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Report of the Special Commission to Re-Examine State Pension and Retirement Systems

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State of Rhode Island and Providence Plantations



REPORT

OF THE

Special Commission To Re-examine

State Pension and Retirement

Systems

TO THE

GENERAL ASSEMBLY

AT ITS

JANUARY SESSION, 1947

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R 356
1947

To the Honorable, the General Assembly:

The Special Commission to Re-Examine State Pension and Retirement Systems created by Joint Resolution No. 24 adopted at the 1946 session of the General Assembly, has completed its work and respectfully submits the following report.

The Commission consists of six members of the General Assembly (Senators Michael J. Kilroy, Frank Sgambato, William J. Thompson; Representatives Louis J. Lussier, Thomas P. McHugh, Joseph Mills), the members of the State Employees' Retirement Board (Russell H. Handy, Howard A. Kenyon, Thomas J. Meehan, Joseph M. Boisvert, Charles W. Hill), the Director of Civil Service (Charles H. Cushman), and the Chairman of the Retirement Committee of the State Employees' Association (Charles G. Hammann). Charles W. Hill, Assistant State Controller, served as Chairman, and Joseph B. Lewis of the Retirement System served as Secretary.

The purpose of the Commission as set forth in the said resolution was to make "a comprehensive re-examination of the State Employees' Retirement System in this state, methods of financing, scope of protection and of other plans under which pensions and retirement salaries are being paid by the state." The Commission is required under the resolution to submit a report to the Legislature containing "specific recommendations in legislative bill form for the purpose of establishing a sound and more equitable, adequate retirement system for state employees...."

The Commission organized on October 4, 1946, and during the past five months has held a total of 19 meetings and made a thorough and exhaustive study and analysis of the subject assigned to it. It has reviewed basic principles governing retirement legislation

for public employees and has inquired into the policies and practices maintained in other states. It has studied the several methods of financing retirement plans for public employees. It has also consulted with several actuaries active in the field of retirement legislation in an effort to acquaint itself with the best thought on the subject, and secure the views of outstanding technicians in the field of retirement planning.

The Commission has affirmed its belief that pension legislation for public employees serves a useful and constructive purpose, and that the public policy underlying such legislation is fully justified by the governmental, social and economic advantages that accrue therefrom.

In compliance with the directions contained in the resolution creating the Commission, several legislative proposals have been drafted for submission to the General Assembly, reflecting the recommendations of the Commission. These proposals provide a coordinated plan and an adequate retirement system for the several occupational groups of employees affected by this study, and are briefly summarized as follows:

State Employees. The Commission recommends that several important changes be made in Chapter 18 pertaining to the Employees' Retirement System of the State of Rhode Island. These changes include a revision in the retirement benefit to a more adequate basis than is provided in the present plan. Specifically, the Commission recommends that the rate of retirement benefit be increased to provide a retirement allowance equal to one-half the average salary upon completion of 30 years of service as compared with 40 years of service required in the present plan. The Commission found that the present rate of benefit is totally

inadequate to meet the subsistence needs of aged employees, and recommends this adjustment as a means of providing a more reasonable benefit.

With respect to the financing of the plan of benefits for state employees, the Commission believes that a uniform and constant rate of contribution on the part of employees, of 5% of salary, without distinction as to sex or occupational classifications, is preferred over the method now in force of having graded rates according to ages at entry, and with differentiation made as to sex of the employees. Its recommendation to that effect is incorporated in the proposed Act. It further recommends that the present reserve basis of financing be replaced by a partial reserve method. The Commission believes that a full reserve method is wholly unnecessary in the case of the state because it is a perpetual entity. The optional age of retirement for state employees is retained at 60 years, but the privilege of retiring after 35 years of service regardless of age is eliminated from the plan. Several other changes, which are outlined in the summary explanation made a part of this report, are recommended in the plan to give effect to accepted principles governing retirement legislation. The effective date of the proposed Act is July 1, 1947.

State Police. The legislative proposal prepared by the Commission affecting State Police also provides for their inclusion in the membership of the "Employees' Retirement System of the State of Rhode Island," with special provisions to meet the peculiar characteristics of this occupational group. The minimum retirement age for state police would be fixed at 55 years, with a minimum service requirement of 10 years. A vesting provision would be included whereby rights in a retirement pension would

vest in a policeman after the completion of 10 years of service, to which he would become entitled upon attainment of age 55. The rate of retirement benefit would be 2% of average salary per year of service, subject to a maximum of 60% of final salary. These employees likewise would be required to make contributions at the same rate as other state employees, but in return would be granted all rights and privileges accorded other employees under the plan, including disability and death benefit provisions. State police employed prior to July 1, 1947 would receive a pension based upon Section 13, Chapter 8 of the General Laws, or have the option to retire in accordance with the provisions of Chapter 18.

