

**Employees' Retirement Board
Of Rhode Island
Monthly Meeting Minutes
Date of Meeting: June 14, 2006**

The Monthly Meeting of the Retirement Board was called to order at 9:00 a.m., Wednesday, June 14, 2006 in the 8th Floor Conference Room, 40 Fountain Street, Providence, RI.

I. Roll Call of Members

The following members were present at roll call: Rosemary Booth Gallogly; William B. Finelli; John J. Meehan; Louis M. Prata; Linda C. Riendeau; General Treasurer Paul J. Tavares and Jerome F. Williams, designee for the Director of Administration; James P. Yancy.

Also in attendance: Frank J. Karpinski, ERSRI Executive Director and Attorney William E. O'Gara, Board Counsel.

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

II. Approval of Minutes

On a motion by William B. Finelli and seconded by John J. Meehan, it was

VOTED: To approve the minutes of the May 10, 2006 meeting of the Employees' Retirement System of Rhode Island Board.

III. Chairman's Report

Treasurer Tavares updated the Board on Separation of Powers. He apprised the Board that the House and the Senate have given indications of a possible consideration that the Retirement Board would be a non-executive board. Thus, it would be excluded from Separation of Powers. A hearing was scheduled.

IV. Executive Director's Report

Director Karpinski apprised the Board that, at the request of Attorney Gerald Cobliegh, the Anthony Socia vs. ERSRI has been postponed and rescheduled to the July 12, 2006 Board meeting.

Director Karpinski provided the Board with the pension application processing report for the month of May 2006.

Director Karpinski told the Board that, following his report, Mr. Chris Conradi and Mr. Joseph Newton of Gabriel, Roeder, Smith and Company (GRS), would present the State/Teacher, State Police and Judicial actuarial valuation reports as of June 30, 2005. Director Karpinski apprised the Board that the Municipal Employees Retirement System valuation is scheduled for presentation at the July 12 meeting.

Director Karpinski then introduced the new Accounting Manager, Ms. Susan DeStefanis.

V. Presentation of the State/Teacher, State Police and Judicial Actuarial Valuations as of June 30, 2005 by Gabriel, Roeder Smith & Company

Mr. Conradi presented the State and Teacher valuation for the period ending June 30, 2005. He told the Board he would be covering membership information, asset values, estimated rates of return, actuarial results and employer contribution rates.

Mr. Conradi began by providing the Board statistics on membership. He said the number of active State Employees decreased by 168 from 12,957 to 12,789 a 1.3% decrease. Since 1996, active membership has decreased an average of 0.2% per year. The number of active Teachers decreased by 87 from 14,556 to 14,469 a 0.6% decrease. Since 1996, active membership has increased an average of 1.7% per year.

Next, Mr. Conradi discussed covered payroll information. He said payroll for State Employees active on June 30, 2005 remained unchanged at \$576 million. Payroll has increased an average of 2.7% per year since 1996, but has remained unchanged over the last three valuations. Payroll for Teachers active on June 30, 2005 increased 3.7%, from \$810 million to \$840 million; payroll has increased an average of 4.9% per year since 1996.

Mr. Conradi then discussed the average current age, current service, and entry age of members. He told the Board that average pay for State Employees increased 1.3%, from \$44,422 to \$45,019, while average pay for Teachers increased 4.4%, from \$55,652 to \$58,081. The average age of State Employees is 47.8, compared to 47.6 last year and to 45.5 nine years ago. The average age for Teachers is 44.1 years, up from 43.7 last year. It was 44.9 nine years ago. Average years of service for State Employees is 14.5, compared to 14.6 last year and to 13.7 nine years ago. Average service for Teachers is 12.1 years, up from 12.0 in the last valuation and decreased from 15.5 in 1996.

Mr. Conradi said there are also 2,345 inactive State Employees and 2,037 inactive Teachers. These figures include members who are nonvested and are pending receipt of a refund. It also includes vested members who have elected to defer their benefit.

