

**Advisory Council Meeting
October 26, 2011**

An Essex Regional Retirement Systems' Advisory Council meeting was held on Wednesday, October 26, 2011 at Boxford Town Hall, at 9:08 a.m. to conduct votes related to actions taken by the ERRS Board of Directors with the following attendees:

Advisory Council Members:

Ellen Guerin, Treasurer, Town of Boxford
Terence Hart, Eastern Essex Veteran's District
Curt Malonson, Business Manager, Essex Agricultural and Technical Institute
Virginia Boutchie, Treasurer, Town of Essex
Jackie Cuomo, Treasurer, Town of Georgetown
Cheryl Booth, Treasurer, Town of Hamilton
Kevin Merz, Treasurer, Town of Ipswich
Wayne Melville, Town Administrator, Town of Manchester
Carol McLeod, Treasurer/Finance Director, Town of Merrimac
Don Carter, Treasurer, Town of Middleton
Diane Doyle, Treasurer, Town of Newbury
Jacqueline Vigeant, Acting Treasurer, Town of Rowley
Christine Caron, Treasurer, Town of Salisbury
Andrew Gould, Finance Director, Town of Salisbury
Barbara Michalowski, Treasurer, Town of Topsfield
Virginia Wilder, Town Administrator, Town of Topsfield

ERRB Members:

Kevin A. Merz
H. Joseph Maney
Ira S. Singer
Susan J. Yaskell

ERRS Executive Director:

Charles E. Kostro

ERRB Board Secretary:

Jane Dooley

Call to Order – Kevin Merz, ERRS Board of Directors, Chair, Advisory Council

Kevin Merz introduced ERRS Executive Director Chuck Kostro who asked Advisory Council members to notify him if they would be interested in hosting a future Advisory Council meeting at their local town hall.

Welcoming Remarks – Alan Benson, Town Administrator, Town of Boxford

Alan Benson summarized the progress and new transparency he and his colleagues had seen with the Essex Regional Retirement System and he thanked PERAC Executive Director Joe Connarton, Kostro and current Essex Regional Retirement Board for the necessary change in management and oversight of the retirement system.

Approval of Minutes for June 23, 2011 Advisory Council Meeting

Ellen Guerin, Treasurer, Town of Boxford, provided a date change amendment for the June 23, 2011 Advisory Council meeting minutes.

Upon a motion by Ellen Guerin, Treasurer, Town of Boxford, seconded by Don Carter, Treasurer, Town of Middleton, the Advisory Council voted unanimously to approve the Advisory Council Meeting Minutes of June 23, 2011 with the one correction.

ERRS Updates – Kevin Merz, ERRS Board of Directors, Chair, Advisory Council

Kevin Merz described the extensive effort ERRB took including holding a hearing in preparation for its recent unanimous vote reclassifying civilian dispatch employees from Group 2 back to Group 1. ERRS has received five appeals from reclassified civilian dispatch members.

In response to Virginia Wilder, Town Administrator, Town of Topsfield, Kostro said that there were no civilian dispatchers who retired during the time period when the Board made the change in classification. He noted that one civilian dispatcher who retired recently retired as Group 1 not Group 2. Wilder said Topsfield had a Group 2 civilian dispatch retiree so she and Kostro agreed to discuss this after the meeting.

New ERRS Website

Kostro described how Virtual Town and Schools was selected from eight vendors to revamp the ERRS website that should be live in January or February 2012. Monthly expenditure reports will be included on the new website.

Summary of New ERRS Employee Handbook

Kostro noted that the new ERRS Employee Handbook addresses office operation including comp and workweek time as well as policy on harassment, retaliation, and performance review so employees will know the rules and their professional responsibilities. It was approved by ERRB and will become effective in November. Ira S. Singer thought handbook would be useful to municipalities especially those without any human resource support. Kostro will email copies to any interested member communities.

ERRS Open Meeting Posting Policy Changes

Merz mentioned that ERRB approved a new ERRS Open Meeting Posting policy in July where ERRS website would be official location for notices and Advisory Council members would be receiving notices 48 hours prior to any ERRS meetings.

ERRS Procurement Policy

Kostro said ERRS' practice is to follow Chapter 30B and PERAC procurement regulations for any expenditures over \$5,000. A formal ERRS procurement policy is currently being developed. This has been done for the ERRS website, office supplies, and cleaning services.

In regard to banking services, ERRS is responding to the number one finding in the PERAC audit to reconcile its bank accounts. In addition, competitive procurement will be done for banking services with RFP going out at yearend. Beginning with the new year there will be a different relationship with the existing banking services vendor or a new vendor in place. Specifically to manage ERRS cash as effectively as possible.

