
State of Rhode Island

State Employees' and Electing
Teachers OPEB System

FISCAL YEAR ENDED JUNE 30, 2016

Dennis E. Hoyle, CPA
Auditor General
State of Rhode Island and Providence Plantations
General Assembly
Office of the Auditor General



Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General

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June 14, 2017

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER Nicholas A. Mattiello, Chairman

Senator Dominick J. Ruggerio
Senator Dennis L. Algieri
Representative K. Joseph Shekarchi
Representative Patricia L. Morgan

BOARD OF THE RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM:

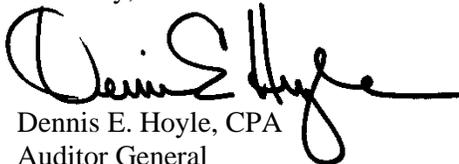
We have completed our audit of the financial statements of the Rhode Island State Employees' and Electing Teachers OPEB System (System) for the fiscal year ended June 30, 2016.

The System provides retiree healthcare benefits to state employees, electing teachers, and certain employees of the Board of Education.

Section 36-12.1-12 of the General Laws requires that the OPEB Board provide an annual report showing the financial transactions of the system. This report is intended to meet the reporting requirement of the General Laws for the fiscal year ended June 30, 2016.

Our report is contained herein as outlined in the Table of Contents.

Sincerely,



Dennis E. Hoyle, CPA
Auditor General

**RHODE ISLAND STATE EMPLOYEES' AND
ELECTING TEACHERS OPEB SYSTEM**

FISCAL YEAR ENDED JUNE 30, 2016

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Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly
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INDEPENDENT AUDITOR'S REPORT

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

BOARD OF THE RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB
SYSTEM:

Report on the Financial Statements

We have audited the accompanying financial statements of the plans which comprise the Rhode Island State Employees' and Electing Teachers OPEB System (the System) as of June 30, 2016 and for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Joint Committee on Legislative Services
Board of the Rhode Island State Employees' and Electing Teachers OPEB System

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of plans within the System as of June 30, 2016, and the changes in financial position and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1(a), the financial statements present only the OPEB Trust Funds of the State of Rhode Island and Providence Plantations (the State) and do not purport to, and do not, present fairly the financial position of the State, as of June 30, 2016, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

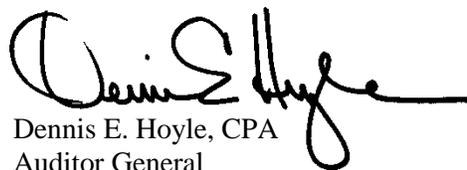
Our opinions are not modified with respect to this matter.

Other Matters - Required Supplementary Information

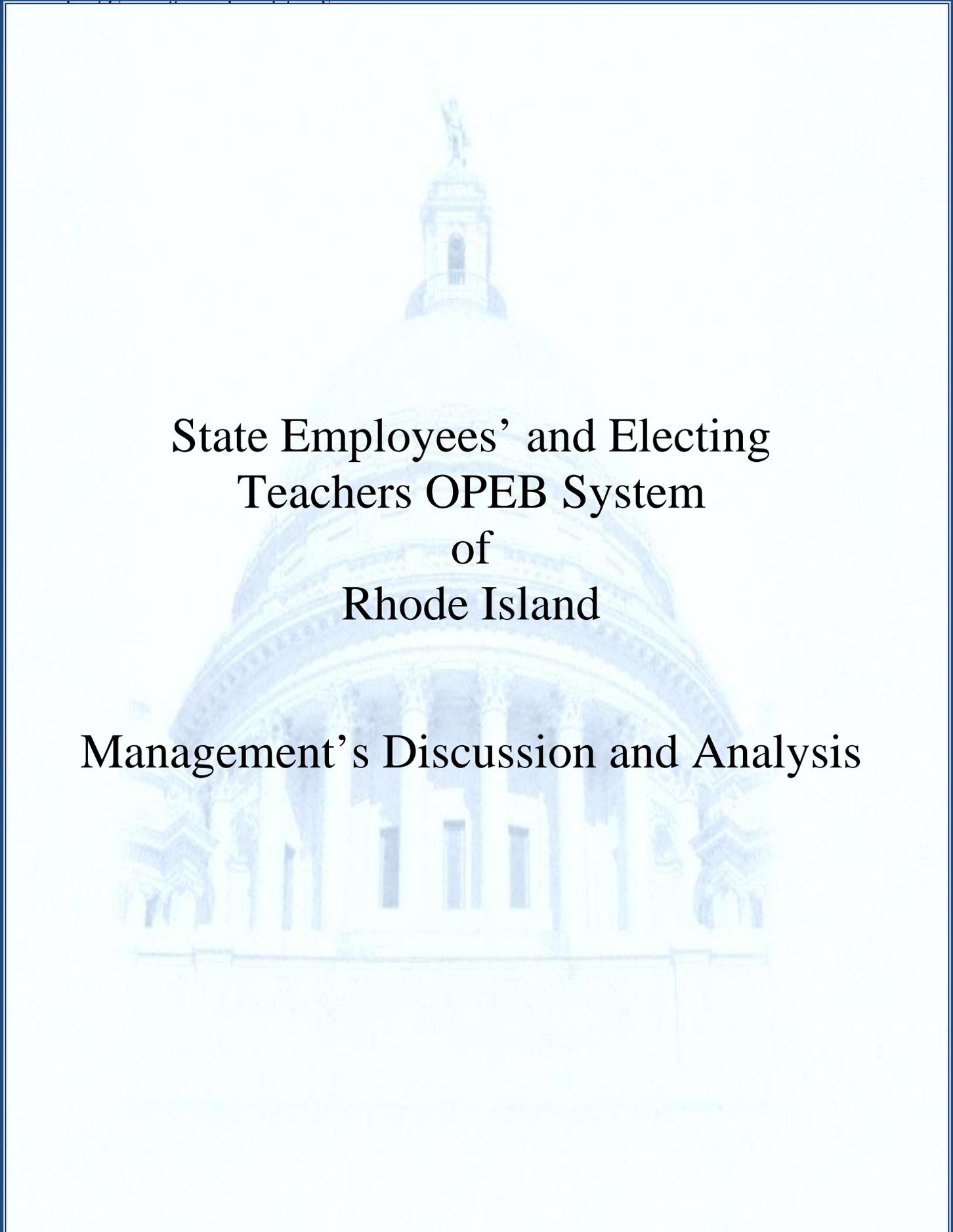
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 and the Schedules of Funding Progress and the Schedules of Employer Contributions on pages 25 and 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2016 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



Dennis E. Hoyle, CPA
Auditor General



State Employees' and Electing
Teachers OPEB System
of
Rhode Island

Management's Discussion and Analysis

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Management's Discussion and Analysis

The Rhode Island State Employees' and Electing Teachers OPEB System (the System) provides this Management's Discussion and Analysis of their financial performance for the readers of the System's financial statements. This narrative provides an overview of the System's financial activity for the fiscal year ended June 30, 2016. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the System's financial activities based on the status of the System and issues currently facing management.

The System is administered by the State of Rhode Island OPEB Board and was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system.

Pursuant to legislation enacted by the General Assembly, a trust was established in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with the System. In addition, beginning in fiscal year 2011 the State and other participating employers were required by law to fund the plans on an actuarially determined basis. Previously the System had been funded on a pay-as-you-go basis with annual contributions designed to fund only current year claims, premiums and administrative costs.

