

State of Rhode Island

**State Employees' and Electing
Teachers OPEB System**

FISCAL YEAR ENDED JUNE 30, 2017



Dennis E. Hoyle, CPA, Auditor General

Office of the Auditor General

General Assembly

State of Rhode Island and Providence Plantations



Office of the Auditor General

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

oag.ri.gov

33 Broad Street • Suite 201 • Providence, RI • 02903-4177
tel: 401.222.2435 • fax: 401.222.2111

September 26, 2018

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER Nicholas A. Mattiello, Chairman
Senator Dominick J. Ruggerio
Senator Dennis L. Algiere
Representative K. Joseph Shekarchi
Representative Patricia L. Morgan

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

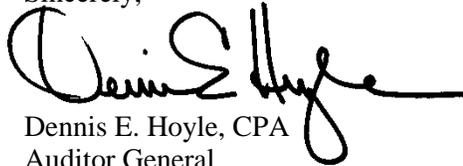
We have completed our audit of the financial statements of the Rhode Island State Employees' and Electing Teachers OPEB System (System) for the fiscal year ended June 30, 2017.

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 Rhode Island 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, 2017.

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, 2017

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---------------------------------------------------------------------------------------------------------|--------------------|
| I. <u>INDEPENDENT AUDITOR'S REPORT</u> | 1 |
| II. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u> | 3 |
| III. <u>BASIC FINANCIAL STATEMENTS</u> | |
| Statements of Fiduciary Net Position | 8 |
| Statements of Changes in Fiduciary Net Position..... | 9 |
| Notes to Financial Statements..... | 10 |
| IV. <u>REQUIRED SUPPLEMENTARY INFORMATION</u> | |
| Schedules of Changes in the Participating Employers' Net OPEB Liability (Asset) and Related Ratios..... | 25 |
| Schedules of Investment Returns..... | 31 |
| Schedules of Employer Contributions | 32 |
| Notes to Required Supplementary Information | 33 |



Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly

Dennis E. Hoyle, CPA - Auditor General

oag.ri.gov

33 Broad Street • Suite 201 • Providence, RI • 02903-4177

tel: 401.222.2435 • fax: 401.222.2111

INDEPENDENT AUDITOR'S REPORT

Joint Committee on Legislative Services, General Assembly, State of Rhode Island:
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, 2017 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the plans within the System as of June 30, 2017, 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.

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

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, 2017, 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.

As discussed in Note 2, the System implemented GASB Statement No. 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* during fiscal 2017.

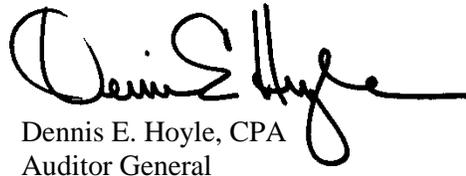
Our opinions are not modified with respect to these matters.

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 Changes in the Participating Employers' Net OPEB Liability (Asset) and Related Ratios, Investment Returns, and Employer Contributions on pages 25 through 32 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.

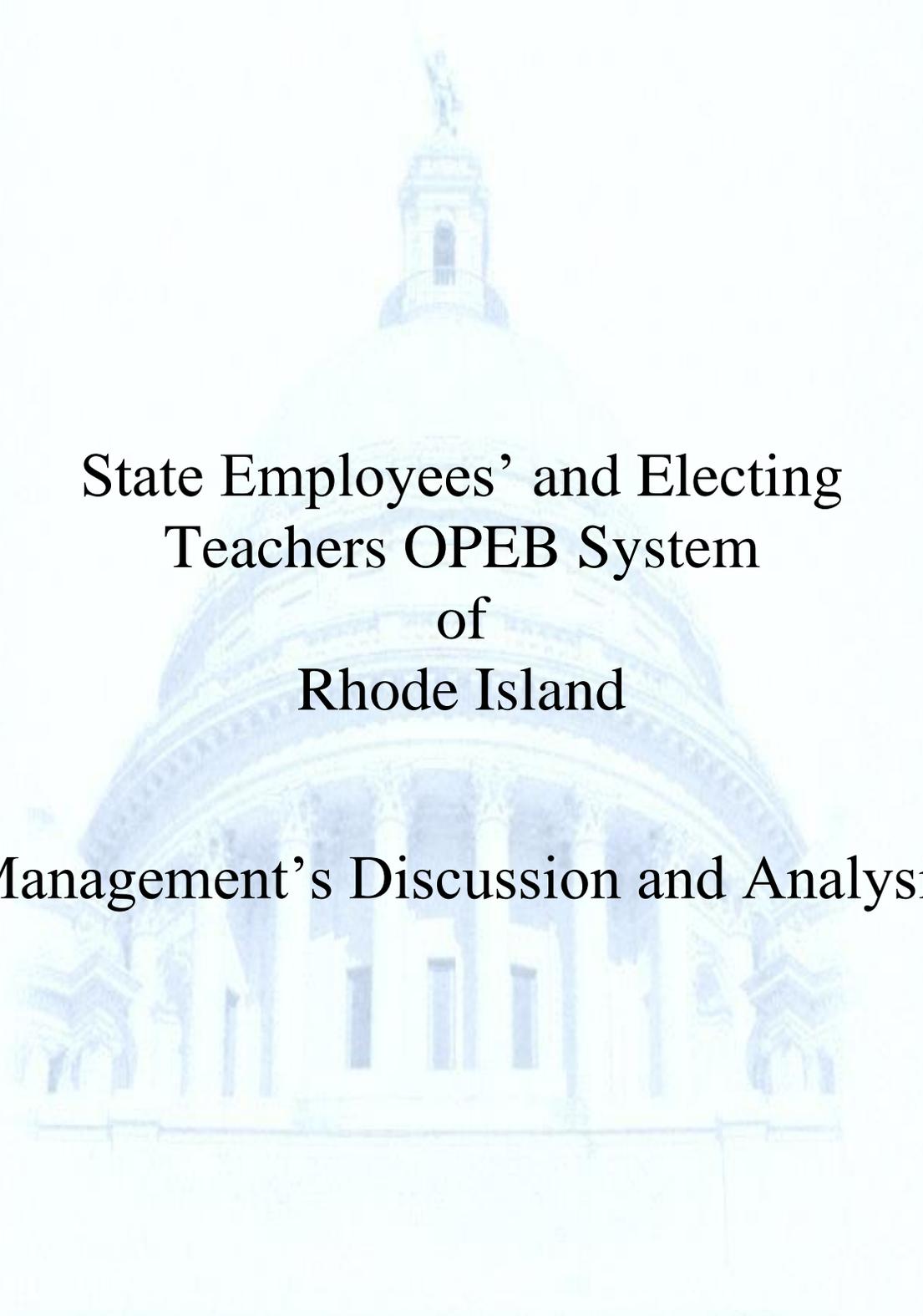
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2018 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

