



INTERIM EXECUTIVE DIRECTOR'S MID-YEAR STATUS REPORT TO THE BOARD OF THE MBTA RETIREMENT FUND

September 16, 2022

John P. Barry

About this Mid-Year Status Report

- » **Purpose.** The purpose of this Mid-Year Status Report is to provide the Retirement Board with management's overview of the Retirement Fund's accomplishments thus far in 2022 and to preview proposed actions for the remainder of 2022 (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 Mid-Year Status Report that was originally delivered by John Barry to the Retirement Board on September 16, 2022.
- » **Continuous Improvement.** The Retirement Fund is dedicated to continuously improving its operations and customer service. Accordingly, it may revise or modify its Strategic Plan (*Project 2020*), as described in this Mid-Year Status Report, or thereafter, to dynamically adapt to changes in the operating environment or to otherwise reflect the needs of its membership. Feedback is encouraged.

Table of Contents

<u>Title</u>	<u>Slide No.</u>
» About this Mid-Year Status Report	2
» Table of Contents.....	3
Management Report	
» New Pension Agreement – Arbitration Award & Memo of Interpretation	4-5
» MBTARF Strategic Plan – Progress Report and Future Planning.....	6-7
» In-Service Training.....	8
» PRIM/PRIT Investment Initiative.....	9
» COVID-19 Response Status	10
» PERAC Self-Reporting.....	11-12
Information Governance	
» Technology Upgrades.....	13
Finance and Investment	
» Financial Reporting – GFOA Certificate.....	14-15
» Investment Compliance Working Group (“ICWG”) Update.....	16
» Investment Returns as of June 30, 2022.....	17
» Investment Performance Comparison to PRIM	18
Benefits Department Status Report	
» Membership.....	19-20
» Standard Operating Procedures	21-22
Questions?	23

New Pension Agreement – Arbitration Award & Memo of Interpretation

- » **Arbitration Award.** On August 26, 2022, Arbitrator, Elizabeth Neumeier issued an Award in the matter of Local 589, Amalgamated Transit Union, AFL-CIO, CLC (the “Union”) and Massachusetts Bay Transportation Authority (“MBTA”) setting the terms of the Pension Agreement for July 1, 2018 through June 30, 2023. A copy of the Award has been supplied to the Board.
- » **Changes to Pension Agreement.** The Award amends the Pension Agreement in a number of ways including, without limitation, increasing retirement allowances under the plan by 3% (Par. 4) and changing the salary cap on Member compensation in accord with IRC Section 401(a)(17)(B)(Par.5). However, the most significant change was made through the addition of a new subparagraph (e) to Article IV, Section 1, which states: “*Every Member that receives a pension before the age of 65 will have that pension reduced for their entire retirement by 6% per year, or one half percent for each month, of retirement before age 65. This change is to be applied prospectively for all Active Members under 60 years of age and more than five years of service from retirement as of August 26, 2022*”.
- » **Memorandum of Interpretation.** The Award raises pension administration questions, particularly with regard to its application to Members under 60 who qualified for early normal and early reduced retirements (as of the date of the Award) and Members seeking disability retirement allowances. The Union and MBTA entered into a Memorandum of Interpretation to clarify certain of these administration questions. In particular:
 - **Early Normal Retirements.** The Arbitrator’s addition of new subparagraph (e) to Article IV, Section 1 appeared to alter the rights of Members under 60 and more than five years from retirement, who would now be subject to a reduction of 6% of their pension for each year the Member retired before the age of 65. The Memorandum of Interpretation provides that Members who are (i) 60 years of age or older as of August 26, 2022, or (ii) who are five years of service or less from retirement eligibility under Article IV, Section 1(c) (early normal) or Section 1(d) (early reduced) as of August 26, 2022 are not affected by the addition of new subparagraph (e). The retroactive impact on the Award on other affected Members may be the subject of further litigation involving the parties though the Union has agreed not to seek injunctive relief in the Memorandum of Interpretation.
 - **Disability Retirements.** Article IV, Section 2(b) of the Pension Agreement requires that disability retirements be calculated in the same manner as normal retirements. Accordingly, the Award could have been interpreted as dramatically altering Member rights to disability retirements, which often arise unexpectedly and effect younger Members, by reducing the computed benefit through operation of the 6% age reduction mechanism in new subparagraph (e) to Article IV, Section 1. The Memorandum of Interpretation sets forth the parties’ understanding that new subparagraph (e) does not impact disability retirement allowances.
- » **Notice of Changes.** MBTARF management posted a notice on the MBTARF website describing the changes to the Pension Agreement made pursuant to the Arbitrator's Award and Memorandum of Interpretation. A copy of that notice is provided on the next slide.
- » **QDROs.** Divorcing Members typically obtain pension benefit projections from Fund staff which are incorporated into divorce decrees in the form of Qualified Domestic Relations Orders (QDROs). Any QDROs that relied on projection information supplied by Fund staff prior to the Award, which information may no longer be accurate, will need to be revisited and/or amended. This issue was not addressed in the Memorandum of Interpretation.
- » **PTG – Pension Benefit Software Updates.** Fund staff will be working with its pension software provider to make the necessary changes to incorporate the retirement terms set forth in the Award.

