

## **RIPTA - JOINT PENSION BOARD MEETING**

**3:00 pm Wednesday, November 16, 2016  
705 Elmwood Avenue, Providence**

### **AGENDA**

1. JPB Action: Approval of Meeting Minutes October 19, 2016
2. JPB Action: Approval of the JPB meeting schedule for 2017
3. Convene as Pension Benefit Sub-Committee  
  
Consideration of Benefits' Requests – Local 618/618A/808
  - JPB Action: Edward Siravo, Bus Operator - Active Employee  
Age 56 Request for Disability Pension effective 11/1/2016
  - JPB Action: Nicholas Minutelli, Van Operator - Active Employee  
Age 76 Request for Late Pension effective 11/1/2016
  - JPB Action: Charlene Hanson, Bus Operator - Active Employee  
Age 62 Request for Regular Pension effective 12/1/2016
  - JPB Action: Sheryl Cripps, Principal Data Analyst - Active Employee  
Age 62 Request for Regular Pension effective 1/1/2017
4. Pension Plan Asset Allocation discussion by Portfolio Evaluations, Angell Pension Group and Prudential.
5. Adjournment

This agenda was posted on November 14, 2016

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**Rhode Island Public Transit Authority  
Joint Pension Board  
Minutes of the November 16, 2016 Meeting**

**Joint Pension Board Members Present:** Maureen Martin, Karen DiLauro, Thomas Cute, Kevin Cole, Dave Garzone, and Christian Capizzo

**Absent Members:** Kathy Nadeau

**Also Present:** Paul DiIorio, Chris Durand, Edward Landsman, Malkia Brown Cyndi Mason  
Recording Secretary

**Agenda Item 1: Approval of October 19, 2016 Meeting Minutes**

Mr. Cute made a motion to approve the October 19, 2016 Minutes. Mr. Garzone seconds, and passes unanimously.

**Agenda Item 2: Approval of the JPB meeting schedule for 2017**

Ms. Martin made a motion to approve the 2017 JPB meeting schedule. Mr. Cute seconds, and passes unanimously.

**Agenda Item 3: Convene as Pension Benefit Sub-Committee**

Ms. Ruzzano presents the following pension requests for JPB Action:

Edward Siravo – presentation of a disability pension request for an employee who was hired on October 31, 1998, for a total monthly pension benefit of \$1,202.52 effective as of November 1, 2016. Mr. Cute moves that the pension be approved as presented, Mr. Cole seconds and it passes unanimously

Nicholas Minutelli – presentation of a late pension request for an employee who was hired on May 6, 2002, for a total monthly pension benefit of \$1,128.65 effective as of November 1, 2016. Mr. Cute moves that the pension be approved as presented, Mr. Cole seconds and it passes unanimously.

Charlene Hanson – presentation of a regular pension request for an employee who was hired on August 7, 1995, for a total monthly pension benefit of \$1,955.29 effective as of December 1, 2016. Mr. Cute moves that the pension be approved as presented, Mr. Garzone seconds and it passes unanimously.

Sheryl Cripps – presentation of a regular pension request for an employee who was hired on April 9, 2001, for a total monthly pension benefit of \$1,815.55 effective as of January 1, 2017. Mr. Garzone moves that the pension be approved as presented, Mr. Cute seconds and it passes unanimously.

#### **Agenda Item 4: Pension Plan Asset Allocation Discussion**

Presented by Portfolio Evaluations, Prudential and Angell Pension Group

Mr. Paul DiIorio teleconferenced Mr. Jeff Liter of Angell Pension, and Mr. Lazaro Guzman from Prudential. Mr. Albert Krayter, Director of Defined Benefit Department of Angell Pension Group was added.

Mr. Edward Landsman, Senior Consultant of Portfolio Evaluations continues the discussion from previous JPB meeting on October 19, 2016 about the Plan Asset Allocation. Mr. Landsman reviewed different Asset Allocation Models; Expected Rate of Return, Contribution Analysis, Portfolio Stress-Testing. Also reviewed: Investment Strategy and Asset Allocation, which is the second of three key phases of the pension plan management process. Mr. Landsman had previously discussed the first process Plan Status in the previous two board meetings on October 19, 2016 and September 8, 2016. The last phase will be Implementation and Investment policy guidelines. If the board decides to change the Asset Allocation, Prudential will need to change the Investment mix of the Portfolio, and fortify it into the investment plans.

Mr. Lazaro Guzman discusses Asset Allocation Scenario. One-year horizon, which is a recap the first portfolio is current portfolio 47% equity, 3% REITS, 50% fixed that has an expected return of 6.48%. Alt 1 portfolio has about a 5% increase to 50% equity, 5% RIETS, and 45% fixed that has an expected return of 6.66%. Alt number 2 return portfolio has 5% increase to 55% equity, 5% RIETS, and 40% fixed that has an expected return of 6.92%. Key point is: If you move from left to right you'll see that the equity exposure increases and the expected return goes up 6.48% to 6.66% to 6.92%. In the portfolios for the three, five, and ten-year horizon, the projections show the long-term expected return should stay the same.

