

**Commission Meeting Minutes**  
**May 11, 2016**

Chairman Brown called the meeting to order at 11:10 AM. He then acknowledged the other Commissioners present: Commissioners Kathleen Fallon, Kate Fitzpatrick, James Machado, and Robert McCarthy. Commissioner Jennifer Sullivan arrived late and Commissioner Timothy Dooling had a meeting that was scheduled prior to his appointment and, therefore, was unable to attend the meeting today.

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, Director of Administrative Services Caroline Carcia, Chief Financial Officer Virginia Barrows, Director of Information Systems Dan Boyle, Actuary James Lamenzo, Senior Actuarial Analyst Kaitlyn Doucette, Director of Strategic Planning Mike DeVito, Chief Auditor Caryn Shea, Compliance Counsel Derek Moitoso, Compliance Analyst Cheryl Johnson, Senior Associate Counsel Ken Hill, Associate Counsel Patrick Charles, 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 Board, Erika Glaster and Sean Neilon representing Mass Teachers' Retirement Board. Rob Roberts, Arun Khond, Serge Nemirovsky, Laura Harriman, and Zack Slayton from the Collaborative Consulting Group arrived later in the meeting for their presentation.

Commissioner Fitzpatrick made a motion to adopt the Commission meeting minutes dated April 13, 2016. Commissioner Machado seconded the motion and the meeting minutes were adopted.

**Administrative Sub-Committee Meeting Update**

Chairman Brown reported that the Administrative Sub-Committee was held just prior to this meeting. He appointed members to the vacant positions in the various Sub-Committees. He appointed Commissioner Fitzpatrick to serve as a member on the Administrative Sub-Committee; Commissioner Fallon to Chair the Audit / Fraud Sub-Committee and to serve as a member of the Disability Sub-Committee. He appointed Commissioner Dooling to serve as a member of the Legislative and the Audit / Fraud Sub-Committees, and finally Commissioner Sullivan to serve as a member of the Investment Sub-Committee. Chairman Brown stated that all other Sub-Committee appointments remain unchanged.

Chairman Brown then updated the full Commission about the proposed FY 17 budget and requested an overall increase of .08% from last fiscal year. The increase is due to additional staff in the IT and Investment Units, an increase for fringe benefits, a 1.5% COLA for all staff and up to an additional 1.5% adjustment based upon a performance review of each employee on their respective anniversary dates. Chairman Brown reported that PERAC has had an unexpended balance of over \$4 million over the past seven (7) years.

Chairman Brown tabled the vote on the Fiscal Year 17 budget to allow some additional time for Commissioner Sullivan to arrive.

### **Actuarial Update**

Mr. Lamenzo introduced and thanked Kaitlyn Doucette, Senior Actuarial Analyst, who devoted much of her time to prepare the State Retirement Board's Valuation report this year. He then discussed the January 1, 2016 State Retirement System Actuarial Valuation draft report. He explained that this Valuation includes a reduction in the Investment Return Assumption from 7.75% to 7.5%, the cost of the 2015 Early Retirement Incentive (ERI), and the transfer of 1600 members from the Optional Retirement Plan (ORP) to the State Retirement System (SRS). He also discussed how add-on amounts to the normal cost (administrative expenses, Section 3(8)(c), etc.) increased significantly primarily due to the inclusion of amounts statutorily transferred from SRS to the ORP in FY15, which we are including in normal cost to reimburse the trust. He continued that there are several ongoing issues which could change the wording on page 6. He also indicated that PERAC corrected the job group classifications for about 2500 active members as reported to us by SRS. He noted that ORP assets have not been included in this report except for any amounts already transferred as of 12/31/15 and included in the data we received. He stated that since 1990, assets have grown faster than the liabilities. Mr. Lamenzo stated that he is comfortable releasing the report as is, after completing final checks.

There was further discussion that the cost of a COLA base increase is estimated at  $\frac{1}{2}$  of 1% per one thousand dollar increase; the funding ratio has decreased since 2000, and the funded ratio would be 71.1% if based on the 2010 plan provisions and assumptions. The Commission inquired if it is realistic to ever get to a fully funded status, if the Investment Return Assumption would be decreasing further, and whether staff would be following up with the State Retirement Board regarding State Troopers being correctly coded in Group 3 with the correct contribution rate. Mr. Connarton reported that PERAC is working with the State Retirement Board regarding this last issue.

