

STATE OF RHODE ISLAND

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

FISCAL YEAR ENDED JUNE 30, 2021



**David A. Bergantino, CPA, CFE
Auditor General**

**State of Rhode Island
General Assembly
Office of the Auditor General**



Office of the Auditor General

State of Rhode Island - General Assembly
David A. Bergantino, CPA, CFE – Auditor General

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September 22, 2023

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

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Senator Jessica de la Cruz
Representative Christopher R. Blazejewski
Representative Michael W. Chippendale

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, 2021.

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 the preparation of an annual financial report to be submitted to the Governor for transmittal to the General Assembly. This report is intended to meet the reporting requirement of the General Laws for the fiscal year ended June 30, 2021.

Section V of this report includes our *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*.

Section VI of this report includes the Schedule of Findings and Responses which includes one finding deemed to be a significant deficiency in internal control over financial reporting.

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

Sincerely,

David A. Bergantino, CPA, CFE
Auditor General

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

FISCAL YEAR ENDED JUNE 30, 2021

TABLE OF CONTENTS

	<u>PAGE</u>
I. <u>INDEPENDENT AUDITOR'S REPORT</u>	1
II. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4
III. <u>BASIC FINANCIAL STATEMENTS</u>	
Statements of Fiduciary Net Position	8
Statements of Changes in Fiduciary Net Position.....	9
Notes to Financial Statements.....	10
IV. <u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedules of Changes in the Participating Employers' Net OPEB Liability (Asset) and Related Ratios	22
Schedules of Investment Returns.....	28
Schedules of Employer Contributions	29
Notes to Required Supplementary Information	30
V. <u>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE</u>	34
VI. <u>SCHEDULE OF FINDINGS AND RESPONSES</u>	36



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 Audit of the Financial Statements

Opinions

We have audited 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, 2021, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the plans within the System, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (Government Auditing Standards). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As described in Note 1, the financial statements of the System present only the OPEB Trust Funds of the State of Rhode Island (the State) and do not purport to, and do not present fairly the financial position of the State, as of June 30, 2021 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation

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

of financial statements that are free from material misstatement, whether due to fraud or error. In the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 and other required supplementary information as listed in the table of contents for pages 22 through 33 be presented to supplement the basic financial statements. Such information is the responsibility of management and 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

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

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 issued a report dated September 22, 2023 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 solely 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 effectiveness of the System's 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.



David A. Bergantino, CPA, CFE
Auditor General

September 22, 2023



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

Management's Discussion and Analysis

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

The Rhode Island State Employees' and Electing Teachers OPEB System (the System) provides this Management's Discussion and Analysis of their financial performance for the readers of the System's financial statements. This narrative provides an overview of the System's financial activity for the fiscal year ended June 30, 2021. 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 (HRA) contributions for those members who are eligible for Medicare. Medicare eligible plan members may use their HRA accounts to purchase additional coverage, including Medicare supplement plans and Medicare Advantage plans. 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 Statement of Fiduciary Net Position provides a snapshot of the financial position of the System at June 30, 2021. The Statement of Changes in Fiduciary Net Position summarizes the additions and deductions that occurred during the fiscal year. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the financial statements. The Required Supplementary Information consists of schedules and related notes, which demonstrate the System's progress in accumulating funds to meet future OPEB benefit obligations for members of the System.

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

Financial Highlights for the Fiscal Year Ended June 30, 2021

- Fiduciary net position increased by \$128.6 million in fiscal 2021 to \$532.7 million. The System began accumulating assets for the future payment of post-employment benefits in 2011.
- Total post-employment health care benefits paid were \$31.0 million, an increase of \$304 thousand from the amount of benefits paid in fiscal 2020.
- Contributions to all plans from members and employers for fiscal 2021 totaled \$53.0 million, a decrease of \$12.5 million compared to the contributions received in fiscal 2020.
- The System experienced a net gain from investing activities of \$105.1 million for fiscal 2021.

Assets, Liabilities and Fiduciary Net Position – All Plans		
	June 30, 2021	June 30, 2020
Assets:		
Cash and cash equivalents	\$ 5,944,871	\$ 5,755,970
Advance held by claims processing agent	-	200,000
Investments	532,418,769	403,849,491
Receivables	2,061,707	2,064,008
Total assets	540,425,347	411,869,469
Liabilities:		
Accounts payable and incurred but not reported claims	1,284,479	1,987,543
Other liabilities	6,462,844	5,797,764
Total liabilities	7,747,323	7,785,307
Fiduciary Net Position:	\$ 532,678,024	\$ 404,084,162

Summary of Changes in Fiduciary Net Position – All Plans		
	June 30, 2021	June 30, 2020
Additions:		
Contributions:		
Employer	\$ 51,197,897	\$ 63,685,945
Member	1,763,111	1,744,523
Other income	1,616,843	2,180,651
Net investment income	105,077,680	29,168,626
Total Additions	159,655,531	96,779,745
Deductions:		
Benefits	30,984,545	30,680,394
Administrative expenses	77,124	259,623
Total Deductions	31,061,669	30,940,017
Increase in Fiduciary Net Position:	128,593,862	65,839,728
Fiduciary Net Position:		
Beginning of year	404,084,162	338,244,434
End of year	\$ 532,678,024	\$ 404,084,162

RHODE ISLAND STATE 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 2021:

Fiscal 2021 – Asset Allocation Targets	
Domestic Equity	65%
Fixed Income	35%

The following table presents the fair value of investment by type that are within the pooled trust at June 30, 2021:

Investments measured at the Net Asset Value (NAV)

Comingled Funds – Domestic Equity Index Fund	\$349,843,972
Comingled Funds – Bond Index Fund	<u>182,574,797</u>
Total Pooled Investment Trust	<u>\$532,418,769</u>

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, 2021 was 25.54% while the composite benchmark return was 25.14%.

Funded Status

Independent actuarial valuations of the System have been conducted every two years with annual valuations 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 2022 employer contribution rates are all based upon actuarial valuations performed at June 30, 2019. The net employer contribution rates (expressed as a percent of covered payroll) for fiscal year 2022 are 5.28% for State employees, 23.27% for State Police, and 3.50% for members of the Board of Education plan. There is no fiscal 2022 required contribution to the Judges and Legislators plans due to their funded status. The State's contribution for retired teachers is expressed as a dollar amount and not as a percent of payroll; however, there will be no contribution to this plan for fiscal year 2022.

