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# State Retirement Systems: Rhode Island Versus the Nation

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# **State Retirement Systems: Rhode Island Versus The Nation**

**A Report from the Office of  
General Treasurer Nancy J. Mayer**

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**December 1993**

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## RHODE ISLAND PUBLIC EXPENDITURE COUNCIL

300 Richmond Street • Providence, Rhode Island 02903 • (401) 521-6320 • FAX (401) 751-1915

December 1993

RHODE ISLAND

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Dear Reader:

The sound financing and effective administration of public retirement systems should be a concern to all Rhode Island taxpayers. Therefore, as part of RIPEC's program to provide Rhode Island citizens with information in vital areas of public policy, we have published this report on the state retirement system prepared by staff in the Office of the General Treasurer.

While RIPEC is pleased to distribute this report as a public service, the content of the report represents the work of the Office of the General Treasurer. It is hoped that the information presented will be helpful to both state decision-makers and citizens as the subject of pension reform is considered.

Sincerely,

Gary B. Sasse  
Executive Director

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## **I. Introduction**

The following study is a comparison of the Rhode Island state retirement system with the state systems of the other 49 states. It is based on data from the best available national sources, each of which is listed in the appendix. The results of this study are intended as background for possible future retirement system reform inquiries and efforts, but certainly do not represent the only way to compare Rhode Island's benefits with those offered elsewhere. It is also important to note that retirement pensions are only one aspect of an employee's total compensation package, which also includes salary, health care, and other provisions such as death benefits. This study does not address these other compensation issues, but attempts to compare the principal components of pension benefits. The topics addressed include unfunded status, contribution levels, pension eligibility requirements, and benefit provisions.

**Note:** This study includes the District of Columbia's retirement system only in the unfunded liability comparisons in Parts III and IV because the source material for unfunded liability rankings included the District's system, while other source materials included only state systems.

## II. Key Features of the Rhode Island Retirement System

**The System.** The RI Retirement system is actually composed of two retirement systems - the State Employees Retirement System (SERS), which includes both state employees and teachers, and the Municipal Employees Retirement System (MERS). All state employees and all public school teachers are required to participate in the system, while municipalities are given the option of joining (29 of the state's 39 municipalities are either fully or partially enrolled in the state system). Requirements and benefits may vary by system. For example, teachers and state employees' assets are accounted for separately, since there are a variety of employers that have to fund the system. **This study will focus primary on the state employee system, and does not address provisions of the municipal system, nor does it address the state police or judicial pension plans.**

The system is administered by two state boards: the 15 member State Retirement Board, which is responsible for the system's benefits and eligibility issues, and the 7 member State Investment Commission, which is charged with the investment of pension funds. Both bodies are chaired by the General Treasurer.

- **Normal Retirement Age and Service Requirements.** State employees and teachers may retire with full benefits at any age after 28 years of service or at age 60 with at least 10 years of service.
- **Pension Benefit.** A pension benefit is based on an employee's final average salary [(FAS), which is the average of the highest three consecutive years of salary] and his or her years of public service. The years of service are multiplied by a percentage defined in state law to arrive at the overall percentage of final average salary that will be received. The maximum benefit that can be provided is equal to 80% of Final Average Salary, and no benefit is accrued after 35 years of service.
- **Formula.** State employees and teachers receive a yearly benefit determined by the following formula:
  - 1.7% X Years of Service 1 to 10 X Final Average Salary
  - PLUS
  - 1.9% X Years of Service 11 to 20 X Final Average Salary
  - PLUS
  - 3.0% X Years of Service 21 to 34 X Final Average Salary
  - PLUS
  - 2.0% for 35th year served
- **Vesting.** All employees are vested in the system after 10 years of service, all of which must be as a contributing member (since 1991). Purchased time can not be counted towards this 10 years. Those leaving employment prior to 10 years of service receive their contributions to the system back without interest.

