



Audit Summary

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Employees' Retirement System of the State of Rhode Island

Fiscal Year Ended June 30, 2017

We completed an audit of the fiscal 2017 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, 2017 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 seven defined benefit pension plans administered by the Retirement System – i.e., separate plans for state employees and teachers, the teachers' survivors benefit program, two plans covering state police, two plans covering judges, and participating municipal employees, and (2) the defined contribution plan. The defined benefit plans covered more than 69,000 members (more than 35,000 of these members also participated in the defined contribution plan).

Net position of the Retirement System increased by \$686 million during fiscal 2017 to \$8.8 billion at June 30, 2017. The time weighted rate of return during the fiscal year was 11.62% (compared to -0.27% during the prior fiscal year). The net investment income within the pooled investment trust was \$867 million (compared to net investment loss of \$8.3 million during fiscal year 2016).

Pension benefits paid to retirees and beneficiaries from the defined benefit plans during fiscal 2017 totaled \$953 million.

Employee and employer contributions totaled more than \$609.8 million to all the defined benefit plans.

Amounts accumulated in the defined contribution plan totaled \$692 million at June 30, 2017. The majority of defined contribution plan assets (90%) are held in target date retirement fund investments.

Employer and employee contributions to the defined contribution plan were \$116.4 million during fiscal 2017, an increase of \$6.9 million. Distributions from the defined contribution plan totaled \$12.3 million. Investment gains within the defined contribution plan totaled \$74.9 million.

The accounting measures of the net pension liability (GASB Statement No. 67) used for financial reporting differ from the measures used to determine actuarially determined contribution amounts for funding purposes. Employers participating in the System's plans report the net pension liability (asset), or their proportionate share, on

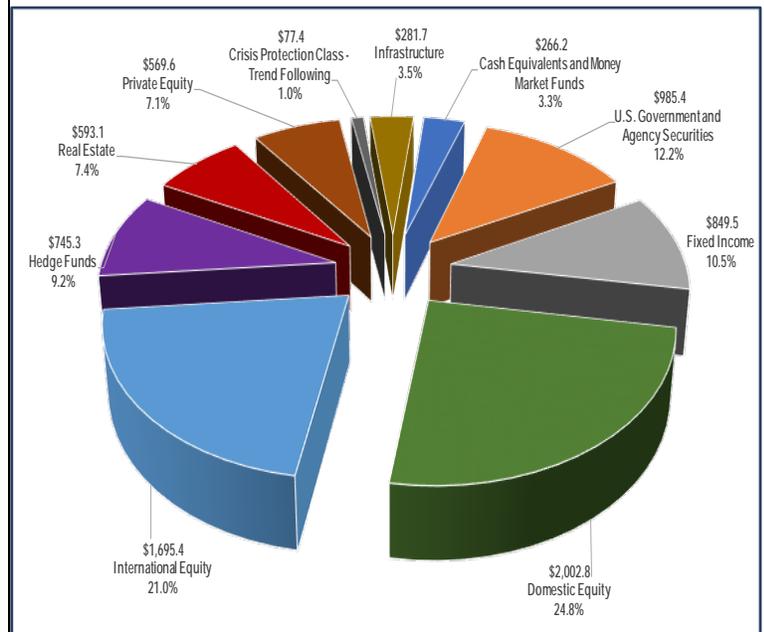
their government-wide financial statements as required by GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions*.

The net pension liability of each plan is shown in the table on the following page as of June 30, 2017. The Teachers' Survivors Benefit Plan (TSB) had a net pension asset - net position exceeds the total pension liability.

The pension liability for all plans except the RIJRT was determined using the System's investment return assumption of 7%. The RIJRT used a municipal bond index rate of 3.56%.

The System's fiscal 2017 financial statements also include disclosures 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%.

The assets held within the pooled investment trust at June 30, 2017 are shown in the chart below:



As part of an overall change in asset allocation during fiscal 2017, the State Investment Commission opted to reduce its investment in hedge funds. At June 30, 2017, approximately \$244 million is pending and expected to be received during fiscal 2018.

In June 2017, a new asset class called Crisis Protection Class was funded. The purpose of this asset class is to provide diversified exposure across different asset classes, geographies, and time

horizons to produce significant returns to offset a downturn in the market. There are currently two funds (limited liability companies with Employees' Retirement System of Rhode Island as the sole member) used to implement this strategy.

Pursuant to Rhode Island General Law section 42-28-22.1 the retirement board established a trust in June 2016 to collect any funds dedicated to paying retirement benefits to state police hired on or before July 1, 1987, or their beneficiaries (these benefits had previously been funded by the state's general fund on a pay-as-you-go basis). The purpose of the trust was to begin pre-funding these retirement benefits and reducing the associated unfunded liability.

The trust was initially funded in fiscal year 2017 with \$15 million of the \$45 million allocated to the state police through the federal Department of Justice's Equitable Sharing Program following a settlement involving Google, Inc. The state contributed an additional \$16.6 million to the trust during the fiscal year pursuant to General Law section 42-28-22.1 which requires annual contributions computed on an actuarial basis using an eighteen-year amortization schedule.

The audit report is available on our website - www.oag.ri.gov or by calling the office at 401.222.2435.

Plan	Total pension liability	Plan fiduciary net position	Employers' net pension liability (asset)	Plan fiduciary net position as a % of the total pension liability
ERS				
State employees	\$ 4,680,841,285	\$ 2,426,085,798	\$ 2,254,755,487	51.8%
Teachers	6,843,692,866	3,696,400,551	3,147,292,315	54.0%
TSB	229,234,027	311,960,433	(82,726,406)	136.1%
SPRBT	154,274,067	129,788,664	24,485,403	84.1%
JRBT	75,627,725	67,895,115	7,732,610	89.8%
RIJRFT	20,441,696	646,628	19,795,068	3.2%
SPRFT	175,957,019	16,013,015	159,944,004	9.1%
MERS				
General employees	1,235,893,776	970,047,065	265,846,711	78.5%
Police and fire	681,563,797	510,245,970	171,317,827	74.9%