EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND

WINTER 2012

Compass

Special Rhode Island Retirement Security Act (RIRSA) Edition

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WINTER 2012 Dear Fellow ERSRI Members:

Gina Raimondo

As we work to continue to implement the recently passed Rhode Island Retirement Security Act (RIRSA), our priority is to keep you informed and to help every ERSRI member understand how this new law affects them. You'll find detailed information in these pages and at www.ersri.org, where you can read the newly created *Employee's Guide to Understanding the Rhode Island Retirement Security Act.*

RIRSA, which grew out of months of study, actuarial analyses and input from people throughout Rhode Island, was crafted with two objectives in mind — to provide you with retirement security and to fix our ailing pension system, once and for all.

The decisions behind the changes in this legislation were not easy to make. But these choices will ultimately make the system stronger and ensure that the pension benefits you've worked so hard for will, in fact, be there for you when you retire.

Overall, the new system is designed to provide you with a similar level of post-retirement income as the existing system, but as a defined benefit combined with a defined contribution retirement account.

As you may know, RIRSA includes a new retirement age, which is based on the Social Security normal retirement age, but will never exceed age 67. Those with the longest service will face the least change because all accrued benefits are preserved, and your new retirement age will be based on a formula that lowers your new retirement age in proportion to the number of years you have worked.

See Treasurer's Message, page 2

Eligible to retire in 2012?

It's your choice: Leave as planned or stay through your new RIRSA date

Under RIRSA, if you were eligible to retire in 2012, you can still retire on the day you are eligible and take with you all of the benefits you have accrued through June 30, 2012. **When it comes to your benefits, if you've accrued it — you don't lose it.**

Or, you can continue to work and accrue benefits in your defined benefit plan — and accumulate contributions in your defined contribution plan — until your RIRSA retirement eligibility date (which will be lower than age 67).

If your eligibility date is after July 1, 2012, you may still retire on your original eligibility date, but you won't continue to accrue benefits after June 30, 2012 (though you must still make contributions). You will receive any amounts accumulated in your defined contribution plan.

Myths and facts

You might be hearing some information about RIRSA that just isn't true. In these pages, we'll dispel some common myths about RIRSA and share the facts.

It's a myth: Everyone now has to work until age 67

It's a fact: There are several rules, based on your Social Security normal retirement age, that help ease those with the longest service toward a new retirement age. **Using this formula, the new retirement age for all but the newest employees will be lower than 67.** New and non-vested employees may retire at their Social Security normal retirement age. To find your Social Security normal retirement age, visit http://www.ssa.gov/retire2/retirechart.htm

Building a secure retirement for all employees

The Rhode Island Retirement Security Act of 2011 (RIRSA) created a number of changes to the pension system that impact members in important ways:

Accrued it, keep it: The benefits you've accrued as of June 30, 2012 are yours to keep. And if you decide to work until your new RIRSA retirement age, you will continue to accrue additional benefits.

Similar benefit level: RIRSA creates a system designed to provide a similar retirement income level as ERSRI members have always received, but through a new structure that combines a defined benefit pension with a defined contribution plan.

Longest serving, least impacted. By protecting benefits you've accrued as of June 30, 2012 and providing options to ease into a new retirement age, RIRSA ensures that those with the most time in the system face the least amount of change.

Vesting: As of July 1, 2012, five years of contributing service are needed to become vested in the defined benefit plan, including service prior to July 1, 2012. Under the old system, the requirement was 10 years. This change provides employees with more flexibility and provides a pension benefit for people with shorter lengths of service.

Control: As of July 1, 2012, most members will make contributions to both the defined benefit and the defined contribution plans. A defined contribution plan allows you to invest your contribution and take it with you when you leave. Today, if you left employment before having served 10 years, you would get no retirement benefit and no interest on your contributions. You will always be 100 percent vested in your contributions to the defined contribution plan and any investment earnings on your contributions. Additionally, your employer will make a contribution to your defined contribution plan. You will be vested in your employer's contributions once you have completed three years of contributing service — including service prior to July 1, 2012.

It's a myth: There is a 40% cap on the defined benefit amount, which means I'll lose my accrued benefits, regardless of my contributing service years.

It's a fact: There is no 40% cap on benefits. The benefits you've accrued as of June 30, 2012 won't decrease. Under RIRSA, they're protected.

Treasurer's Message

Continued from page 1

Under RIRSA, there is **no incentive to leave earlier than you planned to,** and RIRSA allows you to choose when it is best for you to retire. It is important to note that everything you have earned as of June 30, 2012 is preserved, and if you decide to continue working until your new RIRSA retirement age, you will continue to accrue benefits. There are examples on the following pages to illustrate how these choices work.

Here are a few additional points about RIRSA and how it affects you:

- RIRSA reduces vesting requirements from 10 years of contributing service to five years
- RIRSA helps teachers and MERS general employees who do not pay into Social Security by ensuring that the contributions to their defined contribution plan are 10 percent of salary
- RIRSA's defined contribution program lets members contribute directly to their own retirement account — which they can take with them when they leave employment.