New Pension Agreement – Arbitration Award & Memo of Interpretation – Notice to Members

Important Notice to Retirement Fund Members Regarding Changes to the Pension Agreement

On August 26, 2022, the arbitrator issued an award (the “Arbitration Award”) changing certain terms of the Pension Agreement, including changes that impact retirement eligibility and retirement benefits. The Arbitration Award is [available here](#).

Shortly after the Arbitration Award was issued, the MBTA and the Union entered into a memorandum of interpretation (the “Memorandum”) to establish their mutual understanding and interpretation of certain provisions of the Arbitration Award. The Memorandum is [available here](#).

Below is a summary of the changes to the Pension Agreement pursuant to the Arbitration Award as interpreted in accordance with the Memorandum:

1. New Article IV, Section (1)(e). The Arbitration Award added the following text as a new subparagraph (e) to Article IV, Section (1):

Every Member that receives a pension before age 65 will have that pension reduced for their entire retirement by 6% per year, or one half percent for each month, of retirement before age 65. This change is to be applied prospectively for all Active Members under 60 years of age and more than five years of service from retirement as of August 26, 2022.

- a. Impact on Early Normal and Early Reduced Retirement Allowances. The Memorandum interprets this text to mean that Members who are (i) 60 years of age or older as of August 26, 2022, *or* (ii) who are five years of service or less from retirement eligibility under Article IV, Section 1(c) (early normal) or Section 1(d) (early reduced) as of August 26, 2022 are not affected by the addition of new Article IV, Section (1)(e).

Stated another way, if a Member has 18 years of creditable service or is at least 60 years old as of August 26, 2022, then such Member will not be impacted by new subparagraph (e) to Article IV, Section (1).

- a. Impact on Disability Retirement Allowances. Article IV, Section 2(b) of the Pension Agreement requires that disability retirement allowances be calculated in the same manner as normal retirements. ***The Memorandum provides and confirms that disability retirements will not be impacted by Article IV, Section (1)(e).***

1. Increase in Retirement Allowances. Per the Arbitration Award, retirement benefits (normal, early and disability, vested, and survivor) that were in effect on June 30, 2018, will be increased retroactively, effective the next day (July 1, 2018) by three percent (3%).
2. Change to Salary Cap. Per the Arbitration Award, the maximum annual amount of a Member’s wages taken into account when calculating pension benefits may not exceed \$150,000 per year, subject to adjustments to the salary cap in accord with IRC Section 401(a)(17)(B)(Par.5).

For more information, please see the MBTA’s GM’s Update on the MBTA Pension Arbitration Ruling ([available here](#)) and the Union’s announcement ([available here](#)).

MBTARF Strategic Plan (2020-2023)

- » **Project 2020.** The Project 2020 Team, including John Barry and MBTARF 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 MBTARF's founding in 1948.
- » **MBTARF Strategic Plan.** To develop the MBTARF's long term strategic goals, specific objectives within those goals, and targeted strategic initiatives designed to achieve each objective, the Project 2020 Team collected and analyzed information, obtained through anonymous surveys and interviews of MBTARF senior staff and various stakeholders. This work provided the foundation for the MBTARF Strategic Plan for 2020-2023. The Retirement Board approved the Strategic Plan in 2020.
- » **MBTARF Strategic Plan (Year #3) Progress Report:** MBTARF management continues to pursue its strategic planning goals and align them with immediate needs triggered by the necessity of more online and remote operations required by the pandemic. The next slide highlights some of the MBTARF's accomplishments year to date in 2022. A more detailed progress report is provided separately in the document entitled *Strategic Plan Implementation Progress Report*.

