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NEWSLETTER OF THE EMPLOYEES RETIREMENT SYSTEM OF RHODE ISLAND

New General Treasurer
## PAUL J. TAVARES
ERSRI Board Chairman

Elected in November of 1998, Paul J. Tavares is the new General Treasurer of the State of Rhode Island.

As General Treasurer, Tavares plays a significant role in the activities of the Employees Retirement System of Rhode Island and its sister system, the Municipal Employees Retirement System. By statute, the General Treasurer is the chairman of both the Employees Retirement Board that directs the administration of the retirement system and the State Investment Commission which directs the investment of the system's assets. The combined systems have over 32,000 active members, more than 19,000 retirees, and over $6 billion in pension assets.

"I am honored to play such an important role in the financial future of so many Rhode Islanders and look forward to a successful tenure as chairman of the Retirement Board and the State Investment Commission," said Tavares.

Treasurer Tavares brings a wealth of experience to his new role as General Treasurer. Prior to his election, former Senator Tavares served as Senate designee to the State Investment Commission.

"I was fortunate to serve as the Senate member of the SIC prior to my election in November. As a result, I was able to move forward with a solid knowledge of the SIC's investment practices and policies upon assuming office in January," notes Tavares.
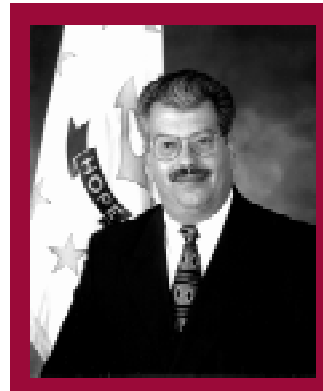
Before assuming his full-time job as General Treasurer, Tavares was employed for 27 years in the banking industry, most recently as vice-president of Bank Rhode Island.

Treasurer Tavares was first elected to the General Assembly in 1992 as state senator from East Providence. While senator, he served as vice-chairman of the Committee on Corporations and as the first deputy majority leader of the Senate. Treasurer Tavares also served on the East Providence City Council from 1986-1992 and was a member of the East Providence School Committee in 1979.

As General Treasurer, Tavares has taken aggressive steps to protect the pension fund by forming a Treasury Y2K Commission to oversee the system's external and internal response to the Y2K issue.

Like other pension plans, the ERSRI fund is fueled with income from three major sources: your contributions each year, your employer's contributions each year, and the investment income that is generated through a variety of investments. The most important source of pension fund income is, of course, yearly investment income. Thus, it is my job as State Treasurer to ensure our ability to generate consistent returns by directing the investment management of the pension fund.

On March 29th of this year, the stock market reached a historic high as the Dow Jones Industrial Average, an indicator used to measure changes in stock prices, closed in excess of 10,000. In fact, since July of 1996, the Dow Jones average has risen 87 % due to robust economic growth in the U.S. economy.

The only sure thing about the stock market, however, is its unpredictability. Nobody, not even the most sophisticated of economists, can truly predict what will happen on Wall Street and in other economic centers around the world. Thus, it is vitally important that we have your pension fund monies invested in assets that are diversified. The pension fund must continue to grow regardless of economic conditions. Proper asset allocation is the method by which a pension fund ensures consistent performance regardless of the strength of the stock or bond market.

