



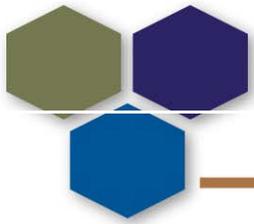
Rhode Island Retirement Security Act of 2011: Plan details

October 2011

GRS

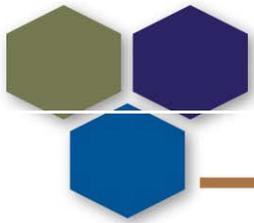
Gabriel Roeder Smith & Company
Consultants & Actuaries
www.gabrielroeder.com

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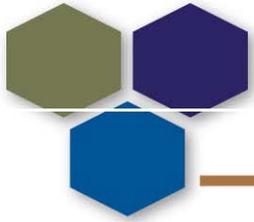
Agenda

- ◆ Approach to forming the solution
- ◆ Fiscal impact of the RI RSA
- ◆ Summary of benefit changes
 - ▶ Replacement income
 - ▶ Specific examples
- ◆ FAQs



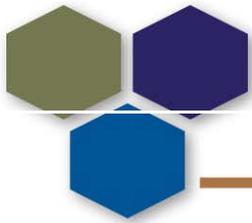
Questions to answer

- ◆ How do we deal with the current situation?
 - ▶ Affordability
- ◆ What should the prospective plan look like?
 - ▶ Target replacement income
- ◆ How can we ensure we are not back here again?
 - ▶ Appropriate risk sharing



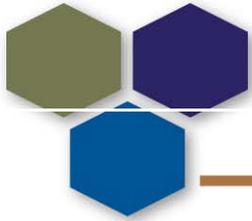
Separating the Issues

| Size of UAAL and Funding Ratio | Prospective Benefits |
|--------------------------------|----------------------|
| Affordability | Risk Sharing |
| Re-amortization | HR Considerations |
| Fairness/Equity | |
| Self Correcting Mechanisms | |
| | |



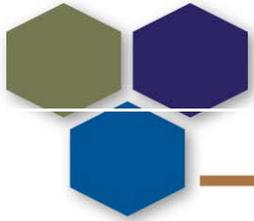
Extensive analysis around transition plan to new system

- Due to the size of the current UAAL and the amount of benefits accrued to date, there needs to be a transition into the new plan
 - Desire to increase funding levels and decrease UAAL quickly
 - 80% funded in 15 years?
 - A principle that all stakeholders should share in the solution
- Current accruals, benefits, and final earnings are protected, only future accruals, COLAs, etc would be impacted
 - Consideration could be provided for older vested members on changes in retirement eligibility



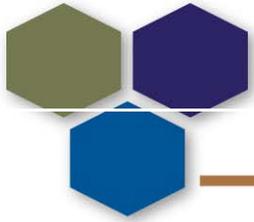
A top-down approach, considering many alternatives that provide ~40% replacement income

| | Retirement Eligibility | Final Average Period | Multiplier / DC contribution | COLA | Employee Contribution/DC Contribution |
|---|------------------------|----------------------|---|---|---|
| A | Average Age 65.8 | 10 years | Average accrual for a 30 year retiree: 51.00%; Average multiplier: 1.70% | Elimination of COLA for all | |
| B | Average Age 67.0 | 10 years | Average accrual for a 30 year retiree: 30.00%; Average multiplier: 1.00% | Elimination of COLA for all | 5.75% into DB plan, 3% into DC |
| C | Average Age 67.0 | 10 years | Average accrual for a 30 year retiree: 30.00%; Average multiplier: 1.00% | Elimination of COLA for all | 2.75% into DB plan, 0% through amortization period, 6% into DC plan |
| D | Average Age 65.8 | 5 years | Average accrual for a 30 year retiree: 43.50%; Average multiplier: 1.45% | Elimination of COLA for all | |
| E | Average Age 67.0 | 10 years | Average accrual for a 30 year retiree: 19.50%; Average multiplier: 0.65% | For all members, including current retirees: Current Schedule B COLA Average value compared to all benefits: 1.75% | |
| F | Average Age 65.8 | 10 years | Average accrual for a 30 year retiree: 30.00%; Average multiplier: 1.00% Plus 6% DC contribution | Elimination of COLA for all | 6% into DC |
| H | 62/29, 66&10 | 10 years | 1.50% for 10 years, 1.80% thereafter | CPI, capped at 3.0% on first \$15,000 of benefit, delayed until 65 | |
| I | 63/28, 65&10 | 10 years | 1.60% for salary up to \$30,000, 1.80% thereafter | 1.00% on all benefits | |
| J | SS NRA | 5 years | 1.00% | 15 year COLA deferral | 4.75% into DC |
| K | SS NRA | 5 years | 1.00% | COLA deferred until 80% funded, risk-adjusted on \$12k | 5% into DC |
| l | SS NRA | 5 years | 1.00% | COLA deferred until 80% funded, risk-adjusted based on service credits | 5% into DC |
| J | ... | ... | ... | ... | ... |



Illustrative Combination of Levers

| Target 80% Funding Date | Cola Deferral | Member Transition | Employer Contribution Rate | Other changes to Prospective Plan |
|--------------------------|---------------|-----------------------------------|----------------------------|-----------------------------------|
| 2022 | 11 years | .5% decrease per year until 2.75% | 27% | 8.75% less DB contribution |
| 2025 | 14 years | .5% decrease per year until 2.75% | 24% | 8.75% less DB contribution |
| 2025 | 14 years | 2.75% immediately | 27% | 6.00% |
| 2025 | None | 2.75% immediately | 31% | 6.00% |
| 2028 | None | 4.00% for 5 years, then 2.75% | 27% | 8.75% less DB contribution |
| 2029 | None | 2.75% immediately | 27% | 6.00% |
| 2029 | 18 years | 2.75% immediately | 24% | 6.00% |
| 2030 (70% funded) | 14 years | 2.75% immediately | 24% | 6.00% |
| 2032 | None | 4.00% for 5 years, then 2.75% | 24% | 8.75% less DB contribution |
| 2034 | None | 2.75% immediately | 24% | 6.00% |

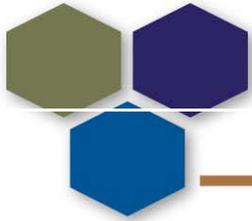


Transition not included in RIRSA

- Employers: contribution rate not allowed to decrease from current levels until 80% funded
- Members: contribution rate held up, only decreasing 0.50% per year until reaches ultimate 3.00%, with decreases going into DC plan
- COLA suspended until 80% funded



Decided against gradual transition in light of negative feedback from current employees and unfairness to current employees who have already borne the majority of previous reforms



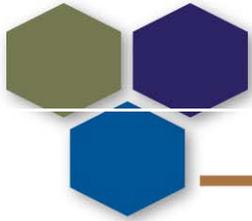
Fiscal Impact on FY2013

| Estimated FY2013 Employer Contributions (\$ in millions) | | | | |
|--|--------------------|-------------------|--------------|---------------|
| Includes Defined Contribution Allocations Where Applicable | | | | |
| Group | Current Provisions | Act Contributions | | |
| | | DB | DC | Savings |
| ERSRI - State Employees | \$ 243 | \$ 136 | \$ 7 | \$ 100 |
| ERSRI - Teachers/State Contributions | 151 | 78 | 4 | 68 |
| ERSRI - Teachers/Local Contributions | 221 | 112 | 16 | 92 |
| JRBT - Judges | 2.4 | 1.7 | - | 0.7 |
| SPBT - State Police | 6 | 2 | - | 4 |
| MERS - General Employees | 41 | 25 | 2 | 14 |
| MERS - Public Safety | 25 | 11 | 1 | 13 |
| Total | \$ 689 | \$ 366 | \$ 30 | \$ 293 |

DB: Defined Benefit (Current ERSRI)

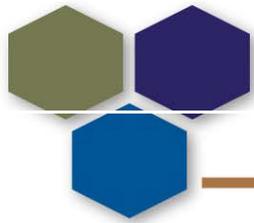
DC: Defined Contribution. Includes supplemental contribution for members not covered by social security where applicable

- 9 Includes impact of re-amortization to 25 years



FY2012 vs. FY2013

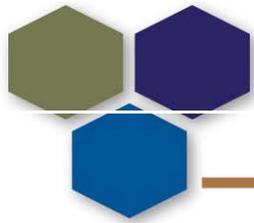
| FY2012 vs. FY2013 Employer Contributions (\$ in millions) | | | | |
|--|-----------------|-------------------|--------------|--------------|
| Includes Defined Contribution Allocations Where Applicable | | | | |
| Group | Expected FY2012 | Act Contributions | | |
| | | DB | DC | Savings |
| ERSRI - State Employees | \$ 149 | \$ 136 | \$ 7 | \$ 6 |
| ERSRI - Teachers/State Contributions | 85 | 78 | 4 | 3 |
| ERSRI - Teachers/Local Contributions | 143 | 112 | 16 | 14 |
| JRBT - Judges | 1.5 | 1.7 | - | (0.2) |
| SPBT - State Police | 4 | 2 | - | 2 |
| MERS - General Employees | 20 | 25 | 2 | (6) |
| MERS - Public Safety | 13 | 11 | 1 | 1 |
| Total | \$ 416 | \$ 366 | \$ 30 | \$ 20 |



Impact on UAAL

(Unfunded Actuarial Accrued Liability)

| Unfunded Actuarial Accrued Liability (\$ in millions) | | | |
|---|--------------------|----------|------------|
| as of June 30, 2010 | | | |
| Group | Current Provisions | Act | Difference |
| ERSRI - State Employees | \$ 2,700 | \$ 1,645 | \$ (1,056) |
| ERSRI - Teachers | 4,133 | 2,284 | (1,849) |
| JRBT - Judges | 11 | 9 | (2) |
| SPBT - State Police | 29 | (1) | (29) |
| MERS - General Employees | 287 | 113 | (174) |
| MERS - Public Safety | 143 | 66 | (77) |
| Total | \$ 7,303 | \$ 4,116 | \$ (3,187) |



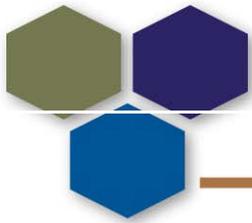
Sources of Change in UAAL

State Employees and Teachers

| Description | UAAL (\$M) | UAAL savings (\$M) | FY2013 Employer Contribution | FY 2013 Savings (\$M) |
|------------------------------------|---------------|--------------------------|------------------------------------|-----------------------------|
| Current Provisions | 6,833 | | 615 | |
| Change in COLA Provisions | | 2,300 | | 200 |
| Change in Retirement Eligibilities | | 400 | | 45 |
| All Other Changes | | 300 | | 35 |
| RI RSA | 3,929 | 2,905 | 353 | 262 |

