

REPORT ON AN ACTUARIAL VALUATION OF THE ASSETS
AND LIABILITIES OF THE EMPLOYEES RETIREMENT SYSTEM
OF THE STATE OF RHODE ISLAND AS OF JUNE 30, 1955

There is presented herewith the results of an actuarial valuation of the assets and liabilities of the Employees Retirement System of the State of Rhode Island as of June 30, 1955.

Basis of Valuation

The benefit and contribution provisions of the plan of operation governing the system forming the basis of this valuation are summarized in the appendix.

Statistics

Changes in the status of the membership of the system affecting active members and beneficiaries, and the financial data required for our valuation were supplied to us in excellent form by Joseph B. Lewis, Secretary.

Membership

	- State Employees -	
	<u>Male</u>	<u>Female</u>
Number of members	4,359	2,900
Proportion of total	60.0%	40.0%
Annual salaries	\$13,667,138.00	\$7,666,654.00
Average age	46.8	40.9
Average total service	7.7	7.0

	- Teacher-members -	
	Male	Female
Number of members	1,265	3,558
Proportion of total	26.2%	73.8%
Annual salaries	\$5,095,177.00	\$13,317,835.00
Average age	41.5	49.6
Average total service	12.9	17.5

Beneficiaries

State Employees - Male

	<u>Number</u>	<u>Annual Payments</u>	<u>Reserve Requirements</u>
Retirement annuities -			
Maximum rate	96	\$ 98,288	\$ 806,323
Option 1	30	34,955	265,903
Option 2	10	13,297	175,016
Option 3	4	6,955	77,462
Actuarial equivalent	1	1,349	17,563
Disability annuities -			
Ordinary disability	8	7,260	80,345
Ordinary disability - Opt.1	1	644	8,382
Accidental disability	5	2,088	30,289
Beneficiary annuities -	--	--	---
Totals	155	\$164,836	\$1,461,283

(Continued)

Beneficiaries - (Continued)

State Employees - Female

	<u>Number</u>	<u>Annual Payments</u>	<u>Reserve Requirements</u>
Retirement annuities -			
Maximum rate	71	\$ 86,551	\$ 906,086
Option 1	15	16,809	154,114
Option 2	1	1,601	17,009
Option 3	1	2,628	40,671
Actuarial equivalent	-	--	--
Disability annuities -			
Ordinary disability	5	2,269	32,726
Ordinary disability - Opt.1	1	645	8,928
Accidental disability	2	2,524	34,095
Beneficiary annuities -	<u>4</u>	<u>4,353</u>	<u>51,238</u>
Totals	<u>100</u>	<u>\$117,380</u>	<u>\$1,244,867</u>

Teachers - Male

	<u>Number</u>	<u>Annual Payments</u>	<u>Reserve Requirements</u>
Retirement annuities -			
Maximum rate	46	\$114,536	\$1,058,706
Option 1	-	--	--
Option 2	6	10,020	149,473
Option 3	4	7,924	99,204
Actuarial equivalent	1	1,226	16,463
Disability annuities -			
Ordinary disability	5	7,873	118,984
Ordinary disability - Opt.1	-	--	--
Accidental disability	-	--	--
Beneficiary annuities -	<u>-</u>	<u>--</u>	<u>--</u>
Totals	<u>62</u>	<u>\$141,579</u>	<u>\$1,442,830</u>

(Continued)

Beneficiaries - (Continued)

Teachers - Female

	<u>Number</u>	<u>Annual Payments</u>	<u>Reserve Requirements</u>
Retirement annuities -			
Maximum rate	320	\$698,076	\$7,595,263
Option 1	5	11,680	127,174
Option 2	2	2,740	46,223
Option 3	1	1,626	24,431
Actuarial equivalent	-	--	--
Disability annuities -			
Ordinary disability	26	38,396	613,713
Ordinary disability - Optl.	-	--	--
Accidental disability	1	2,666	61,032
Beneficiary annuities	-	--	--
Totals	<u>355</u>	<u>\$755,184</u>	<u>\$8,467,836</u>

