-marketable debt, except securities issued under Rule 144a.
- Lettered, legend or other so-called restricted stock.
- Commodities.
- Straight preferred stocks and non-taxable municipal securities should not normally be held unless pricing anomalies in the marketplace suggest the likelihood of near-term capital gains when normal spread relationships resume.
- Short sales.
- Direct investments in private placements, real estate, oil and gas and venture capital.
- Any transaction prohibited by ERISA.

Summary Plan Description

This document has been prepared in compliance with Chapter 218:6, II, Laws of 1974 as amended and is intended to provide the reader, especially new entrants to the plan, with a summary of important plan provisions. Information contained in this summary plan description is only intended to provide the membership of the MECRS and other interested parties with a general overview of the plan. While every effort is, and will be made to keep information in this description as accurate and up-to-date as possible, no retirement or financial decisions should be made based solely on information contained herein. Questions on matters of entitlement or process should be addressed in writing to the system's administrative office at the address shown below and in matters of conflict between this document and chapter law, the matter shall default to chapter law.

Type of Plan: The Manchester Employees' Contributory Retirement System, (The Retirement System, MECRS, or The Plan) is a "defined benefit" plan and operates pursuant to Section 8.09 of the City Charter of Manchester, New Hampshire, in accordance with the State of New Hampshire Laws of 1973, Chapter 218 as amended, and is intended to create a tax-qualified governmental retirement plan under sections 401(a) and 414(d) of the Internal Revenue Code as amended. This defined benefit plan is superior to defined contribution plans in that it calculates the retirement benefit based upon average final earnings, creditable service, and age at retirement as opposed to simply the total accumulation of dollars in the plan. The Retirement System is governed by a seven member board in accordance with Articles I and II of its By Laws and operates in accordance with Administrative Rules established for that purpose. Relevant financial and demographic information about the Retirement System is contained in this report and on a website maintained by the Retirement System at www.ManchesterRetirement.org. That information is also available in hard copy upon request from the Retirement System's administrative offices. The Retirement System exists for the benefit of its membership and maintains administrative offices in Suite 403 of the Chase Building at 1045 Elm Street in Manchester, New Hampshire. The Retirement System may be contacted through its Executive Director by any of the methods listed below:

The system may be contacted through its Executive Director by any of the methods listed below:

By phone at: 603-624-6506
By fax at: 603-624-6342
By email at: Gfleury@ManchesterRetirement.org
Or by writing to: Manchester Employees' Contributory Retirement System
1045 Elm Street, Suite 403, Manchester, NH 03101-1824

Membership

The Retirement System applies to all *eligible* employees of the City, the Manchester school district, Manchester public library, and the Manchester Contributory Retirement System including elected and appointed officials. Trustees of the Retirement System who are not otherwise eligible to participate are prohibited from being members in the plan. The Retirement System does not cover certain categories of employees, such as temporary employees, members of boards and commissions who are not *eligible* employees of the City, trustees of the plan who are not otherwise eligible to participate, members of the fire and police departments, or teachers who are eligible to participate in a state-administered retirement system, and other persons who are, or were, eligible to participate in the New Hampshire Retirement System. *Eligible* employees are identified by the number of hours they routinely work per week, (generally, more than 32 hours for City workers, or 30 hours for a minimum of 180 days for school district employees, except for school food & nutrition workers for whom the standard is 20 hours per week). Employees who were participants before January 1, 2008 but failed to meet minimum participation standards are grandfathered under certain circumstances. Contact the Retirement System for details.

All covered employees hired after January 1, 1974 are required to participate in the Retirement System as a condition of employment. Employees are 100% vested after five years of service. The normal retirement age is 60 and the benefit is calculated at 1.5% of final average total compensation during the highest three years or 36 highest consecutive months of service in the last ten years of service (hereafter final average earnings) multiplied by the years of service. The benefit was increased to 2% for service completed after January 1, 1999. Effective July 1, 2005, members who are still in service and have service from prior to January 1, 1999 are afforded an option to upgrade that service multiplier to 2% pursuant to established laws and supporting rules established by the Board. Permanent employees of the City of Manchester prior to January 1, 1974 who were in service as of January 1, 1974, are eligible for early retirement if credited with no less than twenty (20) years of service.

Duties of the Board of Trustees

The retirement board is the trustee of the retirement fund and has the obligation of a fiduciary to the Retirement System and its members and beneficiaries. In the fulfillment of its duties and responsibilities, the retirement board acts solely in the interests of the Retirement System, the members, and the beneficiaries and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. As trustee, the retirement board holds legal title to all securities and assets of the Retirement System and has full control and management of them with the power to invest and reinvest the same in accordance with the terms, conditions, limitations, and restrictions imposed by the general statutes of the state of New Hampshire governing the investment of trust funds. In addition to those powers, the retirement board, as trustee, also has the power to: collect and receive any and all monies and other property due and to give full discharge and acquaintance therefore; appoint advisory committees to aid the retirement board in its duties under this section or to delegate to any corporate fiduciary or an insurance company within or without the state who may or may not be the custodian of stocks and securities, the power and discretion to make decisions with regard to the purchase or sale of any legal object of investment and to take any action necessary to affect decisions by or on behalf of the Retirement System with the same legal effect as if performed by the retirement board; authorize the payment of compensation to an agent for retirement fund management services; settle or compromise any claims, debts or damages due or owing to or from the Retirement System, and to commence or defend suits or legal proceedings whenever, in its judgment, any interest of the Retirement System so requires employing suitable agents and counsel for this purpose and paying their reasonable expenses and compensation; maintain records of receipts and disbursements and to pay benefits required under the retirement system to eligible members, or, in the event of their death, to their beneficiaries; and generally do all other things necessary and proper to carry out the operation of the retirement fund.

Contributions

Contributions to the plan consist of a member component which equates to 3.75% of wages as defined by regulation and an employer component which varies from year to year with the outcome of an annual actuarial valuation. Beginning in February of 2006 the member rate increased to 5% as part of the establishment of a Section 401(h) Medical Sub-trust. The additional 1.25% attributed to the post retirement medical subsidy is non-refundable in the event of termination and withdrawal from the plan. The factors which can influence the employer's cost of participation include many variables which are cited in the valuation report and can be obtained upon request. Member contributions are deducted by the employer and remitted to the Retirement System following each payroll cycle. The City's matching contribution is also expressed as a percentage of gross wages and is remitted to the Retirement System after each payday for certain budgetary units while for other divisions, an actuarially determine lump sum contribution is made twice a year in July and December. The percentage of the employer contribution is determined by the annual valuation process and is ratified by the Board and incorporated into the City's budget prior to the beginning of the City's fiscal year.

Additional Contributions

Additional Contributions, which technically became effective on March 9, 2004, provide an option for members to *either* reduce the offset associated with retiring prior to age 60 *or,* for the member who upon reaching the normal retirement age, lacks the service required to attain a 50% retirement benefit. The amount needed to *either* reduce the early retirement offset *or* provide a 50% benefit, is derived from the member making additional after tax contributions to their account. Determining how much a member is obligated to pay if they decide to pursue this option and simultaneously determining the contribution limit dictated by Federal regulations on such payments is done by means of an actuarial calculation which must be done at the member's expense. Member's who are rapidly approaching their anticipated date of retirement and who are otherwise in a position to avail themselves of this benefit option are advised to contact the Retirement System for further details.

Tax Shelter Plan

Member contributions deducted from salary by the employer, remitted to the plan on the employee's behalf, and indexed at the prescribed rate of 3.75% are considered tax sheltered under sections 401(a) and 414(d) of the Internal Revenue Code as amended. Effective February 6, 2006, the member contribution increased to 5% as a result of an additional 1.25% post retirement medical subsidy funding obligation. That additional 1.25% is non-refundable in the event of termination and withdrawal from the plan. Generally, pre-tax status is only extended to contributions which are a percentage of wages earned for the period. Permissive service purchases of temporary service and of time previously withdrawn from the plan *may* be eligible for a trustee to trustee transfer from 401(k), 403(b) and 457 plans. Contact the Retirement System for further details. Other amounts paid in by the member on a voluntary basis for purposes such as Additional Contributions are considered to have been made with post tax dollars. All post tax contributions are tracked by the Retirement System and will be reported as tax exempt in accordance with applicable Federal Tax Rules at the time of their eventual distribution.

Exemption from Taxation & Garnishment

The State Legislature specifically provided with respect to the Manchester Retirement System that: "[t]he right to any person to a pension or to the return of contributions, any benefit or right accrued or accruing to any person . . . shall be exempt . . . from levy and sale garnishment, attachment or any other process and shall be unassignable." By statute, therefore, a member's interest and benefits under the Manchester Retirement System are exempt from attachment or alienation. This sweeping prohibition *does not* contain an exemption for *domestic relations orders* as do private retirement plans and the New Hampshire State Retirement System so a member's benefits cannot be divided in a divorce by a qualified domestic relations order ("QDRO").

Creditable Service

Creditable Service refers to the amount of time a plan participant spends in the service of the employer. Service rendered for the full normal working time in a period of 12 consecutive months entitles a member to one year of service credit. Time spent as a member of any of the various city boards, or in any other capacity rendering incidental employment to the city, is not counted as service. Absence from employment on account of active duty with the armed forces of the United States in time of emergency or war, or as directed by selective service or to meet selective service requirements, or as a member of the national guard, or organized reserves, to meet its requirements, is counted as continuous employment with the city, provided, that the employee returns directly to active employment with the city after he or she becomes eligible for release from such active duty. Any such period of absence is not counted as service unless the employee completes a service buyback.

Upgrading of Select Existing Service Credit

As of July 1, 2005 but prior to their termination of employment and the commencement of a retirement benefit, a member may elect, under rules of the board, to receive a retirement benefit of 2 percent of their average final earnings for all years of service or any portion thereof, for years when the earned service credit was at the 1.5% rate, provided that the member shall be responsible for payment of 50 percent of the benefit based on methods and assumptions adopted by the Board. The Retirement System shall be responsible for the payment of the remaining 50 percent of the retirement benefit based on methods and assumptions adopted by the Board.

Spousal Consent

As of May 9, 2006, any application for any type of benefit administered by the Retirement System, including but not limited to retirement benefits, return of contributions, or disability retirement allowances shall include a statement made by the spouse of the member, if any, acknowledging that the spouse has read and understands the provisions of this act concerning the benefits and payments options, if any, which member has elected to receive. Acknowledgments have been incorporated into the various applications used by the Plan and are signed in the presence of a notary public or Retirement System employee. As of June 20, 2008, the definition of spouse has been expanded to also recognize parties to a civil union under RSA 457-A.

Normal Service Retirement

Any member who either has attained the age of 60 years or was in the service of the city on January 1, 1974 and has completed at least 20 years of service, is eligible for a normal service retirement benefit. Any such member may retire by filing with the retirement board, a written statement duly attested setting forth the time subsequent to the date of filing that the member desires to be retired, or the retirement board may, at its option, retire any such eligible member, furnishing written notice thereof at least 60 calendar days in advance of the specified date of such retirement.