- **Cost-of-Living Increases.** Retired state employees and teachers receive a 3% COLA, compounded annually beginning on the third January after initially receiving the benefit.
- **Disability.** The occupational disability benefit is the same for all members; there is no age or service requirement and the benefit is 2/3 of salary at the time of the disability. This amount is not now taxed by the state or federal governments. The non-occupational disability benefit for all members requires 5 years of service and the benefit is based on the service formula and salary at the time of the injury. For state employees and teachers, the minimum benefit is 17% of the final salary; for municipal members it is 20%.
- **Comparative Size.** Based on 1992 data, Rhode Island ranks 41st among the states in the number of current retirees. Among all public pension funds (including state employee, teacher, city, county and other funds), the Rhode Island fund ranks 55th in amount of total assets.
- **Yearly Cost.** For 1993, the state will contribute \$80 million to the pension system on behalf of all state employees and teachers. The state will also pay an additional \$33 million to the Social Security system on behalf of only state employees. One element of the state's contribution to the pension system on behalf of state employees and teachers is the annual payment to the system for the unfunded liability, \$47 million. (Source: Annual Report of the Retirement Board).



**The Numbers.** Table 1 shows the total number of active members, inactive members, and pensioners in the system, as well as the total contributions paid into the system and benefits paid out for Fiscal Year 1991-92.

TABLE 1				
The Rhode Island Retirement System: Members, Pensioners, and Finances				
	State Teachers		Municipal Employee	Municipal Police/Fire
Active members	14,513	11,594	5,422	700
- Vested employees	7,236	7,450	2,072	201
- Un-vested employees	6,151	3,265	2,788	459
- Eligible to retire	1,126	879	562	40
Inactive members	2,033	954	755	25
Pensioners	7,875	4,657	2,530	
Beneficiaries	582	169	108	
Active members				
- Average age	44	44	46	34
- Average salary	28,200	38,700	19,400	28,100
Pensioners				
- Average age	71	69	70	
- Average benefit	10,560	20,580	6,132	
Employee contribution	\$68,546,610		\$8,529,264	
Employer contribution	\$69,491,591		\$8,589,268	
Investment income	\$263,234,667		\$30,910,471	
TOTAL ANNUAL INCOME	\$401,272,868		\$48,216,374	
Pension benefits	\$187,506,237		\$15,829,624	
Death benefits	\$2,597,835		\$555,678	
Refunds	\$6,614,199		\$719,337	
TOTAL ANNUAL PAID	\$196,718,271		\$17,104,639	
REMAINDER	\$204,554,596		\$31,111,735	
FUND ASSETS (7/31/93)			\$3,267,690,000	
* Source of Table: Annual Report of the Retirement Board, June 30, 1992				



### III. Comparative Analysis

**Unfunded Liability** - Using either of the two main methods to examine unfunded liability, Rhode Island is in the bottom quarter of all states in its funded status.

The state retirement system currently has an unfunded liability of approximately \$1 billion. The unfunded liability is the difference between pension benefits that have been earned by employees but not yet paid (and are therefore liabilities), and the present value of the system's assets. The most common method of determining a system's liabilities is the Projected Benefit Obligation (PBO). The PBO is the value of system assets over accrued benefits including projected salary increases, i.e. it assumes that employees will earn higher salaries into the future. However, PBO does not project additional accruals, i.e. while assuming future salary increases, it does not try to predict how many more years of service each employee will accumulate over his or her career. The PBO is based on the present number of years accrued only.

The state is currently in the midst of a 30 year amortization schedule, effective from 1989, which aims to reduced the unfunded liability to zero by the year 2017. After decades of underfunding the actual costs of accrued retirement benefits, in the late 1970's the state began a schedule of payments to ultimately reach full funding. A critical aspect of this estimate of the ultimate reduction of the unfunded liability is the assumption that the benefits structure will not be increased in the future.

A 1993 Report on Funding Levels for State Retirement Systems by Wilshire Associates, using 1989 data for Rhode Island, ranks Rhode Island 40th among the 50 states and the District of Columbia in funded status with an asset to PBO ratio of 68%. Among only state employees systems Rhode Island, at 72% funding, ranks 42nd of 49 states (Nebraska is not included because its system is incompatible with those of other states). Among only Teachers' retirement systems, Rhode Island ranks 25th out of 33 states, at a funded rate of 66%.

Another way of analyzing the funded status of pension systems is the ABO (Accrued Benefit Obligation) method, which usually produces a smaller unfunded liability than the PBO. The ABO considers as liabilities only those benefits that have already been accrued. Using this method, Rhode Island is 80% funded and ranks 40th of the 50 states and DC. For Rhode Island state employees, the system ranks 42nd of 49 similar plans. The Rhode Island teachers' system ranks 23rd of 33 teachers' systems. **By these two measures, Rhode Island's pension system ranks in the bottom quarter when comparing funding of all state plans nationwide.** See Tables 2 and 3 for comparative PBO measures.

