

Population Aging and State Pensions in New England

Richard Woodbury

Work in Progress

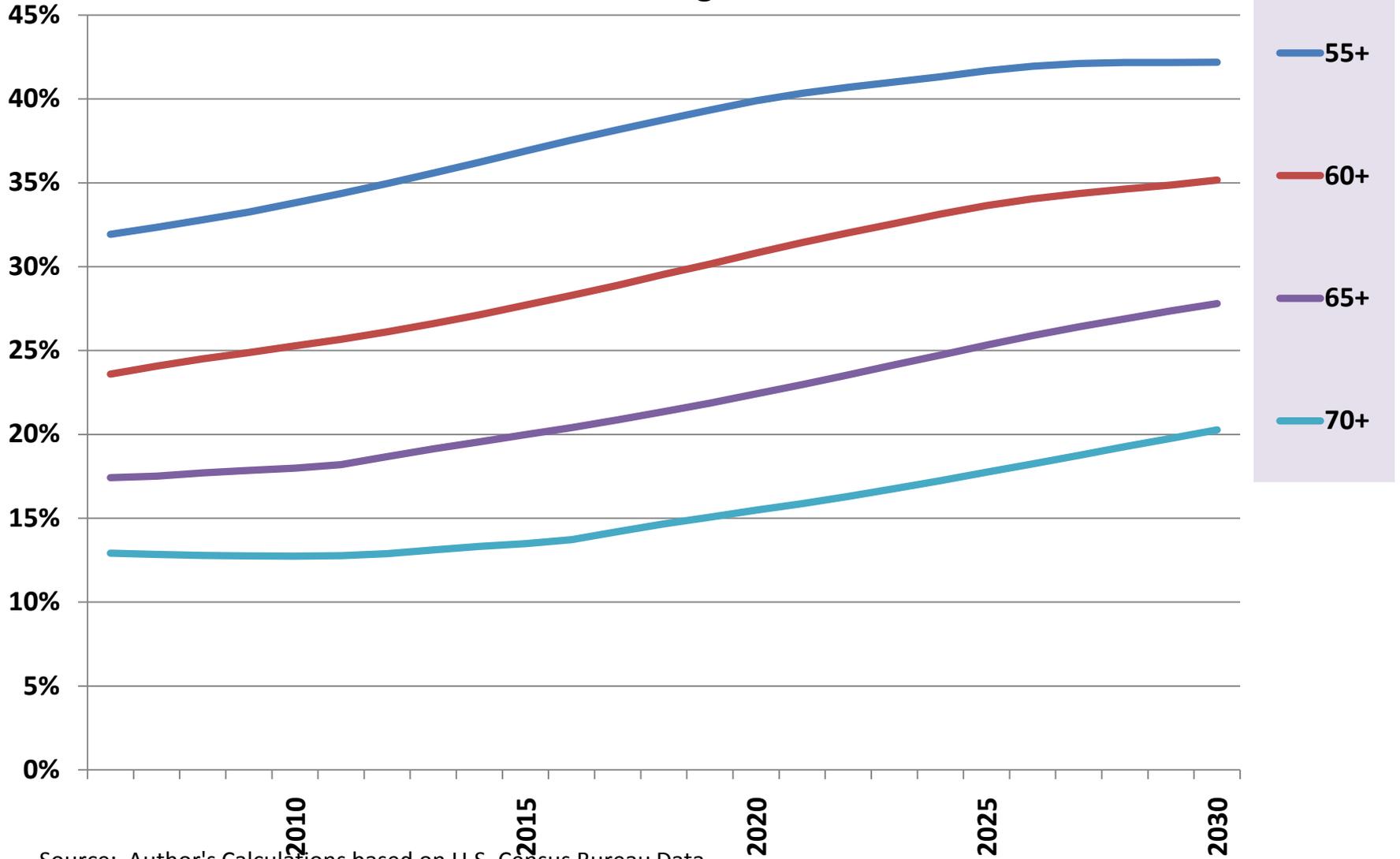
Presentation Overview

- 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

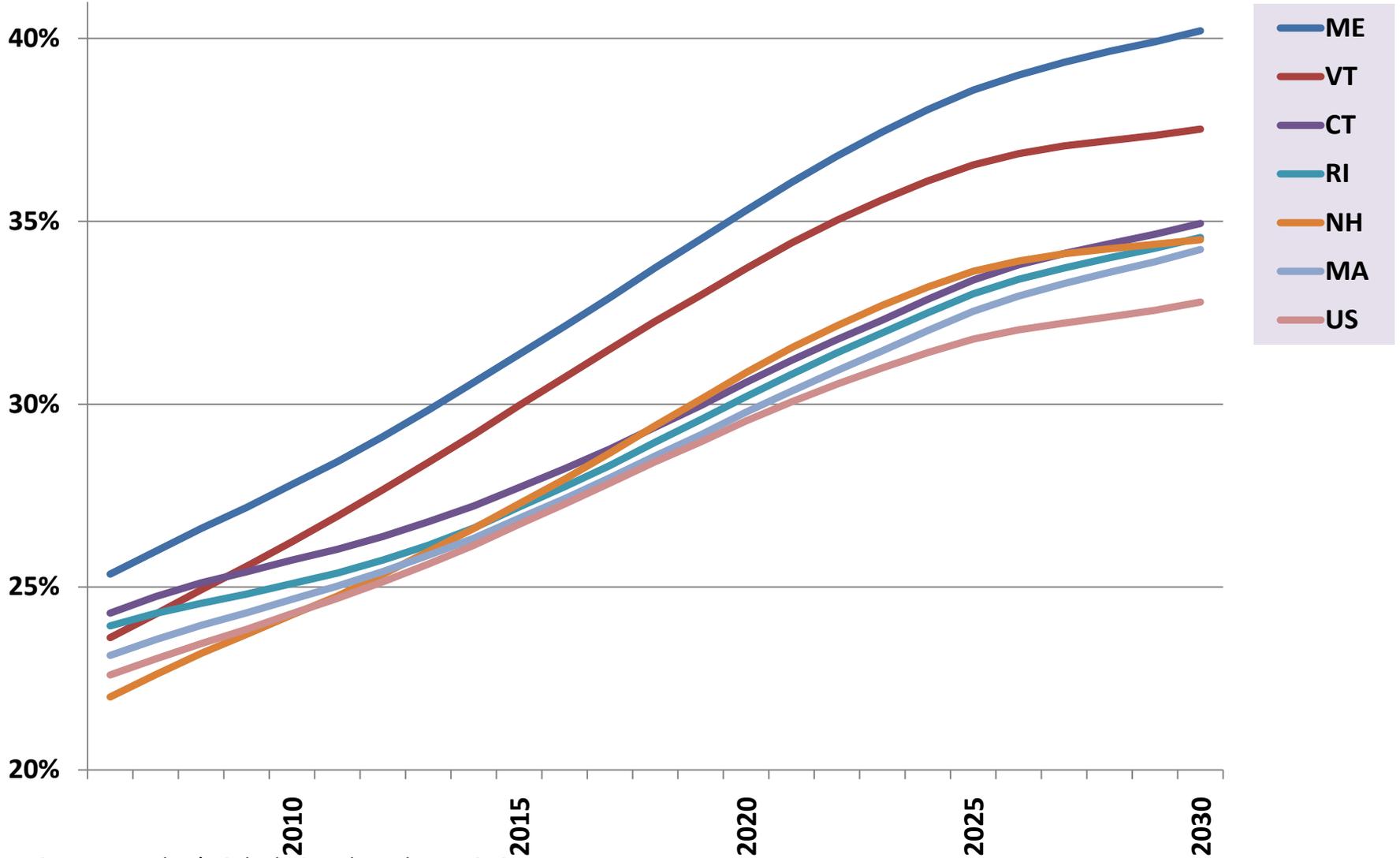
- Aging of Baby Boom Generation
- Increasing Life Expectancy
- Years of “Expected Pension Benefits”
- Policy Questions
 - Are plans financially sustainable?
 - Should age provisions change with improving health and increasing longevity?
 - How well do plans accommodate continued work at older ages?

Figure 1
Projected Percent of Adult Population at Older Ages
All New England States



