



**Employees' Retirement Board of Rhode Island**  
**Monthly Meeting Minutes**  
**Wednesday, January 9, 2013**  
**9:00 a.m.**  
**2nd Floor Conference Room, 50 Service Avenue**

The Monthly Meeting of the Retirement Board was called to order at 9:00 a.m. Wednesday, January 9, 2013, in the 2<sup>nd</sup> Floor Conference Room, 50 Service Avenue, Warwick, RI.

**I. Roll Call of Members**

The following members were present at roll call: General Treasurer Gina M. Raimondo; Vice Chair William B. Finelli; Daniel L. Beardsley; Roger P. Boudreau; Michael R. Boyce; M. Carl Heintzelman; Richard A. Licht; John P. Maguire; John J. Meehan; Thomas A. Mullaney; Claire M. Newell and Louis M. Prata.

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.

Mr. Jean Rondeau arrived at 9:07 a.m., and Mr. Gary R. Alger, Esq. arrived at 9:10 a.m.

**II. Approval of Minutes**

On a motion by M. Carl Heintzelman and seconded by Thomas A. Mullaney, it was unanimously

**VOTED: To approve the draft minutes of the December 12, 2012 meeting of the Employees Retirement System of Rhode Island**

A motion was then made by John J. Meehan and seconded by John P. Maguire, to convene into executive session consistent with Rhode Island General Laws §42-46-5 (a)(2),(a)(3) and (a)(7) to approve the sealed draft executive session minutes from the December 2012 Retirement Board meeting, and pursuant to §42-46-5 (a)(2), to discuss pending pension reform litigation. A roll call was taken to enter Executive Session and the following members were present and voted Yea: General Treasurer Gina M. Raimondo; Vice Chair William B. Finelli; Gary R. Alger, Esq.; Daniel L. Beardsley; Roger P. Boudreau; Michael R. Boyce; M. Carl Heintzelman; Richard A. Licht; John P. Maguire; John J. Meehan; Thomas A. Mullaney; Claire M. Newell; Louis M. Prata 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),(a)(3) and (a)(7) to review and approve the sealed draft executive session minutes from the December 12, 2012 Retirement Board meeting, and pursuant to §42-46-5 (a)(2) to discuss pending pension reform litigation**

**[Executive Session]**

The Board thereafter convened in executive session.

**[Return to Open Session]**

Upon returning to open session, the Board noted for the record that the following votes had been taken in executive session:

A motion was made by Roger P. Boudreau and seconded by John P. Maguire to unseal the draft sealed executive session minutes of the December 12, 2012 Retirement Board meeting, which was then unanimously

**VOTED: To unseal the draft sealed executive session minutes of the December 12, 2012 Retirement Board meeting**

A motion was made by John P. Maguire and seconded by Roger P. Boudreau to approve the draft sealed executive session minutes of the December 12, 2012 Retirement Board meeting, which was then unanimously

**VOTED: To approve the draft sealed executive session minutes of the December 12, 2012 Retirement Board meeting**

A motion was made by John P. Maguire and seconded by Roger P. Boudreau to reseal the draft sealed executive session minutes of December 12, 2012 consistent with Rhode Island General Laws §42-46-5(a)(2),(a)(3) and (a)(7), which was then unanimously

**VOTED: To reseal the draft sealed executive session minutes of December 12, 2012 consistent with Rhode Island General Laws §42-46-5(a)(2), (a)(3) and (a)(7)**

A motion was made by Richard A. Licht and seconded by Daniel L. Beardsley to authorize the Board's legal Counsel to seek an ethics advisory opinion on behalf of the Board in regard to those members of the Retirement Board who may have potential conflicts of interest regarding the pending pension reform litigation. It was then unanimously

**VOTED: To authorize the Board's Legal Counsel to seek an Ethics Commission advisory opinion on behalf of the Board in regard to those members of the Retirement Board who may have potential conflicts of interest regarding the pending pension reform litigation.**

