

**Commission Meeting Minutes
February 8, 2017**

Chairman Brown called the meeting (held at PERAC Office, 5 Middlesex Avenue, Somerville, Massachusetts) to order at 11:25 AM. He then acknowledged the other Commissioners present: Commissioners Timothy Dooling, Kate Fitzpatrick, and Jennifer Sullivan. Commissioner James Machado participated remotely due to illness and Commissioner Robert McCarthy and Commissioner Kathy Fallon participated remotely due to their current location per the Attorney General's Open Meeting Law 940 CMR 29.10.

Chairman Brown announced that the Commission meeting is being tape recorded and will be so noted in the minutes. He stated that all votes will be by roll call vote due to remote participation.

PERAC Staff Present: Deputy Executive Director Joseph Martin, General Counsel and Deputy Director John Parsons, Deputy General Counsel and Managing Attorney Judith Corrigan, Actuary James Lamenza, Director of Information Systems Daniel Boyle, Director of Strategic Planning Mike DeVito, Chief Auditor Caryn Shea, Compliance Officer Tom O'Donnell, Compliance Counsel Derek Moitoso, Compliance Analyst Cheryl Johnson, Senior Associate General Counsel Ken Hill, Associate General Counsel Patrick Charles, Director of Administration Caroline Carcia, and Senior Executive Assistant Kim Boisvert.

Ms. Boisvert announced the following guests in attendance: Erika Glaster and Sean Neilon representing the Massachusetts Teachers' Retirement System, Nick Favorito representing the State Retirement System, Reynolds Graves representing Rasky Partners, and Sandy Maloney, Doug Feldman and Rob Roberts representing Collaborative / CGI.

Ms. Boisvert requested that all Commissioners fill out the Acknowledgement form for receipt of the Conflict of Interest Law. She also requested all Commissioners take the on-line test in accordance with statutory requirements and forward them to her when completed.

Chairman Brown stated that Commissioner McCarthy sent an e-mail regarding a revision to the January 11, 2017 Commission minutes.

At the January 11, 2017 meeting, Commissioner McCarthy made a motion to increase the Executive Director's salary by 2%, which was seconded and discussed. Although he later withdrew his motion, he believes his motion should be in the minutes.

Commissioner Dooling made a motion to adopt the January 11, 2017 Commission meeting minutes as amended. Commissioner Fitzpatrick seconded the motion. A roll call vote was taken as follows:

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 motion was adopted.

Actuarial Update

Mr. Lamenzo distributed his notes, the proposed Commonwealth funding schedule, and the most recent NEPC *Asset Liability Study* dated January 2017. He discussed 5 items of interest including the funding schedule, the PRIT's 2016 return, the *Asset Liability Study*, the investment return and mortality assumptions for 2017, and the State and Teachers' valuation.

Mr. Lamenzo discussed ANF's proposed Commonwealth funding schedule. The schedule increases 8.94% per year to FY36. He stated that even though the proposed schedule was slightly less than he recommended, the schedule maintains the current schedule's FY36 completion date of the amortization of the unfunded liability.

Mr. Lamenzo reported that PRIT's gross 2016 return was 8.02%. The net return is almost exactly the 7.50% assumption.

Mr. Lamenzo then discussed the recently completed NEPC *Asset Liability Study* for PRIT. The report has the same results as last year (30 year average expected return of 7.8%, 5-7 year average expected return of 6.8%). He noted that the NEPC results show PRIT's average expected return is significantly greater than a universe of 73 public plans with more than \$1B in assets, due to the investment allocation. However, he noted that the majority of these plans have assets of \$1B to \$5B so they are, generally, not the largest plans.

Mr. Lamenzo outlined a case to maintain the 7.50% investment return assumption used in the 1/1/16 valuation (no change in NEPC projections, the assumptions have been reduced 3 times in 4 years, and the average assumption for 130 large public plans in the most recent study was 7.46%). He also outlined a case for reducing the assumption (more reliance on short term expectation, he expects the 7.46% average has decreased since the last study, 7.5% may soon be seen as an outlier - for example CALPERS and CALSTERS announcements of moving to 7.0% over two or three years). In any case he expects if the 7.5% assumption is maintained, he would show results at a slightly lower assumption for comparison.

Mr. Lamenzo inquired if the Commissioners had any thoughts about changing the investment return assumptions. There was some discussion and the consensus was to take a wait and see approach for the next year.

Finally, Mr. Lamenzo finally reported that he is currently in the process of conducting the State and Teachers 1/1/17 valuation.

PROSPER Update

Mr. Boyle stated that Collaborative Consulting has just been purchased by CGI but still includes the team members who are creating the PROSPER system. He then introduced Rob Roberts, Sandy Maloney, and Doug Feldman all part of the PROSPER team.

Mr. Roberts reviewed the project overview and roll out plan, the progress with the future blueprint and sprints, and security which has surpassed the Global, US and Government Systems

Standards. The goal is for PERAC to move away from paper with electronic signatures and a self-service capability for boards, members, and vendors. PERAC's next steps include internal staff training along with board and vendor training, and website updates. Mr. Roberts stated that all components of the system should be live by November 2017.

Mr. Boyle stated that PERAC has hired a security testing company to try to hack into PROSPER although he believes they will be unsuccessful due to the level of security as implemented. The future protocol will be that the users change their password every 60 days.

Chairman Brown inquired how this program compares to other state agencies.