Future health care inflation experience and the assumed rate of return are key variables 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.

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

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, 2021

	State Employees'	Teachers	Judges	State Police	Legislators	Board of Education	Memorandum Total
Assets							
Cash and cash equivalents	\$ 3,113,401	\$ 635,972	\$ 656,542	\$ 774,749	\$ 226,024	\$ 538,183	\$ 5,944,871
Contribution receivables	1,567,154	14,021	3,602	255,563	10,203	211,164	2,061,707
Investments at fair value - equity in pooled trust	358,091,670	16,448,979	5,324,087	85,646,363	4,047,195	62,860,475	532,418,769
Total assets	<u>362,772,225</u>	<u>17,098,972</u>	<u>5,984,231</u>	<u>86,676,675</u>	<u>4,283,422</u>	<u>63,609,822</u>	<u>540,425,347</u>
Liabilities							
Accounts payable	121,493	2,953	6,596	33,515	6,616	108,306	279,479
Incurred but not reported claims	636,000	81,000	3,000	178,000	13,000	94,000	1,005,000
Due to other funds	51,872	2,383	771	12,406	586	9,106	77,124
Other	6,385,720	-	-	-	-	-	6,385,720
Total liabilities	<u>7,195,085</u>	<u>86,336</u>	<u>10,367</u>	<u>223,921</u>	<u>20,202</u>	<u>211,412</u>	<u>7,747,323</u>
Net position held in trust for other post-employment benefits	<u>\$ 355,577,140</u>	<u>\$ 17,012,636</u>	<u>\$ 5,973,864</u>	<u>\$ 86,452,754</u>	<u>\$ 4,263,220</u>	<u>\$ 63,398,410</u>	<u>\$ 532,678,024</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, 2021

	State Employees'	Teachers	Judges	State Police	Legislators	Board of Education	Memorandum Total
Additions							
Contributions							
Member contributions (note 4)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,763,111	\$ 1,763,111
Employer contributions (note 4)	41,024,947	-	-	6,178,412	-	3,994,538	51,197,897
Total contributions	<u>41,024,947</u>	<u>-</u>	<u>-</u>	<u>6,178,412</u>	<u>-</u>	<u>5,757,649</u>	<u>52,961,008</u>
Other income (note 6)	1,165,170	108,281	25,487	223,350	54,203	40,352	1,616,843
Investment income							
Net appreciation in fair value of investments	69,777,115	3,347,152	1,071,319	16,911,434	847,025	12,329,696	104,283,741
Interest and dividends	687,021	36,239	11,331	167,822	8,744	119,502	1,030,659
	<u>70,464,136</u>	<u>3,383,391</u>	<u>1,082,650</u>	<u>17,079,256</u>	<u>855,769</u>	<u>12,449,198</u>	<u>105,314,400</u>
Less investment expense	(158,917)	(7,400)	(2,389)	(38,213)	(1,847)	(27,954)	(236,720)
Net investment income	<u>70,305,219</u>	<u>3,375,991</u>	<u>1,080,261</u>	<u>17,041,043</u>	<u>853,922</u>	<u>12,421,244</u>	<u>105,077,680</u>
Total additions	<u>112,495,336</u>	<u>3,484,272</u>	<u>1,105,748</u>	<u>23,442,805</u>	<u>908,125</u>	<u>18,219,245</u>	<u>159,655,531</u>
Deductions							
Benefits	23,771,476	898,605	(56,664)	3,388,477	163,516	2,819,135	30,984,545
Administrative expense (note 7)	51,872	2,383	771	12,406	586	9,106	77,124
Total deductions	<u>23,823,348</u>	<u>900,988</u>	<u>(55,893)</u>	<u>3,400,883</u>	<u>164,102</u>	<u>2,828,241</u>	<u>31,061,669</u>
Net Increase	88,671,988	2,583,284	1,161,641	20,041,922	744,023	15,391,004	128,593,862
Net position held in trust for other post-employment benefits							
Net position - beginning	266,905,152	14,429,352	4,812,223	66,410,832	3,519,197	48,007,406	404,084,162
Net position - ending	<u>\$ 355,577,140</u>	<u>\$ 17,012,636</u>	<u>\$ 5,973,864</u>	<u>\$ 86,452,754</u>	<u>\$ 4,263,220</u>	<u>\$ 63,398,410</u>	<u>\$ 532,678,024</u>

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

RHODE ISLAND STATE EMPLOYEES’ AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2021

1. Plan Descriptions

(a) General

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

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

All plans are advance funded through a trust.

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 Annual Comprehensive Financial Report of the State of Rhode Island. The accompanying financial statements are not intended to present the financial position and results of operations of the State.

The System is administered by a Board of Directors (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 System. The four members of the OPEB Board are: the State Controller, the State Budget Officer, the State Personnel Administrator and the General Treasurer, or their designees.

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

RHODE ISLAND STATE EMPLOYEES’ AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2021

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 (HRA) contributions for members who are Medicare eligible. Medicare eligible plan members may use their HRA accounts to purchase additional coverage, including Medicare supplement plans and Medicare Advantage plans. 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 follows:

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 2021 contributions are as follows:

Age of Retirement	Years of Service	Amount of Cost Paid by Retiree
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 Financial Statements
For the Fiscal Year Ended June 30, 2021

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 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.

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%.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2021

1. Plan Descriptions (continued)

(b) Membership and Benefit Provisions

Employees retiring after June 30, 2008, who are under 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 0.9% 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, 2020 actuarial valuation follows:

Plan	Members			Participating Employers
	Active	Retired	Total	
State Employees	11,184	6,698	17,882	9
Teachers	N/A	99	99	N/A
Judges	61	33	94	1
State Police	261	163	424	1
Legislators	113	15	128	1
BOE employees	1,869	857	2,726	5

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 GASB is responsible for establishing generally accepted accounting principles for other post-employment benefit plans established by governmental entities.

