

**Pension Study Commission**  
**April 15, 2013**  
**Minutes of the Meeting**

A Study Commission meeting was held in Room 313 of the State House, 82 Smith Street, Providence, Rhode Island on Monday, April 15, 2013.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension Study Commission called the meeting to order at 10:12 AM.

**Commission members present:** Rosemary Booth Gallogly, Jean Bouchard, Paul Doughty, Allan Fung, Dennis Hoyle, Richard Licht, Antonio Pires, Joseph Polisena, Mark Dingley representing Gina Raimondo, Steven St. Pierre

**Members absent:** Bruce Keiser, J. Michael Lenihan, John Simmons, Angel Taveras

**Others present:** Susanne Greschner, Chief of the Division of Municipal Finance, Daniel Sherman from Sherman Actuarial Services, LLC and members of the public

**Agenda Item #1 – Approval of Minutes from April 1, 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 April 1, 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 – Review draft letter to Coventry Town Council and School Committee – Attachment B**

Next on the agenda, Chairperson Booth Gallogly referred to Attachment B found in the addendum which is a draft letter to the town council and school committee regarding the Coventry School Employees (non-teaching personnel) pension plan. The Chair asked if the Commission members had any suggestions for the letter which was prepared for their signatures.

The Chair informed the Commission that she had spoken to the Town Council President to make him aware that the letter was forthcoming. She indicated that the Town Council President had expressed his desire to meet separately with her prior to meeting with the Commission.

It was agreed upon by the Commission members that both the town council and school committee members meet with them, and a night meeting would be preferable in order to accommodate all members involved.

Antonio Pires, Director of Administration for the City of Pawtucket, referred to the date of June 1, 2013 for submission of the funding improvement plan (FIP) that was indicated in the draft letter. He inquired if the original article was May 1<sup>st</sup>. The Chair indicated that an amendment to the original Article 11, proposed by the Governor, was sent through the State Budget Office to the General

Assembly requesting that it be made June 1<sup>st</sup>. The modification has been requested, but has not been made since the Act has not been passed yet. Mr. Pires believes that the letter should read Article 11, as amended. The Chair agreed.

Chairperson Booth Gallogly informed the Commission members that her staff will work on arranging a meeting with both the town council and school committee members. In addition, she mentioned that an amended letter will be available at the next meeting. The Chair indicated that the next meeting is scheduled for Monday, April 22, 2013 from 9:00 am to 12:00 pm.

### **Agenda Item #3a – Testimony from the Town of Cumberland on its Police Pension Plan**

Represented by: Mayor Daniel McKee; Attorney Joseph Rodio, Jr., Attorney Joseph Rodio, Sr., Thomas Hefner, Town Solicitor

Chairperson Booth Gallogly provided an overview of the Town of Cumberland's police pension plan. Based on the information that the Commission had received from the town, the Chair indicated that the unfunded liability is \$15.4 million which is approximately 38% funded, and the ARC is approximately \$1.6 million. In addition, the data shows that the last contribution was \$1.4 million, which is 84% of the ARC being funded. The Chair explained that some of this data could be outdated since the information provided was based on the actuarial valuation on record. She indicated that there are 110 participants (64 retired, 45 active members and 1 terminated). The Chair expressed that the Commission relies on the data that is received from the municipalities; therefore if any of this information is incorrect it will be superseded by whatever information the Town of Cumberland would indicate.

Mayor McKee informed the Commission that the Town of Cumberland has engaged an Actuary, Nyhart from Indianapolis who has prepared up-to-date figures. The Mayor indicated that the town is presently in negotiations with the police union on these issues. He said that he would like to provide as much information as possible, but at the same time he is very sensitive to the fact that the town is in negotiations.