The payment of retirement benefits to any member who is eligible to receive them and who has filed all election forms with the Retirement System shall become effective the first day of the month following termination of employment pending approval by the retirement board. No changes to benefit elections are permitted after the commencement of the payment of benefits.

The Retirement System shall not pay retirement or disability benefits to city employees who again become eligible to participate in the Retirement System. A member shall notify the Retirement System of their rehire immediately. Upon rehire after a period of termination, all disbursements under the Plan to that member shall cease and the member must resume making contributions to the retirement fund as of the first pay period following their rehire. Rehired members shall have their benefits determined in accordance with laws governing "restoration to service" as defined in the Retirement System's enabling legislation.

Notwithstanding any other provisions, the maximum pension payment payable to any member or beneficiary shall be limited to such extent as may be necessary to comply with the requirements of sections 401(a)(16), 401(a)(17) and 415 of the Internal Revenue Code. The retirement benefits payable hereunder shall be made in the form, at such time and otherwise in compliance with the distribution and rollover requirements of sections 402(c), 401(a)(9), and 401(a)(31) of the Code.

Members who qualify for a normal service retirement benefit shall receive an annual pension payable during the member's lifetime in an amount equal to the sum of: one and 1/2 percent of the member's final average earnings multiplied by the number of years, including the fractions of years represented by full months, of service completed prior to January 1, 1999; plus two percent of the member's final average earnings multiplied by the number of years, including the fractions of years represented by full months, of service completed after December 31, 1998. However, in the case of a member who both was in the employ of the city on January 1, 1974 and has completed not less than 20 years of service at the time of retirement, the annual pension payable during the member's lifetime shall be equal to the greater of the sum of the amounts determined in accordance with methods stated in the paragraph above, or 50 percent of final average earnings.

Early Retirement - Each member whose age plus years of service equals 80, or who attains age 55 with a minimum of 20 years of service, may have the option, to be exercised by a written notice to the retirement board, to retire at any time thereafter, prior to the member's normal retirement date. The amount of retirement benefits payable to such retired member shall be computed as provided in accordance with prevailing laws and regulations, except that the date of such early retirement shall be used in determining the member's service, and the amount thus obtained will be reduced for each month by which the date on which benefits commence precedes the month after which the member attains 60 years of age by 1/6 of one percent.

The contingent annuitant and 10-year certain options provided for in Plan Law may be elected by a member under this section, in which case the term "retirement date" shall be deemed to mean early retirement date wherever applicable with respect to laws dealing with Member Death Benefits by reasons of accidental or ordinary death.

Ordinary Disability Retirement

Any member of the Retirement System who, after 15 years of continuous service as an employee of the city, becomes totally and permanently disabled such that they are incapable of performing the essential functions of their position prior to such disability, may be retired for disability according to the prevailing regulations. The determination as to total and permanent disability shall be made by the retirement board upon review of an application for disability benefits submitted by the member and consultation with at least 2 impartial physicians selected by the retirement board who shall examine the member and submit written reports to the retirement board.

Members who retire for disability of this type shall be entitled to an annual disability benefit payable until the earlier of the termination of such disability or their death, computed on the basis of service completed prior to the date of disability in an amount equal to the sum of: 1½ percent of the member's final average earnings multiplied by the number of years, including the fractions of years represented by full months, of service completed prior to January 1, 1999; plus 2 percent of the member's final average earnings multiplied by the number of years, including the fractions of years represented by full months, of service completed after December 31, 1998. Disabled members may also receive their disability benefit in the form of a contingent annuity as described under "Optional Retirement Allowances" later in this document. Any member who has upgraded service credit earned between 1974 and 1999 shall have their benefit calculated in keeping with the percentage of such time as may have been upgraded prior to retirement.

Vesting

Vesting is the process through which a plan participant becomes irrevocably entitled to a monthly pension benefit in lieu of a cash distribution of paid in contributions and interest. A vested member is almost always financially better off collecting a monthly annuity from a defined benefit plan such as this one as opposed to collecting the cash payout. For the MECRS, vesting is achieved after the completion of five (5) years of participation and contributions into the plan.

Accidental Disability Retirement

Any member of the Retirement System who becomes totally and permanently disabled such that they are incapable of performing the essential functions of their position prior to such disability, if such total disability is shown, to the satisfaction of the retirement board, to have been sustained during the performance of duties pertaining to the member's employment by the city, shall be entitled to retirement for disability irrespective of the duration of employment. In order for a member to receive such disability benefits, the member must submit an application for disability benefits within 60 days of termination of employment. However, any member receiving a disability benefit on account of total and permanent disability sustained during the performance of duties pertaining to employment by the city, as provided herein, shall receive a benefit equal to the greater of the sum of the amounts determined in accordance with the formula for Ordinary Disability in the section above, or 50 percent of final average earnings. If a member has less than 3 years of service at the time of becoming totally disabled in the performance of duties pertaining to their employment by the city, their pension shall be based upon their annualized disability earnings. The disabled member may also receive their disability benefit in the form of a contingent annuity as described further on in this document.

Ordinary Death Benefit

An ordinary death benefit may be payable upon receipt by the board of trustees of proper proof of the death of a member in service indicating that such death was not the result of an accident occurring while in the performance of duty. In such cases, there shall be a death benefit payable to the member's surviving spouse or designated beneficiary or beneficiaries, if living, or otherwise to the member's estate.

If the member had at least 5 years creditable service or was eligible for service retirement at the time of the their death and had not designated a beneficiary or beneficiaries other than the a spouse, there shall be payable to the member's surviving spouse, continuing until the spouse's death or remarriage, the greater of either an allowance equal to 50 percent of the service retirement allowance that would have been payable to the member had the member retired immediately prior to death, based on final average earnings and creditable service at the time of death, or an allowance computed according to the member's length of service and the reduction in benefit payments computed for a 100 percent contingent annuitant option and for early retirement. In lieu of an allowance, the surviving spouse may elect a lump sum benefit equal to the deceased member's annual earnings at the time of death, in addition to a refund of contributions.

If the member did not have at least 5 years of creditable service and was not eligible for service retirement at the time of death, there shall be payable to the member's spouse or the member's designated beneficiary or beneficiaries, if other than the member's spouse, if living, or otherwise to the member's estate, a lump sum benefit equal to the deceased member's annual earnings at the time of death in addition to a refund of contributions.

However, if the member had at least 5 years creditable service or was eligible for service retirement, but is not survived by a spouse, or has designated a beneficiary or beneficiaries other than their spouse, there shall be payable to the person or persons nominated by the member, if living, or otherwise to the member's estate, a lump sum benefit equal to the deceased member's annual earnings at the time of death, in addition to a refund of contributions.

Accidental Death Benefit

An accidental death benefit may be payable upon receipt by the board of trustees of proper proof of the death of a member in service indicating that such death was the natural and proximate result of an accident occurring while in the performance of duty and not caused by willful negligence on the part of the member. There shall be a monthly benefit payable to the member's surviving spouse, to continue until the spouse dies or remarries; or if there is no surviving spouse, or if the surviving spouse dies or remarries before the youngest child of the deceased member has attained age 18, then to his child or children under said age until every child dies or attains said age; or if there is no widow or child under 18 living at the death of the member, then to his dependant father or dependent mother as the board shall determine, to continue for life; or if the deceased member is female, the foregoing benefits shall be payable to her widower, children or dependent parents only in like manner and amount; provided that if none of the aforementioned beneficiaries is living or eligible for benefits under provisions of this section, there shall be payable to the person or persons nominated by the member, if living, otherwise to the member's estate, a lump sum amount which is equal to the deceased member's base salary plus accrued benefits not paid at the time of death, in addition to a refund of contributions as provided under section 11, paragraph I of the retirement statute, (See Chapter 218 Laws of 1974 as amended).

Upon the accidental death of a member the amount of the annual benefit shall be equal to 50 percent of the member's final average earnings.

Optional Retirement Allowances

— CONTINGENT ANNUITANT OPTION —

Instead of the normal form of monthly retirement benefit provided by a Service Retirement, a member may, prior to his or her retirement date, elect a contingent annuitant option providing, if the member does not die before his or her retirement date, for actuarially reduced monthly retirement benefits payable during his or her lifetime after retirement and for the continuance of such payments, or a part of them specified by the member, to such contingent annuitant for his or her life after the death of a retired member. Such election may be made by a member at any time prior to his or her retirement date and may not be changed after his or her retirement date. The death of the contingent annuitant at any time prior to the member's retirement date shall automatically revoke such election; and further provided that if the contingent annuitant is the spouse of the member, a divorce granted to either spouse at any time prior to the member's retirement date shall automatically revoke such election.

If a member who has elected this option dies before his or her retirement date, no benefits shall be payable to the contingent annuitant under this option. In such circumstances, benefits, if any, are to be paid in accordance with provisions associated with a Death Benefit or a Termination of employment. If the member dies after his or her retirement date, the contingent annuitant shall receive for life, commencing on the first day of the calendar month coinciding with or next following the retired member's death, the benefits specified by the retired member for the contingent annuitant.

If the contingent annuitant dies before the member's retirement date, the monthly retirement benefit normally provided under this act shall be payable to the retired member as if the option had not been elected. If the contingent annuitant dies after the member's retirement date, the amount of the payments which the retired member is then receiving or is entitled to receive will at that time (with no provisions for retroactive payments) revert back to what it would have been at the member's retirement date if the option had not been elected and will cease upon the retired member's death.

Instead of the normal form of disability benefit, a disabled member may, prior to the start of disability benefits, elect a contingent annuitant option providing for actuarially reduced monthly disability benefits payable during his or her lifetime and for the continuance of such payments, or a part of them as specified by the disabled member, to such contingent annuitant for his or her life after the death of the disabled member.

Once the contingent annuitant option has been elected by a disabled member, it may not be changed or revoked except in the case of death of the contingent annuitant. If the contingent annuitant dies after the disabled member has started receiving disability benefits, the amount of the payments which the disabled member is then receiving or is entitled to receive shall at that time with no provisions for retroactive payments revert back to what it would have been at start of the payment of disability benefits if the option had not been chosen and will cease upon the disabled member's death.

— TEN-YEAR CERTAIN OPTION —

Instead of the normal form of monthly retirement benefit provided by a Service Retirement, a member may elect an actuarially reduced monthly retirement benefit payable for 10 years certain and life thereafter. Such election may be made by a member at any time prior to his or her retirement date and may not be changed after his or her retirement date. Under this option, 120 monthly payments will be made regardless of how long the member lives. If a member dies after his or her retirement date, but before 120 monthly payments have been made, the balance of the 120 monthly payments shall be made to the member's beneficiary. If the beneficiary, having survived the retired member, dies before all of said 120 payments have been made, then the commuted value of the balance of said payments shall be paid in a lump sum to the beneficiary's estate. If the member dies before his or her retirement date, no benefits shall be payable under this option. If the member survives beyond the 120 month guaranteed payment period, actuarially reduced monthly retirement benefits shall continue until the death of the member at which point the benefit payments shall cease.

