



**RIPEC**

**Presentation to the  
Federal Reserve Bank of Boston  
New England Public Policy Center  
June 30, 2010**

Rhode Island Public Expenditure Council



# Pension Reform

## Benefit Accrual and COLAs

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### Rhode Island State Employee Retirement Provisions

Provisions	Eligible to Retire as of September 30, 2009		Not Eligible to Retire Schedule A/B
	Schedule A	Schedule B	
Social Security Coverage	Yes	Yes	Yes
Vesting Requirement	10 Years	10 Years	10 Years
Average Final Compensation	Highest three consec. years	Highest three consec. years	Highest five consec. years
Normal Retirement Age	60/10; 00/28	65/10; 59/29	62; 65/10*
Formula Calculation			
- Years 1-10	1.70%	1.60%	For Schedule A employees: all credits earned prior to September 30, 2009 are preserved. Future accrual of credits will be earned under Schedule B.
- Years 11-20	1.90%	1.80%	
- Years 21-25	3.00%	2.00%	
- Years 26-30	3.00%	2.25%	
- Years 31-34	3.00%	2.50%	
- Year 35	2.00%	2.50%	
- Years 36-37	-	2.50%	
- Year 38	-	2.25%	
Maximum Benefit	80.00%	75.00%	80.00%
Early Retirement Option	None	55/20	*
Formula Calculation	NA	Actuarial	
COLA**	3.0% Fixed	Lower of 100% CPI or 3%	Lower of 100% CPI or 3%
COLA Delay	2.5 Years	3.0 Years	3rd anniversary of retirement or 65, whichever is later

\* There is a minimum retirement age for all state employees of 62 except for Schedule B employees who retire with less than 29 years of service credit; their retirement eligibility remains at 65 with 10 years of service credit. Correctional officers and nurses at MHRH have a minimum retirement age of 55 with 25 years of service. For all other employees, the new law provides a proportional downward revision in retirement age based on years of service.

\*\* For all employees not eligible to retire upon passage of the FY 2011 budget, COLA is limited to the first \$35,000 of benefits

Source: Employees' Retirement System of Rhode Island



# Overview

## State Retirement System

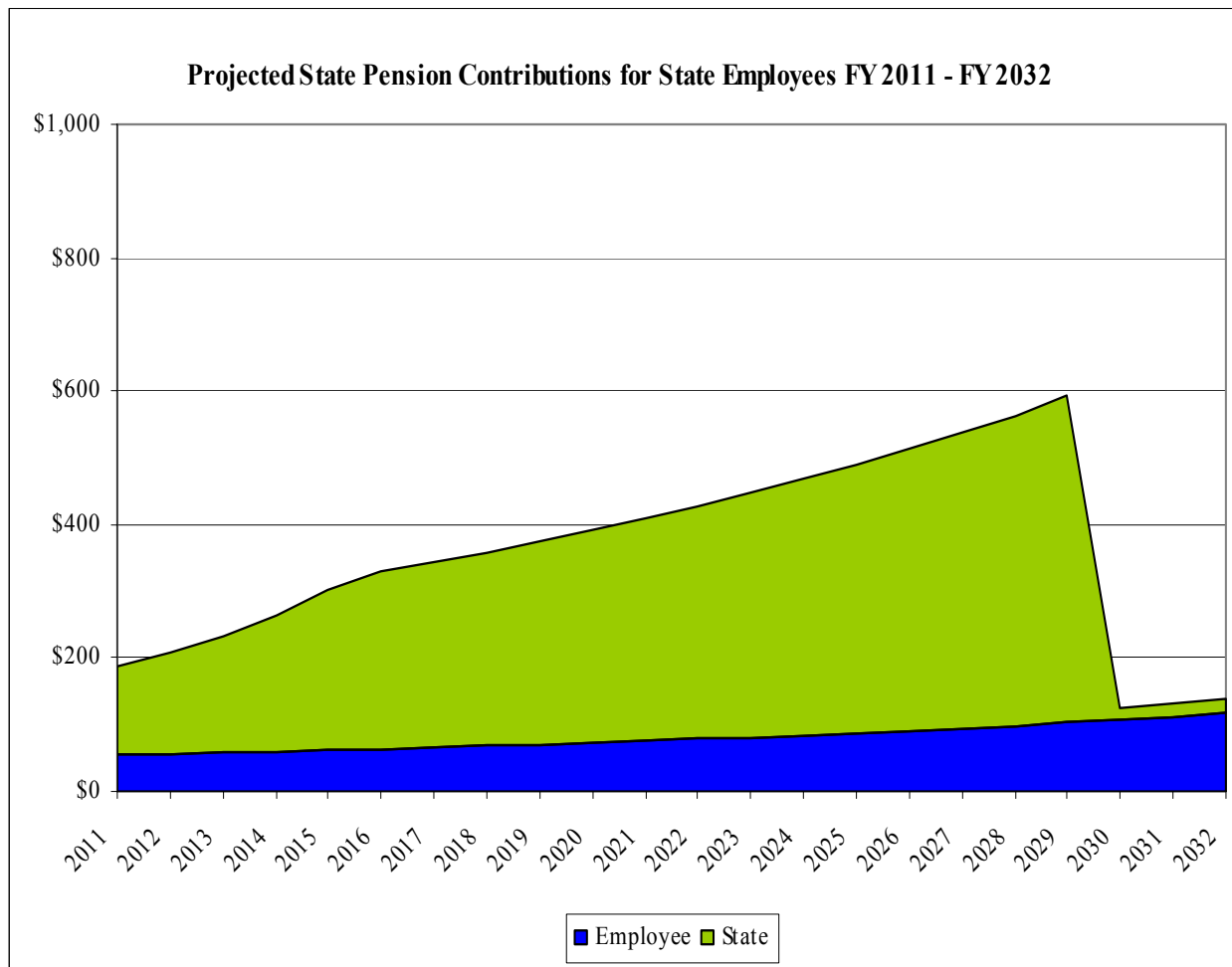
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### Retirement System Changes and Estimated Savings (\$ millions)

