Employees' Retirement Board of Rhode Island

Monthly Meeting Minutes

Wednesday, July 9, 2008

9:00 a.m.

8th Floor Conference Room, 40 Fountain Street

The Monthly Meeting of the Retirement Board was called to order at 9:05 a.m., Wednesday, July 9, 2008 in the 8th Floor Conference Room, 40 Fountain Street, Providence, RI.

Prior to the commencement of the call to order, Treasurer Caprio administered the 0ath of 0ffice to Jean Rondeau, the new gubernatorial appointee.

The Treasurer congratulated Mr. Rondeau on his new term. He then instructed Director Karpinski to take the roll call.

I. Roll Call of Members

The following members were present at roll call: Gary R. Alger; Daniel L. Beardsley; Frank R. Benell Jr.; Rosemary Booth-Gallogly; Roger P. Boudreau; Michael R. Boyce; General Treasurer Frank T. Caprio; William B. Finelli; M. Carl Heintzelman; John P. Maguire; John J. Meehan; Louis M. Prata; Susan K. Rodriguez and Jean Rondeau.

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

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

Roger P. Boudreau left the meeting at 9:53 a.m.

II. Approval of Minutes

Mr. Boudreau observed an inconsistency in the June 11, 2008 minutes under the disability appeals. The sentence prior to the motion on page 8 should read "*to uphold the decision of the Disability Subcommittee*" vs. "*to uphold the appeal of the Disability Subcommittee*"

On a motion by William B. Finelli and seconded by Frank R. Benell, Jr., it was unanimously

VOTED: To approve the amended draft minutes of the June 11, 2008 meeting of the Employees' Retirement System of Rhode Island Board.

III. Chairman's Report

Treasurer Caprio apprised the Board that after a six-month RFP process, the State Investment Commission had hired three new consultants for the commission. The Treasurer stated that the cost of the new structure will be less than the old structure explaining that under the former set-up there was a single general consultant to the

fund, where under the new structure, that one role would be divided into three consultancy roles. Russell Investments would handle the implementation component, Pension Consulting Alliance (PCA) would handle the general consultancy component and Brockhouse Cooper would be in charge of management searches.

IV. Executive Director's Report

Director Karpinski directed the Board's attention to two military purchases in the Board book. In the matter of Mark Sheridan, the Director clarified a prior question with regard to the timing of Mr. Sheridan's application, noting that the presentation of the application itself showed that the document had been filed on May 6, 1997, prior to the promulgation of Regulation 6 and RIGL §36-9-31, §16-16-17.1 and §45-21-53. The Director then discussed an additional member, David Allen, noting that his bill had been sent on June 8, 1995 and had been marked "by retirement." On a motion by Rosemary Booth-Gallogly and seconded by Gary R. Alger it was unanimously

VOTED: To allow Messrs. Mark Sheridan and David Allan to purchase their military credits at the old invoices.

- **Update on Legislation Affecting the Retirement System From the '08 Session.**

Director Karpinski apprised the Board of Article 40 Substitute A of the FY '08 Budget and changes to RIGL §36-8-20 relating to IRS Code §415(b). He reminded the Board of the Private Letter Ruling(PLR) it received in 2004 which set forth a methodology of how to test pension benefits for maximum limits under §415(b). The Director explained that the PLR required the calculation of the 415(b) limit to include the cost of a COLA which reduced the benefit amount for those recipients who were young with high salaries.

As stated in previous Board meetings, Director Karpinski told the Board that on April 4, 2007, the IRS issued its final regulations updating the rules governing the application of section 415 of the IRS code. He said the new regulations provide that in the case of annuity forms of benefits that are increased automatically each year (i.e., COLAs), no actuarial adjustments at commencement of the benefit need to be made so long as the form of benefit is not subject to the requirements of section 417(e)(3) and the plan provides that the amount payable in any limitation year cannot be greater than the section 415(b) limit applicable at the annuity starting date (i.e., the date of retirement), as increased in subsequent years pursuant to section 415(d). Director Karpinski told the Board that section 415(d) refers to the parameters regarding the amount of COLA and believes the plan is in conformity with the prescribed amounts.