Cost of Living Adjustments

The Board of Trustees may adjust the payment to retirees to maintain their incomes at the approximate level with their real incomes at the time of retirement. The Trustees *may* grant a cost of living adjustment ("COLA") provided that sufficient funds are available to fund any additional benefits either through earnings of the retirement fund or through such special appropriation by the city as may be approved by the board of mayor and aldermen. The determination as to whether sufficient funds are available is determined in accordance with Administrative Rule 7.0 which can be obtained on the Retirement System's website at www.ManchesterRetirement.org or by contacting the Retirement System and requesting a copy of the Administrative Rules. The amount of any COLA to be granted is determined by applying a standard measured by the U.S. City Average Consumer Price Index for all items as published by the Bureau of Labor Statistics of the U.S. Department of Labor ("Price Index"). The amount, frequency and timing of COLAs on the base benefit and on any additional monthly annuities purchased under the plan's "additional contribution" program are mutually exclusive of one another and are detailed in Rule 7.0 of the plan. Contact plan administration for details.

Refunds of Contributions

Upon termination of employment, a member becomes eligible for a return of contributions deducted and remitted by the employer along with any additional contributions and permissive service purchases paid in, plus all applicable interest. This payment option is available to all members upon termination of employment but should generally be considered only by members who have not attained vested status. Under no circumstances is a terminated member applying for a lump sum distribution eligible to receive a payout of the employer matching portion or of amounts contributed toward participation in the Section 401(h) Medical Health Trust.

A member who is less than 59 ½ years of age and who does not elect to "roll over" the taxable portion of a distribution from their plan may be subject to mandatory 20% withholding on their distribution and obligated to pay a 10% excise tax on their early distribution. Plan members who must terminate their affiliation with the Retirement System and are not eligible to vest can obtain the necessary forms from the Retirement System's administrative staff to perform a rollover and avoid tax consequences of the transaction. The Retirement System is not in a position to assist members with tax questions and does not offer investment advice. Members with questions on the disposition of funds received following termination from employment should seek the counsel of tax and financial professionals.

Buybacks & Permissive Service Purchases

A member who ceases to be a member, withdraws their member contributions as described above, and later becomes a member again, may make a request after their return to service for the City for a service buyback of prior service credit for the previous time served as a member. Once the eligibility requirement has been met, if a service buyback is not made, the member's benefit shall be based solely on the member's years of service and final average earnings after the break in service.

A member may also make a service buyback request to receive prior service credit for a period prior to becoming a member during which the member was employed by the city in a temporary position or out on worker's compensation, leave of absence, or engaged in CETA, model city program, or any other capacity the retirement board determines warrants a service buyback. A service buyback for temporary service may only be made if the member became a permanent city employee without incurring a break in service. A service buyback is also available if an employee elected not to participate in the Retirement System in 1974 when the Plan was established and otherwise satisfies the requirements of membership.

If a member does not purchase all available prior service credit, the service credit purchase must begin on the latest date of service available. Members are required to submit proof of employment in order to substantiate prior service.

Upon a request for service buyback, the retirement board determines the cost of the requested service buyback, which amount includes the contributions the member would have been required to make plus buyback interest, and provide a written statement to the member. The member must pay all amounts related to the service buyback in one lump sum.

Effective December 12, 1994, contributions, benefits, and service credit with respect to qualified military service shall be provided in accordance with section 414(u) of the Code notwithstanding any provision of this chapter to the contrary.

Purchase of Time Withdrawn From Other Pubic Retirement Plans

Notwithstanding any provision to the contrary, any member of the Manchester Employees' Contributory Retirement System, in service on or after June 30, 2006, who was formerly a member of a public employees' retirement system elsewhere in the United States, can purchase credit for such service as creditable service in the Manchester Employees' Contributory Retirement System; provided, however, that creditable service in the Manchester Employees' Contributory Retirement System which is purchased is not deemed creditable service for the purpose of eligibility for medical and surgical benefits as a retired employee. Only creditable service performed in the city of Manchester as a member of the Manchester Employees' Contributory Retirement System will be counted as creditable service for the purpose of eligibility for medical and surgical benefits as a retired employee. For the purposes of this program, "public employees' retirement system" shall include any retirement system established and maintained by the United States government, the members of which are federal government employees. Also for the purposes of this program, any military service not otherwise authorized pursuant to section 10, paragraph I, *shall not* be included as creditable service in a public employees' retirement system. Member must meet the following conditions to purchase credit under this program:

(a) The member must have terminated employment and active membership in the other public system and become a member of the Manchester Employees' Contributory Retirement System; and

(b) The member must apply for service credit, on a form designated by the board; and

(c) The member must provide such information and certification from the other public employer and other public retirement system as the board may require; and

(d) The member must pay to the Manchester Employees' Contributory Retirement System the full cost for buy-in of creditable service as provided in section 10, paragraph VI, of the retirement system's enabling legislation, including prepayment of any actuarial calculation fee as determined by the board; and

(e) The amount of creditable service purchased must be *either* the full length of service rendered in the other system *or* a pro-rata portion of such service purchasable with the maximum amount which the member was permitted to withdraw from the other system; and

(f) In no case shall the creditable service purchased exceed the service time rendered in the other public system, or include any service period for which the member remains eligible for benefits in the other public system.

After meeting all of the conditions above, and upon payment of the cost of such credit inclusive of all calculation fees, and with the approval of the board of trustees, a member shall receive credit for service in other public systems. In no case however, shall other public employees' retirement system service purchased as creditable service in the Manchester Employees' Contributory Retirement System be deemed to be creditable city service for the purposes of eligibility for longevity or other benefits solely within the discretion of the city of Manchester.

Uniformed Services Employment and Reemployment Rights

Retirement System Benefits Impacted by Call to Serve in Active Duty in the Military. Federal and state laws provide certain benefit protections to Retirement System members who are called to serve in active duty of the uniformed services by either the federal government or by the state of New Hampshire. These laws allow the member to receive credit in the Retirement System for time served in the military. The federal law, the Uniformed Services Employment and Reemployment Rights Act of 1994 ("USERRA") affects employment, reemployment, and retention in employment, when employees serve or have served in the uniformed services. The term "uniformed services" includes the Army, Navy, Air Force, Marines, Coast Guard and the reserve component of these services. The term also includes the National Guard, when engaged in active duty for training, inactive duty training or full-time duty, and the commissioned corps of the Public Health Service. Service includes all categories of military training and service, on a voluntary or involuntary basis, in time of peace or war. New Hampshire RSA 110-C:1 is a New Hampshire law that provides similar protections to members who are called by the State of New Hampshire to serve in active duty in the national guard.

Limits On How Long a Member Can Serve in the Military and Still Retain the Right to Reemployment with the City and the Right to Receive Service Credit in the Retirement System. USERRA generally provides that a member can serve up to 5 years in the armed services and still retain reemployment rights with the City and receive service credit in the Retirement System for their service with the military. USERRA provides that the member must return to City employment within specified time periods in order to preserve their reemployment rights. Please contact the City Human Resources Department for more information.

Credit For Active Duty in the Uniformed Services in the Retirement System Upon Return to City Employment. After they return to City employment and make up their normal required member contributions, a member will receive service credit for their period of military service.

Credit For Active Duty in the Uniformed Services in the Retirement System When Not Returning to City Employment. If a member does not return to City employment and make up the normal required member contributions, they will not receive service credit for their period of military service.

Time Limit After Reemployment to Make the Missed Contributions. A member is allowed three times the amount of their military leave or five years, whichever is less, to make the total employee contribution that they would have made if they were not on active duty.

Calculation of Earnings During a Member's Period of Military Service for Purposes of Determining their Contributions and Benefits. USERRA requires that the Retirement System determine a member's earnings using the rate of pay that they would have received but for their period of military service. Where the rate of earnings they would have received is not reasonably certain, their average rate of earnings during the 12-month period prior to their period of military service must be used. Where the earnings they would have received is not reasonably certain and they were employed by the City for less than 12 months prior to the period of military service, their average earnings must be calculated from this shorter period of employment that preceded their military service.

Interest Requirement When Making Up for Missed Member Contributions. USERRA prohibits the Retirement System from requiring a member to pay interest or otherwise make up a missed contribution by paying an amount greater than the amount the member would have been permitted or required to contribute had the member remained continuously employed during the period of military service.

Withdrawal of Contributions if Called to Serve in Active Duty. Neither USERRA nor RSA 110-C:1 allow a Retirement System member who is called to serve in active duty the right to withdraw his or her member contributions. However, if a member terminates City employment before they are called to serve in active duty, they have the same rights to withdraw contributions as any other member. These rights are described in the section on page 17 entitled, *"Refunds of Contributions"*

Repayment of Account Balance After Withdrawal of All or Part of a Member's Account from the Retirement System Before Becoming Reemployed by the City. If a member withdrew all or part their account balance from the Retirement System before they became reemployed, USERRA requires the Retirement System to allow them to repay the withdrawn amounts when they are reemployed. The amount they must repay includes the interest that would have accrued had their contributions not been withdrawn. The repayment of those amounts must be made in any fashion during a time period starting with the date of **reemployment** and continuing for up to three times the length of the immediate past period of military service, with the repayment period not to exceed five years. Any buyback made after five years must be made in a single lump sum.

In addition to USERRA rights, Chapter 218:10 of the Retirement System statute allows a member to buy back service credit time if they withdrew their contributions following termination of employment. For a discussion of these rules, see the section on page 17 entitled, *"Buybacks and Permissive Service Purchases"*

Financial Assistance Available to Pay for Post Retirement Health Insurance

As of July 1, 2006 all pensioners (this benefit is limited to the pensioner only and does not cover spouses or dependents under any circumstances) collecting a monthly annuity became entitled to a health insurance subsidy which is applied against the cost of remaining on the City's health insurance plan after retirement. The subsidy is limited to retirees affiliated with the City and School District health insurance programs. The amount of the subsidy varies depending upon the member's date of retirement and their years of service in the plan. For those retiring after March 2006, the subsidy ranged between $54.08 per month and $216.32 per month. For those retired prior to March of 2006 the subsidy was half that amount. Subsidies will increase by 4% each year.

Subsidy levels for 2008 are shown in this table	TABLE OF MONTHLY SUBSIDY ENTITLEMENTS FOR CITY COVERAGE				
	Retirement Date	Under 10 Years Service	Over 10 Years Service	Over 15 Years Service	Over 20 Years Service
	Prior to 3/2006	$27.04	$54.08	$81.12	$108.16
	After 3/2006	$54.08	$108.16	$162.24	$216.32

Simple Ways to Approximate a Retirement Benefit

Calculating the estimated value of a pension benefit is too important to be delegated to approximations and for that reason, a manual benefit worksheet is not available. Any member who desires a benefit estimate can obtain it in one of two ways. Members who have access to the Internet can visit the system's website at www.ManchesterRetirement.org where instructions in the News & Information Section will help them to set up a Personal Online Access. That access in turn will allow the member to calculate an estimated benefit based upon various retirement dates they can enter. For those members without Internet access, the Retirement System will calculate a benefit estimate for them on demand and mail it to their home. To obtain an estimate by mail a member need only call the Retirement System at 624-6506 and ask for the calculation.