Attorney Rodio said the reason why the information provided is antiquated is that the town had an actuarial gain and loss study prepared, and in reviewing it with the town's pension board and the actuary, they determined that the 8% rate of return being used was outdated and over inflating the funded ratio of the plan, therefore it was reduced to 7½%. He confirmed that there are 110 participants. The total accrued liability is approximately \$29 million, and over \$19.5 million of which is unfunded. The recommended contribution is approaching \$2.2 million with a funded ratio of 31.3%.

Chairperson Booth Gallogly asked what the Town of Cumberland's history is in contributing to the ARC. Mayor McKee stated that since 2001, the town has been funding approximately 93% of the ARC. In addition, for eight straight years, the town had funded 100% of the ARC. When municipalities were cut municipal aid in 2010, the town had a \$4 million reduction in local revenue, which indicated that the contribution was approximately 17%. The Mayor believes that was not a fair indication of what the town had been doing funding the ARC. The town is up to 84% funded of the ARC, and headed to funding 100% of the ARC. The Mayor informed the Commission that the Town of Cumberland is operating very lean with forty-five active police officers comparing to the Town of North Providence with over seventy police officers. When the municipal cuts occurred the town needed to manage the cash flow especially when it came late in the season as it did that year. Furthermore, he said the town does not have many options in order to maintain the town's local tax cap

at 3% and the State's tax levy cap. The Mayor stated that over the last decade, the town has a history of funding 93% of the ARC. Mayor Polisena asked if the town had continued to fund the ARC and even without the municipal aid cuts in 2010, would the ARC have increased. Mayor McKee replied yes.

Chairperson Booth Gallogly asked for the town's plan option. Mayor McKee stated that the town had an Executive session, sensitive to the fact that they are in negotiations, and the plan specifically was presented to the council. Attorney Rodio briefed the Commission on the provisions, which are listed below. He indicated that scenario 5 was provided by the town's actuary, Nyhart, and the report is dated March 1, 2013.

- 5 year final average pay
- Change definition of pensionable earnings to salary, holiday and longevity
- Future accruals changed to 2.50% of pay for first 20 years of service and an additional 1.0% of pay for service between 20 and 30 years
- Change the pension eligibility to the later of reaching 20 years of service or attaining age 55 for all current and future employees
- Reduce Early Retirement Benefit to 25% of average pay
- Move all hires after July 1, 2011 to a pure defined contribution plan with a Town match not to exceed 7%
- Increase employee contribution from 7% to 11%

Attorney Rodio said the town would be taken above a 60% ratio in the year 2022.

Chairperson Booth Gallogly asked what the percent of the town's revenues the ARC and the required DC component would consume. Attorney Rodio said the town's budget is \$30 million, and the current ARC without any benefit provision changes is approaching \$3 million, which is 10%, but prospectively it would bring the ARC down to under \$1.5 million. The town would be going from a normal cost employer to approximately \$500,000 to approximately \$210,000 based on the current budget for a defined contribution of 7%.

Dan Sherman from Sherman Actuarial Services, LLC asked if an employee hired after 2011, would get the DC plan, and if there was a forecast for the number of employees that will be hired each year as employees in the current plan drop off. Mr. Sherman explained that each year the DC plan will get larger, and he asked if there was a forecast of that cost over the next 5-10 years. Attorney Rodio replied no, not any further than scenario 5's amortization chart which those costs are calculated in. Mr. Sherman said that he was inquiring as to what percent of \$30 million budget are the DB ARC and the growing DC ARC. Attorney Rodio said that there had been eight new hires since 2011 at \$3,500 a year per employee and this amount will increase. Attorney Rodio, Sr. said that it should have a minimal impact prospectively.

The Chair asked what the rate of pay was for the DC plan. Attorney Rodio stated that the town would contribute up to 7% of salary as a match. Mark Dingley, representing Gina Raimondo from the General Treasurer's Office stated that unfortunately, a government DC plan cannot operate like a 401K

plan; therefore one would have to pick a specific matching percentage. The Chair asked if the payroll grows to \$3.5 million. Attorney Rodio said that would be \$35,000 for every percent which would be approximately \$340,000. In addition, he said that the town is projecting that it will cost them \$306,805 in 2042. He said the scenarios and the baseline were done using the 7 ½% investment rate of return.

