NATIONAL CONFERENCE of STATE LEGISLATURES

The Forum for America's Ideas

State Retirement Reform Legislation 2009–2013

Presentation to the Pennsylvania Senate Finance Committee

May 29, 2013

Luke Martel
Senior Policy Specialist
Fiscal Affairs Program

Overview

- 3,418 governmental retirement systems.
- State-administered plans represent only 6% of the systems, but represent 88% of active members and 83% of assets.
- 30% of the state & local workforce – roughly 6 million workers – are not covered by Social Security.
  - Majority of public safety employees are not covered by Social Security.
- Vast majority are traditional defined benefit plan designs.

Overview Cont'd

- Pension related legislation is being considered in at least 53 different states, territories or DC.
- NCSL's Pension Legislation Database has 1,265 bills for the 2013 session.
- 144 bills have been enacted in 2013 in 30 different states.

Overview Cont'd

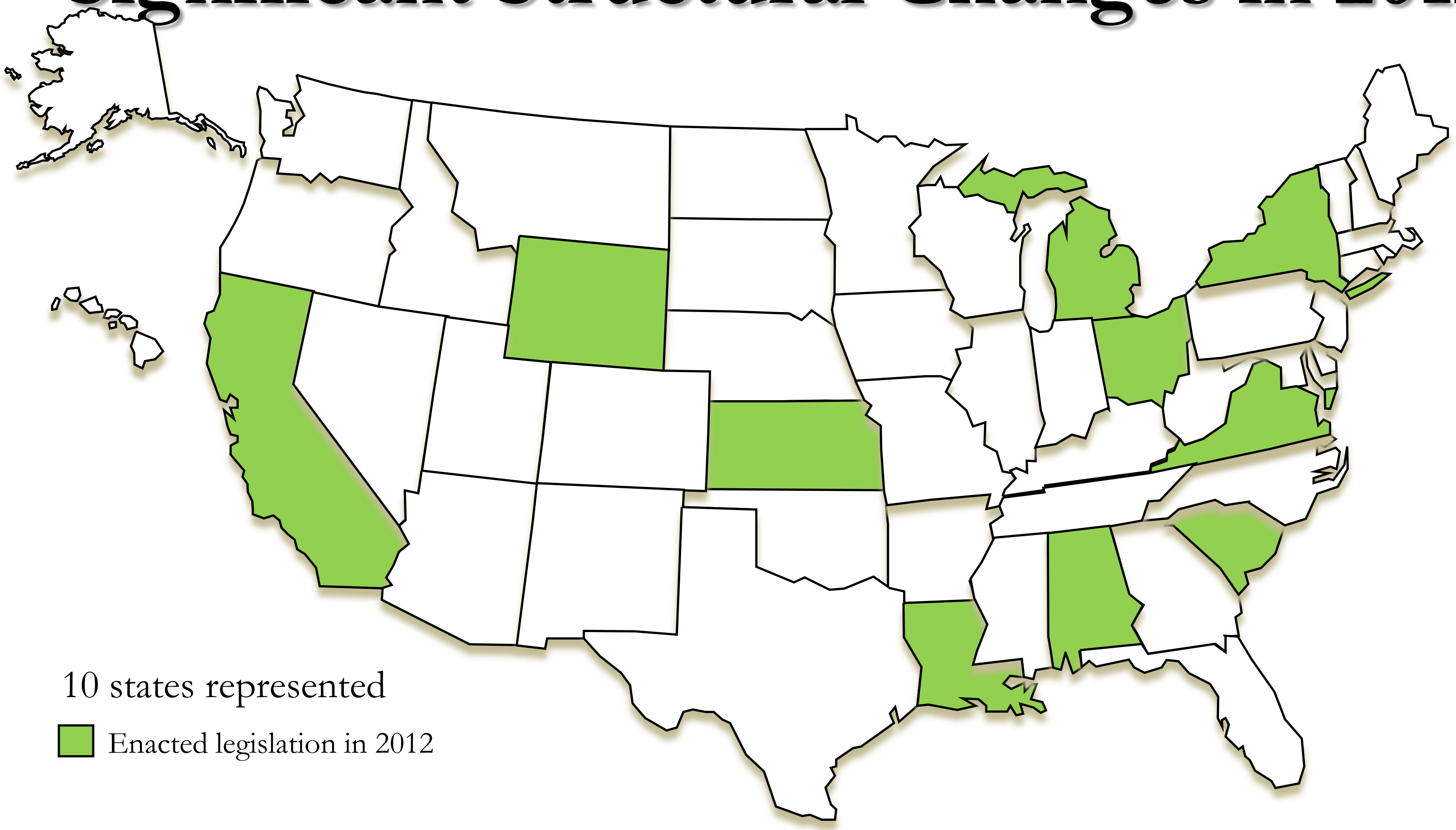
This report is concerned with state legislation changing state retirement plans for general employees and teachers, which 45 states revised 2009 to 2013 – some of them more than once:

- In 2009, 10 states.
- In 2010, 21 states.
- In 2011, 32 states.
- In 2012, 10 states.
- In 2013, 5 states and Puerto Rico, so far.

