Pension Study Commission
April 23, 2012
Minutes of the Meeting

A Study Commission meeting was held in Room 313 of the State House, 82 Smith Street, Providence, Rhode Island on Monday, April 23, 2012.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension Study Commission called the meeting to order at 1:19 pm.

Commission members present: Rosemary Booth Gallogly, Paul Doughty, Allan Fung, Dennis Hoyle, Richard Licht, Antonio Pires, Mark Dingley representing Gina Raimondo and John Simmons

Members absent: Jean Bouchard, Bruce Keiser, J. Michael Lenihan, Joseph Polisena, Steven St. Pierre and Angel Taveras

Others present: Susanne Greschner, Chief of the Division of Municipal Finance, Daniel Sherman from Sherman Actuarial Services, LLC and members of the public

Agenda Item # 1 – Approval of Minutes from April 9, 2012

Chairperson Booth Gallogly asked if the Commission members had any corrections, adjustments or additions to the draft minutes provided from the Study Commission meeting held on April 9, 2012. There were none. John Simmons, executive director from the Rhode Island Public Expenditure Council, made a motion to accept the minutes as written. The motion was seconded by Mayor Fung from the City of Cranston. The motion passed all in favor.

Agenda Item # 2 – Update on local pension plans administered by other local authorities and districts

For the next item on the agenda, Chairperson Booth Gallogly indicated that, per the Commission's request, the Division of Municipal Finance had followed up with additional municipal entities such as fire, water and sewer districts. She introduced Susanne Greschner, chief of the Division of Municipal Finance to summarize the findings regarding which of these entities has a locally-administered pension plan. The Division's findings can be found in attachment B in the addendum.

Chairperson Booth Gallogly followed by saying that per R.I. General Law § 45-65-4 section 5, the Retirement Security Act for Locally Administered Pension Funds defines a municipality as "any town or city in the State of Rhode Island, any city or town housing authority, fire, water, sewer district, regional school district or public building authority as established by chapter 14 of title 37." As such, she suggested that the Commission send these entities and the municipal executive a letter to notify them that the entities fall under the requirements of the statute.

Agenda Item # 3 – Notification of Critical Status

Pension plans which fall below a threshold of 60% funded ratio are deemed to be in "critical status". As a result of the new legislation, all municipalities with pension plans in such critical status are now required to inform pension plan participants and beneficiaries, the governor, general treasurer, general assembly, director of revenue, and the auditor general within thirty (30) business days following certification by an actuary if their pension plan's funded ratio falls below 60%. The deadline of notification for municipalities whose pension plans are deemed to be in critical status, based on the recently passed legislation, is May 11, 2012. Chairperson Booth Gallogly introduced a sample letter to the Commission that was sent out by the City of Cranston to its pension plan participants and beneficiaries notifying them of the critical status of their pension plan. This sample letter had been sent to all municipalities to be used as a guide. A copy of the letter is provided in the addendum.

Mayor Fung advised that as a result of sending out this letter municipalities should anticipate getting many phone calls and requests for information from retirees and beneficiaries. He recommended that cities and towns post the latest actuarial valuation(s) on their website. Chairperson Booth Gallogly followed by suggesting that cities and towns might want to also provide a link to the Division of Municipal Finance's Study Commission web page (www.muni-info.ri.gov/finances/study_commission.php) on their website so that retirees and beneficiaries can view the statute and overview material regarding locally-administered pension plans, the Pension Study Commission as well as compare their community's plan to others.

Agenda Item # 4 – Funding Improvement Plan Requirements

Under current law, municipalities are required to submit a "reasonable alternative funding improvement plan" to the Study Commission within 180 days of sending the critical status notice if a plan is found to be less than 60% funded. For this year, the deadline for submitting the funding improvement plan to the Pension Study Commission is November 11, 2012 (or earlier if a municipality sent its notification of critical status prior to May 11, 2012). Such a plan would identify how the locally-administered pension plan will reasonably emerge from critical status.

Chairperson Booth Gallogly indicated that the statute is silent on what is to be included in the funding improvement plan. Therefore, she suggested that it would be helpful if the Commission comes up with key elements for municipalities to answer in their funding improvement plans. Auditor General Dennis Hoyle and Ms. Greschner have put together a draft for discussion purposes of what the Commission may want municipalities to include in their funding improvement plan(s). A copy of the draft is provided in the addendum.

Chairperson Booth Gallogly believes that the funding improvement plan should at least include the annual required contributions (ARC) before and after the changes from the experience study were made, indicate if reamortization is part of the funding improvement plan, include plan assets and liabilities for before and after changes are made, list benefit changes, if applicable, and provide a description of how and when the plan will emerge from critical status. In addition, Mr. Simmons suggested that the Commission go back to the legislative intent of RIGL §36-10.2 entitled the Pension Protection Act which was created last year. Chairperson Booth Gallogly indicated, and Mayor Fung concurred, that the statute applies to Municipal Employees Retirement System plans (MERS) but is silent in regards to locally-administered plans. Mr. Simmons believes that the Commission should apply the legislatures' intent for MERS toward the locally-administered plans. If that is the case,

Mayor Fung questioned whether the ten (10) year period for MERS plans was appropriate to use for locally-administered plans and suggested that municipalities be given flexibility. Chairperson Booth Gallogly stated that she was concerned about interpreting a law that she is not sure the Commission has the authority to interpret. She added that if the Commission feels strongly about providing a recovery timeframe as a key element of the funding improvement plan, then the Commission should recommend legislation through the General Assembly. If so, the Commission should also decide if it would like to treat closed pension plans differently. For example, should there be different requirements such as a two-year cash assets reserve for closed plans that are on a pay-as-you-go basis? Director Licht added that if a municipality wants to join MERS and leave behind a closed locally-administered plan that is pay-as-you-go, some analysis should be done first to determine if the payments of the closed plan have peaked or if they are still rising.

