



Audit Summary

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Employees' Retirement System of the State of Rhode Island

Fiscal Year Ended June 30, 2014

We completed an audit of the fiscal 2014 financial statements for the **Employees' Retirement System of the State of Rhode Island** (the Retirement System). We concluded that the financial statements of the Retirement System present fairly, in all material respects, the fiduciary net position of the System's plans as of June 30, 2014 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.

The audit encompassed (1) the six defined benefit pension plans administered by the Retirement System – i.e., separate plans for state employees and teachers, the teachers' survivors benefit program, state police, two plans covering judges, and participating municipal employees, and (2) the newly created defined contribution plan. These plans covered nearly 68,000 members.

Net position of the Retirement System increased by \$817 million during fiscal 2014 to \$8.5 billion at June 30, 2014. The time weighted rate of return during the fiscal year was 15.12% (compared to 11.07% during the prior fiscal year), and net investment income was \$1.1 billion (compared to \$777.9 million during fiscal year 2013).

Pension benefits paid to retirees and beneficiaries from the defined benefit plans during fiscal 2014 totaled \$902 million, and distributions from the defined contribution plan totaled \$2.6 million. Employee and employer contributions totaled more than \$600 million to all plans.

Amounts accumulated in the defined contribution plan, created as a result of pension reform measures enacted in November 2011, totaled \$277.4 million at June 30, 2014 – the second full year of operation. The majority of defined contribution plan assets (92%) are held in target date retirement fund investments.

The Retirement System implemented new accounting requirements - GASB Statement No. 67 - *Financial Reporting for Pension Plans* during fiscal 2014. This required new accounting measures of the net pension liability (asset) of the employers participating in the System's defined benefit pension plans. The accounting measures of the net pension liability used for financial reporting purposes may, and will likely, differ from the measures used to determine actuarially determined amounts consistent with a plan's funding policy. Beginning in fiscal 2015, employers participating in the System's plans will report the net pension liability (asset), or their proportionate share, on their government-wide financial statements as required by GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions*.

The net pension liability of each plan is shown in the table below. The Teachers' Survivors Benefit Plan (TSB) has a net pension asset since plan net position exceeds the total pension liability.

The State has not begun funding the new judicial plan (RIJRFT - covering active judges appointed before January 1, 1990) on an advance funded basis. Consequently, the determination of the pension liability for this plan used a municipal bond index rate of 4.29%.

Consistent with the new GASB 67 accounting requirements, the System's fiscal 2014 financial statements include new disclosures and required supplementary information related to the money-weighted return on investments for each plan, the components of the change in the net pension liability (asset), and the sensitivity of the determination of the net pension liability (asset) by a change in investment return assumption of +1/-1%. The real return assumption for each asset class within the pooled investment trust is disclosed as support for the System's overall investment return assumption of 7.5%.

We highlighted that the TSB plan was presented separately in 2014 and that the financial statements disclose contingencies related to lawsuits challenging legislatively enacted pension reforms, which are still pending in Superior Court.

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.

	ERS		TSB	State Police	JRBT	RIJRFT	MERS	
	State Employees	Teachers					General employees	Police & Fire
<i>Fiscal year ended June 30, 2014</i>								
Total pension liability	\$ 4,302,186,206	\$ 6,309,901,411	\$ 169,601,073	\$ 113,017,758	\$ 59,933,761	\$ 17,505,869	\$ 1,083,524,263	\$ 526,361,185
Plan fiduciary net position	2,520,281,249	3,875,901,033	293,921,803	109,678,381	56,172,243	318,023	947,202,644	446,542,303
Employers' net pension liability (asset)	\$ 1,781,904,957	\$ 2,434,000,378	\$(124,320,730)	\$ 3,339,377	\$ 3,761,518	\$ 17,187,846	\$ 136,321,619	\$ 79,818,882
Plan fiduciary net position as a percentage of total pension liability	58.6%	61.4%	173.3%	97.0%	93.7%	1.8%	87.4%	84.8%