

Rhode Island Retirement Security Act of 2011

Municipal Public Safety

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

Changes That Affect Everyone

Knowing Your Schedule

Schedule 5, 6, 7, 8, 9, 10 and 11

RIRSA Transition Rules

Questions and Answers



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Changes Affecting Everyone

- ▶ Combined Defined Benefit (DB) and Defined Contribution (DC) for Departments who **Do Not** participate in Social Security.
- ▶ Reduced contribution for some Departments who **Do** participate in Social Security.

Contributions	Defined Benefit (DB)	Defined Contribution (DC) if not in Social Security
Employee	7%	3% (3% by Employer)
Employee (with COLA)	8%	3% (3% by Employer)



Changes Affecting Everyone

▶ Benefit Rate

- Benefit accrual for service **prior** to 7/1/12:
 - For Standard 25 and out plans – 2% per year
 - For Standard 20 and out plans – 2½% per year
 - For Special Plans:
 - Cranston Police and Fire – 2½% per year
 - South Kingstown Police – 2% per year to 7/1/1993 and 2.5% to 6/30/12
 - Hopkinton Police – 2½% per year
 - Richmond Police – 2.2727% per year
 - Burrillville Police – 3 % years 1–20 / 1.5% years 21–30
- Benefit accrual for service **after** 7/1/12 for **ALL** plans is 2% per year.



Changes Affecting Everyone

- ▶ **Compensation used to compute pension**
- ▶ For all Departments – 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.
- ▶ **Elimination of the optional 20 and 25 year any age retirement allowance.**



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 55 or 3 years after retirement.**
 4. Applied to first \$25,000 of benefit, indexed.



Changes Affecting Everyone

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



Changes Affecting Everyone

▶ Vesting

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



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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 40 at 6/30/2012.
- Annual Salary in 2012 = \$35,000
- Enrolled in a 25 Year and out plan with COLA.
- 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%
Total Credit at 6/30/2012 = 21 ½ years	23%



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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

$\$30,000$ (2010 salary) X
8.0% (employee
contribution rate)

\$2,400

$\$2,400$ X 7.5%
(compound interest) X 1
 $\frac{1}{2}$ years

\$2,675
*adds 2 ½ % to
accrual if in a 20
and out plan



Changes Affecting Everyone

Optional Service Credit Example at Full Actuarial Cost

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

Under RIRSA member eligible retirement age is 55
– actuarial factor is 0.16463

\$35,000 (2012 salary) X
0.16463

\$5,762

*Adds 2% to accrual



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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 5

- PF 25 and out.
- **Eligible to retire on or before 6/30/12.**
 - Age 55 with 10 years of contribution service.
or
 - 25 years of service at any age.
or
 - 20 years of service and age 50 with actuarial reduction of ½% for each month less than age 55. (**must retire by 6/30/12**)

▶ Schedule 6

- PF 20 and out.
- **Eligible to retire on or before 6/30/12.**
 - 20 years of service at any age.



Know your Schedule

▶ Schedule 7

- Plans with Special Provisions
- **Eligible to retire on or before 6/30/12.**
 - Special plans are limited to:
 - Cranston Police
 - Cranston Fire
 - South Kingstown Police
 - Hopkinton Police
 - Richmond Police
 - Burrillville Police



Know your Schedule

▶ Schedule 7

- Cranston Police and Cranston Fire
 - 20 years of service at any age
- South Kingstown Police
 - 50% of FAS by earning 2% per year to 7/1/1993 and 2.5% to 6/30/12
- Hopkinton Police
 - 20 years of service at any age
- Richmond Police
 - 22 years of service at any age
- Burrillville Police
 - 20 years of service at any age



Know your Schedule

▶ Schedule 8

- PF 25 and out.
- Active as of 7/1/12 and **not eligible** to retire as of 6/30/12.

▶ Schedule 9

- PF 20 and out.
- Active as of 7/1/12 and **not eligible** to retire as of 6/30/12.

▶ Schedule 10

- Plans with Special Provisions and **not eligible** to retire on or before 6/30/12.

▶ Schedule 11

- New Employees as of 7/1/12.



Know your Schedule

- ▶ **Schedule 5**
 - PF 25 and out.
 - **Eligible to retire on or before 6/30/12.**
- ▶ **Schedule 6**
 - PF 20 and out.
 - **Eligible to retire on or before 6/30/12.**
- ▶ **Schedule 7**
 - Plans with Special Provisions and **eligible to retire on or before 6/30/12.**
- ▶ **Schedule 8**
 - PF 25 and out.
 - Active as of 7/1/12 and **not eligible to retire as of 6/30/12.**
- ▶ **Schedule 9**
 - PF 20 and out.
 - Active as of 7/1/12 and **not eligible to retire as of 6/30/12.**
- ▶ **Schedule 10**
 - Plans with Special Provisions and **not eligible to retire on or before 6/30/12.**
- ▶ **Schedule 11**
 - New Employees as of 7/1/12.