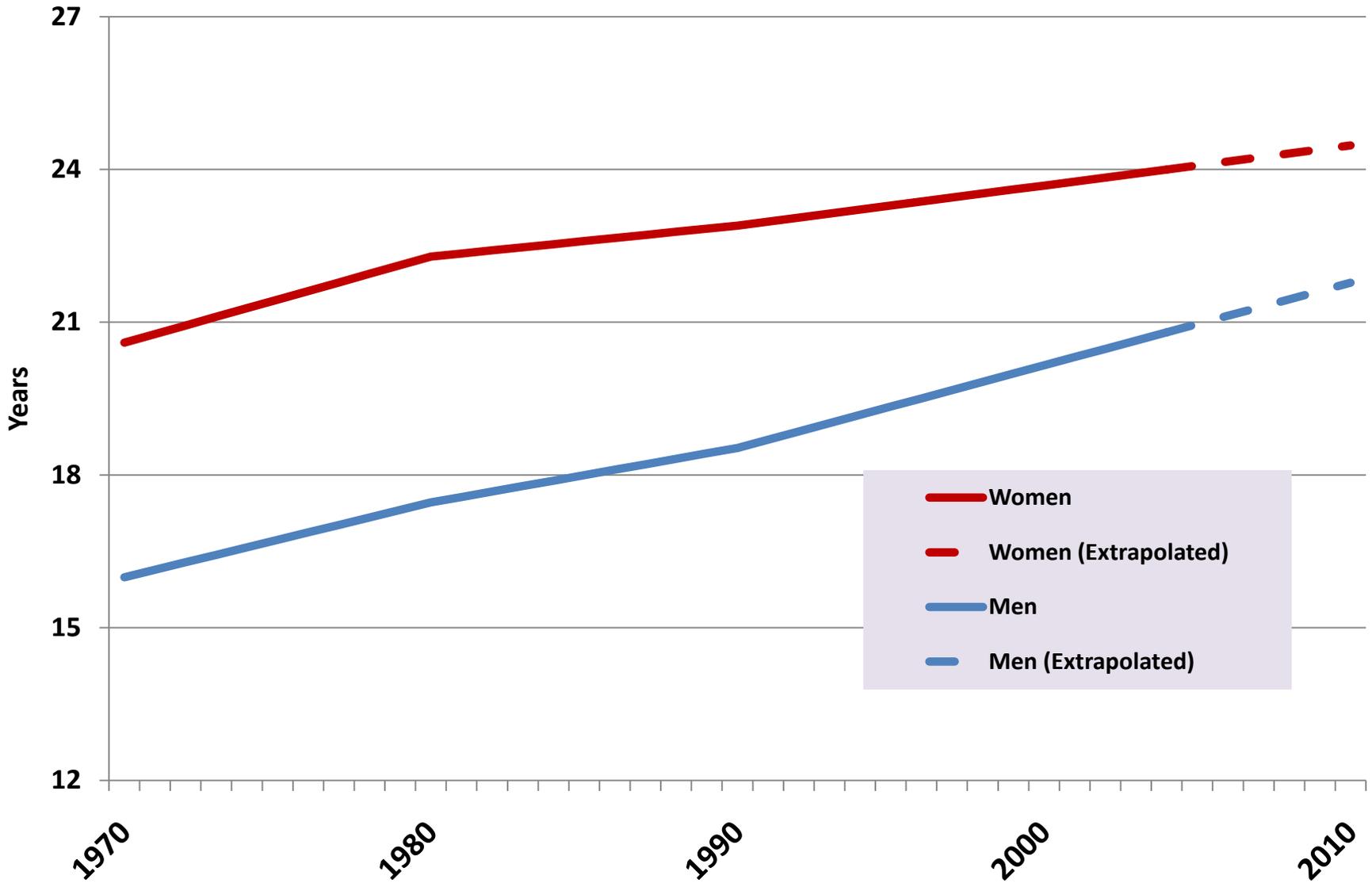
Source: Author's Calculations based on U.S. Census Bureau Data

Figure 2
Projected Percent of Adult Population Over Age 60
