

**State of Rhode Island**

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

**FISCAL YEAR ENDED JUNE 30, 2018**



**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

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September 30, 2019

## JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER Nicholas A. Mattiello, Chairman  
Senator Dominick J. Ruggiero  
Senator Dennis L. Algiere  
Representative K. Joseph Shekarchi  
Representative Blake A. Filippi

## 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, 2018.

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

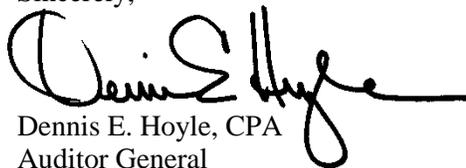
Section 36-12.1-12 of the Rhode Island General Laws requires that the OPEB Board provide an annual report showing the financial transactions of the System. This report is intended to meet the reporting requirement of the General Laws for the fiscal year ended June 30, 2018.

Our report includes findings and management comments resulting from our audit of the OPEB System.

We have separately issued our reports on the Schedules of Employer Allocations and Schedules of OPEB amounts by employer for the State Employees' OPEB Cost-sharing Plan and the Board of Education OPEB Cost-sharing Plan. Those reports are provided for participating employers to meet their fiscal 2019 financial reporting responsibilities under generally accepted accounting principles - specifically the requirements of Governmental Accounting Standards Board Statement No. 75 – *Accounting and Financial Reporting for OPEB*.

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, 2018**

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# Office of the Auditor General

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## **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, 2018 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, 2018, 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 Matter***

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, 2018, 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.

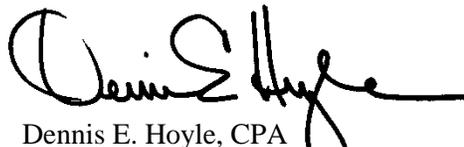
Our opinions are not modified with respect to this matter.

***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 6 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.

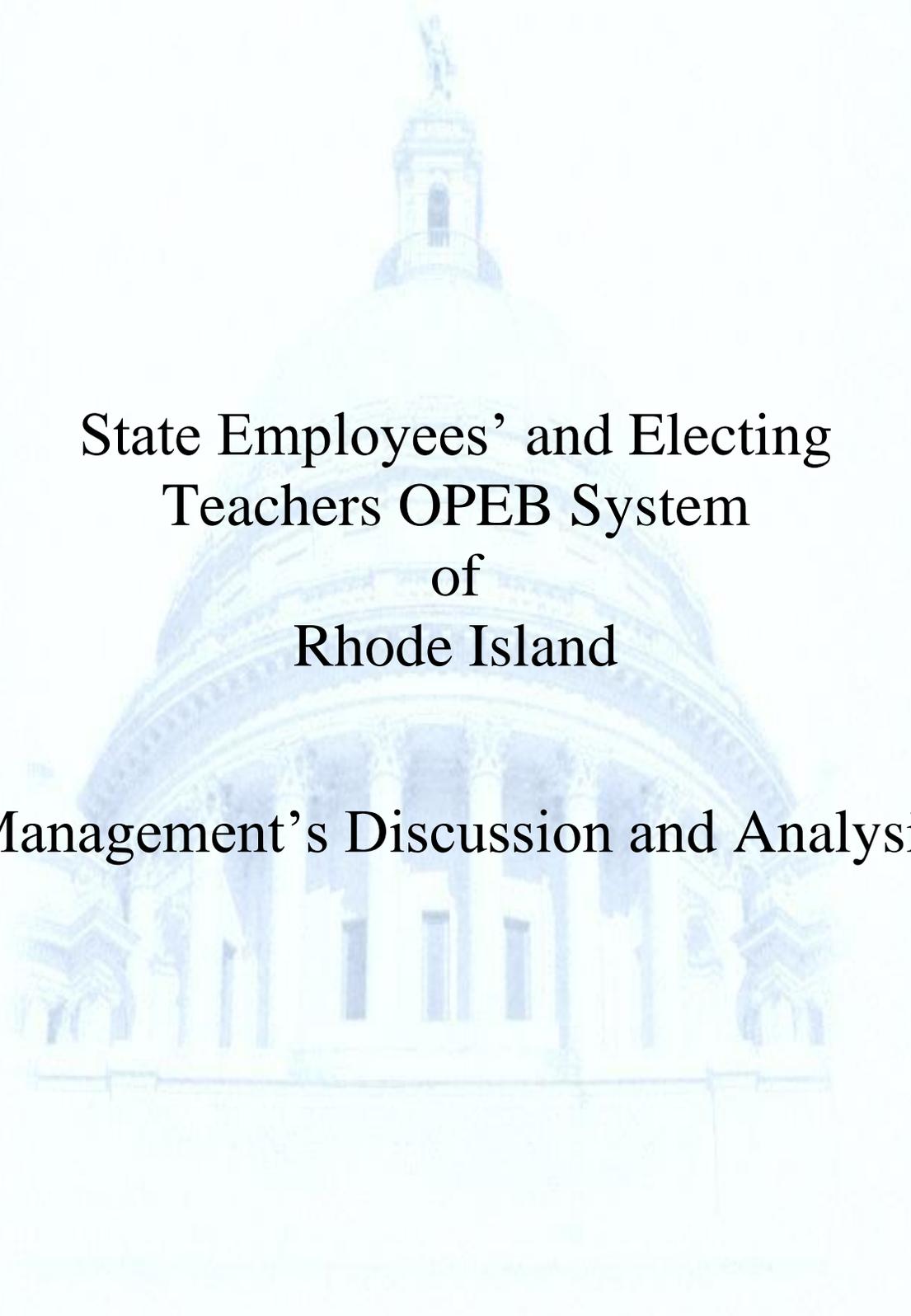
***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019 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 27, 2019



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, 2018. 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, 2018. 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, 2018**

- Fiduciary net position increased by \$50.0 million in fiscal 2018 to \$278.2 million. The System began accumulating assets for the future payment of post-employment benefits in 2011.
- Total post-employment health care benefits paid were \$32.6 million, a decrease of \$0.9 million from the amount of benefits paid in fiscal 2017.
- Contributions to all plans from members and employers for fiscal 2018 totaled \$59.6 million, an increase of \$1.3 million compared to the contributions received in fiscal 2017.
- The System experienced a net gain from investing activities of \$20.8 million for fiscal 2018.

