



State of Rhode Island  
Office of the General Treasurer

**James A. Diossa**  
General Treasurer

**TO:** The Rhode Island Pension Advisory Working Group  
**FROM:** Robert E. Craven, Jr.  
**DATE:** January 17, 2024  
**RE:** *Summary of Options Presented to the Rhode Island Pension Advisory Working Group*

**MEMORANDUM**

Pursuant to Rhode Island General Laws § 36-10.2-11, the Rhode Island Pension Advisory Working Group (the “Working Group”) must assess the impacts and consequences of the Rhode Island Retirement Security Act of 2011 (“RIRSA”), and proffer “options for consideration” by the General Assembly to “improve the pension programs or address any unintended consequences of the [RIRSA].” R.I. Gen. Laws § 36-10.2-11.

Throughout November and December, the Working Group heard testimony from 17 different stakeholder groups representing both active and retired members of the Employees’ Retirement System of Rhode Island (“ERSRI”) and the Municipal Employees’ Retirement System (“MERS”) and over 115 members of the public. Through that testimony, the Working Group has been presented with a number of options for consideration in its final report.

To assist the Working Group in its charge, this document summarizes the options presented and pertinent law. Options are topically grouped. The order in which options are presented does not reflect any preference of the Office of the General Treasurer, or of the Working Group.

**This document is intended as a basis of discussion and does not represent a finite list. The Working Group may consider any of the options described herein, or other options which have not been presented to the Group.**

## **I. Retirement Benefit Calculation**

The benefit afforded to ERSRI and MERS members under Rhode Island's Defined Benefit ("DB") plan uses a formula based on three factors: the number of years of service, the final average salary of the employee, and a benefit accrual rate, also referred to as a benefit multiplier or as service credit. *See* R.I. Gen. Laws §§ 16-16-12 (a)(ii); 36-10-9 (1)(a)(ii); 45-21-16 (1)(b). The options presented in this section would amend one of these three factors, and thus directly increase an employee's benefit in retirement.

- A. *Legislation which would amend the final average salary formula from the highest five years of pay to the highest three years of pay for teachers and state and municipal employees.*

State law provides that an employee's final average salary is based on the average of the five *highest* consecutive years of earnings, regardless of when they occur. *See* R.I. Gen. Laws § 36-8-1 (5); R.I. Gen. Laws § 16-16-1 (9) (incorporating the definition under Title 36); R.I. Gen. Laws § 45-21-2 (8)(a).<sup>1</sup>

Amendments to the final average salary formula for teachers and state employees trace back to the 2009 reform, when the final average salary formula was increased from the average of an employee's highest three years of pay to the average of their five highest years of pay. *See* Pub. L. 2009, Ch. 68, Art. 7. This proposed option would undo that change and revert to the pre-2009 benefit. The Working Group has not considered specific recommendations concerning the effective date of this proposal.

- B. *Legislation which would amend the final average salary formula from the highest five years of pay to the highest year of pay for municipal police and fire units.*

The final average salary for members of MERS police and fire units is based on:

- (1) "[T]he period of three (3) consecutive years within the total service of the member when [average annual compensation, pay or salary] was highest" for members who retired on or prior to June 30, 2012; or
- (2) "[T]he average annual compensation of a member for services rendered during the period of the highest five (5) consecutive years within the total service of the member" for all members retiring on or after July 1, 2012.

*See* R.I. Gen. Laws § 45-21-2 (8).

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<sup>1</sup> Members of ERSRI eligible to retire as of September 30, 2009, are subject to a different definition. *See* R.I. Gen. Laws § 36-8-1 (5); R.I. Gen. Laws § 16-16-1 (9) (incorporating the definition under Title 36). For those members, final average compensation is based on the average of the three highest consecutive years of earnings, regardless of when they occur. *See, id.* Members of MERS eligible to retire on or prior to June 30, 2012, are likewise subject to a three-year average. R.I. Gen. Laws § 45-21-2 (8)(a).

Before the 2011 reforms, final average salary for MERS police and fire units was based on the highest three consecutive years of pay. *See* Pub. L. 2011, Ch. 408, § 12. This proposed change would amend the final average salary formula from the highest three or five years of pay (depending on a member’s retirement date) to the highest year for all members of MERS police and fire units. The Working Group has not considered specific recommendations concerning the effective date of this proposal.

