



Employees' Retirement Board of Rhode Island
Monthly Meeting Minutes
Wednesday, May 14, 2014
9:00 a.m.
2nd Floor Conference Room, 50 Service Avenue

The Monthly Meeting of the Retirement Board was called to order at 9:07 a.m. Wednesday, May 14, 2014, 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.; Daniel L. Beardsley; Frank R. Benell, Jr.; Roger P. Boudreau; Michael R. Boyce; Mark A. Carruolo; Richard A. Licht; John J. Meehan; Thomas A. Mullaney; Claire M. Newell; Louis M. Prata and Jean Rondeau.

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

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

II. Approval of Minutes

On a motion by Jean Rondeau and seconded by Frank R. Benell, Jr., it was unanimously **VOTED: To approve the draft minutes of the April 9, 2014 meeting of the Retirement Board of the Employees' Retirement System of Rhode Island.**

III. Chairperson's Report

Treasurer Raimondo apprised the Board that Chief Investment Officer Anne Marie Fink will provide the quarterly update on investments and an update from TIAA-CREF on the DC plan.

The Treasurer noted that at last month's Board meeting there were questions raised regarding a lawsuit filed on behalf of a small group of retirees and asked Deputy Treasurer Mark Dingley, Esq. to comment on them and provide an update on the pending pension litigation. Attorney Dingley said that there was an additional lawsuit filed by a group of retirees and noted that they distinguished themselves from the original group of retirees as retirees who retired prior to the effective date of the RIRSA legislation. He said the case will proceed and noted that there was a meeting with the Judge on Friday, May 9th to ask for a continuance of the September 15, 2014 trial date that was denied. Mr. Dingley said the next hearing before the Court on procedural issues is May 30, 2014. Mr. Licht asked if the new lawsuit would be consolidated with the other cases, and Attorney Dingley said that it is one of the particular issues that will be addressed on May 30th.

Treasurer Raimondo then asked Chief Investment Officer Anne Marie Fink to provide an update on the investment portfolio for the last quarter. Ms. Fink said she would be providing a performance update on the defined benefit plan, a performance update on

the defined contribution plan and Mr. Darren Lopes of TIAA-CREF would discuss the DC program operations and statistics.

Ms. Fink noted that the DB Plan fiscal year to date return was 11.3% through end of March 2014. She said the return is 3/10 of a percent ahead of the 11% return of a basic 60% equities/40% bond portfolio, which affirms the asset allocation is working as expected. She said the first quarter of 2014 was not as strong with a 1.45% return. Ms. Fink said stocks rallied in February recouping the losses from January's market challenges and the market is staying level thus far. Ms. Fink noted the State Investment Commission is staying on course with the current asset allocation with a few modifications in the hedge fund portfolio to make it less sensitive to market fluctuations. Overall, Ms. Fink was pleased with the portfolio's performance.

Ms. Fink briefly discussed the investment portion of the Defined Contribution (DC) Portfolio, stating the overall performance is on target and since the majority of the portfolio is in low cost index funds, it mirrors how the market performs. Most of the target date funds have outperformed their median competitors' target date funds, demonstrating that the low cost index approach is working for this portion of portfolios. She reminded the Board of the switch at the end of year 2013 to low cost Vanguard comingled funds. Since assets were large enough, the SIC had the ability to move into similar-strategy products that effectively provide a volume discount thus keeping costs low without impacting the strategy.

Lastly, Ms. Fink mentioned that with the move in equity markets last year and the low bond rates, the outlook for performance remains challenging. She said the return on core bonds is 2.5% - 2.6% on the 10-year US Treasury and is not an area to look for strong performance in the near term. Ms. Fink said a year ago stocks were trading at a lower than historical average of multiple earnings (inexpensive); however, they are now trading above long-term averages of multiple of earnings.

Ms. Fink said the SIC had the general investment consultant, PCA, provide an asset allocation review earlier in the year and the consultant concluded that the allocation is as good as it can be given risk, return and other constraints of SIC's portfolio. PCA also said the expected return is under 7% over the next 10 years given the asset allocation of the portfolio.

Mr. Beardsley asked Ms. Fink to clarify the "*constraints of the portfolio*" and Ms. Fink defined the phrase by stating that the portfolio is in a cash flow negative situation, meaning the System currently pays out \$500 to \$600 million more a year than contributions received. Consequently, the constraint is the cash flow needs for meeting pension payroll.

