

**Employees' Retirement Board  
Of Rhode Island  
Monthly Meeting Minutes  
Date of Meeting: April 13, 2005**

The Monthly Meeting of the Retirement Board was called to order at 9:00 a.m., Wednesday, April 13, 2005 in the 8<sup>th</sup> Floor Conference Room, 40 Fountain Street, Providence, RI.

**I. Roll Call of Members**

The following members were present at roll call: Rosemary Booth-Gallogly; Michael R. Boyce; William B. Finelli; John P. Maguire; John A. Marginson; Louis M. Prata; 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 Kerry Walsh, Chief Legal Counsel for the General Treasurer.

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

John A. Marginson departed the meeting at 11:05 a.m.

**II. Approval of Minutes**

On a motion by Jerome F. Williams and seconded by Louis M. Prata, it was

**VOTED: To approve the minutes of the March 9, 2005 meeting of the Employees' Retirement Board of Rhode Island.**

**III. Chairman's Report**

Treasurer Tavares introduced Anthony Dennis to the Board. He is the new Accounting Manager in Retirement.

The Treasurer then updated the Board on Separation of Powers and how it affects the Employees' Retirement System Board. Treasurer Tavares indicated that he has been advocating for three (3) legislative appointments, one (1) elected member representing retirees and two (2) appointees by the General Treasurer. Treasurer Tavares indicated that the legislature initially concurred with him. However, the Treasurer pointed out that at the last Separation of Powers Subcommittee meeting, a question was raised as to the constitutionality of having appointments restricted. The constitutional question is now being debated in another arena. The Treasurer apprised the Board that as a result of the pending debate, it may be some time until the Retirement Board regains full membership.

#### **IV. Executive Director's Report**

Director Karpinski informed the Board that the Special Election Subcommittee convened on March 30, 2005 and was chaired by Louis M. Prata and the Procurement Subcommittee convened on March 28, 2005 and was chaired by Rosemary Booth-Gallogly. The Director said he would defer to both Chairpersons to provide an update to the Board.

Director Karpinski provided the Board with the pension application report. He also provided a packet that included information used by the Procurement Subcommittee to evaluate vendors for the actuarial audit and an analysis of the costs as well as summary information regarding the candidates.

#### **V. Presentations of Finalists for Actuarial Audit**

Chairperson for the Procurement Subcommittee, Rosemary Booth-Gallogly gave the Board a synopsis of the March 28, 2005 meeting. She told the Board that the Subcommittee reviewed eight (8) proposals submitted by qualified firms. Each proposal was evaluated and scored applying a consistent format. The firms submitting bids were:

- Rudd and Wisdom, Inc.
- Cheiron
- Milliman USA
- The Segal Company
- Stanley, Holcombe & Associates
- Mellon Human Resource and Investor Solutions
- EFI Actuaries
- Chicago Consulting Actuaries

Based on a review of those proposals, Ms. Booth-Gallogly said the Subcommittee has brought to the full Board the three candidates they felt are best capable of providing actuarial audit services. The candidates for review are:

- The Segal Company
- Milliman USA
- Mellon Human Resource and Investor Solutions

Ms. Booth-Gallogly pointed out that after reviewing the proposals and discussing the scope of work for the audit, the Subcommittee recommended a full valuation replication and statistical sample and opinion of the experience study (options 1 and 4 in the RFP) for the 2003 actuarial valuation of the ERS and MERS plans.

Ms. Booth-Gallogly then said the Subcommittee addressed the fees for the audit given the agreed upon scope. Since the vendors provided multiple renditions of fee structures, the Subcommittee recommended allowing the three vendors the opportunity to offer their recommended approach and associated fees as part of their presentation.

Ms. Booth-Gallogly then began the presentations with The Segal Company. She pointed out to them that this was the Board's first experience with performing an actuarial audit (other than ones done when switching system actuaries) thus; the Board would be inquisitive as to the process employed and recommendations as to the best approach.

The Segal Company representatives consisted of Ms. Cathie G. Eitelberg, Senior Vice President and Director Public Sector Market, and Kathleen A. Riley, Senior Vice President and Actuary for the Boston office. Ms. Riley and Ms. Eitelberg provided the Board with a presentation that covered why an audit should be performed, the level of audit options and time-line and related fees.

Ms. Booth-Gallogly asked if the process that Segal employs would identify data collection issues and or make recommendations to improve the process. Ms. Riley said their methodology would identify such areas.

Treasurer Tavares asked if the performance of actuarial audits has increased. Ms. Eitelberg informed the Board that general public plans will perform an audit between 8 and 10 years. She indicated that there are 85 statewide systems in the United States and in one year, there are 15 that go out to be audited.

