**MERS**

**Proposed Pension Note Disclosures – MERS Agent Plan Employer Units *Revised 11-12-2015***

***Based on Illustration 2 in GASB Statement No. 68 (par. .74 to .80 of GASB 68)***

**The following should be included in the *Summary of Significant Accounting Policies***

**Pensions**

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees’ Retirement System (MERS) of Rhode Island and additions to/deductions from MERS’ fiduciary net position have been determined on the same basis as they are reported by MERS. 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.

**The following should be included in the Note related to Pensions -**

**General Information about the Pension Plan**

**Plan Description -** The Municipal Employees’ Retirement System (MERS) – an agent multiple-employer defined benefit pension plan - provides certain retirement, disability and death benefits to plan members and beneficiaries. MERS was established under Rhode Island General Law and placed under the management of the Employee’s Retirement System of Rhode Island (ERSRI) Board to provide retirement allowances to employees of municipalities, housing authorities, water and sewer districts, and municipal police and fire persons that have elected to participate. Benefit provisions are subject to amendment by the General Assembly.

MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the ERSRI website at [*www.ersri.org*](http://www.ersri.org)

**Benefits provided** – For general employees prior to June 30, 2012 the plan provided retirement benefits equal to 2% of a member’s final average salary multiplied by the number of years of total service up to a maximum of 75%. Such benefits are available to members at least age 58 with 10 years of service or after 30 years of service at any age. Benefits accrued at June 30, 2012 are protected under the Rhode Island Retirement Security Act until it is exceeded by the member’s full years of service credit, including service after June 30, 2012, multiplied by the average of five consecutive years of compensation. Effective July 1, 2012 the retirement age will mirror the Social Security Normal Retirement Age not to exceed age 67. Members will receive a benefit accrual of 1.0% per year based on the five-year average compensation.

Joint and survivor options are available as well as the Service Retirement Allowance (SRA) Plus option that provides for the payment of a larger benefit before the attainment of age sixty-two (62) and a reduced amount thereafter. The reduced amount is equal to the benefit before age sixty-two (62), including cost-of-living increases, minus the member's estimated social security benefit payable at age sixty-two (62).

Prior to June 30, 2012 police and fire personnel may retire at age 55 if they have 10 years of service or after 25 years of service at any age. An option may be elected to provide a 20 year service pension with a benefit equal to 2.5% for each year of service up to a maximum of 75% for police and fire personnel. Benefits are based on the average of the highest three consecutive years' earnings, exclusive of overtime.

The new retirement age will be 55 years old with 25 years of total service or for members with five years of service but less than 25 years of service the new retirement age will mirror the Social Security Normal Retirement Age not to exceed 67. Police officers or firefighters, that are at least 45 years old, have 10 or more years of contributing service and are eligible to retire prior to age 52 under the law in effect on June 30, 2012, may retire at age 52.

As of June 30, 2012 members will continue to have a frozen benefit accrual of 2.0% per year for a standard 25 year with any age and out plan; 2.5% for a standard 20 year with any age and out plan. Effective July 1, 2012 the optional 20 and 25 year with retirement at any age plans have been eliminated. The benefit accrual for all plans will be 2.0% per year based on the five-year average compensation, exclusive of overtime. Police and fire employees may retire with a reduced pension benefit if they have 20 years of service and are within five years of their retirement eligibility. The actuarially reduced benefit will be calculated based on how close the member is to the eligibility date that is prescribed in the Rhode Island Retirement Security Act.

The plan also provides survivor's benefits; and certain lump sum death benefits.

Plan members are vested after five years of service.

An optional cost-of-living provision may be elected for police and fire personnel and general employees. The Cost of Living Adjustment (COLA) has been suspended for any unit whose funding level is less than 80%. The COLA provision can be reviewed in a five-year interval. When the funding level of a plan exceeds 80% funded eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. For police and fire units, COLA will be delayed until the later of age 55 or three years after retirement. For general employee units, COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

The plan also provides nonservice-connected disability benefits after 5 years of service; service-connected disability pensions with no minimum service requirement.