It's true, change can be difficult. But we are in this together. Over the coming months, please be on the lookout for online tutorials, a pension calculator to calculate your new retirement age and extended hours for counselors. Information may be found on www.ersri.org and www.treasury.ri.gov or by calling (401) 462-7600.

I thank you for your support and your feedback.

Sincerely,

Gina Raimondo

Gina Raimondo
General Treasurer

So…when can I retire?

A number of factors affect your retirement eligibility, but for state employees and teachers, the most important one to know is what's commonly referred to as your "Article 7 date."

In 2009, legislation increased the retirement age to 62 for most teachers and state employees, but Article 7 gave "credit" for any contributing service a member had as of September 30, 2009. RIRSA extended retirement eligibility to Social Security normal retirement age, but for members with at least five years of contributing service as of June 30, 2012, RIRSA takes the Article 7 date and plugs it into a math calculation that creates a new retirement eligibility date (a "proportional downward adjustment") that is lower than Social Security normal retirement age. For those members, RIRSA calculates a new retirement eligibility date, based on the service credits they've already earned.

You can find your Article 7 date by logging into ERSRI's online system with your username and password, and clicking on the "My Account" tab. There, you'll find your estimated personal information and your schedule (the category into which you fall based on your service credit as of September 30, 2009), as well as a link to a Microsoft Excel spreadsheet that will estimate your Article 7 date for you.

What are 'transition rules?'

If you are a member with five years of contributing service as of June 30, 2012, RIRSA gives you "credit" for those years (also known as a "proportional downward adjustment"). For those closest to retirement under the current law, RIRSA has created "transition rules" to help state employees, teachers and MERS general employees choose how they would like to retire.

Rule 1: If you have 10 or more years of service as of June 30, 2012, you may retire at your current eligibility age and receive your accrued benefit as of June 30, 2012. In that case, you won't receive any defined benefit accruals after June 30, 2012 (though you must continue to contribute), but your defined benefit pension won't be actuarially reduced (You will also receive any defined contribution amounts you accumulate after June 30, 2012).

Rule 2: When you are within five years of reaching your RIRSA retirement eligibility age and have 20 or more years of contributing service, you may retire at any time. But, your pension benefit will be actuarially reduced.

As a third option, you may also choose to work until your new RIRSA retirement age, continue to accrue benefits and receive your full pension benefit without an actuarial reduction. If transition rules apply to you, you may choose to retire under whichever rule is most advantageous to you. ERSRI staff will give you the information you need to make the appropriate choice for you.

What is my 'Article 7' date and why does it matter?

Your "Article 7" date is the date at which you were eligible to retire as of September 30, 2009. It matters because RIRSA will give you "credit" (in technical terms, a "proportional downward adjustment") toward a new retirement date, based on your Article 7 eligibility date. Article 7 does not apply to MERS employees.

Note: It's called Article 7 because the changes were enacted under H 5983Aaa, Article 7, Substitute A as amended in the 2009 legislative session.

We know what you're thinking: What?

The formula used to calculate your "credit" — or, "proportional downward adjustment" — is the same formula used when the General Assembly passed pension reform legislation in 2009.

Basically, this formula lowers your new RIRSA retirement age, based on your prior length of service.

It's a myth: I should retire now so I won't lose my benefits when the new law takes effect.

It's a fact: If you're eligible to retire, there is no reduction in your benefit if you decide to continue working beyond June 30, 2012. If you continue to work until your new RIRSA retirement age, you will continue to accrue benefits.

RIRSA provides no incentive to retire right away. You do not lose any benefits if you continue to work until your RIRSA retirement age.

How do 'transition rules' work?

The following example shows how RIRSA applies "credit" (a "proportional downward adjustment") toward a new retirement age:

I am a teacher and as of June 30, 2012, I will be age 56, with 26 years of service and will have an accrued retirement allowance of 51.25 percent of my average salary. As of June 30, 2012, my current salary is $75,000 and my average salary between June 30, 2007 and June 30, 2012 is $72,115.93. My average salary between June 30, 2012 and June 30, 2017 is anticipated to be $78,060.60 (this reflects an annual two percent salary increase). My average salary between June 30, 2013 and June 1, 2018 will be $79,621.81 (reflects an annual increase in salary of two percent). Under the previous laws, my retirement date was approximately age 60, and under the proportionality rule of RIRSA, I could retire at approximately age 61. However, I would still like to retire at age 60. What are my options under RIRSA?

Under RIRSA, this member has three choices:

Retirement Choice One

Because this teacher has at least 10 years of service as of June 30, 2012, he may retire at his previous retirement age of 60. He will receive the defined benefit amount he has accrued as of June 30, 2012. In his case, that will be an annual benefit of 51.25 percent of $72,115.93, which is $36,959.42. He will also receive any amounts accumulated in his defined contribution account.

