CITY OF PROVIDENCE, RHODE ISLAND • MAYOR DAVID N. CICILLINE

Anna M. Stetson
City Clerk

Clerk of Council

DEPARTMENT OF CITY CLERK
CITY HALL

Deborah L. Santos- Hudson
First Deputy

Lori L. Hagen
Second Deputy

June 14, 2007

Council President Peter S. Mancini and
Honorable Members of The City Council
City Hall
25 Dorrance Street
Providence, Rhode Island 02903

Dear Council President:

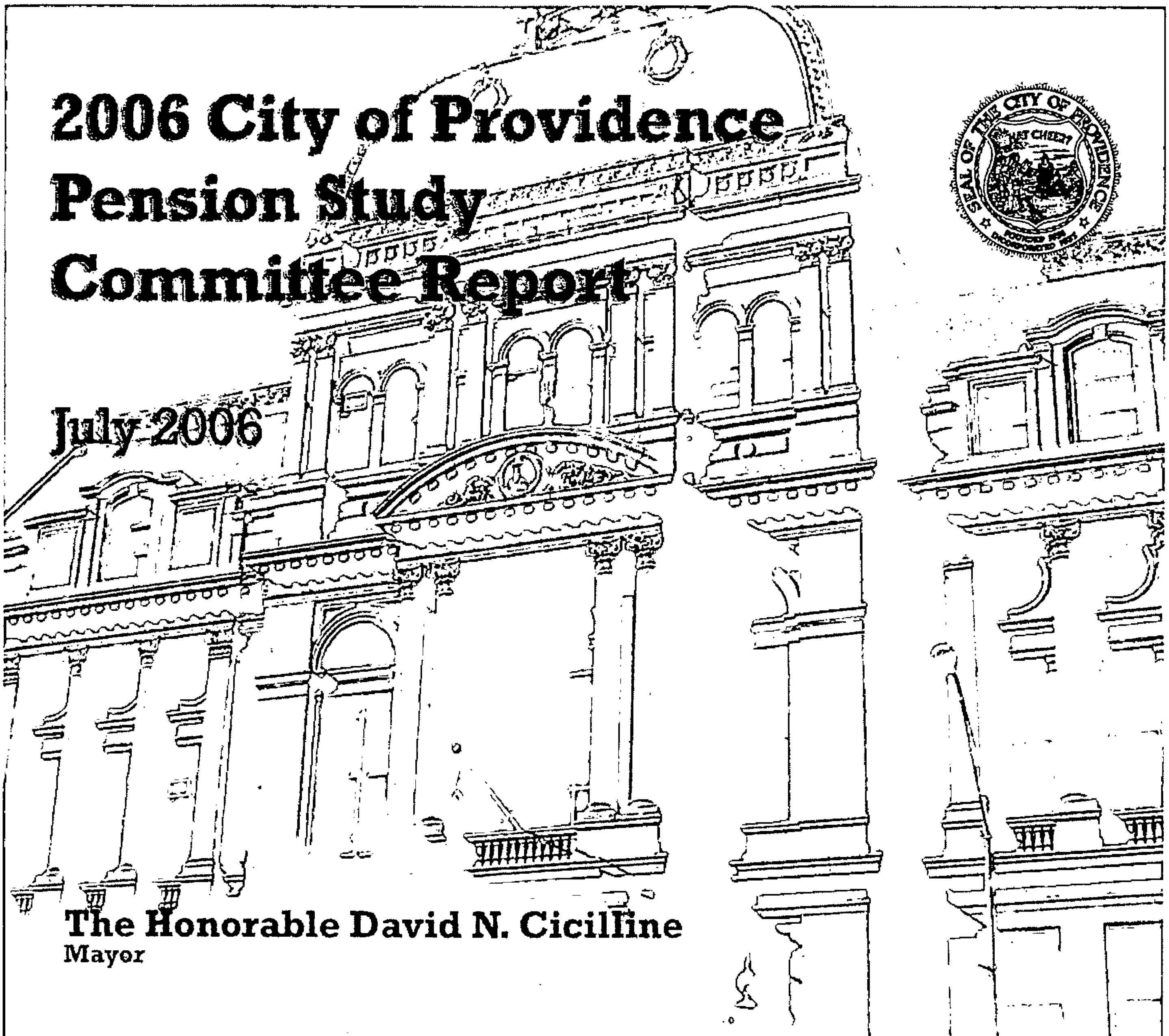
Please find attached a copy of the 2006 City of Providence Pension Study Committee Report for your information.

If you have any questions, please feel free to contact me.

Very truly yours,

Anna M. Stetson

IN CITY COUNCIL
JUN 21 2007
READ
WHEREUPON IT IS ORDERED THAT
THE SAME BE RECEIVED.
CLERK



2006 City of Providence Pension Study Committee Report

July 2006

The Honorable David N. Cicilline
Mayor

Respectfully Submitted

Allan Edwards
Chairman

Sybil Bailey
Norman Benoit
The Honorable Patrick Butler
Wallace R. Demary, Jr.
Paul Doughty
Mark Dunham
William Foulkes
Donald Iannazzi, Esq.
The Honorable John Igliozzi
James J. Lombardi, III
JoAnne Micheletti
Robert Paniccia
Alex Prignano
John Simmons
The Honorable Rita Williams

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Allan Edwards
Committee Chair
Business/Public Representative

William Foulkes
Business/Public Representative

Norman Benoit
Business/Public Representative

Wallace R. Demary, Jr.
Business/Public Representative

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Union Representative
Business Manager
Public Service Employees, Local 1033

Robert Paniccia
Union Representative
President
Fraternal Order of Police

JoAnne Micheletti
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President
Providence School Dept. Clerical Union, Local 1339

Paul Doughty
Union Representative
President
Providence Firefighters Union, Local 799

The Honorable Patrick Butler
City Council Representative
Ward 5
Providence City Council

The Honorable John Igliozzi
City Council Representative
Ward 7
Providence City Council

The Honorable Rita Williams
City Council Representative
Ward 2
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James J. Lombardi III
Internal Auditor Representative
Internal Auditor
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John Simmons
Administration Representative
Chief of Administration
Office of Mayor

Alex Prignano
Administration Representative
Director of Finance
Department of Finance

Sybil Bailey
Administration Representative
Director of Human Resources
Department of Human Resources

Mark Dunham
Administration Representative
Chief Financial Officer
Providence School Department

II. Introduction

History

The retirement system was established by P.L. 1923 Ch. 489 entitled "An Act to Provide for the Retirement of Employees of the City of Providence ("the Retirement Act"). The system provides for benefits, contributions and regulations regarding pension benefits to the police officers, firefighters and employees of the city. Also, the Retirement Act created the retirement board which granted powers and privileges of a corporation. The retirement system was an independent entity under the board's management.

In 1980, the City of Providence adopted the Home Rule Charter which designated the retirement board as a board of the city. Section 908 of the Home Rule Charter states the following:

The powers and duties of the retirement board shall be, without limitation, the following:

1) To establish rules and regulations for and be responsible for the administration and operation of the city employee retirement systems under its jurisdiction;
2) To report annually in detail to the city council...

Overview

Mayor David N. Cicilline initiated the Pension Study Committee in 2004 to conduct a thorough review of the city's public pension plan. The intent was to take a comprehensive look at the funding and benefit structure and provide recommendations to maintain an equitable pension plan ensuring the long term viability of the city's pension system. The Mayor believed strongly that the team include representation from the administration and constituents of the system. As such, the invitations to participate were sent to the City's businesses, unions, elected representatives, and officials. Representation was established through the appointment of 5 business/public representatives, 3 members of the Providence City Council, the Internal Auditor, 4 union representatives, and 4 representatives of the Administration. ***(See Supplement #1, Pages 20 to 22)***

The members of the Pension Study Committee wish to extend their appreciation to the Retirement Board members who participated in the review and creation of this report.

Mission

The mission of the Pension Study Committee is to review the present pension system, and to determine how it can be improved and to analyze the benefit structure, funding requirements, administration and other aspects which affect the soundness of the pension plan.

Objectives

In order to achieve the mission of the Pension Study Committee, specific objectives were established to ensure that a comprehensive review was completed. Additionally the Committee required the services of an actuarial consulting firm to provide expertise in all phases of the review. The Pension Study Committee enlisted the services of Buck Consultants, an ACS Company. Implementing the information collected by Buck Consultants the Committee has developed a number of recommendations to improve the present pension system.

Recommendations

The recommendations contained in this report were supported by a majority of the Pension Study Committee members. The Committee recognizes that there existed some opposition by various committee members, however, after much consideration and deliberation these are the recommendations that have been approved for submission to Mayor David N. Cicilline.

