



Employees' Retirement Board of Rhode Island
Monthly Meeting Minutes
Wednesday, April 11, 2012
9:00 a.m.
2nd Floor Conference Room, 50 Service Avenue

The Monthly Meeting of the Retirement Board was called to order at 9:05 a.m. Wednesday, April 11, 2012, in the 2nd Floor Conference Room, 50 Service Avenue, Warwick, RI.

Treasurer Raimondo first administered the oath of office to re-elected board member Linda C. Riendeau.

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, Esq.; Daniel L. Beardsley; Frank R. Benell, Jr.; Roger P. Boudreau; Michael R. Boyce; M. Carl Heintzelman; John P. Maguire; John J. Meehan; Thomas A. Mullaney; Louis M. Prata, Linda C. Riendeau, and Jean Rondeau.

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

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

Richard A. Licht arrived at 9:16 a.m.

II. Approval of Minutes

On a motion by Gary R. Alger and seconded by Frank R. Benell, Jr., it was unanimously **VOTED: To approve the draft minutes of the March 14, 2012 meeting of the Employees' Retirement System of Rhode Island Board.**

III. Presentation and Approval of the Actuarial Valuation as of June 30, 2011 by *Gabriel, Roeder, Smith and Company (GRS)* for the Employees' Retirement System, Municipal Employees' Retirement System, Judicial Retirement Benefits Trust, and the State Police Retirement Benefits Trust.

Director Karpinski apprised the Board that they were in possession of a letter dated April 10, 2012 from Mr. Joseph P. Newton of Gabriel, Roeder, Smith and Company (GRS), the System Actuary, regarding the contribution rates for the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), copies of the presentation for the Actuarial Valuation of ERSRI as of June 30, 2011 and updated tables for the Municipal Employees Retirement System (MERS).

Treasurer Raimondo then introduced Mr. Joseph P. Newton of GRS to begin the presentation of the June 30, 2011 Actuarial Valuation.

Mr. Newton began his presentation by reviewing the purpose of the valuation. He said the purpose is to measure the System's liabilities and determine the employer contribution rates for Fiscal Year (FY) 2014. He said the FY 2012 rates were set by June 30, 2009 valuation and the 2013 were set by June 30, 2010 valuation and RIRSA. The valuation also provides other information for financial reporting, explains changes in actuarial condition of ERSRI and tracks changes over time.

Mr. Newton then provided the Board with the following analysis on the actuarial results for State Employees and Teachers Combined:

	June 30, 2010 post RIRSA (1)	June 30, 2011 (2)	Projection of 2011 from RIRSA Analysis (3)
1. Actuarial accrued liability			
a. Actives & Inactives	\$ 3,200,334,490	\$ 3,261,238,946	
b. Annuitants	7,300,475,629	7,320,065,468	
2. Total actuarial accrued liability (1a +1b)	\$ 10,500,810,119	\$ 10,581,304,414	\$ 10,621,400,000
3. Actuarial value of assets *	6,405,209,060	6,220,098,632	6,223,200,000
4. UAAL (2 - 3)	\$ 4,095,601,059	\$ 4,361,205,782	\$ 4,398,200,000
5. Funded ratio (3 / 2)	61.0%	58.8%	58.6%
6. UAAL/Payroll	252.9%	266.6%	263.6%
<hr/> Weighted Average Contribution Rate for Applicable Fiscal Year <hr/>			
7. Full retirement rate			
a. Normal cost	5.18%	5.07%	4.98%
b. Prior service	14.84%	16.53%	16.32%
c. Full retirement rate	20.02%	21.60%	21.30%
8. Estimated Contributions	\$ 345,079,213	\$ 380,283,048	\$ 379,200,000

* 5 Year Smoothed Return of 2.21%

Mr. Newton began a discussion regarding the assets of the System. He first provided the following graph on estimated yields based on market value of assets and noted a 5.3% average compound return on market value of assets over the last 10 years:



5.3% average compound return on market value of assets

Mr. Newton continued by discussing how bad the -20% return was in FY 2009. He said the market return in 2009 was -20% and -6% in 2008. The baseline return was not 0%; it was 8.25% meaning that gains and losses were measured from the 8.25% target. Thus a -20% is actually a -28% (-20% - 8.25%). Mr. Newton apprised the Board that the +14.0% in 2010 looks more like a +6% (14.0% - 8.25%) and the +19.5% in 2011 looks more like a +12% (19.5% - 7.5%). Therefore, if the starting point was the same, the loss in 2009 was 2.3 times as bad as the gain was good in 2011.

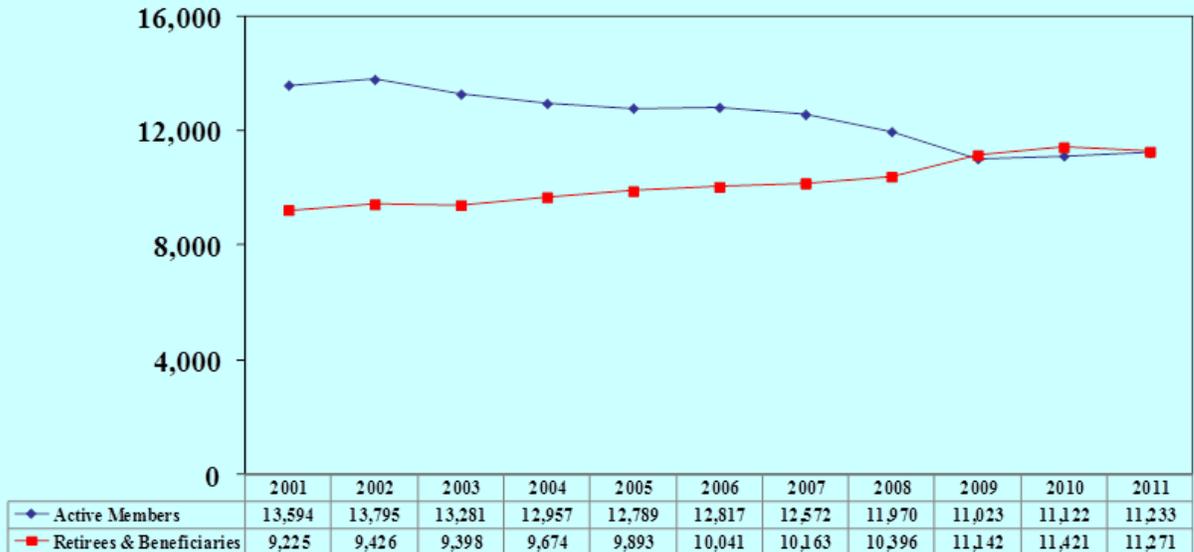
Mr. Newton reminded the Board that all actuarial calculations use actuarial value of assets (AVA), not market value. The AVA is a five-year smoothed average that smooths the short-term volatility of the investment performance. It recognizes 20% of the difference between FY 2011 actual and expected returns on market value, 40% of FY 2010 difference, 60% of FY 2009 difference and 80% of FY 2008 difference.

Mr. Newton then provided the Board with the following graph of asset values of State Employees and Teachers Combined:



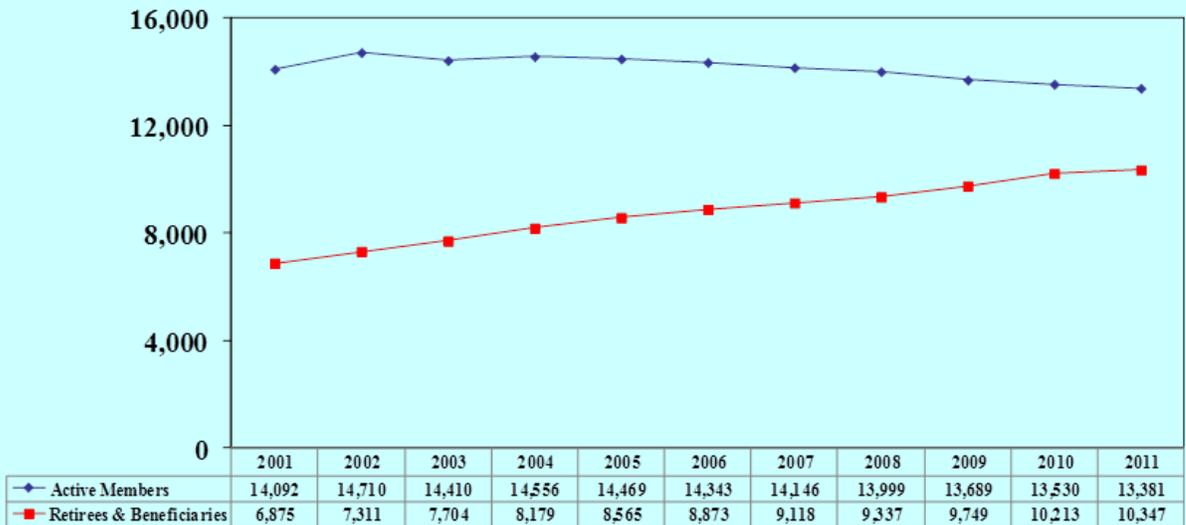
MVA: Market Value of Assets
AVA: Actuarial Value of Assets

Mr. Newton concluded his discussion of the assets of the System and began a discussion of the membership of the system. He provided the Board with the following graph of the membership of State Employees:



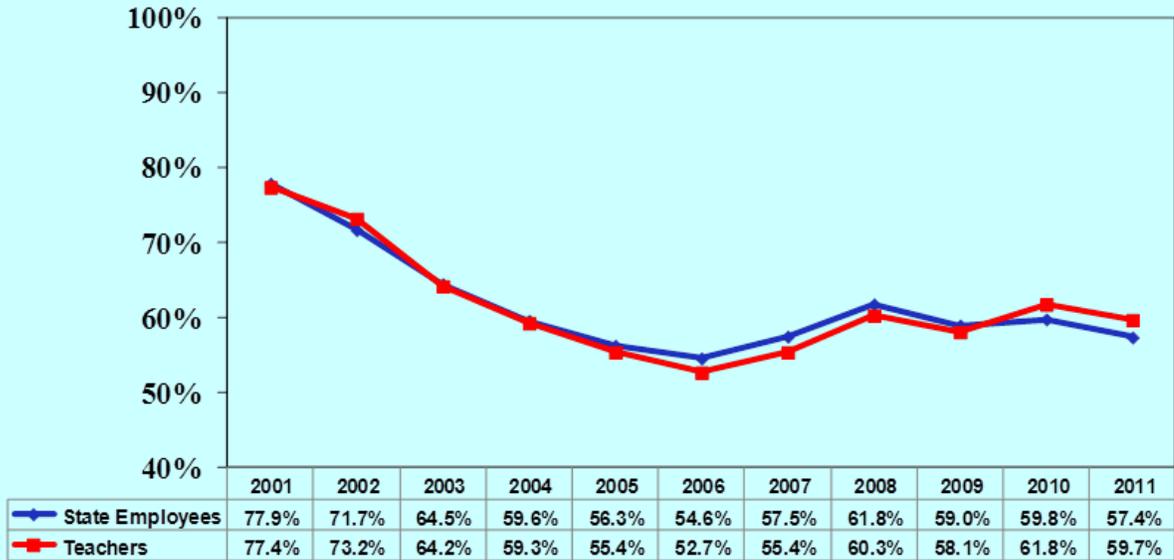
1.9% average decrease in active members since 2001
 2.0% average increase in retired members since 2001

And the following graph of Teachers:

