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Pensions and Retirement Plan Enactments in 2013 State Legislatures

By Luke Martel and Anna Petrini

Introduction

This report summarizes selected state pension and retirement legislation enacted in 2013. 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 2013, listed at the end of this introduction.

Findings

In 2013, six states and Puerto Rico made major structural changes in state retirement plans. Kentucky, Tennessee and Puerto Rico replaced public employee defined benefit plans with cash balance or hybrid plans, and Arizona closed the defined benefit plan for elected officials and created a defined contribution plan. Several made structural changes to existing defined benefit plans, including creating new tiers for new hires. More than a dozen states modified contribution rates or funding formulas. Additionally, nine states reduced annual cost of living adjustments for large classes of public employees.

- Illinois passed a reform package making numerous changes to plans for state employees, teachers and university staff. The legislation lowers employee contribution rates and imposes new funding obligations, modifies the formula for cost of living adjustments granted to current and future retirees, increases the age of retirement, places new limits on pensionable compensation, and creates voluntary defined contribution plans for a limited number of active members. *On May 8, 2015, the Illinois Supreme Court affirmed a lower court ruling that the legislation is unconstitutional and permanently enjoined its enforcement.*
- Kentucky closed its defined benefit plan to new state and local employees hired on or after Jan. 1, 2014, and replaced it with a cash balance plan. The legislation commits the state to fully fund the public pension system beginning with the next biennial budget and eliminates cost of living increases, unless they are pre-funded, for current and future retirees.
- Montana enacted legislation to increase public employee and employer contributions and reduce cost of living adjustments for current and future retirees. The law provides an additional funding stream for the Public Employee Retirement System from coal severance tax collections. Separate legislation created a second tier of benefits for teachers hired after July 1, 2013, with higher contribution rates, lower cost of living adjustments and a longer period for calculating final average compensation, among other requirements. Current teachers are also subject to higher (supplemental) contribution

rates and, like their new hire and retired counterparts, reduced cost of living adjustments. *Separate district court challenges to these COLA changes succeeded in 2015.*

- Nebraska created a new defined benefit tier for school employees beginning work on or after July 1, 2013. New hires will face a longer period for calculating final average compensation, modified eligibility requirements and reduced cost of living adjustments. Employees in the statewide system will no longer receive a scheduled reduction in their contribution rate, and employees in the Omaha system will see their contribution rate increase. Employer contributions will increase beginning in 2014.
- New Mexico established a new defined benefit tier for new members of the Public Employees Retirement Association that features higher employer and employee contribution rates, reduced multipliers for calculating benefits, a longer period for calculating final average salary, increased age and service requirements, and longer vesting periods. Current employees will also see higher contribution rates. The law phases in a longer waiting period for post-retirement cost of living adjustments and reduces their amount for retirees, current members and new hires. Separate legislation created another tier of benefits for new hires in the Educational Retirement Board pension plan, with additional eligibility requirements to receive benefits. Current educators and new hires will make greater contributions, and retirees will see reduced cost of living adjustments. *The New Mexico Supreme Court upheld the COLA changes in 2013.*
- Puerto Rico passed legislation closing its defined benefit plans for current and future teachers and government employees, replacing them with defined contribution plans. Retirement ages and employee contributions would increase. The Supreme Court of Puerto Rico upheld the reforms for government and judicial employees but struck down the changes to current teacher pensions. Puerto Rico's 2013 pension reform legislation is not discussed further in this report.
- Tennessee enacted legislation to close its defined benefit plans for new state employees, teachers and higher education employees. Beginning July 1, 2014, new employees will join a hybrid plan, with defined benefit and defined contribution components. Local government entities may elect to participate in the hybrid plan.

Sources and Acknowledgements

The sources of this report are StateNet searches of current and enacted legislation, retirement systems' websites, state legislatures' reports of enacted legislation, media reports, and information provided by legislative and retirement system staff. NCSL is indebted to the many legislative staff who write and share summaries of their legislatures' acts, the many retirement system staff who have posted legislative summaries on their websites, and the staff of legislatures and retirement systems who have taken time to identify and explain legislation and its context.

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List of Topics

1. Contribution Rates and Funding Issues

Arkansas. 2013 Ark. Acts, Act 448 (Senate Bill 113) enhances the penalties for late payment of employer contributions to the Arkansas Teacher Retirement System (ATRS), increasing the interest penalty from 6 to 8 percent. Delinquent contributions, penalties and interest may be automatically deducted from the operating funds designated to an employer through the Department of Education (subject to certain limitations for public school districts and charter schools). The retirement system may now impose an additional penalty of $500 when employers file required reports more than one month late.

Arkansas. 2013 Ark. Acts, Act 602 (Senate Bill 123) empowers the board of the Arkansas Teacher Retirement System (ATRS) to set member contribution rates between 6 and 7 percent. Beginning July 1, 2013, the board has authority to establish member contribution rates within the allowable range, provided that any increase or decrease applies to a complete fiscal year and would remain in effect until modified by the board. The board cannot increase the member contribution rate unless the system's actuary certifies that the amortization period exceeds 30 years, and the board determines that the increase is necessary to pay the unfunded liability.

Arkansas, 2013 Ark. Acts, Act 1399 (Senate Bill 162) permits the Arkansas Teacher Retirement System (ATRS) board to raise the employer contribution rate from 14 to a maximum of 15 percent beginning July 1, 2013. A rate increase is allowed if the actuarial valuation establishes that a rate greater than 14 percent is necessary to pay off the unfunded liability within a 30-year amortization period. However, once an actuarial valuation shows an amortization period of 30 years or less with a 14 percent employer contribution rate, the rate must be adjusted downward, not to exceed 14 percent. Any public school employer contributions above 14 percent shall be paid from funds appropriated to the Department of Education, and any increase or decrease applies to a complete fiscal year and would remain in effect until modified by the board.

Arkansas, 2013 Ark. Acts, Act 1446 (House Bill 1199) modifies Senate Bill 162, also from the 2013 session, to freeze the current 14 percent employer contribution rate to ATRS until July 1, 2015 and to provide an increment for any subsequent rate increases. For the fiscal years following July 1, 2015, the ATRS board may raise employer contribution rates above 14 percent in increments of 25 basis points. The maximum employer contribution rate is 15 percent, and increases are allowed only where actuarially necessary under the terms of Senate Bill 162. House Bill 1199 further requires that any increase in the employer contribution rate be offset by concurrent cost savings measures, generated either through changes to member benefit programs or increased member contributions.

Arizona. 2013 Ariz. Sess. Laws, Chap. 110 (Senate Bill 1170) replaces the rolling 30-year amortization period used for determining employer contributions in the Arizona State Retirement System (ASRS) with a period to be set by the board, consistent with generally accepted actuarial standards. In determining the past service funding period, the ASRS board must seek to improve the funded status whenever the ASRS trust fund is less than fully funded. The legislation also provides the procedure for correcting for excess contributions according to existing IRS protocols or future guidance. Other provisions are summarized in the Cost of Living Adjustments (COLAs) section of this report.

California. 2013 Cal. Stats., Chap. 50 (Assembly Bill 94) requires the University of California, if it is able to restructure and reduce capital debt service costs, to annually contribute an equal amount to reduce the unfunded liability of the University of California Retirement Plan. The bill also provides state General Fund support for California State University (CSU) retirement costs based on the actual 2013-14 payroll. Increased payroll or pension costs beyond the 2013-14 baseline will be absorbed by other CSU funds.

Colorado. 2013 Colo., Sess. Laws, Chap. 180 (Senate Bill 234) satisfies with a lump sum payment the state's future required contribution to old hire pension plans affiliated with the Fire and Police Pension Association. The state treasurer must prepay the state's obligation for the unfunded accrued liability of the plans, with final payment on May 31, 2013 rather than April 30, 2019. Under current law, a total of approximately $171.6 million from insurance premium tax proceeds would have been transferred to the Old Hire Plan Members' Benefit Trust Fund in FY 2013-14 and the next five fiscal years, with a final balloon payment scheduled to occur on April 30, 2019. The bill directs that $132,409,339 will be transferred from the General Fund to the Old Hire Plan Members' Benefit Trust Fund on May 31, 2013, instead.

Florida. 2013 Fla. Laws, Chap. 53 (Senate Bill 1810) revises employer-paid contribution rates for the Florida Retirement System (FRS) and the Retiree Health Insurance Subsidy (HIS) program, effective July 1, 2013. The employer-paid contribution rate for the HIS program increases from 1.11 percent to 1.20 percent of gross compensation. Required employer retirement contribution rates also change for each FRS membership class and subclass. The law adjusts rates to cover normal costs and significantly increases rates to address unfunded actuarial liabilities. Rates are changed as follows:

Florida Retirement System *Employer Contribution Rates*				
Membership Class	**Effective July 1, 2012 % to cover normal cost**	**Effective July 1, 2012 % to cover unfunded liability**	**Effective July 1, 2013 % to cover normal cost**	**Effective July 1, 2013 % to cover unfunded liability**
Regular Class	3.55%	0.49%	3.53%	2.19%
Special Risk Class	11.01%	2.75%	11.00%	6.83%
Special Risk Administrative Support Class	3.94%	0.83%	4.17%	30.56%
Elected Officers' Class	6.51%	0.88%	6.52%	24.85%

• legislators, governor, cabinet, state attorneys, public defenders				
• justices, judges	10.02%	0.77%	10.05%	17.00%
• county elected officers	8.36%	0.73%	8.44%	23.36%
Senior Management Class	4.84%	0.32%	4.81%	12.27%
DROP	4.33%	0.00%	4.63%	7.01%

Illinois. 2013 Ill. Laws, P.A. 599 (Senate Bill 1) lowers employee contribution rates and imposes new funding obligations for state retirement systems. Please see the sections of this report addressing Cost of Living Adjustments and Defined Benefit Plan Changes for a discussion of Senate Bill 1's changes to pension benefits.

Beginning July 1, 2014, Tier 1 employee contributions are decreased by 1 percent of earnings for members of the General Assembly Retirement System (GARS), State Employees' Retirement System (SERS), State Universities Retirement System (SURS) and Teachers' Retirement System (TRS). The legislation also implements a new funding schedule that would require each pension system by FY 2044 to reach 100 percent funding (as opposed to 90 percent funding required under existing law). Normal cost contributions will be determined under the entry age normal cost method beginning in FY 2016.

The legislation also provides for additional Pension Stabilization Fund contributions for each of the five state retirement systems (the four listed above plus the Judges Retirement System). Beginning in FY 2019, the five state systems will receive additional payments as debt service payments on existing pension obligation bonds expire. In FY 2019, the Pension Stabilization Fund will receive $364 million. Beginning in FY 2020, the Pension Stabilization Fund will receive $1 billion a year until the end of FY 2045, or until each of the retirement systems has achieved 100 percent funding, whichever occurs first. Senate Bill 1 directs an additional 10 percent of the annual savings generated by the legislation's reforms back into the pension systems. Finally, the legislation contains a funding guarantee, obligating the state to make its required pension contributions or face a suit by the relevant system board before the Illinois Supreme Court.

On May 8, 2015, the Illinois Supreme Court affirmed a lower court ruling that Senate Bill 1 is unconstitutional and permanently enjoined its enforcement.

Illinois. 2013 Ill. Laws, P.A. 218 (House Bill 1444) makes a number of administrative changes to portions of the code governing the Illinois Municipal Retirement Fund. In line with new GASB requirements, the law provides for an amortization period that does not exceed 30 years for participating municipalities or 10 years for instrumentalities. It also permits less frequent board meetings (four times per year rather than monthly).

Indiana. 2013 Ind. Acts, P.L. 160 (House Bill 1057) requires members of the Prosecuting Attorneys' Retirement Fund to contribute 6 percent of salary for only 22 years of service rather than all years of service. The state may elect to pay contributions for plan participants as a "pick up" under Section 414(h) of the Internal Revenue Code.

Kansas. 2013 Kan. Sess. Laws, Chap. 132 (House Bill 2213) raises employee contribution rates and benefit caps for members of the Kansas Police and Firemen's (KP&F) Retirement System. Beginning July 1, 2013, KP&F employee member contribution rates will rise from 7 percent to 7.15 percent of salary. Please see the section of this report entitled Defined Benefit Plan Changes for a discussion of the benefit caps imposed by House Bill 2213.

Louisiana. La. Acts 2013, 71 (House Bill 38) effective June 30, 2013, the law increases the employee contribution rate for members of the Registrars of Voters Employees' Retirement System (RVRS) from 7 percent to a range between 7 percent and 9 percent, as determined by the board in consultation with its actuary.

Louisiana. La. Acts 2013, 233 (House Bill 39) creates a new tier of membership for the Louisiana Assessors' Retirement Fund (ASSR), effective for those first hired on or after Oct. 1, 2013. It reduces future benefits by increasing retirement ages and reducing the service multiplier for those with fewer than 30 years of service (see Defined Benefit Plan Changes section for details). Once all existing members have been replaced with new members, the employer contribution rate will be reduced by 1.96 percent of payroll, according to an estimate in the accompanying actuarial note. Required employer contributions are estimated to decrease by $80,000 in FY 2014-15 and by $320,000 in FY 2017-18.

Louisiana. La. Acts 2013, 235 (House Bill 50) phases in a 10 percent employee contribution rate for members of the Firefighters' Pension and Relief Fund in New Orleans. Previously, the employee contribution rate was set at 6 percent, and members with 20 or more years of service made no employee contributions at all. Now members with 20 or more years of service will see an employee contribution rate of 3.33 percent beginning Jan. 1, 2014, 6.66 percent beginning Jan. 1, 2015 and 10 percent beginning Jan. 1, 2016. For members with less than 20 years of service, employee contribution rates increase from 6 percent to 8 percent beginning Jan. 1, 2014 and from 8 percent to 10 percent beginning Jan. 1, 2015.

Maine. 2013 Me. Laws, Chap. 391 (Legislative Document 1440, House Paper 1034) amends defined benefit plan provisions that apply to members of the Participating Local District Consolidated Retirement Plan administered by the Maine Public Employees Retirement System (MainePERS). The MainePERS board of trustees now has authority to establish member contribution rates by rule.

Maryland. 2013 Md. Laws, Chap. 476 (House Bill 496) modifies the funding model for the State Retirement and Pension System. The law provides that over the next 10 years, the current corridor funding method will be phased out and replaced with a closed 25-year amortization period for all existing and future liabilities.

Minnesota. 2013 Minn. Laws, Chap. 111 (Senate File 489) increases contribution rates for the Public Employees Retirement Association Police and Fire Plan. Current members will see employee contribution rates increase from 9.6 percent to 10.2 percent on Jan. 1, 2014 and 10.8 percent on Jan. 1, 2015. The law also increases the employer contribution rates from 14.4 percent to 15.3 percent on Jan. 1, 2014 and 16.2 percent on Jan. 1, 2015. Additionally, the Department of Revenue will contribute $9 million annually until the plan is 90 percent funded, per the Omnibus Tax Bill (2013 Minn. Laws, Chap. 114).

Missouri. 2013 Mo. Laws, p. 727 (House Bill 418) establishes Tier II retirement plans for members of Kansas City's Police Retirement System and its Police Department Civilian Employees' Retirement System, effective for those joining one of the plans on or after Aug. 28, 2013. As it relates to the Police Retirement System, House Bill 418 now requires the city's contribution rate for both Tier I and Tier II members to meet the annual actuarially required contributions as determined by a qualified, board-selected actuary, plus $200 per month for each member entitled to receive a supplemental benefit. (In recent years the city has supplied a fixed contribution rate, and according to the June 5, 2013 fiscal note, the new formula will decrease the annual required employer contributions by approximately $11,400,000, $13,500,000 and $14,600,000 in FY 2014, FY 2015, and FY 2016 respectively.) The bill repeals a provision requiring member contributions of at least 6 percent of compensation, leaving member contribution rates to be determined by the retirement board.

Montana. 2013 Mont. Laws, Chap. 239 (House Bill 95) requires employers to pay a contribution for working retirees. This applies to the three systems that allow retirees to return to work and continue to receive a pension, the Public Employees Retirement System, the Sheriffs' Retirement System and the Firefighters' Unified Retirement System.

Montana. 2013 Mont. Laws, Chap. 272 (House Bill 336) increases employee and employer contribution rates for members of the Highway Patrol Retirement System. For current members and new hires, the law increases employee contribution rates by 4 percent, phased in from FY 2014 to FY 2017 by 1 percent each year. Employer contribution rates are also increased by 2 percent, from 36.33 percent to 38.33 percent.

Montana. 2013 Mont. Laws, Chap. 389 (House Bill 377) creates a second tier of benefits for members of the Teachers Retirement System (TRS) hired after July 1, 2013. For new Tier 2 employees, the contribution rate is set at 8.15 percent (up from 7.15 percent). The Tier 1 employee contribution rate will technically remain at 7.15 percent; however, the law requires a supplemental contribution from employees and employers. In FY 2014, the supplemental rate for Tier 1 will be 1 percent for employees and 1 percent for employers plus 0.1 percent each year, for the 10 years. The law also provides that the TRS Board may require a supplemental contribution from Tier 2 employees of up to 0.5 percent if the fund is not actuarially sound.

This legislation's modifications to cost of living adjustments and ensuing legal challenges are discussed in the Cost of Living Adjustments section of this report.

Montana. 2013 Mont. Laws, Chap. 390 (House Bill 454) increases employee and employer contribution rates and provides additional funding for the Public Employees' Retirement System. The law sets the contribution rates for current employees and new hires to 7.9 percent. For members hired before July 1, 2011, the contribution rate is increased from 6.9 percent. (Members hired after July 1, 2011 already paid a 7.9 percent rate.) If the amortization period drops below 25 years, and remains below 25 years, the contribution rate will decrease back to 6.9 percent. Employer contribution rates are also increased by 1 percent starting July 1, 2013 and will continue to increase 0.1 percent per year over 10 years, through FY 2024. The additional employer contribution rate will terminate when the amortization period drops below 25 years. The law also provides an additional funding stream to the plan, from the unallocated portion of coal tax severance collections and interest from the coal tax permanent fund.

