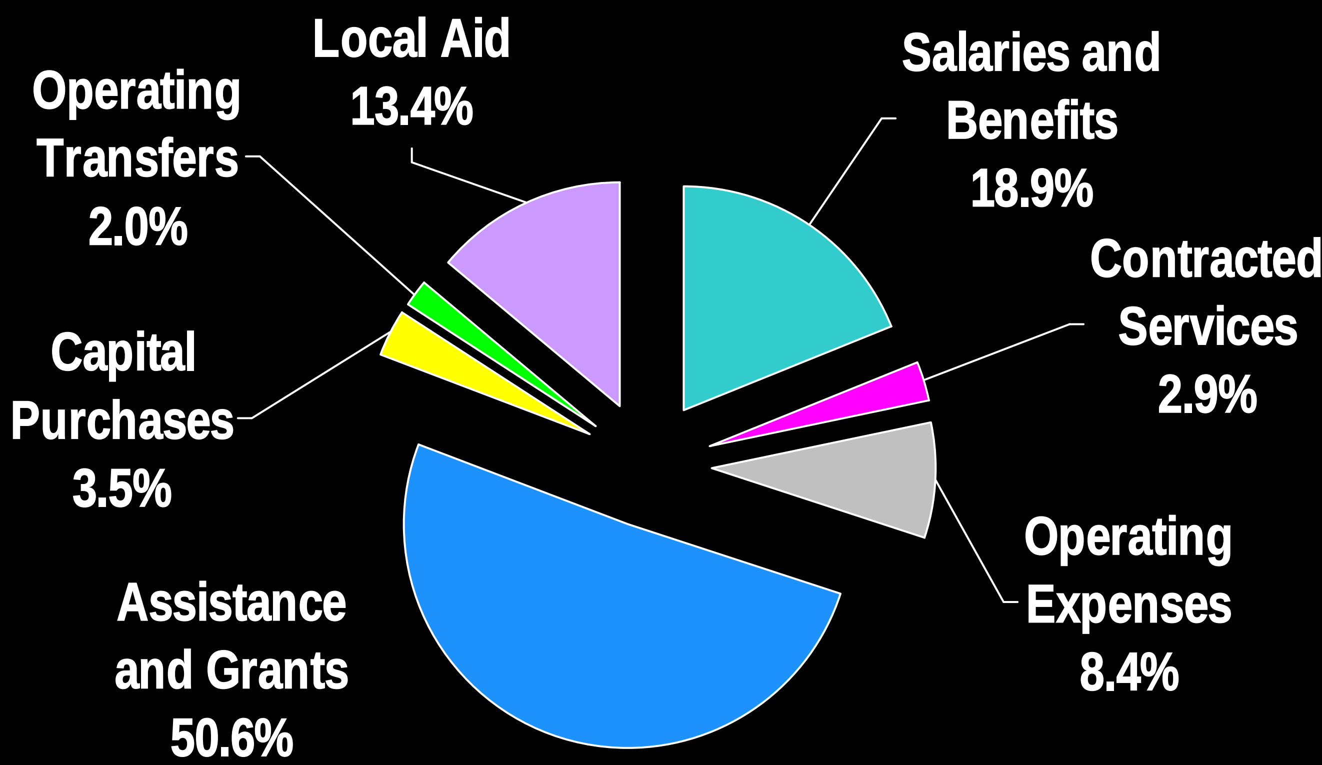
# *Personnel Issues*

February 15, 2011

House Finance Committee

# FY 2011 Enacted Budget



# *Personnel Costs: What are they?*

| Personnel Cost | Cost (in mill) | Percentage |
|---|---|---|
| Salaries & Benefits | $1,439.6 | 86.6% |
| Contracted Services | 222.5 | 13.4% |
| **Total** | **$1,662.1** | **100.0%** |

# *Personnel Costs:  What are they?*

- State Employees
  - Salaries and benefits
  - Governed by statutes in Title 36

# *Personnel Costs:  What are they?*

- Contracted Services
  - Since 2006 - May not replace work done by state employees w/o public hearings and rec. by the Budget Office and Dir. of Personnel & determination of need by the DOA Director
  - 2007 Assembly -  Required extensive cost comparison analysis, an appeals process prior to privatization & that bids must substantially beat the current in-house costs and meet or exceed current service quality and performance
  - 2008 Assembly – Modified these requirements

# Divisions of State Service

- Classified
  - Competitive and noncompetitive
- Unclassified
- Non-classified

# *Divisions of State Service*

- **Classified Service**
  - **Competitive**
    - Civil service examinations
  - **Non-Competitive**
    - Positions include routine, laboring, custodial, or domestic tasks
    - Positions subject to continuing supervision
    - Require licenses, certificates, or registrations

# *Divisions of State Service*

- **Unclassified Service**
  - Positions specifically established by RIGL 36-4-2 or as specifically stated in statute
    - Employees of elected officials, courts, independent agencies, departmental directors, or public authorities
    - Employees involved in policy making

# *Divisions of State Service*

- **Non-Classified Service**
  - Positions covered under contract terms for the Board of Governors for Higher Education, Board of Regents for ElSec & Public Telecommunications Authority
    - Including senior administrative staff and faculty

# *Employee Status*

- Relates to an employee’s protection during reorganizations or layoffs
- Referenced in Collective Bargaining contracts
- Least protection: Temporary & Probationary

