

PERAC REFORM INITIATIVES ADVISORY COMMITTEE MEETS

Discusses Reform Ideas with Pension Community Representatives

The PERAC Reform Initiatives Advisory Committee met on April 29, 2005 to continue its discussion of pension oversight reform issues. PERAC's Executive

Director Joseph E. Connarton formed the Committee in January at the request of the Commission to evaluate reform issues previously considered—but not voted on or approved—by the Commission.

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Advisory Committee (Clockwise from top left): Professor Paul M. Healy, Jerrold Mitchell, PERAC Executive Director Joseph E. Connarton, Alan G. Macdonald, Committee Chair Scott Harshbarger, PERAC Chairman Domenic J. F. Russo. Not pictured: Professor Cary Coglianese.

PERAC SPONSORS SECOND EMERGING ISSUES FORUM

Health Care the Focus of June 28, 2005 Event

On June 28, 2005, PERAC will host its second annual Emerging Issues Forum at The College of the Holy Cross in Worcester, Massachusetts. Many retirement board members and executives attended PERAC's first Forum last year where corporate governance and public investments issues were the featured topics. At this year's forum, developments in health care and new accounting

rules for post employment benefits will be explored. The audience will include: retirement board members and administrators; Legislators; members of the Massachusetts Municipal Association, the Massachusetts Municipal Personnel Association, and the Massachusetts Accountants & Auditors Association; union leaders; and public pension actuaries and attorneys.

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Public Employee Retirement Administration Commission

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Sergeant
Fall River Police Department
- Donald R. Marquis
Former Town Manager
Arlington

- Joseph E. Connarton
Executive Director



ADVISORY COMMITTEE (CONT.)

(From page 1.)

Former Massachusetts Attorney General Scott Harshbarger, Partner in the law firm, Murphy, Hesse, Toomey & Lehane LLP, chairs the Advisory Committee. Other members of the Committee include: Alan G. Macdonald, Executive Director of the Massachusetts Business Roundtable; Jerrold Mitchell, Chief Investment Officer, The Boston Foundation and former Chief Investment Officer of the Pension Reserves Investment Management Board; Professor Cary Coglianesi, Associate Professor of Public Policy and Chair of the Regulatory Policy Program at the John F. Kennedy School of Government, Harvard University; and, Professor Paul M. Healy, James R. Williston Professor of Business Administration, Harvard Business School.

Also invited to the April 29 meeting were representatives of pension systems and retiree organizations from around the state. These representatives were invited to solicit their feedback on the draft concepts being considered by the Committee. Chairman Harshbarger and the Committee members thanked the participants for their very insightful comments and helpful participation.

The Advisory Committee will continue to further refine their recommendations and will seek to submit a preliminary report to the Commission within the next month or two. Additional meetings of the PERAC staff and the Advisory Committee to explain and elicit additional feedback on the report from the retirement community are anticipated.

PERAC Pension News will be following these developments closely in the ensuing months.

SECOND EMERGING ISSUES FORUM (CONT.)

(From page 1.)

Mr. J. Richard Johnson, Senior Vice President & Public Sector Health Practice Leader of The Segal Company will deliver the keynote address on emerging issues in health care from a national perspective. Dr. John Burrell, Medical Director of the Occupational Health Department of the Boston University Medical Center will moderate a panel of outstanding physicians on workplace health challenges. Panelists will include: Dr. Glenn Pransky, Director, Liberty Center for Disability Research; Dr. Stephen Kales, Medical Director, Employee & Industrial Medicine, Cambridge Health Alliance; and Dr. Larry Catlett, Medical Director, Occupational Medical Consulting LLC.

Mr. Karl Johnson, Project Manager, New Rule 45 Relative to Other Post Employment Benefits (OPEB), from the Government Accounting Standards Board (GASB), will open the Forum's

GASB 45 IS HERE

In 2004, the Governmental Accounting Standards Board (GASB) released Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. GASB also released the related Statement No. 43. These statements will have a significant impact on state and local government employers.

In addition to pension benefits, many state and local governmental employers provide other post employment benefits (OPEB) as part of the total compensation package designed to attract and retain employees. Currently, most OPEB plans are financed on a pay-as-you-go basis so these costs are not recognized until after retirement. GASB has indicated that these statements have been adopted for the following reasons: to recognize the cost of services in the periods when the services are received by the employer; to provide information about the actuarial liabilities for promised benefits associ-

ated with past service; and, to determine whether and to what extent those benefits have been funded.

Participants in a panel to follow Mr. Johnson include: Mr. Martin Benison, Comptroller of the Commonwealth of Massachusetts; Daniel W. Sherman, a consulting actuary; and Mr. David Baier, Director, of the Massachusetts Municipal Association's Legislative Division.

Please reserve June 28th on your calendars for the Forum. Registration materials will be mailed in mid-May to all retirement board members and administrators as well as other parties who have expressed interest. If you would like to request a registration packet, please contact PERAC at 617-666-4446. We urge you to register at your earliest opportunity. We look forward to seeing you on June 28th at Holy Cross College in Worcester, Massachusetts.

ated with past service; and, to determine whether and to what extent those benefits have been funded.

Plan sponsors will be required to have actuarial valuations of these liabilities performed every 2 years if the number of active members is over 500, and every 3 years for smaller plans. A valuation may be required every year if the plan is funded. For the largest plans, (revenues over \$100 million in FY2000), GASB 45 is applicable for fiscal years beginning after December 15, 2006. The statement will be applicable for smaller plans a year or two later.

