



AUDIT SUMMARY

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INTEGRITY ♦ RELIABILITY ♦ INDEPENDENCE ♦ ACCOUNTABILITY

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EMPLOYEES' RETIREMENT SYSTEM

FISCAL YEAR ENDED JUNE 30, 2007

We completed an audit of the Employees' Retirement System of Rhode Island (the "System") for the fiscal year ended June 30, 2007. Benefits are provided under the following plans which comprise the System:

- ❑ **Employees' Retirement System (ERS)** - provides pension benefits to state employees as well as teachers and other employees of local school districts;
- ❑ **Municipal Employees' Retirement System (MERS)** - provides pension benefits to employees of participating municipalities, housing authorities, water and sewer districts, and municipal police and firemen;
- ❑ **State Police Retirement Benefits Trust (SPRBT)** - provides pension benefits to state police and superintendents hired after July 1, 1987; and
- ❑ **Judicial Retirement Benefits Trust (JRBT)** - provides pension benefits to judges appointed after December 31, 1989.

Each plan's assets may be used only for the payment of benefits to members of that plan.

We concluded that the System's financial statements present fairly, in all material respects, the fiduciary net assets of the plans within the System as of June 30, 2007 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.

We reported significant deficiencies in the System's internal control over financial reporting relating to monitoring of the System's investments and the reliability of contributions receivable reported by the System's ANCHOR accounting system.

We made other recommendations to consider electronic remittance of contributions to the System, complete development of an accounting manual, and consider expanding in-house information technology resources. We also recommended that the System implement information systems security policies and procedures and complete development of a comprehensive disaster recovery/business continuity plan.

At June 30, 2007, the combined net assets of the plans were approximately \$8.5 billion (fair value). Net investment income, including net appreciation in the fair value of the plans' investments during the year, was \$1.3 billion.

Benefits paid to retirees and beneficiaries under the plans totaled \$647.7 million while contributions to all plans by both employers and members totaled \$514 million.

As part of an actuarial valuation performed each year, the progress toward funding pension obligations is 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. As reflected in the most recent actuarial valuation (June 30, 2006), the funded ratio decreased to 54.6% for State employees and 52.7% for Teachers within the ERS plan. The SPRBT plan experienced an increase in the funding ratio to 86.0% whereas the JRBT plan experienced a slight decline in the funding ratio to 86.8%. The MERS plan funded ratio declined slightly to an overall average ratio of 87.1 %

The audit report includes schedules detailing the progress made, by plan, in accumulating sufficient assets to pay benefits when due and the contributions made by employers.

Copies of this report can be obtained by calling 222-2435 or by visiting our website at www.oag.ri.gov.

Financial Highlights (In millions)

| | <u>ERS</u> | <u>MERS</u> | <u>SPRBT</u> | <u>JRBT</u> | <u>Total All Plans</u> |
|--|------------|-------------|--------------|-------------|------------------------|
| Net assets available for benefit (at fair value) | \$7,237 | \$1,189 | \$50 | \$33 | \$8,509 |
| Pension benefits provided to retirees | \$595.2 | \$52 | \$0.2 | \$0.3 | \$647.7 |
| Employer and member contributions | \$456 | \$50 | \$5.1 | \$2.9 | \$514 |
| Net investment income | \$1,131.4 | \$184.9 | \$7.4 | \$4.8 | \$1,328.5 |