

## **Commission Meeting Minutes February 13, 2019**

Chairman Philip Y. Brown called the meeting (held at the PERAC Office, 5 Middlesex Avenue, Somerville, Massachusetts) to order at 12:03 PM. He then stated that the Commission meeting is being tape recorded and this will be so noted in the minutes.

Chairman Brown acknowledged the other Commissioners present: Commissioners Timothy Dooling, Kate Fitzpatrick, and James Machado. Commissioner Jennifer Sullivan entered at 12:20 PM. Commissioners Kathleen Fallon and Robert McCarthy participated remotely per the Attorney General's Open Meeting Law 940 CMR 29.10. Therefore, all votes in this meeting were taken by a roll call vote.

PERAC Staff present for all or some of the meeting: Executive Director John Parsons, Deputy Executive Director Joseph Martin, Deputy General Counsel and Managing Attorney Judith Corrigan, Director of Administrative Services Caroline Carcia, Actuary Jim Lamenzo and Actuary John Boorack, Compliance Officer Tom O'Donnell, Chief Auditor Caryn Shea, Senior Associate General Counsel Ken Hill, Associate General Counsel Patrick Charles, Project Manager Anthony Tse, Senior Systems Engineer Robert Perez, Communications Director Natacha Dunker, Compliance Counsel Derek Moitoso, Compliance/Investment Data Coordinator Cheryl Johnson, and Senior Executive Assistant Kim Boisvert.

Ms. Boisvert announced the following guests in attendance for all or some of the meeting: Nick Favorito representing the State Retirement Board, Erika Glaster and Sean Neilon representing the Massachusetts Teachers' Retirement Board, and Gerald McDonough representing Thomas Gibson's Law Office.

### **Minutes of February 13, 2019**

Commissioner Fitzpatrick made a motion to adopt the January 9, 2019 Commission meeting minutes. Commissioner Machado seconded the motion and a roll call vote was taken:

Chairman Philip Brown YES, Commissioners Timothy Dooling YES, Kathy Fallon YES, Kate Fitzpatrick YES, James Machado YES, Robert McCarthy YES, and Jennifer Sullivan YES, and the minutes were unanimously adopted.

### **Actuarial Update**

Mr. Lamenzo discussed the documents in the package and stated that the Amended Actuarial Update was emailed to all Commissioners. He spoke with PRIM about the NEPC study after the Commission package was distributed.

Mr. Boorack discussed PRIT's 2018 return which was -1.8% which is gross of fees. Further discussion ensued regarding net versus gross of fees.

Mr. Boorack reported that the next Commonwealth funding schedule will be updated in 2020 based on the results of the Valuation as of January 1, 2019. He discussed the current schedule, the changes to the mortality assumptions, and the recent decreases to the investment return assumptions. He then reviewed the differences in the Investment Return Assumptions for Massachusetts Public Plans from 2016 and 2018 and discussed the 2018 assumptions in more detail. He stated that PERAC is the actuary for 39 retirement systems – 32 of those systems have an Investment Return Assumption of less than 7.5% and the other 7 are at 7.5%. The NASRA study of the Investment Return Assumptions for national state, teacher, and some large city plans shows the trend continues to be to reduce this assumption. He further stated that the October 2018 NASRA study of about 130 large national plans had an average return assumption of 7.3% and just yesterday NASRA released its latest study showing an average assumption of 7.28%.

Mr. Lamenzo then discussed the NEPC study and the assumption recommendation for the January 1, 2019 valuation. Our preliminary recommendation was to reduce this assumption (this was prior to the NEPC study) as discussed with the Treasurer prior to the Consensus Revenue Hearing held in December 2018. He was surprised that the NEPC study showed an increase in the expected returns for both the 5-7 year and 30 year periods despite a more conservative allocation by PRIM. Mr. Lamenzo spoke with PRIT regarding his questions about the NEPC study. In the past, he has relied primarily on the NEPC study; this year more weight will be put on other recent studies of other investment firms which continue to show decreases in expected returns from the prior years.

Discussion ensued regarding what CALPERS and CALSTERS used for an assumption, the most recent returns, what would happen if systems are unable to meet their funding obligations by 2040, and the possibility of most systems becoming fully funded by 2036 or 2037.

Mr. Lamenzo then stated that PERAC performs services for local systems, and that his recommendation for those systems (primarily invested with PRIT) will be between 7.15% to 7.35% partially depending on the assumption used in the prior valuation. He believes there are more reasons to recommend reducing the assumption from 7.35% to 7.25% than to maintain that assumption.

Mr. Boorack then reviewed the Commonwealth 2018 Valuation Results and 2019 Estimates.

Chairman Brown inquired if a vote was needed based on Mr. Lamenzo's recommendation of reducing the assumption to 7.25% for the Commonwealth?

