



Employees' Retirement Board of Rhode Island
Monthly Meeting Minutes
Wednesday, September 8, 2010
9:00 a.m.
8th Floor Conference Room, 40 Fountain Street

The Monthly Meeting of the Retirement Board was called to order at 9:00 a.m., Wednesday, September 8, 2010 in the 8th Floor Conference Room, 40 Fountain Street, Providence, RI.

I. Roll Call of Members

The following members were present at roll call: Chief of Staff Mark Dingley designee for General Treasurer Frank T. Caprio; Vice Chairman William B. Finelli; Daniel L. Beardsley; Frank R. Benell, Jr.; Michael R. Boyce; M. Carl Heintzelman; John P. Maguire; John J. Meehan; Thomas A. Mullaney; Louis M. Prata; Linda C. Riendeau; Susan Knorr Rodriguez and Jean Rondeau. Gary R. Alger and Roger P. Boudreau arrived at 9:08 a.m.

Also in attendance: Frank J. Karpinski, ERSRI Executive Director; Attorney Randall Souza Board Counsel for Michael P. Robinson until Attorney Robinson's arrival at 9:20 a.m.

Recognizing a quorum, Vice Chairman Finelli called the meeting to order.

II. Approval of Minutes

On a motion by Frank R. Benell, Jr. and seconded by Linda C. Riendeau, it was unanimously

VOTED: To approve the draft minutes of the July 14, 2010 meeting of the Employees' Retirement System of Rhode Island Board.

III. Chairman's Report

(None)

IV. Executive Director's Report

Director Karpinski apprised the Board of the recent security changes made to the Anchor system which caused some minor system access issues requiring additional attention by Staff and HP (ERSRI's IT consultant.) Due to the efforts involved, he said it will delay the hard copy mailing of the Newsletter, and other enhancements to the ERSRI web site. The Director told the Board the security changes were now complete.

The Director went on to discuss H8063 which created a fund outside of the trust to collect employer contributions. The fund was created to permit the legislature to collect savings from any changes as a result of pension reform in the current year. He said that the fund has now been reconciled for required pension contributions and the balance remaining in the fund will be handled by the Department of Administration.

Director Karpinski told the Board that the Teacher's Survivor Benefit Valuation, performed by Gabriel, Roeder, Smith and Company (GRS) will be presented at the October Retirement Board meeting. He added that preliminary analysis shows the plan continues to be over funded and there will not be a change in the contribution rate.

Director Karpinski apprised the Board that the Government Accounting Standards Board (GASB) is considering major changes to pension accounting standards for State and Local governments. He noted the biggest changes will be to the Balance sheet, decoupling of accounting from funding and financial statement volatility – both income statement and balance sheet.

Regarding Balance sheet changes, Director Karpinski told the Board that the proposal would require the entire unfunded actuarial accrued liability to be on the balance sheet. Additionally, there would be no more Annual Required Contribution (ARC) thus, contribution shortfalls would no longer be reported on the balance sheet. He said loss of the balance sheet NPO (the net pension obligation) leaves no accountability for short term funding responsibilities. The Director pointed out that one of the fundamental purposes of financial statements is to provide information to hold public officials accountable for their management of the government's obligations.

Director Karpinski then discussed the second change which is the decoupling of accounting from funding. He said currently, accounting standards prescribe generally reasonable funding parameters in the ARC. He told the Board that GASB's accounting standards in the past became a de facto national funding benchmark, other than the entry age normal actuarial cost method, nothing else in the new expensing rules resembles any rational funding policy. The Director said that the new accounting rules will require a renewed focus by retirement systems to adopt and enforce a rational funding policy.

Lastly, Director Karpinski discussed the financial statement volatility. He said there would be volatility in balance sheet liability due to the use of market value of assets (MVA) instead of a smoothed value which would be worsened by the sheer magnitude of the pension fund assets compared to other assets and liabilities of the government. For an example, he discussed the employer's expense (statement of activity), he said there is a 15% of MVA corridor which would mean ERSRI would have to maintain a record of the cumulative annual deviations of actual investment returns from expected returns; if the cumulative balance is less than 15% of the MVA as of the employer's fiscal year end, no expense is recognized that year. Any portion of the balance in excess of 15% of the MVA as of the employer's fiscal year end is immediately recognized as an expense item (either positive or negative). Director Karpinski said that this amounts to "infinite smoothing" within a 15% corridor and then no smoothing outside that corridor.

