



Letter from the Executive Director

John W. Parsons

“The challenges brought about by the pandemic have been endless and we are all familiar with them. Again and again, the response of all in the retirement community was to remain focused on the mission of serving members.”

If ever there was proof of needing to play the long game, and the benefits of playing the long game, the last few years have been it.

The challenges brought about by the pandemic have been endless and we are all familiar with them. Again and again, the response of all in the retirement community was to remain focused on the mission of serving members. There was a collective realization that this too shall pass. In the meantime, actions reflected the dedicated level of commitment to getting checks out, counseling members, and the continued health of the public retirement system. Nothing about it was easy. There weren't any shortcuts. Laws, regulations and policies were followed, new procedures were created and the mission was fulfilled.

After three years of double-digit investment gains, 2022 brought double-digit investment losses. Predictably, the sensational headlines of the money lost in fund balances, the increases in unfunded liability, and the questioning of the need for defined benefit plans followed. Somehow public pension systems are to blame for Russia attacking Ukraine, supply chain issues, inflation, rising interest rates, and the fallout from the pandemic. While market conditions changed – and always will change – nothing else did. There was no

panic. Retirement boards did not waver from their prudent, carefully-constructed investment strategies, asset allocations, and diverse portfolios. There was no chasing the next big thing. Retirees continued to be paid and responsible investment return assumptions and funding schedules were maintained. Already, the 1st and 2nd quarters of 2023 have showed rebounds in returns. In short, the system and the process are working. The long game is prevailing.

A good example of that has been setting the Commonwealth investment return assumption. There was a push to lower the assumption during the period of strong returns, but the Commission held at 7.0% based on the data and recommendation of PERAC's

Actuarial Unit's analysis. Likewise, when the returns declined, there wasn't a kneejerk reaction to lower the assumption. Investment returns, and the strength of the public retirement system, are built for the long haul and to withstand temporary fluctuations.

A contributing factor to this resilience is education. Thanks to our partnership with the Office of the Inspector General, the State Comptroller, and the State Police, we were able to provide in-depth and useful training sessions on areas of need, including cybersecurity and internal controls. Further, a partnership with the Executive Office of Technology Services and Security gave retirement boards the opportunity to enroll in a year-long cybersecurity training program complete with testing of simulated phishing attacks.

We were also excited to bring back our most popular in-person sessions for the first time in three years, the Emerging Issues Forum at Holy Cross and Administrator Trainings in Northampton and Danvers. In addition, MACRS hosted its first two live conferences since the pandemic. Together, all of these events were welcome opportunities to re-connect, share and learn with, and from, our retirement community colleagues.



Letter from the Executive Director (cont'd.)

Additionally, PERAC joined the newly formed NCPERS Communications Roundtable to learn and share best practices in that space.

It was a busy year on the legislative front with the Legislature and Governor taking action on a number of matters relevant to the retirement community. A final Supreme Judicial Court decision in the *Vemava* case declared that no supplemental payments can be regular compensation when taken in conjunction with workers' compensation and that the decision was retroactive to the start of Chapter 32. Together, PERAC, MACRS, retirement boards, and Mass. Retirees lobbied the Legislature for a correction resulting in Section 149 of Chapter 126 of the Acts of 2022, which held retirees harmless and saved boards an inordinate task.

A second SJC decision, this time the *O'Leary* case, also prompted legislative action. The decision in *O'Leary* declared payments in lieu of vacation were not regular compensation and it was also retroactive. Chapter 107 of the Acts of 2022 created a new Section 106 in Chapter 32, holding retirees harmless and allowing those utilizing the benefit as of May 1, 2018, to continue to do so.

State and Teachers' retirees received a 5% COLA for fiscal year 2023 as a result of language included in the state budget. Many local systems also adopted a 5% COLA after local option legislation passed a couple months after the budget.

At the request of many boards, PERAC promulgated regulations on the use of electronic signatures. From initial internal review, to drafting, to seeking the Commission's approval, to getting signoff from both Administration and Finance and the Legislature, to receiving the valuable input of board staff and members, to re-drafting, it was a lengthy process which required the hard work of many but should have lasting impact. All PERAC regulations are in the process of being reviewed and updated.

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With COVID restrictions lifting, we saw the return of in-person disability medical appointments. On the flip side, a necessity during COVID has proven to serve a purpose and a convenience – remote and hybrid meetings. The Open Meeting Law waivers, which continue to this day, allow for remote participation by board members and the public alike and have increased the public's access while adding flexibility.

Two key PERAC figures, Governor Charlie Baker and State Auditor Suzanne Bump, decided not to run for re-election and left office. They were both strong supporters of the public pension system and their appointments to the Commission have been proof positive. We welcome Governor Maura Healey and State Auditor Diana DiZoglio to the retirement community and look forward to building on the foundation of their predecessors. Additionally, on a staff level, we congratulated Compliance Director Tom O'Donnell on his retirement and his work on the implementation of pension investment reform. We miss his wit and charm and wish him well.

Every year has its hurdles, but we'll be hard pressed to come up with any hurdle higher than what we experienced over the last three years. I commend the boards, staff, practitioners, and PERAC staff for their remarkable performance in the face of adversity and for remaining dedicated and focused to the long-term health of our systems for the benefit of retirees and members.

With that, the Commission and staff are pleased to release this Annual Report on the Massachusetts Public Retirement Systems for 2022. Thank you for your contributions to the Massachusetts public retirement system and I am proud to continue working with you for an effective, equitable, and ethical system for all. ■

Sincerely,



John W. Parsons, Esq.
Executive Director