Mayor Fung questioned how the rating agencies would view closed plans on a pay-as-you-go basis. Chairperson Booth Gallogly responded that the Commission would want to ensure that going to pay-as-you-go instead of funding an ARC at or close to 100% would not threaten the future stability of the pension plan. Director Licht added that he is troubled by the sense of unfairness between plans in MERS and plans that are locally-administered because municipalities are not required to fully fund their ARC in the locally-administered plans. By allowing municipalities to move their plans into MERS and leave behind a smaller locally-administered closed plan potentially provides a pension security inequity amongst the municipality's employees. Mark Dingley representing General Treasurer Gina Raimondo commented that the state law which allows for the withholding of state aid for any municipality that does not fully fund its MERS pension plans' ARC provides an incentive for those municipalities to make the payments and, therefore, their MERS pension plans are better funded. Providing the same incentive (or penalty) regarding locally-administered pension plans would require a change in state law.

Mayor Fung recommended that municipalities do not close a pension plan unless they have a funding plan in place. Director Licht agreed with Mayor Fung but added that there needs to be a mechanism in place to ensure that future mayors and/or town councils adhere to the funding plan.

Chairperson Booth Gallogly inquired if a municipality wanted to move its whole pension plan into MERS, could they have part of their plan be a subset which has a different benefit structure? Mr. Dingley responded that he would want to review Mr. Karpinsky's presentation from an earlier Study Commission meeting but he believed the answer was yes.

Antonio Pires, director of administration from the City of Pawtucket, commented that some cities and towns are better equipped to solve their unfunded liability situation. For example, the city of Pawtucket has one of the highest tax efforts in the state and a long term solution to the pension problem will put an enormous strain on his community. Furthermore, his concern is that it does not even factor in the city's unfunded Other Post Employment Benefits (OPEB) liabilities. He stated that there should be some flexibility for communities because he does not think that all municipalities will be able to follow a standard funding improvement plan.

Mayor Fung asked if the Commission could address the time period that funding improvement plans should encompass. Chairperson Booth Gallogly agreed that time guidelines should be provided and that they should be decided upon during this legislative session because the funding improvement plans are due next November. She suggested that the Commission discuss the topic further and make a recommendation to the General Assembly.

Agenda Item # 5 – Actuarial Support

Chairperson Booth Gallogly introduced Dan Sherman from Sherman Actuarial Services, LLC to the Commission. She indicated that she has worked with Dan when he was an employee of Buck Consultants and that she has had a great experience working with him. Chairperson Booth Gallogly stated that his rates are extremely competitive. In addition, due to his location in Massachusetts he is proximate and will be available to attend Study Commission meetings to provide guidance. She invited Mr. Sherman to speak with the Commission and let them know about his background and experience. Mr. Sherman indicated that he has thirty four (34) years of experience in the employee benefits field. In addition, he has worked with several Rhode Island communities in the past. A full biography on Mr. Sherman is provided in the addendum to these minutes.

The chair indicated that Mr. Sherman's first tasks will be to assist the Commission in developing a template to make sure the valuations are complete as well as to help determine what cities and towns should include in their reasonable alternative funding improvement plans.

Director Licht made a motion to support Chairperson Booth Gallogly's decision in choosing an actuary to aid the Commission. The motion was seconded by Mr. Hoyle and passed all in favor.

Agenda Item # 6 – Public Comments

Public comments were made by Robert Cushman, a private citizen from Warwick, Roger Durand, a private citizen from Warwick and J. Michael Downey, President of Rhode Island Council 94, American Federation of State, County and Municipal Employees, AFL-CIO.

Agenda Item # 7 – Adjourn

Chairperson Booth Gallogly stated that an actuary from Milliman has been invited to speak to the Commission at the next meeting on May 7, 2012. In addition, Mr. Sherman will share his ideas on what cities and towns should include in a reasonable alternative funding improvement plan.

Director Licht made a motion to adjourn that was seconded by Mr. Pires. The motion passed all in favor. The meeting adjourned at 3:05 PM.

Rosemary B Gallogly
Chairperson

May 7, 2012
Date

PSC/jb

ATTACHMENT B

Update on local pension plans administered by other local authorities and districts

According to R.I. Gen. Laws § 45-65-4 (5)

"Municipality means any town or city in the State of Rhode Island, any city or town housing authority, fire, water, sewer district, regional school district or public building authority as established by chapter 14 of title 37."

Below is an overview of all the various local entities that have been identified by the Division of Municipal Finance as of April 19, 2012. The Division is in the process of requesting additional information from some of these local entities. This information will be presented to the Study Commission to determine whether or not these plans may come under the purview of the above cited statute.

1. MUNICIPAL HOUSING AUTHORITIES

- Among the State's 25 Municipal Housing Authorities, employees in 18 (or 72%) of these authorities belong to the Municipal Employees Retirement System (M.E.R.S.).
- Employees in another 6 (or 24%) of these housing authorities have some form of retirement program. These authorities include Jamestown, Providence, Tiverton, Warwick, Westerly, and Woonsocket. These include plans by Mutual of America, Laborer's International and ING.
- There is no pension plan with the Portsmouth Housing Authority.

2. FIRE DISTRICTS

- Among the State's 40 Fire Districts, employees in 12 (or 30%) of these districts belong to the Municipal Employees Retirement System (M.E.R.S.).
- Employees in another 4 (or 10%) of the fire districts have some form of retirement plan for employees. These districts include Dunn's Corners, Lime Rock, Pascoag, and Westerly. These range from a 401(k) plan for a fire chief to a 457(b) plan administered by local investment advisors.
- Employees in 2 fire districts, namely Lonsdale and Saylesville, are members of the local-administered town plan.
- In the remaining 22 (or 55%) of the Fire Districts, no local pension exists or the likelihood of an existing pension plan is very small.

3. WATER DISTRICTS

- Among the 11 Water Districts or local water supply boards, which the Division of Municipal Finance identified, employees in 5 (or 46%) of these agencies belong to the Municipal Employees Retirement System (M.E.R.S.).
- Another 5 districts or boards had some form of retirement program for their employees. These districts include Kingston, North Tiverton, Pascoag,

Portsmouth and Stonebridge. These included SEP Plans, a defined benefits plan and a plan administered by the Security Benefit Group.

