



MBTA
RETIREMENT
FUND

INTERIM DIRECTOR'S 2020 ANNUAL REPORT TO THE BOARD OF THE MBTA RETIREMENT FUND

February 19, 2021

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 2020 and to preview proposed actions for 2021 (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 publicly posting this abbreviated version of the Annual Report that was originally delivered by John Barry to the Retirement Board on February 19, 2021.
- » **Continuous Improvement.** The Fund is dedicated to continuously improving its operations and customer service. Accordingly, it may revise or modify its planning for 2021, 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 and retiree feedback is encouraged.

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MBTARF Management Report – COVID-19 Response

The COVID-19 pandemic disrupted routine Retirement Fund operations during 2020. In response, Fund Management took proactive steps to ensure the personal safety of staff and members while maintaining quality service, including:

» **Consultations.**

- **Walk-In Consultations.** The Retirement Fund temporarily suspended walk-in consultations while continuing to service members, retirees, and beneficiaries through e-mail and telephone.
- **Required In-Person Consultations.** Members, retirees, and beneficiaries requiring in-person services (e.g., to complete a retirement application) may schedule in-person consultations with Retirement Fund staff. The Retirement Fund practices social distancing measures to conduct in-office consultations in separate rooms with Retirement Fund staff via a Zoom video meeting.
- **PTG Self-Service Portal.** Members and retirees have access to the Retirement Fund's self-service platform that enables members and retirees to review pension benefit information, calculate pension estimates, and update certain account information by downloading fillable forms to deliver to the Retirement Fund. As of January 31, 2021, 900 users have registered for the PTG Member Self-Service Portal. Of those registered users, 675 are active members and 225 are retired members.

» **Return-to-Work Guide; Remote Work.** The Retirement Fund developed a written return-to-work guide providing instructions and guidelines for employees working during the COVID-19 pandemic, as guided by Gov. Baker's phased approach to re-opening the Commonwealth and CDC recommendations.

- **Mandated Training.** The Retirement Fund conducted mandated social distance and sanitization training in conjunction with training on its return-to-work guide on 5/21/2020 and 9/24/2020.
- **Remote Work.** While the return-to-work guide provides instructions for working in the office, Retirement Fund staff are encouraged to continue to work productively from home while travelling to the office as needed for essential business purposes to service Retirement Fund membership. The Retirement Board and Fund Management's adoption of the 2020-2023 Strategic Plan enabled the Retirement Fund to employ sophisticated technology to adapt nimbly to a remote work environment.

» **Disability Medical Evaluations.** The Retirement Fund, in conjunction with its independent medical evaluation provider, has secured access to telemedicine technology (i.e. examinations using HIPAA compliant video-conferencing tools) for members requiring a physician's examination in order to apply for disability retirement benefits.

MBTARF Strategic Plan (2020-2023)

- » **Project 2020.** The Project 2020 Team, led by the Fund's Manager of Operations, and including the Interim Executive Director and Fund counsel, with input from staff, board members, stakeholders and peers, developed a transformative Strategic Plan covering the four (4) year period commencing in 2020 and ending in 2023 with the 75th Anniversary of the Fund's founding in 1948.
- » **MBTARF Strategic Plan.** The Project 2020 Team collected and analyzed information, obtained through anonymous surveys and interviews of Fund senior staff and various stakeholders, in order to develop long term goals, specific objectives within those goals, and targeted strategic initiatives designed to achieve each objective all resulting in the MBTARF Strategic Plan for 2020-2023. The Retirement Board approved the Strategic Plan in 2020.
- » **MBTARF Strategic Plan (Year #1) Progress Report:** Although 2020 was dominated by the pandemic, Fund management is pleased to report that it was able to pursue its strategic planning goals and align them with immediate needs triggered by the necessity of largely remote operations. The next slide highlights some of these accomplishments.