GASB 45 is a complicated statement that will require much discussion, research, and analysis. It is recommended that governments begin preparing now. To assist in this preparation, our PERAC Emerging Issues Forum for 2005 on June 28 will have a detailed session on this topic.

2004 INVESTMENT RETURNS

The *PERAC Annual Report* will be distributed in June. It indicates that returns in 2004 ranged from 4.3% to 14.9% among the 104 local retirement systems. The median return for all the systems was 11.7%, quite respectable in the context of national public fund peer groups. As will be discussed in the report, one of the key determinants of returns last year was the extent to which systems' asset allocations were well diversified among asset classes and subclasses. Accordingly, the twenty systems that invested entirely with the PRIT Fund benefited from the Fund's impressive return of 14.45%, which reflected its exposure to and strong performance in such diversifying asset classes as real estate, emerging markets, venture capital and private equity, and timber.

PRIM's "Absolute Return" Segment

The PRIM Board has notified the local systems that its "Absolute Return" segment is available for investment on a quarterly basis beginning July 1, 2005. Boards intending to invest in this "sleeve" on July 1 must inform PRIM by June 17, 2005. For systems that may be considering this investment opportunity, no regulatory approval is required from PERAC pertaining to this or any other investment with PRIM. For those systems that wish to pursue absolute return investments on their own, PERAC's Hedge Fund Investment Guidelines remain in effect.

STATE RETIREMENT SYSTEM ACTUARIAL VALUATION

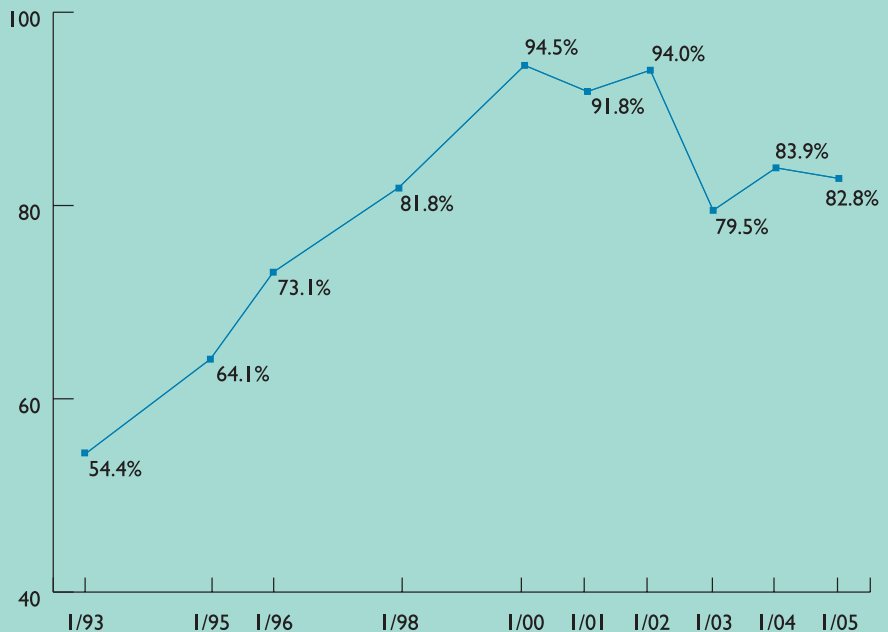
PERAC recently released the actuarial valuation report for the State Retirement System as of January 1, 2005. The chart below shows the State's funded ratio progress since 1993. The funded ratio represents the actuarial value of plan assets divided by the actuarial accrued liability. When the funded ratio reaches 100%, a system is said to be "fully funded".

The actuarial value of assets used to derive the funded ratio from January 1, 1993 to January 1, 1996 reflects the market value of plan assets. To reduce the potential volatility of the market value approach, PERAC began imple-

menting an asset smoothing methodology that averages realized and unrealized asset gains and losses over 5 years in the January 1, 1998 actuarial valuation. Therefore, gains and losses in a given year are not fully reflected in the actuarial value of assets until 5 years later.

The funded ratio on an actuarial basis decreased slightly from last year. Although the asset return on a market value basis was 14.5%, the return on an actuarial value (asset smoothing) basis was only 4.7%. Conversely, in a down market, the return on the actuarial value of assets will exceed the market value return as in 2000, 2001, and 2002.

STATE FUNDED RATIO



PERAC E-MAIL ADDRESSES CHANGE

As of June 17, 2005, all PERAC staff members will have new e-mail addresses.

A list of the new addresses will be posted along with PERAC Memo #17/2005 in the "Memos" section of PERAC's Home Page. You will be able to copy and paste the addresses from the list.

In the "Staff Directory" section of PERAC's Home Page, users can click on

the names of certain staff members, and transmit e-mails to them via the Web. These e-mail addresses have been updated, as have been the addresses to which retirement boards send their completed on-line Appropriation Questionnaire, Pooled Fund Statements, and Legal Questions.

Please update any of the PERAC-related contact files and distribution lists that you

personally maintain to reflect these new addresses before June 17, 2005. After that date, PERAC's original e-mail addresses will cease to be valid and mail will not be transmitted to them.

Although PERAC's e-mail addresses have changed, please note the address of PERAC's Home Page, www.mass.gov/perac, has not changed. ■