<b>TABLE 2</b> <b>Retirement Systems' Funded Level Comparison:</b> <b>The Rhode Island Retirement System's Ranking</b>						
RI Employees & Teachers	Funded Ratio	tates & DC Ranking		Funded Ratio	tates & DC Ranking	
	68%	40 of 51		80%	40 of 51	
RI Employees RI Teachers	Funded Ratio	ERS Ranking	Teachers Ranking	Funded Ratio	ERS Ranking	Teachers Ranking
	72%	42 of 49	**	82%	42 of 49	**
	66%	**	25 of 33	78%	**	23 of 33
* Source: 1992 Report on Funding Levels for State Retirement Systems, Wilshire Assoc.						

TABLE 3						
Funding Rankings of State, Employees', and Teachers' Retirement Systems by Ranges of Funding Levels *						
Funded Level	Number of States *	Cumulative Percentage	Number of Employees	Cumulative Percentage	Number of Teachers	Cumulative Percentage
Above 100%	16	31%	17	35%	6	18%
90-99%	4	39%	7	49%	3	27%
80-89%	15	69%	14	78%	7	48%
70-79%	4	76%	4	86%	7	70%
Below 70%	12	100%	7	100%	10	100%
	RI = 68%		RI = 72%		RI = 66%	

\* State funding level combines the funding levels of state employees' and teachers' systems within each state with two separate systems.

\*\* Source: 1992 Report on Funding Levels for State Retirement Systems, Wilshire Assoc.

**Employee Contributions - Rhode Island state employees are among the most burdened in the nation in regards to retirement contributions.**

According to data from 1992 reports by Workforce Economics, a research organization dealing with employment and personnel issues, and the Wisconsin Retirement Research Committee, Rhode Island state employee contributions as a percentage of salary are the 5th highest among state employee retirement systems in the nation at 7.75%. Only Hawaii (7.80%), Colorado (8.00%), Ohio (8.50%), and Nevada (9.58%) demand higher employee salary percentage contributions. At 7.75%, RI's state employee members contribute twice as much as the national average for state systems, which is 3.89%. See Table 4.

<b>TABLE 4</b> <b>Percent of Salary Contributed by Employees to Retirement Systems in the 50 States</b>										
	Percent of Salary Contributed by Ranges									
	0-0.9%	1-1.9%	2-2.9%	3-3.9%	4-4.9%	5-5.9%	6-6.9%	7-7.9%	8-8.9%	9-9.9%
Number of States	13	1	2	4	4	7	8	4	3	1
Cumulative Percentage	28%	30%	34%	43%	51%	66%	83%	91%	98%	100%
Three Other States use variable rates and are not included above: (Maryland = 5% over Social Security base; Nebraska = 3.6-4.8%; N.J. = 4.9-8.7%)										
RI Rate = 7.75% Mean Rate = 3.97% Most Common Rate = 0.0% (12 states)										
* Source: 1992 Comparative Study of Major Public Employee Retirement Systems, Wisconsin Retirement Research Committee; Workplace Economics, 1992 Retirement Study										

Rhode Island ranks even higher when Social Security contributions of 7.65% of salary are considered. There are seven states that do not provide Social Security to their state employees. Of the four states with higher pension contribution rates than Rhode Island, only Hawaii provides Social Security to its employees. **When both pension and Social Security contributions are considered, RI state employees put aside 15.4% of their pay for retirement, a rate second only to Hawaii (15.45%) in the nation.**



## Membership Requirements

**Vesting.** The Rhode Island vesting requirements are consistent with other state systems. RI's vesting standard of 10 years places it within the second largest vesting category; 20 states have 10 year vesting rules, while 24 states have 5 year vesting rules. Of the remaining six states, 4 have 4 year rules and 2 have 8 year rules. According to a 1992 study by the State of Wisconsin Retirement Research Committee, the state trend is towards the shorter 5 year rule. The study also noted that vesting is one of the few areas in which public pension plan requirements are more demanding than private plans, which are regulated by law.

