

Operational Review of MBTA Retirement Fund Benefits Department SOPs

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About This Presentation

Consistent with the Retirement Board's commitment to transparency, the Retirement Board is publicly posting this abbreviated version of the Operational Review of the MBTA Retirement Fund Benefits Department SOPs presentation that was originally delivered by Philip Y Brown to the Retirement Board on February 18, 2022.

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An Independent Review Of Operations

This operational review is intended to provide an in-depth, objective review of the Retirement Fund’s Development of Standard Operating Procedures (“SOPs”) for the Fund’s Benefits Department.

- **Scope of Work For The Review:**

- Examine the Benefits Department SOPs;
- Review processes and procedures for developing the SOPs;
- Compare the Retirement Fund’s Benefits Department SOPs with selected ch. 32 Funds; and
- Prepare this analysis for the Board.

- **Steps Taken To Complete the Review:**

- Conducted interviews of people involved developing the SOPs, including meeting with the team drafting the SOPs;
- Conducted interviews of selected ch. 32 Funds that are similar in size to, or larger than, the Retirement Fund;
- Obtained and reviewed materials from the ch. 32 Funds;
- Reviewed my previous assessment of the Retirement Fund’s operations;
- Prepared this assessment: 1) of the process used by the Retirement Fund to develop the Benefits SOPs; 2) of the content of and efficiencies gained through developing and implementing the SOPs; and 3) how the SOPs that were developed compare to the procedures used by the PERAC regulated funds.

Executive Overview Of Key Findings

- **Strategic Planning Process Serves An Important Goal.** The Board-approved strategic planning process implemented by Retirement Fund management serves an important role in identifying, directing and achieving long-term strategic initiatives.
- **Increased Operational Efficiencies Achieved by Benefits SOPs.** The Benefits SOPs increase operational efficiencies by setting out clear, concise, uniform, efficient procedures for staff to follow.
- **Standard Operating Procedures are Consistent with Best Practices.** The Retirement Fund's Benefits SOPs were developed using sound business judgment and are otherwise consistent with best industry practices.
- **The Retirement Fund Is Meeting Its Fiduciary Obligations To Its Beneficiaries Through Its Operational Improvements.** Using ch. 32 pension funds and PERAC regulations as a measuring stick, the Retirement Fund continues to be a leader in making operational improvements.

Strategic Plan Development – 2015-2019 Strategic Plan

Retirement Fund’s 2015-2019 Strategic Plan. In 2019, Retirement Fund management completed the final year of the Board-approved 2015-2019 Strategic Plan. Accomplishments achieved pursuant to the 2015-2019 plan included:

- Goal A - Improve financial reporting, accountability and transparency
 - Produced the Retirement Fund’s first five (5) ACFRs following GFOA Guidelines (received four (4) 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
 - Updated and adopted best practices and conducted annual in-service trainings on such best practices
 - Fostered a “customer service” culture
- Goal C - Develop a technologically sophisticated infrastructure to better serve members and retirees
 - Developed and maintained the Retirement Fund’s website
 - Incorporated Information Governance, information technology, cybersecurity protections and related best practices
 - Improved customer service through pension benefit software upgrade
- 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) and conducted Board training on same
 - Improved internal investment compliance procedures
 - Developed and maintained a self-reporting working relationship with PERAC

Strategic Plan Development – Project 2020

- **Project 2020.** Retirement Fund management, led by John Barry and Retirement Fund counsel, Nick Hasenfus (the “**Project 2020 Team**”), developed a new Strategic Plan, reviewed and approved by the Board, that commenced in 2020 and ends in 2023.
- **Strategic Plan Methodology.** The Project 2020 Team employed a comprehensive methodology to collect and analyze relevant information, obtained through anonymous surveys and interviews of Retirement Fund senior staff, in order to develop long term goals, specific objectives within those goals, and targeted strategic initiatives designed to achieve each objective.
- **Strategic Goals.** The Project 2020 Team set out the following strategic goals in the Strategic Plan:
 - **Goal A** – Enhance financial technology capabilities to support a secure and high performing customer service environment.
 - **Goal B** – Cultivate a sophisticated, professional, risk intelligent organization dedicated to customer service.
 - **Goal C** – Become a recognized leader in pension benefit administration.
 - **Goal D** – Sustain and preserve a financially sound pension fund.
- **Assessment.** The Board-approved Strategic Plan provides Retirement Fund management with direction in identifying and achieving high priority strategic goals and long-term initiatives.

