

2009 EMERGING ISSUES FORUM

By Sarah Kelly
Communications Director

On September 9, 2009, PERAC held its fifth Emerging Issues Forum at the Hogan Conference Center of the College of the Holy Cross in Worcester, Massachusetts.

The first forum in 2004 focused on corporate governance and public investments; in 2005 the subject was health care and its implications for public plans; in 2006 we reviewed ethical dilemmas and public stewardship; and in 2007, we examined

financing retirement costs. PERAC held the Public Pension Institute at UMass Amherst in 2008 and opted not to hold a Forum in the same year. The agency was pleased to return to Holy Cross in 2009 to address the much debated subject of public pension reform.



Left to right: Sen. Thomas M. McGee, PERAC Executive Director Joseph E. Connarton, Rep. Robert P. Spellane

At the 2009 Forum, an overview of Chapter 21 of the Acts of 2009 and proposed regulations was presented by PERAC's Deputy Executive Director Joseph Martin, and members of PERAC's Legal Unit: General Counsel Barbara Phillips, Deputy General Counsel Judith Corrigan, and Associate General Counsel Derek Moitoso. The Honorable

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ACTUARIAL ADVISORY COMMITTEE RECOMMENDATIONS

By James Lamenzo
Actuary

In a July 23, 2009 letter, the PERAC Actuarial Advisory Committee provided comments and recommendations regarding the Massachusetts Contributory Retirement System. The members of the Committee are Steve Ricci (Ricci Consultants), Kathy Riley (Segal Company), Dan Sherman (Buck Consultants), and Larry Stone (Stone Consulting). We appreciate and thank them for their efforts.

We met with this group earlier this year to discuss funding strategies in the wake of the 2008 investment losses. For the past five years or more, we have been talking about the need to change the 2028 funding date because of the increased volatility as we near that date. The events of 2008 exacerbated that problem and, in my mind, forced the

issue. Without changes to the current law, some systems could be looking at 30-50% (or more) increases to funding levels. This is obviously not feasible.

My advice regarding funding strategy has always been to maintain budgeted appropriation amounts in both good times and bad. The systems that have weathered the 2000-2002 and 2008 storms the best are those systems that maintained appropriation levels in the good times (by reducing the number of years in the schedule, for example). These systems now have the flexibility to extend their schedules and maintain their expected level of appropriation despite the unprecedented 2008 loss.

The Advisory Committee has developed a long-term solution for funding in a responsible manner and I support their approach. The methodology allows some flexibility to provide funding

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Public Employee Retirement
Administration Commission
Five Middlesex Avenue, Suite 304
Somerville, MA 02145
ph 617 666 4446
fax 617 628 4002
web www.mass.gov/perac

The Honorable Domenic J. F. Russo
Chairman

The Honorable A. Joseph DeNucci
Auditor of the Commonwealth
Vice Chairman

The Honorable Deval Patrick
Governor of the Commonwealth

The Honorable Paul V. Doane
Investment Professional

James M. Machado
Sergeant
Fall River Police Department

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Former Town Manager
Arlington

Robert B. McCarthy
President of the Professional
Firefighters of Massachusetts

Joseph E. Connarton
Executive Director

Michael DeVito
Editor



KEEPING SCORE: ASSET ALLOCATION 2009

By Robert A. Dennis
Investment Director

2008 was a horrific year for many large endowment funds as well as for many large public pension funds that have invested according to the so-called “endowment model” that favored nontraditional and alternative asset classes over traditional equities and bonds. Not only did these institutions lose 25-30% or more of their assets but many also suffered serious liquidity problems.

These results led many observers to question the validity of this model and to call for these institutions to revert to more traditional and liquid asset allocations going forward.

There have been and will be many highly detailed and involved analyses written on the subject but, for now, it might be instructive just to show that, even after 2008 and the continuing declines registered by private equity and real estate so far in 2009, the long-term records of these other asset classes still appear favorable relative to traditional equity and core fixed income.

