



Employees' Retirement Board of Rhode Island
Monthly Meeting Minutes
Wednesday, May 13, 2015
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 13, 2015, in the 2nd Floor Conference Room, 50 Service Avenue, Warwick, RI.

I. Roll Call of Members

The following members were present at roll call: Treasurer Seth Magaziner; Vice Chair William B. Finelli; Gary R. Alger, Esq.; Daniel L. Beardsley; Roger P. Boudreau; Mark A. Carruolo; Michael DiBiase; John P. Maguire; John J. Meehan; Thomas A. Mullaney; Claire M. Newell and Jean Rondeau.

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

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

II. Approval of Minutes

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

VOTED: To approve the draft minutes and the executive session minutes of the April 8, 2015 meeting of the Retirement Board of the Employees' Retirement System of Rhode Island.

III. Chairperson's Report

Treasurer Magaziner provided a legal update on the pension litigation noting that the fairness hearings for the proposed settlement of the pension litigation will begin on May 20, 2015. If the Judge rules, after the fairness hearings, that the proposed deal is fair, it will be in the hands of the General Assembly.

Treasurer Magaziner asked Chief of Staff Andrew Roos to provide an update on the mailing to all members informing them of their opportunity to appear at the fairness hearing. Mr. Roos said since the last Board meeting, 60,000 members have been mailed notification with minimal returns (less than 1 ½ percent) accompanied by putting a full page ad in The Providence Journal.

Director Karpinski then apprised the Board that within the next few days, mailings will be sent to all employers identifying those members that have 10 but less than 15, 15 but less than 20 and 20 plus years of service credit so employers may begin identifying adjustments needed to implement the settlement if enacted into law.

Mr. Beardsley asked Director Karpinski about the timing of implementation if the effective date is July 1, 2015. Director Karpinski said if the date is July 1, there would be

a 5-6 week window for implementation as contributions are not to be due until August 15th for wages paid in July on the Defined Benefit (DB) side thus giving the cities and towns some time to make the adjustments.

Treasurer Magaziner then asked Chief Investment Officer Anne-Marie Fink to provide the March 31, 2015 quarter update on investments. Ms. Fink said she would be providing a performance update on the Defined Benefit (DB) plan for the first quarter and the longer term, and representatives from TIAA-CREF would discuss the Defined Contribution (DC) plan. Ms. Fink also apprised the Board that there was a Treasury release on the investment performance data for Q1 2015 put out by Treasurer Magaziner provided to the Board members today.

Ms. Fink said diversification, though good, means there's always a portion of the portfolio facing periodic challenges. As an example, Ms. Fink asked the Board to refer to page 30 of the March 31, 2015 State Investment Commission (SIC) report provided in the Board book, which was the *Total Performance Summary/Total Net of Fees* reflecting the first calendar quarter. She said this particular quarter illustrated the advantages of diversification because it was so volatile. The *Russell 3000 Index* in January was down 2.78%; February, up 5.79% and in March, down 1.02%. She added that when equity markets were working, fixed income was down and vice versa. Ms. Fink said a combination of investments, each working at different times, works together to create an overall return over time that is better and more stable than any of the pieces. She referred to page 23 and compared the risk and return performance of the total plan, total plan benchmark and the 60% equity/40% fixed income basic allocation. She noted the portfolio has a lot less risk and has yielded more return on a 3 year basis with a 5.5% standard deviation that is materially better than the 6.3% volatility for the 60% equity/40% fixed income basic allocation. In terms of performance, she noted the total plan benchmark was overall on target and was pleased with the 8.75% annualized return over the last 3 years and 6.3% annualized return over the last 10 years.

Mr. Maguire asked if Ms. Fink had comparative return numbers from other public pension funds and wanted to know how ERSRI ranked amongst them. Ms. Fink said she does not currently have such information but could compile the numbers noting that plans generally report returns on a fiscal year basis which is better for comparison.

Ms. Fink said there was going to be an investment presentation at the Board's annual fiduciary training and continuing education session. She said Stephen P. Wood, Ph.D., from Russell Investment will speak on how investors put together long term assumptions that underpin the 7.5% assumed rate of return. He is also an economist and chief market strategist who would welcome any questions on the macro economy.

Ms. Fink then introduced Messrs. Laurence E. Brown, Director and Institutional Investment Strategist, and David Iden, Relationship Manager, both from TIAA-CREF Financial Services.

