

EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND
ACTUARIAL VALUATION REPORT
AS OF JUNE 30, 2009

July 14, 2010

Retirement Board
40 Fountain Street, First Floor
Providence, RI 02903-1854

Dear Members of the Board:

Subject: Actuarial Valuation of ERSRI as of June 30, 2009

This is the June 30, 2009 actuarial valuation of the Employees' Retirement System of Rhode Island (ERSRI), which covers State Employees and Teachers. This report describes the current actuarial condition of ERSRI, determines recommended employer contribution rates, and analyzes changes in these contribution rates. Valuations are prepared annually, as of June 30, the last day of the ERSRI plan year. Not covered in this report are the Municipal Employees' Retirement System, the State Police Retirement Benefits Trust, the Judicial Retirement Benefits Trust, and the Teachers Survivors Plan, even though assets for ERSRI and these other programs are commingled for investment purposes.

Under Rhode Island General Laws, the employer contribution rates for State Employees and for Teachers are certified annually by the State of Rhode Island Retirement Board. These rates are determined actuarially, based on the plan provisions in effect as of the valuation date, the actuarial assumptions adopted by the Board, and the methodology set forth in the statutes. The Board's current policy is that the contribution rates determined by a given actuarial valuation become effective two years after the valuation date. For example, the rates determined by this June 30, 2009 actuarial valuation will be applicable for the year beginning July 1, 2011 and ending June 30, 2012.

Financing objectives

The actuarial cost method and the amortization periods are set by statute. Contribution rates and liabilities are computed using the Entry Age Normal actuarial cost method. The employer contribution rate is the sum of two pieces: the employer normal cost rate and the amortization rate. The normal cost rate is determined as a percent of pay. The employer normal cost is the difference between this and the member contribution rate. The amortization rate is determined as a level percent of pay. It is the amount required to amortize the unfunded actuarial accrued liability over a closed period (30 years as of June 30, 1999, 20 years remaining as of June 30, 2009). The amortization rate is adjusted for the two-year deferral in contribution rates. Separate employer contribution rates are determined for State Employees and for Teachers.

Please note that Article 7 SUB A adopted on June 30, 2009 modified the contribution schedule for the fiscal years ending June 30, 2009 and 2010. This amendment revised the previously calculated contribution rates for these fiscal years to the rate as stated in this report. Therefore, the rates stated in this report will be effective for the continuous three-year period July 1, 2008 through June 30, 2011.

Progress toward realization of financing objectives

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100%. For the State Employees, the funded ratio is 59.0% (a decrease from 61.8% last year), while for Teachers the ratio is 58.1% (a decrease from 61.0% last year).

For the June 30, 2009 valuation, the employer contribution rate increased from 20.78% to 22.98%, for State Employees, and from 19.01% to 22.32% for Teachers. For both State Employees and Teachers, the changes in the employer contribution rates were principally due to the recognition of deferred asset losses from prior valuations.

An analysis of the changes in the employer contribution rates appears in Table 10A of this report. An analysis of the changes in the unfunded actuarial accrued liability appears in Table 10C.

Benefit provisions

- There were significant changes in the benefit provisions for both State Employees and Teachers since the preceding actuarial valuation as of June 30, 2008. The benefit provisions on which this valuation is based are those which were in effect on June 30, 2009, except we have also reflected known modifications to the provisions which were enacted between the valuation date and the date of this report. The benefit provisions were modified by Article 16 enacted in June, 2010. The following is a brief summary of the benefit provision changes to the cost-of-living-adjustment (COLA) for non-grandfathered members:
 - Members who are eligible to retire as of the date of the enactment of the bill (the grandfathered group) are not impacted by the changes described below. The benefit amounts and the determination of their COLA will remain unchanged.
 - The COLA for non-grandfathered members (i.e. those members who are not eligible to retire as of the date of the enactment of the bill) would continue to be computed as a compounded COLA, with the increase equal to the increase in the CPI, but no more than 3.00% per year.
 - The first COLA for non-grandfathered members would be provided at the later of the member's third anniversary of retirement and the month following their 65th birthday;

- The COLA would be limited to the first \$35,000 of the member's annual pension benefit. This limit would be indexed annually to increase in the same manner as COLAs for Schedule B members (CPI for the year, not greater than 3.0%).

Assumptions and methods

All assumptions and methods are described in Appendix A of this report. The actuarial assumptions were last changed as a result of the experience study approved by the Board on June 13, 2007. We believe the assumptions are internally consistent and are reasonable, based on the actual experience of ERSRI.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities and the calculated contribution rates.

The actuarial assumptions and methods used in this report comply with the parameters for disclosure that appear in GASB 25.

Data

The System's staff supplied data for retired, active and inactive members as of June 30, 2009. We did not audit this data, but we did apply a number of tests to the data, and we concluded that it was reasonable and consistent with the prior year's data. The System's staff also supplied asset data as of June 30, 2009.

Certification

All of our work conforms with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of Rhode Island state law and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board.

Members of the Board

July 14, 2010

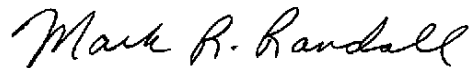
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The undersigned are independent actuaries. All three are Enrolled Actuaries and Members of the American Academy of Actuaries. They all meet the Qualification Standards of the American Academy of Actuaries and they are experienced in performing valuations for large public retirement systems.

Respectfully submitted,



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Executive Summary (State Employees)

Item	Valuation Date:		
	June 30, 2009	June 30, 2008	
	Reflecting Article 16	Reflecting Article 16	Disclosed in Prior Year's Report
Membership			
• Number of:			
- Active members	11,023	11,970	11,970
- Retirees and beneficiaries	11,142	10,396	10,396
- Inactive members	<u>2,496</u>	<u>2,527</u>	<u>2,527</u>
- Total	24,661	24,893	24,893
• Payroll supplied by ERSRI	\$ 574,569,170	\$ 617,622,521	\$ 617,622,521
Contribution rates			
• Member	8.75%	8.75%	8.75%
• Employer	22.98%	20.78%	21.64%
Assets			
• Market value	\$1,954,618,465	\$2,575,270,868	\$2,575,270,868
• Actuarial value	2,646,081,020	2,700,368,568	2,700,368,568
• Return on market value	-20.1%	-5.8%	-5.8%
• Return on actuarial value	2.4%	10.7%	10.7%
• Employer contribution	\$ 126,344,715	\$ 131,604,471	\$ 131,604,471
• Ratio of actuarial value to market value	135.4%	104.9%	104.9%
Actuarial Information			
• Employer normal cost %	0.59%	0.51%	0.87%
• Unamortized actuarial accrued liability (UAAL)	\$1,836,163,271	\$1,631,219,473	\$1,671,461,141
• Amortization rate	22.39%	20.27%	20.77%
• Funding period	20 years	21 years	21 years
• GASB funded ratio	59.0%	62.3%	61.8%
Projected employer contribution			
• Fiscal year ending June 30,	2012	2011	2011
• Projected payroll (millions)	\$ 658.5	\$ 615.6	\$ 615.6
• Projected employer contribution (millions)	151.3	127.9	133.2

Executive Summary (Teachers)

Item	Valuation Date:		
	June 30, 2009	June 30, 2008	
	Reflecting Article 16	Reflecting Article 16	Disclosed in Prior Year's Report
Membership <ul style="list-style-type: none"> • Number of: <ul style="list-style-type: none"> - Active members - Retirees and beneficiaries - Inactive members - Total • Payroll supplied by ERSRI 	 13,689 9,749 <u>2,466</u> 25,904 \$ 930,993,404	 13,999 9,337 <u>2,410</u> 25,746 \$ 928,250,193	 13,999 9,337 <u>2,410</u> 25,746 \$ 928,250,193
Contribution rates <ul style="list-style-type: none"> • Member • Employer • State share • Local employer share 	 9.50% 22.32% 9.09% 13.23%	 9.50% 19.01% 7.76% 11.25%	 9.50% 20.07% 8.18% 11.89%
Assets <ul style="list-style-type: none"> • Market value • Actuarial value • Return on market value • Return on actuarial value • Employer contribution (state & local) • Ratio of actuarial value to market value 	 \$ 2,962,026,384 4,008,931,337 -20.1% 2.4% \$ 188,858,198 135.3%	 \$ 3,857,373,705 4,044,954,378 -5.8% 10.7% \$ 205,368,390 104.9%	 \$ 3,857,373,705 4,044,954,378 -5.8% 10.7% \$ 205,368,390 104.9%
Actuarial Information <ul style="list-style-type: none"> • Employer normal cost % • Unamortized actuarial accrued liability (UAAL) • Amortization percentage • Funding period • GASB funded ratio 	 0.52% \$ 2,892,031,771 21.80% 20 years 58.1%	 0.50% \$ 2,587,025,880 18.51% 21 years 61.0%	 1.03% \$ 2,660,543,627 19.04% 21 years 60.3%
Projected employer contribution <ul style="list-style-type: none"> • Fiscal year ending June 30, • Projected payroll (millions) • Projected employer contribution (millions) • State share (millions) • Local employer share (millions) 	 2012 \$ 1,073.2 239.5 97.6 141.9	 2011 \$ 1,071.5 203.7 84.1 119.6	 2011 \$ 1,071.5 215.0 87.6 127.4

Contribution Rates

The employer contribution rates for ERSRI are determined actuarially. Separate rates are determined for State Employees and for Teachers. The rates determined in this valuation would typically become effective two years after the valuation date, i.e., as of July 1, 2011. However, due to the adoption of Article 16 SUB A, definitive technology procinema 600.

The rate consists of two pieces: the normal cost rate and the amortization rate. The normal cost rate is the employer's Entry Age normal cost, expressed as a percent of pay. The amortization rate is the contribution required to amortize the unfunded actuarial liability over 20 years as a level percent of pay.

For the Teachers, the State of Rhode Island pays 40% of the rate, adjusted so that the State pays the entire amortization charge for the 1990/91 and 1991/92 deferrals, and the town or city employing the Teacher pays the balance.

