Employees' Retirement Board of Rhode Island
Monthly Meeting Minutes
Wednesday, December 10, 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, December 10, 2008 in the 8th Floor Conference Room, 40 Fountain Street, Providence, RI.

I. Roll Call of Members

The following members were present at roll call: General Treasurer Frank T. Caprio; William B. Finelli; Gary R. Alger; Frank R. Benell, Jr.; Michael R. Boyce; M. Carl Heintzelman; John P. Maguire; John J. Meehan; Louis M. Prata; Susan K. Rodriguez and Jean Rondeau. Rosemary Booth-Gallogly arrived at 11:05 a.m.

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.

II. Approval of Minutes

On a motion by Gary R. Alger and seconded by Frank R. Benell, Jr. and M. Carl Heintzelman, it was unanimously

VOTED: To approve the draft minutes of the November 12, 2008 meeting of the Employees' Retirement System of Rhode Island Board.

III. Chairman's Report

Treasurer Caprio apprised the Board that the system actuary Gabriel, Roeder, Smith and Company (GRS) will be providing a report to the Board on the impact of events after the June 30, 2007 valuation date. He said the report will address the impact on the employer contribution rate.

The Treasurer then discussed the investment portfolio. He stated that ERSRI's investment guidelines do not provide levered types of investments. The portfolio has always invested directly in equities and bonds, which has eliminated the need to sell investments for liquidity. Treasurer Caprio said that ERSRI is positioned in an asset allocation strategy that will capture returns once the market begins to recover.

Treasurer Caprio went on to address the concerns that ERSRI's members have expressed due to the current volatile market conditions. He told the Board that he asked GRS to prepare an analysis to help reassure retirees about their benefits in light of the current market conditions.

The projection was based on the portfolio returning 0%, the members would continue to contribute the same percentage of earnings, and employers would continue to contribute the same range of funds. The results indicated that at 2037, the portfolio still would be valued at approximately $2.5 billion. Treasurer Caprio pointed out that the analysis affirmed that the portfolio is capable of withstanding a downturn if market conditions continue to deteriorate for an extended period of time.

IV. Executive Director's Report

Director Karpinski went over several pieces of documentation that were distributed to the Board. He announced that the Procurement Subcommittee will meet December 19th to review bids received for the Information Technology Consultant. There being no questions from the Board, Director Karpinski moved on to Administrative Decisions.

V. Administrative Decisions

Barry Holland vs. ERSRI

Included in the Board Member's Books was the decision, exhibits, and supporting information for the matter of *Barry Holland vs. 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 Robinson apprised the Board that Mr. Holland was not present for the hearing but was being represented by his Attorney, Michael St. Pierre, Esq. He then provided a synopsis of the *Barry Holland* matter. He said Mr. Holland is appealing the October 29, 2007 decision by ERSRI to offset the sum of $28,760 representing a settlement Mr. Holland received from the Town of South Kingstown with respect to his workers' compensation issues. 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 Jean Rondeau to affirm the decision of the hearing officer. A roll call was taken. The following members voted Yea: General Treasurer Frank T. Caprio; William B. Finelli; Frank R. Benell Jr.; M. Carl Heintzelman; John P. Maguire; Louis M. Prata; Susan K. Rodriguez and Jean Rondeau. The following members voted Nay: Gary R. Alger; Michael R. Boyce and John J. Meehan

There being 11 votes cast, 8 voted in the affirmative and 3 nay, consistent with Rhode General Laws §36-8-6, *Votes of the Board – Record of Proceedings*, there being a majority vote of the members present and voting at which a quorum is present, it was then

VOTED: To affirm the decision of the hearing officer in the matter of *Barry Holland vs. ERSRI* by allowing ERSRI to offset his benefit by amounts received with respect to his workers' compensation claim.

Kathleen Mellor vs. ERSRI

Included in the Board Member's Books was the decision, exhibits, and supporting information for the matter of *Kathleen Mellor vs. 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 Robinson apprised the Board that Ms. Mellor was being represented by Attorney Edmund Alves, Jr. He then provided a synopsis of the *Kathleen Mellor* matter. Ms. Mellor sought to purchase service credits from November 1980 through April 1985 for the time she was employed as an ESL teacher by the International Institute of Rhode Island ("IIRI"). The Retirement System informed Ms. Mellor that services rendered in a capacity which did not closely approximate teaching in a public school setting could not be purchased. 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 affirm the decision of the hearing officer. A roll call was taken. The following members voted Yea: General Treasurer Frank T. Caprio; Gary R. Alger; Frank R. Benell, Jr.; John P. Maguire; Susan K. Rodriguez and Jean Rondeau. The following members voted Nay; William B. Finelli; Michael R. Boyce; M. Carl Heintzelman; John J. Meehan; and Louis M. Prata.