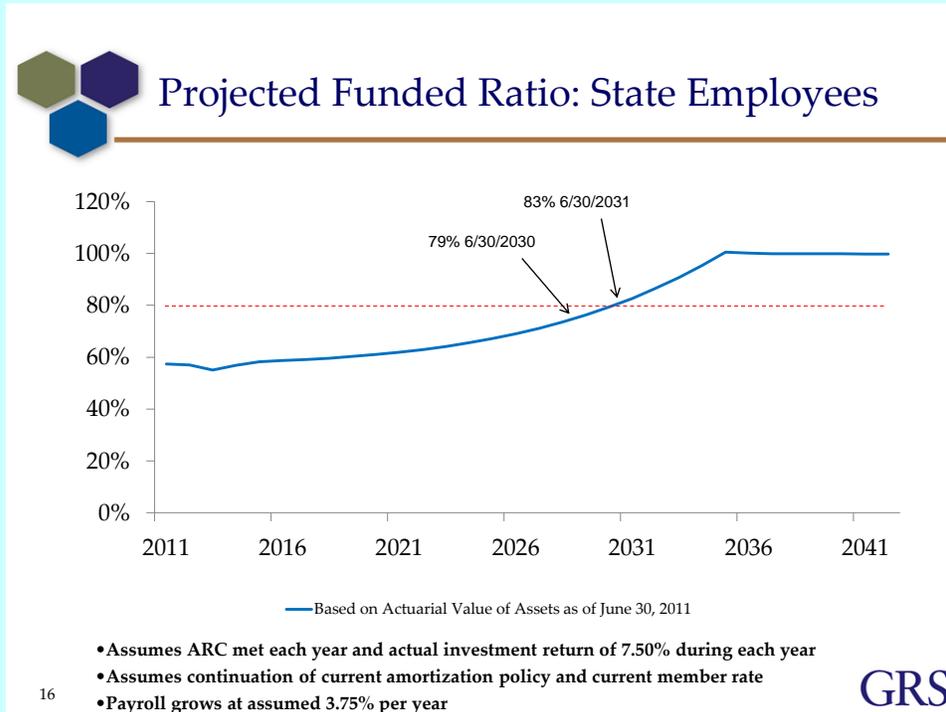


0.1% average decrease in active members since 2001
 4.2% average increase in retired members since 2001

Next, Mr. Newton began a discussion of plan funded ratios. He discussed the following GASB 25 funded ratios with the Board:



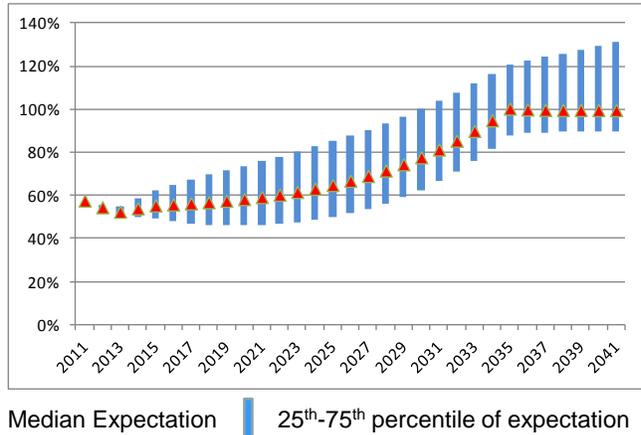
To assist the Board with an understanding of the trajectory of funded ratios given the changes enacted by RIRSA and the prior market declines, Mr. Newton provided an example of what projected funded ratios for State Employees would look like with the following graph:



He then discussed what the median expectations of the funded ratios could be under the 25th-75th percentile of expectations using the following graph:



Projected Funded Ratio: State Employees



- Assumes ARC met each year, projected from market value of assets as of June 30, 2011
- Assumes continuation of current amortization policy and current member rate
- Payroll grows at assumed 3.75% per year

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GRS

Mr. Newton then concluded his discussion of the Plan funded ratios and began a discussion of the changes in the Unfunded Actuarial Accrued Liability (UAAL) and employer contribution rates.