This legislation's modifications to cost of living adjustments and ensuing legal challenges are discussed in the Cost of Living Adjustments section of this report.

Nebraska. 2013 Neb. Laws, L.B. 553 (Legislative Bill 553) created a new tier of benefits and increased contribution rates for current employees and future hires. For members of the School Employees Retirement System and the Class V School Employees Retirement System (in which members of Omaha school districts participate), the employee contribution rate is set at 9.78 percent. This is accomplished by removing a sunset that would have returned school employee contribution rates to 7.35 percent in 2017, and increasing Class V's contribution rate from 9.3 percent. The state contribution rate for both plans is also increased from 1 percent to 2 percent beginning July 1, 2014. The law also changes the amortization method from level dollar to level percent for the School Employees Retirement System, the Nebraska State Patrol Retirement Act and the Judges Retirement Act. The law was vetoed by Governor Dave Heinemann, but the veto was overridden.

New Mexico. 2013 N.M. Laws, Chap. 61 (Senate Bill 115) raises the employee contribution rate for the New Mexico Educational Retirement Board plan, of which teachers are members. The law raises the contribution rate for current employees and new hires who earn over $20,000 annually, to 10.1 percent in FY 2014 and 10.7 percent in 2015. For comparison, employees earning over $20,000 annually had a contribution rate of 9.4 percent in FY 2013. Employees earning less than $20,000 will continue to pay a contribution rate of 7.9 percent.

New Mexico. 2013 N.M. Laws, Chap. 225 (Senate Bill 27) creates a new Tier 2 of benefits for the Public Employees Retirement System. Retirees and current members (hired before of June 30, 2013) are in Tier 1. New hires employed after June 30, 2013 are in Tier 2. For both Tier 1 and Tier 2 members, Senate Bill 27 increases the employee contribution rate by 1.5 percent for employees who earn more than $20,000 per year. For general members earning over $20,000 the contribution rate will increase from 7.42 percent to 8.92

percent. The law increases the state contribution rate by 0.4 percent beginning in FY 2015. For general members, the state contribution rate increase is from 16.59 percent to 16.99 percent.

North Dakota. 2013 N.D. Sess. Laws, Chap. 142 (House Bill 1230) changes the condition that triggers a reduction in member and employer contributions to the Teachers' Fund for Retirement. Under current law, following the first valuation that reveals a funded ratio greater than or equal to 90 percent, both member and employer contribution rates revert to 7.75 percent (from the present 9.75 percent and 10.75 percent, respectively, or even higher rates after July 1, 2014). The new law increases the funded ratio that triggers the lower contribution rate from 90 to 100 percent.

North Dakota. 2013 N.D. Sess. Laws, Chap. 431 (House Bill 1452) beginning in January 2014, increases employee and employer contribution rates by 1 percent each for members of the North Dakota Public Employees Retirement System main plan (NDPERS), along with the judges', highway patrol and defined contribution systems. Temporary employees who elect to participate in NDPERS would see a 2 percent increase in their contribution rate. Employee contribution rates for the Law Enforcement Plan for political subdivisions and National Guard Plan increase by 0.5 percent over the same period of time. When the main plan achieves 100 percent funded status, the bill would eliminate the employee and employer contribution rate increases enacted by this legislation.

Oklahoma. 2013 Okla. Sess. Laws, Chap. 207 (Senate Bill 847) creates the Oklahoma Pension Stabilization Fund to reduce unfunded pension liabilities in the event of a budget surplus. General revenue collections that exceed amounts required for deposit in Oklahoma's rainy day fund are now paid into the Pension Stabilization Fund. If one or more of the state pension systems has a funded ratio below 90 percent, legislators may appropriate stabilization fund dollars to reduce pension liabilities, prioritizing the pension system with the lowest funded ratio. The fiscal analysis accompanying Senate Bill 847 adds that the existence of such "spillover funds" is a rare revenue phenomenon, occurring only three times in the last 15 fiscal years.

Oklahoma. 2013 Okla. Sess. Laws, Chap. 165 (House Bill 2078) creates a new tier of benefits for new hires in the Oklahoma Firefighters Pension and Retirement System (FPRS) and raises employee and employer contribution rates for active members of the system. Effective Nov. 1, 2013, the law increases the employee contribution required for active members of the FPRS from 8 percent to 9 percent and increases the required employer contribution from 13 percent to 14 percent. The fiscal analysis accompanying House Bill 2078 estimated that these changes would result in $2.56 million per year in additional employer contributions (payable by employing municipalities) and approximately $2.56 million per year in additional employee contributions. The new law would also increase the share of insurance premium tax collections allocated to FPRS from 34 percent to 36 percent. The fiscal analysis anticipated a corresponding increase in system revenue of $4 million per year (the state's general fund collections would decrease by the same amount).

House Bill 2078's modifications to the DROP provisions are discussed in the Deferred Retirement Option Plans (DROP) section of this report. Please see the section of this report entitled Defined Benefit Plan Changes for a discussion the bill's modified age and service requirements for new hires.

Oregon. 2013 Or. Laws, Chap. 173 (Senate Bill 268) allows retirement contributions and earnings that never vested to be used to offset employer contributions to the Public Employees Retirement Fund. The law relates to funds that have accrued in supplemental retirement accounts for employees who separated from employment with the Oregon University System (OUS) or Oregon Health and Science University (OHSU) before the five-year vesting period had elapsed. OUS and OHSU may transfer these funds out of the separate accounts and use these forfeited employer contributions to offset future Public Employees Retirement Fund contributions.

Tennessee. 2013 Tenn. Pub. Acts, Chap. 467 (Senate Bill 875) extends through July 1, 2015 the ability of certain local governments to issue bonds to fund defined benefit plan obligations for former employees.

Eligible local governments must achieve specified general obligation bond ratings. They must also receive approval from the state funding board or a recommendation from the Comptroller of the Treasury, unless they comply with various amortization, disclosure, professional services and auditing requirements.

Tennessee. 2013 Tenn. Pub. Acts, Chap. 259 (Senate Bill 1005) establishes a hybrid plan applicable to new state and higher education employees and K-12 teachers as of July 1, 2014. General plan provisions are summarized in the Defined Contribution, Cash Balance and Hybrid Plans section of this report.

- Employees must contribute 5 percent of payroll to the DB component. They are automatically enrolled to make 2 percent contributions to the DC component, but employees may opt out or adjust the amount, provided they do not exceed IRS limits.
- Employers must contribute 5 percent to the DC component and a minimum of 4 percent to the DB component for an aggregate contribution of 9 percent. Employer contributions to the DB plan must total the greater of 4 percent or an actuarially determined sum based on normal costs and accrued liability. If the actuarially determined employer cost under this formula falls short of the 4 percent minimum, then the difference will be set aside in a stabilization reserve account within the pension trust fund. If the actuarially determined employer cost exceeds 4 percent, it would trigger a sequence of automatic adjustments designed to limit employer costs and unfunded liabilities. The same series of adjustments would kick in if the unfunded liability for the DB component of the hybrid plan for teachers and state employees exceeds 25 percent of the state's general obligation debt (five-year average). In either case, automatic adjustments would occur in the following sequence:
    1. Stabilization reserve funds would be used.
    2. COLA increases for retirees would be suspended or reduced.
    3. Some or all DC employer contributions would be shifted to the DB plan.
    4. Employee contributions to the DB plan would be increased by 1 percent.
    5. Service multipliers would be reduced.
    6. The hybrid plan would be suspended.

  Once employer costs or unfunded liabilities return to targeted levels, these automatic adjustments would be reversed.

Texas. 2013 Gen. Laws, Chap. 203 (Senate Bill 1133) allows the City of El Paso to address contribution adjustments for its fire and police pension funds through its regular budget process, without recourse to the costly elections required under current law. If a qualified actuary determines that the total contribution rate to the fund is insufficient to amortize the unfunded actuarial accrued liability over a 40-year period, then the city may increase the employer contribution rate. If it does so, the member contribution rate must increase proportionately. If a qualified actuary determines that the total contribution rate is sufficient to amortize the unfunded liability over a 25-year period, the city may decrease employer and member contribution rates accordingly (though not below a level necessary to amortize the liability over a 25-year period).

Texas. 2013 Tex. Gen. Laws, Chap. 1214 (Senate Bill 1458) and 2013 Tex. Gen. Laws, Chap. 1411 (Senate Bill 1) increases the employee and state contribution rate paid to the Teacher Retirement System of Texas. The law also requires a new contribution for most school districts. The member contribution rate will increase from 6.4 percent to 7.7 percent in FY 2017. This increase is phased in at 6.6 percent in 2014, 6.7 percent in 2015, 7.2 percent in 2016 and 7.7 percent in 2017. After Sept. 1, 2017, employee contribution rates will be tied to the state's contribution rate and will drop to correspond with any decrease in the state's contribution rate from the level set in 2015. Beginning in FY 2015, school districts and charter schools that do not contribute to Social Security will contribute 1.5 percent. Senate Bill 1 also increases the state contribution rate for the Teacher Retirement System of Texas, from 6.4 percent to 6.8 percent for 2014 and 2015. The new rate structure is:

Teacher Retirement System of Texas *Contribution Rates*

	State	School Districts and Charter Schools (Not Covered by Social Security)	Member
FY 2014	6.8%	-	6.4%
FY 2015	6.8%	1.5%	6.7%

Texas. 2013 Tex. Gen. Laws, Chap. 618 (Senate Bill 1459) and 2013 Tex. Gen. Laws, Chap. 1411 (Senate Bill 1) raises the employee contribution rate and requires a new employer contribution for members of the Employees Retirement System of Texas. The new employer contribution rate will be 0.5 percent of total payroll. The law increases contribution rates for public employees from 6.5 percent to 7.5 percent, effective in FY 2017. Rate increases are phased in and set at 6.6 percent in 2014, 6.9 percent in FY 2015, 7.2 percent in FY 2016 and 7.5 percent in FY 2017. After Sept. 1, 2017, employee contribution rates will be tied to the state's contribution rate and will drop to correspond with any decrease in the state's contribution rate from the level set in FY 2015. Senate Bill 1 sets the state contribution rate at 6.5 percent (the same as in 2013) plus up to 1 percent from FY 2013 unexpended balances for FY 2014, and 7.5 percent for 2015. The new rate structure is:

Texas Employees Retirement System *Regular State Employees Contribution Rates*			
	State	**Employer**	**Member**
FY 2014	6.5%*	0.5%	6.6%
FY 2015	7.5%	0.5%	6.9%
*Potential for addition 1% state contribution from re-application of unexpended balances to ERS retirement trust.			

For members of the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF), contribution rates will increase to .5 percent in each fiscal year. The new rate structure is:

Texas Law Enforcement and Custodial Officer *Supplemental Retirement Fund Contribution Rates*			
	State	**Employer**	**Member**
FY 2014	0.5%	0%	0.5%
FY 2015	0.5%	0%	0.5%

Texas. 2013 Gen. Laws, Chap. 812 (Senate Bill 1812) limits the state's share of the benefits and retirement contributions for certain junior college employees in the Teacher Retirement System (TRS), the Optional Retirement Program (ORP), and the employees' group benefits program. The law substantially lowers the state's required contributions from their historical levels. The state would now pay 50 percent of the employer share of retirement contributions for certain instructional or administrative employees and nothing for others. Costs are passed down to public junior college districts, which will contribute an amount equal to the state contribution rate then in effect multiplied by either 50 percent of the aggregate eligible creditable compensation for certain qualifying members, or 100 percent of the aggregate eligible creditable compensation for all other employees. Biennial adjustments to the number of employees who qualify for state contributions cannot exceed proportionate changes in student enrollment. However, a college that experiences a decline in student enrollment may petition to maintain the number of eligible employees up to 98 percent of the level of the prior biennium. The law imposes certain conforming reporting requirements on public junior colleges.

Utah. 2013 Utah Laws, Chap. (House Bill 24) sets investment requirements for the employer contributions made on behalf of certain employees who are exempt from the four-year vesting terms in the Tier II systems. During the year-long period in which Tier II members may elect to participate in the defined contribution plan or they hybrid retirement system, employer contributions are invested in a default fund managed by the Utah Retirement System board. The law also provides that employees who are exempt from the four-year vesting requirement in the Tier II systems and who terminate before the one-year election period are entitled to all employer contributions and associated investment gains and losses.

Vermont. 2013 Vt. Acts, Act 22 (House Bill 518) raises employee contribution rates for three of the four Vermont Municipal Employees' Retirement System (VMERS) plans as follows:

VMERS Employee Contribution Rates				
Contribution Period	**Group A**	**Group B**	**Group C**	**Group D**
Prior to July 1, 2013	2.5 %	4.5%	9.25%	11%
July 1, 2013 – Dec. 31, 2013	2.5 %	4.625%	9.375%	11.125%
Jan. 1, 2014 – June 30, 2014	2.5 %	4.625%	9.5%	11.125%

The VMERS board voted to adopt a similar rate increase for employer contributions. According to VMERS, the contribution rate for Group A employees was not raised, because the funding status for that group is sufficient to cover pension costs.

West Virginia. 2013 W.Va. Acts, Chap. 168 (Senate Bill 431) clarifies the liability of participating public employers and their successors for delinquent retirement contributions, delinquency fees and other costs. The law requires payment of outstanding contributions, fees and costs within 30 days of the sale, merger or dissolution of a public employer and provides for successor liability if the employer does not pay. Debts owed to the Consolidated Public Retirement Board are enforceable by a lien on all public employer (or successor) assets within the state. The board may recover all fees and costs incurred during an action to enforce a lien, including interest, court costs and reasonable attorney fees.

West Virginia. 2013 W.Va. Acts, Chap. 109 (Senate Bill 403) reduces contribution rates for members of the Judges' Retirement System from 10.5 percent to 7 percent beginning July 1, 2013. Beginning July 1, 2014, the Consolidated Public Retirement Board will set member contribution rates based on the annual actuarial valuation prepared by the state actuary. The board cannot set the member contribution rate below 7 percent or above 10.5 percent of annual compensation. Starting on or after July 1, 2013, the State Actuary must supply the legislature's Joint Committee on Government and Finance and Joint Committee on Pensions and Retirement with its annual actuarial valuation and ARC.

Wyoming. 2013 Wyo. Sess. Laws, Chap. 203 (House Bill 250) increases employee and employer contribution rates for members of several pension plans.

- *Public Employee Pension Plan*: The law increases contributions by 1 percent, which are phased in and split between the employer and employee. The employee contribution rate is increased from 7 to 7.5 percent, beginning in September 2013, for current employees and new hires. The state will "pick-up" 0.25 percent of the employee contribution increase from September 2013 through August 2016. In September 2014, the employer contribution rate will increase from 7.12 percent to 7.62 percent.
- *Game Warden, Highway Patrol, and Criminal Investigation Pension Plan*: The law increases contributions by 1.8 percent, which will be phased in and split between the employer and employee. The employee contribution rate is increased from 12.65 percent to 13.54 percent, beginning September 2013, for current employees and new hires. The state will "pick-up" 0.45 percent of the employee contribution

increase from September 2013 through August 2016. In September 2014, the employer contribution rate will increase from 12.96 percent to 13.86 percent.

- *Paid Fire B Plan*: The law increases contributions by 0.225 percent, from 8.5 percent to 8.725 percent, though a one-time increase paid by employees.

2. Cost of Living Adjustments (COLAs)

Arizona. 2013 Ariz. Sess. Laws, Chap. 110 (Senate Bill 1170) eliminates permanent benefit increases (PBIs) for members of Arizona State Retirement System (ASRS) hired on or after September 13, 2013. Using stochastic forecasting, the ASRS actuary predicted that abolishing PBIs for new hires would save approximately $220 million, according to the Senate fact sheet accompanying the bill. The law also amends employer contribution rate provisions (discussed in the Contribution Rates and Funding Issues section of this report), privacy provisions (discussed in the Ethics, Forfeiture of Benefits and Privacy section) and makes additional changes to ASRS related to IRC compliance, survivor benefits and health insurance.

Arkansas, 2013 Ark. Acts, Act 967 (House Bill 1200) authorizes the board of the Arkansas Teacher Retirement System to reverse the compounding of a COLA for retirees and participants in the Teacher Deferred Retirement Option Plan (TDROP). The consequences would vary based on which instance(s) of compounding the board chose to reverse. Future benefits would be paid based on a simple COLA (a percentage of an older, lower base benefit amount). However, future benefits would not be reduced to recover any additional benefits paid from the date before such a reversal. The board has the power to change the compounding of the COLA by resolution, but a reversal may not occur unless the system's actuary certifies that the amortization period for unfunded liabilities exceeds 30 years.

Illinois. 2013 Ill. Laws, P.A. 599 (Senate Bill 1) lowers automatic annual increases (COLAs) for current and future retirees of the General Assembly Retirement System (GARS), State Employees' Retirement System (SERS), State Universities Retirement System (SURS) and Teachers' Retirement System (TRS). Beginning Jan. 1, 2015, the current 3 percent annual compounded COLAs that participants receive is replaced by a formula that caps increases based on years of service. The automatic annual increase will be equal to 3 percent of $1,000 multiplied by years of service for members who do not receive social security, and 3 percent of $800 multiplied by years of service for members who do receive social security. The $1,000 and $800 multipliers are adjusted annually for inflation, with the adjustments compounded. If a participant's annual pension income is less than $1000 or $800 multiplied by years of service, then she will continue to receive the 3 percent compounded COLA increase.

The legislation also skips (or withholds) a certain number of post-retirement COLA increases for current employees (but not retirees) based on their age as of June 1, 2014.