Mr. Williams asked what length of time was necessary to complete the recommended audit. Ms. Eitelberg indicated it would take 3-4 months to perform all aspects of the audit requested.

Mr. Williams indicated that the experience study had raised some questions on the level of salary increases and asked Segal how they would identify such issues. Ms. Riley indicated that it would be the data collection in the test life analysis that would determine if salaries are being reported properly. Mr. Williams asked what Segal's process is for looking at Retirement System data relative to the data from the originating payrolls. Ms. Riley noted that Segal, based on conversations with the system, would focus on areas of concern and if warranted, may recommend full replication of the experience study versus an opinion only. She said the full valuation replication and test life analysis would also help determine actions necessary.

There being no further questions of Segal, Ms. Booth-Gallogly brought in the next firm of Milliman USA, which was represented by Mr. William Reimert, FSA. Ms. Booth-Gallogly reiterated to Mr. Reimert that this was the first opportunity Board members had with an actuarial audit. Mr. Reimert provided the Board a presentation outlining the structure of Milliman USA, the proposed project team, the level of audit options and time-line and related fees.

Mr. Marginson asked Mr. Reimert if given the size of the system and the amount of time from the last audit, if he felt Options 1 & 3 from the RFP were sufficient to give the Board comfort that the current actuary was performing accurate valuations and experience studies. Mr. Reimert indicated that it would be adequate to perform a full valuation replication of the ERS system and limit the MERS system to the largest six groups. Mr. Reimert went on further to state that he felt an opinion on the experience study would be sufficient. He told the Board if during his review of the experience study he observed inconsistencies or other areas of concern, he would alert the Board and perform additional analysis as required to certify an opinion.

There being no further questions of Milliman USA, Ms. Booth Gallogly called in the last firm of Mellon Human Resource and Investor Solutions. David L. Driscoll FSA, Thomas

J. Cavanaugh, FSA and Daniel W. Sherman, FSA represented Mellon. Ms. Booth-Gallogly again told Mellon that this was the first opportunity Board members had with an actuarial audit.

Mr. Driscoll provided the Board an overview of their firm history and operations and discussed their proposed recommendation of Options 1 & 4 in the RFP. Mr. Driscoll felt that the nature of the calculations of an experience study does not lend itself to require an exact replication. He felt that there is more to be gained by looking at the results and the approach that was taken and analyze them to determine if they lead to the recommendation in the experience study as reported by the current actuary. Mr. Cavanaugh told the Board that options 1 and 4, as requested by the Board, are the most common approaches being employed by public plans through out the country. He pointed out that although statistical work would provide reasonable results, if areas of concern were identified, Mellon would recommend a full valuation anyway. Thus, he felt the nominal cost to perform a full valuation was more prudent.

Mr. Williams asked if Mellon would rely on the data from the Retirement System and if they would validate data from employer payrolls as part of the study. Mr. Driscoll informed the Board that if Mellon was alerted in the preliminary conversation that the consistency of the data used by the Retirement System with actual payroll data may pose concerns; it could be incorporated in another level of auditing.

Mr. Marginson asked Mr. Driscoll why he felt a statistical sampling of the experience study was being recommended since the other firms did not recommend that approach. Mr. Driscoll felt that by providing his own analysis Mellon would formulate a much more solid opinion.

Ms. Booth-Gallogly referred to a template that was included in Mellon's proposal and asked why it was only a template since the other firms provided actual studies. Mr. Driscoll advised the Board that in fact it was an actuarial audit but did not include an experience study. Mr. Driscoll explained that the sample that was provided was confidential and Mellon had not obtained prior authorization from their client before using the report. He said if necessary, he would obtain such authorization.

Lastly, Mr. Cavanaugh discussed the ownership structure of Mellon stating that Affiliated Computer Services, Inc. is in the process of purchasing the sector of Mellon Consulting and the outsourcing group. He assured the Board that this will not affect the consulting services as proposed.

At the conclusion of the presentations, Treasurer Tavares asked the Board if they were prepared to make a decision or if they would prefer to discuss the matter and make a decision at the May 11, 2005 meeting.

Ms. Booth-Gallogly told the Board that after seeing all three members she had a greater comfort with Segal. Mr. Maquire asked what the rankings were. Ms. Booth-Gallogly said the rankings were very close indicating that the committee felt the three finalists were all capable of performing the work.