<b>Assets, Liabilities and Fiduciary Net Position – All Plans</b>		
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 9,330,131	\$ 8,747,988
Advance held by claims processing agent	811,000	797,000
Investments	271,753,912	221,527,905
Receivables	2,105,152	1,838,603
<b>Total assets</b>	<b>284,000,195</b>	<b>232,911,496</b>
<b>Liabilities:</b>		
Accounts payable and incurred but not reported claims	1,861,422	2,188,773
Other liabilities	3,968,516	2,304,670
<b>Total liabilities</b>	<b>5,829,938</b>	<b>4,493,443</b>
<b>Fiduciary Net Position:</b>	<b>\$ 278,170,257</b>	<b>\$ 228,418,053</b>

<b>Summary of Changes in Fiduciary Net Position – All Plans</b>		
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
<b>Additions:</b>		
Contributions:		
Employer	\$ 58,009,766	\$ 56,692,894
Member	1,571,270	1,596,432
Other income	2,332,536	2,076,928
Net investment gain	20,758,655	21,553,636
<b>Total Additions</b>	<b>82,672,227</b>	<b>81,919,890</b>
<b>Deductions:</b>		
Benefits	32,562,643	33,544,029
Administrative expenses	357,380	84,542
<b>Total Deductions</b>	<b>32,920,023</b>	<b>33,628,571</b>
<b>Increase in Fiduciary Net Position:</b>	<b>49,752,204</b>	<b>48,291,319</b>
<b>Fiduciary Net Position:</b>		
Beginning of year	228,418,053	180,126,734
End of year	<b>\$ 278,170,257</b>	<b>\$ 228,418,053</b>

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

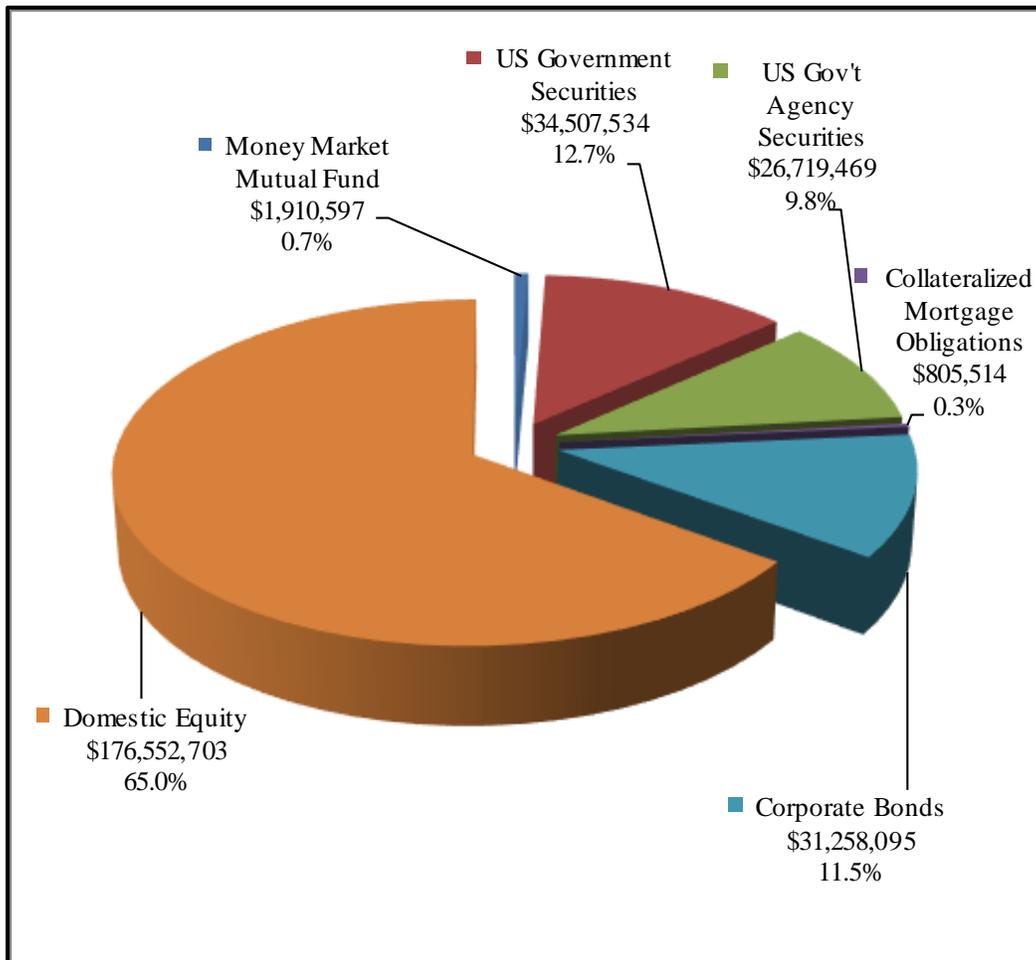
**Investments**

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 2018:

<b>Fiscal 2018 – Asset Allocation Targets</b>	
Domestic Equity	65%
Fixed Income	35%

**Pooled Investment Trust - Asset Allocation - Actual - Fair Value at June 30, 2018**



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

**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, 2018 was 8.99% while the composite benchmark return was 9.08%.

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 2019 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 2019 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 2019 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 2019.

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.

**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, 2018**

	<b>State Employees'</b>	<b>Teachers</b>	<b>Judicial</b>	<b>State Police</b>	<b>Legislators</b>	<b>Board of Education</b>	<b>Memorandum Total</b>
<b>Assets</b>							
Cash and cash equivalents	\$ 4,158,485	\$ 2,772,656	\$ 547,666	\$ 987,646	\$ 160,682	\$ 702,996	\$ 9,330,131
Advance held by claims processing agent	811,000	-	-	-	-	-	811,000
Contributions receivable	1,752,323	-	-	202,481	334	150,014	-
Investments at fair value - equity in pooled trust	179,727,640	9,231,060	3,585,484	45,241,962	2,908,777	31,058,989	271,753,912
Total assets	<u>186,449,448</u>	<u>12,003,716</u>	<u>4,133,150</u>	<u>46,432,089</u>	<u>3,069,793</u>	<u>31,911,999</u>	<u>284,000,195</u>
<b>Liabilities</b>							
Accounts payable	182,509	41,527	3,591	33,017	2,637	12,141	275,422
Incurred but not reported claims	1,145,000	149,000	9,000	179,000	19,000	85,000	1,586,000
Other	3,812,026	17,673	6,875	76,000	5,814	50,128	3,968,516
Total liabilities	<u>5,139,535</u>	<u>208,200</u>	<u>19,466</u>	<u>288,017</u>	<u>27,451</u>	<u>147,269</u>	<u>5,829,938</u>
Net position held in trust for other post-employment benefits	<u>\$ 181,309,913</u>	<u>\$ 11,795,516</u>	<u>\$ 4,113,684</u>	<u>\$ 46,144,072</u>	<u>\$ 3,042,342</u>	<u>\$ 31,764,730</u>	<u>\$ 278,170,257</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, 2018**

