



Letter From the Executive Director

“I first want to acknowledge and commend the dedication, resilience, and performance of retirement board members, board administrators, staff, other members of the retirement community, and of course the PERAC staff in the face of unprecedented crisis.”

The Commission and staff are pleased to release this Annual Report on the Massachusetts Public Retirement Systems for 2019.

As we release our calendar year 2019 report, it would be impossible to ignore the happenings of the first half of 2020. I first want to acknowledge and commend the dedication, resilience, and performance of retirement board members, board administrators, staff, other members of the retirement community, and of course the PERAC staff in the face of unprecedented crisis. The members of the state's 104 retirement systems have been well served by your rising to the cause, ensuring that pension checks are received, investment funds are safeguarded, and member services are carried out.

While Retirement Board investment performance bounced back significantly in 2019 from 2018, as general market conditions improved, early 2020 saw

steep declines due to the pandemic. While some of those losses were rapidly regained, there is still a way to go. These fluctuations in performance underscore the importance of a steady and consistent approach to investment of assets and system funding. Over the course of the last 20 years, we have experienced two major market downturns followed by a steady recovery over several years. These past experiences underscore the wisdom of PERAC's measured approach to investment return assumptions used in actuarial valuations as well as the balanced approach to asset allocation adopted by the PRIM Board and local retirement systems.

Investment returns in 2019 reached levels that have not been seen in many years. In general, the correlation between asset class performance and investment return is largely a product of general market conditions. The steady trend of tempering expectations by

lowering the investment assumption recognizes the changing nature of market conditions and the need to anticipate the impact of the present and future market environment on pension fund fiscal stability. The steady reduction in the investment return assumption is the centerpiece of this proactive approach. As recently as 2003, the investment return assumption for 30 of our plans was 8.50%. Today, no plan is using that assumption. In 2003, all assumptions were 7.50% or greater with only 3 between that level and 7.90%; 52 at 8.00%; 20 between 8.10% and 8.25% and, as noted, 30 used an assumption of 8.50%. Today, 46 plans use an assumption of 7.25% or below and 86 use an assumption of 7.50% or below. All plans use an assumption less than 8.00%, however 13 plans use an assumption of 7.75% or above. PERAC established a return assumption of 7.15% for the State Employees' and Teachers' Retirement Systems for calendar year 2020.

Investment Returns

As disclosed in PERAC's 2019 Investment Report, board returns for the year averaged a stellar 16.9%, with a range of 11.2% to 24.5%.

Based on analysis of system-funded status and investment performance in accordance with Chapter 68 of the Acts of 2007, PERAC determined that no retirement board will be ordered to transfer its assets to the Pension Reserves Investment Trust Fund (PRIT) based on 2019 results.

While the pandemic caused steep declines in the markets in late winter and early spring, they had regained much of their losses as of this writing. The PRIM Board reported that for the first six months of calendar year 2020, the PRIT Fund was down 3.4%, which in context of the market crash shows both resiliency and hope that investment returns for the full year could be better than initially feared at the outset of the pandemic.

Commission/Staff Update

We are pleased to note that Commissioners Jim Machado and Kate Fitzpatrick have both been appointed to another term on the Commission. Governor Charlie Baker reappointed Jim to the Public Safety Position and State Auditor Suzanne Bump reappointed Kate to the MMA position. On behalf of all PERAC staff we look forward to working with Jim and Kate in the years ahead.

Bill Keefe has joined PERAC as Assistant Deputy Director of Research, Planning and Public Affairs. Bill's focus will be external affairs, legislation and internal processes. Prior to coming to PERAC he served as Director of Planning in the Office of the State Auditor Suzanne Bump.

Changes in the Audit Unit include Walter Kloc moving on from PERAC and the addition of Michelle Lastra, Alice Munafo, and Ernie Calavritinos as Auditors. It is anticipated that with this staffing we will be able to fully implement our new audit protocols and expedite the completion and processing of audit reports.

Fee Report

In 2019, PERAC again published a compilation of the fees paid by the pension systems to investment vendors. The report is based on the Schedule 7 filed by each Board as part of its Annual Statement of Financial Condition. Studies such as this provide retirement board members, public officials, and taxpayers with a critical tool with which to assess investment performance. With the fee report, board members are able to gauge their costs against those of their peers, public officials are able to analyze the management of the pension funds, and taxpayers can gain insight into the level of expenditure involved in this task. PERAC's effort in this area reflects its commitment to bring transparency to all aspects of retirement system management.