September 10, 2018



State Employees' and Electing
Teachers OPEB System
of
Rhode Island

Management's Discussion and Analysis

RHODE ISLAND 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, 2017. 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, 2017. 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 EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Management's Discussion and Analysis

Financial Highlights for the Fiscal Year Ended June 30, 2017

- Fiduciary net position increased by \$48.3 million in fiscal 2017 to \$228.4 million. The System began accumulating assets for the future payment of post-employment benefits in 2011.
- Total post-employment health care benefits paid were \$33.5 million, an increase of \$1.8 million from the amount of benefits paid in fiscal year 2016.
- Contributions to all plans from members and employers for fiscal year 2017 totaled \$58.3 million, an increase of \$3.6 million compared to the contributions received in fiscal year 2016.
- The System experienced a net gain from investing activities of \$21.6 million for the fiscal year ended June 30, 2017.

| Assets, Liabilities and Fiduciary Net Position – All Plans | | |
|-------------------------------------------------------------------|----------------------|----------------------|
| | June 30, 2017 | June 30, 2016 |
| Assets: | | |
| Cash and cash equivalents | \$ 8,747,988 | \$ 3,917,033 |
| Advance held by claims processing agent | 797,000 | 775,000 |
| Investments | 221,527,905 | 178,159,456 |
| Receivables | <u>1,838,603</u> | <u>1,921,863</u> |
| Total assets | <u>232,911,496</u> | <u>184,773,352</u> |
| Liabilities: | | |
| Accounts payable and incurred but not reported claims | 2,188,773 | 2,397,127 |
| Other liabilities | <u>2,304,670</u> | <u>2,249,491</u> |
| Total liabilities | <u>4,493,443</u> | <u>4,646,618</u> |
| Fiduciary Net Position: | <u>\$228,418,053</u> | <u>\$180,126,734</u> |

**RHODE ISLAND EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Management's Discussion and Analysis**

| Summary of Changes in Fiduciary Net Position – All Plans | | |
|-----------------------------------------------------------------|-------------------------------------|-------------------------------------|
| | Year Ended June 30, 2017 | Year Ended June 30, 2016 |
| Additions: | | |
| Contributions: | | |
| Employer | \$56,692,894 | \$ 53,438,321 |
| Member | 1,596,432 | 1,296,932 |
| Other income | 2,076,928 | 1,696,431 |
| Net investment gain | <u>21,553,636</u> | <u>8,099,983</u> |
| Total Additions | <u>81,919,890</u> | <u>64,531,667</u> |
| Deductions: | | |
| Benefits | 33,544,029 | 31,713,953 |
| Administrative expenses | <u>84,542</u> | <u>77,718</u> |
| Total Deductions | <u>33,628,571</u> | <u>31,791,671</u> |
| Increase in Fiduciary Net Position: | 48,291,319 | 32,739,996 |
| Fiduciary Net Position: | | |
| Beginning of year | <u>180,126,734</u> | <u>147,386,738</u> |
| End of year | <u>\$228,418,053</u> | <u>\$180,126,734</u> |

Investments

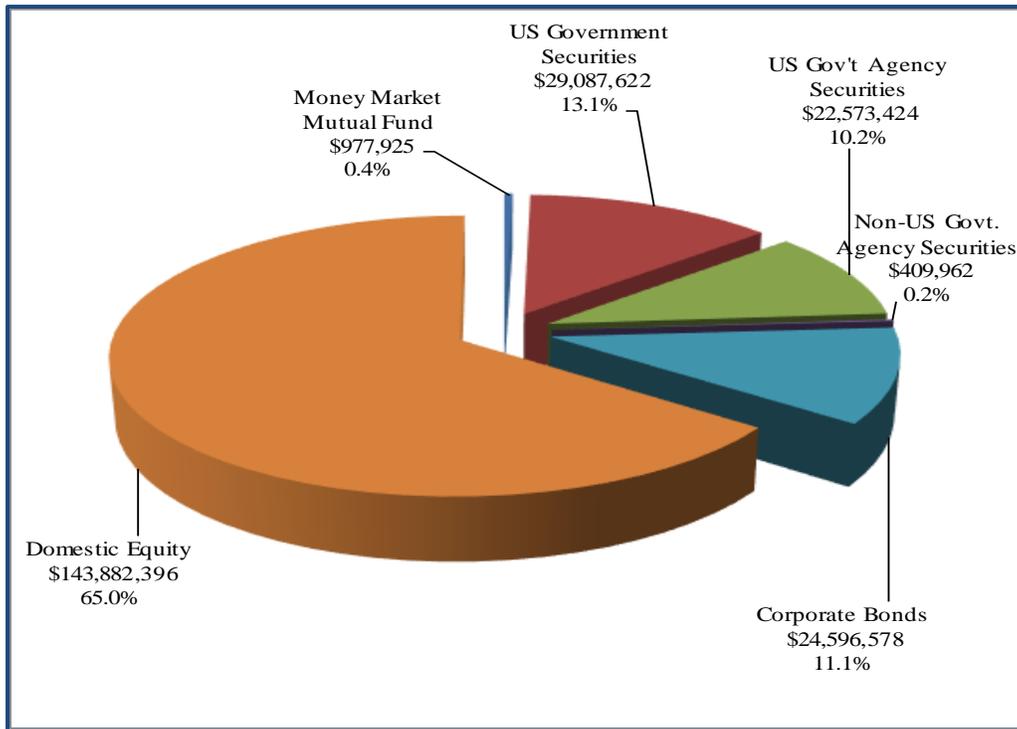
The State Investment Commission (SIC) monitors investment performance of the System and conducts periodic asset/liability (A/L) studies to identify an optimal diversified investment portfolio that maximizes return within an acceptable level of risk. As long-term investors, the SIC is committed to its 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 2017:

| Fiscal 2017 – Asset Allocation Targets | |
|-----------------------------------------------|-----|
| Domestic Equity | 65% |
| Fixed Income | 35% |

**RHODE ISLAND EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Management's Discussion and Analysis**

Pooled Investment Trust - Asset Allocation - Actual - Fair Value at June 30, 2017



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, 2017 was 11.30% while the composite benchmark return was 11.25%.

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 have been conducted every two years with annual valuations planned beginning June 30, 2018. 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.

Next Year's Contribution Rates

The fiscal 2018 employer contribution rates are all based upon actuarial valuations performed at June 30, 2015. The net employer contribution rates (expressed as a percent of covered payroll) for fiscal year 2018 are 5.98% for State employees, 0.81% for Legislators, 34.89% for State Police, and 4.36% for members of the Board of Education plan. There is no fiscal 2018 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 2018.