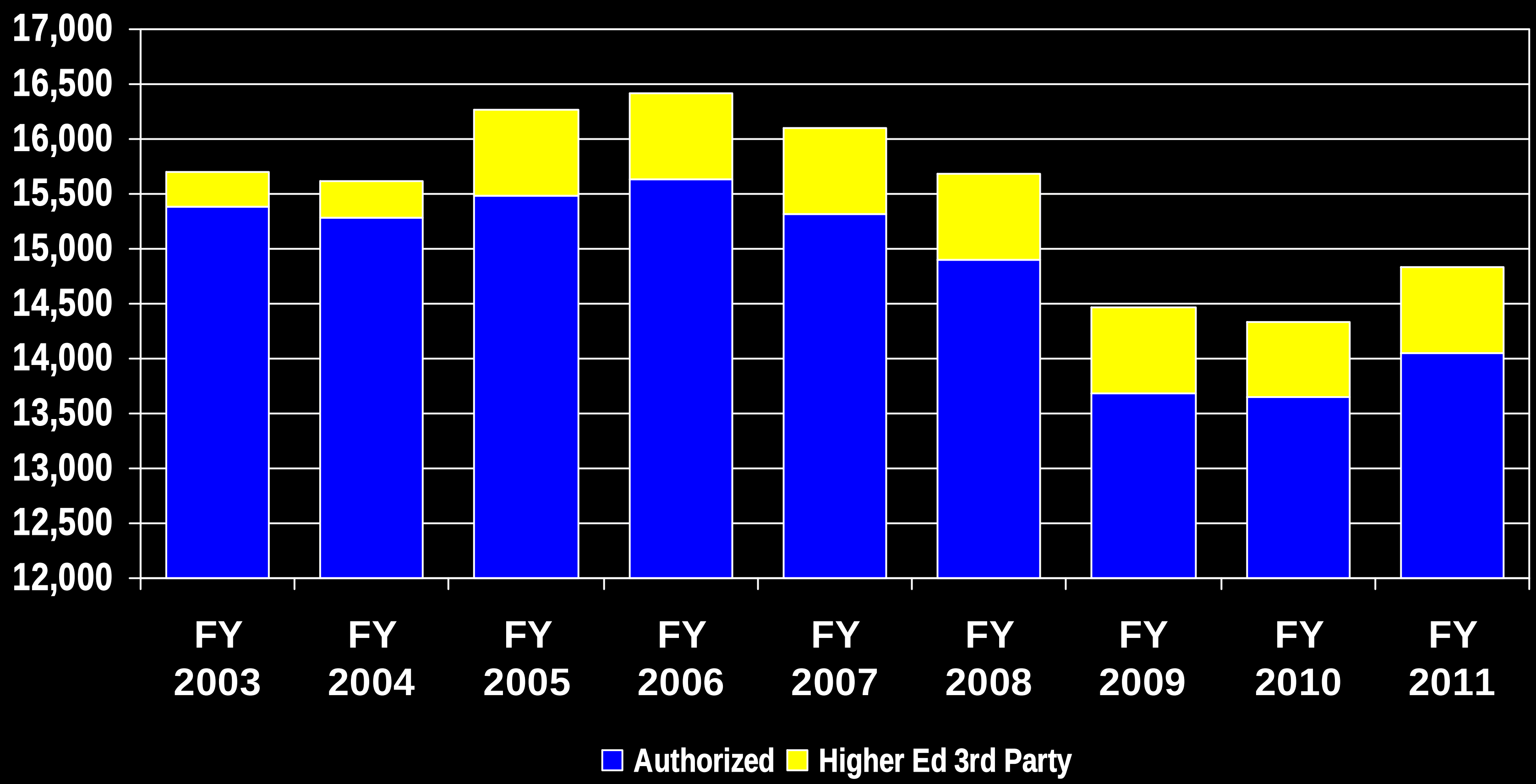
# *Employee Status - Statutory*

- Acquired by an employee who has 20 years of service
- State is required to find suitable work for employee in case of reorg. or layoff
- Currently 3,660 employees with status, of which 217 achieved status through veteran provision
  - Veterans acquire status after 15 years
- Does not apply to employees with entry date after August 7, 1996