Paul Doughty, President of the Providence Firefighters' Union Local 799, stated that in all other instances the communities are required to pick one of the FIP. The Chair indicated that the Town of Cumberland had picked one, but the resolution did not identify one selected. Mr. Doughty asked if the town council supports the FIP in a form of a resolution. Attorney Rodio, Sr. said yes the town council supports the FIP which articulates a solution in scenario 5. In addition, he indicated that an amended resolution will be provided to the Commission.

Mr. Pires referred to pages 3 and 4 in Attachment C, which outlines the various benefit provisions that did not include the COLA Freeze which was provided on the chart on page 25. This provision indicates to Freeze COLA for 10 years with COLA returned tied to Northeast Urban CIP with a cap of 3.0% (for future retirees only). Attorney Rodio indicated that it had been omitted from cover summary, and that it would be corrected. Mr. Pires asked if there were other factors that lead to the plan being in critical status. Mayor McKee said that early on in the pension plan, there were no contributions made by police officers until the mid 80s, and then in the last 90s there were a few years that he believes there were no payments made. Mayor McKee stated that the Town of Cumberland has a non-compounded COLA, and his position is to try to honor what has been agreed to with the retirees. In addition, the Mayor indicated that he wants to change the strategy relative to the active police officers, and a defined contribution seems to be the best route to go; however it has not been negotiated. The Mayor said that he knows that the coalition of municipal leaders are going to be meeting this week to continue their conversation where the state could potentially step in and define how a defined contribution plan could work for new employees going forward. He indicated that the town's police are covered under social security; therefore a defined contribution plan with the addition of social security would be a strong retirement benefit.

Thomas Hefner, Town of Cumberland Solicitor, provided the Commission with a brief history of the police pension fund which started in 1962, which covered all of the employees in the Town of Cumberland. It was entirely funded by the town and there were no employee contributions until about 1987. In 1987, the employees then began contributing about 1 ½% of pay. In July 1988, all the town employees left the town pension system and went into the Municipal Employees Retirement System (MERS), leaving only the police officers.

Chairperson Booth Gallogly said that when she and Mr. Dingley had worked on the RFP for the state's defined contribution provider, they did include it in the RFP that municipalities could piggy-back on this contract engagement under the state's terms. The Chair indicated that they had a great deal of success with the program; therefore that is available without having to go through a lot of work for the municipalities. She would like to make the municipalities aware of this available information if they are looking at this as an option.

Chairperson Booth Gallogly thanked the representatives from the Town of Cumberland and said she appreciated their cooperation. She mentioned that the aid that would be available to the Town of Cumberland under the proposed Article 11 is \$316,000.

Mayor McKee stated “for the record” that not only does the Town of Cumberland’s report address the pension issue, but the town is also addressing the OPEB issue which is a bigger problem. Attorney Rodio, Sr. informed that Chair that he would forward the corrected FIP to the Commission the next day.

### **Agenda Item #3b – Testimony from the Town of Johnston on its Fire and Police Officers Pension Plans**

Represented by: Mayor Joseph Polisena, Attorney Joseph Rodio, Jr., Attorney Joseph Rodio, Sr., Attorney William Conley, Town Solicitor; Pattie Testa, Town Controller