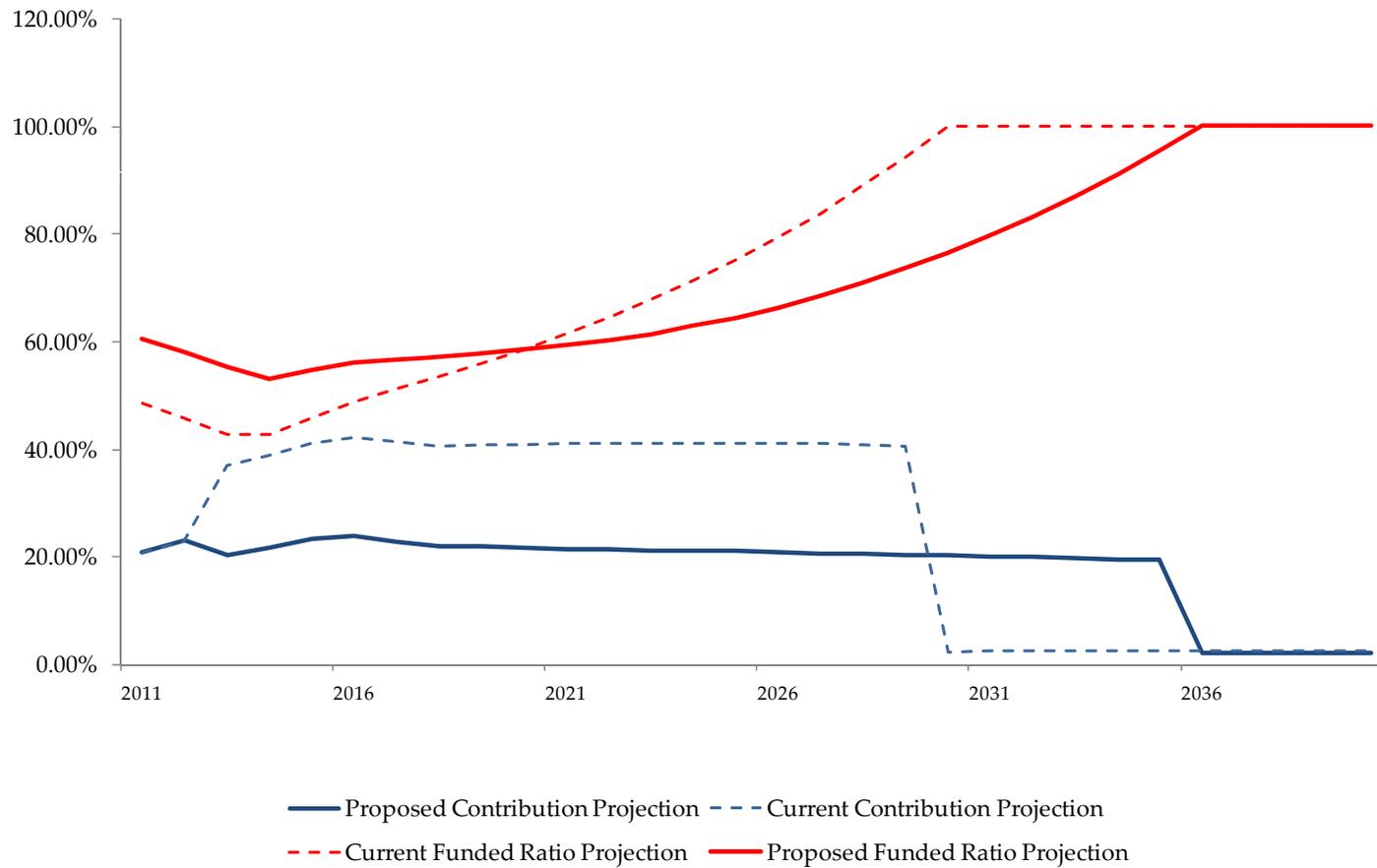
Numbers above are rounded estimates

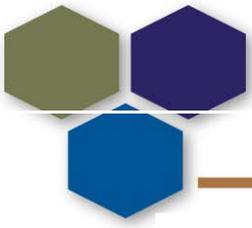
Removing one change has a domino impact on other changes



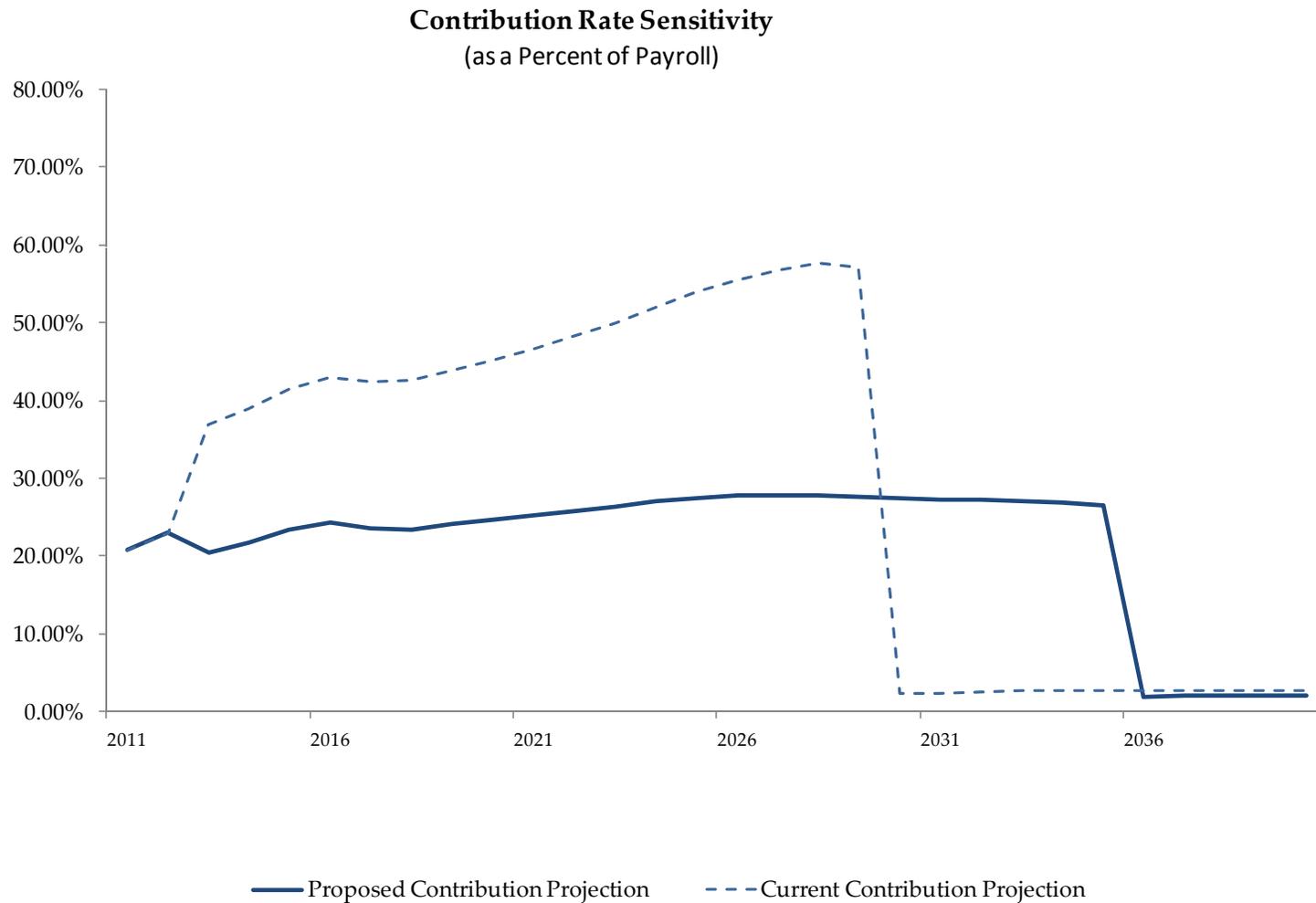
Projections: All Assumptions Met (State Employees)

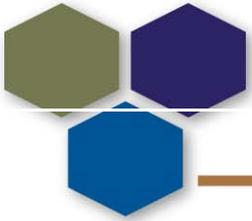
Funded Ratio and Contribution Policy
(as a Percent of Payroll)





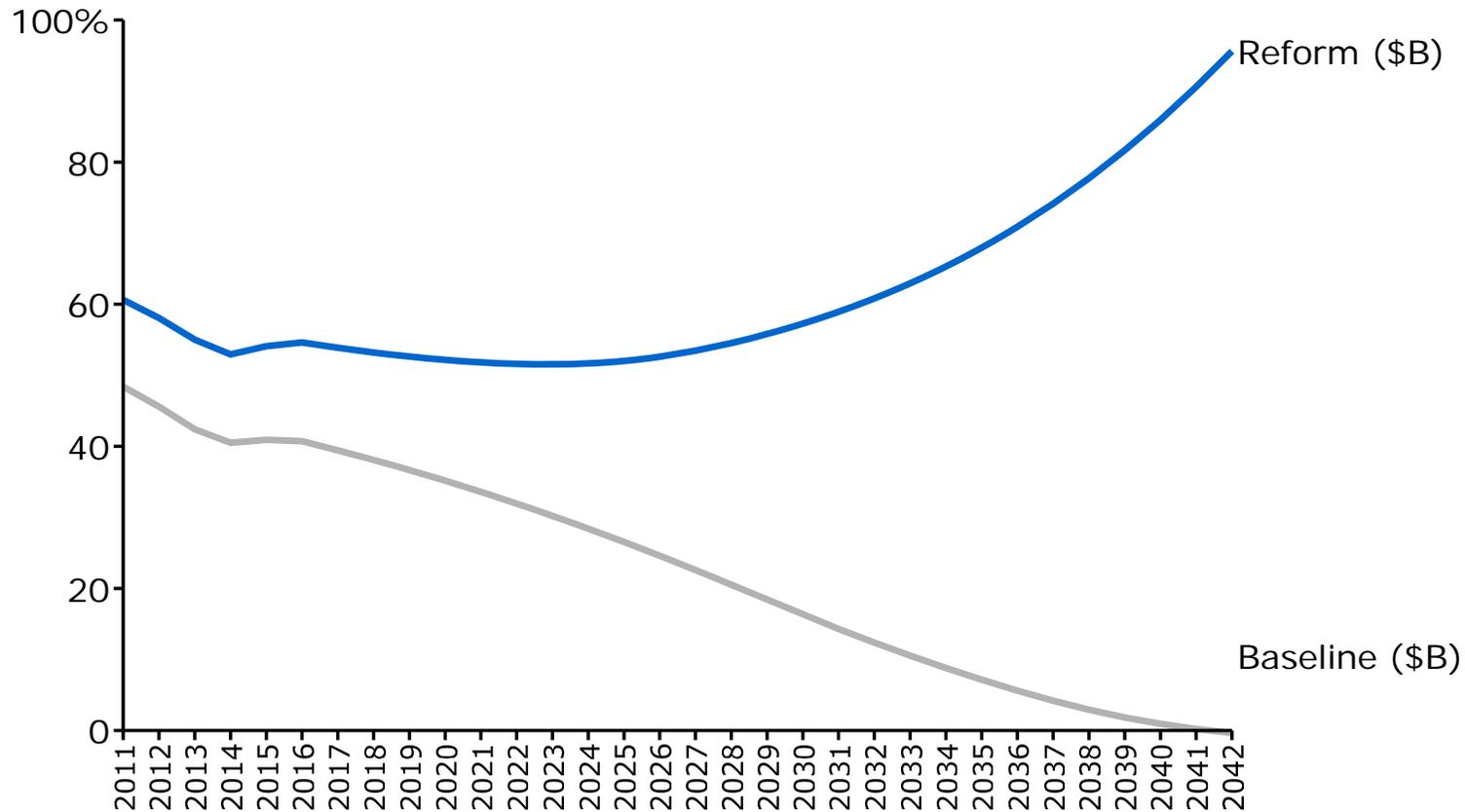
Projections: 5% annual investment return through FY2020 (State Employees)

