

State of Rhode Island  
**Employees' Retirement System**

FISCAL YEAR ENDED JUNE 30, 2019



Dennis E. Hoyle, CPA, Auditor General

Office of the Auditor General

General Assembly

State of Rhode Island and Providence Plantations



# Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly

**Dennis E. Hoyle, CPA - Auditor General**

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January 8, 2020

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

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Senator Dominick J. Ruggerio

Senator Dennis L. Algieri

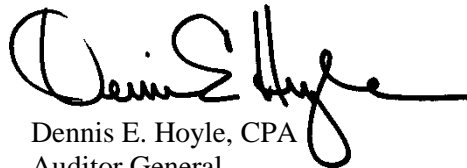
Representative K. Joseph Shekarchi

Representative Blake A. Filippi

We have completed our audit of the financial statements of the Employees' Retirement System of the State of Rhode Island for the fiscal year ended June 30, 2019 in accordance with Section 36-8-19 of the Rhode Island General Laws.

Our report is contained herein as outlined in the Table of Contents.

Sincerely,



Dennis E. Hoyle, CPA  
Auditor General

**EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND**

**FISCAL YEAR ENDED JUNE 30, 2019**

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# Office of the Auditor General

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## **INDEPENDENT AUDITOR'S REPORT**

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY  
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

RETIREMENT BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE  
STATE OF RHODE ISLAND:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the plans which comprise the Employees' Retirement System of the State of Rhode Island (the System) as of June 30, 2019 and for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Joint Committee on Legislative Services, General Assembly  
Retirement Board of the Employees' Retirement System

***Opinions***

In our opinion, the financial statements of the plans referred to above present fairly, in all material respects, the financial position of the plans within the System as of June 30, 2019, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

As described in Note 1, the financial statements of the System present only the pension trust funds of the State of Rhode Island and Providence Plantations (the State) and do not purport to, and do not present fairly the financial position of the State, as of June 30, 2019 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As described in Note 5, the fair values of certain investments (hedge funds, private equity, real estate, certain infrastructure, and the crisis protection class - trend following investments) representing 28% of assets within the pooled investment trust, have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or general partners.

As described in Note 8, the plan fiduciary net position for the RIJFT plan represents only 4.7% of the total pension liability of that plan at the June 30, 2019 measurement date. Employer contributions were significantly less than actuarially determined amounts. Additional employer contributions will be required to provide benefits to plan members.

Our opinions are not modified with respect to these matters.

**Other Matters**

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11 and other required supplementary information as listed in the table of contents and pages 53 through 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Joint Committee on Legislative Services, General Assembly  
Retirement Board of the Employees' Retirement System

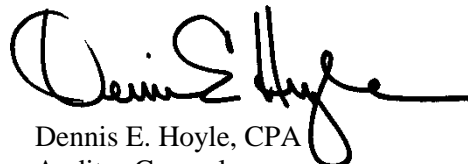
***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The supplementary information, such as the Schedules of Investment, Administrative, and Consultant Expenses, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedules of Investment, Administrative, and Consultant Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Investment, Administrative, and Consultant Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

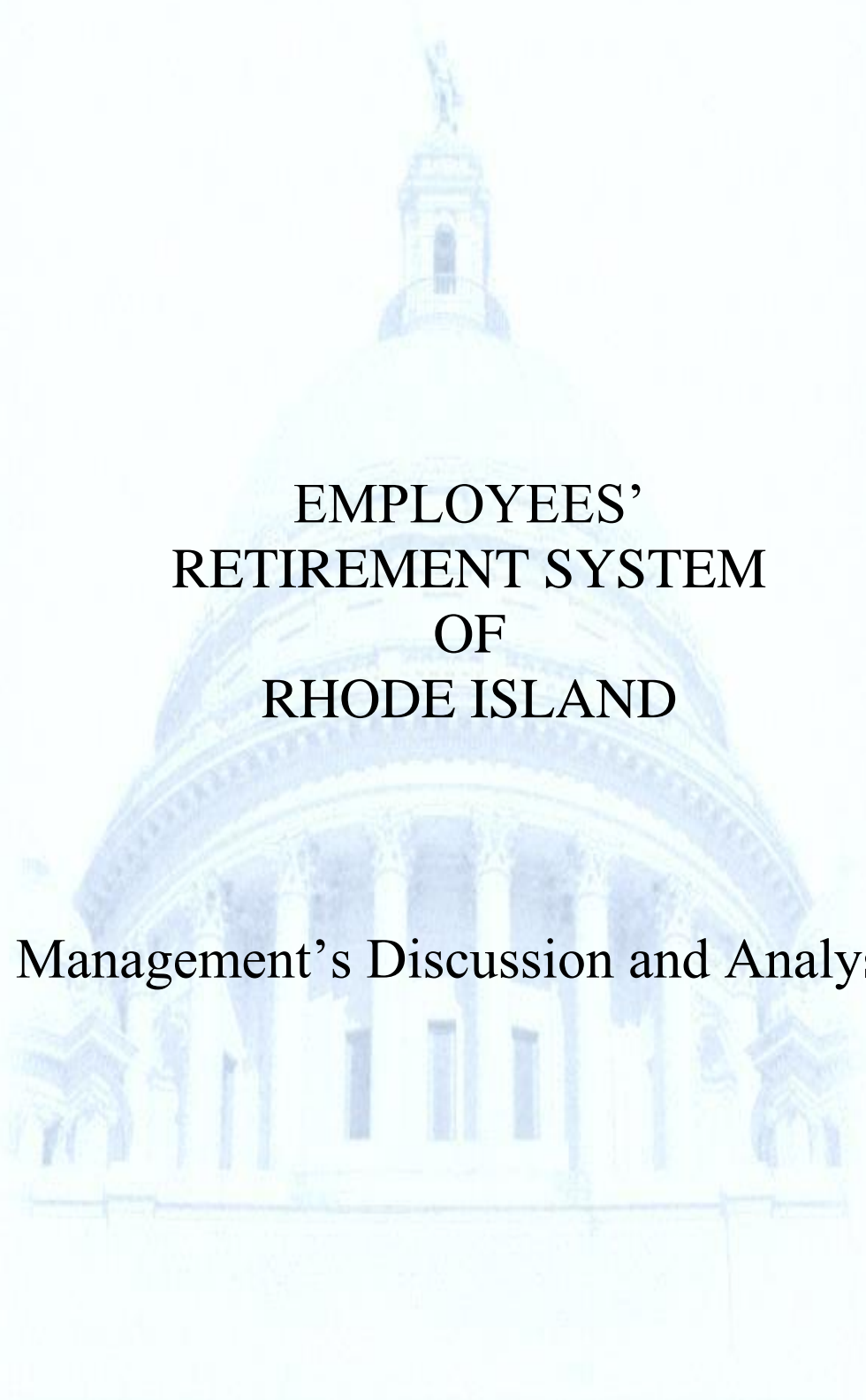
***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued a report dated December 31, 2019 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



Dennis E. Hoyle, CPA  
Auditor General

December 31, 2019



EMPLOYEES'  
RETIREMENT SYSTEM  
OF  
RHODE ISLAND

Management's Discussion and Analysis

## Management's Discussion and Analysis

Management of the Employees' Retirement System of the State of Rhode Island (the System) provides this Management's Discussion and Analysis of their financial performance for the readers of the System's financial statements. This narrative provides an overview of the System's financial activity for the fiscal year ended June 30, 2019. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the System's financial activities based on the status of the System and issues currently facing management.

### Understanding the Employees' Retirement System Financial Statements

The System administers seven defined benefit pension plans. State employees and teachers are combined into one cost-sharing plan while teachers' survivors benefits are provided from an additional cost-sharing plan. Two plans cover state police and two additional plans cover judges. Municipal employees are covered under a separate agent plan administered by the System. The System also administers a defined contribution plan for certain state employees, teachers, and employees of participating municipalities.

The *Statements of Fiduciary Net Position* provide a snapshot of the financial position of the System at June 30, 2019. The *Statements of Changes in Fiduciary Net Position* summarize the additions and deductions that occurred during the fiscal year.

The *Notes to the Financial Statements* provide additional information essential to a full understanding of the financial statements.

The *Required Supplementary Information* consists of schedules and related notes, which over time will be built to present 10 years of historical data. These schedules present each plan's net pension liability (asset) and changes in the net pension liability (asset) between years. A schedule of investment returns presents the annual money-weighted return for each defined benefit plan. A schedule of contributions is presented for each plan, which details required and actual contributions to the plan including covered payroll information.

### Financial Highlights for the Fiscal Year Ended June 30, 2019

- ❑ The System's fiduciary net position increased by \$344.2 million from \$9.2 billion at June 30, 2018 to \$9.6 billion at June 30, 2019.
- ❑ Total pension benefits paid to members from the defined benefit plans were \$963.2 million, an increase of \$10 million or 1.1% when compared to the fiscal year ended June 30, 2018.
- ❑ Contributions to all defined benefit plans from both employers and employees at June 30, 2019 were \$626 million, an increase of \$30.6 million or 5.1% compared to the fiscal year ended June 30, 2018.
- ❑ Total employee and employer contributions into the System's defined contribution plan were \$125.9 million at June 30, 2019, an increase of \$6.1 million.
- ❑ Total distributions paid to members from the defined contribution plan were \$19.6 million.
- ❑ The net income from investing activities within the defined benefit plans (Pooled Investment Trust) was \$531.9 million for the fiscal year ended June 30, 2019. Investment gains within the defined contribution plan totaled \$60.0 million.



## Management's Discussion and Analysis

Financial Analysis

The System provides retirement and disability benefits from the defined benefit plan to State employees, public school teachers, participating municipal general and public safety employees, state police officers and judges. The ability to provide these benefits are funded through member and employer contributions and investment income. The fiduciary net position is available to satisfy the financial obligations to members, retirees, and beneficiaries.

The total net position restricted for pensions at June 30, 2019 increased to \$9.6 billion when compared to \$9.2 billion at June 30, 2018.

The following tables illustrate the condensed Net Position and Condensed Changes in Net Position for ERSRI for the fiscal years ended June 30, 2019 and June 30, 2018.

<b>Assets, Liabilities and Fiduciary Net Position – All Plans (in millions)</b>		
	<b><u>June 30, 2019</u></b>	<b><u>June 30, 2018</u></b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 4.4	\$ 4.6
Investments	9,532.3	9,186.4
Contribution and other receivables	<u>60.2</u>	<u>59.9</u>
Total assets	<u>9,596.9</u>	<u>9,250.9</u>
<b>Liabilities:</b>		
Accounts payable	<u>7.0</u>	<u>5.2</u>
Total liabilities	<u>7.0</u>	<u>5.2</u>
<b>Fiduciary Net Position:</b>	<b><u>\$ 9,589.9</u></b>	<b><u>\$ 9,245.7</u></b>

Total assets increased by \$346.1 million, or 3.7%, for the fiscal year ending June 30, 2019 when compared to fiscal year ending June 30, 2018. Cash and cash equivalents at June 30, 2019 decreased \$145 thousand when compared to fiscal year ending June 30, 2018. The increase in the total fiduciary net position can primarily be attributed to investment earnings. The increase of \$344.2 million, or 3.7%, of investments can be attributed to an increase in the global markets and the allocation policy of the portfolio. Contributions and other receivables increased by an insignificant amount at June 30, 2019.

Total liabilities increased \$1.8 million, or 34.8%, for the fiscal year ending June 30, 2019 due to the timing of what was owed to vendors, mainly for investment managers fees.

## Management's Discussion and Analysis

<b>Summary of Changes in Fiduciary Net Position – All Plans (in millions)</b>		
	<b>Year Ended June 30, 2019</b>	<b>Year Ended June 30, 2018</b>
<b>Additions:</b>		
Contributions	\$ 752.0	\$ 715.4
Net investment gain	591.8	694.6
Service Credit Transfers	<u>8.5</u>	<u>17.6</u>
Total Additions	<u>1,352.3</u>	<u>1,427.6</u>
<b>Deductions:</b>		
Benefits and distributions	982.9	969.3
Refunds of contributions	6.8	6.4
Administrative expenses	9.9	9.8
Service Credit Transfers	<u>8.5</u>	<u>17.6</u>
Total Deductions	<u>1,008.1</u>	<u>1,003.1</u>
<b>Increase in Net Position:</b>	344.2	424.5
<b>Fiduciary Net Position:</b>		
Beginning of year	<u>9,245.7</u>	<u>8,821.2</u>
End of year	<u>\$ 9,589.9</u>	<u>\$ 9,245.7</u>

**Additions to Net Position**

The revenues required to fund retirement and disability benefits for the defined benefit plans are accumulated from the contributions from employees and employers, as well as investment earnings. Employee and employer contribution revenue at June 30, 2019 was \$523.2 million for the defined benefit plan, an increase of 5.5% when compared to \$496.2 million at June 30, 2018. Employee and employer contributions to the defined contribution plan was \$125.9 million at June 30, 2019, an increase of 5.1% when compared to \$119.8 million at June 30, 2018.

The State of Rhode Island's share of contributions for the teachers' defined benefit plan was \$102.2 million for fiscal 2019, an increase of 4.2% when compared to \$98.1 million for fiscal 2018.

Contributions from employees and employers (except for the RIJRFT and SPRFT) are based on covered payroll. During fiscal year 2019 the covered payroll for most plans (excluding plans covering judges) increased when compared to fiscal 2018. Also, contribution rates for the members are prescribed in Rhode Island General Law and fixed by statute. The employer contributions are actuarially determined through annual funding valuations and are adjusted accordingly to meet the financial obligations of each Trust.

ERSRI recognized \$591.8 million in net investment gains at June 30, 2019. Improvement in the financial markets are the primary factor for the increase in the Net Position. The investment portfolio for the defined benefit plan recognized a net return of 6.54% for the year ended June 30, 2019.

## Management's Discussion and Analysis

### Deductions from Net Position

ERSRI was established to administer the funds of each Trust in order to provide lifetime retirement, survivor, and disability benefits to its membership. The primary categories that reduce the net position are benefit payments and distributions, refunds of contributions to members exiting the System, and the administrative expenses to operate ERSRI.

Benefits and distributions to members from the defined benefit plan at June 30, 2019 were \$963.2 million, an insignificant difference of less than 1.1% when compared to benefits at June 30, 2018. There was a moderate cost-of-living increase to eligible employees, increase in the number of retirees, and the increase of higher average salaries of new retirees.

Distributions to members from the defined contribution plan at June 30, 2019 were \$19.6 million, an increase of 21.3% when compared to \$16.2 million at June 30, 2018. The increase is the result of the increased number of retirees eligible to elect distributions from this plan. The plan was created on July 1, 2012 for eligible members that did not have 20 years of service credit at June 30, 2012. Distributions are expected to increase as this plan matures and becomes a more significant portion of a member's retirement portfolio within ERSRI.

Refunds of contributions from the defined benefit plan at June 30, 2019 were \$6.8 million, an increase of 6.7% when compared to \$6.4 million at June 30, 2018. The increase in refunds is the result of an increase in the number and dollar value of refund requests from terminated members.

Administrative expenses for both the defined benefit and defined contribution plans at June 30, 2019 were \$9.9 million, an increase of 1.7% when compared to \$9.8 million at June 30, 2018. The increase in fiscal year 2019 is moderate in nature. Details of administrative expenses are listed in the *Schedule of Administrative Expenses* in the Supplementary Information section of this report.

### Investments

The State Investment Commission (SIC) establishes long-term asset allocation policy, selects managers, and monitors investment performance of the plan. An asset allocation study is conducted every two to four years to identify an optimal diversified investment portfolio that maximizes return within an acceptable level of risk. As long-term investors, the SIC has committed to the strategic asset allocation that has been developed as part of a comprehensive asset allocation study. The asset allocation study incorporates return expectations, risks and correlations associated with each asset class, as well as the unique profile and objectives of the System.

The SIC seeks to achieve the targeted investment return set by the Retirement Board, while minimizing risk and satisfying the plan's need for steady cash flows. As a mature defined benefit plan where distributions exceed contributions, the System must balance its short-term cash flow requirements with the much longer time horizon of its total obligations. Diversification across asset classes that respond differently to different market environments is a key tool used by the SIC to seek strong long-term returns. The allocation of assets among stocks, bonds, and alternative investments can have a significant impact on risk-adjusted investment performance.

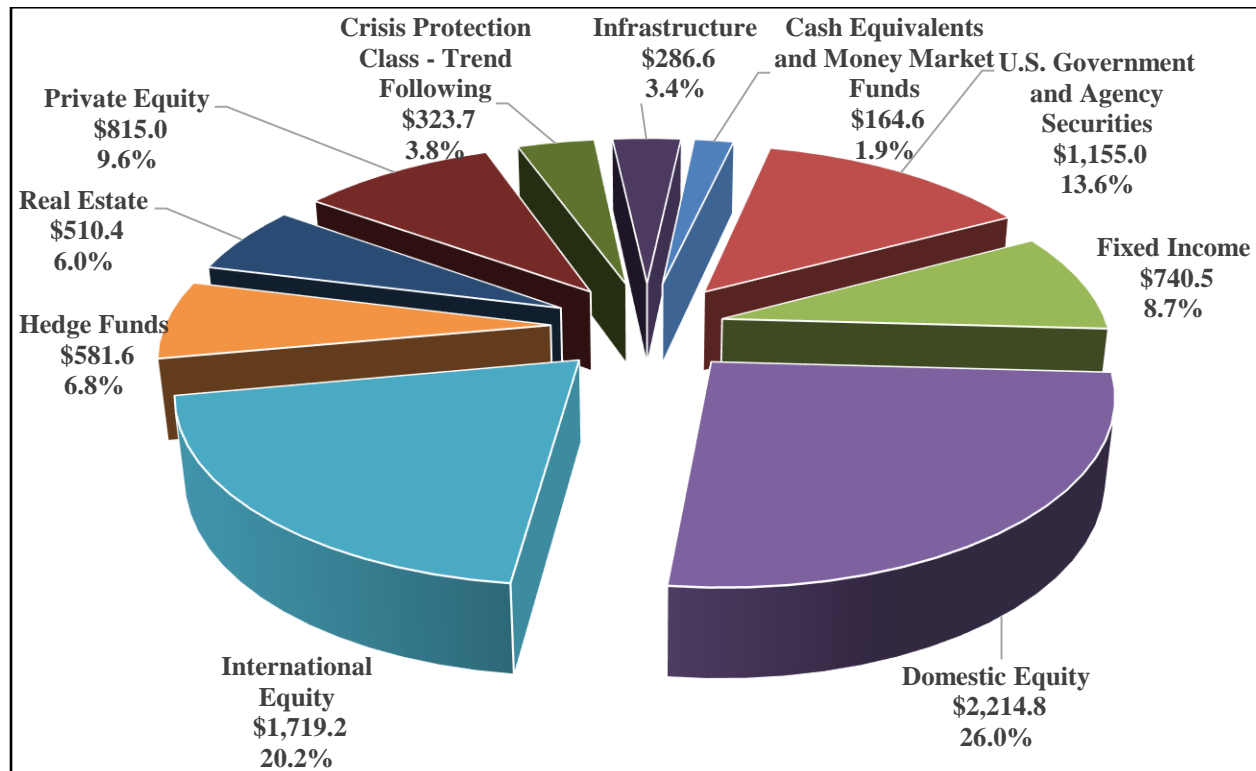
In June 2016, a new asset allocation study was carried out. Based on the study, significant changes were made to the current investment strategy. The study reframed the asset allocation, moving away from traditional classifications of asset classes and towards a more function-based asset allocation. The new "Back to Basics" strategy was designed to improve investment performance, protect the fund in the event of a crisis, and save taxpayers millions compared to the current strategy. The changes were designed by

**Management's Discussion and Analysis**

leading pension and investment experts in the United States. Among the highlights of the “Back to Basics” strategy is a significant reduction (approximately 50%) in the use of hedge funds. The study proposed a larger allocation to private assets (equity, credit, real estate and infrastructure) and for a dedicated allocation towards “income-based” strategies. In addition, strategic asset class definitions were refined, including for Private Assets, and the new increased allocation to Private Assets continued. During FY 2019, the new strategic allocation was further addressed with the fulfilment of the REIT allocation to generate additional income and provide additional diversification to the State’s real estate investment exposure.

Rhode Island maintains one of the most comprehensive expense disclosure policies in the nation. Since 2015, Rhode Island has only invested with fund managers who agree to have their performance and expenses published regularly, a policy that has become a leading practice replicated by other states. In 2017, The Rhode Island General Assembly codified the disclosure policy in statute. While some investment managers selected prior to 2015 are grandfathered from the individualized reporting requirement, the Treasurer’s office has requested that they voluntarily allow disclosure, which many have agreed to do. In addition to displaying the fees and expenses charged by each fund individually, this report includes a comprehensive total of all manager fees and expenses paid out of the pension system by asset class. These totals reflect fees and expenses paid to every fund, including those grandfathered funds that declined to allow individualized disclosure.

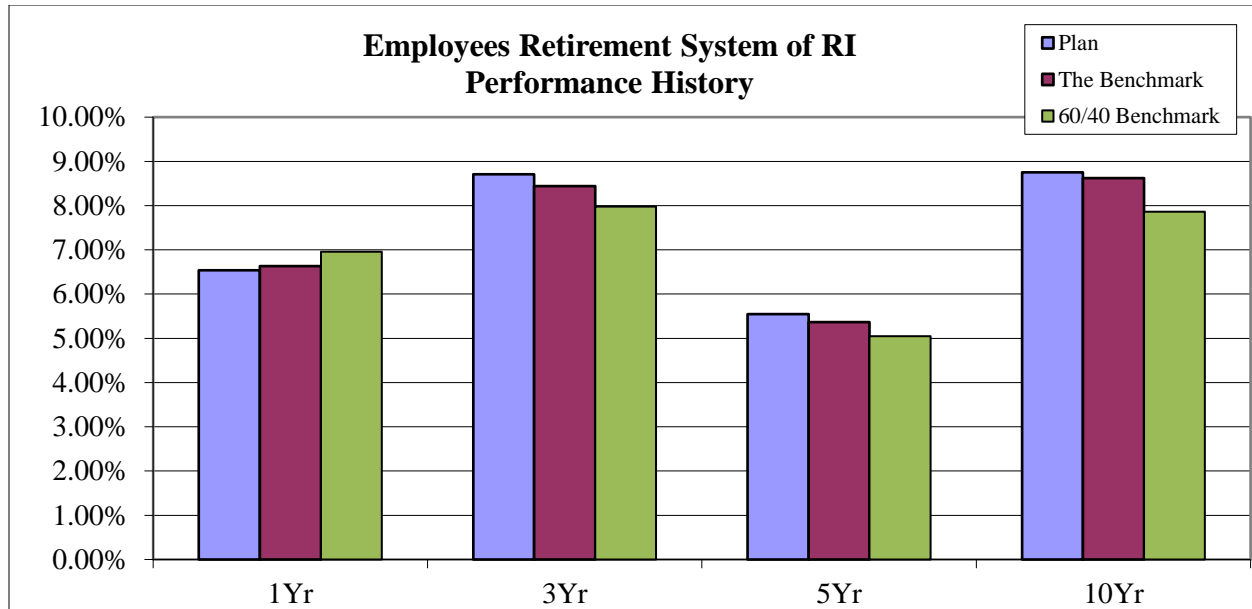
**Pooled Investment Trust – Asset Allocation - June 30, 2019**  
(in millions)



**Investment Performance**

The System’s one-year, time-weighted net rate of return was 6.54% which was below the composite benchmark (6.63%) and 60/40 benchmark’s (6.96%) return. The three-year average was 8.71%, which was 27 bps above the composite benchmark’s 8.44% return and 73 bps better than the 60/40 benchmark’s 7.98% return. The five-year average was 5.55%, which exceeded The Benchmark’s 5.37% return by 18 bps and was 50bps better than the 60/40 benchmark at 5.05%. The ten-year was 8.75%, which was 13 bps and 89bps above the Benchmark and the 60/40 benchmark, respectively.

