

**PUBLIC EMPLOYEE  
RETIREMENT ADMINISTRATION  
COMMISSION**

**ANNUAL REPORT  
OF ACTIVITIES**

Presented by:  
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## INTRODUCTION

The Massachusetts Public Employee Retirement Systems are a product of nearly 100 years of statutory, regulatory and administrative evolution. Until the years following World War II retirement rights and benefits were established and administered through boards with little or no central determinant of the benefits or obligations of the members. The revision of Chapter 32 of the General Laws in 1945 altered the disparate nature of these systems and created a uniform statutory framework governing the rights and benefits available to public employees and their beneficiaries. By the mid to late 1970's the structure created in 1945 was no longer serving the needs of employers, employees and taxpayers. A lack of advanced funding of benefits threatened the fiscal stability of the Commonwealth and its cities and towns. Controversies related to the awarding of disability benefits eroded public confidence in the system. Increasingly complex issues of pension plan administration were not addressed by the archaic and often irrelevant provisions of statute. Investment of assets was severely restricted leading not only to mediocre returns but also to the concentration of assets in a limited number of securities thereby increasing rather than diminishing risk of loss.

In the 1980's and into the 1990's a series of statutory reforms modernized funding and investment practices and updated the provisions of law relating to the award of disability benefits. Retirement boards enhanced their professionalism and progress towards resolving long standing fiscal and administrative problems was achieved. During this period of improvement one area stubbornly resisted change, the rehabilitation and return to work of injured employees. Court decisions hampered the re-employment of disabled retirees cleared for return to work and optional rehabilitation and reexamination curtailed the efforts of retirement boards to assist disabled retirees. In 1996 the Legislature passed, and the Governor approved legislation (Chapter 306 of the Acts of 1996) which dramatically revised the provisions of Chapter 32 governing the post retirement rights and obligations of disabled retirees. That measure recognized the significant accomplishments resulting from previous reforms in the area of funding, investment and administration while strengthening the return to work, reexamination and rehabilitation aspects of the law. Chapter 306 charged a newly created Public Employee Retirement Administration Commission (PERAC) with the implementation of these new provisions as well as the other pension oversight functions delineated in statute.

## **COMMISSION IMPLEMENTATION**

### **PERAC Mission Statement**

The Public Employee Retirement Administration Commission has adopted the following as its Mission Statement:

“The Public Employee Retirement Administration Commission (PERAC) was created for and is dedicated to the oversight, guidance, monitoring, and regulation of Massachusetts Public Pension Systems. The professional, prudent and efficient administration of these systems is the public trust of PERAC and each of the 106 public pension systems for the mutual benefit of public employees, public employers and citizens of Massachusetts. The stewardship of the Trust Funds for the sole purpose of providing the benefits guaranteed to the public employees qualifying under the plans, is the fulfillment of the obligation of the people of the Commonwealth to those who have dedicated their professional careers to the service of the people of the Commonwealth.”

Since assuming office in November of 1996 these principles have been the guiding force behind Commission activities.

### **Commission Organization**

Governor William Weld signed Chapter 306 of the Acts of 1996 into law on August 9, 1996. The statute became effective on November 7, 1996 and the Commission held its first meeting on that date. Secretary of State William Galvin administered the oath of office to the Commissioners. Pursuant to law Governor Weld designated Secretary of Administration and Finance Charles D. Baker as his representative on the Commission and appointed Plymouth police officer John R. Abbott as the representative of a public safety union, and Dianne Hyde Russell, Senior Vice President of Imperial Bank as an investment expert as members of the Commission. Auditor A. Joseph DeNucci, an ex-officio member of the Commission, appointed Kenneth Donnelly of the Professional Fire Fighters of Massachusetts as the designee of the Massachusetts AFL-CIO and Donald R. Marquis, Town Manager of Arlington as a representative of the Massachusetts Municipal Association as members of the Commission. At the first meeting these six Commissioners selected retired justice Paul Menton as the seventh member and Chairman of the Commission. Auditor DeNucci was also selected to serve as Vice Chairman. Following Judge Menton’s recall to the bench, in August, 1997, the Commission selected Boston Attorney Elizabeth Laing as Chair.

