Defined contribution retirement plans differ from the plans traditionally covering most state employees and members of state teacher retirement plans. Traditional plans, called defined benefit plans, provide a guaranteed life-time retirement benefit based on an employee’s years of service and final salary, which can be defined in different ways. Although most statewide plans require employee contributions, the benefit is not tied directly to the amount of those contributions. The plans may include post-retirement benefit adjustments, disability and life insurance, and retiree health insurance, although not all do so.

Defined contribution plans, in contrast, provide a retirement benefit that is based on an account an employee has built up through years of employment. In governmental plans, both employers and employees contribute to the account and the employee determines how it is to be invested, usually on the basis of a menu of options. At retirement, the balance in the fund is the basis of the employee’s retirement benefit. The sponsoring government does not guarantee a particular amount of benefit, and usually does not provide post-retirement benefit increases.

Such plans are relatively rare in state governments. This report lists state governments’ defined contribution retirement plans designed as primary coverage for a group or class of state employees or state teachers: that is, it includes plans that eligible employees are required to join, or that are one of two or three alternative plans that employees choose among. States where they exist as primary plans are shown in maps on the next page.

This report does not include optional deferred compensation plans, like Section 457 plans, which all states offer employees and teachers as a means of augmenting primary pension coverage. Many states have offered defined contribution plans to higher education faculty; this report is not intended to include all such plans.
Defined Contribution Plans for General State Employees, 2009

Nebraska has a cash balance plan.

Defined Contribution Plans for Teachers, 2009

District of Columbia
**Part 1. Defined Contribution Plans as Primary Plans**

These plans are the government’s primary, mandatory retirement plan for the designated class of employees.

**Alaska.** In 2005, the Legislature voted to close its defined benefit plans for public employees and teachers to new enrollment and to replace the defined benefit plans with defined contribution plans, effective July 1, 2006. Nonvested employees of the defined benefit plans for public employees and for teachers were permitted to transfer to the new defined contribution plans.


**The District of Columbia.** In 1987, the District closed its defined benefit plan to new employees and replaced it with a defined contribution plan and Social Security membership.

See District of Columbia Official Code Title 1, Chapters 7 and 8.

**Michigan.** A state defined contribution plan has been mandatory for new state employees since March 31, 1997. Members of the closed defined benefit plan were allowed to transfer to the new DC plan if they chose. The state contributes 4% of salary to each employee’s account. Employees may choose whether to contribute at all, but may contribute as much as 12% of salary. The state will match an additional 3% above its 4% basic contribution, for a maximum 7% employer contribution. Employer contributions go into a 401(k). Employee contributions above the initial 3% may go into the 401(k) or into a 457 plan.

See http://www.michigan.gov/orstatedec/0,1607,7-209-34551---,00.html See also Public Act 487 of 1996 (House Bill 6229) and Michigan Compiled Laws, Chapter 38, sections 1 – 69.

**Nebraska.** The primary Public Employee Retirement System plan was a defined contribution plan from 1967 to 2002. It was closed to new employees on January 1, 2003, and replaced with a cash balance plan.

In the Nebraska cash balance plan, employees contribute between 4.3% and 4.8% of salary and the employer contributes about 7.5% of salary to an employee account. The employee cannot control investment of the account, but is guaranteed an annual return of at least 5% a year. The account can receive a higher return, depending on investment earnings. At retirement, the employee may buy an annuity, or withdraw the balance in a lump sum or in installments. Principal differences from a defined contribution plan are the employer’s guarantee of a minimum investment return and control of investments.

See Nebraska Statutes Sections 84-1301 through 84-1333
**West Virginia.** In 1991, the state created a defined contribution plan for teachers and closed its defined benefit plan to new enrollment. In 2005, the defined contribution plan was closed to new enrollment. In 2006, the members of the defined contribution plan voted to merge it with the state’s defined benefit plan for teachers. Various legal challenges ensued, which were resolved in May 2008 through legislation that allowed individual members of the defined contribution plan to choose whether to transfer each person’s membership to the West Virginia Teachers Retirement System (a defined benefit plan).

See *West Virginia Code*, Chapter 18, Article 7B.

**A Number of States** in recent years have created defined contribution plans as the primary coverage for elected officials and political appointees. To some degree these plans are a response to term limits for legislators and other elected officials. Such states include Colorado, Louisiana, Nevada, Utah, Vermont and Virginia. In Colorado, legislative staff hired after July 1, 1999, have had the choice of a defined contribution retirement plan. 2008 legislation extended the Utah optional defined contribution plan to some legislative staff.

**Part 2. Defined Contribution Plans as an Optional Primary Plan**

In the states listed below, new employees may elect to be members of a defined benefit plan or a defined contribution plan, but must be a member of one or the other. Under current law in these states, both kinds of plan remain open to new members, and limited transfer between them is available.