Development Of Benefits SOPs – Questions Asked

- **Do the SOPs further the Strategic Plan’s initiatives? Yes.** Strategic Initiative B3.2 instructs the Retirement Fund to “[d]evelop and evaluate standard operating procedures (SOPs) to improve efficient operations, productivity and uniformity.”
- **Do recent operational changes impact the work of the Benefits Department? Yes.** Recent staff reorganization and technological enhancements, such as the PTG PensionPro implementation and the cloud migration, have changed the way the Benefits Department operates. This made it the “right time” to develop new Benefits SOPs.
- **Are there any lessons we learn from the Fund’s Auditor? Yes.** Every year the Finance Department receives feedback from the Fund’s auditor, KPMG. John Barry, the Benefits Department, the Manager of Information Technology, the Manager of Operations, and outside legal counsel Nick Hasenfus of Holland & Knight (the “**Development Team**”) held an internal “lessons learned” meeting with the Finance Department to solicit applicable auditor (KPMG) feedback as a prelude to developing the Benefits SOPs.
- **What content should be included in the Benefits SOPs?** Using the “lessons learned”, and adopting an iterative approach, the Development Team drafted an outline to help develop the Benefits Department procedures (the “**Procedures Outline**”).

How The Benefits SOPs Were Developed

- **The first step was to create a project plan.** Using the Procedures Outline, the Development Team identified the relevant subject matter experts within the Benefits Department for each process listed in the Procedures Outline. Each subject matter expert was then charged with preparing a written description of the associated procedure for that operational topic.
- **The second step was to hold weekly meetings.** The Development Team, as a group, convened regular weekly meeting where draft procedures developed by the subject matter expert were reviewed and discussed. During these weekly reviews, the Development Team focused on:
 - **Reviewing and Enhancing Practices.** The Development Team took a fresh look at the procedures to ensure they complied with best practices, the Pension Agreement, and applicable law. The Development Team understood the importance of adopting a clear, articulable policy that incorporated reasonable business judgment. For example, the Development Team made enhancements to the disability re-test procedures so that individuals were no longer randomly selected for re-testing. Instead, individuals were selected for disability re-test based on a chronological order measured from their last exam.
 - **Stakeholder and Service Provider Review.** The Development Team also solicited feedback from stakeholders, including professional service providers, to ensure the Benefits SOPs conformed with current best practices and the law. These stakeholders included the Retirement Fund's actuary (Buck), its outside counsel for qualified domestic relation order (QDRO) implementation, and outside counsel for tax advice.

Assessment Of The Development Process

- 1) The project management process used to develop the Benefits SOPs was reasoned, rational, and reflective of sound business judgment.**
- 2) The Development Team's scheduling of weekly meetings, and its inclusion and use of internal subject matter experts, helped to increase "buy-in" from those whose job it will be to implement the SOPs.**
- 3) The Development Team's solicitation of input from third party stakeholders and service providers was a sound business process reflective of best practices designed to achieve factual and legal accuracy in the SOPs.**

Assessment Of The Product

- 1) The Benefits SOPs are an example of “best practices” in action by providing clear, articulate, step-by-step uniform instructions on how to perform Benefits Department tasks, or business processes.**
- 2) These interlinked steps provide Benefits Department staff with a uniform checklist of best practices and repeatable methods to perform business processes accurately and efficiently.**

Benefits Of The SOPs

- **The SOPs Include A New Document Repository.** Creating an online “document repository” for forms, template letters, and the like will increase efficiency and reduce errors. These documents are saved in a central location and hyperlinked to the Benefits SOPs. When a document is updated, it is saved in the central location with the same file-name so the hyperlink continues to work. This repository feature ensures that Benefits Department staff members have access to the most recent versions of form documents.
- **The SOPs Improve Efficiency.** The Benefits SOPs set out the most efficient way to perform tasks, fully utilizing the Retirement Fund’s technology and collective knowledge.
- **The SOPs Reduce Risk and the Possibility of Human Error.** The Benefits SOPs provide clear step-by-step instructions. Benefits Department staff are required to follow the steps to perform the procedures set out in the Benefits SOPs. This reduces opportunities where staff members are required to make “judgment calls” thereby reducing the associated risk of human error.
- **The SOPs will Be Useful For Training, Redundancy and for Succession Planning.** The Benefits SOPs provide a baseline for training new personnel and instructions for other Retirement Fund employees to perform Benefits tasks if needed. This will increase training efficiencies, create skill redundancy, and be useful for succession planning.