As a member in Schedules 5 through 11, how are you affected by RIRSA?



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As a Schedule 5 or 6 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
- ▶ **For Service Retirement before 6/30/12:**
 - 3 highest consecutive years
- ▶ **For Service Retirement after 6/30/12:**
 - 5 highest consecutive years.
 - In no event shall a member's final compensation **be lower** than final compensation determined as of 6/30/12.



As a Schedule 5 or 6 member, how are you affected by RIRSA?

▶ Benefit Rate

- For Schedule 5 (PF25)
 - For service prior and after 7/1/12 – 2% per year.
- For Schedule 6 (PF20)
 - For service **prior to** 7/1/12 – 2½% per year
 - For service **after** 7/1/12 – 2% per year
- ▶ Maximum benefit not to exceed 75%.
- ▶ Effective 7/1/2012 participate in DC plan **ONLY IF NOT IN** Social Security.



As a Schedule 7 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.



As a Schedule 7 member, how are you affected by RIRSA?

- ▶ Compensation used to compute pension
- ▶ For Service Retirement **before** 6/30/12:
 - • Cranston Police and Fire – Highest year of earnings
 - • South Kingstown Police – 3 highest consecutive years
 - • Hopkinton Police – Highest year of earnings
 - • Richmond Police – 3 highest consecutive years
 - • Burrillville Police – 3 highest consecutive years
- ▶ For Service Retirement **after** 6/30/12:
 - 5 highest consecutive years.
 - In no event shall a member's final compensation **be lower** than final compensation determined as of 6/30/12.



As a Schedule 7 member, how are you affected by RIRSA?

- ▶ Benefit Rate
- ▶ **For Service prior to 7/1/12:**
 - Cranston Police and Fire – 2½% per year
 - South Kingstown Police – 2% per year to 7/1/1993 and 2.5% to 6/30/12
 - Hopkinton Police – 2½% per year
 - Richmond Police – 2.2727% per year
 - Burrillville Police – 3 % years 1–20 / 1.5% years 21–30
- ▶ **For Service after 7/1/12:**
 - 2% per year
- ▶ Maximum benefit not to exceed 75%.
- ▶ Effective 7/1/2012 participate in DC plan **ONLY IF NOT IN** Social Security.



New Retirement Age and Eligibility

- Age 55 with 25 years of total service.

OR

- With 5 years of service (YOS) but less than 25 YOS the new retirement age will mirror Social Security Normal Retirement Age (SSNRA) not to exceed 67.
- 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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As a Schedule 8 or 9 member, how are you affected by RIRSA?

▶ Eligibility to Retire

▶ PF 20 and PF 25

- Age 55 with 25 years of contribution service.
- 5 years of service but less than 25 may retire at Social Security Normal Retirement Age (SSNRA).

▶ Compensation used to compute pension

- 5 highest consecutive years.
- In no event shall a member's final compensation be **lower** than final compensation determined as of 6/30/12.



As a Schedule 8 or 9 member, how are you affected by RIRSA?

▶ Benefit Rate

- For Schedule 8 (PF25)
 - For service prior and after 7/1/12 – 2% per year.
- For Schedule 9 (PF20)
 - For service **prior to** 7/1/12 – 2½% per year
 - For service **after** 7/1/12 – 2% per year
- ▶ Maximum benefit not to exceed 75%.
- ▶ Effective 7/1/2012 participate in DC plan **ONLY IF NOT IN** Social Security.



As a Schedule 10 member, how are you affected by RIRSA?

- ▶ Eligibility to Retire
- ▶ Special Provisions
 - Age 55 with 25 years of contribution service.
 - 5 years of service but less than 25 may retire at Social Security Normal Retirement Age (SSNRA).
- ▶ Compensation used to compute pension
 - 5 highest consecutive years.
 - In no event shall a member's final compensation be **lower** than final compensation determined as of 6/30/12.



As a Schedule 10 member, how are you affected by RIRSA?

▶ Benefit Rate

- For service **prior to** 7/1/12:
 - Cranston Police and Fire – 2½% per year
 - South Kingstown Police – 2% per year to 7/1/1993 and 2.5% to 6/30/12
 - Hopkinton Police – 2½% per year
 - Richmond Police – 2.2727% per year
 - Burrillville Police – 3 % years 1–20 / 1.5% years 21–30
- For service **after** 7/1/12 – 2% per year
- ▶ Maximum benefit not to exceed 75%.
- ▶ Effective 7/1/2012 participate in DC plan **ONLY IF NOT IN** Social Security.



