

ACTUARIAL VALUATION AS OF JUNE 30, 1966

An actuarial valuation of the Employees' Retirement System of the State of Rhode Island was completed as of June 30, 1966. The valuation was undertaken to establish the liabilities and reserve requirements for the accrued and prospective pension credits under the prescribed benefit schedule. The financial condition of the System is determined by means of such valuation. A valuation balance sheet is prepared to show the result of the valuation including the accrued and prospective liabilities and the present and prospective assets to meet these liabilities. The valuation is made with the use of certain standards reflecting the probable experience of the System with respect to mortality, turnover and other such factors.

Because of the long-term character of the pension accumulation period, as well as the period of payment of benefits, a forecast of the future must be made based upon an extended period of past operations on the membership comprising the System. Short-term fluctuations or transitory factors are disregarded in this process except to the extent that they affect benefits of a current operating character.

In the valuation a determination is made of the liabilities incurred for the several benefit obligations and the reserves required to meet the

the members. The factors of mortality, turnover and interest are basic in such calculations. Other factors are also prominent in actuarial procedure including rates of salary and their progression until maturity of the obligations, interest earnings, disability incidents and ages at retirement.

Rates reflecting these basic factors are formulated in prior years based upon a survey and investigation of the past operating experience. Separate rates are applied for State employees and teacher-members. A further division is made between male and female members to give effect to the diverse physiological conditions and employment characteristics affecting the two sexes. Some variations from these established standards frequently occur in current operations. These are taken into account by means of an adjustment of the final results of the valuation following the application of the basic factors.

BASIS OF VALUATION

The benefit and contribution provisions forming the basis of this valuation are summarized in the appendix. The rate of interest assumption was $3\frac{1}{2}\%$ per annum. The actuarial functions used were those previously established for the System in the last actuarial survey and investigation of its operating

RESULTS OF VALUATION

A test of progress in the operation of any retirement system is measurable by the extent to which the liabilities for earned pension credits have been met. This assumes that the system is fully funded, that is, the accruing pension credits are financed currently, in full measure, and that the unfunded accrued liability is being systematically amortized. Pension liabilities represent discounted sums which include the interest factor, therefore the liabilities for prior years currently accrue at interest at the assumed rate.

The Employees' Retirement System is subject to partial funding of its liabilities. Contributions by the employer represent the average annual requirements for benefits according to a 10-year projection of payments by the system. The rate per cent of contributions established in 1957, which was the last computation date, was 5% of salaries for the State employees and 7% for the teacher-members. These are the rates applicable for the 1966 fiscal year. New rates have been established for the 10-year period dating from July 1, 1967.

Since partial funding results in a continuous deferment of the remainder of the accruing cost, the unfunded accrued liability has been in a steady and persistent upward trend.

In the case of the Employees' Retirement System, operations for the 1966 fiscal year disclosed an increase in the unfunded accrued liability amounting to \$7,812,276.00. This increase is reconciled as follows:

Interest accrual at $3\frac{1}{2}\%$ on the unfunded accrued liability at June 30, 1965	\$3,513,267.00
Deficiency in current service requirements for the 1965-1966 fiscal year	<u>4,299,009.00</u>
Total	<u>\$7,812,276.00</u>

The full funded cost of financing current service on account of the members of the system as a percentage of salary is as follows:

State employees	8.5%
Teacher-members	10.1%
Combined	9.2%

A decrease has occurred in the full funded cost during the year principally to separations from service with refund above the expectancy according to rates established in our previous survey.

VALUATION BALANCE SHEET

The Valuation Balance Sheet presented in the following pages shows the financial condition of the System at June 30, 1966. A retirement system is considered to be in a sound financial condition from the actuarial standpoint when its present assets are equal to the difference between (a) the total of all accrued and prospective liabilities, and (b) the present value of future contributions to be received by the system from the members and the employer. A system attaining this status will have provided for all actuarial reserve requirements.

VALUATION BALANCE SHEET

AS OF JUNE 30, 1966

Assets		
Real Estate	100,000.00	
Investments	200,000.00	
Other Assets	100,000.00	
Total Assets	400,000.00	
Liabilities		
Accounts Payable	50,000.00	
Accrued Liabilities	150,000.00	
Other Liabilities	200,000.00	
Total Liabilities	400,000.00	
Surplus	0.00	

The State of Rhode Island and the cities and towns share equally in the cost of teachers' pensions.