The System administers other post-employment benefits plans for the following groups:

- **State employees** - covers state employees and certain employees of the Narragansett Bay Commission, RI Airport Corporation, and RI Commerce Corporation.
- **Teachers** – covers certified public school teachers electing to participate in the System.
- **Judges** – covers judges and magistrates.
- **State Police** – covers State police officers.
- **Legislators** – covers retired and former members of the General Assembly.
- **Board of Education (BOE)** – covers certain employees of the University and Colleges, primarily faculty.

The plans within the System generally provide healthcare coverage to pre-Medicare eligible retirees and Health Reimbursement Account contributions or Medicare supplemental plan coverage for those members who are eligible for Medicare. The retirees' contribution to the cost of the various plans offered varies based on their years of service.

Understanding the System's Financial Statements

The Statements of Fiduciary Net Position provide a snapshot of the financial position of the System at June 30, 2016. The Statements of Changes in Fiduciary Net Position summarize the additions and deductions that occurred during the fiscal year. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the financial statements. The Required Supplementary Information consists of schedules and related notes, which demonstrate the System's progress in accumulating funds to meet future OPEB benefit obligations for members of the System.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Management's Discussion and Analysis

Financial Highlights for the Fiscal Year Ended June 30, 2016

- Fiduciary net position increased by \$32.7 million in fiscal 2016 to \$180.1 million. The System began accumulating assets for the future payment of post-employment benefits in 2011.
- Total post-employment health care benefits paid were \$38.5 million, a decrease of \$2.6 million over the amount of benefits paid in fiscal year 2015.
- Contributions to all plans from members and employers for fiscal year 2016 totaled \$61.5 million, a decrease of \$6.6 million compared to the contributions received in fiscal year 2015.

The reduction in employer contributions was primarily due to decreases in the actuarially determined employer contribution rates for State Employees, State Police, and Judges for fiscal 2016.

The reduction in benefits paid and contributions received was impacted by a change in the manner that benefits are provided to Medicare eligible retirees covered by the State Employees plan that was enacted in the 2013 session of the General Assembly. Effective October 1, 2014 the State established a health reimbursement account (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. The amount deposited by the State into each HRA varies based on the date of retirement and years of service at retirement but will be based on the lowest-cost Medicare supplemental plan available through the program that meets the plan requirements defined in the law. Amounts available in each retiree's HRA may be used by the retiree for any eligible medical care expense including reimbursement for health insurance premiums. This change also reduced the amount of member contributions reflected in the financial statements as the member share for Medicare eligible retirees is paid directly by the member.

- The System experienced a net gain from investing activities of \$8.1 million for the fiscal year ended June 30, 2016.

Assets, Liabilities and Fiduciary Net Position – All Plans		
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Assets:		
Cash and cash equivalents	\$ 3,917,033	\$ 6,026,263
Advance held by claims processing agent	775,000	775,000
Investments	178,159,456	142,245,385
Receivables	<u>1,921,863</u>	<u>2,141,070</u>
Total assets	<u>184,773,352</u>	<u>151,187,718</u>
Liabilities:		
Accounts payable and incurred but not reported claims	2,397,127	2,616,228
Other liabilities	<u>2,249,491</u>	<u>1,184,752</u>
Total liabilities	<u>4,646,618</u>	<u>3,800,980</u>
Fiduciary Net Position:	<u>\$180,126,734</u>	<u>\$147,386,738</u>

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Management's Discussion and Analysis

Summary of Changes in Fiduciary Net Position – All Plans		
	Year Ended June 30, 2016	Year Ended June 30, 2015
Additions:		
Contributions:		
Employer	\$53,438,321	\$ 58,693,855
Member	8,099,748	9,421,089
Other income	1,696,431	1,380,443
Amortization of advance contributions	-	3,032,884
Net investment gain	<u>8,099,983</u>	<u>6,385,309</u>
Total Additions	<u>71,334,483</u>	<u>78,913,580</u>
Deductions:		
Benefits	38,516,769	41,105,721
Administrative expenses	<u>77,718</u>	<u>94,127</u>
Total Deductions	<u>38,594,487</u>	<u>41,199,848</u>
Increase in Fiduciary Net Position:	32,739,996	37,713,732
Fiduciary Net Position:		
Beginning of year	<u>147,386,738</u>	<u>109,673,006</u>
End of year	<u>\$180,126,734</u>	<u>\$147,386,738</u>

Investments

The SIC monitors investment performance of the System and conducts periodic asset/liability (A/L) studies to identify an optimal diversified investment portfolio that maximizes return within an acceptable level of risk. As long-term investors, the SIC is committed to its strategic asset allocation that has been developed as part of a comprehensive A/L study which incorporates capital market return expectations, risks and correlations associated with each asset class as well as the unique profile and objectives of the System.

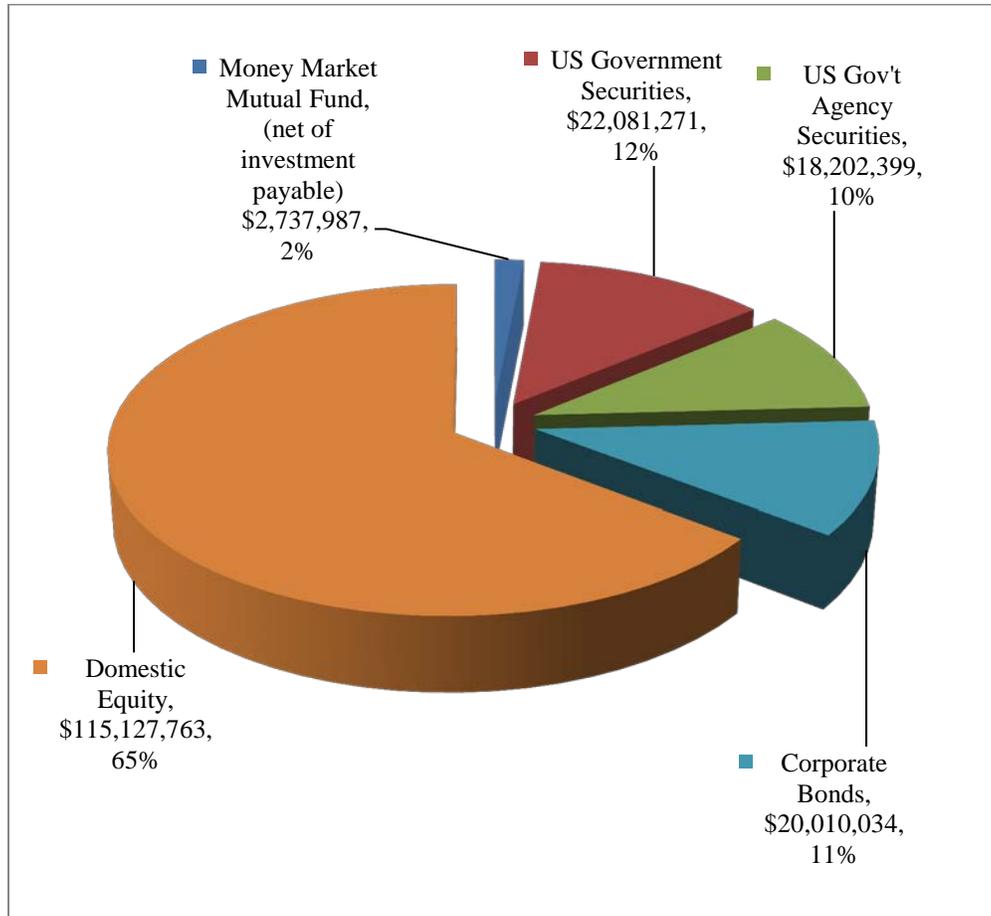
The following asset allocation targets are in place at the close of fiscal 2016:

Fiscal 2016 – Asset Allocation Targets	
Domestic Equity	65%
Fixed Income	35%

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Management's Discussion and Analysis

Pooled Investment Trust - Asset Allocation - Actual - Fair Value at June 30, 2016



Investment Performance

The System's actuarial investment return assumption is 5.0%. The allocation of assets among equity and fixed income securities in the future may have a significant impact on actual investment performance. The actual investment return, net of investment expenses, for the fiscal year ended June 30, 2016 was 4.81% while the composite benchmark return was 4.92%.