III. Pension History

December 6, 1989

- City's Retirement Board approved the following changes:
  1) Certain Cost of Living Adjustments to existing pensions.
  2) Increases in minimum monthly pensions.
  3) Retroactive contributions by the City to the Retirement Fund of the difference between 8% and the percentage of contributions made by certain employees.
  4) Lowered the minimum service requirement from 25 to 20 years.
- City's Actuary estimated the cost of these changes would be in excess of $20 million annually.
- Between 1989 and 1991, City challenged the Retirement Board actions and litigation was filed.
- City lost in RI Superior Court as the Court upheld that the Retirement Board had the authority to make changes to the benefit plan.
- City challenged the Superior Court decision with the RI Supreme Court.

December 18, 1991

- Before RI Supreme Court decision was rendered, the City entered into a Consent Decree to settle litigation. Settlement provided for the following:
  1) Minimum pensions of $500 per month effective January 1992 and increasing to $600 per month effective January 1993 for those with 25 years of service.
  2) Police and fire pensioners received an annual cost of living adjustment of 5% compounded in January 1992 and 6% compounded in January 1994.
  3) All other retirees received a 3% COLA effective January 1992.

July 1993

- After more than a year of compliance with the consent decree, the City Council passed a resolution that instructed the City Solicitor to seek judicial aid to relieve the City from its obligations to continue to fund COLA's and to make COLA payments mandated by the consent decree.

January 1994

- City Council adopted two Ordinances regarding pension benefits:
  1) Purported to terminate the effectiveness of the actions taken by the Retirement Board at its December 6, 1989 meeting.
  2) Restored the minimum base amounts ordered under the Consent Decree to certain classes of retirees.

August 1995

- The City Council adopted an Ordinance, which reduced COLA's for public safety employees to 3% simple.

December 1995

- RI Supreme Court handed down an opinion which stated the Consent Decree was final and binding and remanded the case to the RI Superior Court for further proceedings on matters to still be litigated.
- City filed a request to reargue the case before the RI Supreme Court but was denied.

February 1996

- RI Superior Court also ruled the Consent Decree is binding.
- City Council amended pension benefits on public safety employees to 3% simple on the first $12,000 and that 3% simple COLA becomes effective on the January following the third anniversary of his/her retirement.

March 1996

- City was adjudged in contempt for failure to comply with Consent Decree.

April 1996

- City agreed to abide by the Consent Decree in order to purge itself from contempt.

April 2000

- Supreme Court rendered two opinions:
  1) The Court did not dismiss the validity of the Consent Decree due to lack of consent by the City Council.
  2) However, the Court did rule that only those retirees who retired before December 18, 1991 were entitled to those benefits contained in the Consent Decree, and 19 employees who retired effective that date and no others.
- Actuary estimated the April 3, 2000 decision to cost approximately $16 million annually and the City established a multi-year plan to fully fund the actuarial annual recommended amount which was expected to be completed in four to five years.

July 2002

- New contract with police provided a 3% compounded COLA to those who retired after December 18, 1991. The firefighters failed to ratify a contract, which would have included the same provision.
- The City has extended its plan to fully fund the system at 100% of the actuaries' annual recommendations to fiscal 2007, in large part due to lack of increased state aid, as well as the police contract benefit enrichment.

April 2005

- An arbitration panel awarded members of the Fire Department who retired between July 1, 1992 and June 30, 1993 should receive a 3% compounded annual increase.

March 2006

- An arbitration panel awarded members of the Fire Department who retired between July 1, 2001 and June 30, 2004 receive a 3% compounded annual increase.

2006

- Superior Court decision concluded that members of the Fire Department who retired between July 1, 1992 and June 30, 1995 should be awarded a 5% compounded annual increase.
- Said decision was stayed pending a decision on the City's appeal to the Rhode Island Supreme Court.

IV. Current Benefits

Vesting

- Vesting in the Plan occurs after 10 years of service.

Purchasing

- Time –
  - Military Time – purchase minimum one year to a maximum four years at 10% of first years salary, no interest.
  - Continuation of Service – 8% first year's salary with 8% compounded interest.
  - Break in Service – Contributions plus 8% compounded interest.

- Loans –
  - Loan cannot exceed 50% of member's contribution plus interest and must be an amount that can be repaid over a period not to exceed ten years.
  - Minimum amount of repayment is 5% of compensation.
  - No loan application will be processed for less than $1,000
  - The interest rate will be the Pension rate set by the City's actuaries plus 1% (to cover the cost of the program). Effective July 1, 2006, the rate is 9.5%
  - The purpose of the loan can only be Medical expenses, Dental expenses, Hospital expenses, Funeral expenses, Real Estate purchases, Home Improvements, or Educational expenses. The purpose must be acknowledged before a notary.

Eligibility

- Class A Members are eligible to retire at age 55 or 25 years of service.
- Class B Members (police and fire) are eligible to retire at age 55 or 20 years of service.

Contributions

- Class A Members contribute 8% of their salaries.
- Class B Members (police) contribute 8% of their salaries.
- Class B Members (fire) contribute 9.5% of their salaries.
- The City makes the balance of contributions needed to fund the system.

Allowances

- Class A and Class B Members will receive a service retirement allowance equal to two and a half percent of their final compensation multiplied by the first 20 years of total service. (Class A Members hired on or after July 1, 1996, will receive a service retirement allowance equal to 2% of their final compensation.)
- For service after the first 20 years, 2% of your final compensation is multiplied by the number of excess years (for example, if you are an eligible employee of the Plan for 30 years, 10 years will be multiplied by 2% of your final compensation). Class B Members are limited to a total of 32 ½ years of service.

- For members whose credited service at retirement is more than 25 years, the minimum monthly retirement allowance is $600.00. For members whose credited service is less than 25 years, the minimum monthly retirement allowance is a prorated $600.00.

Special Retirement Options

- At retirement a member may select to convert his/her allowance into a benefit of equivalent actuarial value as detailed below:
  - Option 1 – A reduced retirement allowance payable during the retired member's life, with a provision that in case of death before such payments have equaled the present value of his/her retirement allowance at the date of retirement, the balance is paid to the heirs.
  - Option 2 – A reduced retirement allowance payable during the retired member's life, with a provision that after death it shall be continued during the life of and paid to the person nominated by written designation at the time of retirement.
  - Option 3 – A reduced retirement allowance payable during the retired member's life, with a provision that after death an allowance at ½ the rate of the reduced allowance shall be continued during the life of and paid to the person nominated by written designation at the time of retirement.
  - Option 4 – A single sum payment equal to what a member contributes with interest resulting in a reduced benefit for as long as the member lives. For Class B there is some other benefit paid after death. This option is not available to police who retire on accidental disability.
- Class B members may not elect options 2 or 3 and married Class B members may not elect option 1.
- Any member who has attained the minimum retirement age may elect option 2, 3, or 4, a reduced retirement allowance with benefits paid to a person having an insurable interest in the member's life, other than the spouse. This benefit is determined as of the member's death or retirement in accordance with the option selected and is in lieu of the return of the member's accumulated contributions if death occurs during the member's continued service after attaining minimum retirement age.

Cost of Living Adjustments

- For Class A, 3% compounded for members who retired prior to December 18, 1991.
- For Police, 5% compounded for members who retired prior to January 1, 1990; 6% compounded for members who retired between January 1, 1990 and December 18, 1991; and 3% compounded for other members.
- The initial COLA payment is deferred until the January after three years after the member's retirement date.
- Class B Members who retired before January 1, 1990 received an annual adjustment of 5% compounded. Members who retired between January 1, 1990 and December 18, 1991 received a 6% compounded annual increase while Members who retired

after December 18, 1991 and before July 1, 1992 for Members of the Fire Department and January 1, 1993 for members of the Police Department received a 5% compounded annual increase. Members of the Police Department who retired after December 31, 1992 received a 3% compounded annual increase while all other retired Class B members will receive an annual increase of 3% on the first $12,000 of their annual benefit.

- Members of the Fire Department who retired between July 1, 1992 and June 30, 1995 have been awarded a 5% compounded annual increase by a Superior Court Judge; this award is stayed pending a decision on the City's appeal to the Rhode Island Supreme Court. Members of the Fire Department who retired between July 1, 1992 and June 30, 1993 receive a 3% compounded annual increase based on an award by an interest arbitration panel dated April 2005. Members of the Fire Department who retired between July, 1, 2001 and June 30, 2004 receive a 3% compounded annual increase based on an award by an interest arbitration panel dated March 2006

V. City of Providence Pension Study Committee Recommendations

Recommendation #1

The Committee proposes that provisions establishing timelines for disability applications be created.

- Upon review of the current retirement process the Committee found that there is no formalized process with timelines as to the disability application process. An applicant only has to appear in the Retirement office and fill out the application form in order to apply for a disability (ordinary or accidental). There have been instances where no showing or basis of a disability was established yet the individual filed the application and remained out of work, collecting IOD, and delayed returning to work.

