Population Aging and State Pensions in New England

Richard Woodbury
Work in Progress
Presentation Overview

• Demographic Context
• Mechanics of State Pension Plans
  – Age-Specific Provisions
  – Labor Market Incentives
• Pension Plans in New England States
• Plan Comparisons
• Plan Reform
Demographic Context

• Aging of Baby Boom Generation
• Increasing Life Expectancy
• Years of “Expected Pension Benefits”
• Policy Questions
  – Are plans financially sustainable?
  – Should age provisions change with improving health and increasing longevity?
  – How well do plans accommodate continued work at older ages?
Figure 1
Projected Percent of Adult Population at Older Ages
All New England States

Source: Author's Calculations based on U.S. Census Bureau Data
Figure 2
Projected Percent of Adult Population Over Age 60
Individual New England States

Source: Author's Calculations based on U.S. Census Bureau Data
Figure 3
Years of Remaining Life Expectancy at Age 60

Source: National Center for Health Statistics.
Figure 4
Expected Number of Years of Pension Benefits, Based on Retirement Age (2004)

Source: Life Expectancy by Age, National Center for Health Statistics.
Mechanics of State Pension Plans

• Structure of Defined-Benefit Pension Plans
• Benefit Formula
• “Normal” Retirement Age
• Early Retirement
• How Benefits Adjust to Early/Late Retirement
• Benefit Limits
<table>
<thead>
<tr>
<th>State</th>
<th>Full Benefit Amount Per Year of Service</th>
</tr>
</thead>
</table>
| CT    | 1.333 percent of salary up to “breakpoint” ($51,700 in 2009)  
       | 1.833 percent of salary above “breakpoint”  
       | 1.65 percent of salary for years of service above 35 |
| ME    | 2 percent of salary |
| MA    | 2.5 percent of salary (Max 80%) |
| NH    | 1.667 percent of salary before age 65  
       | 1.515 percent of salary at age 65 and older |
| RI    | 1.6 percent of salary for years 1-10  
       | 1.8 percent of salary for years 11-20  
       | 2.0 percent of salary for years 21-25  
       | 2.25 percent of salary for years 26-30  
       | 2.5 percent of salary for years 31-37  
       | 2.25 percent of salary for year 38  
       | Zero for additional years (Max 75%) |
| VT    | 1.667 percent of salary (Max 60%) |
Figure 5
Baseline Benefit Amount as Percent of Salary

Source: Author's Calculations from State Benefit Plan Description Publications.
<table>
<thead>
<tr>
<th>State</th>
<th>Eligibility Conditions</th>
</tr>
</thead>
</table>
| CT    | Age 60 with 20+ Years of Service  
Age 62 with less than 20 Years of Service |
| ME    | Age 62 |
| MA    | Age 65 |
| NH    | Age 60 |
| RI    | Age 62 with 29+ Years of Service  
Age 65 with less than 29 Years of Service |
| VT    | When Sum of Age and Years of Service is 87, or  
Age 62 |
<table>
<thead>
<tr>
<th>State</th>
<th>Eligibility Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>CT</td>
<td>Age 55 with 10 Years of Service</td>
</tr>
<tr>
<td>ME</td>
<td>25 Years of Service</td>
</tr>
<tr>
<td>MA</td>
<td>20 Years of Service, or Age 55 with 10 Years of Service</td>
</tr>
<tr>
<td>NH</td>
<td>Age 50 with 10 Years of Service; or Any Age with 20 Years, And if Sum of Age and Years of Service is at least 70</td>
</tr>
<tr>
<td>RI</td>
<td>Age 55 with 20 Years of Service</td>
</tr>
<tr>
<td>VT</td>
<td>Age 55 with 5 Years of Service</td>
</tr>
<tr>
<td>State</td>
<td>Reduction in Baseline Benefit for Early Retirement</td>
</tr>
<tr>
<td>-------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>CT</td>
<td>3 percentage points per year before normal retirement age</td>
</tr>
<tr>
<td>ME</td>
<td>6 percentage points per year before normal retirement age</td>
</tr>
<tr>
<td>MA</td>
<td>4 percentage points per year before normal retirement age</td>
</tr>
</tbody>
</table>
| NH    | If 35+ years of service, 1.5 percentage points per year  
|       | If 30-34 years of service, 3 percentage points per year  
|       | If 25-29 years of service, 4 percentage points per year  
|       | If 20-24 years of service, 5 percentage points per year  
|       | If <20 years of service, 6.67 percentage points per year |
| RI    | The following “actuarial early retirement factors” are used:  
|       | Age 64 – 89.3% Age 59 – 52.2%  
|       | Age 63 – 79.9% Age 58 – 47.1%  
|       | Age 62 – 71.6% Age 57 – 42.5%  
|       | Age 61 – 64.3% Age 56 – 38.5%  
|       | Age 60 – 57.9% Age 55 – 34.9%  
| VT    | Same as NH |
Figure 6
Benefit Adjustment for Retiring Before/After "Normal" Age

Source: Author's Calculations from State Benefit Plan Description Publications
Figure 12
Pension as Percent of Final Average Salary
Employee Hired at Age 30

Source: Author's Calculations
2008 Vermont Reform

- Normal retirement age raised from 62 to 65,
- Alternate full retirement raised from 30 years of service to “sum of age and years of service” of 87 or more.
- Maximum benefit raised from 50 to 60 percent of salary.
- Benefit reduction for early retirement much more modest for long-service employees.
Figure 13
Effect of 2008 Reform on Benefit Structure in Vermont

Source: Author's Calculations
Rhode Island Reform

• 2005 Reform.
  – Eliminated full benefit at 28 years of service, or at 60 with 10 years of service.
  – Replaced with full benefit at age 59 with 29 years of service, or 65 with 10 years of service.

• 2009 Reform.
  – Normal retirement age for those with 29 or more years of service is raised from 59 to 62.
Figure 13
Effect of 2005/2009 Reforms on Benefits in Rhode Island

- Hired at 20 (09)
- Hired at 20 (05)
- Hired at 20 (old)
- Hired at 30 (09)
- Hired at 30 (05)
- Hired at 30 (old)
- Hired at 40 (09)
- Hired at 40 (05)
- Hired at 40 (old)

Source: Author's Calculations