



MBTA
RETIREMENT
FUND

ANNUAL REPORT TO THE BOARD OF THE MBTA RETIREMENT FUND - 2018

February 15, 2019

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 2018 and to preview proposed actions for 2019 – it is not meant to be an exhaustive report of all activities or actions items. The Retirement Board is committed to transparency, and is publically posting this abbreviated version of the Annual Report that the was originally delivered by John Barry on February 15, 2019.
- » **Continuous Improvement.** The Fund is dedicated to continuously improving its operations and customer service. Accordingly, it may revise or modify its planning for 2019, 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. Member feedback is encouraged.

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In-Service Training – Information Technology

- » **2018 Annual In-Service Training.** The 2018 Annual In-Service Training (6th Ed. 107 pp.) conducted on October 9, 2018 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;
 - The Policy for the Elimination of Unlawful Harassment and Discrimination; and
 - The Subpoena Response Protocol.
 - **Phishing Exercise Debrief/ Security Breach Costs.** The Annual In-Service Training also contained a debrief of the simulated phishing exercise that occurred at the beginning of October and an overview of security breach related costs.
 - **IG Initiatives.** The Annual In-Service Training educated the Fund staff on implemented and scheduled Information Governance (“IG”) initiatives.
- » **New Employee Training.** New employee training was conducted on October 9, 2018, providing an overview of the Fund’s policies and best practices to the Fund’s new hire.
- » **Intern Training.** Intern training was conducted on August 21, 2018, covering a selection of the Fund’s policies and best practices applicable to interns.

Management Report – PERAC Self-Reporting

- » **Self-Reporting.** In accordance with the Fund’s long standing practice of self-reporting and best practices sharing with the Massachusetts Public Employee Retirement Administration Commission (“**PERAC**”), the Fund invited feedback and shared the contents of the Mid-Year Report with PERAC representatives on May 24, 2018.
 - PERAC is responsible for the oversight, guidance, monitoring, and regulation of the Chapter 104 Massachusetts Public Pension Systems.
 - PERAC's Executive Director and Director of Information Systems were present at the May 24th meeting.
- » **PERAC Correspondence.** After the May 24th meeting, PERAC wrote: “One of the milestones you have identified and worked on is Information Governance over a broad range of areas including information security, records management, data storage, privacy, and risk management. These are all vital to the security of the data you obtain and retain and will serve to improve the overall management and sustainability of the Fund.”
- » **Winter 2018 Update.** On December 13, 2018, Fund management met again with, and delivered a report to, PERAC representatives. After the December 13th meeting, PERAC commended the Fund for its transparency and willingness to share information.

Meetings with PERAC (2010-2018)

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



Management Report — PRIT Investment Feasibility Study Group

- » **June 16, 2017** – The Board voted to convene a PRIM Investment Feasibility Group (the “**Group**”) to analyze and make recommendations regarding the feasibility of investing MBTARF assets in PRIT.
- » **July 13, 2017** – Following an initial meeting of the Group, in which Segal Marco was tasked to develop a comparative investment protocol for certain PRIT alternative investment sleeves, a/k/a “Segmentation Accounts”, Fund management met with counsel and Segal Marco to formulate that protocol for Board consideration.
- » **July 21, 2017** – Fund counsel reported to the Board about passage of the Budget bill on July 17, 2017 including the enabling legislation rendering the Fund a “system” under G.L. c. 32 allowing, but not compelling, Fund investment in PRIT. Segal Marco reported on its investment protocol recommendation, and was directed to conduct the analysis as outlined to the Retirement Board.
- » **September 12, 2017** – Fund staff and representatives from Segal Marco met with PRIM staff to gather information about PRIT investment protocol and performance.

Management Report — PRIT Investment Feasibility Study Group (cont.)

