

Summary of Changes in Investment Account

| | |
|---------------------------------------|-------------------------------|
| Total investments at July 1, 1960 | \$39,965,561.00 |
| Add: Purchases | <u>11,495,596.00</u> |
| | \$51,461,157.00 |
| Deduct: Sales or Redemptions | <u>5,325,557.00</u> |
| Balance, Investments at June 30, 1961 | <u><u>\$46,135,600.00</u></u> |

APPROPRIATIONS

Appropriations by the General Assembly for the fiscal year ending June 30, 1962 were as stated below, with the amounts given for the preceding year for comparison:

| <u>State Employees</u> | <u>1962 Fiscal Year</u> | <u>1961 Fiscal Year</u> |
|--|-----------------------------|-----------------------------|
| 5% of assumed payroll of the members for the year | \$2,108,200.00 | \$1,928,200.00 |
| <u>Teachers</u> | | |
| Normal Requirements - 3-1/2% of assumed payroll of the members ^{1/} | \$1,261,090.00 | \$1,235,590.00 |

^{1/} The total contribution rate on account of teacher-members from the cities and towns is 7% of payroll. This is shared equally by the State and the Cities and Towns.

ACTUARIAL VALUATION

This annual report has been prepared pursuant to the directives of Chapter 36 which governs the operations of the system. This directive provides, among other things, that the report shall include a valuation balance sheet prepared by the actuary.

In accordance with this authority, the actuary has made a valuation of the liabilities and reserves of the system as of the close of the year under review, and has prepared a valuation balance sheet. The report of the actuary, embodying the results of the valuation, is presented as a part of this annual report.

AMENDATORY LEGISLATION

Three bills were enacted at the 1961 session of the General Assembly affecting the Employees' Retirement System. These bills are briefly described.

House Bill 1871. Civilian employees of the army national guard and air national guard of the State, although paid salaries from federal appropriations, were granted the privilege of becoming members of the system by filing an application with the retirement board on or before December 31, 1961, or within six months of entry into service, whichever is later.

No prior service credit is provided. The employer's share of the cost of benefits on account of these persons is to be financed by the government through its periodic appropriations under an agreement between the State and the Secretary of Defense.

House Bill 1854. Any teacher who reentered service after July 1, 1949, while over the age of 60 years, was granted membership in the system with credit for service prior to such date, provided he made contributions to the system at the rate of 10% of salary. Credit for prior service is conditioned upon the teacher rendering at least 5 years of service after July 1, 1949.

House Bill 1653. Upon death of a member of the General Assembly while on retirement, the death benefit payable to his beneficiary or estate shall be the ordinary death benefit provided upon death of a member while in service. This benefit is to be in lieu of the benefit payable upon death after retirement.

No recommendations are made by the Board for changes in the retirement act. In its opinion, the benefit schedule for the system is reasonably adequate and well-balanced. The benefits and qualifying conditions compare very favorably with those in force for State government employees and public school teachers of other States. Such inequities that existed in prior years

have been removed. Federal social security coverage has also been made available to those who chose to accept it. The State of Rhode Island and the cities and towns have assumed an additional cost burden for that purpose.

The unfunded accrued liability of the system at June 30, 1961 amounted to \$66,565,602.00. This liability is constantly increasing due to the deferred aspects of the method of financing the system's obligations. The liability is an actual liability, actuarially determined. The liability will have to be discharged in future years by steadily increasing contributions on the part of the State and the Cities and Towns.

In view of the sizable obligations assumed under the existing benefit schedule, the Board feels impelled to recommend the rejection of any proposals providing for liberalizing changes or special benefits to individual employees creating preferential rights or benefits.

The policies of the Board are directed constantly toward the operation of the system in accordance with principles and standards governing effective retirement planning and administration for public employees in fulfillment of its basic objectives.

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

RAYMOND H. HAWKSLEY, Chairman

JOSEPH M. BOISVERT

PRIMO IACOBUCCI

JOHN J. WRENN

T. MORTON CURRY

JUDGE HAROLD C. ARCARO

MICHAEL F. WALSH

JAMES E. CONLON

CHARLES W. HILL

RALPH CINQUEGRANA
Secretary

REPORT OF THE ACTUARY

There are 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, 1961.

Membership has continued its upward trend both as to State employees and teachers. The increase during the year was approximately 4%. It is interesting to note that the number of male teacher members has again shown an increase as a proportion of the total number of teachers participating in the system. The proportion now is 32.0% of the total teacher membership as compared with 30.9% last year and 29.6% two years ago. A similar trend is in evidence in teachers' systems in other States.