Major Pensions Legislation 2009–2013: All Topics

48 States Represented

Significant Structural Changes in 2012



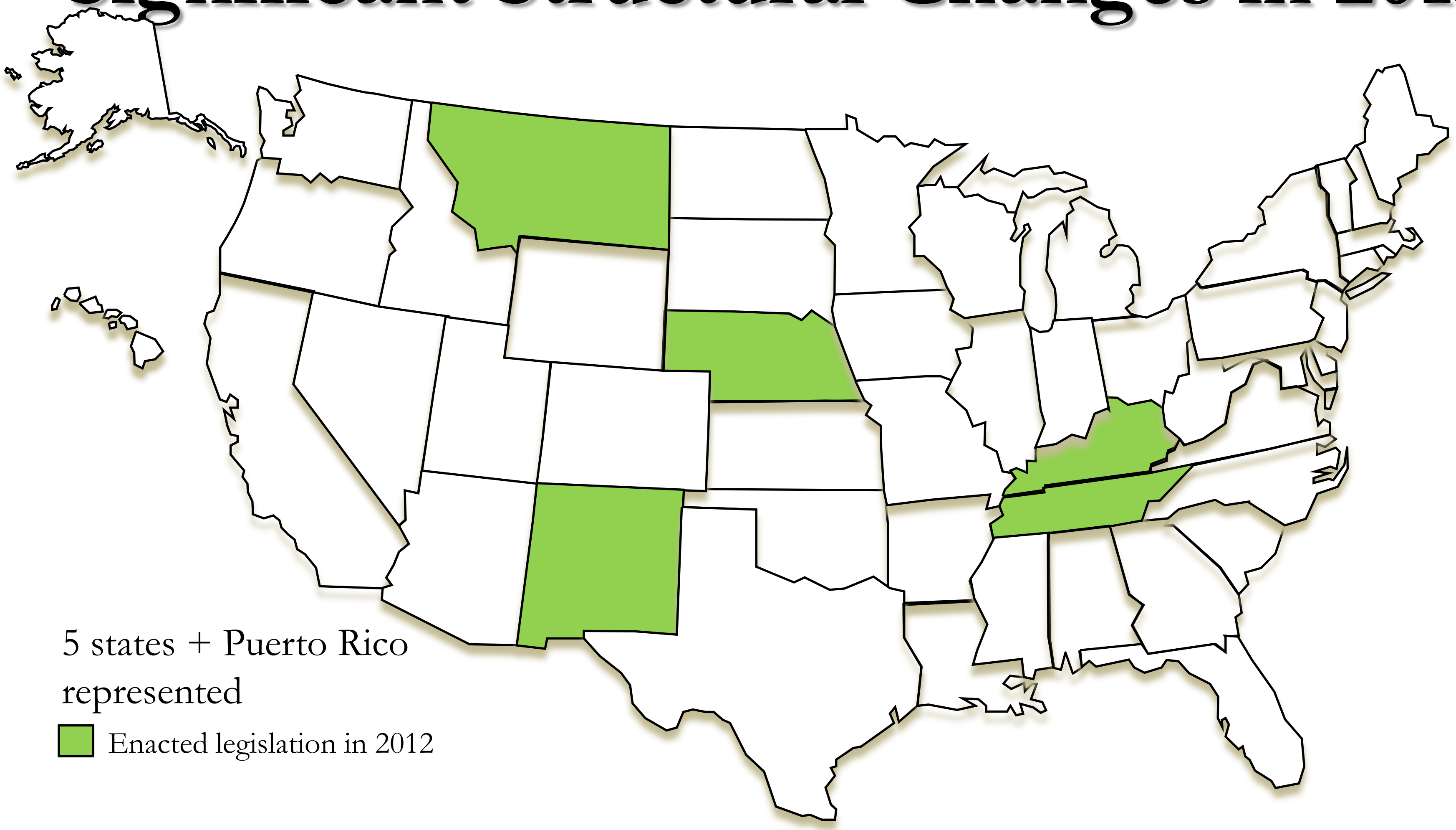
10 states represented

Enacted legislation in 2012

National Conference of State Legislatures

The Forum for America's Ideas

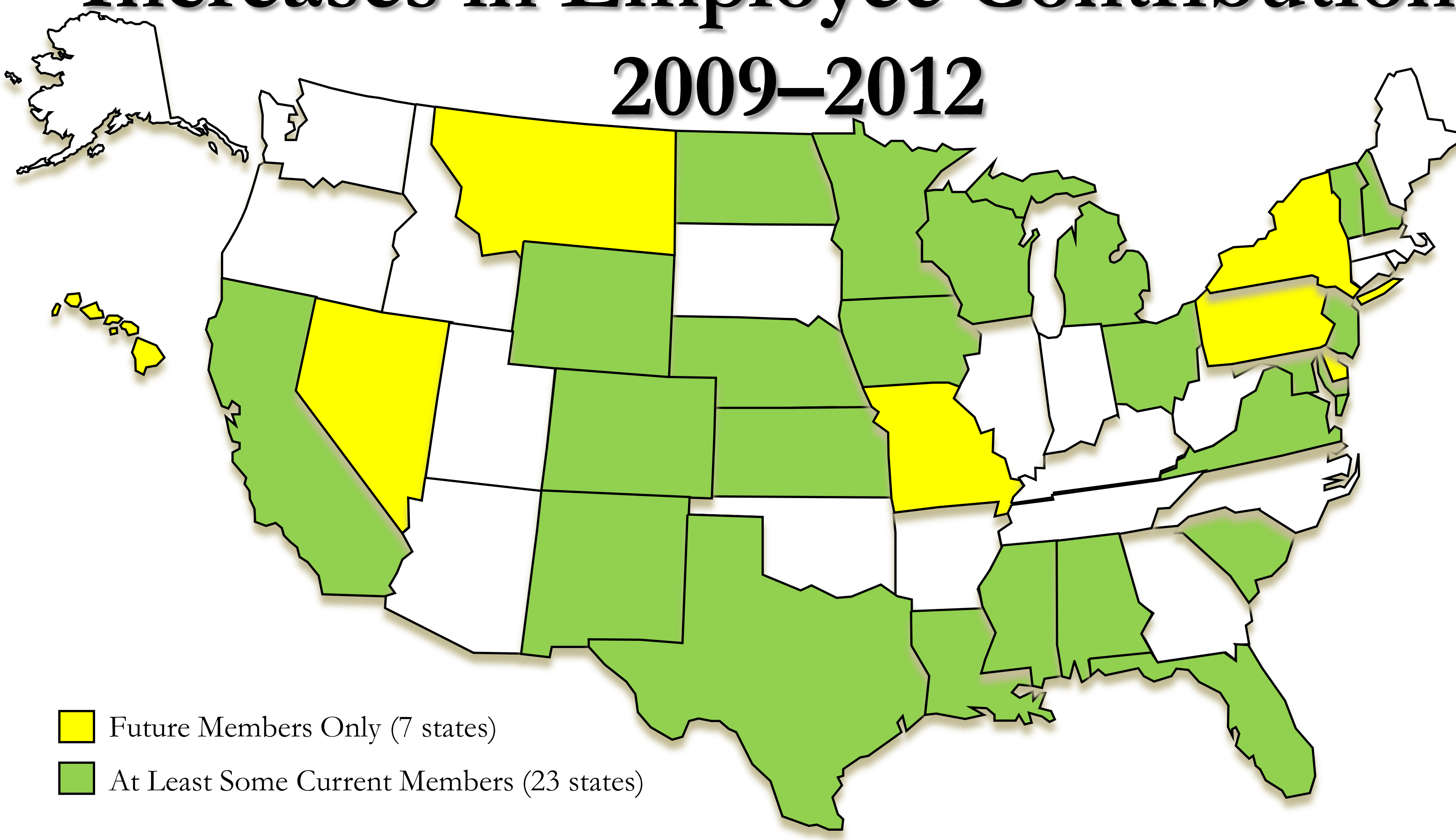
Significant Structural Changes in 2013



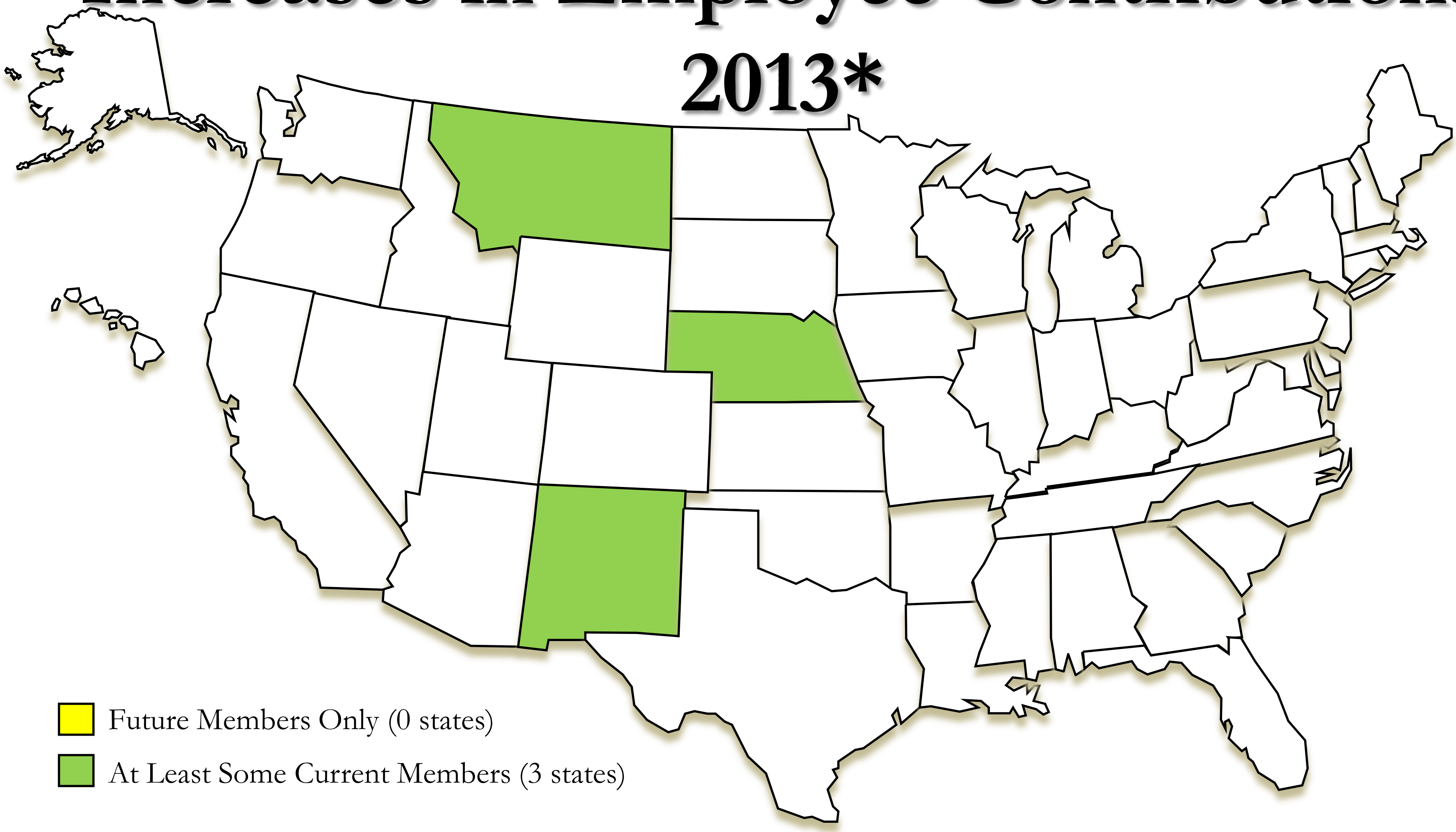
5 states + Puerto Rico represented

Enacted legislation in 2012

Increases in Employee Contributions 2009–2012



Increases in Employee Contributions 2013*



*As tracked so far.

Changes in Employee Contributions in 2012

Kansas – Tier 1

Employees hired *before* July 1, 2009

Employee Contribution	Raises from 4% to 5%	**OR**	Remains at 4%
Multiplier	Remains at 1.85%		Reduces to 1.4% for future service

Kansas–Tier 2

Employees hired *after* July 1, 2009

Employee Contribution	Remains at 6%
Multiplier	Gains an increase from 1.75% to 1.85%
COLA	Loses annual COLA provided in 2007 legislation.