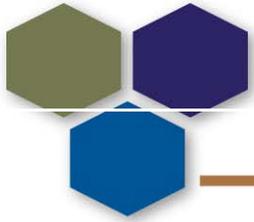




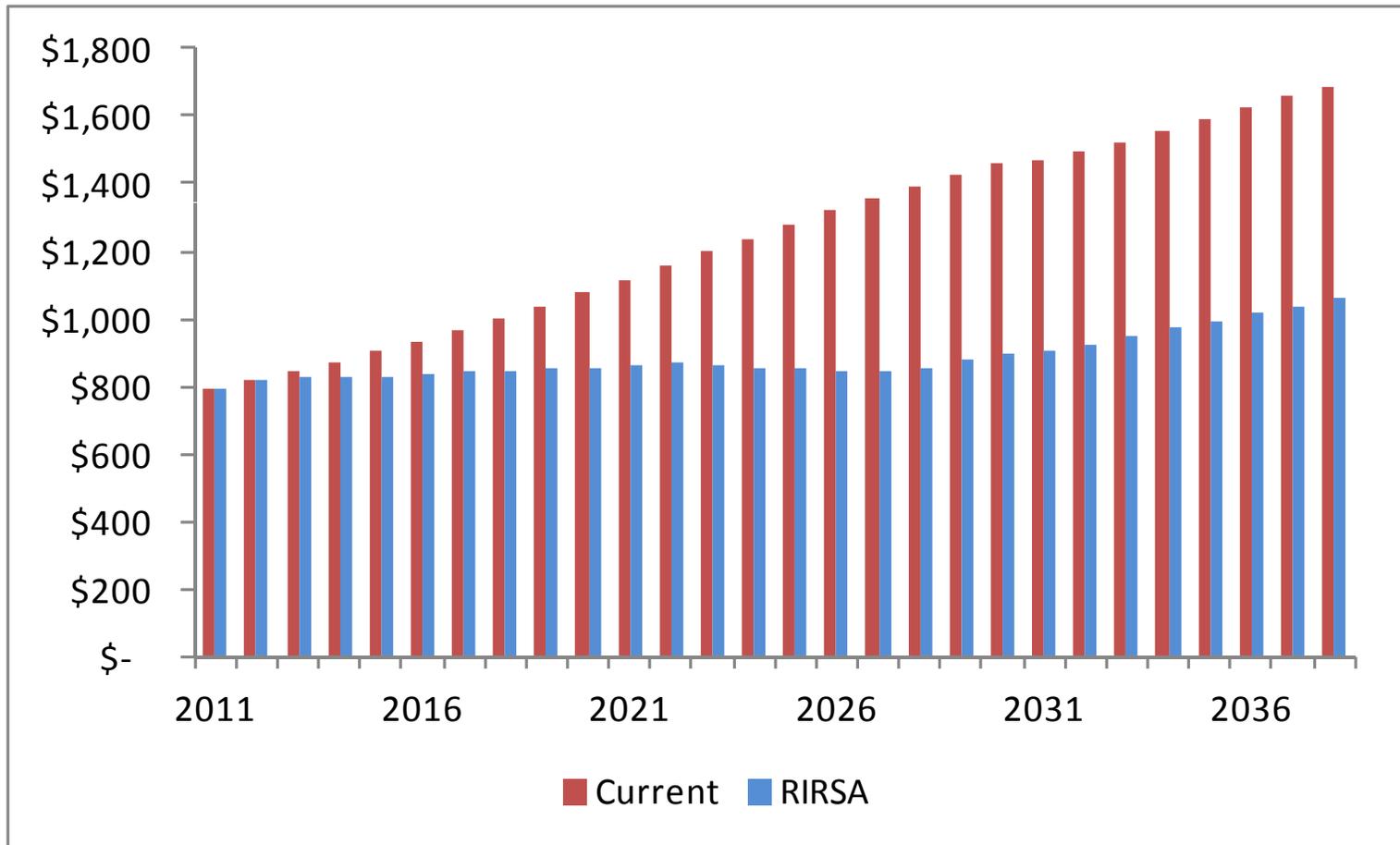
Stress tested for lower returns

Projected Funded Ratio at each valuation date assuming 5.75% returns each year (which is actual 10 return on pension assets) and continuation at current funding levels; State Employees only

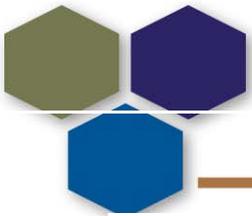




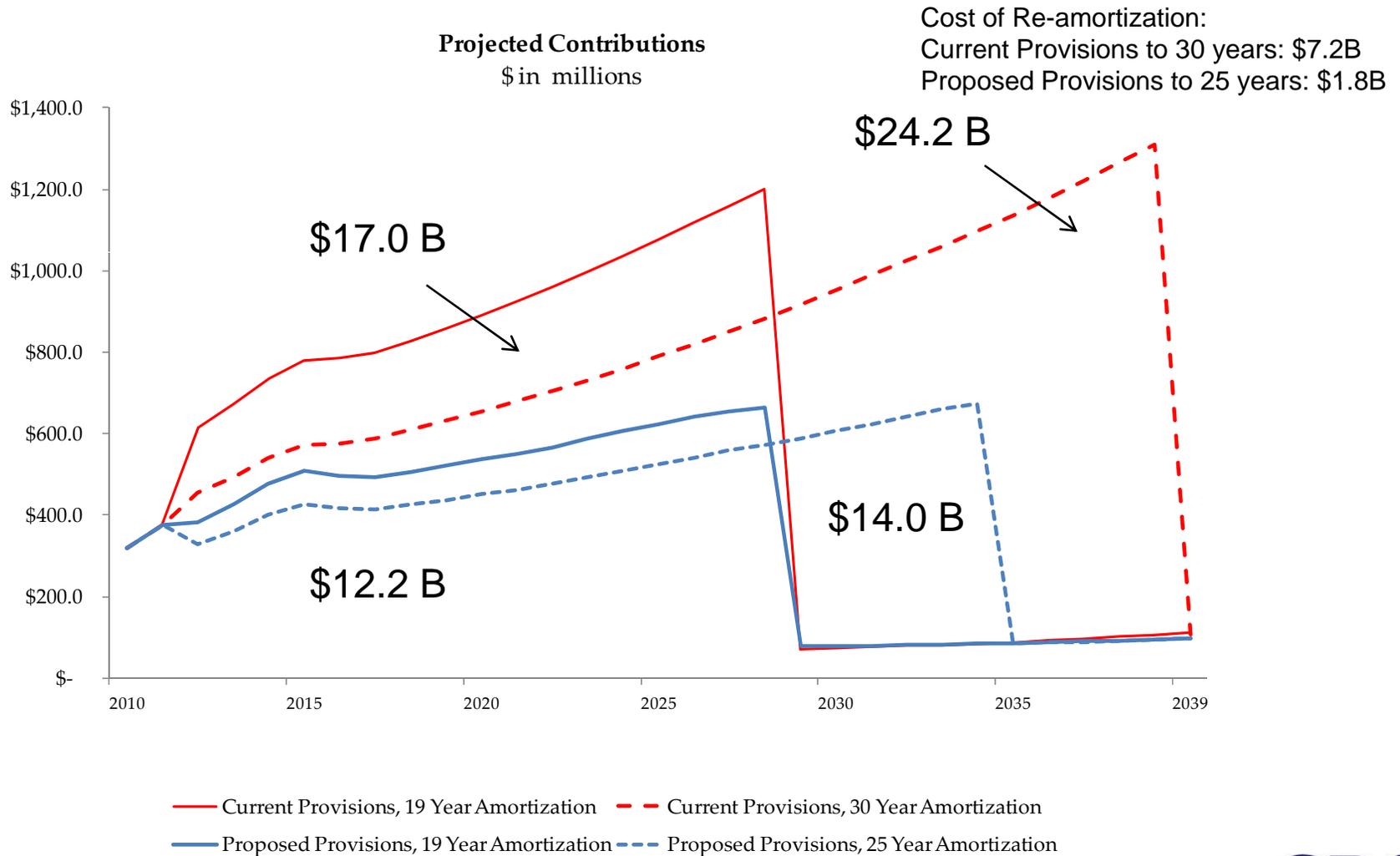
Projected Benefit Payments (State and Teachers)

