Employees' Retirement System of Rhode Island

eCompass

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New Budget Includes Pension Changes

In June, at the close of the 2010 legislative session, the General Assembly enacted Article 16 Substitute A in the FY 2010 Budget which makes changes to the pension system. The new law modifies cost of living adjustments (COLA) for State Employees', Teachers and Judges' pensions. If you are currently receiving a monthly pension check, or are currently participating in either the Municipal Employees' Retirement System or the State Police Retirement Benefits Trust, the **change does not apply to you or affect your current pension benefit**. Another important point of the new law is that if you are eligible to retire on or before the passage of the article, i.e. June 12, 2010, **the change does not apply to you, even if you remain in active service beyond June 12, 2010.** If you were subject to the pension reform changes enacted under Article 7 in the 2009 session, i.e. you were not eligible to retire as of September 30, 2009, but become eligible prior to June 12, 2010, the **new law will not apply to you.**

Under Article 16 Substitute A, a retiree's COLA will now only apply to the first thirty-five thousand dollars ($35,000) of retirement allowance, indexed annually, and shall commence upon the retiree's third (3rd) anniversary of the date of retirement or when they reach age sixty-five (65), whichever is later. The thirty-five thousand dollar ($35,000) limit will increase annually by the percentage increase in the Consumer Price Index for all Urban Consumers (CPI-U) as published by the United States Department of Labor Statistics, determined as of September 30 of the prior calendar year or three percent (3%), **whichever is less**. To help you understand the "mechanics" of the new law, we've provided a few examples to see how the changes actually work. We've used a hypothetical pension benefit of $50,000, assumed December 31 dates of retirement and used varying ages at retirement. As a result of the enactment of Article 7 last year, anyone who was not eligible to retire as of September 30, 2009 is now subject to the provisions of Schedule B COLA, which is the lower of either the Consumer Price Index (CPI) or 3%.

First, we'll explain how the indexing of the $35,000 limit works. The table below is an example of how the index base would be computed. We'll use these **hypothetical** CPI index values in our examples on page 2 so you can see how the change will affect a benefit over time.

CPI Index Year	Hypothetical CPI Index Amount ***(example only)***	Indexed COLA Base
Enactment		
9/30/2010	2.5%	$ 35,000
9/30/2011	0.0%	$ 35,875
9/30/2012	1.0%	$ 35,875
9/30/2013	2.0%	$ 36,234
9/30/2014	1.5%	$ 36,958
9/30/2015	3.0%	$ 37,513
9/30/2016	0.0%	$ 38,638
9/30/2017	2.5%	$ 38,638
9/30/2018	2.0%	$ 39,604

The math behind the annual index of the CPI, for purposes of the new law, would simply work like this; the $35,000 cap for 2011 would be multiplied by the percentage increase in the Consumer Price Index for all Urban Consumers (CPI-U) as of September 30 of the prior calendar year or three percent (3%), whichever is less. In our example, the COLA base for calendar year 2011 would be $35,000 X 2.5% (the CPI % change as of 9/30/2010) = $35,875. For calendar year 2012 it would be $35,875 X 0% (the CPI % change as of 9/30/2011) = $35,875. For calendar year 2013 it would be $35,875 X 1% (the CPI % change as of 9/30/2012) = $36,234 and so on. There are a few things you should know. First, using the CPI means it is possible that there **may not** be an increase in any given year and thus you won't get an increase in your benefit that year. Second, if the CPI is greater than 3%, consistent with the new law, you'll be limited to a 3% increase for that year. Lastly, if the CPI is negative for any given year, your benefit **will not be reduced**, you simply won't get an adjustment that year.

NEW BUDGET INCLUDES PENSION CHANGES (CONTINUED)

Now that we've talked about how the $35,000 cap works, let's review a few examples of how the cap is applied to a benefit. What is new under Article 16 is that the COLA commences upon the retiree's third (3rd) anniversary of the date of retirement or when they reach age sixty-five (65), **whichever is later**. You'll see in example number 1 that the retiree must wait until he or she is 68 to begin receiving a COLA. The member retired on 12/31/2011 and had to wait 3 **full** years to be eligible since he or she was already 65 at the date of retirement. The COLA is then received on the month following their 3rd anniversary which is the benefit payment for January 2015.

Example Retirement	DOR	Age at Retirement	Pension Benefit	Retiree COLA Start Date	Retiree Age at 1st COLA		Benefit Payments for Year: 2010	2011	2012	2013	2014	2015	2016	2017	2018
						Indexed COLA Base	$ 35,000	$ 35,875	$ 35,875	$ 36,234	$ 36,958	$ 37,513	$ 38,638	$ 38,638	$ 39,604
						Calculated COLA						**$ 563**	**$ 1,159**	**$ -**	**$ 990**
#1	12/31/2011	65	$ 50,000	1/1/2015	68	**Gross benefit after COLA adjustment**			**$ 50,000**	**$ 50,000**	**$ 50,000**	**$ 50,563**	**$ 51,722**	**$ 51,722**	**$ 52,712**
						Calculated COLA								**$ -**	**$ 990**
#2	12/31/2010	59	$ 50,000	1/1/2017	65	**Gross benefit after COLA adjustment**	**$ 50,000**	**$ 50,000**	**$ 50,000**	**$ 50,000**	**$ 50,000**	**$ 50,000**	**$ 50,000**	**$ 50,000**	**$ 50,990**

Continuing on example 1, since the retiree became eligible to receive their first COLA on January 1, 2015, the COLA would be computed like this:

a) Starting in their 1/31/2015 check, we would take the indexed limit for calendar year 2015 of $37, 513 and multiply it by 1.5%, which is the hypothetical percentage increase in the CPI-U determined as of September 30, 2014 (*from the table on the first page*), to get a COLA of $563 (for our examples, we've rounded our math for simplicity).

b) The next COLA would be in January 2016 which would be the indexed limit for calendar year 2016 of $38,638 multiplied by 3%, the percentage increase in the CPI-U determined as of September 30, 2015, to get the COLA of $1,159 and so on.

Let's take a look at example 2. As noted earlier, it is possible that there **may not** be an increase in any given year and thus you won't get an increase in your benefit that year. Although the member was eligible for a COLA in 2017 on an indexed limit of $38,638, the CPI percentage increase as of September 30, 2016 was 0% and therefore no adjustment was applied to the retiree benefit for 2017.

Here are some key points of the new law to remember:

- COLA commences upon the retiree's third (3rd) anniversary of the date of retirement or when they reach age sixty-five (65), **whichever is later.**
- It is possible that there **may not** be an increase in any given year and thus you won't receive an increase in your benefit that year.
- The thirty-five thousand dollar ($35,000) limit will increase annually by the percentage increase in the Consumer Price Index for all Urban Consumers (CPI-U) as published by the United States Department of Labor Statistics, determined as of September 30 of the prior calendar year or three percent (3%), **whichever is less**.
- If your pension benefit is under the indexed COLA limit, you will receive a COLA, when increases are applicable, on the entire amount of your benefit.
- If you are eligible to retire as of June 12, 2010, the new law **will not affect you.**
- If you participate in either the Municipal Employees' Retirement System or the State Police Retirement Benefits Trust, the new law **will not affect you**.

As always, if you have any specific questions, please contact an ERSRI customer service representative via email by clicking on the 'Contact Us' link on our web site, www.ersri.org, or by phone: 401.457.3900