A motion was made by Thomas A. Mullaney and seconded by Roger P. Boudreau to seal the minutes of the Executive session of January 9, 2013, consistent with RIGL §42-46-5(a)(2), as the matters discussed related to pending pension reform litigation against the Retirement Board. A roll call vote was taken, and the following members were present and voted Yea: Gina M. Raimondo, Treasurer; William B. Finelli; Gary R. Alger, Esq.; Daniel L. Beardsley; Roger P. Boudreau; Michael R. Boyce; M. Carl Heintzelman; Richard A. Licht; John P. Maguire; John J. Meehan; Thomas A. Mullaney; Claire M. Newell; Louis M. Prata and Jean Rondeau. There being 14 votes cast, 14 voted in the affirmative consistent with Rhode Island 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 seal the minutes of the executive session of January 9, 2013, consistent with Rhode Island General Laws §42-46-5(a)(2) as they involved confidential attorney client communications regarding pending pension reform litigation against the Retirement Board.**

A motion was made by John J. Maguire and seconded by Roger P. Boudreau to exit executive session and return to open session and it was then unanimously

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

### **III. Chairperson's Report**

The Treasurer first provided the Board with an investment update. She then reported that the ERSRI COMPASS Newsletter was mailed to all members. Treasurer Raimondo apprised the Board that the Legislative Subcommittee would convene to consider a matter Mr. Boudreau raised regarding the SRA-Plus option, i.e. social security option.

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

Director Karpinski apprised the Board that ERSRI has issued an RFP, which was posted on the ERSRI website, for an investigator. He noted that responses are due by February 20, 2013. He then provided the board with a status of the Municipal audit. Currently, he said ERSRI's internal auditors audited the Town of Barrington which consists of 457 town employees and 116 school department employees. The auditors have also audited the Town of Johnston's 440 school department employees and will soon begin the Town of Johnston general employees after they conclude their annual audit. To date, Director Karpinski apprised the Board that the auditors have only found minor discrepancies generally related to human error. He also noted that the auditors are performing audits of those participating in post-retirement employment.

Director Karpinski apprised the Board that the first phase of discussion regarding the contract for the IT System upgrade with Morneau Shepell has begun.

Lastly, Director Karpinski apprised the Board that they were in possession of the December 31, 2012 Pension Application Report, the Disability Subcommittee Report, 2 presentation booklets; namely, Actuarial Valuations as of June 30, 2012 and the New GASB Standards provided by Gabriel Roeder Smith and Company.

Director Karpinski then introduced Messer's Joseph P. Newton, FSA, and Ryan Falls, FSA, to provide presentations for the following agenda items:

- **Presentation by Gabriel, Roeder, Smith and Company (GRS) of the Governmental Accounting Standards Board (GASB) Statements No. 67 and No. 68**
- **Presentation and Approval of the Actuarial Valuation as of June 30, 2012 by GRS**

Mr. Falls began the presentation on the Governmental Accounting Standards Board (GASB) Statements No. 67 and No. 68. He told the Board that the final Statements significantly change current pension accounting and reporting standards for state and local governments by:

- Disconnecting state and local governmental pension accounting measures from the funding measures used to determine pension contributions;
- Requiring employers to recognize an unfunded pension obligation (i.e., the "net pension liability" where NPL is code for the Unfunded Accrued Liability based on Market Value of Assets) as a balance sheet liability in their government-wide basic

financial statements. Moreover, the unfunded liability is based on the market value of assets rather than a smoothed value;

- Requiring employers to recognize a new measure of the pension expense that may have little relation to the actuarially determined contribution; and
- Replacing most of the current financial note disclosures and required supplementary information with information based on the new measures.

Mr. Falls said that the big picture is that there will be a liability on the governments' books that is larger than ever seen and there will be an expense on the governments' books, larger than ever seen; the shorter amortization will accelerate recognition of pension cost.

He then said a variant discount rate will be used in determining the Total Pension Liability (TPL). Under the GASB's new standards Mr. Falls said the discount rate is a single rate based on:

- The long-term expected investment return (7.5% for ERSRI) to the extent the plan's projected fiduciary net position is sufficient to pay projected benefits; and
- A tax-exempt, general obligation municipal bond yield or index rate to the extent the plan's projected fiduciary net position is not sufficient.

Mr. Falls noted that the premise for the variant discount rate is that the pension plan is primarily responsible for paying pension benefits to the extent the plan has sufficient assets and the employer is primarily responsible for paying benefits to the extent the plan does not have sufficient assets.

