Employees' Retirement Board
Of Rhode Island
Monthly Meeting Minutes
Date of Meeting: June 13, 2007

The Monthly Meeting of the Retirement Board was called to order at 9:05 a.m., Wednesday, June 13, 2007 in the 8th Floor Conference Room, 40 Fountain Street, Providence, RI.

I. Roll Call of Members

The following members were present at roll call: Daniel L. Beardsley; Rosemary Booth Gallogly; Michael R. Boyce; General Treasurer Frank T. Caprio; William B. Finelli; M. Carl Heintzelman; John P. Maguire; Linda C. Riendeau; John J. Meehan; Louis M. Prata; Susan K. Rodriguez; and James P. Yancy

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

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

II. Approval of Minutes

On a motion by William B. Finelli and seconded by M. Carl Heintzelman, it was

VOTED: To approve the minutes of the May 9, 2007 meeting of the Employees' Retirement System of Rhode Island Board.

III. Chairman's Report

Treasurer Caprio updated the Board on the reorganization he discussed last month. The Treasurer informed the Board that next week a vote is expected on the reorganization by Council 94. Highlights of the reorganization include dealing with seasonality of the Treasurer's department by having staff move to different departments if necessary. The Treasurer informed the Board that the reorganization's focus is on customer service. He also described the reorganization of Retirement's workflow with a call center being developed for timely responses to member questions.

The Treasurer also apprised the Board of a new employee review process. He emphasized that no disciplinary action would be resulting from reviews but positive changes could be made. Treasurer Caprio then discussed the changes in pay grades with longtime workers being upgraded. He also informed the Board that a union employee would be moved up to a supervisor position which demonstrates upward mobility in the Treasurer's office. The Treasurer then told the Board that the reorganization details would be in their Board Books when it is complete.

IV. Executive Director's Report

Director Karpinski apprised the Board of possible dates for new training requirements for Board members pursuant to RIGL § 36-8-4. He said the training will be conducted by the Ethics Commission and the Attorney General's office in the required areas of access to public records, open meetings, and ethics. The Director gave possible meeting dates in the month of July. The Director also informed the Board that they could attend a session at Roger Williams University on August 3rd if they choose to do so.

The Director apprised the Board that the risk and vulnerability analysis of ERSRI's information systems approved by Procurement Subcommittee is currently underway.

Director Karpinski informed the Board that one half of one of the studies for the reconciliation of unfunded liability was in the Board book and that the actuaries are present if there are any questions.

Lastly, the Director provided the Board with the pension application processing report for the month of May 2007.

V. Presentation of the Experience Study by Gabriel, Roeder, Smith and Company for the period ending June 30, 2006.

Treasurer Caprio introduced Mr. Chris Conradi and Mr. Joe Newton of Gabriel, Roeder, Smith and Company to present the Actuarial Experience Study for the Six-Year Period Ending June 30, 2006.

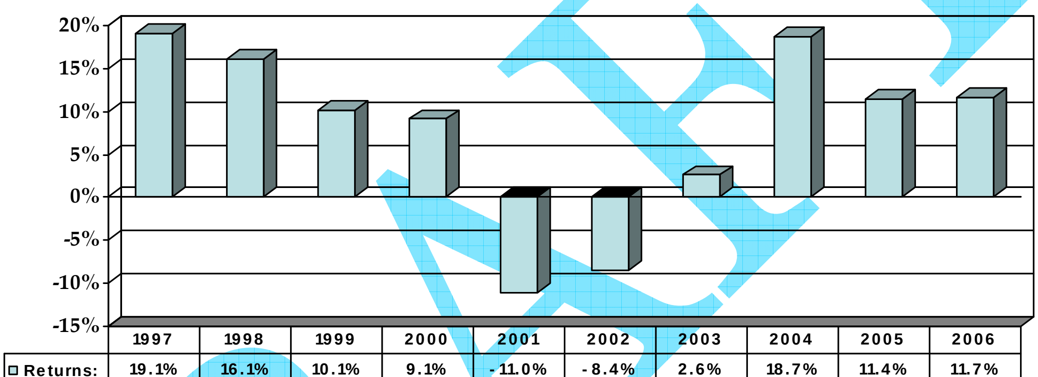
Mr. Conradi began his presentation explaining the procedure used for the actuarial study. He said they reviewed economic assumptions, general US price inflation, wage inflation statistics, ERSRI specific salary increases, and expected return using four alternative capital market assumption sets. Mr. Conradi and Mr. Newton also analyzed demographic assumptions such as retirement, mortality, disability and other terminations compared to actual experience. They used an Actual-to-Expected (A/E) Ratio as an analysis tool and looked at patterns by age and service. Mr. Conradi informed the Board that if the A/E = 100% at all ages, the assumption is "perfect", although they may want to build in some margin.

