**Pension Study Commission**
**January 28, 2013**
**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, January 28, 2013.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension Study Commission called the meeting to order at 10:30 AM.

**Commission members present:** Rosemary Booth Gallogly, Jean Bouchard, Paul Doughty, Allan Fung, Dennis Hoyle, Richard Licht, Joseph Polisena, Mark Dingley representing Gina Raimondo, John Simmons, Steven St. Pierre and Will Farrell representing Angel Taveras.

**Members absent:** Bruce Keiser, J. Michael Lenihan, and Antonio Pires

**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 January 14, 2013**

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 January 14, 2013. There were none. Mayor Polisena, from the Town of Johnston, made a motion to accept the minutes as written. The motion was seconded by Steven St. Pierre, Sergeant of the Bristol Police Department. The motion passed all in favor.

**Agenda Item #2 – Proposed testimony from plan sponsors and actuaries, Attachment B**

Chairperson Booth Gallogly indicated that there had been previous discussion on scheduling meetings with all the communities that have locally-administered plans and their actuaries. She indicated that Attachment B provides a meeting concept that the Commission could review. The Chair suggested that the Commission could schedule possibly five (5) actuaries and the communities that they represent in one of several two hour Pension Study Commission meetings. Those actuaries who represent several communities could be scheduled for the entire two hour meeting. The chair indicated that, to date, most of the Commission's inquiries have been researched by staff, therefore having the actuaries meet directly with the Commission could help in solving any outstanding issues. Mayor Polisena's expressed concern about the cost cities and towns would incur to have their actuary prepare for and travel to the meeting. Chairperson Booth Gallogly indicated that the Commission wants to proceed with the least costly approach, which in some cases a conference call could be arranged, if necessary. She indicated that the Commission should work with Daniel Sherman, from Sherman Actuarial Services in arranging those meetings. It was indicated that thirty (30) minutes is the average time anticipated per pension plan which would include the presentation as well as questions and answers. Chairperson Booth Gallogly indicated that the focus of these meetings would be to address any outstanding questions/issues, and Mr. Sherman would provide an agenda with those questions. Mayor Fung, from the City of Cranston, thought the Commission should limit their questions to those communities who have submitted their funding improvement plan (FIP). His concern is with

communities that might be in negotiations with their employees and/or retirees. He expressed that the negotiation process should be separate, and if an agreement had been reached, then an updated funding improvement plan would have to be submitted that would fit the guidelines criteria. But for the sanctity of the negotiation process, Mayor Fung believes that the presentation should only focus on what has already been submitted. The Chairperson agreed, and indicated that the Commission wants to have a clear understanding of the plans, and clarification of the issues that are outstanding.

Chairperson Booth Gallogly suggested the Commission set up a standard of what they expect the presentation to include: the proposal, expected transition from critical status, or if the proposal requires negotiations (assuming that it is adopted, when they will be out of critical status). John Simmons, Executive Director of R.I. Expenditure Council, thought the purpose of these meetings was to have the actuaries explain their proposal for public record and for the Commission to hear it firsthand from the actuary. Secondly, to have any particular questions answered as to why the community was in a particular position. He questioned the value of it. He thought the actuaries could meet with the Commission and discuss an overall summary of the proposed plans. As an alternative, he inquired if due to the expense, the Commission's staff would be able obtain the information from the actuaries rather than having the actuaries come before the Commission. Chairperson Booth Gallogly asked the Commission if they were comfortable in relying on the staff's decisions that these plans are reliable and reasonable since there is potentially state aid linked to these plans. Mayor Fung concurred with Mr. Simmons, however, he thought if the Commission had additional questions having the actuaries come in would provide the Commission with an opportunity to ask further questions. Mayor Polisena indicated that he trusted the Commission's staff to ask the right questions. Chairperson Booth Gallogly stressed that the importance of knowing what contingencies have been provided for in each funding improvement plan. Once known, the Commission could then ask specific questions of the actuaries that are still outstanding. She believes it is important that the Commission is given enough data regarding these plans.

**Agenda Item #3 - Funding Improvement Plans status update, Attachments C, D**

Chairperson Booth Gallogly asked Susanne Greschner, Chief of the Division of Municipal Finance to provide an update on the local funding improvement plans submitted. Ms. Greschner referred to Attachment C found in the addendum and indicated that any changes to Attachment C since the last meeting are indicated in bold. She also noted that continuous updates are available on the Division of Municipal Finance's website: www.muni-info.state.ri.us. Ms. Greschner stated that the funding improvement plan was received from the Town of West Warwick, and was sent to the Commission and will be put on the Commission's website soon. There are still funding improvement plans missing, and the outstanding communities are working on submitting them to the Commission. Mayor Polisena indicated that he will be meeting with Johnston's Police and Fire unions next week to present their plan to them, and therefore should be submitting an FIP to the Commission soon. He apologized to the Commission for the delay. Ms. Greschner indicated that apart from Johnston, they are still waiting for funding improvement plans from Cumberland, North Providence and Pawtucket. Chairperson Booth Gallogly indicated that North Providence had been awaiting a decision on the use of the Google funds settlement. Now that the Federal government has made the decision she expects North Providence's FIP to be forthcoming.

The Chairperson indicated that up to this point, the Commission had been working with the list of municipalities that owed the Commission a funding improvement plan (Attachment C) as if it were a fixed group of communities in critical status. However, as new (annual) actuarial valuations are

received some additional locally-administered pension plans have fallen into critical status. Therefore, the Commission is working with communities that are newly entering critical status with a new 180 days timeframe from when critical status notices are sent to submit a FIP to the Commission. As a result, the listing of communities on Attachment C and the website will start changing, and other plans will be added that were not there originally. New timeframes are established as new valuations are received.

According to Ms. Greschner, based on the most recent actuarial valuations that were received from some communities, most of the pension plans' funded ratios have declined. Two more plans are now in critical status, which are from the Town of Narragansett and the City of Woonsocket, which are below 60% funded; therefore, they must submit a funding improvement plan going forward.

Chairperson Booth Gallogly inquired if the locally-administered funding improvement plan guidelines would still apply if a plan were to transition into MERS. Mark Dingley, representing Gina Raimondo from the General Treasurer's Office, responded that the legislation provided that all those communities in MERS that are lower than 60% are presumed to be on a funding improvement plan. He noted that there was another provision in the law that provided for submission of a plan to get back in shape. He added that there are provisions in the state legislation to address the lower funded plans in MERS. Mr. Simmons asked whom do they submit the plan to? Mr. Dingley indicated that he would have to check the legislation, but thought it may be the retirement board.

Chairperson Booth Gallogly commented that she is very proud regarding the Division of Municipal Finance's website. Ms. Greschner briefed the Commission on various aspects of the website, and indicated that there are continuous updates on the website. She mentioned that as new actuarial valuations are received, the Funding Improvement Plan website will be modified to reflect if communities move into critical status. Attachment D gives a summary of the Pension Study Commission information provided on the website. She also pointed out that under the valuation and experience studies section, her staff is working on this page of the website to reflect easy and understandable information. Mr. Dingley indicated that it is a very good website, and asked if a direct link to the Pension Study Commission page could be provided on the Division of Municipal Finance's website menu bar. Ms. Greschner indicated that she will discuss this with her staff and try to provide the Pension Study Commission link.