Mr. Boudreau first asked a question of Mr. Iden regarding those active members who will be impacted by the settlement having 20 plus years of service credit and thus not participating in the TIAA-CREF DC plan. He queried if those who are over 59½ years of age would have immediate access to their TIAA-CREF balances. Ms. Fink said the current statute provides that a member needs to separate from service to be able to access their funds.

Mr. Iden then provided a summary of the 401(a) DC Plan stating that the total plan assets are \$377 million as of March 31, 2015, growing approximately \$10 million monthly. He noted that 92% of assets are in Vanguard Lifecycle trusts. The total

contributions on a rolling 12-month period were \$128,076,426. He provided a breakdown of participants, noting that a majority of participants (57%) are between mid-career and retirement age. Mr. Iden stated that the total participants, both active and retired, in the plan are 32,673. He mentioned \$32 million or 8% of the total plan assets are invested outside of the lifecycle product. He discussed the plan assets by investments, which are a mix of active investments and index funds, and noted how participants' average asset balances now exceed the \$10,000 mark averaging \$11,539.

He noted the continuing increase in secure web identifications and logons is steady and expected the pattern to continue. He noted that call volume has subsided from last quarter due to the web accessibility noting that is normal. Mr. Iden reviewed the insert sheet *Field Consulting Group Activity* page 12 noting there is a trend downward, but said with the potential resolution of the pension reform there may be a reversing trend upward. Mr. Iden acknowledged and thanked Mr. Maguire for his recent outreach support.

Mr. Laurence Brown then discussed the 2015 year-to-date performance for the first quarter ending March 31, 2015. Mr. Brown said TIAA-CREF offers 12 options and noted the options permit participants to fully participate in the market. Mr. Brown talked about the stable value and money market fund options which are heavily influenced by the bond market, which was up 1.66% year to date. He said the PIMCO Real Return is actively managed; despite a lack of inflation over the last few years it has still obtained a 1.5% rate of return. He noted that this PIMCO fund is the only purely active managed option and has outperformed 98% of the other inflation-protected funds. Next he noted the small cap blend was up 4.81% performing better than last year. Mr. Brown mentioned the two international options that are passively managed and very cost effective. He showed the Board that international developed markets were up nearly 5.5% as Europe's growth gained strength from last year's numbers. Mr. Brown said these are long-term investments and strong diversifiers. Mr. Brown said the TIAA Real Estate Account was up 2.98% for the quarter. Lastly, Mr. Brown said the target-date returns range from 1.78% (conservative) to 2.50 % (more aggressive) on the Vanguard Target Retirement funds. He reminded the Board that the SIC moved target-date funds from the mutual fund to the trust option to gain economies of scale and better pricing. The target-date funds cost 11 basis points, a very competitive price and they are performing well.

Treasurer Magaziner thanked Ms. Fink, Messrs. Brown and Iden for their presentation.

IV. Executive Director's Report

Director Karpinski apprised the Board that they were in possession of the Disability Subcommittee Report as well as the April 2015 *Pension Application Report*.

The Director updated the Board on the FY2015 budget which was approved in September 2013 and enacted for \$10.8 million. He said that based on the information known at the time, it was assumed the 2014 mediation would be successful. Given the unsuccessful outcome, it was then expected that litigation expenses would most likely be incurred during fiscal year 2016. However, expenses have been incurred in the current fiscal year. Director Karpinski said that with the current increased legal expenses, ERSRI is still \$300,000 under the budget cap noting that there are savings in other line items in the budget. He said ERSRI has been working with the Budget office to ensure adequate funding for the remainder of FY2015. He stressed that all other budget line items are on target with no funding issues. Director Karpinski said he would keep the

Board apprised of any changes in budget spending. Mr. Boudreau asked about the litigation expenses and noted that he previously asked Attorney Dingley what happens if the budget for litigation expenses is exceeded and does the State pick up the remaining balance. Director Karpinski said he would find out. Mr. Maguire asked Mr. Mullaney what the State has paid for litigation expenses related to the reform litigation to date and Mr. Mullaney said he would provide that information.

Director Karpinski reminded the Board of the Friday May 15, 2015 annual fiduciary training and continuing education session at the University of Rhode Island, Alton Jones Campus, Whispering Pines Conference Center and noted the conference room has been changed to the Sycamore Lodge. The Director reminded the Board that training is required by Rhode Island General Law and stressed that Board members should make every effort to attend.

Director Karpinski updated the Board on the "*Report of Contributions*" delinquency report in the Board book. He noted that the Town of Smithfield is current. The remaining outstanding employers will be addressed using the normal collection of funds procedure if payment of contributions is not received today.