He began his discussion of the UAAL by providing the Board with the following reconciliation for State Employees and Teachers:

Basis	State Employees	Teachers
1. UAAL from 2010 valuation	\$2,700	\$4,133
2. Impact of changes		
a. Interest at 7.50% *	128	179
b. Amortization Payments	(131)	(200)
c. Investment experience (gain)/loss	137	205
d. Salary (gain)/loss	(43)	(27)
e. Non-salary liability (gain)/loss	19	0
f. Changes in assumptions	0	0
g. Changes in benefit provisions	(998)	(1,740)
3. UAAL from 2011 Valuation	\$1,812	\$2,550

At the conclusion of the discussion of the UAAL, Mr. Newton provided the Board with some historical contribution rates. He then provided the Board with an analysis of the change in employer contribution rate for ERSRI:

Basis	State Employees	Teachers
1. Employer contribution rate from 2010 valuation	36.34%	35.25%
2. Impact of changes		
a. Non-salary liability (gain)/loss	0.19%	(0.28%)
b. Salary (gain)/loss	(0.47%)	(0.18%)
c. Total payroll growth (gain)/loss	0.60%	0.38%
d. Investment experience (gain)/loss	1.55%	1.47%
e. Changes in assumptions	0.00%	0.00%
f. Changes in benefit provisions	<u>(15.16%)</u>	<u>(15.96%)</u>
3. Employer contribution rate from 2011 valuation	23.05%	20.68%

Mr. Newton also provided the Board with the following breakdown of the Teacher contributions:

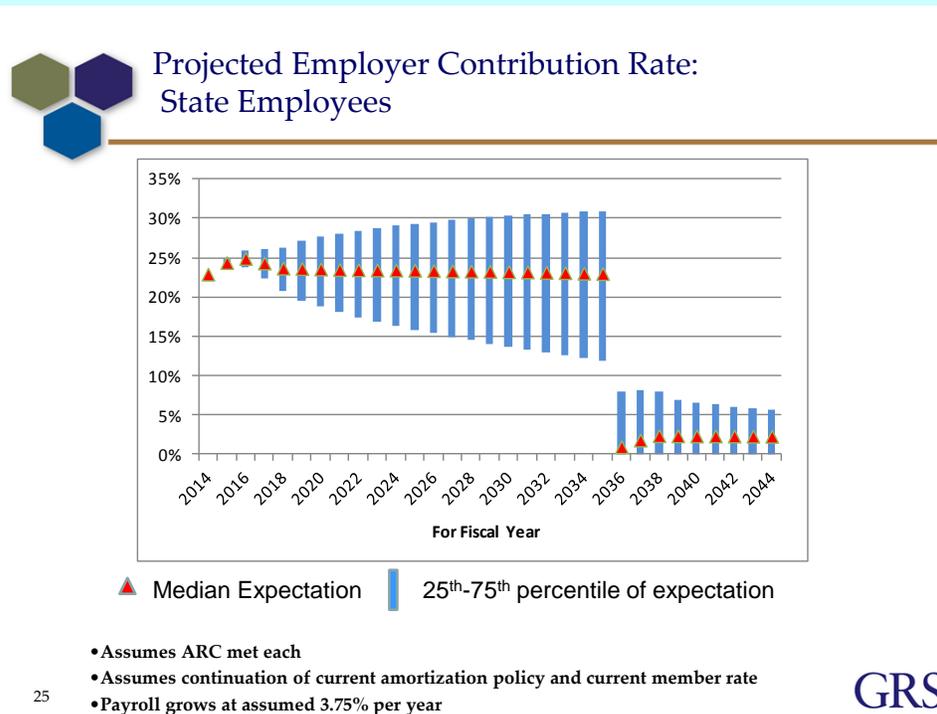
FY Ending June 30 th	2014	2013 (Restated Reflecting RIRSA of 2011)	2013 (Disclosed in 2010 report)
State rate	8.42%	7.88%	14.27%
Local rate	12.26%	11.41%	20.98%
Total rate	20.68%	19.29%	35.25%
State contribution	\$90.9	\$83.1	\$151.9
Local contribution	\$132.3	\$120.4	\$223.4
Total contribution	\$223.2	\$203.5	\$375.3

