

ACTUARIAL VALUATION

In accordance with the authority prescribed by Chapter 36, the actuary has completed an actuarial valuation of the system as of the close of the year under review. The report of the actuary, showing the results of the valuation, is presented as a part of this annual report.

LEGISLATION

An amendment was made during the year to the Act relating to the Employees' Retirement System affecting the rights and benefits of members of the General Assembly. A special formula was prescribed for these members providing larger benefits and the rate of contribution to be made by the members was considerably increased.

The amendment, approved March 25, 1960, provides that any person who has served as a member of the General Assembly would be eligible, at the age of 60 years, for a service retirement allowance amounting to \$1,000.00 per year for service of 10 years, increased \$100.00 per year for each year of service as a member of the General Assembly above 10 years up to a maximum of \$2,000.00 per year.

Such retirement allowance is to be reduced by any allowance or payment on account of salary to which such person may be entitled from the State. If such person reenters State service in any other capacity and renders at least 2 years of service, he may elect the retirement allowance described above or the service retirement allowance provided by the formula applicable to other members of the system.

The rate of contribution on the part of a member of the General Assembly from and after July 1, 1960 was increased from 5% to 10% of salary.

The amendment was also construed to apply to former members of the General Assembly who established membership in the Employees' Retirement System.

RECOMMENDATIONS

Chapter 36 further provides that the annual report of the Retirement Board "shall also embody such other data as may be of use in the advancement of knowledge concerning state employee pensions and any recommendations of the board for changes in the laws pertaining to the system."

No recommendations for changes in the retirement act are presented in this report. In the opinion of the Board, the benefits and

qualifying conditions of the system compare favorably with those applicable to State government employees and public school teachers of other States. Federal social security coverage has been made available to State employees on an optional basis. The State of Rhode Island has undertaken an additional obligation for that purpose of increasing amounts under the graduated rate schedule prescribed by the Social Security Act.

The report of the actuary shows that the unfunded accrued liability of the system at June 30, 1960, chargeable to the State, amounted to \$42,120,210.00 and to the cities and towns \$19,862,811.00. This liability is constantly increasing due, in some measure, to the deferred method of financing the obligations of the system. The liability constitutes an actual indebtedness for the pension credits earned by the members during prior years. The liability will have to be discharged in future years by steadily increasing contributions by the State and the Cities and Towns.

The Board, therefore, recommends the disapproval of all proposals calling for liberalization of the rights or benefits under the existing plan of operation. Such proposals must be rejected if the imposition of additional obligations over and above the sizeable obligations already created is to be avoided.

The Board is constantly directing its efforts toward the maintenance of policies that will insure the operation of the system

in the most effective and efficient manner consistent with underlying principles and in accord with high standards.

Retirement Board,  
Employees' Retirement System of  
the State of Rhode Island,

RAYMOND H. HAWKSLEY, Chairman  
JOSEPH M. BOISVERT  
JOHN G. McWEENEY  
JOHN J. WRENN  
CHARLES A. KILVERT  
LOUIS V. JACKVONY, JR.  
MICHAEL F. WALSH  
JAMES E. CONLON  
CHARLES W. HILL

JOSEPH B. LEWIS  
Secretary

REPORT OF THE ACTUARY

The retirement plan as presently constituted is well-balanced. It provides an adequate measure of security for the employees and teachers. A large obligation has also been imposed on the State under the present retirement on account of social security coverage for State employees. Further liberalizing changes may prove damaging to an effective pension policy consistent with reasonable standards and within the financial ability of the State and the cities and towns to meet ultimate costs.

Membership has continued its upward trend both as to State employees and teachers. The number of male teacher members has again shown an increase as a proportion of the total number of teachers participating in the system.

A large increase occurred in the number of retirements among State employees. The number of retired members increased 26%. The increase in the retirants among teachers was only 10%.

A further improvement occurred in the financial condition of the system. This is illustrated by the trend in the amount of members' contribution credits and the contingent reserves for the last three years.