Presently, our 6 billion dollar pension fund has a target allocation of 45% in domestic equities, 15% in international equities, 32.5% in bonds with the remainder in alternative investments such as real estate and private placements.
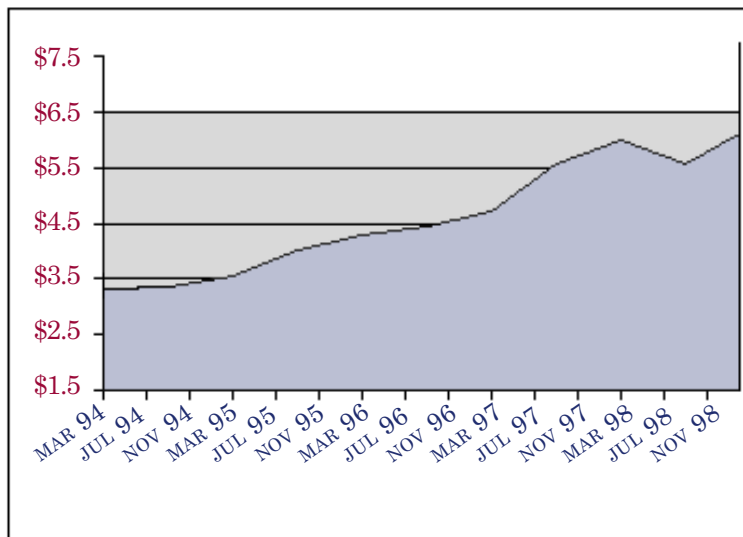
The chart below is a monitor of our recent progress.

Tavares Continued from page 1

The Treasurer's other priorities include establishing tax-free accounts for Rhode Island families who save for their child's college education by utilizing the Rhode Island Higher Education Saving Trust, and ensuring the overall operating efficiency of the Treasury office.

In addition to his service to the retirement system, Treasurer Tavares will serve on the Rhode Island Refunding Bond Authority, the Rhode Island Public Finance Management Board and as a commissioner of the Rhode Island Housing and Mortgage Finance Corporation.

Treasurer Tavares lives with his wife, Lee, and their five children in East Providence.

Calling All Members
Calling ERSRI

Please don't hang up!

If you haven't already, sometime in the future you'll need to call the ERSRI office. Because we receive hundreds of calls a day, ERSRI has an automated phone system. If you know with whom you wish to speak, it's a simple matter of entering the person's 3-digit extension. Or, you can wait for our operator to direct your call. Either way, you may end up hearing the voice mail recording of the person you need to speak with, but please don't hang up! ERSRI's voice mail system will record your message when the person you need is on the phone with another member, or briefly away from their desk. We will return your call, but if you hang up before leaving a message, we can't possibly help you.

Although many people find voice mail irritating, it is an efficient way of handling calls. Instead of hearing a busy signal when the person you're trying to reach is on the phone, voice mail allows you to leave a message. If you don't leave a message, you may end up calling back over and over! ERSRI has a staff of just 24 people to handle requests from over 50,000 members, so we spend much of our time on the phone!

To help you connect to the proper person, listed below is a directory of topics you might call on, and the person best able to handle your request.

Appointment scheduling and pre-retirement information.....x 206 Gloria Bernstein

Retirement Counselors ....x 203 Paula Azulay

.... x 221 Cheryl Melise

.... x 204 Lisa Tirocchi

Death Benefits & Member Refunds ... x 239 Jackie Coia

Forms Requests / General Info ..... x 237 Lisa Trahan

Health Insurance & Benefits ... x 222 Elaine Drapeau

Retiree Questions .... x 227 Robyn Patton

Administration .... x 205 Virginia Pickering

Go Figure
Your Retirement *$$$* Options

So you're getting ready to retire...cash in on all that pension money you've got coming to you. But do you know how your retirement benefit is figured? And that there are several ways you can take your pension? In most instances, Rhode Island General Law allows you to choose from several different pension payment options when you retire. In this article, we will first explain how your retirement benefit is calculated, then explore the payment options available.

Determining your retirement allowance

The amount of your retirement allowance will be determined by two factors: your years of creditable service and your average salary for your three highest consecutive years. The factors used to determine your allowance vary according to your plan membership. See the chart below.

State Employees & Teachers	Municipal Employees
Years 1-10: 1.7%	All Years: 2%
Years 11-20: 1.9%	
Years 21-34: 3%	
Year 35: 2%	
Max. benefit 80%	Max. Benefit 75%

Here is a sample of a pension benefit calculation, which determines your Service Retirement Allowance (SRA)/Maximum benefit. We'll use Mrs. Ima Teacher, who retired with 28 years of service and an average salary of $41,000.