Mr. Newton concluded his presentation of the State Employees and Teachers by discussing the following two slides with the Board. First, he provided them with an array of projections of State Employees with various market return rates to help illustrate the volatility on the contribution rates. Additionally, the second slide provided the Board with the median expectations of projected contribution rates for State Employees using the 25th-75th percentile of expectations.

	Market Return for 12 month period ending June 30, 2012						
	16%	12%	7.5%	4%	0%	-4%	-8%
UAAL	\$1,921	\$1,940	\$1,960	\$1,976	\$1,994	\$2,012	\$2,030
Funded Ratio	55.2%	54.8%	54.3%	54.0%	53.6%	53.1%	52.7%
Employer Contribution Rate	24.09%	24.29%	24.52%	24.70%	24.91%	25.11%	25.31%
Estimated FY2015 Contribution	\$166.6	\$168.0	\$169.6	\$170.8	\$172.3	\$173.7	\$175.0

Values as of June 30, 2011: UAAL of \$1,812, Funded Ratio of 57.4%, ER Rate of 23.05%

Assumes all other assumptions are exactly met



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GRS

He summarized his discussion by apprising the Board that the projected 2014 employer contributions were very close to prior projections. Mr. Newton said most of the 2009 loss has been recognized. However, there are still some deferred losses to recognize next year.

Mr. Newton said contribution rates are projected to top out in FY2016, and then begin a process of drifting lower over the next couple of decades. Based on current assumptions, asset levels, contribution and amortization policies, benefit adjustments (COLA) are projected to be suspended until calendar year 2032.

Mr. Newton next began his presentation of the Municipal Employees' Retirement System (MERS). He told the Board that updated copies of the detailed results were provided to them at the start of the meeting. He apprised the Board that there was one new unit, the East Greenwich Fire (ADMIN) group which was the result of the *Pamela Johnson v. ERSRI* matter, no closed units, no merged units and no new COLA elections.

Mr. Newton said for MERS, the UAAL for all units combined is \$224 million, compared to \$430 million (or \$176 million reflecting Rhode Island Retirement Security Act of 2011) last year. The aggregate funded ratio (actuarial assets divided by actuarial accrued liability) for all units combined decreased from 87.2% (post RIRSA) to 84.3%. He said results for individual units are shown in Table 7 of the full actuarial valuation report.

Mr. Newton noted that 32 units have funded ratios over 100%, 18 before the Rhode Island Retirement Security Act of 2011 last year, and 74 units have funded ratios over 80% after RIRSA.

Mr. Newton then briefly discussed his letter to the Board, dated April 10, 2012, which contained the UAAL, Funded Ratios, Employer contribution rate and projected Employer contributions for 2014 for the State Police and Judges Plans. He said the contribution rate for State Police was 14.45% and for Judges 27.28%. Mr. Newton said the full valuation report for both plans would be forthcoming.

Mr. Newton thanked the Board for their time and concluded his remarks. Treasurer Raimondo then thanked Mr. Newton for his presentation and the Board for their indulgence. There being no further discussion or questions, the Treasurer asked for a motion to approve the Actuarial Valuation as of June 30, 2011 for the ERS (State Employees and Teachers), MERS, SPRBT and JRBT as presented and certify the FY2014 contribution rates.

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

VOTED: To approve the Actuarial Valuation as of June 30, 2011 as presented and certify the FY2014 contribution rates recommended by Gabriel, Roeder, Smith and Company for the Employees' Retirement System of Rhode Island, Municipal Employees' Retirement System, Judicial Retirement Benefits Trust, and State Police Retirement Benefits.