The Commission faced the challenging task of maintaining the existing oversight of retirement system operations while assuming a number of new responsibilities as set forth in Chapter 306. For example, while developing the Early Intervention Plan Guidelines as

required by the new law the Commission continued to be responsible for all other responsibilities set forth in Chapter 32 such as medical panel arrangements, system audits and actuarial valuations. In order to insure an orderly transition the Commission appointed the former Commissioner of the Division of Public Employee Retirement Administration (PERA), John J. McGlynn as Interim Executive Director. In addition all employees of PERA were transferred to PERAC in accordance with Chapter 306. This enabled the Commission to maintain a high level of efficiency while beginning the implementation of the new law.

### **Executive Director Search**

Chapter 306 provides that the Commission will select an Executive Director who is responsible for the execution of planning, coordinating and executing the functions of the Commission as well as the employment of individuals to perform the various duties assigned pursuant to law.

Upon assuming office PERAC began the process for selection of a permanent executive director. A job description was prepared and the position was advertised in major publications across the country. Over 95 applications were received. Initial interviews were conducted with 15 individuals. From that group 6 finalists were chosen. These finalists were then interviewed by the Commission.

In February 1997, the Commission selected Robert F. Stalnaker as Executive Director. Mr. Stalnaker had served for seventeen years as administrator of the retirement and health insurance systems for the State of Alaska. In that capacity he was directly responsible for management of the pension and health insurance programs for all State and Local Employees and Retirees including teachers and retired teachers.

Mr. Stalnaker assumed office on April 3, 1997.

## **ADMINISTRATION**

### **Administrative Structure**

On the recommendation of the Executive Director, the Commission adopted a revised administrative structure which recognizes the new responsibilities created by Chapter 306 and integrates those duties into existing Chapter 32 mandates based on functional units:

1. Investment Unit - responsible for the annual report on the investment activity of the retirement boards; promulgation of regulations governing investment of system assets; approval of requests from boards for broader investment authority pursuant to Chapter 32; and audits of investment activities of the boards. The importance of this function is underscored by the fact that the assets of Massachusetts public pension systems now exceed \$30 Billion.
2. Actuarial Unit - responsible for actuarially valuating the retirement systems; analyzing costs associated with legislative initiatives; approving funding schedules adopted by retirement boards which are designed to eliminate unfunded liabilities and transition systems from “pay as you go” funding to actuarial based funding; establishing annual appropriations owed to the retirement systems by governmental units; and approving individual benefit calculations.
3. Disability Unit - responsible for medical panel appointments as part of the disability review process; post retirement examination and rehabilitation evaluation of disability retirees;
4. Fraud Unit- responsible for Pension Fraud Program
5. Legal Unit- responsible for all litigation; issuance of legal opinions and memoranda; legislative and regulatory analysis; drafting of legislative and regulatory proposals; and advising the Commission and retirement boards on legal issues.
6. Communication Unit- responsible for maximization of communication potential of the internet; media relations; organization of educational seminars for retirement board members and staff; develop educational materials for retirement board members and staff; and produce retirement guides for employees, retirees and beneficiaries.

The Executive Director appointed Joseph I. Martin and Joseph E. Connarton as Deputy Executive Directors and Ann O'Brien as Assistant Executive Director to oversee various aspects of the PERAC operations.

Complementing this structure the Commission established several sub - committees also established on a functional basis:

1. Administrative - Chaired by Commissioner Laing
2. Investment - Chaired by Commissioner Donnelly
3. Audit/Fraud - Chaired by Commissioner Abbott
4. Disability Intervention - Chaired by Commissioner Baker
5. Legislative - Chaired by Commissioner Marquis

In addition to establishing a policy for creating operating sub – committees, PERAC also adopted policies concerning Travel/Education; Executive Sessions; Promulgation of Regulations; and Selection of the Seventh Commission member.

### **Computer**

In conjunction with other initiatives the Commission aggressively moved to update the hardware and software for the disability, benefit calculation and post retirement monitoring functions. Through a determined effort of those involved in each duty as well as the overall involvement of the Information Systems Manager, updated software applications are now in place and a marked improvement in the service PERAC provides to Retirement Boards has taken place. In addition a bidding process has been established for new actuarial software and new Financial software will be procured in early FY99.

### **Web Page**

A dramatic improvement in the Commission's ability to communicate with public officials, board members and staff and the general public took place with the creation of the PERAC Web Page. Initially access to Retirement Guides, Legal Opinions, Board Memorandums, and other general information was placed on the Web Page. Further development will result in the use of the internet as a critical tool for the dissemination of Investment Reports, Actuarial Valuations and Commission Regulations as well as the receipt of questions and comments from boards and other parties.

