**MERS (updated for FY 2024 employer reporting)**

**Proposed Pension Note Disclosures – MERS Agent Plan Employer Units**

***Based on Illustration 2 in GASB Statement No. 68 (par. .37 to .45 of GASB 68)***

**The following should be included in the *Summary of Significant Accounting Policies***

**Pensions**

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees’ Retirement System (MERS) of Rhode Island and additions to/deductions from MERS’ fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**The following should be included in the Note related to Pensions -**

**General Information about the Pension Plan**

**Plan Description -** The Municipal Employees’ Retirement System (MERS) – an agent multiple-employer defined benefit pension plan - provides certain retirement, disability and death benefits to plan members and beneficiaries. MERS was established under Rhode Island General Law and placed under the management of the Employee’s Retirement System of Rhode Island (ERSRI) Board to provide retirement allowances to employees of municipalities, housing authorities, water and sewer districts, and municipal police and fire persons that have elected to participate. Benefit provisions are subject to amendment by the General Assembly.

MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the ERSRI website at [*www.ersri.org*](http://www.ersri.org)

**Benefits provided** – General employees, police officers and firefighters employed by electing municipalities participate in MERS. Eligible employees become members at their date of employment. Anyone employed by a municipality at the time the municipality joins MERS may elect not to be covered. Elected officials may opt to be covered by MERS. Employees covered under another plan maintained by the municipality may not become members of MERS. Police officers and/or firefighters may be designated as such by the municipality, in which case the special contribution and benefit provisions described below will apply to them, or they may be designated as general employees with no special benefits. Members designated as police officers and/or firefighters are treated as belonging to a unit separate from the general employees, with separate contribution rates applicable.

Salary: Salary includes the member's base earnings plus any payments under a regular longevity or incentive plan. Salary excludes overtime, unused sick and vacation leave, severance pay, and other extraordinary compensation. Certain amounts that are excluded from taxable wages, such as amounts sheltered under a Section 125 plan or amounts picked up by the employer under IRC Section 414(h), are not excluded from salary.

Service: Employees receive credit for service while a member. In addition, a member may purchase credit for certain periods by making an additional contribution to purchase the additional service. Special rules and limits govern the purchase of additional service and the contribution required.

Final Compensation: Prior to July 1, 2012 and for general employee members eligible to retire as of June 30, 2012, the average was based on the member’s highest three consecutive annual salaries. Effective July 1, 2012, the average was based on the member's highest five consecutive annual salaries. Once a member retires or is terminated, the applicable Final Average Compensation (FAC) will be the greater of the member’s highest three year FAC as of July 1, 2012 or the five year FAC as of the retirement/termination date. For members retiring after July 1, 2024, retiree benefit amounts are based on the average three consecutive years of compensation. Monthly benefits are based on one-twelfth of this amount.

***General employees***

Members with less than five years of contributory service as of June 30, 2012 and members hired on or after that date are eligible for retirement on or after their Social Security normal retirement age (SSNRA).

Members who had at least five years of contributory service as of June 30, 2012 will be eligible for retirement at an individually determined age. This age is the result of interpolating between the member’s prior Retirement Date, described below, and the retirement age applicable to members hired after June 30, 2012 as described above. The interpolation is based on service as of June 30, 2012 divided by projected service at the member’s prior Retirement Date. The minimum retirement age is 59.

Members with 10 or more years of contributory service on June 30, 2012 may choose to retire at their prior Retirement Date if they continue to work and contribute until that date. If this option is elected, the retirement benefit will be calculated using the benefits accrued as of June 30, 2012, i.e., the member will accumulate no additional defined benefits after this date, but the benefit will be paid without any actuarial reduction.

Effective July 1, 2015, members will be eligible to retire with full benefits at the earlier of their current Rhode Island Retirement Security Act (RIRSA) date described above or upon the attainment of age 65 with 30 years of service, age 64 with 31 years of service, age 63 with 32 years of service, or age 62 with 33 years of service.

A member who is within five years of reaching their retirement eligibility date and has 20 or more years of service, may elect to retire at any time with an actuarially reduced benefit.

Prior to July 1, 2012, members were eligible for retirement on or after age 58 if they had credit for 10 or more years of service, or at any age if they had credit for at least 30 years of service. Members eligible to retire before July 1, 2012 were not impacted by the changes to retirement eligibility above.