	Local	State	Total
Amortization for FY 91 and 92 deferrals	0.00%	0.27%	0.27%
Normal cost and all other amortizations	<u>13.23%</u>	<u>8.82%</u>	<u>22.05%</u>
Total	13.23%	9.09%	22.32%

Five towns or cities—Burrillville, East Greenwich, Little Compton, New Shoreham, and North Smithfield—did not participate in the 1990 early retirement window for Teachers, and an adjusted contribution rate is charged for these entities:

	Local	State	Total
Amortization for FY 91 and 92 deferrals	0.00%	0.27%	0.27%
Normal cost and all other amortizations	<u>12.55%</u>	<u>8.37%</u>	<u>20.92%</u>
Total	12.55%	8.64%	21.19%

Impact of Decrease in Contribution Rates

Under Rhode Island General Laws (RIGL) §36-10-2(e), if the State's actuarially determined contribution rate for state employees or for teachers for a fiscal year will be less than in the preceding fiscal year, the Governor is required to include an appropriation to ERSRI in the fiscal year budget equal to 20% of the reduction. Because the contribution rate for FY 2012 is the same as the rate for FY 2010 and FY 2011, as restated due to the enactment of Article 16, it does not appear that this requirement is triggered. However, we are not attorneys, and this may be an issue on which the Board's legal counsel needs to provide an opinion. It could be argued that, because the rates in this valuation are less than the rates in the prior valuation, at least for teachers, that the requirement might be applicable.

Financial Data and Experience

Assets for ERSRI are held in trust and are commingled with those of several other plans and programs for investment purposes. The State Treasurer is responsible for setting the asset allocation policy and for investing the funds. The ERSRI assets are then allocated by the System's staff among State Employees, Teachers, and the Teachers' Survivor Benefits Plan.

Table 5 of this report shows the net plan assets for ERSRI in total, and it shows the breakdown between State Employees, Teachers and the Teachers' Survivor Benefit Plan. Table 6 of this report shows a reconciliation of the assets for State Employees and Teachers between the previous valuation and this valuation. Table 8 shows the distribution of investments by category—73% of assets are held in equities, including real estate and private equity—and Table 9 shows a historical summary of the return rates. As can be seen, the net market value rate of return was -20.1% for the year ended June 30, 2009, and the return on an actuarial asset value basis was 2.4%.

The average annual return based on the market value of assets over the last ten years (July 1, 1999 – June 30, 2009) was 2.02%. This is less than the current 8.25% annual investment return assumption. The average annual return based on the actuarial value of assets over the same period was 6.95%.

All returns above are net of both investment and administrative expenses and may differ from other information provided by the General Treasurer's office or the investment managers and advisors.

The System's staff provided all of the financial information used in this report.

Member Data

The ERSRI staff supplied member data as of June 30, 2009. While we did not audit this data, we did perform various tests to ensure that it was internally consistent, consistent with the prior year's data, and was reasonable overall. Information provided for active members includes: name, an identification number, sex, a code indicating whether the member was active or inactive, a code indicating employee type (State Employee or Teacher), date of birth, service, salary, date of last contribution, and accumulated member contributions without interest. For retired members, data includes: name, an identification number, sex, date of birth, date of retirement, amount of benefit, the amount of adjustment after age 62 for anyone electing the Social Security option, a code indicating the option elected and the type of retiree (service retiree, disabled retiree, beneficiary), and if applicable, the joint pensioner's date of birth and sex.

Tables 11A and 11B of this report show the number of members by category (active, inactive, retired, etc.). Table 12 of this report shows a historical summary of active member statistics, and Tables 13A and 13B show the distribution of active members by age and service.

The total payroll shown in the statistical tables is the amount that was supplied by ERSRI for the preceding fiscal year. For the cost calculations, the earnings were adjusted in accordance with the actuarial assumptions to reflect one year's salary increase.

Benefit Provisions

Appendix B of this report includes a summary of the benefit provisions for ERSRI. This is the first valuation to reflect the change in COLA provisions resulting from the enactment of Article 16 in June 2010. These changes were also reflected in the restated contribution rates for the 2010 and 2011 fiscal years.

There are no ancillary benefits—e.g., cost of living benefits—that are currently provided by a source independent of ERSRI but that might be deemed an ERSRI liability if continued beyond the availability of funding by the current funding source.

Actuarial Methods and Assumptions

Appendix A of this report includes a summary of the actuarial assumptions and methods used in this valuation. Costs are determined using the Entry Age Normal actuarial cost method. This method was adopted effective June 30, 1999.

The method used to determine the actuarial value of assets is the five-year smoothed market method. This technique is further described in Section III of Appendix A. The development of the actuarial value of assets utilizing this method is shown in Tables 7A and 7B of this report.

The assumptions are generally unchanged from the last actuarial valuation. The actuarial assumptions, except for the changes made in 2008 that were in connection with the enactment of Article 7, were approved by the Board on June 13, 2007. We believe the assumptions are internally consistent and are reasonable, based on the actual experience of ERSRI.

GASB 25 and Funding Progress

Accounting requirements for ERSRI are set by Governmental Accounting Standards Board Statement No. 25 (GASB 25). Table 3 of this report shows a historical summary of the funded ratios and other information for ERSRI. Table 4 of this report shows other information needed in connection with disclosure under GASB 25.

GASB 25 requires that plans calculate an Annual Required Contribution (ARC) and, if actual contributions received are less than the ARC, this must be disclosed. The ARC must be calculated in accordance with certain parameters. In particular, it must include a payment to amortize the unfunded actuarial accrued liability (UAAL). This amortization payment must be computed using a funding period no greater than 30 years. Further, the amortization payment included in the ARC may be computed as a level amount, or it may be computed as an amount that increases with payroll. However, if payments are computed on a level-percent of payroll approach, the payroll growth assumption may not anticipate future membership growth.

For ERSRI, the calculated contribution rates from Tables 1A and 1B are the ARCs for State Employees and Teachers, respectively. The amortization period was established as 30 years as of June 30, 1999. Therefore, there are 20 years remaining as of June 30, 2009. The period and amortization method comply with the requirements of GASB 25. The payroll growth rate used in the amortization calculations does not include any allowance for membership growth.

Development of Contribution Rate (State Employees)

	June 30, 2009	June 30, 2008	
	Reflecting Article 16 (1)	Reflecting Article 16 (2)	Disclosed in Prior Year's Report (3)
1. Compensation			
(a) Supplied by ERSRI	\$ 574,569,170	\$ 617,622,521	\$ 617,622,521
(b) Adjusted for one-year's pay increase	605,872,460	587,500,000	587,500,000
2. Actuarial accrued liability	4,482,244,291	4,331,504,516	4,371,829,709
3. Actuarial value of assets	2,646,081,020	2,700,368,568	2,700,368,568
4. Unfunded actuarial accrued liability (UAAL) (2 - 3)	1,836,163,271	1,631,135,948	1,671,461,141
5. Remaining amortization period at valuation date	20	21	21
6. Contribution effective for fiscal year ending:	June 30, 2012	June 30, 2011	June 30, 2011
7. Payroll projected for two-year delay	658,465,977	615,596,250	615,596,250
8. Amortization of UAAL	147,441,017	124,362,965	127,869,711
9. Normal cost			
(a) Total normal cost rate	9.34%	9.26%	9.62%
(b) Employee contribution rate	8.75%	8.75%	8.75%
(c) Employer normal cost rate (a - b)	0.59%	0.51%	0.87%
10. Employer contribution rate as percent of payroll			
(a) Employer normal cost rate	0.59%	0.51%	0.87%
(b) Amortization payments (8 / 7)	22.39%	20.27%	20.77%
(c) Total (a + b)	22.98%	20.78%	21.64%
11. Estimated employer contribution amount (7 * 10(c))	\$ 151,315,482	\$ 127,920,901	\$ 133,215,029

Development of Contribution Rate (Teachers)

	June 30, 2009	June 30, 2008	
	Reflecting Article 16 (1)	Reflecting Article 16 (2)	Disclosed in Prior Year's Report (3)
1. Compensation			
(a) Supplied by ERSRI	\$ 930,993,404	\$ 928,250,193	\$ 928,250,193
(b) Adjusted for one-year's pay increase	987,463,633	985,898,174	985,898,174
2. Actuarial accrued liability	6,900,963,108	6,632,016,708	6,705,498,005
3. Actuarial value of assets	4,008,931,337	4,044,954,378	4,044,954,378
4. Unfunded actuarial accrued liability (UAAL) (2 - 3)	2,892,031,771	2,587,062,330	2,660,543,627
5. Remaining amortization period at valuation date	20	21	21
6. Contribution effective for fiscal year ending:	June 30, 2012	June 30, 2011	June 30, 2011
7. Payroll projected for two-year delay	1,073,181,648	1,071,480,298	1,071,480,298
8. Amortization of UAAL	233,967,252	197,533,927	204,051,600
9. Normal cost			
(a) Total normal cost rate	10.02%	10.00%	10.53%
(b) Employee contribution rate	9.50%	9.50%	9.50%
(c) Employer normal cost rate (a - b)	0.52%	0.50%	1.03%
10. Employer contribution rate as percent of payroll			
(a) Employer normal cost rate	0.52%	0.50%	1.03%
(b) Amortization payments (8 / 7)	21.80%	18.51%	19.04%
(c) Total (a + b)	22.32%	19.01%	20.07%
11. Estimated employer contribution amount (7 * 10(c))	\$ 239,534,144	\$ 203,688,405	\$ 215,046,096

Actuarial Present Value of Future Benefits (State Employees)