Mr. Conradi told the Board that GRS analyzed data from the last six years, June 2000 through June 2006. The last experience study was based on data for seven years (June 1997 through June 2003). He told the Board that some data from prior experience studies can help add credibility and take the plan through an entire economic cycle. If the period is too short, there may not be sufficient data for analysis, especially for more minor assumptions. Some assumptions are influenced by general economic conditions (salary increases, withdrawal rates) and if the period is too short, results may not be representative of a full "business cycle". If the period is too long, trends such as improvements in mortality or changes in retirement patterns may not be apparent.

Mr. Conradi began his presentation with a discussion of inflation. He said the assumed inflation rate is not used directly in the actuarial valuation, but it impacts the development of the investment return assumption, the salary increase assumptions, payroll growth rate and the COLA assumption. He apprised the Board that the current inflation assumption is 3.00% per year.

Mr. Conradi told the Board that Wilshire, ERSRI's investment consultant, assumes 2.25% but their time frame is ten years for investment purposes, while the plan's is much longer. He apprised the Board that other investment firms have assumptions from 2.25% - 3.00%. Over 50% of large public pension funds have an assumption between 3.00% and 3.50% and the bond market predicted 2.75% as of June 30, 2006. He said the analysis was based on TIPs vs. US Treasury Bonds. Consequently, GRS recommend no change in the current 3.00% assumption.

Mr. Conradi then discussed the investment return assumption. He said the investment return rate is used to discount future expected cash flows (benefits and refunds), in order to determine the actuarial present values (liabilities). This is a critical assumption since small changes in the assumption of 25 basis points for example, will usually change the required contribution rate by 1-2 percentage points (100-200 basis points). He told the Board the current assumption is 8.25% and is intended to be the return, net of all administrative and investment expenses. Expenses reduce return by about 50 basis points. The assumption equals 3.00% inflation plus 5.25% net real return. He provided the following history of the market returns:



Mr. Conradi informed the Board that the average of the market returns, net of investment and administrative expenses, over the last 10 years (FY 1997 through FY 2006) has been 7.45%, less than the 8.25% assumption. He said actual experience over the ten-year period is not a good indicator. He apprised the Board that Wilshire projects expected total return for ERSRI of 8.12%.

Mr. Conradi apprised the Board that GRS also modeled ERSRI's asset allocation against three other consulting firms' capital market assumptions. The average net real return, rounded to the nearest quarter of a percent was 5.25%. Therefore, the real return assumption is justified by asset allocation. Mr. Conradi recommended no change to the current nominal return assumption. However, he wanted to stress that 8.25% is clearly towards the upper end of what GRS believes is the range of possible reasonable assumptions, given ERSRI's expenses, current target assumption, and the recommended 3.00% inflation assumption.

Mr. Conradi then discussed the current COLAs for Schedule A and Schedule B members. He reminded the Board that the COLA for Schedule A members is at a fixed 3.00% rate whereas the Schedule B members' COLA is equal to price inflation, but not more than 3.00%. Mr. Conradi told the Board that the current price inflation assumption is 3.00% and subsequently they assume the Schedule B COLA will average 2.50%, based on a normal distribution with mean 3.00%, standard deviation 1.25%, and a cap at 3.00%. Mr. Conradi recommended no change to this assumption.

