



Letter From Chairman Philip Y. Brown

“The Public Employee Retirement Administration Commission is pleased to release this 2018 Annual Report reviewing the status of Massachusetts’ public pension plans. The last year has seen major changes in the composition of the PERAC administration.”

After decades of public service, most of which were devoted to the retirement system, Executive Director Joseph Connarton retired. His accomplishments and character are detailed elsewhere in this Report, but let me state that Joe’s tenure at PERAC represented the very best of service to the members and their beneficiaries, to the retirement community, and to the taxpayers of the Commonwealth and its cities and towns. Joe’s service is an exemplar to all.

Joining Joe in retirement is Actuary James Lamenzo. Jim’s service to the Commonwealth is incalculable. Working in tandem, Joe and Jim preserved the defined benefit plan on which so many rely for their post retirement sustenance. Jim’s measured approach to financial issues has been invaluable. The dedication of this Report to Joe and Jim bears testament to the high regard in which they are held by Commission members past and present, by colleagues, and by those involved with public pensions.

Although the process for filling these vacated positions was an arduous one, the Commission is confident that John Parsons will serve as PERAC’s new Executive Director with distinction. The Commission is confident that not only will he maintain the excellent record of past years, but that he will build upon that record to achieve future success. In addition, PERAC Deputy General Counsel and Managing Attorney Judith Corrigan was selected as PERAC General Counsel. Judith is one of the foremost Chapter 32 experts in the state and she will continue her role in shaping and implementing PERAC legal policy while taking on additional duties as General Counsel. Finally, John Boorack is an

experienced and knowledgeable successor to Jim as Actuary. John will assure continuity in the Actuarial Unit while making his own mark and the Commission is pleased that he has taken over this role.

Two Commissioners deserve congratulations as well. PERAC Commissioner Jennifer Sullivan was appointed Undersecretary for the Executive Office for Administration and Finance. Since February 2015 she had served as Assistant Secretary for Capital Finance. Congratulations to Jennifer on this well-deserved promotion.

I am also pleased to congratulate Commission member Kate Fitzpatrick on being a finalist for the inaugural “Leadership Trailblazer Award” from the League of Women in Government and National Research Center, in recognition of her as an accomplished leader in the local government profession who has championed and inspired other women to achieve as well.

The investment performance of the systems detailed in this Report generally tracked that of pension plans throughout the nation. Nationally, most systems’ year-end performance was adversely impacted by the substantial market downturn in December 2018. Although in 2018, Massachusetts’ returns ranged from negative 6.90% to a positive 4.95%, most systems achieved returns between negative 1.50% and negative 3.50%. Most importantly, long-range performance for nearly all systems exceeded 7.50% and, for 26 systems, equaled or exceeded 9.00%. Additionally, we are pleased to note that no system has been deemed to be “underperforming” as defined in Chapter 32.

The 2018 performance underscores the fact that the state of the capital markets in general largely determines the gains or losses realized by the retirement boards. This is a reflection of the professional manner in which these funds are invested. Retirement board members, through education, experience, and dedication, have adopted and put into practice the principles of modern investment management either directly or through investing in the Pension Reserves Investment Trust Fund (PRIT). It is clear that although our retirement systems face many challenges, this record of prudent management has served the interests of system members and taxpayers very well.

Over the course of my tenure as PERAC Chairman it has become increasingly clear to me that the role of the Actuary is crucial to the operation of our pensions systems. For that reason, I was heartened by the recent Actuarial Roundtable held at PERAC. This periodic meeting of the actuaries serving the Massachusetts retirement boards is an informal forum where current issues are discussed, trends reviewed, and ideas exchanged. A centerpiece of this year's discussion was the investment return assumption used in connection with actuarial valuations of a retirement system's funding status. The gathering concurred with the wisdom of PERAC reducing the return assumption for the Commonwealth valuation from 7.35% to 7.25%. This was a heartening vote of confidence for the Commission's efforts to reduce expectations in an orderly fashion. Beyond that topic, the Actuaries also reviewed mortality assumptions and agreed that all actuarial valuations performed in 2019 will include an analysis and discussion of various measures of plan risk. We believe that this cooperative effort between PERAC and actuarial service providers has strengthened the fiscal condition of our pension systems and laid the groundwork for future funding progress.

As Chairman of PERAC, it is with deep satisfaction that we have been able to fully implement the provisions of Chapter 176, which, at one point, were so controversial that some retirement board members considered resigning. Today, matters

that caused so much angst, such as filing Statements of Financial Interest, fulfilling educational requirements, and complying with procurement rules, are routine. Although the patient and considered process of enforcing the law is a role of PERAC, it must be noted that, after an initial period of concern, retirement board members and administrators have done their part in ensuring that the statute is followed.

In last year's report, I noted that the PROSPER System had been up and running for over a year and that the initial implementation of all phases had been completed. Since that time, we have continued to install minor adjustments to improve PROSPER's reliability, functionality, and ease of use. In some ways this will be an ongoing effort as PERAC's Units, retirement board members and administrators, and other users work with and through the system. To date, however, PROSPER has been a significant success. From disability applications to registration for educational sessions, tasks that at one time were time consuming and tedious have become streamlined and simple. PERAC has recognized that this new technology represents an unfamiliar challenge to some and, as a result, we have expanded our educational focus on PROSPER and maintained our Help Desk.

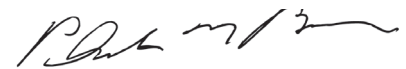
We continue to expand our educational activities by holding sessions for board administrators across the state. These marked the second year of the program and, in light of the attendance and enthusiasm that has greeted us, we intend on making this an annual part of our educational agenda. Beyond this, our educational efforts for retirement board members has maintained its pace. Now that our educational program has matured, retirement board members are benefiting from the review of a variety of relevant topics in forums scheduled in convenient locations across the state. We are most excited about our recent expansion of web based and online offerings, which has made meeting the statutory requirements less burdensome for those seeking to meet their mandated requirements.

The Commission has published this Report each year in the hope that it will provide an easy to use reference for those interested in the public pension systems in Massachusetts. Although this data merely introduces the reader to the status of each of the 104 retirement systems, we believe that the fiscal condition, investment practices, and administration of those systems is accurately portrayed. Most importantly, we believe that the condition of the public pension system at large, as well as that of individual retirement systems, is placed into context by this information.

PERAC's Annual Report details the impact of market bubbles, fiscal crises, and statutory reforms. These years have been marked by one constant, the commitment of those charged with managing the retirement system for the benefit of members and beneficiaries. In the face of challenges to the very existence of our defined benefit plan, the individual members and administrators of the retirement boards have persevered and earned the thanks of system members and beneficiaries.

On a personal note, I am so grateful and appreciative to be able to serve the Commission as Chairman. We have many challenges before us, some are familiar and some cannot be anticipated, but building on the record of achievement detailed in these pages, and through continued vigilance, we will meet those challenges and ensure that our pension system is there to meet the current and future needs of members and their beneficiaries.

Sincerely,



Philip Y. Brown
Chairman