- Age 50 or over - will not receive their 2nd automatic annual increase;
- Age 47 to under age 50 - will not receive their 2nd, 4th, or 6th automatic annual increase;
- Age 44 to under age 47 - will not receive their 2nd, 4th, 6th, or 8th automatic annual increase;
- Age 43 and under - will not receive their 2nd, 4th, 6th, 8th, or 10th automatic annual increase.

On May 8, 2015, the Illinois Supreme Court affirmed a lower court ruling that Senate Bill 1 is unconstitutional and permanently enjoined its enforcement.

Kentucky. 2013 Ky. Acts, Chap. 120 (Senate Bill 2) with limited exceptions, eliminates any future COLAs for current and future retirees in the three plans administered by Kentucky Retirement Systems (KRS), the Legislators' Retirement Plan and Judicial Retirement Plan. Retirees may see a 1.5 percent COLA in only two scenarios: 1) the funding level of their plan is greater than 100 percent and subsequent legislation authorizes use of the surplus for COLA funding, or 2) the legislature appropriates sufficient funds to fully prefund the COLA in the year it is granted.

Louisiana. La. Acts 2013, 170 (Senate Bill 10) replaces an unpredictable, intermittent formula for granting permanent benefit increases with a formula that will permit retirement system boards to grant benefit increases more frequently. A board of trustees for a statewide retirement system must make an irrevocable election to have future benefit increases determined in accordance with a new set of rules. If a board fails to make this election in a public meeting on or before Dec. 31, 2013, the old formula will continue to apply.

The new rules contain several timing restrictions, prohibiting boards from authorizing COLAs or permanent benefit increases during the first six months of any fiscal year, prior to the end of the legislative session in any calendar year or in any calendar year when the legislature has already granted an increase (without a specific legislative mandate for additional increases). A board may authorize an increase if sufficient funds are available in the system's funding deposit account or if its funded ratio is:

- 90 percent or higher, and the system has not granted a benefit increase in the most recent year.
- 80 percent or higher, and the system has not granted a benefit increase in the two most recent years.
- 70 percent or higher, and the system has not granted a benefit increase in the three most recent years.

The legislation also reduces the maximum COLA payable to retirees, disability recipients and survivors under the Sheriffs' Pension and Relief Fund from 3 percent to 2.5 percent. The dollar amount of the COLA may not exceed 5 percent of the average monthly benefit in payment to service retirees as of the end of the preceding fiscal year.

Louisiana. La. Acts 2013, 297 (House Bill 46) effective July 1, 2013, the law authorizes a one-time COLA of up to 3.75 percent for retirees and beneficiaries in the Louisiana School Employees' Retirement System who satisfy various age and length of retirement criteria. Under existing law, Tier 1 members who have attained the age of 60 and have received a retirement benefit for at least one year are eligible for COLAs of 3 percent or the amount of the prior year's increase in the CPI-U, whichever is less. To qualify for the one-time COLA, retirees and beneficiaries must meet the eligibility requirements under existing law and either have retired prior to July 1, 2001 or have entered the DROP prior to July 1, 2001 and retired prior to July 1, 2012. The increase cannot exceed the funds available in the experience account used to fund COLAs, and before an adjustment is granted, the legislative auditor's actuary and the retirement system's actuary must agree on a funding determination.

Maine. 2013 Me. Laws, Chap. 391 (Legislative Document 1440, House Paper 1034) reduces the COLA cap from 4 percent to 3 percent for all members of the Participating Local District Consolidated Retirement Plan beginning July 1, 2014. Members who retire on or after Sept. 1, 2015 must wait until 12 months after retirement to be eligible to receive a COLA.

Minnesota. 2013 Minn. Laws, Chap. 111 (Senate File 489) reduces the COLA for current retirees, active members and future hires of the Public Employees Retirement Association Police and Fire Plan. The COLA is reduced from 2.5 percent per year to 1 percent, beginning Jan. 1, 2014. The COLA is reduced to 1 percent until the fund reaches a 90 percent funded ratio for two consecutive years.

Missouri. 2013 Mo. Laws, p. 727 (House Bill 418) creates a second tier of membership within the Police Retirement System of Kansas City for those who become members on or after August 28, 2013. Tier I members continue to be eligible for COLAs of up to 3 percent at the board's discretion, based on the actuarial condition of the system. COLAs for members of Tier II are subject to additional conditions. For a Tier II member retiring with less than 32 years of service, COLAs are deferred until the member would have reached 32 years of service. The law contains separate COLA eligibility provisions for Tier II disability retirees and survivors.

Montana. 2013 Mont. Laws, Chap. 272 (House Bill 336) modifies benefits for members of the Highway Patrol Retirement System. Among other changes, the law reduces the COLA for new members hired on or after July 1, 2013. For these members, the COLA is reduced from 3 percent to 1.5 percent and the waiting period to receive the COLA after retirement is increased from one year to three years.

Montana. 2013 Mont. Laws, Chap. 389 (House Bill 377) reduces the COLA for retirees, current employees and future hires in the Teachers Retirement System. The COLA is decreased from 1.5 percent to 0.5 percent until the fund is actuarially sound. The law requires that if the funded ratio is less than 90 percent, the maximum COLA will be 0.5 percent. If the funded ratio increases to 90 percent or greater, and granting a larger COLA will not reduce the funded ratio below 85 percent, the TRS Board may grant a COLA between 0.5 percent and 1.5 percent.

On June 30, 2015, a district court issued a permanent injunction preventing the state from enforcing the legislation's Section 11 COLA changes.

Montana. 2013 Mont. Laws, Chap. 390 (House Bill 454) reduces the COLA for retirees, current employees and future hires in the Public Employee Retirement System. The COLA is reduced from 3 percent to 1.5 percent while the system is funded at 90 percent. The COLA is further reduced by 0.1 percent for every 2 percentage points that system funding falls below 90 percent. The law also provides that if the plans' amortization period is 40 years or greater, a COLA will not be granted.

On March 4, 2015, a district court concluded that reducing the COLA was not reasonable and necessary to achieve the legitimate purpose of maintaining the actuarial soundness of PERS and granted a permanent injunction and summary judgment to the retirees challenging Section 5 of the legislation.

Nebraska. 2013 Neb. Laws, L.B. 553 (Legislative Bill 553) created a new tier of benefits for the School Employees Retirement system who are hired on or after July 1, 2013. The new tier applies to the state's defined benefit plans—the School Employees Retirement System and the Class V School Employees Retirement System. Among other changes, the new tier of employees will see a reduced COLA, from 2.5 percent to a maximum COLA of 1 percent.

New Mexico. 2013 N.M. Laws, Chap. 61 (Senate Bill 115) creates a new Tier 3 membership for the New Mexico Educational Retirement Board that applies to new members hired after July 1, 2013. It includes additional eligibility requirements for benefits. For Tier 3 members, a COLA will be granted when the retiree reaches age 67, rather than age 65. The law also reduces the COLA for current and future retirees immediately, until the plan is 100 percent funded. Retirees with annual benefits at or below $18,000 and 25 or more years of service will see a 10 percent COLA reduction, to 1.8 percent. All other current retirees will see a 20 percent COLA reduction, to 1.6 percent (on average). Once the plan is 90 percent funded, the COLA reduction will decrease. When the plan is 100 percent funded, the COLA will return to 2 percent.

The New Mexico Supreme Court upheld the COLA changes in 2013.

New Mexico. 2013 N.M. Laws, Chap. 225 (Senate Bill 27) creates a new Tier 2 for the Public Employees Retirement System (PERA). Retirees and current members (as of June 30, 2013) are in Tier 1. New hires employed after June 30, 2013 are in Tier 2. The law reduces the COLA for new hires, current members and retirees. The law also suspends the COLA for retirees who retire and return to work for a PERA covered employer on or after July 1, 2013. The COLA will be reinstated once they terminate their employment.

- *Active members and new hires.* The law reduces current active members' COLA from 3 percent to 2 percent. The COLA eligibility delay is also increased from two years to seven years, phased in over four years. For example, an employee who retires after July 1, 2016 will wait seven full calendar years before receiving a COLA. This eligibility delay does not apply to disability retirees or retirees over age 65.
- *Current retirees.* The law reduces the COLA for current retirees from 3 percent to 2 percent. However, current retirees who have 25 years of service and an annual pension benefit of $20,000 or less will

receive a 2.5 percent COLA. Disability retired members with an annual pension benefit of $20,000 or less will also receive a 2.5 percent COLA.

Oklahoma. 2013 Okla. Sess. Laws, Chap. 119 (Senate Bill 1115) eliminates a requirement that the Oklahoma Law Enforcement Retirement System Board adopt a COLA actuarial assumption in its annual actuarial valuation report.

Oregon. 2013 Or. Laws, Chap. 53 (Senate Bill 822) modifies the COLA for members of the Public Employees Retirement System. In the first year of the 2013-15 biennium, the COLA will drop from 2 percent to 1.5 percent for all current and future retirees. After Aug. 1, 2014, the COLA will be based on the amount of annual benefit on a graduated scale:

Oregon PERS COLA	
Annul Benefit	**COLA**
Up to $20,000	2%
$20,001 to $40,000	1.5%
$40,001 to $60,000	1%
Above $60,000	0.25%

For example, benefit recipients whose annual benefit is between $20,000 and $40,000 will receive a COLA of $400 on the first $20,000 plus a 1.5 percent COLA on the portion of their benefit that is above $20,000. Benefit recipients whose annual benefit is between $40,000 and $60,000 will receive a COLA of $700 on the first $40,000 plus a one percent COLA on the portion of their benefit above $40,000. Benefit recipients whose annual benefit is more than $60,000 will receive a COLA of $900 on the first $60,000 plus a 0.25 percent COLA on the portion of their benefit above $60,000.

On April 30, 2015, the Oregon Supreme Court ruled that the COLA modifications contained in S.B. 822 and S.B. 861 impaired retirees' contractual rights with respect to annual COLAs for benefits earned prior to the amendments' effective date. However, the court found no such impairment with respect to COLAs based on future service.

Oregon. 2013 Or. Laws Spec. Sess., Chap. 2 (Senate Bill 861) modifies the COLA under the Public Employees Retirement System (PERS) beginning July 1, 2014, and supersedes COLA changes approved during the 2013 regular session in Senate Bill 822. The measure impacts PERS three primary benefit programs: Tier 1, Tier 2 and the Oregon Public Service Retirement Plan. The Individual Account program is not affected.

Senate Bill 822 reduced the COLA from 2 percent to 1.5 percent for all current and future retirees in the first year of the 2013-15 biennium. Senate Bill 861 would not affect this 2013 COLA reduction. However, after Aug. 1, 2014, Senate Bill 861 would alter the COLA formula contained in Senate Bill 822, implementing a different graduated scale and a new schedule of supplemental payments. The following table summarizes Senate Bill 861's changes for the second year of the 2013-15 biennium, as compared to Senate Bill 822:

Annual benefit amount	SB 822 COLA (superseded by SB 861)	SB 861 COLA	First supplemental payment for all benefit recipients*	Second supplemental payment if annual benefit ≤$20,000*
$20,000 or less	2.00%	1.25%	0.25% (cap = $150)	0.25%
$20,000 to $40,000	1.50%	1.25%	0.25% (cap = $150)	
$40,000 to $60,000	1.00%	1.25%	0.25% (cap = $150)	

>$60,000	0.25%	0.15%	0.25% (cap = $150)	

*Sunsets on Dec. 31, 2019

Under Senate Bill 861, the statutory COLA rate will be 1.25 percent for benefit payments up to $60,000 and 0.15 percent on any portion of benefits above that amount. It provides temporary administrative authority to the PERS board to pay an annual COLA supplement beginning in 2014 and ending in 2019. This payment is 0.25 percent of a member's annual benefit, but may not exceed $150. The board must pay a second supplement of 0.25 percent to each member or beneficiary with a yearly benefit of $20,000 or less. These supplements will not compound year-to-year and will have no impact on the pension system's unfunded liabilities, according to the fiscal impact statement, because they are paid from the PERS Contingency Reserve Account, which is not accounted for in actuarial valuations. PERS estimated that Senate Bill 861's COLA change would reduce system-wide liabilities by $1.9 billion.

On April 30, 2015, the Oregon Supreme Court ruled that the COLA modifications contained in S.B. 822 and S.B. 861 impaired retirees' contractual rights with respect to annual COLAs for benefits earned prior to the amendments' effective date. However, the court found no such impairment with respect to COLAs based on future service.

For a discussion of Senate Bill 861's provisions on possible future COLA changes, please see the Studies section of this report.

Texas. 2013 Tex. Gen. Laws, Chap. 1214 (Senate Bill 1458) provides a one-time COLA for long-time retirees of the Teacher Retirement System of Texas. The COLA is available to members who retired on or before Aug. 31, 2004 (or a surviving beneficiary) and will be three percent or $100 a month, whichever is less.

Texas. 2013 Tex. Gen. Laws, Chap. 618 (Senate Bill 1459) authorizes the Employees Retirement System of Texas (ERS) to grant a one-time COLA to retirees who have been retired for 20 years (or a surviving beneficiary). Before such a COLA will be authorized, ERS must show that the plan is actuarially sound—specifically that the amortization period for the unfunded actuarial liability does not and will not exceed 30 years. If authorized, the COLA will be the lesser of three percent or $100 a month.

3. Deferred Retirement Option Plans (DROPs)

Arkansas. 2013 Ark. Acts, Act 605 (Senate Bill 163) reduces the amount of DROP deposits for non-contributory members of the Arkansas Teacher Retirement System (ATRS). Under current law, an amount equal to what would have been paid had a member retired, reduced by 1 percent for each year of contributory service, 1 percent for each year of reciprocal service and six-tenths of 1 percent for each year of non-contributory service, is deposited into a T-DROP account. The new law increases the reduction for each year of non-contributory service from six-tenths of 1 percent to 1 percent.

Louisiana. La. Acts 2013, 296 (House Bill 42) makes various changes to the benefits granted to members of the New Orleans Firefighters' Pension and Relief Fund who are DROP participants. Existing law provides that a retiree receives an additional benefit based on his post-DROP average compensation, if the duration of the post-DROP service is 48 months or more. The new law specifies that the retiree's period of post-DROP additional service must be equal to or longer than his or her average compensation period when he or she entered DROP, if he is to receive an additional benefit based on his compensation during the post-DROP period. The new law increases the number of years of service used to determine a member's final average compensation (see Defined Benefit Plan Changes section). It also imposes a different formula for capping the additional benefits of participants with extended post-DROP service.

Oklahoma. 2013 Okla. Sess. Laws, Chap. 165 (House Bill 2078) creates a new tier of benefits for new hires in the Oklahoma Firefighters Pension and Retirement System (FPRS) and raises employee and employer contribution rates for active members of the system. For post-Nov. 1, 2013 new hires who participate in the DROP for the first time after that date, the new law establishes the rate of return on DROP deposits remaining in the account after severance from service. This rate equals the system investment portfolio's actual rate of return less a minimum of one percentage point to offset administrative costs. Individuals must withdraw the balance of their DROP accounts by age 70 ½.

Please see the section of this report entitled Contribution Rates and Funding issues for a discussion of House Bill 2078's changes to FPRS employer and employee contributions rates. Please see the section of this report entitled Defined Benefit Plan Changes for a discussion the bill's modified age and service requirements for new hires.

Oklahoma. 2013 Okla. Sess. Laws, Chap. 388 (Senate Bill 1101) further modifies (beyond the changes set forth in House Bill 2078) the interest calculation for members of the Oklahoma Firefighters Deferred Option Plan, who begin service on or after Nov. 1, 2013 and, after completing active participation in the DROP, maintain a balance in their DROP account. Interest is earned at the investment portfolio's actual rate of return less 1 percentage point (rather than a minimum of 1 percentage point) in order to offset administrative costs. The law also specifies that these new hires must receive a distribution of the entire balance remaining in their deferred option plan accounts on or before April 1 in the calendar year following their actual retirement date or following their attainment of 70 ½ years of age, whichever comes later.

4. Defined Benefit Plan Changes

Arkansas. 2013 Ark. Acts, Act 1026 (Senate Bill 100) abolishes the Bar of Arkansas Employees Pension Plan, transferring all plan assets, liabilities and membership to the Arkansas Public Employees Retirement System (APERS) beginning July 1, 2013. Members and beneficiaries of the former Bar plan will be covered by the APERS eligibility provisions, except those entitled to lump sum distribution under the former Bar plan shall retain those rights. Bar employees hired after July 1, 2013 will be enrolled in APERS.

Arkansas. 2013 Ark. Acts, Act 555 (Senate Bill 116) is an anti-spiking measure that modifies the calculation of final average salary for certain members of Arkansas Teacher Retirement System (ATRS) with reciprocal service in other systems. Beginning July 1, 2014, ATRS would obtain the salary and service credit information from the reciprocal system and use the combined salary and service credit information to calculate the member's final average salary as if it had been earned in ATRS. The effect would be to prevent members enrolled in reciprocal systems for short periods of time at high salaries from claiming a disproportionate share of benefits.

The law also allows an ATRS member who earns concurrent service in both ATRS and a reciprocal system to receive full service credit, even if it would exceed one year's service credit over all systems combined. It removes the one-year service credit per year limitation beginning July 1, 2013 for all reciprocal units except alternate retirement plans and the Arkansas Public Employees Retirement System (APERS). ATRS vesting, retirement eligibility and final average salary calculations would still exclude any concurrent service crediting a member with more than one year of service.

Arkansas. 2013 Ark. Acts, Act 603 (Senate Bill 130) permits the ATRS board of trustees to lower the amount of monthly benefit stipends from the current $75 to as little as $1. A benefit decrease or increase within this allowable range shall apply to a complete fiscal year, and a benefit reduction requires the system's actuary to certify that the amortization period for unfunded liabilities exceeds 30 years. These stipends are available to ATRS members retiring with 10 or more years of service. The legislature has historically determined benefits and contribution rates, and Senate Bill 130 is one of several 2013 enactments shifting authority to the ATRS board.

