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

Dear Members of the Board:

Subject: Actuarial Valuation for Non-contributing Judges as of June 30, 2012, assuming pay-as-you-go financing

This is the June 30, 2012 actuarial valuation of the actively employed non-contributing judges for the State of Rhode Island (State judges hired before January 1, 1990 and are current employed by the State). This report provides disclosure information the State can use to prepare its June 30, 2013 and June 30, 2014 financial statements, as well as the Annual Required Contribution for Fiscal Year 2013, 2014, and 2015.

Financing objectives

Current and retired Judges who do not participate in the Judicial Retirement Benefits Trust (JRBT) and their benefits are financed by annual contributions equal to the annual benefit payment of current retirees, also known as pay-as-you-go.

Actuarial Cost Method and Amortization Policy

To determine the Annual Required Contribution (ARC) under GASB No. 25, the normal cost and actuarial accrued liabilities are computed using the Entry Age Normal actuarial cost method. The ARC is the sum of two pieces: the employer normal cost and an amortization of the current unfunded accrued liability. The employer normal cost is the difference between the normal cost and the member contributions. The amortization amount is the amount required to amortize the unfunded actuarial accrued liability over a closed period (16 years remaining as of June 30, 2012). The 16-year amortization period was determined by projecting out the peak in the annual pay-as-you-go costs and ensuring that the level-dollar amortization payment would not be less than the projected cash requirements in that year. Specifically, as shown on page 3, the annual benefit payments for the closed group of seven members included in this valuation are expected to peak at $1,330,331 in Fiscal Year 2018. In addition, a 16-year amortization period would amortize the current unfunded accrued liability with 16 payments of $1,378,031, thus, a 16 year amortization period was used.

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% if the Plan is being advanced funded. However, there is no advanced funding for this closed group of 7 members, and thus the funded ratio is 0%. The following table provides the disclosure items needed for the Schedule of Funding Progress.

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)
June 30, 2012	-	16,387,206	16,387,206	0.0%	1,230,644	1331.6%

The following table provides the Annual Required Contribution for Fiscal Years 2013, 2014, and 2015, all based on the June 30, 2012 valuation.

Fiscal Year	Employer Normal Cost	Amortization Payment	GASB ARC (3)+(2)
(1)	(2)	(3)	(4)
2013	$ 438,385	$ 1,378,031	$ 1,816,416
2014	317,403	1,378,031	1,695,434
2015	245,030	1,378,031	1,623,061

Benefit provisions

The benefit provisions reflected in this valuation are those which were in effect on June 30, 2012. The benefit provisions are summarized in Appendix B in the June 30, 2012 actuarial valuation of the JRBT dated February 13, 2013.

Assumptions and methods

With the exception of certain assumptions discussed below, the assumptions used in this valuation are the same as those summarized in Appendix A in the June 30, 2012 actuarial valuation of the JRBT dated February 13, 2013. We believe the assumptions are internally consistent and are reasonable.

Because these liabililties are not advanced funded, a discount rate used to determine the liabilities for these seven members should be based on the return the employer is expected to realize in its general funds. When GASB Statements No. 25 and No. 27 were developed, very little attention was given to plans that were not pre-funded, since very few pension benefits are not pre-funded. However, when GASB issued Statements No. 43 and No. 45, unfunded plans were very much in focus. Under

Statements No. 43 and No. 45 (which were based on the concepts first used with 25 and 27), GASB made clear that a plan that was not prefunding would generally use a lower investment assumption than a plan that was prefunding. The theory is that the investment return assumption should reflect the expected return on the assets that will be used to pay benefits. While this is a small plan and a very small part of the employer's liability as a whole, the actuarial standards require that each assumption used in a valuation be reasonable individually and in the aggregate. Since this plan does not have accumulated plan assets, we have utilzed a 4.0% discount rate for this valution, which is consisted with the long term expected return of short-term assets in the State's general fund.

In addition, because this valuation is for a closed group of individuals, the amortization payment has been calculated based on level-dollar amortization.

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 27.

Data

Data for the seven active members as of June 30, 2012 was provided via email by Staff at the Employees Retirement System of Rhode Island. The data consists of seven individual members who are active as of June 30, 2012, with an average age of 63.7 years, average service of 26.5 years, and an average salary of $175,806. 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 data from the JRBT valuation.

The valuation process produced the following expected benefit stream for these 7 members based on current assumptions.

Fiscal Year	Expected Benefit Payments
2013	$ 286,636
2014	572,247
2015	754,856
2016	935,973
2017	1,134,308
2018	1,330,331
2019	1,319,526
2020	1,307,469
2021	1,294,028

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.

The undersigned are independent actuaries. All 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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Senior Consultant