Pension Study Commission
June 4, 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, June 4, 2012.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension Study Commission called the meeting to order at 1:18 pm.

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

Members absent: Bruce Keiser

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 21, 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 21, 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.

Chairperson Booth Gallogly reminded the members of the public that the minutes from the Pension Study Commission are posted on the Division of Municipal Finance's webpage (http://www.muni-info.ri.gov/finances/study_commission.php) in case anyone is interested in seeing the progress that the Commission has made over the last several months.

Agenda Item # 2 – Locally-Administered Pension Plans – Attachment B

Next on the agenda, Chairperson Booth Gallogly introduced Dan Sherman from Sherman Actuarial Services, LLC and Susanne Greschner, chief of the Division of Municipal Finance to provide an update on the status of the locally-administered pension plans and discuss the analysis performed by Mr. Sherman and Ms. Greschner. The Chair noted that the municipal pension plan valuations which have been received by the Pension Study Commission have been evaluated by Mr. Sherman and a letter had been distributed to the communities to help the Commission understand where the communities stand with their experience studies and valuations and know which communities have adopted their experience study assumptions. To provide further clarification, another letter was sent to communities which included what tier each community's pension plan fell into in order to identify what follow up steps are necessary. The draft tiers can be found in Attachment B in the addendum.

Ms. Greschner emphasized that the categorization was a work in progress and, as such, some communities' locally-administered pension plans have changed tiers from the last draft provided to the Commission. For example, Bristol, Newport Police & Fire and Portsmouth's pension plans were moved from tier 5 to tier 4.

In addition, Westerly's pension plan was moved from tier 5 to tier 1 after the Department of Revenue received additional information from the town. According to Mr. Sherman, until recently, Westerly co-mingled their pension and OPEB assets. However, in March 2012, an OPEB trust was created to separate the assets and $4 million of OPEB assets was transferred to the pension plan. As a result, Westerly's pension plan assets increased (and the OPEB fund assets decreased) and the pension plan is no longer in critical status.

Ms. Greschner indicated that upon receiving additional documentation from the communities, she anticipates that more pension plans will be moved out of tier 5. Mayor Taveras from the city of Providence informed Ms. Greschner that the city has accepted the assumptions of its experience study and that the city would provide her division with documentation stating such. Mayor Fung from the city of Cranston noted that Cranston expects to adopt its experience study assumptions on June 18, 2012. Furthermore, Ms. Greschner stated that her division is still working with the communities which have not submitted an experience study or submitted an incomplete one.

Agenda Item # 3 – Funding Improvement Plan Guidelines – Attachments C & D

For agenda item # 3, the Commission reviewed a revised draft of the funding improvement plan guidelines (Attachment C found in the addendum). Chairperson Booth Gallogly emphasized the need to receive standard data from the locally-administered pension plan administrators to be able to determine if an alternative funding plan submitted by is reasonable.

In conjunction with that, Chairperson Booth Gallogly asked Mr. Sherman to walk the Commission through the table provided in Attachment D. Mr. Sherman stated that the purpose of Attachment D was to see if certain guidelines were to be set up, how difficult it would be for the locally-administered pension plans to meet them. Mr. Sherman acknowledged that some of the information he needed to create the table was hard to find in some of the communities' actuarial valuations so he made an educated guess in some instances. Therefore, his numbers in Attachment D may not match a city or town's actuary's numbers exactly, however, Mr. Sherman expressed confidence that the figures he used in Attachment D were close.

Chairperson Booth Gallogly noted that if a community is not putting in as much money into a pension plan as it is taking out through pay-as-you-go then it will be hard to raise the funded ratio of the plan. Mr. Sherman added that there are two ways to affect the funded ratio of a plan: 1) by cutting liabilities or 2) increase funding.

Chairperson Booth Gallogly noted that Mr. Sherman's table shows what contributions it would take for communities to meet their current pension obligations, however, it does not factor in any possible benefit changes communities may negotiate. Mr. Sherman noted that any affect on the annual required contribution (ARC) or pay-as-you-go depends on the type of benefits negotiated and if the changes primarily affect new employees, active employees or retirees. For example, relief from benefit changes to new or active employees will not be felt for many years. Furthermore, for communities on a pay-as-you-go basis, any benefit reductions negotiated with new or active employees will reduce the

ARC however, the pay-as you-go contribution will not be reduced for several years so the gap between annual ARC payments and pay-as-you-go contribution will increase in the meantime. He noted that the tentative agreement between the mayor of Providence and the city's firefighters' union will reduce liabilities but not make a significant change to the pay-as-you-go contribution for several years. At that point, however, the reduction in pay-as-you-go will be significant.