Mayor Polisena provided the Commission with an overview of the Fire and Police Officers pension plans. The Town of Johnston has not had many mayors, and its history was always a town council form of government. The town’s first mayor, Mayor aRusso and he created the fire pension and it was a private pension with the Providence Mutual and they held that for many years. Also, he created the ING, which was for the police department. After Mayor aRusso’s term, the fire pension plan was healthy and it was locked in to about 8%. The town had some issues with Providence Mutual and they separated their relationship. In 1999, then Mayor Macera put all of the new firefighters into MERS, but he also increased the benefits for those that were not going into MERS. In addition, there was no pension board and the funds were given to one person to invest. There were no checks and balances with the pensions. When Mayor Polisena took over in January of 2007, there was a \$9 million structural deficit. Ernie Almonte, at the time the Auditor General, said that instead of 5 years that he had 4 years to straighten out the town and pay off the deficit. Mayor Polisena was able to pay off their deficit in 3 years. The town had to endure the elimination of the general revenue sharing and the elimination of the car tax, and the town lost approximately \$10 million.

Mayor Polisena referred to the Town of Johnston’s FIP, which cost his taxpayers \$75,000. The Mayor said that there two options if the FIP is not followed. One of the options would be to lay-off 25-30 municipal workers along with 20 police officers. Mayor Polisena indicated that the Town of Johnston’s FIP closely models the State’s plan, and he said that many proposed changes cannot be brought forward since they are in negotiations with the police union. In addition, he mentioned that the town’s police and fire employees are covered under social security. The Mayor believes the town’s plans are fair to the taxpayers, pensioners, as well as to those men and women who put their lives on the line everyday. Furthermore, the town’s FIP will fix the problem and follow the State statute that this Commission was created for the 60% funding for all pensions in the cities and towns. The Mayor indicated that if the town’s pension plans are not fixed and the plans are not adopted, the plans will run out of money in 5-7 years. The Mayor said that the town has addressed their OPEB plan. He mentioned that both the actives and retirees must agree in order for the town’s plan to work. The Mayor indicated that he is a strong supporter of public safety and highly respects his municipal workers. Mayor Polisena explained that there is one issue with the ING settlement, which the town was challenged on.

Chairperson Booth Gallogly asked if the COLA was compounded. Attorney Rodio indicated that the police have a compounded COLA and the firefighters receive 50% of the wage increase that is compounded.

Richard Licht, Director of Administration asked if there are any proposed changes to the actives. Attorney Rodio, Sr stated that proposed changes are to both the active members and retirees. Attorney Rodio indicated that the plans have several legacy issues. In addition, in 2011 Mayor Polisena and the

town council passed a pension ordinance. The pension board was created after the Retirement Security Act was passed. The town undertook the experience study and reviewed a number of assumptions including the investment rate of return, which was reduced from 8% to 7 ½% at that time. All of these factors brought the town to where it is today, which is approximately 108 active participants, approximately 175 retirees and the plan has a total actuarial accrued liability of \$148 million, \$110 million which is unfunded for a funded ratio of 25.7%. The ARC for this coming year would be approaching \$13 million. Attorney Rodio, Sr. said he believes in the current year, the town is seeking to eliminate parts of the definition of what the members consider “salary” which is salary, overtime, clothing allowance, and bust out pay. He indicated that the town needs these systemic concessions to put the whole issue on balance. Director Licht inquired about the age eligibility. Attorney Rodio said that currently there is not one; however he indicated the proposed changes:

- Implement a minimum retirement age of 55
- Change the pensionable earnings calculation to only include base pay, holiday and longevity
- Change salary averaging to 10 years
- Freeze COLA increases for 20 years
- When COLA returns after 20 years it is tied to Northeast Urban CPI and only applies to those receiving a benefit less than 150% of the Rhode Island Mean Income
- Reset the amortization period to 24 years
- Reallocate Public Safety resources in a way that does not jeopardize the health and safety of its residents but allows for greater funding of retirement benefits

Director Licht’s asked how the funding ratio could go up if the ARC is not being fully funded. Mr. Sherman indicated that it is due to the definition of the ARC. Attorney Rodio indicated that the town is following the recommendations of their actuary. Attorney Rodio, Sr. informed the Commission that the town has met with the Chairperson and Mr. Sherman, and the town is reviewing other options; however the town is in the middle of negotiations which makes it difficult to address it at this time.