The annual benefit is equal to 2.00% of the member’s monthly FAC for each year of service prior to July 1, 2012 and 1.00% of the member’s monthly FAC for each year of service from July 1, 2012 through June 30, 2015. For all service after June 30, 2015, the annual benefit is equal to 1.0% per year unless the member had 20 or more years of service as of June 30, 2012 in which case the benefit accrual is 2.0% per year for service after June 30, 2015. The benefit cannot exceed 75% of the member’s FAC. Benefits are paid monthly.

***Police and Fire employees***

Members are eligible to retire when they are at least 50 years old and have a minimum of 25 years of contributing service or if they have 27 years of contributing service at any age. Members with less than 25 years of contributing service are eligible for retirement on or after their Social Security normal retirement age.

Members who, as of June 30, 2012, had at least 10 years of contributing service, had attained age 45, and had a prior Retirement Date before age 52 may retire at age 52.

Active members on June 30, 2012 may choose to retire at their prior Retirement Date if they continue to work and contribute until that date. If option is elected, the retirement benefit will be calculated using the benefits accrued as of June 30, 2012, i.e., the member will accumulate no additional defined benefits after this date, but the benefit will be paid without any actuarial reduction.

A member who is within five years of reaching their retirement eligibility date, as described in this section, and has 20 or more years of service, may elect to retire at any time with an actuarially reduced benefit.

Prior to July 1, 2012, members designated as police officers or firefighters were eligible for retirement at or after age 55 with credit for at least 10 years of service or at any age with credit for 25 or more years of service. Members were also eligible to retire and receive a reduced benefit if they are at least age 50 and have at least 20 years of service. If the municipality elected to adopt the 20-year retirement provisions for police officers and/or firefighters, then such a member was eligible to retire at any age with 20 or more years of service. Members eligible to retire before July 1, 2012 were not impacted by the changes to retirement eligibility above.

A monthly benefit is paid equal to 2.00% of the member’s monthly FAC for each year of service, up to 37.5 years (75% of FAC maximum).

If the optional 20-year retirement provisions were adopted by the municipality prior to July 1, 2012: benefits are based on 2.50% of the member’s FAC for each year of service prior to July 1, 2012 and 2.00% of the member’s FAC for each year of service after July 1, 2012. The benefit cannot exceed 75% of the member’s FAC.

Active members (including future hires), members who retire after July 1, 2015 and after attaining age 57 with 30 years of service will have a benefit equal to the greater of their current benefit described above and one calculated based on a 2.25% multiplier for all years of service.

***Other benefit provisions***

Death and disability benefits are also provided to members. A member is eligible for a disability retirement provided he/she has credit for at least five years of service or if the disability is work-related. Members are not eligible for an ordinary disability benefit if they are eligible for unreduced retirement.

Joint and survivor benefit options are available to retirees**.** For some employees,a Social Security Option is also available where an annuity is paid at one amount prior to age 62, and at a reduced amount after age 62, designed to provide a level total income when combined with the member's age 62 Social Security benefit. Benefits cease upon the member’s death.

Post-retirement benefit increases are paid to members who retire after June 30, 2012. Members will be eligible to receive cost of living increases at the later of the member’s third anniversary of retirement and the month following their SSNRA (age 55 for members designated as police officers and/or firefighters). When a municipality elects coverage, it may elect either COLA C (covering only current and future active members and excluding members already retired) or COLA B (covering current retired members as well as current and future active members).

Cost of living adjustments are provided to retirees based on statutory provisions (Section 36-10-35 of the Rhode Island General Laws). For members and/or beneficiaries of members who retired on or before June 30, 2012, cost of living adjustments are computed annually. For members retiring on or after July 1, 2012, twenty-five percent (or 1/4th) of the cost of living adjustment is computed annually until the plan reaches a 75% funded status. The full benefit adjustment is reinstated for all members upon the plan reaching the 75% funded status.

a. Effective July 1, 2015, the COLA is determined based on 50% of the plan's five-year average investment rate of return less 5.5% limited to a range of 0.0% to 4.0%, plus 50% of the lesser of 3.0% or last year's CPI-U increase for a total maximum increase of 3.50%. Previously, it was the plan's five-year average investment rate of return less 5.5% limited to a range of 0.0% to 4.0%

b. The COLA will be limited to the first $25,000 of the member's annual pension benefit. For retirees and beneficiaries who retired on or before July 1, 2015, years in which a COLA is payable based on the every fourth year provision described in (a) above will be limited to the first $30,000. These limits will be indexed annually to increase in the same manner as COLAs, with the known values of $27,608 for 2021, $27,901 for 2022 and $28,878 for 2023.

