

PERAC EXECUTIVE DIRECTOR RETIRING

Successor appointed by Search Committee

Philip Y. Brown
Chairman, PERAC

After a lifetime of service to the Commonwealth, and particularly to the retirement community, PERAC Executive Director Joe Connarton announced last summer that he would be retiring in December.

Joe assumed the executive director position in the fall of 1999 and has tirelessly worked on behalf of the members and beneficiaries of our retirement systems each day for the last 19 years.

A central component of that service has been the defense and preservation of the defined benefit system that has served us so well. On some occasions, that defense has necessitated that PERAC, under Joe's leadership, implement unpopular legislation or enforce controversial judicial decisions. The steady, compassionate and reasoned approach



that the Commission undertook reflected Joe's vast experience, not only as Deputy and then Executive Director, but also as Chair of a retirement board, City Clerk, and law firm managing director. That experience, as well as Joe's open, fair and equitable personality led legislative leaders and the Governor to entrust him with service on many study



commissions reviewing aspects of the pension law.

Most recently, as Chair of the Forfeiture Commission, tasked with analyzing the statute pertaining to the loss of the pension rights of employees due to criminal malfeasance. Joe employed all of his extensive skills in (Continued, page 6)

JOHN PARSONS APPOINTED BY SEARCH COMMITTEE

After a public search process, John Parsons, PERAC Deputy Director and General Counsel, was chosen by the Search Committee to succeed Joe. Two finalists, Parsons and former State Representative Patrick Landers, were interviewed at the November Commission meeting held on Wednesday, November 14th, and a public vote was held immediately after.

Learn more in our latest *Newsflash*, available on our website. ■

Also In This Issue

- | | |
|---|---|
| ▶ Commonwealth Valuation Study 2 | ▶ 50th Edition of Pension News 6 |
| ▶ 2019-2020 Legislative Filings 4 | ▶ Emerging Issues Forum 7 |
| ▶ Commissioner Sullivan Appointment 5 | ▶ PERAC Administrators Training 8 |

2018 COMMONWEALTH VALUATION STUDY

By James Lamenzo
Actuary

The Commonwealth Actuarial Valuation Report presents the results of the actuarial valuation of the pension benefits that are the obligation of the Commonwealth of Massachusetts. The 2018 report was released by PERAC on September 21, 2018. The four components of the report are the State Employees' Retirement System, the Massachusetts Teachers' Retirement System, Boston Teachers, and the Cost of Living Allowance reimbursements to local systems. Two charts from the January 1, 2018 Commonwealth Actuarial Valuation Report are presented.

The bar chart, pictured on the following page, shows the unfunded actuarial liability (UAL) since 1990. The UAL represents the actuarial accrued liability less the value of plan assets. As of January 1, 2018, the actuarial liability was \$96.3 billion and the actuarial value of plan assets was \$54.9 billion. The difference of \$41.4 billion is the UAL.

It is important to note that plan assets have grown faster than plan liabilities since 1990. As of January 1, 1990, the actuarial accrued liability was approximately

\$20.0 billion and assets of \$7.8 billion resulted in a \$12.2 billion UAL. Since 1990, the actuarial liability has grown by about 4.8 times while assets have grown by about 7.0 times.

