Pension Study Commission
December 3, 2012
Minutes of the Meeting

A Study Commission meeting was held in the Senate Lounge of the State House, 82 Smith Street, Providence, Rhode Island on Monday, December 3, 2012.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension Study Commission called the meeting to order at 1:15 pm.

Commission members present: Rosemary Booth Gallogly, Jean Bouchard, Paul Doughty, Allan Fung, Dennis Hoyle, Richard Licht, Antonio Pires, Mark Dingley representing Gina Raimondo, Steven St. Pierre, John Simmons and JR Pagliarini representing Angel Taveras

Members absent: Bruce Keiser, J. Michael Lenihan and Joseph Polisena

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 November 19, 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 November 19, 2012. There were none. Antonio Pires, Director of Administration for the City of Pawtucket made a motion to accept the minutes as written. The motion was seconded by Mark Dingley representing Gina Raimondo from the General Treasurer's Office. The motion passed all in favor.

Agenda Item # 2 – Potential Recommendations to General Assembly, Attachment B

To begin, Chairperson Booth Gallogly stated that one of the big picture items she would like to discuss is what the Commission thinks the state's role should be in regards to pension security. Director Licht responded that there is a difference between role and responsibility. He clearly thinks the state will play a role but he's not sure that the state has the responsibility to make the payments when municipalities fail to just because the state puts a statute in law. Chairperson Booth Gallogly noted that the Commission is working on setting standards that are self monitoring and sustainable. Mr. Pires stated that the city of Pawtucket has formed an ad hoc pension commission to facilitate public testimony and have invited retirees to participate in the conversation. The challenge, he noted, is in convincing retirees and active union employees to look at their current structure and work with the administration on devising changes. Mr. Pires recognized the difficulty in asking retirees to give up some of the benefits they have earned and contributed to by stating that it was almost fundamentally unfair. However, it seems to him that if the state's Locally-Administered Pension Commission is not careful then the state's de facto role will be to deal with the pension problems that are dumped on the state's lap. Based on what has been learned from the past, the state, as a regulator, has some responsibility and will need to be given the ability to withhold state aid. It needs to be something substantial. The state needs to have the capacity to move this along. On one hand, we do not want the state to have to assume that financial burden but on the other hand as a regulator the state will need tools to help make substantive changes happen.

Mayor Fung from the City of Cranston concurred with Mr. Pires comments and believes that the challenge is in being fair on both sides of the isle. However, he believes that no matter what actions are taken going forward, future administrations must adhere to the Funding Improvement Plan (FIP). The state needs to play an enforcement role that has teeth. At the same time, you do not want municipalities just abdicating their responsibilities to the state because the state has more power. Therefore, ideally, he hopes that the Commission will set certain standards such as locally-administered pension plan benefits can be no greater than those in MERS which will help communities better manage and afford their locally-administered pensions.

With respect to Mr. Pires point about potential changes to retirees being unfair, Chairperson Booth Gallogly noted that he is correct, changes to retirees benefits are not fair. But just as was the case in Central Falls, if no changes are made and things are allowed to get worse, down the road retirees and taxpayers of several communities could see changes that are even worse than what may be proposed today. For example, retirees in Central Falls had their pension cut fifty-five percent (55%). However, in some parts of the country there are retirees who are getting zero percent (0%) of their promised retirement. She believes the Commission was created to help prevent either of those outcomes in the future.

Jean Bouchard, Municipal Vice President of Council 94, AFSCME, agrees with some of the comments that have been made by Mr. Pires and Mayor Fung. However, she expressed her concern that in attempting to solve the problem of pensions in critical status one size does not fit all communities. For example, well-funded plans should not be penalized with limited benefits. In addition, she noted that employees have put in their fair share of their salary towards retirement while some communities have not so why should those retirees receive lesser benefits? Furthermore, she believes that the removal of state aid over the last few years has caused a major crisis for cities and towns. One recommendation she made is that the state should reinstitute some of the state aid going back to the municipalities.