There being 11 votes cast, 6 voted in the affirmative and 5 nay, consistent with Rhode General Laws §36-8-6, *Votes of the Board – Record of Proceedings,* there being a majority vote of the members present and voting at which a quorum is present, it was then:

VOTED: To affirm the decision of the hearing officer in the matter of *Kathleen Mellor vs. ERSRI* denying her the ability to purchase service credit for her time at the International Institute of Rhode Island.

VI. Approval of the November Pensions as Presented by ERSRI

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

VOTED: To approve the November pensions as presented.

VII. Analysis of the Impact of Article 4 Retirements on the ERS Plan by Gabriel, Roeder, Smith, and Company

Treasurer Caprio introduced Messrs. Chris Conradi and Mark Randall of Gabriel, Roeder, Smith, and Company (GRS) to present the analysis of the impact of events after the June 30, 2007 valuation.

Mr. Conradi began the presentation by reminding the Board that GRS prepares an actuarial valuation report each year as of June 30, the last day of the fiscal year. He said the last valuation report was prepared as of June 30, 2007. The valuation is used to set employer contribution rates for the year beginning two years later.

For example, the June 30, 2007 actuarial valuation is used to determine the contribution rate for fiscal year 2010, the fiscal year beginning July 1, 2009.

Mr. Conradi told the Board that as a rule, events that occur after one valuation date will be reflected in the following year's actuarial valuation. The impact of any post-valuation date event will eventually be recognized in the contribution rates at some later time. However, Mr. Conradi said the decision of whether or not to reflect a post-valuation date event is one that requires actuarial judgment. He referred to *Actuarial Standard of Practice No. 4 (ASOP 4)* which permits, but does not generally require, recognition of events that have occurred after the valuation date.

Mr. Conradi apprised the Board that in some cases, it is typical to reflect events that occur after the valuation date and prior to the relevant reporting or contribution date. Often, he said if the benefit provisions are modified between the valuation date and the date the associated contribution rate goes into effect, the contribution rate will be modified. For example, when *Article 7, Substitute A* was enacted in 2005, GRS reflected the changes by restating the results of the June 30, 2003 and June 30, 2004 actuarial valuations and modifying the employer contribution rates for both fiscal year 2006 and fiscal year 2007.

Mr. Conradi apprised the Board of several things that have happened since June 30, 2007 that might be candidates for retroactive recognition:

- The State of Rhode Island has downsized its workforce. As of June 30, 2008, the number of state employees active in the Employees Retirement System of Rhode Island had decreased by about 5%, from 12,572 to 11,970, and has fallen further since then as a result of the next item.
- In 2008, Article 4 of the State's budget enacted in the summer of 2008 included significant changes to the post-retirement medical benefits for state employees. These changes were effective as of October 1, 2008. However, anyone who was already retired before that date got to keep the prior set of benefits. As a result, many state employees who were eligible for retirement retired before October 1, 2008, in order to retain eligibility for the pre-Article 4 benefits. In addition to those who were provided as annuitants as of June 30, 2008, there were another 1,166 members who retired before October 1.
- The retirement trust earned about -6% in fiscal year 2008. However, because of the five-year smoothing in the actuarial value of assets, there is a $59.4 million actuarial gain as of June 30, 2008 for State Employees. The impact of the -6% return is phased in slowly over the five valuations from June 30 2008 through June 30, 2012, with prior gains from fiscal year 2007 and earlier offsetting part of this loss.
- The trust has had significant losses since the beginning of the current fiscal year. GRS told the Board that they have not been given information about the ERSRI losses, but it is clear from the news about the markets in general that almost all pension trust funds have had significant losses this year. Based on conversations with various clients and investment consultants, returns for typical pension funds are in the -20% to -30% range since June 30.

Mr. Conradi said he has considered each of the events above and their effect on the retirement system.