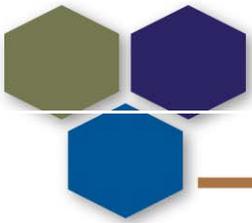


\$ in millions

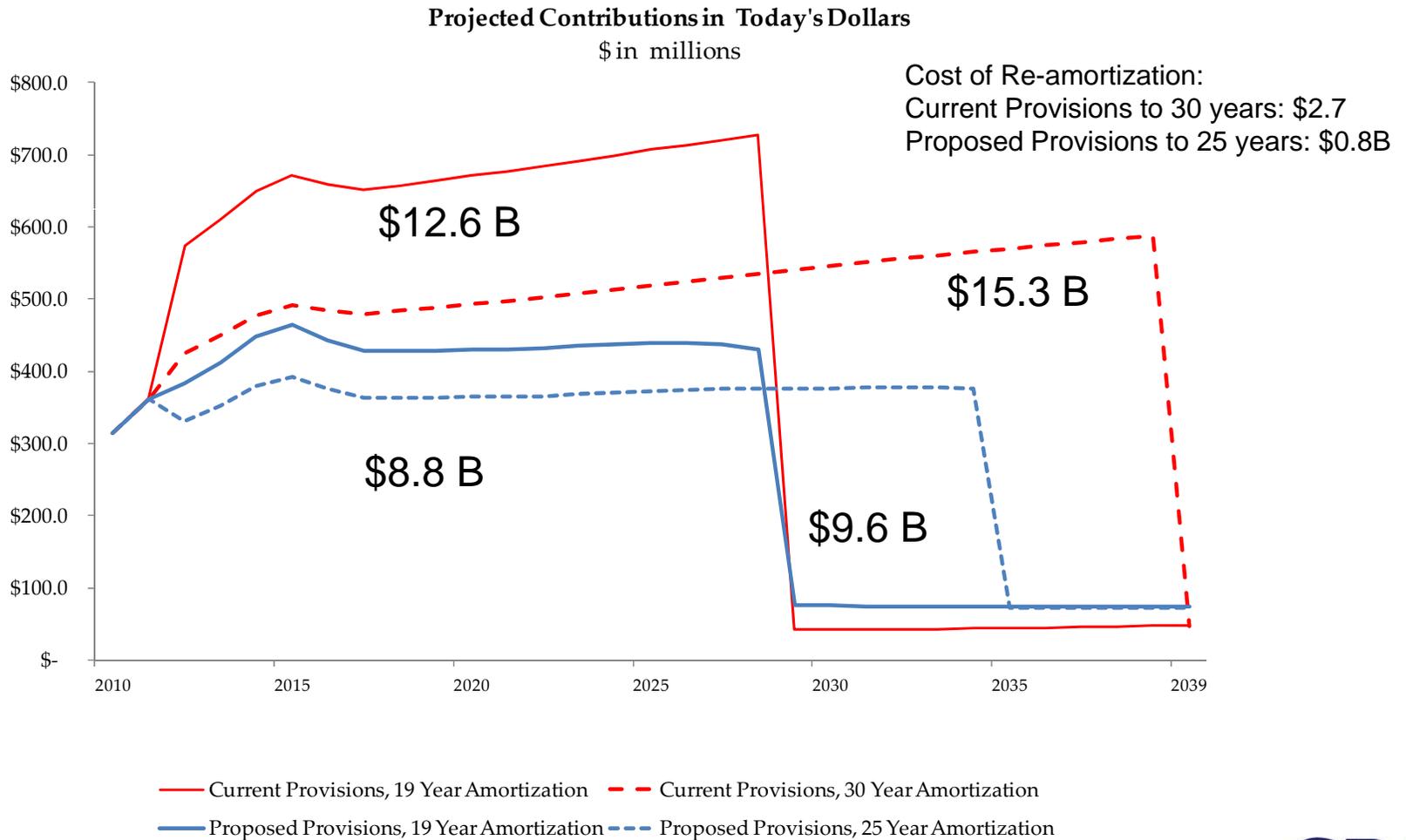


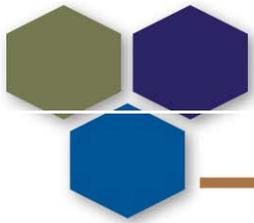
Re-amortization Total Contribution Dollars





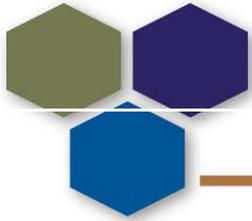
Re-amortization Discounted for Inflation





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 |
| 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 |



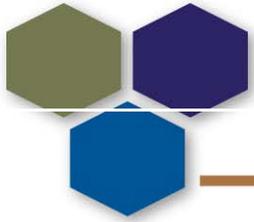
The details of RIRSA: MERS General and MERS Police and Fire

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



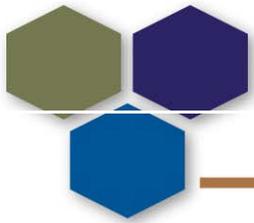
The details of RIRSA: State police and Judges

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

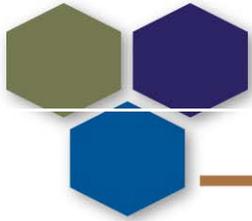
Judges

- **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



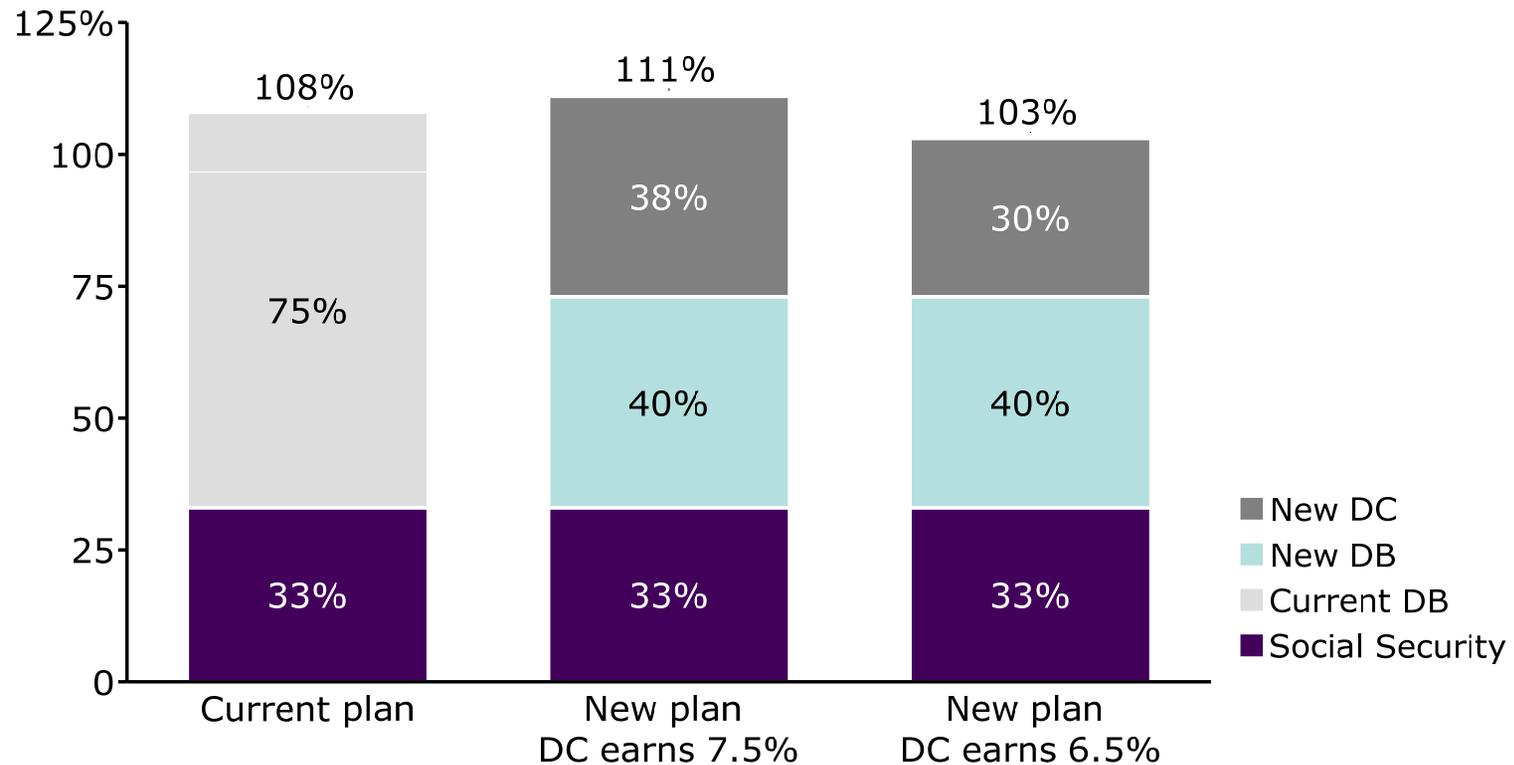
Income Replacement

- ◆ Many experts recommend between 65-90% of pre-retirement income be replaced to continue with same pre-retirement standard of living
 - ▶ From all sources: Social Security, employer provided benefits, employee provided benefits
 - ▶ The following are examples of replacement income for various employees
 - ▶ Several more provided in the appendix

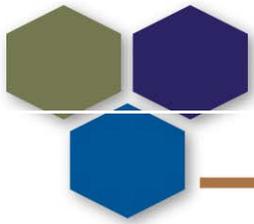


RIRSA balances cost drivers to provide retirement income in line with or above expert recommendations

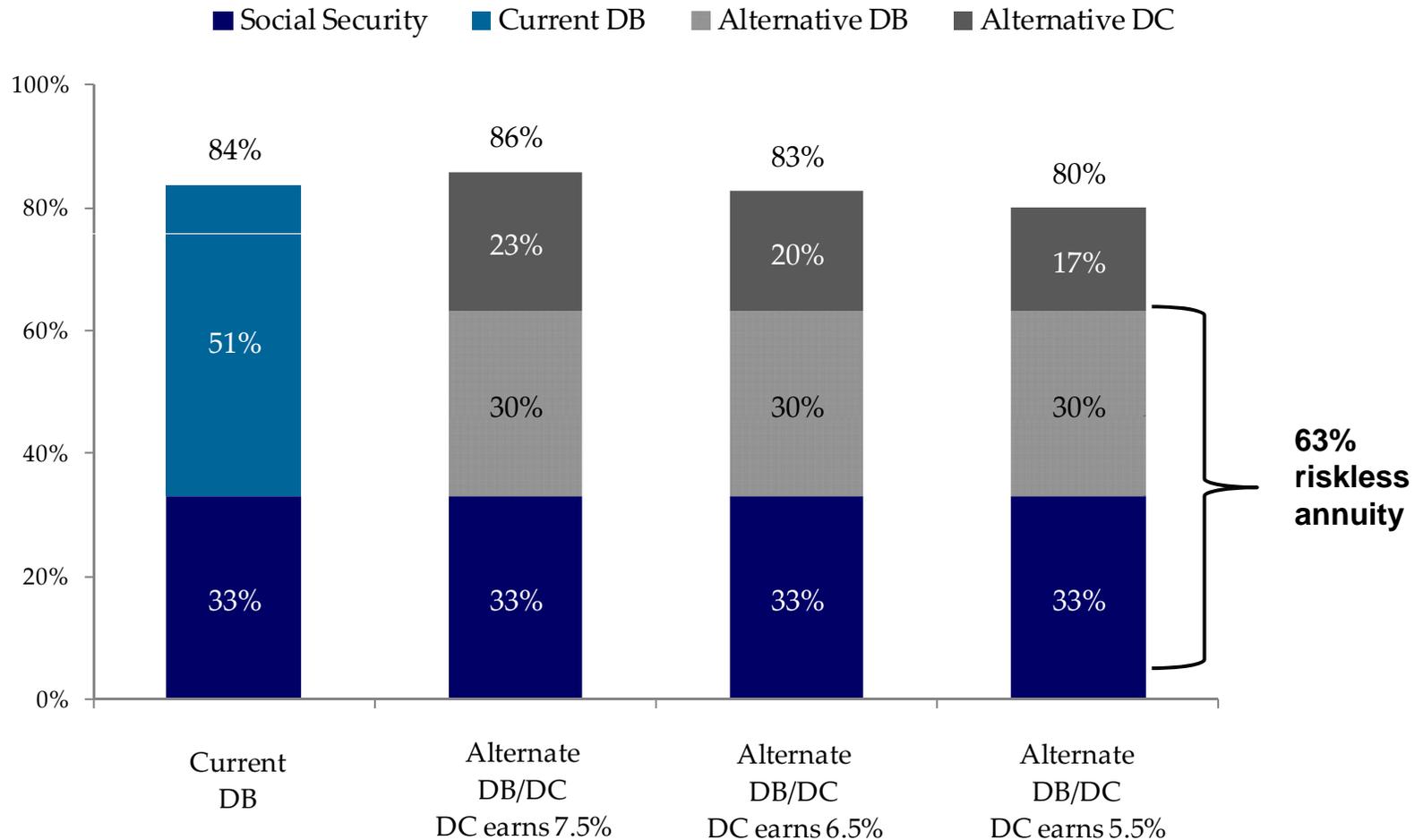
Replacement income for member hired at 27
(continuous employment until SS NRA)



