

Commission Meeting Minutes
July 12, 2017

Chairman Brown called the meeting (held at the PERAC Office, 5 Middlesex Avenue, Somerville, Massachusetts) to order at 11:15 AM. He then acknowledged the other Commissioners present: Commissioners Timothy Dooling, Kate Fitzpatrick, and James Machado. Commissioners Kathleen Fallon, 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 when Commissioner Sullivan joins us. Chairman Brown then welcomed Commissioner James Machado back from his extended illness leave.

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, 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, Compliance Analyst Cheryl Johnson, Senior Executive Assistant Kim Boisvert, and Summer Intern James Forse.

Ms. Boisvert announced the following guests in attendance: Erika Glaster and Sean Neilon representing Massachusetts Teachers' Retirement System, Thomas Gibson representing the Middlesex County Retirement Board, Patrick Brock representing the Hampshire County Retirement Board, Frank Valeri represents the Massachusetts Retirees Association, and Lori Hindle on behalf of the Public Financial Management Company.

Commissioner Fitzpatrick made a motion to adopt the June 14, 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, Kate Fitzpatrick YES, and James Machado YES, and the minutes were adopted.

Actuarial Update

Mr. Lamenzo reviewed the Massachusetts and Boston Teachers' retiree mortality experience. He discussed various mortality tables and trying to match these tables with the actual experience. We adopted the RP2014 basic table in the 2015 Valuation. The table which best matches the MTRS mortality in 2015 and 2016 is the RP2014 White Collar table set back 2 years (as if everyone is 2 years younger than the actual age). Boston teacher mortality is significantly higher than TRS. This is a surprising result. It is also surprising that MTRS mortality (based on the data we have) has improved significantly in just a few years. This could be due to a data issue or perhaps the past 2 years are an aberration. We will continue to review and analyze the retiree mortality experience each year.

Mr. Lamenzo reviewed a sample of 10 other state teacher systems and reported that the most common assumption is the RP2014 White Collar table. He will likely recommend utilizing the

RP2014 White Collar table with projection scale MP2016. This would increase the actuarial liability for MTRS by \$1.2 Billion and would decrease the funded ratio by about 1.2%.

Legal Update

Ms. Corrigan briefed the Commission about the *McLaughlin* cases including the history and the status of each case, and the status conference held on June 14, 2017.

Legislative Update

Mr. DeVito updated the Commission on PERAC's most recent legislative effort - seeking the passage of the language of PERAC's H. 18: An Act Repealing Chapter 32, Section 90G¾, in the Massachusetts FY'18 budget. He informed the Commission that the language passed as Outside Sections in both the House and Senate budgets and is now part of the legislature's FY'18 Budget Conference Committee Report.

Mr. DeVito reported that the budget with PERAC's language included is on Governor Baker's desk and he has until July 17, 2017 to act upon the Budget. He then stated how much he appreciates the tremendous support the Commission has received from the House Chairman of the Joint Committee on Public Service, Representative Jerald Parisella, and Senate Majority Whip, Michael Rodrigues the sponsors of PERAC's amendments - without whose determined efforts the inclusion of these items in the Conference Committee Report would not have been possible.

Audit Update

Mr. Parsons stated that Ms. Shea is on vacation then proceeded to update the Commission that the Amesbury, Falmouth, and Gloucester Retirement Systems audit reports were posted on the PERAC Web Page since the last Commission meeting. He briefly reported on the findings. He reported that currently the Adams, Berkshire Regional, Clinton, and MWRA Retirement Systems are undergoing audits.

Mr. Parsons stated that PERAC will be hosting 3 one-day forums for administrators and one subject of discussion is regular compensation as many systems have some aspect of this as a finding.

Commissioner Fitzpatrick stated that it is not necessarily the retirement staff's responsibility when these issues occur; these are circumstance based upon how the employer enters the codes in payroll. This is what needs to be corrected.

Mr. Parsons stated that our auditors work with the retirement systems who then in turn work with their respective employers. He believes that this is going to be a good subject at the administrators' training.

Mr. Parsons also told the Commission that PERAC has hired one retired auditor who is working part-time, and an additional two auditors which will fully staff the Audit Unit.

Compliance Update

Mr. O'Donnell reported that the retirement board members have attended 1,058 educational sessions which includes credits earned for attending PROSPER trainings. He continued that staff has approved 42 acknowledgements for various asset classes this year and explained the process outlined in Section 23B. He stated that he has read about the Somerville Retirement Board celebrating their investment in a fossil fuel free asset class. Somerville Retirement Board has not been following the Section 23B process which has been in place for several years. Mr. O'Donnell has reached out to the Retirement Board. He explained how the Board did not go through the process, did not post an RFP then moved the investments around without PERAC's approval. He continued that the Somerville Retirement Board may be in attendance at the next Commission meeting to discuss this matter. He will keep the Commission informed.