***Special Provisions Applying to Specific Units -*** prior to July 1, 2012, some units had specific provisions that apply only to that unit. Per section 45-21.2-5 benefits for members eligible to retire prior to June 30, 2012 are preserved for the calculation of the retirement benefits. For service accrued after July 1, 2012, retirement benefits will be calculated in accordance with section 45-21.2-2 and adjustments to benefits will be provided as set forth in 45-21-52. The following summarizes those provisions:

*Town of Burrillville Police* - Rhode Island General Law §45-21.2-22.1

Under these special provisions, the retirement benefit for members eligible to retire on or before June 30, 2012 and with 20 or more years of service is improved. The new formula is 60.00% x Final Average Compensation (FAC), plus 1.50% x FAC x Years of Service in Excess of 20, with a maximum benefit equal to 75% of FAC. In addition to this benefit change, the member contribution rate increased from 9.00% to 10.20%.

*South Kingstown police department* - Rhode Island General Law § 45-21.2-6.1, § 45-21.2-5(5), and § 45-21.2-14(d)

Under these special provisions, the member receives a retirement allowance which is a life annuity terminable at the death of the annuitant, and is an amount equal to the sum of two and one-half percent (2.5%) of final compensation multiplied by the years of service accrued after July 1, 1993 and two percent (2%) of final compensation multiplied by the years of service accrued prior to July 1, 1993. The annual retirement allowance in no event shall exceed seventy-five percent (75%) of final compensation. The member contribution rate between July 1, 1985 and June 30, 2012 was 8.00%, plus 1.00% for the adoption of the optional COLA, for a total of 9.00%. For service after July 1, 2012, the member contribution rate is 9% plus 1.00% for the adoption of the optional COLA, for a total of 10.00%.

*Hopkinton Police Department - Rhode Island General Law § 45-21.2-5 (9)*

Under these special provisions, the final compensation for benefit computation is based on the members’ highest year of earnings. In addition, the members shall receive a three percent (3%) escalation of their pension payment compounded each year on January 1st following the year of retirement and continuing on an annual basis on that date. The member contribution rate is 9.00%. Compensation for benefit purposes includes base, longevity, and holiday pay.

*Cranston fire department hired after July 1, 1995 or with less than 5 years of service at that date - Rhode Island General Law § 45-21.2-5 (7) and § 45-21.2-14 9 (e)*

Under these special provisions, the final compensation for benefit computation is based on the members’ highest year of earnings. In addition, the members shall receive a three percent (3%) escalation of their pension payment compounded each year on January 1st following the year of retirement and continuing on an annual basis on that date. The member contribution rate is 10.00%. Compensation for benefit purposes includes base, longevity, and holiday pay.

*Cranston police department hired after July 1, 1995 or with less than 5 years of service at that date - Rhode Island General Law §§ 45-21.2-5 (8) and § 45-21.2-14 (f)*

Under these special provisions, the final compensation for benefit computation is based on the members’ highest year of earnings. In addition, the members shall receive a three percent (3%) escalation of their pension payment compounded each year on January 1st following the year of retirement and continuing on an annual basis on that date. The member contribution rate is 10.00%. Compensation for benefit purposes includes base, longevity, and holiday pay.

*Richmond Police - Rhode Island General Law §§ 45-21.2-6.3*

Under these special provisions, members are eligible to retire after attaining 22 years of service. The retirement benefit for a member with 22 or more years of service was improved to 50.00% x Final Average Compensation (FAC), plus 2.2727% x FAC x Years of Service in Excess of 22, with a maximum benefit equal to 75% of FAC.