- Employees of the Providence Water Supply Board belong to the city pension plan.

4. SEWER DISTRICTS & COMMISSIONS

- Among the 6 sewer districts and sewer commissions identified to date by the Division of Municipal Finance, employees in 2 communities belong to the local city or town plan. These are Warwick and West Warwick.
- Burrillville sewer authority employees belong to M.E.R.S.
- The work of the Coventry Sewer Authority is performed by employees of the town public works department. There is no separate pension plan.
- Some employees of the Middletown Sewer Commission belong to M.E.R.S. while others belong to the local pension plan.
- The Smithfield Sewer Authority has contract workers. There is no pension plan.

5. REGIONAL SCHOOL DISTRICTS

- Non-teaching employees in the State's 4 regional school districts belong to the Municipal Employees Retirement System (M.E.R.S.).

6. MUNICIPAL BUILDING AUTHORITIES

- The Division of Municipal Finance identified 2 municipal building authorities. Pawtucket no longer has one and Providence's is staffed by city employees.

Fire Districts, Sewer Authorities, Water Districts, Housing Authorities, Regional School Districts & Building Authorities in Rhode Island

(As of April 19, 2012)

Fire Districts (40)	Pension Plan	Water Districts (11)	Pension Plan
Albion	M.E.R.S.	East Smithfield District	M.E.R.S.
Ashaway	none*	Greenville District	M.E.R.S.
Bonnet Shores	Budget Item	Harrisville District	M.E.R.S.
Bradford	none*	Kingston District	SEP Plan
Central Coventry	M.E.R.S.	North Tiverton Distrtict	SARS SEP Plan (Defined Contribution Plan)
Charlestown	"No Plan"	Pascoag District	401(k) Profit Sharing Plan & Defined benefits Plan
Chepachet	none*	Pawt. Water Supply Bd.	M.E.R.S.
Coventry	M.E.R.S.	Portsmouth District	5305 - SEP
Cumberland	M.E.R.S.	Prov. Water Supply Bd.	Local City Plan
Cumberland Hill	M.E.R.S.	Smith.Water Supply Bd.	M.E.R.S.
Dunn's Corners	401K Plan for Chief	Stonebridge District	Security Benefit Group
East Greenwich	M.E.R.S.		
Exeter	"No Plan"		
Harmony	"No Plan"	**Housing Authorities (25)**	
Harrisville	M.E.R.S.	Bristol	M.E.R.S.
Hope Valley-Wyoming	M.E.R.S.	Burrillville	M.E.R.S.
Hopkins Hill	M.E.R.S.	Central Falls	M.E.R.S.
Indian Lake	none	Coventry	M.E.R.S.
Kingston	"No Plan"	Cranston	M.E.R.S.
Lime Rock	457(b) Plan	Cumberland	M.E.R.S.
Lonsdale (John Hancock Plan)	Town Plan	East Greenwich	M.E.R.S.
Manville	none*	East Providence	M.E.R.S.
Misquamicut	"No Plan"	Jamestown	ING
Nasonville	"No Plan"	Johnston	M.E.R.S.
North Cumberland	M.E.R.S.	Lincoln	M.E.R.S.
Oakland-Mapleville	"No Plan"	Narragansett	M.E.R.S.
Pascoag	Fecteau Benefits Gr.	Newport	M.E.R.S.
Quinnville	none	North Providence	M.E.R.S.
Quonochontaug Central Beach	none	Pawtucket	M.E.R.S.
Richmond Carolina	none	Portsmouth	No Pension Plan
Saylesville	Town Plan	Providence	Mutual of America
Shady Harbor	none	Smithfield	M.E.R.S.
Shelter Harbor	none	South Kingstown	M.E.R.S.
Union	M.E.R.S.	Tiverton	Mutual of America
Valley Falls	M.E.R.S.	Warren	M.E.R.S.
Watch Hill	"No Plan"	Warwick	Laborer's International
Weekapaug	none	West Warwick	M.E.R.S.
West Glocester	"No Plan"	Westerly	Laborer's International
Westerly	Defined Benefits Plan & Length of Service Awards Program	Woonsocket	Mutual of America 401(a) Thrift Plan
Western Coventry	none		
Sewer Authorities & Commissions (6)		**Regional Sch. Districts (4)**	
Burrillville Authority	M.E.R.S.	Bristol-Warren	M.E.R.S.
Coventry Authority	No Separate Plan: DPW	Chariho	M.E.R.S.
Middletown Commission	Local Town Plan & MERS	Exeter-West Greenwich	M.E.R.S.
Smithfield Authority	No Plan:Contract Workers	Foster-Glocester	M.E.R.S.
Warwick Sewer Authority	Local City Plan		
West Warwick Commission	Local Town Plan	**Building Authorities (2)**	
		Pawtucket	No longer in existence
		Providence	City Employees

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Revenue
Office of the Director
One Capitol Hill
Providence, RI 02908-5855

TEL: (401) 574-8999
FAX: (401) 574-8997
TDD: (401) 222-1227

April 19, 2012

Dear Mayors, City and Town Managers, and Town Administrators,

This year the State took unprecedented legislative action to address the liabilities and contribution levels of the state administered pension plans, and is now focused on the locally administered plans through the work of the Pension Study Commission. The Commission's bi-monthly meetings and website (http://www.muni-info.ri.gov/finances/study_commission.php) can serve as a source of information and ideas for municipal leaders as they address the challenges before them. We should not be discouraged by the magnitude of the local pension challenge, but rather encouraged by the significant attention that the issue is receiving from Governor Chafee as he travels across the state to meet with local leaders. There is urgency to the situation, and the level of attention should be commensurate with the level of risk to pension security, and the threat to the fiscal health of our local governments.

We have received experience studies and actuarial valuations in response to the recently enacted General Law Section 45-65-6. The law was established with the intention of the General Assembly to begin the process of ensuring the sustainability of locally-administered pension plans and to advance and maintain the long-term stability of such plans. The Division of Municipal Finance and the Office of the Auditor General are in the process of reviewing these submissions, as we have been asked to report the results to the members of the Pension Study Commission. In order to assess the status of your locally administered pension plan, we need to ensure that the results of the actuarial experience study have been considered by the appropriate governing body for the plan. Similarly, we need to ensure that any actions taken with respect to the experience study have been formalized and reflected in the actuarial valuation or letter submitted to the Commission.