Retirement boards paid a total of \$469.8 million to investment service providers in 2018. For the State and Teachers' funds, which are invested by the Pension Reserves Investment Management Board (PRIM), \$295.5 million in fees were incurred. Local retirement boards paid \$174.3 million to money managers, banks and investment consultants, as well as PRIM. In 2018 the Expense Ratio for systems ranged from a high of .99% to .29%. The level of cost in and of itself is neither a positive or negative but must be assessed in the context of returns as performance may justify cost.

It should also be emphasized that retirement boards must conduct their own analysis of the fees paid or expected to be paid in connection with investment activities. Over the last few years our analysis has found that service providers often are unclear about not only the costs to the system but also the manner in which payment is assessed.



Strategic Plan

In November 2019, the Commission met to begin the development of a Strategic Plan for the next five years. Commissioners and staff identified critical issues and potential strategies to address those issues.

One outcome of this process was the revisiting of PERAC's Mission Statement by an ad hoc group led by Commissioners Tim Dooling and Kathy Fallon. The recommendation of that group was reviewed and approved by the Commission. The revised mission statement below appears elsewhere in this publication as well as on the PERAC website.

Revised PERAC Mission Statement

“To provide regulatory oversight and guidance for the effective, equitable, and ethical operation of the Commonwealth of Massachusetts’ public pension systems.”

Four main areas were identified in the Strategic Plan: Communications/Governmental, Audit Process, Actuarial/Investment, and Technology.

In Communications/Governmental, the focus was on providing clear, effective, timely and, when possible, proactive information to retirement board members, public officials, administrators, and the general public. Initiatives to achieve this goal seek to leverage technology to maximize impact. Special emphasis will focus on new board member outreach and expanding the use of PERAC data to inform policy and enhance transparency.

Building on progress made in 2019, the Strategic Plan calls for prioritizing the use of up-to-date technology, including a new audit software program, data interaction with the retirement board through electronic means, and collaboration with private auditors. In addition, proposals for enhancing the ability of the Commission to recruit and retain Audit Unit personnel are being reviewed and implemented.

Consistent with the overall emphasis on increasing our use of internally available data, the Strategic Plan calls for broadening our data analysis capabilities. The goal is not only to expand our reporting, but also to present the data in an understandable and helpful manner.

The Strategic Plan emphasizes the need to continue our risk analysis presently incorporated into Actuarial Valuations, ensure that objective criteria are applied, and use the data to be proactive.

Any modern enterprise must avail itself of the latest in technology. It's unsurprising that the Strategic Plan has as a key component the area of Technology. As noted above, data analytics is an essential tool for the meeting of PERAC's statutory mandates. Under the Plan we will conduct an extensive review of existing resources, software and hardware infrastructure, and internal processes for managing and analyzing data. Also, in the Technology component of the Plan, we will enhance and improve PROSPER. Initially we expect that the use of PROSPER will expand to include calculations, investment data submissions, and added filings by retirement board members. This initiative will also focus on security matters.

The development of the Strategic Plan has provided us with a blueprint for the years ahead and we are confident that after full implementation, the Commission will be able to perform its responsibilities more efficiently. Certainly in early 2020, PROSPER and PERAC's technological and communicative abilities were tested and the preparation, work and investments put into these areas paid off while also showing areas where continued investment and enhancement are needed.

Forms Project

Often what appear to be minor modifications in administrative practices can have a major impact on the efficiency and transparency with which an agency operates. I am pleased to note that changes in the text and processing of

the many PERAC forms related to retirement related actions will have such a result. These updated forms regarding membership, beneficiaries and disability have been revised through close consultation and collaboration between retirement boards and PERAC. Fields have been updated to eliminate outdated references and strengthen accuracy and efficiency.

The screenshot shows the 'Introduction New Member Enrollment' form. It includes fields for Retirement Board (Name, Address, City/Town, Telephone, Fax), Employee Information (Name, Address, City/Town, State, Date of Birth, Social Security Number, Marital Status, Gender, Race, Ethnicity), Current/Prior Retirement System Membership (Yes/No questions), and Dates of Membership (System, From, To, and a table for Additional Systems). There are also checkboxes for 'Are you covered by any other Massachusetts public retirement system?' and 'Are you a member of any other Massachusetts public retirement system?'.

Litigation

In 2019, PERAC's Legal Unit represented the Commission at all levels, including the Supreme Judicial Court.

In a December decision affecting those members who served as reserve, permanent-intermittent or call firefighters or reserve or permanent-intermittent police officers prior to becoming members of a system, the Supreme Judicial Court determined that individuals who are to be credited with service pursuant to G.L. c. 32, § 4(2)(b) must pay for such service.