*C. Legislation which would increase the rate of benefit accrual (the “accrual rate”) for active members of ERSRI.*

In Rhode Island’s DB plan, an employee’s benefit is expressed as a percentage of the employee’s final average salary. “The percentage is usually a function of the employee’s years of service times a ‘multiplier’ percentage.” Reason Foundation, Public Pension Glossary (July 1, 2021). Generally, a higher rate of benefit accrual corresponds to a higher pension benefit.

Over the course of three hearings, the Working Group has been presented with several proposals which would increase the accrual rate for active employees.

RIRSA was not the first reform to impact the accrual rate. As such, a historical overview of statutory changes is necessary to fully contextualize the changes to the State’s accrual laws that occurred in 2011. In 2005, the General Assembly passed a series of partial pension reforms as part of the State budget. *See* Pub. L. 2005, Ch. 117, Art. 7. This reform created two schedules for state employees and teachers – one consisting of members with at least ten years of service (and were therefore ‘vested’) by July 1, 2005 (“Schedule A”), and one consisting members with less than ten years of service as of that date (“Schedule B”). *See id.; infra.*

The legislature introduced another round of reforms in 2009, impacting accrual rates for members who were not eligible to retire by September 30, 2009, and newly hired employees in the State system. *See* Pub. L. 2009, Ch. 68, Art. 7.

<b>Benefits Prior to 2005 Pension Reform</b>	<b>Benefits Resulting From 2005 Pension Reform</b>	<b>Pension reform 2009 Changes</b>
<b><u>Schedule A</u></b> (Employees vested prior to 07.01.2005)	<b><u>Schedule B</u></b> (Employees vested after 07.01.2005)	<b><u>Schedule B</u></b>
Years 1 to 10 - 1.7%	Years 1 to 10 - 1.6%	Years 1 to 10 - 1.6%
Years 11 to 20 - 1.9%	Years 11 to 20 - 1.8%	Years 11 to 20 - 1.8%
Years 21 to 34 - 3.0%	Years 21 to 25 - 2.0%	Years 21 to 25 - 2.0%
Year 35 to retirement - 2.0%	Years 26 to 30 - 2.25%	Years 26 to 30 - 2.25%
	Years 31 to 37 - 2.5%	Years 31 to 37 - 2.5%
	Year 38 to retirement - 2.25%	Year 38 to retirement - 2.25%

Under current law, members of ERSRI and MERS general units accrue 1% per year of service.<sup>2</sup> See R. I. Gen. Laws §§ 16-16-13 (c); 36-10-10 (d); 45-21-17 (a). Members of the State Police Retirement Benefits Trust (“SPRBT”) and correctional officers accrue 2% per year of service. See R.I. Gen. Laws § 42-28-22 (j) (State police officers); R. I. Gen. Laws §§ 36-10-20.2 (corrections officers). Members of the Rhode Island Judicial Retirement Fund Trust (“RIJRFT”) receive either 80% or 65% of their highest five consecutive years of compensation, depending on length of service. See R.I. Gen. Laws § 8-3-8 (a).

The Working Group has been presented with the three legislative options concerning the accrual rate:

**Option A** - Legislation which would increase the accrual rate from 1% to 1.5% for members of ERSRI and MERS general units.

**Option B** - Legislation which would create a tiered accrual rate as follows:

1 to 10 years of service	-	1.25% accrual
11 to 20 years of service	-	1.5% accrual
21 years of service to retirement	-	2% accrual

**Option C** - Legislation which would create a tiered accrual rate as follows:

1 to 10 years of service	-	1.25% accrual
11 to 20 years of service	-	1.5% accrual
21 to 30 years of service	-	2% accrual
31 to 35 years of service	-	2.5% accrual

The Working Group has not considered specific recommendations concerning the effective date of these proposals.

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<sup>2</sup> As a part of the 2015 settlement agreement, the future accrual rate (post July 1, 2015) was increased to 2% per year of service, subject to a corresponding increase in the member contribution rate state employees, teachers, and active municipal employees in the MERS system with 20 years of service as of June 30, 2012. See *Clifford v. Raimondo*, 184 A.3d 673, 681 (R.I. 2018); R. I. Gen. Laws §§ 16-16-13 (c); 36-10-10 (d); 45-21-17 (a).