Typically, an experience study is obtained and reviewed by the pension oversight body along with the specific recommendations of the actuary. The pension oversight body formally adopts the recommendations of the actuary (in whole or in part) and then instructs the actuary to prepare the valuation using these parameters and assumptions.

The Pension Study Commission developed guidance to that effect, which had been previously sent to you. It is attached to this letter for your reference. If you have taken action to review and accept the experience study and a revised actuarial valuation reflecting the revised actuarial assumption changes please notify us of the individuals or pension oversight body that took such action and the date.

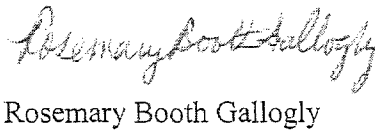
If the experience study and updated actuarial valuation have not been formally considered and adopted, we strongly encourage taking such action immediately, and send the results to the Pension Study Commission through Susanne Greschner in the Division of Municipal Finance. This may require a special meeting of the governing body, depending on the frequency of their meetings. Please notify us of the individuals or pension oversight body that took such action and the date, and provide final copies.

The next required action as outlined in the law is the Critical Status notification for plans with a funded status ratio of less than 60%. Such notification is due within 30 business days of the submission of the experience study and actuarial valuation, which would be May 11, 2012. A funding improvement plan to restore the funded ratio to 60% or better is then due 180 days later, which would be November 11, 2012. Ensuring that the critical status notification and funding improvement plan are based on the actual funded status of the plan is critical.

We understand that some municipalities may have deferred official action on the experience study and valuation until the need to determine the fiscal 2014 contribution rate. Even when the impact of the new valuation on contribution rates is deferred for budgetary purposes until fiscal 2014, the municipality should formally consider and adopt (as necessary) an updated valuation for the purposes of reporting to the Commission pursuant to the law and for financial reporting purposes (e.g., financial statements for the year ending June 30, 2012).

I have also attached for your information a sample notification which has been provided to us by Mayor Fung, which you may want to use as a guide. As indicated in the law, this notice has a broad distribution, and it is your responsibility to ensure compliance. Please contact the Division of Municipal Affairs or the Office of the Auditor General with any questions.

Sincerely,



Rosemary Booth Gallogly
Chairperson of the Pension Study Commission

Attachments

1) Guidance for municipalities implementing the requirements of General Law Chapter 45-65 relating to required experience studies and alternative funding improvement plans

2) Sample Notification

Cc:
Members of the Pension Study Commission
Susanne Greschner, Chief Division of Municipal Finance

Guidance for Municipalities implementing the requirements of General Law Chapter 45-64 relating to required experience studies and alternative funding improvement plans

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The purpose of this timeline is to provide guidance to municipalities on how the information obtained in complying with General Law Chapter 45-64 should be used in preparing and enacting budgets and preparing financial statements and other disclosures for their communities.

Note: This guidance reflects a typical timeline for a municipality with a June 30 fiscal year end and where annual actuarial valuations are performed.

July 2011:

- Actuarial valuation performed as of June 30, 2011 (typically includes funding requirement (annual required contribution) for fiscal 2013).

December 2011:

- Financial statements issued for FY 2011 (using the 2011 actuarial valuation information to report funded status in the financial statements).

February – March 2012:

- Actuary delivers experience study;
- City/Town considers and approves recommended actuarial assumption changes (if any), based on experience study; and
- Updated valuation (e.g., letter from actuary) reflecting the revised actuarial assumptions <u>or</u> a new actuarial valuation is delivered by the municipality's actuary.

April / May 2012

- Experience study and initial actuarial valuation is due to the Pension Commission on **April 1, 2012**. An updated valuation (reflecting any adopted assumption changes emanating from the experience study) in the form of a letter from the actuary is acceptable in lieu of a completely revised actuarial valuation.
- 2013 budget preparation and submission to Council -
  - Municipality has the <u>option of using either</u> (1) the prior actuarial valuation and ARC, or (2) the revised valuation reflecting the experience study results for determining the ARC for inclusion in the 2013 budget. The impact of the experience study, revised valuation and the adopted funding improvement plan would first be <u>required</u> to be included in the fiscal 2014 budget.
- The revised actuarial valuation information (reflecting the changes, if any resulting from the experience study) would be disclosed in bond offering official statements and used for financial reporting purposes.

Guidance for Municipalities implementing the requirements of General Law Chapter 45-64 relating to required experience studies and alternative funding improvement plans

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May 2012:

- Plan members and various state officials must be notified of plan critical status (30 business days following the certification)

May / June 2012:

- Final 2013 budget adopted
- Commence engagement of Actuarial valuation as of June 30, 2012 (using revised assumptions as applicable)

November 2012:

- A reasonable alternative funding improvement plan (incorporating experience study and revised valuation results) must be submitted to the Pension Study Commission (within 180 days of sending the critical status notice)

December 2012:

- Audited financial statements for fiscal 2012 are issued reflecting the most recent actuarial information (e.g., 2012 actuarial valuation)

April / May 2013

- 2014 budget preparation and submission to Council - this budget reflects the (1) annual required contribution as determined by the actuary as of June 30, 2012 (which incorporates the experience study and revised valuation results) and (2) the adopted funding improvement plan.

Cranston City Hall
869 Park Avenue
Cranston, Rhode Island 02910
401-461-1000

Allan W. Fung
Mayor

RECEIVED
APR 17 2012
BY: DCR

April 10, 2012

Rosemary Booth-Gallogly
Director of Revenue
RI Department of Revenue
One Capitol Hill
Providence, RI 02908

RE: "Critical Status" Notice of Cranston Police and Fire Pension Plan

Dear Director Booth-Gallogly:

In compliance with the pension reform law enacted last year, the City of Cranston performed an initial actuarial experience study and a valuation study for our locally administered closed police and fire pension plan. As you can see from the attached letter, Buck Consultants, our longstanding plan actuary who performed both studies, has certified that our plan is in critical status. We currently stand at 17.8% funded under our most recently completed valuation. For the following year, when we will utilize the updated assumptions from the experience study, our plan funded status would drop to 16.9%. The funded status of the local plan is well below the 60% threshold and is not healthy by any means.

