State of Rhode Island

Employees' Retirement System

FISCAL YEAR ENDED JUNE 30, 2013

Dennis E. Hoyle, CPA
Auditor General

State of Rhode Island and Providence Plantations
General Assembly
Office of the Auditor General

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General
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December 30, 2013

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER Gordon D. Fox, Chairman

Senator M. Teresa Paiva Weed
Senator Dennis L. Algiere
Representative Nicholas A. Mattiello
Representative Brian C. Newberry

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, 2013 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, 2013

TABLE OF CONTENTS

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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, 2013 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, 2013, 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, 2013, 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.

The financial statements include the Rhode Island Judicial Retirement Fund Trust, a new plan covering active judges appointed before January 1, 1990. No employer contributions have yet been made to the plan and consequently, the actuarial valuation performed as of June 30, 2012, as disclosed in Note 8 to the financial statements, reflects actuarial assumptions consistent with a pay-as-you go funding methodology.

As described in Notes 3 and 5 to the financial statements, approximately 24% of the holdings in the pooled investment trust are hedge funds, private equity, and real estate investments. Because the fair value of these investments were not all determined based on quoted market prices, the fair values may differ from the values that would have been determined had a ready market for these investments existed.

As described in Note 3, certain investment expenses are customarily reported on a net of fees basis for hedge funds, private equity, and real estate investments and consequently such amounts are not included with other investment expenses as they are not readily separable.

As described in Note 12 to the financial statements, various lawsuits have been filed challenging legislatively enacted pension reforms.

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 9 and the Schedules of Funding Progress and the Schedules of Contributions from the Employers and Other Contributing Entity on pages 43 and 44 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will issue our report dated December 19, 2013 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 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 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 19, 2013

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, 2013. 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 five defined benefit pension plans for state employees, teachers, state police, judges, and participating municipal employees. State employees and teachers are combined in one plan while state police, judges appointed after December 31, 1989, active judges appointed before January 1, 1990, and municipal employees each have separate plans. The System also administers a defined contribution plan for state employees, teachers, and participating municipal employees.

The *Statements of Fiduciary Net Position* provide a snapshot of the financial position of the System at June 30, 2013. 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 that is essential to a full understanding of the financial statements. The *Required Supplementary Information* consists of schedules and related notes, which demonstrate the System's progress in accumulating funds to meet future pension benefits for members of the System.

Financial Highlights for the Fiscal Year Ended June 30, 2013

- The System's fiduciary net position increased by $426 million from $7.3 billion at June 30, 2012 to $7.7 billion at June 30, 2013.
- Total pension benefits paid to members from the defined benefit plan were $903.1 million, an increase of $21.9 million or 2.5% compared to the fiscal year ended June 30, 2013.
- Contributions to all defined benefit plans from both employers and employees at June 30, 2013 were $452.2 million
- Total employee and employer contributions into the System's defined benefit plans decreased $130.5 million compared to the prior year reflecting the implementation of the new hybrid pension design where part of the employee contribution is directed to a defined contribution plan.
- Total employee and employer contributions into the System's new defined contribution plan were $119 million at June 30, 2013.
- The System's net gain from investing activities was $777.9 million for the fiscal year ended June 30, 2013.

Management's Discussion and Analysis

Assets, Liabilities and Fiduciary Net Position – All Plans
(in millions)

	June 30, 2013	June 30, 2012
Assets:		
Cash and cash equivalents	$ 2.3	$ 3.1
Investments	7,653.3	7,225.0
Contributions and other receivables	59.5	61.2
Total assets	7,715.1	7,289.3
Liabilities:		
Accounts payable and other liabilities	4.5	4.8
Total liabilities	4.5	4.8
Fiduciary Net Position:	$ 7,710.6	$ 7,284.5

Summary of Changes in Fiduciary Net Position – All Plans
(in millions)

	Year Ended June 30, 2013	Year Ended June 30, 2012
Additions:		
Contributions	$ 571.3	$ 582.7
Net investment gain	777.9	115.6
Total Additions	1,349.2	698.3
Deductions:		
Benefits and distributions	903.1	881.1
Refunds of contributions	11.9	12.9
Administrative expenses	7.5	8.7
Service credit transfers	.6	-
Total Deductions	923.1	902.7
Increase (Decrease) in Net Position:	426.1	(204.4)
Fiduciary Net Position:		
Beginning of year	7,284.5	7,488.9
End of year	$ 7,710.6	$ 7,284.5

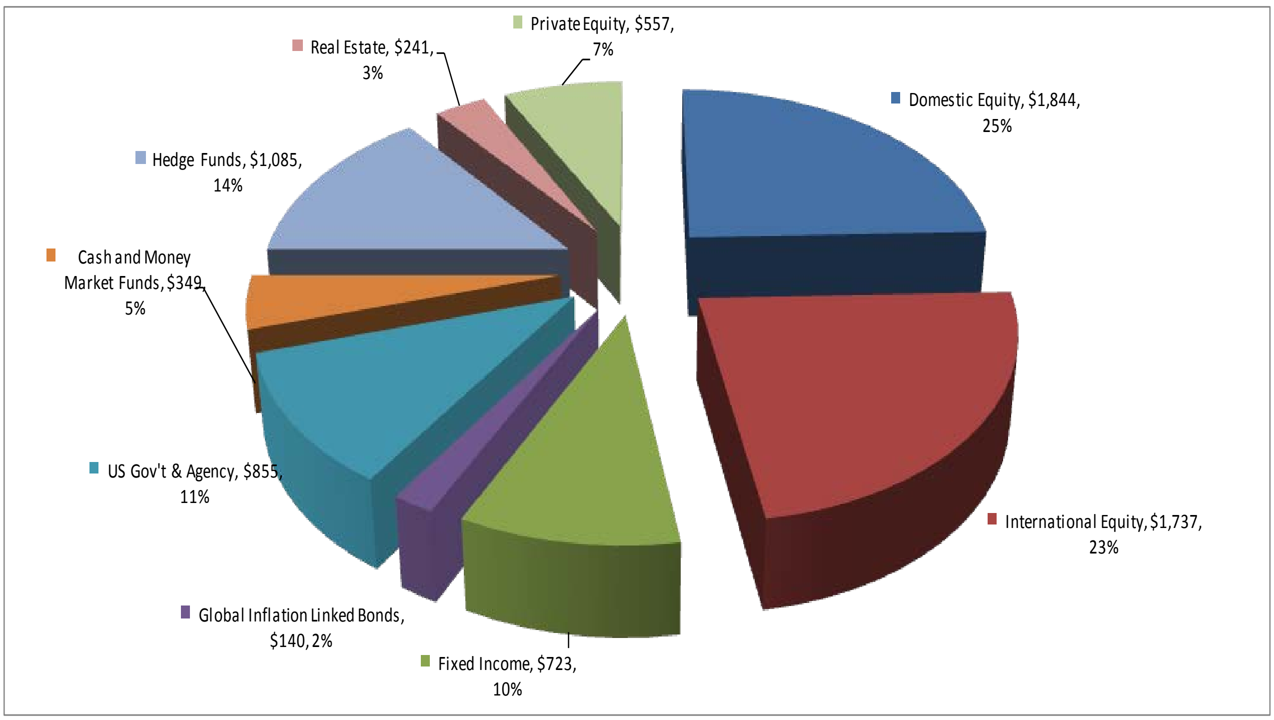
Management's Discussion and Analysis

Investments

The State Investment Commission (SIC) establishes long-term asset allocation policy and monitors investment performance of the plan. An asset/liability (A/L) 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 stays committed to the strategic asset allocation that has been developed as part of a comprehensive A/L study. The A/L study incorporates capital market return expectations, risks and correlations associated with each asset class as well as the unique profile and objectives of the System. As a mature defined benefit plan where distributions exceed contributions, the System seeks to balance its short-term cash flow requirements with the much longer time horizon of its total obligations.

Given the need for steady cash flows as well as asset growth, the SIC seeks to achieve the targeted investment return, while minimizing risk and volatility. Diversification across asset classes that respond differently to different market environments is a key tool the SIC uses to achieve strong risk-adjusted returns. The allocation of assets among stocks, bonds, and alternative investments can have a significant impact on risk-adjusted investment performance.