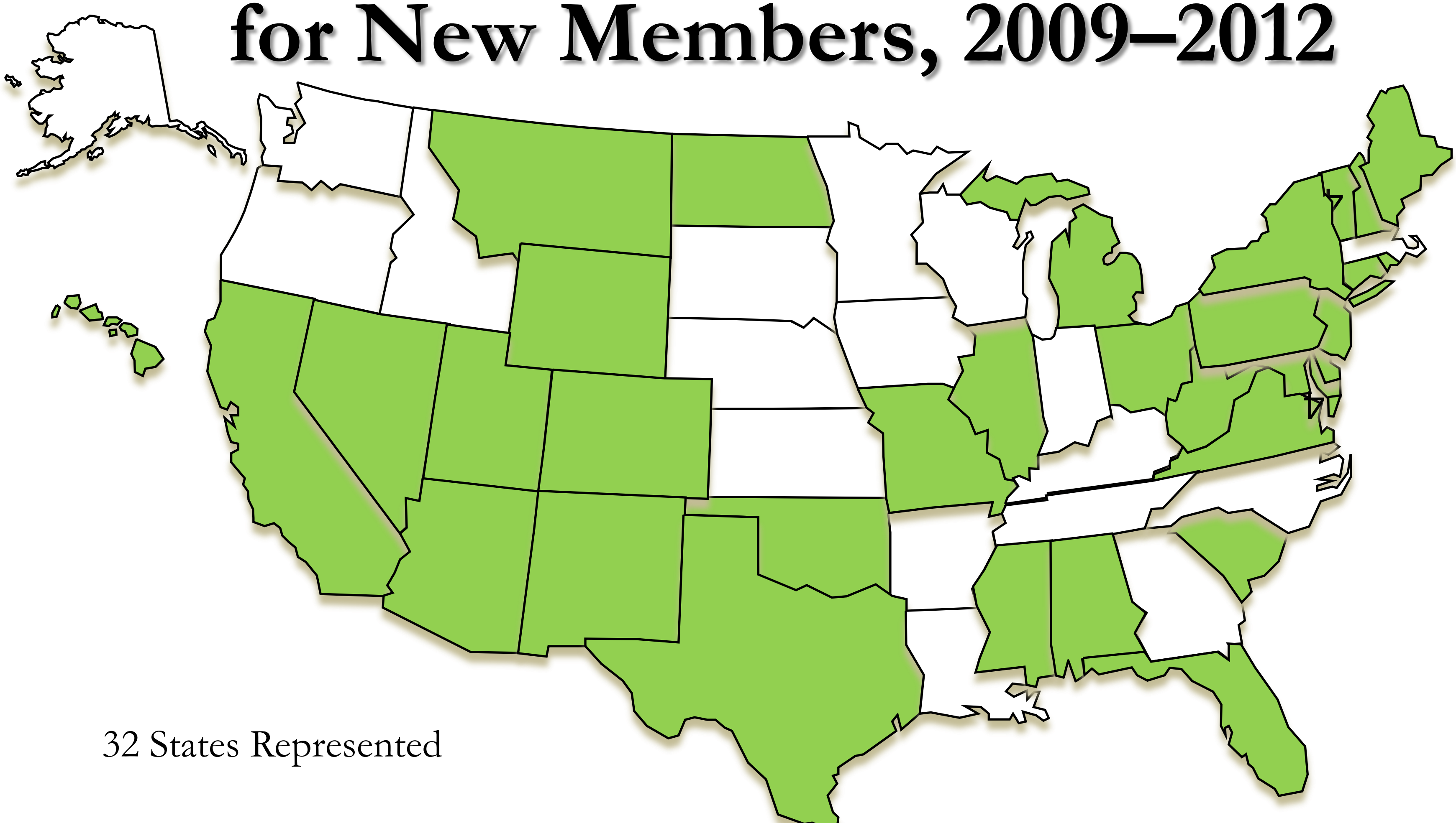
Changes in Employee Contributions in 2012

New York – Tier VI
New Tier Scales Employee Contributions to Salary

Applicability	Most state & local government employees & teachers, including NYC plans.
$45k or less	3%
$45k – $55k	3.5%
$55k – $75k	4.5%
$75k – $100k	5.75%
$100k – $179k	6%
No contribution on earnings in excess of the governor's salary, currently $179k.	

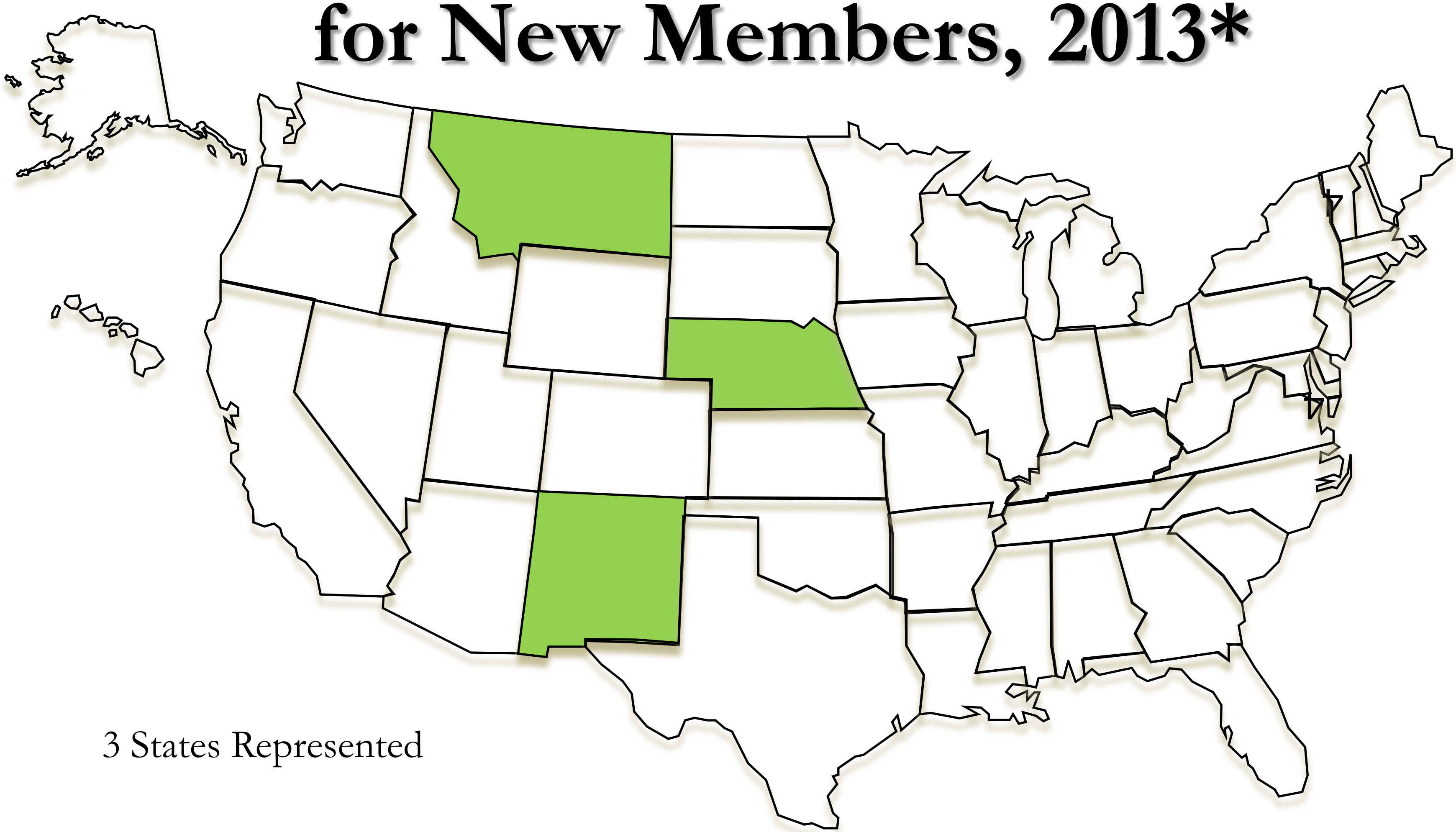
Current employee contributions are 3% for general employees; 3.5% for teachers.

