

PERAC PENSION NEWSFLASH

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PERAC Asks the Legislature: Don't Override Governor Baker's Veto

The Public Employee Retirement Administration Commission (PERAC), the State's pension oversight agency, has taken a rare step to request that the Massachusetts House and Senate NOT take up a Veto by Governor Baker on a contentious Outside Section in the FY'16 Budget.

In letters to key legislators, PERAC emphasized that the vetoed provision, Conference Committee Outside Section 55, if overridden would seriously weaken procurement requirements for so-called "follow-on" funds for private equity and real estate for Massachusetts retirement boards. These requirements were enacted in 2011 as part of the last major pension reform Act, Chapter 176 of the Acts of 2011. PERAC sees serious harm being done to retirement system assets if this veto is overridden.

PERAC's Executive Director Joseph E. Connarton explains:

PERAC worked for 6 long years with the Massachusetts General Court and the Massachusetts retirement community to reach a consensus bill on what are probably the most comprehensive board governance reforms ever legislated in this state. Now, before all of the provisions have even been fully implemented, this outside section seeks to weaken the procurement requirement for private equity and real estate. We have already seen enhanced procurement saving the state's retirement boards thousands of dollars in retirees' and active employees' assets and this will likely be millions over the long-term.

PERAC's duty is to oversee these boards and their investments. The Commission feels strongly that weakening procurement in any manner means lessening the transparency, openness and disclosure provisions that have become a hallmark of enlightened government in Massachusetts and many other states around the nation. In addition, millions of dollars will likely be ultimately left on the table as unnecessarily higher fees to money managers needlessly drain retirement systems of vital assets. This in turn puts increased pressure on municipalities which are ultimately responsible for the liabilities of the retirement systems.

PERAC's preliminary data has already demonstrated significant savings by retirement boards that have implemented the new Chapter 176 procurement process. One board, the Cambridge Retirement Board, has already saved more than \$350,000 annually after a 5-year procurement review by changing the management in one account. Over 5 years that will total more than \$1.75M in



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savings for the system. That is one system – and one account. Multiplied by all the systems and all the asset allocations - the savings will clearly be dramatic. There is no justification to allow millions of pension fund dollars to be invested in high-risk funds without the benefit of a competitive procurement process.

PERAC respectfully requests that the Massachusetts legislature NOT override Governor Baker's veto of Outside Section 55 and allow the very positive and financially beneficial retirement board procurement requirements of Chapter 176 of the Acts of 2011 to be given the full measure of opportunity to succeed before significant changes are entertained.

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