

# Rhode Island Retirement Security Act of 2011

## Municipal Employees

Employees' Retirement System of  
Rhode Island



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# Rhode Island Retirement Security Act of 2011 (RIRSA)

»» As of July 1, 2012, RIRSA will fully take effect.

This presentation outlines the many changes that RIRSA brings to the Municipal Employees' Retirement System of Rhode Island (MERS).



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# Agenda

Eligibility for Retirement Under Current Law

Changes That Affect Everyone

Knowing Your Schedule

Schedule 1, 2, 3 and 4

RIRSA Transition Rules

Questions and Answers



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# Eligibility for Retirement Under Current Law

- ▶ As of 6/30/2012 For General Municipal Employees
  - 30 years of service at any age
  - or
  - Age 58 with 10 years of contributing service
- ▶ Benefit Rate
  - 2.0% per year of service
  - Maximum 75%



# Changes Affecting Everyone

## ▶ Combined Defined Benefit (DB) and Defined Contribution (DC)

Contributions	Defined Benefit (DB)	Defined Contribution (DC)
Employee	1%	5% or 7% (if not in Social Security)
Employee (with COLA)	2%	5% or 7% (if not in Social Security)
Employer	Various	1% or 3% (if not in Social Security)

## ▶ Retirement Age

- New retirement age will mirror Social Security Normal Retirement Age (SSNRA) not to exceed 67.
  - We refer to this date as your **RIRSA Date**.
- There are provisions to accommodate those close to retirement as well as those eligible to retire prior to 7/1/2012.



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# Changes Affecting Everyone

- ▶ **Cost of Living Adjustment (COLA)**
- ▶ If plan is less than 80% funded, COLA is suspended.
  1. Resumes annually at DOR anniversary (+1 month) when plan is greater or equal to 80% funded for eligible retirees.
  2. Calculated as 5 year smoothed investment return less 5.50%, with 0% Floor and 4.0% Cap.
  3. **COLA delayed until later of SSNRA or 3 years after retirement.**
  4. Applied to first \$25,000 of benefit, indexed.



# Changes Affecting Everyone

- ▶ Cost of Living Adjustment (COLA)
- ▶ Interim 5 year provided and calculated as 5 year smoothed investment return less 5.50%, with 0% floor and 4.0% cap – 1st interval; may begin 1 / 1 / 18.
- ▶ When granted or resumed applied to existing eligible retirees month after anniversary of DOR.



# Changes Affecting Everyone

- ▶ **Benefit Accrual**

- 1% per year

- ▶ **Vesting**

- 5 years of contributing service for Defined Benefit plan for new members and active members as of 7/1/12.

- ▶ **Membership**

- ▶ City or Town Council, School Committee Members or other local elected officials elected for the first time after 6/30/12, other than elected officials who are compensated for devoting thirty-five (35) or more hours per week, shall **not** be allowed membership.





# Changes Affecting Everyone

## ▶ Optional Service Credit (Purchases)

- For credit prior to date of hire, purchase must be made within three years of date of hire.
- Purchase of official leave must be made within 3 years after leave was concluded (must return to work one year before purchase of leave).
- Purchase of pre- 6/30/2012 service credits must be made by 6/30/2015.



# Changes Affecting Everyone

- Optional Service Credit (Purchases)
- Purchases requested after 6/30/12 are at full actuarial cost (uses a 6.5% discount rate) with the exception of restoration of service, military service and salary deferral aka “*pay reduction days*”.
  - Purchases after 7/1/12 will be more expensive.
- Effective immediately, purchases for restoration of service credit, military service and deferral of salary are at 7.5% interest, compounded annually.



# Changes Affecting Everyone

## Optional Service Credit Example at Full Actuarial Cost

### ▶ Example Member

- Current age is 51 at 6/30/2012
- Annual Salary in 2012 = \$55,000
- Contributed from 1/1/1999– 12/31/2009 and had 10 years of contributory service.
- Was on official leave from 1/1/2010 to 12/31/2010 (1 year)
- Returned to work 1/1/11
- At 6/30/2012 the member has:

10 YOS at 12/31/2009	20%
1½ additional YOS at 6/30/2012	3%
<b>Total Credit at 6/30/2012 = 21 ½ years</b>	<b>23%</b>



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# Changes That Affect Everyone

## Optional Service Credit Example at Full Actuarial Cost

Request to purchase 1 year of  
leave without pay was received  
prior to June 30, 2012

