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PENSIONS AND RETIREMENT PLAN ENACTMENTS IN 2011 STATE LEGISLATURES

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INTRODUCTION

ABOUT THIS REPORT. This report summarizes selected state pensions and retirement legislation enacted in 2011. Its goal is to help researchers and policy makers know how other states have addressed issues that could arise in any state. In keeping with that goal, the report excludes most clean-up legislation, cost-of-living adjustments, administrative procedures and technical amendments. This report is organized according to the topics that legislatures addressed in 2011, listed at the end of this introduction.

Previous reports in this series have include changes to retiree health insurance plans. That topic is omitted from this report because of length, and will be the subject of a separate NCSL report. This report includes the retiree health program changes for Michigan state employees because of the termination of the current program and the way the programmatic changes are interwoven with changes in pension plan coverage for Michigan state employees.

FINDINGS. Even more state legislatures enacted significant retirement system changes in 2011 than did so in 2010: 29 in 2011, compared to 21 in 2010. Since some states revisited the topic, in all, 41 states enacted significant revisions to at least one state retirement plan in 2010 or 2011.

Rhode Island enacted the most dramatic revision of a statewide plan in 2011. Legislation passed in November will close the defined benefit plans that covers state employees (except for judges and some public safety members), teachers, and many municipal employees in the state. All current members (as of July 2012) will be transferred to a hybrid plan that will consist of a reduced defined benefit plan and an individual account for each members. Unlike the hybrid plans adopted in 2010 by Michigan and Utah, the Rhode Island plan will require both members and employers to contribute to the individual member accounts; members may not opt out. For most members, contributions are unchanged, although the allocation of the contributions changes.

Michigan enacted significant changes to retirement and retiree health plans that affect current members of its (closed) defined benefit plan and the defined contribution plan for state employees. Members of the closed defined benefit plan, which has been a non-contributory plan, will be contribute 4 percent of compensation to the pension plan beginning on April 1, 2012 or to transfer to the state employees' defined contribution plan. Those who fail to make an explicit choice will be transferred to the DC plan. At the same time, Michigan terminated its provisions of graded contributions for retiree health care for new employees and provided for increased voluntary employee contributions (with employer matches) to employee 401(k) and 457 plans in lieu of the former retiree health insurance subsidies. Eventual withdrawal of the additional contributions will not be restricted to the purchase of health care benefits.

These have been some of the major developments of 2011, all of which are described in detail in the report. The numbers cited below do not include the changes made in Rhode Island, unless Rhode Island is specifically mentioned in the text of a paragraph.

Employee contributions. Eighteen legislatures enacted increased employee contribution requirements in 2011 (compared to 11 states in 2010). The 2011 increases applied to at least some, and in most cases all, current employees in 13 states and only to new employees in three states. In addition, Michigan converted its closed defined benefit plan from a noncontributory to a contributory plan, allowing employees an option of withdrawing from the contributory plan to the defined contribution plan for state employees. In eight of the 18 states that increased employee contribution requirements, they will be offset, in part or wholly, by reduced employer contributions. Thus these changes are a shift toward equalization of employee and employer retirement contributions, and testimony to continuing pressure on state budgets.

Eligibility for retirement benefits. Sixteen legislatures increased age and service requirements for normal retirement for state employees, teachers or both groups of employees. The legislation generally applies only to people hired after the effective date of the legislation, but also in a few states to non-vested employees. As a rule, the changes move the age of retirement to or closer to 65, and increase the minimum amount of service credit a person must have for any alternative earlier age of retirement. Minimum eligibility requirements, or vesting, also increased in eight states in 2011 (five states in 2010). The changes generally were from five or six year vesting to eight or ten year vesting. The only state in which vesting requirements were reduced was Rhode Island, which cut vesting from 10 years to five for current and future members.

Calculation of retirement benefits. In 2011, six legislature lengthened the period over which final average salary is averaged to provide the base on which pension benefits are calculated. Eight states made similar changes in 2010. In most cases, the change was from a person's highest 36 months to the highest 60 months (three years to five years). Florida changed its provision from the highest five years to the highest eight. Such changes applied in all cases to people hired after the effective date of the legislation. The measure is usually the highest paid-months or years rather than the latest to avoid penalizing people who move to part-time employment before retiring.

Post-Retirement Benefit Increases (COLAs). In 2011, 10 states revised their provisions for automatic cost-of-living adjustments, as eight other states had done in 2010. An automatic COLA is one that is made annually, usually pinned to a measure of inflation like the Consumer Price Index. Their purpose is to reduce inflationary erosion of the purchasing power of retirement benefits. In all cases in 2011, as in 2010, state action reduced future commitments. State actions in 2011 affect current benefit recipients in three states, but more frequently were designed to affect people who will retire in the future or, in six states, only people who will be hired in the future. Oklahoma, which does not provide automatic COLAs, enacted legislation requiring future COLAs to be funded at the time of enactment. Massachusetts was the only state that enhanced COLAs, doing so by increasing the amount on which COLAs are calculated from the first $12,000 of an annual benefit to the first $13,000.

SOURCES AND ACKNOWLEDGMENTS. The sources of this report are StateNet searches of current and enacted legislation, retirement systems' websites, state legislatures' reports of enacted legislation, and information provided by legislative and retirement system staff. I am indebted to the many legislative staff who write and share summaries of their legislatures' acts, the many retirement system staff throughout the United States who have posted legislative summaries on their web sites, and the staff of legislatures and retirement systems who have taken time to identify and explain legislation and its context to me.

LIST OF TOPICS

1. Contribution Rates and Funding Issues

Alabama. Act 676 of 2011 **(**House Bill 414) increases employee contribution rates for the Alabama Retirement System in two steps. The increases affect current and future employees.

- Justices, judges and district judges: Contributions will increase from the current rate of 6% to 8.25% beginning on October 1, 2011 and to 8.5% beginning on October 1, 2012.
- Teachers and general state employees: from 5% to 7.25% and 7.5% on dates as above.
- State police: Contribution rate remains at 10%.
- Firefighters, law enforcement officers and correctional officers: from 6% to 8.25% and 8.5% on dates as above.

According the fiscal note that accompanies the legislation, employer contributions to the retirement funds will be reduced to offset the increased employee contributions.

Arizona. Chapter 26, Laws of 2011 (Senate Bill 1614) revises employee and employer contribution rates for the Arizona State Retirement System (ASRS). Beginning on July 1, 2011, employee contributions will rise from 50% of the total contribution to 53% and employer contributions will fall from 50% of the total to 47%.

Chapter 357, Laws of 2011 (Senate Bill 1609) establishes an Alternative Contribution Rate for employers whose employees are members of the ASRS for retired members who perform services that otherwise would be performed by an employee—that is to say, retired members who return to employment as an employee either as a direct employee, leased employee or contractual employee. The contribution level will be based on the amount required to amortize the unfunded liability of the ASRS. It will begin on the employee's first day of employment.

Contribution rates for members of the Elected Officials Retirement Plan are increased as follows:

- 7% of member's gross salary through June 30, 2011, as under existing law;
- 10% of member's gross salary for Fiscal Year (FY) 2011-2012;
- 11.5% of member's gross salary for FY 2013 and,
- For FY 2014 and thereafter, either 13% of member's gross salary, or 33.3% of the sum of contribution rate from the preceding fiscal year and the normal cost plus the actuarially determined amount required to amortize the unfunded accrued liability for the employer, whichever is lower.

For members of the Public Safety Personnel Retirement System, employee contributions will increase in stages from 8.65% of compensation in FY 2012 to 11.65% of compensation in FY 2016 and thereafter. [The goal of the rate increase is eventually to achieve a contribution division such that the employee contributes 1/3 and the employer 2/3 of the requirement. In the future when the employer's required contribution decreases, the employee contribution will also move down in tandem to maintain the 1/3-2/3 split.]

Colorado. Chapter 204, Laws of 2011 (Senate Bill 76) continues a shift of contributions to the Public Employee Retirement Association (PERA) from employers to employees of state government for FY 2012. For the state and judicial divisions, it temporarily shifts 2.5% of the total contribution from employers to employees for FY 2012 only.

State Employee Division
• Contributions by state-troopers will increase from 10% to 12.5%. The employer contribution rate will decrease from 12.85% to 10.35% ; and
• All other employees will increase their member contribution rate from 8% to 10.5%. The matching employer contribution rate will decrease from 10.15 to 7.65 percent.
Judicial Employee Division
• All employees will increase their member contribution rate from 8% to 10.5% The employer contribution rate will decrease from 13.66% to 11.16 %.

This bill continues the provisions of Senate Bill 146 of 2010, which shifted 2.5% of the state's PERA contributions to state and judicial division employees for FY 2011. Employees of institutions of higher education who are PERA members also were included in the contribution swap for FY 2011. However, the American Recovery and Reinvestment Act of 2009 prohibits the state from reducing appropriations to institutions of higher education during FY 2011.

By increasing their share of PERA contributions, this bill will reduce taxable income for state employees by $58.3 million and state income tax collections by $1,750,123 in FY 2012. The bill will decrease state expenditures by approximately $58.3 million in FY 2012.

The General Assembly's fiscal note for the bill points out that, due to the funding structure of PERA and depending on the actuarial valuation of the assets of the affected division, each member dollar is worth between 70% and 80% of an employer dollar. A member dollar is deposited into a member's account and earns interest. If a member leaves or withdraws his or her money, PERA must provide a 50% match on the combined amount of the member's contributions plus interest. Shifting the payment of a portion of the employer contribution decreases the amount of funding available to the affected division and increases the amount payable to members who choose to leave the plan. The increase in unfunded liabilities is estimated to be $6.6 million for the state division, and $40,000 for the judicial division.

Delaware. Chapter 14, Laws of 2011 **(**House Bill 81) increases the employee contribution to the Pension Fund from 3% to 5% of annual compensation after the first $6,000 for employees hired on or after January 1, 2012.

Florida. Chapter 68, Laws of 2011 **(**Senate Bill 2100) requires all members of the Florida Retirement System (FRS) to make contributions to FRS of 3% of salary, effective July 1, 2011. DROP participants will not be required to contribute. The bill also reduces required employer contributions to FRS for FY 2012 and FY 2013 in general, although not for all classes of employees. For the Regular Class, employer contributions for FY 2012 will fall from the previously scheduled 8.69% to 3.77% for FY 2012, and from 9.63% to 5.44% for FY 2013.

Hawaii. Chapter 163, Laws of 2011 (House Bill 1038) increases required employee contributions to the Hawaii Retirement System for those hired after June 30, 2012. General employees' contribution rate will increase from 7.8% of compensation to 9.8%. The rate for firefighters, police officers and corrections officers will increase from 12.2% to 14.2%.

Employer contribution rates will also increase. For general employees, they will increase in annual steps from the current rate of 15% to 17% in FY 2016. The comparable increase for firefighters, police and corrections officers will be from 19.7% to 25%.

Kansas. Chapter 98, Laws of 2011 **(**House Bill 2194), increases employee and employer contributions to the Kansas Public Employees' Retirement System (KPERS), contingent upon each chamber's voting on recommendations a study commission has been instructed to submit to the Legislature on January 6, 2012 (See Kansas under "Studies" for details of this requirement).

Kansas has long capped the statutory annual contribution rate from state, school and local employers, which has prevented employers from making contributions at the rate actuarially-required to amortize the KPERS UAAL. Under this bill, the statutory state, school and local employer contribution annual rate caps of 0.6% would increase as follows:

- 0.9% in FY 2014 (and January 1, 2014 for local employers);
- 1.0% in FY 2015 (and January 1, 2015 for local employers);
- 1.1% in FY 2016 (and January 1, 2016 for local employers); and
- 1.2% in FY 2017 (and January 1, 2017 for local employers).

The legislation also makes adjustments in employee contribution adjustments, contingent upon the 2012 legislative votes mentioned previously. These add two options applicable to all active KPERS Tier 1 members.
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- Tier 1 members as the default option would have an employee contribution increase from 4% to 6% and also would be given an increase in multiplier from 1.75% to 1.85% for future years of service; or if an election is permitted by the IRS, then the alternative option could be chosen: Tier 1 members would be able to elect freezing the employee contribution rate at 4% and reducing their future multiplier from 1.75% to 1.4%.
- Two options would also be available, with IRS approval, to all Tier 2 members. The default option would continue the existing employee contribution rate of 6% of salary and eliminate post-retirement cost-of-living benefit increases. The alternative option would also continue the 6% contribution rate. It would retain the post-retirement COLA, but reduce the benefit multiplier from 1.75% to 1.4%.

Inactive KPERS members upon return to covered employment will be offered an election for alternative options in their respective tier before July 1, 2013. After that date, or if there were no election approved, inactive members would be given the default option in their tier upon returning to covered employment.

The bill also provides that 80% of the proceeds from the sale of surplus state real property will transferred to KPERS for reducing the unfunded actuarial liability.

Louisiana. Act 238, Laws of 2011 (House Bill 332) made changes in contribution requirements for employers and employees in several retirement plans: the Firefighters' Retirement System, the Municipal Employees' Retirement System and the Municipal Police Employees' Retirement System.

The board of trustees of each system will have the authority to maintain the employer contribution rate at a higher level when the recommended rate decreases from one year to the next.

For the Firefighters' System, employee contribution requirements for current and future employees are changed and pinned to the employer contribution rate in the future, ranging from an employee rate of 8% when the employer rate is 21% or less to an employee rate of 10% when the employer rate is 26.26% or more (with seven intermediate steps). At present the employee rate is set at 8% regardless of the employer rate.