D. *Legislation which would increase the rate of benefit accrual (the “accrual rate”) for active members of MERS police and fire units.*

Generally, members of MERS police and fire units accrue 2% per year of service. See R.I. Gen. Laws § 45-21.2-6 (subject to increased accrual rates for long term service); ERSRI, *Annual Service Credit Accruals by Employment Type and Schedule*, accessed Jan. 16, 2024 at <https://www.ersri.org/members/retirement-planning/accruals-by-schedule>. Members with greater than thirty years of service who are at least 57 accrue 2.25% per year. See R.I. Gen. Laws § 45-21.2-6.

This legislative proposal would increase the accrual rate to 2.5% for each year of service for public safety personnel.

## II. **Retirement Age and Early Retirement Penalties**

A. *Legislation which would decrease the retirement age from the ‘Rule of 95’ – wherein an employee’s combined age and years of service must equal at least 95 to be eligible to retire – to the ‘Rule of 90,’ a five-year reduction.*

Retirement age and benefits for teachers, state employees, and municipal employees are set by statute and calculated by formula. Under prevailing law, teachers, state, and municipal employees are eligible to retire:

- (1) If they have reached social security retirement age and completed at least five years of contributory service since July 1, 2012; or
- (2) If they have reached social security retirement age and completed five or more years of contributory service before July 1, 2012, a proportional formula is used to calculate retirement, but in any event must be no less than age 59.

See R. I. Gen. Laws §§ 16-16-12 (c)-(d), 36-10-9 (c)-(d); 45-21-16 (B)-(C). The ‘Rule of 95’ is an “alternative full benefit retirement eligibility date,” which allows members to retire earlier than their schedule-based eligibility date.<sup>3</sup> See Robert Hiltonsmith, *Rhode Island’s New Hybrid Pension Plan Will Cost the State More While Reducing Retiree Benefits*, Economic Policy Institute Issue Brief #366 (June 20, 2013), at 3.; see also R. I. Gen. Laws §§ 16-16-12 (c)-(d), 36-10-9 (c)-(d); 45-21-16 (B)-(C).<sup>4</sup> “Under the Rule of 95, members can retire when their age plus their years of service equal 95 provided that they are at least 62 years old.” Hiltonsmith, *supra*, at 3. As such, an individual is eligible to retire where:

- (1) They have reached at least 65 years of age with 30 years of service; or
- (2) They have reached at least 64 years of age with 31 years of service; or
- (3) They have reached at least 63 years of age with 32 years of service; or
- (4) They have reached at least 62 years of age with 33 years of service.

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<sup>3</sup> ERSRI, *Retirement Eligibility Rules, Eligibility based on the Rule of 95*, accessed Jan. 12, 2024, at [Retirement Eligibility | ERSRI](#).

See R. I. Gen. Laws §§ 16-16-12 (d)(A); 36-10-9 (d); 45-21-16 (C).

Prior to RIRSA, teachers and state employees could retire with full benefits at the age of 65 with 10 years of service, or at the age of 62 with 29 years of service. See Gabriel Roeder Smith & Company, Rhode Island Retirement Security Act of 2011: Plan Details, at \*2 (October 2011).

Colloquially known as the “Rule of 90,” this legislative option would allow teachers, state, and municipal employees to retire if they have at least 30 years of service and their combined age and years of service equals at least 90. Therefore, an individual would be eligible to retire where:

- (1) They have reached at least 63 years of age with 27 years of service; or
- (2) They have reached at least 62 years of age with 28 years of service; or
- (3) They have reached at least 61 years of age with 29 years of service; or
- (4) They have reached at least 60 years of age with 30 years of service.

The Working Group has not considered specific recommendations concerning the effective date of this proposal.

*B. Legislation which would cap early retirement penalties at 3% per year.*

Teachers, state employees, and municipal employees who seek to retire early incur a statutory penalty. See R.I. Gen. Laws § 16-16-12 (c)(iii); R.I. Gen. Laws § 36-10-9 (c)(iii); R.I. Gen. Laws § 45-21-16 (1)(ii)(C). If a member has completed at least 20 years of service and is within five years of retirement eligibility, that member may retire but their retirement benefit is reduced in accordance with the following table:

<b>Year Preceding Retirement</b>	<b>Percent Reduction</b>	<b>Cumulative Reduction</b>
<b>For Year 1</b>	9%	9%
<b>For Year 2</b>	8%	17%
<b>For Year 3</b>	7%	24%
<b>For Year 4</b>	7%	31%
<b>For Year 5</b>	7%	38 %

See ERSRI, *Retirement Eligibility*, accessed Jan. 15, 2024, at <https://www.ersri.org/members/retirement-eligibility>; R.I. Gen. Laws § 16-16-12 (c)(iii); R.I. Gen. Laws § 36-10-9 (c)(iii); R.I. Gen. Laws § 45-21-16 (1)(ii)(C).

