**ERS - TEACHERS**

**Proposed Pension Note Disclosures – ERS Teacher Employer Units *Revised – OAG - 11-12-2015***

(Based on Illustration 4 in GASB No. 68 – Note disclosures for employers participating in a cost-sharing plan that has a special funding situation – also refer to par. .109 to .113 of GASB 68)

***A. THE FOLLOWING IS AN ADDITION TO THE SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees’ Retirement System plan (ERS) and the additions to/deductions from ERS’ fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***B. THE FOLLOWING INFORMATION IS FOR INCLUSION IN THE TEACHER UNIT’S PENSION NOTES***

**Note X. Defined Benefit Pension Plan**

**General Information about the Pension Plan**

***Plan description*** - Certain employees of the **(Name of Teacher Unit)** participate in a cost-sharing multiple-employer defined benefit pension plan - the Employees’ Retirement System plan - administered by the Employees’ Retirement System of the State of Rhode Island (System). Under a cost-sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the plan, regardless of the status of the employers’ payment of its pension obligation to the plan. The plan provides retirement and disability benefits and death benefits to plan members and beneficiaries.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>.

***Benefit provisions***– The level of benefits provided to participants is established by Chapter 36-10 of the General Laws, which is subject to amendment by the General Assembly. Member benefit provisions vary based on service credits accumulated at dates specified in various amendments to the General Laws outlining minimum retirement age, benefit accrual rates and maximum benefit provisions. In general, members accumulate service credits for each year of service subject to maximum benefit accruals of 80% or 75%. For those hired after June 30, 2012, the benefit accrual rate is 1% per year with a maximum benefit accrual of 40%. Members eligible to retire at September 30, 2009 may retire with 10 years of service at age 60 or after 28 years of service at any age. The retirement eligibility age increases proportionately for other members reflecting years of service and other factors until it aligns with the Social Security Normal Retirement Age, which applies to any member with less than 5 years of service as of July 1, 2012. Members are vested after 5 years of service.

The plan provides for survivor’s benefits for service connected death and certain lump sum death benefits. Joint and survivor benefit provision options are available to members.

Cost of living adjustments are provided but are currently suspended until the collective plans covering state employees and teachers reach a funded status of 80%. Until the plans reach an 80% funded status, interim cost of living adjustments are provided at five-year intervals.

The plan also provides nonservice-connected disability benefits after five years of service and service-connected disability benefits with no minimum service requirement.

*Contributions* - The funding policy, as set forth in the General Laws, Section 16-16-22, provides for actuarially determined periodic contributions to the plan. For fiscal 2015, **(Name of Teacher Unit)** teachers were required to contribute 3.75% of their annual covered salary. The state and the **(Name of Teacher Unit)** are required to contribute at an actuarially determined rate, 40% of which is to be paid by the state and the remaining 60% is to be paid by (Name of Teacher Unit); the rates were XX and XX % of annual covered payroll for the fiscal year ended June 30, 2015 for the state and (Name of Teacher Unit), respectively. The **(Name of Teacher Unit)** contributed $X,XXX,XXX, $X,XXX,XXX and $X,XXX,XXX for the fiscal years ended June 30, 2015, 2014 and 2013, respectively, equal to 100% of the required contributions for each year. **(Contribution amount for FY 2014 must agree with amount on Page 11 of “Schedule of Pension Amounts by Employer” and the amount for FY 2015 must agree with amount per ERSRI).**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources**

At June 30, 2015, the **(Name of Teacher Unit)** reported a liability of $X,XXX,XXX (Source: column entitled “Ending Net Pension Liability” on page15 of “Schedule of Pension Amounts by Employer”) for its proportionate share of the net pension liability that reflected a reduction for contributions made by the state. The amount recognized by the (Name of Teacher Unit) as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the (name of Teacher Unit were as follows:

 (Name or Teacher Unit) proportionate share

Amounts from Schedule F

 of the net pension liability $XXXX

 State’s proportionate share of the net pension

 liability associated with the (Name of Teacher Unit) $XXXX

 Total net pension liability

The net pension liability was measured as of June 30, 2014, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014. The **(Name of Teacher Unit)** proportion of the net pension liability was based on a projection of the (Name or Teacher Unit) long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the state, actuarially determined. At June 30, 2014 the **(Name of Teacher Unit)** proportion was X.XX% (Source: column entitled “Proportionate Share” on page 11 in “Schedule of Pension Amounts by Employer”).

Subsequent to June 30, 2014 (the measurement date), litigation challenging the various pension reform measures enacted in previous years by the General Assembly (2009, 2010, and 2011) was settled. The final settlement approved by the Court on July 8, 2015 also included enactment of the pension settlement provisions by the General Assembly.

The amended benefit provisions in the newly enacted legislation and settlement agreement have not been reflected in the determination of the net pension liability at June 30, 2014 (the measurement date). These amended benefit provisions are summarized below:

* Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rate from 3.75% to 11% and participate solely in the defined benefit plan going forward – service credit accruals will increase from 1% to 2% per year.
* Employees with more than 10 but less than 20 years of service at July 1, 2012 will receive an increased employer contribution to the defined contribution plan.
* Retirees as of June 30, 2015 will receive two $500 stipends; the interim cost of living increases will occur at 4 year rather 5 year intervals.
* Minor adjustments were made to the actuarial reduction for employees choosing to retire early.

