

FRANKLIN REGIONAL RETIREMENT SYSTEM
BOARD MEETING MINUTES
AUGUST 27, 2014

A meeting of the Franklin Regional Retirement Board, duly posted to be held in the Board office, 278 Main Street, Suite 311, Greenfield, MA., on the above date was called to order at 8:05 a.m. by Board Chair, Sandra Hanks with Board Members Paula Light, Mary Stokarski, David Gendron and Paul Mokrzecki present. Also present was Executive Director Dale Kowacki. Greg McNeillie, Chuck Schmidt, Matt Drasser and Katy Galford all joined the meeting at their scheduled times.

Prior to and during the meeting, the following items were available for the Board's review: monthly financial statements, current investment statements, invoices, and member and retiree files related to items on the agenda.

A permanent copy of the agenda, with the exception of those items that are restricted from public viewing, as presented to the Board, is on file in the retirement office.

Review and Acceptance of Meeting Minutes

On a motion made by P. Mokrzecki and second by M. Stokarski, the Board voted unanimously to approve the minutes of the regular meeting held on June 25, 2014.

On a motion made by P. Light and second by D. Gendron, the Board voted unanimously to approve the minutes of the regular meeting held on July 30, 2014.

Payroll, Refunds, Transfers and Bills Warrants

On a motion made by M. Stokarski and second by P. Mokrzecki, the Board voted unanimously to approve the warrants as follows:

Retirees Payroll		\$686,871.58
Refunds		72,205.45
Transfers		299.62
Invoices		<u>30,642.69</u>
Operating	30,642.69	
Investments	0.00	
3(8)(c)s	0.00	
For a total of:		\$790,019.34

Cash Transfer between Investments and bank

On a motion made by D. Gendron and a second by M. Stokarski, the Board, voted unanimously to transfer \$2,000,000 from PRIT Core Fund to Unibank at the end of September to cover next month's warrants.

Membership

On a motion made by D. Gendron and second by P. Light, the Board voted unanimously to approve the new and existing members as follows:

New Members

New Members

Couture, Meghan	04/28/2014	80%	FRN	Instructional Assistant
Galvin, Jessica	08/25/2014	100%	ERV	Paraprofessional
Golden, Nicole	08/25/2014	100%	STB	Paraprofessional
Hesse, Kristin	08/25/2014	100%	MHR	SPED Paraprofessional
LaValley, Dody	07/21/2014	100%	FRT	Customer Call Rep
Malloy, Sara	08/25/2014	100%	MOH	Speech Assistant
Morin, Nicholas	08/11/2014	100%	MHR	Network Technician Integration Spec.
Powell, Irissa	07/01/2014	100%	MOH	School Committee Secretary
Rogers, Joshua	08/11/2014	100%	MHR	Help Desk

Existing Members

Armakovitch, Samantha	08/07/2014	100%	COL	Highway Department
Jacobson-Carroll, Elizabeth	07/17/2014	35%	CON	Asst. to Town Administrator
Shippee, Kenneth	08/04/2014	100%	ROW	Highway Department

New Retirees

On a motion made by P. Light and second by D. Gendron, the Board voted unanimously to approve the following retirements:

Cameron, Jean – the retirement package has been submitted to PERAC to retire Jean Cameron for a Superannuation Option B benefit. Her last day of work was 6/30/2014 and her first day of benefit will be 7/1/2014. Ms. Cameron was a group 1 member working as an aide in the Mahar Regional School District, accruing 23 years, 2 months of creditable service.

Chappell, Donald – the retirement package has been submitted to PERAC to retire Donald Chappell for a Superannuation Option B benefit. His last day of work was July 4, 2014 and his first day of benefit will be 7/5/2014. Mr. Chappell was a group 1 member working for the Town of Deerfield as the Chief Operator of the Wastewater Treatment Department, accruing 32 years, 11 months of service. The State Board of Retirement holds liability for 2 years, 10 months, 7 days of his total service.