- In light of the present circumstances the Committee recommends that the applicant provide documentation verifying who they are (i.e. birth certificate) as well as a statement from a physician stating that the applicant is physically or mentally incapacitated for the performance of duty and he or she shall be retired. Additionally, if applying for an accidental disability, the applicant must also provide the accident or incident report. Such requirements will place the burden on the applicant to provide a completed application. Failure to follow all requirements will result in the application being returned and the denial of disability benefits. This recommendation will significantly reduce the number of individuals who apply in order to delay their return to work or who apply merely to be covered under the 18-month rule.

- Finally, the Committee recommends establishing timelines as to the disability application process. Presently there are no such timelines to move an application along once the application has been filed. After conducting research the Committee found instances where applications remained dormant for years after being filed. Timelines would move the application through the process in a timely manner and would prevent delays by the applicant and Board. The Committee found that the only area in the process that has not been addressed is the period after the completed application has been submitted. Accordingly, the Committee recommends that once an application has been submitted, the Retirement office must schedule physician appointments and await receipt of said reports. The Committee does understand the difficulties in establishing timelines in this area due to the availability or lack of physicians and the physician's failure to return the medical reports in a timely manner. ***(See Supplement #2, Pages 23 to 25)***

- Under this Recommendation, applicants will have sixty (60) days from the date of application in which to file with the Board a complete application. If after thirty (30) days, the Board has not received a completed application, the Board shall send by registered mail a notice to the member indicating:

- The outstanding documentation needed in order to complete the application;
    - That after thirty (30) additional days an incomplete application will be returned; and
    - That the Board shall not consider the member's request for a disability benefit after thirty (30) additional days.

- Any member unable to submit a complete application within the sixty (60) day period may request additional time to complete an application and said request shall be granted provided there is good cause for the request and the timeframe is reasonable.

Recommendation #2

The Committee Proposes that the Retirement Ordinance should be amended to allow the Retirement Board to use the report of the physician who was engaged by the department to conduct an independent medical examination of the applicant while the applicant was out injured. This change will expedite the process and reduce the cost of additional physical examinations. Said recommendation would apply to both accidental and ordinary disability applicants.

- Pursuant to the Retirement Ordinance an applicant for a disability (ordinary or accidental) must be examined by 3 physicians who make a determination as to the permanent nature of the disability. The Committee found that there have been instances where an applicant was seen by 3 physicians prior to applying for the disability: his/her own physician, the Department's physician and then a neutral physician pursuant to the requirements of Police/Fire CBA's or Workers' Compensation Court. The Board believes implementing this recommendation would reduce the cost and increase the speed of the application process.

- This recommendation would allow the Retirement Board to use the independent medical examination in making its determination as to the permanent nature of the disability. The Retirement Board would then only send the applicant to two other physicians. This recommendation would reduce the cost of the physician examinations since such examinations cost anywhere from $500.00 to $1,000.00, depending on the specialty and availability.

Recommendation #3

The Committee proposes that the Retirement Ordinance should be amended to allow for reduced disability pension payments based upon outside earned income. The individual's total earnings including both the disability benefit and the personal earnings cannot exceed 125% of the earnable compensation presently paid to the individual who currently holds the position from which the individual retired. The amount shall be reduced to an amount less that what the accrued service benefit would have been provided the individual qualified for a service pension.

- Currently, once an individual is granted a disability benefit, the individual is able to seek other gainful employment provided that the employment is not the same type of work that they received a disability from. This proposed change provides financial restrictions on what one may earn each year in addition to their disability benefit.

- Should the beneficiary be engaged in a gainful occupation or should the beneficiary be offered service as a result of placing of his or her name on a list of candidates, the retirement board should adjust, and from time to time readjust, the amount of his or her disability allowance to an amount which, when added to the amount of compensation then earned by the beneficiary, would not exceed the rate of 125% of earnable compensation currently in force for the classification that the disability annuitant held prior to retirement.

- Furthermore, the Committee recommends that once each year the Director of Personnel may, and upon application by a disability pensioner shall, require said pensioner to undergo a medical examination. Said examination must occur at the place of residence of the pensioner or other place mutually agreed upon, by a physician or physicians engaged by the Director of Personnel. Should any such pensioner refuse to submit to such examination, his pension may be discontinued until his withdrawal of such refusal, and should his refusal continue for a year, the retirement board may revoke all his rights in and to such pension. If said examination indicates that the disability of the pensioner has been removed and said pensioner has attained the age of service retirement said pension will be converted to the normal retirement benefit as if he or she had not been disabled. If the examination indicates that the disability of the pensioner has been removed and said pensioner is under the age of service retirement, his name shall be placed on such appropriate lists of candidates as are prepared for appointment to a position in his department for which he is stated to be qualified in a salary grade comparable to that from which he was last retired. Upon reinstatement to active service at the salary grade comparable to that from which he was last retired, he shall be reinstated as a member and participate in the benefits of the retirement system with credit for service rendered prior to disability retirement and for the period during which he received the disability retirement allowance, provided that he did not refuse to accept such reinstatement when it was first offered to him; in the event of such refusal, the pension shall be discontinued and any rights to further benefits under the retirement system shall be based solely on his service rendered prior to his disability.

- The Committee recommends a change in the Retirement ordinance to address retirees who have attained the age of retirement and after re-examination it is shown they are no longer disabled. The Committee advises that the retirees' pension be converted to the normal retirement benefits as if he or she had not been disabled.

- Furthermore, the current ordinance provides for yearly re-examination of retirees with disability benefits, however, upon investigation of this issue it was revealed that such examinations are rarely conducted. In the few instances where a retiree was re-examined, it was due to a complaint asserting that an individual was no longer disabled. Under the Committees recommendation, all retirees receiving a disability benefit will have to certify yearly that they are still disabled. All retirees receiving a disability benefit will be mailed forms which require that a physician certify that the retiree is still disabled. The State retirement system uses this process for re-certification. ***(See Supplement #3, Pages 26 to 28)***

<u>Recommendation #4</u>

In conjunction with recommendation #3, an additional provision should be made to the Retirement Ordinance that would provide a mechanism for individuals who fail to provide required statements of income.

- The Committee recommends creating a mechanism for individuals who fail to provide or deliberately falsify the required statements of income. The State Retirement System sends out documents in February and the adjustments are made when the forms are returned (the adjustment is modified and pro-rated for the remaining months).
- Disabled pensioners must submit to the Retirement Board once each year an authenticated copy or duplicate original of the member's completed United States income tax return, being a statement of income from gainful occupation for the preceding twelve (12) months. Individuals who fail to provide required statements of income will have their disability pension discontinued after a hearing.

<u>Recommendation #5</u>

The Retirement Ordinance should be amended to allow for the creation of a Defined Contribution Plan consistent with Internal Revenue Service rules and regulations for all new employees.

- The Committee has determined that a defined contribution plan allows an employee to choose his or her own investments. Furthermore, a defined contribution plan only promises that contributions will be made each year. The investment return on the account balance, the number of years of contributions, and the age at retirement determine how large the account balance is for retirement purposes. There is no guarantee that the account balance will provide a specific monthly income after retirement. It is up to the individual participant to invest and withdraw to meet retirement needs.

Recommendation #6

The Retirement Ordinance should be amended to implement early retirement reduction factors.

Schedule B Provisions – This provision would only affect members with less than five years of service on the effective date.

- Retirement Eligibility – Schedule B members may retire at age 65 with a minimum of 10 contributing years of retirement service credit, or at 30 years of retirement service credits for Class A or 20 years of retirement services for Class B.

- Benefit Formula – For service prior to the effective date, the current plan accruals will apply:

  - Members receive a percent of final average salary for each year of service after the effective date, as follows:

Service Years *	% of Salary
1-10	1.7
11-20	1.9
21-30	2.1
31 and higher	2.3

* Years of service prior to the effective date count in determining which rate applies.

- The maximum annual benefit is 75% of final average salary.

- Reduced Benefit Eligibility –

Class A members:
Reduction is .5% per month for ages 60 through 65. Prior to age 60, the reduction is an additional .25% per month for each month the participant retires before age 60.

Class B members:
Reduction is .5% per month for ages 55 through 60. Prior to age 55, the reduction is an additional .25% per month for each month the participant retires before age 60.

Actuarial Early Retirement Factors

Age	Age Factor	Age	Age Factor
64	94%	59	67%
63	88%	58	64%
62	82%	57	61%
61	76%	56	58%
60	70%	55	55%

- Members subject to Schedule B will have the option of remaining in the defined benefit plan described above or electing to transfer their employee contributions under the defined benefit plan to the new defined contribution plan and continuing coverage under that plan. ***(See Supplement #4, Pages 33 to 38)***

Recommendation #7

The Retirement Ordinance should be amended to provide for the elimination of Option 4 as it pertains to Accidental Disability Pensions.

- The Committee recommends that any member who retires pursuant to section 17-189(5) Accidental Disability Retirement, in light of said member's receipt of an unreduced pension in the amount of Sixty-six and two-thirds (66 2/3%) of retirement pay, said member shall not be entitled to his/her accumulated pension contributions in any form, including but not limited to a lump sum or an actuarially calculated annuity.