	June 30th		
	1960	1959	1958
Contribution credits:			
State employees	\$10,364,646.00	\$9,605,969.00	\$8,932,463.00
Teachers	9,846,782.00	8,440,336.00	7,005,794.00
Contingent reserve:			
State employees	14,557,165.00	12,384,368.00	10,245,060.00
Teachers	6,043,168.00	5,120,666.00	4,276,586.00

STATISTICAL DATA

Statistics required for this report were compiled by the office staff under the direction of Joseph B. Lewis, Secretary, and supplied to us in excellent form. Detailed tables reflecting these statistics are presented in the appendix. A summary of these statistics is as follows:

	State employees	
	Male	Female
Number of members	5,523	3,678
Proportion of total	60.0%	40.0%
Annual salaries	\$22,301,605.00	\$12,442,090.00
Average salary	\$4,038.00	\$3,383.00
Average age	46.2	43.3
Average total service	7.8	7.2



	Teacher members	
	Male	Female
Number of members	1,995	4,473
Proportion of total	30.9%	69.1%
Annual salaries	\$10,220,936.00	\$22,749,940.00
Average salary	\$5,123.00	\$5,086.00
Average age	39.8	44.2
Average total service	9.8	13.7

Members with Prior Service<sup>1/</sup>

	State employees	
	Male	Female
Number of members	389	204
Proportion of total	65.6%	34.4%
Annual salaries	\$2,229,939.00	\$963,397.00
Average salary	\$5,732.00	\$4,723.00
Average prior service	6.7	5.8

	Teacher members	
	Male	Female
Number of members	648	1,932
Proportion of total	25.1%	74.9%
Annual salaries	\$4,156,859.00	\$11,423,968.00
Average salary	\$6,415.00	\$5,913.00
Average prior service	12.5	17.3

<sup>1/</sup> Service prior to July 1, 1936 in the case of State employees, and July 1, 1949 in the case of teacher members.

ACTUARIAL VALUATION

The benefit and contribution provisions forming the basis of this report are summarized in the appendix. The valuation of the reserves and liabilities was made according to the rates of mortality and separation established by our previous survey of the operating experience of the system completed as of June 30, 1959. The rate of interest assumed in this valuation was 3% per annum.

An actuarial valuation of a retirement system is undertaken for the purpose of establishing the true financial condition of the system. The liabilities for the several benefit obligations to the participating members, both accrued and prospective, are determined by the application of actuarial formulas and procedure. In the calculation of these liabilities, the principles applied are similar to those used in life insurance practice. A determination is made of the reserves required to meet the obligations as they mature. The factors of mortality and interest are basic in such a determination.

The valuation of a retirement system involves such basic factors as turnover in employment, ages at retirement, rates of salary at the time the benefits become payable and rates of disability. It is the function of the actuary to properly appraise and evaluate the effect of these factors in the operation of the system. With the use of certain techniques, rates reflecting these factors

are formulated, based generally upon past experience, and used in forecasting the course of future operations. A forecast of the future, therefore, is fundamental to a proper evaluation of the financial condition of a retirement system.

A survey of the mortality and turnover experience, completed as of June 30, 1959, provided rates of death and rates of turnover for use in future valuations. These rates, with appropriate modifications reflecting the operating experience for the past year, were used in measuring mortality among the active members and retirants, and the turnover experience among the members. Separate rates were used for State employees and teachers, with a further separation between male and female individuals to give effect to differences in physiological conditions and employment factors.

Earnings on investments have been in a steady upward trend. The established investment authority for the system and a broadening of the investment policy during recent years should result in average interest earnings over the long term above 3% per year under varying cyclical economic conditions. A 3% interest rate, however, has been assumed in this valuation as a conservative measure.

Any variations in future experience from the assumed standards will be adjusted by a future revision of the basic factors. Since the financial condition of the system is reappraised each

year by means of the annual actuarial valuation, future balance sheets will give effect to these revisions and changes. It must be considered, however, that because of the long-term character of pension obligations, a forecast of future trends must be based upon operating experience for an extended period of time. Short term fluctuations and transitory factors cannot be permitted to influence the basic assumptions or conclusions.