The ruling in *Plymouth Retirement Board v. CRAB, and PERAC*, followed the SJC's 2013 *MacAloney* decision and brought closure to the long-running *Gomes* case.

Massachusetts General Laws, Chapter 32, Section 4(2)(b) allows up to five full years of pre-membership credit to certain members of systems who served in the past as a reserve or permanent-intermittent police officer or a reserve, permanent-intermittent or call firefighter. The question presented to the SJC in *Plymouth Retirement Board v. CRAB, and PERAC*, was whether a member had to pay for such service. The SJC answered that question in the affirmative.

PERAC, and PERA before it, had long instructed the retirement boards that service to which a member was entitled pursuant to Section 4(2)(b) should be credited without cost to the member, based upon the wording of the statute. This remained the position of PERAC until CRAB issued the *MacAloney* decision in 2013, determining that although Westminster Fire Chief Brenton MacAloney was entitled to be credited for his previous service as a call firefighter in that town, he would have to pay for it. In the wake of the *MacAloney* decision, PERAC issued Memo 11 of 2020 to the retirement boards instructing them to require payment for such Section 4(2)(b) service.

Acknowledging that Section 4(2)(b) is silent on payment for creditable service, the SJC concludes that this section is intended only as a "measurement scheme," and reading the statute as a whole, the requirement for payment is found in Section 4(2)(c). The SJC finds that "each subsection of G.L. c. 32 § 4(2) has a clear, connected role." The SJC states that its reading of Section 4(2) "conforms to the backbone of a contributory retirement system: employees investing a portion of their earnings towards a future pension."

The SJC's decision breaks new ground in determining that the "Under \$5,000 Rule" will also be applied to Section 4(2)(b) service. Since the "Under \$5,000 Rule" was enacted in 2009, Retirement Boards and PERAC have not applied the rule to Section 4(2)(b) service. The SJC now requires that to happen.

PERAC issued Memo 11 of 2020 to provide guidance on this decision.

Auditing

As noted in last year's annual report, the Commission approved a new and more efficient approach to the auditing of retirement systems. The focus of audits will be based on an assessment of a system's risk profile. We are also working with private auditors to expand PERAC's review and acceptance of private audits of systems as outlined in statute and regulation.

In order to maximize benefits from this new approach, PERAC hosted an Auditors' Roundtable in October, 2019. Representatives from all the firms presently serving the retirement boards attended. In general, the attendees endorsed the changes adopted by the Commission and pledged to cooperate fully as implementation continues. It is expected that these sessions will become annual events in order to maintain the momentum created by this meeting.

As a result of these approaches, PERAC issued 29 audits in 2019 compared to 20 in 2018 and 17 audit follow-ups in 2019 after completing 14 in 2018.

Another important component was staff stability. Whether through retirement or attrition, the auditing unit had often been working with a depleted staff. We reviewed and amended job descriptions, refocused our recruiting efforts, and took proactive steps to increasing retention around training and reimbursements for tuition and certifications. These steps led to a full complement of staff working with renewed approaches to auditing resulting in solid performance.

Emerging Issues Forum

PERAC held its 15th Emerging Issues Forum at the College of the Holy Cross in September 2019. In spite of inclement weather and last-minute parking issues due to on-campus construction, nearly 230 people participated. Board members attending received three educational credits.

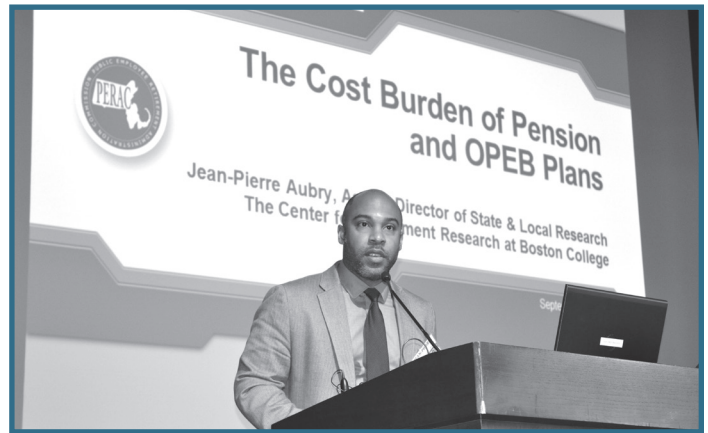
In the keynote address, attorney Thomas Spahn of McGuire-Woods provided eye-opening tales in a presentation entitled “The Ethics of Email and Social Media.” One commenter stated that Attorney Spahn was “...energetic [and] made a lot of good points in an informative way with a twist of humor.”