Mr. Conradi then discussed the salary increase rates. He apprised the Board that there were two separate assumptions for salary increase rates, one for State Employees and one for Teachers. The increases are measured by looking at average increases for members who are active in a pair of consecutive valuations, e.g., 2005 and 2006. Mr. Conradi provided the Board with a table indicating the average salary increases by year from 1997 to 2006 with the actual average being 5.5% for state and employees and 5.9% for Teachers and the expected average for State Employees being 5.4% and for Teachers 6.9%. Mr. Conradi also provided the Board with a graph indicating the salary increases by service for long-service employees. He informed the Board that historically wage inflation exceeds price inflation and currently they assume wage inflation will be 1.50% above price inflation for State Employees and Teachers. He also recommended no change to the current assumption.

Mr. Conradi next discussed payroll growth rate, which is used in amortizing the unfunded liability, not in projecting benefits. Mr. Conradi said the employer contribution payments in dollars, increase at an assumed payroll growth rate and GASB No. 25 prohibits assuming growth in number of members. He told the Board that the current assumption is 3.75%. Mr. Conradi apprised the Board that actual increases for last nine years have been 4.10% (State) and 4.51% (Teachers). However, he said part of increase for Teachers comes from the increase in the number of members, which may not be recognized. He explained that open group projection, assuming new entrants to the payroll, grow at wage inflation and show the expected payroll growth to be 4.25% over the next 25 years. Thus, he recommended increasing the current assumption to 4.25%.

Mr. Newton discussed post-retirement mortality with the Board. Mr. Newton informed the Board that if the actual-to-expected ratio (A/E ratio) is below 100%, too many deaths are being predicted and therefore the liabilities are smaller than they should be. He told the Board that for this assumption an A/E between 110% and 120% is preferred to allow for future increases in life expectancy. He apprised the Board that life expectancy in Rhode Island is the 6th longest in the country. Mr. Newton also informed the Board that State Employees were combined with MERS for the analysis.

Mr. Newton said the current assumptions are based on the 1994 Group Annuity Mortality Table with different assumptions for general employees and teachers; male rates are adjusted (set forward one year for general employees and set back one year for teachers) and female rates are unadjusted. Mr. Newton said that overall, the current assumption is reasonable for State and MERS employees (A/E's around or above 110%). However, the current tables for Teachers have A/Es of 97% (males) and 103% (females), so there is no margin for future mortality improvement. He told the Board that the current tables for Teachers do not fit the shape of the experience. Mr. Newton recommended adoption of a new table for Teachers; he said GRS developed tables based on the experience of similar Teacher funds.

Mr. Newton said the mortality for Teachers is the most significant change recommended in the experience study. He provided the Board with the following table to support his recommendation:

	Actual Deaths	Expected Deaths	A/E Ratios	A/E Ratio Under Proposed Assumption
Male Teachers	340	352	97%	115%
Female Teachers	626	606	103%	112%
Male State	1,342	1,236	109%	109%
Female State	1,319	1,133	116%	116%

Mr. Newton then discussed disabled mortality; he said he combined State, Teachers and MERS for the analysis because of the small number of deaths. The analysis demonstrated that the current assumption is reasonable and thus recommended no change.

Mr. Newton then apprised the Board of the active mortality assumption. He explained that this is a difficult assumption to make because of limited experience. He informed the Board that combining this experience with the experience of other large pension funds, he recommend using only 65 percent of the post-retirement mortality rates for pre-retirement mortality.

Next, Mr. Newton presented to the Board incidence of disability assumptions. He informed the Board that there were separate assumptions for State Employees, Teachers, males and females, ordinary and accidental disability. Mr. Newton informed the Board that overall there was an A/E ratio of 96% and the pattern is stable throughout the period. Consequently, he said there was reasonable agreement between assumptions and experience and recommended no changes.

Mr. Newton then informed the Board of the current retirement rates. He explained that the current rates are based on age with separate rates for State Employees and Teachers, males and females. Mr. Newton told the Board that the experience shows a reasonably close match between experience and current assumptions. However, he recommended changing to a new structure that would separate the rates for long service employees, who will first reach 28 years of service, and shorter service employees, who first reach age 60. He also recommended a separate table for Correctional Officers.

Mr. Newton then discussed the retirement rates for Schedule B members. He told the Board that because of delayed retirement eligibility there will be pent up demand at first eligibility. Thus, he recommended a large retirement rate at first eligibility for Schedule B members; 60% for State employees and 70% for Teachers. He recommended no change in retirement rates for reduced retirement since there is no experience.

