



MBTA  
RETIREMENT  
FUND

# INTERIM DIRECTOR'S ANNUAL REPORT TO THE BOARD OF THE MBTA RETIREMENT FUND – 2019

*February 21, 2020*

*John P. Barry*

# About this Annual Report

- » **Purpose.** The purpose of this Annual Report is to provide the Retirement Board with management's overview of the Fund's accomplishments in 2019 and to preview proposed actions for 2020 (and beyond) – it is not meant to be an exhaustive report of all activities or actions items. While respecting the bounds of confidentiality and privacy, the Retirement Board is committed to transparency, and is publically posting this abbreviated version of the Annual Report that was originally delivered by Mr. John Barry to the Retirement Board on February 21, 2020.
- » **Continuous Improvement.** The Fund is dedicated to continuously improving its operations and customer service. Accordingly, it may revise or modify its planning for *Project 2020*, as described in this Annual Report, or thereafter, to dynamically adapt to changes in the operating environment or to otherwise reflect the needs of its membership. Feedback is encouraged.

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# MBTARF Strategic Planning – “Project 2020”

## **MBTARF Strategic Plan – (2015-2019)**

In 2019, the MBTARF completed the final year of its 2015-2019 Strategic Plan. Accomplishments achieved pursuant to that Plan include:

### » **Goal A - Improve financial reporting, accountability and transparency**

- Produced the Fund’s first four (4) CAFRs following GFOA Guidelines (received three (3) Certificate(s) of Excellence)
- Supplied the MBTA and Commonwealth with information for the “Open Checkbook” and “CTHRU” initiatives
- Complied with the Public Records Law (PRL)

### » **Goal B - Cultivate a high-performing, professional and innovative organization**

- Hired and Developed Professional Staff
- Conducted Annual In-Service Trainings/Adopted Best Practices
- Fostered a “Customer Service” Culture

### » **Goal C - Develop a technologically sophisticated infrastructure to better serve members and retirees**

- Developed and Maintained the Fund’s Website
- Incorporated Information Governance, Information Technology, Cybersecurity Protections and related Best Practices
- Improved Pension Benefit Service and Software Performance – *(PTG rollout - ongoing)*

### » **Goal D - Adopt fiduciary and governance “best practices” to attain the highest levels of ethics and accountability**

- Updated Fiduciary Standards and Investment Policy Statement (IPS) – Conducted Board Training
- Improved Internal Investment Compliance Procedures
- Developed a Self-Reporting Working Relationship with PERAC

# MBTARF Strategic Planning – “Project 2020” (Cont.)

## MBTARF Strategic Plan – (2020-2023)

- » **Project 2020.** The Project 2020 Team (comprised of Fund management and its outside counsel) is in the process of developing a new, transformative Strategic Plan for Board consideration covering the four (4) year period, commencing in 2020 and ending in 2023 with the 75<sup>th</sup> Anniversary of the Fund’s founding in 1948.
- » **Methodology.** The Project 2020 Team collected and analyzed information, obtained through anonymous surveys and interviews of Fund senior staff, in order to develop long term goals, specific objectives within those goals, and targeted strategic initiatives designed to achieve each objective.
  - **Staff Surveys.** The Project 2020 Team developed an online survey for Fund staff to deliver input anonymously. The survey prompted staff to conduct individual SWOT analyses to identify the Fund’s strengths, weaknesses, opportunities, and threats. This process served to increase staff awareness of organization-wide initiatives and provided a meaningful opportunity for management to extract valuable, constructive and honest feedback from staff.
  - **Senior Staff Interviews.** The Project 2020 Team also interviewed Fund senior staff to review the Fund’s prior strategic plan and assess the effectiveness and impact of its strategic initiatives and objectives on a go-forward basis.
  - **Stakeholder and Service Provider Feedback.** The Project 2020 Team is in the process of soliciting and obtaining additional, specialized input and feedback from relevant third party stakeholders and service providers including Segal Marco, KPMG, CMIT, PTG, Buck, PERAC and PRIM.
- » **Industry Best Practices.** The Project 2020 Team will use the information collected from the methods described above and evaluate comparable strategic plans to ensure the Fund’s planning is comprehensive and aligned with current pension industry best practices.

