

1972 LEGISLATION

DEATH BENEFIT. A \$2,000.00 minimum death benefit payable upon death after retirement has been provided regardless of the date of retirement.

MILITARY SERVICE. Pension credit for approved military leaves of absence is limited, in the aggregate, to 4 years.

ACTUARIAL VALUATION

An annual actuarial valuation of the system was completed as of June 30, 1972. The purpose of such a valuation is to establish the financial status of the system. By this valuation, the progress of the system is measured. Effect is given to the accrued and accruing liabilities for the prescribed benefits. The results of this valuation are presented in the latter part of this report.

In this process, an analysis was made of the changes in the active membership among the several participating municipalities. In this analysis, account was taken of the additions to membership during the year under review and the separations from service due to resignation, death or retirement. The experience of the system with respect to members on retirement was also studied. In his report, the actuary points up the several factors that are basic in such a valuation and discusses briefly other problems of pertinence in the operation of the system.

An actuarial survey of the operating experience affecting each participating municipality is under way as a means of checking the adequacy of their contribution rates and evaluating operations to date.

FINANCIAL REVIEW

Net present assets of the system at June 30, 1972 amounted to \$18,466,550. These net assets are credited to certain specific reserves as required to give effect to the relevant provisions of law. The reserves are subject to periodic checks and analyses to determine their sufficiency in meeting the accrued pension liabilities under the prescribed benefit schedule.

Revenues and expenditures for the year were as follows:

	<u>GENERAL EMPLOYEES</u>	<u>POLICEMEN &amp; FIREMEN</u>
<u>REVENUES</u>		
Members' Contributions	\$1,311,014	\$174,661
Employers' Contributions	2,416,577	270,915
Investment Earnings	650,040	59,482
Other	18,782	29,159
<u>Total Revenues</u>	<u>\$4,596,413</u>	<u>\$534,217</u>
<u>EXPENDITURES</u>		
Monthly Pensions	\$1,025,623	\$ 18,919
Survivor Benefits	--	13,520
Ordinary Death Benefits	73,750	1,500
Death Retirement Allowance	110,783	--
Refunds	219,218	14,332
Other	229,284	--
<u>Total Expenditures</u>	<u>\$1,658,658</u>	<u>\$ 48,271</u>
Net Additions to Reserves	<u>\$2,937,755</u>	<u>\$485,946</u>

DISTRIBUTION OF NET ADDITIONS TO RESERVES

Unclaimed Benefits	\$ 2,787	\$ --
Members' Contributions	267,184	163,743
Employers' Accumulations	233,525	50,193
Retirement Reserve	1,834,259	372,396
<u>Totals</u>	<u>\$2,937,755</u>	<u>\$485,946</u>

The additions to the reserves are to provide for the accruing pension credits resulting from additional service rendered by the employees.

Net revenues for the year were credited to the appropriate reserve accounts to meet future maturing obligations.

<u>Reserves at June 30, 1972</u>		\$ 5,785,041.82
Members' contributions		990,626.20
Employers' contributions		<u>11,690,882.15</u>
Retirement reserve		<u>\$18,466,550.17</u>
Total		
<u>Reserves at June 30, 1971</u>		\$ 4,754,115.12
Members' contributions		807,294.58
Employers' contributions		<u>9,484,226.86</u>
Retirement reserve		<u>\$15,045,636.56</u>
Total		
Increase in reserves for the year		<u>\$ 3,420,913.61</u>

INVESTMENTS

Investments at the close of the year amounted to \$18,222,590.00. Investments are carried at amortized book value for bonds which give effect to the income yield for the life of the bonds and at cost for stocks. The rate of investment income for the year on average investments was 5.55%. This is a satisfactory rate of return on high quality bonds and stocks such as those that comprise the investment account.

Investment income constitutes one of the three major sources of revenue for the retirement system. For the 1972 fiscal year, such income was equal to 17.7% of total revenues. This rate should increase with continued operations of the system.