Mr. Boyle stated that MassIT is interested in reviewing documentation that could be used as an example for other agencies and other agencies are interested in what we are doing from a hosting and security approach.

Commissioners McCarthy and Dooling inquired about updating the communications for the Commission meetings with individual I-pads.

Mr. Boyle stated that this would be available once the current platform is completed.

Commissioner Fallon inquired about additional assistance from a help desk during the roll over.

Mr. Boyle stated that there would be 3 individuals to assist with the help desk as the program begins.

Legal Update

Mr. Parsons updated the Commission about the January 24, 2017 meeting which included all the interested parties regarding the Exclusive Benefit Rule ("EBR"). He stated that proposed legislation will be filed that will address the funding mechanism for PERAC in the Commonwealth's annual pension appropriation and the Commission will retain its independent approval process of its budget. The Administration will file legislation in House 1 relative to service credit reimbursements, and 3(8)(c) payments which will continue to be applied to the General Fund. He also reported that discussions also took place relative to future statutory and funding changes relative to the current financing of the Optional Retirement Program ("ORP") and the funding of certain local COLAs. Mr. Parsons stated that after the above actions are completed, the Administration will work to obtain a settlement agreement from the IRS.

Commissioner Sullivan said she expects that all legislation will be filed within a few weeks.

Mr. Hill updated the Commission about *Kelleher v. Barnstable County Retirement Board and PERAC*, CR-10-794.

Legislative Update

Mr. DeVito reported that he is unsure of who will be named to chair Legislative Committees, e.g. the Joint Committee on Public Service, but he will update the Commission when the assignments are made. He also reported that a meeting has been scheduled for February 16, 2017 with Senator Richard Ross to discuss four bills he has filed that would diminish some requirements of Chapter 176 of the Acts of 2011.

Audit Update

Ms. Shea reported that the audit staff is currently auditing the Concord, Fairhaven, Norfolk County, and North Adams Retirement Systems. She is awaiting comments from four retirement systems prior to posting on the web. She further stated that the Barnstable County and Braintree Retirement Systems audits were posted on the PERAC Web Page since the last Commission meeting and she briefly reported on the findings. Ms. Shea then reported that PERAC has not completed any six-month follow up reports since the last Commission meeting.

Compliance Update

Mr. O'Donnell stated that the Statement of Financial Interest ("SFIs") have been distributed and are due by March 1 and that the first educational session of the new quarter has been rescheduled due to a snow emergency.

Executive Director's Report

Mr. Martin reported on the monthly staff activities and made note that Chapter 133 of the Acts of 2016, the Special Pension Forfeiture Commission will be meeting on Tuesday, February 14, 2017 at 10:30 AM here at PERAC if anyone is interested in attending.

Mr. Martin recommended opening the Commission's Executive Session minutes dated April 13, 2016 regarding a modification hearing; June 29, 2016 regarding the selection of Kutak Rock; August 10, 2016 regarding the removal of those board members who did not file their SFIs; and October 19, 2016 regarding the Exclusive Benefit Rule (EBR) recommendation from Kutak Rock. These matters have been resolved or have been made public, so there is no reason to maintain Executive Session status.

Commissioner Dooling made a motion to accept the staff recommendation and open the Executive Session minutes dated April 13, June 29, August 10, and October 19, 2016. Commissioner Sullivan seconded the motion. A roll call vote was taken as follows:

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 motion was adopted.

Commission Travel

Mr. Martin notified the Commission about the upcoming 2017 NCPERS Annual Conference and Exhibition being held from May 20 - 24, 2017 in Hollywood, FL should there be any interest in attending.

Commissioner McCarthy made a motion to grant permission for any Commissioners and staff to attend the above conference. Commissioner Fitzpatrick seconded the motion and a roll call vote was taken as follows:

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 motion was adopted.

Other Business

Chairman Brown stated that the next Commission meeting is scheduled for March 8, 2017.

Commissioner Dooling made a motion to adjourn. Commissioner Sullivan seconded the motion. A roll call vote was taken as follows:

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 motion was adopted and the meeting adjourned at 12:30 PM.

Commission Meeting Documents

Commission Agenda for the meeting of February 8, 2017

Commission Minutes for January 11, 2017

PROSPER Update

Memo to Commission regarding PROSPER Update

PowerPoint presentation regarding PROSPER Update

Legal Update

Memo to Commission regarding an update regarding the Exclusive Benefit Rule issue
Memo and Case regarding *Kelleher v. Barnstable Cty Ret Bd and PERAC*, CR-10-794

Legislative Update

Monthly Legislative Agenda and bullet points outlining legislation

Audit Update

Recent PERAC Audit and follow up reports

Executive Director's Report

Updated Staff Activities Memo
Executive Session Minutes Notification
Memo regarding the Center for Retirement Research of Boston College Publication
Conflict of Interest Law and Acknowledgement receipt

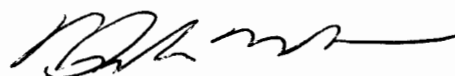
Commission Travel

Agenda for the 2017 NCPERS Annual Conference and Exhibition

Documents Distributed at Meeting

Actuarial notes for Commission meeting
Commonwealth Retirement System Funding Schedule
NEPC, LLC *Asset Liability Study* for the PRIM Board Meeting dated January 2017

Approved:



Philip Y. Brown, Chairman
Public Employee Retirement
Administration Commission