



Employees' Retirement Board of Rhode Island
Monthly Meeting Minutes
Friday, October 16, 2015
9:00 a.m.
2nd Floor Conference Room, 50 Service Avenue

The Monthly Meeting of the Retirement Board was called to order at 9:03 a.m. Friday, October 16, 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: General Treasurer Seth Magaziner; Vice Chair William B. Finelli; Michael R. Boyce; Mark A. Carruolo; Andrew S. Marcaccio, Esq., designee for Michael DiBiase; John P. Maguire; John J. Meehan; Marianne F. Monte; 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 Magaziner called the meeting to order.

Treasurer Magaziner welcomed Mr. Andrew S. Marcaccio, Esq., a former Treasury employee, as he is sitting in as designee for Michael DiBiase.

II. Approval of Minutes

Mr. Maguire noted that page 3 of the minutes referenced \$404,326.286 as the total plan assets in the 401(a) DC Plan as of June 30, 2015. He noted a correction should be made to reference the amount of \$404,326,286

On a motion by Jean Rondeau and seconded by Louis M. Prata, it was unanimously

VOTED: To approve the draft minutes with the correction noted and the executive session draft minutes of the September 9, 2015 meeting of the Retirement Board of the Employees' Retirement System of Rhode Island.

III. Chairperson's Report

Treasurer Magaziner provided an update on the customer service email survey recently sent. He said the survey was developed in coordination with ERSRI staff and Brown University Professor Shankar K. Prasad PhD. The Treasurer said the Professor will present the results at the next Board meeting.

Director Karpinski and Chief Operating Officer Patrick Marr said the survey was sent to 26,000+ members both active and retired. Mr. Marr noted that it included gating logic, so recipients see questions based on certain responses. Director Karpinski noted that there were 5,700+ responses returned. Director Karpinski and Chief Operating Officer Patrick Marr provided a series of graphs on the respondent's demographics and noted that there were more retirees than active responses. The Director noted that the average respondent age was 62.

Treasurer Magaziner discussed the legal services associated with the pension litigation in response to a question asked by Mr. Maguire. Chief of Staff and General Counsel Jeffrey Padwa stated that over the past 3 years, attorneys representing the Official State defendants, Mark Dingley, Claire Richards, Richard Licht, Andrew Marcaccio, and Attorney Padwa as well as attorneys from the Attorney General's Office, had worked approximately the same number of hours as the law firm representing the Retirement System, Adler, Pollock & Sheehan.

Mr. Maguire asked Attorney Robinson if the Board voted to retain outside counsel at the time when the union Board members had recused from participation in the matter. Attorney Robinson stated that he was unsure, but noted that then-Treasurer (Raimondo) would have been entitled by statute to engage counsel for the Board.

IV. Executive Director's Report

Director Karpinski apprised the Board that they were in possession of the September 2015 *Pension Application Report* and the Disability Subcommittee Report. Also provided was a presentation by Joseph P. Newton, FSA, from Gabriel, Roeder, Smith & Company (GRS) on the *Teachers' Survivors Benefit Fund* which was presented via Skype®. The Board also possessed a cost analysis prepared for the Procurement Subcommittee for its meeting on October 8th, which Chairman Thomas Mullaney would address later in the meeting during committee reports. Director Karpinski informed the Board that Director of Finance Zachary J. Saul would present the fiscal 2017 budget for the Board to consider.

Director Karpinski updated the Board on the "*Report of Contributions*" delinquency report in the Board book. He noted that the North Smithfield School Department, the East Providence School Department, Glocester Police Department, North Providence Housing Authority, Smithfield Housing Authority and the Town of Glocester are now current.

Director Karpinski said that the Teacher Survivor Benefit Plan (TSB) valuation, consistent with the statute, is required to be approved every 2 years. The Director said that due to requirements of GASB 68 and getting more efficiency for collecting data, the valuation will be done annually. He also noted recent information that Social Security benefits will not have a COLA next year; and since the TSB COLA is based on that number, TSB will not be having a COLA in January 2016.

Mr. Joseph P. Newton, FSA, of Gabriel, Roeder, Smith and Company (GRS) provided his presentation to the Board. He noted the plan is very well funded. Mr. Newton said the total assets are larger than the current present value of all the benefits and even with a 5% return of assets, based on last year's analysis, it is still well funded with no contribution changes. He said looking at the GASB actuarial results, the actuarial accrued liability (AAL) is \$192.1 million which generates a funded ratio of 153%. He further noted that consistent with the statute, because the funded ratio is greater than 120%, no contribution adjustments are required.

