

**“I feel a profound sense of urgency about the responsibilities I have accepted as Treasurer. We face daunting challenges... but I know we can meet them. The stakes are too high for the people of the Commonwealth to settle for anything less.”**

**Treasurer Steven Grossman**

**— Inaugural Address, January 19, 2011**

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## **THE TREASURY AGENDA**

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Since the beginning of Treasurer Grossman’s term, he has laid out a strong vision to improve the Treasury and implemented policies and programs committed to the following top priorities:

<i>PROTECT THE TAXPAYER’S MONEY</i>
<i>HELP THE ECONOMY, CREATE JOBS, AND BOOST SMALL BUSINESSES</i>
<i>ENHANCE GOVERNMENT TRANSPARENCY</i>

## **Protect the Taxpayers' Money**

- More competitive bidding
- Pension reform
- Higher bond rating for Massachusetts
- New customer-oriented focus for the Unclaimed Property Division
  - Substantially enhancing claims outreach
  - Forged settlements with insurance companies, recovering millions of dollars for citizens
- Protecting retirees through pension investment reform
  - Fighting millions of dollars in overcharges on foreign exchange transactions
  - Direct investment in hedge funds to reduce management fees
  - Asset reallocation to better manage risk

## **Help the Economy, Create Jobs, and Boost Small Businesses**

- Small Business Banking Partnership
- Investing in Massachusetts companies
- Promoting financial education initiatives
- Veterans “Welcome Home Bonus” program

## **Enhance Government Transparency**

- Open checkbook
- Lottery reform and revitalization
- Holding corporate America accountable
- Communicating with investors
- Diversifying the Treasury

## **Protect the Taxpayers' Money**

*"We are fervently committed to using the full potential of the Treasurer's Office to protect the public's money..."*

-Treasurer Steven Grossman during his inaugural address

Treasurer Grossman believes that, first and foremost, the job of the Treasury is to protect the taxpayer's hard-earned money. Strong fiscal stewardship is enhanced through a series of initiatives Grossman has implemented and advocated during his administration. Among them:

- More competitive bidding
- Pension reform
- Higher bond rating for Massachusetts
- New customer-oriented focus for the Unclaimed Property Division
  - Substantially enhancing claims outreach
  - Forged settlements with insurance companies, recovering millions of dollars for citizens
- Protecting retirees through pension investment reform
  - Fighting millions of dollars in overcharges on foreign exchange transactions
  - Direct investment in hedge funds to reduce management fees
  - Asset reallocation to better manage risk

### **More competitive bidding**

After taking office, Treasurer Grossman identified dozens of significant contracts representing the Treasury's core functions to put out to competitive bid. The public bidding process has already been completed in such key areas as banking and legal services. Other services will be put out to bid in the coming months, ensuring that taxpayers get the best value for their money. The banking RFP resulted in a 33% savings to the taxpayer, which will cut costs by \$2.7 million over its three-year term, while legal services bidding resulted in an average 15% reduction in the rates Treasury will pay to law firms.

Consistent with his promise, the competitive bidding process put into place by the Treasurer weighs factors such as price, technical capabilities of the bidder, creation and retention of jobs in Massachusetts, and diversity of workforce and suppliers.

## Pension reform

Treasurer Grossman has been a strong advocate for comprehensive and responsible pension reform in the Commonwealth. As the Chairman of the State Retirement Board, Grossman acutely understands the value of protecting and preserving the long-term viability of the state pension system through fair and sensible cost containment measures. Not only is a common-sense reform approach critical to the well-being of future retirees, but it also sends an important message to the bond-rating agencies that judge our state's fiscal outlook and help determine the interest rate at which we borrow money.

Working with the Governor, the Executive Office of Administration and Finance, and House and Senate leaders, Grossman advocated for a pension reform plan that will save more than \$5 billion at the state and municipal levels over the next 29 years. The reforms were enacted by the Legislature, signed by the Governor, and are effective in 2012. Key elements of this plan include:

- Increasing the retirement age. For most state workers, 67 will now be the standard retirement age with early retirement at 60, up from the current 65 and 55.
- Reducing incentives for employees who choose to retire early.
- Calculating benefits on an employee's five highest years of pay, rather than the former standard of the three highest years.
- Avoiding the practice of pension "spiking" by making benefits proportional to career time spent in various employment classifications instead of the classification at the time of retirement.
- In accordance with the 1973 Supreme Judicial Court ruling, applying these changes only to new employees while maintaining the legal commitment to existing workers. As a result, unlike the experience in other states, the new law will take effect as scheduled without delays caused by legal challenges.