Management's Discussion and Analysis



The composite benchmark (“The Benchmark”) is weighted based on asset allocation targets.

It is currently comprised: **40.0%** MSCI All Country World Net Index; **11.0%** ILPA All Funds Index 1Q Lag, **11.5%** Barclays Aggregate; **6.5%** HFRI Fund of Funds Composite Index; **3.0%** Bank of America Merrill Lynch 3-month US Treasury Bill; **4.0%** NFI-ODCE Index 1Q Lag; **1.0%** Barclays US Treasury Inflation Notes: 1-10 Year Index; **3.5%** custom loan and high yield index – 50.0% Bank of America Merrill Lynch US High Yield, 50.0% Credit Suisse Leveraged Loan Index; **2.5%** NFI-ODCE Index 1Q Lag + 2.5%; **1.5%** ILPA/Cambridge Distressed Securities Index; **3.0%** S&P LSTA Leveraged Loan Index + 3%; **4.0%** Credit Suisse Managed Futures (18% Vol) Liquid Index; **4.0%** Barclays Long Duration US Treasury Index; **2.0%** CPI 1 month lag + 4%; **1.0%** Bloomberg Barclays Commodity Total Return Index; and **1.5%** Alerian Master Limited Partnerships Total Return Index.

The Benchmark for each of the years shown in the chart reflects the asset allocation targets in place for that fiscal year and the related indices used to measure performance.

The 60% global equity/40% bonds benchmark (“60/40 Benchmark”) is 60% MSCI All-Country World and 40% Barclays Aggregate.

**Additional Investment Performance Reporting**

The investment performance discussed in the previous section is the time-weighted return, as reported by the System’s investment custodian for the Pooled Investment Trust as a whole. In accordance with implementation of GASB Statement No. 67, investment performance is also measured on a money-weighted return basis for each defined benefit retirement plan. The money-weighted returns for each defined benefit plan are disclosed in the notes to the financial statements and the required supplementary information section. The money-weighted return reflects each individual plan’s specific cash inflows and outflows, as well as the overall portfolio returns.

The System’s actuarial investment return assumption is 7.0% for all plans except the Judicial Retirement Fund Trust which uses a 4.0% investment return assumption. This return expectation is adopted by the Retirement Board on recommendation by the plan’s actuary. It is based on a thirty-year horizon. The actuarial value of assets is determined based on a five-year smoothing methodology.

Fiscal 2019 investment returns within the defined contribution plan (401a) ranged from +1.40% to +11.27% depending on investment options that plan members chose from the available options.

**Management's Discussion and Analysis**

**Net Pension Liability (Asset) of the Plans within the System**

Independent actuarial valuations of the System are conducted each year. Due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 67 – *Financial Reporting for Pension Plans*, the System presents the accounting measures of the net pension liability (asset) for each of the defined benefit plans. Calculation of the net pension liability (asset) of the plans is performed by the actuary in accordance with GASB requirements. The total pension liability and net pension liability are based on actuarial valuations performed as of June 30, 2018, rolled-forward to June 30, 2019 using generally accepted actuarial principles from the valuation date to the plan's fiscal year end.

This accounting measure of the net pension liability (asset) of each plan is different from the actuarial valuations performed for funding purposes and the determination of annual contributions to each of the defined benefit plans. One of the principal differences is that the accounting measure of the net pension liability at June 30, 2019 utilizes each plan's fiduciary net position, which reflects the fair value of investments at that date. For funding purposes, the actuarial valuation uses the actuarial value of assets, which reflects a five-year smoothed asset valuation.

The measurement of the net pension liabilities for all defined benefit plans, except for the RIJRFT, utilized the System's investment return assumption of 7.0%. The RIJRFT utilized Fidelity's 20-Year Municipal GO AA Bond Index rate of 3.13%. The calculation of the net pension liability (asset) was measured as of June 30, 2019.

The Teachers' Survivors Benefit plan was over-funded with a fiduciary net position equal to 150.2% of the plan's total pension liability at June 30, 2019. The fiduciary net position of the ERS plan covering state employees and teachers were equal to 52.8% and 54.6% respectively of the total pension liability measure for each of those employee groups. The fiduciary net position of the two plans covering State Police was equal to 83.1% (SPRBT) and 9.3% (SPRFT) of the total pension liability measure for each of those employee groups. The SPRFT plan was created July 1, 2016 for retired state police hired before July 1, 1987 with a one-time initial contribution of \$15 million from the State and the State's commitment to fund the benefits on an actuarially determined basis rather than the previous pay-as-you-go approach.

The fiduciary net position of the plans covering Judges was equal to 95.7% (JRBT) and 4.7% (RIJRFT) of the total pension liability measure for each of those employee groups. The RIJRFT plan covers a small group of judges and is funded by the State (employer) using a mostly pay-as-you-go funding approach.

The fiduciary net position of the agent MERS plans covering general employees and police and fire personnel was equal to 80.0% and 77.7% respectively of the total pension liability measure for those employee groups.

All employers participating in the System's plans contributed 100% of their annual actuarially determined contribution during fiscal 2019, except for the State not providing the full employer contribution for the Rhode Island Judicial Retirement Fund Trust.

**Future Contribution Rates**

The fiscal 2020 employer contribution rates are based upon the actuarial valuations performed for funding purposes at June 30, 2017. The employer contribution rates for fiscal 2020 are 26.39% for State employees, 24.61% for Teachers, 21.30% for Judges, and 18.48% for State Police. For the Rhode Island Judicial Retirement Fund Trust and Non-Contributing State Police Retirement Fund Trust, the actuarially determined employer contribution is \$1,322,171 and \$16,387,092, respectively, for fiscal 2020.

**Management's Discussion and Analysis**

**Contacting the System's Management**

This discussion and analysis presentation is designed to provide a general overview of the System's financial activity. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Employees' Retirement System, 50 Service Avenue, Warwick, RI, 02886.

**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**

**Statements of Fiduciary Net Position - June 30, 2019**

	Defined Benefit Plans							Defined Contribution Plan	Memorandum Total
	ERS	TSB	MERS	SPRBT	JRBT	RIJRFT	SPRFT		
<b>Assets</b>									
Cash and cash equivalents (Note 4)	\$ 2,811,542	\$ 506,289	\$ 555,539	\$ 103,896	\$ 56,330	\$ 305,686	\$ 71,920	\$ -	\$ 4,411,202
Receivables									
Contributions	28,424,929	1,421	4,821,974	2,933	746	-	-	-	33,252,003
Due from State for teachers	20,321,860	-	-	-	-	-	-	-	20,321,860
Other	1,000,321	1,000	245,088	-	-	33,251	-	-	1,279,660
Total receivables	49,747,110	2,421	5,067,062	2,933	746	33,251	-	-	54,853,523
Prepaid assets (Note 3)	3,068,264	137,557	641,876	47,620	24,206	86	7,745	-	3,927,354
Due from other plans	909,247	-	544,489	-	-	-	-	-	1,453,736
Investments at fair value									
Equity in pooled trust (Note 5)	6,310,284,446	338,938,977	1,620,077,932	147,327,063	77,568,670	627,716	16,526,824	-	8,511,351,628
Defined contribution plan investments (Note 6)	-	-	-	-	-	-	-	1,020,965,840	1,020,965,840
Total investments	6,310,284,446	338,938,977	1,620,077,932	147,327,063	77,568,670	627,716	16,526,824	1,020,965,840	9,532,317,468
<b>Total Assets</b>	<b>6,366,820,609</b>	<b>339,585,244</b>	<b>1,626,886,898</b>	<b>147,481,512</b>	<b>77,649,952</b>	<b>966,739</b>	<b>16,606,489</b>	<b>1,020,965,840</b>	<b>9,596,963,283</b>
<b>Liabilities</b>									
Accounts payable	4,435,520	168,012	837,386	76,140	37,335	346	8,150	-	5,562,889
Due to other plans	544,489	-	909,247	-	-	-	-	-	1,453,736
<b>Total Liabilities</b>	<b>4,980,009</b>	<b>168,012</b>	<b>1,746,633</b>	<b>76,140</b>	<b>37,335</b>	<b>346</b>	<b>8,150</b>	<b>-</b>	<b>7,016,625</b>
<b>Net position restricted for pensions</b>	<b>\$ 6,361,840,600</b>	<b>\$ 339,417,232</b>	<b>\$ 1,625,140,265</b>	<b>\$ 147,405,372</b>	<b>\$ 77,612,617</b>	<b>\$ 966,393</b>	<b>\$ 16,598,339</b>	<b>\$ 1,020,965,840</b>	<b>\$ 9,589,946,658</b>

The accompanying notes are an integral part of this financial statement.



## *EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND*

### *Statements of Changes in Fiduciary Net Position - Fiscal Year Ended June 30, 2019*

	Defined Benefit Plans							Defined Contribution Plan	Memorandum Total
	ERS	TSB	MERS	SPRBT	JRBT	RIJRFT	SPRFT		
<b>Additions</b>									
Contributions (Note 7)									
Member contributions	\$ 90,044,045	\$ 745,856	\$ 18,042,478	\$ 2,130,140	\$ 1,109,161	\$ 121,904	\$ -	\$ 96,801,137	\$ 208,994,721
Employer contributions	337,162,608	745,856	50,853,489	3,566,922	1,922,023	399,016	16,387,092	29,132,886	440,169,892
State contribution for teachers (Note 7c)	102,238,747	-	-	-	-	-	-	-	102,238,747
Supplemental employer contributions (Note 7d)	510,899	-	-	-	-	-	-	-	510,899
Service credit transfer payments	6,879,644	-	1,619,044	-	-	-	-	-	8,498,688
Interest on service credits purchased	50,057	-	814	1,088	-	-	-	-	51,959
Total contributions	536,886,000	1,491,712	70,515,825	5,698,150	3,031,184	520,920	16,387,092	125,934,023	760,464,906
Investment Income									
Net appreciation in fair value of investments	361,665,561	19,400,407	92,690,239	8,421,807	4,432,395	35,868	739,172	58,172,016	545,557,464
Interest	50,977,646	2,718,342	12,954,088	1,162,159	611,163	4,946	70,347	-	68,498,691
Dividends	44,742,359	2,388,801	11,389,850	1,026,904	540,141	4,371	55,095	1,816,040	61,963,561
	457,385,566	24,507,550	117,034,177	10,610,870	5,583,699	45,185	864,614	59,988,056	676,019,716
Less investment expense (Note 3)	(62,500,910)	(3,352,479)	(16,004,765)	(1,450,961)	(763,784)	(6,180)	(95,641)	-	(84,174,719)
Net investment income	394,884,656	21,155,071	101,029,412	9,159,909	4,819,915	39,005	768,973	59,988,056	591,844,997
Miscellaneous revenue	17,417	-	1,213	166	-	-	75	9,689	28,560
<b>Total Additions</b>	931,788,073	22,646,783	171,546,450	14,858,225	7,851,099	559,925	17,156,140	185,931,768	1,352,338,463
<b>Deductions</b>									
Retirement benefits	821,402,171	10,236,365	101,357,689	6,005,175	3,608,844	399,016	16,799,403	-	959,808,663
Death benefits	2,672,900	-	761,200	-	-	-	-	-	3,434,100
Distributions	-	-	-	-	-	-	-	19,633,067	19,633,067
Refund of contributions	5,123,636	454,152	1,180,639	42,043	-	-	-	-	6,800,470
Service credit transfer payments	6,514,886	-	1,983,801	-	-	-	-	-	8,498,687
Administrative expense (Note 9)	6,427,974	332,273	1,579,595	139,604	73,532	762	16,727	1,342,728	9,913,195
<b>Total Deductions</b>	842,141,567	11,022,790	106,862,924	6,186,822	3,682,376	399,778	16,816,130	20,975,795	1,008,088,182
<b>Net Increase</b>	89,646,506	11,623,993	64,683,526	8,671,403	4,168,723	160,147	340,010	164,955,973	344,250,281
<b>Net position restricted for pensions</b>									
<b>Beginning of year</b>	6,272,194,094	327,793,239	1,560,456,739	138,733,969	73,443,894	806,246	16,258,329	856,009,867	9,245,696,377
<b>End of year</b>	\$ 6,361,840,600	\$ 339,417,232	\$ 1,625,140,265	\$ 147,405,372	\$ 77,612,617	\$ 966,393	\$ 16,598,339	\$ 1,020,965,840	\$ 9,589,946,658

The accompanying notes are an integral part of this financial statement.

*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*

*Notes to the Financial Statements - Fiscal Year Ended June 30, 2019*

## **1. System Description and Governance**

The Employees' Retirement System of the State of Rhode Island (the System) acts as a common investment and administrative agent for pension benefits to be provided through seven defined benefit retirement plans and one defined contribution plan as listed below:

<i>Plan Name</i>	<i>Type of Plan</i>
<b>Employees' Retirement System (ERS)</b>	Cost-sharing multiple-employer defined benefit plan
<b>Teachers' Survivors Benefits (TSB)</b>	Cost-sharing multiple-employer defined benefit plan
<b>Municipal Employees' Retirement System (MERS)</b>	Agent multiple-employer defined benefit plan
<b>State Police Retirement Benefits Trust (SPRBT)</b>	Single-employer defined benefit plan
<b>Judicial Retirement Benefits Trust (JRBT)</b>	Single-employer defined benefit plan
<b>RI Judicial Retirement Fund Trust (RIJRFT)</b>	Single-employer defined benefit plan
<b>RI State Police Retirement Fund Trust (SPRFT)</b>	Single-employer defined benefit plan
<b>Rhode Island Defined Contribution Plan</b>	Defined contribution plan

Each plan's assets are accounted for separately and may be used only for the payment of benefits to the members of that plan, in accordance with the terms of that plan.

The System's financial statements are included as Pension Trust Funds within the Fiduciary Funds in the Comprehensive Annual Financial Report of the State of Rhode Island and Providence Plantations. The accompanying financial statements are not intended to present the financial position and results of operations of the State.

The System is administered by the State of Rhode Island Retirement Board which was authorized, created and established in the Office of the General Treasurer as an independent retirement board to hold and administer, in trust, the funds of the retirement system. The fifteen members of the retirement board are: the general treasurer or his or her designee who shall be a subordinate within the general treasurer's office; the director of administration or his or her designee who shall be a subordinate within the department of administration; a representative of the budget office or his or her designee from within the budget office, who shall be appointed by the director of administration; the president of the league of cities and towns or his or her designee; two (2) active state employee members of the retirement system or officials from state employee unions to be elected by active state employees; two (2) active teacher members of the retirement system or officials from a teachers union to be elected by active teachers; one active municipal employee member of the retirement system or an official from a municipal employees union to be elected by active municipal employees; two (2) retired members of the retirement system to be elected by retired members of the system; and four (4) public members, all of whom shall be competent by training or experience in the field of finance, accounting or pensions; two (2) of the public members shall be appointed by the governor, one of whom shall serve an initial term of three (3) years and one of whom shall serve an initial term of four (4) years and until his or her successor is appointed and qualified; and two (2) of the public members shall be appointed by the general treasurer, one of whom shall serve an initial term of three (3) years and one of whom shall serve an initial term of four (4) years and until his or her successor is appointed and qualified. Thereafter, the term of these four (4) public members shall be for four (4) years or until their successors are appointed and qualified by the Senate.

The System's purpose is to provide retirement benefits to state employees, public school teachers, certain general and public safety municipal employees, state police officers, and judges.

*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*

*Notes to the Financial Statements - Fiscal Year Ended June 30, 2019*

**1. System Description and Governance (continued)**

A summary of membership by plan follows:

	<i>Retirees and beneficiaries</i>	<i>Terminated plan members entitled to but not yet receiving benefits</i>	<i>Active Vested</i>	<i>Active Non-vested</i>	<i>Total by Plan</i>
<b>Actuarial valuation as of June 30, 2018</b>					
<b>ERS</b>					
State Employees	11,260	3,481	8,104	2,874	25,719
Teachers	11,320	3,643	11,007	2,290	28,260
<b>TSB</b>	567	3,354	7,151	-	11,072
<b>MERS</b>					
General Employees	4,732	2,920	4,061	1,885	13,598
Public Safety	824	212	1,198	354	2,588
SPRBT	73	46	49	177	345
JRBT	23	1	15	38	77
RIJRFT	2	-	5	-	7
SPRFT	266	-	-	-	266
<b>Total by type</b>	29,067	13,657	31,590	7,618	81,932

The defined contribution plan at June 30, 2019 included 160 employers and 37,219 plan participants.

**2. Plan Membership and Benefit Provisions**

Membership and benefit provisions are outlined in the Rhode Island General Laws and are subject to modification by the General Assembly. Modifications to pension benefit and eligibility provisions have been made in recent years as well as the comprehensive pension reform provisions contained in the Rhode Island Retirement Security Act enacted on November 18, 2011 and effective July 1, 2012. Legal challenges to those pension reforms were settled with the final settlement approved by the Court on July 8, 2015. The General Assembly amended the various sections of the General Laws containing those benefit provisions consistent with the terms of the settlement agreement. Those provisions are generally effective beginning July 1, 2015. The benefit provisions for each of the plans as outlined below were those in effect for fiscal 2015. Reference is made in each section to a summary of benefit and contribution provisions that will be in effect for future years.

Accordingly, specific member retirement benefit and eligibility provisions vary depending upon several factors including years of service, age, and vesting provisions.

The ERS was established and placed under the management of the Retirement Board for the purpose of providing retirement allowances for employees of the State of Rhode Island under the provisions of chapters 8 to 10, inclusive, of Title 36, and public school teachers under the provisions of chapters 15 to 17, inclusive, of Title 16 of the Rhode Island General Laws.

*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*

*Notes to the Financial Statements - Fiscal Year Ended June 30, 2019*

**2. Plan Membership and Benefit Provisions (continued)**

**EMPLOYEES' RETIREMENT SYSTEM (ERS)**

**Plan members** - The plan covers most State employees other than certain personnel at the State colleges and university (principally faculty and administrative personnel). The plan also covers teachers, including superintendents, principals, school nurses, and certain other school officials in the public schools in the cities and towns. Membership in the plan is mandatory for all covered state employees and teachers. Elected officials may become members on an optional basis and legislators may participate if elected to office prior to January 1, 1995.

Certain employees of the Rhode Island Airport Corporation (hired before July 1, 1993), the Rhode Island Commerce Corporation (active contributing members and employees of the Department of Economic Development before October 31, 1995 who elected to continue membership) and, the Narragansett Bay Water Quality District Commission (members of a collective bargaining unit) are also covered and have the same benefits as State employees.

**Plan vesting provisions** – after five years of service.

**Retirement eligibility and plan benefits** – are summarized in the following table:

Schedule		Retirement Eligibility	Benefit accrual rates	Maximum benefit
(A)	Completed 10 years of service on or before July 1, 2005 and eligible to retire as of September 30, 2009	Age 60 with 10 years of service or after 28 years of service at any age	Effective until June 30, 2012: 1.7% for each of first ten years 1.9% for each of next ten years 3.0% for each of next fourteen years 2% for the 35 <sup>th</sup> year  Effective July 1, 2012: 1.0% per year through June 30, 2015.  Effective July 1, 2015, for members with 20 years of service as of July 1, 2012: 2% per year	80% of final average earnings (3 consecutive highest years)
(AB)	Completed 10 years of service on or before July 1, 2005 but ineligible to retire as of September 30, 2009	Minimum retirement age of 62 and ten years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Effective until June 30, 2012: Same accrual rates as (A) above to September 30, 2009 and then Schedule B rates (below) thereafter  Effective July 1, 2012: 1.0% per year through June 30, 2015.  Effective July 1, 2015, for members with 20 years of service as of July 1, 2012: 2% per year	80% of final average earnings (5 consecutive highest years)
(B)	Less than 10 years of service before July 1, 2005 and eligible to retire as of September 30, 2009	Age 65 with 10 years of service or after 29 years of service and age 59	Effective until June 30, 2012: 1.6% for each of first ten years 1.8% for each of next ten years 2.0% for each of next five years 2.25% for each of next five years 2.5% for each of next seven years 2.25% for the 38 <sup>th</sup> year  Effective July 1, 2012: 1.0% per year	75% of final average earnings (5 consecutive highest years)

*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*

*Notes to the Financial Statements - Fiscal Year Ended June 30, 2019*

**2. Plan Membership and Benefit Provisions (continued)**

(B1)	Less than 10 years of service before July 1, 2005 and ineligible to retire as of September 30, 2009	Age 65 with ten years of service, or age 62 with at least 29 years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Same as Schedule B	75% of final average earnings (5 consecutive highest years)
(B2)	Less than 5 years of service as of July 1, 2012	Social Security Retirement Age and 5 years of contributory service	1.6% for each of first ten years Effective July 1, 2012: 1.0% per year	75% of final average earnings (5 consecutive highest years)

Effective July 1, 2015 general employees with more than 20 years of service at July 1, 2012 increased their employee contribution rates to 11% and will participate solely in the defined benefit plan. Members will receive a benefit accrual of 2% per year based on the three or five-year average compensation.

Effective July 1, 2015 employees are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, 63 with 32 years of service, or 62 with 33 years of service. Members may retire earlier if their RIRSA date is earlier or are eligible under a transition rule.

State correctional officers may retire at age 50 with 20 years of service. However, if not eligible to retire as of September 30, 2009, the minimum retirement age was modified to 55 with 25 years of service credit for correctional officers and registered nurses at the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals.

The plan provides for survivor's benefits for service-connected death and certain lump sum death benefits.

Joint and survivor options are available to members. For members with 10 years of service as of July 1, 2005, the Service Retirement Allowance (SRA) Plus option provides for the payment of a larger benefit before the attainment of age sixty-two (62) and a reduced amount thereafter. The reduced amount is equal to the benefit before age sixty-two (62), including cost-of-living increases, minus the member's estimated social security benefit payable at age sixty-two (62).

Vested members that have 10 or more years of contributing service credit on June 30, 2012, may choose to retire at a retirement eligibility date that was calculated as of September 30, 2009, if the member continues to work and make retirement contributions until that date. If the member chooses this option, their retirement benefits will be calculated using the benefit that they have accrued as of June 30, 2012 - members will accumulate no additional defined benefits after this date, but the benefit will be paid without any actuarial reduction.

State employees and public school teachers may retire with a reduced pension benefit if they have 20 years of service credit and they are within five years of their retirement date as prescribed in the Rhode Island Retirement Security Act (RIRSA). The actuarially reduced benefit will be calculated based on how close the member is to their RIRSA eligibility date.

## 2. Plan Membership and Benefit Provisions (continued)

**Cost of Living Adjustments** – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return – 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first \$26,688 (indexed as of January 1, 2019) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of \$26,688 is replaced with \$32,025 (indexed as of January 1, 2019) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds eighty percent (80%). At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$26,688).

**Disability retirement provisions** - the plan also provides nonservice-connected disability benefits after five years of service and service-connected disability pensions with no minimum service requirement. Effective for applications filed after September 30, 2009, accidental disability will be available at 66 2/3% for members who are permanently and totally disabled as determined by the Retirement Board. If the disability is determined to be partial and the member is able to work in other jobs, the benefit will be limited to 50%. Disability benefits are subject to annual review by the Retirement Board.

