

Compass

Newsletter of the Employees Retirement System of Rhode Island

LEGISLATIVE CHANGES Pension Reform Creates New Benefit Structure

Recent legislative changes resulted in a new benefit structure for state and teacher members not vested as of July 1, 2005, and all new state and teacher members.

- *No changes were made to the benefit provisions or COLA for currently retired members.*
- *No changes were made to the retirement eligibility requirements for members who were vested as of July 1, 2005.*
- *State and teacher members not vested as of July 1, 2005, have new benefit eligibility requirements, plan structure and COLA provision.*
- *Members of the municipal plan (MERS) are not effected by these legislative changes.*

To differentiate between the two benefit structures, the plans are known as '**Schedule A**' (plan existing prior to 7/1/05) for those vested on or before 7/1/05, and '**Schedule B**' for those vesting after 7/1/05.

This newsletter will detail the eligibility requirements and benefit structure for Schedule B members.

Vesting Requirements

ERSRI members are "vested" after they attain 10 full years of contributing retirement service credit. Purchased service credit does not count toward vesting; only restoration of withdrawn contributing service is considered contributing service for vesting purposes. Purchasing withdrawn contributing service will effectively restore the service to the year earned. For example, if you purchase a withdrawal of 5 years service from 1985-1990 and you had 5 contributing service years as of 7/1/05, your account would be considered vested as of 7/1/05 with 10 years of contributing service.

Combined Service for Vesting

If you have prior contributing retirement service credit in the Municipal Employees Retirement System (MERS) from previous municipal employment, it will count for vesting with your ERSRI service credit, provided it is not overlapping employment.

Additional Provisions

Along with the new Schedule B provisions detailed in this issue, the 2005 legislative session also introduced a provision that in any year where required employer contributions are lower than the year before, 20% of the rate reduction is to be appropriated to the pension fund. In addition, a Joint Legislative Oversight Commission on employee retirement benefits is established. The purpose of the commission is to study employee retirement benefits.

SCHEDULE B PROVISIONS

For members vesting after July 1, 2005

Retirement Eligibility

Schedule B members may retire at age 65 with a minimum of 10 contributing years of retirement service credit, or at age 59 with 29 years of retirement service credit.

Benefit Formula

Members receive a percent of final average salary for each year of service, as follows:

<u>Service years</u>	<u>% of Salary</u>
1-10	1.6
11-20	1.8
21-25	2.0
26-30	2.25
31-37	2.5
38	2.25 (Max. 75% of salary)

The maximum annual benefit is 75% of final average salary, at 38 years of service credit.

Reduced Benefit Eligibility (*new provision*)

Members may retire at age 55 with 20 years of service credit with a reduction in the benefit amount. The calculated benefit payable at age 65 will be actuarially reduced according to number of months the member is under age 65. See the chart below, and the example provided on page 3.

Actuarial Early Retirement Factors

<u>Age</u>	<u>Age Factor</u>	<u>Age</u>	<u>Age Factor</u>
64	89.3%	59	52.2%
63	79.9%	58	47.1%
62	71.6%	57	42.5%
61	64.3%	56	38.5%
60	57.9%	55	34.9%

Payment Options Upon Retirement

- **SRA Maximum** benefit payment (unchanged)

A straight pension benefit, payable for the retiree's lifetime only. The benefit payment ceases upon the retiree's death.

- **Option 1**, 100% survivor benefit (unchanged)

Under this plan, the SRA Maximum benefit is calculated, then reduced by a percentage corresponding to the difference between the age of the retiree and beneficiary. The retiree

receives the reduced monthly benefit for his/her lifetime, and upon the retiree's death the spouse continues to receive the same benefit amount.

- **Option 2**, 50% survivor benefit (unchanged)

Under this plan, the SRA Maximum benefit is calculated, then reduced by a percentage corresponding to the difference between the age of the retiree and beneficiary. The reduction for Option 2 is slightly less than for Option 1. The retiree receives the reduced monthly benefit for his/her lifetime, and upon the retiree's death the spouse continues to receive 50% - or half - of the benefit amount.

Persons retiring under Schedule B will not be eligible for the SRA Plus payment option (also called the 'Social Security Option') currently available under Schedule A.

COLA

Beginning the month after the 3rd anniversary of the date of your retirement, the lesser of 3% or the CPI-U (Consumer Price Index for all Urban Consumers) as of September 30 of the prior calendar year compounded annually, will be applied to your benefit each year.