Summary of beneficiaries

	<u>Number</u>	<u>Annual Payments</u>	<u>Reserve Requirements</u>
State Employees -			
Male	155	\$ 164,836	\$ 1,461,283
Female	100	117,380	1,244,867
Teachers -			
Male	62	141,579	1,442,830
Female	<u>355</u>	<u>755,184</u>	<u>8,467,836</u>
Totals	<u>672</u>	<u>\$1,178,979</u>	<u>\$12,616,816</u>

Results of Valuation

The accompanying Valuation Balance Sheet presents the financial condition of the system from a technical standpoint taking into account all accrued and prospective liabilities for benefit payments to be made in future years. This statement differs from the usual financial presentation made by accountants in that it gives effect to all accrued and future benefit liabilities on account of the present members and annuitants, and all present and prospective assets. Total liabilities are balanced against total assets. Thus, a test of actuarial solvency is made. The test of solvency at any given date is whether the assets on hand are equal to the accrued liabilities. Any deficiency in present assets to meet the accrued liabilities represents the unfunded portion of the obligations, generally referred to as the actuarial reserve deficiency. Conversely, any excess of present assets over accrued liabilities constitutes true surplus.

It will be noted that the total liabilities at June 30, 1955, amounted to \$80,739,395.00, of which the sum of \$28,057,343.00, was applicable to the period subsequent to that date. The accrued liabilities at the balance sheet date, therefore, totalled \$52,682,052.00. The assets available to meet these liabilities, after providing for refunds to members withdrawing from the system in future years, amounted to \$14,090,780.08, indicating that the accrued unfunded obligation at the date of this valuation was \$38,591,271.92. This constitutes a deferred obligation of the

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State of Rhode Island and the cities and towns, to be discharged by future contributions under the established method of financing.

Liabilities On Account of Beneficiaries

The total liabilities on account of persons in receipt of pensions and benefits constitute the amount required to pay out these pensions and benefits during the remainder of the lifetime of the beneficiaries. These liabilities amount to \$12,616,816.00, which compares with the net available assets of the system of \$14,090,780.08.

Liabilities On Account of Active Members

These liabilities consist of the pension credits provided State employees and teachers prior to July 1, 1936 and July 1, 1949, respectively, and pension credits for service rendered by the members subsequent to these dates. Credits for service rendered by the members prior to the date they came under the retirement system are technically called "prior service" credits. The prior service credits for the respective classes of members, at the date of valuation were as follows:

State Employees-

Male	\$1,429,233.00	
Female	<u>533,891.00</u>	\$ 1,963,124.00

Teachers -

Male	3,601,004.00	
Female	<u>17,223,254.00</u>	<u>20,824,258.00</u>

Total		<u><u>\$22,787,382.00</u></u>
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Pension credits accruing on account of service subsequent to July 1, 1936 for State employees, and July 1, 1949 for teacher-members, are technically referred to as "membership service" credits. These consist of two parts, namely, (1) credits for service to June 30, 1955, and (2) credits for service to be rendered thereafter during the productive life of the members until retirement. A summary of these two different types of credits is presented:

	<u>Accrued Membership Service at June 30, 1955</u>	<u>Membership Service Subsequent to June 30, 1955</u>
State Employees -		
Male	\$ 6,435,094.00	\$ 8,182,421.00
Female	3,484,876.00	4,538,919.00
Teachers -		
Male	1,631,354.00	4,692,816.00
Female	<u>5,726,530.00</u>	<u>10,643,187.00</u>
Totals	<u>\$17,277,854.00</u>	<u>\$28,057,343.00</u>

Insurance

The ordinary death benefit provided by the system according to length of service, up to a maximum of \$5,000.00, constitutes group life insurance. The amount of insurance coverage for State employees and teachers is as follows:

State Employees -

Male	\$12,865,200.00	
Female	<u>7,332,400.00</u>	\$20,197,600.00

Teachers -

Male	4,385,400.00	
Female	<u>15,587,100.00</u>	<u>19,972,500.00</u>

Total		<u>\$40,170,100.00</u>
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The foregoing amounts give effect to the increase in the amount of insurance coverage created by the 1954 amendments to the retirement Act, effective July 1, 1954.

