

# Compass

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SUMMER 2009

## A MESSAGE FROM TREASURER CAPRIO



Dear Retirement System Participant:

In July, at the close of the 2009 legislative session, the Governor and General Assembly enacted a number of changes to the pension system. As members of this system, it is important that you are well informed of how this new legislation will affect you.

While the changes are explained in greater detail inside the newsletter, the following are highlights of some pertinent information:

- If you are currently receiving a monthly pension check, participate in the Municipal Employees' Retirement System or the State Police Retirement Benefits Trust none of the changes apply to you or affect your current pension benefit.
- Changes were made regarding the cost and application of purchased service credit when purchased before or after September 30, 2009. Purchases initiated before September 30, 2009 can favorably impact your retirement eligibility date.
- If you are a state employee or teacher, whether or not certain changes will apply to you is dependent on whether you are eligible to retire as of September 30, 2009. If you **are** eligible to retire as of September 30, 2009, the pension changes **will not** apply to your future benefit, except for the changes relating to purchases of service credit and accidental disability (greater detail is provided inside this newsletter). If you **are not** eligible to retire as of September 30, 2009, all of the pension changes **will** apply to your future benefit.
- If you are close to retirement, we encourage you to contact a customer service representative at the Employees' Retirement System of Rhode Island office to find out how the changes specifically apply to you. Representatives stand ready to assist you.

As always, customer service is of utmost importance to all of us who work in the Office of the General Treasurer. If you have questions regarding the new pension changes, please call or email me or my staff. We look forward to assisting you.

You can reach an ERSRI customer service representative via email by clicking on the 'Contact Us' link on our web site, [www.ersri.org](http://www.ersri.org), or by phone: 401.457.3900.

Sincerely,

*Frank T. Caprio*

### ERSRI GOING GREEN!

ERSRI is going green! Our first eNewsletter was transmitted to over 15,000 active and retired members and the response has been enthusiastic. Our eNewsletter provides a great way to get fast and convenient updates on retirement news. If you don't have an email address in our system, simply go to [www.ersri.org](http://www.ersri.org) and create an account. Once in, go to the **Change Web Profile** tab and update or add your email account. To ensure that you receive your newsletter in the future, please sign up soon. See you in cyberspace!

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### General Assembly Enacts Pension Changes

In July, the Governor and General Assembly enacted the FY 2010 budget. The budget includes a number of changes to pension benefits for State Employees, Teachers and Judges.

Many of the changes become effective October 1, 2009. **Members who are eligible to retire as of September 30, 2009 are NOT affected by the changes**, even if they do not retire by that date. Retirees who currently receive a pension check are also unaffected by these changes.

In this newsletter, we summarize the new pension law and how it may affect you.



## NEW BUDGET INCLUDES PENSION CHANGES

The FY 2010 budget enacted seven major changes to pension benefits. The new law modifies retirement eligibility, service credit accrual rates, final average salary (FAS), cost of living adjustments (COLA), service credit purchases, disability provisions and judges' pensions. An important point to remember is that if you are eligible to retire by September 30, 2009, the pension changes do not apply to you, even if you remain in active service beyond October 1, 2009. The following is a summary of the FY 2010 budget pension changes:

### 1. Retirement Eligibility

**For State Employees and Teachers, the new law establishes a minimum retirement age of 62 for all members, except those schedule B members who retire with less than 29 years of service: their retirement eligibility remains 65 years old with a minimum of 10 years of service credit. For Correctional Officers and Nurses at MHRH, the new law establishes a minimum retirement age of 55 with 25 years of service.**

The new law provides a proportional downward adjustment of the minimum retirement age based on the years of service credited to your account as of September 30, 2009. Before trying to determine your new eligibility date, it is important to know whether you are a Schedule A or B member. To differentiate between the two benefit structures, the plans are known as 'Schedule A' for those vested on or before 7/1/05 (i.e., at least 10 years of contributory service before 7/1/05), and 'Schedule B' for those vesting after 7/1/05.

The current eligibility requirement for benefits under Schedule A and B are as follows:

- Schedule A** eligibility is either (i) age 60 and 10 years of service credit or (ii) 28 years of service credit at any age.
- Schedule B** eligibility is either (i) age 65 and 10 years of service credit or (ii) age 59 and at least 29 years of service credit.

Once you know your current benefit structure, you are ready to determine your retirement eligibility under the new law. Here is an example to help you understand how the proportional formula works.

Let's take a Schedule A member who began service with the state or as a teacher at age 33 and has 15 years of total service credit as of September 30, 2009. Under the new law, the first step would be to determine the member's FIRST point of retirement eligibility under the current law.

