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EMPLOYEES' RETIREMENT SYSTEM  
OF THE STATE OF RHODE ISLAND

**Employees' Retirement System  
Cost-Sharing Plan**

**Schedules of Employer Allocations**

**Schedules of Pension Amounts by Employer**

**June 30, 2016 Measurement Date**

**Final DRAFT - 09-19-2017**

Dennis E. Hoyle, CPA  
Auditor General

State of Rhode Island and Providence Plantations  
General Assembly  
Office of the Auditor General

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# Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly

**Dennis E. Hoyle, CPA - Auditor General**

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September 21, 2017

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER Nicholas A. Mattiello, Chairman

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Senator Dennis L. Algieri  
Representative K. Joseph Shekarchi  
Representative Patricia L. Morgan

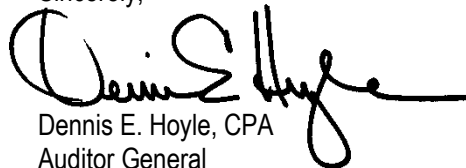
We have completed our audit of the Schedules of Employer Allocations and Schedules of Pension Amounts by Employer for the Employees' Retirement System (ERS) Cost-Sharing Plan of the State of Rhode Island for the fiscal year ended June 30, 2016.

These Schedules will be used by employers participating in the ERS cost-sharing defined benefit plan to meet their fiscal 2017 financial reporting responsibilities under generally accepted accounting principles – specifically the requirements of Governmental Accounting Standards Board Statement No. 68 – *Accounting and Financial Reporting for Pensions*.

Other reports containing similar information for the Teachers' Survivors Benefits Plan and the Municipal Employees' Retirement System Plan will be issued under separate cover.

Our report is contained herein as outlined in the Table of Contents.

Sincerely,



Dennis E. Hoyle, CPA  
Auditor General

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**June 30, 2016 Measurement Date**

**INTRODUCTION**

The Employees' Retirement System (ERS) Plan covers state employees, certain employees of quasi-public agencies, and teachers employed by local educational agencies, collaboratives and certain charter schools. ERS is a cost-sharing plan with a special funding situation related to teacher members. Separate actuarial valuations are made for state employee and teacher members; however, separate valuations are not made for individual employers participating in the plan.

For employers with teacher members in ERS, due to the "special funding" situation, the State will report approximately 40% of the net pension liability in its financial statements and the remaining 60% will be reported as a liability in the financial statements of the employer with teacher members in the plan.

As a cost-sharing plan – the net pension liability is apportioned based on proportionate contributions – see Schedules A and B.

**The measurement date is June 30, 2016 – the information included herein is intended for use in Fiscal 2017 financial reporting by employers participating in the ERS cost-sharing plan.** These include the State of Rhode Island, certain component units of the State of Rhode Island and municipalities, regional school districts, and collaboratives that have teachers participating in the plan.

The net pension liability and other measures included herein have been developed consistent with the requirements of GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions*. Such amounts are intended for accounting and financial reporting by governments which prepare their financial statements in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board. These amounts may and will likely differ from amounts reported in actuarial valuations used to measure actuarially determined contribution amounts consistent with the plan's adopted funding policies.



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## INDEPENDENT AUDITOR'S REPORT

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY  
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

RETIREMENT BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE  
STATE OF RHODE ISLAND:

### ***Report on Schedules***

We have audited the accompanying Schedules of Employer Allocations (state employees and teachers and other nonemployer entity) of the Employees' Retirement System Plan (the Plan) as of and for the year ended June 30, 2016, and the related notes. We have also audited the total for all entities of the columns titled ending net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying Schedules of Pension Amounts by Employer of the Plan (state employees and teachers) as of and for the year ended June 30, 2016, and the related notes.