Ms. Greschner indicated that Governor Chafee has proposed Article 11, Municipal Incentive Aid, as part of his Fiscal Year 2014 Budget. The proposed article includes a deadline for municipalities of May 1, 2013 for funding improvement plans that have to be submitted pursuant to Chapter 45-65. The Funding Improvement Plans would also have to be approved by the local governing body in order for municipalities to receive the state aid. If passed, there are new urgencies for all communities that have not submitted an FIP to the Commission to do so. Chairperson Booth Gallogly indicated that the Incentive Aid is a $10 million aid package, and for example Providence would get $1.7 million, down to Charlestown with $74,000. The goal is to provide incentives to communities who are addressing their locally administered pension problems. The Governor's proposed article on Incentive Aid could change based on negotiations within the legislature. As it stands now, the proposed Incentive Aid would be allocated based on population and those communities that have not made an attempt to resolve their pension issues, would not get the money. Mayor Polisena commended Governor Chafee for helping the cities and towns in these most difficult financial times. Chairperson Booth Gallogly indicated that the administration is aware that they need to help the communities who still have not met the requirements and, which right now, would not necessarily be eligible for this aid.

Ms. Greschner indicated that she and her staff will continue to work with the communities that have not submitted a Funding Improvement Plan yet, and hopefully the proposed Incentive Aid will encourage them to address their locally-administered pension plans. In addition, Ms. Greschner noted that there are a few communities whose funding improvement plan had not been approved by the local governing body. The Chairperson indicated that if a community would not be eligible to receive the aid because they have not complied with the requirements, then that money would be distributed to the other qualifying communities. Chairperson Booth Gallogly reiterated that it is an incentive and she hopes that it gets the support of the General Assembly. She indicated that if a community came into critical status, and by May 1st they needed to submit their plan, and they did, and it was approved by the local governing body, then they would be eligible for the aid. If they came into critical status, and 180 days submission of the Funding Improvement Plan were after the May 1st deadline, then possibly the community would still be eligible. But, if next year, that same community still does not have their FIP done, they would not be able to get the aid next year. In subsequent years, the bar is raised a little; having a funding improvement plan is not sufficient, it must be implemented. It is a stepped up process, and continues to provide an incentive to adhere to a plan. All communities are eligible. If all of a community's plans are in MERS, then they would get the funds because they went through that reform process. Chairperson Booth Gallogly indicated that this is all subject to General Assembly approval, and referred the Commission to look at Article 11. Mayor Polisena suggested submitting a letter to the leadership of both the House and Senate supporting Article 11. Chairperson Booth Gallogly suggested that members review the proposed legislation and state aid and discuss it further at the next meeting. Chairperson Booth Gallogly indicated that it would be wonderful if the members of the Commission supported this legislation. Also, she indicated that it is a great incentive program to get communities to address their pension problems, and then next year to have them stay on track in implementing a plan.

**Agenda Item #4 - Potential recommendation to General Assembly, Attachment E**

Next, the Commission continued its discussion on potential recommendations to the General Assembly which can be found on Attachment E in the addendum. Chairperson Booth Gallogly inquired whether or not the Commission should consider adding an intercept of schools operations aid to the potential recommendations. She wants to be sure that anything that is done would not jeopardize the program credit ratings for those school bonds since the school's capital is a very large obligation of the communities. She noted that the Rhode Island Health and Education Building Corporation's school financing program was amended to include an intercept for operations aid last year, and the program credit rating from Moody's went up and resulted in huge savings for the city of East Providence, and will help in other communities when new bonds are issued. The Chairperson indicated that she has reached out to Bob Donovan and she would note this on the grid. She believes that it is important to keep that program of the highest integrity and lowest cost for communities; the Commission needs to be very careful not to do anything that has an unintended consequence with respect to that.

The Chairperson indicated that if a pension plan were to go into MERS then her desire would be to have both active employees and retirees transitioned. Solutions need to be considered, however, in case the Commission does not succeed in that goal. Would the division of assets be there if only one group wanted to go into MERS? Richard Licht, Director of the Department of Administration, noted that he favors dividing the burden between actives and retirees. Director Licht said the challenge is that no one represents retirees. He said the unions under state law cannot represent the retirees and therefore, getting the retirees consent is a challenge from a legal point of view. A majority of the retirees may vote and approve going into MERS, but the minority that did not approve the transition

are not bound by the majority vote in the case of retirees. Chairperson Booth Gallogly stated that it is not a "one size fits all" - it all depends on the health of an individual fund. Mr. Dingley believes it would be better for the retirees to go into MERS, certainly if the active employees go in because, otherwise, the retirees would be left behind. He does not know if he would foreclose a community, if the active group joins MERS, and the retirees did not join. The Chairperson said that it would be up to that community's governing body, which assets are transferred into MERS. Mr. Dingley noted that it has been done in the past; the actuary has allocated the assets and makes the transfer into MERS. Mayor Fung indicated if the Commission does not have a transition plan that includes funding for those retirees in a closed system then those communities will end up in the situation that Cranston is in. Chairperson Booth Gallogly indicated that part of the community's submission would have to be a funding improvement plan for the people that are staying out of MERS. The MERS would be amortized to whatever was agreed. The Commission would need to see a strong FIP for those members that stay out. The Commission would continue to monitor the plan. The oversight would have to have a structure and incentives for the community to stay on track and provide checks to catch them if they do not. Chairperson Booth Gallogly said it would get more complicated if some members are in MERS and some are not. The Commission has talked about the issue that some plans are governed by state statute, but they also have retirement language in a contract that covers one collective bargaining group that has some employees are in and some out, so that gets a little complicated. Mayor Fung indicated that it is a voluntary transition into MERS**.** He does not recommend a split, since he cannot see how it would work financially for a municipality since there will be less active employee contributing to that pension pool, and it is all going to fall on taxpayers, which he believes is unfair.

Chairperson Booth Gallogly's concern is how to strengthen a funding improvement plan, for those left behind in a closed plan. If a community was to come up with a split plan, could that work? Mr. Sherman indicated that it could work; there are two separate liabilities instead of one large liability. Allocate the assets; typically these things are allocated based on the percentage of assets that are covering the liabilities. It is matter of splitting the unfunded liability into two pieces, and the amortization of those two pieces. Chairperson Booth Gallogly indicated when the funding improvement plan is developed; they need to look at the combined impact for a partial transition into MERS, if that costs more or less. It needs to be a combined analysis, if the group is split, how would a community fund these two groups separately? Mr. Sherman indicated that in many cases it is done on a pro-rata basis, but it is not exclusively. There are various situations, but the norm is to give everybody an allocation, so that after the fact they have the same funded ratio that they did before. Director Licht indicated that a retiree is more exposed, because once they are in MERS, there is a mandate that the community has to make the Annual Required Contribution (ARC). Mr. Dingley indicated that the reality is the penalty for the retirees of going into MERS is that the COLA is suspended until the plan is 80% funded. The value of entering into MERS is that the community is going to lose state aid if the ARC is not paid, therefore there is an incentive. The Chair's concern is if there are enough assets to cover the active employees' contributions because those assets belong to the member. The Commission needs to make sure that there are strong controls for funding improvement plans and incentives to keep them well funded if a plan is split, and people are left behind. Otherwise, we will end up with more closed plan problems.