This legislative proposal would limit the early retirement reduction, capping the reduction at 3% annually irrespective of the number of years the employee retired before their statutorily prescribed retirement date. The Working Group has not considered specific recommendations concerning the effective date of this proposal.

C. Legislation permitting active firefighters and police officers over the age of 60 that are currently ineligible to retire without a penalty to retire early, or create a 3% cap on early retirement benefits.

Members of MERS police and fire units are currently eligible to retire:

- (1) At age 55 provided they have completed at least 25 years of service;
- (2) At any age provided they have completed at least 27 years of service; or
- (3) At Social Security retirement age provided they have completed at least five years of service.

See R.I. Gen. Laws § 45-21.2-5(b). Members who seek to retire early incur a statutory penalty. *See id.* If a member has completed at least 20 years of service and is within five years of retirement eligibility, that member may retire but their retirement benefit is reduced in accordance with the following table:

Year Preceding Retirement	Percent Reduction	Cumulative Reduction
For Year 1	9%	9%
For Year 2	8%	17%
For Year 3	7%	24%
For Year 4	7%	31%
For Year 5	7%	38 %

See ERSRI, *Retirement Eligibility*, accessed Jan. 15, 2024, at <https://www.ersri.org/members/retirement-eligibility>; R.I. Gen. Laws § 45-21.2-5(b)(5).

Prior to the 2011 reforms, members of MERS police and fire units were eligible to retire:

- (1) At age 55 provided they have completed at least 10 years of service;
- (2) At any age provided they have completed at least 25 years of service; or
- (3) At age 50 provided they gave completed at least 20 years of service.

See Pub. L. 2011, Ch. 408, § 12. The retirement benefit of any member retiring early (before age 55 with less than 25 years of service) was likewise subject to a statutory penalty and reduced by one-half of one percent each month until the member reached age 55. *See id.* Once the member turned 55, the member was eligible to receive their full benefit. *See id.*

Several municipalities that do not participate in MERS and manage municipal police and fire pensions independently either do not impose an early retirement penalty or impose a lesser penalty. The Working Group considered testimony opining that this disparity has made it difficult for municipalities in MERS to keep and retain first responders.

The Working Group considered two proposals relative to public safety early retirement penalties:

**OPTION A:** This legislative proposal would eliminate early retirement penalties in their entirety for public safety personnel.

**OPTION B:** This legislative proposal would limit the early retirement reduction, capping the reduction at 3% annually for employees aged 57 and older, provided they have completed at least 27 years of service.

*D. Legislation which would reduce the retirement age for members of MERS police and fire units.*

The Working Group has not considered specific recommendations concerning the details of this proposal.

### **III. Other Active Employee Benefit Enhancements**

*A. Legislation which would increase the state's contribution to the Defined Contribution 401(a) plan.*

Employers contribute 1% to the DC plan by statute (3% for teachers or MERS non-police or fire employees not covered by Social Security). *See* RI 401(a) Adoption Agreement, executed Jun. 29, 2012. This option would increase the State's contribution to the DC plan by a set percent, thereby increasing a member's retirement benefit. While several stakeholders have endorsed this option, there has been no specific proposal concerning the amount of any such increase, or discussion of whether the employer contribution would also increase.



B. *Legislation which would require all new municipal employees be included in Social Security.*

Under Rhode Island law, municipalities and regional school districts may elect to have coverage under the federal Social Security Act (codified under 42 U.S.C. § 301 *et seq.*). However, state law does not require participation therein. Teachers who are not covered by Social Security are subject to a higher contribution rate<sup>5</sup> but are eligible to receive benefits provided under the Teachers' Retirement Benefits Plan (the "TSB" Plan). *See* R.I. Gen. Laws § 16-16-25.

