



Audit Summary

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Auditor General

December 2023

Employees' Retirement System of the State of Rhode Island

Fiscal Year Ended June 30, 2023

We completed an audit of the fiscal 2023 financial statements for the **Employees' Retirement System of the State of Rhode Island** (the System). We concluded that the financial statements of the System present fairly, in all material respects, the fiduciary net position of the System's plans as of June 30, 2023, 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 System's financial statements and our Independent Auditor's Report thereon are included in the Annual Comprehensive Financial Report of the System.

The audit encompassed (1) the seven defined benefit pension plans administered by the 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 75,000 members (more than 40,000 of these members also participated in the defined contribution plan).

Net position of the System increased by \$832.7 million during fiscal 2023 to \$12.4 billion at June 30, 2023, largely due to the significant positive investment returns experienced during the fiscal year.

The net investment income within the pooled investment trust was \$844.6 million (compared to net investment loss of \$278.6 million during fiscal year 2022). The time weighted net rate of return, net of fees, during the fiscal year was 8.91% (compared to -1.40% during the prior fiscal year). The System reported total investment expenses of \$127.9 million for fiscal 2023.

Benefits paid to retirees and beneficiaries from the defined benefit plans during fiscal 2023 totaled \$1.0 billion. Employee and employer contributions totaled more than \$755.4 million to all the defined benefit plans. The contribution amount includes \$122.5 million contributed for teachers by the State during fiscal 2023.

Amounts accumulated in the defined contribution plan totaled \$1.7 billion at June 30, 2023. Employer and employee contributions to the defined contribution plan were \$145.2 million during fiscal 2023. Investment income within the defined contribution plan totaled \$173.7 million. Most defined contribution plan assets (88%) are held in target date retirement fund investments. Distributions from the defined contribution plan totaled \$46.2 million.

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 (asset) of each plan is shown in the table on the following page as of June 30, 2023. Two of the defined benefit plans were more than 100% funded whereby net position exceeds the total pension liability and results in a net pension asset. Net position as a percentage of the total pension liability was 190.2% and 107.3% for the Teachers' Survivors Benefit Plan and Judicial Retirement Benefit Trust plans, respectively.

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 3.86%. The 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%.

During fiscal 2023, 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. The plan net position represents only 7.8% of the total pension liability and additional employer contributions will be required to provide benefits to members of the RIJRT plan.

In accordance with *Government Auditing Standards*, we also issued our Independent Auditor's Report on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The audit report includes a finding and recommendations related to the defined contribution plan which is administered by an external entity and is not subject to controls and processes in place for the defined benefit plans. We recommended that the System enhance its oversight of the defined contribution plan and consider modifying the existing contribution and benefit system to also capture employee and employer contribution data for the defined contribution plan.

We also communicated 3 management comments which include recommendations to enhance internal control or result in other operational efficiencies.

A chart on the following page details the net pension liability (asset) of each defined benefit plan within the System at the June 30, 2023 measurement date. Additionally, the types of assets held within the pooled investment trust at June 30, 2023 are detailed in the accompanying chart.

Our audit report and links to the System's Annual Comprehensive Financial Report are available on our website - www.oag.ri.gov.

Defined Benefit Plans - Net Pension Liability (Asset) – June 30, 2023

Plan	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
ERS				
State Employees	\$ 4,972,386,525	\$ 3,046,906,450	\$ 1,925,480,075	61.3%
Teacher	7,091,181,580	4,664,344,476	2,426,837,104	65.8%
SPRBT	221,794,021	206,018,051	15,775,970	92.9%
JRBT	97,881,941	105,067,197	(7,185,256)	107.3%
RIJRFT	19,151,353	1,493,278	17,658,075	7.8%
SPRFT	154,788,515	27,140,185	127,648,330	17.5%
TSB	222,858,009	423,914,539	(201,056,530)	190.2%
MERS				
General Employees	1,469,674,556	1,273,829,347	195,845,209	86.7%
Municipal Police/Fire	1,094,722,027	892,389,926	202,332,101	81.5%

Pooled Investment Trust – Asset Allocation – June 30, 2023
(in millions)

