



*State Fiscal Note for Bill  
 Number: 2023-H-5404*

**Date of State Budget Office Approval:** Thursday, April 13, 2023

**Date Requested:** Thursday, March 23, 2023

**Date Due:** Sunday, April 2, 2023

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2023	N/A	FY 2023	N/A
FY 2024		FY 2024	N/A
FY 2025		FY 2025	N/A

*Explanation by State Budget Office:* This bill amends RIGL 36-10-35 entitled "Additional benefits payable to retired employees", by exempting state employees, and/or their beneficiaries, who retired prior to January 1, 2011, from the sections of law that suspends the cost of living allowance (COLA) adjustments for all retirees until the aggregate funding ratio of the Employees' Retirement System of Rhode Island, the Judicial Retirement Benefits Trust, and the State Police Retirement Benefits Trust exceed 80 percent.

After the passage of the bill, state employees, and/or their beneficiaries, who retired prior to January 1, 2011, will receive a one-time COLA adjustment to compensate for the forgone COLA adjustments from 2011 through 2023, and will receive annual COLA adjustments beginning in 2024.

*Comments on Sources of Funds:* All funding sources support the employer's share of retirement costs. This could include general revenue, federal funds, restricted receipts, and various "other" sources of funds.

Benefit payments to retirees are supported by the State Employees' Retirement Trust Fund.

*Summary of Facts and Assumptions:* This bill does not amend RIGL 8-3-15 or 42-28-22, which suspends the COLA adjustments for the members and their beneficiaries of the Judicial Retirement Benefits Trust and the State Police Retirement Benefits Trust respectively. The provisions of this bill will only apply to members of the Employees' Retirement System of Rhode Island and their beneficiaries.

The bill will take effect upon passage which is assumed to be June 30, 2023. In FY 2024 eligible retirees and/or their beneficiaries will receive a one-time COLA adjustment equal to the forgone COLA adjustments from 2011 through 2023. Beginning in FY 2025, eligible retirees and/or their beneficiaries will begin receiving annual COLA adjustments.

The bill does not change the employee contribution rate. Therefore, the State will be fully responsible for any additional contributions resulting from this bill.

Currently, cost of living allowance (COLA) adjustments for all retirees are suspended until the aggregate funding ratio of the Employees' Retirement System of Rhode Island, the Judicial Retirement Benefits Trust, and the State Police Retirement Benefits Trust exceed 80 percent. This analysis uses the funding ratio of the

*Prepared by:* Patrick Crawley / 4012226418 / patrick.j.crawley@budget.ri.gov

Thursday, April 13, 2023

Page 1 of 2

Employees' Retirement System of Rhode Island as a proxy for the aggregate funding ratio, and when the Employees' Retirement System of Rhode Island funding ratio exceeds 80 percent, it is assumed COLA adjustments will be reinstated.

Gabriel, Roeder, and Smith completed an Actuarial Valuation Report for the Employees Retirement System of Rhode Island, the Judicial Retirement Benefit Trust, the State Police Retirement Benefits Trust, and the Municipal Employee Retirement System as of June 30, 2022. The funded ratios included in the report are as follows:

Employees' Retirement System of Rhode Island: 58.8% funded  
Judicial Retirement Benefits Trust: 100.4%  
State Police Retirement Benefits Trust: 90.0%

The provisions of the bill will only apply to state employees, and/or their beneficiaries, who retired prior to January 1, 2011. The Employee Retirement System of Rhode Island indicated 7,076 state employees receiving pension benefits retired prior to January 1, 2011. All 7,076 retirees and/or their beneficiaries will receive a one-time catch-up COLA adjustment in FY 2023 and begin receiving annual COLA adjustments in FY 2024.

The Actuarial Valuation Report as of June 30, 2022, for the Employee Retirement System of Rhode Island projects the funding ratio will exceed 80 percent in 2030 (Table 3C Ten-Year Projections (State-Employees)). The provisions of the bill will directly impact both the inflows and outflows of the trust funds and may delay the reinstatement of the COLA adjustment for employees who retired after January 1, 2011, if the full cost of this change is unmet in future contribution rate adjustments.

*Summary of Fiscal Impact:*

The fiscal impact of this legislation is indeterminate without a complete actuarial study by the Employees' Retirement System to determine the financial impact of the pension trust fund (increases to the normal cost and the UAAL) and the resultant increases to the employer payroll rates of contribution. Reinstating COLAs for retirees would increase the outflows from the Retirement Trust Funds beginning in FY 2024, which would likely translate into significant increases in employer contributions in future valuations.

Budget Office Signature:



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Fiscal Advisor Signature:

