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PRIVATE AND CONFIDENTIAL

April 8, 2010

Honorable Steven M. Costantino
Chair, House Finance Committee
RI House of Representatives
306 State House
Providence, RI 02903

Re: Cost Analysis of Proposed Change to COLA for Current Non-grandfathered Members – Limit COLA to First $35,000 of the Annual Retirement Benefit (Indexed)

Dear Mr. Costantino:

As you requested, and as authorized by the Retirement Board of the Employees' Retirement System of Rhode Island (ERSRI), enclosed are the results of a cost analysis of the additional proposed change to future cost of living increases (COLAs) for current non-grandfathered members of ERSRI. The analysis on this proposed change supplements the previous analysis performed and communicated to you in our letter provided on March 25, 2010. Please note this latest requested iteration closely resembles Scenario #7 from our March 25th analysis.

The enclosed exhibits provide the expected change in liability, normal cost, and contribution rate as a result of changing the way the COLA is determined. This analysis was performed on ERSRI only, which covers State Employees and Teachers.

Analysis

The results of our analyses are shown in the enclosed exhibits. The first exhibit provides the cost impact for the State Employees (Exhibit S); the second presents the same information for the Teachers (Exhibit T). We examined the impact to the plan's cost as a result from the following two changes in administering the COLA:

1. Limiting the COLA to the first $35,000 of annual retirement income. This means that, if the retiree's pension benefit is greater than $2,917/month, the annual COLA increase would be based on the first $2,917 and any monthly benefit amount in excess of $2,917 would not receive an increase. Additionally, it was assumed the limit itself would be annually indexed to increase in the same manner as COLAs are calculated for Schedule B members (CPI for the year, not greater than 3.0%).

2. In addition to limiting the dollar amount of the COLA as described above, the commencement date of the COLA is changed from the third anniversary of retirement to the later of the member's third anniversary of retirement and the month following their 65th birthday.

This study also assumes the proposed plan change would only apply to non-grandfathered members of ERSRI, which are all members who were not currently disabled or eligible to retire as of the date of passage of the new law.

For purposes of this analysis we have modeled the proposed change as though the contribution rate for FY 2010 would be adjusted to reflect the proposal. We do not expect there to be a material difference in the future cost savings from those shown if the actual effective date of the change does not become effective until 2011. However, the contribution rates may differ if there is a change in the membership group impacted by the proposal. Readers should also keep in mind that any savings for Teachers is shared between the State (40%) and the municipal employers (60%).

Data and Assumptions

To prepare this analysis, we used member and financial data supplied by ERSRI as of June 30, 2008. The data for State Employees was then further adjusted to reflect the known "Article 4" retirements that had occurred as of September 30, 2008.

Our analysis also assumes that none of the State Employee positions vacated due to the Article 4 retirements will be filled. To the extent that some of these positions are filled, the contribution as a percentage of payroll will remain relatively unchanged; however, we would expect the dollar amount of the contribution to be slightly larger (i.e. a slightly larger than expected payroll).

Other General Comments

This letter is intended to describe the financial and actuarial effect of the proposed plan change on State Employees and Teacher members of ERSRI only.

It is imperative to note that since there is a two-year lag between the actuarial valuation and the date the contributions set by the valuation become effective, and the actuarial valuation utilizes an asset smoothing method, the contribution rates shown herein do not reflect the investment losses that have occurred since June 30, 2008. Therefore, contribution rates for FY 2012 and later will almost certainly increase from current levels as these investment losses are realized.

Our calculations are based upon assumptions regarding future events, which may or may not materialize. Please bear in mind that actual results could deviate significantly from our projections, depending on actual plan experience.

Since we are not attorneys, we cannot provide legal advice and/or opinion. Therefore, nothing in this letter should be construed as providing legal or tax advice. It may be prudent to consult with the ERSRI plan counsel regarding this proposed change before enactment. Finally, no statement in this letter is intended to be interpreted as a recommendation in favor of the change studied herein or in opposition to it.

We certify that the undersigned are members of the American Academy of Actuaries and that we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. If you have any questions, or require any additional or clarifying information, please do not hesitate to contact either one of the undersigned.

Respectfully submitted,
Gabriel, Roeder, Smith & Company

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Enclosures

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Exhibit S

Employees' Retirement System of Rhode Island – State Employees
Alternative with a $35,000 COLA Eligible Dollar Limit (Indexed)

		Current Plan	Proposed Alternative
		3rd Anniversary	Later of 3rd Anniversary or Age 65
		Compounded COLA	Compounded COLA
		No Limit	Limit to first $35,000
1.a.	Contribution rate for FY 2010	21.64%	20.78%
1.b.	Change		**-0.86%**
2.a.	Projected FY 2010 payroll	$ 590.5	$ 590.5
2.b.	Projected contribution	127.8	122.7
2.c.	Change		**(5.1)**
3.a.	Normal cost percentage	9.62%	9.26%
3.b.	Change		-0.36%
4.a.	Unfunded actuarial accrued liability	$ 1,671.5	$ 1,631.1
4.b.	Change		(40.4)
5.	Funded ratio	61.8%	62.3%

Above $ amounts are in millions

Exhibit T

Employees' Retirement System of Rhode Island – Teachers
Alternative with a $35,000 COLA Eligible Dollar Limit (Indexed)

		Current Plan	Proposed Alternative
		3rd Anniversary	Later of 3rd Anniversary or Age 65
		Compounded COLA	Compounded COLA
		No Limit	Limit to first $35,000
1.a.	Contribution rate for FY 2010	20.07%	19.01%
1.b.	Change		**-1.06%**
2.a.	Projected FY 2010 payroll	$ 1,027.8	$ 1,027.8
2.b.	Projected contribution	206.3	195.4
2.c.	Change		**(10.9)**
3.a.	Normal cost percentage	10.53%	10.00%
3.b.	Change		-0.53%
4.a.	Unfunded actuarial accrued liability	$ 2,660.5	$ 2,587.0
4.b.	Change		(73.5)
5.	Funded ratio	60.3%	61.0%

Above $ amounts are in millions