EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND

ACTUARIAL VALUATION REPORT

AS OF JUNE 30, 2006

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July 11, 2007

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, 2006

This is the June 30, 2006 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, 2006 actuarial valuation will be applicable for the year beginning July 1, 2008 and ending June 30, 2009.

Financing objectives

The actuarial cost method and the amortization periods are set by statute. Contribution rates and liabilities are computed using the Entry Age 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). 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.

Benefit provisions

The benefit provisions reflected in this valuation are those which were in effect on June 30, 2006. No material changes in the benefit provisions were made since the preceding valuation. The benefit provisions are summarized in Appendix B.

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 54.6% (decreased from 56.3% last year), while for teachers the ratio is 52.7% (decreased from 55.4% last year).

For the June 30, 2006 valuation, the employer contribution rate increased for state employees, from 20.77% to 21.13%, and for teachers, from 22.01% to 25.03%. For state employees, the change was principally due to the recognition of deferred asset losses from prior valuations. For teachers, the change was principally due to the changes in actuarial assumptions adopted by the Board in June of 2007, and due to the recognition of deferred asset losses.

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

Assumptions and methods

The actuarial assumptions were changed as a result of the experience study approved by the Board on June 13, 2007. Significant changes were made to the mortality rates for teachers. Smaller changes were made to the salary increase, termination, retirement, and disability rates for both state employees and teachers. Also, the payroll growth assumption was increased. More detail on changes adopted as a result of the experience study is on page 8 in the discussion section of this report. 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, calculated contribution rates and funding periods.

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, 2006. 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, 2006.

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. Both are Members of the Society of Actuaries and Members of the American Academy of Actuaries, they both meet the Qualification Standards of the American Academy of Actuaries, and they are experienced in performing valuations for large public retirement systems.

Sincerely,
Gabriel, Roeder, Smith & Company

Joseph P. Newton, FSA, MAAA
Consultant

J. Christian Conradi, ASA, MAAA
Senior Consultant

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Executive Summary (State Employees)

Item	Valuation Date: June 30, 2006 After Assumption Changes	Valuation Date: June 30, 2006 Before Assumption Changes	Valuation Date: June 30, 2005
Membership			
• Number of:			
- Active members	12,817	12,817	12,789
- Retirees and beneficiaries	10,041	10,041	9,893
- Inactive members	2,424	2,424	2,343
- Total	25,282	25,282	25,025
• Payroll supplied by ERSRI	$ 611,698,223	$ 611,698,223	$575,746,603
Contribution rates			
• Member	8.75%	8.75%	8.75%
• Employer	21.13%	21.19%	20.77%
Assets			
• Market value	$2,409,378,699	$2,409,378,699	$2,218,892,001
• Actuarial value	2,256,979,077	2,256,979,077	2,163,391,323
• Return on market value	11.6%	11.6%	11.4%
• Return on actuarial value	7.4%	7.4%	1.8%
• Employer contribution	$ 91,254,063	$ 91,254,063	$66,087,984
• Ratio of actuarial value to market value	93.7%	93.7%	97.5%
Actuarial Information			
• Employer normal cost %	1.61%	1.43%	1.44%
• Unamortized actuarial accrued liability (UAAL)	$1,874,178,524	$1,812,121,928	$1,680,127,552
• Amortization rate	19.52%	19.76%	19.33%
• Funding period	23 years	23 years	24 years
• GASB funded ratio	54.6%	55.5%	56.3%
Projected employer contribution			
• Fiscal year ending June 30,	2009	2009	2008
• Projected payroll (millions)	$ 701.0	$ 693.8	$ 652.8
• Projected employer contribution (millions)	148.1	147.0	135.6

Executive Summary (Teachers)

