



Audit Summary

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Employees' Retirement System of the State of Rhode Island

State Employees' and Electing Teachers OPEB System

Fiscal Year Ended June 30, 2012

We completed audits of the financial statements, for the fiscal year ended June 30, 2012, of the:

- **Employees' Retirement System of the State of Rhode Island** (the Retirement System); and
- **State Employees' and Electing Teachers OPEB System** (the OPEB System).

We concluded that the financial statements of the Retirement System and the OPEB System present fairly, in all material respects, the fiduciary net assets of the Systems' plans as of June 30, 2012 and the changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Employees' Retirement System of the State of Rhode Island

The audit encompassed the four defined benefit pension plans administered by the Retirement System – i.e., separate plans for 1) state employees and teachers, 2) state police, 3) judges, and 4) participating municipal employees. These plans covered more than 66,000 members (as of the June 30, 2011 actuarial valuation).

Net assets of the Retirement System decreased by \$204 million during fiscal 2012 to \$7.3 billion at June 30, 2012. The time weighted rate of return during the fiscal year was 1.55% (compared to 20.4% during the prior fiscal year), and net investment income was \$115.6 million (compared to nearly \$1.3 billion during fiscal year 2011).

Pension benefits paid to retirees and beneficiaries during the fiscal year ended June 30, 2012 totaled \$881 million, and employee and employer contributions totaled \$582.7 million.

The audit report includes schedules of funding progress for each of the Retirement System's pension plans, which outline the most currently calculated unfunded actuarial accrued liabilities and funded ratios (performed by the System's actuary as of June 30, 2011) – see table summarizing funded status by plan.

ERSRI Plans – Funded Status

(Based on actuarial valuation performed as of June 30, 2011)

Plan	Unfunded Liability	Funded Ratio
State Employees	\$ 1,811,671,665	57.4%
Teachers	\$ 2,549,534,117	59.7%
Judicial	\$ 6,488,488	86.1%
State Police	\$ 1,033,937	98.6%
Municipal	\$ 224,064,478	84.3% (composite ratio)

The notes to the financial statements disclose contingencies related to lawsuits challenging pension reform measures enacted in 2009, 2010 and more recently in 2011.

State Employees' and Electing Teachers OPEB System

The audit encompassed the six defined benefit other postemployment benefit (OPEB) plans administered by the OPEB System – i.e., separate plans for 1) state employees, 2) electing teachers, 3) state police, 4) judges, 5) legislators, and 6) certain employees of the Board of Governors. These plans provide retiree healthcare benefits for its members. There were nearly 26,000 active and retired members in the System as of the most recent actuarial valuation performed at June 30, 2011.

Net assets of the OPEB System increased by \$22 million during fiscal 2012 to \$37 million at June 30, 2012. The time weighted rate of return during the fiscal year was 7.08%, and net investment income was \$2.2 million.

OPEB or retiree health benefits paid to retirees during the fiscal year ended June 30, 2012 totaled \$58.3 million, and member and employer contributions totaled \$76.1 million. The State began contributing on an actuarially determined basis in fiscal 2011 and 100% of required contributions were made to the plans in both fiscal 2011 and 2012.

The audit report includes schedules of funding progress for each of the System's OPEB plans, which outline the most recent actuarially determined liability for future benefits. These valuations, performed as of June 30, 2011, estimate the OPEB liability at \$917 million for all plans included within the System.

Other communications resulting from the annual audits of the Retirement System and OPEB System will follow separately.

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