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# State Retirement Reform Legislation

Presentation to the

## Minnesota Legislative Commission on Pensions and Retirement

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# Overview

- **State-administered plans represent only 6% of 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.
- **Majority are traditional defined benefit plan designs.**



## Overview (Cont'd)

- Last year pension related legislation was considered in at least 52 different states, territories or DC.
- NCSL's Pension Legislation Database has 1,443 bills for 2013.
- 269 bills were enacted in 2013 in 44 different states.



# Overview (Cont'd)

This report is concerned with state legislation changing state retirement plans for general employees and teachers, which 48 states revised between 2009 and 2013 – some more than once:

- 2009 – 10 states
- 2010 – 21 states
- 2011 – 32 states
- 2012 – 10 states
- 2013 – 6 states and Puerto Rico

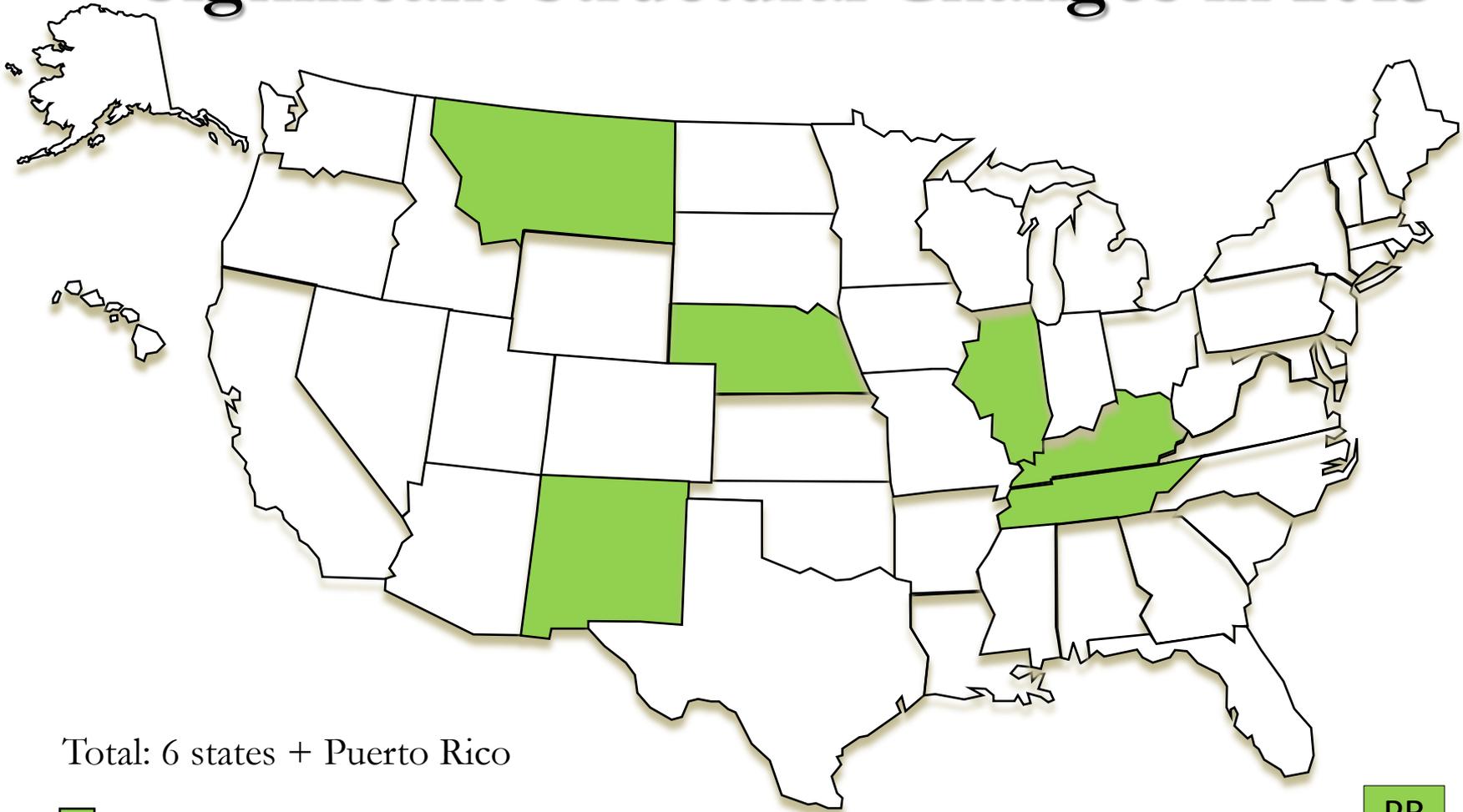