To Ms. Bouchard’s point, Director Licht, Director of Administration for the State of Rhode Island, expressed that one challenge the state faces is how it can make a community fiscally responsible if they have not demonstrated that in the past. For example, even when additional state aid was distributed to cities and towns, some communities still did not fully fund their annual required contribution (ARC). Even if we could make the municipalities more responsible they will still be faced with Other Post Employment Benefits (OPEB) problems and may have school committees which overspend their budgets. It is a major concern because the fiscal health and/or failure of one community affects other cities and towns in the state. Chairperson Booth Gallogly responded that hopefully all of the attention the locally-administered pensions are getting will raise everyone’s sense of awareness. It should not be the sole responsibility of the Auditor General’s Office to monitor pensions. She hopes the recent attention will generate more involvement of union members and retirees.

John Simmons, executive director of the Rhode Island Public Expenditure Council, wanted to make sure that Rhode Island’s taxpayers are factored into any potential recommendation or solution that the Commission may come up with. To expand on Mr. Simmons point, Mr. Pires noted that in developing a FIP for the city of Pawtucket, it is clear that fully funding the ARC every year would not be sustainable for the city. Part of the reason is that in years past taxes were not raised which limited the amount the city contributed to its ARC making current and future ARCs particularly burdensome. It is not fair to employees and retirees if they do not get the benefits they were promised but it is also evident that the current taxpayers cannot shoulder the burden alone. Just as with worker's compensation, all the various parties will need to come together to solve the pension issues. Mr. Simmons believes the changes required will not be fair to anyone but thinks that the Commission must consider all of the participants. A year ago people thought this wouldn't be resolved but he thinks the Commission is getting closer.

Next, Chairperson Booth Gallogly moved on to the pros and cons grid provided as Attachment B in the addendum. She thanked Mayor Taveras from the city of Providence for suggesting the grid which she thinks will be helpful to look at potential recommendations from all perspectives. She then began reading each item in the grid aloud and discussion amongst the Commission members ensued.

Mr. Simmons believes there should be a standard applied to locally-administered pensions plans that is fair and similar to what is required of the state's pension plans. Director Licht echoed Mr. Simmons' point. He thinks it would be best to handle the majority of the structure by regulations promulgated by the Director of Revenue but noted that there needs to be some sort of state statute to authorize the regulations. Chairperson Booth Gallogly responded that regulations are easier to change than a statute but they can also have a negative effect if years from now people do not think pension funding is as important and weaken or get rid of the regulations.

Mayor Fung also agrees with Mr. Simmons and stated that he does not believe in following any set standards such as GASB, etc. because as we have seen recently GASB and Moody's have made changes that we might not want the locally-administered pension plans to be tied to. Therefore, having flexibility is key. Paul Doughty, President of the Providence Firefighters' Union Local 799, argued that flexibility is what got the municipalities and pensions into the current situation. He thinks the standards should be iron clad. Mr. Doughty also expressed concern about having the group that promulgates any rules be just an extension of the executive branch which would be an "unfair balance".

Moving on, Chairperson Booth Gallogly noted that, to date, critical status has been defined based on the funding perspective. However, GASB will now only be looking at it from an accounting perspective which will use the market value as of the end of the fiscal year. She believes there should be consistency between the state and locally-administered plans in terms of how critical status is measured. The state's critical status is already defined in general law. She believes this is important because there will be locally-administered plans coming in and hopefully coming out of critical status in the years ahead. Mr. Dingley agreed with Chairperson Booth Gallogly stating that as GASB rules change and get phased out the Commission will not be able to rely on them anymore. Chairperson Booth Gallogly emphasized that it is important to spell out the definition of critical status in statute otherwise there could be huge fluctuations of funded status if a municipality uses market value. To provide consistency within individual plans, Dan Sherman, actuary for the Commission, recommended using entry age normal on cost method and limiting plans to no more than 5 year smoothing on assets. In addition, he suggested that the Commission might want to recommend that the General Assembly set in statute that municipalities must stay with a chosen method of reporting for five (5) years before switching which would eliminate any gamesmanship and jumping back and forth between asset smoothing and market value which would cause wild fluctuations in the funded ratio.