Director Karpinski told the Board that the IRS regulatory change was permissive and that in order to apply the new regulation, the regulations required specific legislation to authorize its use; incorporation by reference would be insufficient. Director Karpinski then said the regulation permits a governmental plan to apply the provisions of 415(b) to the year beginning January 1, 2008. However, enactment of the change to Section 36-8-20(f) was required before ERSRI could adjust the payment to current retirees in the current or any future year. Director Karpinski said the amendment to R.I.G.L Section 36-8-20(f) was passed by the General Assembly in June 2008.

After consulting with both the system actuary and tax counsel, Director Karpinski told the Board that the earliest date that ERSRI could test benefits under the new regulation would be July 1, 2008.

Director Karpinski then said those individuals who selected the SRA Plus option (Social Security Option) will not be affected by the final regulation. The Director explained that IRS code section 417(e) (3) provides that the SRA Plus option is not a form of payment permitted by the regulation. Thus, the System must apply the method of testing prescribed by the existing PLR when making adjustments to benefits. Finally, the Director also stated that Article 40 will require programmatic changes to the ANCHOR system.

Director Karpinski then recommended that the Board motion to adopt the July 1, 2008 effective date for the changes to RIGL §36-8-20 relating to IRS Code §415(b).

On a motion by Roger P. Boudreau and seconded by Vice Chairman William B. Finelli, it was unanimously

VOTED: To adopt July 1, 2008 as the effective date under Article 40 relating to RIGL §36-8-20 and IRS Code §415(b).

Rosemary Booth-Gallogly recused herself from the matter.

Director Karpinski next apprised the Board of Article 23 Substitute A. He told the Board that this law amends RIGL §36-10-39 - *Fiscal impact of proposed legislation impacting the retirement system*. He said the law directs ERSRI to fund studies from the House, Senate or Governor's office. He said the statements or notes, defined as "pension impact notes," shall accompany each bill or resolution prior to consideration of the house in which the bill or resolution originated. The reasonable cost of preparing the pension impact notes will be charged as an administrative expense and paid from the retirement system's restricted receipts account i.e., its budget. Director Karpinski told the Board that he would have to reasonably increase the System's budget to have sufficient funds available to pay for such studies. He said it would be difficult to estimate an amount given the nature of the origination of proposed legislation. Also, if the system was ever in a position requiring spending close to its budget cap, as defined by RIGL §36-8-10.1, and significant legislation was introduced requiring costly actuarial analysis, the system could be in violation of §36-8-10.1 by overspending the legislated cap.

- **Certification and restatement of contribution rates for State Police and Judges for Fiscal Year 2009 and 2010.**

Director Karpinski apprised the Board that the other items changed by the legislative budget during this year's session were made to the State Police and Judges. He said last month, the Board certified rates for State Police and Judges based on benefits available as of June 30, 2007. Subsequent to approval of those rates, Article 35 Substitute A amended RIGL's §8-3-7, 8-3-8, 8-3-11, 28-30-15.1, 28-30-16.2 and 28-30-17 for Judicial benefits. Article 22 Substitute A amended RIGL §42-28-22 for State Police benefits. The Director told the Board that the requisite actuarial analysis was included in their books and included modified contribution rates for fiscal years 2009 and 2010.

The Director said for State Police the new contribution rate for fiscal year 2009 will move from 30.06% to 26.03% and for 2010 the contribution rate will move from 29.72% to 26.03%. For Judges, Director Karpinski said the contribution rate in 2009 will move from 32.35% to 27.11% and for 2010 the contribution rate will move from 31.04% to 27.11%.

Once again, the Director stated, there will be a requirement of some computer changes and a recoding of the benefit calculation.