Individual New England States



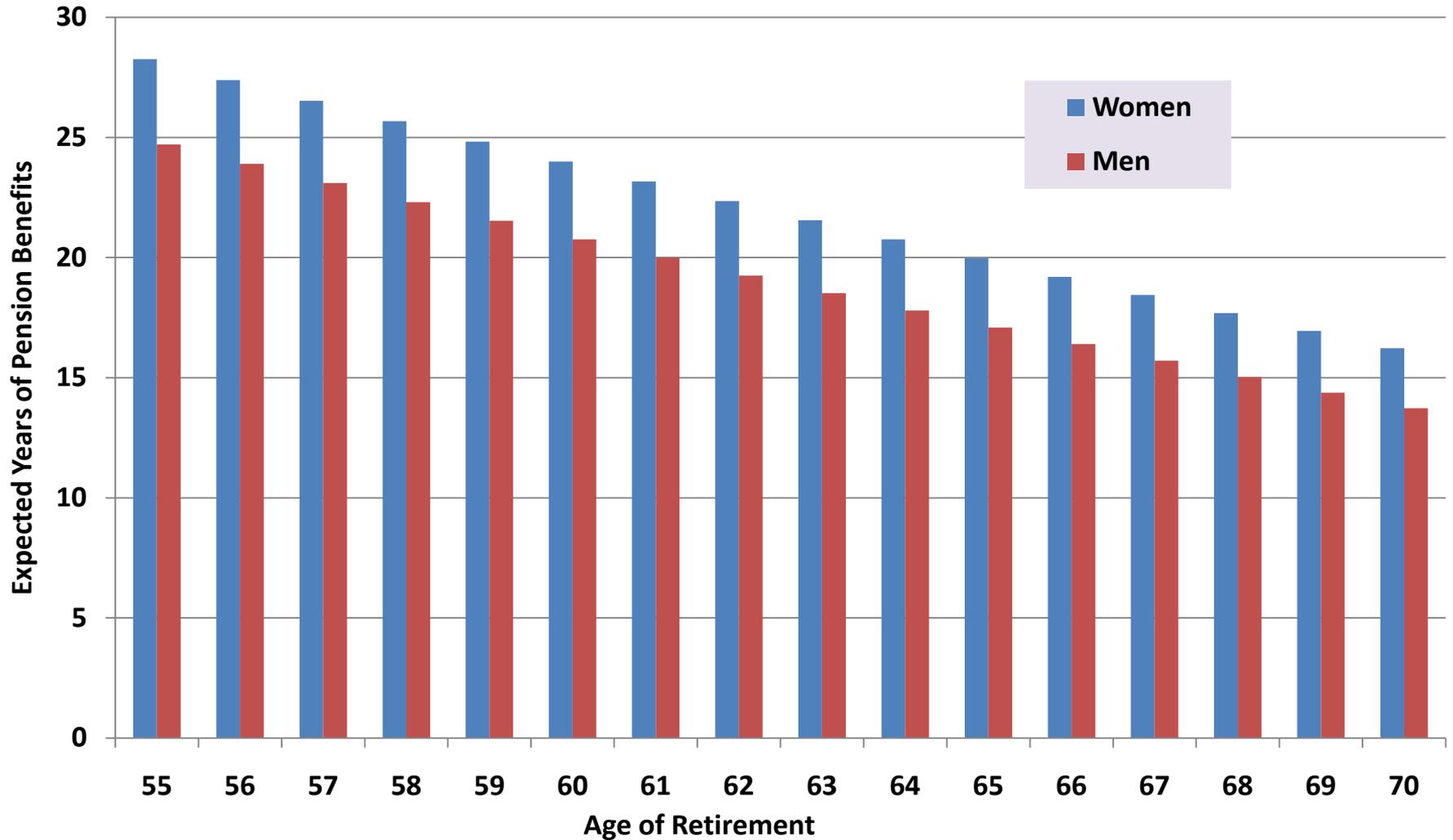
Source: Author's Calculations based on U.S. Census Bureau Data