Commissioner McCarthy made a motion to adopt the draft Actuarial Valuation Report for the State Retirement System as of January 1, 2016, including Mr. Lamenzo's small changes, for distribution. Commissioner Fitzpatrick seconded the motion and it was adopted.

Mr. Lamenzo discussed his ongoing concerns with the long-term sustainability of the Springfield Retirement System (SRS). He stated that the Board has \$826.4 million in unfunded liability on 1/1/16 and the funded ratio is 26.2%, the lowest in the Commonwealth. Mr. Connarton and he went to Springfield for a meeting regarding the Board's 1/1/16 Valuation. He explained his concerns to the SRS. Mr. Lamenzo provided additional assistance to the SRS and offered 8 alternative schedules for the Board to consider.

Discussion ensued regarding Springfield's past practices, cash flow, the investment assumption changes, COLA increases, and so on. There were questions about the opportunity to get money from a casino development although it is questionable how much reliance there could or should be for something not yet built, and the reality of the payment increase of almost 30% over 24 months.

Mr. Lamenzo stated that the SRS thoroughly discussed all of the above and unanimously adopted Alternative 7.

Finally Mr. Lamenzo reported that under Chapter 68 of the Acts of 2011, PERAC must create a summary of other post-employment benefit (OPEB) costs and obligations and all related information required under Governmental Accounting Standards Board 45 (GASB 45) for every city, town, district, county and municipal lighting plant. PERAC must file this summary report of the GASB 45 with the chairs of the House and Senate Committees on Ways and Means, the Secretary of Administration and Finance, and the board of trustees of the Health Care Security Trust. He stated that he is not a Health Actuary so he cannot comment on the GASB 45 work of other actuaries. He outlined his recommended summary which will include actuarial liability, assets, unfunded actuarial liability, and funded ratios. He reported that PERAC has done five (5) mass mailings to get this information to prepare this first report. Mr. Lamenzo stated that the database contains about 450 entities and that we have received over 900 valuation reports for these entities. There are 38 towns that do not have an OPEB plan.

Commissioner Sullivan arrived for the meeting at 11:35 AM.

### **Legal Update**

Mr. Parsons updated the Commission regarding *PERAC v. Bettencourt* meeting with the Attorney General's office. He stated that Mr. Connarton, Ms. Corrigan, and he met with the First Assistant Attorney General, the State Solicitor and other staff members regarding a possible appeal. The Attorney General's office has two (2) former Supreme Court clerks who believe that the Supreme Court of the United States ("SCOTUS") would not take up this matter as this is not a federal dispute but rather is based in part on state law, and further there is no true dispute between federal districts.

Mr. Connarton stated that the Attorney General's office believes that this case wouldn't meet the threshold criteria of SCOTUS and that any change to the pension forfeiture statute rests with the legislature. He stated that this issue is not over yet and that someone needs to review this section of Chapter 32 as currently written, it is not being administered the same between the boards because of the varying cases and facts of every case. Mr. Connarton believes that there may be a legislative commission recommended as the integrity of the pension plan is at stake.

Discussion ensued regarding who would be focusing on Section 15(4) legislatively.

### **Legislative Update**

Mr. DeVito stated that PERAC's proposed Concurrent Beneficiaries legislation (Chapter 77 of the Acts of 2016) was signed by the Governor on April 13, 2016. He thanked Representative James O'Day (the sponsor of the late-filed bill) and Senator Michael Rodrigues for their assistance with advancing this bill. He then reported that PERAC sent the new language approved by the Commission for H. 17 (the PERAC hearings bill) but that we have received no response to our letter at this time.

Finally, Mr. DeVito reported that the FY'17 House Budget was released and that there are two (2) amendments of concern to PERAC: Amendment Number 657 (Retirement Systems and Pensions Percentage), and Number 658 (Retirement Systems and Pensions Term). He then reported that the Senate Budget would be released on May 17, 2016. He would be monitoring any pension or related amendments that are filed and keep the Commission updated.