## **Workers' Compensation**

Throughout the year PERAC worked with the Weld/Cellucci Administration and the Legislature to clarify various provisions of Chapter 306 and to address issues, left unresolved by that law. A major focus was on the administration of the workers' compensation system for state employees. This responsibility remained that of the Commission under Chapter 306. As a result of the change in financing source from the general fund to retirement system assessment, PERAC concluded that it was no longer appropriate to retain management of the state workers' compensation program. Legislation incorporated in the State Budget for Fiscal 1998 transferred these duties to the Human Resources Division. This change took place smoothly with no interruption in the payments or services to injured employees. After completion of the transfer, Deloitte - Touche once again praised PERAC's administration of the Workers Compensation Program in its annual review of the Commonwealth's Financial Condition.

## **Staffing**

The Commission, through Executive Director Stalnaker, began the process of upgrading staff in order to aggressively perform the duties assigned by Chapter 306. A top priority was placed on the processing of disability retiree earnings statements and an Administrative Assistant was retained for that purpose. Following an extensive search, a manager of the Pension Fraud Unit was hired. In light of the statutory emphasis on post retirement re-examination and rehabilitation of disabled retirees a Disability Intervention Manager was assigned to oversee those aspects of the Commission responsibilities. One of the immediate needs of the Commission was a review and upgrade of the information processing capability and to accomplish this an Information Manager position was created and filled. In order to meet the Commission priority of enhanced education of the retirement boards and staff, a Communication Manager was retained. In addition, vacancies were filled in the position of Actuary and Field Auditor.

## **Budget**

Upon assuming office PERAC adopted an interim Fiscal Year 1997 Budget designed to insure an orderly transition. Executive Director Stalnaker proposed and the Commission approved a Supplemental Fiscal Year 1997 Budget which in fact reduced the appropriation amount established in the Interim Budget by 25%. PERAC then approved the Fiscal Year 1998 Budget which included funding for the expanded duties assigned by Chapter 306 and recognized the new organizational structure. In this context a

determination was made that the Commission could more effectively and efficiently serve its prime constituency, the retirement boards and staff, by moving from the McCormack Building to a more accessible location. Working with the Division of Capital Planning and Operations (DCPO) a search has been commenced. Advertisements were placed in several publications and responses have been received requesting an opportunity to bid. According to the DCPO process Requests For Proposals will be distributed to these respondents. The selection of a site will be completed by the end of 1997.

## **EARLY INTERVENTION**

Chapter 306 contained one significant component which was unrelated to retirement. A requirement that retirement boards prepare and implement “Early Intervention Plans” expanded the role of the boards into the pre - retirement evaluation and rehabilitation of injured active employees. Early Intervention has two elements. The first requires the development of workplace safety plans, accommodation of injured employees, and employee assistance programs. The second requires the creation of Early Intervention Teams to evaluate the rehabilitation potential of every injured employee who remains out of work for more than thirty days. PERAC disseminated guidelines for the development of the plans to assist the retirement boards to prepare for the statutorily mandated filing of the plans by March 15, 1997. In addition, Early Intervention Plan Seminars were conducted in February in Fitchburg, Plymouth and Boston. Representatives of 97 of the 106 retirement boards and nearly 400 individuals attended the seminars. Also PERAC staff briefed over 200 members of the Massachusetts Municipal Association on Chapter 306 and Early Intervention at an MMA meeting in Natick in March, 1997.

On March 19, 1997 PERAC filed a report with the Legislature reviewing the plans submitted by the systems. Included in that report was \$30 million estimated cost of the plans to all of the systems with the exception of the State Employees and Teachers’ plans. This is significant in that the State employees & Teachers’ plans account for about half of the membership in the public systems.

Although the original time frame for implementation of Early Intervention was July 1, 1997, legislation was adopted which delayed that start date to January 1, 1998. In conjunction with that delay, PERAC was directed to establish an Early Intervention Task Force to review issues regarding Early Intervention and report to the Legislature by October 1, 1997 with recommended amendments to the law.

