

Commission Meeting Minutes
April 12, 2017

Chairman Brown called the meeting (held at the PERAC Office, 5 Middlesex Avenue, Somerville, Massachusetts) to order at 11:05 AM. He then acknowledged the other Commissioners present: Commissioners Timothy Dooling, Kathy Fallon, and Kate Fitzpatrick. Commissioner James Machado participated remotely due to illness per the Attorney General's Open Meeting Law 940 CMR 29.10. Commissioners Robert McCarthy and Jennifer Sullivan were not in attendance.

Chairman Brown announced that the Commission meeting is being tape recorded and this 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: Executive Director Joseph Connarton, Deputy Executive Director Joseph Martin, General Counsel and Deputy Director John Parsons, Deputy General Counsel and Managing Attorney Judith Corrigan, Actuary James Lamenzo, Director of Strategic Planning Mike DeVito, Chief Auditor Caryn Shea, Compliance Officer Tom O'Donnell, Compliance Counsel Derek Moitoso, Senior Associate General Counsel Ken Hill, Associate General Counsel Patrick Charles, Director of Administrative Services Caroline Carcia, Senior Actuarial Analyst Kaitlyn Doucette, and Senior Executive Assistant Kim Boisvert.

Ms. Boisvert announced the following guests in attendance: Nick Favorito representing the State Retirement Board, Sean Neilon representing Massachusetts Teachers' Retirement System, Thomas Gibson representing Middlesex and Belmont Retirement Systems, Patrick Brock representing the Hampshire County Retirement System, Paul Shanley representing Amity Insurance, Kimberly Fletcher representing the Newton Retirement Board, and Frank Valeri representing the Massachusetts Retirees Association.

Commissioner Dooling made a motion to adopt the March 8, 2017 Commission meeting minutes. Commissioner Machado 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 and the motion was adopted.

Legal Update

Mr. Parsons reported on *State Board of Retirement v. Thomas Finneran & Others*. The SJC stated that the "touchstone of the constitutional inquiry under the Excessive Fines Clause is the principle of proportionality: The amount of the forfeiture must bear some relationship to the gravity of the offense that it is designed to punish". Mr. Parsons stated that PERAC's concern is that those with smaller pensions would be inequitably harmed by the *Bettencourt* analysis. He further explained the differences between of the cases of *Bettencourt* and *Finneran*.

Ms. Corrigan updated the Commission about the *Stoneham Retirement Board v. PERAC* case. This involves the "year for a day" rule which was eliminated by Chapter 21 of the Acts of 2009.

Mr. Charles reported on *Richard Corcoran v. Worcester Regional Retirement Board & Middlesex County Retirement Board & PERAC* and noted that Worcester Regional Retirement Board will be appealing this case.

Legislative Update

Mr. DeVito reported that several PERAC staff members have met with Representative Parisella, House Chair of the Joint Committee on Public Service, and his staff. We will be meeting again to go into further detail regarding PERAC's duties and responsibilities. He then reported that the Governor has signed Chapter 5 of the Acts of 2017 Supplementary Budget which includes items regarding Exclusive Benefit Rule and other pension-related matters and that the Executive Director would be reporting on that Act. Mr. DeVito reported that PERAC's bills were heard on April 11, 2017 and included *H. 18 Repealing Chapter 32, Section 90G¾, H. 19 Providing for Continuing Education Credits Flexibility, and H. 20 an Act relative to Chapter 32, Section 15(7) Determinations.*

Mr. Connarton stated that he was very surprised that the Professional Firefighters of Massachusetts (PFFM) and the Boston Firefighters Union Local 718 spoke against both the Educational and Section 15(7) bills. The Educational bill was opposed as a weakening of the law which is incorrect as each individual would still be obligated to earn the same amount of credits and is simply an adjustment in earning credits annually for those who have extenuating circumstances. The Section 15(7) bill was rewritten to reflect a suggestion by the firefighters providing that the retirement boards would hold the hearings. Everyone compromised in a good faith effort. This bill was opposed now evidently because there is a new president and secretary at the PFFM and the compromise has been disregarded.

Ms. Corrigan wanted to make everyone aware that Section 15(7) is still law and the final determination regarding these matters still rests with the Commission.

Mr. DeVito stated that NAGE/SEIU supported H. 20 and the police union Mass Cops which opposed the bill last session did not appear at the hearing this session.

Actuarial Update

Mr. Lamenzo began by discussing the review of retiree mortality over the past two years since the adoption of the fully generational assumption in 2015. Although the female assumption works very well in total (actual deaths about the same as expected deaths), he expects to make a fairly small adjustment to the assumption to reflect a mismatch in results at specific age ranges. He will likely adjust the assumption move to a blue collar version of the most recent published mortality table. The male assumption needs a modest adjustment to reflect actual experience.

Mr. Lamenzo then reviewed the preliminary State Retirement System (SRS) Valuation results and discussed the investment return assumption and several adjustments made to the job group for UMASS police, some State Police, DMH, and Social Service members. The data file provided to us shows these members as Group 1.

Commissioner Fitzpatrick inquired about the status of the State Police being adjusted into Group 3 as she has heard of this matter before. She also inquired if those individuals in question receive the Group 3 additional benefits.

Mr. Connarton reported that a meeting has been scheduled with the State Police Colonel to discuss this matter.

Mr. Favorito reported that the State Board will also be discussing this matter with the Colonel. He further stated that the inconsistencies in State Police contribution rate may be due to a case which issued in the 1990's and which was interpreted as keeping the contribution rate at the rate they contributed when the first became employed, even if they later joined the State Police. He acknowledged these individuals so retire under the formula for Group 3.

Commissioner Fitzpatrick stated that that the Commission may want to take this matter up again.

