

# Compass

Newsletter of the Employees Retirement System of Rhode Island

## 2004 RETIREMENT BOARD Election Results

The retirement board election held in January, 2004 resulted in one new member elected to serve on the Board, and two incumbent retirement board members being re-elected.

The only change to the composition of the Board resulted from the election of Roger Boccanfuso, a lieutenant with the Department of Corrections, who won a state employee seat.

As mentioned previously in the election newsletter, there was no election for the two incumbent teacher representatives and the municipal representative since they were unopposed. Consequently, teacher representatives John P. Maguire and William B. Finelli and municipal representative Louis M. Prata will each serve another 4-year term. Incumbent state employee representative Linda C. Riendeau and retiree representative Michael R. Boyce were re-elected to serve 4-year terms.

The Retirement Board was sworn in at the March, 2004 meeting. Also during the meeting, William Finelli was re-elected as Vice Chairman of the Board.

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### Retirement Board of the Employees Retirement System of Rhode Island

**Paul J. Tavares**

*General Treasurer, Chairman*

**William B. Finelli**

*Vice Chairman, Teacher Representative*

**Senator Stephen D. Alves**

*Senate Finance Chair*

**Ponzi A. Angelone**

*C.L.U., Public Representative*

**Daniel L. Beardsley**

*R.I. League of Cities and Towns*

**Roger Boccanfuso**

*State Employee Representative*

**Rosemary Booth-Gallogly**

*Acting Assoc. Director, State Budget Officer*

**Michael R. Boyce**

*Retired Member Representative*

**Representative Steven M. Costantino**

*House Finance Chair*

**John P. Maguire**

*Teacher Representative*

**John A. Marginson**

*Public Representative*

**Michael F. O'Keefe**

*House Fiscal Advisor*

**Louis M. Prata**

*Municipal Representative*

**Linda C. Riendeau**

*State Employee Representative*

**Jerome F. Williams**

*Director of Administration, Designee*



## Investment Notes from GENERAL TREASURER

# Paul J. Tavares

## The Portfolio Investments for ERSRI 2003 Mark the Largest Gain Since 1985

In the spring 2002 issue, the security of retirement savings was the major topic of the Compass Newsletter. The attacks of September 11th, the economic recession and the difficulties high profile corporations were facing at that time, became grounds for a sense of insecurity felt throughout the country and by the members of the Employees Retirement System of Rhode Island (ERSRI).

Diversifying investments, avoiding knee-jerk reactions to short-term volatility in the market and the continuous monitoring of investments and portfolio managers, were the safeguards employed to ensure your pension would be available upon retiring.

Following these safeguards proved successful.

As the chair of the State Investment Commission (SIC), which oversees the ERSRI portfolio, I am happy to announce the investment portfolio for the ERSRI is up 27.6% for the calendar year ending December 31, 2003. This marks the largest gain in the portfolio since 1985, which saw a return of close to 30%.

The market value of the plan, as of December 31, 2003, stands at \$6.1 billion. The portfolio's gain compares very favorably with the policy index - or benchmark -, which rose 26.7%. This shows that our investment strategy, combined with prudent decision-making, is paying off.

The SIC hires professional investment managers who, in turn, invest the fund's portfolio according to targets based on asset liability models which reflect the demographics of the system's membership. In total there are 14 professional investment managers as well as three professional investment consultants. The SIC has ensured that we have a fully diversified portfolio and a long-term investment strategy.

The ERSRI portfolio is invested in stocks as well as bonds, internationally and domestically, and in a variety of industries - from high-growth fields to more mature companies that are traditionally less affected by stock market volatility. This allocation strategy is designed to help protect the entire portfolio from major declines, which might hit one industry more than others.

Even with last year's investment success the

ERSRI is still undergoing challenges and the debate that is surrounding all defined benefit pension plans, both public and private, throughout the nation. I have been serving on the Pension Review Committee created by the Governor since October 2003. The mission of this committee is to assess the status of the Employees and Teachers Retirement System and provide recommendations to ensure the long-term financial integrity of the system while providing an equitable retirement system for its members. Information concerning this important topic will be addressed in subsequent newsletters.

I would like to thank the SIC members for their diligence over the past few years. Their input, along with their decisions to restructure and diversify the portfolio, to implement a "Manager Continuation Policy" and to expand exposure to strategic asset classes in the capital markets have helped propel the portfolio to better than expected heights.