Director Licht inquired about the reduced amortization period used in Mr. Sherman's table. Chairperson Booth Gallogly responded that the reason a 25 year amortization period was chosen is because by shortening the amortization period, the amount of interest paid on the debt is reduced, thereby reducing the fund's liabilities and increasing the funded ratio. That way, a plan could emerge from critical status sooner. However, she acknowledged that it was a delicate balancing act between providing guidelines to help plans emerge from critical status sooner and having an affordable ARC.

Mr. Sherman stated that Attachment D had multiple phases with the first being the priority of getting communities to fund 100% of their ARC. For communities who are not funding 100% of their ARC, Mr. Sherman proposed increasing their annual ARC payment by 20 percentage points per year until they reach 100%. Richard Licht, Director of Administration inquired if a city or town gets to 100% funding of its ARC would they still have to fund their pay-as-you-go amount? Mr. Sherman replied that would be the case only if the Commission put that in as a guideline. Chairperson Booth Gallogly added that funding the pay-as-you-go amount would help cities and towns get out of critical status earlier because they would not be drawing down the plan's assets. Mr. Sherman noted that the challenge is how to determine the pay-as-you-go minimum since communities don't know what the actual amount is until the year is over. One method for estimating pay-go includes using a percentage of the previous year's pay-as-you-go amount.

Mr. Sherman noted that Attachment D does not factor in the employees' contributions to their pension which would affect the pay-as-you-go minimum per community. .

John Simmons, executive director from the Rhode Island Public Expenditure Council, asked what rate of return a community would use if using pay-as-you-go? Mr. Sherman responded that a community should go to their actuary and ask for a forecast of cash flows (benefits, employer contribution, and employee contribution forecasts) then go back to the investment house and redo the study based on the new cash flows to determine a new estimated rate of return.

Chairperson Booth Gallogly asked if anyone knew if the state's pension reform ended up with a positive or neutral cash flow. No one did so she asked Andrew Marcaccio who was representing Gina Raimondo to follow up.

In response to previous suggestions, Chairperson Booth Gallogly noted that the issue with simply applying the municipal employees retirement system (MERS) rules to locally-administered pension plans is that MERS rules are not aggressive enough due to the critical status of some municipal plans. Furthermore, she noted that Attachment D is provided to show how onerous emerging from critical status would be without any benefit changes.

Director Licht stated that it would be helpful to see an alternative table which started with each community's current pension contribution and then escalate that contribution by 4% a year to see where the plan would be after 25 years because he is not sure that a 20% increase in ARC payments per year is realistic. In addition, he noted that there should be some discussion on benefit changes.

Chairperson Booth Gallogly noted that the Division of Municipal Finance has compiled [a report](#) published on the Study Commission web page of the Division of Municipal Finance's website (http://www.muni-info.ri.gov/finances/) which compares employee benefits by municipality, however, she thinks it would be too difficult to quantify what a specific benefit change would have on each municipality's plan. For that, a municipality would need to rely on their actuary.

Mayor Polisena from the Town of Johnston expressed concern about the Pension Study Commission setting guidelines because if a community is unable to successfully negotiate a reduction in benefits with its unions then what will the city or town do? For example, the mayor stated that he was told that one of the Johnston firefighters told the fire chief that, "the mayor better sell one of the schools to pay the firefighters". For the record, Mayor Polisena indicated that he is not going to sell a school.

Paul Doughty, President of Providence's Local 1651 Firefighters union, stated that it should be up to the locals to come up with a solution. Further adding that if the state gets into managing local benefits then the Commission will never finish this discussion. He believes that the people who are in the best position to discuss benefits are those who have a vested interest. Therefore, he does not see the benefit of the Commission tracking down the benefits from all cities and towns because, in the end, he thinks the guidelines will resemble close to what the Commission has now. Chairperson Booth Gallogly thanked Mr. Doughty for his comments and said that she felt his words were encouraging.