These amendments are not considered to have a material effect on the net pension liability had they been retroactively applied to the calculation of the total pension liability at June 30, 2013 rolled forward to June 30, 2014. An actuarial analysis of the pension settlement provisions enacted by the General Assembly and approved by the Court indicated that the funded ratio at June 30, 2014 for teachers (determined on a funding basis) decreased from 59.6% to $58.2%

For the year ended June 30, 2015 the **(Name of Teacher Unit)** recognized gross pension expense of $X,XXX,XXX) and revenue of $XXXX for support provided by the State (Source: Schedule E). At June 30, 2015 the **(Name of Teacher Unit)** reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  |  |  |
| --- | --- | --- |
| Deferred outflows of resources |  |  |
| Contributions subsequent to the measurement date |  |  |
|  |  |  |
| Deferred inflows of resources |  |  |
| Change of assumptions |  |  |
|  |  |  |
| Net difference between projected and actual earnings on pension plan investments |  |  |
| Total  |  |  |

**Deferred inflow data is contained in columns entitled “Change of Assumptions” and “Net Difference between Projected and Actual Investment Earnings” on page 8 in “Schedule of Pension Amounts by Employer”.**

$X,XXX,XXX reported as deferred outflows of resources related to pensions resulting from the (**Name of Teacher Unit)** contributions in fiscal year 2015 subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

|  |  |
| --- | --- |
| **Year ended June 30:** |  |
| **2016** | **Amounts from Schedule D** |
| **2017** |  |
| **2018** |  |
| **2019** |  |
| **2020** |  |
| **thereafter** |  |

**Dollar amounts for each year to be obtained from OAG issued – *Schedule of Pension Amounts by Employer* - use line for your entity.**

***Actuarial Assumptions* -** the total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

 Inflation 2.75%

 Salary increases 3.50% to 6.50%

 Investment rate of return 7.50%

Mortality – male and female teachers: 97% and 92%, respectively of rates in a GRS table based on male and female teacher experience, projected with Scale AA from 2000.

The actuarial assumptions used in the June 30, 2013 valuation rolled forward to June 30, 2014 and the calculation of the total pension liability at June 30, 2014 were consistent with the results of an actuarial experience study performed as of June 30, 2013.

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on forward-looking medium-term (10 year) capital market return assumptions developed by eight investment consulting firms. The June 30, 2014 expected arithmetic returns over the medium term by asset class as developed by the State Investment Commission’s investment consultant, which are generally consistent with the averages utilized by the actuary, are summarized in the following table:



These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall medium-term expected rate of return best-estimate on an arithmetic basis. To arrive at the long-term expected return estimate, the actuary adjusts the medium-term number to reflect the longer 30-year time frame required for actuarial calculations. This process produces the actuarial expected return, which is based on a 30-year horizon, and can differ from the medium-term, 10-year-horizon return expectations.

***Discount rate* -** the discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the net pension liability (asset) to changes in the discount rate* -** the following presents the net pension liability (asset) calculated using the discount rate of 7.5 percent as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

|  |  |  |
| --- | --- | --- |
| **1.00% Decrease****(6.5%)** | **Current Discount Rate****(7.5%)** | **1.00 Increase****(8.5%)** |
|  |  |  |

**Dollar amounts for each year to be obtained from OAG issued – *Schedule of Pension Amounts by Employer* - use line for your entity.**

**Pension plan fiduciary net position -** detailed information about the pension plan’s fiduciary net position is available in the separately issued ERSRI financial report.

Notes to the financial statements - *when employees are covered by more than one plan*

The total (aggregate for all pensions, whether provided through single-employer, agent, or cost-sharing pension plans) of the employer’s pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense/expenditures for the period associated with net pension liabilities should be disclosed if the total amounts are not otherwise identifiable from information presented in the financial statements. (par. 37 GASB 68)

Disclosures related to more than one pension plan should be combined in a manner that avoids unnecessary duplication. (par. 38 GASB 68)

**Note X. Defined Contribution Pension Plan**

***Defined Contribution Plan Description:***

Employees participating in the defined benefit plan, as described above, also participate in a defined contribution plan authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. Employees may choose among various investment options available to plan participants. Employees contribute 5% of their annual covered salary and employers contribute 1% of annual covered salary. Employee contributions are immediately vested while employer contributions and any investment earnings thereon are vested after three years of contributory service. Benefit terms and contributions required under the plan by both the employee and employer are established by the General Laws, which are subject to amendment by the General Assembly.

As previously indicated in the disclosure of recently-enacted pension legislation, the employer contribution for certain qualifying employees will increase slightly beginning in fiscal 2016.

Amounts in the defined contribution plan are available to participants in accordance with Internal Revenue Service guidelines for such plans.

The **(Name of Teacher Unit)** recognized pension expense of$XXX,XXX, for the fiscal year ended June 30, 2015.

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***See contribution rates for various employee categories:***

***Contributions*** – the plan’s benefits are funded by contributions from the participants and the employer, as specified in Rhode Island General Law 36-10.3-4 and 36-10.3-5. Eligible state employees and teachers and MERS general employees that participate in Social Security contribute 5% of the member’s compensation. Employers contribute to these member’s individual accounts an amount equal to 1% of the member’s compensation.

Teachers and MERS general employees not covered by social security must contribute 7% of their compensation; employers contribute to these member’s individual accounts an amount equal to 3% of the member’s compensation. MERS police and fire employees not covered by social security must contribute 3%; employers contribute to these member’s individual accounts an amount equal to 3% of the member’s compensation.