Pooled Investment Trust – Asset Allocation - June 30, 2013
(in millions)

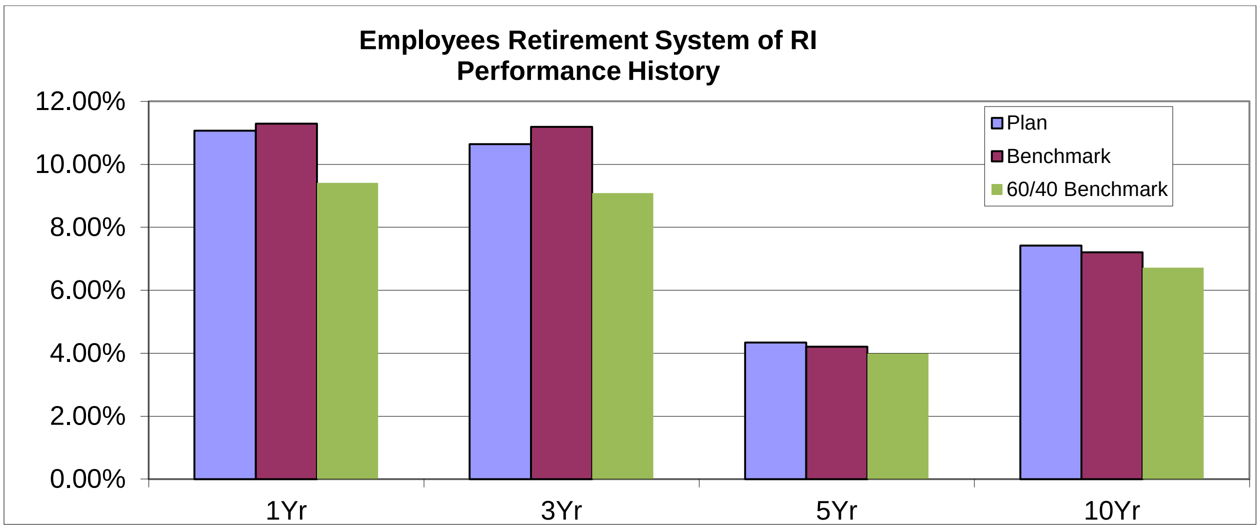


Having adopted the asset allocation targets of the most recent A/L study, the State Investment Commission periodically adjusts these targets in major asset categories – domestic and international equity, fixed income, real return, alternative investments, and real estate – based on market conditions and opportunities. The SIC engages external investment managers to manage portions of the portfolio and performance is measured in relation to benchmarks adopted for each asset category. A composite benchmark, based on weighted asset allocations, is used to measure overall manager performance. Asset allocation performance is assessed over a longer time frame, and compared to a basic 60% global equities/40% bonds benchmark.

The SIC selected various investment options to make available to participants in the newly formed defined contribution plan. The options include, but are not limited to, target date retirement funds corresponding to an employee's anticipated retirement date. Approximately 93% of defined contribution plan assets are invested in target date retirement funds.

Investment Performance

The System's one-year, time weighted rate of return was 11.1% which was slightly below the composite benchmark (11.3%) and 1.7% ahead of the 60/40 benchmark's 9.4% return. The three-year average was 10.64% which was 55bps below the 11.19% benchmark return and 1.55% better than the 60/40 benchmark's 9.09% return. The five-year average was 4.34% which was 13bps better than the 4.21% benchmark return and 35bps better than the 60/40 at 3.99%.



The composite benchmark is weighted based on asset allocation targets. It is currently comprised: **47%** MSCI World Free; **15%** Barclays Aggregate; **7%** HFRI Fund of Funds Composite Index; **4%** Bank of America Merrill Lynch 3-month US Treasury Bill; **7.5%** HFRI Equity Hedge (Total) Index; **3.5%** NCREIF Property 1st Qtr in Arrears BNYM Calc; **4%** Barclays World Government Inflation-Linked All Maturities; **5%** Custom High Yield and Bank Loan Index – 30% Bank of America Merrill Lynch 1-3 BB-B High Yield and 70% Credit Suisse Institutional Leveraged Loan Index; and **7%** Venture Economics Custom BM.

The composite 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 is 60% MSCI All-Country World and 40% Barclays Aggregate.

The System's actuarial investment return assumption is 7.50% for all plans except the Judicial Retirement Fund Trust which uses a 4% investment return assumption. The actuarial value of assets is determined based on a five-year smoothing methodology.

Fiscal 2013 investment returns within the defined contribution plan ranged from -4.89% to 25.74% depending upon which of the various investment options available to plan members was chosen.

Management's Discussion and Analysis

Funded Status

Independent actuarial valuations are conducted of the System each year. As part of this valuation, the progress toward funding pension obligations of the System is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measure is referred to as the funded ratio or funded status.

The most recent actuarial valuations of the System's defined benefit plans were performed as of June 30, 2012. The funded ratio decreased to 56.3% for State Employees and 58.8% for Teachers within the Employees' Retirement System plan. The funded ratio for the Judicial plan decreased to 83.4%. The State Police plan's funded ratio decreased to 89.6%. The Municipal Employees' Retirement System plans' funded ratio (composite for all units) decreased to 82.5%. The decreases in the funded status for the plans were primarily due to the return on investments being less than expected over the five-year smoothing period. In addition, the State Police Plan's decrease was also the result of salary increases for individual members being significantly larger than expected. The newly formed Rhode Island Judicial Retirement Fund Trust (RIJRFT) plan's funded ratio was 0.0%. Created by the Rhode Island Retirement Security Act, this is a closed plan covering seven active judges who began contributing on July 1, 2012. The State has not yet appropriated amounts to fund the actuarially determined employer contribution to the plan.

Details of the funded status of each plan within the System are included in the Schedules of Funding Progress on page 43. All employers participating in the System's plans contributed 100% of their annual required contribution during fiscal 2013, except that the State did not contribute the employer contribution for the newly formed Rhode Island Judicial Retirement Fund Trust.

For fiscal 2013, certain supplemental contributions, as required by the General Laws, were made to the ERS plan within the System, which resulted in actual contributions that exceeded actuarially required contribution amounts.

Future Contribution Rates

Except for the Rhode Island Judicial Retirement Fund Trust, the fiscal 2014 employer contribution rates are based upon the actuarial valuations performed at June 30, 2011. The employer contribution rates for fiscal 2014 are 23.05% for State employees, 20.68% for Teachers, 27.28% for Judges, and 14.45% for State Police. For the Rhode Island Judicial Retirement Fund Trust, the actuarially determined employer contribution is $1,695,434 for fiscal 2014, which was based on a valuation performed as of June 30, 2012.

During fiscal 2013, the System engaged an independent actuary to perform an actuarial audit of the System's valuations performed at June 30, 2012 for the ERS and MERS plans within the System. The results of the audit concluded that the Board could rely on the results of the valuations prepared by the System's actuary and the valuations were in compliance with the Actuarial Standards of Practice.

As discussed more fully in Note 12 to the financial statements, various challenges to legislatively enacted pension reform measures are in court-ordered mediation. The ultimate outcome of the mediation process and any required legislative action could impact the contributions paid to and benefits paid from the System.

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, 2013

	Defined Benefit Plans					Defined Contribution Plan	Memorandum Total
	ERS	MERS	SPRBT	JRBT	RIJRFT		
Assets							
Cash and cash equivalents (Note 4)	$ 1,483,072	$ 465,097	$ 167,049	$ 87,523	$ 147,029	$ -	$ 2,349,770
Receivables							
Contributions	23,786,718	4,539,840	135,388	106,096	5,881	-	28,573,923
Due from State for teachers	14,548,714	-	-	-	-	-	14,548,714
Other	16,301,322	39,937	-	-	-	-	16,341,259
Total receivables	54,636,754	4,579,777	135,388	106,096	5,881	-	59,463,896
Investments at fair value							
Equity in pooled trust (Note 5)	6,147,471,576	1,244,809,590	91,763,532	46,810,931	-	-	7,530,855,629
Other - Defined Contribution Plan (Note 6)						122,404,974	122,404,974
	6,147,471,576	1,244,809,590	91,763,532	46,810,931	-	122,404,974	7,653,260,603
Property and equipment at cost, net of accumulated depreciation (Note 7)	-	-	-	-	-	-	-
Total Assets	6,203,591,402	1,249,854,464	92,065,969	47,004,550	152,910	122,404,974	7,715,074,269
Liabilities							
Accounts Payable	3,909,890	558,806	31,177	15,293	-	-	4,515,166
Total Liablilities	3,909,890	558,806	31,177	15,293	-	-	4,515,166
Net position held in trust for pension benefits (Schedules of funding progress for each defined benefit plan are presented on page 44)	$ 6,199,681,512	$ 1,249,295,658	$ 92,034,792	$ 46,989,257	$ 152,910	$ 122,404,974	$ 7,710,559,103