Mr. Falls stressed that these changes only impact the accounting rules, and do not affect the plan funding. He said that there is no impact on how ERSRI would state its pension liabilities nor are there any changes in the plans actuarial costs.

Mr. Falls concluded his comments by apprising the Board that the timing of these changes for GASB 67 Plan Reporting is effective for fiscal years beginning after June 15, 2013; for ERSRI this is the June 30, 2014 financial statements. GASB 68 Employer Reporting becomes effective for fiscal years beginning after June 15, 2014. For the State, this is the June 30, 2015 financial statements. He noted that MERS employers effective dates could vary depending on their fiscal year end but most are June 30 year ends.

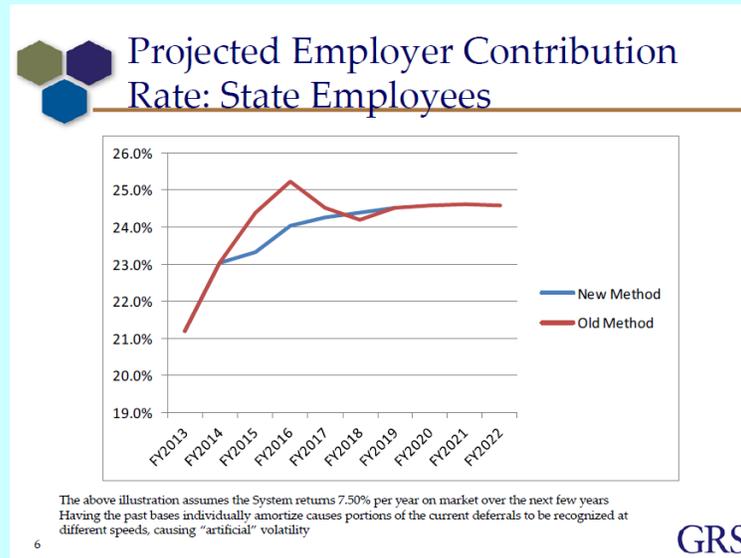
Mr. Newton then began his presentation of the ERS and MERS Actuarial Valuations as of June 30, 2012. He told the Board that the purpose of the valuation is to measure the System's liabilities and determine employer contribution rates for FY 2015. He said the 2013 rate was set by June 30, 2010 valuation and RIRSA and the 2014 rates were set by June 30, 2011 valuation. Lastly, he said the valuations explain changes in actuarial condition of ERSRI and track changes over time.

Mr. Newton said the valuations are prepared as of June 30, 2012, using member data provided by ERSRI Staff, audited financial data, current benefit and contribution provisions and actuarial assumptions and methods previously approved by the Retirement Board. The plans being discussed today were ERS (State Employees and Teachers) and MERS (General Employees and Police/Fire).

Next, Mr. Newton discussed the asset smoothing method with a very small change, and noted that the timing for such a change is good. He said there are many ways actuaries smooth the investment returns. The current method has been in place since smoothing

was implemented and is an acceptable and common method; however, the current method can create systematic and artificial volatility due to how the gains/losses from a given year are amortized, which was not a preferred option by Mr. Newton. Consequently, he said GRS is recommending a small modification to the current method that would allow gains and losses to offset each other immediately.

Mr. Newton provided the following chart to the Board to demonstrate the recommended asset smoothing methods effect on contributions:



Mr. Newton recommended the modified method, which would allow gains and losses to offset directly. He said based on stochastic modeling, the method produces 35% less year-year volatility in the contribution rates and keeps the actuarial value of assets closer to the market value in almost all situations. He said the impact on future benefit adjustments, over time, will have no impact on the accumulated value of benefit adjustments. He said it should produce fewer extreme benefit adjustment results (0% and 4%), but instead more years in-between.