MBTARF Strategic Plan (2020-2023) – Progress report

- » **Operational Reorganization.** Retirement Fund management implemented the reorganization plan approved by the Board at the September 18, 2020 Board meeting. The reorganization meets the requirements of the Fund’s Strategic Plan and is consistent with Fund management’s ongoing efforts to become a leaner, more cost effective organization. Since John Barry’s tenure as Interim-Executive Director, several positions were eliminated, including (i) the Deputy Director, (ii) an Executive Assistant position; and (iii) a Benefits Administrator position. From 2016 through December 2020, the overall costs savings to the Retirement Fund based on the absorbed roles is approximately \$1,706,851 (including estimated insurance premiums). As previously discussed by outside counsel, the Retirement Fund retained the PERAC Chair to assist with implementation of the reorganization plan and provide an independent assessment of Fund operations.
- » **Retirement Fund Website Updates.** The Retirement Fund’s Manager of Information Technology and its website developer, Keza, updated the website to add member and retiree account access. In addition, the Retirement Fund began an enhanced campaign to regularly update its website to include additional information (such as monthly flash reports, investment documents, and Retirement Fund reports) designed to increase transparency into the Retirement Fund operations and to educate stakeholders about the Retirement Fund’s achievements and its limitations, including funding challenges created through demographic forces such as disproportionate increases in retirees through increased life expectancy and decreases in active, contributing members.
- » **Refining Policies to Reduce Risk.** The Retirement Fund has continued to evaluate, update and refine internal policies governing operations and management to reduce risk, enhance quality, improve discipline and encourage internal cooperation during COVID-19. This includes developing a COVID-19 Return-to-Work Guide to govern return to office operations for employees and conducting outreach and convening Zoom meetings with peer retirement funds and aspirational retirement funds (Plymouth County, Middlesex County, and Boston Retirement) to discuss their operations, best practices and lessons learned.

In-Service Training – Information Technology

- » **2020 Annual In-Service Training.** The 2020 Annual In-Service Training (8th Ed. 94 pp.) was conducted on September 24, 2020 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; and
 - The Policy for the Elimination of Unlawful Harassment and Discrimination.
 - **Phishing Email Awareness Training.** The Retirement Fund understands that phishing attacks are one of the most common cyberattacks for criminals to employ. Accordingly, the Annual In-Service Training included employee training on how to spot and report suspected phishing emails in order to better protect the Fund from cybercriminals, hackers, and other bad actors. This training also includes a debrief on the Fund's simulated phishing exercise.
 - **Mass. Paid Family and Medical Leave Act.** An overview of the recently enacted Massachusetts Paid Family and Medical Leave law.
 - **COVID-19 Response.** Overview of the Fund's COVID-19 response and return to work guidelines, as set forth in the COVID-19 Return-to-Work Guide.
- » **Intern Training.** No interns were hired in 2020; therefore, no intern training was conducted.

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 the Fund’s investment counsel, the Fund’s investment consultant 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 2019 to accommodate the MBTARF’s future investments.
- » **PRIT Investments.** The Board has voted to authorize the following investments in PRIT:
 - PRIT Hedge Fund Sleeve (\$20 million; approved by Board 10/1/2019);
 - PRIT Private Equity Vintage Year 2020 sleeve (\$25 million; approved by Board 11/15/19);
 - PRIT Emerging Markets sleeve (\$30 million; approved by Board 7/17/20); and
 - PRIT Private Equity Vintage Year 2021 sleeve (\$17.5 million; approved by Board 10/18/20).

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. 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 Interim Board Secretary to meet the requirements of the PRL, including supporting her in the role of Records Officer ("**RO**") consistent with the PRL.
- » **PRL Requests.** K|P Law and Fund Management have received and responded to periodic records requests under the PRL since 2017. Aside from several requests from the Boston Globe shortly after the effective date of the law, and sporadic requests from institutional data aggregators over the years, there has not been a significant volume of requests generally.
 - **Most Frequently Requested Information.** The most frequently requested records include investment-related information and Board meeting agendas and minutes. The Fund has generally 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 information outside of the CAFR under the "PRIM exemption" to the PRL, which protects confidential investment related records.
 - **Notable 2020 Requests.** In calendar year 2020, the Fund received few requests - some asking benefit related questions which were referred to benefits staff and none requiring assistance of counsel. The data aggregator, Fundmap, sent two requests to which the RO responded using a standard form prepared by counsel citing the "PRIM exemption" and referring Fundmap to information publicly available on the MBTARF website.
- » **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, including the retiring Executive Director and the incoming Executive Director. After the December 13th meeting, the retiring Executive Director 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, including the Executive Director, to discuss, among other things, the MBTARF’s *Project 2020* and PRIT investment compliance and monitoring issues.
- » **February 2020 Update.** On February 13, 2020, Fund management met with PERAC representatives, including the Executive Director, to update PERAC concerning the MBTARF’s progress with *Project 2020* (including the MBTARF’s draft strategic plan) and seek advice concerning the MBTARF’s unclaimed property project.
- » **August 2020 Update.** On August 18, 2020, Fund management met via Zoom with PERAC representatives, including the Executive Director and the Assistant Deputy Director, to update PERAC on the MBTARF’s progress with its Strategic Plan and to discuss, among other things, the MBTARF’s response to COVID-19; the MBTARF’s website updates designed to increase information sharing; and investment performance.
- » **March 2021 Update (planning).** Fund management is planning a Zoom meeting in March 2021 with PERAC representatives, including the Executive Director and the Assistant Deputy Director, to update PERAC on the MBTARF’s 2020 Annual Report to the MBTARF Board of Trustees, COVID-19 response as well as its progress on its Strategic Plan.

