

Advisory Council Meeting

October 14, 2015

An Essex Regional Retirement Systems' Advisory Council meeting was held on Wednesday, October 14, 2015 at Middleton's Flint Library at 1:00 p.m. to conduct votes related to actions taken by the ERRS Board of Directors with the following attendees:

Advisory Council Members:

Virginia Antell, Town of Essex
Cheryl Booth, Town of Hamilton
Donald Carter, Town of Middleton
Diane Doyle, Town of Newbury
Ellen Guerin, Town of Boxford
Carol McLeod, Town of Merrimac
Kevin Merz, Town of Ipswich
Mark Webber, Salisbury Housing Authority
Jennifer Yarid, Town of North Andover
Jennifer Yaskell, Town of Manchester

Also present from ERRS member units:

Neil Harrington, Town of Salisbury
Andrew Maylor, Town of North Andover

PERAC Actuary: James Lamenzo

ERRS Board Members:

H. Joseph Maney, Kevin Merz, Vincent Malgeri

ERRS Executive Director: Charles Kostro

ERRS Director of Administration and Finance: Anne Speicher

ERRS Membership Coordinator: Donavin Bentley

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 1:10 p.m.

Approval of the Minutes of the Advisory Council Meeting of April 22, 2015

Ms. Ellen Guerin, Town of Boxford, moves that the minutes of the meeting of the Advisory Council on April 22, 2015 be approved as presented. Seconded by Mr. Donald Carter, Town of Middleton. VOTE: Unanimous.

Public Comment Period

None.

ERRS Updates – Kevin Merz, Chair Advisory Council

GASB 68 Report

Kevin Merz highlighted how Essex Aggie retirees' liability is included in the GASB 68 report for 2014 and is separated from other ERRS units. He mentioned recent meeting with state officials, ERRS representatives and chairman/superintendent of Essex Tech on the Essex Aggie retirees liability.

H. Joseph Maney, ERRS Board Chair, who attended this meeting reported on how for two years Essex Tech has not paid for unfunded liability for pension costs for Essex Aggie retirees, and legislators have been pursuing having the state pay the \$748,000 deficit in a supplemental state budget and new language would be included stating that Essex Tech would pay for the unfunded liability for Essex Aggie retiree pensions going forward. This legislative action has yet to come to fruition.

At the recent meeting with the new Essex Tech superintendent, new chair of Essex Tech School Committee, and Essex Tech lobbyist who took the position that it was not clear what the responsibilities were for parties involved in part because PERAC was not clear in the matter and legislation would be required for clarity. However at the meeting there was acceptance that Essex Tech is the successor agency and has obligation going forward, and that some vocational/technical schools have retirement costs paid for by the state. However, these schools are part of the state retirement system which covers their pension costs and there is complexity associated with when bills are sent to the schools due to differences in how the entities follow calendar and fiscal year schedules.

Maney spoke with the chair of the Essex Tech School Committee who stated it was clear that Essex Tech is the successor agency and it would owe the unfunded liability to ERRS. Another issue to resolve is when the active Essex Aggie employees were transferred from ERRS to Salem retirement system and when current employees from the merged North Shore Vocational Technical School and Essex Aggie retire, ERRS will receive a bill from the Salem system for the unfunded liability of those people and Essex Tech needs to be in the position to pay that bill directly. He opined that there is hope that the state will be willing to pay for the first two years of unfunded liability for the Essex Aggie retirees that has not been paid for by the School. Essex Tech claims it cannot bill its 17 member communities for the expense retroactively. ERRS hopes the liability issue will be resolved in the next few months before another year transpires and third year of unpaid Essex Aggie retirees' costs by Essex Tech will have to be addressed.

Discussion ensued about how previously Essex Aggie was paying retirement costs to ERRS as one of the retirement system's member units, and legislation mandated that current Essex Tech employees are now part of the Salem retirement system. The Essex Aggie retirees remain with ERRS and are not part of annual appropriation because there

are no current salaries. The legislation that dissolved Essex County said Essex Aggie would be part of ERRS and if Essex Aggie was dissolved the successor agency would be responsible for the unfunded liability of the retirees. Since Essex Tech has not assumed that responsibility ERRS is seeking money for the unfunded liability.

