

YES, YOU STILL HAVE A PENSION:

WHAT H 6319 and S 1111 DID TO US

QuEST Conference

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WHO DID THIS?

- Gina Raimondo
- Lincoln Chafee
- Engage RI
- Wall Street
- Fox / Matiello / O'Neill / Melo
- Paiva-Weed / Ruggiero / DaPonte
- Projo
- Shoreline Coalition



WHY DID THIS HAPPEN?

- Raimondo election
- April 13, 2011 Retirement Board vote
- Truth in Numbers Report
 - \$300 million contribution hike
 - 48% funded ratio
 - Central Falls bankruptcy
- Trust in Chafee



Original Plan

After a series of pension improvements, by the end of the 1980s the teachers and state workers had a benefit package that consisted of the following benefits. The cost for these benefits is an employee contribution of 9.5% of salary for teachers and 8.75% for state workers.

<u>Benefit Formula</u>	<u>Maximum Benefit</u>	<u>Final Average Salary</u>	<u>Eligibility</u>	<u>Cola</u>
1-10 yr = 1.7 11-20 yr = 1.9% 21-34 yr = 3.0% 35th yr = 2.0%	80%	3 highest consecutive years	*28 years of service at any age or *Age 60 with 10 years contributing service	*3% compounded annually *3 rd January after date of retirement



2005 - Creation of Schedule B

Impact: The General Assembly created a second tier of pension benefits for teachers and state workers who were not vested (ten years of contributing service) as of July 1, 2005.

The original tier was labeled Schedule A and the second tier was labeled Schedule B. The benefits Schedule B were as follows:

<u>Benefit Formula</u>	<u>Maximum Benefit</u>	<u>Final Average Salary</u>	<u>Eligibility</u>	<u>Cola</u>
1-10 yr = 1.6%	75%	3 highest consecutive years	*Age 59 with 29 years of service or *Age 65 with 10 years contributing service	*Lesser of 3% or CPI-U compounded annually *Month after 3 rd anniversary date of retirement
11-20 yr = 1.8%				
21-25 yr = 2.0%				
26-30 yr = 2.25%				
31-37 yr = 2.5%				
38th yr = 2.25%				



2009 – Reduction of Benefits of Vested State Workers

The General Assembly reduced the benefits of all Schedule A and Schedule B members who were not eligible to retire on September 30, 2009. In addition to the following changes, the Assembly eliminated the ability of teachers and state workers to make certain purchases of prior service such as substitute teaching time at a reduced rate. All future service purchases would be at full actuarial value.

Impact – Schedule A members:

- **Benefit Formula** - Benefits earned under the Schedule A formula were frozen and all additional service was credited using the Schedule B formula.
- **Final Average Salary** – The pension calculation was changed to the 5 highest consecutive years of service instead of the 3 highest consecutive years of service
- **Eligibility** - The ability to retire after 28 years of service at any age was eliminated. The new age of retirement of age 62 was phased in proportional to how close the employee was to retire.
- **COLA** – The cost of living adjustment was changed to the Schedule B COLA, capped at 3% or CPI-U, whichever is lower on the third anniversary of retirement instead of the 3rd January after retirement.



2009 – Reduction of Benefits of Vested State Workers

Impact – Schedule B members:

- **Final Average Salary** – The pension calculation was changed to the 5 highest consecutive years of service instead of the 3 highest consecutive years of service
- **Eligibility** - After 29 years of service, the ability to retire at age 59 was increased to age 62, phased in proportional to how close the employee was to retire.



2010 – COLA Cap

The General Assembly capped the COLA for all Schedule A and Schedule B members not eligible to retire as of June 12, 2010.

Impact: The COLA is only applied to the first \$35,000 of pension benefits. The \$35,000 cap increases by the CPI-U or 3%, whichever is lower. The COLA is not paid until the retiree turns age 65, or on the third anniversary of the date of retirement, whichever is later.



2011 Changes - WHAT DO YOU KEEP?

- Any service credit earned as of June 30, 2012 based on Schedule A formula or Schedule B formula is preserved.
- Vesting is changed from 10 years to 5 years of service
- Purchases must be made within three years of hire or three years from leave



WHEN CAN YOU FINISH?