Meuse, Sarah – the retirement package has been submitted to PERAC to retire Sarah Meuse for a Superannuation Option B benefit. Her last day of work was June 30, 2014 and her first day of benefit will be 7/1/2014. Ms. Meuse was a group 1 member working for the Town of Erving Elementary School as a teacher's aide, accruing 25 years, 7 months of creditable service.

Taylor, James – the retirement package has been submitted to PERAC to retire James Taylor for a Superannuation Option C benefit. His last day of work was June 30, 2014 and his first day of benefit will be 7/1/2014. Mr. Taylor was a group 1 member working for the Town of Rowe as Highway Superintendent, accruing 36 years, 9 months of creditable service.

Buybacks and Makeups:

On a motion made by D. Gendron and second by P. Mokrzecki, the Board voted unanimously to approve the following buybacks:

David A Rohrs –member with the Town of Deerfield, applied for retirement benefits effective 6/20/2013, and upon review it was discovered that deductions from his earnings were stopped pre-maturely in May 2010. As of 1/1/09, any member earning less than \$5000 annually does accrue creditable service. If a member was in the middle of an elected term of office, the service was allowed to accrue until the end of the current term but no later than 6/30/12. Mr. Rohrs contributions should have continued until his term ended in May 2012. Cost of the purchase is for deductions only as it was administrative error. Deductions on earnings of \$4,229.10 are \$380.62 for 1 year 11 months of service. Payment must be made immediately.

Karen Wasielewski – inactive member from the Franklin Regional Housing and Redevelopment Authority began employment on 2/25/1991 in a membership eligible position but deductions did not start until 6/16/1991. Purchasable service time is 3 months, 22 days at a cost of deductions only for \$443.03. Ms. Wasielewski has submitted an application for retirement effective 6/20/2014. This omitted service was discovered upon verification of her record in preparation for the retirement benefit calculation.

Deaths:

Elmer, Herman - Option B retiree since 05/31/1988, Mr. Elmer worked as a custodian at the Franklin County Court House, accruing 17 years, 1 month of creditable service. DOD was 08/16/2014 at the age of 91.

Hardy, Caroline – Option C retiree since 10/31/1989, Mrs. Hardy worked as a nurse for the Mahar Regional School District, accruing 11 years, 1 month of creditable service. DOD was 08/18/2014 at the age of 86. Her husband, Lawrence, is her Option C beneficiary.

Bourassa, Doris – Option C beneficiary of Harry Bourassa died 08/17/2014. Mr. Bourassa will pop-up to an Option A monthly benefit. Mr. Bourassa retired on 1/4/1997 from the Town of Buckland Highway Department.

General Business:

12(2)(d) benefit for the surviving spouse of member
Katalin Bonnett, an active member working in the Pioneer Regional School District, passed away on July 1, 2014. Her husband Larry submitted the appropriate paperwork for a 12(2)(d) survivor benefit and has been deemed eligible for such benefit by staff.

- The parameters for eligibility of the benefit are:
 - Minimum two years of creditable service
 - Ms. Bonnett had 29 years
 - The member has been married to spouse for at least one year.
 - The Bonnetts were married in 1972

The survivor benefit is equal to the member's Option C calculated benefit or \$6000, whichever is greater. In this case, it is the Option C benefit.

On a motion made by D. Gendron and second by P. Light, the Board approved that this benefit calculation be forwarded to PERAC.

Staff COLA for 2015

A calculation of a base increase for a Cost of Living Adjustment (COLA), equal to the average monthly percentage change of the CPI (Consumer Price Index) for the twelve months from July of the prior year to June of the last most current year, was provided to the Board, and based on the result, the Board voted the following:

On a motion made by P. Mokrzecki and second by M. Stokarski, the Board unanimously voted to grant a 1.41% increase to the base salaries of staff beginning January 1, 2015.