**Employees covered by benefit terms**.

At the June 30, 2013 valuation date, the following employees were covered by the benefit terms:

|  |  |
| --- | --- |
| Retirees and Beneficiaries | From GRS employer specific valuation |
| Inactive, Nonretired Members | “ |
| Active Members | “ |
| Total | “ |

**Contributions** - The amount of employee and employer contributions have been established under Rhode Island General Law Chapter 45-21. General employees are required to contribute 1% (employer should report 2% if opted to provide a COLA) of their salaries. Public safety employees are required to contribute 7% (employer should report 8% if opted to provide a COLA) of their salaries. The (name of employer) contributes at a rate of covered employee payroll as determined by an independent actuary on an annual basis. The General Assembly can amend the amount of these contribution requirements. The (name of employer) contributed $X,XXX,XXX in the year ended June 30, 2015 which was XX% of annual covered payroll.

**Net Pension Liability** **(Asset)** - The total pension liability was determined by actuarial valuations performed as of June 30, 2013 and rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement.

|  |
| --- |
| **Summary of Actuarial Assumptions Used in the Valuations to determine the Net Pension Liability at the** **June 30, 2014 measurement date (June 30, 2013 valuation rolled forward to June 30, 2014)** |
| Actuarial Cost Method | Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.  |
| Amortization Method | Level Percent of Payroll – Closed  |
| Equivalent Single Remaining Amortization Period | 21 years at June 30, 2014  |
| Actuarial Assumptions |  |
| Investment Rate of Return | 7.50% |
| Projected Salary Increases | General Employees - 3.50% to 7.50% ; Police & Fire Employees - 4.00% to 14.00% |
| Inflation | 2.75% |
| Mortality | * Male Employees, MERS General and MERS P&F: 115% of RP-2000 Combined Healthy forMales with White Collar adjustments, projected with Scale AA from 2000.
* Female Employees, MERS General and MERS P&F: 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA from 2000.
 |
| Cost of Living Adjustments | COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time. COLA is delayed until the latter of Social Security eligibility age or 3 years after retirement except for MERS Police and Fire for which the COLA is delayed until the later of age 55 or 3 years after retirement.A 2% COLA is assumed after January 1, 2014.  |

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 of the plans 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.

|  |
| --- |
| **Changes in the Net Pension Liability (Asset)** |
|  | Increase (Decrease) |
| From GRS employer specific valuation | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| Balances as of June 30, 2013 |  |  |  |
| Changes for the Year |  |  |  |
| Service cost |  |  |  |
| Interest on the total pension liability |  |  |  |
| Changes in benefits |  |  |  |
| Difference between expected and actual experience |  |  |  |
| Changes in assumptions |  |  |  |
| Employer contributions |  |  |  |
| Employee contributions |  |  |  |
| Net investment income |  |  |  |
| Benefit payments, including employee refunds |  |  |  |
| Administrative expense |  |  |  |
| Other changes |  |  |  |
| Net changes |  |  |  |
| Balances as of June 30, 2014 |  |  |  |

**Sensitivity of the Net Pension Liability to changes in the discount rate**. The following presents the net pension liability (asset) of the employers calculated using the discount rate of 7.5 percent, as well as what the employers’ 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%)** |
|  |  |  |

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

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended [June 30, 2015] the employer recognized pension expense of [$XXX,XXX]. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

|  |  |  |
| --- | --- | --- |
|  | Deferred Outflows of Resources | Deferred inflows of Resources |
| Difference in experience | $ X  | $ X |
| Differences in assumptions | X |  X |
| Excess(deficit) Investment Returns | X |  X |
| Total | $ X | $ X  |

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

|  |  |  |
| --- | --- | --- |
| Year Ending June 30 |  | Net Deferred Outflows of Resources |
| 2016 |  |  $  |
| 2017 |  |  $  |
| 2018 |  |  $  |
| 2019 |  |  $  |
| 2020 |  |  $ -  |
| Thereafter |  |  $ -  |
| **Total** |  |  $  |

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 X% (see below) 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 Employer Unit)** recognized pension expense of$XXX,XXX, for the fiscal year ended June 30, 2015.

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

***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.