



Employees' Retirement Board of Rhode Island
Monthly Meeting Minutes
Wednesday, June 12, 2013
9:00 a.m.
2nd Floor Conference Room, 50 Service Avenue

The Monthly Meeting of the Retirement Board was called to order at 9:06 a.m. Wednesday, June 12, 2013, in the 2nd 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; Gary R. Alger, Esq.; Michael R. Boyce; Susan Knorr Rodriguez as designee for Richard A. Licht; John P. Maguire; John J. Meehan; Thomas A. Mullaney 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.

II. Approval of Minutes

Mr. Maguire, speaking on behalf of Mr. Boudreau who was not present, asked that the May minutes reflect the questions and answers asked of Chief Investment Officer Ann-Marie Fink from her presentation on alternative investments. On a motion by Gary R. Alger, Esq. and seconded by Jean Rondeau, it was unanimously voted to

VOTED: To approve the draft minutes of the May 8, 2013 meeting of the Employees' Retirement System of Rhode Island with the addition of questions and answers asked of Chief Investment Officer Ann-Marie Fink from her presentation on alternative investments.

Attorney Robinson suggested that the approval of the sealed Draft Executive Session Minutes of the May 8, 2013 Retirement Board Meeting be deferred on the agenda so they would be presented and considered in executive session with the Procurement Subcommittee Report. On a motion by John P. Maguire and seconded by Gary R. Alger, Esq., it was unanimously

VOTED: To defer the order of the approval of the draft executive session minutes of May 8, 2013 until the Procurement Subcommittee Report.

III. Chairperson's Report

Treasurer Raimondo informed the Board there was no update regarding the pension reform litigation; she noted that the mediation is ongoing. The Treasurer said that current assets under management are \$7.8 billion. She said the 1-year performance is 12%, the 3-year performance is 8.9% and the 5-year performance is 3.9%. She then said the 5-year standard deviation, which is the measure of risk, is 12.1%. The Treasurer said looking at the standard deviation from November 2011 to present, it is 5.8% and the

return is 12% which indicates that the 18-month risk is practically half of the 5-year risk. The Treasurer said the efforts to mitigate risk while maintaining return have proven successful.

Treasurer Raimondo informed the Board that the COMPASS Spring 2013 Newsletter will be delivered to members shortly.

Treasurer Raimondo apprised the Board that Lifespan has agreed to partner with ERSRI. She acknowledged her gratitude to Melissa Malone, Esq., and the ERSRI staff for their efforts in securing the services of Lifespan which will help expedite the pending disability applications. The Treasurer then asked Attorneys Malone and Mambro-Martin to update the Board on disability matters.

Ms. Mambro-Martin updated the hot line tracking from last month noting a slight increase from 343 since inception in September 2012 to 350 calls to date. Ms. Malone updated the Board on the disability audit which was initiated by Treasurer Raimondo approximately 2 years ago. She noted that the audit was performed by Sullivan & Company who reviewed over 800 disability pension files. As a result, Sullivan & Company provided 20 recommendations to ERSRI for improvement. Attorney Malone noted that 19 of the recommendations have been implemented. Attorney Malone apprised the Board that as a result of the audit and internal investigation, it was determined that certain disability pensions should have been previously suspended thus resulting in overpaid disability payments. She noted that from 2001 to December 30, 2011 that \$558,000 was overpaid to 6 members. These members' outside compensation exceeded what is allowable by Rhode Island General Law. Consequently, their pensions should have been suspended prior to the audit and internal investigation. Attorney Malone told the Board that ERSRI is working with law enforcement to determine whether civil or criminal claims are appropriate and how to recoup monies owed to the system.

IV. Executive Director's Report

Director Karpinski apprised the Board that they were in possession of the May 31, 2013 Pension Application Report, the Disability Subcommittee Report, a presentation on the ERSRI Computer System Procurement Contract Finalization and a presentation for procurement of Investigative Services.

Director Karpinski apprised the Board of subcommittee meetings that occurred during the last month. He said the Rules and Regulations Subcommittee met and Chairman Maguire will discuss information provided in the Board book regarding technical changes and a new regulation for partial leave. He noted that the Audit Subcommittee met and Louis M. Prata was elected chair. Director Karpinski said he will speak on behalf of Chairperson Prata due to his absence at today's meeting. Lastly, the Procurement Subcommittee met on both May 24, 2013 and June 10, 2013 and Chairman Mullaney will update the Board on an investigative service RFP and IT computer RFP. He suggested the Board go into Executive Session to discuss some particular matters.

