State of Rhode Island
Office of the General Treasurer

James A. Diossa
General Treasurer

11 May 2026

The Honorable Louis DiPalma
Chair, Senate Committee on Finance

The Honorable Members of the Senate Committee on Finance

RE: *2026-S 2818– An Act Relating to Public Officers and Employees – Retirement System – Contributions and Benefits*

Chair DiPalma:

I write with regard to 2026-S 2818, which would enhance retirement benefits for retired teachers, state employees, and municipal employees. Specifically, this proposal would affect the following changes:

(1) Reinstate a full statutory cost-of-living-adjustment for eligible members that retired after July 1, 2012;
(2) Amend the COLA formula to the annual increase in the Consumer Price Index for all Urban Consumers (the "CPI-U") or 3%, whichever is less; and
(3) Repeal a statutory cap that dictates the portion of a member's retirement benefit that is eligible for a COLA such that a member's COLA would be based on their full retirement allowance.

Currently, teachers, state employees and municipal employees in eligible plans that retired before July 1, 2012 receive an annual COLA. The COLA provided in a given year is based on a statutory formula: half of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return minus – 5% with a max of 4%), and half is calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%. *See* R.I. Gen. Laws §§ 16-16-40 (g)(1)(B); 36-10-35 (h)(1)(B); 45-21-52 (d)(1)(B). Prior to RIRSA, COLAs were fixed at 3% annually.[1] Therefore, the COLA self-adjusts to reflect both inflation and performance of the pension fund. This year, eligible retirees receive a 3.34% COLA.

[1] Before pension reform, "[r]etirees received a [COLA] tied to inflation and capped at 3 percent of the first $35,000 of their pensions; in other words, up to $1,050 per year." Robert Hiltonsmith, *Rhode Island's New Hybrid Pension*

Eligible pensioners that retired on or after July 1, 2012 also receive an annual adjustment. Consistent with legislation passed during the 2023 session, retired members of the Employees' Retirement System of Rhode Island ("ERSRI") and certain Municipal Employees' Retirement System ("MERS") units receive 25% of a COLA annually until the system reaches the target 75% funded ratio (expected to occur in 2029).[2] *See* R.I. Gen. Laws §§ 16-16-40 (g)(2); 36-10-35 (h)(2); 45-21-52 (d)(2).[3]

COLAs are capped by income. Members (and their beneficiaries) that retired before July 1, 2012 are entitled to an adjustment on the first $31,507 of their annual benefit, indexed annually. Members and their beneficiaries that retired on or after July 1, 2012 receive a fractional COLA on a higher base benefit.[4]

This bill represents a benefit enhancement for retired members of ERSRI and MERS. As such, it will create new unfunded liabilities within the system. Generally, the state and local share of the pension system (both ERSRI and MERS) is paid through the contribution rate, expressed as a percentage of employee covered payroll. The contribution rate is calculated by an actuarial valuation, based on a statutorily mandated funding policy, that ensures the state satisfies the annual required contribution ("ARC") in a given year. Where a benefit change creates a new liability, sound actuarial principles dictate that ERSRI adjust the employer contribution rate to responsibly finance that benefit. Decades ago, it was state's repeated failure to make the ARC that partially created the unfunded liability that necessitated the 2011 reforms.

This proposal would wholly prohibit ERSRI from adjusting the contribution rate to properly finance this benefit change. *See* 2026-H 8147 (benefit enhancements provided in this bill "shall not modify nor increase the amount by which public employers that participate in [ERSRI] contribute to that system"). This is what advocates colloquially refer to as funding a benefit "from the fund." Consequently, this proposal will – by definition – create a significant unfunded liability that cannot be actuarially financed until 2035, when the funding prohibition expires. At that time, the employer contribution rate would substantially increase.

This provision is intentionally crafted to avoid budgetary costs over the next decade. Since ERSRI would be prohibited from adjusting the employer contribution rate, this proposal would necessarily increase negative cash flow and underfund the system. Treasury would require a pension impact note to discern the full impact of this change. This independent assessment will clarify the impact the proposed legislation will have on both the State budget, and the sustainability of the pension

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Plan Will Cost the State More While Reducing Retiree Benefits, Economic Policy Institute Issue Brief #366 (June 20, 2013), at 2; Pub. L. 2011, Ch. 409, § 11.

[2] Pursuant to state law, members begin receiving their COLA "on the month following the third anniversary date of retirement," or when they reach Social Security Normal Retirement Age, whichever is later. R.I. Gen. Laws §§ 16-16-40, 36-10-35. Retirees therefore do not receive COLAs immediately but must wait at least three years.

[3] Prior to January 1, 2024, eligible pensioners received an adjustment once every four years (decreased from an adjustment once every five years as part of the settlement negotiations in *Clifford v. Raimondo*, 184 A.3d 673, 681 (R.I. 2018)). *See* Pub. L. 2015, Ch. 141, art. 21, § 19.

[4] Members (and their beneficiaries) that retired before June 30, 2015 are entitled to a 0.84% adjustment on the first $37,808 of their annual benefit (indexed annually). Members retiring after that date are entitled to a 0.84% adjustment on the first $31,507.

system for future members over the next 30 years. The Chairperson of the Senate Finance Committee – with the approval of the Senate President – can request a pension impact note concerning proposed legislation originating in the Senate. *See* R.I. Gen. Laws §§ 36-10-39; 45-21-42.2.

Please feel free to reach out by email at Robert.CravenJr@treasury.ri.gov or by phone at (401) 330-0661 with any further questions.

Respectfully,

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Director of Policy and Intergovernmental Affairs
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cc: The Honorable Frank Ciccone