Schedule Advisory Council annual meeting

The Board was presented statistics from last year's annual Advisory Council meeting with the suggestion that we do the same this year. The Board agreed to a luncheon meeting at the Franklin County Technical School – Apprentice Restaurant beginning at 11:30 AM – date to be determined, with Treasurers and their staff invited and “paid for”, while “social guests” (spouses, friends, other unit officials) will be required to pay their own way.

Status report on transferred service credit review

The Board was presented with information to consider if staff should be instructed to review all the files of members transferred to other systems for accuracy and then process revised liability acceptance letters to all affected boards.

Files were drawn from 1 cabinet with 5 drawers. - 46 files were reviewed for service. Of the 46:

- 17 transferees appear to be correct
- 17 transferees appear to have service greater than allowable per the supplemental regulations (for a total of 6 years, 11 months)
- 8 transferees appear to have less than allowable service per the supplemental regulations (for a total of 13 years, 2 months of service withheld, less 10 years of dual service)
- 4 transferees do not have enough information in the file to make a determination

A good faith estimate indicated that the Retirement System might save as much as \$15,000 over 20 years in regards to the files pulled from this one file cabinet, which would conversely result in a possible net reduction in member benefits of \$22,000 over 20 years. There are four more file cabinets to process, which might take as much as 150 hours staff time to complete each cabinet.

Based on the above information, the Board was in agreement that the project should continue.

Results of Assessments Payments

Executive Director Dale Kowacki reported that every unit has paid its assessment reasonably on-time. Seven or eight of them needed a reminder in late July. One is asking for leniency for not making their payment until mid-August. Four units are paying in 2 halves; one is paying its usual quarterly payments; and thirty-four units paid the full amount and took the discount. As of the middle of August we collected \$5,068,598. The remaining amounts total \$737,622. In July we transferred \$3.8 million to investments.

FRCOG Transfer

Executive Director Dale Kowacki reported that the system averted a \$1.2 million dollar expense when the legislation to transfer the FRCOG to State Retirement was amended to remove an offending phrase. Now, staff are processing the paperwork to effect the transfer, which is expected to occur at the end of September, and draw about \$2 million from system accounts.

Also, because the legislation didn't pass until after the start of the fiscal year, FRCOG collected its assessment from the towns, and paid it to the retirement system. Staff are discussing options with the FRCOG as to whether or not the system would refund the \$388,000 to the FRCOG. The alternative is to leave it invested with the system to let it grow and help fund future assessments. The FRCOG will decide what they want to do and then make a proposal. An additional consideration is that the State might still successfully bill the FRCOG for some kind of cost during this fiscal year. That would make it more compelling to return it to the FRCOG and/or towns so they could use it to pay the State. Staff expects to know more about FRCOG's thoughts by the September meeting of the Retirement Board.

Quarterly Investment managers

Investment Consultant – Dahab Associates

At 8:47am, Greg McNeillie, Consultant, Dahab Associates joined the meeting to discuss results for the quarter ended June 30, 2014.

Mid Cap Manager - Seizert Capital Partners

At 9:17am, Charles “Chuck” Schmidt, Chief Operating Officer, Seizert Capital Partners, joined the meeting and as required by law, provided, and the Board reviewed in depth, a comprehensive written quarterly report of investment performance, including a review of the investment manager’s relative performance, a review of the system’s investments, key personnel staffing changes, and a report on the investment manager’s current investment outlook or forecast as well as a strategy for the future. From the discussion and the provided materials, the Board was able to make a favorable determination that the manager continues to operate in the manner represented when retained and outlined in the agreement between the board and the investment manager.

Seizert ownership change

With both Chuck Schmidt, and Greg McNeillie in the meeting, they explained the two levels of ownership change for Seizert. Seizert informed the Board in a letter dated August 6, 2014, that one of its minority owners, Northern Lights Capital Partners LLC, was going to acquire a majority ownership interest in Seizert, while simultaneously combining its business with an Australian corporation, Treasury Group Ltd. Chuck reported that the ownership change will not change operations or focus at Seizert. Greg advised the Board that the ownership change does not effect the Board’s agreement with Seizert, and therefore there is no further action needed but to sign the letter of acknowledgement and return it to Seizert.

