

**Advisory Council Meeting**  
November 29, 2017

A meeting was held by the Advisory Council of the Essex Regional Retirement System on Wednesday, November 29, 2017 at Town Office Building a/k/a the 1910 Building, First Floor Hearing Room, 381 Main Street, West Newbury, MA. The following individuals were in attendance:

**Advisory Council Members:**

Ellen Guerin, Town of Boxford  
Vivian Haydar, Town of North Andover  
Carol McLeod, Town of Merrimac  
Kevin Merz, Town of Ipswich, Advisory Council Chair  
Barbara Michalowski, Town of Topsfield  
Karen Summit, Town of Rowley  
Jennifer Yaskell, Town of Manchester-by-the-Sea  
Virginia Antell, Town of Essex  
Cheryl Booth, Town of Hamilton  
Don Carter, Town of Middleton  
Denise Dembkoski, Town of Groveland  
Diane Doyle, Town of Newbury  
Andrew Gould, Town of West Newbury  
Charles Kostro, Essex Regional Retirement System

**ERRS Board Members:**

Susan J. Yaskell

**ERRS Staff:**

Pamela Lynch

**Public:**

Mary Winglass, Town of West Newbury  
Meredith Stone, Town of West Newbury

**Call to Order:**

Kevin Merz called the meeting to order at 1:00 p.m.

Mr. Merz notified the meeting that the Massachusetts Open Meeting Law permits meetings to be recorded and states that the Chair shall inform attendees at the beginning of the meeting of any such recording. Therefore, I am informing everyone that Pamela Lynch will be recording this meeting.

## **Approval of the Minutes of the Advisory Council Meeting of April 5, 2017**

Ms. Ellen Guerin of Boxford moves that the minutes of the meeting of the Advisory Council held on April 5, 2017 be approved as presented. The motion was seconded by Ms. Jennifer Yaskell of Manchester. VOTE: The Advisory Council voted all members in favor of the motion with none opposed and Karen Summit of Rowley and Denise Dembkoski of Groveland abstaining.

## **Public Comment Period**

There was no public comment.

## **Review of Board's Investment Policy Determination**

Mr. Merz reviewed the history of the ERRS Board's decision to move away from direct investments via private fund managers to investing the retirement system's assets in the Public Reserve Investment Trust (PRIT) Fund. He discussed the survey of units in 2009 and 2010 which resulted in the Board's decision to invest all funds in the PRIT Fund. Mr. Merz advised that 96% of ERRS assets are now invested in the PRIT Fund. He reviewed the discussions of the Board over many months in 2017 with its investment consultant, Dahab Associates, on the options available to the Board to increase returns while minimizing risk. Mr. Merz reviewed the scenarios provided by Dahab Associates and the different investment options available to the Board. He advised that ultimately the Board decided to remain with its current strategy of moving all retirement system assets into the PRIT Fund and to remain invested in the PRIT Core Fund. Mr. Merz pointed out that this decision by the Board meant that there is no longer a need to retain an investment consultant on a regular basis, saving \$30,000 annually in the administrative budget. He stated that the Board may retain an investment consultant on a periodic basis to review the system's investment strategy.

## **Announcement of New Actuary**

Mr. Merz described the procurement process that resulted in the selection of Segal Company as the new actuarial consultant for the retirement system. He noted that Segal Company had been the actuary for the retirement system up to 2012. Ms. Guerin commented that Segal Company did an excellent job in the past and is pleased with the selection. Mr. Kostro discussed the cost of the actuarial consultant and that a valuation study is scheduled for 2018. He described the requirement to conduct a competitive procurement for actuarial services which is what the Board has done.

## **First Member Election Report**

Mr. Merz reviewed the Advisory Council's approval of the schedule and procedures for the election of the First Member and noted that there had not been any changes during the election from what the Advisory Council approved in April. Mr. Merz described the

election and the process for the counting of the ballots. He indicated that he had verified that all of the ballots were submitted in accordance with the procedures approved by the Advisory Council. Mr. Merz announced that Alan J. Benson, the Town Administrator for Boxford was re-elected to the First Member position. Ms. Ellen Guerin of Boxford moved to certify the results of the election of the First Member of the Board as presented. The motion was seconded by Virginia Antell of Essex. VOTE: The Advisory Council voted all members in favor of the motion with none opposed and none abstaining.

### **PTG Employer Reporting Module Announcement**

Mr. Kostro described the proposal submitted by PTG for the implementation of an electronic reporting module for the electronic submission of the monthly deduction reports. He reviewed the negotiations with PTG to improve the language in the agreement for the provision of this service and the reduction in the annual support fee from the amount originally proposed. Mr. Kostro also discussed the method and proposed training of the units. Ms. Guerin asked if there would be any savings by way of a reduction in staff at the retirement system since it will no longer be necessary to input monthly deduction reports manually. Mr. Kostro said that there are no plans to let anyone go but that this initiative should make the retirement system operate more efficiently. Mr. Merz said that staffing needs can be reviewed once the project is implemented and compared it to treasurer-collector offices moving to using a lockbox for the receipt of tax payments, which increases efficiency but does not necessarily result in a reduction in staff. Cheryl Booth of Hamilton said that their payroll vendor is going to charge them for implementing this program and Mr. Merz responded that the ERRS Board discussed this at their meeting on Monday and will be taking steps to see that the units are not charged to participate in this initiative. Virginia Antell of Essex asked if the system could be further automated so that the monthly deduction report will come directly from the payroll vendor. Mr. Kostro indicated that PTG will need to answer this and he will contact them or it can be reviewed during the training sessions. Carol McLeod of Merrimac said that if this new system proves to significantly reduce the workload of the staff at the retirement system then a reduction in staff should be considered. Jennifer Yaskell of Manchester asked about the time-line for implementation of this system. Mr. Kostro said that PTG is going to provide a time-line which sets a date certain for the start of the system. He said that he expects everyone would be up and running on this system by the spring of next year.