# MBTARF Strategic Planning – “Project 2020” (Cont.)

## MBTARF Strategic Plan – (2020-2023) – *Working Draft*

- » **Goal A – Enhance financial technology capabilities to support a secure and high performing customer service environment.**
  - Objective A1: Improve and modernize the Retirement Fund’s IT infrastructure.
  - Objective A2: Implement and maintain a sophisticated online self-service platform.
  - Objective A3: Educate users on upgraded technological service offerings and evaluate customer satisfaction.
- » **Goal B – Cultivate a sophisticated, professional, risk intelligent organization dedicated to customer service.**
  - Objective B1: Retain and develop a highly competent staff.
  - Objective B2: Design and implement *Kai Zen*-like processes to constantly improve benefits administration, information security and other fund practices and procedures.
  - Objective B3: Strive to create a process-based organization that optimizes performance and efficiency.
- » **Goal C – Become a recognized leader in pension benefit administration.**
  - Objective C1: Collaborate with state regulators, public pension systems and other industry stakeholders to identify innovative “best practices” and educate stakeholders about the Retirement Fund.
  - Objective C2: Achieve a level of Retirement Board ethics and fiduciary accountability that meets or exceeds industry standards.
  - Objective C3: Educate stakeholders including the public about the Retirement Fund.
- » **Goal D – Sustain and preserve a financially sound pension fund.**
  - Objective D1: Improve the long-term sustainability of the Retirement Fund.
  - Objective D2: Maintain and enhance quality financial reporting, accountability, and transparency.
  - Objective D3: Regularly convene Investment Compliance Working Group (“ICWG”) meetings to review and improve IPS and Finance Department procedures.

# In-Service Training – Information Technology

- » **2019 Annual In-Service Training.** The 2019 Annual In-Service Training (7<sup>th</sup> Ed. 101 pp.) was conducted on September 26, 2019 and covered the following topics:
  - **Fund Policies.** Refresher on, and changes to, the following Fund policies:
    - The Employee Handbook;
    - The Acceptable Use Policy;
    - The Written Information Security Program;
    - The Records Management Program;
    - The Incident Response Plan (*including lessons learned and policy changes from the intruder's unauthorized access to the Fund*); and
    - The Policy for the Elimination of Unlawful Harassment and Discrimination.
  - **PTG PensionPro.** The Annual In-Service Training also included general training for staff members on the Fund's new pension benefit software, PTG PensionPro.
  - **Mass. Paid Family and Medical Leave Act.** The Annual In-Service Training provided an overview of the new Massachusetts Paid Family and Medical Leave law. The statutorily mandated notice was delivered at the Annual In-Service Service training.
  - **Technology Upgrades.** The Annual In-Service Training provided the staff with an overview of scheduled technology upgrades.
- » **Intern Training.** Intern training was conducted on July 8, 2019 and January 22, 2020, covering a selection of the Fund's policies and best practices applicable to interns.

# PRIM/PRIT Investment Initiative

- » **August 1, 2017** – Section 23 of the 2018 Budget bill added the private MBTARF as a “system” under G.L. c. 32 allowing, but not compelling, the Fund to invest in PRIT.
- » **June 16, 2017 – June 21, 2019** – The Board convened a “PRIM Investment Feasibility Group” (the “Group”) in 2017 comprised of Attorney Philip Brown, Julian Regan of Segal Marco and Fund staff to study the issue. The Group performed significant factual and legal due diligence over a two (2) year period leading to the Fund’s “*Roadmap to PRIT Fund Investment*”.
- » **June 17, 2019 – July 19, 2019** – Local 589 and the MBTA’s Fiscal Management Control Board (“FMCB”), together the settlors of the 1980 Trust Agreement (the “Trust”), voted to amend the Trust (the “Trust Amendment”) to add PRIM as an investment manager pursuant to Section 7, thereby authorizing Fund investment in PRIT. The Retirement Board voted to approve the Trust Amendment at the July 2019 meeting.
- » **August 19, 2019 – September 20, 2019** – PRIM representatives met with the Fund in August to discuss investment options available to “Purchasing Systems”. The Fund and PRIM executed a Letter Agreement in September to accommodate the MBTARF’s future investments. The Board has since voted to authorize two investments in PRIT – ***September 20, 2019 (Hedge Fund - \$20M) and November 15, 2019 (Private Equity - \$25M).***