John Simmons suggested that the Commission look at the increase in proposed ARC payments in context with what proportion it represents of a city or town's tax levy, payroll, and budget, etc. Chairperson Booth Gallogly thought it would be a good idea to look at it in context and make people aware but she wants to be clear that the Commission is not advocating that an increase in tax dollars be required to fund the pensions, but that there could be a reduction in the liability through benefit reductions.

Mr. Doughty further noted that while it is laudable to get a pension plan to the point where a municipality annually contributes 100% of its ARC, he is more concerned about the trend of funding status improvement rather than requiring cities and towns to reach 100% funding of their ARC within a certain timeframe. Mr. Sherman responded that he understands Mr. Doughty's point, however, funding improvement in a timely manner is critical for some plans. For example, West Warwick only has five (5) years until the plan's assets are exhausted.

To follow up on the funding improvement plan in Attachment C, Chairperson Booth Gallogly requested that Mr. Sherman provide an example of what documents the Commission is considering requesting would look like using East Providence as an example. The Chair noted that it was important to get the guidelines out to the communities this summer so they and their actuaries have them when formulating their alternative funding improvement plans. She added that the goal is to develop guidelines that will be sustainable at the end of the day.

Chairperson Booth Gallogly stated that she wants a municipality to identify items that have to happen in order to make sure that the alternative funding improvement plan would work. Mayor Fung expressed concern over the wording, wondering how a municipality could provide assurance with so many different variables. Tony Pires, Director of Administration for the City of Pawtucket noted that he cannot predict what will happen in Pawtucket as the city is struggling to even address its structural deficit. He added that his city cannot tax its way out of this situation. He hopes that people understand this. Chairperson Booth Gallogly responded that it is best to have a collaborative effort amongst the community. She would like the Commission to provide guidance, however, a lot of the work will need to be done by the city and towns' actuaries.

Agenda Item # 4 – Meeting Schedule – Attachment E

The Commission's current meeting schedule only goes through June 18, 2012. Chairperson Booth Gallogly introduced a proposed schedule for additional meetings of the Commission as Attachment E (found in the addendum). There is only one meeting per month scheduled for both July and August. Mayor Fung noted that he would be away during the August 27th meeting. Mayor Taveras also noted that he would be away for one of the meetings and inquired if someone could sit in to represent him. Chairperson Booth Gallogly noted that she would need to check with legal counsel.

Agenda Item # 5 – Public Comments

Peder Schaefer, associate director from the League of Cities and Towns, addressed the Commission regarding the seminar on pension fiduciary responsibility hosted by the RI League of Cities and Towns on Monday, June 11, 2012. He stated that as of the June 4th, seventy five people (75) were registered to attend. In addition, he noted that the event will also be recorded and rebroadcast on Capitol TV (rebroadcast schedule unknown at this time).

Chairperson Booth Gallogly encouraged anyone who is interested to attend the event as it will be informative.

Agenda Item # 6 – Adjourn

Mayor Polisena made a motion to adjourn that was seconded by Mr. Hoyle. The motion passed all in favor. The meeting adjourned at 2:48 PM.

Rosemary B Gallogly
Chairperson

June 18, 2012
Date

PSC/jb

Addendum to June 4, 2012 Pension Study Commission Meeting Minutes

ATTACHMENT B

Locally Administered Plans - Summary Status as of June 4, 2012
Pending Confirmation
(Bolded information reflect changes from the last Pension Study Commission meeting on May 21, 2012)

Tier 1 – Completed Valuation and Experience Study, Accepted and Adopted Results, Not in Critical Status

- Warwick Municipal, 70.9% [1]
- Warwick Police 2, 86.5%
- Warwick Fire 2, 78.0%
- **Westerly, 64.1%**

Tier 2 – Completed Valuation and Experience Study, Unknown if Accepted, Not in Critical Status (Funded ratio shown assumes that recommendations from the experience study will be adopted)

- Lincoln, 65.3%
- Middletown, 75.8%
- Smithfield Fire, 68.7%
- Warwick School, 85.4%

Tier 3 – Completed Valuation and Incomplete Experience Study, Not in Critical Status