Arkansas. 2013 Ark. Acts, Act 521 (Senate Bill 160) narrows the definition of salary for the purpose of computing ATRS member benefits to exclude payments made as a result of a contract buyout agreement, settlement, claim, judgment, arbitration award, decree or court-ordered payments on which an employer is required to withhold federal income tax. These payments are excluded from salary calculations unless their amount is higher than wages earned for regular service (that is, the settlements would not "stack" on top of current member wages). Nonmonetary taxable income, including vehicles, housing and personal property, is also excluded. Salary includes remuneration from which ATRS is required to withhold federal income tax, rather than just the remuneration from which the tax is actually withheld, and the board is empowered to promulgate rules modifying the definition of salary. Finally, under certain conditions, the law permits a member to purchase service credit under a settlement agreement or court order to resolve a claim of wrongful termination.

Arkansas. 2013 Ark. Acts, Act 606 (Senate Bill 164) permits the ATRS Board of Trustees to establish a voluntary buyout program, in which members, surviving spouses or alternate payees could elect a one-time, lump sum payment in exchange for cancellation of membership and retirement benefit rights in ATRS. The buyout plan may be offered periodically and have a limited window for participation. It must specify eligibility requirements along with the formula used to determine the amount of any lump sum payment. To participate in the buyout, members must be eligible for deferred retirement and have been inactive for at least one year, while surviving spouses and alternate payees cannot have received a retirement benefit from the system. Finally, a member who receives a buyout and subsequently returns to active service may repurchase previously credited service as if it were private school service.

Arkansas. 2013 Ark. Acts, Act 522 (Senate Bill 169) allows active members of the Arkansas Local Police and Fire Retirement System (LOPFI) who leave their current positions to become instructors at the Arkansas Fire Training Academy or the Arkansas Law Enforcement Training Academy on or after July 1, 2013 to retain their membership in LOPFI. Under current law, members who leave their covered police officer or firefighter positions to accept instructor posts are ineligible to remain in LOPFI, as the academies' umbrella agencies participate in APERS.

Arkansas. 2013 Ark. Acts, Act 310 (House Bill 1125) excludes lump sum leave payments from the calculation of average compensation used to determine retirement benefits for members of the Arkansas State Highway Employees Retirement System (ASHERS) beginning July 1, 2013. Current law permits ASHERS retirees, who do not enter DROP, to include the lump sum payout of their unused vacation leave in their average compensation calculation. While the system does not maintain data about banked leave at retirement, an actuarial cost study estimates annual savings between $100,000 and $300,000.

Arkansas. 2013 Ark. Acts, Act 720 (House Bill 1137) permits retiring ATRS members to use the salary earned in their final year of employment in the computation of their final average salary, regardless of whether they retire on the first day of a calendar quarter. This legislation is designed to remove the incentive for a small number of members to retire on April 1, rather than later in the year when teaching duties typically end.

Arkansas. 2013 Ark. Acts, Act 966 (House Bill 1194) authorizes the ATRS board to reduce the multipliers for future years of contributory and noncontributory service credit earned after June 30, 2013. The legislature has historically determined benefits, and House Bill 1194 is one of several 2013 enactments shifting authority to the ATRS board. The legislation:

- Provides that current multipliers for contributory and noncontributory service (2.15 and 1.39 percent, respectively) remain in force unless adjusted by the board.
- Eliminates complex minimum benefit guarantees.
- Authorizes the board to adjust the contributory multiplier between 1.75 percent and 2.15 percent and the non-contributory multiplier between 0.5 percent and 1.39 percent. Any increase or decrease to a

multiplier applies to a complete fiscal year. Once earned for a given year, a multiplier may be retroactively increased, but not decreased.

- Authorizes the board to set a special, lower multiplier for the first 10 years of service (which, for contributory service, must still fall between 1.75 and 2.15 percent). The board cannot apply this special decreased multiplier retroactively. After 10 years of service have been rendered, the board may retroactively apply the standard (larger) multiplier to some or all of the first 10 years of service.
- Provides that the board cannot reduce the multiplier for contributory service earned after the first 10 years unless the system's actuary certifies that the amortization period to pay off unfunded liabilities exceeds 30 years.

Arkansas. 2013 Ark. Acts, Act 315 (House Bill 1239) creates Benefit Program 4, an enhanced annuity benefit program for volunteer members of the Local Police and Fire Retirement System (LOPFI). Benefit Program 4 would increase the monthly annuity amount for those retiring after July 1, 2013 to $10 (adjusted for inflation) for each year of volunteer service, up to a maximum of $400 per month. The current monthly benefit structure for volunteer service under Benefit Program 3 provides $5 (adjusted for inflation) for each year of volunteer service, up to a maximum of $200 per month. Political subdivisions may elect to participate in either program, though the increased benefit associated with the new program cannot be funded through an allocation of insurance premium tax revenues. The legislation makes a special provision for members who render volunteer service after July 1, 2013 and whose localities subsequently elect to participate in Program 4 to purchase the increased value of the benefit for the pre-election service.

California. 2013 Cal. Stats., Chap. 527 (Assembly Bill 1222) temporarily exempts public transit employees from the Public Employees' Pension Reform Act of 2013 (PEPRA) and authorizes loans from the State Transportation Fund to local mass transit providers. PEPRA modified California's public pension system, lowering standard benefit formulas and implementing cost sharing for new members. In September 2013, the U.S. Department of Labor (DOL) withheld transit funds from certain California transit agencies, indicating that the application of PEPRA to affected public transit employees violates section 13(c) of the Federal Transportation Act by interfering with their collective bargaining rights. As a result of DOL's decision, more than eighty California transit agencies stood to lose billions in federal funds, according to a lawsuit that the state filed against DOL on Oct. 4, 2013, the same day Assembly Bill 1222 was signed into law. The legislation's PEPRA exemption for transit workers extends until the federal district court rules that PEPRA doesn't violate federal requirements, or until Jan. 1, 2015, whichever is earlier. If the court upholds the DOL's ruling, the bill permanently exempts these employees from PEPRA. It also creates a $26 million state loan program to assist transit operators at risk of losing federal transit grants. *On Dec. 31, 2014, the transit workers' exemption ended when a federal court ruled that the DOL withholdings were in error.*

California. 2013 Cal. Stats., Chap. 247 (Assembly Bill 1380) makes dozens of technical changes to the County Employees Retirement Law (CERL) to align it with the mandates of the Public Employees' Pension Reform Act of 2013 (PEPRA). Assembly Bill 1380 generally clarifies that certain of the more generous retirement provisions of CERL do not apply to members who are also subject to PEPRA by virtue of their hire date (first employment on or after Jan. 1, 2013). New members subject to PEPRA may not purchase airtime, discontinue member contributions after 30 years of service, or take advantage of existing provisions for employer-paid member contributions or retroactive benefit enhancements. Where age and service requirements or re-employment after retirement provisions conflict with PEPRA, PEPRA controls, and the 36 months used for members' final compensation averaging period must be consecutive.

California. 2013 Cal. Stats., Chap. 559 (Assembly Bill 1381) makes many technical and conforming changes to harmonize the Teachers' Retirement Law with the provisions of Public Employees' Pension Reform Act (PEPRA) of 2013. PEPRA modified California's public pension system, lowering standard benefit formulas and implementing cost sharing for new members. Other changes affected both current and new employees, including a prohibition on the purchase of nonqualified service credit ("airtime") and an additional 180-day waiting period for re-employment after retirement. Assembly Bill 1381 aligns the age factors and normal retirement age provisions in the Teachers' Retirement Law with those in PEPRA. It prevents "2 percent at 62 members" (members subject to PEPRA) from using a one-year final compensation formula based on having 25 or more years of service credit or based on a collective bargaining agreement. This benefit is also made unavailable to "2 percent at 60 members" for contracts entered into, extended, renewed or amended on or after Jan. 1, 2014. The legislation prohibits "2 percent at 62 members" from receiving any benefits from the California State Teachers' Retirement System (CalSTRS) in excess of federal limits by excluding them from the Replacement Benefits Program. Finally, it restricts the purchase of nonqualified service and elaborates on allowable post-retirement activities and earnings.

California. 2013 Cal. Stats., Chap. 528 (Senate Bill 13) contains dozens of corrections and clarifications to the Public Employees' Pension Reform Act of 2013 (PEPRA). Among its PEPRA cleanup provisions, Senate Bill 13 extends the application of PEPRA's employee contribution rate formula to new employees of the legislature and clarifies that where the initial contribution rate for new defined benefit plan members exceeds 50 percent of the plan's normal cost rate, the higher contribution rate must have been agreed to through the collective bargaining process. PEPRA established an exception from the 180-day break in service requirement for public safety officers and firefighters who are re-employed after retirement. Senate Bill 13 adds the condition that the exception only applies where the employee returns to perform a function regularly performed by a safety officer or firefighter. Senate Bill 13 creates PEPRA exemptions for collectively-bargained multiemployer pension plans that include both public and private employers and for the public transit employees who are also the subject of Assembly Bill 1222. Senate Bill 13 also clarifies that PEPRA's pension forfeiture provisions supplement the existing forfeiture provisions that pertain specifically to judges, and if there is a conflict, the more stringent provisions apply.

California. 2013 Cal. Stats., Chap. 526 (Senate Bill 220) makes various technical corrections and conforming changes to align the Public Employees' Retirement Law (PERL) and other laws administered by CalPERS with the provisions of the Public Employees' Pension Reform Act of 2013 (PEPRA). The legislation clarifies that new members subject to PEPRA are excluded from pre-PEPRA definitions of compensable earnings and may not receive employer-paid member contributions. It sets out a formula for calculating retirement benefits for members who retire before age 52 with service in different retirement systems (at least one of which is subject to PEPRA and which have different minimum retirement ages). It clarifies that Tier II member contribution rates for miscellaneous and industrial members will increase by 1.5 percent annually until they cover at least one-half of the normal cost of the plan. Purchases of additional retirement service credit are not permitted for applications received after Jan. 1, 2013.

Colorado. 2013 Colo., Sess. Laws, Chap. 49 (Senate Bill 11) applies the benefits, protections and responsibilities of spouses to the parties to a civil union, including group benefit plans for state employees, survivor benefits under local government firefighter and police pensions and the right to designate a party to a civil union as a beneficiary under the state Public Employees' Retirement System.

Delaware. Vol. 79 Del. Laws, Chap. 174 (House Bill 207) permits qualified corrections officers in the State Employees' Pension Plan to retire at any age with 25 years of service and raises employee contribution rates. The provisions apply to corrections officers classified as A-1 Hazardous Duty employees. With the issuance of a favorable IRS ruling following passage of House Bill 207, corrections officers are eligible to retire without a reduction in benefits beginning Jan. 1, 2017, if they have completed 25 years of service, are classified as A-1 Hazardous Duty corrections officers at retirement and have 20 years of credited service in that classification. Qualified corrections officers with more than 25 years of service receive a higher multiplier (2.45 percent compared to 1.85 percent for post-1996 service) for years of service beyond the initial 25. Effective Jan. 1, 2015, corrections officers will contribute an additional 2 percent of annual compensation in excess of $6,000, with a 5 percent rate for those hired before Jan. 1, 2012 and a 7 percent rate for those hired on or after that date.

District of Columbia. 2013 D.C. Stat., Chap. 16 (B20-0064) extends early retirement options to "excessed" public school teachers with performance ratings of "effective" or higher. Excessing is the elimination of a teacher's position at a particular school due to a decline in enrollment, budget reduction, closing/consolidation/restructuring or other change in the local school program. Under current provisions governing involuntary separation, excessed teachers with performance ratings below effective are entitled to collect an early retirement annuity. Effective teachers are not, because they can exercise other options under their collective bargaining agreement. The legislation extends the early retirement alternatives associated with involuntary separation to any excessed, permanent status teacher, regardless of whether she rejected other available options, including a placement elsewhere in the D.C. public schools.

Georgia. 2013 Ga. Laws, p. 755 (House Bill 238) increases the amount of monthly dues payments for members of the Georgia Firefighters' Pension Fund from $15 to $25.

Hawaii. 2013 Hawaii Sess. Laws. Act. 123 (House Bill 808) provides that civil union partners are not entitled to the rights of "spouses" under the pension laws for state employees, where granting those rights would jeopardize the tax-qualified status of the Employees' Retirement System (ERS). The legislation was intended to ensure compliance with the federal Defense of Marriage Act (DOMA). House Bill 808 confirmed that civil union partners would still have the rights accorded to spouses under the portions of the ERS statutes that are not restricted by the IRS Code.

Idaho. 2013 Idaho Sess. Laws, Chap. 97 (Senate Bill 1089) repeals the Early Retirement Incentive program for teachers and school administrators in the Public Employees Retirement System. The program was established in 1996 and it provided a bonus to teachers between ages 55 and 63 who retired before achieving the rule of 90. The fiscal note estimates that this will save the state $3.6 million in ongoing funding.

Illinois. 2013 Ill. Laws, P.A. 599 (Senate Bill 1) makes major changes to the pension benefits, employee contribution rates and funding obligations associated with the General Assembly Retirement System (GARS), State Employees' Retirement System (SERS), State Universities Retirement System (SURS) and Teachers' Retirement System (TRS). Reductions in automatic annual increases for current and future retirees are discussed in the Cost of Living Adjustments section of this report. Reductions in employee contribution rates and new funding obligations are discussed in the Contribution Rates and Funding Issues section of this report. An optional defined contribution plan for current employees is described in the Defined Contribution, Cash Balance and Hybrid Plans section of this report.

- *Age and Service Eligibility.* The law increases the retirement age on a graduated scale for current employees who are age 45 or younger as of June 1, 2014. For current employees who are age 46 or older, retirement ages remain unchanged. For each year a member remains under age 46, the retirement age will be increased by 4 months (up to a 5 year increase for members under age 32).
- *Anti-Spiking.* The law imposes a cap on the maximum salary used to determine benefits for current employees. The FY 2015 earnings limit is $110,631.26, to be adjusted annually for inflation. Participants whose earnings exceed that limit as of June 1, 2014 are grandfathered in. For members covered by an individual contract or collective bargaining agreement that is in effect on or prior to that date, the cap is the member's annualized salary on the day that contract expires, if that salary is higher than the statutory cap.
- *Compensation Base for FAS*. The law also prohibits accumulated sick or vacation time from qualifying as pension service credit or pensionable income for employees hired on or after June 1, 2014. This prohibition extends the Illinois Municipal Retirement Fund and the Cook County Employees' and Officers' Annuity Fund.

For members of TRS and SURS only, the law modifies an alternative formula (the money purchase formula) used to compute a base pension amount for certain employees. The law pegs the effective interest rate used in the calculation to the 30-year Treasury Bond rate plus 75 basis points, which is lower than existing, statutorily determined rates.

On May 8, 2015, the Illinois Supreme Court affirmed a lower court ruling that Senate Bill 1 is unconstitutional and permanently enjoined its enforcement.

Illinois. 2013 Ill. Laws, P.A. 42 (Senate Bill 1366) extends the early retirement option for the Teachers' Retirement System until July 1, 2016, but will require higher member and employer contribution rates along with school district approval for all retirees who exercise the option. Under current law, a member who wishes to avoid a penalty for retirement before age 60 can make a one-time contribution of 11.5 percent of salary for every year her age is below 60 or her years of creditable service are below 35, whichever is less. The member's last employer must make a corresponding contribution of 23.5 percent of salary for every year the member's age is below 60. The new law would increase the member and employer contribution rates to 14.4 and 29.3 percent, respectively. School districts and the unions that represent the majority of their members must negotiate the eligibility criteria for exercising the early retirement option. School districts will no longer be obliged to permit at least 10 percent of eligible members to participate in the program.

Illinois. 2013 Ill. Laws, P.A. 427 (House Bill 2583) affects the Public School Teachers' Pension and Retirement Fund and provides that city boards of education and charter schools may not reclassify non-hourly employees as hourly employees in order to avoid pension obligations. The law creates a presumption that all teachers and staff, regardless of position, are fund participants, unless their employer establishes they are not working directly or indirectly with a charter school. It extends this presumption to teachers or staff employed by a corporate or nonprofit entity that administers a charter school. Employers who fail to timely submit payroll records and pension contributions are subject to new financial penalties and must designate a pension officer to resolve any deficiencies.

Indiana. 2013 Ind. Acts, P.L. 195 (Senate Bill 526) requires current and future employees of the State Lottery Commission to become members of the Public Employees' Retirement Fund (PERF). Not later than July 1, 2014, the commission must transfer the pension portion of each current participant's retirement benefit from the lottery commission's defined benefit plan. Former members of the commission plan may not have their benefits diminished in the transfer. The lottery commission recently privatized its operations, reducing its staff to about 40 employees and rendering the commission plan unsustainably small, according to bill sponsor Representative Woody Burton. Other provisions related to supplemental benefit eligibility for reemployed PERF retirees are discussed in the Reemployment after Retirement section of this report.

Indiana. 2013 Ind. Acts, P.L. 160 (House Bill 1057) changes various features of the Prosecuting Attorneys' Retirement Fund (PARF) including the eligibility criteria for retirement benefits.

- *Retirement Eligibility*. Under existing law, members may retire with full retirement benefits at age 65 with eight years of service credit. As of July 1, 2013, full benefits are available at age 65 with eight years of credit or at age 55 under the Rule of 85. Fractional years of service are now recognized in the benefit formula.

[Disability benefit changes and survivor benefit changes implemented through House Bill 1057 are excluded from this report.]

Indiana. 2013 Ind. Acts, P.L. 117 (House Bill 1561) permits certain members of the 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 fund) who accept employment in another jurisdiction to retain membership in the fund without having to reapply. The law covers active members of the 1977 fund who leave one employer and, within 180 days, become employed as full-time police officers or firefighters with a second employer that participates in the 1977 fund. These police officers and firefighters will be exempt from the age and physical and mental examination requirements that pertain to transferees under current law. 1977 fund members who are laid off for financial reasons are not subject to the 180-day limit.