Mr. Simmons asked, mathematically are there any differences (if you split up the plans) if you move the assets to the retirees versus the actives, does the ARC change? Mr. Sherman indicated yes, that each individual has a piece of the ARC, but the change has to do with the unfunded liability. Both the calculation of the unfunded liability since the locally administered plans have different actuarial

assumptions than MERS, therefore that will change the unfunded liability and each have their own amortization period which may or may not be the same. Mr. Simmons inquired if each municipality should then separate out the asset (may stay better with the retirees), and the actives going into MERS may have a better set of assumptions, which would reduce the ARC payment. Mr. Sherman said for the most part, with a few exceptions the MERS assumptions are more conservative, so the liability would go up, therefore it would be more expensive. Mr. Simmons inquired if the assets of the members coming into MERS would cheapen up the total ARC payment between the two? Mr. Sherman replied that it is doubtful. Mr. Simmons indicated that he is not sure, but believes mathematically that there is a possibility that it might, so therefore one would have to run the numbers. Mr. Sherman's guess is that any community that splits a plan or just goes into MERS, that total would go up. Mr. Simmons indicated that it is because the internal assumptions that may or may not reduce or increase the ARC payment. Mr. Sherman believes that in most cases it will increase the ARC payment. He based his answer on MERS using the 7 1/2% discount rate, and most of the other plans are above 7 1/2%. Also, MERS has a more conservative mortality table versus most of the other plans. Therefore, with those two factors, that will keep the liability higher in MERS. Mr. Simmons indicated that the Commission has to look at this case by case, they cannot come up with this as an argument that it is a one size fits all. Mr. Simmons seems to think that it would be a mistake to set up some standard application for those who are in or out of MERS. Chairperson Booth Gallogly expressed that it was best for the Commission to look at it with the two components combined, and they have a funding improvement plan for anybody that is left behind.

When discussing the differences between MERS and a local plan, Chairperson Booth Gallogly indicated she has heard that the prohibition against double dipping or income offset are deterrents. Director Licht stated that one of the incentives to stay out of MERS is that the communities do not have to pay their ARC. If mandating that the ARC be paid after the appropriate ramp up period, for those in or out of MERS. The Chair indicated that it is part of the structure of the concept of the pathway to MERS. Get into MERS, ramp up the ARC over five (5) years, and then the communities have to adhere to the plan. If the community stays out of MERS, then they also have to adhere to their funding improvement plan. The Commission has to discuss whether the pathway to MERS should include a mandatory transition into MERS, if the community falls off their FIP. Director Licht said although the community's funding improvement plan may indicate they are going to fund their ARC, there is nothing that makes them have to do it. He indicated that the disincentive to MERS is that they still have some discretion if they pay their ARC or not. But, if indicated that once that ramp up period is gone, everybody, whether the communities are in MERS or out of MERS, has to make the payment. Director Licht reiterated that the Commission has to get the communities to pay their ARC. Mayor Fung indicated those who are in MERS have been required to make their ARC, yet they still have problems because of the actuarial assumption changes. He indicated that in addition to the assumption changes one must look the benefit side of the funded ratio equation. If funding improvements are not submitted, or communities fail to adopt or implement a plan, what does the Commission do? Mr. Simmons inquired if the funding improvement plans, have the benefits change – is that are going to reduce the ARC payments. If benefit changes are done before those occur, and it doesn't happen precisely, then the community is going to be in a position of having a recurring higher benefit level, a higher ARC payment that will force the municipality to pay. Then both sides would have to sit down and change the benefit structure. Mr. Simmons thinks before the Commission gets into the mandatory ARC payment, they have a long way to go. Director Licht indicated that the State has had a mandatory ARC payment since 1991.

Mr. Simmons reiterated that further discussion needs to occur before there is a mandatory ARC payment for municipalities. Mayor Polisena inquired if there is an income offset in the MERS system. Mr. Dingley said that if plan beneficiary in the MERS system, there is an offset if they are on disability. If you are receiving a MERS pension, and you go to work for another community that is in the MERS system, then your pension is suspended. The 75 full days/150 half days are for teachers, municipal employees have a different number of days. Mayor Polisena indicated that he had employees retire, and because of their expertise, he brought them back for "X" amount of days. Mr. Dingley indicated that there are post employment limitations. There is no offset for a school teacher or retired state employee who collects social security. The Chair indicated that the income offset for people receiving a disability pension from local plans is that they prefer the ability to get another job. In MERS there is that additional offset that requires it to be less lucrative; therefore, that is why some plan beneficiaries do not want to go into MERS.

Chairperson Booth Gallogly indicated that the Commission needs to address the inconsistency of what is under State Statute, under the MERS plan, versus what is in the collective bargaining agreements (CBA) locally, and the conflicts that it might create. Jean Bouchard, Municipal Vice President of Council 94, indicated that the other issue is the pending litigation regarding changes in benefit structures. The direction of this litigation is not clear, and therefore consideration must be taken regarding the recent reform. The Chair indicated that the uncertainty of the litigation is going to make it difficult for municipalities to negotiate plans. Also, Ms. Bouchard indicated that Council 94 would oppose any invasion of collective bargaining. Furthermore, she recommends that any pension plan changes be focused on the plans in critical status, rather than the healthy ones. Chairperson Booth Gallogly inquired if a plan willingly wanted to go into MERS, would Council 94 recognize that those MERS provisions should govern. Ms. Bouchard replied yes, she agrees with that concept.

Mayor Polisena expressed concern about when there is a situation where the Mayor/Council and School Committee do not get along, which could result in the loss of school aid. He indicated that the ultimate school committee is the General Assembly by the laws and decisions that they make. What happens if the community has a locally adopted funding improvement plan, and then they stop funding the plan or, the investment rate lags? Should there be any provision that the community be brought into MERS or should there be some other remediation plan that they put together? Mayor Polisena indicated that things change with municipalities, maybe inquire if they have another plan or take action. But the Mayors believes that the cities and towns should be given the benefit of the doubt since things change financially. The Commission needs to work with the community, if they don't comply; the enforcement of the State's authority was suggested by the Mayor. The Chair indicated that there should be some type of step-up process to work with a community that falls. Who should report this – the unions, taxpayers, actuarial reports submitted to whom? Mayor Polisena thinks it should be a combination of the administration, the state looking into it, and people who are going to benefit from the pensions, the retirees and the unions. Mayor Fung said that if a plan does not stay on track, it depends on the type of plan, and what the promises are. Also, if it is a court agreement.