A similar range was established for employee contributions for the Police Employees' System, ranging from employer 21% or lower and employee 7.5% to 27% or higher/10%. The current single rate for the Police Employees' System is 7.5%.

For both plans, the employee contribution is permanently capped at 8% for those whose compensation is below the poverty level.

The employee contribution level remained unchanged for the Municipal Employees' System.

Louisiana. Act 422 of 2011 (House Bill 384) proposes a constitutional amendment to designate a percentage of nonrecurring state revenue for reducing the unfunded liabilities of the Louisiana State Employees' Retirement System and the Teachers' Retirement System of Louisiana. Starting in fiscal year 2013-2014, 5% of nonrecurring revenue would be applied to the UAL. In fiscal year 2015-2016 and thereafter, 10% of nonrecurring revenue would be applied to the UAL. The amendment would prohibit the direct or indirect use of this money for providing future cost of living increases

The amendment will appear on the ballot in the election set for October 22, 2011.

Maryland. Chapter 397, Laws of 2011 (House Bill 72, the Budget Reconciliation and Financing Act), included extensive changes to Maryland retirement plans. The legislation increases employee contribution requirements for most current and future members of state plans.

Current Members

- Employees' Pension System (EPS) and Teachers' Pension System (TPS): Increase member contribution from 5% to 7%;
- Law Enforcement Officers' Pension System (LEOPS): Increase member contribution from 4% to 6% in FY 2012 and to 7% in FY 2013 and thereafter.

Future Members (as of July 1, 2011)

- EPS and TPS: Member contribution is 7%.

- LEOPS and State Police: member contribution of 6% in FY 2012 (up from 4%) and 7% in FY 2013 and thereafter.

The legislation also establishes the goal of reaching 80% actuarial funding within 10 years by reinvesting a portion of the savings generated by the benefit restructuring into the pension system in the form of increased state contributions above the contribution required by statute. In fiscal years 2012 and 2013, all but $120 million of the savings generated by the benefit restructuring will be reinvested, with the $120 million dedicated to budget relief each year. Beginning in FY 2014, the amount reinvested in the pension fund will be subject to a $300 million cap, with any savings over that amount dedicated to budget relief.

Massachusetts. Chapter 68, Acts of 2011,§45, extends the amortization schedule of the state teachers and state employee retirement plans from 2025 to 2040.

Chapter 176, Acts of 2011 (Senate Bill 2065 in its final version) reduces the contribution rate of those who join the system on or after April 20, 2012, by 3% (e.g., from 11% to 8%) once a member has 30 years of creditable service. This will affect all state, local and teacher members of the system.

Michigan. Public Act 264 of 2011 (House Bill 4701) makes significant changes to the Michigan State Employees' Retirement System defined benefit (DB), defined contribution (DC), and retiree health plans. DC plan members have individual 401(k) or 457 accounts.

The SERS DB plan was, before this legislation, a noncontributory plan that was closed to new members in 1997. SERS-eligible employees entering the system since that time have been enrolled in a DC plan.

- This legislation requires employees currently in the DB pension plan to choose between remaining in the plan and contributing 4% of compensation toward pension costs beginning April 1, 2012, or freezing the service credit they have earned in the DB plan and converting to the DC plan for future service. Those who fail to make an explicit choice will be enrolled in the DC plan.
- Those who elect the contributory alternative face a second decision. They may choose to continue their contribution and stay in the DB plan until retirement, or choose to stay in it only until they complete 30 years of service, whereupon DB plan benefits would be frozen and the employee would transfer to the DC plan for any remaining employment. Choices are to be made by March 2, 2012 and may be reconsidered until that date.
- At the FY2012 rate, the new contribution would generate $56 million a year in employee contributions if all members of the DB plan elected to stay in the plan and make the contribution. The actual receipts will be less because the new plan will not be in effect for 12 months in 2012, and membership in the plan is expected to fall because of retirements in the future.

Montana. Chapter 369, Laws of 2011 (House Bill 122) revises contribution rates and other Montana Public Employee Retirement System provisions for members who join the system on or after July 1, 2011. The contribution rate for such new members will be 7.9%. It will remain at 6.9% for those hired before July 1, 2011.

Nebraska. Legislative Bill 382 (approved by the governor May 4, 2011) increases employee and employer contribution requirements for the School Employees Retirement System, the State Patrol Retirement System and the Omaha School Employees Retirement System.

- Beginning September 1, 2011, the member contribution rate in the School Employees Retirement System increases from 8.28% to 8.88% and to 9.78% on September 1, 2012. It will return to 7.28% beginning on September 1, 2017. The employer match continues at 101% of the employee contribution.
- The state contribution of 1% of total salary compensation for the Schools Employees Retirement System and Class V (Omaha) School Employees Retirement System is extended from July 1, 2014 to July 1, 2017 when it returns to 0.7%.
- Beginning September 1, 2011, the contribution rate for Class V (Omaha) School increases by one percentage point to 9.3%.
- For the Nebraska State Patrol Retirement Act, beginning July 1, 2011, the patrol and state/employer contribution rates increase from 16% to 19%. The member and state/employer contribution rates return to 16% on July 1, 2013.

New Hampshire. Chapter 224, Laws of 2011 (House Bill 2, the Budget Trailer Bill including the retirement provisions formerly included in Senate Bill 3, which the governor vetoed) increases employee contribution requirements for the New Hampshire Retirement System as well as making extensive additional changes.

- For all Group I members (general state and local government employees and teachers), the employee contribution will be 7% of salary beginning July 1, 2011. This is the rate in effect for state employees hired after June 30, 2009; for all others, it represents an increase from 5%.
- For all Group II members (police and firefighters) ,except those who are freed from contribution requirements by virtue of having served more than 40 years, the increase for police members is from 9.3% to 11.55% and for firefighters from 9.3% to 11.8%.

New Jersey. Chapter 78, Laws of 2011 (Senate Bill 2937), makes various changes to the manner in which the Teachers' Pension and Annuity Fund (TPAF), the Judicial Retirement System (JRS), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), and the State Police Retirement System (SPRS) operate and to the benefit provisions of
those systems.

The bill provides for increases in the employee contribution rates:

- For TPAF and PERS, including legislators, Law Enforcement Officer (LEO) members, and workers compensation judges), from 5.5% to 6.5% plus an additional 1% phased-in over 7 years beginning in the first year, after the bill's effective date;
- For JRS, from 3% to 12% for JRS phased-in over seven years;
- For PFRS members and members of the Prosecutors Part of PERS, from 8.5% to 10%; and
- For SPRS members, from 7.5% to 9%

New Mexico. Chapter 178, Laws of 2011 (HOUSE BILL 628) makes three primary changes for pension contributions for state employee plans administered by the Public Employees Retirement Association (PERA) and the Educational Retirement Board (ERB). The legislation

- Extends the two-year 1.5% contribution shift implemented for FY 2010 and FY 2011from the employer to the employee for those employees making more than $20,000 for another two years (FY 2012 and FY 2013), but provides for the cancellation of the extension to FY 2013 contingent upon specified levels of General Fund revenue and state reserves;
- Makes a one-year contribution shift of 1.75% from the employer rate to the employee rate for those making more than $20,000 for FY 2012; and
- Delays the two remaining 0.75% increases for ERB members, currently scheduled for FY 2012 and FY 2013, to FY 2014 and FY 2015.

The purpose of the legislation is to prevent additional costs the state general fund would incur for employer contributions to the retirement funds. Those costs are estimated at $49.2 million in FY 2013 and $61.5 million in FY 2014. The Legislature's fiscal impact report on the bill notes "The fiscal impact to employees of an additional 1.75% contribution shift will be offset by the 2011 reduction in the federal social security tax of -2%. Assuming normal pretax deductions, the 18-month impact is minimal when compared with the baseline salary as of December 2011."

Source: New Mexico Legislature, Fiscal Impact Report, House Bill 628, March 15, 2011.

North Dakota. Chapter 432, Laws of 2011 (Senate Bill 2108) increases member and employer contributions for the North Dakota Public Employee Retirement System's main retirement system, judges' plan, defined contribution and Highway Patrol systems by one percentage point each in January of 2012 and 2013. The law enforcement plan increase is 0.5% for the member and 0.5% for the employer. For the main retirement plan, the two-year increases will be from 10.3% for employees to 12.3%, and for employers, from 16.7% to 18.7% of compensation over the two years.

North Dakota. Chapter 135, Laws of 2011 (House Bill 1134) increased contribution requirements for the Teachers' Retirement Fund from the present level of 7.75% of annual salary to 9.75% beginning on July 1, 2012 and 11.75% beginning on July 1, 2014. Employers' contributions will increase from the current rate of 8.75% to 10.75% and 12.75% on the same dates. The legislation provides that the member and employer contributions will be reduced to 7.75% effect for the first July that follows an actuarial valuation that indicates that the actuarial value of assets for the teachers' fund is equal to or exceeds a ratio of 90%.

Ohio. Session Law No. 2011-10 (Senate Bill 5) prohibits a public employer from paying employee contributions to any of the five state retirement systems, except where the employer reduces the employee's salary by the same amount for tax purposes. The five state retirement systems are: the Public Employees Retirement System (PERS), the State Teachers

Retirement System (STRS), the School Employees Retirement System (SERS), the Ohio Police and Fire Pension Fund (OP&F), and the Highway Patrol Retirement System (HPRS).

According to a bill summary from the Ohio Legislative Service Commission, the provision would have no fiscal impact on the state because the state does not pay any employee contributions on behalf of its employees. The provision would not have any impact on the five retirement systems either because the total contributions paid toward the system would not change. The bill would, however, have a fiscal impact on many local governments. According to retirement system officials, over 2,532 local government employers currently pay part or all of their employees' contributions into the systems, including contributions for tax purposes as described above. The provision would therefore reduce local government employer personnel costs for those political subdivisions that currently pay all or part of their employees' retirement contributions.

Note: Under current federal law, a public employer may designate employee contributions as being paid by the employer and treated as employer contributions for tax purposes. The employee would receive higher take home pay through deferring tax at the state and federal levels on the portion of his or her salary that equals the required employee's contribution. However, employee contributions are taxable upon retirement.

Rhode Island. Chapter 408, Laws of 2011 (Senate Bill 1111) revised the state defined benefit plan for state employees, teachers, and covered municipal employees to reduce employee required contributions and benefits for members as of July 1, 2012 and to add a defined contribution component for all members of the plan except State Police and judges. Among the changes are revisions to contribution rates.

- The state employee contribution to the DB plan will be reduced from 8.75% of salary to 3.75% and for teachers from 9.75% to 3.75%. For municipal employee members, the rate changes from 6% to 1%, or from 7% to 2% for those who elect the cost-of-living option.
- The three groups of employees listed above will all participate in a mandatory defined contribution plan. Employees will contribute 5% of salary and employers will contribute 1% of salary to the DC plan.
- For teachers who are not covered by Social Security, the DC plan contribution amounts will be 7% from employees and 3% from employers.
- For municipal police and firefighters who are not covered by Social Security, the DC plan contribution amounts will be 8% from employees and 4% from local government employers.

The legislation also extends the amortization period for the current unfunded liability from 19 years to 25 years, for a contribution reduction in FY 2013 of $62.3 million. Future net changes due to asset losses or gains or the effect of changes in assumptions will be amortized over individual 20-year periods.

Texas. Senate Bill 1664 (signed by the governor June 17, 2011) amends current law to maintain the member contributions for the Employees Retirement System and the Law Enforcement and Custodial Officer Supplemental Retirement System at 6.5 percent and 0.5 percent, respectively, for fiscal year 2012 regardless of the state contribution level. It is expected that the state contribution rates will decrease from the current contribution rates of 6.95 percent for ERS and 1.59 percent for LECOS for the 2012-13 biennium. The bill would therefore prevent an expected loss of member contributions to the ERS fund estimated to be $29.4 million, and a loss of member contributions to the LECOS retirement fund estimated to be $7.5 million.

Vermont. Act 63 of 2011 (House Bill 441, the Fiscal Year 2012 Appropriations Act), §H4, increases employee contributions for members of the State Employees' Retirement System, recognizing the result of negotiations with state employee unions. The legislation increases contribution rates for general state employees and judges from 5% of compensation to 6.3% from July 1, 2011 through June 30,2016. The increase from members of Group C of the law enforcement plan, will be from 6.18% to 8.18%.

On July 1, 2016, or at the time when the state employees' retirement system is deemed by the actuary to have assets at least equal to its accrued liability, whichever occurs first, contributions will return to 5% for general members and judges and to 6.18% for Group C.

From July 1, 2011 through June 30, 2016, the state contribution to the plan will be reduced by up to $5.3 billion a year, not to exceed that amount.

The act also increases contribution rates for members of the Vermont Municipal Retirement Fund.

Virginia. Chapter 890, Laws of 2011 (House Bill 1500, the 2011 budget bill, §1-469) requires all state employees, except for legislators, who are covered by a defined benefit plan, to begin paying the statutory 5 percent employee contribution to the Virginia Retirement System that in recent years has been picked up by employers. 2010 legislation had imposed this requirement on new employees. This legislation extended the practice to existing employees. It was estimated to save $92.5 million in contributions. The cost to employees was offset with a 5 percent salary increase for fiscal year 2012. For discussion, see *summary of 2010-2012 Budget Actions* from the staffs of the House Appropriations Committee and Senate Finance Committee, May 25, 2011, at
http://lis.virginia.gov/111/bud/FinalSum/FullReport.pdf

Wisconsin. Act 10 of 2011 (Assembly Bill 11 of the January 2011 Special Session) amended provisions affecting employer and employee contributions to the Wisconsin Retirement System (WRS). Under current law, the Employee Trust Funds (ETF) Board, in consultation with actuaries, annually determines the total actuarial contribution required to fund the WRS. This total contribution is the sum of three components: the employee rate; the employer rate; and the benefit adjustment contribution (BAC). Employer contributions to the WRS vary depending upon the type of position held by the employee. Employee contributions are currently required as follows:

- For general employees, 5% of earnings;
- For elected officials and executive employees, 5.5% of earnings;
- For protective occupations covered by Social Security, 6% of earnings; and
- For protective occupations not covered by Social Security, 8% of earnings.