Mayor Fung inquired about what happens if the market fluctuates and affects a plan’s funded ratio perhaps dipping it back below critical status? For example, will that city or town have to create a new Funding Improvement Plan? Chairperson Booth Gallogly believes there should be some flexibility for plans near the sixty percent (60%) funded ratio threshold. Mr. Sherman suggested that if a municipality continues to follow their Funding Improvement Plan regardless if they have a bad year which dips them below the sixty percent (60%) threshold that they will be ok because the amortization schedule will be getting shorter and a greater amount of principal is going into the pension plan at that point. Chairperson Booth Gallogly stated that she is less concerned about plans that are marginally off from their FIP than those that are not making any progress or those that are off by a lot, especially towards the end of the twenty (20) year planning horizon. However, she believes it is a concern for plans which hover around a certain threshold for reinstituting a COLA, because if a COLA starts to get paid out that would change the numbers. From an actuary’s perspective, Mr. Sherman indicated that an actuary would take the returning COLA into account in the liability when forecasting. Director Licht pointed out that a locally-administered pension plan will get out of critical status only as long as the assumptions upon which the Funding Improvement Plan is based are correct. As such, he inquired at what point will someone step in if it is clear that a Funding Improvement Plan that a community is following is not working? Chairperson Booth Gallogly suggested that maybe in the regulations there should be some date certain to look back and evaluate where the plans are in comparison to where they thought they would be. Mr. Sherman noted that Bristol police pension had the only FIP which addressed the issue of what would be done in terms of actuarial gains and losses. If addressing those scenarios has been accounted for in the FIP then the plan will take care of itself because all of the actuarial gains and losses will have to be paid. Mr. Dingley pointed out that reaching sixty percent (60%) funding is not a healthy plan. Just because a plan may get out of critical status does not mean that it is well funded. A sixty percent (60%) funding ratio still means that forty percent (40%) of past service benefits have not yet been paid.

Mr. Pires observed that having been a former member of the General Assembly the conversation that the Locally-Administered Pension Study Commission is now having reminds him of conversations that have been had in the past. For example, past General Assemblies, who had great intentions, thought that they had solved the pension issue before but it has since resurfaced. He believes that no matter how well-intended this Commission is it should recognize how difficult the task at hand is and that the Commission will not be able to solve the pension issues permanently due to volatile variables. For example, mortality tables and investment returns can change dramatically which may require revisiting these issues on a regular basis. Mr. Simmons pointed out that it will be difficult to make regular adjustments, as necessary, if the rules are set in statute.

Mr. Dingley agreed with Mr. Pires but warned that there is some urgency to solving this now. To illustrate his point he noted that the state’s plan currently has $7 billion in assets with $14 billion in liabilities. The longer these liabilities are allowed to go unfulfilled, it will just compound the problem. Chairperson Booth Gallogly stated that the Commission’s goal should be to recommend a structure to the General Assembly that allows the pension issues to be rectified today but also to set up a mechanism to allow oversight which would trigger early involvement if a community’s pension plan is going down the wrong path in the future.

Another consideration from Attachment B is that pension plans in MERS split the cost of oversight. Therefore, should locally-administered plans share the cost of any state oversight that might be developed? Mr. Pires inquired about who pays for the state oversight in Massachusetts. Mr. Sherman responded that the state, itself, pays for the oversight of the locally-administered plans. Chairperson

Booth Gallogly noted that she is not entirely sure of the scope of oversight that would be needed to monitor Rhode Island's locally-administered pension plans. For example, other than the brief pension survey sent out to municipalities earlier in the year, the Department of Revenue does not know the investment performance of local plans and has not audited them to know if pensions and COLAs are calculated correctly. Mr. Dingley noted that the MERS system is already built and is monitoring the things mentioned above for the municipal plans in its system. Mr. Hoyle concurred with Mr. Dingley's point and cautioned about rushing to set up additional and costly oversight of the municipal plans. Chairperson Booth Gallogly suggested that if a municipality does not want to move their pension plans into MERS then, perhaps, they should have to pay for the oversight of their locally-run plans. Mr. Doughty proposed that pension plan participants would probably not have a problem contributing to the costs of oversight so long as payment of the ARC and best practices were required.