**Minimum Service/Age Requirements** Rhode Island is one of four states in the nation that allows a person who begins state employment at age 21 to retire with unreduced benefits before age 50. Rhode Island is among 24 states that allows members to retire at any age after a certain number of service years. As shown on Table 5, 20 states require 30 or more years of service. In Rhode Island, this requirement is 28 years of service.

<b>TABLE 5</b> <b>Retirement at Any Age with Number of Service Years</b> (Full Benefits, i.e. without early retirement reduction)							
	Service Years Required						
	25	27	28	30	35	40	TOTAL
Number of States	2	1	1	16	3	1	24
* Source: 1992 Wisconsin Retirement Research Committee Report; 1992 Workplace Economics Report							

The Rhode Island system allows members to retire with full benefits (full benefits refers to the pension that is based on years of service and is unreduced by an early retirement reduction) at any age after 28 years of service or at age 60 with 10 years of service. Most states have several options that allow normal retirement after a certain combination of years of service and age. State systems often have two types of retirement standards: one for the career employee allowing retirement either at any age with a high number of service years (e.g. age 55 with 30 years) and one for members who joined the system later in life with a retirement age at either 60, 62, or 65 with a minimal service year requirement (e.g. age 62 with 10 years).

As shown in Table 6, for more senior career employees, 30 states have provisions such as Rhode Island's allowing retirement at age 60 with a certain number of years served (there are also 14 states with provisions allowing retirement for employees in their 50's, but



with high service requirements). Of these 30 states, 5 also share Rhode Island's standard of 10 years, while 12 have a shorter requirement and 12 have a longer requirement.

	Service Years Required								TOTAL
	No Years	3 or 4	5	8	10	15	20-25	30-35	
Number of States	2	3	6	1	6	2	7	3	30
	12						12		

\* Source: 1992 Wisconsin Retirement Research Committee Report  
1992 Workplace Economics Report

Another way of comparing service/age requirements among the states is to consider the minimum number of service years required to retire. There are 12 states that are less demanding than Rhode Island, since they allow retirement at age 60 with less than 10 years of service. There are only 8 states with clearly more demanding requirements than Rhode Island, allowing retirement after 10 years of service but only at ages 62 and 65 (no state requires more than 10 years of service). The remaining states offer options that are more difficult to compare to Rhode Island as they are composed of tradeoffs between age and service years.

Because of the complexity of the retirement service/age requirements of the 50 states, one method of comparing systems is through the use of a hypothetical situation. Table 7 presents a hypothetical comparison of the 50 state service/age requirements for retirement. This chart demonstrates that only three states (Kentucky, Mississippi, and New Mexico) allow an employee who begins working for the state at age 21 to retire at an earlier age than in Rhode Island.

**TABLE 7**  
**Minimum Retirement Age For Full Benefits**

If you started working for any state government at the age of 21 and were employed by that state continuously until retirement, what is the earliest age at which you would be eligible to retire without having your pension reduced by an early retirement reduction?

Alabama	51	Louisiana	51	Ohio	51
Alaska	51	Maine	62	Oklahoma	51
Arizona	51	Maryland	51	Oregon	51
Arkansas	51	Massachusetts	65	Pennsylvania	56
California	60	Michigan	55	Rhode Island	49
Colorado	51	Minnesota	65	South Carolina	51
Connecticut	60	Mississippi	46	South Dakota	58
Delaware	51	Missouri	55	Tennessee	51
Florida	51	Montana	51	Texas	51
Georgia	51	Nebraska	65	Utah	51
Hawaii	55	Nevada	51	Vermont	62
Idaho	56	New Hampshire	60	Virginia	55
Illinois	56	New Jersey	55	Washington	65
Indiana	60	New Mexico	46	West Virginia	60
Iowa	57	New York	62	Wisconsin	57
Kansas	60	North Carolina	51	Wyoming	60
Kentucky	48	North Dakota	56		

\* Source: Calculations made by the Office of the General Treasurer, Rhode Island