Other Questions

The administrative staff of the MECRS is always ready to help members with questions or concerns regarding participation and entitlement in their Plan. Members are encouraged to think of administrative staff as a resource at their disposal and to contact them any time they have questions about any aspect of the plan. Members may call, fax, email question to the locations listed on page 9.

BERRY.DUNN.MCNEIL & PARKER
BDMP
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Administrative and Accounting Committee
City of Manchester Employees' Contributory Retirement System

We have audited the accompanying comparative statements of net assets available for benefits of City of Manchester Employees' Contributory Retirement System (the Retirement System), a component unit of the City of Manchester, as of December 31, 2008 and 2007 and the related comparative statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Retirement System as of December 31, 2008 and 2007, and the changes in its net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2009, on our consideration of the Retirement 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* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 22 through 27 and the historical pension information on pages 41 and 42 are not a required part of the general-purpose financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Berry, Dunn, McNeil & Parker

Manchester, New Hampshire
June 19, 2009

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Management's Discussion and Analysis

Our discussion and analysis of the City of Manchester Employees' Contributory Retirement System's (the System, Retirement System or the Plan) financial performance provides an overview of the System's financial activities for the fiscal year ended December 31, 2008. Please read it in conjunction with the transmittal letter from the Chairman of the Board of Trustees and the System's audited financial statements.

FINANCIAL HIGHLIGHTS

- The Retirement System's total net assets held in trust for pension benefits were $106.4 million at December 31, 2008.
- The Retirement System's net assets decreased by $42.8 million which is primarily due to losses in market value.
- Employer and employee contributions to the plan were $10.2 million which is up approximately 12 percent over the preceding year. The employer share of contributions represents 72% or $7.35 million with voluntary service upgrades and permissive service purchases paid entirely by members comprising 2.0% or $.2 million of total contributions for the year.
- Benefits paid to plan participants were $8 million. At December 31, 2008, there were 593 retirees and beneficiaries in receipt of pension benefits.

Using this Annual Report

This annual report consists of a series of financial statements. The *Comparative Statements of Net Assets Available for Benefits* and *Comparative Statements of Changes in Net Assets Available for Benefits* (on page 28 and 29) provide information about the activities of the System and the net assets held in trust for pension and health benefits. The financial statements also contain actuarial information on the value of plan assets, accrued liability and the significant actuarial assumptions used in the actuarial valuations.

Reporting on the System's Finances as a Whole

One of the most important questions asked about the System's finances is: "Is the System as a whole better or worse off as a result of the year's activities?" The *Comparataive Statements of Net Assets Available for Benefits* and the *Comparative Statements of Changes in Net Assets Available for Benefits* report information about the System as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting used by private-sector retirement plans. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the System's net assets and changes in them. You can think of the System's net assets – the difference between assets and liabilities – as one way to measure the System's financial health, or financial position. Over time, increases or decreases in the System's net assets are one indicator of whether its financial health is improving or deteriorating. You will also need to consider the actuarial liability or surplus as determined at the first day of each plan year.

Best Practices on Issues Associated with Provisions of Sarbanes Oxley

The Retirement System continues to improve on best practice issues associated with Sarbanes Oxley. Our administrative staff prepared and placed on file, documents attesting that the Retirement System's financial statements contain no material misstatements or omissions. Procedures formulated and implemented by the Board also remain in place for the reporting, investigation, and subsequent addressing of any suspected irregularities in the operation or practices of the System. Details on these processes are contained in the Code of Ethics posted to the System's website and compliance reporting forms designed to be used by the process are also posted on that site.

Mechanics Relative to Employer Contributions

Beginning in 2008, the City began paying its employer obligation in semi-annual installments for most departments. The City's pension obligations continued to be collected on a weekly basis for members employed at the Water Works, Airport, School District, and the Retirement System itself. While the identified departments continued to pay their obligation basis as a percentage of payroll, the balance of City departments had their obligation computed by the System's actuary and it was paid in July and December of 2008. The actuary's computation of the rate compensated for the time value of money so that neither departments which continue to pay on a weekly basis nor the balance of City departments paying in lump sums experienced a financial advantage or disadvantage as a result of their payment schedule.

Investment Policy

The Board's investment policy permits fund assets to be invested in U.S. and non-U.S. equities, U.S. and non-U.S. fixed income securities and equity real estate commingled funds.

ASSET ALLOCATIONS AMONG VARIOUS CLASSES ARE:

	POLICY MIX	CURRENT MIX
GTAA	17.00%	19.10%
Large Cap Equity	20.00%	15.20%
Mid/Small Equity	10.00%	6.80%
International Equity	9.00%	7.20%
Emerging Markets	4.00%	3.50%
Hedge Funds	10.00%	10.80%
Private Equity	5.00%	0.80%
Fixed Income	18.00%	21.50%
Real Assets	5.00%	10.10%
Cash	2.00%	5.00%

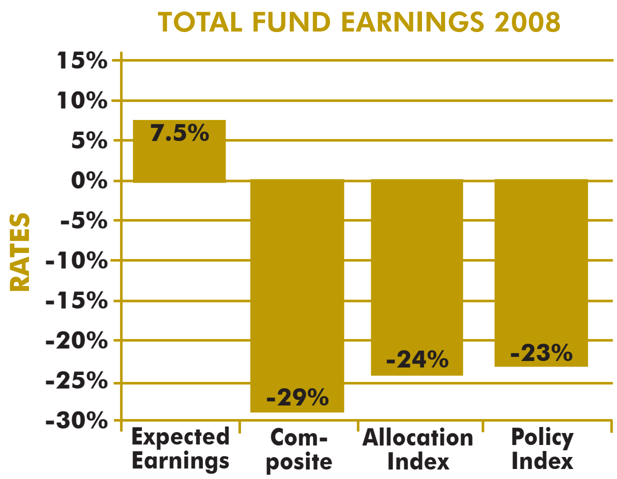
The Board of Trustees' investment objectives and risk tolerance are intended to achieve a maximum total return with emphasis on preservation of capital in real terms. The investment mix is designed to participate in rising markets, with defensive action expected to an even greater degree in declining markets. Total return includes interest, dividends, and realized/unrealized gains or losses from investments.

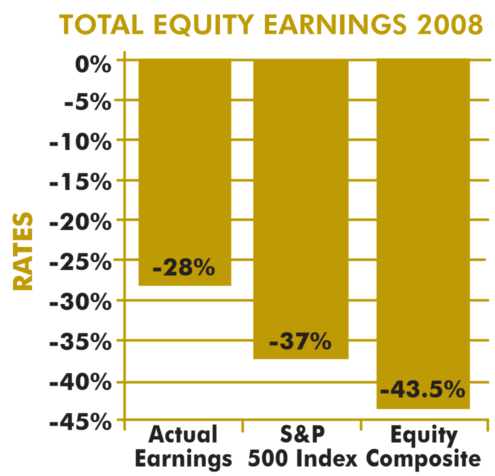
System's Activities

Operationally, Plan expenses for the period ending December 31, 2008 were $9.1 million. This total includes $.6 million in administrative expenses, $.5 million in refund of employee contributions and $8 million in benefits paid to retired members and beneficiaries. A total of 2,015 City employees were participants or beneficiaries at year-end.

The value of Plan assets, after subtracting liabilities of the Plan, was $106,403,260 and $149,196,664 as of December 31, 2008 and December 31, 2007, respectively. For the year 2008, the Plan experienced a decrease in its net assets in the amount of $42,793,404 and an investment rate of return of -28%. Total fund earnings had its first year of losses after five consecutive years in positive territory.

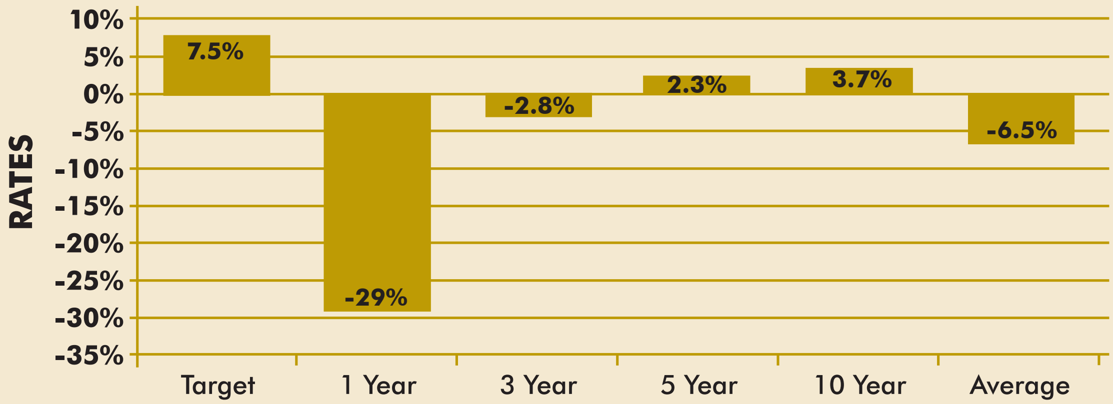
To help assess investment performance, various indexes are employed including a Composite, an Allocation Index, and a Policy Index. The Composite is calculated by taking the actual asset class weights times the actual manger return. When compared to the allocation index, it measures the effectiveness of the managers. The Allocation Index is calculated by taking the actual asset class weights times the return of the respective passive benchmark. It measures the effectiveness of deviating from the target weights. Finally, there is the Policy Index which is calculated by taking the target asset class weights times the return of the respective passive benchmark, (re-balanced monthly). It measures the effectiveness of the Plan Structure.