Emerging Issues keynote speaker Thomas Spahn of McGuire Woods gives an energetic presentation on The Ethics of Email and Social Media

PERAC Actuary John Boorack provided an overview of pension funding and actuarial issues with “Pension Funding: Past, Present and Future.” John was able to connect with the audience in a down to earth way that led to greater understanding of a complex subject.

Jean-Pierre Aubry, Associate Director of State and Local Research at the Center for Retirement Research (CRR) at Boston College, provided insight into the research the CRR has done across the United States in “The Cost Burden of Pension and OPEB Plans.” Although Massachusetts was not part of that study, the concerns regarding risk and fiscal uncertainty outlined by Mr. Aubry struck a sobering note for all attendees.



Emerging Issues Forum speaker Jean-Pierre Aubry of the Center for Retirement Research at Boston College

As has now become a tradition, the centerpiece of the Forum once again was the Retirement System Best Practices panel moderated by PERAC Chairman Phil Brown. The Panel featured four executive directors who delved into the nuts and bolts of running a retirement system. Gary Brenner of the Lynn Retirement Board focused on “How to Run a Retirement Workshop.” James Lovotti of the West Springfield Retirement Board walked attendees through the “Benefit Calculation Process.” Berkshire County Retirement Board’s Sheila LaBarbera discussed “Good Governance.” Elaborating on issues raised by the keynote speaker, Erika Glaster of the Teachers’ Retirement Board emphasized “Cybersecurity Challenges.”



Emerging Issues Forum Retirement System Best Practices presenters (l-r): Gary Brenner (Lynn); James Lovotti (W. Springfield); Sheila LaBarbera (Berkshire County); Erika Glaster (MTRS)

*Unfortunately, the **2020 Emerging Issues Forum** has been canceled due to public health concerns. PERAC is planning a shorter virtual event with the keynote speaker and a presentation by staff.*

Education

PERAC continued its comprehensive education program for retirement board members in 2019. This was the eighth year of the program and included courses on "Beneficiaries by the Numbers," the ever popular "Cases of Interest," "Audit Process Revisions, Common Audit Findings and Accounting Filings with PERAC," and "Post Retirement Earnings."

Webinar courses were expanded as many of those courses cited above took place both in person and via webinar. Expanding webinar sessions on the PERAC website provided added value, safety and convenience for board members to access and receive credit during the pandemic.

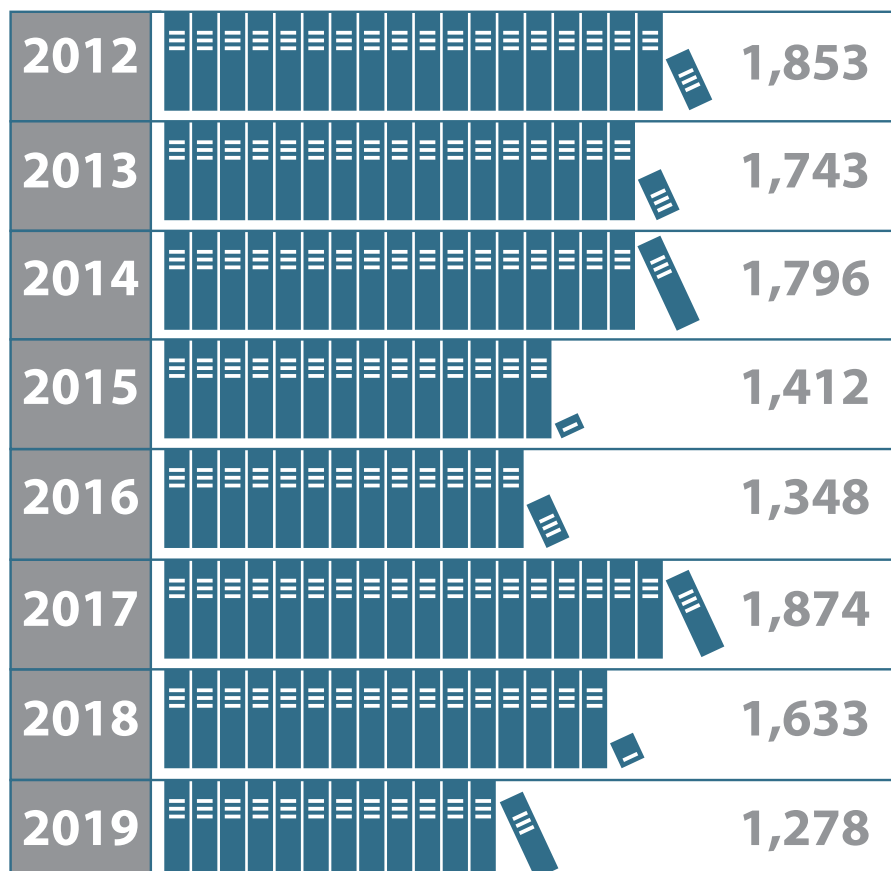
In addition, non-PERAC webinars were offered for credit including the Inspector General's "How to be An Effective Board and Commission Member," the Ethics Commission's "Conflict of Interest," and the CFA Institute's "Ethical Decision Making for Pension Plan Trustees."