	June 30, 2009	June 30, 2008	
	Reflecting Article 16 (1)	Reflecting Article 16 (2)	Disclosed in Prior Year's Report (3)
1. Active members			
a. Service retirement benefits	\$ 1,724,938,709	\$ 2,120,320,709	\$ 2,170,289,331
b. Deferred termination benefits	54,448,171	57,355,947	58,225,511
c. Refunds	18,532,750	18,364,539	18,364,539
d. Pre-retirement death benefits	48,248,732	47,817,537	49,845,971
e. Disability retirement benefits	59,111,097	60,458,843	67,291,530
f. Total	<u>\$ 1,905,279,459</u>	<u>\$ 2,304,317,575</u>	<u>\$ 2,364,016,882</u>
2. Retired members			
a. Service retirements	\$ 2,686,822,699	\$ 2,148,155,038	\$ 2,148,155,038
b. Disability retirements	137,773,496	129,136,961	129,136,961
c. Beneficiaries	131,688,071	135,019,071	135,019,071
d. Post-retirement death benefit	16,261,000	15,543,000	15,543,000
e. Total	<u>\$ 2,972,545,266</u>	<u>\$ 2,427,854,070</u>	<u>\$ 2,427,854,070</u>
3. Inactive members	\$ 72,618,886	\$ 64,264,117	\$ 64,264,117
4. Total actuarial present value of future benefits	\$ 4,950,443,611	\$ 4,796,435,762	\$ 4,856,135,069
5. Determination of actuarial accrued liability			
a. Total actuarial present value of future benefits	\$ 4,950,443,611	\$ 4,796,435,762	\$ 4,856,135,069
b. Less present value of future normal costs	(468,199,320)	(464,931,246)	(484,305,360)
c. Actuarial accrued liability (a + b)	<u>\$ 4,482,244,291</u>	<u>\$ 4,331,504,516</u>	<u>\$ 4,371,829,709</u>

Actuarial Present Value of Future Benefits (Teachers)

	June 30, 2009	June 30, 2008	
	Reflecting Article 16 (1)	Reflecting Article 16 (2)	Disclosed in Prior Year's Report (3)
1. Active members			
a. Service retirement benefits	\$ 3,058,586,547	\$ 3,097,232,712	\$ 3,229,235,468
b. Deferred termination benefits	80,939,105	81,484,178	82,536,638
c. Refunds	19,949,472	21,819,716	21,826,578
d. Pre-retirement death benefits	51,139,698	50,911,443	46,985,856
e. Disability retirement benefits	47,124,079	46,730,847	51,244,659
f. Total	<u>\$ 3,257,738,901</u>	<u>\$ 3,298,178,896</u>	<u>\$ 3,431,829,199</u>
2. Retired members			
a. Service retirements	\$ 4,378,377,024	\$ 4,084,142,727	\$ 4,084,142,727
b. Disability retirements	73,790,986	69,047,914	69,047,914
c. Beneficiaries	84,137,205	81,305,759	81,305,759
d. Post-retirement death benefit	11,328,000	10,739,000	10,739,000
e. Total	<u>\$ 4,547,633,215</u>	<u>\$ 4,245,235,400</u>	<u>\$ 4,245,235,400</u>
3. Inactive members	\$ 67,694,474	\$ 63,131,974	\$ 63,131,974
4. Total actuarial present value of future benefits	\$ 7,873,066,590	\$ 7,606,546,270	\$ 7,740,196,573
5. Determination of actuarial accrued liability			
a. Total actuarial present value of future benefits	\$ 7,873,066,590	\$ 7,606,546,270	\$ 7,740,196,573
b. Less present value of future normal costs	(972,103,482)	(974,529,562)	(1,034,698,568)
c. Actuarial accrued liability (a + b)	<u>\$ 6,900,963,108</u>	<u>\$ 6,632,016,708</u>	<u>\$ 6,705,498,005</u>

Schedule of Funding Progress
(As required by GASB #25)

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL) (3)-(2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
State Employees						
June 30, 2003 ¹	2,267,673,016	3,517,352,031	1,249,679,015	64.5%	606,102,182	206.2%
June 30, 2004	2,202,900,345	3,694,787,818	1,491,887,473	59.6%	606,087,585	246.2%
June 30, 2005	2,163,391,323	3,843,518,875	1,680,127,552	56.3%	606,474,789	277.0%
June 30, 2006	2,256,979,077	4,131,157,601	1,874,178,524	54.6%	644,980,127	290.6%
June 30, 2007	2,493,428,522	4,332,888,818	1,839,460,296	57.5%	660,044,273	278.7%
June 30, 2008 ²	2,700,368,568	4,331,504,516	1,631,135,948	62.3%	587,500,000	277.6%
June 30, 2009	2,646,081,020	4,482,244,291	1,836,163,271	59.0%	605,872,460	303.1%
Teachers						
June 30, 2003 ¹	3,427,685,554	5,341,627,416	1,913,941,862	64.2%	834,642,391	229.3%
June 30, 2004	3,340,527,073	5,634,195,435	2,293,668,362	59.3%	866,532,598	264.7%
June 30, 2005	3,280,977,321	5,919,156,211	2,638,178,890	55.4%	898,051,154	293.8%
June 30, 2006	3,394,086,565	6,444,693,666	3,050,607,101	52.7%	914,985,746	333.4%
June 30, 2007	3,737,981,686	6,750,125,236	3,012,143,550	55.4%	959,372,837	314.0%
June 30, 2008 ²	4,044,954,378	6,632,016,708	2,587,062,330	61.0%	985,898,174	262.4%
June 30, 2009	4,008,931,337	6,900,963,108	2,892,031,771	58.1%	987,463,633	292.9%

¹Restated June 30, 2003 actuarial value after adopting the amendment of Article 7, Substitute A

²Restated June 30, 2008 actuarial value after reflecting the amendment of Article 16

**Notes to Required Supplementary Information
 (as required by GASB #25)**

Item (1)	State Employees (2)	Teachers (3)
Valuation date	June 30, 2009	June 30, 2009
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	20 years	20 years
Asset valuation method	5-Yr Smoothed Market	5-Yr Smoothed Market
Actuarial assumptions:		
Investment rate of return *	8.25%	8.25%
Projected salary increase *	4.50% to 9.00%	4.50% to 13.25%
* Includes inflation at:	3.00%	3.00%
Cost of living adjustments:		
Schedule A (grandfathered)	3.00%	3.00%
Schedule A (nongrandfathered)	2.50%	2.50%
Schedule B	2.50%	2.50%

Schedule A members are those who had at least 10 years of contributing service as of June 30, 2005; Schedule B members are all others. The grandfathered Schedule A members are those who retired or were eligible to retire on October 1, 2009.

Plan Net Assets
(Assets at Market or Fair Value)

Item (1)	June 30, 2009 (2)	June 30, 2008 (3)
A. Total ERSRI assets		
1. Cash and cash equivalents	\$ 2,444,276	\$ 910,623
2. Receivables:		
a. Transfers receivable	\$ 0	\$ 0
b. Member and employer contributions	58,981,883	29,626,584
c. Due from state for teachers	15,702,911	18,769,278
d. Net investment income and other	1,511,360	2,129,778
e. Total receivables	<u>\$ 76,196,154</u>	<u>\$ 50,525,640</u>
3. Investments		
a. Short-term investment fund	\$ 0	\$ 0
b. Pooled trust	5,023,798,014	6,621,796,818
c. Plan specific investments	0	0
d. Invested securities lending collateral	0	946,107,933
e. Total	<u>\$ 5,023,798,014</u>	<u>\$ 7,567,904,751</u>
4. Total property and equipment	\$ 5,119,137	\$ 6,705,638
5. Total assets	\$ 5,107,557,581	\$ 7,626,046,652
6. Liabilities		
a. Transfers payable	\$ 75,001	\$ 45,394
b. Accounts and vouchers payable	4,100,647	6,975,616
c. Securities lending liability	0	946,107,933
d. Total liabilities	<u>\$ 4,175,648</u>	<u>\$ 953,128,943</u>
7. Total market value of assets available for benefits (Item 5 - Item 6)	\$ 5,103,381,933	\$ 6,672,917,709
B. Breakdown		
1. State employees	\$ 1,954,618,465	\$ 2,575,270,868
2. Teachers	2,962,026,384	3,857,373,705
3. Teachers' survivors benefits	186,737,084	240,273,136
4. Total	<u>\$ 5,103,381,933</u>	<u>\$ 6,672,917,709</u>

Reconciliation of Plan Net Assets

Item (1)	Year Ending June 30, 2009	
	State Employees (2)	Teachers (3)
1. Market value of assets at beginning of year	\$ 2,575,270,868	\$ 3,857,373,705
Current year prior period adjustments	0	0
Adjusted market value of assets at BOY	\$ 2,575,270,868	\$ 3,857,373,705
2. Contributions		
a. Members	\$ 51,680,279	\$ 89,226,214
b. State	126,344,715	73,600,069
c. Local employers	0	115,258,129
d. Reimbursement of Supplemental Pensions	129,766	968,924
e. Service purchases	2,357,197	4,096,354
f. Total	\$ 180,511,957	\$ 283,149,690
3. Investment earnings, net of investment and administrative expenses	\$ (503,155,965)	\$ (765,400,473)
4. Expenditures for the year		
a. Benefit payments	\$ (222,365,230)	\$ (306,463,072)
b. Cost-of-living adjustments	(55,049,952)	(86,007,373)
c. Death benefits	(1,630,000)	(641,400)
d. Social security supplements	(13,729,913)	(15,832,119)
e. Supplemental pensions	(129,774)	(969,024)
f. Refunds	(5,103,731)	(3,183,782)
g. Total expenditures	\$ (298,008,600)	\$ (413,096,770)
5. Transfers and other adjustments	\$ 205	\$ 232
6. Market value of assets at end of year	\$ 1,954,618,465	\$ 2,962,026,384

Development of Actuarial Value of Assets (State Employees)

	<u>Year Ending</u> <u>June 30, 2009</u>		
1. Market value of assets at beginning of year	\$ 2,575,270,868		
2. Net new investments			
a. Contributions	\$ 180,511,957		
b. Benefits paid	(292,904,869)		
c. Refunds	(5,103,731)		
d. Subtotal	<u>(117,496,643)</u>		
3. Market value of assets at end of year	\$ 1,954,618,465		
4. Net earnings (3-1-2) (includes misc revenues)	\$ (503,155,760)		
5. Assumed investment return rate	8.25%		
6. Expected return	\$ 207,613,110		
7. Excess return (4-6)	\$ (710,768,870)		
8. Excess return on assets as of 06/30/2009:			
<u>Period End</u>	<u>Excess Return</u>	<u>Percent Deferred</u>	<u>Deferred Amount</u>
(1)	(2)	(3)	(4)
June 30, 2005	\$ 64,167,753	0%	\$ 0
June 30, 2006	74,912,423	20%	14,982,485
June 30, 2007	238,155,576	40%	95,262,230
June 30, 2008	(388,486,957)	60%	(233,092,174)
June 30, 2009	(710,768,870)	80%	<u>(568,615,096)</u>
			\$ (691,462,555)
9. Actuarial value of assets as of June 30, 2009 (Item 3 - Item 8)	\$ 2,646,081,020		
10. Ratio of actuarial value to market value			135.4%