	<b>State Employees'</b>	<b>Teachers</b>	<b>Judicial</b>	<b>State Police</b>	<b>Legislators</b>	<b>Board of Education</b>	<b>Memorandum Total</b>
<b>Additions</b>							
Contributions							
Member contributions (note 4)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,571,271	\$ 1,571,271
Employer contributions (note 4)	42,265,174	2,321,057	-	7,919,243	14,283	5,490,009	58,009,766
Total contributions	<u>42,265,174</u>	<u>2,321,057</u>	<u>-</u>	<u>7,919,243</u>	<u>14,283</u>	<u>7,061,280</u>	<u>59,581,037</u>
Other income (note 6)	1,848,384	135,678	54,150	197,487	42,262	54,575	2,332,536
Investment income							
Net appreciation in							
fair value of investments	12,207,229	672,678	261,278	3,033,440	221,174	2,033,174	18,428,973
Interest and dividends	1,607,691	111,756	33,588	399,170	27,671	268,854	2,448,730
	<u>13,814,920</u>	<u>784,434</u>	<u>294,866</u>	<u>3,432,610</u>	<u>248,845</u>	<u>2,302,028</u>	<u>20,877,703</u>
Less investment expense	(78,711)	(4,279)	(1,662)	(19,723)	(1,386)	(13,287)	(119,048)
Net investment income	<u>13,736,209</u>	<u>780,155</u>	<u>293,204</u>	<u>3,412,887</u>	<u>247,459</u>	<u>2,288,741</u>	<u>20,758,655</u>
Total additions	<u>57,849,767</u>	<u>3,236,890</u>	<u>347,354</u>	<u>11,529,617</u>	<u>304,004</u>	<u>9,404,596</u>	<u>82,672,228</u>
<b>Deductions</b>							
Benefits	26,076,925	1,201,727	(72,064)	2,848,978	161,061	2,346,016	32,562,643
Administrative expense (note 7)	218,612	16,646	6,344	73,578	5,176	37,024	357,380
Total deductions	<u>26,295,537</u>	<u>1,218,373</u>	<u>(65,720)</u>	<u>2,922,556</u>	<u>166,237</u>	<u>2,383,040</u>	<u>32,920,023</u>
Net increase	31,554,230	2,018,517	413,074	8,607,061	137,767	7,021,556	49,752,205
Net position held in trust for other post-employment benefits							
Net position - beginning	149,755,683	9,776,999	3,700,610	37,537,011	2,904,575	24,743,174	228,418,052
Net position - ending	<u>\$ 181,309,913</u>	<u>11,795,516</u>	<u>4,113,684</u>	<u>46,144,072</u>	<u>3,042,342</u>	<u>31,764,730</u>	<u>278,170,257</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, 2018**

**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
<b>State employees</b>	State employees and certain employees of the Narragansett Bay Commission, RI Airport Corporation, and RI Commerce Corporation.	Cost-sharing multiple employer
<b>Teachers</b>	Certified public school teachers electing to participate in the System.	Single-employer
<b>Judges</b>	Judges and magistrates.	Single-employer
<b>State police</b>	State police officers.	Single-employer
<b>Legislators</b>	Retired and former members of the General Assembly.	Single-employer
<b>Board of Education (BOE)</b>	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, 2018**

**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 2018 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, 2018**

**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 (HRA) 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. Amounts available in each retiree's HRA plan 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 Financial Statements  
Fiscal Year Ended June 30, 2018**

**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 Financial Statements**  
**Fiscal Year Ended June 30, 2018**

**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 Financial Statements  
Fiscal Year Ended June 30, 2018**

**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.

**3. Cash Deposits and Investments**

**Cash Deposits and Cash Equivalents**

At June 30, 2018 the carrying amounts of the plans’ cash deposits are listed below:

	State Employees	Teachers	Judicial	State Police	Legislators	BOE	Total
Cash Deposits:							
Book Balance	\$ 4,158,485	\$ 2,772,656	\$ 547,666	\$ 987,647	\$ 160,682	\$ 702,996	\$ 9,330,132
Bank Balance	\$ 4,158,485	\$ 2,772,656	\$ 547,666	\$ 987,647	\$ 160,682	\$ 702,996	\$ 9,330,132
Cash equivalents	-	-	-	-	-	-	-
Total Cash Deposits and Cash Equivalents:	<u>\$ 4,158,485</u>	<u>\$ 2,772,656</u>	<u>\$ 547,666</u>	<u>\$ 987,647</u>	<u>\$ 160,682</u>	<u>\$ 702,996</u>	<u>\$ 9,330,132</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, 2018, the System’s cash deposits were either federally insured or collateralized.

**RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM**  
**Notes to Financial Statements**  
**Fiscal Year Ended June 30, 2018**

**3. Cash Deposits and Investments (continued)**

**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, 2018.

<u>Type of Investment</u>	<u>Policy Targets for Fiscal Year 2018</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.

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2018:

Investments at Fair Value	June 30, 2018	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Debt Securities</b>				
US Government Securities	\$ 34,507,534	\$ 34,507,534		
Corporate Bonds	31,258,095		\$31,258,095	
US Government Agency Securities	26,719,469		26,719,469	
Collateralized Mortgage Obligations	805,514		805,514	
<b>Total Investments by fair value level</b>	<b>\$ 93,290,612</b>	<b>\$ 34,507,534</b>	<b>\$58,783,078</b>	
<b>Investments measured at the net asset value (NAV)</b>				
Commingled Funds	\$176,552,703			
Money Market Mutual Funds	12,772,891			
	<u>\$189,325,594</u>			
<b>Net investment payable</b>	<u>(10,862,294)</u>			
<b>Total Pooled Investment Trust</b>	<u>\$271,753,912</u>			

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

**Notes to Financial Statements  
Fiscal Year Ended June 30, 2018**

**3. Cash Deposits and Investments (continued)**

**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. The following table shows the System's fixed income investments by type, fair value and the effective duration at June 30, 2018:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
US Government Securities	\$ 34,507,534	5.41
US Government Agency Securities	26,719,469	4.98
Corporate Bonds	31,258,095	7.42
Non-US Govt Securities	<u>805,514</u>	3.46
Total Fixed Income	<u>\$ 93,290,612</u>	5.22

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, 2018.

**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, 2018 is as follows:

**RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM**  
**Notes to Financial Statements**  
**Fiscal Year Ended June 30, 2018**

**3. Cash Deposits and Investments (continued)**

<u>Quality Rating (1)</u>	<u>US Government Agency Obligations</u>	<u>Collateralized Mortgage Obligations</u>	<u>Corporate Bonds</u>
Aaa	\$ 26,719,469	\$ 805,514	\$ 1,700,878
Aa			1,672,957
A			9,487,701
Baa			16,372,878
Ba			1,413,893
Not Rated			609,788
<b>Fair Value</b>	<u>\$ 26,719,469</u>	<u>\$ 805,514</u>	<u>\$ 31,258,095</u>

(1) Moody's Investor Service

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, 2018, 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, 2018, 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
<b>Fiscal Year Ended June 30, 2018</b>	8.70%	6.95%	7.96%	8.60%	8.75%	8.59%

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

**Notes to Financial Statements  
Fiscal Year Ended June 30, 2018**

**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, 2018, the State and other participating employers paid \$58,009,766 into the plans.

The table below displays the contribution rates for the year ended June 30, 2018:

<b>Plan</b>	<b>Employee (Active)</b>	<b>Employer</b>
State employees	none	5.98%
Teachers	not applicable	\$2,321,057
Judges	none	0%
State Police	none	34.89%
Legislators	none	.81%
Board of Education	0.9%	4.36%

The annual required contributions for fiscal year 2018 were determined based on the June 30, 2015 valuations for all plans.

Employer contributions include amounts of \$474,874 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, 2018 were as follows:

<b>Plan</b>	<b>Total OPEB Liability</b>	<b>Plan fiduciary net position</b>	<b>Employer's net OPEB liability (asset)</b>	<b>Plan fiduciary net position as a % of the total OPEB liability</b>
State Employees	\$ 690,639,837	\$ 181,309,913	\$ 509,329,924	26.25%
Teachers	12,333,529	11,795,517	538,012	95.64%
Judges	1,206,965	4,113,684	(2,906,719)	340.83%
State Police	86,735,501	46,144,072	40,591,429	53.20%
Legislators	1,593,852	3,042,342	(1,448,490)	190.88%
Board of Education	82,319,181	31,764,729	50,554,452	38.59%

**RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM**  
**Notes to Financial Statements**  
**Fiscal Year Ended June 30, 2018**

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

**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.

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 rolled forward to June 30, 2018 (measurement date).