The Task Force membership set forth in the statute included representatives of the Massachusetts Municipal Association, the Massachusetts Association of Contributory Retirement Systems, the State Board of Retirement, and the Teacher’s Retirement Board. On the initiative of Executive Director Stalnaker, this group was expanded to include a representative of the Professional Firefighters of Massachusetts, a representative of the Massachusetts Police Association and the Treasurer for Worcester County. In addition staff of the House and Senate Chairs of the Committee on Public Service were invited to attend all Task Force meetings.

Four meetings of the Early Intervention Task Force were held in July, August and September of 1997. During these discussions a Resolution was agreed to and referred to PERAC for consideration. The Resolution acknowledged that Early Intervention is an

important element in a strategy to create a safer work environment and healthier work force. Employer savings from such a program are substantial as evidenced by the Massachusetts State Workers' Compensation model, which incorporates much of what is contemplated by Chapter 306, and reduced costs from \$65 million in 1991 to \$41 million in 1996. Such services the Task Force stated are particularly relevant to non public safety employees who are not subject to pre employment or in service physical review.

The Task Force at great length reviewed the fact that the financing of the Early Intervention Plans through retirement systems trust funds was in direct violation of federal law which unambiguously limits the use of those assets to the funding of pension benefits for members and beneficiaries of the system. Also, other provisions of Chapter 306 which require retirement system assets to make up a part of the salary of certain disability retirees who return to work run afoul of that law. Furthermore, it was agreed that the retirement board is not the appropriate entity to establish such plans for injured active employees. This is of particular concern in geographically diverse county systems with a large number of employer units.

PERAC submitted to the Legislature the Task Force recommendations which consisted of the following:

1. Early Intervention is more appropriately an aspect of the employment relationship rather than the retirement function.
2. Assets of the retirement systems must not be used to finance a program for active employees or for employees who have not yet retired per federal law.
3. Similarly, assets of the retirement systems cannot be used to supplement the salary of disabled retirees who return to work as contemplated by Chapter 306.

Legislation to accomplish these changes has been filed, along with the Early Intervention Task Force Report. The Legislature's Committee on Public Service held a hearing on October 7, 1997 and following that hearing issued recommendation in favor of its passage.

## **MASSACHUSETTS PUBLIC PENSION ADVISORY COUNCIL**

Chapter 306 and the early deliberations of the Commission reflected a need for the creation of an entity to provide a formal forum for retirement board input regarding public pension issues and activities of the Commission. The need for regular communication between the retirement boards and the Commission was one of the immediate concerns of the Commission. Executive Director Stalnaker in July, 1997 established the Massachusetts Public Pension Advisory Council (MPPAC). Permanent members include; the Executive Director of PERAC, Robert F. Stalnaker as Chair; Teacher's Retirement Board Executive Director Thomas R. Lussier; State Employees Retirement System Executive Director Lauren Vaughn; Boston Retirement Board Executive Officer Donna Mueller; and President of the Massachusetts Association of Contributory Retirement Systems George McCray. Four other members serve in rotating seats assigned geographically. Initially, Joan Ventura, Executive Secretary of the Norfolk County Retirement System and Member of the Taunton Retirement Board is representing the Southern District, consisting of systems in Norfolk, Plymouth, Bristol, Barnstable and Dukes Counties; Leslie Kirwan, Director of Finance and Member of the Massachusetts Port Authority Retirement Board is representing the Central District, consisting of retirement systems in Boston and vicinity; James Kennedy, Chair of the Lowell Retirement Board is representing the Northern District, consisting of retirement systems in Essex and Middlesex Counties; and Michael Donaghue, County Treasurer and Chair of the Worcester County Retirement Board, is representing the Western District, consisting of retirement systems in Worcester, Hampshire, Hampden, Berkshire and Franklin Counties.

MPPAC provides a forum for retirement board comment on PERAC legislative and regulatory proposals as well as the development of united positions regarding Mass. Public Pension Policy. Ultimately, the Commission will adopt and disseminate a Massachusetts Public Pension Policy which underscores the concepts on which decisions regarding public pension issues should be based.

The Advisory Council held an initial organizational meeting on August 21, 1997. On September 8, 1997 the members discussed draft revisions in the PERAC Investment Regulations and the process by which recommendations would be considered during the regulation promulgation process. A first meeting of the South District was held with the Executive Director on September 18, 1997. A meeting of the Western District was held on October 6, 1997.

