

Advisory Council Meeting

April 30, 2014

An Essex Regional Retirement Systems' Advisory Council meeting was held on Wednesday, April 30, 2014 at North Andover Town Hall at 10:10 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
Donald Carter, Town of Middleton
Diane Doyle, Town of Newbury
Ellen Guerin, Town of Boxford
Terrance Hart, Director, Eastern Essex Veterans' Services
Kellie Hebert, Town of Topsfield
Dan Ouellette, Salisbury Housing Authority
Karen Summit, Town of Rowley
Jennifer Yarid, Town of North Andover
Jennifer Yaskell, Town of Manchester

ERRS Board Members:

Ira S. Singer, Kevin A. Merz, Susan J. Yaskell, H. Joseph Maney, Vincent R. Malgeri

ERRS Executive Director: Charles E. Kostro

ERRS Executive Assistant: Traci Masterson

ERRB Board Secretary: Jane Dooley

Call to Order – Kevin Merz, ERRS Second Member, Chair, Advisory Council

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

Welcoming Remarks – Andrew Maylor, Town Manager, Town of North Andover

Town Manager Andrew Maylor welcomed attendees to Town of North Andover and spoke to the importance of running meetings in compliance with Open Meeting Law and vigilance at ERRS done collaboratively with PERAC.

Approval of the Minutes of the Advisory Council Meeting of October 23, 2014

Ms. Karen Summit of Rowley moved that the minutes of the meeting of the Advisory Council on October 23, 2014 be approved as presented. Seconded by Mr. Donald Carter of Middleton. VOTE: Unanimous.

Public Comment Period

None.

Keynote Speaker – Joseph Connarton, Executive Director, PERAC – Current Issues in the Massachusetts Public Pension System

Joseph Connarton summarized how ERRS has come a long way in four years to constructively improve the retirement system and noted Legislative action to change the structure of the ERRS Board.

He also provided an overview of PERAC that included information on Commission members, an outline of Actuarial and Investment Units, Audit, Disability and Fraud Prevention Units, and Legal Unit. Mr. Connarton spoke to a trend to reduce accidental disability applications, and return to service program that has effected 126 people.

Mr. Connarton described Actuarial Overview and current plan where he noted that the FY'15 pension fund is going up 10% next year and will continue on that path. He added that the unfunded pension liability for the Commonwealth has risen to \$28.3 billion. This is the last year with adjustment for investment market downturn in 2008. Also, the actuarial rate of return has been reduced to 8%. The COLA base went from \$12,000 to \$13,000 for state employees.

He also mentioned experience study on assumption changes and noted that within mortality rates women are living longer particularly female teachers. He also spoke to average pay and benefit of teachers, state and local employees. In addition, he noted in the Investment Overview the PRIT 28 year return of 9.65% and that full funding should occur by 2036 or sooner.

Mr. Connarton spoke to fraud prevention and governance where \$39.3 million in benefit savings have been identified since inception of related program. Also mentioned was mandatory retirement board training, as well as statutory guarantee and pension benefits, and pension reforms such as increase in retirement age, increase from high 3 to high 5 earning years, elimination of Section 10 early retirements for employees entering service on or after April 2, 2012, pro-rate benefits based on employment history, and introduction of anti-spiking rule.

Mr. Connarton summarized legal issues related to legal cases such as John Buonomo, Middlesex register of probate, losing his pension and the MacAloney versus Worcester Regional Retirement system case that changed structure of creditable service for individuals on reserve list.

Also addressed was public employees' previous contributions to Social Security and resulting credits and eligibility for Social Security benefit with pension offset of 2/3rds of what an individual would be entitled to.

ERRS Updates – Kevin Merz, ERRS Board, Second Member, Chair, Advisory Council

Kevin Merz summarized how the ERRS Board had approved the retirement system's annual statement that has been filed timely for the third year in a row. In addition, he introduced concept of Board reviewing salary survey versus actuarial method for municipalities' annual retirement benefit appropriation. Ira Singer described how the actuarial method analysis identifies the breakdown of actual retirement costs for a member unit, especially relative to proportion of ordinary and disability retirements. Also mentioned was the shift in numbers that would occur if ERRS used an actuarial method and its effect on disproportionate share of disability costs. As well as the importance of pre-employment screening to potentially reduce municipal share of costs for pension benefit particularly related to disability retirements.

Discussion ensued about if ERRS does change member unit appropriation from salary survey to actuarial method each member unit would see a change and this would be phased-in gradually. Board members summarized how early assessment of actuarial allocation demonstrated that it is a fairer methodology. In addition, GASB 67 & 68 require public employers to report actual share of pension liabilities in annual audits. Merz mentioned that due to these requirements, ERRS Board voted to have a valuation study done through January 1, 2014 and information will be provided to the member units for annual audits.

In addition, as a result of member unit Essex Agricultural and Technical School's merger with North Shore Vocational Technical School 47 active employees will be moving to Salem Retirement Board. ERRS will still cover the Essex Agricultural and Technical School retirees going forward. ERRS is working with PERAC on \$375,000 appropriation (out of the retirement system's \$24 million appropriation) that will be lost with the move by the member unit/School to Salem Retirement System, there could be offsets with the move of the retirement liability. Singer mentioned that if the School were remaining with ERRS and the actuarial allocation method were used, the School would have seen a 10% to 12% increase in its retirement benefit assessment. The North Shore Vocational Technical School is currently a member of Salem system.

