



## Proposed Pension Plan Changes

The 2010 House fiscal budget was released Wednesday June 17, 2009. Included are changes to pension benefits for State Employees, Teachers and Judges. Below is a summary of the proposed changes.

### Effective Date

The changes become effective October 1, 2009. Members who are eligible to retire as of September 30, 2009 are NOT affected by the changes, even if you don't retire.

### Retirement Eligibility

For State Employees and Teachers, the bill establishes a minimum retirement age of 62 for all members, except those schedule B members who retire with less than 29 years of service; their retirement eligibility still remains 65 years old with a minimum of 10 years of service credit.

For Correctional Officers and Nurses at MHRH, the minimum retirement age is 55 with 25 years of service.

However, the bill provides a proportional downward adjustment of the minimum retirement age based on the years of service credited to your account as of September 30, 2009. Let's look at few examples to help you understand the changes.

#### **Example 1:**

A schedule A member who began service with the state or as a teacher at age 33 and has 15 years of total service credit as of September 30, 2009. Under the new law, the first step would be to determine the member's FIRST point of retirement eligibility under the current law. In this example; it would be 60 years old at which point they would have 27 years of service credit. According to the proportional formula and the minimum age of retirement of 62, the adjustment to this member's minimum retirement age would look like this:

- Step 1, divide the member's current years of service as of September 30, 2009 by the number of years required to meet their first point of retirement, i.e. 27 years in this example:

$$15 \div 27 = 0.56$$

- Step 2, take the difference between age 62 and the member's FIRST age of retirement eligibility under current law (60 in this example):

$$62 - 60 = 2$$

- Step 3, multiply the 0.56 from step 1 by the age difference in step 2:

$$0.56 \times 2 = 1.11$$



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- Step 4, subtract the value in step 3 from the age 62 minimum retirement age:

$$62 - 1.11 = 60.89$$

The new minimum retirement age would be 60 years, 10 months and 20 days in this example.

### **Example 2:**

A schedule A member who began service with the state or as a teacher at age 30 and has 27 years of total service credit as of September 30, 2009. Under the new law, the first step would be to determine the member's FIRST point of retirement eligibility under the current law. In this example; it would be 58 years old at which point they would have 28 years of service credit. According to the proportional formula and the minimum age of retirement of 62, the adjustment to this member's minimum retirement age would look like this:

- Step 1, divide the member's current years of service as of September 30, 2009 by the number of years required to meet their first point of retirement, i.e. 28 years in this example:

$$27 \div 28 = 0.96$$

- Step 2, take the difference between age 62 and the member's FIRST age of retirement eligibility under current law (58 in this example):

$$62 - 58 = 4$$

- Step 3, multiply the 0.96 from step 1 by the age difference in step 2:

$$0.96 \times 4 = 3.84$$

- Step 4, subtract the value in step 3 from the age 62 minimum retirement age:

$$62 - 3.84 = 58.16$$

The new minimum retirement age would be 58 years, 1 month and 28 days in this example.



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### **Example 3:**

A schedule B member who began service with the state or as a teacher at age 21 and has 10 years of total service credit as of September 30, 2009. Under the new law, the first step would be to determine the member's FIRST point of retirement eligibility under the current law. In this example; it would be 59 years old at which point they would have 38 years of service credit. According to the proportional formula and the minimum age of retirement of 62, the adjustment to this member's minimum retirement age would look like this:

- Step 1, divide the member's current years of service as of September 30, 2009 by the number of years required to meet their first point of retirement, i.e. 38 years in this example:

$$10 \div 38 = 0.26$$

- Step 2, take the difference between age 62 and the member's FIRST age of retirement eligibility under current law (59 in this example):

$$62 - 59 = 3$$

- Step 3, multiply the 0.26 from step 1 by the age difference in step 2:

$$0.26 \times 3 = 0.78$$

- Step 4, subtract the value in step 3 from the age 62 minimum retirement age:

$$62 - 0.78 = 61.22$$

The new minimum retirement age would be 61 years, 2 months and 19 days in this example.

### **Example 4:**

A schedule B member who began service with the state or as a teacher at age 55 and has 6 years of total service credit as of September 30, 2009. Under the new law, the first step would be to determine the member's FIRST point of retirement eligibility under the current law. In this example; it would be 65 years old at which point they would have 10 years of service credit. According to the proposed changes made in article 7, there will be no proportional formula to apply since the minimum age of retirement of 65 still remains for schedule B members.



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### **Example 5:**

A schedule A member who began service with the state or as a teacher at age 20 and has 15 years of total service credit as of September 30, 2009. Under the new law, the first step would be to determine the member's FIRST point of retirement eligibility under the current law. In this example; it would be 48 years old at which point they would have 28 years of service credit. According to the proportional formula and the minimum age of retirement of 62, the adjustment to this member's minimum retirement age would look like this:

- Step 1, divide the member's current years of service as of September 30, 2009 by the number of years required to meet their first point of retirement, i.e. 28 years in this example:

$$15 \div 28 = 0.54$$

- Step 2, take the difference between age 62 and the member's FIRST age of retirement eligibility under current law (48 in this example):

$$62 - 48 = 14$$

- Step 3, multiply the 0.54 from step 1 by the age difference in step 2:

$$0.54 \times 14 = 7.56$$

- Step 4, subtract the value in step 3 from the age 62 minimum retirement age:

$$62 - 7.56 = 54.44$$

The new minimum retirement age would be 54 years, 5 months and 8 days in this example.

### **Service Credit Accrual Rates**

The bill freezes service credits earned for members under schedule A as of September 30, 2009. Future service credits will be earned under schedule B. One important point is that service credits earned under schedule A are frozen, you will not lose them, you just accrue credits under schedule B for future years.

### **Final Average Salary (FAS)**

For members not eligible to retire as of September 30, 2009 the FAS will be based on the 5 consecutive highest years of salary rather than 3 under current law.



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### **Cost of Living Adjustments (COLA)**

The proposed bill changes the COLA from the current 3% compounded annually to the COLA provided under schedule B which is the lower of the Consumer Price Index (CPI) or 3% and requires a full 3 year anniversary for receipt.

### **Service Credit Purchases**

Effective for all service credit purchase requests received after June 16, 2009, the cost will be determined at full actuarial value, except for purchases of military service and contribution refund paybacks.

### **Disability Provisions**

Effective for applications filed after September 30, 2009, accidental disability will be available at 66 2/3 percent for members who are permanently and totally disabled as determined by the retirement board. If the disability is determined to be partial and the member is able to work in other jobs, the benefit will be limited to 50%. Both benefits will be subject to an annual review by ERSRI

### **Judges Pensions**

A change made to Judges Pensions applies only to new judges hired after July 1, 2009. Their final average salary basis is 5 consecutive highest years and the full pension will be 80 Percent and the reduced pension will be 65 percent.

We stress that article 7 is proposed legislation at this point and must still be voted on by both chambers of the general assembly before becoming law.