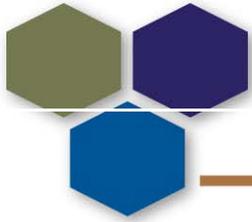
*Assumes DC plan can earn stated return during active employment and annuitize the balance at 5.00% actuarial equivalence at retirement



Even with 30 year career, employee has 63% riskless annuity

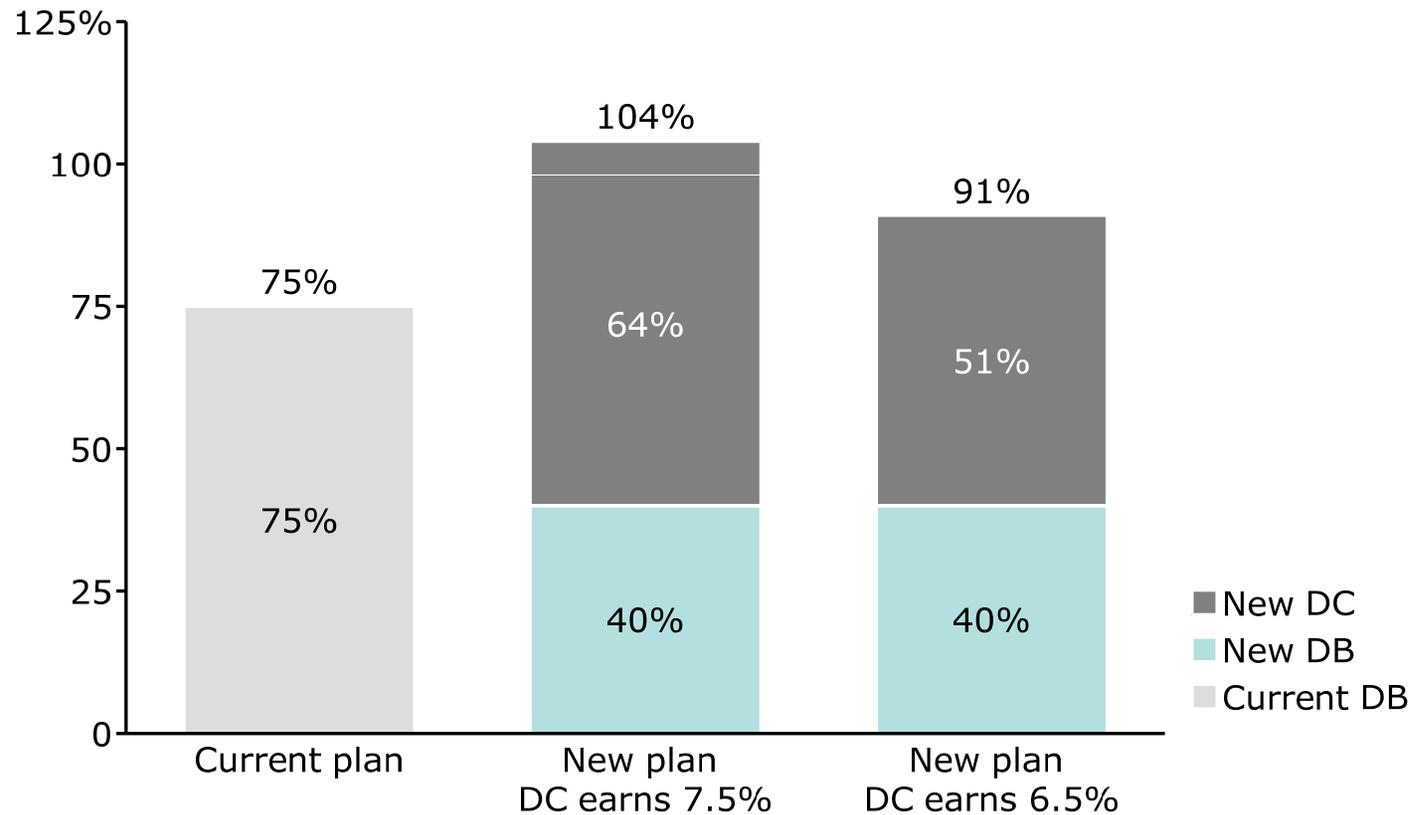


*Assumes DC plan can earn stated return during active employment and annuitize the balance at 5.00% actuarial equivalence at retirement

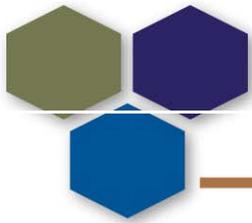


Those without Social Security will also earn within the expert recommended levels

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

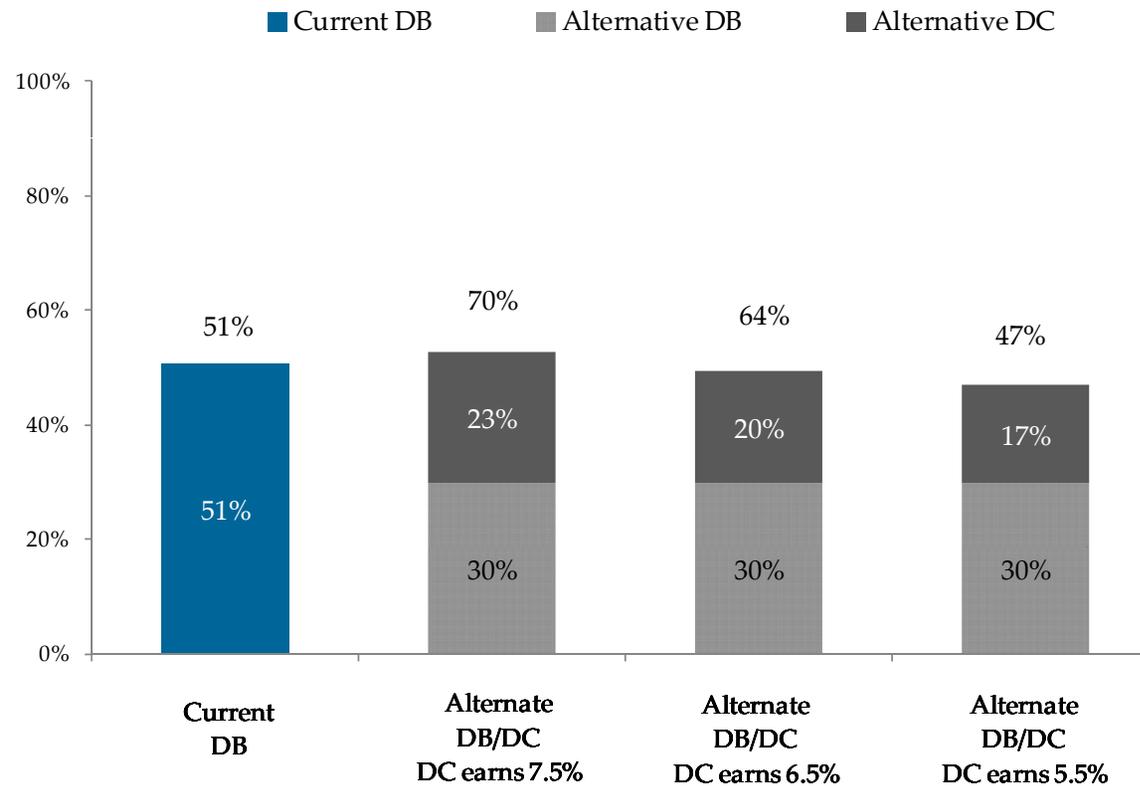


A DC supplement of 2% member and 2% employer is needed to meet the replacement income goals above

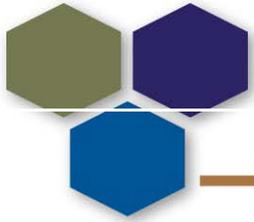


Proposed Plan: Without Social Security Additional 2%/2% DC contribution

New Hire at age 37, Continuous Employment until Retirement SS NRA
(30 Year career)