RHODE ISLAND EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Management's Discussion and Analysis

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.

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, 2017

| | State Employees' | Teachers | Judicial | State Police | Legislators | Board of Education | Memorandum Total |
|---------------------------------------------------------------|-----------------------------|---------------------|---------------------|-------------------------|---------------------|-------------------------------|-----------------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | \$ 4,875,946 | \$ 1,513,438 | \$ 411,462 | \$ 1,090,252 | \$ 121,450 | \$ 735,440 | \$ 8,747,988 |
| Advance held by claims processing agent | 797,000 | - | - | - | - | - | 797,000 |
| Contributions receivable | 1,463,617 | 24,176 | 7,800 | 201,660 | 8,729 | 132,621 | 1,838,603 |
| Investments at fair value - equity in pooled trust | 146,514,752 | 8,477,291 | 3,292,708 | 36,481,096 | 2,791,327 | 23,970,731 | 221,527,905 |
| Total assets | <u>153,651,315</u> | <u>10,014,905</u> | <u>3,711,970</u> | <u>37,773,008</u> | <u>2,921,506</u> | <u>24,838,792</u> | <u>232,911,496</u> |
| Liabilities | | | | | | | |
| Accounts payable | 368,962 | 46,906 | 5,360 | 53,997 | 7,930 | 23,618 | 506,773 |
| Incurred but not reported claims | 1,222,000 | 191,000 | 6,000 | 182,000 | 9,000 | 72,000 | 1,682,000 |
| Other | 2,304,670 | - | - | - | - | - | 2,304,670 |
| Total liabilities | <u>3,895,632</u> | <u>237,906</u> | <u>11,360</u> | <u>235,997</u> | <u>16,930</u> | <u>95,618</u> | <u>4,493,443</u> |
| Net position held in trust for other post-employment benefits | <u>\$ 149,755,683</u> | <u>\$ 9,776,999</u> | <u>\$ 3,700,610</u> | <u>\$ 37,537,011</u> | <u>\$ 2,904,576</u> | <u>\$ 24,743,174</u> | <u>\$ 228,418,053</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, 2017

| | State Employees' | Teachers | Judicial | State Police | Legislators | Board of Education | Memorandum Total |
|------------------------------------------------------------------|-----------------------------|---------------------|---------------------|-------------------------|---------------------|-------------------------------|-----------------------------|
| Additions | | | | | | | |
| Contributions | | | | | | | |
| Member contributions (note 4) | \$ | \$ | \$ | \$ | \$ | \$ 1,596,432 | \$ 1,596,432 |
| Employer contributions (note 4) | 42,731,807 | 2,321,057 | - | 7,701,758 | 26,743 | 3,911,529 | 56,692,894 |
| Total contributions | <u>42,731,807</u> | <u>2,321,057</u> | <u>0</u> | <u>7,701,758</u> | <u>26,743</u> | <u>5,507,961</u> | <u>58,289,326</u> |
| Other income (note 6) | 1,721,604 | 102,934 | 26,236 | 163,266 | 29,026 | 33,862 | 2,076,928 |
| Investment income | | | | | | | |
| Net appreciation in fair value of investments | 13,207,308 | 795,474 | 308,974 | 3,226,841 | 261,927 | 2,115,492 | 19,916,016 |
| Interest and dividends | 1,171,377 | 73,845 | 27,533 | 285,281 | 23,302 | 186,925 | 1,768,263 |
| | <u>14,378,685</u> | <u>869,319</u> | <u>336,507</u> | <u>3,512,122</u> | <u>285,229</u> | <u>2,302,417</u> | <u>21,684,279</u> |
| Less investment expense | (86,655) | (5,282) | (2,052) | (21,090) | (1,739) | (13,825) | (130,643) |
| Net investment income | <u>14,292,030</u> | <u>864,037</u> | <u>334,455</u> | <u>3,491,032</u> | <u>283,490</u> | <u>2,288,592</u> | <u>21,553,636</u> |
| Total additions | <u>58,745,441</u> | <u>3,288,028</u> | <u>360,691</u> | <u>11,356,056</u> | <u>339,259</u> | <u>7,830,415</u> | <u>81,919,890</u> |
| Deductions | | | | | | | |
| Benefits | 26,815,313 | 1,609,591 | (138,035) | 3,129,860 | 36,212 | 2,091,088 | 33,544,029 |
| Administrative expense (note 7) | 82,273 | (6,752) | 75 | 1,031 | (82) | 7,997 | 84,542 |
| Total deductions | <u>26,897,586</u> | <u>1,602,839</u> | <u>(137,960)</u> | <u>3,130,891</u> | <u>36,130</u> | <u>2,099,085</u> | <u>33,628,571</u> |
| Net increase (decrease) | 31,847,855 | 1,685,189 | 498,651 | 8,225,165 | 303,129 | 5,731,330 | 48,291,319 |
| Net position held in trust for other post-employment benefits | | | | | | | |
| Net position - beginning | 117,907,828 | 8,091,810 | 3,201,959 | 29,311,846 | 2,601,447 | 19,011,844 | 180,126,734 |
| Net position - ending | <u>\$ 149,755,683</u> | <u>\$ 9,776,999</u> | <u>\$ 3,700,610</u> | <u>\$ 37,537,011</u> | <u>\$ 2,904,576</u> | <u>\$ 24,743,174</u> | <u>\$ 228,418,053</u> |

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

RHODE ISLAND STATE EMPLOYEES’ AND ELECTING TEACHERS OPEB SYSTEM
Notes to the Financial Statements
Fiscal Year Ended June 30, 2017

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 the Financial Statements
Fiscal Year Ended June 30, 2017

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 2017 contributions are as follows:

| <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% |

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to the Financial Statements
Fiscal Year Ended June 30, 2017

1. Plan Descriptions (continued)

(b) Membership and Benefit Provisions

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 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.

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.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to the Financial Statements
Fiscal Year Ended June 30, 2017

1. Plan Descriptions (continued)

(b) Membership and Benefit Provisions

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.

A summary of membership by plan and the number of participating employers as of the June 30, 2017 actuarial valuation (the most recent information available) follows:

| Plan | Members | | | Participating Employers |
|-----------------------|---------|---------|--------|-------------------------|
| | Active | Retired | Total | |
| State employees | 11,169 | 6,730 | 17,899 | 9 |
| Teachers | n/a | 146 | 146 | N/A |
| Judicial | 61 | 47 | 108 | 1 |
| State police officers | 233 | 173 | 406 | 1 |
| Legislators | 111 | 18 | 129 | 1 |
| BOE employees | 1,859 | 862 | 2,721 | 5 |

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to the Financial Statements
Fiscal Year Ended June 30, 2017

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 of how the market would price the asset or liability be used when available. 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.

