

RIRSA: A fair and comprehensive solution to Rhode Island's pension crisis

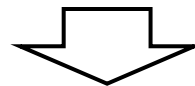
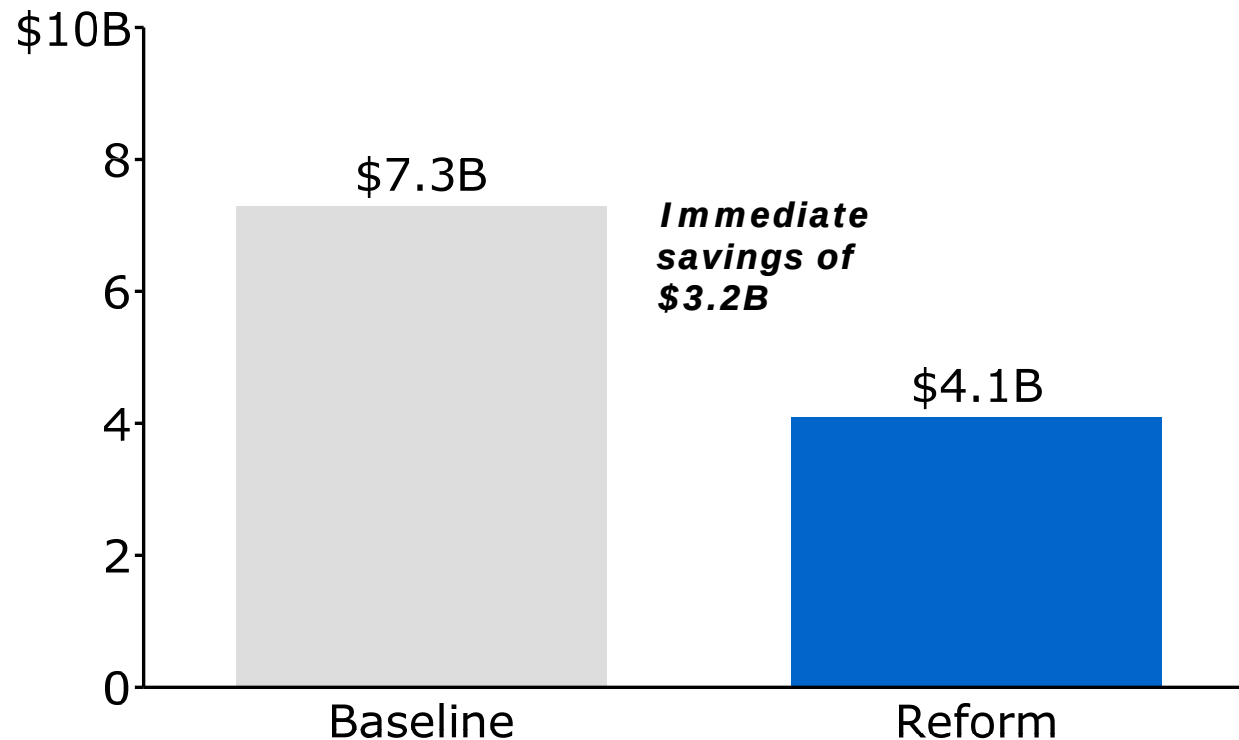
October 2011

Fundamental reform principles have driven our design

- **Comprehensive:** Extensive reform addressing all major issues, including all public employees and retirees; no one group bears a disproportionate burden
- **Affordable and sustainable:** Taxpayer bill limited and predictable; saves over \$3 billion over 10 years, enabling investment in Rhode Island's future
- **Fair:** All benefits earned to-date are protected; provide similar level of benefits as today, but structured in a way that shares risk and fair to taxpayer
- **Financially responsible:** Reasonable assumptions and no risky financial shortcuts; stress-tested to survive market volatility
- **Attractive to high-quality workers:** Reward younger employees; reduce vesting period; portable benefits; pension won't run out of money
- **Mindful of transition and legal issues:** Recognizes those closest to retirement; designed to withstand legal scrutiny
- **Self-correcting:** Automatically adjusting mechanisms, COLA, SS NRA; plan removes pension from political process going forward
- **Non-MERS municipal retirement plans:** Provides pathway, tools and incentives for real reform, tailored to unique local situations

