

**Pension Study Commission
February 25, 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, February 25, 2013.

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

Commission members present: Rosemary Booth Gallogly, Jean Bouchard, Paul Doughty, Allan Fung, Dennis Hoyle, Allison Rogers representing Richard Licht, Antonio Pires, Joseph Polisena, John Simmons and Steven St. Pierre

Members absent: Mark Dingley, Bruce Keiser, J. Michael Lenihan and Angel Taveras

Others present: Susanne Greschner, Chief of the Division of Municipal Finance, and members of the public

Agenda Item #1 – Approval of Minutes from January 28, 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 28, 2013. There were none. Paul Doughty, President of the Providence Firefighters' Union Local 799, made a motion to accept the minutes as written. The motion was seconded by Mayor Polisena, from the Town of Johnston. The motion passed all in favor.

Agenda Item #2 - Website update, Attachment B

Chairperson Booth Gallogly referred the Commission members and audience to Attachment B in the addendum, and indicated that there were changes to the Pension Study Commission's web page under the Department of Revenue's website at www.muni-info.ri.gov. She noted that the "Local Pensions" tab provides a direct link to the Pension Study Commission's information. Also, in addition to the actuarial valuation and experience study page, a 2012 actuarial valuation page has been provided on the website. The Chair expressed that the purpose of the website is to provide useful information that is transparent, and she welcomed any suggestions from the Commission members. There were none at this time.

Agenda Item #3 – Support for Article 11

Chairperson Booth Gallogly referred to Attachment C, a draft letter which voices the Commission's support of Article 11. Mayor Polisena expressed his approval of the proposed letter and suggested that the letter be sent out as soon as possible to the General Assembly. The Mayor commended Governor Chafee for proposing Article 11, Municipal Incentive Aide, as part of his Fiscal Year 2014 Budget which would financially help the cities and towns. The proposed article includes a deadline for municipalities of May 1, 2013 for when they must submit their funding improvement plan (FIP) pursuant to Chapter 45-65. The FIP would also have to be approved by the local governing body in

order for municipalities to receive the state aid. Mayor Fung, from the City of Cranston indicated his concern of the May 1st deadline, which could be a tight timeframe, especially for those communities in the negotiation process. Chairperson Booth Gallogly responded that the Commission's intent was to make the first year easier in terms of developing the FIP. In the subsequent year, qualification for the incentive aid would require that the community implement its plan or an amended plan. Tony Pires, Director of Administration from the City of Pawtucket pointed out that lengthening the timeframe could result in some unintended consequences, such as a potential lack of urgency. However, Mr. Doughty added that to move forward, the date could be changed to June 1st. Mayor Fung expressed that June 1st would give him more flexibility; and that it would be acceptable to him with the option of pursuing the June 1st deadline through the legislature. John Simmons, Executive Director from the Rhode Island Public Expenditure Council (RIPEC), stated that he would abstain from voting on Article 11, as RIPEC does not take a position on any one article since they are a policy/research organization. The Chair indicated that the goal of Article 11 is a) not be punitive, b) provide some type of incentive that brings the FIPs along on a timely basis. Chairperson Booth Gallogly asked for a motion to send out the letter of support of Article 11, which will be distributed to the leadership and all members of the General Assembly. A motion was made by Mayor Polisena, and seconded by Mr. Pires. The motion passed all in favor, with an exception from Mr. Simmons who did not vote.

Agenda Item #4 – Update on proposed testimony from plan sponsors & actuaries, Attachment D

Chairperson Booth Gallogly referred to Attachment D, testimony questions for communities who will be scheduled to come before the Commission with an option of bringing in their actuaries. It was noted that FIPs have been received from most of the communities. These meetings will be organized to address the specific issues determined by Daniel Sherman from Sherman Actuarial Services, LLC.