Continuing our program of one-day Board Administrator Trainings in 2019, sessions were held in Northampton, Danvers, and Westborough. Sessions were very well attended. Members of the Actuarial, Compliance, Disability, Fraud Prevention and Legal Units at PERAC served as presenters. Many topics were covered in the course of each session. Attendees learned about:

- ▶ Alternative Investment Accounting
- ▶ The 91A Process
- ▶ Veterans Benefits
- ▶ 12 (2)(b) Dependent Allowances
- ▶ Ordinary Disabilities
- ▶ Chapter 32 In A Nutshell
- ▶ Special Legislation

Each day of training concluded with the awarding of certificates to all attendees. Board members who attended received three educational credits.

Number of Education Courses Completed (By Year)



Legislation

Following adoption by the Commission and presentation of their recommendation to the Joint Committees of Ways & Means at the Consensus Revenue Hearing, the Governor submitted a new funding schedule to address the liabilities of the State Employees' Retirement System, the Teachers' Retirement System, the state obligation regarding Boston Teachers and the state obligation regarding local COLA's as part of his Fiscal 2021 budget recommendations in January, 2020. Due to the impact of the pandemic, the Legislature has delayed adoption of a formal FY21 budget until at least October, 2020, while revenue shortfalls are measured and supplemental federal assistance is awaited. For the next three years, the adopted, scheduled pension appropriation is:

Fiscal Year	Amount
2021	\$3,115,163,858
2022	\$3,415,154,137
2023	\$3,744,033,480

PERAC filed six legislative proposals in the 2019 – 2020 session. The Joint Committee on Public Service adopted a Favorable Report for each of these bills. Formal sessions of the Legislature had been scheduled to end July 31, 2020, but an order passed to extend the ability to meet formally for the remainder of 2020. PERAC will continue to advocate for, and monitor the progress of, these bills. The bills are as follows:

- H 4143 - An Act Relative to the Veterans' Buyback:**
Extends the time period in which veterans may purchase up to four years of creditable service as a result of their military service. If adopted, the buyback may be initiated within one year of vesting rather than within 180 days from hiring. House Chairman Jerald Parisella added a provision to the bill that would create a one-time, one-year window for such purchases for those members who may have missed their initial opportunity.
- H 21 - An Act Relative to Pension Forfeiture:**
Amends the pension forfeiture provisions of Chapter 32 in light of the Supreme Judicial Court decision in the *Bettencourt* case which determined that the existing statute may violate the 8th Amendment of the U.S. Constitution in some cases.

- H 23 - An Act Relative to the Recovery of Overearnings:** clarifies the amount that may be recovered in an instance where a retired member has exceeded earning limits.
- H 24 - An Act Relative to Wages:** Includes sick and vacation leave taken in conjunction with workers' compensation as part of regular compensation for retirement purposes.
- H 25 - An Act Relative to Modification of Retirement Allowances:** Streamlines the process for modification of retirement allowances in an instance where a disabled retiree has exceeded earnings limits.
- H 26 - An Act Relative to Accidental Disability and Group 1 Emotional Distress:** Allows a Group 1 member to cite employer incident reports to satisfy the injury report requirement when filing for disability based on an emotional injury.

PERAC regularly reviewed legislation by legislative request for matters of equity, consistency, and technicality. Additionally, PERAC regularly responded to legislative requests regarding retirement-related issues for constituents.

Conclusion

I assumed the position of PERAC Executive Director a little over a year ago and never could have imagined what this first year would lead into in year two. A key initiative for this period was to undertake nearly 50 personal visits to the retirement boards, with the balance planned for this current year, prior to the shutdown.

These visits helped develop, foster and maintain personal relationships and lines of communication with board members and staff that proved invaluable as an unforeseen, once-in-a-lifetime emergency hit. The dedication, collaboration and cooperation that all of those involved in the Massachusetts public pension community have shown in serving the needs of members and their beneficiaries during these most challenging times has been most impressive. With that as our backdrop, I know that together we can meet any challenge and our future will be bright.

Sincerely,



John W. Parsons, Esq.
Executive Director