



Audit Summary

Dennis E. Hoyle, CPA, Auditor General

dennis.hoyle@rioag.gov

February 2020

Employees' Retirement System of the State of Rhode Island

Fiscal Year Ended June 30, 2019

We completed an audit of the fiscal 2019 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, 2019 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 70,000 members (more than 37,000 of these members also participated in the defined contribution plan).

Net position of the Retirement System increased by \$344 million during fiscal 2019 to \$9.6 billion at June 30, 2019. The time weighted rate of return during the fiscal year was 6.54% (compared to 8.03% during the prior fiscal year). The net investment income within the pooled investment trust was \$532 million (compared to net investment income of \$633 million during fiscal year 2018). The System reported total investment expenses of \$84.2 million for fiscal 2019.

Benefits paid to retirees and beneficiaries from the defined benefit plans during fiscal 2019 totaled \$963 million.

Employee and employer contributions totaled more than \$625.5 million to all the defined benefit plans.

Amounts accumulated in the defined contribution plan totaled \$1 billion at June 30, 2019. Employer and employee contributions to the defined contribution plan were \$125.9 million during fiscal 2019. Distributions from the defined contribution plan totaled \$19.6 million. Investment gains within the defined contribution plan totaled \$60 million. Most defined contribution plan assets (90%) are held in target date retirement fund investments.

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, 2019. 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 RIJRFT was determined using the System's investment return assumption of 7%. The RIJRFT used a municipal bond index rate of 3.13%.

The System's fiscal 2019 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%.

During fiscal 2019, participating employers in the plans administered by the System made 100% of the required actuarially determined contributions except for the RIJRFT plan covering 7 judges. The State is not contributing on an advance funded basis to the RIJRFT plan. The auditors highlighted that plan net position represents only 4.7% of the total pension liability and additional employer contributions will be required to provide benefits to plan members.

We reported that the System needs to enhance the precision over the distribution of investment income and expense to each of the defined benefit plans with investments in the pooled investment trust. Additionally, the System should formalize its procedures for the reporting of investment income and expenses and integrate those processes into the oversight of the Systems' Chief Financial Officer.

Charts on the following page detail the net pension liability (asset) of each defined benefit plan within the Systems and the assets held within the pooled investment trust at June 30, 2019.

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

Net Pension Liability (Asset) – June 30, 2019

Plan	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
ERS				
State Employee	\$ 4,798,367,474	\$ 2,531,945,464	\$ 2,266,422,010	52.8%
Teacher	7,020,663,882	3,829,895,134	3,190,768,748	54.6%
TSB	225,971,393	339,417,231	(113,445,838)	150.2%
SPRBT	177,433,244	147,405,372	30,027,872	83.1%
JRBT	81,092,598	77,612,616	3,479,982	95.7%
RIJRFT	20,474,176	966,393	19,507,783	4.7%
SPRFT	177,976,747	16,598,339	161,378,408	9.3%
MERS				
General Employees	1,295,414,352	1,036,779,826	258,634,526	80.0%
Municipal Police/Fire	756,968,068	588,360,443	168,607,625	77.7%

Pooled Investment Trust – Asset Allocation – June 30, 2019
(in millions)