Beginning with the actuarial valuation performed as of June 30, 2011, the System uses a four-year smoothed market methodology to determine the actuarial value of assets.

Funded Status

Independent actuarial valuations of the System are conducted every two years. As part of these valuations, the progress toward funding OPEB obligations of the System will be measured by comparing the actuarial value of assets to the actuarial accrued liability. This measure is referred to as the funded ratio or funded status.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Management's Discussion and Analysis

Details of the funded status of each plan within the System are included in the Schedules of Funding Progress, which can be found on page 25. The most recent actuarial valuation of the plans within the System was performed as of June 30, 2015 and can be found on page 19.

Next Year's Contribution Rates

The fiscal 2017 employer contribution rates are all based upon actuarial valuations performed at June 30, 2013. The net employer contribution rates (expressed as a percent of covered payroll) for fiscal year 2017 are 5.97% for State employees, 1.53% for Legislators, 33.39% for State Police, and 3.11% for members of the Board of Education plan. There is no fiscal 2017 required contribution to the Judges plan due to its funded status. The State's contribution for retired teachers is not expressed as a percent of payroll and is budgeted at \$2,321,057 for fiscal year 2017.

Future health care inflation experience is a key variable that could have a major impact on future employer contributions to the System. Trustees of the System, after consultation with the System's actuaries, will continue to carefully monitor this and other actuarial assumptions and make adjustments to future valuations as appropriate. In addition, the assumed rate of return of 5% could be adversely impacted by equity and debt market conditions as well as the continuance of historically low interest rates currently being experienced in the national and world economies.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. Effective October 1, 2014 the State established a health reimbursement account (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. The amount deposited by the State into each HRA varies based on the date of retirement and years of service at retirement but is based on the lowest-cost Medicare supplemental plan available through the program that meets the plan requirements defined in the law. Amounts available in each retiree's HRA may be used for any eligible medical care expense including reimbursement for health insurance premiums. The law requires the Director of the Department of Administration to maximize options with respect to the individual policies available to Medicare eligible retirees. Management believes these changes will reduce costs for Medicare eligible retirees while increasing flexibility and options available to plan members.

The System's actuary modified the actuarially required contributions for fiscal year 2016 developed as of the June 30, 2013 valuation to reflect the changes discussed above.

Contacting the System's Management

This discussion and analysis presentation is designed to provide a general overview of the System's financial activity. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

**Office of Accounts and Control
1 Capitol Hill
Providence, RI 02908**

Rhode Island State Employees' and Electing Teachers OPEB System
Statements of Fiduciary Net Position
June 30, 2016

	<u>State Employees'</u>	<u>Teachers</u>	<u>Judicial</u>	<u>State Police</u>	<u>Legislators</u>	<u>Board of Education</u>	<u>Memorandum Total</u>
Assets							
Cash and cash equivalents	\$ 1,749,991	\$ 753,325	\$ 256,634	\$ 612,270	\$ 121,152	\$ 423,661	\$ 3,917,033
Advance held by claims processing agent	775,000						775,000
Contributions receivable	1,527,189			255,402	1,017	138,255	1,921,863
Investments at fair value - equity in pooled trust	117,853,131	7,616,792	2,958,477	28,665,758	2,507,989	18,557,309	178,159,456
Total assets	<u>121,905,311</u>	<u>8,370,117</u>	<u>3,215,111</u>	<u>29,533,430</u>	<u>2,630,158</u>	<u>19,119,225</u>	<u>184,773,352</u>
Liabilities							
Accounts payable	604,992	71,307	4,152	55,584	9,711	37,381	783,127
Incurred but not reported claims	1,143,000	207,000	9,000	166,000	19,000	70,000	1,614,000
Other (note 7)	2,249,491						2,249,491
Total liabilities	<u>3,997,483</u>	<u>278,307</u>	<u>13,152</u>	<u>221,584</u>	<u>28,711</u>	<u>107,381</u>	<u>4,646,618</u>
Net position held in trust for other post-employment benefits	<u>\$ 117,907,828</u>	<u>\$ 8,091,810</u>	<u>\$ 3,201,959</u>	<u>\$ 29,311,846</u>	<u>\$ 2,601,447</u>	<u>\$ 19,011,844</u>	<u>\$ 180,126,734</u>

The accompanying notes are an integral part of this financial statement.

Rhode Island State Employees' and Electing Teachers OPEB System
Statements of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2016

	<u>State Employees'</u>	<u>Teachers</u>	<u>Judicial</u>	<u>State Police</u>	<u>Legislators</u>	<u>Board of Education</u>	<u>Memorandum Total</u>
Additions							
Contributions							
Member contributions (note 4)	\$ 4,586,567	\$ 1,375,835	\$ 358,834	\$ 298,665	\$ 182,909	\$ 1,296,932	\$ 8,099,748
Employer contributions (note 4)	40,709,025	2,321,057		6,823,477	26,572	3,558,196	53,438,321
Total contributions	<u>45,295,592</u>	<u>3,696,892</u>	<u>358,834</u>	<u>7,122,142</u>	<u>209,481</u>	<u>4,855,128</u>	<u>61,538,069</u>
Other income (note 5)	1,270,109	143,650	23,215	146,956	23,069	89,432	1,696,431
Investment income							
Net appreciation in fair value of investments	4,468,921	271,765	111,462	1,093,502	94,490	704,820	6,744,960
Interest and dividends	937,303	66,633	25,694	230,833	22,028	147,500	1,429,991
	<u>5,406,224</u>	<u>338,398</u>	<u>137,156</u>	<u>1,324,335</u>	<u>116,518</u>	<u>852,320</u>	<u>8,174,951</u>
Less investment expense	(49,297)	(3,221)	(1,369)	(12,165)	(1,161)	(7,755)	(74,968)
Net investment income	<u>5,356,927</u>	<u>335,177</u>	<u>135,787</u>	<u>1,312,170</u>	<u>115,357</u>	<u>844,565</u>	<u>8,099,983</u>
Total additions	<u>51,922,628</u>	<u>4,175,719</u>	<u>517,836</u>	<u>8,581,268</u>	<u>347,907</u>	<u>5,789,125</u>	<u>71,334,483</u>
Deductions							
Benefits	29,844,721	2,998,695	257,259	3,124,672	316,214	1,975,208	38,516,769
Administrative expense (note 6)	63,421	4,675	490	1,815	599	6,718	77,718
Total deductions	<u>29,908,142</u>	<u>3,003,370</u>	<u>257,749</u>	<u>3,126,487</u>	<u>316,813</u>	<u>1,981,926</u>	<u>38,594,487</u>
Net increase (decrease)	22,014,486	1,172,349	260,087	5,454,781	31,094	3,807,199	32,739,996
Net position held in trust for other post-employment benefits							
Net position - beginning	95,893,342	6,919,461	2,941,872	23,857,065	2,570,353	15,204,645	147,386,738
Net position - ending	<u>\$ 117,907,828</u>	<u>\$ 8,091,810</u>	<u>\$ 3,201,959</u>	<u>\$ 29,311,846</u>	<u>\$ 2,601,447</u>	<u>\$ 19,011,844</u>	<u>\$ 180,126,734</u>

