

Employees' Retirement Board Of Rhode Island Monthly Meeting Minutes Date of Meeting: October 18, 2004

The Monthly Meeting of the Retirement Board was called to order at 9:05 a.m., Monday, October 18, 2004, in the 8th Floor Conference Room, 40 Fountain Street, Providence, RI.

I. Roll Call of Members

The following members were present at roll call: Ponzi A. Angelone; Daniel L. Beardsley; Roger Boccanfuso; Rosemary Booth-Gallogly; Michael R. Boyce; Liza Cohen, designee for Representative Steven M. Costantino; John P. Maguire; Louis M. Prata; Linda C. Riendeau; General Treasurer Paul J. Tavares and Jerome F. Williams, designee for the Director of Administration.

Also in attendance: Frank J. Karpinski, ERSRI Executive Director and David D. Barricelli, Board Counsel.

Recognizing a quorum, Treasurer Tavares called the meeting to order.

John A. Marginson arrived at 9:15 a.m.

II. Approval of Minutes

On a motion by Linda C. Riendeau and seconded by Roger Boccanfuso, it was

VOTED: To approve the minutes of the September 8, 2004 meeting of the Employees' Retirement System of Rhode Island Board.

III. Chairman's Report

Treasurer Tavares informed the Board that the Department of Administration has entered into negotiations with United Healthcare and will soon sign a contract that will affect active members and retirees as of January 1, 2005. Treasurer Tavares reminded the Board that ERSRI only withholds payments for healthcare. He made clear that ERSRI does not participate in any negotiations of the contract. He told the Board that detailed information would be released once it becomes available.

Mr. Boyce inquired if there would be any informational sessions for retirees. Mr. Williams responded stating that informational sessions and materials will be available for active members and retirees. He said a website will be established for the State of Rhode Island and a direct access phone line would be provided by United Healthcare.

IV. Executive Director's Report

Director Karpinski extended an invitation to Board members to attend the procurement subcommittee meeting to review the RFP for actuarial audit services. He told the Board the meeting would be held on October 28, 2004 at 10:00 a.m.

Director Karpinski then informed the Board that individual correspondence was mailed on July 26, 2004 to affected members regarding the legislation allowing for a one-time withdrawal of Teacher Survivor Benefit contributions. Members who were notified of this available option were informed it would cease on November 6, 2004. Director Karpinski pointed out that correspondence was also sent to Mr. Robert Walsh of NEARI and Ms. Marcia Reback of RIFT informing them of the provisions of the bill and requesting that they post this information in their newsletter, which was graciously done. Information was also printed in the recent ERSRI Compass newsletter.

Director Karpinski presented the Pending Pension Application Report. Mr. Maguire referred to the month of September under the Teachers category of 90 to 120 days. Mr. Maguire asked if the 21 cases presented were outstanding because of insufficient or incomplete information. Director Karpinski reported that the 21 outstanding cases were due to incomplete information and related to a particular municipality.

Mr. Beardsley asked a question with regards to legislation enacted for an increase in benefits under the Teachers Survivor Benefits fund. He referred to a matter on the applicability of the increase. Specifically, he questioned whom the benefit would apply to based on the language in the legislation. Director Karpinski responded stating that the increase would apply to all beneficiaries currently collecting. He pointed out that the actuarial valuation of the increase was predicated on all current beneficiaries receiving the increase. Also, the study was provided to the legislature and members voted based on the numbers provided in the study. Consequently, the interpretation is to apply the increase to all existing beneficiaries.

V. Presentation of the results for the June 30, 2003 Annual Valuation for all plans by Gabriel, Roeder, Smith and Company

Treasurer Tavares introduced Mr. Michael Carter and Mr. Chris Conradi Of Gabriel, Roeder, Smith and Company (GRS) to present the results of the June 30, 2003 Actuarial Valuation for all plans.

Mr. Carter started by pointing out that the valuation is prepared as of June 30, 2003, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods. He said it reflects changes to actuarial assumptions from the experience study adopted by the Board. Finally, there were no changes to benefit provisions except for some MERS units adopting COLA B or COLA C.