Director Karpinski concluded his comments by talking about the detrimental effects on attitudes about public pension plans i.e. what will be the true cost? A discussion ensued among the Board members, and Director Karpinski closed by assuring the members he will monitor the proposed changes and keep them informed.

The Director thanked the Rules and Regulations Subcommittee members for their recent diligence and hard work on Regulations 1, 4 and 9. He then explained that the staff has determined there are twenty six types of optional service credit purchases that can be reduced to fifteen regulations. He told the Board he would supply this information to the subcommittee members next week for their review. The subcommittee members previously asked the Executive Director to communicate with the appropriate employer and union representatives concerning their interpretation of the definition of Police Officer and Firefighter as it pertains to RIGL Title 45, Chapter 21. Director Karpinski said he has received the information which will also be presented to the subcommittee for review.

- **Fiscal Year 2012 Proposed Budget Presentation**

Director Karpinski introduced Mr. Zachary Saul, the Assistant Director for Finance, to present the Board with the proposed fiscal year 2012 budget.

Mr. Saul began his presentation discussing the relevant laws and regulations for the Board regarding approval of a budget. He said RIGL. §36-8-3 provides the Board with responsibility for the proper operation of the retirement system. In conjunction with §36-8-3, Mr. Saul said *Regulation 1 (A) 5 (10) Board Authority and Duties* requires the Board to approve a yearly budget. He reminded the Board that the ERSRI budget is part of the overall Treasury budget.

Mr. Saul discussed some funding and budgeting principles. He summarized RIGL § 36-8-20 which states that funds of the trust are for the exclusive benefit of members and beneficiaries. He then discussed RIGL § 36-8-10.1 which defines a restricted receipt account used solely to pay the expenses of the retirement board, the cost of maintaining the retirement system, and the costs of administering the retirement system. Mr. Saul told the Board the law provides that seventeen and one-half (17.5) basis points (0.175%) of the average total investments before lending activities as reported in the annual report of the auditor general for the next preceding five fiscal years determine the budget cap. He provided the Board with an analysis of prior year expenditures versus budget caps.

Mr. Saul stated that the primary budget changes are a result of the following: on-going upgrades to the ANCHOR System and design and implementation of a new system; increase in legal costs which may be incurred as a result of pension reform due to Article 7; savings in occupancy costs associated with the relocation to 55 Service Avenue in Warwick and RIGL §36-10-39 which provides the General Assembly the authority to request actuarial studies at ERSRI's expense.

Mr. Saul reviewed the fiscal year 2012 proposed budget by category and a discussion ensued with the Board members regarding costs and expenses. Mr. Saul concluded by telling the Board that the proposed \$12,605,252 budget may change before it becomes final. He reminded the Board that the legislature ultimately determines the final budget.

On a motion by Daniel L. Beardsley and seconded by Roger P. Boudreau, it was unanimously

VOTED: To accept the proposed \$12,605,252 budget for fiscal year 2012 as presented.

V. Administrative Decisions

Disability Appeal – Albert Turcotte vs. ERSRI

Included in Board Member's Books, under separate cover, was the Findings of Fact as concluded by the Disability Subcommittee, transcripts from the appeal to the Disability Subcommittee, medical and supporting information for the matter of *Albert Turcotte vs. ERSRI*.

Vice Chairman Finelli asked if consistent with Regulation Number 4, Rules of Practice and Procedure for Hearings, there were any written briefs, legal memoranda, or exceptions to the decision of the Disability Subcommittee which must have been submitted to the Executive Director not later than 10 days prior to the hearing. Director Karpinski apprised the Board that there was additional information provided and it is included in each member's book.

Vice Chairman Finelli said that pursuant to ERSRI's regulations, each party to the proceeding has the right to appear and to make oral arguments before the Retirement Board. He apprised the appellant that this is not an opportunity to present new factual material or evidence to the Board. He said the Board affords deference to the conclusions of its Disability Subcommittee on factual determinations and questions of credibility, and will not overturn those determinations and assessments unless they are found to be clearly wrong.

Vice Chairman Finelli asked the appellant if they intended to make any presentation or oral argument to the Board. Attorney Joseph E. Rothemich, Jr., representing Mr. Turcotte, told the Board his client would not be presenting oral argument or presentation and thus would not need to be sworn in. Attorney Robinson then provided a synopsis of the *Albert Turcotte* matter.

