

We Make Rhode Island Happen

2011 STATE PENSION CHANGES SUMMARY

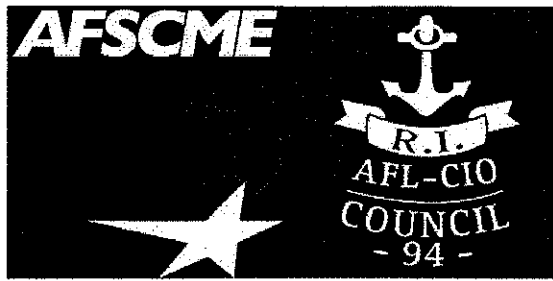
Revised 12/15/2011

This information was drawn from the House/Senate Fiscal Staff's Executive Summary of H-6139 A/S-1111 A. Nothing herein is considered official until the Employees' Retirement System of Rhode Island (ERSRI) issues explanatory documents.

Key Changes

1. **COLA Provisions**--Retirees do not lose any Cost of Living Adjustments (COLAs) granted prior to July 1, 2012. Future annual COLAs are suspended until the aggregate funded ratio of the Employees' Retirement System of Rhode Island, the Judicial Retirement Benefits Trust and the State Police Retirement Benefits Trust exceeds 80%.
 - All state employees will receive the same COLA after July 1, 2012. The new adjustment is a limited, risk-based COLA that is only granted when the pension system is well- funded (80% or better).
 - The COLA would be equal to the difference between the 5-year smoothed investment return and 5.5 percent, for a range of 0%- 4%.
 - The COLA applies to the first \$25,000 of pension income.
 - The limit on the \$25, 000 will be indexed to grow at the same rate as the COLA adjustment. The indexation will occur even during a period when the COLA is suspended.
 - An interim COLA will be paid at five year intervals from enactment until the aggregate funded ratio of the ERS, Judicial and State Police pensions exceeds 80%.
 - Members participating in any of these pension systems would have the COLA return at the same time. Interim COLA would be calculated as described above: 5 year smoothing minus 5.5%.

(Continued on page 2)



We Make Rhode Island Happen

2011 STATE PENSION CHANGES SUMMARY

Revised 12/15/2011

2. **New Hybrid Plan**- The new plan shifts risk to the employee through combining the attributes of both the defined benefit and defined contribution plans.

A. **New Defined Benefit Structure:**

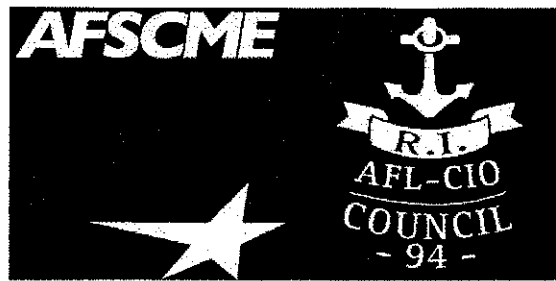
-Employees would retain all benefits accrued through June 30, 2012.

-Employees eligible to retire as of June 30, 2012 will keep their same retirement date.

- Beginning July 1, 2012 benefit accruals of 1 % per year of service.
- Benefits are calculated based on the member's 5-year highest average compensation.
- Reduces vesting requirement from 10 years to 5 years.
- Reduces state employee contribution rate to the defined benefit plan from 8.75 % to 3.75%.

3. **Defined Contribution Structure**- A defined contribution, 401-K style plan, is overlaid with the defined benefit/pension program. A defined contribution program/401-K style plan is a program where contributions are made to an individual retirement account, where the account balance at retirement is based on the money that accumulates in the employee's account over time, reflecting any employer/employee contributions and any investment gains/losses.

- Mandatory 5% employee contribution and 1% employer contribution
- Employees vest immediately, but 3 year vesting period for employer contributions.
- The State Investment Commission is responsible for administering and providing employee investment support.