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.

**RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM**  
**Notes to Financial Statements**  
**Fiscal Year Ended June 30, 2018**

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

<b>Summary of Actuarial Methods and Assumptions used in the June 30, 2017 valuation</b>						
	<b>State Employees' Plan</b>	<b>Teachers Plan</b>	<b>Judges Plan</b>	<b>State Police Plan</b>	<b>Legislators Plan</b>	<b>Board of Education Plan</b>
<b>Actuarial Cost Method</b>	Individual Entry Age					
<b>Amortization Method</b>	Level Percent of Payroll	Level Dollar	Level Percent of Payroll			
<b>Actuarial Assumptions</b>						
<b>Investment Rate of Return</b>	5.00%					
<b>Projected Salary Increases</b>	3.0% To 6.0%	N/A	3.0%	4.0% to 14.0%	3.0% To 6.0%	3.0% To 6.0%
<b>Mortality</b>	<p><b>Post-Retirement Mortality:</b></p> <p><i>Healthy Male Teachers, Judges, Legislators, and Board of Education:</i> RP-2014 Combined Healthy for males with White Collar adjustment, projected with the MP 2016 ultimate rates.</p> <p><i>Healthy Female Teachers, Judges, Legislators, and Board of Education:</i> RP-2014 Combined Healthy for females with White Collar adjustment, projected with the MP 2016 ultimate rates.</p> <p><i>Healthy Male State Employees and Police:</i> RP-2014 Combined Healthy for males with Blue Collar adjustment, projected with the MP 2016 ultimate rates.</p> <p><i>Healthy Female State Employees and Police:</i> RP-2014 Combined Healthy for females, projected with the MP 2016 ultimate rates.</p> <p>The assumption for future mortality improvements is fully generational mortality improvements using MP2016 ultimate rates with a base year of 2014.</p> <p><i>Disabled Males:</i> RP-2014 Disabled Retiree Table for males, projected with the MP 2016 ultimate rates.</p> <p><i>Disabled Females:</i> RP-2014 Disabled Retiree Table for females, projected with the MP 2016 ultimate rates.</p> <p><b>Pre-Retirement Mortality Rates.</b></p> <p>The mortality tables used to project the pre-termination mortality experience of plan members are the RP-2014 Employee tables for males and females as the base table, and then to apply a 75% multiplier for Teachers, Judges, Legislators, and Board of Education and a 100% multiplier for State Employees and State Police.</p>					
<b>Aging Factors</b>	The development of retiree only premiums are based on a recent Society of Actuaries study of health costs.					
<b>Valuation Health Care Cost Trend Rate</b>	9% in 2018, grading to 3.5% in 2031					
<b>Excise Tax Under the Patient Protection and Affordable Care Act</b>	11.0%					
<b>Note:</b> 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, 2018**

**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 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 35 nationally recognized investment consulting firms. The June 30, 2018 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Arithmetic Real Rate of Return
Domestic Equity	65%	6.25%
Fixed Income	35%	1.39%
	100%	

**RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM**  
**Notes to Financial Statements**  
**Fiscal Year Ended June 30, 2018**

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

**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.

**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**

Plan	1.00% Decrease 4.0%	Current Single Discount Rate Assumption 5.0%	1.00% Increase 6.0%
State Employees	\$ 598,129,766	\$ 509,329,924	\$ 435,474,830
Teachers	1,690,776	538,012	(451,532)
Judges	(2,848,108)	(2,906,719)	(2,959,892)
State Police	47,750,611	40,591,429	34,129,938
Legislators	(1,342,274)	(1,448,490)	(1,544,673)
Board of Education	63,116,559	50,554,452	40,257,918

**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.

**RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM**  
**Notes to Financial Statements**  
**Fiscal Year Ended June 30, 2018**

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

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

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

Plan	1.00% Decrease	Current Healthcare Cost Trend Rate Assumption	1.00% Increase
State Employees	\$ 419,776,366	\$ 509,329,924	\$ 621,057,406
Teachers	(508,105)	538,012	1,736,074
Judges	(2,919,504)	(2,906,719)	(2,894,041)
State Police	32,069,772	40,591,429	50,511,724
Legislators	(1,559,308)	(1,448,490)	(1,323,067)
Board of Education	38,326,830	50,554,452	66,101,027

**6. Other Income**

Drug rebates received from drug manufacturers relating to claims paid for retirees totaling \$2,332,536 are included in other income.

**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 2018, administrative expenses of the System totaled \$112,396.

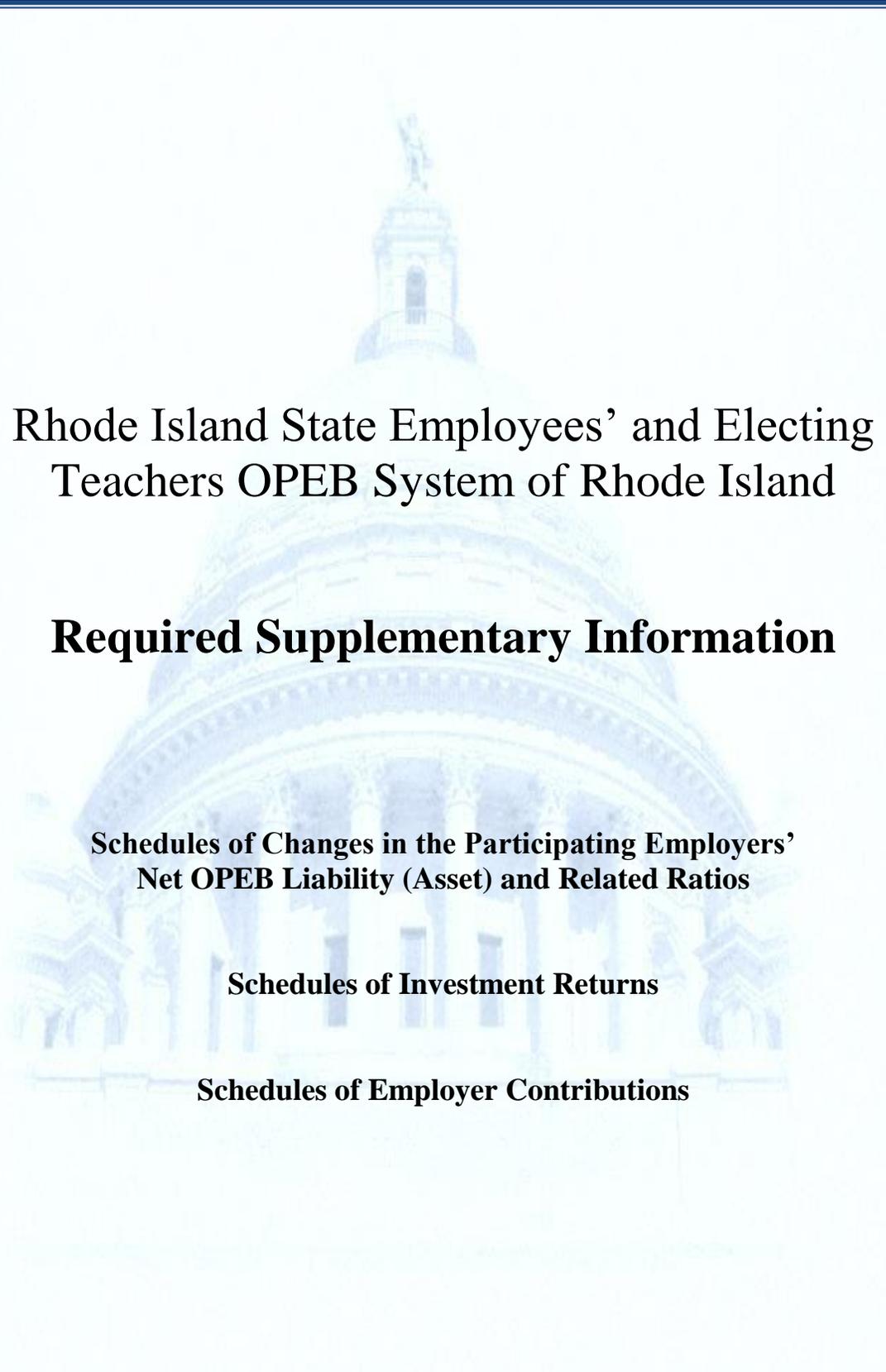
Administrative expenses recorded within the OPEB System consist primarily of actuarial, investment advisory, custodial fees, and plan design/administration services. Other costs related to administering the post-employment benefit program such as enrollment of retirees, payment of claims, accounting, and investment monitoring have been allocated to the System starting in fiscal year 2018.

