

Rhode Island Retirement Security Act Settlement Proposal

Government Finance Officers

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Presentation by

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Overview

- I. **Court-Ordered Mediation**
- II. **Legal Process & Moving Forward**
- III. **Terms of Settlement Proposal**
- IV. **Costs of the Settlement Proposal**
- V. **Other Resources**

I. Court-Ordered Mediation

What is Mediation?

- **Federal Mediation & Conciliation Service (FMCS)**
www.fmcs.gov
- **Mediation is a respected and common dispute resolution mechanism.**
- **The mediators act as an intermediary between parties and help to guide the process by convening joint sessions as well as individual meetings. Mediators have no authority to force parties to make or adjust their proposals.**

What is the Settlement Agreement?

- The Settlement Agreement is a proposal for consideration by the General Assembly after plaintiffs' members and then all affected retirement system members and retirees vote on the proposal and the Court determines the settlement proposal is fair.

II. Legal Process & Moving Forward

*Goal: Fairness
and Finality*

Timeline

2009 – General Assembly enacts first round of pension changes (“2009 Act”)

2010 – General Assembly enacts second round of pension changes (“2010 Act”)

2010 – Complaints filed by State Employee and Teacher Unions challenging 2009 and 2010 Acts

November 2011 – General Assembly enacts RIRSA (Rhode Island Retirement Security Act)

June 2012 – Complaints filed by Public Sector Unions and Retiree Coalition challenging RIRSA

Timeline (2)

July 1, 2012 – RIRSA becomes effective

January 2, 2013 – Court orders parties into mediation

January 14, 2013 – Court imposes Confidentiality Order on parties

February 14, 2014 – Settlement Agreement signed

February 14, 2014 – Court modifies Confidentiality Order

Who are the Plaintiffs?

- Union and retiree coalitions asserting the interests of their members:
 - State employees and teachers with 10 or more years of service as of June 30, 2012
 - MERS general employees as of June 30, 2012*
 - MERS firefighters as of June 30, 2012*
 - MERS police as of June 30, 2012*
 - Retired members as of June 30, 2012

*With 10 or more years of service as of June 30, 2012 or those asserting collective bargaining rights

Who are the Defendants?

- **Governor Lincoln D. Chafee**
- **General Treasurer Gina M. Raimondo**
- **Retirement Board of the Employees' Retirement System of RI (ERSRI) – Executive Director/Secretary Frank Karpinski**

Step One: Initial Vote

- The settlement proposal will be presented to the members of the plaintiffs for a vote within 60 days.
- Members will be provided information through a variety of formats.
- Plaintiff members vote in separate groups.
- If more than 50 percent of any one group votes to disapprove the settlement proposal, the litigation continues.

Step Two: Class Action

- The plaintiffs will seek to amend the complaints to proceed as class actions for settlement purposes only and to obtain preliminary Court approval of the proposed class settlement.
- For a description of the classes, see paragraph 1(a)(i)-(v) on pages 3-4 of the Settlement Agreement.

Step Three: Class Vote

- The classes will then be given notice of the proposed settlement and their right to vote on the settlement proposal by class and also to object and be heard at a fairness hearing.
- Voting will occur on a class-by-class basis within 45 days. Non-union employees and all retirees will be included in this vote. If more than 50 percent of the members of any one class disapprove the settlement proposal, the settlement does not proceed and the original litigation continues.

Step Four: Fairness Hearing and Court Approval

- If no class disapproves the settlement proposal, immediately thereafter the matter shall proceed and the Court will conduct a fairness hearing and determine whether or not to approve the settlement proposal.

Step Five: General Assembly Action

- The Court, the parties and the mediators have always understood, recognized and respected the fact that the General Assembly is the only body that can decide whether the settlement proposal can and will be effected by a change in the law.
- If the Court conditionally approves the settlement proposal, then the General Assembly can take any action it deems appropriate including any one of the following three actions:

Step Five: General Assembly Action (2)

1) Enact the Legislation

The settlement proposal becomes a final agreement and all members and retirees covered by the class action proceedings will be foreclosed from challenging the Legislation.

2) Take No Action

The settlement proposal will be of no further force and effect and the original litigation continues.

Step Five: General Assembly Action (3)

3) Amend the Legislation

- If the General Assembly enacts legislation that is different than what is included in the Settlement Agreement, the original litigation continues.
- Since the plaintiff union and class member votes, as well as the court's fairness hearings, are based on the exact terms of the settlement proposal, those votes and the fairness hearing will no longer be binding if the terms of the settlement proposal are changed by the General Assembly.

Commitment of the Parties

- All parties will support the Settlement throughout the process.
- All parties will advocate for passage of the Legislation.
- During this legislative session the parties will not advocate for any legislative action relating to retirement benefits other than adoption of the Legislation.

