

Pension Advisory Group

Minutes of Public Meeting

Date of Meeting: Monday, June 27, 2011

Time of Meeting: 10:00 a.m. – 12:30 p.m.

Place of Meeting: Feinstein Providence Campus-University of Rhode Island
Room 242
80 Washington St.
Providence, RI 02903

The initial meeting of the Pension Advisory Group commenced on Monday, June 27, 2011 at 10:00 a.m. in room 242 of the Feinstein Providence Campus-University of Rhode Island. Members present at the meeting were Bill Foulkes (Chair), Alicia Munnell, Mayor Allan Fung, Ernest Almonte, Harry Wilson, John Maguire, Mark Higgins, Michael Downey, Philip Keefe, Director of Administration Richard Licht, Robert DiMuccio and Robert Walsh. No members were absent. Others in attendance were Governor Lincoln D. Chafee, General Treasurer Gina M. Raimondo, House Fiscal Advisor Sharon Reynolds Ferland and Senate Fiscal Advisor Peter Marino.

I. Welcoming

Governor Chafee and General Treasurer Raimondo welcomed the members and briefly outlined Rhode Island's public pension challenges. Following the Governor and General Treasurer's welcoming, each member along with House Fiscal Advisor Sharon Reynolds Ferland and Senate Fiscal Advisor Peter Marino, introduced himself or herself and gave a brief personal background.

II. Introduction of members

Bill Foulkes is a strategic planning consultant and a RISD faculty member. Alicia Munnell is a professor at Boston College Carroll School of Management. Mayor Allan Fung is currently in his

second term as mayor of Cranston. Ernest Almonte is CEO of the Almonte Group LLC and former state auditor general. Harry Wilson is the CEO and founder of MAEVA Advisors. John Maguire is the president of the North Providence Federation of Teachers and a member of the State Retirement Board. Mark Higgins is the Dean of College of Business Administration at the University of Rhode Island. Michael Downey is the president of Council 94, AFSCME. Phillip Keefe is the president of Local 580 of SEIU. Richard Licht is the Director of the Rhode Island Department of Administration. Robert DiMuccio is the CEO of Amica Mutual Insurance. Robert Walsh is the executive director of NEARI. Sharon Reynolds Ferland is the House Fiscal Advisor and Peter Marino is the Senate Fiscal Advisor.

III. Goals for the group

Following personal introductions, General Treasurer Raimondo outlined and stressed the importance of the group's process and called for the process to be an open, inclusive and complete one. Director Licht outlined the group's role regarding pension reform. Director Licht stated that the group is not a formal commission with voting privileges to directly change the pension system but rather a group that will compile and fuse ideas and present such ideas to the Governor and General Treasurer. Upon receiving such information from the group, the Governor and General Treasurer will determine what will be presented to the General Assembly and ultimately it is the will of the General Assembly that will decide on any changes.

IV. Discussion of principles guiding retirement security

Bill Foulkes, as the group's chairman and moderator, initiated a discussion regarding what replacement income percentage a retiree should expect after retirement, and possible sources to provide the replacement income. He mentioned possible contributors to such a percentage

including Social Security benefits, benefits from the retiree's employer, and the retiree's own personal savings.