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

**Notes to Financial Statements  
Fiscal Year Ended June 30, 2018**

**8. Contingencies**

The most recent actuarial valuations of the plans within the System 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.



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***

<b>State Employees' Plan</b>		
	<b>Fiscal Year Ended June 30, 2018</b>	<b>Fiscal Year Ended June 30, 2017</b>
<b>Total OPEB liability</b>		
Service cost	\$ 17,596,695	\$ 15,729,608
Interest on the total OPEB liability	33,247,970	31,905,604
Difference between expected and actual experience	(3,327,426)	(31,336,582)
Changes of assumptions	-	36,061,281
Benefit payments, net of retiree contributions	(26,076,925)	(26,815,313)
<b>Net change in total OPEB liability</b>	<u>21,440,314</u>	<u>25,544,598</u>
<b>Total OPEB liability - beginning</b>	669,199,523	643,654,925
<b>Total OPEB liability - ending (a)</b>	<u><u>\$ 690,639,837</u></u>	<u><u>\$ 669,199,523</u></u>
<b>Plan fiduciary net position</b>		
Employer contributions	\$ 42,265,174	\$ 42,731,807
OPEB plan net investment income	13,736,209	14,292,030
Benefit payments, net of retiree contributions	(26,076,925)	(26,815,313)
OPEB plan administrative expense	(218,614)	(82,273)
Other	1,848,386	1,721,604
<b>Net change in plan fiduciary net position</b>	<u>31,554,230</u>	<u>31,847,855</u>
<b>Plan fiduciary net position - beginning</b>	149,755,683	117,907,828
<b>Plan fiduciary net position - ending (b)</b>	<u><u>\$ 181,309,913</u></u>	<u><u>\$ 149,755,683</u></u>
<b>Net OPEB liability - ending (a) - (b)</b>	<u><u>\$ 509,329,924</u></u>	<u><u>\$ 519,443,840</u></u>
<b>Plan fiduciary net position as a percentage of total OPEB liability</b>		
	26.25 %	22.38 %
<b>Covered-employee payroll</b>	\$ 708,886,705	\$ 708,886,705
<b>Net OPEB liability as a percentage of covered-employee payroll</b>	71.85 %	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**

<b>Teachers Plan</b>		
	<b>Fiscal Year Ended June 30, 2018</b>	<b>Fiscal Year Ended June 30, 2017</b>
<b>Total OPEB liability</b>		
Service cost	\$ -	\$ -
Interest on the total OPEB liability	611,581	561,694
Difference between expected and actual experience	91,200	1,625,377
Changes of assumptions	-	216,323
Benefit payments, net of retiree contributions	(1,201,727)	(1,609,591)
<b>Net change in total OPEB liability</b>	<u>(498,946)</u>	<u>793,803</u>
<b>Total OPEB liability - beginning</b>	12,832,475	12,038,672
<b>Total OPEB liability - ending (a)</b>	<u>\$ 12,333,529</u>	<u>\$ 12,832,475</u>
 <b>Plan fiduciary net position</b>		
Employer contributions	\$ 2,321,057	\$ 2,321,057
OPEB plan net investment income	780,155	864,037
Benefit payments, net of retiree contributions	(1,201,727)	(1,609,591)
OPEB plan administrative expense	(16,645)	6,752
Other	135,678	102,934
<b>Net change in plan fiduciary net position</b>	<u>2,018,518</u>	<u>1,685,189</u>
 <b>Plan fiduciary net position - beginning</b>	9,776,999	8,091,810
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 11,795,517</u>	<u>\$ 9,776,999</u>
<b>Net OPEB liability - ending (a) - (b)</b>	<u>\$ 538,012</u>	<u>\$ 3,055,476</u>
 <b>Plan fiduciary net position as a percentage of total OPEB liability</b>	95.64 %	76.19 %
<b>Covered-employee payroll</b>	\$ 0	\$ 0
<b>Net OPEB liability as a percentage of covered-employee payroll</b>	N/A	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 (Asset) and Related Ratios**

<b>Judges Plan</b>		
	<b>Fiscal Year Ended June 30, 2018</b>	<b>Fiscal Year Ended June 30, 2017</b>
<b>Total OPEB liability</b>		
Service cost	\$ 15,496	\$ 19,825
Interest on the total OPEB liability	68,300	49,824
Difference between expected and actual experience	(271,123)	(305,715)
Changes of assumptions	-	502,717
Benefit payments, net of retiree contributions	72,064	138,035
<b>Net change in total OPEB liability</b>	<u>(115,263)</u>	<u>404,686</u>
<b>Total OPEB liability - beginning</b>	1,322,228	917,542
<b>Total OPEB liability - ending (a)</b>	<u><u>\$ 1,206,965</u></u>	<u><u>\$ 1,322,228</u></u>
 <b>Plan fiduciary net position</b>		
Employer contributions	\$ -	\$ -
OPEB plan net investment income	293,204	334,455
Benefit payments, net of retiree contributions	72,064	138,035
OPEB plan administrative expense	(6,344)	(75)
Other	54,150	26,236
<b>Net change in plan fiduciary net position</b>	<u>413,074</u>	<u>498,651</u>
 <b>Plan fiduciary net position - beginning</b>	3,700,610	3,201,959
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 4,113,684</u>	<u>\$ 3,700,610</u>
<b>Net OPEB liability (asset) - ending (a) - (b)</b>	<u><u>\$ (2,906,719)</u></u>	<u><u>\$ (2,378,382)</u></u>
 <b>Plan fiduciary net position as a percentage of total OPEB liability</b>	340.83 %	279.88 %
<b>Covered-employee payroll</b>	\$ 10,746,388	\$ 10,746,388
<b>Net OPEB liability as a percentage of covered-employee payroll</b>	(27.05)%	(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**

