

March 12, 2019  
Minutes #554

**Minutes of the Board of Trustees' Meeting -1-**

**Call to Order:** Acting Chairman Sanders called the meeting to order at 8:36 a.m.

**Present:** Trustees: Harry Ntapalis, Bob Gagne, Bill Sanders and Dianne Mercier  
Departed at 9:38.

**Linked Telephonically:** Chairman Molan was present, alone on the phone line.

MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

**Absent:** Jeffrey Plourde and Mayor Craig

**In Attendance:** Attorney John Rich from McLane Middleton, Professional Association,  
Ken Alberts from Gabriel, Roeder, Smith and Co., Kevin Leonard  
from NEPC, and Mark LaPrade and Tyler Butler from Berry Dunn

**Approval of the Minutes of the Previous Board Meeting:**

Acting Chairman Sanders entertained a motion to approve the minutes of the previous board meeting held February 12, 2019.

Trustee Mercier moved to approve the minutes of February 12, 2019, seconded by Trustee Ntapalis.

Pursuant to Title VI, Public Officers and Employees, Chapter 91-A Section 91-A:2 Meetings Open to Public, Acting Chairman Sanders conducted a roll call vote.

Roll Call Vote:

Ayes: Messrs Mercier, Gagne, Ntapalis, Sanders and Molan

Nays: None

Motion Carried.

**Report of the Executive Director:**

**Quiet Month in Advance of Valuation Results:** Mr. Fleury stated that February was an uneventful month as the 2018 transactions were completed to close the Plan year.

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Dual Authentication Implemented: Mr. Fleury reported that the System boosted security associated with remote email access by implementing dual authentication. He explained that when any staff member accesses their work email from a remote internet connected device, it sends a message to their cell phone which must be acknowledged before the email connection can be made. He noted that the security enhancement will serve the organization well in the event of a disaster, which necessitates operation from an alternate site.

Pending Security Upgrades at State Street: Mr. Fleury stated that services from State Street Bank have involved the use of two applications with separate User IDs and passwords. Over time, he explained, the custody applications were updated to require dual authentication through the use of a token fob, while Retiree Services depended on frequent mandatory password changes as the primary line of defense from hackers. He informed the trustees that this is set to change soon when Retiree Services moves into the same product used by custody clients. He noted that the change promises to be more user friendly for State Street clients.

NEPC Client Conference Plans: Mr. Fleury stated that the timing of the May 2019 NEPC Client Conference in Boston will allow for interested persons to attend without the need of changing the MECRS May meeting date. Anyone who wishes to attend may register directly with NEPC or MECRS staff will be happy to handled your registration.

Trustee Gagne inquired as to the date of the upcoming client conference, to which Mr. Kevin Leonard responded that the NEPC Conference will be held on May 7<sup>th</sup> and 8<sup>th</sup>, 2019.

Executive Director to Attend Opal Public Funds Summit in July: In closing his report, Mr. Fleury announced that he will once again be attending the Opal Public Funds Summit East at the end of July in Newport, RI and that he is scheduled to participate on a panel of Executive Directors from Public Funds. He pointed out that it may still be possible to obtain seats for the conference, for those trustees who are interested and to please let the MECRS Staff know as soon as possible.

**Approval of the Immediate Meeting Agenda:**

Acting Chairman Sanders entertained a motion to approve the immediate meeting agenda. Trustee Gagne moved to approve the immediate agenda, seconded by Trustee Mercier.

Acting Chairman Sanders conducted a roll call vote.

Roll Call Vote:

Ayes: Messrs Mercier, Gagne, Ntapalis, Sanders and Molan

Nays: None

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Motion Carried.

**Report of the Monthly Cash Balance:**

Mr. Fleury reported that the Cash Balance was on target for February. He reported a redemption of \$2.5 million from the S&P 500 Exchange Traded Funds, in order to facilitate capital calls from Kayne Anderson Real Estate and Private Advisors VIII. He is anticipating an additional early redemption in April or early May and he will be in contact with the System's Investment Consultant, NEPC as the need arises.

**Report of the Investment Committee:**

Committee Chairman Ntapalis reported that on March 7th, the committee met with NEPC Representative Sebastian Grzejka, to review the January 2019 Flash Report, the 2019 Asset Allocation Review, and to review the Real Asset Program & Strategic Investment Plan. He stated that the 2019 Asset Allocation Review included recommended revised asset allocation alternatives developed by NEPC and identified as Mix A and Mix B. After discussion on the implications of both alternatives and the current allocation, he reported that a motion was made by Committee Member Gagne to adopt Mix B, which received a second from the Committee Chairman and the motion passed. He further explained that no new managers will result from this change, however one manager will be eliminated. In summary, Chairman Ntapalis stated that as a result of this change, the expected return assumption for 5 to 7 years will increase from 6.6% to 6.8%, and the 30-year return will rise from 7.7% to 7.9%. Committee Chairman Ntapalis then informed the board that a schedule of redemptions and reallocations will be generated by NEPC, for execution by MECRS staff.

Committee Chairman Ntapalis moved that the full MECRS Board ratify the recommendation of the Investment Committee to change the Asset Allocation for 2019 by adopting NEPC's "Mix B" alternative, seconded by Trustee Gagne. Acting Chairman Sanders conducted a roll call vote.  
Roll Call Vote:

Ayes: Messrs Mercier, Gagne, Ntapalis, Sanders and Molan

Nays: None

Motion Carried.

