



LETTER FROM THE CHAIRMAN



The Public Employee Retirement Administration Commission is pleased to release this 2015 Annual Report reviewing the status of the Massachusetts' public pension plans.

Since the publication of our last Annual Report we have had some changes in the composition of the Commission. Commissioners Liz Fontaine, the investment appointee of the Governor, John Langan, the gubernatorial representative and Gerry McDonough, the State Auditor's designee have all moved on and we will miss their service and wise counsel. Their seats are now respectively occupied by Kathleen Fallon, Jennifer F. Sullivan, and Timothy Dooling.

We were very fortunate to have Liz, John, and Gerry's services. Liz applied her vast knowledge of finance to the decisions of the Commission and made a lasting contribution to its success. Beyond this Liz displayed good humor, congeniality and a sunny disposition in her dealings with other Commissioners, staff and the public pension community. In addition, her rigorous analytical thought was appreciated by all of us on the Commission. John brought his skills as a labor negotiator to the difficult issues confronted by the Commission. In addition, his calm demeanor and reasoned approach

contributed to ensuring that, in spite of disagreements on issues, the Commission's deliberations took place in a cooperative and friendly manner. As he continues his public service, these attributes will ensure that the citizens of Massachusetts are well served. Gerry's decision to retire from public service and return to the practice of law is the Commonwealth's loss and the private legal bar's gain. During his tenure Gerry was a strong advocate for employees, particularly those in more modest positions. His extensive knowledge of Chapter 32, broad experience in government and eloquent arguments brought light to many of the difficult matters faced by the Commission in dealing with the complexities of our pension law. We will miss his advocacy and his wisdom but have no doubt he will achieve further success in his renewed career in the private practice of law.

These three individuals, as well as those who have served on the Commission in the past and those presently serving, exemplify the best in committed citizens willing to give of themselves for the betterment of the Commonwealth.

The Commission is very fortunate, however, to have three extremely talented, bright and capable people join us. Commissioner Kathleen Fallon is Practice Area Director responsible for the Human Resources Practice for Public Consulting Group. She also has an extensive background in working for the state and her state service includes working as an aide to Representative Ellen Story and in the Fiscal Affairs Division of the Executive Office of Administration and Finance. She already has made an impact on the Commission with her thoughtful questions and insights.

Commissioner Timothy Dooling is the Deputy Auditor and General Counsel in the Office of the State Auditor. Commissioner Dooling has a long record of service in government having been General Counsel and Deputy Director of Career Services in the Executive Office of Labor and Workforce Development, chief legal counsel and acting executive director of the Parole Board, assistant general Counsel for the Suffolk County Sheriff's Department and an assistant district attorney in Essex

County. His experience, expertise, and proven good judgment will be an asset to the Commission.

Jennifer Sullivan, Assistant Secretary for Capital Finance, Administration & Finance comes to the Commission with an impressive background of both public and private service. She began her career as an analyst with Administration and Finance before attending law school at the University of Michigan. After law school, her career alternated between the public and private sector as she worked for national law firms, including Ropes & Gray LLP and Edwards Wildman Palmer, and was Counsel to the Massachusetts Senate Committee on Ways and Means. Already, she has impressed her colleagues with her intellect and focus.

Both Commissioner McCarthy and Commissioner Machado bring extremely valuable institutional knowledge to the meetings along with their thoughtful questions.

The investment performance of the systems detailed in this Report generally tracked that of pension plans throughout the nation. Although in 2015 Massachusetts' returns ranged from - 3.33% to 4.45%, most systems achieved returns between 1.03% and 1.75%. In spite of the lower returns driven by market conditions, long range performance with very few exceptions exceeded 7.50% and, for more than a quarter of the systems was above 9.00%.

The last year has seen a continued focus on the state of public pension systems across the nation. It needs to be stressed once

close oversight of public pension systems and the Commonwealth as well as its cities, towns and municipalities are diligent in funding the pension system. Structural reforms enacted several years ago should begin to impact our fiscal condition as the demographics of the work force change. Governance reforms have led to Board members having a more detailed knowledge of their role and incorporated enhanced transparency and best practices into management. In addition, aggressive action by the PERAC Actuary in revising investment assumptions and updating mortality tables to trend with industry practices, while in the near term seeming to exacerbate funding problems will, in the long run, lead to a sound and sustainable pension system.

As always, the Commission and staff will use our best efforts to assist the retirement boards in safeguarding the interests of system members and beneficiaries.

Sincerely,



Philip Y. Brown
Chairman

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I am also pleased to report that Bob McCarthy has been re-appointed by Auditor Bump to the seat on the Commission as designee of the President of the Massachusetts AFL-CIO.

again that Massachusetts has taken a markedly different approach than many other jurisdictions. Our legislature has wisely put into place a statutory structure that calls for