He stated that since 1996 municipal units increased from 58 to 66 for general employees and 36 to 44 for police and fire. He then stated that for 2003, the number of active State Employees decreased by 514 from 13,795 to 13,281. Since 1996, active membership has increased an average of 0.3% per year. He then said the number of active Teachers decreased by 300 from 14,710 to 14,410. Since 1996, active membership has increased an average of 2.2% per year.

Mr. Carter then discussed the active membership. He stated the payroll for active State Employees on June 30, 2003 increased 2.3%, from \$563 million to \$576 million; payroll has increased an average of 5.2% per year over the last six years. He said that the payroll for active Teachers on June 30, 2003 increased 6.3%, from \$735 million to \$782 million; payroll has increased an average of 5.3% per year over the last six years.

Mr. Carter then provided the Board demographic information. He gave the following information; average pay for State Employees increased 6.3%, from \$40,812 to \$43,364, while average pay for Teachers increased 8.5%, from \$49,986 to \$54,248. The average age of State Employees is 47.8, compared to 47.4 last year and to 45.5 seven years ago. The average age for Teachers is 44.2 years, down from 44.4 last year; it was 44.9 seven years ago. Average years of service for State Employees is 14.8, compared to 14.3 last year and 13.7 seven years ago. Average service for Teachers is 12.7 years, increased from 12.5 from the last valuation but decreased from 15.5 in 1996.

Regarding the MERS, Mr. Carter said the number of active employees decreased by 80 from 8,126 to 8,046. Since 1996, active membership has increased an average of 3.0% per year. General employees decreased 1.9% since last year and police and fire employees increased 4.7%. State Police active employees stayed the same at 150. Judges increased by three active members, from 39 to 42. Mr. Carter said payroll for MERS active employees on June 30, 2003 increased 3.0%, from \$234.4 million to \$241.2 million. Average pay increased 3.5% for general employees and 3.8% for police and fire.

Mr. Carter stated that for State Police payroll, different pay figures are used for benefits and contributions. Contribution payroll increased 3.5%, from \$8.6 million to \$8.9 million. Average pay (for benefits) increased 3.2%, from \$72,889 to \$75,242. He said Judges payroll increased 11.9%, from \$4.7 million to \$5.3 million and average pay increased 3.9%, from \$121,489 to \$126,266.

Ms. Booth-Gallogly asked for clarification on the payroll base, which is used for contributions and benefits for State Police. Mr. Conradi responded stating that contributions are made on base pay. However, based on their employment contract, benefits are calculated on base pay, 400 hours of overtime and clothing allowances. Mr. Conradi indicated that there is a 20-25% difference between the salary for contribution and the salary used for benefits.

Mr. Carter then discussed retirees and beneficiaries. He said the number of retired State Employees decreased by 28, from 9,426 to 9,398. He said the number includes service retirees, disabled retirees, and beneficiaries receiving benefits. Over the last seven years, the number of state retirees has grown an average of 1.2% per year. The average annual benefit for a state retiree is \$17,398 and there are 1.4 active State Employees for each retiree. He stated that this ratio has decreased slightly over the last seven years from 1.5. Mr. Carter told the Board that the number of retired Teachers increased by 393, from 7,311 to 7,704, a 5.4% increase. He said over the last seven years, the number of teacher retirees has grown an average of 5.7% per year. The average annual benefit for a retired teacher is \$34,688 and there are 1.9 active Teachers for each retiree; the ratio has decreased from 2.4 in 1996.

Mr. Carter said the number of MERS retirees increased by 18, from 3,653 to 3,671, a 0.5% increase. He pointed out that less than 10% of MERS retirees are from police and fire units. The average annual benefit for a MERS retiree is \$10,267. There are 2.2 active MERS employees for each retiree; this ratio has held steady for the last seven years. Mr. Carter said State Police plan has one retiree and Judges plan has two retirees.

Mr. Carter then discussed the assets of the system. He said that fair market value in total for all plans decreased from \$5.47 billion to \$5.44 billion. The market value for State Employees is \$1.81 billion while for Teachers it is \$2.73 billion. The market value for MERS (all units) is \$708.5 million, compared to \$705.8 million last year. The market value for State Police is \$18.1 million (up from \$14.5 million) and for Judges is \$11.4 million, up from \$9.0 million.