The current financial condition has improved steadily. This is evidenced by the increase in reserves, particularly the contingent reserves. This is clearly illustrated in the following statement:

| | <u>1961</u> | <u>June 30th 1960</u> | <u>Increase</u> |
|------------------------------|-----------------|---------------------------|-----------------|
| Contribution credits: | | | |
| State employees | \$11,545,488.00 | \$10,364,646.00 | \$1,180,842.00 |
| Teachers | 11,493,402.00 | 9,846,782.00 | 1,646,620.00 |
| Contingent reserves: | | | |
| State employees | \$16,827,133.00 | \$14,672,183.00 | \$2,154,950.00 |
| Teachers | 6,999,594.00 | 6,043,168.00 | 956,426.00 |

The provisions of the retirement plan as presently constituted compare most favorably with those in effect in other States for State employees and teachers. A large obligation has already been imposed on the State and the cities and towns under the present retirement plan and for social security coverage as a supplement to the plan. Further liberalizing changes may prove damaging to the maintenance of the system. The pension policy should reflect conformance with reasonable standards with a benefit schedule which is within the financial ability of the State and the cities and towns to meet its cost.

The Valuation Balance Sheet accompanying this report illustrates the obligations of the system and its true financial condition. The unfunded accrued liability is separated as between the State of Rhode Island and the Cities and Towns. The obligations of the respective units of government are clearly indicated.

BASIS OF VALUATION

The benefit and contribution provisions forming the basis of this report are summarized in the appendix. The valuation 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, 1958. The rate of interest

assumed in this valuation was 3% per annum. This represents a conservative rate according to the investment experience of the system and the established investment authority.

STATISTICAL DATA

Statistics required for this report were compiled by the office staff under the direction of Ralph P. Cinquegrana, 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:

| | <u>State employees</u> | |
|-----------------------|------------------------|-----------------|
| | <u>Male</u> | <u>Female</u> |
| Number of members | 5,781 | 3,841 |
| Proportion of total | 60.1% | 39.9% |
| Annual Salaries | \$26,552,719.00 | \$14,974,446.00 |
| Average salary | \$4,593.00 | \$3,899.00 |
| Average age | 46.2 | 43.5 |
| Average total service | 7.7 | 7.3 |
| | <u>Teacher members</u> | |
| Number of members | 2,148 | 4,566 |
| Proportion of total | 32.0% | 68.0% |
| Annual salaries | \$11,874,461.00 | \$24,661,007.00 |
| Average salary | \$5,528.00 | \$5,401.00 |
| Average age | 39.5 | 41.7 |
| Average total service | 9.7 | 13.6 |

Members with Prior Service^{1/}

| | State Employees | |
|--------------------------------|-----------------|--------------|
| | Male | Female |
| Number of members | 347 | 182 |
| Proportion of total | 65.6% | 34.4% |
| Annual salaries | \$2,370,380.00 | \$991,865.00 |
| Average salary | \$6,831.00 | \$5,450.00 |
| Average years of prior service | 6.4 | 5.6 |

| | Teacher Members | |
|--------------------------------|-----------------|-----------------|
| | Male | Female |
| Number of members | 632 | 1,839 |
| Proportion of total | 25.6% | 74.4% |
| Annual salaries | \$4,329,338.00 | \$11,418,275.00 |
| Average salary | \$6,850.00 | \$6,209.00 |
| Average years of prior service | 12.5 | 17.4 |

^{1/} Service prior to July 1, 1936 in the case of State employees, and July 1, 1949 in the case of teachers.

ACTUARIAL VALUATION

An actuarial valuation is undertaken for the purpose of establishing the true financial condition of the system. The liabilities for the accrued and prospective benefit obligations

are computed by actuarial formulas and procedure. In the calculation of these liabilities, the principles applied are similar to those that govern life insurance practice. A determination is made of the reserves required for the obligations as they mature. The factors of mortality and interest are basic in such a determination.

The valuation of a retirement system, however, involves additional factors such 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, actuarial functions reflecting these factors are established based generally upon past experience, and used in forecasting the course of future operations. A forecast of the future, therefore, is fundamental to an evaluation of the financial condition of a retirement system.

The rates developed in our actuarial survey as of June 30, 1958, with appropriate modifications to reflect the operating experience for the year under review, were used in measuring mortality among the active members and retirants, and the turnover experience among the members. Separate rates were used for the State employees and the teacher members, with a further separation between male and female individuals to give effect to physiological conditions and employment factors.

Any variations in future experience from the assumed standards are adjusted currently by a revision of the basic factors. Since the financial condition of the system is reappraised each year through the annual actuarial valuation, actuarial balance sheets 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 in operations 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. The amount of this liability is \$71,123,009.00. Of this amount, the members are obligated for \$13,748,026.00 and the State and Cities and Towns in the amount of \$57,374,983.00.

A matured liability exists on account of members who are on retirement. The amount of this liability, which includes present and prospective beneficiaries, is \$33,017,346.00.