Mid Cap five-year search

It was discussed briefly that state law requires we do a new search for each manager at least every five years. We have scheduled ourselves to do one each year - this year it is the mid cap manager. Dale commented that we are pleased with Seizert as our mid cap manager, and would be just as pleased to continue, but of course, we will have to see how they stack up against the competition. Dale shared Chuck’s comments in the materials provided the Board:

“I think it is a good practice to evaluate and review alternatives for investment management firms. We certainly enjoy our relationship with Franklin Regional and we look forward to a thorough review of our services and performance. Hopefully, we will make the grade so we can continue to work with the retirement system.”

Dahab Associates will handle the search. It will start in September, then Dahab will report to us at the end of November, and if warranted, we will interview managers in January. Seizert will have to submit a new proposal to be included.

Bond Manager – Income Research & Management (9:30 am)

At 9:36am, Matt Drasser, Assistant Vice President, and Katy Galford, Analyst, Income Research & Management, joined the meeting and as required by law, provided, and the Board reviewed in depth, a comprehensive written quarterly report of investment performance, including a review of the investment manager's relative performance, a review of the system's investments, key personnel staffing changes, and a report on the investment manager's current investment outlook or forecast as well as a strategy for the future. From the discussion and the provided materials, the Board was able to make a favorable determination that the manager continues to operate in the manner represented when retained and outlined in the agreement between the board and the investment manager.

Investment Consultant – Dahab Associates

At 9:37am, Greg McNeillie, Consultant, Dahab Associates returned to the table to discuss these remaining topics:

Proposal to change PRIT %

At the February 26, 2014 meeting, the Board asked Greg to present a proposal in May reducing PRIT Core by 5% as a way to mitigate the PRIM Board's changes to its asset allocation, and make suggestions as to where the 5% reduction would be reallocated. Two ideas mentioned were the PRIT Real Estate fund, or finding an International Equity Manager. Greg provided the Board with a spreadsheet diagraming two suggestions to reduce the percentage to the Core Fund, and transfer the funds to the Real Estate, and the International Equity funds (of PRIT). One suggestion is to reduce the Core Fund percentage to 50%, the other suggestion is 45%. (The spreadsheet is attached to these minutes as Addendum A.)

On a motion made by D. Gendron and second by P. Mokrzecki, the Board unanimously voted to reduce the allocation to the PRIT Core fund to 45%, increase the allocation to the PRIT Real Estate Fund to 10%, and initiate a 5% allocation to the PRIT International Equity Fund, by transferring \$5,800,000 from the Core Fund to the Real Estate Fund, and \$5,800,000 to the International Equity Fund.

PRIT performance since Chapter 68 of 2007

As per Michael Sacco's suggestion, Greg was asked to comment on PRIT's performance over the last five years, and the implications regarding the implementation of the requirement that underperforming systems be forced into PRIT. Here is the most pertinent section of the law:

(c½) "The commission shall annually review the investment performance and funded ratio of all systems using data compiled as of January 1 of the year in which the review occurs. If on or before July 1 the funded ratio data as of January 1 is not available, the most recent data shall be used. A system found by the commission to have a funded ratio of less than 65 per cent and an average rate of return during the previous 10 years that is at least 2 percentage points less than that of the PRIT Fund rate of return over the same period shall be declared underperforming by the commission. The commission shall notify, in writing, any system deemed to be underperforming pursuant to this paragraph that it shall transfer ownership and control of all of its assets to the PRIM board."

Greg pointed out that Michael's suggestion pertained to systems that volunteered to transfer 100% to the PRIT in 2007. FRRS was not one of them, therefore, Michael's concern doesn't apply.