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.

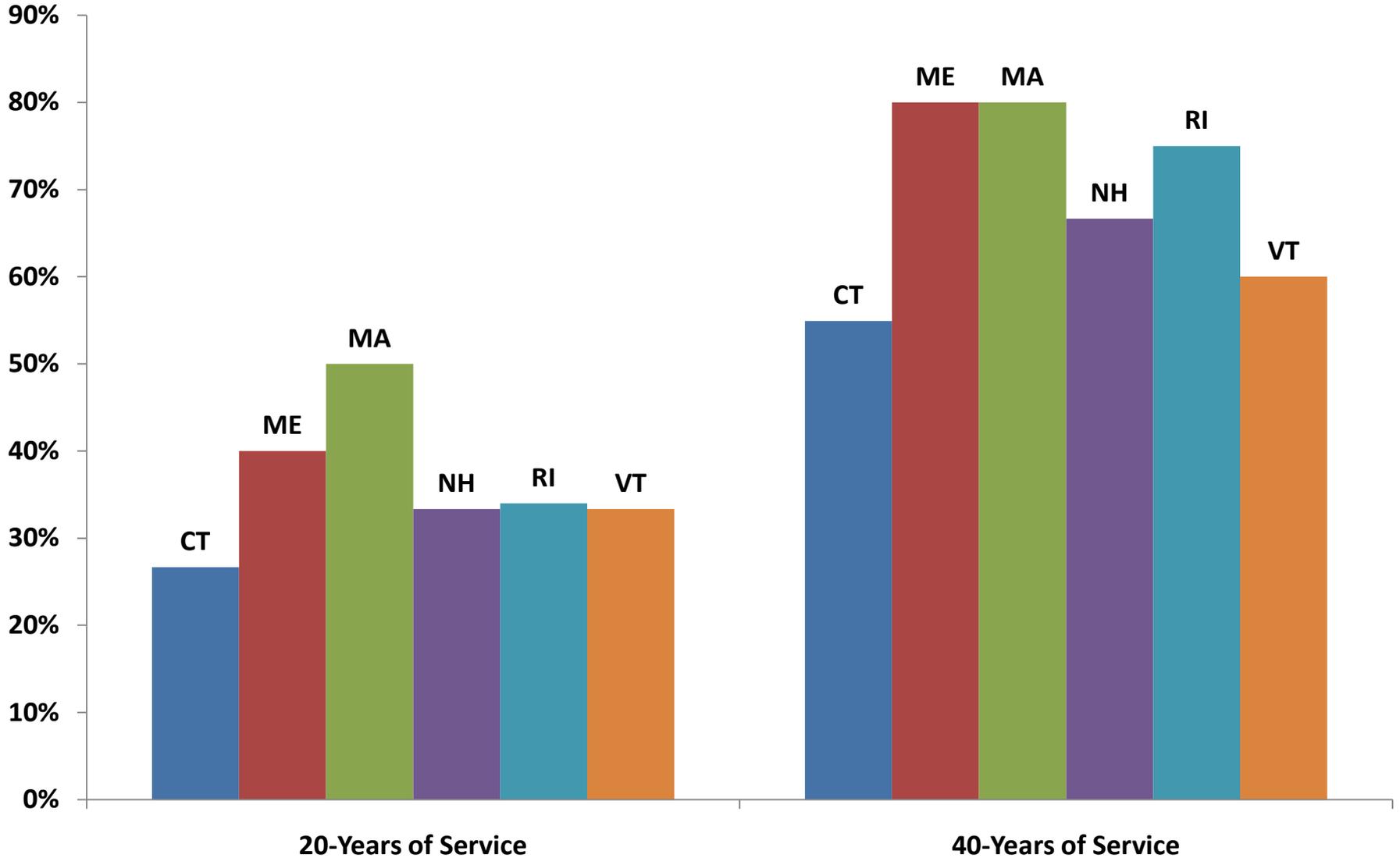
Mechanics of State Pension Plans

- Structure of Defined-Benefit Pension Plans
- Benefit Formula
- “Normal” Retirement Age
- Early Retirement
- How Benefits Adjust to Early/Late Retirement
- Benefit Limits

Table 1
Full Benefit Amount Per Year of Service
New England States

CT	<p>1.333 percent of salary up to “breakpoint” (\$51,700 in 2009)</p> <p>1.833 percent of salary above “breakpoint”</p> <p>1.65 percent of salary for years of service above 35</p>
ME	<p>2 percent of salary</p>
MA	<p>2.5 percent of salary (Max 80%)</p>
NH	<p>1.667 percent of salary before age 65</p> <p>1.515 percent of salary at age 65 and older</p>