At the conclusion of the discussion, a motion was made by Daniel L. Beardsley and seconded by Jean Rondeau to affirm the decision of the Disability Subcommittee denying the application for disability benefits. A roll call was taken. The following members voted Yea: Mark Dingley designee for General Treasurer Frank T. Caprio; Gary R. Alger; Daniel L. Beardsley; Frank R. Benell, Jr.; M. Carl Heintzelman; Thomas A. Mullaney; Susan Knorr Rodriguez; and Jean Rondeau. The following members voted nay: Vice Chairman Finelli; Roger P. Boudreau; Michael R. Boyce; John P. Maguire; John J. Meehan; Louis M. Prata; and Linda Riendeau.

There being 15 votes to cast, 8 voted in the affirmative, consistent with Rhode Island General Laws section 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 was present, it was unanimously

VOTED: To affirm the decision of the Disability Subcommittee denying the application for disability benefits in the matter of *Turcotte vs. ERSRI*.

Administrative Appeal - Carol Antonizio and Robin Ruzzo vs. ERSRI

Included in Board Members Books, was the Hearing Officer's written decision, along with exhibits and supporting information in the matter of *Antonizio and Ruzzo vs. ERSRI*. Vice Chairman Finelli asked if consistent with Regulation Number 4, Rules of Practice and Procedure for Hearings, there were any written briefs, legal memoranda, or

exceptions to the decision of the Hearing Officer which must have been submitted to the Executive Director not later than 10 days prior to the hearing. Director Karpinski apprised the Board that there are documents and they are included in the Board Member's books.

Vice Chairman Finelli then said that pursuant to ERSRI's regulations, each party to the proceeding has the right to appear and to make oral arguments before the Retirement Board. He apprised the appellant that it is not an opportunity to present new factual material to the Board and pursuant to ERSRI's regulations and Rhode Island case law, the Board owes deference to the Hearing Officer on factual determinations and questions of credibility, and cannot overturn the Hearing Officer on determinations of fact or credibility unless such determinations are found to be clearly wrong.

Vice Chairman Finelli asked the appellants if they intended to make any presentation or oral argument to the Board. Attorney Anthony F. DeMarco, representing Ms. Antonizio and Attorney Frank S. Lombardi, representing Ms. Ruzzo, told the Board their clients would not be presenting oral argument or presentation and thus would not need to be sworn in.

Attorney Robinson then provided a synopsis of the *Antonizio & Ruzzo* matter. He said the matter is here on appeal from the decision of Hearing Officer Rusbino. The Hearing Officer in this matter affirmed the Retirement System's administrative decision to deny their requests to purchase certain periods of time for service credit. There being a stenographer present, the parties presented their cases.

At the conclusion of the hearing a motion was made to postpone the matter of *Antonizio and Ruzzo*. On a motion by Roger P. Boudreau and seconded by Gary R. Alger, it was unanimously

VOTED: To postpone the matter of *Antonizio and Ruzzo vs. ERSRI* for 60 days pending receipt of information from the Department of Administration regarding the status of the appellants employment during the years in question.

Administrative Appeal – Richard Iverson vs. ERSRI

Included in Board Members Books, was the Hearing Officer's written decision, along with exhibits and supporting information in the matter of *Richard Iverson vs. ERSRI*. The Vice Chairman asked if consistent with Regulation Number 4, Rules of Practice and Procedure for Hearings, there were any written briefs, legal memoranda, or exceptions to the decision of the Hearing Officer which must have been submitted to the Executive Director not later than 10 days prior to the hearing. Director Karpinski apprised the Board that there were no additional documents.

Vice Chairman Finelli then said that pursuant to ERSRI's regulations, each party to the proceeding has the right to appear and to make oral arguments before the Retirement Board. He apprised the appellant that it is not an opportunity to present new factual material to the Board and pursuant to ERSRI's regulations and Rhode Island case law, the Board owes deference to the Hearing Officer on factual determinations and questions of credibility, and cannot overturn the Hearing Officer on determinations of fact or credibility unless such determinations are found to be clearly wrong. Vice Chairman Finelli asked the appellant to be sworn in.