In closing his report, Committee Chairman Ntapalis indicated that the committee also discussed a recommendation by NEPC to conduct manager interviews for an additional allocation to "Value Added" Real Estate. The date for that meeting, he noted is set for Thursday,

April 4, 2019 and three previously vetted managers, (two of whom are already MECRS managers) will be interviewed for a \$4 million commitment.

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**Report of the Benefits Committee:**

Committee Chairman Gagne noted that the next Benefits Committee meeting would be held immediately following the adjournment of the Board of Trustees meeting.

**Consent Agenda:**

Trustee Gagne moved to accept the Consent Agenda, seconded by Trustee Mercier.

Acting Chairman Sanders conducted a roll call vote.

Roll Call Vote:

Ayes: Messrs Mercier, Gagne, Ntapalis, Sanders and Molan

Nays: None

Motion Carried.

**New Business:**

**Mr. Ken Alberts of Gabriel, Roeder, Smith & Co Was Present to Deliver the Preliminary Results of the Actuarial Valuation for 2018. -**

Mr. Alberts began by stating that the funding objective of the Retirement System is to establish and receive contributions which, when expressed as percent of active member payroll, will remain approximately level from year to year and will accumulate sufficient assets over each member's working lifetime to finance promised benefits throughout retirement.

Mr. Alberts stated that from the actuarial perspective 2018 was a fairly uneventful year citing that the two activities influencing the results of the valuation were health care activity and investment returns.

Referring to the charts on page A-15, Mr. Alberts detailed the actual experience verses the expected experience of active members, members added to and removed from service and also reflecting the System's member gains and losses.

Turning the board's attention to the Development of Funding Value of Assets on page A-4, Mr. Alberts reported the 2018 market rate of return as negative 5.4% compared to a 7% expected return, resulting in a loss of 12.5% or \$28 million. Per the System's funding policy, this loss is smoothed over 5 years. Due to smoothing, the fund will only recognize \$5.6 million of the \$28

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million market loss in 2018. . As a result of gains and losses from each of the last four years, in total MECRS will be recognizing an \$8.2 million loss on assets on an actuarial basis for 2018. He explained that the funding value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed 5-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than market value. The funding value of assets is unbiased with respect to market value. At any time, it may be either greater or less than market value. If actual and assumed rates of investment return are exactly equal for four consecutive years, the funding value will become equal to market value.

On page A-7, Computed Contributions for the City's Fiscal Year 2020, Mr. Alberts reported the Contributions Expressed as % of Active Member Payroll, resulted in a total normal cost of 12.92%, which is unchanged from last year. He clarified that the demographics of the active population did not change materially and activity related to the SB402 purchases were insignificant, therefore not affecting the normal costs.

Next, Mr. Alberts referred to the chart on page A-8, Computed Contributions for the City's Fiscal Year 2020. Contribution Rate Reconciliation. He reported that the computed pension contribution rate for the City's fiscal year 2020 as 27.13% of covered payroll and the computed health subsidy contribution rate for the City's fiscal year 2020 as 2.20% of covered payroll for a combined rate of 29.33%. He indicated that the contribution rates are sufficient to finance the employer normal cost and to amortize the unfunded accrued liability (full funding credit) as a level percent-of-payroll over a period of 21 years for pension benefits, and for health subsidy benefits.

Discussion followed regarding alternatives of the 5-year smoothing method and taking the volatility out of change in the valuation.

Trustee Gagne stated that the 5-year smoothing method is an adequate system, and that using more frequent measurement periods might result in the need to adjust the employer contribution rate more frequently. This would not be a desirable situation given the annual nature of municipal budgets.

Mr. Alberts provided the board with a theoretical option of averaging the values and obtaining a more average number without having to make frequent adjustments on the employer contribution rate.

Trustee Sanders pointed out that as the amortization period shrinks and possible future investment losses occur, the result will cause the employer contribution rate to increase. Therefore, Trustee Sanders felt that shortening the amortization period in the future, may have a positive impact on the funded status of the Plan.

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Mr. Alberts continued to address the table on page A-8 pointing out that the experience loss, 0.99% for pension and 0.18% for health increased the employer rate by and aggregate 1.17%. Mr. Alberts next referred to page A-10 of the preliminary valuation and stated that in addition to the investment losses, the Health Subsidy portion of the trust incurred other losses due to changes in members electing coverage. He reported that while thirty-one (31) new retirees were expected to elect coverage, 35 retirees actually elected coverage. In addition, 6 existing retirees who had not been in the group elected to join and start coverage.

Referring to Comment G in the presentation, Mr. Alberts explained the load for end of career payments affecting final average compensation is currently 10%. He then provided a historical schedule of the increases over the last 10 years.

Turning to page A-5, Mr. Alberts then addressed the "Allocation of Funding Value of Assets" chart and the "Development of Unfunded Actuarial Accrued Liability (UAAL)" chart for the year ending 2018, which resulted in a funded ratio of 62.8% for pension benefits and 46.3% funded for the health subsidy benefits. He stated that the Pension UAAL of \$135,105.903 is amortized over a closed 21-year period and health subsidy UAAL of \$15,427,174 also amortized of a 21-year period.

Trustee Gagne moved to accept the preliminary valuation as presented, seconded by Trustee Mercier and passed by all those trustees present.

Acting Chairman Sanders conducted a roll call vote.

Roll Call Vote:

Ayes: Messrs Mercier, Gagne, Ntapalis, Sanders and Molan

Nays: None

Motion Carried.

Mr. Alberts thanked the board for their time and departed.

With the departure of Trustee Mercier at 9:38 a.m., there was no longer a quorum therefore the board meeting ended.

Respectfully Submitted,

Gerard E. Fleury  
Executive Director