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December 16, 2013

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

Re: Actuarial Valuation for Non-contributing Judges as of June 30, 2013

Dear Members of the Board:

This is the June 30, 2013 actuarial valuation of the State judges hired before January 1, 1990 who are currently employed by the State of Rhode Island. This report provides disclosure information the State can use to prepare its June 30, 2014 financial statements, as well as the Annual Required Contribution for Fiscal Year 2016.

Financing Objectives

Currently, Judges who do not participate in the Judicial Retirement Benefits Trust (JRBT) whose benefits are financed by annual contributions equal to the annual benefit payment of current retirees, also known as pay-as-you-go. This report develops an annual required contribution assuming the State begins to advance fund the benefits for these members.

Funding Requirements

This report determines the Required Employer Contribution (REC) for Fiscal Year 2016 to be $1,1200,000. The amortization amount is the amount required to amortize the unfunded actuarial accrued liability over a closed period (22 years remaining as of June 30, 2013). This value assumes the State begins advance funding the benefits in Fiscal Year 2014 an amount of $1,225,039, with a follow up contribution of $1,201,863 during Fiscal Year 2015, both based on the June 30, 2012 valuation. The following exhibit provides select actuarial information from the valuation:

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, 2013	152,910	12,077,841	11,924,931	1.3%	1,255,256	950.0%

Accounting Schedules

Because the State is not advance funding the benefits, the exhibits in this section are based on valuation results assuming continued pay-as-you-go financing for accounting disclosure purposes.

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 17 year period. The following table provides the Annual Required Contribution for Fiscal Years 2016 based on the June 30, 2013 valuation.

Fiscal Year	Employer Normal Cost	Amortization Payment	GASB ARC (3)+(2)	Projected PayGO Costs
(1)	(2)	(3)	(4)	(5)
2016	$ 162,051	$ 1,350,353	$ 1,512,404	$ 942,662

Progress Towards 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 has not been previous advanced funding for this closed group of 7 members, and the only assets are from employee contributions. The funded ratio as of June 30, 2013 is 0.90%. The following table provides the disclosure items needed for the Schedule of Funding Progress..

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)
June 30, 2013	152,910	16,908,455	16,755,545	0.9%	1,255,256	1334.8%

Benefit provisions

The benefit provisions reflected in this valuation are those which were in effect on June 30, 2013. 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 under the pay-as-you-go scenario, a discount rate used to determine the liabilities for accounting purposes 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 has few accumulated plan assets, we have utilzed a 4.0% discount rate for this valution, which is consistent 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. Under the pay-as-you-go scenario, the amortization period was set so that the level dollar amortization payment would exceed the projected benefit payments in each year rather than the 22 year period used in the prefunding scenario. For this purpose, an amortization period of 17 years was used resulting in an amortization payment of $1,350,353 versus an expected peak in benefit payments of $1,330,240 in FY2018 as shown on the following page

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 active as of June 30, 2013 for this valuation was the same as that provided for the June 30, 2012 valuation by Staff at the Employees Retirement System of Rhode Island rolled forward as follows. All members were assumed to accrue one year of service during the year and receive a salary increase of 2%. The seven members have an average age of 64.7 years, average service of 27.5 years, and an average salary of $179,322. 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
2014	291,902
2015	764,618
2016	942,662
2017	1,137,540
2018	1,330,240
2019	1,319,500
2020	1,307,501
2021	1,294,106
2022	1,279,040
2023	1,262,124

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,

Joseph P. Newton, FSA, MAAA, EA
Senior Consultant