Upon enactment, RIRSA reduces the unfunded liability by \$3.2 billion

Rhode Island Unfunded Actuarial Accrued Liability

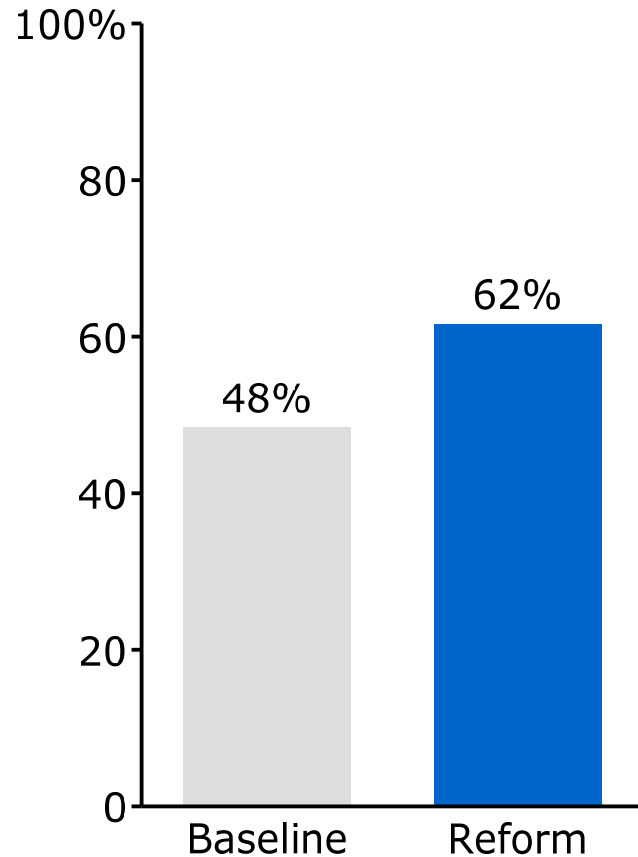


A new self-correcting plan design will ensure that we're never back at the pension reform table again

RIRSA immediately improves funded status

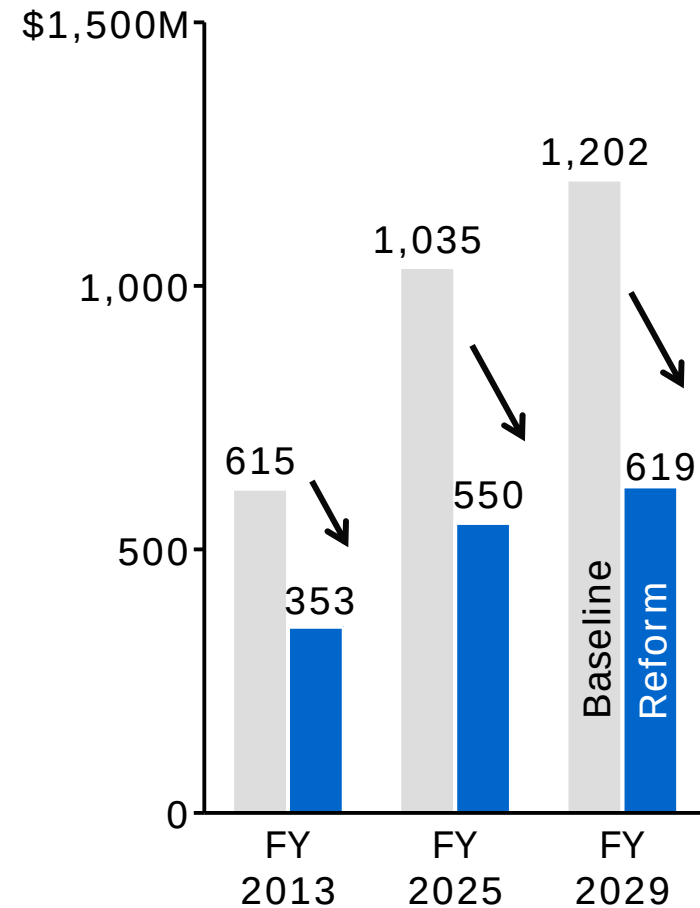
IMMEDIATELY IMPROVED FUNDED STATUS

Funded status (%)



