

S-200 - State employees were granted the privilege of purchasing up to one year of educational leave, either by December 31, 1967 or one year after the return from leave, whichever is later.

S-195 - School nurses in the City of Providence were granted the right to purchase prior service credit provided the City paid the actual costs.

S-709 - Retired teachers may substitute in any state or public school for 75 days in any one year without loss of pension benefits.

APPROPRIATIONS FOR 1968 FISCAL YEAR

Appropriations to the system by the State and the Cities and Towns (on behalf of teacher-members) consist of a rate per cent of payroll according to a formula prescribed by law. This rate is obtained by a projection of expenditures by the system for a period of years after applying credits for certain member contributions and after giving effect to certain actuarial factors.

The rate of contributions by the State is 5% of payrolls on account of State employees. In the case of teacher-members, the State of Rhode Island and the Cities and Towns share equally in a rate of 7% of payrolls involving teachers.

The appropriations budgeted for the system for the 1968 fiscal year with the amounts allocated for the 1967 fiscal year given

for comparison are as follows:

	Fiscal Year Ended June 30th -	
	<u>1968</u>	<u>1967</u>
State Employees -		
5% of total compensation paid to the members during the fiscal year preceding the submission of the budget to the General Assembly	\$3,111,872.00	\$2,740,112.00
Teachers -		
3 1/2% of total compensation paid to the members during the fiscal year preceding the submission of the budget to the General Assembly	\$1,993,978.00	\$1,644,811.00

ANNUAL ACTUARIAL VALUATION

As required by law, an actuarial valuation of the assets and liabilities of the system was completed as of June 30, 1967. The results of this valuation are set forth in the accompanying statement of the actuary.

Briefly, the report shows that the unfunded accrued liability increased during the year as previously explained. This increase was due entirely to the use of a partial method of funding the obligations of the system as discussed in the first part of this report. This increase in the liability was more than offset by revenues over and above expenditures. The effect thereof was to show some improvement in the rate of funding the accrued liabilities.

CONCLUSION

The system is gradually expanding its operations. This is evidenced by a steady upward trend in membership and assets. The increase in assets has been at a slightly greater rate than the increase in pension liabilities. The pension roll is likewise attaining larger proportions which is a factor of normal significance in the development of the system.

Proposals have been made from time to time to liberalize the pension formula or other aspects of the retirement plan. Proposals for a systematic post-retirement increase in pensions have been presented. All such proposals should be thoroughly evaluated in terms of their long term policy and cost implications in order that the security and stability of the system may be assured.

It has been the consistent aim of the Board of Trustees to see to it that the system operates in accordance with recognized principles governing pension plans for public employees. It has also been its policy to maintain high standards of efficiency in administration to the end that the system may fulfill its objectives adequately and effectively to the satisfaction of the employee members and the governmental employers.

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

RAYMOND H. HAWKSLEY, Chairman

FREDERICK C. LEES

ROBERT M. SCHACHT

DR. WILLIAM P. ROBINSON, Jr.

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ANTHONY J. BARONE

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PAUL E. BASSETT

RALPH D. CUCULO

JOSEPH G. IANNELLI,
Chief and Executive Secretary

REPORT OF THE ACTUARY ON AN ACTUARIAL VALUATION
OF THE SYSTEM AS OF JUNE 30, 1967

An actuarial valuation of the Employees' Retirement System of the State of Rhode Island was completed as of June 30, 1967. The purpose of a valuation is to establish the liabilities and reserve requirements for the accrued and prospective pension credits under the prescribed benefit schedule. The true financial condition of the system is determined by means of such valuation. An actuarial balance sheet is prepared to reflect the results of the valuation showing the accrued and prospective liabilities and the present and prospective assets to cover these liabilities.

Because of the long-term character of the pension accumulation period, as well as the length of time for payment of the pension, a forecast of the future must be made based upon an extended period of operations covering the particular group of members comprising the system. Short term fluctuations or transitory factors must be disregarded in this process except to the extent that they affect specific benefits of a current operating character.

In an actuarial valuation a determination is made of the liabilities incurred for the several benefit obligations. The reserves required to meet these accrued liabilities for the lifetime of

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

Rates reflecting these basic factors were formulated in a survey and investigation of the past operating experience of the system. Separate rates are used 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 considered by means of an adjustment of the results of the valuation according to the foregoing factors.

