



Audit Summary

Dennis E. Hoyle, CPA, Auditor General

dennis.hoyle@oag.ri.gov

JANUARY 2015

State Employees' and Electing Teachers OPEB System

Fiscal Year Ended June 30, 2014

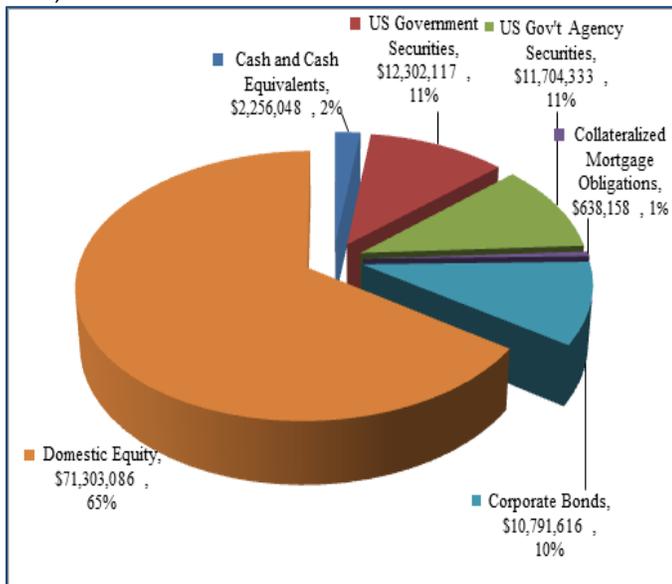
We completed an audit of the financial statements, for the fiscal year ended June 30, 2014, of the **State Employees' and Electing Teachers OPEB System** (the OPEB System).

We concluded that the financial statements of the OPEB System present fairly, in all material respects, the fiduciary net position of the Systems' plans as of June 30, 2014 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 the six defined benefit other postemployment benefit (OPEB) plans administered by the OPEB System – i.e., separate plans for 1) state employees, 2) electing teachers, 3) state police, 4) judges, 5) legislators, and 6) certain employees of the Board of Education. These plans provide retiree healthcare benefits for its members. There were more than 25,000 active and retired members in the System as of the most recent actuarial valuation performed at June 30, 2013.

Net position of the OPEB System increased by \$43.6 million during fiscal 2014 to \$109.7 million at June 30, 2014. Fiscal 2014 net investment income was \$14.1 million and the time-weighted rate of return was 17.27%. The System's investment return assumption is 5%.

Asset allocation targets are 65% domestic equity and 35% fixed income securities. The following chart depicts investments of the OPEB System pooled investment trust at June 30, 2014 (at fair value):



Total contributions to the plans were \$78.2 million for fiscal 2014, of which \$59.8 million was contributed by employers and \$18.4 million by members.

OPEB or retiree health benefits paid to retirees during the fiscal year ended June 30, 2014 totaled \$52.3 million.

The audit report includes schedules of funding progress for each of the System's OPEB plans. Actuarial valuations, performed as of June 30, 2013, estimate the unfunded OPEB liability at \$714 million for all plans included within the System. The funded status of all plans improved compared to actuarial valuations performed as of June 30, 2011.

OPEB Plans – Funded Status		
(Based on actuarial valuations performed as of June 30, 2013)		
Plan	Unfunded Liability	Funded Ratio
State Employees	\$ 597,532,000	6.2%
Teachers	\$ 9,339,000	25.7%
Judicial	\$ (1,097,000)	204.1%
State Police	\$ 60,798,000	13.6%
Legislators	\$ (653,000)	142.2%
Board of Education	\$ 48,220,000	13.4%

The Judicial and Legislator plans are overfunded with the actuarial value of assets exceeding the actuarial accrued liability (at June 30, 2013 – the valuation date).

The financial statements disclose contingencies related to the lawsuits challenging pension reform measures. Resolution could impact retirement eligibility thereby affecting actuarially determined employer contributions to the plans.

A subsequent event disclosure highlights that effective October 1, 2014, the State established a health reimbursement account (HRA) for each Medicare eligible retiree within the plans. The amount deposited into each HRA will vary based on the date of retirement and years of service, but will be based on the lowest-cost Medicare supplemental plan available through the program. Amounts available in each retiree's HRA may be used for any eligible medical care expense including reimbursement for health insurance premiums.

The audit report is available on the Office of the Auditor General's website www.oag.ri.gov or by calling the office at 222-2435.