- Jamestown, 109.6% [2, 3]
- Little Compton, 86.7% [2, 3]
- Woonsocket, 60.7% [2, 3]

Tier 4 – Completed Valuation and Experience Study, Accepted and Adopted Results, In Critical Status

- **Bristol, 47.5%**
- **Newport Police, 57.1%**
- **Newport Fire, 39.6%**
- **Portsmouth, 51.7%**
- Scituate, 27.5% [1]
- Tiverton, 54.1%
- Warwick Fire and Police 1, 22.3%
- West Warwick, 26.3%

Tier 5 – Completed Valuation and Experience Study, Unknown if Accepted (Funded ratio shown assumes that recommendations from the experience study will be adopted), In Critical Status

- Coventry Municipal, 25.3%
- Coventry Police, 11.3%
- Cranston, 16.9%
- East Providence, 33.6%
- Johnston Police, 27.0%
- Johnston Fire, 32.4%

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- Narragansett, 59.4%
- North Providence, 40.0%
- Providence, 32.3%
- Smithfield Police, 18.5%

Tier 6 – Completed Valuation and Incomplete Experience Study, Unknown if Accepted, In Critical Status

- Coventry School, 30.5% [2, 3]
- Pawtucket, 30.3% [2, 3, 4]

Tier 7 – Completed Valuation and no Experience Study, In Critical Status

- Cumberland, 38.9% [3]

Tier 8 – Completed Valuation and no Experience Study, Only old Retirees, Pay-Go, In Critical Status

- Narragansett Police, 0.0% [3]

[1] Municipality provided documentation that the local governing body accepted the results of experience study
[2] Based on the most recent actuarial valuation without modifications for an Experience Study
[3] The Commission will work with the municipalities to complete experience study
[4] Based on a discussion with the City, the City is in the process of completing the experience study

ATTACHMENT C

Changes made to document are shaded below.

Funding Improvement Plan
- For Discussion Purposes Only –
Revised May 30, 2012

<u>Background</u>

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.

For Commission Discussion:

<u>1. Funding Improvement Plan Documentation</u>

- A funding improvement plan should be formulated, based on reasonably anticipated experience and reasonable actuarial assumptions, and should show at least the following:
    - FY 2014 Funding of the ARC before and after changes are made

- Amortization cost, method, including period, interest rate and rate of increase in payments, if any;
- Assets (Market and Actuarial) and liabilities, before and after changes were made;
- ~~Employer and Employee Normal Costs, before and after changes were made;~~
- Funded status, before and after changes were made;
- Employer and Employee Normal Costs, before and after changes were made;
- Description of 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;
- Steps to be taken to assure the improvement plan will be followed in the years to come. Include steps to be taken in the case of unforeseen and significant changes in future experience from the expected;
- Two ~~40-year~~ deterministic forecasts over the amortization period and two years afterwards of the after change values listed in items 1 through 5 above, plus, total Payroll and total Benefit Payments. One forecast is based on the actuarial assumptions. The second on the same assumptions except the investment return is 50 basis points lower than the assumption for all years;
- Include the actuarial assumptions used to forecast total Payroll growth, new entrants for open plans; and
- Five-Year Forecast of municipal revenue growth for the time period until plan is no longer in critical status

2. Funding Improvement Plan Guidelines ~~Requirements~~

The recently enacted Pension Protection Act (R.I. Gen. Laws 36-10.2, see Appendix for the full text) includes provisions relating to funding improvement strategies. Based on the discussion at the last Pension Study Commission meeting, below is a summary of those provisions. The wording in bold and italics may be considered by the Commission for the locally-administered pension plans.

- Funding improvement period of 10 years. ***Funding improvement period of 15 years***;

- At the close of the 10 year funding improvement period, for any plan that has a funded percentage of 50% or less, the plan's funded percentage shall equal or exceed the sum of (i) the plan's funded percentage in the plan year that the plan was certified as endangered, plus (ii) 50% of the difference between 80% and the plan's beginning funded percentage; or the plan's funded percentage shall improve by at least 1% annually until the plan's funded percentage equals or exceeds 80%.

