

11th Annual
EMERGING
ISSUES

FORUM



OPEB:

The Costs and Challenges of Implementation

- **Kate Fitzpatrick**, Town Manager of Needham
- **Scott C. McIntire**, Melanson Heath
- **Daniel J. Rhodes**, Segal Consulting
- **Paul W. Todisco**, PRIM Board

Hogan Conference Center

College of the Holy Cross, Worcester, MA

September 17, 2015



COMMONWEALTH OF MASSACHUSETTS

Public Employee Retirement Administration Commission

Five Middlesex Avenue, Suite 304 | Somerville, MA 02145

Phone: 617-666-4446 | Fax: 617-628-4002

TTY: 617-591-8917 | Web: www.mass.gov/perac



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OPEB: The Costs and Challenges of Implementation

Kate Fitzpatrick | Town Manager, Needham
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Segal Consulting • Paul W. Todisco | PRIM Board



September 17, 2015

OPEB: The Costs & Challenges of Implementation

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OPEB: MUNICIPAL PERSPECTIVE



Kate Fitzpatrick
Needham Town Manager
September 17, 2015

What is OPEB?

OPEB – Other Post Employment Benefits – are earned during an employee’s active working career but are not paid until the employee retires.

GASB requires that these future costs are no longer accounted for on a pay-as-you-go basis, and must be recognized as they are earned or accrued.

NOTES:

Needham's Experience

2001 – Town Meeting Warrant Article - \$380,000 reallocated from a lower Retirement Assessment - was the first funding for OPEB in Needham.

2002 - Home Rule Petition and Special Legislation created OPEB Trust Fund.

2007 – The Town began funding the Annual Required Contribution (ARC) in FY2008.

2008 – Second Home Rule Petition and Special Legislation allowed greater flexibility in investments.

Needham's Experience

FY2008 Budget Planning

PAYG Retirement Projection:

\$3,000,000

ARC: \$3,500,000

Annual Contribution: \$ 380,000

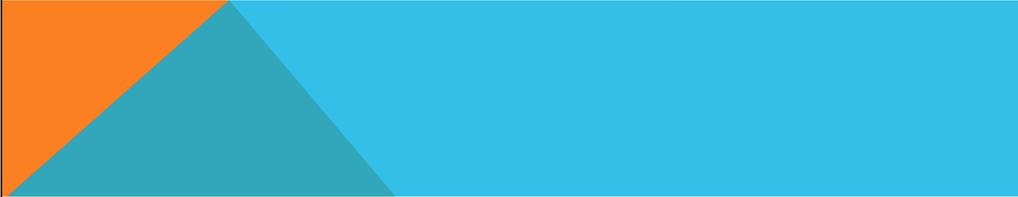
Variance: \$ 120,000

NOTES:

Needham's Experience

Transfer of Assets to PRIT

- Track record of return
- Trusted partner - relationship with Needham for 25 years
- Understanding of public sector
- No procurement required
- Professional management



Needham's Experience

Benefits to Using a Trust

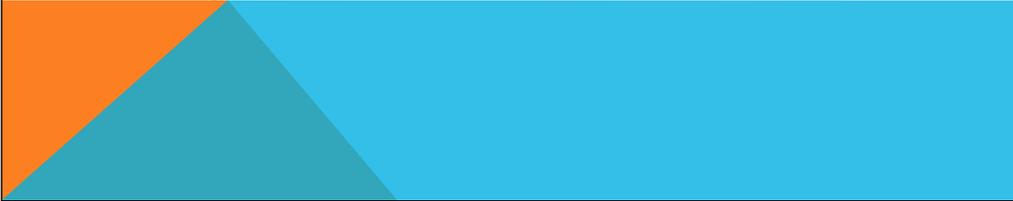
- Investment returns supplement contributions & savings remain with the fund.
- Reflects the Town's Sustainability Initiative (aligns costs with service provided).
- Provides predictability in budgeting.
- Helps maintain bond rating.



NOTES:

OPEB Funding History

FY	Beg Bal	ARC	Other Contributions	Contributions
2002			\$380,000	\$380,000
2003	380,000.00		\$380,000	\$380,000
2004	760,000.00		\$380,000	\$380,000
2005	1,170,308.78		\$880,000	\$880,000
2006	2,101,028.39		\$380,000	\$380,000
2007	2,554,063.35		\$380,000	\$380,000
2008	3,075,317.03	\$3,502,950		\$3,502,950
2009	3,936,980.44	\$3,702,211		\$3,702,211
2010	6,462,049.37	\$3,446,556		\$3,446,556
2011	9,908,605.37	\$3,626,375		\$3,626,375
2012	13,534,980.37	\$3,906,275	\$500,000	\$4,406,275
2013	17,941,255.37	\$4,523,887	\$400,000	\$4,923,887
2014	22,865,142.37	\$4,727,462	\$807,677	\$5,535,139
2015	28,400,281.37	\$4,940,198	\$360,000	\$5,300,198
2016	33,700,479.37	\$5,336,302		\$5,336,302



Needham's Funded Ratio

7/1/2009	10.2%
7/1/2011	10.9%
7/1/2013	24.9%



NOTES:

PERAC Emerging Issues Forum September 17, 2015

The Auditor's Experience
The Real Impact of GASB 74 & 75

Scott McIntire, CPA
smcintire@melansonheath.com
978-749-0005

MELANSONHEATH
ACCOUNTANTS + AUDITORS

GASB 74 & 75 EFFECTIVE DATES

GASB 74 – Plan → FY17
GASB 75 – Employers → FY18

These standards are designed to make
OPEB Accounting and Financial
Reporting consistent with the Pension
Standards in Statements 67 and 68