$\$50,000$  (2010 salary) X 7%  
(employee contribution rate)  
X 7.5% (compound interest)  
X 1 ½ years

**\$3,901**

Purchase adds 2% (2% per  
year) to frozen service credit  
as of 6/30/12

Total service  
credit of  
 $23\% + 2\% =$   
**25%**



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# Changes Affecting Everyone

## Optional Service Credit Example at Full Actuarial Cost

Request to purchase 1 years of leave without pay was received after June 30, 2012

Under RIRSA 11 member retirement age is 60 years 2 months – actuarial factor is 0.10447

\$55,000 (2012 salary) X 0.10447

\$5,746

Purchase adds 1% (1% per year under RIRSA) to total service credit after 7/01/12

Total service credit of 23% + 1% = 24%



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# How Does RIRSA Affect You?

»» Given the provisions of RIRSA, ERSRI has created schedules to distinguish eligibility.

It is important to know your eligibility at June 30, 2012



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# Know your Schedule

## ▶ Schedule 1

- Members eligible to retire on or before 6/30/2012.
  - 30 years of service
  - or
  - Age 58 with 10 years of contributing service

## ▶ Schedule 2

- Active as of 7/1/12 **and not eligible to retire** as of 6/30/12 and **has 5 or more** years of service (YOS).

## ▶ Schedule 3

- Active as of 7/1/12 **and not eligible to retire** as of 6/30/12 with **less than 5 YOS**.

## ▶ Schedule 4

- New Hires on/after 7/1/12.



As a Schedule 1, 2, 3 or 4 member, how are you affected by RIRSA?



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# As a Schedule 1 member, how are you affected by RIRSA?

- ▶ Eligibility to retire – **no change**. You may still retire based upon your original retirement eligibility; only if you are eligible by 6/30/2012.
- ▶ Compensation used to compute pension – **no change**. Based on 3 year average compensation.



# As a Schedule 1 member, how are you affected by RIRSA?

- ▶ Benefit rate – You retain the benefit rate that you have accrued as of 6/30/2012:
  - 2.0% per year of service
- ▶ Maximum benefit not to exceed 75%.
- ▶ Effective 7/1/2012 accrual rate is 1% per year.
- ▶ Effective 7/1/2012 participate in DC plan.



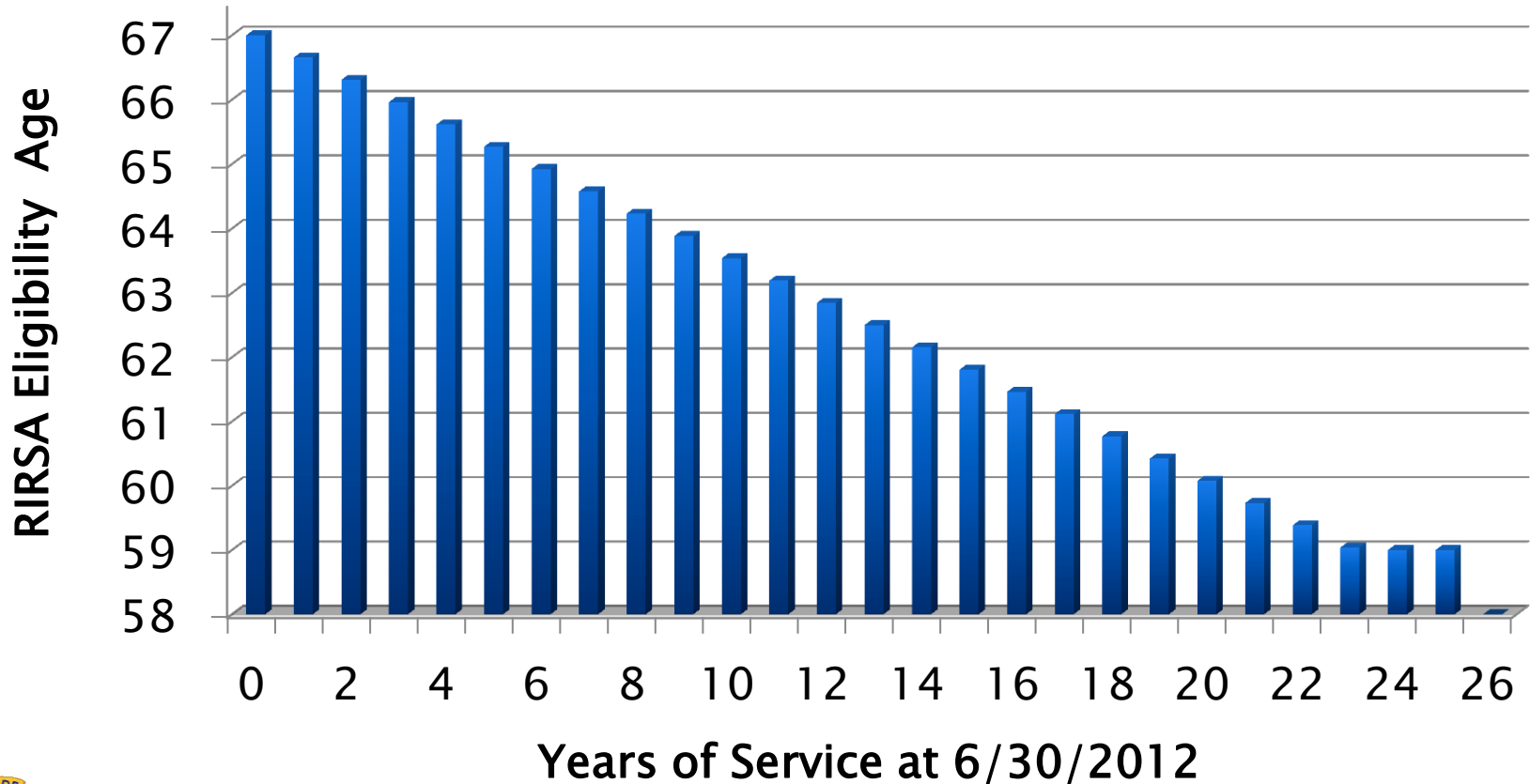
# As a Schedule 2 member, how are you affected by RIRSA?

