

Minutes of the meeting held on June 11, 2018

Present: Francis Murphy – Chair, James Monagle, Nadia Chamblin-Foster, John Shinkwin, Ellen Philbin, James Quirk and Chris Burns.

Absent: Michael Gardner (Gardner participated in the discussion of Agenda Item #6 by phone, but did not vote.)

The meeting was called to order at 5:01 PM. The meeting was digitally recorded.

Agenda Item #1 – Minutes

Motion by Shinkwin, seconded by Monagle to accept the regular minutes of the meeting held on May 10, 2018. Voted unanimously.

Motion by Monagle, seconded by Shinkwin to accept the executive session minutes of the meeting held on May 10, 2018. Voted unanimously.

Motion by Chamblin-Foster, seconded by Shinkwin to accept the minutes of the investment review meeting held on May 21, 2018. Voted unanimously.

Agenda Item #2 - Warrants

Motion by Chamblin-Foster, seconded by Shinkwin to accept payment of warrant #10 in the amount of \$7,223,554.71 and to accept payment of warrant #11 in the amount of \$177,965.85. Voted unanimously.

Agenda Item #3 – Superannuations

Motion by Shinkwin, seconded by Monagle to accept the Superannuation retirement applications submitted by Cristina Beamud, Legal Advisor, Police Department with fifteen years, four months; William Dwyer, Superintendent of Streets, Dept. of Public Works with twenty-two years, four months; Edward Henley, Senior Housing Building Inspector, Housing Authority with forty-one years, eight months; Jose Hernandez, Appliance Repairman, Housing Authority with thirty years, eleven months; Aral Lecorps, Safety Specialist, School Department with thirty-two years, four months; Phyllis Newton, Family Liaison, School Department with forty-one years; Lorraine Paulino, Special Ed Paraprofessional, School Department with fifteen years; Tanya Pickett, Registered Nurse, Cambridge Health Alliance with nineteen years, one month and Ronald Richard, Fire Alarm Operator, Emergency Communications Department with thirty-two years, two months. Voted unanimously.

Agenda Item #4 - Make-ups/Redeposits / Liability

The Board reviewed make-up and redeposit worksheets for twelve members.

Motion by Chamblin-Foster, seconded by Shinkwin to allow the make-up of contributions requested by Janet C. Borron, one year six months; Rachele R. Boyce, one year; Patricia S. Bradshaw, four years, ten months; Nadezhda Davila, one year; Renea Fontanez, three months; Turquoise T. Gosmon, six years eight months; Hayley A. Greland, two years four months, requesting acceptance of liability; David M. Harmon, seven months, requesting acceptance of liability; Stephen J. Lenkauskas, two months; Nicholas Mochi Jr., two months; Richard H. Rose, ten months; Maureen Spinetti, three months; also to allow the redeposit of a refund requested by David M. Harmon, four months. Voted unanimously.

Agenda Item #5 – Refund Applications

The Board reviewed a list of refund applications submitted in May.

Motion by Monagle, seconded by Chamblin-Foster to accept ten refund applications. Voted unanimously.

Agenda Item #6 – Draft of 2018 Actuarial Valuation

The Board reviewed a draft actuarial valuation prepared by Segal Consulting.

Kathy Riley and Madison Ossmus represented Segal. David Kale, Michelle Kincaid and Sarah Stanton also attended the presentation.

Riley reviewed changes to the plan demographics over the last two years. The number of active participants continues to fall slightly, mainly as a result of the Hospital ceasing to enroll new employees. Total payroll increased by 4.9%. This amount was higher than expected, resulting in an experience loss. The system also saw an experience loss due to lower mortality than expected. Riley described the process of asset smoothing, recognizing gains and losses over a four-year period. She noted that in 2016, the Board had opted to recognize some investment losses immediately. Investment performance in 2016 and 2017 was quite strong. Under the usual smoothing method, not all of the gains would be recognized immediately. Riley calculated an unrecognized gain of \$79 million which would be recognized in future years, or could be used to offset future losses.

Riley stated that the Board should update the current mortality table, which would result in a \$5.2 million increase to unfunded liability. Actuarial tables continue to assume increases in life expectancy, although the rate of increase has slowed slightly. She noted that recent media reports have described a decrease in life expectancy, often attributed to an opioid epidemic, however these reports rely on a different methodology from that used by actuaries. Riley did not recommend making any change to the salary growth assumption, which is currently set at 4.5% annually. Riley stated that she prepared funding schedules which would reflect a change in the return assumption, lowering the rate from 7.75% to 7.5%, 7.375% or 7.25%. Segal's projection of likely returns predict expected returns of 7.35% annually over the next twenty years. Over the next five years, expected returns are only 6.5% annually. Projected returns have fallen consistently since 2009. She stated that the Board should carefully consider the likelihood of returns falling short of the return assumption in the near future.