Employer contributions (currently 5.1%) are generally paid by the employer, except that any contribution increase after 1989 is required to be distributed between the employer and the employee, with one-half of the increase paid by the employer and the other half of the increase added to the BAC portion of the total contribution.

The BAC was created to fund WRS retirement improvements established under 1983 Wisconsin Act 141. The employee is responsible for paying BAC contributions unless the employer agrees to cover the cost (generally through collective bargaining). Currently, state employers are responsible for 1.3% of the BAC and general employees, 0.2%. A BAC is not necessary for the protective or elected official and executive categories.

While current law requires an employer to pay the full employer contribution, it also provides that an employer may pay all or part of the employee required contributions. This is generally derived through bargaining or the compensation plan. At this time, most state employers have agreed to pay the employee contribution (up to 5%) and 1.3% of the BAC for general employees. Protective occupations pay the portion of the employee contribution that exceeds 5%.

The bill eliminates the BAC as a separate contribution, and adds the BAC costs to the total actuarially defined contribution. The bill requires that the contribution rate for general employees and elected officials and executive employees must equal one-half of all actuarially required contributions, as approved by the ETF Board. Protective occupation employees are required to pay a contribution equal to the percentage of earnings paid by general employees.

The bill requires that members of the Milwaukee County and City Employees Retirement Systems pay all of the employee required contribution. The bill also prohibits any local governmental unit from establishing a defined benefit pension plan for its employees unless the plan requires the employees to pay half of all actuarially required contributions for funding plan benefits. It also prohibits the local governmental unit from paying, on behalf of an employee, any of the employee's share of the actuarially required contributions.

These provisions were intended to take effect on the first pay period following March 13, 2011, for non-represented employees, elected officials, and judges and justices, and on the expiration, termination, extension, modification, or renewal of the collective bargaining agreement, whichever occurs first, for represented employees. [Legal challenges have suspended the changes as of the date of this report.]

Source: Wisconsin Legislative Council Amendment Memo, Assembly Bill 11, published February 25, 2011.
http://legis.wisconsin.gov/lc/publications/amendment/2011/PDFs/jr1ab011.pdf

2. Cost-of-Living Adjustments.

Please note: This section does not attempt to track all post-retirement benefit increases or cost-of-living adjustments; it reports changes in the enabling legislation for such benefits.

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) revises the structure of cost-of-living adjustments for members of the Elected Officials', the Public Safety Personnel's and the Correction Officers' retirement plans.

- The new provisions require a total return of more than 10.5% for the prior fiscal year to allow for a cost of living increase, and limit that increase to:

Ratio of actuarial value of assets to accrued liability	Percentage of benefit being received on preceding June 30
60% or more but less than 65%	2.0%
65% or more but less than 70%	2.5%
70% or more but less than 75%--	3.0%
75% or more but less than 80%--	3.5%
At least 80%	4.0%

- States that the amount available to fund the increase to be 100% of the earnings of the fund that exceed 10.5% of the total return of the fund for the fiscal year ending June 30 of the calendar year preceding the July 1 of the increase. If that 100% is insufficient to fully fund the present value of the appropriate percentage increase, the increase is limited to the percentage that can be fully funded.
- Reverts any earnings in excess of the amount necessary to fully pay that amount to the appropriate public fund. Such earnings will not be available for future benefit increases.
- Allows the Legislature to enact permanent one-time increases, from and after December 31, 2015, after an analysis of the effect of the increase on the plan by the Joint Legislative Budget Committee (JLBC).

Connecticut. Negotiations with public-sector unions, subject to ratification by the General Assembly, provide that for all state retirement plan members who retire after October 1, 2011, the minimum cost-f-living adjustment will be 2% instead of the present level of 2.5%. The maximum remains unchanged at 7.5% (August 24, 2011)

Florida. Chapter 68, Laws of 2011 (Senate Bill 2100) eliminates the cost-of-living adjustment (COLA) for service earned on or after July 1, 2011. Subject to the availability of funding and the Legislature's enacting sufficient employer contributions specifically for the purpose of funding the reinstatement of the COLA, the new COLA formula will expire effective June 30, 2016, and the current 3% cost-of-living adjustment will be reinstated.

Hawaii. Chapter 163, Laws of 2011 (House Bill 1038) reduces the annual post-retirement benefit increase for those who become members of the Hawaii Retirement System after July 1, 2012, from 2.5% to 1.5%.

Kansas. Chapter 98, Laws of 2011 (House Bill 2194), provides options regarding eventual post-retirement cost-of-living adjustments for those who become members of the Kansas Public Employees' Retirement System (KPERS) after the legislation goes into effect and to those presently in Tier 2, which was created in 2005.

The legislation's effect is contingent upon each chamber's voting on recommendations a study commission has been instructed to submit to the Legislature on January 6, 2012. Two options regarding post-retirement increases would be available, with IRS approval, to all Tier 2 members. The default option would continue the existing employee contribution rate of 6% of salary and eliminate post-retirement cost-of-living benefit increases. The alternative option would also continue the 6% contribution rate. It would retain the post-retirement COLA, but reduce the benefit multiplier from 1.75% to 1.4%.

Maine. Chapter 380, Public Laws of 2011 (L.D. 1043, the Biennial Budget Bill for fiscal years 2012 and 2013) makes changes that affect state employees, legislators and judges. The retiree cost-of-living adjustment will be frozen for three years, and then capped at 3% in future years based on the Consumer Price Index (CPI). Retirees will receive a COLA on their first $20,000 of benefits. The cap amount will be indexed, or increased, each year by the CPI for that year. A non-cumulative, one-time COLA may be awarded if funds are available, but such payments would not become a permanent part of the retiree's benefit.

Maryland. Chapter 397, Laws of 2011 (House Bill 72, the Budget Reconciliation and Financing Act), included extensive changes to Maryland retirement plans. The legislation increases employee contribution requirements for most current and future members of state plans.

Under current law, all SRPS retirement benefits are adjusted automatically to account for annual inflation, but the size of the adjustments varies by plan. Retirees of the Employees' Pension System (EPS) and Teachers' Pension System (TPS), as well as the Law Enforcement Officers' Pension System (LEOPS), receive automatic annual COLAs linked to inflation, subject to a 3% cap. The State Police Retirement System (SPRS) and the Correctional Officers' Retirement System (CORS) also receive COLAs linked to inflation, but they are not subject to a cap.

The changes in House Bill 72 do not affect COLAs for individuals retired as of July 1, 2011, but do affect COLAs that current active members in EPS, TPS, LEOPS, SPRS, and CORS will receive when they retire. For service credit earned after June 30, 2011, the COLA will be linked to the performance of the SRPS investment portfolio. If the portfolio earns its actuarial target rate (7.75% for fiscal 2011), the COLA is subject to a 2.5% cap. If the portfolio does not earn the target rate, the COLA is subject to a 1% cap. For service credit earned before July 1, 2011, the COLA provisions in effect during that time still apply for each plan.

The COLA provisions do not apply to current or future retirees of the Judges' Retirement System (JRS) or the Legislative Pension Plan (LPP) because their benefit increases are linked to the salaries of current judges and legislators, respectively, and not limited to inflation rates.

Massachusetts. Chapter 176, Acts of 2011 (Senate Bill 2065 in its final version) increases the base for post-retirement benefit increases from $12,000 to $13,000 (this is the only amount on which annual increases are calculated). The action affects all state and local government retirees and will affect future retirees.

Mississippi. Chapter 469, Laws of 2011 (Senate Bill 2439), Section 2, changes COLA provisions for people who join the retirement system on or after July 1, 2011. For people who became members of the system before July 1, 2011, the COLA is equal to the sum of 3% for each full fiscal year in retirement before the member reaches age 55, plus 3% compounded for each full fiscal year in retirement after the member reaches age 55. For those hired on or after July 1, 2011, the COLA will remain at 3% but the age at which the compounding begins will increases from age 55 to age 60.

New Jersey. Chapter 78, Laws of 2011 (Senate Bill 2937), makes numerous changes to the operations and benefit provisions of state-administered retirement plans. it terminates post-retirement cost-of-living adjustments for current and future retirees, and provides a mechanism for their potential reactivation when the retirement plans meet specified funding ratios in the future. The mechanism is described below in Section 10: Governance and Investment Policy.

Oklahoma. Chapter 199, Laws of 2011 (House Bill 2132) amends the Oklahoma Pension Legislation Actuarial Analysis Act (OPLAAA), so that cost of living adjustments (COLAs) are considered fiscal retirement bills for purposes of OPLAAA procedures, thus requiring COLAs to be funded by the Legislature at the time of enactment. According to the legislative fiscal analysis of the legislation, the practical application of the concurrent funding requirement would suggest the retirement systems remove their unfunded COLA assumption. According to the legislative actuary's calculations, removal of COLA assumptions will affect the UAAL and the funded ratios of the pension systems as follows:

- Teachers Retirement system: UAAL will decrease by approximately $2.9 billion and increase OTRS's funded ratio from 48% to 56%;
- Public Employee Retirement System: UAAL will decrease by approximately $1.4 billion and increase the OPERS funded ratio from 66% to 77%;

Rhode Island. Chapter 408, Laws of 2011 (Senate Bill 1111) suspends cost-of-living adjustments to retirees' benefits until the system is 80% funded, but allows for intermittent COLAs at five-year intervals before the target is reached. The target is 80% funding aggregately for the Employees' Retirement System, the Judicial Retirement Benefits Trust and the State Police Retirement Benefits Trust. The provision does not affect COLAs provided by the municipal systems within the state plan.

The new COLA provisions are that a COLA will be equal to the difference between the five-year smoothed investment return and 5.5%, not to be less than zero and not to exceed 4%. It will apply to the first $25,000 of a member's benefit, a limit that will be indexed to inflation annually whether or not a COLA is paid. The COLA that may be paid at five-year intervals until the 80% funding target is reached will be calculated according to the formula in this paragraph.

Washington. Chapter 362, Laws of 2011 (House Bill 2021) eliminates further increases of Public Employees' and Teachers' Retirement Systems Plan 1 (PERS Plan 1 and TRS Plan 1) benefits through the annual increase, or "Uniform COLA" above the amount in effect on July 1, 2010, unless a retiree qualifies for the minimum benefit. It reduces the minimum employer contribution rates for the PERS Plan 1 unfunded liability from 5.75 to 3.5%, and for the TRS Plan 1 unfunded liability from 8.0 to 5.75%. The bill also increases the alternative minimum benefit to $1,500, and continues to index the alternative minimum benefit by 3% per year. [The two plans were closed to new members in 1977. Employers are responsible for amortization of the UAAL in the plans.]

3. Deferred Retirement Option Plans (DROP)

Alabama. Chapter 27, Laws of 2011 (Senate Bill 72) prohibits new membership in the DROP for state employees and teachers on and after April 1, 2011 and limits the interest payable on existing accounts.

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) limits eligibility for the deferred retirement option plan in the Public Safety Personnel Retirement System to those who become a member of the system before January 1, 2012.

The bill limits the amount credited monthly for a participant of DROP who has fewer than 20 years of credited service on January 1, 2012 to interest at a rate equal to the average annual return of the system over the period of years established by the Board for use in calculation of the actuarial value of assets for the previous year, but not to exceed the system's assumed investment rate of return but at least 2%.

It also requires a member who has fewer than 20 years of credited service on January 1, 2012 and who elects to participate in the DROP on or after January 1, 2012, to make employee contributions to the system equal to a regular employee who participates in PSPRS.

Florida. Chapter 68, Laws of 2011 **(**Senate Bill 2100) reduces the rate of interest to accrue on accounts of members who enter the DROP on or after July 1, 2011. For current members and those who join before that date, the interest rate remains at 6.5%. For new members it will be 1.3%.

4. Defined Benefit Plan Changes

Arizona. Chapter 26, Laws of 2011 (Senate Bill 1614) provides that a new state employee hired after the effective date of the bill who is regularly scheduled to work must wait at least six months before being eligible for and enrolled in the Arizona State Retirement System.

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) makes numerous changes in state retirement plan provisions. Some of the changes are summarized under other topic headings in this report. The bill removes the Rule of 85 for calculating age and service requirements for normal retirement for all members of the Arizona State Retirement System. The bill leaves in place the Rule of 80 for members hired before July 1, 2011. For those hired after the effective date of the legislation, retirement options will be 55/30; 60/25; 62/10 and age 65.

The legislation makes a number of changes in plans for elected state officials, summarized under that heading.

The legislation also makes changes to the structure of the Public Safety Personnel Retirement System and the Correctional Officers' Retirement Plan by implementing a new tier for new hires. The new tier (known as the 2nd Tier) combines the requirement for 25 years of service to achieve normal retirement with five year "salary smoothing" to determine the pension benefit.

Connecticut. Negotiations with public-sector unions, subject to ratification by the General Assembly provide for numerous changes in state retirement plans. The changes are part of a broader agreement that includes extensive health-plan changes and other wage and salary concessions in return for a promise of no layoffs for members of unions that approved the agreement.