**Other plan provisions** - Service credit purchases, excluding contribution refund paybacks and military service, requested after June 16, 2009 are calculated at full actuarial cost.

### **TEACHERS' SURVIVORS BENEFITS (TSB)**

**Plan members** – the TSB covers all teachers in 24 school districts who do not participate in Social Security.

**Plan vesting provisions** – Survivors are eligible for benefits if the member has made contributions for at least six months prior to death or retirement.

**Eligibility and plan benefits** - the plan provides a survivor benefit to public school teachers in lieu of Social Security since not all school districts participate in the plan. The cost of the benefits provided by the plan are two percent (2%) of the member's annual salary up to but not exceeding an annual salary of \$11,500; one-half (1/2) of the cost is contributed by the member by deductions from his or her salary, and the other half (1/2) is contributed and paid by the respective school district by which the member is employed. These contributions are in addition to the contributions required for regular pension benefits.

*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*

*Notes to the Financial Statements - Fiscal Year Ended June 30, 2019*

**2. Plan Membership and Benefit Provisions (continued)**

Spouse, parents, family and children's benefits are payable following the death of a member. A spouse shall be entitled to benefits upon attaining the age of sixty (60) years. Children's benefits are payable to the child, including a stepchild or adopted child of a deceased member if the child is unmarried and under the age of eighteen (18) years or twenty-three (23) years and a full-time student, and was dependent upon the member at the time of the member's death. Family benefits are provided if at the time of the member's death the surviving spouse has in his or her care a child of the deceased member entitled to child benefits. Parents' benefits are payable to the parent or parents of a deceased member if the member did not leave a widow, widower, or child who could ever qualify for monthly benefits on the member's wages and the parent has reached the age of 60 years, has not remarried, and received support from the member. In January, a yearly cost-of-living adjustment for spouse's benefits is paid and based on the annual social security adjustment.

The TSB plan provides benefits based on the highest salary at the time of retirement of the teacher (or at death if the plan member had contributed for at least six months). Benefits are payable in accordance with the following table:

<u>Highest Annual Salary</u>	<u>Basic Monthly Spouse's or Domestic Partner's Benefit</u>
\$17,000 or less	\$ 825
\$17,001 to \$25,000	\$ 963
\$25,001 to \$33,000	\$ 1,100
\$33,001 to \$40,000	\$ 1,238
\$40,001 and over	\$ 1,375

Benefits payable to children and families are equal to the spousal benefit multiplied by the percentage below:

Parent and 1 Child	Parent and 2 or more Children	One Child Alone	Two Children Alone	Three or more Children Alone	Dependent Parent
150%	175%	75%	150%	175%	100%

**Cost of Living Adjustments** – current eligible members' beneficiaries of the TSB receive the same COLA granted to members of Social Security. There was a 2.8% increase as of January 1, 2019.

**MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM (MERS)**

The MERS was established under the Rhode Island General Laws and placed under the management of the Retirement Board to provide retirement allowances to employees of municipalities, housing authorities, water and sewer districts, and municipal police and fire persons that have elected to participate.

**Plan members** – A summary of participating employers is listed below:

Municipalities, housing authorities, water and sewer districts	68
Municipal police and fire departments	<u>48</u>
Total participating units as of the actuarial valuation at June 30, 2018	<u>116</u>

**Plan vesting provisions** – after five years of service.

## 2. Plan Membership and Benefit Provisions (continued)

**Retirement eligibility and plan benefits** – For general employees prior to June 30, 2012 the plan provided retirement benefits equal to 2% of a member's final average salary multiplied by the number of years of total service up to a maximum of 75%. Such benefits are available to members at least age 58 with 10 years of service or after 30 years of service at any age. Benefits accrued at June 30, 2012 are protected under the Rhode Island Retirement Security Act until it is exceeded by the member's full years of service credit, including service after June 30, 2012, multiplied by the average of five consecutive years of compensation. Effective July 1, 2012 the retirement age mirrors the Social Security Normal Retirement Age not to exceed age 67. Members will receive a benefit accrual of 1.0% per year based on the five-year average compensation.

Effective July 1, 2015 general employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 8.25% (9.25% for units with a cost of living adjustment provision) and will participate solely in the defined benefit plan. Members will receive a benefit accrual of 2% per year based on the three or five-year average compensation.

Effective July 1, 2015 general employees are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, 63 with 32 years of service, or 62 with 33 years of service. Members may retire earlier if their RIRSA date is earlier or are eligible under a transition rule.

Joint and survivor options are available. For members with 10 years of service as of July 1, 2005, the Service Retirement Allowance (SRA) Plus option provides for the payment of a larger benefit before the attainment of age sixty-two (62) and a reduced amount thereafter. The reduced amount is equal to the benefit before age sixty-two (62), including cost-of-living increases, minus the member's estimated social security benefit payable at age sixty-two (62).

Prior to June 30, 2012, police and fire personnel may retire at age 55 if they have 10 years of service or after 25 years of service at any age. An option may be elected to provide a 20-year service pension with a benefit equal to 2.5% for each year of service up to a maximum of 75% for police and fire personnel. Benefits are based on the average of the highest three consecutive years' earnings, exclusive of overtime.

From June 30, 2012 to June 30, 2015, retirement age for police and fire personnel is 55 years old with 25 years of total service or for members with five years of service but less than 25 years of service the new retirement age will mirror the Social Security Normal Retirement Age not to exceed 67. Police officers or firefighters, that are at least 45 years old, have 10 or more years of contributing service and are eligible to retire prior to age 52 under the law in effect on June 30, 2012, may retire at age 52. Effective July 1, 2015, police and fire personnel may retire at age 50 with 25 years of service, or any age with 27 years of service. MERS police and fire personnel will contribute 9.00% (10.00% for units with a cost of living adjustment).

As of June 30, 2012, members will continue to have a frozen benefit accrual of 2.0% per year for a standard 25 year with any age and out plan; 2.5% for a standard 20 year with any age and out plan. Effective July 1, 2012 the optional 20 and 25 year with retirement at any age plans have been eliminated. The benefit accrual for all plans will be 2.0% per year based on the five-year average compensation, exclusive of overtime. Police and fire employees may retire with a reduced pension benefit if they have 20 years of service and are within five years of their retirement eligibility. The actuarially reduced benefit will be calculated based on how close the member is to the eligibility date that is prescribed in the Rhode Island Retirement Security Act.

The plan also provides survivor's benefits; and certain lump sum death benefits.



## 2. Plan Membership and Benefit Provisions (continued)

**Cost of Living Adjustments** – An optional cost-of-living provision may be elected for police and fire personnel and general employees. The Cost of Living Adjustment (COLA) has been suspended for any unit whose funding level is less than 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the funding level of a plan exceeds 80% funded eligible retirees may receive a COLA annually effective on the date of their retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return – 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For police and fire employees that retired under the provisions of § 45-21.2-5(b)(1)(A), the benefit adjustment provided shall commence on the later of the third anniversary of the date of retirement or the date on which the retiree reaches age fifty-five (55); or for police and fire employees retiring under the provisions of §45-21.2-5(b)(1)(B), the benefit adjustment shall commence on the later of the third anniversary of the date of retirement or the date on which the retiree reaches age fifty (50). For all present and former employees, active and retired members, and beneficiaries receiving any retirement, disability or death allowance or benefit of any kind, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first \$26,688 (indexed as of January 1, 2019) of retirement allowance, multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015, the indexed amount of \$26,688 is replaced with \$32,025 (indexed as of January 1, 2019) until the municipal plan's funded ratio, calculated by the system's actuary, exceeds eighty percent (80%). At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$26,688).

The actual COLA paid to retirees effective January 1, 2019 within MERS units that had achieved an 80% funding status was 1.86%. Retirees within 50 MERS units received the COLA.

**Disability retirement provisions** - The plan also provides nonservice-connected disability benefits after 5 years of service; service-connected disability pensions with no minimum service requirement.

### STATE POLICE RETIREMENT BENEFITS TRUST (SPRBT)

The State Police Retirement Benefits Trust was established under Rhode Island General Law Section 42-28-22.1 and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to State Police.

**Plan members** – the plan covers all State Police and Superintendents hired after July 1, 1987.

**Retirement eligibility and plan benefits** – Prior to June 30, 2012 the plan generally provides retirement benefits equal to 50% of final salary after 20 years of service, plus 3.0% of final salary times service in excess of 20 years through 25 years to a maximum of 65% of final salary. Such benefits are available to members after 20 years of service regardless of age. The Superintendent of the State Police will receive 50% of his/her final salary and may retire after attainment of age 60 and 10 years of service.

## 2. Plan Membership and Benefit Provisions (continued)

The General Laws were amended such that any member of the state police, other than the superintendent, who is hired on or after July 1, 2007 and who has served for twenty-five (25) years shall be entitled to a retirement allowance of 50% of the final salary. In addition, any member may serve up to a maximum of 30 years and shall be allowed an additional amount equal to 3.0% for each completed year served after 25 years to a maximum retirement allowance not to exceed 65% of the final salary.

Benefits are based on the final base salary earned at retirement including longevity increment, holiday pay, clothing allowance and up to 400 overtime hours.

Effective July 1, 2012 state police officers are eligible to retire once they have accrued a retirement benefit equal to 50% of their whole salary, with mandatory retirement once they have accrued a retirement benefit equal to 65% of their whole salary. State police officers will earn a 2% accrual rate for each year of contributing service. Benefits will be calculated on the average of the highest five consecutive years of salary, including up to 400 hours of mandatory overtime service. Benefits accrued as of June 30, 2012 will be protected under the Rhode Island Retirement Security Act.

**Cost of Living Adjustments** – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return – 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first \$26,688 (indexed as of January 1, 2019) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of \$26,688 is replaced with \$32,025 (indexed as of January 1, 2019) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds eighty percent (80%). At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$26,688).

**Disability retirement provisions** - the plan provides nonservice-connected disability benefits after 10 years of service and service-connected disability pensions with no minimum service requirement.

*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*

*Notes to the Financial Statements - Fiscal Year Ended June 30, 2019*

**2. Plan Membership and Benefit Provisions (continued)**

**JUDICIAL RETIREMENT BENEFITS TRUST (JRBT)**

The Judicial Retirement Benefits Trust was established under Rhode Island General Laws 8-8.2-7; 8-3-16; 8-8-10.1; 28-30-18.1; and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to Justices of the Traffic Tribunal, Supreme, Superior, Family, District and Workers Compensation courts.

*Plan members* – the plan covers all Judges appointed after December 31, 1989.

*Retirement eligibility and plan benefits* – are summarized in the following table:

<b>Judges appointed</b>	<b>Retirement benefit</b>
<p><i>After:</i> December 31, 1989 but before July 2, 1997</p>	<p>75% of the final salary at the time of retirement after 20 years of service, or 10 years of service and attainment of age 65. Judges retiring after 20 years of service after age 65 or 15 years of service after age 70 receive full retirement benefits, which is the final salary at time of retirement.</p>
<p><i>After:</i> July 2, 1997 but before January 1, 2009</p>	<p>Same as above except, salary is the average highest three (3) consecutive years of compensation rather than final salary.</p>
<p><i>After:</i> January 1, 2009 but before July 1, 2009</p>	<p>Judges with 20 years of service after age 65 or judges with 15 years of service after age 70 will receive 90% of the average of the highest three consecutive years of compensation. Judges appointed on or after January 1, 2009 with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 70% of the average highest three consecutive years of compensation.</p> <p>Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 80% of the average highest three consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 60% of the average highest three consecutive years of compensation.</p>
<p><i>After:</i> July 1, 2009</p>	<p>Judges with 20 years of service after age 65 or with 15 years of service after age 70 will receive 80% of the average of the highest five consecutive years of compensation. Judges with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 65% of the average highest five consecutive years of compensation.</p> <p>Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 70% of average highest five consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 55% of average highest five consecutive years of compensation.</p>

Certain survivor benefits are also provided to judges who are plan members, which is 50% of the benefit amount payable to the judicial member.

## 2. Plan Membership and Benefit Provisions (continued)

**Cost of Living Adjustments** – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return – 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first \$26,688 (indexed as of January 1, 2019) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of \$26,688 is replaced with \$32,025 (indexed as of January 1, 2019) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds eighty percent (80%). At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$26,688).

### STATE OF RHODE ISLAND JUDICIAL RETIREMENT FUND TRUST (RIJRFT)

Effective July 1, 2012 and pursuant to Rhode Island General Law section 8-3-16, the retirement board established a trust to collect proceeds for the purpose of paying retirement benefits to participating judges or their beneficiaries.

**Plan members** – the plan covers seven (7) judges appointed prior to January 1, 1990. These members are active judges (as of June 30, 2012) appointed prior to January 1, 1990 that do not participate in the Judicial Retirement Benefit Trust. Prior to creating the trust, benefits for these members were intended to be funded on a pay-as-you-go basis. To the extent assets in the trust are insufficient to fund member benefits, the State would also fund retirement benefits on a pay-as-you-go basis as it does for sixty-five (65) retired judges and surviving beneficiaries that were not members of either judicial plan. The employee contribution rate is 12% of salary (except for members of the Supreme Court who contribute 8.75%).

**Retirement eligibility and plan benefits** – The plan provides retirement benefits for members who have served for 20 years and have reached the age of 65 years, or have served 15 years, and reached the age of 70 years and may retire from regular service and receive a benefit equal to the annual salary the justice was receiving at the time of their retirement. Members who served as a justice for 20 years or have served for 10 years and reached age 65 years may retire from regular service and receive a benefit equal to 75% of the annual salary at the time of retirement.

## 2. Plan Membership and Benefit Provisions (continued)

**Cost of Living Adjustments** – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return – 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first \$26,688 (indexed as of January 1, 2019) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of \$26,688 is replaced with \$32,025 (indexed as of January 1, 2019) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds eighty percent (80%). At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$26,688).

### **STATE OF RHODE ISLAND STATE POLICE RETIREMENT FUND TRUST (SPRFT)**

Effective June 8, 2016 and pursuant to Rhode Island General Law section 42-28-22.1, the retirement board established a trust to collect proceeds for the purpose of paying retirement benefits to participating members of the state police initially hired on or before July 1, 1987, or their beneficiaries.

The trust was established to reduce the amount of the unfunded liability attributable to the retirement benefits for members of the state police hired on or before July 1, 1987. The trust was funded with monies obtained from the Department of Justice's Equitable Sharing Program, resulting from a settlement in which \$45 million of such settlement was allocated for use by the state police. Pursuant to Rhode Island General Law section 42-28-22.2, the State shall deposit contributions for the members of the state police initially hired on or before July 1, 1987 to be held in trust. The trust was established with a \$15 million supplemental contribution (from funds available to the State from the Department of Justice's Equitable Sharing Program) that was deposited in fiscal 2017. Taking into account the initial supplemental contribution, as certified by the State's actuary, the unfunded actuarial liability will be amortized over an 18-year period. The State will make annual contributions into the trust for this funding period, or until the unfunded accrued liability is fully amortized. This trust is a closed plan because there are no longer any active members.

## 2. Plan Membership and Benefit Provisions (continued)

**Plan members** – the plan covers members of the state police hired on or before July 1, 1987. Prior to creating the trust, benefits for these members were intended to be funded on a pay-as-you-go basis.

**Retirement eligibility and plan benefits** – The plan generally provides retirement benefits equal to 50% of final salary after 20 years of service, members that retired after July 1, 1972 could earn an additional 3.0% of final salary times service in excess of 20 years through 25 years to a maximum of 65% of final salary. Such benefits are available to members after 20 years of service regardless of age.

**Cost of Living Adjustments** – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return – 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first \$26,688 (indexed as of January 1, 2019) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of \$26,688 is replaced with \$32,025 (indexed as of January 1, 2019) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds eighty percent (80%). At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$26,688).

### **DEFINED CONTRIBUTION PLAN**

The State of Rhode Island Defined Contribution Retirement Plan (the "Plan") is a defined contribution (money purchase) plan that operates under Section 401(a) of the Internal Revenue Code. The Plan was established under Rhode Island General Law section 36-10.3-2 and was placed under the management of the Retirement Board. The Retirement Board is the Plan administrator and Plan trustee. The law authorizes the State Investment Commission to select the appropriate third-party administrator for the Plan and to adopt Plan, trust, and/or custodial documents subject to certain guidelines outlined in the statute. The State Investment Commission is responsible for implementing the investment policy of the Plan and selecting the investment options available to members. TIAA-CREF serves as record keeper for the Plan and Plan assets are held by J.P. Morgan as investment custodian.



## 2. Plan Membership and Benefit Provisions (continued)

**Plan members** – The plan covers members of the defined benefit plan within the Employees' Retirement System of Rhode Island with less than 20 years of service as of June 30, 2012, excluding legislators, correction officers, judges, state police, and MERS general police and fire employees who participate in Social Security. For covered employees, participation in the defined contribution plan is mandatory.

**Plan vesting provisions** – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the member and is non-forfeitable upon completion of three (3) years of contributory service. Service credit under ERS or MERS prior to July 1, 2012 is credited to the member for vesting purposes.

**Member accounts** – Each member's account is credited with the member and employer's contribution and an allocation of the plan's earnings. Allocations are based on a relationship of the member's account balance in each investment fund to the total of all account balances in that fund. The retirement benefit to which a member is entitled is the benefit that can be provided from the member's account.

**Forfeitures** – Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

**Contributions** – The plan's benefits are funded by contributions from the participants and the employer, as specified in Rhode Island General Law 36-10.3-4 and 36-10.3-5.

Eligible state employees and teachers and MERS general employees that participate in Social Security contribute 5% of the member's compensation. Teachers and MERS general employees not covered by Social Security must contribute 7% of their compensation.

Employers contribute to these member's individual accounts an amount equal to 1% to 1.5% of the member's compensation depending upon years of service for those participating in Social Security. For eligible members who do not participate in Social Security, the employers contribute an amount equal to 3.0% to 3.5% depending upon years of service.

**Investment options** – Member and employer contributions may be invested in a variety of investment options broadly diversified with distinct risk and return characteristics. The investment options provide opportunities to diversify across the risk-return spectrum with a range of investment choices within varied asset classes.

The investment programs are managed by TIAA-CREF and have various investment strategies.

**Retirement benefits** – Benefits may be paid to a member after severance from employment, death, Plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which you attain age 70 ½ or terminate employment, if later. Members have the option to receive benefit payments in the form of a Single Life Annuity, Two Life Annuity, Lump Sum Benefit, or Installments. These payments are subject to any restrictions in the investment vehicles.

### 3. Summary of Significant Accounting Policies

These financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles for defined benefit and defined contribution plans established and administered by governmental entities.

**Basis of Accounting** - The financial statements of the System are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred.

**Cash and Cash Equivalents** - Cash represents cash held in trust in a financial institution. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase.

**Investments** - Investment transactions are recorded on a trade date basis. Gains or losses on foreign currency exchange contracts are included in income consistent with changes in the underlying exchange rates. Dividend income is recorded on the ex-dividend date.

**Method Used to Value Investments** - Investments are recorded in the financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Short-term investments are generally carried at cost or amortized cost, which approximates fair value.

The fair value of fixed income securities and domestic and international equity securities is generally based on published market prices and quotations from national security exchanges and securities pricing services.

Commingled funds include institutional international equity index funds. The fair value of these commingled funds is based on the reported net asset value (NAV) based upon the fair value of the underlying securities or assets held in the fund.

Derivative investments (e.g., futures contracts and credit default swaps) are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

The System also trades in foreign exchange contracts to manage exposure to foreign currency risks. Such contracts are used to purchase and sell foreign currency at a guaranteed future price. The change in the estimated fair value of these contracts, which reflects current foreign exchange rates, is included in the determination of the fair value of the System's investments.

Other investments that are not traded on a national security exchange (primarily private equity, real estate, hedge funds, infrastructure investments, and Crisis Protection Class – Trend Following) are valued based on the reported Net Asset Value (NAV) by the fund manager or general partner. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair value is determined by the general partner following U.S. generally accepted accounting principles. Financial Accounting Standards Board ASC Topic 820, *Fair Value Measurements and Disclosures*, requires the limited partnership general partners for these investment types to value non-publicly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information.



### 3. Summary of Significant Accounting Policies (continued)

Hedge funds, private equity, real estate, private infrastructure and crisis protection class – trend following investments represented 6.8%, 9.6%, 6.0%, 2.0%, and 3.8% respectively of the total reported fair value of all ERSRI investments at June 30, 2019.

**Investment expenses** – Investment expenses include investment consultant fees, custodial fees, direct investment expenses paid to managers, and certain indirect expenses allocated by managers to fund or partnership investors. Certain Office of the General Treasurer expenses associated with oversight of the pooled investment trust are also allocated and included as investment expenses. When indirect investment expenses for certain types of investments (e.g., hedge funds, private equity, real estate, infrastructure, and crisis protection class), are not reported separately to System management and the investment custodian, additional information is obtained to allow reporting of the System's share of such indirect investment expenses on a gross fee basis.

Net investment income within the defined contribution plan is reported on a net-of-fees basis.

**Contributions** - Plan member contributions for the defined benefit plans are recognized in the period in which the wages, subject to required contributions, are earned for the performance of duties for covered employment. Employer contributions to each defined benefit plan are recognized when due and the employer has made a formal commitment to provide the contributions.

Plan member and employer contributions for the defined contribution plan are contributed to the member's individual account in the plan as a defined percentage of the member's compensation paid during the plan year ending June 30.

**Benefits** - Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

**Prepaid Assets** – These assets represent the amounts paid to a vendor pursuant to a contract to design, transition, and implement new line-of-business, general ledger accounting system, and payroll administration systems. Under the new system development and operations contract, the vendor will supply and operate the system for the contract period. Consequently, no capital asset related to the new system are recognized or depreciated. The amounts paid before the system became operational have been accounted for as prepaid assets items in prior years. Beginning in fiscal year 2017, when system operations fully commenced, that prepaid amount is amortized ratably over the remaining contract period.

**Memorandum Total Columns** - Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns are not comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies. These estimates are subject to a certain amount of uncertainty in the near term, which could result in changes in the values reported for those assets in the statements of fiduciary net position. Because of the inherent uncertainty in the valuation of privately held securities, the fair value may differ from the values that would have been used if a ready market for such securities existed, and the difference can be material. Estimates also affect the reported amounts of income/additions and expenses/deductions during the reporting period. Actual results could differ from these estimates.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

Notes to the Financial Statements - Fiscal Year Ended June 30, 2019

#### 4. Cash Deposits and Cash Equivalents

At June 30, 2019, the carrying amounts of the plans' cash deposits are listed below:

<u>Cash Deposits</u>	<u>ERS/TSB</u>	<u>MERS</u>	<u>SPRBT</u>	<u>JRBT</u>	<u>RIJRFT</u>	<u>SPRFT</u>	<u>Total</u>
Book Balance	\$ 3,317,831	\$ 555,539	\$ 103,896	\$ 56,330	\$ 305,686	\$ 71,920	\$ 4,411,202
Bank Balance	\$ 3,369,610	\$ 587,001	\$ 103,896	\$ 56,330	\$ 305,686	\$ 76,546	\$ 4,499,069

The bank and book balances represent the plans' deposits in short-term trust accounts, which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts. The bank balances include interest-bearing collateralized bank deposits and are either federally insured or collateralized (102%) with U.S. Treasury, agencies, and federal home loan bank letters of credit held by a third-party custodian.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the System's deposits were required to be collateralized at June 30, 2019 (excluding the collateralized interest-bearing deposits). However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts that are not insured by federal depository insurance. Unless FHLB letters of credit are used as collateral, in which case those are required at 100%.