Jim Lamenzo, PERAC actuary, commented that the active employees in ERRS from Essex Aggie went to Salem and only annuity savings fund at a low interest rate went with them. ERRS funding for these people stays with the retirement system and retirees also stay as well as their related liability. The goal is to make both ERRS and Salem retirement system whole before and after the merger of Essex Aggie and North Shore Vocational Technical School. To do this the liability for the active employees and retirees has to be determined as well as how much annuity savings fund assets transferred from ERRS to Salem system. PERAC is talking to the state about the problem.

ERRS transferred \$1.3 million to Salem retirement system for Essex Aggie active employees. A meeting occurred with Salem retirement system in July with ERRS actuary and auditors, Salem board and actuary about the matter. ERRS will follow up to settle that Essex Tech is the successor agency, determine the retirees pension payment amount and how it will be paid, and how payments will be made going forward. Lamenzo stated that when a similar situation happened as the result of the dissolution of Essex County there was no unit to pay for retirees left behind it was spread to other towns. ERRS faces this with increased appropriation for remaining member units. This occurred in FY'2016 where 47 remaining units covered the cost for the dissolved 48th unit. Once there is agreement on the dollar amount owed annually by Essex Tech and the Commonwealth pays what is missing to ERRS for Essex Tech (former Essex Aggie retirees) in last two years this will pay down the unfunded liability and over time the ERRS member unit payments will be reduced rather than refund given for FY'16 payment.

Discussion was on how retirees have not moved over to another system (i.e., ERRS's Essex Aggie retirees going to Salem retirement system). If the Essex Aggie retirees were transferred to Salem retirement system this could solve part of the problem but only transferring these individuals' annuity savings fund is not fair. Also mentioned was how member communities of Essex Tech are paying for tuition for students attending the School. Maney noted that Essex Tech School Committee chair had stated that student tuition cost is \$20,000 a year for a tech student and \$8,000 for Aggie students. In addition, that there would be a Town Meeting requirement for member units to pay if costs for FY'15 and FY'16 for Essex Tech are billed to the member communities. ERRS recognizes that it is not fair for its member communities to bear the cost of the Essex Aggie retirees unfunded liability. ERRS will continue to work to resolve the issue.

Valuation Study in 2016

The last ERRS valuation study was effective as of January 1, 2014. To meet the requirement of doing a valuation study every two years, ERRS will have such a study done for 2016 beginning in the spring and completed in the fall. When ERRS's Board receives the valuation study report, it will be looking to change its assumed rate of return

(i.e., 8% to 7.75%) which makes the unfunded liability grow. The funded ratio as of January 1, 2014 was at 48% and plan is to be fully funded by 2035.

PERAC Response – Reserve Police & Call Fire Wages

ERRS respectively disagrees with PERAC that any wages paid as overtime can be counted as regular compensation. ERRS agrees with PERAC that wages paid to call firefighters and reserve police officers must be regular, recurring and from a predictable schedule in order to be considered regular compensation. Discussion was on how it is difficult for ERRS at times to know if a person is having deductions from call fire wages, and what member units arrangements are with call firefighters and occasionally reserve police officers. PERAC letter clarified when deductions should be taken. A copy of PERAC's letter is included in Advisory Council member packets and can be distributed to unit payroll coordinators. Payroll Coordinators should also feel free to contact ERRS if they have questions.

First Member Election Update

Ira Singer, ERRS Board First Member, retired on October 2, 2015. The election process will be conducted with member unit chief executives for a new First Member to serve on the ERRS Board within 30 days of Mr. Singer's retirement date, after that time PERAC would choose the new First Member. Alan Benson and Tracy Blais are nominees for the position to serve for the remainder of Mr. Singer's term for two more years. The Board is following the election guidelines and ballots from the chief executives have to be postmarked by October 19.

First Board Member Special Election:

Ms. Ellen Guerin of Boxford moves that the Advisory Council accept the schedule approved by the Board and submitted to PERAC for the election of the First Member as follows:

August 24, 2015 – Letter to all qualified Chief Executives opening the nomination process.

September 24, 2015 – Deadline for closing nominations.

September 29, 2015 – Distribution of ballots to all qualified Chief Executives.

October 19, 2015 – 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.

October 27, 2015 – Counting of ballots and certification of results to PERAC. First Member term begins and is effective until December 1, 2017.

Seconded by Ms. Virginia Antell of Essex. VOTE: Unanimous.

Fifth Member Appointment Update

ERRS Board's Fifth Member has a five year term. The current Fifth Member's term was coming up and advertising was done for the position. The Board met and reviewed the two resumes received and voted to reappoint Vincent Malgeri to another five-year term expiring in December 2020. Merz acknowledged significant contribution that Malgeri has brought to the Board. Malgeri expressed his enthusiasm to continue serving the Board.