The Chair asked Susanne Greschner, Chief of the Division of Municipal Finance to explain the format to the Commission. Ms. Greschner indicated that Attachment D is a sample questionnaire. She noted that the three proposed dates for the communities to come before the Commission over these testimonies are: March 11, March 25 and April 1, 2013 from 10:00 am to 12:00 pm. **Note, the April 8th meeting has been changed to April 1, 2013.** Ms. Greschner said that there is an attempt to group the communities by actuary; therefore municipalities could potentially split the cost. If the Commission agreed on the testimony questions, Ms. Greschner would start arranging the schedules, which would be thirty minutes for each plan. She briefed the Commission on the four sections of the questionnaire. Section I would be a brief description of the plan, section II would include FIP criteria that appear to have been met, section III identifies the areas that still need to be addressed, and section IV are general questions that each municipality will be asked to address. Ms. Greschner indicated that the goal of the questionnaire and presentation by the communities, which is based on statute 45-65, is for the Commission to establish whether or not a FIP is reasonable. She emphasized that if Article 11 were to pass, the state aid incentive would be contingent upon a community submitting a *reasonable* FIP. It was noted that each municipality would receive a questionnaire in a timely fashion to allow time for preparation.

Mayor Polisena requested assurance that the guidelines are not mandated by a statute. He does not believe that the Commission has the authority to enforce the guidelines. The Mayor stated that based on the guidelines, the Town of Johnston would have to raise their taxes by \$32,000 per household. Chairperson Booth Gallogly stated that the statute requires that a FIP be reasonable, and she pointed out that the guidelines were developed with standards to get the communities to 60% funded in twenty years. She added that the guidelines have to be fair; therefore it will be very difficult to make an

exception for a community who can not meet those guidelines. Mayor Polisena emphasized it should be fair for the taxpayers, as well. The Chair agreed, and pointed out that if the guidelines state to fund the Annual Required Contribution (ARC), it does not necessarily mean the ARC as it is envisioned today. There is a way to change the ARC, such as benefit changes, which does not necessarily mean a tax increase. She mentioned that Mr. Sherman has been working with much of the actuaries when there are questions or concerns, and is a good resource. Mayor Fung agreed that Dan Sherman has been a helpful resource during their negotiations. The Chair believes that the specific challenges facing the communities should be an important topic for discussion during the scheduled meetings.

The Commission has had previous discussion about closed plans. Chairperson Booth Gallogly indicated that closed plans are the most difficult since there are not active members contributing to the plan, but the members are very much at risk. She suggested revisiting this issue. Mayor Fung added that the closed plans must have a special distinction, as FIPs are presented to the Commission. Both he and Mayor Polisena believe there should be some flexibility on the closed plans, and the plans should be viewed individually. The Chair said it has to be determined if the guidelines are going to be put into the Rules and Regulations since there are additional plans entering critical status plans, and it would have to be determined if those plans are reasonable. The Chair expressed that the Commission needs to hear from the communities of these plans, and a) identify what the unique challenges are on the closed plans, and b) determine if there are some deviations to make the plan reasonable. Mr. Simmons believes that the guidelines do not need to be concrete today since it has not been determined what they mean for every plan. He believes the whole intent was to set up some guidelines as a filter to the plans to determine whether the outcome is what the Commission anticipated. The Chair stated that the Commission's goal is to be sure there is a plan everybody publicly understands, which needs to be nimble during negotiations, but also have some discipline in being consistent with their goal.

Mr. Pires gave an analogy of how the municipalities are similar to a business, and said that the guidelines give some basis for making decisions that can be explained. The goal is that the pensions are fixed and viable for years to come. Mayor Polisena indicated that the cities/towns have to be given the latitude and power to come to an agreement where both sides are happy. The Mayor mentioned that the Town of Johnston's plan has addressed Other Post Employment Benefits (OPEB), and he feels that their plan is fair. He said it is all about cash and concessions, money is available to fund the ARC and concessions are fair and reasonable to the active members, retirees and the taxpayers. Chairperson Booth Gallogly said there are going to be difficult discussions, but the guidelines will direct them in accomplishing their goals for pension security and affordability to the taxpayers. She hopes that everyone views the Department of Revenue and Mr. Sherman as resources to get there. The Chairperson indicated that Ms. Greschner's staff would proceed with setting up testimony meetings, and she does not believe that decisions on the plans will be made at the end of each of the meetings. She indicated that the Commission will have to determine a process for concerns that they may have, and later have discussion and take some action. If closed plans are treated differently, it will make a difference on how the community proceeds on a go forward basis. The Chair said that it is important that the incentive aid is going to be determined on whether or not the plan is deemed as reasonable.

Mr. Doughty inquired if there were any new FIP plans received. Ms. Greschner indicated she had received the FIP from the Town of Johnston. The Town of Cumberland, City of Pawtucket and the Town of North Providence (who had been waiting for a decision on the use of the Google funds) still have to submit their plans. She mentioned that the pension plans for the Town of Narragansett and the City of Woonsocket are now in critical status, and both municipalities are working on their plans.