The accompanying notes are an integral part of this financial statement.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
Fiscal Year Ended June 30, 2016

1. Plan Descriptions

(a) General

The Rhode Island State Employees' and Electing Teachers OPEB System (the "System") acts as a common investment and administrative agent for benefits to be provided for six defined benefit other post-employment plans as listed below:

Plan	Members	Plan Type
State employees	State employees and certain employees of the Narragansett Bay Commission, RI Airport Corporation, and RI Commerce Corporation.	Cost-sharing multiple employer
Teachers	Certified public school teachers electing to participate in the System.	Single-employer
Judges	Judges and magistrates.	Single-employer
State police	State police officers.	Single-employer
Legislators	Retired and former members of the General Assembly.	Single-employer
Board of Education (BOE)	Certain employees of the Board of Education inclusive of URI, RIC and CCRI and the Office of Higher Education.	Cost-sharing multiple employer

Although the assets of the plans are commingled for investment purposes, each plan's assets are accounted for separately and may be used only for the payment of benefits to the members of that plan, in accordance with the terms of that plan.

The System's financial statements are included as Trust Funds within the Fiduciary Funds in the Comprehensive Annual Financial Report of the State of Rhode Island and Providence Plantations. The accompanying financial statements are not intended to present the financial position and results of operations of the State.

The System is administered by the OPEB Board and was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system. The four members of the OPEB Board are: the State Controller, the State Budget Officer, the State Personnel Administrator and the General Treasurer, or their designees.

Members of the System, which include State employees, legislators, judges, State police officers, certified public school teachers and employees of certain component units, if they meet certain eligibility requirements, are eligible to receive some form of retiree health care benefits. In addition, certain employees of the Board of Education receive benefits under another plan known as the Rhode Island Board of Education Health Care Insurance Retirement Program (the "BOE Plan").

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2016**

1. Plan Descriptions (continued)

(b) Membership and Benefit Provisions

The plans within the System generally provide healthcare coverage to pre-Medicare eligible retirees and health reimbursement account contributions or Medicare supplement coverage for members who are Medicare eligible. Members may purchase coverage for spouses and dependents. Depending on the plan and the time of retirement, the cost to purchase coverage for spouses and dependents is either at the "active rate" applicable to active employees or at the retiree rate. Dental and vision coverage is generally not provided (except for those plans that allow active health care coverage to continue after retirement – judges, state police and legislators). Dental and vision coverage may be purchased by these groups with no state subsidy.

Members of the System must meet the eligibility and services requirements set forth in the RI General Laws or other governing documents. RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

Active employees (other than the Board of Education active members) do not make contributions to the respective plans. Retired member contributions consist of the required retiree share of coverage based on the time of retirement and years of service. Other member contributions include purchased coverage for spouses or dependents or for non-subsidized coverage for dental and vision care.

A summary of the principal provisions of the plans follow:

State Employees

For State employees who retired on or before September 30, 2008, the State provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of retiree health care for the retiree and any dependents above the active group rate. The retiree pays the active group monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of retiree health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

For State employees who retired on or before September 30, 2008, the fiscal 2016 contributions are as follows:

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
Fiscal Year Ended June 30, 2016

1. Plan Descriptions (continued)

(b.) Membership and Benefit Provisions

<u>Age at Retirement</u>	<u>Years of Service</u>	<u>Amount of Cost Paid by Retiree</u>
Below 60:	28-34	10%
	35+	0%
From 60 to 65:	10 – 15	50%
	16 – 22	30%
	23 – 27	20%
	28+	0%
Greater than 65:	10 – 15	50%
	16 – 19	30%
	20 – 27	10%
	28+	0%

For members age 59 through 64 who retire on or after October 1, 2008, with a minimum of 20 years of service, the State pays 80% of the actual cost of health care coverage.

At age 65, State retirees must purchase Medicare Part B (deducted from their Social Security payment) and also enroll in a health reimbursement account plan to which the OPEB Trust contributes based upon 80% of the lowest-cost Medicare supplemental plan available through the program that meets the plan requirements defined in the law.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. Effective October 1, 2014 the State established health reimbursement accounts (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. The amount deposited by the State into each HRA varies based on the date of retirement and years of service at retirement but is based on the lowest-cost Medicare supplemental plan available through the program that meets the plan requirements defined in the law. Amounts available in each retiree's HRA can be used for any eligible medical care expense including reimbursement for health insurance premiums.

Teachers

Teachers who elect to participate in the System and retired on or before September 30, 2008, receive the Tier I subsidy but no other State cost sharing. For all teachers retiring on or after October 1, 2008, the Tier I subsidy ends and there is no other cost sharing by the State. Retired teachers may purchase coverage through the System at the actual cost for retirees.

Judges

Effective July 1, 2012 new retirees (and spouses and dependents) that are eligible for Medicare are required to enroll in Medicare and a Medicare Supplemental plan. Retirees who retired before that date are able to continue on the active health care plan provided they enroll in Medicare Part B.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2016**

1. Plan Descriptions (continued)

State Police

Retired state police officers (including spouses and dependents) receive the active health care plan benefits or Medicare supplement coverage with the same co-share amount in effect at the date of their retirement.

Legislators

Effective July 1, 2012 new retirees (and spouses and dependents) that are eligible for Medicare are required to enroll in Medicare and a Medicare Supplemental plan. Retirees who retired before that date are able to continue on the active health care plan provided they enroll in Medicare Part B.

Board of Education

The BOE Plan offers three types of retiree health care benefits: (1) a self-insured health care plan for retirees not covered by Medicare, (2) a self-insured Medicare supplement plan for Medicare eligible post-65 retirees and (3) a fully insured Medicare HMO plan for Medicare eligible post-65 retirees.

The Tier I non-Medicare eligible plan subsidy provides that the Board will pay the portion of the cost of post-retirement health care for the retiree between the active group rate and the early retiree rate. This subsidy is based on years of service and ends when the retiree enrolls in Medicare. This subsidy is available only to eligible employees retiring before July 1, 2008.

To be eligible for coverage, the retiree retiring before July 1, 2008 must have worked a minimum of 10 years for the Board and must be at least 60 years of age, unless they have 28 years or more of service. Depending on the years of service and the retiree's age, the Board will pay from 50% to 100% of medical insurance premium while the retiree contributes from 50% to 0%.