V. Administrative Decisions

Disability Appeal – Margaret M. Provoyeur vs. ERSRI

Included in Board Members' Books, under separate cover, were the Findings of Fact as concluded by the Disability Subcommittee, transcripts from the reconsideration hearing before the subcommittee, medical and supporting information in the matter of *Margaret M. Provoyeur vs. ERSRI*. Attorney Robinson asked if consistent with Regulation Number 9, *Rules pertaining to the application to receive an Ordinary or Accidental Disability Pension*, there were any written briefs, legal memoranda, or exceptions to the conclusions and recommendation of the Disability Subcommittee, which must have been submitted to the Executive Director not later than 10 days prior to the hearing. Director Karpinski apprised the Board there was, and that such materials were included in the Board members' books.

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 Ms. Provoyeur that this is not an opportunity to present new factual material or evidence to the Board, and that pursuant to ERSRI's regulations and Rhode Island case law, the Board owes deference to the Disability Subcommittee on factual determinations and questions of credibility, and will not overturn those determinations of fact or credibility unless such determinations are found to be clearly wrong. Ms. Provoyeur was appearing Pro Se.

There being a stenographer present, Attorney Robinson then provided a synopsis of the matter. Mr. John P. Maguire recused himself on the matter.

At the conclusion of the presentations, a motion was made by Jean Rondeau and seconded by Gary R. Alger, Esq., to uphold the Board's prior action accepting the findings and recommendation of the Disability Subcommittee, denying the accidental disability application. A roll call was taken, and the following members voted Yea: Treasurer Seth Magaziner; Vice Chair William B. Finelli; Gary R. Alger, Esq.; Daniel L. Beardsley; Roger P. Boudreau; Mark A. Carruolo; Michael DiBiase; John J. Meehan; Thomas A. Mullaney; Claire M. Newell and Jean Rondeau.

There being 11 votes cast, 11 voted in the affirmative, and 0 voted in the negative. 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 uphold the Board's prior action accepting the findings and recommendation of the Disability Subcommittee, denying the accidental disability application.

VI. Approval of the April Pensions as Presented by ERSRI

On a motion by Gary R. Alger, Esq. and seconded by John P. Maguire, it was unanimously

VOTED: To approve the April pensions as presented.

VII. Legal Counsel Report

Attorney Robinson then updated the Board with regard to the pension revocation action brought against Gerard M. Martineau pursuant to R.I.G.L. §36-10.1-1, et seq., the Public Employee Pension Revocation and Reduction Act (PEPRRA). Attorney Robinson indicated that Mr. Martineau had contacted him to represent that he would agree to voluntarily waive any entitlement to a pension that he might otherwise have had. Attorney Robinson indicated that as this was the ultimate result that could be obtained under the statute, he would prepare the appropriate documents to effectuate Mr. Martineau's revocation, which would then be presented to the Superior Court for approval. Provided the Superior Court found this resolution acceptable, Mr. Martineau would voluntarily relinquish his pension benefits.

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 8, 2015:

Name	Membership Group	Type	Action
1. Eubalda Coates	State	Accidental	Deny
2. Mary Maclaughlin	Municipal	Accidental-- -Deny	Ordinary-- Approve
3. Sean Siembab	State	Accidental	Approved @ 66 2/3%
4. David Lashus	Municipal	Ordinary	Deny
5. Michael Stevens	Municipal	Accidental	Postpone

Name	Membership Group	Type	Action
6. Kurt Strakaluse	Municipal	Ordinary	No motion. Documents received. No further action required.
7. Kristina Smith	Municipal	Accidental	Approve
8. Nancy Jones	State	Ordinary	Approve
9. Nancy Marciano	Teacher	Ordinary	Postpone
10. Paula Craig	State	Ordinary	Approve
11. Thomas Andrade	Municipal	Ordinary	Approve

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

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, May 8, 2015 on items 1, and 3.

Claire M. Newell recused herself from the vote on numbers 1 and 3.

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

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday May 8, 2015 on item 9.

John P. Maguire recused himself from the vote on number 9.

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

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, May 8, 2015 on items 2, 4, 5, 6, 7, 8, 10 and 11.

IX. Adjournment

There being no other business to come before the Board, on a motion by John P. Maguire and seconded by Roger P. Boudreau, the meeting adjourned at 9:55 a.m.

Respectfully submitted,

Frank J. Karpinski

Executive Director