Dennis Hoyle, State Auditor General, indicated that the Commission needs some type of security so that these same pension issues will not have to be addressed in the future. Director Licht suggested if a municipality was not adhering to their funding improvement plan, then there should be a state statute that gives the employees the right to go into court to have the plan enforced. The Chair indicated that there was consideration to include lack of funding of the ARC as one of the items under the Fiscal Stability Act which would be considered for state intervention or oversight. Mayor Fung disagreed with Director Licht strictly from a funding perspective, there may be other factors involved such as the

benefit side. Mr. Simmons said if various unfortunate assumptions occur within a municipality, and the municipality has to make an ARC payment, and then why make it a right of action by an employee to require the municipality to pay. The Commission has to look at the circumstances. Paul Doughty, President of the Providence Firefighters' Union Local 799, expressed that he cannot imagine any union agreeing to a settlement that does not have a condition for payment of the ARC. He said there are two sides of the equation (benefits and funding) and the city has control of both sides; the union has no ability to unilaterally change one of those. The city can control the benefits unilaterally by stopping them; there are ways to settle it by arbitration, negotiations or court. Therefore, if the city unilaterally cuts benefits, then the union can go to court and have discussions about which rights should prevail (employees', contractual, or the city's rights). But on the funding side, there is no voice. The city alone, can decide what they are going to pay. He believes the unfortunate assumptions that Mr. Simmons explained, cries for a solution in court. In court, the judge could look at all those circumstances. Mr. Sherman explained that in Massachusetts, the municipality has to make the ARC payment as set in statute, and if they do not make the ARC payment, the retirement board can go directly to the municipality's assessor's office and assess a supplemental tax on the property owners. In 2008, Massachusetts had a law that implied that they had to be fully funded by 2028, which was mandated. In 2008, the cost of pensions had increased; therefore the communities went back to the legislature and indicated that they needed relief. Legislation was passed that allowed retirement boards to increase the amortization out to 2040. Therefore, the idea of an amended funding improvement plan is needed, if there are dire situations. Ms. Bouchard indicated that the consequences have to be with the municipalities and that there needs to be a solution to secure those benefits for the future. Concessions have been made by the employees through negotiations, and the unions agree how important it is to address the pensions. Mayor Polisena praised his municipal workers, who have come back to negotiations several times, and given concessions to help the taxpayers. Mayor Polisena questioned, what happens when there is a union that will not negotiate, and they go to court? He suggested that the municipalities and unions meet with the Chairperson to get immediate action and discuss the problem. Then if an agreement can not be reached, then maybe a court action might work. He indicated that the average municipal pension (non public safety) is about $13,000. Chairperson Booth Gallogly was sensing that the Commission has concerns of the strict consequences, and the issue of a private right of action. Therefore, the Chairperson suggested that the Commission consider establishing a structure with mediation through the Department of Revenue, and a requirement for an updated funding improvement plan. There will be further discussion developing a concept that all the Commission members can agree upon. If that structure doesn't work in five years, then the General Assembly could possibly consider some other consequences.

**Agenda Item #5 – Public Comments**

Jim Cenerini, legislative and Political Action Coordinator for R.I. Council 94, AFSME, believes that there should be fair fundamental treatment for all parties involved, that includes Mayor and Managers, not just benefits cut. He stated that Council 94 opposes any invasions into the scope of collective bargaining. He praised Director Licht, and indicated that there certainly does need to be a private right of action. He said that one of the big problems that faces the Commission to trying to migrate plans into MERS with legacy pensions and legacy pension costs. He does think getting plans into MERS makes sense. He believes the Commission needs to take a significant fund of capital, and set it aside and invest it and then allow cities and towns to apply to that fund for gradual payments to pay down their unfunded liability. He would want plans that applied to go into MERS. He indicated that the private right of action could be restricted to the fact that it only targets "bad actors", people who have consistently under funded or skipped their ARC payments, for example a period of 3-4 years.

Chairperson Booth Gallogly thanked the commission members for sharing their valuable perspectives on these key issues.

**Agenda Item #6 – Adjourn**

Mayor Polisena made a motion to adjourn which was seconded by Mr. Licht. The meeting adjourned at 12:20 PM.

Rosemary Booth Gallogly

Chairperson

Feb 25, 2013

Date

PSC/sm

# Addendum to the January 28, 2013 Pension Study Commission Meeting Minutes

# Attachment B

## Pension Study Commission
## Proposed Schedule for Testimony from Plan Sponsors and Actuaries
## *DRAFT*

***Note that meeting dates have not yet been confirmed with actuaries, plan sponsors, or municipalities.***

***February 11, 2013***

Angell Pension Group, East Providence, RI
- Coventry Schools
- Scituate Police

Fallon Pension Actuaries, Wellesley, MA
- East Providence Police & Fire

Gabriel Roeder Smith, Irving, TX
- Warwick Fire/Police I

Nyhart, Indianapolis, IN
- Narragansett Police
- Narragansett Town

Stone Consulting
- Pawtucket Police & Fire

***February 25, 2013***

Segal Company, Atlanta, GA
- Johnston Police
- Johnston Fire

Buck Consultants, Boston, MA
- Cranston Police & Fire
- Newport Police
- Newport Fire
- Providence
- Smithfield Police

USI Consulting Group, Glastonbury, CT
- Woonsocket

***March 11, 2013***

Milliman, Windsor, CT
- Bristol Police
- Coventry Municipal
- Coventry Police
- Cumberland Town
- North Providence Police
- Portsmouth Town
- West Warwick Town

Checklist on Funding Improvement Plans (FIP) Submitted by Cities and Towns as of 1/25/13
Attachment C
*Note that the Division of Municipal Finance is in the process of verifying the data submitted by municipalities.*