While recognizing that many local systems do not have access to the same managers employed by PRIM, these are the annualized 5-year returns from PRIM’s investment in the following asset classes as of August 31, 2009:

Domestic Equity	0.31%
International Equity	6.09%
Core Fixed Income	4.13%
High Yield Bonds	5.14%
Emerging Mkts Equity	14.59%
Private Equity	16.95%
Real Estate	9.18%
Timber	11.42%
Hedge Funds (net)	3.88%

PRIM’s corresponding ten-year returns through August 31, 2009 were:

Domestic Equity	0.65%
International Equity	4.24%
Core Fixed Income	6.26%
High Yield Bonds	6.35% (benchmark)
Emerging Markets Equity	9.90%
Private Equity	11.72%
Real Estate	10.51%

Retirement boards should adopt asset allocations that are appropriate for their own financial characteristics and risk aversion, but the long-term asset class returns reported above are a major reasons why most large institutional investors, although taking some steps to improve their systems’ liquidity profiles, have not chosen to dismantle their well-diversified asset allocations.

2009 FRAUD PREVENTION CAMPAIGN

By Sarah Kelly
Communications Director

In accordance with the requirements of Chapter 427, § 10 of the Acts of 1996, the Public Employee Retirement Administration Commission (PERAC) maintains a toll-free hot line for the reporting of fraudulent pension claims and payments. The hot line phone number is 1-800-445-3266. All messages are kept confidential. Since 1998, PERAC has promoted the hot line through poster campaigns built around various slogans: “It Adds Up”; “FRAUD,

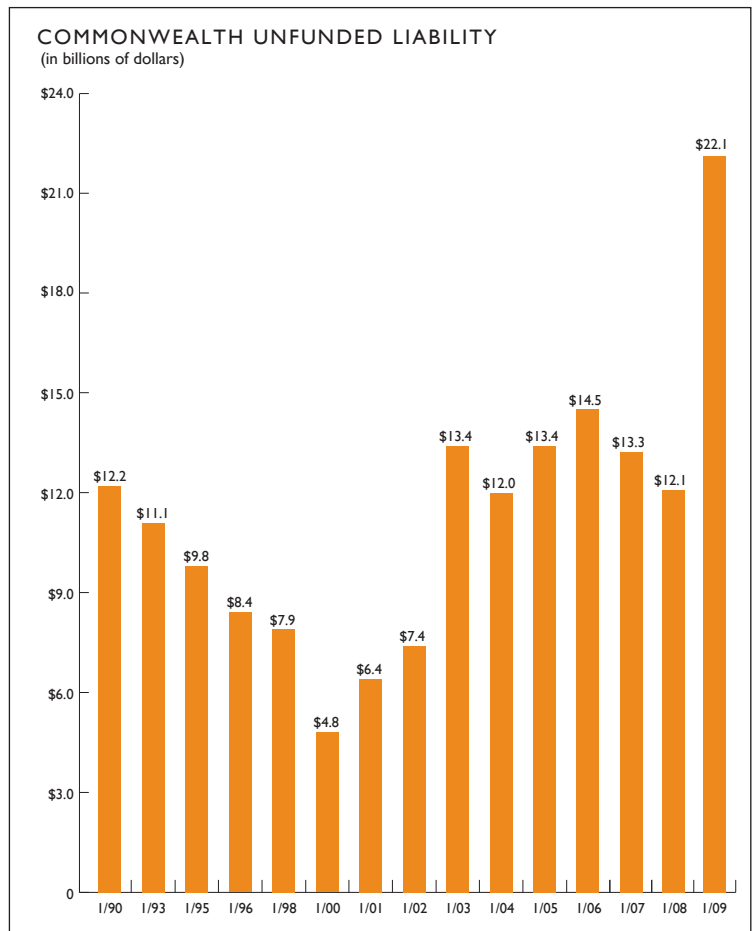
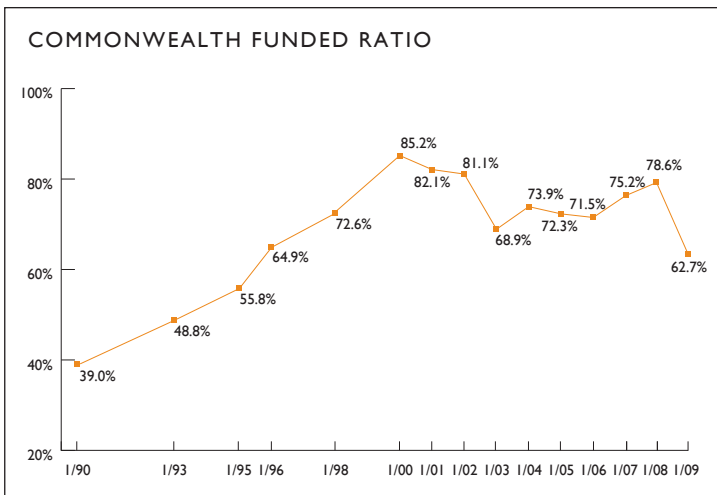
It is a Big Deal”; “For All of Those Who Thought Pension Fraud Was an Invisible Crime”; “I’m Not Hurting Anyone”; and “This Is A Losing Hand.” This year’s campaign involves a black and white poster with a silhouette of a man on watch. It features the straightforward tag line, “Pension Fraud Is Stealing.” The fraud awareness campaign also includes a brochure that provides details about various types of pension fraud and a “Referral Report of Potential Fraud” that can be used by anyone who wishes to make a written report of suspected pension fraud.