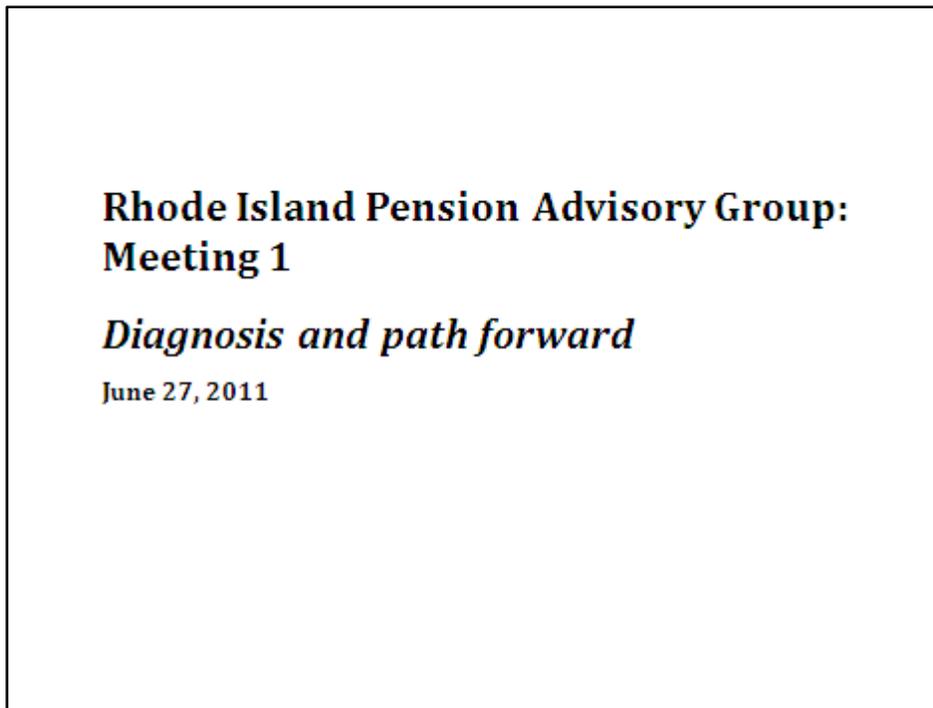
Bill Foulkes suggested benefits from Social Security may equate for 30% to 40% of a retiree's earnings. Robert Walsh pointed out that only about half of Rhode Island teachers are contributing to Social Security making it difficult to assign a uniform number. Alicia Munnell initiated the idea of having all Rhode Island teachers join Social Security to create uniformity and asked if there would be a federal hurdle to overcome. Robert Walsh indicated that the federal government encourages people to join Social Security.

Bill Foulkes presented information suggesting the employer may be responsible for 30% to 40% of a retiree's earnings. He also asked: What is the right percentage of the state's budget that should be paid towards pensions? Director Licht stated that \$600 million, which would be the state's contribution towards pensions in the near future, would equate to around 16% of general revenue. He compared that number to the 5% of state revenues used for debt services, 3% used to operate the state courts and 6% used to operate the corrections facilities. Alicia Munnell added that the state pension contributions may be broken up into two different costs. One for unfunded liabilities and one for future pension costs. Robert Walsh stated that a high percentage of the state's payments go towards the unfunded liability. Mayor Fung added that the costs of the unfunded liability and the costs of future pension payments are connected. Mark Higgins added that in a private company, the large unfunded liability would directly impact the ability to pay for future benefits and as a result the company would be unable to employ as many people.

V. Closing Remarks

Bill Foulkes thanked the group for its time and participation and suggested the next meeting would be July 18, 2011 at 9:30 a.m. and that the place has yet to be determined. The meeting was adjourned at 12:30 p.m.

Presentation: Below are the PowerPoint slides that were presented at the meeting.



Agenda

Monday, June 27 th		
Welcome	10:00 - 10:10	Governor Chafee
Introductions Background on state pension challenges Goals for Advisory Group	10:10 - 10:50	General Treasurer Raimondo
Discussion of principles guiding retirement security	10:50 - 11:50	Bill Foulkes
Next steps and closing remarks	11:50 - 12:00	Bill Foulkes

Agenda

Monday, June 27 th		
Welcome	10:00 - 10:10	Governor Chafee
Introductions Background on state pension challenges Goals for Advisory Group	10:10 - 10:50	General Treasurer Raimondo
Discussion of principles guiding retirement security	10:50 - 11:50	Bill Foulkes
Next steps and closing remarks	11:50 - 12:00	Bill Foulkes

