Advisory Council Meeting

October 15, 2014

An Essex Regional Retirement Systems' Advisory Council meeting was held on Wednesday, October 15, 2014 at Ipswich Town Hall at 10:01 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
Michael Bertino, Town of West Newbury
Cheryl Booth, Town of Hamilton
Donald Carter, Town of Middleton
Ellen Guerin, Town of Boxford
Robyn Januszewski, Northeastern Mass. Mosquito Control
Ryan Lennon, Eastern Essex Veterans' Services
Daniel Maguire, Byfield Water District
Carol McLeod, Town of Merrimac
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, Vincent R. Malgeri

ERRS Executive Director: Charles E. Kostro
ERRS Executive Assistant: Traci Masterson
ERRS Member Services Analyst: Scott Provensal
ERRS Board Secretary: Jane Dooley
ERRS Actuary: Larry Stone

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

Kevin Merz called the meeting to order at 10:01 a.m.

Welcoming Remarks – Robin Crosbie, Town Manager, Town of Ipswich

Town Manager Robin Crosbie welcomed attendees to Town of Ipswich and spoke to green crab composting, intent to revitalize the downtown, and change in retiree healthcare costs which is reducing OPEB liability.

Approval of the Minutes of the Advisory Council Meeting of April 30, 2014

Ms. Ellen Guerin of Boxford moves that the minutes of the meeting of the Advisory Council on April 30, 2014 be approved as presented. Seconded by Mr. Donald Carter of Middleton. VOTE: Unanimous.

Public Comment Period
None.

ERRS Updates – Kevin Merz, Chair, Advisory Council

Kevin Merz acknowledged passing of Terry Hart and Advisory Council held a moment of silence to honor Terry. Merz provided an **ERRS Investment Performance Update** highlighting as of June 30, 2014, where the retirement system is valued at $354 million. As of August 31, 2014 with member unit appropriations added the ERRS asset value is $377 million. ERRS is investing 90% with the PRIT fund with remaining 10% invested in private equity and real estate contracts. Once these contracts expire funds will be put into PRIT fund. The PRIT fund is at $61.2 billion, the highest since inception.

Merz summarized **First Member Election Update** relative to ERRS Board member staggered terms. Nomination papers for First Member were sent to all ERRS member unit town managers, town administrators and superintendents. One nomination was received from Andrew Maylor, Town Manager of North Andover, who nominated Ira Singer. Election ballots are due by November 7 and ballots will be counted at retirement system office in Danvers on November 13. Advisory Council members are welcome to attend.

He also mentioned **Potential ERRS Office Move** relative to the space and parking in Danvers not working as well as it could for ERRS staff and retirement system retirees. Discussion ensued about ERRS Executive Director Charles Kostro speaking with commercial real estate brokers in Danvers and how ERRS had purchased the office condominium suites for $185,000 and $190,000 in 2000. ERRS is tax-exempt so it does not pay real estate taxes. Kostro noted ERRS pays $17,000 a year in condo fees. Singer noted that ERRS is investigating if there is surplus office space at the Essex Aggie school.

Merz described **Essex Aggie Transfer Update** where the Essex Aggie and North Shore Vocational Technical School merged as of July 1, 2014. As a result, Essex Aggie employees were transferred to the Salem retirement system as was the $1.3 million in contributions made by former ERRS members. The Essex Aggie retirees remain with ERRS and the retirement system is seeking assistance from PERAC in accounting for the cost of these retirees and for mitigating the cost of the merger that will be borne by the remaining ERRS 47 versus 48 member units. PERAC has recommended filing special legislation to correct oversight. Kostro met with superintendent of Essex Aggie after newsletter articles were published about the matter. He also is discussing potential move to refurbished facility on Essex Aggie campus with the superintendent.