Total Investments at July 1, 1971	\$14,966,653
Acquisitions during the year	<u>7,829,255</u>
Total	\$22,795,908
Less, redemptions and sales during the year	<u>4,573,318</u>
TOTAL INVESTMENTS AT JUNE 30, 1972	<u>\$18,222,590</u>

The following is a summary of total investments at June 30, 1972 with the amounts at the end of the preceding fiscal year given for comparison:

	<u>June 30, 1972</u>		<u>June 30, 1971</u>	
	<u>Par value for bonds and cost for stocks</u>	<u>Per cent of total</u>	<u>Par value for bonds and cost for stocks</u>	<u>Per cent of total</u>
U. S. Government	\$ 1,575,000	8.6%	\$ 1,675,000	11.2%
Commercial Paper	--	0.0	800,000	5.3
Federal Land Bank	465,000	2.5	465,000	3.1
FNMA Certificates	300,000	1.7	300,000	2.0
Railroad	250,000	1.4	250,000	1.7
Public Utility Bonds	6,716,000	36.9	5,466,000	36.5
Other Corporate Bonds	2,190,400	12.0	1,940,400	13.0
Bank Stocks	485,344	2.7	305,873	2.0
Other Common Stocks	6,240,846	34.2	3,764,380	25.2
Totals	<u>\$18,222,590</u>	<u>100.0%</u>	<u>\$14,966,653</u>	<u>100.0%</u>

In the foregoing exhibit bond investments are shown at par value. Equity investments are valued at their cost. At June 30, 1972, the market value of equity investments was 7-1/2% above their original cost.

CONCLUSION

The financial condition of the system is satisfactory and is improving steadily with continued operations. A measure of relative financial stability and security has been established.

The policies of the Board are geared to progressive standards directed towards the efficient operation of the system to meet its stated objectives to the satisfaction of the participating cities and towns and the contributing members.

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

RAYMOND H. HAWKSLEY, Chairman

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ALBERT B. WEST

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RALPH D. CUCULO

\_\_\_\_\_  
JOSEPH G. IANNELLI  
Executive Secretary

REPORT OF THE ACTUARY

The results of an actuarial valuation of the System as of June 30, 1972 are presented herewith. The benefit and contribution provisions forming the basis of this valuation are summarized in the appendix. The several assumptions of the actuarial factors applied in this valuation are:

1. Mortality expectancy: The 1951 Group Annuity Table (modified)
2. Interest rate: Compound interest at 5% per annum
3. Turnover factors: Assumed annual rates of withdrawal from all causes -

<u>Age</u>	<u>Rate per 1,000</u>
20	182
25	167
30	121
35	92
40	63
45	48
50	22
55	10
60 and over	Mortality only

4. Future salary increments: Assumed at an annual rate of 4%
5. Age at retirement: Average of 62 years
6. Disability rates: Class (1) rates of disablement from the Society of Actuaries 1952 Inter-company study were used. It was assumed that 12½% of all disablements would occur in line of duty
7. Marital status: 85% of employees in service were assumed to be married with the average of the wives 4 years younger than the employees; 75% of the employees retiring on pension are married
8. Administrative expense: No provision

MEMBERSHIP STATISTICS

<u>Code Reference</u>	<u>City or Town</u>	<u>Number of Active Members</u>	<u>Number of Pensioners</u>		<u>Total Membership</u>
			<u>Male</u>	<u>Female</u>	
1	Barrington	104	18	5	127
2	Bristol	102	11	3	116
3	Burrillville	65	--	--	65
7	Cranston	500	79	48	627
9	East Greenwich	73	2	3	78
10	East Providence	272	55	11	338
14	Hopkinton	12	5	--	17
15	Jamestown	41	4	1	46
16	Johnston	182	3	1	186
21	Newport	287	35	5	327
23	North Kingstown	155	16	6	177
24	North Providence	81	21	3	105
25	North Smithfield	60	7	2	69
26	Pawtucket	697	116	32	845
30	Scituate	66	10	1	77
31	Smithfield	109	5	--	114
32	South Kingstown	102	3	3	108
33	Tiverton	75	10	1	86
34	Warren	62	13	1	76
39	Woonsocket	273	56	9	338

Code Reference	City or Town	Number of Active Members	Number of Pensioners		Total Membership
			Male	Female	
<u>SPECIAL UNITS</u>					
50	East Greenwich Fire District	6	--	--	6
51	Cranston Housing Authority	14	--	--	14
52	East Providence Housing Authority	10	--	--	10
53	Pawtucket Housing Authority	33	6	--	39
54	East Greenwich Policemen	19	3	--	22
55	North Kingstown Policemen and Firemen	65	5	--	70
56	Cumberland Housing Authority	3	--	--	3
57	Lincoln Housing Authority	4	--	--	4
58	North Providence Policemen	29	2	--	31
59	Bristol Housing Authority	4	--	--	4
60	Barrington Policemen and Firemen	56	4	--	60
62	Warren Police	17	--	--	17
63	South Kingstown Policemen and Firemen	23	--	--	23
	Totals	3,601	489	135	4,225

The pension roll at the close of the year and a valuation thereof was as follows:

	Male	Female
Number on pension roll	489	135
Proportion of total	78.4%	21.6%
Annual payments	\$ 927,465.00	\$ 241,380.00
Average annual payment	\$ 1,896.00	\$ 1,787.00
Average age	66.9	66.0
Actuarial reserve requirements	\$8,517,414.00	\$2,362,076.00

The total actuarial reserve requirements on pensioners at June 30, 1972 amounted to \$10,879,490. This compares with the balance in the "Retirement Reserve" at that date of \$11,690,882.00. This is indicative of relative financial stability with respect to the retirement benefits in force according to the standards used in this valuation.