Introductions

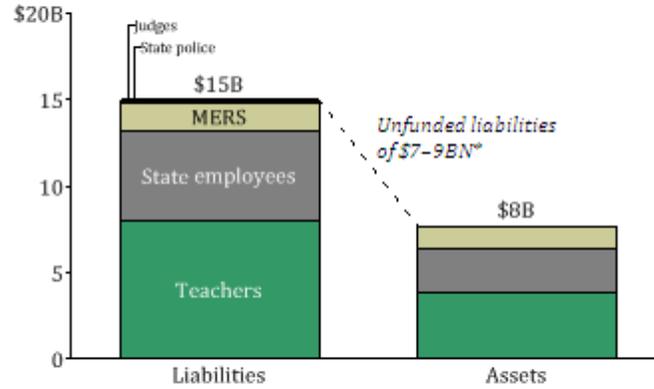
- **Alicia Munnell**, Professor, Boston College Carroll School of Management; Director, Center for Retirement Research
- **Allan Fung**, Mayor of Cranston
- **Ernest Almonte**, CEO, Almonte Group LLC; former State Auditor General
- **Harry Wilson**, CEO and founder of MAEVA Advisors
- **John Maguire**, President, North Providence Federation of Teachers; State Retirement Board Member
- **Mark Higgins**, Dean of College of Business Administration, URI
- **Michael Downey**, President, Council 94, AFSCME
- **Philip Keefe**, President Local 580 of SEIU
- **Richard Licht**, Director, Rhode Island Department of Administration
- **Robert DiMuccio**, CEO of Amica Mutual Insurance
- **Robert Walsh**, Executive Director, NEARI
- *House/Senate liaisons:* Sharon Reynolds and Peter Marino
- **Bill Foulkes**, strategic planning consultant, RISD faculty member

High-level goal

- Vet and organize information in order to develop a **comprehensive one-time** pension reform solution so that we **never** have to return to the pension reform table again

Our state retirement system is imbalanced

Liabilities and assets for RI Pension Plans (\$B, as of June, 2010)

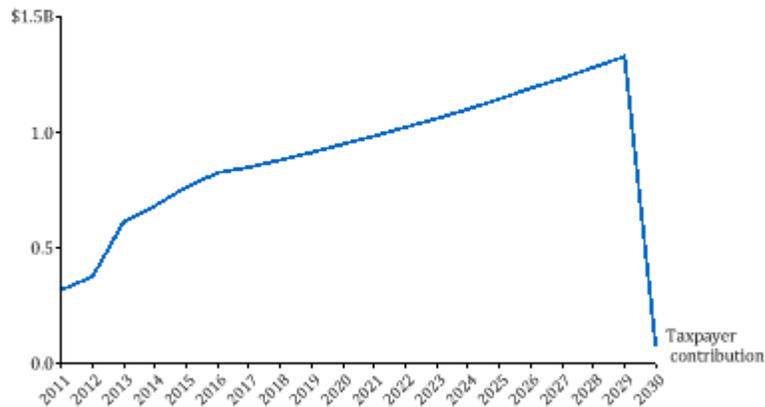


Our system has been recognized as one of the worst funded in the country

Source: Business Insider, April 13, 2011
 Note: All figures as of June 30, 2010, GRS Actuarial Valuation Reports - after assumption changes
 *Unfunded liability of ~\$7B assumes 7.5% rate of return, while rate of 6.2% return yields unfunded liability of ~\$9B

Unless swift corrective measures are taken, state contributions to State and Teachers' pensions will rise dramatically

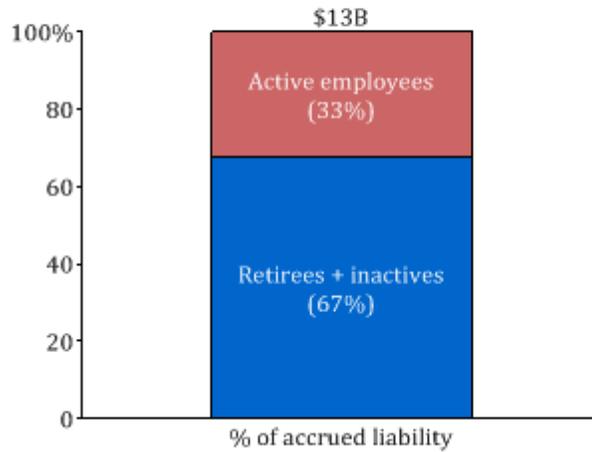
Expected yearly taxpayer contribution for State Employees and Teachers' retirement plans (\$B)



Source: Gabriel, Reeder, Smith & Company Projection Results based on the June 30, 2010 Actuarial Valuation
 Note: Note: All figures as of June 30, 2010, GRS Actuarial Valuation Reports - after assumption changes

