



Employees' Retirement Board Of Rhode Island Monthly Meeting Minutes Date of Meeting: July 11, 2007

The Monthly Meeting of the Retirement Board was called to order at 9:10 a.m., Wednesday, July 11, 2007 in the 8th Floor Conference Room, 40 Fountain Street, Providence, RI.

Treasurer Caprio introduced Frank R. Benell, Jr., a new public member consistent with RIGL §36-8-4, to the Board. The Treasurer informed the Board that Mr. Benell was confirmed by the Senate as required by law. He then administered the Oath of Office to Mr. Benell and congratulated him. Mr. Benell thanked the Board and said he looked forward to working with them.

I. Roll Call of Members

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

Also in attendance: Frank J. Karpinski, ERSRI Executive Director; Attorney John P. Walsh, Board Counsel.

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

II. Approval of Minutes

On a motion by Daniel L. Beardsley and seconded by William B. Finelli, it was

VOTED: To approve the minutes of the June 13, 2007 meeting of the Employees' Retirement System of Rhode Island Board.

III. Chairman's Report

Treasurer Caprio apprised the Board that AFSCME Council 94 almost unanimously approved the reorganization plan of the Treasury. The Treasurer then told the Board that the reorganization would now move forward with a focus on customer service via flexible job duties and a monitored call center.

IV. Executive Director's Report

Director Karpinski informed the Board that the computer Security/Vulnerability study was completed. He told the Board that he would convene the Audit Subcommittee to discuss the findings.

Director Karpinski then directed the Board's attention to the two military purchase applications contained in their Board books. The Director informed the Board that the two matters are appeals similar to those of Messrs Nixon and Soscia who were

previously approved by the Board. Director Karpinski told the Board that he was presenting these matters to them for adjudication consistent with the policy they adopted.

On a motion made by Linda C. Riendeau and seconded by Louis M. Prata it was unanimously

VOTED: To approve the two military purchase applications at the cost stated in the original invoice, as presented, for Raymond O'Loughlin and Todd Flaherty.

Director Karpinski finally provided the Board with the June Pension Application Report. He told the Board that it lacked the City of Providence Teachers because the office has not yet received them.

V. Presentation of the Actuarial Valuations by Gabriel, Roeder, Smith And Company for the period ending June 30, 2006.

Treasurer Caprio introduced Mr. Chris Conradi of Gabriel, Roeder, Smith and Company to present the Actuarial Valuations for period ending June 30, 2006.

Mr. Conradi began his presentation pointing out the plans covered which included the ERS (State Employees and Teachers), MERS, State Police and Judges. He then informed the Board that the valuations were prepared using member data provided by staff, audited financial data, employer reserves, current benefit and contribution provisions and the actuarial assumptions and methods approved by the Board at the June meeting. Mr. Conradi then told the Board that actuarial valuations are to measure the actuarial liabilities, determine employer contribution rates for FY 2009, provide information for reporting, explain changes in actuarial condition and to track changes over time.

Mr. Conradi then began the discussion with the active membership. He provided the Board various graphs outlining membership of both State Employees and Teachers. Mr. Conradi summarized the charts and told the Board the number of active State Employees increased by 0.2%. He said since 1996, active membership has decreased an average of 0.1% per year. Mr. Conradi said the number of active Teachers decreased by 0.9% and said that since 1996, active membership has increased an average of 1.5% per year.

Mr. Conradi then said the number of retired State Employees increased by 1.5% and said the number included service retirees, disabled retirees, and beneficiaries receiving benefits. Mr. Conradi told the Board that over the last ten years, the number of state retirees has grown an average of 1.5% per year and there are 1.3 active State Employees for each retiree. This ratio has decreased slightly over last ten years, from 1.5. He then said the number of retired Teachers increased by 3.6%. Over the last ten years, Mr. Conradi said the number of teacher retirees has grown an average of 5.4% per year. Mr. Conradi said there are 1.6 active Teachers for each retiree; he said this ratio has decreased from 2.4 in 1996.