**Colorado.** In 2004, Colorado created a defined contribution plan as an option for state employees, effective January 1, 2006. On the same date, Colorado opened its existing defined contribution plan for elected officials to general membership, giving new employees one defined benefit and two defined contribution plans amongst which to choose. Chapter 73, Laws of 2009, closed the elected-officials plan to new members, but those eligible for it in the past continue to have the other defined contribution plan as an option.

**Florida.** In 2000, the state established a defined contribution plan (the Florida Retirement System Investment Plan) as an optional alternative to its defined benefit plan. Existing DB members could join the new plan. Existing members also were given a third option of transferring to a hybrid plan (described below) that combines features of DB and DC plans. The third option is not available to employees who joined the workforce after the creation of the alternative plans.

**Montana.** In 1999, the state created an optional defined contribution plan for state, local, university, and school district employees other than teachers. Current members of the defined benefit plan were allowed one year to transfer to the new plan.

**North Dakota.** In 1999, the state created an optional defined contribution plan for “exempt” or non-classified state employees, 75% of whom are employees in the higher education system.
Ohio. From 1998 through 2002, the state has created optional defined contribution plans for education employees, teachers and general state and local government employees. Employees not yet vested in the state defined benefit plan had the option of moving to the new plan. As noted below, Ohio also offers a third optional plan, a hybrid that includes both defined benefit and defined contribution features.

South Carolina. In 2000 and 2002, the state created optional defined contribution plans for existing and new state and local government employees and teachers.

Part 3. Hybrid, or Combined, Plans
These plans provide features of both defined contribution and defined benefit plans. They do not allow an employee to choose between the two elements; each member participates in a defined contribution and a defined benefit plan.

As a general rule, these plans maintain a defined contribution plan for employee contributions and a defined benefit plan for employer contributions. The Georgia plan created in 2008 differs from this general rule in that members may withdraw from the defined contribution portion of the plan at any time.

Florida. In 2000, when the state established its optional defined contribution plan, members of the existing DB plan were given a third option of transferring to a hybrid plan. The third option is not available to new employees.

Georgia. Act 757 of 2008 (Senate Bill 328) created a hybrid retirement plan for Georgia state employees. The “Georgia State Employees’ Pension and Savings Plan” (GSEPS) provides a defined benefit plan (DB) and 401(k) plan for new hires on and after January 1, 2009 and an opt-in to those employees in the membership of ERS on December 31, 2008. The ERS Board of Trustees will administer the new plan.

People who first or again become an employee entitled to membership in ERS on or after January 1, 2009 will be required to join GSEPS. Group term life insurance will not be provided, and the employee contributions in GSEPS will correspondingly be reduced from 1.5% to 1.25% for the DB. The DB formula will be 1% for each year of service times the average of the highest 24 consecutive calendar months of salary while a member. The formula can be increased in the future up to 2% by the board of trustees provided funds are appropriated by the General Assembly. Vesting in the DB is 10 years.

GSEPS members will be automatically enrolled in the 401(k) plan and will have a one-time 90 day window to opt out of the 401(k) and receive a refund of the account balance at that time. Participating members can stop and start 401(k) participation at any time thereafter. However, funds in the 401(k) must remain in the fund until separation. Participation in the 401(k) requires a mandatory employee contribution of 1% of compensation with voluntary elective contributions after the first 1%. Each employer shall match the first 1%, plus a 50% match for each percent above the first 1% up to a total 3% employer match. Participants
may contribute up to the IRS maximum limit each year. Each participant shall have a non-forfeitable right to the employee contributions and associated investment earnings. Employer contributions will be vested in the employee gradually over five years at a rate of 20% per year.

**Indiana.** For decades, retirement plans for state employees and teachers have consisted of an Annuity Savings Account (a defined contribution component) made up of employee contributions and a defined benefit funded by employer contributions.

**Ohio.** The retirement plan revisions from 2000 through 2002 that created an optional defined contribution plan for Ohio teachers and other employees also created the third option of a hybrid defined-benefit/defined contribution plan.

**Oregon.** The state employee retirement plan created in 2003 consists of a defined benefit program called “the pension program” funded by employer contributions and a defined contribution program called the “individual account program,” funded by employee contributions.

**Washington.** The 1998 Teachers’ Retirement Plan Tier 3 consists of defined contribution and defined benefit elements, funded respectively by employee and employer contributions. This plan is mandatory for teachers hired since the plan’s inception. Legislation in 2000 created a similar but optional Public Employee Retirement System Plan 3 for state and local government and higher education employees. State and local employees who do not select this hybrid plan are enrolled in a defined benefit plan.

**Sources**

In addition to the sources listed in the text, this report is based on NCSL’s series of annual summaries of state legislation concerning state pension and retirement plans. The summaries are available on the NCSL website at [http://www.ncsl.org/default.aspx?tabid=13399](http://www.ncsl.org/default.aspx?tabid=13399) Other information has been taken from the websites of the retirement systems mentioned in the text.