## Higher bond rating for Massachusetts

In September 2011, Standard and Poor's (S&P) upgraded Massachusetts' bond rating to AA+ from AA, signaling a strong vote of confidence in the management of the state's fiscal affairs. The state currently has ratings of Aa1 from Moody's and AA+ from Fitch. Taken together, this set of ratings gives Massachusetts its highest credit standing in history and will save taxpayers millions of dollars in interest charges on future bond sales.

Credit for this singular accomplishment rests with the financial discipline demonstrated by the Patrick Administration and the Massachusetts Legislature in handling the Commonwealth's finances prudently in difficult economic times. The Treasury helped deliver this upgrade both through its management of bond sales and by convening an

unprecedented meeting among the rating agencies, state officials, and Boston Mayor Thomas M. Menino that allowed Massachusetts to effectively make a case for the improved standing.

## **New customer-oriented focus for the Unclaimed Property Division**

### **Substantially enhancing claims outreach**

The Treasury's Unclaimed Property Division has responsibility for citizens' unclaimed monetary assets, which include bank accounts, securities, dividends, insurance payments, and assets from dormant safe deposit boxes. Treasurer Grossman believes that this property belongs to its rightful owners and is taking proactive and aggressive steps to reunite them with it.

The Treasurer's office has enhanced its efforts to reach out to these owners, promoting the "findmassmoney.com" website and working to increase public awareness that the Unclaimed Property Division's twice-annual newspaper inserts represent only the latest additions to the larger catalog on the website. Treasury officials have also set up booths at numerous public events to provide "on-the-spot" claim service and worked with legislators and Veterans Services Officers to coordinate mailings to individuals on the unclaimed property lists. As a result, in the last fiscal year, the division returned more than \$76 million to its rightful owners – a 28% increase from the year before – and settled more than 33,400 claims, up from the prior years's 28,700.

### **Forged settlements with insurance companies, recovering millions of dollars for citizens**

Massachusetts, along with a number of other states, has reached agreements with John Hancock Life Insurance Company and The Prudential Group regarding industry-wide practices that resulted in failure to pay certain death benefits to rightful beneficiaries. These agreements now require the companies to better cross-reference their policy databases with public death records, dramatically improving the chances that policy proceeds will go to their rightful beneficiary.

The John Hancock settlement has already resulted in the Commonwealth taking custody of over \$20 million in policy proceeds, an amount that will grow as Hancock continues to compare its policy database with public death records. The Prudential agreement is also expected to result in thousands of Massachusetts beneficiaries or their heirs receiving millions of dollars in unclaimed death benefits.

### **Protecting retirees through pension investment reform**

The Treasurer chairs the Pension Reserves Investment Management (PRIM) Board, which oversees nearly \$50 billion in investments that finance public employee pensions for state

workers and teachers. Safeguarding those funds is one of Treasurer Grossman's top responsibilities, and he has worked with the PRIM board and staff to implement new reforms to the way the fund does business.

#### **Fighting millions of dollars in overcharges on foreign exchange transactions**

At the Treasurer's direction, PRIM retained FX Transparency of Framingham, Massachusetts to conduct an audit that found the state pension fund has been overcharged approximately \$30 million by BNY Mellon since 2000 during foreign currency exchange transactions. Foreign exchange transactions typically occur when investments generate or require foreign currencies. Efforts are now underway to recoup this money.

PRIM also has brought in a new trading firm to replace BNY Mellon in handling most future foreign exchange transactions, which will significantly reduce trading expenses, and has put in place new trading procedures and safeguards.

#### **Direct investment in hedge funds to reduce management fees**

Hedge funds have historically been a significant component of PRIM's investment strategy. However, an excessive reliance on "fund-of-funds" (essentially mutual funds for hedge funds) has resulted in a substantial additional layer of management fees on top of those paid to the hedge fund managers themselves.

Under Treasurer Grossman's leadership, the PRIM Board launched a \$500-million pilot program of direct investment in hedge funds that will begin to cut out the middleman and save millions in fees. Throughout 2011, PRIM staff identified the first investments in the pilot project, and hundreds of thousands of dollars have already been saved. Larger savings will begin to be seen in 2012 and, if these results are as positive as PRIM anticipates, more direct investments will be made.

#### **Asset reallocation to better manage risk**

While the volatility of the world financial markets is beyond the ability of state officials to control, Treasurer Grossman believes that prudent money management requires acting to minimize the impact of radical market swings we've seen in recent years.