Judges. At present, separate pension plans are maintained for Supreme and Superior Court judges, and judges of the several district courts. Our study discloses that it is common in other states to maintain separate pension plans for those judges having a continuous tenure of office, due to the special characteristics of this kind of employment. Inasmuch as district court judges do not have continuous tenure of office, we recommend that this group of employees be covered by the system pertaining to state employees, upon the same basis and under identically the same conditions with full prior service credit.

School Teachers. The Commission recommends a reorganization of the pension plan for teachers, and its conversion to a jointly contributory basis from its present non-contributory form, contributions to be made by the teachers, the cities and towns, and the state. The contributory basis is considered absolutely necessary to assure the financial stability and permanency of the teachers' pension plan. Provision is made in the Act relating

to this group of employees for their mandatory inclusion in the membership of the "Employees' Retirement System of the State of Rhode Island" on the same basis as state employees. All of the rights and privileges granted state employees under the said system, including disability and death benefit provisions, would be accorded to teachers. In addition, the teachers employed prior to July 1, 1948 would be guaranteed the present minimum annual retirement allowance after 35 years of service, of \$1,000.00, and the present minimum annual disability benefit after 20 years of service, of \$800.00. The teachers would be required to make contributions at the same rate as other members of this system. Cities and towns whose teachers become members of the system would be required to contribute one-half of the cost of the plan after applying the contributions made by the teachers, the state to assume the remainder of the cost. The teachers' group would be granted representation on the Board of Trustees and would elect a member to that Board.

LEGISLATIVE PROPOSALS

- (1) An Act in Amendment of Chapter 18 of the General Laws, Entitled "Pension and Retirement System for State Employees," as Amended.
- (2) An Act Providing a State Retirement System for State Police.
- (3) An Act Providing a Retirement System for Judges and Associate Judges of the District Courts.
- (4) An Act Providing a State-Wide Retirement System for School Teachers of the Several Cities and Towns of the State.
- (5) An Act Providing for the Inclusion of School Teachers Employed by the State in the Retirement System Created by Chapter 18 of the General Laws, As Amended. (This Act is for the purpose of providing coverage for state school teachers now coming under the provisions of Chapter 195 of the General Laws.)

Attached is a summary explanation of the above Acts.

CONCLUSION

While the scope of the legislative resolution providing this study does not include a study of a state-wide retirement plan for municipalities, our study revealed that there is a strong trend in this direction in other states.

The Commission believes that the adoption of these Acts will result in the development of a coordinated and constructive pension policy for Rhode Island, on a state-wide basis. Discriminatory provisions now in effect would be eliminated, and the need for special legislative acts for individual employees would be obviated. Adequate retirement benefits and other provisions essential for the maintenance of a sound and progressive pension program for the personnel would be provided all occupational groups of public employees, financed according to a plan which recognizes the position of the state as a sovereign entity. Such a state policy as is recommended by the Commission would conform to the trend in other states for the adoption of uniform standards for all employees, notably in Illinois and Wisconsin, whose pension Commissions have made recommendations to that effect.

Respectfully submitted,

Special Commission to Re-Examine
State Pension and Retirement Systems

Charles W. Hill, Chairman
Joseph M. Boisvert
Charles H. Cushman
Charles G. Hammann
Russell H. Handy
Howard A. Kenyon
Michael J. Kilroy
Louis J. Lussier
Thomas P. McHugh
Thomas J. Meehan
Joseph Mills
Frank Sgambato
William J. Thompson
Joseph B. Lewis, Secretary

March 18, 1947

SUMMARY OF EXPLANATION OF PRINCIPAL CHANGES

MADE BY AN ACT TO AMEND CHAPTER 18 OF THE GENERAL LAWS ENTITLED
"PENSION AND RETIREMENT SYSTEM FOR STATE EMPLOYEES," AS AMENDED

AS PREPARED AND SUBMITTED BY THE

SPECIAL COMMISSION TO RE-EXAMINE STATE PENSION AND RETIREMENT SYSTEMS

Purpose. To amend Chapter 18 to give effect to the recommendations of the Special Commission to Re-Examine State Pension and Retirement Systems, created under Joint Resolution No. 24, adopted by the General Assembly at its January Session 1946.