**MEAN AGE POSSIBLE = 54.9**

**UNDER 50 YRS. OLD STATES = 4**

**50 - 59 YRS. OLD STATES = 32**

**60 YRS. OLD AND OVER STATES = 14**

**Early Retirement. Rhode Island does not have an early retirement reduction provision for those employees retiring at an early age, placing it among only five other states that do not have such a provision.** According to 1992 studies by the Wisconsin Retirement Research Committee and Workplace Economics, in the 44 state retirement systems that offer early retirement options, members may elect to take early retirement based on age or service at a reduced benefit level which is actuarially decreased due to the costs of the longer pay-out period. These early retirement reductions apply to members who retire earlier than a set age and are based on actuarial calculations that aim to offset the cost of the longer payout period that the early retiring member will probably enjoy. These studies also demonstrate that the most common early retirement age option is 55 with some level of service. When early retirement is taken, benefit levels are reduced by a set percentage for each year prior to the normal retirement age. Actuarial reductions in the 44 states that have them range from 2.4% to 8% a year, with the most common reduction being 6% a year.

## Benefits

**Benefit Formula.** The Rhode Island benefit accrual formula is average for employees with up to 20 years of service, above average for 20 to 30 year employees, and allows perhaps the highest accrual rates in the nation for 35 year employees.

Annual retirement pensions are calculated by employing a standard formula type that is used by 49 state retirement systems:

Some Percentage X Years Served X Final Average Salary

To compute final average salary, the highest annual salaries of an employee's career are averaged. The number of years used by the state systems ranges from one to five years and may also be limited to only the highest consecutive years. The percentage used is a percentage of final average salary that is earned for a year of service and is a fixed multiplier set by state law that ranges from 1.10% to a high of 3.0%, although five systems (such as Rhode Island) use several different multipliers for either different decades of service (e.g. use 1.5% for the first 10 years served and 2.0% for the next ten years served, etc.) or for different levels of final average salary. For instance, a multiplier of 2.0% used for the first 10 years of service means that the employee will accrue benefits equal to 2.0% of his or her final average salary for each of the first ten years in state service. If this employee works for ten years, the employee will accrue 20% of final average salary. The different multipliers are significant because the Rhode Island system allows long-term employees to accrue a greater percentage of their salaries per year than short-term employees. **The 3.0% multiplier used in the Rhode Island system for years of service 21-34 is the highest single multiplier used in the nation for any service years range.**

An important consideration when comparing benefit levels is the Social Security factor. According to the 1992 report by the Wisconsin Retirement Research Committee, there are seven state systems that do not participate in the Social Security plan, so their benefit multipliers are generally higher than those of states that do provide for Social Security. As will be demonstrated, Rhode Island does participate in the Social Security plan, yet offers benefit multipliers equal to those of states that do not.

The study also demonstrates that among formulas using single multipliers (35), excluding the group of plans which does not participate in Social Security, 22 have multipliers below 2.0% while 13 have multipliers above 2.0%. The most frequently occurring range of percentage is the 1.51%-1.99% range.

Because Rhode Island does not have a single multiplier, direct comparison with other states is difficult. The following hypothetical comparison is presented as an alternative means of analyzing benefits across states. Consider a state government employee who has worked for the state for 10 years and has met all normal retirement criteria. If this



employee's highest annual salaries were during the last five years of state service and were \$33,000, \$34,000, \$35,000, \$36,000, \$37,000, what is the annual pension benefit this employee would receive from each of the 50 states? What would the benefit be if the same employee worked for 20, 25, 30, or 35 years in the state system?

As shown in Table 8, for the employee with 10 or 20 years of state service, Rhode Island benefit levels are average. Our hypothetical 10 year employee would receive an initial annual pension of \$6,120. This amount ranks 26th out of 49 states (Nebraska is not included because its system design is incompatible with other systems) and is several hundred dollars below the mean benefit for all states (\$6,377). The benefit ranking for a 20 year employee is similar. The Rhode Island benefit of \$12,960 annually places it 24th out of the 49 states with a slight advantage over the mean benefit (\$12,898).

It is at 25 years of service that the Rhode Island relative benefit begins to rise among the state rankings. Our hypothetical retiree would earn an initial annual pension of \$18,360 which ranks as the 9th highest and is more than two thousand dollars above the mean benefit of \$16,076 for all 49 states.

After 30 years of service, Rhode Island would provide this employee with the 5th highest yearly benefit among the 49 states included. At \$23,760, the benefit places Rhode Island above the mean benefit of \$19,405. Furthermore, of the four states with higher benefits than Rhode Island, only one (New Mexico) provides Social Security coverage.