Regarding the COLA, Mr. Licht asked what the 5-year average fund return was. Director Karpinski said the COLA is based on the actuarial value of assets and not the market value and said the June 2014 actuarial valuation, to be considered in December, will develop the return number to determine COLA for calendar 2015.

Treasurer Raimondo then introduced Mr. Darren Lopes, Relationship Manager, and Ms. Lindsay Hartman, Director for the Field Consultants, from TIAA-CREF Financial Services.

Mr. Lopes provided a summary of the DC Plan stating that the total plan assets are \$243,741,661. He provided the breakdown of the number of participants, noting that a majority of participants are between mid-career and retirement age. Mr. Lopes said 92% of assets are in Vanguard Lifecycle Trusts. He discussed the plan assets by investments, which are a mix of active investments and index funds noting that within

the equities fund portfolio, a new investment named TIAA-CREF Social Choice Equity Fund was added in March 2014.

Ms. Hartman apprised the Board that though participants may still be in the educational phase in the DC Plan, many participants are moving forward and looking at the asset allocation projections to suit their retirement portfolio. Mr. Lopes affirmed that the diversifying one's portfolio is readily available as changes to one's portfolio is not commission-based so no extra fees are applied to an individual's account if choosing to diversify.

Ms. Hartman who oversees the financial consultants based in the Providence, RI office said the activity is generally one-on-one meetings as well as group events and seminars/workshops. She said 3,501 attendees opted for meetings in 2013 and 558 attendees for the 1st quarter of 2014. Ms. Hartman said that while TIAA-CREF is visiting State agencies, they are also meeting with schools, municipalities, and RIASBO.

Mr. Boudreau asked how new employees are introduced to the product. Mr. Lopes said upon receipt of a file from the plan administrator of a new employee, a client services' consultant works with the administrator to provide product material and guidance on training.

Treasurer Raimondo again thanked the Board for its participation in the training session on March 28, 2014 and noted the certification letters for Board Members.

IV. Executive Director's Report

Director Karpinski apprised the Board that they were in possession of the Pension Application Report and the Disability Subcommittee Report.

The Director then apprised the Board that the Experience Study for the period ending June 30, 2013 will be presented next month on June 18, 2014, which will be the revised monthly Board meeting date. He said Mr. Joseph Newton, FSA of GRS will present the results of the study. He noted that results of the Experience Study would be incorporated in the June 30, 2014 valuation, which will be presented for consideration and approval this coming November or December. As noted in the past, Director Karpinski highlighted the importance of the study and said he would provide the Board as much information/training as possible to assist them in their consideration of the recommendations. Specifically, he noted that Mr. Allan Emkin of PCA, the general investment consultant to the SIC, will provide the Board with a presentation of *Capital Market Return Expectations* to assist them with analysis of the investment rate of return assumption.

Director Karpinski provided a retrospective overview of all the efforts done to prepare the Board for these decisions. Specifically, he noted the independent actuarial audit recently done which validated that the work of GRS was accurate and consistent with actuarial standards, the actuarial training session that was done at the March 28th Board training session and the fiduciary trainings previously done.

Attorney Robinson reminded the Board of the requirement under Rhode Island General Law (RIGL) enacted in RIRSA, i.e. § 36-8-4.1 *Fiduciary and continuing education requirements*, which provides that in the event the retirement board takes any action(s) contrary to the recommendation of the plan actuary, the executive director shall within thirty (30) days, provide notice of such action(s) to all plan members, the governor, the speaker of the house of representatives and the president of the senate. The notice shall also be posted electronically on the retirement board's website. He recommended that

Director Karpinski forward any prior training material for their review, and offered his assistance should the Board have any questions.

Director Karpinski apprised the Board of a meeting he recently had to discuss the potential procurement of Cyber Risk Insurance. He thanked Mr. Kevin Carvalho, the State's Risk Manager, who coordinated an analysis with the State's Insurance Consultants to review preliminary quotations. The Director said the team reviewed the analysis and quotations and had additional questions, and said they will seek clarification from the potential insurers.

Director Karpinski updated the Board on the "*Report of Contributions*" delinquency report in the Board book. He noted that West Warwick Housing Authority who was noted as being delinquent was now current as the contributions were received today.

V. Administrative Decisions

Administrative Appeal – Jason M. Lavallee vs. ERSRI

Included in Board Members' Books was the Hearing Officer's written decision, along with exhibits and supporting information in the matter of *Jason M. Lavallee 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 everything received by ERSRI is included in the packet. Mr. Lavallee was not present for the hearing but was represented by his Attorney, John B. Harwood, Esq.

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's attorney 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.