- ▶ Active as of 7/1/12 and not eligible to retire as of 6/30/12 and has 5 or more years of service (YOS)
- ▶ Eligibility to retire – Your retirement eligibility age becomes your Social Security Normal Retirement Age (SSNRA) with a proportional downward adjustment based upon service credit as of 6/30/2012. ERSRI refers to this adjusted SSNRA as your **RIRSA age**.
- ▶ However, if your RIRSA age is less than 59 it defaults to age 59.



# RIRSA Proportionality Example

Member hired at age 32 and first eligibility under old rule is at age 58 with 26 YOS . SSNRA is Age 67



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# As a Schedule 2 member, how are you affected by RIRSA?

- ▶ ERSRI refers to this downward adjustment from your SSNRA age as your “**RIRSA**” date.
- ▶ You can obtain your **RIRSA** age and date by going to our website, [www.ersri.org](http://www.ersri.org)
- ▶ Create your online retirement account.
- ▶ Log in with your username and password click on “My Account”.



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# As a Schedule 2 member, how are you affected by RIRSA?

- ▶ Click on where it says: [MERS General Employees](#)
- ▶ This will link you to a Microsoft Excel® sheet and you will be asked to input your date of birth, your service credit as of 6/30/2012.
- ▶ The calculator will provide you your RIRSA date.



# As a Schedule 2 member, how are you affected by RIRSA?

## RIRSA Retirement Eligibility Calculator for Municipal General Employees

Enter Years	Enter Months	Enter Working Days	Service
0	0	0	0

Enter DOB   
Age at 6/30/2012 52.00  
Enter Service Credit as of 6/30/2012

Your Social Security Normal Retirement Age is 67

Your estimated eligibility date for full benefits is November 14, 2021 at which point you will be 61 Years 4 Months and 15 Days old.

You may retire on June 30, 2018 if you have at least 10 years of contributory service as of June 30, 2012. You will only receive accrued benefits as of June 30, 2012.

### DISCLAIMER

Please note that the retirement dates computed by these calculators are estimates only. They are not binding on the Employees' Retirement System of Rhode Island and are subject to audit, adjustment and correction prior to the monthly benefit being finalized. The monthly benefit amount will be finalized after ERSRI has received and posted all contributions through the date of termination.

### Instructions:

You only need to enter two pieces of information to generate an estimated retirement eligibility date.

Enter your service date in the following format MM/DD/YYYY. For example, enter 06/15/1965. The calculator will use

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# As a Schedule 2 member, how are you affected by RIRSA?