ERRS Investment Report – Charles E. Kostro, Executive Director, ERRS

Charles Kostro reiterated timely submittal of annual statement due to work done by ERRS Finance Director Anne Speicher as well as what she has done to increase issuing ERRS retirement checks primarily through direct deposit.

He provided a snapshot of total ERRS's \$345 million in total assets with \$311 million invested in PRIT, \$30 million in ERRS directly managed investment funds and \$3.7 million in cash equivalents. Kostro summarized investment performance for ERRS where it had the worst performance of 105 retirement systems in 2008, in 2010 ERRS investment assets were moved to PRIT, in 2013 91% of ERRS assets invested in PRIT Fund, and in 2014 PRIT Fund was at \$57.9 billion which is its highest level to date. Also,

since March 2010 PRIT Fund has had an 8% return, as of December 31, 2012 ERRS received A grade for investment return by Pioneer Institute, and ERRS asset growth has gone from \$242,718,192 in 2009 to \$344,991,750 in 2013. He also mentioned the Q1 2014 investment performance, and investment monitoring being done by ERRS including Board members meeting annually with investment managers and PRIM, hiring of Dahab Associates in 2012 and related quarterly performance reports, and that he attends PRIM Board and PRIM Investment Subcommittee meetings.

Discussion ensued about how ERRS's funding schedule to be fully funded by 2035 in consideration of 2008 investment losses, and ERRS's conservative investment rate of return to avoid over estimation relative to contributions from municipalities.

ERRS Board Meetings Video – Capital Expense – Charles E. Kostro, Executive Director, ERRS

Discussion ensued about estimated cost of up to \$40,000 for ERRS to set up and videotape Board meetings that would be downloaded to ERRS website. This year \$35,000 has been budgeted for this purpose as part of capital expense and estimated cost for ERRS to set up a videotaping system is \$20,000.

The Advisory Council weighed in on this proposal. Merz did not advocate for videotaping but noted his interest in transparency and stated that the meetings are no longer as well attended by representatives from the member units as was done historically. Ellen Guerin, Town of Boxford, mentioned that minutes documented the Board meetings well and stated that Merz was good about disseminating information.

Singer opined that videotaping Board meetings would provide full commentary and a secondary level of transparency to the Board meeting minutes similar to what municipalities do. Audio recordings of the Board meetings are maintained on ERRS server but are not posted on ERRS website due to consideration of executive sessions.

Discussion addressed how ERRS has not received any requests for the Board meetings to be videotaped beyond Board discussion on the topic. Also mentioned was that in the last four years ERRS has spent approximately \$300,000 less in administrative costs. Terrance Hart, Director, Eastern Essex Veterans' Services, and Dan Ouellette, Salisbury Housing Authority, spoke in favor of videotaping Board meetings as a means to maintain integrity of Board despite who the Board members are serving at the time. No motion was taken on this matter since it is a Board decision. Merz suggested any comments could be directed to him or Kostro on the topic.

Board Member Stipends – Local Option

Merz summarized how Board members are required to earn 18 education credits in a three-year term with a minimum of three and maximum of nine earned annually. He explained that Board members are attending classes run by PERAC and other agencies. In addition, the allowable stipend for Board members has been increased from \$3,500 to

\$4,500. Merz explained that he uses comp or vacation time to serve as a Board member, and acknowledged the amount of time that all Board members give to their positions. Joseph Connarton concurred with Merz's statements mentioning that Board members are required to do more work than in the past and that the maximum stipend amount allowed to pay Board members is \$4,500.

Ms. Ellen Guerin of Boxford moved that the Advisory Council accept the provisions of Massachusetts General Law, Chapter 32, Section 20, subdivision (6) and establish the annual stipend for members of the Board of the Essex Regional Retirement System at \$4,500 effective May 1, 2014. Seconded by Ms. Virginia Boutchie of Essex. VOTE: All in favor with Kevin A. Merz abstaining.

First Member Election Schedule – Vote to Approve

Discussion ensued about how Legislation changed the terms for Board members so there would not be four Board member elections and members changing in one year.

Mr. Mark Andrews of Wenham moved that the Advisory Council accept the schedule approved by the Board for the election of the First Member as follows:

August 22, 2014 – Letter to all qualified Chief Executives confirming their eligibility to vote and providing notice of the nomination process.

September 19, 2014 – Letter to all qualified Chief Executives opening the nomination process.

October 10, 2014 – Deadline for closing nominations.

October 17, 2014 – Distribution of ballots to all qualified Chief Executives.

November 7, 2014 – Deadline for submission of ballots. Ballots mailed in must be postmarked by this date. Ballots delivered by hand must be received and time stamped by the close of business on this date.

November 13, 2014 – Counting of ballots and certification of results to PERAC.

Seconded by Mr. Dan Ouellette of Salisbury. VOTE: Unanimous.

Motion to Adjourn

Ms. Ellen Guerin of Boxford moved that the meeting of the Advisory Council be adjourned at 12:10 p.m. Seconded by Ms. Karen Summit of Rowley. VOTE: Unanimous.



Kevin A. Merz, Chair