

**Advisory Council Meeting
June 20, 2012**

An Essex Regional Retirement Systems' Advisory Council meeting was held on Wednesday, June 20, 2012 at Salisbury Town Hall, at 10:06 a.m. to conduct votes related to actions taken by the ERRS Board of Directors with the following attendees:

Advisory Council Members:

Mark Andrews, Town of Wenham
Virginia Boutchie, Town of Essex
Christine Caron, Town of Salisbury
Donald Carter, Town of Middleton
Jacqueline Cuomo, Town of Georgetown
Ellen Guerin, Town of Boxford
Terrence Hart, Eastern Essex Veteran's Services
Greg Labrecque, Town of Groveland
Daniel Maguire, Byfield Water District
Carol McLeod, Town of Merrimac
Kevin Merz, Town of Ipswich
Barbara Michalowski, Town of Topsfield
Christine O'Sullivan, Town of Lynnfield
Warren Sproul, Town of West Newbury
Karen Summit, Town of Rowley
Jennifer Yarid, Town of North Andover
Jennifer Yaskell, Town of Manchester

ERRB Members:

Vincent R. Malgeri
Kevin A. Merz
Ira S. Singer
Susan J. Yaskell

ERRS Executive Director:

Charles E. Kostro

ERRS Executive Assistant:

Katherine Carleton

ERRB Board Secretary:

Jane Dooley

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

Kevin Merz called the meeting to order at 10:06 a.m.

Welcoming Remarks – Neil Harrington, Town Manager, Town of Salisbury

Neil Harrington welcomed Advisory Council meeting attendees and noted that ERRS had achieved significant improvements in the last few years to reform the retirement system.

Approval of Minutes for October 26, 2011 Advisory Council Meeting

Upon a motion by Donald Carter, Treasurer, Town of Middleton, seconded by Virginia Boutchie, Treasurer, Town of Essex, the Advisory Council voted unanimously to approve the Advisory Council Meeting Minutes of October 26, 2011 as presented.

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

Kevin Merz described ERRS Board of Directors process for appointing new Fifth Member Vincent R. Malgeri to complete Andrew Maylor's term. Maylor accepted a Town Manager's position in North Andover, an ERRS member community. The person serving in the Fifth Member position cannot have any affiliation with ERRS, and when an ERRS Board member leaves before the completing a term PERAC makes the replacement appointment.

So when Maylor left ERRS, the Board of Directors posted the Fifth Member position, reviewed resumes, conducted interviews and appointed Malgeri at its Board meeting on December 19, 2011 followed by a formal appointment by PERAC. Malgeri, who is an attorney in private practice and board member for the Newburyport retirement system, will serve the uncompleted Fifth Member term that expires in December 2015.

Merz also mentioned that Senate Bill 2230 would address changes to the retirement system regarding current practice where four members who come to the Board through the election process would no longer have their three-year terms expire at the same time (i.e., December 2013). This would allow ERRS Board of Directors terms to be staggered starting in 2013 with elected positions: first member serving a one-year term, second member serving a two-year term, third and fourth members serving three-year terms and appointed fifth member would continue to serve a five-year term.

Executive Director's Report – Charles Kostro, ERRS Executive Director

Charles Kostro provided updates on ERRS staff and operational changes. He noted that Kenneth Mayne, new Membership Coordinator, had joined ERRS in November and had been active reaching out to member units and in the next year would be automating production reporting system. Also in April, Anne Speicher had joined ERRS as the Finance Director.

Kostro mentioned that in compliance with pension reform requirements, ERRB had filed financial interest information for its Board members and many of the Board members have nearly met the annual training requirements.

He described new ERRS membership policy Board adopted in April as written by retirement system counsel that only applies to members that are appointed to permanent 20-hour a week positions and part time employees that drop below 20 hours a week would no longer have retirement deductions made since they are not earning creditable service.

Also mentioned was procurement policy adopted by ERRB in May that complies with Chapter 30B to ensure ERRS will have a competitive bidding process where any procurement that is \$5,000 or more would require Board approval.

Kostro summarized recent procurements for ERRS including bringing on new database provider – Pension Technology Group, new professional IT consultant – NCG Office Systems, and a new bank for operating accounts will be working for ERRS when Eastern Bank replaces Salem Five in August.

Also noted was pending RFP for annual audit due July 27, 2012, that new ERRS website was launched and includes ERRS procurement contracts in excess of \$5,000 and non-PRIT investments list for remaining ERRS funds that will eventually be sent to PRIT.

Kostro described ERRS effort to revamp its cash management practice to have \$7 million in cash to meet all expenses involving operating accounts (target zero balance with enough money to pay monthly expenses), deposit accounts (target \$4 million with sufficient cash to pay anticipated expenses), State Street account (target \$1.5 million maximum with sufficient cash to pay capital calls), and PRIT cash (\$1.5 million maintenance balance to meet unanticipated expenses).

He summarized old versus new cash management practices from last year to this year with \$21.5 million in deposit and operating accounts, \$1.8 million in State Street Custodial Account, \$23.3 million in non- or low-interest earning accounts versus having \$7 million in cash to meet expenses and \$16.3 million in additional dollars earning PRIT investment returns.

Kostro mentioned that Board would be meeting with counsel on Monday to develop an ERRS policy to guide units in what constitutes regular compensation. Also as part of pension reform, ERRS would be addressing buyback interest to clarify applicability to members who were part of the retirement system prior to April 2, 2012.

Discussion ensued between Kostro, ERRB and Advisory Council attendees pertaining to how overtime could not be used towards retirement and that ERRS could help member units determine retirement, not health insurance, liability for employees who have worked in member municipalities and outside of the communities that ERRS serves as public sector employees.

