

The regular meeting of the Andover Contributory Retirement Board was called to order by Chairman Cuticchia on Thursday, August 25, 2016 at 8:00 a.m. in the Board of Selectmen's Conference Room located in the Town Offices. Present were: The Chairman, Jim Cuticchia, Elena Kothman, Tom Hartwell, Theo Moccia and Tony Stankiewicz. Also present were Administrative Assistant, Helen Armano and Board Counsel, Michael Sacco.

Public Hearing - Actuarial Equivalent interest rate

Mr. Cuticchia began the meeting with a Public Hearing to discuss the Actuarial Equivalent interest. Mr. Cuticchia stated the Board previously voted to set the actuarial equivalent interest at 3% when errors occur, however, PERAC issued a memo on the matter and Mr. Cuticchia turned the floor over to Attorney Sacco for an explanation. Attorney Sacco explained any retirement board may request the Commission to approve a regulation which supplements the provisions of the Commission's rules, however, prior to the Board submitting the regulation to PERAC for review and approval, there shall be a public hearing to allow the public to comment on a particular regulation and if the Board wanted to make any changes, they could do so at that time. At this time, Mr. Cuticchia asked the audience for any comments regarding the actuarial equivalent rate.

With no comments from the audience, it was moved by Mr. Stankiewicz, seconded by Mr. Hartwell and voted 5-0 to maintain the 3% actuarial equivalent interest rate as previously set. Attorney Sacco will forward Ms. Kothman the regulation and appropriate documentation to be submitted to PERAC for their review.

At this time, Mr. Cuticchia closed the public hearing and continued with the regular meeting. Mr. Cuticchia stated the representative with Dahab Associates was running late, therefore, requested the agenda be moved out of order until Mr. McNeillie arrives.

Monthly Payroll, Salaries, Stipends

It was moved by Mr. Stankiewicz, seconded by Ms. Moccia and voted 5-0 to approve the monthly retirement payroll for August 2016 as follows:

Annuity	183,810.92
Pension	<u>906,587.78</u>
Total	1,090,398.70

It was moved by Ms. Moccia, seconded by Mr. Hartwell and voted 4-0-1 to approve the monthly salaries for August paid as follows (Ms. Kothman abstained):

Elena Kothman (Aug 2016)	7,070.04
Helen Armano	<u>4,256.12</u>
Total	11,326.16

It was moved by Ms. Kothman, seconded by Mr. Stankiewicz and voted 4-0-1 to approve the monthly stipends paid as follows (Ms. Moccia abstained):

Theodora K Moccia 08/31	250.00
David J Reilly 08/31	<u>250.00</u>
Total	500.00

Expenses

It was moved by Mr. Hartwell, seconded by Mr. Stankiewicz and voted 4-0-1 to approve the following expenses for the month (Ms. Kothman abstained):

Andover Copy Center, copies of 1 st Notice of Election Letter	41.00
Elena Kothman, reimbursement for ET digital access, August	19.99
Pension Technology Group, Document imaging & mgmt. project	24,750.00
Ricoh, monthly copy machine expense (Sept)	126.57
The Law Offices of Michael Sacco, July 2016	1,536.00
Town of Andover, reimbursement for FY2016 staff health insurance	23,958.79
WB Mason, misc office supplies	<u>87.22</u>
Total:	50,519.57

Receipts:

The Board was informed of the following receipts:

Employee Contributions - July 2016:

Town	193,752.07
School	36,858.30
AHA	<u>3,653.45</u>
Total	234,263.82

Misc Receipts:

Lump sum rollover makeup pmt rec'd	11,055.06
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Appropriation Payment received:

Town & School, FY2017 appropriation payment paid in full	8,581,969.00
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At this time, the Board noted receiving the appropriation payment from the Town/School and Ms. Kothman stated \$1M was used for August operating expenses. A brief discussion took place to decide on how the money should be invested. At this time, Mr. Hartwell stated he would like to ask Mr. McNeillie his opinion and asked the Board to defer discussion until Mr. McNeillie arrives.