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.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to the Financial Statements
Fiscal Year Ended June 30, 2017

2. Summary of Significant Accounting Policies (continued)

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.

Implementation of New Accounting Standard – The System implemented GASB Statement No. 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* during fiscal 2017 which required disclosures in the notes to the financial statements and required supplementary information regarding the net OPEB liability (asset), of employers participating in each of the plans within the System. The net OPEB liability (asset) for each plan was determined in accordance with the parameters of GASB Statement No. 74.

3. Cash Deposits and Investments

Cash Deposits and Cash Equivalents

At June 30, 2017 the carrying amounts of the plans’ cash deposits are listed below:

| | State Employees | Teachers | Judges | State Police | Legislators | BOE | Total |
|----------------------------------------------|---------------------|---------------------|-------------------|---------------------|-------------------|-------------------|---------------------|
| Cash Deposits: | | | | | | | |
| Book Balance | \$ 4,875,801 | \$ 1,373,899 | \$ 411,462 | \$ 1,087,143 | \$ 121,450 | \$ 734,713 | \$ 8,604,468 |
| Bank Balance | 4,875,801 | 1,373,899 | 411,462 | 1,087,925 | 121,450 | 734,713 | 8,605,250 |
| Cash Equivalents: | 145 | 139,539 | - | 3,109 | | 727 | 143,520 |
| Total Cash Deposits and Cash Equivalents: | <u>\$ 4,875,946</u> | <u>\$ 1,513,438</u> | <u>\$ 411,462</u> | <u>\$ 1,090,252</u> | <u>\$ 121,450</u> | <u>\$ 735,440</u> | <u>\$ 8,747,988</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.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to the Financial Statements

Fiscal Year Ended June 30, 2017

3. Cash Deposits and Investments (continued)

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, 2017, the System's cash deposits were either federally insured or collateralized.

At June 30, 2017, the System had cash equivalent investments consisting of \$143,520 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 0.03% of the total investment in OSIP at June 30, 2017. 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 GASB 79 - 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 (SIC) 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. The following was the SIC's adopted asset allocation policy targets as of June 30, 2017.

| <u>Type of Investment</u> | <u>Policy Targets for Fiscal Year 2017</u> |
|----------------------------------|-------------------------------------------------------|
| Domestic Equity | 65% |
| Fixed Income | 35% |

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 SIC, 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.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to the Financial Statements
Fiscal Year Ended June 30, 2017

3. Cash Deposits and Investments (continued)

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2017:

| <u>Investments at Fair Value</u> | <u>June 30, 2017</u> | <u>Quoted Prices in Active Markets for Identical Assets</u> <u>(Level 1)</u> | <u>Significant Other Observable Inputs</u> <u>(Level 2)</u> | <u>Significant Unobservable Inputs</u> <u>(Level 3)</u> |
|----------------------------------------------------------|-----------------------|---------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|--------------------------------------------------------------------|
| Debt Securities | | | | |
| US Government Securities | \$ 29,087,622 | \$ 29,087,622 | | |
| Corporate Bonds | 24,596,578 | | \$ 24,596,578 | |
| US Government Agency Securities | 22,573,424 | | 22,573,424 | |
| Non-US Government Securities | 409,962 | | 409,962 | |
| Total Investments by fair value level | <u>\$ 76,667,586</u> | <u>\$ 29,087,622</u> | <u>\$ 47,579,964</u> | |
| Investments measured at the net asset value (NAV) | | | | |
| Commingled Funds | \$ 143,882,396 | | | |
| Money Market Mutual Funds | 10,509,755 | | | |
| | <u>\$ 154,392,151</u> | | | |
| Net investment payable | <u>\$ (9,531,832)</u> | | | |
| Total Pooled Investment Trust | <u>\$ 221,527,905</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.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
Fiscal Year Ended June 30, 2017

3. Cash Deposits and Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following table shows the System's fixed income investments by type, fair value and the effective duration at June 30, 2017:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Effective Duration</u> |
|---------------------------------|----------------------|---------------------------|
| US Government Securities | \$ 29,087,622 | 5.42 |
| US Government Agency Securities | 22,573,424 | 3.77 |
| Corporate Bonds | 24,596,578 | 7.93 |
| Non-US Govt Securities | <u>409,962</u> | 15.58 |
| Total Fixed Income | <u>\$ 76,667,586</u> | 5.10 |

The System's investment in the Fidelity Investments Money Market Government Portfolio Fund, a money market mutual fund, had an average weighted maturity of 26 days at June 30, 2017.

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, 2017 is as follows:

| Rating (1) | US Government Agency <u>Obligations</u> | Corporate <u>Bonds</u> | Non-US Government <u>Securities</u> |
|-------------------|--------------------------------------------------------|-----------------------------------|----------------------------------------------------|
| Aaa | \$ 22,573,424 | \$ 560,619 | \$ |
| Aa | | 1,383,151 | |
| A | | 7,835,910 | 409,962 |
| Baa | | 14,605,772 | |
| Not Rated | | 211,126 | |
| Fair Value | <u>\$ 22,573,424</u> | <u>\$ 24,596,578</u> | <u>\$ 409,962</u> |

(1) Moody's Investor Service

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
Fiscal Year Ended June 30, 2017

3. Cash Deposits and Investments (continued)

The System's investment in a short-term money market mutual fund (Fidelity Investments Money Market Government Portfolio Fund) was rated AAAM by Standard & Poor's Investors Service.

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, 2017, 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.

Rate of Return

For the year ended June 30, 2017, the annual money weighted returns on investments within each of the plans, net of investment expenses are shown in the following table. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

| | State Employees | Teachers | Judges | State Police | Legislators | Board of Education |
|--------------------------------------------|--------------------|----------|--------|--------------|-------------|-----------------------|
| Fiscal Year Ended June 30, 2017 | 10.42% | 7.94% | 9.83% | 11.32% | 9.99% | 11.13% |

4. Contributions

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 statutorily determined 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, 2017, the State and other participating employers paid \$56,692,894 into the plans.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
Fiscal Year Ended June 30, 2017

4. Contributions (continued)

The table below displays the contribution rates for the year ended June 30, 2017:

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

The annual required contributions for fiscal year 2017 were determined based on the June 30, 2013 valuations for all plans.

Employer contributions include amounts of \$499,670 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.