In this example the FIRST date of retirement eligibility would be age 60 with 27 years of service. The member will not achieve 28 years of service until age 61. According to the proportional formula and the new minimum retirement age of 62, the adjustment to this member's minimum retirement age would look like this:

- Step 1: Divide the member's years of service as of September 30, 2009 by the number of years required to meet the first point of retirement eligibility, i.e. when the member would first be able to collect a benefit. In this example, it would be 27 years:

$$15 \div 27 = \underline{0.56}$$

- Step 2: Take the difference between the new minimum age of 62 and the member's FIRST age of retirement eligibility under the current law which, in this example, is 60 years old:

$$62 - 60 = \underline{2}$$

- Step 3: Multiply the quotient (0.56) from step 1 by the age difference in step 2:

$$0.56 \times 2 = \underline{1.12}$$

- Step 4: Subtract the value in step 3 from the age 62 minimum retirement age:

$$62 - 1.12 = \underline{60.88}$$

In this example, the new minimum retirement age for this member would be 60 years, 10 months and 17 days.



## FY 2010 PENSION CHANGES, CONTINUED

### 2. Service Credit Accrual Rates

The new law preserves all service credits earned for members under Schedule A as of September 30, 2009. Future accrual of service credits will be earned under Schedule B. If you already are a Schedule B member, there is no change to your accrual rate. If you are a Schedule A member, your benefit earned prior to September 30, 2009 will be preserved. Following the example from the retirement eligibility section, if you had 15 years of service credit as of September 30, 2009 your accrual would look like this:

Years 1-10	10 years X 1.7% =	17% (Schedule A)
Years 11-15	5 years X 1.9% =	9.5% (Schedule A)
<b>15 Years Total</b>		<b>26.5%</b>

Two years later - on September 30, 2011—your accrued service credit will look like this:

Years 1-10	10 years X 1.7% =	17% (Schedule A)
Years 11-15	5 years X 1.9% =	9.5% (Schedule A)
Years 16 and 17	2 years X 1.8% =	3.6% (Schedule B)
<b>17 Years Total</b>		<b>30.1%</b>

Let's assume that in this same example you retire at your new eligibility age of 60 years, 10 months and 17 days at which time you would have accrued total service credit of 27 years, 10 months and 17 days — your service credit at retirement would look like this:

Years 1-10	10 years X 1.7% =	17.0% (Schedule A)
Years 11-15	5 years X 1.9% =	9.5% (Schedule A)
Years 16 –20	5 years X 1.8% =	9.0% (Schedule B)
Years 21-25	5 years X 2.0% =	10.0% (Schedule B)
Years 26 and 27 and 10 months, 17 days	2.88 years X 2.25% =	6.48% (Schedule B)
<b>27 Years, 10 months and 17 days Total</b>		<b>51.98%</b>

### 3. Final Average Salary

For members not eligible to retire as of September 30, 2009, your Final Average Salary will be based on the 5 highest consecutive years of salary rather than the previous basis of 3 highest consecutive years.

### 4. Cost of Living Adjustments (COLA)

For members not eligible to retire as of September 30, 2009, the law changes the COLA for Schedule A members from 3% compounded annually to the COLA provided under Schedule B, which is the lower of either the Consumer Price Index (CPI) or 3% and requires a full 3 year anniversary from the date of retirement for receipt of the COLA.

### 5. Service Credit Purchases

Effective for **all** service credit purchase requests received after June 16, 2009, the cost will be determined at full actuarial value, except for purchases of military service and contribution refund paybacks. To understand this change,



## FY 2010 PENSION CHANGES, CONTINUED

here is an example of how this affects the purchasing cost:

A state employee, currently age 54, had an annual salary in 2007 of \$46,000 and contributed from 1/1/2007 to 9/30/2007 on earned wages of \$34,500. The member was on official leave from 10/1/2007 to 12/31/2007 (3 months) and received service credit of 9 months for calendar year 2007. The member now requests to purchase the 3 months of leave without pay (10/1/2007 – 12/31/2007). Prior to June 16, 2009, the cost was interest based which basically is the employee contributions owed to the system plus 5% interest compounded annually. The cost was computed as follows:

$$\begin{aligned} & \$46,000 \text{ (contractual salary)} - \$34,500 \text{ (earned contractual salary)} = \$11,500 \times 8.75\% \text{ (employee contribution rate)} \\ & = \$1,006.25 + \$34.71 \text{ (5\% compounded interest)} = \$1,040.96. \end{aligned}$$

After June 16, 2009, the purchase amount is full actuarial cost which is based on current age and current salary:

$$\begin{aligned} \text{Current Salary} &= \$48,000 \times 20\% \text{ (actuarial factor based on current age of 54)} = \$9,600 \times 0.25 \text{ (3 months)} = \\ & \$2,400.00. \end{aligned}$$

The purchase cost under the new law will be \$2,400.