Mr. Maguire asked a question regarding the rates in the letter received from the system actuary Gabriel, Roeder, Smith and Company (GRS). He asked if GRS felt that Judges hired after a certain date do not have death benefits. Chris Conradi of GRS responded and said that the answer differs depending upon the type of Judge given the changes effectuated by Article 35. He said he believed a legislative change may be required. Ms. Booth-Gallogly commented that she will attempt to clarify the language to reflect the intent. Then on a motion by Rosemary Booth-Gallogly and seconded by John P. Maguire and Louis M. Prata, it was unanimously

VOTED: To adopt the modified contribution rates as presented by GRS for State Police and Judges as a result of the passage of Articles 22 and 35 Substitute A of the fiscal year 2008 budget.

Director Karpinski then provided the Board with a graph displaying the booked appointments as of July 8th for the period ending September 30th as well as the Pension Application Processing Report as of 6/30/2008.

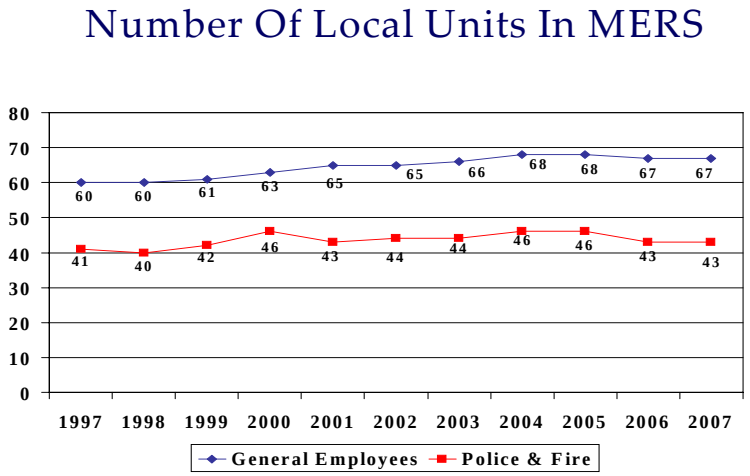
V. Presentation of the Actuarial Valuation as of June 30, 2007 by Gabriel, Roeder, Smith and Company for the Municipal Employees Retirement System

Treasurer Caprio introduced Messrs. Chris Conradi and Joe Newton of Gabriel, Roeder, Smith and Company (GRS) to present the Municipal Employees Retirement System (MERS) actuarial valuation report.

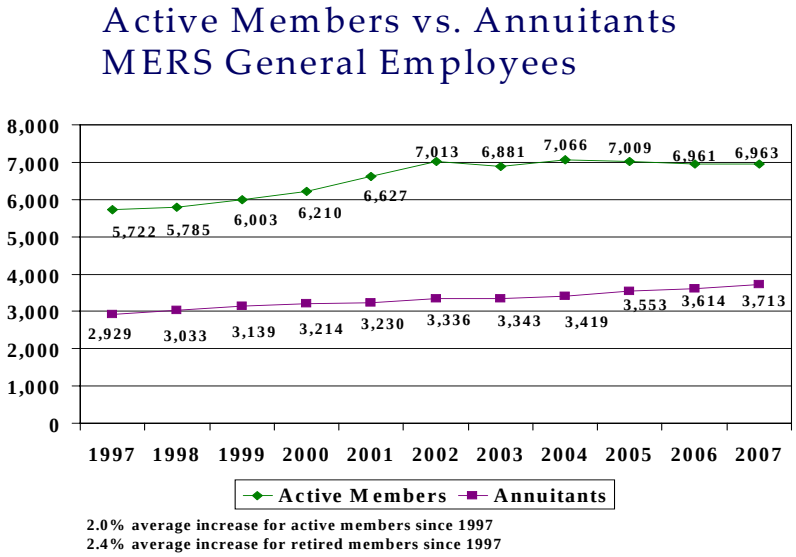
Mr. Conradi began his presentation telling the Board that the valuation was prepared as of June 30, 2007 using member data provided by staff, audited financial data and unit reserves prepared by staff. He said the valuation used current benefit and contribution provisions and actuarial assumptions and methods previously approved by the Retirement Board. He said the purpose of the valuation was to measure the actuarial liabilities, determine employer contribution rates for fiscal year 2010, provide other information for reporting regarding GASB number 25, and explain changes in actuarial condition of MERS as well as track changes over time.