The Board deliberated and felt that although Mellon was capable, the team being proposed did not provide the Board comfort that they sought for performing the audit. Regarding Milliman USA, the Board was impressed with the prior audits done but in comparing costs with Segal, Milliman USA would only perform replications on the largest MERS funds. Segal would perform replications of all MERS funds at similar costs.

Mr. Marginson felt that given his review of the proposals and the presentations made, the best approach was Options 1 & 3 and Segal would be his recommendation.

There being no further discussion, a motion was made by Ms. Booth-Gallogly to begin negotiations with The Segal Company for Options 1 & 3, which are full valuation replication and opinion only on the experience study, subject to final negotiations of contract fees and reference checks. The motion was seconded by John A. Marginson and it was then unanimously

**VOTED: To begin negotiations with The Segal Company for Options 1 & 3 subject to final negotiation of contract fees and reference checks.**

## **VI. Administrative Decisions**

None this month.

## **VII. Approval of March pensions as presented by ERSRI**

On a motion by William B. Finelli and seconded by Michael R. Boyce, it was unanimously

**VOTED: To approve the March pensions as presented by ERSRI.**

## **VIII. Legal Counsel Report**

Attorney Kerry Walsh referred Board members to the legal report in their book and gave a status. Attorney Walsh informed the Board that five cases contained in the legal report had in fact been dismissed and will be removed from the next legal report.

There being no further questions of Attorney Walsh, on a motion by Jerome F. Williams and seconded by William B. Finelli, it was unanimously

**VOTED: To approve the Legal Counsel report.**

Treasurer Tavares informed the Board that an RFQ had been released to obtain new Legal counsel for the Board.

## IX. Committee Reports

**Disability Sub-Committee:** The Disability Sub-Committee recommended the following actions on disability applications as the result of its April 8, 2005 meeting for approval by the full Board:

<u>Name</u>	<u>Membership Group</u>	<u>Type</u>	<u>Action</u>
1. Steven Bifulco	Municipal	Ordinary	Approve
2. Linda Benoit	State	Ordinary	Table
3. Barbara Cole	State	Ordinary	Approve
4. Joan Riciuti	Teacher	Ordinary	Approve
5. Ellen Smith	Teacher	Ordinary	Approve
6. Carl Wahl	Teacher	Ordinary	Approve
7. Dawn Cervone	Municipal	Accidental	Approve
8. Raymond Enright	Municipal	Accidental	Approve
9. Margery Fogarty	State	Accidental	Approve
10. Frank Giuliani	Municipal	Accidental	Approve
11. Donna Peterson	Municipal	Accidental	Table
12. Edward Reed	State	Accidental	Approve
13. Federick Sullivan	State	Accidental	Approve

On a motion by William B. Finelli and seconded by Michael R. Boyce it was unanimously

**VOTED: To approve the recommendation of the Disability Sub-Committee meeting on Friday, April 8, 2005 on item 4.**

On a motion by William B. Finelli and seconded by Michael R. Boyce, a vote was taken to consider the approval of the Disability Sub-Committee on Item 4. There being 8 members present, 7 voted in the affirmative and Mr. Maguire recused himself. Consistent with Rhode Island General Laws §36-8-6, *Votes of Board – Record of proceedings*, there not being 8 votes in the affirmative, the motion failed.

On a motion by William B. Finelli and seconded by Michael R. Boyce it was unanimously

**VOTED: To approve the recommendation of the Disability Sub-Committee meeting on Friday, April 8, 2005 on item 8.**

On a motion by William B. Finelli and seconded by Michael R. Boyce, a vote was taken to consider the approval of the Disability Sub-Committee on Item 8. There being 8 members present, 6 voted in the affirmative. Mr. Prata recused himself and Mr. Williams voted nay. Consistent with Rhode Island General Laws §36-8-6, *Votes of Board – Record of proceedings*, there not being 8 votes in the affirmative, the motion failed.

On a motion by William B. Finelli and seconded by Michael R. Boyce it was unanimously

**VOTED: To approve the recommendation of the Disability Sub-Committee meeting on Friday, January 7, 2005 on items 1,2,3,5,6,7,9,10, 11, 12 and 13.**

Mr. Boyce asked if there was any further information on the matter of Stephen Costa. Attorney Walsh informed the Board that no further information had been received in reference to the Stephen Costa matter.

**Election Sub-Committee:** Louis M. Prata, Chair of the Election Subcommittee gave a synopsis of the meeting that convened on March 30, 2005.

On March 14, 2005 the system mailed (first class) notification of election to 12,817 active State members, eight potential candidates obtained nomination papers at the Retirement Office, which had to be returned by March 25, 2005. Three state members returned nomination papers with over 100 signatures, which were validated for each candidate.