Item	Valuation Date: June 30, 2006 After Assumption Changes	Valuation Date: June 30, 2006 Before Assumption Changes	June 30, 2005
Membership			
• Number of:			
- Active members	14,343	14,343	14,469
- Retirees and beneficiaries	8,873	8,873	8,565
- Inactive members	2,165	2,165	2,015
- Total	25,381	25,381	25,049
• Payroll supplied by ERSRI	$ 859,367,272	$ 859,367,272	$840,372,663
Contribution rates			
• Member	9.50%	9.50%	9.50%
• Employer	25.03%	22.70%	22.01%
• State share	10.17%	9.24%	8.97%
• Local employer share	14.86%	13.46%	13.04%
Assets			
• Market value	$3,623,938,636	$3,623,938,636	$3,364,100,154
• Actuarial value	3,394,086,565	3,394,086,565	3,280,977,321
• Return on market value	11.6%	11.6%	11.4%
• Return on actuarial value	7.4%	7.4%	1.8%
• Employer contribution (state & local)	$ 138,332,998	$ 138,332,998	$121,853,338
• Ratio of actuarial value to market value	93.7%	93.7%	97.5%
Actuarial Information			
• Employer normal cost %	2.32%	1.56%	1.57%
• Unamortized actuarial accrued liability (UAAL)	$3,050,607,101	$2,757,993,538	$2,638,178,890
• Amortization percentage	22.71%	21.14%	20.44%
• Funding period	23 years	23 years	24 years
• GASB funded ratio	52.7%	55.2%	55.4%
Projected employer contribution			
• Fiscal year ending June 30,	2009	2009	2008
• Projected payroll (millions)	$ 994.4	$ 988.0	$ 966.7
• Projected employer contribution (millions)	248.9	224.3	212.8
• State share (millions)	101.1	91.3	86.7
• Local employer share (millions)	147.8	133.0	126.1

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 become effective two years after the valuation date, i.e., as of July 1, 2008.

The rate consists of two pieces: the normal cost rate and the amortization rate. The normal cost rate is the Entry Age Normal cost as a percent of pay. The amortization rate is the unfunded actuarial liability amortized over 23 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%	0.26%	0.26%
Normal cost and all other amortizations	14.86%	9.91%	24.77%
Total	14.86%	10.17%	25.03%

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:

	Local	State	Total
Amortization for FY 91 and 92 deferrals	0.00%	0.26%	0.26%
Normal cost and all other amortizations	14.21%	9.48%	23.69%
Total	14.21%	9.74%	23.95%

Under RIGL 36-10-2(g), if the State's actuarially determined contribution 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 equal to 20% of the reduction to ERSRI. This requirement will not impact fiscal years FY 2007, FY 2008 or FY 2009, because the state's contribution increases in each of these fiscal years.

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 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 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—74% of assets are held in equities—and Table 9 shows a historical summary of the return rates. As can be seen, the net market value rate of return was 11.6% for the year ended June 30, 2006, and the return on an actuarial asset value basis was 7.4%.

The average annual return based on the market value of assets over the last ten years (July 1, 1996 – June 30, 2006) was 7.45%. 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 7.16%.

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, 2006. 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 show the number of members by category (active, inactive, retired, etc.). Table 12 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 on the statistical tables is the amount that was supplied by ERSRI. For the cost calculations, the pays were adjusted in accordance with the actuarial assumptions to reflect one year's salary increase.

Benefit Provisions

Appendix B includes a summary of the benefit provisions for ERSRI. There were no material changes in the benefit provisions since the preceding valuation.

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 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 on Tables 7A and 7B.

Discussion of the Experience Study

Between the June 30, 2005 actuarial valuation and this report, the Retirement Board asked GRS to analyze the assumptions and methods used in the ERSRI actuarial valuation. The experience study was performed for the period June 30, 2000 to June 30, 2006. The study examined the assumptions used for expected investment rate, inflation rate, retirement, mortality, termination, disability, salary increases, payroll growth, and other miscellaneous assumptions.

Significant changes were made to the mortality assumptions for teachers. Less material changes were made to the termination, retirement, payroll growth, and salary increase assumptions. The disability and retirement tables were adjusted to more closely reflect the plan experience.

All of the changes recommended by GRS were adopted 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 shows a historical summary of the funded ratios and other information for ERSRI. Table 4 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 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, and there are 23 years remaining as of June 30, 2006. 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, 2006		
		After Assumption Changes	Before Assumption Changes	June 30, 2005
		(1)	(2)	(3)
1.	Compensation			
	(a) Supplied by ERSRI	$ 611,698,223	$611,698,223	$575,746,603
	(b) Adjusted for one-year's pay increase	644,980,127	644,580,985	606,474,789
2.	Actuarial accrued liability	4,131,157,601	4,069,101,005	3,843,518,875
3.	Actuarial value of assets	2,256,979,077	2,256,979,077	2,163,391,323
4.	Unfunded actuarial accrued liability (UAAL) (2 - 3)	1,874,178,524	1,812,121,928	1,680,127,552
5.	Remaining amortization period at valuation date	23	23	24
6.	Contribution effective for fiscal year ending:	June 30, 2009	June 30, 2009	June 30, 2008
7.	Payroll projected for two-year delay	700,968,433	693,831,001	652,813,253
8.	Amortization of UAAL	136,858,112	137,123,403	126,177,371
9.	Normal cost			
	(a) Total normal cost rate	10.36%	10.18%	10.19%
	(b) Employee contribution rate	8.75%	8.75%	8.75%
	(c) Employer normal cost rate (a - b)	1.61%	1.43%	1.44%
10.	Employer contribution rate as percent of payroll			
	(a) Employer normal cost rate	1.61%	1.43%	1.44%
	(b) Amortization payments (8 / 7)	19.52%	19.76%	19.33%
	(c) Total (a + b)	21.13%	21.19%	20.77%
11.	Estimated employer contribution amount (7 * 10(c))	$ 148,114,630	$147,022,789	$135,589,313