| **Municipality:** | Bristol Police | Coventry Muni | Coventry Police | Coventry Schools | Cranston F&P | Cumberland Police | East Providence Fire & Police | Johnston Fire | Johnston Police | Narragansett Police (Chapter 1666) | Narragansett Town | Newport Fire | Newport Police | North Providence Police | Pawtucket Police & Fire | Portsmouth Muni, Police & Fire | Providence Municipal, Police & Fire | Scituate Police | Smithfield Police | Tiverton Police | Warwick F&P I | **West Warwick Municipal Police & Fire** | Woonsocket |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FIP Due Date, no later than: | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | 11/11/2012 | |
| Date of Submission | 11/7/2012 | 11/14/2012 | 11/15/2012 | 11/9/2012 | 11/11/2012 | | 11/11/2012 | | | 12/24/2012 | | 11/5/2012 | 11/5/2012 | | | 10/23/2012 | 11/9/2012 | 11/9/2012 | 11/6/2012 | 10/24/2012 | 11/8/2012 | **1/17/2013** | |
| **FIP Documentation** | | | | | | | | | | | | | | | | | | | | | | | |
| **•FY2012 Funding of the ARC (Before/After Changes are made)** | yes | no | no | no | yes | | yes | | | yes | | yes | yes | | | yes | **no, however funding is *90% for 2012 and 100% for 2013*** | yes | no | yes | yes | **no** | |
| •Amortization<br>-Cost<br>-Method<br>-Period<br>-Interest Rate<br>-Rate of Increase | yes | yes | yes | yes | yes | | yes | | | yes | | yes | yes | | | yes | yes | yes | yes | yes | yes | **yes** | |
| •Assets & Liabilities (Before/After Changes are made) | yes | yes | yes | yes | yes | | yes | | | yes | | yes | yes | | | yes | yes | yes | yes | yes | yes | **yes** | |
| •Funded Status (Before & After) | yes | yes | yes | yes | yes | | yes | | | yes | | yes | yes | | | yes | yes | yes | yes | yes | yes | **yes** | |
| •Employer & Employee Normal Cost (Before & After) | n/a | yes | yes | yes | yes | | yes | | | yes | | yes | yes | | | yes | yes | yes | yes | yes | missing | **ER - yes, EE missing** | |
| •Description of Benefit Changes (If Applicable) | n/a | yes | yes | yes | yes | | yes | | | n/a | | n/a | n/a | | | yes | yes | yes | n/a | n/a | n/a | **yes** | |
| •Description of Plan to Emerge from Critical Status | Fully fund ARC with lower amortization years. Town does not make plan changes, given size of plan, but is planning on fully funding the ARC. | Negotiated benefit reductions (employee contribution increase and move to DC for new employees), tax increases, cost savings and increased funding, phased up to ARC. | Negotiated benefit reductions (employee contribution increase and move to DC for new employees), tax increases, cost savings and increased funding, phased up to ARC. | Phasing in to full Arc, plan benefit modifications. Recommended to remove COLA's for future retirees who retire after 8/2012, benefit formula change to career average instead of 3 year avg. before. ****Ownership of plan is in question.** | Full ARC and COLA elimination still under negotiation. Increase to 100% funding by 2014. Temp or permanent COLA freeze, extend amortization, make one-time contribution. | | Budget Commission approved option 2, payment of ARC, and option 3, negotiation of benefit changes. | | | Continue current plan benefits. Pay fixed $102,200 per year until fully funded | | Continue current policy and plan benefits | Continue current policy and plan benefits | | | Continue policy. No benefit changes. Continue to make ARC. | Plan benefit reductions. City has negotiated reductions in pension benefits provided to current active & retired plan participants, incl: freeze all scheduled COLA's for next 10 years. For class A: freeze all COLA's indefinitely for all current and future with annual pensions greater than 150% of state median income. For Class B: similar to Class A, except the annual pension cap is equal to lesser of i) 150% of state median income and ii) the base compensation of current employee holding same rank that retiree held at time of retirement. Those below the cap will receive COLA equal to lesser of 3% compounded or what is called for in CBA. Annual pension cap is assumed to incread by 3.5% per year. Pensions for future retirees will be based on average of 4 highest years of compensation of the last 10 years. All employees will be required to contirubute to pension plan for each year they receive a pension accrual. | COLA reduction for future retirees to 2% (from 3%), lower benefit accruals, change salary to a final 5year average, annual employee contribution would increase from 10% to 12%, increased funding. | More funding. Scenrios include to increase ARC from current 78.3% in FY 2013 to 100%. Drastic cuts in staffing and service levels are expected. | **Increased funding. Contribution would increase to 119% of recommended contribution for no less than 8 years. Pension eligibility increased to 25 years. Open 25 years to closed.** | None stated. No changes recommended, continue with 40 year contribution strategy until ARC is fully funded in 2035. | **Increased funding, negotiated plan changes, increases in revenue, decreases in other budget line items.** | |
| •Time Frame when Municipality Expects to Emerge from Critical Status | 2019 | 2028 - 2031 | 2032 - 2034 | 2028 | 2028 | | 2034 | | | 2024 | | 2024 | 2019 | | | 2017 | 2033 | 2029 | **2026** | 2020 | 2032 | **2034, 2031, 2032, 2028** | |
| •Required Actions to Implement the Plan | shorten amortization schedule | negotiations and increased funding | negotiations and increased funding | negotiations, increases in funding | negotiations, final approval | | negotiations | | | none | | none | none | | | Also exploring benefit reductions through negotiations | Increased funding | negotiations | more funding | additional funding | none stated | **negotiations, revenue enhancements** | |
| •Two Deterministic Forecasts (Yes/No) | Yes | yes | yes | yes | yes | | yes | | | no | | yes | yes | | | yes | yes | yes | yes | yes | yes | **yes** | |
| •Actuarial Assumptions used to forecast payroll growth | n/a | yes | yes | yes | yes | | yes | | | n/a | | yes | yes | | | yes | yes | yes | yes | yes | missing | **yes** | |
| •Five-Year Forecast of Municipal Revenue Growth for the time period until plan is no longer in critical status (Yes/No) | yes | yes | yes | yes | yes | | missing | | | missing | | yes | yes | | | yes | yes | missing | yes | yes | yes | **missing** | |
| •4 FIP's submitted (Yes/No) | No | yes | yes | yes | yes | | No | | | no | | yes | yes | | | yes | no | yes, however no analysis for other FIP's | yes | yes | no | **yes** | |
| •1 FIP has been chosen by local governing body | yes | yes | yes | yes | Still negotiating, not yet voted upon. | | Yes | | | yes | | yes | yes | | | yes | yes | yes | yes | yes, however no analysis for other FIP's | yes | **no** | |

Checklist on Funding Improvement Plans (FIP) Submitted by Cities and Towns as of 1/25/13
Attachment C
*Note that the Division of Municipal Finance is in the process of verifying the data submitted by municipalities.*

| **Municipality:** | Bristol Police | Coventry Muni | Coventry Police | Coventry Schools | Cranston F&P | Cumberland Police | East Providence Fire & Police | Johnston Fire | Johnston Police | Narragansett Police (Chapter 1666) | Narragansett Town | Newport Fire | Newport Police | North Providence Police | Pawtucket Police & Fire | Portsmouth Muni, Police & Fire | Providence Municipal, Police & Fire | Scituate Police | Smithfield Police | Tiverton Police | Warwick F&P I | **West Warwick Municipal Police & Fire** | Woonsocket |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| •Max Amortization period of 30 years in which plans must emerge from critical status within 20 years | yes | yes | yes | yes | yes | | yes | | | yes | | yes | yes | | | yes | yes | yes | yes | yes | yes | **yes** | |
| •Max percent increase in amortization payments would be 4% (except to make up for funding of 100% of ARC) | yes | yes | yes | yes | yes | | yes | | | yes | | yes | yes | | | yes | yes | yes | yes | yes | no | **yes** | |
| •No decrease in contribution from one year to the next unless the reduction is the result of a reduction in benefits | missing | missing | missing | missing | missing | | missing | | | yes | | missing | missing | | | **no** | missing | missing | missing | yes | no | **missing** | |
| •Used shorter amortization schedules (how many years), with increasing payments | 17 | n/a | n/a | Phase in of Full Arc and 30 year closed | n/a | | 17 | | | n/a | | n/a | n/a | | | n/a | n/a | 25 | 21 | 25 | n/a | **25** | |
| •For Frozen Plans with only retirees, the amortization period would not be more than the average future lifetime of the retirees | yes | n/a | n/a | n/a | n/a | | n/a | | | n/a | | n/a | n/a | | | n/a | n/a | n/a | n/a | n/a | | **n/a** | |
| •No Open Amortization Method | yes | yes | yes | yes | yes | | yes | | | yes | | yes | yes | | | yes | yes | yes | yes | yes | yes | **yes** | |
| •Future Changes in UAL due to changes in plan benefits, actuarial assumptions and methods, or experience may be amortized up to 20 years as a separate base | missing | missing | missing | missing | missing | | missing | | | missing | | missing | missing | | | **not fully addressed in FIP** | missing | missing | missing | missing | missing | **missing** | |
| •Relief provision that would provide for a temporary increase in the ARC payments by no more than 8% | missing | missing | missing | missing | missing | | missing | | | missing | | missing | missing | | | **not fully addressed in FIP** | missing | missing | missing | missing | no | **missing** | |