The law clarifies that police officers and firefighters are entitled to receive credit for all years of 1977 fund-covered service with all employers that participate in the fund.

Kansas. 2013 Kan. Sess. Laws, Chap. 132 (House Bill 2213) raises employee contribution rates and benefit caps for members of the Kansas Police and Firemen's (KP&F) Retirement System and makes various technical and clarifying changes to the Public Employees Retirement System (KPERS) and the Retirement System for Judges. The law raises the cap on maximum KP&F member retirement benefits from 80 percent to 90 percent of final average salary. Please see the section of this report entitled Contribution Rates and Funding Issues for a discussion of increased employee contribution rates under House Bill 2213.

Kentucky. 2013 Ky. Acts, Chap. 120 (Senate Bill 2) requires employers to pay the actuarial costs associated with certain late-career compensation hikes for members of the State Police Retirement System (SPRS), Kentucky Employees Retirement System (KERS) and County Employees Retirement System (CERS) retiring on or after Jan. 1, 2014. The last participating employer must pay the full actuarial cost of annual increases in compensation greater than 10 percent during the last five fiscal years of employment. There is an exception for compensation increases stemming from a "bona fide promotion or career advancement."

Louisiana. La. Acts 2013, 231 (House Bill 22) limits the allowable earnings used in the calculation of final average compensation for members of the Sheriffs' Pension and Relief Fund (SPRF) first employed on or after July 1, 2013. Existing law computes FAC for members first employed on or after July 1, 2006 based on average salary over a period of 60 months. For new hires under the new law, the salary used in the FAC calculation for any given year cannot exceed the salary of the immediately preceding year by more than 115 percent.

Louisiana. La. Acts 2013, 233 (House Bill 39) creates a new tier of membership for the Louisiana Assessors' Retirement Fund (ASSR), effective for those first hired on or after Oct. 1, 2013. It reduces future benefits by increasing retirement ages and reducing the service multiplier for those with fewer than 30 years of service.

Under current law, a member may retire at age 55 with 12 years of service or at any age with 30 years of service. A member first employed on or after Oct. 1, 2013 may retire at age 60 with 12 years of service or at age 55 with 30 years of service.

For new hires after Oct. 1, 2013, the law also reduces the rate used to calculate benefits from 3 1/3 percent to 3 percent of final average compensation for each year of service. This lower multiplier affects only those retirees with fewer than 30 years of creditable service. Transferred service with an accrual rate less than 3 1/3 percent cannot be used to meet the 30-year service requirement, unless the member has upgraded such transferred service.

For new hires after Oct. 1, 2013, the base for final average compensation is 60 months' compensation, the same as the base for members hired on or after Oct. 1, 2006. 36 months' compensation is the base for earlier hires.

Louisiana. La. Acts 2013, 296 (House Bill 42) increases the number of years used to determine the final compensation of members of the New Orleans Firefighters' Pension and Relief Fund from four to five. Under current law, total benefits cannot exceed 100 percent of the average compensation earned during any of the three highest consecutive years of service for firefighters working after Dec. 31, 1995. New law would base the benefits cap on the five highest consecutive years of service for these members.

Maine. 2013 Me. Laws, Chap. 391 (Legislative Document 1440, House Paper 1034) raises the normal retirement age from 60 to 65 for new members of the Participating Local District Consolidated Retirement Plan hired after June 30, 2014. New hires are subject to an early retirement reduction of 6 percent for each year that the member's age falls short of 65.

Maryland. 2013 Md. Laws, Chap. 477 (Senate Bill 476) changes the formula for determining the amount of unused sick leave that a member of the State Retirement and Pension System (SRPS) is allowed to convert to creditable service upon retirement. The new law directs the SRPS board to use the lesser of a member's cumulative number of sick leave days reported by the participating employer or the member's number of years of creditable service (excluding unused sick leave) multiplied by 15. This conforms to the board's current practice but represents a departure from the methodology described in current law, which accounts for sick leave actually awarded and actually used. The bill also clarifies that a member with at least 11 days but fewer than 22 days of unused sick leave is entitled to one month of creditable service. A member who has at least 22 days of unused sick leave and extra, fractional days totaling at least 11 may receive one additional month of creditable service for the fractional days.

Maryland. 2013 Md. Laws, Chap. 556 (Senate Bill 813) revises the formula for converting unused sick leave into creditable service for certain former members of the Correctional Officers' Retirement System (CORS). The law allows a member of the Employees' Pension System (EPS) retiring after July 1, 2013 who (1) was previously a member of CORS; (2) was required to transfer to EPS as a result of a promotion with the same employer; and (3) did not transfer creditable service from CORS to EPS to receive creditable service for the total amount of unused sick leave accrued at the time of retirement. This avoids the situation under current law where such employees forfeit all or most of the unused sick leave earned under the former plan. The Department of Legislative Services and the State Retirement Agency must study the requirement that certain promoted members of CORS join EPS and report findings and recommendations to the Joint Committee on Pensions.

Minnesota. 2013 Minn. Laws, Chap. 111 (Senate File 489) modifies the Public Employees Retirement Association Police and Fire Plan.

- *Early Retirement*. For current employees and new hires, the law increases the early retirement reduction factor from 1.2 percent or 2.4 percent (for certain members), to 5 percent per year, phased in from July 1, 2014 to July 1, 2019.
- *Benefit Cap*. For new hires enrolled after June 30, 2014, the law implements a 99 percent benefit cap, based on the highest five years of earnings.
- *Vesting*. The law creates a new vesting schedule for new hires enrolled after June 30, 2014:

Minnesota Public Employees Retirement Association Police and Fire Plan *Vesting Schedule for New Hires*	
Years of Service	**% Vested**
10 years	50%
11 years	55%
12 years	60%
13 years	65%
14 years	70%
15 years	75%
16 years	80%
17 years	85%
18 years	90%
19 years	95%
20 years	100%

Mississippi. 2013 Miss. Laws, Chap. 414 (House Bill 1174) excludes the value of maintenance, performance-based incentive payments and various in-kind benefits from the definition of earned compensation for members of the Public Employees' Retirement System (PERS). The maintenance exclusion takes effect July

1, 2013, though employees receiving maintenance and reporting it as earned compensation as of June 30, 2013 are grandfathered in. The exclusion of in-kind benefits extends to life and health insurance premiums, nonpaid major medical and personal leave, employer contributions for social security and retirement, tuition reimbursement or educational funding, and daycare and transportation benefits.

Missouri. 2013 Mo. Laws, p. 727 (House Bill 418) creates a new tier of membership (Tier II) in Kansas City's Police Retirement System and its Police Department Civilian Employees' Retirement System, effective for those joining one of the plans on or after Aug. 28, 2013.

Police Retirement System changes:
Age and Service Eligibility. The law increases the service requirements for normal retirement for Tier II members. Tier I members may retire with 25 years of creditable service or at age 60 with 10 years of service. Tier II members may retire with 27 years of service or at age 60 with 15 years of service. The law repeals a provision mandating retirement after 30 years of service, and permits members in active service on or after August 28, 2013 to accrue up to 32 years of service. It prohibits accrual of creditable service for any period in which a member was not making contributions (unless the member was on leave for military service).
Final Average Compensation. Tier II members' final average compensation will be calculated using their highest 36 months of service, whether consecutive or not (up from 24 months for Tier I members).
Supplemental Retirement Benefit. Under current law, the supplemental retirement benefit formula provides retirees and beneficiaries of the Police Retirement System with a supplemental benefit of $420 per month. House Bill 418 decreases the system's payment of the supplemental retirement benefit for Tier II members to $220 per month, with the remaining $200 being contributed by the city, outside the system.

Anti-spiking. Normal retirement benefits for Tier II members are capped at 80 percent of final compensation. The benefit cap for Tier I members retiring prior to Aug. 28, 2013 is 75 percent of final compensation, increasing to 80 percent for Tier I members retiring on or after that date.

Tier II members, like those in Tier I, may elect to receive a partial lump sum distribution (along with their initial monthly pension payment) based on additional years of service beyond the date of eligibility for normal retirement.
[Survivor and disability benefit plan provisions implemented through House Bill 418 are omitted.]

Civilian Employees' Retirement System changes:
Age and Service Eligibility. The law increases the age and service requirements for normal retirement for Tier II members. Tier I members may retire at age 65 or with 10 years of service. Tier II members may take normal retirement at age 67 or with 20 years of service.
Early Retirement. The law modifies the early retirement options for Tier II members. Tier I members may elect early retirement at any time under the Rule of 80 or beginning at age 55 with 10 years of service or beginning at age 60 with between five and 10 years of service, subject to specified reductions. Tier II members may elect early retirement at age 62 with five years of service, subject to a reduction. If Tier II members wish to avoid a reduction, they may retire at any time after attaining age 62 with 20 years of service or under the Rule of 85.
Final Average Compensation. Tier II members' final average compensation will be calculated using their highest-salaried 36 months of service, whether consecutive or not. The formula for Tier I members is based on the highest-salaried 24 months of service.

Missouri. 2013 Mo. Laws, p. 824 (House Bill 722) lowers the creditable service requirement for disability retirement by members of the Police Retirement System of St. Louis. Under current law, a member who has completed 10 or more years of creditable service and whose permanent disability did not arise in the performance of official duties may be certified eligible for retirement. For such members, the new law allows for disability retirement after five years of creditable service, if the system has achieved a funded ratio of at least 80 percent. The new law elaborates on the process of medical certification for retirement when members suffer accidents on duty and are unable to perform their essential job functions as a result.

Montana. 2013 Mont. Laws, Chap. 386 (House Bill 97) caps the earnings that may be included in the final average compensation used to determine a retirement benefit under the Public Employees', Judges', Highway Patrol Officers', Sheriffs', Game Wardens' and Peace Officers', Municipal Police Officers', and Firefighters' United Retirement Systems. The law applies to new hires on or after July 1, 2013, and excludes from the calculation of final (or highest) average compensation earnings that exceed the previous year's by more than 10 percent. It would also exclude from the definition of compensation any one-time, temporary bonuses provided after July 1, 2013 that are not considered part of base pay.

Montana. 2013 Mont. Laws, Chap. 389 (House Bill 377) creates a second tier of benefits for members of the Teachers Retirement System (TRS) hired after July 1, 2013. The law also increases contribution rates and reduces the COLA. The chart below summarizes the Tier 2 benefit changes:

Montana Teacher Retirement System *Defined Benefit Changes*		
	Tier 1	**Tier 2**
Final Average Salary	3 years	5 years
Age and Service Requirements	Age 60 with 5 years of service; or 25 years of service at any age	Age 60 with 5 years of service; or 30 years of service and age 55
Early Retirement Requirements	5 years of disability service and age 50	5 years of disability service and age 55

Montana. 2013 Mont. Laws, Chap. 272 (House Bill 336) modifies benefits for current members and new hires of the Highway Patrol Retirement System. For new hires only, the vesting period is increased from five years to 10 years. For all members, the law increases the retirement benefit multiplier from 2.5 percent to 2.6 percent, providing a larger retirement benefit. The law also increases contribution rates and reduces the COLA for all members.

Montana. 2013 Mont. Laws, Chap. 252 (House Bill 461) increases the cap on monthly pension benefits paid to volunteer firefighters from $225 to $300. Fire Department Relief Association boards may expand benefits up to the $300 limit, provided that the association's fund is soundly funded based on the value of taxable property in the locality or on actuarial determinations, once solicited.

Nebraska. 2013 Neb. Laws, L.B 553 (Legislative Bill 553) creates a new tier of benefits for the School Employees Retirement system who are hired on or after July 1, 2013. The new tier applies to the state's defined benefit plans—the School Employees Retirement System and the Class V School Employees Retirement System (Omaha). The law increases the number of years used to calculate final average salary, from three to five years and eligibility for membership is changed from 15 hours per week to 20. The new tier of employees will also see a reduced COLA, from 2.5 percent to a maximum COLA of 1 percent.

New Hampshire. N.H. Laws, Chap. 251 (House Bill 342) requires every participating employer to report on a monthly basis to the New Hampshire Retirement System (NHRS) all compensation paid to retired members of the system. The law addresses a lack of data surrounding part-time employment of NHRS retirees and takes effect Jan. 1, 2014. It also directs the retirement system to provide annual, written notice to all retired members of the hourly limitations on part-time employment and the effect of exceeding those limitations on benefits.

New Mexico. 2013 N.M. Laws, Chap. 79 (House Bill 275) raises the amount of monthly annuity payments for members of the Volunteer Firefighters Retirement Plan. Monthly payments increase from $200 to $250 for those age 55 with 25 years of service and from $100 to $125 for those age 55 with between 10 and 25 years of service. Benefits under the plan had remained fixed since the plan was first enacted in 1983.

New Mexico. 2013 N.M. Laws, Chap. 225 (Senate Bill 27) creates a new Tier 2 in the Public Employees Retirement System (PERA). Current retirees and current members as of June 30, 2013 are in Tier 1. New hires employed after June 30, 2013 are in Tier 2. For all Tier 1 and Tier 2 members, the law increases the maximum pension benefit that a member may earn from 80 percent of final average salary to 90 percent of final average salary.

- *Tier 2 General Members:* For general members, the pension multiplier is reduced by 0.5 percent and the final average salary will be calculated over five years instead of three. The law also increase the age for normal retirement to age 65 with 8 years of service or the rule of 85. The vesting period is also increased from five years to eight years.
- *Tier 2 Public Safety Members:* For Public Safety Plan members, the law similarly reduces the pension factor by 0.5 percent and final average salary will be calculated over five years. However, the age and service requirements for normal retirement are increased from 20 years at any age to 25 years at any age or age 60 with six years of service credit. The vesting period is also increased from five years to six years.

New Mexico. 2013 N.M. Laws, Chap. 61 (Senate Bill 115) creates a new Tier 3 membership for the New Mexico Educational Retirement Board for new members hired after July 1, 2013, with additional eligibility requirements for benefits. The law provides that members with 30 years of service must reach age 55 to receive full retirement benefits. Tier 2 allows members with 30 years of service to retire with full benefits at any age, and Tier 1 allows members with 25 years of service to retire with full benefits at any age.

Oklahoma. 2013 Okla. Sess. Laws, Chap. 281 (Senate Bill 498) adjusts the retirement eligibility criteria for members of a county retirement system who have reached the age of 62 and served with the county for 15 years. Such retirees are no longer subject to an additional requirement that their final two years of qualifying service be consecutive, immediately preceding retirement.

Oklahoma. 2013 Okla. Sess. Laws, Chap. 388 (Senate Bill 1101) affects the volunteer firefighter members of the Oklahoma Firefighters Pension and Retirement System, increasing the number of years of credited service required before vesting and retirement eligibility to conform to similar requirements for paid firefighters under the terms of House Bill 2078. For new volunteer firefighters whose first service with a system employer occurs on or after Nov. 1, 2013, the vesting requirement will increase from 10 to 11 years. New volunteer firefighters are eligible for monthly pension benefits once they reach age 50 or attain 22 years of credited service (up from 20 years of credited service), whichever is later.

The law modifies the pension benefit formula for volunteer firefighters that begin service as paid firefighters on or after Nov. 1, 2013 and that do not meet the vesting requirement (11 years) in their paid capacity. These firefighters are entitled to 1/22 (rather than 1/20) of a volunteer pension for each full year served in a volunteer capacity and 1/22 of 55 percent (rather than 1/20 of 50 percent) of the average salary received for each full year of paid service. Volunteer firefighters that begin service as paid firefighters on or after Nov. 1, 2013 and that do meet the vesting requirement in their paid capacity can credit no more than five years of volunteer time to complete a 22-year paid pension. Remaining volunteer time is computed at 1/22 of a volunteer pension for each additional volunteer year.

Finally, the law caps at 30 the number of years of credited service that may be factored into the calculation of retirement annuities for both pre- and post-Nov. 1, 2013 hires.

Oklahoma. 2013 Okla. Sess. Laws, Chap. 159 (House Bill 1325) affects the Public Employees Retirement System (OPERS) and extends the period over which final average compensation is calculated for new hires. Final average compensation will be based on the highest five years of participating service (out of the last 10) for members who join the system on or after July 1, 2013. The formula for members who joined prior to that date looks to the highest three years of participating service (out of the last 10).

Oklahoma. 2013 Okla. Sess. Laws, Chap. 318 (House Bill 1383) removes the "top base pay" option for average salary calculations used in determining monthly retirement allowances for certain participants in the Oklahoma Law Enforcement Retirement System. For new hires, retirement benefits will be based on their final average earnings and service. Top pay of active members in certain designated positions will no longer be used in determining the member's final retirement benefit (certain retired members had been allowed to substitute the current salary of active members in comparable positions for their actual final average salary when calculating retirement benefits).

Oklahoma. 2013 Okla. Sess. Laws, Chap. 165 (House Bill 2078) creates a new tier of benefits for new hires in the Oklahoma Firefighters Pension and Retirement System (FPRS) and raises employee and employer contribution rates for active members of the system.

- *Retirement Eligibility*. FPRS members first employed on or after Nov. 1, 2013 are eligible for normal retirement at age 50 after 22 years of service. Old hires are eligible for normal retirement after only 20 years of service, with no age restriction.
- *Vesting*. The new law extends the vesting period for new hires from 10 to 11 years, with benefit eligibility commencing when the member turns 50 or when he would have completed 22 years of service, whichever is later.

House Bill 2078's modifications to the DROP provisions are discussed in the Deferred Retirement Option Plans (DROP) section of this report. Its changes to employee and employer contribution rates and the allocation of insurance premium tax collections are discussed in the Contribution Rates and Funding Issues section of this report.

Oklahoma. 2013 Okla. Sess. Laws, Chap. 101 (House Bill 2079) eliminates the statutory reduction factors for early retirement by members of the Teachers' Retirement System and provides that future adjustments to benefits for early retirees be determined in accordance with the actuarial equivalent factors adopted by the system's board.