Mr. Carter told the Board that the return on market of approximately 2.6% in FY 2003, was -8.4% in FY 2002. He said the average return for the last nine years was 7.1% net of all investment and administrative expenses; this is less than the assumed 8.25% investment return assumption. He then said the net external cash flow (contributions less benefit payments and refunds) was -\$68 million for State Employees, or -3.7% of the value of assets at end of the year. For Teachers, the comparable figure was -\$96 million, or -3.5% of end-of-year market value. The net external cash flow was -2.1% for MERS. The net external cash flow for State Police and Judges was positive.

Mr. Carter then discussed the actuarial value of assets; all actuarial calculations are based on actuarial value of assets, not market value. He said actuarial value is used in order to produce smoother, more consistent contribution rates from year to year. The actuarial values are now \$2.27 billion for State Employees and \$3.43 billion for Teachers; actuarial return was -0.8% in FY 2003. Mr. Carter said the actuarial values are about 125% of the fair market value and includes deferred asset losses, not yet reflected in the employer contribution calculations. The total actuarial value is now \$886 million for MERS (all units). For State Police, the actuarial value is \$21.0 million, or about 116% of market value (\$18.1 million) and for Judges, the actuarial value is \$13.3 million, or about 116% of market value.

Finally, Mr. Carter discussed the actuarial results. He said for State Employees, the unfunded actuarial accrued liability (UAAL) increased from \$930 million to \$1,194 million, while for Teachers, the UAAL increased from \$1,303 million to \$1,857 million. The funded ratio (actuarial assets divided by actuarial accrued liability) decreased from 71.7% to 65.5% for State Employees and from 73.2% to 64.9% for Teachers. For MERS, Mr. Carter said the UAAL for all units combined was \$6 million overfunded (actuarial assets greater than actuarial liability), compared to \$95 million overfunded last year. The aggregate funded ratio (actuarial assets divided by actuarial accrued liability) for all units combined decreased from 111.6% to 100.7%. The State Police UAAL increased from \$5.8 million to \$7.5 million and the funded ratio fell from 75.5% to 73.7%. The UAAL for Judges increased from \$5.1 million to \$5.2 million, but the funded ratio increased from 68.5% to 72.0%.

Mr. Carter concluded by presenting the 2006 employer contribution rates. The rates were presented as follows, State Employees 16.96%, Teachers 20.01%, State Police 31.35% and Judges 35.51%. Mr. Carter displayed the following table for the MERS rates:

Number of Units	General	Police/Fire
1. No required contribution	18	1
2. New units	1	0
3. Rate decreases	2	11
4. Rate increases	45	32
5. Total	66	44

Treasurer Tavares thanked Mr. Carter and Mr. Conradi for their presentation. There being no further questions,

On a motion by Jerome F. Williams and seconded by Rosemary Booth-Gallogly, it was unanimously

VOTED: To approve all the valuations as presented by Gabriel, Roeder, Smith and Company.

VI. Administrative Decisions

Disability Appeals:

(None this month)

Hearing Officer Decisions:

(None this month)

VII. Approval of September pensions as presented by ERSRI

On a motion by Louis M. Prata and seconded by Michael R. Boyce, it was unanimously

VOTED: To approve the September pensions as presented by ERSRI.

VIII. Legal Counsel Report

Attorney Barricelli directed the Board to the legal report in the book and asked if there were any questions. In addition, he apprised the Board of the Cranston Crossing Guards case which was scheduled for a hearing on September 30, 2004. The hearing did not go forward due to the death of attorney Richard Skolnik who was the attorney of record for the crossing guards. Local Union 1033 of the Laborer's International Union requested a continuance of the matter until such time as that they could secure new counsel. It

appears that Attorney Gerard Cobleigh has been asked to represent the Cranston Crossing Guards in this matter.

Attorney Barricelli then informed the Board that he received a response to the Private Letter Ruling (PLR) that had been submitted to the IRS regarding IRS § 415(b). The Internal Revenue Service ruling states that the maximum benefit payable under section 415(b) must be reduced to reflect the value of the cost of living adjustment provided under RIGL §36-10-35 as of the members retirement date, even though the adjustment does not begin until January 1st following the 3rd anniversary of the members retirement date.

Attorney Barricelli read the following portion of the IRS response to the Board from the letter received September 30, 2004.