Mr. Lamenzo reported that an Actuarial Roundtable has been scheduled early next month with the private actuaries who work on Chapter 32 plans and the investment return assumption would be discussed at that meeting. He does not anticipate anything discussed at that meeting would change his recommendation but he could provide the Commission with a summary of the discussion. It was decided that this would be discussed at the next Commission meeting.

Mr. Lamenzo stated that this may be his last presentation as he will be retiring in a few months and working on a part-time basis. He then thanked the Commission for all of its support for the Agency and the Actuarial Unit over the years.

Chairman Brown and the Commissioners thanked Mr. Lamenzo for his professionalism and expertise; they believe that Mr. Lamenzo is a very well respected Actuary in the Commonwealth of Massachusetts.

### **Legal Update**

Mr. Moitoso reported on the matter of *Thomas Kelly v. PERAC*, CR-18-0254 (DALA 2019); and Mr. Hill reported on *John Rodrigues v. PERAC*, Superior Court, C.A. No. 1384CV00556-E (January 28, 2019). Ms. Corrigan reported on *Barnstable County Retirement Board v. PERAC*, CR-16-330; *Victor Morales v. CRAB and others*, Suffolk Superior Court, C.A. No. 17-2481-D; *Essex Regional Retirement v. Swallow & others*, SJC-12458 and *State Board of Retirement v. O'Hare & others*, SJC-12511.

### **Legislative Update**

Mr. Charles reported that H. 19, the continuing education credits flexibility bill has been signed by the Governor and is now Chapter 439 of the Acts of 2018. He explained that we are in the process of developing a form and a process to be followed should the circumstances contemplated by the bill arise. He discussed the 2017-2018 Legislative Session memo that was included in the package. He expects that the Chairs of Public Service and Ways and Means will be named tomorrow, February 14, 2019.

Commissioner Dooling inquired as to whether there were any personnel updates for Mr. DeVito's former position or the General Counsel positions.

Mr. Parsons stated that Mr. Charles has been overseeing our responses to the legislature since Mr. DeVito retired. Mr. Charles has worked as legal counsel with Public Service for many years. Mr. Parsons stated that he has not posted for this position as he is not sure what the job description would be at this time. He continued that the General Counsel position has been posted and about 20 candidates have applied. He explained that currently he is concentrating on filling the General Counsel and Auditor positions.

### **Audit Update**

Ms. Shea reported that the auditors are currently auditing the Hampden County, Lawrence, and State Retirement Systems. She then reported that the audit reports for Gardner (no findings) and Reading Retirement Systems were posted on the PERAC Web Page since the last Commission meeting and then reported about the Reading Retirement System's findings. She stated that a follow-up audit was completed for the Swampscott Retirement Board over the past month and reported about the follow-up.

Ms. Shea reported that the Audit Staff will be doing a Webinar presentation regarding the Introduction of Annual Statements within the next week. Her goal is to tape this session so that it will be available to any administrators or board members to review at any time.

Ms. Shea then stated that second interviews are forthcoming regarding an auditor for the North Shore area.

## **Compliance Update**

Mr. O'Donnell reported that the SFIs and Annual Vendor Disclosures have been distributed and the responses are successfully being filed. He was also very impressed with the "Chapter 32 in a Nutshell" presentation that was held in Hingham and presented by Ms. Corrigan, Mr. Hill and Mr. Charles. Mr. O'Donnell stated that he was very proud to show how PROSPER can be seen in "real time" with those individuals in attendance. Mr. O'Donnell then requested Mr. Moitoso to update the Commission about the roll out of H. 19 and Ms. Johnson to report about the changes in the accounting staff.

Mr. Moitoso reported that H. 19, now Chapter 439 of the Acts of 2018, which permits PERAC to allow board members, for extenuating circumstances, to forgive lack of completion of credits yearly but the member must still meet the 18 education credits for their term. Currently, PERAC is working on a form to define "extenuating circumstances" and he expects it will be ready to distribute within next few months.

Ms. Johnson stated that Ms. Vicki Marcorelle, of the Investment Unit, recently retired with over 30 years of service. PERAC has hired Sarita Yee, Senior Investment Analyst. One of the first important matters that Ms. Yee will be working on with the Unit is the Annual Report. Ms. Johnson continued that this is a very busy time of year for the Investment Unit, closing out the cash books through the end of the year and submitting the appropriate information to the Communications Unit to finalize the Annual Report.

## **Executive Director's Report**

Mr. Parsons briefly reported about the staff activities since the last Commission meeting. He updated the Commission about the next quarterly educational plans. He noted that every three years MACRS has an extended conference, on Saturday and Sunday, for new Board Members and he will work with Ms. Kathleen Kiely-Becchetti preparing for this conference. Mr. Parsons reported that as of now he has attended two retirement board meetings. He feels that the reception has been good and believes that his visiting each retirement board will help with relationships down the road.