After 35 years of service, the Rhode Island pensioner would receive the 2nd highest pension benefit in the nation, nearly 30% above the national average, even including states that do not offer Social Security. At this point, Rhode Island's benefits trail only Louisiana, which does not provide Social Security. When Louisiana and other states that do not offer Social Security are excluded, Rhode Island offers a greater pension to a hypothetical 35 year employee than any other state in the nation.

In this hypothetical comparison, the relatively high benefits generated by the Rhode Island system in comparison to other state systems appears to result from the factor in the benefit formula which provides pensioners with 3.0% of the FAS for years 20-34 of service. This factor explains why benefits for long-term employees (20 years or more) are higher than the average, and among the very highest for the 30 and 35 year employee.



**TABLE 8****Annual Pension Possibilities for 50 States**

If you worked for any state government for 10, 20, 25, 30, or 35 years and met all the requirements for normal retirement, what would your annual pension be, assuming that your salaries for the last five years you worked were the highest salaries of your career and the totals for those last five years were as follows: \$33,000, \$34,000, \$35,000 \$36,000, and \$37,000?

\* Bold indicates states that do not provide Social Security for state employees.

STATE	YEARS OF SERVICE				
	10	20	25	30	35
Alabama	\$7,236	\$14,472	\$18,090	\$21,708	\$25,326
Alaska	\$7,200	\$15,300	\$19,800	\$24,300	\$28,800
Arizona	\$7,200	\$14,400	\$18,000	\$21,600	\$25,200
Arkansas	\$5,425	\$10,850	\$13,563	\$16,275	\$18,988
California	\$7,400	\$14,800	\$18,500	\$22,200	\$25,900
Colorado	\$9,000	\$18,000	\$20,250	\$22,500	\$24,750
Connecticut	\$7,200	\$14,400	\$18,000	\$21,600	\$25,200
Delaware	\$5,810	\$11,620	\$14,525	\$17,430	\$20,335
Florida	\$5,880	\$11,760	\$14,700	\$17,640	\$20,580
Georgia	\$5,986	\$11,972	\$14,965	\$17,958	\$20,951
Hawaii	\$7,200	\$14,400	\$18,000	\$21,600	\$25,200
Idaho	\$5,845	\$11,690	\$14,613	\$17,535	\$20,458
Illinois	\$3,550	\$7,455	\$9,763	\$12,070	\$14,733
Indiana	\$3,850	\$7,700	\$9,625	\$11,550	\$13,475
Iowa	\$6,480	\$12,960	\$16,200	\$19,440	\$22,680
Kansas	\$4,970	\$9,940	\$12,425	\$14,910	\$17,395
Kentucky	\$6,895	\$13,790	\$17,238	\$20,685	\$24,133
Louisiana	\$9,000	\$18,000	\$22,500	\$27,000	\$31,500
Maine	\$7,200	\$14,400	\$18,000	\$21,600	\$25,200
Maryland	\$6,480	\$12,960	\$16,200	\$19,440	\$22,680
Massachusetts	\$7,920	\$15,840	\$19,800	\$23,760	\$27,720
Michigan	\$5,400	\$10,800	\$13,500	\$16,200	\$18,900
Minnesota	\$3,500	\$12,250	\$11,375	\$16,625	\$16,625
Mississippi	\$6,656	\$13,313	\$16,641	\$16,996	\$17,351
Missouri	\$5,400	\$10,800	\$13,500	\$16,200	\$18,900
Montana	\$6,408	\$12,816	\$16,020	\$19,224	\$22,428
Nebraska	annuity	annuity	annuity	annuity	annuity