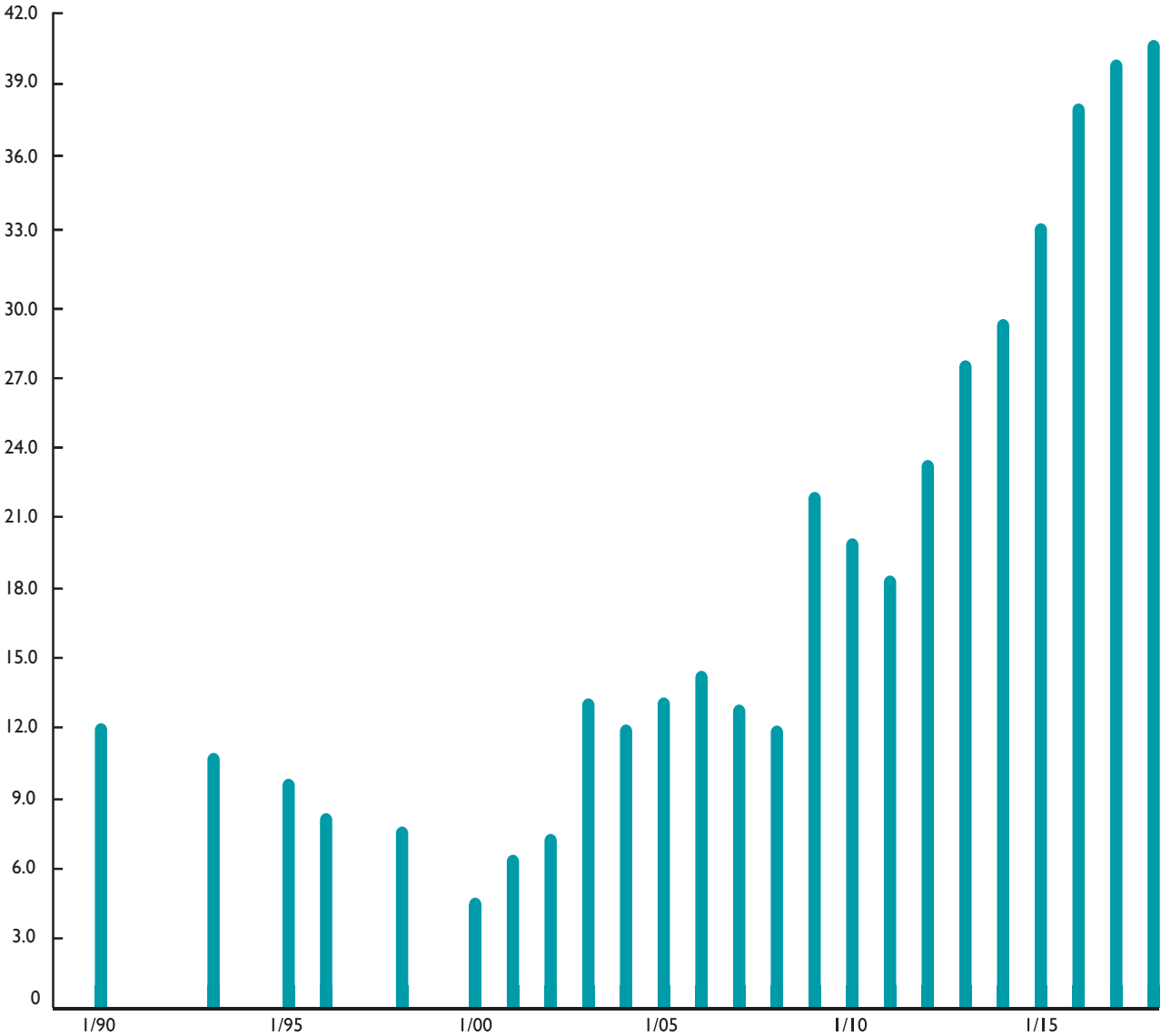
For this reason, we believe the funded ratio (assets divided by actuarial liability) represents a better measure of the Commonwealth's progress. If you draw a straight line from the 1990 funded ratio of 39.0% to the January 1, 2018 amount of 57.0%, the line is moving upward to the right. This demonstrates the funding progress to date. Although the funded ratio reached 85.2% on January 1, 2000, this was the result of average annual returns from 1985-1999 that exceeded 12.5% and attaining such a high level of funding so quickly was not expected. If there had been no gain or loss on assets from 1985-1999, the funded ratio would have been about 45%. Over the past 18 years (2000-2017), the average annual return on assets on a market value basis is approximately 6.5%. Over a 10-year and 5-year period, the returns have been 5.6% and 9.9% respectively. The 33 year return (since inception) is 9.7%.