ERRS Staff Changes Update

Appreciation was given for Ira Singer who just retired from ERRS Board. Also ERRS staff has been reorganized and training done across positions so more personnel can serve the member unit employees and retirees better. Kathy Carleton was hired back to the ERRS organization in late July to make staff complete.

Actuarial Appropriation Method – Options – James Lamenzo, PERAC

PERAC Actuary James Lamenzo summarized general methodology for PERAC doing annual appropriation letters each year where the law states that appropriations get split to governmental units by the aggregate rate of compensation on September 30 preceding the fiscal year. He noted that in practice it is difficult to do appropriation based on payroll allocation so it is important to be consistent from year to year (i.e., methods used include: annualized hourly rate, annualized pay for nine months of year times 12 months, one month of pay times 12) although most of these methodologies are not what the law says.

Lamenzo spoke to rather than splitting by payroll but by liability and normal costs for each of the units in a system with individual funding schedule based on an actuarial appropriation method. He opined that the actuarial basis is the way the appropriation should be done since it is fairer although it cannot be mandated but PERAC allows it if a Board votes to adopt it. Twenty boards are currently using the actuarial appropriation method.

There is one problem with the actuarial appropriation method being that any unit that wants to put in extra money to pay down its unfunded liability this would be shared across the other member units. The Middlesex Retirement System went to actuarial basis 10 years ago and split the assets to all of the 70 units and tracks cash flow and splits the investment earnings equally as a percentage of employee contributions. Their actuary and board are required to do a lot more work as part of this methodology. All of the member units have different funding ratios and get credit for their appropriations.

Lamenzo recommended if ERRS considers going to an actuarial basis it should determine if this would be the traditional actuarial basis or a step beyond with individual system for each unit.

He also mentioned the valuation pay alternative so instead of splitting the September 30 payroll allocation the actuary splits the pay by all of the units and this pay is used for the next two years in doing the allocation. Five boards use this technique in part as an effort to prevent fraudulent payroll information being used.

Lamenzo reiterated how PERAC allows actuarial appropriation (for the last 20 years) if a board adopts that methodology. A handful of boards have decided not to adopt the actuarial basis since appropriations can go down for some member units (i.e., school departments or housing authorities) while other appropriations will go up (i.e., towns).

Discussion ensued about consideration for actuarial appropriation due to member unit towns that have a lot of disability retirements and that they would be paying their fairer share thus encouraging member unit towns not to have as many disability retirements and to avoid involuntary disability retirements when possible. Lamenzo noted that the actuarial appropriation method is fairer because it recognizes the true liability for all member units. The problem is what about the assets and how they should be divided amongst the units.

Discussion was on ERRS's actuary giving the ERRS Board actuarial appropriation projection of which of the 48 member units appropriation would go up and would go down and there was significant fluctuations. In general the regional schools went down and some of the towns went up. If ERRS were to consider implementing the actuarial appropriation method it would be phased in over a number of years (i.e., three years as was done by Worcester system and will be done by Berkshire system).

Discussion was on if ERRS adopted the actuarial method, PERAC would likely not be sued by any member units but would there be the possibility of suit of the ERRS Board by a member unit. It was noted if ERRS were to use the actuarial appropriation Manchester's assessment would go up by \$350,000. Lamenzo noted that PERAC had previously talked about working to rewrite the law to allow actuarial appropriation since it is the fairer method. He noted that in Berkshire retirement system where the actuarial appropriation is being implemented one town will experience a significant increase due to larger number of disabilities or other reason that numbers are higher but it has been accepted that this is fairer and method will be phased in over three years.

Lamenzo disagreed that part of being in a regional retirement system is that all member units should carry liability costs of member units with higher disability costs. He emphasized that a valuation will identify the liabilities so why not more accurately assess member units for their individual liability. Lamenzo reiterated that PERAC will allow retirement systems to use the actuarial method but it will not mandate they use this methodology.