PERAC Self-Reporting (cont.)

MBTARF Meetings with PERAC – 2010 through 2021

- » 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
- » August 18, 2020
- » March 2021
(Planning)



Information Governance – Technology Upgrades

- » **The Fund’s IG Group.** Pursuant to the Retirement Fund’s previous Strategic Plan, the Fund established an Information Governance (“IG”) Group led by the Fund’s Data Security Coordinator. The IG Group also includes Interim Executive Director, the Manager of Operations, outside counsel, and a representative from the Fund’s technology consultant.
- » **Technology Upgrades.** The IG Group has implemented or scheduled the following technology upgrades:
 - **PTG PensionPro Enhancements.** The Retirement Fund replaced its previous pension benefit software with PTG’s PensionPro, a state of the art pension management software system designed to enhance both customer service and Retirement Fund efficiency. The Retirement Fund 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. PTG is currently implementing enhanced functionality that attaches scans of paper-based records to the corresponding member files in PTG PensionPro. This will allow Retirement Fund staff to have the ability to review all member and retiree records in one location, further increasing efficiency and customer service.
 - **Cloud Migration.** The IG Group conducted an assessment of the Fund’s current servers and related hardware and found that they were past their useful lives. Accordingly, the IG Group negotiated updates to its master subscription agreement with its managed service provider and technology consultant, CMIT to include a scope of work to migrate to a new cloud-based hosting solution. This migration began in February 2021 and is expected to reduce operating costs, enhance scalability and increase data security. The revisions to the master subscription agreement included enhanced provisions to better protect the Retirement Fund against potential liability.
 - **Increasing Social Distancing Measures.** In order to better protect Retirement Fund customers and staff during the COVID-19 pandemic, the Retirement Fund tested the feasibility of using a remote online notarization provider to service members applying for retirement benefits. Ultimately this proved to be inefficient, and the IG Group adopted Zoom video conferencing to conduct in-office consultations in separate rooms via a video 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 Board Meeting held on May 15, 2020. The 2019 audit and CAFR were approved at the June 19, 2020 meeting.
 - **GASB 72.** The Fund completed and incorporated the required GASB 72 procedure for 2019 (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, 2017, 2018, and 2019 CAFRs 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.
 - **2019 Certificate of Achievement.** In February of 2021, the Fund received the GFOA’s Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the fiscal year ended December 31, 2019.

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

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. Morill
Executive Director/CEO

2018 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, 2018

Christopher P. Morill
Executive Director/CEO

2019 Award



Government Finance Officers Association

Certificate of
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for Excellence
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Presented to

**MBTA Retirement Fund
Massachusetts**

For its Comprehensive Annual
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December 31, 2019

Christopher P. Morill
Executive Director/CEO

Finance and Investment – ICWG – Updates and Action Items

» The Investment Policy Statement.

- **IPS Revisions.** In 2018, the Fund convened its Investment Compliance Working Group (“**ICWG**”), comprised of Interim Executive Director, the Fund’s finance department staff, the Fund’s investment advisor and the Fund’s investment counsel. The ICWG revised and developed a more efficient and user friendly Investment Policy Statement (“**IPS**”) for the Retirement Fund. The IPS was approved by the Retirement Board on April 19, 2019.
- **Trust Agreement Updates.** In 2020, the Fund again convened the ICWG and revised the IPS to incorporate (i) the recent amendment to the Trust Agreement, which allowed the Fund to invest in PRIT, (ii) the Retirement Board’s new approved asset allocation and (iii) the updated Assumed Rate of Return (from 7.5% to 7.25% annually). The revised IPS was approved by the Retirement Board on July 17, 2020.

» Investment Manager Meetings.