Mr. Pires mentioned that contract and pension negotiations are going on at the same time in the City of Pawtucket, but there has been significant progress on pension discussions as part of the collective bargaining agreements (CBAs). The city has met with Mr. Sherman, who has great trust from both the unions in the city and the administration, and has helped them. The city hopes to go shoulder to shoulder before the council with what they think is a plan of action; a meeting is scheduled with the retirees on March 13th. Chairperson Booth Gallogly mentioned that as the State is involved in some plan developments and meetings with retirees, they have developed some resources that could be helpful to communities that may embark upon similar situations, and she would be willing to offer these resources to the communities. Mayor Polisena added that the Town of Johnston switched over their retirees from Blue Cross to Medicare, which saved approximately \$750,000 a year; nobody lost any coverage and in some cases even enhanced. He indicated that he was happy to share information on how his town accomplished this with the City of Pawtucket. Chairperson Booth Gallogly indicated that on the OPEB issue, there is some sense of urgency since the Federal Government has a deadline of March 31st for individuals to enroll in Medicare. Many communities are looking at actually paying any penalty that might be incurred. If people have not had coverage or enrolled in the past, to enroll after one is 65 is a penalty of 10% per year. On the post 65 medical cost, the cost is shifted to the federal government, and results in significant savings for the communities.

Agenda Item #5 – Potential recommendations to General Assembly, Attachment E

Chairperson Booth Gallogly referred to Attached E, and continued from the last meeting with page 12 of 14, *end part of Question #2: implementation of pension benefit increases without first achieving 100% funded status?* The guidelines are to ensure that if a FIP is put in place, that the community does not slip back on benefits until it is determined that the plan is well funded. It is similar to the State's enacted reform. Steven St. Pierre, Sergeant from the Town of Bristol Police Department believes that the 100% funded needs to be defined because that is something that the Commission is going to be presented with achieving, maintaining, is 100% an obtainable realistic number? Mr. Doughty said he doesn't support this proposal to force communities into MERS in any way because he believes that it is one sided, however he believes there should be some flexibility in the percentage of funded status. The Chair indicated there are discussions on all sides as to what the right funding target should be.

Question #3 – If a plan is transferred to the Municipal Employees Retirement Systems (MERS) and due to the existence of the above outlined conditions, is this considered a trigger for Department of Revenue Director to appoint a fiscal overseer, budget commission, or receiver? The Chair indicated that it doesn't relate to the actual transfer to MERS. However, not following a FIP could be one trigger for state oversight. The Commission had previously discussed this, and thought it was a good option.

Question #5 – Are there issues unique to potential transfer of “closed” or nearly closed plans into MERS? Chairperson Booth Gallogly indicated that she is aware that the PEW group has been working with some communities on the challenges with closed plans, and how it would work if the communities desired to enter into MERS. The PEW has expressed an interest in presenting before the Commission. However, first the Commission would want to be sure that the individual communities had presented before the Commission, and that the Commission had the opportunity to review the data. The Chair suggested that further discussion will occur once they have met with PEW, and the Commission members will be given advanced notice when the PEW is scheduled. She wants to ensure that the communities that have been helped by PEW are comfortable with the data that they were presented with.

Question #7 – If plans are transferred to MERS, how does the Commission consider representation of retirees (friendly class action lawsuit)? Not specific just to a MERS transition, Chairperson Booth Gallogly stated the class action lawsuit seems to be the most effective. A cost efficient manner would be desired.

Chairperson Booth Gallogly inquired if any of the Commission members or members of the public had any ideas on how to facilitate discussions with retirees. It is a difficult issue, and she welcomed any suggestions. Mr. Doughty noted that Providence had a pre-existing fraternal order which facilitated negotiations. However, he stated that a fraternal order is easy to create and indicated that other communities embarking on this path could organize a fraternal order ahead of time. Mr. Doughty also added that it was important to note that Providence's suit did not start as a friendly class action which ran up the cost of the case. Mayor Polisena requested that Mr. Doughty provide a copy of how Providence's benefits will change.

Mr. Pires said it is his understanding that the R.I. Interlocal Trust is looking at the possibility of forming an OPEB trust that would be available to local communities. The Chair suggested that the Commission should have some of the staff from the Trust come before the Commission again to report on any progress that has been made on this issue. She believes that the communities that are most poorly funded on the pension side are looking at addressing OPEB at the same time, especially if they need to negotiate.