Director Karpinski apprised the Board that the "Report of Contributions" delinquency reports are included in the Board book and noted that some employers who were noted as delinquent have subsequently made payments and are current. Two communities still delinquent are the Town of Scituate who apprised ERSRI that they will be forwarding contributions shortly and Cumberland Fire who will be receiving an official letter seeking legal action if contributions are not collected by the 15th of June.

The Director noted the agenda in the board book was revised and the updated version was emailed last Friday with the additional information language under the Rules and Regulations Subcommittee Report section.

Director Karpinski noted that the Actuarial Audit is in progress and is expected to be presented to the Board at the July meeting.

V. Administrative Decisions

None this month

VI. Approval of the May Pensions as Presented by ERSRI

On a motion by John P. Maguire and seconded by William B. Finelli, it was unanimously

VOTED: To approve the May pensions as presented.

VII. Legal Counsel Report

Attorney Robinson apprised the Board regarding the Central Coventry Fire District. He told the Board that most of the Court's attention is on the election of a new Board of Directors. He said the election is scheduled for June 29, 2013. Attorney Robinson said the Court did issue an order earlier this week indicating that ERSRI's petition for issuance for a writ of mandamus remains pending, and will be addressed following the June 29, 2013 election.

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 June 7, 2013:

Name	Membership Group	Type	Action
1. Robert Cahill	State	Ordinary	Approve
2. Albert Delmastro, Jr.	State	Accidental	Postpone
3. Nicholas Romeo	Municipal	Accidental	Postpone
4. Sandra Jacob	State	Accidental	Deny
5. Alice McCoy	State	Accidental	Postpone
6. Gregg Marnane	Municipal	Ordinary	Postpone

Name	Membership Group	Type	Action
7. Guy Marshall	Municipal	Ordinary	Approve
8. Cristiano Costa, Jr.	Municipal	Ordinary	Approve
9. Michael Johnson	Municipal	Ordinary	Approve

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, June 7, 2013 on items 1 through 9.

Audit Subcommittee:

Director Karpinski apprised the Board that Louis M. Prata was elected chair of the subcommittee but was not present to provide the report of the committee. Consequently, Director Karpinski provided the report of the June 3, 2013 Audit Subcommittee meeting. He thanked the committee members who were present; namely, Melissa Malone, Esq., as designee of the General Treasurer; Michael R. Boyce; M. Carl Heintzleman and Jean Rondeau. Also present were the Auditor General, Dennis E. Hoyle, CPA; Senior Audit Manager William Gallogly, CPA and Supervising Auditor Stacey Whitton, CPA as well as ERSRI Director of Finance Zachary J. Saul.

Director Karpinski said the committee was provided with a presentation of the *Schedule of Findings and Responses* by the Auditor General based on his report dated May 7, 2013. He noted that Board members were provided with the *Schedule of Findings and Responses* report at the May 8th Board meeting.

The Director said Mr. Hoyle told the committee that the Reports are provided to “those charged with governance” as well as General Assembly members and key Executive branch leaders. Mr. Hoyle said that the reports are publicly available on the auditor’s website at www.oag.ri.gov.

Director Karpinski said the Auditor General told the committee that an unqualified opinion on ERSRI’s financial statements was provided with three emphasis paragraphs:

- Enactment of pension reform legislation in November 2011
- Fair value of 26% of investment portfolio is not all based on publicly quoted market prices
- Litigation challenging pension reforms

He said that Mr. Hoyle told the committee that there were no significant deficiencies or material weaknesses in internal control over financial reporting and no material noncompliance with laws, regulations and contracts.

Director Karpinski said the Auditor General reported the 15 management comments (which are less significant findings) and management’s response and planned corrective action to the committee. He said the committee discussed the comments with Mr.

Hoyle and the ERSRI staff and said that there were no disagreements with management or difficulties encountered in performing the audit.

The Director told the Board that Mr. Hoyle discussed the 2013 audit scope, responsibilities and approach with the committee and noted four new issues impacting the FY 2013 audit:

- Defined contribution plan
- New investment custodian
- Focus on investment expenses
- Contributions from non-member judges 2013

Director Karpinski apprised the Board that the committee accepted Mr. Hoyle's report as presented and thanked him and his staff for their efforts. Then on a motion by Jean Rondeau and seconded by M. Carl Heintzelman, it was unanimously

VOTED: To accept the Audit Subcommittee report.

Rules and Regulations Subcommittee:

John P. Maguire, chair of the Rules and Regulations Subcommittee, provided the Board with a report of the Thursday March 14 and Thursday May 9 meetings of the committee. He said the committee members present were Deputy Treasurer Mark A. Dingley, M. Carl Heintzelman, John P. Maguire and Thomas A. Mullaney.