Her first 10 years x 1.7%	= 17.0%
Next 10 years x 1.9%	= 19.0%
Next 8 years x 3%	= 24.0%
Total percentage	**= 60.0%**

60% x $41,000 = $24,600 yearly for life
(service) x (salary) =   (retirement allowance)

• SRA/Maximum Plan

Under the SRA/Maximum plan, all pension payments will stop upon your death. If you select the SRA/Maximum plan, you cannot change your retirement option after the date of retirement.

You may also choose to receive your benefit under Option 1, Option 2, or SRA Plus (also known as the Social Security option). All options use the SRA/Maximum as the base allowance figure.

• Option #1/Joint and Survivor Full

Option #1 provides that upon your death, your beneficiary will receive for his/her lifetime the same retirement allowance as you received. In order to finance this benefit, there will be an actuarial reduction in the member's benefit amount, which is determined by the age difference between the member and his/her beneficiary. This means you will receive a lesser amount than under the SRA/Maximum plan.

☛ Note that if you select Option 1, you have the right to change your retirement option, *one time only,* to either Option 2 or the SRA/Maximum plan provided that you and your beneficiary, if married at the time of your retirement, have not divorced.

• Option #2/Joint and Survivor Half

Option #2 provides that upon your death, your beneficiary will receive for his/her lifetime a retirement allowance that is equal to *half* the retirement allowance that you originally received. Again, with this option you will receive a lesser amount than under the SRA/Maximum plan, but more than if you select Option 1.

☛ If you select Option 2, you have the right to change your retirement option, *one time only,* to either Option 1 or the SRA/Maximum plan provided that you and your beneficiary, if married at the time of your retirement, have not divorced.

Figuring Option 1 and Option 2
Actuarial Reductions Based on Age of Beneficiary

When figuring Option 1 or 2, your pension benefit is subject to an actuarial reduction. The reduction percentage is based on the age difference between you and your beneficiary, respective to the option you select.

See the option factor charts on the facing page for percentages ERSRI uses.

...and planning for the future

Option Factor Chart- Younger Beneficiary Beneficiary's Age / Percentage of Benefit Compared to Member's Age / Paid to Member		
	Option 1	Option 2
Same Age	81%	89%
1 year younger	80%	89%
2 years younger	79%	88%
3 years younger	78%	88%
4 years younger	77%	87%
5 years younger	76%	86%
6 years younger	75%	86%
7 years younger	74%	85%
8 years younger	74%	84%
9 years younger	73%	84%
10 years younger	72%	83%
11 years younger	71%	83%
12 years younger	70%	82%
13 years younger	69%	82%
14 years younger	68%	81%
15 years younger	67%	80%
16 years younger	67%	80%
17 years younger	66%	79%
18 years younger	65%	79%
19 years younger	64%	78%
20 years younger	64%	78%

Option Factor Chart- Older Beneficiary Beneficiary's Age / Percentage of Benefit Compared to Member's Age / Paid to Member		
	Option 1	Option 2
Same Age	81%	89%
1 year older	82%	90%
2 years older	83%	90%
3 years older	84%	91%
4 years older	85%	92%
5 years older	86%	92%
6 years older	86%	93%
7 years older	87%	93%
8 years older	88%	94%
9 years older	89%	94%
10 years older	90%	95%
11 years older	91%	95%
12 years older	91%	95%
13 years older	92%	96%
14 years older	93$	96%
15 years older	93%	96%

To show how these factors work, let's look back on Mrs. Ima Teacher again. Mrs. Teacher's husband is five years older than she, and Mrs. Teacher is considering Option 1, whereby Mr. Teacher will receive a benefit equal to hers after she dies.

Mrs. Teacher's SRA, as determined in the first example, was $24,600. Multiply $24,600 by 86% to find the benefit Mrs. Teacher will recieve - $21,156 yearly. Under Option 1, the same amount will be paid to Mr. Teacher after she dies.

For Option 2, Mrs. Teachers's $24,600 would be multiplied by 92%, resulting in a yearly benefit of $22,632 for Mrs. Teacher, with half of that amount ($11,316) paid to Mr. Teacher after she dies.

