



Audit Summary

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Employees' Retirement System of the State of Rhode Island

Fiscal Year Ended June 30, 2018

We completed an audit of the fiscal 2018 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, 2018 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 36,000 of these members also participated in the defined contribution plan).

Net position of the Retirement System increased by \$425 million during fiscal 2018 to \$9.2 billion at June 30, 2018. The time weighted rate of return during the fiscal year was 8.03 % (compared to 11.62% during the prior fiscal year). The net investment income within the pooled investment trust was \$633 million (compared to net investment income of \$867 million during fiscal year 2017).

Pension benefits and distributions paid to retirees and beneficiaries from the defined benefit plans during fiscal 2018 totaled \$953 million.

Employee and employer contributions totaled more than \$595 million to all the defined benefit plans.

Amounts accumulated in the defined contribution plan totaled \$856 million at June 30, 2018. The majority of defined contribution plan assets (91%) are held in target date retirement fund investments.

Employer and employee contributions to the defined contribution plan were \$119.8 million during fiscal 2018, an increase of \$3.4 million. Distributions from the defined contribution plan totaled \$16.2 million. Investment gains within the defined contribution plan totaled \$61.4 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, 2018. 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 3.62%.

The System's fiscal 2018 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 2018, 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 3.8% of the total pension liability and additional employer contributions will be required to provide benefits to plan members.

The System changed its method of reporting investment expenses in fiscal 2018 from reporting certain investment income and related expenses on a net of fees basis to reporting all material investment expenses on a gross fee basis to enhance transparency of all investment related expenses. The System reported total investment expenses of \$79 million for fiscal 2018.

The auditors reported that the System needs to improve its control procedures over the accumulation and reporting of investment expenses by the investment custodian to ensure the reliability of such amounts for inclusion in the System's annual financial statements.

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, 2018.

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	\$ 4,741,437,331	\$ 2,490,633,173	\$ 2,250,804,158	52.5%
Teachers	6,958,809,084	3,781,560,920	3,177,248,164	54.3%
TSB	238,563,945	327,793,239	(89,229,294)	137.4%
SPRBT - State Police	165,924,523	138,733,969	27,190,554	83.6%
JRBT - Judges	79,156,493	73,443,894	5,712,599	92.8%
RIJRFT - Judges	20,946,569	806,246	20,140,323	3.8%
SPRFT - State Police	170,396,029	16,258,330	154,137,699	9.5%
MERS				
General employees	1,268,619,484	1,009,462,206	259,157,278	79.6%
Police and fire	723,420,754	550,994,533	172,426,221	76.2%