Currently, the following municipalities do not offer all or some employees a Social Security option:

Barrington (teachers)	Johnston (teachers)
Bristol (teachers and police)	Lincoln (teachers, Lime Rock fire)
Burrillville (teachers, Harrisville and Pascoag fire)	Little Compton (teachers)
Central Falls (teachers, police, and fire)	Middletown (teachers)
Coventry (teachers and fire)	Newport (teachers, police)
Cranston (teachers, police, and fire)	North Smithfield (teachers, Union fire)
Cumberland (teachers and fire)	Portsmouth (teachers)
East Greenwich (teachers and fire)	Scituate (teachers)
East Providence (teachers)	Smithfield (teachers)
Foster Gloucester (teachers)	Tiverton (teachers)
Glocester (teachers)	Warren (teachers)
Hopkinton (Hope Valley, Wyoming fire, Hopkinton police)	Westerly (teachers)
	West Greenwich (Hopkins Hill fire)
	Woonsocket (police and fire)

This option would require municipalities to offer all new employees a Social Security option. The Social Security tax rate for employers and employees is 7.65% of employee payroll (6.2% for Social Security, 1.45% for Medicare). *See* Internal Revenue Service, *Topic no. 751, Social Security and Medicare withholding rates*, accessed Jan. 16, 2024 at <https://www.irs.gov/taxtopics/tc751>.

C. *Salary increases for active teachers, state employees, and municipal employees.*

The Working Group has not considered specific recommendations concerning the details of this proposal.

D. *Legislation reducing the cost of health insurance to active teachers, state employees and municipal employees.*

The Working Group has not considered specific recommendations concerning the details of this proposal.

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<sup>5</sup> Teachers who are not covered by Social Security must contribute 7% of their compensation whereas all other teachers must contribute 5%. *See* ERSRI Audit Fiscal Year Ended June 30, 2022, at 27; RI 401(a) Adoption Agreement, executed Jun. 29, 2012.

- E. *Legislation which would restore longevity payments to active teachers and state employees.*

Teachers and state employees do not receive longevity payments under prevailing law. *See* R.I. Gen. Laws §§ 36-4-17.2; 16-59-7.2. Previously, teachers were entitled to a 5% increase of their base salary after 10 years of service, increasing to 10% of their base salary after 20 years of service. *See* R.I. Gen. Laws § 16-59-7.2; Pub. L. 2011, Ch. 151, art. 8, § 2. While longevity payments for state employees were enabled under state law, the specific benefit was subject to collective bargaining agreements. *See* R.I. Gen. Laws § 36-4-17.1; Pub. L. 2011, Ch. 151, art. 8, § 1. State employees were entitled to a 5% increase of their base salary after 5 years of service, a 10% total increase after 11 years of service, a 15% total increase after 15 years, a 17.5% total increase after 20 years, and a 20% total increase after 25 years. Master Agreement between State of Rhode Island and Rhode Island Council 94, AFSCME AFL-CIO, Section 6.4, July 1, 2008, through June 30, 2012.

The Working Group has not considered specific recommendations concerning the effective date of these proposals.

- F. *Legislation which would provide public safety employees in ERSRI the same retirement benefits as public safety employees in the Municipal Employees' Retirement System ("MERS").*

- G. *Legislation permitting active members of the ERSRI to transfer assets from their DC plan to their DB plan under set conditions.*

The Working Group has not considered specific recommendations concerning the details of this proposal.

#### IV. Retiree Benefit Enhancements

##### A. *Legislation which would restore an annual COLA – in whole or in part – for qualifying retired members of ERSRI.*

The RIRSA suspended full annual COLAs until the ERSRI, State Police Retirement Benefits Trust (“SPRBT”), and Rhode Island Judicial Retirement Fund Trust (“RIJRFT”) collectively reach a funded status of 80%. *See* R.I. Gen. Laws §§ 16-16-40 (f)(2); 36-10-35 (g)(2); 45-21-52 (c)(3) (providing that COLAs are suspended for each municipal plan until the funded ratio of that municipal plan reaches 80% funded). Once returned, the COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return minus – 5.0% with a max of 4%) and 50% calculated using the increase in the Consumer Price Index for All Urban Consumers (“CPI-U”) from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%. *See* R.I. Gen. Laws §§ 16-16-40 (g)(1)(B); 36-10-35 (h)(1)(B); 45-21-52 (d)(1)(B). Under legislation passed during the 2023 session, retired members of ERSRI and MERS units that have not reached an 80% funded ratio will receive .25% of the annual COLA until the system reaches 80% funded.<sup>6</sup> *See* R.I. Gen. Laws §§ 16-16-40 (g)(2); 36-10-35 (h)(2); 45-21-52 (d)(2).