To forge new strategies, PRIM has made two significant moves under the Treasurer's chairmanship. New England Pension Consultants, LLC (NEPC) of Cambridge, MA, was selected after a highly competitive RFP process to advise the fund on its strategy for allocating its investments, leading to an adjustment in the PRIM portfolio that should reduce investment risk. Additionally, PRIM has substantially strengthened its internal risk management operation so that it can detect potential problems as they develop and allow the board to take steps to mitigate them.

## Help the Economy, Create Jobs, and Boost Small Businesses

*“Create jobs by moving money from the biggest banks in America that have failed to provide adequate capital to small businesses into small banks, local banks, regional banks and community banks that are helping creditworthy small businesses finance their growth.”*

- Treasurer Steven Grossman during his inaugural address.

As Massachusetts recovers from the economic downturn, Treasurer Grossman wants to ensure that we continue to create and retain jobs here at home. The former CEO of a fourth-generation family-owned small business, the Treasurer is fully committed to using his role to promote small businesses, which he views as the principal engine of our economic growth. His initiatives have included:

- The Small Business Banking Partnership
- Investing in Massachusetts companies
- Promoting financial education initiatives
- Veterans “Welcome Home Bonus” program

### **Small Business Banking Partnership**

One of Treasurer Grossman’s first moves upon taking office was to launch the Small Business Banking Partnership, an initiative that invests state deposits into Massachusetts community banks with the understanding that these institutions will use the money to make new loans to small credit-worthy Massachusetts businesses. The funds used for the program are reserves that previously were held by financial institutions outside of Massachusetts, and in many cases, outside of the United States.

To qualify for the Partnership, banks must provide a competitive interest rate, fully insure or collateralize taxpayers’ money, and be willing to publicly disclose the volume of new loans generated through their participation in the Partnership. Banks are also encouraged to focus on loans to women, veterans, and minority-owned businesses, particularly in the Commonwealth’s Gateway Cities and the neighborhoods of Boston.

So far, 37 banks – almost a quarter of all community banks in Massachusetts - have signed on to the Treasurer’s Small Business Banking Partnership, and nearly \$160 million has been deposited in these institutions.

### **Investing in Massachusetts companies**

In line with 2010 legislation designed to help grow the Commonwealth’s economy, the Treasurer and the Pension Reserves Investment Management (PRIM) Board have

developed a plan to invest as much as \$50 million in venture capital or private equity firms that are committed to investing in Massachusetts companies. The first \$15 million investment in a qualifying venture capital firm with a track record of creating jobs in Massachusetts was made in 2011. In accordance with the Board's fiduciary responsibility to present and future retirees, all such investments must generate competitive returns for the fund.

The Treasury has also made a commitment to doing business in Massachusetts a component of its public bidding process. Treasurer Grossman believes that the top priority in public bidding is to find the highest quality bidder that can best preserve and protect taxpayer money. But where there is a choice between out-of-state and Massachusetts companies with equivalent proposals, the Treasury's system for assessing bids gives weight to business that create jobs here in Massachusetts.

### **Promoting financial education initiatives**

Treasurer Grossman believes that a better understanding of finances should be fostered among everyone, from veterans, to students, to single moms, to senior citizens, and he has dedicated additional resources and attention to the Treasury's Office of Financial Education. The Treasurer's Money Conferences, for example, which had been held exclusively in Boston and Springfield, will now be extended to more Gateway Cities.

The Treasurer also won legislative enactment of the Financial Literacy Trust Fund, which will help expand financial literacy programs in Massachusetts. The Fund's Board will raise private contributions and seek grants allocated by the state or federal government to fuel financial literacy efforts statewide for residents, educational institutions, and community organizations. Training will be offered on issues such as household budgeting, consumer protection, and long-term financial planning.

### **Veterans "Welcome Home Bonus" program**

The Treasurer administers the state's "Welcome Home" bonus program, which provides payments of \$1,000 to Massachusetts servicemen and servicewomen who have had a tour of duty in Iraq or Afghanistan, \$500 for other deployments, and additional payments for subsequent deployments.

Under the Treasurer's mandate to strengthen customer service, the Veterans Bonus Division has been completely revamped to streamline its operations. Forms and other paperwork have been simplified, and more functions have been automated and made accessible through the Internet. The division also has enhanced its ability to respond to emergency situations by expediting payments.

Treasurer Grossman continues to work with the Department of Veterans Services to develop a proactive strategy to ensure that veterans get their correct benefits promptly and efficiently.