- The Committee notes that currently only members of the Fire Department who receive an accidental disability pension can select Option 4 without a reduction to their monthly benefit. Option 4 allows a singe sum payment equal to the individual's contribution with interest with a monthly benefit for life. The Committee strongly supports this recommendation.

Recommendation #8

The Committee recommends an additional provision should be made to the Retirement Ordinance that would codify the current policy as it is now that employees must be employed for at least 10 years in order to qualify for Post-retirement Health Care Coverage.

- It is the Committee's recommendation that all permanent employees must be actually employed by the City of Providence for at least ten (10) years and receiving retirement benefits under the City of Providence Retirement System prior to qualifying for Retiree Medical Care Coverage. Notwithstanding, permanent employees who receive an accidental disability retirement shall qualify for Retiree Medical Care Coverage.

Recommendation #9

The Committee recommends the issuing of Pension Obligation Bonds (POB's) relative to the City's pension debt.

- Assuming the adoption and implementation of Recommendation #5 the Pension Study Committee recommends that the pension obligation bonds can be viewed as a means of replacing one liability with another. The estimated unfounded liability of the pension system at the time of issuance is replaced or reduced by the debt service payable on the bonds. This method of financing has been viewed as a way of reducing overall cost to the taxpayers by taking advantage of the difference between the rates at which the issuer sells the taxable debt and the long term investment return on the proceeds received. The success of POB's lies in both the execution of the debt transaction and continued diligence on the investment of the assets. Therefore, it is critical that the City act prudently in executing such a long term financing plan. ***(See Supplement #4, Page 40 & Supplement #5, Page 41)***

VI. **Conclusion**

- Based upon research conducted by the actuarial consulting firm the Pension Study Committee has determined that implementation of the aforementioned recommendations will potentially result in multi-million dollar savings. ***(See Supplement #4, Pages 29 to 40)*** Please see below for the estimated dollar savings that have been configured by Buck Consultants.

Summary of Savings

- **Recommendation #1** – The estimated savings that would result from the implementation of Recommendation #1 is indeterminable. Administrative time and cost savings are expected to be realized as parties are forced to be more efficient.

- **Recommendation #2** – The estimated savings that would result from the implementation of Recommendation #2 is indeterminable. Administrative time and cost savings are expected to be realized as the need for physician reports is reduced. Savings will be based on the frequency of applications for accidental disability.

- **Recommendations #3 & #4** – The estimated savings that would result from the implementation of Recommendations #3 & #4 is $375,000.00 in the first year, increasing with pay inflation.

- **Recommendations #5 & #6** – The estimated savings that would result from the implementation of Recommendations #5 & #6 is approximately $500,000.00 for the first year and increasing as follows:
  - Year 5 = $700,000.00
  - Year 10 = $1,500,000.00
  - Year 15 = $2,900,000.00
  - Year 20 = $5,100,000.00
  - Year 25 = $7,700,000.00

- **Recommendation #7** – The estimated savings that would result from the implementation of Recommendation #7 is indeterminable. Some savings will be realized due to reductions in anti-selection.

- **Recommendation #8** – No savings will be realized from the implementation of this recommendation.

- **Recommendation #9** – The estimated savings that would result from the implementation of Recommendation #9 is $7,900,000.00 for the first year.

SUPPLEMENT #1

Mayor of Providence

David N. Cicilline

EXECUTIVE ORDER NUMBER 2004-04
APRIL 29, 2004

ESTABLISHING THE PENSION STUDY COMMITTEE

WHEREAS, the City of Providence seeks to analyze and review its pension system, to consider the benefits, liabilities, and the factors which affect the system as a whole; and

WHEREAS, to address this goal, this Executive Order establishes the Pension Study Committee, whose membership shall be representative of the City's businesses, unions, elected representatives, and officials; and

WHEREAS, the Pension Study Committee shall consist of five (5) business/public representatives; three (3) members of the Providence City Council; the Internal Auditor; four (4) union representatives; and four (4) representatives of the Administration; and

City of Providence, Rhode Island 02903
Phone (401) 421-7740 Fax (401) 274-8240

WHEREAS, the mission of the Pension Study Committee is to review the present pension system, and to determine how it can be improved; and

WHEREAS, the Pension Study Committee shall analyze the benefit structure, funding requirements, administration and other aspects which affect the soundness of the plan; and

WHEREAS, the Pension Study Committee shall offer recommendations to the Mayor and City Council by December 31, 2004.

NOW, THEREFORE, do I, David N. Cicilline, Mayor of the City of Providence, order the following, effective immediately:

1. That there is hereby established a Pension Study Committee, whose Chairperson shall be appointed by the Mayor and serve at his pleasure. The Mayor shall make the appointments of the Administration officials, union leaders, and businesses and citizens of the City as he determines are essential to the operation of the Committee, and requests that the Providence City Council name its appointees.

David N. Cicilline
Mayor, City of Providence

Dated: 4/29/04

SUPPLEMENT #2

EMPLOYEE RETIREMENT SYSTEM OF THE
CITY OF PROVIDENCE

Date: ______________________________

Dear Disability Pensioner:

We recently sent you a form titled "Continuing Statement of Disability for Calendar Year 2005," which was to be completed and returned to this office with a medical report within 30 days.

We have not received your completed form. Thus, we have enclosed another copy in the event that you did not receive the first.

Please complete the form, include a copy of your medical report, and return both to this office:

Employee Retirement System of the City of Providence
Attention: Edward J. Lynch, Jr.
25 Dorrance Street
Providence, RI 02903

If these items are not received in this office within 30 days, a disruption of your scheduled disability payments may occur.

If you have any questions or have already sent your forms in, please contact me at (401) 421-7740, Ext. 299.

Thank you.

Edward J. Lynch, Jr.
Pension Administrator

EMPLOYEE RETIREMENT SYSTEM OF THE

CITY OF PROVIDENCE

Date: ____________________________

Dear Disability Pensioner:

We have received your Continuing Statement of Disability for the calendar year 2005. However, the information checked below was not provided.

☐ Current medical report from your doctor

☐ Copy of Federal income tax return

☐ Copy of W-2 form

☐ Other ____

Please send this information to the address below within 30 days.

Employee Retirement System of the City of Providence
Attention: Edward J. Lynch, Jr.
25 Dorrance Street
Providence, RI 02903

If you have any questions, please contact me at (401) 421-7740, Ext. 299.

Thank you.

Edward J. Lynch, Jr.
Pension Administrator

SUPPLEMENT #3

Employee Retirement System of the City of Providence

CONTINUING STATEMENT OF DISABILITY
CALENDAR YEAR 2006
DISABILITY PENSIONER INFORMATION

Name	Social Security Number
Street Address	Telephone Number
City, State, Zip Code	
Last Position Held Before Retirement	Pre-Retirement Employer

MEDICAL INFORMATION TO BE COMPLETED BY THE DISABILITY PENSIONER
PLEASE ANSWER ALL STATEMENTS COMPLETELY

If there is any statement that does not apply to your situation, enter "Not Applicable." Return the completed form, With A Current Medical Report From Your Doctor Within 30 Days to the Employee Retirement System of the City of Providence, 25 Dorrance Street, Providence, Rhode Island 02903

1. List medical Condition(s) For Which You Are Receiving Disability Benefits

____

____

2. Have You Been Examined by a Doctor in the Past Year? If Yes Complete the Following And Attach Medical Report. ☐ Yes ☐ No

Name of Doctor ______________________ **Date of Examination** ____________

Explain Present Medical Condition:

____

____

25 Dorrance Street, Providence, Rhode Island 02903 (401) 421-7740 Ext. 299
Fax (401) 453-6175

EMPLOYMENT INFORMATION

TO BE COMPLETED BY THE DISABILITY PENSIONER. PLEASE ANSWER ALL STATENEBTS COMPLETELY

Each year, as a disability pensioner, you are required by law to report any outside earnings to the Employee Retirement System of the City of Providence. Please do so in the space provided, and have this form notarized before turning it to the Employee Retirement of the City of Providence.

Have you worked in the Past Year? ☐ **Yes** ☐ **No**
If yes, Complete the Following.

Employer	**Your Job Title**
Employer Address	**Gross Earnings For Calendar Year**

If Self-Employed, You Must Attach A Copy of Your Federal Income Tax Return. If Employed by Others, Attach A Copy of Your Internal Revenue Service W-2 Form.

Are You Collecting Workers Compensation?	☐ **Yes**	☐ **No**
If Yes, Have You Received An Increase This Year?	☐ **Yes**	☐ **No**

MEMBER'S SIGNATURE AND NOTARIZATION

I, the undersigned, certify under penalty of law that the information provided herein is true and correct to the best of my knowledge. I certify that I am still disabled and eligible to continue collecting a disability pension from the Employee Retirement System of the City of Providence.