PERAC has distributed copies of the posters, brochures, and referral forms to every Massachusetts public retirement board, all city and town clerks, the Attorney General of Massachusetts, the Department of Revenue, the Massachusetts Registry of Motor Vehicles, the Bureau of Special Investigations, the Department of Transitional Assistance, and the Department of Industrial Accidents. After the 2007 fraud prevention poster campaign, some county and regional systems requested additional copies of fraud prevention materials for distribution to the governmental units (such

By James Lamenzo
Actuary

The Commonwealth Actuarial Valuation Report presents the results of the actuarial valuation of the pension benefits that are the obligation of the Commonwealth of Massachusetts. The four components are the State Employees' Retirement System, the Massachusetts Teachers' Retirement System, Boston Teachers, and the Cost of Living Allowance reimbursements to local systems. The charts from the January 1, 2009 Commonwealth Actuarial Valuation Report are presented on this page. The bar chart shows the unfunded actuarial liability (UAL) since 1990. The UAL represents the actuarial accrued liability less the value of plan assets. As of January 1, 2009, the actuarial liability was \$59.1 billion and the actuarial value of plan assets was \$37.1 billion. The difference of \$22.1 billion is the UAL, which represents a \$10.0 billion increase from the 2008 valuation. When there is no UAL, the system is said to be fully funded.

It is important to note that plan assets have grown much faster than plan liabilities since 1990. As of January 1, 1990, the actuarial accrued liability was approximately \$20.0 billion and assets of \$7.8 billion resulted in a \$12.2 billion UAL. Since 1990, the actuarial liability has grown by 3.0 times while assets have grown by almost five times. For this reason, the funded ratio represents a better measure of the plan's funded progress. The funded ratio equals the actuarial value of plan assets divided by the actuarial accrued liability. When the funded ratio reaches 100%, a system is fully funded. The funded ratio chart shows the significant progress made by the Commonwealth in the past 18 years, despite the 2008 setback.



2009 FRAUD PREVENTION CAMPAIGN (continued from page 2)

as fire and water districts, regional school districts, house authorities, etc.) within their districts. PERAC was pleased to expand the outreach effort in this manner through the cooperation all of the county and regional retirement systems in 2009.

The fraud prevention campaign evolved from PERAC's oversight of the post-retirement earnings and medical conditions of disabled public retirees throughout the state. Since the agency's inception, PERAC has identified over \$20 million paid to dis-

abled retirees who have earned more income than what is allowed by state law. PERAC's efforts have enabled retirement boards and employers to recoup a portion of such "excess earnings." PERAC also administers a unique restoration to service program which involves the review of the current medical conditions of Massachusetts' disabled public retirees to determine if they are physically fit to perform the essential duties of their former jobs. Approximately \$21 million has been saved that would have been paid in pension benefits to such retirees if

they had not returned to service. The figure assumes the workers who return to service will stay on the job for three years.

For any questions about the PERAC Pension Fraud Unit and this promotional campaign, please contact Sandra King, Fraud Prevention Manager, at 617-666-4446, extension 947 or SEKing@per.state.ma.us.

