## ***SUMMARY***

BILL NUMBER: Senate Bill 1
SPONSOR: Corman

**SYNOPSIS**:

Senate Bill 1 would amend Titles 71 and 24 of the Consolidated Statutes to make reforms to the state and school employee retirement codes.

**SUMMARY**: The bill would make the following changes:

### I. CURRENT PRE-ACT 120 EMPLOYEES:

The following proposed changes for current employees (pre-Act 120 employees) are to be applied prospectively:

- SERS: January 1, 2016
- PSERS: July 1, 2016

***Benefit Protection Provisions: Prospectively:***
For all future earnings, contributions will be increased by 3% for PSERS and 2.5% for SERS to maintain Act 9 benefit levels. If the employee chooses not to increase their contributions to this level, the employee's prospective benefit rolls back to pre-Act 9 levels (2.0 multiplier and contribution level of 6.25% for PSERS and 2.0 multiplier and contribution level of 5.0% for SERS.)

***Current Pre-Act 120 PSERS employees:***
To maintain their Act 9 benefit, the employee contribution rate for PSERS members will increase to 10.5% to maintain the 2.5 multiplier (current Act 9 benefit is 2.5 multiplier and 7.5% employee contribution rate).
OR, the PSERS employee can elect to default back to the pre-Act 9 multiplier of 2.0 and employee contribution rate of 6.25%. If the employee elects back to the pre-Act 9 level, there will be two calculations used for their retirement: pre-SB 1 earnings will be calculated at a 2.5 multiplier, and post-SB 1 earnings will be calculated at a 2.0 multiplier.
If an employee is out of the system on the effective date of this legislation and returns to the system after a break in service, they will default to the class with a contribution rate of 10.5% and a multiplier of 2.5. They will not have an option to default back to the Pre-Act 9 levels when they return to service.

***Current Pre-Act 120 SERS employees:***
To maintain their Act 9 benefit, the employee contribution rate for SERS members will increase to 8.75% to maintain the multiplier of 2.5 (current Act 9 benefit is a 2.5 multiplier and 6.25% employee contribution rate.)
OR, the SERS employee can elect to default back to the pre-Act 9 multiplier of 2.0 and contribution rate of 5.0% (current Act 9 benefit is a 2.5 multiplier and 6.25% employee contribution rate.) If the employee elects back to the pre-Act 9 level, there will be two calculations used for their retirement:

pre-SB 1 earnings will be calculated at a 2.5 multiplier and post-SB 1 earnings will be calculated at a 2.0 multiplier.
If an employee is out of the system on the effective date of this legislation and returns to the system after a break in service, they will default to the class with a contribution rate of 8.75% and a multiplier of 2.5. They will not have an option to default back to the Pre-Act 9 levels when they return to service.

***Current Pre-Act 120 SERS Members of the Legislature:***
Currently, there are 3 active plans for members of the Legislature who are members of SERS:

- 2.0 Multiplier and 5.0% contribution
- 2.5 Multiplier and 6.25% contribution
- 3.0 Multiplier and 7.5% contribution

All members of the General Assembly who are currently at a 2.5% multiplier will have their employee contribution rate increase for 8.75% to maintain their 2.5% multiplier, OR, they can opt down to a 2.0 multiplier and 5.0% contribution rate (same as for all other SERS employees).
For those members of the General Assembly who are currently at a 3.0 multiplier and a 7.5% contribution rate, their employee contribution rate would increase to 10% to maintain their 3.0 multiplier, OR, they can opt down to a 2.0 multiplier and a 5.0 contribution rate (same for all other SERs employees). Those members who are currently at a 2.0 multiplier and 5.0% contribution rate will not be changed by SB 1.

Upon re-election, members of the Legislature will be placed in the defined contribution (DC) plan for new employees.

***Revenue-Neutral Option 4: Prospectively:***
This section provides an actuarially neutral Option 4 for all future contributions beginning January 1, 2016 for SERS employees and July 1, 2016 for PSERS employees.
All future member contributions will be accessible upon retirement at an actuarially neutral rate.
For an employee who chooses to make an Option 4 withdrawal, there will be 2 calculations: pre-SB 1 contributions will be calculated at a 4% reduction and post-SB 1 contributions will be calculated at a neutral reduction.

***Contribution savings provision: Prospectively:***
Every three years, the system will calculate the difference between actual and assumed returns.
For every percentage that the systems realized a return in excess of assumed returns during the calculation period, an employee's contribution (for those who chose the increased contribution option) will be reduced by ½ percentage point for the following three years.
Those employees who did not choose the increased contribution level will not be eligible to have their employee contribution rate reduced.

***Optional retirement security plan: Prospectively:***

- Employees will be eligible to contribute up to 3% of payroll into an optional cash balance plan.
- Employer will not match these contributions.
- Contributions will be comingled with the assets of both systems.
- Employee will earn interest credits on their contributions at the long term treasury rate capped at 4%.
- Upon retirement, employee is eligible to receive their contribution and interest credits in a lump sum or a life time annuity.

- Employee is also eligible to withdraw balance in their account upon separation from service which they are permitted to roll over into another qualified plan (i.e. IRA)

***Anti-Spiking Provisions:  Prospectively:***

Compensation for extra duty service included in each of the three highest years cannot exceed the average for the last five years of service.