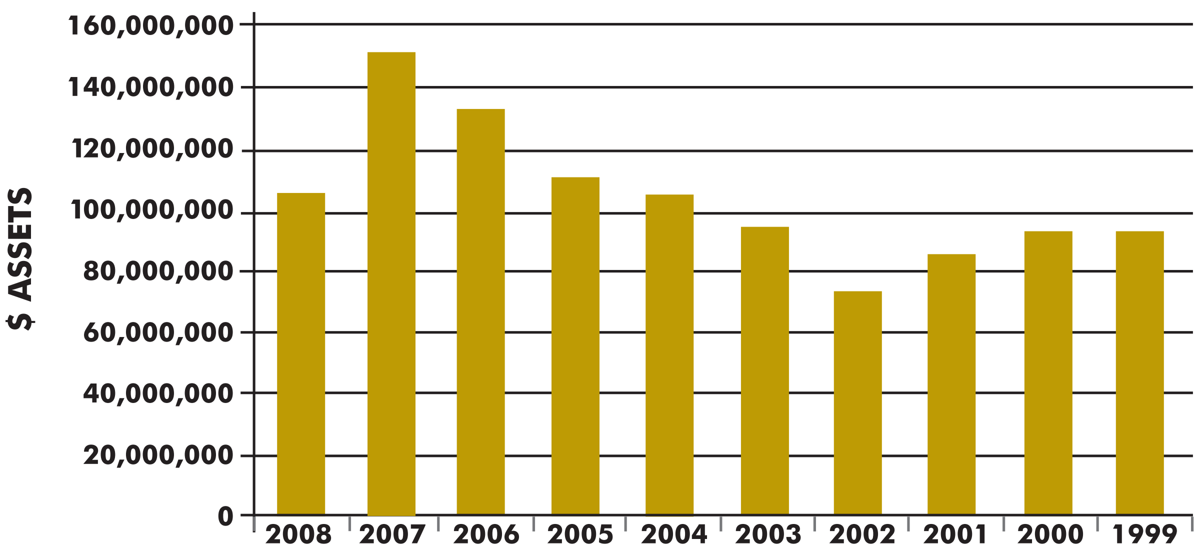
Total Plan Investments ended the year with a loss of 28%, still out-performing the -37% rate of return of the S&P 500 Index. Equities for the fund when measured alone achieved a return of -43.5% which reflected greater downside volatility than the S&P 500.

PERIOD RATES OF RETURN THROUGH 2008



For the Plan year ended December 31, 2008, the System's rate of return for the one, three, five and ten year periods fell short of the target rate of 7.5%. The rates were -29.0% for the one year, -2.8% for the three year, 2.30% for the five year and 3.7% for the ten year averages.

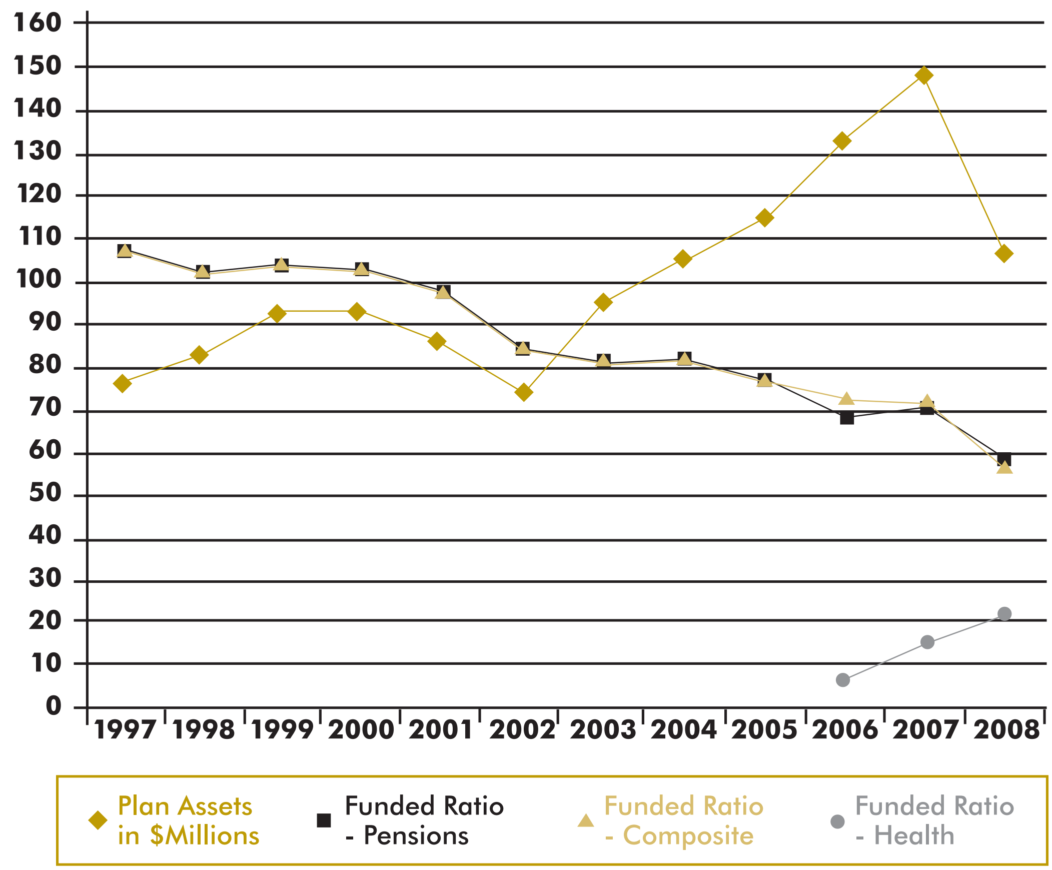
TEN YEAR HISTORY OF NET ASSETS AVAILABLE FOR BENEFITS VALUES AS OF 12/31/08



The year 2008 saw a decline in investment returns. Unlike the previous five years, U.S. equities experienced a negative return and therefore failed to meet the earnings assumption for the Plan. The System's total portfolio decreased by 28% during 2008, ending the year with $106.4 million in net assets. Historical net asset values for the past ten years are shown here.

YEAR	NET ASSETS	YEAR	NET ASSETS
2008	$106,403,259	2003	$ 95,632,743
2007	149,196,664	2002	74,796,544
2006	133,448,997	2001	85,786,154
2005	115,634,181	2000	93,034,852
2004	106,244,443	1999	93,302,993

FUNDED RATIO TO PLAN ASSET COMPARISON



The Funded Ratio measures the relationship between Valuation Assets and the Actuarial Accrued Liability. The growth of Plan assets alone can create an appearance of funding adequacy when obligations resulting from benefit enhancements and other factors are actually reducing the funded status of the Plan. The Funded Ratio, when charted over time along with Plan Assets, reveals whether the adequacy of Plan funding is improving or worsening. A fully funded plan will have a Funded Ratio of approximately 100% while a Plan funded at less than 60% may be a cause for concern.

Year	Plan Assets in $Millions	Funded Ratio - Pensions	Funded Ratio - Health	Funded Ratio - Composite
12/31/2008	106.4	62.5	21	60.1
12/31/2007	149.2	74.2	16.9	71
12/31/2006	133.4	73.2	6.7	69
12/31/2005	115.6	77	n/a	77
12/31/2004	106.2	82.2	n/a	82.2
12/31/2003	95.6	81.9	n/a	81.9
12/31/2002	74.8	84.5	n/a	84.5
12/31/2001	85.8	98.4	n/a	98.4
12/31/2000	93	103.4	n/a	103.4
12/31/1999	93.3	104.1	n/a	104.1
12/31/1998	83.5	102.1	n/a	102.1
12/31/1997	77.9	107	n/a	107

Schedule of Administrative Expenses

	2008	2007	% Increase or Decrease
TRUST RELATED EXPENSES			
Actuarial Expenses	$40,849	$38,497	6.11%
Audit Expenses	29,500	34,900	-15.47%
Legal Fees	111,376	174,126	-36.04%
Trustee Education	955	364	162.49%
Fiduciary Insurance	57,290	55,059	4.05%
Election Service Payroll	1,121	920	21.88%
Medical Evaluations	7,250	3,150	130.16%
Meeting Expenses	62	93	-33.41%
Pre-Retirement Counseling	3,273	0	n/a
BENEFITS ADMINISTRATION			
Outsourced Payroll	17,518	16,406	6.78%
Benefit Statements	674	635	6.16%
Annual Reports	7,620	7,473	1.96%
ADMINISTRATIVE OPERATIONS			
Office Supplies	1,740	1,489	16.88%
Postage	3,369	3,665	-8.08%
Printing	610	1,745	-65.07%
Publications	3,361	3,711	-9.43%
Dues	370	365	1.37%
Rent	34,605	33,545	3.16%
Depreciation	21,797	58,343	-62.64%
Insurance	-48	3,052	-101.57%
Utilities	4,231	4,522	-6.43%
Records Processing	97	40	143.60%
Salaries	171,761	164,385	4.49%
Benefits	84,051	76,329	10.12%
Administrative Travel	250	131	90.76%
Equipment Maintenance	2,952	3,620	-18.46%
Equipment Leasing	3,896	3,769	3.36%
Information Technology	5,615	6,536	-14.09%
Pension Software Maintenance	18,322	17,449	5.00%
Janitorial	2,742	4,220	-35.02%
Licenses & Fees	285	75	280.00%
Miscellaneous	54	-645	-108.45%
	$637,548	$717,969	-11.20%

Schedule of Active & Retired Members

FOR PERIOD ENDED DECEMBER 31, 2008

Office/Department	Active or Vested	Retired
Assessors Office	9	6
Airport Authority	81	14
Building Department	19	11
Cemetery Department	12	11
CIP	1	3
City Clerk's Office	16	11
City Coordinator	0	1
City Solicitor's Office	16	2
District Court	3	1
Employee Assistance Program	1	0
Elderly Services	4	1
Environmental Protection Division	46	12
Finance Department	13	7
Fire Department (Non- NHRS Group II)	17	5
Fleet Management	0	1
Health Department	68	27
Highway Department	183	69
Human Resources	9	9
Information Systems	20	4
City Library	41	21
Mayor's Office	4	5
Manchester Economic Development Office	4	0
Municipal Facilities - (Inactive)	0	2
Office of Youth Services	9	3
Parking Enterprise	13	0
Parking Meters	0	3
Parks & Recreation	37	26
Public Building Services	22	56
Planning Board	7	5
Police Department (Non- NHRS Group II)	68	10
Probation Department	1	1
Retirement	3	2
Risk Management	2	0
School Department (Excludes teachers in NHRS)	481	111
School Food & Nutrition Services	102	109
Tax Collector's Office	10	5
Traffic Department	0	5
Water Works Department	86	36
Welfare Department	11	1
	1419	596

CITY OF MANCHESTER EMPLOYEES' CONTRIBUTORY RETIREMENT SYSTEM

Comparative Statements of Net Assets Available for Benefits

DECEMBER 31, 2008 AND 2007

	PENSION TRUST	MEDICAL TRUST	TOTAL 2008	TOTAL 2007
ASSETS				
Cash	$5,211,767	$97,425	$5,309,192	$5,054,314
Investments, at fair value				
Quoted price in an active market				
Equity funds	23,096,575	477,768	23,574,343	43,630,861
International equity	7,548,195	156,140	7,704,335	12,098,634
Fixed income	22,602,516	467,548	23,070,064	25,352,826
Emerging market funds	3,638,241	75,259	3,713,500	12,606,017
Specialty investments	20,097,837	415,812	20,513,649	25,038,661
Fair value appraised or otherwise determined				
Alternative equity (See Note 2 - Investments Pg 32)	848,757	17,557	866,314	1,102,196
Hedge funds	11,299,482	233,737	11,533,219	14,833,109
Real estate	3,580,225	74,059	3,654,285	4,059,382
Timberfunds	7,085,970	146,578	7,232,548	6,038,855
Total investments	99,797,798	2,064,458	101,862,256	144,760,541
Accrued interest	3,617	75	3,692	11,345
Employee contribution receivable	387	130	517	41,119
Employer contribution receivable	164	11	175	30,396
Equipment, net of accumulated depreciation of 363,105 and 365,321 for 2008 and 2007, respectively	23,494	486	23,980	45,777
Other assets	5,976	124	6,100	6,750
Total assets	105,043,203	2,162,709	107,205,912	149,950,242
LIABILITIES AND NET ASSETS				
Accounts payable and accrued expenses	120,020	2,483	122,503	144,792
Pension benefits payable	680,149	0	680,149	608,786
Total liabilities	800,169	2,483	802,652	753,578
(Commitments and Contingencies – Note 4,6, and 7)				
Net assets held in trust for benefits (See schedule of Funding Progress on Page 41)	104,243,034	2,160,226	106,403,260	149,196,664
Total liabilities and net assets	**$105,043,203**	**$2,162,709**	**$107,205,912**	**$149,950,242**

The accompanying notes are an integral part of these financial statements.