Discussion was on how division of assets would be done relative to a member unit's assessment with actuarial appropriation method. Lamenzo explained that if the liability of the system is 10% of the total for one unit the assets would be 10% of the total. The

assets would be allocated at the same percentage as the liability so every member unit's funding ratio would be the same. Lamenzo stressed that this is better and fairer than the payroll method. Discussion was on how 19 of the 20 systems under PERAC that have adopted the actuarial appropriation method work with percentage of assets as the same as each unit's liability. While the hybrid Middlesex Retirement System method, which is the best, fairest way to use the actuarial appropriation, requires more work and cost. For 10 years Middlesex has been tracking cash flow by unit. The report for this system can be seen on PERAC's website.

Discussion addressed how for FY'15 ERRS developed numbers for member units if the actuarial appropriation method were used and this topic was discussed at Advisory Council meeting. The issue was raised about economies of scale associated with actuarial appropriation method for some member communities prompting thought about whether or not participation in a regional retirement system continues to make sense for them. Lamenzo concurred that the assessment numbers could go up significantly for some member units if the actuarial appropriation method were implemented. He noted that the Berkshire retirement system went to the actuarial appropriation method to be accurate within reason rather than sharing costs across the system.

Also mentioned was that the regional school systems would realize the largest savings if the actuarial appropriation method were implemented by ERRS and communities with the most Group 4 employees would averagely have to cover the costs. Although regional school systems use Group 4 employees (i.e., police and fire) when necessary without the associated costs. ERRS will distribute the actuarial appropriation numbers developed for FY'15 electronically to ERRS member units. The ERRS Board would vote on whether or not the retirement system would adopt the actuarial appropriation method. This could occur when the 2016 valuation is done when ERRS Board considers advantages to other appropriation methodologies versus the payroll method. Kevin Merz suggested Advisory Council members could contact the First and Second Board Members as well as the ERRS Executive Director on the matter.

ERRS 2016 Administrative Budget Presentation – Charles Kostro

Executive Director Charles Kostro highlighted how since 2010 the administrative spending has been dropping from \$1.3 million to just less than \$1 million at ERRS. This year ERRS is looking for a 2.5% increase related to GASB 67/68 since more work is required by auditors (\$10,000 in 2016 budget increasing auditing budget from \$30,000 to \$40,000) and RFP is out for three year auditing contract, election costs for Third and Fourth Member (\$10,000), capital cost for possible move of ERRS office (\$10,000), and remainder of budget is going down \$3,000.

Also, a salary reserve fund was created last year (\$22,000 budgeted last year and \$16,000 used in salary adjustments due to reorganization and performance review), and salary adjustments are done in December after performance reviews are completed. This number is expected to be \$11,750 for this year. The salaries are well below where they were with the prior ERRS Board in 2008 and 2009.

Discussion was on whether or not ERRS would move and how the current office is not receptive to public entity (i.e., limited parking and small conference room space). ERRS will also decide in 2016 if it will continue to own office space or lease and if it will sell the currently owned office space or lease as a revenue generator. The ERRS Board has reviewed the ERRS 2016 Administrative Budget and made a few changes that were incorporated into the version provided to the Advisory Council.

Ms. Ellen Guerin of Boxford moves that the Advisory Council does hereby certify that the Board has submitted an administrative budget for 2016 in the amount of \$1,063,265 for the Essex Regional Retirement System. Seconded by Ms. Cheryl Booth of Hamilton. VOTE: Unanimous.

Second Member Election – The Second Member of the Board of ERRS shall be a member of the Advisory Council and shall be elected by a majority of those present and voting at a public meeting of the Advisory Council, properly posted and specifically calling for such an election (MGL C.34B, Section 19A).

Kevin Merz went over the details of the Second Member Election addressing nominations and deadlines as well as how the Second Member has historically served as the Chair of the Advisory Council. He is the only person who submitted a nomination which was for himself for a three year term. Merz also described how the election would occur with ERRS staff monitoring and verifying votes, and that he would open and read ballots. The election occurred and Merz opened and read 10 ballots cast with 10 votes for Kevin Merz as Second Member and no other votes received.

Ms. Jennifer Yaskell of Manchester moves that the Advisory Council does hereby certify the election of Kevin Merz, as the Second Member of the Board of the Essex Regional Retirement System to serve a term of three years beginning on December 2, 2015, and further to appoint Kevin Merz as Chair of the Advisory Council. Seconded by Virginia Antell of Essex. VOTE: Unanimous.

Motion to Adjourn

Ms. Virginia Antell of Essex moves that the meeting of the Advisory Council be adjourned at 2:35 p.m. Seconded by Ms. Jennifer Yaskell of Manchester. VOTE: Unanimous.



Kevin A. Merz, Chair