(1) Age of Retirement. The optional age of retirement remains at 60 years, but a 10-year service requirement is imposed as a condition for the receipt of a service retirement allowance.

The provision allowing the payment of a retirement annuity after 35 years of service regardless of age is stricken from the plan. The conditions imposed above will result in a more effective plan of operation for the system.

(2) Compulsory Retirement. The provisions relating to compulsory retirement have been clarified. Retirement would occur, in any event, at the age of 70 years as at present, but the retirement board may, at the request of the department or agency, grant an extension of time not later than the next succeeding month of May. Further extension would require approval of the General Assembly.

The authority for the deferment of retirement is transferred from the retirement board to the General Assembly.

(3) Vesting of Rights. It is provided that right to an annuity shall vest in an employee after the completion of 10 years of service. Any employee withdrawing from service, if he has had at least 10 years of service, may receive in lieu of a refund of contributions a deferred service retirement beginning upon attainment of the age of 60 years.

A provision for vesting is a necessary adjunct of a modern retirement plan and is in keeping with progressive pension principles. Such a provision is also essential to the maintenance of a sound personnel policy.

(4) Amount of Retirement Benefit. The rate of service retirement allowance is increased from an amount equal to approximately 1-1/4% of the average salary of the employee for his last ten years of service, per year of service (one-half average pay for 40 years of service) to a rate of 1-2/3% of average salary per year of service (one-half average pay for 30 years of service); not to exceed 60% of final annual salary, increments to terminate after 36 years of service. Average salary is defined as average salary earnable by an employee during the five consecutive years within the total service of the employee when the average was highest.

The revision in the rate of retirement benefit to a more adequate level is found necessary to effectuate the objectives of the retirement plan and encourage employees to retire when they have reached the end of their productive years.

(5) Death Benefit. A death benefit is created whereby payment would be made upon death of the employee, in addition to his accumulated contributions, of an amount equal to \$200.00 per year of service, subject to a minimum payment of \$500.00 and a maximum payment of \$2,000.00. In the case of an employee with less than one year of service, the minimum benefit would be reduced by the difference between the accumulated contributions the member would have had at the end of one year of service and the amount of contributions at date of death.

This death benefit is analogous to group life insurance, which is provided for most industrial groups of employees. It is a desirable and essential feature under a modern retirement plan, and is necessary for a well-balanced plan of benefits. There is no death benefit in the present plan.

(6) Refunds. The provision for the payment of a refund to employees withdrawing from the service prior to qualifying for a service retirement allowance, is retained, but no interest will be paid on future contributions to the system. Interest already created as of the effective date of the Act would remain vested in the employee. At present, interest at the rate of 4% compounded annually is paid on refunds to employees.

The low level of interest on investments and the reduced rate of income from investments, and the increase in benefit provisions dictates the proposed change for eliminating interest on refunds.

(7) Contributions by Employees. The rate of contribution by the employees to the system will be 5% of salary for all employees, both male and female, without any distinction as to occupation, sex or any other characteristic.

Instead of contributions being made on a graded basis, whereby employees contribute different percentages of salary according to their age of entry, the Act provides for a uniform rate of contribution by all employees. This results in a slight increase in the contributions to be made by employees. This change is designed to simplify the plan of operation and to equalize contributions on the part of the various classes of employees.

(8) Contributions by the State. Under the proposed plan, the contributions by the State for any fiscal year will be equal to the average annual expenditures (with respect to the State's portion of the cost of the benefit payments) over the next ten years following that for which contributions are to be made. The appropriation to be made by the State under this method of financing shall be at a level and uniform rate percent of compensation of the members for the period of 10 years subsequent to July 1, 1947 in accordance with the recommendations of the actuary.

This method of financing will replace the present actuarial reserve basis which requires considerably larger appropriations. Since the State is a perpetual entity, the maintenance of a full reserve basis is unnecessary, and a modification thereof is proposed. The required appropriation for the 10-year period beginning July 1, 1947 would be 4.50% of that portion of the State payroll which applies to State members of the Employees' Retirement System.

(9) Disability Benefits. Several corrective changes are made in the provisions for disability, covering occupational and non-occupational causes.

These changes are of minor character and are necessary to effectuate the operation of these provisions. The principal provisions made for disability remain unchanged.

(10) Accidental Death Benefit. Corrective and clarifying changes are made in the provisions for this benefit.

