



**Employees' Retirement Board of Rhode Island**  
**Monthly Meeting Minutes**  
**Wednesday, July 13, 2011**  
**9:00 a.m.**  
**8<sup>th</sup> Floor Conference Room, 40 Fountain Street**

The Monthly Meeting of the Retirement Board was called to order at 9:00 a.m. Wednesday, July 13, 2011, on the 8<sup>th</sup> Floor Conference Room, 40 Fountain Street, Providence, RI.

**I. Roll Call of Members**

The following members were present at roll call: General Treasurer Gina M. Raimondo; Vice Chair William B. Finelli; Gary R. Alger; Frank R. Benell, Jr.; Roger P. Boudreau; Michael R. Boyce; M. Carl Heintzelman; John J. Meehan; Thomas A. Mullaney; Louis M. Prata and Jean Rondeau.

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

Daniel L. Beardsley and John P. Maguire were not present. Richard A. Licht arrived at 9:17 a.m. and Linda C. Riendeau arrived at 9:21 a.m.

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

**II. Approval of Minutes**

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

**VOTED: To approve the draft minutes of the June 8, 2011 meeting of the Employees' Retirement System of Rhode Island Board.**

**III. Chairperson's Report**

Treasurer Raimondo provided the Board with a brief investment update for closing the fiscal year. She said as of the end of May, fund performance was up about 19% net of fees and expenses with a value of \$7.6 billion. The Treasurer said the best estimates for the end of fiscal year (June 2011) is roughly a 20+% return. She said that current assets were up \$1 billion at \$7.5 billion from \$6.5 billion in June 2010 in comparison to the \$8.3 billion before the market crash.

Treasurer Raimondo then provided the Board with an update on the asset liability study recently completed by the State Investment Commission (SIC). The Treasurer said there is a need to look at further ways to reduce risk in the portfolio; she said it is important to take minimal risk to reach the 7.5% return especially with the volatility in the markets. The Treasurer suggested that Board members attend the next SIC meeting where the new asset allocation will be voted on.

Based on the review of investment performance, Mr. Boudreau asked what the impact will be on the current unfunded liability. The Treasurer said that since ERSRI utilizes a 5-year smoothing of the assets, individually, this year's return will not have a significant effect.

Treasurer Raimondo then introduced Messer's Michael Hanna and Boyd Foster of Sullivan & Company LLP to update the Board on the disability annual re-examination audit. She told the Board that in reviewing the administration of the retirement system, she observed an inconsistency in the way disability practices are managed. Consequently, Treasurer Raimondo engaged Sullivan & Company, ERSRI's internal auditor, to review the procedures and practices. The Treasurer said the report was provided to the Disability Subcommittee at the Friday July 8, 2011 meeting.

Mr. Hanna began the presentation by providing the Board with his and Mr. Boyd Foster's credentials as CPA's and certified fraud examiners.

Mr. Foster then discussed the three areas of their audit which included the procedures they performed, the methodology employed and areas of recommendation. Mr. Foster said his firm reviewed all annual reexamination documents for active disability beneficiaries, who are those currently collecting disability benefits but who have not reached service retirement age. He said ERSRI developed and provided a list of 559 individuals whose files were individually reviewed for evidence of annual reexamination documents. He provided the Board with the following statistics on the annual continuing statement of disability affidavits that were on file versus those files that were missing:

	2009	2008	2007	2006	2005	2004	2003	2002	2001
On File	82%	61%	60%	60%	0%	48%	0%	72%	39%
Missing	18%	39%	40%	40%	100%	52%	100%	28%	61%

Mr. Foster said that their general conclusion was that while the results improved in recent years, there was clearly a lack of formal policy and inconsistency within the years examined. Mr. Hanna said there was a strong need for improving the process. Messer's Hanna and Foster said they will be working with ERSRI's management on formalizing disability compliance procedures. Treasurer Raimondo thanked Messer's Hanna and Foster for their report and expressed her concern regarding the unfortunate inaccuracies. She also noted that this is an opportunity to correct the deficiencies.