Higher Age and Service Requirements for New Members, 2009–2012



32 States Represented

Higher Age and Service Requirements for New Members, 2013*



3 States Represented

*As tracked so far.

Higher Age and Service Requirements for New Members in 2012

Alabama–Tier 1

Employees hired *before* January 1, 2013

Normal Retirement	After 25 years or at age 60.
Benefits Base	Highest 3 years out of last 10.
Multiplier	2.0125%

Alabama–Tier 2

Employees hired *after* January 1, 2013

Normal Retirement	At age 62 (no more 25 years & out)
Benefits Base	Highest 5 years out of last 10.
Multiplier	1.65%

Higher Age and Service Requirements for New Members in 2012

Wyoming–Tier 1

Employees hired *before* September 1, 2012

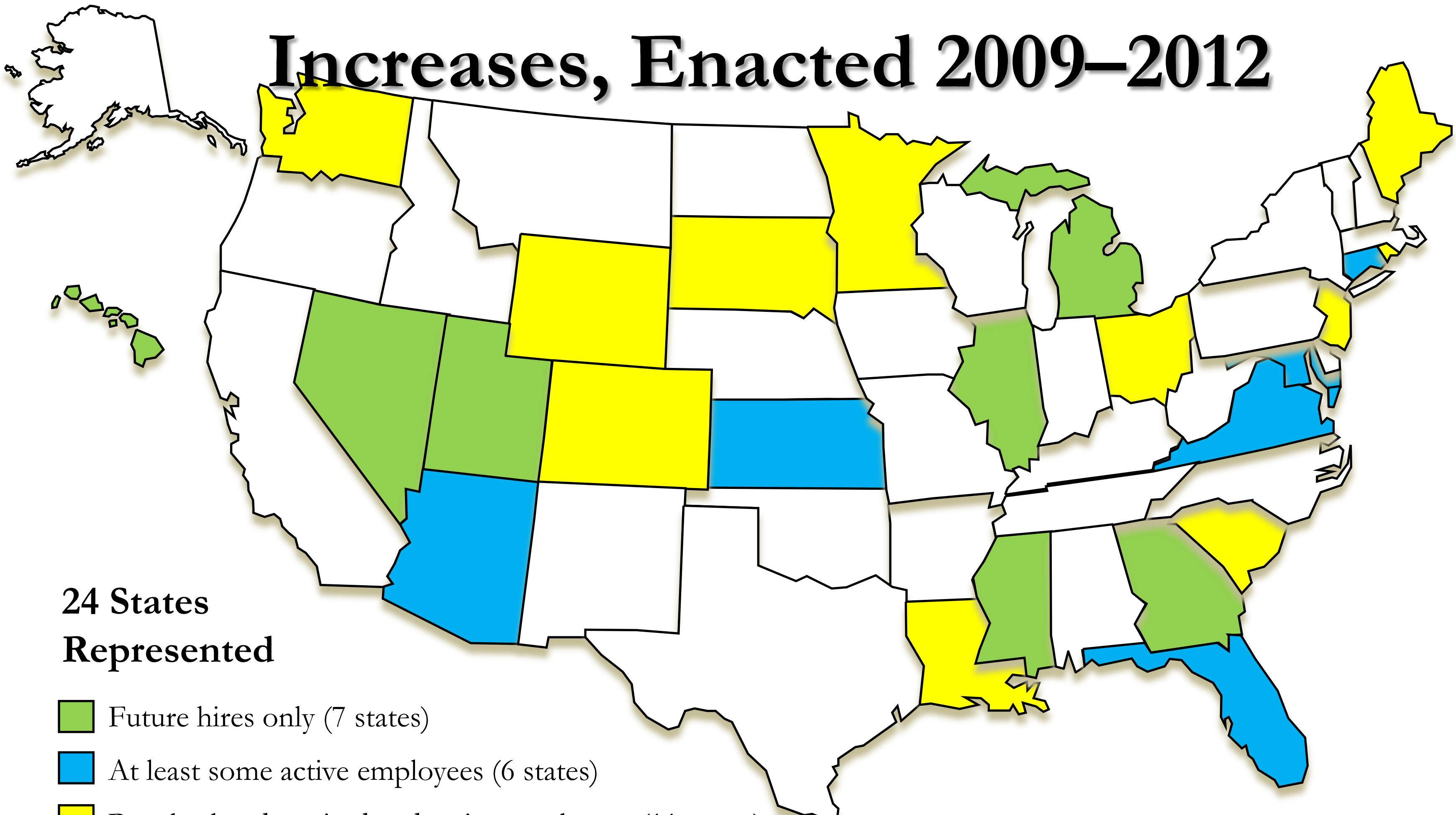
Normal Retirement	At age 60 or "Rule of 85."
Benefits Base	Highest 3 years.
Multiplier	2.125% for first 15 YOS and 2.25% for additional YOS.

Wyoming–Tier 2

New hires & certain returning employees *after* September 1, 2012

Normal Retirement	At age 65 or "Rule of 85."
Benefits Base	Highest 5 years.
Multiplier	2% for all service.