# Major Pensions Legislation 2009–2013: All Topics





# Significant Structural Changes in 2013



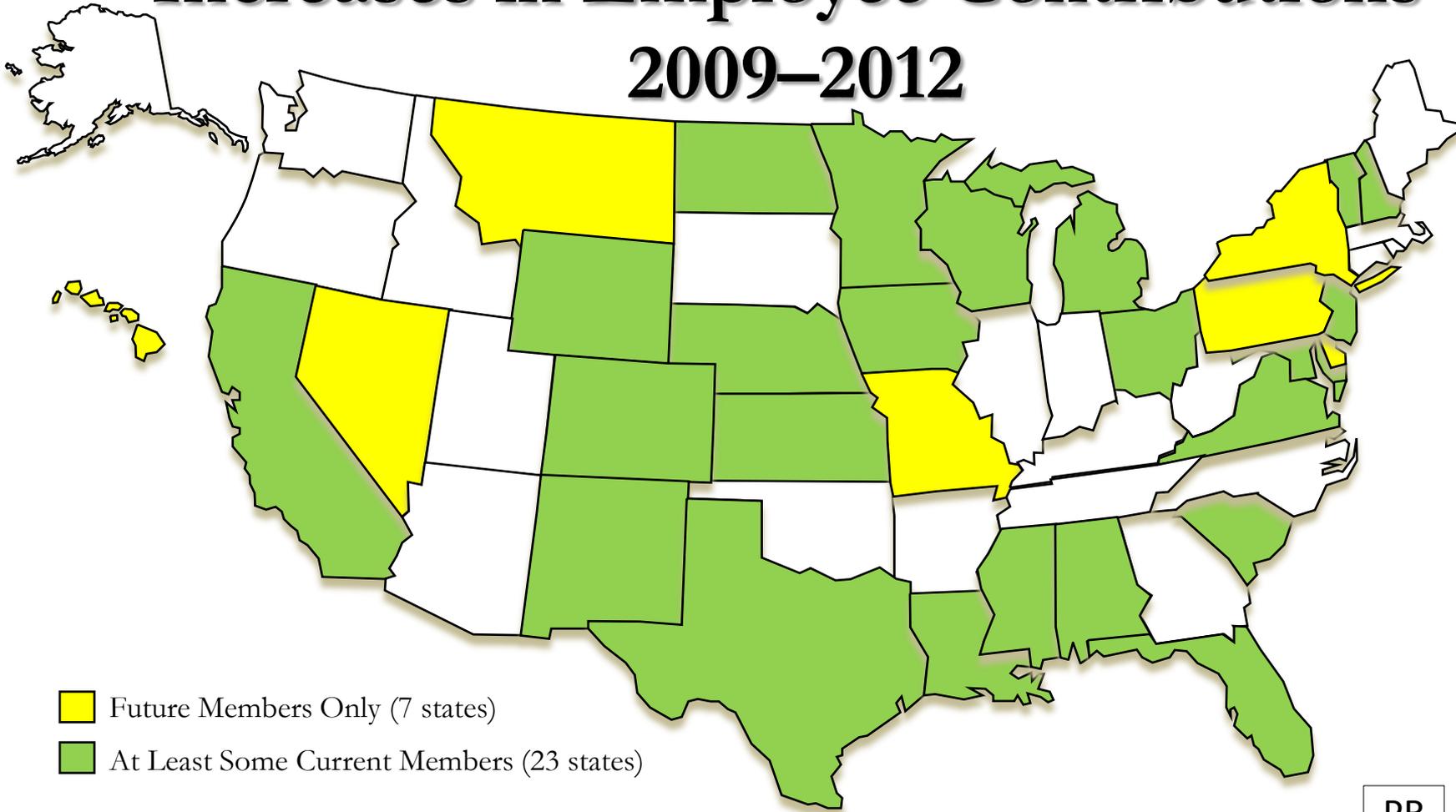
Total: 6 states + Puerto Rico

 Enacted legislation in 2013

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# Increases in Employee Contributions 2009–2012



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# Changes in Employee Contributions in 2012

## Kansas – Tier 1

Employees hired *before* July 1, 2009

<b>Employee Contribution</b>	Raises from 4% to 5%	<b>OR</b>	Remains at 4%
<b>Multiplier</b>	Remains at 1.85%		Reduces to 1.4% for future service

## Kansas–Tier 2

Employees hired *after* July 1, 2009

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



# Changes in Employee Contributions in 2012

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## New York – Tier VI

### New Tier Scales Employee Contributions to Salary

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**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%

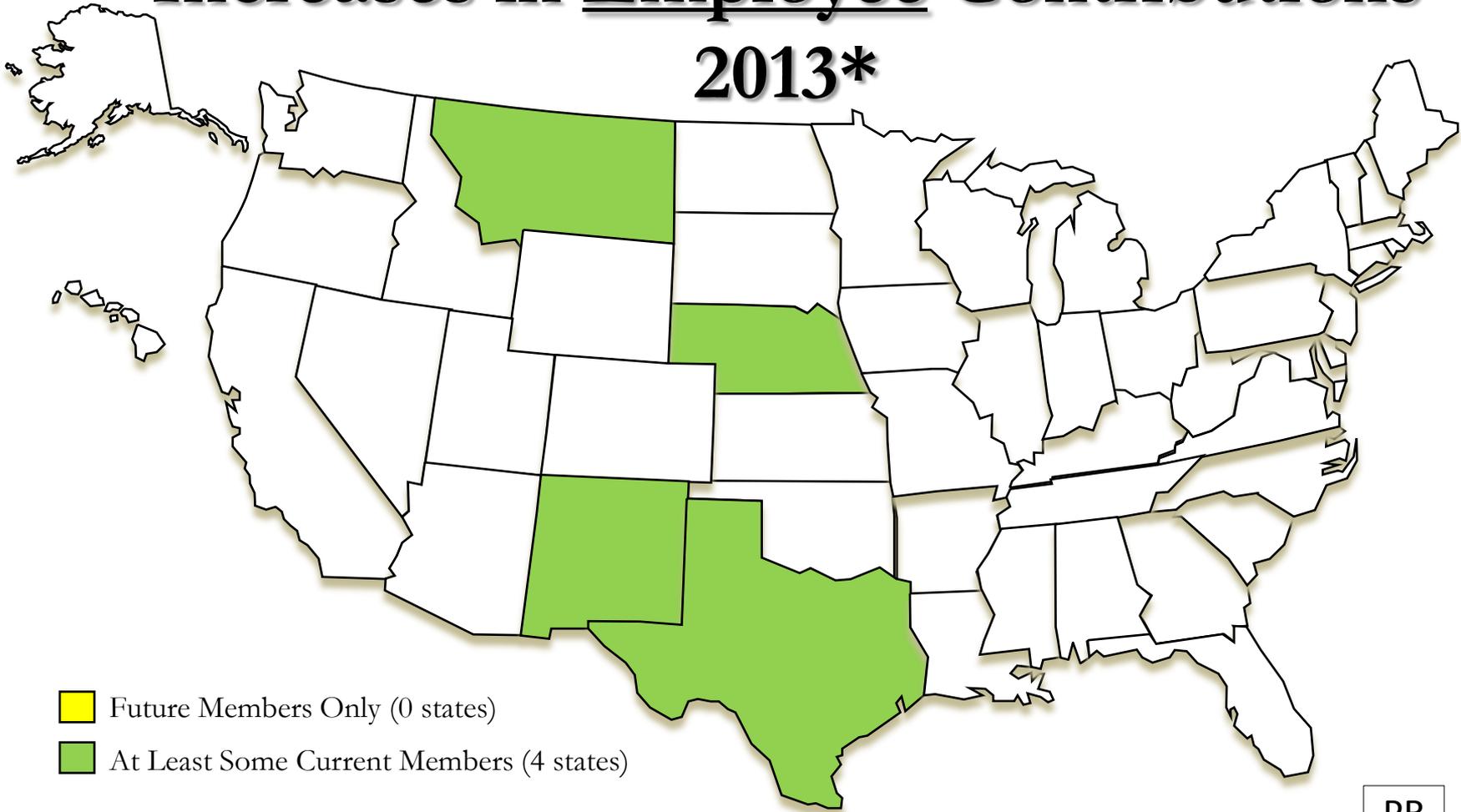
No contribution on earnings in excess of the governor's salary, currently \$179k.