Attachment D

# Study Commission for Locally-Administered Pension Plans

**Study Commission**

- Members

**Communications from Pension Study Commission to Municipalities**

- View Letters

**Locally-Administered Municipal Pension Plans in RI - Experience Studies & Actuarial Valuations**

- View Reports Last Updated 1/15/13

**Funding Improvement Plans for Locally-Administered Pension Plans in Critical Status**

- View Plans Last Updated 1/16/13

**Overview Materials**

1. Pension & OPEB Plans Administered by RI Municipalities
2. Locally-Administered Pension Benefit Design Overview
3. ERS of RI Actuarial Experience Study for the Period Ending 6/30/10
4. ERS of RI Actuarial Valuation Report as of 6/30/10 (for current valuation see # 7 below)
5. MERS Actuarial Experience Study for the Period Ending 6/30/10
6. MERS Actuarial Valuation Report as of 6/30/10 (for current valuation see # 7 below)
7. Actuarial Analysis of Rhode Island Retirement Security Act - Nov. 14, 2011
8. 2011 House Bill 6319 Substitute A as amended
9. Excerpt of RI Retirement Security Act Relating to Locally Administered Plans
10. Moody's: RI Local Governments Face Elevated Credit Pressure - Dec. 19, 2011
11. A Guide to Comprehensive Pension Reform, Part 1: Diagnosing the Problem - Jan. 24, 2012
12. A Guide to Comprehensive Pension Reform: Fiduciary Responsibility & Liability - Jan. 24, 2012
13. Local Municipal Workshop: Assessing Your Pension Plan - Jan. 24, 2011
14. Discussion of Capital Market Return Expectations: RI Municipalities
15. MERS Actuarial Valuation Report as of 6/30/11

**Meeting Schedule**

- Schedule Last Updated 1/14/13

**January 25, 2012 Meeting**

1. Agenda
2. Locally-Administered Pension Plans Study Commission Presentation
3. Actuarial Basics Presentation
4. Meeting Minutes

Attachment D

**February 13, 2012 Meeting**

1. Agenda
2. Meeting Minutes

**February 27, 2012 Meeting**

1. Agenda
2. Meeting Minutes

**March 12, 2012 Meeting**

1. Agenda
2. Municipal Employees' Retirement System of RI Presentation
3. Meeting Minutes

**March 26, 2012 Meeting**

1. Agenda
2. Pension & OBEP Municipal Survey Results Last Updated 3/27/12
3. Meeting Minutes

**April 9, 2012 Meeting**

1. Agenda
2. Locally-Administered Pension Plan Study Group Presentation
3. Meeting Minutes

**April 23, 2012 Meeting**

1. Agenda
2. Meeting Minutes

**May 7, 2012 Meeting**

1. Agenda
2. Meeting Minutes

**May 21, 2012 Meeting**

1. Agenda
2. Meeting Minutes

**June 4, 2012 Meeting**

1. Agenda
2. Meeting Minutes

**June 18, 2012 Meeting**

1. Agenda
2. Meeting Minutes

Attachment D

**July 16, 2012 Meeting**

1. Agenda
2. Meeting Minutes

**September 10, 2012**

1. Agenda
2. Meeting Minutes

**October 15, 2012**

1. Agenda
2. Meeting Minutes

**November 19, 2012**

1. Agenda
2. Meeting Minutes

**December 3, 2012**

1. Agenda
2. Meeting Rebroadcast Schedule
3. Meeting Minutes

**December 17, 2012**

1. Agenda
2. Meeting Rebroadcast Schedule

**January 14, 2013**

1. Agenda
2. Meeting Rebroadcast Schedule

**January 28, 2013**

1. Agenda

# Funding Improvement Plans for Pension Plans in Critical Status

## Disclaimer

Below are links to the Funding Improvement Plans (FIP) that have been submitted to the Pension Study Commission by municipalities as required under Rhode Island General Law Chapter 45-65. According to the statute, a municipality must notify the Study Commission, along with others listed in the statute, within thirty (30) business days if an actuary certifies that one of the municipality's locally-administered pension plans is less that sixty percent (60%) funded following an annual actuarial valuation. Within one hundred and eighty (180) days of sending the critical status notice, the municipality must submit a reasonable Funding Improvement Plan for emerging from critical status to the Study Commission.

The Commission continuously receives updated actuarial valuations which may or may not affect a pension plan's funded ratio. Should a municipal pension plan be less than 60% funded based on the most recent valuation, its FIP will be added to this website. Furthermore, the Funding Improvement Plans submitted by the municipalities are in the process of being reviewed and summarized for the Local Pension Study Commission. This may result in requests for additional information or clarification of the information submitted. It is expected that revised plans will be submitted over the coming months as local negotiations continue between municipalities and their pension plan's beneficiaries. The list below reflects the most recent Funding Improvement Plans received. Please refer to this website for future updates.

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***Attachment E***
***"Pension Security – Addressing Locally Administered Pension Plans"* - Discussion Points**
**As of January 28, 2013**
***Disclaimer: This document is a work in progress. Additional comments are needed.***
***Changes made from the meeting on 12/17/12 and 1/14/13 are underlined.***

**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.*

| | **Question** | **Goal** | **Pro** | **Con** | **Decision** |
|---|---|---|---|---|---|
| 1.a. | Should the Commission's guidelines be in statute?<br><br>If so, what other items should be added?<br><br>Should incentives or disincentives be considered (state aid)? | To have a structure set in statute and to increase health of those plans in critical status.<br><br>Pension security. | Enforceability.<br><br>Guidelines in statute provide a means of aligning actuarial recommendations and GASB standards in local budgets.<br><br>Aid in recognition of long term liability vs. current budget practice.<br><br>Conceivably prevent more plans from reaching critical status.<br><br>Transparency.<br><br>Could help deflect criticism and posturing at the local level.<br><br>*Additional Comments:* | Challenges political will and long established practices.<br><br>Perception of State as big brother.<br><br>Difficult to change.<br><br>*Additional Comments:* | Need authorization in statute to promulgate regulations.<br><br>Possibly by DOR.<br><br>Does the municipality have the ability to make ARC payment? If so, must hold them accountable. Otherwise, don't pull state aid.<br><br>Use incentives vs. punishment.<br><br>Must look at the full equation--assumptions, investment performance, ARC. |
| 1.b. | Should guidelines be promulgated through regulations by DOR and/or Auditor General? | | Same as above.<br><br>Regulations are more flexible. Propose legislation allowing State to make regulations.<br><br>*Additional Comments:* | Same as above except that regulations are easier to change than when set in statute.<br><br>*Additional Comments:* | [General agreement that something is needed to 'make' municipalities be more responsible fiscally with this obligation.]<br><br>Resources would need to be provided. |