Director Karpinski then referred the Board's attention to an April 4, 2012 memo in the Board book. He said there are two sets of actuarial factors for review and consideration and a proposed methodology for the determination of the investment return used to trigger annual benefit adjustments.

First, Director Karpinski asked the Board to consider the joint and survivor option factors based on 2011 adopted assumptions. He said they would become effective for members retiring after July 1, 2012 who select either Option 1 (100% Survivor) or Option 2 (50% Survivor).

Mr. Maguire asked GRS if these factors were based on the new mortality tables recently enacted by the Board. Mr. Newton confirmed that the tables were in fact prepared based on the new mortality tables. Mr. Maguire then queried GRS and asked if there would be separate tables for State Employees and Teachers given their varying mortality. Mr. Newton said for administrative necessity and simplified communication large plans such as ERSRI tend to have one set of factors. He offered to provide separate tables if requested.

Mr. Maguire then motioned to split the factors into State Employee, Teacher and Municipal tables. Director Karpinski noted that having separate tables for joint and survivor options coupled with new additional tables for purchase of service credits would require much more detailed monitoring and add a layer of complication to the plan. Mr. Maguire withdrew his motion.

There being no further discussion, Treasurer Raimondo asked for a motion to accept the joint and survivor option factors as presented in the Board book. On a motion by William B. Finelli and seconded by Thomas A. Mullaney, it was unanimously

VOTED: To approve the Actuarial Factors prepared by GRS for Joint and Survivor Options as presented.

Director Karpinski then referenced an enclosed letter from GRS dated March 27, 2012 which was also emailed to Board members on March 30th. He said it contains an analysis of the impact of the recently enacted legislation on the SRA-Plus benefit option (a.k.a. the social security option). On the bottom of page 3 of the analysis, the Director said Board members would find a proposed table of factors that would become effective for members retiring after July 1, 2012 who select the SRA Plus Option. Director Karpinski began the discussion by providing the Board with an explanation of how the SRA-Plus benefit option works.

Mr. Boudreau reiterated his concern over the recently enacted changes under RIRSA coupled with the previously adopted assumptions and their impact upon on the SRA-Plus benefit option. He continued his concern and communicated his position to the Board using an aggregate annuity analogy. Using his aggregate annuity analogy, Mr. Boudreau felt there should be some financial accommodations for members who selected the SRA-Plus benefit option given the changes enacted. Mr. Boudreau said during his discussions with the Director regarding the SRA Plus option he was told that the option was revenue neutral to the extent that the system was not gaining advantage. However, Mr. Boudreau said the system should not be seeking advantage either

Treasurer Raimondo said she understood Mr. Boudreau's concerns; however she felt the Board is unable to resolve such issues and said Mr. Boudreau's concerns are more legislative in nature. She reiterated that ERSRI is being asked only to approve the factors which are based on the enacted RIRSA changes and previously adopted assumptions approved by the Board.

The Treasurer said Mr. Boudreau's question merits more discussion and felt that the Legislative Subcommittee could consider his concerns to determine if there should be any legislative changes to address the scenarios he described.

On a motion by Jean Rondeau and seconded by Gary R. Alger, it was unanimously

VOTED: To have the Legislative Subcommittee convene and consider legislative changes to address the Social Security Option and approve the new actuarial factors from GRS's March 27, 2012 Letter (page 3 column 2 of the table).

Finally, Director Karpinski referred the Board to a letter from GRS that provided a recommended methodology for the determination of the investment return to be used to trigger annual benefit adjustments i.e. a COLA. In referencing the April 4, 2012 letter from GRS, Director Karpinski discussed how the Board is charged by the statute to determine how and what percentage is calculated when taking a 5-year average and subtracting out 5.5% to determine the COLA that is applicable. In their letter, GRS recommended using the actuarial return since it is used to compute the contributions and valuation.