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

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# Increases in Employee Contributions 2013\*

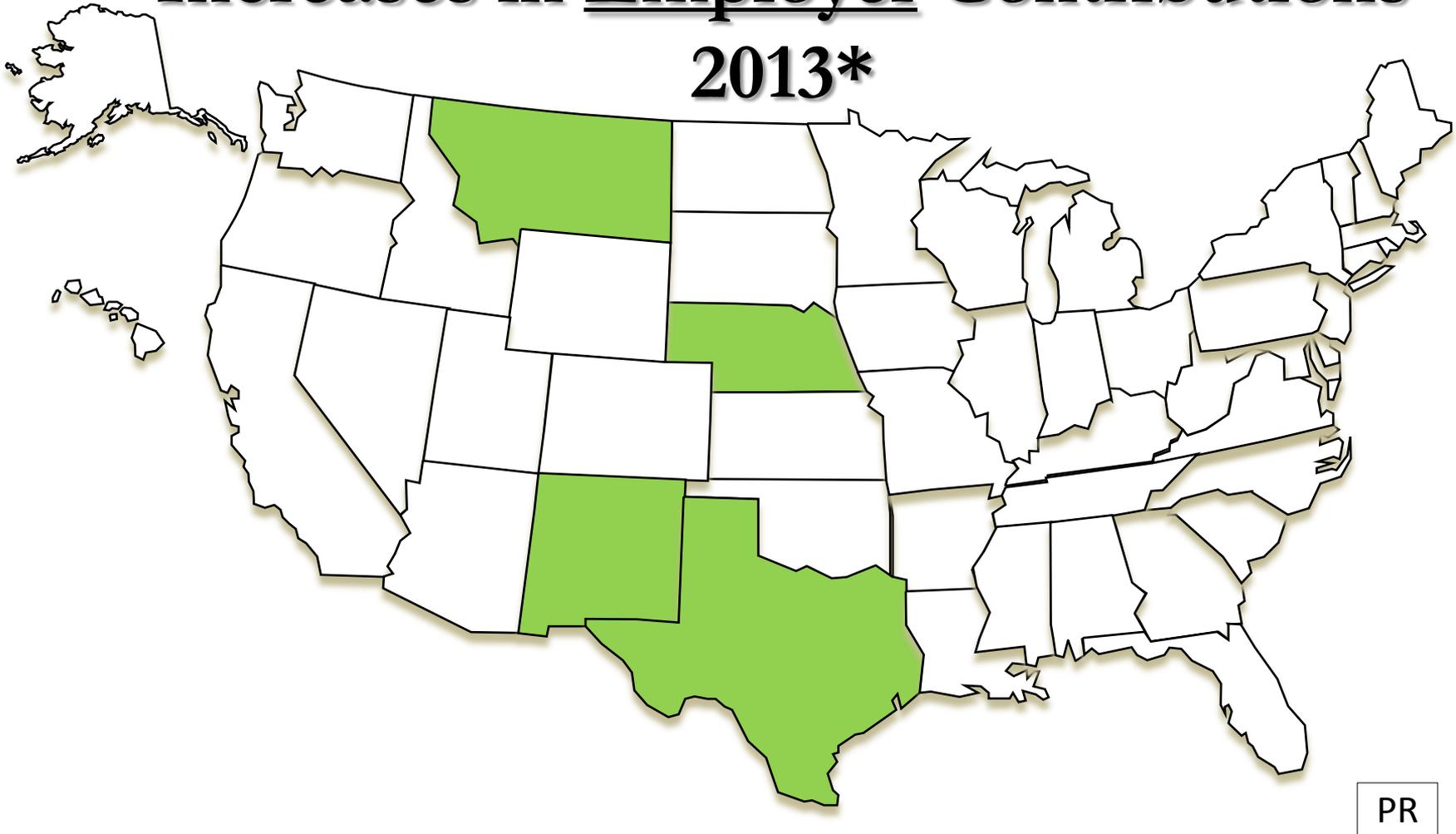


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\*As tracked so far.