Regarding the accidental disability pension listed in Attachment B, Chairperson Booth Gallogly noted that some people question if a 66 2/3 percent pension is too attractive. For example, should it be fifty percent (50%) like the changes that were made in pensions for teachers, state employees and municipal employees (excluding police & fire). [Correction – it was later clarified that an accidental disability is at MERS is 66.67% of final pay. An ordinary disability is whatever one's pension accrual is up until one's disability date, but with a minimum disability benefit equal to an employee with 10 years of service. This is the same calculation that state employees and teachers get for an ordinary disability.] Also, should there be a distinction between permanent disability where someone cannot work at all and another type of disability where the person might be able to work in another job? On the other hand, Chairperson Booth Gallogly asked, in terms of equity across municipal plans, if the MERS system has not addressed disability pension for municipal plans, does the Commission want to weigh in on it for locally-administered plans? Mr. Dingley suggested that the Commission not focus on disability pensions at the local level at this time because it is a sensitive subject and may slow down the Commission's progress. Mayor Fung disagreed and thinks part of the Commission's role should be to address disability pensions. Cranston in particular does not have a high number of disability pensions but he believes the Commission should address the issue as a whole for the communities that do. He continued that that if the Commission is working on reforming the system then they should address all of the big cost drivers for municipalities. Mr. Doughty commented that Providence's disability pension is addressed by ordinance and its collective bargaining agreements. He also added that disability pensions are a very important benefit for those who have been injured and he fails to see how a sixteen percent (16%) difference in benefits on a limited number of pensions will provide significant cost savings that would affect a plan's funded ratio. However, if the real issue that people are not saying is a concern about fraud, then he believes the Commission should instead focus on examining how one qualifies for and maintains a disability pension.

Due to time constraints, the Chair continued the discussion on Attachment B until the next meeting and asked if anyone has additional comments in the meantime that they send them to her to be incorporated in the next draft.

Agenda Item # 3 – Follow-up from last Pension Study Commission meeting, Attachment C

Chairperson Booth Gallogly invited Susanne Greschner, chief of the Division of Municipal Finance to provide the Commission with an update on the Funding Improvement Plans (FIP) since the last meeting. Ms. Greschner referenced the letter provided as Attachment C received from Mayor McKee in the town of Cumberland which indicates that Cumberland is in the process of developing a Funding Improvement Plan. Ms. Greschner also received a letter from the City of Pawtucket regarding their work with The PEW Center on Funding Improvement Plans which she read aloud to the Commission. Pawtucket's letter can also be found in the addendum.

In addition, Ms. Greschner stated that she had spoken with the Coventry Finance Director who indicated that the Town Council had adopted FIP option number 1 for both the municipal and police Funding Improvement Plans.

Furthermore, Ms. Greschner noted that she, Chairperson Booth Gallogly and Mr. Sherman had a conference call with the Finance Director and Acting Town Manager for the Town of Narragansett. Narragansett has one plan in critical status which is a closed plan with about twelve (12) retirees who range in age between 60 & 84. After speaking with the town, the town intends to comply and is working on a FIP. In addition, the town notified the state that critical status notices have been sent to all participants in that plan. Chairperson Booth Gallogly added that she asked the town to identify what their current pay-go amount would be and how long it would take for the funds to run out. In addition, the town is contemplating establishing a fund of approximately $102,000 per year which is more than what is required to pay the retirees. The town will provide information to the Commission so that the Commission knows that they are on track.

Lastly, Ms. Greschner explained that her office had received a call wondering if the Commission had granted any communities an extension on their FIP. As a reminder, Ms. Greschner indicated that neither her office nor the Commission has the authority to grant any extensions. However, Ms. Greschner indicated that she is in communication with any community that has not yet submitted a FIP in order to get the information that is needed.

Chairperson Booth Gallogly also reminded the Commission and members of the public that detailed information, including the latest Funding Improvement Plans, can be found on the Commission's web page which is found on the Division of Municipal Finance's website (www.muni-info.ri.gov).

Another comparison DOR and the Treasurey's office are working on are a comparison of investment returns to Massachusetts. Showing 1, 5, 10 and 20 year returns of the MERS system compared to Massachusetts. Mr. Dingley stated that it was discovered that the Massachusetts' returns are gross and do not reflect the fees for the investment managers. Per Mr. Dingley, looking into it further they have discovered that returns on hedge funds from private equity are reported net of investment fees but the rest of the assets are reported gross so it's going to be a difficult analysis to try to compare apples to apples. Chairperson Booth Gallogly indicated that she and the General Treasurer's office will continue to work on this and will try to have additional information for the next meeting.

