



OFFICE OF MANAGEMENT & BUDGET

State Budget Office

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Office: (401) 222-6300
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State Fiscal Note for Bill Number:

2024-H 7993

Date of State Budget Office Approval: Wednesday, June 6, 2024

Date Requested: Tuesday, March 5, 2024

Date Due: Monday, March 25, 2024

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2024	\$0	FY 2024	\$0
FY 2025	Indeterminate	FY 2025	(\$1,298,658)
FY 2026	Indeterminate	FY 2026	(\$2,597,317)

Explanation by State Budget Office:

This bill would allow for a one-time 2% cost of living adjustment for plan year 2025 to public pension benefits and allow for those benefits to be deducted from taxpayer's adjusted gross income.

In addition, commencing in January 1, 2025, this bill will allow for all public pension benefits administered by the Employees Retirement System of Rhode Island to be deductible from a taxpayer's adjusted gross income.

Summary of Facts and Assumptions:

1. According to Employee Retirement System of Rhode Island (ERSRI) actuarial valuation reports, as of June 30, 2023, there are a total of 23,075 retirees and beneficiaries (11,328 State employees, 11,595 Teachers, 116 State Police and 36 Judges).

2. As of June 30, 2023, the average annual benefit for each type of retiree and number of persons is as follows:

State Employees:	\$32,960 Service Retirees / 9,171
	\$23,321 Disables Retirees / 839
	\$19,660 Beneficiaries & Spouses / 1,318
Teachers:	\$43,343 Service Retirees / 10,576
	\$29,738 Disables Retirees / 382
	\$25,744 Beneficiaries & Spouses / 637
State Police:	\$88,224 Service Retirees / 100
	\$74,196 Disables Retirees / 6
	\$32,650 Beneficiaries & Spouses / 10
Judges:	\$166,192 Service Retirees / 31
	\$0 Disables Retirees / 0
	\$69,830 Beneficiaries & Spouses / 5



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3. Applying a 2% adjustment to the average benefits above multiplied by the amount of recipients in each category amounts to a total one-time COLA adjustment of \$16,980,099.

4. With respect to revenue impacts as a result of benefits becoming deductible from a taxpayer's adjusted gross income, the Office of Revenue Analysis (ORA) estimates a loss of personal income tax revenue of \$1,298,658 and \$2,597,317 in FY 2025 and FY 2026, respectively. ORA utilized the following assumptions to arrive at these figures:

- Assumes an average annual benefit per retiree of \$34,085.
- Assumes anyone 67 and over is already claiming the \$20,000 reduction in income currently allowed for all pension benefits, leaving them with an additional \$14,085 reduction they could claim under the law
- Assumes retirees under 67 are not deducting pension income and are now able to deduct the full \$34,085 of their ERSRI benefits.
- Limits the population for consideration to only RI retirees to determine at the estimated impact on RI income tax collections.
- Multiple the number of retirees in the over and under age 67 group by their expected new deduction
- Apply an effective tax rate for those currently taking the retirement modification to convert from a deduction amount to an actual tax forgone amount (this equates to a 0.64% tax rate).
- Assumes no growth in calendar year 2024, a 2% growth of the estimate in calendar year 2025 to account for the one-time 2% COLA in the bill, and assumes no growth in calendar year 2026.

In addition, ORA also cautions that the current \$20,000 income modification for retirement income is not only limited to those 67 and older, but also limited to certain income thresholds. It is likely that a significant portion of retirees are below the income threshold and may be overrepresented with respect to qualifying for the \$20,000 modification. As a result, the estimated revenue losses included in this fiscal note may be higher due to the assumption that estimated losses are be included in the current \$20,000 deduction.

Comments on Sources of Funds:

All funding sources support the employer's share of retirement costs. This could include general revenue, federal funds, restricted receipts, and various other sources of funds.

Payments to retirees are supported by the State Employees', State Police, Judicial Retirement, and Municipal Employees' Retirement Trust Funds.



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Summary of Fiscal Impact:

While this note estimates outflows of \$16,980,099 for the proposed one-time COLA adjustment, the total fiscal impact of this legislation is indeterminable without a complete actuarial study by the Employees' Retirement System to determine the financial impact of the Trust Funds. Allowing one-time COLAs for retirees would increase the outflows from the Retirement Trust Funds, which would likely translate into significant increases in employer contributions. No change in employee contribution rates is contemplated in the legislation.

Budget Office Signature: _____

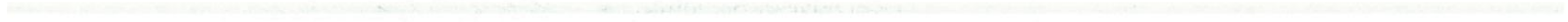
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