Date: June 29, 2017

To: The Honorable Nicholas A. Mattiello, Speaker of the House

CC: Sharon Reynolds Ferland, House Fiscal Advisor

From: Patrick Marr, Chief of Staff, Office of the General Treasurer

Re: Updated impact note for 2017 H5881

Pursuant to your request for an updated impact note on 2017 H-5881, our staff in consultation with the state's actuary have revised the analysis of this legislation based on your proposal to eliminate of the word "hypertension" from the legislation.

This proposed change to 2017 H-5881 would increase the municipal contributions to the MERS system by $1.3 million annually.

<table>
<thead>
<tr>
<th></th>
<th>Restated 6/30/2016 Valuation (7.0%)</th>
<th>Proposed Change</th>
<th>Increase/Decrease</th>
</tr>
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<tbody>
<tr>
<td>Normal Cost</td>
<td>20.42%</td>
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<td>1.70%</td>
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<tr>
<td>Unfunded actuarial accrued liability</td>
<td>$74 million</td>
<td>$78 million</td>
<td>$4 million</td>
</tr>
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<td>Funded ratio</td>
<td>78.7%</td>
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<td>Illustrated FY 2019 Annual Required Contribution</td>
<td></td>
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<tr>
<td>a. Percent of Payroll</td>
<td>19.75%</td>
<td>21.93%</td>
<td>2.18%</td>
</tr>
<tr>
<td>b. Projected payroll</td>
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<td>-</td>
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<td>c. Estimated dollar amount</td>
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It is also important to note that H-5881 creates additional expense to communities with independently managed pension plans outside of the MERS system. Annual costs to those communities are unknown, but could be approximately $1.0 to $1.5 million per year (there are roughly as many firefighters in these local plans than in the MERS system, so the costs are likely to be comparable), bringing the total annual cost of this bill to approximately $2.3 to $2.8 million.

As requested, we have endeavored to produce a cost analysis of this revision to the legislation in time for the June 29 House of Representatives session. We have been able to estimate the impact of this revision to municipal pension costs. Additionally, it is possible that this legislation could have an impact on Injured on Duty (IOD) and Other Post Employment Benefit (OPEB) costs, but we have not had the time necessary to complete this analysis.

As noted in our previous communications, firefighters are currently able to receive accidental disability pensions for heart conditions if work related. These accidental disability pensions may be granted by the Retirement System, or the Worker's Compensation Court on appeal, if the evidence justifies granting the benefit. Introducing an automatic presumption into the law would require the Retirement System and the Court to disregard relevant evidence, including the opinions of examining physicians, in granting the benefit. For this reason, the General Treasurer continues to recommend against passage of H-5881.
June 29, 2017

Mr. Frank J. Karpinski
Executive Director
Employees’ Retirement System of Rhode Island
50 Service Avenue
Warwick, RI 02886

Re: Actuarial Analysis of H5881

Dear Mr. Karpinski:

As requested, this is our actuarial analysis of H5881 which enhances the firefighter disability benefits provided by the Municipal Employees’ Retirement System under §45-19-16. Specifically, the bill adds §45-19-16.1 to the Rhode Island General Laws which provides that any firefighter unable to perform their duties due to the cardiovascular impairments of stroke or heart disease is presumed to have suffered the disability in the line of duty.

Impact

The table below shows the impact of the proposed legislation and compares the restated aggregate MERS Fire valuation results after assumption changes from the experience study to the results after the proposed change in disability benefits for those units that would be impacted:

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Illustrated FY 2019 Annual Required Contribution

(a) Percent of Payroll
   19.75%                                  21.93%          2.18%

(b) Projected payroll
   $60 million                             $60 million     -

(c) Estimated dollar amount
   $11.9 million                           $13.2 million   $1.3 million

For purposes of this analysis, the line of duty disability rates for members over age 40 were increased based on analysis of CDC statistics on the incidence of various cardiovascular impairments.
for people between the ages of 45 and 65. In those statistics, approximately 12% of people had a form of cardiovascular disease besides hypertension. We have increased these percentages based on the proportion of the public safety population that is male (males are 20% more likely to have heart disease other than hypertension) and for a difference that would be created due to the occupation. However, some would have already qualified for disability through other ailments, and thus are already in our assumption.

In addition, not all individuals classified with an ailment would qualify for disability; and we have assumed that 90% of members with qualifying heart events (namely stroke, heart attack, or heart surgery) would qualify. Based on those estimates, we have assumed 10% of the population would qualify for duty disability under the provisions of H5881 during their working career.

**Other General Comments**

Our analysis was prepared based on member data, financial information, and the actuarial methods used in preparing the June 30, 2016, actuarial valuation report dated January 31, 2017, the most recently completed one, and is subject to all of the disclosures contained therein. Since completion of that valuation, the Board adopted new assumptions based on the Actuarial Experience Study report dated May 15, 2017. Please bear in mind that actual results could deviate significantly from our projections, depending on actual plan experience.

We are not attorneys, and nothing in this letter should be construed as providing legal or tax advice. No statement in this letter is intended to be interpreted as a recommendation in favor of the changes or in opposition to them. The undersigned are independent actuaries and consultants. Joseph P. Newton and Paul T. Wood are Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries. Finally, both of the undersigned are experienced in performing valuations for large public retirement systems.

.Sincerely,

Joseph P. Newton, FSA, MAAA, EA
Pension Market Leader  

Paul T. Wood, ASA, MAAA, FCA
Consultant