Signature: ______________________________ **Date:** ____________

State of ______________________ **County of** ______________________

On the __________ **day of** ________________, **2006, appeared before me the aforementioned applicant, to me personally known and known to be the individual described in and who executed the foregoing instrument, and he (or she) duly acknowledges to me that he (or she) executed the same and that the statements contained herein were true to the best of his (or her) knowledge or belief.**

My Commission expires: ______________________________

Notary Public: ______________________________

3/9/06

SUPPLEMENT #4

City of Providence

Benefit Structure Subcommittee
of the Pension Study Committee

Savings Analysis

July 25, 2006

buckconsultants
an ACS company

Executive Summary

The Benefit Structure Subcommittee to the Pension Study Committee prepared a list of 9 recommended changes to the benefits programs provided to the employees of the City of Providence. Our estimated dollar savings to the City of the recommendations is as follows:

	Description	Estimated Savings
1	Establishment of Timelines for Disability Applications	Indeterminable – Administrative time and cost savings are expected to be realized as parties are forced to be more efficient
2	Retirement Board would be permitted to use the Board's Physician for the Independent Medical Examination for Accidental Disability applications	Indeterminable – Administrative time and cost savings are expected to be realized as the need for physician reports is reduced. Savings will be based on the frequency of applications for accidental disability.
3 & 4	Reduction of the disability pension due to outside income	$375,000 in first year, increasing with pay inflation
5 & 6	New employees will no longer be permitted to join the current pension system and shall participate in a new defined contribution plan. Employees with less than 5 years of service will participate in a different defined benefit plan, or be given the choice of joining the new defined contribution plan.	First year savings of about $500,000, increasing as follows: Year 5: $ 700,000 Year 10: $ 1,500,000 Year 15: $ 2,900,000 Year 20: $ 5,100,000 Year 25: $ 7,700,000
7	Elimination of Option 4 for Accidental Disability pensions	Indeterminable – Some savings will be realized due to reductions in anti-selection.
8	Codify existing policy requiring 10 years of service to qualify for post retirement healthcare benefits	None
9	Issue Pension Obligation Bonds	First year savings of $7.9 million

Recommendation #1

Savings:

The annual cost savings for these changes cannot be determined at this time. In theory, some savings should be realized as the application process is streamlined, reducing administrative time and tasks.

Recommendation #2

Savings:

Implementing this recommendation should reduce the cost and increase the speed of the application process. The annual savings in dollars and time cannot be estimated at this time. The savings will be a function of the number of applications per year.

Recommendations #3 & #4

Savings:

Based on public retirement systems with similar provisions, we have estimated the savings as follows:

Liability	Current Plan	Proposed	Difference
Active Actuarial Accrued Liability for Disabilities	$24,504,047	$22,543,723	$1,960,324
Normal Cost for Disabilities	$ 2,579,036	$ 2,372,713	$ 206,323
Reduction in Annual Appropriation			
Amortization Cost			$135,000
Normal Cost w/Interest Adjustment			240,000
FYE 2007 Appropriation			$375,000

The savings represent a 0.72% reduction in the FYE07 appropriation.

Recommendations #5 and #6

Savings:
The savings analysis of recommendations #5 and #6 are combined because of the necessity of forecasting the City's cost into the future based on the combined affects. Recommendation #5 will generate greater savings into the future as new employees replace departing employees. No new participants into the current plan means that the rate of increase in future appropriations will be decreasing. For purposes of the analysis we assumed that the contribution would be 5% of the participant's pay.

Recommendation #6 gives employees with less than 5 years of service a choice on between the new defined contribution plan and Schedule B of the current plan. Due to this choice we calculated the savings on three basis:

Scenario 1: All elect to stay in the defined benefit plan **Scenario 2:** All elect to go to the defined contribution plan **Scenario 3:** All those over the age of 40 elect to stay in the defined benefit plan and all less than age 40 go into the defined contribution plan.

Since the last actuarial valuation is as of July 1, 2005, we assumed that this would be the date of enactment for purposes of the analysis. Key statistics for those employees with less than 5 years of service as of July 1, 2005 are as follows:

SUMMARY OF POST 7/1/2000 EMPLOYEES:
Including the Over and Under 40 Years Old Split

Less Than 5 Years of Service (ALL)	Class A	Fire	Police	Total
Number Active	514	120	75	709
Total Salary	$18,324,996	$5,526,781	$3,472,836	$27,324,613
Active Average Age	41.54	32.16	33.57	39.11
Average Service	2.79	1.86	3.84	2.74
Accumulated Employee Contributions	$3,799,470	$855,276	$1,219,360	$5,874,106

Less Than 5 Years of Service and OVER 40	Class A	Fire	Police	Total
Number Active	276	13	12	301
Total Salary	$10,377,288	$689,946	$554,187	$11,621,421
Active Average Age	49.81	43.16	43.49	49.27
Average Service	2.78	1.91	4.03	2.79
Accumulated Employee Contributions	$2,292,584	$124,727	$208,059	$2,625,370

Less Than 5 Years of Service and UNDER 40	Class A	Fire	Police	Total
Number Active	238	107	63	408
Total Salary	$7,947,708	$4,836,835	$2,918,649	$15,703,192
Active Average Age	31.95	30.82	31.68	31.61
Average Service	2.80	1.85	3.80	2.71
Accumulated Employee Contributions	$1,506,886	$730,549	$1,011,301	$3,248,736

City of Providence

SUPPLEMENTAL TABLES

Early Retirement Factors

Age	Subsidized ERFs Class A	Subsidized ERFs Class B
65	100.0%	100.0%
64	94.0%	100.0%
63	88.0%	100.0%
62	82.0%	100.0%
61	76.0%	100.0%
60	70.0%	100.0%
59	67.0%	94.0%
58	64.0%	88.0%
57	61.0%	82.0%
56	58.0%	76.0%
55	55.0%	70.0%
54	52.0%	67.0%
53	49.0%	64.0%
52	46.0%	61.0%
51	43.0%	58.0%
50	40.0%	55.0%
49	37.0%	52.0%
48	34.0%	49.0%
47	31.0%	46.0%
46	28.0%	43.0%
45	25.0%	40.0%
44	22.0%	37.0%
43	19.0%	34.0%
42	16.0%	31.0%
41	13.0%	28.0%
40	10.0%	25.0%

Service Accruals

	Current Plan				Alternative
Years of Service	Class A - Pre 1996	Class A- Post 1996	Police - Pre 2000	Police - Post 2000 and Fire	All Classes
0	0.0%	0.0%	0.0%	0.0%	0.0%
1	2.5%	2.0%	2.5%	2.5%	1.7%
2	5.0%	4.0%	5.0%	5.0%	3.4%
3	7.5%	6.0%	7.5%	7.5%	5.1%
4	10.0%	8.0%	10.0%	10.0%	6.8%
5	12.5%	10.0%	12.5%	12.5%	8.5%
6	15.0%	12.0%	15.0%	15.0%	10.2%
7	17.5%	14.0%	17.5%	17.5%	11.9%
8	20.0%	16.0%	20.0%	20.0%	13.6%
9	22.5%	18.0%	22.5%	22.5%	15.3%
10	25.0%	20.0%	25.0%	25.0%	17.0%
11	27.5%	22.0%	27.5%	27.5%	18.9%
12	30.0%	24.0%	30.0%	30.0%	20.8%
13	32.5%	26.0%	32.5%	32.5%	22.7%
14	35.0%	28.0%	35.0%	35.0%	24.6%
15	37.5%	30.0%	37.5%	37.5%	26.5%
16	40.0%	32.0%	40.0%	40.0%	28.4%
17	42.5%	34.0%	42.5%	42.5%	30.3%
18	45.0%	36.0%	45.0%	45.0%	32.2%
19	47.5%	38.0%	47.5%	47.5%	34.1%
20	50.0%	40.0%	50.0%	50.0%	36.0%
21	52.0%	42.0%	52.0%	52.0%	38.1%
22	54.0%	44.0%	54.0%	54.0%	40.2%
23	56.0%	46.0%	56.0%	56.0%	42.3%
24	58.0%	48.0%	58.0%	58.0%	44.4%
25	60.0%	50.0%	65.0%	60.0%	46.5%
26	62.0%	52.0%	62.0%	62.0%	48.6%
27	64.0%	54.0%	64.0%	64.0%	50.7%
28	66.0%	56.0%	66.0%	66.0%	52.8%
29	68.0%	58.0%	68.0%	68.0%	54.9%
30	70.0%	60.0%	75.0%	70.0%	57.0%
31	72.0%	62.0%	72.0%	72.0%	59.3%
32	74.0%	64.0%	80.0%	75.0%	61.6%
33	76.0%	66.0%	80.0%	75.0%	63.9%
34	78.0%	68.0%	80.0%	75.0%	66.2%
35	80.0%	70.0%	80.0%	75.0%	68.5%
36	82.0%	72.0%	80.0%	75.0%	70.8%
37	84.0%	74.0%	80.0%	75.0%	73.1%
38	86.0%	76.0%	80.0%	75.0%	75.0%
39	88.0%	78.0%	80.0%	75.0%	75.0%
40	90.0%	80.0%	80.0%	75.0%	75.0%
41	92.0%	82.0%	80.0%	75.0%	75.0%
42	94.0%	84.0%	80.0%	75.0%	75.0%
43	96.0%	86.0%	80.0%	75.0%	75.0%
44	98.0%	88.0%	80.0%	75.0%	75.0%
45	100.0%	90.0%	80.0%	75.0%	75.0%
46	100.0%	92.0%	80.0%	75.0%	75.0%
47	100.0%	94.0%	80.0%	75.0%	75.0%
48	100.0%	96.0%	80.0%	75.0%	75.0%
49	100.0%	98.0%	80.0%	75.0%	75.0%
50	100.0%	100.0%	80.0%	75.0%	75.0%