Mr. Edward Landsman continues the discussion: the reality that boards are facing in market returns- historically you could expect maybe 8 to 8.5% from the markets. Now the expectations are much lower, so you're looking at returns of 6 or even closer to 6.5 to 7%. But if you go in a little more aggressive, as Lazaro had mentioned in the plan, it does have very long-term time frame. So that additional risk that you would be taking is moderated by the long-term. Next phase of the discussion is to really look at the projection that Angell Pension has constructed. What you will see in the projection is that there are exactly two phases: Projections and Stress Testing. If you look at the expected return in a more aggressive portfolio from 60 to 40. You're looking for a return of 6.92. This is just what the best guess is. Not implying the plan will earn that number, because this is simply a best guess, according to the analysis. This is very similar to what's been modeled by Angell Pension. The expectations that are modeled are that the portfolio will earn 7.5%, which we had discussed at the last meeting. This is probably on the higher side of expectations. Angell Pension modeled out a couple of different returns: they modeled out the 7.5 that is in all of our documents, the 7% which ties into the 60/40 model, and the 6.5% outcome which ties in very nicely to the current outcome of 50/50.

Mr. Jeff Liter presents five different scenarios, each with a 10-year projection. We're assuming the liability from the plans are discounted from their future payment dates until today, using a 7.5% interest rate- most recently used for 2016 evaluation and for the past several years as well. The only thing changing in the different scenarios is the rate of return on assets. If it's determined that the plan cannot support the 7.5% rate of return, we would probably adjust the assumptions on determining the liabilities as well. We have been using 7.5% but if it's believed the plan is not going to be able to return 7.5% we would probably change that long-term assumption for discounting liabilities as well. That change has not been reflected in these projections. Scenario 1 Projections shows a somewhat stable population, assuming the plan continues to cover roughly the same amount of people it currently covers. Scenario 2 Projections, with a 7.0% expected return, show the contributions begin to creep up by the end of the projection. There was additional cost in the amount \$500 to \$600 for the hourly group and \$100,000 for the salary group. A lesser asset return was being reflected and higher contributions. The funding method being used would pressure the plan to put in more money, to make up for the loss occurring every year. In Scenario 3 at 6.5% the loss doubled in the hourly and salary groups. If we don't believe we would be able to achieve the 7.5% return, it would be necessary to look carefully at reducing the discounted rate for liabilities. If this is the case, we should run the projections again with a lower discounted rate on liabilities. Scenario 4 shows an expected return of 7.5%, but in 2016 the expected return decreases by 23.7%. Projections for 2017 are immediately impacted and go up from Scenario 1. This causes a loss. Even in 2018, the following year, we would still be making up for the loss. In Scenario 4 there is no stability, because of the loss.

Mr. Edward Landsman discusses Scenario 5. The loss in Scenario 5 represents the great recession, which doesn't show a rebound. This would be a very negative market event that Angell Pension has modeled out.

Mr. Jeff Liter said Scenario 5 shows an expected return of 7.5%, but in 2016 the expected return decreases by 1.2%. In 2017 the expected return is negative 4.8%, and in 2018 it's negative 8.4%. These losses will have a prolonged downturn. We are using 7.5% interest rates right now, which we call discount rates for discounting liabilities. We might be pressed soon for projected rate of return, by the auditors looking at the report. The auditors are going to look at the 6.5% rate and ask why we're still using 7.5% and request that we reduce it to 6.5% for discount liabilities. Unless something changes with the Asset Allocation that would increase the projected rate of return.

Mr. Edward Landsman asks: If the 6.5% is based on 50/50 current structure of the Portfolio, is that corrected?

Mr. Jeff Liter- Yes, that 6.5% was based on basically 47% equity 50% fixed and 3% REITS.

Mr. Landsman- If we go to a 60/40 structure where the return is closer to a 6.9%, would a 7.5% expected discount rate for liability be reasonable? Or would you suggest those numbers be tied closely together, so even if we go to a 60/40 we consider bringing the discount rate to a 7% number?

Mr. Liter- I really think they should be closer together. We should base the discount rate on the same allocation.

Ms. Karen DiLauro- Would that affect us retroactively? Would we have to increase contributions again? Or only start for fiscal year 2017?

Mr. Liter- In my belief, it would start in fiscal year 2017.

Ms. Maureen Martin thanks Mr. Lazaro Guzman and Mr. Jeff Liter, then asks if there's any more questions from the board.

Ms. Karen DiLauro- At some point we would need to take a vote. Would you want to schedule that for the next meeting?

Ms. Maureen Martin- Should there be anyone else that we should speak to before that?

Ms. Karen DiLauro- I think we covered the bases with having Prudential, Edward Landsman from Portfolio Evaluation, and Angell Pension. Unless you want the auditors to come in. I think it's more of an accounting question.

Ms. Maureen Martin- So maybe we can put it on the agenda for the next meeting.

**Agenda Item 5:      Adjournment**

Ms. DiLauro makes a motion to adjourn the meeting, Mr. Cote seconds and it passes unanimously.

Respectfully submitted,

Cyndi Mason  
Recording Secretary