Agenda Item #6 – Public comments

Daniel Beardsley, Jr., Executive Director of the R.I. League of Cities and Towns thanked the Commission for the opportunity to speak, and indicated that the Interlocal Trust is exploring the formation of an OPEB Trust. The Trust has polled their membership, and an overwhelming majority of the school districts, cities and towns, and members of the Interlocal have indicated an interest in joining such a trust. They are in the process of meeting with different consultants and will be presenting to the Trust, Board of Trustees, at their next meeting, a preliminary outline of the steps that they wish to take over the next twelve months to bring this to fruition. The other point he made was, with regard to retirees, and their sitting down with cities and towns to discuss possible changes to their benefits. He wasn't sure if the Commission was aware of this, but a bill has been filed by Rep. Marcello. The bill is being heard on March 5th. It would enable any retiree, as a former member of any labor organization, that had been identified by the State Labor Relations Board, to file a grievance pursuant to the expressed provisions of their former collective bargaining agreement if they believe that any benefit that they had a right to at the time of their retirement has been in any way altered, modified, amended or taken away. Mr. Beardsley has not spoken to the sponsor; he said at this particular point in time, unless that bill is changed, the League of Cities and Towns will be opposed to it. If they do not sign on to the consent, they may file suits as individuals. There could be several retirees filing individual grievances against the city/town administration, as this bill is currently worded to recover through the grievance arbitration process pursuant to RIGL 28-9.1, any benefits, they believe, they are longer entitled to.

Paul Soccia, Business Agent/National Rep. for the IBBO, believes some of the problems that have occurred could be addressed by changing the Police and Fire Arbitration Act, allowing the unions to represent retirees on specific issues. In response to Mr. Beardsley's comments, he indicated that

individuals can not file a grievance without the union determining if the grievance can go forward. If the unions were allowed to support retirees, it would eliminate individual grievances. The Chair commented that the active members and retirees are not always aligned.

Additional Comments on the above were made by:

Paul Voletta, Fire Representative from the City of Cranston and Jim Cenerini, Legislative & Political Action Coordinator of Rhode Island Council 94, AFSCME

In Conclusion, Chairperson Booth Gallogly reminded the Commission that the April 8th meeting has changed to April 1, 2013, and she thanked everyone for their participation.

Mayor Polisenia made a motion to adjourn which was seconded by Mayor Fung. The meeting adjourned at 12:10 PM.

Rosemary Booth Gallogly

Chairperson

3-11-13

Date

PSC/sm

Addendum to the
February 25, 2013
Pension Study Commission
Meeting Minutes

Attachment B

Rhode Island Municipal Finance: - Windows Internet Explorer

http://www.muni-info.ri.gov/

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Division of Municipal Finance

Welcome to the website for the Division of Municipal Finance, formerly known as the Office of Municipal Affairs.

Mission:

To provide assistance and guidance to municipalities in complying with state law, to encourage cooperation between municipalities and the state, to calculate, evaluate, and distribute state aid and to maintain a data center of information of use to municipalities.

Objectives:

- To maintain and compute financial and equalized property value information for the benefit of municipalities and public policy decision-makers.
- To encourage and assure compliance with state laws and policies relating to municipalities especially in the areas of public disclosure, tax levies, and financial reporting.
- To encourage cooperation between municipalities and the state by distributing information and by providing technical assistance to municipalities.
- To give guidance to public policy decision-makers on the equitable distribution of state aid to municipalities.

Done Internet 100%

Attachment B

Rhode Island Municipal Affairs: City/Town Budget Data - Windows Internet Explorer

http://www.muni-info.ri.gov/finances/actuarial-valuation-archive.php

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Rhode Island Municipal Affairs: City/Town Budget Data

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Actuarial Valuations for Locally-Administered Pension Plans in RI

Please choose from one of the following options:

- [2012 Actuarial Valuations](#) Last Updated 02/20/2013
- [Valuations due by April 1, 2012 according to RIGL 45-65](#) Last Updated 01/15/2013

Internet 100%

Attachment B

2012 Actuarial Valuations for Locally-Administered Pension Plans in RI

Below are links to the actuarial valuations that have been submitted by municipalities to the Study Commission as required under Rhode Island General Law [Chapter 45-65](#). All valuations are as of 2012 unless otherwise noted.