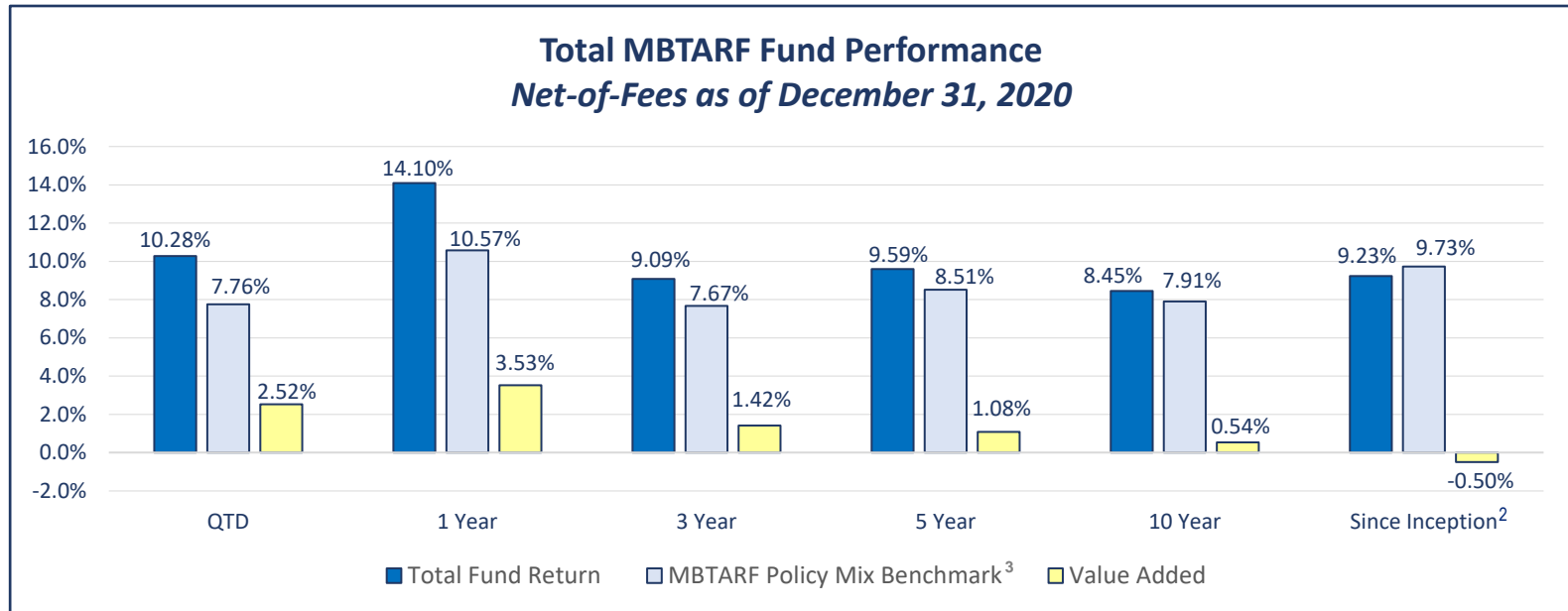
Notwithstanding issues created by COVID-19, the Retirement Board, as of its regularly scheduled February, 2021 meeting, was able to complete all the 2020 meetings with Investment Managers as required by Sec. 9.3 of the IPS.

» Additional Finance Policy Updates.

- **Finance Department Procedures.** The Finance Department Procedures (“**FDP**”) document is designed to describe the process by which the MBTARF conducts its accounting and valuation of assets and reports that information to the Retirement Board. The ICWG anticipates updating the FDP to include revisions based on the Retirement Fund’s reorganization and updated job descriptions.
- **Investment Manager Selection Process.** The IPS references and incorporates an Investment Manager Selection Process (“**IMS**”) document. The ICWG anticipates updating the IMS to evaluate investment manager compliance with the IMS and revise the IMS to reflect the most recent changes in the IPS.

Finance and Investment – Investment Returns as of December 31, 2020

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



- » The Retirement Board recognizes that asset allocation decisions generally account for 90% of investment return. See IPS, p. 11.
- » The Year-to-Date return of 14.10% ranked in the 13th percentile and exceeded the median return of 10.6% among the InvMetrics \$1 Billion Plus Public Defined Benefit Funds Universe.⁴
- » The 3-Year return of 9.09% ranked in the 16th percentile among the InvMetrics \$1 Billion Plus Public Defined Benefit Funds Universe.⁵

¹ These net returns for the period ending December 31, 2020 are preliminary.