Mayor Fung also provided an update to the Commission since the last meeting regarding the fact that he withdrew both ordinances that were in front of the Cranston's city council regarding the city's pension changes. He believes that his administration has heard from enough retirees to feel that they might be able to negotiate a resolution. He is staying positive that there can be some fruitful negotiations. Hopefully the Commission does not see withdrawing the proposed ordinances as an intentional act. It does not have the city council's approval. Chairperson Booth Gallogly indicated that she saw that as a positive step. She requested that if any Commission members or members of the public know of any ideas used elsewhere in the country that may be helpful for cities and towns in Rhode Island to please let her know.

Agenda Item # 4 – Next Meeting Dates

If construction in room 313 is not completed in time, the Commission's next meeting on December 17th will be held in the Senate Lounge on the second floor of the State House. Additional meetings are scheduled for January 14th and 28th and should be back in room 313 of the State House. Please check the Study Commission's web page for updates.

Agenda Item # 5 – Public Comments

There were no public comments.

Agenda Item # 6 – Adjourn

Mr. Dingley made a motion to adjourn which was seconded by Director Licht. The meeting adjourned at 3:08 PM.

Rosemary Booth Gallogly
Chairperson

December 17 2012
Date

PSC/jb

Addendum to the December 3, 2012 Pension Study Commission Meeting Minutes

Attachment B

***"Pension Security – Addressing Locally Administered Pension Plans"* - Discussion Points**

As of November 30, 2012

Disclaimer: This document is a work in progress. Additional comments are needed.

I. General Issues:

***Section I** addresses overall issues that need to be resolved relating to terminology (clarifications resulting from GASB standards), oversight and reporting issues, and creation of a structure which is designed to prevent future crises in local pension systems.*

		Goal	**Pro**	**Con**
1	Should the Commission's guidelines be in statute? If so, what other items should be added? • No open amortization • Plans must comply with GASB standards for actuarial methodology (entry age normal) • Other items? • Incentives if statute followed Disincentives if not followed (state aid)	To have a structure set in statute and to increase health of those plans in critical status.	Enforceability. Guidelines in statute provide a means of aligning actuarial recommendations and GASB standards in local budgets. Aid in recognition of long term liability vs. current budget practice. Conceivably prevent more plans from reaching critical status. Transparency. Could help deflect criticism and posturing at the local level. *Additional Comments:*	Challenges political will and long established practices. Perception of state as big brother. Difficult to change. *Additional Comments:*

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		Goal	**Pro**	**Con**
1	A. Should guidelines be promulgated through regulations by DOR?		Same as above. *Additional Comments:*	Same as above except that regulations are easier to change than when set in statute. *Additional Comments:*
2	Does existing legislation conform to new GASB standards?	Align legislation to regulations as developed.	Opportunity to lead on a relevant current issue. Makes legislation more legitimate. *Additional Comments:*	*Additional Comments:*

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		Goal	**Pro**	**Con**
3	Should critical status be defined in the statute? (Funding vs. Accounting) Suggestion: Use funding	Be consistent with some of the new GASB rules. Make critical status very transparent.	Consistency and transparency. Clarification of critical status is required due to changes in GASB pension standards – for most plans there will be an accounting based funded status and a funding based funded status. *Additional Comments:*	*Additional Comments:*
4	Should the Commission clarify the language on the time frame for entities to submit funding improvement plan, as plans enter critical status in the future?	Clarify and define what requirements are when plans enter critical status.	Give plans opportunity for successful implementation- include key dates for implementation, require feedback on progress. *Additional Comments:*	Needs an ongoing monitoring functionality.