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, 2013

	Defined Benefit Plans					Defined Contribution Plan	Memorandum Total
	ERS	**MERS**	**SPRBT**	**JRBT**	**RIJRFT**		
Additions							
Contributions (Note 8)							
Member contributions	$ 63,887,794	$ 11,233,301	$ 1,706,227	$ 1,042,291	$ 152,910	$ 92,972,909	$ 170,995,432
Employer contributions	246,795,273	35,553,402	2,103,209	1,752,049	-	26,070,631	312,274,564
Supplemental employer contributions (Note 8c)	15,690,364	-	-	-	-	-	15,690,364
State contribution for teachers	70,703,201	-	-	-	-	-	70,703,201
Interest on service credits purchased	616,647	379,124	5,889	-	-	-	1,001,660
Service credit transfers	-	593,421	-	-	-	-	593,421
Total contributions	397,693,279	47,759,248	3,815,325	2,794,340	152,910	119,043,540	571,258,642
Investment Income							
Net appreciation in fair value of investments	578,184,300	114,147,095	8,049,464	4,121,629	-	3,549,765	708,052,253
Interest	48,628,849	9,643,080	686,455	351,204	-	-	59,309,588
Dividends	13,163,846	2,620,425	187,654	95,916	-	1,113,326	17,181,167
Other investment income	6,465,958	1,275,028	89,822	45,982	-	-	7,876,790
	646,442,953	127,685,628	9,013,395	4,614,731	-	4,663,091	792,419,798
Less investment expense	(11,890,118)	(2,362,910)	(168,522)	(86,323)	-	-	(14,507,873)
Net investment income	634,552,835	125,322,718	8,844,873	4,528,408	-	4,663,091	777,911,925
Total Additions	1,032,246,114	173,081,966	12,660,198	7,322,748	152,910	123,706,631	1,349,170,567
Deductions							
Retirement benefits	811,957,826	84,724,492	1,038,157	1,503,666	-	-	899,224,141
Death benefits	2,822,400	695,200	-	-	-	-	3,517,600
Distributions	-	-	-	-	-	338,109	338,109
Refund of contributions	9,760,303	2,180,177	-	-	-	-	11,940,480
Administrative expense (Note 9)	5,412,410	1,005,124	60,143	32,823	-	963,548	7,474,048
Service credit transfers	593,421	-	-	-	-	-	593,421
Total Deductions	830,546,360	88,604,993	1,098,300	1,536,489	-	1,301,657	923,087,799
Net Increase	201,699,754	84,476,973	11,561,898	5,786,259	152,910	122,404,974	426,082,768
Net position held in trust for pension benefits							
Beginning of year	5,997,981,758	1,164,818,685	80,472,894	41,202,998	-	-	7,284,476,335
End of year	$ 6,199,681,512	$ 1,249,295,658	$ 92,034,792	$ 46,989,257	$ 152,910	$ 122,404,974	$ 7,710,559,103

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

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 for six retirement plans as listed below:

Plan Name	***Type of Plan***
Employees' Retirement System (*ERS*)	Cost-sharing multiple-employer defined benefit plan
Municipal Employees' Retirement System (*MERS*)	Agent multiple-employer defined benefit plan
State Police Retirement Benefits Trust (*SPRBT*)	Single-employer defined benefit plan
Judicial Retirement Benefits Trust (*JRBT*)	Single-employer defined benefit plan
RI Judicial Retirement Fund Trust *(RIJRFT)*	Single-employer defined benefit plan
Rhode Island Defined Contribution Plan	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.

1. System Description and Governance (continued)

A summary of membership by plan as of the June 30, 2012 actuarial valuation follows:

	Retirees and beneficiaries	*Terminated plan members entitled to but not yet receiving benefits*	*Active Vested*	*Active Non-vested*	*Total by Plan*
ERS					
State Employees	11,200	2,675	8,691	2,475	25,041
Teachers	10,622	2,808	11,326	1,886	26,642
MERS					
General Employees	4,277	2,506	3,376	2,636	12,795
Public Safety	654	129	710	700	2,193
SPRBT	10	4	54	177	245
JRBT	12	-	13	40	65
RIJRFT	0	0	7		7
Total by type	26,775	8,122	24,177	7,914	66,988

A summary of participating employees and employers within the defined contribution plan follows:

Employers	155
Participants	31,950

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 (2005, 2009, and 2010) 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. Accordingly, specific member retirement benefit and eligibility provisions vary depending upon a number of factors including years of service, age, and vesting provisions.

EMPLOYEES' RETIREMENT SYSTEM (ERS)

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.

2. Plan Membership and Benefit Provisions (continued)

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 Economic Development 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 35th year Effective July 1, 2012 1.0% per year	80% of final average (3 consecutive highest years) earnings and 35 years of service
(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	80% of final average (5 consecutive highest years) earnings
(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 38th year Effective July 1, 2012 1.0% per year	75% of final average earnings (3 consecutive highest years) and 38 years of service

2. Plan Membership and Benefit Provisions (continued)

Schedule		Retirement Eligibility	Benefit accrual rates	Maximum benefit
(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) and 38 years of service
(B2)	Less than 5 years of service as of July 1, 2012	Social Security Normal Retirement Age not to exceed age 67 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) and 38 years of service

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. 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 can be reviewed in a five-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 will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

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 Survivor 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 $9,600; 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.

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.

2. Plan Membership and Benefit Provisions (continued)

The Teachers Survivor Benefits Fund provides benefits based on the highest salary at the time of retirement of the teacher. Benefits are payable in accordance with the following table:

Highest Annual Salary	Spousal Monthly Minimum Benefit
$17,000 or less	$ 750
$17,001 to $25,000	$ 875
$25,001 to $33,000	$ 1,000
$33,001 to $40,000	$ 1,125
$40,001 and over	$ 1,250

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%

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	45
Total participating units as of the actuarial valuation at June 30, 2012	113

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

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 will mirror 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.

2. Plan Membership and Benefit Provisions (continued)

Joint and survivor options are available as well as the Service Retirement Allowance (SRA) Plus option that 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.

The new retirement age will be 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.

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.

***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 can be reviewed in a five-year interval. When the funding level of a plan exceeds 80% funded eligible retirees may receive a COLA annually effective on their date of retirement plus one month. The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of age 55 or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

***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.

2. Plan Membership and Benefit Provisions (continued)

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.

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 can be reviewed in a five-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 will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of age 55 or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

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.

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:

	Retirement benefit
Judges appointed after December 31, 1989 but before July 2, 1997	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.
Judges appointed after July 2, 1997 but before January 1, 2009	Same as above except, salary is the average highest three (3) consecutive years of compensation rather than final salary.
Judges appointed after January 1, 2009 but before July 1, 2009	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. 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.
Judges appointed after July 1, 2009	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. 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.

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 can be reviewed in a five-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 will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of age 55 or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

STATE OF RHODE ISLAND JUDICIAL RETIREMENT FUND TRUST (RIJRFT)

Effective July 1, 2012 under the direction of Rhode Island General Law 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 contribute 8.75%).

Retirement eligibility and plan benefits – The plan generally provides retirement benefits for members who have served as a justice of the supreme court, the superior court, the family court, the district court, or any of them for 20 years and has the reached age of 65 years, or has served 15 years, and reached the age of 70 years 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 of the traffic tribunal who served as a justice for 20 years, or has served for 10 years and reached age 65 years may retire from regular service and receive a benefit equal to the 75% of the annual salary at the time of retirement. However, any traffic tribunal judge who has served 20 years and has reached age 65 years, or has so served for 15 years and age 70 years may retire from active service and receive a benefit equal to annual salary the justice was receiving at the time of their retirement.

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 five-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 will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of the SSNRA or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

2. Plan Membership and Benefit Provisions (continued)

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.

Plan members **–** The plan covers members of the Employees' Retirement System of Rhode Island (ERS), excluding legislators, correction officers and MERS general police and fire employees who participate in Social Security. For covered employees, participation in the defined contribution plan is mandatory. Judges and state police officers are also excluded from the Plan.

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. Employers contribute to these member's individual accounts an amount equal to 1% 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 3% of the member's compensation. MERS police and fire employees not covered by social security must contribute 3%; employers contribute to these member's individual accounts an amount equal to 3% of the member's compensation.

2. Plan Membership and Benefit Provisions (continued)

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 amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale.

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. The fair value of mutual fund investments reflects the published closing net asset value as reported by the fund manager.

3. Summary of Significant Accounting Policies (continued)

Commingled funds include institutional domestic equity index and 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. The determination of fair value for other commingled funds, which include hedge, private equity, and real estate funds is described in the succeeding paragraphs.