Refunds:

It was moved by Ms. Moccia, seconded by Mr. Stankiewicz and voted 5-0 to approve the following refund:

Vikkilyn Gallagher, School, Cr Serv = 2y, 0m, 0d 09/01/14-09/01/16

Makeup Request:

It was moved by Ms. Moccia, seconded by Mr. Stankiewicz and voted 5-0 to approve the following makeup request:

Christopher Clemente, Town, request to buy back previous time worked for the State Retirement System for which a refund was issued. State accepting liability for 2y, 7m, 17d 08/23/1987-11/17/1990

Intent to Retire

It was moved by Mr. Stankiewicz, seconded by Mr. Hartwell and voted 5-0 to approve the following intent to retire forms submitted:

Thomas P Lambert, Town, DOR 08/14/2016, Cred Serv = 13y, 8m
 Kim A Glesmann, School, DOR 09/01/2016, Cred Serv = 15y, 0m
 Deborah A Navarro, School, DOR 10/09/2016, Cred Serv = 20y, 1m

Deaths

The Board was informed of the following deaths:

Marjorie Johnson, Town Library, DOD 07/31/2016, DOR 10/28/1976, DOE 10/28/1962

Retirement Allowance Calculations (Not Approved by PERAC):

Charles E Heseltine, Town, Police, DOR 08/01/2016, Cred Serv = 34y, 2m, Superannuation
Monthly Allowance: \$9,130.67 Annual Allowance: \$109,568.04

Thomas P Lambert, Town, P&F, DOR 08/14/2016, Cred Serv = 13y, 8m, Superannuation
Monthly Allowance: \$1,196.28 Annual Allowance: \$14,355.36

Retirement Allowance Calculations (Approved by PERAC):

Deborah L Fay, Town, DOR 07/03/2016, Cred Serv = 32y, 0m, Superannuation
Monthly Allowance: \$3,775.50 Annual Allowance: \$45,306.00

Marie C Robertson, Library, DOR 07/03/2016, Cred Serv = 29y, 4m, Superannuation
Monthly Allowance: \$2,992.08 Annual Allowance: \$35,904.96

Deborah J Palumbo, Town, DOR 07/10/2016, Cred Serv = 16y, 0m, Superannuation
Monthly Allowance: \$1,440.00 Annual Allowance: \$17,280.00

Jean A Soucy, Town, DOR 07/17/2016, Cred Serv = 39y, 5m, Superannuation
Monthly Allowance: \$4,278.72 Annual Allowance: \$51,344.64

Katherine Urquhart, Town, DOR 07/17/2016, Cred Serv = 31y, 0m, Superannuation
Monthly Allowance: \$5,462.67 Annual Allowance: \$65,552.04

Donna Morse, Town, DOR 07/20/2016, Cred Serv = 34y, 9m, Superannuation
Monthly Allowance: \$4,279.38 Annual Allowance: \$51,352.56

Recalculation - Retroactive Contract Settlement (approved by PERAC):

Susan T Katzenstein, Library, DOR 06/10/2016, Cred Serv = 28y, 1m, Superannuation
Monthly Allowance: \$5,028.92 Annual Allowance: \$60,347.04

PRIT

It was moved by Ms. Kothman, seconded by Mr. Stankiewicz and voted 5-0 to note receipt of the PRIT statement for the period ending 07/31/2016.

The Board noted Paul Todisco's email dated 08/10/2016 re PRIT representatives attending the 12/15/2016 Retirement Board meeting.

Report from Executive Director - Other Business

- a. PERAC - Memos 19, 20 & 21/2016 - Ms. Kothman stated PERAC has launched a new website and they are requesting retirement boards review their specific Board's posted information for accuracy.

Emerging Issues Forum, Thursday, 09/15/2016 at Holy Cross

PERAC Pension News August 2016 No 43 - Ms. Kothman noted State Actuary, Jim Lamenzo, completed the 2016 State valuation study and commented on the State lowering their discount rate from 7.75% to 7.5%.

PERAC ltr dated 07/18/16 rejecting updated Fees for Copies of Public Records - Ms. Kothman discussed PERAC's letter informing the Board that their supplemental regulation for Fees for Copies of Public Records was not approved and stated she contacted Attorney Sacco. At this

time, Attorney Sacco stated updates to the public records law will take effect on 01/01/2017 and there will be regulations from the Secretary of Commonwealth, Public Records Division, in which the Board will need to comply, therefore, rather than make changes now, he recommends waiting for the new statute to go into effect and then submit a supplemental regulation. Attorney Sacco noted the Board is in compliance until 01/01/2017.