## **BOARD OUTREACH**

The Commission has established the creation of an atmosphere of cooperation between PERAC and the retirement boards as its number one priority. It is critical that regular communication take place outside of the normal give and take which exists between a regulatory agency and those it regulates. Only by opening up many avenues for discussion outside the pressures of daily decisions can we establish a mutual effort in the application of retirement law for the benefit of employees, retirees, employers and taxpayers.

Consistent with this goal Executive Director Stalnaker has embarked on an ambitious schedule of retirement board visits. The Executive Director has attended board meetings all over the State, including Winthrop, Somerville, Cambridge, Boston, Teachers', State, Milton, Barnstable County, Lowell, and Holyoke. In addition, he has met with the board and staff at Springfield, West Springfield, Dukes County, Barnstable County, Falmouth, Chicopee and Westfield. The PERAC actuary attended a meeting of the Hingham Retirement Board at which a presentation relative to the funding of the COLA was made. Counsel Phillips attended a meeting of the Northeast Retirement Secretaries Association at which she updated the membership on PERAC activities.

PERAC maintained a significant presence at the Massachusetts Association of Contributory Retirement Systems Conference(s) in June and October 1997. In June, Executive Director Stalnaker addressed the Pre-Conference Education Session as well as the Conference itself, outlining PERAC's plans to date and sharing his experience as a pension and health fund administrator. Deputy Executive Director Martin participated in an Investment Panel and then Actuary Barbara Ware reviewed actuarial issues during the Pre-Conference Education Session. Also, General Counsel Barbara Phillips took part in the Legal Roundtable at the Conference. In October, Deputy Executive Director Martin and Deputy Executive Director Connarton updated the membership on PERAC activities and the proceedings of the Early Intervention Task Force. At the Administrators Break Out Session, Communication Manager Sarah Kelly outlined progress on the creation of a PERAC Web Page, Director of Finance James Waldman reviewed the Annual Statement and interaction between the retirement board and payroll personnel regarding employee data and Actuary James Lamenzo explained the intricacies of performing an actuarial valuation. Deputy Executive Director Martin also provided the Conference with PERAC's perspective on investment manager searches as part of an Investment Panel and General Counsel Barbara Phillips participated on a Legal Panel discussing the Americans With Disabilities Act and Chapter 32. Associate Counsel Daniel Seferian served on the Legal Roundtable with other attorneys whose practice emphasizes retirement.

The commitment of the Commission was underscored by the attendance at the June MACRS Conference of Commissioner Marquis, Commissioner Abbott and Commissioner Donnelly. Commissioner (and Vice Chair) DeNucci addressed the June Conference. Commissioner Abbott also attended the September Conference.

These efforts have not been limited to retirement boards and staff. The Executive Director and staff have been very active in addressing several meetings of statewide pension, accounting and financial organizations. The following are a few examples. In June Executive Director Stalnaker addressed a meeting of the Town Managers. This represented the first time that this specific group heard from PERAC regarding the administration of retirement systems. The appearance of the Executive Director was arranged by Commissioner Marquis who serves as Town Manager in Arlington. In addition the Executive Director appeared before the Massachusetts Government Finance Officers Association with Dan Sherman of Coopers and Lybrand to present a forum and discussion of Defined Benefit vs. Defined Contribution Plans. He also met with the Professional Firefighters of Massachusetts Conference and the State Retiree Annual Business Meeting to discuss actuarial valuations and retirement system funding. Counsel Phillips made a presentation at the assessing officers Massachusetts Association Annual School. In October Executive Director Stalnaker, Deputy Executive Director Connarton and Actuary Lamenzo met with the Massachusetts City Auditors Association and reviewed various pension related matters. In October, Executive Director Stalnaker, Deputy Executive Director Martin and Deputy Executive Director Connarton spoke at the Massachusetts Police Association at the request of Commissioner Abbott.

In September, PERAC's commitment to reaching out to the retirement community was reflected in the decision to hold a Commission meeting outside of the City of Boston. That meeting in Plymouth afforded board members and staff an opportunity to observe the Commission in action and in several cases to comment to the Commission relative to issues of concern.