#### ACCRUED LIABILITY

The accrued liability consists of pension credits earned by the members in service, and those who have left service with vested rights, as of the date of valuation. The amount of this liability is \$65,995,385.60. Of this amount, the members are obligated for \$11,404,572.12, and the State and cities and towns in the amount of \$54,590,813.48.

The liability for future refunds to those members who may leave service before acquiring vested rights was established at \$8,880,547.00.

The liability on account of members who are on retirement which includes prospective beneficiaries is \$28,033,867.00.

The sum of these three items amounting to \$102,909,799.60 constitutes the total accrued liability. To meet this liability, the system has accumulated assets totalling \$40,926,778.60. The



difference of \$61,983,021.00 represents the unfunded accrued liability at June 30, 1960.

### FUTURE SERVICE LIABILITY

The liability for retirement annuities on account of service to be rendered by the members after June 30, 1960, to the dates when these annuities will probably mature, has been established at \$37,302,114.00. This is the present value, at that date, of such future service pension credits.

In the computation of this liability, assumptions were made as to the probable periods of future service, the credits to be released by deaths and separations from service, future salary rates and the ages at which the credits may mature. These assumptions were based upon past experience, current operating factors and estimated future trends.

To meet the foregoing liability, the members will contribute to the system during their future service, assuming the present rates of contribution maintain and the foregoing factors prevail according to assumptions, the amount of \$14,390,990.00, leaving a remainder to be provided from employer contributions (the State and the cities and towns) of \$22,911,124.00. These constitute discounted amounts being the present value, as of June 30, 1960, of such future contributions for the assumed periods of service.

### VALUATION BALANCE SHEET

A retirement system is considered to be in sound financial condition from the technical standpoint when it has assets equal to the difference between (1) the total of all accrued and prospective liabilities, and (2) the present value of future contributions to be received by the system. This is known as the actuarial reserve. The actuarial reserve may also be defined as the assets on hand in the system equal to all accrued liabilities at the balance sheet date.

The Valuation Balance Sheet showing the results of the valuation made as of June 30, 1960 is presented in the following pages.

Employees' Retirement System of the  
State of Rhode Island

VALUATION BALANCE SHEET - JUNE 30, 1960

Statement of Assets, Liabilities and Reserves

A S S E T S

PRESENT ASSETS:

Cash		\$ 961,217.72
Investments		
Bonds (at par value)	\$29,584,500.00	
Stocks (at cost)	<u>10,381,060.88</u>	39,965,560.88

DEFERRED ASSETS:

Future service pension credits on  
account of service subsequent to  
July 1, 1960 -

State employees - Members	\$ 6,433,021.00	
State of Rhode Island	<u>11,409,118.00</u>	
Teachers - Members	7,957,969.00	
State of Rhode Island	5,751,003.00	
Cities and Towns	<u>5,751,003.00</u>	37,302,114.00

UNFUNDED ACCRUED LIABILITY -

Due from employers for unfunded  
accrued pension credits -

State of Rhode Island	\$42,120,210.00	
Cities and Towns (see foot- note)	<u>19,862,811.00</u>	<u>61,983,021.00</u>
TOTAL ASSETS		<u>\$141,211,913.60</u>

Note: Under the law governing the system, the cities and towns  
of the State share equally the cost of teachers' pensions.

Employees' Retirement System of the  
State of Rhode Island

VALUATION BALANCE SHEET - JUNE 30, 1960

Statement of Assets, Liabilities and Reserves

LIABILITIES AND RESERVES

CURRENT LIABILITIES:

None

RESERVE FOR MEMBER CONTRIBUTIONS

<u>State Employees -</u>		
For service retirement and disability annuities	\$ 4,286,479.69	
For future refunds	<u>6,078,166.00</u>	\$10,364,645.69
<u>Teacher Members -</u>		
For service retirement and disability annuities	\$ 7,044,401.22	
For future refunds	<u>2,802,381.00</u>	9,846,782.22