Change	Group Affected / Year	Est. Gen Rev Savings
Creation of "Schedule B"	FY 2006 Enacted State	\$18.5
	Local	27.1
Changes to retirement age; benefit calculation; creates "schedule A/B" hybrid; etc.	FY 2009 Revised State Employees	(\$1.5)
	Teachers	18.5
	Local Share	27.5
Limits COLA to the first \$35,000 of retirement benefits, delays application of COLA	FY 2010 Enacted State Employees	\$15.0
	Teachers	15.0
	Local Share	22.5
Limits COLA to the first \$35,000 of retirement benefits, delays application of COLA	FY 2010 Revised State Employees	\$3.3
	Teachers	4.0
	Local Share	5.9
Limits COLA to the first \$35,000 of retirement benefits, delays application of COLA	FY 2011 Enacted State Employees	\$5.7
	Teachers	4.2
	Local Share	6.1
<b>Est. Total</b>		<b>\$171.8</b>

SOURCE: House and Senate Fiscal Staff Documents; RIPEC calculations

Projected State Pension Contributions for State Employees FY 2011 - FY 2032





# Overview

## Total Liability and Costs

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- Estimated pension contributions total:
  - 5.1% of the FY 2010 enacted budget
  - 7.8% of the projected FY 2015 budget
- FY 2010 employer contribution:
  - State employees: 21.64% of payroll
  - Teachers: 20.07% of payroll
- FY 2015 employer contribution:
  - State employees: 33.99% of payroll
  - Teachers: 30.86% of payroll
- Employee contribution rates:
  - State employees: 8.75%
  - Teachers: 9.50%
- Funded ratio as of June 30, 2009:
  - State employees: 61.8%
  - Teachers: 60.3%

<b>State/Local Pension and OPEB Liabilities</b>			
<b>\$ million</b>			
	<b>ARC</b>	<b>Payments</b>	<b>Unfunded Liability</b>
<b>State</b>			
<u>Pensions</u>			
State Employees	\$127.1	\$127.1	\$1,671.5
Teachers - State Share	79.2	79.2	1,064.2
<i>Subtotal Pensions</i>	<i>\$206.3</i>	<i>\$206.3</i>	<i>\$2,735.7</i>
<u>OPEB*</u>	\$36.1	\$35.5	\$689.7
<b>Total State</b>	<b>\$241.8</b>	<b>\$241.8</b>	<b>\$3,425.4</b>
<b>Municipal Government</b>			
<u>Pensions</u>			
MERS	\$33.4	\$33.4	\$91.7
Locally-administered	161.5	132.4	1,894.6
Teachers - Local Share	105.2	105.2	1,596.3
<i>Subtotal Pensions</i>	<i>\$300.1</i>	<i>\$271.0</i>	<i>\$3,582.6</i>
<u>OPEB</u>	\$189.6	\$100.8	\$2,392.7
<b>Total Municipal</b>	<b>\$489.7</b>	<b>\$371.8</b>	<b>\$5,975.3</b>
<b>Total State and Local</b>	<b>\$731.5</b>	<b>\$613.6</b>	<b>\$9,400.7</b>

\*Includes State employees and teachers

Sources: ERS/MERS as of June 30, 2008; GRS OPEB Valuation February 2009, as of June 30, 2007; Auditor General report "Status on Pension and OPEB Plans Administered by RI Municipalities", March 2010



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# Future Directions

## Options/Considerations

- Hybrid Plan
  - Shares risk between employer and employee
  - Shifting employees to a hybrid plan may result in higher short-term costs
- Further changes to COLA
  - Savings through eliminating COLAs were estimated to be \$52.7 million (all funds, State and local)
  - Potential legal challenges?
- Changes to retirement age
  - Ability to provide services effectively
  - Effect on workforce – incentivize long-term service?
- There is a need to examine how these changes will affect the workforce:
  - Ability to attract younger workers and skilled older workers?
  - Generational perceptions of employment/terms of service
  - What is the effect of systems that encourage long-term service on workforce innovation?
  - Impact on current employees