The liability for future refunds to those members who may leave

service before acquiring vested rights was established at \$9,290,864.00.

The sum of these three liability items, amounted to \$113,431,219.00 and constitutes the total accrued liability. To meet this liability, the system has accumulated assets totalling \$46,865,617.00. The difference between the total accrued liability and the total present assets is \$66,565,602.00, which represents the unfunded accrued liability.

FUTURE SERVICE LIABILITY

The liability for retirement annuities on account of service to be rendered by the members after June 30, 1961, to the dates when these annuities will probably mature, has been established at \$44,152,941.00. This is the present value of such future service pension credits at date of maturity.

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 our estimate of probable 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 \$15,866,041.00, leaving a remainder to be provided from employer contributions (the State and the Cities and Towns) of \$28,286,900.00. These constitute discounted amounts being the present value, as of June 30, 1961, of such future contributions for the assumed periods of service.

VALUATION BALANCE SHEET

A retirement system is considered to be financially sound from an actuarial 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 to mean actual assets on hand 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, 1961 is presented in the following pages.

Employees' Retirement System of the
State of Rhode Island

VALUATION BALANCE SHEET - JUNE 30, 1961

Statement of Assets, Liabilities and Reserves

A S S E T S

PRESENT ASSETS:

| | | |
|----------------------|----------------------|---------------|
| Cash | | \$ 730,017.00 |
| Investments | | |
| Bonds (at par value) | \$31,312,500.00 | |
| Stocks (at cost) | <u>14,823,100.00</u> | 46,135,600.00 |

DEFERRED ASSETS:

Future service pension credits on account of service subsequent to July 1, 1961

| | | |
|-----------------------|----------------------|---------------|
| State employees - | | |
| Members | \$ 7,432,669.00 | |
| State of Rhode Island | <u>14,016,504.00</u> | |
| Teachers - | | |
| Members | 8,433,372.00 | |
| State of Rhode Island | <u>7,135,198.00</u> | |
| Cities and Towns | <u>7,135,198.00</u> | 44,152,941.00 |

UNFUNDED ACCRUED LIABILITY:

Due from employers for unfunded accrued pension credits -

| | | |
|---------------------------------|----------------------|----------------------|
| State of Rhode Island | \$45,199,002.00 | |
| Cities and Towns (see footnote) | <u>21,366,600.00</u> | <u>66,565,602.00</u> |

TOTAL ASSETS

\$157,584,160.00

Note: Under the law governing the system, the cities and towns of the State assume one-half of the cost of teachers' pensions.

Employees' Retirement System of the
State of Rhode Island

VALUATION BALANCE SHEET - JUNE 30, 1961

Statement of Assets, Liabilities and Reserves

CURRENT LIABILITIES:

None

RESERVE REQUIREMENTS:

RESERVE FOR MEMBER CONTRIBUTIONS -
State Employees -

For service retirement and disability annuities \$ 5,306,110.00
For future refunds 6,239,378.00 \$ 11,545,488.00

Teacher Members -

For service retirement and disability annuities \$ 8,441,916.00
For future refunds 3,051,486.00 11,493,402.00

RESERVE FOR EMPLOYER CONTRIBUTIONS -

For service retirement and disability annuities on active members - 20,869,818.00

State Employees

36,505,165.00

Teacher Members

RETIREMENT AND BENEFITS RESERVE -

Actuarial Value of Service retirement, disability and beneficiary annuities in force -

State Employees -

Service retirement \$ 9,670,964.00
Disability 477,049.00
Other 296,655.00 10,444,668.00

Teacher Members -

Service retirement \$21,645,183.00
Disability 888,565.00
Other 38,930.00 22,572,678.00

FUTURE SERVICE LIABILITY:

Present value of future service pension credits -

State employees
Teachers

\$21,449,173.00
22,703,768.00

44,152,941.00

TOTAL LIABILITIES AND RESERVES

\$157,584,160.00

CERTIFICATION

The accompanying Valuation Balance Sheet exhibits all assets, accrued liabilities and reserves of the system as of June 30, 1961. Present assets embodied in this statement were taken from the report of the Bureau of Audits, Department of Administration, State of Rhode Island, dated September 7, 1961, on an examination of the financial reports of the system,

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, 1961, giving effect to all accrued liabilities and actuarial reserve requirements for the several annuities and benefits under the applicable law as the same was in effect at such date.

A. A. Weinberg
Actuary

February 28, 1962

FINANCIAL STATEMENTS

Reproduced from the Report on Examination
of Financial Records of the Bureau of
Audits, Department of Administration,
State of Rhode Island, dated December 15,
1961.

