



INTERIM DIRECTOR'S STATUS REPORT TO THE BOARD OF THE MBTA RETIREMENT FUND

September 20, 2019

John P. Barry

About this Status Report

- » **Purpose.** The purpose of this Status Report is to provide the Retirement Board with management's overview of the Fund's accomplishments in from January 1, 2019 through August 31, 2019 and to preview proposed actions for the remainder of 2019 and beyond – 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 Status Report that the was originally delivered by John Barry on September 20, 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 and beyond, as described in this Status 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.

Table of Contents

Title	Slide No.
About this Status Report	2
Management Report	
» MBTARF Strategic Planning – “Project 2020”.....	4-5
» In-Service Training.....	6
» PRIM/PRIT Investment Initiative.....	7
» Public Records Law Experience.....	8
» PERAC Self-Reporting.....	9-10
Information Governance	
» Technology Upgrades.....	11
» PTG PensionPro Implementation.....	12
Finance and Investment	
» Financial Reporting – GFOA Certificate.....	13-15
» Investment Policy Statement (“IPS”) Update.....	16
» Investment Returns as of June 30, 2019.....	17
» Investment Performance Comparison to PRIM.....	18
Benefits Department	
» Status Report.....	19-20

MBTARF Strategic Planning – “Project 2020”

MBTARF Strategic Plan – (2015-2019)

The MBTARF is in 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 GFOA Guidelines (obtained two (2) 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 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 Governance, Information Technology, Cybersecurity Protections and related 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 and Investment Policy Statement (IPS) – Conducted Board Training
- Improving Internal Investment Compliance Procedures – *in process*
- Developed a Self-Reporting Working Relationship with PERAC

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

MBTARF Strategic Plan – (2020-2023)

- » **Project 2020.** Led by Michael Baryski and including John Barry and Fund counsel, Nick Hasenfus, (the “**Project 2020 Team**”), the Project 2020 Team 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 75th Anniversary of the Fund’s founding in 1948.
- » **Methodology.** The Project 2020 Team is in the process of collecting and analyzing information, obtained through anonymous surveys and interviews of Fund senior staff, in order to develop long term goals, strategic objectives and targeted initiatives designed to achieve those goals.
 - **Staff Surveys.** The Project 2020 Team developed an online survey for Fund staff to deliver input anonymously. The survey prompts staff to conduct individual SWOT analyses to identify the Fund’s strengths, weaknesses, opportunities, and threats. This process serves to increase staff awareness of organization-wide initiatives and provides a meaningful opportunity for management to extract valuable, constructive and honest feedback from staff.
 - **Senior Staff Interviews.** The Project 2020 Team is also interviewing Fund senior staff to review the Fund’s current strategic plan and assess the effectiveness and impact of its strategic initiatives and objectives on a go-forward basis.
 - **Stakeholder Feedback.** The Project 2020 Team plans to solicit and obtain input and feedback from relevant third parties including 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.

In-Service Training

- » **2019 Annual In-Service Training.** The 2019 Annual In-Service Training (7th Ed. tbd pp.) will be conducted on September 26, 2019 and cover 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 will also contain a 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 will provide an overview of the new Massachusetts Paid Family and Medical Leave law. The statutorily mandated notice will be provided at the Annual In-Service Service training.
 - **Cloud Migration.** The Annual In-Service Training will educate the Fund staff on changes related to the migration from an on-premises hosting solution to a cloud-based hosting solution.
- » **Intern Training.** Intern training was conducted on July 8, 2019, 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 year period leading to the Fund’s “Roadmap to a PRIT Fund Investment”.
- » **June 17-24, 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 the Fund to invest in PRIT.
- » **July 19, 2019** – The Retirement Board voted to approve the Amended and Restated Trust Agreement adding the Trust Amendment.
- » **August 19, 2019** – Fund investment representatives met with PRIM representatives to discuss segmented investment options available to “Purchasing Systems” including, without limitation, units in PRIM’s *Hedge Fund Portfolio*. Fund counsel has proposed to PRIM a Letter Agreement to accommodate all the MBTARF’s future PRIT investments.

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 over a dozen PRL requests since the effective date of the law (including several from the Boston Globe and Boston Herald, from firms that market software, technology and/or business intelligence, and 2 from a BU student). To date in calendar year 2019, the Fund responded to a records request from the Globe for Board meeting agendas and minutes from 2017-2018, which the Fund provided (with redactions), after consultation with K|P Law, and discussion with the Board. Both the Herald and the Globe requested certain retiree information, which was also provided.
- » **PRL Experience Update.** K|P Law delivered a PRL experience update to the Board at the February 15, 2019 meeting which included recommendations regarding the recording and potential publication of standard meeting minutes in the future. K|P Law also attended the Board's March 15, 2019 meeting, to address issues raised in the Globe request for meeting agendas and minutes, and worked extensively with Fund staff to execute on the reorganization of Board meeting agendas, and corresponding changes to the format of meeting minutes, in order to facilitate this future publication.