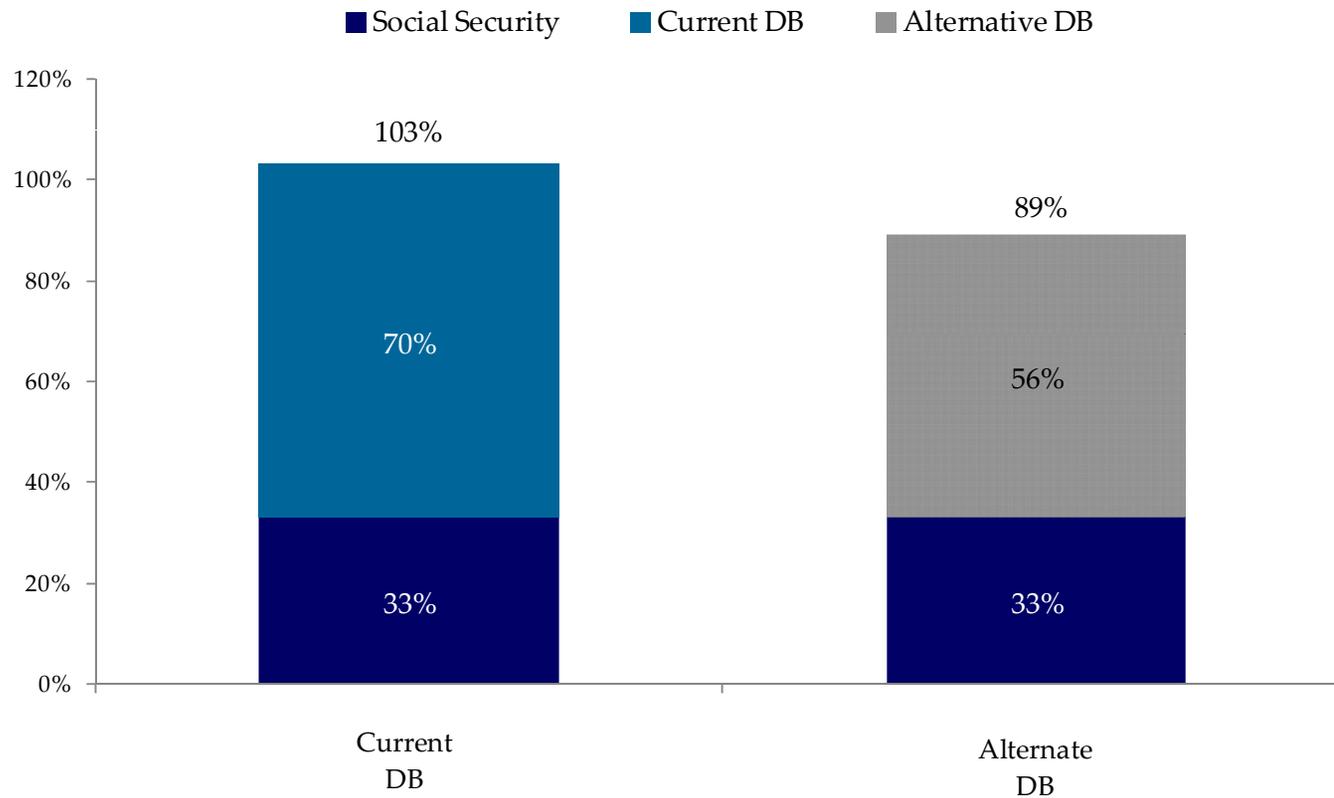


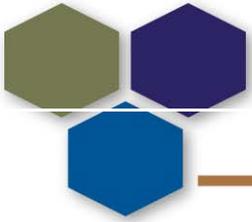
- Assumes DC plan can earn stated return during active employment and annuitize the balance at 5.50% actuarial equivalence at retirement



Proposed Plan: MERS P&F Example Changes in Replacement Value

New Hire at age 27, Continuous Employment until Age 55
(28 Year career)

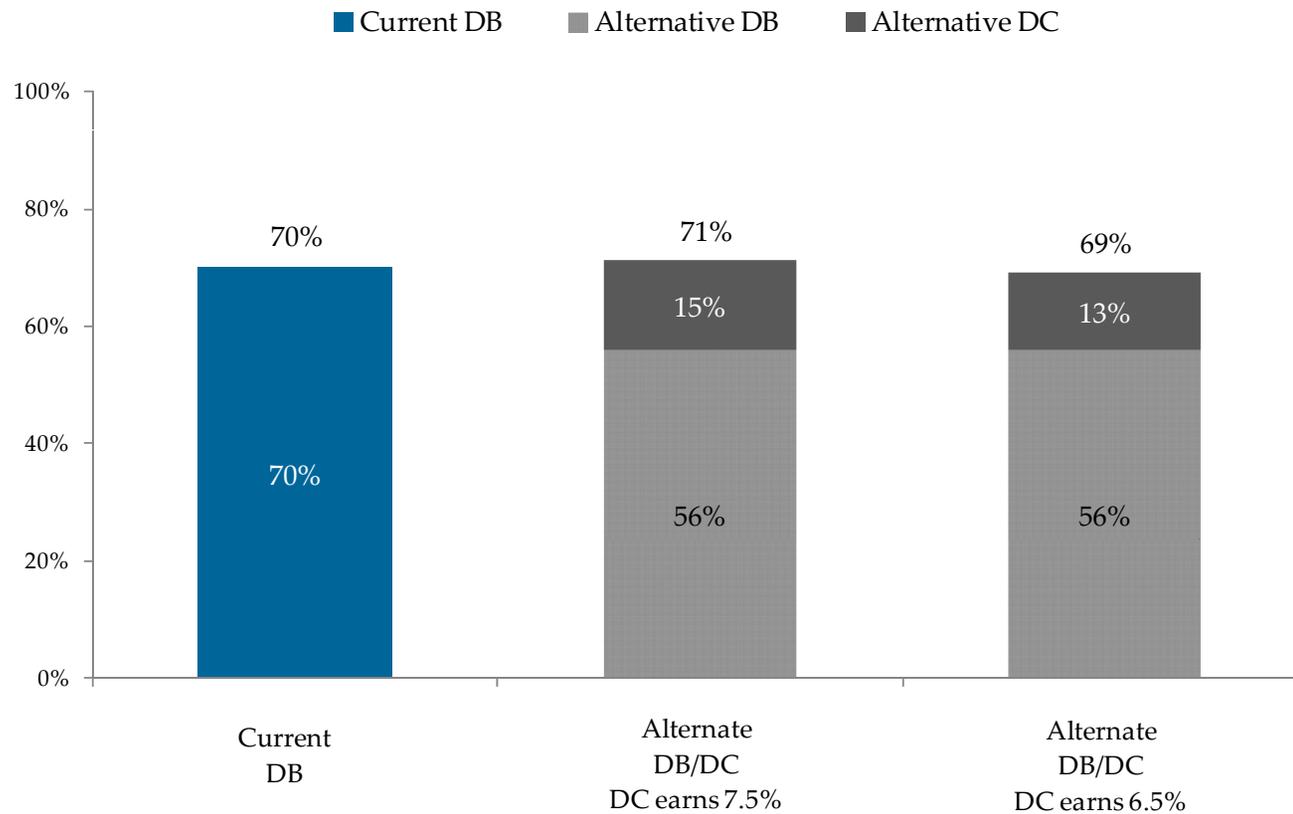


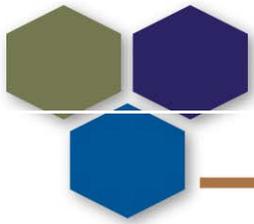


Proposed Plan: MERS P&F

Without Social Security: 3%/3% DC contribution

New Hire at age 27, Continuous Employment until Age 55
(28 Year career)

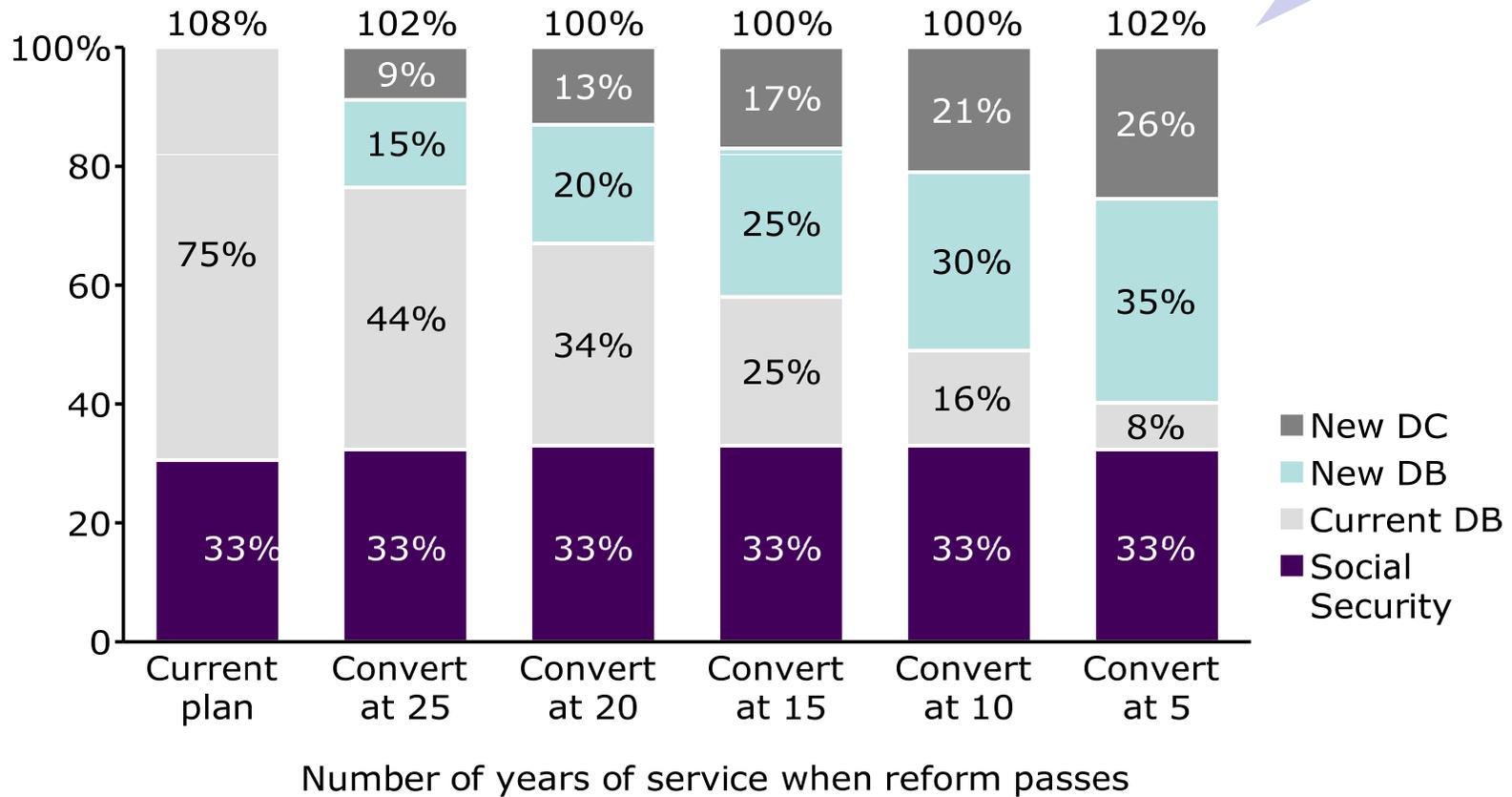




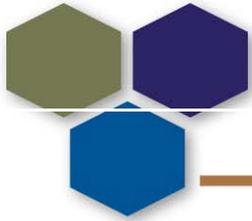
Those with the most service are the least impacted

