

COMPASS

EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND

A MESSAGE FROM GENERAL TREASURER SETH MAGAZINER



Each day my team and I go to work determined to make sure you have a retirement system that you can count on.

This year, most retirees will be receiving a cost of living adjustment (COLA), a permanent increase to your pension benefit. For many, this is the first COLA that you have received in some time. You deserve more, but this COLA is a step in the right direction. You can find more information about the amount of the COLA, and when in 2017 you will receive it, on page 3.

In this issue you will also see ERSRI's final investment results for the 2016 calendar year. I am pleased to report that we continue to make progress in improving the pension system's financial sustainability. Rhode Island earned more than \$500 million in investment gains in 2016, beating both our own benchmark and a traditional 60% stock and 40% bond portfolio. We also reduced our investment expenses by more than 10% from the previous year.

In the last issue of COMPASS we outlined our new "Back to Basics" investment strategy, which moves hundreds of millions of dollars out of hedge funds in favor of more tradition investment strategies. I am pleased to report that the implementation of "Back to Basics" is proceeding smoothly and on schedule.

In the coming year, we will be focusing on improving the customer experience for you, our members. Stay tuned for updates on new tools that you can use to learn more about your pension benefits and your Defined Contribution account.

I am confident that with hard work, cooperation and care, in 2017 we will continue to make our retirement system stronger and more secure for you and for future generations of Rhode Islanders.

Thank you,

Seth Magaziner
General Treasurer
Chair, ERSRI Board

P.S. -- Lastly, I am pleased to welcome Marcia Reback to the Retirement Board as a retiree representative. Our fellow members and I look forward to serving with you, Marcia.

▶ **2017 Pension Payroll
and COLA Information**
(Page 2)

▶ **Investment Update**
(Page 3)

▶ **Member Profile**
(Page 4)

▶ **2016 Tax Information**
(Page 4-5)

2017 PENSION PAYROLL DATES

Retired members of the Employees' Retirement System of Rhode Island will receive their monthly benefit payments via direct deposit or check on the following dates in 2017:

JAN 31	FEB 28	MAR 31	APR 28	MAY 31	JUN 30
JUL 31	AUG 31	SEP 29	OCT 31	NOV 30	DEC 29

If your pension check does not arrive within 10 days of the payroll date above please contact ERSRI so a replacement check can be processed. For members still receiving a check, ERSRI recommends that you sign up for direct deposit. You can sign-up for direct deposit or view the status of your account online at: www.ERSRI.org

For additional assistance accessing your account, please contact our office (401) 462-7600. The ERSRI Customer Service Center is open Monday-Friday from 8:30 a.m. until 4:00 p.m. ✦

ELIGIBLE RETIREES WILL RECEIVE COLA IN 2017

Most retirees will receive Cost of Living Adjustments (COLAs) in 2017. The COLA is a permanent increase in the amount of the pension benefit.

Most members will see the increase in the month after their retirement date.

(For example, if a member retired in the month of May, he or she will likely see their benefit level increase to reflect the COLA beginning in June.)

The Cost of Living Adjustment for this year is 0.74%. The size of the COLA is based on a formula tied to the Consumer Price Index and the investment performance of the pension fund.

For eligible retired state employees and teachers, as well as certain municipal employees, the 0.74% increase will be applied to the first \$31,318 of pension benefit, resulting in an increase of up to \$231.75 per year.

For other municipal retirees, the increase will be applied to the first \$26,098 of pension benefit, resulting in an increase of up to \$193.13 per year.

For more information about your 2016 Cost of Living Adjustments in 2017, please visit www.ersri.org. ✦

INVESTMENT UPDATE

2016 saw the strongest calendar year investment performance since 2013, according to preliminary performance information.

With a 7.4% return, the fund earned more than \$500,000,000 in after-fee investment gains, helping keep it on-track to reach healthy funding levels on or ahead of schedule.