RI	<p>1.6 percent of salary for years 1-10</p> <p>1.8 percent of salary for years 11-20</p> <p>2.0 percent of salary for years 21-25</p> <p>2.25 percent of salary for years 26-30</p> <p>2.5 percent of salary for years 31-37</p> <p>2.25 percent of salary for year 38</p> <p>Zero for additional years (Max 75%)</p>
VT	<p>1.667 percent of salary (Max 60%)</p>

Figure 5
Baseline Benefit Amount as Percent of Salary



Source: Author's Calculations from State Benefit Plan Description Publications.

Table 2
Normal Retirement Age – Eligibility for Unreduced Pension Amount
New England States

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

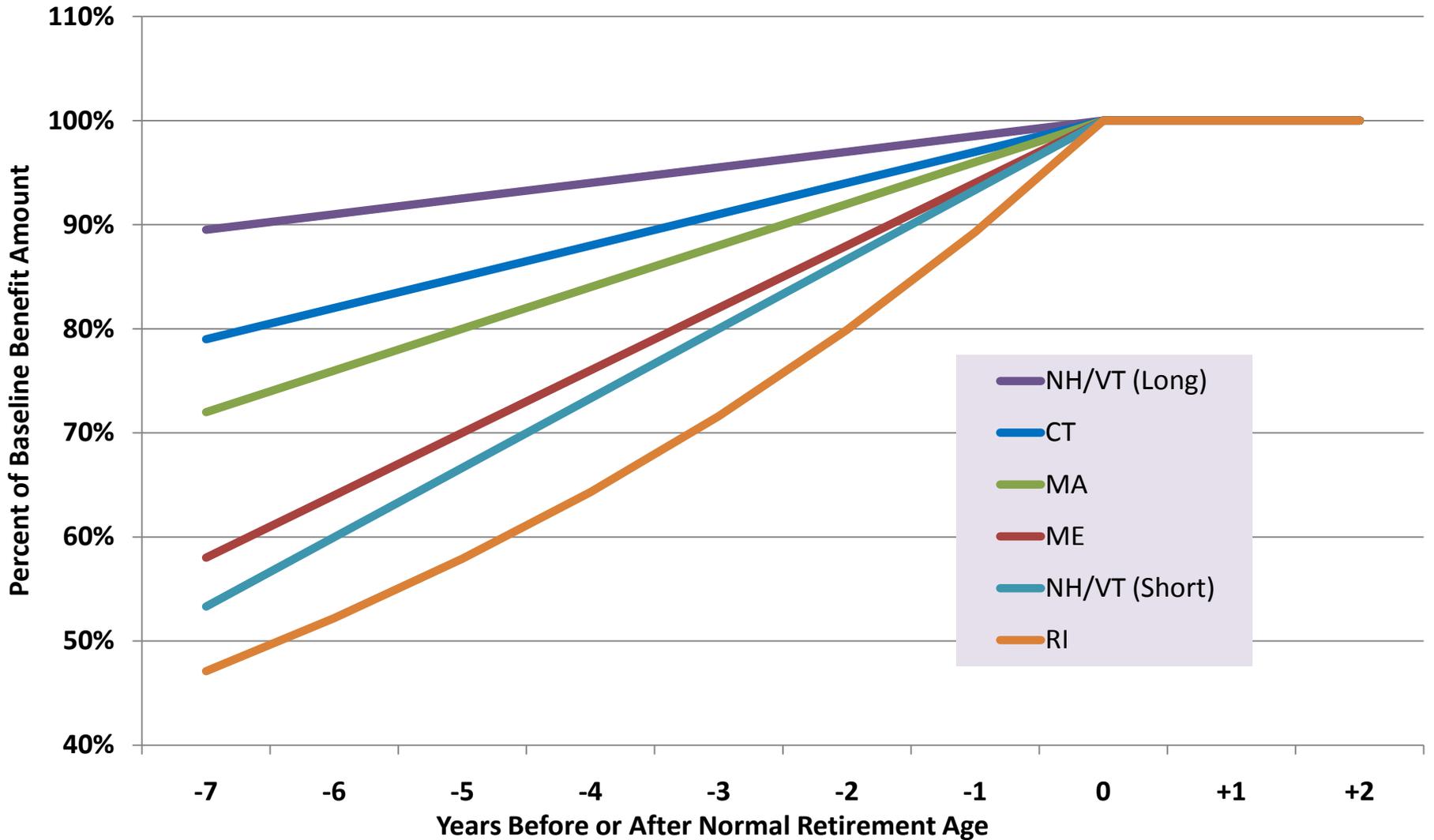
Table 3
Early Retirement Age – Eligibility for Reduced Pension Amount
New England States