### **Audit Update**

Ms. Shea reported that the Audit staff is currently auditing the Braintree, Newburyport, and Northampton Retirement Systems. She is awaiting responses from Barnstable County, Fitchburg, Maynard, Montague, and State Retirement Systems prior to finalizing their respective reports. She further stated that the Newton Retirement System (no findings) was the only audit report posted on the PERAC Web Page since the last Commission meeting. Ms. Shea reported that PERAC did not conduct any six-month follow up reports since the last Commission meeting.

### **Compliance Update**

Ms. Johnson reported that Mr. O'Donnell was not in attendance for this meeting and stated that she would be presenting the update this month. She then stated that there were 186 board members who participated in 9 course offerings through April. The most credits given in any year are usually for attendance at the Emerging Issues Forum and the MACRS conferences. She expects great participation by board members at MACRS as they are hosting a trustee segment in their program this spring. Ms. Johnson stated that 31 acknowledgements have been approved, which includes new investments and renewals of existing managers representing 17 systems. She then reported that PERAC has eight (8) outstanding Vendor Disclosure filings to date. Ms. Johnson has reached out to five (5) of those vendors and expects their submissions very soon.

Mr. Moitoso reported that about 100 board members have not filed their SFI's which is a little higher than in the past. He assumes that the amount of board member movement this year could possibly have created the lower than normal number of filers. He continued that he is personally contacting those who need to file and expects that number to drastically decrease by the next meeting.

Mr. Connarton stated that some members don't realize that even after leaving the board they must still file for that last year even if the member served for only one (1) month.

### **Executive Director's Report**

Mr. Connarton made note that Mr. Parsons, Ms. Carcia, Mr. Boyle, and he attended the State Comptrollers Agency Leadership Summit in Boston earlier in the week where cyber security issues and future security possibilities were discussed.

Mr. Connarton then updated the Commission about a board vacancy on the Holyoke Retirement Board. Mr. Harry Chadwick, a member of PERAC's audit staff, is a finalist for the city auditor position and is negotiating the appointment which would fill that seat on the Board.

Mr. Connarton then updated the Commission about the fifth member vacancy on the Leominster Retirement Board. Mr. Moitoso and he reached out to the Mayor of Leominster to discuss the appointment process and the possible reappointment of the former fifth member who is unable to serve due to his lack of sufficient educational credits while he was serving.

Mr. Moitoso reported that the real issue with the Leominster Retirement Board (LRB) is the COLA, while PERAC's issue is the appointment of the fifth member. He gave a brief history of what has recently occurred. He has notified the Mayor that the appointment must be made by a certain date or we would refer the issue to the Attorney General for a violation of contributory retirement laws. If the LRB decides to file an appeal with the Division of Administrative Law Appeals (DALA), this matter could take a year or two to resolve. He continued that this may be a delay tactic but would affect the vote on a COLA which must occur within the next few months. Mr. Moitoso stated that another issue is that the statute is not clear on how much time a Mayor has to make an appointment.

Mr. Parsons stated that the Attorney General would have a difficult time trying to enforce this issue as there is no time frame set in statute.

Mr. Connarton reported that a RFP for Outside Tax Counsel has been posted in Lawyers Weekly, locally and in Virginia, and proposals are due on May 20, 2016.

Mr. Connarton updated the Commission that he has written a letter to the Chairs of House and Senate Committee on Ways and Means with draft language for an OPEB related Appropriation in the amount of \$65,000.

Mr. Connarton briefly brought attention to the media articles in the back of the Commission book relevant to pensions and investments. He also reported that the Pioneer Institute has requested many documents as they pertain to the Boston Retirement Board, that PERAC has provided audit reports, investment regulations, performance evaluations, and so forth. Mr. Connarton stated that he is not sure what will be released in the media but wanted to notify the Commission of the voluminous requests.

Commissioner McCarthy inquired if there had been any feedback as it pertains to the *Bettencourt* matter. Mr. Parsons stated that there haven't been any specific cases at this time. Mr. Connarton stated that Channel 4 inquired as to whether Speaker Finneran could get his pension.

Chairman Brown recessed the meeting at 12:35 PM for ten (10) minutes and then reconvened at 12:45 PM.

Commissioners McCarthy and Sullivan left the meeting during the recess.

Chairman Brown called the motion on the table and requested a vote for the Fiscal Year 17 budget. Commissioner Fitzpatrick made a motion to approve the proposed FY 17 Budget as presented. Commissioner Machado seconded the motion and it was adopted.