Disability Retirees and Their Beneficiaries

Members applying for Ordinary Disability retirement after July 1, 2005, who are not vested as of that date, will receive benefits according to Schedule B.

Cost of Living Adjustment (COLA) for all disability benefits remains unchanged. As in the past, COLA will commence upon the 3rd January after retirement, and will be 3% compounded annually.

Examples for Schedule B Retirement (*see chart on page 4*)

Regular Service Retirement Example

Members may retire and collect their benefit at age 65 with at least 10 years of contributing service, or at age 59 with at least 29 years of service credit.

For example, Jane Lane was hired in July, 1998 by the state, and began contributing to ERSRI. As of July 1, 2005, Jane had 7 years of contributing service. Jane will retire under Schedule B, as she was not vested on 7/1/05. Jane is currently 41, and she plans on working for 29 years, at which time she will be 63. According to the benefit chart on page 4, Jane's annual benefit with 29 years of service credit will be 53% of her final average salary (FAS). If her FAS is \$50,000, her benefit will be calculated: \$50,000 x 53% = \$26,500. Divide the benefit amount by 12, and the result is a monthly benefit of \$2,208.

Jane's retirement at age 63 with 29 years of service credit:

$$\begin{aligned} 29 \text{ years service} &= \text{Schedule B } 53\% \\ \text{FAS} &= \$50,000 \\ &\underline{\quad \quad \quad} \times 53\% \\ &= \$26,500 \text{ Annual benefit for life} \end{aligned}$$

Deferred Retirement Example

Jane Lane may also consider another career in the future. For example, let's say she leaves state service in 14 years, when she reaches age 55. At that time, she will have 21 years of service credit, and her FAS will be \$45,000. She will leave her contributions in the system, and collect her benefit at age 65. Her benefit would be calculated as follows:

$$\begin{aligned} 21 \text{ years service} &= \text{Schedule B } 36\% \\ \text{FAS} &= \$45,000 \\ &\underline{\quad \quad \quad} \times 36\% \\ &= \$16,200 \text{ Annual benefit for life} \end{aligned}$$

At age 65, Jane could begin collecting her deferred retirement, an annual benefit of \$16,200, or \$1,350 per month.

Early Reduced Retirement Examples

For early reduced retirement, a member must have at least 20 years of service credit and be at least age 55. The member's regular benefit is calculated according to his or her years of service and average salary, as shown above. The benefit amount is then multiplied by the corresponding factor in the 'Actuarial Early Retirement Factors' chart on page 2, according to the member's age. The younger the member, the greater the reduction of the benefit.

If Jane leaves state service at age 55 with 21 years of service credit, she doesn't have to wait until age 65 to collect her benefit. She has the option of taking an early reduced retirement beginning at age 55.

For example, Jane considers taking a reduced benefit at age 55. Her benefit under Schedule B with 21 years, as calculated in the example above, is \$16,200 annually if she waits until age 65. Using the Actuarial Early Retirement Factors chart on page 2, if Jane retires at age 55 she will receive 34.9% of the benefit she would be entitled to collect under Schedule B if she waited until age 65. Applying the reduction factor for collecting the benefit at age 55, which is 34.9%, Jane would receive an annual benefit of \$16,200 x 34.9%, or \$5,654 per year at age 55.

Jane's early retirement at age 55 with 21 years of service:

$$\begin{aligned} &\textit{Calculate regular benefit for age 65 first} \\ 21 \text{ years service} &= \text{Schedule B } 36\% \\ \text{FAS} &= \$45,000 \\ &\underline{\quad \quad \quad} \times 36\% \\ &= \$16,200 \text{ Annual benefit, unreduced} \end{aligned}$$

$$\begin{aligned} \text{Actuarial Reduction Factor for age 55} &= 34.9\% \\ \text{Annual benefit} &= \$16,200 \\ \text{Actuarial Reduction} &\underline{\quad \quad \quad} \times 34.9\% \\ &= \$5,654 \text{ per year for life} \end{aligned}$$

The reduction to Jane's benefit if she begins collecting her benefit at age 55 is significant, and more than she anticipated. She now considers working until age 60.