He said GRS recommends modifying the employer contribution rate for fiscal year 2010 (beginning July 1, 2009) for the impact of the payroll effects from the first two events above. GRS does not recommend early recognition of the losses from the plan assets.

Mr. Conradi told the Board his rationale for not adjusting the contribution rate in fiscal year 2010 for the fiscal year 2008 and fiscal year 2009 year-to-date asset losses is that these are similar in kind to the annual gains and losses that occur in the market value each year. He said for example, GRS did not adjust contribution rates to reflect post valuation gains during the boom years of the late 1990s or for the losses during the market downturn at the beginning of the decade. Further, the use of an actuarial value of assets, with the losses brought in 20% per year over a five year period, leaves room for part of the losses to be offset by future gains.

Mr. Conradi also told the Board that he sees no reason to reflect the actuarial loss from the Article 4 retirements at this time. Many of the members who retired between June and September would have continued in service had they not been pressured by the Article 4 changes. He said because they retired earlier than expected, their retirement benefits are lower than expected (less service and smaller Final Average Compensation) but they will receive their benefit sooner and for a longer period of time. The net effect in most cases is an actuarial loss. However, Mr. Conradi said this loss is not large enough to warrant accelerating the funding.

However, Mr. Conradi said GRS's view about the decline in active membership and payroll is different. In the actuarial valuation, Mr. Conradi said he determines the employer contribution rate by adding (a) the employer normal cost, and (b) the amortization of the unfunded actuarial accrued liability (UAAL). The latter component of the contribution rate is first determined as a dollar amount, and then converted to a percent of payroll based on his expectation of the amount of future payroll. When payroll suddenly declines, as it has for state employees since June 30, 2007, he said the scheduled contribution rate will not produce the expected amortization payments. This shortfall in payments becomes an unexpected actuarial loss which must be funded in the future. Mr. Conradi said the reductions in force and the Article 4 retirements produce significant payroll savings to the State. However, he said GRS does not believe it is appropriate for the State to claim additional savings because it does not have to pay the ERSRI employer contributions for these now retired or terminated members. Mr. Conradi then said the employer contribution rate should be increased to produce the expected amortization contribution, expressed in dollar terms

Based on information supplied by the System, Mr. Conradi estimated that the current annualized payroll for active members is about $566.4 million, and he estimates that payroll for fiscal year 2009 will be $587.5 million. He told the Board this is considerably less than the $688.1 payroll for fiscal year 2009 that was anticipated in the June 30, 2007 actuarial valuation. For fiscal year 2010, Mr. Conradi said he anticipates a payroll of $590.5 million, this compares with the $717.3 million payroll projected for fiscal year 2010 in the June 30, 2007 valuation. Mr. Conradi apprised the Board that this means the expected payroll for fiscal year 2010 will be 18% less than originally anticipated.

Based on the June 30, 2006 actuarial valuation, the employer contribution rate for fiscal year 2009 is 21.13%. Mr. Conradi told the Board that the employer normal cost rate is 1.64% which leaves 19.49% for amortization of the UAAL.

Based on the $688.1 million he anticipated for the fiscal year 2009 payroll, he had anticipated receiving $134.1 million in amortization contributions. Mr. Conradi said if his estimates are correct that the fiscal year 2009 payroll will be $587.5 million, the system will receive only $114.5 million, a shortfall of $19.6 million. When accumulated at 8.25% interest for one-half of a year, Mr. Conradi said the shortfall becomes $20.4 million. He said this amount should be recovered by amortizing the loss over the remaining amortization period beginning in fiscal year 2010. Therefore, Mr. Conradi apprised the Board that he will need to reset the amortization rate for fiscal year 2010 to (i) add the estimated $20.4 million shortfall in amortization contributions for fiscal year 2009 to the expected UAAL, and (ii) to adjust the rate for the difference between the originally expected payroll of $717.3 million and his revised estimate of $590.5 million. He told the Board that doing this increases the employer contribution rate for fiscal year 2010 from 20.69% to 25.03%. He said it appears to be a huge increase, but produces expected contributions in fiscal year 2010 of $147.8 million, or slightly less than the $148.4 million expected in the June 30, 2007 actuarial valuation report.

Mr. Conradi told the Board that the small reduction in the dollar amount of the expected contributions is due to the net of (a) smaller employer normal cost payments due to the smaller population, and (b) the amortization of the $20.4 million shortfall for fiscal year 2009. In addition, he said the State will be relieved of the additional $0.6 million appropriation that was going to be required under RIGL §36-10-2(g) because of the reduction in the employer contribution rate between fiscal year 2009 and fiscal year 2010.