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 13th 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 PERAC representatives to discuss, among other things, the MBTARF’s Project 2020 and PRIT investment compliance and monitoring issues.

PERAC Self-Reporting (cont.)

Meetings with PERAC – 2010-2019

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 (*PRIT Investment Compliance and Project 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 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.** 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 is engaging a technology consultant to provide a cloud readiness assessment, which will provide the Fund with a cloud-migration methodology and implementation strategy. The Fund has also had in-depth discussions with another technology consultant that proposed a statement of work for the implementation of a new cloud-based hosting solution.
 - **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 7, requiring a move to Windows 10 (or other operating system). The Fund completed its Windows 10 pilot and is currently in the process of implementing Windows 10. The 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 that is designed to enhance both customer service and Fund efficiency by:
 - Creating automated processes to load data and calculate benefits;
 - Moving the Fund from the use of one-off 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. Since that time until the end of May 2019, the implementation team, led by Rob Biga, conducted weekly status review meetings to ensure a timely implementation of the system and provide feedback on the implementation of PensionPro. The implementation team also conducted robust testing and acceptance procedures throughout the implementation to ensure that all modules of the system, as well as the system as a whole, performed to the standards set out in the contract. The 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 in production mode successfully to process monthly benefit payments since April 2009. 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. 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.

Finance and Investment – GFOA Certificates – GASB Reports

» **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 and 2017 CAFR, the Fund received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting. The Fund submitted its 2018 CAFR to the GFOA for Certificate of Achievement for Excellence in Financial Reporting consideration. 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.
 - **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.

- » **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.

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



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, 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 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 June 30, 2019

» **Rate of Returns.** MBTARF (Total Plan) Rate of Returns - Net of Fees¹ :

Time of Return	Return	Return Percentile
Quarter Ending	3.32%	42 nd Percentile
Year to Date	11.24%	72 nd Percentile
1 Year	5.68%	67 th Percentile
3 Year	9.13%	33 rd Percentile
5 Year	5.91%	46 th Percentile
8 Year	7.34%	43 rd Percentile
10 Year	8.83%	57 th Percentile
Inception to Date ²	9.08%	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.³

¹ These net returns for the quarter ending June 30th are preliminary. Expenses and fees are not treated uniformly in the rate of return calculations over the periods covered.

² The inception to date return begins January 1982.

³ 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 June 30, 2019 (cont.)

» **Rate of Returns.** MBTARF & PRIM (Total Plan) - Gross of Fees¹

Time of Return	MBTARF Return	PRIM Return
Quarter Ending	3.40%	3.36%
Year to Date	11.41%	9.95%
1 Year	6.02%	6.12%
3 Year	9.52%	9.72%
5 Year	6.28%	7.01%
10 Year	9.20%	9.87%
Inception to Date ²	9.26%	9.41%

¹ These Gross returns for the quarter ending June 30th are preliminary. Expenses and fees are treated uniformly in the rate of return calculations over the periods covered.

² The inception to date return begins January 1982.

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, 2019 and August 31, 2019, Benefits staff met directly with 698 active and retired members.
- » **Membership.**
 - **Contributions.** As of August 31, 2019, there were a total of 5,340 members actively contributing to the Fund. 292 employees began to contribute to the Fund for the first time beginning in 2019.

Benefits Department – Status Report (Cont.)

» **Disability Examinations.**

- **Scope.** The Fund outsources disability examinations and reexaminations to SCOPE Medical, the provider used by the MBTA, and such information provided about these examinations and reexaminations is not subject to HIPAA as per an updated opinion from Fund counsel.
- **Disability Reexaminations.** The Fund selected 20 members for disability reexamination since January 1, 2019 and completed 10 through mid September. The outstanding revaluations are either pending records reviews, had a scheduled future appointment, or failed to appear at their scheduled appointment. As of August 31, 2019, 88.4% of August 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).

» **Member Benefits - Legal Claims.** As of this date there is one pending legal case brought by a member and a retiree, respectively, asserting certain benefit entitlements against the Fund based on “back pay” settlement calculations that the Fund is vigorously defending.

» **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.