# Increases in Employer Contributions 2013\*



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\*As tracked so far.





# Higher Age and Service Requirements for New Members in 2012

## Alabama—Tier 1

Employees hired *before* January 1, 2013

<b>Normal Retirement</b>	After 25 years or at age 60.
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<b>Benefits Base</b>	Highest 3 years out of last 10.
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<b>Multiplier</b>	2.0125%
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## Alabama—Tier 2

Employees hired *after* January 1, 2013

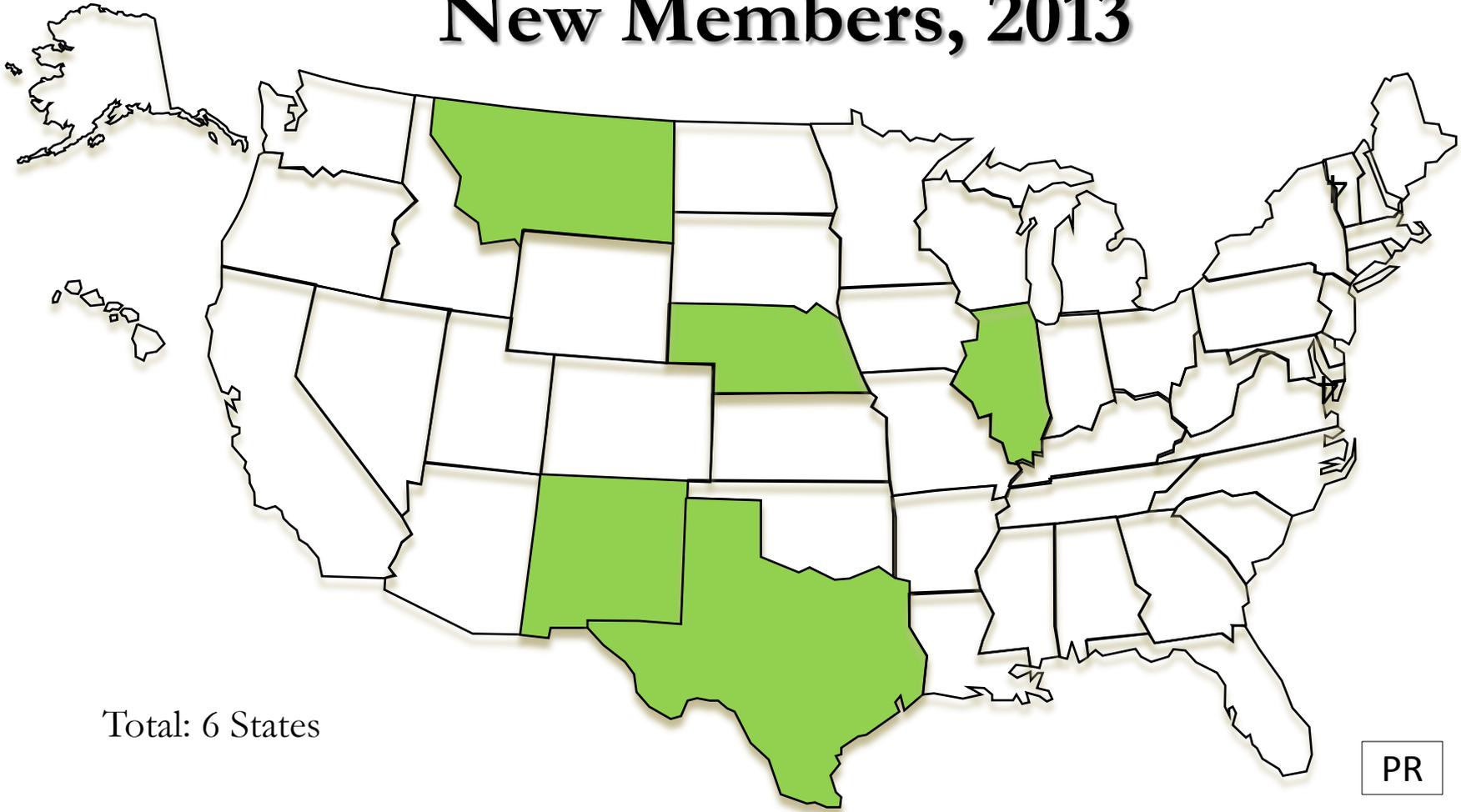
<b>Normal Retirement</b>	At age 62 (no more 25 years & out)
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<b>Benefits Base</b>	Highest 5 years out of last 10.
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<b>Multiplier</b>	1.65%
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# Higher Age and Service Requirements for New Members, 2013



Total: 6 States

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# Significant Plan Changes in 2013

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## Montana Public Employees Retirement System

<b>Employee Contribution</b>	Increased from 6.9% to 7.9% for all members. Tied to funding level.
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<b>Employer Contribution</b>	Increased by 1%. Will increase by 0.1% per year until 2024.
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<b>GABA</b>	Reduced from 3% to 1.5%. Tied to funding level.
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# Significant Plan Changes in 2013

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**Montana Public Employees Retirement System**  
Funding of PERS through natural resources.