Mr. Parsons reported that the Executive Session minutes from the Commission and all minutes from the Executive Director Search Committee have been distributed as voted upon by the Commission at the January 9, 2019 Commission meeting. Also included in the package is PERAC's 2019 Annual Policy Book for informational purposes.

Mr. Parsons stated that the Conflict of Interest Law is included in the packet. The Acknowledgement must be signed every year, and every other year on-line testing must be completed. He then requested that all Commissioners provide their Acknowledgement Form and the on-line completion certificate to Ms. Boisvert for our records.

Mr. Parsons then updated the Commission about the NCPERS Legislative Conference held in Washington from January 27-29, 2019 which was attended by Commissioners Dooling, Fallon and Fitzpatrick, as well as Mr. Moitoso and himself. Mr. Parsons was particularly interested in discussions on how address future retiree health insurance costs and efforts to link pension and

health costs. Commissioner Fitzpatrick was interested in the proposal about infrastructure and floating bonds with favorable rates that can be invested by pension systems. Commissioner Dooling stated that this is the first time he attended the NCPERS Conference and found the complete conference very informative.

Commissioner Machado would like to see better returns than 1.8% for fixed income investments such as the Smart Plan and similar plans across the country.

Mr. Parsons stated that he would like to have an Audit Sub-Committee meeting to discuss the Audit Unit responsibilities and how to best utilize our resources while considering coordination with private auditors. Mr. Parsons would like to have the Audit/Fraud Sub-Committee meeting prior to the next Commission meeting and will have Ms. Boisvert check schedules.

The Chairman of the Audit/Fraud Sub-Committee is Commissioner Fallon and Commissioners Dooling and Machado are members of the Sub-Committee.

Commissioner Dooling stated that the Executive Director Search Committee (EDSC) discussed a desire to have a formal presentation to the Commission within the first 90 days of Mr. Parsons taking office.

Mr. Parsons said, with the presentation in mind, he has been meeting with each employee and has begun attending retirement board meetings as noted earlier. He is receiving valuable feedback from his meetings from all employees regarding their respective units, and from retirement board members and staff. Mr. Parsons inquired if the Commission was thinking the presentation be at a Commission meeting or off site.

It was then discussed that Mr. Parsons propose a plan for the March Commission meeting with a concrete plan for the April Commission meeting of his plan for the future of PERAC.

### **Other Business**

Chairman Brown stated that the next Commission meeting will be held on March 13, 2019 at 11:00 AM.

Commissioner Machado made a motion to adjourn the meeting. Commissioner Dooling seconded and a roll call vote was taken:

Chairman Philip Brown YES, Commissioners Timothy Dooling YES, Kate Fitzpatrick YES, James Machado YES, Robert McCarthy YES, and Jennifer Sullivan YES, and the motion was unanimously adopted. The meeting adjourned at 1:25 PM.

### **Commission Meeting Documents**

Commission Agenda for the meeting of February 13, 2019  
Commission Minutes from January 9, 2019

### **Actuarial Update**

Chart of Investment Return Assumptions of Massachusetts  
Chart of Current Investment Return Assumptions of Massachusetts  
Chart of Investment Return Assumptions National  
Commonwealth 2018 Valuation Results and 2019 Estimates  
Actuarial Update  
Amended Actuarial Update

### **Legal Update**

Cases of Interest:

*Thomas Kelly v. PERAC*, CR-18-0254 (DALA 2019); *John Rodrigues v. PERAC*, Superior Court C.A. No. 1384CV00556-E; *Barnstable County Retirement Board v. PERAC*, CR-16-330; *Victor Morales v. CRAB and others*, Suffolk Superior Court, C.A. No. 17-2481-D; and *Essex Retirement Board v. Swallow & others*, SJC-12458 along with *State Board of Retirement v. O'Hare & others*, SJC-12511

### **Legislative Update**

2018-2019 Legislative Recap  
Chapter 439 of the Acts of 2018 - Continuing Education Credits Flexibility

### **Audit Update**

Recent PERAC audits and six-month follow-up report

### **Executive Director's Report**

Staff Activities 021319

Released 2019 Executive Session Minutes

Commission Executive Session Minutes 011018

Commission Executive Session Minutes 031418

Commission Executive Session Minutes 101018

Commission Executive Session Minutes 121218

Executive Director Search Committee Minutes

Minutes 081618

Minutes 092618

Executive Session Minutes 092618

Minutes 100318

Executive Session Minutes 100318

Executive Session Minutes 101518

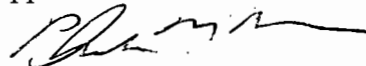
Executive Session Minutes 101718

Executive Session Minutes 103118

2019 Annual Policy Review Booklet

Conflict of Interest Acknowledgement and Law as Revised 2013

Approved:



Philip Y. Brown, Chairman  
Public Employee Retirement  
Administration Commission