Futures contracts 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 and hedge fund investments) are generally valued based on audited December 31 net asset values adjusted for (1) cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions), and (2) significant changes in fair value as determined or estimated by the general partners as of June 30. The general partners estimate the fair value of the underlying investments held by the partnership periodically. 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. Financial Accounting Standards Board ASC Topic 820, *Fair Value Measurements and Disclosures,* requires private equity and real estate limited partnership general partners 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. ERSRI management considers the fair values reported by the general partners at June 30 in addition to the audited net asset values at December 31 adjusted for cash flows for the period January 1 to June 30 in determining the fair value of private equity and real estate investments on the financial statements of ERSRI.

Private equity and real estate investments represented 7.4% and 3.2%, respectively of the total reported fair value of all ERSRI investments at June 30, 2013. Of the underlying holdings within private equity investments, approximately 19% were valued based on quoted market prices. The remaining underlying assets were valued generally following the objectives outlined above. Because these fair values were not determined based on quoted market prices, the fair values may differ from the values that would have been determined had a ready market for these investments existed.

Hedge funds are valued based on information provided by the fund manager and as verified by their respective third party administrator. Of the underlying holdings within the hedge funds approximately 66% were valued based on Tier 1 inputs (unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted investments) and 28% as Tier 2 inputs (other significant inputs, either directly or indirectly, at the measurement date such as a) quoted prices for similar assets or liabilities in active markets; b) quoted prices for identical or similar assets and liabilities in markets that are not active; c) observable inputs, other than quoted prices, for assets and liabilities; or d) inputs that are derived from or corroborated by observable market data by correlation or other means). The remaining underlying holdings within the hedge funds approximating 6% were valued based on Tier 3

3. Summary of Significant Accounting Policies (continued)

inputs (unobservable inputs which are developed based on the best information available in the circumstances, which might include the fund's own data).

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.

Investment expenses – Certain investment management expenses are presented separately as a component of net investment income and include investment consultants, custodial fees, direct investment expenses allocated by managers, and allocated Office of the General Treasurer expenses associated with oversight of the portfolio. In some instances (hedge funds, private equity, real estate investments, and cash investments), investment related costs are not readily separable from investment income and consequently investment income is recorded net of related expenses.

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

Property and Equipment – These assets represent the Line of Business System and computer equipment recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives, ten and five years respectively. Property and equipment is allocated to each plan based on its proportionate share of net assets. The System's capitalization threshold is $5,000.

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 assets. 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.

3. Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Standards – The Governmental Accounting Standards Board issued Statement No. 67 – *Financial Reporting for Pension Plan*s and Statement No. 68 – *Accounting and Financial Reporting for Pensions,* which will impact the System's financial statements in future fiscal years. Management is determining the impact of these statements, specifically Statement No. 67 which is applicable to financial reporting for plans and is required to be implemented in fiscal 2014.

4. Cash Deposits and Cash Equivalents

At June 30, 2013, the carrying amounts of the plans' cash deposits are listed below:

Cash Deposits:	ERS	MERS	SPRBT	JRBT	RIJRFT	Total
Book balance	$ 1,483,072	$ 465,097	$ 167,049	$ 87,523	$ 147,029	$ 2,349,770
Bank balance	$ 1,755,945	$ 530,725	$ 167,049	$ 87,523	$ 147,029	$ 2,688,271

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 balance, $1,904,189 and the remainder representing interest-bearing collateralized bank deposits totaling $784,082 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, 2013 (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.

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

On July 1, 1992, the State Investment Commission pooled the assets of the ERS with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. The custodian bank holds assets of the System in a Pooled 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.

5. Investments – Pooled Investment Trust

(a). General

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the System's Pooled Investment Trust. Investment managers engaged by the Commission, at their discretion and in accordance with the investment objectives and guidelines for the System, make certain investments.

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

The following table presents the fair value of investments by type that are held within the Pooled Trust for the defined benefit plans at June 30, 2013:

Pooled Investment Trust - Investment Type		**Fair Value**
Cash and Cash Equivalents	$	34,811,831
Foreign Currencies		6,246,655
Money Market Mutual Funds		347,747,545
US Government Securities		485,704,803
US Government Agency Securities		369,388,683
Global Inflation Linked Bonds		139,739,402
Collateralized Mortgage Obligations		23,158,307
Corporate Bonds		408,308,883
Term Loans		291,140,058
Domestic Equity Securities		805,608
International Equity Securities		194,075
Commingled Funds - Domestic Equity		1,843,372,522
Commingled Funds - International Equity		1,736,806,628
Private Equity		557,190,208
Real Estate Limited Partnerships and Commingled Funds		241,159,516
Hedge Funds		1,084,674,653
Derivative Investments		(894,783)
Investments at Fair Value	$	7,569,554,595
Receivable for investments sold		260,370,212
Payable for investments purchased		(297,226,147)
Payable to Broker		(1,843,031)
Total	$	7,530,855,629

5. Pooled Investment Trust (continued)

(a). General

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.

(b). Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt security's sensitivity to fair value changes arising from changes in the level of interest rates. It is the weighted average maturity of a bond's cash flows. The System manages its exposure to interest rate risk by comparing each fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the System are:

- Barclays US Aggregate Index
- Barclays World Government Inflation –Linked All Maturities USD Hedge
- Custom High Yield and Bank Loan Index – 30% Bank of America Merrill Lynch 1-3 BB-B High Yield and 70% Credit Suisse Institutional Leveraged Loan Index

At June 30, 2013, no fixed income manager was outside of the policy guidelines.

The following table shows the System's fixed income investments by type, fair value and the effective duration at June 30, 2013:

Investment Type	Fair Value	Effective Duration
US Government Securities	$ 485,704,803	5.41
US Government Agency Securities	369,388,683	3.72
Collateralized Mortgage Obligations	23,158,307	3.52
Corporate Bonds	408,308,883	6.21
Global Inflation Linked Bonds	139,739,402	14.40
Term Loans	291,140,058	0.60
Total Fixed Income	$ 1,717,440,136	5.13

5. Pooled Investment Trust (continued)

(b). Interest Rate Risk

The System had investments at June 30, 2013 totaling $200,216,449 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 37% of the total OSIP at June 30, 2013.

OSIP operates in a manner consistent with SEC Rule 2a-7 like pool and thus, reports all investments at amortized cost rather than fair value. 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 also invested $147,529,772 in a short-term money market mutual fund that held investments with a weighted average maturity of 66 days at June 30, 2013.

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.

(c). Credit Risk

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, 2013 is as follows:

5. Pooled Investment Trust (continued)

(c). Credit Risk

Rating (1)	Collateralized Mortgage Obligations	US Government Agency Obligations	Corporate Bonds	Global Inflation Linked Bonds	Term Loans
Aaa	$ 12,130,958	$ 369,388,683	$ 10,450,483	$ 22,239,715	
Aa	6,068,691		4,602,822	112,135,187	
A	3,710,119		86,513,210		
Baa	1,248,539		199,181,893	5,364,500	14,610,754
Ba			42,929,160		96,356,258
B			53,323,430		119,497,842
Caa			11,259,135		4,511,159
Ca					
C					
D					
Not Rated			48,750		56,164,045
Fair Value	$ 23,158,307	$ 369,388,683	$ 408,308,883	$ 139,739,402	$291,140,058

(1) Moody's Investors Service

(d). 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.

(e). 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, 2013, 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.