## COLA

Chapter 17 of the Acts of 1997 changed the manner in which Cost of Living Adjustments (COLA's) are provided to retirees and beneficiaries. Since 1981, the decision to grant a COLA had been made on an annual basis by the Governor and Legislature and the full cost was paid by state appropriation, including that associated with local retirees. Chapter 17 altered this methodology and provided that the State would now be responsible for COLA's paid to State and Teacher retirees and beneficiaries and local retiree and beneficiaries would receive COLA's at the discretion of the retirement board following adoption of the statute as a local option. PERAC's role in the process consists of developing a report of the increase in the Consumer Price Index and submitting that report to the Legislature and Boards which have adopted Chapter 17. PERAC also was directed to file a report with the Legislature by December 31, 1997 analyzing the costs and liabilities associated with acceptance of the COLA by the retirement systems.

PERAC's actuary attended meetings of the Hingham Retirement Board, the Lynn Retirement Board, the Boston Retirement Board and the Milton Retirement Board to brief Board members on the legislation and respond to questions.

Actuarial valuations including the liabilities associated with the COLA have been completed for Amesbury, Brookline, Chelsea, Easthampton, Everett, Fairhaven, Milton, Pittsfield, Shrewsbury, Westfield, Weymouth, Worcester and Needham. The Commission is working with Boards and private actuaries to develop COLA projections for Concord, Hingham, Newton, Wellesley, MWRA, Methuen, Norfolk County, Lowell, Milford, Plymouth, Braintree, Salem and Clinton. The completion of this study and assisting the Boards in analyzing the impact of the COLA as well as developing funding alternatives is a top priority of the Commission.

## LEGISLATIVE

In addition to the statutory proposals previously outlined, the Commission has, in its short existence, become an important resource for the Administration, Legislators and others interested in legislation impacting the Massachusetts Public Pension Law. By statute, the Commission was directed to file legislation addressing technical concerns relating to that statute. Legislation was filed in January which suggested that the Early Intervention Program be revised and charges for PERAC activities be distributed among all retirement systems. During the course of the summer the Executive Director and staff met with legislators, representatives of the Massachusetts Municipal Association, MACRS and firefighter and police union leadership to explain the need for this revision in the funding source for Commission activities. The Commission submitted to the Committee on Public Service draft amendments relating to the Veteran's Buy Back Law adopted in 1996. Cost estimates were developed and forwarded to the Committee regarding Option C Pop Up legislation and a revision of the Minimum Pension Law. Commission staff also provided analysis with respect to the retirement issues raised by legislation merging the University of Massachusetts Medical Center with a non profit entity.

During the course of the year PERAC was involved and continues to be involved in the retirement aspects of the legislative proposals abolishing county government. This has included estimating the cost resulting from transfer of employees to the state, briefing the Administration and Legislators on the impact of certain proposed statutory changes and working with the Administration and others to implement the reforms included in Chapter 48 of the Acts of 1997.

PERAC staff also worked with the Department of Revenue in clarifying the retirement boards' role in assisting in the enforcement of child support orders. As a result of those efforts, legislation which had placed the retirement boards as the primary enforcer of liens on pension assets resulting from such orders was revised to establish employer responsibility for initiation of the process. In addition, as a result of concerns expressed by PERAC, provisions were inserted into the proposal protecting the assets of the systems.

## **DISABILITY REGULATIONS**

The thrust of Chapter 306 was the revision of elements of the disability retirement process and major changes in the rehabilitation, re-examination and return to work provisions of Chapter 32. In each area the role of PERAC was expanded beyond the previous functions undertaken by the PERA. This necessitated a top to bottom review of existing regulations and process governing these responsibilities. The Commission's Disability Intervention Subcommittee worked diligently to analyze the statute and develop a draft of regulations implementing the new law. Integral to that task was the interpretation of the term "essential duties". Chapter 306 amended the standard for the award of disabilities, as well as return to work, to incorporate the concept of the ability or inability to perform the "essential duties" of the position. The Subcommittee and the Commission successfully developed regulations setting forth the mechanism to be used in applying this new standard in all situations.

Other aspects of the procedures and law applicable to disability were also revised under Chapter 306 and the Subcommittee disseminated draft regulations to the Massachusetts Public Pension Advisory Council for comment. These regulations will be finalized and submitted to the Legislature in the future.

In a related development the Sub-committee met on a number of occasions to address concerns related to the return to work of formerly disabled employees. Discussion with the Human Resources Division, the Criminal Justice Training Council, the State Police, the Firefighting Academy and other interested parties were held to attempt to resolve retraining and physical fitness issues. The Commission approved a change in the manner in which medical panels would review individuals as a part of a re-examination. Those panels are now assessing the overall physical and mental ability of the examinee to return to work not merely the status of the injury or condition for which retirement was originally granted. The Committee On Public Service has requested suggestions regarding several legislative resolutions of the return to work questions which are pending in the Committee.