# Public Records Law Experience

- » **Public Records Law Amendment.** The 2016 amendment (Chapter 121 of the Acts of 2016, effective 1/1/17) to the Public Records Law specifically applied the Commonwealth's Public Records Law ("PRL") to the MBTARF and, at the 1/20/17 meeting, the Board voted to comply with the law "in spirit" while reserving the Fund's rights as a private trust to challenge the law if necessary.
- » **Records Officer.** Fund counsel, K|P Law, works with the Board Secretary to meet the requirements of the PRL, including supporting her in the role of Records Officer consistent with the PRL.
- » **PRL Requests.** K|P Law and Fund Management have received and responded to periodic records requests under the PRL since the effective date of the law. Aside from several requests from the Boston Globe shortly after the effective date of the law, and occasional additional requests from the Boston Globe thereafter, there has not been a significant volume of requests generally.
  - » **Most Frequently Requested Information.** The most frequently requested records are Board meeting agendas and minutes, as well as investment-related information. The Fund has generally provided meeting minutes for "open" sessions of Board meetings, or directed requesters to the Fund's website, where approved meeting minutes from April, 2019 - forward can be publicly accessed. With respect to requests for investment-related information, the Fund has generally directed requesters to the CAFR (also available on the Fund's website), and denied requests for investment information outside of the CAFR under the "PRIM exemption", which protects confidential investment related records.
  - » **Notable Requests.** In calendar 2019, the Boston Globe requested information both with respect to meeting agendas and minutes, and with respect to Fund investments. The response to the Globe's request for meeting agendas and minutes for calendar years 2017 and 2018 was the first instance where it was necessary for K|P Law, on behalf of the Fund, to expressly articulate the Fund's position that it was not an "Agency" within the meaning of the PRL or its implementing regulations, and was not covered by the Open Meeting Law's requirements.
- » **PRL Experience Update.** Working with Fund staff, K|P Law has helped implement the reorganization of Board meeting agendas, and corresponding changes to the format of meeting minutes, in order to facilitate the now-ongoing publication of open session meeting minutes via posting on the Fund's website.

# PERAC Self-Reporting

- » **Self-Reporting.** In 2010, the Fund adopted the practice of self-reporting and best practice sharing with the Massachusetts Public Employee Retirement Administration Commission (“**PERAC**”) which is responsible for the oversight, guidance, monitoring, and regulation of the 104 Massachusetts Public Pension Systems. See Slide No. 11.
- » **December 2018 Update.** On December 13, 2018, Fund management met with, and delivered a report to, PERAC representatives. After the December 13<sup>th</sup> meeting, PERAC commended the Fund for its transparency and willingness to share information with PERAC.
- » **September 2019 Update.** On September 17, 2019, Fund management met with again with PERAC representatives to discuss, among other things, the Fund’s *Project 2020* and PRIT investment compliance and monitoring issues.
- » **February 2020 Update.** On February 13, 2020, Fund management met with PERAC representatives to update PERAC concerning the MBTARF’s progress with *Project 2020* (including the Fund’s draft strategic plan) and seek advice concerning the Fund’s unclaimed property project.

# PERAC Self-Reporting (cont.)

## Meetings with PERAC – 2010-2020

### Dates

- » May 6, 2010
- » October 21, 2010
- » February 16, 2011
- » June 10, 2011 (*Meeting at PERAC*)
- » November 3, 2011
- » September 27, 2012
- » February 6, 2014
- » May 7, 2015
- » August 27, 2015
- » December 15, 2016
- » March 30, 2017
- » December 4, 2017
- » May 24, 2018
- » December 13, 2018
- » September 17, 2019
- » February 13, 2020