### **2018 Administrative Budget Certification**

Mr. Kostro reviewed the history of administrative spending for the retirement system over the last several years. He noted that administrative expenses were initially reduced by approximately 20% when the new board was in place and that costs have remained relatively flat ever since. Mr. Kostro said that this is the seventh budget he has proposed and only the second to request an increase in administrative spending, and that the requested increase is only 1.6%. He pointed out that even with the small increase proposed for 2018, administrative costs are still below the 2012 budget and are approximately 10% below the administrative budget in 2009. While he recognizes that total administrative spending is only \$1 million and will not significantly affect the approximately \$350 million

unfunded liability, he felt it is still important for the retirement system to spend only what it needs to spend to efficiently operate the retirement system. Mr. Kostro noted that administrative spending comes from the retirement system's investment assets and, therefore, every dollar saved is the equivalent of a dollar of investment earnings. The cost increases for 2018 include an additional \$10,000 in the annual database software support fee for the PTG Employer Reporting Module and an additional \$21,000 for increased cost of the new actuary and the need to perform a valuation study in 2018. He also noted increases in salaries (2.4%), legal costs (3.2%) health insurance (23.5%) and the ERRS retirement appropriation (9.3%). Mr. Kostro described several steps taken to reduce costs and off-set the increases he described, including eliminating the investment consultant saving \$30,000, the competitive bidding for a new office security system saving \$5,100, the elimination of a secretary to take meeting minutes saving \$3,800, cancelling cellular service for Board member iPads saving \$1,900, and the elimination of the capital budget saving \$5,000. Mr. Kostro reviewed the salary budget in detail, noting that the Board and he have agreed to a five-year contract limiting his annual salary increase to 1.5%. He said that the salary reserve line-item to be used for raises for all other employees represents 2.9% of their combined salaries. Discussion ensued that 2.9% salary increases for retirement system staff should be reduced to 1.5% or 2.0%. Mr. Merz indicated that a survey of ERRS units and the percentage of the cost-of-living increases provided to employees can be submitted to the ERRS Board. Ms. Guerin of Boxford asked for an explanation on the increases in the salary of the Director of Administration and Finance. Mr. Kostro discussed the history behind the salary reserve line-item and described the role that the former First Member of the Board played in recommending such a line-item. He noted that one of the original purposes behind the salary reserve line-item was to set-aside funds so that matching offers could be made to ERRS staff if they are offered another, higher paying position. Mr. Kostro said that when he started at the retirement system, ERRS was considered a pariah among retirement boards. He said that today, this system is considered a model for others to follow and that much of its work is cited by PERAC as an example for other retirement boards. As a result, other retirement systems and public agencies have sought to hire ERRS staff and the Board has lost several employees in recent years that it otherwise wished it could retain. In the case of the Director of Administration and Finance, the salary reserve line-item was used for the purpose it was intended which he felt was in the best interest of the retirement system. Mr. Kostro noted that all salary increases are approved by the Board. Mr. Kostro was asked about the increase in health insurance and the employer/employee split. He said that the increase is due to additional employees signing up for health insurance and that ERRS is a member of the GIC and the GIC establishes the cost split for employees, which he said is 75/25. Ms. Virginia Antell of Essex moved to certify that the 2018 administrative budget for the Essex Regional Retirement System in the total amount of \$1,076,075 has been presented to the Advisory Council. The motion was seconded by Andrew Gould of West Newbury. The Advisory Council voted all members in favor of the motion with none opposed and none abstaining.

### **Retirement System Roundtable Discussion**

Mr. Gould of West Newbury stated that he recently returned from a meeting with bond advisers and that he was asked the funded ratio of the retirement system and it's not good.

He asked what can be done about the funded ratio of the retirement system. Mr. Merz responded that this Board inherited a system that was reeling from the financial losses of 2008. He reminded everyone that no other Massachusetts public retirement system lost as much in 2008 as did the Essex Regional Retirement Board. Mr. Merz felt that this massive investment loss started the process where the operations of the retirement system were looked at more closely. When the other deficiencies and problems were discovered with the retirement board, a new Board was created in 2010. The new Board is doing everything in its power to keep the cost of the retirement system down, to increase investment return and to control the increase in the system's liabilities. The new Board moved the system's investments to the PRIT Fund, instituted rules and regulations to properly govern the retirement system, and has greatly reduced costs. He also pointed to the changes in the funding schedule, including the reduction in the annual appropriation increase from 8% to 7.41%. Mr. Merz said that the Board discussed with the new actuary on Monday reducing this annual increase further. In addition, the Board must consider reducing its current rate of investment return from 7.75% to an amount more in line with other public pension systems. But such a reduction adds to the unfunded liability, which leads to an increase in the appropriation. It is a difficult balancing act, Mr. Merz said, but the only short-term way to improve the funded ratio is to dramatically increase the annual appropriation paid by the units and this is not something the Board wants to do.

**To Adjourn the Meeting:**

Mr. Andrew Gould of West Newbury moves that the meeting of the Advisory Council be adjourned at 2:05 p.m. Seconded by Ms. Virginia Antell of Essex. VOTE: The Advisory Council voted all members in favor of the motion with none opposed and none abstaining.

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**Kevin A. Merz, Chair**