Development of Contribution Rate (Teachers)

		June 30, 2006		
		After Assumption Changes	Before Assumption Changes	June 30, 2005
		(1)	(2)	(3)
1.	Compensation			
	(a) Supplied by ERSRI	$ 859,367,272	$859,367,272	$840,372,663
	(b) Adjusted for one-year's pay increase	914,985,746	917,876,104	898,051,154
2.	Actuarial accrued liability	6,444,693,666	6,152,080,103	5,919,156,211
3.	Actuarial value of assets	3,394,086,565	3,394,086,565	3,280,977,321
4.	Unfunded actuarial accrued liability (UAAL) (2 - 3)	3,050,607,101	2,757,993,538	2,638,178,890
5.	Remaining amortization period at valuation date	23	23	24
6.	Contribution effective for fiscal year ending:	June 30, 2009	June 30, 2009	June 30, 2008
7.	Payroll projected for two-year delay	994,412,228	988,007,575	966,667,875
8.	Amortization of UAAL	225,794,167	208,902,829	197,566,891
9.	Normal cost			
	(a) Total normal cost rate	11.82%	11.06%	11.07%
	(b) Employee contribution rate	9.50%	9.50%	9.50%
	(c) Employer normal cost rate (a - b)	2.32%	1.56%	1.57%
10.	Employer contribution rate as percent of payroll			
	(a) Employer normal cost rate	2.32%	1.56%	1.57%
	(b) Amortization payments (8 / 7)	22.71%	21.14%	20.44%
	(c) Total (a + b)	25.03%	22.70%	22.01%
11.	Estimated employer contribution amount (7 * 10(c))	$ 248,901,381	$224,277,720	$212,763,599

Actuarial Present Value of Future Benefits (State Employees)

	June 30, 2006 After Assumption Changes	June 30, 2006 Before Assumption Changes	June 30, 2005
	(1)	(2)	(3)
1. Active members			
a. Service retirement benefits	$ 2,307,939,313	$2,169,294,121	$2,061,988,395
b. Deferred termination benefits	58,695,880	90,369,371	88,079,496
c. Refunds	19,623,562	15,204,660	13,883,243
d. Pre-retirement death benefits	57,132,981	100,603,497	94,871,821
e. Disability retirement benefits	71,956,486	73,486,992	69,086,584
f. Total	$ 2,515,348,222	$2,448,958,641	$2,327,909,539
2. Retired members			
a. Service retirements	$ 1,819,296,915	$1,819,296,915	$1,696,766,802
b. Disability retirements	115,352,910	115,352,910	107,519,907
c. Beneficiaries	130,527,229	130,527,229	131,934,681
d. Post-retirement death benefit	14,976,000	14,976,000	14,758,000
e. Total	$ 2,080,153,054	$2,080,153,054	$1,950,979,390
3. Inactive members	$ 63,662,440	$63,662,440	$58,565,506
4. Total actuarial present value of future benefits	$ 4,659,163,716	$4,592,774,135	$4,337,454,435
5. Determination of actuarial accrued liability			
a. Total actuarial present value of future benefits	$ 4,659,163,716	$4,592,774,135	$4,337,454,435
b. Less present value of future normal costs	(528,006,115)	(523,673,130)	(493,935,560)
c. Actuarial accrued liability (a + b)	$ 4,131,157,601	$4,069,101,005	$3,843,518,875

Actuarial Present Value of Future Benefits (Teachers)