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# Significant Plan Changes in 2013

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## Montana Teachers Retirement System – Tier 1

Employees hired *before* July 1, 2013

<b>Employee Contribution</b>	Increased from 7.15% to 8.15%.
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<b>Average Final Salary</b>	Average of highest 3 years.
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## Montana Teachers Retirement System – Tier 2

Employees hired *after* July 1, 2013

<b>Employee Contribution</b>	8.15%.
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<b>Multiplier</b>	1.67% or 1.85% with 30 YOS and at age 60.
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<b>Average Final Salary</b>	Average of highest 5 years.
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# Significant Plan Changes in 2013

## Nebraska School Employees – Tier 1

Employees hired *before* July 1, 2013

<b>Employee Contribution</b>	Remains at 9.78%.
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<b>Average Final Salary</b>	Average of highest 3 years.
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<b>COLA</b>	Maximum of 2.5%.
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## Nebraska School Employees – Tier 2

Employees hired *after* July 1, 2013

<b>Employee Contribution</b>	9.78%.
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<b>Average Final Salary</b>	Average of highest 5 years.
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<b>COLA</b>	Maximum of 1%.
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# Significant Plan Changes in 2013

## Public Employees Retirement Association of New Mexico – Tier 2 Employees hired *after* July 1, 2013 *General Members*

<b>Employee Contribution</b>	Increased by 1.5% for employees earning over \$20,000.*
<b>Retirement Eligibility</b>	Rule of 85; or 8 YOS + Minimum age of 65.
<b>Multiplier</b>	Reduced from 3% to 2.5%.
<b>FAS &amp; Vesting</b>	FAS 5 Years (current plan is 3); Vested at 8 (current plan is 5).
<b>COLA</b>	Reduced from 3% to 2%*; Delayed until 7 years after retirement.

\*Also affects current employees.



# Significant Plan Changes in 2013

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## New Mexico Education Retirement Board – Tiers 1 & 2

Employees hired *before* July 1, 2013

<b>Employee Contribution</b>	Increased from 9.4% to 10.7% (phased in over 2 years).
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<b>COLA</b>	Begins at age 65. Existing retirees will see a 10% or 20% COLA reduction.
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## New Mexico Education Retirement Board – Tier 3