- The new age of retirement for those not eligible to retire prior to July 1, 2012 is age 67 (the current Social Security normal retirement age).
- **Exception #1 – New Proportionality Chart**
 - A member with five (5) or more years of contributory service as of June 30, 2012 with an age 67 retirement age will have service reduced based on how close the member is to their retirement age
 - Minimum retirement age is age 59
 - Calculator can be obtained at www.pensionreformri.com



WHEN CAN YOU FINISH?

- **Exception #2 – Actuarial Reduction**

- If member has 20 or more years of service and is within 5 years of retirement, member can retire with an actuarial reduction
- This reduction is significant

- **Exception #3 – Current Status**

- If member has 10 or more years of service as of June 30, 2012, member can retire with their current retirement date as of June 30, 2012
- No additional service credit (1% per year of service or Final Average Salary recalculation) will be awarded



HOW MUCH DO YOU EARN?

- Future service will be earned as one percent (1%) of Final Average Salary for each year of service worked after July 1, 2012
- Final Average Salary based on highest five consecutive years
- Final Average Salary not changed for those eligible to retire as of September 30, 2009



WHAT DO YOU CREATE?

- In addition to the amended defined benefit plan, members will participate in a defined contribution plan after July 1, 2012
- Each member will have her/his own account managed by third party vendors yet to be determined



HOW MUCH DO YOU PAY?

- You will contribute 5% of pay into the private account after July 1 2012 if your district participates in Social Security
- You will contribute 7% of pay into the private account after July 1, 2012 if you work in a non-Social Security district
- You will manage your private account investment options



HOW MUCH DOES YOUR EMPLOYER PAY?

- Your employer will pay 1% if in a Social Security district
- Your employer will pay 3% of pay if in a non-Social Security district into your private account
- Your employer will still also continue to fund the defined benefit plan through significant employer contributions



WHY PAY EXTRA?

- You can volunteer to pay more into your private account than the required 5% or 7% contribution
- This provision must be approved by the State Investment Commission
- Employee contributions are done on a pre-tax basis



HOW MUCH WILL IT INCREASE?

- COLA Provision for all state workers (including Judges), teachers, and MERS members is based on stock market performance
- The COLA (or Dividend) is based on 5 year average investment return minus 5.5%.
- The COLA can range from 0% to 4%
- The COLA only is applied to the first \$25,000 (indexed) of pension benefit

WHEN DOES IT INCREASE?

- The COLA is suspended while the aggregate state funding ratio is below 80%
- All state plans, including teachers, state workers, state police and judges are included in determining when the COLA returns
- COLA may be awarded every five years while suspension is in effect



MERS

- Final Average salary based on highest 5 consecutive years
- All purchases at full actuarial value
- Eliminate all elected officials as of June 30, 2012
- Maintain retirement eligibility 58 with 10 years of service or 30 years of service at any age if eligible to retire prior to July 1, 2012



MERS continued

- Effective July 1, 2012 – Retirement age with 5 years of contributing service is Social Security age with same exceptions as state workers and teachers
- 5 year vesting effective July 1, 2012
- Purchases must be made within three years of hire or three years from leave
- Benefit earned after July 1, 2012 shall be 1% of salary



MERS - continued

- Limit Social Security option to those with more than 10 years of contributing service as of June 30, 2012
- Hybrid plan participation for all participants after July 1, 2012
- COLA based on 5-year investment return average minus 5.5%, provided it is between 0% to 4% capped at first \$25,000, the cap to be indexed for inflation



MERS - continued

- COLA effective 3rd year from retirement or SS age, whichever is later, except police and fire which utilize age 55
- COLA suspended until each plan's GASB funded ratio is 80%
- Possible COLA every five (5) years during suspension
- COLA changes effective July 1, 2012



Non-MERS

- Privately-run MERS plans not significantly changed – yet
- A Study commission created to review 36 privately-run plans
- Each plan required to submit an actuarial study by April 1, 2012
- Each municipality with a plan in critical status (under 60% funded) must develop a funding plan within 180 days of certifying its underfunded status

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