  The Commission may consider a three-tiered approach:

  1. ***Funding ARC and funded ratio above 40%: At the close of the 15 year funding improvement period, for any plan that has a funded percentage of 40% or ~~more~~***

***less**, the plan's funded percentage shall equal or exceed the sum of (i) the plan's funded percentage in the plan year that the plan was certified as ~~endangered~~ critical, plus (ii) 50% of the difference between 80% and the plan's beginning funded percentage; or the plan's funded percentage shall improve by at least 1% annually until the plan's funded percentage equals or exceeds 80%.*

2. ***Not funding ARC and funded ratio above 40%: Maximum amortization period of 25 years; maximum percent increase in amortization payments would be 4%; no decrease in contribution from one year to the next unless plan is fully funded; encourage shorter schedules, with increasing payments; for frozen plans with only retirees the amortization period would equal the average future lifetime; for those in critical status, the employee and employer contribution must be equal or more than 100 ~~110~~% of pay-go; no open amortization method; and future changes in UFAL due to changes in plan benefits, actuarial assumptions and methods, or experience may be amortized up to 20 years as a separate base; possible relief provision that would provide for a temporary increase in ARC payments by no more than 8%.***

3. ***Not funding ARC and funded ratio below 40%: ARC contribution has to be 120% of prior year contribution until it reaches 100%; maximum amortization period of 25 years; maximum percent increase in amortization payments would be 4%; no decrease in contribution from one year to the next unless plan is fully funded; encourage shorter schedules, with increasing payments; for frozen plans with only retirees the amortization period would equal the average future lifetime; for those in critical status, the employee and employer contribution must be equal or more than 110% of pay-go; no open amortization method; and future changes in UFAL due to changes in plan benefits, actuarial assumptions and methods, or experience may be amortized up to 20 years as a separate base. Extenuating circumstances may have to be discussed, e.g. property tax cap.***

- Requiring an explanation why a plan cannot meet the guidelines to improve the funded percentage within 10 years as outlined in R.I. Gen. Laws 36-10.2-7 (2), if applicable. ***Requiring an explanation why a plan cannot meet the guidelines to improve the funded percentage within 15 years, if applicable***;

- Provide between five and ten funding improvement strategies, showing revised benefit structures, revised contribution structures, or both. ***Provide for four improvement strategies, whereas one of them has to be moving the whole plan into MERS.***

- In addition to those strategies, "the board shall include a default funding improvement strategy that shall show increases in employer and employee contributions under the plan necessary to achieve the applicable requirements found in subsection (2), assuming no amendments to reduce future benefit accruals under the plan" (see R.I. Gen. Laws 36-10.2 (4)).

- The Retirement Board "shall submit the "Default A" strategy … and one additional funding improvement strategy, as selected by the board, to the general assembly" (see R.I. Gen. Laws 36-10.2 (5)). ***The local governing body shall submit these four improvement strategies to the Pension Study Commission, and identify which one has been chosen as the funding improvement plan***; and

- If no funding improvement strategy is approved by the general assembly, the "Default A" strategy shall be enacted into law and shall remain in effect until either the plan is no longer engendered or another funding strategy consistent with the statute has been adopted. ***If no funding improvement strategy is approved by the local governing body, or the one approved deemed unacceptable the Pension Study Commission will develop a funding improvement plan which may include transitioning the plan into MERS for all retirees and actives. Retirees and active employees would not lose accrued benefits, prior accruals would be frozen and accrue at new MERS accrual rates.***

ATTACHMENT C

APPENDIX

TITLE 36
Public Officers and Employees

CHAPTER 36-10.2
Pension Protection Act

§ 36-10.2-1 Short title. – This chapter shall be known and may be cited as the "Rhode Island Pension Protection Act.

§ 36-10.2-2 Purpose. – The purpose of the Rhode Island Pension Protection Act is to provide current, retired and future public employees financial retirement security by codifying procedures that will promote the sustainability and longevity of the state's retirement systems. The act will implement a fair process to be used to facilitate needed changes in times of fiscal distress.

§ 36-10.2-3 Definitions. – As used in this chapter, the following terms, unless the context requires a different interpretation, have the following meanings:

(1) "Retirement board" or "board" means the retirement board of the Employees' Retirement System of the State of Rhode Island as defined in Chapter 36-8.