Basis of Accounting - The financial statements of the System have been prepared utilizing 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. Dividend income is recorded on the ex-dividend date.

RHODE ISLAND STATE EMPLOYEES’ AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2021

2. Summary of Significant Accounting Policies (continued)

Method Used to Value Investments – Investments are recorded in the financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies. These estimates are subject to a certain amount of uncertainty in the near term, which could result in changes in the values reported for those assets and liabilities in the statement 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.**

3. Cash Deposits and Investments

Cash Deposits and Cash Equivalents

At June 30, 2021, the carrying amounts of the plans’ cash deposits are listed below:

	State Employees	Teachers	Judges	State Police	Legislators	BOE	Total
Cash Deposits:							
Book Balance	\$ 2,981,130	\$ 635,342	\$ 656,542	\$ 774,749	\$ 226,024	\$ 538,183	\$ 5,811,970
Bank Balance	2,981,130	633,984	656,542	774,749	226,024	538,183	\$ 5,810,612
Cash Equivalents:	<u>132,271</u>	<u>630</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,901</u>
Total Cash Deposits and Cash Equivalents:	<u>\$ 3,113,401</u>	<u>\$ 635,972</u>	<u>\$ 656,542</u>	<u>\$ 774,749</u>	<u>\$ 226,024</u>	<u>\$ 538,183</u>	<u>\$ 5,944,871</u>

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

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2021

3. Cash Deposits and Investments (continued)

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. In addition, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to amounts ranging from 100% to 102% of the uninsured deposit amounts. The percentage of collateral required is determined by the underlying classification of the collateral. At June 30, 2021, the System's cash deposits were either federally insured or collateralized.

Cash equivalents are invested in the Ocean State Investment Pool (OSIP), an investment pool established by the State General Treasurer.

At June 30, 2021, the System had an investment in OSIP totaling \$132,901 which represented less than 1% of the total OSIP Pool Trust at June 30, 2021. Agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State may invest in OSIP. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

OSIP has met the criteria outlined in GASB Statement No. 79 – Certain External Investment Pools and Pool Participants to permit election to report its investments at amortized cost which approximates fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP's investments are high quality and liquid and include U.S. government and government agency obligations, U.S. dollar-denominated money market securities of domestic and foreign issuers such as short-term certificates of deposits, commercial paper, corporate bonds and notes, time deposits, municipal securities, asset-backed securities and repurchase agreements. OSIP transacts with its participants at a stable net asset value (NAV) per share. Investments reported at the NAV are not subject to the leveling categorization as described in note 2. There are no participant withdrawal limitations.

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, 2021:

<u>Type of Investment</u>	<u>Policy Targets for Fiscal Year 2021</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 plan's 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.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2021

3. Cash Deposits and Investments (continued)

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, 2021:

	<u>June 30, 2021</u>
Investments measured at the net asset value (NAV)	
Comingled Funds – Domestic Equity Index Fund	\$ 349,843,972
Comingled Funds – Bond Index Fund	<u>182,574,797</u>
Total Pooled Investment Trust	<u>\$ 532,418,769</u>

Commingled Funds - Comingled funds consist of one domestic equity index fund which is intended to replicate the performance of a specific index; e.g., S&P 500, and one bond index fund which is intended to match the total return of the Bloomberg U.S. Aggregate Bond Index. The fair values of the investments have been determined using the NAV per share of the investments as reported by the commingled fund managers, which reflects the exchange pricing of the equity holdings. There are no withdrawal limitations for these funds. The System's investment in commingled funds are not subject to credit risk rating.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The overall duration of the OPEB System's investment in a commingled bond index fund was 6.59 years.

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 OPEB 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, 2021, all securities were registered in the name of the OPEB System (or in the nominee name of its custodial agent) and were held in the possession of its custodial bank, Bank of New York Mellon.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2021

3. Cash Deposits and Investments (continued)

Derivatives and Other Similar Investments

Through its commingled funds the System indirectly holds derivative type instruments.

Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

For the year ended June 30, 2021, the annual money weighted returns on investments within each of the plans are shown in the following table:

	State Employees	Teachers	Judges	State Police	Legislators	Board of Education
Fiscal Year Ended June 30, 2021	20.04%	23.69%	22.19%	24.96%	23.94%	25.21%

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, 2021, the State and other participating employers paid \$51,197,897 into the plans.

The table below displays the contribution rates for the year ended June 30, 2021:

Plan	Employee (Active)	Employer
State Employees	none	5.49%
Teachers	not applicable	not applicable
Judges	none	none
State Police	none	23.31%
Legislators	none	none
Board of Education	0.90%	2.93%

The annual required contributions for fiscal year 2021 were determined based on the June 30, 2018 Supplemental Actuarial Valuation for all plans.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2021

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, 2021 were as follows:

Plan	Total OPEB liability	Plan fiduciary net position	Employer's net OPEB liability (asset)	Plan fiduciary net position as a % of the total OPEB liability
State Employees	\$ 587,535,482	\$ 355,577,140	\$ 231,958,342	60.52%
Teachers	7,902,578	17,012,636	(9,110,058)	215.28%
Judges	258,858	5,973,864	(5,715,006)	2,307.78%
State Police	86,125,628	86,452,754	(327,126)	100.38%
Legislators	1,033,885	4,263,220	(3,229,335)	412.35%
Board of Education	69,349,819	63,398,410	5,951,409	91.42%

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, 2020 rolled forward to June 30, 2021 (measurement date).