Mr. Conradi then discussed retirees and beneficiaries. He told the Board that the number of retired State Employees increased by 219, from 9,674 to 9,893, a 2.3% increase. He said this number includes service retirees, disabled retirees, and beneficiaries receiving benefits. Over the last nine years, the number of state retirees

has grown an average of 1.5% per year. The average annual benefit for a state retiree is \$20,065, an increase of 6.6% from last year. There are 1.3 active State Employees for each retiree; this ratio has decreased slightly over the last nine years, from 1.5. Mr. Conradi said the number of retired Teachers increased by 386, from 8,179 to 8,565, a 4.7% increase. Over the last nine years, the number of Teacher retirees has grown an average of 5.6% per year. The average annual benefit for a retired Teacher is \$37,475, an increase of 3.05% since last year. There are 1.7 active Teachers for each retired Teacher, that ratio has decreased from 2.4 in 1996.

Mr. Conradi then turned his discussion to the assets of the system. He said fair market value, in total, for all plans increased from \$6.26 billion to \$6.75 billion. The market value for State Employees is \$2.22 billion, while Teachers are at \$3.36 billion. Mr. Conradi indicated that all actuarial calculations are based on actuarial value of assets, not market value. The actuarial value reflects 20% of the difference between FY 2005 expected return on market and the actual return, 40% of FY 2004 difference, 60% of FY 2003 difference and 80% of FY 2002 difference. The actuarial value is used in order to produce smoother, more consistent contribution rates from year to year.

Mr. Conradi exhibited a series of graphs regarding investments. He said the return on market is approximately 11.4% in FY 2005 compared to 18.7% in FY 2004. The average rate of return for the last ten years was 7.65%, net of all investment and administrative expenses, compared to the assumed 8.25% investment rate of return assumption.

He then reviewed the net external cash flow (i.e., contributions less benefit payments and refunds). It was -\$81 million for State Employees, or -3.6% of the value of assets at end of year. For Teachers, the comparable figure was -\$119 million, or -3.5% of the end-of-year market value.

Mr. Conradi then discussed actuarial assets. He said actuarial values are now \$2.16 billion for State Employees and \$3.28 billion for Teachers. The actuarial return was 1.8% in FY 2005. The actuarial values are about 97.5% of the fair market value. Mr. Conradi apprised the Board that, for the first time since FY2000, the actuarial value includes deferred asset gains not yet reflected in the employer contribution calculations.

Mr. Conradi finally discussed the actuarial results with the Board. For State Employees, the unfunded actuarial accrued liability (UAAL) increased from \$1,492 million to \$1,680 million, while for Teachers, the UAAL increased from \$2,294 million to \$2,638 million. The funded ratio (actuarial assets divided by actuarial accrued liability) decreased from 59.6% to 56.3% for State Employees and from 59.3% to 55.4% for Teachers.

The following information was provided for employer contribution rates for State Employees:

| Item | 2005 | 2004 |
|---------------------------|-----------------|-----------------|
| Employer normal cost | 1.44% | 1.42% |
| Amortization rate | 19.33% | 16.98% |
| Total | 20.77% | 18.40% |
| Payroll projected 2 years | \$652.8 million | \$652.4 million |
| Projected contribution | \$135.6 million | \$120.0 million |

He provided the following information for employer contribution rates for Teachers:

| Item | 2005 | 2004 |
|---------------------------|-----------------|-----------------|
| Employer normal cost | 1.57% | 1.59% |
| Amortization rate | 20.44% | 18.05% |
| Total | 22.01% | 19.64% |
| Payroll projected 2 years | \$966.7 million | \$932.7 million |
| Projected contribution | \$212.8 million | \$183.2 million |