Because of this critical status, the city will be crafting a reasonable alternative funding improvement plan to emerge from critical status and submit it to the pension study commission. We take our responsibility with respect to this plan very seriously. As we craft this funding improvement plan, we will be considering all alternatives.

Also attached for your review is the critical status notice letter that we recently sent to all participants and beneficiaries in the Cranston Police and Fire Pension Plan.

Thank you.

Sincerely,

Allan W. Fung
Mayor

Cranston City Hall
869 Park Avenue
Cranston, Rhode Island 02910
401-461-1000

Allan W. Fung
Mayor

April 6, 2012

RE: "Critical Status" Notice of Cranston Police and Fire Pension Plan

Dear Pension Plan Participants and Beneficiaries:

As you may be aware, the RI legislature passed last year a pension reform law that mandated that every municipality that maintained a locally administered pension plan, such as our closed police and fire system, perform an initial actuarial experience study and a valuation study. We have complied with the law and submitted to the pension study commission both studies which were performed by Buck Consultants, who have been our longstanding plan actuary. These studies are available on the city's website under the Finance Department tab.

The law also requires our actuary to determine whether our plan is in "critical status" as defined by the law. This means any plan whose funded percentage as of the beginning of the plan year is less than 60%. As you can see from the attached letter, our actuary has certified that our locally administered police and fire pension plan is in critical status. We currently stand at 17.8% funded under our most recently completed valuation. For the following year, when we will utilize the updated assumptions from the experience study, our plan funded status would drop to 16.9%. Clearly, the funded status of the local plan is well below the 60% threshold. This is not healthy by any means.

Because of this critical status, under the law I must submit to the pension study commission within 180 days a reasonable alternative funding improvement plan to emerge from critical status. Please know that I take my responsibility with respect to this plan very seriously. As I craft this funding improvement plan, I will be considering all alternatives. I will be looking to you for assistance as I realize, and hopefully you do also, that only with your help can we emerge from critical status.

I look forward to working with you in the future. Thank you.

Sincerely,

Allan W. Fung
Mayor

Enclosure

buckconsultants A Xerox Company

April 1, 2012

Mr. Robert F. Strom
Finance Director
City of Cranston
869 Park Avenue
Cranston, RI 02910

Dear Mr. Strom:

As you are aware, recent Rhode Island legislation, specifically 2011–H6319, discusses the requirement for actuarial certification of the funded status for locally administered plans, such as the City of Cranston Fire and Police Department Pension Plans. The plan's actuary must certify whether or not the plan is in "critical status".

Per section 45-65-4 (3) of the above legislation,

- "Critical status" means that, as determined by its actuary, as of the beginning of the plan year, a plan's funded percentage for such plan year is less than sixty percent (60%).

As of July 1, 2011, the most recent actuarial valuation, the funded status was 17.8%. If the July 1, 2011 valuation were redone using the assumptions recommended in the experience study submitted by Buck Consultants on March 29, 2012, the funded status would be 16.9%. Clearly under either set of assumptions the funded status of the plan is below the 60% threshold and therefore is considered to be in "critical status."

Please let us know if you have any questions or need additional information.

Respectfully submitted,

Philip Bonanno, ASA, EA, MAAA, FCA
Director, Consulting Actuary

Marcus Cleary, FSA, EA, MAAA
Consultant

Critical Status Letter.doc

Funding Improvement Plan
- For Discussion Purposes Only -

R.I. Gen. Laws § 45-65-6 (2) states:

"In any case in which an actuary certifies that a locally-administered plan is in critical status for a plan year, the municipality administering such a plan shall, not later than thirty (30) business days following the certification, provide notification of the critical status to the participants and beneficiaries of the plan and to the general assembly, the governor, the general treasurer, the director of revenue, and the auditor general. The notification shall also be posted electronically on the general treasurer's website. Within one hundred eighty (180) days of sending the critical status notice, the municipality shall submit to the study commission a reasonable alternative funding improvement plan to emerge from critical status."

- Critical status notification for plans with a funded ratio of less than 60% is due within 30 business days of the submission of the experience study and actuarial valuation, which would be May 11, 2012.

- A funding improvement plan to restore the funded ratio to 60% or better is due 180 days later, which would be November 11, 2012.

- Ensuring that the critical status notification and funding improvement plan are based on the actual funded status of the plan is critical.

- Even when the impact of the new valuation on contribution rates is deferred for budgetary purposes until FY 2014, the municipality should formally consider and adopt (as necessary) an updated valuation for the purposes of reporting to the Commission pursuant to the law and for financial reporting purposes.

- A funding improvement plan may show the following:
  - ARC before and after changes were made, over amortization period
  - Assets and liabilities, before and after changes were made
  - Funded status, before and after changes were made
  - Benefit changes (if applicable)
  - Provide a description of the plan to emerge from critical status
  - Time frame when municipality expects to emerge from critical status

- How would closed plans be impacted by Funding Improvement Plan (eg, would a pay-go be acceptable?)

Transition to MERS – For Discussion Purposes

Goal:

- Review the current system and guidelines for migration, as well as discuss obstacles that are preventing certain communities from moving their employees into MERS.
- Develop a framework that will facilitate entry into MERS for communities that want to participate.

Issues to Consider

When should communities move from independent plans to MERS?

- On a voluntary basis only
- When a community has underfunded its ARC
  - What should the threshold be to determine underfunding?
  - Should the underfunding level be an average over a period of time? How long?
- When a community's pension funded status is below a certain ratio
  - What is the appropriate ratio?
  - What happens if the plan is improving in recent years?

Which employees should move into MERS? What challenges are associated with each group?

- New employees
- Current employees not vested in the system
- All current employees
- Retirees

What benefit structure should be available to the employees/retirees in MERS? What challenges are associated with each option?