We Make Rhode Island Happen

2011 STATE PENSION CHANGES SUMMARY

Revised 12/15/2011

4. Other Provisions

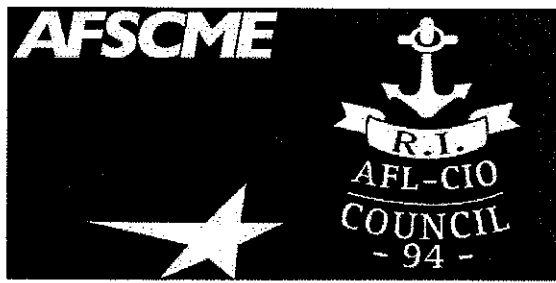
A. Re-amortization- Instead of paying the remaining liability over a 19 year period, as is currently scheduled, the Act extends the period to 25 years. The design is two-fold:

- Re-amortize the initial unfunded liability over a closed 25 year period; and
- Re-amortize future net changes due to asset losses, gains or assumption impacts over individual 20-year closed periods. In other words, each year thereafter gets its own amortization schedule

B. Part time employees- Current law permitting part time employees to accrue service credit is preserved. However, part time employees eligible to retire after July 1, 2012, whose half of their total years of service were part time (less than 30 hours a week) but their average compensation consists of three or more years of service where the member worked more than 30 hours per week, their benefit would be calculated based on the average of their 10 highest years of compensation, instead of a 5 year average . The changes primarily are structured to prevent part-time employees from “spiking” their pension payments.

C. Survivor Benefits- The Act allows a one year window to permit those employees that elected a survivor benefit other than a life annuity to take a one-time option to go from the survivor benefit option to a life annuity option.

D. Service Purchase Credits- There is no change in current law as it pertains to military service credit purchases. However, the Act does require that optional service credits purchased after July 1, 2012, will be calculated at full actuarial value based on the plan’s assumed rate of return, minus 1.0 percent, and must be made within 3 years of the date of initial eligibility for the purchase or by July 1, 2015, whichever is later. The Act clarifies that the current practice of service credit purchases being effective from the date of application rather than the date of payment completion would continue.



We Make Rhode Island Happen

2011 STATE PENSION CHANGES SUMMARY

Revised 12/15/2011

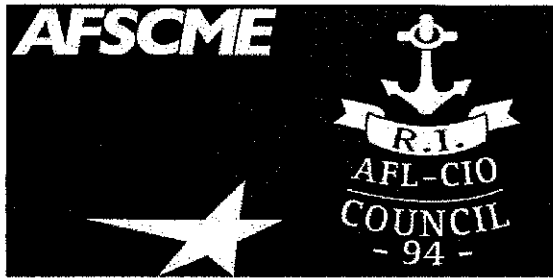
5. **Proportionality/New Retirement Age**- For employees with at least five years of service on July 1, 2012, the new retirement age is discounted proportionally based on how close they are to retirement as of June 30, 2012. The closer employees are to their current law retirement age, the fewer additional years get added to that retirement age, provided the new age can be no lower than 59. The table "Estimated New Retirement Age – Under RIRSA: State Employees, Teachers, MERS – General" shows how this concept works. The table is divided into three sections based on the year the employee was born. This is to account for the difference in Social Security normal retirement ages.

- The first column shows the percent of years that the individual has completed towards their current retirement age.

- The row across the top shows the individual's retirement age under current law.

To estimate the individual's new retirement age under the proposal, you find the current retirement age across the top, and then the percent of years completed towards the current retirement age in the first column. Where those two intersect, is the new retirement age. An age calculator can be downloaded at: <http://www.pensionreformri.com/>

- **Exception**- An employee with more than 10 years of service as of July 1, 2012 may elect to retire at their current retirement age, with only their benefits accrued as of June 30, 2012. If an employee chooses to retire at their current eligibility age, they will not accrue any additional benefits in the defined benefit plan after July 1, 2012, but will keep contributions made into the 401 K style plan.



We Make Rhode Island Happen

2011 STATE PENSION CHANGES SUMMARY

Revised 12/15/2011

Percent of years completed toward current retirement age as of June 30, 2012		Your Retirement Age under Current Law																																		
		50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66
10%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
20%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
30%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
40%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
50%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
60%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
70%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
80%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
90%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
100%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67

Percent of years completed toward current retirement age as of June 30, 2012		Your Retirement Age under Current Law																																		
		50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66
10%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
20%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
30%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
40%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
50%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
60%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
70%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
80%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
90%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
100%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67

Those born between 1955 and 1959 have a Social Security Normal Retirement Age between 66.2 and 66.6. Example below is 66.5 (1957)		Your Retirement Age under Current Law																																			
		50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
10%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	
20%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	
30%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	
40%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	
50%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	
60%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	
70%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	
80%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	
90%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	
100%	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	

Estimated New Retirement Age - Under RIRSA:
State Employees, Teachers, MERS - General