Chairman Brown inquired whether there was any suggestion on a location for the June 29, 2016 Commission meeting, which will be held outside of the Somerville location.

Ms. Boisvert stated that the June and July Commission meetings were combined to allow time after the MACRS Conference to take the Commission meeting on the road in keeping with the Strategic Plan. She stated that last year the Commission went to Hyannis and Sturbridge. She would research the geographic areas of interest that the Commission suggests.

Commissioner Fitzpatrick suggested a location between the 128 and 495 belts. Commissioner Machado suggested the Four Points Sheraton in Norwood, conveniently and easily located. Chairman Brown suggested that this location be researched.

Mr. Connarton stated that the Collaborative Consulting Group (“Collaborative”) would be making a presentation to update the Commission on the status of the IT Upgrades, which are currently on-time and on-budget. He stated that the Commission approved a \$3.2 million Capital Budget last year. Collaborative deemed the project “PROSPER” as the acronym for “PERAC Real-time On-line Self-service Portals for Efficient Regulation”. Mr. Connarton then introduced Mr. Dan Boyle, Director of Information Systems, and Rob Roberts, Program Manager from Collaborative.

Mr. Boyle and Mr. Roberts thanked the Commission for its support as well as the staff. Mr. Roberts then introduced the other guests from Collaborative who are in attendance: Laura Harriman Senior VP, Zack Slayton VP and technical advisor, Serge Nemirovsky technical advisor, and Arun Khond technical advisor.

Mr. Roberts provided a background of the project, the team, benefits, and the road map. He explained the portals available to PERAC, the boards, retirees, and the vendors. He reviewed PERAC’s overall requirements to make the systems more maintainable, modern, and expandable. The goal is to reduce paper filing, to include e-signatures, and to provide PERAC and the stake holders the ability to review the same documents instantaneously. He showed the Commission what the capabilities are in the system and made a presentation utilizing the software which was created for compliance. Mr. Roberts explained the future support and training prior, during, and after the release of this project.

Commissioner Machado left the meeting at 1:05 PM.

Mr. Connarton believes that there will be a learning curve and several boards have actually helped work out some of the bugs. He stated that Collaborative really has spent the time with us and the boards and created this software which is the wave of the future and is where PERAC should be as an agency. Mr. Connarton appreciates the time and consideration the Commission and Collaborative has provided.

Chairman Brown adjourned the meeting due to a lack of quorum at 1:35 PM as Commissioners Machado, McCarthy, and Sullivan were no longer present.

### **Commission Meeting Documents**

Commission Agenda for the meeting of May 11, 2016

Commission Minutes for April 13, 2016

**Administrative Sub-Committee Update**

PERAC FY 17 Budget with attachments  
PERAC Budget Comparison FY 09 – FY 16

**Actuarial Update**

Distributed State Retirement System 1/1/16 draft Actuarial Valuation Report  
Letter to Springfield Retirement Board regarding concerns with their long term sustainability  
Brief overview of proposed Summary Report for OPEB/GASB 45 Summaries

**Legal Update**

Letter to the Attorney General's Office regarding *PERAC v. Bettencourt*, SJC-11906

**Legislative Update**

Monthly Legislative Agenda and bullet points outlining legislation

**Audit Update**

Recent PERAC Audit reports

**Compliance Report**

Bar and Pie Chart showing Education and Asset Acknowledgements  
Press Release from the US Attorney Office number 2016-82 entitled *SEC Charges Unregistered Brokers with Pocketing Investor Money*

**Executive Director's Report**

Updated Staff Activities Memo  
Letter to Mayor Morse, City of Holyoke, regarding board membership  
Letter to Mayor Mazzarella, Leominster Retirement Board, regarding board membership  
Letters to Chair of Senate and House Committees on Ways and Means regarding OPEB Funds

**Other Documents**

Opinion from New York Post entitled *The Pension-Fix Game*  
Article in Reuters entitled *CALPERS: Giving Up Tobacco Has Costs*  
Article in Boston Business Journal entitled *State Street charged by Mass. Regulators over 'dishonest' overbilling*

**Documents Distributed**

Distributed State Retirement System 1/1/16 draft Actuarial Valuation Report

Approved:



Philip Y. Brown, Chairman  
Public Employee Retirement  
Administration Commission