Peer Comparison To PERAC Regulated Funds

- **Overview.** I conducted an assessment of the Retirement Fund's Benefits SOPs compared to similarly sized and larger ch. 32 funds. An overview of the findings from this assessment, and my previous operational assessment, are provided in the table in the next slide. Details of the peer comparison follow in Slide Nos. 13 and 15.
- **Peer Comparison Information.** The information for the peer comparison was collected through publicly available sources relating to PERAC regulated funds, and through informational interviews with each retirement system.

Peer Comparison To PERAC Regulated Funds – Overview

Comparison Metric	MBTA Retirement Fund (reported 12/31/2021)	Retirement Fund A (reported 12/31/2020)	Retirement Fund B (reported 12/31/2020)	Retirement Fund C (reported 12/31/2020)	Retirement Fund D (reported 12/31/2021)
Assets Under Management (approximate)	\$1.9 B	\$1.2 B	\$1.7 B	\$7.8 B	\$37.0 B
Number of Full Time Staff Members	10	10	16	38	~100
Active Members	5,236	5,920	9,285	21,214	95,059 (and 32,636 inactive members)
Retired Members	6,597	4,938	6,156	15,173	69,615
Provides Member Self-Service Platform	Yes	Yes	No	No	Yes
Produces ACFRs	Yes	No	No	No	No
Received GFOA Certificate of Excellence	Yes	No	No	No	No
Conducts Strategic Planning	Yes	No	No	No	Yes
Has Benefits Department SOPs	Yes	No	No	No	Yes

¹ The following AUM includes the Boston Teachers Fund and investments with PRIT/PRIM, as applicable.

Comparison To PERAC Regulated Funds – Findings

The Retirement Fund exemplifies what funds need to do to operate efficiently and meet their fiduciary duties to their beneficiaries, and its operations compare favorably to similarly sized and larger sized ch. 32 Funds:

- The Retirement Fund has the smallest staff size proportionally based on the ratio comparing the number of staff to the number of active and retired members serviced. Also of note, some of the PERAC regulated funds used for comparison have many, if not all, of their assets managed by PRIM, thereby reducing the need for certain staff positions.
- The Retirement Fund and one other, much larger fund, are the only retirement funds reviewed to have adopted Benefits SOPs, which provide numerous operational benefits, as discussed in earlier slides.

What Distinguishes The Retirement Fund

- **Member Self-Service Platform.** The Retirement Fund as well as Funds A and D currently offer an online member self-service platform to their membership. Funds B and C are both planning on implementing such functionality in the future.
- **ACFR Production.** The Retirement Fund is the only retirement fund to produce an annual comprehensive financial report (ACFR). Chapter 32 Funds, provide a standardized annual report in accordance with the provisions of 840 C.M.R. 5.03. The Retirement Fund began producing its ACFR in 2014 and has done so each year since. An ACFR provides transparent, detailed financial information to help the reader properly understand the basic statements.
- **GFOA Certificate of Excellence.** The Government Finance Officers Association (GFOA) established the Certificate of Achievement for Excellence in Financial Reporting Program to encourage reporting beyond the minimum requirements of generally accepted accounting principles. It promotes the spirit of transparency and full disclosure. The Retirement Fund has received the GFOA Certificate of Achievement for Excellence in Financial Reporting for its 2016, 2017, 2018, and 2019 ACFRs. The sample c. 32 funds do not choose to produce ACFRs and therefore are not eligible for the GFOA Certificate of Achievement for Excellence in Financial Reporting.
- **Strategic Planning.** The Retirement Fund and the much larger Fund D both engage in organized strategic planning and Retirement Fund B has a forward-looking technology plan. Strategic planning provides management with direction, setting measurable short-term goals and tasks designed to assist an organization in achieving its longer-term strategic goals.

Next Steps

- **Board Feedback.** Each Board Member received a draft of the Benefits SOPs. If you have any comments on the Benefits SOPs, which are welcome, please provide them to John.
- **Best Practice Sharing and Transparency.** With Board authorization, we have prepared a PowerPoint presentation of the Benefits SOPs to share with PERAC to review at the meeting we are planning for March or April of 2022. Also, with Board authorization, we will provide the same PowerPoint presentation shared with PERAC to any Ch. 32 systems that requests them. Sharing the Benefits SOPs with PERAC and Ch. 32 systems will further the Retirement Fund's strategic commitment to best practice sharing, transparency and leadership in the pension industry. It would also allow the Retirement Fund to obtain feedback from PERAC, a public retirement system regulator, and other retirement funds.
- **My Continued Involvement.** Moving forward, I will continue to stay involved with training and implementation of the Benefits SOPs. I will report back to the Board with an assessment regarding implementation.

Questions?