- » **September 15, 2017** – Segal Marco delivered to the Board its initial (draft) PRIM Board Due Diligence Update and Fund counsel delivered a legal Status Update Memorandum.
- » **October 20, 2017** – Segal Marco delivered to the Board a revised “Due Diligence Update” incorporating additional due diligence obtained from PRIM and Fund counsel delivered a report covering the Fiduciary Duties of the MBTA Retirement Board.
- » **November 17, 2017** – Fund counsel created a binder consolidating the PRIM Investment Reports and delivered it to the Board.
- » **February 16, 2018** – Segal Marco and Fund counsel delivered their PRIM Investment Feasibility reports, and representatives from PRIM attended the Board meeting to present and answer questions.
- » **April 20, 2018** – Fund counsel delivered to the Board – “Where We Stand – The MBTARF’s Roadmap to a PRIT Fund Investment”
- » **November 16, 2018** – Fund counsel updated the Board on the MBTARF’s “Roadmap”

Management Report — 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.
- » **January 2017 Board Vote.** The Board voted at the 1/20/17 meeting to comply with the law “in spirit” while reserving the Fund’s rights as a private trust to challenge the law if necessary.
- » **Records Access Officer.** Fund counsel, K|P Law, worked with the Board Secretary to meet the requirements of the PRL, including supporting her in the legislatively mandated role of Records Access Officer under G.L. c. 66, § 6A(a).
- » **Policy Updates.** H&K and Fund Management have, to date, updated the Fund’s internal policies to recognize application of the PRL and successfully managed disclosure requirements and other impacts of the PRL on existing and new investment management contracts.
- » **PRL Requests.** K|P Law and Fund Management have received and responded to ten (10) PRL requests since the effective date of the law (5 from the Globe, 3 from firms that market software, technology and/or business intelligence, and 2 from a BU student). K|P Law and Fund Management have received and responded to six (6) PRL requests in calendar year 2018.
- » **PRL Compliance.** K|P Law delivered a report on the Fund’s first year of experience complying with the PRL at the March 16, 2018 Board meeting.
- » **PRL Experience Update.** K|P Law delivered a PRL experience update to the Board at the February 15, 2019 meeting which will include recommendations regarding the recording and potential publication of standard meeting minutes.

Information Technology – Technology Upgrades

- » **The Fund’s IG Group.** Pursuant to the Strategic Plan, the Fund established an Information Governance (“IG”) Group led by Rob Biga as Data Security Coordinator, and also includes John Barry, Christopher Zambuto of CMIT, the Fund’s technology consultant, and Nick Hasenfus, Esq., of Holland & Knight, LLP.
- » **Technology Upgrades.** The IG Group has implemented or scheduled the following technology upgrades:
 - **PTG PensionPro.** Since early 2018, the Fund has been implementing PTG PensionPro – a state of the art pension management software system. At the October 18, 2018 Board meeting, Rob Biga demonstrated some of the features and functionality of the new system. The PensionPro system will enhance customer service and improve staff efficiencies.
 - **Server Upgrades – Cloud Solution.** 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 its technology consultant on a new cloud-based hosting solution (Microsoft Azure), which is expected to reduce operating costs, enhance scalability and increase data security. Microsoft will backup the Fund’s data hourly (from 8:00 AM to 6:00 PM each business day) at the local Microsoft data center where the data resides. Offsite backups of the Fund’s data will occur at the end of each business day to two different Microsoft data centers in the United States for redundancy in the unlikely event that the Microsoft data center where Fund data resides is compromised.
 - **LastPass.** The Fund has developed a plan to implement LastPass, a password management tool that protects both individual staff member passwords and shared passwords (i.e. assigned credentials to access Fund investments).
 - **Administrative Controls.** The IG Group researched and designed administrative controls intended to meet or exceed industry best practices, and has implemented such administrative controls, including: automatic screen lockouts, minimum password standards consistent with industry best practices, and reviewing user’s administrative privileges and limiting as appropriate.
 - **Encryption.** The Fund will be enhancing its encryption capabilities by leveraging Reflexion’s email encryption service and encrypting laptops.
 - **Operating System Upgrades.** The IG Group conducted an assessment of the Fund’s current operating system (Windows 7) and found that Windows Extended Support ends in 2020, which means Microsoft will no longer release security patches or update Windows, requiring a move to Windows 10 (or other operating system). The Fund completed its Windows 10 pilot at the end of 2018, which consisted of user acceptance testing of Windows 10, and is currently developing a plan to implement Windows 10.

» 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 31, 2018. The 2017 audit and CAFR were approved at the June 15, 2018 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.** The Fund submitted its 2016 CAFR and 2017 CAFR to the Government Finance Officers Association (GFOA) in order to determine the Fund’s eligibility for the GFOA’s Certificate of Achievement for Excellence in Financial Reporting, which the Fund received for both its (i) 2016 CAFR and (ii) 2017 CAFR. See Slide 13.