Employees retiring after June 30, 2008, who are not yet 65 years of age, who have worked a minimum of 10 years for the Board and are at least 60 years of age or who have 28 years or more of service, may purchase health insurance coverage at the actual (100%) retiree premium rate for themselves and their spouses. The Board will continue to pay a portion of the post-65 Tier II benefits, 50% to 100% of medical insurance premium, depending on the years of service and the retiree's age while the retiree will contribute from 50% to 0%.

Active employees covered by the BOE plan contribute .9% of their salary. The contribution of employees covered under the BOE plan can be changed by the Board of Education.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
Fiscal Year Ended June 30, 2016

1. Plan Descriptions (continued)

A summary of membership by plan and the number of participating employers as of the June 30, 2015 actuarial valuation (the most recent information available) follows:

<u>Group</u>	<u>Members</u>			<u>Participating Employers</u>
	<u>Active</u>	<u>Retired</u>	<u>Total</u>	
State employees	11,139	7,305	18,444	4
Teachers	N/A	211	211	N/A
Judicial	59	50	109	1
State police officers	224	273	497	1
Legislators	113	18	131	1
BOE employees	1,769	880	2,649	1

2. Summary of Significant Accounting Policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles for other post-employment benefit plans established by governmental entities.

Measurement Focus and Basis of Accounting - The financial statements of the System are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned or become measurable, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Plan member contributions are recognized in the period in which the contributions are withheld from retiree benefits. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions.

Benefits are recorded based on (1) recognition of a claim liability for a plan covered service for self-insured coverage or (2) when premiums are due and payable for insured coverage. Accordingly, at fiscal year-end, an estimated liability for incurred but not reported claims is recognized in the financial statements for self-insured coverage.

Investment transactions are recorded on a trade date basis.

Fair Value of Financial Instruments - GASB 72 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that most observable inputs be used when available, of how the market would price the asset or liability. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Unadjusted quoted prices in the active markets that are accessible at the measurement date for identical assets or liabilities.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2016**

2. Summary of Significant Accounting Policies (continued)

Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs for the asset or liability (supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumption about risk).

The asset's or liability's fair value measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Commingled funds consist of an institutional domestic equity index fund. The fair value of the commingled fund is the reported net asset value (NAV) based upon the fair value of the underlying securities or assets held in the fund.

Cash and Cash Equivalents - Cash represents deposits held in a financial institution. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase.

Investment expenses – Investment management expenses are presented separately as a component of net investment income and include investment consultants, custodial fees and direct investment expenses allocated by managers. In some instances investment related costs are not readily separable from investment income and consequently investment income is recorded net of related expenses.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies. These estimates are subject to a certain amount of uncertainty in the near term, which could result in changes in the values reported for those assets in the statements of fiduciary net position. Estimates also affect the reported amounts of income/additions and expenses/deductions during the reporting period. Actual results could differ from these estimates.

Memorandum Total Columns - Total columns on the financial statements are captioned “memorandum only” to indicate that they are presented only to facilitate financial analysis. Data in these columns are not comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
Fiscal Year Ended June 30, 2016

3. Cash Deposits and Investments

Cash Deposits and Cash Equivalents

At June 30, 2016 the carrying amounts of the plans' cash deposits are listed below:

	State Employees	Teachers	Judicial	State Police	Legislators	BOE	Total
Cash Deposits:							
Book Balance	\$ 1,170,327	\$ 614,880	\$ 256,634	\$ 609,187	\$ 121,152	\$ 361,103	\$ 3,133,283
Bank Balance	1,192,587	614,880	231,235	609,187	121,152	361,505	3,130,546
Cash Equivalents:	<u>579,664</u>	<u>138,445</u>	-	3,083		62,558	783,750
Total Cash Deposits and Cash Equivalents:	<u>\$ 1,749,991</u>	<u>\$ 753,325</u>	<u>\$ 256,634</u>	<u>\$ 612,270</u>	<u>\$ 121,152</u>	<u>\$ 423,661</u>	<u>\$ 3,917,033</u>

The bank and book balances represent the plans' deposits in short-term trust accounts which include fully insured demand deposit accounts and interest-bearing, collateralized bank deposit accounts.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. In addition, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the uninsured deposit amounts. At June 30, 2016, the System's cash deposits were either federally insured or collateralized.

At June 30, 2016, the System had cash equivalent investments consisting of \$783,750 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 0.1% of the total investment in OSIP at June 30, 2016. Funds of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State are eligible to invest in OSIP. OSIP operates in a manner consistent with GASB79 - *Certain External Investment Pools and Pool Participants* and thus, reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP transacts with its participants at a stable net asset value ("NAV") per share. Investments reported at the NAV are not subject to Fair Value Hierarchy. There are no participant withdrawal limitations. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

Investments

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the System. The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b)(3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
Fiscal Year Ended June 30, 2016

3. Cash Deposits and Investments (continued)

The assets of each of the plans are pooled for investment purposes only, and units are assigned to the plans based on their respective share of market value. The custodian bank holds assets of the System in a Pooled Account and each plan holds units in the account. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from the account. Investment expense is allocated to each plan based on the plan's units in the pooled trust at the end of each month.

Consistent with a target asset allocation model adopted by the State Investment Commission, the OPEB System maintains a diversified portfolio by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2016:

(expressed in thousands)

<u>Investments at Fair Value</u>	<u>June 30, 2016</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Debt Securities				
US Government Securities	\$ 22,081	\$ 22,081	\$	\$
US Government Agency Securities	18,202		18,202	
Corporate Bonds	20,010		20,010	
Total investments by fair value level	<u>\$ 60,293</u>	<u>\$ 22,081</u>	<u>\$ 38,212</u>	<u>\$</u>
Investments measured at the net asset value (NAV)				
Money Market Mutual Funds	\$ 8,432			
Commingled Funds - Domestic Equity	115,128			
	<u>123,560</u>			
Net investment payable	<u>\$ (5,694)</u>			
Total Pooled Investment Trust	<u>\$ 178,159</u>			

Money Market Mutual Funds – these investments are used as temporary cash management investments for amounts pending investment or for amounts liquidated from investments pending distribution for OPEB benefits. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable \$1 per unit. The underlying investments, which are short-term cash equivalent type investments, are generally carried at amortized cost which approximates fair value. There are no participant withdrawal limitations.

Commingled Funds – consist of one domestic equity index fund which is intended to replicate the performance of a specific index; e.g., S&P 500. The fair values of the investments have been determined using the NAV per share of the investments as reported by the commingled fund manager, which reflects the exchange pricing of the equity holdings. There are no withdrawal limitations for the domestic equity index fund.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
Fiscal Year Ended June 30, 2016

3. Cash Deposits and Investments (continued)

The following table shows the System's fixed income investments by type, fair value and the effective duration at June 30, 2016:

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Duration</u>
US Government Agency Securities	\$ 18,202,399	2.00
US Government Securities	22,081,271	7.44
Corporate Bonds	20,010,034	7.00
Total Fixed Income	<u>\$ 60,293,704</u>	4.97

The System's investment in the Dreyfus Institutional Cash Advantage Fund, a money market mutual fund, had an average weighted maturity of 24 days at June 30, 2016.

Credit Risk

The System manages exposure to credit risk generally by adhering to an overall target weighted average credit quality for the portfolio.