For all current members the agreement on pension policies provides:

- A higher benefit reduction factor for early retirement, effective for retirements occurring after October 1, 2011. The reduction factor will increase from 3% to 6%.
- An increase in age and service requirements for eligibility for normal retirement, effective for current employees, other than hazardous duty employees, who retire after July 1, 2022 (sic).
  - From age 60 and 25 years of service to 63/25, or
  - From 62/10 to 65/10
- For retirements after October 1, the minimum cost of living adjustments will be reduced from 2.5% to 2%; maximum remains at 7.5%.

The agreement provides for creation of a new retirement plan tier, Tier III, for employees hired on or after July 1, 2011, with these provisions:

- Age and service requirements for new members will change to the requirements listed above for current members who retire after July 1, 2022.
- Early retirement for non-hazardous duty employees will be available at age 58 with 10 years of service, up from age 55 with 10 years of service.
- Normal retirement for hazardous duty employees will be at the earlier of age 50 with 20 years of service or 25 years of service, up from 20 years of service.
- Retirement benefits will be based on the average of the final five years of compensation instead of the final three years.
- Eligibility for a vested deferred retirement benefit will require 10 years of benefit service, as opposed to five years for current state employees (currently at 10 years for teachers in Connecticut).

Source: "Revised SEBAC 2011 Agreement Between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)," August 2011
http://inthistogetherct.org/wp-content/uploads/2011/07/Revised_SEBAC_2011_TA.pdf

Delaware. Chapter 14, Laws of 2011 (House Bill 81) changes the normal retirement age for employees hired on or after January 1, 2012. Under current law, employees are eligible to retire at age 62 with five years of service, at age 60 with 15 years of service, or at any age with 30 years of service. Under this act, post-2011 employees will be eligible to retire at age 65 with 10 years of service, at age 60 with 20 years of service, and at any age with 30 years of service.

The act increases the early retirement reduction factor for employees who retire prior to normal retirement age. Under current law, an employee may retire at age 55 with 15 years of service with a benefit reduction of 2/10th of one percent for each month the employee is under the age of 60. Under this act, the employee's pension would be reduced by 4/10th of one percent for each month the employee is under the age of 60.

The act increases the vesting requirement for employees hired on or after January 1, 2012 from five years to 10 years.

The act excludes overtime payments from the definition of final average compensation" for employees hired on or after January 1, 2012. Section 8 of the Bill declares the intent of the General Assembly to prevent the limited abuse of the State Employee's Pension Plan when employees voluntarily work overtime in order to inflate their final pension calculation, and recognizes that to protect the health and safety of employees and the citizens they serve, agency management should limit the assignment of mandatory overtime. This section requires each cabinet secretary to devise a written policy by June 30, 2012 to limit the use of mandatory and voluntary overtime.

Florida. Chapter 68, Laws of 2011 (Senate Bill 2100) changes vesting requirements and age and service requirements for normal retirement for employees initially enrolled in the pension plan on or after July 1, 2011. Such members will vest in 100% of employer contributions upon completion of 8 years of creditable service. For existing employees, vesting will remain at 6 years of creditable service. The base for computing final average compensation will increase from the five highest years to the eight highest years, for new employees.

For employees initially enrolled on or after July 1, 2011, the legislation increases the normal retirement age and years of service requirements, as follows:

- For Special Risk Class: Increases the age from 55 to 60 years of age; and increases the years of creditable service from 25 to 30.
- For all other classes: Increases the age from 62 to 65 years of age; and increases the years of creditable service from 30 to 33 years.

Hawaii. Act 29 of 2011 (House Bill 1035) prohibits any retirement benefit enhancements, including any reduction of retirement age, until the actuarial value of the system's assets is 100% of its actuarial accrued liability.

Hawaii. Act 163 of 2011 (House Bill 1038) changes age, service and vesting requirements for new members of the Employees' Retirement System as of July 1, 2012.

Current provisions allow employees hired between June 30, 1984 and June 30, 2006, to retire at 62 with at least 10 years of service, or at 55 with 30 years of service. Employees hired after June 30, 2006 can retire at 62 with five years of service, or at 55 after 30 years of service.

Under this legislation, eligibility for normal retirement benefits will be at age 60 with 10 years of service or age 55 with 25 years of service. Police and firefighters will continue to be eligible for normal retirement after 25 years of service.

The legislation increases the vesting requirement from five years to 10 years, and changes the calculation of final average compensation from the highest three to the highest five. For new employees, the retirement multiplier will be reduced from 2% to 1.75%.

Kansas. Chapter 98, Laws of 2011 **(**House Bill 2194), increases employee and employer contributions to the Kansas Public Employees' Retirement System (KPERS), contingent upon each chamber's voting on recommendations a study commission has been instructed to submit to the Legislature on January 6, 2012 (See Kansas under "Studies" for details of this requirement). [This summary is copied from Section 1," Contribution Rates and Funding Issues" because of the way contribution and other policy decisions are intertwined.]

The legislation makes adjustments in employee contribution adjustments, contingent upon the 2012 legislative votes mentioned previously. These add two options applicable to all active KPERS Tier 1 members. [Tier 1 members are those who joined KPERS before July 1, 2009.]

- Tier 1 members as the default option would have an employee contribution increase from 4% 6% and also would be given an increase in multiplier from 1.75% to 1.85% for future years of service; or if an election is permitted by the IRS, they could choose an alternative option: Freeze the employee contribution rate at 4% and reduce their future multiplier from 1.75% to 1.4%.

Additional employee contribution adjustments, that would be triggered by the 2012 Session dual votes, include adding two options that would apply to all active KPERS Tier 2 members.

- The default option would freeze the employee contribution rate at 6% and eliminate future cost-of-living adjustments. If the IRS permits the election of an alternative option, Tier 2 members could freeze the employee contribution at 6% and reduce their multiplier from 1.75% to 1.4% in order to retain their COLA.

Inactive KPERS members upon return to covered employment will be offered an election for alternative options in their respective tier before July 1, 2013. After that date, or if there were no election approved, inactive members would be given the default option in their tier upon returning to covered employment.

Louisiana. Act 238, Laws of 2011 (House Bill 332) added anti-spiking provisions to the rules for calculating retirement benefits for the Firefighters' Retirement System, the Municipal Employees' Retirement System and the Municipal Police Employees' Retirement System. The new provision for each plan, none of which previously had anti-spiking rules, is that in the calculation of final compensation, compensation for a given year may not exceed compensation for the prior year by more than 15%. Final compensation, however, shall not be less than it would be as calculated on July 1, 2011 under the rules of current law [a provision designed to protect benefits earned to July 1, 2011, under previous provisions].

Maine. Chapter 380, Public Laws of 2011 (L.D. 1043, the Biennial Budget Bill for fiscal years 2012 and 2013) enacts changes affecting state retirement plans. It changes the normal retirement age for most participants with less than five years of service on July 1, 2011 from 62 to age 65. This provision applies to retirement plans for Teachers, State Employees, Legislators and Judges but not to the members of the local government plan that the state administers nor to public safety personnel. It also changes provisions for post-retirement benefit increases and establishes new provisions for return to covered service after retirement (discussed in those sections of this report.)

Maryland. Chapter 397, Laws of 2011 (House Bill 72, the Budget Reconciliation and Financing Act), included extensive changes to Maryland retirement plans. The legislation increases employee contribution requirements for most current and future members of state plans.

Current Members

- All plans except Employees' Pension System (EPS) and Teachers' Pension System (TPS):
  For service credit earned after June 30, 2011, the COLA earned for retirement is contingent on achieving 7.75% investment return. For years in which investment return is not achieved, COLA is capped at 1%; for years in which the investment return achieves 7.75%, the cap increases to 2.5%.
- Employees' Pension System (EPS) and Teachers' Pension System (TPS):
  Increase member contribution from 5% to 7%;
  Maintain 1.8% multiplier and all retirement eligibility and vesting criteria.
- Law Enforcement Officers' Pension System (LEOPS):
  Increase member contribution from 4% to 6% in FY 2012 and to 7% in FY 2013 and thereafter;
  Maintain 2.0% multiplier
- Judges: no change

Future Members (as of July 1, 2011)

- All plans (except Legislators and Judges):
  Average final compensation (AFC) is calculated based on highest five consecutive years instead of highest three consecutive years, except that for the correctional officers' and state police officers' plans the five highest years need not be consecutive ;
  Vesting increases from five to 10 years;
  Contingent COLA based on achieving 7.75% investment return. For years in which investment return is not achieved, COLA is capped at 1%; for years in which the investment return achieves 7.75%, the cap increases to 2.5%.

- Employees' Pension System (EPS) and Teachers' Pension System (TPS):
  Member contribution is 7%;
  Multiplier is 1.5%;

Normal service retirement eligibility is age 65 with 10 years (up from 62 with 5 years) *or* Rule of 90;
Early service retirement eligibility is age 60 with 15 years (up from age 55 with 15years), with 0.5% reduction for every month before age 65.

- Law Enforcement Officers Pension System (LEOPS) and State Police:
  LEOPS member contribution is 6% in FY 2012 (up from 4%) and 7% in FY 2013 and thereafter;
  State Police normal service retirement eligibility is age 50 or 25 years of service (up from 22);
  Any new DROP account started after July 1, 2011 (including one started by current members) earns 4% annual compound interest (instead of 6% monthly compound interest).

Funding Provisions
In FY 2012 and 2013, reinvest all but $120 million of the savings generated by the reforms into the pension fund (the $120 million goes to budget relief); beginning in FY 2014, reinvest up to $300 million of the savings generated by the reforms, with the remainder going to budget relief.

Massachusetts. Chapter 176, Acts of 2011 (Senate Bill 2065 in its final version) enacts substantial changes to retirement plans for state employees, including law enforcement personnel, teachers and members of municipal and county plans in the state. Most of the changes affect those who become members of the plans on or after April 2, 2012. Provisions that affect current members are itemized as such below.

For members other than public safety members, the minimum age for retirement will increase from 55 to 60. Massachusetts provides a range of multipliers for calculating benefits, governed by age and length of service. For those with less than 30 years of creditable service, the old range provided a benefit factor of 1.5% of FAS at age 55, up to 2.5% of FAS at age 65 or older. For that class, the new range is 1.45% of FAS at age 60 up to 2.5% of FAS at age 67 or older. For those with 30or more years of creditable service, the bottom of the range provides a factor of 1.625% of FAS at age 60 graduated by year to the same top multiplier. The changes are intended to encourage longer active service before retirement.

Similar benefit changes were enacted for Group 2 members (generally law enforcement and correctional-facility employees but not including state police) and Group 4 members (other hazardous occupations). Group 3, state police, is not included in these changes. For Group 2 members, the minimum retirement age remains 55 but the benefit factor falls from 2% to 1.45%. For Group 4 members, the minimum retirement age increases from 45 with a 1.5% factor to 50 with a 1.45% factor.

For Groups 1, 2 and 4, the calculation of final average compensation was extended from three highest consecutive years to five highest consecutive years, which need not be the member's final years of service. The member's last five years of creditable service, whether or not consecutive, can be substituted for the previous formula if the latter provides a higher average. As in existing law, benefits are capped at 80% of FAS.

For all who retire on or after April 2, 2012, new language includes an anti-spiking provision. FAS calculations cannot include amounts of compensation that exceed the average of the two preceding years by more than 10%, with exceptions allowed for a number of situations such as changes in position or number of hours worked.

For all current, new and retired members, future post-retirement benefit increases will be based on the first $13,000 of annual benefits instead of $12,000. As of April 2, 2012, the minimum annual pension for those with 25 years of service will increase from $10,000 to $15,000. Minimum benefits for surviving spouses of those who died in active service have also been increased.

For State Police, the age of mandatory retirement was increased from 55 to 65; the new law retains a provision that allows a State Police member to serve 20 years even if that length of service runs beyond the mandatory retirement age. Incapacitated members can be forced to retire. For State Police members whose membership began before April 2, 2012, the benefit formula remains 60% of the member's compensation in his or her last 12 months of creditable service, and the benefit increases by 3% for each year of service in excess of 20 by age 55. For those who become members after April 2, 2012, the benefit at 20 years will be 50% of salary, to be increased by 2.5% for each additional year of service, to a maximum of 75% of compensation in the last 12 months of service.

Michigan. Public Act 264 of 2011 (House Bill 4701) makes significant changes to the Michigan State Employees' Retirement System defined benefit (DB), defined contribution (DC), and retiree health plans. DC plan members have individual 401(k) or 457 accounts.

The legislation is complicated, and this summary does not include all provisions and options. Public Act 264 and detailed summaries of Public Laws 264 and 265 are available from the Michigan House and Senate Fiscal Agencies here:
http://www.legislature.mi.gov/(S(nt2twkno4vt1ig45qmq1flq4))/mileg.aspx?page=getObject&objectName=2011-HB-4701

The SERS DB plan was, before this legislation, a noncontributory plan that was closed to new members in 1997. SERS-eligible employees entering the system since that time have been enrolled in a DC plan.

- This legislation requires employees currently in the DB pension plan to choose between remaining in the plan and contributing 4% of compensation toward pension costs beginning April 1, 2012, or freezing the service credit they have earned in the DB plan and converting to the DC plan for future service. Those who fail to make an explicit choice will be enrolled in the DC plan.
- Those who elect the contributory alternative face a second decision. They may choose to continue their contribution and stay in the DB plan until retirement, or choose to stay in it only until they complete 30 years of service, whereupon DB plan benefits would be frozen and the employee would transfer to the DC plan for any remaining employment. Choices are to be made by March 2, 2012 and may be reconsidered until that date.