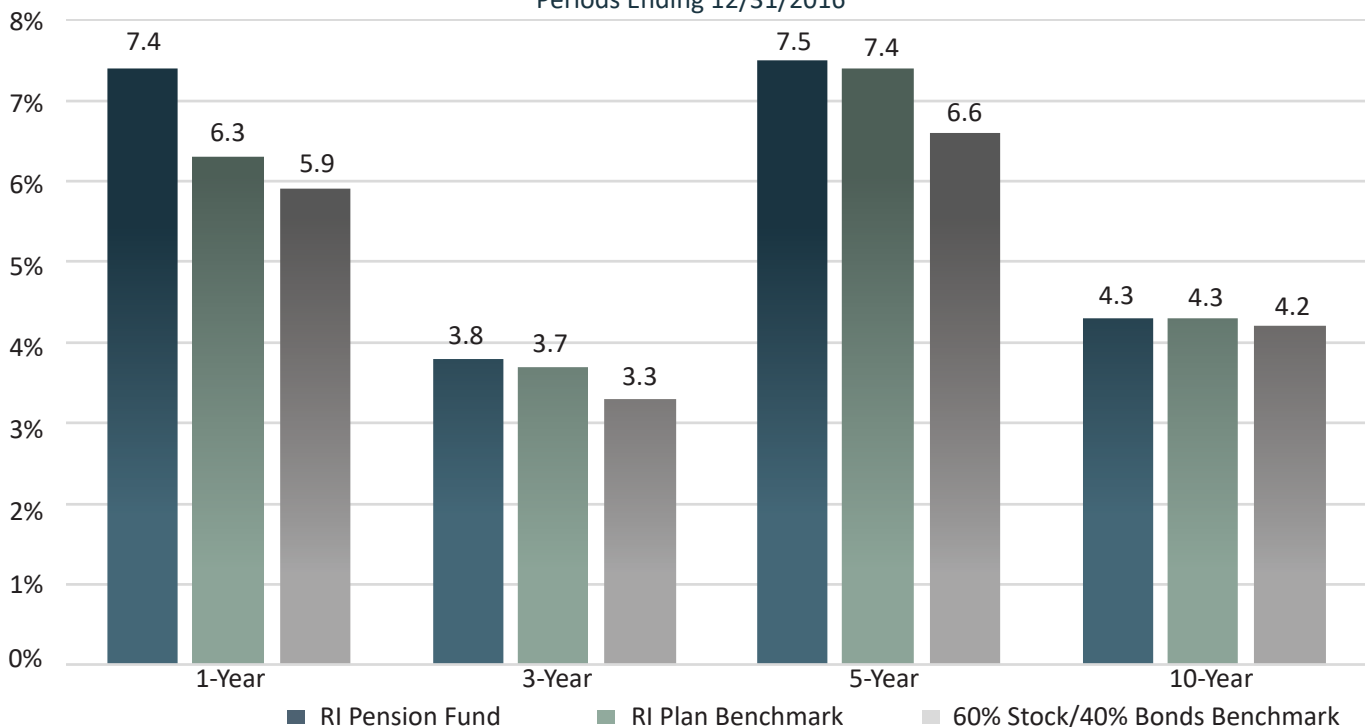
In addition to producing positive performance, Treasurer Magaziner led the State Investment Commission’s decision to exit a majority of the state’s hedge fund investments which had underperformed despite charging high fees.

Under the new Back to Basics investment strategy, most of the fund will be invested in proven, strategies for long-term growth such as index funds, while the remainder of the portfolio will be invested to provide stability and security when markets are volatile. ✦

- ✓ **EARNED OVER \$500 MILLION ON INVESTMENTS IN 2016**
- ✓ **VOTED TO TAKE MORE THAN \$585 MILLION OUT OF HEDGE FUNDS**
- ✓ **REDUCED INVESTMENT FEES BY \$10+ MILLION FROM 2015**
- ✓ **ON TRACK TO REACH HEALTHY FUNDING LEVEL ON TIME**
- ✓ **BEATEN BENCHMARKS ACROSS MULTIPLE TIME HORIZONS**

RI Pension System Historic Performance

Periods Ending 12/31/2016



MEMBER PROFILE: CAROL KEISER

After a 28-year career teaching in Pawtucket public schools; 18 years as a Special Education teacher and 10 years teaching second grade, Carol Keiser retired in 1999.

"I loved teaching, and was able to do so many different things in my career", says Carol. "I was able to work with preschool children for years. Then I traveled around the city to teach home-bound children who were handicapped, and finally settled in to teaching elementary kids. It seems impossible to think that I began teaching in 1971 and taught an entire generation of students in Pawtucket."

Post-retirement, Carol continued to work as a mentor for younger teachers in the school system.

"I was ready to retire from full-time work, but not ready to stop working. After I retired, it became easier to meet with my mentees, as my schedule became more flexible, while, of course, the schedule for working teachers – the folks I was mentoring – is not".

An active member in the retiree chapter of her former union local, the Pawtucket Teachers' Alliance, Local 930, Carol served as Vice-President for 15 years, regularly



writing a retiree column in the newsletter. She also headed the Communications Committee, which works to keep retired members informed about pension reform

and benefits. "Not every retiree is aware that they have certain benefits. I began writing the column to let them know about. Being able support, and answer questions, from retirees is work that is important to me."

Along with serving on Board of the Teacher's Credit Union, Carol also serves as Treasurer, and regularly volunteers, in the office of the Episcopal Church of the Good Shepard in Pawtucket. She was an involved member of the Church of the Advent

since she was a little girl and the two churches merged about a dozen years ago. Carol recently stepped down from the Episcopal Diocese's Charities board, after serving for 15 years.

In 2014, Carol received an *Everyday Hero Award* from the American Federation of Teachers, one of many awards that she has received for her work in the community. "I am much more comfortable doing the work than I am at receiving awards" she confesses. ✦

SPECIAL NOTES

ACTIVE MEMBERS WITH 20+ YEARS WHO ARE NO LONGER REQUIRED TO CONTRIBUTE TO THE DC PLAN

Certain employees with more than 20 years of service prior to June 30, 2012 are no longer required to contribute to the state's Defined Contribution (DC) plan in accordance with the 2015 settlement agreement. Some members have asked whether it would be possible to move their current balance to an IRA or other savings vehicle.