Finance and Investment – GFOA Certificates (cont.)

- » **CAFR Program.** 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.

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. Morrill

Executive Director/CEO

2017 Award



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December 31, 2017

Christopher P. Morrill

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 its Investment Policy Statement (“**IPS**”), Investment Selection Processes, Investment Management Compliance Policies and Financial Reporting.
 - **Annual Review.** The IPS is subject to annual review. The ICWG reviewed the Fund’s IPS, and is in the process of developing a more efficient and user friendly IPS for the Fund.
 - **IPS Models.** The Fund is looking to PRIM and PERAC for “best practice” guidance for its IPS, including investment selection guidelines, monitoring and compliance.
- » **Investing in PRIT.** New provisions need to be added to the IPS granting the MBTARF authority to invest in PRIT in the event the Trust is amended to permit such investment pursuant to Section 23 of the Budget Bill of 2017, amending M.G.L. c.32, §1.

- » Investment Compliance Working Group to review MBTARF's Statement of Investment Policy (IPS)
 - Conduct Best Practice Compliance Comparisons:
 - PERAC
 - PRIM
 - “Other” Comparable Pension Funds
 - Review FTI's Investment Process Narrative and Implement FTI Recommendations
- » Make Recommendations to Retirement Board re: Revisions to the IPS
- » Develop Protocol to Test Internal Financial Controls
- » Develop Protocol to Test Investment Compliance

Benefits Department – Status Report

- » **Early Retirement Incentives.** All early retirement incentives offered by the Authority during calendar years 2016 and 2017 are no longer available. The Fund has no knowledge of any early retirement incentive packages that may be offered by the Authority in the future.
- » **Meetings.** Between January 1, 2018 and December 31, 2018, Benefits staff met directly with 1,135 active and retired members.
- » **Membership.**
 - **Contributions.** As of December 31, 2018, there were a total of 5,221 members actively contributing to the Fund. 365 employees began to contribute to the Fund for the first time beginning in 2018.
 - **Benefits.** As of December 31, 2018, there were 6,720 Fund payees owed a benefit, of which 5,672 members are service retirees and 1,048 are survivors in payment.

Benefits Department – Status Report (Cont.)

- » **Legal Claims.** As of this date there are no pending legal cases or claims by members or retirees asserting benefit entitlement or discrimination claims against the Fund and/or the Board of Trustees.
- » **Open Checkbook.** The Fund continues to deliver member and retiree information to the MBTA and uploaded same to the Commonwealth’s “Open Checkbook” website on an annual 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.

MBTARF Strategic Planning

MBTARF Strategic Plan – (2015-2019)

The MBTARF is entering 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 CAFRs following GFAO Guidelines (obtained Certificate of Excellence)
 - Supplied the MBTA with Information for “Open Checkbook”
 - Complied with the Public Records Law (PRL)
- » **Goal B - Cultivate a high-performing, professional and innovative organization**
 - Hired and Developed Professional Staff
 - Conducted In-Service Trainings/Adopted Best Practices
 - Cultivated 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 Technology and Cybersecurity Protections and Best Practices
 - Improved Pension Benefit Service and Software Performance – *in process* (PTG)
- » **Goal D - Adopt fiduciary and governance “best practices” to attain the highest levels of ethics and accountability**
 - Updated Fiduciary Standards/Conducted Board Training
 - Improving Internal Investment Compliance Procedures – *in process*
 - Developed a Self-Reporting Working Relationship with PERAC

MBTARF Strategic Plan – (2019-2021)

- » Management is in the process of developing a new Strategic Plan to cover the next three (3) years focused on the following:
 - **FinTech.** Invest in technology that will provide long-term efficiencies, cost savings, enhanced customer experience and other benefits.
 - **Privacy/Security.** Promote transparent data use and continuous improvement of information security practices to better protect member and retiree information.
 - **Customer Service.** Enhance members' and retirees' overall experience with the Fund through new initiatives such as web enabled online account management.
 - **Investment Compliance.** Focus on internal and external investment compliance best practices.
 - **Excellence in Financial Reporting.** Continue to maintain excellent financial reporting and transparency in order to achieve GFOA's Certificate of Achievement for Excellence in Financial Reporting annually.