Retirees account for the majority of the accrued liability

Composition of total accrued liability
(as of June 30, 2010, State Employees and Teachers only)



Source: CRS Actuarial Valuation Report, June 30, 2010

Rhode Island's pension crisis is the result of five key drivers

Faulty assumptions

- Years of **aggressively optimistic assumptions** have led to **decades of low state and employer contributions**

Decades of benefit improvements

- **Substantial benefit increases** in the 1960s, 1970s, and 1980s without corresponding contributions

Current pension plan design

- Current design enables retired public **employees to earn, in some cases, more in retirement** than a current employee in the same job position today

Retirees living longer

- Retirees receive benefits for extended periods
- Impact of COLA especially large as people live longer

Lower-than-assumed investment returns

- RI's pension fund assumes an **8.25% discount rate**, but has averaged returns of **2.28%** since 2001
- As of July 1, 2012, the investment assumption will be lowered to **7.5%**, but **the state has < 50% chance of reaching that target**

Inaction has serious consequences, including a serious threat to retirement security

- **Threat to retirement security for hardworking Rhode Islanders**
- **Unsustainable annual costs for taxpayers**
 - Taxpayer contribution has compound annual growth of 12% since 2003
- **Burden on active state employees**
 - ~75% of 2010 contributions funded past service
- **Serious threats to vital public services**
 - Rapidly rising expenditures for funding pension liabilities means less money for critical state services
- **High borrowing costs due to low bond rating**
 - A low bond rate due to ailing pension system will make it difficult for RI to attract investors

- **System insolvency is potential outcome if corrective action is not taken immediately**

Source: CRS Actuarial Valuation Report, June 30, 2010, see Truth in Numbers for additional details

Why we are here

- This group has been chosen for its **diverse set of experiences** and **deep understanding** of varying stakeholder interests and pension systems
- Given the magnitude and severity of our state's problem, we must **work together** so that we never have to be back at the pension reform table again