	June 30, 2006		
	After Assumption Changes	Before Assumption Changes	June 30, 2005
	(1)	(2)	(3)
1. Active members			
a. Service retirement benefits	$ 3,405,340,932	$3,066,468,275	$3,075,814,508
b. Deferred termination benefits	81,660,549	158,256,633	152,734,147
c. Refunds	23,402,659	17,745,649	18,338,853
d. Pre-retirement death benefits	43,941,757	80,864,950	78,592,422
e. Disability retirement benefits	51,031,928	50,239,483	48,236,846
f. Total	$ 3,605,377,825	$3,373,574,990	$3,373,716,776
2. Retired members			
a. Service retirements	$ 3,703,024,694	$3,575,215,033	$3,320,510,557
b. Disability retirements	58,978,230	58,828,744	58,030,163
c. Beneficiaries	78,284,361	76,123,513	79,948,603
d. Post-retirement death benefit	10,047,000	10,772,000	10,343,000
e. Total	$ 3,850,334,285	$3,720,939,290	$3,468,832,323
3. Inactive members	$ 56,850,283	$56,850,283	$51,452,289
4. Total actuarial present value of future benefits	$ 7,512,562,393	$7,151,364,563	$6,894,001,388
5. Determination of actuarial accrued liability			
a. Total actuarial present value of future benefits	$ 7,512,562,393	$7,151,364,563	$6,894,001,388
b. Less present value of future normal costs	(1,067,868,727)	(999,284,460)	(974,845,177)
c. Actuarial accrued liability (a + b)	$ 6,444,693,666	$6,152,080,103	$5,919,156,211

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, 2000	2,345,319,663	2,874,905,547	529,585,884	81.6%	517,632,152	102.3%
June 30, 2001	2,406,278,029	3,089,247,738	682,969,709	77.9%	539,015,218	126.7%
June 30, 2002	2,353,855,871	3,284,126,961	930,271,090	71.7%	586,888,745	158.5%
June 30, 2003	2,267,673,016	3,461,708,161	1,194,035,145	65.5%	606,102,182	197.0%
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%
Teachers						
June 30, 2000	3,514,399,312	4,359,881,262	845,481,950	80.6%	703,201,056	120.2%
June 30, 2001	3,619,863,426	4,679,288,010	1,059,424,584	77.4%	748,460,527	141.5%
June 30, 2002	3,553,823,995	4,857,003,061	1,303,179,066	73.2%	792,015,577	164.5%
June 30, 2003	3,427,685,554	5,284,933,149	1,857,247,595	64.9%	834,642,391	222.5%
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%

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

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

Item (1)	State Employees (2)	Teachers (3)
Valuation date	June 30, 2006	June 30, 2006
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	23 years	23 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 adjustment - Schedule A	3.00%	3.00%
Cost of living adjustment - Schedule B	2.50%	2.50%

Plan Net Assets
(Assets at Market or Fair Value)

Item	June 30, 2006	June 30, 2005
(1)	(2)	(3)
A. Total ERSRI assets		
1. Cash and cash equivalents	$ 20,712,778	$3,995,714
2. Receivables:		
a. Transfers receivable	$ 234,326	$1,255,196
b. Member and employer contributions	12,271,741	20,114,762
c. Due from state for teachers	12,567,666	11,201,737
d. Net investment income and other	1,819,001	3,793,681
e. Total receivables	$ 26,892,734	$36,365,376
3. Investments		
a. Short-term investment fund	$ 18,198,822	$15,684,243
b. Pooled trust	6,166,733,865	5,710,023,956
c. Plan specific investments	20,485,512	15,984,408
d. Invested securities lending collateral	1,195,023,630	865,728,536
e. Total	$ 7,400,441,829	$6,607,421,143
4. Total property and equipment	$ 9,878,640	$11,580,054
5. Total assets	$ 7,457,925,981	$6,659,362,287
6. Liabilities		
a. Transfers payable	$ 53,295	$ 337,571
b. Accounts and vouchers payable	5,727,831	5,459,215
c. Securities lending liability	1,195,023,630	865,728,536
d. Total liabilities	$ 1,200,804,756	$871,525,322
7. Total market value of assets available for benefits (Item 5 - Item 6)	$ 6,257,121,225	$5,787,836,965
B. Breakdown		
1. State employees	$ 2,409,378,699	$2,218,892,001
2. Teachers	3,623,938,636	3,364,100,154
3. Teachers' survivors benefits	223,803,890	204,844,810
4. Total	$ 6,257,121,225	$5,787,836,965