## ▶ Compensation used to compute pension

- 5 highest consecutive years
  - In no event is a member's final compensation to be lower than final compensation determined as of 6/30/12.
- If more than  $\frac{1}{2}$  of total service is less than 30 hrs. per week but final average salary (FAS) includes 3 or more years which member worked more than 30 hrs.
  - Then FAS is 10 highest consecutive years.





# As a Schedule 2 member, how are you affected by RIRSA?

- ▶ **Benefit rate**–Service credit prior to 6/30/2012 is 2% per year.
  - Maximum benefit rate – 75%.
- ▶ Effective 7/1/2012 accrual rate is 1% per year.
- ▶ Effective 7/1/2012 participate in DC plan.



# As a Schedule 2 member, how are you affected by RIRSA?

- ▶ Election of social security supplemental option (SRA Plus Option) is available only to members with ten (10) or more years of contributing service on or before June 30, 2012 who elect the service retirement.



# RIRSA Transition Rules

## *General Municipal Employees*

### TRANSITION RULE 1

- ▶ This rule allows for an earlier retirement date provided:
  - You have **20 or more YOS**
  - You attained an age within **5 years of your RIRSA age**.
  - If you are able to select this early retirement eligibility, you will take a 9% benefit reduction per year from unreduced eligibility i.e. your SSNRA or RIRSA retirement age.

### TRANSITION RULE 2

- ▶ This rule allows for an earlier retirement date provided you have completed **10 YOS** as of 6/30/12.
- ▶ **You will retire with a benefit determined as of 6/30/12**
- ▶ You will be able to begin receiving your benefit on your eligibility date determined as of 6/30/12.
  - Eligibility as of 6/30/12 is either 58 with 10 YOS or 30YOS at any age.



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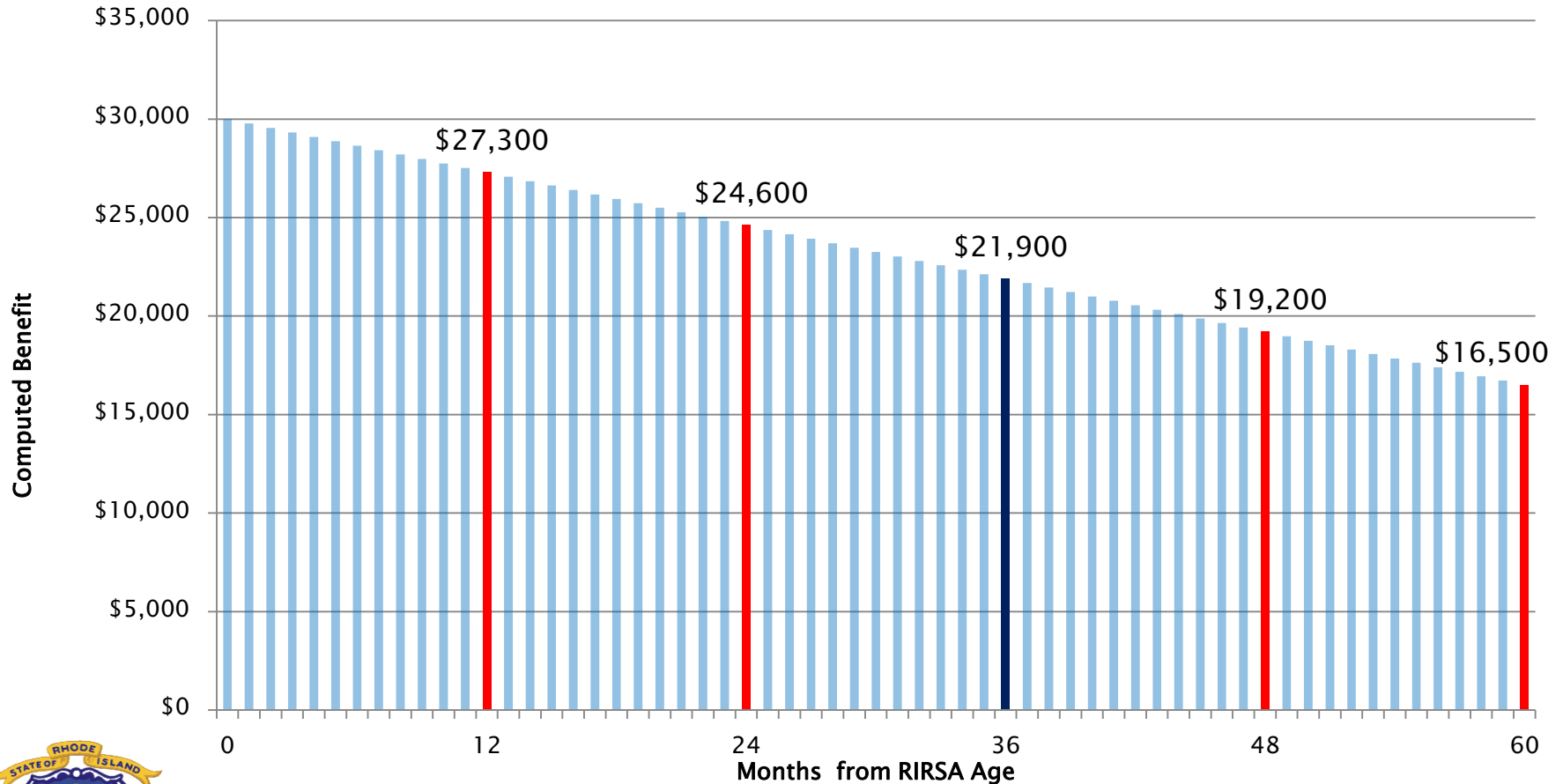
# An Example of Transition Rule 1