For members (and their beneficiaries) that retired after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member’s retirement allowance or a base amount of \$28,855 (indexed annually) multiplied by the percent resulting from the COLA calculation. For member (and their beneficiaries) that retired before June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member’s retirement allowance or a base amount of \$31,026 (indexed annually) multiplied by the percent resulting from the COLA calculation.

Prior to January 1, 2024, eligible pensioners received an adjustment once every four years (decreased from an adjustment once every five years as part of the settlement negotiations in *Clifford v. Raimondo*, 184 A.3d 673, 681 (R.I. 2018)). *See* Pub. L. 2015, Ch. 141, art. 21, § 19. Legislation passed during the 2023 legislative session repealed the four-year COLA, instead creating a ‘quarter COLA.’ This statute provides pensioners one-fourth of a COLA each year based on the same statutory formula. *See* R.I. Gen. Laws §§ 16-16-40 (g); 36-10-35 (i); 45-21-52 (j). Both the new quarter COLA and the four-year COLA are calculated based partially on the consumer price index and partially on a 5-year average investment return, with a maximum of 3.5% and a minimum of 0%.

Before pension reform, “[r]etirees received a [COLA] tied to inflation and capped at 3 percent of the first \$35,000 of their pensions; in other words, up to \$1,050 per year.” Hiltonsmith, *supra*, at 2; Pub. L. 2011, Ch. 409, § 11.

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<sup>6</sup> As of June 30, 2022, 64 of the 122 MERS Units were receiving COLAs. *See* ERSRI Audit Fiscal Year Ended June 30, 2022, at 19, 21.

The Working Group has heard extensive testimony concerning options for full or partial COLA restoration. Thus far, the Group has considered the following options:

**Option A** – Full restoration of a 3% compounding COLA for statutorily eligible members of ERSRI, effective upon passage. This option could be funded through general appropriation (which would not impact the funded ratio of ERSRI) or through ERSRI.

**Option B** – Restoration of a 3% non-compounding COLA for statutorily eligible members of ERSRI, effective upon passage. This option could be funded through general appropriation (which would not impact the funded ratio of ERSRI) or through ERSRI.

**Option C** – Full restoration of a 3% compounding COLA for statutorily eligible members of ERSRI, retractive to the effective date of RIRSA, effective upon passage. This option could be funded through general appropriation (which would not impact the funded ratio of ERSRI) or through ERSRI.

**Option D** – Legislation which would occasion a 3% non-compounding COLA on the first \$30,000 of a pensioners' annual benefit funded by legislative appropriation from general revenue or an increase in the employer contribution to the pension system.

**Option E** – A one-time COLA based on the current statutory formula for statutorily eligible members of ERSRI, effective upon passage. This option could be funded through general appropriation (which would not impact the funded ratio of ERSRI) or through ERSRI.

**Option F** – A one-time 3% COLA for statutorily eligible members of ERSRI. This option could be funded through general appropriation (which would not impact the funded ratio of ERSRI) or through ERSRI.

**Option G** – A one-time 2% COLA for statutorily eligible members of ERSRI, effective fiscal year 2025. This option could be funded through general appropriation (which would not impact the funded ratio of ERSRI) or through ERSRI.

The Working Group has not considered specific recommendations concerning the effective date of these proposals.

B. *Legislation which would amend the target funded ratio for reinstatement of statutory benefits.*

The RIRSA suspended full annual COLAs until the ERSRI, State Police Retirement Benefits Trust SPRBT, and RIJRF collectively reach a funded status of 80%. *See* R.I. Gen. Laws §§ 16-16-40 (f)(2); 36-10-35 (g)(2); 45-21-52 (c)(3) (providing that COLAs are suspended for each municipal plan until the funded ratio of that municipal plan reaches 80% funded). Currently, ERSRI (state employees) is funded at 60.4%, ERSRI (teachers) is funded at 64.5%, the SPRBT is funded at 85.5%, and the RIJFT is funded at 102.3%. *See* ERSRI Actuarial Valuation Report as of June 30, 2023, at 2; SPRBT Actuarial Valuation Report as of June 30, 2023, at 1; Judicial Retirement Benefits Trust Actuarial Valuation Report as of June 30, 2023, at 2.