The System's exposure to credit risk as of June 30, 2016 is as follows:

Rating (1)	US Government	Corporate
	Agency	Bonds
	<u>Obligations</u>	<u>Bonds</u>
Aaa	\$ 18,202,399	\$ 575,934
Aa		1,503,763
A		6,240,283
Baa		11,468,915
Ba		221,139
Fair Value	<u>\$ 18,202,399</u>	<u>\$ 20,010,034</u>

(1) Moody's Investor Service

The System's investment in a short-term money market mutual fund (Dreyfus Institutional Cash Advantage Fund) was rated AAAM by Standard & Poor's Investors Service.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
Fiscal Year Ended June 30, 2016

3. Cash Deposits and Investments (continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a System's investments in a single issuer. There is no single issuer exposure within the System's portfolio that comprises more than 5% of the overall portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2016, all securities were registered in the name of the System (or in the nominee name of its custodial agent) and were held in the possession of the System's custodial bank, Bank of New York Mellon.

Derivatives and Other Similar Investments

Through its commingled fund, the System indirectly holds derivative type instruments, primarily equity index futures.

4. Funding Policy, Funded Status, and Funding Progress

RIGL Sections 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System. The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly.

Beginning in fiscal year 2011, the State and other participating employers were required by law to fund the plans on an actuarially determined basis. For the fiscal year ended June 30, 2016, the State and other participating employers paid \$53,438,321 into the plans.

The table below displays the funded status of each plan at June 30, 2015, the most recent actuarial valuation date (in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State Employees	\$ 92,125	\$ 622,826	\$ 530,701	14.8%	\$ 682,965	77.7%
Teachers	6,648	13,050	6,402	50.9%	n/a	n/a
Judicial	2,826	756	(2,070)	373.8%	10,281	-20.1%
State Police	22,920	78,857	55,937	29.1%	18,119	308.7%
Legislators	2,469	1,317	(1,152)	187.5%	1,742	-66.1%
BOE	14,608	69,106	54,498	21.1%	113,947	47.8%

Covered payroll and the UAAL as a percentage of covered payroll is not presented for teachers since the required contribution by the State is the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2016**

4. Funding Policy, Funded Status, and Funding Progress (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of funding progress and employer contributions, presented as required supplementary information, present multi-year trend information about (1) whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits, and (2) information about the amounts contributed to the plans by employers in comparison to the annual required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual required contributions for fiscal year 2016 were determined based on the June 30, 2013 valuations for all plans.

As of the June 30, 2013 actuarial valuation, the Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for State Employees, State Police, Board Governors, Judges and Legislators and by a level dollar amount for Teachers. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date.

As of the June 30, 2013 actuarial valuation, the UAAL was amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006. The remaining amortization period at June 30, 2013 was 23 years. The UAAL for teachers is being amortized based on the statutory contribution, subject to statutory restriction. The remaining amortization period at June 30, 2013 was three years. Due to the current funding status of the Judges and Legislators plans, the amortization period is set to 30-year open.

The following table summarizes the assumptions and methods employed in the June 30, 2013 valuation. Other assumptions, including those relating to rates of termination, rates of retirement, percent married, and retiree health care election rates, were based on the most recent experience study at that time for the Employees' Retirement System of Rhode Island, as well as on anticipated experience changes in conjunction with the adopted retirement plan changes enacted through legislation.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
Fiscal Year Ended June 30, 2016

4. Funding Policy, Funded Status, and Funding Progress (continued)

Summary of Actuarial Methods and Assumptions as of June 30, 2013 valuation						
	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Education
Actuarial Cost Method	Individual Entry Age					
Amortization Method	Level Percent of Payroll	Level Dollar	Level Percent of Payroll			
Equivalent Single Remaining Amortization Period	23 years closed	Determined By Statutory Contribution	30 years open	23 years closed	30 years open	23 years closed
Asset Valuation Method	Four year smoothed market					
Actuarial Assumptions						
Investment Rate of Return	5.00%					
Projected Salary Increases	3.5% to 6.5%	N/A	3.5%	3.50% to 11.5%	3.75% to 8.0%	3.5% to 6.5%
Valuation Health Care Cost Trend Rate	9% in 2014, grading to 3.5% in 2023					
Excise Tax Under the Patient Protection and Affordable Care Act	11.00%					
Note: The actuarial assumptions do not include a separate general inflation rate assumption.						

The table below details the fiscal 2016 contribution rates for each of the plans.

Plan	Employee (Active)	Employer
State employees	none	5.97%
Teachers	not applicable	\$2,321,057
Judicial	none	0%
State Police	none	33.39%
Legislators	none	1.53%
Board of Education	0.9%	3.11%

Employer contributions include amounts (\$534,860) paid by the State for employees who retired under an early retirement incentive program. The cost of retiree health benefits for these individuals is charged as an annual operating cost to the department or agency from which they were employed immediately prior to retirement.

The most recent actuarial valuations of the plans within the System were performed as of June 30, 2015.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2016

4. Funding Policy, Funded Status, and Funding Progress (continued)

There have been changes in actuarial assumptions since the June 30, 2013 valuation. Certain actuarial assumptions for State Employees, Legislators, and Board of Education were updated to match the assumptions used for State Employees in the most recent pension valuation for the Employees' Retirement System of Rhode Island (ERSRI). Changes were made to the following assumptions:

- Merit and longevity portion of the salary increase assumption
- Rates of separation from active membership
- Rates of retirement
- Rates of disability

In addition, the wage inflation was changed to 3.75% for State Police in order to match the most recent actuarial valuation of the State Police Retirement Benefits Trust. Also the health care trend assumption has been reset to 9.0% the first year trending down to 3.5% over 10 years.

The Excise Tax load on pre-65 liabilities was increased from 11.0% to 13.8%. The excise tax has been delayed by one year; however, the rate increase in pre-65 pre-capita costs has out-paced increases in price inflation which has a lowering effect on the excise tax.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2020. The excise tax is 40% of costs above a threshold. The actual actuarial assumptions used in the most recent valuations assume that the plans will be subject to the excise tax in 2020.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. Effective October 1, 2014, health reimbursement accounts (HRA) were established for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. In addition, certain changes in benefits offered under the program were effective in July 2014 and January 2015. The effect on the Actuarial Accrued Liability resulting from these changes is reflected in the valuation table on the preceding page.

The following table summarizes the assumptions and methods employed in the June 30, 2015 valuation. Other assumptions, including those relating to rates of termination, rates of retirement, percent married, and retiree health care election rates, were based on the most recent experience study for the Employees' Retirement System of Rhode Island as well as on anticipated experience changes in conjunction with the adopted retirement plan changes enacted through legislation

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
Fiscal Year Ended June 30, 2016

4. Funding Policy, Funded Status, and Funding Progress (continued)

Summary of Actuarial Methods and Assumptions as of June 30, 2015 valuation						
	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Education
Actuarial Cost Method	Individual Entry Age					
Amortization Method	Level Percent of Payroll	Level Dollar	Level Percent of Payroll			
Equivalent Single Remaining Amortization Period	21 years closed	Determined By Statutory Contribution	30 years open	21 years closed	30 years open	21 years closed
Asset Valuation Method	Four year smoothed market					
Actuarial Assumptions						
Investment Rate of Return	5.00%					
Projected Salary Increases	3.5% to 6.5%	N/A	3.5%	3.75% to 11.75%	3.5% to 6.5%	3.5% to 6.5%
Valuation Health Care Cost Trend Rate	9% in 2016, grading to 3.5% in 2025					
Excise Tax Under the Patient Protection and Affordable Care Act	13.8%					
Note: The actuarial assumptions do not include a separate general inflation rate assumption.						