At Treasurer Magaziner's direction, ERSRI has asked the Internal Revenue Service for permission to allow these members to roll their accrued DC balances into a private retirement account prior to retirement or termination. Despite ERSRI's appeal, the IRS will not currently allow roll-outs from the DC plan until the member has retired or otherwise separated from employment.

Current DC account balances will continue be invested according to each member's chosen strategy. Contributions and all earnings are owned by the member and are available for transfer upon retirement or separation from service. ✦

RETIREES TURNING 59 1/2 DURING THE 2016 TAX YEAR MAY RECEIVE TWO 1099R FORMS FROM ERSRI

If you received pension distributions prior to turning 59 1/2, information on the first 1099R tax form allows you to avoid paying an early distribution penalty to the IRS.

The second 1099R allows pension recipients to receive normal distributions if they are at least age 59 ½. The combination of the two 1099R forms will be your total gross distribution for the tax year. ✦

Reading Your 1099-R Tax Form for 2016

Your 2016 1099-R form was mailed to you at the end of January. The form provides the details concerning the benefit distributions you received during the 2016 tax year and should be used in filing your 2016 federal income taxes. If you have not received your 1099-R by February 15th, please call ERSRI at 462-7600 to request a copy.

For more information on your 1099-R, visit the Internal Revenue Service online at www.irs.gov, or call 800-829-1040.

Box 1 contains the sum of all the benefit payments (before taxes) you received in 2016.

Box 2a contains the sum of your 2016 benefit payments minus your non-taxable **monthly exclusion amounts**. ●

Box 4 contains the total amount of taxes withheld from your benefit payments in 2016 based on your federal tax withholding election.

Box 5 contains the sum of your non-taxable **monthly exclusions** for 2016. ●

Box 7 contains the IRS code identifying the type of distribution you received. The list below provides an explanation of the codes used by ERSRI. ▲

CORRECTED (if checked)		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
PAYER'S name, street address, city or town, province or state, country, and ZIP or foreign postal code		1 Gross distribution	2016	
PAYER'S federal identification number		2a Taxable amount		
RECIPIENT'S identification number		2b Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>	Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.
RECIPIENT'S name		3 Capital gain (included in box 2a)	4 Federal income tax withheld	
Street address (including apt. no.)		5 Employee contributions / Designated Roth contributions or insurance premiums	6 Net unrealized appreciation in employer's securities	This information is being furnished to the Internal Revenue Service.
City or town, province or state, country, and ZIP or foreign postal code		7 Distribution code(s)	8 Other	
10 Amount allocable to IRR within 5 years	11 1st year of desig. Roth contrib.	9a Your percentage of total distribution	9b Total employee contributions	
12 State tax withheld	13 State/Payer's state no.	14 State distribution	15 Local tax withheld	16 Name of locality
17 Local distribution	18	19	20	21

● The "monthly exclusion amount" or "monthly exclusion" is the part of your benefit on which you have already paid taxes. If you made any after-tax contributions to your ERSRI account — for example, regular contributions you made before 1986 or through a buyback of service time — then you do not have to pay taxes on that part of your benefit. The non-taxable portion of your benefit listed in **Box 5** is calculated using the Simplified Method in IRS Publication 575—Pension and Annuity Income.

▲ The codes below are found in **Box 7** and indicate the type of benefit being reported to IRS:

- 1 – Partial service retirement distribution being paid to a member who is under age 59 1/2 on December 31st of the tax year being reported.
- 2 – Service retirement distribution being paid to a member who is younger than 59 1/2 or a refund of retirement contributions when the individual is between ages 55 and 59 1/2 years of age on December 31st of the tax year being reported.
- 3 – Disability retirement distribution.
- 4 – Indicates the amount reported is a death benefit lump sum distribution or retirement distribution made to a member's beneficiary or survivor, including their trust or estate.
- 4G – Indicates the amount reported is a death benefit distribution which was a direct rollover distribution to a tax-sheltered annuity or a traditional IRA.
- 7 – Normal distribution
- 7A – For participants born before January 2, 1936, or their beneficiaries, to indicate the distribution may be eligible for the 10-year tax option method of computing the tax on lump-sum distributions (on Form 4972, Tax on Lump-Sum Distributions)
- G – Distribution Code G represents amounts that you elected to roll over to another qualified retirement account, such as an Individual Retirement Account (IRA). ERSRI transferred these funds directly to the financial institution as directed by you.

Special Note: The address shown on the 1099-R which you will receive will be the current address of record which the Employees' Retirement System of Rhode Island has on file when the forms are processed in January. If this address is incorrect, you may change the address on-line at www.ERSRI.org or submit a written request with your signature to change your address.

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IN THE WINTER 2017 COMPASS NEWSLETTER

- *2017 Pension Payroll Calendar*
- *Member Profile: Carol Keiser*
- *Understanding your 1099-R tax form for 2016*
- *2017 Cost of Living Adjustment Details and Eligibility*
- *Update on Pension Fund Investment Performance*
- *Message from Treasurer Seth Magaziner*

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