Mr. Conradi told the Board there are 2,424 inactive State Employees and 2,165 inactive Teachers. He said the figures include members who are non-vested, are pending receipt of a refund and members who are vested and have elected to defer their benefit.

Mr. Conradi then summarized various MERS graphs for the Board. He started with the active MERS employees and said the number of active MERS employees increased by 9

from 8,253 to 8,262 which is a 0.1% increase. Since 1996, Mr. Conradi said the active membership has increased an average of 2.4% per year; general employees decreased 0.7% since last year and police/fire employees increased 4.6%.

Mr. Conradi then discussed the MERS retirees. He said the number of MERS retirees increased by 2.1%, from 3,926 to 4,007. Mr. Conradi said less than 10% of the retirees are from police/fire units. He said the average annual benefit for a MERS retiree is \$12,196 (excluding disabled and beneficiaries) and there are 2.1 active MERS employees for each retiree, the same as ten years ago.

Mr. Conradi then discussed the State Police and Judges. He told the Board that State Police active employees decreased from 181 to 179, and that there was a 6.3% average increase since 1996. Regarding retirees, Mr. Conradi said the State Police has one retiree and two disabled retirees. One member became disabled during FY2006, producing a loss. He said the Judges increased by 1 to 45. Despite 1 death, there has been a 5.2% average increase since 1996. The Judges has one retiree and two beneficiaries.

Next, Mr. Conradi discussed the covered payroll with the Board. He informed the Board that payroll for State Employees active on June 30, 2006 increased 6.2% to \$612 million and that payroll has increased an average of 3.1% per year since 1996. Mr. Conradi also told the Board that payroll for Teachers active on June 30, 2006 increased 2.3% to \$859 million and that payroll has increased an average of 4.7% per year since 1996.

Mr. Conradi then apprised the Board of the MERS covered payroll. He said that payroll for MERS employees active on June 30, 2006 increased 6.1%, from \$265.1 million to \$281.3 million with 4.7% for general employees and 11.2% for police/fire. The average pay increased 5.4% for general employees and 6.3% for police/fire.

Next, Mr. Conradi informed the Board of the State Police and Judges covered payroll. He said that on the State Police payroll, different pay figures are used for benefits and contributions. The contribution payroll increased 2.5%, from \$9.9 million to \$10.1 million. Mr. Conradi also informed the Board that for the State Police the average pay (for benefits) increased 3.0%, from \$73,069 to \$75,277. On the Judges payroll, he said it increased 11.1% from \$5.7 million to \$6.3 million and average pay increased 8.6% from \$129,195 to \$140,290.

Mr. Conradi then discussed average pay and benefits for State Employees and Teachers with the Board. He said average pay for State Employees increased 6.0% to \$47,726, while average pay for Teachers increased 3.2% to \$59,915. The average annual benefit for a state retiree is \$22,493, an increase of 5.5% from last year while the average annual benefit for a retired teacher is \$40,151, an increase of 3.4% since last year. Mr. Conradi supplied the Board with graphs identifying the average age, service and entry age.

Next, Mr. Conradi apprised the Board of the asset values for each of the four groups. He informed the Board that fair market value in total, for all plans, increased from \$6.75 billion to \$7.33 billion and that the return on market was approximately 11.6% for fiscal year 2006. Mr. Conradi also informed the Board that the average market return for the last ten years was 7.45%. He reminded the Board that all actuarial calculations use actuarial value of assets (AVA), not the market value and the AVA uses a five-year smoothing. He said the calculation takes 20% of the difference between FY 2006 actual and expected returns on market, 40% of FY 2005 difference, 60% of FY 2004 difference and 80% of FY 2003 difference. Mr. Conradi said the AVA is used for smoother, more consistent contribution rates over time.

Mr. Conradi apprised the Board that the Actuarial return was 7.4% in FY 2006 and the actuarial values are about 93.7% of the fair market value. He told the Board that the actuarial value includes deferred asset gains, not yet reflected in the employer contribution calculations and this is protection against future investment losses.