CT	Age 55 with 10 Years of Service
ME	25 Years of Service
MA	20 Years of Service, or Age 55 with 10 Years of Service
NH	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
RI	Age 55 with 20 Years of Service
VT	Age 55 with 5 Years of Service

Table 4
Reduction in Baseline Benefit for Early Retirement
New England States

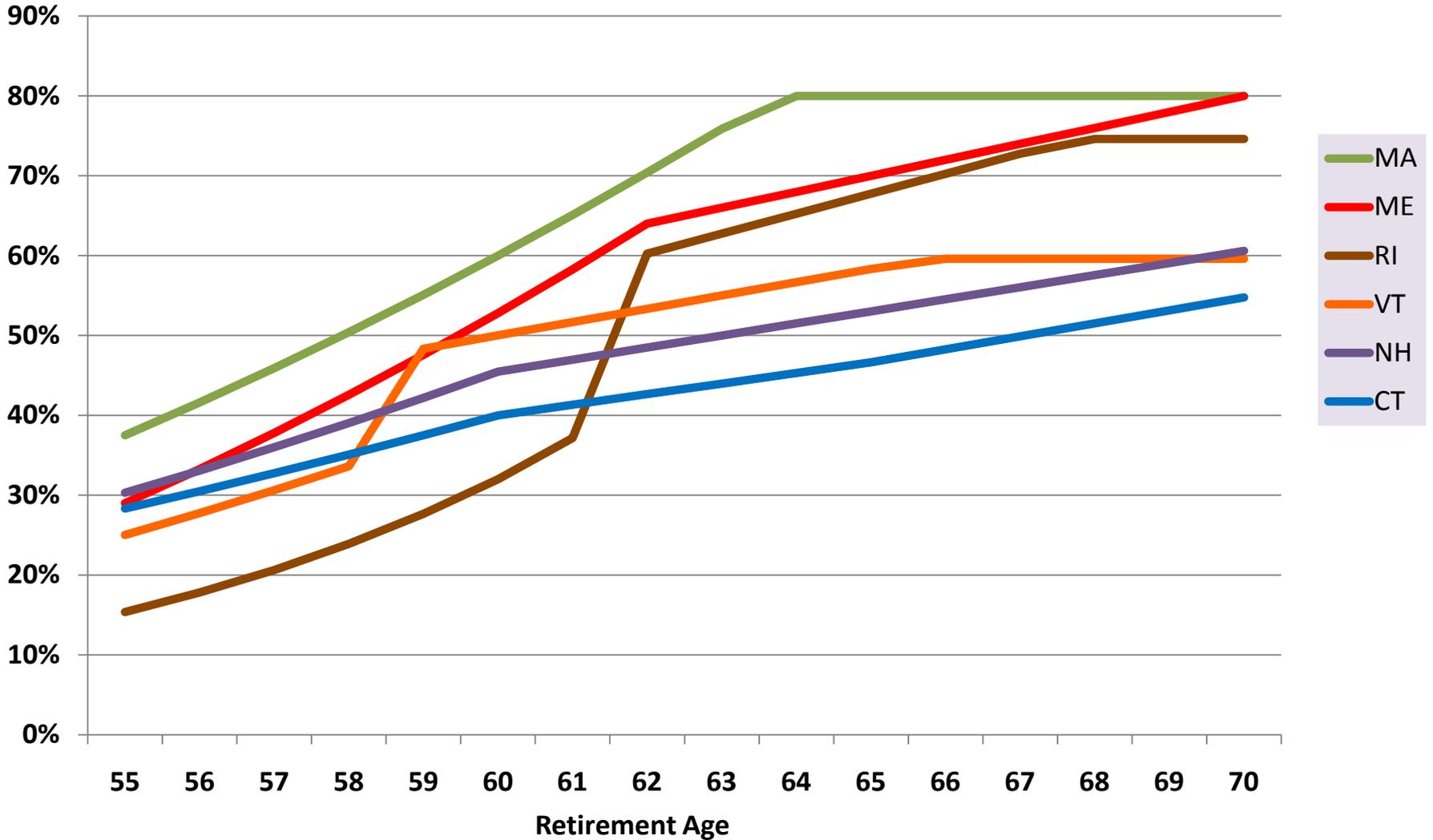
CT	3 percentage points per year before normal retirement age										
ME	6 percentage points per year before normal retirement age										
MA	4 percentage points per year before normal retirement age										
NH	<p>If 35+ years of service, 1.5 percentage points per year If 30-34 years of service, 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</p>										
RI	<p>The following “actuarial early retirement factors” are used:</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">Age 64 – 89.3%</td> <td style="text-align: center;">Age 59 – 52.2%</td> </tr> <tr> <td style="text-align: center;">Age 63 – 79.9%</td> <td style="text-align: center;">Age 58 – 47.1%</td> </tr> <tr> <td style="text-align: center;">Age 62 – 71.6%</td> <td style="text-align: center;">Age 57 – 42.5%</td> </tr> <tr> <td style="text-align: center;">Age 61 – 64.3%</td> <td style="text-align: center;">Age 56 – 38.5%</td> </tr> <tr> <td style="text-align: center;">Age 60 – 57.9%</td> <td style="text-align: center;">Age 55 – 34.9%</td> </tr> </table>	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%
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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

