



## State Fiscal Note for Bill Number: 2017-H-5504

**Date of State Budget Office Approval:**

**Date Requested:** Thursday, February 23, 2017

**Date Due:** Sunday, March 05, 2017

### Impact on Expenditures

FY 2017	n/a
FY 2018	Indeterminate
FY 2019	Indeterminate

### Impact on Revenues

FY 2017	n/a
FY 2018	n/a
FY 2019	n/a

**Explanation by State  
Budget Office:**

This legislation changes the benefit structure and adds a cost of living adjustment (COLA), for retirees in the Employees' Retirement System of Rhode Island (ERSRI). It strikes language in RIGL 36-10-35(g) relating to active and retired members which had allowed for a special benefit adjustment on the first \$25,000 of retiree benefit if the funding ratio of the portfolio met an 80% threshold. It removes language regarding the method used currently to calculate the funding ratio, and replaces with new language for the system's actuary to calculate the funded ratio (maintained at 80% in the proposed language) on an aggregate basis. Beginning January 1, 2018, it provides for a 3% COLA on the first \$15,000 of retirement benefit, which shall continue during the lifetime of the recipient until the 80% funded ratio is achieved.

**Comments on  
Sources of Funds:**

Source of funds for payments to retirees are a mix of current employee contributions, employer contributions and interest earnings. The ERSRI uses a cost accounting mechanism to track the separate plans it manages, currently including a separate plan for state employees, teachers, municipal employees, judges, and state police.

**Summary of Facts  
and Assumptions:**

Calculation of the unfunded liability of the pension plans administered by the ERSRI is done annually by the System's Actuary, and as directed by the Retirement Board. Section 36-10-39 of the RIGL allows for a "Pension Impact Note" to be prepared, at the request of the House or Senate Finance Committees, the Speaker of the House, or the Senate President to accompany legislation that originates in the two chambers. The Governor, too, can request a note for legislation proposed in the Appropriations Act. These Pension Impact Notes are an allowable expense of the Administrative Fund within the ERSRI Trust.

**Summary of Fiscal  
Impact:**

This legislation provides for an effective date of January 1, 2018, which is FY 2018.

A fiscal impact for this legislation cannot be determined without an actuarial study. Changes to benefit structures and addition of a COLA for varying participants would have a long-term impact on the fund's unfunded liability and current cash flow. Additionally, IT programming would be required, adding further cost to the initiative. The cost of the actuarial study and the IT programming cannot be determined without consulting with the current providers of these services.

The cost of a 3% COLA on the first \$15,000 of pension income is estimated to cost approximately \$12.0 million annually to the retirement system. The impact this would have on payments due from the State or municipalities could only be

Prepared by:

Gregory B. Stack / 4012222194 / gregory.stack@budget.ri.gov

Monday, March 27, 2017

Page 1 of 2

determinend through an actuarial analysis.

Budget Office Signature:

*Thomas A. Mallon*

Fiscal Advisor Signature:

*See attached  
Comments and  
Letter from actuary*

**House Fiscal Advisor Comments H 5504:**

As indicated in the fiscal note prepared by the Budget Office, the fiscal impact of H 5504 cannot be determined without an actuarial study or analysis. The Speaker authorized an actuarial analysis pursuant to Rhode Island General Law, Section 36-10-39, which allows for a “pension impact note” to be prepared at the request of the Chair of the House Finance Committee, with approval of the Speaker of the House. The law allows for the reasonable cost of the note to be charged as an administrative expense of the Retirement System. While the bill does not explicitly include teachers, based on the intent of the legislation, the impact of including teachers is reflected in the actuarial analysis. That actuarial analysis is attached and indicates that the annual cost of the proposal, adjusted for intent, would be \$26.6 million for state employees and teachers. The unfunded liability of the system would increase by \$92.0 million and \$134.6 million for the state employees and teacher plans, respectively.





April 24, 2017

Mr. Frank J. Karpinski  
Executive Director  
Employees' Retirement System of Rhode Island  
50 Service Avenue  
Warwick, RI 02886

**Re: Actuarial Analysis – Provide Enhanced COLA to Members Retired Prior to June 30, 2012**

Dear Frank:

As requested, we have calculated the increase in the Unfunded Accrued Liability and the contribution rate effective July 1, 2017, as a result of providing an enhanced COLA to members retired prior to June 30, 2012. The enhanced COLA is limited to 3.0 percent on first \$15,000 of member's annual pension benefit. All members retired after June 30, 2012, will continue to receive COLA under the current structure. Once the fund exceeds 80 percent funded, members retired prior to June 30, 2012, revert back to the COLA that is currently in place. The tables below show the impact before and after the change.

We have calculated the impact on employer contributions assuming the increases are reflected beginning July 1, 2017. We have also determined the amortization schedule assuming 15 years of equal (level) payments are made. The dollar increases below would continue for all 15 years. This enhancement only impacts current retirees, with the majority of the increased cash out-flows occurring over the next 10 years. Pushing the beginning of the funding scheduled out to a future year or extending the payment schedule beyond 15 years would not be consistent with the goals of intergenerational equity or current industry best practices.

**State Employees**

	Before Change	After Change	Delta
1. Actuarial accrued liability	\$ 4,404,298,648	\$ 4,496,313,984	\$ 92,015,336
2. Actuarial value of assets	2,468,446,998	2,468,446,998	-
3. Unfunded actuarial accrued liability (UAAL)	1,935,851,650	2,027,866,986	92,015,336
4. Employer contribution rate as percent of payroll for Fiscal Year 2018			
(a) Employer normal cost rate	4.58%	4.58%	0.00%
(b) Amortization payments	20.29%	21.80%	1.51%
(c) Total ( a + b )	24.87%	26.38%	1.51%
5. Estimated employer contribution amount	\$ 178,012,633	\$ 188,820,798	\$ 10,808,165

Mr. Frank J. Karpinski  
Executive Director  
April 24, 2017

### Teachers

	<u>Before Change</u>	<u>After Change</u>	<u>Delta</u>
1. Actuarial accrued liability	\$ 6,466,478,470	\$ 6,601,050,125	\$ 134,571,655
2. Actuarial value of assets	3,772,348,051	3,772,348,051	-
3. Unfunded actuarial accrued liability (UAAL)	2,694,130,419	2,828,702,074	134,571,655
4. Employer contribution rate as percent of payroll			
(a) Employer normal cost rate	4.25%	4.25%	0.00%
(b) Amortization payments	18.88%	20.40%	1.52%
(c) Total ( a + b )	<u>23.13%</u>	<u>24.65%</u>	<u>1.52%</u>
5. Estimated employer contribution amount	\$ 240,616,560	\$ 256,428,802	\$ 15,812,243

### Other Comments

Our analysis was prepared based on member data, financial information, and the actuarial assumptions and methods used in preparing the June 30, 2016, actuarial valuation report, the most recently completed one, and is subject to all of the disclosures contained therein.

If you have any questions about our analysis, please do not hesitate to call or write.

Sincerely,



Joseph P. Newton, FSA, MAAA  
Senior Consultant



Paul T. Wood, ASA, MAAA  
Consultant