Mr. Conradi then informed the Board of the following asset details. He said the net external cash flow equals the contributions less the benefit payments and refunds. For State Employees this number is -\$65 million, which is -2.7% of the end-of-year market value. For Teachers the number is -\$124 million, which is -3.4% of the end-of-year market value. For MERS the comparable number is -\$9 million, which is -0.9% of the end-of-year market value. Mr. Conradi said that there is a positive external cash flow for Judges and State Police.

For the valuation period ending June 30, 2006, Mr. Conradi reported no material changes for any of the plans and no benefit "upgrades", new or closed units for MERS. He said a merger of four fire units is reflected; Harris Fire, Tiogue Fire, and Washington Fire were merged into Central Coventry Fire and Barrington and Barrington COLA are now combined for rate setting.

Mr. Conradi then reiterated the assumption changes approved by the Board in June for ERSRI. The changes are:

- Increase payroll growth rate from 3.75% to 4.25%
- Modify service-related salary increases.
- Change post-retirement teacher mortality with tables with longer life expectancies.
- Reduce active mortality rates.
- Modify retirement and termination rates.
- Reduce percent-married assumption.

The assumption changes for MERS approved in June are:

- Increase payroll growth rate from 3.75% to 4.25%
- Modify service-related salary increases; decrease wage-inflation rate for police/fire.
- Make disability rates sex-distinct for general employees, increase police/fire disability rates.
- Reduce active mortality rates.
- Modify retirement and termination rates.
- Reduce percent-married assumption.

Mr. Conradi then recommended the following assumptions for the Board to approve for use in the valuation as of June 30, 2006 for Judges:

- Reduce salary increase rate from 5.25% to 4.50%
- Reduce payroll growth rate from 5.25% to 4.50%
- Modify retirement rates, so that one-third of Judges are expected to take reduced retirement when first eligible and the rest are expected to retire when first eligible for unreduced retirement (100%). Change based on observation that many non-contributing Judges retire in reduced retirement.

- Reduce active mortality rates.

Mr. Conradi recommended the following assumptions for the Board to approve for use in the valuation as of June 30, 2006 for State Police.

- Reduce long-service salary increase rate from 5.00% to 4.50% (the wage inflation rate).
- Increase service-related rates based in part on current salary schedules. One-time 20+% increase as result of legal settlement in 2001 made standard analysis meaningless.
- Increase payroll growth rate from 3.75% to 4.50%
- Modify retirement assumption based on pattern observed among non-contributing State Police
- Reduce active mortality rates.

Mr. Conradi then discussed the actuarial results with the Board and the GASB 25 funded ratios for ERSRI, MERS, State Police and Judges. He informed the Board that for ERSRI the unfunded actuarial accrued liability (UAAL) increased from \$1,680 million to \$1,874 million for State Employees, while for Teachers, the UAAL increased from \$2,638 million to \$3,051 million and the funded ratio (actuarial assets divided by actuarial accrued liability) decreased from 56.3% to 54.6% for State Employees and from 55.4% to 52.7% for Teachers.

Next, Mr. Conradi informed the Board that for MERS the UAAL for all units combined increased from \$130 million to \$140 million and the funded ratio for all units combined decreased from 87.2% to 87.1% with 32 units still 100% funded or better.

For State Police and Judges, Mr. Conradi told the Board that the State Police UAAL decreased from \$7.9 million to \$5.9 million. The funded ratio increased from 79.0% to 86.0%. The UAAL for Judges increased from \$2.9 million to \$3.6 million and the funded ratio decreased from 87.0% to 86.8%.

