



Audit Summary

Dennis E. Hoyle, CPA, Auditor General

dennis.hoyle@oag.ri.gov

JANUARY 2014

Employees' Retirement System of the State of Rhode Island

State Employees' and Electing Teachers OPEB System

Fiscal Year Ended June 30, 2013

We completed audits of the financial statements, for the fiscal year ended June 30, 2013, 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 position of the Systems' plans as of June 30, 2013 and the changes in fiduciary net position 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 (1) the five defined benefit pension plans administered by the Retirement System – i.e., separate plans for state employees and teachers, state police, two plans covering judges, and participating municipal employees, and (2) the newly created defined contribution plan. These plans covered nearly 67,000 members (as of the June 30, 2012 actuarial valuations).

Net position of the Retirement System increased by \$426 million during fiscal 2013 to \$7.7 billion at June 30, 2013. The time weighted rate of return during the fiscal year was 11.07% (compared to 1.55% during the prior fiscal year), and net investment income was \$777.9 million (compared to 115.6 million during fiscal year 2012).

Pension benefits paid to retirees and beneficiaries during the fiscal year ended June 30, 2013 totaled \$903.1 million, and employee and employer contributions totaled \$571.3 million.

Amounts accumulated in the newly created defined contribution plan, which was created as a result of pension reform measures enacted in November 2011 totaled \$122 million at June 30, 2013

The audit report includes schedules of funding progress for each of the Retirement System's pension plans, detailing the funded status based on valuations performed by the System's actuary as of June 30, 2012. In December 2013, the ERSRI Board adopted valuations performed as of June 30, 2013 for the ERS and MERS plans, which is included as a subsequent event disclosure. The funded status of those plans decreased slightly compared to the June 30, 2012 valuations.

ERSRI Plans – Funded Status

(Based on actuarial valuations performed as of June 30, 2012)

| Plan | Unfunded Liability | Funded Ratio |
|--|--------------------|----------------------------|
| State Employees | \$ 1,876,069,769 | 56.3% |
| Teachers | \$ 2,626,781,473 | 58.8% |
| Judicial judges appointed after 12/31/1989 | \$ 8,656,508 | 83.4% |
| Judicial active judges appointed before 1/1/1990 | \$ 16,387,206 | 0.0% |
| State Police | \$ 9,737,719 | 89.6% |
| Municipal | \$ 262,298,831 | 82.5% (composite ratio) |

The State has not begun funding the new judicial plan (covering active judges appointed before January 1, 1990) on an advance funded basis.

The financial statements disclose contingencies related to lawsuits challenging pension reform measures.

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 Education. These plans provide retiree healthcare benefits for its members. There were more than 26,000 active and retired members in the System as of the most recent actuarial valuation performed at June 30, 2011.

Net position of the OPEB System increased by \$29 million during fiscal 2013 to \$66 million at June 30, 2013. The time-weighted rate of return during the fiscal year was 8.77%, and net investment income was \$4.3 million.

OPEB or retiree health benefits paid to retirees during the fiscal year ended June 30, 2013 totaled \$53.8 million, and member and employer contributions totaled \$77.6 million.

The audit report includes schedules of funding progress for each of the System's OPEB plans. Actuarial valuations, performed as of June 30, 2011, estimate the unfunded OPEB liability at \$860 million for all plans included within the System.

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.