CONTINUED ON NEXT PAGE

**TABLE 8**  
Annual Pension Possibilities for 50 States

STATE	YEARS OF SERVICE				
	10	20	25	30	35
Nevada	\$9,000	\$18,000	\$22,500	\$27,000	\$27,000
New Hampshire	\$6,012	\$12,024	\$15,030	\$18,036	\$21,042
New Jersey	\$6,012	\$12,024	\$15,030	\$18,036	\$21,042
New Mexico	\$9,000	\$18,000	\$22,500	\$27,000	\$27,000
New York	\$5,998	\$11,952	\$15,552	\$19,152	\$21,852
North Carolina	\$5,822	\$11,644	\$14,555	\$17,466	\$20,377
North Dakota	\$5,400	\$10,800	\$13,500	\$15,750	\$18,900
Ohio	\$7,560	\$15,120	\$18,900	\$22,680	\$27,180
Oklahoma	\$7,000	\$14,000	\$17,500	\$21,000	\$24,500
Oregon	\$6,012	\$12,024	\$15,030	\$18,036	\$21,042
Pennsylvania	\$7,200	\$14,400	\$18,000	\$21,600	\$25,200
Rhode Island	\$6,120	\$12,960	\$18,360	\$23,760	\$28,800
South Carolina	\$6,552	\$13,104	\$16,380	\$19,656	\$22,932
South Dakota	\$4,680	\$9,360	\$11,700	\$14,040	\$16,380
Tennessee	\$3,225	\$6,450	\$8,063	\$9,675	\$11,288
Texas	\$7,200	\$14,400	\$18,000	\$21,600	\$25,200
Utah	\$7,200	\$14,400	\$18,000	\$21,600	\$25,200
Vermont	\$4,500	\$12,024	\$15,030	\$18,000	\$18,000
Virginia	\$5,742	\$8,304	\$10,380	\$17,226	\$20,790
Washington	\$7,000	\$14,000	\$17,500	\$21,000	\$24,500
West Virginia	\$7,200	\$14,400	\$18,000	\$21,600	\$25,200
Wisconsin	\$5,760	\$11,520	\$14,400	\$17,280	\$20,160
Wyoming	\$7,200	\$14,400	\$18,000	\$21,600	\$25,200
<b>AVERAGE</b>	<b>\$6,377</b>	<b>\$12,898</b>	<b>\$16,076</b>	<b>\$19,405</b>	<b>\$22,330</b>
<b>RI Ranking</b>	<b>27th</b>	<b>24th</b>	<b>9th</b>	<b>5th</b>	<b>2nd</b>
<b>RI Ranking - states with Social Security</b>	<b>20th</b>	<b>17th</b>	<b>3rd</b>	<b>2nd</b>	<b>1st</b>

Source: Calculations made by the Office of the General Treasurer, Rhode Island

**Cost of Living Provisions.** The Rhode Island system provides for automatic 3% increases each year, which are compounded, as a cost of living adjustment beginning on the third January after retirement. Only 6 states guarantee a COLA as high as 3%. Of the 50 states, 15 provide post-retirement COLAs on an ad hoc basis, usually determined by the state legislatures. Of the remaining 35 states, 8 guarantee a fixed increase (including Rhode Island) and 23 are based on either the Consumer Price Index or excess returns from their pension investment funds. Although increases in some of these states may potentially be higher than Rhode Island, the increases may also be lower during years of low inflation or only average investment returns. Of the 8 states guaranteeing a fixed COLA, only one state (Missouri: 4%) guarantees a higher increase, while 4 others provide the same guarantee as Rhode Island and 2 guarantee a smaller COLA. See Table 9.

TABLE 9									
Cost of Living Increase Provisions of the 50 State Systems									
	Ad Hoc	Guaranteed %				CPI % with Cap or Investment Excess			
		2.0%	2.5%	3.0%	4.0%	Below 3%	3%	Above 3%	No Cap
Number of States	15	1	1	5	1	4	11	9	4
Percent of States	30.0%	16.0%				56.0%			
* Source: 1992 Wisconsin Retirement Research Committee report 1992 Workplace Economics report									

Note: Data regarding whether COLAs are compounded or simple was incomplete and therefore not included.

**Benefit Limits.** The Rhode Island retirement system does place a limit on the total percentage of final average salary that can be paid in a pension benefit; employees may receive a maximum of 80% of their final average salary achieved after 35 years of service (Social Security benefits are not included in this limit). According to the Wisconsin Retirement Research Committee report, of the 49 other states, there are no limits on benefits in 30 of them, 8 states limit pensions to 100% of final average salary, 8 states limit pensions to a percentage that is less than 80%, and the other 3 base limits on some other formula or use 80% as a cap. It is important to note that in many states that have no limits on benefits, it would require 40 or more years of service to attain the 80% level because benefits accrue at a slower rate than in Rhode Island.



## IV. New England Comparison

The following section will address some of the previously discussed aspects Rhode Island's system in comparison with only the New England states.