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| | **Question** | **Goal** | **Pro** | **Con** | **Decision** |
|---|---|---|---|---|---|
| | | | | | |
| 2. | 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.<br><br>*Additional Comments:* | Needs an ongoing monitoring functionality. | Current language sufficient. |
| 3. | What other measures could be enacted to ensure adherence to the adopted funding improvement plans? | Ensure corrective action plans are adhered to. | *Additional Comments:* | *Additional Comments:* | State needs to play an enforcement role, such as withholding state aid. Need to continue discussion, no consensus reached. |
| 4. | What body or office will provide oversight to locally administered pension plans?<br><br>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?<br><br>B. Should there be a permanent State oversight over those plans and if yes, which office should be responsible?<br><br>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.<br><br>Set performance standards or other criteria to prevent regression.<br><br>Appropriate way of allocating cost to each municipality.<br><br>*Additional Comments:* | Additional resources needed.<br><br>New cost.<br><br>*Additional Comments:* | [All recognized that some oversight was necessary and an employee representative that cost of oversight would be worth paying for.]<br><br>*Need to check IRS standards for administrative expense definition. |
| 5. | When a budget commission is | Pension Security. | Statutory provision would provide | CBA's exist. | General consensus that |

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| | Question | Goal | Pro | Con | Decision |
|---|---|---|---|---|---|
| | 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? | | enhanced retirement security for employees of communities at financial risk.<br><br>*Additional Comments:* | *Additional Comments:* | these are not always linked. Non-funding of ARC could be one criterion for oversight. Need to look at big picture. |
| 6. | 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 for Central Falls beneficiaries. | 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.<br><br>*Additional Comments:* | Settlement agreement with retirees resulted in significant reductions in pensions, so option of moving to MERS must recognize this.<br><br>*Additional Comments:* | Analysis as to whether or not transition into MERS is financially feasible.<br><br>Ongoing discussion with the City, but no opposition voiced by commission members due to unique bankruptcy situation. |
| 7. | With regard to disability pension reform, should the disability pensions be awarded at 66 2/3 for all employees? Should some public employees be treated differently? | Sustainable pension security with reasonable income replacement for those not able to work as a result of disability. | Pension of 66 2/3 tax exempt status may make disability option too attractive.<br><br>A distinction between permanent disability and inability to work at all may reduce cost.<br><br>*Additional Comments:*<br>45-21-22 provides for at least 66 2/3 pension for police, fire and all MERS employees for accidental disability.<br><br>45-19-19 requires at least 66 2/3 disability pension for all police and fire irrespective of whether they participate in MERS. | CBA's in place.<br><br>*Additional Comments:*<br><br>45-21-22 applies to all MERS. | Discussion will be continued.<br><br>Is disability pension a driver of cost?<br><br>Remove from State law so that CBA's will govern?<br><br>Get data on disability pensions.<br><br>Pawtucket requires conversion back to normal pension when reaching retirement age.<br><br>No consensus as to making |

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| | Question | Goal | Pro | Con | Decision |
|---|---|---|---|---|---|
| | | | An ordinary disability for non-public safety employees is whatever your pension accrual is up until your 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. | | disability pension part of the reform. |
| 8. | 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? | | Municipal budgets must be viewed in entirety to maintain control over spending.<br><br>*Additional Comments:* | Effort to change governance structure would be significant.<br><br>*Additional Comments:* | Has not been discussed yet.<br><br>Are school budgets squeezing out the municipal budget? Effect of maintenance of effort (MOE). Consider school operations aid? |

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**II. GASB**

| | **Question** | **Goal** | **Pro** | **Con** | **Decision** |
|---|---|---|---|---|---|
| 1. | Does existing legislation conform to new GASB standards? | Align legislation to regulations as developed. | Opportunity to lead on a relevant current issue.<br><br>Makes legislation more legitimate.<br><br>*Additional Comments:* | *Additional Comments:* | There will be two numbers going forward in 2015 for each plan. Need to review all laws. |
| 2. | Should critical status be defined in the statute? 60% of what? (Funding vs. Accounting)<br><br>Suggestion: Use funding<br><br>Since GASB is only looking at funded status from an accounting perspective it may be important to spell out critical status in statute. | Be consistent with some of the new GASB rules.<br><br>Make critical status very transparent. | Consistency and transparency.<br><br>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.<br><br>GASB will no longer address funding. By 2015, their standards focus on financial statement reporting.<br><br>*Additional Comments:* | ARC has been the measure of whether plans are doing the right thing.<br><br>Funding and accounting reporting are different.<br><br>*Additional Comments:* | [Question remains on how to approach definition.] Need to revisit on an ongoing basis.<br><br>Maybe definition of funded ratio should be in regulations to allow for flexibility as the actuarial world adopts new common measures. Critical status should be based on actuarial funding method, not GASB. |
| 3. | Should plans comply with GASB standards for actuarial methodology (entry age normal and 5 year smoothing of assets)? | | Avoid qualifying opinion on financial statement.<br><br>*Additional Comments:* | *Additional Comments:* | [Additional issues raised regarding actuarial assumptions, smoothing, look back periods (suggestion to follow IRS language)] |

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**III. Encourage voluntary transition of the plans to MERS**

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

| | Question | Goal | Pro | Con | Decision |
|---|---|---|---|---|---|
| 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 in a manner which is attainable by municipal governments. | Sustainability for plan.<br><br>Removes one of the primary impediments to local plans merging into MERS.<br><br>*Additional Comments:* | Too aggressive for already burdened communities?<br><br>*Additional Comments:* | Need to check amortization of new entrants. Are there separate amortization schedules? (Pawtucket 30 years vs. 25 MERS) MERS reamortized at 25 yrs, so for local plans merging in 2014, there would be 21 years left. Allowing plans to come in at 25 years amortization would be consistent with MERS reform, but would require GRS to have separate amortization for this group of newly entered plans. We would need legislation to address the whole transition process as likely different from existing MERS plans. |
| 2. | Should the commission allow for reamortization of the recalculated unfunded liability upon entry to MERS? | Provide for transition to MERS which could be facilitated by this tool. | Allows flexibility and provides a tool that may facilitate merger into MERS.<br>*Additional Comments:* | Cost of reamortization is paid by taxpayers like a debt.<br>*Additional Comments:* | State actuaries will have a substantial amount of work ahead. Not really an area to pursue. |
| 3. | Should the commission consider allowing plan members to retain existing service credits and then adopt MERS accrual rates on a | To establish a fair transition where members do not lose benefits already | Fair to employees with significant years of service.<br><br>*Additional Comments:* | Potentially provides these employees with greater accruals than others in MERS, could | No loss of already accrued benefits.<br>Cash flow issues. |