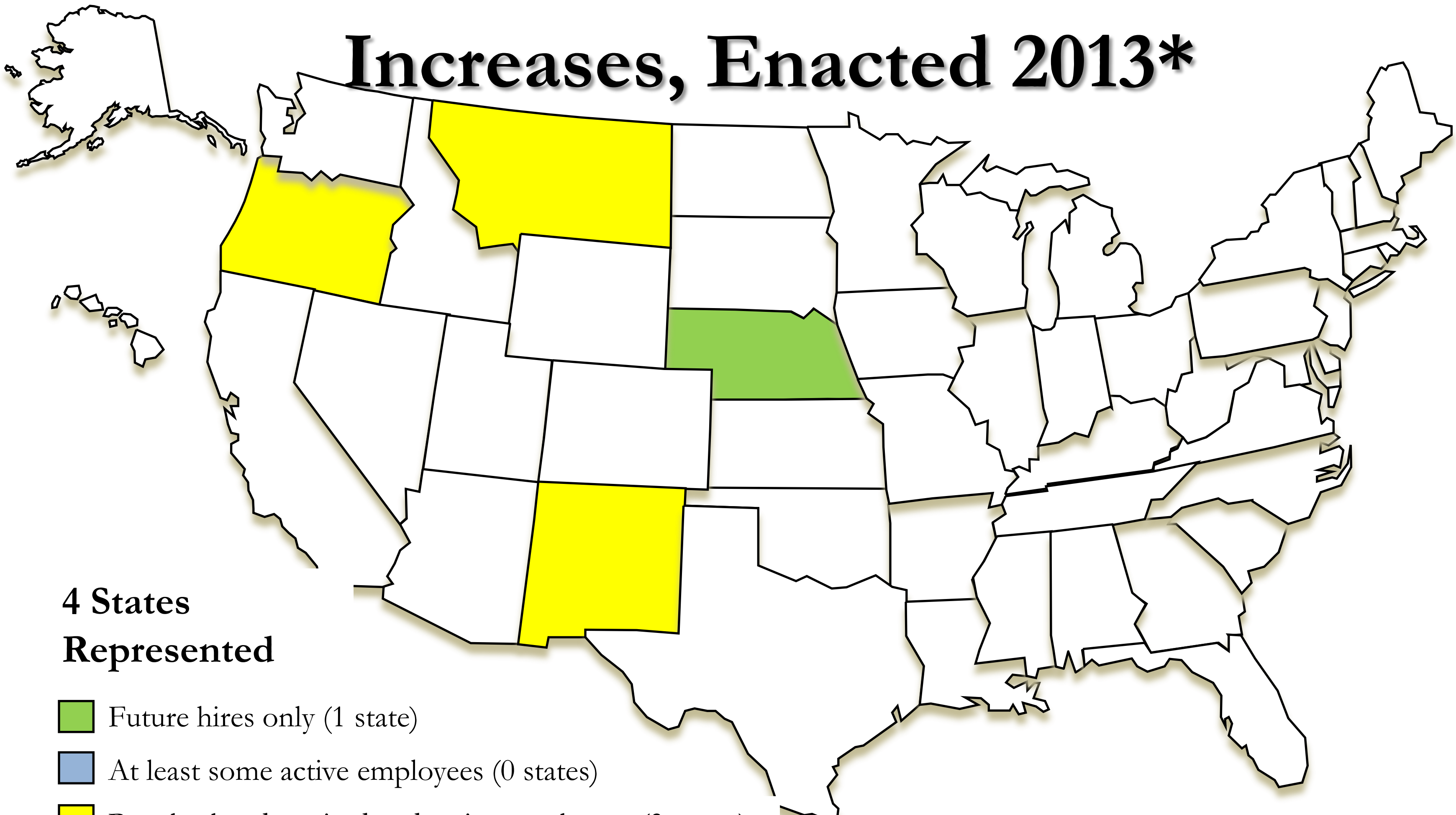
Reductions in Post-Retirement Benefit Increases, Enacted 2009–2012



24 States Represented

- Future hires only (7 states)
- At least some active employees (6 states)
- People already retired and active employees (11 states)

Reductions in Post-Retirement Benefit Increases, Enacted 2013*



4 States Represented

- Future hires only (1 state)
- At least some active employees (0 states)
- People already retired and active employees (3 states)

*As tracked so far.

Reductions in Post-Retirement Benefit Increases – Enacted in 2012

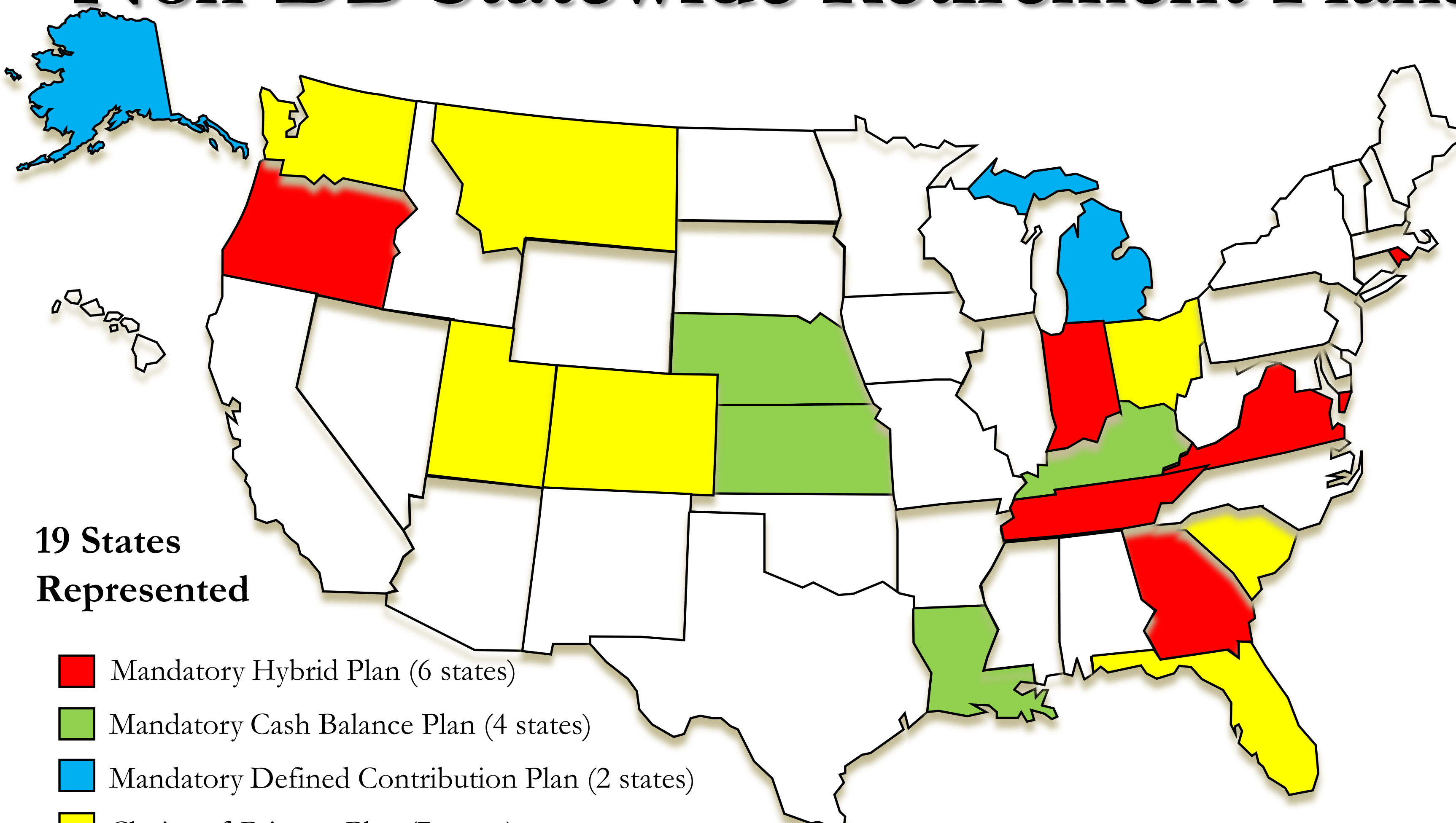
- **Kansas: repealed cost-of-living increases entirely except for people who retire by December 31, 2013.**