By taking this option, he will not receive any additional accruals after July 1, 2012 (though he will still be required to make contributions). In addition, any increase in salary after July 1, 2012 will not be factored into calculating his final average salary.

Retirement Choice Two

Because this teacher is within five years of his retirement date as adjusted downward under RIRSA — and he has at least 20 years of service — he may retire at age 60 with an actuarially reduced retirement benefit.

If he chooses this option, his retirement benefit will be calculated including accruals after July 1, 2012, and any salary increases after that will be included in his final average salary. In this case, his final average compensation, assuming a two percent annual increase in salary, will be approximately $78,060.60 and his accrued benefit will be 55.25 percent, resulting in an annual defined benefit of 55.25 percent of $78,060.60, which is $43,128.48.

But since he will receive his benefit one year earlier than his new retirement age, his benefit amount will be actuarially reduced by approximately nine percent, meaning he will receive a benefit of approximately $39,246.92. He will also receive any amounts accumulated in his defined contribution account.

Retirement Choice Three

This teacher also has a third retirement choice. He may choose to work until his new retirement age under RIRSA (61). In this case, his final average compensation, assuming a two percent annual increase in salary, will be approximately $79,621.81 and his accrued benefit will be 56.25 percent. He will receive his full annual defined benefit of approximately $44,787.27. He will also receive any amounts accumulated in his defined contribution account.

Under RIRSA, you have choices. If transition rules apply to you, you may choose what suits you best.

Retirement eligibility for other employees

BHDDH registered nurses: Age 55 AND a minimum of 25 years of contributing service. If your Article 7 retirement eligibility date was prior to June 30, 2012, you may keep that eligibility date.

MERS police and fire: Age 55 AND a minimum of 25 years of contributing service; may be eligible to retire earlier, depending on age and service credits under the law in effect on June 30, 2012 *(There are also new retirement age transition rules to ease public safety employees with longer service to the new retirement age of 55).*

Correctional officers: Age 55 years old AND a minimum of 25 years of contributing service. If your Article 7 retirement eligibility date was prior to June 30, 2012, you may keep that eligibility date. Correctional officers who do not work for 25 years will not receive their pension benefit until they reach their Social Security normal retirement age.

State police: Accrual of a retirement benefit equal to 50 percent of average compensation. Under RIRSA, state police earn a two percent accrual rate per year of contributing service (at two percent per year, state police officers have accrued 50 percent of average compensation at 25 years).

Judges: Age 65 with 20 years of contributing service OR age 70 with 15 years of contributing service.

Cost-of-Living Adjustments (COLA)

COLA payments for most retirees are scheduled to begin the month after the third anniversary of your date of retirement or when you reach your Social Security normal retirement age, whichever is later.

RIRSA suspends the COLA for all state employees, teachers, BHDDH nurses, correctional officers, judges and state police until the plans' funding level for all groups, calculated in the aggregate, exceeds 80 percent. For MERS, COLAs for eligible employees are suspended until the funding level of the individual plan exceeds 80 percent — MERS plans are not aggregated.

For members with a suspended COLA, an interim COLA will be calculated and awarded using the following formula at five-year intervals.

All COLAs will be calculated and awarded based on the system's investment returns. A COLA is determined based on the plan's five-year average investment rate of return minus 5.5% and will range from zero to four percent. COLAs will be awarded only on the first $25,000 (indexed) of a member's pension benefit. COLAs scheduled to be paid prior to July 1, 2012 will be paid.

Service Purchases Under RIRSA

Under RIRSA, service purchases made on or after July 1, 2012 — except military purchases and refunds — will be calculated at full actuarial cost based on the plan's assumed rate of investment return minus one percent. Therefore, purchases made prior to July 1, 2012 may be more financially advantageous to you than those made on or after July 1, 2012. Any requests to purchase time made prior to July 1, 2012 must include valid paperwork from your employer.

If you apply for a purchase prior to July 1, 2012, you will be purchasing benefits at the higher accrual rates in effect prior to July 1, 2012. Purchases made on or after July 1, 2012 will be at the one percent accrual rates in effect under RIRSA.

Service credit purchases are *not* considered contributing service for meeting vesting requirements. It is important to note that your Article 7 retirement eligibility date can't be changed by a purchase. However, purchases made prior to June 30, 2012 *may* change your retirement eligibility date under RIRSA.

Need more information about your retirement eligibility and benefits under RIRSA?

If you'd like to learn more about the Rhode Island Retirement Security Act of 2011 (RIRSA) and how it will affect you, visit www.ersri.org or www.treasury.ri.gov, where you can read the newly created *An Employee's Guide to Understanding the Rhode Island Retirement Security Act.*

Note: *The information included in this newsletter does not supersede Rhode Island General Law, Titles 16, 28, 36, 42 and 45. In the event of any inconsistencies between the information in this newsletter and Rhode Island law, Rhode Island law shall govern. Rules governing retirement are subject to change, either by statute or regulation of ERSRI.*