The following table summarizes the assumptions and methods employed in the June 30, 2020 valuation.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2021

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

a. Actuarial Methods and Assumptions

Summary of Actuarial Methods and Assumptions used in the June 30, 2020 valuation						
	State Employees' Plan	Teachers Plan	Judges Plan	State Police Plan	Legislators Plan	Board of Education Plan
Actuarial Cost Method	Individual Entry Age					
Amortization Method	Level Percent of Payroll	Level Dollar	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Actuarial Assumptions						
Investment Rate of Return	5.00%					
Projected Salary Increases	3.25% to 6.25%	N/A	2.75%	3.75% to 11.75%	3.25% to 6.25%	3.25% to 6.25%
Valuation Healthcare Cost Trend Rate	Pre-Medicare: 7.50% in 2021, grading to 3.50% in 2033 Medicare: 6.25% in 2021, grading to 3.50% in 2033					
Mortality Rates	<p>Post-Retirement Mortality: <i>Healthy Male State Employees, State Police, Legislators, and Board of Education:</i> PUB-10 Median Table for General Healthy retiree males loaded by 115%, projected with scale ultimate MP-16.</p> <p><i>Healthy Female State Employees, State Police, Legislators, and Board of Education:</i> PUB-10 Median Table for General Healthy retiree females loaded by 111%, projected with scale ultimate MP-16.</p> <p><i>Healthy Male Teachers:</i> PUB-10 Median Table for Healthy Teacher retiree males, loaded by 108%, projected with scale ultimate MP-16.</p> <p><i>Healthy Female Teachers:</i> PUB-10 Median Table for Healthy Teacher retiree females, loaded by 115%, projected with scale ultimate MP-16.</p> <p><i>Healthy Judges:</i> Sex distinct PUB-10 Above Median Income Tables for Healthy retirees, projected with scale ultimate MP-16.</p> <p>The assumption for future mortality improvements is fully generational mortality improvements using MP 2016 ultimate rates with a base year of 2010.</p> <p><i>Disabled State Employees, Teachers, Judges, Legislators, and Board of Education:</i> Sex distinct PUB-10 Tables for General Disabled retirees, projected with scale ultimate MP-16.</p> <p><i>Disabled State Police:</i> Sex distinct PUB-10 Tables for Safety Disabled retirees, projected with scale ultimate MP-16.</p> <p>Pre-Retirement Mortality Rates. <i>State Employees (excluding Correctional Officers), Legislators, and Board of Education:</i> Sex distinct PUB-10 Tables for General Employees, projected with Scale Ultimate MP16.</p> <p><i>State Police and Correctional Officers:</i> Sex distinct PUB-10 Tables for Safety Employees, projected with Scale Ultimate MP16.</p> <p><i>Judges:</i> Sex distinct PUB-10 Above Median Income Tables for General Employees, projected with Scale Ultimate MP16.</p>					
Note: Although an inflation rate was not explicitly used, for purposes of determining total OPEB liability inflation was consistent with a 2.5% assumption.						

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2021

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

a. Actuarial Methods and Assumptions

The actuarial assumptions used in the calculation of total OPEB liability at the June 30, 2021 measurement date were consistent with the Actuarial Experience Investigation Study for the six years ended June 30, 2019 performed for the Employees' Retirement System of Rhode Island.

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 39 nationally recognized investment consulting firms. The June 30, 2021 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%	4.42%
Fixed Income	35%	0.44%
	100%	

b. Discount rate

The discount rate used to measure the total OPEB liability of the plans was 5.0%. 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%, 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	1.0% Decrease 4.0%	Current Single Discount Rate Assumption 5.0%	1.0% Increase 6.0%
State Employees	\$ 308,852,567	\$ 231,958,342	\$ 167,714,291
Teachers	(8,409,521)	(9,110,058)	(9,716,596)
Judges	(5,701,343)	(5,715,006)	(5,725,539)
State Police	6,880,918	(327,126)	(6,773,939)
Legislators	(3,145,157)	(3,229,335)	(3,300,456)
Board of Education	16,117,457	5,951,409	(2,414,276)

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2021

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

The healthcare cost trend rate for Medicare eligible plan members was 7.5% and gradually decreasing to an ultimate rate of 3.5%. Similarly, the healthcare cost trend rate for Not Medicare eligible/HRA plan members was 6.25% and gradually decreasing to an ultimate rate of 3.5%. The following presents the net OPEB liability (asset) of the employers calculated using the assumed healthcare cost trend rates, as well as, what the employers' net OPEB liability (asset) would be if it were calculated using a trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

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

Plan	1.0% Decrease	Current Healthcare Cost Trend Rate Assumption	1.0% Increase
State Employees	\$ 146,533,560	\$ 231,958,342	\$ 338,986,660
Teachers	(9,839,274)	(9,110,058)	(8,278,389)
Judges	(5,732,130)	(5,715,006)	(5,693,531)
State Police	(9,413,905)	(327,126)	10,344,804
Legislators	(3,325,172)	(3,229,335)	(3,116,395)
Board of Education	(4,661,147)	5,951,409	19,504,640

6. Other Income

Drug rebates received from drug manufacturers relating to claims paid for retirees totaling \$1,616,843 are included in other income.

7. Administrative Expenses

Pursuant to General Law section 36-12.1-15, a restricted receipts account within the General Fund is funded and used to pay the expenses of the OPEB Board and the cost of maintaining and administering the OPEB System. This restricted receipt account is 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 is greater. Any non-encumbered funds on June 30 of any fiscal year are returned to the OPEB System. For fiscal year 2021, administrative expenses of the System totaled \$77,124.

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 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