Please refer to this web page for future updates.

Municipality	Pension Plan	2012 Actuarial Valuations
Bristol	Police	-
Central Falls	Police & Fire 1%	-
Coventry	Municipal Employees	-
	Police Officers	-
	School Employees	-
Cranston	Police & Fire (prior to 7/1/95)	-
Cumberland	Police	-
East Providence	Police & Fire	-
Jamestown	Police	-
Johnston	Police (prior to 7/1/95)	-
	Fire (prior to 7/1/99)	-
Lincoln	Town	-
Little Compton	Town Employees (not teachers)	-
Middletown	Town Employees (prior to 7/1/01)	-

Attachment B

Narragansett	Police (prior to 7/1/78)	PDF
	Town Employees	-
Newport	Police	PDF
	Fire	PDF
North Providence	Police	-
Pawtucket	Police & Fire	2011
Portsmouth	Municipal, Police & Fire	-
Providence	City Employees (not teachers)	-
Scituate	Police	-
Smithfield	Police (prior to 7/1/99)	PDF
	Fire	PDF
Tiverton	Police	-
Warwick	Municipal Employees	-
	Firefighters / Police I	-
	Police II	-
	Fire II	-
	School Employees (not teachers)	-
West Warwick	Town Employees (not teachers)	-
Westerly	Police	-
Woonsocket	Police & Fire	PDF

Attachment C

February 25, 2013

The Honorable Gordon D. Fox and
The Honorable Theresa Paiva-Weed
State House
Providence, Rhode Island 02903

Re: H 5127, Article 11 Municipal Incentive Aid

Dear Speaker Fox and Senate President Paiva Weed:

The Pension Study Commission wishes to express its support for H 5127, Article 11 relating to municipal incentive aid. We recognize that fiscal instability in any Rhode Island municipality will adversely affect the entire state's interests as well as the interests of municipal employees and plan members.

Our support for this legislation is a result of our concern for all taxpayers throughout the state of Rhode Island and our recognition that many retirement plans currently have significantly under-funded plans. Furthermore, the unfunded liabilities threaten to jeopardize the pension security of public servants and the fiscal stability of municipalities.

As members of the Commission, we are working together in good faith to encourage sensible and fiscally sound recommendations. The Commission, working with the staff in the division of municipal finance, continues to encourage an open dialog with stakeholders for locally administered plans while providing information to communities about the requirements of the legislation.

We believe that there will be many positive aspects of this incentive aid. Municipalities have a choice in the pathway to improved fiscal health of their pension plans and the structure of the aid program allows for substantive positive steps to be taken on an incremental basis over three years.

We recognize that the program encourages all communities to improve the sustainability of their retirement plans by addressing the unfunded liabilities and funding the plans in a fiscally responsible manner. While many communities have already taken steps to improve their fiscal health, there remains a considerable amount of work ahead for all.

Letter of Support for Article 11
February 25, 2013
Page 2

Thank you for considering our views on this legislation.

Best regards,

Rosemary Booth Gallogly
Director of Revenue, State of RI & Chair
of Study Commission

Richard Licht
Director of Administration, State of RI

Jean Bouchard
Municipal Vice President, AFSCME,
Council 94

Antonio Pires
Director of Administration, City of Pawtucket;
former State Representative & former Chairman
of the House Committee on Finance

Paul Doughty
International Association of Firefighters,
Providence

Joseph M. Polisena
Mayor, City of Johnston

Allan Fung
Mayor, City of Cranston

Gina Raimondo
General Treasurer, State of RI

Dennis Hoyle
Auditor General, State of RI

Steven St. Pierre
Sergeant, Bristol Police Department

Bruce R. Keiser
Town Administrator, Jamestown

John Simmons
Representative from the RI Public Expenditure
Council

J. Michael Lenihan
Former State Senator & former Chairman
of the Senate Committee on Finance

Angel Taveras
Mayor, City of Providence

Locally-Administered Pension Plans Study Commission

Testimony Questions for the Municipal CEO

DRAFT – for discussion purposes only

Municipality: Sample Community
 Plan: Police and Fire (two plans)
 Date/Time: March 11, March 25, or April 1, 2013 10:00 am – 12:00 pm

Communities may wish to bring their plan actuary but it is not required. Each municipality will have approximately 30 minutes to present its Funding Improvement Plan (FIP) and answer questions.