These changes are also necessary to give effect to the intents and purposes of the revisions in the plan. The principal provisions remain unchanged.

(11) Miscellaneous Changes. (a) A probationary period of service of one year is prescribed as a condition for membership in the system, and provision is made whereby any person becoming a member of the system can make payment for the said period of probationary service; (b) Membership in the system is extended to members of the General Assembly and general officers on an optional basis; (c) Any member taking a refund and waiving his rights in the system may have these rights reinstated upon return to the service, by restoring total contributions withdrawn, plus accrued interest thereon for the period of his absence from the service, provided he has been a member of the system at least one year following his reentry; (d) Provision is made for the allowance of prior service credits to certain employees who have previously failed to qualify for this credit, by requiring certain contributions as prescribed; (e) The State Director of Civil Service is made a member of the Board of Trustees of the system; (f) Interest rate on employees' contributions is 2% compounded annually, except no interest is to be paid on refunds; (g) The effective date of the act is July 1, 1947.

These several changes were found essential to the development of a progressive pension policy for the State.

SUMMARY OF EXPLANATION OF
AN ACT PROVIDING A STATE RETIREMENT SYSTEM FOR STATE POLICE
AS PREPARED AND SUBMITTED BY THE
SPECIAL COMMISSION TO RE-EXAMINE STATE PENSION AND RETIREMENT SYSTEMS

Purpose. To establish a formal retirement plan for members of the Rhode Island State Police, and extend to them the provisions of Chapter 18 relating to State employees.

(1) Coverage. Members of the State police employed prior to July 1, 1947 would continue to be entitled to the benefits of Section 13 of Chapter 8 of the General Laws and retire as provided therein, or have the option to retire in accordance with the provisions of Chapter 18. Members of the State police who perform police duty would be covered by the "Employees' Retirement System of the State of Rhode Island" under the terms and conditions therein set forth, except as noted below.

All members of the State police would be included as members of the State system, except present members would be entitled to retire under the provisions of Section 13 of Chapter 8.

(2) Benefits. Retirement of members of the State Police will be permitted upon attainment of the age of 55 years and after the completion of at least 10 years of service. The rate of benefit will be equal to 2% of average compensation for each year of service (average of highest five-year consecutive period) subject to a maximum of 60% of the annual rate of compensation at date of retirement.

This modification in the conditions for retirement is necessary to give effect to the special characteristics of the State police service, in which the employees attain a state of old-age inefficiency, due to the nature of police work, much earlier than other public employees. A higher benefit is also justified by the conditions of the service.

(3) Vesting. Rights in a retirement allowance on the part of any member of the State police shall vest after the completion of at least 10 years of service.

This vesting provision will assure any policeman withdrawing from service before the age of 55 years, a deferred retirement allowance upon his attainment of age 55.

(4) Financing. Beginning July 1, 1947, each member of the State police would contribute 5% of salary. The State would make a contribution to cover the cost of benefits to policemen upon the same basis as for other State employees.

The same method of financing would apply to policemen as in the case of other State employees.

(5) Other Provisions. All of the provisions of Chapter 18 would apply to the State police, with the exceptions as noted above.

The State police would be granted the benefit of all provisions of Chapter 18 upon the same basis as State employees, with the exception that the rates of retirement benefit and the conditions for retirement would be more realistically geared to the needs of that type of employment.

SUMMARY OF EXPLANATION OF
AN ACT PROVIDING A RETIREMENT SYSTEM FOR JUDGES AND
ASSOCIATE JUDGES OF THE DISTRICT COURTS
AS PREPARED AND SUBMITTED BY THE
SPECIAL COMMISSION TO RE-EXAMINE STATE PENSION AND RETIREMENT SYSTEMS

Under this Act, Judges and Associate Judges of the District Courts of the several judicial districts would become members of the retirement system maintained for State employees, with prior service credit and with the same rights to all other privileges and benefits as are extended to State employees.

These Judges would be required to make contributions to the system at the same rate as State employees, and would be required to fulfill all conditions prescribed under the plan of operation governing those employees, as provided in Chapter 18.

SUMMARY OF EXPLANATION OF

AN ACT PROVIDING A STATE-WIDE RETIREMENT SYSTEM FOR SCHOOL TEACHERS
OF THE SEVERAL CITIES AND TOWNS OF THE STATE

AS PREPARED AND SUBMITTED BY THE
SPECIAL COMMISSION TO RE-EXAMINE STATE PENSION AND RETIREMENT SYSTEMS

Purpose. To create a formal retirement plan for all school teachers of the several cities and towns of the State of Rhode Island by providing for their inclusion as members of the "Employees' Retirement System of the State of Rhode Island," subject to special provisions and conditions necessary to give effect to the characteristics of the teaching service.