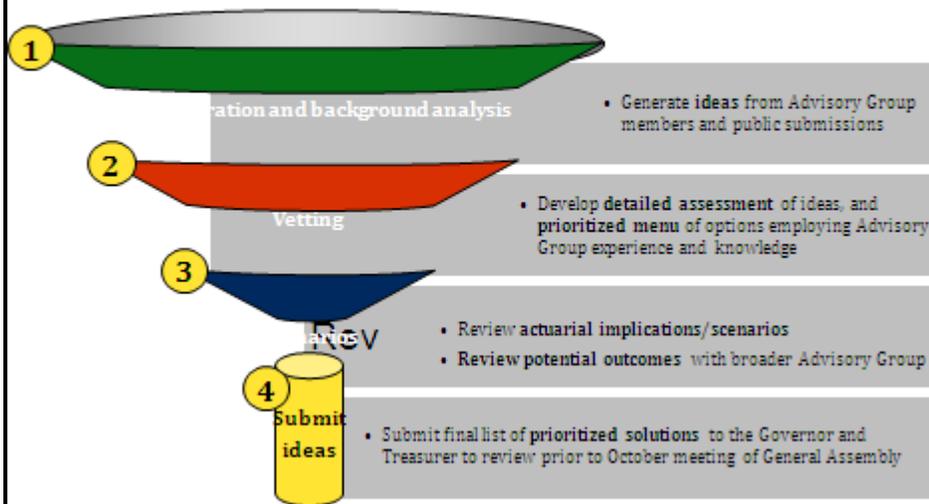


Thank you for your help in solving this critical issue

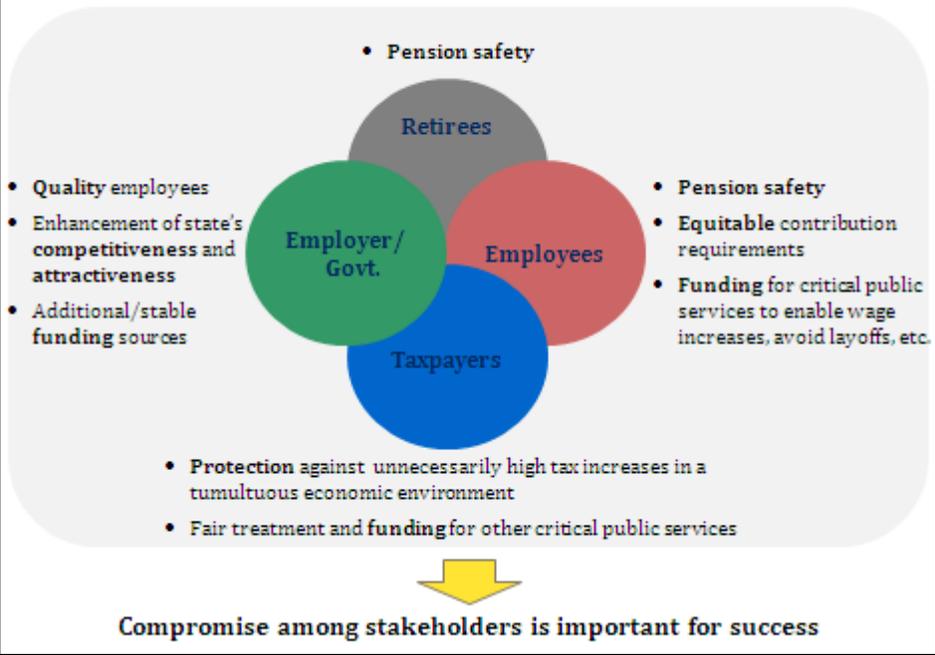
Agenda

Monday, June 27 th		
Welcome	10:00 - 10:10	Governor Chafee
Introductions Background on state pension challenges Goals for Advisory Group	10:10 - 10:50	General Treasurer Raimondo
Discussion of principles guiding retirement security	10:50 - 11:50	Bill Foulkes
Next steps and closing remarks	11:50 - 12:00	Bill Foulkes