# Information Governance – Technology Upgrades

- » **The Fund’s IG Group.** Pursuant to the Strategic Plan, the Fund established an Information Governance (“IG”) Group led by the Fund’s Data Security Coordinator and also includes Fund management, a CMIT representative (the Fund’s technology consultant), and outside counsel.
- » **Technology Upgrades.** In addition to the PTG PensionPro implementation discussed on the next slide, the IG Group has implemented or scheduled the following technology upgrades:
  - **Server Upgrades.** The IG Group conducted an assessment of the Fund’s current servers and related hardware and found that they were past their useful lives. The IG Group is working with technology consultants to develop competitive cost proposals for a new cloud-based hosting solution, which is expected to reduce operating costs, enhance scalability and increase data security. The Fund also engaged a technology consultant to provide a cloud readiness assessment covering cloud-migration methodology and implementation strategy. For comparison and competitive purposes, the Fund conducted in-depth discussions with a second technology consultant that proposed a statement of work for the implementation of a new cloud-based hosting solution.
  - **Operating System and Work Station Upgrades.** The IG Group conducted an assessment of the Fund’s current operating system (Windows 7) and learned that Windows Extended Support ends in 2020, which means Microsoft will no longer release security patches or update Windows 7, requiring a move to Windows 10 (or other operating system). The Fund performed its Windows 10 pilot and is nearly complete with implementing Windows 10 via upgrading software or through new workstations. Windows 10 implementation will allow the Fund’s computers to run the 64-bit version of Windows instead of the 32 bit imaged system, which allows the computers to access greater quantities of RAM for a better computing experience. Windows 10 will allow an administrator to issue a wipe command for a full data wipe if a laptop is lost or stolen.
  - **Encryption.** The Fund will be enhancing its encryption capabilities in connection with the Windows 10 rollout by leveraging Reflexion’s email encryption service and encrypting laptops. Reflexion allows email encryption using force phrase keywords (such as “#encrypt”) and using encryption policy tripping (if the program detects a Social Security Number).

# Information Governance – PTG PensionPro Implementation

- » **Invitation for Bids.** In 2017 Fund management issued an Invitation for Bids from qualified vendors seeking proposals for pension benefit software services because the Fund's then-current pension benefit software, Tyler's PERA series ("Tyler"), was past its useful life and no longer supported by the vendor. In late 2017, the Board selected PTG to provide pension benefit software services beginning with a rollout starting in 2018.
- » **PTG PensionPro.** PTG's PensionPro ("**PensionPro**") is a state of the art pension management software system designed to enhance both customer service and Fund efficiency by:
  - Creating automated processes to load data and calculate benefits;
  - Moving the Fund from multiple spreadsheets and database solutions to using an all in one administration system;
  - Reducing time required to produce Census Data and estimates for members.
- » **PensionPro Updates.** The Fund began implementing PensionPro in early 2018. From then until the end of May 2019, the implementation team, led by the Fund's Manager of Information Technology, conducted weekly status review meetings to ensure a timely roll-out of the system and develop a feedback loop to introduce PensionPro into the Fund's unique benefit system. The team also conducted robust testing and acceptance procedures throughout the process to ensure that all modules of the system, as well as the system as a whole, performed to the standards set forth in the contract. Implementation is nearly complete (subject to the Member Self-Service Portal described below), and the Fund's benefit team has been using the PensionPro system successfully in production mode to process monthly benefit payments since April 2019. The Fund has not been made aware of any errors in the processing of monthly benefit payments by any Fund payees since the system cutover to PensionPro in April 2019.
- » **Member Self-Service Portal.** The Fund is currently in the process of correcting data anomalies while PTG is developing the Member Self-Service Portal. Fund management expects the Member Self-Service Portal to go live by the end of the first quarter of 2020. When complete, the Member Self-Service Portal will seamlessly interface with the Fund's current website and have the capacity to allow members to: (i) review pension data, contact information, beneficiary information, and messages; (ii) run pension estimates; and (iii) update certain account information. The Fund's Manager of Information Technology will demonstrate functionality of the portal at the March Board meeting.

# Finance and Investment – GFOA Certificates

## » **Government Accounting Standards Board (“GASB”).**

- **GASB 67 and 68 Reports.** The Fund completed, and the Board approved, the GASB 67 and 68 Reports at the special Board Meeting held on May 24, 2019. The 2018 audit and CAFR were approved at the June 21, 2019 meeting.
- **GASB 72.** The Fund completed and incorporated the required GASB 72 procedure for 2017 (this procedure measures and records the Fund’s investments using fair value measurement guidelines established by generally accepted accounting principles).