- 1) The maximum benefit payable under section 415 of the Code payable at retirement must be determined taking into account the value of the cost of living adjustment provided for under Section C of the Plan.
- 2) A retired participant may not automatically receive an enhanced benefit reflecting the cost of living adjustment provided for under Section C of the Plan merely because the benefit in the calendar year of enhancement does not exceed the maximum benefit for that calendar year under section 415, computed without regard to the cost of living adjustment.
- 3) The maximum benefit payable under section 415 of the Code payable at retirement must be reduced at retirement to reflect the value of the cost of living adjustment provided for under Section C of the Plan even though the cost of living adjustment provided for under Section C of the Plan begins to take effect on January 1st following the third anniversary of the participant's retirement date.
- 4) The Plan must correct for payments, if any, in excess of the amounts payable under section 415 of the Code if it is to continue to be a qualified plan.

Treasurer Tavares informed the Board that work is in progress regarding compliance with the PLR. He made clear that Board would have input to determine the best method of compliance with the IRS ruling. However, he noted that the ultimate approval would be from the IRS.

Mr. Maguire inquired how many retired members are affected by the ruling. Director Karpinski noted that using the 2004 limits as computed by GRS, there was approximately 30-33 people. Director Karpinski did advise the Board that he will analyze the potential affected members from 1994 forward.

Mr. Maguire asked if retirees' received pension payments in excess of the 415(b) limits with COLA, did the IRS expect the excess be repaid and would retirees have their pension reduced. Mr. Barricelli told Mr. Maguire that it is clear from the IRS that the answer to his question is yes and that the methods of voluntary compliance is what is currently being explored with the IRS.

On a motion by Jerome F. Williams and seconded by Roger Boccanfuso it was unanimously

VOTED: To accept the legal report as presented.

IX. Committee Reports

Disability Sub-Committee: The Disability Sub-Committee recommended the following actions on disability applications as the result of its October 8, 2004 meeting for approval by the full Board:

	Name	Membership Group	Type	Action
1.	Robert Arnold	Municipal	Ordinary	Approve
2.	Sandra Del Padre	State	Ordinary	Table
3.	Marie DiMartino	Teacher	Ordinary	Table
4.	Louis Kampmayer	Municipal	Ordinary	Approve
5.	John McNeil	Municipal	Ordinary	Approve
6.	John Croke	Municipal	Accidental	Approve
7.	Joseph Lynch	State	Accidental	Approve
8.	Janice Magliarditi	Municipal	Accidental	Approve
9.	Cheryle Rhodes	State	Accidental	Denied
	Cheryle Rhodes	State	Ordinary	Approved
10.	Pasco Scungio	Municipal	Accidental	Approve
11.	Sandra Tiernan	State	Accidental	Table
12.	Linda Briggs	State	Ordinary	Approve
13.	Janice Johnson	Teacher	Accidental	Approve
14.	Charlene Picard	State	Accidental	Approve

On a motion by Jerome F. Williams and seconded by Michael R. Boyce it was unanimously

VOTED: To approve the recommendation of the Disability Sub-Committee meeting on Friday, October 8, 2004 on items 1, 2, 4, 5, 6, 8, 9, 11, 12, 13, 14.

On a motion by Jerome F. Williams and seconded by Michael R. Boyce it was unanimously

VOTED: To approve the recommendation of the Disability Sub-Committee meeting on Friday, October 8, 2004 on item 3.

(Mr. Maguire recused himself from any and all consideration of item 3).

On a motion by Jerome F. Williams and seconded by Michael R. Boyce it was unanimously

VOTED: To approve the recommendation of the Disability Sub-Committee meeting on Friday, October 8, 2004 on item 7.

(Mr. Boccanfuso recused himself from any and all consideration of item 7).

On a motion by Jerome F. Williams and seconded by Michael R. Boyce it was unanimously

VOTED: To approve the recommendation of the Disability Sub-Committee meeting on Friday, October 8, 2004 on item 10.

(Mr. Prata recused himself from any and all consideration of item 10).

X. New Business

None this month.

XI. Adjournment

There being no other business to come before the Board, on a motion by Linda C. Riendeau and seconded by Roger Boccanfuso the meeting was adjourned at 10:15 a.m.

Respectfully submitted,

Frank Karpinski

Executive Director