(2) "Actuary" means the actuary selected from time to time and employed by the board in accordance with Chapter 36-8.

(3) "Plan" or "plans" means any plan or plans that are part of the following public retirement systems: the Employees' Retirement System of Rhode Island (ERS); the Municipal Employees' Retirement System of Rhode Island (MERS); the Rhode Island State Police Retirement Benefits Trust (SPRBT); and the Rhode Island Judicial Retirement Benefits Trust (JRBT).

(4) "Funded percentage" means the percentage equal to a fraction- the numerator of which is the actuarial value of the plan's assets, as determined by the actuary, and the denominator of which is the accrued liability of the plan, determined by the actuary using actuarial assumptions approved by the board.

§ 36-10.2-4 Actuarial valuation methodology. – Actuarial accounting methods used by the actuary in determining the funded percentage shall be determined by the board in compliance with all applicable public pension accounting laws, rules and regulations. The actuary or the board shall not, year to year, change actuarial methods for the sole purpose of achieving a more favorable funding or fiscal result. Any actuarial assumptions not determined by the board shall be made by the actuary in good faith and in accordance with accepted actuarial standards.

§ 36-10.2-5 Determination of endangered status. – A plan is in endangered status for a plan year if the retirement board determines, in consultation with the plan actuary, that the plan:

(i) Has a funded percentage of fifty percent (50%) or less;

(ii) The plan's funded percentage has decreased for five (5) consecutive plan years.

§ 36-10.2-6 Annual certification and notice requirements. – (1) Not later than November 1st of each plan year of a plan, the actuary shall certify to the board and the executive director of the retirement system whether or not a plan is in endangered status for such a plan year.

(2) In any case in which the actuary certifies that a plan is in endangered status for a plan year, the executive director of the retirement system shall, not later than thirty (30) business days following the certification, provide notification of the endangered status to the members, beneficiaries, the general assembly, the governor, the general treasurer and any local or municipal employer of a MERS plan determined to be in endangered status. The notification shall also be posted electronically on the retirement board's website.

§ 36-10.2-7 Funding improvement strategy procedure. – (1) In any case in which a plan is in endangered status for a plan year, except for a plan year where a plan is already in a funding improvement period and meeting its scheduled funding targets for the three (3) consecutive prior plan years, a funding improvement strategy shall be implemented not later than June 30th following the date the plan was certified as being in endangered status under § 36-10.2-6. The plan actuary shall submit preliminary funding improvement strategies including a default strategy as described in subparagraphs (3) and (4) to the board for review not later than January 1st following the date the plan was certified as being in endangered status under § 36-10.2-6.

(2) The funding improvement strategy shall be formulated to achieve, based on reasonably anticipated experience and reasonable actuarial assumptions, the following requirements:

(a) The plan's funded percentage shall improve in accordance with paragraph (i) or paragraph (ii), applying the paragraph that produces the greater funded percentage increase for the plan in a ten (10) year period.

(i) As of the close of a ten (10) year funding improvement period, the plan's funded percentage shall equal or exceed the sum of:

(I) The plan's funded percentage as of the beginning of the plan year that the actuary initially certified the plan as endangered; plus

(II) Fifty percent (50%) of the difference between eighty percent (80%) and the plan's funded percentage under paragraph (I); or

(ii) The plan's funded percentage shall improve at the rate of at least one percent (1%) annually until the plan's funded percentage equals or exceeds eighty percent (80%).

(b) In the event that the state or a local municipality, as the employer of a plan, determines that, based on reasonable actuarial assumptions and upon exhaustion of all reasonable measures, the plan cannot reasonably be expected to meet the guidelines of subdivisions (i) and (ii), then the employer's legislative governing body shall provide a report to the retirement board, no later than March 1st following the date the plan was certified as being in endangered status under § 36-10.2-6, explaining why the plan is not reasonably expected to meet the guidelines of subdivisions (i) or (ii) and provide a reasonable funding improvement strategy to emerge from endangered status.

(3) Not later than January 1st following the date the plan was certified as being in endangered status under § 36-10.2-6, the actuary shall provide to the board, and in the case of MERS plan shall also provide to the impacted local municipality's legislative governing body, at least five (5) funding improvement strategies but no more than ten (10) funding improvement strategies showing revised benefit structures, revised contribution structures, or both, which, if adopted, may reasonably be expected to enable the plan to meet the applicable requirements found in subparagraph (2).