<b>State Police Plan</b>		
	<b>Fiscal Year Ended June 30, 2018</b>	<b>Fiscal Year Ended June 30, 2017</b>
<b>Total OPEB liability</b>		
Service cost	\$ 3,920,121	\$ 3,836,395
Interest on the total OPEB liability	4,147,935	4,202,351
Difference between expected and actual experience	(906,705)	(174,805)
Changes of assumptions	-	(6,004,696)
Benefit payments, net of retiree contributions	(2,848,978)	(3,129,860)
<b>Net change in total OPEB liability</b>	<u>4,312,373</u>	<u>(1,270,615)</u>
<b>Total OPEB liability - beginning</b>	82,423,128	83,693,743
<b>Total OPEB liability - ending (a)</b>	<u>\$ 86,735,501</u>	<u>\$ 82,423,128</u>
 <b>Plan fiduciary net position</b>		
Employer contributions	\$ 7,919,243	\$ 7,701,758
OPEB plan net investment income	3,412,887	3,491,032
Benefit payments, net of retiree contributions	(2,848,978)	(3,129,860)
OPEB plan administrative expense	(73,579)	(1,031)
Other	197,488	163,266
<b>Net change in plan fiduciary net position</b>	<u>8,607,061</u>	<u>8,225,165</u>
 <b>Plan fiduciary net position - beginning</b>	<u>37,537,011</u>	<u>29,311,846</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 46,144,072</u>	<u>\$ 37,537,011</u>
<b>Net OPEB liability - ending (a) - (b)</b>	<u>\$ 40,591,429</u>	<u>\$ 44,886,117</u>
 <b>Plan fiduciary net position as a percentage of total OPEB liability</b>	53.20 %	45.54 %
<b>Covered-employee payroll</b>	\$ 21,333,758	\$ 21,333,758
<b>Net OPEB liability as a percentage of covered-employee payroll</b>	190.27 %	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**

<b>Legislators Plan</b>				
	<b>Fiscal Year Ended June 30, 2018</b>		<b>Fiscal Year Ended June 30, 2017</b>	
<b>Total OPEB liability</b>				
Service cost	\$	53,830	\$	63,441
Interest on the total OPEB liability		73,583		66,140
Difference between expected and actual experience		102,219		168,094
Changes of assumptions		-		(45,367)
Benefit payments, net of retiree contributions		(161,061)		(36,212)
<b>Net change in total OPEB liability</b>		<u>68,571</u>		<u>216,096</u>
<b>Total OPEB liability - beginning</b>		1,525,281		1,309,185
<b>Total OPEB liability - ending (a)</b>	\$	<u><u>1,593,852</u></u>	\$	<u><u>1,525,281</u></u>
 <b>Plan fiduciary net position</b>				
Employer contributions	\$	14,283	\$	26,743
OPEB plan net investment income		247,459		283,490
Benefit payments, net of retiree contributions		(161,061)		(36,212)
OPEB plan administrative expense		(5,176)		82
Other		42,261		29,026
<b>Net change in plan fiduciary net position</b>		<u>137,766</u>		<u>303,129</u>
 <b>Plan fiduciary net position - beginning</b>		2,904,576		2,601,447
<b>Plan fiduciary net position - ending (b)</b>	\$	<u><u>3,042,342</u></u>	\$	<u><u>2,904,576</u></u>
<b>Net OPEB liability (asset) - ending (a) - (b)</b>	\$	<u><u>(1,448,490)</u></u>	\$	<u><u>(1,379,295)</u></u>
 <b>Plan fiduciary net position as a percentage of total OPEB liability</b>		190.88 %		190.43 %
<b>Covered-employee payroll</b>	\$	1,719,143	\$	1,719,143
<b>Net OPEB liability (asset) as a percentage of covered-employee payroll</b>		(84.26)%		(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**

	<b>Fiscal Year Ended June 30, 2018</b>	<b>Fiscal Year Ended June 30, 2017</b>
<b>Total OPEB liability</b>		
Service cost	\$ 3,179,293	\$ 3,222,465
Interest on the total OPEB liability	3,880,857	3,714,663
Difference between expected and actual experience	404,539	(7,140,117)
Changes of assumptions	-	5,767,020
Benefit payments	(2,346,016)	(2,091,088)
<b>Net change in total OPEB liability</b>	<u>5,118,673</u>	<u>3,472,943</u>
<b>Total OPEB liability - beginning</b>	<u>77,200,508</u>	<u>73,727,565</u>
<b>Total OPEB liability - ending (a)</b>	<u><u>\$ 82,319,181</u></u>	<u><u>\$ 77,200,508</u></u>
<b>Plan fiduciary net position</b>		
Employer contributions	\$ 5,490,009	\$ 3,911,529
Employee contributions	1,571,271	1,596,432
OPEB plan net investment income	2,288,741	2,288,592
Benefit payments, net of retiree contributions	(2,346,016)	(2,091,088)
OPEB plan administrative expense	(37,025)	(7,997)
Other	54,575	33,862
<b>Net change in plan fiduciary net position</b>	<u>7,021,555</u>	<u>5,731,330</u>
<b>Plan fiduciary net position - beginning</b>	<u>24,743,174</u>	<u>19,011,844</u>
<b>Plan fiduciary net position - ending (b)</b>	<u><u>\$ 31,764,729</u></u>	<u><u>\$ 24,743,174</u></u>
<b>Net OPEB liability - ending (a) - (b)</b>	<u><u>\$ 50,554,452</u></u>	<u><u>\$ 52,457,334</u></u>
<b>Plan fiduciary net position as a percentage of total OPEB liability</b>	38.59 %	32.05 %
<b>Covered-employee payroll</b>	\$ 124,967,304	\$ 124,967,304
<b>Net OPEB liability as a percentage of covered-employee payroll</b>	40.45 %	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>
<b>Fiscal Year Ended June 30, 2018</b>	8.70%	6.95%	7.96%	8.60%	8.75%	8.59%
<b>Fiscal Year Ended June 30, 2017</b>	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 June 30	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
<b>State Employees</b>					
2018	\$ 42,265,174	\$ 42,265,174	-	\$ 708,886,705	5.96 %
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 %
<b>Teachers</b>					
2018	\$ 2,321,057	\$ 2,321,057	-	-	-
2017	2,321,057	2,321,057	-	-	-
2016	2,321,057	2,321,057	-	-	-
2015	2,321,057	2,321,057	-	-	-
<b>Judges</b>					
2018	-	-	-	10,746,388	0.00 %
2017	-	-	-	10,746,388	0.00 %
2016	-	-	-	10,281,486	0.00 %
2015	13,377	13,377	-	10,281,486	0.13 %
<b>State Police</b>					
2018	\$ 7,919,243	\$ 7,919,243	-	\$ 21,333,758	37.12 %
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 %
<b>Legislators</b>					
2018	\$ 14,283	\$ 14,283	-	\$ 1,719,143	0.83 %
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 %
<b>Board of Education</b>					
2018	\$ 5,490,009	\$ 5,490,009	-	\$ 124,947,197	4.39 %
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, 2018**

**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, 2018 Measurement Date:***

There were no changes in actuarial methods or assumptions reflected in the calculation of the net OPEB liability (asset) of the plans as of the June 30, 2018 measurement date compared to the June 30, 2017 measurement date.