Mr. Newton then discussed the actuarial results of the state employees and teachers and provided the following data:



## Actuarial Results – State Employees and Teachers Combined

	June 30, 2011 (1)	June 30, 2012 (2)
1. Actuarial accrued liability		
a. Actives & Inactives	\$ 3,261,238,946	\$ 3,359,695,988
b. Annuitants	7,320,065,468	7,310,646,667
2. Total actuarial accrued liability (1a+1b)	\$ 10,581,304,414	\$ 10,670,342,655
3. Actuarial value of assets	6,220,098,632	6,167,491,413
4. UAAL (2 - 3)	\$ 4,361,205,782	\$ 4,502,851,242
5. Funded ratio (3 / 2)	58.8%	57.8%
6. UAAL/Payroll	266.6%	274.3%
Weighted Average Contribution Rate for Applicable Fiscal Year		
7. Full retirement rate		
a. Normal cost	5.07%	4.87%
b. Prior service	16.53%	18.03%
c. Full retirement rate	21.60%	22.90%
8. Estimated Contributions	\$ 380,283,048	\$ 404,556,135

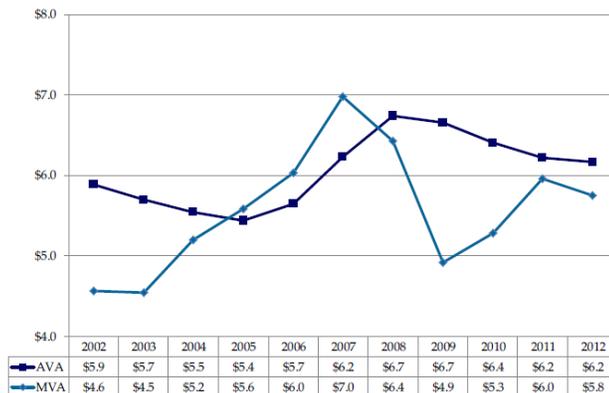
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He also provided the following chart on asset values:



## Asset Values – State Employees and Teachers Combined



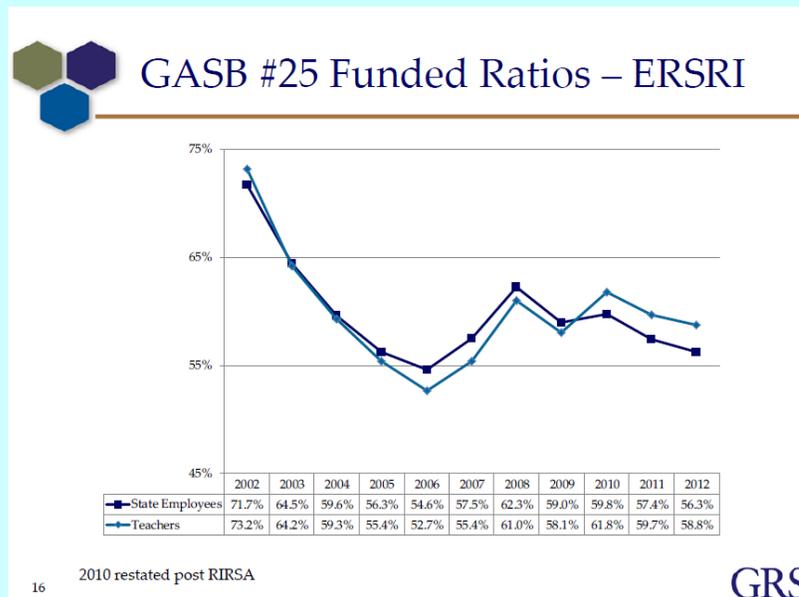
\$ in billions  
MVA: Market Value of Assets  
AVA: Actuarial Value of Assets

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GRS

Next Mr. Newton discussed the membership of State employees. He said at June 30, 2012 there were 11,166 active and 11,200 retired state employees. He said this represented a 2.1% average decrease in active members since 2002 and a 1.7% average increase in retired members since 2002. He noted that there was a 1.4% average increase for state employee's payroll since 2002; the prospective assumption is 3.75% per year. There is 21% less payroll in FY2012 than projected from FY2002. He then said there were 13,202 active and 10,622 retired teachers as of June 30, 2012. This represented a 1.1% average decrease in active members since 2002 and a 3.8% average increase in retired members since 2002. He again noted that there was 2.1% average increase for teacher's payroll since 2002 and an overall 2% decrease since 2008; the prospective assumption is 3.75% per year. He also said there was 15% less payroll in FY2012 than projected from FY2002 - 7% less in FY2012 alone.

