December 22, 2017

Retirement Board
50 Service Avenue, 2nd Floor
Warwick, RI 02886-1021

Re: Actuarial Valuation for Non-contributing Judges as of June 30, 2017

Dear Members of the Board:

This is the June 30, 2017 actuarial valuation of judges hired before January 1, 1990 who are currently employed or retired from employment by the State of Rhode Island. This report provides the calculation of the Actuarial Determined Contribution for fiscal year beginning July 1, 2017 assuming the State begins to advance fund the benefits. This valuation is based on a roll forward of the June 30, 2016 valuation using standard actuarial techniques.

Financing Objectives

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 3.56%; the municipal bond rate is 3.56% (based on fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2017). Based on the pay-as-you-go nature of the financing for these benefits, we have used the 3.56% discount rate for all liabilities.

This report also develops the contribution requirement assuming the State begins to advance fund the benefits. This measurement is based on a higher discount rate of 7.00%.

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. There has been minimal advanced funding for this closed group of seven Judges (two of which are now retired), so the funded ratio based on the 3.56% discount rate as of June 30, 2017 is 3.2%. As of June 30, 2017, the market value of assets is $646,628 and the actuarial accrued liability is $20,441,696, resulting in an unfunded actuarial accrued liability of $19,795,068.
If the State were to advance fund the benefits over a period of 20 years beginning in fiscal year end 2018, then the actuarial determined contribution as a level dollar amount would be equal to $1,322,171. Based on this contribution policy, if all actuarial assumptions are met (including the assumption of the plan earning 7.00% on the actuarial valuation of assets), it is expected that:

1. The employer contribution for fiscal years 2018 and beyond will remain level as a dollar amount,
2. The unfunded actuarial accrued liability will be fully amortized by 2037, and
3. In the absence of benefit improvements, the funded ratio should increase over time, until it reaches 100%.

**Benefit provisions**

The benefit provisions reflected in this valuation are those which were in effect on June 30, 2017. The benefit provisions are summarized in Appendix B in the June 30, 2017 actuarial valuation of the JRBT dated December 15, 2017.

**Assumptions and methods**

The assumptions used in this valuation, with the exception of the 3.56% discount rate, are the same as those summarized in Appendix A in the June 30, 2017 actuarial valuation of the JRBT dated December 15, 2017. We believe the assumptions are internally consistent and are reasonable.

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.

**Data**

Data for the five active members and two retirees as of June 30, 2016 for this valuation was by the Staff at the Employees Retirement System of Rhode Island. 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.
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 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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