Chairman Maguire said the committee first met on Thursday March 14th and discussed a draft recommendation to promulgate technical changes to ERSRI Regulations No.1, 4, 5, 7, 9, 10 and 11. He said the proposed changes included various statutory citations to be consistent with RIRSA, address changes relating to ERSRI's new offices at 50 Service Avenue, references for domestic partners and modifying the Board election procedure permitting the use of pencil; the committee also made minor adjustments for purposes of clarity.

Chairman Maguire then said the committee also met on Thursday May 9th to consider a recommendation to promulgate a draft Regulation - No. 6.15 - *Rules Regarding Rhode Island General Laws §36-9-25.1, §36-9-20.5, §16-16-5 and §45-21-14.2 Concerning the Purchase of Leave Service Credits Including The Purchase of Service Credit While on Inactive Status – Workers' Compensation*. He noted that the regulation addressed matters related to partial leave.

Mr. Maguire told the Board that both draft changes were included in their board books; both a red-lined version for the technical changes as well as draft regulation 6.15. As a result of both meetings, he apprised the Board that the subcommittee voted to recommend adoption of the proposed changes to Regulation No.1, 4, 5, 7, 9, 10 and 11 and draft Regulation No. 6.15 to the full Retirement Board for approval and upon his motion, seconded by Michael R. Boyce, it was unanimously

VOTED: To accept the recommendation of the Rules and Regulations Subcommittee regarding the proposed changes to Regulation No.1, 4, 5, 7, 9, 10 and 11 and draft Regulation No. 6.15 and authorize the Executive Director to begin the formal promulgation process.

Treasurer Raimondo requested that Andrew Marcaccio, Esq., provide the Board with an update on the process for disability compliance before the Board convenes in Executive Session. Attorney Marcaccio told the Board, based on the Sullivan and Company audit

of ERSRI's disability process, one of the recommendations of the audit was to hire an outside investigator which is why an RFP was sent out in January 2013 by public notice through the Providence Journal and posted on ERSRI's website.

Attorney Marcaccio then reminded the Board of their authority to require members receiving a disability pension to undergo an IME yearly and collect earnings information. He apprised the Board that a continuing statement was sent out in January 2013 to 517 members who were required to report their earnings and told the Board that the statements were initially due in April 2013. He noted that about 370 responded back to ERSRI. Attorney Marcaccio said a second notice was sent certified mail in May 2013 to the non-responsive members and about 100 additional members responded. He told the Board that a third request will be mailed in June for the remaining members continuing statements.

Procurement Subcommittee:

Chairman Thomas A. Mullaney told the Board that the Procurement Subcommittee met on Friday May 24th to discuss a recommendation by staff of a contract award for Investigative Services. Andrew S. Marcaccio, Esq. provided the Board with a presentation and said the evaluation criteria was based mostly on having an investigation firm that is professional, experienced, and properly licensed rather than emphasis on fees. He said ERSRI received 6 responses to the RFP; namely, Insight Service Group (ISG); APG Security, Kevin P. Carey & Associates (KPC), Rhode Island Private Detectives, TRP Associates, and Carl Winquist. The search was narrowed to three firms: Insight Service Group, APG, and KPC.

Mr. Marcaccio said the recommendation to the Procurement Subcommittee was ISG which was founded in 1992 and was very well established. He noted that the firm performs investigations with retirement plans and pension funds and their management team has over 300 years' of experience. Mr. Marcaccio said their Rhode Island field of investigators are fully trained and they do not subcontract other investigators. Additionally, they have licensed investigators nationally.

Attorney Robinson then apprised the Board that it would be appropriate to convene in executive session to consider the contract for investigator services and to consider security matters relating to the Morneau Shepell IT contract.

A motion was then made by Jean Rondeau and seconded by John P. Maguire to convene into executive session consistent with Rhode Island General Laws §42-46-5 (a)(2), to review and approve the draft executive session minutes from the May 8, 2013 Retirement Board meeting previously sealed, and to discuss the status and negotiations for a vendor contract for investigative services, and for discussion of security aspects of a proposed contract for a pension administration software solution, pursuant to Rhode Island General Laws §42-46-5 (a) (7) as the discussion may relate to the investment of public funds, the premature disclosure of which may adversely affect the public interest and §42-46-5 (a)(3), as the discussions may relate to security matters, including but not limited to the deployment of security personnel or devices. A roll call vote 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.; Michael R. Boyce; Susan Knorr Rodriguez as designee for Richard A. Licht; John P. Maguire; John J. Meehan; Thomas A. Mullaney and Jean Rondeau. It was then unanimously