Mr. Newton then discussed the GASB funded ratio's with the Board and provided the following chart for them to review:



Mr. Newton then provided the Board with the actuarially determined contribution rates for state employees and teachers. For state employees, he provided the following numbers:

Item	2011	2012	Projected 2013
Total Normal Cost %	9.49%	9.27%	9.00%
Member Contribution	(4.33%)	(4.25%)	(4.25%)
Employer Normal Cost%	5.16%	5.02%	4.75%
Amortization rate	17.89%	18.31%	19.28%
Total Employer Contribution	<b>23.05%</b>	<b>23.33%</b>	<b>24.03%</b>
FY ending June 30,	2014	2015	Projected 2016
Payroll Projected 2 Years	\$681.5	\$720.6	\$743.4
Projected Contribution	<b>\$157.1</b>	<b>\$168.1</b>	<b>\$178.6</b>

For teachers, he provided the following numbers:

Item	2011	2012	Projected 2013
Total Normal Cost %	8.77%	8.52%	8.32%
Member Contribution	(3.75%)	(3.75%)	(3.75%)
Employer Normal Cost %	5.02%	4.77%	4.57%
Amortization rate	15.66%	17.83%	18.82%
Total Contribution	<b>20.68%</b>	<b>22.60%</b>	<b>23.39%</b>
FY ending June 30,	2014	2015	Projected 2016
Payroll Projected 2 Years	\$1,079.3	\$1,046.2	\$1,080.6
Projected Contribution	<b>\$223.2</b>	<b>\$236.4</b>	<b>\$252.8</b>

Mr. Newton concluded his presentation with a summary of the ERS plan. He noted that projected 2015 employer contributions are close to prior projections, the projected contribution dollar amounts are slightly lower. Regarding investments, he said most of the 2009 investment loss has been recognized, with last portion to be recognized next year. Mr. Newton noted that if the FY2012 loss is not offset with positive experience, the

contribution rates are projected to top out in FY2018, and then begin a process of drifting lower over the next couple of decades. Lastly, based on current assumptions, asset levels, contributions and amortization policies, benefit adjustments (i.e. COLA) are projected to be suspended until calendar year 2032.

Mr. Newton then began his presentation of the MERS Plan. He noted that the full results were in the full report. Regarding benefit changes, Mr. Newton said there were two new units namely; Johnston Police and Smithfield Fire. He said there were no closed units, no merged units and no new COLA elections.

Mr. Newton then discussed the MERS actuarial results with the Board. He said for MERS, the unfunded actuarial accrued liability (UAAL) for all units combined is \$262 million, compared to \$224 million last year. This was partly due to losses on assets and moderately higher number of retirements. The aggregate funded ratio (actuarial assets divided by actuarial accrued liability) for all units combined decreased from 84.3% to 82.5%. Mr. Newton said that 27 units have funded ratios over 100% compared to 32 last year and 67 units have funded ratios over 80% compared to 74 last year. Mr. Newton then concluded his presentation of the valuation as of June 30, 2012

Mr. Beardsley noted that he understood the funded ratios and acknowledged that the closer an employer is to 100%, the more impact losses have on the assets. However, he felt some employers who have been impacted by significant increases in contribution rates may not share the same understanding when he addresses such matters to his constituents. Given what municipal officials were told in regards to pension changes, he said that a 6% to 7% increase in contributions is not nominal.

Given the order of magnitude of change to some employer contribution rates, Mr. Beardsley felt it would be prudent to postpone a vote on approval of the valuation and recommended a dialogue/presentation between GRS and his constituents to gain a better understanding of the increases in some of the contributions.

Mr. Beardsley requested that approval of the June 30, 2012 actuarial valuation, by Gabriel, Roeder, Smith and Company (GRS), of the MERS Plan be postponed to the next Board meeting. Mr. Maguire also requested the ERS Plan for State and Teachers be postponed due to a limited time of receipt of the draft valuations. The Board agreed and took no action on the valuations.

Director Karpinski said that he had sent a soft copy of the valuations on Tuesday and agreed that the review time was limited. However, Director Karpinski noted that ERSRI is ahead of the regular valuation cycle by 6 months. He said the expedited schedule was necessary to have data to determine whether there would be a COLA awarded for calendar 2013 as provided by RIRSA. Mr. Beardsley acknowledged the compressed schedule and thanked Director Karpinski and the GRS for their dramatically improved time line. Director Karpinski thanked Mr. Beardsley for his comments and said he would place the ERS and MERS valuations back on the February agenda for consideration by the Board.