- **South Carolina: capped future cost-of-living increases at $500 per year.**

- **Virginia: Lowered cap on future cost-of-living increases for new and non-vested employees from 5% to 3%.**

- **Wyoming: Effectively prohibited future cost-of-living increases.**

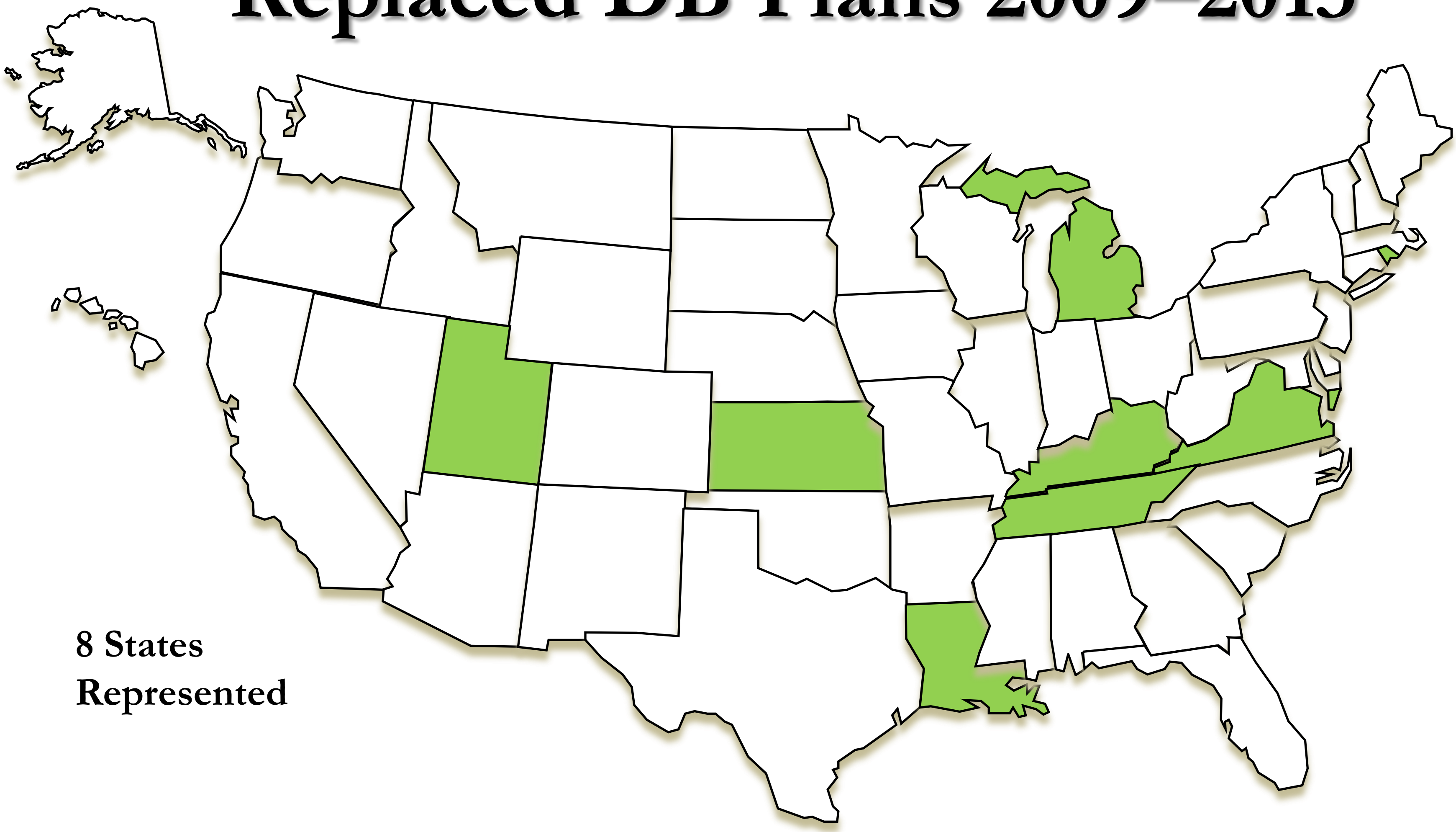
Non-DB Statewide Retirement Plans



19 States Represented

- Mandatory Hybrid Plan (6 states)
- Mandatory Cash Balance Plan (4 states)
- Mandatory Defined Contribution Plan (2 states)
- Choice of Primary Plan (7 states)

Replaced DB Plans 2009–2013



8 States Represented

Some States Have Replaced DB Plans

- In 2010, Utah closed its DB plan for all state and local employees. As of July 1, 2011, Utah offers new employees the choice of a defined contribution plan or a hybrid plan that includes a DB plan and a mandatory 401(k).

- As of July 1, 2010, Michigan replaced its School Employees DB plan with a hybrid plan.

- Rhode Island transferred all members of the state DB plans (except judges and public safety) to a hybrid plan in 2012.

Defined Contribution (DC) Plans

- Function like savings accounts.
- Funds are more portable.
- Stabilizes states' costs for new hires.
- Risks and responsibilities shifted to employee:
  - Risk of losing funds with investment fluctuations.
  - No guaranteed rate of return.
  - Employee must (usually) choose:
    - Employee contribution amount (risk of saving too little);
    - Among investment options.
- Administrative & investment costs are generally higher than with DB plans.

Sources: http://crr.bc.edu/wp-content/uploads/2011/04/slp_16-508.pdf
http://www.nirsonline.org/storage/nirs/documents/Bang%20for%20the%20Buck%20Report.pdf

Virginia Hybrid Plan (2012)

- Virginia will close DB plans and replace them with a hybrid plan with DB and DC components in January 2014. New members only.
  - The total employee contribution stays at 5%, split between the DB (4%) and DC (1%) components. Employees can contribute more to the DC plan if they wish, and will get a higher employer match if they do so. Employer match can be as high as 5%.
  - Multiplier for DB component is 1% (in the old DB plan, 1.7%).
  - Applicable to almost all state and local government members.