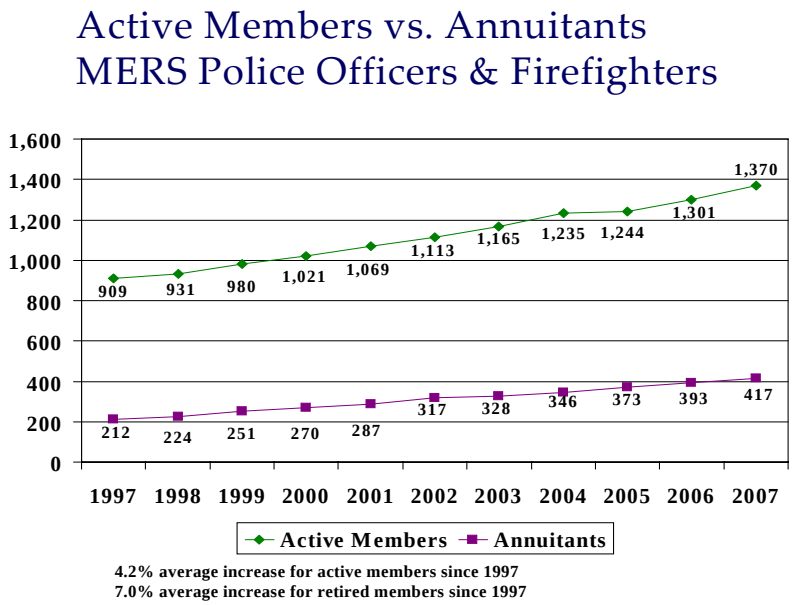
Mr. Conradi then discussed benefit changes in the valuation. He told the Board that there were no new units, no closed units, no merged units, no new COLA elections and no new 20-year retirement elections for police and fire. He apprised the Board that Richmond Police adopted a new provision as a result of special legislation. It provided a 50% minimum benefit after 22 years (2.2727% per year) to a 75% maximum. The provision becomes effective July 1, 2008 but is recognized in this valuation.

Mr. Conradi then provided the Board with the following graph showing the number of employer units in the MERS plan:



Next, Mr. Conradi provided the Board with the following two graphs that displayed the active members versus annuitants for both general municipal and municipal police and fire members in the MERS system since 1997.





Mr. Conradi then discussed the membership of the MERS system with the Board. He began with the active membership and told the Board that the number of active MERS employees increased by 71 from 8,262 to 8,333 which is a 0.9% increase. He told the Board the active membership has increased since 1997 by an average of 2.3% per year. General employees remained flat since last year and police and fire employees increased 5.3%. Mr. Conradi said that payroll for MERS employees active on June 30, 2007 increased 6.0%, from $281.3 million to $298.2 million. He said the increase represents a 4.4% for general employees and an 11.8% for police and fire. Mr. Conradi said that average pay increased 4.3% for general employees and 6.2% for police and fire.

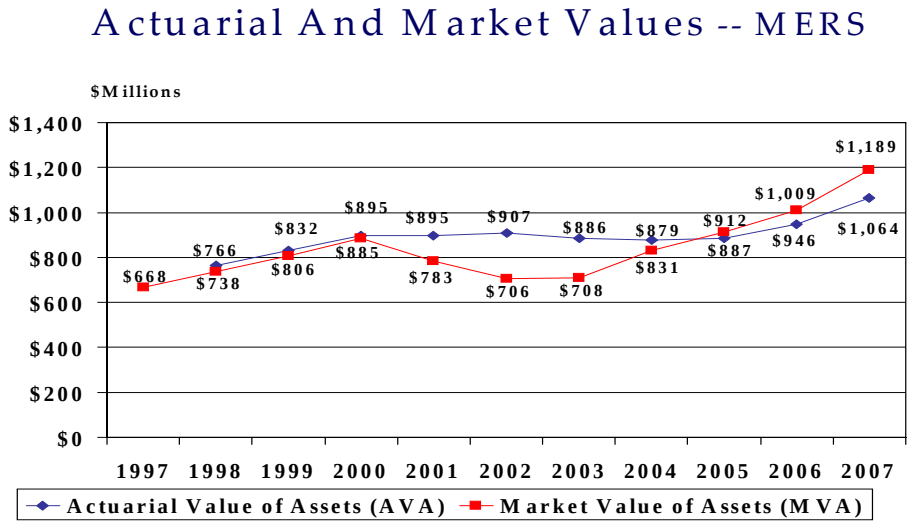
Next, Mr. Conradi discussed the annuitants. He told the Board that the number of MERS annuitants increased by 123, from 4,007 to 4,130 which is a 3.1% increase. He said the number includes service retirees, disabled retirees, and beneficiaries receiving benefits. Mr. Conradi apprised the Board that about 10% of MERS annuitants are from police and fire units and the average annual benefit for a MERS annuitant is $12,676. He also told the Board that there are 2.0 active MERS employees for each annuitant and the ratio was 2.1 ten years ago.