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

Total replacement income **well above** targets

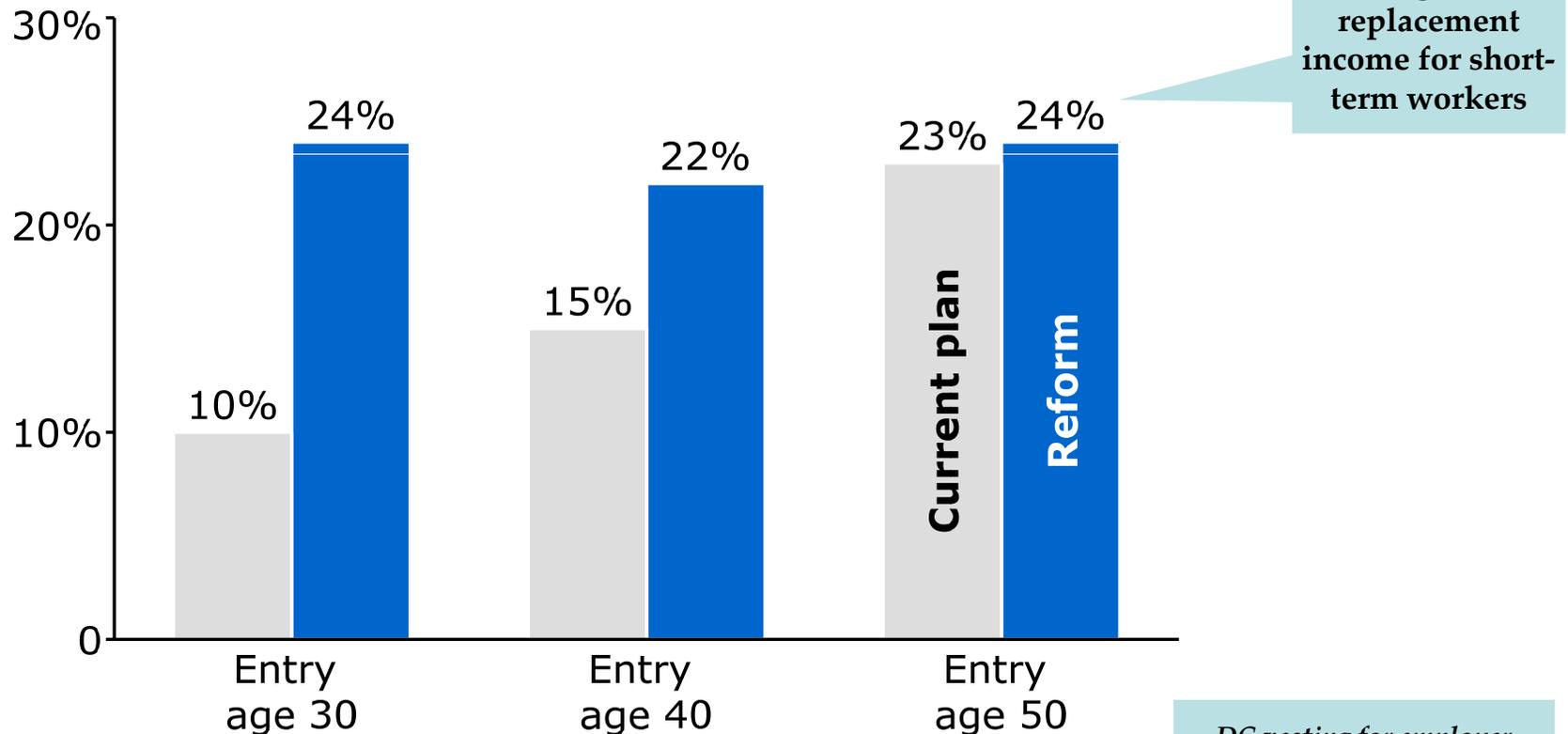


* Assumes DC plan can earn 6.5% until commencement and annuitize the balance at 5.00% actuarial equivalence at retirement



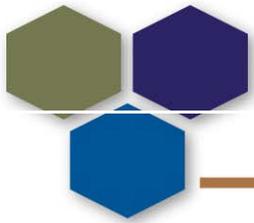
RIRSA is better for shorter-term employees

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



* Assumes DC plan can earn 7.5% until commencement and annuitize the balance at 5.00% actuarial equivalence at retirement

DC vesting for employer match is 3 years only



RIRSA has advantages for current employees

- **Retirement security**

- Benefits will be there in retirement
- Today's system is not secure
- Without reform, there is an implicit tier of benefits

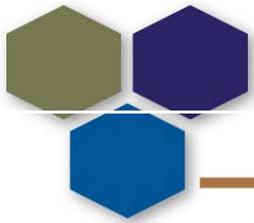
- **Contributions fund their pensions, not the liability**

- In today's system, the majority of contributions fund the liability
- In our solution, employees keep 5% in individual non-forfeitable accounts

- **Reduced vesting and flexibility to work shorter careers**

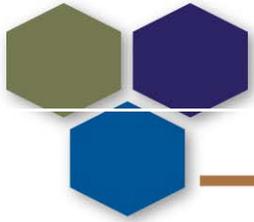
- 3 years for employer match on DC
- 5 years for DB

- **Portability**



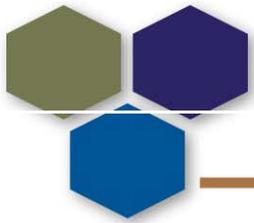
Future Benefit Adjustments

- ◆ The current cost-of-living-increase provision is being replaced with a risk-sharing mechanism tied to the actual investment performance of the Trust
- ◆ If the Trust performs as expected, then future adjustments will average 2% per year
- ◆ Using the five year average return will provide a more consistent liability growth
- ◆ Adjustment will apply to the first \$35K of benefit, indexed over time
- ◆ The adjustment and the index will be compounded over time at the same rate



Example Calculations

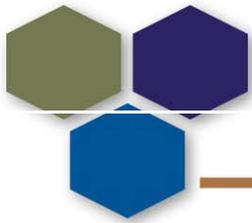
| Actual Average 5 year investment return | Applicable Benefit Adjustment |
|--|--------------------------------------|
| 5.5% | 0.0% |
| 6.5% | 1.0% |
| 7.5% | 2.0% |
| 8.5% | 3.0% |
| 9.5% | 4.0% |



Historical 1995-2011

| Fiscal Year | Actual Average 5 year return | Applicable Benefit Adjustment | | Fiscal Year | Actual Average 5 year return | Applicable Benefit Adjustment |
|-------------|------------------------------|-------------------------------|--|-------------|------------------------------|-------------------------------|
| 1995 | 9.4% | 3.90% | | 2004 | 0.4% | 0.00% |
| 1996 | 10.6% | 4.00% | | 2005 | 1.8% | 0.00% |
| 1997 | 13.0% | 4.00% | | 2006 | 7.4% | 1.90% |
| 1998 | 14.7% | 4.00% | | 2007 | 13.0% | 4.00% |
| 1999 | 15.2% | 4.00% | | 2008 | 10.7% | 4.00% |
| 2000 | 13.6% | 4.00% | | 2009 | 2.4% | 0.00% |
| 2001 | 4.9% | 0.00% | | 2010 | 0.8% | 0.00% |
| 2002 | 0.9% | 0.00% | | 2011 | 6.3% | 0.80% |
| 2003 | -0.8% | 0.00% | | | | |

Average adjustment would have been 2.01% (compounded)



RIRSA works to avoid need for future reform

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

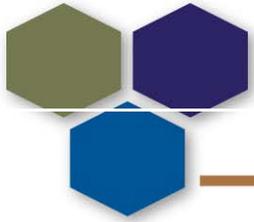
- **Suspend COLA when system drops below 80% funded status** to prevent changes to core benefit package

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

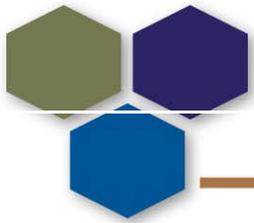
Create a *Pension Protection Act* for Rhode Island

- 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



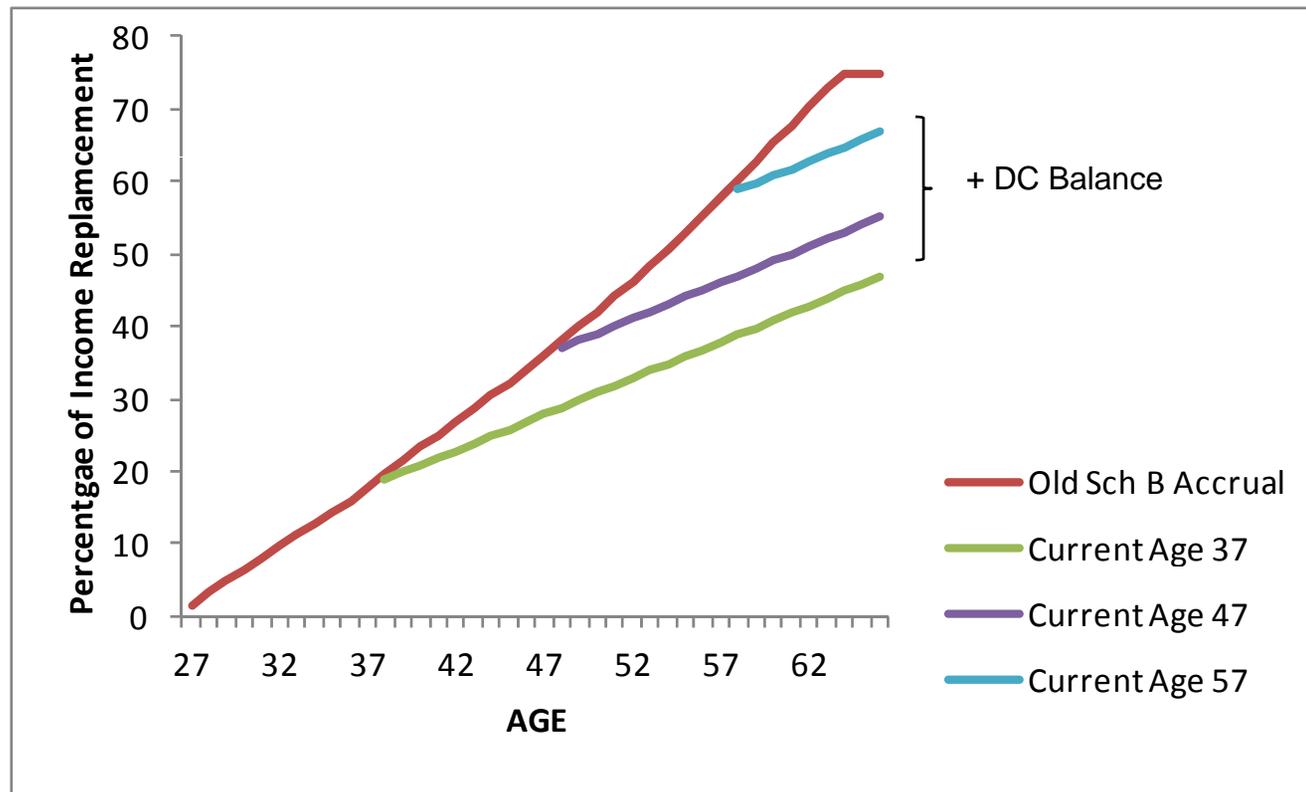
Specific Examples: Benefit Multiplier

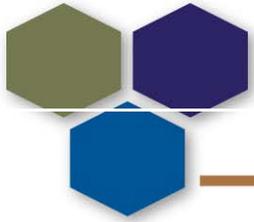
- ◆ For each member, the accumulated benefit multiplier as of June 30, 2012 will be preserved, and future accruals will be at the new multiplier
 - ▶ For example, if teacher had 23 years in Schedule A, they would currently have: 10 years @ 1.7% + 10 years @ 1.9% + 3 years at 3.0% = 45% accumulated multiplier as of June 30, 2012
 - ▶ Future accruals would be at 1% per year, plus a DC contribution
 - ▶ In proposed plan, at 28 years of service, the accumulated multiplier would be 45% + 5 years at 1% = 50%, plus 5 years of DC balance (\$25,000 for average teacher)