5. Pooled Investment Trust (continued)

(f). 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, 2013, was as follows:

Currency	Commingled Fund	Foreign Cash	Derivative Investments	Global Inflation Linked Bonds	Equities	Private Equity	Total
Australian Dollar	$ 95,061,613	$ -	$ 5,149	$ 3,146,603	$ -	$ -	$ 98,213,365
Austrian Shilling	3,209,649	-	-	-	-	-	3,209,649
Belgian Franc	13,698,554	-	-	-	-	-	13,698,554
Brazilian Real	41,249,210	-	-	2,433,900	-	-	43,683,110
British Pound	256,628,863	-	(186,607)	61,573,178	-	-	318,015,434
Canadian Dollar	120,814,260	-	1,094	10,004,006	194,005	12,507,250	143,520,615
Chilean Peso	7,048,480	-	-	-	-	-	7,048,480
Chinese Yuan Renminbi	49,580,184	-	-	-	-	-	49,580,184
Colombian Peso	4,460,982	-	-	-	-	-	4,460,982
Czech Republic Koruna	903,260	-	-	-	-	-	903,260
Danish Krone	13,362,775	-	-	-	-	-	13,362,775
Egyptian Pound	913,907	-	-	-	-	-	913,907
Euro Currency	323,896,366	6,246,614	(490,598)	45,269,379	70	85,087,965	460,009,796
Hong Kong Dollar	60,920,053	12	-	-	-	-	60,920,065
Hungarian Forint	980,347	-	-	-	-	-	980,347
Indian Rupee	27,727,046	-	-	-	-	-	27,727,046
Indonesia Rupiah	12,494,680	-	-	-	-	-	12,494,680
Israeli Shekel	6,034,650	-	-	-	-	-	6,034,650
Japanese Yen	276,405,997	-	311,273	5,257,845	-	-	281,975,115
Malaysian Ringgit	16,089,996	-	-	-	-	-	16,089,996
Mauritian Rupee	348,289	-	-	-	-	-	348,289
Mexican Peso	21,584,337	-	-	2,930,600	-	-	24,514,937
Moroccan Dirham	295,371	-	-	-	-	-	295,371
New Zealand Dollar	1,432,491	-	-	-	-	-	1,432,491
Norwegian Krone	9,425,610	-	-	-	-	-	9,425,610
Peruvian Nouveau Sol	1,307,416	-	-	-	-	-	1,307,416
Philippine Peso	4,099,758	-	-	-	-	-	4,099,758
Polish Zloty	6,086,531	-	-	-	-	-	6,086,531
Russian Ruble	21,563,623	-	-	-	-	-	21,563,623
Singapore Dollar	19,478,564	-	-	-	-	-	19,478,564
South Africa Rand	28,631,311	-	-	-	-	-	28,631,311
South Korean Won	58,042,240	-	-	-	-	-	58,042,240
Swedish Krona	37,358,191	29	(43,631)	9,123,892	-	-	46,438,481
Swiss Franc	113,442,302	-	-	-	-	-	113,442,302
Taiwan Dollar	47,179,010	-	-	-	-	-	47,179,010
Thailand Baht	11,102,949	-	-	-	-	-	11,102,949
Turkish Lira	7,730,003	-	-	-	-	-	7,730,003
	$ 1,720,588,867	$ 6,246,655	$ (403,320)	$ 139,739,403	$ 194,075	$ 97,595,215	$ 1,963,960,895
US Dollar	16,217,760						
	$ 1,736,806,627						

In addition to the foreign currency exposure highlighted in the foregoing table, certain hedge and private equity fund investments may have foreign currency exposure.

5. Pooled Investment Trust (continued)

(g). 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.

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 in Note 5. 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.

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

5. Pooled Investment Trust (continued)

(g). Derivatives and Other Similar Investments

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, 2013.

Investment Derivative Instruments	Change in fair value included in investment income	Fair Value at June 30, 2013	Notional Amount
Fixed income futures - long	$ (872,659)	$	$ 40,255,266
Fixed income futures - short	(7,085,653)	(615,078)	
Index futures - long	30,735,986	377,536	39,036,165
Index futures - short	(32,263)	(720,836)	(14,562,185)
Credit default swap		63,595	2,000,000
Total	**$ 22,745,411**	**$ (894,783)**	

Foreign Currency Forward Contracts:

Pending payable (liability)	$ (1,356,840)

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, 2013 was $441,331. 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.

Credit Default Swaps can be used in the portfolio by the credit manager 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. buy protection). The actual swap entered into sold protection on an index to effectively and quickly gain long exposure to the high yield markets giving this new manager time to invest in individual cash bonds in line with the mandate.

The System executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of these counterparties were Baa1 (Moody's) or better, one counterparty was not rated by Moody's but is rated A+ by Fitch.

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)	Weighted Average Maturity (days)
Annuities				
TIAA Stable Value	$ 1,553,990	1.3%		
TIAA Real Estate - variable annuity	579,081	0.5%		
Total	**$ 2,133,071**	**1.8%**		
Money Market				
Vanguard Prime Money Market Fund	**$ 147,784**	**0.1%**		59
Fixed Income Funds				
Pimco Real Return Institutional Class	1,145,038	0.9%	6.35	
Vanguard Total Bond Market Index	802,639	0.7%	5.31	
Total	**$ 1,947,677**	**1.6%**		
Target Retirement Funds				
Vanguard Target Retirement 2010 Investor Class	2,650,803	2.2%		
Vanguard Target Retirement 2015 Investor Class	10,095,607	8.2%		
Vanguard Target Retirement 2020 Investor Class	17,483,975	14.3%		
Vanguard Target Retirement 2025 Investor Class	18,383,741	15.0%		
Vanguard Target Retirement 2030 Investor Class	17,986,229	14.7%		
Vanguard Target Retirement 2035 Investor Class	17,059,848	13.9%		
Vanguard Target Retirement 2040 Investor Class	13,082,314	10.7%		
Vanguard Target Retirement 2045 Investor Class	9,652,774	7.9%		
Vanguard Target Retirement 2050 Investor Class	5,102,714	4.2%		
Vanguard Target Retirement 2055 Investor Class	1,086,432	0.9%		
Vanguard Target Retirement 2060 Investor Class	104,698	0.1%		
Vanguard Target Retirement Income Investor Class	813,350	0.7%		
Total	**$ 113,502,486**	**92.7%**		
Equity Mutual Funds				
TIAA-CREF International Equity Index Fund Institutional	508,853	0.4%		
Vanguard 500 Index Fund Signal Class	2,084,707	1.7%		
Vanguard Emerging Markets Stock Index Signal Class	501,975	0.4%		
Vanguard Mid-Cap Index Fund Signal Class	834,605	0.7%		
Vanguard Small Cap Index Fund Signal Class	743,821	0.6%		
Total	**$ 4,673,962**	**3.8%**		
Total	**$ 122,404,979**	**100.00%**		

6. Other Investments –Defined Contribution Plan (continued)

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, 2013, 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. Property and Equipment

Property and equipment consist of the line of business system (LOB) and computer equipment at historical cost. During fiscal year-ended June 30, 2013 the System fully depreciated its LOB and computer equipment. The systems have reached their economic life for reporting purposes, but will remain in service until they are replaced by a new system in fiscal year 2015. Balances at June 30, 2013 were as follows:

	ERS	MERS	SPRBT	JRBT	Total
Line of Business System	$ 15,544,862	$ 2,287,990	$ 38,780	$ 24,973	$ 17,896,605
Equipment	160,074	25,213	842	550	186,679
Property and Equipment	15,704,936	2,313,203	39,622	25,523	18,083,284
Accumulated Depreciation	(15,704,936)	(2,313,203)	(39,622)	(25,523)	(18,083,284)
Net Property and Equipment	$ -	$ -	$ -	$ -	$ -

8. Contributions

Contribution requirements for plan members and employers are established pursuant to Rhode Island General Laws. Employers are required to contribute at an actuarially determined rate for the defined benefit plan. 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 7.5 percent for all plans except the RIJRFT which utilizes a 4.0% 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.

Beginning with the valuations performed as of June 30, 2010, the unfunded accrued liability is amortized over a twenty-five year period from June 30, 2010.

(b). Contribution rates

Employer contribution rates for fiscal 2013 for all defined benefit plans were developed based on actuarial valuations performed as of June 30, 2010 except that the employer contribution rate for RIJRFT plan members was developed based on an actuarial valuation performed as of June 30, 2012. The June 30, 2010 valuations were restated as a result of the passage of the Rhode Island Retirement Security Act of 2011. The notes to the required supplementary information describe the changes to the actuarial methods and assumptions. Employee contribution rates are statutorily determined.

The assumptions for the Employees' Retirement System, Municipal Employees' Retirement System, Judicial Retirement Benefits Trust, and the State Police Retirement Benefits Trust used in the June 30, 2010 actuarial valuations are consistent with the 2012 valuation, with the exception of certain assumption changes that resulted from the enactment of the Rhode Island Retirement Security Act of 2011 (as more fully described in the Note 1 to the Required Supplementary Information Schedules). A table in Note 8 (d) details the specific assumptions used in the 2010 and 2012 actuarial valuations.