Oregon. 2013 Or. Laws Spec. Sess., Chap. 3 (Senate Bill 862a) excludes certain salary increases from the calculation of final average salary for members of the Oregon Public Service Retirement Plan. These include some salary increases during the last 36 months of employment meant to cover insurance costs that were previously paid for by the employer.

Oregon. 2013 Or. Laws, Chap. 589 (House Bill 3487) permits any deceased member of the Public Employees Retirement System (PERS) killed in the course and scope of employment on or after July 1, 2013 to be considered vested under the pension program of the Oregon Public Service Retirement Plan (OPSRP). For a deceased member who was not otherwise vested at the time of death to be considered vested under these provisions, his employer must certify to the PERS board that he was killed in the course and scope of employment.

Texas. 2013 Tex. Gen. Laws, Chap. 1214 (Senate Bill 1458) increases the retirement age for non-vested members of the Teacher Retirement System of Texas. For members hired on or after Sept. 1, 2014 and members who are not vested by Aug. 31, 2014, the retirement age for normal retirement is raised from age 60 to age 62 with five years of service credit. If a member retires before age 62, the retirement benefit is reduced by five percent per year. The law also reduces interest paid to deferred retirement option accounts from five percent to two percent for active members and future hires.

Texas. 2013 Tex. Gen. Laws, Chap. 618 (Senate Bill 1459) increases the retirement age and the number of years used to calculate final average salary for new members of the Employees Retirement System of Texas, hired after Sept. 1, 2013.

- *Retirement Eligibility*. For new hires, the law raises the retirement age for general employees' normal retirement from 60 to 62. For new members of the Law Enforcement Custodial Officers System

(LECOS), the law raises the age for normal retirement from 50 to 57, or the rule of 80. If a member retires before age 62, or age 57 for LECOS members, the retirement benefit is reduced by 5 percent per year. The law also eliminates the use of unused sick and annual leave from calculations for retirement eligibility, and disallows the use of annual leave taken in a lump sum from also being used to calculate the pension benefit.

- *Final Average Salary*. For new hires, the retirement benefit will be calculated on the 60 highest months of compensation, rather than the 48 or 36 month calculation used for current employees.
- *Interest Paid on Account Balances*. The law reduces interest paid on retirement account balances from 5 percent to 2 percent starting Jan. 1, 2014, for active members and future hires.

Vermont. 2013 Vt. Acts, Act 22 (House Bill 518) allows members of the Vermont Municipal Employees' Retirement System (VMERS) to elect a one-time transfer from a defined contribution plan to the defined benefit plan offered by their employer. Employees exercising the irrevocable election would switch into the applicable defined benefit plan on Jan. 1, 2014. They must notify the state treasurer of their intention to make the election by Sept. 1, 2013. No credit will be granted for prior service accrued in the defined contribution plan, unless purchased at the time of the transfer.

Virginia. 2013 Va. Acts, Chap. 456 (Senate Bill 854) for political subdivisions that have not adopted enhanced benefits for all of their hazardous duty employees (law enforcement, emergency medical technicians and firefighters), this legislation offers an opportunity for employers to make a one-time irrevocable election to apply Plan 1 age and service provisions for these groups. The Plan 1 age and service provisions apply not only to Plan 2-eligible employees of localities that make the election, but also to Plan 1 employees who were not vested as of Jan. 1, 2013. The bill adds one age and service category (early retirement at age 50 with 10 years of service) that was inadvertently omitted from the list of options available to eligible hazardous duty employees in electing localities in 2012 legislation. Any firefighter, EMT or law enforcement officer not covered by enhanced hazardous duty coverage who is hired on or after Jan. 1, 2014 in a political subdivision that makes the irrevocable election will not be eligible to participate in the hybrid retirement plan established under 2012 legislation. Instead, these individuals will be Plan 2 members eligible for Plan 1 age and service provisions.

5. Defined Contribution, Cash Balance and Hybrid Plans

Arizona. 2013 Ariz. Sess. Laws, Chap. 216 (House Bill 2562) establishes a defined contribution plan for a limited class of public employees hired on or after Sept. 13, 2013, who are ineligible for membership in either the Arizona State Retirement System (ASRS) or another statewide defined benefit plan. These individuals are ineligible for ASRS because they are not subject to the state's Section 218 Agreement (for Social Security withholdings) and are ineligible for public safety, elected officials' or corrections officers' plans because they fail to meet certain requirements for membership (for example, public safety personnel who are not designated as hazardous duty employees). Amid concerns about erroneous placement of these employees into ASRS, House Bill 2562 was enacted to create a 401(a) plan for these public employees, provided they work at least 20 weeks each fiscal year and at least 20 hours each week.
ASRS would administer the new DC plan. Participating employees and employers would contribute one half of the ASRS total normal cost plus 1.5 percent of compensation into a retirement savings account. Assets vest immediately. Employees and employers would also have to contribute to the ASRS Long-Term Disability Program.

Arkansas. 2013 Ark. Acts, Act 452 (Senate Bill 232) requires automatic enrollment in a supplemental 457 deferred compensation plan for all new state employees hired after Jan. 1, 2014. The automatic enrollment feature would only apply to state employees whose employers participate in the so-called Arkansas Diamond Deferred Compensation Plan, a vehicle for pre-tax retirement savings beyond the state's basic defined benefit plans. The default employee contribution rate for the deferral would be 3 percent of annual compensation, but employees could elect to contribute more or less, or not contribute at all. The Employee Benefits Division estimates that only 40 percent of eligible state employees participate in the supplemental plan.

California. 2013 Cal. Stats., Chap. 755 (Senate Bill 277) terminates the Peace Officers & Firefighters Supplemental Plan (POFF). The state of California and the California Correctional Peace Officers Association negotiated a labor agreement, which ended employer contributions of 2 percent of base pay to the POFF Supplemental Plan, effective April 1, 2011. Senate Bill 277 terminates the plan upon IRS approval. It designates the CalPERS Supplemental Contribution Plan (SCP) as the default roll over option for plan participants or beneficiaries who take no action and do not make a distribution election regarding their POFF account balance prior to plan termination.

Georgia. 2013 Ga. Laws, p. 787 (House Bill 232) removes the 5 percent floor and 6 percent ceiling on employee contribution rates in the University of Georgia's optional defined contribution plan (Regents Retirement Plan) beginning July 1, 2013. The board of regents has authority to determine the plan's employee contribution rate.

Illinois. 2013 Ill. Laws, P.A. 599 (Senate Bill 1) creates voluntary defined contribution plans for up to 5 percent of active Tier I members in the General Assembly Retirement System (GARS), State Employees' Retirement System (SERS), State Universities Retirement System (SURS) and Teachers' Retirement System (TRS). Beginning July 1, 2015, eligible members can make an irrevocable election to switch from their DB plans to the new DC plans administered by each system. Employee contribution rates would remain the same. Employer contribution rates under the DC plans would be adjusted annually and could not exceed the employer's normal costs for the DB plan in a given year. DC plan employer contribution rates must not fall below 3 percent of pay (0 percent in the case of TRS). The vesting period is five years. When a member opts into a DC plan, benefits previously accrued in the DB plan will be frozen. However, service credit earned under the DC plan can be used to determine retirement eligibility under the DB plans.

On May 8, 2015, the Illinois Supreme Court affirmed a lower court ruling that Senate Bill 1 is unconstitutional and permanently enjoined its enforcement.

Indiana. 2013 Ind. Acts, P.L. 242 (Senate Bill 248) raises the lower limit on employee contributions to the state's supplemental Deferred Compensation Plan during the first year in which an employee is automatically enrolled. Indiana's deferred compensation plan has two components, a 457 plan for employee contributions and a 401(a) plan for employer contributions. Currently, a state employee's contribution in the first year is the greater of the maximum state match or 0.5 percent of base salary. The new law raises the floor to the greater of the maximum state match or 2 percent of base salary for first-year employee contributions made after June 30, 2013. The default contribution rate in subsequent years is linked to this initial rate.

Indiana. 2013 Ind. Acts, P.L. 23 (House Bill 1560) permits school employees to roll over existing account balances into individual retirement accounts or annuities of their choice when a school benefit plan is closed to future contributions. Effective July 1, 2013, whenever a school corporation closes out future contributions to a retirement, savings, or investment plan described under Section 401(a) or Section 403(b) of the Internal Revenue Code, a participant in the plan may elect to roll over the balance invested in that plan to: (1) another eligible retirement, savings, or investment plan offered by the school corporation; or (2) an individual retirement account or annuity described under Section 408(a) or Section 408(b) of the Internal Revenue Code. Plan participants may make this election without regard to age or employment status.

Kentucky. 2013 Ky. Acts, Chap. 120 (Senate Bill 2) provides for a cash balance plan for new members of the three plans administered by Kentucky Retirement Systems (KRS) and new members of the Legislators' Retirement Plan and Judicial Retirement Plan. Elimination of COLAs for current and future retirees is discussed in the Cost of Living Adjustments section of this report. New plan oversight provisions are discussed in the Governance and Investment Policy section of this report.

Kentucky Cash Balance Plan Design	
Who's included:	• All new hire members (beginning employment on or after Jan. 1, 2014) of the State Police Retirement System (SPRS), Kentucky Employees Retirement System (KERS) and County Employees Retirement System (CERS) (collectively KRS) along with members of the Legislators' Retirement Plan (LRP) and the Judicial Retirement Plan (JRP). The Kentucky Teachers Retirement System is not included.
Employee contributions:	• Legislators, judges and nonhazardous duty members of KRS contribute 5 percent. • Hazardous duty members of KRS contribute 8 percent. • Legislators, judges and all KRS members must contribute 1 percent to the health insurance fund, which is not credited to individual accounts and is not refundable.
Employer pay credits:	• Legislators, judges and nonhazardous duty members of KRS receive 4 percent. • Hazardous duty members of KRS receive 7.5 percent.
Investments:	• KRS Board of Trustees directs investments for the three plans it administers. • Judicial Form Retirement System oversees the JRP and the LRP.
Interest :	• Accounts are guaranteed a 4 percent annual investment credit. • Active employee accounts also receive 75 percent of the plan/system's five-year investment return average in excess of 4 percent.
Vesting:	• Five years.
Leaving employment before retirement:	• Members who elect to take a refund before completing five years of service will forfeit employer pay credits, and will only receive a refund of their accumulated contributions plus interest. Those with more than five years of service may elect to receive a full refund of their accumulated account balance.
Retirement age:	• Legislators, judges and nonhazardous duty members of KRS: Age 65 with 5 years' service credit or Rule of 87 (at any age over 57). • Hazardous duty members of KRS: Age 60 with 5 years' service credit or at any age with 25 years' service credit.
Retirement benefit:	• Members can elect: a lifetime annuity payment based on their accumulated account balance, a full lump sum refund, or the actuarial equivalent of their account balance under one of several optional payment plans, which include provisions for surviving beneficiaries, social security adjustments, and partial lump sum refunds.
Future benefit changes:	• The General Assembly reserves the right "to amend, suspend, or reduce the benefits and rights provided" to KRS, JRP and LRP participants with start dates on or after Jan. 1, 2014. Benefits that members have already accrued at the time of any amendment, suspension or reduction are excepted.

Montana. 2013 Mont. Laws, Chap. 145 (House Bill 91) expands the voluntary and supplemental deferred compensation plan for public employees. The law provides that members will now be able to contribute to after-tax Roth 457 accounts.

North Carolina. 2013 N.C. Sess. Laws, Chap. 405 (House Bill 359) permits members of the Teachers' and State Employees' Retirement System (TSERS) to transfer balances from other qualified plans into the system and convert the transferred funds into a monthly benefit from TSERS. TSERS members are allowed to convert NC 401(k) and NC 457 balances into a monthly benefit under existing law. Beginning July 1, 2013, voluntary transfers from 403(b) plans, local 457 plans, tax-qualified 401(a) and 403(a) plans and certain individual retirement accounts or annuities under 408(a) and 408(b) would also be permitted. Transfers would be completed by first conveying funds into the NC 401(k) plan and then into TSERS.

North Dakota. 2013 N.D. Sess. Laws, Chap. 431 (House Bill 1452) creates an optional defined contribution plan open to state employees from Oct. 1, 2013 until July 31, 2017. The NDPERS board must provide an opportunity for eligible, permanent employees who are new NDPERS members to transfer into a defined contribution plan. The election to transfer is irrevocable but would not affect rights to retiree health benefits. The mandatory employee contribution rate for the defined contribution plan is 7 percent [4 percent of which employers pick up under IRC 414(h)]. Beginning in January 2014, the employer contribution rate is 7.12 percent.

Oregon. 2013 Or. Laws, Chap. 174 (Senate Bill 269) creates a new tier of membership in the Optional Retirement Plan for administrative and academic employees of the Oregon University System who are hired on or after July 1, 2014. For new hire members of this defined contribution plan, employer contribution rates would not be linked to future PERS rate changes, but would instead total 8 percent of employee salary plus a limited match (up to 4 percent) for employee contributions to the system's tax-deferred investment 403(b) plan.

The bill also provides new eligibility requirements for participation in the Optional Retirement Plan. Employees who have completed 600 hours and six months of employment (uninterrupted by more than 30 consecutive working days) may elect to participate. According to the system, this change allows small retirement contributions on behalf of part-time employees who would not otherwise have access to a pension, enabling universities to recruit and retain adjunct faculty.

Finally, the bill eliminates the requirement that the State Board of Higher Education select at least two life insurance companies and at least two mutual fund companies to provide benefits under the optional plan.

Tennessee. 2013 Tenn. Pub. Acts, Chap. 296 (Senate Bill 1003) revises various provisions governing the Tennessee Consolidated Retirement System (TCRS) and provides for automatic enrollment in a supplemental deferred compensation plan for new hires. Present law permits public employees to elect to participate in either a 401(k) or 457 deferred compensation plan at any time. The new law makes enrollment automatic unless an employee elects not to participate and files the required notice. The default salary deferral is 2 percent of employee compensation, but employees may cancel or adjust deferrals at any time, provided they do not exceed IRS limits.

Eligible TCRS members employed by local governmental entities must have a total of 10 years of creditable service to qualify for retirement benefits under current law, unless the employer reduces the required years of service from 10 to five. Senate Bill 1003 allows local government employers to increase or reduce the service requirement for retirement an unlimited number of times, provided that increases are applied prospectively for new hires.

Under current law, any local government employee in the alternate defined benefit or new hybrid plan is eligible for early retirement at age 60 with 20 years of creditable service or the rule of 80. This legislation reduces the number of years of creditable service required for early retirement at age 60 from 20 to five. Local boards of education and the political subdivisions associated with them may elect, independently of each other, to participate in a deferred compensation plan or TCRS, though city or county approval is necessary when a local board of education elects to participate in TCRS. The law details the procedures and notice requirements when a political subdivision withdraws from TCRS in order to participate in the state's deferred compensation plan.

Finally, the law provides for actuarially equivalent, lump sum payouts of retirement benefits for members joining the system on or after July 1, 2013, when the monthly retirement allowance would not exceed $75 (instead of $50 under current law).

Tennessee. 2013 Tenn. Pub. Acts, Chap. 259 (Senate Bill 1005) creates a new hybrid retirement plan including defined benefit (DB) and defined contribution (DC) components. Beginning July 1, 2014, all new state employees, higher education employees subject to the Fair Labor Standards Act (FLSA), and K-12 public school teachers will be required to enroll in the hybrid plan. Higher education employees who are not subject to the FLSA may elect to participate in the hybrid plan or the Optional Retirement Plan. For local governments, the hybrid plan is optional – effective only for new hires and upon adoption by the local government entity.

- Employees contribute 5 percent of payroll to the DB component. They are automatically enrolled to make 2 percent contributions to the DC component, but employees may opt out or adjust the amount. Employers must contribute 4 percent of payroll to the DB component and 5 percent to the DC component for an aggregate contribution of 9 percent. Employer and employee contributions to the DC component vest immediately. Details are provided in the Contribution Rates and Funding Issues section of this report.
- The DB component of the plan has a 1 percent multiplier (state judges, public defenders and attorneys general have a 1.6 percent multiplier).
- For the DB component, five years of service are required for vesting. Eligibility for normal retirement is at age 65 or the Rule of 90. Early retirement is available at age 60 or the Rule of 80. Public safety officers are eligible for normal retirement at age 60 or at any age after 30 years of creditable service (or age 55 with 25 years of service, if entitled to a supplemental bridge benefit). Early retirement is available to public safety officers at age 55 after five years of service or at any age after 25 years of service.
- Attorneys general, district public defenders and state judges are eligible for retirement at age 60 with eight years of service or at age 55 with 24 years of service. Members of the General Assembly are eligible at age 60 with four years of service.
- Average final compensation is measured over the five years affording the highest average. Base annual benefits under the DB component of the plan are capped at $80,000 (indexed to CPI each July 1). Base annual benefits cannot exceed 90 percent of average final compensation (as adjusted under the COLA provisions).
- For the DB component, cost of living adjustments are the same as for the legacy plans (based on CPI, capped at 3 percent).
- The General Assembly may freeze, suspend or modify benefits, employee and employer contributions, and plan terms prospectively. No provisions of state law may confer on hybrid plan participants an implied right to future retirement benefit arrangements. However, participants do retain rights in the actuarial value of benefits accrued before a plan change takes effect.

Texas. 2013 Gen. Laws, Chap. 90 (Senate Bill 366) rectifies two apparent oversights in current law by authorizing political subdivisions to establish qualified Roth contribution programs under IRC Section 402(A) and to administer programs for lending employees money against their 457 plans. Current law only authorized political subdivisions to establish traditional deferred compensation plans and provided for loans against 401(k) plans. The bill validates existing Roth contribution programs that were implemented before this express grant of statutory authority.