Investment reallocations

After having transferred \$3,800,000 cash to the PRIT Core Fund in July it was expected that the investments would have to be adjusted to get back to allocation percentages, however, with the change in the percentage allocation to the PRIT Core, allocations were close to targets, so no adjustment was made.

GASB 67 & 68 considerations

Dale stated that when he met with Melanson and Heath, they expressed their belief that the "Money Weighted Rate of Return" piece of the impending implementation of the new GASB requirements would best be determined by our investment consultant. Dale had asked Greg to be prepared to discuss it at this meeting. Greg stated that he discussed it with his people and they agreed that it would be no problem for Dahab to do the calculations and provide the report.

2015 Draft Proposed Budget

The first draft of the 2015 budget for the system was presented to the Board.

On a motion made by D. Gendron and second by P. Light, the Board unanimously voted to increase the Board Chair salary to \$8,000, and ask the Advisory Council to approve an increase in the Board Member salaries to \$4,500, beginning January 1, 2015.

Proposal to add Auditor position to staff

Executive Director Dale Kowacki presented a proposal to the Board to add a position of Auditor to staff. Additional work required by the various pension reforms each year since 2009, has filled staff's time and hampered any attempts to initiate improvements in system processes.

The Board members expressed strong support for the addition, but did ask if reallocating duties amongst the staff might free up time to implement improvements without having to add a position. It was also asked if any of the current staff were interested in the position.

Dale will draft a job description, transition plan, and survey staff, to bring to the September 2014 Board meeting.

Possible search for new office space

Executive Director Dale Kowacki reported that there were two different people sleeping in the building last month on the day of the Board meeting – one on the back stairs (chased them out), and one in the hall next to our office (couldn't wake him – had to call the police). Staff also reported they had to step over

someone (a huge someone) sprawled on the first landing inside the front entrance. The same thing happened a few years ago.

The landlord says it's to be expected. Try as he might, he says it still happens, although he thinks it's better than it was.

It's unacceptable to take risks with staff's safety. Here is a list of alternatives:

- Move
 - Buy
 - Lease
- Hire someone to come in at 7:00 am and clear the building
- Dale would come in early and clear the building
- Change the office hours to 9 to 5
- Provide pepper spray to staff
- Communicate with other people in the building
- Talk with the landlord
- Do nothing

Dale has started to check with some of the local landlords to see what is available. He has been talking with the landlord, and his plan remains the same – he comes through the building at 11:00 pm and checks all the doors. Dale comes in early some days, but can't consistently.

The Board expressed concern, was supportive of correcting the situation, and stated that safety is a priority. It was also stated that this was to be expected, given the public nature of the building, and it was asked to what level staff were concerned.

It was agreed that the conversation should be continued, and in the meantime Dale would survey staff as to their feelings on the matter. Dale will send a letter to the landlord requesting the problem be fixed immediately and suggesting we might make a change when the lease renews in August 2015.

New Business:

September 18, 2014 PERAC Forum

Dale and Paula had already registered, Mary and Sandy asked Dale to register them, and the four discussed travel plans to the September 18, 2014 PERAC forum for Board members to be held at Holy Cross in Worcester, MA.

October 6-8, 2014 MACRS conference

Paul, Mary, and Sandy expressed an interest in attending the upcoming Fall MACRS conference in Springfield, pending receipt of an agenda. Sandy inquired about staying overnight. David and Paul remember Board policy that limits overnight stays to a certain number of miles. Dale will research the policy and report back. Dale will forward the agenda once received and then register those that want to attend.

PERAC Audit Draft

Copies of the draft PERAC audit report for the years 2010 – 2012 was emailed to the Board members prior to the meeting along with a copy of the approved responses from the March 2014 Board meeting. As the findings had not changed from those listed at the March meeting, the approved responses were incorporated in a letter for Sandy to sign, that would then be mailed to PERAC.

Ajournment

On a motion made by D. Gendron and a second by P. Light, the Board voted to adjourn the meeting at 11:18 a.m.