The table below displays the contribution rates for the year ended June 30, 2013:

8. Contributions (continued)

(b). Contribution rates

Plan	Employee	Employer
ERS		
State Employees	3.75%	21.18%
Teachers		
Municipal funded	3.75%	11.41% (*10.72% for towns not participating in the 1990 early retirement incentive*)
State funded		7.88% (*7.15% for towns not participating in the 1990 early retirement incentive*)
MERS		
General Employees	1.00% (additional 1% with a cost-of-living adjustment)	68 Municipalities, housing authorities, water and sewer districts contributed various actuarially determined rates.
Public Safety	7.00% (additional 1% with a cost-of-living adjustment)	45 Municipal police and fire departments contributed various actuarially determined rates.
SPRBT	8.75%	11.07%
JRBT	12.00% (8.75% supreme court judges)	19.69%
RIJRFT	12.00% (8.75% supreme court judges)	$1,816,416
Defined Contribution Plan	Eligible state employees and teachers participating in social security – 5%	1%
	Teachers and MERS general employees not covered by social security – 7%	3%
	MERS police and fire employees not covered by social security – 3%	3%

(c). Supplemental Contributions

The General Laws (Section 36-10-2(a) 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 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 2013, $2,312,058 was contributed to the System in accordance with this provision of the General Laws.

The General Laws also require that for any fiscal year in which the State's actual general revenues exceed estimated amounts, the difference shall be paid to the ERS plan upon completion and release of the State's audited financial statements. The amount paid to the System in fiscal 2013 related to the State's fiscal 2012 actual general revenues exceeding budgeted amounts by $12,943,629.

8. Contributions (continued)

Beginning in Fiscal 2013, 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 $434,677 was paid to the System pursuant to Section 42-149-3.1 of the General Laws.

(d). Funded Status and Funding Progress

The table below displays the funded status of each plan at June 30, 2012, the most recent actuarial valuation date (see Note 13 to the financial statements - *Subsequent Events):*

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
ERS						
State Employees	$ 2,421,191,542	$ 4,297,261,311	$ 1,876,069,769	56.3%	$ 669,477,539	280.2%
Teachers	3,746,299,871	6,373,081,344	2,626,781,473	58.8%	971,904,991	270.3%
MERS	1,238,175,548	1,500,474,379	262,298,831	82.5%	306,230,016	85.7%
SPRBT	84,293,968	94,031,687	9,737,719	89.6%	23,669,619	41.1%
JRBT	43,428,646	52,085,154	8,656,508	83.4%	8,822,823	98.1%
RIJRFT	-	16,387,206	16,387,206	0.0%	1,230,644	1331.6%

The Teachers' Survivor Benefit Program provides survivor benefits to teachers who do not participate in Social Security. The Teachers' Survivor Benefit Program is part of the ERS plan but a separate actuarial valuation is performed every two years as required by the General Laws. The most recent valuation of the plan was performed at June 30, 2011. The actuarial accrued liability at June 30, 2011 was $133.6 million and the actuarial value of assets $242.9 million resulting in a funded ratio of 182%. Due to the over-funded status of the program there was no additional contribution required of employees or employers for fiscal 2013 consistent with the statute. The actuary utilized the entry age normal actuarial cost method with a level-dollar 30 year, open amortization period. Assets were valued at market and the assumed investment rate of return was 7.5%. Projected salary increases were 4% to 12.75% with inflation and cost-of-living adjustments each at 2.75%.

The Schedules of Funding Progress (page 44), presented as required supplementary information, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liabilities (AAL) for benefits. The notes to the required supplementary information describe changes to actuarial methods and assumptions as well as statutory benefit changes applicable to each of the valuation periods.

8. Contributions (continued)

(d). Funded Status and Funding Progress

The actuarial assumptions used in the June 30, 2010 valuation (used to develop employer rates for fiscal 2013) and the June 2012 valuation (most recent available) are summarized below:

Summary of Actuarial Assumptions

	Used in the June 30, 2010 and 2012 Valuations					**June 30, 2012 Valuation**
	ERS		**MERS**	**SPRBT**	**JRBT**	**RIJRFT**
	State Employees	***Teachers***				
Actuarial Cost Method	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.					
Amortization Method	Level Percent of Payroll – Closed					Level Dollar
Equivalent Single Remaining Amortization Period	23 years at June 30, 2012; 25 years at June 30, 2010					16 years
Asset Valuation Method	5 Year Smoothed Market					
Actuarial Assumptions						
Investment Rate of Return	7.50%	7.50%	7.50%	7.50%	7.50%	4.00%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	*General Employees* 4.00% to 8.00% *Police & Fire Employees* 4.25% to 14.25%	4.00% to 12.00%	4.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%

Cost of Living Adjustments: COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time. COLA is delayed until the latter of Social Security eligibility age or 3 years after retirement except for State Police and MERS Police and Fire for which the COLA is delayed until the later of age 55 or 3 years after retirement.

For the MERS plan, a 2% COLA is assumed after January 1, 2014. For all other plans, a COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 15 years.

The method used to determine the actuarial value of assets is the five-year smoothed market method. A small adjustment was made in the June 30, 2012 valuation to the method used to smooth investment gains and losses to allow gains and losses to offset each other immediately. This modification will reduce future volatility in the actuarial value of assets while ensuring that the actuarial value always trends directly towards the market value of assets. In addition, a minor modification to the retirement rate assumption was also made for the plans.

8. Contributions (continued)

(d). Funded Status and Funding Progress

For the MERS plan, the marriage assumption was modified to reflect the expected percentage of members that will be eligible for survivor benefits upon their death, the incidence of disability was lowered to incorporate a continued trend of significantly fewer incidents of disability than anticipated by the current assumption, and the missing data assumption was updated to incorporate an assumption for missing beneficiary data.

The assumptions used in the Rhode Island Judicial Retirement Fund Trust are consistent with those used for the Judicial Retirement Benefits Trust except that since the plan is not currently advance funded, a 4% investment return assumption was utilized. This plan is for a closed group of individuals and the amortization payment has been calculated based on level-dollar amortization over 16-years from June 30, 2012.

For future cost of living benefit adjustments, the benefit adjustments are assumed to be suspended for approximately 15 years, except for the intermittent adjustment every fifth year.

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 of the System, financed as described in the preceding paragraph, include $886,231 of expenses within the Office of General Treasurer 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 2013, the administrative costs of the defined contribution plan were financed through a budgetary appropriation and participant fees and are reflected in the State's General Fund. Administrative costs that were allocated to the defined contribution plan as part of the Office of the General Treasurer operating budget were $148,742 for fiscal year ended June 30, 2013. Fees paid to TIAA-CREF via participant fees were $963,548 for fiscal year ended June 30, 2013. The administrative expenses for the defined contribution plan will be financed solely by participant fees effective July 1, 2013.

10. Commitments

The State Investment Commission has committed to fund certain private equity and real estate investment managers at a predetermined subscription amount. Outstanding unfunded investment commitments at June 30, 2013 totaled $287 million. These commitments will be funded through cash available within the pooled investment trust generated through investment income and/or liquidation of other investments.

10. Commitments (continued)

The System's investments in certain 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 two years after the initial investment, often in exchange for lower fees. At June 30, 2013, approximately $309 million of hedge fund investments were subject to "lock-up" provisions and an additional $137 million was subject to provisions that impose a penalty if amounts are withdrawn prior to a specific date.

Certain hedge fund investments require advance notification of between 2 and 90 days of the intent to liquidate the System's position.

11. Postemployment Healthcare Plan

Plan Description - The System contributes to the State Employees' defined benefit post-employment health care plan, a cost sharing multiple employer plan administered though the Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System). The State of Rhode Island OPEB Board (Board) was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established to independently hold and administer, in trust, the funds of the OPEB system. The plan provides medical benefits to certain retired employees of participating employers included in the System.

Pursuant to legislation enacted by the General Assembly, a trust was established to accumulate assets and pay benefits and other costs associated with the OPEB system.

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

Funding Policy - *RIGL* Sections 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB system. The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. Active employees make no contribution to the OPEB plan. Employees who retired after October 1, 2008 must contribute 20% of the annual estimated benefit cost (working rate) or annual premium for Medicare supplemental coverage. Employees retiring before October 1, 2008 have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB system.

All participating employers are required by law to fund the actuarially determined annual required contribution (ARC), which for fiscal year 2013 was 6.86% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The System's contribution to the plan for the years ended June 30, 2012 and June 30, 2013 were $183,867 and $204,957 respectively, which represents 100% of the annual required contribution.

12. Contingencies

Challenges to the 2009 and 2010 Pension Reform - A number of unions representing state employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms. The 2005 reforms were not challenged. The State intends to vigorously contest the lawsuit. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint, which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the Court during the hearing on the Motion would concern whether the statute created a contract between the state and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be briefed and argued at a later date. On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The defendant State officials believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the petition for Writ of Certiorari. The litigation is proceeding through discovery at this time.

Challenges to the 2011 Pension Reform - In June 2012, certain retiree groups and unions representing state and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 ("RIRSA") enacted by the General Assembly. In each of the five cases, the plaintiffs alleged that RIRSA violates the Contract Clause, the Takings Clause and the Due Process Clause of the Rhode Island Constitution. In addition, in the *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166 case, the plaintiffs also allege counts for promissory estoppel and breach of contract. The State intends to vigorously contest the lawsuit.

