



State of Rhode Island
Office of the General Treasurer

James A. Diossa
General Treasurer

7 May 2024

The Honorable Marvin Abney
Chair, House Committee on Finance

The Honorable Members of the House Committee on Finance

RE: *2024-H 8193 – An Act Relating to Public Officers and Employees – Retirement System – Contributions and Benefits*
2024-H 8194 – An Act Relating to Public Officers and Employees - Retirement System – Contributions and Benefits

Chair Abney:

I write with regard to 2024-H 8193 and 2024-H 8194, both of which would enhance retirement benefits for current and future members of the Employees' Retirement System of Rhode Island ("ERSRI"). While these proposals would be funded through the retirement trust – thereby reducing the funded ratio of ERSRI, and prolonging restoration of cost-of-living adjustments for future generations of retirees – they *will* ultimately increase the share of the state budget allocated to funding the pension system under current funding rules.

The state and local share of the pension system (both ERSRI and the Municipal Employees' Retirement System ("MERS")) is paid through the contribution rate, expressed as a percentage of employee covered payroll. The contribution rate is calculated by actuarial valuation, based on a statutorily mandated funding policy, that ensures the state satisfies the annual required contribution ("ARC") in a given year. Decades ago, the state's repeated failure to make the ARC partially created the unfunded liability that necessitated reform in 2011.

When an additional benefit is paid from the trust and not funded by the legislature, it increases the unfunded actuarial accrued liability ("UAAL"). To adjust for this change, and ensure the state continues to meet the ARC in light of the benefit enhancement, the actuarial valuation performed

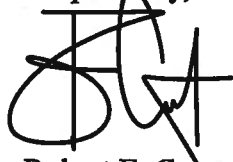
annually at both the state and local levels will adjust the contribution rate.¹ As the contribution rate increases, so do employer costs. Employers – the state and municipalities in MERS – will thus be required to contribute a larger share as a percentage of employee payroll to account for the change to the UAAL. This will have a budgetary impact on both the state and on municipalities since municipalities carry the cost of funding MERS plans and bear 60% of the required contribution for teachers.

Consistent with Rhode Island law, legislation impacting the funded status of the pension system should not be approved without the benefit of a pension impact note. *See* R.I. Gen. Laws §§ 36-10-39; 45-21-42.2 (Legislation impacting the pension system “shall *not* be approved by the general assembly unless an explanatory statement or note . . . is appended to the proposed legislation which actuarially calculates . . . the projected twenty (20) year cost of the proposed legislation”) (emphasis added). This independent assessment will help clarify the full fiscal impact these bills will have on both the state budget, and the sustainability of the pension system. The Chairperson of the House Finance Committee – with the approval of the Speaker of the House – can request a pension impact note concerning proposed legislation originating in the House. *See* R.I. Gen. Laws §§ 36-10-39; 45-21-42.2.

Further, as currently drafted, neither bill would provide the proposed benefit enhancements to municipal employees under MERS and 2024-H 8194 would not provide a benefit enhancement to retired teachers (only to state employees, retiring under the provisions of Title 36 of the Rhode Island General Laws).

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,



Robert E. Craven, Jr.
Director of Legislative Affairs
Office of the General Treasurer

cc: Patricia Serpa

¹ The employee contribution rate is determined by statute and cannot be increased in response to a benefit enhancement absent legislative action.