

Commission Meeting Minutes
June 29, 2016

Chairman Brown called the meeting (held at Four Points Sheraton, 1125 Boston-Providence Turnpike, Norwood, Massachusetts) to order at 11:40 AM. He then acknowledged the other Commissioners present: Commissioners Timothy Dooling, Kathleen Fallon, Kate Fitzpatrick, James Machado, Robert McCarthy, and Jennifer Sullivan.

Chairman Brown announced that the Commission meeting is being tape recorded and will be so noted in the minutes.

PERAC Staff Present: Executive Director Joseph Connarton, Deputy Executive Director Joseph Martin, Deputy Director and General Counsel John Parsons, Deputy General Counsel and Managing Attorney Judith Corrigan, Director of Administrative Services Caroline Carcia, Actuary James Lamenzo, Director of Strategic Planning Mike DeVito, Chief Auditor Caryn Shea, Compliance Officer Thomas O'Donnell, Compliance Analyst Cheryl Johnson, Senior Associate Counsel Ken Hill, Fraud Prevention Manager Sandra King, and Senior Executive Assistant Kim Boisvert.

Ms. Boisvert announced the following guests in attendance: Nick Favorito representing the State Retirement System, Thomas Gibson and John Brown representing the Middlesex County Retirement System, Michael O'Reilly representing the Boston Retirement System, Mark Foley representing the Barnstable County Retirement System, Kathleen Kiely-Becchetti representing the Norfolk County, Watertown Retirement Systems and MACRS, Cheryl Brannan and Patty Snow from the Department of Corrections, Terenzio Volpicelli from Roselli, Clark & Associates, and Michael Gallerani from the public.

Commissioner Fitzpatrick made a motion to adopt the Commission meeting minutes dated May 11, 2016. Commissioner Machado seconded the motion and the meeting minutes were adopted.

Legal Update

Mr. Parsons updated the Commission regarding Chapter 121 of the Acts of 2016: An Act to Improve Public Record Requests. He recapped the new law which becomes effective on January 1, 2017. He reported that PERAC would be issuing a memorandum to all the retirement boards regarding this.

Mr. Hill reported on the case of *Christopher Ryan v. PERAC*, CR-12-87.

Chairman Brown allowed Mr. Michael Gallerani to address the Commission regarding a legal issue.

Mr. Gallerani discussed his personal issue. He explained he was most recently employed by the Town of Natick. Shortly after becoming employed, he redeposited with the Natick Retirement Board \$130,000. This represented funds he withdrew after he left two earlier positions in the public pension system. Unfortunately, his employment with Natick was short-lived, and he was terminated after less than a year. When he applied to retire, both the Natick Retirement Board and

PERAC informed him he could not retire because he has worked less than two consecutive years for Natick. (This is known as the “two-year rule” and it is located in the statute at G.L. c. 32, §3(6)(e).)

Mr. Gallerani stated that he repaid the system \$130,000 in a good faith effort and is looking to the Commission for relief in conjunction with the spirit of the law and would like to retire with full benefits. He reported that legislation is pending and that currently he has an age discrimination case pending with MCAD.

The Commission had several questions regarding his employment timeline, if he ever received appeal rights, if he appealed the most recent decision, the status of the legislation, the status of the MCAD case, the definition of the highest three years and the latest years of creditable service, and if the matter should be referred to the Administrative Sub-Committee.

It was decided that it is the retirement board’s responsibility to offer the appeal rights. It was further decided that PERAC would send a letter to the Natick Retirement Board inquiring if the member was offered appeal rights.

Legislative Update

Mr. DeVito reported that the Governor signed into law Chapter 77 of the Acts of 2016, An Act Further Regulating Survivors’ Pension Benefits and Qualified Domestic Relations Orders on April 13, 2016. He then reported that PERAC proposed an appropriation for OPEB-related activities in the amount of \$65,000 which has passed the Senate and is currently subject to Budget Conference Committee deliberation. Mr. DeVito also reported that we have not received a response to PERAC’s redrafted language on H. 17 (the PERAC hearings bill) from the Joint Committee on Public Service.

Audit Update

Ms. Shea reported that the Audit staff is currently auditing the Hingham, Swampscott, and Weymouth Retirement Systems. She further stated that the Maynard, Montague (no findings), and State Retirement Systems audits were posted on the PERAC Web Page since the last Commission meeting. Ms. Shea reported that PERAC did the Melrose and Minuteman Regional Retirement Systems - six-month follow up reports since the last Commission meeting. Ms. Shea stated that four (4) year audits would be conducted in certain cases to bring the audit reports more current.

Chairman Brown recessed the meeting for lunch at 12:30 PM for forty-five (45) minutes and then reconvened at 1:15 PM.

Actuarial Update

Mr. Lamenzo reported that the State Valuation was recently presented and now he is preparing the Commonwealth Valuation which included Boston teachers and Teachers’ Retirement Systems valuations. He believes that the draft reports will probably be available for review by the August meeting.

