

Pension Study Commission
May 21, 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, May 21, 2012.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension Study Commission called the meeting to order at 1:10 pm.

Commission members present: Rosemary Booth Gallogly, Jean Bouchard, Paul Doughty, Allan Fung, Dennis Hoyle, J. Michael Lenihan, Antonio Pires, Joseph Polisena, Steven St. Pierre, Mark Dingley representing Gina Raimondo and John Simmons

Members absent: Bruce Keiser, Richard Licht 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 May 7, 2012

For the first item on the agenda 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 May 7, 2012. There were none. Mayor Polisena from the Town of Johnston made a motion to accept the minutes as written. The motion was seconded by Tony Pires, Director of Administration from the City of Pawtucket. The motion passed all in favor.

Agenda Item # 2 – Actuarial Valuations and Experience Studies, Next Steps – Attachments B & C

Next on the agenda, Chairperson Booth Gallogly informed the Commission that Dan Sherman from Sherman Actuarial Services, LLC has grouped locally-administered pension plans into tiers and Susanne Greschner, chief of the Division of Municipal Finance developed an explanation on what the tiers mean. She introduced Ms. Greschner and Mr. Sherman to review their findings.

Ms. Greschner indicated that the letter to municipalities and attached tiers found in attachments B and C of the addendum were developed in an effort to identify where communities stand and to provide guidance to the municipalities. She referred the Commission members to the attachments and reviewed the tiers with them. She indicated that the tiers were a work in progress and that she wanted to send the letters to the municipalities to provide guidance and seek feedback in order to update the tiers as necessary. Therefore, the goal for the meeting was to approve the letter so that it could be mailed out to municipalities.

Ms. Greschner indicated that based on what has been submitted to date certain communities (tiers 3, 6, 7 & 8) either did not conduct or had an incomplete experience study. She also referred to the attached letter from Little Compton regarding this matter (see addendum). The question was posed to the

Commission if these communities should have to submit an experience study given that, in some cases, they had a very high funded ratio or a very small pension plan. Mr. Sherman raised the point that requiring an experience study to be done for communities with a small number of pension plan beneficiaries might not lead to accurate results due to the small number of participants. Chairperson Booth Gallogly suggested that Mr. Sherman could talk to the actuaries of the communities with the outstanding experience studies to help facilitate the process.

The topic of pension plan amortization was raised and Mayor Fung from the City of Cranston asked Mr. Sherman to explain the difference between a 30 year rolling amortization and a 30 year closed amortization. Mr. Sherman replied that a 30 year closed amortization plan is like a 30 year mortgage in that you pay year after year and the unfunded liability decreases. In a 30 year rolling amortization plan, it takes a lot longer to get rid of the unfunded liability because you continually spread the unfunded liability over 30 years rather than reducing the timeframe as the years pass. This results in an annual required contribution (ARC) that is lower than in a closed amortization plan because you always spread the liability out over 30 years instead of reducing the time period.

On another note, Chairperson Booth Gallogly stated that she has received several notices of critical status from administrators of locally-administered pension plans which have a funded ratio of less than 60%. She noted that it is the responsibility of pension plan administrators to mail such notification.

Mr. Pires inquired about how much communication there will be between the Department of Revenue and a city or town before the alternative funding improvement plan is complete. Chairperson Booth Gallogly replied that she would have to think about that.

Next, Ms. Greschner introduced Steve Woerner, the finance director from the Town of Cumberland to address the Commission regarding the town's experience study and actuarial valuation. Mr. Woerner indicated that the Town of Cumberland believes its pension plan, with only 40 active members, is too small to conduct an accurate experience study. Instead of hiring an actuary to perform an experience study, Mr. Woerner explained that the town's pension board decided it would drop its assumed investment rate on plan assets from 8% to 7.5%. In addition, they decided to adopt the mortality assumptions used for the state police. They spoke to their actuary about this as well as their unions who agreed to it. Therefore, he doesn't understand the need to spend the money for a full experience study.

Chairperson Booth Gallogly noted that the purpose of the experience study is to see if the assumptions used are still accurate on a go-forward basis. She asked Mr. Sherman if he wanted to comment on the number of participants in a plan. Mr. Sherman replied that when a plan has so few people it calls into question the validity of the results. He added that plans usually get into critical status due to a lack of contributions or a 30 year rolling amortization rather than incorrect assumptions.

Mr. Pires inquired if the Commission could recommend to the legislature that an experience study could be waived if a city or town adopted the state's assumptions. Chairperson Booth Gallogly noted that while she agreed with the concept she was concerned that the disability process and, therefore, occurrences could be very different between the state and locally-administered plans.

Paul Doughty, President of Providence's Local 1651 Firefighters union, expressed concern over what he called a laissez faire response to Cumberland's lack of submission of its experience study and actuarial valuation and wanted to know if there was a reason why the town had not submitted one. Mr.

Woerner responded that the town is in the process of negotiating with its unions, therefore, the actuarial valuation will change significantly. Regarding the critical status of Cumberland's pension plan, Mr. Woerner noted that the critical status is due to prior administrations not funding the pension. He added that the town has funded its ARC every year since Mayor McKee has taken office in 2000 with the exception of the fiscal year 2011 when the state's motor vehicle excise tax reimbursement was cut and this year when it was only funded at 85%. He indicated that the town is planning to fully fund its ARC in the upcoming fiscal year and that they have a plan to get out of critical status within the next 1 ½ to 2 years. He added that Moody's most recent review said the town was being "proactive".