Mr. Conradi also provided the following breakdown of Teacher contribution rates:

| Item | 2005 | 2004 |
|--------------------|-----------------|-----------------|
| State share (rate) | 8.97% | 8.02% |
| Local share (rate) | 13.04% | 11.62% |
| Rate total | 22.01% | 19.64% |
| State share (\$) | \$86.7 million | \$74.8 million |
| Local share (\$) | \$126.1 million | \$108.4 million |
| Total (\$) | \$212.8 million | \$183.2 million |

Mr. Conradi concluded by providing the Board a detail of the change in employer contribution rates from the prior year:

| Basis | State Employees | Teachers |
|---------------------------------------|--------------------|--------------|
| 1. FY 2007 employer contribution rate | 18.40% | 19.64% |
| 2. Impact of changes | | |
| a. Non-salary liability (gain)/loss | 0.57% | 0.52% |
| b. Salary (gain)/loss | (0.67%) | (0.01%) |
| c. Total payroll growth (gain)/loss | 0.71% | 0.03% |
| d. Investment experience (gain)/loss | 1.76% | 1.83% |
| e. Changes in assumptions | 0.00% | 0.00% |
| f. Changes in benefit provisions | <u>0.00%</u> | <u>0.00%</u> |
| 3. FY 2008 employer contribution rate | 20.77% | 22.01% |

Ms. Booth Gallogly asked if the payroll showing in 2005 is adjusted for the retroactive payment made in 2006 relating to fiscal 2005. Mr. Conradi said, according to his discussion with Director Karpinski, some adjustments were paid in fiscal year 2005. However, some unions were still in negotiations and this information was not submitted to GRS since those raises were not paid. In addition, management personnel was paid the retroactive amount in 2006.

Treasurer Tavares noted his concern over the low funding ratio. He asked Mr. Conradi if he felt that the funding schedule currently in place is an appropriate way to deal with the unfunded liability. Mr. Conradi specified that although the funding ratio is low, it is not always an indication of concern. For example, a brand new plan such as the State Police and Judges Plan in the 1980's would have a zero funded ratio at the outset. This would not indicate a problem. Mr. Conradi told the Board that as long as the State and local governments can continually make actuarially required contributions from year to year, the current funding schedule is an appropriate means of reducing the UAAL.

Ms. Booth Gallogly asked if the trend of lower funding ratios is a nationwide trend. Mr. Conradi pointed out that the trend observed by Rhode Island is nationwide.

Treasurer Tavares thanked Mr. Conradi for his presentation. Mr. Joseph Newton then presented the valuation for State Police and Judges.

Treasurer Tavares informed new members of the Board that both the State Police and Judicial valuations began in 1987 and 1989 and affects members hired or appointed after those dates.

Mr. Newton began his presentation by providing the Board statistics on membership. He said State Police active employees increased from 148 to 181, a 7.2% average increase since 1996. The State Police plan has one retiree and one disabled retiree, one member became disabled during FY2005, producing a loss. Mr. Newton said Judges remained unchanged at 44, a 5.6% average increase since 1996. Currently, the Judicial plan has one retiree and one beneficiary.

Mr. Newton then discussed covered payroll for both groups. He reminded the Board that the State Police payroll uses different pay figures for benefits and contributions. Mr. Newton said contribution payroll increased 15.4%, from \$8.6 million to \$9.9 million. The increase in payroll was due exclusively to the increase in the number of members; pay for continuing members was unchanged. The average pay (for benefits) decreased 5.3%, from \$77,175 to \$73,069. Mr. Newton said payroll increased 0.8%, from \$5.6 million to \$5.7 million for the Judges. In addition, average pay increased 0.8%, from \$128,133 to \$129,195.

Mr. Newton then discussed the assets of the two systems. He told the Board that the market value for State Police is \$30.4 million, up from \$24.5 million. For Judges the market value is \$19.9 million, up from \$15.8 million. The return on market, net of all investment and administrative expenses, is approximately 10.2% in FY 2005 for both plans. It was 18.0% in FY 2004 for both plans. The average return for the last ten years is 7.6% to 7.7% for both plans, less than assumed 8.25% investment return assumption. Mr. Newton said the net external cash flow, contributions less benefit payments and refunds, is positive for State Police and Judges.