Recommendations #5 and #6, continued

SUMMARY OF SCENARIOS:
Dollar and Percentage Savings

Fiscal Year Ending	Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
6/30/2007	$ 600,000	$ 600,000	$ 500,000	1.19%	1.19%	0.99%
6/30/2008	500,000	600,000	400,000	0.94%	1.13%	0.75%
6/30/2009	600,000	600,000	500,000	1.08%	1.08%	0.90%
6/30/2010	600,000	700,000	500,000	1.03%	1.20%	0.86%
6/30/2011	800,000	800,000	700,000	1.31%	1.31%	1.14%
6/30/2012	900,000	900,000	800,000	1.40%	1.40%	1.25%
6/30/2013	1,000,000	1,100,000	900,000	1.48%	1.63%	1.34%
6/30/2014	1,100,000	1,300,000	1,100,000	1.56%	1.84%	1.56%
6/30/2015	1,300,000	1,500,000	1,300,000	1.75%	2.02%	1.75%
6/30/2016	1,500,000	1,700,000	1,500,000	1.93%	2.18%	1.93%
6/30/2017	1,600,000	1,900,000	1,700,000	1.96%	2.33%	2.08%
6/30/2018	1,900,000	2,200,000	2,000,000	2.21%	2.56%	2.33%
6/30/2019	2,100,000	2,400,000	2,200,000	2.33%	2.67%	2.44%
6/30/2020	2,400,000	2,800,000	2,600,000	2.54%	2.96%	2.75%
6/30/2021	2,800,000	3,200,000	2,900,000	2.82%	3.23%	2.92%
6/30/2022	3,200,000	3,600,000	3,400,000	3.07%	3.45%	3.26%
6/30/2023	3,500,000	3,900,000	3,700,000	3.20%	3.57%	3.39%
6/30/2024	4,000,000	4,400,000	4,200,000	3.48%	3.83%	3.66%
6/30/2025	4,400,000	4,900,000	4,600,000	3.65%	4.07%	3.82%
6/30/2026	4,800,000	5,300,000	5,100,000	3.79%	4.19%	4.03%
6/30/2027	5,300,000	5,800,000	5,600,000	3.99%	4.37%	4.22%
6/30/2028	5,800,000	6,300,000	6,100,000	4.16%	4.52%	4.38%
6/30/2029	6,300,000	6,800,000	6,700,000	4.30%	4.64%	4.58%
6/30/2030	6,800,000	7,400,000	7,200,000	4.42%	4.81%	4.68%
6/30/2031	7,300,000	7,800,000	7,700,000	4.53%	4.84%	4.77%
6/30/2032	7,900,000	8,200,000	8,200,000	27.82%	28.87%	28.87%
6/30/2033	8,500,000	8,700,000	8,700,000	28.52%	29.19%	29.19%
6/30/2034	9,100,000	9,300,000	9,300,000	29.07%	29.71%	29.71%
6/30/2035	9,600,000	9,800,000	9,800,000	29.27%	29.88%	29.88%

Recommendations #5 and #6, continued

* All elect to stay in the defined benefit plan *

SCENARIO 1

Fiscal Year Ending	Current Total Cost	Proposed Total Cost	Dollar Savings	Percentage Savings
6/30/2007	$ 50,600,000	$ 50,000,000	$ 600,000	1.19%
6/30/2008	53,000,000	52,500,000	500,000	0.94%
6/30/2009	55,600,000	55,000,000	600,000	1.08%
6/30/2010	58,300,000	57,700,000	600,000	1.03%
6/30/2011	61,200,000	60,400,000	800,000	1.31%
6/30/2012	64,200,000	63,300,000	900,000	1.40%
6/30/2013	67,400,000	66,400,000	1,000,000	1.48%
6/30/2014	70,700,000	69,600,000	1,100,000	1.56%
6/30/2015	74,200,000	72,900,000	1,300,000	1.75%
6/30/2016	77,900,000	76,400,000	1,500,000	1.93%
6/30/2017	81,700,000	80,100,000	1,600,000	1.96%
6/30/2018	85,800,000	83,900,000	1,900,000	2.21%
6/30/2019	90,000,000	87,900,000	2,100,000	2.33%
6/30/2020	94,500,000	92,100,000	2,400,000	2.54%
6/30/2021	99,200,000	96,400,000	2,800,000	2.82%
6/30/2022	104,200,000	101,000,000	3,200,000	3.07%
6/30/2023	109,300,000	105,800,000	3,500,000	3.20%
6/30/2024	114,800,000	110,800,000	4,000,000	3.48%
6/30/2025	120,500,000	116,100,000	4,400,000	3.65%
6/30/2026	126,500,000	121,700,000	4,800,000	3.79%
6/30/2027	132,800,000	127,500,000	5,300,000	3.99%
6/30/2028	139,400,000	133,600,000	5,800,000	4.16%
6/30/2029	146,400,000	140,100,000	6,300,000	4.30%
6/30/2030	153,700,000	146,900,000	6,800,000	4.42%
6/30/2031	161,300,000	154,000,000	7,300,000	4.53%
6/30/2032	28,400,000	20,500,000	7,900,000	27.82%
6/30/2033	29,800,000	21,300,000	8,500,000	28.52%
6/30/2034	31,300,000	22,200,000	9,100,000	29.07%
6/30/2035	32,800,000	23,200,000	9,600,000	29.27%

Recommendations #5 and #6, continued

*** All elect to go to the defined contribution plan ***
SCENARIO 2

Fiscal Year Ending	Current Total Cost	Proposed Total Cost	Dollar Savings	Percentage Savings
6/30/2007	$ 50,600,000	$ 50,000,000	$ 600,000	1.19%
6/30/2008	53,000,000	52,400,000	600,000	1.13%
6/30/2009	55,600,000	55,000,000	600,000	1.08%
6/30/2010	58,300,000	57,600,000	700,000	1.20%
6/30/2011	61,200,000	60,400,000	800,000	1.31%
6/30/2012	64,200,000	63,300,000	900,000	1.40%
6/30/2013	67,400,000	66,300,000	1,100,000	1.63%
6/30/2014	70,700,000	69,400,000	1,300,000	1.84%
6/30/2015	74,200,000	72,700,000	1,500,000	2.02%
6/30/2016	77,900,000	76,200,000	1,700,000	2.18%
6/30/2017	81,700,000	79,800,000	1,900,000	2.33%
6/30/2018	85,800,000	83,600,000	2,200,000	2.56%
6/30/2019	90,000,000	87,600,000	2,400,000	2.67%
6/30/2020	94,500,000	91,700,000	2,800,000	2.96%
6/30/2021	99,200,000	96,000,000	3,200,000	3.23%
6/30/2022	104,200,000	100,600,000	3,600,000	3.45%
6/30/2023	109,300,000	105,400,000	3,900,000	3.57%
6/30/2024	114,800,000	110,400,000	4,400,000	3.83%
6/30/2025	120,500,000	115,600,000	4,900,000	4.07%
6/30/2026	126,500,000	121,200,000	5,300,000	4.19%
6/30/2027	132,800,000	127,000,000	5,800,000	4.37%
6/30/2028	139,400,000	133,100,000	6,300,000	4.52%
6/30/2029	146,400,000	139,600,000	6,800,000	4.64%
6/30/2030	153,700,000	146,300,000	7,400,000	4.81%
6/30/2031	161,300,000	153,500,000	7,800,000	4.84%
6/30/2032	28,400,000	20,200,000	8,200,000	28.87%
6/30/2033	29,800,000	21,100,000	8,700,000	29.19%
6/30/2034	31,300,000	22,000,000	9,300,000	29.71%
6/30/2035	32,800,000	23,000,000	9,800,000	29.88%

Recommendations #5 and #6, continued

*** All those over the age of 40 elect to stay in the defined benefit plan and all less than age 40 go into the defined contribution plan ***