Pension Reform and ERRS Update – Joseph Connarton, Executive Director, Public Employee Retirement Administration Commission (PERAC)

Joseph Connarton, Executive Director for PERAC since September 1999, thanked Kostro and ERRB for its work to bring credibility to ERRS working along with PERAC to clean up abuses in the retirement system and restore professionalism. He noted the tremendous progress ERRS has made to resolve 20 of 23 findings in PERAC's audit of the ERRS.

Connarton summarized what occurs in the PERAC units, who the key players are and their roles at the regulating agency.

He also mentioned the return to service program associated with disability retirements where 126 people were restored to positions.

Connarton said PERAC is looking for a public pension attorney since Barbara Phillips who has worked for the agency for decades is retiring but will provide her expertise on a part time basis.

Another initiative he has worked on is a Commonwealth valuation incorporating pension/retirement data about teachers and local systems where there are 308,600 active members and 195,000 retired members.

The funded ratio of all plans is 72.7%. The system is not fully funded but should be by 2040. The unfunded liability as of January 1, 2011 is \$18.6 billion down from \$20 billion the year before. This takes into consideration the 2008 losses and there will be an increase in unfunded liability next year.

Connarton said as of January 20, 2011 there were 86,586 state employees, 87,000 teachers and local systems had 133,400. Average pay for a state employee is \$55,500, \$63,700 for teachers and \$47,000 for local employees. The average retirement benefit for state employees is \$26,300 that almost mirrors the maximum Social Security benefit, \$38,300 teachers and \$21,600 local systems.

He noted that public employees are paying for their benefits, however, the retirement system needs to change because it is not sustainable.

Connarton also mentioned that there has been debate by the Special Commission on Pension Reform regarding termination allowance. This will come out in pension reform. He addressed fraud prevention statistics.

In addition, Connarton reviewed investment returns for PRIT-fund retirement systems and non-PRIT-fund retirement systems.

Also that some people had chosen not to collect their retirement allowance resulting in a savings of \$4.2 million. This along with savings from individuals with excess earnings resulted in \$22 million, terminations of individuals that failed to comply with process and had benefits terminated resulted in \$7.8 million, 120 people who went back to work and were taken off of pension payroll amounting to \$2.7 million so the local systems, state and teachers retirement board have been saved \$36 billion based on 2010 data.

Connarton also addressed pension reform initiative filed by the Governor that includes raising the retirement age for state workers from 60 to 67 years old consistent with Social Security. Changes would not affect current employees. Group 1 could pay as high as 11% pension contribution rate. Group 2 employees could have their retirement age to receive full benefits changed from 55 to 62 years old. Another change could be benefit would be based on five highest earning years versus three years. Section 10 benefits would be eliminated for all employees.

He also mentioned anti-spiking and double dipping rules relative to pension earnings and bona fide promotions as well as changes related to Chapter 21, and Chapter 188 mechanism to increase cola base cap. PERAC hopes the Governor's bill passes.

In response to a question about whether or not there should be an annual audit for ERRS from Andrew Gould, Finance Director, Town of Salisbury, Connarton said three and two year audits are being done by PERAC and it is not seeing major audit findings, although some systems do individual audits.

Connarton answered another question from Gould about if PERAC would have a role with communities in oversight of GASB 45 and OPEB funds. He said it depends on community what role PERAC would take. Some local systems could transfer funds to PERAC and money would be managed by PRIT. A revenue stream has to be found under GASB 45.

In response to a question from Alan Benson, Town Administrator, Town of Boxford, Connorton said the Governor's bill addresses board stipend that would be reduced from \$7,500 to \$4,500 and still includes required training.

ERRS Valuation – Kathy Riley, Segal Company

Actuary Kathy Riley summarized results of a 2011 ERRS valuation done by Segal Company where there were 3,000 versus 3,100 active participants compared to the 2008 valuation.

Average salary has increased from \$34,000 to \$38,000 over the three-year valuation period.

Retiree and beneficiary monthly benefits of less than \$1,000 or approximately \$12,000 a year accounts for half the population.

She summarized income and expenses where actuarial value of assets smoothes out market volatility and illustrates that income contributions and benefit payments have steadily increased over a 10-year period while investment income was volatile.

ERRS funding schedule is prepared based on smoothed out volatility so member communities can budget when there is investment losses (i.e., 2008) somewhat offset by the 2009 and 2010 experience.

Riley said overall experience of retirement system relative to unfunded liability compared to the prior evaluation and where ERRS expected to be shows that there is a \$98 million loss attributed to investment loss. There was a gain in administrative expenses. Also, there was a \$9 million in experience gain since salary increases were less than expected.