The actuarial liability (and therefore the UAL) as of January 1, 2018 increased \$1.8 billion primarily due to a reduction in the investment return assumption from 7.5% to

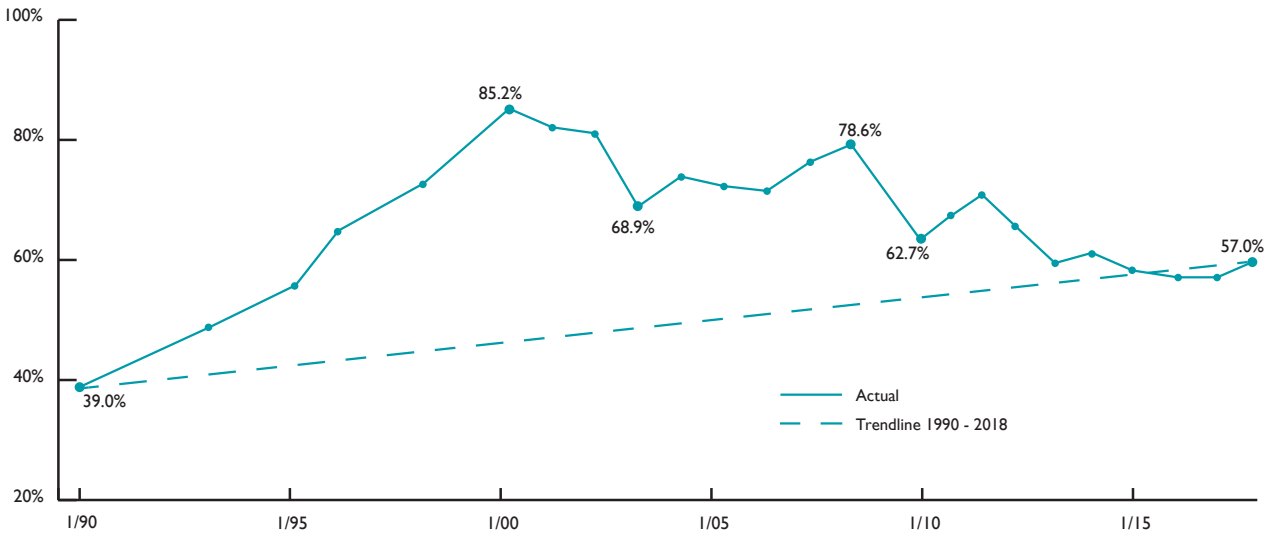
7.35%. If the 2018 valuation reflected the 2017 valuation assumptions and plan provisions, the UAL would have been \$39.9 billion.

There have been a number of other plan and assumption changes in the past 9 years that have increased the Commonwealth actuarial liability. These changes include four reductions in the investment return assumption (from 8.25% to 8.0% as of January 1, 2013, from 8.0% to 7.75% as of January 1, 2015, from 7.75% to 7.50% as of January 1, 2016 and the change noted above in this valuation). There have also been frequent adjustments to the mortality assumption including the adoption of a fully generational mortality assumption as of January 1, 2015, the adoption of a \$13,000 COLA base, the transfer of active members of sheriff departments in six counties to the State, and the transfer of former members of the Massachusetts Turnpike Authority Retirement System to the State. Including the changes as of January 1, 2018, the actuarial liability is approximately \$12.8 billion greater than it would have been using the 2009 basis. Therefore, on a comparable basis with the 2009 plan provisions and assumptions, the UAL on January 1, 2018 would be \$28.5 billion and the funded ratio would be 65.8%. ■

UNFUNDED LIABILITY
(in billions of dollars)



COMMONWEALTH FUNDED RATIO



PERAC APPROVES LEGISLATIVE FILINGS FOR 2019-2020

Proposals seek constructive changes to Chapter 32

By Michael DeVito
Director of Public Affairs

The Commission has approved seven proposals recommended by the PERAC Legislative Subcommittee for the upcoming 2019-2020 legislative session:

1) Education Credits Flexibility

During the current legislative session the Commission filed H. 19: An Act Providing For Continuing Education Credits Flexibility which would permit PERAC to grant a waiver for the yearly hours education requirement for members who fail to meet the requirement due to extenuating circumstances. This bill will be refiled.