MEMBERSHIP STATISTICS

A variety of statistics was compiled and tabulated for this actuarial valuation. These statistics formed the basis of the valuation. A summary thereof is presented below.

<u>ACTIVE MEMBERS</u>	<u>State Employees</u>		<u>Teachers</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
1. Number	6,063	5,007	2,765	4,964
2. Per cent of total	54.8%	45.2%	35.8%	64.2%

	State Employees		Teachers	
	Male	Female	Male	Female
3. Annual salaries	\$41,757,037	\$25,543,433	\$21,037,486	\$37,491,448
4. Average salary	\$6,887	\$5,102	\$7,608	\$7,553
5. Average age	46.7	45.9	38.7	43.1
6. Average service	8.9	9.1	7.8	10.0
7. New entrants	1,150	1,216	420	1,128
8. Average age of above	35.3	34.2	28.0	27.5
9. Refunds	606	630	156	595
10. Age at refund	36.6	33.2	31.7	28.0

RETIREMENTS

1. Number on retirement	743	575	211	1,058
2. Per cent of total	56.4%	43.6%	16.6%	83.4%
3. Average age at June 30, 1967	71.4	71.0	70.6	72.2
4. Retirements during year	109	74	26	118
5. Terminations	38	26	5	30
6. Average age of retirements during year	65.2	64.9	63.8	64.9
7. Average age at death for service retirements	70.5	70.7	69.4	73.5
8. Average number of years on pension for deaths	5.6	5.2	5.2	8.9

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 3-1/2% per annum. The actuarial functions used were those previously established in the previous actuarial survey and investigation of the system with some modifications to reflect current operating trends.

RESULTS OF VALUATION

A test of progress in the operation of any retirement system is the extent to which coverage is provided for the accrued liabilities for earned pension credits in comparison with the prior period. 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 accrue currently at interest at the established 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. (5 years under legislation approved in 1967). The rate per cent of contributions

established in 1957, which was the last computation date, was 5% of payroll for State employees and 7% for teachers, with the latter cost divided equally between the State and cities and towns. Since partial funding results in a deferment of the remainder of the incurred 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 1967 fiscal year disclosed an increase in the unfunded accrued liability amounting to \$8,821,395.00. This increase is reconciled as follows:

Interest accrual at 3½% on the unfunded accrued liability at June 30, 1966	\$3,786,696.00
Additional current service requirements for the 1966-1967 fiscal year	<u>5,034,699.00</u>
Total	<u>\$8,821,395.00</u>

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

State employees	8.5%
Teachers	10.1%
Composite rate	<u>9.2%</u>

In the light of the operating experience during the fiscal year under review, no change in these rates is recommended.

Some improvement in the rate of funding occurred during the year. In the case of State employees, the coverage of accrued liabilities by present assets was equal to 70.8% at June 30, 1967. This compares with 69.5% a year ago. The rate of funding of accrued liabilities for teachers increased during the year from 29.0% to 29.6%. The rate of funding is obtained by the ratio of the proportion of total reserves applicable to each group, representing present assets, to the accrued liability for each group of members.

The foregoing trend is confirmed by an evaluation of the system on a current basis in terms of matured and current liabilities. Viewing the actuarial value (lifetime value) of pensions and benefits being paid by the system as a matured liability, and the accumulated members contribution credits as a current liability, it is noted that the margin of present assets over the liabilities increased during the year.

Excess of Matured and Current Liabilities
over Net Present Assets

	J u n e 30th	
	1967	1966
Accumulated members contributions -	\$ 20,491,165.00	\$18,315,019.00
State employees	22,458,602.00	21,273,744.00
Teachers		
Reserve for Survivors Benefits	1,155,606.00	2,028,901.00
Retirement and Benefits Reserve -		
State employees	22,020,701.00	19,064,445.00
Teachers	44,645,232.00	38,164,731.00
Total	\$110,771,306.00	\$98,846,840.00
Net Present Assets	93,440,134.00	83,118,675.00
<u>Excess</u>	<u>\$ 17,331,172.00</u>	<u>\$15,728,165.00</u>

VALUATION BALANCE SHEET

The Valuation Balance Sheet presented in the following pages displays the true financial condition of the system at June 30, 1967. 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. A system attaining this status will have provided fully for all actuarial reserve requirements.