- At the FY2012 rate, the new contribution would generate $56 million a year in employee contributions if all members of the DB plan elected to stay in the plan and make the contribution. The actual receipts will be less because the new plan will not be in effect for 12 months in 2012, and membership in the plan is expected to fall because of retirements in the future.
- For both groups of employees who transfer into the DC plan, either as of April 1, 2012, or as of their attainment date, their years of service would be used toward the 401(k) vesting schedule. They would be vested immediately in their own contributions and would be 100% vested in employer contributions as long as they had accrued more than 4 years of service, which (the legislative analysis notes) is likely to include all employees in the DB pension plan.
- Former employees who return to covered service will become members of the DC plan, whether or not vested in the DB plan. For such employees who were vested earlier and non-vested employees who return before 2014, service credits are frozen and the DC plan will cover future service. Non-vested employees who return after Jan 2014 will be covered by the DC plan for future service.
- Public Act 264 changes contribution provisions for the SERS DC plan. The DC plan does not mandate employee contributions. The employer makes a 4 percent contribution to each member's account, and will make additional contributions to match, dollar for dollar, employee contributions up to 3 percent of salary, for a potential total employer contribution of 7 percent.
- Public Act 264 will enroll DC members at a 3 percent contribution level, to leverage the maximum employer contribution under present law, and at an additional 2 percent employee contribution (a total of 5 percent) to leverage the maximum employer contribution in lieu of retiree health care, as described below. Employees may change contribution levels or opt out of them, at the cost of forfeiting employer matches.

The legislation provides that employer contributions for the unfunded accrued liability of the closed DB plan will be spread across all defined contribution plan members as well as DB plan members in the future. For FY 2012, the UAAL requires a 27 percent contribution based on salaries on DB plan members. Expanding the base to all employees will reduce the contribution rate to 13 percent. Although the change produces neither net costs or savings, it smoothes the effect of the contribution on department payrolls. Legislative staff point out that the provision is intended to distribute retirement costs more fairly across all departments so that those with more senior staff aren't penalized with higher DB costs.

The legislation also makes fundamental changes to retiree health care coverage and funding for that coverage. The legislation

- Eliminates employer-funded contributions for retiree health insurance for employees hired on or after January 1, 2012, and replaces it with an employer-funded contribution to an employee's 401(k) or 457 plan of up to 2 percent of salary. The contribution will be a match to employee contributions to those plans.
- Employees will be automatically enrolled at the level of employee contribution that will maximize the employer match, but employees may choose a different level of contribution or decline to make a contribution, which would result in a lower employer match or none.

- Repeals the 2010 requirement of a 3 percent employee contribution for retiree health care. Contributions under that requirement have been held in escrow because of a legal challenge, and will be refunded with interest. Members will be allowed to deposit the refunds in their 401(k) or 457 plan if they wish.
- Such employees will receive a lump sum payment of $1,000 or $2,000 upon retirement (depending on age and length of service), which will be deposited in a Health Reimbursement Account (HRA) established at that time for the employee, under the provisions of Public Act 265 (House Bill 4702). Although current federal law does not permit individuals to make voluntary deposits to an HRA, Public Act 265 permits them should federal law be amended to allow them in the future.
- Employees will be offered the option to purchase retiree health care from the state of Michigan upon separation from employment or retirement.
- Employees hired before March 31, 1997 (when the defined contribution retirement plan went into operation) are not affected by the change in retiree health care coverage provisions.
- State employees hired between March 31, 1997 and January 1, 2012 are members of the defined contribution retirement plan. They are covered by a graded health care subsidy plan that currently provides 30 percent premium coverage after 10 years of service, with an additional 3 percent premium coverage for each additional year of service, capped at 90 percent premium coverage (after 30 years of service).
- Public Act 264 allows those who became members of the DC pension plan before January 1, 2012, at their option, to continue under the graded health care subsidy plan for the remainder of their employment career, or to change to the provisions described above. Should they take the latter option, their service credit under the graded plan will be monetized and contributed to their 401(k) or 457 plan.
- The act includes a formula to govern the calculation of the monetary value of a member's earned retiree health care benefit. Certain service guidelines may affect individual's account value, and also will apply to DC plan members who have left covered service and later return to it. The monetized amounts contributed to the member accounts will not be restricted to the purchase of retiree health care from the state. They will be available for any purpose allowed under Federal rules for the accounts.

Mississippi. Chapter 469, Laws of 2011 (Senate Bill 2439) changes eligibility for retirement benefits and the formula for them. For people who become members of the Mississippi Public Employees Retirement System on or after July 1, 2011:

- Age and service requirements for benefits will be age 60 with 8 years of service (unchanged from 2007 legislation) or 30 years of service (25 years in 2007 legislation).
- Those who retire after age 60 without 30 years of service will be entitled to a benefit with an actuarial reduction for each year of service below 30 years or the number of years in age that the member is below age 65, whichever is less.
- A new benefit formula will provide a benefit of 2% of average compensation for the first 30 years of service and 2.5% for each additional year of service (2% for first 25 years and 2.5% for additional years in previous law). Average compensation is the average of the four years during which the member's compensation was the highest.

Montana. Chapter 369, Laws of 2011 (House Bill 122) changes various provisions of the Montana Public Employee Retirement System for people hired on or after July 1, 2011. The employee contribution rate for such members will be 7.9% of compensation and will remain at 6.9% for those hired before that date. Also for people hired after that date:

- Highest average compensation will be based on the highest average of 60 consecutive months of employment (36 months for members before that date);
- Eligibility for normal retirement will be at age 65 with five years of service or age 70 (for members before that date, unchanged at 60/5, 65 or 30 years of service);
- Eligibility for early retirement will be at age 55 with five years of service (for members before that date unchanged at 50/5 or 25 years of service); and
- Calculation of retirement benefits will be as follows:
  - If less than 10 years of membership service, 1.5% of highest average compensation multiplied by the years of total service credit;
  - If 10 or more years but less than 30 years of membership service, 1.7857 or 1/56 of highest average compensation multiplied by the years of total service credit;
  - If 30 or more years of membership service, 2.0% of highest average compensation multiplied by the years of total service credit;
  - In each instance above, the minimum benefit will be the actuarial equivalent of double the member's accumulated contributions; and
  - The formula for prior members with less than 25 years of service is a multiplier of 1/56 and for those with more than 25 years of service a multiplier of 2%.

Chapter 154, Laws of 2011 (House Bill 134) alters the formula for computing the final average salary of game wardens from the highest consecutive 36 months to 60 months for members hired on or after July 1, 2011. Chapter 155 (House Bill 135) makes a similar change for the sheriffs' retirement system.

Nebraska. Legislative Bill 509 (approved by the governor April 14, 2011) increases the 7% annual salary cap in the School Employees Retirement Plan to 9% beginning July 1, 2012 and eliminates the current salary cap exemptions for purposes of calculating benefits on annual compensation during each of the last five years of employment prior to actual retirement. The cap is further reduced to 8% beginning July 1, 2013. Current exemptions include:

- Members who experience a substantial change in employment position (job or duty change;
- Excess compensation occurred as the result of a collective bargaining agreement between the employer and a recognized collective bargaining unit or category of school employee;
- Excess compensation occurred as the result of a district wide permanent benefit change made by the employer for a category of school employee.

New Hampshire. Chapter 224, Laws of 2011 (House Bill 2, the Budget Trailer Bill) makes numerous changes to provisions of the New Hampshire Retirement Plan. Changes in contribution rates are reported in that section of this report.

- For members vested before July 1, 2012, the definition of average annual compensation (the base for benefit calculation) remains at the three highest years of creditable service. However, new language provides that the amount of pay for special or extra duty service included in each of the three highest years cannot exceed the average for the last seven years of service.
- For members who are not vested on July 1, 2012 or who began service after July 1, 2011, average annual compensation will be the average of the highest five years. The amount of compensation in addition to base compensation for each of the last five years cannot annually exceed the average of all creditable service years other than the five highest years.
- For members who are not vested on July 1, 2012 or who began service after July 1, 2011, retirement benefits cannot exceed the lesser of 85% of average annual compensation or $120,000. The $120,000 limit is in existing law.
- Normal retirement age for Group I members (stat e and local government general employees and teachers) is increased from 60 to 65 for those who begin service after July 1, 2011. Early retirement is available at age 60 with 30 years of service with a benefit reduction of 0.25% for each month the applicant is under the age of 65. The benefit factors remain unchanged from existing law .
- Normal retirement age for Group II members (police and firefighters) is increased from 50 to 52.5 for those who begin service after July 1, 2011. Early retirement is available at age 50 with 25 years of creditable service with a benefit reduction of 0.25% for each month the applicant is under the age of 52.5.
- For Group II members who begin service on or after July 1, 2011, the multiplier for calculating a retirement benefit is reduced to 2% (from 2.5% for those who vested before January 1, 2012). The legislation provides a transitional schedule of multipliers for those who will have at least four years of service but less than the 10 years it requires to vest as of January 1, 2012. For such members, age and service requirements for normal retirement and the multiplier are less for members who will have longer service records on January 2, 2012.
- The age at which non-active vested members whose service begins after July 1, 2011, can receive a benefit is set at 65 with a reduced benefit available after age 60, if the person has 30 years of credited service. For Group II members, the comparable provisions are age 52.5 and 50 with 25 years of service.

New Jersey. Chapter 78, Laws of 2011 (Senate Bill 2937), makes various changes to the manner in which the Teachers' Pension and Annuity Fund (TPAF), the Judicial Retirement System (JRS), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), and the State Police Retirement System (SPRS) operate and to the benefit provisions of those systems.

New members of TPAF and PERS will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of 1/4 of 1% for each month that the member is under age 65. TPAF and PERS members enrolled before November 1, 2008 are eligible for a service retirement benefit at age 60 and members enrolled on or after that date are eligible at age 62. New members will be eligible for a service retirement benefit at age 65.

A new PFRS member's special retirement benefit will be 60% of final compensation, plus 1% of final compensation multiplied by the number of years of creditable service over 25 but not over 30, instead of the current benefit of 65% of final compensation plus 1% for each year of service over 25 but not over 30.

North Carolina. Chapter 232, Laws of 2011 (House Bill 1134) increases vesting requirements for people who become members of the North Carolina Teachers' and State Employees' Retirement System and the Consolidated Judicial Retirement System on or after August 1, 2011. It does not affect those who became members before that date. The vesting requirement is increased from five years to 10 years.

North Dakota. Chapter 135, Laws of 2011 (House Bill 1134) increased age and service requirements for members of the Teachers' Fund for Retirement. The new provisions will not affect Tier 1 employees who are vested (3 years of service credit) and who are at least 55 years of age OR who have a total of age plus years of service that equal 65 as of June 30, 2013. Current retirement eligibility requirements continue to apply to them. Those are the Rule of 85 for Tier I members.

For other Tier 1 members and all Tier 2 member (now subject to the Rule of 90), eligibility requirements for normal retirement are amended. The new requirement for members of both tiers will be the Rule of 90 with a minimum age of 60, or a minimum age of 65 for those who do not meet the Rule of 90. The reduction factor for early retirement, available according to the earlier of age 60 and Rule of 90 or age 65 will increase from from 6% to 8% per year.

Oklahoma. Chapter 203, Laws of 2011 **(**Senate Bill 377) increases age and service requirements for normal retirement for members of the Teachers Retirement System (TRS). For those whose membership began before November 1, 2011, the requirements remain age 62 or the Rule of 90 with no minimum age. For new employees on or after November 1, the bill increases requirements to age 65 or the Rule of 90 with a minimum age of 60. The bill provides a schedule of percentages of benefit reductions for such new members who take early retirement (available at age 60), which provides for a benefit reduction to 65% of normal benefits at age 60 ranging up year by year to 93% at age 64.

Chapter 206, Laws of 2011 (Senate Bill 794) similarly changes age and service requirements for retirement for members of the Oklahoma Public Employee Retirement System (OPERS) for those who are new members as of November 1, 2011 from 62 or the Rule of 90 to 65 or the Rule of 90 with a minimum age of 60.

Chapter 206 also increases normal retirement requirements for elected officials who first serve in elective office on or after November 1, 2011, from age 62 to age 65 or age 62 with 10 years of service in an elective office (age 60 or the Rule of 80 previously). Elected officials with 10 years of service may choose early retirement at age 60 with reduced benefits. The schedule of reductions is increased from the previous schedule. Vesting for elected officials is increased from six years to eight years of service. Contribution requirements for elected officials are changed from a choice tied to different benefit packages to the same 3.5% that is required of other members of OPERS. The benefit provisions were changed from the variety of choices open to current members to 2% of final average compensation times years of service.

Chapter 190, Laws of 2011 (House Bill 1010) increases the age and service requirements for retirement for members of the Uniform Retirement System for Justices and Judges whose initial service as a member of the system is on or after January 1, 2012 . For previous members, eligibility requirements for normal retirement are 65/8, 60/10 or the Rule of 80 with eight years of service. The new requirements are 67/8 or 62/10. The Rule of 80 was not continued.

Rhode Island. Chapter 408, Laws of 2011 (Senate Bill 1111) revised the state defined benefit plan for state employees, teachers, and covered municipal employees to reduce employee required contributions and benefits for members as of July 1, 2012 and to add a defined contribution component for members of the plan.