5. Other Income

Drug rebates received from drug manufacturers relating to claims paid for retirees totaling \$1,696,431 are included in other income.

6. Administrative Expenses

Pursuant to General Law section 36-12.1-15, for fiscal years 2011 through 2014, the State Controller was authorized to disburse from the OPEB trust funds the actual costs of administering the funds. Beginning in fiscal year 2015, a restricted receipts account within the General Fund was to be funded and used to pay the expenses of the OPEB Board, the cost of maintaining the OPEB System, and the costs of administering the OPEB System. This restricted receipt account was to be funded from a transfer from the OPEB trust funds equal to 25 basis points of the average total investments before lending activities for the preceding five fiscal years or \$200,000, whichever was greater. Any non-encumbered funds on June 30 of any fiscal year were to be returned to the OPEB System. For fiscal year 2015, the Trust continued to disburse administrative expenses, which totaled \$77,718, from the OPEB trust funds themselves, rather

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2016

6. Administrative Expenses (continued)

than transfer funds per the formula mentioned previously to the restricted receipt account in the general fund. The Trust expects to request that the applicable section of the general laws be changed to allow for the current practice to continue in future years.

Administrative expenses recorded within the OPEB System consist primarily of actuarial, investment advisory, custodial fees, and plan design/administration services. Other costs related to administering the post-employment benefit program such as enrollment of retirees, payment of claims, accounting, and investment monitoring have not been allocated to the System.

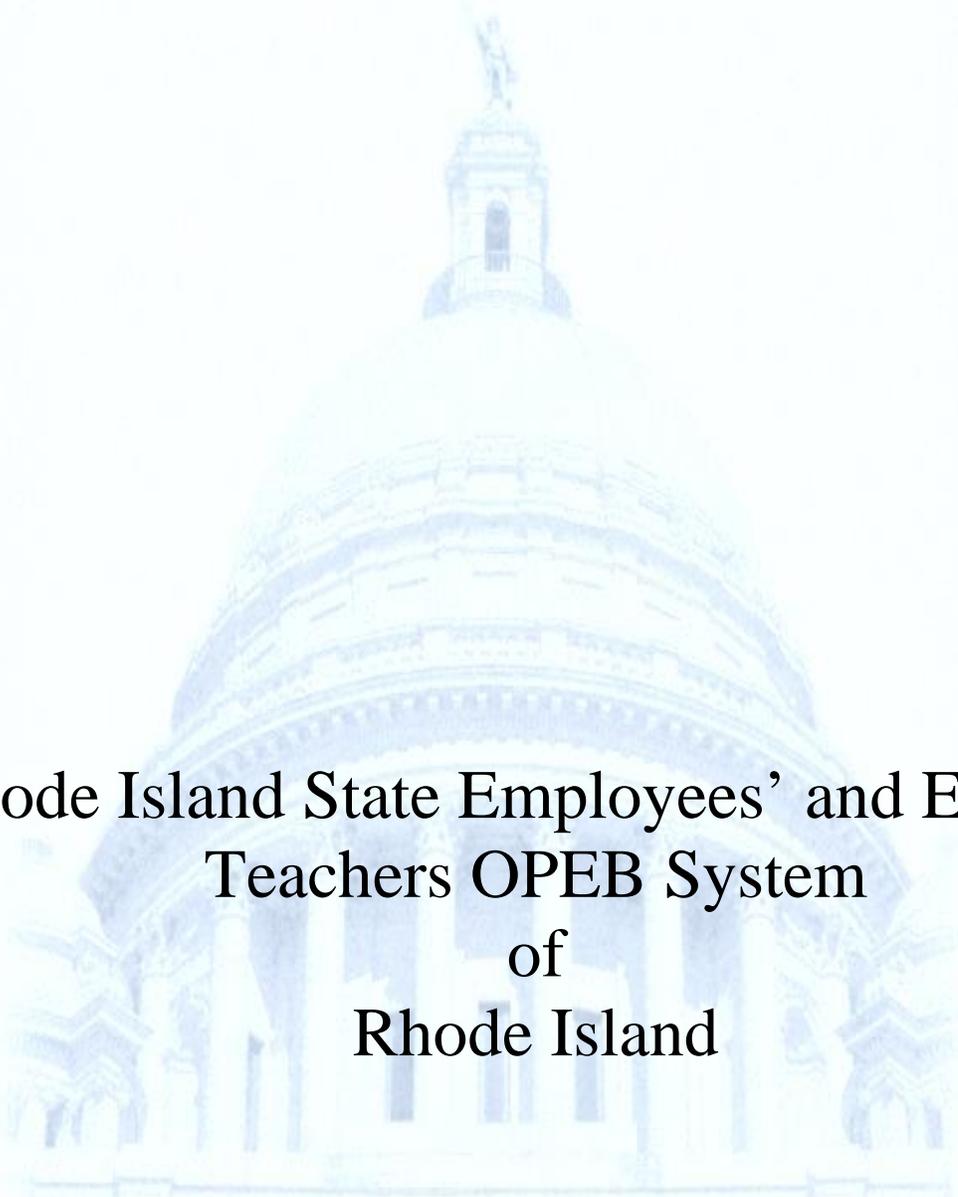
7. Other Liabilities

Effective October 1, 2014, the State established health reimbursement accounts (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. The plan recognizes a claims expense and related liability for the plan authorized amount for each State employee member who has established an account with the HRA administrator. As claims are paid from the member's HRA account, the State's advances cash to the HRA administrator to fund the accounts and reduces the related liability.

8. Contingencies

The most recent actuarial valuation of the plans within the System as of June 30, 2015, reflect that the plans will be subject to the excise tax on high cost health plans beginning in 2020. The tax is 40% of costs above a certain threshold. Changes in federal law, which implement the tax or changes in plan design and benefits to avoid the tax could impact future actuarial valuations.

In January 2015, a civil lawsuit was filed by AFSCME Council 94 Retiree Chapter in Providence Superior Court. The suit alleges that amendments to Rhode Island General Law Section 36-12-4 and passage of Rhode Island General Law Section 36-13-4.1 which changed how the State administers health coverage for Medicare-eligible retirees constitute a breach of contract and are unconstitutional. The complaint seeks declaratory and equitable relief. This case is currently pending in Superior Court, and discovery is underway.