Notes to Required Supplementary Information

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

State Employees' Plan					
	Fiscal Year Ended June 30, 2021	Fiscal Year Ended June 30, 2020	Fiscal Year Ended June 30, 2019	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017
Total OPEB liability					
Service cost	\$ 16,519,615	\$ 16,882,590	\$ 17,372,538	\$ 17,596,695	\$ 15,729,608
Interest on the total OPEB liability	31,209,172	32,655,281	34,361,493	33,247,970	31,905,604
Changes of benefit terms	-	-	(17,295,587)	-	-
Difference between expected and actual experience	(32,742,035)	(32,616,568)	(39,458,052)	(3,327,426)	(31,336,582)
Changes of assumptions	(31,489,165)	(21,442,501)	(4,429,631)	-	36,061,281
Benefit payments, net of retiree contributions	(23,771,476)	(24,667,526)	(24,192,503)	(26,076,925)	(26,815,313)
Net change in total OPEB liability	<u>(40,273,889)</u>	<u>(29,188,724)</u>	<u>(33,641,742)</u>	<u>21,440,314</u>	<u>25,544,598</u>
Total OPEB liability - beginning	<u>627,809,371</u>	<u>656,998,095</u>	<u>690,639,837</u>	<u>669,199,523</u>	<u>643,654,925</u>
Total OPEB liability - ending (a)	<u><u>\$ 587,535,482</u></u>	<u><u>\$ 627,809,371</u></u>	<u><u>\$ 656,998,095</u></u>	<u><u>\$ 690,639,837</u></u>	<u><u>\$ 669,199,523</u></u>
Plan fiduciary net position					
Employer contributions	\$ 41,024,947	\$ 50,407,617	\$ 43,857,850	\$ 42,265,174	\$ 42,731,807
OPEB plan net investment income	70,305,219	19,298,169	18,614,687	13,736,209	14,292,030
Benefit payments, net of retiree contributions	(23,771,476)	(24,667,526)	(24,192,503)	(26,076,925)	(26,815,313)
OPEB plan administrative expense	(51,872)	(169,968)	(123,499)	(218,614)	(82,273)
Other	1,165,170	1,515,368	1,055,044	1,848,386	1,721,604
Net change in plan fiduciary net position	<u>88,671,988</u>	<u>46,383,660</u>	<u>39,211,579</u>	<u>31,554,230</u>	<u>31,847,855</u>
Plan fiduciary net position - beginning	<u>266,905,152</u>	<u>220,521,492</u>	<u>181,309,913</u>	<u>149,755,683</u>	<u>117,907,828</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 355,577,140</u></u>	<u><u>\$ 266,905,152</u></u>	<u><u>\$ 220,521,492</u></u>	<u><u>\$ 181,309,913</u></u>	<u><u>\$ 149,755,683</u></u>
Net OPEB liability (asset) - ending (a) - (b)	<u><u>\$ 231,958,342</u></u>	<u><u>\$ 360,904,219</u></u>	<u><u>\$ 436,476,603</u></u>	<u><u>\$ 509,329,924</u></u>	<u><u>\$ 519,443,840</u></u>
Plan fiduciary net position as a percentage of total OPEB liability (asset)	60.52 %	42.51 %	33.57 %	26.25 %	22.38 %
Covered-payroll	\$ 790,412,182	\$ 767,390,468	\$ 745,039,289	\$ 708,886,705	\$ 708,886,705
Net OPEB liability (asset) as a percentage of covered-payroll	29.35 %	47.03 %	58.58 %	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 (Asset) and Related Ratios

Teachers Plan					
	Fiscal Year Ended June 30, 2021	Fiscal Year Ended June 30, 2020	Fiscal Year Ended June 30, 2019	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017
Total OPEB liability					
Interest on the total OPEB liability	\$ 476,731	\$ 555,940	\$ 580,725	\$ 611,581	\$ 561,694
Changes of benefit terms	-	-	(1,951,858)	-	-
Difference between expected and actual experience	(963,502)	(1,212,233)	1,953,684	91,200	1,625,377
Changes of assumptions	(695,985)	(164,307)	(44,957)	-	216,323
Benefit payments, net of retiree contributions	(898,605)	(628,511)	(1,438,073)	(1,201,727)	(1,609,591)
Net change in total OPEB liability	(2,081,361)	(1,449,111)	(900,479)	(498,946)	793,803
Total OPEB liability - beginning	9,983,939	11,433,050	12,333,529	12,832,475	12,038,672
Total OPEB liability - ending (a)	\$ 7,902,578	\$ 9,983,939	\$ 11,433,050	\$ 12,333,529	\$ 12,832,475
Plan fiduciary net position					
Employer contributions	\$ -	\$ -	\$ 2,277,327	\$ 2,321,057	\$ 2,321,057
OPEB plan net investment income	3,375,991	1,081,692	1,100,529	780,155	864,037
Benefit payments, net of retiree contributions	(898,605)	(628,511)	(1,438,073)	(1,201,727)	(1,609,591)
OPEB plan administrative expense	(2,383)	(24,093)	(2,562)	(16,645)	6,752
Other	108,281	150,032	117,494	135,678	102,934
Net change in plan fiduciary net position	2,583,284	579,120	2,054,715	2,018,518	1,685,189
Plan fiduciary net position - beginning	14,429,352	13,850,232	11,795,517	9,776,999	8,091,810
Plan fiduciary net position - ending (b)	\$ 17,012,636	\$ 14,429,352	\$ 13,850,232	\$ 11,795,517	\$ 9,776,999
Net OPEB liability (asset) - ending (a) - (b)	\$ (9,110,058)	\$ (4,445,413)	\$ (2,417,182)	\$ 538,012	\$ 3,055,476
Plan fiduciary net position as a percentage of total OPEB liability (asset)	215.28%	144.53%	121.14%	95.64%	76.19%
Covered-payroll	N/A	N/A	N/A	N/A	N/A
Net OPEB liability (asset) as a percentage of covered-payroll	N/A	N/A	N/A	N/A	N/A

Contributions for the Teachers plan are determined at a fixed amount rather than a percentage of payroll thus covered payroll is not applicable for this plan.