Development of Actuarial Value of Assets (Teachers)

	<u>Year Ending June 30, 2009</u>		
1. Market value of assets at beginning of year	\$ 3,857,373,705		
2. Net new investments			
a. Contributions	\$ 283,149,690		
b. Benefits paid	(409,912,988)		
c. Refunds	(3,183,782)		
d. Subtotal	<u>(129,947,080)</u>		
3. Market value of assets at end of year	\$ 2,962,026,384		
4. Net earnings (3-1-2) (includes misc revenues)	\$ (765,400,241)		
5. Assumed investment return rate	8.25%		
6. Expected return	\$ 312,873,014		
7. Excess return (4-6)	\$ (1,078,273,255)		
8. Expected return on assets as of 06/30/2009:			
<u>Period End</u>	<u>Excess Return</u>	<u>Percent Deferred</u>	<u>Deferred Amount</u>
(1)	(2)	(3)	(4)
June 30, 2005	97,428,568	0%	\$ 0
June 30, 2006	111,575,597	20%	22,315,119
June 30, 2007	356,579,946	40%	142,631,978
June 30, 2008	(582,055,743)	60%	(349,233,446)
June 30, 2009	(1,078,273,255)	80%	<u>(862,618,604)</u>
			\$ (1,046,904,953)
9. Actuarial value of assets as of June 30, 2009 (Item 3 - Item 8)	\$ 4,008,931,337		
10. Ratio of actuarial value to market value	135.3%		

**Distribution of Assets at Market Value
 (Percentage of Total Investments)**

Item (1)	June 30, 2009 (2)	June 30, 2008 (3)
Cash & cash equivalents	4.6%	5.4%
U.S. government & agency securities	15.8%	15.9%
Corporate bonds & notes	8.5%	7.1%
Foreign bonds	0.0%	0.0%
U.S. equity securities	39.1%	39.8%
Foreign equity securities	18.4%	18.3%
Real estate, venture capital, other	13.6%	13.5%
Total investments	100.0%	100.0%

History of Investment Return Rates

Year Ending June 30 of	Market	Actuarial
(1)	(2)	(3)
1995	17.0%	10.2%
1996	13.7%	13.7%
1997	19.1%	19.1%
1998	16.1%	16.5%
1999	10.1%	14.7%
2000	9.1%	8.8%
2001	-11.0%	4.9%
2002	-8.4%	0.9%
2003	2.6%	-0.8%
2004	18.7%	0.4%
2005	11.4%	1.8%
2006	11.6%	7.4%
2007	18.2%	13.0%
2008	-5.8%	10.7%
2009	-20.1%	2.4%
Average Returns:		
Last 5 Years	2.05%	6.95%
Last 10 Years	1.83%	4.85%

Analysis of Change in Employer Cost

Basis (1)	State Employees (2)	Teachers (3)
1. Employer contribution rates from prior valuation	21.64%	20.07%
2. Impact of changes, gains and losses		
a. Non-salary liability experience (gain)/loss	0.73%	0.53%
b. Salary (gain)/loss	-0.07%	-0.11%
c. Total payroll growth (gain)/loss	-0.62%	0.89%
d. Investment experience (gain)/loss	2.16%	2.00%
e. Changes in assumptions	0.00%	0.00%
f. Changes in plan provisions	-0.86%	-1.06%
g. Total	1.34%	2.25%
3. Employer contribution rates from current valuation	22.98%	22.32%

History of Employer Contribution Rates

Valuation Date as of June 30, <u>(1)</u>	Fiscal Year Ending June 30, <u>(2)</u>	<u>Employer Contribution Rate</u> <u>(3)</u>
<i>State Employees</i>		
1999	2002	5.59%
2000	2003	7.68%
2001	2004	9.60%
2002	2005	11.51%
2003	2006	14.84%
2004	2007	18.40%
2005	2008	20.77%
2006	2009	21.64% ¹
2007	2010	20.78% ²
2008	2011	20.78%
2009	2012	22.98%
<i>Teachers</i>		
1999	2002	9.95%
2000	2003	11.97%
2001	2004	13.72%
2002	2005	14.84%
2003	2006	16.47%
2004	2007	19.64%
2005	2008	22.01%
2006	2009	20.07% ¹
2007	2010	19.01% ²
2008	2011	19.01%
2009	2012	22.32%

¹ Restated after adopting the amendment of Article 7.

² Restated after adopting the amendment of Article 16.

Analysis of Change in UAAL

Basis (1)	State Employees (2)	Teachers (3)
1. UAAL as of June 30, 2008	\$ 1,671	\$ 2,661
2. Impact of changes, gains and losses		
a. Interest at 8.25% for one year	138	220
b. Expected amortization payments	(126)	(196)
c. Investment experience (gain)/loss	155	234
d. Salary (gain)/loss	(5)	(11)
e. Non-salary liability experience (gain)/loss	43	58
f. Changes in assumptions	0	0
g. Changes in plan provisions	(40)	(74)
i. Total	\$ 165	\$ 231
3. UAAL as of June 30, 2009	\$ 1,836	\$ 2,892

Note: All dollar amounts are shown in millions.

Membership Data (State Employees)

	June 30, 2009 (1)	June 30, 2008 (2)	June 30, 2007 (3)
1. Active members			
a. Schedule A, Grandfathered	1,649	2,898	
b. Schedule A, NonGrandfathered	3,451	3,526	
c. Schedule B	5,923	5,546	
d. Total Count	11,023	11,970	12,572
e. Number vested	6,309	7,192	7,487
f. Total payroll supplied by ERSRI	\$ 574,569,170	\$617,622,521	\$626,192,680
g. Average salary	52,125	51,598	49,809
h. Average age	48.1	48.6	48.2
i. Average service	13.6	14.9	14.7
2. Inactive members			
a. Number	2,496	2,527	2,405
3. Service retirees			
a. Number	9,409	8,615	8,362
b. Total annual benefits	\$ 237,250,724	\$218,820,230	\$198,858,810
c. Average annual benefit	25,215	25,400	23,781
d. Average age	71.2	72.5	72.7
4. Disabled retirees			
a. Number	733	719	701
b. Total annual benefits	\$ 13,585,412	\$12,690,384	\$11,899,261
c. Average annual benefit	18,534	17,650	16,975
d. Average age	63.3	63.0	62.7
5. Beneficiaries and spouses			
a. Number	1,000	1,062	1,100
b. Total annual benefits	\$ 15,660,173	\$16,233,493	\$16,093,714
c. Average annual benefit	15,660	15,286	14,631
d. Average age	76.6	76.9	76.7

Membership Data (Teachers)

	June 30, 2009	June 30, 2008	June 30, 2007
	(1)	(2)	(3)
1. Active members			
a. Schedule A, Grandfathered	1,485	1,883	
b. Schedule A, NonGrandfathered	3,721	3,849	
c. Schedule B	8,483	8,267	
d. Number	13,689	13,999	14,146
e. Number vested	7,984	7,703	7,436
f. Total payroll supplied by ERSRI	\$ 930,993,404	\$928,250,193	\$902,193,640
g. Average salary	68,010	66,308	63,777
h. Average age	45.0	44.9	44.6
i. Average service	12.9	12.8	12.5
2. Inactive members			
a. Number	2,466	2,410	2,257
3. Service retirees			
a. Number	9,078	8,680	8,479
b. Total annual benefits	\$ 365,186,546	\$367,646,720	\$350,529,010
c. Average annual benefit	40,228	42,356	41,341
d. Average age	68.2	67.9	67.6
4. Disabled retirees			
a. Number	275	264	253
b. Total annual benefits	\$ 7,464,773	\$6,931,993	\$6,501,706
c. Average annual benefit	27,145	26,258	25,698
d. Average age	63.3	62.9	62.8
5. Beneficiaries and spouses			
a. Number	396	393	386
b. Total annual benefits	\$ 8,505,804	\$8,137,097	\$7,766,852
c. Average annual benefit	21,479	20,705	20,121
d. Average age	72.0	71.6	71.3

Historical Summary of Active Member Data

Valuation as of June 30,	Active Members		Covered Payroll		Average Salary		Average Age	Average Service
	Number	Percent Increase	Amount in \$ Millions	Percent Increase	\$ Amount	Percent Increase		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<i>State Employees</i>								
1999	13,369	2.0%	476	3.9%	35,606	1.8%	46.4	14.4
2000	13,305	-0.5%	499	4.8%	37,510	5.3%	46.7	14.4
2001	13,594	2.2%	521	4.4%	38,321	2.2%	46.9	14.5
2002	13,795	1.5%	563	8.1%	40,812	6.5%	47.4	14.3
2003	13,281	-3.7%	576	2.3%	43,364	6.3%	47.8	14.8
2004	12,957	-2.4%	576	-0.1%	44,422	2.4%	47.6	14.6
2005	12,789	-1.3%	576	0.0%	45,019	1.3%	47.8	14.5
2006	12,817	0.2%	612	6.2%	47,726	6.0%	47.9	14.4
2007	12,572	-1.9%	626	2.4%	49,809	4.4%	48.2	14.7
2008	11,970	-4.8%	618	-1.4%	51,598	3.6%	48.6	14.9
2009	11,023	-7.9%	575	-7.0%	52,125	1.0%	48.1	13.6
<i>Teachers</i>								
1999	13,282	3.1%	633	5.7%	47,642	2.6%	45.0	14.6
2000	13,607	2.4%	659	4.0%	48,402	1.6%	44.7	14.0
2001	14,092	3.6%	697	5.9%	49,491	2.3%	44.4	13.3
2002	14,710	4.4%	735	5.4%	49,986	1.0%	44.4	12.5
2003	14,410	-2.0%	782	6.3%	54,248	8.5%	44.2	12.7
2004	14,556	1.0%	810	3.6%	55,652	2.6%	43.7	12.0
2005	14,469	-0.6%	840	3.7%	58,081	4.4%	44.1	12.1
2006	14,343	-0.9%	859	2.3%	59,915	3.2%	44.3	12.2
2007	14,146	-1.4%	902	5.0%	63,777	6.4%	44.6	12.5
2008	13,999	-1.0%	928	2.9%	66,308	4.0%	44.9	12.8
2009	13,689	-2.2%	931	0.3%	68,010	2.6%	45.0	12.9