III. Terms of the Settlement Proposal

*Goal: Balanced
Resolution*

Cost of Living Adjustments (COLA)

	Pre-Litigation*	RIRSA	Settlement
COLA Base	Unlimited	\$25,000 indexed by RIRSA COLA formula	\$25,000 indexed by settlement COLA formula
Amount / Formula	3%	Five-Year Average Investment Return minus 5.5%	Hybrid: 50% of Five-Year Average Investment Return minus 5.5%; plus 50% of CPI-U (capped at 3%)
Maximum	3%	4%	Max COLA of 3.5% (2% max on investment and 1.5% max on CPI-U)
Minimum	3%	0%	0%

*State Employees and Teachers

COLA Timing

	Pre-RIRSA	RIRSA	Settlement
When	Every Year	When funded ratio is 80% or greater	When funded ratio is 80% or greater
Interim COLA until 80% funded		Every 5 years	Every 4 years
One time COLA upon enactment			2% on first \$25,000 of retirement allowance for retirees as of June 30, 2012

Proposed Changes for State Employees, Teachers, and MERS General With 20+ Years of Service as of June 30, 2012

- RIRSA remains effective through June 30, 2014.
- DC Plan – Beginning July 1, 2014, members will no longer participate in the DC Plan. Members will keep their accumulated DC assets.
- DB Plan – For service on and after July 1, 2014, members will participate in the DB Plan only and accrue 2% per year.

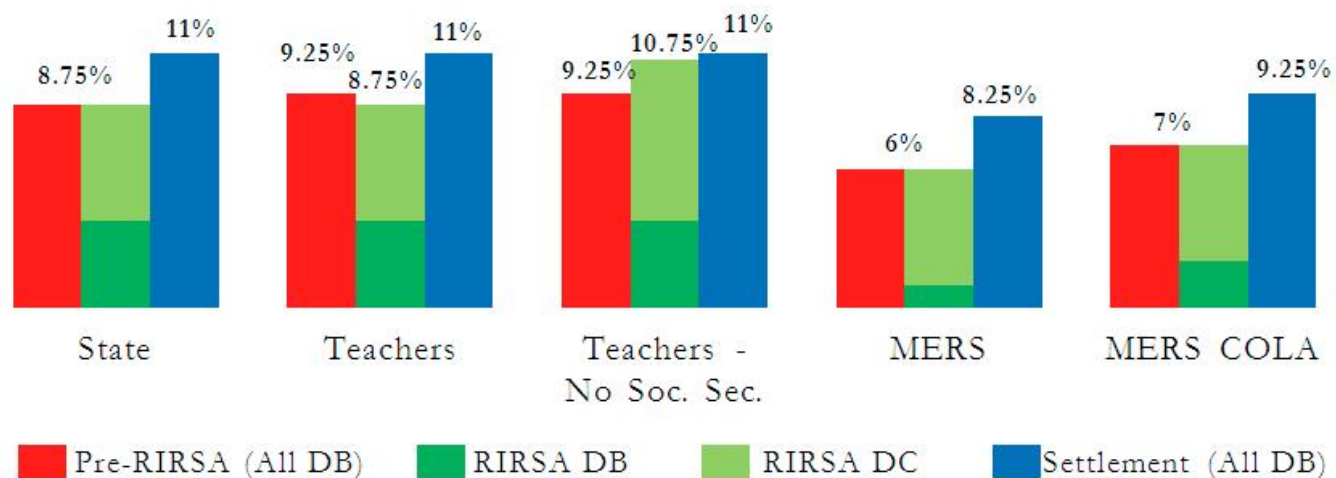
Benefit Accruals: 20+ Years of Service

Pre-RIRSA		RIRSA	Settlement
Schedule A	3.00%	1%	2%
Schedule B and A/B			
Years 21-25	2.00%		
Years 26-30	2.25%		
Years 31-37	2.50%		
Year 38	2.25%		

Proposed Changes for State Employees, Teachers, and MERS General With 20+ Years of Service as of June 30, 2012 (2)

EMPLOYEE CONTRIBUTION RATES:

- **Beginning July 1, 2014:**
 - State employees and teachers will contribute 11%.
 - MERS general employees will contribute 8.25% (9.25% with COLA).



Proposed Changes for State Employees, Teachers, and MERS General With Less Than 20 Years of Service as of June 30, 2012

- RIRSA DB/DC hybrid system remains in place.
- DB Plan – Accrual rate remains at 1%.
- DC Plan – For service on and after July 1, 2014:

Annual DC Plan Employer Contributions

Years of Service as of June 30, 2012	Pre-RIRSA	RIRSA*	Settlement*
15 < 20	N/A	1.00%	1.50%
10 < 15	N/A	1.00%	1.25%
< 10	N/A	1.00%	1.00%

* For each member who does not participate in Social Security, the employer contributes an additional 2%.