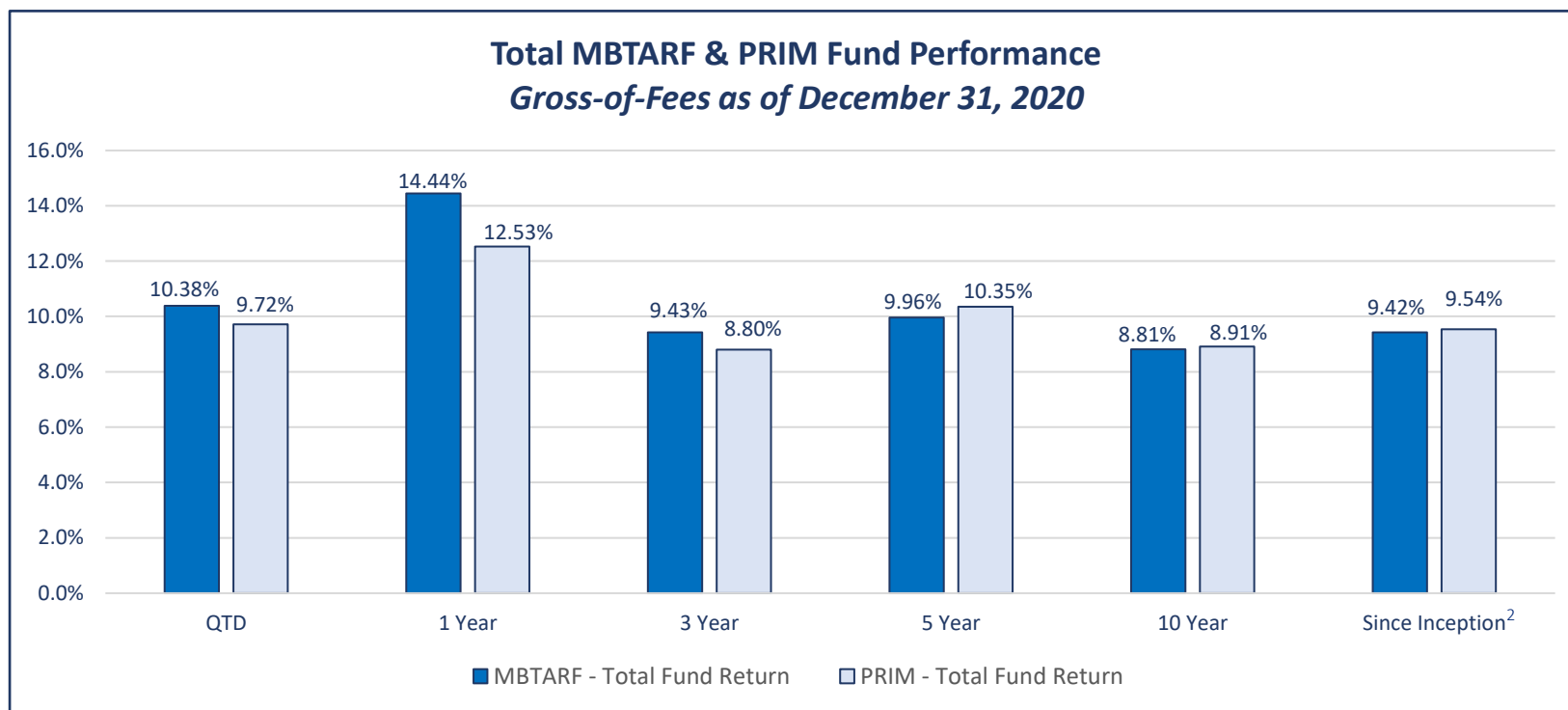
² The inception to date return begins January 1982.

³ The Policy Index replicates the return if the Fund were passively invested in assets strictly adhering to the asset allocation targets.

^{4,5} For periods profiled, peer group percentile rankings may change modestly, as additional plan sponsor data is made available.

Finance and Investment – Investment Performance Comparison to PRIM

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



» **Total Fund Value.** As of December 31, 2020, the Fund’s preliminary total asset value was \$1,744,432,190, which is an increase of \$130,287,977 from the Fund’s December 31, 2019 asset value.³

¹ These gross returns for the quarter ending December 31, 2020 are preliminary.

² The inception to date return begins January 1982.

³ The preliminary market value does not include fourth quarter private equity and closed-end real estate funds for 2020.

Benefits Department – Status Report

- » **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.** Due to COVID-19, the Fund suspended walk-in consultations and re-configured its phone system instructing individuals to leave voicemails if they had benefits-related questions or otherwise required assistance. Accordingly, between March 1, 2020 and December 31, 2020, Benefits staff returned 3,945 voicemails left by such individuals. Between January 1, 2020 and December 31, 2020, Benefits staff met directly (either in-person or via Zoom) with 346 active and retired members.
- » **Mortality Verification Vendor.** The Fund surveyed several PERAC systems to identify the highest recommended, mortality verification vendor, to reduce the possibility of further overpayments due to unreported deceased individuals. Based on those recommendations, the Retirement Fund interviewed PBI Research Services (“**PBI**”) and engaged PBI to replace Berwyn as its third party mortality verification vendor.

» Disability Examinations.

- **SCOPE Medical.** The Fund outsources disability examinations and reexaminations to SCOPE Medical, the provider also 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, 2020, 68% 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).

Questions?

Questions?