### ***Management's Responsibility for the Schedules***

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on the Schedules of Employer Allocations and the specified column totals included in the Schedules of Pension Amounts by Employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules of employer allocations and specified column totals included in the schedules of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules of employer allocations and specified column totals included in the schedules of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedules of employer allocations and specified column totals included in the schedules of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedules of employer allocations and specified column totals included in the schedules of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

Joint Committee on Legislative Services, General Assembly  
Retirement Board of the Employees' Retirement System of the State of Rhode Island

internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedules of employer allocations and specified column totals included in the schedules of pension amounts by employer.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

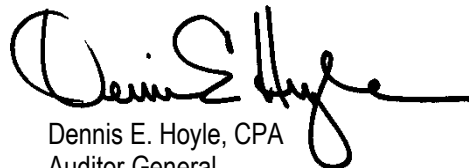
In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations for state employees and teachers and other nonemployer entity, ending net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating state employee and teacher entities for the Employees' Retirement System Plan as of and for the year ended June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Employees' Retirement System Plan within the Employees' Retirement System of the State of Rhode Island as of and for the year ended June 30, 2016, and our report thereon, dated January 20, 2017 expressed an unmodified opinion on those financial statements.

**Restriction on Use**

Our report is intended solely for the information and use of the Employees' Retirement System of the State of Rhode Island's management, the Retirement Board of the Employees' Retirement System of the State of Rhode Island, the Employees' Retirement System employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.



Dennis E. Hoyle, CPA  
Auditor General

September 15, 2017

**EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND**

**Employees' Retirement System Cost-Sharing Plan**

**NOTES TO THE SCHEDULES OF EMPLOYER ALLOCATIONS AND PENSION AMOUNTS BY EMPLOYER**  
**June 30, 2016 Measurement Date**

**1. Plan Description and Governance**

The Employees' Retirement System of the State of Rhode Island (the System) acts as a common investment and administrative agent for pension benefits to be provided through various defined benefit and defined contribution retirement plans. The System is administered by the State of Rhode Island Retirement Board which was authorized, created and established as an independent retirement board to hold and administer, in trust, the funds of the retirement system.

Each plan's assets are accounted for separately and may be used only for the payment of benefits to the members of that plan, in accordance with the terms of that plan.

The Employees' Retirement System (ERS) Plan (the Plan) was established and placed under the management of the Retirement Board for the purpose of providing retirement allowances for employees of the State of Rhode Island under the provisions of chapters 8 to 10, inclusive, of Title 36, and public school teachers under the provisions of chapters 15 to 17, inclusive, of Title 16 of the Rhode Island General Laws.

The Plan covers most State employees other than certain personnel at the State colleges and university (principally faculty and administrative personnel). The plan also covers teachers, including superintendents, principals, school nurses, and certain other school officials in the public schools in the cities and towns. Membership in the plan is mandatory for all covered state employees and teachers. Elected officials may become members on an optional basis and legislators may participate if elected to office prior to January 1, 1995.

Certain employees of the Rhode Island Airport Corporation (hired before July 1, 1993), the Rhode Island Commerce Corporation (active contributing members and employees of the Department of Economic Development before October 31, 1995 who elected to continue membership) and, the Narragansett Bay Water Quality District Commission (members of a collective bargaining unit) are also covered and have the same benefits as State employees.

**2. Schedules of Employer Allocations**

The Schedules of Employer Allocations reflect employer contributions recognized for the fiscal year ended June 30, 2016 consistent with contributions reflected within the Plan's financial statements. Contribution classification and presentation differences are reconciled on the next page.

The Schedule of Employer and Other Nonemployer Entity Allocations for Teachers reflects a special funding situation wherein the State of Rhode Island, by statute, has assumed responsibility to fund 40% of the required employer contribution for teachers. The actual proportionate share of employer contributions as shown in the Schedule and to be borne by the State varies slightly from 40% due to local education agency employers not participating in a component of the actuarially determined contribution that relates to interest on certain contributions withdrawn, but subsequently restored, to the Plan.