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NOTES:

EMPLOYER LIABILITY FOR OPEB

- Based on total OPEB liability (Past Service Cost)
- OPEB Trust?
 - If yes, recognize net OPEB (net of Plan Net Position)
 - If no, recognize total OPEB liability
- Employer's liability measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the employer's current fiscal year
 - Based on an actuarial valuation obtained at least biennially no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end

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“THE REAL IMPACT”

- Current Standard
 - Amount of ARC Not Funded increases liabilities in accrual-basis financials
 - Reduces Net Position
- New Standard
 - Amount of total OPEB Liability Not Funded is a financial statement liability
 - Further reduces Net Position

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NOTES:

“THE REAL IMPACT”

- Underlying census (enrollment) data drives calculation of total OPEB liability
- The materiality of GASB 75 numbers (liability and expense) as well as media scrutiny should encourage employers to completely review (completeness and accuracy)
- Census data will be subject to additional audit work

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WHAT DID WE LEARN FROM STATEMENTS 67 AND 68?

- Start planning early
- Consider a measurement date that is earlier than the Government’s fiscal year-end
- Census data subject to additional audit work to determine if complete and accurate
 - Focus of audit procedures is on testing incremental changes from prior valuation
 - Test work should cover entire measurement period (not limited to a specific point during measurement period)

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NOTES:

CHALLENGES OF CENSUS DATA TESTING

- Evolving guidance (June 2015)
- Significant elements of data
 - DOB
 - DOH
 - Town Department/Enterprise Fund
 - School data consolidated with Town data
- Separate auditor for a specific enterprise fund
- Employer is responsible for the fair presentation of OPEB Liability in the financial statement

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COLLABORATION



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NOTES:

PLAN AHEAD!

- Actuarial valuation or roll-forward?
- 75 Valuation Reports needed for Fiscal 2018 statements
- Start scrubbing data now for completeness and accuracy
- City/Town is responsible for fair presentation of this liability

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NOTES:



PERAC Emerging Issues Forum OPEB and GASB 74/75 – An Actuarial Perspective

September 17, 2015

Daniel J. Rhodes, FSA, FCA, MAAA
Vice President and Consulting Actuary



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Topics

- 1. **GASB 74/75 Overview**
- 2. OPEB Funding and Discount Rate



NOTES:

GASB 74/75 OPEB Statements

Objectives

- Improve accounting and financial reporting by state and local governments for OPEB
- Improve information provided by state and local government employers about financial support for OPEB that is provided by other entities
- Improve the usefulness of information about OPEB included in the general purpose external financial reports of state and local governmental plans for making decisions and assessing accountability
- Establish standards for measuring liabilities, expenses, and deferred inflow/outflow of resources
- **Does not address funding**
 - GASB took position that funding is a policy decision for government officials to determine

Many provisions required by the new GASB Statements 67 and 68 for pensions have carried over to these Statements relating to OPEB.

Net OPEB Liability Reported on Employer Financials

- Net OPEB liability (in GASB 43/45, the Unfunded Actuarial Accrued liability (UAAL))
 - OPEB liability less market value of assets (Plan Fiduciary Net Position)
- Net OPEB Liability is the Unfunded Actuarial Accrued Liability calculated using:
 - Projected future benefits
 - Includes projected future service, automatic cost-of-living adjustments, projected ad hoc benefit changes, and salary increases (if benefit connected to compensation)
 - Blended discount rate for those plans that have assets
 - Entry Age Normal, using a level percentage of pay
 - Market Value of Assets

NOTES:

Calculating OPEB Expense

Current OPEB Expense

- Based on the Annual Required Contribution (ARC)
 - Normal Cost plus
 - Amortization of the UAAL
 - Period of not greater than 30 years
 - Closed or open amortization period
 - Level dollar or level percent of payroll amortization
 - Can be based on any of six actuarial cost methods
- Annual OPEB Cost (AOC)
 - ARC plus
 - Interest on Net OPEB Obligation
 - Adjustment to the ARC

New OPEB Expense

- The change in net OPEB liability each year, with deferred recognition of certain elements
- Components of new OPEB expense
 - Service Cost
 - Interest on the total OPEB liability
 - If there are assets, projected investment returns over the year
 - Plan amendments
 - Differences between expected and actual experience (*with certain deferrals*)
 - If there are assets, differences between actual and projected earnings over the year (*5-year spread*)

GASB specifically states that the new standards are for accounting purposes only and are not for the purpose of establishing funding standards.

Additional Disclosure Requirements

- Includes both Notes and Required Supplementary Information
- Expanded employer disclosures, including:
 - Description of plan and assumptions
 - Policy for determining contributions
 - **Sensitivity analysis of the impact on the OPEB liabilities under five different scenarios**
 - Must calculate and disclose the following:
 - » Baseline scenario at assumed discount rate and healthcare cost trend rate.
 - » The assumed healthcare cost trend rate plus 1% and trend rate minus 1%
 - » The assumed discount rate plus 1% and discount rate minus 1%
 - Changes in the net OPEB liability for the past 10 years
 - Development of long-term earnings assumption (if applicable)
- If Actuarially Determined Contribution is calculated, 10 year schedule must be disclosed

NOTES:

Additional Disclosure Requirements *continued*

Note disclosures on the discount rate of return must include:

- Description of how rate was determined
- Methods and assumptions used
- Expected asset allocation
- Real rates of return for each major asset class
- Whether rates of return are arithmetic or geometric means



Impact on the Final Statements

- The faster—often immediate—recognition of OPEB changes will introduce greater volatility in the reported expense, as will the change in how the discount rate is selected
 - OPEB benefits already had a volatile nature to them, the new requirements will exacerbate the issue
 - This volatility will be reflected on the income statements of plan sponsors
- Putting the net OPEB liability on the balance sheet will add a large and unstable element to an employer's net financial position as presented in the basic financial statements
- Both the timing and the scope of the new reporting will require greater coordination between the employer, the actuary, and the auditor
 - More involvement from auditors in actuarial results?