Mr. Newton reiterated Mr. Conradi's comments made earlier regarding the value of actuarial assets and its use. He then told the Board that the actuarial return was 5.9% in FY 2005 for both plans. Mr. Newton said the actuarial value includes deferred asset gains, not yet reflected in the employer contribution calculations. He told the Board that the actuarial value for State Police is \$29.6 million, or about 97.2% of market value. The actuarial value for Judges is \$19.3 million, or about 97.3% of market value.

Mr. Newton concluded his presentation with a discussion of the actuarial results. He apprised the Board that the State Police UAAL decreased from \$7.92 million to \$7.89 million; the funded ratio increased from 75.8% to 79.0%. The UAAL for the Judges decreased from \$5.83 million to \$2.90 million and the funded ratio increased from 73.3% to 87.0%.

Mr. Newton provided the Board a detail of the change in employer contribution rates from the prior year:

| Basis | State Police | Judges |
|---------------------------------------|-------------------------|---------------|
| 1. FY 2007 employer contribution rate | 31.78% | 36.07% |
| 2. Impact of changes | | |
| a. Non-salary liability (gain)/loss | 0.90% | (3.53%) |
| b. Salary (gain)/loss | (1.49%) | (1.03%) |
| c. Total payroll growth (gain)/loss | (0.66%) | 0.12% |
| d. Investment experience (gain)/loss | 0.47% | 0.44% |
| e. Changes in assumptions | 0.00% | 0.00% |
| f. Changes in benefit provisions | <u>0.00%</u> | <u>0.00%</u> |
| 3. FY 2008 employer contribution rate | 31.00% | 32.07% |

Ms. Booth Gallogly asked if Magistrates are members under the Judicial Retirement plan or State Employees plan. Mr. Conradi stated that the Judges valuation covered Superior Court Judges, Adjudication and Workman's Compensation Judges. Magistrates are State Employees.

Ms Booth Gallogly then asked if Judges could receive two pensions if they were State Employees with enough time to retire. Treasurer Tavares indicated he knew of two Judges who previously contributed as State Employees and are now vested in that system. They were subsequently appointed as Judges. He said there would need to be a legal review to determine if the members are entitled to receive two pensions.

Mr. Williams questioned some of the projected salary increases for State Police. Mr. Newton pointed out that the increases during the first five years are cumulative. Mr. Williams indicated there was an increase in the fifth year. Director Karpinski informed the Board that the administrative staff at the State Police barracks provides salary information for the State Police (This is due to members contributing on base salaries). Salaries for benefit computation are inclusive of overtime and clothing allowances. Mr. Conradi said an experience study is scheduled for the next valuation cycle and he will review the salary assumptions for this group with Mr. Williams.

On a motion by Rosemary Booth Gallogly and seconded by William B. Finelli, it was unanimously

VOTED: To accept the results of the State, Teacher, State Police and Judicial Actuarial Valuations as of June 30, 2005 presented by Gabriel, Roeder, Smith And Company.

Treasurer Tavares expressed thanks to Messrs. Conradi and Newton for their presentations. He thanked the Board for their review and time spent on the valuations.

VI. Administrative Decisions

Disability Appeals

Anthony Soscia vs. ERSRI

Attorney Gerald Cobleigh requested the hearing be rescheduled to the July 12, 2006 Board Meeting.

Hearing Officer Decisions

None this month

VII. Approval of May pensions as presented by ERSRI

On a motion by Linda C. Riendeau and seconded by James P. Yancy, it was unanimously

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

VIII. Legal Counsel Report

Treasurer Tavares asked if there were any questions regarding the legal report in the book. There being no discussion or comments, the Treasurer requested the Board convene an executive session to discuss potential litigation consistent with Rhode Island General Laws §42-46-5(2)

On a motion by William B. Finelli and seconded by John J. Meehan, it was unanimously

VOTED: To convene an Executive Session to discuss potential litigation consistent with RIGL §42-46-5(2).

