Dear Member,

As we approach the end of the first fiscal year of pension changes, I’m writing with an update on the retirement system, particularly the State Investment Commission’s pension investment work. As part of my commitment to transparency, I also want to make you aware of recent upgrades to the Treasury website and information on how to reach TIAA-CREF regarding your defined contribution account.

A robust state retirement system plays a critical role in recruiting and retaining talented employees on whom we depend for quality public services. Effectively managing both the liabilities and assets of the retirement system requires constant monitoring and accountability.

The passage of the Rhode Island Retirement Security Act of 2011 placed our underfunded pension system on a path to healthy funding levels. In May 2011, the system for state employees and teachers was only 48 percent funded and on an insecure path. As of May 2013, it is 59 percent funded and on a healthy path. The MERS plans are also on a healthy funding path.

The pension investment performance is solid too. The SIC has reduced the portfolio’s risk while achieving strong, long term returns, by adding investments available only to the largest investors. To date, the one year investment return is 12 percent, after all fees are paid, and the three year investment return is 9 percent, also after all fees are paid. These returns are in line with investment portfolio benchmarks.

Thank you for your commitment to public service. I know many of you are still adjusting to the new pension changes, so please reach out anytime with questions or concerns.

Sincerely,

General Treasurer Gina Raimondo

TIAA-CREF: Unlimited Access

We know many of you are still working to understand the 2011 pension changes and that questions remain, especially regarding your TIAA-CREF account. TIAA-CREF was chosen for several reasons, including their commitment to superior customer service.

TIAA-CREF is standing by ready to help if you need investment advice. For information or assistance on your plan call 800-897-1026, Monday through Friday from 8 a.m. to 10 p.m. and Saturday, from 9 a.m. to 6 p.m. To schedule a counseling session or to have a representative visit your workplace call 800-732-8353, Monday through Friday, from 8 a.m. to 8 p.m. TIAA-CREF has offices in Providence, and offers free parking.

Transparency and Accountability

Given the importance of providing retirement security, the State Investment Commission (SIC), Retirement Board and Treasury will continue to monitor the retirement system. The SIC is constantly evaluating the investment approach and holding all managers and consultants accountable and making changes as necessary.

All private equity and hedge funds are required to have an annual audit by a reputable third party auditing firm, which includes a review of the valuations. Additionally, all hedge funds provide monthly valuations verified by third-party administrators. Also, Rhode Island does not pay placement agents on any investments made by the SIC.

In 2011, Treasury launched the state’s first investor relations portal. We have now updated the Treasury’s investment webpage to include more information. This increased level of transparency has made Rhode Island’s pension system a national leader. Visit www.treasury.ri.gov
Investment Performance

The State Investment Commission (SIC) makes all pension investment decisions, and their approach is to generate strong, long-term returns while minimizing risk.

To achieve this strategy and provide retirement security, the SIC diversifies its investments. Bonds, stocks and other investments all play different roles in the portfolio. As part of this approach, a percentage of its assets are allocated to “alternative” investment managers, such as private equity, real estate and hedge funds. The state has invested in alternative managers for over 30 years.

The SIC, with the advice of its consultants decided in 2011 to further diversify the portfolio by investing in hedge funds. This well-vetted and transparent decision has added valuable tools to the portfolio and has significantly reduced the overall portfolio risk.

Managing risk is particularly crucial because the fund pays out more than it receives every month, and has limited ability to withstand another downturn like the 2008-09 global financial crisis. Treasury staff has calculated that if these hedge funds were in place in 2008 the pension system would have saved approximately $500 million.

By creating a diverse portfolio of alternative tools and low-cost equity index funds, the SIC controls the portfolio’s expenses, and ensures there is greater value for the money. For FY2012, the pension fund paid external managers just under six-tenths of a percent (about $43 million) of the total $7.6 billion under management. According to our investment consultants, these expenses are at the low end compared to other state funds that disclose performance fees and have similar asset allocations.

The SIC has designed a portfolio for strong long term-returns, while minimizing risk. The strategy is working. To date, the one year investment return is 12 percent, after all fees are paid, and the three year investment return, is 9 percent, also after all fees are paid. Returns like this are important in the COLA determination that uses a five year average investment return.