2) Pension Forfeiture Bill

Chapter 133 of the Acts of 2016 established a Special Commission to evaluate the pension forfeiture provisions of Chapter 32 and to make recommendations to the legislature regarding amendments necessary to address the decision in *Bettencourt v. PERAC*. A report was issued in May of 2017, and filed with the legislature as S. 2074. The Special Commission also filed a bill, S. 2074A, which redrafted the pension forfeiture provisions of Chapter 32. That bill was amended by the Joint Committee on Public Service to include a provision al-



lowing for full forfeiture and was released favorably by the committee as H. 4555. This bill will be refiled by PERAC.

3) Recovery of a Member's Pension in Overearnings Cases

Sections 91 and 91A of Chapter 32 govern the amount a retiree is able to earn following retirement. Both sections provide that if a member earns in excess of the allowable amount, they must repay the overearnings. Presently a retirement board is permitted to recover the overearnings if the employer does not do so.

The proposed legislation would make explicit that a retirement board is only permitted to recover the overearnings *up to the amount of any retirement allowance paid to the member*. Recently, cases have been brought by boards seeking to recover the entire overearnings amount. In *Daley v. Plymouth Retirement Board* the board sought to recover some \$350,000 in overearnings, although they had only paid a total of approximately \$40,000 in

retirement allowance.

4) Supplemental Payments with Workers' Compensation

The SJC issued a decision in *Vernava v. Swampscott and PERAC* in which it determined that when a member applies for Accidental Disability and was receiving Workers' Compensation any amounts the member received from supplemental accrued sick and vacation leave do not constitute regular compensation for purposes of setting a members' retirement date. This overturned decades of policy and resulted in the issuance of PERAC Memoranda 17 and 18 of 2018.

The proposed legislation would provide that supplemental accrued sick, vacation and personal leave taken in conjunction with the receipt of Workers' Compensation would constitute regular compensation. This would effectively codify and reinstate the policy position that had been in place prior to the *Vernava* decision.

(Continued, page 5)

COMMISSIONER SULLIVAN APPOINTED UNDERSECRETARY

Commissioner Jennifer F. Sullivan was appointed Undersecretary for the Executive Office for Administration and Finance last September.

Sullivan joined A&F in February 2015 where she served in the role of Assistant Secretary for Capital

Finance, responsible for directing the Baker-Polito Administration's capital investment program.

Governor Charlie Baker appointed Sullivan to PERAC in 2016.



Commissioner Jennifer F. Sullivan

LEGISLATIVE FILINGS FOR 2019-2020 (continued from page 4)

5) Modification of Retirement Allowances

During our recent Commission policy review it was determined that the Commission's Modification Policy No. 09-001 regarding the Modification of Retirement Allowances differed significantly from the provisions of G.L. c. 32, section 8 and that either the statute or the Commission's policy needed to be revised. We are proposing that section 8 of Chapter 32 be amended by striking subparagraph (3) and replacing it with new text that codifies the Commission's existing modification policy.

The proposed legislation will provide that modification occur if a person is determined to have overearnings for three consecutive years in an amount that requires the repayment of their entire retirement allowance.

6) Veterans' 180 Day Buyback

A veteran is permitted to purchase up to 4 years of creditable service

for prior active duty military service under the provisions of G.L. c. 32, section 4(1)(h). That chapter also contains a provision which requires the member to either begin the buyback process or affirmatively notify the retirement board that they wish to purchase veterans' service within 180 days of membership. Many members fail to satisfy the 180 day requirement and are thus precluded from ever purchasing their veterans' service.

The proposed legislation would eliminate the 180 day requirement and allow veterans to purchase their military time at any time prior to retirement, provided they are still a member in service.

7) Group 1 Emotional Distress Disabilities

Members who are seeking accidental disability pursuant to G.L. c. 32, section 7 must, if the application is not filed within 2 years, have an injury report filed within 90 days of the incident or hazard. Proof of the

receipt of Workers' Compensation satisfies the injury report requirement.

Group 2, 3 and 4 members who are not subject to Workers' Compensation can satisfy this requirement if a record of the injury or incident is on file in the official records of his department. When a Group 2, 3, or 4 member files a disability application on the basis of an emotional distress disability they are able to use incident reports from the department's records. Group 1 employees cannot use employer/department records and are thus often precluded from successfully applying for accidental disability on the basis of an emotional distress claim such as PTSD.