- Same benefits as currently available to them
- MERS benefits levels
- Newly negotiated benefits more generous than MERS but less generous than current benefits

For communities that are not currently funding their full ARC, what flexibility, if any, should they have when entering MERS (which requires 100% of full ARC payment)?

- Extended period to meet 100% ARC
  - How long is reasonable? Does it depend on individual plan conditions?

- Which plan factors should prompt an extension?
  - Offered to plans below a certain funding ratio?
  - Offered to plans that have underfunded their ARC in recent years?
  - Offered to plans whose full ARC exceeds a percentage of tax levy?

If communities place new and/or some existing employees into MERS, how should communities deal with their subsequent closed plans? What challenges are associated with each option?

- Shift closed plans to pay-as-you-go funding or permit retiree buy-outs
- Restructure benefits or identify new municipal revenues to improve closed plan funded status
- Place closed plans under state control, with possible benefit standardization and fee assessments on communities that participate.

What are the challenges/obstacles to merging the plans into MERS?

- For those that are not contributing close to 100% of the ARC – immediately increasing contributions to that level is problematic within existing property tax limit increases and within existing tax capacity.
- Merging plans into MERS typically requires aligning benefit structures to the MERS statutory structure - although exceptions have been made.
- Retirement benefits for the locally administered pension plans are typically included in collective bargaining agreements – changes to join MERS would require negotiation.
- The issue of closed plans is related and an important consideration in merging plans into MERS. For example, some of the locally administered plans are "closed" which resulted from moving active employees into MERS in the past. Whether to treat these separately or on a collective basis requires consideration.

Attachment B

Reasons why merging locally administered plans into MERS should be considered

1. Participation in MERS requires that **100%** of the annual required contribution must be made.

   - Failure to make 100% of annual required contribution is one of the key factors that contribute to the poorly funded status of the locally administered pension plans.
   - Formalizing a commitment to actuarially fund the plan on a continuing basis with a process to enforce the commitment would, over time, improve the funded status of the plan(s) and be viewed as credit positive by rating agencies.
   - Commitment to funding 100% of the ARC forces examination of whether the plan benefits are affordable.

2. There are economies of scale through MERS that could improve investment returns, reduce administrative costs, provide more effective oversight of the plans, and enhance retirement security for employees and retirees.

   - Investment performance could be enhanced - the State Investment Commission employs an asset allocation methodology designed to enhance performance and reduce risk through diversification - small plans have fewer investment options and likely higher investing costs.
   - The existing structure in place can accommodate a larger investment portfolio with minimal or no additional costs – costs are spread over a larger base thereby reducing costs for all.
   - A common benefit administrative process is more efficient than performing such functions separately for each of the 36 locally administered plans. In addition, municipalities would be freed from administering this function.
   - The disability pension administration process could be more independently and consistently administered.
   - Other costs such as actuarial, legal, and investment advisors could be reduced overall.

3. State administration of the pension plans removes the plan administration from the annual challenges of the municipal budget adoption process and collective bargaining agreement negotiation process.

4. Employees and retirees would be part of a significantly larger, professionally managed and arguably more secure system.

What might a "pathway" to MERS look like?

1. Provide a timeframe to achieve 100% funding of the ARC – possibly a five-year period with incremental progress each year?

2. Allow non-conforming benefit structures within MERS?

3. Incentivize by allowing a longer period to achieve 100% funding of the ARC for plans that conform their benefit structure to the MERS benefit structure?

4. Require the plan be merged into MERS if certain conditions exist such as failure to adopt or adhere to an appropriate funding remediation plan?

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Revenue
Rosemary Booth Gallogly, Director
One Capitol Hill
Providence, RI 02908-5855

TEL: (401) 574-8999
FAX: (401) 574-8997
TDD: (401) 222-1227

Memorandum

To: Lorraine Hynes
Associate Director/Purchasing Agent

From: Rosemary Booth Gallogly
Director of Revenue

Date: April 23, 2012

Subject: Actuarial consulting to be performed by Sherman Actuarial Services

I am recommending that the State engage Sherman Actuarial Services as a consultant and advisor to the Department of Revenue to assist in the review of the actuarial experience studies, valuations and funding improvement plans of the locally administered pension plans. The Director of Revenue serves as the chairperson of the Study Commission on Locally Administered Pension Plans, and we are unable to provide adequate staff assistance to the Study Commission because of the complex nature to the actuarial world. It was determined by the members of the Study Commission that it makes sense to have an actuary engaged to serve as a consultant who would be available to advise us on the actuarial assumptions and methods employed by the municipal entities in their submission, and be available to respond to general questions.

Sherman Actuarial Services will be able to provide independent, unbiased advice, as the Dan Sherman does not serve as the actuary for any of the municipal entities in Rhode Island that have a locally administered plan as defined in 45-65-4 (4), "Retirement Security for Locally Administered Pension Funds". During Dan Sherman's previous employment with Buck, he was assigned to several Rhode Island accounts. Based upon the actuarial reports received by our office, municipal entities use the following actuaries:

Buck Consultants: 5
Milliman: 4
Angel Pension: 3
Gabriel, Roeder & Smith: 3
Nyhart: 3
USI Advisor: 2
Segal: 1
McCloud & Nichols: 1

Fallon Pension Actuaries: 1
Sherman Actuarial: 1 *

**Central Falls, whose plan has been restructured under the bankruptcy, does use Sherman Actuarial Services as their actuary, but the City is excluded under the law as a result of the restructuring already executed.*

Sherman Actuarial Services has provided the State of Rhode Island Department of Revenue with a letter of engagement with an hourly rate of $250. This rate is very favorable, as the hourly rate charged by Buck in the Central Falls engagement ranged from $209 for associates to $623 per hour for principals, and the hourly rate charged to the Department of Revenue by Gabriel Roder was $360.

For all of the fore-going reasons, I would recommend that this contract be executed, upon legal review, and I will do so when I receive your approval.

If you should require any additional information, please contact me as soon as possible. Thank you for your anticipated assistance in this urgent matter.