Next, Mr. Newton apprised the Board of the termination rate assumptions. He said the experience shows most of the current assumptions are modestly conservative, slightly overstating the number of terminations. However, he said the fit was not good when studied by service. He said terminations for shorter service employees was higher than expected and terminations for long service employees was lower than expected. Mr. Newton said lower than expected termination for long service employees creates actuarial losses. Therefore, he recommended developing new tables, based on service, to reflect the lower termination rates.

Mr. Newton then discussed current marriage assumptions. He apprised the Board that currently, it is assumed 100% of members are married at death. Based on census figures, Mr. Newton told the Board that the current assumption is too conservative. He recommended lowering the assumption to 85%.

Mr. Newton then discussed the actuarial value of assets. He informed the Board that they use a five year smoothing period and said the method is very common and still appropriate. Additionally, Messer's Newton and Conradi recommend adding a 20% corridor around the market value of assets. They told the Board that this practice keeps the actuarial value of assets closer to the market value in periods of dramatic market movements. However they said the downside is that it may increase volatility of contribution rates in extreme markets. Mr. Newton concluded the presentation of State Employees and Teachers by providing cost impact tables.

He provided the following results of the actuarial valuation cost impact as of June 30, 2006 for Teachers:

Item	Current Assumptions	Proposed Assumptions
Normal cost rate	11.06%	11.82%
Unfunded liability (millions)	$2,758	$3,051
Funded ratio	55.2%	52.7%
Contribution rate	22.70%	25.03%
Contrib. (FY 2009, millions)	$224.3	$248.9

He provided the following results of the actuarial valuation cost impact as of June 30, 2006 for State Employees:

Item	Current Assumptions	Proposed Assumptions
Normal cost rate	10.18%	10.36%
Unfunded liability (millions)	$1,812	$1,874
Funded ratio	55.5%	54.6%
Contribution rate	21.19%	21.13%
Contrib. (FY 2009, millions)	$147.0	$148.1

Mr. Conradi continued the presentation with the MERS assumptions. He said most economic assumptions are identical for MERS and State Employees such as inflation, investment return and payroll growth. In addition, MERS members were grouped with State Employees for mortality.

On the topic of wage inflation, Mr. Conradi recommended the same wage inflation for MERS general employees as State Employees with no change from the current 4.50%. He also recommended lowering current Police and Fire wage inflation from 5.00% to 4.75% since the actual during the period was 1.60% above inflation.

Mr. Conradi then discussed the MERS service-related step rates with the Board. He informed the Board that for both groups, the current period of step rates was relatively short, for example, 5 years for general and 4 years for police & fire. Mr. Conradi then informed the Board that experience shows the periods need to be extended to 10 years.

Mr. Conradi then discussed MERS disability rates. He explained to the Board that for general employees it was a relatively close match and he recommended no change. However, he said for Police and Fire the current table for accidental disability should be replaced. Mr. Conradi explained that currently he assumes 25% of disabilities are ordinary and 75% are accidental but in fact, over 95% were accidental. He recommended new tables based on experience for Police and Fire employees.

Next, Mr. Conradi discussed MERS retirement rates. He explained that currently he uses age-related scales for general employees and recommended separate age and service based rates similar to State Employees. Mr. Conradi then explained that currently he uses a fixed retirement age assumption for Police and Fire employees. He said members with 20 year retirement provisions are assumed to retire at age 50 with 20 years of service or age 55 with 10 years of service. Mr. Conradi informed the Board that this assumption is too conservative. He recommended service based rates closer to experience and similar recommendations for units with the 25 year retirement provisions.

Lastly, Mr. Conradi discussed MERS termination rates. He explained that currently he uses separate tables, one for male and female and one for general employees and police and fire. Mr. Conradi recommended service-only rates similar to State Employees.

In closing, Mr. Conradi provided the following summary results of the actuarial valuation cost impact as of June 30, 2006 for MERS units. He said the average contribution rate for a general employee unit will increase, while the average rate for a police and fire unit will decrease.