## » **GFOA Certificate of Achievement.** For its 2016 CAFR, 2017 CAFR, and 2018 CAFR, the Fund received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting. The GFOA established the Certificate of Achievement for Excellence in Financial Reporting Program (“**CAFR Program**”) in 1945 to encourage agencies to go beyond the minimum requirements of generally accepted accounting principles to prepare comprehensive annual financial reports that evidence the spirit of transparency and full disclosure and then to recognize agencies that succeed in achieving that goal. Reports submitted to the CAFR Program are reviewed by selected members of the GFOA professional staff and the GFOA Special Review Committee, which is comprised of individuals with expertise in public sector financial reporting and includes financial statement preparers, independent auditors, academics, and other finance professionals.

- **2016 Certificate of Achievement.** In January of 2018, the Fund received the GFOA’s Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the fiscal year ended December 31, 2016.
- **2017 Certificate of Achievement.** In January of 2019, the Fund received the GFOA’s Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the fiscal year ended December 31, 2017.
- **2018 Certificate of Achievement.** In February of 2020, the Fund received the GFOA’s Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the fiscal year ended December 31, 2018.

# Finance and Investment – GFOA Certificate (cont.)

## 2016 Award



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**MBTA Retirement Fund  
Massachusetts**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2016**

*Christopher P. Morill*

Executive Director/CEO

## 2017 Award



Government Finance Officers Association

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Reporting

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*Christopher P. Morill*

Executive Director/CEO

## 2018 Award



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for the Fiscal Year Ended

**December 31, 2018**

*Christopher P. Morill*

Executive Director/CEO

# Finance and Investment – ICWG – Investment Policy Statement (“IPS”) Update

- » **The Investment Compliance Working Group.** In 2018, the Fund convened its Investment Compliance Working Group (“**ICWG**”), comprised of John Barry, the Fund’s finance department staff, investment advisor and investment counsel, to review and revise its Investment Policy Statement (“**IPS**”), Investment Selection Processes, Investment Management Compliance Policies and Financial Reporting.
  - **Annual IPS Review.** The IPS is subject to annual review. The ICWG revised and developed a more efficient and user friendly IPS for the Fund including provisions granting the Board authority to invest in PRIT – *Board Approved – April 19, 2019.*
  - **IPS Models.** The Fund implemented FTI's recommendations and looked to PRIM and PERAC for “best practice” guidance for its updated IPS, including investment selection guidelines, monitoring and compliance.
- » **Future Investment Test Protocols.** The ICWG is working on protocols to test the Fund’s existing internal financial controls and investment compliance.



# Finance and Investment – Investment Returns as of December 31, 2019

» **Rate of Returns.** MBTARF (Total Plan) Rate of Returns - Net of Fees<sup>1</sup>:

Return Period	Total Fund Return	\$1B-Plus Public DB Return Percentile <sup>2</sup>
Quarter Ending	5.2%	50 <sup>th</sup> Percentile
1 Year (2019)	17.2%	46 <sup>th</sup> Percentile
3 Year	9.5%	33 <sup>rd</sup> Percentile
5 Year	6.9%	42 <sup>nd</sup> Percentile
8 Year	8.6%	44 <sup>th</sup> Percentile
10 Year	8.2%	43 <sup>rd</sup> Percentile
Inception to Date <sup>3</sup>	9.1%	N/A

- » **Asset Allocation.** The Retirement Board recognizes that asset allocation decisions generally account for 90% of investment return. See IPS, p. 11.
- » **Rate of Return.** The Rate of Return for the MBTARF consistently exceeds the Policy Index.<sup>4</sup>

<sup>1</sup> These net returns for the quarter ending December 31<sup>st</sup> are preliminary. Expenses and fees are not treated uniformly in the rate of return calculations over the periods covered.

<sup>2</sup> The Return Percentile represents the ranking of the MBTARF net return within the InvMetrics Public DB Funds for funds whose assets total greater than \$1 billion.

<sup>3</sup> The inception to date return begins January 1982.

<sup>4</sup> The Policy Index replicates the return if the Fund were passively invested in assets strictly adhering to the asset allocation targets.