• SRA Plus/Social Security Option

SRA Plus uses an *estimate* of the amount of Social Security you could receive at age 62, to calculate an increased amount of retirement benefit you will receive from ERSRI prior to attaining age 62. When you reach age 62, your retirement allowance reverts to the SRA allowance minus an actuarial adjustment based on your previous increase. By increasing your ERSRI benefit during the years you're not yet eligible for Social Security, and decreasing the ERSRI benefit when you turn 62 and are eligible for Social Security, this option provides you with a more even level of income during early retirement years.

☛ Please note that this option is not related to your participation in Social Security or any programs of the Social Security Administration.

☛ Estimates of Social Security benefits used by ERSRI to calculate adjustment of ERSRI pension benefits are general estimates and are not guaranteed by ERSRI nor the SSA.

☛ If you choose SRA Plus, you are not eligible to change your retirement option.

☛ Municipal fire and police members and disability retiress are not eligible for the SRA Plus option.

Board Adopts New Assumptions, *Sets Rates for FY 2000*

Based upon the results of an experience study, the system's Retirement Board recently adopted new assumptions in the areas of retirement age, investment return, and mortality. These new assumptions are critical to the work of the system's actuary, who utilizes the various assumptions to value the assets and liabilities of the system. This ultimately determines the financial status of the fund and the yearly employer contributions to be supplied by the State of Rhode Island and Rhode Island municipalities. Employee contribution amounts are determined by state statute.

The most significant new assumptions adopted by the Board include:

Investment Return: Previous valuations had assumed that the system's assets would return, on average, 8%. The Board increased this assumption to 8.25% for the coming year. This assumes a larger asset base and reduces the unfunded liability of the system.

Retirement Age: Earlier valuations assumed that our members were retiring at age 62½ for state employees, age 61 for public school teachers, and age 65 for municipal employees. The experience study determined that all members, particularly teachers, were retiring younger and thus the Board adopted a sliding younger retirement age table. This results in a greater expense to the plan as retirees begin to receive benefits at an earlier age.

Options Continued from page 5

Following is the factor chart used to determine SRA Plus pension benefits.

Chart A		Chart B	
Social Security Option & Percentage Factors		**Est. Social Security Benefit at Age 62**	
Age at Retirement	*Factor*	Reach 62	*Amount*
53	.51	2000	$12,500
54	.55	2001	$13,100
55	.59	2002	$13,600
56	.63	**2003**	**$14,100**
57	.68	2004	$14,700
58	**.73**	2005	$15,300
59	.78	2006	$16,000
60	.85	2007	$16,800
61	.92	2008	$17,700
		2009	$18,600
		2010	$19,500

Let's determine Ms. Teacher's retirement benefit if she selects the SRA Plus option. She is 58 at retirement and will turn 62 in 2003. Her pension benefit figured under the SRA Maximum Plan is $24,600. Her age factor is 73% and average Social Security estimate is $14,100 as listed in the chart above. Here's how the SRA Plus is figured:

73% x $14,100 = $10,293
(% for age 58) x (est. SS amount) = (SRA supplement)
SRA/Maximum allowance = $24,600 (see page 4)
$10,293 + $24,600 = $34,893
SRA Plus Allowance Until Age 62 = $34,893
At age 62, subtract $14,100 (SS amount from chart)
$34,893 - $14,000 = $20,793
SRA Plus Allowance After Age 62 = $20,793

Naming a Beneficiary is Important

Regardless of which benefit option you choose, it is important to have a current beneficiary on file with the Retirement Office. Each member is entitled to a death benefit of $800 per year of service, up to a maximum $16,000. This amount is reduced 25% every year after retirement, but not below the minimum benefit of $4,000.

Cost of Living Adjustment (COLA)

Public school teachers and state employees receive a 3% compounded COLA the third January following retirement. If their municipality has approved such a plan, MERS members may be entitled to a 3% non-compounded COLA each year following retirement.