Attachment

BIOGRAPHY

DANIEL W. SHERMAN, CONSULTING ACTUARY

Daniel W. Sherman has over 34 years of experience in the employee benefits field. Throughout his career, he has consulted with a very diverse clientele on actuarial and plan-design issues in connection with all types of retirement programs, including defined benefit plans, 401(k) and 403(b) plans, and 457 plans. He has given special attention to benefit issues and deferred-compensation programs of public and other non-profit employers. In addition, Dan is a member of the Town of Wakefield's Retirement Board and Finance Committee.

In addition to his role as Actuary for the largest group of Massachusetts Retirement Systems served by a single actuary in the State, Dan has performed work on a variety of other projects. A list of some of the highlights is provided below.

- Actuary for the Rhode Island cities of Central Falls, Cranston, Middletown, Newport, and Providence.
- Actuary for the Massachusetts cities of Springfield, Brockton, New Bedford, Newton, Somerville in Massachusetts. In addition, 15 Massachusetts towns and authorities.
- Actuary for the Massachusetts counties of Bristol, Hampden, Norfolk, Plymouth and Worcester.
- Assisting actuary for the State of Vermont's three retirement systems. OPEB actuary for the State Employees' and State Teachers' retirement systems.
- Consultant to the Massachusetts Retirement Law Commission 1987 to 1993. Major projects included an Early Retirement Study, COLA Study, Pop-Up study, Optional Retirement Program Study and 1987 Actuarial Valuation of the 105 counties, cities, towns, and agencies in the Commonwealth.
- Frequent speaker regarding Massachusetts State Pensions and GASB 45 before organizations such as the Massachusetts Municipal Association.
- Performed actuarial valuations for over 45 public sector clients, including the following municipal Retiree Medical plans: Central Falls, Cranston, Middletown, Newport, Providence, and Smithfield.
- Assisting the State of Rhode Island with the Central Falls bankruptcy and reorganization. The work has included new pension and OPEB plan design, communications with retirees and actuarial valuations of the pension and OPEB plans for both funding and accounting.
- Actuarial valuation services for major retail firms, hospitals, and manufacturers as well as several other private employer programs.

Dan is an Associate of the Society of Actuaries, a Member of the American Academy of Actuaries, and an Enrolled Actuary under ERISA. He earned a Bachelor of Science Degree in Mathematics and Physics from Ripon College and completed graduate study in actuarial science at the University of Nebraska.

Sherman Actuarial Services

April 19, 2012

Rosemary Booth Gallogly
Director
Rhode Island Department of Revenue
One Capitol Hill
Providence, RI 02909

Re: Actuarial and Consulting Services for the Rhode Island Pension Committee

Dear Ms. Gallogly:

This letter of agreement ("Agreement") confirms the terms under which the Rhode Island Department of Revenue. ("Client") is engaging Sherman Actuarial Services, LLC ("Sherman Actuarial Services") to perform certain actuarial consulting services as more particularly described in paragraph 1 below (the "Services"). The contractual terms under which Sherman Actuarial Services and Client are undertaking this engagement are as follows:

1. Services. In consideration for, and subject to, the mutual undertakings set forth herein, Sherman Actuarial Services agrees to provide the Services described in Exhibit A hereto.

2. Client Materials, Information, Data and Cooperation. To enable Sherman Actuarial Services to perform the Services, Client will promptly provide Sherman Actuarial Services with such direction, materials, information, data and access to its representatives as Sherman Actuarial Services reasonably requests. Sherman Actuarial Services is not responsible for verifying the accuracy or completeness of information supplied to it by Client representatives. If Sherman Actuarial Services receives inaccurate, incomplete or improperly formatted information, Sherman Actuarial Services shall have no liability for relying on the same and any additional time and expense required to correct the information will be billed to Client as additional Services.

3. Fees. For and during the term of this Agreement, Client will pay Sherman Actuarial Services the Fees specified in Exhibit B hereto ("Schedule of Fees") subject to the payment terms set forth therein. In the event that, during the term of this Agreement, Sherman Actuarial Services performs services in addition to those described in Exhibit A at the request of Client, then Client shall pay Sherman Actuarial Services for such additional services at the Fees specified in Exhibit B, or such other amounts as the parties may agree in writing. Such additional services shall be considered "Services" hereunder. Also, in the event that Sherman Actuarial Services, during or after the term of this Agreement, is legally required to respond to a third party's request for information or documents relating to work provided hereunder, including without limitation pursuant to a subpoena or to a request to coordinate with Client's successor actuary or consultant, then Client shall pay Sherman Actuarial Services for its services with respect to responding to such request at the Fees specified in Exhibit B, or such other amounts as the parties may agree in writing; provided however, before responding to such request for information or documents or coordinating with Client's successor actuary or consultant, Sherman Actuarial Services shall notify Client of same before incurring any costs for fees or expenses.

Sherman Actuarial Services, LLC
16 High Street
Wakefield, MA 01880-4306

617-429-8312
617-300-7784 Fax

Dan@ShermanActuary.com
www.ShermanActuary.com

4. Term and Termination. The term of this Agreement will be twelve (12) months commencing on April 20, 2012. This Agreement may be terminated by Client or Sherman Actuarial Services upon written notice to the other at least thirty (30) days before termination. Upon receiving the written notice, Sherman Actuarial Services will cease performing billing services. In the event of a material breach of this Agreement, the non-breaching party will have the right to terminate this Agreement by ten (10) days prior written notice.

5. Confidentiality. Both Sherman Actuarial Services and Client recognize that in the course of this Agreement information will be exchanged consisting of confidential trade secret or business information ("Confidential Information"). Each party shall treat the other party's Confidential Information as it would treat its own confidential trade secret or business information, and with at least reasonable care as is appropriate to avoid unauthorized use or disclosure.

The obligations set forth in this Section 5 shall not apply to information that (i) is or becomes generally known to the public, other than as a result of a disclosure of a party's Confidential Information by the other party, (ii) is rightfully in the possession of the other party prior to disclosure, free of any obligation of confidentiality, (iii) is received by a party in good faith and without restriction from a third party not under a confidentiality obligation to the other party and having the right to make such disclosure, (iv) is independently developed without reference to the other party's Confidential Information, or (v) required to be disclosed under a Court Order.