(1) Coverage. This Act applies to all persons holding a certificate of qualification as a teacher, issued under the authority of the State Director of Education, and who are engaged in teaching as a principal occupation and are regularly employed as teachers in the public schools of any city or town.

The Act is designed to create a formal retirement plan for all persons engaged in teaching as their principal occupation, and employed by any city or town.

(2) Service Credit. Teachers in service on or before June 30, 1948, would be entitled to prior service credit for all periods of service as teachers within the State. Credit would also be allowed for service as a teacher outside of the State of Rhode Island, not exceeding ten years, under certain prescribed conditions as to contributions to be made for such service, and subject to other limitations.

An appropriate credit would be allowed for all previous service as a teacher for the various purposes of the system, to the same extent as was granted State employees when the State system was created.

(3) Benefits. The conditions for retirement, rates of service retirement allowance, disability provisions, death benefits and all other benefits available for State employees under the provisions of Chapter 18 would be extended to teachers on the same basis as other employees. Teachers completing at least 35 years of total service would be assured of a minimum payment of \$1,000.00 per annum, to which they are now entitled from the State, and those who become disabled after working for at least 20 years within the State would receive a minimum allowance of \$800.00 per annum. It is further provided that the service retirement allowance or ordinary disability allowance provided by the system when taken together with the amount of any annuity or benefit received by the teacher from any other public retirement system, would be limited to 75% of the annual rate of compensation of the member at the date of retirement.

Under the provisions made, the various benefits of the State system would be extended to the teachers, including all rights and privileges accorded State employees thereunder. In addition, the teachers employed prior to July 1, 1948 would be guaranteed the minimum benefits now provided for them under Chapter 195 of the general laws. The limitation imposed on the combined benefits as above indicated is necessary to prevent teachers from receiving pension payments from public funds approximating full salary.

(4) Retired Teachers. Payments to teachers now on retirement would be continued at the rates in force without any change whatsoever. These payments would be in no way affected by the provisions of this Act.

All rights and privileges of retired teachers under the provisions of Chapter 195 would be preserved.

(5) Contributions by Teachers. The teachers becoming members of the system would contribute at the rate of 5% of their salaries regardless of age or sex.

Contributions would be made by the teachers to the system upon the same basis as State employees, and they would be granted equal benefits in addition to the guarantees mentioned under (3) above.

(6) Contributions by a City or Town. A city or town whose teachers become members of the system would be required to contribute to the system for any fiscal year an amount equal to one-half of the total sum necessary to meet the needs of the system according to the plan of financing as specified in the Act. This payment is to be made by each city or town to the general treasurer of the State by way of reimbursement to the State. In case of failure to make payment, the general treasurer would have authority to deduct such amount from any monies due such city or town from the State for any other purpose.

A city or town would contribute an amount equal to one-half of the amount of contribution to be made by the employer under the provisions of the Act to meet the employer's share of the cost of the system, the State to assume the obligation for the other half. The amount of annual contribution would be determined as specified under the provisions of Chapter 18, namely, upon the basis of the estimated annual expenditures over the next ten years following that for which contributions are to be made, after applying as an offset the contributions made by the employees.

(7) Members of Retirement Board. Teachers would be granted representation on the Retirement Board. Provision is made for the holding of an election among the teachers for a member of the Retirement Board.

In view of the large group of persons comprising this group of employees, it is only proper that representation on the Retirement Board should be accorded these employees, and this provision has been made in the proposed Act.

(8) Other Provisions. All of the provisions of Chapter 18 would apply to teachers, except as noted in this Act.

The teachers would be granted the benefit of all provisions of Chapter 18 upon the same basis as State employees, with the guarantees as indicated, and with such exceptions as noted.

(9) Summary of Annual Costs. The remaining cost of the non-contributory teachers' system would be liquidated in approximately 15 years at the annual cost to the State of \$448,022.00.

The annual cost of the new contributory teachers' system as determined by the actuary for the 10-year period beginning July 1, 1948 would be 6% of that portion of the total payroll of teachers who qualify under this Act to be shared on a 50-50 basis with the several cities and towns. This cost is tentative and is subject to adjustment when the necessary membership data becomes available to the actuary.