Board to take no action at this time.

b. NCPERS - *The Monitor* August 2016

2016 Public Pension Funding Forum 08/21-23 in New Haven, CT - Board Member Hartwell attended the forum and gave the Board an update stating he was hoping for a solution to the pension crisis, however, there wasn't one and commented the emphasis seemed to be on cities, towns, and states to contribute more. Mr. Hartwell stated there were a few presentations given by various companies offering their solution to the crisis including an investment firm that suggested lowering the portfolio's volatility by dropping the standard deviation down from 12 to 10, however, he wasn't sure about the specifics for this solution, therefore, suggested the Board ask PRIM at the December Retirement Board meeting. Mr. Hartwell stated there was also discussion on rebalancing and commented he would like to ask PRIM if they use mechanical or qualitative rebalancing. Mr. Hartwell commented on a presentation given by an actuarial firm that had an excellent discussion on risk management, various measurements, negative markets, underperforming and the effect of compounding. Mr. Hartwell stated the larger firms appear to have stronger risk management practices and suggested the Board look at their practices. Mr. Hartwell stated other topics of discussion included 401Ks versus defined benefit plans, how much time should be spent on asset allocation, and various suggestions on how to pay the pension fund, including taking revenues, such as parking fees, or selling town owned property to fund the pension system.

c. Mass Retirees - *The Voice* September 2016

d. MACRS - PTG Reports/Forms Training for Board Admins, 09/12/2016, Billerica - Ms. Kothman informed the Board MACRS is hosting a PTG training session on Monday, 09/12/2016, from 10:00 a.m. - 12:00 Noon and asked the Board to approve closing the office while she and Ms. Armano attend the training session. Board approved and Ms. Kothman will update the website that the office will be closed while staff attend the training session.

closing hrs on website for training session.

e. Misc - The Hartford, Insurance renewal notice rec'd 08/16/16 (renewal date 10/23/16)

Thank you note for COLA from retiree Anna Wiehe

Actuarial Valuation of the System as of 01/01/2016:

Mr. Hartwell asked for clarification on why Segal used a 3.5% inflation rate, but used 2% for the 2016 capital market assumptions. Mr. Hartwell commented the federal rate is 2%, the 30-year global rate is 3.5%, and the US rate for 10 years is 2.2%. Mr. Hartwell asked the Board to contact Segal to ask about the 3.5% inflation rate and how it impacts our liabilities. Ms. Kothman will send an email to Ms. Riley for an explanation.

Next, Mr. Hartwell informed the Board he attended the Tri-board meeting at Memorial Hall Library on 08/24/2016 and Town Manager, Andrew Flanagan, presented a five year financial forecast which is projecting a deficit of approximately \$27M of which \$3.2M is Retirement and he asked the Board to reconsider the funding schedule they adopted at the last meeting.

At this time, Deputy Town Manager, John Mangiaratti, distributed copies of the five year forecast and discussed the analysis that compared the former retirement funding plan to the current funding plan. Mr. Mangiaratti stated the current funding plan approved by the Retirement Board represents an increase of \$3.2M over the next five years. Then, Mr. Mangiaratti informed the Board the Town is in the process of formulating a committee to work on ways to decrease expenses to help balance the budget and asked the Board to allow the committee the opportunity to give a presentation at a future

meeting. Next, Mr. Mangiaratti reviewed the projected obligations of health insurance, retirement, and OPEB and commented it is currently 17% of the budget, however, it will increase to approximately 21% in the next five years.

Ms. Moccia asked if the projected obligations included the recent increase in premiums for retirees and Mr. Mangiaratti responded it did and stated the Town is projecting an 8% increase in healthcare premiums over the next five years. Mr. Cuticchia questioned where 8% came from.

At this time, Mr. Cuticchia asked if there was any analysis done that compared what the additional cost on interest would be to the Town if the contribution rate was lowered and the funding schedule was extended out versus the cost increase for the current two year funding schedule. Mr. Cuticchia commented that it has been suggested, in the past, that the Retirement Board hasn't required the Town to adequately fund the pension system. Mr. Cuticchia stated there is an obligation to pay the retirement system and asked that the committee do an analysis to determine what the increased cost would be and to see if the Town should be contributing more towards debts that have already been incurred. Mr. Cuticchia stated he feels it's important for the Board to listen to the Town and committee's recommendations. Mr. Cuticchia stated the Board is open to the committee giving a presentation at a future Retirement Board meeting and asked that the committee give the Board advanced notice to allow it to be scheduled on the meeting's agenda.

Retirement Board Election:

Ms. Armano reported nomination papers are available in the Retirement Office and are due on or before 12:00 Noon on 09/16/2016. Ms. Armano noted receipt of nomination papers for Ms. Kothman.

Cash books:

May 2016 (2nd reading)

It was moved by Mr. Hartwell, seconded by Mr. Stankiewicz and voted 5-0 to approve the trial balance, cash receipts, cash disbursements, adjusting journal entries, and bank reconciliation for the month of May 2016.

June 2016 (1st reading)

The Board conducted a first reading of the June 2016 cash books and a vote will be taken at the September meeting.