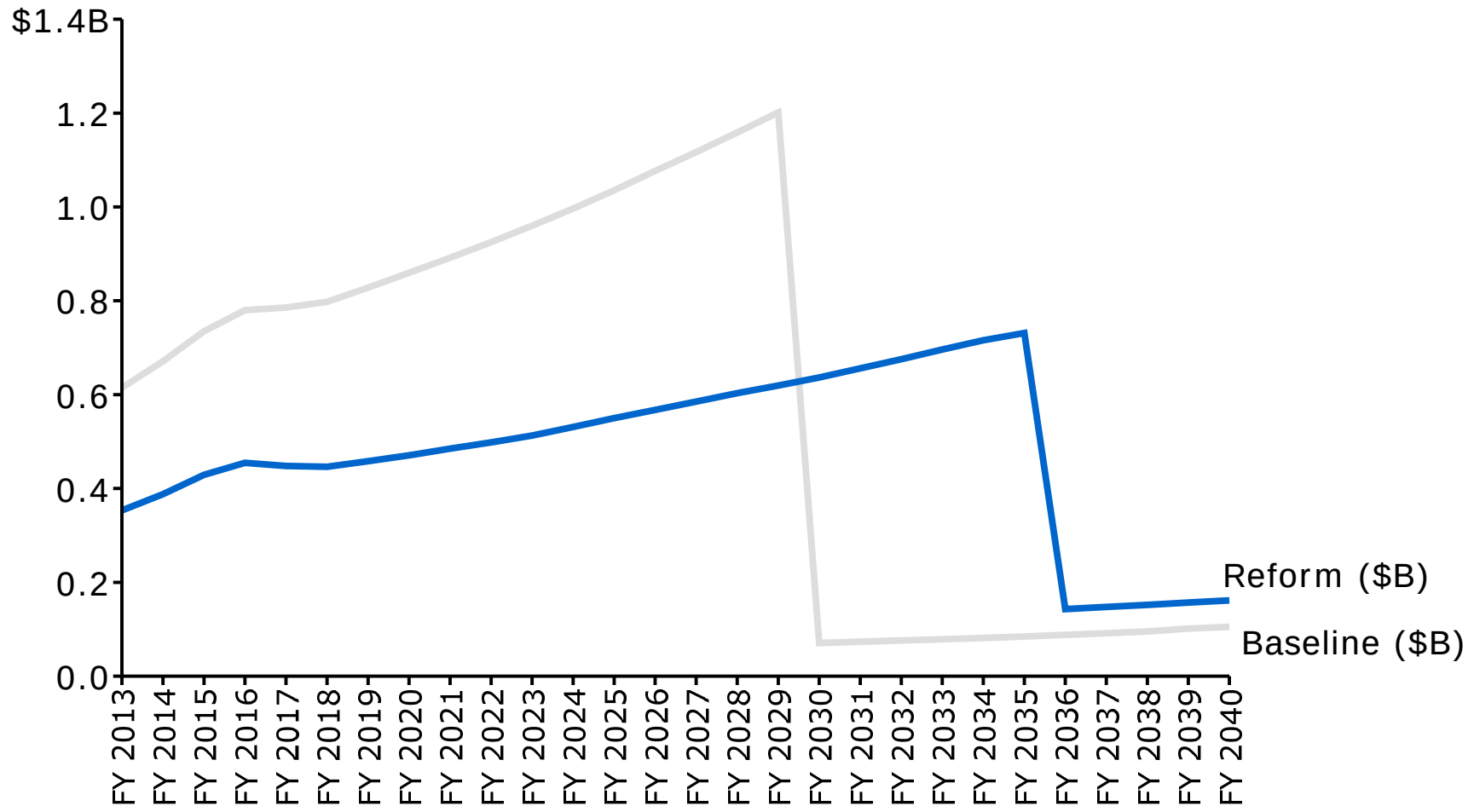
SIGNIFICANTLY REDUCED CONTRIBUTIONS

Expected taxpayer contributions
State and Teachers only (\$M)