5. Net OPEB Liability (Asset) of the Participating Employers

The Net OPEB Liability(Asset) of employers participating in the various plans of the System as of June 30, 2017 were as follows:

| Plan | Total OPEB Liability | Plan fiduciary net position | Employer's net OPEB liability (asset) | Plan fiduciary net position as a % of the total OPEB liability |
|--------------------|-----------------------------|------------------------------------|----------------------------------------------|-----------------------------------------------------------------------|
| State Employees | \$ 669,199,523 | \$ 149,755,683 | \$ 519,443,840 | 22.38% |
| Teachers | 12,832,475 | 9,776,999 | 3,055,476 | 76.19% |
| Judges | 1,322,228 | 3,700,610 | (2,378,382) | 279.88% |
| State Police | 82,423,128 | 37,537,011 | 44,886,117 | 45.54% |
| Legislators | 1,525,281 | 2,904,576 | (1,379,295) | 190.43% |
| Board of Education | 77,200,508 | 24,743,174 | 52,457,334 | 32.05% |

a. 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.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
Fiscal Year Ended June 30, 2017

5. Net OPEB Liability (Asset) of the Participating Employers (continued)
a. Actuarial Methods and Assumptions

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 total OPEB liability was based on valuations performed as of June 30, 2017 (measurement date).

The actuarial assumptions used in the June 30, 2017 valuation and the calculation of the total pension liability (asset) at June 30, 2017 were consistent with an actuarial experience study performed as of June 30, 2017.

The following table summarizes the assumptions and methods employed in the June 30, 2017 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.

| Summary of Actuarial Methods and Assumptions used in the June 30, 2017 valuation | | | | | | |
|-----------------------------------------------------------------------------------------------------|-------------------------------------|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------------|
| | State Employees' Plan | Teachers Plan | Judges Plan | State Police Plan | Legislators Plan | Board of Education Plan |
| Actuarial Cost Method | Individual Entry Age | | | | | |
| Amortization Method | Level Percent of Payroll | Level Dollar | Level Percent of Payroll |
| Equivalent Single Remaining Amortization Period | 19 years closed | Determined by Statutory Contribution | 30 years open | 19 years closed | 30 years open | 19 years closed |
| Asset Valuation Method | Four-year smoothed market | | | | | |
| Actuarial Assumptions | | | | | | |
| Investment Rate of Return | 5.00% | | | | | |
| Projected Salary Increases | 3.0% To 6.0% | N/A | 3.0% | 4.0% to 14.0% | 3.0% To 6.0% | 3.0% To 6.0% |
| Valuation Health Care Cost Trend Rate | 9% in 2018, grading to 3.5% in 2031 | | | | | |
| Excise Tax Under the Patient Protection and Affordable Care Act | 11.0% | | | | | |
| Note: The actuarial assumptions do not include a separate general inflation rate assumption. | | | | | | |

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2017**

5. Net OPEB Liability (Asset) of the Participating Employers (continued)

a. Actuarial Methods and Assumptions

There have been changes in actuarial assumptions since the June 30, 2015 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:

- a. Merit and longevity portion of the salary increase assumption
- b. Rates of separation from active membership
- c. Rates of retirement
- d. Rates of disability
- e. The mortality assumption

In addition, the rates of salary increase (including 3.0% wage inflation) were changed to 4.0% to 14.0% for State Police, 3.0% for the Judges and 3.0% to 6.0% for State Employees, Legislators, and Board of Education to match the most recent actuarial valuation of Employees Retirement System of Rhode Island. Also, the health care trend assumption has been reset to 9.0% in the first year trending down to 3.5% over 14 years.

The Excise Tax load on pre-65 liabilities was decreased from 13.8% to 11.0%. 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 2022. 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 2022.

The long-term expected rate of return best-estimate on OPEB plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of OPEB plan expense and inflation) for each major asset class, based on a collective summary of capital market expectation from 8 nationally recognized investment consulting firms. The June 30, 2017 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

| <u>Type of Investment</u> | <u>Long-term expected real rate of return</u> |
|---------------------------|---------------------------------------------------|
| Domestic Equity | 5.58% |
| Fixed Income | 0.52% |

b. Discount rate

The discount rate used to measure the total OPEB liability of the plans was 5%. The projection of cash flows used to determine the discount rate assumed that the contributions, if any, from the plan members will be made at the current contribution rate and that the contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
Fiscal Year Ended June 30, 2017

5. Net OPEB Liability (Asset) of the Participating Employers (continued)

c. Sensitivity of the net OPEB liability (asset) to changes in the discount rate

The following table presents the net OPEB liability (asset) of the employers calculated using the discount rate of 5.0 percent, as well as what the employers' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

Sensitivity of Net OPEB Liability (Asset) to the Single Discount Rate Assumption

| | 1% Decrease | Current Single Discount Rate Assumption | 1% Increase |
|--------------------|--------------------|--------------------------------------------------------|--------------------|
| | 4.00% | 5.00% | 6.00% |
| State Employees | \$ 606,122,143 | \$ 519,443,840 | \$ 447,271,624 |
| Teachers | 4,281,942 | 3,055,476 | 2,006,132 |
| Judges | (2,313,419) | (2,378,382) | (2,438,034) |
| State Police | 51,772,444 | 44,886,117 | 38,661,011 |
| Legislators | (1,270,176) | (1,379,295) | (1,478,366) |
| Board of Education | 64,299,819 | 52,457,334 | 42,734,949 |

d. Sensitivity of the net OPEB liability (asset) to changes in the healthcare inflation rate

The following presents the net OPEB liability (asset) of the employers calculated using the healthcare cost trend rate of 9.0 percent and gradually decreasing to an ultimate rate of 3.5%, as well as what the employers' net OPEB liability (asset) would be if it were calculated using a trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

**Sensitivity of Net OPEB Liability (Asset)
to the Healthcare Cost Trend Rate Assumption**

| | 1% Decrease | Current Healthcare Cost Trend Rate Assumption | 1% Increase |
|--------------------|--------------------|--------------------------------------------------------------|--------------------|
| State Employees | \$ 437,148,366 | \$ 519,443,840 | \$ 621,716,908 |
| Teachers | 2,059,174 | 3,055,476 | 4,196,487 |
| Judges | (2,389,477) | (2,378,382) | (2,366,307) |
| State Police | 37,405,191 | 44,886,117 | 53,531,765 |
| Legislators | (1,479,305) | (1,379,295) | (1,267,105) |
| Board of Education | 41,452,803 | 52,457,334 | 66,371,469 |

6. Other Income

Drug rebates received from drug manufacturers relating to claims paid for retirees totaling \$2,076,928 are included in other income.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2017