## II. CURRENT POST-ACT 120 EMPLOYEES:

The following changes for current post-Act 120 employees are to be applied prospectively:

- SERS: January 1, 2016
- PSERS:  July 1, 2016

***Optional retirement security plan:***

- Employees will be eligible to contribute up to 3% of payroll into an optional cash balance plan.
- Employer will not match these contributions.
- Contributions will be comingled with the assets of both systems.
- Employee will earn interest credits on their contributions at the long term treasury rate capped at 4%.
- Upon retirement, employee is eligible to receive their contribution and interest credits in a lump sum or a life time annuity.
- Employee is also eligible to withdraw balance in their account upon separation from service which they are permitted to roll over into another qualified plan (i.e. IRA)

***Shared Risk Provision:***

The current shared risk provision that was in Act 120 will be amended to allow contributions to be reduced below current statutory amounts per member class for plan average realized rates of return which exceed assumed rates of return during the three year calculation period.

Adjustments will be consistent with provisions relating to increases in contributions for underperformance against investment rate assumptions

***Anti-Spiking Provisions:***

Compensation for extra duty service included in each of the three highest years cannot exceed the average for the last five years of service.

***Retirement Benefit Cap:***

Covered compensation for retirement benefits cannot exceed the current maximum salary subject to taxes under the Social Security Act (2015 – 118,500).

Members whose compensation exceeds the cap are eligible to participate in the defined contribution plan with provisions consistent with members employed after the effective date of the act, including employer contributions.

## III. NEW EMPLOYEES (The following provisions would apply to all employees hired on or after January 1, 2016 for SERS and July 1, 2016 for PSERS):

***Defined Contribution plan for new employees:***

- Employer – contribution at amount which equals normal cost of post act 120 employee (cost neutral against Act 120). For State Police, the employer contribution rate is 12.2%.
- Employee – mandatory 3% contribution – optional contribution up to 6%
- Multiple investment options
- Lump sum and life time annuity options
- Vesting:
  25% vesting after first full year of service
  50% vesting after second full year of service
  75% vesting after third full year of service
  100% of vesting after fourth full year of service

***Mandatory Retirement Security Plan:***

- Employees will be required to contribute up to 3% of payroll into a cash balance plan.
- Employer will not match these contributions.
- Contributions will be comingled with the assets of both systems.
- Employee will earn interest credits on their contributions at the long term treasury rate capped at 4%.
- Upon retirement, employee is eligible to receive their contribution and interest credits in a lump sum or a life time annuity.
- Employee is also eligible to withdraw balance in their account upon separation from service which they are permitted to roll over into another qualified plan (i.e. IRA)

## IV. MEMBERS OF THE GENERAL ASSEMBLY:

***Mandatory Defined Contribution Plan:***

- All new members and existing members upon reelection (for prospective accruals) will be enrolled in the Defined Contribution Plan
- Defined Contribution plan provisions will be consistent with those applicable to state and school employees
- Membership in the defined benefit plan will be closed to new members and for future benefit accruals for existing members upon reelection.

## V. ADDITIONAL PROVISIONS:

***Public pension management and asset investment review commission:***

A commission of investment professionals and retirement advisors will be established to study, publish findings and make recommendations to the General Assembly and the Governor as to:

1) The performance of current investment strategies and procedures of both state retirement systems as to realized rates of return against established benchmarks and associated fees paid for active and passive management
2) The costs and benefits of active vs passive investment strategies in relation to future investment activities of both state retirement systems.
3) Alternative future investment strategies of both state retirement systems which will maximize future realized net of fees rates of returns with available assets

4) Extensive, detailed on-line publication of information about assets, returns, financial managers, all consultants, RFPs, and investment performance measured against benchmarks.
5) The commission will include 3 members appointed by the Speaker of the House, the President Pro Tempore of the Senate and the Governor.
6) The commission will submit its recommendations to the Governor and the General Assembly within 6 months of its first organizational meeting

***Funding Protection Mandate:***

Each member of PSERS and SERS, after the current employer compensation schedule meets the full actuarial amount, will have a contractual right to the annual required contribution made by the employer or by any other public entity. The contractual right to the annual required contribution means that the employer or other public entity must make the annual required contribution on a timely basis and that the previously accrued retirement benefits to which the members have earned by statute will be paid upon retirement.

The failure of the state or any other public employer to make the actuarially required contribution will be deemed to be an impairment of the contractual right of each employee. The Supreme Court will have jurisdiction over any action brought by a member of any system or fund or any board of trustees to enforce this contractual right. The state and other public employers will submit to the jurisdiction of the court and will not assert sovereign immunity in such an action. If a member or board prevails in such the court may award that party reasonable attorney's fees.

***Board Membership/Qualifications:***

Membership: Both PSERS and SERS Board complement will be amended to add the Secretary of Banking and Securities

Training: Each member of the PSERS and SERS Board will be required to obtain 8 hours of mandatory training in investment strategies, actuarial cost analysis and retirement portfolio management on an annual basis.

Chairmanship Qualifications: No member of the PSERS or SERS Board who represents active members or annuitants or is a current member of the General Assembly can serve as Chairman of each respective board.

***Independent Counsel:***

Legal Counsel to both PSERS and SERS will serve independently from both the Governor's Office of Chief Counsel, the General Assembly and the Attorney General.

**EFFECTIVE DATE:**

The Act would take immediately.