- ▶ If you are 59 and your RIRSA Date = 62
- ▶ Your reduction will be:
  - 27% (3 x 9%) or 73% (100%– 27%) of your benefit
- ▶ If your benefit amount was 40%, your reduced benefit amount will be  $73\% \times 40\% = 29.2\%$



# An Example of Transition Rule 1

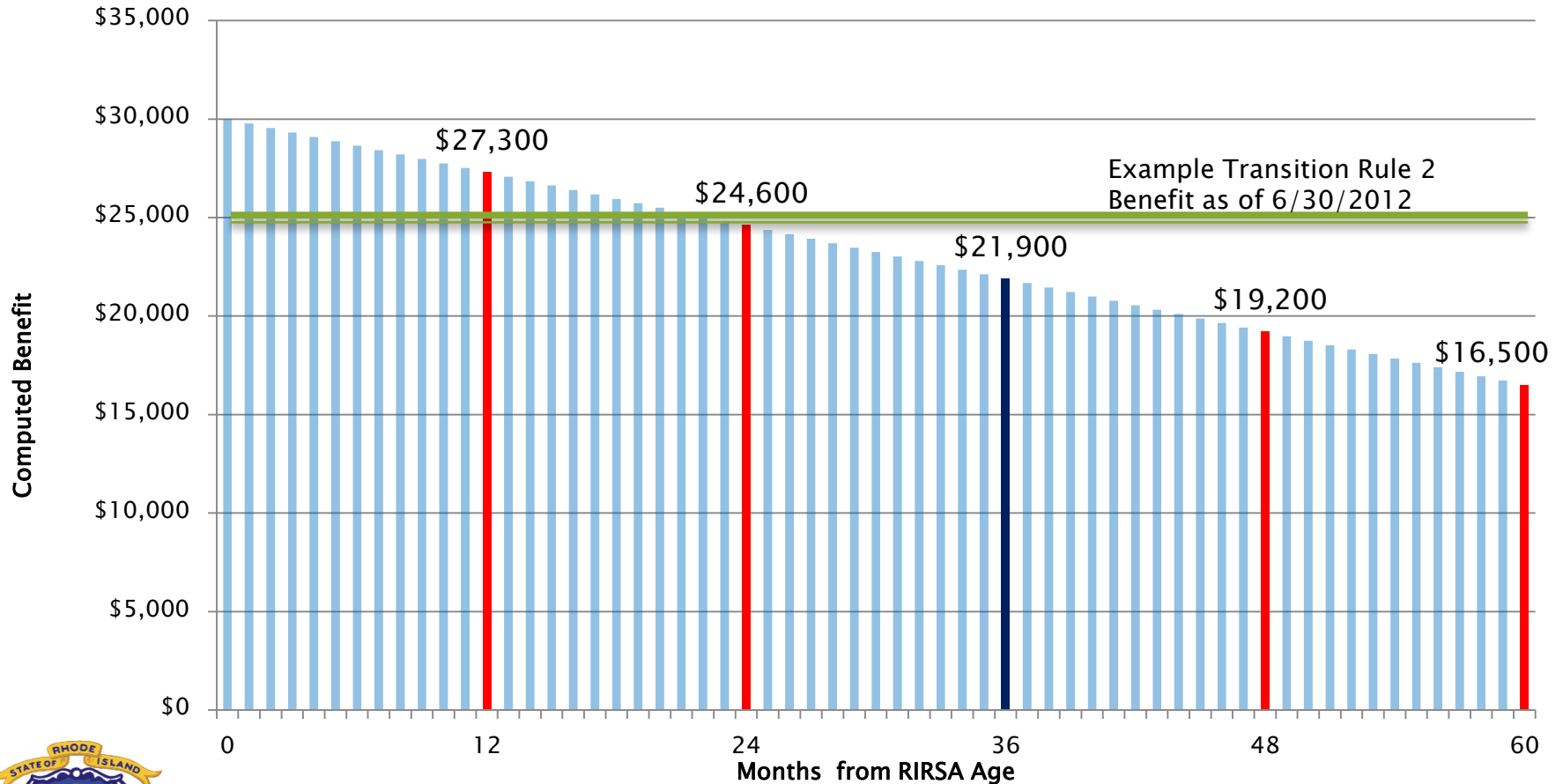
## Transition Rule 1 – Actuarially Reduced Benefit (9% per year)