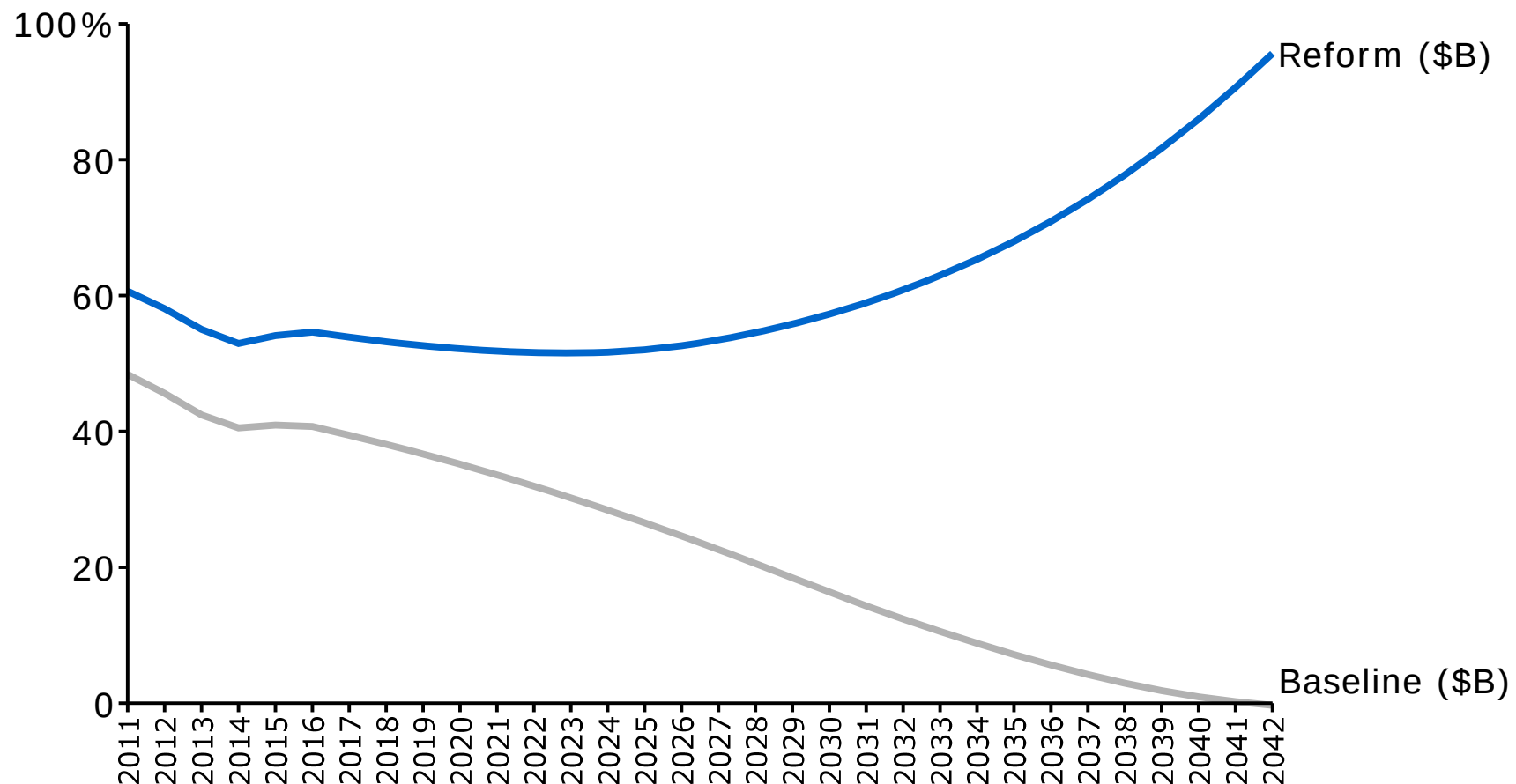
The taxpayer contribution trajectory will become sustainable

Expected yearly taxpayer contribution for State Employees and Teachers' retirement plans



Real retirement security means that pension fund will not run out of money

Projected Funded Ratio at each valuation date assuming 5.75% returns each year and continuation at current funding levels; State Employees only