Employees' Retirement System of the
State of Rhode Island

FINANCIAL BALANCE SHEET - JUNE 30, 1961

A S S E T S

| | | |
|----------------------|----------------------|-------------------------------|
| Cash | | \$ 730,017.00 |
| Investments - | | |
| Bonds (at par value) | \$31,312,500.00 | |
| Stocks (at cost) | <u>14,823,100.00</u> | <u>46,135,600.00</u> |
| <u>Total Assets</u> | | <u><u>\$46,865,617.00</u></u> |

R E S E R V E S

| | | |
|--------------------------|--|-------------------------------|
| Annuity Savings Reserve: | | |
| State Employees | | \$11,545,488.00 |
| Teachers | | 11,493,402.00 |
| Contingent Reserve: | | |
| State Employees | | 16,827,133.00 |
| Teachers | | <u>6,999,594.00</u> |
| <u>Total Reserves</u> | | <u><u>\$46,865,617.00</u></u> |

Employees' Retirement System of the
State of Rhode Island

Statement of Cash Receipts and Disbursements
Fiscal Year Ended June 30, 1961

Cash Balance July 1, 1960

\$ 961,217.72

Receipts:

| | |
|---|-----------------|
| Members Contribution - State Employees Teachers | \$ 1,951,625.83 |
| State Contribution - State Employees Teachers | 2,129,662.45 |
| Cities and Towns Contributions - Teachers | 1,939,100.00 |
| Income on Investments | 1,081,250.00 |
| Premiums or Discounts - Investments Purchased | 1,202,786.60 |
| Investments Matured or Sold | 1,588,020.09 |
| Premium or Discount - Investments Sold | 71,670.42 |
| Refunds of Benefits | 3,628,565.31 |
| Transfer-Certain Employees' Fund | 43,544.46 |
| Benefits Cancelled | 4,079.74 |
| Contributions Refunded - Cancelled | 10,535.26 |
| | 895.75 |
| | 90.98 |

Total Receipts

Total Available

13,651,826.89

\$14,613,044.61

Disbursements:

| | |
|--|---------------|
| Refunds of Contribution State Employees Teachers | \$ 423,040.52 |
| Benefits Paid - State Employees | 223,824.04 |
| Monthly Retirement Allowances | 993,804.58 |
| Ordinary Death Benefits | 117,300.88 |
| Death Retirement Allowances | 21,756.68 |
| Benefits Paid - Teachers | |
| Monthly Retirement Allowances | 2,151,003.03 |
| Ordinary Death Benefits | 61,100.00 |
| Death Retirement Allowances | 15,781.34 |
| Purchase of Investments | 9,798,604.71 |
| Accrued Interest on Investments | 15,464.12 |
| Premiums on Investments | 49,657.81 |
| Commissions, Postage & Insurance - Investments | 1,154.70 |
| Inter-Fund Transfers | 10,535.26 |

Total Disbursements

Cash Balance June 30, 1961

13,883,027.67

\$ 730,016.94

Employees' Retirement System of the
State of Rhode Island

INVESTMENTS - JUNE 30, 1961

| <u>Description</u> | <u>Rate</u> | <u>Maturities</u> | <u>Par Value (Bonds) or Cost (Stocks)</u> |
|--|-------------|-------------------|---|
| Certificate of Deposit: Industrial National Bank of Providence | 3 % | 8/23/61 | \$ 400,000 |
| United States of America: | | | |
| Treasury Notes | 5 | 8/15/64 | \$ 200,000 |
| Treasury Notes | 1-1/2 | 4/ 1/65 | 400,000 |
| Treasury Notes | 1-1/2 | 10/ 1/65 | 1,000,000 |
| Treasury Notes | 2-3/4 | 4/ 1/80-75 | 1,300,000 |
| Savings Bonds, Series B | 2-1/2 | 11/15/61 | 300,000 |
| Treasury Bonds | 2-1/2 | 12/15/68-63 | 1,350,000 |
| Treasury Bonds | 2-1/2 | 12/15/69-64 | 100,000 |
| Treasury Bonds | 2-1/2 | 3/15/70-65 | 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 | 3-1/4 | 6/15/83-78 | 1,825,000 |
| Treasury Bonds | 3-1/2 | 2/15/90 | 1,500,000 |
| Treasury Bonds | | | |
| TOTAL UNITED STATES OF AMERICA | | | \$11,767,500 |
| The Twelve Federal Land Banks: | | | |
| Consolidated Federal Farm Loan | 4-1/2 | 4/20/64 | \$ 250,000 |
| International Bank for Recon- struction and Development: | | | |
| 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 |
| State of Rhode Island: | | | |
| Blackstone Valley Sewer District Loan of 1952: | | | \$ 50,000 |
| Series B | 2-1/2 | 5/1/86 | 120,000 |
| Series C | 2-3/4 | 8/1/83 | 100,000 |
| Series D | 4 | 9/1/75 | |