Reconciliation of Plan Net Assets

Item	Year Ending June 30, 2006 State Employees	Year Ending June 30, 2006 Teachers
(1)	(2)	(3)
1. Market value of assets at beginning of year	$ 2,218,892,001	$ 3,364,100,154
Current year prior period adjustments	0	0
Adjusted market value of assets at BOY	$ 2,218,892,001	$ 3,364,100,154
2. Contributions		
a. Members	$ 53,800,410	$ 80,190,420
b. State	91,254,063	54,537,733
c. Local employers	0	83,795,265
d. Reimbursement of Supplemental Pensions	185,370	913,864
e. Service purchases	4,121,579	3,819,324
f. Total	$ 149,361,422	$ 223,256,606
3. Investment earnings, net of investment and administrative expenses	$ 255,297,565	$ 383,992,506
4. Expenditures for the year		
a. Benefit payments	$ (155,391,042)	$ (261,833,205)
b. Cost-of-living adjustments	(43,637,615)	(62,937,188)
c. Death benefits	(1,809,855)	(776,517)
d. Social security supplements	(8,665,910)	(18,221,194)
e. Supplemental pensions	(171,669)	(913,864)
f. Refunds	(4,496,198)	(2,728,662)
g. Total expenditures	$ (214,172,289)	$ (347,410,630)
5. Transfers and other adjustments	$ 0	$ 0
6. Market value of assets at end of year	$ 2,409,378,699	$ 3,623,938,636

Development of Actuarial Value of Assets (State Employees)

		Year Ending June 30, 2006
1.	Market value of assets at beginning of year	$ 2,218,892,001
2.	Net new investments	
	a. Contributions	$ 149,361,422
	b. Benefits paid	(209,676,091)
	c. Refunds	(4,496,198)
	d. Subtotal	(64,810,867)
3.	Market value of assets at end of year	$ 2,409,378,699
4.	Net earnings (3-1-2) (includes misc revenues)	$ 255,297,565
5.	Assumed investment return rate	8.25%
6.	Expected return	$ 180,385,142
7.	Excess return (4-6)	$ 74,912,423
8.	Excess return on assets as of 06/30/2006:	

Period End (1)	Excess Return (2)	Percent Deferred (3)	Deferred Amount (4)
June 30, 2002	$ (333,597,038)	0%	$ 0
June 30, 2003	(100,676,641)	20%	(20,135,328)
June 30, 2004	185,260,900	40%	74,104,360
June 30, 2005	64,167,753	60%	38,500,652
June 30, 2006	74,912,423	80%	59,929,938
			$ 152,399,622

9.	Actuarial value of assets as of June 30, 2006 (Item 3 - Item 8)	$ 2,256,979,077
10.	Ratio of actuarial value to market value	93.7%

Development of Actuarial Value of Assets (Teachers)

		Year Ending June 30, 2006
1.	Market value of assets at beginning of year	$ 3,364,100,154
2.	Net new investments	
	a. Contributions	$ 223,256,606
	b. Benefits paid	(344,681,968)
	c. Refunds	(2,728,662)
	d. Subtotal	(124,154,024)
3.	Market value of assets at end of year	$ 3,623,938,636
4.	Net earnings (3-1-2) (includes misc revenues)	$ 383,992,506
5.	Assumed investment return rate	8.25%
6.	Expected return	$ 272,416,909
7.	Excess return (4-6)	$ 111,575,597
8.	Expected return on assets as of 06/30/2006:	

Period End (1)	Excess Return (2)	Percent Deferred (3)	Deferred Amount (4)
June 30, 2002	$ (514,349,794)	0%	$ 0
June 30, 2003	(151,517,413)	20%	(30,303,483)
June 30, 2004	281,094,838	40%	112,437,935
June 30, 2005	97,428,568	60%	58,457,141
June 30, 2006	111,575,597	80%	89,260,478
			$ 229,852,071

9.	Actuarial value of assets as of June 30, 2006 (Item 3 - Item 8)	$ 3,394,086,565
10.	Ratio of actuarial value to market value	93.7%

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

Item (1)	June 30, 2006 (2)	June 30, 2005 (3)
Cash & cash equivalents	2.3%	3.5%
U.S. government & agency securities	14.5%	14.3%
Corporate bonds & notes	8.7%	8.8%
Foreign bonds	0.5%	0.7%
U.S. equity securities	40.8%	44.8%
Foreign equity securities	22.7%	21.6%
Real estate, venture capital, other	10.5%	6.4%
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%
Average Returns:		
Last 5 Years	6.78%	1.91%
Last 10 Years	7.45%	7.16%