Over the course of several hearings, multiple stakeholders have recommended the Working Group consider an option which would decrease the target funded ratio of 80%. This option would decrease the target funded ratio to 75%, 70%, or some other figure that is under the current funding target.

C. *Legislation which would create a “pension benefit floor” tied to the federal poverty line. Annual benefits of those who fall below this line would be supplemented through legislative appropriation from general revenue.*

The Working Group has not considered specific recommendations concerning the details of this proposal.

D. *Legislation which would repeal post-retirement employment restrictions for police and fire personnel relating to the number of days a retiree can work without incurring penalties.*

Retired police and fire personnel are permitted to work 75 days per year while still receiving their pension. R.I. Gen. Laws § 45-21-54. “Pension payments, however, are suspended when that period is exceeded.” *See id.*

This proposed change would rescind post-retirement employment limitations, permitting a retiree to continue working full-time while collecting pension benefits. Alternatively, the Working Group may consider increasing the number of days police and fire personnel are permitted to work without revoking post-retirement employment restrictions in their entirety. Post-retirement employment provisions can, however, be costly to a pension system. That cost is twofold:

- (1) Some members could choose to proactively retire earlier than they otherwise may have, intending to return to employment and receive both a salary and retirement benefits; and
- (2) ERSRI is likely to lose revenue since contributions will decrease if recent retirees are rehired in the place of full-time employees whose payroll would have otherwise been eligible for retirement contributions.

The 75-day post-retirement employment cap predates the 2011 reforms. *See* R.I. Gen. Laws § 45-21-54 (last amending the post-retirement employment cap in 1980). The Working Group has not considered specific recommendations concerning the effective date of this proposal.

E. *Legislation which would create a state-sponsored annuity plan for retirees administered by ERSRI.*

In December 2023, ERSRI introduced a product – referred to TIAA RetirePlus – permitting members to annuitize their DC plan benefits, should they choose.

F. *Legislation which would create a deferred retirement option plan (“DROP”).*

“Numerous governments have added [DROP] features to defined benefit plans.” Government Finance Officers Association (“GFAO”), *Deferred Retirement Option Plans*, accessed Jan. 15, 2024, at <https://www.gfoa.org/materials/deferred-retirement-option-plans>. A ‘DROP’ plan would allow an employee to defer benefit collection and work past their statutory retirement age. “During DROP participation, employees do not accrue additional service or increased compensation in the defined benefit formula.” *Id.* Thus, the employer would not fund the normal cost of any employee benefit as is the case for active employees.

During DROP participation, the employee’s pension remains in the retirement system and continues to be invested. When the employee ultimately retires, “they typically receive the balance in the account, including interest credits, in a lump sum in addition to the monthly pension benefit accrued at the start of DROP participation.” *Id.*; *see also* Samson Alva, Norma B. Coe, and Anthony Webb, *The Impact of a DROP Program on the Age of Retirement and Employer Pension Costs*, Center for Retirement Research at Boston College (Sept. 29, 2010). In effect, a DROP plan permits an employee to continue working “while at the same time . . . receiving their pension benefits in a deferred account.” GFAO, *Deferred Retirement Option Plans*, *infra*. Several other jurisdictions – including, for example, Louisiana, Arizona, and Michigan – offer a DROP plan to certain retirees. *See, e.g.*, La. Rev. Stat. § 11:606 (applying to state public safety personnel); La. Rev. Stat. § 11:1152 (applying to school employees); Ariz. Rev. Stat. § 38-844.03 (applying to public safety personnel); Mich. Comp. Laws § 38.1624a (retired state police officers).

V. **Other Options for Consideration**

A. *Legislation requiring ERSRI separate legacy debt and legacy unfunded liability from that associated with active members of ERSRI.*

Legacy debt refers to unfunded pension liabilities “from a bygone era,” generally accrued before modern actuarial funding began. Jean-Pierre Aubry, *Forensic Analysis of Pension Funding: A Tool for Policymakers*, Center for Retirement Research at Boston College, No. 83 (Apr. 2022), at 3. “Legacy debt has never fit well within the modern [pension] framework because it stems from a much earlier era and its burden cannot be reasonably allocated to those who should have borne the costs.” *See id.* In 2022, a report issued by the Center for Retirement Research at Boston College estimated that legacy debt represented 17% of Rhode Island’s total unfunded actuarial accrued liability (\$.9 billion of \$5.3 billion). *See id.*

B. *Legislation which would exempt public pension benefits from state income tax.*