**Distribution of Active Members by Age and by Years of Service (State Employees)
 As of 06/30/2009**

Attained Age	Years of Credited Service												Total
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	
	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.
Under 25	60 \$34,811	26 \$33,005	20 \$32,679	20 \$29,681	4 \$29,075	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	130 \$33,156
25-29	103 \$40,819	65 \$35,148	77 \$38,699	94 \$37,868	106 \$39,462	64 \$40,386	1 \$35,455	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	510 \$38,885
30-34	93 \$41,697	53 \$38,065	66 \$40,906	83 \$41,824	84 \$42,057	263 \$46,315	47 \$48,942	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	689 \$43,659
35-39	75 \$41,589	43 \$42,879	58 \$37,967	75 \$45,707	97 \$43,102	352 \$48,384	207 \$53,449	65 \$51,579	3 \$38,718	0 \$0	0 \$0	0 \$0	975 \$47,526
40-44	75 \$47,719	50 \$41,919	59 \$45,364	80 \$42,671	72 \$38,129	311 \$49,301	271 \$55,627	391 \$58,754	168 \$52,786	8 \$52,841	0 \$0	0 \$0	1,485 \$51,974
45-49	84 \$40,169	42 \$42,073	65 \$44,864	88 \$44,578	72 \$46,354	331 \$48,051	221 \$54,147	368 \$56,615	479 \$60,109	195 \$57,326	2 \$45,122	0 \$0	1,947 \$53,459
50-54	62 \$45,171	46 \$35,843	49 \$43,565	90 \$43,584	59 \$40,597	287 \$48,575	256 \$53,631	378 \$56,908	430 \$61,127	318 \$63,784	87 \$59,676	0 \$0	2,062 \$55,211
55-59	43 \$38,938	30 \$42,307	27 \$49,133	54 \$41,930	60 \$45,836	252 \$46,553	201 \$53,693	272 \$58,740	328 \$60,710	233 \$61,354	140 \$68,087	28 \$73,076	1,668 \$56,099
60-64	25 \$42,086	12 \$39,469	18 \$46,595	29 \$54,621	28 \$48,531	127 \$50,310	140 \$47,825	201 \$50,411	239 \$57,566	131 \$65,331	81 \$67,991	37 \$70,754	1,068 \$55,212
65 & Over	10 \$37,072	9 \$64,145	8 \$51,526	10 \$38,281	10 \$46,297	59 \$48,402	44 \$50,083	82 \$53,780	112 \$52,538	84 \$58,435	34 \$60,435	27 \$68,074	489 \$53,908
Total	630 \$41,493	376 \$39,457	447 \$42,148	623 \$42,605	592 \$42,336	2,046 \$47,875	1,388 \$53,215	1,757 \$56,455	1,759 \$58,906	969 \$61,555	344 \$65,047	92 \$70,674	11,023 \$52,125

**Distribution of Active Members by Age and by Years of Service (Teachers)
 As of 06/30/2009**

Attained Age	Years of Credited Service												Total	
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over		
	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	
Under 25	18 \$42,616	63 \$36,337	15 \$41,166	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	96 \$38,269
25-29	36 \$42,043	162 \$38,496	146 \$40,966	184 \$45,360	140 \$48,884	260 \$52,471	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	928 \$45,866
30-34	15 \$40,270	103 \$41,059	73 \$45,291	88 \$50,988	145 \$49,262	1,055 \$59,733	218 \$71,490	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	1,697 \$57,968
35-39	9 \$55,116	56 \$38,689	48 \$51,071	85 \$52,146	75 \$56,928	747 \$63,936	945 \$72,596	117 \$75,896	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	2,082 \$66,791
40-44	17 \$45,412	48 \$45,115	47 \$50,129	46 \$51,506	55 \$53,263	456 \$64,455	656 \$73,515	573 \$75,841	110 \$77,089	0 \$0	0 \$0	0 \$0	0 \$0	2,008 \$69,794
45-49	8 \$49,793	39 \$42,042	22 \$48,331	46 \$52,725	53 \$54,877	409 \$64,877	403 \$73,992	385 \$75,779	365 \$77,456	40 \$77,599	1 \$81,438	0 \$0	0 \$0	1,771 \$70,819
50-54	3 \$66,476	21 \$50,531	19 \$53,755	28 \$54,583	37 \$56,581	361 \$65,342	428 \$73,813	356 \$75,463	326 \$77,697	222 \$79,222	81 \$80,047	0 \$0	0 \$0	1,882 \$72,980
55-59	2 \$53,659	12 \$47,260	18 \$56,510	23 \$60,234	22 \$65,787	210 \$66,894	338 \$74,540	445 \$75,712	412 \$76,864	220 \$77,667	254 \$79,598	69 \$81,177	69 \$81,177	2,025 \$75,077
60-64	3 \$105,543	10 \$60,121	9 \$78,418	17 \$72,614	6 \$84,401	92 \$69,810	138 \$73,430	174 \$76,327	203 \$77,612	128 \$79,937	74 \$83,133	87 \$81,968	87 \$81,968	941 \$77,015
65 & Over	0 \$0	2 \$77,474	4 \$102,003	2 \$73,798	1 \$101,194	34 \$72,824	33 \$74,956	50 \$74,596	53 \$77,379	26 \$79,510	26 \$79,800	28 \$77,550	28 \$77,550	259 \$76,856
Total	111 \$46,617	516 \$40,912	401 \$47,202	519 \$50,782	534 \$52,889	3,624 \$62,605	3,159 \$73,323	2,100 \$75,752	1,469 \$77,335	636 \$78,738	436 \$80,298	184 \$80,999	184 \$80,999	13,689 \$68,010

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

I. Valuation Date

The valuation date is June 30th of each plan year. This is the date as of which the actuarial present value of future benefits and the actuarial value of assets are determined.

II. Actuarial Cost Method

The actuarial valuation uses the Entry Age 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 accrued liability (UAAL).

1. First, the actuarial present value of future benefits is determined by discounting the projected benefits for each member back to the valuation date using the assumed investment return rate as the discount rate. For active members, the projected benefits are based on the member's age, service, sex and compensation, and based on the actuarial assumptions. The calculations take into account the probability of the member's death, disability, or termination of employment prior to becoming eligible for a retirement benefit, as well as the possibility of the member will remain in service and receive a service retirement benefit. Future salary increases are anticipated. The present value of the expected benefits payable to all active members is added to the present value of the expected future payments to retired participants and beneficiaries to obtain the present value of all expected benefits. Liabilities for future members are not included.
2. The employer contributions required to support the benefits are determined as a level percentage of salary, and consist of a normal contribution and an amortization contribution.
3. 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 new member during the entire period of anticipated covered service, would be required to meet the cost of all benefits payable on his behalf. The salary-weighted average of these rates is the normal cost rate. This calculation reflects the plan provisions that apply to members hired after October 1, 2009, i.e., the Article 7 (2009) and Article 16 (2010) benefit provisions, even for members hired before that date. That is, the normal cost is the cost of a replacement employee.
4. The employer normal cost rate is equal to (i) the normal cost rate, minus (ii) the member contribution rate.
5. The actuarial accrued liability is equal to the present value of all benefits less the present value of future normal costs. The unfunded actuarial accrued liability

(UAAL) is then determined as (i) the actuarial accrued liability, minus (ii) the actuarial value of assets.

6. The amortization contribution rate is the level percentage of payroll required to reduce the UAAL to zero over the remaining amortization period. The UAAL is being amortized over the remainder of a closed 30-year period from June 30, 1999. The employer contribution rate determined by this valuation will not be effective until two years after the valuation date. The determination of the contribution rate reflects this deferral. The unfunded actuarial accrued liability (UAAL) and covered payroll are projected forward for two years, and we then determine the amortization charge required to amortize the UAAL over the remaining amortization period from that point. In projecting the UAAL, we increase the UAAL for interest at the assumed rate and we decrease it for the amortization payments. The amortization payments for these two years are determined by subtracting the current employer normal cost from the known contribution rates for these years, based on the two prior actuarial valuations. Contributions are assumed to be made monthly throughout the year.

III. Actuarial Value of Assets

The actuarial value of assets is based on the market value of assets with a five-year phase-in of actual investment return in excess of (less than) expected investment income. Expected investment income is determined using the assumed investment return rate and the market value of assets (adjusted for receipts and disbursements during the year). The returns are computed net of administrative and investment expenses.

IV. Actuarial Assumptions

A. Economic Assumptions

1. Investment return: 8.25% per year, compounded annually, composed of an assumed 3.00% inflation rate and a 5.25% net real rate of return. This rate represents the assumed return, net of all investment and administrative expenses.

2. Salary increase rate: The sum of (i) a 4.50% wage inflation assumption (composed of a 3.00% price inflation assumption and a 1.50% additional general increase), and (ii) a service-related component as shown below:

Salary Increase Rates				
Service	State Employees		Teachers	
	Service-Related Component	Total Increase	Service-Related Component	Total Increase
(1)	(2)	(3)	(4)	(5)
0	4.50%	9.00%	8.75%	13.25%
1	4.00%	8.50%	7.50%	12.00%
2	3.50%	8.00%	6.25%	10.75%
3	3.00%	7.50%	5.75%	10.25%
4	2.75%	7.25%	5.25%	9.75%
5	2.50%	7.00%	4.50%	9.00%
6	2.00%	6.50%	4.00%	8.50%
7	1.50%	6.00%	3.50%	8.00%
8	1.25%	5.75%	3.00%	7.50%
9	1.00%	5.50%	2.00%	6.50%
10	0.75%	5.25%	1.25%	5.75%
11	0.50%	5.00%	1.00%	5.50%
12	0.50%	5.00%	0.50%	5.00%
13	0.25%	4.75%	0.25%	4.75%
14	0.25%	4.75%	0.00%	4.50%
15 or more	0.00%	4.50%	0.00%	4.50%

Salary increases are assumed to occur once a year, on July 1. Therefore the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. For employees with less than one year of service, the reported rate of pay is used rather than the fiscal year salary paid.