The Schedule of Employer Allocations and Other Nonemployer Entity Allocations for Teachers also includes an adjustment to determine equivalent contributions from local educational agencies if all had been shared on a consistent basis. The employer contribution for certain teachers funded by federal programs is borne 100% by the local education agency using federal funds and consequently there is no State share. The adjustment converts the actual contribution amounts by local educational agency employers to an equivalent basis for the purpose of determining each employer's proportionate share of the net pension liability, pension expense and deferred inflows and outflows of resources.

**EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND**

**Employees' Retirement System Cost-Sharing Plan**

**NOTES TO THE SCHEDULES OF EMPLOYER ALLOCATIONS AND PENSION AMOUNTS BY EMPLOYER  
June 30, 2016 Measurement Date**

**2. Schedules of Employer Allocations (continued)**

	State employees	Teachers Local Share	Teachers State share	Total ERS Plan
Employer Contributions included in the Schedules of Employer Allocations	\$ 159,126,207	\$ 133,880,858	\$ 91,688,729	\$ 384,695,794
Adjustment for equivalent contributions if all shared at same rate		3,691,092	(3,691,092)	-
Other contribution related additions included in financial reporting amounts	46,185	893,226		939,411
Employer contributions reported on ERS Plan Fiscal 2016 financial statements	\$ 159,172,392	\$ 138,465,176	\$ 87,997,637	\$ 385,635,205
per ERSRI fiscal 2016 financial statements		Employer contributions	\$ 297,637,568	
		State contributions for teachers	87,997,637	
		Total employer contributions	\$ 385,635,205	

The percentages included in the Schedules of Employer Allocations have been rounded to 8 decimal places.

**3. Schedules of Pension Amounts by Employer**

The Schedules of Pension Amounts by Employer were prepared by the Plan's actuary using amounts from (1) the Plan's fiscal 2016 financial statements, (2) Required Supplementary Information Schedules prepared in accordance with the requirements of GASB Statement No. 67, and (3) certain data from the actuarial valuation of the Plan performed at June 30, 2015 rolled-forward to June 30, 2016. These schedules utilize the proportionate employer contribution schedules detailed in the Schedules of Employer Allocations to apportion each employer's amounts for the cost-sharing plan.

The Schedules of Pension Amounts by Employer include the sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the employers calculated using the discount rate of 7.5 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.



**EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND**

**Employees' Retirement System Cost-Sharing Plan**

**NOTES TO THE SCHEDULES OF EMPLOYER ALLOCATIONS AND PENSION AMOUNTS BY EMPLOYER  
June 30, 2016 Measurement Date**

**3. Schedules of Pension Amounts by Employer (continued)**

**Net Pension Liability – Sensitivity Analysis**

	<b>1.00% Decrease (6.50%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1.00% Increase (8.50%)</b>
<b>ERS - State employees</b>	\$ 2,598,795,821	\$ 2,122,262,971	\$ 1,732,145,629
<b>ERS - Teachers</b>	\$ 3,684,457,175	\$ 2,983,577,526	\$ 2,409,802,443

**4. Relationship to the Plan Financial Statements**

The components associated with pension expense and deferred outflows and inflows of resources have been determined based on the net increase in fiduciary net position as reflected for the ERS Plan in the System's financial statements and consistent with the requirements of GASB Statements No. 67 and 68.

The Schedules of Employer Allocations as included herein have been restated compared to the schedules originally included as supplementary information in the System's fiscal 2016 audited financial statements. See note 2 which more fully describes how employer contribution amounts are utilized in the Schedules of Employer Allocations.

**5. Summary of Significant Accounting Policies**

**Basis of Accounting** – The underlying information to prepare the allocation schedules is based on the System's financial statements as of and for the year ended June 30, 2016. The financial statements of the System are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the wages, subject to required contributions, are earned for the performance of duties for covered employment. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions.

**6. Net Pension Liability**

The components of the net pension liability of the employers participating in the ERS Plan at June 30, 2016 were as follows:

	<b>ERS</b>	
	<b>State Employees</b>	<b>Teachers</b>
<b>Fiscal year ended June 30, 2016</b>		
<b>Total pension liability</b>	\$ 4,410,709,110	\$ 6,494,164,064
<b>Plan Fiduciary net position</b>	2,288,446,139	3,510,586,538
<b>Employers' Net Pension Liability</b>	\$ 2,122,262,971	\$ 2,983,577,526
<b>Plan Fiduciary Net Position as a percentage of total pension liability</b>	51.88%	54.06%

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June 30, 2016 Measurement Date**

**7. Actuarial methods and assumptions**

The total pension liability was determined by actuarial valuations performed as of June 30, 2015 and rolled forward to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement.

The actuarial assumptions used in the June 30, 2015 valuations and the calculation of the total pension liability at June 30, 2016 (measurement date) were consistent with the results of an actuarial experience study performed as of June 30, 2013.

Actuarial Cost Method - Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.

Amortization Method - Level Percent of Payroll – Closed

State Employees - Equivalent Single Remaining Amortization Period - 20 years at June 30, 2015

Teachers - Equivalent Single Remaining Amortization Period – 22.3 years at June 30, 2015

Investment Rate of Return - 7.50%

Projected Salary Increases – state employees - 3.50% to 6.50%

Projected Salary Increases – teachers - 3.50% to 13.5%

Mortality – state employees:

- Male Employees, 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000.
- Female Employees: 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA from 2000.

Mortality – teachers: Male and female teachers: 97% and 92%, respectively of rates in a GRS table based on male and female teacher experience, projected with Scale AA from 2000.

Inflation - 2.75%

Post-retirement Benefit Increase: Post-retirement benefit increases are assumed to be 2.2%, per annum, while the plan has a funding level that exceeds 80%; however, an interim COLA will be granted in four-year intervals while the COLA is suspended. The first such COLA will be applicable in Calendar Year 2017. As of June 30, 2015, it is assumed that the COLAs will be suspended for 12 years due to the current funding level of the plans. The actual amount of the COLA is determined based on 50% of the plan's five-year average investment rate of return minus 5.5% which will range from zero to 4.0%, and 50% of the lesser of 3% or last year's CPI-U increase for a total maximum increase of 3.50%.

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 35 sources. These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

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**NOTES TO THE SCHEDULES OF EMPLOYER ALLOCATIONS AND PENSION AMOUNTS BY EMPLOYER**  
*June 30, 2016 Measurement Date*

**8. Discount rate**

The discount rate used to measure the total pension liability of the ERS plan was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**9. Deferred Outflows and Inflows of Resources**

Consistent with the requirements of GASB Statement No. 68, differences between expected and actual experience and changes in assumptions are recognized in pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period.

Differences between projected and actual earnings on pension plan investments are to be recognized in pension expense using a systematic and rational method over a closed five-year period. Projected earnings of the plan reflect the plan's investment return assumption or discount rate of 7.5%.

Changes in proportion between the June 30, 2015 and June 30, 2016 measurement dates are also recognized in pension expense using the expected remaining service lives of state employee or teachers as applicable.

For state employees, the average of the expected remaining service lives for purposes of recognizing the applicable deferred inflows/outflows of resources established in fiscal 2016 is 4.8897 years (4.9977 years as of the June 30, 2015 measurement date).

For teachers, the average of the expected remaining service lives for purposes of recognizing the applicable deferred inflows/outflows of resources established in fiscal 2016 is 7.1302 years (7.4694 years as of the June 30, 2015 measurement date).

**10. Subsequent Event**

In May 2017, the Employees' Retirement System of Rhode Island Board voted to lower the investment rate of return assumption from 7.5% to 7.0 % which will be reflected in the determination of the net pension liability (asset) for the various plans administered by the System beginning with the June 30, 2017 measurement date valuations.