Mr. Maguire asked when the assumptions will be reviewed. Mr. Newton said the assumption will be reviewed during the next experience study.

Mr. Finelli on behalf of Mr. Roger Boudreau provided some questions relating to assumptions, COLA calculation and net return and said he will provide the information to Director Karpinski for review.

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

VOTED: To approve the Actuarial Valuation, as presented, as of June 30, 2014 by Gabriel, Roeder, Smith and Company (GRS) of the Teachers' Survivors Benefit Fund (TSB).

Mr. Finelli asked Director Karpinski what the timeline is for the actuarial contract. The Director said an RFP will be prepared and advertised in January 2016 and consideration by the Board will likely be in June 2016.

Presentation, discussion and potential approval of Fiscal Year 2017 Proposed Budget

Director Karpinski introduced Mr. Zachary J. Saul, Director of Finance, to provide the Board with the fiscal 2017 proposed budget for ERSRI. Mr. Saul told the Board that consistent with Regulation 1(A) 5(k) *Board Authority and Duties*, the Board must approve a yearly budget. He said the approved Budget is part of the overall Treasury budget submitted to the General Assembly for ultimate approval. He also pointed out that since the Retirement System is a restricted receipt account, Rhode Island General Law (RIGL) §36-8-10.1 defines how the State's budget cap is calculated as 17.5 basis points of the average total investments before lending activities as reported in the annual report of the auditor general for the next preceding five fiscal years.

Mr. Saul said for fiscal 2017 the average total investments before lending activities are calculated at \$7.7 billion and the budget cap (per RIGL) is \$13.5 million. Mr. Saul then highlighted some primary budget changes for the Board. He noted ERSRI will be migrating off of the existing line of business system (i.e., ANCHOR), as it prepares to be moved to the *Ariel*® System from Morneau Shepell (MS). For the last two years we have been running parallel with the existing ANCHOR system with Hewlett Packard. He told the Board that by 2017 implementation of the system will be completed, and noted a third party may be engaged to manage the MS contract. Mr. Saul said also for 2017 there may be some post implementation change requests that may be needed.

Mr. Saul said the legal services for Fiscal 2017 budget will be substantially lower given the settlement agreement. Also, he said ERSRI will reengage tax counsel to consider an IRS qualification letter. Mr. Saul then discussed actuarial expenses, noting contingencies related to RIGL §36-10-39, which provides the general assembly the authority to request studies of ERSRI's actuaries at the expense of the System. He also noted an increase in costs due to the new accounting standards of GASB 67 and 68.

Mr. Saul then discussed the personnel costs and noted they are slightly higher than what was budgeted in both fiscal 2016 and fiscal 2015 as he said there is an expectation to fill the position of the Director of Member Services in 2016. He also noted the Director of Communications position was vacant and is now filled, and two new positions have been added to ERSRI including a Customer Experience Manager and a Junior Accountant. He said there was a slight increase on the fringe benefits.

Mr. Saul then provided the updated *ERSRI Personnel Supplement FY17* as well as what was allocated into the system from other departments' resources within Treasury, namely, the *ERSRI Personnel Supplement Budget Fiscal Year 2017* categorized by departments within Treasury. He said with the Treasurer's transparency initiative, this information would provide the resources within Treasury for allocation of salary funding.

Mr. Saul next discussed the *Purchased Services*, noting that the disability determination amount of \$280,000 is an increase due to more specialized IME doctors having increased fees as well as increases in the average claims.

Mr. Saul discussed the decrease in expense for the internal auditors, BlumShapiro, who are near completion of the municipal audit which has been conducted over the last 2 fiscal years based on a lower hourly rate working off season. Once completed, BlumShapiro will return and present their findings and any potential recommendations to the Board. He noted that in fiscal 2017, ERSRI will issue an RFP for internal audit services, who continue to do municipal reviews as well as a review of internal accounting procedures assisting with making the accounting department more efficient.

Mr. Saul then discussed *Operating Costs* where the largest item is postage. He said the number includes 4 to 5 newsletters being sent to 65,000 members; 28,000 1099R's to retirees; 8,000 direct deposit remittances per month; 1,500 hard copy checks and general correspondence.

Mr. Maguire asked about budget training costs and what allowances are given if additional money is needed to be allotted to this area. The Treasurer and Mr. Saul said as long as expenses are below the \$13.5 million cap, ERSRI would just need approval by the general assembly.

Mr. Saul said occupancy costs have increased as ERSRI has now secured the services of an armed security guard from Capitol Police on a permanent basis. Mr. Maguire asked about the increase in security cost. Chief Operating Officer Patrick Marr said the incumbent security guard was at a lower pay grade, and the new guard has more service credit and a higher pay grade level.

He also noted an additional expense in *Rental of Outside Property* for a possible satellite office to service members.

Mr. Saul noted the furniture and equipment costs show an increase from fiscal 2016 to 2017 as money has been budgeted to upgrade the existing conference rooms and purchase of new copier machines.

Mr. Saul then concluded his presentation and noted that the budget is under the cap as defined by RIGL §36-8-10.1.

A motion was made by John P. Maguire and seconded by Marianne F. Monte to approve the fiscal 2017 budget as presented. A roll call vote was taken, and the following members were present and voted Yea: Treasurer Seth Magaziner; Vice Chair William B. Finelli; Michael R. Boyce; Mark A. Carrolo; Andrew S. Marcaccio as designee for Michael DiBiase; John P. Maguire; John J. Meehan; Marianne F. Monte; Thomas A. Mullaney; Claire M. Newell; Louis M. Prata and Jean Rondeau. It was unanimously

VOTED: To approve the fiscal 2017 Budget as presented

V. Administrative Decisions

None this month

VI. Approval of the September Pensions as Presented by ERSRI

On a motion by William B. Finelli and seconded by Michael R. Boyce, it was unanimously

VOTED: To approve the September pensions as presented.

VII. Legal Counsel Report

Attorney Robinson suggested that a motion would be in order for the Board to convene in Executive Session to discuss pending or potential litigation matters identified on the agenda 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 Mark A. Carruolo and seconded by Jean Rondeau to convene the Board in Executive Session to discuss the 3 identified litigation matters on the agenda.

A roll call vote was taken to enter into Executive Session, and the following members were present and voted Yea: General Treasurer Seth Magaziner; Vice Chair William B. Finelli; Michael R. Boyce; Mark A. Carruolo; Andrew S. Marcaccio, Esq., designee for Michael DiBiase; John P. Maguire; John J. Meehan; Marianne F. Monte; Thomas A. Mullaney; Claire M. Newell; Louis M. Prata and Jean Rondeau. It was unanimously

VOTED: To convene the Board into Executive Session pursuant to Rhode Island General Laws section §42-46-5 (a)(2) to discuss the three pending or potential litigation matters identified on the agenda.

[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 three unanimous votes had been taken in Executive Session. He noted the Board authorized Board Counsel, Michael P. Robinson Esq., to take action in the matter of the *Coventry Fire District* to recoup funds owed to the System.

A motion was then made by Jean Rondeau and seconded by John P. Maguire, and it was unanimously

VOTED: To authorize Board Counsel Michael Robinson to take legal action to recoup funds owed to the System by the Coventry Fire District.

The second vote, on a motion made by Thomas A. Mullaney and seconded by Jean Rondeau, was to seal the executive session minutes pursuant to R.I.G.L. §42-26-5(a)(2) as they involve confidential attorney client communications regarding anticipated litigation affecting the Board. A roll call was taken, and the following voted Yea: General Treasurer Seth Magaziner; Vice Chair William B. Finelli; Michael R. Boyce; Mark A. Carruolo; Andrew S. Marcaccio, Esq., designee for Michael DiBiase; John P. Maguire; John J. Meehan; Marianne F. Monte; Thomas A. Mullaney; Claire M. Newell; Louis M. Prata and Jean Rondeau. It was then unanimously

VOTED: To seal the executive session minutes pursuant to Rhode Island General Laws 42-46-5 (a) (2).