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		Goal	**Pro**	**Con**
5	What other measures could be enacted to ensure adherence to the adopted funding improvement plans?		*Additional Comments:*	*Additional Comments:*
6	What body or office will provide oversight to locally administered pension plans? A. In regard to approving the funding improvement plans, what body or office will assess compliance/adherence to the funding improvement plan on an ongoing basis? B. Should there be a permanent state oversight over those plans and if yes, which office should be responsible? C. Should municipalities pay for these costs?	Put locally administered plans back on track and ensure that plans stay on sound financial footing.	Could use Massachusetts as a model. Set performance standards or other criteria to prevent regression. Appropriate way of allocating cost to each municipality. *Additional Comments:*	Additional resources needed. New cost. *Additional Comments:*
7	When a budget commission is appointed by the Director of Revenue and the municipality has a locally administered pension plan in critical status, should there be a mandatory presumption of transfer to MERS?	Pension Security.	Statutory provision would provide enhanced retirement security for employees of communities at financial risk. *Additional Comments:*	CBA's exist. *Additional Comments:*

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		Goal	**Pro**	**Con**
8	Should Central Falls be considered an exception and be allowed to migrate into MERS with their significantly restructured plan? Or should new hires be required to enter restructured MERS, can the City afford it?	Pension Security.	MERS provides enhanced security through required funding of the ARC and reduced administrative costs as well as opportunities for improved investment performance and better diversification of investment risk. *<u>Additional Comments:</u>*	*<u>Additional Comments:</u>*
9	With regard to disability pension reform, should the retirement allowance be a tax free percentage for all employees? Should some public employees continue to be treated differently?		*<u>Additional Comments:</u>*	*<u>Additional Comments:</u>*
10	Should the Commission address, as part of its work, issues of control over school department spending and the impact on a plan's ability to fund the ARC?		*<u>Additional Comments:</u>*	*<u>Additional Comments:</u>*

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II. Encourage voluntary transition of the plans to MERS

***Section II** discusses possible incentives to make it easier for locally administered plan to transition into the Municipal Employee Retirement System ("MERS").*

		Goal	Pro	Con
1	Should the commission consider allowing a period of no more than five years to reach 100% funding of the MERS ARC?	Address unfunded liability.	Sustainability for plan. Removes one of the primary impediments to local plans merging into MERS. *Additional Comments:*	Too aggressive for already burdened communities? *Additional Comments:*
2	Should the commission allow for reamortization of the recalculated unfunded liability upon entry to MERS?		Allows flexibility and provides a tool that may facilitate merger into MERS. *Additional Comments:*	*Additional Comments:*
3	Should the commission consider allowing plan members to retain existing service credits and then adopt MERS accrual rates on a go-forward basis?		Fair to employees with significant years of service. *Additional Comments:*	*Additional Comments:*

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		Goal	**Pro**	**Con**
4	How do we allow for the transfer of existing investments? Consider whether SIC could hold and optimize timing of sale to align with ERSRI asset allocation rather than force an immediate liquidation.		*<u>Additional Comments:</u>*	*<u>Additional Comments:</u>*
5	Consider allowing the transfer of existing retirees to MERS provided sufficient contributions and/or assets are transferred to mitigate liquidation of other plan's assets (negative cash flow issue).		Prevents leaving behind closed plans that by their nature are difficult to fully fund when no active employees are members. *<u>Additional Comments:</u>*	*<u>Additional Comments:</u>*
6	Should one-time financial incentives be considered?	Voluntary participation.	Facilitates merging plans into MERS if there is that is in the public interest and protects retirement security for plan members. *<u>Additional Comments:</u>*	*<u>Additional Comments:</u>*

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		Goal	Pro	Con
7	Should a provision be made for offset of School Aid in the event of failure to make ARC payment (to ensure there is a way to enforce payment of the ARC)?		Could help to ensure that ARC is made. *<u>Additional Comments:</u>*	Funding be taken away from education. *<u>Additional Comments:</u>*
8	Should we allow only whole plans (actives and retirees) to migrate to MERS? If not, how will assets in the old plan be divided between retirees and actives?		Allowing full plans including retirees prevents closed plans at the local level and enhances retirement security for all plan members. *<u>Additional Comments:</u>*	*<u>Additional Comments:</u>*
9	Are there other incentives to join MERS that could be considered? Are there other obstacles/impediments to joining MERS?		*<u>Additional Comments:</u>*	*<u>Additional Comments:</u>*