OBLIGATIONS OF MUNICIPALITIES

Under the retirement law, the cities and towns and the several special governmental units participating in the system have assumed the pension obligations on account of their employees who are members of the System as follows: (a) the accrued liability for service rendered by the members prior to the effective dates of participation designated as "prior service"; and (b) the accruing cost for future service commonly referred to as the

"normal cost". Thus, employees received a free pension credit for all service previous to membership.

Prior service. The liability for prior service in the case of each municipality was determined at the time of participation for the previous service rendered by their employees. A prior service contribution rate was fixed, as required by law, as a percentage of payroll, at a rate deemed sufficient to amortize the total accrued liability over a period of 25 years from the effective dates of participation of the particular municipality. The period of 25 years for amortization purposes was fixed in order that, on the average, the prior service or accrued liability would be amortized by the time all employees retired from service.

Current service. Normal cost was calculated upon the basis of total membership giving full effect to the age and service characteristics of the employees. This rate was determined as a percentage of payroll. The rate is to be applied by each municipality to the current payroll of the employees participating in the system in arriving at the amount of its contribution for such service, additional to the annual amortization payment on account of the accrued liability.

Net total accrued liability. The prior service and current service contribution rates are presented in the preceding pages of this report. The following statement shows, for the several participating municipalities and special units, the unfunded accrued liability as June 30, 1972. This liability in the case

of each participating entity represents the amounts owing to the system for prior service and for deficiencies in current service contributions. These deficiencies may also be due to the variances between the established contribution rates for such service reflecting actuarial assumptions and the actual operating experience of the municipality. A part thereof may have occurred as a result of a liberalization of the benefit schedule as, for example, an increase in the rate of pension credit from 1-2/3% to 2% per year of service.

Code	Municipality	Year of entry	Plan	Unfunded Accrued Liability
	<u>General Employees</u>			
		1957	2%	\$
1	Barrington	1957	2	198,096
2	Bristol	1968	1-2/3	112,331
3	Burrillville	1963	2	213,418
7	Cranston	1957	2	1,547,712
9	East Greenwich	1961	1-2/3	118,036
10	East Providence	1969	1-2/3	552,823
14	Hopkinton	1964	2	98,419
15	Jamestown	1968	2	121,436
16	Johnston	1966	1-2/3	331,556
21	Newport	1957	2	992,245
23	North Kingstown	1961	2	196,993
24	North Providence	1964	2	291,412
25	North Smithfield	1962	1-2/3	145,116
26	Pawtucket	1967	2	2,411,905
30	Scituate	1959	2	346,727
31	Smithfield	1957	2	65,366
32	South Kingstown	1964	1-2/3	39,727
33	Tiverton	1957	1-2/3	245,282
34	Warren	1962	1-2/3	172,071
39	Woonsocket	1962	1-2/3	1,078,774
	<u>Housing Authorities</u>			
51	Cranston Housing Authority	1968	2	43,332
52	East Providence Housing Authority	1968	2	38,781
53	Pawtucket Housing Authority	1968	1-2/3	210,071
56	Cumberland Housing Authority	1969	1-2/3	8,833
57	Lincoln Housing Authority	1969	1-2/3	9,311
59	Bristol Housing Authority	1970	2	8,017
	<u>Policemen &amp; Firemen</u>			
50	East Greenwich Fire District	1967	2	23,782
54	East Greenwich Policemen	1968	2	45,073
55	North Kingstown Policemen & Firemen	1968	2	175,787
58	North Providence Policemen	1968	2	68,381
60	Barrington Policemen & Firemen	1970	2	72,863
62	Warren Policemen	1970	2	27,532
63	South Kingstown Policemen & Firemen	1971	2	68,282
	Total			\$10,079,490

Note. The aforesaid liabilities are subject to continuous verification by a review of the operating experience of each participating unit covering the period dating from the date of entry into the retirement system.

RESERVE ACCOUNTS

The reserve accounts maintained by the system are designed to record the pension credits established, respectively, for active members and pensioners being financed by contributions by the members and by the participating cities and towns.