If you have service credits that you can purchase, and have not done so already, we recommend that you review your records and request a purchase invoice before September 30, 2009. If your request is received before this date and is valid, it will be applied against your account and will aide in the calculation used to reduce your retirement eligibility age from age 62. Purchases received after September 30 will only add years of service credit to your account and will NOT be used to reduce your retirement eligibility date.

A few more important points about purchased service credits relate to those that are already in progress. If you are currently making installment payments on a service credit purchase and that purchase makes you pension eligible by September 30th, you don't need to "pay it off" by that same date. Provided you complete the entire installment agreement (even if it is after September 30, 2009), you will be considered eligible as of September 30. If you currently have an installment agreement in process that does not make you pension eligible, it will be used to reduce your new pension eligibility age. You will not need to "pay it off" by September 30th provided you complete the entire installment agreement even if it is after September 30, 2009.

### **6. Disability Provisions**

Effective for **all** applications filed after September 30, 2009, accidental disability will be available at 66 2/3 percent for members who are permanently and totally disabled as determined by the Retirement Board. If the disability is determined to be partial and the member is able to work in other jobs, the accidental disability benefit will be limited to 50 percent. Both benefits will be subject to an annual review by ERSRI.

### **7. Judges' Pensions**

A change was also made to Judges' Pensions and applies only to judges appointed after July 1, 2009. Their final average salary basis will be their 5 highest consecutive years of salary. The full pension for new judges will be 80 percent and the reduced pension will be 65 percent.

### **Summary**

As you've seen, the 2010 budget makes significant pension changes that may affect your future benefit. It is important to remember members who retire on or before September 30, 2009, or are eligible to retire as of September 30, 2009, are NOT affected by these changes **except** for the changes relating to purchases of service credit and accidental disability. Current retirees receiving a pension check also remain unaffected as well as members who participate in the Municipal Employees' Retirement System or the State Police Retirement Benefits Trust.

ERSRI's website will soon provide a retirement eligibility date calculator to assist in your retirement planning. In the meantime, if you have or had plans to retire after September 30th but may not be eligible as of that date, we suggest you contact our counseling staff at 401-457-3900 to determine your eligibility and to calculate a retirement date under the new provisions.

## LEGAL CORNER



### GETTING DIVORCED? *WHAT YOU SHOULD KNOW ABOUT YOUR PENSION*

As members of a public pension plan, you should know that your pension could be considered by a court to be a marital asset in your divorce. This means that your pension could be subject to division and payment to your ex-spouse upon your retirement under the terms of a Qualified Domestic Relations Order (QDRO).

While ERSRI does not give legal advice to its members, our duty is to be sure that our members are fully aware of the options available to them and the consequences associated with selecting those options.

If the terms of a QDRO provide for a joint and survivor option naming the ex-spouse as the beneficiary, upon retirement, once the member begins collecting a pension, the percentage of the marital term agreed to in the QDRO (e.g. 50% of the marital term) will be deducted from the monthly pension payment and paid to the ex-spouse. If the member is required to choose either Option 1 or 2 and dies before the ex-spouse, the payment to the ex-spouse will convert to a higher percentage for life, as required by law.

For example, if the QDRO dictates that the ex-spouse must receive \$1,000 per month for the life of the member, the calculation would look like this depending on the option required to be selected by the QDRO:

Member's monthly benefit determined under Option 2 (50% joint and survivor)	\$4,500
Ex-spouse's monthly benefit per QDRO	<u>\$1,000</u>
Member's monthly pension benefit after deducting QDRO	\$3,500

In this example, if the QDRO provides that at the time of retirement the member must select Option 2 and name the ex-spouse as the beneficiary, should the member predecease the ex-spouse then the ex-spouse would begin to receive \$2,250 (\$4,500 X 50%) per month for the rest of his/her life.

Now assume the Member selects Option 1:

Member's monthly pension calculation under Option 1 (100% joint and survivor)	\$4,000
Ex-spouse's monthly benefit per QDRO	<u>\$1,000</u>
Member's monthly pension benefit after deducting QDRO	\$3,000

Here, if the QDRO provides that at the time of retirement the member must select Option 1 and name the ex-spouse as the beneficiary, should the member predecease the ex-spouse then the ex-spouse would begin to receive \$4,000 (100% of the benefit) per month for the rest of his/her life.

