The Widening Gap Update

RHODE ISLAND

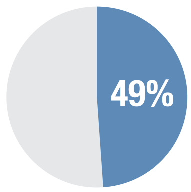
Although Rhode Island consistently paid its full annual pension contribution from 2005 to 2010, the system was 49 percent funded in fiscal 2010 and faced a $7 billion funding gap. Most experts agree that a fiscally sustainable system should be at least 80 percent funded. The state also had a $775 million bill for retiree health care costs, none of which was funded, well below the 8 percent national average in 2010.

Rhode Island in 2011 addressed its pension funding challenge with an unprecedented package of reforms that is estimated to reduce the state's unfunded liability by $3 billion. It became the first state to change core benefits for current workers. Lawmakers put all workers in a hybrid plan that combines elements of defined benefit and defined contribution plans. They also limited annual cost-of-living increases, reduced the vesting period from 10 years to 5 years, changed the formula used to calculate benefits, and raised the retirement age from 62 to 67.

TOTAL BILL COMING DUE

Rhode Island's retirement plans had a liability of $14.2 billion and the state has fallen $8 billion short in setting aside money to pay for it.

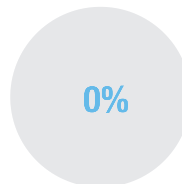
Pensions



$13.4B
Total Liability

Percent Funded

Retiree Health Care



$0.8B
Total Liability

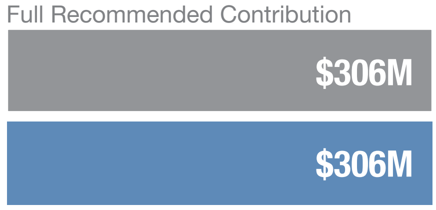
Percent Funded

ANNUAL RECOMMENDED CONTRIBUTION

In 2010, Rhode Island paid 100 percent of the recommended contribution to its pension plans and just 69 percent of what the state should have paid to fund retiree health benefits.

Pensions

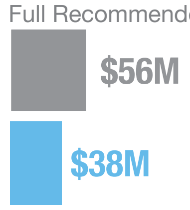
Full Recommended Contribution



Actual

Retiree Health Care

Full Recommended Contribution



Actual

HOW DID THIS STATE FARE?

Rhode Island's management of its long-term liabilities for pensions and retiree health care was cause for **serious concern**.

Pensions **Retiree Health Care**

solid performer | needs improvement | serious concerns

The grades for pensions and retiree health benefits assess how well the states have managed these liabilities. The pension grade is based on being above 80 percent funded (2 points), having an unfunded liability that is less than the payroll for active members (1 point), and paying at least 90 percent of the recommended pension contribution over the last five years (1 point). Plans that got all four points were solid performers, plans with two or three needed improvement, and plans with one or no points were cause for serious concern. Grades for retiree health benefits were based on whether the state's benefits had a funding level above the national average (1 point), whether 90 percent of the recommended contribution was made in the most recent year (1 point), and whether the state's plans were better funded based on the most recent data than they were in the prior year (1 point). States with two or three points were solid performers, those with just one point needed improvement, and states with no points were cause for serious concern. This fact sheet stems from a 50-state analysis of states' retiree benefit obligations by the Pew Center on the States. The full report and 50 state fact sheets can be found at **www.pewstates.org**.