Next, Treasurer Raimondo introduced Gayle C. Mambro-Martin, ERSRI's internal Legal Counsel/Policy Analyst to provide a presentation on post-retirement employment; she said that at a prior meeting Mr. Maguire inquired about post-retirement issues. Attorney Mambro-Martin discussed the laws governing post-retirement employment, ERSRI's communication of information to retirees and employers and provided various charts with information reported to ERSRI. Attorney Mambro-Martin focused her presentation on teachers and noncertified employees working in the school districts. She said teachers include nurse teachers and coaches, noncertified employees include paraprofessionals, teacher assistants, secretaries and custodians working in the school district. Attorney Mambro-Martin made reference to Rhode Island General Laws §36-10-36, §16-16-24 and §45-21-54, which govern the rules for teachers, state employees and municipal employees regarding post-retirement employment. She pointed out that tracking of post-retirement employment is imperative and mandatory

for both employer and employee. Additionally, she told the Board that consistent with IRS Code Section §401(a) relating to in-service distributions, a fundamental requirement of the Code is that a member must retire and terminate employment. Re-employment may begin thereafter no earlier than 30 days after retirement and there must be a clear separation from employment.

Regarding Teachers, Mr. Boudreau asked if ERSRI checks with the union to verify that the position was indeed posted to try to secure a non-retiree. Attorney Mambro-Martin said that no verification is made and consistent with §16-16-24, only a letter to ERSRI is required which must be copied to the local bargaining agent. Mr. Finelli asked how ERSRI knows if all city and towns are reporting in full. Attorney Mambro-Martin said ERSRI has no means to verify compliance. She apprised the Board that communication is made via the COMPASS Newsletters, memos to the MERS units, and the ERSRI web site. Additionally, she said ERSRI counselors educate members when they retire. Mr. Finelli also asked if there was a cross reference with those retired and those reporting. Director Karpinski told the Board that there have been previous discussions with the Department of Taxation to attempt to match pension payroll data with taxation records but efforts have been unsuccessful thus far.

#### **IV. Executive Director's Report**

Director Karpinski noted that the Procurement Subcommittee met on June 22, 2011 to interview the 3 finalists for the actuarial services contract; he said Thomas A. Mullaney would provide an update in the Subcommittee Report.

The Director then updated the Board on fiduciary liability insurance; he said Attorney Michael Robinson has analyzed immunities under Rhode Island General Laws (RIGL). Director Karpinski said RIGL §36-8-3.1 and §9-3-31.1 does provide certain exemptions and immunities. Attorney Robinson told the Board that Director Karpinski will obtain a sample policy and he will analyze the coverage's and exclusions and report back.

Director Karpinski provided some research on other systems and usage of liability insurance. He said of 31 respondents to a survey, 13 maintain some level of fiduciary liability insurance between \$5 and \$30 million dollars; 7 of the 31 maintain public errors and omissions coverage between \$3 and \$30 million dollars and 16 of the 31 maintain general and umbrella liability coverage between \$1 and \$62 million. The Director said the Board will need to be mindful of the costs associated with the insurance.

#### **V. Administrative Decisions**

*None this Month*

#### **VI. Approval of the June Pensions as Presented by ERSRI**

On a motion by Roger Boudreau and seconded by Richard A. Licht, it was unanimously **VOTED: To approve the June pensions as presented.**

## VII. Legal Counsel Report

Attorney Robinson said there have been no new filings against the System this month.

## VIII. Committee Reports

**Disability Subcommittee:** The Disability Subcommittee recommended the following actions on disability applications for approval by the full Board as a result of its meeting on July 8, 2011:

Name	Membership Group	Type	Action
1. William Kluth	Municipal	Accidental	Postponed
2. Jennifer Csizmesia	Municipal	Accidental	Postponed
3. Carson Orellana, Jr.	Municipal	Accidental	Approved
4. Louise Pearson	State	Accidental	Postponed— ( <i>New Law</i> )
5. Scott Wright	Municipal	Accidental	Postponed
6. Joanne Palazzo	Municipal	Accidental	Postponed
7. Aric Gabrielson	Municipal	Accidental	Postponed
8. Susan Patrarca	Teacher	Ordinary	Denied
9. Leo Diggins	Teacher	Ordinary	Approved
10. David Bradley	Municipal	Accidental	Postponed
11. Pauline Richards	State	Ordinary	Postponed

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 8, 2011 on items 1 - 11.**

**Procurement Subcommittee:** Mr. Mullaney said the Procurement Subcommittee met on June 22nd to discuss and recommend finalists for ERSRI Actuarial Services Contract. He thanked the members of the committee, namely, Mark Dingley, William B. Finelli, Louis Prata and Jean Rondeau.

