



# OFFICE OF MANAGEMENT & BUDGET

## State Budget Office

One Capitol Hill  
 Providence, RI 02908-5890

Office: (401) 222-6300  
 Fax: (401) 222-6410

*State Fiscal Note for Bill Number:*

**2024-H 7240**

*Date of State Budget Office Approval:* Monday, April 15, 2024

*Date Requested:* Friday, January 19, 2024

*Date Due:* Monday, April 15, 2024

<i>Impact on Expenditures</i>	<i>Impact on Revenues</i>
FY 2024 \$0	FY 2024 N/A
FY 2025 Indeterminate	FY 2025 N/A
FY 2026 Indeterminate	FY 2026 N/A
*	**

*Explanation by State Budget Office:*

This bill would provide annual compounded 2.5% cost of living adjustments (COLAs) on the full amount of the pension payment for municipal police officer and firefighter retired members and their beneficiaries whose municipalities participate in the Municipal Employees' Retirement System (MERS). These COLAs would be in addition to any COLAs provided under current law and would begin on January 1 following the year of retirement.

*Summary of Facts and Assumptions:*

According to the June 30, 2023, MERS Actuarial Valuation Report, the 55 MERS Police and Fire Units have 1,929 active members, 382 inactive members, 787 service retirees, 302 disabled retirees, and 227 beneficiaries and spouses. Under R.I.G.L. §45-21-52 MERS requires city and town councils to elect whether to provide a COLA to retired members, and it appears from codes listed in the Actuarial Valuation Report that only 45 of the 55 Police and Fire Units provide COLAs on retirement allowances. MERS prepares separate valuations for each participating unit, so the funded ratio is calculated separately for each unit for the purposes of determining whether the full COLA will be paid out. Of the 55 Police and Fire Units 39 exceed the 80% funded ratio threshold, including 33 of the 45 plans that provide COLAs.

The COLA rate under current law is calculated using 50% of the previous five-year average investment return minus 5.5% and 50% of inflation as measured by the Consumer Price Index for All Urban Consumers (CPI-U). The COLA has a floor of 0% and a ceiling of 3.5%. COLAs commence for police and fire members on the later of the third anniversary of the date of retirement or the date the retiree reaches age 50 (age 55 for those who retired between July 1, 2012, and June 30, 2015). In 2024 members of the plans that exceeded an 80% funded ratio and that elect to provide a COLA received a COLA of 2.84% on the first \$29,776 of their retirement allowance. Under a new law that took effect in 2024, members of plans that do not meet the funded ratio threshold and that provide a COLA receive a quarter of the COLA, or 0.71% on the first \$35,731 of annual benefit if the member retired on or before June 30, 2015, or on the first \$29,776 if the member retired after that date.

This bill would require all plans to provide an annual 2.5% COLA, in addition to whatever COLA the plans may already provide. This includes those plans that do and those that do not currently provide a COLA, and those that are exceeding and those that are below the 80% threshold. The 2.5% can be



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lower than the variable rate of the current COLA, as is the case with 2024's 2.84% COLA, but this COLA would be more generous as it would apply to the entire benefit amount rather than to the portions that the current COLA targets, and retired members would be eligible for these COLAs in the year following retirement rather than either three years following retirement or upon meeting an age threshold for the current COLA.

An additional COLA for retirees would increase the outflows from the MERS Trust Fund, which would potentially translate into significant increases in employer contributions to be borne by the municipalities. However, the fiscal impact of this legislation is indeterminable without a complete actuarial analysis by the Employees' Retirement System.

Comments on Sources of Funds:

MERS retirement allowances are supported by the Municipal Employees' Retirement System Trust Fund. Municipalities contribute the employer's share of retirement costs.

Summary of Fiscal Impact:

The Budget Office cannot determine the fiscal impact of this legislation. An actuarial analysis would be required.

Budget Office Signature: \_\_\_\_\_

A handwritten signature in black ink, appearing to read "Joseph Codega Jr.", written over a horizontal line.

Digitally signed by Joseph Codega Jr.  
Date: 2024.04.23 08:44:00 -04'00'

Fiscal Advisor Signature: \_\_\_\_\_

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