The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b)(3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

#### 5. Investments – Pooled Investment Trust

##### (a). General

The custodian bank holds assets of the System in a Pooled Investment Trust and each plan holds units in the trust. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust.

**Investment policy** - The State Investment Commission (SIC) oversees all investments made by the State of Rhode Island, including those made for the System's Pooled Investment Trust. The establishment of the SIC, its legal authority and investment powers are outlined in Chapter 35-10 of the Rhode Island General Laws.

The SIC has adopted a Defined Benefit Investment Policy Statement which includes specific asset allocation targets and asset class policies. The most recent policy statement was adopted by the SIC on June 27, 2018 and may be amended by a majority vote of SIC members. The SIC's asset allocation policy seeks to achieve the assumed rate of return adopted by the System over the long-term while reducing risk through the prudent diversification of the portfolio across various asset classes.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

Notes to the Financial Statements - Fiscal Year Ended June 30, 2019

## 5. Investments – Pooled Investment Trust (continued)

The System leverages the services of actuaries and consultants to provide guidance regarding actuarial matters, asset allocation, and invest policy development. The SIC manages the investment program pursuant to the investment policy, develops asset class guidelines, monitors and evaluates performance, and makes determinations regarding the retention of managers. Professional investment managers are selected by the SIC to manage portfolios in accordance with investment management agreements.

The following was the SIC's adopted asset allocation policy targets as of June 30, 2019:

Asset Class	Target Asset Allocation
<b><i>GROWTH</i></b>	
Global Equity	40.0%
Private Growth	15.0%
<b><i>INCOME</i></b>	8.0%
<b><i>STABILITY</i></b>	
Crisis Protection Class	8.0%
Inflation Protection	8.0%
Volatility Protection	21.0%
<b>Total</b>	<b>100.0%</b>

Consistent with a target asset allocation model adopted by the State Investment Commission (SIC), the System directs its separate-account investment managers to maintain, within the mandate specified by the SIC, diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Specific manager performance objectives are outlined and generally stated in relation to a benchmark or relevant index. These guidelines also include prohibited investments, limitations on maximum exposure to a single industry or single issuer, a minimum number of holdings within the manager's portfolio and, for fixed income managers, minimum credit quality ratings and duration/maturity targets.

Investment expense is allocated to each plan based on the plan's units in the Pooled Investment Trust at the end of each month.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

Notes to the Financial Statements - Fiscal Year Ended June 30, 2019

**5. Investments – Pooled Investment Trust (continued)**

The following table presents the fair value of investments by type that are held within the Pooled Investment Trust for the defined benefit plans at June 30, 2019:

<u>Investment Type</u>	<u>June 30, 2019 Fair Value</u>
Cash and Cash Equivalents:	
US Cash	\$ 15,273,831
Commercial Paper	19,787,035
Non-US Cash	10,819,639
Money Market Mutual Funds	102,404,316
US Government Securities	904,742,406
US Government Agency Securities	250,252,132
Non-US Government Securities	4,993,705
Collateralized Mortgage Obligations	19,443,959
Corporate Bonds	557,534,131
Term Loans	158,516,750
Commingled Funds - International Equity	1,225,772,099
Domestic Equity Securities	2,214,826,175
International Equity Securities	493,376,684
Private Equity	814,975,118
Real Estate	510,416,669
Hedge Funds	581,552,068
Crisis Protection Class - Trend Following - Limited partnerships	323,714,365
Infrastructure	286,579,847
Derivatives:	
Futures	1,390,455
Credit Default Swaps	189,825
Total Return Swaps	55,712
<b>Investments at Fair Value</b>	<b>8,496,616,921</b>
Investment receivable	284,200,020
Investment payable	(269,465,313)
<b>Total Pooled Investment Trust</b>	<b>\$ 8,511,351,628</b>

**(b) Fair value hierarchy**

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 inputs are other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.

Level 3 includes unobservable inputs for an asset or liability.

*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*

*Notes to the Financial Statements - Fiscal Year Ended June 30, 2019*

## 5. Investments – Pooled Investment Trust (continued)

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

### Investments and Derivative Instruments Measured at Fair Value

<b>Investments at Fair Value</b>	<b>Fair Value June 30, 2019</b>	<b>Quoted Prices in Active Market for Identical Assets (level 1)</b>	<b>Significant Other Observable Inputs (level 2)</b>	<b>Significant Unobservable Inputs (level 3)</b>
<b><u>Equity Investments</u></b>				
Global Equity	\$ 2,708,258,571	\$ 2,708,258,571		
Infrastructure-publicly traded	115,646,376	115,646,376		
	<b>2,823,904,947</b>	<b>2,823,904,947</b>	-	-
<b><u>Fixed Income</u></b>				
US Government Securities	904,742,406	904,742,406		
US Government Agency Securities	250,252,132		250,252,132	
Non - US Government Securities	4,993,705		4,993,705	
Corporate Bonds	557,534,131		557,534,131	
Collateralized Mortgage Obligations	19,443,959		19,443,959	
Term loans	158,516,750			158,516,750
	<b>1,895,483,083</b>	<b>904,742,406</b>	<b>832,223,927</b>	<b>158,516,750</b>
<b><u>Derivative Investments</u></b>				
Equity and Fixed Income Index Futures	1,390,455	1,390,455		
Other Derivatives	189,825		189,825	
	<b>1,580,280</b>	<b>1,390,455</b>	<b>189,825</b>	
Commercial Paper	<b>19,787,035</b>		<b>19,787,035</b>	
<b>Total Investment at Fair Value Level</b>	<b>\$ 4,740,755,345</b>	<b>\$ 3,730,037,808</b>	<b>\$ 852,200,787</b>	<b>\$ 158,516,750</b>

### **Investments Measured at Net Asset Value (NAV)**

Money Market Mutual Funds	\$ 102,404,316
Commingled Funds - International Equity	1,225,772,099
Hedge Funds	581,552,068
Private Equity	814,975,118
Real Estate	510,416,669
Private Infrastructure	170,933,471
Crisis Protection Class - Trend Following	323,714,365
	<b>3,729,768,106</b>

### **Cash and Cash Equivalents**

US Cash	15,273,831
Non US Cash	10,819,639
	<b>26,093,470</b>

### **Net Investment Receivable**

**14,734,707**

### **Total Pooled Investment Trust**

**\$ 8,511,351,628**

*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*

*Notes to the Financial Statements - Fiscal Year Ended June 30, 2019*

## 5. Investments – Pooled Investment Trust (continued)

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Term loans classified in Level 3 are valued using consensus pricing.

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates and foreign exchange rates.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption (if currently eligible)</u>	<u>Redemption Notice Period</u>
Money Market Mutual Funds(1)	\$ 102,404,316	-	daily	none
Commingled Funds - International Equity (2)	1,225,772,099	-	daily	see note below
Hedge Funds (3)	581,552,068	-	see note below	see note below
Private Equity (4)	814,975,118	750,986,802	see note below	see note below
Real Estate (5)	510,416,669	92,819,995	see note below	see note below
Private Infrastructure Investments (6)	170,933,471	128,670,000	see note below	see note below
Crisis Protection Class - Trend Following (7)	323,714,365	-	see note below	see note below
	<u>\$ 3,729,768,106</u>	<u>\$ 972,476,797</u>		

- (1) **Money market mutual funds** - these investments are used as temporary cash management investments for amounts pending investment or for amounts liquidated from investments pending distribution for pension benefits. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable \$1 per unit. The underlying investments which are short-term cash equivalent type investments are generally carried at amortized cost which approximates fair value. There are no withdrawal limitations for the money market mutual funds.
- (2) **Commingled funds** – consist of three international equity index funds which are intended to replicate the performance of a specific index; e.g., MSCI EAFE. The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the commingled fund manager which reflects the exchange pricing of the equity holdings within each fund. The international equity commingled funds may be redeemed daily.
- (3) **Hedge funds** – this portfolio is comprised of 7 limited partnerships divided into two sub-categories: global equity and absolute return. Global equity funds are designed to benefit from the stock market with considerably less risk. They own stakes in companies they expect to outperform and also sell short stocks that they expect to underperform. Absolute return hedge funds employ strategies that seek to generate long-term returns and mitigate risk, regardless of broader market moves. The funds invest across asset classes, including government bonds, other fixed income securities, equity indexes, commodities, and currencies.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2019. Of the underlying holdings within the hedge funds approximately 64% were valued based on Tier 1 inputs (unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted investments).

## 5. Investments – Pooled Investment Trust (continued)

The system's investments in hedge funds are generally subject to “lock-up” provisions that limit (subject to certain exceptions) the ability to withdraw amounts previously invested for a period of one to three years after the initial investment. At June 30, 2019, investments totaling approximately \$1.5 million are subject to these withdrawal limitation provisions. The remainder of hedge fund assets is available for redemption on a month-end, quarter-end, semi-annual or annual basis, and is subject to notice periods which vary by fund and range from 2 days to 75 days.

- (4) **Private equity** – these 93 limited partnership funds provide the portfolio exposure to private companies through equity and/or debt investments. Private equity fund managers invest in private companies with the goal of enhancing their value over the long-term.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2019.

Private equity – the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

- (5) **Real Estate** – these 15 limited partnership investments are comprised of two different private real estate equity components, Core and Non-Core, which generally refer to the relative levels of risk in the underlying assets. Core investments include existing, substantially leased, income-producing properties located principally in economically diversified metropolitan areas. Non-Core investments represent those properties and/or investment strategies that require specialized acquisition and management expertise and skill to mitigate the business and leasing risks that may be associated with individual investments. Non-Core investments, which may be referred to as Value Added and Opportunistic investments, are expected to be held for shorter periods, have greater volatility compared to Core investments, and as such, are expected to provide yields higher than those associated with Core investments.

These funds acquire, manage and sell physical properties, including office, retail, apartment, and industrial buildings as well as more niche property types, such as student housing, self-storage and hotels. The primary goals of this asset class are to provide current income, risk-adjusted total returns, and diversification.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2019.

With the exception of four core open-end funds which allow for quarterly redemptions, the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

- (6) **Infrastructure** – These seven funds provide inflation-protection and current income to the portfolio through investments in facilities and services required for an economy to function including electricity production and distribution, pipelines, sewers and waste management, airports, roads, bridges, ports, railroads, telephone and cable networks, and hospitals. The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2019.

With the exception of one open-end core fund which allows for quarterly liquidity, the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

Notes to the Financial Statements - Fiscal Year Ended June 30, 2019

**(5) Investments – Pooled Investment Trust (continued)**

(7) *Crisis Protection Class – Trend Following* – These three funds were created as limited liability companies with the Employees' Retirement System of the State of Rhode Island as the sole member. The investment managers' principal investment objectives for the companies include:

- providing diversified exposure to market trends across asset classes, geographies and time horizons to generate sizable profits during the periods when growth-risk exposed assets decline significantly;
- generating significant medium-term capital growth independent of overall movements in traditional stock and bond markets within a rigorous risk management framework; and
- outperforming the Credit Suisse Liquid Alternative Beta Managed Futures Index (CLABT18 Index) over a 5-year period.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2019. As the Employees' Retirement System of the State of Rhode Island is the sole member, the limited liability company could be liquidated at its option. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

**(c) Rate of Return**

For the year ended June 30, 2019, the annual money-weighted returns on investments within each of the plans, net of investment expense, are shown in the following table. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

	ERS	TSB	MERS	SPRBT	JRBT	RIJRFT	SPRFT
Money-weighted rate of return – year ended June 30, 2019	6.54%	6.54%	6.56%	6.62%	6.60%	4.72%	8.91%

**(d) Interest Rate Risk**

Interest rate risk is the possibility that the value of a fixed income security will decline due to changes in market interest rates. Due to its significant holdings of fixed income securities, the System manages its investment exposure to interest rate risk by comparing its fixed income and cash managers' portfolio-level and security-level interest rate sensitivities against a predetermined benchmark index based on that manager's mandate. In general, the System uses duration (in years) to measure interest rate sensitivity. However, for its Liquid Credit managers, the System uses effective duration, which takes into effect the embedded optionality, to measure the sensitivity of its investments to changes in interest rates. In some cases, the System also sets absolute restrictions with respect to effective duration or maturity for individual securities or portfolios for manager portfolios. The interest rate risk policies currently utilized by the System vary by asset class which include Investment Grade Fixed Income, Liquid Credit, Long Duration Treasuries, Inflation-Linked Bonds, CPC Enhanced Cash Portfolio, and Strategic Cash.

The fixed income indices currently used by the System are:



*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*

*Notes to the Financial Statements - Fiscal Year Ended June 30, 2019*

**5. Investments – Pooled Investment Trust (continued)**

- Barclays US Aggregate Index
- Barclays US Treasury Inflation Notes - 1-10 Year Index
- Liquid Credit Custom BM: 50% BofA US High Yield Index + 50% Credit Suisse Leveraged Loan Index
- Long Duration BM: Barclays Long Duration US Treasury Index
- ICE BofAML US Treasury Notes 0-1 Year

At June 30, 2019, no fixed income manager was outside of their policy guidelines.

The following table shows the System's fixed income investments by type, fair value and the effective duration at June 30, 2019:

<u>Investment Type</u>	<u>Fair Value (in thousands)</u>	<u>Effective Duration</u>
US Government Agency Securities	\$ 250,252	2.88
US Government Securities	904,742	9.28
Non-US Government Securities	4,994	5.50
Collateralized Mortgage Obligations	19,444	2.84
Corporate Bonds	557,534	4.71
Commercial Paper	19,787	0.16
Term Loans	<u>158,517</u>	0.21
Total Fixed Income	<u>\$ 1,915,270</u>	6.20

The System had investments at June 30, 2019 totaling \$102 million in money market mutual funds including \$104 thousand in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer.

OSIP has met the criteria outlined in GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants* to permit election to report its investments at amortized cost which approximates fair value. OSIP transacts with its participants at a stable net asset value (NAV) per share. Investments reported at the NAV are not subject to the leveling categorization as described above. There are no participant withdrawal limitations. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

The System's remaining money market mutual fund investments consisted of a short-term money market mutual fund that is not rated and held investments with a weighted average maturity of 80 days at June 30, 2019. The fund, by policy, holds only high-grade, highly liquid cash equivalent-type investments.

The System's investment in commercial paper totaling \$19,787,035 at June 30, 2019 had maturities ranging from 15 to 141 days.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

Notes to the Financial Statements - Fiscal Year Ended June 30, 2019

**5. Investments – Pooled Investment Trust (continued)**

The System invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only strips. They are reported in U.S. Government Agency Securities and Collateralized Mortgage Obligations in the table above. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations.

The System may invest in interest-only and principal-only strips in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

**(e) Credit Risk**

Credit risk is the possibility of a loss due to the failure of a counterparty to repay a loan or meet another contractual obligation. The System may be exposed to credit risk with respect to its fixed income investments. The System manages its credit risk by setting credit rating criteria to govern the investment activities of its fixed income managers at the portfolio and security level. Ratings criteria may be expressed on a relative basis against predetermined benchmark index or on an absolute basis based on that manager's mandate. If a security is not rated by any Rating Agency, the internal rating assigned by the investment manager or an affiliate (Internal Rating) will be used. The credit risk policies currently utilized by the System vary by asset class and reflect the manager's strategy and the System's overall asset allocation targets and related objectives.

The System manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for their portfolios and by establishing limits on the percentage of the portfolios that are invested in non-investment grade securities. The System's exposure to credit risk as of June 30, 2019 is as follows:

Rating	Collateralized Mortgage Obligations	US Government Agency Obligations	Corporate Bonds	Term Loans	Non-US Government Securities
Aaa	\$ 19,443,959	\$ 239,099,547	\$ 25,717,569	\$ -	\$ -
Aa	-	-	49,090,107	-	3,252,246
A	-	-	133,666,822	-	1,741,459
Baa	-	840,449	209,229,214	5,761,804	-
Ba	-	-	62,284,567	64,572,122	-
B	-	-	48,364,770	82,531,310	-
Caa	-	-	16,759,197	1,730,716	-
Ca	-	-	-	-	-
C	-	-	44,250	-	-
D	-	-	242,250	-	-
Not Rated	-	10,312,136	12,135,385	3,920,798	-
<b>Fair Value</b>	<b>\$ 19,443,959</b>	<b>\$ 250,252,132</b>	<b>\$ 557,534,131</b>	<b>\$ 158,516,750</b>	<b>\$ 4,993,705</b>

Ratings provided by Moody's Investors Service

## 5. Investments – Pooled Investment Trust (continued)

Investments in commercial paper totaling \$19,787,035 at June 30, 2019 were rated P1 (Moody's) except \$1.9 million is non-rated.

### (f) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. There is no single issuer exposure within the System's pooled investment trust that comprises 5% of the overall portfolio.

### (g) Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2019, all securities were registered in the name of the System (or in the nominee name of its custodial agent) and were held in the possession of the System's custodial bank, Bank of New York Mellon.

### (h) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk. The System may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments.

The System's exposure to foreign currency risk at June 30, 2019, is detailed in the following table. In addition to the foreign currency exposure highlighted in the following table, certain hedge fund investments may have foreign currency exposure.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

Notes to the Financial Statements - Fiscal Year Ended June 30, 2019

5. Investments – Pooled Investment Trust (continued)

Foreign Currency Risk

Currency	Commingled Funds	Equities	Private Equity	Cash and Cash Equivalents	Non US Government Securities	Corporate Bonds	Term Loans	Futures	Total
Australian Dollar	\$ 52,287,817	\$ 33,540,306	\$ -	\$ 744,292	\$ -	\$ -	\$ -	\$ 175	\$ 86,572,590
Brazilian Real	33,065,304	-	-	-	-	-	-	-	33,065,304
Canadian Dollar	66,325,259	54,342,281	2,834,605	1,028,457	-	-	-	(796)	124,529,806
Chilean Peso	3,953,158	-	-	-	-	-	-	-	3,953,158
Chinese Yuan	2,977,105	-	-	-	-	-	-	-	2,977,105
Colombian Peso	1,958,748	-	-	-	-	-	-	-	1,958,748
Czech Republic Koruna	725,302	-	-	-	-	-	-	-	725,302
Danish Krone	11,855,339	10,928,507	-	53,286	-	-	-	-	22,837,132
Egyptian Pound	538,890	-	-	-	-	-	-	-	538,890
Euro Currency	217,887,794	124,693,899	50,709,981	2,426,053	3,252,246	405,292	1,617,898	(1,535)	400,991,628
Great Britain Pound	114,220,550	71,782,164	-	2,148,782	-	-	-	(1,355)	188,150,141
Hong Kong Dollar	121,286,909	9,807,761	-	341,386	-	-	-	(650)	131,435,406
Hungarian Forint	1,295,233	-	-	-	-	-	-	-	1,295,233
Indian Rupee	39,212,163	-	-	-	-	-	-	-	39,212,163
Indonesia Rupiah	9,150,977	-	-	-	-	-	-	-	9,150,977
Israeli Shekel	2,446,712	3,034,524	-	41,311	-	-	-	-	5,522,547
Japanese Yen	160,674,890	96,835,425	-	1,948,373	-	-	-	(5,221)	259,453,467
Malaysian Ringgit	9,243,000	-	-	-	-	-	-	-	9,243,000
Mexican Peso	10,848,741	-	-	-	-	-	-	-	10,848,741
New Taiwan Dollar	46,359,303	-	-	-	-	-	-	-	46,359,303
New Zealand Dollar	1,829,373	2,930,643	-	224,539	-	-	-	-	4,984,555
Norwegian Krone	4,716,202	5,215,531	-	99,110	-	-	-	-	10,030,843
Pakistani Rupee	85,858	-	-	-	-	-	-	-	85,858
Peruvian Nouveau Sol	-	-	-	-	-	-	-	-	-
Philippine Peso	4,901,892	-	-	-	-	-	-	-	4,901,892
Polish Zloty	4,993,009	-	-	-	-	-	-	-	4,993,009
Qatari Real	4,303,693	-	-	-	-	-	-	-	4,303,693
Russian Ruble	12,369,704	-	-	-	-	-	-	-	12,369,704
Saudi Riyal	6,158,740	-	-	-	-	-	-	-	6,158,740
Singapore Dollar	9,789,338	18,456,846	-	427,203	-	-	-	-	28,673,387
Swedish Krona	18,219,321	10,684,687	-	424,695	-	-	-	-	29,328,703
Swiss Franc	63,039,677	51,124,112	-	912,152	-	-	-	-	115,075,941
South African Rand	24,798,052	-	-	-	-	-	-	-	24,798,052
South Korean Won	53,340,561	-	-	-	-	-	-	-	53,340,561
Thailand Baht	12,888,616	-	-	-	-	-	-	-	12,888,616
Turkish Lira	2,202,286	-	-	-	-	-	-	-	2,202,286
United Arab Emirates Dirham	2,893,597	-	-	-	-	-	-	-	2,893,597
Total	\$ 1,132,843,113	\$ 493,376,686	\$ 53,544,586	\$ 10,819,639	\$ 3,252,246	\$ 405,292	\$ 1,617,898	\$ (9,382)	\$ 1,695,850,078
United States *	92,928,986								
Grand Total	\$ 1,225,772,099								

\* US \$ denominated equity investments held within commingled funds with an international equity index objective.

## 5. Investments – Pooled Investment Trust (continued)

### (i) Derivatives and Other Similar Investments

Certain of the System's investment managers are allowed to invest in derivative type transactions consistent with the terms and limitations governing their investment objective and related contract specifications. Derivatives and other similar investments are financial contracts whose value depends on one or more underlying assets, reference rates, or financial indices.

The System's derivative investments include forward foreign currency transactions, futures contracts, options, rights, and warrants. The System enters into these transactions to enhance performance, rebalance the portfolio consistent with overall asset allocation targets, gain or reduce exposure to a specific market, or mitigate specific risks.

**Forward foreign currency contracts** – The System enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. If not offset by a corresponding position with the opposite currency exposure, these contracts involve risk in excess of the amount reflected in the System's Statements of Fiduciary Net Position. The face or contract amount in U.S. dollars reflects the total exposure the System has in currency contracts. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

**Futures contracts** – The System uses futures to manage its exposure to the domestic and international equity, money market, and bond markets and the fluctuations in interest rates and currency values. Futures are also used to obtain target market exposures in a cost-effective manner and to narrow the gap between the System's actual cash exposures and the target policy exposures. Using futures contracts in this fashion is designed to reduce (or hedge) the risk of the actual plan portfolio deviating from the policy portfolio more efficiently than by using cash securities. The program is only used to manage intended exposures and asset allocation rebalancing.

Buying futures tends to increase the System's exposure to the underlying instrument. Selling futures tends to decrease the System's exposure to the underlying instrument or hedge other System investments. Losses may arise due to movements in the underlying or reference markets.

**Credit Default Swaps** – A credit manager may use credit default swaps in the portfolio to either obtain exposure to the high yield market efficiently (i.e. by selling protection) at a similar or better price than what can be obtained in cash bonds, or to hedge the credit risk of the portfolio (i.e. buying protection).

**Total Return Swaps** – A credit manager may use total return swaps as an efficient means to gain exposure to an index or market sector.

Through commingled funds, the System also indirectly holds derivative type instruments, primarily equity index futures.