Mr. Newton then discussed the assets of the MERS system. He told the Board that the fair market value in total for all ERSRI plans, increased from $7.33 billion to $8.51 billion for the period ending June 30, 2007. The market value for MERS (all units) is $1,189.0 million, compared to $1,008.9 million last year. Mr. Newton apprised the Board that the return on market was approximately 18.3% in FY 2007; it was 11.7% in FY 2006. Mr. Newton said the average return for last ten years was 7.4%, net of all investment and administrative expenses. He said the net external cash flow, i.e. contributions less benefit payments and refunds, was -0.4% of the June 30, 2007 market value.

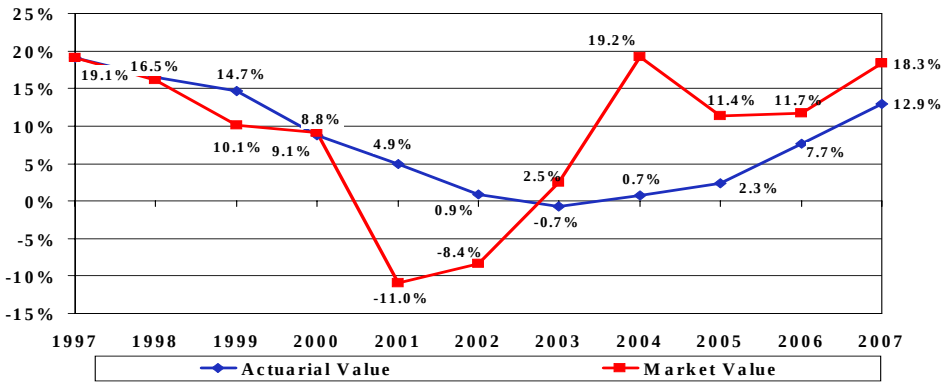
Mr. Newton then reviewed the actuarial asset value with the Board. He said all actuarial calculations are based on actuarial value of assets, not market value and the actuarial value reflects 20% of the difference between FY 2007 expected return on market and the actual return, 40% of FY 2006 difference, 60% of FY 2005 difference and 80% of FY 2004 difference. Mr. Newton told the Board that actuarial value is used in order to

produce smoother, more consistent contribution rates from year to year. He said the total actuarial value is now $1,063.7 million for MERS (all units) compared to $945.9 last year and the actuarial return was 12.9% in FY 2007. Mr. Newton said the actuarial value is 89.5% of the fair market value, with $125 million in deferred gains in reserve.

Mr. Newton then provided the Board with the following graph that gave a history of actuarial versus market value of assets since 1997:



Mr. Newton then provided the Board with the following chart that gave the estimated yield based on actuarial and market values of assets:



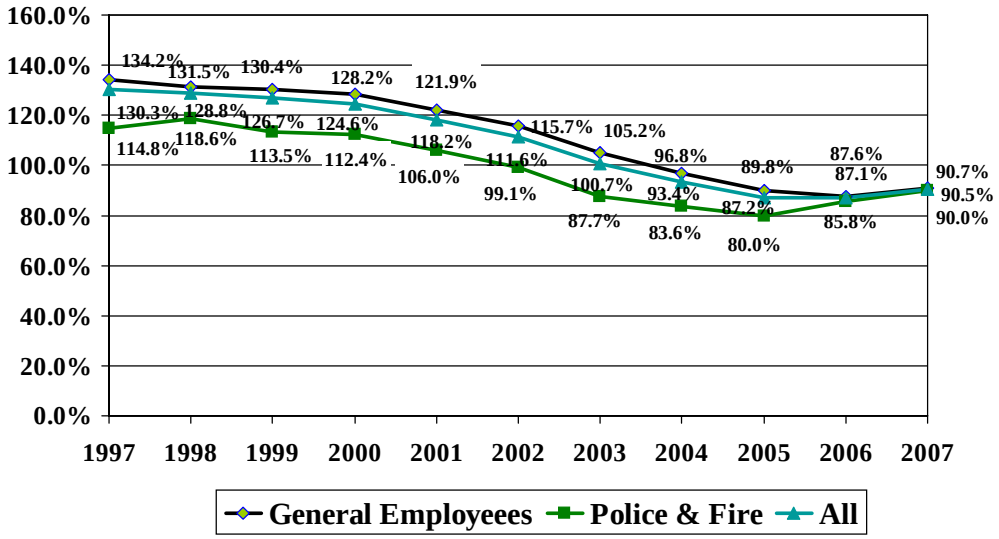
6.7% average compound return on actuarial value over last 10 years
7.4% average compound return on market value over last 10 years

Mr. Newton then discussed the actuarial results. He told the Board that for MERS, the unfunded actuarial accrued liability (UAAL) for all units combined was $111 million compared to $140 million last year. He said the aggregate funded ratio (actuarial assets divided by actuarial accrued liability) for all units combined increased from 87.1% to 90.5%. Mr. Newton apprised the Board that results for individual units are shown on

Table 7 of valuation report that was included in their books. He noted that 38 units have funded ratios over 100%.

Mr. Newton provided the Board with the following chart showing funded ratio's since 1997:

GASB #25 Funded Ratios -- MERS



Mr. Newton summarized the MERS rates by providing the Board the following table:

MERS: Rate Analysis By Unit

Number of Units		General		Police/Fire
1. No change		6		2
2. New units		0		0
3. Rate decreases		47		32
4. Rate increases		14		9
5. Total		67		43
6. Units with no required employer contributions		8		2

Mr. Conradi concluded the presentation by apprising the Board of the following issues.

- Tiogue Fire and Lightning has no active employees, but has assets and has liabilities for one inactive member. The value of assets exceeds the value of liabilities, so no contributions are due.
- Scituate Police has no active employees, but has assets and has liabilities for one annuitant and one inactive member. The value of assets is greater than the value of liabilities, so no contributions are due.
- Albion Fire Administration has one active member in their valuation, but one member subsequently terminated during FY 2008. The liabilities exceed plan assets, so Albion will need to make a special contribution to amortize the UAAL.
- Smithfield Police added new members who were previously covered in another plan. However, they did not report the amount of prior service until recently. Therefore, the numbers shown in the report will need to be revised.

Treasurer Caprio thanked Messer's Conradi and Newton for their presentation. Then on a motion by M. Carl Heintzelman and seconded by Frank R. Benell Jr., it was unanimously

VOTED: To accept the MERS contribution rates for fiscal year 2010 by Gabriel, Roeder, Smith and Company as presented subject to the revision of the Smithfield Police.

VI. Approval of the June Pensions as Presented by ERSRI

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

VOTED: To approve the June pensions as presented.

VII. Legal Counsel Report

Attorney Michael Robinson informed the Board that the matter of Alan Barth had returned to Superior Court where a briefing schedule has been entered and where arguments will take place within approximately 60 days. He also apprised the Board of the matter of Lillian Rivera which is also in Superior Court. Attorney Robinson told the Board that he will be preparing an answer and a designation of the administrative record in this matter.

Attorney Robinson then addressed an issue which he recommended the Board convene into executive session pursuant to Rhode Island General Laws §42-46-5 (a)(2) to discuss potential litigation. Treasurer Caprio agreed and recommended the session be deferred to the end of the meeting to accommodate the administrative hearing.