(4) In addition to any funding improvement strategies provided by the board in subparagraph (3), the board shall include a default funding improvement strategy ("Default A") that shall show increases in employer and employee contributions under the plan necessary to achieve the applicable requirements found in subsection (2), assuming no amendments to reduce future benefit accruals under the plan.

(5) Not later than April 1st following the date the plan was certified as being in endangered status under § 36-10.2-6, the board shall submit the "Default A" strategy as described in subparagraph (4) and one additional funding improvement strategy, as selected by the board, to the general assembly.

(6) Not later than June 30th following the date the plan was certified as being in endangered status under § 36-10.2-6, the general assembly shall select and enact into law one of the two (2) submitted funding improvement strategies. If no funding improvement strategy is approved by the general assembly by June 30th, the "Default A" strategy as described in subparagraph (4) shall be enacted into law effective July 1st following the date the plan was certified as being in endangered status under § 36-10.2-6. "Default A" shall remain in effect until either the actuary certifies under § 36-10.2-6 for a plan year that the plan is no longer in endangered status or the general assembly selects a funding improvement strategy consistent with the provisions of this chapter.

(7) Notwithstanding any other law to the contrary, any reports and funding strategies submitted to the board pursuant to this section shall be public records.

§ 36-10.2-8 Funding improvement period. – (1) The funding improvement period for any funding improvement strategy adopted pursuant to this chapter shall begin on the first day of July immediately after the adoption date of the funding improvement strategy.

(2) The funding improvement period shall be a ten (10) year period unless the actuary certifies under § 36-10.2-6 for a plan year that the plan is no longer in endangered status. In such a case, the funding improvement period shall end as of the close of the preceding plan year.

(3) A plan may not be amended during the funding improvement period so as to be inconsistent with the funding improvement strategy.

§ 36-10.2-9 Transition period. – Effective for plan years beginning July 1, 2012 any new legislation enacted contemporaneously with this chapter that is expected to improve the funding percentage of such a plan to eighty percent (80%) or greater within a reasonable funding improvement period not to exceed twenty (20) years shall be considered to constitute a funding improvement strategy. The funding improvement period shall be governed by such enacted legislation and shall begin July 1, 2012.

§ 36-10.2-10 Severability. – The holding of any section or sections or parts hereof to be void, ineffective, or unconstitutional for any cause shall not be deemed to affect any other section or part hereof.