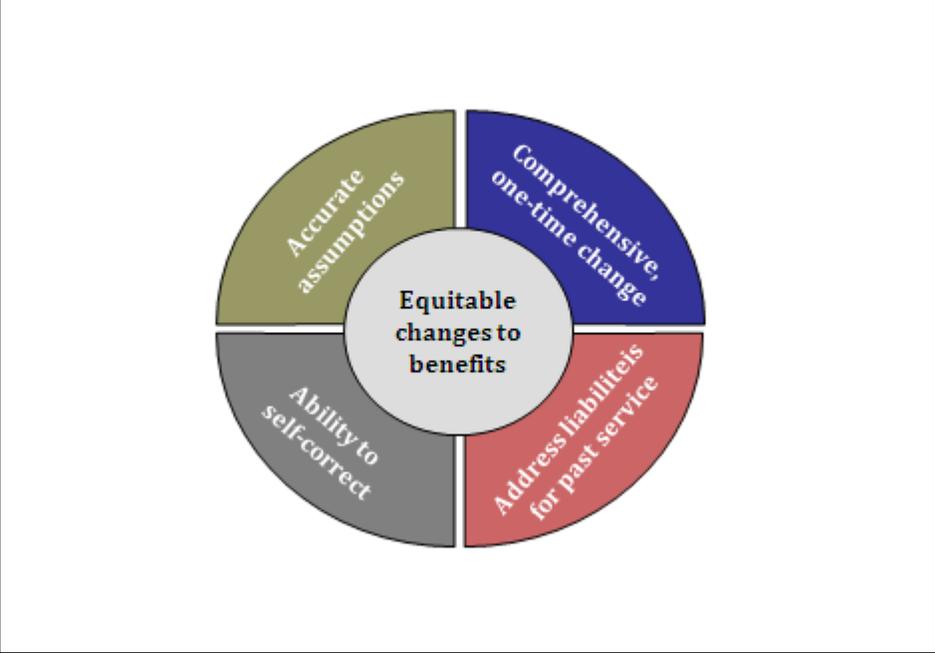
Our work: What



Reform must consider the interests of all stakeholders



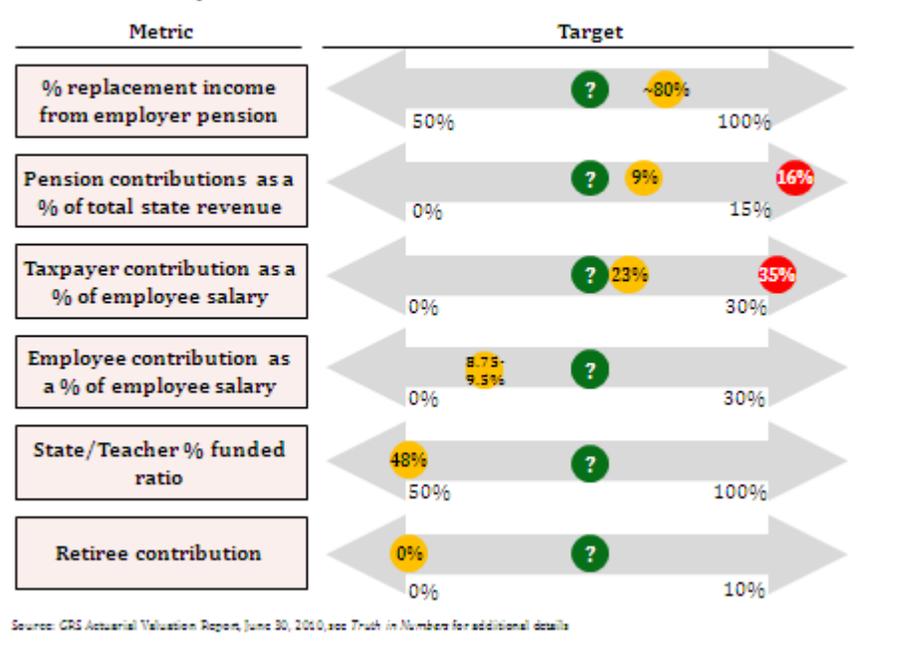
Successful reform should have several characteristics



Principles of retirement security

- **Security**
 - What is the % of income expected in retirement from pension?
 - What % should come from non-employer sources?
 - Are there different replacement levels for low income workers?
- **Affordable for taxpayers**
 - What is the right % of employer contribution?
 - What is the right % budget allocation?
- **Fair and competitive**
 - How much should the younger generation pay for the older generation?
 - How does the state attract and maintain the best workers?
 - How do we compare to other states?
- **Appropriate level of risk sharing**
 - Is the state committed to the defined benefit approach?
 - Is there a possible role of defined contribution plans?

What are the key metrics of success?



Variables we need to consider

Liabilities

- Benefits to existing retirees
- Benefits to current workers
- Benefits to new hires
- Benefit levers:
 - Retirement age/years of service
 - Annual accrual rate
 - COLA
 - Salary calculation

Assets

- Actuarial assumptions
- Return on investment
- Employer contributions
- Employee contributions
- Additional taxpayer contribution to legacy costs
- One-time financing (e.g. re-amortization, asset transfer)

Our work: When and how

- A series of meetings throughout the summer:
 - June 27
 - July 18
 - August 17
 - September 14
 - September 28 (*tentative*)
- Attendance, attention, and openness
- Interviews
- Individual meetings
- Subgroup meetings

The workplan

PRELIMINARY

Week	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Week of	June 27	July 4	July 11	July 18	July 25	Aug 1	Aug 8	Aug 15	Aug 22	Aug 29	Sept 5	Sept 12	Sept 19	Sept 26	Oct 3
	Mon, June 27 (2 hrs) <u>Kick off</u>		Mon, July 18 (3 hrs) <u>Baseline & Benefits; Self-correcting mechanisms</u>			Wed, Aug 17 (3 hrs) <u>Scenario review, legal, financing, municipalities</u>			Wed, Sept 14 (3 hrs) <u>Review</u>			Wed, Sept 28 (3 hrs)			

Next step: individual meetings, assignments, July 18 meeting

Agenda

Monday, June 27 th		
Welcome	10:00 - 10:10	Governor Chafee
Introductions Background on state pension challenges Goals for Advisory Group	10:10 - 10:50	General Treasurer Raimondo
Discussion of principles guiding retirement security	10:50 - 11:50	Bill Foulkes
Next steps and closing remarks	11:50 - 12:00	Bill Foulkes