6. Divestiture

Rhode Island. 2013 R.I. Pub. Laws, Chap. 225 (House Bill 5620) directs Rhode Island state pension funds or the state investment commission to identify and engage companies whose active business operations in Iran would be sanctionable under the federal Iran Sanctions Act. Companies that have business operations in Iran that persist become targets for divestment. Companies engaged in certain investment activities in Iran's financial and energy sectors are also ineligible to enter or renew contracts with the state.

Texas. 2013 Gen. Laws, Chap. 1152 (Senate Bill 200) prohibits statewide retirement systems from investing in companies that engage in scrutinized business operations in Iran. The State Pension Review Board must prepare a list of all scrutinized companies, and retirement systems must notify listed companies with active business operations in Iran that they may be subject to divestment. Retirement systems must sell, redeem, divest or withdraw all publicly traded securities from companies that continue their active business operations, with exceptions for indirect holdings in investment or private equity funds. The legislation supplies a timeline for complete divestiture, permitting delays or even reinvestment where clear and convincing evidence demonstrates divestiture would mean a loss in the hypothetical value of all assets under system management or aggregate expected deviation from benchmarks. The prohibition on Iranian investment expires when the U.S. revokes its sanctions or when Congress or the president declares such mandatory divestment policies interfere with U.S. foreign policy, whichever happens first. Affected retirement systems have a duty to report to the legislature and the attorney general about prohibited investments, divestiture activity and adjustments to their indirect holdings to avoid listed companies.

7. Elected Officials and Judicial Retirement Programs

Arizona. 2013 Ariz. Sess. Laws, Chap. 111 (Senate Bill 1174) amends various provisions governing group health and accident coverage and the transfer of service credit for members of the Elected Officials' Retirement Plan (EORP). The board must establish a separate account for the deposit of group health premium benefits. Contributions to fund these health benefits, when combined with actual life insurance contributions, cannot exceed 25 percent of total employer and employee contributions made to the plan after the date the account is created.

The law includes EORP among the plans whose members are allowed to transfer service credit to or from municipal plans. These transfers are subject to approval from both plans' boards and cannot cause either to accrue any unfunded liability. EORP members may not borrow against or remove contributions from their accounts before terminating membership or collecting a pension.

Arizona. 2013 Ariz. Sess. Laws, Chap. 217 (House Bill 2608) closes the current Elected Officials' Retirement Plan (EORP) and establishes the Elected Officials' Defined Contribution Retirement System (EODC) and a disability program for officials elected on or after Jan. 1, 2014. EORP is a defined benefit (DB) plan administered by the Public Safety Personnel Retirement System (PSPRS) that provides members with retirement benefits, disability and survivor benefits and a health care subsidy. Elected officials who were members of EORP on Dec. 31, 2013 may remain members of the plan.

- A state official elected or appointed before Jan. 1, 2014, who is subject to term limits and chose not to participate in EORP, may participate in the Arizona State Retirement System (ASRS) instead, or may opt out for that particular term in office. An elected official appointed on or after Jan. 1, 2014, who is an active or inactive member of ASRS, may continue or resume ASRS participation instead of enrolling in the new DC plan.

- For EORP, employer contribution rates would no longer be based on an annual actuarial valuation. Instead, employers are required to pay a level 23.5 percent of payroll through June 30, 2044 for both existing EORP and new EODC plan members. These funds are allocated to meet EORP's normal cost and amortize its unfunded liability and to cover the employer contribution for each EODC annuity account.
- Under existing law, EORP member contribution rates were set at the lower of 13 percent or an amount tied to the member's contribution rate from the preceding fiscal year, the normal cost plus the actuarially determined amount required to amortize the UAL. The new law eliminates the second option, fixing EORP member contribution rates at 13 percent.
- In FY 2014 through FY 2042, $5 million is appropriated each year from the state General Fund to supplement EORP's normal cost and amortize the UAL.
- The board must submit to the governor and legislature an analysis of the long-term level percent of employer contributions and whether the funding methodology is sufficient to pay all of EORP's UAL.

Members of the new Elected Officials' Defined Contribution Retirement System included elected state and county officials, state Supreme Court justices, Court of Appeals and Superior Court judges, full-time Superior Court commissioners and those elected officials of incorporated cities and towns where employers formed an agreement for coverage.

- *Governance*. EODC will be administered by PSPRS and must seek qualification under 401(a) of the IRC. The PSPRS board may employ the third-party administrator that oversees the existing supplemental DC plan, but must undertake a competitive bid process at least every five years to contract with a private entity to administer EODC. On or before Dec. 31 of each year, the board must report on the status of the EODC to the governor, House and Senate leadership and the Joint Legislative Budget Committee.
- *Contribution Rates*. The EODC employee contribution rate is 8 percent. The law specifies that all employee contributions will be "picked up" by the employer and shall be treated as employer contributions and excluded from gross income for federal and state income tax purposes until distribution. The employer contribution rate to employee DC accounts is 6 percent (included in employers' overall 23.5 percent requirement). Members may not choose to receive employer contributions directly.
- *Vesting*. All member and employer contributions and earnings vest immediately.

[House Bill 2608 establishes a mandatory Elected Officials' Defined Contribution Retirement System Disability Program. A discussion of its structure and benefits is not included in this report].

Arkansas. 2013 Ark. Acts, Act 288 (House Bill 1123) extends payroll contribution requirements to contributory elected officials who participate in the Arkansas Public Employees Retirement System (APERS) and wish to remain eligible for "2 for 1" service credit. Current law grants many elected officials two years of credited service for each year actually worked, subject to certain limitations for contributory members and post-July 1, 1999 hires. 2011 legislation added an eligibility requirement for noncontributory members, who must pay 2.5 percent of payroll above their standard contributions. Their employers must pay an additional 2.5 percent as well. House Bill 1123 extends this change to all elected officials beginning service on or after Jan. 1, 2014, including contributory members.

Georgia. 2013 Ga. Laws, p. 220 (Senate Bill 178) authorizes the board of trustees to provide retirement benefits in a manner that maintains the Georgia Legislative Retirement System as a qualified retirement plan for federal income tax laws and regulation purposes. The bill also modifies the return-to-work provisions so that any member who returns to work for any branch of state government or any state agency, department, board, or bureau may not work more than 1,040 hours and still receive a pension benefit.

Indiana. 2013 Ind. Acts, P.L. 54 (Senate Bill 499) excludes certain state employees from participation in the Public Employees' Defined Contribution Plan (PERF DC plan) and the Retirement Medical Benefits Account plan within the Public Employees' Retirement Fund (PERF). Neither employees of state higher education institutions nor those employed by "a body corporate and politic of the state created by state statute" shall participate, absent an election in writing by the chief executive officer of the school or body that employs them.

The legislation allows members of the Prosecuting Attorneys' Retirement Fund (PARF) who withdraw from the fund and later rejoin it to claim service credit for the period prior to withdrawal. The board of the Indiana Public Retirement System shall grant service credit for reinstated PARF participants who pay into the fund the full amount received upon withdrawal, plus interest at a rate specified by the board. This can be accomplished with a lump sum or a series of payments, not exceeding five annual installments.
Finally, the new law establishes the amount of the PERF pension offset for a participant in PARF who is also a member of PERF.

Kansas. 2013 Kan. Sess. Laws, Chap. 126 (House Bill 2115) extends the aggregate number of years a retired judge may enter agreements for temporary judicial employment while receiving retirement benefits from 12 to 15. Such agreements no longer need to be entered prior to (or within the five years following) a judge's retirement.

Nebraska. 2013 Neb. Laws, L.B. 306 (Legislative Bill 306) extends an increase in judges' retirement contribution rate by removing a sunset provision. The judges' employee contribution rate will remain at 1 percent.

Oregon. 2013 Or. Laws Spec. Sess. Chap. 3 (Senate Bill 862a) prohibits most new legislators from becoming members of the Oregon Public Employees Retirement System (PERS) and allows them to choose to contribute to the state deferred compensation plan (the Oregon Savings Growth Plan, or OSGP) instead. Current legislators may opt out of PERS and elect to make contributions to OSGP prospectively. Employer contributions for legislators who elect to become members of OSGP are increased beyond the current 6 percent to include the percentage of salary that would have been contributed on their behalves to cover PERS normal costs. Senate Bill 862's provisions on benefit garnishment are discussed in the Ethics, Forfeiture of Benefits and Privacy section of this report. Its provisions modifying Final Average Salary calculations are discussed in section on Defined Benefit Plan Changes. Legal challenges to Senate Bill 862 will bypass the lower courts and go directly to the Oregon Supreme Court.

Utah. 2013 Utah Laws, Chap. 215 (Senate Bill 10) clarifies that members of Utah Retirement System plans who are serving as elected officials or part-time appointed board members need not vacate those positions in order to qualify for retirement from all other covered employment.

Utah. 2013 Utah Laws, Chap. 410 (Senate Bill 16) removes the state's obligation to pay a specified percentage of Medicare supplemental coverage costs, based on years of service, for governors and legislators who begin gubernatorial/legislative service on or after July 1, 2013.

8. Ethics, Forfeiture of Benefits and Privacy

Arizona. 2013 Ariz. Sess. Laws, Chap. 110 (Senate Bill 1170) allows for the release of certain Arizona State Retirement System (ASRS) member information under public records laws but forbids inspection of unredacted records containing personally identifiable information. Member information subject to inspection includes average monthly compensation, credited service accrued, gross pension amount paid, and the cost and amount of service credit purchased. Records subject to inspection cannot reveal member social security numbers, bank account numbers, medical records or other information protected by federal or state law.

California. 2013 Cal. Stats., Chap. 775 (Senate Bill 39) expands the existing provisions on forfeiture of pension benefits upon felony conviction to encompass forfeiture of a claim to those benefits. This legislation applies to local public officers, those with discretionary, executive authority, who are convicted of felonies for conduct arising out of, or in the performance of, their official duties. Convicted local public officers forfeit any contract right or other common law, constitutional, or statutory claim against a local public agency employer to retirement or pension benefits.

Minnesota. 2013 Minn. Laws, Chap. 35 (Senate File 324) requires officers and employees of local public pension plans to report misuse of public funds. Employees and officers of local public pension plans who discover evidence of theft, embezzlement, unlawful use of public funds or property, or misuse of public funds must promptly report to both law enforcement and the state auditor. The reporting requirement includes non-public information about the alleged incident.

North Carolina. 2013 N.C. Sess. Laws, Chap. 284 (House Bill 327) compels members of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) to forfeit retirement benefits (excluding member contributions) if they are convicted of certain state and federal felony offenses. The forfeiture provisions apply to offenses that stem from conduct that is directly related to service and that brings disrepute on a fire department or rescue squad. A qualifying offense must have been committed before the member reaches age 55 or accrues 20 years of service (or by a member over 55 with 20 years of service who is still serving). Special rules apply for members who are still serving and have not accrued 20 years of service on Dec. 1, 2013, and who are convicted for offenses committed after that date.

If a member or former member forfeits pension benefits and subsequently receives an unconditional pardon of innocence or the conviction is vacated or set aside for any reason, then the state treasurer may reverse the forfeiture upon a showing of sufficient evidence. House Bill 327 classifies a defendant's status as a firefighter or rescue squad worker whose offense is directly related to service as an aggravating factor in criminal sentencing. It also establishes a procedure for federal prosecutors to notify the state treasurer when these types of convictions occur. Other provisions of House Bill 327 are discussed in the section of this report that addresses Governance and Investment Policy.

Indiana. 2013 Ind. Acts, P.L. 15 (Senate Bill 228) requires that an order for restitution be issued by the sentencing court following a felony or misdemeanor conviction before a member of the Public Employees' Retirement Fund (PERF) may have his contributions or benefits transferred to compensate the employer for the member's criminal taking. This provision is effective July 1, 2013. The legislation extends the provisions governing pension forfeiture that apply to PERF members to members of the Teachers' Retirement Fund. These include provisions permitting a board to withhold payment of contributions pending final resolution of criminal charges, along with the new requirement for a restitution order in favor of the employer.

Kentucky. 2013 Ky. Acts, Chap. 43 (House Bill 63) permits trustees serving on the board of the Judicial Form Retirement System to accept *de minimis* compensation from people or businesses with whom they are involved in their official capacity as trustees. The Judicial Form Retirement System administers both the Judicial Retirement Plan and the Legislators' Retirement Plan. Its trustees may receive an insignificant amount of compensation that does not raise reasonable questions about their objectivity and still remain on the board. If the amount is more than *de minimis*, the legislation requires disclosure and recusal from related matters. The legislation also clarifies that members or retirees of the system may serve as trustees, despite their interest in the board's investments and other transactions.

Louisiana. La. Acts 2013, 182 (House Bill 44) creates an exception to the confidentiality rules governing the personnel records of certain public employees. The home address of a member of the Firefighters' Retirement System may be disclosed if a member of the Louisiana Legislature, an agency or employer reporting information to the system, or a recognized association of system members requests it.

Oregon. 2013 Or. Laws Spec. Sess., Chap. 3 (Senate Bill 862) permits the garnishment of Public Employees Retirement System benefits when a member has been convicted of a felony committed after the law's enactment, and the judgment requires payment of a compensatory fine or restitution.

Tennessee. 2013 Tenn. Pub. Acts, Chap. 259 (Senate Bill 1005) establishes a hybrid plan applicable to new state, higher education employees and K-12 teachers as of July 1, 2014. General plan provisions are summarized in the Defined Contribution, Cash Balance and Hybrid Plans section of this report. Hybrid plan participants who are convicted of a felony that arises out of their employment or service in an official capacity, which constitutes malfeasance in office, forfeit retirement benefits under the defined benefit component of the plan. Upon initial conviction or a plea of guilty or nolo contendere, benefits would terminate. Members would be entitled to a refund of employee contributions and interest, less any benefits already received. Within six months of conviction, a member may elect to have monthly retirement benefits paid out at death to a designated beneficiary, provided that beneficiary was the member's spouse or child at the time of the conviction.

Vermont. 2013 Vt. Acts, Act 2 (House Bill 41) establishes a procedure by which a public employee's pension benefit may be forfeited. If a member of the Vermont Employees' Retirement System is convicted of a crime related to public office, the Civil Division of the Superior Court may order the member's retirement benefit to be forfeited. "Crime related to public office" is defined as a felony committed in connection with employment, including taking kickbacks, false personation, false pretenses, grand larceny, embezzlement and other crimes that involve an abuse of public office for financial gain. The court may consider the severity of the crime, monetary loss, degree of public trust given to the member and other factors when determining if a member's retirement benefit should be forfeited. The total value of retirement benefits forfeited may not be more than 10 times the monetary loss resulting from the crime. Additionally, the Court may order retirement benefits be paid to an innocent spouse, dependent or beneficiary.

9. Governance and Investment Policy

Alabama. 2013 Ala. Acts, Act. 239 (Senate Bill 303) alters the composition of the Teachers' Retirement System Board of Control and changes board election procedures. The legislation adds two representatives from Alabama's public 4-year higher education institutions, specifies that the representative elected from an institution of postsecondary education shall be part of the Alabama Community College System, and removes the Executive Secretary of the Alabama Education Association (AEA) as an ex officio member, along with one of two elected positions representing educational support personnel. It requires a third party unaffiliated with the Teachers' Retirement System to administer board elections. Elected board members will now be chosen by members from the same category within the retirement system, rather than by all members voting statewide. Board vacancies will be filled through gubernatorial appointment rather than through a simple majority vote of the board.

Arkansas. 2013 Ark. Acts, Act 304 (Senate Bill 111) exempts certain state retirement system contracts from the mandatory expiration provisions found in Arkansas's procurement laws. Agreements to invest and manage a system's trust assets consistent with the prudent investor rule; to retain custody of, protect and recover those assets; or to provide actuarial services are not subject to the 7-year time limit that applies to other types of state contracts. Instead, state retirement system boards may determine the duration of contracts or investment agreements as part of negotiations to secure the most favorable rates and terms. If a contract for consulting services is extended, the new agreement must include language about the state's policy on emerging managers. The state and its retirement system have a goal to recruit and hire emerging managers and emerging investment funds consistent with the prudent investor rule. Consultants must submit a report describing their process for recruiting emerging managers and provide an update on their progress.

Arkansas. 2013 Ark. Acts, Act 73 (House Bill 1126) adds the Director of State Highways and Transportation as the seventh member of the Board of Trustees of the State Highway Employees' Retirement System.

California. 2013 Cal. Stats., Chap. 766 (Assembly Bill 205) allows boards that provide pension benefits to county, city and district employees to prioritize investment in in-state infrastructure projects. Consistent with the boards' fiduciary duties and the standard for prudent investment, they may prioritize investment in an in-state infrastructure project over a comparable out-of-state project. Infrastructure projects include those related to telecommunications, power, transportation, ports, petrochemicals and utilities.

California. 2013 Cal. Stats., Chap. 326 (Assembly Bill 382) adds alternative investments to the list of written records exempt from public disclosure in connection with certain public hearings. County retirement systems are subject to the Brown Act, which guarantees the public's right to attend and participate in meetings of local legislative bodies and generally requires written material that is part of those public hearings to become part of the public record. The California Public Records Act contains an exemption for information concerning alternative investments, but the Brown Act contains no such exemption. Assembly Bill 382 resolves this inconsistency by adding information concerning private equity, venture capital, hedge funds and other alternative investments to the list of public records exempt from disclosure under the Brown Act.

Colorado. 2013 Colo., Sess. Laws, Chap. 273 (Senate Bill 240) clarifies the voting requirements to modify the pension benefit and eligibility rules governing the Fire and Police Pension Association's statewide defined benefit plan. Approval of proposed modifications to pension benefits, age and service requirements and member contribution rates must come from 65 percent of active plan members and 50 percent of employers who vote in the election in which the modification is proposed.

Georgia. 2013 Ga. Laws, p. 612 (House Bill 71) raises the cap on total fund assets invested in real estate from five to 10 percent for the Georgia Municipal Employees Benefit System and like associations.