7. Administrative Expenses

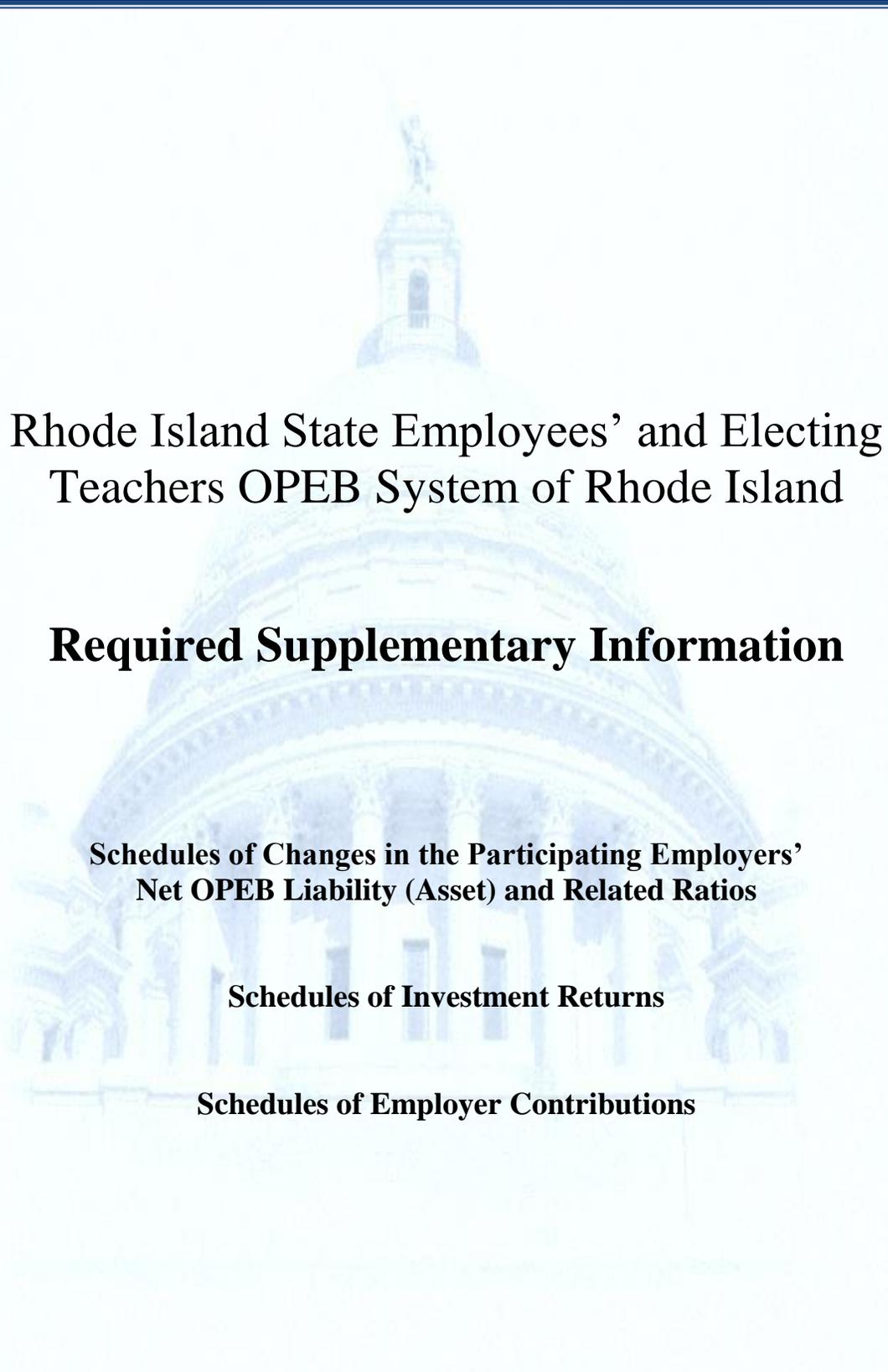
Pursuant to General Law section 36-12.1-15, for fiscal years 2011 through 2014, the State Controller was authorized to disburse from the OPEB trust funds the actual costs of administering the funds. Beginning in fiscal year 2015, a restricted receipts account within the General Fund was to be funded 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 2017, the Trust continued to disburse administrative expenses, which totaled \$84,542 from the OPEB trust funds themselves, rather than transfer funds per the formula mentioned previously to the restricted receipt account in the general fund.

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, but will be starting in fiscal year 2018.

8. Contingencies

The most recent actuarial valuation of the plans within the System as of June 30, 2017, reflect that the plans will be subject to the excise tax on high cost health plans beginning in 2022. 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 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

**Schedules of Changes in the Participating Employers'
Net OPEB Liability (Asset) and Related Ratios**

Schedules of Investment Returns

Schedules of Employer Contributions

Rhode Island State Employees' and Electing Teachers OPEB System
Required Supplementary Information
Schedule of Changes in the Participating Employers' Net OPEB Liability and Related Ratios

| State Employees' Plan | |
|--------------------------------------------------------------------------------|--------------------------------------------|
| | Fiscal Year Ended June 30, 2017 |
| Total OPEB liability | |
| Service cost | \$ 15,729,608 |
| Interest on the total OPEB liability | 31,905,604 |
| Difference between expected and actual experience | (31,336,582) |
| Changes of assumptions | 36,061,281 |
| Benefit payments, net of retiree contributions | (26,815,313) |
| Net change in total OPEB liability | <u>25,544,598</u> |
| Total OPEB liability - beginning | <u>643,654,925</u> |
| Total OPEB liability - ending (a) | <u><u>\$ 669,199,523</u></u> |
| Plan fiduciary net position | |
| Employer contributions | \$ 42,731,807 |
| OPEB plan net investment income | 14,292,030 |
| Benefit payments, net of retiree contributions | (26,815,313) |
| OPEB plan administrative expense | (82,273) |
| Other | 1,721,604 |
| Net change in plan fiduciary net position | <u>31,847,855</u> |
| Plan fiduciary net position - beginning | <u>117,907,828</u> |
| Plan fiduciary net position - ending (b) | <u><u>\$ 149,755,683</u></u> |
| Net OPEB liability - ending (a) - (b) | <u><u>\$ 519,443,840</u></u> |
| Plan fiduciary net position as a percentage of total OPEB liability | |
| | 22.38 % |
| Covered-employee payroll | \$ 708,886,705 |
| Net OPEB liability as a percentage of covered-employee payroll | 73.28 % |