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# An Example of Transition Rule 1

## Transition Rule 1 – Actuarially Reduced Benefit (9% per year)



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# A Few Comments on Transition Rule 2

*Benefit determined as of 6/30/12 rule.*

- ▶ You'll need to be sure that you at least reached eligibility under the "old" rules:
  - 30 years of service (YOS)
  
- ▶ If not, you'll need to recalculate based on being closer to 58 and 10 YOS.
  - This will extend the date when you can receive benefits.



# As a Schedule 3 member, how are you affected by RIRSA?

- ▶ Active as of 7/1/12 and not eligible to retire as of 6/30/12 with less than 5 years of service (YOS).
- ▶ Eligibility to retire – Your retirement eligibility age becomes your Social Security Normal Retirement Age (SSNRA).
- ▶ Must have at least 5 years of contributory service.





# As a Schedule 3 member, how are you affected by RIRSA?

- ▶ Benefit rate – Service credit prior to 6/30/2012 is 2% per year.
  - Maximum benefit not to exceed 75%.
- ▶ Effective 7/1/2012 accrual rate is 1% per year.
- ▶ Effective 7/1/2012 participate in DC plan.
- ▶ Election of social security supplemental option (SRA Plus Option) is not available.



# As a Schedule 3 member, how are you affected by RIRSA?

## ▶ Compensation used to compute pension

- 5 highest consecutive years
- If more than  $\frac{1}{2}$  of total service is less than 30 hrs. per week but final average salary (FAS) includes 3 or more years which member worked more than 30 hrs.
  - Then FAS is 10 highest consecutive years.



# As a Schedule 3 member, how are you affected by RIRSA?

## ▶ Transition rule 1

- ▶ This rule allows for an earlier retirement date provided:
  - You have **20 or more YOS**
  - You attained an age within **5 years of your SSNRA.**
    - If you are able to select this early retirement eligibility, you will take a 9% benefit reduction per year from unreduced eligibility i.e. your SSNRA.



# As a Schedule 4 member, how are you affected by RIRSA?

- ▶ New Hires as of 7/1/12
- ▶ **Eligibility to retire** – Retirement eligibility age becomes your Social Security Normal Retirement Age (SSNRA).
- ▶ Must have at least 5 years of contributory service.
  - Maximum benefit not to exceed 75%.
- ▶ Accrual rate is 1% per year.
- ▶ Participate in DC plan.
- ▶ Election of social security supplemental option (SRA Plus Option) is not available.



# As a Schedule 4 member, how are you affected by RIRSA?

- ▶ Compensation used to compute pension
  - 5 highest consecutive years
  - If more than  $\frac{1}{2}$  of total service is less than 30 hrs. per week but final average salary (FAS) includes 3 or more years which member worked more than 30 hrs.
    - Then FAS is 10 highest consecutive years.



# As a Schedule 4 member, how are you affected by RIRSA?

## ▶ Transition rule 1

- ▶ This rule allows for an earlier retirement date provided:
  - You have **20 or more YOS**
  - You attained an age within **5 years of your SSNRA.**
    - If you are able to select this early retirement eligibility, you will take a 9% benefit reduction per year from unreduced eligibility i.e. your SSNRA.



# Questions?

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