



Commonwealth of Massachusetts State Retiree Benefits Trust Fund

Board of Trustees

Nicola Favorito, Chair

Deborah Goldberg · Michael Heffernan · William McNamara · John W. Parsons
Matthew Veno · Theresa Flynn · Michael C. Tow, CFP

State Retiree Benefits Trust Board of Trustees Minutes of the Meeting of February 6th, 2020 *as approved at 5/7/20 Board Meeting*

Call to Order:

A meeting of the State Retiree Benefits Trust Fund Board ("SRBTF Board" or "Board") was held on Thursday, February 6, 2020 in the Crane Conference Room in the Offices of the State Treasurer on the 12th floor of One Ashburton Place, Boston, Massachusetts.

A quorum being present the meeting was called to order at 9:35 a.m. SRBTF Board members or designees present for all or part of the meeting were: Chair Nicola Favorito, Andrew Maylor, Frank Gervasio, Catherine Moore (GIC alternate designee), John Parsons and Theresa Flynn. All participants were notified that this meeting would be audio recorded.

Also present for all or part of the meeting were: Jeffrey Moyer of the SRBTF; Attorney Katherine Hesse and Attorney Matt Feeney of Murphy, Hesse, Toomey & Lehane LLP ("MHTL"); Francesco Daniele of the Pension Reserves Investment Management Board ("PRIM"); Howard Merkowitz & Jeff Shapiro of the Comptroller's Office ("CTR").

The Chair congratulated Mr. Maylor on the transition to his new position with Merrimack College later this month. Mr. Maylor advised that he believes that there should be a replacement by the next SRBTF Board meeting.

I. Approval of the December 5th, 2019 Meeting Minutes

The Chair turned to the minutes of the December 5, 2019 meeting.

On a motion made by Ms. Flynn and duly seconded by Mr. Parsons, the Trustees took the following action by voice vote.

VOTED: To approve the minutes of the December 5th, 2019 Board Meeting.

Approved by voice vote.

II. OPEB Valuation

The Chair introduced Mr. Merkowitz to discuss the FY2019 OPEB Valuation released on January 23rd. Mr. Merkowitz handed out summary pages from the evaluation to the Board.

He noted the net OPEB liability of \$12.2b down from \$14.9 in 2018 a decrease of 18%. The prime driver was lower claims costs and higher contributions. Mr. Merkowitz added that of the assumptions used the discount rate was reduced from 3.95% to 3.69% which added to the liability. The assumption for plan participation rate for future retirees was increased to 85% from 80%.

The Chair asked Mr. Merkowitz about the plan participation rate for retirees described on the summary page. There was a change in this rate from 80% to 85%, and the Chair asked whether this reflected more retirees taking health insurance. Ms. Moore stated that the GIC does not actually have a list of all those eligible for health insurance, and only will create a file for an individual once they request benefits, either during employment or after retirement. As a result, they are unable to calculate the participation rate from their data, but Ms. Moore expects that they would be quite high, as many other employers are cutting post-retirement health insurance.

Mr. Merkowitz stated that the participation rate is an assumption by AON, and can inquire on the change. Mr. Maylor asked whether employees that had never taken health insurance during state service but later came to GIC post retirement were the population that were difficult to track. Ms. Moore confirmed this, and the GIC does not pre-emptively reconcile their rolls prior to an employee filing for benefits. Ms. Moore did not believe there is any data suggesting a big uptick in retirees taking health insurance, but AON's participation rate might still be on the lower side.

Mr. Parsons asked if participants can take up insurance even after retirement and Ms. Moore confirmed that this is the case. Mr. Maylor stated that local systems can have complicated rules on this.

The Chair asked Mr. Merkowitz about how the Commonwealth valuations compared to other similar sized states. Mr. Merkowitz will look into this more and report back to the Board.

The Chair asked Ms. Moore whether there will be any anticipated changes on the provider side. She stated that there are no design changes, but the FY18 claims data on which this report was based were noticeably lower than other years. The savings from lesser consumption may not then hold into next year's valuation.

III. Investment Report

Mr. Daniele reported that Mr. Todisco is recovering well and thanks the Board for all the good wishes over the last two months.

Mr. Daniele delivered the market report and noted:

Worldwide economies continue to slow, some are already in recession, and GDP growth in the U.S. is expected also to continue its decline. Third calendar quarter U.S. GDP growth was 1.9%, down from 2.0% in the second quarter of 2019, and was slightly higher than estimates, mainly due to a solid increase in federal government spending. Business investment declined 3% annualized, which followed a 1% decline in the second quarter. The 1.9% third quarter GDP growth is down from the more than 3% reported in first quarter. Consensus estimates for the fourth calendar quarter and into 2020 continue to anticipate a continued slowdown. The current consensus is for quarterly GDP growth to bottom at approximately 1% in 2020 before rising again in 2021.

Recent economic data has been mixed. For example, the Institute for Supply Management (ISM) manufacturing index of 48.3 in October remains below the 50 threshold that separates expansion from contraction, and the Chicago Purchasing Manager Index dropped to 43.2, hitting a nearly four-year low. However, recent jobs reports, by contrast, were more positive. The Labor Department reported that 128,000 jobs were added in October, well above the expectation of 75,000. The unemployment rate fell (0.2%) to 3.5% in September, a 50-year low, yet even with the positive surprise, job growth remains below previous levels and below the average monthly rate of more than 160,000 in 2019.

