EDUCATIONAL RETIREMENT BOARD PENSION REDESIGN PROPOSAL

The ERB adopted a Pension Redesign Proposal at its November 21, 2011 Special Board Meeting. The major points of the Redesign Proposal are:

- Minimum Age 55 - ERB members who do not become eligible for retirement within a 10 year grandfather period (a/k/a - a "safe harbor" period), must be Age 55 to receive retirement benefits.

- Grandfather Period – 10 Year Grandfather or Safe Harbor runs from the date that the Redesign Proposal became effective, if adopted. It protects all members who become eligible for retirement in that period.

- Maintains Tier 1 and Tier 2 Retirement Eligibility Requirements – current Tier 1 and Tier 2 retirement eligibility requirement would not change.

- Cost of Living Allowance Modification – The COLA for both current and future retirees would be reduced by 12.5% from what would be paid under current statute.

The Redesign Proposal is outlined below.

1. Tier 1 and Tier 2 Retirement Eligibility Requirements. Current Tier 1 and Tier 2 retirement eligibility requirements would <u>not</u> change. However, members who do not become eligible for retirement within 10 years of the Redesign Proposal becoming effective, if adopted, would be required to be Age 55 before they could receive retirement benefits. The Retirement Eligibility Requirements are:

Tier 1 (ERB member prior to July 1, 2010)	Tier 2 (initial ERB membership on or after July 1, 2010)
"25 & out" – 25 years of Earned & Allowed Service Credit	"30 & out" – 30 years of Earned & Allowed Service Credit
"Rule of 75" – sum of Age plus Earned Service Credit = 75*	"Rule of 80" – sum of Age plus Earned Service Credit = 80*
"Age 65 & 5" – Age 65 plus 5 years of Earned Service Credit	"Age 67 & 5" – Age 67 plus 5 years of Earned Service Credit

(*Under current law Rule of 75 and the Rule of 80 retirement benefits are permanently and significantly reduced if the member is less than either Age 60 or Age 55 at retirement. Under the Redesign Proposal, retirement benefits would still be permanently reduced if a member is less than Age 60 at retirement.

2. 10 Year Grandfather Period (a/k/a "Safe Harbor" Period). Any member who was eligible to retire within 10 years after the Redesign Proposal became effective would be "grandfathered."

Those members would not have to meet the Minimum Age 55 requirement - even if they continued to work after the 10 year period. For example, if the Redesign Proposal became effective July 1, 2012, the Grandfather Period would last until June 30, 2022. Members who are eligible to retire by June 30, 2022 could retire and receive benefits regardless of their age.

3. Minimum Age 55. Members who first became eligible to retire after the 10 Year Grandfather Period would have to be Age 55 to received retirement benefits. For example, a member who satisfied either the "25 and out" or the Rule of 75 would have to be Age 55 to receive benefits. The Rule of 75 and Rule 80 would no longer allow members to retire with reduced benefits if they were younger than Age 55. Members who are not Age 55 when they meet a retirement eligibility requirement could either:

- Continue to work until Age 55, earning additional service credit and a higher retirement benefit; or,
- Leave ERB employment, then begin receiving retirement benefits at Age 55 (after leaving ERB employment, the member could take a different job).

4. COLA. The change in COLA would affect all current and future retirees. Under the Redesign Proposal, the COLA would be reduced by 12.5% of what it would be under the current COLA formula. Currently, if the change in the Consumer Price Index (CPI) is less than 2%, the COLA is equal to the amount of the change. Under the Redesign Proposal, the COLA would be equal to 87.5% of the change in the CPI.

Under the current formula, if the change in the CPI is greater than 2%, the COLA is one-half (1/2) of the CPI change, but would not be less than 2% or more than 4%. Under the Redesign Proposal, if the CPI change was greater than 2%, the COLA would 43.75% of that change, but would not be less than 1.75% or more than 3.5%.

The following examples show the COLA under the Redesign Proposal:

- If the change in the CPI was 1%, the COLA would be 0.875% (7/8ths of 1%). Under the current formula it would be 1%.
- If the change in the CPI was 2%, the COLA would be 1.75%. Under the current formula it would be 2%.
- If the change in the CPI was 7%, the COLA would be 3.0625%. Under the current formula it would be 3.5%.
- If the change in the CPI was 0%, the COLA would be 0. Under the current formula it would be 0%.

Under both the current formula and the Redesign Proposal, the COLA would never be less than zero ("0") – there would not be a "negative" COLA that would reduce retirement benefits.

4. Contributions. Member and Employer contributions would increase as set forth below.

- Member contributions would increase by 0.1% annually beginning in FY 14 (July 1, 2013). For members earning over $20,000, the rates would be FY 14 – 9.5%, FY 15 – 9.6%, FY 16 – 9.7%, FY 17 – 9.8%, FY 18 – 9.9%. Rates for members earning $20,000 or less remain the rates would FY 14 – 8.3%, FY 15 – 8.7%, FY 16 – 9.1%, FY 17 – 9.5%, FY 18 – 9.9%.
- Employer contributions for members would increase by 0.5% for members earning over $20,000 annually, and by 0.25% for member earning $20,000 and under. Beginning in FY 14 (July 1, 2013). For members earning over $20,000, the rates would be FY 14 – 10.9%, FY 15 – 11.4%, FY 16 – 12.4%, FY 17 – 12.9%, FY 18 – 13.4%, FY 19 – 13.9%. For members earning $20,000 or less, the employer rates would be FY 14 – 12.65%, FY 15 – 12.9%, FY 16 – 13.15%, FY 17 – 13.4%, FY 18 – 13.65%, FY 19 – 13.9%.