MBTARF Strategic Plan (2020-2023) – Progress Report and Future Planning

- » **Benefits Department SOPs.** In accord with Strategic Initiative B3.2 (to “[d]evelop and evaluate standard operating procedures (SOPs) to improve efficient operations, productivity and uniformity”) and to address the MBTARF’s changes in its standard practices based on technological enhancements, the MBTARF developed standardized SOPs for the Benefits Department. An overview of the Benefits SOPs project is included in Slides No. 21-22. PERAC Chairperson is also delivering to the Board his evaluation of the MBTARF’s implementation of the Benefits SOPs.
- » **Staff and Operational Reorganization.** MBTARF management continues to implement the staff reorganization plan previously approved by the Board. The reorganization furthers the goals established in the MBTARF’s Strategic Plan to make the Fund a leaner, more cost effective organization. Since the beginning of John Barry’s tenure as Interim-Executive Director, several positions were restructured and/or combined, resulting in a costs savings to the MBTARF based on the reconfigured roles of approximately \$2,064,000 (including estimated insurance premiums). In 2020-2021, the PERAC Chairperson assisted MBTARF management with implementation of its staff reorganization plan and delivered an independent assessment of MBTARF operations to the Board in February, 2021. The PERAC Chairperson concluded that, based on “objectively measurable criteria to compare the MBTARF to its peers, *e.g.*, similarly sized or larger PERAC regulated public pension funds, the operational capabilities and outputs of the MBTARF are best in class.”
- » **Project 2023 and Future Planning.** The *Strategic Plan Implementation Progress Report* offers a summary of projects underway in 2022. Priorities for 2023, such as offering educational webinars (A3.1) and developing succession/redundancy plans ((B1.2) will be incorporated into a standalone *Project 2023* to cap the final year of the current plan and serve as a bridge for developing the next Strategic Plan (2024-2027). Priorities for the next strategic plan will be determined by the Board with support from a working group to be convened by Fund management with Board input to commence work at the beginning of 2023.

In-Service Training – Information Technology

- » **2022 Annual In-Service Training.** The 2022 Annual In-Service Training (10th Ed.) is planned for November 2022 and will cover the following topics:
 - **MBTARF Policies.** Refresher on, and changes to, the following MBTARF 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 MBTARF understands that phishing attacks are one of the most common cyberattacks for criminals to employ. Accordingly, the Annual In-Service Training will include employee training on how to spot and report suspected phishing emails in order to better protect the MBTARF from cybercriminals, hackers, and other bad actors.
 - **Policy Updates.** Updates to MBTARF policies based on IT upgrades and enhancements as well as the continuation of staff working remotely.
- » **Intern Training.** Intern training for the MBTARF's summer 2022 intern was conducted on May 30, 2022.

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, not compelling, the MBTARF to invest in PRIT (Retirement Board has fiduciary obligations to the MBTARF).
- » **June 16, 2017 – June 21, 2019** – The Board convened a “PRIM Investment Feasibility Group” (the “**Group**”) in 2017 comprised of MBTARF counsel, representatives from Segal Marco and MBTARF staff to study the issue. The Group performed significant factual and legal due diligence over a two (2) year period leading to the MBTARF’s “*Roadmap to PRIT Fund Investment*,” a copy of which is in your Board Member Handbook.
- » **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 MBTARF investments 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 MBTARF in August to discuss investment options available to “Purchasing Systems”. The MBTARF and PRIM executed a Letter Agreement, dated September 26, 2019, to accommodate the MBTARF’s investments.
- » **PRIT Investments.** The Retirement Board has voted to authorize the following investments in PRIT, which are governed by statutes and regulations pertaining to PRIT as well as a Letter Agreement that is updated to reflect each new investment:
 - 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);
 - PRIT Private Equity Vintage Year 2021 sleeve (\$17.5 million; approved by Board 10/18/20);
 - PRIT Real Estate Sleeve (\$15 million; approved by Board 5/21/21);
 - PRIT Hedge Fund Sleeve (\$10 million; portfolio rebalancing, funded 7/1/21);
 - PRIT Hedge Fund Sleeve (\$10 million; portfolio rebalancing, funded 10/1/21);
 - PRIT Private Equity Vintage Year 2022 sleeve (\$10 million; approved by Board 11/19/21); and
 - On December 17, 2021, the Board voted to allocate the funds received from the Rock Creek Redemption to the PRIM Hedge Fund account. On April 1, 2022, the MBTARF made a \$25 million investment in the PRIM Hedge Fund sleeve.

MBTARF Management Report – COVID-19 Response Status

The COVID-19 pandemic has caused less disruption to routine MBTARF operations year to date in 2022 than it did during 2020-2021. The MBTARF's proactive steps described below at the onset of the pandemic helped ensure the personal safety of staff and members while maintaining quality service.