There being a stenographer present, Attorney Robinson then provided a synopsis of the matter, including the decision from Hearing Officer Koutsogiane.

At the conclusion of the hearing, Attorney Robinson apprised the Board that he had reviewed this matter with Director Karpinski, and was recommending to the Board that it accept the Hearing Officer's recommendation and refer this matter to the Disability Subcommittee. Attorney Harwood expressed his agreement with this approach and recommendation.

On a motion by Roger P. Boudreau and seconded by Jean Rondeau, it was unanimously

VOTED: To accept the findings of fact and conclusions of the Hearing Officer, and to refer the matter of *Jason M. Lavallee vs. ERSRI* to the Disability Subcommittee for consideration of the accidental disability application.

VI. Approval of the April Pensions as Presented by ERSRI

On a motion by Claire M. Newell and seconded by Richard A. Licht, it was unanimously

VOTED: To approve the April pensions as presented.

VII. Legal Counsel Report

Attorney Robinson updated the Board on the Central Coventry Fire District (CCFD) matter, and on the *Anne Melvin vs. ERSRI* matter. Attorney Robinson then suggested that a motion would be in order if the Board wished to convene in Executive Session to discuss the matter identified on the agenda involving litigation against the Retirement Board, namely, *Retirement Board of the Employees' Retirement System of the State of Rhode Island v. Kelly McDonald*, pursuant to Rhode Island General Laws section §42-46-5 (a)(2).

Consistent with Rhode Island General Laws section §42-46-5 (a)(2) regarding pending or potential litigation involving the Retirement System, a motion was made by William B. Finelli and seconded by Jean Rondeau to convene the Board in Executive Session to discuss the identified litigation matter on the agenda.

A roll call vote was taken to enter into Executive Session, 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; Frank R. Benell, Jr.; Roger P. Boudreau; Michael R. Boyce; Mark A. Carruolo; Richard A. Licht; 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) to discuss the matter identified on the agenda, namely, *Retirement Board of the Employees' Retirement System of the State of Rhode Island v. Kelly McDonald* involving pending litigation against the Board.

[Executive Session]

The Board thereafter convened in executive session.

[Return to Open Session]

Upon returning to open session, Board Counsel Michael P. Robinson noted for the record that two unanimous votes had been taken in executive session. He noted the Board authorized Board Counsel, Michael P. Robinson Esq., to proceed with a proposed resolution of the *ERSRI v. Kelly McDonald* matter and to seek judicial approval of that resolution.

A motion was then made by Richard A. Licht and seconded by Jean Rondeau, and it was unanimously

VOTED: To authorize Attorney Robinson to proceed with potential resolution of the Retirement Board of the *Employees' Retirement System of the State of Rhode Island v. Kelly McDonald* matter as presented, and to seek judicial approval thereof.

A motion was made by Richard A. Licht and seconded by Claire M. Newell, to exit executive session and return to open session, and it was unanimously

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

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 Friday, May 9, 2014:

Name	Membership Group	Type	Action
Keith Printer	Municipal	Accidental	Postpone
Philip Maimoni	State	Accidental	Appeal withdrawn by member
Gary Serra	Municipal	Accidental	Approve
Albert Turcotte	State	Accidental	Postpone
Mary Ellen Malone	Teacher	Accidental	Approve
Emile Ziadeh	State	Ordinary	Approve
Emile Ziadeh	State	Accidental	Approve to go forward with application for accidental disability
Anna Canto	State	Accidental	Postpone
Rosendo Vicioso	Teacher	Accidental	Deny
Eubalda Coates	State	Accidental	Deny

Name	Membership Group	Type	Action
Jorge Lomastro	Teacher	Accidental	Postpone
Mark Doyle	Municipal	Ordinary	Approve
Lorraine Serio	Municipal	Ordinary	Approve
Maribel Domenech	State	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, May 9, 2014 on items 4, 8, 10 and 14.

Claire M. Newell recused herself from the vote on numbers 4, 8, 10, and 14.

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, May 9, 2014 on items 1, 2, 3, 5, 6, 7, 9, 11, 12 and 13.

Mr. Finelli noted that on the Disability Subcommittee Report both item Nos. 6 and 7 are one in the same name as Mr. Emile Ziadeh was approved for an ordinary disability, and he subsequently has been approved to go forward with his application for an accidental disability.

IX. Adjournment

There being no other business to come before the Board, on a motion by Jean Rondeau and seconded by Roger P. Boudreau, the meeting adjourned at 10:10 a.m.

Respectfully submitted,

Frank J. Karpinski
Executive Director