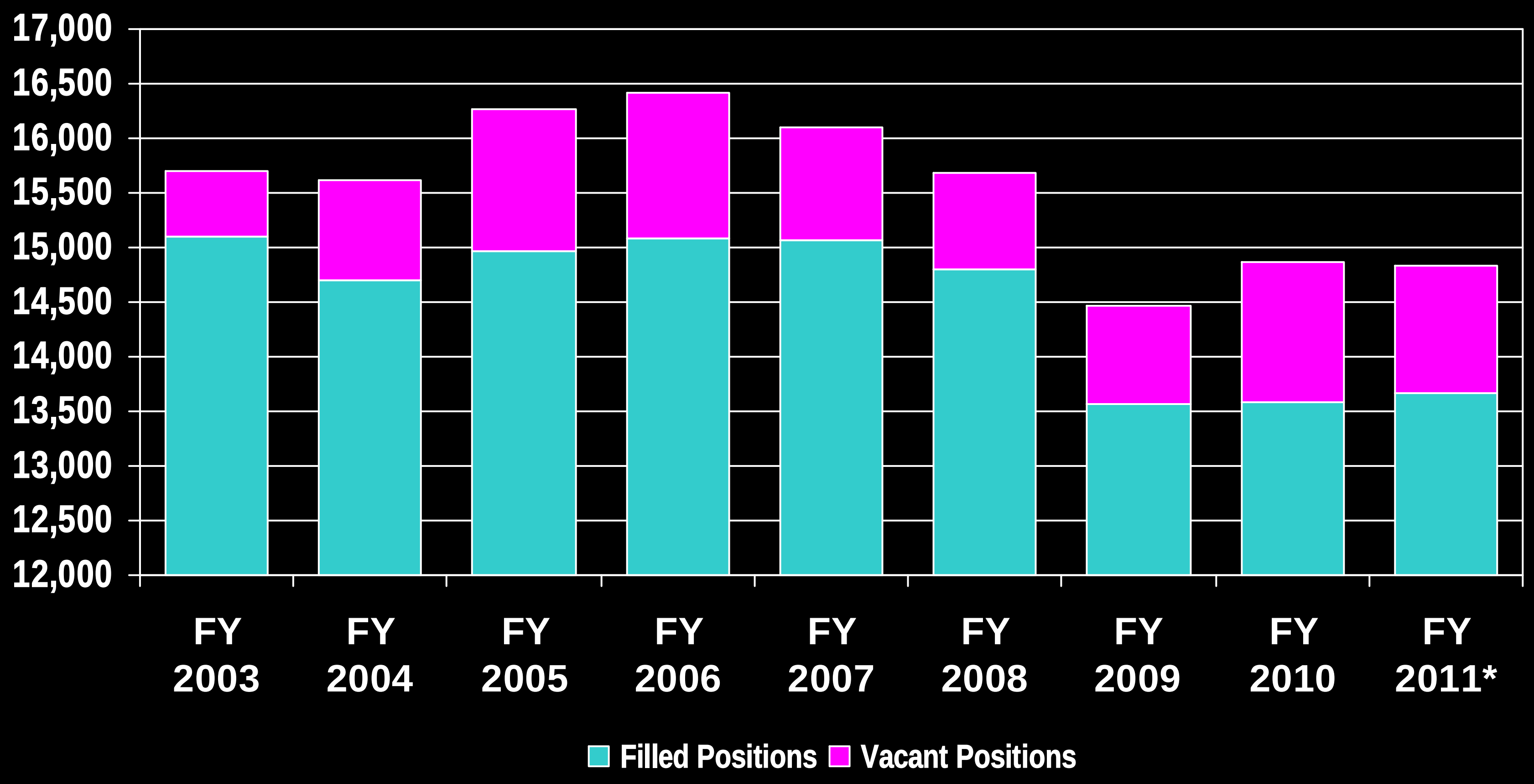
# *Full-Time Equivalent Positions*

- Authorized Levels
  - Personnel limits for each agency and department are defined as the maximum allowable number of full-time equivalent positions filled during any pay period
  - Do not include temporary or seasonal employees or individuals in training requisite to employment, such as state trooper classes and lifeguards

# Full-Time Equivalent Positions



# *Full-Time Equivalent Positions*



# *History*

- FY 2004
  - Filled positions dropped by 393 to 14,706 due to a hiring freeze
- FY 2005
  - Addition of 462 higher ed positions that are dedicated for research or supported by other third party sources
  - Did not increase filled positions

# History

- FY 2006
  - Additional 152 positions
    - Primarily from a new class of correctional officers
    - New nursing programs at each of the colleges
    - More positions, but increased vacancies
- FY 2007
  - 420 positions eliminated = 5.0% general revenue funded vacancies

# *History*

- FY 2008
  - Eliminated 523 vacant positions
- FY 2009
  - Retirement surge - Changes to retiree health benefits
- FY 2010
  - Addition of positions - American Recovery and Reinvestment Act

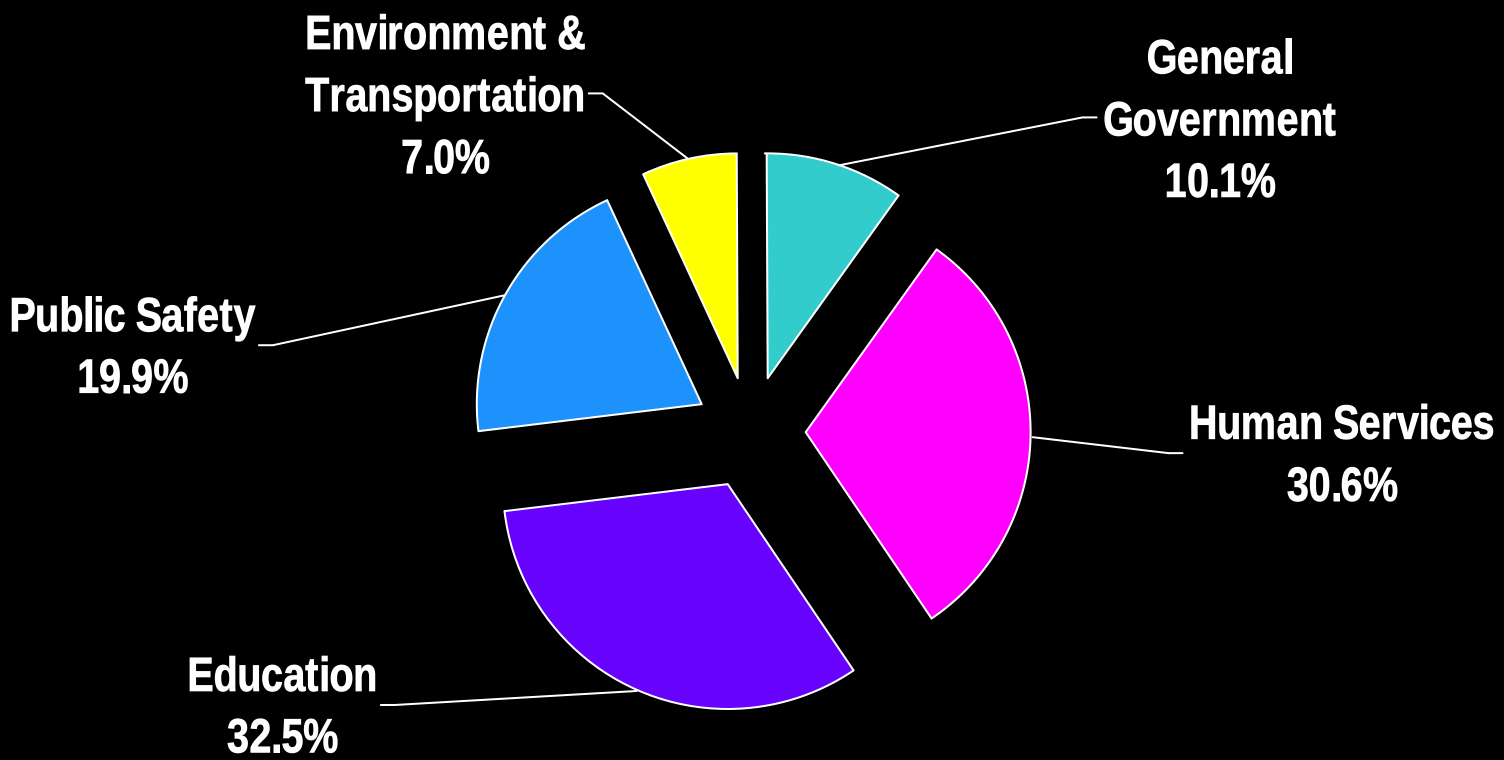
# Full-Time Equivalent Positions

- Generally all authorized positions are not filled
  - Hiring freezes
  - Budgeted turnover savings
- Turnover
  - Budgeting less money than needed for full staffing
  - Time from when an employee leaves and a new employee is hired
    - At a lower cost
    - Leaves a position vacant