On a motion by Jerome F. Williams and seconded by Linda C. Riendeau, it was unanimously

VOTED: To Reconvene into Open Session.

The Board returned to open session and Treasurer Tavares declared that no votes were taken in executive session.

On a motion by Louis M. Prata and seconded by William B. Finelli, it was then unanimously

Voted: Not to appeal the matter of Kevin M. Sheehan vs. ERSRI, to direct the Executive Director to recalculate Mr. Sheehan's pension benefit consistent with the May 15, 2003 decision of hearing officer Jeffrey S. Michaelson Esq., and convene the Rules and Regulations Subcommittee to review current rules regarding compensation and recommend any clarifying adjustments and or amendments.

On a motion by Jerome F. Williams and seconded by Linda C. Riendeau, it was unanimously

VOTED: To seal the minutes of the Executive Session.

IX. Committee Reports

Disability Subcommittee: The Disability Subcommittee recommended the following actions on disability applications as the result of its June 13, 2006 meeting for approval by the full Board:

| | Name | Membership Group | Type | Action |
|-----|------------------|-------------------------|-------------|---------------|
| 1. | Robin Bennett | Municipal | Ordinary | Approve |
| 2. | Barbara Brown | Teacher | Ordinary | Approve |
| 3. | David Case | Municipal | Ordinary | Approve |
| 4. | Lynn Cross | Teacher | Ordinary | Approve |
| 5. | Mary Hanley | Teacher | Ordinary | Approve |
| 6. | Diane Labonte | State | Ordinary | Approve |
| 7. | Kathleen Perry | State | Ordinary | Approve |
| 8. | Marsha Pisaturo | Teacher | Ordinary | Approve |
| 9. | Paula Ciresi | Municipal | Accidental | Deny |
| 10. | Dennis Krause | Teacher | Accidental | Table |
| 11. | Robert Morrisey | Municipal | Accidental | Approve |
| 12. | Diane Wright | State | Accidental | Approve |
| 13. | Mary Zayat | State | Accidental | Table |
| 14. | Sherry Roberts | State | Ordinary | Table |
| 15. | Deborah Ambeault | Municipal | Accidental | Table |
| 16. | Nellie Francis | Teacher | Accidental | Table |
| 17. | Peter Procniaik | Municipal | Accidental | Deny |
| 18. | Jeanne Rossi | State | Accidental | Table |

On a motion by William B. Finelli and seconded by Jerome F. Williams it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting on Tuesday, June 13, 2006 on items 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 14, 15, 16, 17, 18.

On a motion by William B. Finelli and seconded by Jerome F. Williams it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting on Tuesday, June 13, 2006 on items 12 and 13.

Mr. Meehan recused himself from item 12 and 13.

The Treasurer requested a roll call vote. The following members voted yea: William B. Finelli; Rosemary Booth Gallogly; Louis M. Prata; Linda C. Riendeau; General Treasurer Paul J. Tavares; Jerome F. Williams, and James P. Yancy.

There being 7 votes cast, 7 voted in the affirmative. 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.

Ms. Riendeau asked when a member who is approved for a disability would retroactively receive their first check. She asked if it would be the approval date or their date of termination. Director Karpinski responded that it is based on the date of termination provided by the employer.

Mr. Finelli apprised the Board that the Disability Subcommittee discussed the recent Rossi decision and will collect and review information on the term re-injury and aggravation from different sources as well as have a meeting with the medical and legal staff to review the Rules and Regulations. The Treasurer thanked Mr. Finelli and the Disability Subcommittee for their diligent efforts.

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 Jerome F. Williams the meeting adjourned at 10:50 a.m.

Respectfully submitted,

Frank J. Karpinski

Executive Director