**Employees covered by benefit terms**

At the June 30, 2023 valuation date, the following employees were covered by the benefit terms:

|  |  |
| --- | --- |
| Retirees and Beneficiaries | From GRS employer specific valuation |
| Inactive, Nonretired Members | “ |
| Active Members | “ |
| Total | “ |

**Contributions** - The amount of employee and employer contributions have been established under Rhode Island General Law Chapter 45-21. General employees with less than 20 years of service as of June 30, 2012 are required to contribute 1% (2% if the employer opted to provide a COLA) of their salaries. General employees with more than 20 years of service as of June 30, 2012 are required to contribute 8.25%. Public safety employees are required to contribute 9% (10% if employer opted to provide a COLA) of their salaries. The (name of employer) contributes at a rate of covered employee payroll as determined by an independent actuary on an annual basis. The General Assembly can amend the amount of these contribution requirements. The (name of employer) contributed $X,XXX,XXX in the year ended June 30, 2023 which was XX% of annual covered payroll.

**Net Pension Liability** **(Asset)** - The total pension liability was determined by actuarial valuations performed as of June 30, 2022 and rolled forward to June 30, 2023, using the following actuarial assumptions, applied to all periods included in the measurement.

|  |
| --- |
| **Summary of Actuarial Assumptions Used in the Valuations to determine the Net Pension Liability at the** **June 30, 2023 measurement date (June 30, 2022 valuation rolled forward to June 30, 2023)** |
| Actuarial Cost Method | Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.  |
| Amortization Method | Level Percent of Payroll – Closed  |
| Actuarial Assumptions |  |
| Investment Rate of Return | 7.00% |
| Projected Salary Increases | General Employees - 3.25% to 7.25%; Police & Fire Employees - 4.00% to 14.00% |
| Inflation | 2.5 % |
| Mortality | Mortality – Variants of the PUB (10) Tables for Healthy and Disabled Retirees, projected with Scale Ultimate MP16. |
| Cost of Living Adjustments | All future COLAs were assumed to be 2.1% per annum for all MERS units with the COLA provision.  |

The actuarial assumptions used in the calculation of the total pension liability at June 30, 2023 measurement date were based on the 2023 Actuarial Experience Investigation Study for the six-year period ended June 30, 2022 as approved by the System’s Board on May 17, 2023.

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 42 sources. The June 30, 2023 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:



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.

**Discount rate -** The discount rate used to measure the total pension liability of the plans was 7.0 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, and the projection of cash flows as of each fiscal year ending, the pension plan’s fiduciary net position and future contributions were 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.

|  |
| --- |
| **Changes in the Net Pension Liability (Asset)** |
|  | Increase (Decrease) |
| From GRS employer specific valuation | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| Balances as of June 30, 2022 |  |  |  |
| Changes for the Year |  |  |  |
| Service cost |  |  |  |
| Interest on the total pension liability |  |  |  |
| Changes in benefits |  |  |  |
| Difference between expected and actual experience |  |  |  |
| Changes in assumptions |  |  |  |
| Employer contributions |  |  |  |
| Employee contributions |  |  |  |
| Net investment income |  |  |  |
| Benefit payments, including employee refunds |  |  |  |
| Administrative expense |  |  |  |
| Other changes |  |  |  |
| Net changes |  |  |  |
| Balances as of June 30, 2023 |  |  |  |

**Sensitivity of the Net Pension Liability to changes in the discount rate**. The following presents the net pension liability (asset) of the employers calculated using the discount rate of 7.0 percent, as well as what the employers’ net pension liability (asset) 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.

|  |  |  |
| --- | --- | --- |
| **1.00% Decrease****(6.0%)** | **Current Discount Rate****(7.0%)** | **1.00 Increase****(8.0%)** |
|  |  |  |

From GRS employer specific valuation

**Pension plan fiduciary net position -** detailed information about the pension plan’s fiduciary net position is available in the separately issued ERSRI financial report.

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended [June 30, 2024] the employer recognized pension expense of [$XXX,XXX]. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

|  |  |  |
| --- | --- | --- |
|  | Deferred Outflows of Resources | Deferred inflows of Resources |
| Contributions subsequent to the measurement date | $ X | $ X |
| Difference in experience |  X  |  X |
| Differences in assumptions | X |  X |
| Excess (deficit) Investment Returns | X |  X |
| Total | $ X | $ X  |

From GRS employer specific valuation

$XXX,XXX reported as deferred outflows of resources related to pensions resulting from the (name of employer unit) contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent period.