RESERVE FOR EMPLOYER CONTRIBUTIONS

For service retirement and disabil- ity annuities on active members -		
<u>State Employees</u>		18,762,931.42
<u>Teacher Members</u>		35,901,573.27

RETIREMENT AND BENEFITS RESERVE

<u>State Employees -</u>		
Service retirement	\$ 7,887,781.00	
Disability	376,121.00	
Beneficiary	<u>236,616.00</u>	8,500,518.00
<u>Teacher Members -</u>		
Service retirement	\$18,675,861.00	
Disability	857,488.00	
Beneficiary	<u>--</u>	19,533,349.00

FUTURE SERVICE LIABILITY

Present value of future service pension credits -		
<u>State employees</u>	\$17,892,781.00	
<u>Teacher members</u>	<u>19,409,333.00</u>	<u>37,302,114.00</u>

TOTAL LIABILITIES AND RESERVES \$141,211,913.60

CERTIFICATION

In our opinion, the accompanying Valuation Balance Sheet correctly presents the condition of the Employees' Retirement System of the State of Rhode Island at June 30, 1960, giving effect to all accrued liabilities and actuarial reserve requirements for the several annuities and benefits under the applicable law in effect at such date.

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A. A. Weinberg  
Actuary

February 23, 1961

FINANCIAL STATEMENTS

Reproduced from the Report of Examination  
and Supplementary Data by Ernst & Ernst,  
Accountants and Auditors, dated

September 7, 1960

*Should be deleted - per State Auditor.  
who is authority for statement*

*\* Reference should be to  
State Bureau of Audits.*



Employees' Retirement System of the  
State of Rhode Island

FINANCIAL BALANCE SHEET - JUNE 30, 1960

<u>A S S E T S</u>	
Cash	\$ 961,217.72
Investments	39,965,560.88
<u>Total Assets</u>	<u>\$40,926,778.60</u>
<u>R E S E R V E S</u>	
Reserve for Special Pension Increases	\$ 41,326.69
Reserve for Certain Employee Pensioners:	
State Employees	65,440.72
Teachers	0.32
Reserve for Amounts Due to Other Funds	8,250.17
Annuity Savings Reserve:	
State Employees	10,364,645.69
Teachers	9,846,782.22
Contingent Reserve:	
State Employees	14,557,164.81
Teachers	6,043,167.98
<u>Total Reserves</u>	<u>\$40,926,778.60</u>

Employees' Retirement System of the  
State of Rhode Island

Statement of Cash Receipts and Disbursements  
Fiscal Year Ended June 30, 1960

Cash Balance, July 1, 1959 \$ 612,909.65

Receipts:

Members Contributions		
State Employees	\$ 1,673,898.20	
Teachers	1,839,333.39	
State Contributions		
State Employees	1,817,484.00	
Teachers	1,008,250.00	
Special Pension Increases	28,200.00	
Cities and Towns Contributions		
Teachers	1,112,686.71	
Income on Investments	1,419,430.85	
Premiums or Discounts - Invest-		
ments Purchased	119,315.53	
Investments Matured or Sold	9,348,215.00	
Net Gains on Sales of Investments	14,285.00	
Refunds of Benefits	1,622.19	
Sundry	1,463.40	
Total Receipts		<u>18,384,184.27</u>
Total Available		\$18,997,093.92

Disbursements:

Refunds of Contributions		
State Employees	\$ 433,798.16	
Teachers	200,864.33	
Benefits Paid - State Employees		
Monthly Retirement Allowances	793,251.15	
Ordinary Death Benefits	130,846.30	
Death Retirement Allowances	23,957.43	
Special Pension Increases	18,337.12	
Benefits Paid - Teachers		
Monthly Retirement Allowances	1,869,535.36	
Ordinary Death Benefits	42,400.00	
Death Retirement Allowances	25,513.80	
Purchase of Investments	14,289,373.75	
Accrued Interest on Investments	28,034.42	
Premiums on Investments	79,702.50	
Commissions, Postage & Insurance		
Investments & Sundries	805.23	
Discounts on Investments Sold	98,034.56	
Inter-Fund Transfer	1,422.09	
Total Disbursements		<u>18,035,876.20</u>
Cash Balance June 30, 1960		\$ 961,217.72