She briefly discussed adjustments when an employee ends up working in multiple member retirement systems and that there was no good way to carry liability for these future contingencies.

One assumption that has changed is reduction in the investment return from 8.5% to 8.25% and it is supported by asset allocation from PRIT fund. Another is mortality where people are living longer. These changes add \$17 million to \$257 million unfunded liability for retirement system. Relative to funding schedule, the employer cost has gone up based on assumption changes. On average employees are funding 9% and retirement benefit cost is 15%, Group 4 might cost closer to 16% and Group 1 cost is 12% to 13% for a municipality.

She noted that ERRB has voted a funding schedule with an 8% cap per year for eight years so the retirement system would be fully funded by 2035 as allowed in Acts of 2010 assuming assumptions are met. Member communities' portion of retirement payment is based on payroll towns submitted to ERRS.

Gould inquired about Early Retirement Incentive since his town has the largest payment on the funding schedule.

Another topic Riley said could be discussed at a future Advisory Council meeting is GASB 25 and 27 accounting standards for retirement systems likely to take effect in 2012.

Proposed ERRS 2012 Budget – Charles E. Kostro, Executive Director

Kostro said budget document summarizes what was done in ERRS budget this year and explains proposed ERRS 2012 budget that is \$52,365 less than 2011.

Advisory Council has to certify that ERRS has presented it with a detailed budget to comply with PERAC regulation. Final budget will be voted at next ERRB meeting.

Kostro mentioned that a one-time savings came from replacing three part time employees with one full time executive assistant (Kathy Carleton) at a competitive salary. Also, that ERRB members are not eligible for health insurance based on GIC guidelines for a \$40,000 savings. Legal expenses are continuing to drop with hiring of two versus six law firms supporting retirement system. No actuarial study will have to be done or budgeted in 2012. ERI for ERRS ends in 2012 for a \$61,000 savings.

With competitive procurement procedures implemented at ERRS, \$9,000 was previously paid for cleaning services at ERRS office and that should cost \$4,000 less based on bids received for this service.

Also, Tyler Technologies that provides software support gave a \$20,000 credit to ERRS and annual costs will be less than they have been historically.

Kostro also noted that if further transitions occur in 2012, it is always possible that ERRS may be subject to some unemployment compensation charges. As a contributor employer, ERRS must fund these costs on a “pay-as-you-go” basis. As no funds exist outside of the operating budget to pay unemployment compensation costs, it is proposed that \$25,000 be budgeted for this line-item in 2012.

ERRS has budgeted \$15,000 for IT consulting and retirement system needs to upgrade its computer systems. This could help member units have a more efficient way to submit production reports.

Kostro said ERRS would like an annual audit process to supplement what PERAC does to restore confidence in retirement system. Also done would be employee training so staff could work more efficiently and effectively. He mentioned \$35,000 error relative to ERRS retirement assessment that would be accounted for in 2012 budget.

He also noted that there is a five-year capital plan that addresses capital improvements primarily IT upgrades. As well as a \$50,000 reserve fund.

Kostro reiterated that ERRS wants to manage its cash better and invest it to bring more revenue into retirement system.

Personnel cost is biggest budget item and is at a level it should remain for foreseeable future. ERRS has recently hired Kenneth Mayne as new membership coordinator who begins working for retirement system on October 31.

Newsletter production has been brought in house and two publications will be done annually. Travel costs have dropped from \$20,000 to \$5,000 a year.

Kostro summarized that some new 2012 budget expenses include use of outside vendors to help ERRS improve and move its operation along faster. He noted that extensive budget document was to make financial operation as transparent as possible.

Guerin questioned if employees that left ERRS under ERI were the same employees that came back and worked 960 hours a year. Kostro said he would research this and provide her a response.

ERRB member Ira S. Singer said transparency is the goal to address reforms at ERRS.

Connarton noted that attorneys hired by the previous ERRB were hired without any competitive process and that Governor's bill addresses RFPs for legal services to prevent any abuses.

Upon a motion by Terence Hart, Eastern Essex Veteran's District, seconded by Virginia Boutchie, Treasurer, Town of Essex, the Advisory Council voted unanimously to certify that the Essex Regional Retirement Board has submitted a 2012 operating budget in the amount of \$1,086,524 for the Essex Regional Retirement System.

The Advisory Council held a moment of silence for Advisory Council member Joanne Graves, Director for the Housing Authority, Town of Manchester, who passed away suddenly last month.

Public Comment Period

None.

Motion to Adjourn

Ellen Guerin, Treasurer of Boxford, seconded by Terence Hart, Eastern Essex Veteran's District, moved that the Advisory Council adjourn the meeting at 11:11 a.m.