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		Goal	**Pro**	**Con**
10	Should benefits be consistent with the Rhode Island Retirement Security Act of 2011(RIRSA)? Consideration should be given to representation of retirees as part of any solution.		Consistency among plans. *<u>Additional Comments:</u>*	Less local control. *<u>Additional Comments:</u>*
11	How do we address conflicting provisions in Collective Bargaining Agreements and MERS statute? Consider options: • require that certain issues be taken out of the CBA • certain issues be deemed "prohibited" subjects of bargaining under municipal collective bargaining statutes Consider where there are conflicts between the CBA and MERS, that MERS statutes/process prevails.	Uniformity.	When a provision is in doubt, financial viability will be addressed. (Also included in section III-Issues to be addressed) *<u>Additional Comments:</u>*	Loss of control for employees. *<u>Additional Comments:</u>*

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III. If Funding Improvement Plans are not submitted, the entity fails to adopt and implement a funding improvement plan; or fails to adhere to a funding improvement plan

Section III discusses a structure for entities that did not submit Funding Improvement Plan to the Commission, did not adopt and implement a funding improvement plan which had been deemed reasonable, or not adhere to an adopted funding improvement plan, such that the pension plan would not achieve 60% funded status.

		Goal	**Pro**	**Con**
1	Should the State withhold state aid, according to R.I. Gen. Laws §45-65-7?	Provide for a method of compliance.	Brings weight to the issue, ensures compliance. *Additional Comments:*	Punitive. May force community to borrow to meet immediate needs. *Additional Comments:*

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2	Should the State require transfer of plan into MERS if any of the following conditions exist: • Failure to submit a funding improvement plan, failure to adopt and implement a funding improvement plan, or failure to adhere to the adopted funding improvement plan: • Failure to contribute the ARC or failure to make the 20% increase required of the funding improvement plan guidelines; • Investment performance that lags ERSRI investment returns (e.g., local plan investment return is less than 50 basis points of the ERSRI return for 2 consecutive years (with exceptions for plans that have a reason for assuming less risk i.e., 100% funded); • Implementation of pension benefit increases without first achieving 100% funded status)? • Disability pension percentage rates that exceed the MERS average for two consecutive years.	Exercise consistent standards for all communities.	Uniformity; payment of ARC required; investment risk minimized; benefit provisions set in state law; reduced investment and actuarial cost; eliminates need for local disability determination process. *Additional Comments:*	Ability of municipalities to pay ARC; property tax cap which limits ability to raise revenues. *Additional Comments:*

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		Goal	Pro	Con
	If transferred to MERS then:			
1	Is transfer of the plan to MERS due to the existence of the outlined conditions considered a trigger for DOR Director to appoint a fiscal overseer, budget commission, or receiver?	To have a mechanism in place for future plans that may reach critical status.	Determine factors ahead of time based on agreed criteria is better than reactive policy. Places additional incentive for communities to appropriately fund their locally administered plans. Provides a key enforcement tool when communities are not funding their plans appropriately.	Loss of local control.
2	Should the State require a higher *employee* contribution rate when the plan is required to be transfer to MERS?			Does this "punish" employees?
3	Should the State provide for offset of School Aid in the event of failure to make ARC payment?	Encourage Municipality and School Departments to address the issue as one community.	Municipal budgets are comprised largely of School funding needs.	Are school programs at risk?

Attachment B

***"Pension Security – Addressing Locally Administered Pension Plans"* - Discussion Points**

As of November 30, 2012

<u>Disclaimer: This document is a work in progress. Additional comments are needed.</u>

		Goal	**Pro**	**Con**
	Issues to be addressed:			
1	Given the different provisions in Collective Bargaining Agreements – Option: require that certain issues be taken out of the CBA, certain issues be deemed "prohibited" subjects under municipal collective bargaining statutes or where there are conflicts that MERS statutes/process prevails.		Same as Section II item 11. *<u>Additional Comments:</u>*	*<u>Additional Comments:</u>*
2	Are there issues unique to potential transfer of "closed" or nearly closed plans to MERS?		*<u>Additional Comments:</u>*	*<u>Additional Comments:</u>*
3	Benefits would be consistent with the Rhode Island Retirement Security Act of 2011(RIRSA).		*<u>Additional Comments:</u>*	*<u>Additional Comments:</u>*
4	Consider representation of retirees • Friendly class action lawsuit • Get stakeholders to agree first	To have future administrations adhere to funding improvement plan.	*<u>Additional Comments:</u>*	*<u>Additional Comments:</u>*