Emotional disabilities are often not readily apparent at the time of an incident and thus injury reports are not filed. The proposed legislation would allow a Group 1 employee to use incident records from an employer's files to satisfy the injury report requirement. ■

50TH EDITION OF THE PERAC PENSION NEWS!

Pension publication reaches a Milestone

By Michael DeVito
Director of Public Affairs

This is the 50th edition of the Pension News published by PERAC. Over the course of nearly 15 years, there have been numerous memorable and significant pension developments at PERAC and generally in the Massachusetts pension world on which we have had the privilege to report.

In March of 2004, PERAC's Executive Director Joseph E. Connarton introduced the first issue of PERAC Pension News with the goal of providing a publication that provides a "regular update on public pension issues, PERAC activities, upcoming events, legislative activity, and recent legal decisions." "Our goal," he stated then, "is to bring a timely and helpful focus to the issues of

the day." Since March of 2004, we have endeavored to remain true to the Commission's and the Executive Director's goals.

Over the years, we have been privileged to provide you with information on the issues on which we are working or which we felt are important in Massachusetts' public pension scene. And, of course, there have been many signature issues that have crossed these pages over the past 14 years.

These have ranged from several extremely significant pension reform initiatives to state and local early retirement programs; to the dramatic pension plan revisions and retirement board governance reforms of Chapter 176 of the Acts of 2011; to numerous less momentous, but nevertheless important, incremental changes to Chapter 32 of the



Massachusetts General Laws and the Massachusetts pension statute.

All of these initiatives contributed to the strengthening and enhancement of Massachusetts' defined benefit pension systems over that time span. Hopefully, the Pension News has been of value and interest to YOU - our readers. As always, we are appreciative of any feedback you may provide to help us make this publication more helpful, relevant and informative to you in the future. ■

PERAC EXECUTIVE DIRECTOR RETIRING (continued from page 1)

leading a disparate and contentious group to consensus in crafting and recommending a compassionate yet firm legislative recommendation to revise the law in the wake of recent court decisions. Those who participated on that Special Commission, as well as observers, saw the depth of Joe's knowledge of an intricate subject, the strength of his com-

mitment to a fair and responsible resolution of a contentious issue, and the congeniality of his approach to those with conflicting positions. In short, the many talents that Joe possesses were on display in the deliberations of that Commission – Compassion, Intelligence, Dedication, Good Humor – It has been our good fortune that Joe has

also employed those talents on our behalf. We would like to take this opportunity to thank Joe for his many years of service and wish him well as he becomes one of the retirement community's clients! Our deepest gratitude and best wishes to you, Joe! ■

EMERGING ISSUES FORUM GOES INTO OVERTIME THIS YEAR

By Natacha Dunker

Communications Director

PERAC hosted the 14th Emerging Issues Forum on September 13, 2018 at the College of the Holy Cross in Worcester, Massachusetts. Over 240 individuals attended the event and retirement board members who attended earned three hours of educational credit. PERAC Executive Director Joe Connarton opened the forum. His remarks reflected on his time at PERAC and his gratitude for the cooperation of the retirement community during his tenure as executive director.

The first session of the day was simply entitled Risk with presentations from actuary Lawrence Stone, president of Stone Consulting, actuary Kathleen Riley, Senior Vice President of Segal, and PERAC actuary Jim Lamenza. Each presenter provided attendees with a deeper understanding of pension risk from their perspective as actuaries. The presentations discussed what risks public pension plans are facing, how boards can assess their own risk levels, how it can affect funding schedules and funding strength, and how to measure risk.

The first morning session was followed by a lively discussion on the Government Pension Offset and Windfall Elimination Provi-



Timothy Smyth, Boston Retirement System Executive Officer, presents at the Forum

sions. The panelists included Steve Richardson of the Social Security Administration, Sean Neilon of the Teachers' Retirement System, and Shawn Duhamel of Mass Retirees. The panel provided attendees with background information on these two provisions as well as legislative initiatives currently underway. This panel was very well received by attendees as these two provisions are often misunderstood.