SCENARIO 3

Fiscal Year Ending	Current Total Cost	Proposed Total Cost	Dollar Savings	Percentage Savings
6/30/2007	$ 50,600,000	$ 50,100,000	$ 500,000	0.99%
6/30/2008	53,000,000	52,600,000	400,000	0.75%
6/30/2009	55,600,000	55,100,000	500,000	0.90%
6/30/2010	58,300,000	57,800,000	500,000	0.86%
6/30/2011	61,200,000	60,500,000	700,000	1.14%
6/30/2012	64,200,000	63,400,000	800,000	1.25%
6/30/2013	67,400,000	66,500,000	900,000	1.34%
6/30/2014	70,700,000	69,600,000	1,100,000	1.56%
6/30/2015	74,200,000	72,900,000	1,300,000	1.75%
6/30/2016	77,900,000	76,400,000	1,500,000	1.93%
6/30/2017	81,700,000	80,000,000	1,700,000	2.08%
6/30/2018	85,800,000	83,800,000	2,000,000	2.33%
6/30/2019	90,000,000	87,800,000	2,200,000	2.44%
6/30/2020	94,500,000	91,900,000	2,600,000	2.75%
6/30/2021	99,200,000	96,300,000	2,900,000	2.92%
6/30/2022	104,200,000	100,800,000	3,400,000	3.26%
6/30/2023	109,300,000	105,600,000	3,700,000	3.39%
6/30/2024	114,800,000	110,600,000	4,200,000	3.66%
6/30/2025	120,500,000	115,900,000	4,600,000	3.82%
6/30/2026	126,500,000	121,400,000	5,100,000	4.03%
6/30/2027	132,800,000	127,200,000	5,600,000	4.22%
6/30/2028	139,400,000	133,300,000	6,100,000	4.38%
6/30/2029	146,400,000	139,700,000	6,700,000	4.58%
6/30/2030	153,700,000	146,500,000	7,200,000	4.68%
6/30/2031	161,300,000	153,600,000	7,700,000	4.77%
6/30/2032	28,400,000	20,200,000	8,200,000	28.87%
6/30/2033	29,800,000	21,100,000	8,700,000	29.19%
6/30/2034	31,300,000	22,000,000	9,300,000	29.71%
6/30/2035	32,800,000	23,000,000	9,800,000	29.88%

Recommendation #7

Savings:

The savings from this recommendation cannot be determined at this time. However, we do expect that some savings will be realized due to the elimination of anti-selection to the plan.

Recommendation #8

Savings:

There would be no savings from this recommendation since the current policy requires 10 years of service. There may be savings in the future due the elimination of any ambiguity from the plan provisions.

Recommendation #9

Savings

As of July 1, 2005 the unfunded actuarial liability was about $615,000,000. At the current investment return assumption of 8.5%, interest on this liability is about $52.3 million dollars. If the City issued debt of $615,000,000 at 6% (with a 5% cost of issuance) and the assets earned 8.5% each year for the next 25 years, the expected savings would be as shown in the following table.

Recommendation #9, continued

Potential Savings from Pension Obligation Bonds

Fiscal Year Ending	Current Amortization	POB Payments	Difference	Present Value of Difference
6/30/2007	41,986,537	34,043,567	7,942,970	7,942,970
6/30/2008	44,061,234	35,745,745	8,315,489	7,664,045
6/30/2009	46,239,665	37,533,032	8,706,633	7,395,895
6/30/2010	48,527,018	39,409,684	9,117,334	7,138,035
6/30/2011	50,928,738	41,380,168	9,548,570	6,890,003
6/30/2012	53,450,545	43,449,176	10,001,369	6,651,364
6/30/2013	56,098,442	45,621,635	10,476,807	6,421,707
6/30/2014	58,878,734	47,902,717	10,976,017	6,200,641
6/30/2015	61,798,040	50,297,853	11,500,187	5,987,796
6/30/2016	64,863,312	52,812,745	12,050,567	5,782,822
6/30/2017	68,081,847	55,453,383	12,628,465	5,585,386
6/30/2018	71,461,309	58,226,052	13,235,257	5,395,172
6/30/2019	75,009,744	61,137,354	13,872,390	5,211,880
6/30/2020	78,735,601	64,194,222	14,541,379	5,035,226
6/30/2021	82,647,751	67,403,933	15,243,818	4,864,939
6/30/2022	86,755,508	70,774,130	15,981,379	4,700,761
6/30/2023	91,068,654	74,312,836	16,755,817	4,542,446
6/30/2024	95,597,456	78,028,478	17,568,978	4,389,762
6/30/2025	100,352,698	81,929,902	18,422,796	4,242,484
6/30/2026	105,345,703	86,026,397	19,319,306	4,100,403
6/30/2027	110,588,358	90,327,717	20,260,641	3,963,313
6/30/2028	116,093,145	94,844,103	21,249,043	3,831,024
6/30/2029	121,873,172	99,586,308	22,286,864	3,703,350
6/30/2030	127,942,201	104,565,624	23,376,577	3,580,115
6/30/2031	134,314,681	109,793,905	24,520,776	3,461,151
Totals	**1,992,700,095**	**1,624,800,667**	**367,899,428**	**134,682,691**

SUPPLEMENT #5

Draft of 4/4/05

05 –

STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2005

AN ACT

AUTHORIZING THE CITY OF PROVIDENCE TO FINANCE THE UNFUNDED PENSION LIABILITY OF THE CITY OF PROVIDENCE, BY THE ISSUANCE OF NOT MORE THAN $500,000,000 BONDS THEREFOR

05 –

__________ Introduced By:

Date Introduced:

Referred To:

It is enacted by the General Assembly as follows:

SECTION 1. The city of Providence is hereby empowered to issue at one time or from time to time, bonds to an amount not exceeding five hundred million dollars ($500,000,000) in order to finance all or part of its unfunded pension liability and the costs of issuing the bonds. The bonds of each issue may be issued in the form of serial bonds or term bonds or a combination thereof and shall be payable either by maturity of principal in the case of serial bonds or by mandatory serial redemption in the case of term bonds, in annual installments of principal, the first installment to be not later than eighteen (18) months and the last installment not later than forty (40) years after the date of their issuance. All such bonds of a particular issue may be issued in the form of zero coupon bonds, capital appreciation bonds, serial bonds or term bonds or a combination thereof. Annual installments of principal may be provided for by maturity of principal in the case of serial bonds or by mandatory serial redemption in the case of term bonds. The amount of principal appreciation each year on any bonds, after the date of original issuance, shall not be considered to be principal indebtedness for the purposes of any constitutional or statutory debt limit or any other limitation. The appreciation of principal after the date of original issue shall be considered interest. Only the original principal amount shall be counted in determining the principal amount so issued and any interest component shall be disregarded.

SECTION 2. The bonds shall be signed by the manual or facsimile signatures of the city treasurer and mayor and shall be issued and sold in such amounts as the city council may authorize by resolution. As a condition precedent to the issuance of bonds, the city shall retain the services of a financial advisor to assist in the structuring and sale of the bonds, and such financial advisor shall not underwrite the bonds or participate in any underwriting syndicate or selling group which purchases or sells the bonds. The manner of sale, denominations, maturities, interest rates and other terms, conditions and details of any bonds issued under this act may be fixed by proceedings of the city council authorizing the issue or by separate resolution of the city council or, to the extent provisions for these matters are not so made, they may be fixed by the officers authorized to sign the bonds. Interest coupons (if any) shall bear the manual or facsimile signature of the city treasurer. Bonds issued hereunder may bear interest at such rate or rates, including rates variable from time to time as determined by such index, banker's loan rate or other method of determination as the city treasurer and mayor shall select, and may be sold for such price, at a premium or at a discount, as the city treasurer and mayor may determine. In addition to any other security provided by law, bonds issued hereunder may, in the discretion of the city treasurer and mayor, and without any further action of the city council, be secured or supported, in whole or in part, by insurance or by lines or letters of credit or other credit or liquidity facilitates provided by any bank, trust company, insurance company or other financial institution. In addition, in connection with or subsequent to the issuance of bonds hereunder, the city treasurer and mayor may enter into such contracts as they may determine to be necessary or appropriate to place such bonds, in whole or in part, on such interest rate or cash flow basis as they may desire, including without limitation interest rate swap agreements, insurance agreements, forward payment conversion agreements, futures contracts, contracts providing for payments based on levels of, or changes in, interest rates or stock or other indices, contracts to exchange cash flows or a series of payments and contracts to hedge payment, rate, spread or similar exposure, including without limitation interest rate floors or caps, options, puts and calls. Such contracts shall contain such payment, security, default, remedy and other terms and conditions as the city treasurer and mayor may select, after giving due consideration, where applicable, for the creditworthiness of the counterparty or counterparties, including any rating by a nationally recognized rating agency or any other criteria as may be appropriate. The proceeds derived from the sale of the bonds shall be delivered to the city treasurer, and such proceeds, exclusive of premiums and accrued interest, shall be (a) deposited in the city's pension plan to finance the unfunded pension liability of the city and (b) expended for payment of costs in connection with the issuance of the bonds including capitalized interest, if any. No purchaser of any bonds under this act shall be in any way responsible for the proper application of the proceeds derived from the sale thereof. The proceeds of bonds issued under this act shall be deemed appropriated for the purposes of this act without further action than that required by this act. The bonds authorized by this act may be consolidated for the purposes of issuance and sale with any other bond issue of the city heretofore or hereafter authorized, provided that notwithstanding any such consolidation, the proceeds from the sale of the bonds authorized by this act shall be expended for the purposes set forth above.