Retirement Board Election
Set for January 2000

Six members will be elected by the membership to the Employees Retirement Board during the next retirement board election, scheduled for January 2000.

The election will select the following members to the retirement board: two active state employees (or state employee union representatives) elected by the state membership; two active teachers (or teacher union representatives) elected by the teacher membership; and one municipal employee (or municiapl union representative) elected by the municipal membership. A retiree member is elected by the ERSRI retiree membership. All elected members serve four-year terms.

Each ERSRI member will receive a ballot and candidate information sheet by regular mail. The vote will be tallied on behalf of ERSRI by the state Board of Elections.

All active, contributing and retired members as of August 31, 1999 will be eligible to be a candidate for election to the board and to vote for a candidate within their respective membership group.

Members who are interested in being candidates must notify the Employees Retirement System of their intention to run by obtaining nomination papers. Candidates must secure one hundred signatures from their membership group and return the nomination papers to the retirement system by October 29, 1999.

By statute, the Employees Retirement Board is a 15-member board which has responsibility for the general administration of the retirement system. The Board meets once a month, and has subcommittees in the areas of procurement, legislation, disability, and rules and regulations.

Elected and ex-officio members include the General Treasurer; director of administration; the state budget officer; the House Finance Committee fiscal advisor; the Executive Director of the League of Cities and Town; chairpersons of the House and Senate Finance committees; and two public representatives appointed by the Governor. The current ERSRI Board members are listed to the right.

Retirement Board

Paul J. Tavares,
   Chairman, General Treasurer
William B. Finelli,
   Vice-Chairperson, Teacher Representative
Ponzi A. Angelone, *C.L.U., Public Representative*
Daniel L. Beardsley, *R.I. League of Cities and Towns*
Michael R. Boyce, *Retired Member Representative*
Sandra Murphy Crowe, *Dir. of Admin., Designee*
Leslie E. Clark, *Municipal Representative*
John A. Marginson, *Public Representative*
John P. Maguire, *Teacher Representative*
Linda M. Masse, *State Employee Representative*
Stephen P. McAllister, *State Budget Director*
Michael F. O'Keefe, *House Fiscal Advisor*
Rep. Gordon D. Fox, *House Finance Comm., Designee*
Linda C. Riendeau, *State Employee Representative*
Sen. William Enos, *Senate Finance Comm., Designee*

2000 Election Schedule

August 1999	Notice of Election sent to members and retirees
September 3, 1999	Nomination Papers available for all groups at 40 Fountain Street
October 29, 1999	Nomination Papers must be returned to 40 Fountain Street
November 1999	Lottery for Ballot Order at November Retirement Board meeting
December 1999	Ballots sent by Regular Mail
January 2000	Election, and Tabulation by Board of Elections
March 2000	New members sworn in at March meeting

2000 Continued from page 7

Mortality: Past valuations assumed that our retirees were expiring in accordance with an older (1971) Group Annuity Table. Experience showed that our retirees were living longer, and thus the Board adopted a modernized table that expresses longer life expectancy. The shift to this more current table means that pension payments must be made for a longer period of time, thus increasing system liability.

Based on the experience study and assumptions, the Board adopted FY'2000 employer contribution rates of 8.57% for state employees and 14.64% for public school teachers. Many municipal systems are overfunded, thus requiring no employer contribution rate. All rates were determined by utilizing all of our investment gain as of August 30, 1997.

The Board also adopted new salary, disability, termination and inflation assumptions. Watson Wyatt of Dallas, Texas serves as the system actuary.

Ready or Not

ERSRI is pleased to offer free copies of **Ready or Not**, a retirement planning guide. Published by the Manpower Education Institute, this 120-page guide is a compilation of useful information. The practical insights, clear presentations and useful worksheets cover everything from Social Security to legal matters to housing, leisure, family, health insurance and more. **Ready or Not** is easy-to-read and contains useful information for anyone who plans to retire within the next few years, or already is retired. To get your free copy, just call ERSRI's Forms Line at (401) 222-2203 X-237.