NOTES:

Topics

1. GASB 74/75 Overview
2. **OPEB Funding and Discount Rate**



Blended Discount Rate

Under GASB 43/45

- Based on the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits
 1. Plan assets for plans for which the employer's funding policy is to contribute an amount at least equal to the ARC
 2. Assets of the employer for plans that have no plan assets
 3. A combination of the two for plans that are being partially funded
- For unfunded (pay-as-you-go) plans, use long-term rate of return on the employer's assets
 - Typically 4.0% – 4.5% for most of our clients
- For fully funded plans, use the rate of return expected from the invested assets
 - Depending on asset allocation, could be 6.5% – 8.0%
- Discount rate for a partially funded plan should be a blended rate that reflects the proportionate amounts of plan and employer assets expected to be used.

Let's look at an example...

NOTES:

Blended Discount Rate

Current Method of Calculation (GASB 45)

Assume 8.0% discount rate, and full funding of the ARC each year

Fiscal Year Ending June 30,	Projected Benefit Payments	ARC: Normal Cost + Amort. of UAAL	Additional Funding	Assets at End of Year	AAL at End of Year
2015	\$4,493,986	\$9,202,200	\$4,708,214	\$4,892,920	\$125,728,801
2016	5,100,518	9,630,666	4,530,148	9,992,221	133,621,868
2017	5,767,682	10,079,131	4,311,449	15,272,187	141,609,811
2018	6,325,428	10,548,531	4,223,103	20,882,740	149,821,771
2019	6,901,448	11,039,846	4,138,398	26,854,109	158,264,908

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Blended Discount Rate

Current Method of Calculation (GASB 45)

Assume 4.5% discount rate, and no pre-funding

Fiscal Year Ending June 30,	Projected Benefit Payments	ARC: Normal Cost + Amort. of UAAL	Additional Funding	Assets at End of Year	AAL at End of Year
2015	\$4,493,986	\$14,340,252	\$0	\$0	\$222,014,880
2016	5,100,518	15,115,454	0	0	234,509,824
2017	5,767,682	15,918,734	0	0	247,270,945
2018	6,325,428	16,749,960	0	0	260,441,369
2019	6,901,448	17,614,953	0	0	274,041,096

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NOTES:

Blended Discount Rate

Current Method of Calculation (GASB 45)

- What about funding an additional \$1,000,000 each year in an OPEB trust? How does it affect the discount rate?
- Compare present value of additional funding with present value of “full funding” requirement

Additional Funding	VS.	Additional Funding
\$4,708,214		\$1,000,000
4,530,148		1,000,000
4,311,449		1,000,000
4,223,103		1,000,000
4,138,398		1,000,000

- Looking at present value of these two cash flows, suggests an intermediate discount rate of 5.25%

Blended Discount Rate

Current Method of Calculation (GASB 45)

**Re-run valuation at 5.25% discount rate,
assuming \$1,000,000 additional funding each year.**

Fiscal Year Ending June 30,	Projected Benefit Payments	ARC: Normal Cost + Amort. of UAAL	Additional Funding	Assets at End of Year	AAL at End of Year
2015	\$4,493,986	\$12,544,380	\$1,000,000	\$1,039,230	\$193,534,849
2016	5,100,518	13,137,904	1,000,000	2,161,599	204,716,461
2017	5,767,682	13,759,588	1,000,000	3,373,758	216,113,341
2018	6,325,428	14,410,773	1,000,000	4,682,889	227,864,679
2019	6,901,448	15,092,860	1,000,000	6,096,751	239,986,751

NOTES:

Blended Discount Rate

Under GASB 74/75

- Based on projected benefits, current assets and projected assets for current members
 - Projected assets include contributions on behalf of current members and excludes contributions intended to fund service costs for future employees
- For projected benefits that are covered by projected assets
 - Discount using the long-term expected rate of return on assets
 - Should be net of investment expenses but without reduction for administrative expenses
- For projected benefits that are not covered by projected assets
 - Discount using yield or index rate for 20 year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher
 - Likely to be 3.5% - 4.0%, based on current indexes
- Solve for a single rate that gives the same total present value
 - Use that single equivalent rate to calculate the OPEB liability

For plans with assets, the derivation of the discount rate will require significant additional calculations by the actuary.