On August 17, 2012, the defendants filed a motion to dismiss the *Rhode Island Public Employees' Retirement Coalition v. Chafee,* C.A. No. 12-3166 case on the ground that Rhode Island's pension legislation does not create a contract with ERSRI participants and that general contract principles, such as implied contracts, cannot be used to determine whether a state statute creates a contract. In the remaining four cases, the defendants filed motions for more definite statements in which they argued that it is not clear from the plaintiffs' pleadings what purported contract or contract(s) plaintiffs allege have been impaired. The defendants also moved in the alternative and asked the Court to dismiss the remaining four cases if the Court concluded that the plaintiffs' purported contracts derive from Rhode Island's pension legislation.

On December 18, 2012, the Court ordered the parties involved in the pension lawsuit try to settle the case through a formal mediation process. The Superior Court ordered that the sessions be overseen by the Federal Mediation and Conciliation Service. If the two sides cannot reach an agreement through mediation then the lawsuit that was previously filed will proceed.

12. Contingencies (continued)

An adverse judgment to the State rendered in the pension litigation or mediation could significantly increase both the unfunded liability under the plans with in the System and the State's actuarially determined annual required contribution.

13. Subsequent Events

In November 2013, the State Investment Commission voted to pool the assets of RIJRFT into the pooled investment trust, beginning January 2014.

On December 17, 2013, the ERSRI Board approved actuarial valuations as of June 30, 2013 for the ERS and MERS plans. Those valuations develop the employer contribution rates for fiscal 2016. The funded status of the ERS plan as of June 30, 2013 compared to June 30, 2012 valuations is detailed in the table below:

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	Funded ratios based on an actuarial valuation performed as of :	
	June 30, 2012	June 30, 2013
ERS - state employees	56.3%	56.2%
ERS - teachers	58.8%	58.1%
MERS - composite	82.5%	82.1%

The actuary made no significant changes in actuarial assumptions for the 2013 valuations.

EMPLOYEES'
RETIREMENT SYSTEM
OF RHODE ISLAND

Required Supplementary Information

Schedules of Funding Progress

Schedules of Employer Contributions

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Funding Progress

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) - Entry Age - (b)		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
ERS (*State Employees*)										
6/30/2012	$	2,421,191,542	$	4,297,261,311	$	1,876,069,769	56.3%	$	669,477,539	280.2%
6/30/2011		2,443,690,798		4,255,362,463		1,811,671,665	57.4%		633,146,197	286.1%
6/30/2010 ***		2,532,090,798		4,234,045,007		1,701,954,209	59.8%		630,246,973	270.0%
6/30/2009		2,646,081,020		4,482,244,291		1,836,163,271	59.0%		605,872,460	303.1%
6/30/2008 **		2,700,368,568		4,331,504,516		1,631,135,948	62.3%		587,500,000	277.6%
6/30/2007		2,493,428,522		4,332,888,818		1,839,460,296	57.5%		660,044,273	278.7%
ERS (*Teachers*)										
6/30/2012	$	3,746,299,871	$	6,373,081,344	$	2,626,781,473	58.8%	$	971,904,991	270.3%
6/30/2011		3,776,407,834		6,325,941,951		2,549,534,117	59.7%		1,002,656,294	254.3%
6/30/2010 ***		3,873,118,262		6,265,273,231		2,392,154,969	61.8%		989,236,951	241.8%
6/30/2009		4,008,931,337		6,900,963,108		2,892,031,771	58.1%		987,463,633	292.9%
6/30/2008 **		4,044,954,378		6,632,016,708		2,587,062,330	61.0%		985,898,174	262.4%
6/30/2007		3,737,981,686		6,750,125,236		3,012,143,550	55.4%		959,372,837	314.0%
SPRBT										
6/30/2012	$	84,293,968	$	94,031,687	$	9,737,719	89.6%	$	23,669,619	41.1%
6/30/2011		73,151,768		74,185,705		1,033,937	98.6%		19,711,694	5.2%
6/30/2010 ***		65,760,284		73,048,680		7,288,396	90.0%		19,715,070	37.0%
6/30/2009		60,232,045		75,480,005		15,247,960	79.8%		17,096,202	89.2%
6/30/2008		54,927,390		69,029,513		14,102,123	79.6%		16,698,764	84.5%
6/30/2007 *		45,996,910		60,427,947		14,431,037	76.1%		15,836,354	91.1%
JRBT										
6/30/2012	$	43,428,646	$	52,085,154	$	8,656,508	83.4%	$	8,822,823	98.1%
6/30/2011		40,105,919		46,594,407		6,488,488	86.1%		8,474,716	76.6%
6/30/2010 ***		38,074,287		46,641,701		8,567,414	81.6%		7,461,120	114.8%
6/30/2009		36,839,221		41,738,040		4,898,819	88.3%		6,843,454	71.6%
6/30/2008 **		34,670,394		38,115,602		3,445,208	91.0%		6,601,889	52.2%
6/30/2007 *		29,630,637		35,355,326		5,724,689	83.8%		6,451,666	88.7%
MERS										
6/30/2012	$	1,238,175,548	$	1,500,474,379	$	262,298,831	82.5%	$	306,230,016	85.7%
6/30/2011		1,204,814,823		1,428,879,301		224,064,478	84.3%		305,394,098	73.4%
6/30/2010 ***		1,196,385,142		1,372,495,862		176,110,720	87.2%		305,813,678	57.6%
6/30/2009		1,196,366,995		1,355,652,690		159,285,696	88.3%		306,587,441	52.0%
6/30/2008		1,174,567,205		1,266,286,829		91,719,624	92.8%		304,952,020	30.1%
6/30/2007		1,064,615,664		1,179,233,489		114,617,825	90.3%		298,234,571	38.4%
RIJRFT ****										
6/30/2012	$	-	$	16,387,206	$	16,387,206	0.0%	$	1,230,644	1331.6%

**** The first actuarial valuation of this plan was performed as of June 30, 2012.

*** Reflects adoption of Rhode Island Retirement Security Act of 2011 enacted on November 18, 2011.

** Reflects adoption of Article 16 of Chapter 23 of the 2010 Public Laws enacted on June 12, 2010.

* Restated June 30, 2007 actuarial valuation after 2008 amendment to General Laws

See notes to required supplementary information.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Contributions From the Employers And Other Contributing Entity

ERS		State Employees		Teachers (State)		Teachers (Employers)	
Fiscal Year Ended June 30		Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2013	***	$ 136,615,349	100%	$ 70,703,201	100%	$ 108,444,319	100%
2012		153,448,309	100%	80,385,930	100%	126,395,672	100%
2011		126,560,644	100%	70,286,262	100%	113,422,000	100%
2010	**	123,547,738	100%	68,542,956	100%	109,566,352	100%
2009	*	126,297,706	100%	73,600,069	100%	115,234,100	100%
2008		131,560,248	100%	82,455,777	100%	122,906,860	100%

MERS Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	$ 35,553,402	100%
2012	35,998,489	100%
2011	29,469,064	100%
2010	31,269,020	100%
2009	33,514,681	100%
2008	33,415,530	100%

SPRBT Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	$ 2,103,209	100%
2012	5,333,298	100%
2011	3,786,553	100%
2010	3,590,615	100%
2009	3,340,746	100%
2008	3,720,281	100%

JRBT Fiscal Year Ended June 30		Annual Required Contribution	Percentage Contributed
2013		$ 1,752,049	100%
2012		1,718,379	100%
2011		1,298,278	100%
2010	**	1,180,817	100%
2009	*	1,700,174	100%
2008		2,127,643	100%

RIJRFT Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	$ 1,816,416	0%

* Reflects adoption of H5983Aaa, Article 7, Substitute A as amended, enacted on June 30, 2009

** Reflects adoption of Article 16 of Chapter 23 of the 2010 Public Laws enacted on June 12, 2010

*** Amounts shown for 2013 are the annual required contributions. For fiscal 2013 certain supplemental contributions were required by the General Laws as more fully described in Note 8 (c) to the financial statements and Note 3 to the required supplementary information.

See notes to required supplementary information.

