

REPORT OF THE RETIREMENT BOARD TO THE 2015 ANNUAL TOWN MEETING

In March of 2015, the Fiscal Resources Task Force Group of Vision 2020 requested that the Retirement Board present a report of the Board's financial outlook to Town Meeting. In order to provide the transparency requested by the Vision 2020 Task Group, this report will outline the status of two key areas overseen by the Retirement Board.

FIRST: The full funding of Arlington's retirement liabilities as mandated by state law.

As some of you may recall, at the 2007 Annual Town Meeting a number of town meeting members and town officials aggressively lobbied the Retirement Board to transfer Arlington's retirement assets into the 50+ billion dollar Massachusetts State Pension Review Investment Trust, commonly known as the PRIT Fund. The premise being that the state PRIT Fund would produce a greater return for Arlington's retirement portfolio than a more conservative private investment firm. A number of town meeting members and town officials felt very strongly about this issue and there was much debate between the Board, The Finance Committee and the proponents. The Retirement Board was skeptical and did not initially support this transfer. The Board felt that it was not in the best interests of the Town's retirement assets due to the riskier investments used by the PRIT Fund. However, since the proponents felt so strongly, and Town Meeting is the body that votes the money to annually fund Arlington's retirement program, the Retirement Board eventually agreed and voted in July of 2008 to transfer Arlington's 140+ million dollar portfolio into the state PRIT Fund.

Shortly thereafter, the stock market took a precipitous and historic plunge, reducing the value of Arlington's retirement assets by 40+ million dollars. Since the state PRIT Fund manages a much riskier portfolio than Arlington's previous investment firm, when asked, a state retirement official estimated that Arlington lost 7 million dollars or 5% more of its value by being in the riskier state fund than it would have had it remained with its previous more conservative investment advisor. At the end of 2014, Arlington was 51% funded and is still 10 million dollars short of the 145 million dollar value or 75% funding level achieved prior to the transfer to the state fund. Furthermore, state law dictates that since Arlington has made this transfer, we are now required to remain in the state PRIT Fund until a 65% funding level is achieved. Until Arlington reaches that 65% plateau, the Retirement Board no longer has authority to consider placing its assets with a more conservative investment firm in an effort to avoid another market downturn.

SECOND: The Town's partial funding of its health insurance and other post employment benefits, i.e. OPEB Fund, in accordance with the passage of Home Rule Legislation authorizing such funding.

In accordance with Home Rule Legislation, Chapter 161 of the Acts of 2005, Arlington was authorized to commence the funding of its health care and other post employment benefits, the town's OPEB Trust Fund. Shortly after the passage of this legislation in 2005, the Retirement Board has placed an article each year in the Annual Town Meeting Warrant to appropriate a sum of money to the OPEB Trust Fund. The Retirement Board and the Finance Committee have agreed to annually fund this OPEB liability on a very limited basis until the retirement obligation is fully funded, at which time the OPEB liability would commence to be funded on an actuarially approved schedule in order to achieve full funding of this significant liability at a designated time.

Four years ago the Retirement Board contracted with an investment firm, *Meketa Investment Group*, to manage the OPEB assets in a Vanguard Fund consisting of seven asset classes including domestic equities, investment grade bonds as well as short term and high yield bond investments. This relatively conservative portfolio is contrasted with the state's riskier retirement portfolio consisting of ten asset classes including hedge funds, timber, real estate and private equity investments. Over the past three years the OPEB Fund has achieved a net of fees return of 10.2% as contrasted with a net of fees return of 11.8% for the state managed retirement fund. For those town meeting members and town officials who would once again advocate for placement of Arlington's OPEB assets in the state's 50 billion dollar portfolio in order to achieve a higher return, let me say that the Retirement Board has discussed this issue at length and has opted to retain its OPEB investment with the *Meketa Group* for two reasons:

1. The Board agrees with the principal of not placing all of its investment eggs in one basket.
2. Investing in a less volatile portfolio might mean a slightly smaller return during positive economic times but avoids a larger loss during a down market economy – as did occur with the PRIT Fund.

In summary, the financial outlook for Arlington's retirement fund portfolio depends upon the performance of the state's PRIT Fund. Neither the Retirement Board nor the Town Meeting can make any further decisions regarding that performance until the 65% funding level is reached. With regard to Arlington's OPEB fund portfolio, the Retirement Board has determined that the fund will remain with a private investment firm for the reason stated above.

ARLINGTON CONTRIBUTORY RETIREMENT BOARD

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