Item	Current Assumptions	Proposed Assumptions
Normal cost rate	14.16%	14.69%
Unfunded liability (millions)	$158.4	$139.8
Funded ratio	85.7%	87.1%
Contribution rate	10.79%	10.87%
Contrib. (FY 2009, millions)	$30.3	$30.6

Mr. Conradi concluded the presentation and addressed questions from the Board. Mr. Beardsley asked Mr. Conradi what the impact to the fund and contribution rates would be if the Unfunded Actuarial Accrued Liability (UAAL) were re-amortized. Director Karpinski distributed an analysis computed by GRS that provided information on the impact to contribution rates if the UAAL were re-amortized over a new 30 year period.

Ms. Riendeau asked what the impact would be if termination rates were to increase by 1,000. Mr. Conradi said from an experience perspective, if the 1,000 terminations are the youngest and shortest service members then there would be less benefits distributed and he would ignore that year and the subsequent 3-4 years because it would make the data useless for studying retirement benefits. Mr. Newton said payroll would drop and there would be fewer contributions even though there would be a gain on unfunded liability. However, the reduced contributions could drive the contribution rate up.

Mr. Maguire asked Mr. Conradi if he was very confident that the mortality changes for Teachers was necessary and should the Board definitely adopt the changes. Mr. Conradi said based on his analysis of Rhode Island and other clients he has who have Teachers plans, he recommend the Board adopt the assumptions.

Treasurer Caprio asked Mr. Conradi about the 20% corridor on the actuarial value of assets and how important it was to adopt such a provision? Mr. Conradi said he just wanted the Board to be aware of the possibility. He said it is not a strong recommendation and without it the fund would be fine. Mr. Conradi told the Board that he just wanted the Board to be able to discuss the option.

There being no further discussion, on a motion by Rosemary Booth Gallogly and seconded by James P. Yancy it was unanimously

VOTED: To approve the assumptions as presented by GRS with the exception of the 20 percent corridor on the actuarial value of assets.

VI. Administrative Decisions

Disability

Joyce D'Orsi v. ERSRI

At the May meeting, consistent with Rhode Island General Laws §36-8-6, *Votes of Board – Record of proceedings*, a majority vote of the members present and voting at which a quorum was present, was not reached and thus, various motions on the disposition of this matter failed. The Board tabled the matter to the June meeting to allow absent Board members to vote on the application for benefits.

A motion made by Michael R. Boyce and seconded by Louis M. Prata to overturn the decision of the Disability Subcommittee denying the application and grant Ms. D'Orsi accidental disability pension benefits. A roll call vote was taken. The following members voted Yea: Michael R. Boyce; William B. Finelli; John J. Meehan; John P. Maguire; Louis M. Prata; Linda C. Riendeau and James P. Yancy. The following members voted Nay: Daniel L. Beardsley; Rosemary Booth Gallogly, General Treasurer Frank T. Caprio, M. Carl Heintzelman and Susan K. Rodriguez.

There being 12 votes cast, 7 voted in the affirmative and 5 nay, consistent with Rhode Island General Laws §36-8-6, *Votes of Board – Record of proceedings*, there being a majority vote of the members present and voting at which a quorum is present, it was

VOTED: To approve Ms. D'Orsi application for accidental disability pension benefits.

Patricia Quinn v. ERSRI

Included in Board Members books was the decision, exhibits and supporting information for the matter of *Patricia Quinn v. ERSRI*. The Treasurer asked if there were any briefs or additional information, consistent with regulation number 4, Rules of Practice and Procedure for Hearings, to be submitted to the Board at the present time. The Treasurer noted that counsel had submitted additional information and confirmed that Board members had received copies. Director Karpinski confirmed that the information was sent in a separate mailing. Attorney O'Gara confirmed that it was a short brief supporting her appeal of the decision denying her application for accidental disability.

Attorney O'Gara then provided a synopsis of the Patricia Quinn matter. He apprised the Board that Ms. Quinn was being represented by Attorney Robin Factor. There being a stenographer present, the parties presented their cases. At the conclusion of the hearing, a motion was made by Daniel L. Beardsley and seconded by Rosemary Booth Gallogly to uphold the decision of the Disability Subcommittee denying Ms. Quinn's application for accidental disability benefits. A roll call vote was taken and it was unanimously

VOTED: To affirm the decision of the Disability Subcommittee denying Ms. Quinn's application for accidental disability benefit.