***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 previously calculated biennially but are now performed annually commencing with the June 30, 2017 valuation. 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, 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 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, 2018**

**2. Actuarially determined contributions (continued)**

<b>Summary of Actuarial Methods and Assumptions as of June 30, 2015 valuation used to determine fiscal 2018 contribution rates</b>						
	<b>State Employees</b>	<b>Teachers</b>	<b>Judges</b>	<b>State Police</b>	<b>Legislators</b>	<b>Board of Education</b>
<b>Actuarial Cost Method</b>	Entry Age Normal – the Individual Entry Age Actuarial cost methodology is used.					
<b>Amortization Method</b>	Level Percent of Payroll	Level Dollar	Level Percent of Payroll			
<b>Equivalent Single Remaining Amortization Period</b>	21 years closed	Determined by Statutory Contribution	30 years open	21 years closed	30 years open	21 years closed
<b>Asset Valuation Method</b>	Four-year smoothed market					
<b>Actuarial Assumptions</b>						
<b>Investment Rate of Return</b>	5.00%, net of investment expenses, including inflation					
<b>Projected Salary Increases</b>	3.5% to 6.5%	N/A	3.5%	3.75% To 11.75%	3.5% to 6.5%	3.5% to 6.5%
<b>Retirement Age</b>	Experience-based table of rates that are specific to the type of eligibility condition.					
<b>Mortality</b>	<p style="text-align: center;"><b>Post-Retirement Mortality:</b></p> <p>Fully Generational Mortality</p> <p>Healthy Males (with the exception of teachers): 115% of RP-2000 Combined Health for Males with white-collar adjustments, projected with Scale AA from 2000.</p> <p>Healthy Females (with the exception of teachers): 95% of RP-2000 Combined Health for Females with white-collar adjustments, projected with Scale AA from 2000.</p> <p>Healthy Male Teachers: 97% of rates in a GRS table based on male teacher experience, projected with Scale AA from 2000.</p> <p>Healthy Female Teachers: 92% of rates in a GRS table based on female teacher experience, projected with Scale AA from 2000.</p> <p style="text-align: center;"><b>Disabled Mortality:</b></p> <p>Disabled Males: 60% of the PBGC Table Va for disabled males eligible for Social Security disability benefits.</p> <p>Disabled Females: 60% of the PBGC Table Va for disabled females eligible for Social Security disability benefits.</p> <p style="text-align: center;"><b>Pre-Retirement Mortality:</b></p> <p>The mortality tables used to project the pre-termination mortality experience of plan members are the RP-2000 Combined tables with white-collar adjustments for males and females as the base table, and then to apply a 75% multiplier for state employees and a 50% multiplier for teachers.</p>					
<b>Valuation Health Care Cost Trend Rate</b>	Based on the Gertzen Model with trend starting at 9.00% and gradually decreasing to the ultimate trend rate of 3.5%.					
<b>Aging Factors</b>	The development of retiree only premiums are based on a recent Society of Actuaries study of health costs.					

**RHODE ISLAND EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM**  
**Notes to Required Supplementary Information**  
**Fiscal Year Ended June 30, 2018**

**2. Actuarially determined contributions (continued)**

<b>Summary of Actuarial Methods and Assumptions as of June 30, 2015 valuation used to determine fiscal 2018 contribution rates</b>						
	State Employees	Teachers	Judges	State Police	Legislators	Board of Education
<b>Excise Tax Under the Patient Protection and Affordable Care Act</b>	13.8%					
<b>Note:</b> 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.



# Office of the Auditor General

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

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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, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated September 27, 2019.

### **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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as Findings 2018-01 and 2018-02 that we consider to be significant deficiencies.

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

### Compliance and Other Matters

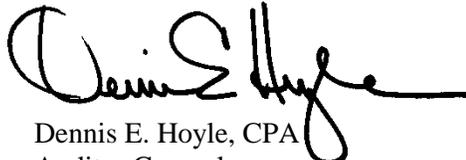
As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination 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*.

### System's Response to Findings

The System's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### 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

September 27, 2019

**Finding 2018-01***(significant deficiency - new finding)***ASSESS THE RESOURCES AND SYSTEMS NECESSARY TO EFFECTIVELY ADMINISTER THE OPEB SYSTEM**

**The resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled should be assessed. A unified database or computer application is needed to maintain membership data for each of the State’s OPEB plans. This would improve controls over the administration of the benefit programs and the process to accumulate data necessary for periodic actuarial valuations of the OPEB plans for both funding and accounting purposes.**

**Background:** The Rhode Island State Employees’ and Electing Teachers OPEB System (the System), acts as a common investment and administrative agent for post-employment health care benefits provided by six plans covering state employees and certain employees of the Board of Education.

When the State began to advance fund its retiree health benefits, OPEB trusts were established for each of the plans and a formalized governance structure was established by statute; however, no dedicated personnel were specifically tasked with administering the System and no administrative systems were implemented at that time, or subsequently, to capture and control membership data for the various OPEB plans. Instead membership data, the determination of eligibility for benefits and any required retiree copays are administered through a variety of processes which largely lack the controls needed to administer plans of this size and complexity. In prior years, certain plan benefit functions were administered through the member benefit system used by the Employees’ Retirement System of Rhode Island (ERSRI) for pension benefits; however, the ERSRI’s newly implemented member benefit system no longer includes those functionalities.

The System’s functions are managed through various units within State government. The Department of Administration’s Office Employee Benefits (OEB) currently determines eligibility and manages member benefits for the State Employees, Teachers, Judges, State Police, and Legislator plans. The Human Resources Department at the University of Rhode Island, separately determines eligibility, calculates benefits and manages member subsidy receivables for the Board of Education plan. The Office of Accounts and Controls handles the accounting and financial reporting aspects of the System and coordinates the actuarial valuations. The Office of the General Treasurer oversees the investment activity of the System.

Census data for each plan is provided annually to the System’s actuary to prepare required actuarial valuations of the plans. Each plan has unique benefit eligibility and healthcare coverage provisions.

**Criteria:** As the System grows in size and matures, the administrative infrastructure supporting the System should be assessed to ensure adequate resources and systems with appropriate controls are in place to manage the System effectively.

Maintaining membership data and determining the eligibility for benefits and required co-pays should be managed through systems and processes with adequate controls to ensure that membership data is reliable, benefits are accurately and consistently determined consistent with plan provisions, and plan census data is maintained to facilitate extraction for actuarial valuations. Duties should be appropriately segregated to ensure that no one individual is responsible for determining eligibility and required copays, enrolling the individual for coverage, collecting and accounting for copay amounts, and maintaining plan census data.

**Condition:** We identified control deficiencies over the various disjointed processes used to administer the OPEB plans as follows:

- Insufficient resources have been allocated and centralized to administer the System effectively. Knowledge of key System benefit provisions, administrative operations, and operating procedures are dispersed among too many separate units of State government without effective coordination.
- The accumulation of census data provided to the actuary for plan valuation purposes is derived from multiple sources and requires analysis of other external source data to establish the active and retiree plan members for each plan. Because much of the analysis is done on spreadsheets, controls over data validity, data protection and completeness are lacking. Controls are inadequate to prevent duplicate or inaccurate census data being provided to the actuary.
- Inadequate segregation of duties exists between eligibility determinations, benefit calculations, copay receivable billings and collections, healthcare plan enrollment, and maintenance of the plan census information.
- Periodic reconciliations between the plans' records and healthcare providers enrollment data is not documented.
- Procedures for identifying and terminating coverage for deceased members, spouses and dependents are inconsistent and can be improved.