In this example, Jane will work until age 60 and will have 26 years, and an increased salary. Increases in service credit and salary will subsequently increase her benefit. Following are the calculations for Jane working until 60, earning 5 more years service credit and assuming FAS of \$47,500 at that time:

$$\begin{aligned} &\textit{Calculate regular benefit for age 65 first} \\ 26 \text{ years service} &= \text{Schedule B } 46.25\% \\ \text{FAS} &= \$47,500 \\ &\underline{\quad \quad \quad} \times 46.25\% \\ &= \$21,969 \text{ Annual benefit, unreduced} \end{aligned}$$

$$\begin{aligned} \text{Actuarial Reduction Factor for age 60} &= 57.9\% \\ \text{Annual benefit} &= \$21,969 \\ \text{Actuarial Reduction} &\underline{\quad \quad \quad} \times 57.9\% \\ &= \$12,720 \text{ per year for life} \end{aligned}$$

To Reduce or Not to Reduce - Your Choice

The early retirement option will not appeal to everyone, but it is an option for those who end their employment prior to age 65 with at least 20 years of service. Alternately, full benefits are available at age 65 terminating service prior to age 65 and wishing to wait until age 65 to collect their benefit.

Correctional Officers and MHRH Nurses

RI General Law (36-10-10.2) has special age and service credit provisions for correctional officers and MHRH nurses, that remain in effect. However, any correctional officer or MHRH nurse terminating with less than the number of service credit years required by 36-10-10.2 will be subject to the benefit provisions of either Schedule A or Schedule B, depending on their date of vesting.

SCHEDULE B RETIREMENT BENEFIT CHART

For State and Teacher Members Vested after 7/1/2005

Percent of Final Average Salary (FAS) based on Year and Months of Service Credit

		ADDITIONAL MONTHS of SERVICE											
		<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>
Y E A R S o f S E R V I C E	10	16.00	16.15	16.30	16.45	16.60	16.75	16.90	17.05	17.20	17.35	17.50	17.65
	11	17.80	17.95	18.10	18.25	18.40	18.55	18.70	18.85	19.00	19.15	19.30	19.45
	12	19.60	19.75	19.90	20.05	20.20	20.35	20.50	20.65	20.80	20.95	21.10	21.25
	13	21.40	21.55	21.70	21.85	22.00	22.15	22.30	22.45	22.60	22.75	22.90	23.05
	14	23.20	23.35	23.50	23.65	23.80	23.95	24.10	24.25	24.40	24.55	24.70	24.85
	15	25.00	25.15	25.30	25.45	25.60	25.75	25.90	26.05	26.20	26.35	26.50	26.65
	16	26.80	26.95	27.10	27.25	27.40	27.55	27.70	27.85	28.00	28.15	28.30	28.45
	17	28.60	28.75	28.90	29.05	29.20	29.35	29.50	29.65	29.80	29.95	30.10	30.25
	18	30.40	30.55	30.70	30.85	31.00	31.15	31.30	31.45	31.60	31.75	31.90	32.05
	19	32.20	32.35	32.50	32.65	32.80	32.95	33.10	33.25	33.40	33.55	33.70	33.85
	20	34.00	34.17	34.33	34.50	34.67	34.83	35.00	35.17	35.33	35.50	35.67	35.83
	21	36.00	36.17	36.33	36.50	36.67	36.83	37.00	37.17	37.33	37.50	37.67	37.83
	22	38.00	38.17	38.33	38.50	38.67	38.83	39.00	39.17	39.33	39.50	39.67	39.83
	23	40.00	40.17	40.33	40.50	40.67	40.83	41.00	41.17	41.33	41.50	41.67	41.83
	24	42.00	42.17	42.33	42.50	42.67	42.83	43.00	43.17	43.33	43.50	43.67	43.83
	25	44.00	44.19	44.38	44.56	44.75	44.94	45.13	45.31	45.50	45.69	45.88	46.06
	26	46.25	46.44	46.63	46.81	47.00	47.19	47.38	47.56	47.75	47.94	48.13	48.31
	27	48.50	48.69	48.88	49.06	49.25	49.44	49.63	49.81	50.00	50.19	50.38	50.56
28	50.75	50.94	51.13	51.31	51.50	51.69	51.88	52.06	52.25	52.44	52.63	52.81	
29	53.00	53.19	53.38	53.56	53.75	53.94	54.13	54.31	54.50	54.69	54.88	55.06	
30	55.25	55.46	55.67	55.88	56.08	56.29	56.50	56.71	56.92	57.13	57.33	57.54	
31	57.75	57.96	58.17	58.38	58.58	58.79	59.00	59.21	59.42	59.63	59.83	60.04	
32	60.25	60.46	60.67	60.88	61.08	61.29	61.50	61.71	61.92	62.13	62.33	62.54	
33	62.75	62.96	63.17	63.38	63.58	63.79	64.00	64.21	64.42	64.63	64.83	65.04	
34	65.25	65.46	65.67	65.88	66.08	66.29	66.50	66.71	66.92	67.13	67.33	67.54	
35	67.75	67.96	68.17	68.38	68.58	68.79	69.00	69.21	69.42	69.63	69.83	70.04	
36	70.25	70.46	70.67	70.88	71.08	71.29	71.50	71.71	71.92	72.13	72.33	72.54	
37	72.75	72.94	73.13	73.31	73.50	73.69	73.88	74.06	74.25	74.44	74.63	74.81	
38	75.00 (Maximum percentage of salary)												