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

Judges Plan					
	Fiscal Year Ended June 30, 2021	Fiscal Year Ended June 30, 2020	Fiscal Year Ended June 30, 2019	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017
Total OPEB liability					
Service cost	\$ 13,183	\$ 22,108	\$ 21,662	\$ 15,496	\$ 19,825
Interest on the total OPEB liability	17,849	64,241	59,547	68,300	49,824
Changes of benefit terms	-	-	(42,183)	-	-
Difference between expected and actual experience	(143,712)	(959,905)	102,138	(271,123)	(305,715)
Changes of assumptions	(7,174)	(68,955)	(11,454)	-	502,717
Benefit payments, net of retiree contributions	56,664	(18,402)	(53,714)	72,064	138,035
Net change in total OPEB liability	(63,190)	(960,913)	75,996	(115,263)	404,686
Total OPEB liability - beginning	322,048	1,282,961	1,206,965	1,322,228	917,542
Total OPEB liability - ending (a)	\$ 258,858	\$ 322,048	\$ 1,282,961	\$ 1,206,965	\$ 1,322,228
Plan fiduciary net position					
Employer contributions	\$ -	\$ -	\$ -	\$ -	\$ -
OPEB plan net investment income	1,080,261	326,697	340,565	293,204	334,455
Benefit payments, net of retiree contributions	56,664	(18,402)	(53,714)	72,064	138,035
OPEB plan administrative expense	(771)	(2,021)	(48)	(6,344)	(75)
Other	25,487	56,517	48,945	54,150	26,236
Net change in plan fiduciary net position	1,161,641	362,791	335,748	413,074	498,651
Plan fiduciary net position - beginning	4,812,223	4,449,432	4,113,684	3,700,610	3,201,959
Plan fiduciary net position - ending (b)	\$ 5,973,864	\$ 4,812,223	\$ 4,449,432	\$ 4,113,684	\$ 3,700,610
Net OPEB liability (asset) - ending (a) - (b)	\$ (5,715,006)	\$ (4,490,175)	\$ (3,166,471)	\$ (2,906,719)	\$ (2,378,382)
Plan fiduciary net position as a percentage of total OPEB liability (asset)	2307.78%	1494.26%	346.81%	340.83%	279.88%
Covered-payroll	\$ 11,984,760	\$ 11,635,690	\$ 11,296,786	\$ 10,746,388	\$ 10,746,388
Net OPEB liability (asset) as a percentage of covered-payroll	(47.69)%	(38.59)%	(28.03)%	(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 (Asset) and Related Ratios

State Police Plan					
	Fiscal Year Ended June 30, 2021	Fiscal Year Ended June 30, 2020	Fiscal Year Ended June 30, 2019	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017
Total OPEB liability					
Service cost	\$ 4,280,032	\$ 4,480,895	\$ 4,107,886	\$ 3,920,121	\$ 3,836,395
Interest on the total OPEB liability	4,209,749	4,391,305	4,369,437	4,147,935	4,202,351
Changes of benefit terms	-	-	(4,789,678)	-	-
Difference between expected and actual experience	(6,872,647)	(2,230,148)	629,748	(906,705)	(174,805)
Changes of assumptions	4,147,775	(6,974,066)	(1,161,395)	-	(6,004,696)
Benefit payments, net of retiree contributions	(3,388,477)	(3,008,878)	(2,801,411)	(2,848,978)	(3,129,860)
Net change in total OPEB liability	<u>2,376,432</u>	<u>(3,340,892)</u>	<u>354,587</u>	<u>4,312,373</u>	<u>(1,270,615)</u>
Total OPEB liability - beginning	<u>83,749,196</u>	<u>87,090,088</u>	<u>86,735,501</u>	<u>82,423,128</u>	<u>83,693,743</u>
Total OPEB liability - ending (a)	<u>\$ 86,125,628</u>	<u>\$ 83,749,196</u>	<u>\$ 87,090,088</u>	<u>\$ 86,735,501</u>	<u>\$ 82,423,128</u>
Plan fiduciary net position					
Employer contributions	\$ 6,178,412	\$ 7,796,954	\$ 8,256,965	\$ 7,919,243	\$ 7,701,758
OPEB plan net investment income	17,041,043	4,775,406	4,682,710	3,412,887	3,491,032
Benefit payments, net of retiree contributions	(3,388,477)	(3,008,878)	(2,801,411)	(2,848,978)	(3,129,860)
OPEB plan administrative expense	(12,406)	(35,353)	(10,762)	(73,579)	(1,031)
Other	223,350	334,325	276,804	197,488	163,266
Net change in plan fiduciary net position	<u>20,041,922</u>	<u>9,862,454</u>	<u>10,404,306</u>	<u>8,607,061</u>	<u>8,225,165</u>
Plan fiduciary net position - beginning	<u>66,410,832</u>	<u>56,548,378</u>	<u>46,144,072</u>	<u>37,537,011</u>	<u>29,311,846</u>
Plan fiduciary net position - ending (b)	<u>\$ 86,452,754</u>	<u>\$ 66,410,832</u>	<u>\$ 56,548,378</u>	<u>\$ 46,144,072</u>	<u>\$ 37,537,011</u>
Net OPEB liability (asset) - ending (a) - (b)	<u>\$ (327,126)</u>	<u>\$ 17,338,364</u>	<u>\$ 30,541,710</u>	<u>\$ 40,591,429</u>	<u>\$ 44,886,117</u>
Plan fiduciary net position as a percentage of total OPEB liability (asset)	100.38%	79.30%	64.93%	53.20%	45.54%
Covered- payroll	\$ 25,400,782	\$ 24,660,953	\$ 23,942,673	\$ 21,333,758	\$ 21,333,758
Net OPEB liability (asset) as a percentage of covered-payroll	(1.28)%	70.31%	127.56%	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

Legislators Plan					
	Fiscal Year Ended June 30, 2021	Fiscal Year Ended June 30, 2020	Fiscal Year Ended June 30, 2019	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017
Total OPEB liability					
Service cost	\$ 39,453	\$ 56,615	\$ 72,406	\$ 53,830	\$ 63,441
Interest on the total OPEB liability	58,325	79,946	79,055	73,583	66,140
Changes of benefit terms	-	-	(257,228)	-	-
Difference between expected and actual experience	(87,535)	(86,248)	283,708	102,219	168,094
Changes of assumptions	(41,375)	(349,860)	(60,748)	-	(45,367)
Benefit payments, net of retiree contributions	(163,516)	(85,058)	(97,907)	(161,061)	(36,212)
Net change in total OPEB liability	(194,648)	(384,605)	19,286	68,571	216,096
Total OPEB liability - beginning	1,228,533	1,613,138	1,593,852	1,525,281	1,309,185
Total OPEB liability - ending (a)	\$ 1,033,885	\$ 1,228,533	\$ 1,613,138	\$ 1,593,852	\$ 1,525,281
Plan fiduciary net position					
Employer contributions	\$ -	\$ -	\$ 14,680	\$ 14,283	\$ 26,743
OPEB plan net investment income	853,922	263,185	275,693	247,459	283,490
Benefit payments, net of retiree contributions	(163,516)	(85,058)	(97,907)	(161,061)	(36,212)
OPEB plan administrative expense	(586)	(1,640)	72	(5,176)	82
Other	54,203	75,102	32,728	42,261	29,026
Net change in plan fiduciary net position	744,023	251,589	225,266	137,766	303,129
Plan fiduciary net position - beginning	3,519,197	3,267,608	3,042,342	2,904,576	2,601,447
Plan fiduciary net position - ending (b)	\$ 4,263,220	\$ 3,519,197	\$ 3,267,608	\$ 3,042,342	\$ 2,904,576
Net OPEB liability (asset) - ending (a) - (b)	\$ (3,229,335)	\$ (2,290,664)	\$ (1,654,470)	\$ (1,448,490)	\$ (1,379,295)
Plan fiduciary net position as a percentage of total OPEB liability (asset)	412.35%	286.46%	202.56 %	190.88 %	190.43 %
Covered-payroll	\$ 1,924,524	\$ 1,868,470	\$ 1,814,049	\$ 1,719,143	\$ 1,719,143
Net OPEB liability (asset) as a percentage of covered-payroll	(167.80)%	(122.60)%	(91.20)%	(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.