# Turnover – FY 2011 Enacted

- Turnover savings included in budget is equivalent to 825.6 positions
  - Budget funds 14,002 positions
- Higher Ed skews total because of various types of positions – i.e. professors
- Savings are not all from general revenues

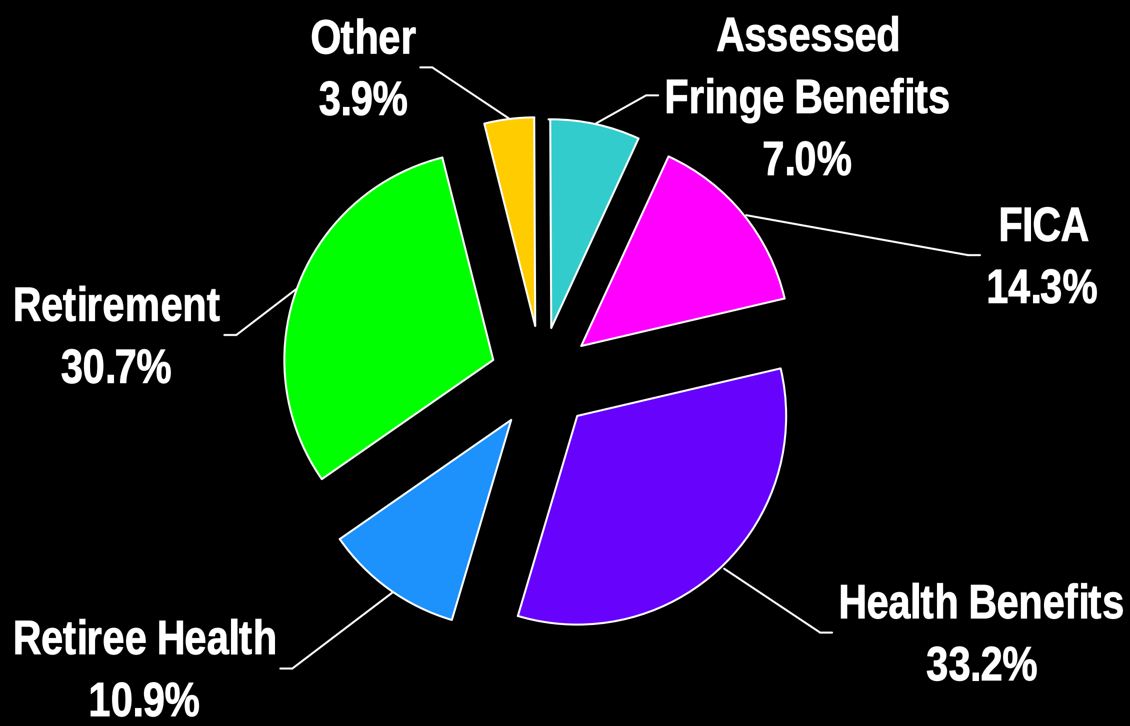
# Turnover – FY 2011 Enacted



# Salaries and Benefits

- Salaries and benefits account for 86.6% of FY 2011 enacted personnel costs
  - Salaries – 65.9%
    - Overtime – 7.2%
  - Retirement - 12.0%
  - Health Benefits – 10.6%
  - Other Benefits – 11.5%

# Benefits



Other
3.9%
Assessed
Fringe Benefits
7.0%
FICA
14.3%
Retirement
30.7%
Health Benefits
33.2%
Retiree Health
10.9%

# *Health Benefits*

- Health Benefits
  - Medical, dental and vision
  - FY 2012 cost is more than double FY 2002 rates
  - FY 2012 cost has increased by approximately 36% since 2007
    - State cost increased by approx. 21%
    - Employees now pay an average of 20%

# Health Benefits

- Eligible employees pay a bi-weekly co-share
  - Began in FY 2005
    - Some employees pay % of salary contribution depends on salary
    - 5% for most employees or $543 using weighted average of $10,857
  - FY 2012
    - Employee contribution depends on salary/type of plan
      - 15% or $2,475
      - 20% or $3,300
      - 25% or $4,124
      - Using weighted average: $16,498

# *Medical Benefits –Total Cost/Co-Share*

| | Individual Plan | Family Plan | Employee Co-Share |
|---|---|---|---|
| FY 2002 | $3,049 | $8,521 | 0% |
| FY 2007 | $5,426 | $15,150 | 9% |
| FY 2012 | $7,370 | $20,598 | 20% |

*The rate of co-share depends on salary*

# *Medical Benefits – Total Cost/Co-Share*

| | Wgt. Avg. | Avg. Co-share | Net Cost: State | Growth | 5 yr. Avg Annual |
|---|---|---|---|---|---|
| FY02 | $7,427 | 0% | $7,427 | - | - |
| FY07 | $12,863 | 9% | $11,705 | 58% | 11.6% |
| FY12 | $16,498 | 20% | $13,198 | 13% | 2.6% |

# *Medical Benefit Waiver*

- Started in June 1997 as incentive to opt out of medical benefits
  - Does not include vision or dental
  - Began before employees had to contribute
  - Waiver: $2,002 through FY 2011
- Waiver is reduced to $1,001 in FY 2012

# *Assessed Fringe Benefit*

- Workers' compensation, unemployment compensation, payments to employees for unused leave upon termination or retirement
- State created assessed fringe benefit internal service fund
- Eliminate the fluctuations in budget leave pay-outs

# *Assessed Fringe Benefit*

- Allows cost to be spread over all fund sources
- Biweekly assessment is applied to the amount of salaries and wages paid from all accounts and funds, effective August 1999
    - FY 2000 rate:  0.17%
- Significant increases in FY 2009 and FY 2010 to cover payouts from retirement surge

# *Assessed Fringe Benefit - History*

| Fiscal Year | Rate |
|---|---|
| 2001 | 3.14% |
| 2002 | 3.14% |
| 2003 | 3.80% |
| 2004 | 3.78% |
| 2005 | 4.10% |
| 2006 | 4.20% |

| Fiscal Year | Rate |
|---|---|
| 2007 | 3.52% |
| 2008 | 3.90% |
| 2009 | 3.80% |
| 2010 | 3.90% |
| 2011 | 4.00% |
| 2012 | 4.00% |