3. Payroll growth rate: In the amortization of the unfunded actuarial accrued liability, payroll is assumed to increase 4.25% per year. This increase rate is solely due to the effect of wage inflation on salaries, with no allowance for future membership growth.

4. Post-retirement Benefit Increase: For members with at least 10 years of contributory service as of June 30, 2005 (i.e., Schedule A members) and for all members receiving a disability benefit, the post-retirement benefit increases are equal to 3.00% by statute. They are not a function of the actual increases in the cost of living. For members with less than 10 years of contributory service as of June 30, 2005, i.e., Schedule B members, members receive a compound increase each year equal to the increase in the CPI, but limited to 3.00%. This limit lowers the expected increases granted in each year below the inflation assumption of 3.00%. The assumed average increase received for this group of employees is 2.50%.

B. Demographic Assumptions

1. Post-termination mortality rates (non-disabled)
 - a. Male state employees: Based on the 1994 Group Annuity Mortality Tables for males set forward one year.
 - b. Female state employees: Based on the 1994 Group Annuity Mortality Tables for females.
 - c. GRS table based on male teacher experience
 - d. 95% of rates in a GRS table based on female teacher experience.

Sample rates are shown below:

Number of Deaths per 100				
Age	State Employees		Teachers	
	Males	Females	Males	Females
50	0.29	0.14	0.28	0.15
55	0.49	0.23	0.48	0.36
60	0.90	0.44	0.45	0.45
65	1.62	0.86	0.57	0.41
70	2.60	1.37	1.50	0.85
75	4.09	2.27	2.49	1.35
80	6.86	3.94	4.93	3.01

2. Post-retirement mortality (disabled lives): One set of rates is used for both state employees and teachers
 - a. Males: 65% of the PBGC Table Va for disabled males eligible for Social Security disability benefits
 - b. Females: 100% of the PBGC Table VIa for disabled females eligible for Social Security disability benefits.

Sample rates are shown below:

Number of Deaths per 100		
Age	Males	Females
25	3.14	2.63
30	2.35	2.37
35	1.81	2.14
40	1.83	2.09
45	2.09	2.24
50	2.49	2.57
55	3.13	2.95
60	3.92	3.31
65	4.41	3.70
70	4.80	4.11
75	5.47	4.92
80	7.33	7.46

3. Pre-retirement mortality: 65% of the post-termination mortality rates. Sample rates are shown below:

Number of Deaths per 100				
Age	State Employees		Teachers	
	Males	Females	Males	Females
25	0.05	0.02	0.05	0.02
30	0.05	0.02	0.06	0.02
35	0.06	0.03	0.06	0.03
40	0.08	0.05	0.07	0.05
45	0.11	0.06	0.11	0.06
50	0.19	0.09	0.18	0.09
55	0.32	0.15	0.31	0.23
60	0.58	0.29	0.29	0.29
65	1.06	0.56	0.37	0.27
70	1.69	0.89	0.97	0.55

4. Disability rates: Sample rates are shown below. Ordinary disability rates are not applied to members eligible for retirement. One half the accidental disabilities are assumed to be totally and permanently disabled from any occupation.

Age	Number of Disabilities per 1,000							
	State Ordinary Males	State Accidental Males	State Ordinary Females	State Accidental Females	Teachers Ordinary Males	Teachers Accidental Males	Teachers Ordinary Females	Teachers Accidental Females
25	0.32	0.20	0.45	0.09	0.15	0.08	0.16	0.04
30	0.39	0.25	0.55	0.11	0.18	0.10	0.20	0.04
35	0.53	0.34	0.75	0.15	0.24	0.13	0.27	0.06
40	0.77	0.50	1.10	0.22	0.36	0.19	0.40	0.09
45	1.26	0.81	1.80	0.36	0.59	0.32	0.66	0.14
50	2.14	1.37	3.05	0.61	0.99	0.54	1.12	0.24
55	3.54	2.27	5.05	1.01	1.65	0.89	1.85	0.40
60	4.94	3.17	7.05	1.41	2.30	1.24	2.58	0.56
65	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

5. Termination rates (for causes other than death, disability, or retirement) are a function of the member's sex and service. Termination rates are not applied to members eligible for retirement. Rates are shown below:

Service	State Employees		Teachers	
	Males	Females	Males	Females
0	0.2400	0.1200	0.1700	0.1300
1	0.0882	0.1000	0.0900	0.0759
2	0.0761	0.0778	0.0562	0.0656
3	0.0656	0.0682	0.0455	0.0566
4	0.0565	0.0599	0.0364	0.0486
5	0.0487	0.0526	0.0289	0.0418
6	0.0421	0.0463	0.0229	0.0359
7	0.0366	0.0409	0.0181	0.0309
8	0.0321	0.0363	0.0145	0.0267
9	0.0285	0.0325	0.0120	0.0233
10	0.0257	0.0293	0.0104	0.0205
11	0.0235	0.0267	0.0095	0.0183
12	0.0219	0.0246	0.0094	0.0165
13	0.0208	0.0228	0.0094	0.0152
14	0.0199	0.0214	0.0094	0.0142
15	0.0194	0.0202	0.0094	0.0134
16	0.0189	0.0191	0.0094	0.0128
17	0.0185	0.0181	0.0094	0.0122
18	0.0179	0.0170	0.0094	0.0116
19	0.0172	0.0158	0.0094	0.0109
20	0.0162	0.0144	0.0094	0.0101
21	0.0147	0.0128	0.0094	0.0090
22	0.0127	0.0107	0.0094	0.0075
23	0.0101	0.0082	0.0094	0.0056
24	0.0068	0.0051	0.0094	0.0033

6. Retirement rates (unreduced):

Separate male and female rates, based on schedule, age and service. For members who reach 28 years of service before age 60, service-based rates are used. For members who reach age 60 before reaching 28 years of service, age-based rates are used instead. The following tables show the probabilities of retirement.

State Employees Excluding Corrections – Schedule A Members							
Males				Females			
Service (00/28)		Age (60/10)		Service (00/28)		Age (60/10)	
Service	Ret. Rate	Age	Ret. Rate	Service	Ret. Rate	Age	Ret. Rate
28	17.5%	60	10.0%	28	20.0%	60	15.0%
29	13.0%	61	5.0%	29	15.0%	61	10.0%
30	13.0%	62	17.5%	30	15.0%	62	20.0%
31	13.0%	63	15.0%	31	15.0%	63	15.0%
32	13.0%	64	15.0%	32	15.0%	64	15.0%
33	17.5%	65	20.0%	33	15.0%	65	20.0%
34	17.5%	66	17.5%	34	15.0%	66	25.0%
35	40.0%	67	17.5%	35	40.0%	67	20.0%
36	35.0%	68	17.5%	36	30.0%	68	20.0%
37	35.0%	69	17.5%	37	30.0%	69	20.0%
38	35.0%	70	17.5%	38	30.0%	70	20.0%
39	35.0%	71	17.5%	39	30.0%	71	20.0%
40	100.0%	72	17.5%	40	100.0%	72	20.0%
		73	17.5%			73	20.0%
		74	17.5%			74	20.0%
		75	100.0%			75	100.0%

Schedule B members: 60% of members are assumed to retire when first eligible, either at age 59 with 29 years of service, or at age 65 with 10 years of service. The rates in the table above are applied after first eligibility.

Because of the enactment of Article 7 in 2009, the retirement assumption was modified for members not eligible for retirement by October 1, 2009. Members who would have been assumed to retire prior to age 62 under the above schedule under the rules in effect before the enactment of Article 7 are assumed to retire when first eligible for an unreduced benefit under Article 7.

6. Retirement rates (continued):

Teachers – Schedule A Members							
Males				Females			
Service (00/28)		Age (60/10)		Service (00/28)		Age (60/10)	
Service	Ret. Rate	Age	Ret. Rate	Service	Ret. Rate	Age	Ret. Rate
28	25.0%	60	20.0%	28	20.0%	60	20.0%
29	15.0%	61	15.0%	29	15.0%	61	15.0%
30	20.0%	62	30.0%	30	20.0%	62	25.0%
31	20.0%	63	25.0%	31	20.0%	63	20.0%
32	30.0%	64	10.0%	32	30.0%	64	20.0%
33	30.0%	65	25.0%	33	30.0%	65	35.0%
34	40.0%	66	25.0%	34	35.0%	66	25.0%
35	55.0%	67	25.0%	35	50.0%	67	25.0%
36	40.0%	68	25.0%	36	40.0%	68	25.0%
37	40.0%	69	25.0%	37	40.0%	69	25.0%
38	40.0%	70	25.0%	38	40.0%	70	25.0%
39	40.0%	71	25.0%	39	40.0%	71	25.0%
40	100.0%	72	25.0%	40	100.0%	72	25.0%
		73	25.0%			73	25.0%
		74	25.0%			74	25.0%
		75	100.0%			75	100.0%

Schedule B members: 75% of members who reach age 59 with 29 years of service before age 65 are assumed to retire when first eligible, at age 59 with 29 years of service. 75% of other members are expected to retire when first eligible, at age 65 with 10 years of service. The rates in the table above are applied after first eligibility.

Because of the enactment of Article 7 in 2009, the retirement assumption was modified for members not eligible for retirement by October 1, 2009. Members who would have been assumed to retire prior to age 62 under the above schedule under the rules in effect before the enactment of Article 7 are assumed to retire when first eligible for an unreduced benefit under Article 7.

6. Retirement rates (continued):

For correctional officers: A set of unisex rates, indexed by service, as shown below. All members still active are assumed to retire at age 65 with 10 years of service.