Mr. Mullaney reiterated the process for the full Board; he said the Subcommittee originally reviewed 6 proposals submitted by qualified firms. Each proposal was evaluated and scored applying a consistent format. The evaluations performed by

Subcommittee members were then compiled by the Director and presented to the Subcommittee on June 3rd. Based on a review of those proposals and analysis by the Subcommittee, consistent with Regulation 3 Section 2.6, the Subcommittee interviewed the top 3 candidates. The candidates interviewed on June 22nd were:

- The Segal Company
- Cavanaugh Macdonald Consulting, LLC
- Gabriel, Roeder, Smith and Company

Mr. Mullaney said that based on the interviews and discussion by the committee, the candidate they determined best capable of providing actuarial services consistent with RIGL §36-8-10 to ERSRI was Gabriel, Roeder, Smith and Company (GRS). He said the committee felt that GRS's institutional knowledge combined with the quality of service was best suited for ERSRI at this time.

Given the committee's recommended selection of GRS, Mr. Mullaney said the committee agreed an actuarial audit would be prudent and requested work begin to prepare a request for proposal (RFP) for actuarial audit services. He said the committee also requested that Director Karpinski negotiate GRS's fees to be in-line with the lowest fee proposal of the 3 finalists. The lowest of the finalist's 4-year contract fee was Cavanaugh Macdonald Consulting, LLC at \$738,000; GRS's original 4 year fee proposal was \$786,000. Mr. Mullaney said he had been informed by Director Karpinski that after negotiation, GRS has in fact reduced their fees to match those of Cavanaugh Macdonald Consulting, LLC at \$738,000 for the 4 year contract; Mr. Mullaney said a copy of the fee detail has been provided to the Board.

There being no further questions, Mr. Mullaney said consistent with Regulation No.3 Section 2.6, the Procurement Subcommittee would recommend approval of an initial four year contract with Gabriel, Roeder, Smith and Company to provide actuarial services consistent with RIGL §36-8-10. The fee for such services, for the four year contract term, shall be \$738,000 as provided in the letter dated June 30, 2011.

On a motion by Gary R. Alger and seconded by Roger P. Boudreau it was unanimously

**VOTED: To approve the recommendation of the Procurement Subcommittee and authorize the Director to secure an initial four year contract with Gabriel, Roeder, Smith and Company to provide actuarial services consistent with RIGL §36-8-10. The fee for such services, for the four year contract term, shall be \$738,000 as provided in the letter dated June 30, 2011.**

Attorney Robinson then told the Board they may wish to consider convening in Executive Session to discuss and potentially approve the sealed draft June 8, 2011 Executive Session Meeting Minutes, which relate to litigation involving the Retirement Board.. On a motion by William B. Finelli and seconded by Linda C. Riendeau, a roll call vote was taken to enter into Executive Session to discuss and potentially approve the sealed draft June 8, 2011 Executive Session Meeting Minutes, which relate to litigation involving the Retirement Board. The following members were present and voted Yea:

General Treasurer Gina M. Raimondo; Vice Chair William B. Finelli; Gary R. Alger; Frank R. Benell, Jr.; Michael R. Boyce; M. Carl Heintzleman; Richard A. Licht; John J. Meehan; Thomas A. Mullaney; Louis M. Prata; Linda C. Riendeau and Jean Rondeau. It was unanimously

**VOTED: To convene the Board in Executive Session pursuant to Rhode Island General Laws section §42-46-5 (a)(2) to discuss and potentially approve the sealed draft June 8, 2011 Executive Session Meeting Minutes, which relate to litigation involving the Retirement Board.**

**(Executive Session)**

The Board thereafter convened in executive session.

**(Return to Open Session)**

Upon returning to open session, Attorney Robinson noted for the record that the Board took 4 votes in Executive Session. The first was to unseal the draft minutes of the June 8, 2011 executive session meeting; Attorney Robinson said that vote was unanimous. The second vote taken was to approve the draft minutes of the June 8, 2011 executive session meeting, which Attorney Robinson said was also unanimous. The third vote, consistent with RIGL §42-46-5 (a)(2) was to reseal the approved minutes of the June 8, 2011 executive session meeting, as the minutes relate to litigation involving the Retirement Board, which vote was unanimous. The final vote was to exit executive session and return to open session which was also unanimous. Mr. Licht asked for clarification that the Board sealed the approved minutes and not the draft minutes, and Attorney Robinson confirmed.

**IX. New Business**

The Treasurer said past practice will be followed and there will not be a Retirement Board meeting in August. A motion was made by Jean Rondeau and seconded by Frank R. Benell, Jr.,

**VOTED: That there is no August 2011 meeting of the Retirement Board but with the ability to call one if necessary.**

**X. Adjournment**

There being no other business to come before the Board, on a motion by Thomas Mullaney and seconded by Louis M. Prata the meeting adjourned at 10:12 a.m.

Respectfully submitted,

**Frank J. Karpinski**

Executive Director