Mr. Conradi then concluded his presentation with a discussion of the actuarial contribution rates for fiscal year 2009. He provided the Board with the following tables of the employer contribution rates for all of the plans:

State Employees- Dollar Amounts in Millions		
Item	2006	2005
Employer Normal Cost%	1.61%	1.44%
Amortization rate	19.52%	19.33%
Total	21.13%	20.77%
FY ending June 30,	2009	2008
Payroll Projected 2 Yrs.	\$701.0	\$652.8
Projected Contribution	\$148.1	\$135.6

Teachers- Dollar Amounts in Millions		
Item	2006	2005
Employer Normal Cost%	2.32%	1.57%
Amortization rate	22.71%	20.44%
Total	25.03%	22.01%
FY ending June 30,	2009	2008
Payroll Projected 2 Yrs.	\$994.4	\$966.7
Projected Contribution	\$248.9	\$212.8

Employer Contribution Rates - Teacher Breakdown		
FY Ending June 30	2009	2008
State rate	10.17%	8.97%
Local rate	14.86%	13.04%
Total rate	25.03%	22.01%
State contribution	\$101.1	\$86.7
Local contribution	\$147.8	\$126.1
Total contribution	\$248.9	\$212.8

Mr. Conradi then summarized the rates with a breakdown in the change in contribution rate:

Basis	State Employees	Teachers
1. FY 2008 employer contribution rate	20.77%	22.01%
2. Impact of changes		
a. Non-salary liability (gain)/loss	0.19%	0.34%
b. Salary (gain)/loss	0.56%	(0.25%)
c. Total payroll growth (gain)/loss	(0.54%)	0.36%
d. Investment experience (gain)/loss	0.21%	0.24%
e. Changes in assumptions	(0.06%)	2.33%
f. Changes in benefit provisions	0.00%	0.00%
3. FY 2009 employer contribution rate	21.13%	25.03%

Mr. Conradi then provided the Board the following rate analysis by unit and apprised the Board that during the 10 year period beginning in 1996, the number of MERS general units increased from 58 to 67 and the police / fire from 36 to 43:

Number of Units	General	Police/ Fire
1. No change in rate	7	1
2. New units	0	0
3. Rate decreases	13	34
4. Rate increases	47	8
5. Total	67	43

Mr. Conradi discussed the State Police and Judges change in contribution rate and provided the following analysis:

Basis	State Police	Judges
1. FY 2008 employer contribution rate	31.00%	32.07%
2. Impact of changes		
a. Non-salary liability (gain)/loss	0.05%	(0.40%)
b. Salary (gain)/loss	(0.54%)	1.03%
c. Total payroll growth (gain)/loss	0.10%	(0.22%)
d. Investment experience (gain)/loss	(0.14%)	(0.12%)
e. Changes in assumptions	(0.41%)	(0.81%)
f. Changes in benefit provisions	<u>0.00%</u>	<u>0.00%</u>
3. FY 2009 employer contribution rate	30.06%	32.35%

Mr. Conradi concluded his presentation of the valuations as of the period ending June 30, 2006. Treasurer Caprio thanked Mr. Conradi for his presentation. There being no additional questions by the Board, Treasurer Caprio asked for a motion to accept the State Police and Judges assumptions and to accept the ERS, MERS, SPRBT and JRBT valuations and contribution rates.

On a motion by Rosemary Booth Gallogly and seconded by Daniel L. Beardsley to approve all of the State Police and Judicial assumptions it was unanimously

VOTED: To approve the assumptions for the State Police and Judicial plans as presented by GRS.

On a motion by Rosemary Booth Gallogly and seconded by Frank R. Benell, Jr. to approve the ERS, MERS, SPRBT, and JRBT actuarial valuations it was unanimously

VOTED: To approve the ERS, MERS, SPRBT, and JRBT actuarial valuations as presented by GRS.

VI. Administrative Decisions

Lawrence Costellese v. ERSRI

Included in Board Members books was the decision, exhibits and supporting information for the matter of Lawrence Costellese *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. There being none, Attorney Walsh then provided a synopsis of the Lawrence Costellese matter. He apprised the Board that Mr. Costellese was being represented by Attorney Jack DiGiovanni. There being a stenographer present, the parties presented their cases.