CITY OF MANCHESTER EMPLOYEES' CONTRIBUTORY RETIREMENT SYSTEM

Comparative Statements of Changes in Net Assets Available for Benefits

YEARS ENDED DECEMBER 31, 2008 AND 2007

	PENSION TRUST	MEDICAL TRUST	TOTAL 2008	TOTAL 2007
Net assets at beginning of plan year	$147,179,417	$2,017,247	$149,196,664	$133,448,997
Increase to net assets attributed to investment income				
Interest	85,980	1,400	87,380	138,368
Dividends	1,912,801	35,946	1,948,747	4,424,453
Realized gain on sale of investments	3,702,689	51,057	3,753,746	14,218,432
Unrealized gain/(loss) in market value – quoted price	(45,747,432)	(696,032)	(46,443,464)	(6,615,011)
Unrealized gain in market value – otherwise determined	(2,621,153)	(124,169)	(2,745,322)	3,150,047
Other investment income	9,615	149	9,764	3,282
	(42,657,500)	(731,649)	(43,389,149)	15,319,571
Less investment expenses				
Investment management fees	351,297	6,019	357,316	373,546
Investment advisor expense	122,856	2,144	125,000	125,000
Custodial fees	31,213	553	31,766	42,421
	505,366	8,716	514,082	540,967
Net investment income	(43,162,866)	(740,365)	(43,903,231)	14,778,604
Contributions				
Employer	6,863,988	487,909	7,351,897	6,414,486
Employee	1,997,894	629,821	2,627,715	2,470,587
Buybacks	199,006	0	199,006	232,314
Total contributions	9,060,888	1,117,730	10,178,618	9,117,387
Total increase/(decrease) in net assets	(34,101,978)	377,365	(33,724,613)	23,895,991
Reduction in net assets attributed to				
Benefits to participants	7,751,806	224,351	7,976,157	7,139,687
Refunds of employee contributions plus interest	455,086	0	455,086	290,668
Administrative expenses	627,513	10,035	637,548	717,969
Total reductions	8,834,405	234,386	9,068,791	8,148,324
Net increase/(decrease) in net assets	(42,935,383)	142,979	(42,793,404)	15,747,667
Net assets at end of plan year	**$104,243,034**	**$2,160,226**	**$106,403,260**	**$149,196,664**

The accompanying notes are an integral part of these financial statements.

— Notes to Financial Statements —

DECEMBER 31, 2008 AND 2007

1. DESCRIPTION OF PLAN

The following brief description of the City of Manchester Employees' Contributory Retirement System (the Retirement System) is provided for general information purposes. Participants should refer to the plan document for more information.

■ GENERAL

The City of Manchester, New Hampshire (the City) established a single employer, public employee retirement system on January 1, 1974 to provide pension benefits for certain City employees. The Retirement System is a discretely presented component unit of the City's general purpose financial statements.

The Retirement System adopted Statement No. 34 of the Governmental Accounting Standards Board: "Basic Financial Statements and Management's Discussion and Analysis (MD&A) for State and Local Governments", effective December 31, 2001.

At January 1, 2008 and 2007, the Retirement System membership consisted of:

	2008	2007
Retirees and beneficiaries currently receiving benefits	596	569
Terminated vested members	95	88
Active members	1,324	1,345
Total Participants	2,015	2,002

■ ADMINISTRATION

The Retirement System is administered by a Retirement Board of Trustees (the Board of Trustees) consisting of seven members. They are: (1) the City's Finance Director; (2) a person appointed by the Board of Mayor and Aldermen; (3) and (4) two citizens of the City, one appointed by the Mayor and one elected by the employees, neither of whom shall be an officer or employee of the City or a member of any commission of the City; and (5) and (6) two members who are employees of the City and elected by the membership of the Retirement System. The seventh Trustee is the Mayor of the City who is an ex officio member and can vote only to break a tie. The Board of Trustees is responsible for the operation of the Retirement System.

Duties of the Board of Trustees include overseeing investments, approving the actuarial valuation of the Retirement System, including the actuarial assumptions, interpreting statutory provisions, authorizing benefit payments, and formulating administrative policies and procedures.

The daily administrative functions of the Retirement System have been delegated by the Board of Trustees to the Retirement Office. The Retirement Office processes all requests for retirement, maintains member records, and serves as the Retirement System's information center.

All employer and employee contributions are deposited in a trust fund managed and controlled by the Board of Trustees. The Board of Trustees has appointed professional investment managers who are directed to invest the assets of the trust funds in high quality stocks, bonds, and other investments.

■ ELIGIBILITY AND PENSION BENEFITS

Except as described in the following sentence, the Retirement System applies to all full-time and permanent part-time employees of the City, including elected and appointed officials. The Retirement System does not cover certain categories of employees, such as temporary employees, members of boards and commissions who are not full-time or permanent part-time employees of the City, members of the fire and police departments who are eligible to participate in a state-administered retirement system, and other persons who are eligible to participate in the New Hampshire Retirement System.

All covered employees hired after January 1, 1974 are required to participate in the Retirement System as a condition of employment. Employees are 100% vested after five years of service. The normal retirement age is 60 and the benefit is calculated at 1.5% of final average total compensation during the highest three years of service in the last ten years of service (hereafter final average earnings) multiplied by the years of service. The benefit was increased to 2% for service completed after January 1, 1999. Permanent employees of the City of Manchester prior to January 1, 1974 who were in service as of January 1, 1974, are eligible for early retirement if credited with no less than twenty (20) years of service.

Such early retirement benefit shall be equal to the greater of: (i) fifty percent (50%) of the member's final average earnings, or (ii) the sum of the member's years of service multiplied by one an one-half percent (1.5%) of the member's final average earnings (2% for service completed after January 1, 1999). Members enrolled subsequent to January 1, 1974 are eligible for early retirement benefits if their age plus years of service are equal to or greater than 80, or if they have attained age 55 with 20 years or more of service. As of 2006, all eligible employees are required to contribute 5.0% of their salaries to the Retirement System. If an employee leaves covered employment or dies before five years of service, the Retirement System refunds accumulated employee contributions and their earnings, calculated at the rates determined annually by the Board of Trustees (5% for 2008). The City is required to contribute the remaining amounts necessary to finance the benefits for its employees. Benefit provision and employee contribution changes require amendment of Chapter 218 of the City Charter, first by enabling legislation by the New Hampshire legislature and then subject to approval of the voters of the City through referendum.

■ MEDICAL SUB-TRUST SECTION 401(h) BENEFITS

Beginning in 2006, following the November 2005 ratification by City referendum of Chapter 41 Laws of 2005, the Retirement System began operating a Retiree Health Insurance Trust pursuant to the provisions of Internal Revenue Code Section 401(h). In March of 2006, the member contribution rate increased by 1.25% to accumulate assets from which to pay benefits and on July 1, 2006, the System began providing health insurance subsidies to both new and existing retirees based upon their creditable service at retirement. The benefit is limited to member's who continue to obtain their health insurance through the City's health insurance plan after they retire. The benefit amount for those already retired on March 1, 2006 was equal to 50% of the amount paid to those retiring after that date. Details on the amount of the subsidy are listed on page 20. As of July 1, 2008, the City's employer contribution rate which helps fund the benefit decreased from 1.24 % to .91% based upon revised assumptions.

Contributions to the sub-trust are commingled with those of the pension trust and are invested in aggregate. All assets are invested as prescribed in the organization's investment guidelines. Under no circumstances are the contributions made by the employee available for refund and in the event of termination, such contributions forfeit to the Plan. Assets of the sub-trust are available solely for the payment of subsidy benefits to qualified members of the plan. Should the plan be discontinued, assets in excess of those required to meet ongoing benefit obligations of the plan would revert to the employer.

■ DISABILITY RETIREMENT

If a participant becomes totally and permanently disabled from a job-related incident, there is no service or age requirement and the minimum benefit is 50% of the final average earnings.

For a non job-related incident, the disability benefits are payable only if 15 years of service have been rendered and are based on the accrued benefit to the date of disability.

■ COST OF LIVING ADJUSTMENTS

Cost of living adjustments (COLA) are granted pursuant to Administrative Rule 7 by the Board of Trustees. A 2 % COLA was granted effective July 1, 2008 to all retirees or beneficiaries retired as of July 1, 2007. The effect of the COLA was to increase the actuarial accrued liability at December 31, 2008 by approximately $469,373. This increase will be funded over twenty seven years.

■ SYSTEM TERMINATION

In the event the Retirement System is discontinued, members' retirement benefits will automatically become 100% vested to the extent they are funded. Members' termination benefits will be paid from plan assets to the extent accrued under the Retirement System's terms and in accordance with applicable laws.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 25 and No. 34 and reflect the accrual basis of accounting.

■ INVESTMENTS

Investments are reported at fair value, which has been determined based primarily on quoted market prices (see Note 3). The System values its alternative investments based upon the fair values as determined in good faith by the funds' managers or underlying investments' general partners. These values may not reflect the amount that would be realized upon an immediate sale due to lack of liquidity or other market conditions. Due to the uncertainty of valuation, the investment manager's estimated values may differ from the values that would have been used had a ready market existed for the fund's investments, and the difference could be material.

Asset values for Alternative Equity as reported on page 28 include balances as of September 30th of each year plus all cash transactions that occurred between October 1st and December 31st of each year. This is due to the late reporting nature of the investment class.

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. Gains and losses on the sale of investments are computed using the specific identification method of determining cost. The net appreciation (depreciation) in the fair value of investments held by the Retirement System is based on the valuation of investments as of the date of the *Statements of Net Assets Available for Benefits.*

■ PENSION BENEFITS PAYABLE

Pension benefits are recorded on an accrual basis when due and payable in accordance with the terms of the plan. Pension benefits payable as of December 31, 2008 and 2007 amounting to $680,149 and $608,786 respectively, represents benefits earned by participants that have not been paid as of the end of the year.

■ ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

■ RISKS AND UNCERTAINTIES

The Retirement System invests in various securities. Investment securities are exposed to various risks, such as interest rate, custodian credit, foreign currency and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the Statements of Net Assets Available for Benefits. The direct measurement of these risks is complicated by the fact that most securities are held in a group account expressed in U.S. dollars and the exact magnitude of risk associated with components of the group account are not easily attributed to a particular investor. (See Note 7 which begins on page 35).