I. Briefly describe the plan to emerge from critical status and the required actions necessary to implement the plan.

II. FIP criteria fully addressed in submitted documents:

A check mark indicates that criteria met the guidelines developed by the Pension Study Commission. No additional discussion is necessary for this section.

✓	Amortization cost, method, including period, interest rate and rate of increase in payments, if any
✓	Assets (market and actuarial) and liabilities, before and after changes were made
✓	Funded status, before and after changes were made
✓	Description of benefit changes (if applicable)
2032	Time frame when municipality expects to emerge from critical status
✓	Two deterministic forecasts
✓	Include the actuarial assumptions used to forecast total payroll growth, new entrants for open plans
✓	Four Funding Improvement Plans submitted
✓	Maximum amortization period of 30 years in which plans must emerge from critical status within 20 years
✓	Maximum percent increase in amortization payments would be 4% (except to make up for funding of 100% of ARC)
n/a	Encourage shorter amortization schedules, with increasing payments
n/a	For frozen plans with only retirees the amortization period would be not more than the average future lifetime of the retirees
✓	No open amortization method

III. FIP Criteria to be more fully addressed:

Please be prepared to discuss the following criteria not fully addressed in the FIP or in subsequent communications (as of the date of testimony):

1. FY 2012 Funding of the ARC before and after changes are made based upon FIP
2. Employer and employee normal costs, before and after changes were made

3. Five-year forecast of municipal revenue growth
4. The local governing body has not selected on option. Please explain the status.
5. No decrease in contribution from one year to the next unless the reduction is the result of a reduction in benefits
6. 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
7. Relief provision that would provide for a temporary increase in ARC payments by no more than 8%

IV. Additional Questions:

1. What body governs the award of service and disability pensions?
2. What governing body determines actuarial assumptions?
3. Who are the members of the pension plan governing body?
4. How often does this body meet?
5. Are the meeting minutes posted?
6. What body governs the investment of pension assets?
7. Who are the members of the governing body investing pension assets?
8. How often does the body investing pension assets meet?
9. Are the meeting minutes posted for the body making investments of plan assets?
10. Do members of these bodies receive fiduciary training?
11. How are these governing bodies staffed?
12. Would you consider a transition to MERS and if not, what is the reason?
13. Municipalities have been made aware of the provisions of Article 11 in the Governor's proposed budget. Do you foresee any problems complying with the provisions in FY 2014-2017?

Attachment E
“Pension Security – Addressing Locally Administered Pension Plans” - Discussion Points
As of February 11, 2013

Disclaimer: This document is a work in progress. Additional comments are needed.
Changes made from the meeting on 12/17/12, 1/14/13, and 1/28/13 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.	<p>Should the Commission’s guidelines be in statute?</p> <p>If so, what other items should be added?</p> <p>Should incentives or disincentives be considered (state aid)?</p>	<p>To have a structure set in statute and to increase health of those plans in critical status.</p> <p>Pension security.</p>	<p>Enforceability.</p> <p>Guidelines in statute provide a means of aligning actuarial recommendations and GASB standards in local budgets.</p> <p>Aid in recognition of long term liability vs. current budget practice.</p> <p>Conceivably prevent more plans from reaching critical status.</p> <p>Transparency.</p> <p>Could help deflect criticism and posturing at the local level.</p> <p><u>Additional Comments:</u></p>	<p>Challenges political will and long established practices.</p> <p>Perception of State as big brother.</p> <p>Difficult to change.</p> <p><u>Additional Comments:</u></p>	<p><u>Need</u> authorization in statute to promulgate regulations.</p> <p><u>Possibly by DOR.</u></p> <p><u>Does the municipality have the ability to make ARC payment? If so, must hold them accountable. Otherwise, don’t pull state aid.</u></p> <p><u>Use incentives vs. punishment.</u></p> <p><u>Must look at the full equation--assumptions, investment performance, ARC.</u></p>
1.b.	<p>Should guidelines be promulgated through regulations by DOR and/or Auditor General?</p>		<p>Same as above.</p> <p>Regulations are more flexible. Propose legislation allowing State to make regulations.</p> <p><u>Additional Comments:</u></p>	<p>Same as above except that regulations are easier to change than when set in statute.</p> <p><u>Additional Comments:</u></p>	<p>[General agreement that something is needed to ‘make’ municipalities be more responsible fiscally with this obligation.]</p> <p>Resources would need to be provided.</p>

Attachment E
“Pension Security – Addressing Locally Administered Pension Plans” - Discussion Points
As of February 11, 2013

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Changes made from the meeting on 12/17/12, 1/14/13, and 1/28/13 are underlined.