» **Consultations.**

- **Walk-In Consultations.** The MBTARF temporarily suspended walk-in consultations while permitting limited-in person walk-in services that are a 15-minute maximum per visitor (dropping off forms, obtaining notarizations, etc.). The MBTARF continues to service members, retirees, and beneficiaries through e-mail, telephone, and Zoom video conference.
- **Scheduled In-Person Consultations.** Members, retirees, and beneficiaries requiring in-person service may schedule in-person consultations with MBTARF staff. The MBTARF practices social distancing measures to conduct in-office consultations in separate rooms with MBTARF staff via a Zoom video meeting.
- **PTG Self-Service Portal.** Members and retirees have access to the MBTARF's self-service platform which 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 MBTARF. As of September 7, 2022, 2,106 users have registered for the Member Self-Service Portal, of which 1,425 are Members and 681 are Retired Members.
- **Remote Notarizations.** MBTARF staff utilized Massachusetts' remote notarization procedures to take retirement applications of Members that were extremely ill and unable to travel to the MBTARF office to submit an application for retirement.

» **Return-to-Work Guide; Remote Work.** The MBTARF developed, and has continued to evaluate during the pandemic, 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, City of Boston guidelines, and CDC recommendations.

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

» **Disability Medical Evaluations.** The MBTARF, 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 and Retired Members requiring disability re-exams.

PERAC Self-Reporting

- » **Self-Reporting.** In 2010, the MBTARF 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. 12.
- » **December 2018 Update.** On December 13, 2018, MBTARF management met with, and delivered a report to, PERAC representatives, including both the retiring PERAC Executive Director and the incoming PERAC Executive Director. After the December 13th meeting, the retiring PERAC Executive Director commended the MBTARF for its transparency and willingness to share information with PERAC.
- » **September 2019 Update.** On September 17, 2019, MBTARF management met with PERAC representatives, including the Executive Director and Chairperson, to discuss, among other things, the MBTARF’s Project 2020 and PRIT investment compliance and monitoring issues.
- » **February 2020 Update.** On February 13, 2020, MBTARF management met with the PERAC Executive Director and Chairperson, 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, MBTARF management met via Zoom with the PERAC Executive Director, Assistant Deputy Director and Chairperson 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.** On March 11, 2021, MBTARF management participated in a Zoom meeting with the PERAC Executive Director, Assistant Deputy Director and Chairperson to update PERAC on the MBTARF’s COVID-19 response as well as its progress on its Strategic Plan.
- » **April 2022 Update.** MBTARF management meet with the PERAC Executive Director, Assistant Deputy Director and Chairperson on April 28, 2022 to provide an update and obtain feedback on, among other things, the MBTARF’s Benefits SOPs project.

PERAC Self-Reporting (cont.)

MBTARF Meetings with PERAC – 2010 through 2022

- » 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 11, 2021
- » April 28, 2022



Information Governance – Technology Upgrades

- » **The MBTARF’s IG Group.** The MBTARF’s Information Governance (“**IG**”) Group is led by the Manager of IT and includes the MBTARF’s Interim-Executive Director, the MBTARF’s technology consultant from CMIT, and outside counsel from Holland & Knight, LLP.
- » **Technology Upgrades.** The IG Group has implemented the following technology upgrades:
 - **PTG PensionPro; Self-Service Webinar.** The MBTARF 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 MBTARF efficiency. The MBTARF has been using the PensionPro system to process monthly benefit payments since April 2019 and has not been made aware of any errors in the processing of monthly benefit payments since April 2019. The IG Group is in the process of preparing a webinar to assist members and retired members with utilizing PTG’s Member Self-Service Portal, which provides members and retired members with information on their MBTARF benefits via a self-service web-based platform.
 - **Cloud Migration.** The MBTARF has successfully eliminated its on-premises solutions and related hardware, which is expected to reduce operating costs, enhance scalability and increase data security, by migrating its email and office applications to Microsoft Office 365, its phone system to a Teams-based solution, and other applications and data to a cloud-based Microsoft Azure solution.
 - **Quarterly IG Meetings.** The IG Group has conducted strategic meetings with its technology consultant, CMIT, that coincide with the IG Group’s quarterly meetings. These meetings have occurred each quarter since early 2021 and are designed to better protect the MBTARF against new information security and cyber security threats.
 - **Information Security Enhancements; Vulnerability Scan.** In connection with its cybersecurity renewal process, the MBTARF implemented multifactor authentication (MFA) for access to the MBTARF’s network, directory services, switches, endpoints and servers. The MBTARF also completed its implementation of enhanced mobile device management and email encryption technology. CMIT is conducting a routine, internal vulnerability scan to assess the strength of the MBTARF’s IT network against known vulnerabilities.
 - **Teams Room.** The MBTARF is in the process of implementing a Teams room set-up in the Board Room. This will enable Board Members attending meetings in-person to effectively conduct interviews and meetings with investment managers.