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

Board of Education Plan					
	Fiscal Year Ended June 30, 2021	Fiscal Year Ended June 30, 2020	Fiscal Year Ended June 30, 2019	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017
Total OPEB liability					
Service cost	\$ 3,227,519	\$ 3,335,242	\$ 3,128,836	\$ 3,179,293	\$ 3,222,465
Interest on the total OPEB liability	4,197,760	3,864,149	4,124,665	3,880,857	3,714,663
Changes of benefit terms	-	-	(1,901,021)	-	-
Difference between expected and actual experience	(7,386,783)	4,535,783	(7,702,715)	404,539	(7,140,117)
Changes of assumptions	(11,620,555)	(2,463,515)	(436,983)	-	5,767,020
Benefit payments, net of retiree contributions	(2,819,135)	(2,272,019)	(2,780,591)	(2,346,016)	(2,091,088)
Net change in total OPEB liability	<u>(14,401,194)</u>	<u>6,999,640</u>	<u>(5,567,809)</u>	<u>5,118,673</u>	<u>3,472,943</u>
Total OPEB liability - beginning	83,751,013	76,751,373	82,319,181	77,200,508	73,727,565
Total OPEB liability - ending (a)	<u>\$ 69,349,819</u>	<u>\$ 83,751,013</u>	<u>\$ 76,751,373</u>	<u>\$ 82,319,181</u>	<u>\$ 77,200,508</u>
Plan fiduciary net position					
Employer contributions	\$ 3,994,538	\$ 5,481,374	\$ 5,599,588	\$ 5,490,009	\$ 3,911,529
Employee contributions	1,763,111	1,744,523	1,697,586	1,571,271	1,596,432
OPEB plan net investment income	12,421,244	3,423,477	3,268,452	2,288,741	2,288,592
Benefit payments, net of retiree contributions	(2,819,135)	(2,272,019)	(2,780,591)	(2,346,016)	(2,091,088)
OPEB plan administrative expense	(9,106)	(26,548)	(9,202)	(37,025)	(7,997)
Other	40,352	49,308	66,729	54,575	33,862
Net change in plan fiduciary net position	<u>15,391,004</u>	<u>8,400,115</u>	<u>7,842,562</u>	<u>7,021,555</u>	<u>5,731,330</u>
Plan fiduciary net position - beginning	48,007,406	39,607,291	31,764,729	24,743,174	19,011,844
Plan fiduciary net position - ending (b)	<u>\$ 63,398,410</u>	<u>\$ 48,007,406</u>	<u>\$ 39,607,291</u>	<u>\$ 31,764,729</u>	<u>\$ 24,743,174</u>
Net OPEB liability (asset) - ending (a) - (b)	<u>\$ 5,951,409</u>	<u>\$ 35,743,607</u>	<u>\$ 37,144,082</u>	<u>\$ 50,554,452</u>	<u>\$ 52,457,334</u>
Plan fiduciary net position as a percentage of total OPEB liability (asset)	91.42%	57.32%	51.60%	38.59%	32.05%
Covered-payroll	\$ 138,520,137	\$ 134,485,570	\$ 130,568,515	\$ 124,967,304	\$ 124,967,304
Net OPEB liability (asset) as a percentage of covered-payroll	4.30%	26.58%	28.45%	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>
Fiscal Year ended June 30, 2021	20.04%	23.69%	22.19%	24.96%	23.94%	25.21%
Fiscal Year ended June 30, 2020	9.17%	7.45%	7.14%	8.21%	8.24%	8.24%
Fiscal Year ended June 30, 2019	10.11%	8.31%	8.45%	9.56%	9.31%	9.64%
Fiscal Year ended June 30, 2018	8.70%	6.95%	7.96%	8.60%	8.75%	8.59%
Fiscal Year ended June 30, 2017	10.42%	7.94%	9.83%	11.32%	9.99%	11.13%

See notes to required supplementary information.

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

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Required Supplementary Information

Schedules of Employer Contributions

	Fiscal Year Ended June 30	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
State Employees						
	2021	\$ 41,024,947	\$ 41,024,947	\$ -	\$ 790,412,182	5.19%
	2020	50,407,617	50,407,617	-	767,390,468	6.57 %
	2019	43,857,850	43,857,850	-	745,039,289	5.89 %
	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 %
Teachers						
	2021	\$ -	\$ -	\$ -	\$ -	-
	2020	-	-	-	-	-
	2019	2,321,057	2,277,327	43,730	-	-
	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	-	-	-
Judges						
	2021	\$ -	\$ -	\$ -	\$ 11,984,760	0.00 %
	2020	-	-	-	11,635,690	0.00 %
	2019	-	-	-	11,296,786	0.00 %
	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 %
State Police						
	2021	\$ 6,178,412	\$ 6,178,412	\$ -	\$ 25,400,782	24.32 %
	2020	7,796,954	7,796,954	-	24,660,953	31.62 %
	2019	8,256,965	8,256,965	-	23,942,673	34.49 %
	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 %
Legislators						
	2021	\$ -	\$ -	\$ -	\$ 1,924,524	0.00 %
	2020	-	-	-	1,868,470	0.00 %
	2019	14,680	14,680	-	1,814,049	0.81 %
	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 %
Board of Education						
	2021	\$ 3,994,538	\$ 3,994,538	\$ -	\$ 138,520,137	2.88 %
	2020	5,481,374	5,481,374	-	134,485,570	4.08 %
	2019	5,599,588	5,599,588	-	130,568,515	4.29 %
	2018	5,490,009	5,490,009	-	124,967,304	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 STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Required Supplementary Information