The keynote speaker for the Forum was former Suffolk County District Attorney Daniel Conley in one of his last public speaking events as district attorney as he announced his September 26 retirement from public service the day before appearing as our keynote. Conley served as a Boston City Councilor for eight years before being elected Suffolk County District Attorney in 2002. He was re-elected to the position four times and decided not to

seek reelection this year. His presentation reflected on the changes to Boston's crime landscape during his fourteen years as district attorney.

After lunch, *Communications Crash Course* was presented by O'Neill & Associates' Senior Vice President Andy Paven and Vice President Suzanne Morse. They gave great pointers for dealing with the press and getting your message across. This was followed by the highlight of the Forum, according to feedback received, *Retirement System Best Practices*, featuring four board directors who gave us insight into the nuts and bolts of running a retirement system.

Kaitlyn Doucette, director of the Methuen Retirement System, who was very recently employed at PERAC as an actuarial analyst, reflected on the differences and challenges she experienced coming from PERAC and going to work for a local system. Charles Kostro, director of the Essex Regional Retirement System, presented on how to use the administrative budget as a communications tool to increase transparency and gain public trust. Timothy Smyth, director of the Boston Retirement System, discussed the Public Records Law and its most recent amendment. He gave suggestions (Continued, page 8)

PERAC BOARD ADMINISTRATORS MEETINGS HELD

By Michael DeVito
Director of Public Affairs

PERAC held three Board Administrator Trainings beginning last summer in locations across Massachusetts. The first session was held in August in Northampton; the second session was held at the Framingham public library in October; and the final session

was in Norwood in November. All sessions were very well attended. Board administrators and staff who attended received a certificate of attendance and any board members who attended received three educational credits towards their annual requirement.

The all-day training sessions included the following topics: Alternative Investment Accounting; The 91A Process; Veterans' Benefits; 12B

Dependents; Actuarial Valuation Basics; Non-Job-Related Disabilities and Chapter 32; and Special Legislation.

Please let us know which topics you would be interested in learning more about in future training sessions as well as your recommendations for locations. We hope to make these sessions a regular offering as part of PERAC's continuing education. ■

EMERGING ISSUES (continued from page 7)

for better compliance and offered examples from the City of Boston. Finally, Lynn Whynot, director of the Wellesley Retirement System, discussed the importance of managing all the small details when running a local system. She provided several useful examples that can easily be replicated at other systems to improve efficiency and reduce risk.

PERAC Chairman Philip Brown moderated the Best Practices panel and just before introducing the presenters he surprised our execu-

tive director, Joe Connarton, with a presentation to commemorate his many years of service to PERAC. As many of you know, Joe announced his retirement this past summer and will be retiring next month after 19 years of service to PERAC. He has left an indelible mark here and will be missed by all of his colleagues!

All of the Forum slideshows are available on our website if you would like to review them again or were unable to attend. We thank you for your attendance and hope



Forum attendees Adam Travinski, Melrose Retirement System director, Juanita Hearn, Needham Retirement System director, and Nick Favorito, Massachusetts Deputy Treasurer and State Retirement System director

to see you again next year. Your participation and helpful feedback are what helps make this annual event a success! We hope to keep the coffee running next year and beyond! ■



Public Employee Retirement Administration Commission | Five Middlesex Avenue, Suite 304, Somerville, MA 02145
Phone 617 666 4446 | Fax 617 628 4002 | Web www.mass.gov/perac

Philip Y. Brown, Esq.
Chairman

The Honorable Suzanne M. Bump
Auditor of the Commonwealth

Kathleen M. Fallon
Practice Area Director
Public Consulting Group

Kate Fitzpatrick
Town Manager
Needham

James M. Machado
Sergeant
Fall River Police Department

Robert B. McCarthy
President Emeritus of the Professional
Firefighters of Massachusetts

Jennifer F. Sullivan
Undersecretary
Executive Office for Administration & Finance

Joseph E. Connarton
Executive Director

Michael DeVito
Editor