At the conclusion of the hearing, a motion was made by Rosemary Booth Gallogly and seconded by Frank R. Benell, Jr. to uphold the decision of the Disability Subcommittee denying Mr. Costellese's application for accidental disability benefits.

A roll call vote was taken. The following members voted Yea: Daniel L. Beardsley; Frank R. Benell, Jr.; Michael R. Boyce; General Treasurer Frank T. Caprio; William B. Finelli; Rosemary Booth Gallogly; M. Carl Heintzelman; John P. Maguire; John J. Meehan; Linda C. Riendeau; Susan K. Rodriguez and James P. Yancy. Louis M. Prata voted nay.

There being 13 votes cast, 12 voted in the affirmative and 1 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 affirm the decision of the Disability Subcommittee denying Mr. Costellese's application for accidental disability benefits.

VII. Approval of June 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 June pensions as presented by ERSRI.

VIII. Legal Counsel Report

Attorney John Walsh informed the Board that the July legal report was in their board book and that the only legal news to report is the Supreme Court case of *Heidi Iselin v. ERSRI* would be taking place this fall.

IX. Committee Reports

Disability Subcommittee: The Disability Subcommittee recommended the following actions on disability applications as a result of its July 6, 2007 meeting for approval by the full Board:

Name	Membership Group	Type	Action
1. Barbara Day	Teacher	Ordinary	Deny
2. Patricia DeRobbio	State	Ordinary	Deny
3. Kenneth Graiko	State	Ordinary	Approve
4. Catherine Manchester	State	Ordinary	Approve
5. Mathias Ramos	State	Ordinary	Approve
6. Mitchell Adams	Municipal	Accidental	Table
7. Meredith Arcaro	Municipal	Accidental	Deny
8. David Boni	Municipal	Accidental	Deny
9. William Macera	Municipal	Ordinary	Deny
10. Nancy Bennett	Teacher	Accidental	Approve
11. Russell Bertrand	State	Accidental	Approve
12. Juvita DaRosa	State	Accidental	Deny
13. Lucille Desjardins	State	Accidental	Deny
14. Gayle Leonard	State	Accidental	Table
15. Leslie Theberge	State	Accidental	Table
16. Diane Van Nort	State	Accidental	Approve
17. Michael Williams	State	Accidental	Approve
18. Beatriz Moldanado	Teacher	Accidental	Deny
19. Kathy Guilmette-Cipriano	State	Accidental	Deny
20. Helen Swallow	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, July 6, 2007 on items 1 through 8, and 11- 17, 19 and 20.

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 July 6, 2007 on item 9.

Louis M. Prata and James P. Yancy recused themselves from item 9.

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 July 6, 2007 on items 10 and 18.

John P. Maguire recused himself from items 10 and 18.

X. New Business

Treasurer Caprio indicated that the Board would not meet in August unless a meeting is necessary. On a motion by Louis M. Prata and seconded by Linda C. Riendeau it was unanimously

VOTED: That there be no August 2007 meeting of the Retirement Board but with the ability to call one if necessary.

Director Karpinski then asked the Board if they could move to executive session to discuss a personnel matter consistent with RIGL § 42-46-5 (a) (1).

On a motion by John P. Maguire and seconded by Linda C. Riendeau it was unanimously

VOTED: To go into executive session consistent with RIGL § 42-46-5 (a) (1)

On a motion by John P. Maguire and seconded by Linda C. Riendeau it was unanimously

VOTED: To exit executive session and move into open session

In open session, on a motion by Daniel L. Beardsley and seconded by William B. Finelli it was unanimously

VOTED: To raise the pay grade of the Assistant Executive Director by two grades.

XI. Adjournment

There being no other business to come before the Board, on a motion by John P. Maguire and seconded by Linda C. Riendeau, the meeting adjourned at 11:25 a.m.

Respectfully submitted,

Frank J. Karpinski

Executive Director