Blended Discount Rate

Discount Rate for "Unfunded" Benefits

Bond Buyer 20-Bond GO Index*

Date	Index	Date	Index
12/31/2014	3.56%	04/23/2015	3.52%
01/08/2015	3.42%	04/30/2015	3.62%
01/15/2015	3.29%	05/07/2015	3.74%
01/22/2015	3.36%	05/14/2015	3.74%
01/29/2015	3.36%	05/21/2015	3.81%
02/05/2015	3.49%	05/28/2015	3.73%
02/12/2015	3.60%	06/04/2015	3.81%
02/19/2015	3.62%	06/11/2015	3.87%
02/26/2015	3.62%	06/18/2015	3.79%
03/05/2015	3.68%	06/25/2015	3.80%
03/12/2015	3.62%	07/09/2015	3.76%
03/19/2015	3.52%	07/16/2015	3.82%
03/26/2015	3.52%	07/23/2015	3.75%
04/02/2015	3.49%	07/30/2015	3.75%
04/09/2015	3.49%	08/06/2015	3.75%
04/16/2015	3.45%	08/13/2015	3.69%

- Using index introduces discount rate volatility
 - Similar to FASB accounting rules
 - Will likely require updated disclosure calculations using index rate at fiscal year-end, even in non-valuation year

*http://www.bondbuyer.com/marketstatistics/search_bbi.html?details=true

NOTES:

Blended Discount Rate

Projecting Contributions and Determining Rate

How are contributions projected in determining the discount rate?

- Is one of the following true?
 - Contributions are subject to statutory or contractual requirements, or
 - A **formal, written** policy related to contributions exists
- If so, then use professional judgment to project contributions
 - Consider the employer's 5 year history as indicator for future contributions
 - Reflect all known events and conditions
- If neither is true, projected contributions are based on average contributions for the past 5 years
 - For example, average can be percentage of pay or percentage of actuarially determined contribution made
 - Matter of professional judgment
 - Potentially modified for subsequent events

Municipal employers without a formal OPEB funding policy may want to adopt one prior to GASB 75 implementation.

Questions



NOTES:



Presentation to the
PERAC Emerging Issues Forum
PRIT/State Retiree Benefits Trust Fund
September 17, 2015

Presented by
Paul W. Todisco, Senior Client Services Officer, PRIM Board



Agenda

- What is the State Retiree Benefits Trust Fund?
- Who can invest in the fund?
- What are the benefits to investing in the SRBTF?
- What has been the experience of cities and towns that have invested?



NOTES:

What is the State Retiree Benefits Trust Fund (SRBTF)?

- **1999** - MGL Chapter 29D enacted and signed into law as part of the FY 2000 GAA (section 43 of Chapter 127 of the Acts of 1999), creating the Health Care Security Trust ("HCST"), into which the Master Settlement annual payments are to be deposited, and also creating the HCST Board of Trustees, a 7-member Board charged with the supervision and management of the HCST and the MSA funds therein. Significant features of Chapter 29D include: 7-member Board appointed by Governor (5), Treasurer (1) and AG (1); 70/30 % schedule of saving/spending ratio established for annual MSA payments to be received in subsequent fiscal years, with the 30% for spending to be "for health related and tobacco control purposes".
- **2004** - The GASB (Governmental Accounting Standards Board) issues Standards 43 and 45, requiring all (non-federal) government employers to take steps to define and disclose actuarial liability for retirees' non-pension post-employment benefits (aka "Other Post-Employment Benefits" or "OPEB"), and to determine the actuarial liability for those OPEB benefits.
- **2007** - **The State Retiree Benefits Trust Fund (SRBTF) is legislatively created to address and administer OPEB state retiree benefits; composition of the SRBTF Board is "PRIM plus 2", i.e., the existing PRIM Board members plus A&G and GIC (Section 8 of Chapter 61 of the Acts of 2007 states: " There shall be set up on the books of the commonwealth a fund to be known as the State Retiree Benefits Trust Fund ... The pension reserves investment management board ... shall be the trustee of and shall administer the fund. For the purposes of this section the secretary of the executive office of administration and finance, or his designee, and the executive director of the group insurance commission ... shall be members of the [PRIM] board ... The purpose of said [SRBTF] fund shall be for depositing, investing and disbursing amounts set aside solely to meet liabilities of the state employees' retirement system for health care and other non-pension benefits for retired members of the system ..."). The legislation also abolished the HCST.**
- **2007** - Special Commission is legislatively established to study and report on numerous issues associated with GASB 43 and 45 and OPEB liability -- said Special Commission issues its report in 2008, and many of its recommendations are subsequently filed as legislative proposals, and some subsequently enacted and signed into law.
- **2008** - "Interim" outside section is enacted and signed into law stating that the HCST shall manage the SRBTF while the legislature considers the recommendations of the special OPEB study commission (See section 12 of Chapter 235 of the Acts of 2008: " ... in order to minimize investment fees and maximize returns through continuity of investment management of the [SRBTF] ... while the general court considers the recommendations of the [special] commission ... investments of the trust shall be held and managed by the [HCST] board of trustees ... until legislation is enacted confirming management of the [SRBTF]").
- **2009** - Interim status of HCST management of SRBTF becomes permanent, and HCST Board is reconfigured.



**PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD**

NOTES:

Mass General Laws Ch. 32B, Sec. 20 and Ch.32A, Sec.24

- Section 20 of Chapter 32 B provides a Road-Map for entities to establish an OPEB trust without a special act and without a funding schedule requirement:
 - Government entities setting up an OPEB Trust should adopt Section 20
 - Identifies SRBTF and entity treasurer as options for custodian (not retirement systems)
 - Provides “turn-key” option to invest in SRBTF by appointing the SRBTF Board as custodian
 - If the treasurer is custodian, Section 24 of Chapter 32A allows investment in SRBTF
 - SRBTF Board Approval required in either case
- Section 24 of Chapter 32A (as amended) provides entities who already have an OPEB Trust fund with the ability to invest in the SRBTF
 - Must have appropriate investment authority
 - Retirement systems are grandfathered
 - SRBTF Board Approval required
- Section 7 of Chapter 36 of the Acts of 2013 amended Mass. Gen. Laws c.32A, s. 24 and now requires the SRBTFT board of trustees to invest the SRBTF assets in the PRIT Fund.**
- Several outside sections of Chapter 165 of the Acts of 2014, the FY2015 state budget, repealed Mass. Gen. Laws c.29D, thereby abolishing the HCST and the HCST Board, and re-branding the HCST Board as the SRBTF Board. The former provisions of Mass. Gen. Laws c.29D, are now consolidated under Mass. Gen. Laws c.32A, s. 24.**



PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD



NOTES:

Who can invest in the SRBTF? Who manages the SRBTF?