VIII. Administrative Decisions

Disability Appeals

Ann Krajewski vs. ERSRI

Included in Board Members' Books was the decision, exhibits and supporting information for the matter of *Ann Krajewski vs. ERSRI*. Attorney Robinson then provided a synopsis of the matter. He apprised the Board that Ms. Krajewski was being represented by Attorney Jeffrey D. Sowa. There being a stenographer present, the parties presented their cases.

At the conclusion of the hearing, a motion was made by Frank R. Benell Jr. and seconded by Gary R. Alger to uphold the decision of the Disability Subcommittee denying Ms. Krajewski's application for accidental disability benefits. A roll call was taken and it was then unanimously

VOTED: To uphold the decision of the Disability Subcommittee denying Ann Krajweski's application for accidental disability benefits.

John P. Maguire recused himself from the matter.

IX. Committee Reports

The Disability Subcommittee recommended the following actions on disability applications as a result of its July 2, 2008 meeting for approval by the full Board.

Name	Membership Group	Type	Action
1. Alfred Delfino	State	Accidental	Approve
2. Mark Garcia	State	Accidental	Deny
3. Diane Iannelli	State	Accidental	Table
4. Laurie Moriarty	State	Accidental	Approve
5. Randy Padula	State	Accidental	Table
6. Brian McElroy	Teacher	Accidental	Deny
7. Mary Ellen Malone	Teacher	Accidental	Table
8. Judith Guillet	Municipal	Ordinary	Approve
9. Denise Martino	Teacher	Ordinary	Deny
10. Catherine Langlois	State	Ordinary	Approve
11. Brian Castro	State	Accidental	Table
12. Theodore DeWolf	State	Accidental	Table
13. Everett McCain	Municipal	Accidental	Table

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 Wednesday, July 2, 2008 on items 1, 2, 5, and 12.

John J. Meehan recused himself from items 1, 2, 5 and 12.

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 Wednesday, July 2, 2008 on items 6, 7 and 9.

John P. Maguire recused himself from items 6, 7 and 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 Wednesday, July 2, 2008 on items 3, 4, 8, 10, 11, and 13.

X. Executive Session

As requested during the legal report, a motion was made by William B. Finelli and seconded by Gary R. Alger to convene into executive session consistent with RIGL §42-46-5 (a)(2) of the Rhode Island General Laws to discuss potential litigation.

A roll call was taken. The following members voted Yea: Gary R. Alger; 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; Susan K. Rodriguez and Jean Rondeau. It was then unanimously

VOTED: To convene into executive session consistent with RIGL §42-46-5 (a) (2) to discuss potential litigation.

At the conclusion of the executive session, a motion was made by William B. Finelli and seconded by Frank R. Benell, Jr., to return to open session. A roll call was taken. The following members voted Yea: Gary R. Alger; 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; Susan K. Rodriguez and Jean Rondeau. It was then unanimously

VOTED: To exit executive session and return to open session.

Attorney Michael Robinson noted for the record that a vote was taken in executive session, the substance of which is not subject to disclosure pursuant to RIGL §42-46-4 and §42-46-5(a)(2).

A motion was then made by Louis M. Prata and seconded by Frank R. Benell, Jr., and Michael R. Boyce to seal the minutes of the executive session.

A roll call was taken. The following members voted Yea: Gary R. Alger; 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; Susan K. Rodriguez and Jean Rondeau. It was then unanimously

VOTED: To seal the minutes of the executive session.

XI. New Business

Treasurer Caprio indicated that the Board would not meet in August unless a meeting is necessary. On a motion by John P. Maguire and seconded by M. Carl Heintzelman, it was unanimously

VOTED: That there be no August 2008 meeting of the Retirement Board but with the ability to call one if necessary.

XII. Adjournment

There being no other business to come before the Board, on a motion by Rosemary Booth-Gallogly and seconded by Jean Rondeau, the meeting adjourned at 11:17 a.m.

Respectfully submitted,

Frank J. Karpinski

Executive Director