The details of RIRSA: State and Teachers

Provision	Current Plan	New Plan
Member Contribution Rate	8.75/9.50% (State/Teachers)	3.75% (State & Teachers)
DC Member Contributions		5.00% + 1.00% ER Match
Replacement Accrual at 40 Years	75% (capped at 38 years)	40% + DC balance
Unreduced Retirement Eligibility	65/10, 62/29	SS NRA; Transition rules: 1) eligibles remain eligible; 2) those age 52+ and vested with retirement age <62 can retire at 62; 3) members with 10+ years of service may retire at current retirement as of 6/30/12 with benefit at distribution date calculated using accrued benefit as of 6/30/12
Reduced Retirement Eligibility	62/20, reduced from 65	62/20, reduced from SS NRA
COLA (All members, including current retirees)	CPI capped at 3%, on first \$35,000	Investment related (2% target at 7.5% investment returns on first \$35K) At 70% funded, the risk-adjusted COLA is applied with a benefit limit of \$500/year of service for those with total pensions <\$20K, indexed For all others, COLA suspended until 80% funding reached When COLA returns, delayed until later of SS NRA or 3 yrs after retirement
Average Salary Period	5 Years	5 Years
Vesting	10 Years	5 Years for DB 3 Years for DC
Amortization Schedule	19 Years	25 Years

The details of RIRSA: MERS General and MERS Police and Fire

MERS General

- **Member contributions to DB:** 1-2% based on COLA election
- **Member contributions to DC:** 5%; additional 2% member and 2% employer for those without SS
- **Accrual rate:** 1%
- **Average salary:** Final 5 years
- **COLA:** same as State and Teachers
- **Retirement age:** SS NRA or 62 with 20 years of service for reduced; same transition rules as State and Teachers
- **Vesting:** 5 years for DB, 3 years for DC employer match

MERS Police & Fire

- **Member contributions to DB:** 7-8% based on COLA election
- **Member contributions to DC:** Additional 3% member and 3% employer for public safety without SS
- **Accrual rate:** 2%
- **Average salary:** Final 5 years
- **COLA:** same as State and Teachers' when COLA returns, delayed until later of age 55 or 3 years after retirement
- **Retirement age:** 55 with 25 years of service
- **Vesting:** 5 years for DB, 3 years for DC employer match

The details of RIRSA: State police and Judges

State Police

- **Member contributions to DB:** 8.75%
- **Member contributions to DC:** N/A
- **Accrual rate:** 2%
- **Average salary:** Final 5 years , with removal of overtime/clothing allowance
- **COLA:** same as State and Teachers; when COLA returns, delayed until later of 55 or 3 years after retirement
- **Retirement age:** 55 with 25 years of service; members age 45 with 10 years of service as of 6/30/2012 who have a retirement date before age 52 will have a new unreduced retirement age of 52
- **Vesting:** 5 years

Judges

- **Member contributions to DB:** 12%
- **Member contributions to DC:** N/A
- **Accrual rate:** 80% of final average compensation
- **Average salary:** Final 5 years
- **COLA:** same as State and Teachers
- **Retirement age:** Age 65 or after 20 years of service, or after age 70 with 15 years of service
- **Vesting:** 5 years

Retirement security requires risk-sharing and self-correcting mechanisms going forward

COLA tied to investment returns

- **COLA linked to investment returns**, to prevent accruing an unfunded liability in economic downturns
- **Share gains in good times**

Self-correcting COLA

- **Suspend COLA when system drops below 80 %** funded status to prevent changes to core benefit package

Risk-sharing

- In a DB plan, 100% of the risk is on the taxpayer
- A DC component balances risk between the taxpayer and the employee