Turning from the discussion of the State Police, Commissioner Fallon inquired if there would ever be more retirees than active employees.

Mr. Lamenzo stated that it is fairly unusual but in a mature plan it could happen. He then discussed the more detailed presentation of the Normal Cost with Expenses and Transfers shown separately. He noted that approximately 115 toll collectors took advantage of the ERI and he roughly estimated the expected increase in the actuarial liability at \$12 million – he is awaiting additional data prior to completing this study.

Mr. Lamenzo stated that his plan is to finalize the mortality assumptions and distribute at the next Commission meeting.

Audit Update

Ms. Shea reported that the audit staff is currently auditing the Hull, Marlborough, Needham, and North Adams Retirement Systems. She further stated that the Swampscott and Worcester (no findings) Retirement Systems audits were posted on the PERAC Web Page since the last Commission meeting and she briefly reported on the findings from Swampscott. Ms. Shea then reported that PERAC has completed six-month follow up reports at the Brockton and Maynard Retirement Systems since the last Commission meeting.

Compliance Update

Mr. O'Donnell stated that the Vendor Disclosures have been sent out to a little more than 1350 vendors and we have received over 1150 at this point. The disclosures were due March 1. He believes that there could be changes in the point of contact people but that the Compliance Unit is following up with the appropriate vendors. Finally, he stated that the educational piece of Compliance is going well and that there have been 213 courses attended, and of those 45% were comprised by all 97 board members attending the PROSPER sessions.

Mr. Moitoso stated that the PROSPER trainings were well received by all members and administrators. They seemed very interested in going paperless. He then reported that the Statement of Financial Interest (“SFIs”) which are due by May 1, have been distributed, and some individuals have already responded.

Mr. Connarton stated that Mr. Moitoso and Mr. Steele (Senior Systems Engineer) did an excellent job preparing and presenting the PROSPER database to the retirement community. He continued that the Compliance section of PROSPER should be rolled out at the end of the month and has already received positive feedback on the basis of these trainings.

Executive Director’s Report

Mr. Connarton reported on the monthly staff activities.

Mr. Connarton stated that the Governor has signed into law our budget language as Chapter 5 of the Acts of 2017, in cooperation with State, Teachers’, and Administration and Finance as it pertains to the Exclusive Benefit issues along with \$65,000 for the OPEB auditing purposes. He stated that we still have the authority to adopt our annual budget and supplemental budgets. We are currently discussing the mechanism with the Comptroller and Administration and Finance on the procedure for the future.

Mr. Connarton stated that a PEW Report and the latest Pioneer Institute publications have been distributed these articles.

Chairman Brown noted that he finds it interesting that the Pioneer Institute consistently finds fault with various pension funds in Massachusetts. He stated that the MBTA has hired some well-known consultants to review the assertions made and found nothing wrong with the actuarial assumptions. The Chairman is not sure that anyone from Pioneer Institute is an actuary and he believes there is nothing wrong with the actuarial analysis that was issued. It appears based on the MBTA’s consultants’ report that the analysis was done properly.

Commissioner Fitzpatrick inquired if there was something in the House budget to have the State take over the MBTA.

Mr. Connarton reported that there is language in the House budget to allow the MBTA to invest in PRIM and he suspects that there will be similar language in the Senate budget.

Chairman Brown stated that the MBTA Retirement System is considered a private fund and the language would amend the law to allow private trusts to invest with PRIM but does not make the opportunity mandatory nor does the language make it a Chapter 32 system. He continued that there has been an issue where the MBTA retirees were outnumbering active members and that is changing. Another issue has been the transparency issue, but there is new management, and an interim executive director with different views than that of the prior executive director.

Mr. Connarton reported that PERAC has met with the MBTA several times over the past few years to talk about their website and in an attempt to assist them in upgrading their systems and follow PERAC's best practices.

Mr. Connarton asked if the Commission would consider adjourning today's meeting in memory of Senator Kenneth Donnelly. He was a member of this Commission for many years and also a member of the Chapter 133 Commission. Senator Donnelly was very strong supporter and advocate of PERAC. He was a gentleman and loved by many who had the opportunity to work with him including many at the State House. Senator Donnelly leaves a close knit family and we have lost a good friend.

The Commission agreed with Mr. Connarton's comments.

Commission Travel

Mr. Connarton notified the Commission about the upcoming 2017 MACRS Conference being held from June 4 - 7, 2017 in Hyannis, MA should there be any interest in attending.

Commissioner Fitzpatrick made a motion to grant permission for any Commissioners and staff to attend the MACRS conference. Commissioner Dooling 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 and the motion was adopted.

Other Business

Chairman Brown stated that the next Commission meeting is scheduled for May 10, 2017.

Commissioner Fitzpatrick made a motion to adjourn the meeting in memory of Senator Donnelly. Commissioner Machado 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, and James Machado YES and the motion was adopted. The meeting adjourned at 12:15 PM.

Commission Meeting Documents

Commission Agenda for the meeting of April 12, 2017

Commission Minutes from March 8, 2017

Legal Update

Cases included *State Board of Retirement v. Thomas Finneran & Others*, *Stoneham Retirement Board v. PERAC*, and *Richard Corcoran v. Worcester Regional Retirement Board & Middlesex County Retirement Board & PERAC*

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

Chapter 5 of the Acts of 2017

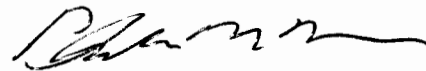
PEW Research Center / *More older Americans are working, and working more, than they used to*

Pioneer Institute / *Forensic Mysteries from the MBTA Retirement Fund's Actuarial Reports*

Documents Distributed at Meeting

State Retirement System preliminary Actuarial Results – talking points

Approved:



Philip Y. Brown, Chairman
Public Employee Retirement
Administration Commission