Corrections	
Service	Ret. Rate
20	5.0%
21	5.0%
22	5.0%
23	5.0%
24	5.0%
25	5.0%
26	5.0%
27	5.0%
28	5.0%
29	5.0%
30	13.0%
31	13.0%
32	13.0%
33	20.0%
34	20.0%
35	35.0%
36	25.0%
37	25.0%
38	25.0%
39	25.0%
40	100.0%

Because of the enactment of Article 7 in 2009, the retirement assumption was modified for members not eligible for retirement by October 1, 2009. Members who would have been assumed to retire prior to age 62 under the above schedule under the rules in effect before the enactment of Article 7 are assumed to retire when first eligible for an unreduced benefit under Article 7.

7. Reduced retirement for Schedule B members (state employees and teachers, males and females). Rates based on age as shown below:

Age	Ret. Rate
55	0%
56	0%
57	0%
58	0%
59	1%
60	2%
61	2%
62	2%
63	3%
64	4%

C. Other Assumptions

1. Percent married: 85% of employees are assumed to be married.
2. Age difference: Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses.
3. Percent electing annuity on death (when eligible): All of the spouses of vested, married participants are assumed to elect an annuity.
4. Percent electing deferred termination benefit: Vested terminating members are assumed to elect a refund or a deferred benefit, whichever is more valuable at the time of termination.
5. Recovery from disability: None assumed.
6. Remarriage: It is assumed that no surviving spouse will remarry and there will be no children's benefit.
7. Assumed age for commencement of deferred benefits: Members electing to receive a deferred benefit are assumed to commence receipt at the first age at which unreduced benefits are available.

8. Investment and administrative expenses: The assumed investment return rate represents the anticipated net return after payment of all investment and administrative expenses.
9. Inactive members: Liabilities for inactive members are approximated as a multiple of their member contribution account balances. For nonvested inactive members, the multiple is 1.0. For vested inactive members, the multiple is 8.0 for members with 25 or more years of service, 3.0 for vested inactive members age 45 or older with less than 25 years of service, and 1.0 for other vested inactive members younger than age 45.
10. Decrement timing: For all state employees, decrements are assumed to occur at the middle of the year. For teachers the retirement and termination decrements are assumed to occur at the beginning of the year, while death and disability are assumed to occur at the middle of the year.

D. Participant Data

Participant data was supplied on electronic files. There are separate files for (i) active and inactive members, and (ii) members and beneficiaries receiving benefits.

The data for active members included date of birth, sex, service, salary and employee contribution account balance. For retired members and beneficiaries, the data included date of birth, sex, spouse's date of birth (where applicable), amount of monthly benefit, date of retirement, and a form of payment code.

Salary supplied for the current year was based on the earnings for the fiscal year preceding the valuation date. However, for members with less than one year of service, the current rate of salary was used. This salary was adjusted by the salary increase rate for one year.

Assumptions were made to correct for incomplete and inconsistent data. These modifications had no material impact on the results presented.

Summary of Benefit Provisions

1. Effective Date and Authority: The Employees' Retirement System of Rhode Island (ERSRI) became effective on July 1, 1936 for State Employees and on July 1, 1949 for Teachers. Benefits for State Employees are described in Rhode Island General Laws, Title 36, Chapter 36-10, and benefits for Teachers are described in Rhode Island General Laws, Title 16, Chapter 16-16.
2. Plan Year: A twelve-month period ending June 30th.
3. Administration: ERSRI is administered by the State of Rhode Island Retirement Board. However, the State Treasurer is responsible for the investment of the trust assets, including the establishment of the asset allocation policy.
4. Type of Plan: ERSRI is a qualified governmental defined benefit retirement plan. Separate contribution rates are determined for state employees and for teachers. For Governmental Accounting Standards Board purposes, it is a cost-sharing multiple employer plan.
5. Eligibility: Most Rhode Island state employees and certified public school teachers participate in ERSRI. Certain employees of the Airport Corporation, the Economic Development Corporation, and the Narragansett Bay Commission participate in the plan as though they were state employees. State police officers, state judges, and teachers and administrators in the public colleges and universities are covered by their own separate systems, and are therefore excluded. Certain elected state officials are excluded unless they make an election to join ERSRI. Superintendents, principals, business agents and other administrators participate as teachers. Non-certified public school employees, such as teacher's aides, janitors, secretaries, and bus drivers, cannot participate in ERSRI, although they may be covered by the Municipal Employees Retirement System (MERS) or a separate plan maintained by the town or city. Eligible employees become members as of their date of employment.

6. Employee Contributions: State Employees generally contribute 8.75% of their salary per year. Teachers contribute 9.50% per year. The state “picks up” the members’ contributions for its employees under the provisions of Internal Revenue Code (IRC) Section 414(h). At their option, the city or town employing a Teacher may also pick up their members’ contributions.
7. Salary: Salary includes the member's base earnings plus any payments under a regular longevity or incentive plan. Salary excludes overtime, unused sick and vacation leave, severance pay, and other extraordinary compensation. Certain amounts that are excluded from taxable wages, such as amounts sheltered under a Section 125 plan or amounts picked up by the employer under IRC Section 414(h), are not excluded from salary.
8. Employer Contributions: For Teachers, the state contributes 40% of the employer contribution rate and the city, town or other local employer contributes the remaining 60%. (This basic 40-60 split is further adjusted, since the State bears the cost of repaying certain amounts taken from the trust in the early 1990's.) Contributions determined in a given actuarial valuation go into effect two years after the actuarial valuation.

In fiscal years beginning after June 30, 2005, if the State’s contribution on behalf of State Employees decreases, the State shall appropriate an additional amount to the retirement trust. Such amount shall be equal to 20% of any decrease in expected contributions.
9. Service: Employees receive credit for service while a member. In addition, a member may purchase credit for certain periods, such as time spent teaching at a public school in another state, by making an additional contribution to purchase the additional service and those costs will be determined at full actuarial value, except for purchases of military service and redeposits of previously refunded contributions. Special rules and limits govern the purchase of additional service and the contribution required.
10. Final Average Compensation (FAC): For members eligible to retire as of September 30, 2009, their Final Average Compensation (FAC) will be based on the highest three consecutive annual salaries. For members not eligible to retire as of September 30, 2009, their FAC will be based on the highest five consecutive years of salary. Monthly benefits are based on one-twelfth of this amount.

11. Retirement

a. Eligibility:

(i) Grandfathered Schedule A members—members with at least 10 years of contributory service at June 30, 2005 and eligible for retirement at September 30, 2009—are eligible to retire on or after age 60 if they have credit for 10 years of service, or at any age if they have credit for 28 years of service.

(ii) Correctional officers who have reached age 50 and have credit for 20 years of service as of September 30, 2009 are eligible to retire and are grandfathered.

(iii) Nurses (RNs) employed by MHRH who have reached age 50 with 25 years of service by September 30, 2009 are eligible to retire and are grandfathered.

(iv) Schedule B members - members with less than 10 years of contributory service as of June 30, 2005 – and members hired on or after that date are eligible for retirement on or after age 65 if they have credit for 10 years of service, or on or after age 62 if they have credit for 29 years of service. In addition, a member who attains age 62 with at least 20 years of service credit may retire with an actuarially reduced retirement benefit. The reduction is based on the difference between 65 and the member's age at retirement.

(v) Correctional officers who are hired after September 30, 2009 become eligible to retire when they have reach age 55 and have credit for 25 years of service.

(vi) Nurses (RNs) employed by MHRH who are hired after September 30, 2009 become eligible when they have reach age 55 and have credit for 25 years of service.

(vii) Schedule A members who are not grandfathered, i.e., members who had at least 10 years of creditable service at June 30, 2005 but who were not eligible to retire on September 30, 2009, will be eligible for retirement at an individually determined age. This age is the result of interpolating between the retirement age under the rules applicable to grandfathered employees in (i) above and the retirement age applicable to members hired after September 30, 2009 in (iv) above. The interpolation is based on service as of Sept. 30, 2009 divided by projected service at the retirement age under (i) above.

(viii) Correctional officers hired on or before September 30, 2009 who are not eligible for retirement at that date will have an individually determined retirement age. This age is the result of interpolating between the retirement age for grandfathered employees in

- (ii) above and the retirement age applicable to members hired after September 30, 2009 in (v) above.
- (ix) Similarly, MHRH nurses (RNs) hired on or before September 30, 2009 who are not eligible to retire at that date will have an individually determined retirement age. This age is the result of interpolating between the retirement age for grandfathered employees in (iii) above and the retirement age applicable to members hired after September 30, 2009 in (vi) above.
- b. Monthly Benefit: The retirement benefit is a percentage of the member's monthly FAC. This percentage is a function of the member's service as described below.
- (i) For grandfathered Schedule A members (members with at least 10 years of contributory service at June 30, 2005 and eligible for retirement at September 30, 2009), benefits are based under this schedule (Schedule A):

For Service In:	Years	Benefit Percentage Earned
The first 10 years of service	1 – 10	1.7% per year
The next 10 years of service	11 – 20	1.9% per year
The next 14 years of service	21 – 34	3.0% per year
The next 1 year of service	35	2.0% per year

The maximum benefit is 80% of FAC.

- (ii) For Schedule B members (members with less than 10 years of contributory service as of June 30, 2005) and for all future hires, benefits are based on the following schedule (Schedule B):

For Service In:	Years	Benefit Percentage Earned
The first 10 years of service	1 – 10	1.6% per year
The next 10 years of service	11 – 20	1.8% per year
The next 5 years of service	21 – 25	2.0% per year
The next 5 years of service	26 – 30	2.25% per year
The next 14 years of service	31 – 37	2.50% per year
The next 1 year of service	38	2.25% per year

The maximum benefit is 75% of FAC.

- (iii) For Schedule A members who are not grandfathered, i.e., members who had at least 10 years of creditable service at June 30, 2005 but who were not eligible to retire on September 30, 2009, benefits are based on Schedule A (under (i) above) for service through September 30, 2009 and on Schedule B (under (ii) above) for service after September 30, 2009. The maximum benefit is 80% of FAC.
- (iv) MHRH nurses receive a benefit determined under the appropriate formula above.
- (v) Correctional Officers receive a benefit computed under a different formula:

For Service In:	Years	Benefit Percentage Earned
The first 30 years of service	1 – 30	2.0% per year
The next 1 year of service	31	6.0% per year
The next 1 year of service	32	5.0% per year
The next 1 year of service	33	4.0% per year
The next 1 year of service	34	3.0% per year
The next 14 years of service	35	2.0% per year

The maximum benefit for correctional officers is 80% of FAC.