Mr. Lamenzo discussed an article in the Boston Business Journal (BBJ) entitled *Attention Massachusetts retirees: Your pension systems are crumbling*. The article mentioned a 70% funding threshold to be considered healthy amongst pension experts. He had some concerns about the imbalanced article. He has sent his comments to the BBJ but has not received any response.

Mr. Lamenzo discussed his ongoing concerns with the long-term sustainability of the Springfield Retirement System (SRS). He stated that the Board has adopted an aggressive schedule that increases by 14% for two (2) years then provides for a flat 8% increase thereafter. Springfield's goal is to set up a pension reserve fund on a short term basis to deal with the 14% increases.

Mr. Connarton stated that Springfield is definitely struggling. He believes that they have recognized their obligation and are putting forth good intentions on fulfilling those obligations. He believes that Springfield may be overly relying on a casino which hasn't been built yet.

Discussion ensued regarding Springfield's past practices, cash flow, the investment return assumption changes, and taking advantage of all benefit opportunities including COLA increases and ERIs.

Mr. Lamenzo has concerns that if Springfield doesn't or can't meet their scheduled appropriation or another financial crisis hits they will have to extend their funding schedule.

Compliance Update

Mr. O'Donnell reported that the 2015 Investment Report is included in the Commission Package and includes the 2015 Returns along with the 5, 10, and 31 year Returns and the most recent Funded Ratio. He also discussed the Educational Report which shows 770 board members who participated in 19 course offerings through the end of June. The most credits given in any year are usually for attendance at the Emerging Issues Forum and the MACRS conferences and he believes that this program is very successful. Mr. O'Donnell also reported that 55 acknowledgements have been approved at this time.

Executive Director's Report

Mr. Connarton made note of the staff activities and reported that Mr. Parsons, Ms. Corrigan, and he are going to meet with the State Police Administration on June 30, 2016 in an attempt to combine the disability process so the troopers will have the same process as all other public employees. However, a sticking point is that our medical process takes too long for the Rating Board as required in Chapter 32, Section 26.

Mr. Connarton stated that the City of Holyoke offered Mr. Harry Chadwick the position of City Auditor which was posted in the local newspaper. Subsequently, the City decided to lower the salary and Mr. Chadwick declined the offer. He would have been filling a seat on the Holyoke Retirement Board, so that seat will remain vacant for now.

Mr. Connarton reported that the Attorney General's Office has been notified that the fifth member vacancy on the Leominster Retirement Board is still an issue. He stated that the Mayor of

Leominster was supposed to make an appointment by June 27, 2016. He has not heard of an appointment but the Mayor does not have a time line to fill the position and expects that once again the Leominster retirees will forgo a COLA.

Mr. Connarton then stated according to Policy Number 99-001 PERAC's Fiscal Year 2017 has been distributed to PRIM, A&F, House and Senate Ways and Means, as well as the House and Senate Committees on Public Service.

Mr. Connarton reported that he distributed the *Funding of State and Local Pensions 2015-2020* brief prepared by Professor Alicia H. Munnell, Director of the Center for Retirement Research. He also reported that the 2015 Annual Report will be sent to the printer on July 1, 2016.

Mr. Connarton gave an update as it pertains to the MACRS Spring Conference. He stated that although the conference was very substantive, it can be difficult for ten (10) PERAC staff members to prepare power point presentations without much notice while keeping up with their respective responsibilities to the Commission. He is somewhat disappointed with some anger that exists due to comments that were made. He stated that PERAC, as created by the legislature, is an oversight agency with very dedicated staff who take their jobs very seriously. This Commission is not just advisory in nature. He continued that he would like find a way to meet folks half way and to make a compromise to discuss the concerns raised with those individuals. He would like to host a meeting with that group of individuals to discuss these matters.

Mr. Connarton then reported that PERAC's Emerging Issues Forum will be held on September 15, 2016, once again at the College of the Holy Cross in Worcester and this year is also PERAC's 20th anniversary. His intention is to invite all prior Commissioners and possibly provide some sort of memento. If there are any suggestions please let him know.

Mr. Connarton then reported that Mr. Martin and Mr. Parsons will keep the office running while he and his wife go on vacation for 2 weeks.

Commissioner McCarthy wanted to follow up on Mr. Connarton's comments regarding the MACRS Conference. He stated that he has been involved with this Commission since 1980, including blowing up PERA and creating PERAC as an oversight agency. Any regulatory agency will never be perfect and through Mr. Connarton, we try to be as fair as possible. We will never make all board members happy all the time. He believes that things have gotten personal and that Mr. Connarton is honest, fair, and dedicated. We have to move forward on a positive note and can't let this issue take away from our mission.

Chairman Brown agreed with Commissioner McCarthy's comments and complimented all of the PERAC staff and MACRS on the professionalism he has come to know. He will continue to work with all individuals in a positive manner in the future as an oversight agency and try to be fair within the limitations and constraints of the statute.

