New Pension Plan Changes

Included in the 2010 Budget was *Article 7 Substitute Aaa* which made changes to pension benefits for State Employees, Teachers and Judges. Below is a summary of the changes enacted in the 2009 legislative session.

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 law 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, a minimum retirement age of 55 years old with 25 years of service is now required.

However, the law 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. Here are a 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:

  $0.56 \times 2 = 1.12$

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

    $$62 - 1.12 = 60.88$$

    The new minimum retirement age would be 60 years, 10 months and 17 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.

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 new law, there will be no proportional formula to apply since the minimum age of retirement of 65 still remains for schedule B members who have less than 29 years of service credit.

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 law freezes service credits earned for members under schedule A as of September 30, 2009. Future accrual of service credits will be earned under schedule B. The important point to understand about the frozen credits is that you will not lose what you earned under schedule A. For example, if you had 15 years of service credit as of September 30, 2009 your accrual would look like this:

Years 1-10	10 years X 1.7% =	17% (Schedule A)
Years 11-15	5 years X 1.9% =	9.5% (Schedule A)
15 Years Total		**26.5%**

New Pension Plan Changes

Now, for example, two years later at September 30, 2011, your accrued service credit will look like this:

Years 1-10	10 years X 1.7% =	17% (Schedule A)
Years 11-15	5 years X 1.9% =	9.5% (Schedule A)
Years 16 and 17	2 years X 1.8% =	3.6% (Schedule B)
17 Years Total		**30.1%**

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 the 3 under current law.

Cost of Living Adjustments (COLA)

The law 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. To understand the cost increase, here is an example of how this affects the cost to purchase service credits:

- A state employee, currently age 54 with an annual salary in 2007 of $46,000.00 contributed from 1/1/2007 to 9/31/2007 on earned wages of $34,500.00.
- The member was on official leave from 10/1/2007 to 12/31/2007 (3 months) and only received service credit of 9 months.
- The member now requests to purchase the 3 months of leave without pay (10/1/2007 – 12/31/2007)
- Prior to June 16, 2009, the cost was interest based. Basically, the contributions owed back to the system plus 5% interest compounded annually. The cost was computed as follows:
  - $46,000 (contractual salary) - $34,500 (earned contractual salary)= 11, 500.00 x. 8.75% (employee contribution rate) = $1,006.25 + $34.71 (5% compounded interest) = $1,040.96

- The same scenario except that the request to purchase the 3 months of leave without pay was received after June 16, 2009:
    - Actuarial cost is based on current age and current salary.
    - Current Salary = $48,000.00 x 20% (actuarial factor based on current age of 54) = $9,600.00 x 0.25 (3 months) = $2,400.00

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 was also made to Judges Pensions and it only applies to judges appointed after July 1, 2009. Their final average salary basis will their 5 consecutive highest years of salary and the full pension will be 80 Percent and the reduced pension will be 65 percent.