As a Schedule 11 member, how are you affected by RIRSA?

- ▶ New Hires as of 7/1/12
- ▶ **Eligibility to Retire**
 - For all departments in MERS.
 - Age 55 with 25 years of contribution service.
 - 5 years of service but less than 25 may retire at Social Security Normal Retirement Age (SSNRA).
- ▶ **Compensation used to compute pension**
 - 5 highest consecutive years.
- ▶ **Benefit Rate**
 - 2% per year
- ▶ Participate in DC plan **ONLY IF NOT IN** Social Security.



RIRSA Transition Rules

Public Safety

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 age 55 or your SSNRA age**, whichever is applicable.
 - If you are able to select this early retirement eligibility, you will take a 9% benefit reduction per year from unreduced eligibility i.e. age 55 or your SSNRA.

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.
 - ie, 20 or 25 and out plans.



RIRSA Transition Rules

Public Safety

TRANSITION RULE 3

- ▶ Have ten **(10) or more** years of contributory service and **attained age 45** prior to 7/1/2012.
- ▶ Would have been eligible **to retire at or prior to age 52** in accordance with the rules in effect prior to 7/1/2012.
- ▶ May retire upon **attainment of age 52**.



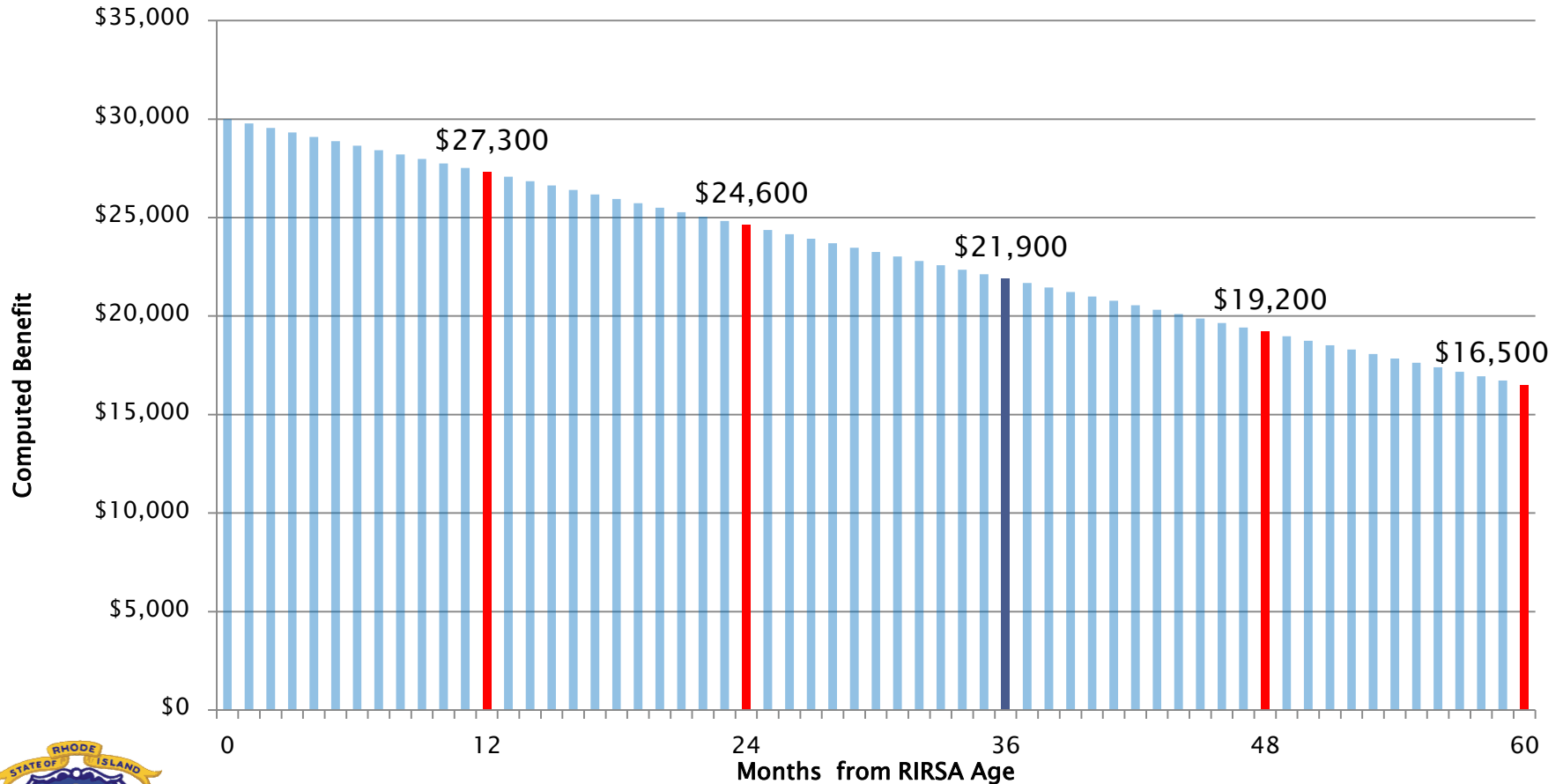
An Example of Transition Rule 1

- ▶ If you are 52 and your RIRSA Date = 55
- ▶ 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