## Enhance Government Transparency

*“Today, public confidence in government is low. Our fellow citizens have serious doubts about our commitment to excellence, to transparency, to accountability. If we are to restore public confidence, we must dedicate ourselves to serving the public to the best of our ability and with the highest standards of integrity.”*

—Treasurer Steven Grossman during his inaugural address

Treasurer Grossman believes that an open and transparent government not only gives citizens an opportunity to better understand how the public sector operates, but it also gives them increased confidence in government overall. Elected officials work for the public, not the other way around. People have the right to understand how their government is operating, what their government is spending, and how their government is protecting their interests. Integrity, accountability, and transparency are more than just words – they are the standards to which every public official should be held.

- Open Checkbook
- Lottery reform and revitalization
- Holding corporate America accountable
- Communicating with investors
- Diversifying the Treasury

### Open Checkbook

Launched in December, the Open Checkbook website ([www.mass.gov/opencheckbook](http://www.mass.gov/opencheckbook)) permits taxpayers to monitor how their money is spent in an accessible and easy-to-understand format. The site tracks payments the state makes to individuals, companies, firms, and other entities by payee, category, and department. It also discloses state payroll and pension payments.

Treasurer Grossman worked collaboratively with the Executive Office of Administration and Finance and the state Comptroller’s Office to make this website possible.

## Lottery Reform and Revitalization

The Massachusetts Lottery is the leading source of unrestricted local aid to the state's 351 cities and towns, funding education, public safety, and other vital services that enhance the quality of life in the Commonwealth. In order to maximize revenues for cash-strapped cities and towns, Treasurer Grossman has implemented a series of key reforms at the Lottery. These reforms include:

- Putting in place a new leadership team that has revitalized the Lottery's operations and given it new marketing and managerial skills.
- Financial transparency to regularly inform the Governor and Legislature of cash flow and financial performance to help them better budget for municipal needs.
- Implementation of a comprehensive business plan aimed at further revenue enhancement.
- Development of performance metrics to better measure operational outcomes.
- Implementation of best practices for hiring and promotion to ensure an optimally professionalized Lottery.
- Newly instilled budgetary flexibility to allow the Lottery to operate in a more expeditious and entrepreneurial fashion.
- Procurement reform to ensure proper ethical safeguards and a greater review of contract awards.

## Holding corporate America accountable

The Pension Reserves Investment Management (PRIM) Board recently implemented a proxy voting review process that will allow the Board's stockholdings to be voted in a way that better reflects the values of the people of the Commonwealth.

The policy calls for pension fund shares to be voted in favor of measures that:

- Give shareholders more say on executive compensation, including pay, benefits and "golden parachutes"
- Promote gender and racial diversity on boards of directors and in corporate hiring practices
- Bar predatory lending practices
- Promote environmentally sound business practices

## Communicating with Investors

Last year, Treasurer Grossman hosted the first ever Investor Conference that brought together more than 200 institutional investors with an interest in Massachusetts' bonds. Working with Governor Patrick and his Executive Office of Administration and Finance, the

Legislature, independent state authorities, and academic experts, a comprehensive agenda was developed that included presentations, round tables, and speeches designed to give the investment community greater insight into all Massachusetts has to offer. The Conference, which will now be held on a yearly basis, has helped make the Commonwealth more transparent – and more attractive – to potential investors, positioning the state to market its securities at highly competitive rates.

### **Diversifying the Treasury**

Under Treasurer Grossman’s leadership, a major revision of the hiring and personnel policies, which now include non-discrimination and diversity provisions, has taken place. More than 35% of the new hires in his administration are from diverse communities.

Moreover, the Treasurer is committed to ensuring that the companies his office does business with reflect the diversity of the society in which we live. Soon after taking office, Grossman made history by selecting Siebert Brandford Shank & Co. LLC (SBS), headed by President and Chief Executive Officer Suzanne Shank, to be the senior lead manager of an \$80 million bond refinancing project. SBS is the first minority and women-owned firm to ever hold such a post for a Commonwealth bond issue. SBS outbid and outperformed all other companies interested in the project, making them the clear choice for the assignment.

Treasurer Grossman has also assembled a Diversity and Community Advisory Group – a group of diverse and influential professionals from across the Commonwealth – to offer insight and make policy recommendations.

# LOOKING TO THE FUTURE

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Responsible fiscal stewardship, proactive measures to boost the economy, and an open and transparent approach to government have been hallmarks of Steve Grossman's first year as Treasurer. He and his colleagues remain committed to using the full potential of the office to build on past accomplishments and to create further successes for the taxpaying public in the years ahead.

**It is an honor to serve this Commonwealth, and I hope to do so by listening to the needs of its people and by responding with vision, creativity, compassion, good judgment, and a sense of humor. I ask each of you to be my partner, to be our partners in serving the people of Massachusetts.**

*— Inaugural Address, January 19, 2011*

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