Employees hired *after* July 1, 2013

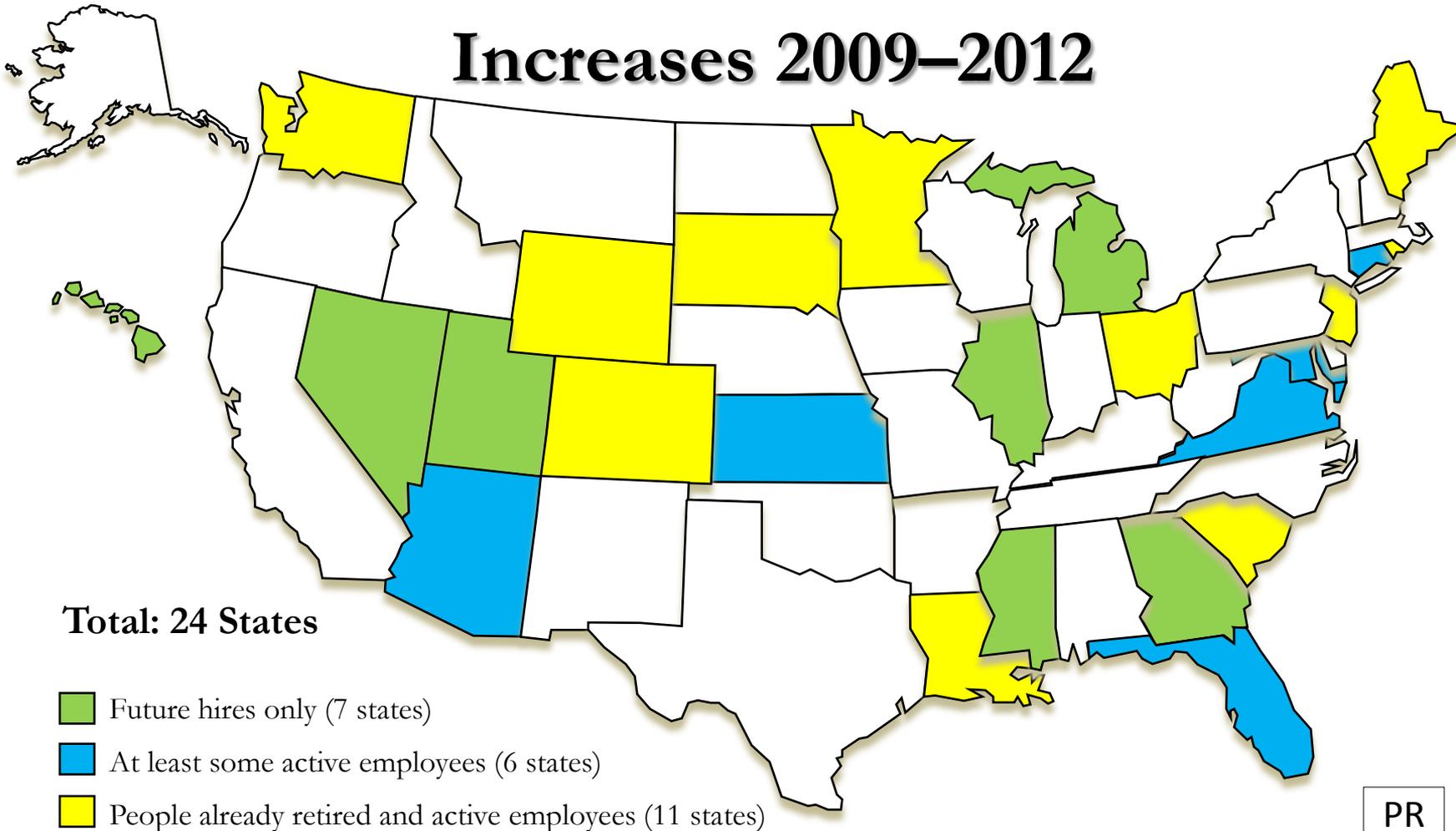
<b>Employee Contribution</b>	10.7%.
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<b>Retirement Eligibility</b>	30 YOS + Minimum age of 55.
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<b>COLA</b>	Begins at age 67.
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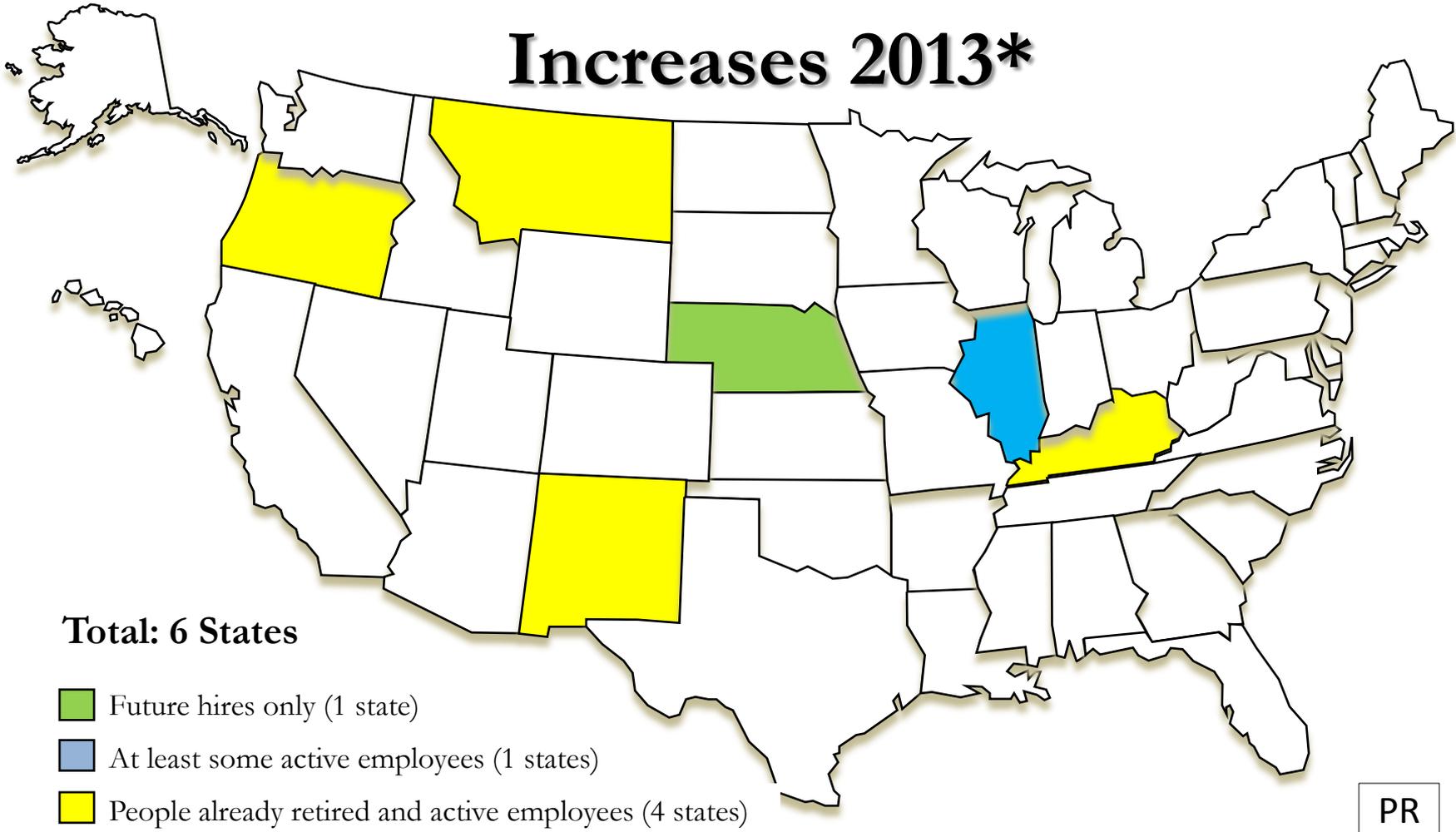
# Reductions in Post-Retirement Benefit Increases 2009–2012