	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. <u>Additional Comments:</u>	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.	<u>Additional Comments:</u>	<u>Additional Comments:</u>	State needs to play an enforcement role, such as withholding state aid. <u>Need to continue discussion, no consensus reached.</u>
4.	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. <u>Additional Comments:</u>	Additional resources needed. New cost. <u>Additional Comments:</u>	[All recognized that some oversight was necessary and an employee representative that cost of oversight would be worth paying for.] *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. <u>Additional Comments:</u>	 <u>Additional Comments:</u>	these are not always linked. <u>Non-funding of ARC could be one criterion for oversight. Need to look at big picture.</u>
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. <u>Additional Comments:</u>	Settlement agreement with retirees resulted in significant reductions in pensions, so option of moving to MERS must recognize this. <u>Additional Comments:</u>	Analysis as to whether or not transition into MERS is financially feasible. 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. A distinction between permanent disability and inability to work at all may reduce cost. <u>Additional Comments:</u> 45-21-22 provides for at least 66 2/3 pension for police, fire <u>and all MERS employees</u> for <u>accidental</u> disability. 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. <u>Additional Comments:</u> 45-21-22 applies to all MERS.	Discussion will be continued. <u>Is disability pension a driver of cost?</u> <u>Remove from State law so that CBA's will govern?</u> <u>Get data on disability pensions.</u> <u>Pawtucket requires conversion back to normal pension when reaching retirement age.</u> <u>No consensus as to making</u>

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			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.		<u>disability pension part of the reform.</u>
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. <u>Additional Comments:</u>	Effort to change governance structure would be significant. <u>Additional Comments:</u>	Has not been discussed yet. <u>Are school budgets squeezing out the municipal budget? Effect of maintenance of effort (MOE). Consider school operations aid?</u>

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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. Removes one of the primary impediments to local plans merging into MERS. <u>Additional Comments:</u>	Too aggressive for already burdened communities? <u>Additional Comments:</u>	<u>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.</u>
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. <u>Additional Comments:</u>	Cost of reamortization is paid by taxpayers like a debt. <u>Additional Comments:</u>	<u>State actuaries will have a substantial amount of work ahead. Not really an area to pursue.</u>
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. <u>Additional Comments:</u>	Potentially provides these employees with greater accruals than others in MERS, could	<u>No loss of already accrued benefits.</u> <u>Cash flow issues.</u>

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	go-forward basis?	accrued.		result in higher final accrual than currently allowed under MERS. <u>Additional Comments:</u>	
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.	Reduce impact of investment transfers.	<u>Additional Comments:</u>	Each MERS plan stands on its own for actuarial calculations, but an excessive draw from assets not available would impact other plans. <u>Additional Comments:</u>	<u>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.</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).	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. <u>Additional Comments:</u>	<u>Additional Comments:</u>	<u>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</u>

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					<u>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?</u> <u>Appreciation has developed with membership that plans are owned by the members in the plan.</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>	Municipalities with healthy plans would complain. <u>Additional Comments:</u>	<u>The Chair indicated she thinks an incentive would be effective and would also increase assets in the plans.</u>
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. <u>Additional Comments:</u>	Funding could be taken away from education forcing municipalities to look at the budget in totality.	<u>Could hurt struggling communities further by reducing aid. Need to look at this regardless of whether the municipality and school leadership have</u>

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				<u>Additional Comments:</u>	<u>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 RIHEBC local school construction bond program. Needs careful legal review.</u>
New comments in decision column begin below....					
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. <u>Additional Comments:</u>	<u>Additional Comments:</u>	<u>Considerable discussion on division of assets, should encourage whole plans. Eventually closed plans have a problem. Must address how to fund the group that is left out. Must be strong controls over FIP progress. Must have a FIP for those remaining out.</u>
9.	Are there other incentives to join MERS that could be considered? Are there other obstacles or impediments to joining MERS?		<u>Additional Comments:</u>	<u>Additional Comments:</u>	<u>Ramp up ARC over period of years. Article 11 incentive. Obstacles include prohibition over double dipping and income-offset for disability pensions. Having two sets of rules might be a problem. Must fund the ARC or private right of action. Who makes it happen/enforces?</u>