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, 2021 Measurement Date:

Certain actuarial assumptions for State Employees (including Correctional Officers), Teachers, Judges, State Police, Legislators, and the Board of Education were updated to match the assumptions used in the pension valuation for the Employees' Retirement System of Rhode Island (ERSRI) and the results of an actuarial experience investigation performed for ERSRI for the period ended June 30, 2019. Changes were made to the following assumptions:

- The mortality assumptions for State Employees, Teachers, Judges, State Police, Legislators, and the Board of Education
- Rates of turnover for State Employees, Legislators, and the Board of Education
- Rates of retirement for State Employees, State Police, Legislators, and the Board of Education
- Rates of individual salary increases for State Employees, State Police, Legislators, and the Board of Education
- Probabilities of disability for State Employees, State Police, Legislators, and the Board of Education
- Lower wage assumptions for Judges

June 30, 2020 Measurement Date:

The "Cadillac tax" which was a tax provision from the federal Affordable Care Act (ACA) was repealed in December, 2019. As a result, liability amounts previously included for the "Cadillac tax" within the development of the total OPEB liability have been removed as of the June 30, 2020 measurement date.

June 30, 2019 Measurement Date:

The June 30, 2018 actuarial valuation rolled forward to the June 30, 2019 measurement date reflected a change in Excise Tax load on pre-65 liabilities from 11.0% to 9.5%. The healthcare cost trend rate used in determining the OPEB liability at the June 30, 2019 measurement date decreased slightly from the previous measurement date.

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.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Required Supplementary Information

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

June 30, 2017 Measurement Date:

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 ("Cadillac 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 2022 will be based on valuations performed as of June 30, 2019. The following table summarizes the assumptions and methods employed in the June 30, 2018 valuation.

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

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Required Supplementary Information

2. Actuarially determined contributions (continued)

Summary of Actuarial Methods and Assumptions as of June 30, 2018 valuation used to determine fiscal 2021 contribution rates						
	State Employees	Teachers	Judges	State Police	Legislators	Board of Education
Actuarial Cost Method	Entry Age Normal – the Individual Entry Age Actuarial cost methodology is used.					
Amortization Method	Level Percent of Payroll	Level Dollar	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	18 years closed	Determined by Statutory Contribution	30 years open	18 years closed	30 years open	18 years closed
Asset Valuation Method	Four-year smoothed market; 20% corridor					
Actuarial Assumptions						
Investment Rate of Return	5.0%, compounded annually, net of investment expenses					
Projected Salary Increases	3.0% to 6.0%	N/A	3.0%	4.0% to 14.0%	3.0% to 6.0%	3.0% to 6.0%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.					
Mortality	<p align="center">Post-Retirement Mortality:</p> <p>Fully Generational Mortality</p> <p>Healthy Male Teachers, Judges, Legislators, and Board of Education: RP-2014 Combined Healthy for males with White Collar adjustment, projected with the MP 2016 ultimate rates.</p> <p>Healthy Female Teachers, Judges, Legislators, and Board of Education: RP-2014 Combined Healthy for females with White Collar adjustment, projected with the MP 2016 ultimate rates.</p> <p>Healthy Male State Employees and Police: RP-2014 Combined Healthy for males with Blue Collar adjustment, projected with the MP 2016 ultimate rates.</p> <p>Healthy Female State Employees and Police: RP-2014 Combined Healthy for females, projected with the MP 2016 ultimate rates.</p> <p align="center">Disabled Mortality:</p> <p>Disabled Males: RP-2014 Disabled Retiree Table for males, projected with the MP 2016 ultimate rates.</p> <p>Disabled Females: RP-2014 Disabled Retiree Table for females, projected with the MP 2016 ultimate rates.</p> <p align="center">Pre-Retirement Mortality:</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>					
Healthcare Trend Rate	Based on the Getzen Model with trend starting at 8.25% and gradually decreasing to the ultimate trend rate of 3.5%.					
Aging Factors	The development of retiree only premium is based on a recent Society of Actuaries study of health costs.					
Inflation	Not explicitly used, consistent with a 2.50% assumption.					

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Required Supplementary Information

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 - General Assembly
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

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

We have audited, in accordance with the 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 (*Government Auditing Standards*), the financial statements of the plans within the Rhode Island State Employees' and Electing Teachers OPEB System (System) as of and for the year ended June 30, 2021 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 22, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an 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 System'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 identified a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as Finding 2021-01 that we consider to be a significant deficiency.

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

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



David A. Bergantino, CPA, CFE
Auditor General

September 22, 2023

Finding 2021-01

(significant deficiency – repeat finding – 2020-01)

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 of 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 Control 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 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 from 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

- | | |
|----------|---|
| 2021-01a | Assess the resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled. |
| 2021-01b | 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. |
| 2021-01c | Evaluate assigned responsibilities for key functions and segregate certain responsibilities for incompatible functions to enhance controls over critical plan administrative functions. |

2021-01d Establish consistent procedures to identify deceased plan members and prompt timely termination of coverage.

Auditee Views and Corrective Action Plan:

The OPEB Board agrees with the recommendations presented by the Auditor General. In fiscal year 2022, the OPEB Board hired a full-time staff to be responsible for key functions of the OPEB system. This resource, who is part of Office of Accounts and Control, will coordinate with the appropriate parties for the development of procedures related to identification of deceased plan members and timely termination of their coverage.

The OPEB Board believes implementing a stand-alone software application to accumulate and manage plan membership data will be extremely costly for the system to finance with authorized administrative funding. However, to address this recommendation, the OPEB Board requested this functionality be included in the RFP for the new Enterprise Resource Planning (ERP) system being pursued by the Department of Administration, which is to include a full-service Human Capital Management module.

Anticipated Completion Date: *Ongoing*

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