The third vote, on a motion made by Thomas A. Mullaney and seconded by Claire M. Newell, was to exit executive session and return to open session. A roll call was taken, and the following voted Yea: General Treasurer Seth Magaziner; Vice Chair William B. Finelli; Michael R. Boyce; Mark A. Carruolo; Andrew S. Marcaccio, Esq., designee for Michael DiBiase; John P. Maguire; John J. Meehan; Marianne F. Monte; Thomas A. Mullaney; Claire M. Newell; Louis M. Prata and Jean Rondeau. It was then 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, October 9, 2015:

Name	Membership Group	Type	Action
1. Pamela Azar	Teacher	Accidental	Deny
2. Albert Turcotte	State	Accidental	Approve
3. Daniel Magnone	State	Accidental	Postpone
4. Maria Di Traglia	State	Accidental	Approved @ 50%
5. Lillie Owden	State	Accidental	Approve @ 50%
6. Ralph Palmieri	Municipal	Accidental	Approve
7. Daniel Nuey	Municipal	Accidental	Postpone
8. Stewart Tibbetts	Municipal	Ordinary	Approve
9. Deborah Dovale	Teacher	Ordinary	Approve
10. Donna Piacitelli	Municipal	Ordinary	Approve
11. Mark Keough, Jr.	State	Ordinary	Approve
12. David Geraghty	Teacher	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, October 9, 2015 on items 9 and 10.

John P. Maguire recused himself from the vote on numbers 9 and 10.

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, October 9, 2015 on items 2, 3, 4 and 5.

Claire M. Newell recused herself from the vote on numbers 2, 3, 4 and 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 of Friday, October 9, 2015 on items 1, 6, 7, 8, 11 and 12.

Procurement Subcommittee:

Treasurer Magaziner apprised the Board that although Morneau Shepell (MS) has been on time and on budget with the implementation per the original RFP and contract, the pension settlement required changes that required additional time and money. He asked the Procurement Subcommittee's Chair Thomas A. Mullaney to provide an update.

Chairman Mullaney first thanked the committee consisting of Jeffrey Padwa, Esq., Chief of Staff/Legal Counsel; William B. Finelli and Louis Prata. He said the Procurement Subcommittee met on Thursday October 8th to consider Computer System Modifications and Extensions of LRWL, Inc. and HP Maintenance Contracts. He said that Director Karpinski discussed the Pension Settlement and the requirements necessary for modifications and said the change was not in scope of the original contract and was introduced in mid-project.

Chairman Mullaney said as noted at the September Board meeting, given the immediate impacts of the Pension Settlement, the original November 2015 implementation date was moved forward to February 2016. As a result, the committee considered 3 system change controls and 2 related contracts:

- The **Pension Settlement Impact** at cost at \$264,000
- **DOA Data Feeds** relating to additional reports (for under 65 retirees) not in the original scope of work and life insurance deductions not originally anticipated in the Ariel solution; the related cost is \$37,600.
- A solution for **Disability Management** that was part of the contract between ERSRI and Morneau Shepell, but not scoped; the related cost is \$133,800
- Given the extended implementation date, the current ANCHOR system, maintained by Hewlett Packard, will need to be operational for another 4 to 6 more months; the cost is \$70,650 per month and there is also \$550,000 of data migration and conversion costs for work to be done by HP related to the new system.
- Also given the extended implementation date additional project management support from LRWL Inc. for 5 more months is required; the cost is \$22,344 per month.

A cost analysis of the proposed changes was provided to the Board. Director Karpinski also apprised the Board that there is continuing negotiation on an enhanced web portal noted at the September meeting. The committee was apprised that the system is evaluating procurement of the enhanced portal from Morneau Shepell as well as considering other alternatives from TIAA-CREF.

On a motion by Marianne F. Monte and seconded by Claire M. Newell, it was unanimously

VOTED: The approval of the change order related to the Pension Settlement at a cost of \$264,000

On a motion by Jean Rondeau and seconded by Marianne F. Monte, it was unanimously

VOTED: The approval of the change orders related to the DOA Data Feeds and Disability management at a combined cost of \$171,400.

On a motion by Jean Rondeau and seconded by Claire M. Newell, it was unanimously

VOTED: The approval of a period not to exceed 6 months of the HP maintenance contract at a cost of \$70,650 per month and \$550,000 of data migration and conversion costs.

On a motion by Marianne F. Monte and seconded by Claire M. Newell, it was unanimously

VOTED: The additional project management support from LRWL, Inc. for a period not to exceed 7 months at a cost of \$22,344 per month.

IX. Adjournment

There being no other business to come before the Board, on a motion Thomas A. Mullaney and seconded by Jean Rondeau, the meeting adjourned at 10:36 a.m.

Respectfully submitted,

Frank J. Karpinski

Executive Director