Analysis of Change in Employer Cost

Basis	State Employees	Teachers
(1)	(2)	(3)
1. Employer contribution rates from prior valuation	20.77%	22.01%
2. Impact of changes, gains and losses		
a. Non-salary liability experience (gain)/loss	0.19%	0.34%
b. Salary (gain)/loss	0.56%	(0.25%)
c. Total payroll growth (gain)/loss	(0.54%)	0.36%
d. Investment experience (gain)/loss	0.21%	0.24%
e. Changes in assumptions	(0.06%)	2.33%
f. Changes in plan provisions	0.00%	0.00%
g. Total	0.36%	3.02%
3. Employer contribution rates from current valuation	21.13%	25.03%

History of Employer Contribution Rates

Valuation Date as of June 30,	Fiscal Year Ending June 30,	Employer Contribution Rate
(1)	(2)	(3)
State Employees		
1998	2001	7.99%
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	21.13%
Teachers		
1998	2001	12.01%
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	25.03%

Analysis of Change in UAAL

Basis (1)	State Employees (2)	Teachers (3)
1. UAAL as of June 30, 2005	$ 1,680	$ 2,638
2. Impact of changes, gains and losses		
a. Interest at 8.25% for one year	139	218
b. Expected amortization payments	(85)	(140)
c. Investment experience (gain)/loss	17	28
d. Salary (gain)/loss	44	(29)
e. Non-salary liability experience (gain)/loss	17	43
f. Changes in assumptions	62	293
g. Changes in plan provisions	0	0
i. Total	$ 194	$ 413
3. UAAL as of June 30, 2006	$ 1,874	$ 3,051

Note: All dollar amounts are showm in millions.

Membership Data (State Employees)

	June 30, 2006 (1)	June 30, 2005 (2)	June 30, 2004 (3)
1. Active members			
a. Number	12,817	12,789	12,957
b. Number vested	7,677	7,997	8,519
c. Total payroll supplied by ERSRI	$ 611,698,223	$575,746,603	$575,574,300
d. Average salary	47,726	45,019	44,422
e. Average age	47.9	47.8	47.6
f. Average service	14.4	14.5	14.6
2. Inactive members			
a. Number	2,424	2,343	2,158
3. Service retirees			
a. Number	8,265	8,120	7,956
b. Total annual benefits	$ 185,902,200	$173,107,820	$158,434,050
c. Average annual benefit	22,493	21,319	19,914
d. Average age	72.7	72.7	73.0
4. Disabled retirees			
a. Number	690	675	646
b. Total annual benefits	$ 11,207,178	$10,442,049	$9,555,557
c. Average annual benefit	16,242	15,470	14,792
d. Average age	62.5	62.4	62.1
5. Beneficiaries and spouses			
a. Number	1,086	1,098	1,072
b. Total annual benefits	$ 15,212,187	$14,950,539	$14,057,050
c. Average annual benefit	14,008	13,616	13,113
d. Average age	76.3	75.6	75.4

Membership Data (Teachers)

	June 30, 2006 (1)	June 30, 2005 (2)	June 30, 2004 (3)
1. Active members			
a. Number	14,343	14,469	14,556
b. Number vested	7,121	7,166	7,001
c. Total payroll supplied by ERSRI	$ 859,367,272	$840,372,663	$810,064,092
d. Average salary	59,915	58,081	55,652
e. Average age	44.3	44.1	43.7
f. Average service	12.2	12.1	12.0
2. Inactive members			
a. Number	2,165	2,015	1,836
3. Service retirees			
a. Number	8,244	7,916	7,570
b. Total annual benefits	$ 331,004,050	$307,367,790	$285,039,410
c. Average annual benefit	40,151	38,829	37,654
d. Average age	67.4	67.2	67.1
4. Disabled retirees			
a. Number	242	245	232
b. Total annual benefits	$ 5,973,869	$5,857,336	$5,374,861
c. Average annual benefit	24,685	23,907	23,168
d. Average age	63.6	63.3	63.2
5. Beneficiaries and spouses			
a. Number	387	404	377
b. Total annual benefits	$ 7,637,146	$7,750,294	$6,965,801
c. Average annual benefit	19,734	19,184	18,477
d. Average age	71.0	69.6	70.0