Other Benefits

The several disability benefits provided by the system are below the expected number for the size of the membership. The experience for a number of years indicates that a much smaller number of claims for these benefits has been incurred than in the case with other governmental agencies. Disability claims will probably increase in future years, especially for teacher-members. A rigid application of the policies and procedures governing disability benefits will be necessary for a proper and effective administration in order that the cost of these benefits may be kept within reasonable limits.

VALUATION BALANCE SHEET - JUNE 30, 1955

A S S E T S

PRESENT ASSETS

Net present assets	\$19,744,158.08	
Less, releases of member contributions on account of refunds and death benefits	<u>5,653,378.00</u>	\$14,090,780.08

DEFERRED ASSETS

Obligation of the member and the employer for retirement and disability annuities covering service of members for the remainder of their active working lifetime subsequent to June 30, 1955 -

State Employees - Members	\$ 5,323,229.00	
State	<u>7,398,111.00</u>	12,721,340.00
Teachers - Members	\$ 5,190,316.00	
State	5,072,843.00	
Cities and towns	<u>5,072,844.00</u>	15,336,003.00

DEFERRED OBLIGATION OF THE STATE OF RHODE ISLAND AND CITIES AND TOWNS

Accrued Unfunded Liability - Present value of annuities and benefits in force, and accrued liabilities for retirement annuities and disability annuities on account of service prior to July 1, 1954, after credit for available present assets		<u>38,591,271.92</u>
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Total Assets \$80,739,395.00

VALUATION BALANCE SHEET - JUNE 30, 1955

L I A B I L I T I E S

ACCRUED LIABILITIES

Reserve requirements
for annuities and
benefits in force -

State Employees	\$ 2,706,150.00	
Teachers	<u>9,910,666.00</u>	\$12,616,816.00

Present Value of accrued
requirements for retire-
ment annuities, disability
annuities and death bene-
fits at June 30, 1955 -

State Employees -		
Male	\$ 7,864,327.00	
Female	<u>4,018,767.00</u>	11,883,094.00

Teachers -		
Male	5,232,358.00	
Female	<u>22,949,784.00</u>	28,182,142.00

PROSPECTIVE LIABILITIES

Present Value of retirement
annuities and disability
annuities on account of
service to be rendered
after June 30, 1955 -

State Employees	\$12,721,340.00	
Teachers	<u>15,336,003.00</u>	<u>28,057,343.00</u>

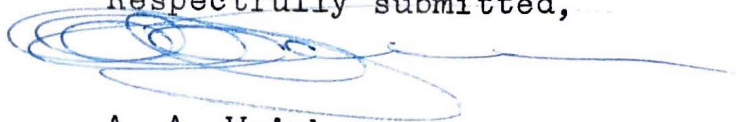
Total Liabilities		<u>\$80,739,395.00</u>
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Conclusion

The results of operations for the year have given further confirmation to the opinion expressed in our report last year, that an upward adjustment in employer's contribution rates will be necessary, particularly in the case of the teacher-members. Liberalizing changes in benefits during recent years have created additional cost burdens. No increases in revenues were provided. These changes are now being reflected in increasingly larger benefit payments by the system.

Coordination of the system with the old-age and survivors insurance provisions of the Federal Social Security Act is feasible and practicable. The pension study commission which is now considering the problem will no doubt have some recommendations in this respect. Coordinating the two programs under a plan whereby rates of benefit under the system would be reduced in recognition of social security coverage would tend to keep the cost of combined coverage, both present and prospective, within reasonable limitations. Any plan that is finally agreed to must necessarily give full effect to prospective cost increases on the part of the members of the system, the State of Rhode Island and the cities and towns, both under the retirement system and federal social security.

Respectfully submitted,



A. A. Weinberg
Actuary

A P P E N D I X A

Summary of Benefit and
Contribution Provisions