VALUATION BALANCE SHEET - JUNE 30, 1966

Statement of Assets, Liabilities and Reserves

A S S E T S

NET PRESENT ASSETS:

Cash	\$	9,512.00	
Investments		82,378,845.00	
Accrued Interest Receivable		739,319.00	

DEFERRED ASSETS:

Present value of future service credits on account of service subsequent to July 1, 1966

State employees - Members	\$ 8,433,961.00		
State of Rhode Island	15,086,111.00		
Teacher-Members			
Members	9,936,364.00		
State of Rhode Island	8,719,938.00		
Cities and Towns	8,719,938.00	50,896,312.00	

UNFUNDED ACCRUED LIABILITY:

Due from employers for unfunded accrued pension credits

State of Rhode Island	\$70,975,892.00		
Cities and Towns ^{1/}	37,215,445.00	108,191,337.00	
<u>TOTAL ASSETS</u>		<u>\$242,215,325.00</u>	

^{1/} The State of Rhode Island and the cities and towns share equally in the cost of teachers' pensions.

VALUATION BALANCE SHEET - JUNE 30, 1966

Statement of Assets, Liabilities and Reserves

LIABILITIES AND RESERVES

CURRENT LIABILITIES

Unclaimed benefits		\$	9,002.00
--------------------	--	----	----------

FUTURE SERVICE LIABILITY:

State employees	\$22,989,033.00		
Teacher-members	27,907,279.00	50,896,312.00	

RESERVE REQUIREMENTS:

RESERVE FOR MEMBER CONTRIBUTIONS -

<u>State Employees -</u>			
For service retirement and disability annuities	\$ 8,729,012.00		
For future refunds	9,586,007.00	18,315,019.00	

Teacher-Members -

For service retirement and disability annuities	\$13,188,361.00		
For future refunds	8,085,383.00	21,273,744.00	

RESERVE FOR SURVIVOR BENEFITS

2,028,901.00

RESERVE FOR EMPLOYER CONTRIBUTIONS -

For service retirement and disability annuities on active members -

<u>State Employees -</u>			
Total requirements	\$40,686,021.00		
Employee contributions	9,729,012.00	30,957,009.00	

Teacher-Members -

Total requirements	\$74,694,523.00		
Employee contributions	13,188,361.00	61,506,162.00	

RETIREMENT AND BENEFITS RESERVE -

State Employees		19,064,445.00	
Teacher-Members		38,164,731.00	

TOTAL LIABILITIES AND RESERVES

\$242,215,325.00

The following explanation of the several items comprising the assets, liabilities and reserves of the system is given to facilitate an understanding of their function and meaning.

Present Assets require no explanation. They comprise the assets on hand as taken from a report of the accountant of the system.

Deferred Assets consist of the obligations of the members and the employers for service to be rendered subsequent to June 30, 1966. They represent discounted amounts, actuarially determined, giving effect to the factors of mortality, interest, turnover and others that enter into the computation of liabilities for annuities and benefits accruing on account of future service.

Unfunded Accrued Liability constitutes the amounts accrued and unpaid on account of service rendered prior to the balance sheet date. This is an accrued obligation of the State and the cities and towns to be discharged in future years by increasing allocations to the system.

Current Liabilities represent certain current accounts payable as shown by the financial statements prepared by the system.

Future Service Liability is an offset to Deferred Assets and represents the present value of the proportionate pension credit to be earned by the members during future service from the balance sheet date to the assumed ages of retirement.

Reserve for Members' Contributions consists of the amounts of the members' contribution credits at the balance sheet date. Part of these credits are subject to refund in future years on account of resignation, dismissal or death. A part of these credits are available to finance a portion of the annuities and benefits to become due in the case of members now in service who will ultimately qualify for retirement.

Reserve for Survivor Benefits represents the accumulation of contributions by the teacher-members and the cities and towns towards the survivor benefit provision specifically applicable to these members.

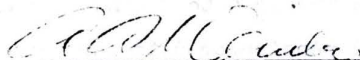
Reserve for Employer Contributions represents the amounts that must be provided to finance the employer's portion of the accrued pension credits for those employees now in service who will ultimately qualify for pensions at the ages assumed for their retirement.

Retirement and Benefits Reserve constitutes the amount necessary to pay out during the future lifetime of the pensioners on the roll the pensions already granted and in force at the balance sheet date.

CERTIFICATION

The accompanying Valuation Balance Sheet exhibits all assets, accrued liabilities and reserves of the system as of June 30, 1966. Present assets were taken from the financial statements submitted by the accountant 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, 1966, after 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.


A. A. Weinberg
Actuary

March 24, 1967

FINANCIAL STATEMENTS

1. Financial Balance Sheet as of June 30, 1966
2. Statement of Revenues and Expenditures for the Fiscal Year Ended June 30, 1966
3. Statement of Cash Receipts and Disbursements for the Fiscal Year Ended June 30, 1966
4. Comparative Statement of Net Investment Income for Fiscal Years Ended June 30, 1965 & 1966
5. Statement Of Investment Earnings for Fiscal Year Ended June 30, 1966