Mr. Conradi apprised the Board that because Article 4 had little or no impact on the Teachers in ERSRI or on any of the other statewide plans i.e. MERS, State Police or Judges; he is not recommending any change to the contribution rates for these groups for fiscal year 2010.

Finally, Mr. Randall told the Board that GRS has considered the possibility that they have overstated the reduction in payroll, because they have not anticipated that any of the positions opened up by the Article 4 retirements will be refilled. He told the Board that GRS concedes this is a possibility. However, Mr. Randall said given the fact that GRS has not reflected the actuarial loss from the Article 4 retirements, and given the specter of large asset losses, he said GRS would prefer to be conservative at this time, rather than trying to estimate the effect of possible replacement hires.

Treasurer Caprio thanked Messrs. Conradi and Randall 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 adjusted employer contribution rate of 25.03%, for state employees, for the Fiscal Year 2010 as presented by Gabriel, Roeder, Smith And Company.

VIII. Legal Counsel Report

Attorney Michael Robinson updated the Board regarding the matter of Brian Castro, which did not appear in the Board Book. Mr. Castro is a disability applicant with a long history of failing to appear before the Disability Subcommittee.

Attorney Robinson said Mr. Castro was given a number of warnings that his continued absence may result in the denial of his claim. After a final failure to appear, he was subsequently issued a letter from the Disability Subcommittee stating that he was in default, and his case would not be considered any further. The Board confirmed the Subcommittee's recommendation and he was given a final notice of administrative decision. Mr. Castro then filed an action, beyond the thirty day appeal period, in Superior Court.

IX. Committee Reports

Disability Subcommittee: The Disability Subcommittee recommended the following actions on disability applications as a result of its December 5, 2008 meeting for approval by the full Board.

	Name	Membership Group	Type	Action
1.	Eugene Matera	State	Accidental	Table
2.	John LaPlume	State	Accidental	Table
3.	Mildred Grieve	Municipal	Accidental	Table
4.	Janice Connelly	State	Accidental	Table
5.	John Villari	State	Accidental	Table
6.	John Vendettoli	State	Accidental	Approve
7.	Cheryl Benedetti	Teacher	Ordinary	Approve
8.	Lawrence Costellese	Municipal	Ordinary	Approve
9.	Douglas Randall	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 Friday, December 5, 2008 on item 2

John J. Meehan recused himself from item 2.

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, December 5, 2008 on item 7.

John P. Maguire recused himself from item 7.

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, December 5, 2008 on item 8.

Louis M. Prata recused himself from item 8.

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, December 5, 2008 on items 1,3,4,5,6 and 9.

X. Executive Session

A motion was made by John P. Maguire and seconded by Frank R. Benell, Jr., to convene into executive session consistent with RIGL §42-46-5 (a)(3) of the Rhode Island General Laws to discuss matters regarding security, including, but not limited to, the deployment of security personnel or devices.

A roll call was taken. The following members voted Yea: General Treasurer Frank T. Caprio; William B. Finelli; Gary R. Alger; Frank R. Benell, Jr.; Michael R. Boyce; 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) (3) to discuss matters regarding security, including, but not limited to, the deployment of security personnel or devices.

Rosemary Booth Gallogly arrived into executive session after the roll call was taken.

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: General Treasurer Frank T. Caprio; William B. Finelli; Gary R. Alger; Frank R. Benell, Jr.; Rosemary Booth-Gallogly; Michael R. Boyce; 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 the Board convened into executive session pursuant to RIGL §42-46-5(a) (3) regarding security issues and also noted that no vote was taken in executive session.

A motion was then made by Jean Rondeau and seconded by Frank R. Benell, Jr., to seal the minutes of the executive session.

A roll call was taken. The following members voted Yea: General Treasurer Frank T. Caprio; William B. Finelli; Gary R. Alger; Frank R. Benell, Jr.; Rosemary Booth-Gallogly; Michael R. Boyce; 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

(None this Month)

XII. Adjournment

There being no other business to come before the Board, on a motion by Frank R. Benell, Jr. and seconded by William B. Finelli, the meeting adjourned at 11:50 a.m.

Respectfully submitted,

Frank J. Karpinski
Executive Director