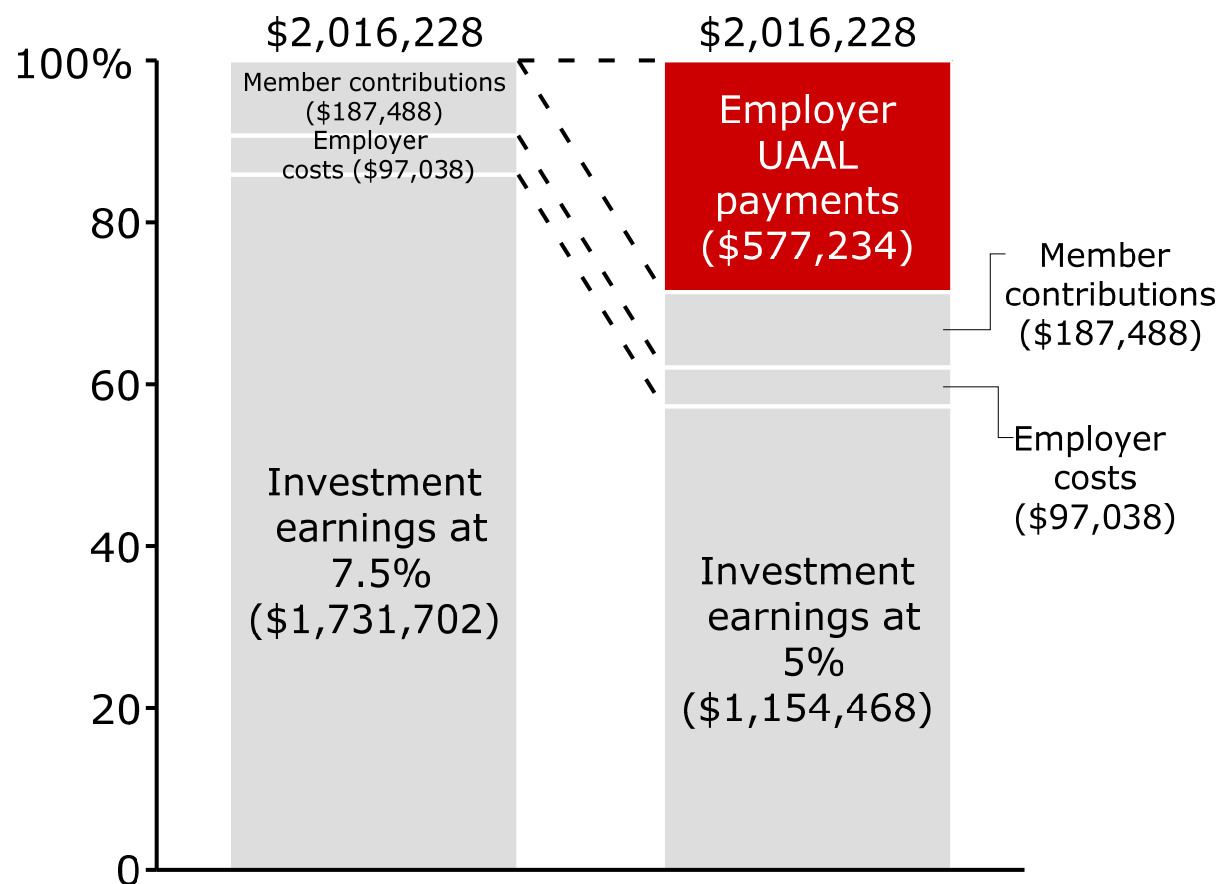
Create a *Pension Protection Act* for Rhode Island

- Adopt **funding improvement strategy** if plan is deemed unhealthy by actuary
- Actuary submits strategies to Retirement Board, which selects two for the General Assembly to choose

In RIRSA, risk is shared between the employee and employer

If the fund earns <7.5%, an unfunded liability is created and taxpayers are responsible