Use this chart to calculate an estimated retirement benefit. First, determine the number of years and months you plan to have at the time you retire. Find the intersection of number of years of service credit on the left, and the number of months on the top, to reach the corresponding percentage. Multiply the percentage by your anticipated final average salary (3 highest consecutive years used to determine final average salary). The resulting number is an estimate of your annual benefit. For early retirement with at least 20 years service credit, you must multiply this annual benefit amount by the appropriate percentage in the 'Actuarial Early Retirement Factors' chart shown on page 2, to arrive at an estimated annual amount of your benefit if you retire before age 65.

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Newsletter of the Employees Retirement System of Rhode Island

SPECIAL POST-RETIREMENT INSERT

WORKING AFTER RETIREMENT - KNOW WHAT YOU CAN AND CAN'T DO

If you're collecting a benefit from the Employees Retirement System (ERS) or the Municipal Employees Retirement System (MERS), you are subject to restrictions on employment with the State of Rhode Island, any RI public school, or any RI municipality participating in MERS.

If you intend to return to work for one of these entities after you retire - or already have - you should be familiar with the provisions of the post-retirement statutes.

Your re-employment restrictions differ depending on the type of employment: teacher, state, or municipal. Also, the restrictions can vary year-to-year depending upon amendments to the retirement statutes. If you've been offered the greatest part-time position of your retired career, make sure it won't jeopardize your retirement benefit before accepting.

The following is a synopsis of what you can and cannot do for post-retirement employment according to the retirement statutes. Please read this information carefully. **It is your responsibility to ensure that while collecting a retirement benefit your employment does not violate any statutory restrictions.**

What you can do, and still collect your benefit:

Teacher/Certified Re-Employment (includes teachers, administrators, guidance counselors, coaches, tutors)

- You may substitute in a RI public school for up to 90 days (or 180 half-days of 3 hours or less) in the school year. The

literal meaning of "substitute" is utilized; you must be working in place of a regular employee who is absent.

- You may be hired to fill a vacant position. The position may not be for more than 90 days (or 180 half-days of 3 hours or less), or more than .5 in a 180-day school year, if it is an appointment for the entire school year. You may be employed in such a vacant position if the school certifies in writing to its collective bargaining units and to the Retirement Office they have made a "good faith effort" to fill the position with a non-retiree.

NOTE: ERSRI counts a school year, for post-retirement purposes, from the beginning of the school year (generally September 1 - August 31, but may vary between school departments) for all positions, including administrative. Certainly, some school departments begin the first day of school in August and thus the counting of days worked in that school year would include those days.

OR,

- You may be employed by a state school or college to teach a course, advise students, coach, or teach driver or motorcycle education for wages not to exceed \$15,000 in a calendar year.

OR,

Participating (MERS unit) Municipal Re-Employment

- You may work in a municipal position for a participating RI municipality for up to 75 days (or 150 half-days of 3 hours or less) in a calendar year.

(Continued on page 6)

If you work in a municipal (non-certified) position in a school department, the 75 days will be counted on a school year basis, September 1-August 31, for ease of reporting.

Exception: You may work full time in a participating municipality in the position of mayor, town or city administrator, town or city manager, chief administrative or executive officer of the city or town, without suspension of your benefit, provided you did not retire from that position.

Retirement contributions will not be deducted from your wages and you will not earn any additional retirement service credit for this employment.

Non-MERS Employment

There are no limitations for working in a municipality that is not part of MERS.

Registered Nurses

If you retired from the state as a registered nurse, you may work on a per-diem basis for MHRH as a registered nurse, with gross wages not to exceed \$12,000 per calendar year.

What you cannot do - no 'mixing & matching'

- There is no "mixing and matching." You cannot work under the provisions of more than one statute, i.e. only one of the several employment possibilities is allowed with its specific restrictions. For example: you cannot substitute 90 days in a public school under the 90-day limit, and teach a course at CCRI under the \$15,000 limit. Or, if you're working 75 days for a municipality, you cannot also coach or teach at a public school under the 90-day limit.

