

Commission Meeting Minutes
May 10, 2017

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

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, Senior Associate General Counsel Ken Hill, Associate General Counsel Patrick Charles, Director of Administrative Services Caroline Carcia, Chief Financial Officer Virginia Barrows, Director of Information Systems Dan Boyle, Compliance Analyst Cheryl Johnson, and Senior Executive Assistant Kim Boisvert.

Ms. Boisvert announced the following guests in attendance: Nick Favorito representing the State Retirement Board, Erika Glaster and Sean Neilon representing Massachusetts Teachers' Retirement System.

Commissioner Fitzpatrick made a motion to adopt the April 12, 2017 Commission meeting minutes. 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, Robert McCarthy YES, and Jennifer Sullivan YES and the minutes were adopted.

Administrative Sub-Committee Meeting

Chairman Brown presided at the Administrative Sub-Committee meeting that was held earlier the morning of May 10, 2017. He explained that Mr. Connarton had presented and discussed the proposed FY 18 budget and requested an overall increase of 7% from last fiscal year. The increase is due to an additional Systems Engineer in the IT Unit, an increase for fringe benefits, a 1.5% COLA for all staff and up to an additional 1.5% adjustment based upon a performance review of each employee on their respective anniversary dates. Mr. Connarton updated the Commission on the PROSPER database and that 60% of the retirement board members have registered for the Compliance application. The Disability application will be rolled out mid-June. Finally, he is requesting money for a Commissioner Portal through the PROSPER database.

The Administrative Sub-Committee reviewed the proposed FY18 budget of \$10,235,421 and removed \$150,000 which was requested to be used as a Commission portal in the PROSPER

system, as the Sub-Committee believes this cost is more robust than needed. Commissioner McCarthy believes that the Commission portal should be included in the PROSPER system. PERAC will seek alternative software which will be less expensive to accomplish the goal of paperless meetings.

The Administrative Sub-Committee accepted the FY'18 budget in the amount of \$10,085,421 and forwarded to the full Commission for its discussion and approval in accordance with Policy # 99-001.

The Commission discussed various software packages for the Commission meetings and why the Commission Portal in PROSPER was removed from the proposed budget. Also discussed was salary increases for the staff for FY18.

Commissioner Sullivan reported that some years the union contracts may include a step increase with a 0% merit increase. She continued that the quasi units try to stay aligned with the appropriate unions, however, based on merit, and not characterized as a COLA. She stated that with the current budget constraints facing the Commonwealth there are hiring freezes and 0% increases.

There was further discussion as to why PERAC is not unionized, and a request to compare increases with other quasi units in preparation for the budget next fiscal year. Mr. Connarton said he would reach out to see what the current practice is for the quasi units and report back to the Commission.

Another matter discussed was the vacancies in the Audit unit and the considerable turnover over the past three years, and the skill set needed by PERAC auditors to audit Chapter 32 systems. It was suggested that PERAC perhaps think about hiring a retired auditor to assist in a time when additional assistance is needed. Also discussed was that once our auditors get the experience needed they often seek employment at a retirement board for more money. There was a request to research the cost for outsourcing audits with an eye of caution of the possibility of a conflict, given the limited number of audit firms actually equipped to do such an audit in this area.

Commissioner Fitzpatrick made a motion to adopt the Administrative Sub-Committee's recommendation for the FY'18 budget in the amount of \$10,085,421 in accordance with Policy # 99-001. Commissioner Machado 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 NO, and Jennifer Sullivan NO and it was adopted.

Legal Update

Ms. Corrigan updated the Commission about the *Michael McLaughlin v. Chelsea Retirement Board*, *Chelsea Housing Authority v. Chelsea Retirement Board*, and *Michael McLaughlin and Chelsea Retirement Board v. PERAC* cases. This involves a prehearing conference on June 14, 2017 at DALA.

Legislative Update

Mr. DeVito updated the Commission on the appointments on the Joint Committee on Public Service and the House FY18 Budget.

Actuarial Update

Mr. Lamenzo reviewed the January 1, 2017 State Retirement System Actuarial Valuation draft report. He discussed the Unfunded Actuarial Liability (UAL), the funded ratio history, the Commonwealth's current funding schedule, and the State Retirement System's share of the appropriation. He discussed the investment return assumption, mortality assumption, the toll collector 2015 ERI analysis in process, and reiterated the job group classification issues. The report indicates that the State Retirement System as of January 1, 2017 had an unfunded liability of \$13.54 billion. The ratio of system assets to liabilities is 64.7%. The unfunded liability increased slightly as of January 1, 2017. It would have decreased if there were no change in actuarial assumptions. The change in the mortality assumption increased the actuarial liability by \$304 million.

Mr. Connarton reported that Mr. Lamenzo, Mr. Parsons, and he recently had a meeting with State Police Colonel McKeon and his staff regarding the employee contribution rate (9% instead of 12%) for some state police troopers. These members also show an incorrect group classification on the data provided to us by the State Retirement System. The Colonel reported that all employees are considered as a group 1 employee until they are sworn in and they should be reclassified as a group 3 member thereafter.

Commissioner Sullivan asked if she could follow up with Mr. Lamenzo after she reviews the report more carefully.