The System invests in mortgage-backed securities, which are included in the categories described as collateralized mortgage obligations and U.S. Government Agency Securities. These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities.

*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*

*Notes to the Financial Statements - Fiscal Year Ended June 30, 2019*

**5. Investments – Pooled Investment Trust (continued)**

Additional information regarding interest rate risks for these investments is included in Note 5(d) *Interest Rate Risk*.

The System may sell a security in anticipation of a decline in the fair value of that security or to lessen the portfolio allocation of an asset class. Short sales may increase the risk of loss to the System when the price of a security underlying the short sale increases and the System is obligated to deliver the security in order to cover the position.

The following summarize the System's exposure to specific derivative investments at June 30, 2019.

<b>Investment Derivative Instruments</b>	<b>Change in fair value included in investment income</b>	<b>Fair Value at June 30, 2019</b>	<b>Notional Amount</b>
Fixed income futures - long	\$ 299,656	\$ 860,530	\$ 103,630,086
Fixed income futures -short	77,867	-	-
Equity index futures - long	891,697	527,025	28,181,247
Equity index futures - short	(337,085)	2,900	(48,005,208)
Credit default swaps	(41,427)	189,825	
Total return swaps	<u>55,712</u>	<u>55,712</u>	
<b>Total</b>	<b>\$ 946,420</b>	<b>\$ 1,635,992</b>	
Foreign currency forward contracts:			
Pending payable (liability)		\$ 83,806	
Pending receivable (asset)		<u>(62,961)</u>	
		<u>\$ 20,845</u>	

The System is exposed to counterparty risk on foreign currency contracts that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2019 was \$20,845. This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

The System executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of these counterparties were Aa3 (Moody's) or better, two counterparties were not rated by Moody's but were rated A+ or better by Fitch.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

Notes to the Financial Statements - Fiscal Year Ended June 30, 2019

## 6. Other Investments – Defined Contribution Plan

The State Investment Commission selected various investment options for defined contribution plan participants with the overall objective of offering low-cost, strategic, and long-term oriented investment products. Plan participants can choose one or more of the various options and can change options at any time. Plan participants who do not elect a specific option default to a target date retirement fund consistent with their anticipated Social Security retirement eligibility date.

Investment Type	Fair Value	% of Total	Duration (years)
<b>Annuities</b>			
TIAA Stable Value	\$ 14,185,188	1.39%	
TIAA Real Estate - variable annuity		0.00%	
<b>Total</b>	<b>\$ 14,185,188</b>	<b>1.39%</b>	
<b>Fixed Income Funds</b>			
Pimco Real Return Institutional Class	6,790,259	0.67%	7.586
Vanguard Total Bond Market Index Institutional	7,887,481	0.77%	6.000
<b>Total</b>	<b>\$ 14,677,740</b>	<b>1.44%</b>	
<b>Target Retirement Funds</b>			
Vanguard Target Retirement 2015 Trust I	41,122,709	4.03%	
Vanguard Target Retirement 2020 Trust I	105,422,241	10.33%	
Vanguard Target Retirement 2025 Trust I	134,874,634	13.21%	
Vanguard Target Retirement 2030 Trust I	145,084,928	14.21%	
Vanguard Target Retirement 2035 Trust I	161,256,979	15.79%	
Vanguard Target Retirement 2040 Trust I	130,230,357	12.76%	
Vanguard Target Retirement 2045 Trust I	98,851,621	9.68%	
Vanguard Target Retirement 2050 Trust I	59,400,340	5.82%	
Vanguard Target Retirement 2055 Trust I	25,126,779	2.46%	
Vanguard Target Retirement 2060 Trust I	4,495,681	0.44%	
Vanguard Target Retirement 2065 Trust I	275,369	0.03%	
Vanguard Target Retirement Income Trust I	11,179,882	1.10%	
<b>Total</b>	<b>\$ 917,321,520</b>	<b>89.85%</b>	
<b>Equity Mutual Funds</b>			
Vanguard Social Index Inv	3,613,108	0.35%	
Schwab International Index Fund	7,859,921	0.77%	
Vanguard Institutional Index Fund	32,178,789	3.15%	
Vanguard Emerging Markets Stock Index Fund Admiral	5,785,516	0.57%	
Vanguard Mid-Cap Index Institutional	12,426,796	1.22%	
Vanguard Small Cap Index Institutional	12,917,262	1.27%	
<b>Total</b>	<b>\$ 74,781,392</b>	<b>7.32%</b>	
<b>Total</b>	<b>\$ 1,020,965,840</b>	<b>100.00%</b>	

The majority (99%) of investments held by participants in the defined contribution plan are target date retirement funds and equity index or fixed income mutual funds. The target retirement date funds provide for diversified portfolios of equities and bonds that become progressively more conservative as the fund's associated target retirement date approaches. Equity index mutual funds replicate the price and yield performance of a particular index.

## 6. Other Investments – Defined Contribution Plan (continued)

The target retirement date and equity and fixed income mutual funds are priced daily based on the traded prices of the underlying securities held within the funds. There are no withdrawal limitations for these mutual funds. These funds are classified as Level 1 investments (quoted prices in active markets for identical assets) within the fair value hierarchy. Annuities are reported at contract value, which approximates fair value. Annuities held by participants within the defined contribution plan are classified as Level 3 investments (significant unobservable inputs) within the fair value hierarchy.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2019, all assets and securities were registered in the name of TIAA-CREF as the Defined Contribution Plan's record keeper for the benefit of plan members and were held in the possession of TIAA-CREF's custodian, J.P. Morgan Bank.

The majority of the defined contribution plan investment options are mutual funds that invest in diversified portfolios of securities including equity and fixed-income investments. For investment options that are solely fixed income, weighted-average maturity or duration have been disclosed as a measure of interest rate risk.

Fixed income mutual funds and variable annuity accounts are subject to interest rate, inflation and credit risks. Target-date retirement mutual funds share the risks associated with the types of securities held by each of the underlying funds in which they invest including equity and fixed income funds. Mutual funds may have exposure to foreign currency risk through investment in non-US denominated securities.

## 7. Contributions

Contribution requirements for plan members and employers are established pursuant to Rhode Island General Laws. With the exception of the RIJRFT plan, employers are required to contribute at an actuarially determined rate or a fixed dollar amount for the defined benefit plans. Employer contributions for the defined contribution plan are prescribed by statute. Plan member contributions for the defined benefit and defined contribution plans are fixed by statute. Member and employer contribution rates are subject to amendment by the General Assembly.

### (a). Funding Policy

The funding policies, as set forth in Rhode Island General Law, Section 36-10-2 and 45-21-42 provide for actuarially determined periodic contributions to the plans. The actuarial valuation uses the Entry Age Normal actuarial cost method. Under this method, the employer contribution rate is the sum of (i) the employer normal cost rate, and (ii) a rate that will amortize the unfunded actuarial liability. The valuation is prepared on the projected benefit basis, under which the present value, at the assumed rate of return (currently 7.0 percent for all plans except the RIJRFT which utilizes a 3.62% assumed rate of return), of each participant's expected benefit payable at retirement or death is determined, based on age, service, gender and compensation.

The employer contributions required to support the benefits of the Plan are determined following a level funding approach and consist of a normal contribution and an accrued liability contribution. The normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the rate of contribution which, if applied to the compensation of each individual member during the entire period of anticipated covered service, would be required to meet the cost of all benefits payable on his behalf. This method is commonly referred to as the Individual Entry Age Actuarial Cost Method.



*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*

*Notes to the Financial Statements - Fiscal Year Ended June 30, 2019*

## 7. Contributions (continued)

The unfunded actuarial accrued liability (UAAL) is amortized as a level percent of payroll over a closed period. For underfunded plans, the period is 25 years as measured from June 30, 2010, or 21 years as of the current valuation date for any existing UAAL. Beginning with the June 30, 2014 actuarial valuation, new experience gains and losses for underfunded plans are amortized over individual closed periods of 20 years using the process of “laddering”.

Overfunded plans will have an amortization rate calculated using a single base amortized over an open period of 20 years.

### (b). Contribution rates

Employer contribution rates for fiscal 2019 for all defined benefit plans were developed based on actuarial valuations performed as of June 30, 2016. Employee contribution rates are statutorily determined.

Rhode Island Judicial Retirement Fund Trust plan is not currently advance funded. Employees make contributions to the plan; however, there are no employer contributions. This plan is for a closed group of individuals and the amortization payment has been calculated based on level-dollar amortization over 17 years from June 30, 2013.

State of Rhode Island State Police Retirement Fund Trust is a closed group of individuals and the annual contributions of \$16,387,092 into the Trust have been calculated based on a level-dollar amortization over 18 years from June 30, 2016.

The table below displays the defined benefit plan contribution rates for the year ended June 30, 2019:

Plan	Employee	Employer
<b>ERS</b>		
State Employees	3.75% Members with more than 20 yrs of service at July 1, 2012 – 11%	26.28%
Teachers		
<i>LEA funded</i>	3.75% Members with more than 20 yrs of service at July 1, 2012 – 11%	13.45%
<i>State funded</i>		10.06%
<b>TSB</b>	2% of the member’s annual salary up to but not exceeding \$11,500	2% of the member’s annual salary up to but not exceeding \$11,500
<b>MERS</b>		
General Employees	1.00% (additional 1% with a cost-of-living adjustment)	69 Municipalities, housing authorities, water and sewer districts contributed various actuarially determined rates.
Public Safety	9.00% (additional 1% with a cost-of-living adjustment)	48 Municipal police and fire departments contributed various actuarially determined rates.
<b>SPRBT</b>	8.75%	14.74%
<b>JRBT</b>	12.00% (8.75% supreme court judges)	20.28%
<b>RIJRFT</b>	12.00% (8.75% supreme court judges)	\$1,223,581 (Note 1)
<b>SPRFT</b>	N/A	\$16,387,092
Note 1 – The State of Rhode Island is not currently funding this plan on an advance funding basis – full actuarially determined employer contributions have not been made to the plan.		

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

Notes to the Financial Statements - Fiscal Year Ended June 30, 2019

**7. Contributions (continued)**

The table below displays the defined contribution plan contribution rates for the year ended June 30, 2019:

Plan	Employee	Employer
Defined Contribution Plan	Eligible state employees, teachers, and MERS general employees participating in social security – 5%	1% to 1.5% based on years of service
	Teachers and MERS general employees not covered by social security – 7%	3% to 3.5% based on years of service
	MERS police and fire employees not covered by social security – 3%	3%

Effective July 1, 2015, members of the defined contribution plan who had 20 or more years of service as of July 1, 2012, remained as plan participants but no longer contributed to the plan (both employee and employer contributions).

**(c). Contributions from Non-employer Contributing Entity**

Within the ERS plan, the State of Rhode Island, as a non-employer contributing entity, makes a contribution for teachers employed by local educational agencies. This is considered a special funding situation wherein the State, by statute, has assumed responsibility to fund approximately 40% of the annual required employer contribution for teachers.

**(d). Supplemental Contributions**

The General Laws (Section 36-10-2(e) 1 and 2) also require, in addition to the contributions provided for by the funding policy, for each fiscal year in which the actuarially determined state contribution rate for state employees and teachers, including state contributions to the defined contribution plan, is lower than that for the prior fiscal year, the governor shall include an appropriation to that system equivalent to twenty percent (20%) of the rate reduction to be applied to the actuarial accrued liability. The amounts to be appropriated shall be included in the annual appropriation bill and shall be paid by the general treasurer into the retirement system. The retirement system's actuary shall not adjust the computation of the annual required contribution for the year in which supplemental contributions are received; such contributions once made may be treated as reducing the actuarial liability remaining for amortization in the next following actuarial valuation to be performed. For fiscal 2019, there were no monies contributed to the System in accordance with this provision of the General Laws.

The Retirement Security Act provides for additional contributions to the System based on 5.5% of the value of contracts where the services performed by the contractor were previously performed by state employees. A supplemental contribution of \$510,899 was paid to the System pursuant to Section 42-149-3.1 of the General Laws.

*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*

*Notes to the Financial Statements - Fiscal Year Ended June 30, 2019*

## 8. Net Pension Liability (Asset) of the Participating Employers

The components of the net pension liability of the employers participating in the various plans of the System at June 30, 2019 were as follows:

Plan	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b>ERS</b>				
State Employee	\$ 4,798,367,474	\$ 2,531,945,464	\$ 2,266,422,010	52.8%
Teacher	7,020,663,882	3,829,895,134	3,190,768,748	54.6%
<b>TSB</b>	225,971,393	339,417,231	(113,445,838)	150.2%
<b>SPRBT</b>	177,433,244	147,405,372	30,027,872	83.1%
<b>JRBT</b>	81,092,598	77,612,616	3,479,982	95.7%
<b>RIJRFT</b>	20,474,176	966,393	19,507,783	4.7%
<b>SPRFT</b>	177,976,747	16,598,339	161,378,408	9.3%
<b>MERS</b>				
General Employees	1,295,414,352	1,036,779,826	258,634,526	80.0%
Municipal Police/Fire	756,968,068	588,360,443	168,607,625	77.7%

### a. Actuarial assumptions

The total pension liability for all defined benefit plans was determined by actuarial valuations performed as of June 30, 2018 and rolled forward to June 30, 2019.

The actuarial assumptions used in the calculation of the total pension liability at the June 30, 2019 measurement date were consistent with the 2017 Actuarial Experience Investigation Study for the six-year period ended June 30, 2016 as approved by the System's Board on May 15, 2017.

The following table summarizes the actuarial assumptions applied to all periods included in the measurement.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

Notes to the Financial Statements - Fiscal Year Ended June 30, 2019

**8. Net Pension Liability (Asset) of the Participating Employers (continued)**

Summary of Actuarial Assumptions								
Used in the June 30, 2019 measurement date valuations to determine the Net Pension Liability								
	ERS		MERS	SPRBT	JRBT	RIJRFT	TSB	SPRFT
	State Employees	Teachers						
<b>Valuation Date</b>	June 30, 2018 valuation rolled forward to the June 30, 2019 measurement date.							
<b>Actuarial Cost Method</b>	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.							
<b>Amortization Method</b>	Level Percent of Payroll – Closed					Level Dollar	Level Dollar	Level Dollar
<b>Actuarial Assumptions</b>								
<b>Investment Rate of Return</b>	7.0%	7.0%	7.00%	7.0%	7.0%	3.13%	7.00%	7.00%
<b>Projected Salary Increases (1)</b>	3.25% to 6.25%	3.0% to 13.0%	<u>General Employees</u> 3.25% to 7.25% <u>Police &amp; Fire Employees</u> 4.00% to 14.00%	3.75% to 11.75%	3.00%	3.00%	3.0% to 13.0%	
<b>Inflation</b>	2.5%							
<b>Mortality</b>	Variants of the RP-2014 mortality tables - for the improvement scale, update to the ultimate rates of the MP-2016 projection scale.							

(1) **Overall wage inflation** – 3.00% per year composed of an assumed 2.50% inflation assumption rate and a 0.50% general productivity component. This assumption represents wage information for the economy as a whole and is used as a starting point for the determining other wage related assumption and is used as the rate of growth for new entrant salaries in any open group projections.

**Cost of Living Adjustments** – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a four-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5.0% (5 yr return – 5.0%, with a max of 4%) and 50% calculated using a previous year's CPI-U (max of 3%) for a total maximum COLA of 3.5%. This COLA is calculated on the first \$26,688, effective January 1, 2019, and indexed as of that date as well. The indexing formula is run annually regardless of funding level each year. The COLA will be delayed until the later of the Social Security Retirement Age or three years after retirement.

For the TSB plan, a 2.75% COLA is assumed. For all other plans, a COLA of 2.1% is assumed.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

Notes to the Financial Statements - Fiscal Year Ended June 30, 2019

**8. Net Pension Liability (Asset) of the Participating Employers (continued)**

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 34 sources. The June 30, 2019 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Arithmetic Real Rate of Return
<b>GROWTH</b>		
<b>Global Equity</b>		
US Equity	22.10%	6.16%
International Developed Equity	13.20%	6.83%
Emerging Markets Equity	4.70%	8.90%
<b>Sub-total</b>	<b>40.00%</b>	
<b>Private Growth</b>		
Private Equity	11.25%	9.81%
Non-Core Real Estate	2.25%	5.51%
Opportunistic Private Credit	1.50%	9.81%
<b>Sub-total</b>	<b>15.00%</b>	
<b>INCOME</b>		
High Yield Infrastructure	1.00%	3.98%
REITS	1.00%	5.51%
Liquid Credit	2.80%	3.98%
Private Credit	3.20%	3.98%
<b>Sub-total</b>	<b>8.00%</b>	
<b>STABILITY</b>		
<b>Crisis Protection Class</b>		
Treasury Duration	4.00%	0.77%
Systematic Trend	4.00%	4.20%
<b>Sub-total</b>	<b>8.00%</b>	
<b>Inflation Protection</b>		
Core Real Estate	3.60%	5.51%
Private Infrastructure	2.40%	5.85%
TIPs	1.00%	1.37%
Natural Resources	1.00%	3.76%
<b>Sub-total</b>	<b>8.00%</b>	
<b>Volatility Protection</b>		
IG Fixed Income	11.50%	2.15%
Absolute Return	6.50%	4.20%
Cash	3.00%	0.77%
<b>Sub-total</b>	<b>21.00%</b>	
<b>Total</b>	<b>100.00%</b>	

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*

*Notes to the Financial Statements - Fiscal Year Ended June 30, 2019*

**8. Net Pension Liability (Asset) of the Participating Employers (continued)**

**b. Discount rate**

The discount rate used to measure the total pension liability of the plans was 7.0 percent for all but the RIJRFT plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

For the RIJRFT plan, the State has not opted to make actuarially determined employer contributions and based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Consequently, for the RIJRFT plan, the municipal bond index rate, based on fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" (3.13% at June 30, 2019) was applied to all periods of projected benefit payments to determine the total pension liability.

**c. Sensitivity of the net pension liability (asset) to changes in the discount rate**

The following presents the net pension liability (asset) of the employers calculated using the discount rate of 7.0 percent (for all plans except the RIJRFT), as well as what the employers' net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate. The RIJRFT plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members and consequently the municipal bond index rate of 3.13% at June 30, 2019 was used in the determination of the net pension liability for that plan with a similar +/-1% sensitivity analysis.

Plan	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
<b>ERS - State Employees</b>	\$ 2,781,828,112	\$ 2,266,422,010	\$ 1,844,501,669
<b>ERS - Teachers</b>	\$ 3,943,247,831	\$ 3,190,768,748	\$ 2,574,788,849
<b>TSB</b>	\$ (87,420,421)	\$ (113,445,838)	\$ (132,823,741)
<b>SPRBT</b>	\$ 50,206,361	\$ 30,027,872	\$ 15,004,871
<b>JRBT</b>	\$ 11,965,606	\$ 3,479,982	\$ (3,464,668)
<b>SPRFT</b>	\$ 180,925,785	\$ 161,378,408	\$ 145,373,147
<b>MERS - General Employees</b>	\$ 395,863,813	\$ 258,634,526	\$ 146,311,411
<b>MERS - Municipal Police/Fire</b>	\$ 247,251,261	\$ 168,607,625	\$ 104,249,840
	1.00% Decrease (2.13)%	Current Discount Rate (3.13)%	1.00% Increase (4.13)%
<b>RIJRFT</b>	\$ 21,790,250	\$ 19,507,783	\$ 17,809,499

## EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

*Notes to the Financial Statements - Fiscal Year Ended June 30, 2019*

### 9. Administrative Expenses

Pursuant to General Law section 36-8-10.1, administrative costs of the System are financed through investment earnings up to a maximum of 0.175% of the average total investments before lending activities as reported in the annual report of the Auditor General for the next preceding five (5) fiscal years. Such amounts are transferred to a restricted receipt account within the State's general fund. Any unencumbered funds on June 30 of any fiscal year are credited to the plans in the same proportion as their contributions to the restricted receipt account.

Administrative expenses allocated to the System include personnel costs for employees of the Office of the General Treasurer who, in whole or in part, are involved in administering the System. The personnel costs allocated to the System include the employer share of actuarially determined contributions to the defined benefit pension plan (Employees' Retirement System Plan for State Employees) and the defined benefit post-employment health care plan, a cost sharing multiple employer plan administered through the Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System). Required contributions to the defined contribution pension plan are also included in the allocated personnel costs. The State does not include any proportionate share of the net pension liability or net OPEB liability for cost-sharing pension and OPEB plans in the fiduciary funds of the State. The long-term pension and OPEB liabilities are reflected in the governmental activities of the State's government-wide financial statements.

The employer cost for employees participating in the State Employees' System defined benefit pension plan was 26.28% of covered payroll for fiscal 2019. Employer contribution to the defined benefit pension plan, included as administrative costs for the years ended June 30, 2019, 2018 and 2017 were \$972,024, \$900,172, and \$841,590, respectively, which represents 100% of the annual required contributions. The employer cost for employees participating in the System's defined contribution pension plan was 1% to 1.5% of covered payroll based on years of service for fiscal 2019. Effective July 1, 2015, members of the defined contribution plan who had 20 or more years of service as of July 1, 2012, remained as plan participants but no longer contributed to the plan (both employee and employer contributions). Employer contributions to the defined contribution pension plan, included as administrative costs for the years ended June 30, 2019, 2018 and 2017 were \$33,996, \$32,798, and \$30,794, respectively, which represents 100% of the annual required contributions.

The employer cost for employees participating in the State Employees' OPEB plan was 5.98% of covered payroll for fiscal 2019. Employer contributions to the OPEB plan, included as administrative costs for the years ended June 30, 2019, 2018 and 2017 were \$227,964, \$223,763, and \$204,768 respectively, which represents 100% of the annual required contributions.

The OPEB system issues a stand-alone, publicly available financial report that includes the financial statements and required supplementary information including descriptions of benefit provisions and information about the measurement of the net OPEB liability. A copy of the report can be obtained from the Office of Accounts and Control, One Capitol Hill, Providence, RI 02903.

Administrative expenses of the System, financed as previously described, include \$1,653,742 of expenses related to oversight of the System's investment portfolio. Consistent with generally accepted accounting principles, these expenses have been included with investment expenses on the accompanying financial statements.

For fiscal year 2019, the administrative costs of the defined contribution plan were financed solely by participant fees. Fees paid to TIAA-CREF via participant fees for fiscal year ended June 30, 2019 were \$1,337,324, excluding plan transfers. From these participant fees, \$202,022 was transferred to the State of Rhode Island to fund the fiscal 2019 operating expenses of the Office of the General Treasurer related to the administration of the defined contribution plan.

## **10. Commitments**

The State Investment Commission has committed to fund certain private equity, real estate, and infrastructure investment managers at a predetermined subscription amount. Outstanding unfunded investment commitments at June 30, 2019 totaled \$847.5 million. These commitments will be funded through cash available within the pooled investment trust generated through investment income and/or liquidation of other investments.

The system's investments in hedge funds are generally subject to "lock-up" provisions that limit (subject to certain exceptions) the ability to withdraw amounts previously invested for a period of one to three years after the initial investment. Hedge fund assets are available for redemption either on a month end or quarter end basis and are subject to notice periods which vary by fund and range from 2 days to 90 days. At June 30, 2019 \$1.1 million was in liquidation.

The System is committed under a ten-year development and operating agreement to design, transition, and implement new line-of-business, general ledger accounting system, and payroll administration systems. The contract requires monthly payments through fiscal 2025. Total payments over the contract period are estimated at \$22 million.