The present funding schedule brings the system to full funding in 2026, and the City's appropriation payment will increase by 5.85% each year. Going forward, payments are assumed to be made in one lump sum at the start of each fiscal year. The first three funding schedule proposals change the return assumption to 7.5% annually. Schedule 1 recognizes all investment gains immediately, and maintains the 5.85% annual growth in the appropriation payment. This schedule would bring the system to full funding in 2025. Schedule 1A also requires immediate recognition of investment gains. It keeps a 5.85% appropriation increase for two years, then moves to flat payments from that point forward. This brings the system to full funding in 2026. Schedule 2 recognizes only actuarial gains. The appropriation increases 9.75% each year in order to maintain full funding by 2026.

Monagle stated that he was concerned about the appearance of recognizing gains immediately, noting that the system has tended to follow the smoothing approach with excess gains, and only recognized losses early. Gardner stated he also felt the system should recognize only the actuarial value of assets, and that he would tend to favor adopting Schedule 2. Kale noted that the payment increase under Schedule 2 was about \$1 million in the first year and \$3.5 million in the second year, which would be a significant expense. Riley also reviewed schedules which included lowering the return assumption to 7.375% or 7.25%. Each of these schedules required much higher increases in the City's appropriation.

Kale stated that he felt that adopting Schedule 1A would allow the system to move to a more realistic return assumption, while maintaining the same cost level and keeping the 2026 funding date. He stated that the City would likely be comfortable with that schedule, although he stressed that he intended to review the matter with the City Manager. Riley stated that she would prefer to see the system use the actuarial value of assets, although the City obviously also needs to consider what would be affordable.

The Chairman stated that he would prefer not to take a vote immediately, and he requested that the Board wait to get input from the City Manager and vote in July. He stated that it was his sense that the Board was likely to move to a 7.5% return assumption, and he instructed Riley to begin

preparing GASB 67/68 reports using that assumption. Riley stated that she felt it would be beneficial for the Board to review further risk analysis and stress testing, and that this information could be included in the final report. It would not affect the 2018 valuation, but Riley stated she felt it would be helpful in looking forward to the 2020 valuation.

The Chairman requested to adjourn the open meeting and go into executive session for the purpose of discussing disability retirement applications. The Chairman stated that the meeting would reconvene in open session at the conclusion of the executive session. On a roll call, the vote was as follows:

Nadia Chamblin-Foster:	YES
John Shinkwin:	YES
James Monagle:	YES
Francis Murphy:	YES

Agenda Item #7 – Accidental Disability Benefit – Robert Bilikas

The Board reviewed the certificate and narrative report of a joint medical panel, the member’s application, treating physician’s statement and employer’s statement pertaining to Robert Bilikas’ accidental disability application. Robert Bilikas appeared before the Board, with his attorney, Judson Pierce.

Motion by Monagle, seconded by Shinkwin to accept the findings of the medical panel and grant Accidental Disability benefits to Robert Bilikas. On a roll call, it was voted unanimously.

Agenda Item #8 – Accidental Death Benefit – Robert Dahl

The Board reviewed correspondence from Attorney Gerald McDonough, correspondence and medical records from Robert Dahl’s treating physician, and contemporaneous personal notes made by Mr. Dahl concerning his medical condition. Marie Dahl appeared before the Board, with her daughter, Carol Sullivan and her attorney, Gerald McDonough.

Motion by Shinkwin, seconded by Chamblin-Foster to grant Accidental Death benefits to Marie Dahl, surviving spouse of Robert Dahl. On a roll call, it was voted unanimously.

Agenda Item #9 – Investment Consultant Proposals

The Board reviewed six responses to the Investment Consultant RFP.

The Chairman noted that the process by which Board should review RFPs was discussed at the MACRS conference. The Director distributed worksheets for each Board member to use in ranking the responses. The Chairman reminded members not to discuss their rankings with each other prior to the next Board meeting. He stated that members should bring completed worksheets to the July meeting, but those sheets should not be sent to the Executive Director in advance of the meeting.

Agenda Item #10 - PERAC Memos

No PERAC memos were issued in May, and no action was taken.

Agenda Item #11 - Old Business

Not needed.

Agenda Item #12 - New Business

Not needed.

Agenda Item #13 - Executive Session

Agenda Item #7 – adopted

Agenda Item #8 – adopted

Agenda Item #14 - Chairman's Report

The Chairman stated that he attended the MACRS conference. He stated that he felt there were a number of very informative presentations.

Agenda Item #15 – Executive Director's Report

Not needed.

The following documents were also reviewed by the Board:

- List of Retiree Deaths
- PERAC Investment Report, 2017
- PERAC Pension News, May 2018
- Manager/Vendor Disclosure Statements: SSGA Russell 2500 Growth Index Strategy, State Street S&P 500 Flagship NL Fund.
- Correspondence from Susan Redlich re: fossil fuel divestment.
- Top1000funds.com article re: Thirst for data serves Mass PRIM.
- RBC Quarterly Report – March 31, 2018

Monagle moved to adjourn at 7:15 PM.