Finance and Investment – GFOA Certificates

- » **Government Accounting Standards Board (“GASB”).** The MBTARF completed, and the Board approved, the GASB 67 and 68 Reports at the June 17, 2022 Board meeting. The MBTARF also completed and incorporated the required GASB 72 procedure for 2021 as a part of the 2021 Audit (this procedure measures and records the MBTARF’s investments using fair value measurement guidelines established by generally accepted accounting principles).
- » **Audit and Annual Report.** The 2021 Audit and Annual Comprehensive Financial Report (“**ACFR**”) were approved by the Board at the June 17, 2022 meeting.
- » **GFOA Certificate of Achievement.** For the last five years, the MBTARF received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its ACFR. The GFOA established the Certificate of Achievement for Excellence in Financial Reporting Program (“**Financial Reporting 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 Financial Reporting 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 MBTARF received the GFOA’s Certificate of Achievement for Excellence in Financial Reporting for its ACFR for the fiscal year ended December 31, 2016.
 - **2017 Certificate of Achievement.** In January of 2019, the MBTARF received the GFOA’s Certificate of Achievement for Excellence in Financial Reporting for its ACFR for the fiscal year ended December 31, 2017.
 - **2018 Certificate of Achievement.** In February of 2020, the MBTARF received the GFOA’s Certificate of Achievement for Excellence in Financial Reporting for its ACFR for the fiscal year ended December 31, 2018.
 - **2019 Certificate of Achievement.** In February of 2021, the MBTARF received the GFOA’s Certificate of Achievement for Excellence in Financial Reporting for its ACFR for the fiscal year ended December 31, 2019.
 - **2020 Certificate of Achievement.** In March 2022, the MBTARF received the GFOA’s Certificate of Achievement for Excellence in Financial Reporting for its ACFR for the fiscal year ended December 31, 2020.

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
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, 2019

Christopher P. Morill
Executive Director/CEO

2020 Award



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**MBTA Retirement Fund
Massachusetts**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

December 31, 2020

Christopher P. Morill
Executive Director/CEO

Finance and Investment – ICWG – Updates and Action Items

» **The Investment Policy Statement.**

- **IPS Overhaul.** In 2018 the MBTARF convened its Investment Compliance Working Group (“**ICWG**”), comprised of John Barry, the MBTARF’s finance department staff, investment advisor and investment counsel. The ICWG revised and developed a more efficient and user friendly Investment Policy Statement (“**IPS**”). The revised IPS was approved by the Retirement Board on April 19, 2019. To increase transparency, the IPS has been posted to the MBTARF’s website.
- **Additional IPS Updates.** In 2020, the MBTARF again convened the ICWG and revised the IPS to incorporate (i) the amendment to the Trust Agreement authorizing the MBTARF 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.

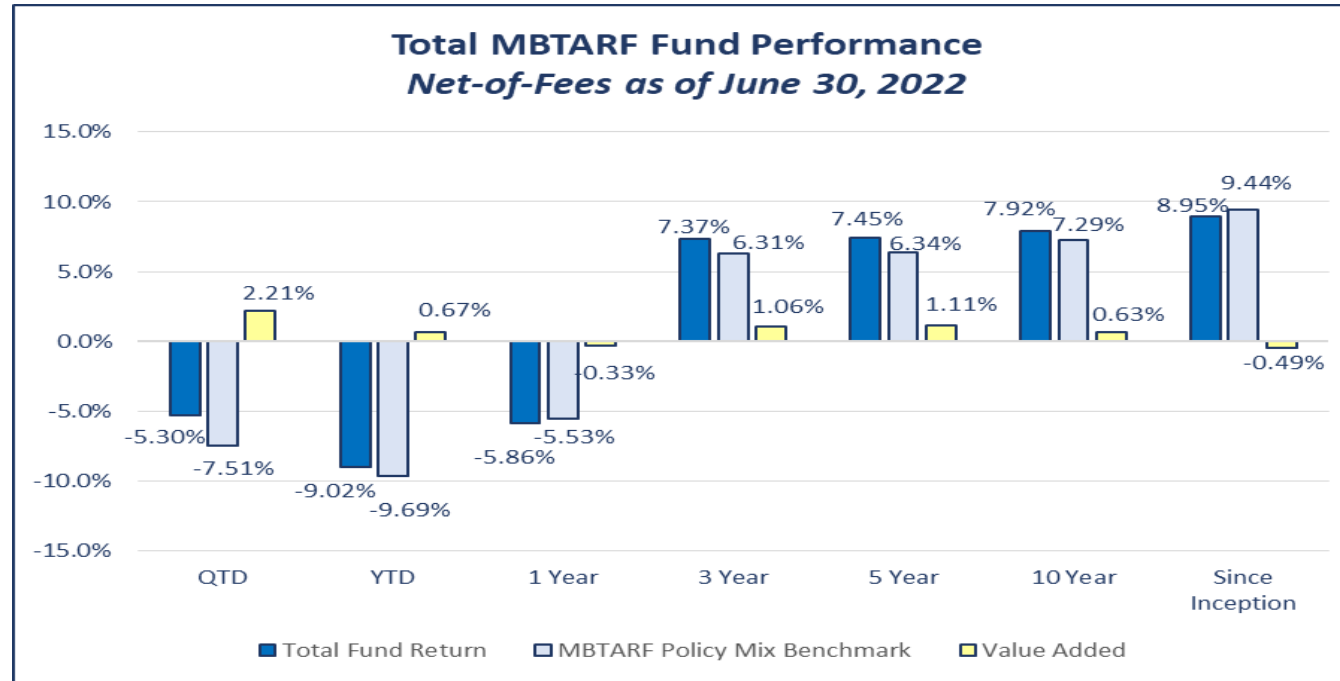
» **Investment Manager Meetings.** Notwithstanding issues created by COVID-19, the Retirement Board was able to complete all the 2022 meetings to date with Investment Managers as required by Sec. 9.3 of the IPS.