The Special Election Subcommittee held the lottery to determine the candidate ballot order to go to the Board of Elections for ballot creation.

The ballot order, as a result of the lottery was:

John J. Meehan (DOC)

John J. Igliazzi (DOT)

Michael F. Reynolds (Superior Ct Registry)

The ballot envelope will be mailed to state employees no later than April 15, 2005. Postmark deadline for ballots is April 29, 2005. The retrieval of ballots and opening of envelopes at the Board of Elections will take place up to May 9, 2005. May 10, 2005 will be the counting of ballots and certification of results at the Board of Elections.

The swearing in of the newly elected Board member will be at the June 13, 2005 meeting.

## **X. New Business**

### **Contractual Agreement with Gabriel, Roeder, Smith and Company:**

Mr. Boyce indicated to the Board that he requested that this item be put on the agenda to discuss the costs of fiscal notes for legislation currently being introduced. Mr. Boyce shared with the Board that the Employees' Retirement System should not be responsible for any costs related to these studies.

Treasurer Tavares thanked Mr. Boyce for putting the item on the agenda. He said that he has reviewed both the contract and statutes. The contract with Gabriel, Roeder, Smith and Company (GRS) specifies that the actuary must not enter into any agreement to provide actuarial and/or pension consultant services with any agency in the State of Rhode Island that involves the use of data and other information received from the Employees' Retirement System and the Municipal Employees' Retirement System unless approved by the Retirement Board. Treasurer Tavares pointed out that the Department of Administration's (DOA) studies were approved by the Board, as required, and paid for by the DOA.

Treasurer Tavares read further from the contract stating that it anticipates and provides for legislative costs studies as well as such assistance relative to in depth analyses of plan administration, funding and compliances or benefits trends.

He then pointed out that State law requires fiscal notes whenever there is a financial impact of any legislation, but in particular, when there is a financial impact upon the Retirement System. He pointed out that the responsibility and management of such fiscal notes is vested with the Budget office collectively with the House and Senate fiscal offices.

Treasurer Tavares pointed out that Municipal studies are billed directly to the affected municipalities consistent with the contract.

The Treasurer pointed out that no studies have been done encumbering funds from the Retirement System. He said the DOA paid for its study and his office and others have used the "Governors" study to analyze various provision modifications. However, he said a current bill from Representative Davey contains legislation relating to the MERS plan that does not have any actuarial analysis performed on it from the DOA study.

Ms. Booth-Gallogly pointed out that her office has received a fiscal note on this bill and although she has statutory responsibility to provide the fiscal note, she does not have funds within her budget. Ms. Booth-Gallogly was informed that the cost to provide the fiscal note, as requested by her office, from GRS would be \$29,000

Treasurer Tavares suggested that Ms. Booth-Gallogly should work with the House and Senate fiscal committees to manage the request and identify the source of payment. Treasurer Tavares indicated that ultimately if something were passed it would have a fiscal impact.

Treasurer Tavares recommended that legislation be pursued to codify who has the responsibility of funding fiscal notes and/or the Board should promulgate rules to clarify the responsibility.

Mr. Maguire asked Treasurer Tavares if in fact there have been any requests by any agency in the State that the Retirement System pay for any studies. Treasurer Tavares said there were no such studies to the best of his knowledge. He pointed out that his proposal for legislation utilized analyses done for the pension review team and staff calculations, with confirmation from GRS. Mr. Maguire asked the Treasurer if GRS received any payment for their efforts for the Treasurer's follow up questions. Treasurer Tavares said to the best of his knowledge, no fees were incurred. Director Karpinski informed the Board that he had not received any bills to that affect. He told the Board that the current contract contains 12 studies over the term of the contract that can be requested by the Board. Director Karpinski said the studies generally are on a per plan

basis, e.g. if a request was made to study a particular scenario for state employees and teachers, GRS would count it as two studies even though the scenario applies to both groups identically.

Mr. Maguire asked Director Karpinski how many studies, if any, had been used to date. Director Karpinski said he has not yet received the April 2005 invoice. He said GRS would indicate the number of available studies on the next invoice.

Mr. Maguire then asked Director Karpinski to obtain the number of available studies and any additional costs to the Board from GRS to date and report them to the Board at the May 11, 2005 Board meeting. The Director said he would secure the information.

## **XI. Adjournment**

There being no other business to come before the Board, on a motion by Louis M. Prata and seconded by William B. Finelli, the meeting was adjourned at 11:15 a.m.

Respectfully submitted,

**Frank J. Karpinski**

Executive Director