Source of a sample employee's benefit payments if fund earns 5% vs. 7.5%



In RIRSA, **market risk is shared**

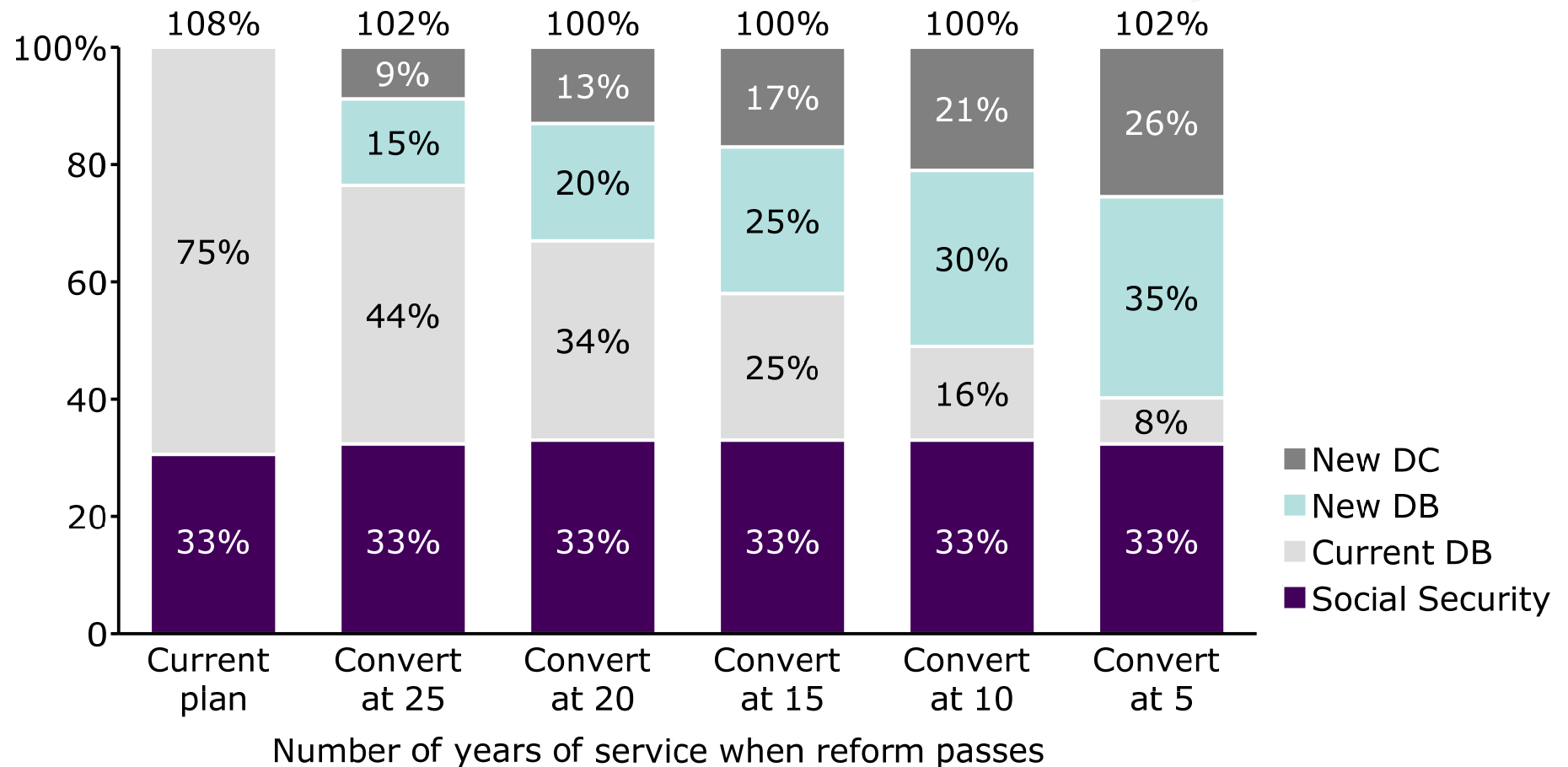
- A hybrid plan shares risk in case of **volatile market** conditions
- The DC component can never be underfunded
- Employer risk cut in half compared to current plan

Those with the most service are the least impacted

CURRENT MEMBERS

Replacement income for member hired at 27
(continuous employment until SS NRA)