Respectfully submitted,

THESE MINUTES WERE APPROVED SEPTEMBER 24, 2014

Dale C. Kowacki, Executive Director

Sandra A. Hanks, Chair and Treasurer

Paula J. Light, Council Member

David R. Gendron, Vice Chair

Mary A. Stokarski, Board Member

Paul J. Mokrzecki, Board Member

Addendum A:

Franklin Regional Retirement System

Greg McNeillie's proposals (2) as to how to adjust the PRIT Core Fund Allocation to adjust to PRIM's change to it's allocation.

See section 9-1 of the August 27, 2014 meeting agenda.

PRIT Fund	100.0%	50.0%	45.0%	50% PRIT Allocation		
Dom. Equity	19.2%	9.6%	8.6%	Franklin RRS Total	100.0%	Target
Int'l Equity	17.3%	8.7%	7.8%	Domestic Equity	36.6%	40%
E.M. Int'l Equity	7.1%	3.6%	3.2%	Int'l Equity	14.7%	15%
Core Fixed	14.0%	7.0%	6.3%	Fixed Income	23.2%	25%
Value Added Fixed	6.3%	3.2%	2.8%	Real Estate	11.8%	10%
Real Estate	8.5%	4.3%	3.8%	Timber/Nat. Res.	2.0%	2.5%
Alternatives/PE	14.5%	7.3%	6.5%	Alternatives/VC	7.3%	5%
Timber/Natural Res.	4.0%	2.0%	1.8%	Hedge Funds	4.6%	2.5%
Hedge Funds	9.1%	4.6%	4.1%			100%

Domestic Equity	Current Target	Proposed Target w/ New PRIT Allocation	Proposed Target w/ New PRIT Allocation	45% PRIT Allocation		
Polen LCG	6%	6%	6%	Franklin RRS Total	100.0%	Target
O'Shaughnessy LCV	6%	6%	6%	Domestic Equity	35.6%	35%
Seizert MCC	5%	5%	5%	Int'l Equity	16.0%	15%
Systematic SCC	5%	5%	5%	Fixed Income	22.1%	25%
Daruma SCC	5%	5%	5%	Real Estate	13.8%	14%
Fixed Income				Timber/Nat. Res.	1.8%	2%
IR&M	13%	13%	13%	Alternatives/VC	6.5%	5%
International Equity				Hedge Funds	4.1%	4.0%
PRIT Fund IE	0%	2.5%	5.0%			100.00%
Real Estate						
PRIT Fund RE	5%	7.5%	10%			
Diversified Assets						
PRIT Fund	55%	50%	45%			
	100%	100%	100%			

45%, 5%, 10%

	Target		Actual			over/(under)
	Allocation	Dollars	Dollars*		Allocation	
PRIT	45.0%	53,093,154.52	69,383,967.22	(13,600,000)	47.3%	2,690,812.70
PRIT International	5.0%	5,899,239.39	-	5,800,000	4.9%	(99,239.39)
PRIT Real Estate	10.0%	11,798,478.78	5,923,083.51	5,800,000	9.9%	(75,395.27)
Prudential	0.0%	-	92.76		0.0%	92.76
O'Shaughnessy	6.0%	7,079,087.27	7,435,496.94		6.3%	356,409.67
Polen	6.0%	7,079,087.27	7,290,785.05		6.2%	211,697.78
Seizert	5.0%	5,899,239.39	5,917,645.33		5.0%	18,405.94
Daruma	5.0%	5,899,239.39	5,421,338.00		4.6%	(477,901.39)
Systematic	5.0%	5,899,239.39	5,713,862.85		4.8%	(185,376.54)
IR&M	13.0%	15,338,022.42	12,433,610.90		10.5%	(2,904,411.52)
Cash	0.0%	-	464,905.27		0.4%	464,905.27
	Total (investment) assets:		119,984,787.83	(2,000,000)	This \$200k will be transferred to cash at the end of September.	