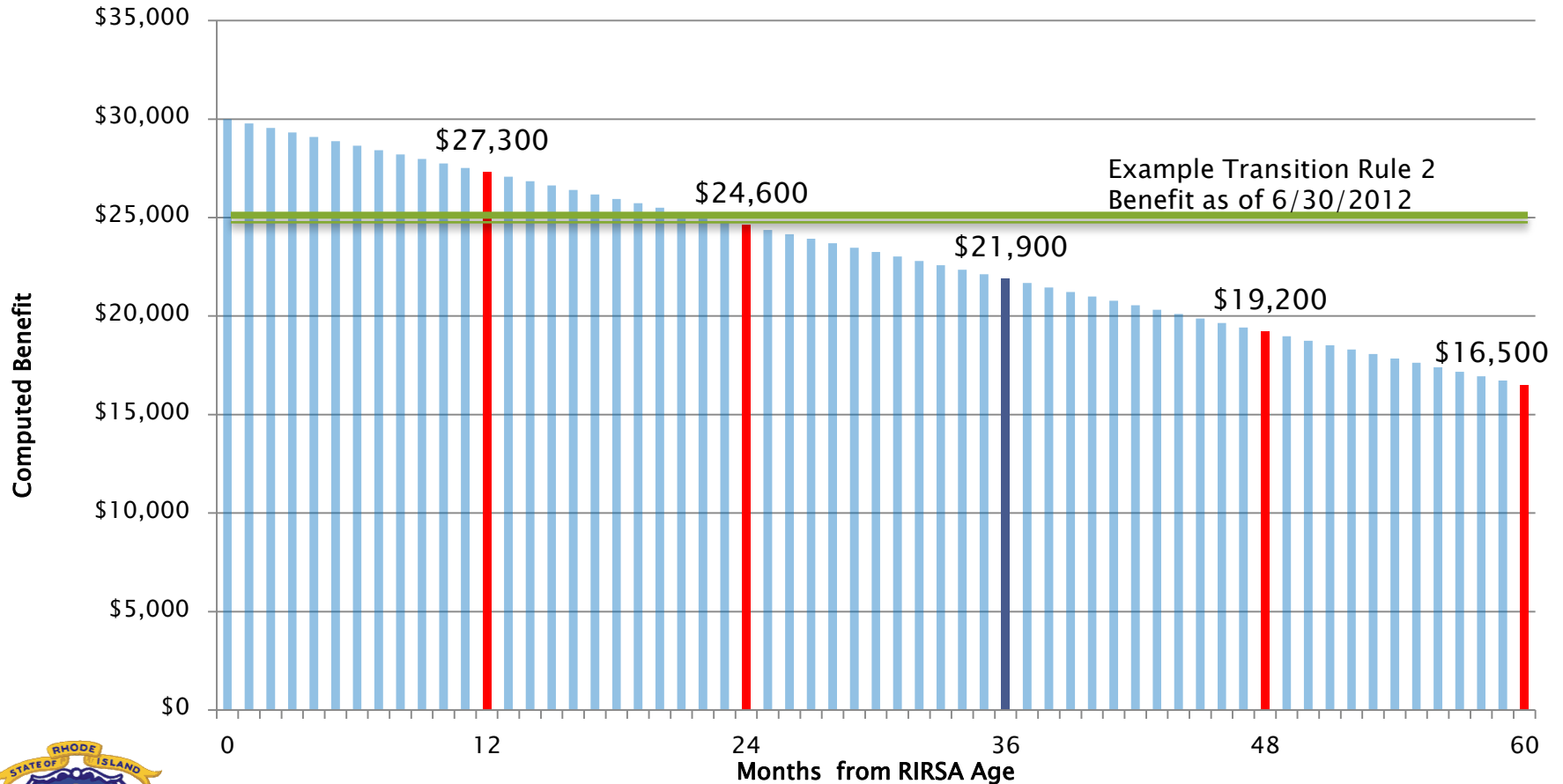
Transition Rule 1 – Actuarially Reduced Benefit (9% per year)



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An Example of Transition Rule 1

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



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Questions?

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