These reserves make it possible to evaluate more closely the progress of the system in the accumulation of assets to meet the accrued and accruing liabilities for the benefits that will ultimately become payable to members who qualify for retirement.

In the case of several cities and towns, a negative balance exists in the "Employers' Contribution Reserve". This has resulted principally from the retirement of aged employees shortly after the commencement of participation in the system in the case of the applicable city or town. Eventually, with additional revenues resulting from continued operations of the system, these negative balances will be removed.

CONCLUSION

The results reported herewith reflect satisfactory progress in the operation of the system. Management and administrative policies of the Retirement Board are in accord with sound and constructive methods of procedure with the principal aim of effectuating fully the objectives and purposes of the retirement system.

The policies of the Board in the investment of the system's assets are to maximize the total return on investments over the long run consistent with high standards of quality and prudent judgment within the established investment limitations. Its efforts also are continuously directed towards improvement in administrative procedures to the end that a full measure of service will be provided for the members and the participating municipalities in the operations of the system.

A. A. Weinberg  
Actuary

FINANCIAL STATEMENTS

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FINANCIAL BALANCE SHEET

JUNE 30, 1972

ASSETS

Cash  
Accounts Receivable  
Accrued Interest Receivable  
\$18,222,590.01

Investments  
Less Unamortized Premiums  
and Discounts (Net)  
189,948.07

Net Investments

Total Assets

\$ 201,821.49  
3,145.63  
236,002.41

18,032,641.94

\$18,473,611.47

RESERVES AND LIABILITIES

Unclaimed Benefits

General Employees -

Members' Contribution Reserve  
Employers' Accumulation Reserve  
Retirement Reserve  
\$ 5,163,373.49  
972,198.13  
10,991,906.59

Police & Fire Plan -

Members' Contribution Reserve  
Employers' Accumulation Reserve  
Retirement Reserve  
621,668.33  
18,428.07  
698,975.56

Total Reserves

Total Liabilities & Reserves

\$ 7,061.30

18,466,550.17

\$18,473,611.47

STATEMENT OF REVENUES AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 1972

REVENUES:

Contributions -

Members \$1,311,014.13  
Employers 2,416,577.04

Policemen & Firemen -

Members 174,661.22  
Employers 270,914.58 \$4,173,166.97

Investments -

Interest & Dividends \$ 912,332.64  
Capital Gain or Loss ( 2,810.73) 909,521.91

Miscellaneous -

Unclaimed Benefits \$ 2,212.50  
Miscellaneous Refunds 574.88  
Interest on Service Purchases 9,589.07  
Transferred from State 6,405.12 18,781.57

Total Revenues

\$5,101,470.45

EXPENDITURES:

Benefits -

General Employees -

Pensions \$1,025,622.88  
Ordinary Death Benefits 73,750.00  
Death Retirement Allowances 110,783.03

Policemen & Firemen -

Pensions 18,919.17  
Survivor Benefits 13,520.36  
Ordinary Death Benefits 1,500.00

\$1,244,095.44

Refunds of Contributions -

General Employees -

Members \$ 177,375.45  
Municipalities 41,842.64

Policemen & Firemen -

Members 13,929.56  
Employers 401.87

233,549.52

Investment Expense -

Postage & Insurance 8.35

Miscellaneous: -

Transferred to State 200,116.15

Excess of Revenues over Expenditures -

\$1,677,769.46

Transferred to Reserves

\$3,423,700.99

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
FISCAL YEAR ENDED JUNE 30, 1972

\$ 103,184.03

CASH BALANCE JULY 1, 1971

RECEIPTS:

Investments -		
Sold or Matured	\$4,573,318.83	
Investment Earnings	836,706.20	
Discounts on Investments Purchased	22,012.64	\$5,429,226.94
Gain or Loss on Sales ( 2,810.73)		

Contributions -

General Employees -		
Members	\$1,311,014.13	
Employers	2,416,577.04	
Policemen & Firemen -		
Members	174,661.22	4,173,166.97
Employers	270,914.58	

Miscellaneous -		
Misc. Refunds	\$ 574.88	
Unclaimed Benefits	2,212.50	
Interest on Service Purchases	9,589.07	
Trans. from State	6,405.12	18,781.57

Total Receipts

Total Cash Available

9,621,175.48  
\$9,724,359.51

DISBURSEMENTS:

Investments -		
Purchases	\$7,829,255.79	
Accrued Interest	7,221.64	
Premiums Paid	8,291.13	
Postage & Insurance	8.35	\$7,844,776.91

