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ResearchReport

State Employee Pension Benefits in Northeastern States

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Issue

This report compares the pension benefits provided to state employees in the northeastern states.

Comparing State Employee Pension Benefits

All of the northeastern states provide pension benefits to their retired state employees, mostly through defined benefit pension (DB) plans. Table 1 below compares the pension benefits provided under these plans. To prepare it, we largely relied on information compiled in the Wisconsin Legislative Council's 2015 Comparative Study of Major Public Employee Retirement Systems. While many state pension systems have different "tiers" with features that vary according to when an employee began working, the study (and our comparison) is limited to the "tier" in other states that would be applicable to the most recently hired, non-hazardous duty state employees. In Connecticut, this would be non-hazardous duty employees in Tier IV, which was recently created under the 2017 SEBAC Agreement. Table 2 shows a comparison of estimated pension benefits across all of the tiers in Connecticut's State Employee Retirement System (SERS) using the same assumptions (see below).

Pension benefits in DB plans are typically determined by multiplying an employee's years of service by a "formula multiplier" (which typically ranges between one and two percent), then multiplying the product by the employee's final average salary (FAS) over a certain period. The table shows (1) the percentage of salary that employees must contribute to the pension system, (2) the number of an employee's highest paid years used to determine the employee's FAS, and (3) the annual pension a recently hired employee could expect to receive under their current plan's rules. To estimate the annual pension we assumed an employee who retired at age 65 with 25 years of service, and who was paid $80,000, $85,000, $90,000, $90,000 and $90,000 in his or her five highest paid years. The estimated annual pension provides a simplified example and does not necessarily include all factors that may affect pensions (e.g., inflation adjustments, post-retirement cost of living adjustments, or various payment plan options). Employees in hybrid plans, such as those in Rhode Island or Connecticut's Tier IV, also contribute to a defined contribution (DC, e.g., 401K) plan and receive additional benefits based on how the investments in their DC plan perform over their working careers.

Table 1: Comparison of Pensions for Newly Hired State Employees in Northeastern States

State	*Employee Contribution*	*FAS Period (number of highest paid years)*	*Formula Multiplier*	*Estimated Annual Pension*
Connecticut[1]	6.5% (plus 1% to DC plan)	5	1.3%	$28,275 (plus DC plan benefits)
Maine	7.65%	3	2%	$45,000
Massachusetts[2]	9% (+2% of salary above $30,000)	5	2.2%	$47,850
New Hampshire	7.67%	5	1.52%	$33,060
New Jersey	7.5%	5	1.67%	$36,323
New York[3]	3 to 6%	5	2%	$43,500
Pennsylvania[4]	6.25%	3	2%	$45,000
Rhode Island[5]	3.75% (plus 5% to DC plan)	5	1%	$21,750 (plus DC plan benefits)
Vermont	5.1%	3	1.67%	$37,575

[1] CT's Tier IV employees' DB contributions may also be increased up to 2% more if the pension fund underperforms actuarial assumptions in the previous year. Employee contributions will increase 0.5% on 7/1/19.

[2] MA's 2.2% formula multiplier is limited to employees who are age 65; see: http://www.mass.gov/treasury/docs/retirement/retguide2016.pdf.

[3] NY's employee contribution rate increases for employees who earn more (the rate for a $90,000 salary would be 5.75%). The 2% formula multiplier is limited to employees with more than 20 years of service (see: https://www.osc.state.ny.us/retire/publications/vo1530/about_your_membership/rs_membership.php).

[4] PA's employees can opt to contribute 9.3% of their salary in return for a 2.5% formula multiplier.

[5] RI's employees must contribute an additional 5% to a DC plan. The formula multiplier for RI employees is 1% for service years after 7/1/2012 (see https://d10k7k7mywg42z.cloudfront.net/assets/4f2feb51dabe9d2cb600fa49/final_rirsaguide_january2012.pdf).

Table 2 below shows the estimated pension benefits for all tiers of Connecticut's SERS using the same retirement assumptions (i.e., retirement at age 65 with 25 years of service and five highest paid years of $80,000, $85,000, $90,000, $90,000 and $90,000). For tiers I, II, IIA, and III, we assumed an $82,500 breakpoint (the amount for 2017).

Table 2: Comparison of Pension Benefits for CT SERS Tiers

SERS Tier	*Employee Contribution**	*FAS Period*	*Formula Multiplier***	*Estimated Annual Pension*
Tier I (hired before 7/1/84)	3.5%	3	2%	$45,000
Tier II (hired 7/1/84 – 6/30/97)	1.5%	3	1.4% up to breakpoint + 1.83% above breakpoint	$32,306
Tier IIA (hired 7/1/97 – 6/30/11)	3.5%	3	1.4% up to breakpoint + 1.83% above breakpoint	$32,306
Tier III (hired 7/1/11 – 6/30/17)	3.5%	5	1.4% up to breakpoint + 1.83% above breakpoint	$30,934
Tier IV (hired on or after 7/1/17)	6.5% (plus 1% to DC plan)	5	1.3%	$28,275 (plus DC plan benefits)

*Employee contributions for all tiers will increase 0.5% on 7/1/19. Tier IV DB contributions may also be increased up to 2% more if the pension fund underperforms actuarial assumptions in the previous year.

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