- Chapter 68 of the Acts of 2011, the FY 2012 state budget, was signed into law in July 2011. Sections 50 and 57 of Chapter 68 amend **Section 24 of Chapter 32A** and **Section 20 of Chapter 32B**, respectively, of the General Laws allowing municipalities, authorities, and certain other government entities of the Commonwealth to establish a liability trust fund for funding retiree benefits (other than pension), also known as Other Post-Employment Benefits (OPEB). The legislation also ensures that these entities have access to the state's investment trust, the State Retiree Benefits Trust Fund (SRBTF), for purposes of investing OPEB funds. Further, Section 20 of Chapter 32B, as amended, designates the entities eligible to serve as custodian of such funds: 1) a designee appointed by the board of a municipal lighting plant, 2) the treasurer of any governmental unit, or 3) the SRBTF Board of Trustees, which oversees the SRBTF.
- The seven-member State Retiree Benefits Trust Fund (SRBTF) Board, established by Section 24 of Chapter 32A of the Massachusetts General Laws, is responsible for the administration and investment management of the SRBTF. The SRBTF Board is comprised of the Secretary of Administration & Finance or a designee, the Executive Director of the Group Insurance Commission or a designee, the Executive Director of the Public Employee Administration Commission (PERAC) or a designee, the State Treasurer or a designee, the Comptroller or a designee, an appointee of the Governor, and an appointee of the State Treasurer (both appointed members are required to have investment, financial management, legal, or public management experience).
- In August 2011, the SRBTF Board (formerly the Health Care Security Trust (HCST) Board), voted to assign full investment management of the SRBTF assets to the nine-member Pension Reserves Investment Management (PRIM) Board, which manages the approximately \$60 billion Pension Reserves Investment Trust (PRIT) Fund, the state pension fund. PRIM and PRIT were established in 1983 to address the Commonwealth's unfunded pension liabilities.

NOTES:



PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD



Composition of the State Retiree Benefits Trust Fund Board

- ❑ State Treasurer, or designee
Nicola Favorito, Esq. Chair, Deputy State Treasurer,
Executive Director, State Retirement Board
- ❑ State Comptroller, or designee
Thomas G. Shack III, Esq., State Comptroller
- ❑ Secretary of Administration & Finance, or designee
Lauren Peters, Director of Health Care Policy & Legislative
Affairs, Executive Office for Administration and Finance
- ❑ Treasurer's appointee
Michael Tow, President & Founder, New Boston Financial
- ❑ Governor's appointee
Terrence Finn, Edwards Angell Palmer & Dodge LLP
- ❑ Executive Director, Group Insurance Commission,
or designee
Dolores L. Mitchell, Executive Director, GIC
- ❑ Executive Director, Public Employee Retirement
Administration Commission, or designee
Joseph E. Connarton, Executive Director, PERAC

Five of the seven Trustees are Ex Officio Members. The two appointed Trustees serve five-year terms.



PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD



NOTES:

Application of Legislation

SRBTF Board Approval Requirements

- Evidence of authorization
- Acknowledgement of investment risk, understanding of agreements
- Acknowledgement of fiduciary obligation (Custodial designee)
- Indication of commitment to fund



State OPEB Reporting Requirements

MGL 32B:20 (d)

- (Entities) shall annually submit to the Public Employee Retirement Administration Commission (PERAC) on or before December 31, a summary of its OPEB cost and obligations and all related information required under GASB 45, covering the last fiscal or calendar year for which this information is available.
- On or before June 30 of the following year, PERAC shall notify any entity submitting this summary of any concerns that the commission may have or any areas in which the summary does not conform to the requirements of GASB 45 or other standards that the commission may establish.
- PERAC shall file a summary report of the information received under this subsection with the chairs of the house and senate committees on ways and means, the secretary of administration and finance and the board of trustees of the Health Care Security Trust.



NOTES:

Downloadable Documents Posted to SRBTF Web Page

- <http://www.mass.gov/srbtf/>
- Frequently Asked Questions (FAQ).
- Custodian and Investment Agreement, Exhibits, and Opinion of Counsel.
 - Exhibit A – Sample language of resolution/vote of a government entity authorizing the HCST to invest such government entity's OPEB liability funds. Vote must be certified.
 - Exhibit B – Investment Services Agreement (ISA) between HCST and PRIM.
 - Exhibit C – PRIM Operating Trust Agreement.
 - Exhibit D - HCST and PRIM Administrative Services Agreement.
 - Exhibit E – HCST Policies and Procedures.
 - Sample of boilerplate language for government entity's Opinion of Counsel letter, i.e., what should be included in the letter.
- Draft of Certificate of the Clerk of City/Town. May be customized for type of entity (e.g., an authority, county, district, light department).
- Checklists for government entities investing in SRBTF under Chapter 32B, §20, under Chapter 32A, §24, or under Special Legislation.



**PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD**



NOTES:

Governmental Entities Participating in the SRBTF

- | | |
|---|---|
| <ol style="list-style-type: none"> 1. Town of Acton 2. Town of Amherst 3. Town of Ayer 4. Town of Bedford 5. BiCounty Educational Collaborative, Franklin, MA 6. Town of Blackstone (approved 8/6/2015) 7. Town of Boxford 8. Town of Brewster 9. Town of Brookline 10. Town of Burlington 11. Town of Chelmsford 12. Concord Area Special Education (CASE) Collaborative 13. Town of Cohasset 14. Town of Franklin (approved 8/6/2015) 15. Town of Harvard 16. Town of Hingham 17. Town of Holliston 18. Town of Ipswich 19. Town of Lancaster 20. Town of Lenox 21. City of Leominster 22. Town of Lincoln (approved 8/6/2015) 23. Lowell Regional Transit Authority (LRTA) 24. Town of Manchester-By-The-Sea | <ol style="list-style-type: none"> 25. Town of Marblehead 26. Massachusetts School Building Authority 27. Mass State Retirees 28. Town of Middleton 29. Town of Needham 30. City of Newburyport 31. City of Newton 32. Town of Northborough 33. Town of Orleans 34. Pilgrim Area Collaborative (PAC), Pembroke, MA 35. Town of Provincetown 36. Shawsheen Valley Technical High School, Billerica, MA 37. Town of Sherborn (approved 8/6/2015) 38. Town of Stockbridge 39. Town of Tewksbury 40. Town of Wakefield 41. Wakefield Municipal Gas & Light Department 42. Town of Wellesley 43. Town of Westwood |
|---|---|

Participant assets, excluding Mass State Retirees, were \$151.5 million as of June 30, 2015.

Total SRBTF assets were \$852.1 million as of June 30, 2015.



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NOTES:

What are the benefits to Investing in the SRBTF?

- ❑ Municipalities' OPEB liability trust funds are invested the same way the Massachusetts Retirement System's assets are managed.
 - The PRIT Fund's General Allocation Account, aka PRIT Core, which holds ALL of PRIT's investments.
- ❑ Diversification, diversification, diversification!
 - Lowers overall portfolio risk.
 - Municipalities' OPEB liability trust funds gain access to PRIT's alternative investments, which are unavailable to smaller investors due to cost and minimum investment requirements (i.e., Private Equity, Direct Hedge Funds, Timber, Private real Estate, Private Debt).
- ❑ Municipalities' OPEB assets are managed at a very low cost due to economies of scale.
 - Fifty-five basis points, based on PRIT's most recent audit. This includes ALL expenses incurred by PRIM and PRIT.
- ❑ Municipalities receive a concise monthly capital account statement from PRIM identical to the one the Participating and Purchasing Retirement Systems receives each month.
- ❑ Proven long-term investment performance track record.
 - Since inception (1/31/1985), the average annual return of the PRIT Fund was 9.57% as of June 30, 2015.
- ❑ Municipalities, SRBTF, and PRIM's interests are totally aligned.
 - There are no financial incentives for PRIM staff to "accumulate assets", as is the case for most private investment and consulting firms.
- ❑ Municipalities have a responsive and dedicated client services team at PRIM representing their needs.



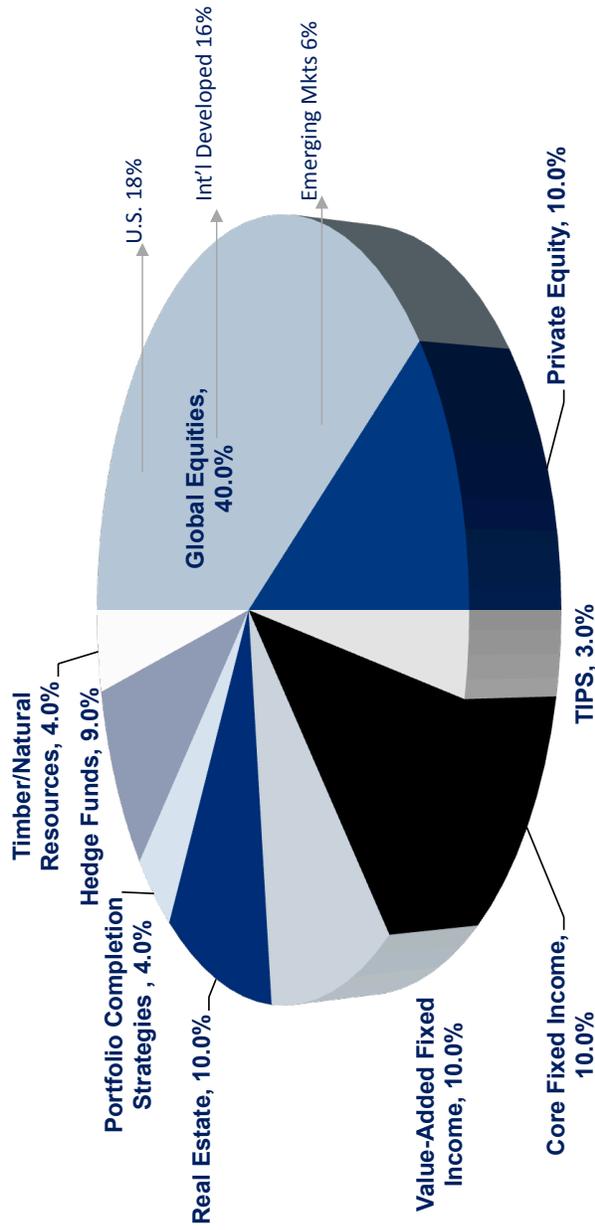
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NOTES:

PRIT Core Fund Asset Allocation Targets

Adopted by the PRIM Board on February 11, 2015



5-7 Year Expected Return	6.8%
30-Year Expected Return	7.9%
Risk (Standard Deviation)	12.5%
Sharpe Ratio	0.41

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NOTES:

How Are Fees Allocated to SRBTF Participants?