## **11. Related Parties**

The State Investment Commission, which sets investment policy and oversees the investments of the System, created three limited liability companies to account for assets invested by managers within its Crisis Protection Class – Trend Following. The Employees' Retirement System of the State of Rhode Island is the sole equity member in each of the limited liability companies. The System's investment in the limited liability companies is reported at the net asset value of the limited liability company based on independently audited financial statements as of and for the year ended June 30.

## **12. Contingencies**

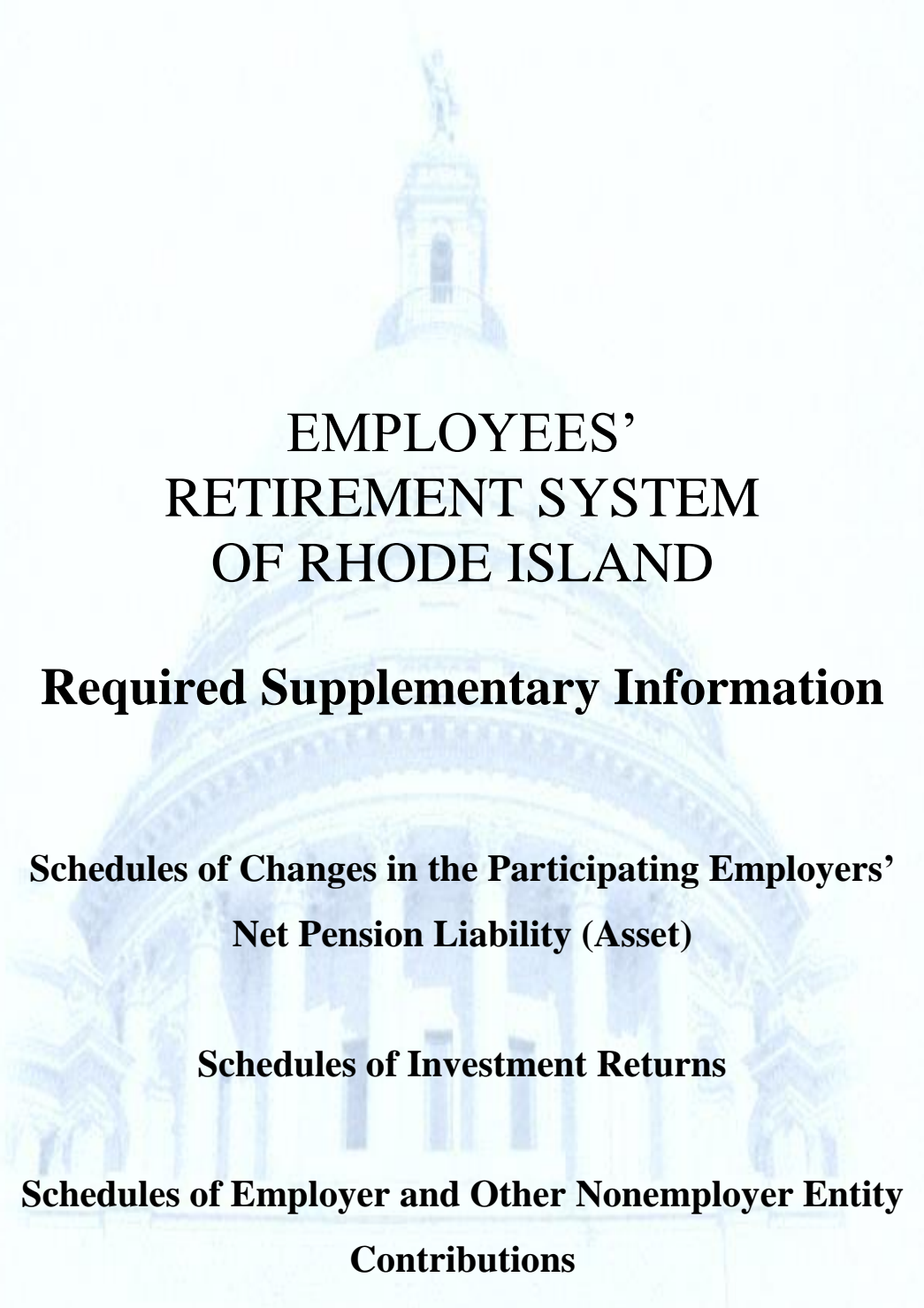
**Legal Challenges to Pension Reform** - The 2009, 2010 and 2011 legislative pension reforms resulted in numerous lawsuits against the State brought by current and retired employees, as well as their unions. Of these lawsuits, only one remains pending as described below.

In September 2014, a case challenging RIRSA was commenced by the Rhode Island State Troopers Association and Rhode Island State Troopers Association ex rel. Kevin M. Grace and Ernest E. Adams in Superior Court against the State and ERSRI as co-defendants. In 2019, the co-defendants filed motions to dismiss. The hearing on the motions to dismiss were heard December 13, 2019. A decision on the motions has not been rendered.

## **13. Subsequent events**

The System has evaluated subsequent events through December 31, 2019, the date the statements were available to be issued.





**EMPLOYEES'  
RETIREMENT SYSTEM  
OF RHODE ISLAND**

**Required Supplementary Information**

**Schedules of Changes in the Participating Employers'  
Net Pension Liability (Asset)**

**Schedules of Investment Returns**

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Contributions**

**Notes to Required Supplementary Information**

**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
*Schedules of Changes in the Participating Employers' Net Pension Liability*  
**Employees' Retirement System Plan**

	2019		2018		2017		2016		2015		2014	
	State Employees	Teachers	State Employees	Teachers	State Employees	Teachers	State Employees	Teachers	State Employees	Teachers	State Employees	Teachers
<b>Total Pension Liability</b>												
Service Cost	\$ 61,954,710	\$ 83,247,093	\$ 61,430,436	\$ 82,924,148	\$ 58,715,260	\$ 79,219,202	\$ 59,017,905	\$ 78,445,027	\$ 58,003,597	\$ 73,780,964	\$ 56,795,525	\$ 73,917,744
Interest	322,077,303	473,000,055	317,996,827	464,922,181	320,346,656	471,638,608	320,857,388	471,001,292	312,489,666	457,901,918	309,695,399	454,525,784
Benefit Changes	-	-	-	-	-	-	-	-	102,727,033	148,006,628		
Differences between expected and actual experience	15,518,855	(7,814,369)	18,658,150	54,088,887	(6,891,246)	(29,762,014)	(48,986,533)	(50,843,400)	(28,729,479)	(20,696,669)		
Changes of assumptions	-	-	-	-	235,517,482	318,950,799			-	-	(23,761,746)	(98,423,775)
Benefit payments	(342,620,725)	(486,577,981)	(337,489,367)	(486,818,998)	(337,555,977)	(490,517,793)	(337,538,418)	(490,467,141)	(329,318,255)	(482,865,966)	(330,357,881)	(483,854,062)
<b>Net change in Total Pension Liability</b>	<b>\$ 56,930,143</b>	<b>\$ 61,854,798</b>	<b>\$ 60,596,046</b>	<b>\$ 115,116,218</b>	<b>\$ 270,132,175</b>	<b>\$ 349,528,802</b>	<b>\$ (6,649,658)</b>	<b>\$ 8,135,778</b>	<b>\$ 115,172,562</b>	<b>\$ 176,126,875</b>	<b>\$ 12,371,297</b>	<b>\$ (53,834,309)</b>
<b>Total pension liability - beginning</b>	<b>4,741,437,331</b>	<b>6,958,809,084</b>	<b>4,680,841,285</b>	<b>6,843,692,866</b>	<b>4,410,709,110</b>	<b>6,494,164,064</b>	<b>4,417,358,768</b>	<b>6,486,028,286</b>	<b>4,302,186,206</b>	<b>6,309,901,411</b>	<b>4,289,814,909</b>	<b>6,363,735,720</b>
<b>Total pension liability - ending</b>	<b>\$ 4,798,367,474</b>	<b>\$ 7,020,663,882</b>	<b>\$ 4,741,437,331</b>	<b>\$ 6,958,809,084</b>	<b>\$ 4,680,841,285</b>	<b>\$ 6,843,692,866</b>	<b>\$ 4,410,709,110</b>	<b>\$ 6,494,164,064</b>	<b>\$ 4,417,358,768</b>	<b>\$ 6,486,028,286</b>	<b>\$ 4,302,186,206</b>	<b>\$ 6,309,901,411</b>
<b>Plan Fiduciary Net Position</b>												
Employer contributions	\$ 189,415,698	\$ 249,634,988	\$ 174,374,155	\$ 239,092,095	\$ 176,093,310	\$ 233,828,518	\$ 159,534,421	\$ 225,569,556	\$ 155,901,921	\$ 217,902,736	\$ 151,660,705	\$ 197,869,704
Employee contributions	39,830,923	50,213,121	39,996,527	49,906,906	41,537,793	50,071,218	41,021,592	49,502,952	28,477,668	36,470,893	28,105,658	36,306,239
Net investment income	157,159,868	237,724,787	188,629,584	286,398,383	259,237,475	394,975,442	(3,122,838)	(4,788,264)	57,417,358	88,131,991	340,085,721	522,960,223
Benefit payments	(342,620,725)	(486,577,981)	(337,489,367)	(486,818,998)	(337,555,977)	(490,517,793)	(337,538,418)	(490,467,141)	(329,318,255)	(482,865,966)	(330,357,881)	(483,854,062)
Transfers of member contributions											303,014	(290,471)
Administrative expenses	(2,558,265)	(3,869,709)	(2,544,260)	(3,862,978)	(2,533,747)	(3,860,429)	(2,259,017)	(3,463,764)	(2,394,922)	(3,676,564)	(2,234,676)	(3,436,330)
Transfers to affiliated systems	5,460	359,298	1,456,519	(424,248)	680,142	390,872	(252,093)	252,093	(107,668)	145,179		
Other	79,332	849,710	124,217	869,209	180,663	926,185	132,016	955,508	673,125	1,016,295	182,841	129,791
<b>Net change in fiduciary net position</b>	<b>\$ 41,312,291</b>	<b>\$ 48,334,214</b>	<b>\$ 64,547,375</b>	<b>\$ 85,160,369</b>	<b>\$ 137,639,659</b>	<b>\$ 185,814,013</b>	<b>\$ (142,484,337)</b>	<b>\$ (222,439,060)</b>	<b>\$ (89,350,773)</b>	<b>\$ (142,875,436)</b>	<b>\$ 187,745,382</b>	<b>\$ 269,685,094</b>
<b>Plan Fiduciary net position - beginning</b>	<b>\$ 2,490,633,173</b>	<b>\$ 3,781,560,920</b>	<b>\$ 2,426,085,798</b>	<b>\$ 3,696,400,551</b>	<b>\$ 2,288,446,139</b>	<b>\$ 3,510,586,538</b>	<b>\$ 2,430,930,476</b>	<b>\$ 3,733,025,598</b>	<b>\$ 2,520,281,249</b>	<b>\$ 3,875,901,034</b>	<b>\$ 2,332,535,867</b>	<b>\$ 3,606,215,939</b>
<b>Plan Fiduciary net position - ending</b>	<b>\$ 2,531,945,464</b>	<b>\$ 3,829,895,134</b>	<b>\$ 2,490,633,173</b>	<b>\$ 3,781,560,920</b>	<b>\$ 2,426,085,798</b>	<b>\$ 3,696,400,551</b>	<b>\$ 2,288,446,139</b>	<b>\$ 3,510,586,538</b>	<b>\$ 2,430,930,476</b>	<b>\$ 3,733,025,598</b>	<b>\$ 2,520,281,249</b>	<b>\$ 3,875,901,033</b>
<b>Net Pension Liability</b>	<b>\$ 2,266,422,010</b>	<b>\$ 3,190,768,748</b>	<b>\$ 2,250,804,158</b>	<b>\$ 3,177,248,164</b>	<b>\$ 2,254,755,487</b>	<b>\$ 3,147,292,315</b>	<b>\$ 2,122,262,971</b>	<b>\$ 2,983,577,526</b>	<b>\$ 1,986,428,292</b>	<b>\$ 2,753,002,688</b>	<b>\$ 1,781,904,957</b>	<b>\$ 2,434,000,378</b>
<b>Plan Fiduciary Net Position as a percentage of the total pension liability</b>	52.8%	54.6%	52.5%	54.3%	51.8%	54.0%	51.9%	54.1%	55.0%	57.6%	58.6%	61.4%
<b>Covered payroll</b>	\$ 718,732,131	\$ 1,060,472,523	\$ 691,006,031	\$ 1,031,394,874	\$ 683,530,388	\$ 1,010,449,004	\$ 671,420,995	\$ 980,562,840	\$ 669,787,489	\$ 966,985,115	\$ 653,573,357	\$ 951,322,312
<b>Net pension liability as a percentage of covered payroll</b>	315.3%	300.9%	325.7%	308.1%	329.9%	311.5%	316.1%	304.3%	296.6%	284.7%	272.6%	255.9%

See notes to required supplementary information.

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**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedules of Changes in the Participating Employers' Net Pension Liability (Asset)**  
**Teachers' Survivors Benefits Plan**

	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>						
Service Cost	\$ 1,673,826	\$ 1,729,578	\$ 2,154,632	\$ 2,151,235	\$ 2,134,663	\$ 2,193,930
Interest	16,383,892	15,761,211	15,439,481	14,803,900	12,500,416	11,958,890
Benefit Changes	-	-	19,564,182		-	-
Differences between expected and actual experience	(19,959,752)	1,716,443	(23,870,746)		24,212,282	-
Changes of assumptions	-	-	15,500,130		-	-
Benefit payments	(10,690,518)	(9,877,314)	(8,672,172)	(8,292,668)	(7,992,381)	(7,622,990)
<b>Net change in Total Pension Liability</b>	<b>(12,592,552)</b>	<b>9,329,918</b>	<b>20,115,507</b>	<b>8,662,467</b>	<b>30,854,980</b>	<b>6,529,830</b>
<b>Total pension liability - beginning</b>	<b>238,563,945</b>	<b>229,234,027</b>	<b>209,118,520</b>	<b>200,456,053</b>	<b>169,601,073</b>	<b>163,071,243</b>
<b>Total pension liability - ending</b>	<b>\$ 225,971,393</b>	<b>\$ 238,563,945</b>	<b>\$ 229,234,027</b>	<b>\$ 209,118,520</b>	<b>\$ 200,456,053</b>	<b>\$ 169,601,073</b>
<b>Plan Fiduciary Net Position</b>						
Employer contributions	\$ 745,856	\$ 744,035	\$ 589,883	\$ 642,276	\$ 603,388	\$ 609,168
Employee contributions	745,856	744,035	589,883	642,276	603,388	609,168
Net investment income	21,155,071	24,552,338	33,277,060	(51,004)	6,951,465	39,657,338
Benefit payments	(10,690,518)	(9,877,314)	(8,672,172)	(8,292,668)	(7,992,381)	(7,622,990)
Administrative expenses	(332,273)	(330,288)	(309,283)	(267,475)	(276,010)	(260,585)
Other	-	-	5	(1)		
<b>Net change in fiduciary net position</b>	<b>\$ 11,623,992</b>	<b>\$ 15,832,806</b>	<b>\$ 25,475,376</b>	<b>\$ (7,326,596)</b>	<b>\$ (110,150)</b>	<b>\$ 32,992,099</b>
<b>Plan Fiduciary net position - beginning</b>	<b>\$ 327,793,239</b>	<b>\$ 311,960,433</b>	<b>\$ 286,485,057</b>	<b>\$ 293,811,653</b>	<b>\$ 293,921,803</b>	<b>\$ 260,929,704</b>
<b>Plan Fiduciary net position - ending</b>	<b>\$ 339,417,231</b>	<b>\$ 327,793,239</b>	<b>\$ 311,960,433</b>	<b>\$ 286,485,057</b>	<b>\$ 293,811,653</b>	<b>\$ 293,921,803</b>
<b>Net Pension Liability (Asset)</b>	<b>\$ (113,445,838)</b>	<b>\$ (89,229,294)</b>	<b>\$ (82,726,406)</b>	<b>\$ (77,366,537)</b>	<b>\$ (93,355,600)</b>	<b>\$ (124,320,730)</b>
<b>Plan Fiduciary Net Position as a percentage of the total pension liability (asset)</b>	150.2%	137.4%	136.1%	137.0%	146.6%	173.3%
<b>Covered payroll</b>	<b>\$ 576,424,716</b>	<b>\$ 557,928,457</b>	<b>\$ 538,657,952</b>	<b>\$ 581,414,779</b>	<b>\$ 561,753,409</b>	<b>\$ 563,134,080</b>
<b>Net pension liability (asset) as a percentage of covered payroll</b>	-19.7%	-16.0%	-15.4%	-13.3%	-16.6%	-22.1%

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**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
*Schedules of Changes in the Participating Employers' Net Pension Liability*  
**State Police Retirement Benefits Trust Plan**

	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>						
Service Cost	\$ 5,342,133	\$ 4,999,127	\$ 4,497,800	\$ 4,316,597	\$ 4,198,214	\$ 5,121,964
Interest	11,590,039	10,763,319	9,392,637	9,057,956	8,540,146	7,767,937
Benefit Changes	-	-	-	-	1,169,580	-
Differences between expected and actual experience	623,765	1,911,865	10,693,999	(4,139,122)	(3,522,114)	-
Changes of assumptions	-	-	9,274,363	-	-	(364,277)
Benefit payments	(6,047,218)	(6,023,853)	(5,141,978)	(4,585,258)	(2,496,511)	(1,767,304)
<b>Net change in Total Pension Liability</b>	<b>11,508,719</b>	<b>11,650,458</b>	<b>28,716,821</b>	<b>4,650,173</b>	<b>7,889,315</b>	<b>10,758,320</b>
<b>Total pension liability - beginning</b>	<b>165,924,525</b>	<b>154,274,067</b>	<b>125,557,246</b>	<b>120,907,073</b>	<b>113,017,758</b>	<b>102,259,438</b>
<b>Total pension liability - ending</b>	<b>\$ 177,433,244</b>	<b>\$ 165,924,525</b>	<b>\$ 154,274,067</b>	<b>\$ 125,557,246</b>	<b>\$ 120,907,073</b>	<b>\$ 113,017,758</b>
<b>Plan Fiduciary Net Position</b>						
Employer contributions	\$ 3,566,922	\$ 2,797,003	\$ 2,980,219	\$ 4,004,656	\$ 3,432,359	\$ 3,330,889
Employee contributions	2,130,140	1,994,057	2,059,884	2,034,676	1,731,585	2,033,664
Net investment income	9,159,909	10,298,412	13,694,012	58,578	2,655,869	14,124,238
Benefit payments	(6,047,218)	(6,023,853)	(5,141,978)	(4,585,258)	(2,496,511)	(1,767,304)
Administrative expenses	(139,604)	(136,371)	(125,445)	(102,053)	(99,782)	(83,318)
Other	1,254	16,057	5,390	390	3,694	5,421
<b>Net change in fiduciary net position</b>	<b>\$ 8,671,403</b>	<b>\$ 8,945,305</b>	<b>\$ 13,472,082</b>	<b>\$ 1,410,989</b>	<b>\$ 5,227,214</b>	<b>\$ 17,643,590</b>
<b>Plan Fiduciary net position - beginning</b>	<b>\$ 138,733,969</b>	<b>\$ 129,788,664</b>	<b>\$ 116,316,582</b>	<b>\$ 114,905,593</b>	<b>\$ 109,678,379</b>	<b>\$ 92,034,791</b>
<b>Plan Fiduciary net position - ending</b>	<b>\$ 147,405,372</b>	<b>\$ 138,733,969</b>	<b>\$ 129,788,664</b>	<b>\$ 116,316,582</b>	<b>\$ 114,905,593</b>	<b>\$ 109,678,381</b>
<b>Net Pension Liability</b>	<b>\$ 30,027,872</b>	<b>\$ 27,190,556</b>	<b>\$ 24,485,403</b>	<b>\$ 9,240,664</b>	<b>\$ 6,001,480</b>	<b>\$ 3,339,377</b>
<b>Plan Fiduciary Net Position as a percentage of the total pension liability</b>	83.1%	83.6%	84.1%	92.6%	95.0%	97.0%
<b>Covered payroll</b>	<b>\$ 24,216,376</b>	<b>\$ 22,589,818</b>	<b>\$ 22,727,638</b>	<b>\$ 20,984,917</b>	<b>\$ 19,700,678</b>	<b>\$ 23,051,144</b>
<b>Net pension liability as a percentage of covered payroll</b>	124.0%	120.4%	107.7%	44.0%	30.5%	14.5%

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedules of Changes in the Participating Employers' Net Pension Liability**  
**Judicial Retirement Benefits Trust Plan**

	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>						
Service Cost	\$ 3,184,130	\$ 3,214,534	\$ 3,000,728	\$ 2,858,682	\$ 3,024,124	\$ 3,001,985
Interest	5,526,089	5,302,975	5,031,124	4,743,701	4,540,604	4,133,613
Benefit Changes	-	-	-	-	252,965	-
Differences between expected and actual experience	(3,165,269)	(2,032,334)	(1,788,628)	(1,205,744)	(2,857,295)	-
Changes of assumptions	-	-	5,173,300	-	-	(671,723)
Benefit payments	(3,608,845)	(2,956,407)	(2,740,166)	(2,530,567)	(1,808,864)	(1,631,368)
<b>Net change in Total Pension Liability</b>	<b>1,936,105</b>	<b>3,528,768</b>	<b>8,676,358</b>	<b>3,866,072</b>	<b>3,151,534</b>	<b>4,832,507</b>
<b>Total pension liability - beginning</b>	<b>79,156,493</b>	<b>75,627,725</b>	<b>66,951,367</b>	<b>63,085,295</b>	<b>59,933,761</b>	<b>55,101,254</b>
<b>Total pension liability - ending</b>	<b>\$ 81,092,598</b>	<b>\$ 79,156,493</b>	<b>\$ 75,627,725</b>	<b>\$ 66,951,367</b>	<b>\$ 63,085,295</b>	<b>\$ 59,933,761</b>
<b>Plan Fiduciary Net Position</b>						
Employer contributions	1,922,023	2,057,529	2,057,159	\$ 2,410,039	\$ 2,709,397	\$ 2,543,510
Employee contributions	1,109,161	1,142,163	1,117,518	1,052,902	1,120,609	1,092,790
Net investment income	4,819,916	5,376,764	7,107,208	28,787	1,367,527	7,220,592
Benefit payments	(3,608,845)	(2,956,407)	(2,740,166)	(2,530,567)	(1,808,864)	(1,631,368)
Administrative expenses	(73,533)	(71,270)	(65,088)	(52,548)	(51,039)	(42,538)
Other	-	-	(1)	(1)	-	-
<b>Net change in fiduciary net position</b>	<b>\$ 4,168,722</b>	<b>\$ 5,548,779</b>	<b>\$ 7,476,630</b>	<b>\$ 908,612</b>	<b>\$ 3,337,630</b>	<b>\$ 9,182,986</b>
<b>Plan Fiduciary net position - beginning</b>	<b>\$ 73,443,894</b>	<b>\$ 67,895,115</b>	<b>\$ 60,418,485</b>	<b>\$ 59,509,873</b>	<b>\$ 56,172,243</b>	<b>\$ 46,989,257</b>
<b>Plan Fiduciary net position - ending</b>	<b>\$ 77,612,616</b>	<b>\$ 73,443,894</b>	<b>\$ 67,895,115</b>	<b>\$ 60,418,485</b>	<b>\$ 59,509,873</b>	<b>\$ 56,172,243</b>
<b>Net Pension Liability</b>	<b>\$ 3,479,982</b>	<b>\$ 5,712,599</b>	<b>\$ 7,732,610</b>	<b>\$ 6,532,882</b>	<b>\$ 3,575,422</b>	<b>\$ 3,761,518</b>
<b>Plan Fiduciary Net Position as a percentage of the total pension liability</b>	95.7%	92.8%	89.8%	90.2%	94.3%	93.7%
<b>Covered payroll</b>	<b>\$ 9,473,758</b>	<b>\$ 9,653,254</b>	<b>\$ 9,532,174</b>	<b>\$ 8,981,094</b>	<b>\$ 9,570,014</b>	<b>\$ 9,314,258</b>
<b>Net pension liability as a percentage of covered payroll</b>	36.7%	59.2%	81.1%	72.7%	37.4%	40.4%