On behalf of MACRS its president, Ms. Kiely-Becchetti thanked the Commission for its help in making the conference so successful. She was disappointed to hear about the negative comments but stated that individuals should be able to exchange ideas and she believes this is the forum for

such exchanges. She hopes this won't change her relationship with Mr. Connarton and the PERAC staff. Ms. Kiely-Becchetti reported that the next MACRS Conference will be held from October 2-5, 2016 and the topic is Health and Wellness.

Mr. Connarton reported that three (3) members of the Commission attended the NCPERS Conference in San Diego and inquired if anyone wanted to give an update of that Conference.

Chairman Brown gave an update about how interesting it was. There were various break out sessions with a wide variety of topics including fiduciary issues related to insurance and cell phone apps. He also thanked Commissioner McCarthy who is extremely involved with NCPERS and the Chairman is proud that he is there representing us.

Commissioner McCarthy reported that the speakers were outstanding however he was not impressed with the GASB segment. He feels as though there are a lot of concerns with GASB and the speaker could have gotten into more detail. He then thanked the Massachusetts Representatives as he was once again reelected to the NCPERS Executive Board. He reported that the Executive Board will be hosting their next meeting at the Liberty Hotel in Boston on July 5-7, 2016 if anyone would like to attend.

Commissioner Machado thanked Commissioner McCarthy for being such a gracious host to include PERAC in NCPERS activities. He believes that NCPERS is a good conference. He was most impressed was the segment on Pension Obligation Bonds with a far reaching approach to thinking outside of the box. He believes that we should think about Pension Obligation Bonds on a case by case basis as a baseline if a system is interested in pursuing them. He believes in certain situations it may be worth looking at and keeping our minds open.

Mr. Connarton reported that Plymouth County Retirement Board has filed legislation for Pension Obligation Bonds and believes that a hearing has already been held.

Commission Travel

Mr. Connarton notified the Commission about the upcoming NCPERS 2016 Public Pension Funding Forum being held in New Haven, CT, from August 21-23, 2016 should there be any interest in attending. He further stated that three (3) credits will be given towards the continuing educational program for retirement board members that attend the NCPERS Conference.

Commissioner McCarthy made a motion to grant permission for any Commissioners and staff to attend the NCPERS Conference. Commissioner Machado seconded the motion and it was adopted.

Other Business

Chairman Brown announced that the next Commission meeting will be held at 5 Middlesex Avenue, Somerville on Wednesday, August 10, 2016 at 11:00 AM.

Executive Session

At 2:07 PM Chairman Brown called for a roll call vote of the Commission to go into Executive Session to discuss strategy with respect to possible litigation because discussion in an open meeting may have a detrimental effect on the Commission's litigation position.

Chairman Philip Brown YES, Commissioners Timothy Dooling YES, Kathleen Fallon YES, Kate Fitzpatrick YES, James Machado YES, Robert McCarthy YES, and Jennifer Sullivan YES.

Chairman announced that the Commission will reconvene in open session in about 10 to 15 minutes after the completion of the Executive Session.

A roll call vote was taken in Executive Session to return to the regular order of business and to adjourn the Executive Session at 2:25 PM.

Open Session

Commissioner McCarthy made a motion to hire Kutak Rock , LLP. as outside tax counsel. Commissioner Machado seconded the motion and it was unanimously adopted.

Commissioner McCarthy made a motion to adjourn the meeting. Commissioner Fitzpatrick seconded the motion and it was adopted. The Commission meeting adjourned at 2:28 PM.

Commission Meeting Documents

Commission Agenda for the meeting of June 29, 2016
Commission Minutes for May 11, 2016

Legal Update

Memo regarding Chapter 121 of the Acts of 2016: An Act to Improve Public Records
Memo regarding the case of *Christopher Ryan v. PERAC*, CR-12-87

Legislative Update

Monthly Legislative Agenda and bullet points outlining legislation

Audit Update

Recent PERAC Audit reports

Actuarial Update

Article from the Boston Business Journal entitled *Attention Massachusetts retirees: Your pension systems are crumbling* and follow up comments on the article

Article from MassLive.com entitled *Springfield Mayor Domenic J. Sarno earmarks \$1M for pension reserve fund, expanding earlier pledge*

Compliance Report

2015 Investment Report

Executive Director's Report

Updated Staff Activities Memo

Article from Sentinel Enterprise entitled *Attorney general asked to intervene in Leominster Retirement Board dispute*

Letters distributing PERAC's Fiscal Year 2017 budget

Commission Travel

NCPERS 2016 Public Pension Funding Forum Agenda

Other Documents

Middlesex County Retirement System News publication

Documents Distributed

Bar and Pie Chart showing how the Educational Credits and Asset Acknowledgements were distributed

Memo to Commissioner regarding Issue Brief/Funding of State and Local Pensions

Approved:



Philip Y. Brown, Chairman
Public Employee Retirement
Administration Commission