# *Assessed Fringe Benefit*

- FY 2011 & FY 2012
  - Majority of employees: rate is 4.0%
  - Most Public Safety & Workers Compensation Investigations Unit personnel - 1.91% in FY 2011 & 1.90% percent in FY 2012
  - Higher Ed faculty - 3.46% in FY 2011 & 3.49% in FY 2012

# *Federal Insurance Contributions Act tax (FICA)*

- Federal payroll tax imposed on employees and employers to fund Social Security and Medicare
- Rate is calculated on salaries and overtime
  - Social Security rate: 6.20%
    - Income limit of $116,100
  - Medicare Tax rate: 1.45%
    - No income limit

# Retirement

- Rhode Island has a defined benefit plan
- Participation in the plan is mandatory for all except certain higher ed employees
  - Defined contribution plan
  - State makes 9% payment into a 401K type plan

# Retirement – Current Plan

- Age 62 minimum
- Salary basis is five highest consecutive years
- Limits COLA to first $35,000 of a pension, indexed to inflation but capped at 3% beginning on later of 3rd anniversary of retirement or age 65
- Previous plans and changes will be described in detail in pension portion of presentation

# *Retiree Health*

- Employees have to have at least 20 years of service and be age 59 to be eligible for state subsidy
- All eligible for subsidy pay a 20% cost share on the actual cost of plan
- Board of Governors have separate plan

# *Cost of a position – FY 2002*

| | Expense | % of Salary |
|---|---|---|
| Direct Salaries | **$50,000** | |
| Assessed Fringe | 1,570 | 3.14% |
| FICA | 3,825 | 7.65% |
| Retiree Health | 430 | 0.86% |
| Retirement | 5,675 | 11.35% |
| **Subtotal** | $11,500 | 23.00% |
| Health Benefits | $8,521 | Family Plan |
| ***Subtotal Benefits*** | ***$20,021*** | *40.00%* |
| **Total Cost** | **$70,021** | |

# *Cost of a position – FY 2007*

| | Expense | % of Salary |
|---|---|---|
| Direct Salaries | **$35,000** | |
| Assessed Fringe | 1,232 | 3.52% |
| FICA | 2,678 | 7.65% |
| Retiree Health | 844 | 2.41% |
| Retirement | 6,010 | 17.17% |
| **Subtotal** | $10,764 | 30.75% |
| Health Benefits | $15,150 | Family Plan |
| Minus 6% co share | 14,241 | |
| ***Subtotal Benefits*** | ***$25,005*** | *71.4%* |
| **Total Cost** | **$60,005** | |

# *Cost of a position – FY 2007*

| | **Expense** | **% of Salary** |
|---|---|---|
| Direct Salaries | **$75,000** | |
| Assessed Fringe | 2,640 | 3.52% |
| FICA | 5,738 | 7.65% |
| Retiree Health | 1,808 | 2.41% |
| Retirement | 12,878 | 17.17% |
| **Subtotal** | $23,064 | 30.75% |
| Health Benefits | $15,150 | Family Plan |
| Minus 12% co share | 13,332 | |
| ***Subtotal Benefits*** | ***$36,396*** | *48.53%* |
| **Total Cost** | **$111,396** | |

# *Cost of a position – FY 2012 Current Law*

| | Expense | % of Salary |
|---|---|---|
| Direct Salaries | **$35,000** | |
| Assessed Fringe | 1,400 | 4.00% |
| FICA | 2,678 | 7.65% |
| Retiree Health | 2,401 | 6.86% |
| Retirement | 8,043 | 22.98% |
| **Subtotal** | $14,522 | 41.49% |
| Health Benefits | $20,598 | Family Plan |
| Minus 15% co share | 17,508 | |
| ***Subtotal Benefits*** | ***$32,030*** | *91.51%* |
| **Total Cost** | **$67,030** | |

# *Cost of a position – FY 2012 Current Law*

| | Expense | % of Salary |
|---|---|---|
| Direct Salaries | **$75,000** | |
| Assessed Fringe | 3,000 | 4.00% |
| FICA | 5,738 | 7.65% |
| Retiree Health | 5,145 | 6.86% |
| Retirement | 17,235 | 22.98% |
| **Subtotal** | $31,118 | 41.49% |
| Health Benefits | $20,598 | Family Plan |
| Minus 20% co share | 16,478 | |
| ***Subtotal Benefits*** | ***$47,596*** | *63.46%* |
| **Total Cost** | **$122,596** | |

# *Cost of a position – FY 2012 Current Law*

| | **Expense** | **% of Salary** |
|---|---|---|
| Direct Salaries | **$100,000** | |
| Assessed Fringe | 4,000 | 4.00% |
| FICA | 7,650 | 7.65% |
| Retiree Health | 6,860 | 6.86% |
| Retirement | 22,980 | 22.98% |
| **Subtotal** | $41,490 | 41.49% |
| Health Benefits | $20,598 | Family Plan |
| Minus 25% co share | 15,449 | |
| ***Subtotal Benefits*** | ***$56,939*** | *56.94%* |
| **Total Cost** | **$156,939** | |

# *Salaries*

- Pay scales are by grade and classification
- Base salaries are 5 step range w/movement yearly after first 6 months
- COLAs apply to whole base pay grade
- Longevity applies to base pay
- Out-year projections assume the cost of salaries would grow 1.7% per year from step and longevity increases

# *Salaries – Cost of Living Adjustments*

| Fiscal Yr. | Increase | Notes |
|---|---|---|
| 2005 | 1.5% | |
| 2006 | 2.5% | |
| 2007 | 4.0% | |
| 2008 | 3.0% | 6 furlough days |
| 2009 | 0.0% | |
| 2010 | 2.5% | 8 furlough days |
| 2011 | 3.0% | 6 month delay, 4 furlough days |
| 2012 | 3.0% | |

# *Longevity Increases*

- % increase on base salary once a certain number of years is reached
- Collective bargaining agreements for union employees
  - Different increases for Higher Education/ ElSec and Public Telecommunications
  - Governed by General Laws, Title 16
- Personnel policy for non-union employees