Messer's Licht, Maguire and Boudreau queried Mr. Newton on the methodology and rationale for using the actuarial rate of return versus the geometric rate of return. Mr. Maguire asked if Mr. Newton could prepare some comparative analysis using the actuarial rate of return, as recommended by GRS, and the geometric rate of return as displayed in the June 30, 2011 valuation (on page 23) to help the Board understand the impacts. Mr. Licht was in concurrence and asked if delaying the consideration to next month would affect any application/administrative issues. Director Karpinski said delaying the vote and consideration would not create any issues and he would work with Mr. Newton to arrange a presentation for the Board.

On a motion by John P. Maguire and seconded by Richard A. Licht, it was unanimously

VOTED: To postpone consideration of the methodology recommended by GRS in their April 4, 2012 letter for the Investment Return Used to Trigger Annual Benefit Adjustments to the next scheduled Board meeting.

IV. Chairperson's Report

None this Month

V. Executive Director's Report

Director Karpinski apprised the Board that they are in possession of the Pension Application Report and the Disability Subcommittee Report. He also mentioned that he has been trying to schedule a date for the Procurement Subcommittee to consider a proposal for fiduciary liability insurance, currently May 3, 2012 appears to be the date.

The Director apprised the Board that Staff has done over 20 presentations to date for the RIRSA educational sessions for different employers with 12 more currently scheduled. Director Karpinski acknowledged and appreciated the support given by the Board members who attended some of to the sessions, in particular: William Finelli,

Jean Rondeau, Carl Heintzelman, Louis Prata and Treasurer Raimondo. He mentioned that staff is available until 7 p.m. six separate nights after some of the larger sessions to help accommodate member questions.

Director Karpinski told the Board that the ERSRI IT system upgrade continues to progress. He said last week ERSRI had scheduled live test demonstrations from potential vendors. The RFP review team will now consolidate additional questions to present to the vendors to assist them in making any recommendations to the Procurement Subcommittee.

VI. Approval of the March Pensions as Presented by ERSRI

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

VOTED: To approve the March pensions as presented.

VII. Legal Counsel Report

Attorney Robinson apprised the Board regarding the matter of *Brian Castro vs. ERSRI*, a deputy sheriff who applied for an accidental disability based on an injury to his neck from a slip and fall at the State House. The Superior Court affirmed ERSRI's decision to deny the application for benefits, as the member did not appeal to Superior Court within thirty days of the ERSRI mailing his notice of denial.

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 April 6, 2012:

Name	Membership Group	Type	Action
1. Peter Ferraro	Teacher	Accidental	Deny
2. Denise Monastesse	Teacher	Ordinary	Postpone
3. Hilda Dewey	Teacher	Accidental	Deny
4. Raymond Hoyas	State	Ordinary	Postpone
5. David Bradley	Municipal	Accidental	Postpone
6. Toni Dimaio	State	Ordinary	Approve
7. Douglas Munroe	State	Ordinary	Postpone

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, April 6, 2012 on item 2.

John P. Maguire recused himself from the vote on number 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, April 6, 2012 on items 1, 3, 4, 5, 6, and 7.

IX. New Business

Mr. Maguire asked about the update on TIAA CREF. Treasurer Raimondo said she and Attorney Mark A. Dingley have been meeting with TIAA CREF regularly and TIAA CREF has met every deadline. She said they will be opening a Providence office in May and staffing it with 8-10 people. She said there will be an additional 50 people on the ground for the implementation of the plan. The Treasurer then said the investment lineup has been chosen which she'll distribute to the Board, there are 11 choices. She said the default is a Target Date Retirement Fund; other choices include the TIAA Stable Value Fund, Money Market, and a variety of equity and fixed income options.

Treasurer Raimondo said an introduction letter is going out this week to employees and a full enrollment kit will be mailed mid-May. Educational training meetings will start the third week in May. Attorney Dingley reiterated everyone is on schedule.

X. 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 11:15 a.m.

Respectfully submitted,

Frank J. Karpinski

Executive Director