6. Sherman Actuarial Services' Proprietary Rights. The work product Sherman Actuarial Services delivers to Client in connection with this engagement is intended for Client's use and Client will retain ownership of the work product and any information specific to Client's employees or business, and as such, Client shall have the exclusive right to use, reproduce and adapt it for purposes as Client deems appropriate.

All materials, information, processes, software and products used by Sherman Actuarial Services to perform the Services under this Agreement (including without limitation specifications, database structures, report formats, templates, software, techniques, know-how, methods, algorithms, procedures and documentation), all additions, improvements and modifications made thereto in the course of Sherman Actuarial Services performing Services, and Sherman Actuarial Services' work papers and records are Sherman Actuarial Services' proprietary information (hereinafter, "Proprietary Information"). Proprietary Information belongs exclusively to Sherman Actuarial Services, its affiliates or third-party licensors, and the Client shall not have any proprietary right or interest in or to the Proprietary Information. To the extent Proprietary Information is incorporated into work product Sherman Actuarial Services delivers to Client hereunder, Client shall have a fully paid non-exclusive, license to use such Proprietary Information in conjunction with the work product.

7. Limited Warranty. Sherman Actuarial Services warrants to Client that the Services performed under this Agreement will be performed in accordance with generally accepted industry standards.

8. Limitation on Liability; Filing of Claims. Sherman Actuarial Services and Client agree that the liability of Sherman Actuarial Services in connection with the Services provided hereunder will be limited to direct losses Client suffers as a result of the negligence and/or errors or omissions of Sherman Actuarial Services, up to, but in no event to exceed, the amount of the initial annual fee paid to Sherman Actuarial Services pursuant hereto or One Hundred Fifty Thousand ($150,000.00), whichever is greater. Neither party will have liability for any indirect, incidental, exemplary, special, punitive or consequential damages (including, without limitation, damages relating to loss of profits, income, goodwill or data) arising out of or related to the performance or non-performance hereunder without regard to the legal theory of such damages, whether such

damages are based upon breach of contract, breach of warranty, indemnity, negligence, gross negligence, strict liability or otherwise. The limitations in this paragraph will not apply to claims based on willful acts or omissions, fraud, gross negligence or willful or wanton misconduct.

9. Dispute Resolution; Mediation. In the event of any controversy or claim arising out of or relating to this Agreement or the breach thereof, or a dispute as to the meaning of this Agreement or any of its terms (any of the foregoing being referred to herein as a Dispute), the parties agree to submit any such Dispute to resolution in the following manner. Upon one party notifying the other in writing of the existence of a Dispute, the parties shall endeavor to resolve the Dispute through direct discussions between management personnel, which personnel are not principally involved in the delivery of Services hereunder. If within thirty (30) days after such notice the Dispute is not resolved through direct discussions, the parties shall endeavor to resolve the Dispute through the use of non-binding mediation. If within ninety (90) days after such notice the Dispute is not resolved through mediation, then either party may seek to resolve the Dispute in any court of competent jurisdiction. The foregoing shall not limit a party's right to seek injunctive relief in the event of a violation of Sections 5 or 6 hereof, and shall not prevent a party from filing an action in order to avoid the expiration of an applicable statute of limitations.

10. Independent Contractor. All of the Services provided by Sherman Actuarial Services will be rendered in its capacity as an independent contractor. None of the terms set forth in this Agreement will be interpreted to create any agency, master-servant, employment or any other relationship between Client and Sherman Actuarial Services. Except as expressly set forth in Exhibit A to this Agreement, nothing in this Agreement is intended to create, and Sherman Actuarial Services does not accept, any fiduciary or trust responsibilities in connection with the performance of the Services.

11. Miscellaneous. This writing contains the entire agreement of the parties with respect to the matters dealt with herein, supersedes all previous agreements between the parties with respect to the matters dealt with herein, and there are no promises, understandings or agreements of any kind pertaining to this Agreement other than stated herein. The parties hereto intend that no third party shall have any rights or claims hereunder or be entitled to any benefits under or on account of this Agreement as a third-party beneficiary or otherwise. The parties hereto expressly agree that this Agreement will be construed and enforced in accordance with the laws of the State of Rhode Island. The parties agree to comply with all provisions of law applicable to this Agreement and the Services to be performed hereunder and with all applicable rules, regulations, orders and directives of all governmental bodies having jurisdiction. Neither party may voluntarily or involuntarily assign its rights or delegate its duties under this Agreement to any person without the prior written consent of the other, which consent shall not be unreasonably withheld. This Agreement may be amended only by a writing signed by the parties hereto. If any provision of this Agreement is declared invalid or unenforceable, by judicial determination or otherwise, such provision shall not invalidate or render unenforceable the entire Agreement but rather the entire Agreement shall be construed as if not containing the particular invalid or unenforceable provision or provisions and the rights and obligations of the parties shall be construed and enforced accordingly. Sections 2, 3, 5, 6, 7, 8, 9 and 11 shall survive the termination or expiration of this Agreement.

12. Notices. Any notice or other communication required or permitted under this Agreement shall be in writing and shall be hand-delivered or sent by certified , registered or express mail, as follows (or to such successor entity or such new address as a party may designate in writing to the other).

If to Sherman Actuarial Services:
Sherman Actuarial Services, LLC
Mr. Daniel Sherman
16 High Street
Wakefield, MA 01880-4306

If to Client:
Rosemary Booth Gallogly
Director
Rhode Island Department of Revenue
One Capitol Hill
Providence, RI 02903

If the foregoing accurately reflects your understanding and agreement, please acknowledge by signing below and returning a duplicate of this Agreement to the undersigned at the address above.

Daniel W. Sherman

Sherman Actuarial Services, LLC

The Agreement set forth herein is
hereby agreed to and accepted this _____
day of _____, _____.

Rosemary Booth Gallogly
Rhode Island Department of Revenue