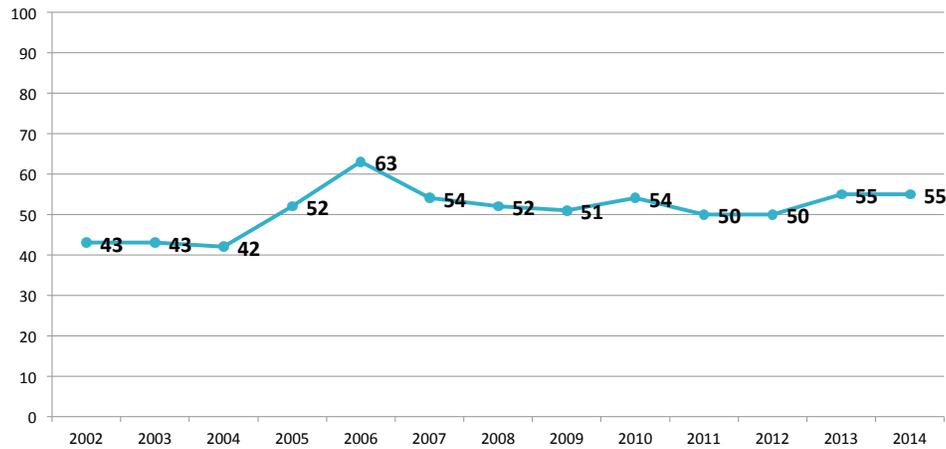
The pro rata share of fees is approximately 55 basis points, which is PRIM's management fee expense and is the combination of the following:

- Direct investment management fees paid to third party managers, paid by PRIM check or wire.
- Consultant and advisory fees paid to third party consultants and advisors, paid by PRIM check or wire.
- Costs for maintaining and operating PRIM's offices, paid by PRIM check or wire.
- Indirect investment management fees which are charged against investments by commingled funds and private investment managers (private equity, real estate, Hedge funds, etc.).

Each month-end, a participant in the PRIT Fund or SRBTF is allocated a share of these costs according to the percentage of the PRIT Fund/SRBTF that the participant owns. For example, if a participant owns *one-fifth-of-one-percent* of the PRIT Fund/SRBTF, the management fee shown on the monthly capital account statement will reflect *one-fifth-of-one-percent* of PRIM's monthly costs. In addition to PRIM fees, there is the shared cost among SRBTF participants in funding the operations of the SRBTF Board (the entity that oversees the SRBTF), which equates to less than one basis point. Again, such fee is allocated on a pro rata basis, with the state paying the largest share of that fee, as it is the largest participant in the SRBTF, with assets over \$600 million.



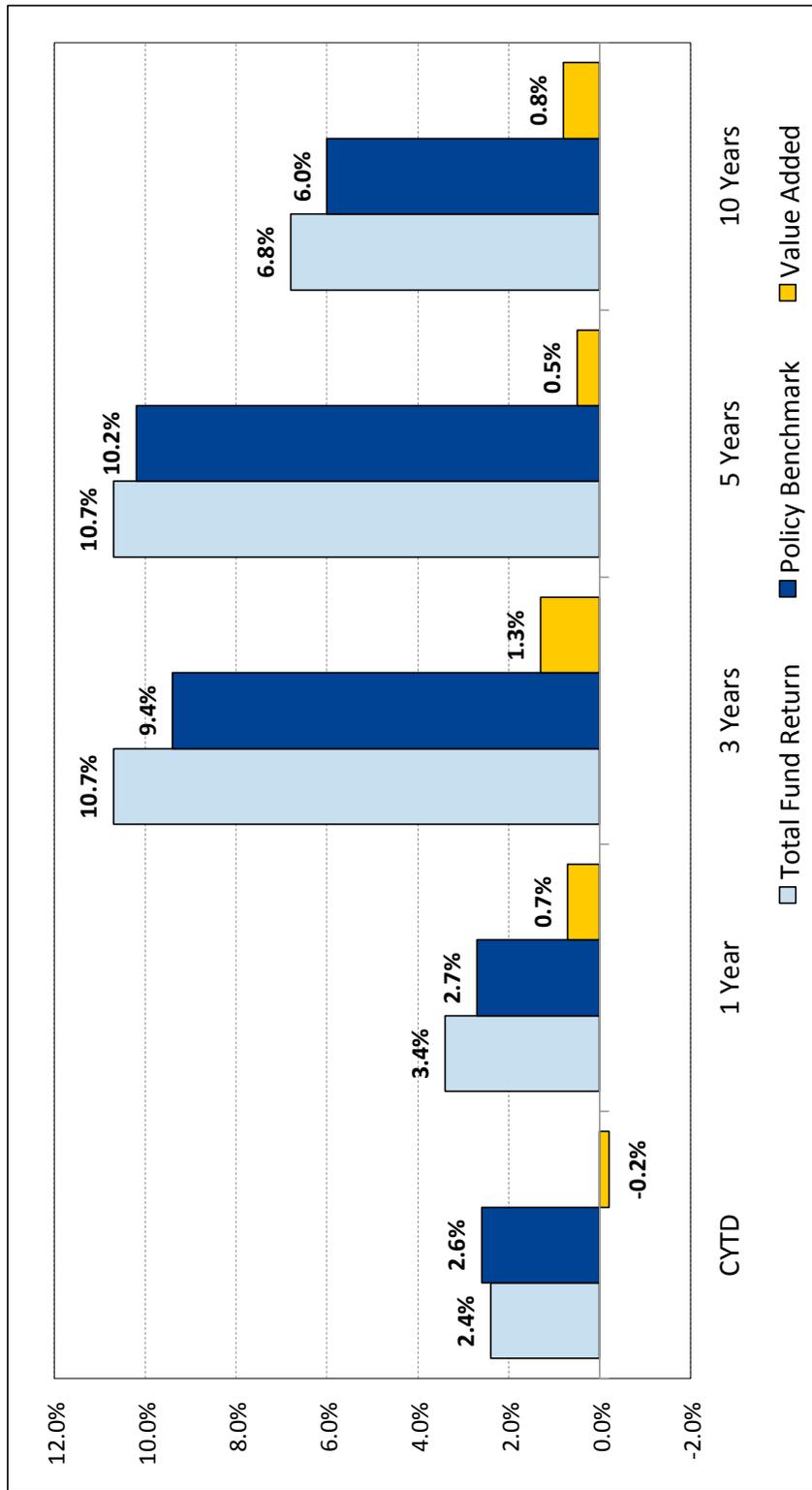
PRIT Fund Ratio of Expenses in Basis Points