At recent PRIM Investment Committee meetings several reasons were identified to remain cautious, divergence between economic sentiment and expectations versus actual economic performance was noted. Markets eventually react to mismatches of data and expectations, so PRIM will be watching closely in the coming months for confirming data to support the recently rising equity markets. Something to watch closely is the widely held belief that the consumer (the driving force of economic growth in the U.S.) is healthy, but there are already some worrisome signs: average hourly earnings are down, average weekly hours are down, retail sales were down in September, and monthly employment growth, while still positive, is slowing.

With the increase in assets under management and the increase in the number of clients, PRIM is continuing to add to its staff. PRIM currently has eight job openings for which they have received more than 2500 applications. They recently welcomed one new employee- Minching Kao joined the Real Estate and Timberland team in October as an Investment Analyst.

In the area for recognition for PRIM staff members, Qingmei Li, PRIM's Finance Reporting Manager, was awarded the Treasurer's 2019 Citation for Outstanding Performance. Likewise,

PRIM's Executive Director and Chief Investment Officer, Michael Trotsky, CFA, has been awarded the Lifetime Achievement Award from Institutional Investor.

Mr. Maylor stated that he has heard that slower growth is a positive, and if there is a higher growth rate it makes a recession more likely. Mr. Daniele explained that there is also a difference between countries in how growth is fueled. The United States is a more dynamic growth market, but PRIM still aims to be defensive with its investments.

Mr. Parsons asked about when the Investment committee would confirm the asset allocation. Mr. Daniele advised that the committee will be taking action in the next month.

The SRBT Fund returns reviewed were net of fees, versus the PRIT fund performance which are gross of fees. The 1-year return of 16.2% versus 16.2%; 3-year 10.0% versus 9.3; 5-year 7.6% versus 7.2%; and 10-year 9.4% versus 6.8%. Since the fund's inception in 2001 PRIM has achieved a positive 7.3% return versus the benchmark of 6.8%.

As of December 31st, 2019, the combined SRBT Fund assets were \$2.03 billion.

IV. Operations Report

Municipal Contracts

The Chair invited Mr. Moyer to present the entities up for consideration. Mr. Moyer stated that Stoneham did have materials prepared, but since there were some legal issues and had referred them to Ms. Hesse.

Ms. Hesse updated the Board on her discussions with town counsel for the Town of Stoneham. A question had arisen about the town having to adopt the statute, as last amended. Town counsel anticipated a warrant article to be included in the upcoming town meeting in May. Ms. Hesse also advised that the town will need to make their Board of Trustees compliant with the statute.

Mr. Moyer stated that Town of Bellingham had intended to submit materials for today's meeting but was not able to submit all of the documents by close of business on Wednesday. He will follow up and encourage Bellingham to resubmit in April.

Municipal Outreach

Mr. Moyer is aware of the Quabbin Health District and Dalton Fire District which have inquired recently.

Outreach Letter

Mr. Moyer updated the Board on the participant letter which had been mailed the week prior. An electronic version was also scheduled to be issued.

V. Administrative Issues

A. D&O Insurance

The Chair asked Mr. Moyer to outline his work on the insurance broker since December. He indicated that as discussed Ms. Flynn reviewed the brokerage services and current policies in effect for the SRBTF and found them to be reasonable. Mr. Moyer will proceed with engaging with Gallagher and will prepare for a RFP later in the year.

B. Legislative Update

Mr. Moyer stated that the bill to add two voting members to the Board, H2347, was sent to a study order. This indicates that the bill is unlikely to receive further action this session.

C. SRBTF Calendar, Meeting Times

The Chair asked the Board about the 9:30 meeting time. The Board was agreeable to maintaining it unless otherwise decided.

D. Audit Requirement

The Chair asked Ms. Hesse to share her recommendations with the Board.

Ms. Hesse indicated she had further reviewed c.32A, §24h and the requirements therein, particularly an annual “independent” audit with a reporting date of September 15 of each year. The requirement was never updated after the Board’s duties were re-organized. She noted PRIM assets and management are already separately audited, and the SRBTF submits information as part of the annual Commonwealth CAFR process.

Mr. Maylor offered a suggestion given the September 15 reporting date did not include an associated audit period. For example, in a typical year the previous CAFR would be completed and filed by 12/31 of the prior calendar year. Similarly, the statute was also unclear of the scope of an audit, e.g. financial or management.

The Chair suggested that Mr. Moyer should work with Ms. Hesse to draft language that adopts this understanding and bring it back to the Board for further discussion. Going forward, the Board can consider working with PRIM or CTR for a more comprehensive audit of SRBTF operations, and work with Mr. Gervasio to amend the statute for additional clarity. Ms. Hesse agrees that this is a good approach and will provide guidance as requested.

E. Program Coordinator Role

Mr. Moyer advised that he plans to leave the Program Coordinator role at the end of May. The Chair update the Board that he had reviewed Mr. Moyer's Program Coordinator position description since the last meeting. They were targeting early to mid-May by which to have his replacement on board. The Chair would update both the Treasury and Comptroller HR offices as to coordination of next steps and posting for the position.

F. Policies & Procedures Update

Mr. Moyer indicated he was in the process of reviewing the SRBTF's policies and procedures and updating them where required. Final changes would be presented to the Board at a later meeting.

VI. Other Business

None.

VII. Adjournment

There being no further business, a motion was made by Mr. Maylor and duly seconded by Mr. Gervasio, to adjourn the meeting at 11:00 a.m.

Approved by voice vote.