James Powers of Powers and Sullivan described how a similar circumstance occurred in 1997 when Middlesex County was abolished as state discontinued county form of government. Powers noted that retirees from county government stayed with retirement system and active employees were transferred to the state's retirement system as part of a regional retirement deficit. The state made retirement whole by conducting an actuarial valuation of retirees and all funds and assets were transferred. Any member communities of the county had a reduction in funding on their cherry sheets to make the state whole. Powers recommended ERRS review the county legislation. He offered to forward the referenced citation and special act information to ERRS. Powers mentioned that the members of the county were different from the members of the county retirement system. He said these cities and towns that were members of Essex Aggie before the abolition of Essex Aggie are liable since the retirement costs were passed down to them through assessments and state said it was not fair to charge all of the members of the retirement system (i.e., water districts that participated in county) a share. Discussion ensued about how the Essex Aggie retiree charge is as much as 4% of ERRS assessment, and that Middlesex County analogy may help ERRS.

ERRS 2015 Budget Presentation – Charles E. Kostro, Executive Director

ERRS has 2,700 active members, and 1,100 inactive members. ERRS has clarified membership eligibility requirements for employees. If an employee falls below 20 hours a week that person will no longer accrue creditable service and, therefore, will no longer have deductions taken out but can contribute to OBRA. ERRS's assets are $377 million, a historical high. Also, ERRS has invested its $20 million in member unit appropriations it receives annually to grow its assets. Charles Kostro summarized budget details highlighting controlled or under budget administrative spending and this year's budget is proposed at $1,015,558. Budget increases for 2015 include: $7,500 for Board member stipend, 5% increase in employee salaries to establish a salary reserve fund, 8% for retirement appropriation, and $1,195 for database provider. Some budget decreases include less funding for actuarial services, IT consulting, legal fees, election expenses and capital account (i.e., video tape recording of ERRS Board meetings). Trends in ERRS controlling costs are seen with legal expenses and employee salaries. Kostro noted that this is the fourth consecutive year that the administrative budget has been reduced compared to the prior year. He also noted that ERRS has also finished under-budget for administrative expenses in each of the last four years.

Kostro reviewed the proposed salary line-item for 2015. He noted the 2015 budget adds line-item for pay increases, which is capped at 5% of total employee salaries. He reviewed the plan to award salary adjustments after 1/1/2015, which will be voted by ERRS Board at an open meeting. Kostro also stated that salary adjustments are based on the completed performance review process and are merit based. He also noted that ERRS is working on a reorganization of staff designed to improve ERRS services. The salary reserve will fund 2015 salary adjustments and will also be available during the year to match competitive offers in order to retain top performers.

Mr. Mark Andrews of Wenham moves that the meeting of the Advisory Council does hereby certify that the Board has submitted an administrative budget for 2015 in the amount of $1,015,558 for the Essex Regional Retirement System. Seconded by Ms. Karen Summit of Rowley. VOTE: Unanimous.

2013 Annual Audit Presentation – Renee Davis, Powers & Sullivan

Renee Davis summarized results of ERRS's 2013 annual audit relative to PERAC's guidelines and to ensure regular reconciliations and internal control processes are being implemented by ERRS. There were no proposed audit adjustments. Findings and recommendations included: $10,000 in old/abandoned checks which are being addressed, proof of age in older files, and new member forms and I-9 forms where new procedures are in place.

Davis spoke to GASB67 accounting standard that relates to pension systems increasing disclosures and required supplementary information in financial statements such as unfunded liability and net pension liability. GASB68 is for cities and towns to report unfunded liability and net pension liability (about ERRS) in financial statements in a 10-year period including unfunded OPEB. Financial statement information about ERRS would be provided to member units through a retirement system report. New testing will be required as part of these new accounting standards. Meetings have occurred with the ERRS Board, PERAC and CPAs as part of calculating liability and reporting that information to member communities. The ERRS Board decided at its April meeting to change its two-year valuation schedule so ERRS Actuary Larry Stone has time to gather information that he needs to present to member cities and towns in time for next June's FY'15 audit requirement.

The Advisory Council took a break at 10:55 a.m. and reconvened at 11:06 a.m.

Valuation Study as of 1/1/2014 Presentation – Larry Stone, Stone Consulting, Inc.