Cash balance

It was moved by Mr. Hartwell, seconded by Mr. Stankiewicz and voted 5-0 to approve the cash balance as of August 25, 2016 as follows: Bank of America - \$7,760,237.89. The Board noted \$1M of the appropriation payment was used for August operating expenses.

Next meeting

It was moved by Mr. Kothman, seconded by Mr. Stankiewicz and voted 5-0 to confirm the next Retirement Board meeting will be held on Thursday, September 22, 2016 at 8:00 a.m.

It was moved by Ms. Kothman, seconded by Ms. Moccia and voted 5-0 to take a 5 minute recess while waiting for Dahab Associates to arrive.

Dahab Associates

The Retirement Board reconvened at 9:02 with all board members present. Mr. Cuticchia introduced Greg McNeillie of Dahab Associates and turned the floor over to him to present a performance review of the Andover Retirement System through June 2016. Mr. McNeillie reported on the relative performance of the PRIT fund, noting good returns on fixed income. Mr. McNeillie reported Andover's return for the quarter was 1.9% bringing the YTD to 3.8%. Next, Mr. McNeillie reviewed

Andover's investment growth over the last five years which included actuarial assumption and cash flow. Mr. McNeillie stated there was a negative cash flow, however, this type of cash flow is normal for a Mass pension fund. Mr. McNeillie noted PRIT has out-performed their benchmarks over the past five years.

At this time, Mr. Cuticchia informed Mr. McNeillie the Board received the appropriation payment from the Town, however, delayed their vote on deciding how to invest the money to get his opinion on the matter. Mr. McNeillie responded to continue investing it with PRIT. Mr. Hartwell asked whether or not it should be invested in sleeves. Mr. McNeillie stated the Board will be provided with options after their allocation study is complete, but for now, recommended investing it with PRIT.

It was moved by Ms. Kothman, seconded by Mr. Stankiewicz and voted 5-0 to invest \$7.5M into the PRIT fund with an additional \$1M to be used for August payroll expenses.

Mr. Stankiewicz left the meeting at this time.

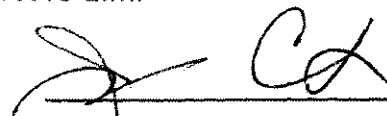
Next, Mr. McNeillie reviewed PRIT's returns and allocations of various portfolios and a lengthy discussion ensued. Mr. Hartwell asked whether or not Dahab agrees with PRIT's philosophy on hedge funds and Mr. McNeillie responded no and would address hedge funds when their study is complete. Mr. Hartwell stated he attended a conference and an investment firm gave a presentation that included a discussion about standard deviation and lowering the volatility. Mr. Hartwell asked whether or not Dahab would be providing the Board with any suggestion on lowering the volatility. Mr. McNeillie stated one of the benefits of being invested in PRIT is they are very diversified which effects the deviation in a positive way, therefore, Dahab's goal will be to keep the standard deviation the same, but try to achieve incremental returns by investing in domestic equity outside of the PRIT fund.

Mr. Hartwell left the meeting at this time.

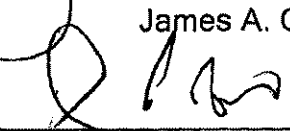
At this time, Mr. McNeillie concluded his review and Mr. Cuticchia stated the Board recently voted to set the rate of return at 7.25% and asked Mr. McNeillie his opinion on the rate. Mr. McNeillie responded they do not give recommendations on return rates, however, once the Board chooses a rate, Dahab could justify it based on capital market returns and other various factors, noting the rate is valid over the next 20 to 25 years. Then, Mr. McNeillie distributed various handouts which included the Horizon 2015 survey of capital market assumptions, 2015 actual market returns, and 2015 actual market returns/forecast returns hybrid. Considerable discussion ensued regarding the various options on the funding schedule and whether or not to extend the funding schedule out past 2032.

Adjourn

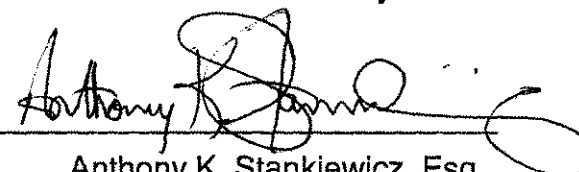
It was moved by Ms. Kothman, seconded by Ms. Moccia and voted 3-0 to adjourn the meeting at 10:15 a.m.




 James A. Cuticchia



 Thomas P. Hartwell



 Anthony K. Stankiewicz, Esq.



 Elena M. Kothman

 Theodora K. Moccia