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IV. OPEB

		Goal	**Pro**	**Con**
11	How would an OPEB Trust be created? By the State or as a collaborative of cities and towns? Suggestion: All locals have the opportunity to commingle assets at the State level to increase buying power. It would be set up like a mutual fund where each local has its own share of the assets.	Address OPEB liability.	Addresses inefficiencies of each municipality creating a trust and related investment process – creates opportunities for enhanced investment performance with diversification of investment risk. Would ensure that municipalities start/continue funding OPEB; easier to administer than 39 separate plans. *Additional Comments:*	Additional resources needed on state level, however it would reduce workload on the local level. *Additional Comments:*
12	OPEB - Similar requirements for valuation, funding improvement plan?	Address OPEB liability.	Ensure consistency. *Additional Comments:*	

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OFFICE OF THE MAYOR
45 BROAD STREET
CUMBERLAND, RHODE ISLAND 02864

DANIEL J. McKEE
MAYOR

November 26, 2012

Susanne Greschner
Department of Revenue
Division of Municipal Finance
One Capital Hill, 1st Floor
Providence, RI 02908-5873

Dear Ms. Greschner,

This letter is in response to your inquiry regarding the funding improvement plan with respect to the Town's Police Pension liability.

Cumberland's improvement plan will include proposed action steps by the town and police union. In addition to the town's initiatives the funding improvement plan will include the State of Rhode Island committing to eliminate inequitable allocation of State funding to cities and towns including an equitable allocation of school and vehicle phase out funding. The improvement plan will also call on the State of Rhode Island to pass amendments to the recently passed pension reform legislation to include locally run pension plans.

As you may know the Town has focused on solving large unfunded liabilities for not only its Police Pension Plan but also its Other Post-Employment Benefits ("OPEB"). With previous valuation reports showing an OPEB liability in excess of three times the pension liability, over the past year the Town has undergone great efforts to control its OPEB costs. While this was not an attempt to overlook a significant unfunded liability in pension, mathematics suggested that the OPEB liability was the logical starting point for corrective action. While that effort is certainly not completed the Town has made significant changes to its retiree health care without impacting contractually promised benefits. The Town shifted a large portion of the Police retiree benefits to Medicare, and corrected the School Department's retiree health care to return them to the contractually promised pass through health care relationship. The success of these efforts is evidenced by the recently available actuarial valuation report on OPEB showing a reduction in the unfunded liability from roughly fifty-two million dollars ($52,000,000.00) to around thirty-nine million dollars ($39,000,000.00). Further, with a funding effort already under way through the Cumberland Town Council's passage of an OPEB Trust the Town has

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begun a further reduction of OPEB liability to around twenty-six million dollars ($26,000,000.00). In the upcoming year the Town intends to implement a Coordination of Benefits effort (as well as other bargained for changes) that will further reduce the liability and the Town believes it will begin the Budget FYE 2014 at well less than twenty million dollars ($20,000,000.00).

Simultaneously with these accomplishments, the Town has requested an updated valuation report for its pension liability. That effort has been slowed by a transition to a new actuarial services firm. The Town is expecting its updated valuation report in early December and has already requested that it is immediately followed with a study of areas for potential pension savings. Further, it has provided the actuary with a copy of the most recent MERS experience study and requested that the firm advise the Town on the appropriate updated assumptions for use in its reports. The Town expects a reduction in the assumed rate of return from it's current 8.0 percent. In all likelihood, these changes will lead to an increase in the pension unfunded liability. However, the Town is also engaged in negotiations with the bargaining unit for the Police Officers at this time. To the extent the actuary recommends pension benefit changes to reduce the unfunded liability the Town's first course of action is to attempt to negotiate them with the Union. The Town will forward the Actuarial Valuation Report of the Police Pension Plan, along with its updated assumptions, as soon as they are available. From there, the Town will address its Funding Improvement Plan and advise you accordingly.

Very truly yours,

Daniel J. McKee
Mayor