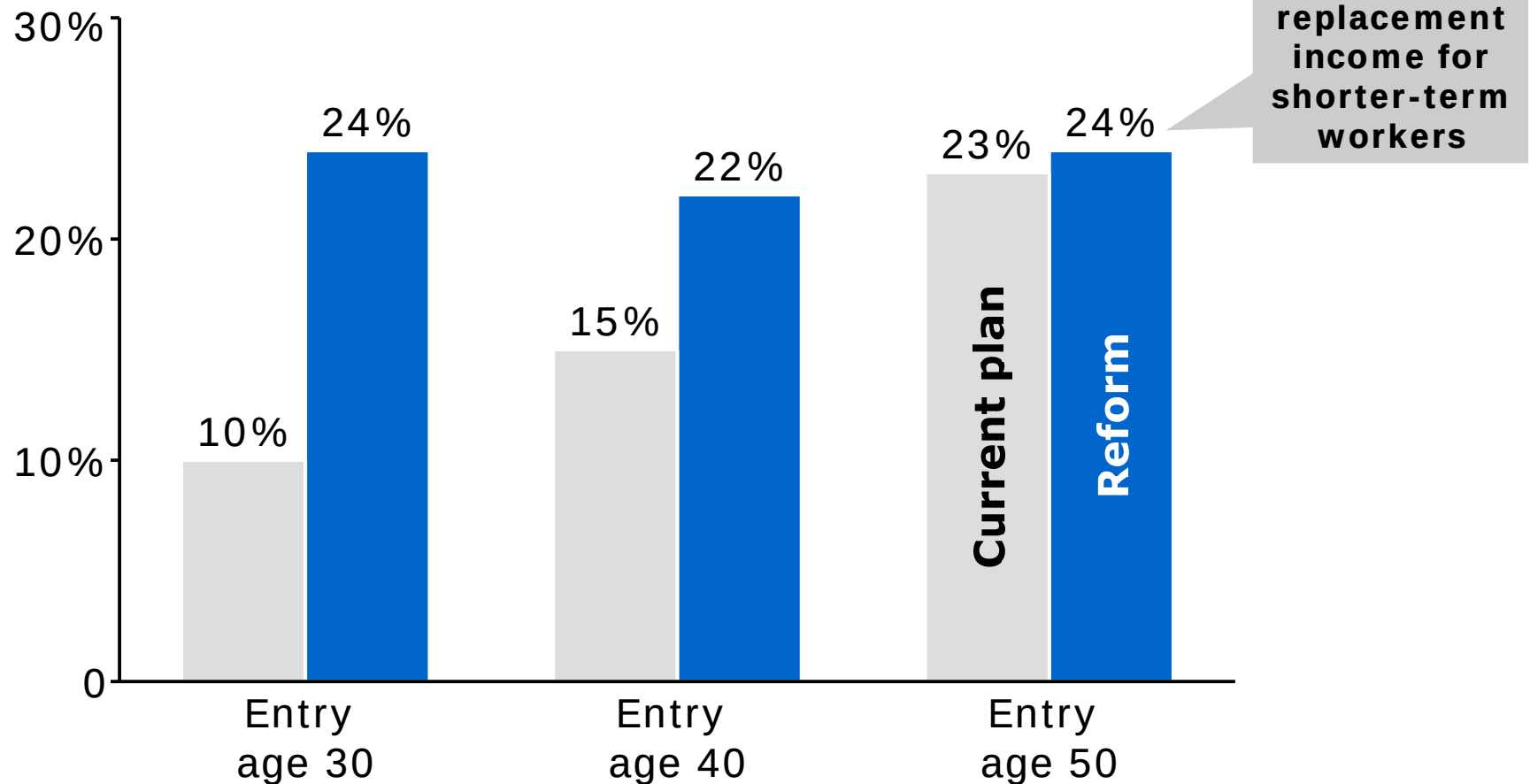
Total replacement income
well above targets



The new plan is better for shorter-term employees

SHORTER-TERM EMPLOYEES

% replacement income for new hire who terminates after 15 year career
commence payment at SS NRA



The details of our solution: non-MERS municipally-run plans

- **Actuarial analyses:** Requires municipalities to conduct actuarial experience studies to establish most accurate status of funding levels, mortality rates and key drivers of current performance to enable fact-based solutions
- **Pathway to solvency:** Requires each municipally-run plan with “critical” funding levels to develop comprehensive plan toward solvency (as state has done here) within the next year
- **Avoid “one-size fits all” solutions:** Recognizes that each municipality has unique set of financial issues, contracts and objectives; requires municipal leaders and employees to tailor their own solutions
- **Respects collective bargaining:** Will not abrogate existing collective-bargained agreements
- **Tools and support:** Establishes a Solvency Review committee, who will support and advise municipalities during their planning process, and will ultimately review and approve submissions
- **Enforcement:** Failure to develop an acceptable comprehensive plan to achieve solvency within specified timeline will result in withholding of state aid for municipality, AND suspension of COLAs

Pension reform will improve Rhode Island's economic outlook

RI's unfunded liability has serious implications on our economy

- In May, **Moody's lowered RI's rating outlook** from stable to negative
 - Higher borrowing costs
 - Pension key driver of rating downgrade
- Businesses in RI or looking to re-locate to RI want **stable and predictable tax structure**



Pension reform will significantly improve our economic outlook

- Significantly improved likelihood of **improved rating** and reducing high borrowing costs
 - Low-cost bonds will enable the state to invest in other key initiatives
- **Attract and retain businesses that create jobs** by demonstrating a firm commitment to creating favorable economic conditions

Over time, budget relief will enable the state to invest in critical public initiatives like education, healthcare and infrastructure