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| | Question | Goal | Pro | Con | Decision |
|---|---|---|---|---|---|
| | go-forward basis? | accrued. | | result in higher final accrual than currently allowed under MERS.<br><br>*Additional Comments:* | |
| 4. | How do we allow for the transfer of existing investments?<br><br>Consider whether SIC could hold and optimize timing of sale to align with ERSRI asset allocation rather than force an immediate liquidation. | Reduce impact of investment transfers. | *Additional Comments:* | Each MERS plan stands on its own for actuarial calculations, but an excessive draw from assets not available would impact other plans.<br><br>*Additional Comments:* | *Very* different investments are possible—some may be illiquid, unusual holdings, valued differently than MERS would value them. Consider a transition investment manager. Who would pay for the transition manager? SIC would need to work with each community. Statute should address timing. |
| 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). | Avoid the creation of closed plans. | Prevents leaving behind closed plans that by their nature are difficult to fully fund when no active employees are members.<br><br>*Additional Comments:* | *Additional Comments:* | We should still be looking for plans to enter MERS voluntarily and include all members of plans. Alternatively, suggested enabling legislation that plans have no greater benefits than MERS. Could a statute address the difficulty in negotiating |

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| | Question | Goal | Pro | Con | Decision |
|---|---|---|---|---|---|
| | | | | | with individual retirees and the representation of retirees? Is labor willing to acknowledge that CBA sections need to come out because MERS is governed by state law? Appreciation has developed with membership that plans are owned by the members in the plan. |
| 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.<br><br>*Additional Comments:* | Municipalities with healthy plans would complain.<br><br>*Additional Comments:* | The Chair indicated she thinks an incentive would be effective and would also increase assets in the plans. |
| 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)? | To keep plans on track. | Could help to ensure that ARC is made.<br><br>*Additional Comments:* | Funding could be taken away from education forcing municipalities to look at the budget in totality. | Could hurt struggling communities further by reducing aid. Need to look at this regardless of whether the municipality and school leadership have |

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| | **Question** | **Goal** | **Pro** | **Con** | **Decision** |
|---|---|---|---|---|---|
| | | | | *Additional Comments:* | a good relationship. Note: The Chairperson has reached out to RIHEBC to research if the intercept of state aid would jeopardize the existing programmatic credit rating of RIHEC local school construction bond program. Needs careful legal review. |
| 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? | To avoid complication arising from allocating assets. | Allowing full plans including retirees prevents closed plans at the local level and enhances retirement security for all plan members.<br><br>*Additional Comments:* | *Additional Comments:* | |
| 9. | Are there other incentives to join MERS that could be considered? Are there other obstacles or impediments to joining MERS? | | *Additional Comments:* | *Additional Comments:* | |
| 10. | Should benefits be consistent with the Rhode Island Retirement Security Act of 2011(RIRSA)?<br><br>Consideration should be given to representation of retirees as part of any solution. | Fairness. | Consistency among plans.<br><br>*Additional Comments:* | Less local control.<br><br>CBA's exist.<br><br>*Additional Comments:* | |

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| | **Question** | **Goal** | **Pro** | **Con** | **Decision** |
|---|---|---|---|---|---|
| 11. | How do we address conflicting provisions in Collective Bargaining Agreements and MERS statute? Consider options:<br>• Require that certain issues be taken out of the CBA<br>• Certain issues be deemed "prohibited" subjects of bargaining under municipal collective bargaining statutes<br>• 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.<br><br>*Additional Comments:* | Loss of control for employees.<br><br>*Additional Comments:* | |

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**IV. 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**

| | Question | Goal | Pro | Con | Decision |
|---|---|---|---|---|---|
| 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.<br><br>*Additional Comments:* | Punitive. May force community to borrow to meet immediate needs.<br><br>*Additional Comments:* | |
| 2. | Should the State require transfer of plan into MERS if any of the following conditions exist:<br>• 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:<br>• Failure to contribute the ARC or failure to make the 20% increase required of the funding improvement plan guidelines;<br>• 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); | 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.<br><br>*Additional Comments:* | Ability of municipalities to pay ARC; property tax cap which limits ability to raise revenues.<br><br>*Additional Comments:* | |

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| | Question | Goal | Pro | Con | Decision |
|---|---|---|---|---|---|
| | • Implementation of pension benefit increases without first achieving 100% funded status)?<br>• Disability pension percentage rates that exceed the MERS average for two consecutive years. | | | | |
| 3. | Should certain standards be set such as the requirement that locally administered pension plan benefits can be no greater than MERS? | | *Additional Comments:* | *Additional Comments:* | |
| 4. | If transferred to MERS:<br>If a plan is transferred to MERS and due to the existence of the above outlined conditions, is this 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.<br><br>Places additional incentive for communities to appropriately fund their locally administered plans.<br><br>Provides a key enforcement tool when communities are not funding their plans appropriately.<br><br>*Additional Comments:* | Loss of local control.<br><br>*Additional Comments:* | |
| 5. | Should the State require a higher *employee* contribution rate if the plan is required to be transferred to MERS? | | *Additional Comments:* | Does this "punish" employees?<br><br>*Additional Comments:* | |

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***Attachment E***
***"Pension Security – Addressing Locally Administered Pension Plans"* - Discussion Points**
**As of January 28, 2013**
***Disclaimer: This document is a work in progress. Additional comments are needed.***
***Changes made from the meeting on 12/17/12 and 1/14/13 are underlined.***

| | **Question** | **Goal** | **Pro** | **Con** | **Decision** |
|---|---|---|---|---|---|
| | | | | | |
| 6. | If the plan is transferred to MERS, 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.<br><br>*Additional Comments:* | Are school programs at risk?<br><br>*Additional Comments:* | |
| 7. | Are there issues unique to potential transfer of "closed" or nearly closed plans to MERS? | | *Additional Comments:* | *Additional Comments:* | |
| 8. | If plans are transferred to MERS, benefits would be consistent with the Rhode Island Retirement Security Act of 2011(RIRSA). | | *Additional Comments:* | *Additional Comments:* | |
| 9. | If plans are transferred to MERS, how does the Commission consider representation of retirees?<br>• Friendly class action lawsuit<br>• Get stakeholders to agree first | To have future administrations adhere to funding improvement plan. | *Additional Comments:* | *Additional Comments:* | [AF commented that recent case law affirmed that retirees are not part of collective bargaining.] |

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**V. OPEB**

| | **Question** | **Goal** | **Pro** | **Con** | **Decision** |
|---|---|---|---|---|---|
| 1. | How would an OPEB Trust be created? By the State or as a collaborative of cities and towns?<br><br>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.<br><br>Would ensure that municipalities start/continue funding OPEB; easier to administer than 39 separate plans.<br><br>*Additional Comments:* | Additional resources needed on state level, however it would reduce workload on the local level.<br><br>*Additional Comments:* | |
| 2. | OPEB - Similar requirements for valuation, funding improvement plan? | Address OPEB liability. | Ensure consistency.<br><br>*Additional Comments:* | | |

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