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

Rhode Island State Employees' and Electing Teachers OPEB System
Required Supplementary Information
Schedule of Changes in the Participating Employers' Net OPEB Liability and Related Ratios

| Teachers Plan | |
|--------------------------------------------------------------------------------|--------------------------------------------|
| | Fiscal Year Ended June 30, 2017 |
| Total OPEB liability | |
| Service cost | \$ 0 |
| Interest on the total OPEB liability | 561,694 |
| Difference between expected and actual experience | 1,625,377 |
| Changes of assumptions | 216,323 |
| Benefit payments, net of retiree contributions | (1,609,591) |
| Net change in total OPEB liability | <u>793,803</u> |
| Total OPEB liability - beginning | <u>12,038,672</u> |
| Total OPEB liability - ending (a) | <u><u>\$ 12,832,475</u></u> |
| Plan fiduciary net position | |
| Employer contributions | \$ 2,321,057 |
| OPEB plan net investment income | 864,037 |
| Benefit payments, net of retiree contributions | (1,609,591) |
| OPEB plan administrative expense | 6,752 |
| Other | 102,934 |
| Net change in plan fiduciary net position | <u>1,685,189</u> |
| Plan fiduciary net position - beginning | <u>8,091,810</u> |
| Plan fiduciary net position - ending (b) | <u><u>\$ 9,776,999</u></u> |
| Net OPEB liability - ending (a) - (b) | <u><u>\$ 3,055,476</u></u> |
| Plan fiduciary net position as a percentage of total OPEB liability | |
| | 76.19 % |
| Covered-employee payroll | \$ 0 |
| Net OPEB liability as a percentage of covered-employee payroll | N/A |

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

Rhode Island State Employees' and Electing Teachers OPEB System
Required Supplementary Information
Schedule of Changes in the Participating Employers' Net OPEB Liability and Related Ratios

| Judges Plan | |
|----------------------------------------------------|--------------------------------------------|
| | Fiscal Year Ended June 30, 2017 |
| Total OPEB liability | |
| Service cost | \$ 19,825 |
| Interest on the total OPEB liability | 49,824 |
| Difference between expected and actual experience | (305,715) |
| Changes of assumptions | 502,717 |
| Benefit payments, net of retiree contributions | 138,035 |
| Net change in total OPEB liability | <u>404,686</u> |
| Total OPEB liability - beginning | <u>917,542</u> |
| Total OPEB liability - ending (a) | <u><u>\$ 1,322,228</u></u> |
| Plan fiduciary net position | |
| Employer contributions | \$ - |
| OPEB plan net investment income | 334,455 |
| Benefit payments, net of retiree contributions | 138,035 |
| OPEB plan administrative expense | (75) |
| Other | 26,236 |
| Net change in plan fiduciary net position | <u>498,651</u> |
| Plan fiduciary net position - beginning | <u>3,201,959</u> |
| Plan fiduciary net position - ending (b) | <u><u>\$ 3,700,610</u></u> |
| Net OPEB liability - ending (a) - (b) | <u><u>\$ (2,378,382)</u></u> |
| Plan fiduciary net position as a percentage | |
| of total OPEB liability | 279.88 % |
| Covered-employee payroll | \$ 10,746,388 |
| Net OPEB liability as a percentage | |
| of covered-employee payroll | (22.13)% |

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

Rhode Island State Employees' and Electing Teachers OPEB System
Required Supplementary Information
Schedule of Changes in the Participating Employers' Net OPEB Liability and Related Ratios

| State Police Plan | |
|--------------------------------------------------------------------------------|--------------------------------------------|
| | Fiscal Year Ended June 30, 2017 |
| Total OPEB liability | |
| Service cost | \$ 3,836,395 |
| Interest on the total OPEB liability | 4,202,351 |
| Difference between expected and actual experience | (174,805) |
| Changes of assumptions | (6,004,696) |
| Benefit payments, net of retiree contributions | (3,129,860) |
| Net change in total OPEB liability | <u>(1,270,615)</u> |
| Total OPEB liability - beginning | <u>83,693,743</u> |
| Total OPEB liability - ending (a) | <u><u>\$ 82,423,128</u></u> |
| | |
| Plan fiduciary net position | |
| Employer contributions | \$ 7,701,758 |
| OPEB plan net investment income | 3,491,032 |
| Benefit payments, net of retiree contributions | (3,129,860) |
| OPEB plan administrative expense | (1,031) |
| Other | 163,266 |
| Net change in plan fiduciary net position | <u>8,225,165</u> |
| | |
| Plan fiduciary net position - beginning | <u>29,311,846</u> |
| Plan fiduciary net position - ending (b) | <u><u>\$ 37,537,011</u></u> |
| Net OPEB liability - ending (a) - (b) | <u><u>\$ 44,886,117</u></u> |
| | |
| Plan fiduciary net position as a percentage of total OPEB liability | 45.54 % |
| Covered-employee payroll | \$ 21,333,758 |
| Net OPEB liability as a percentage of covered-employee payroll | 210.40 % |

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

Rhode Island State Employees' and Electing Teachers OPEB System
Required Supplementary Information
Schedule of Changes in the Participating Employers' Net OPEB Liability (Asset) and Related Ratios

| Legislators Plan | |
|------------------------------------------------------------------------------------|--------------------------------------------|
| | Fiscal Year Ended June 30, 2017 |
| Total OPEB liability | |
| Service cost | \$ 63,441 |
| Interest on the total OPEB liability | 66,140 |
| Difference between expected and actual experience | 168,094 |
| Changes of assumptions | (45,367) |
| Benefit payments, net of retiree contributions | (36,212) |
| Net change in total OPEB liability | <u>216,096</u> |
| Total OPEB liability - beginning | 1,309,185 |
| Total OPEB liability - ending (a) | <u><u>\$ 1,525,281</u></u> |
| Plan fiduciary net position | |
| Employer contributions | \$ 26,743 |
| OPEB plan net investment income | 283,490 |
| Benefit payments, net of retiree contributions | (36,212) |
| OPEB plan administrative expense | 82 |
| Other | 29,026 |
| Net change in plan fiduciary net position | <u>303,129</u> |
| Plan fiduciary net position - beginning | 2,601,447 |
| Plan fiduciary net position - ending (b) | <u>\$ 2,904,576</u> |
| Net OPEB liability (asset) - ending (a) - (b) | <u><u>\$ (1,379,295)</u></u> |
| Plan fiduciary net position as a percentage of total OPEB liability | 190.43 % |
| Covered-employee payroll | \$ 1,719,143 |
| Net OPEB liability (asset) as a percentage of covered-employee payroll | (80.23)% |