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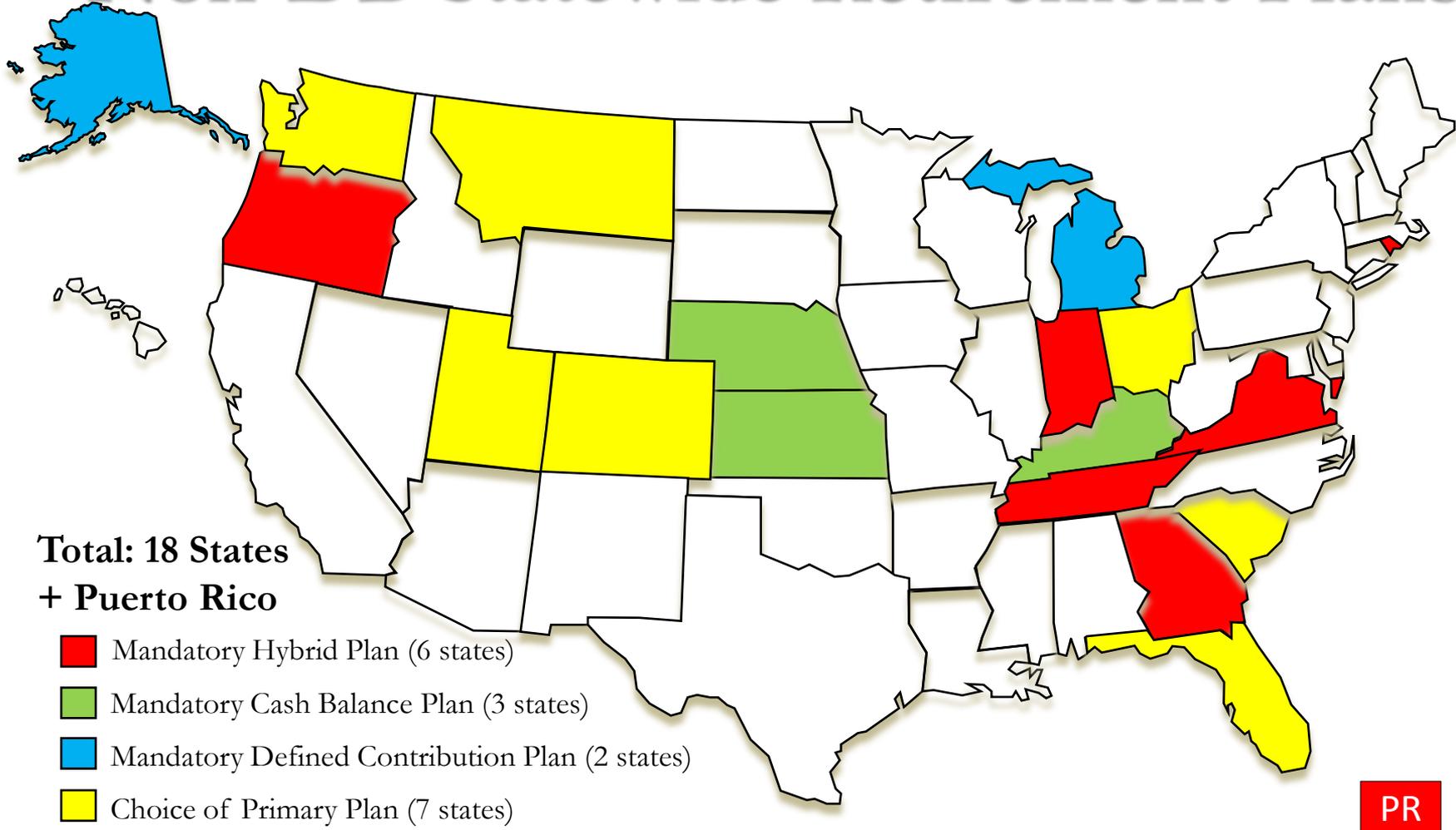
# Reductions in Post-Retirement Benefit Increases 2013\*



\*As tracked so far.