# *Longevity Increases - % of Salary*

| Years of Service | Education Boards | All Others |
|---|---|---|
| 5 | - | 5.0% |
| 11 | 5.0% | 10.0% |
| 15 | - | 15.0% |
| 20 | 10.0% | 17.5% |
| 25 | - | 20.0% |

# *Who decides what?*

- General Laws – Title 36
  - Classification
  - Retirement Benefits, Employee Contribution
  - Retiree Health Benefit
- General Laws – Title 16
  - Longevity for education employees
  - All other longevity determined by collective bargaining or personnel policy

# *Who decides what?*

- Collective Bargaining Process
  - Cost of living adjustments
  - Longevity Increases, excluding education unions
  - Medical benefit contributions
  - Employee co-shares
  - Layoffs and leave time

# *State Comparisons – State Employee Collective Bargaining*

| State | Wages | Hours | Retirement |
|---|---|---|---|
| Rhode Island | Yes | Yes | No |
| Connecticut | Yes | Yes | Yes |
| Massachusetts | Yes | Yes | No |
| New York | Yes | Yes | No |

** Table excludes municipalities*

# *State Comparisons – Collective Bargaining, Health Insurance*

- Massachusetts
  - Only state specifically excluding all medical benefits from collective bargaining
- Rhode Island
  - RIGL 28-7-49 prohibits agreements from specifying a specific health insurer
  - Does not otherwise prohibit bargaining over health insurance benefits

# *Collective Bargaining Units*

- FTEs as of November 23, 2010
  - 11,359 union members
  - 3,074 non-union members
- If a contract is renegotiated it is typically added as an amendment to master contract
  - Would not change the expiration of the contract
  - Example:  Governor Carcieri negotiated with Council 94 for furlough days, added as memorandum of agreement to contract

# *Collective Bargaining Units*

- 59 union contracts
  - 39 unions Executive Branch control
    - Council 94, Local 580, RIBCO, State Troopers
    - Most expire June 30, 2012
    - Troopers expired 2010
  - Office of Higher Education
    - 6 contracts expired in 2010
    - 3 contracts expired in 2011
    - 1 expires 2012

# Collective Bargaining Units

- Board of Regents/ Channel 36
  - 5 expire 2012
  - 2 expired 2008 and 2009
- Judiciary
  - Local 808, Council 94
  - Expire 2012

# *Retiree Heath and Pension*

- Several rounds of recent changes to pension and retiree health benefits
- Largely driven by budget pressures
- Pension changes initially targeted to new and non-vested employees
  - Eventually extended to those who had not yet earned the right to retire

# *Retiree Health and Pension: Timeline*

- *2005* - Initial round of pension benefit reductions, creation of a Plan B
- *2008* - Reductions to retiree health benefits to cut costs and move to actuarial system
- *2009* – Further pension benefit reductions affecting even those vested
- *2010* – Additional cut to pension COLA

# *Retiree Health and Pensions: Presentation*

- Retiree Health
  - Pre FY 2008
  - GASB
  - Post FY 2008
- Pension Changes
  - 2005 – Plan B
  - 2009 - Proportional Benefit Reduction
  - 2010 - COLA Redux

# Retiree Health – Pre FY 2008

- State offered self-insured health plan to early retirees (under age 65) and their spouses with medical and drug benefits
  - State employees and teachers
- State subsidized early retiree plans by offering them at the active rate instead of actuarial cost
  - Older retirees cost more

# *Retiree Health – Pre FY 2008*

| Health Benefits: Non Medicare Eligible | |
|---|---|
| Plan cost for Retiree | $8,461 |
| Plan cost for Active Employee | 5,427 |
| State Cost to subsidize difference | $3,034 |

# Retiree Health – Pre FY 2008

- State also directly shared in cost of active rate for state employees
  - 50% - 100% based on age and years of service
- No additional cost sharing offered to teachers
  - Local district plans vary

# *Retiree Health – Pre FY 2008*

- At age 65, retirees must purchase Medicare Part B  and enroll in a Medicare Supplemental Plan
  - Retiree share is based on actual plan cost
  - State share % same share as before

# Retiree Health - GASB

- GASB mandated that governments include unfunded liability of post employment benefits as part of financial statements
- At the time (2005 Val), unfunded liability was calculated to be $696.2 million (assuming 5% rate of return & including all employee groups)
- Pay-go costs estimated at 3.67% of payroll with growing unfunded liability
- Actuarial funding would cost 6.74% with no benefit reduction

# *Retiree Health - GASB*

- 2008 legislation set up framework for actuarial funding effective July 1, 2008
- Subsequently delayed two years because of budget pressures

# *Retiree Health – Post FY 2008*

- 2008 legislation included significant reductions in benefits to those retiring after October 1, 2008
- Intended to reduce unfunded liability and allow state to move to actuarial funding
- Resulted in a surge in retirements to preserve eligibility for old benefits

# Retiree Health – Post FY 2008

- Employees retiring after cut off date subject to new rules
- These employees have to have at least 20 years of service and be age 59 to be eligible for state subsidy

# *Retiree Health – Post FY 2008*

- State employees allowed to buy plan at 100% of cost
- All eligible for subsidy would pay a 20% cost share on the actual cost of plan
- Subsidy eligibility : At least 20 yos and not available until age 59

# *Retiree Health – Post FY 2008*

- State created an alternate low cost value plan with a lesser benefit at the active employee price
- Still no state cost sharing for teachers; they pay full price

# *Retiree Health – Post FY 2008*

- Pre reform, retiree health was 3.67% of payroll (pay go)
- For FY 2012, it is 6.86% based on 2009 valuation
- Surge of retirees because of this change impacting both retiree health and the retirement systems

# *Pensions*

# *Pensions - Issues*

- Increases in benefits during 1970s and 1980s
- No major changes in benefits between 1992 and 2004 but costs rose and funded status declined
- Rhode Island among the lower funded

# *Pensions - Issues*

- Funded status result of
  - Contribution levels
  - Benefit policy / benefit growth
  - Asset returns
  - Updated experience studies

# *Pensions – Issues*

- Asset losses = single largest reason for declining funding ratios
- Investment earnings not meeting actuarial expectations
- Currently assumes 8.25% investment return; it had been 8.0% through 1997
- Board voted twice in the mid 1990's to mark to market to keep contribution rates low