Treasurer Raimondo thanked GRS for their presentation and the Board for their indulgence.

## V. Administrative Decisions

### Administrative Appeal -- Mary Ann McComiskey vs. ERSRI

Attorney Robinson reminded the Board that this matter was before the Board last month on December 12, 2012, and a vote to reverse the Hearing Officer's decision resulted in a tie. Pursuant to ERSRI's regulations, he said this matter is back today for a rehearing. Attorney Robinson noted to the Board that the transcript of the December 12, 2012 hearing is included in the Board books.

Included in Board Members' Books was the Hearing Officer's written decision, along with exhibits and supporting information in the matter of *Mary Ann McComiskey vs. ERSRI*. Attorney Robinson 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 any such material had been included, namely, the hearing transcript of December 12, 2012, in members' Board books pursuant to Regulation No. 4.

Attorney Robinson 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. Consistent with the Board's long standing policy, he apprised the appellant that this is not an opportunity to present new factual material to the Board, and that 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.

Attorney Robinson then asked the appellant's Attorney, Carly Iafrate, if Ms. McComiskey would be making any presentation or oral argument before the Board. The appellant was not sworn in by the stenographer as Attorney Iafrate said her client would not be speaking at this hearing. Attorney Robinson then provided a synopsis of the matter. There being a stenographer present, the parties presented their cases. John J. Maguire recused himself from the *Mary Ann McComiskey vs. ERSRI* matter.

A motion was made by Roger P. Boudreau and seconded by Michael R. Boyce to overturn the decision of the Hearing Officer and to permit Ms. McComiskey the purchase of service credit. A roll call was taken, and the following members voted Yea: William B. Finelli; Roger P. Boudreau; Michael R. Boyce; Richard A. Licht; John J. Meehan; Claire M. Newell and Louis M. Prata. The following members voted Nay: General Treasurer Gina M. Raimondo; Gary R. Alger, Esq.; Daniel L. Beardsley; M. Carl Heintzelman and Jean Rondeau.

There being 12 votes cast, 7 voted in the affirmative, and 5 voted nay, consistent with Rhode Island 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 was present, it was then

**VOTED: To overturn the decision of the Hearing Officer and permit Mary Ann McComiskey the opportunity to purchase leave service credits.**

## VI. Approval of the December Pensions as Presented by ERSRI

On a motion by Louis M. Prata and seconded by Daniel A. Beardsley, it was unanimously

**VOTED: To approve the December pensions as presented.**

## VII. Legal Counsel Report

Attorney Robinson apprised the Board that he had recently received a decision from the Superior Court regarding *Francis/Hassell vs. ERSRI*. He said these individuals were cook's helpers from the Department of Education seeking to buy service credit for time that they were not working at least 20 hours; they were alleged to be floaters (15 hours) who occasionally worked in excess of the minimum 20 hours. He said the cases were consolidated for hearing purposes. Attorney Robinson said the Board affirmed the Hearing Officer's decision which denied their ability to purchase service credit. He indicated that the Superior Court affirmed the Retirement Board in almost every respect, with the exception that the Judge drew a different inference than the Retirement System's Hearing Officer regarding one particular time frame, and the Court allowed Ms. Hassell to buy a period of 2-years.

Attorney Robinson said that because this matter is not on the agenda, no votes can be taken today. He asked that the matter be placed on the February agenda for consideration by the Board.

## 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 January 4, 2013:

Name	Membership Group	Type	Action
1. Robert Cahill	State	Ordinary	Postpone
2. Eugene Bedard	State	Accidental	Deny
3. Albert Delmastro, Jr.	State	Accidental	Deny
4. Elizabeth Costa	State	Ordinary	Approve
5. Marybeth Earle	Teacher	Ordinary	Deny

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, January 4, 2013 on item 5.**

John P. Maguire recused himself from the vote on number 5.

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 on Friday, January 4, 2013 on items 1, 2, 3, and 4**

**IX. New Business**

*No new business*

**X. Adjournment**

There being no other business to come before the Board, on a motion by Roger P. Boudreau and seconded by William B. Finelli the meeting adjourned at 12:11 p.m.

Respectfully submitted,

**Frank J. Karpinski**  
Executive Director