*The “Excess (Deficit) investment returns” should be reported as either Net Deferred Outflows or Net Deferred Inflows in accordance with GASB No. 68 par. 33b and 45h(3)*

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

|  |  |  |
| --- | --- | --- |
| Year Ending June 30 |  | Net Deferred Outflows (Inflows) of Resources |
| 2025 |  |  $  |
| 2026 |  |  $  |
| 2027 |  |  $  |
| 2028 |  |  $  |
| 2029 |  |  $  |
| Thereafter  |  |  $ |
| **Total** |  |  $  |

From GRS employer specific valuation

Notes to the financial statements - *when employees are covered by more than one plan*

The total (aggregate for all pensions, whether provided through single-employer, agent, or cost-sharing pension plans) of the employer’s pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense/expenditures for the period associated with net pension liabilities should be disclosed if the total amounts are not otherwise identifiable from information presented in the financial statements. (par. 37 GASB 68)

Disclosures related to more than one pension plan should be combined in a manner that avoids unnecessary duplication. (par. 38 GASB 68)

**Note X. Defined Contribution Pension Plan**

***Defined Contribution Plan Description:***

Certain employees participating in the defined benefit plan, as described above, may also participate in a defined contribution plan authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. Employees may choose among various investment options available to plan participants. Employees contribute X% (see below) of their annual covered salary and employers contribute X% (see below) of annual covered salary. Employee contributions are immediately vested while employer contributions and any investment earnings thereon are vested after three years of contributory service. Benefit terms and contributions required under the plan by both the employee and employer are established by the General Laws, which are subject to amendment by the General Assembly.

Amounts in the defined contribution plan are available to participants in accordance with Internal Revenue Service guidelines for such plans.

The **(Name of Employer Unit)** recognized pension expense of$XXX,XXX, for the fiscal year ended June 30, 2024.

The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained at <http://www.ersri.org>.

***To facilitate one Defined Contribution Note that may address multiple classes of employees - See contribution rates for various employee categories and report what is applicable:***

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | EE contribution | ER contribution |
| **ERS members** |  |  |
|  | ERS - teachers - contribute to Social Security - less than 20 years of service at 7/1/2012 | 5% |  1% to 1.5% depending on years of service |
|  | ERS – teachers – do not contribute to Social Security - less than 20 years of service at 7/1/2012 | 7% |  3% to 3.5% depending on years of service |
|  | ERS – teachers – more than 20 years of service on July 1, 2012 | No DC plan contributions (ee and er) after July 1, 2015 |
| **MERS members** |  |
|  | MERS Public Safety members that do not contribute to Social Security | 3% | 3% |
|  | MERS Public Safety members that also contribute to Social Security | No DC plan participation  |
|  | MERS general ee’s that do not participate in Social Security – have less than 20 years of service at 7/1/2012 | 7% |  3% to 3.5% depending on years of service |
|  | MERS – general employees who contribute to Social Security – and had less than 20 years of service on July 1, 2012 | 5% |  1% to 1.5% depending on years of service |
|  | MERS – general employees – more than 20 years of service on July 1, 2012 | No DC plan contributions (ee and er) after July 1, 2015 |

**FOR EMPLOYERS CONSIDERATION – FISCAL 2024:**

Additional Recommended Disclosure for Consideration –Consideration for fiscal year ending June 30, 2024 for pension benefit changes impacting the Employees’ Retirement System Plan enacted in the State’s 2025 appropriation act. While the changes have been included in the description of benefits in the above disclosure, the changes are not incorporated into the pension liability and related pension expense reported at the June 30, 2023 measurement date. To the degree, those changes will impact future amounts reported, disclosing the recently adopted pension changes requires management consideration. Below is a recommended disclosure that could be utilized as an add on to the above ERS Defined Benefits disclosure (before Defined Contribution Plan).

*Pension benefit changes subsequent to the 2023 measurement date* - The State’s fiscal year 2025 enacted budget enacted the following ERS retirement benefit changes:

1. The Final Average Salary (FAS) Formula for ERS members changed from the average highest five consecutive years of compensation to the average highest three consecutive years of compensation for employees with retirement dates on or after July 1, 2024.
2. The full Cost of Living Adjustments (COLAs) for retired ERS members who retired on or before June 30, 2012 was provided rather than the 0.25% of the COLA calculation. Additionally, the minimum funded requirement for COLA restoration is reduced from 80% to 75%, effective July 1, 2024, for members retiring on or after July 1, 2012.