# *Pensions – Issues*

- Other major impact = demographic assumptions
- System incurred higher costs than actuaries assumed because retirees were retiring earlier, living longer and receiving larger salary increases than anticipated in assumptions used

# Pensions – Funded Ratio History 1993-2004 Valuations

| Date | Ratio |
|---|---|
| 1993 | 66.7% |
| 1994 | 68.5% |
| 1995 | 70.5% |
| 1996 | 74.0% |
| 1997 | 73.4% |
| 1998 | 76.2% |

| Date | Ratio |
|---|---|
| 1999 | 82.1% |
| 2000 | 80.6% |
| 2001 | 77.4% |
| 2002 | 73.2% |
| 2003 | 64.2% |
| 2004 | 59.3% |

# *Pensions - 2005*

- Benefits in 2005
  - Eligibility: 28 YOS at any age or age 60 with 10 years
  - Total benefit of 80% at 35 years of service
  - 3% annual COLA after 2 years
- Cost
  - State paid 11.51% of payroll
  - State employees paid 8.75% (statutory)

# *Pensions 2005*

| | Governor's Proposal | Assembly Enacted |
|---|---|---|
| *Eligibility* | Age 60 & 30 yrs; 65 & 10 yrs | Age 59 & 29 yrs; 65 & 10 yrs |
| *Benefit Accrual* | 75% at 38 years | 75% at 38 years |
| *COLA* | CPI with 3% max 3d Anniversary | CPI with 3% max 3d Anniversary |

# *Pensions - 2009*

- Despite changes, contribution rates have continued to increase and funding ratios have declined as asset losses have continued

| Valuation Date | Funded Ratio |
|---|---|
| 2005 | 55.4% |
| 2006 | 52.7% |
| 2007 | 55.4% |

# *Pensions - 2009*

- Not enough savings to the state from making new changes that only affect non-vested and new employees
- Governor proposed further pension changes during 2009 Session to resolve approximately 1/3rd of the budget deficit

# *Pensions - 2009*

- House adopted legislation in 2008 creating a special commission to study the pension issue
- 19 member commission met from February 2008 to March 2009
- Issued final report June 2009

# *Pensions – 2009: Governor's Proposal*

- End COLA for all employees
- Age 59 minimum for all employees
- Apply to those not eligible to retire by July 1
- Original proposal applicable to those not *retired* by April 2009 with a number of things not fully vetted
  - Legal issues, impact on classrooms, retirement system liability and state government with mass retirements

# *2009 Session: House Commission*

- Age 65 with actuarial reduction available to retire at age 62
- Non-compounded COLA at lesser of CPI or 3% beginning 1st anniversary after age 65
- Salary basis is five highest consecutive years (was 3)
- Apply to all not eligible July 1, 2009

# *Pensions - 2009*

The 2009 Assembly considered options with the following goals in mind:

- Make changes that are fair and equitable to current employees
- Reduce future unfunded liability of the systems through benefit changes
- Produce significant savings

# *Pensions – 2009: Retirement Age*

- Nearly half of employees were in Plan A
- Major “cliff effect” potential
- Generally, when changes are made, some employees are fully affected but others not at all

# *Pensions – 2009: Retirement Age*

Proportional Change

- Plan A had no minimum age
  - Plan B minimum already 59
- Recognize extent to which employee is near retirement eligibility (28 years of service)
- Decrease impact of age requirement on basis of years served

# *Pensions - 2009: Assembly Action*

- Age 62 minimum applied proportionally to time earned toward retirement
  - Largest affect on Plan A members
- Freeze Plan A accruals on Oct 1 and accrue at lower Plan B rates thereafter
- Salary basis is five highest consecutive years (was 3)

# *Pensions - 2009: Assembly Action*

- Set COLA at lesser of CPI or 3% beginning 3rd anniversary for all
  - Plan B already had this COLA
- Apply changes to all employees not eligible to retire as of Oct 1, 2009

# *Judges*

| | **Was** | **Is*** |
|---|---|---|
| *Eligibility* | Age 65 & 20 yrs; 70 & 15 yrs | |
| *Benefit Accrual* | 100% full; 75% reduced – avg 3 highest yrs | 80% full; 65% reduced – avg 5 highest years |
| *COLA* | 3% simple | 3% simple on first $35,000 on 3rd aniv or age 65 |

*applies to judges hired after July 1, 2009

# State Police

| | Was | Is* |
|---|---|---|
| *Eligibility* | 20 yrs & must retire at age 62 | 25 yrs & must retire at 30 yrs |
| *Benefit Accrual* | 50% of final salary + 3% per year over 20 | 50% of final salary + 3% per year over 25 |
| *COLA* | $1,500 annually | |

*applies to state police hired after July 1, 2007

# *Pensions – 2010:  COLA Redux*

- Governor resubmitted plan to eliminate the COLA to solve 20% of a new, larger deficit
- Less than 6 months after Assembly adopted new plan
- Essentially same teachers and state employees affected by 2009 changes
- Assembly once again considered numerous COLA options

# *Pensions – 2010: COLA Redux*

- Should there be one
  - Inflation decreases pension over time
  - Costs tend to increase over time
- When should it start
- What amount should it be
- Should it compound
- Should it apply to entire pension

# *Pensions – 2010: COLA Redux*

- Limits COLA to first $35,000 of a pension, indexed to inflation but capped at 3% beginning on later of 3rd anniversary of retirement or age 65
- Applied to all not eligible to retire

# *Pensions – 2010: COLA Redux*

- Assembly considered value of benefit compared to employee contribution
- Gov plan would have reduced value of the benefit (normal cost) below their contributions

| | Employee | Normal Cost | |
|---|---|---|---|
| | Current | *Gov* | *Enacted* |
| State Employees | 8.75% | 8.46% | 9.26% |
| Teachers | 9.50% | 9.12% | 10.00% |

# Pensions – Normal Cost

- Higher returns produce lower normal costs and lower unfunded liability
- Lower returns produce higher normal cost and higher unfunded liability
- Most recent investment data shows
  - 2010 return was 12.5%
  - 5-year return was 3.5%
  - 10-year return was 4.0%