PERAC 2009 REGIONAL DISABILITY TRAINING SESSIONS WRAP UP IN WESTERN AND CENTRAL MASS

REGIONAL TRAINING CONCEPT CONTINUES TO BE A “HEALTHY” APPROACH TO PERAC’S EDUCATIONAL MISSION

By Frank Valeri
Deputy Director

The September 16th and 17th regional disability training sessions held in Northampton and Shrewsbury concluded the 2009 series of such trainings. Fifteen Western Massachusetts boards sent 30 retirement board staff members to the training session held at the Northampton Council Chambers in Northampton. Nine staff members from seven boards attended the Central Massachusetts training session at the Shrewsbury Town Hall. In 2009, PERAC held four regional training sessions that attracted a total of 68 individuals from 44 different retirement boards. The optimal class size seems to involve 20 (or fewer) participants, but due to popular demand, that number has been exceeded on occasion.

Several years ago, the Disability Unit began meeting with multiple retirement boards in

group settings. This educational approach had the added benefit of giving board staff members an opportunity to share their individual experiences and interact with their peers from other retirement boards. This format evolved into a more formal regional training concept approved by Executive Director Joseph E. Connarton. Many retirement boards graciously offered to host regional training sessions. The regional training concept has proved to be a very effective means of fulfilling a vital component in PERAC’s mission statement to provide guidance to the 106 public employee retirement systems.

Kate Hogan, PERAC’s Manager of Medical Services, is responsible for coordinating the sessions. Each session includes information about disability medical panels, comprehensive medical evaluations (CME), returning to service (RTS), and benefit calculations. We currently have two traveling teams from the Disability

Unit. Information about the medical panel process is presented by Kate Hogan and Regina Manning, Administrative Assistant. Jane Carritte and Patrice Looby, Nurse Case Managers, focus on CME and RTS. They are joined by Actuarial Associate John Boorack, from PERAC’s Actuarial Unit, who provides information on calculations and Workers’ Compensation offsets.

A tentative schedule of dates and locations for disability training sessions to be held in 2010 will be released in January. Please feel free to contact Disability Director Barbara Lagorio about your training requests. All boards will receive notification about each of the upcoming training dates.

The Commission and its staff greatly appreciate the efforts of the retirement boards who have hosted training sessions. We thank others for volunteering their facility for future sessions and greatly appreciate all such offers.

2009 EMERGING ISSUES FORUM (continued from page 1)

Thomas M. McGee and the Honorable Robert Spellane, the respective Senate and House Chairs of the Joint Committee on Public Service offered their views on the Special Commission on Pension Reform and discussed what might occur during the next phase of pension reform. In a panel presentation moderated by PERAC Actuary James Lamenzo, the members of the PERAC Actuarial Advisory Committee: Stephen Ricci (Ricci Consultants), Kathleen Riley (Segal Company), Daniel Sherman (Buck Consultants), and Lawrence Stone (Stone Consulting) offered their recommendations for post-2008 funding strategies. Representatives from Subcommittees of the Special Commission on Pension Reform: The Honorable Todd Smola, ranking minority member of the Joint Committee on Public Service; and Ralph White, President of the Retired

State, County and Municipal Employees Association of Massachusetts, joined Joseph Connarton, Executive Director of PERAC, to discuss the work of the Special Commission and its impact on the Massachusetts Contributory Retirement Systems.

Two hundred and forty-nine individuals participated in the 2009 Forum. Eighty-two retirement boards were represented by at least one board member or administrative staff member.

PERAC’s Executive Director Joseph E. Connarton commented on the Forum:

This year’s Emerging Issues Forum was without doubt our most well-received yet. The reviews submitted on our event evaluation forms were almost unani-

mously positive. In particular, people were pleased that we held the 2009 Forum in September. Past forums have all occurred during the summer. Many people found the new fall date to be much more convenient.

I’d like to thank Senator Tom McGee, Representative Bob Spellane, Representative Todd Smola, and all our presenters for their participation. And I’d like to thank the retirement board members and administrators whose involvement contributes so much to the success of the event.

Please note that all of the materials and documents related to the presentations that were made at the Forum can be found on PERAC’s Home Page (mass.gov/perac).

2009 EMERGING ISSUES FORUM P H O T O S



Rep. Todd M. Smola



Ralph White



Stephen Ricci



Lawrence Stone



Daniel W. Sherman



Kathleen A. Riley



relief, but does not allow systems to reduce appropriation below the prior year's level unless the system is well-funded.