Historical Summary of Active Member Data

Valuation as of June 30,	Active Members: Number	Active Members: Percent Increase	Covered Payroll: Amount in $ Millions	Covered Payroll: Percent Increase	Average Salary: $ Amount	Average Salary: Percent Increase	Average Age	Average Service
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
State Employees								
1996	12,976	-4.2%	$453	0.4%	34,900	4.8%	45.5	13.7
1997	12,865	(0.9%)	426	(6.0%)	33,103	(5.1%)	45.7	14.0
1998	13,105	1.9%	458	7.6%	34,963	5.6%	46.4	14.4
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
Teachers								
1996	12,391	2.6%	$544	9.6%	43,900	6.8%	44.9	15.5
1997	12,681	2.3%	573	5.4%	45,193	2.9%	45.1	15.1
1998	12,883	1.6%	598	4.4%	46,453	2.8%	45.0	14.9
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

Distribution of Active Members by Age and by Years of Service (State Employees)
As of 06/30/2006

	Years of Credited Service												
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	Total
Attained Age	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	38	34	12	5	0	0	0	0	0	0	0	0	89
	$28,602	$29,703	$31,856	$24,787	$0	$0	$0	$0	$0	$0	$0	$0	$29,247
25-29	61	73	51	42	35	91	0	0	0	0	0	0	353
	$38,580	$35,465	$37,667	$36,627	$34,696	$37,949	$0	$0	$0	$0	$0	$0	$37,024
30-34	462	95	57	46	66	318	25	1	0	0	0	0	1,070
	$38,081	$37,026	$36,081	$38,348	$41,578	$42,429	$40,567	$35,654	$0	$0	$0	$0	$39,456
35-39	43	355	221	118	90	418	213	216	0	0	0	0	1,674
	$38,418	$33,717	$38,410	$43,292	$40,929	$43,356	$49,038	$45,665	$0	$0	$0	$0	$41,417
40-44	46	40	48	46	57	329	256	551	157	9	0	0	1,539
	$35,950	$37,575	$37,793	$44,799	$41,072	$45,512	$49,961	$49,234	$47,400	$49,246	$0	$0	$46,881
45-49	63	58	47	47	62	378	270	517	428	286	10	0	2,166
	$34,004	$38,766	$35,120	$43,842	$42,312	$45,800	$50,723	$51,145	$55,690	$50,695	$52,177	$0	$49,414
50-54	59	39	43	41	62	318	258	444	306	489	257	5	2,321
	$38,305	$39,234	$38,691	$46,091	$37,985	$42,868	$49,140	$52,280	$56,146	$57,244	$54,332	$53,257	$51,109
55-59	36	36	29	29	27	211	224	355	271	347	297	63	1,925
	$42,552	$45,243	$37,142	$48,691	$45,367	$44,826	$48,604	$48,741	$55,501	$57,465	$63,801	$57,674	$53,032
60-64	14	16	10	8	23	115	119	255	194	182	101	65	1,102
	$45,472	$47,271	$47,273	$40,988	$41,324	$42,971	$48,214	$48,625	$51,122	$57,038	$59,850	$59,644	$51,218
65 & Over	4	3	5	5	6	43	58	146	118	92	62	36	578
	$65,382	$24,745	$50,669	$78,503	$29,885	$43,566	$43,936	$44,297	$48,252	$52,367	$51,539	$66,208	$48,686
Total	826	749	523	387	428	2,221	1,423	2,485	1,474	1,405	727	169	12,817
	$37,738	$35,817	$37,821	$43,096	$40,459	$43,791	$49,048	$49,437	$53,671	$55,568	$58,699	$60,119	$47,725

Distribution of Active Members by Age and by Years of Service (Teachers)
As of 06/30/2006