VALUATION BALANCE SHEET - JUNE 30, 1967
Statement of Assets, Liabilities and Reserves

A S S E T S

NET PRESENT ASSETS:

Cash \$ 1,513,864.00
Investments 91,100,034.00
Accrued Interest Receivable 832,947.00

DEFERRED ASSETS:

Present value of future service credits on account of service subsequent to July 1, 1967

State employees - Members \$ 9,104,798.00
State of Rhode Island 16,438,580.00

Teacher-Members 10,752,139.00
Members 9,446,186.00
State of Rhode Island 9,446,186.00
Cities and Towns 55,187,889.00

UNFUNDED ACCRUED LIABILITY:

Due from employers for unfunded accrued pension credits

State of Rhode Island \$77,297,416.00
Cities and Towns^{1/} 39,715,316.00 117,012,732.00

TOTAL ASSETS \$265,647,466.00

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

VALUATION BALANCE SHEET - JUNE 30, 1967
Statement of Assets, Liabilities and Reserves

LIABILITIES AND RESERVES

CURRENT LIABILITIES:

Unclaimed benefits \$ 6,711.00

FUTURE SERVICE LIABILITY:

State employees \$25,543,378.00
Teacher-members 29,644,511.00 55,187,889.00

RESERVE REQUIREMENTS:

RESERVE FOR MEMBER CONTRIBUTIONS -

State Employees -
For service retirement and disability annuities \$ 9,898,334.00
For future refunds 10,592,831.00 20,491,165.00

Teacher-Members -
For service retirement and disability annuities \$13,972,002.00
For future refunds 8,486,600.00 22,458,602.00

RESERVE FOR SURVIVOR BENEFITS 1,155,606.00

RESERVE FOR EMPLOYER CONTRIBUTIONS -

For service retirement and disability annuities on active members -

State Employees -
Total requirements \$43,058,206.00
Employee contributions 9,898,334.00 33,159,872.00

Teacher-Members -
Total requirements \$80,493,690.00
Employee contributions 13,972,002.00 66,521,688.00

RETIREMENT AND BENEFITS RESERVE -

State Employees 22,020,701.00
Teacher-Members 44,645,232.00

TOTAL LIABILITIES AND RESERVES \$265,647,466.00

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, 1967. 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 increased allocations to the system.

Current Liabilities represent accounts payable at the close of the year 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 credits 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, 1967. 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, 1967, 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

January 22, 1968

FINANCIAL STATEMENTS

1. Financial Balance Sheet as of June 30, 1967
2. Statement of Revenues and Expenditures for the Fiscal Year Ended June 30, 1967
3. Statement of Cash Receipts and Disbursements for the Fiscal Year Ended June 30, 1967
4. Comparative Statement of Investment Receipts and Disbursements, Fiscal Years Ended June 30, 1967 and 1966
5. Statement of Net Investment Earnings for fiscal Year Ended June 30, 1967

FINANCIAL BALANCE SHEET - JUNE 30, 1967

A S S E T S

Cash		
Accrued Interest Receivable		\$91,855,751.75
Investments		
Unamortized Dis-counts	\$895,861.04	
Less-Unamortized Premiums	<u>140,143.53</u>	<u>755,717.51</u>
Net Investments		
<u>Total Assets</u>		

LIABILITIES AND RESERVES

<u>Current Liabilities</u>		
Unclaimed Benefits	\$	6,711.94
<u>Members' Contribution Reserves</u>		
State Employees	\$20,491,165.89	
Teachers	22,458,602.64	
Teachers' Survivors	<u>1,155,606.78</u>	
Total Members' Reserves		44,105,375.31
<u>General Reserves</u>		
State Employees	\$33,042,491.19	
Teachers	14,630,505.94	
Teachers' Survivors	1,636,814.07	
Certain State Employees	22,694.89	
Certain Teachers	<u>2,253.42</u>	
Total General Reserves		<u>49,334,759.51</u>
<u>Total Liabilities and Reserves</u>		