# Finance and Investment – Investment Returns as of December 31, 2019 (cont.)

» **Rate of Returns.** MBTARF & PRIM (Total Plan) - Gross of Fees<sup>1</sup>

Return Period	MBTARF Return	PRIM Return
Quarter Ending	5.26%	4.56%
1 Year (2019)	17.51%	16.57%
3 Year	9.82%	10.42%
5 Year	7.24%	8.01%
10 Year	8.53%	9.01%
Inception to Date <sup>2</sup>	9.29%	9.45%

» **2019 Net Asset Value.** As of December 31, 2019, the Fund's preliminary net asset value was \$1,605,892,092, which is an increase of \$156,196,992 from the Fund's December 31, 2018 net asset value.<sup>3</sup>

<sup>1</sup> These Gross returns for the quarter ending December 31<sup>st</sup> are preliminary. Expenses and fees are treated uniformly in the rate of return calculations over the periods covered.

<sup>2</sup> The inception to date return begins January 1982.

<sup>3</sup> The preliminary market value does not include all fourth quarter private equity and closed-end real estate funds for 2019.

# Benefits Department – Status Report – Membership & Payments

- » **Retirement Incentives.** All retirement incentives offered by the Authority during calendar years 2016 and 2017 are no longer available. The Fund has no knowledge of any retirement incentive packages that may be offered by the Authority in the future.
- » **Meetings.** Between January 1, 2019 and December 31, 2019, Benefits staff met directly with 1,091 active and retired members.
- » **Membership.**
  - **Contributions.** As of December 31, 2019, there were a total of 5,413 members actively contributing to the Fund. 454 employees began to contribute to the Fund for the first time beginning in 2019.
  - **Benefits.** As of December 31, 2019, there were 6,940 Retired Members and beneficiaries received monthly retirement allowances. This figure only covers retirees and survivors and excludes qualified domestic relations orders (each, a “**QDRO**”). 68 Retired Members died with an option. 127 Retired Members died without an option.

# Benefits Department – Status Report – Membership & Payments (Cont.)

## » **Disability Examinations.**

- **SCOPE Medical.** The Fund outsources disability examinations and reexaminations to SCOPE Medical, the provider used by the MBTA. The limited information the Fund receives in connection with these examinations and reexaminations is not subject to HIPAA as per an updated opinion from Fund counsel.
- **Disability Reexaminations.** As of December 31, 2019, 92% of payees in the disability pool have been retested. The disability pool refers to payees who (i) receive a Disability Retirement Allowance; (ii) have received a minimum of 24 payments; and (iii) have not met their normal retirement date (the first day of the month coincident with or next following the sixty-fifth anniversary of an employee's date of birth).

- » **CTHRU.** The Comptroller's CTHRU initiative has replaced the Commonwealth's "Open Checkbook" website. The Fund delivers member and retiree information to the Commonwealth on a monthly basis including: Retiree Number, Employee Number, First and Last Name, Monthly Benefit, Annual Benefit, Compensation Offset or Court Order, Date of Retirement and Age at Retirement. The Comptroller has implemented this initiative under its powers and initiatives set out in M.G.L. c. 7A.

# Benefits Department – Status Report – PBI Research Services

## » **New Mortality Verification Vendor.**

- **Diligence.** After consultation with PERAC’s Chairman, the Fund surveyed several PERAC systems to identify the highest recommended, mortality verification vendors. The two industry leaders are reportedly, Life 360 and PBI Research Services (“**PBI**”). The Fund contacted both vendors to obtain information about their services. Fund staff also interviewed a benefits manager from Middlesex Retirement System, who recommended PBI and reported that PBI interfaces with Middlesex’s PTG PensionPro software (the Fund’s new pension benefit software provider). Accordingly, the Fund interviewed PBI and learned of its enhanced mortality verification capabilities as compared to Berwyn.
- **PBI.** The Fund engaged PBI to perform record checks on individuals with unclaimed property to ensure that the Fund has the most up to date addresses for the required diligence notices. The Fund was impressed with PBI’s work and the Retirement Board has authorized Fund management to engage PBI to replace Berwyn as its third party mortality verification vendor.