Additional Proposed Changes to RIRSA – Retirement Age

- **Retirement Age remains the same as RIRSA with an additional transition rule:**
 - For members employed on June 30, 2012, members will become eligible to retire at the earlier of (i) their RIRSA retirement age or (ii) age 65 with 30 years of service.
- **Effective July 1, 2014, early retirement actuarial reduction rates will be as follows*:**
 - Year 1: 9%
 - Year 2: 8%; cumulative 17%
 - Year 3: 7%; cumulative 24%
 - Year 4: 7%; cumulative 31%
 - Year 5: 7%; cumulative 38%

*Under RIRSA 9% each year, cumulative 45% reduction

Additional Proposed Changes to RIRSA

- Members earning less than \$35,000 annually (indexed using COLA formula) will not be charged for DC plan administrative fees (currently \$40 per year).
- For members who fall under the provisions of RIRSA's "part-time anti-spiking rule":
 - If a member's highest five consecutive year average salary is less than \$35,000, his or her *average compensation* shall be the greater of his/her (i) highest 10 year average earnings or (ii) highest 5 year average earnings with a \$35,000 cap (indexed using COLA formula).

Correctional Officers

Accrual Rates for Years 31 - 35

Year of Service	Pre-RIRSA	RIRSA*	Settlement*
31 st	6%	2%	3%
32 nd	5%	2%	3%
33 rd	4%	2%	3%
34 th	3%	2%	3%
35 th	2%	2%	3%

*Correctional Officers with less than 25 years of service as of June 30, 2012

MERS Police & Fire

	Pre-RIRSA	RIRSA	Settlement
Contribution Rate	7% or 8% (COLA)	7% or 8% (COLA)	For members employed on June 30, 2012, 9% or 10% (COLA); All others: RIRSA Contribution Rate
Retirement Age	No age requirement: either 20 or 25 years of service	Age 55 with 25 years of service	For members employed on June 30, 2012, age 50 with 25 years of service; All others: RIRSA retirement age
Accrual for those at least age 57 with at least 30 years of service	Either 2% or 2.5%	6/30/12 accrued benefit plus 2% x years of service after 6/30/12	Greater of: <ul style="list-style-type: none"> • 2.25% x total years of service, or • 6/30/12 accrued benefit plus 2.25% x years of service after 6/30/12

IV. Costs of the Settlement Proposal

*Goal: Predictable
and Affordable*

FY 16 Cost:

Estimated Employer Contribution Amounts, DB and DC combined
ARC (\$ in millions) *

Group	Pre-RIRSA	RIRSA	Settlement	Increase from Settlement	% Increase in ARC	Settlement ARC as a % of Pre-RIRSA ARC
ERSRI – State Employees	310.1	177.0	184.8	7.8	4.4%	59.6%
ERSRI – Teachers	478.3	256.8	270.0	13.2	5.1%	56.4%
MERS – General Employees	57.9	34.2	36.8	2.6	7.6%	63.6%
MERS – Public Safety	39.3	17.7	18.3	0.6	3.4%	46.6%
Total	885.6	485.7	509.9	24.2	5.0%	57.6%
State Share	501.4	279.7	292.8	13.1	4.7%	58.4%
Municipal Share	384.2	206.0	217.1	11.1	5.4%	56.5%

* Based on 6/30/13 valuations

Unfunded Liability (\$ in millions) *

Group	Pre-RIRSA	RIRSA	Settlement	Settlement Increase
ERSRI – State Employees	3,272	1,879	1,957	78
ERSRI – Teachers	5,004	2,666	2,778	112
MERS – General Employees	410	176	199	23
MERS – Public Safety	227	101	120	19
Total	8,913	4,822	5,054	232
State Share	5,274	2,945	3,068	123
Municipal Share	3,639	1,877	1,986	109

* Based on 6/30/13 valuations

Reduction in Unfunded Liability

(\$ in millions) *

Group	RIRSA Reduction	Settlement Reduction
ERSRI – State Employees	1,393	1,315
ERSRI – Teachers	2,338	2,226
MERS – General Employees	234	211
MERS – Public Safety	126	107
Total	4,091	3,859
State Share	2,328	2,205
Municipal Share	1,763	1,654

* Based on 6/30/13 valuations

Funded Ratio*

Group	Pre-RIRSA	RIRSA	Settlement	Difference
ERSRI – State Employees	41.7%	56.2%	55.2%	-1.0%
ERSRI – Teachers	42.8%	58.1%	57.1%	-1.0%
MERS General – Average	69.0%	83.3%	81.5%	-1.8%
MERS Police & Fire – Average	63.0%	79.8%	77.0%	-2.8%

* Based on 6/30/13 valuations

V. Other Resources

www.RIpensioninfo.org

Other Resources

- www.RIpensioninfo.org
- **Website includes Proposed Settlement documents:**
 - **Mediation Order (1/2/13)**
 - **Mediation Confidentiality Order (1/14/13)**
 - **Order on Confidentiality (2/14/14)**
 - **Settlement Agreement with all Exhibits, including proposed legislation**
 - **Actuary Letter**
 - **Frequently Asked Questions**