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

*State Employees' and Electing Teachers OPEB System
Required Supplementary Information
Schedule of Changes in the Participating Employers' Net OPEB Liability and Related Ratios*

| Board of Education Plan | |
|------------------------------------------------------------------------------------|--------------------------------------------|
| | Fiscal Year Ended June 30, 2017 |
| Total OPEB liability | |
| Service cost | \$ 3,222,465 |
| Interest on the total OPEB liability | 3,714,663 |
| Difference between expected and actual experience | (7,140,117) |
| Changes of assumptions | 5,767,020 |
| Benefit payments | (2,091,088) |
| Net change in total OPEB liability | <u>3,472,943</u> |
| Total OPEB liability - beginning | <u>73,727,565</u> |
| Total OPEB liability - ending (a) | <u><u>\$ 77,200,508</u></u> |
| Plan fiduciary net position | |
| Employer contributions | \$ 3,911,529 |
| Employee contributions | 1,596,432 |
| OPEB plan net investment income | 2,288,592 |
| Benefit payments, net of retiree contributions | (2,091,088) |
| OPEB plan administrative expense | (7,997) |
| Other | 33,862 |
| Net change in plan fiduciary net position | <u>5,731,330</u> |
| Plan fiduciary net position - beginning | <u>19,011,844</u> |
| Plan fiduciary net position - ending (b) | <u><u>\$ 24,743,174</u></u> |
| Net OPEB liability - ending (a) - (b) | <u><u>\$ 52,457,334</u></u> |
| Plan fiduciary net position as a percentage of total OPEB liability | 32.05 % |
| Covered-employee payroll | \$ 124,967,304 |
| Net OPEB liability as a percentage of covered-employee payroll | 41.98 % |

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

**RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION**

Schedules of Investment Returns

Annual Money-Weighted Rate of Return, Net of Investment Expense

| | <u>State Employees</u> | <u>Teachers</u> | <u>Judges</u> | <u>State Police</u> | <u>Legislators</u> | <u>Board of Education</u> |
|----------------------------------------|----------------------------|-----------------|---------------|---------------------|--------------------|-------------------------------|
| Fiscal Year Ended June 30, 2017 | 10.42% | 7.94% | 9.83% | 11.32% | 9.99% | 11.13% |

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

Rhode Island State Employees' and Electing Teachers OPEB System
Required Supplementary Information
Schedules of Employer Contributions

| Fiscal Year Ended 30-Jun | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Employee Payroll | Contributions as a Percentage of Covered Employee Payroll |
|--------------------------------|-------------------------------------------|------------------------|----------------------------------------|--------------------------------|--------------------------------------------------------------------|
| State Employees | | | | | |
| 2017 | \$ 42,731,807 | \$ 42,731,807 | \$ - | \$ 708,886,705 | 6.03 % |
| 2016 | 40,709,025 | 40,709,025 | - | 682,965,470 | 5.96 % |
| 2015 | 45,694,525 | 45,694,525 | - | 682,965,470 | 6.69 % |
| Teachers | | | | | |
| 2017 | \$ 2,321,057 | \$ 2,321,057 | \$ - | - | |
| 2016 | 2,321,057 | 2,321,057 | - | - | |
| 2015 | 2,321,057 | 2,321,057 | - | - | |
| Judges | | | | | |
| 2017 | \$ - | \$ - | \$ - | 10,746,388 | 0.00 % |
| 2016 | - | - | - | 10,281,486 | 0.00 % |
| 2015 | 13,377 | 13,377 | - | 10,281,486 | 0.13 % |
| State Police | | | | | |
| 2017 | \$ 7,701,758 | \$ 7,701,758 | \$ - | 21,333,758 | 36.10 % |
| 2016 | 6,823,477 | 6,823,477 | - | 18,119,355 | 37.66 % |
| 2015 | 8,134,524 | 8,134,524 | - | 18,119,355 | 44.89 % |
| Legislators | | | | | |
| 2017 | \$ 26,743 | \$ 26,743 | \$ - | 1,719,143 | 1.56 % |
| 2016 | 26,572 | 26,572 | - | 1,741,853 | 1.53 % |
| 2015 | - | - | - | 1,741,853 | 0.00 % |
| Board of Education | | | | | |
| 2017 | \$ 3,911,529 | \$ 3,911,529 | \$ - | 124,967,304 | 3.13 % |
| 2016 | 3,558,196 | 3,558,196 | - | 113,947,197 | 3.12 % |
| 2015 | 2,530,372 | 2,530,372 | - | 113,947,197 | 2.22 % |

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

RHODE ISLAND EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Required Supplementary Information
Fiscal Year Ended June 30, 2017

1. Actuarial assumptions and methods used to calculate the net OPEB liability (asset) of the participating employers

The actuarial methods and assumptions used to calculate the net OPEB liability (asset) of the participating employers are described in Note 5 to the financial statements. The following information is presented about factors that significantly affect trends in the amounts reported between years.

June 30, 2017 Measurement Date:

There have been changes in actuarial assumptions since the June 30, 2015 valuation. Certain actuarial assumptions for State Employees, Legislators, and Board of Education were updated to match the assumptions used for State Employees in the pension valuation for the Employees' Retirement System of Rhode Island (ERSRI) and the results of an actuarial experience investigation performed for ERSRI at June 30, 2016. 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
- The rate of wage inflation
- The mortality assumption
- The trend assumption
- Aging factors and health and inflation trends.

The excise tax load on pre-65 liabilities was changed from 13.8% to 11.0%.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2022. 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 2022.

2. Actuarially determined contributions

Actuarially determined contributions were calculated biennially as of June 30. However, with the implementation of GASB 74 and 75 the Board has voted to change to annual valuations. The Actuarially Determined Employer Contribution is still three years prior to the fiscal years in which the contributions are reported. For example, the contribution rates for fiscal 2020 will be based on valuations performed as of June 30, 2017.

The following table summarizes the assumptions and methods employed in the June 30, 2017 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 EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Required Supplementary Information
Fiscal Year Ended June 30, 2017

2. Actuarially determined contributions (continued)

| Summary of Actuarial Methods and Assumptions as of June 30, 2013 valuation used to determine fiscal 2017 contribution rates | | | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|--------------------------------------|--------------------------|--------------------------|--------------------------|-------------------------------|
| | State Employees | Teachers | Judges | 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% | 3.5% 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. | | | | | | |

3. Covered employee payroll

Covered employee payroll, as included in required supplementary information schedules, includes projected annualized payroll amounts for employees beginning employment during the fiscal year. Consequently, the covered employee payroll amounts included in the required supplementary information schedules may differ from the actual fiscal year payroll base to which the actuarially determined contribution rate was applied. Additionally, the contribution amount as a percentage of covered payroll may differ from the Board approved contribution rate expressed as a percentage of payroll.

4. Schedules of Investment Returns

The annual money-weighted return on investments within each of the plans, net of investment expense, are shown in the required supplementary information schedule. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested.

The schedules are intended to present ten years of data. Additional years of data will be presented as they become available.