Employees' Retirement System of the  
State of Rhode Island

INVESTMENTS - JUNE 30, 1960

Description	Rate	Maturities	Par Value (Bonds) or Cost (Stocks)
United States of America: Cert. of Indebtedness	4-7/8%	2/15/61	\$ 537,000
Treasury Bills	Discount	7/15/60	1,300,000
Treasury Notes	5	8/15/64	200,000
Treasury Notes	1-1/2	4/ 1/65	650,000
Treasury Notes	2-3/4	4/ 1/80	2,300,000
Savings Bonds, Series B	2-1/2	11/15/61	300,000
Treasury Bonds	2-1/2	12/ 1/68-63	100,000
Treasury Bonds	2-1/2	12/15/68-63	2,750,000
Treasury Bonds	2-1/2	12/15/69-64	100,000
Treasury Bonds	2-1/2	12/15/70-65	195,000
Treasury Bonds	2-1/2	3/15/71-66	250,000
Treasury Bonds	2-1/2	6/15/72-67	2,550,000
Treasury Bonds	2-1/2	9/15/72-67	97,500
Treasury Bonds	2-1/2	12/15/72-67	700,000
Treasury Bonds	2-1/2	6/15/83-78	1,825,000
Treasury Bonds	3-1/4		
TOTAL UNITED STATES OF AMERICA			\$13,854,500
The Twelve Federal Land Banks:			
Consolidated Federal Farm Loan	4-1/2	4/20/64	\$ 250,000
International Bank for Reconstruction and De- velopment:			
Bonds	3-1/2	10/15/71	\$ 400,000
Bonds	4-1/4	1/15/79	100,000
TOTAL INTERNATIONAL BANK FOR RE- CONSTRUCTION AND DEVELOPMENT			\$ 500,000

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INVESTMENTS - EMPLOYEES' RETIREMENT SYSTEM - CONTINUED

Description	Rate	Maturities	Par Value (Bonds) or Cost (Stocks)
State of Rhode Island:			
Blackstone Valley Sewer District Loan of 1952:			
Series B	2-1/2%	5/ 1/86	\$ 50,000
Series C	2-3/4	8/ 1/83	120,000
Series D	4	9/ 1/75	100,000
Highway Improvement Loan of 1955:			
Series A	3-1/4	3/ 1/84	50,000
Series B	3-1/4	3/ 1/85	100,000
Penal and Charitable Institutions	4	3/ 1/77	10,000
State Office Building - Registered	4	6/ 1/77	12,000
Third Courthouse Loan	4	3/20/81	22,000
Washington Bridge Loan	4	5/ 1/77	6,000
TOTAL STATE OF RHODE ISLAND			\$ 470,000
Municipalities:			
City of Central Falls:			
Refunding	2-3/4	6/ 1/66-67	\$13,000
Refunding	2.90	6/ 1/73-74	7,000
Refunding	3.90	8/ 1/71	35,000
School	2-1/4	7/ 1/68	10,000
			\$ 65,000
City of Cranston:			
Construction and Equipment	1-3/4	7/ 1/63	\$10,000
School, Series A	2-1/2	6/ 1/76	45,000
School, Series E	2.70	2/15/78-79	68,000
School, Series C	2.90	11/15/76-78	70,000
School, Series B	3.60	7/ 1/69-76	65,000
Sewerage, Series E	1-3/4	10/ 1/80-81	5,000
Sewerage, Series H	1.80	3/ 1/76	10,000
Sewerage, Series D	2	6/ 1/78	4,000
Sewerage, Series I	2-1/2	6/ 1/76	15,000
			292,000
Town of Cumberland:			
School	3-1/2	5/15/77-79	\$90,000
School	4.60	10/15/71-72	45,000
Water Supply In- stallation	1.90	1/ 1/76	3,000
Water	3-1/2	5/15/77-79	60,000
			198,000

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