Effect of Potential Funding Guidelines for Plans in Critical Status

For Discussion Only

					2011 Actuarial Valuation and Experience Study, for FYE13 or FYE14 Appropriations							
	FYE 2011 ARC[1]	FYE 2011 Cont.[1]	%		Before Change ARC	After Change ARC	Potential Guidelines	% Increase over BC ARC	% Increase over 2011 Contribution	With 100% Pay-Go Minimum	% Increase over BC ARC	% Increase over 2011 Contribution
Bristol	784,676	784,676	100%		899,460	1,231,858	939,978	4.50%	19.79%	1,257,336	39.79%	60.24%
				Yrs	18	18	25					
Cranston	23,947,728	19,947,728	83%		25,705,109	26,468,713	26,210,714	1.97%	31.40%	26,210,714	1.97%	31.40%
				Yrs	21	21	15					
Coventry B1	4,165,703	2,717,570	65%		5,140,951	5,923,422	5,525,841	7.49%	103.34%	5,796,762	12.76%	113.31%
Coventry B2				Yrs	22	22	25					
Coventry School	2,200,642	685,572	31%		2,376,177	2,376,177	2,541,179	6.94%	270.67%	2,541,179	6.94%	270.67%
				Yrs	30	30	16					
Cumberland	1,507,130	1,000,000	66%		1,650,489	1,650,489	1,650,489	0.00%	65.05%	1,650,489	0.00%	65.05%
				Yrs	22	22	22					
E. Providence	7,362,115	1,437,580	20%		6,267,312	7,525,372	8,166,245	30.30%	468.05%	8,829,640	40.88%	514.20%
				Yrs	30	30	25					
Johnston - Police	4,570,429	1,899,500	42%		4,984,937	6,122,310	5,608,926	12.52%	195.28%	5,608,926	12.52%	195.28%
				Yrs	18	18	20					
Johnston - Fire	4,701,525	1,886,000	40%		4,941,283	5,386,679	5,386,679	9.01%	185.61%	5,386,679	9.01%	185.61%
				Yrs	18	18	18					
Newport - Police	3,116,642	3,116,642	100%		3,461,972	3,461,972	3,461,972	0.00%	11.08%	4,399,231	27.07%	41.15%
				Yrs	20	20	20					
Newport - Fire	4,359,109	4,359,109	100%		4,822,712	4,822,712	4,822,712	0.00%	10.64%	4,822,712	0.00%	10.64%
				Yrs	20	20	20					
N. Providence	1,529,633	789,227	52%		1,675,452	2,023,317	1,910,113	14.01%	142.02%	1,910,113	14.01%	142.02%
				Yrs	22	22	25					
Pawtucket[2]	10,531,718	9,561,000	91%		10,531,718	10,531,718	10,531,718	0.00%	10.15%	10,805,879	2.60%	13.02%
				Yrs	30	30	30					
Portsmouth	2,514,420	2,514,420	100%		2,782,710	3,234,722	3,375,002	21.28%	34.23%	4,000,000	43.74%	59.08%
				Yrs	28	28	25			*(Estimated)*		
Providence[3]	56,380,000	56,333,000	100%		64,783,119	72,071,119	75,782,856	16.98%	34.53%	85,709,864	32.30%	52.15%
				Yrs	28	28	25					
Scituate	738,709	464,283	63%		738,709	738,709	738,709	0.00%	59.11%	738,709	0.00%	59.11%
				Yrs	25	25	25					

Effect of Potential Funding Guidelines for Plans in Critical Status

For Discussion Only

					2011 Actuarial Valuation and Experience Study, for FYE13 or FYE14 Appropriations							
	FYE 2011 ARC[1]	FYE 2011 Cont.[1]	%		Before Change ARC	After Change ARC	Potential Guidelines	% Increase over BC ARC	% Increase over 2011 Contribution	With 100% Pay-Go Minimum	% Increase over BC ARC	% Increase over 2011 Contribution
Smithfield Police	1,972,824	1,048,000	53%		1,894,932	1,988,398	1,988,398	4.93%	89.73%	1,988,398	4.93%	89.73%
				Yrs	19	19	19					
Tiverton	1,067,884	452,407	42%		636,139	636,139	675,499	6.19%	49.31%	704,172	10.69%	55.65%
				Yrs	25	25	17					
Warwick FP1 [4]	12,984,590	12,984,590	100%		13,053,572	13,818,463	16,202,794	24.13%	24.78%	18,532,731	41.97%	42.73%
				Yrs	34.25	34.25	25					
West Warwick	6,912,110	1,289,098	19%		7,888,010	7,888,010	7,888,010	0.00%	511.90%	7,888,010	0.00%	511.90%
				Yrs	25	25	25					

[1] From the 2011 audited financial statements, except for for Coventry School, Johnston Police, and Pawtucket, where the amounts were derived from the actuarial valuation and confirmed with the city or town

[2] Based on the 2010 actuarial valuation

[3] If the recent agreement with the retirees is ratified, the ARC will decrease substantially, but the Pay-Go will have a modest decline in FYE13.

[4] The 2011 ARC is based on their pension funding ordinance. The minimum ARC under GAAP accounting was $20,018,000.

ATTACHMENT E

Study Commission – Suggested Meeting Schedule

All meetings will be held at 1:00 PM in room 313 in the State House

Monday	February 13, 2012
Monday	February 27, 2012
Monday	March 12, 2012
Monday	March 26, 2012
Monday	April 9, 2012
Monday	April 23, 2012
Monday	May 7, 2012
Monday	May 21, 2012
Monday	June 4, 2012
Monday	June 18, 2012

<u>Suggested additional schedule:</u>

Monday	July 16, 2012
Monday	August 27, 2012
Monday	September 10, 2012
Monday	September 24, 2012
Monday	October 15, 2012
Monday	October 29, 2012
Monday	November 19, 2012
Monday	December 3, 2012
Monday	December 17, 2012