Proposed Plan: Change in prospective benefit accruals

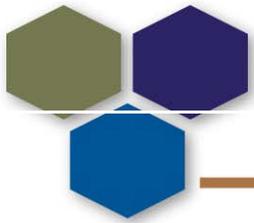
Current Member hired at age 27, currently at stated age,
continuous employment until SS NRA





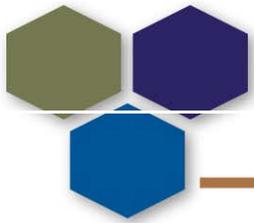
Specific Examples: Final Average Compensation

- ◆ All of the current and proposed plans are “Final Pay” plans, meaning the retirement benefit is based on a final average compensation for the member
- ◆ Current State and Teachers not eligible to retire as of 9/30/2009 use a 5 year average
- ◆ Current State and Teachers eligible to retire as of 9/30/2009 and members of MERS plans use a 3 year average
- ◆ Going forward, all members will use a 5 year average to determine the “final average compensation”



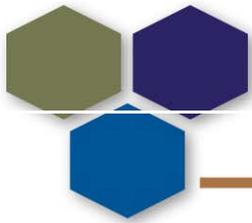
Specific Examples: Final Average Compensation

- ◆ For members currently in a 3 year average category, the 3 year average as of June 30, 2012 will be preserved and used as a minimum until the 5 year average surpasses the frozen amount
- ◆ Example, member has salaries of \$37K, \$38K, and \$42K during fiscal 2010, 2011, and 2012. 3 year average = \$39K.
- ◆ For FY 2008 and 2009, member has salary of \$28K and \$32K. So five year average is \$35.4K.
- ◆ In FY2013, member earns \$43K. So five year average is average (32, 37, 38, 42, 43) = \$38.4K.
- ◆ Would still use \$39K if member terminates or retires at that time.



Specific Examples: Accrued Benefit

- ◆ For each member, if they continue employment, the accrued benefit (accumulated multiplier times final average compensation) as of June 30, 2012 can be commenced at the current age the member would have been eligible to retire under current provisions.
- ◆ To receive additional accruals or recognition of future salary increases, the member would have to defer retirement to new eligibility conditions
- ◆ Example: Member is age 56 with a \$40K average compensation and a 61% accumulated multiplier for an accrued benefit of \$24,400 as of June 30, 2012. Under current provisions, member can retire at age 59. Under new provisions, retirement age is deferred until age 62.
- ◆ Member could commence the \$24,000 at age 59 if they continue employment.
- ◆ Or, member could work until age 62 and have a benefit of $61\% + 6 \text{ years} @ 1\% = 67\%$ times new average compensation of \$42K = \$28,100
- ◆ Retain defined contribution balance either way



FAQs

Why include re-am?

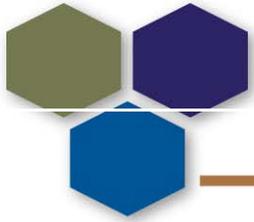
- Re-am is necessary to manage skyrocketing contributions in the near-term without cutting benefits beyond appropriate levels
- Predictable payments

Why not switch 100% to DC?

- A hybrid plan provides balance by sheltering employees from excessive market risk while protecting the taxpayer
- Transitioning to 100% DC is costly: \$882M additional in contributions required in 5 yrs to fund liability and offset lack of employee contributions

Why don't we use an even lower return rate assumption?

- After the recent assumption change to 7.5%, Rhode Island is in the middle of the pack relative to other states
- Because governments have long-term horizons, their return rates are typically higher over time than an individual investor



Benefit protections

COLA suspension

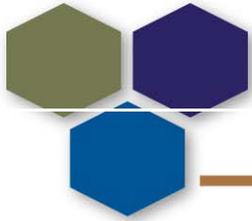
- COLA suspension does not decrease accrued benefits
- COLA not eliminated, just suspended until system well funded

Accrued benefits

- Accrued benefits are protected; all benefits earned to date are left untouched

Retirement age

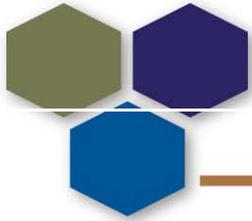
- Retirement age phase-in protects those closest to retirement



The details of RIRSA: all plans

For all plans:
*Vesting for employer match on
 DC: 3 years
 Vesting for DB: 5 years*

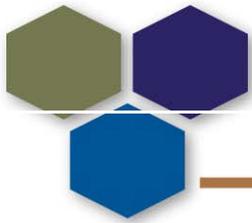
| Baseline / Ultimate Benefit Provisions | | | | | | |
|--|-------------------------------------|---|------------------------|--|---|--|
| | Member Contribution Rate to DB Plan | Retirement Eligibility | Benefit Multiplier | Final Compensation Averaging Period | Post-Retirement Benefit Adjustments | DC Contributions |
| State Employees | 3.75% | Social Security Normal Retirement Age for Unreduced (SSNRA) with 5 years of service Age 62 with 20 years of service for reduced | 1% per year of service | 5 years | Risk Adjusted COLA targeting 2% per annum. Calculated as 5 year smoothed investment return less 5.50%, with 0% Floor and 4.0% Cap, applied to first \$35,000 of benefit, indexed COLA Delayed until later of SS NRA or 3 years after retirement | 5% Member plus 1% Employer DC contribution Teachers without Social Security: additional 2% Member and 2% Employer contribution |
| Teachers | 3.75% | | | | | |
| MERS General | 1%/2% based on COLA election | | | | | |
| Nurses | 3.75% | Same as above, plus Age 55 with 25 years of service for unreduced | | | | |
| Correctional Officers | 8.75% | Same as above, plus Age 55 with 25 years of service for unreduced | 2% per year of service | | | None |
| Judges | 12.00% | Age 65 or after 20 years of service, or after age 70 with 15 years of service | 80% of FAC | | | None |
| State Police | 8.75% | 55 with 25 years of service | 2% per year of service | 5 years, with removal of overtime and clothing allowance | Same as above; for members with 25 years of service, COLA delayed until later of 55 or 3 years after retirement | None |
| MERS P&F | 7%/8% based on COLA election | 55 with 25 years of service | 2% per year of service | 5 years | | Public Safety without Social Security: additional 3% Member and 3% Employer contribution |



For all plans:
 Vesting for employer match on
 DC: 3 years
 Vesting for DB: 5 years

Transition provisions: all plans

| Transition Provisions | | | | | |
|-----------------------|-------------------------------------|---|---|---|---|
| | Member Contribution Rate to DB Plan | Retirement Eligibility | Benefit Multiplier | Final Compensation Averaging Period | Post-Retirement Benefit Adjustments |
| All Groups | | Any member may retire with their accrued benefits of 6/30/2012 at their current retirement date determined using service as of 6/30/2012 | Old Accrual Rates times years of service as of 6/30/2012 frozen, new multiplier going forward | FAC at 6/30/2012 protected until new 5 year FAC is larger | Upon reaching 70% funded, the risk adjusted COLA will be applied with a benefit limit of \$500 per year of service, up to 35 years, indexed |
| State Employees | | Members age 52 with 10 years of service as of 6/30/2012 who have a retirement date before age 62 will have a new unreduced retirement age of 62 | | | |
| Teachers | | | | | |
| MERS General | | 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 | For members with 25 years of service as of 6/30/2012, the current increased accrual rates will be preserved | | |
| Nurses | | | | | |
| Correctional Officers | | | | | |
| Judges | | 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 | For members with 20 years of service as of 6/30/2012, the current increased accrual rates will be preserved | For members with 20 years of service as of 6/30/2012, 5-year FAC will include holiday pay | |
| State Police | | | | | |
| MERS P&F | | 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 | | | |



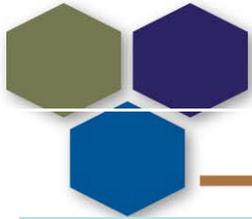
Other provisions

Disability

- For members who apply for and receive accidental disability on and after July 1, 2012 who are not totally and permanently disabled, tax-free disability benefit converts to taxable service retirement benefit in same amount upon attainment of retirement age
- Consistent disability rules for state employees, teachers, and municipal employees with reduced 50% disability pension for disabilities that are job specific and not total and permanent disabilities

Part-time employees

- For state and municipal employees hired on/after July 1, 2012, only employees working 35 hours + per week will be eligible members
- For teacher hired on/after July 1, 2012, only teachers working full-year schedules will be eligible members
- Current rules permitting participation by teachers working at least half-time, including job share program, retained
- For current employees working on a part-time basis, if more than half of their years of service are as a part-time employee, benefit will be determined based on compensation averaged over 10 highest years of compensation



Other provisions

Service credit purchases

- Service purchases made on or after July 1, 2012 (except military purchases and refunds) will be calculated at full actuarial value based on plan's assumed rate of return minus 1%
- Service credit purchases must be made within 3 years of initial eligibility for purchase, but all existing eligible purchases as of June 30, 2012 have until June 30, 2015 to be exercised

Other provisions

- Clarify that compensation means base salary only with longevity
- Clarify that "regular interest" means interest at assumed rate of return determined by retirement board
- Add retirement board fiduciary standards similar to those imposed under ERISA including continuing education requirements
- Require notification to all plan members, Governor and General Assembly in event that board makes a decision contrary to the advice of actuary
- Clarify that retirement system can secure needed administrative information from various state and municipal employers covered by plan
- Increase penalty for members submitting fraudulent claims for pensions from \$1,000 to \$10,000