**Unfunded Liability.** According to a 1992 report by Wilshire Associates, the New England region is the most underfunded region in the nation with an average Projected Benefit Obligation (PBO) funding level of 62%. PBO measures a system's assets as a percentage of the system's liabilities. For example, a PBO funding level of 50% means that the assets of the system are only 50% the size of the system's liabilities. Of the 50 states and DC, New England states have the 49th, 48th, 44th, 43rd, 40th, and 24th positions in terms of PBO funding levels. The Rhode Island system (68% PBO) is the second highest funded state system among the five New England states, trailing only New Hampshire (86%). For state employee plans, New Hampshire is again the highest funded, with Rhode Island placing second in the region. Maine is again the lowest funded in the region at 52%. The Rhode Island teachers' system does not fare as well, as it places fourth of the six states in the region. See Table 10.

TABLE 10								
Funded Liability Comparison of New England States								
STATE ERS *			STATE EMPLOYEES			TEACHERS		
	Funded %	Ranking		Funded %	Ranking		Funded %	Ranking
N.H.	86%	24 of 51	N.H.	85%	44 of 82	N.H.	87%	40 of 82
R.I.	68%	40 of 51	R.I.	72%	64 of 82	Vt.	79%	56 of 82
Vt.	63%	43 of 51	Conn.	54%	72 of 82	Conn.	71%	65 of 82
Conn.	63%	44 of 51	Mass.	53%	73 of 82	R.I.	66%	67 of 82
Mass.	48%	48 of 51	Vt.	52%	74 of 82	Mass.	44%	77 of 82
Me.	43%	49 of 51	Me.	52%	75 of 82	Me.	38%	79 of 82
U.S. Average = 100%			U.S. Average = 109%			U.S. Average = 91%		
* ERS: Combines state employees' and teachers' systems.								
** Source: 1992 Report on Funding Levels for State Retirement Systems, Wilshire Assoc.								

**Benefit Formula.** For system members with 30 or 35 years of service, the Rhode Island retirement system provides high benefits even when compared to the benefits of the other New England states, however the Rhode Island system provides benefits that are average in the region for employees with fewer years of service. Average retirement benefits for New England retirees are higher than those of the national average. For each service year level (10, 20, 25, 30, 35 years) used in the previous hypothetical (a state employee with a final average salary of \$36,000), the New England average outpaces the national benefit average. Among these six states, Massachusetts is



ranked first for years of service 10, 20, 25, and 30 with benefit levels far exceeding both the national and New England averages, however Massachusetts offers no Social Security to public employees. Rhode Island provides the 30 and 35 year employee with the highest benefits in the region. Rhode Island benefits rank second in New England for members of 25 years of service, while ranking close to the mean for members with 20 or 10 years of service. See Table 11.

**TABLE 11**  
Benefit Comparisons of New England States:  
Using the Hypothetical Employee used in Tables 5.1-5.5  
Final Average Salary = \$36,000

10 Years		20 Years		25 Years		30 Years		35 Years	
Mass.	\$7,920	Mass.	\$15,840	Mass.	\$19,800	Mass.	\$23,760	R.I.	\$28,800
Conn.	\$7,200	Conn.	\$14,400	R.I.	\$18,360	R.I.	\$23,760	Mass.	\$27,720
Me.	\$7,200	Me.	\$14,400	Conn.	\$18,000	Conn.	\$21,600	Conn.	\$25,200
R.I.	\$6,120	R.I.	\$12,960	Me.	\$18,000	Me.	\$21,600	Me.	\$25,200
N.H.	\$6,012	N.H.	\$12,024	N.H.	\$15,030	N.H.	\$18,036	N.H.	\$21,042
Vt.	\$4,500	Vt.	\$12,024	Vt.	\$15,030	Vt.	\$18,000	Vt.	\$18,000
50 State MEAN	\$6,377	50 State MEAN	\$12,898	50 State MEAN	\$16,076	50 State MEAN	\$19,405	50 State MEAN	\$22,330
New Eng. MEAN	\$6,492	New Eng. MEAN	\$13,608	New Eng. MEAN	\$17,370	New Eng. MEAN	\$21,126	New Eng. MEAN	\$24,327

\* Source: Calculations were made by the Office of the General Treasurer, Rhode Island

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