Merz mentioned that as many ERRS funds as possible that could be moved to PRIT fund were moved a few years ago. He addressed OPEB liability for member units and Chapter 32B, Section 20 relative to communities establishing OPEB trust funds and that custodian

of trust fund could be the healthcare security trust at the state rather than member community's treasurer. The money is invested into PRIT. He noted that acceptance of OPEB liability going to a trust would have to occur again and money goes to PRIT.

Kathy Riley – ERRS Actuary from Segal Company – GASB reporting rules

Kathy Riley noted that an ERRS valuation would be done next year. She mentioned that GASB would be voting June 25 on proposed accounting standard changes that are expected to pass. A primary change is financial statements for municipalities when reported will include unfunded liability proportionate to payroll. Also, there will be expanded disclosure requirements in financial statements required in 2014.

She explained that interest rate used to calculate liability would have significant impact and if interest rate is lower there will be higher liability. ERRS is currently being funded with 8.25% funding assumption. She opined that discount rate for ERRS should not have to change for disclosure although she reiterated there would be more disclosure requirements for unfunded liability.

In response to Ellen Guerin, Treasurer, Town of Boxford, who spoke to 52% funded ratio in 2011 report, Riley said funded ratio is not reported again until the next ERRS valuation.

Increase in the Minimum Survivor Benefit – Vote to Approve

Massachusetts General Law, Chapter 32, Section 12 provides that beneficiaries of members in service of a public retirement system receive a minimum benefit of \$250 per month. The Pension Reform law that became effective in November of 2011 provides a local option to increase this minimum survivor benefit to \$500 per month. The packets distributed to Advisory Council members contained a report from Segal Company showing the number of beneficiaries affected by this proposed increase and the anticipated cost to the retirement system. The Board of Directors voted unanimously to approve this increase at their meeting on February 27, 2012. For this increase to become effective, the Advisory Council must also approve it.

Upon a motion by Mark Andrews, Interim Town Administrator, Town of Wenham, seconded by Donald Carter, Treasurer, Town of Middleton, the Advisory Council voted unanimously to increase the minimum allowance contained in Massachusetts General Law, Chapter 32, §12 from \$250 per month to \$500 per month.

Increase in the COLA Base – Vote to Approve

The pension reform act passed in 2009 provided a local option for retirement systems to increase the base pension amount to which a COLA is applied in \$1,000 increments up to \$18,000. An increase in the COLA base only becomes effective when the Advisory Council also approves it. The Board of Directors voted unanimously at their meeting on March 26, 2012, to increase the COLA base from the current amount of \$12,000 to

\$13,000 effective as of July 1, 2012. Advisory Council members received a report by Segal Company on the cost to the retirement system of an increase in the COLA base to \$13,000.

Upon a motion by Daniel Maguire, Byfield Water District, seconded by Carter, there was discussion on whether or not on to increase the base pension for application of a Cost of Living Adjustment to \$13,000 for fiscal year 2013 before the Advisory Council took a vote.

Guerin spoke to the motion explaining that her vote today would reflect the representative vote of Selectmen and Finance Committee in Boxford where she serves as treasurer. She noted that she would be casting a no vote on the increase as she did last year since the Town of Boxford does not think any retiree benefit should be increased beyond that done by ERRB (3% COLA, \$360 a year for a retiree earning \$12,000 a year).

Guerin mentioned that the proposed COLA base increase is \$30 a year per employee but the cumulative effect on unfunded liability is \$3 million. She explained that Boxford in consideration of its retirees this year decreased their health insurance premiums by 4% and that existing employees in the last four years have had as little as 1.25% increase in health insurance premiums. She also noted a Town Meeting discussion that occurred in Boxford related to health insurance costs and benefits in the public versus private sector.

Merz explained that last year was not a good time for the increase, this year Social Security will have an increase, along with Mass. Teachers Retirement system having an increase as well as other retirement systems. Also, that ERRB did not support an increase of \$14,000 but the full Board was in favor of an increase to \$13,000.

In response to Boutchie, Merz concurred with her that the 3% increase is built into ERRS actuarial assessment every year (3% COLA, \$360 a year for a retiree earning \$12,000 a year) and the Advisory Council needs to vote on COLA base increase from first \$12,000 to \$13,000. Also, that there was full support of ERRB to do both increases.

Ira S. Singer, ERRB member and Town Administrator for Town of Middleton, noted that as municipal employees they are representing their member units but an equity issue has to be considered and ERRS has taken action to improve returns for retirement system including moving as many assets as possible to PRIT. In addition, that several communities are no longer continuing with salary freezes for active employees.

In response to Warren Sproul, Treasurer, Town of West Newbury, Kostro said the 3% percent COLA is determined annually by announcement from PERAC. The ERRS COLA can go up to the amount of Social Security increase but not more than 3%. PERAC's notice this year stated that the COLA for Social Security was 3.6%. The 3% limitation on a COLA is set by statute.

The Advisory Council then proceeded to the vote to increase the base pension for application of a Cost of Living Adjustment to \$13,000 for fiscal year 2013 with the

motion passing 14-3, Ellen Guerin, Virginia Boutchie and Jacqueline Cuomo, Treasurer, Town of Georgetown, opposed.

Public Comment Period

Greg Labrecque, Town of Groveland, asked ERRS to provide assessment numbers in advance of the next Advisory Council meeting to review and evaluate for accuracy. Kostro responded that Kenny Mayne would work with member units on this, provide what Labrecque requested and noted each member community would officially approve the numbers provided by ERRS.

Motion to Adjourn

Upon a motion by Guerin, seconded by Boutchie, the Advisory Council adjourned the meeting at 11:05 a.m.

Approved by vote of the Advisory Council, October 24, 2012 14 voting in the affirmative, 0 voting against:



Kevin A. Merz, Chair