Attorney Robinson then apprised the Board that Mr. Iverson was being appearing *pro se*. He then provided a synopsis of the *Richard Iverson* matter. He said Hearing Officer Rusbino overruled the Administration's position that Mr. Iverson was not eligible to purchase service credit for time served on the Scituate Town Council from 1983 to 1992. There being a stenographer present, the parties presented their cases.

At the conclusion of the hearing a motion was made by Roger P. Boudreau and seconded by Michael R. Boyce to uphold the decision of the hearing officer, which overruled the Administration's position. A roll call was taken. The following members voted Yea: Vice Chairman Finelli; Daniel L. Beardsley; Frank R. Benell, Jr.; Roger P. Boudreau; Michael R. Boyce; M. Carl Heintzelman; John J. Meehan; and Linda C. Riendeau. The following members voted Nay: Mark Dingley designee for General Treasurer Frank T. Caprio; John P. Maguire; Thomas A Mullaney; Susan Knorr Rodriguez and Jean Rondeau. Gary R. Alger and Louis M. Prata left the meeting prior to the vote.

There being 13 votes cast, 8 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 *Richard Iverson vs. ERSRI*, allowing him to purchase service credit for time served on the Scituate Town Council from 1983 to 1992.

VI. Approval of the July and August Pensions as Presented by ERSRI

On a motion by John P. Maguire and seconded by Roger P. Boudreau, it was unanimously

VOTED: To approve the July and August pensions as presented.

VII. Legal Counsel Report

Attorney Michael Robinson noted that there are currently five or six matters that have been filed and assigned to various Justices of the Superior Court. He told the Board he will keep them informed when any decisions are received.

VIII. Committee Report

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

August 6, 2010

Name	Membership Group	Type	Action
1. Shirley Kinsey	Teacher	Accidental	Approve
2. Rhonda Abbott Varrica	State	Accidental	Postpone

Name	Membership Group	Type	Action
3. James Peltier	Municipal	Accidental	Approve
4. William Kluth	Municipal	Accidental	Postpone
5. Martin Cappelli	Municipal	Accidental	Postpone
6. Edward Young	State	Accidental	Postpone
7. Nicholas Antonucci	State	Accidental	Deny
8. John Philliponi	State	Ordinary	Approve
9. Lori Lombardi	Teacher	Ordinary	Approve
10. Richard Fleming	State	Accidental	Postpone
11. Jerry Prete	State	Accidental	Case Update

On a motion by Michael R. Boyce and seconded by Roger P. Boudreau, it was

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, August 6, 2010 on item 6.

John J. Meehan recused himself from item 6.

On a motion by Michael R. Boyce and seconded by Roger P. Boudreau, it was

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, August 6, 2010 on item 1 and 9.

John P. Maguire recused himself from item 1 and 9.

On a motion by Michael R. Boyce and seconded by Roger P. Boudreau, it was

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, August 6, 2010 on item 2,3,4,5,7,8,10 and 11.

September 3, 2010

Name	Membership Group	Type	Action
1. John Wheeler	Municipal	Accidental	Approve
2. Phillip	State	Accidental	Postpone
3. Stephen Limoges, Sr.	State	Accidental	Postpone
4. Michael Almeida	State	Accidental	Postpone
5. Curtis Pollard	State	Accidental	Postpone
6. Louise Lovering	State	Accidental	Postpone
7. Constance Calcione	State	Accidental	Postpone
8. David Narcavage	State	Accidental	Deny

Name	Membership Group	Type	Action
9. Brian Gallagher	Municipal	Accidental	Postpone
10. Peter Ferraro	Teacher	Accidental	Deny
11. Susan Desrosiers	Teacher	Ordinary	Approve
12. Jennifer Shortall	Teacher	Ordinary	Approve

On a motion by Michael R. Boyce and seconded by Roger P. Boudreau, it was

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, September 3, 2010 on item 11 and 12.

John P. Maguire recused himself from item 11 and 12.

On a motion by Michael R. Boyce and seconded by Roger P. Boudreau, it was

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, September 3, 2010 on item 1,2,3,4,5,6,7,8,9 and 10.

IX. New Business

(None)

X. Adjournment

There being no other business to come before the Board, on a motion by Daniel L Beardsley and seconded by Michael R. Boyce, the meeting adjourned at 12:00 p.m.

Respectfully submitted,

Frank J. Karpinski

Executive Director