SECTION 3. Proceeds of the pension obligation bonds may be used to capitalize interest expense on the pension obligation bonds in an aggregate amount not to exceed twelve (12) months of interest expense on the pension obligation bonds.

SECTION 4. Any proceeds of bonds issued hereunder shall be invested by the board of investment commissioners established by the city pursuant to the city charter in investments which are legal for investment by the state investment commission pursuant to Chapter 10 of Title 35 of the Rhode Island General Laws (the "State Investment Commission"). The board of investment commissioners shall develop an investment policy for investments in the pension plan with the assistance of a nationally recognized pension investment advisor. So long as any bonds issued pursuant to this act are outstanding, the city shall continue to retain a nationally recognized pension investment advisor who shall be approved by the State Investment Commission to advise the board regarding investment of the bond proceeds. The city and the State Investment Commission are each hereby authorized to enter into agreements with respect to the investment of any proceeds of bonds issued hereunder, with the resulting transactional cost savings passed on to the city, provided, however that if any bond proceeds are commingled with other funds for purposes of investment, that appropriate records shall be maintained of the investments or portions thereof held for the account of the city's pension plan for municipal employees.

SECTION 5. Any accrued interest received upon the sale of bonds hereunder shall be applied to the payment of the first interest due thereon. Any premium arising from the sale of bonds hereunder shall, in the discretion of the city treasurer, be applied to the cost of preparing, issuing and marketing bonds hereunder to the extent not otherwise provided, to the pension plan to finance the unfunded pension liability costs, to the payment of the principal of or interest on bonds issued hereunder or to any one (1) or more of the foregoing. The cost of preparing, issuing and marketing bonds hereunder may also, in the discretion of the city treasurer, be met from bond proceeds exclusive of premium and accrued interest or from other moneys available therefor. Proceeds shall not be used to reimburse the municipality for previous contributions to the system or any prior costs associated with the system. In exercising any discretion under this section, the city treasurer shall be governed by any instructions adopted by resolution of the city council.

SECTION 6. All bonds issued under this act and the debts evidenced thereby shall be obligatory on the city in the same manner and to the same extent as other debts lawfully contracted by it and shall be excepted from the operation of section 45-12-2 of the general laws and the provisions of the city charter. No such obligation shall at any time be included in the debt of the city for the purpose of ascertaining its borrowing capacity. The city shall annually appropriate a sum sufficient to pay the principal and interest coming due within the year on bonds issued hereunder to the extent that moneys therefor are not otherwise provided. If such sum is not appropriated, it shall nevertheless be added to the annual tax levy. In order to provide such sum in each year and notwithstanding any provision of law to the contrary, all taxable property in the city shall be subject to ad valorem taxation by the city without limitation as to rate or amount.

SECTION 7. Any bonds issued under the provisions of this act, and coupons, if any, if properly executed by officers of the city in office on the date of execution, shall be valid and binding according to their terms notwithstanding that before the delivery thereof and payment therefor any or all of such officers shall for any reason have ceased to hold office.

SECTION 8. The aggregate principal amount of the bonds issued by the city under this act shall not be greater than the amount sufficient to extinguish the unfunded pension liability and to pay the costs of issuance of the bonds. For purposes of this act, "unfunded pension liability" means the excess, if any, of the actuarial liability of the city's city-run pension plan for municipal employees over the actuarial value of the assets in that pension plan. The actuarial liability of the pension plan shall be determined using the individual entry age method, and the actuarial value of the assets in the plan shall be determined using a five-year smoothed market value. Prior to the issue of any bonds hereunder, the city council shall hold a public hearing on the proposed pension funding plan. The plan shall include a report showing the (a) actuarial valuation of the assets in the pension plan, (b) an actuarial analysis of the methods by which the city proposes to fund the unfunded pension liability, (c) the amount of the bonds to be issued, including the plan of finance for the bonds (d) an explanation of the city's investment strategic plan for the pension plan including, but not limited to, the investment policy adopted by the board of investment commissioners and an asset allocation plan, (e) the projected investment return for the pension plan, and (f) the projected present value savings to the city reasonably expected to be achieved as a result of the issuance of such bonds. The pension funding plan shall be filed with the public finance management board established pursuant to chapter 10.1 of title 42 of the Rhode Island General Laws (the "Public Finance Management Board"). The city council shall institute proceedings to determine that the issuance of the pension obligation bonds will result in a financial benefit to the city. The city shall submit to the Public Finance Management Board and to the State Auditor General, on or before December 1 in each year, an annual report showing the financial transactions of the pension plan for the fiscal year preceding that date. The annual report shall contain, among other things, a financial balance sheet as of the end of that year, a statement of income and expenditures, a valuation balance sheet as prepared by the city's independent consulting firm, a detailed statement of investments acquired and disposed of during the year, and any other statistical data that are deemed necessary for a proper interpretation of the condition of the pension plan and the results of its operations. The State Auditor General, on the request of the city or of the Public Finance Management Board, shall conduct a separate annual performance audit of the pension plan which shall include a report on the actuarial valuation of the assets and liabilities of the pension plan. The auditor general may examine all records, files and other documents relating to the pension plan, and evaluate all policies and procedures for purposes of conducting the audit. The aforementioned performance audit shall be in addition to the annual audit conducted by independent certified public accountants of the financial statements of the city. So long as any bonds issued by the city under this act are outstanding, the city shall not withdraw funds from the city-run pension plan for municipal employees for any purpose other than the payment of pension and death benefits, return of employee contributions in appropriate cases, and administrative expenses of operating the plan.

SECTION 9. Pending any authorization or issue of bonds hereunder, the city treasurer, with the approval of the city council given by a resolution passed and approved in the manner provided in the city charter, may, to the extent that bonds may be issued hereunder, apply funds in the treasury of the city to the purposes specified in section two, such advances to be repaid without interest from the proceeds of bonds subsequently issued or from the proceeds of applicable federal or state assistance or from other available funds.

SECTION 10. The city, acting by resolution of its city council, passed and approved in the manner provided in the city charter, is authorized to apply for, contract for and expend any federal or state advances or other grants of assistance which may be available for the purposes of this act, and any such expenditures may be in addition to the moneys provided in this act. To the extent of any inconsistency between any law of this state and any applicable federal law or regulation, the latter shall prevail. Federal and state advances, with interest where applicable, whether contracted for prior to or after the effective date of this act, may be repaid as project costs under section two of this act.

SECTION 11. Bonds may be issued under this act without obtaining approval of any governmental agency or the taking of any proceedings or the happening of any conditions except as specifically required by this act for such issue. In carrying out the financing under this act, all action shall be taken which is necessary to meet constitutional requirements whether or not such action is otherwise required by statute, but the validity of bonds issued hereunder shall in no way depend upon the validity or occurrence of such action.

SECTION 12. All or any portion of the authority to issue bonds under this act may be extinguished by ordinance of the city council, without further action by the general assembly, seven (7) years after the effective date of this act.

SECTION 13. The city treasurer and mayor, on behalf of the city, are hereby authorized to execute such instruments, documents or other papers as they deem necessary or desirable to carry out the intent of this act and are also authorized to take all actions and execute all documents or agreements necessary to comply with federal tax and securities laws, which documents or agreements may have a term coextensive with the maturity of the bonds authorized hereby, including Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") and to execute and deliver a continuing disclosure agreement or certificate in connection with the bonds in the form as shall be deemed advisable by such officers in order to comply with the Rule.

SECTION 14. The provisions of this act are severable, and if any of its provisions are held unconstitutional or invalid for any reason by any court of competent jurisdiction, the decision of the court shall not affect or impair any of the remaining provisions.

SECTION 15. This act shall take effect upon passage without voter approval notwithstanding Article 8, Section 7 of the Providence City Charter in conformity with the reserved powers of the General Assembly pursuant to Article XIII, Section 5 of the Constitution of the State of Rhode Island and Providence Plantations.

EXPLANATION

OF

AN ACT

AUTHORIZING THE CITY OF PROVIDENCE TO FINANCE THE UNFUNDED PENSION LIABILITY OF THE CITY OF PROVIDENCE, BY THE ISSUANCE OF NOT MORE THAN $500,000,000 BONDS THEREFOR

This act authorizes the city of Providence to finance the unfunded pension liability of the city of Providence, by the issuance of not more than $500,000,000 bonds therefor.

The act is effective upon passage, in conformity with the reserved powers of the General Assembly pursuant to Article XIII, Section 5 of the Constitution of the State of Rhode Island and Providence Plantations.

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