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**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
*Schedules of Changes in the Participating Employers' Net Pension Liability*  
**Rhode Island Judicial Retirement Fund Trust Plan**

	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>						
Service Cost	\$ 277,053	\$ 293,825	\$ 349,593	\$ 466,046	\$ 416,208	\$ 497,532
Interest	756,058	725,852	615,782	719,311	673,131	709,876
Benefit Changes	-	-	-	-	-	-
Differences between expected and actual experience	(2,023,652)	-	(1,090,142)		(642,370)	1,617,560
Changes of assumptions	917,164	(115,788)	(665,634)	1,865,123	858,970	(1,159,812)
Benefit payments	(399,016)	(399,016)	(399,015)	(231,176)	-	-
<b>Net change in Total Pension Liability</b>	<b>(472,393)</b>	<b>504,873</b>	<b>(1,189,416)</b>	<b>2,819,304</b>	<b>1,305,939</b>	<b>1,665,156</b>
<b>Total pension liability - beginning</b>	<b>20,946,569</b>	<b>20,441,696</b>	<b>21,631,112</b>	<b>18,811,808</b>	<b>17,505,869</b>	<b>15,840,713</b>
<b>Total pension liability - ending</b>	<b>\$ 20,474,176</b>	<b>\$ 20,946,569</b>	<b>\$ 20,441,696</b>	<b>\$ 21,631,112</b>	<b>\$ 18,811,808</b>	<b>\$ 17,505,869</b>
<b>Plan Fiduciary Net Position</b>						
Employer contributions	\$ 399,016	\$ 399,012	\$ 332,340	\$ 140,141	\$ -	\$ -
Employee contributions	121,904	116,757	116,667	135,454	158,718	153,145
Net investment income	39,005	43,511	63,669	3,869	9,094	12,045
Benefit payments	(399,016)	(399,016)	(399,015)	(231,176)	-	-
Administrative expenses	(762)	(646)	(558)	(361)	(239)	(77)
Other		-	-	1		
<b>Net change in fiduciary net position</b>	<b>\$ 160,147</b>	<b>\$ 159,618</b>	<b>\$ 113,103</b>	<b>\$ 47,928</b>	<b>\$ 167,573</b>	<b>\$ 165,113</b>
<b>Plan Fiduciary net position - beginning</b>	<b>\$ 806,246</b>	<b>\$ 646,628</b>	<b>\$ 533,525</b>	<b>\$ 485,597</b>	<b>\$ 318,024</b>	<b>\$ 152,910</b>
<b>Plan Fiduciary net position - ending</b>	<b>\$ 966,393</b>	<b>\$ 806,246</b>	<b>\$ 646,628</b>	<b>\$ 533,525</b>	<b>\$ 485,597</b>	<b>\$ 318,023</b>
<b>Net Pension Liability</b>	<b>\$ 19,507,783</b>	<b>\$ 20,140,323</b>	<b>\$ 19,795,068</b>	<b>\$ 21,097,587</b>	<b>\$ 18,326,211</b>	<b>\$ 17,187,846</b>
<b>Plan Fiduciary Net Position as a percentage of the total pension liability</b>	4.7%	3.8%	3.2%	2.5%	2.6%	1.8%
<b>Covered payroll</b>	\$ 1,002,164	\$ 1,020,224	\$ 988,110	\$ 963,703	\$ 1,320,875	\$ 1,276,208
<b>Net pension liability as a percentage of covered payroll</b>	1946.6%	1974.1%	2003.3%	2189.2%	1387.4%	1346.8%

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedules of Changes in the Participating Employers' Net Pension Liability**  
**Rhode Island State Police Retirement Fund Trust Plan**

	2019	2018	2017
<b>Total Pension Liability</b>			
Service Cost	\$ -	\$ -	\$ -
Interest	11,339,743	11,712,422	12,588,781
Benefit Changes	-	-	-
Differences between expected and actual experience	13,040,378	-	-
Changes of assumptions	-	-	4,213,754
Benefit payments	(16,799,403)	(17,273,412)	(17,391,853)
<b>Net change in Total Pension Liability</b>	<u>7,580,718</u>	<u>(5,560,990)</u>	<u>(589,318)</u>
<b>Total pension liability - beginning</b>	170,396,029	175,957,019	176,546,337
<b>Total pension liability - ending</b>	<u>\$ 177,976,747</u>	<u>\$ 170,396,029</u>	<u>\$ 175,957,019</u>
<b>Plan Fiduciary Net Position</b>			
Employer contributions	16,387,092	16,387,092	31,566,076
Employee contributions	-	-	-
Net investment income	768,972	1,136,938	1,838,792
Benefit payments	(16,799,403)	(17,273,412)	(17,391,853)
Administrative expenses	(16,727)	(5,304)	-
Other	75	1	-
<b>Net change in fiduciary net position</b>	<u>\$ 340,009</u>	<u>\$ 245,315</u>	<u>\$ 16,013,015</u>
<b>Plan Fiduciary net position - beginning</b>	16,258,330	16,013,015	-
<b>Plan Fiduciary net position - ending</b>	<u>\$ 16,598,339</u>	<u>\$ 16,258,330</u>	<u>\$ 16,013,015</u>
<b>Net Pension Liability</b>	<u>\$ 161,378,408</u>	<u>\$ 154,137,699</u>	<u>\$ 159,944,004</u>
<b>Plan Fiduciary Net Position as a percentage of the total pension liability</b>	9.3%	9.5%	9.1%
<b>Covered payroll</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net pension liability as a percentage of covered payroll</b>	<u>-</u>	<u>-</u>	<u>-</u>

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
*Schedules of Changes in the Participating Employers' Net Pension Liability (Asset)*  
**Municipal Employees' Retirement System Plan**

	2019		2018		2017		2016		2015		2014	
	General employees	Police & Fire	General employees	Police & Fire	General employees	Police & Fire	General employees	Police & Fire	General employees	Police & Fire	General employees	Police & Fire
<b>Total Pension Liability</b>												
Service Cost	\$ 22,389,001	\$ 22,704,444	\$ 22,575,669	\$ 21,676,077	\$ 21,557,479	\$ 18,945,916	\$ 20,993,576	\$ 17,716,756	\$ 20,454,038	\$ 15,802,260	\$ 20,534,252	\$ 15,425,188
Interest	86,978,973	50,426,631	84,784,807	47,530,413	83,854,464	44,876,752	82,527,045	42,922,588	79,553,219	39,209,010	77,208,696	36,969,722
Benefit Changes	-	-	-	-	-	-	-	-	18,678,454	20,243,581	-	-
Differences between expected and actual experience	(8,058,640)	(10,798,702)	(2,694,614)	(557,654)	(1,116,817)	6,573,580	(14,594,497)	(9,510,635)	(10,829,976)	(2,598,079)	-	-
Changes of assumptions	-	-	-	-	60,394,231	35,347,395	-	-	-	-	893,569	(4,665,819)
Benefit payments	(74,514,466)	(28,785,059)	(71,940,154)	(26,791,879)	(72,152,762)	(26,127,177)	(70,865,501)	(25,248,345)	(66,083,440)	(22,950,990)	(66,801,709)	(22,501,480)
<b>Net change in Total Pension Liability</b>	<b>26,794,868</b>	<b>33,547,314</b>	<b>32,725,708</b>	<b>41,856,957</b>	<b>92,536,595</b>	<b>79,616,466</b>	<b>18,060,623</b>	<b>25,880,364</b>	<b>41,772,295</b>	<b>49,705,782</b>	<b>31,834,808</b>	<b>25,227,611</b>
<b>Total pension liability - beginning</b>	<b>1,268,619,484</b>	<b>723,420,754</b>	<b>1,235,893,776</b>	<b>681,563,797</b>	<b>1,143,357,181</b>	<b>601,947,331</b>	<b>1,125,296,558</b>	<b>576,066,967</b>	<b>1,083,524,263</b>	<b>526,361,185</b>	<b>1,051,689,455</b>	<b>501,133,574</b>
<b>Total pension liability - ending</b>	<b>\$1,295,414,352</b>	<b>\$ 756,968,068</b>	<b>\$1,268,619,484</b>	<b>\$ 723,420,754</b>	<b>\$1,235,893,776</b>	<b>\$ 681,563,797</b>	<b>\$1,143,357,181</b>	<b>\$ 601,947,331</b>	<b>\$1,125,296,558</b>	<b>\$ 576,066,967</b>	<b>\$1,083,524,263</b>	<b>\$ 526,361,185</b>
<b>Plan Fiduciary Net Position</b>												
Employer contributions	\$ 31,732,424	\$ 19,121,064	\$ 30,183,815	\$ 16,819,840	\$ 31,686,825	\$ 16,855,985	\$ 30,300,536	\$ 16,296,479	\$ 28,763,340	\$ 15,588,547	\$ 26,704,092	\$ 11,193,028
Employee contributions	7,076,833	10,965,645	7,208,167	10,500,868	7,332,568	10,079,595	7,244,745	9,561,530	4,368,524	7,223,947	4,333,503	6,979,451
Net investment income	64,456,994	36,572,420	75,536,071	41,229,835	103,015,529	54,186,494	24,225	(156,872)	21,923,799	10,703,150	126,156,827	59,474,454
Benefit payments	(74,514,466)	(28,785,059)	(71,940,154)	(26,791,879)	(72,152,762)	(26,127,177)	(70,865,501)	(25,248,345)	(66,083,440)	(22,950,990)	(66,801,709)	(22,501,480)
Transfers of member contributions	-	-	-	-	-	-	-	-	-	-	(85,962)	73,422
Administrative expenses	(1,007,916)	(571,683)	(1,005,573)	(561,290)	(973,249)	(511,933)	(1,178,758)	(427,823)	(878,056)	(425,478)	(789,990)	(372,429)
Transfers to affiliated systems	(427,720)	62,958	(559,793)	(472,477)	(272,164)	(798,852)	312,940	(312,936)	(48,286)	10,774	-	-
Other	1,471	565	(7,392)	23,666	26,504	69,347	34,888	66,307	262,213	21,917	62,117	23,960
<b>Net change in fiduciary net position</b>	<b>\$ 27,317,620</b>	<b>\$ 37,365,910</b>	<b>\$ 39,415,141</b>	<b>\$ 40,748,563</b>	<b>\$ 68,663,251</b>	<b>\$ 53,753,459</b>	<b>\$ (34,126,925)</b>	<b>\$ (221,660)</b>	<b>\$ (11,691,906)</b>	<b>\$ 10,171,867</b>	<b>\$ 89,578,878</b>	<b>\$ 54,870,406</b>
<b>Plan Fiduciary net position - beginning</b>	<b>\$1,009,462,206</b>	<b>\$ 550,994,533</b>	<b>970,047,065</b>	<b>510,245,970</b>	<b>901,383,814</b>	<b>456,492,511</b>	<b>\$ 935,510,739</b>	<b>\$ 456,714,171</b>	<b>\$ 947,202,645</b>	<b>\$ 446,542,304</b>	<b>\$ 857,623,766</b>	<b>\$ 391,671,897</b>
<b>Plan Fiduciary net position - ending</b>	<b>\$1,036,779,826</b>	<b>\$ 588,360,443</b>	<b>\$1,009,462,206</b>	<b>\$ 550,994,533</b>	<b>\$ 970,047,065</b>	<b>\$ 510,245,970</b>	<b>\$ 901,383,814</b>	<b>\$ 456,492,511</b>	<b>\$ 935,510,739</b>	<b>\$ 456,714,171</b>	<b>\$ 947,202,644</b>	<b>\$ 446,542,303</b>
<b>Net Pension Liability (Asset)</b>	<b>\$ 258,634,526</b>	<b>\$ 168,607,625</b>	<b>\$ 259,157,278</b>	<b>\$ 172,426,221</b>	<b>\$ 265,846,711</b>	<b>\$ 171,317,827</b>	<b>\$ 241,973,367</b>	<b>\$ 145,454,820</b>	<b>\$ 189,785,819</b>	<b>\$ 119,352,796</b>	<b>\$ 136,321,619</b>	<b>\$ 79,818,882</b>
<b>Plan Fiduciary Net Position as a percentage of the total pension liability</b>	80.0%	77.7%	79.6%	76.2%	78.5%	74.9%	78.8%	75.8%	83.1%	79.3%	87.4%	84.8%
<b>Covered payroll</b>	\$ 255,923,274	\$ 111,169,948	\$ 249,731,376	\$ 105,827,416	\$ 244,466,993	\$ 102,020,230	\$ 233,474,157	\$ 96,737,235	\$ 228,189,238	\$ 91,293,039	\$ 223,124,242	\$ 88,783,926
<b>Net pension liability (asset) as a percentage of covered payroll</b>	101.1%	151.7%	103.8%	162.9%	108.7%	167.9%	103.6%	150.4%	83.2%	130.7%	61.1%	89.9%

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.



**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedules of Investment Returns**

*Annual Money-Weighted Rate of Return, Net of Investment Expense*

	<u>ERS</u>	<u>TSB</u>	<u>MERS</u>	<u>SPRBT</u>	<u>JRBT</u>	<u>RIJRFT</u>	<u>SPRFT</u>
Fiscal Year Ended June 30, 2019	6.54%	6.54%	6.56%	6.62%	6.60%	4.72%	8.91%
Fiscal Year Ended June 30, 2018	7.85%	7.85%	7.87%	7.83%	7.76%	6.45%	6.91%
Fiscal Year Ended June 30, 2017	12.34%	11.66%	12.17%	11.87%	11.87%	11.46%	9.79%
Fiscal Year Ended June 30, 2016	-0.78%	-0.15%	-0.57%	-0.07%	-0.03%	-1.72%	-
Fiscal Year Ended June 30, 2015	2.06%	2.25%	2.22%	2.28%	2.27%	2.28%	-
Fiscal Year Ended June 30, 2014	15.32%	15.25%	15.12%	14.99%	14.99%	5.61%	-

*See notes to required supplementary information.*

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*The SPRFT trust plan was created in fiscal 2017.*

**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
*Schedules of Employer and Other Nonemployer Entity Contributions*  
**Employees' Retirement System Plan**

Plan	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
<b>State employees</b>					
2019	\$ 189,415,698	\$ 189,415,698	-	\$ 718,732,131	26.35%
2018	174,374,155	174,374,155	-	691,006,031	25.23%
2017	176,093,310	176,093,310	-	683,530,388	25.76%
2016	159,534,421	159,534,421	-	671,420,995	23.76%
2015	155,901,921	155,901,921	-	669,787,489	23.28%
2014	151,077,142	151,077,142	-	653,573,357	23.12%
<b>Teachers</b>					
2019	\$ 249,634,988	\$ 249,634,988 *	-	\$ 1,060,472,523	23.54%
2018	239,092,095	239,092,095 *	-	1,031,394,874	23.18%
2017	233,828,517	233,828,517 *	-	1,010,449,004	23.14%
2016	225,569,556	225,569,556 *	-	980,562,840	23.00%
2015	217,902,736	217,902,736 *	-	966,985,115	22.53%
2014	197,869,704	197,869,704 *	-	951,322,312	20.80%

*See notes to required supplementary information.*

*\* includes contributions by the State of Rhode Island as the nonemployer contributing entity.*

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**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
*Schedules of Employer and Other Nonemployer Entity Contributions*  
**Teachers' Survivors Benefits Plan**

Plan	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2019	-	\$ 745,856	(745,856)	\$ 576,424,716	0.13%
2018	-	744,035	(744,035)	557,928,457	0.13%
2017	-	589,883	(589,883)	538,657,952	0.11%
2016	-	642,276	(642,276)	581,414,779	0.11%
2015	-	603,388	(603,388)	561,753,409	0.11%
2014	-	609,618	(609,618)	563,134,080	0.11%

*See notes to required supplementary information.*

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**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
*Schedules of Employer and Other Nonemployer Entity Contributions*  
**State Police Retirement Benefits Trust Plan**

Plan	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2019	\$ 3,566,922	\$ 3,566,922	-	\$ 24,216,376	14.73%
2018	2,797,003	2,797,003	-	22,589,818	12.38%
2017	2,980,219	2,980,219	-	22,727,638	13.11%
2016	4,004,656	4,004,656	-	20,984,917	19.08%
2015	3,432,359	3,432,359	-	19,700,678	17.42%
2014	3,330,889	3,330,889	-	23,051,144	14.45%

*See notes to required supplementary information.*

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**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
*Schedules of Employer and Other Nonemployer Entity Contributions*  
**Judicial Retirement Benefits Trust Plan**

Plan	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2019	\$ 1,922,023	\$ 1,922,023	\$ -	\$ 9,473,758	20.29%
2018	2,057,529	2,057,529	-	9,653,254	21.31%
2017	2,057,159	2,057,159	-	9,532,174	21.58%
2016	2,410,039	2,410,039	-	8,981,094	26.83%
2015	2,709,397	2,709,397	-	9,570,014	28.31%
2014	2,543,510	2,543,510	-	9,314,258	27.31%

*See notes to required supplementary information.*

*Schedule is intended to show information for 10 years - additional years will be displayed as they become available.*

**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
*Schedules of Employer and Other Nonemployer Entity Contributions*  
**Rhode Island Judicial Retirement Fund Trust Plan**

Plan	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2019	\$ 1,223,581	\$ 399,016	\$ 824,565	\$ 1,002,164	39.82%
2018	1,322,172	399,012	923,160	1,020,224	39.11%
2017	1,240,501	332,340	908,161	988,161	33.63%
2016	1,200,000	140,141	1,059,859	963,703	14.54%
2015	1,623,061	-	1,623,061	1,320,875	0.00%
2014	1,695,434	-	1,695,434	1,276,208	0.00%

*See notes to required supplementary information.*

*Schedule is intended to show information for 10 years - additional years will be displayed as they become available.*

**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
*Schedules of Employer and Other Nonemployer Entity Contributions*  
**Rhode Island State Police Retirement Fund Trust Plan**

<b>Plan</b>	<b>Actuarially Determined Contribution</b>	<b>Contributions in Relation to Actuarially Determined Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Contributions as a % of Covered Payroll</b>
2019	\$ 16,387,092	\$ 16,387,092	\$ -	n/a	n/a
2018	16,387,092	16,387,092	-	n/a	n/a
2017	16,387,092	16,566,076	(178,984)	n/a	n/a

*See notes to required supplementary information.*

*Schedule is intended to show information for 10 years - additional years will be displayed as they become available.*

*The SPRFT trust plan was created in fiscal 2017.*

**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
*Schedules of Employer and Other Nonemployer Entity Contributions*  
**Municipal Employees' Retirement System Plan**

Plan	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
<b>General Employees</b>					
2019	\$ 31,732,424	\$ 31,732,424	-	\$ 255,923,274	12.40%
2018	30,183,815	30,183,815	-	249,731,376	12.09%
2017	31,686,825	31,686,825	-	244,466,993	12.96%
2016	30,300,536	30,300,536	-	233,474,157	12.98%
2015	28,763,340	28,763,340	-	228,189,238	12.61%
2014	26,704,094	26,704,094	-	223,124,242	11.76%
<b>Police and Fire</b>					
2019	\$ 19,121,064	\$ 19,121,064	-	\$ 111,169,948	17.20%
2018	16,819,840	16,819,840	-	105,827,416	15.89%
2017	16,855,985	16,855,985	-	102,020,230	16.52%
2016	16,296,479	16,296,479	-	96,737,235	16.85%
2015	15,588,547	15,588,547	-	91,293,039	17.08%
2014	11,193,028	11,193,028	-	88,783,926	12.89%

*See notes to required supplementary information.*

*Schedule is intended to show information for 10 years - additional years will be displayed as they become available.*



The schedules are intended to present ten years of data. Additional years of data will be presented as they become available.

**1. Actuarial methods and assumptions used to calculate the net pension liability (asset) of the participating employers**

The actuarial methods and assumptions used to calculate the net pension liability (asset) of the participating employers are described in Note 8 to the financial statements. The following information is presented about factors that significantly affect trends in the amounts reported between years.

***June 30, 2019 measurement date –***

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) of the plans as of the June 30, 2019 measurement date compared to the June 30, 2018 measurement date except for the changes in assumptions for the RIJRFY plan due to use of the municipal bond index rate of 3.13% instead of the plan's assumed investment rate of return of 4.0%.

***June 30, 2018 measurement date –***

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) of the plans as of the June 30, 2018 measurement date compared to the June 30, 2017 measurement date except for the changes in assumptions for the RIJRFY plan due to use of the municipal bond index rate of 3.62% instead of the plan's assumed investment rate of return of 4.0%.

***June 30, 2017 measurement date –***

As part of the 2017 Actuarial Experience Investigation Study for the six-year period ending June 30, 2016 as approved by the System Board on May 15, 2017, certain assumptions were modified and reflected in the determination of the net pension liability (asset) at the June 30, 2017 measurement date. The following summarizes the more significant changes in assumptions:

- Decreased the general inflation assumption from 2.75% to 2.50%;
- Decreased the nominal investment return assumption from 7.50% to 7.00%;
- Decreased the general wage growth assumption from 3.25% to 3.00%;
- Decreased salary increase assumptions; and
- Updated the post-retirement mortality tables to variants of the RP-2014 table. For the improvement scale, update to the ultimate rates of the MP-2016 projection scale.

Additionally, the municipal bond index rate, based on fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" (3.56% at June 30, 2017) was applied to all periods of projected benefit payments to determine the total pension liability instead of the plan's assumed investment rate of return of 4.0%.

***June 30, 2016 measurement date –***

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) of the plans as of the June 30, 2016 measurement date compared to the June 30, 2015 measurement date except for the changes in assumptions for the RIJRFY plan due to use of the municipal bond index rate of 2.85% instead of the plan's assumed investment rate of return of 4.0%.

**1. Actuarial methods and assumptions used to calculate the net pension liability (asset) of the participating employers (continued)**

*June 30, 2015 measurement date –*

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) of the plans as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement date except for the changes in assumptions for the RIJRFT plan due to use of the municipal bond index rate of 3.8% instead of the plan's assumed investment rate of return of 4.0%.

Benefit changes are reflected in the calculation of the net pension liability at the June 30, 2015 measurement date. The following is a summary of those benefit changes that resulted from the settlement of the pension litigation and the subsequent enactment of those settlement provisions by the General Assembly.