3. INVESTMENTS

Investment managers have discretionary investment powers within guidelines developed by the Board of Trustees.

The following table presents the net appreciation (depreciation), including realized and unrealized, in fair values of the Retirement System's investments during the years ended December 31, 2008 and 2007.

	2008	2007
Equity funds	$(16,669,561)	$1,810,389
International equity	(6,229,488)	(113,926
Alternative equity	(55,882)	247,514
Fixed income	(3,371,035)	927,301
Emerging market funds	(4,292,517)	4,314,925
Real estate	(418,682)	488,874
Timberfunds	1,777,027	1,337,029
Specialty investments	(12,875,014)	165,703
Hedge funds	(3,299,888)	1,575,659
Total	$(45,435,040)	$10,753,468

The following table presents the fair value of investments held that represent 5% or more of the Retirement System's net assets available for benefits.

	2008	2007
Attalus Capital Management (Hedge Fund)	$5,818,664	n/a
Archstone Capital (Hedge Fund)	5,714,555	n/a
Income Research Mgt. (Core Bonds Fund)	12,444,907	$12,430,293
Loomis Sayles (Fixed Income Fund)	10,625,157	12,922,532
Regions Morgan Keegan (Timberfunds)	7,232,548	n/a
Mellon Capital EB (Global Tactical Assets)	16,612,113	25,038,573
Cadence Capital (US Large Cap Growth)	7,760,876	14,869,308
SSGA (US Large Cap Value Fund)	8,535,336	14,956,939
Vanguard Admiral Fund	7,281,823	13,815,960
City of London	n/a	12,606,017

n/a – Not applicable in the year in question

4. CONTRIBUTIONS

The Plan's legislative authority requires contributions in amounts sufficient to fund the benefits set forth in the plan. The contributions are determined by the Retirement System's Board of Trustees on the basis of the actuary's valuation and are expressed as a percentage of gross payroll. Significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the pension fund obligation.

The employer contribution rates as a percentage of payrolls in 2008 and 2007 were based on actuarial valuations performed as of December 31, 2007 and December 31, 2006. The City's contributions for 2008 and 2007 were in the amounts recommended by the outside actuary. The recommended City contributions for 2008 and 2007 consisted of normal cost of $7,351,897 and $6,414,486, respectively, which included amortization of the unfunded actuarial accrued liability (credits) related to actuarial gains and assumption changes. Unfunded prior service costs are being amortized over periods of thirty years. The employer customary contributions represented 14.75% and 14.51% of covered payroll for 2008 and 2007. Effective July 1, 2004, those amounts began being collected on a weekly basis as a percentage of payroll.

As a result of a negotiated settlement, general fund departments of the City ceased making employer contributions as a percentage of payrolls on a weekly basis beginning January 1, 2008. Beginning January 1, 2008, employer obligations for general fund City employees were paid semiannually in July and December in an amount determined by the actuary in March of 2008. Plan participants in enterprise funds, (the Manchester Water Works and Manchester Airport), employees of the City of Manchester Employees' Retirement System and participants in the Manchester School District remained on a per pay period method of collecting the employer customary contributions.

On June 23, 1995, the Retirement System purchased from an insurance company a non-participating single premium contract for $1,943,011 to fund the 1992, 1993, and 1995 COLA benefits granted to current retirees covered by the Retirement System. The Retirement System continues to make the entire monthly payment to retirees; however, the insurance company transfers to the Retirement System the aggregate COLA amount each month.

Beginning July 1, 2004, active members were afforded a new option for a defined contribution overlay to their defined benefit plan which is limited statutorily to specific purposes. The entire actuarial expense associated with the program is born by the member including the cost of the calculation which must be performed to determine contributions limits. Eligible members can choose to contribute actuarially determined amounts to either offset early retirement reductions or to approach or attain the equivalent of a 50% average final earnings benefit level. Participation in the program as of December 31, 2008 was limited to 15 persons, 13 active contributors and 2 retired and collecting an annuity based upon lifetime contributions. Voluntary contributions for 2008 and 2007 totaled $82,695 and $21,377 respectively. Annuity payments plus COLA attributed to additional contributions for the same periods were $2,244 and $2,002 respectively.

The Retirement System also accepts voluntary contributions from members for various permissive service purchases and service credit upgrades, which are shown as buy-backs on the Statements of Changes in Net Assets Available for Benefits. Time worked prior to enrollment where there was no break in service leading up to enrollment and attributed to an initial period of temporary employment; and service previously withdraw from this or other public retirement plans may be purchase by the member. In addition, members with service prior to 1999 which was credited at 1.5% may voluntarily upgrade such time to the present 2% accrual rate as allowed by statute and pursuant to regulations adopted by the board.

5. INCOME TAX STATUS

The Retirement System received a determination letter, dated January 7, 1975, from the Internal Revenue Service that the original plan was qualified under Section 401(a) of the Internal Revenue Code (IRC) and, therefore, was exempt from Federal income taxes under provisions of Section 501(a) of the IRC. The Plan has been amended subsequent to receiving the determination letter. However, the plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

6. OPERATING LEASE

In December of 2007, the System renewed a five-year non-cancelable operating lease for office space with Metropolis Property Management Group. The lease provides the System with 2,500 feet of office space until the initial term expires on June 30, 2013. Under the terms of the lease, the base rent established in 2008 of $38,353 per year will continue to increase on an annual basis by the lesser of the cumulative increase in the Consumer Price Index for All Urban Consumers as published by the Department of Labor for the Manchester, New Hampshire area or 5%. The Retirement System paid $34,605 and $33,545 in total rent expense in 2008 and 2007, respectively.

Future minimum lease payments under non-cancelable operating leases with an initial term of one year or more are as shown here.	2009	$40,091
	2010	$40,091
	2011	$39,102
	2012	$35,739
	2013	$17,642
		$172,665

7. DEPOSIT AND INVESTMENT RISK DISCLOSURE

■ CUSTODIAL CREDIT RISK – DEPOSITS

At times, the Retirement System maintains cash balances in excess of the amount insured by the Federal Deposit Insurance Corporation. The Retirement System has not experienced any losses in such accounts and cannot avoid at least temporary exposure to such risk when it holds cash deposits in anticipation of monthly annuity payroll obligations. The Retirement System believes it is not exposed to any significant risk with respect to these accounts. At any given time up to December 31, 2008, only the $100,000 limit specified by the Federal Deposit Insurance Corporation was guaranteed against loss. As of January 1, 2009, that limit was expanded to $250,000.

■ CUSTODIAL CREDIT RISK – INVESTMENTS

The Retirement System does not have a written policy in place to address custodial credit risk on investments but in practice, it minimizes such risk by holding its investments in the System's name and not in the name of the custodian for benefit of the Retirement System.

■ CONCENTRATION OF CREDIT RISK

The Retirement System's Statement of Investment Objectives, Policies and Guidelines prohibit more than 5% at cost of any security as a percentage of any funds held by the System. In addition, no more than 5% of the outstanding shares of any one corporation can be held by the Retirement System. Taken together, these guidelines mitigate the magnitude of risk and loss attributable to a single issuer.

■ INTEREST RATE RISK – FIXED INCOME INVESTMENTS

Interest rate risk associated with an adverse affect of changes in the fair market value of fixed income securities is not addressed in policy by the Retirement System. While policies do exist to limit the percentage of market value in a single issue at any one time and of the total percentage held of any issuer's debt instruments, the duration of the remaining life of individual securities is not subject to any limitations and may therefore introduce a measure of interest rate risk.

■ CREDIT QUALITY RISK – FIXED INCOME

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Retirement System controls credit quality through its Investment Guidelines which limit the market value in a single issue to 7% or 10% by a single issuer. A minimum BB rating by Standard and Poor's or equivalent rating agency is also required on individual securities with an average weighting of A on the total Fixed Income segment of Trust Assets.

AS OF DECEMBER 31, 2008, THE RETIREMENT SYSTEM'S FIXED INCOME INVESTMENTS WERE DIVIDED BETWEEN TWO POOLED ACCOUNTS AS FOLLOWS

Management Firm	Quality Rating	Duration	Market Value
Income Research & Management	Aa1/AA+	3.76 Years	$12,444,907
Loomis Sayles	A	5.53 Years	10,625,157
Total Fixed Income			$23,070,064

Credit quality reflects (1) the higher of the credit ratings assigned by Moody's Investors Service, Inc., Standard & Poor's and Fitch's Investors Service, or (2) for securities that are not rated by Moody's, S&P or Fitch that management firm has, in its opinion, assigned an equivalent rating.

■ FOREIGN CURRENCY RISK

Risk associated with fluctuations in the exchange rate between U.S. dollars and the base currency in other countries, while it exists, can be mitigated by policies which the Retirement System has in place. Forward purchase or sales of currencies, including cross currency hedges, are permitted to protect or enhance the U.S. dollar value of the account. The use of derivative instruments such as currency futures or options for currency is also permitted upon completion of any necessary disclosure or other documentation. No speculative currency hedging is permitted.

■ DERIVATIVES

The Retirement System's investment policy recognizes that derivative instruments and strategies can be an important element of general portfolio management. Portfolio management agreements or manager guidelines must explicitly authorize the use of derivatives however. Except in approved special equity strategies, derivative instruments may not be used to affect a portfolio beyond the value of the underling assets, (leverage).

8. FUNDED RATIO

The funded ratio measures the relationship between valuation assets and the actuarial accrued liability. The funded ratios for the Retirement System's pension trust and health trust as of the most recent valuation date, December 31, 2008, were 62.5% and 21%, respectively. The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

9. ACTUARIAL VALUATION METHOD AND ASSUMPTIONS

The Board of Trustees employs an independent actuarial firm to estimate the actuarial present value of accumulated plan benefits and to determine future contribution rates.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Normal costs and the allocation of benefit values between service rendered before and after the valuation date was determined using the individual entry-age actuarial cost method having the following characteristics:

- The annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement.
- Each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

The Retirement System currently has a tiered benefit structure with the ultimate tier being more costly than the initial tier. The normal cost is computed based on this tiered structure. As a result, the normal cost rate is expected to increase as the members affected by the initial tier are replaced by new members.

■ FINANCING OF UNFUNDED ACTUARIAL ACCRUED LIABILITIES

Unfunded actuarial accrued liabilities were amortized by level (principal and interest combined) percentage of payroll contributions over 27 future years for pension benefits, and over 29 future years for health subsidy benefits.

■ ACTUARIAL ASSET VALUATION METHOD

Last year's valuation assets are increased by contributions and reduced by refunds, benefit payments and expenses. An amount equal to the assumed investment return for the year is then added. Differences between actual return on a market value basis and an assumed return are phased in over a five-year period. For the December 31, 2004 valuation, the Funding Value of assts was reset to the Market Value as of January 1, 2004. The contribution requirements and benefit values of the System are calculated by applying actuarial assumption to the benefit provisions and member information furnished, using the actuarial cost method described above.

