



Audit Summary

Dennis E. Hoyle, CPA, Auditor General

dennis.hoyle@rioag.gov

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Employees' Retirement System of the State of Rhode Island

Fiscal Year Ended June 30, 2020

We completed an audit of the fiscal 2020 financial statements for the **Employees' Retirement System of the State of Rhode Island** (the Retirement System). We concluded that the financial statements of the Retirement System present fairly, in all material respects, the fiduciary net position of the System's plans as of June 30, 2020 and the changes in fiduciary net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The audit encompassed (1) the seven defined benefit pension plans administered by the Retirement System – i.e., separate plans for state employees and teachers, the teachers' survivors benefit program, two plans covering state police, two plans covering judges, and participating municipal employees, and (2) the defined contribution plan. The defined benefit plans covered more than 72,000 members (more than 38,000 of these members also participated in the defined contribution plan).

Net position of the Retirement System increased by \$162 million during fiscal 2020 to \$9.8 billion at June 30, 2020. The time weighted net rate of return during the fiscal year was 3.78% (compared to 6.54% during the prior fiscal year). Net investment income within the pooled investment trust was \$319 million (compared to net investment income of \$532 million during fiscal year 2019). The System reported total investment expenses of \$88 million for fiscal 2020.

Benefits paid to retirees and beneficiaries from the defined benefit plans during fiscal 2020 totaled \$968.9 million.

Employee and employer contributions totaled nearly \$675 million to all the defined benefit plans.

Amounts accumulated in the defined contribution plan totaled \$1.2 billion at June 30, 2020. Employer and employee contributions to the defined contribution plan were \$131.4 million during fiscal 2020. Distributions from the defined contribution plan totaled \$23.7 million. Investment gains within the defined contribution plan totaled \$45.5 million. Most defined contribution plan assets (98%) are held in target date retirement fund investments.

The accounting measures of the net pension liability (GASB Statement No. 67) used for financial reporting differ from the measures used to determine actuarially determined contribution amounts for funding purposes. Employers participating in the System's plans

report the net pension liability (asset), or their proportionate share, on their government-wide financial statements as required by GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions*.

The net pension liability of each plan is shown in the table on the following page as of June 30, 2020. The Teachers' Survivors Benefit Plan (TSB) had a net pension asset - net position exceeds the total pension liability by \$119 million.

The total pension liability for all defined benefit plans was determined by actuarial valuations performed as of June 30, 2019 and rolled forward to June 30, 2020 (measurement date) using generally accepted actuarial principles. The actuarial assumptions used in the calculation of the total pension liability were consistent with the 2019 Actuarial Experience Investigation Study as approved by the System's Board on May 22, 2020.

The pension liability for all plans except the RIJRT was determined using the System's investment return assumption of 7%. The RIJRT used a municipal bond index rate of 2.45%.

The System's fiscal 2020 financial statements also include disclosures related to the money-weighted return on investments for each plan, the components of the change in the net pension liability (asset), and the sensitivity of the determination of the net pension liability (asset) by a change in investment return assumption of +1/-1%. The real return assumption for each asset class within the pooled investment trust is disclosed as support for the System's overall investment return assumption of 7%.

During fiscal 2020, the System's strategic asset allocation for defined benefit plan investments was updated to include allocations to Emerging Markets Debt and Equity Options, which provide additional diversification.

During fiscal 2020, participating employers in the plans administered by the System made 100% of the required actuarially determined contributions except for the RIJRT plan covering 7 judges. The State is not contributing on an advance funded basis to the RIJRT plan. We highlighted that plan net position represents only 5.0% of the total pension liability and additional employer contributions will be required to provide benefits to members of the RIJRT plan.

A chart on the following page details the net pension liability (asset) of each defined benefit plan within the System at the June 30, 2020 measurement date including the sensitivity of a 1% increase/decrease to the discount rate. Additionally, the types of assets held within the pooled investment trust at June 30, 2020 are detailed in the accompanying chart.

The audit report is available on our website - www.oag.ri.gov or by calling the office at 401.222.2435.

Net Pension Liability (Asset) – June 30, 2020

(including sensitivity of a 1% increase/decrease to the discount rate)

Plan	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
ERS			
State Employees	\$ 2,712,520,107	\$ 2,274,145,547	\$ 1,745,116,687
Teacher	3,833,501,595	3,195,005,811	2,424,446,277
MERS			
General Employees	384,362,938	266,591,640	124,460,872
Municipal Police/Fire	285,152,919	210,645,632	120,898,925
SPRBT	50,430,803	33,903,143	13,957,793
JRBT	16,815,604	8,903,648	(642,485)
SPRFT	170,836,156	154,720,730	135,272,237
TSB	(98,788,120)	(118,763,561)	(142,877,258)
	1.00% Decrease (1.45%)	Current Discount Rate (2.45%)	1.00% Increase (3.45%)
RIJRFT	\$ 23,268,819	\$ 21,337,814	\$ 19,002,483

Pooled Investment Trust – Asset Allocation – June 30, 2020
(in millions)