The issue of whether or not to require these communities to incur the cost of the experience study was debated by the Commission with the end result being that the Rhode Island General Law statute §45-65-6 requires all locally-administered pension plans to submit an experience study and actuarial valuation to the Commission. Therefore, the Commission does not feel it has the authority to grant any exemptions.

Lastly, the Commission addressed the section of the proposed letter to municipalities regarding reimbursement of the actuarial valuation. Mayor Fung felt that the State did not have authority under the law to require that only communities that adopted some or all of the results of their experience study would be reimbursed. Chairperson Booth Gallogly noted that she did not disagree with Mayor Fung, however, she was hoping to incentivize communities to comply with the request to provide the Commission with the information it needs by delaying payment until the information is received. Mayor Fung reiterated that the Commission cannot go beyond the provisions of the law and that the ability to withhold state aid should be used as the incentive. Therefore, the Commission agreed to delete the language in the letter which indicated that reimbursement would only be made to certain communities that have complied at this time. For clarification, Mr. Greschner noted that she has received some invoices for experience studies as well as the actuarial valuation, however, per RIGL §45-65-6 (3) reimbursement pertains to the actuarial valuation only.

A motion was made by Mayor Fung from the City of Cranston to approve the letter to be sent to municipalities with the changes discussed. The motion was seconded by Mayor Polisena. The motion passed all in favor.

Agenda Item # 3 – Funding Improvement Plan Requirements – Attachments D & E

Chairperson Booth Gallogly explained that she felt it is important to set some standards in determining the "reasonableness of the alternative funding improvement plans", and that the Commission may want to provide guidance. She asked for the Commission members' thoughts on telling communities what to submit. Ms. Greschner reinforced what the Chairperson said by adding that the purpose of Attachment D (see addendum) is to provide guidance to cities and towns since the law does not give specific guidance.

Mayor Fung stated that he does not see the Commission's role as approving these alternative funding improvement plans. Chairperson Booth Gallogly responded that it is important that someone, be it the tax payers, general assembly, or the Study Commission, have good documentation to determine if the funding improvement plans are reasonable. Mayor Fung replied that he is OK with the first part of attachment D which lists the documentation required, but has concerns about the second part. For example, how would the Commission determine what is reasonable and what is not?

Chairperson Booth Gallogly suggested that the Commission take a look at the table Ms. Greschner put together which looks at a possible solution for funding improvement. As such, she referred everyone to attachment E and asked Ms. Greschner and Mr. Sherman to walk the Commission through the table. Ms. Greschner explained that she applied the recently enacted Pension Protection Act calculations to the locally-administered pension plans and modified it to see what the funded ratio might be after 15 years. Based on these calculations, it became clear that we had to look at alternative rules. Mr. Sherman noted that the rules he would impose to get a plan out of critical status would be first to fully fund the ARC by either funding at 100% or by changing the benefit structure and, second would be to shorten the amortization period. He added that using a 25 year amortization period made sense because it would get the plan to 60% funded more rapidly.

Mr. Sherman indicated that a lot of locally-administered plans are not even paying their pay-as-you-go expense. For example, Providence has not fully funded its pay-as-you-go and is approximately \$15 million short. Therefore, the city needs to pay significantly more than its ARC just to cover its pay-as-you-go costs. Mayor Fung asked Mr. Sherman to explain this further. Mr. Sherman responded that if a plan has many retirees with a 15 year life expectancy but the plan has a 30 year amortization period then the plan would owe more than a 30 year amortization would indicate.

Mayor Fung stated that he is worried that it might not be wise to cap plan recoveries at 15 years per the Pension Protection Act calculation. He wouldn't want to cut the benefits so much that it is unfair to the retirees nor does he want to hurt the tax payers. Chairperson Booth Gallogly asked what a reasonable timeframe is. Adding, "should it be different depending on a plan's funded ratio?" She does not want to make this too burdensome, however, she also does not want cities and towns to continue to kick the can down the road. Mr. Sherman responded that 15 years is reasonable for plans that are 40 – 50% funded. However, 20 years would be more reasonable for plans that are 20-30% funded because if you go beyond that, then you just keep pushing the cost of benefits onto future generations that did not benefit from the services in the first place.

John Simmons, executive director from the Rhode Island Public Expenditure Council, asked if Mr. Sherman could provide the Commission with some further analysis. Mr. Sherman indicated that he would. Mayor Fung asked that attachment E be updated with more current data. Ms. Greschner responded that the Division of Municipal Finance and the Auditor General's Office are working on this and will provide an updated analysis.

Agenda Item # 4 – Public Comments

Peder Schaefer, associate director from the League of Cities and Towns asked if it would be ok to send a letter to the Commission with his comments about today's meeting. Chairperson Booth Gallogly indicated that it would and his letter is provided in the addendum.

Chairperson Booth Gallogly also noted that the League of Cities and Towns will be hosting a fiduciary responsibility seminar for trustees and members of municipal pension boards on Monday, June 11, 2012 from 4:00 – 5:30 PM at the Crowne Plaza Hotel in Warwick, RI. The event will also be recorded and broadcast on Capitol TV (schedule unknown at this time). She indicated that it is a great opportunity and encourages many to take advantage of this.

Agenda Item # 5 – Adjourn

Mayor Polisenena made a motion to adjourn that was seconded by Mr. Hoyle. The motion passed all in favor. The meeting adjourned at 3:04 PM.

Rosemary Bally
Chairperson

6/4/12
Date

PSC/jb

Addendum to
May 21, 2012
Pension Study Commission
Meeting Minutes

Please click on link below to view Addendum

http://www.muni-info.ri.gov/finances/study_commission.php