The principal areas of financial risk which require assumptions about future experience are:

- Long-term rate of investment return to be generated by the assets of the System,
- Patterns of pay increases to members,
- Rates of mortality among members, retirees and beneficiaries,
- Rates of withdrawal of active members,
- Rates of disability among members,
- The age patterns of actual retirement.

In a valuation, the monetary effect of each assumption is calculated for as long as a presently covered person survives, a period of time which can be as long as a century.

■ ACTUARIAL ASSUMPTIONS

Actual experience of the Retirement System will not coincide exactly with assumed experience, regardless of the accuracy of the assumption, or the skill of the actuary and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate.

From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations). Assumptions used in this report are based on the January 1, 1999 – December 31, 2003 experience study of the Retirement System and were adopted by the Board in November 2004. These assumptions were first used in the December 31, 2004 actuarial valuation.

The rate of investment return was 7.5% per year, compounded annually (net of administrative and investment expenses). This assumption is used to make money payable at one point in time equal in value to a different amount of money payable at another point in time. The assumed real rate of return (the net return in excess of the wage inflation rate) is 3.5%.

Healthcare cost trend – healthcare insurance premiums are associated with the benefit entitlements paid by the Plan, only to the extent that if premium costs are exceeded by the benefit entitlement, that the excess entitlement becomes a gain for the Plan. The Health Care Benefit paid is a flat rate based upon years of service at retirement. The initial entitlement increases by four percent annually and the accrued liability associated with the health benefit was attributed to pre-existing retiree covered by the benefit for which no contributions had ever been collected.

Salary Increase Assumption For an Individual Member

The rates of salary increase used for individual members are in accordance with this table. This assumption is used to project a member's current salary to the salaries upon which benefit amounts will be based.

If the number of active members remains constant, then the total active member payroll will increase 4.0% annually, the base portion of the individual salary increase assumptions. This increasing payroll was recognized in amortizing unfunded actuarial accrued liabilities.

Service	Merit & Seniority	Base (Economic)	Increase Next Year
1	10.00%	4.00%	14.00%
2	8.50%	4.00%	12.50%
3	7.00%	4.00%	11.00%
4	5.50%	4.00%	9.50%
5	4.00%	4.00%	8.00%
6	3.00%	4.00%	7.00%
7	2.50%	4.00%	6.50%
8	2.00%	4.00%	6.00%
9	1.50%	4.00%	5.50%
10	1.00%	4.00%	5.00%
15	0.00%	4.00%	4.00%
20	0.00%	4.00%	4.00%
25	0.00%	4.00%	4.00%
30	0.00%	4.00%	4.00%
35	0.00%	4.00%	4.00%
40	0.00%	4.00%	4.00%

Single Life Retirement Values

The mortality table was the 1994 Group Annuity Mortality Table, (100% of male rates, 95% of female rates) set back 1 year for men and 0 years for women.

SAMPLE ATTAINED	PRESENT VALUE OF $1 MONTHLY FOR LIFE		FUTURE LIFE EXPECTANCY (YEARS)	
Ages	Male	Female	Male	Female
50	$142.36	$147.83	31.62	35.35
55	134.46	141.34	27.04	30.63
60	124.60	132.91	22.67	26.03
65	113.00	122.75	18.60	21.69
70	100.30	111.01	14.97	17.69
75	86.40	96.97	11.72	13.95
80	71.54	81.46	8.87	10.62

This assumption is used to measure the probabilities of members dying before retirement and the probabilities of each benefit payment being made after retirement.

Active Members Retiring Next Year

The rates of retirement used to measure the probability of eligible members retiring during the next year are illustrated on this chart.

Ages	% Retiring	Ages	% Retiring
50	5%	61	10%
51	5%	62	35%
52	5%	63	10%
53	5%	64	10%
54	10%	65	35%
55	10%	66	15%
56	10%	67	15%
57	10%	68	15%
58	10%	69	15%
59	10%	70	100%
60	10%		

A member was assumed to be eligible for normal retirement after attaining age 60 with any amount of service. A member was assumed to be eligible for early retirement after attaining age 55 with at least 20 years of service or if the sum of age and service is at least 80.

Rates of separation from active membership are shown below (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members remaining in employment.

Sample Ages	Service	% of Active Members Separating Within Next Year	
		MALE	FEMALE
	0-1	10.00%	14.00%
	1-2	17.00%	14.00%
	2-3	12.00%	14.00%
	3-4	5.00%	7.00%
	4-5	5.00%	7.00%
30	5 & Up	2.34%	8.00%
35		2.00%	6.40%
40		1.49%	4.40%
45		1.00%	2.30%
50		1.00%	1.90%

Rates of disability were divided equally between duty and non-duty disability, and are as follows:

Sample Ages	% of Active Members Becoming Disabled Within Next Year	
	MALE	FEMALE
20	0.007%	0.020%
25	0.007%	0.025%
30	0.007%	0.030%
35	0.037%	0.040%
40	0.142%	0.050%
45	0.292%	0.075%
50	0.480%	0.130%
55	0.712%	0.245%
60	1.060%	0.605%

Expense Load: None.

Marriage Assumption: 100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses.

Pay Increase Timing: Beginning of the year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.

Decrement Timing: Decrements of all types are assumed to occur mid-year.

Eligibility Testing: Eligibility for benefits is determined based upon the age nearest birthday and exact fractional service on the date the decrement is assumed to occur.

Decrement Relativity: Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.

Decrement Operations: Disability and withdrawal decrements do not operate after member reaches retirement eligibility.

Normal Form of Benefit: The assumed normal form of benefit is the straight life form.

Benefit Service: Exact fractional service as of the valuation date is used to determine the amount of benefit payable.

Incidence of Contributions: For Manchester School District and enterprise funds of the City (Airport, Water Works, and the MECRS), contributions are assumed to be received continuously throughout the year based upon the actual payroll payable at the time contributions are made. For the remaining City group, contributions are assumed to be received on a semiannual basis in December and July.

COLA Assumption: 2.0% compounded annually (assumption phased in over four years beginning with the December 31, 2004 actuarial valuation).

Loads: Normal and Early retirement costs were loaded by 2% to reflect lump sums payable at retirement.

Post-Retirement Subsidy: 60% of future retirees were assumed to elect to receive the post-retirement health subsidy.

Required Supplemental Information
(Un-audited)

SCHEDULE OF FUNDING PROGRESS — PENSION TRUST —						
ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF PLAN ASSETS	UNFUNDED ACTUARIAL LIABILITY (SURPLUS)	ACTUARIAL ACCRUED LIABILITY	FUNDED RATIO	ANNUAL COVERED PAYROLL	UNFUNDED LIABILITY TO COVERED PAYROLL
12/31/08	$125,991,904	$75,447,113	$201,439,017	62.5%	$50,740,516	148.7%
12/31/07	139,240,661	48,385,123	187,625,784	74.2%	48,556,218	99.6%
12/31/06	126,293,879	46,244,869	172,538,747	73.2%	47,537,456	97.3%
12/31/05	113,856,253	34,059,413	147,915,666	77.0%	47,233,321	72.1%
12/31/04	103,826,765	22,520,228	126,346,993	82.2%	45,027,930	50%
12/31/03	95,297,689	20,954,959	116,252,648	81.9%	41,998,187	49.90%
12/31/02	89,755,853	16,364,857	106,120,710	84.5%	38,940,104	42.03%
12/31/01	94,812,631	1,457,848	96,270,479	98.4%	38,692,738	3.77%
12/31/00	90,144,513	(3,049,404)	87,095,109	103.4%	35,370,961	-
12/31/99	82,584,305	(3,263,538)	79,320,767	104.1%	29,581,577	-

FUNDED RATIO IS THE ACTUARIAL VALUE OF PENSION TRUST ASSETS AS A PERCENTAGE OF THE ACTUARIAL ACCRUED LIABILITY

SCHEDULE OF FUNDING PROGRESS — HEALTH TRUST —						
ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF PLAN ASSETS	UNFUNDED ACTUARIAL LIABILITY (SURPLUS)	ACTUARIAL ACCRUED LIABILITY	FUNDED RATIO	ANNUAL COVERED PAYROLL	UNFUNDED LIABILITY TO COVERED PAYROLL
12/31/08	$2,605,141	$9,820,788	$12,425,929	21.0%	$50,740,516	19.4%
12/31/07	1,908,457	9,398,059	11,306,516	16.8%	48,556,218	19.4%
12/31/06	782,281	10,962,034	11,744,315	6.7%	47,537,456	23.1%

FUNDED RATIO IS THE ACTUARIAL VALUE OF HEALTH TRUST ASSETS AS A PERCENTAGE OF THE ACTUARIAL ACCRUED LIABILITY

DEVELOPMENT OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

	PENSION	HEALTH
Present Value of Future Benefits - Retirees	$ 86,005,901	$3,014,243
Present Value of Future Benefits - Deferreds	4,972,653	233,998
Present Value of Future Benefits - Actives	170,600,661	14,562,879
Total Present Value of Future Benefits	$261,579,215	$17,811,120
Present Value of Future Normal Cost	60,140,198	5,385,191
Actuarial Accrued Liability	$201,439,017	$12,425,929
Actuarial Value of Assets	125,991,904	2,605,141
Unfunded Actuarial Accrued Liability	$ 75,447,113	$9,820,788
Funded Ratio	62.5%	21.0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR PENSION BENEFITS

Valuation Year Ended December 31	Fiscal Year Ended June 30*	Annual Required Contribution (ARC) as a Percent of Valuation Payroll - Pension	Annual Required Contribution (ARC) as a Percent of Valuation Payroll - Health	Actual Contributions
2008	2010	17.17%	.93%	$7,062,994
2007	2009	13.84%	.91%	6,646,801
2006	2008	13.27%	1.24%	6,760,377
2005	2007	10.63%	1.41%	5,413,826
2004	2006	8.72%	N/A	3,950,981
2003	2005	8.76%	N/A	3,323,023
2002	2004	N/A	N/A	1,794,576
2001	2003	N/A	N/A	1,117,163
2000	2002	N/A	N/A	713,685
1999	2001	N/A	N/A	796,552
1998	2000	N/A	N/A	514,216

N/A - Not applicable

**Effective January 1, 2004, contributions were determined as a percent of payroll basis by multiplying the ARC rate by the actual payroll.*

City of Manchester Employees' Contributory Retirement System

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Year Ended December 31, 2008

THIS REPORT HAS BEEN PREPARED PURSUANT TO CHAPTER 218:6, II, LAWS OF 1973 OF THE STATE OF NEW HAMPSHIRE, AS AMENDED, AND IS INTENDED TO SATISFY PUBLIC PENSION PLAN FINANCIAL REPORTING REQUIREMENTS.

CITY OF
MANCHESTER
EMPLOYEES'
CONTRIBUTORY
RETIREMENT
SYSTEM

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