Rhode Island Hybrid Plan
(2011)

- Rhode Island closed the defined benefit plans and moved all but public safety employees and judiciary members to a hybrid pension plan.
  - For most members, contributions are unchanged, although the allocation of the contributions changed.
  - Suspended COLA until system 80% funded but provides an intermittent COLA every five years.
  - Increased minimum retirement age for most employees not already eligible to retire.

Rhode Island Hybrid Plan
(2011)

Applicability	Current and Future State Employees, Teachers, Municipal Employees.
Social Security Coverage	Mixed
Employee Contribution	State Employees & Teacher w/Soc. Sec.: 8.75% (DB: 3.75%, DC: 5%) Teacher w/o Soc. Sec.: 10.75% (DB: 3.75%, DC: 7%)
Employer Contribution	State Employees & Teacher w/Soc. Sec.: 1% to DC Teacher w/o Soc. Sec.: 2% to DC
Vesting	5 Years for DB Benefits 3 Years for Employer DC Contributions

Michigan Defined Contribution Plan (1996)

Applicability	State Employees, Judges
Social Security Coverage	Yes
Employee Contribution	Contribution is voluntary, up to 12% (may be pre-tax and/or Roth after-tax basis)
Employer Contribution	4% base + dollar-for-dollar match of employee contribution up to an additional 3%
Vesting	After 2 Years: 50% After 3 Years: 75% After 4 Years: 100%

Sources: http://www.state.mi.us/migov/gov/Archives/retirementprop.html
http://treasury.tn.gov/tcrs/PDFs/PFMFinalReportonStateandTeacher.pdf

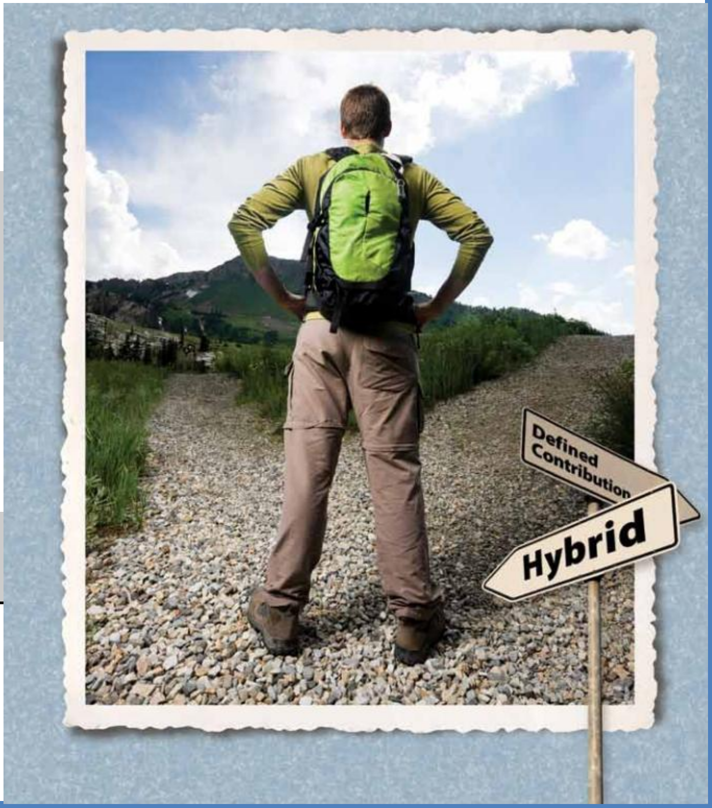
Alaska Defined Contribution Plan (2005)

Applicability	State Employees, Teachers
Social Security Coverage	No
Employee Contribution	8% Mandatory
Employer Contribution	5%
Vesting	After 2 Years: 25% After 3 Years: 50% After 4 Years: 75% After 5 Years: 100%

Sources: http://www.fascore.com/PDF/alaska/plan_highlights_98214-04.pdf
http://treasury.tn.gov/tcrs/PDFs/PFMFinalReportonStateandTeacher.pdf

Utah Defined Contribution Plan (2010)

Applicability	State Employees, Teachers, Law Enforcement
Social Security Coverage	Yes
Employee Contribution	Voluntary
Employer Contribution	10% 12% for public safety employees
Vesting	4 years



Sources: https://www.urs.org/pdf/Miscellaneous/tier2Compare.pdf
http://treasury.tn.gov/tcrs/PDFs/PFMFinalReportonStateandTeacher.pdf

Cash Balance Plans

- Kentucky adopted in 2013.
- Kansas and Louisiana adopted in 2012.
- Very rare in the public sector.
- A cash balance plan:
  - Provides each member with an individual account.
  - Employees and employers contribute to the account.
  - The member cannot choose how the money is invested.
  - Members' accounts are managed in one trust fund, and members are guaranteed a return on investment.
  - If investment return makes it possible, member accounts can receive additional returns.
  - In public plans, upon retirement, the member receives an annuity based on the account balance.

Kansas Cash Balance Plan (2012)

Applicability	State Employees, Teachers, County Employees, Some City Employees
Social Security Coverage	Yes
Employee Contribution	6% Mandatory
Employer Contribution	3%-6%, depending on YOS 4% at 5 Years 5% at 12 Years 6% at 24 Years
Vesting	After 5 Years
Guaranteed Interest Credit	5.25% Annually, possibility of additional dividends if investment experience warrants.

Louisiana Cash Balance Plan (2012)

Applicability	State Employees (non-hazardous positions), Higher Education Employees
Social Security Coverage	No
Employee Contribution	8% Mandatory
Employer Contribution	4%
Vesting	After 5 Years
Guaranteed Interest Credit	1% below actuarial rate of return for system, not to fall below zero. Possibility of additional dividends if investment experience warrants.

Louisiana Cash Balance Plan (2012)

- Louisiana cash balance plan
  - Vested members who leave covered employment may at any time
    - Withdraw full account balance
    - Transfer it to another qualified retirement plan or IRA
    - Leave it with the system and annuitize it at age 60 or withdraw full account balance
  - At normal retirement (60/5) balances may be annuitized or members may choose a partial withdrawal and a reduced annuity.
  - Provisions for survivors' benefits and disability benefits are based upon account balances.

Sources and Contact

- Visit www.ncsl.org/pensions for retirement reports, legislative summaries, webinars and presentation materials prepared by NCSL.

- Luke Martel
luke.martel@ncsl.org
303-856-1470