Larry Stone spoke to need for up-to-date valuation so results could be presented related to GASB67/68 in member units' FY'15 financial reports. The actuarial accrued liability ($676.5 million) is associated with service that has already occurred (i.e., all retirees and employees with 10 or more years of service). Stone also addressed the unfunded actuarial accrued liability as $348.7 million, gross normal cost of $15 million and net normal cost of $4.2 million. A transition is occurring where employees have historically paid two-thirds of pension benefit and the percentage paid by employees is increasing. Asset smoothing is used to recognized gains and losses over a five-year period of time. A significant increase is being seen in unfunded liability due to ERRS's 2009 asset loss and mortality assumption change since people are living longer so retirement system is going to have to pay a larger amount of pension funds.

Stone summarized annual returns relative to market and actuarial value of assets as well as annual returns and deferred gains/losses reflected in funding schedule for FY'17 through 2020. He also addressed actuarial assumptions including an 8% interest rate from the prior valuation, as well as select and 3.75% ultimate salary assumption. Stone noted the importance of the new mortality assumptions where men's average life expectancy is longer and is impacted generationally, is reaching that of women and how this increases the amount of years that a retirement system has to pay out benefits. The actuarial valuation gives ERRS a systematic way to budget ahead to pay for retiree benefits when retirees are older and living longer. Stone explained the effect of generational mortality on results increasing costs in AAL, UAAL, Gross NC, Net NC equaling present value of future benefits for all employees of $32 million.

This information is used to determine a systematic funding schedule which the ERRS Board has not selected yet. The Board is considering FY'16 and FY'17 funding schedules using 8% increases from prior years. To address the increased unfunded liability or additional years that ERRS is going to have to pay benefits, additional years of 7% increases, a longer schedule or graded increase from 7% down to 4% or a combination of these strategies could be used, likely in a 20 to 22 year period. Stone presented valuation highlights including funding ratio with assets divided by accrued liability and how ERRS is making some progress. He noted that gross normal cost as a percentage of payroll is 12.5% with employee contribution of 9%, net normal cost of 3.5% and administrative expense from .6% to 1.8%. Stone described possible risks involved related to retirees living longer than expected and ERRS not realizing the 8% assumed rate of return. He summarized that ERRS has had excellent investment return, and the ERRS Board implemented mortality assumption change, so the retirement system will see increase in future payments.

Stone spoke to how there will be a lot more disclosure with GASB67/68 (i.e., Essex Aggie and statement of assets) and that there is a separation from accounting and funding. Discussion ensued about how state is not funding municipalities with as much local aid as in the past, more of pension burden is placed on employees, and people are working to 67 years old especially since early retirement is less valuable. Discussion addressed how the funding schedule that the ERRS Board is working toward relative to unfunded liability has 7% interest years, and 2035 deadline. Michael Bertoni of West Newbury recommended lowering assumed rate of return to 7.5% or 7.75% and was not in favor of extending 2035 deadline to make up any difference in funding. Stone responded that his clients that lowered the percentage did not realize a significant difference. He noted that PRIT is using 8% and old mortality assumptions and mentioned that ERRS is more conservative. Discussion was on how state is not contributing to pension fund at the same rate as cities and towns while Massachusetts does fund more reasonably than other states. Powers suggested that ERRS can analyze its unfunded liability and noted that there are past service costs that the pension systems are trying to amortize and this could be a manageable cost since future employees will be contributing more towards their retirement benefits.

Merz reiterated how member units will be paying more due to people living longer. He also referred to deferred compensation and ERRS having a COLA base of up to $13,000. Also, how retirees are losing money as time goes by due to inflation and impact to people as they live longer. He recommended Advisory Council members speak to employees about the importance of setting aside money in deferred compensation plans since they will not be able to rely entirely on retirement benefit from ERRS to fund their retirement.

Motion to Adjourn

Mr. Mark Andrews of Wenham moved that the meeting of the Advisory Council be adjourned at 11:51 a.m. Seconded by Ms. Ellen Guerin of Boxford. VOTE: Unanimous.

Kevin A. Merz, Chair