Rhode Island State Employees' and Electing
Teachers OPEB System
of
Rhode Island

Required Supplementary Information

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / c
State Employees						
6/30/2015	\$ 92,125,000	\$ 622,826,000	\$ 530,701,000	14.8%	\$ 682,965,000	77.7%
6/30/2013	39,527,000	637,059,000	597,532,000	6.2%	671,762,000	88.9%
6/30/2011 *	11,545,000	728,207,000	716,662,000	1.6%	600,273,000	119.4%
Teachers						
6/30/2015	\$ 6,648,000	\$ 13,050,000	\$ 6,402,000	50.9%	n/a	n/a
6/30/2013	3,230,000	12,569,000	9,339,000	25.7%	n/a	n/a
6/30/2011	2,040,000	11,512,000	9,472,000	17.7%	n/a	n/a
Judicial						
6/30/2015	\$ 2,826,000	\$ 756,000	\$ (2,070,000)	373.8%	\$ 10,281,000	-20.1%
6/30/2013	2,151,000	1,054,000	(1,097,000)	204.1%	13,447,000	-8.2%
6/30/2011	841,000	2,610,000	1,769,000	32.2%	10,813,000	16.4%
State Police						
6/30/2015	\$ 22,920,000	\$ 78,857,000	\$ 55,937,000	29.1%	\$ 18,119,000	308.7%
6/30/2013	9,587,000	70,385,000	60,798,000	13.6%	17,748,000	342.6%
6/30/2011	1,488,000	81,759,000	80,271,000	1.8%	17,384,000	461.8%
Legislators						
6/30/2015	\$ 2,469,000	\$ 1,317,000	\$ (1,152,000)	187.5%	\$ 1,742,000	-66.1%
6/30/2013	2,202,000	1,549,000	(653,000)	142.2%	1,695,000	-38.5%
6/30/2011	1,442,000	1,443,000	1,000	99.9%	1,615,000	0.1%
Board of Education						
6/30/2015	\$ 14,608,000	\$ 69,106,000	\$ 54,498,000	21.1%	\$ 113,947,000	47.8%
6/30/2013	7,486,000	55,706,000	48,220,000	13.4%	\$ 113,375,000	42.5%
6/30/2011	3,189,000	53,751,000	50,562,000	5.9%	125,340,000	40.3%

* as restated August 9, 2013
See notes to required supplementary information.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Employer Contributions

State Employees		
Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2014	\$ 49,071,814	100%
2015	47,768,663	100%
2016	40,709,025	100%

Teachers		
Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2014	\$ 2,799,098	100%
2015	2,799,098	100%
2016	2,321,057	100%

Judicial		
Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2014	\$ 12,983	100%
2015	13,377	100%
2016	-	100%

State Police		
Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2014	\$ 7,838,838	100%
2015	8,134,524	100%
2016	6,823,477	100%

Legislators		
Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2014	\$ -	N/A
2015	-	N/A
2016	26,572	N/A

Board of Education		
Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2014	\$ 3,094,222	100%
2015	3,011,077	100%
2016	3,558,196	100%

See notes to required supplementary information.

RHODE ISLAND EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Required Supplementary Information
Fiscal Year ended June 30, 2016

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation dated June 30, 2015, follows.

Summary of Actuarial Methods and Assumptions as of June 30, 2015 valuation						
	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Education
Plan Type	Cost sharing multiple employer	Single Employer	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age					
Amortization Method	Level Percent of Payroll	Level Dollar	Level Percent of Payroll			
Equivalent Single Remaining Amortization Period	21 years closed	Determined by statutory contribution	30 years open	21 years closed	30 years open	21 years closed
Asset Valuation Method	Four year smoothed market					
Actuarial Assumptions						
Investment Rate of Return	5.00%					
Projected Salary Increases	3.5% to 6.50%	NA	3.5%	3.75% to 11.75%	3.5% to 6.5%	3.5% to 6.5%
Valuation Health Care Cost Trend Rate	9% in 2016, grading to 3.5% in 2025					
Note: The actuarial assumptions do not include a separate general inflation rate assumption.						

RHODE ISLAND EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Required Supplementary Information
Fiscal Year ended June 30, 2016

2. Schedules of Funding Progress

Changes affecting the June 30, 2015 Actuarial Valuation:

There have been some changes since the prior valuation. The assumption changes were to changes in rates of salary increase, retirement, turnover and disability adopted by the Employees Retirement System of Rhode Island. The health care trend assumption has been reset to 9.0% the first year trending down to 3.5% over 10 years. The excise tax load was increased from 11% to 13.8%. The excise tax has been delayed by one year; however, the rate increase in pre-65 per-capita costs has out-paced increases in price inflation which amplifies the effect on the excise tax.

Changes affecting the June 30, 2013 Actuarial Valuation:

Several changes were made in OPEB specific actuarial assumptions and methods between the June 30, 2011 and June 30, 2013 valuations. Changes to the OPEB specific assumptions include a decrease in the wage inflation and long term health care cost inflation assumptions from 4% to 3.5%. In addition, the excise tax load expected to be imposed under the Patient Protection and Affordable Care Act on pre-65 liabilities was changed from 7.4% to 11%. Also, there was a change in actuarial method; the premium development methodology was changed to create a single premium rate for all groups.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. Effective October 1, 2014, the State established health reimbursement accounts (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. In addition, certain changes in benefits offered under the program are effective in July 2014 and January 2015.

Changes affecting the June 30, 2011 Actuarial Valuation:

With the creation of the trust effective July 1, 2010, the State Employees and Board of Education plans met the requirements of cost-sharing multiple employer plans. These plans were previously considered agent multiple-employer plans absent the creation of the trust.

A number of changes in actuarial assumptions were made between the June 30, 2009 and June 30, 2011 valuations. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI) and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions as well as the provisions of the Retirement Security Act, which was enacted on November 18, 2011 and included comprehensive pension reform measures. The June 30, 2011 valuation also reflects the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRBT experience studies include changes to the retirement and disability rates and salary expectations. In addition, new mortality assumptions were adopted for all plans which provide for future mortality improvement by using generational mortality.

RHODE ISLAND EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Required Supplementary Information
Fiscal Year ended June 30, 2016

2. Schedules of Funding Progress (continued)

The significant decrease in the unfunded actuarial accrued liability for the Judicial and Legislator plans is primarily due to retirement eligibility changes resulting from enactment of the Retirement Security Act and an increase in the Medicare election rate.

Changes to the OPEB specific assumptions include a change in the medical trend assumption from 9% decreasing to 4.5% in 8 years to 9% decreasing to 4.0% in 10 years, a change in the Medicare election rate for Legislators from 75% electing Medicare to 100% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree Plan are assumed to not be eligible for Medicare.

The June 30, 2011 actuarial valuation employs a four-year smoothed market methodology for the determination of the actuarial value of assets. In addition, the Judicial and Legislator plans changed from a level percent of payroll amortization method to the level dollar method.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2020. The excise tax is 40% of costs above a threshold. The actuarial assumptions used in the most recent valuation assume that the plans will be subject to the excise tax as early as 2020.

3. Schedules of Employer Contributions

For fiscal years 2014 and 2015, the annual required contribution for the State employees, Teachers, and Board of Education plans was satisfied, in part, by the recognition of unearned revenue, which was applied to reduce the net actual contribution required of the employers. The amount shown in the schedule is the gross actuarially determined contribution.



Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Joint Committee on Legislative Services, General Assembly
State of Rhode Island and Providence Plantations:

Board of the Rhode Island State Employees' and Electing Teachers OPEB System:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the plans which comprise the Rhode Island State Employees' and Electing Teachers OPEB System (the System) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

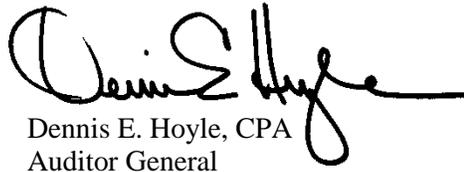
Joint Committee on Legislative Services, General Assembly
Board of the Rhode Island State Employees' and Electing Teachers OPEB System

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dennis E. Hoyle, CPA
Auditor General

December 23, 2016