\$ 1,513,864.69
 832,947.83
 91,100,034.24
 \$93,446,846.76
 \$93,446,846.76

STATEMENT OF REVENUES AND EXPENDITURES FOR THE FISCAL YEAR ENDED JUNE 30, 1967

REVENUES

<u>Member Contributions -</u>		
State Employees Teachers	\$ 3,331,295.78	
Teachers' Survivors	3,475,648.12	
Death Benefit Premiums-Retired Legislators	356,683.71	
Retired Employees	\$ 675.00	
Employees Transferred-Municipalities	<u>338.16</u>	1,013.16
		<u>253,511.16</u>
		\$ 7,418,151.93
<u>General Fund Appropriations -</u>		
State Employees Teachers	\$ 2,741,612.00	
Certain State Employees	1,673,311.00	
Certain Teachers	17,400.00	
	<u>3,680.00</u>	4,436,003.00
<u>Municipal Contributions -</u>		
Teachers	\$ 2,090,242.03	
Teachers' Survivors	360,118.62	
Employees Transferred to State	<u>922,587.37</u>	3,372,948.02
Miscellaneous Refunds		2,275.20
Unclaimed Benefits		1,827.87
<u>Investment Income -</u>		
Investment Earnings	\$ 3,807,484.48	
Gains on Sale of Investments	<u>77,995.23</u>	3,885,479.71
<u>TOTAL REVENUES</u>		\$19,116,685.73

EXPENDITURES

Pensions and Death Benefits -

State Employees	\$2,671,401.34	
Teachers	4,601,858.10	
Teachers' Survivors	23,041.20	
Certain State Employees	20,457.80	
Certain Teachers	<u>2,259.96</u>	\$7,319,018.40

Refunds of Contributions -

State Employees	\$ 815,736.00	
Teachers	608,248.51	
Teachers' Survivors	32,724.62	
Interest, Teachers' Survivors Contribution Refund	435.98	
To Municipalities a/c Teachers	6,913.48	
To Municipalities a/c Teachers' Survivors	<u>1,986.03</u>	1,466,044.62

Unclaimed Benefits 4,118.74

Miscellaneous Refunds 8,226.47

Investment Expenses -

Commissions on Purchases	\$ 77.50	
Postage & Insurance on Purchases	<u>30.30</u>	<u>107.80</u>

TOTAL EXPENDITURES

\$ 8,797,516.1

EXCESS OF REVENUE OVER EXPENDITURES

\$10,319,169.1

Statement of Cash Receipts and Disbursements - continued

Disbursements:

Investments Purchased	\$18,757,316.65	
Accrued Interest on Purchases	81,463.23	
Premiums on Purchases	45,365.25	
Commissions on Purchases	77.50	
Postage and Insurance on Purchases	30.30	\$18,884,252.93
<u>Pension Benefits - Death Benefits -</u>		
Death Retirement Allowances		
State Employees	\$ 2,671,401.34	
Teachers	4,601,858.10	
Teachers' Survivors	23,041.20	
Certain State Employees	20,457.80	
Certain Teachers	2,259.96	7,319,018.40
<u>Refunds of Contributions -</u>		
State Employees	\$ 815,736.00	
Teachers	608,248.51	
Teachers' Survivors	32,724.62	
Interest, Teachers' Survivors Contributions Refund	435.98	1,457,145.11
Municipalities a/c Teachers	\$ 6,913.48	
Municipalities a/c Teachers' Survivors	1,986.03	8,899.51
Inter-Fund Transfers		3,324.67
Unclaimed Benefits		4,118.74
Miscellaneous Refunds		8,226.47
TOTAL DISBURSEMENTS		<u>\$27,684,965</u>

CASH BALANCE JUNE 30, 1967

\$ 1,513,865

COMPARATIVE STATEMENT OF INVESTMENT
RECEIPTS AND DISBURSEMENTS
FISCAL YEARS ENDED JUNE 30, 1967 and 1966

	<u>1966-67</u>	<u>1965-66</u>
<u>RECEIPTS</u>		
Interest & Dividends	\$3,605,336.40	\$3,224,695.18
Discounts on Purchases	504,604.17	342,721.10
Gain on Sales	77,994.23	79,420.22
<u>Gross Receipts</u>	\$4,187,935.80	\$3,646,836.50
<u>DISBURSEMENTS</u>		
Accrued Interest on Purchases	\$ 81,463.23	\$ 139,292.01
Premiums on Purchases	45,365.25	23,316.25
Commissions on Purchases	77.50	2,406.25
Postage and Insurance on Purchases	30.30	114.22
<u>Total Disbursements</u>	\$ 126,936.28	\$ 165,128.73
<u>NET INVESTMENT RECEIPTS FOR THE YEAR</u>	<u>\$4,060,999.52</u>	<u>\$3,481,707.77</u>