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and municipal general employees will contribute 8.25% (9.25% for units with a COLA provision) and participate solely in the defined benefit plan going forward – service credit accruals will increase from 1% to 2% per year.
- Members are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, 63 with 32 years of service, or 62 with 33 years of service. Members may retire earlier if their RIRSA date is earlier or are eligible under a transition rule.
- MERS public safety employees may retire at age 50 with 25 years of service, or any age with 27 years of service. MERS public safety employees will contribute 9.00% (10.00% for units with a COLA provision)
- Employees with more than 10 but less than 20 years of service at July 1, 2012 will receive an increased employer contribution to the defined contribution plan. Also, members who earn less than \$35,000 per year will not be required to pay the administrative fees to the defined contribution plan.
- Members who retired from a COLA eligible plan before July 1, 2012 will receive a one-time cost of living adjustment of 2% of the first \$25,000 paid as soon as administratively possible.
- Retirees as of June 30, 2015 will receive two \$500 stipends; the interim cost of living increases will occur at 4 year rather than 5-year intervals.
- The COLA formula was adjusted to: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5.5% (5yr Return - 5.5%, with a max of 4%) and 50% calculated using previous year's CPI-U (max of 3%) for a total max COLA of 3.5%. This COLA is calculated on the first \$25,855, effective 01/01/16, and indexed as of that date as well. (The indexing formula is run annually regardless of funding level each year.)
- Minor adjustments were made to the actuarial reduction for employees choosing to retire early.

## **2. Actuarially determined contributions**

Actuarially determined contributions are calculated as of June 30, three years prior to the fiscal year in which the contributions are reported. For example, the contribution rates for fiscal 2019 for the plans were based on valuations performed as of June 30, 2016.

With respect to the fiscal 2019 employer contribution rate for state employees, the ERSRI Board certified an employer contribution rate of 25.75%; however, per the enacted fiscal 2019 budget, the State elected to contribute an additional 0.53% to offset the impact of the retirement incentive offered to State employees that were eligible to retire prior to December 31, 2017. Employer contribution rates for employees of quasi-state agencies were 25.75% for fiscal 2019.

Contributions for teachers within the ERS plan include \$102,238,747, \$98,120,835, \$96,542,150, \$87,997,637, \$84,943,801 and \$76,700,915 of nonemployer entity contributions made by the State of Rhode Island for fiscal years 2019, 2018, 2017, 2016, 2015, and 2014, respectively.

Contributions for the TSB plan are required by statute as outlined in the General Laws of Rhode Island. Due to the funded status of the plan, there was no actuarially determined contribution required to the plan in years 2014 through 2019.

*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*  
*Notes to Required Supplementary Information - Fiscal Year Ended June 30, 2019*

**2. Actuarially determined contributions (continued)**

Summary of Actuarial Methods and Assumptions Used to determine Fiscal 2019 contribution rates							
	ERS		MERS	SPRBT	JRBT	RIJRFT	SPRFT
	State Employees	Teachers					
<b>Valuation Date</b>	June 30, 2016 for all plans.						
<b>Actuarial Cost Method</b>	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.						
<b>Amortization Method</b>	Level Percent of Payroll – Closed					Level Dollar	Level Dollar
<b>Equivalent Single Remaining Amortization Period</b>	19 years					15 years	14 years
<b>Amortization period for new gain/loss base</b>	20 years						
<b>Asset Valuation Method</b>	5 Year Smoothed Market						Market value
<b>Actuarial Assumptions</b>							
<b>Investment Rate of Return</b>	7.5%	7.5%	7.5%	7.5%	7.5%	2.85%	7.5%
<b>Projected Salary Increases</b>	3.5% to 6.5%	3.5% to 13.5%	<u>General Employees</u> 3.50% to 7.50%  <u>Police &amp; Fire Employees</u> 4.0% to 14.0%	3.75% to 11.75%	3.50%	3.50%	3.75% to 11.75%
<b>Mortality</b>	<ul style="list-style-type: none"> <li>• Male Employees, MERS General and MERS P&amp;F: 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000.</li> <li>• Female Employees, MERS General and MERS P&amp;F: 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA from 2000.</li> </ul>						
		Male and female teachers: 97% and 92%, respectively of rates in a GRS table based on male and female teacher experience, projected with Scale AA from 2000.					
<b>Inflation</b>	2.75%						

*EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND*  
*Notes to Required Supplementary Information - Fiscal Year Ended June 30, 2019*

**2. Actuarially determined contributions (continued)**

The required contribution for the newly created (fiscal 2017) State Police Retirement Fund Trust (SPRFT), a plan covering a closed group of retired individuals, was calculated based on a level-dollar amortization over 18 years from June 30, 2016.

**Cost of Living Adjustments**

For the MERS plan, a 2% COLA is assumed after January 1, 2014. For all plans other than TSB, a COLA of 2.2% is assumed only every four years until the plans achieve an 80% collective funded status in accordance with the law.

COLA provisions were modified with the enactment of the new RIRSA provisions in July 2015 – these provisions are effective in the actuarial valuations prepared for funding purposes beginning June 30, 2015.

For the TSB plan, an annual 2.75% COLA is assumed – the actual COLA in any year is based on the COLA provided for federal Social Security recipients.

**Supplemental contributions**

Certain supplemental contributions required by the General Laws were made to the ERS plan as more fully explained in Note 7 (d) to the financial statements. The following table reconciles the ERS plan employer contributions in the Schedule of Changes in the Participating Employers' Net Pension Liability and amounts included in the financial statements for the ERS plan.

	State Employees	Teachers	Total ERS Plan
Employer Contributions included in the Schedules of Changes in the Participating Employers' Net Pension Liability	\$ 189,415,697	\$ 249,634,988	\$ 439,050,685
Other contribution related additions included in financial reporting amounts	27,945	833,624	861,569
Employer contributions reported on ERS Plan Fiscal 2019 financial statements	\$ 189,443,642	\$ 250,468,612	\$ 439,912,254
Per ERSRI fiscal 2019 financial statements	Employer Contributions		\$ 337,162,608
	State Contributions for Teachers		102,238,747
	Supplemental employer contributions		510,899
	Total Employer Contributions		\$ 439,912,254

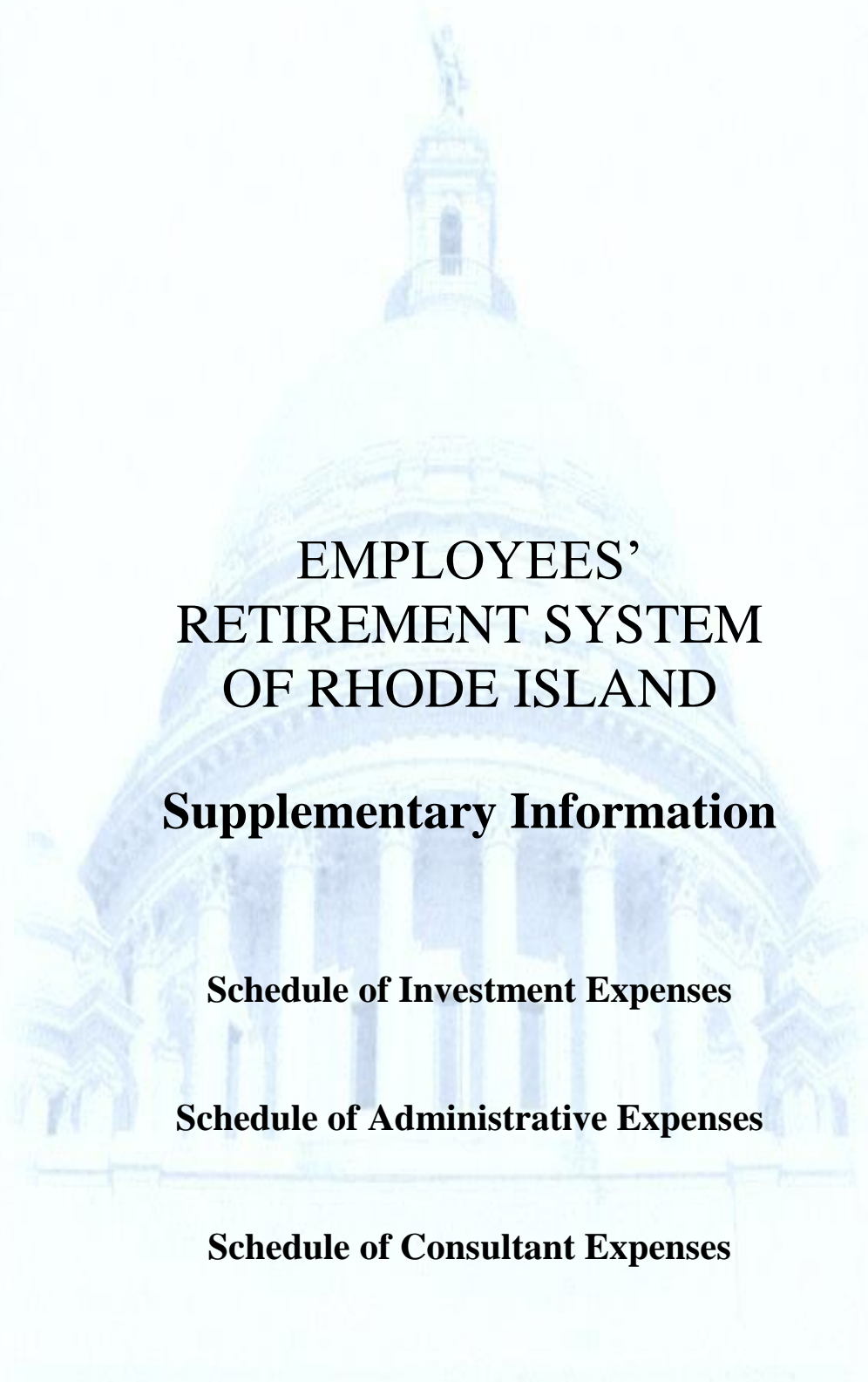
**3. Covered payroll**

Covered payroll, as included in required supplementary information schedules, includes projected annualized payroll amounts for employees beginning employment during the fiscal year. Consequently, the covered payroll amounts included in the required supplementary information schedules may differ from the actual fiscal year payroll base to which the actuarially determined contribution rate was applied. Additionally, the contribution amount as a percentage of covered payroll may differ from the Board approved contribution rate expressed as a percentage of payroll.

#### **4. Schedules of Investment Returns**

The annual money-weighted returns on investments within each of the plans, net of investment expense, are shown in the required supplementary information schedule. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The schedules are intended to present ten years of data. Additional years of data will be presented as they become available.



**EMPLOYEES'  
RETIREMENT SYSTEM  
OF RHODE ISLAND**

**Supplementary Information**

**Schedule of Investment Expenses**

**Schedule of Administrative Expenses**

**Schedule of Consultant Expenses**

# EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND

## Schedule of Investment Expenses

Fiscal Year Ended June 30, 2019

### INVESTMENT MANAGEMENT FEES BY STRATEGY AND ASSET CLASS

#### TOTAL GROWTH

##### Global Equity

State Street Global Advisors - Russell 3000	\$	167,397	
Shott Capital/Hamilton Lane		1,655	
State Street Global Advisors - QVM Tilt		760,958	
State Street Global Advisors - MSCI EAFE -Commingled Fund		211,461	
State Street Global Advisors - MSCI CAD - Commingled Fund		38,970	
State Street Global Advisors - MSCI Emerging Markets - Commingled Fund		423,829	

##### Private Growth

Private Equity		29,541,475	
Non-Core Real Estate		5,582,303	
Opportunistic Private Credit		2,080,017	\$ 38,808,065

#### INCOME

Harvest - High Yield Infrastructure		1,095,398	
PIMCO - Liquid Credit		421,643	
WAMCO - Liquid Credit		135,255	
Loomis		373,204	
Heitman		36,021	
Private Credit		4,254,723	6,316,244

#### STABILITY

##### Crisis Protection Class

WAMCO - Treasury Long Duration		123,943	
Mackay Shields - Treasury Long Duration		122,769	
Systematic Trend Following (CPC LLC)		2,354,556	

##### Inflation Protection

Core Real Estate		3,573,416	
Private Infrastructure		7,775,014	
Brown Brothers Harriman - TIPS		232,390	

##### Volatility Protection

Pyramis - Investment Grade Fixed Income		625,594	
Mackay Shields - Investment Grade Fixed Income		572,603	
Absolute Return Hedge Funds		19,297,694	
Payden & Rygel		259,763	34,937,742

#### OTHER

Russell Overlay			239,462
Short-Term Cash			168,356

*Subtotal - Investment Management Fees by Strategy and Asset Class*

**80,469,869**

### PROFESSIONAL FEES

Legal		122,435	
BNY Mellon - Custodial		549,204	
Cliffwater		400,000	
PCA		75,000	
NEPC		365,000	
Aberdeen		310,525	
PCA Real Estate		125,000	

*Subtotal - Professional Fees*

**1,947,164**

### OPERATING EXPENSES

Investment Administration - Office of the General Treasurer	\$	1,653,742	
Other Expenses		103,944	

*Subtotal - Operating Expenses*

**1,757,686**

### TOTAL INVESTMENT EXPENSES

**\$ 84,174,719**



**EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND**

*Schedule of Administrative Expenses*

*Fiscal Year Ended June 30, 2019*

**DEFINED BENEFIT PLANS**

**Personnel Expenses**

Salaries and wages	\$ 2,727,051
Benefits	1,710,450
Total personnel expenses	<u>4,437,501</u>

**Purchased Services - Consultant Expenses**

Disability determination	333,463
Legal	274,343
Actuary	351,735
Financial services	22,500
Information technology services	2,625,990
Stenographic services	5,165
Office equipment	28,483
Other professional services	6,525
Total purchased services	<u>3,648,204</u>

**Operating Expenses**

Communications	179,824
Office and supplies	107,524
Printing and advertising	32,824
Travel	24,690
Occupancy	60,399
Insurance	72,986
Other	6,516
Total operating expenses	<u>484,763</u>

**Subtotal administrative expenses - defined benefit plans** \$ 8,570,468

**DEFINED CONTRIBUTION PLANS**

Plan Administrative Expenses - TIAA-CREF \$ 1,342,728

**TOTAL ADMINISTRATIVE EXPENSES -- ALL PLANS** \$ 9,913,196

# ***EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND***

## *Schedule of Consultant Expenses*

*Fiscal Year Ended June 30, 2019*

### **Disability Determination Services**

Medical exam fees - various physicians \$ 333,463

### **Legal**

Adler Pollock & Sheehan P.C.	\$ 46,728	
Hinckley, Allen, & Snyder LLP	12,765	
Schechtman Halperin Savage LLP	205,802	
Hearing officers - various	9,048	274,343

### **Actuary**

Gabriel Roeder Smith & Co. 351,735

### **Financial Services**

Blum Shapiro & Co. 22,500

### **Information Technology**

ACOM Solutions, Inc.	969	
Flagship Staffing Services Inc.	9,917	
Morneau Shepell *	2,448,576	
SHI International Corporation	2,728	
Stonewall Solutions, Inc.	163,800	2,625,990

### **Stenographic Services**

Allied Court Reporters Inc. 5,165

### **Office Equipment**

ACOM Solutions, Inc.	166	
Konica Minolta Business Solutions USA	8,926	
Park Place Technologies	19,349	
Whalley Computer Associates Inc.	42	28,483

### **Other Professional Services**

Pension Benefit Information	5,821	
State of Rhode Island	330	
Translator services	374	6,525

**Total purchased services - consultant expenses** \$ 3,648,204

\* Amount for this vendor reflected as expense during fiscal year - see note 3 to the financial statements.



# Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly  
Dennis E. Hoyle, CPA - Auditor General

[oag.ri.gov](http://oag.ri.gov)

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Joint Committee on Legislative Services, General Assembly  
State of Rhode Island and Providence Plantations:

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the plans within the Employees' Retirement System of Rhode Island (System) as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 31, 2019.

## **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify deficiencies in internal control, identified as Findings 2019-01 and 2019-02 in the accompanying schedule of findings and responses, that we consider to be significant deficiencies.

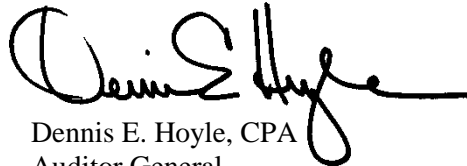
Joint Committee on Legislative Services, General Assembly  
Retirement Board of the Employees' Retirement System of the State of Rhode Island:

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dennis E. Hoyle, CPA  
Auditor General

December 31, 2019

## SCHEDULE OF FINDINGS AND RESPONSES

**Finding 2019-01**

*significant deficiency – new finding*

### **POOLED INVESTMENT TRUST – PLAN ACCOUNTING AND DISTRIBUTION OF INVESTMENT INCOME AND EXPENSE**

Each of the Employees' Retirement System's defined benefit plans are participants in a Pooled Investment Trust. The pooled investment trust was created for ease in administering the pooled assets and related investment activity of the System's seven defined benefit pension plans. The custodian for the pooled investment trust (Bank of New York Mellon) has custody and accounts for the investment activity of the pooled trust on a collective basis. Each month the custodian prepares plan accounting reports which delineate each plan's proportionate share of the pooled investment trust and related income and expense.

In essence, the Pooled Investment Trust acts like a mutual fund with seven participants – each plan is assigned units – units are “purchased” or redeemed as amounts are contributed or withdrawn reflecting on the unique cash needs of each plan. The cash flow profile of each of the participant plans in the pooled investment trust is unique and consequently some plans are withdrawing or selling units while others are purchasing new units. Because the custodian is preparing plan accounting reports on a monthly basis and distributing income and expense on that basis, cash was typically only contributed or withdrawn from the pooled investment trust once per month to avoid any distortion in the proportionate distribution of investment income and expense.

More recently, new contributions to the pooled investment trust were being made more frequently during the month rather than just at the defined once-per-month original interval. The custodian continues to prepare monthly plan accounting reports which distribute each plan's proportionate share of income and expense based on each plan's units on the last day of the month. This current process does not sufficiently reflect the changing number of units owned by each plan during the month.

While the effect of the imprecision in allocating income and expense is likely immaterial, the System should modify its processes to ensure a more precise allocation of assets, investment income, and investment expense among the participant plans.

In response to identification of this issue during the audit, the System has worked with the custodian to explore options for enhancing precision in the plan accounting. One option is to limit all movements of cash to and from the plans and the pooled investment trust to just one day per month. The other is for the custodian to compute an average daily unit balance for each of the plans and use that average to distribute aggregate pooled trust investment income and expense for the month to each of the plans. We believe either option would sufficiently address the issue; however, the average daily balance proposal would allow for more flexibility of the timing of cash movements yet still result in an accurate proportionate distribution of investment income and expense.

#### **RECOMMENDATION**

2019-1            Implement planned revisions to the plan accounting process employed by the custodian to enhance the precision over the distribution of investment income and expense to the participating plans.

#### **Auditee Views and Corrective Action Plan**

*Approximately two years ago, in order to maximize returns to the System, we began to transfer significant deposits to the long-term portfolio. These deposits occurred upon payroll dates, approximately one/two per month, while withdrawals still occurred on the last business day each*

## SCHEDULE OF FINDINGS AND RESPONSES

month. Once the concern regarding multiple movements was raised, the System immediately limited the movement of cash to and from the plans and the pooled investment trust to just one day per month. We believe any effects from intra-month cash flows during that time period were minimal.

To enhance precision in the plan accounting going forward, the System's Investment and Accounting teams will work with the Custodian to implement using an average daily unit balance computation for the plans as a basis for allocating monthly income and expense. It is anticipated that this process will be fully operational during the third quarter of fiscal 2020.

**Finding 2019-02**

*significant deficiency – repeat finding*

### **ACCOUNTING FOR INVESTMENT EXPENSES**

The System has implemented a “transparency policy” for investment related expenses within the pension investment portfolio. In essence, investment expenses are reported on a gross rather than net basis. When investment expense detail isn't readily reported by investment managers, additional analysis is performed to extract investment income and expenses on a basis more consistent with gross reporting.

While this investment expense transparency objective is clear and laudable, controls need to be enhanced to improve the accuracy and reliability of investment expenses reported on the System's financial statements. Certain of these processes were first developed on an “ad-hoc” basis for informal reporting before investment expenses were recorded on a gross basis on the System's financial statements.

The System's accounting for investment activity is mostly derived from custodian reporting. Investment management fees are disbursed by the custodian and recorded within the custodial accounting system. In addition, the custodian has implemented enhanced reporting for private equity, infrastructure and real estate partnerships to record related investment income and expenses in the appropriate categories within their custodial reporting system. Hedge Fund activity is further analyzed externally by System investment staff and direction letters are later provided to the custodian to “adjust” investment income and expense within the custodial accounting system. System investment staff also analyze other investment categories to identify investment expenses that were originally recorded on a net basis. As a result, investment income and expenses reported on the System's annual financial statements are derived through a composite of standardized custodian controls, custom processes designed specifically for private equity type investment, and analytical processes employed independent of the custodian. Analytical processes that are independent of the custodian include those for hedge funds and other investment types as well as the identification and accrual of private equity and hedge fund investment activity effective for quarters ended June 30 and prior but not available until months later.

The material investment expense amounts reported on the System's financial statements relate to private equity and hedge funds including the accrual of activity through June 30.

The System needs to formalize its processes for deriving amounts to be included in the financial statements and also implement enhanced review and monitoring controls to ensure the consistency and reliability of these amounts.

For fiscal 2019, System processes to derive the investment expense amounts for financial reporting purposes yielded different amounts. Subsequent reconciliation identified direction letters which had not been either provided or recorded by the custodian. Reversal of prior year accruals had also not been

## SCHEDULE OF FINDINGS AND RESPONSES

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accurately reflected in the initial accumulation of investment expenses. Queries of custodial activity recorded after fiscal year end but relating to June 30 or prior have not been standardized. Analysis and monitoring of custodian recorded activity during the fiscal year is insufficient to ensure consistency and reliability of such amounts. For example, hedge fund investment expense reclassifications for the quarter ended September 30, 2018 (via direction letter) were not recorded by the custodian; however, that hadn't been identified by System investment staff.

Procedures need to be formalized to document the process for accumulating investment expenses for each asset category. When processes are independent of the custodian's control processes, additional supervisory review and monitoring controls should be employed to strengthen controls over these material balances. These investment accounting processes should be better coordinated with and overseen by the System's accounting and finance staff.

### RECOMMENDATIONS

- |         |   |
|---------|---|
| 2019-2a | Formalize the investment income and expense processes that are external to the investment custodian and result in amounts recorded on the financial statements. Enhance monitoring and review of these processes. |
| 2019-2b | Integrate certain investment accounting functions that are now external to oversight of the System's Chief Financial Officer with the System's other accounting functions.  |

### **Auditee Views and Corrective Action Plan**

*The Employees' Retirement System of Rhode Island (ERSRI) and The Office of the General Treasurer remain committed to the highest level of transparency in disclosing investment expenses. The process was transformed in Fiscal 2018 to enhance details on all expenses highlighted by the inclusion of indirect expenses. This level of disclosure puts ERSRI at the forefront of public pension transparency.*

*Over the last year we have worked closely with our consultant and custodian to further refine the process. Our consultant now monitors all the Plan's private asset expenses to ensure what we are charged adheres to the partnership agreements. Our custodian has worked closely with staff to ensure that all partnership data is captured accurately and on a timely basis. We have completed one year under this process and the interaction and reporting are improved relative to prior years.*

*For Fiscal 2020, we look to further enhance the process as follows:*

*To improve proper posting of all investment expenses, enhance coordination between the Investment and Accounting teams by performing a monthly reconciliation to ERSRI's financial statements with ERSRI's Chief Financial Officer.*

*To ensure proper posting of quarterly expenses for absolute return funds, implement an electronic confirmation process with the custodian and perform a timely reconciliation of these expenses on a monthly basis.*

*It should be noted that nothing that transpired in FY 2019 had any impact on the System's net position.*