Chairperson Booth Gallogly asked about the amount available to these plans, and if the assets are held by the town. Attorney Rodio replied that the assets are held by the Trust, and those are under one custodian investment consultant and there is a board responsible for the investments of those assets. He believes that some of the legacy issues, specifically ING, is that there was a time when they were held by the general fund, but the town (in the late 70s, early 80s) purchased single premium deferred annuities in the names of the officers to hold for their retirement. When that was uncovered by future administrations, it was recommended to them by their financial advisor to take those single premium deferred annuities out and put them into a vehicle that would allow them to track what the contributions and gains were of those two accounts, the employee 6% contribution and the employer 12% contribution. It went to a financial firm who was subsequently bought out who saw a list of individual names and that there was a 6% and 12% contribution, and having no other computer software to label them, therefore they labeled them as a 457 defined contribution account. Attorney Rodio said that however, the firm continued to hold the account in the name of the Town of Johnston and those have since been closed and properly moved into the pension trust, as they have always been assets invested for pension purposes. However, he indicated as mentioned by Mayor Polisena, there have been challenges and the town has not accounted for this in the FIP.

Auditor General Hoyle asked if the annuities are in the pension trust. Attorney Rodio explained that the annuities were cashed out in the late 80s and put into accounts reflecting individual officer's names. There were two accounts which were closed and moved to the pension trust custodian TD Bank and are invested with the advice and direction of the Johnston's retirement board's investment consultant. Chairperson Booth Gallogly asked if the numbers listed on their report under Nationwide, (which was the former Providence Mutual) are funds outside the trust. Attorney Rodio replied yes, however the COLA and longevity for those individuals does get paid out of the pension trust. The Chair inquired if the actuarial valuation does reflect the future liability of just those amounts, not the annuity piece. Attorney Rodio said yes, that is correct. Director Licht referenced ING and asked for an explanation. Attorney Conley indicated that ING is the 457 accounts, and one of the accounts was put in the name of employer and one in the name of the town. He indicated that what happened with the ING funds; although the town obviously continued to treat its contribution to ING fund as its pension fund and acted under that assumption, which the town believes was appropriate. He indicated that a few years ago, a number of retirees brought an action alleging that the money in the 457 accounts was essentially their 457 plan as opposed to the town pension plan, which was a separate fund. Attorney Conley said that there has been an initial decision in Superior Court that the employees were correct, and that it was their 457 accounts because of how it was administered by ING, and that decision is currently under appeal in the Rhode Island Supreme Court. Mayor Polisena said that the IBPO local agrees with the town that those monies should remain in the pension trust fund.

Attorney Rodio, Sr. said that the town has done its best to monitor the assets of the funds, and discovered that in 2010 that the State Unclaimed Properties was holding approximately \$500,000 of monies from Aetna, but they were in the names of individuals and not in the name of the Town of Johnston; therefore they had to cross-reference them because they were held in individual names and so they showed where the money came from and the town did recover that money.

Chairperson Booth Gallogly said that obviously this is an important aspect of the Town of Johnston's funded ratio since of the \$40 million available, only 25% is funded and if any of that amount is eliminated it will definitely have an impact of the town's funded ratio.

Chairperson Booth Gallogly thanked the Towns of Cumberland and Johnston for their participation, and looks forward to working with both communities.

#### **Agenda Item #4 – Public comments**

There were no public comments.

#### **Agenda Item #5 – Adjourn**

Director Licht made a motion to adjourn which was seconded by Mayor Polisena. The meeting adjourned at 11:30 PM.

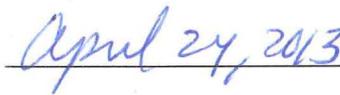
**Next Meeting: April 22, 2013 from 9:00 A.M. to 12:00 P.M. in Room 313**

Included is a direct link to Capitol TV's Videos on Demand web page. From this page one can use the filter option to choose "Locally-Administered Pension Plans Study Commission".