Mr. Lamenzo stated that he expects the report to be finalized in a few weeks, after the cost analysis for the ERI is completed. He expects some minor wording changes or possibly some changes based on comments from the Commission. If he has any significant changes to the report he would reach out to the Commission prior to distributing.

Commissioner McCarthy made a motion to accept the State Retirement System 1/1/17 Valuation report. Commissioner Fallon 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 report was adopted.

Audit Update

Ms. Shea reported that the audit staff is currently auditing the Hull, Marlborough, Needham, and Westfield Retirement Systems. She further stated that the Framingham and Wellesley 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 reported that about 80% of the board members have completed their Statement of Financial Interest ("SFIs") which were due by May 1. Chapter 268A filers have a later filing date and he expects those to be filed shortly. He continued that the Vendor Disclosures have been completed by 93% of the vendors and staff is currently reviewing them. He stated that through May 4, 2017 staff has approved 25 Acknowledgements for various asset classes. He continued that the educational piece of Compliance is going well and that there have been 252 courses attended. Mr. O'Donnell reported that Ms. Glaster requested credit be given for a new on-line presentation by National Council on Teacher Retirement (NCTR) called *Financial Economics and the Management of Public Pension Plans: The Real Story*. The Commission has approved this on-line presentation for 3 educational credits and the presentation can be accessed through our website.

Mr. Connarton thanked Ms. Glaster for the request and he reported how informative the NCTR website is. He stated that our website has a host of information on educational training, publications, guides, reports, and a host of additional information.

Executive Director's Report

Mr. Connarton thanked the Commission for its approval of the FY18 Budget and its continued support of our mission at PERAC. He stated that he is sensitive to the increase of the budget and continues to monitor expenses.

Mr. Connarton notified the Commission that Kathy Curran, of Channel 5, has requested travel expenses for a number of the retirement boards. He stated that the Commission has issued travel guidance to the systems since 2002. Ms. Curran interviewed Mr. Connarton on May 5, 2017 and expects that something will be on the news within a week or so.

Mr. Connarton then reported that PROSPER seems to be going well, the first roll out was the Compliance Unit and 60% of the board members have registered and responded positively to date. He stated that Mr. Moitoso and Mr. Steele have been providing the PROSPER training and Ms. Hogan will be educating the folks on the Accidental Disability piece which should be rolled out mid-June.

Mr. Connarton discussed the Pioneer Institute editorial entitled *Study Estimates \$27 Million In Savings Annually From Consolidation Of Public Pensions*. He explained that PERAC did respond to the Pioneer Institute to correct the record as it pertains to the audit cycle.

Commissioner McCarthy read a quote from the April 17, 2017 Pensions & Investments article entitled *Local public pensions debate pros, cons of joining state systems* by James Comtois. Commissioner McCarthy stated that even though Mr. O'Donnell has spoken with the reporter, this article sends a bad message; he would like PERAC to follow up with a letter to the editor.

Mr. Connarton has communicated with Beth Healy, Globe reporter, and the Pioneer Institute that any consideration of consolidation of the local boards would have to be initiated by the legislature. PERAC is not advocating for consolidation and the story line is not new. He

believes that since the release of the Fee Analysis Report, a member of a county system thinks we are advocating for a single system, but the intent is to provide transparency.

Mr. Connarton stated that we would follow up with a letter to the editor of Pensions & Investments.

Commissioner Sullivan commended Mr. Connarton and his staff on their professionalism and good judgment on weighing in on these sort of matters and even when to respond. She stated that we should be careful to not give more credence than necessary to some of the publications which publish such attacks. She appreciates all the data that PERAC has produced and the insight that it has brought for her and others. Having the goal of more transparency is laudable and to arm folks with good information to make good decisions for their members and their tax base and is very important work.

Mr. Connarton explained that upon release of the Investment Fee Analysis there were several boards that renegotiated their fees.

Mr. O'Donnell stated that one provider cut their fee by \$40,000 upon release of that report.

Commissioner Machado stated that maybe we should add a disclaimer in a cover letter on these publications explaining why we undertook a particular task, or insert testimonials from those who have benefitted from our publications and give creditability to those fiduciaries that have responded positively.

Other Business

Chairman Brown stated that the next Commission meeting is scheduled for June 14, 2017.

Commissioner Fitzpatrick made a motion to adjourn the meeting. 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, Robert McCarthy YES, and Jennifer Sullivan YES, and the motion was adopted. The meeting adjourned at 12:53 PM.

Commission Meeting Documents

Commission Agenda for the meeting of May 10, 2017

Commission Minutes from April 12, 2017

Legal Update

Notice of a prehearing conference pertaining to the *Michael McLaughlin v. Chelsea Retirement Board*, *Chelsea Housing Authority v. Chelsea Retirement Board*, and *Michael McLaughlin and Chelsea Retirement Board v. PERAC* cases

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

Pioneer Institute Press Release / *Study Estimates \$27 Million In Savings Annually From Consolidation Of Public Pensions*

Pioneer Institute White Paper / *The Bay State's Public-Pension Complex: Costly and Unaccountable*

Follow up correspondence to and from Iliya Atanasov, PhD

Documents Distributed at Meeting

1/1/17 State Retirement System draft Actuarial Valuation Report

Approved:



Philip Y. Brown, Chairman
Public Employee Retirement
Administration Commission