The Commission approved Recommendation 1 (funding) and requested a further report on Recommendations 2-5 by the end of the year. The funding recommendation is also being considered by the Special Commission to Study the Massachusetts Contributory Retirement Systems.

Implementation of the Actuarial Advisory Committee's Pension Funding Recommendation

PERAC's Executive Director Joseph E. Connarton notes:

"The Commission has presented legislation to the joint Committee on Public Service to implement the pension funding aspect of the program proposed by the PERAC Actuarial Advisory Committee in its July 23, 2009 letter to the Commission. It is the Commission's hope that the General Court will act swiftly to pass this bill to give retirement systems an opportunity to mitigate the virtually unprecedented decline in assets precipitated by the stock market collapse of 2008. We will be available to the legislature to provide any assistance they may want on this issue. I would be remiss if I did not take this opportunity to thank the members of the PERAC Actuarial Advisory Committee for their great work on behalf of the Commission and the retirement systems of the Commonwealth.

Hearing on the Report of the Special Commission to Study the Massachusetts Contributory Retirement Systems

The Joint Committee on Public Service Chaired by Senator Thomas M. McGee and Representative Robert P. Spellane has scheduled a hearing on the Report of the Special Commission to Study the Massachusetts Contributory Retirement Systems on Monday, November 9, 2009 at 10:00 AM in Gardner Auditorium at the State House. At that hearing, the general public and all interested parties will have an opportunity to present their views on the Commission's Report.

THE FINANCIAL CRISIS EBBS BUT THE HUMAN TOLL LINGERS

By Robert Dennis
Investment Director

There is growing confidence that the worst of the historic economic and financial crisis is behind us. The economy has stopped contracting and is showing signs of growth, the stock market has had a significant rally from its lows, and the credit markets are functioning again. A few years from now, when we look back at this tumultuous and painful period, which of the many startling numbers associated with these years will we remember most?

Will it be the **\$10.8** trillion in wealth wiped out by the US stock market's epic decline from October 2007 through early March of this year?

Will it be **54%**, the peak-to-trough percentage loss suffered by the Dow Industrials?

Will it be **\$787** billion, the size of the Obama Administration's politically controversial stimulus package?

Will it be **\$12.8** trillion, an amount close to our annual gross domestic product, the total estimate of what the government (the Federal Reserve, the Treasury, and the FDIC) has either spent, lent, insured, or committed in an effort to support and

stabilize the struggling financial system and to end the worst recession since the 1930s?

Will it be **111**, the number of US banks that have failed since 2007? Eighty three of these failures have occurred in 2009, making it the worst year since the height of the savings and loan crisis of the early 1990s.

While all these numbers are staggering, the number with the most lasting significance to most Americans may well be **7.2** million, the number of jobs lost in the economy since the recession began in December 2007. This number represents a loss of over 5% of the economy's total jobs over this time. Over 15 million Americans are unemployed and the unemployment is expected to surpass 10% over the coming months, a level not seen since 1982.

The extent of job losses has exceeded historical expectations, even for a recession as deep as the recent one, and represents the largest proportional job contraction in over seventy years. Total employment in private industry today is lower than it was ten years ago.

The stock market's healthy rebound from its lows is due in part to improved corporate profits but these profits have been much more attributable to cost-cutting (job

reduction) than to improved sales. After the traumatic economic period we've just endured, corporate executives are being careful and cautious in hiring back former workers. They will wait for indisputable evidence of a pickup in demand. Furthermore, while jobs in retail and leisure industries may follow clear signs of a rebound in consumer spending, many lost jobs in real estate and finance may be gone forever. Only time will tell whether jobs in health care and education will continue to grow and what currently unforeseen areas of job growth might emerge over the coming years.

Many economists are predicting that even if the economy resumes the rapid pace of job growth of the 1990s----which was well above the pace of the first seven years of the current decade----it will take several years for the number of jobs to return to pre-recession levels and, accounting for growth in the labor force, the unemployment rate won't fall back toward 5% until the end of the next decade.

Thus, while most of us, either as individuals or fund trustees, may feel relief that the worst of the terrible bear market and recession is behind us, we should not forget that for millions of Americans, the nightmare is far from over.