Some features of the legislation will affect judges and public safely members of the state plan, but they will remain entirely covered by a defined benefit plan. The hybrid plan has, however, been extended to public safety employees of municipalities that are part of the state plan for municipal employees. The changes in this legislation do not affect separately administered municipal retirement plans in the state.

The specific changes for the defined benefit component of the plan are as follows:

- Benefits accrued through July 1, 2012, remain unchanged. From that date forward, the benefit accrual rate will be 1% per year.
- From that date forward, benefits will be based on the average of a member's highest five-year compensation rather than the present high three. The legislation provides that no member's benefit at retirement will be less than the accrued benefit as of July 1, 2012 (that is to say, the five-year base will not be applied retroactively).
- Changes in contribution rates:
    - The state employee contribution to the DB plan will be reduced from 8.75% of salary to 3.75% and for teachers from 9.75% to 3.75%. For municipal employee members, the rate changes from 6% to 1%, or from 7% to 2% for those who elect the cost-of-living option.
    - The three groups of employees listed above will all participate in a mandatory defined contribution plan. Employees will contribute 5% of salary and employers will contribute 1% of salary to the DC plan.
    - For teachers who are not covered by Social Security, the contribution amounts will be 7% from employees and 3% from employers.
    - For municipal police and firefighters who are not covered by Social Security, the contribution amounts will be 8% from employees and 4% from local government employers.
    - Employee contributions to DC accounts vest immediately. Employer contributions vest after three years.
- Vesting for DB benefits has been reduced from 10 years to five years.
- Age and service requirements:
    - For normal retirement, increased to normal Social Security age with five years of service for state employees, teachers and general Municipal System

members. These provisions affect all current members who do not have five years of service as of June 30, 2012.
    - Legislation in 2009 set normal retirement at age 62 with 10 years of service. The 2011 legislation, like the 2009 legislation, provides transitional rules affecting all members presently qualifying for retirement under the new vesting period of five years. These rules provide that the more service credit a vested member has presently, the less that member's age of retirement will be delayed despite the applicability of new retirement age requirements. However, such members would have to work for three years following July 1, 2012, to gain the employer's share of contributions to their DC accounts.
- The hybrid plan does not apply to correctional officers covered in the state employee plan. Their benefit accrual rate has been modified. Current law provides higher accrual rates for service in excess of 30 years. The accrual rate for the first 30 years is 2% per year. For year 31, current law provides a rate of 6%, down to 3% for year 34. This law flattens those rates to 2% per year, except for current members with at least 25 years of service. The maximum benefit for correctional officers has been reduced from 80% of final average compensation to 75%.
- Correctional officers' normal retirement provisions remain age 55 with 25 years of service, but those who do not attain 25 years of service cannot receive benefits until they reach Social Security age.
- Municipalities whose employees are covered in the state system have had either a 20 year and out or a 25 and out plan for police and firefighters. This legislation removes the 20 year and out option. Transitional rules will permit qualified members to retire at 52, but the normal retirement age will be 25 years of service or 55/10.
- For state police, current law allows them to retire when their retirement benefit equals 50% of three-year average compensation, and mandates retirement at age 62 or when the benefit equals 65% of average compensation. It also provides that those who have not earned a benefit of 50% at age 62 may continue to work until they do so and then must retire. This legislation reduces the benefit accrual rate from 2.5% to 2% with a maximum benefit of 65%, and therefore permits members to work to 33 years (up from limits of 25 years for those hired before July 1, 2007 and from 30 years for those hired since then).
- Judges will not participate in the DC plan, but contribution requirements have been increased from 8.75% to 12% except for sitting Supreme Court justices because of constitutional protections for them.

Texas. Senate Bill 1664 (signed by the governor June 17, 2011), § 10, changes the provision for retirement under the Rule of 80 for members of the Employee Retirement System hired on or after September 1, 2009. This change increases the minimum service requirement for such employees from five years to 10. The alternative provision, age 64 with 10 years of service, was not changed.

Washington. Chapter 5, Laws of the First Special Session of 2011 (House Bill 2070) provides that pensions from specified Washington retirement systems based on salaries earned during the 2011-13 biennium will not be reduced by compensation forgone by a member due to reduced work hours, mandatory leave without pay, temporary layoffs, or reductions to current pay if the measures are an integral part of a state or local government employer's expenditure reduction efforts.

The bill applies this change to the Law Enforcement Officers' and Fire Fighters' Retirement System, the School Employees' Retirement System, the Washington State Patrol Retirement System, the Teachers' Retirement System, the Public Safety Employees' Retirement System, and the Public Employees' Retirement System.

West Virginia. Act 150 of 2011 (HOUSE BILL 2939) provides that for people who join the Public Employees Retirement System on or after July 1, 2011, the existing provision for retirement when a person meets the Rule of 80 is amended to require five or more years of contributory service. The bill also redefines final average compensation to exclude such lump-sum payments as attendance or performance bonuses, one-time flat fee or lump sum payments, payments paid as a result of excess budget, or employee recognition payments.

Wisconsin. Act 32 of 2011 (Assembly Bill 40, the budget act for state fiscal years 2012 and 2013), establishes a vesting period for public employees hired after the date of the act to receive retirement benefits. Previous law provided for immediate vesting. New employees will be required to earn five years of creditable service to be entitled to a benefit.

[The requirement as enacted demonstrates the Wisconsin governor's uniquely powerful item veto. The language the Legislature sent the governor established a scale of vesting by which employees would be entitled to reduced pension benefits according to a scale that would have provided 50% of benefits (as calculated by the usual formula) to those with less than one year of service, 100% of benefits to those with five years, and proportionate shares for intermediate years of service. The governor used his veto authority to strike letters and numerals to change this language:

> If the participant has at least 4 years of creditable service, but less than 5 years of creditable service, the annuity amount under par. (e) shall be reduced by 1 0 percent .

To this language:

> If the participant has less than 5 years of creditable service, the annuity amount under par. (e) shall be 0 percent .

See Section 40.23 of Assembly Bill 40.

5. Defined Contribution and Hybrid Plans

Indiana. Public Law No. 22-2011 (Senate Bill 524) establishes a defined contribution (DC) plan as an option for new state employees. A state employee who does not make an explicit choice to become a member of the DC plan will become a member of the Public Employees' Retirement Fund (PERF).

The bill requires the PERF Board of Trustees to establish the same investment options for the DC plan that are available for the investment of a PERF member's annuity savings account. It provides that a member's contribution to the plan will be 3% of the member's compensation and will be paid by the state on behalf of the member. It also provides that the state's employer contribution rate for the plan will be equal to the state's employer contribution rate for PERF. The amount credited from the employer's contribution rate to the member's account shall not be greater than the normal cost of PERF with any amount not credited to the member's account applied to PERF's unfunded accrued liability. The bill establishes a minimum state employer contribution of 3% of plan members' compensation.

The bill establishes a five-year vesting schedule for employer contributions, and requires a member who terminates state employment before the member is fully vested to forfeit amounts that are not vested. It establishes provisions for the withdrawal of amounts in member accounts. The bill also authorizes rollover contributions to the plan.

Rhode Island. Chapter 408, Laws of 2011 (Senate Bill 1111) revised the state defined benefit plan for state employees, teachers, and covered municipal employees to reduce employee required contributions and benefits for members as of July 1, 2012 and to add a defined contribution component for members of the plan.

Teachers, state employees and MERS municipal plans would all participate in this new structure. Corrections officers, State Police, judges and MERS public safety personnel would not have a defined contribution plan. MERS public safety employees currently not participating in Social Security would have a supplemental defined contribution plan described further below. The key elements of the defined contribution component of the hybrid plan include:

- A mandatory 5.0 percent employee contribution and 1.0 percent employer contribution;
- Employees vest immediately, but three year vesting period for employer contributions;
- Teachers not participating in Social Security would have an additional 4.0 percent contributed to the defined contribution plan, of which 2.0 percent would come from the teacher and 2.0 percent paid by the local employer;
- MERS police and fire personnel not participating in Social Security would have an additional 6.0 percent contributed to the defined contribution plan, of which 3.0 percent would come from the employee and 3.0 percent paid by the local employer; and.
- The State Investment Commission is responsible for administering and providing employee investment support.

Utah. Chapter 439, Laws of 2011 (Senate Bill 308), makes numerous clarifying amendments to Utah's 2010 legislation restructuring its public pension plans. In addition to other changes and clarifications, the bill:

- Provides that a person initially entering regular full-time employment after July 1, 2011, has one year instead of 30 days to make an irrevocable election between a Tier II hybrid retirement system and a Tier II defined contribution retirement plan and that the election must be submitted electronically;

- Allows the Legislature to decrease benefits in the defined benefit portion of the Tier II Hybrid Retirement System for new public employees and new public safety and firefighter employees for future years of service under certain conditions;
- Provides that vesting of the defined contribution balance occurs upon accruing four years of service credit instead of four years from the date of employment under the Tier II hybrid retirement systems.

6. Divestiture

Iowa. House File 484 (signed by the governor April 20, 2011) restricts the Treasurer of State, the State Board of Regents, the Iowa Public Employees' Retirement System (IPERS), the Public Safety Peace Officers' Retirement System (PORS), the Statewide Fire and Police Retirement System and the Judicial Retirement System from directly investing in certain companies with active business operations in Iran. The act encourages the use of commingled funds (indirect holdings) that do not invest in scrutinized companies.

The act requires each public fund to develop and maintain a list of scrutinized companies by March 1, 2012. The act permits IPERS to act on behalf of the system and other public funds to develop and issue a request for proposal for third-party services to identify and compile a scrutinized companies list. An annual report to the General Assembly is required on October 1, 2012, and each October 1 thereafter.

New Hampshire. Chapter 53, Laws of 2011 (House Bill 491) relates to the state's existing law requiring divestiture of retirement system assets relating to Sudan. This bill allows the New Hampshire Retirement System to cease divesting and/or to reinvest in certain scrutinized companies if the system concludes there would be economic harm to the system's trust fund as a result of divesture and/or lack of reinvestment.

Utah. Chapter 352, laws of 2011 (S.B. 112), requires the Utah State Retirement Office to provide data in its annual report designed to explain the extent to which the retirement office is preventing the investment of public funds in scrutinized companies and, beginning July 1, 2011, requires the Utah State Retirement Office to prevent the investment of retirement funds in Iran's petroleum sector (scrutinized companies) by adjusting future investment practices within the office and by stipulating in future investment management contracts that no new investments may be made in a scrutinized company.

7. Early Retirement Incentives.

Kansas. On August 2, 2011, Governor Sam Brownback's office announced a voluntary retirement program that provides incentives for state retirement-eligible employees who offer to retire by September 19. Approximately 4,000 employees who are currently eligible for full or early retirement are eligible to retire under the criteria of the program. There are two options for eligible employees to consider:

- Post-Retirement Group Health Insurance Coverage: The state will pay the employer's share of the state employee rate for up to 60 months for member-only

coverage or up to 42 months for member-plus-dependent coverage - until the employee reaches age 65, whichever comes first.
- One-time Lump Sum Payment of $6,500.

This is a voluntary program. Secretary of Administration Dennis Taylor said. "Employees should contact their personal legal and financial advisors about whether to retire and the Kansas Public Employees Retirement System about eligibility concerns."

The state does not expect to replace those who retire, although critical positions may need to be filled to ensure the viability of essential state functions. Those decisions will be made following the deadline for employees to present their offers to retire.
Source: Press release, Office of the Governor, August 3, 2011

Maine. Chapter 380, Public Laws of 2011 (L.D. 1043, the Biennial Budget Bill for fiscal years 2012 and 2013) authorizes the Commissioner of Administration to offer a retirement incentive program to employees who are eligible to retire and who have reached their normal retirement age, but not to employees who are eligible to retire under any special retirement plan [that is, public safety members]. Employees choosing to participate in this retirement incentive program must make application for participation in the manner specified by the commissioner, with retirements effective on or before November 1, 2011. The legislation budgets $5.5 million in expected savings.

8. Elected Officials' Retirement Programs.

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) makes numerous changes in the Elected Officials' Retirement Plan (EORP), which covers state and county elected officials, those of cities and towns at those governments' option, higher court judges and superior court commissioners. The legislation:

- Changes the definition of average yearly salary from the highest three of the last 10 years of service to the highest five consecutive years of service of the last 10 as an elected official. The act provides an alternative calculation for officials who do not have five consecutive years of service.
- Increases contribution rates in annual steps from the present 7% of gross salary to, in FY 2014, 13% or an actuarially-based calculation which can be revised. [The goal of the revision will be to provide a continuing 1/3 – 2/3 split of contributions between members and employers, respectively.]
- Allows a member to withdraw the member's contributions plus interest if the member ceases to hold office for any reason other than death or retirement. The effect of this provision is that members will no longer be eligible to receive part or all of employer contributions upon withdrawal of their contributions.
- Requires contributions by a retired member's employer if a retired member subsequently becomes an elected official.
- Removes the ability for an elected official to retire early after reaching age 60 and at least 10 years of service, which removes early retirement and retirement based on years of service (set at 20 years in previous law).

- Changes the amount of payment for a surviving spouse of a deceased retired or deceased active or inactive member to one-half, rather than three-fourths, of the deceased retired member's pension at the time of death, and allows a member to elect, an actuarially reduced pension and an increased surviving spouse's benefit.
- Changes the benefit formula for those who become members on or after January 1, 2012. The new benefit formula is 3% of the member's average yearly salary multiplied by credited service, not to exceed 75% of average yearly salary. Under previous law it was 4% of average annual salary for each year of service, capped at 80% of average annual salary.
- Places newly-hired court commissioners in the state retirement system (ASRS) instead of EORP, contingent upon approval from the SSA.