Sincerely,

Paul J. Tavares, General Treasurer

## Compass

PUBLISHED FOR THE ACTIVE AND RETIRED  
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# Option #1 and Option #2 "Pop Up" Changing Survivor Options

If you selected payment Option #1 or Option #2 at the time of retirement, you have the right to change your retirement option one time only to either Option #1, #2 or the SRA Maximum plan, provided that you and your beneficiary, if married at the time of your retirement, have not divorced.

If your Option #1 or Option #2 beneficiary is now deceased, you may be entitled to change your benefit to the Maximum plan, provided you have not previously changed your option. Changing from Option #1 or Option #2 to the Maximum plan will increase your monthly benefit, but will no longer provide a "survivor" benefit. Only the beneficiary you selected when you retired is entitled to collect under Option #1 or #2; should you remarry, your new spouse would not be entitled to the benefit.

Options will not be "automatically" changed by ERSRI upon death of a spouse; the retiree must submit a "Change of Option" form to this office in order to initiate the change. Also, any health care coverage for the spouse through ERSRI must be cancelled in writing by the retiree. Please call the ERSRI Forms Line at 401-222-2203 ext. 4 to obtain the appropriate forms for these changes.

## Quick Notes legislation 2004 legislation Legislative Update

The following is a listing of several retirement statutes that were amended as a result of the 2004 legislative session.

### **16-16-32, Teachers' Retirement, Refund on Retirement**

For teachers who retired prior to 7/9/04 and left their Teachers Survivors' Benefits (TSB) contributions in the system, this amendment affords a 120-day opportunity (up to November 6, 2004) to withdraw the contributions from the TSB plan. *(Notice of this refund opportunity was sent to all eligible teacher retirees. If you believe you are eligible but did not receive a notice, please contact the Retirement Office at (401) 222-2203.)*

### **16-16-26, Teachers' Retirement, Spouse's Benefits**

This statute was amended to provide increased benefits to recipients of the Teachers Survivors' Benefits (TSB) plan. Also amended were 16-16-35 and 16-16-37, concerning funding levels and actuarial review of the TSB plan.

### **36-10-36 Post Retirement Employment**

For retired members working at a state college, university or state school under the provisions of 36-10-36, the gross wage limit is now \$15,000 per calendar year.

### **45-21.2-22.1 Burrillville police-Optional Twenty-year retirement on service allowance**

This amendment allows Burrillville police to accumulate a retirement benefit up to 75% of salary, rather than 60% as previously limited. The statute also requires that these members contribute 10.2% of salary to the retirement system.

## WEB MANIA!

Have you visited [www.ersri.org](http://www.ersri.org) yet? ERSRI's website has lots of useful information, including all the forms you need for purchases, or changing your address, taxes or direct deposit accounts. Active members can create their own personal accounts, and view their information online. And coming soon, retirees will also be able to access their accounts online. *Keep watching for the announcement in an upcoming Compass!*

# Federal Limits on Benefits

Federal law imposes limits on the annual amount of retirement benefits that retirees may receive from qualified retirement plans. IRC Section 415(b) limits the annual benefit that can be accrued by or paid to a member to the lesser of (A) \$165,000 or (B) 100 per cent of the member's average compensation for his or her high three years of covered employment. ERSRI is prohibited from paying any benefit amounts in excess of these federally imposed limits.

The ceiling of \$165,000 (usually called the annual dollar limitation) is adjusted annually by the U.S. Secretary of the Treasury to take into account increases in the cost of living. For example, in 2000 the annual dollar limitation was \$ 90,000, in 2001 the ceiling was 140,000 and in 2002 the annual dollar limitation was \$160,000. Subsequent adjustments to the annual dollar limitation are to be indexed in annual \$5,000 increments.

In addition, the ceiling is indexed downward for members who retire prior to age 62.


What does this mean? If you start receiving your retirement benefits prior to age 62, your retirement benefit will be reduced to its actuarial present value as of the date of your retirement. Essentially, your benefit, prior to age 62 would be actuarially equivalent to the benefit you would have received had you retired at age 62. These benefit restrictions are applied on an annual basis (the "limitation year") as of the date you retire.

The calculation of benefits and the application of the limits specified in Section 415 are complicated and there are numerous factors that must be evaluated in order to determine if a member's annual retirement benefit will exceed the prescribed limits. Factors such as the member's age at retirement, length of service and amount of tax-paid contributions made to ERSRI are just a few of these.

If you are between the ages of 48 and 58, are highly compensated, have over 28 years of service AND are contemplating retiring in the near future, please contact ERSRI for information on how your retirement benefit may be impacted. ERSRI also urges you to consult your tax advisor who will be familiar with your own set of facts and circumstances as well as your retirement goals.

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