# *Pensions – Rate of Return*

- Assumed rate increased to 8.25% from 8.0% in 1997
- Average return from 1984 – 1997 was 14.7%
- Average return from 1993 – 1997 was 12.85%

# *Pensions – 2010 : Actuarial Cost*

- Actuarial Cost includes
  - Normal Cost
  - Amortization of unfunded liability

| State Employees | Normal | UAAL | Total |
|---|---|---|---|
| Then Current Law | 9.62% | 20.77% | 30.39% |
| Enacted | 9.26% | 20.27% | 29.53% |
| 6/30/09 Val | 9.34% | 22.39% | 31.73% |

# *Pensions – 2010: Actuarial Cost*

- Actuarial Cost includes
  - Normal Cost
  - Amortization of unfunded liability

| Teachers | Normal | UAAL | Total |
|---|---|---|---|
| Then Current Law | 10.53% | 19.04% | 27.46% |
| Enacted | 10.00% | 18.51% | 28.51% |
| 6/30/09 Val | 10.02% | 21.80% | 31.82% |

# *Pensions – 2010: Actuarial Cost*

- Actuarial Cost includes
  - Normal Cost
  - Amortization of unfunded liability

| Judges | Normal | UAAL | Total |
|---|---|---|---|
| Then Current Law | 25.01% | 7.8% | 32.81% |
| Enacted | 22.13% | 2.81% | 24.94% |
| 6/30/09 Val | 22.21% | 5.23% | 27.44% |

# *Pensions – 2010: Actuarial Cost*

- Actuarial Cost includes
  - Normal Cost
  - Amortization of unfunded liability

| State Police | Normal | UAAL | Total |
|---|---|---|---|
| Then Current Law/Enacted | 25.94% | 7.39% | 33.33% |
| 6/30/09 Val | 25.89% | 8.25% | 34.14% |

# *Pensions – 2010: Funding Ratios*

- Funding Ratios: Value of actuarial assets vs. liability
- Plan design and earnings assumptions

| | Then Current Law | Enacted | 6/30/09 Val |
|---|---|---|---|
| State Employees | 61.8% | 62.3% | 59.0% |
| Teachers | 60.3% | 61.0% | 58.1% |
| Judges | 81.7% | 91.0% | 88.3% |
| State Police | 79.6% | | 79.8% |

# *Pensions – Unfunded Liability*

- Liability amortized over 30 year period beginning FY 2002
- Actuaries annually calculate rate needed to reach that goal
- Rate increases because of liability changes and payroll size
- Amortization payments = majority of system costs

# *Pensions – 2010: Unfunded Liability*

- Benefits granted for which there were not adequate contributions
- Failure to meet earnings assumptions

| *In millions* | Then Current Law | Enacted | 6/30/09 Val |
|---|---|---|---|
| State Employees | $1,671.5 | $1,631.2 | $1,836.2 |
| Teachers | 2,660.5 | 2,587.0 | 2,892.0 |
| **Total** | **$4,332.0** | **$4,218.2** | **$4,728.2** |

# *Pensions – 2010: Unfunded Liability*

- Benefits granted for which there were not adequate contributions
- Failure to meet earnings assumptions

| *In millions* | Then Current Law | Enacted | 6/30/09 Val |
|---|---|---|---|
| Judges | $7.8 | $3.4 | $4.9 |
| State Police | 14.1 | 14.1 | 15.2 |
| **Total** | **$21.9** | **$17.5** | **$20.1** |

# *Pensions*

- House Pension Commission *proposed* the state consider adopting new hybrid plan for future employees – no further action/study
- Issues persist at local level
  - Unfunded pensions and retiree health liabilities
  - Municipal budget largely supported by property tax

# *Cost of a position – FY 2012 Current Law*

| | % of Salary | | |
|---|---|---|---|
| | Current Benefit | Unfunded Liability | Total |
| Assessed Fringe | 4.00% | - | 4.00% |
| FICA | 7.65% | - | 7.65% |
| Retiree Health | 2.33% | 4.53% | 6.86% |
| Retirement | 0.59% | 22.39% | 22.98% |
| **Subtotal of Benefits** | **14.57%** | **26.92%** | 41.49% |

# *Cost of a Position – FY 2012*

| | **Expense** | **% of Salary** |
|---|---|---|
| Direct Salaries | $35,000 | |
| Current Fringe Costs | 5,100 | 14.57% |
| Unfunded Liability Costs | 9,422 | 26.92% |
| ***Subtotal of Benefits*** | ***$14,522*** | *41.49%* |
| Health Benefits | 17,508 | Family |
| **Total Benefits** | **$32,030** | **91.5%** |
| **Total Cost** | **$67,030** | |
| *Net Unfunded Liability* | *$57,608* | *64.6%* |

# *Cost of a Position – FY 2012*

| | **Expense** | **% of Salary** |
|---|---|---|
| Direct Salaries | $75,000 | |
| Current Fringe Costs | 10,928 | 14.57% |
| Unfunded Liability Costs | 20,190 | 26.92% |
| ***Subtotal of Benefits*** | ***$31,118*** | *41.49%* |
| Health Benefits | 16,478 | Family |
| **Total Benefits** | **$47,596** | **63.5%** |
| **Total Cost** | **$122,596** | |
| *Net Unfunded Liability* | *$102,406* | *36.5%* |

# *Local Pensions*

- This presentation excluded local pensions
- There are 2 types
  - State administered (MERS)
  - Locally administered

# *Municipal Retirement Programs*

- State Administered (MERS)
  - 110 distinct units
    - 67 units covering general employees
    - 43 for police and fire employees
- Locally Administered
  - 37 Plans
  - 25 Communities

# *Municipal Retirement - MERS*

- ERSRI administers the plans
- Not state funded
- Conforms to standard plan benefits contained in statutes
- Must fully fund actuarially required contribution
  - Aid withheld if not fully funded

# *Municipal Retirement – Local Plans*

- Not governed by state law
- Benefit provisions and employee contributions are determined by employers
  - May be included in collective bargaining agreements

# *Municipal Retirement – Local Plans*

- March 2010 report from Auditor General identified 23 plans as "at risk"
  - 21 plans at risk in July 2007 report
- Of that, 7 were considered most at risk because plans were significantly underfunded and annual contributions were significantly less than annual required amounts