» **Additional Finance Policy Updates.**

- **Finance Department Procedures.** During 2021 the ICWG reviewed the IPS and the Finance Department Procedures (“**FDP**”), a document describing how the MBTARF conducts its accounting and valuation of assets and reports that information to the Retirement Board. In 2021, the ICWG concluded that the IPS did not require revisions. The ICWG revised the FDP in 2021 to: (i) provide better understanding of the structure and governance of the MBTARF, and (ii) reflect changes in technologies and processes utilized by the MBTARF. The revised FDP was presented to the Retirement Board at its October 2021 meeting.
- **Investment Manager Selection Process.** The IPS references and incorporates an Investment Manager Selection Process (“**IMS**”) document. The ICWG plans to review and, if necessary, update the IMS in 2022.

Finance and Investment – Investment Returns as of June 30, 2022

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



- » The Retirement Board recognizes that asset allocation decisions generally account for 90% of investment return. See IPS, p. 7.
- » Over the QTD, YTD, 3, 5 and 10- year periods the MBTARF outperformed its Policy Mix Benchmark by 221, 67, 106, 111, and 63 basis points, respectively.
- » The Year-to-Date return of (9.02)% ranked in the 26th percentile and slightly below the median return of (11.9)% among the InvMetrics \$1 Billion Plus Public Defined Benefit Funds Universe.⁴
- » The 3, 5 and 10-Year returns of 7.37%, 7.45%, and 7.92% ranked in the 21st, 22nd, and 44th percentiles, respectively, all above median among the InvMetrics \$1 Billion Plus Public Defined Benefit Funds Universe.⁵

¹ These net returns for the quarter ending June 30, 2022 are preliminary. Expenses and fees are not treated uniformly in the rate of return calculations over the periods covered.