Corporation, Consultant, and 3rd Party Employment

- You cannot do as a corporation, consultant, or as an employee hired by another party what you cannot do as an individual. Thus, if you are a consultant working in the school, you are still subject to the employment limitations and reporting requirements of any other retiree. While collecting your ERSRI or MERS benefit, you may only be employed in a RI public school, state school or college, or participating municipality if there is a provision for that re-employment in the retirement statutes. You cannot be hired by a company that places you into a position from which you are otherwise prohibited, without suspending your benefit. For example, a retiree may not work for Company ABC in a position where he/she will be placed in state employment.

State Employment Prohibited

The only provision for returning to state service is the limited employment described on the reverse side under the \$15,000 restriction for state schools and colleges. No other state employment is permitted under current retirement statutes. You cannot work for the state if you are collecting an ERSRI or MERS benefit, and you cannot work as a consultant, contract employee, or be hired by a company for state employment from which you are otherwise prohibited.


What you must do

If you return to work in any capacity allowed by the retirement statutes, both you and your employer must notify this office monthly of your employment. The Retirement Office provides the reporting forms to all schools and participating municipalities, and the forms are also available to all retirees on the ERSRI website, www.ersri.org. Click on the "ERSRI Forms" link on the left side of the ERSRI home page to access all forms for download. Forms are updated as the provisions for post-retirement employment change. Please make sure you and your employer are submitting the most current version of the form, as it appears on the website.

This information is provided as a summary of the statutory restrictions affecting the majority of retired members, and is not intended as a substitute for prevailing Rhode Island General Laws. Disability retirees are also subject to additional statutory wage limitations.

If you have a question on post-retirement employment that is not answered by this publication, please submit it in writing to ERSRI, 40 Fountain St., Providence RI 02903-1854 for a written reply.

**Employees Retirement System
of Rhode Island**
40 Fountain Street
Providence, Rhode Island 02903-1854



Paul J. Tavares, General Treasurer
Chairman, ERSRI Board



Investment Notes from GENERAL TREASURER

Paul J. Tavares

General Treasurer Paul J. Tavares is pleased to report the investment portfolio for the Employees Retirement System of Rhode Island (ERSRI) is up 12.2% for fiscal year ending June 30, 2005. The market value of the plan, as of June 30, 2005 stands at approximately \$6.7 billion. Through the efforts of the State Investment Commission, which oversees the investment portfolio, the 12.2% return exceeded the policy index of 9.92% for FY 2005. A Composite Reporting Investment Valuation demonstrating the value of the portfolio is presented below.

Employees' Retirement System of Rhode Island Composite Reporting Investment Valuation June 30, 2005

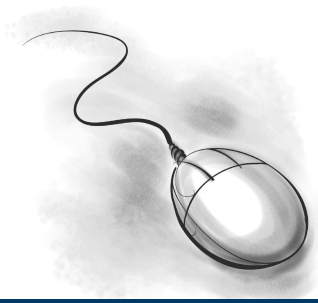
Asset Class		
Cash/Short Term Investments		\$ 251,416,772
Equities - Domestic		\$ 2,981,979,063
Equities - International		\$ 1,493,713,543
Fixed Income - Government	\$ 943,010,014	
Fixed Income - Corporate	\$ 599,335,268	
Fixed Income - In State	\$ <u>21,916,210</u>	
Total Fixed Income		\$ 1,564,261,492
Alternative Investments		\$ 382,487,056
Real Estate		\$ <u>16,350,658</u>
Total Fund Investments		\$ 6,690,208,586
Plan Allocation		
State Employees & Teachers	86.31%	\$ 5,774,563,899
Municipal Employees	12.94%	\$ 865,502,664
State Police	0.45%	\$ 30,333,700
Judicial	0.30%	\$ <u>19,808,323</u>
Total Fund Investments	100.00%	\$ 6,690,208,586

Log On and Log In - Active or Retired

Have you created your ERSRI web account yet? It's easy. You should have a recent pay stub or benefit stub handy to create your account. Follow the onscreen directions and you will be on your way.

If any of the information you enter while creating your account does not match ERSRI's information, for security reasons you will be unable to create a web account, and you'll receive a screen message to that effect. You will then be directed to print down a page of information and apply for a web account by regular mail. Your mailed application will be processed promptly upon receipt by ERSRI, and you will receive a password via email so you can access your new web account. Once you have created your account, you must "log in" to proceed.

Ersri.org is a secure web site. Visit www.ersri.org and get started today!



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