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2012, follows (see Note 13 to the financial statements - *Subsequent Events.*

Summary of Actuarial Assumptions Used in the June 30, 2012 Valuation

	ERS		**MERS**	**SPRBT**	**JRBT**	**RIJRFT**
	State Employees	***Teachers***				
Actuarial Cost Method	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.					
Amortization Method	Level Percent of Payroll – Closed					Level Dollar
Equivalent Single Remaining Amortization Period	23 years					16 years
Asset Valuation Method	5 Year Smoothed Market					
Actuarial Assumptions						
Investment Rate of Return	7.50%	7.50%	7.50%	7.50%	7.50%	4.00%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	*General Employees* 4.00% to 8.00% *Police & Fire Employees* 4.25% to 14.25%	4.00% to 12.00%	4.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%

Cost of Living Adjustments: COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time. COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police and MERS Police and Fire for which the COLA is delayed until the later of age 55 or 3 years after retirement.

For the MERS plan, a 2% COLA is assumed after January 1, 2014. For all other plans, a COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 15 years.

2. Schedules of Funding Progress

The MERS funded ratio is a composite of all units in the plan. The System performs a separate valuation for each unit.

Changes affecting the June 30, 2012 actuarial valuation:

The assumptions for the Employees' Retirement System, Municipal Employees' Retirement System, Judicial Retirement Benefits Trust, and the State Police Retirement Benefits Trust are consistent with the 2011 valuation, with the exception of certain assumption changes that resulted from the enactment of the Rhode Island Retirement Security Act of 2011.

The method used to determine the actuarial value of assets is the five-year smoothed market method. A small adjustment was made to the method used to smooth investment gains and losses to allow gains and losses to offset each other immediately. This modification will reduce future volatility in the actuarial value of assets while ensuring that the actuarial value always trends directly towards the market value of assets. In addition, a minor modification to the retirement rate assumption was also made for the plans.

For the MERS plan, the marriage assumption was modified to reflect the expected percentage of members that will be eligible for survivor benefits upon their death, the incidence of disability was lowered to incorporate a continued trend of significantly fewer incidents of disability than anticipated by the current assumption, and the missing data assumption was updated to incorporate an assumption for missing beneficiary data.

The assumptions used in the Rhode Island Judicial Retirement Fund Trust are consistent with those listed in the Judicial Retirement Benefits Trust; however, the investment return assumption used within this valuation is 4.00%. This rate was selected because the plan is not currently advance funded. Consistent with generally accepted accounting principles, a plan that is not prefunded should use a lower investment assumption than a prefunded plan. The investment return assumption should reflect the expected return on assets that will be used to pay benefits. This plan is for a closed group of individuals and the amortization payment has been calculated based on level-dollar amortization with a 16-year amortization period.

Changes affecting the June 30, 2011 actuarial valuation:

The retirement rates were modified to be consistent with the retirement eligibility changes instituted by the Rhode Island Retirement Security Act of 2011. Members that were assumed to retire prior to the Act, but before the earliest allowable age under the Act, are assumed to retire once eligible.

For future cost of living benefit adjustments, the benefit adjustments are assumed to be suspended for approximately 16 years, except for the intermittent adjustment every fifth year.

2. Schedules of Funding Progress (continued)

Changes affecting the June 30, 2010 actuarial valuation *(as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011)****:***

The June 30, 2010 valuations (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011) reflect comprehensive changes to plan member benefit provisions which are effective beginning July 1, 2012. The June 30, 2010 valuations also reflect material changes to certain actuarial assumptions.

The revised member benefit provisions become effective on July 1, 2012. These include changes in service period accrual rates, retirement eligibility age, and future cost of living adjustments. Additionally, the unfunded accrued liability is now amortized over a twenty-five year period from June 30, 2010 compared to the 30-year period from June 30, 1999 employed in prior actuarial valuations.

The Individual Entry Age Cost Method is used in the June 30, 2010 actuarial valuations. Prior valuations utilized the Ultimate Normal Cost methodology where normal cost was determined based on the benefits applicable to new hires under the replacement benefit structure resulting from prior pension reform measures.

The annual investment rate of return was lowered from 8.25% to 7.5%.

The post-termination mortality rates for non-disabled state employees and members of the MERS, State Police and Judicial plans were previously based on the 1994 Group Annuity Mortality Tables. New mortality tables have been constructed and adopted with adjustments for these employees using the RP-2000 Combined Healthy for Males and Females with White Collar adjustments, projected with Scale AA from 2000 for non-disabled individuals.

The post-termination mortality rates used for non-disabled teachers in the June 30, 2009 and June 30, 2010 valuations were both based on tables developed by ERSRI's actuary based on teacher experience. The rates used in the June 30, 2010 valuation for male teachers were lowered to 97% of the rates in these tables based on male teacher experience, projected with Scale AA from 2000 from 100% of the actuary's table based on male teacher experience used in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for female teachers were lowered to 92% of the rates used in the actuary's tables based on female teacher experience, projected with Scale AA from 2000 from 95% of the actuary's table based on female teacher experience used in the June 30, 2009 valuation.

The post-termination mortality rates for disabled members of all ERSRI plans are based on the PBGC table Va for males and table VIa for females. The rates used in the June 30, 2010 valuation for disabled males eligible for social security disability benefits were lowered to 60% of PBGC table Va from 65% of this table in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for disabled females eligible for social security disability benefits were lowered to 60% of PBGC table VIa from 100% of this table in the June 30, 2009 valuation.

2. Schedules of Funding Progress (continued)

The pre-retirement mortality rates for all members of the ERSRI plans were previously based on the 1994 Group Annuity Mortality Tables. The rates used in the June 30, 2010 valuation for these employees were based on the RP-2000 Combined Tables with white collar adjustment for males and females. The tables were adjusted for each individual plan.

The inflation assumption rate was decreased from 3% to 2.75% and the projected salary increase assumptions were also decreased compared to the prior valuation. The assumption for cost of living adjustments subject to the Consumer Price Index (for those not eligible to retire on September 30, 2009) was decreased from 2.5% to 2.35%.

Changes affecting the June 30, 2009 actuarial valuation:

The June 30, 2009 valuation for the Employees' Retirement System and the Judicial Retirement Benefit Trust reflects the enactment of Article 16 of Chapter 23 of the 2010 Public Laws which amended the laws governing benefits for state employees, teachers and judges not eligible to retire by June 12, 2010 – see note 2 to the financial statements entitled *Plan Membership and Benefit Provisions*.

The changes enacted as a result of Article 16 of Chapter 23 of the 2010 Public Laws governing benefit provisions for the Employees' Retirement System and the Judicial Retirement Benefit Trust are reflected and were applied in determining the contributions rates for the fiscal years ended June 30, 2010 and June 30, 2011 - see note 2 to the financial statements entitled *Plan Membership and Benefit Provisions.*

Changes affecting the June 30, 2008 actuarial valuation:

The June 30, 2008 valuation for the Employees' Retirement System and the Judicial Retirement Benefit Trust reflects the enactment of H5983Aaa, Article 7, Substitute A to the laws governing benefits for state employees and teachers not eligible to retire by September 30, 2009 and judges appointed after July 1, 2009 – see note 2 to the financial statements entitled *Plan Membership and Benefit Provisions*.

The changes enacted as a result of Article 7 Substitute A to the laws governing benefits provisions for the Employees' Retirement System and the Judicial Retirement Benefit Trust are reflected and were applied in determining the contributions rates for the fiscal years ended June 30, 2009, June 30, 2010 and June 30, 2011 - see note 2 to the financial statements entitled *Plan Membership and Benefit Provisions*.

Changes affecting the June 30, 2007 actuarial valuation:

The June 30, 2007 actuarial accrued liability was restated for the Judicial Retirement Benefit Trust to reflect the amendment to the law governing benefits for judges appointed after January 1, 2009 – see note 2 to the financial statements entitled *Plan Membership and Benefit Provisions*.

3. Schedules of Employer Contributions

Employer contributions for the ERS plan included in the Schedules of Contributions from the Employers and Other Contributing Entity do not include Teacher Survivor Benefits as described in Note 2 and any employer contributions related to supplemental pension benefits that are attributable to and paid by a specific employer. These amounts are not included in the annual required contribution.

For fiscal 2013, certain supplemental contributions required by the General Laws were made to the ERS plan. These amounts are not included in the annual required contribution amounts or the percentage contributed in the schedule. These supplemental contributions are more fully explained in Note 8 (c) to the financial statements.

The unfunded liabilities of the plans are amortized over a 30-year period from June 30, 1999. The closed period ends 30 years from June 30, 1999 for actuarial valuations as of June 30, 2009 and prior. Beginning with the valuations performed as of June 30, 2010, the unfunded accrued liability is amortized over a twenty-five year period from June 30, 2010 except that the RIJRFT plan unfunded accrued liability is amortized over a 16-year period from June 30, 2012.