Mr. Martin stated that the overall issue is the question of a violation of the Somerville Retirement Board's fiduciary duty by restricting the universe of investment opportunities for the board and as a result board members could be held personally liable for such an action. He continued that the matter at hand is that the System initiated an investment without following Section 23B or submitting any information to PERAC. There was no advertising of an RFP, no filing Placement Agency Statement or Vendor Certificates, and there was no Section 23B search conducted.

Mr. Moitoso stated that there is an advocacy group called "Carbon Underground", which is involved with this investment, is not registered with the SEC, and may not be registered with the State. In addition, the Board's attorney, Brian Fox, is currently on vacation but he will meet with PERAC staff on Monday, July 17, 2017 to discuss this matter.

Mr. Moitoso then reported that about a tenth of the board members have not filed their respective SFI forms. A letter will be sent by Friday, July 14, 2017 to those who have not yet filed notifying them that at the September commission meeting this Commission will vote to remove them from their respective boards. In the past, once this letter has been sent out the majority of those members have filed their SFI forms.

Commissioner Fitzpatrick asked what a tenth of the members represent.

Mr. Moitoso stated around 50 members, in the past this number represented mostly inactive members. This year it is mostly active members, with some who have had to be prompted to file the form by the letter we sent out previously.

Mr. Connarton stated that it is disheartening that after six years of this process there are so many individuals that just won't send in their forms.

Executive Director's Report

Mr. Connarton made note of the staff activities that have occurred since the last Commission meeting.

Mr. Connarton then reminded the Commission that PERAC will be hosting the 13th Annual Emerging Issues Forum on September 14, 2017, at the College of the Holy Cross in Worcester and that the agenda is complete.

Mr. Connarton then reported that we have put together three road shows, throughout the state, for the administrators of the systems. Given all the changes in the statute regarding educational credits for members it has gotten difficult to have the time for training the administrators. Therefore, we will be hosting three one-day training sessions in Northampton on August 10, in Hyannis on October 17, and in Danvers on November 14. We have sent out a "Save the Date" notice with the agenda. We will be discussing Regular Compensation, Calculations, and several other topics.

Commission Travel

Chairman Brown notified the Commission about the upcoming 2017 NCPERS Public Pension Funding Forum, San Francisco, CA on September 10-12, 2017, and the 2017 NCPERS Public Safety Employees' Pension & Benefits Conference in San Antonio, TX, on October 1-4, 2017 should there be any interest in attending.

Commissioner Machado made a motion to grant permission for any interested Commissioner and staff to attend the above conference(s). Commissioner Fitzpatrick seconded the motion.

Questions regarding the actual interest in attending the conferences, past attendance, early registration being a considerable savings, whether a vote is necessary if there is no interest. It was decided that a discussion regarding travel should take place at the next Administrative Sub-Committee meeting.

On the motion to allow attendance to the above conference (s), a roll call vote was taken as follows:

Chairman Philip Brown YES, Commissioners Timothy Dooling NO, Kate Fitzpatrick YES, James Machado YES and the motion was adopted.

Other Business

Chairman Brown stated that the August Commission meeting has been cancelled and the next Commission meeting is scheduled for September 13, 2017.

There was some discussion regarding an Administrative and Audit/Fraud Sub-Committee meeting being scheduled.

Commissioner Dooling reported that a working group met regarding the Executive Director's Annual Performance evaluation form. They plan on meeting again in August. He continued that an update will be prepared to discuss at the September Commission meeting.

Commissioner Machado thanked the Commission and the staff for the accommodations and support that he has received during his most recent health matters.

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

Chairman Philip Brown YES, Commissioners Timothy Dooling YES, Kate Fitzpatrick YES, and James Machado YES. The meeting adjourned at 12:20 PM.

Commission Meeting Documents

Commission Agenda for the meeting of July 12, 2017
Commission Minutes from June 14, 2017

Legal Update

Order from DALA 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 Audits

Executive Director's Report

Updated Staff Activities Memo
Save the Date notice for the Board Administrators training including the Agenda
Save the Date notice for the 13th Annual Emerging Issues Forum

Documents Distributed at Meeting

Cost Analysis for the Mortality review of MTRS and Boston Teachers
Compliance Update regarding Education and Acknowledgements by Asset Class

Approved:



Philip Y. Brown, Chairman
Public Employee Retirement
Administration Commission