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					<u>Possible DOR mediation prior to tougher consequences. No consensus reached.</u>
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.	Fairness.	Consistency among plans. <u>Additional Comments:</u>	Less local control. CBA’s exist. <u>Additional Comments:</u>	<u>Similar to discussion on benefits no greater than MERS – who not go into MERS?</u>
11.	How do we address conflicting provisions in Collective Bargaining Agreements and MERS statute? Consider options: <ul style="list-style-type: none"> • 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. <u>Additional Comments:</u>	Loss of control for employees. <u>Additional Comments:</u>	<u>Council 94 would agree with the concept of employees VOTING to go in MERS. Oppose changes that restrict collective bargaining. Understanding of problems caused by conflicting language. Noted that at the state level, retirement plan is in statute, not negotiated.</u>

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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. <i><u>Additional Comments:</u></i>	Punitive. May force community to borrow to meet immediate needs. <i><u>Additional Comments:</u></i>	<u>Similar to discussion on carrot rather than stick.</u>
2.	Should the State require transfer of plan into MERS if any of the following conditions exist: <ul style="list-style-type: none"> • 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); 	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. <i><u>Additional Comments:</u></i>	Ability of municipalities to pay ARC; property tax cap which limits ability to raise revenues. <i><u>Additional Comments:</u></i>	<u>“Back door” entry to MERS is not good, considered a work-around against collective bargaining. Strengthen DOR’s powers. Spirited discussion on right to sue. No consensus as to what to do if a community is not living by the adopted plan. Solution in court? Mediation by DOR? Add to fiscal stability act, broader powers?</u> <u>Who enforces? Even though funding of ARC is the main problem, it is not the only problem. Benefit levels need to be sustainable. Refocus question on communities who are <i>not</i> following their FIP or paying ARC.</u>

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	<ul style="list-style-type: none"> • Implementation of pension benefit increases without first achieving 100% funded status)? • Disability pension percentage rates that exceed the MERS average for two consecutive years. 				
3.	<p>If transferred to MERS: 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?</p>	<p>To have a mechanism in place for future plans that may reach critical status.</p>	<p>Determine factors ahead of time based on agreed criteria is better than reactive policy.</p> <p>Places additional incentive for communities to appropriately fund their locally administered plans.</p> <p>Provides a key enforcement tool when communities are not funding their plans appropriately.</p> <p><u>Additional Comments:</u></p>	<p>Loss of local control.</p> <p><u>Additional Comments:</u></p>	
4.	<p>Should the State require a higher <i>employee</i> contribution rate if the plan is required to be transferred to MERS?</p>		<p><u>Additional Comments:</u></p>	<p>Does this “punish” employees?</p> <p><u>Additional Comments:</u></p>	

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	Question	Goal	Pro	Con	Decision
5.	Are there issues unique to potential transfer of “closed” or nearly closed plans to MERS?		<u>Additional Comments:</u>	<u>Additional Comments:</u>	
6.	If plans are transferred to MERS, benefits would be consistent with the Rhode Island Retirement Security Act of 2011(RIRSA).		<u>Additional Comments:</u>	<u>Additional Comments:</u>	
7.	If plans are transferred to MERS, how does the Commission consider representation of retirees? <ul style="list-style-type: none"> • 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>	<u>[Comment that recent case law affirmed that retirees are not part of collective bargaining.]</u>

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V. OPEB

	Question	Goal	Pro	Con	Decision
1.	<p>How would an OPEB Trust be created? By the State or as a collaborative of cities and towns?</p> <p>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.</p>	Address OPEB liability.	<p>Addresses inefficiencies of each municipality creating a trust and related investment process – creates opportunities for enhanced investment performance with diversification of investment risk.</p> <p>Would ensure that municipalities start/continue funding OPEB; easier to administer than 39 separate plans.</p> <p><u>Additional Comments:</u></p>	<p>Additional resources needed on state level, however it would reduce workload on the local level.</p> <p><u>Additional Comments:</u></p>	
2.	OPEB - Similar requirements for valuation, funding improvement plan?	Address OPEB liability.	<p>Ensure consistency.</p> <p><u>Additional Comments:</u></p>		