## **INVESTMENT REGULATIONS**

The Commission recognized upon taking office that the regulatory structure governing the investment of retirement system assets was archaic and out of date. Existing regulations had been promulgated nearly 15 years ago when the retirement boards had little experience in investing under a broader mandate than that set forth explicitly in statute. During the course of the last 10-15 years, Boards have become increasingly more sophisticated in their investment practices. In many ways the Boards' expertise had out paced the regulatory environment. In order to bring the regulations into line with actual experience and to recognize the enhanced professionalism of the Boards, the Investment Sub-Committee drafted regulations which facilitate the investment of funds while setting forth new provisions in areas of asset classification not prevalent at the time the investment regulations were first promulgated. The Massachusetts Public Pension Advisory Council has reviewed the draft regulations and held four meetings throughout the Commonwealth after they had been disseminated to the Retirement Boards. The Commission will approve a revised set of the regulations and then the statutorily established process for approval will commence.

## **EARNINGS STATEMENT REVIEW**

One of the central reforms contained in Chapter 306 transferred responsibility for review of post retirement earnings by disability retirees from the retirement boards to PERAC. The pool of retirees, subject to this review, exceeds 14,000. The smooth operation of this process was one of the initial priorities of the Commission and a plan was immediately implemented. Software was developed for the tracking of the earnings statements and over 14,700 notices were sent to retirees. Several follow up contacts were made and ultimately over 99% of disability retirees filed earnings statements. A number of pensions were suspended for failing to comply with the statute, resulting in a reduction in pension payout of over \$250,000. The next step in the process was to review the statements to assess whether individuals had reported earnings in excess of the amounts allowed by law. To date over 250 retirees have received requests for clarification of the original statement. Pensions will be adjusted accordingly if a determination is made that permissible amounts have in fact been exceeded. In addition the Commission, in conjunction with the Department of Revenue, will conduct a Wage Match to confirm the accuracy of the statements filed by all disability retirees. Further proceedings will be initiated in cases in which a discrepancy exists.

## SUMMARY

In its short existence the Public Employee Retirement Administration Commission has aggressively implemented the mandate of Chapter 306 and developed a working relationship with retirement boards throughout the state. The creation of the Pension Fraud Unit has already led to tangible savings for retirement systems and taxpayers. As activities are expanded, direct savings from pension modification and indirect savings due to the comprehensive, centralized administration of the monitoring of disability retirees will increase dramatically. The adoption of the Early Intervention Task Force proposals, which insure that retirement system assets will not be used for non retirement purposes, will save the systems approximately \$30 million. The Commission has provided analysis of important pension legislation which enabled decision makers to make decisions fully informed of the ramifications for members of the retirement systems and the public. Those matters ranged from county reform to veteran's buyback and included a number of proposals which had a main purpose unrelated to retirement but included provisions impacting some benefit or expanding the responsibility of retirement boards. PERAC has already assisted several retirement boards in assessing COLA cost and developing funding schedules to address that cost. The revision of the PERAC Investment Regulations is proceeding and will create a flexible yet responsible framework for the investing of retirement system assets. Similarly, new regulations governing the disability process have been prepared incorporating the changes made by Chapter 306.

Central to the progress achieved by the Commission has been the establishment of a professional and cooperative relationship with the various constituencies involved with the successful management of the public pension systems in Massachusetts. The Commission and staff have made a concerted and successful effort to communicate with retirement board members and staff, union leaders, state and municipal officials and members of the retirement systems. Each major initiative outlined in this report was undertaken with the advice and recommendations of those most directly impacted. Under the auspices of the Commission the Massachusetts Public Pension Advisory Council has been created which, for the first time, provides a forum for direct retirement board impact on regulatory decisions as well as the discussion of pension policy for the Commonwealth.

The tasks charged to the Commission by Chapter 32 of the General Laws are complex, challenging and often controversial. Substantial progress has been made in implementing the 1996 reforms and enhancing the services provided to retirement board members and staff. As a number of projects are completed over the next several years, those reforms will be fully in place and those services expanded by building on our relationship with the retirement boards, we are confident that future accomplishments will enable all of us to better serve the members of the retirement systems and the taxpayers of the Commonwealth.