	Years of Credited Service												
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	Total
Attained Age	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	12	24	16	0	0	0	0	0	0	0	0	0	52
	$44,987	$33,618	$37,187	$0	$0	$0	$0	$0	$0	$0	$0	$0	$37,340
25-29	13	88	80	128	170	303	0	0	0	0	0	0	782
	$56,414	$35,437	$39,943	$40,921	$43,678	$48,448	$0	$0	$0	$0	$0	$0	$43,977
30-34	120	405	379	67	151	1,008	142	0	0	0	0	0	2,272
	$50,310	$36,519	$42,254	$44,643	$46,981	$53,277	$66,219	$0	$0	$0	$0	$0	$48,430
35-39	10	36	78	458	278	938	690	135	0	0	0	0	2,623
	$51,454	$43,793	$40,251	$44,199	$49,352	$56,592	$65,489	$68,551	$0	$0	$0	$0	$55,936
40-44	7	43	31	43	81	500	405	514	55	0	0	0	1,679
	$44,847	$39,057	$41,413	$46,839	$47,654	$58,242	$66,853	$68,145	$70,095	$0	$0	$0	$62,078
45-49	12	35	26	43	70	467	323	408	234	67	0	0	1,685
	$41,437	$40,160	$46,012	$50,387	$48,929	$58,267	$66,614	$68,051	$69,995	$71,506	$0	$0	$63,117
50-54	7	36	20	26	54	397	419	482	257	449	172	0	2,319
	$65,824	$47,222	$41,707	$48,497	$50,664	$60,187	$66,742	$68,647	$69,547	$70,559	$71,996	$0	$66,355
55-59	7	20	10	20	20	253	271	447	238	261	403	104	2,054
	$70,801	$63,668	$51,886	$50,453	$58,133	$61,600	$67,815	$68,235	$69,706	$71,335	$72,036	$74,465	$68,601
60-64	1	4	5	7	13	85	94	157	114	92	69	61	702
	$65,707	$47,964	$46,664	$64,042	$67,676	$65,037	$68,729	$69,168	$68,615	$71,709	$72,793	$73,884	$69,254
65 & Over	0	0	0	1	4	16	26	42	28	23	12	23	175
	$0	$0	$0	$24,902	$68,200	$64,034	$69,637	$68,528	$70,536	$71,397	$73,411	$77,992	$70,302
Total	189	691	645	793	841	3,967	2,370	2,185	926	892	656	188	14,343
	$51,102	$38,411	$41,877	$44,636	$48,247	$56,423	$66,581	$68,363	$69,649	$70,997	$72,130	$74,708	$59,916

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 Normal (EAN) 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. The normal cost rate is determined using the plan provisions applicable to members becoming participants after June 30, 2005, i.e., the provisions for Schedule B members.

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				
	State Employees		Teachers	
Service	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				
	State Employees		Teachers	
Age	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.

	Number of Disabilities per 1,000							
Age	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. Legislators have the same rates as state employees shown below except 100% are assumed to retire at age 62 and completion of 10 years of service if still active. 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.

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.

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%

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. <u>Other Assumptions</u>

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 birthdate, 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 missing, bad, or inconsistent data. These 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 at their date of employment.

6. Employee Contributions: State employees generally contribute 8.75% of their salary per year, although members of the General Assembly who elect to participate contribute 30.00% of 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 state employees, the state contributes an actuarially determined percentage of the member's salary. 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. Special rules and limits govern the purchase of additional service and the contribution required.

10. Final Average Compensation (FAC): The average of the member's highest three consecutive annual salaries. Monthly benefits are based on one-twelfth of this amount.

11. Retirement

a. Eligibility:
- All members with 10 or more years of contributory service as of June 30, 2005 are eligible for retirement 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.
- Members with less than 10 years of contributory service as of June 30, 2005 are eligible for retirement on or after age 65 if they have credit for 10 years of service, or on or after age 59 if they have credit for 29 years of service. In addition, a member who attains age 55 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.
- Correctional officers are also eligible for retirement if they have reached age 50 and have credit for 20 years of service. Certain nurses (RNs employed by MHRH) are eligible to retire at age 50 with 25 years of service. Members of the General Assembly who elect to participate are eligible for retirement if they have reached age 55 and have credit for 8 years of service, or at any age if they have credit for 20 years of service.

b. Monthly Benefit: For most state employees and for all teachers, the retirement benefit is a percentage of the member's monthly FAC. This percentage is a function of the member's service, determined using the following schedules:

- For members with at least 10 years of contributory service as of June 30, 2005:

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.

- For members with less than 10 years of contributory service as of June 30, 2005:

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.

- MHRH nurses receive a benefit determined under the appropriate formula above.

- 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.

- Members of the General Assembly who elect to participate receive $50 per month for each year of service, up to a maximum benefit of $1,000 per month, i.e., a maximum of 20 years of service.

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. <u>Disability Retirement</u>

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. Occupational Disability Benefit: An annual annuity equal to two-thirds of salary at the time of disability.

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. <u>Deferred Termination Benefit</u>

a. Eligibility: A member with at least ten years of service (eight years for members of the general Assembly) 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, and for all members receiving a disability retirement benefit: Members receive 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 members with less than 10 years of contributory service as of June 30, 2005 (other than disability retirements): Members receive 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%.