It's important to know that in both scenarios, if the member remarries, the new spouse will **not** be entitled to any pension benefits upon the member's death.

Please contact ERSRI's legal department at 401-457-3900 with any questions you may have regarding QDROs and your pension. Visit our website at [www.ersri.org](http://www.ersri.org) and click on [Publications](#) for additional information on QDROs.

### MEMBER ACCOUNT INFORMATION *A GREAT WAY TO STAY CURRENT ON YOUR ACCOUNT!*



If you are an active member looking for your account balances, service credit information or current optional service credit information, we invite you to visit our website [www.ersri.org](http://www.ersri.org) to get real-time information. Once there, you can set up an account (if you have not already) to view your information. You can also change your address, telephone and web profile information, view beneficiary information and request a change, if necessary.

If you are a retired member, you can view your benefit information, make tax withholding adjustments and change your address, telephone and web profile information.

### CLARIFICATION OF 2008 LEGISLATION ON HEALTHCARE

In our last newsletter under 2008 legislation for bill H 7204, we reported that "*for employees not meeting the minimum requirements of age 59 and 20 years of service credit, you will not be eligible now or at any time in the future for any state subsidized medical coverage*". To be more precise and clarify the change for our members, if you retire before you reach age 59 and have 20 years of service credit, you can purchase retiree medical coverage and pay the full cost of the plan with no state subsidy until you reach age 59. At age 59, you are eligible for the 80% state subsidy if you had at least 20 years of service credit at the time you began receiving a pension. If you'd like more information on retiree healthcare, please visit [www.employeebenefits.ri.gov](http://www.employeebenefits.ri.gov) or click the [Health Care Info](#) link on our site.

## EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND

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Chairman, ERSRI Board

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### **IMPORTANT REMINDER FOR RETIREES: NEW TAX RULES THAT MAY AFFECT YOU**

Many ERSRI retirees and beneficiaries saw a slight increase in benefit payments beginning in April. In their June payment, they may have noticed tax withholding not previously deducted. This was the result of new income tax withholding rates issued by the Internal Revenue Service (IRS), which may have ramifications when filing next year's income tax returns. Here are some facts:

- The federal economic stimulus plan signed into law provides for a "Make Work Pay" tax credit of \$400 for individuals and \$800 for families.
- Under the law, the "Make Work Pay" tax credit only applies to "earned income." **Pension benefits are not considered earned income, which means the tax obligation for pension benefits does not change.** This results in a situation for retirees and beneficiaries in which the tax withholding amount on their benefit payment goes down, while their tax obligation has not actually been reduced. This situation could result in underpayment of taxes during the year that would have to be made up when filing income tax returns the following year, along with the possibility of penalties for withholding of taxes during the year.

Effective May 15th, the IRS issued additional withholding tables that apply only to retirement benefits. ERSRI used these additional tables effective with the June 30 pension payment. According to the IRS, this change will help some pensioners avoid a smaller refund next spring or, in limited situations, a balance due. **However, the additional withholding table for pensions is based on the pension payment BEFORE subtracting withholding allowances.** If you have instructed ERSRI in the past to

include federal tax withholding allowances, you may have noticed amounts withheld in June that may not have been present in the past using prior tax tables.

#### **So what do you do?**

While the IRS points out that withholding on pension payments will be automatically adjusted with no action needed by pensioners as a result of the additional tables, **ERSRI encourages members who believe their current withholding is not appropriate for their personal situation or have observed withholding in the June payment not present in the past, to perform a quick check by using the IRS withholding calculator on [www.irs.gov](http://www.irs.gov), directly consult the IRS or another tax advisor. These new rates will not affect you if you have told ERSRI to withhold a set dollar amount from your check.**

If you wish to tell us specifically how much you would like withheld, based on this new information and your individual circumstances, you may print out and send in a *Certificate of Withholding Preference Or Withholding Tax Change* form or log on to the Secure Member section of the ERSRI website and make the necessary changes. This form can be filed at any time.

**Please keep in mind that neither ERSRI nor its staff members are tax professionals and cannot give tax advice. We are simply providing this information as a courtesy to our members.**

For information about the Making Work Pay Credit visit [www.irs.gov/newsroom/article70,,id=204521,00.html](http://www.irs.gov/newsroom/article70,,id=204521,00.html) and Social Security Administration <http://www.socialsecurity.gov/payment/> for information about the Economic Recovery Payment.