<http://www.rilin.state.ri.us/CapTV/pages/vod.aspx>



Chairperson



Date

PSC/sm

Addendum to the  
April 15, 2013  
Pension Study Commission  
Meeting Minutes

# Attachment B



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**Department of Revenue**  
**Office of the Director**  
One Capitol Hill  
Providence, RI 02908-5855

TEL: (401) 574-8999  
FAX: (401) 574-8997  
TDD: (401) 222-1227

April 15, 2013

Members of the Coventry Town Council  
Members of the Coventry School Committee

Dear Ladies and Gentlemen of the Town Council and School Committee:

On April 1, 2013, the Pension Study Commission met with representatives from the Town of Coventry, Coventry School Department and the Trustees of the Coventry School Employee's (non-teaching) Pension Plan. The Commission requests that you attend a follow up meeting to discuss the plan's sponsorship.

As members of the Commission, we have been committed to working together in good faith to encourage sensible and fiscally sound recommendations for locally-administered pension plans in accordance with R.I. Gen. Law §45-65-8. Specifically, our purpose is to review existing legislation and pension plan administrative practices and to make recommendations for the improved security and funding of locally administered pension plans and other post-retirement benefit obligations of cities and towns. This task has not always been easy but we are committed to doing the right thing. It is our hope that you will work in this spirit as well.

The Commission is particularly concerned over the lack of responsibility taken by both governing bodies with respect to the School Employees Pension Plan. While we recognize that both governing bodies have denied legal responsibility for the plan, there is at the heart of the matter a lack of concern for the employees who participate in it.

Approving resolutions stating that the employer's responsibility is limited to making the contractually required contributions does not address the problem. For purposes of the Governor's proposed 2014 budget, it is our understanding that the Town of Coventry would not qualify for Article 11 incentive aid funds of \$332,252. Article 11 states that a Funding Improvement Plan has to be approved by the plan sponsor and the local governing body no later than June 1, 2013. While the Trustees voted on the plan, the local governing body has not taken any action to date.

Further, the Commission has not made a recommendation yet with respect to R.I. Gen. Law § 45-65-7. Failure to comply with the requirements of Chapter 45-65 authorizes the general treasurer to withhold moneys due to the municipality from the state for any purpose other than education, including, but not limited to, municipal aid and other aid.

The Commission and the staff of the Department of Revenue continue to encourage an open dialog with all stakeholders and we hope that you will consider developing alternatives to address the lack of retirement security for employees covered by this plan.

# Attachment B

Coventry Town Council  
Coventry School Committee  
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Please contact Susanne Greschner at 574-9910 or [susanne.greschner@dor.ri.gov](mailto:susanne.greschner@dor.ri.gov) to discuss a mutually agreeable date with the Commission.

Best regards,

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

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Richard Licht  
Director of Administration, State of RI

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Jean Bouchard  
Municipal Vice President, AFSCME,  
Council 94

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

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Paul Doughty  
International Association of Firefighters,  
Providence

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Joseph M. Polisena  
Mayor, City of Johnston

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Allan Fung  
Mayor, City of Cranston

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Gina Raimondo  
General Treasurer, State of RI

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Dennis Hoyle  
Auditor General, State of RI

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Steven St. Pierre  
Sergeant, Bristol Police Department

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Bruce R. Keiser  
Town Administrator, Jamestown

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John Simmons  
Representative from the RI Public Expenditure  
Council

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

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Angel Taveras  
Mayor, City of Providence

# Attachment B

Coventry Town Council  
Coventry School Committee  
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cc: Mr. Gary Moore  
Mr. Thomas Hoover  
Mr. Theodore Przybyla  
Mr. Michael Almeida  
Ms. Robin Pelletier  
Ms. Susanne Greschner

DRAFT