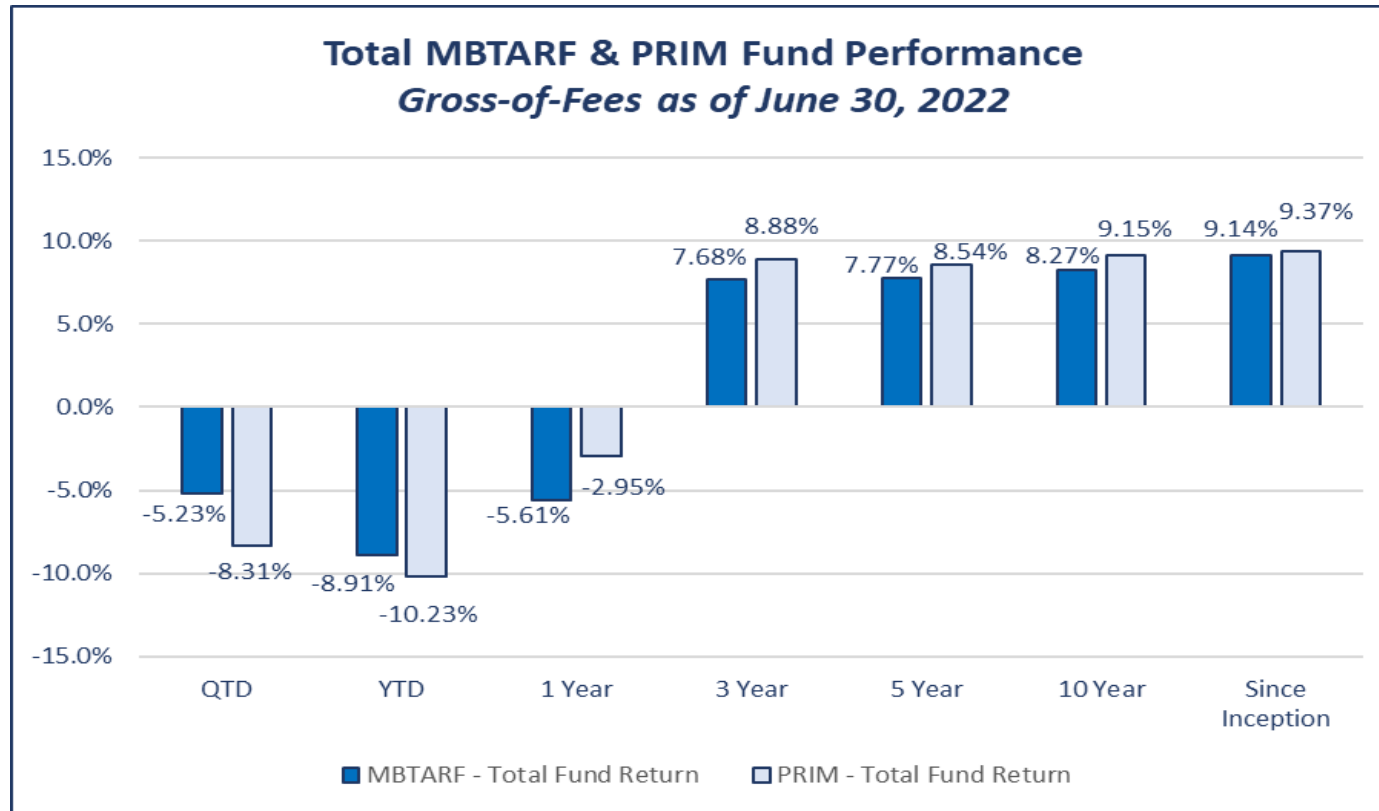
² The inception to date return begins January 1982.

³ The Policy Index replicates the return if the MBTARF 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 June 30, 2022, the MBTARF’s preliminary total asset value was **\$1,651,545,409** which is a decrease of **\$159,290,569** from the MBTARF’s March 31, 2022 asset value.³

¹ These gross returns for the quarter ending June 30, 2022 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.

³ The preliminary market value does not include all second quarter 2022 valuations for private equity, real estate and hedge funds.

Benefits Department – Status Report - Membership

- » **Preparation for Impact of Arbitration Award & Memo of Interpretation.** The Benefits Department is taking pro-active steps to prepare for a possible surge in retirement applications based on changes to the Pension Agreement pursuant to the Arbitration Award and Memorandum of Interpretation (see Slide No. 4), including creating and posting a fillable form on the website for Members to complete when requesting an appointment for retirement and making other forms required for retirement available online. These steps are designed to make appointments to retire more efficient by reducing the time to complete a retirement application in-person.
- » **Meetings.** Due to COVID-19, the MBTARF suspended walk-in consultations while permitting limited-in person walk-in services that are no more than 15-minutes per visitor (dropping off forms, obtaining notarizations, etc.) and performed other consultations by appointment. Between January 1, 2022 and August 31, 2021, Benefits staff met directly (either in-person or via Zoom) with 232 active and retired members. Also, due to COVID-19, the MBTARF re-configured its phone system from January 1, 2022 and April 30, 2022 to instruct individuals to leave voicemails if they had benefits-related questions. During that period, Benefits staff returned 1,504 voicemails left by such individuals. Beginning on May 2, 2021, the MBTARF reverted its phone system back to pre-COVID-19 operations and answered benefits-related questions as they were received without instructing individuals to leave voicemails.
- » **Transit Fund Admin Agreement.** The Transit Employees Health and Welfare Fund (the “**Transit Fund**”) provides benefit programs to Retired Members, including Medicare reimbursement, dental insurance, life insurance and vision insurance. In order to assist Retired Members participating in the Transit Fund’s benefit programs, the MBTARF withholds deductions and provides Medicare reimbursement payments on behalf of the Transit Fund. In 2021, the MBTARF executed an administrative agreement with the Transit Fund that (i) sets out and defines limitations to the services the MBTARF provides to the Transit Fund, and (ii) provides contractual remedies and protections to the MBTARF in connection with its provision of services to the Transit Fund, including adding the MBTARF as an additional insured on its insurance policies (including cyber), and providing the MBTARF with robust indemnities.
- » **Membership.**
 - **Contributions.** As of August 31, 2022, there were a total of 5,301 members actively contributing to the MBTARF. 325 employees have begun to contribute to the MBTARF year to date.
 - **Benefits.** As of August 31, 2022, there were 6,553 Retired Members and beneficiaries receiving monthly retirement allowances. This figure only covers retirees and survivors and excludes qualified domestic relations orders (each, a “**QDRO**”). As of August 2022, 55 Retired Members died with an option and 149 Retired Members died without an option.