VOTED: To convene into executive session consistent with Rhode Island General Laws §42-46-5 (a)(2), to review and approve the draft executive session minutes from the May 8, 2013 Retirement Board meeting previously sealed and to discuss the status and negotiations for a vendor contract for investigative services, and for discussion of security aspects of a proposed contract for a pension administration software solution, pursuant to Rhode Island General Laws §42-46-5 (a) (7) as the discussion may relate to the investment of public funds, the premature disclosure of which may adversely affect the public interest, and §42-46-5 (a)(3), as the discussions may relate to security matters, including but not limited to the deployment of security personnel or devices.

[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 Jean Rondeau and seconded by Gary R. Alger, Esq. to unseal the draft sealed executive session minutes of the May 8, 2013 Retirement Board meeting, which was then unanimously

VOTED: To unseal the draft sealed executive session minutes of the May 8, 2013 meeting of the Employees' Retirement System of Rhode Island Board consistent with Rhode Island General Laws §42-46-5(a)(2).

A motion was made by John P. Maguire and seconded by Richard A. Licht to approve the draft sealed executive session minutes of the May 8, 2013 Retirement Board meeting, which was then unanimously

VOTED: To approve the draft sealed executive session minutes of the May 8, 2013 Retirement Board meeting of the Employees' Retirement System of Rhode Island Board.

A motion was made by Jean Rondeau and seconded by Richard A. Licht to reseal the draft executive session minutes of May 8, 2013, pursuant to RIGL §42-46-5(a)(2), as they involved confidential attorney client communications related to pending litigation affecting the Retirement Board, which was then unanimously

VOTED: VOTED: To reseal the minutes of the executive session of the May 8, 2013 meeting of the Employees' Retirement System of Rhode Island Board consistent with Rhode Island General Laws §42-46-5(a)(2) as they involved confidential attorney client communications regarding pending or potential litigation involving the Retirement Board.

A motion was made by Gary R. Alger, Esq., and seconded by John P. Maguire to authorize Executive Director Karpinski to procure quotes for insurance coverage for cyber security risks associated with the computer system contract that is currently under review with the system and report back his findings to the Board, which was then unanimously

VOTED: To authorize the Executive Director to procure quotes for insurance coverage for cyber security risks associated with the computer system contract that is currently under review with the system and that the Director report back his findings to the Board.

A motion was made by John P. Maguire and seconded by Gary R. Alger, Esq., to exit executive session and return to open session which was unanimously

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

Chairman Mullaney then said the Procurement Subcommittee again met on Monday June 10th to discuss and recommend a contract award to Morneau Shepell for the Pension Administration Software Solution previously approved in December. He asked that Director Karpinski update the Board.

Director Karpinski updated the Board with various negotiated contract highlights. He noted an escrow for software, health insurance administration, security audit ability and procedure and the term and termination provisions. Director Karpinski then discussed the system implementation timeline and revised contract fees. He noted that the implementation of the system will be 14 months earlier than originally planned, a two stage release versus single release, an enhanced escrow account requirement, additional system licenses and miscellaneous adjustments, all of which combined to add cost to the original proposal. Director Karpinski said implementation fees are billed monthly but a holdback of 15% will be retained until the end of system implementation. He apprised the Board that the adjusted contract cost was now \$ 21,430,300. Director Karpinski also requested the Board authorize 1.5% (\$321,000) over the contract cost of additional spending authority for incidental changes that may occur during project planning/GAP analysis.

Chairman Mullaney introduced Pierre Chamberland, Executive Vice President and Chief Operation Officer of Morneau Shepell, who was in the audience. Director Karpinski apprised the Board that Leon Wechsler, ERSRI's IT consultant, had travel difficulty and was not able to be in attendance.

At the conclusion of Director Karpinski's presentation to the Board, Chairman Mullaney requested the following motions:

On a motion by John P. Maguire and seconded by William B. Finelli, it was unanimously

VOTED: The Board authorizes the Executive Director to execute a contract with Morneau Shepell to provide a Pension Administration Software Solution. The fee for such services shall be \$21,430,300, with an additional 1.5% cap for adjustments.

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

VOTED: Consistent with Regulation No.3 Section 2.6, the System shall secure a contract with Insight Service Group, Inc.

IX. Adjournment

There being no other business to come before the Board, on a motion by John P. Maguire and seconded by Gary R. Alger, Esq., the meeting adjourned at 10:29 a.m.

Respectfully submitted,

Frank J. Karpinski
Executive Director