VII. Approval of May pensions as presented by ERSRI

On a motion by Michael R. Boyce and seconded by Linda C. Riendeau, it was unanimously

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

VIII. Legal Counsel Report

Attorney William O'Gara informed the Board that the June legal report was in their Board book and that there was no new legal news to report to the Board.

IX. Committee Reports

Disability Subcommittee: The Disability Subcommittee recommended the following actions on disability applications as a result of its June 8, 2007 meeting for approval by the full Board:

	Name	Membership Group	Type	Action
1.	Jean Marie Byrnes	Municipal	Ordinary	Approve
2.	Joan Hardigan	State	Ordinary	Approve
3.	Janet Harley	State	Ordinary	Approve
4.	Clare Jordan	Teacher	Ordinary	Approve
5.	Gerard Menard	Municipal	Ordinary	Approve
6.	Phillip Rinaldo	School	Ordinary	Approve
7.	John Schwartz	State	Ordinary	Approve
8.	John Sharkey	State	Ordinary	Approve
9.	Michael Williams	State	Accidental	Table
10.	William Capuano	State	Ordinary	Table
11.	Russell Bertrand	State	Accidental	Table
12.	Caleb George	State	Accidental	Approve
13.	Gail Leonard	Municipal	Accidental	Table
14.	Michael Marcello	Municipal	Accidental	Deny
15.	Craig Marciniak	Municipal	Accidental	Deny
16.	Diane Van Nort	State	Accidental	Table

Name	Membership Group	Type	Action
17. Lucille Desjardins	State	Accidental	Table
18. Beatrice Moldanado	Teacher	Accidental	Table
19. Alan Barth	State	Accidental	Deny

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

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, June 8, 2007 on items 1, 3 through 9, and 11 through 17.

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

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday June 8, 2007 on item 2 and 18.

John P. Maguire recused himself from item 2 and 18.

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

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday June 8, 2007 on item 10 and 19.

John J. Meehan recused himself from item 10 and 19.

Procurement Subcommittee: Rosemary Booth Gallogly apprised the Board of the Procurement Subcommittee meeting held Thursday, May 24, 2007.

Ms. Booth Gallogly thanked the members of the committee: Louis M. Prata, James P. Yancy, Mark Dingley and William B. Finelli. She said the Procurement Subcommittee met on May 24th to discuss an award to perform a risk analysis / vulnerability assessment of ERSRI's computer systems and develop information systems security policies and procedures and an extension of the actuarial contract with Gabriel, Roeder, Smith and Company.

She told the Board the Director discussed the procedure used to obtain a list of potential firms to perform the risk analysis / vulnerability assessment. She said he told the committee three firms were selected from the MPA and evaluated consistent with ERSRI's Regulation Number 2. After reviewing the three proposals and meeting with each vendor twice, the Director told the committee that based on the content of the proposals and price, it was concluded that UNICOM's proposal best fit the needs of ERSRI and was also the least expensive. Ms. Booth Gallogly said the committee unanimously approved the recommendation.

She then told the Board that the committee discussed and reviewed the contract for actuarial services from Gabriel, Roeder, Smith and Company (GRS) and the renewal provision. The Director provided the committee a proposed fee for the 2008 fiscal year. The Director informed the committee that there was a request to add another actuary to the list of Actuaries who may perform services under the contract.

Ms. Booth Gallogly told the Board that after discussion, the committee unanimously approved an extension of the original contract for actuarial services dated January 20, 2004 with GRS for fiscal year 2008 at a cost of $146,100. There being no further discussion, on a motion made by Louis M. Prata and seconded by John J. Meehan it was unanimously

VOTED: To approve the recommendations of the Procurement Subcommittee as presented from its May 24, 2007 meeting.

X. New Business

None.

XI. Adjournment

There being no other business to come before the Board, on a motion by Daniel L. Beardsley and seconded by James P. Yancy, the meeting adjourned at 12:05 p.m.

Respectfully submitted,

Frank J. Karpinski

Executive Director