Benefits -

General Employees -		
Pensions	\$1,025,622.88	
Ordinary Death	73,750.00	
Death Retirement Allowances	110,783.03	1,210,155.91

Policemen & Firemen -

Pensions	\$ 18,919.17	
Survivor Benefits	13,520.36	
Ordinary Death	1,500.00	33,939.53

Refunds of Contributions -

General Employees	\$ 177,375.45	
Employers	41,842.64	
Policemen & Firemen	13,929.56	
Employers	401.87	233,549.52

Miscellaneous

Transferred to State		200,116.15
Total Disbursements		200,116.15

\$9,522,538.02

\$ 201,821.49

CASH BALANCE JUNE 30, 1972

STATEMENT OF INVESTMENT EARNINGS

FISCAL YEAR ENDED JUNE 30, 1972

Interest and Dividends \$839,851.83

Add:

Accrued Interest June 30, 1972 \$236,002.41

Accrued Interest July 1, 1971 194,029.04

Discounts Amortized \$ 41,973.37

Disc. from State 40,546.19

Total Addition

82,519.56

Total

\$922,371.39

Less:

Accrued Interest Purchased \$ 7,876.50

Premiums Amortized 2,162.25

Total Deductions

10,038.75

Investment Income for the Year

\$912,332.64

COMPARATIVE STATEMENT OF NET INVESTMENT INCOME  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
FISCAL YEARS ENDED JUNE 30, 1972 AND JUNE 30, 1971

	1971-1972	1970-1971
<u>Receipts:</u>		
Interest and Dividends	\$839,851.83	\$665,743.44
Discounts on Purchases	22,012.64	30,984.73
Capital Gain or Loss	(2,810.73)	
<u>Total Receipts</u>	<u>\$859,053.74</u>	<u>\$696,728.17</u>
<u>Disbursements:</u>		
Accrued Interest on Purchases	\$7,221.64	\$2,837.51
Premiums on Purchases	8,291.13	5,525.00
Postage and Insurance on Purchases	8.35	26.85
<u>Total Disbursements</u>	<u>\$15,521.12</u>	<u>\$8,389.36</u>
Excess of Cash Receipts over Disbursements for the Year	<u>\$843,532.62</u>	<u>\$688,338.81</u>

STATEMENT OF RESERVE ALLOCATIONS - FISCAL YEAR ENDED JUNE 30, 1972

	Members' Reserve		Employers' Reserve		Retirement Reserve	
	General Employees	Police & Fire	General Employees	Police & Fire	General Employees	Police & Fire
Reserve Balances - July 1, 1971	\$4,296,189.88	\$457,925.24	\$738,673.33	\$68,621.25	\$9,157,647.80	\$326,579.06
<u>Receipts:</u>						
From Members	1,311,014.13	174,661.22				
From Employers			2,416,577.04	270,914.58		
Transfers from:						
Members' Reserve					235,023.31	26,147.95
Employers' Reserve					1,876,020.95	319,205.89
Inter-Fund Transfers	1,013.56	29,882.31				
Trans. from State	6,114.49	290.63				
Interest on Purchases					9,589.07	
Investment Income					850,031.37	59,482.19
<u>Total Revenues</u>	<u>\$1,318,142.18</u>	<u>\$204,834.16</u>	<u>\$2,416,577.04</u>	<u>\$270,914.58</u>	<u>\$2,970,664.70</u>	<u>\$404,836.03</u>
<u>Total Available</u>	<u>\$5,614,332.06</u>	<u>\$662,759.40</u>	<u>\$3,155,250.37</u>	<u>\$12,128,312.50</u>	<u>\$339,535.83</u>	<u>\$731,415.09</u>
<u>Expenditures:</u>						
Pension Benefits					\$1,025,622.88	\$18,919.17
Survivor Benefits						13,520.36
Ordinary Death			73,750.00	1,500.00		
Death Retirement Allowances					110,783.03	
Refunds	177,375.45	13,929.56	41,642.64	401.87		
Transfers:						
To State	8,677.50		191,438.65			
To Retirement Reserves	235,023.31	26,147.95	1,876,020.95	319,205.89		
Inter-Fund	29,882.31	1,013.56				
<u>Total Expenditures</u>	<u>\$450,958.57</u>	<u>\$41,091.07</u>	<u>\$2,183,052.24</u>	<u>\$321,107.76</u>	<u>\$1,136,405.91</u>	<u>\$32,439.53</u>
Reserve Balances - June 30, 1972	\$5,163,373.49	\$621,668.33	\$922,198.13	\$18,428.07	\$10,991,906.59	\$698,975.56