Benefits Department – Status Report – Membership (Cont.)

» **Disability Examinations.**

- **SCOPE Medical.** The MBTARF outsources disability examinations and reexaminations to SCOPE Medical, the provider also used by the MBTA. The limited information the MBTARF receives in connection with these examinations and reexaminations is not subject to HIPAA as per an opinion from MBTARF counsel.
- **Disability Reexaminations.** As of August 31, 2022, 71% 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 the payee's date of birth).

» **Member Benefits - Legal Claims.** As of this date, there are no legal cases pending against the MBTARF involving members or retirees.

» **CTHRU.** The Comptroller's CTHRU initiative has replaced the Commonwealth's "Open Checkbook" website. The MBTARF delivers member and retiree information to the Commonwealth 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. The Comptroller has implemented this initiative under its powers and initiatives set out in M.G.L. c. 7A.

Benefits Department – Status Report – Standard Operating Procedures

- » **Overview.** The Benefits Department SOPs are written, standard, uniform, objectively measurable and auditable work-flow procedures designed to assure the prompt, consistent and accurate administration of benefits (including member consultation procedures, retirement procedures, disability procedures, QDRO procedures, contribution refund procedures, and unclaimed property procedures).
- » **Implementation Status.**
 - **Lessons Learned.** The MBTARF held an internal KPMG “lessons learned” meeting at project commencement with the Finance Department to solicit relevant auditor feedback applicable to the development of the Benefits Department SOPs.
 - **Regular, Weekly Meetings.** The Benefits Department and outside counsel convened weekly meetings to develop the standardized procedures. Rigorous project management ensured timely and accurate development of the standardized procedures.
 - **Form and Template Document Review.** The Benefits SOPs implementation team updated the Benefits Department forms and template documents to assure consistency and compliance with the Pension Agreement, applicable law, and best practices. The forms are hyperlinked to the Benefits SOPs to ensure that the Benefits Department has access to the most recent version of the forms and template documents as they continue to be updated in the future.
 - **Feedback from External Stakeholders and Service Providers.** The Benefits Department solicited feedback from external stakeholders and service providers, including its actuary (Buck), outside counsel for QDRO implementation and outside tax counsel to ensure that the Benefits SOPs conformed with current best practices. The PERAC Chairperson is also providing feedback in connection with his operational review of Benefits SOP implementation.

Benefits Department — Standard Operating Procedures — Former PERAC Executive Director Review

- » The former PERAC Executive Director was engaged to perform a comparative analysis of the MBTARF's Standard Operating Procedures. The former PERAC Executive Director's full report has been distributed to the Board. The following provides an executive overview of his key findings and opinions:
 - **Development of Benefits SOPs Consistent with Best Practices.** The process implemented by the Retirement Fund to develop the Benefits SOPs, which included weekly meetings and subject matter experts contributing their expertise to the work product, is consistent with industry best practices.
 - **Benefits SOPs Create Operational Efficiencies.** The Benefits SOPs meet or exceed best practices for pension funds, particularly those Systems that are the size of the Retirement Fund. The Benefits SOPs set out the most efficient ways to perform tasks, fully utilizing the collective knowledge of the SOP Development Team and the Retirement Fund's technological capabilities. Because the Benefits SOPs provide clear step-by-step instructions to accomplish these tasks, the risk and possibility of human error is reduced. The Benefits SOPs provide detailed guidance for Retirement Fund employees to perform benefit tasks while also establishing a baseline for training new employees.
 - **The Retirement Fund Performs at a Level Higher than Peers.** Using objectively measurable criteria to compare the Retirement Fund to its peers, *e.g.* similarly sized or larger regulated public pension funds, information from the PERAC Chairperson's Operational Review, and information obtained from his interviews with other pension funds, the Retirement Fund outperforms comparable retirement funds and the development of its Benefits SOPs are a "best in class" operational achievement.

Questions?

Questions?