Delaware. Chapter 14, Laws of 2011 (House Bill 81) changes the number of years it will take an elected official elected on or after January 1, 2012 to vest for a pension, from 5 years to 10 years. Under current law, employees are eligible to retire at age 62 with five years of service, at age 60 with 15 years of service, or at any age with 30 years of service. Age and service requirements for normal retirement were conformed to those for other employees: age 65 with 10 years of service, age 60 with 20 years of service or any age with 30 years of service.

Florida. Chapter 68, Laws of 2011 **(**Senate Bill 2100) changes retirement provisions for members of the Elected Officers class. Changes reported here affect the governor, lieutenant governor and state legislators. All members will be required to contribute 3% of compensation to the Florida Retirement System, beginning July 1, 2011. Employer contributions will fall by somewhat more than the amount of employee contributions for FY 2012, but will rise to about 28% for FY 2013.

Members enrolled on or after July 1, 2011, will be eligible for normal retirement at age 65 or after having completed 33 years of service regardless of age (previously 62 with six years of service or the age of 62). The base for average final compensation will increase from the highest five years to the highest eight years. Vesting will increase from six years, for those enrolled in the system before July 1, 2011, to eight years, for those enrolled on or after that date.

Massachusetts. Chapter 176, Acts of 2011 (Senate Bill 2065 in its final version) restricts the ability of elected and appointed officials to receive a pension benefit while holding an office covered by the plan in which the benefit was earned.

New Jersey. Chapter 78, Laws of 2011 (Senate Bill 2937), makes various changes to the manner in which the Teachers' Pension and Annuity Fund (TPAF), the Judicial Retirement System (JRS), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), and the State Police Retirement System (SPRS) operate and to the benefit provisions of those systems.

The bill repeals language that allows a member of PERS or PFRS to retire while holding an elective public office covered by PERS or PFRS and continue to receive the full salary for that office, if the member's PERS or PFRS retirement allowance is not based solely on service in the elected public office. It also provides that the PFRS or PERS retirees who were granted a retirement allowance under those sections prior to the bill's effective date and are currently in an elective office covered by either of those systems may continue to receive their pension benefit and salary for the elective office.

Oklahoma. Chapter 206, Laws of 2011 (Senate Bill 794) increases normal retirement requirements for elected officials who first serve in elective office on or after November 1, 2011, from age 62 to age 65 or age 62 with 10 years of service in an elective office (age 60 or the Rule of 80 previously). Elected officials with 10 years of service may choose early retirement at age 60 with reduced benefits. The schedule of reductions is increased from the previous schedule. Vesting for elected officials is increased from six years to eight years of service.

Contribution requirements for elected officials are changed from a choice tied to different benefit packages to the same 3.5% that is required of non-elective members of OPERS. The benefit provisions were changed from the variety of choices open to current members to 2% of final average compensation times years of service.

Wisconsin. Act 10 of 2011 (Assembly Bill 11 of the January 2011 Special Session) changes the annual benefit accrual rate for elected officials (including legislators) from 2% of final average salary to 1.6% for service accrued after the effective date of the legislation.

9. Ethics, Forfeiture of Benefits, Privacy

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) requires a judge to order the forfeiture of retirement benefits if a member is convicted or pleads no contest to a Class 1, 2, 3, 4, or 5 felony. The bill provides that the member will receive a return of the member's contributions, plus interest, in a lump sum upon the ordered forfeiture and that if the member is successful on appeal, no rights are forfeited and benefits are reinstated. The bill permits a judge to award some or all of the member's forfeited amount to a spouse, dependent, or former spouse taking into consideration:

- The role, if any, the person had in the illegal conduct.
- The degree of knowledge, if any, the person had about the illegal conduct.
- The community property nature of the benefits involved.
- The extent to which the person was relying on the forfeited benefits.

The bill provides that a person subject to the forfeiture order is not eligible for membership in a public retirement plan in the future and that the member forfeits benefits in the retirement system in which the member was contributing at the time of the illegal conduct.

Oklahoma. Chapter 202, Laws of 2011 (Senate Bill 347) establishes that municipal officers or employees guilty of a crime related to the duties of his or her employment will forfeit retirement benefits, less the person's contributions to the retirement system or any benefit vested at the effective date of this act. The penalty of forfeiture is applicable both during and after the officer's or employee's term of office or employment. The law provides a right of hearing for the person whose benefits are subject to forfeiture.

Virginia. Chapter 493, Acts of 2011 (House Bill 2095), provides that a member of any of the retirement programs administered by the Virginia Retirement System forfeits his retirement benefits if it is determined that the member has been convicted of a felony that arose out of misconduct in any position covered under the retirement programs administered by the Virginia Retirement System.

10. Governance and Investment Policy.

Illinois. Public Act 753 of 2009 (House Bill 2557, not previously reported) affects investments of pension funds. It provides that

- Every pension fund, retirement system, and investment board created under this Code, except those whose investments are restricted by Section 1-113.2 of this Code, shall instruct the fund's, system's, or board's investment advisors to utilize investment strategies designed to ensure that all securities transactions are executed in such a manner that the total explicit and implicit costs and total proceeds in every transaction are the most favorable under the circumstances.
- It is the public policy of the State of Illinois to encourage the pension funds, and any State entity investing funds on behalf of pension funds, to promote the economy of Illinois through the use of economic opportunity investments to the greatest extent feasible within the bounds of financial and fiduciary prudence.
- Each pension fund, except pension funds created under Articles 3 and 4 of this Code, shall submit a report to the Governor and the General Assembly by September 1 of each year, beginning in 2009, that identifies the economic opportunity investments made by the fund, the primary location of the business or project, the percentage of the fund's assets in economic opportunity investments, and the actions that the fund has undertaken to increase the use of economic opportunity investments.
- Any State agency investing funds on behalf of pension funds must make reasonable efforts to invest in economic opportunity investments.

Indiana. Public Law No. 23-2011 (Senate Bill 549) establishes the Indiana Public Retirement System to administer and manage:

1. The Public Employees' Retirement Fund (PERF);
2. The Teachers' Retirement Fund (TRF);
3. The Judges' Retirement Fund;
4. The Prosecuting Attorneys Retirement Fund;
5. The State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Fund;
6. The 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund);
7. The Legislators' Retirement System;
8. The Pension Relief Fund;
9. The Special Death Benefit Fund; and
10. The State Employees' Death Benefit Fund.

The bill creates a nine-member Board of Trustees for the system, who will be appointed by the governor as follows:

1. At least one member with experience in economics, finance, or investments;
2. At least one member with experience in executive management or benefits administration;
3. The Director of the Budget Agency (or designee), ex officio;
4. Two members nominated by the Speaker of the House of Representative, one an active or retired police officer or firefighter and one TRF member;
5. Two members nominated by the President Pro Tempore of the Senate: one PERF member and one TRF member;
6. One member nominated by the Auditor of State: the Auditor of State or an individual with experience in professional financial accounting or actuarial science; and
7. One member nominated by the Treasurer of State: the Treasurer of State or an individual with experience in economics, finance, or investments.

The bill requires that initial appointments to the board give preference to current trustees of PERF and TRF. This bill says that a trustee is strongly encouraged to complete at least 12 hours of trustee education annually. The board's powers and duties are the combined powers and duties of the PERF and TRF boards. Each retirement fund will continue as a separate fund managed by the board. The board will appoint a director of the system to serve at the pleasure of the board.

Louisiana. Act 238, Laws of 2011 (House Bill 332) added the commissioner of administration, the state treasurer, and two mayors appointed by the Louisiana Municipal Association to the Boards of Trustees for the Firefighters' Retirement System and the Municipal Police Employees' Retirement System.

Massachusetts. Chapter 176, Acts of 2011 (Senate Bill 2065 in its final version) makes extensive changes in the governance processes of Massachusetts state and local retirement plans. The governance sections of the law:

- Codify disclosure requirements mandating that all vendors annually inform the Commission and the retirement board of any compensation arrangements to be received or to be paid in relation to the services provided as well as to annually disclose any conflict of interest that may exist;
- Require vendors to submit a sworn statement that a good faith proposal has been made without collusion or fraud;
- Establish an explicit open and competitive procurement process to be followed by retirement boards when soliciting investment, actuarial, legal or accounting services;
- Require retirement board members to file statements of financial interests;
- Prohibit vendors, contractors, or others receiving remuneration from a retirement board or anyone doing business with a retirement board from serving on a retirement board;
- Require retirement board members to submit a sworn statement that to the best of his or her knowledge any proposal made as part of a competitive process is submitted in good faith and without collusion and fraud; and,

- Mandate relevant education for retirement board members.

New Hampshire. Chapter 224, Laws of 2011 (House Bill 2, the Budget Trailer Bill) revises the membership of the board of trustees of the New Hampshire Retirement System. The board has 13 members. The two employee, two teacher, two police and two firefighter members are reduced to one from each category of membership. The two legislative members were dropped. They will be replaced by two additional nonmember trustees appointed by the governor and council, and four employer members appointed by the governor and council from nominations from employer groups.

New Jersey. Chapter 78, Laws of 2011 (Senate Bill 2937), makes various changes to the manner in which the Teachers' Pension and Annuity Fund (TPAF), the Judicial Retirement System (JRS), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), and the State Police Retirement System (SPRS) operate and to the benefit provisions of those systems.

The bill establishes new pension committees as follows, to be appointed when the system or part of a system to which they appertain shall have reached a targeted funded ratio. The term "target funded ratio" [in non-technical language] means a funded ratio of 75% in fiscal year 2012, which is to increase annually by equal increments in each of the subsequent seven fiscal years, until the ratio reaches 80 percent at which it is to remain for all subsequent fiscal years:

- One 8-member committee for the TPAF and one for the SPRS;
- Two 8-member committees in the PERS, one for the State part of the PERS and one for the local part of the PERS; and
- two 10-member committees in the PFRS, one for the State part of the PFRS and one for the local part of the PFRS.

Half of the members of each committee will be appointed by the Governor to represent public employers and half appointed by certain unions whose members are in the retirement system. When a target funded ratio for the system or part of the system is achieved, each committee will have the discretionary authority to modify the: member contribution rate; formula for calculation of final compensation or final salary; fraction used to calculate a retirement allowance; age at retirement; and benefits provided for disability retirement. A committee will not have authority to change the number of years required for vesting.

The term "target funded ratio" means a ratio of the actuarial value of assets against the actuarially determined accrued liabilities expressed as a percentage that will be 75% in fiscal year 2012, and increased annually by equal increments in each of the subsequent seven fiscal years, until the ratio reaches 80% at which it is to remain for all subsequent fiscal years.

The committees of these systems will have the authority to reactivate the cost of living adjustment on pensions and modify the basis for the calculation of the cost of living adjustment and set the duration and extent of the activation. A committee must give priority consideration to the reactivation of the cost of living adjustment.

The bill also provides a revised amortization schedule for the funds. Beginning with the July 1,2018 actuarial valuation, the accrued liability contribution shall be computed so that if the contribution is paid annually in level dollars, it will amortize over a closed 30 year period. Beginning with the July 1, 2028 actuarial valuation, when the remaining amortization period reaches 20 years, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, [with additional provisions in case actuarial losses should extend the amortization period for more than 20 years from 2028].

The bill also provides that each member of the TPAF, JRS, Prison Officers' Pension Fund, PERS, Consolidated Police and Firemen's Pension Fund, PFRS, and SPRS 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 retirement benefits to which the members are entitled by statute will be paid upon retirement.

The failure of the state or any other public employer to make the annually required contribution will be deemed to be an impairment of the contractual right of each employee. The Superior Court will have jurisdiction over any action brought by a member of any system or fund or any board of trustees to enforce the contractual right set forth in this bill. 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.

The bill also provides that the rights reserved to the state in current law to alter, modify, or amend such retirement systems and funds, or to create in any member a right in the corpus or management of a retirement system or pension fund, cannot diminish the contractual right of employees established by this bill.

North Carolina. Chapter 45, Laws of 2011 (House Bill 200, the Budget Bill), §29.22(b), changed the amortization period for the accrued unfunded liabilities of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the North Carolina National Guard Pension Fund and the Firemen's and Rescue Squad Workers' Pension Fund from nine years to 12 years.

Rhode Island. Chapter 408, Laws of 2011 (Senate Bill 1111) includes a number of provisions to begin to address deficiencies in the funding of locally-administered retirement plans in the state. According to the General Assembly, there are 36 such plans, of which half cover public safety employees. Others include general municipal employees as well.

The General Assembly reports that the 36 plans have combined total assets of $1.4 billion as of June 30, 2010 and a combined Unfunded Actuarial Accrued Liability of $2.1 billion as of June 30, 2010, resulting in an overall funded ratio of 40.3%. Of the 36 plans, 31 are less than 80% funded and 18 are less than 50% funded.

The Act has a number of provisions that begin to address the pension deficiencies in the locally administered programs. They include:

- Requiring such plans to complete actuarial reviews by April 1, 2012, with the state reimbursing communities for 50 percent of the cost;
- Requiring the plans to complete an initial experience study no later than April 1, 2012, and every three years thereafter;
- Establishing a 14 member commission to review existing legislation and local pension plan administrative practices;
- Requiring all locally-administered pension plans with funded ratios below 60% to submit a pension funding improvement plan within 180 days; and
- Providing penalties for non-compliance, including the withholding of state aid.

11. Military Service Credit

Arkansas. Act 66 of 2011 (House Bill 1111) allows members of the teacher retirement system to purchase armed forces reserve service credit; allows the purchase of one year of credit in the Teacher Retirement System for one year of service in the National Guard and armed forces reserve up to a maximum of five years.