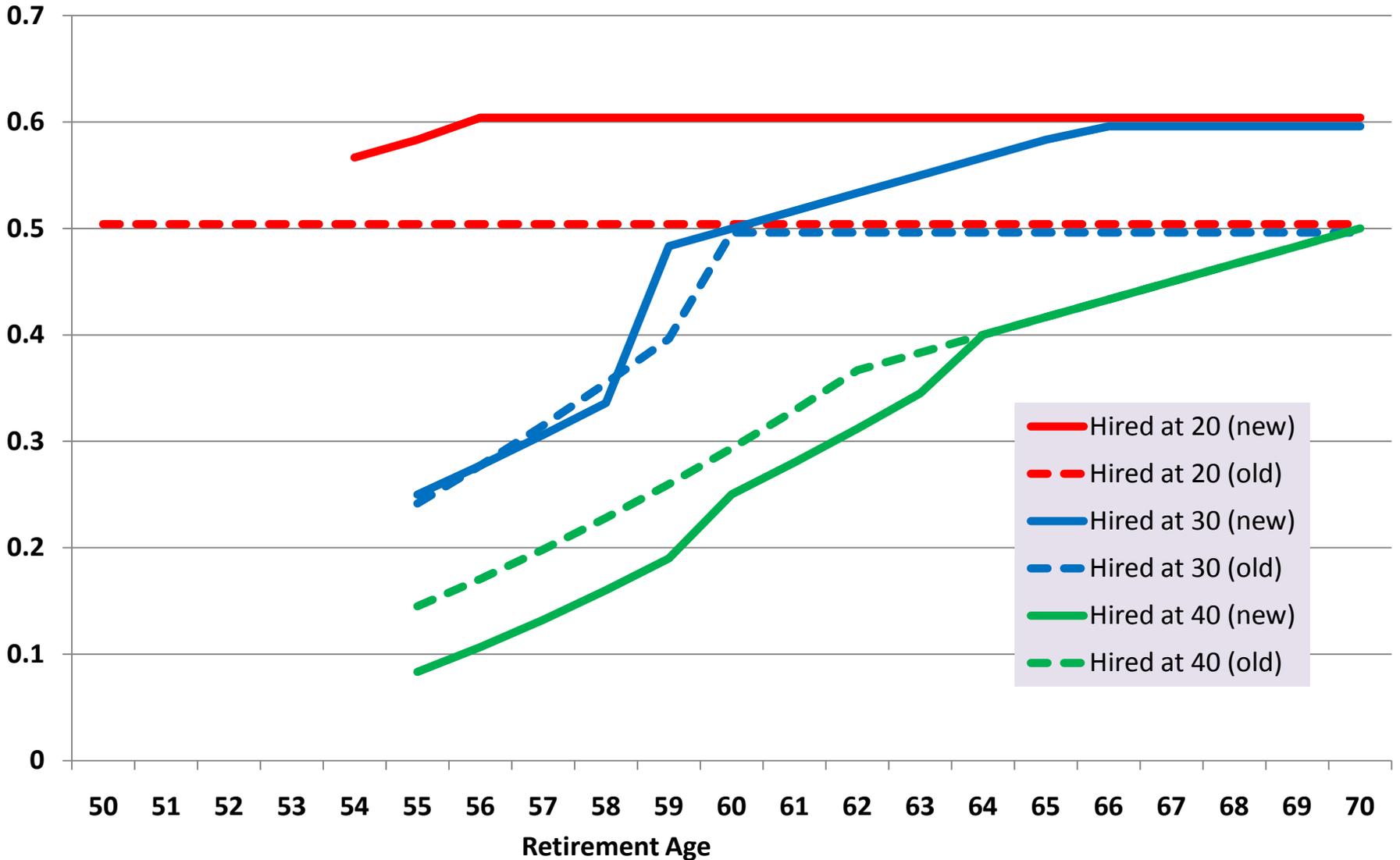


Source: Author's Calculations

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



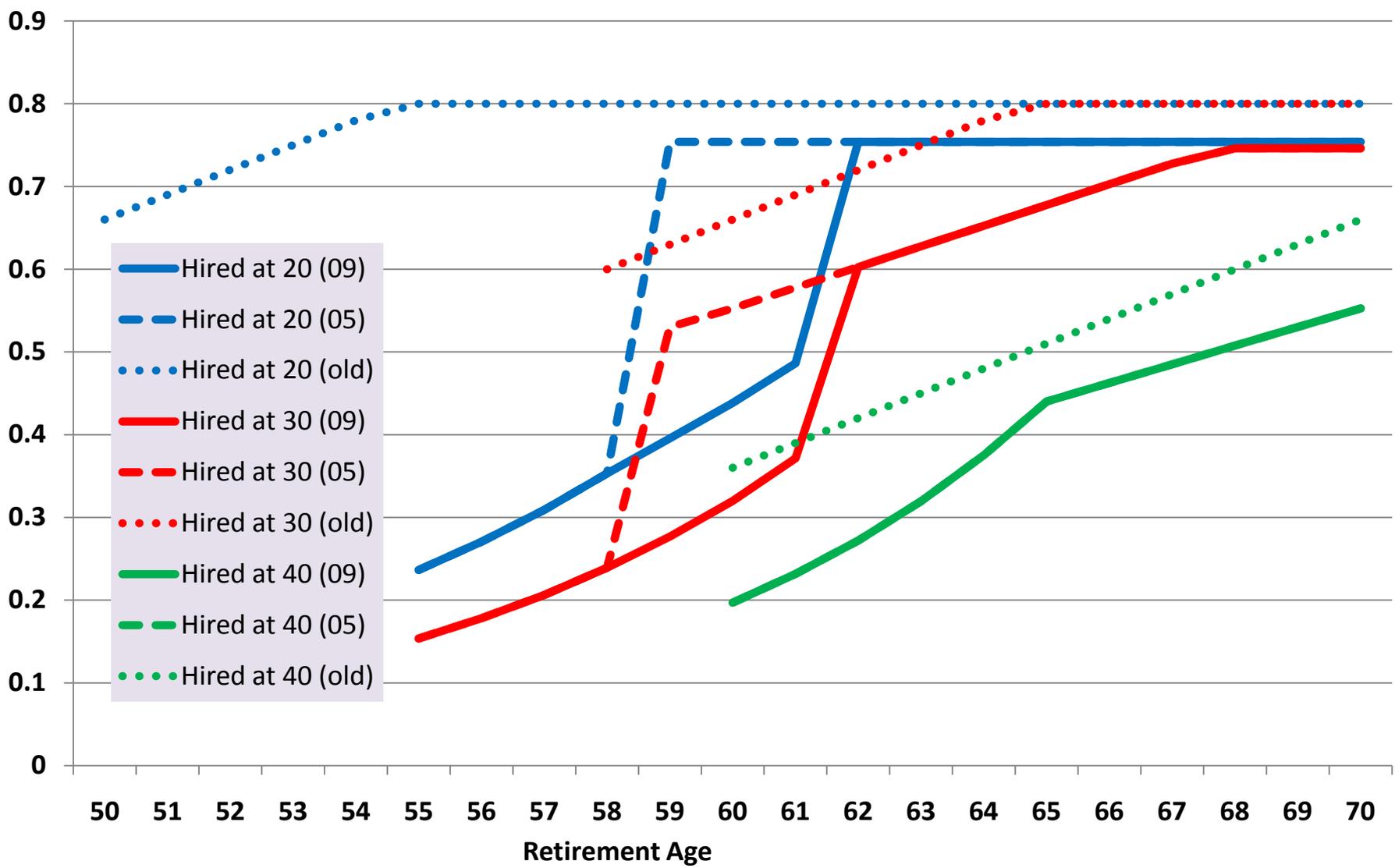
Source: Author's Calculations

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



Source: Author's Calculations