- c. **Payment Form:** Benefits are paid as a monthly life annuity. Optional forms of payment are available; see Item 16 below.
- d. **Death benefit:** After retirement, death benefits are based on the form of annuity elected. If no option is elected, i.e., if payments are made as a life annuity, there is a minimum death benefit equal to the sum of the member's contributions without interest, less the sum of the monthly benefit payments made before the member's death. In addition, a lump-sum death benefit is payable upon the death of any retired member, regardless of option elected. This lump sum is equal to a percentage of the lump-sum death benefit that was available to the member at the time of retirement. The percentage is 100% in the first year of retirement, 75% in the second year, 50% in the third year, and 25% in the fourth and subsequent years of retirement. However, in no event will the lump sum death benefit be less than \$4,000.

12. Disability Retirement

- a. **Eligibility:** A member is eligible provided he/she has credit for at least five years of service or if the disability is work-related. Members are not eligible for an ordinary disability benefit if they are eligible for unreduced retirement.
- b. **Ordinary Disability Benefit:** The benefit payable under the retirement formula, using FAC and service at the time of disability, but not less than 10 years of service.
- c. **Accidental Disability Benefit:**
 - For applications filed before or on September 30, 2009: An annual annuity equal to two-thirds ($66 \frac{2}{3}\%$) of salary at the time of disability.
 - For applications filed after September 30, 2009: An accidental disability will be available at two-thirds ($66 \frac{2}{3}\%$) of salary for members who are permanently and totally disabled from engaging in any occupation as determined by the retirement board. If the member is eligible for an accidental disability benefit but deemed able to work in other jobs, the benefit is limited to fifty percent (50%) of salary.
 - Benefits will be subject to an annual review by ERSRI.
- d. **Payment Form:** The disability benefit commences immediately upon the member's retirement. Benefits cease upon recovery or reemployment. Disability benefits are payable

as a monthly life annuity with a guarantee that, at the member's death, the sum of the member's contributions plus interest as of the date of retirement will be paid in a lump-sum to the member's beneficiary. All alternative forms of payment except for the Social Security Option are permitted in the case of disability retirement.

13. Deferred Termination Benefit

- a. Eligibility: A member with at least ten years of service is vested. A vested member who does not withdraw his/her contributions from the fund is eligible for a deferred termination benefit.
- b. Monthly Benefit: The monthly benefit is based on the retirement formula described above. Both FAC and service are determined at the time the member leaves active employment. Benefits may commence when the member has met the requirements for a retirement benefit.
- c. Payment Form: The same as for Retirement above.
- d. Death Benefit before retirement: A member who dies after leaving active service but before retiring is entitled to receive a benefit as described below in item 15.
- e. Death Benefit after Retirement: The same as for Retirement above.

14. Withdrawal (Refund) Benefit

- a. Eligibility: All members leaving covered employment with less than ten years of service are eligible. Optionally, vested members (those with ten or more years of service) may withdraw their accumulated contributions in lieu of the deferred benefits otherwise due.
- b. Benefit: The member who withdraws receives a lump-sum payment equal to the sum of his/her employee contributions. No interest is credited on these contributions.

15. Death Benefit of Active or Inactive Members

- a. Eligibility: Death must have occurred while an active or an inactive, non-retired member.

- b. **Basic Benefit:** Upon the death of a nonvested member, or upon the death of an inactive, vested member, or upon the death of an active, unmarried member, a refund of the member's contributions (without interest) is paid. Upon the death of a vested, married, active member, the spouse may elect (i) the refund benefit described above, or (ii) a life annuity paid to the spouse or beneficiary. The amount of the annuity is equal to the amount which would have been paid had the member retired at the time of his death and elected the Joint and 100% Survivor option. If the member was not eligible for retirement, the annuity benefit is reduced 6% per year from the date at which the member would have been eligible had he or she remained in service.
 - c. **Lump-sum Benefit:** \$800 per year of service, with a maximum benefit of \$16,000 and a minimum of \$4,000. This benefit is only available to active members.
 - d. **Accidental Duty-related Death Benefit:** If a member dies as the result of an accident while in the course of his or her duties, in lieu of the above benefits the member's spouse may elect to receive (i) a refund of all contributions made (including interest), and (ii) an annual life annuity equal to 50% of the member's salary at the time of death. The annuity benefit stops when the spouse remarries or dies, although it may be continued to any children under age 18 or to any dependent parents.
16. **Optional Forms of Payment:** In addition to a life annuity, ERSRI offers members these optional forms of payment on an actuarially equivalent basis:
- a. **Option 1 (Joint and 100% Survivor)** - A life annuity payable while either the participant or his beneficiary is alive.
 - b. **Option 2 (Joint and 50% Survivor)** - A life annuity payable to the member while both the member and beneficiary are alive, reducing to 50% of this amount if the member predeceases the beneficiary.
 - c. **Social Security Option** – An annuity paid at one amount prior to age 62, and at a reduced amount after age 62, designed to provide a level total income when combined with the member's age 62 Social Security benefit. Benefits cease upon the member's death. This option is only available for members with at least 10 years of contributory service as of June 30, 2005.

Actuarial equivalence is based on tables adopted by the Employees' Retirement Board.

17. Post-retirement Benefit Increase:

- a. For members with at least 10 years of contributory service as of June 30, 2005 who are retired or eligible to retire as of September 30, 2009, and for all members receiving a disability retirement benefit on that date (Schedule A members): a 3.00% compound increase in their retirement benefit each year, beginning in January of the year in which the member reaches the third anniversary of retirement. This increase is not a function of actual increases in the cost of living.
- b. For other members (Schedule B members) who retired or were eligible to retire as of June 30, 2010: a compound increase in their retirement benefit each year equal to the increase in the CPI, effective on each anniversary date beginning on the third anniversary of retirement. This increase is limited to 3.00%.
- c. For other members (Schedule B members) who were not retired or were not eligible to retire as of June 30, 2010: a compound increase in their first \$35,000 of annual retirement benefit each year equal to the increase in the CPI, effective on each anniversary date beginning on the later of the member's third anniversary of retirement and the month following their 65th birthday. This increase is limited to 3.00%. Additionally, the \$35,000 annual COLA limit is applicable for benefits paid in 2010 and would be indexed annually to increase in the same manner as COLAs for Schedule B members (CPI for the year, not greater than 3.0%).

Glossary

Actuarial Accrued Liability (AAL): That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of Future Plan Benefits which is not provided for by future Normal Costs. It is equal to the Actuarial Present Value of Future Plan Benefits minus the actuarial present value of future Normal Costs.

Actuarial Assumptions: Assumptions as to future experience under the Fund. These include assumptions about the occurrence of future events affecting costs or liabilities, such as:

- mortality, withdrawal, disablement, and retirement;
- future increases in salary;
- future rates of investment earnings and future investment and administrative expenses;
- characteristics of members not specified in the data, such as marital status;
- characteristics of future members;
- future elections made by members; and
- other relevant items.

Actuarial Cost Method or Funding Method: A procedure for allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability. These items are used to determine the ARC.

Actuarial Gain or Actuarial Loss: A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., the Fund's assets earn more than projected, salaries do not increase as fast as assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results that produce actuarial liabilities which are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.

Actuarially Equivalent: Of equal actuarial present value, determined as of a given date and based on a given set of Actuarial Assumptions.

Actuarial Present Value (APV): The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

- a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.)
- b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
- c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Present Value of Future Plan Benefits: The Actuarial Present Value of those benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive, nonretired members either entitled to a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would be provide sufficient assets to pay all projected benefits and expenses when due.

Actuarial Valuation: The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB 25, such as the funded ratio and the ARC.

Actuarial Value of Assets or Valuation Assets: The value of the Fund's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly actuaries use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the ARC.

Actuarially Determined: Values which have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.

Amortization Method: A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under

the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.

Amortization Payment: That portion of the pension plan contribution or ARC which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Annual Required Contribution (ARC): The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under GASB 25. The ARC consists of the Employer Normal Cost and the Amortization Payment

Closed Amortization Period: A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc. See Funding Period and Open Amortization Period.

Decrements: Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or termination.

Defined Benefit Plan: A retirement plan that is not a Defined Contribution Plan. Typically a defined benefit plan is one in which benefits are defined by a formula applied to the member's compensation and/or years of service.

Defined Contribution Plan: A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, and the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.

Employer Normal Cost: The portion of the Normal Cost to be paid by the employers. This is equal to the Normal Cost less expected member contributions.

Experience Study: A periodic review and analysis of the actual experience of the Fund which may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified as deemed appropriate by the Actuary.

Funded Ratio: The ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL). Plans sometimes calculate a market funded ratio, using the market value of assets (MVA), rather than the AVA, although GASB 25 reporting requires the use of the AVA.

Funding Period or Amortization Period: The term "Funding Period" is used in two ways. In the first sense, it is the period used in calculating the Amortization Payment as a component of the ARC. This funding period is chosen by the Board of Trustees. In the second sense, it is a calculated item: the number of years in the future that will theoretically be required to amortize (i.e., pay off

or eliminate) the Unfunded Actuarial Accrued Liability, based on the statutory employer contribution rate, and assuming no future actuarial gains or losses.

GASB: Governmental Accounting Standards Board.

GASB 25 and **GASB 27:** Governmental Accounting Standards Board Statements No. 25 and No. 27. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 27 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 25 sets the rules for the systems themselves.

Normal Cost: That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits which are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated. Under the entry age normal cost method, the Normal Cost is intended to be the level cost (when expressed as a percentage of pay) needed to fund the benefits of a member from hire until ultimate termination, death, disability or retirement.

Open Amortization Period: An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. In other words, if the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount or in relation to covered payroll.

Unfunded Actuarial Accrued Liability: The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus.

Valuation Date or Actuarial Valuation Date: The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan Benefits is determined. The expected benefits to be paid in the future are discounted to this date.