Act 91 (House Bill 57) provides that any active member of the Arkansas Local Police and Fire Retirement System may purchase credited service in the system equivalent to a period not to exceed five years for service rendered by the member while on active duty in the armed forces of the United States before the member's employment covered by the system. Previous law allowed the purchase of two years. The purchase must be at the actuarial cost as of the time of the purchase.

12. Purchase of Service Credit

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) limits purchases of credited service for public service, leave without pay, leave of absence and active military service to 60 months and requires a member to have 10, rather than five, years of credited service in the state system to which the member belongs to elect to receive those credits. The bill also requires that the member not yet be eligible for a military retirement benefit. The legislation applies to the state retirement system, elected officials retirement system, the public safety personnel system and the correctional officers plan.

New Hampshire. Chapter 158, Laws of 2011 (House Bill 461) repeals the authorization for members of the New Hampshire Retirement System to purchase credit for out-of-state service. The repeal affects all members—general employees, teachers, police and firefighters.

Rhode Island. Chapter 408, Laws of 2011 (Senate Bill 1111) provides that purchases of service credit other than military service credit must be calculated at full actuarial cost after July 1, 2012. The full actuarial cost will be based on the plan’s assumed rate of investment return minus 1%.

13. Re-employment after Retirement

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) establishes an Alternative Contribution Rate for employers whose employees are members of the Arizona State Retirement System or any other state plan, for retired members who perform services that otherwise would be performed by an employee—that is to say, retired members who return to employment as an employee either as a direct employee, leased employee or contractual employee.

The contribution level will be based on the contribution required to amortize the unfunded liability of the ASRS plus the cost of long-term disability benefits. It will begin on the employee's first day of employment. It is to be calculated annually by the ASRS actuary.

The retired member will not accrue credited service, member service (for UORP), account balances, retirement benefits or long-term disability program benefits, and the time will not later be eligible for service purchase. Chapter 277, Laws of 2011 (House Bill 2024) provides additional detail on these changes.

Arkansas. Act 558, Laws of 2011 (Senate Bill 127), requires employers to make retirement contributions for retired persons who return to covered service as they do for active employees, and provides that when employees enter the Arkansas Public Employees' Retirement System Deferred Retirement Option Plan, employers shall continue to make contributions on behalf of members to the retirement plan.

Maine. Chapter 380, Public Laws of 2011 (L.D. 1043, the Biennial Budget Bill for fiscal years 2012 and 2013) makes changes that affect state employees, legislators and judges. State employees or teachers who are 1) of normal retirement age; 2) retire after July 2011; and 3) return to work in a position covered by the State or Teacher Retirement Plan may work no more than five years and only at a salary not more than 75% of the salary established for the position. Substitute teachers are exempt from this provision.

Maryland. Chapter 6, Laws of 2011 (House Bill 176) reduces from nine to five the number of years that a retiree of the Employees' Retirement System (ERS), Employees' Pension System (EPS), Teachers' Retirement System (TRS), or Teachers' Pension System (TPS) must wait in order to be exempt from a reemployment earnings limitation if the retiree is hired by the individual's last employer prior to retirement. [The earnings limitation is designed to limit a return-to-work employee's income from salary or wages plus pension to the amount of average final compensation at the time of the person's retirement. This act does not change the formula, but reduces the period in which it affects individual retired people.]

Massachusetts. Chapter 176, Acts of 2011 (Senate Bill 2065 in its final version) increases the maximum allowed earnings for a person who returns to covered service after having been retired for at least one year by $15,000.

New Mexico. Chapter No. 2011-6, Laws of 2011 (House Bill 129) requires retired teachers who return to employment covered by the Education Retirement Association (ERA) member to pay the same amount of member contributions as active employees, and removes the requirement for employers to pay both the employer and employee contributions to the

ERA fund. Under previous law, the employer pays 100% of employee contributions for return-to-work employees, as well as the employer contribution. The Legislative Finance Committee has estimated the General Fund savings that will result from shifting contributions to the return to work employee to be more than $4.8 million.

[Starting in July 2011, employers will contribute 9.15% of a worker's salary into the pension program and employees will pay 11.15% if the employee earns more than $20,000 a year. The amount paid by employees has been rising — up from about 7.9% two years ago— because of temporary budget-balancing measures approved by the Legislature. A similar contribution requirement was enacted in 2010 for state and local government workers who retired and went back to work before July 2010. Those workers are covered by the Public Employees Retirement Association.]

Utah. Chapter 138, laws of 2011 (SENATE BILL 127), amends provisions related to a retiree who returns to work for a participating employer. The bill allows a retiree who begins reemployment with a participating employer on or after July 1, 2010, to be reemployed within one year after a waiting period of at least 60 days, if the retiree does not receive any employer paid benefits or the retiree does not earn more than a specified amount. The earning limitation is the lesser of $15,000 or 50 percent of the retiree's final average salary.

14. Studies

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) creates the Defined Contribution Study Committee, including six members of the Legislature, to study these issues and report its findings to the Governor and the Legislature by December 31, 2012:

- the feasibility and cost of transferring existing members and/or new members to a defined contribution plan;
- the advantages and disadvantages of existing supplemental retirement plans and the feasibility of merging these plans to achieve maximum effectiveness;
- the definitions of compensation, average yearly salary and salary as used by the plans to ascertain the actuarial effect of these definitions, particularly the ability and actuality of "spiking" compensation;
- the advantages and disadvantages of the local board system, the agent multiple-employer public retirement system model and the feasibility of establishing a single employer public retirement system model; and
- procedures, determinations and granting of accidental and ordinary disability retirements and the effect of local boards in providing adequate cost controls for these disability requirements.

Indiana. Chapter 95, Laws of 2011 (Senate Bill 39) requires the Commission on State Tax and Financing Policy to study how the Indiana income tax structure, including existing and potentially new income tax credits and deductions, may influence a senior's decision on residency in Indiana after retirement.

Public Law No. 22-2011 (Senate Bill 524) urges the Legislative Council to assign to the Pension Management Oversight Commission the study of whether to create a defined contribution plan as an option for new employees of political subdivisions that participate in PERF and for new employees who are eligible to become members of the Teachers' Retirement Fund. It requires, if the Commission is assigned the topic, that the Commission issue findings and recommendations, including any recommended legislation, not later than November 1, 2011.

Kansas. Chapter 98, Laws of 2011 **(**House Bill 2194), makes its various revisions to the Kansas Public Employee Retirement plans contingent upon both chambers holding a vote on recommendations of a pension study commission that the bill establishes. The 13-member KPERS Study Commission will consider alternative retirement plans, including defined contribution plans, hybrid plans that could include a defined contribution component, and other possible plans. The commission is required to make its recommendations no later
than January 6, 2012. The recommendations then will be introduced as identical bills in each chamber of the legislature. For other provisions in the bill to become effective, each chamber will have to vote on the bill introduced in that chamber in 2012.

Maine. Chapter 380, Public Laws of 2011 (L.D. 1043, the Biennial Budget Bill for fiscal years 2012 and 2013) Establishes a working group to develop an implementation plan designed to close the current defined benefit retirement plan for all state employees and teachers and replace it with a retirement benefit plan, supplemental to Social Security, that applies to all state employees and teachers who are first hired after June 30, 2015 with no prior creditable service.

Massachusetts. Chapter 176, Acts of 2011 (Senate Bill 2065 in its final version) requires the state treasurer to make recommendations on ways to increase employee participation in state-sponsored deferred compensation plans. It creates a commission to study health care and other non-pension benefits for retirees and make recommendations regarding any additional benefits that should be considered as well as how to finance them. Another special commission is instructed to study the ordinary and accidental disability program and make recommendations in October 2012. The secretary of administration and finance is instructed to commission a study of the costs and benefits of the current defined benefit retirement plans, and the creation of optional DC and hybrid plans. The study is also to draw comparisons with private-sector pension provisions.

Nebraska. The Legislature will conduct an interim study to conduct to analyze the costs of converting the school plan and the state patrol plan to cash balance plans. In addition the actuary is looking at the cost savings of enacting new tiers of reduced benefits in each of these plans.

New Hampshire. Chapter 101, Laws of 2011 (House Bill 580) establishes a committee of three senators and four representatives to study such matters as it deems necessary related to public employer collective bargaining agreements with public employees and to report its findings on or before December 1, 2011.

New Hampshire. Chapter 224, Laws of 2011 (House Bill 2, the Budget Trailer Bill) establishes a joint legislative study committee to make recommendations on the establishment of a tax qualified voluntary defined contribution plan, and a second joint study committee to review disability retirement, medical subsidies and cost of living adjustments. Both are to report by November 1, 2011.

Washington. Section 105 of HOUSE BILL 1087 (Chapter 50, Laws of 2011) requires the office of the state actuary to study a merger of the law enforcement officers' and firefighters' retirement system plans 1 and 2 in a single retirement plan.

15. Taxation of Retirement Income

Maine. Public Law No. 2011-138 (House Bill 284) provides a state income tax exemption for annuity income made to the survivor of a deceased member of the military as the result of service in active or reserve components of the United States Army, Navy, Air Force, Marines or Coast Guard under a survivor benefit plan or reserve component survivor benefit plan pursuant to 10 United States Code, Chapter 73, to the extent the annuity income is included in federal adjusted gross income, effective for tax year 2011 and thereafter.

Michigan. Chapter 38, Laws of 2011 (House Bill 4361), increases personal income taxes on retirement income.

The bill restricts and restructures the retirement income tax exemptions. Under current law, Social Security, military, federal, state and local government retirement/retirement income is fully exempt. Private retirement benefits are exempt up to $45,120 single/$90,240 joint (Tax Year 2010). These levels are indexed to inflation. In Michigan, defined benefit plans, IRAs, and annuities are fully exempt. Also, 401(k) distributions attributable to employer contributions or to employee contributions that are matched by the employer are exempt, but distributions attributable to employee contributions that are not matched by the employer are currently subject to the state income tax, subject to the private retirement limits. In addition, 401(k)s with no employer match are not considered retirement income and therefore are completely subject to the income tax.

Under this legislation, the treatment of retirement income would depend upon a taxpayer's age (and the age of the older spouse for a joint return), as follows:

- Taxpayers born before 1946 would continue to have the same treatment of retirement and Social Security income as in current law, and could claim the personal exemptions for which they are eligible.
- Taxpayers born in 1946 and through 1952 could take an exemption of $20,000 for a single return and $40,000 for joint return against retirement income until age 67, and then could take that same exemption amount against all types of income. In addition, these taxpayers at any age could claim personal exemptions for which they were eligible and could exempt Social Security income. However, the $20,000/$40,000 exemption would not be available when total household resources exceed $75,000 for a single return or $150,000 for a joint return. (Further, taxpayers

would not be eligible for the $20,000/$40,000 unrestricted deduction if they take the deduction for Armed Forces retirement income or income under the Railroad Retirement Act.)

- Taxpayers born after 1952 will receive no exemption for retirement income until reaching age 67, except for the Social Security exemption. Then, the taxpayer will have a choice between (1) the $20,000/40,000 exemption against all types of income, with no personal exemptions and with no additional exemption for Social Security, or (2) continuing the exemption for Social Security, along with the personal exemptions for which they were eligible. However, the $20,000/$40,000 exemption would not be available where total household resources exceeded $75,000 for a single return or $150,000 for a joint return. (Further, taxpayers would not be eligible for the $20,000/$40,000 unrestricted deduction if they took the deduction for Armed Forces retirement income or income under the Railroad Retirement Act.)

The legislation eliminates the dividends, interest, capital gains exemption received by seniors, but only for seniors born after 1945. Under current law, senior investment income up to $10,058 single/$20,115 joint (TY 2010, indexed to inflation) is exempt. This exemption would continue to apply to seniors born in 1945 and earlier.

Source: House Legislative Analysis, May 23, 2011
http://www.legislature.mi.gov/documents/2011-2012/billanalysis/House/htm/2011-HLA-4361-6.htm

Other bills address additional technical details related to these changes. These bills (House Bills 4480-4484) would amend the State Employees Retirement Act, the Public School Employees Retirement Act, the Michigan Legislative Retirement System Act (for legislators), the Judges Retirement Act, and Public Act 339 of 1927, which provides for retirement allowances for employees of public libraries in cities over 250,000. Summaries of these bills are available on the Michigan Legislature's website.

Opponents of the taxation of retirement income raised the question of its constitutionality in light of the state constitution's language protecting pensions. In mid-June 2011, the Michigan Supreme Court granted Gov. Rick Snyder's request to consider the constitutionality of how pension income will be taxed beginning Jan. 1. Snyder is asking the seven justices to rule whether applying the personal income tax to the pension income of public retirees violates the state constitutional prohibition against impairing or diminishing a public pension benefit. Oral arguments are scheduled for September 7.

New Jersey. Senate Bill 2345, vetoed by the governor on February 18, 2011, would have expanded the amounts of personal income exempted from personal income tax for people over 62. It would have exempted income up to $100,000 and phased out the exemption for amounts between $100,000 and $110,000. The estimated revenue loss of the legislation was $62.4 million to $64.8 million in FY 2012 and FY 2013, with annual increases thereafter.

Tennessee. Chapter 396, Laws of 2011 (Senate Bill 261) increases exemptions from the Hall Income Tax (a tax on interest and dividends) for people over the age of 65 from a total income of $16,200, filing singly, to $26,200, and from $27,000 to $37,000 for those filing jointly.