**Cause:** The State and System have not implemented System specific administrative processes and computer applications to effectively support the overall administration of the OPEB System, accumulate plan census data, manage and control the eligibility, copay determination, and plan enrollment functions. Existing processes used to support healthcare plan enrollment for active employees have generally been used to support the OPEB System but lack certain functions and controls that are unique to and requisite for the administration of the OPEB System.

**Effect:** Inadequate controls over key plan administrative functions could impact the reliability of amounts (e.g., member co-pays and member benefits) reported on the System's financial statements as well as the accuracy of census data used by the actuary to determine each plan's annual actuarially determined contribution amount and the net OPEB liability or asset for each plan.

#### RECOMMENDATIONS

- |          |                                                                                                                                                                                         |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2018-01a | Assess the resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled.                                   |
| 2018-01b | Implement a member benefit computer application to accumulate and manage plan membership data to support the overall administration of the OPEB System with enhanced controls.          |
| 2018-01c | Evaluate assigned responsibilities for key functions and segregate certain responsibilities for incompatible functions to enhance controls over critical plan administrative functions. |
| 2018-01d | Establish consistent procedures to identify deceased plan members and prompt timely termination of coverage.                                                                            |

**Management's Views and Corrective Actions:**

*The OPEB Board will meet with Retirement System staff to discuss ways to accomplish the recommendations listed. It would not be financially feasible for the OPEB system to develop its own independent database to track members, when the Retirement System already has this information.*

*Anticipated Completion Date: July 2019*

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**Finding 2018-02****(significant deficiency - new finding)****EXTABLISH PROCEDURES TO DOCUMENT CONSIDERATION OF SERVICE ORGANIZATION CONTROLS**

**The Office of Accounts and Control should document its consideration of the adequacy of controls at service organizations, which process OPEB trust fund transactions to ensure the reliability of information reported in the OPEB financial statements.**

**Background:** The State uses service organizations to process certain OPEB transactions for eligible retirees, which includes healthcare benefits, prescription benefits and health reimbursement account benefits for Medicare eligible state employees. These service organizations process claims activity and report summary claims information for recording in the state accounting system and OPEB financial statements.

**Criteria:** The State is responsible for ensuring that adequate controls are in place and operating effectively to ensure that information supporting the OPEB financial statements is accurate and reliable. Generally, service organizations engage independent auditors to determine and report on the suitability of the design and operating effectiveness of controls at the service organization, known as Service Organization Control Reports (SOC reports). System management is responsible to consider the adequacy of controls at the service organization level combined with those at the user entity level to ensure that the System's financial reporting objectives are met.

**Condition:** We found that the Office of Accounts and Control does receive SOC reports from the service organizations used to process various OPEB transactions. However, it does not document its consideration of the results contained in these reports, combined with an assessment of any required user entity controls, to ensure that adequate internal controls are in place and operating effectively over System transactions processed by service organizations.

**Cause:** The Office of Accounts and Control has not established procedures to document its consideration of SOC reports results combined with an assessment of its user entity controls relating to significant OPEB transactions.

**Effect:** Inadequate controls over System transactions and related reporting could impact the reliability of information used to prepare the OPEB System financial statements.

### RECOMMENDATION

2018-02      Establish procedures to formally document consideration of the adequacy of controls at service organizations and at the user entity level that are relevant to the System's financial reporting objectives.

### Management's Views and Corrective Actions:

*Management agrees and will implement such procedures.*

*Anticipated Completion Date:    December 31, 2019*

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**Management Comment 2018-1**

*new management comment*

## OPEB FUNDING POLICIES

### Comprehensive Funding Policy

The Governmental Accounting Standards Board's (GASB) newly effective pronouncements (GASB Statements No. 74 and 75) regarding accounting for OPEB liabilities and related costs, had a significant impact on the financial reporting for governmental OPEB plans. One of the many provisions of these pronouncements particularly worthy of note is the "delinking" of accounting requirements from OPEB funding policies.

Previously, under prior statements issued by GASB for OPEB, accounting guidance was also used as the basis for "acceptable" funding policies with GASB defining acceptable actuarial methods, amortization periods, etc. Under the newly effective guidance (GASB Statements No. 74 and 75) GASB only defines the **accounting** and disclosure requirements for OPEB liabilities to be included in the financial statements of governments. For example, the accounting measures for determining the net OPEB obligation to be included in a government's financial statements reflects the fair value of OPEB plan assets at that date. For funding purposes, most plans use "asset smoothing" that tempers the volatility in required contribution rates due to significant market valuation changes in any one year.

Consequently, most governments need a separate policy statement to guide their funding decisions over time, while using the accounting measures in their financial statements prepared in accordance with generally accepted accounting principles. Best practices, in response to the new GASB OPEB standards, include recommending that governments establish and adopt comprehensive OPEB funding policies, which

outline all the key provisions designed to responsibly fund an OPEB plan and calculate the employer actuarially determined contribution.

In Rhode Island, OPEB funding policies are a combination of legislatively enacted statutes and other measures adopted by the Board of the State Employees' and Electing Teachers OPEB System. The new environment requires accumulation of comprehensive OPEB funding policies that include statutory measures and other provisions adopted by the Board.

### **Policy for Actuarial Experience Studies and Actuarial Audits**

Best practices for benefit plan administration include requiring periodic actuarial experience studies and actuarial audits. Experience studies are a regularly scheduled review of the reasonableness of the assumptions used in making the actuarial valuations of the plans and involves a more comprehensive investigation of actual experience and assumptions used in the valuations. The Employees' Retirement System of Rhode Island (ERSRI) directs its actuary to perform experience studies of the pension system every three years. Actuarial audits are also recommended and involve engagement of another independent actuary to either reperform or review the actuarial valuations results. ERSRI has an actuarial audit performed at five-year intervals. These practices ensure that the assumptions used to measure the net OPEB obligation (asset) of the plans and determine annual employer contributions are appropriate and that such measures have been determined consistent with the Actuarial Standards of Practice.

Actuarial valuations of the State's OPEB plans began more recently with the implementation of the prior GASB statements (GASB 43 and 45) on OPEB. Sufficient history and experience now exist to allow performance of OPEB experience studies and actuarial audits.

### **RECOMMENDATIONS**

- |            |                                                                                                                                                                                                                      |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| MC 2018-1a | Develop and adopt a formalized OPEB funding policy that incorporates statutory provisions as well as funding and actuarial policies approved by the Board of the State Employees' and Electing Teachers OPEB System. |
| MC 2018-1b | Adopt a formalized policy for requiring periodic actuarial experience studies and actuarial audits for the OPEB plans within the State Employees' and Electing Teachers OPEB System.                                 |

### **Management's Views and Corrective Actions:**

*The OPEB Board will adopt an OPEB funding policy. The OPEB Board has already approved the conducting of annual actuarial studies.*

Anticipated Completion Date: July 2019

Contact Person: Peter Keenan and Thomas A. Mullaney, Department of Administration