NOTES:

What has been the experience of cities and towns?

SRBTF Calendar Year-to-Date and Annualized Returns as of June 30, 2015, NET of fees.



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NOTES:

State Retiree Benefits Trust Fund
NET of Fees Rates of Return
For Periods Ending June 30, 2015

	NAV \$(M)	Actual Allocation %	Month	QTD	FY '15	Calendar YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
GENERAL ALLOCATION*	849,883	100.0%	-0.98	-0.19	3.42	2.40	3.42	10.81			11.18
CLOSED PORTFOLIOS	11	0.0%									
CASH	(10)	0.0%									
TOTAL	849,885	100%	-0.98	-0.19	3.38	2.38	3.38	10.72	10.74	6.79	7.16
PARTICIPANTS CASH	2,228		0.01	0.04	0.12	0.06					
TOTAL FUND**	852,113	100%	-0.98	-0.19	3.36	2.37	3.36	10.71	10.73	6.79	7.15
POLICY BENCHMARK			-1.37	-0.34	2.74	2.57	2.74	9.40	10.20	6.04	6.59
ACTUAL ALLOCATION BENCHMARK			-0.92	-0.04	3.22	2.94	3.22	10.35	10.64	6.65	7.04

* The inception date for the SRBTF's investment in the PRIT Fund General Allocation Account (PRIT GA) was 10/31/2011, when 82% of the fund was transitioned from separate accounts to PRIT GA. The remaining 18% of separate account assets were transitioned over the following 14 months with 100% of assets invested in PRIT GA by 12/31/2012. This ITD value reflects the inception-to-date return for PRIT GA assets only.

** The inception date for the TOTAL FUND was 11/30/2001. This ITD value reflects the true inception-to-date return for all SRBTF assets including legacy separate account investments as well as the PRIT GA investments.

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NOTES:

EMERGING
ISSUES



FORUM AGENDA

September 17, 2015



8:15	REGISTRATION DESK OPENS
9:00-9:15	Opening Remarks <ul style="list-style-type: none">• Joseph E. Connarton Executive Director PERAC
9:15-10:00	Alignment of Principles From Trustee to Manager <ul style="list-style-type: none">• Glenn Doggett, CFA Institute
10:00-10:45	Sustainable Investing: Investing for the Greater Good <ul style="list-style-type: none">• Evan A. Tylenda, Sustainability Accounting Standards Board (SASB)
10:45-11:00	BREAK
11:00-12:30	OPEB: The Costs & Challenges of Implementation <ul style="list-style-type: none">> Municipal Perspective<ul style="list-style-type: none">• Kate Fitzpatrick, Town Manager of Needham — What towns are doing: Needham's experience funding the ARC> The Auditor's Experience<ul style="list-style-type: none">• Scott C. McIntire, Melanson Heath — The real impact of GASB 74 & 75> An Actuarial Perspective<ul style="list-style-type: none">• Daniel J. Rhodes, Segal Consulting — How working with the actuary can help municipalities make progress toward funding OPEB?> PRIT/State Retiree Benefits Trust<ul style="list-style-type: none">• Paul W. Todisco, PRIM Board — What is it? Who can invest? What are the benefits to investing? What has been the experience of cities and towns that have invested?
12:30	Keynote Speaker <ul style="list-style-type: none">• The Honorable Deborah B. Goldberg, Treasurer, Commonwealth of MA
12:45-1:15	BUFFET LUNCH
1:15-2:30	Media/Crisis Relations - How to React & Respond! <ul style="list-style-type: none">> Panelists:<ul style="list-style-type: none">• Joe Shortsleeve, Liberty Square Group• Ashley McCown, Solomon McCown & Co.
2:30-3:00	PERAC Website Preview <ul style="list-style-type: none">• Natacha Dunker Communications Director PERAC
3:00	FORUM ENDS