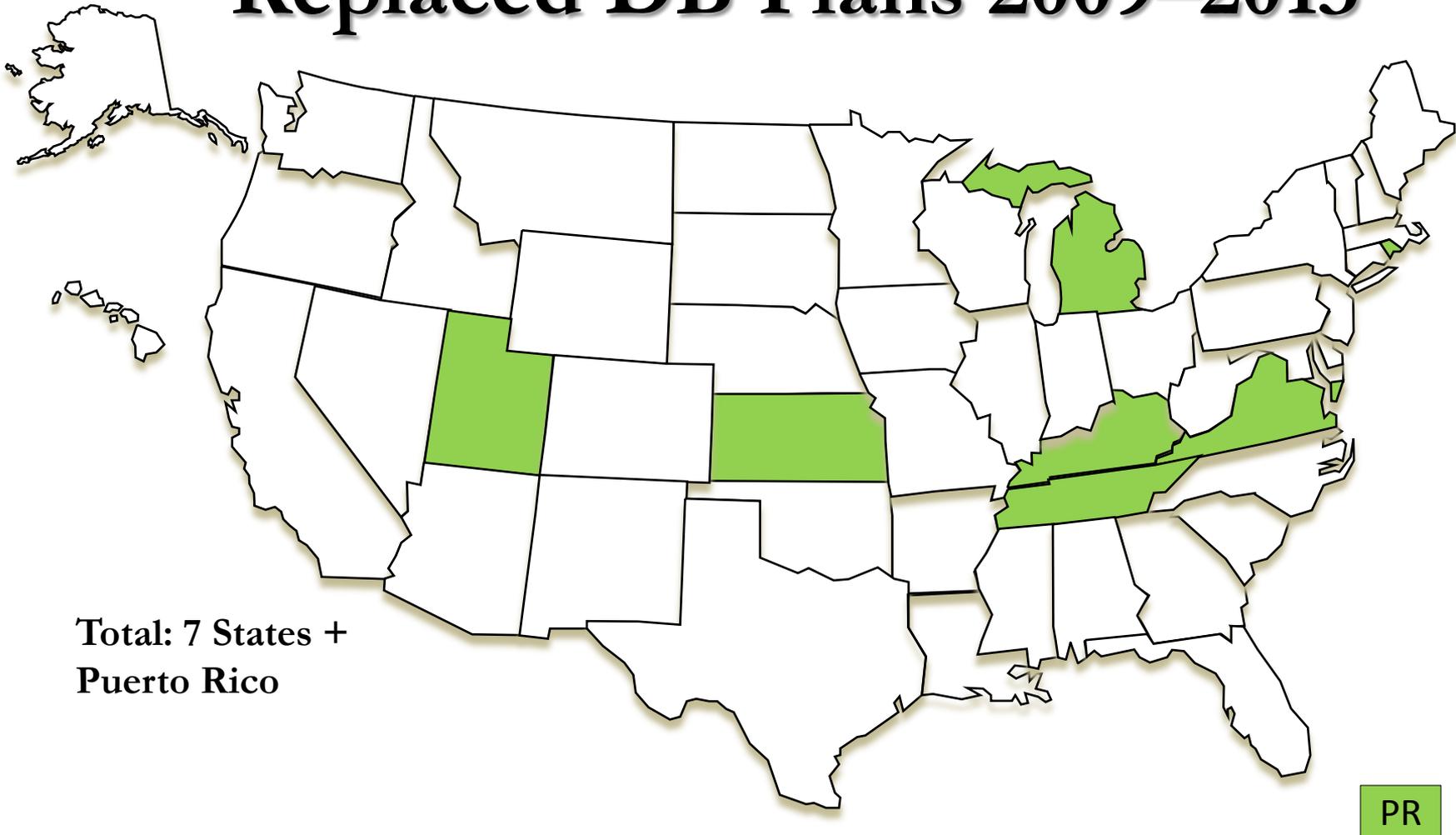


# Non-DB Statewide Retirement Plans





# Replaced DB Plans 2009–2013



**Total: 7 States +  
Puerto Rico**

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# 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.



# Tennessee Hybrid Plan (2013)

<b>Applicability</b>	Future State Employees, Teachers and Higher Ed Employees hired after July 1, 2014.
<b>Employee Contribution</b>	7% (DB: 5%, DC: 2%) – Provision for employees to opt out of 2% DC contribution.
<b>Employer Contribution</b>	8% (DB: 4%, DC: 4%).
<b>Retirement Eligibility</b>	Age 65 with 5 YOS or Rule of 90 (current plan is 30 YOS or age 60).
<b>Multiplier</b>	1% (current plan is 1.575%).
<b>Vesting</b>	5 Years for DB Benefits. Immediate vesting for DC contributions.



# 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)

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



# Michigan Defined Contribution Plan (1996)

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



# Alaska Defined Contribution Plan (2005)

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



# Utah Defined Contribution Plan (2010)

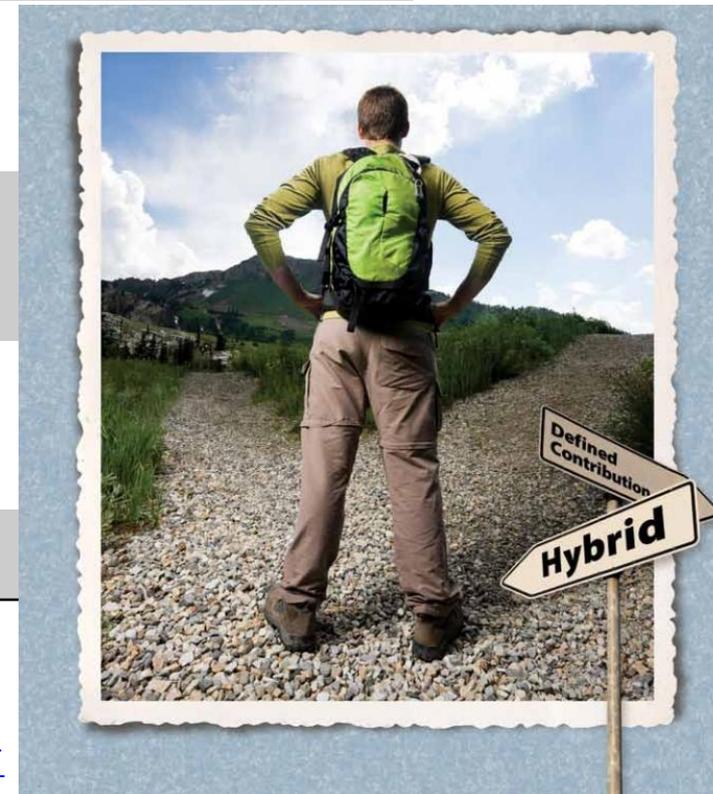
**Applicability** State Employees, Teachers, Law Enforcement

**Social Security Coverage** Yes

**Employee Contribution** Voluntary

**Employer Contribution** 10%  
12% for public safety employees

**Vesting** 4 years





# Cash Balance Plans

- **Kentucky adopted in 2013.**
- **Kansas and Louisiana adopted in 2012, but the Louisiana plan was ruled unconstitutional.**
- **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.**



# Kentucky Cash Balance Plan (2013)

<b>Applicability</b>	State Employees and County Employees hired <i>after</i> July 1, 2013.
<b>Employee Contribution</b>	5% for non-hazardous employees. 8% for hazardous employees.
<b>Employer Contribution</b>	4% for non-hazardous employees. 7.5% for hazardous employees.
<b>Vesting</b>	After 5 Years.
<b>Guaranteed Interest Credit</b>	4% annually with additional interest credits made each year equal to 75% of the 5 year average investment return in excess of 4%.



# Kansas Cash Balance Plan (2012)

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



# Louisiana Cash Balance Plan (2012)

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

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# Louisiana Cash Balance Plan (2012)

- Louisiana cash balance plan **(RULED UNCONSTITUTIONAL)**
  - 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](http://www.ncsl.org/pensions) for retirement reports, legislative summaries, webinars and presentation materials prepared by NCSL.
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