Georgia. 2013 Ga. Laws, p. 4026 (House Bill 380) transfers control of the pension system for Fulton County School System employees from the pension board to the Fulton County Board of Education. The Board of Education will now serve as plan sponsor and funding agent, exercising oversight of a re-configured pension board that will administer the plan. The school system's chief financial officer and executive director of fiscal services will serve on the new eight-member board, to be chaired by the school system's (non-voting) superintendent. The changes were prompted by the revelation of a $3 million overpayment to retirees and are part of a package of bills reshaping the governing structure of Fulton County.

Georgia. 2013 Ga. Laws, p. 682 (Senate Bill 143) explains that the duties of the boards of trustees of public retirement systems or pension plans set forth in the Public Retirement Systems Standards Law are in addition to, and not in limitation of, common law duties enumerated in a separate title, Title 53. Title 53 applies to trustees generally and codifies certain duties, including those of prudent administration, reporting and accounting, distribution of income and impartiality.

Illinois. 2013 Ill. Laws, P.A. 433 (House Bill 2620) exempts certain contracts for investment services from a competitive selection process. Subject to limited exception, retirement system boards must award all contracts for investment services using a competitive process that is substantially similar to what is required for the state's procurement of professional and artistic services. At the discretion of a retirement system, contracts for follow-on funds with the same fund sponsor through closed-end funds are now exempt from these procurement requirements.

Indiana. 2013 Ind. Acts, P.L. 47 (Senate Bill 249) directs various local retirement plans, which were historically required to report actuarial information to the Public Employees' Retirement Fund, to report to the State Board of Accounts, instead. After Dec. 31, 2013, municipalities or local government units must make an annual report detailing the funding percentage ratio, actuarial assumptions and investment returns for any defined benefit plan along with basic plan parameters, number of participants and the total amount of sponsor contributions during the preceding fiscal year. The department of local government finance may not approve the budget of a political subdivision until the political subdivision has filed the annual report. The state examiner, in turn, must report to the general assembly before July 1 of each year.

Florida. 2013 Fla. Laws, Chap. 100 (Senate Bill 534) imposes new disclosure requirements on public pension systems and provides that the state is not liable for obligations on shortfalls in any local government retirement system. New reporting standards require each defined benefit plan, except the Florida Retirement System, to provide the following information to the Department of Management Services (which, in turn, must include the following information in fact sheets for each local plan):

- Annual financial statements that comply with GASB's 2012 financial reporting and accounting standards, using specified mortality assumptions.
- Annual financial statements that use an assumed rate of return and an assumed discount rate 200 basis points lower than the plan's assumed rate of return.
- Information about the number of months or years for which the current market value of assets is adequate to sustain the payment of expected retirement benefits.
- Information about recommended contributions to the plan and contributions necessary to fund the plan stated as an annual dollar value and a percentage of valuation payroll.

Plans must post this information online, along with funded ratios, side-by-side comparisons of assumed and actual rates of return for the previous five years and a portfolio breakdown by asset type. Plans that fail to make a timely submission of the required information may jeopardize their revenue sharing funds.

Kentucky. 2013 Ky. Acts, Chap. 120 (Senate Bill 2) establishes a Public Pension Oversight Board, modifies the composition of the Kentucky Retirement Systems (KRS) board and mandates full payment of actuarially required contributions for the three KRS plans. The legislation creates a Public Pension Oversight Board to assist the General Assembly with its review, analysis and oversight of KRS administration, benefits, investments and funding and to recommend law changes. The 13-member board is made up of six General Assembly members, two General Assembly appointees, two gubernatorial appointees, along with the following officials or their designees: the state budget director, the auditor of public accounts and the attorney general. The law contains expertise requirements for the legislative and gubernatorial appointees, who must possess 10 years of retirement experience or a CFA certification with at least 10 years of investment experience. Senate Bill 2 confers on the Public Pension Oversight Board broad authority to supervise the three KRS plans. This includes the ability to conduct hearings and to review benefit plans, investments and all applicable laws and regulations. In addition, the board must publish an annual evaluation of KRS, to include legislative recommendations, a summary of the systems' financial and actuarial condition, and an analysis of the adequacy of the current levels of funding.

Senate Bill 2 also adds four new members to the KRS board of trustees. One additional trustee will be chosen by members of the County Employees Retirement System, and three trustees will be appointed by the governor based on recommendations from the Kentucky League of Cities, the Kentucky Association of Counties and the Kentucky School Board Association.

Finally, Senate Bill 2 resets the amortization period for full funding of the KRS plans to a new 30-year period beginning with 2013 actuarial valuations and requires to General Assembly to pay the full actuarially required contribution rate.

Louisiana. La. Acts 2013, 287 (Senate Bill 13) compels the Louisiana State Police Retirement System's board of trustees to designate an actuary to serve as a technical adviser with specified responsibilities and establishes default actuarial assumptions. The actuary must investigate the mortality, service, and compensation experience of system members and beneficiaries and evaluate system assets and liabilities at least once in each five year period, beginning with the 2012-2013 fiscal year. Based on the actuary's findings, the board shall certify Louisiana's contribution rates for new entrants and adopt actuarial tables for use in the actuary's annual valuations of the retirement system.

Effective June 30, 2013, the legislation assumes an annual rate of return of 7.7 percent and determines annuity rates based on the RP-2000 Sex Distinct Mortality Table, unless different actuarial assumptions are formally adopted and disclosed. No change in actuarial assumptions shall reduce a member's accrued benefit.

Louisiana. La. Acts 2013, 70 (House Bill 37) grants specific authority to the board of trustees of the Registrars of Voters Employees' Retirement System (RVRS) to establish interest and mortality assumptions in accordance with the Administrative Procedures Act. The law codifies authorities the RVRS board already assumes.

Louisiana. La. Acts 2013, 234 (House Bill 41) decreases the number of board members of the Firefighters' Pension and Relief Fund of New Orleans, changes the timing of board elections and adjusts the powers of certain board members. The law reduces the number of active board members from five to two and the number of retired board members from three to two. The mayor will appoint an additional board member, subject to confirmation by the New Orleans City Council. The terms of existing board members expire on June 12, 2013 (the effective date of the Act), but members will continue to serve until successors are determined pursuant to a special election.

All board members, not just those actively employed in the ranks of the department, can now vote on proposals to increase employee contributions. A grant of disability benefits or a COLA will require approval by a two-thirds majority of the board.

Maryland. 2013 Md. Laws, Chap. 221 (House Bill 376) requires the State Retirement and Pension System Board of Trustees to correct any errors, not just those contained in system records, that result in a retiree or beneficiary receiving a benefit that is different from the benefit to which the retiree or beneficiary is actually entitled. To the extent practicable, the board shall adjust the amount of future payments accordingly.

Maryland. 2013 Md. Laws, Chap. 535 (House Bill 390) adds a trustee to the board for the State Retirement and Pension system to represent the interests of county governments. The governor appoints this 15th trustee and may select from a list submitted by the Maryland Association of Counties. The trustee must have at least 10 years of experience in the financial management and oversight of county government budgets.

Mississippi. 2013 Miss. Laws, Chap. 428 (House Bill 990) updates the allowable investment opportunities for the Public Employees' Retirement System. It expands investment options to include agency and nonagency residential and commercial mortgage-backed securities and collateralized mortgage obligations; asset-backed securities; bank loans and convertible bonds.

Missouri. 2013 Mo. Laws, p. 579 (House Bill 233) contains minor clarifications and administrative changes to the retirement plans administered by the Missouri State Employees' Retirement System (MOSERS) and the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS). It limits the authority of the systems' boards to correct errors that affect the amount of payments to members and beneficiaries to those cases where the systems learn of the errors within 10 years. It specifies that retired members who are elected or appointed to state office are not eligible to accrue annual benefit increases while they are employed in this capacity.

New York 2013 N.Y. Laws, Chap. 3 (Assembly Bill 2296) adjusts actuarial methods and assumptions, including the assumed rate of return on pension fund investments, for the purpose of calculating contribution rates for New York City Retirement Systems. The changes affect the city's Employees' Retirement System, Teachers' Retirement System, Board of Education Retirement System, Police Pension Fund and Fire Department Pension Fund. The legislation lowers the assumed rate of return on the funds' investments from

8 percent to 7 percent for fiscal years 2011-12 through 2015-16. Tier I and Tier II members of the city's retirement systems would continue to have their member contribution and increased-take-home-pay accounts credited with interest at the current 8 percent rate through 2015-16.

The legislation also provides for the calculation of employer contributions to the retirement systems in accordance with the entry age actuarial cost method, replacing the frozen initial liability method currently in use. It directs the systems' actuary to calculate and specifically identify unfunded accrued liabilities for each retirement system, amortizing the initial unfunded accrued liability over a period of 22 fiscal years. Annual installments would be developed using the increasing dollar payment method, so that each installment after the first would be increased by 3 percent over the one immediately preceding it. Unfunded accrued liabilities attributable to changes in benefits or actuarial assumptions would be amortized over different periods.

North Carolina. 2013 N.C. Sess. Laws, Chap. 284 (House Bill 327) changes oversight of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) from its existing board of trustees to the Local Governmental Employees' Retirement System (LGERS) board of trustees. The law creates a seven-member advisory panel, on which current FRSWPF board members may serve until the expiration of their current terms. The new advisory panel lacks any administrative authority and does not receive compensation but is tasked with preparing an annual report to the LGERS board regarding the status and needs of FRSWPF. The advisory panel membership includes: the director of the Retirement Systems Division of the state treasurer (or his designee) to serve as chair, a designee of the state insurance commissioner and five members appointed by the LGERS board. The LGERS appointees must include one paid and one volunteer firefighter, one paid and one volunteer rescue squad worker, and one representative of the public at large. One of the LGERS appointees must also serve on the LGERS board. Other provisions of House Bill 327 are discussed in the section of this report dealing with Ethics, Forfeiture of Benefits and Privacy.

North Carolina 2013 N.C. Sess. Laws, Chap. 287 (House Bill 357) clarifies that the Supplemental Retirement Board of Trustees has authority to administer the Public School Teachers' and Professional Educators' Investment Plan, a tax-deferred 403(b) option. The Supplemental Retirement Board can now bypass procurement procedures in the hiring of independent service providers, including appraisers, auditors, actuaries, attorneys, investment counseling firms, statisticians and custodians.

The legislation also transfers oversight of the supplemental pension fund for county registers of deeds from the State Treasurer to the Board of Trustees of the Local Governmental Employees' Retirement System. It likewise transfers oversight of pensions for members of the North Carolina National Guard from the State Treasurer to the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS).

It modifies the composition of the TSERS Board of Trustees, reducing its membership from 14 to 13. It eliminates the seat of a Board of Transportation employee, reduces the number of seats for gubernatorial appointees who are neither state employees nor teachers from three to two, and adds an active or retired member of the North Carolina National Guard, to be appointed by the governor for a four-year term commencing July 1, 2013.

It also alters the composition of the Local Governmental Employees' Retirement System Board, reducing the number of members who jointly serve on the TSERS board from seven to five. Now, only one of these five will be a gubernatorial appointee who is neither a state employee nor a teacher. The legislation increases the number of other board members appointed by the Governor to include one additional member who is an active or retired member of the Firemen's and Rescue Squad Workers' Pension Fund.

Members of the Supplemental Retirement Board will now have individual immunity from civil liability for acts and omissions arising out of their service to the board. The legislation offers immunity from civil liability for money damages, except to the extent of insurance coverage. This immunity does not extend to cases of bad faith, gross negligence or willful misconduct, nor does it extend beyond the scope of a member's official duties. Board members may still incur liability through the operation of a motor vehicle or where they derived an improper personal financial benefit from a transaction.

Finally, it clarifies that oversight authority for the Legislative Retirement System rests with TSERS Board of Trustees.

Oklahoma. 2013 Okla. Sess. Laws, Chap. 342 (House Bill 1477) adds the Director of Human Capital Management of the Office of Management and Enterprise Services as a member of the board of Oklahoma Public Employees Retirement System.

South Dakota. 2013 S.D. Sess. Laws, Chap. 21 (House Bill 1025) revises reporting requirements for the South Dakota Retirement System board and addresses the legislature's timeline for taking corrective action based on the board's report. The board has an existing obligation to report to the governor and the Retirement Laws Committee if the latest annual actuarial valuation reveals 1) system contributions do not equal actuarial requirements for funding, 2) the funded ratio is less than 80 percent (or a ratio based on the market value of assets is less than 80 percent) or 3) the market value of assets is less than 90 percent of their actuarial value. Where these conditions exist, the legislation authorizes the board to recommend corrective actions, which the legislature may adopt. However, if any of the conditions persist for a period of three consecutive annual valuations, the board must recommend benefit reductions, contribution changes or other corrective actions for approval by the legislature and governor.

Texas. 2013 Tex. Gen. Laws, Chap. 140 (House Bill 13) directs the State Pension Review Board (PRB) to post or link on its website the most recent data from reports on actuarial valuation, annual finances, numbers of members and retirees, registration information, and investment returns and actuarial assumptions supplied by the state's public retirement systems. Individual public retirement systems also have an obligation to supply this information online. PRB must post on its website a list of public retirement systems that fail to submit the required reports within 60 days of the due date and notify the governor and Legislative Budget Board or the governing body of the relevant political subdivision about the lack of timely submission.

Before Dec. 31, 2013, the board must develop and publish online a set of ethical standards and model conflict-of-interest policies for voluntary use by public retirement systems. It must also develop an educational training program for trustees and system administrators and may adopt rules and appropriate fees to administer the program. The board must report on compliance with the minimum training requirements it establishes. Public retirement systems may provide their own educational training programs, so long as they meet or exceed the board's minimum requirements.

Public retirement systems must submit to the board an investment returns and actuarial assumptions report that includes the systems' gross and net investment returns, rolling gross and net returns, and assumed rates of return for various specified periods. Where this information is unavailable, a system must submit a letter to the board stating the reason and agreeing to timely submit the information if it becomes available.

The legislation directs PRB to conduct a study of the financial health of the state's public retirement systems, assessing each system's ability to meet its long-term obligations. PRB may adopt rules defining the scope of this study, and each system is obliged to cooperate fully and in timely fashion with PRB's requests for information. PRB may not disclose any confidential information supplied by public retirement systems in connection with this study. It must prepare a written report containing the study findings, including recommendations for mitigating risks. Public retirement systems will have an opportunity to review and respond to applicable portions of that report, which the board may revise. PRB must submit the final written report, including the board's recommendations and any system responses, to the legislature before Dec. 31, 2014.

Texas. 2013 Tex. Gen. Laws, Chap. 1152 (Senate Bill 200) extends the existence of the state's Pension Review Board (PRB) until Sept. 1, 2025 and reduces the number of its members from nine to seven, eliminating a requirement that the legislature's presiding officers each appoint a legislative member to the board.

A new conflict of interest provision bars officers, employees or paid consultants of Texas trade associations in the pension field (or those with spouses serving as officers, managers or paid consultants for such trade associations) from serving as PRB members or employees.

The board must now develop a policy to encourage the use of negotiated rulemaking procedures and appropriate alternative dispute resolution procedures. It will coordinate the policy's implementation, provide related training and monitor the effectiveness of the procedures. The legislation also authorizes the board to use web and other technologies as it conducts training sessions for trustees and administrators of public retirement systems in other contexts.

It exempts a defined contribution plan and certain local volunteer firefighter retirement systems from various reporting and auditing requirements, and it establishes a reporting deadline for certain retirement systems that conduct a review of actuarial assumptions through an actuarial experience study. Finally, it requires public retirement systems to submit to the board within 31 days of adoption (rather than 271) the summary of significant changes affecting contributions, benefits or eligibility that is also furnished to members and retirees.

Texas. 2013 Tex. Gen. Laws, Chap. 1316 (Senate Bill 220) abolishes the Office of the Fire Fighters' Pension Commissioner effective Sept. 1, 2013. The commissioner's office performed two functions: monitoring and assisting 122 individual local pension plans organized under the Texas Local Fire Fighters' Retirement Act (TLFFRA) and administering the Texas Emergency Services Retirement System (TESRS), a separate statewide system for more than 200 volunteer departments.

The legislation designates the State Pension Review Board (PRB) as the entity now charged with providing technical assistance, training and information to the trustees of the of local TLFFRA plans. It directs the PRB to assign an individual specialist to provide this assistance and information to the extent resources are available. For appeals regarding TLFFRA benefits, the PRB will now serve as a conduit, referring matters to the State Office of Administrative Hearings (SOAH) (the commissioner had previously reviewed decisions issued by the SOAH).

The bill amends the composition of the TESRS board of trustees, providing that at least five (rather than six) trustees must be active members of the pension system and one may be a retiree. The TESRS board of trustees must appoint an executive director for the system, which will absorb the former commissioner's powers and duties, including those related to benefit distribution and revenue collection from the participating fire departments. The TESRS board is subject to sunset review every 12 years.

The TESRS board has additional reporting requirements under the new law. It must notify the legislature and the PRB if there is a significant change in the actuarial valuation of the pension system's assets or liabilities or any change to member benefits or contributions. Reports on these changes must address the effect of alternative contributions and benefit structures on actuarial soundness. Biennial certification of the fund's actuarial soundness must include an analysis of the number of years required to amortize the unfunded liability, assuming both no state contribution and the maximum state contribution. An audit would be required every five years.

The bill sets out across-the-board sunset provisions relating to prohibited conflicts of interest for TESRS trustees, employees and general counsel; mandatory training for TESRS board members; separation of board and executive director responsibilities; and complaint processing. The bill also requires the board to develop and implement contract management policies for applicable TESRS staff.

Texas. 2013 Tex. Gen. Laws, Chap. 1212 (Senate Bill 1413) amends the Texas Local Firefighters Retirement Act by designating the president of the board of an emergency services district as a member of the local firefighters' retirement system board, eliminating the local residency requirement for two elected board members and modifying the procedures for board membership elections where there is a single nominee. The law also revises a formula that imposes a limit on payouts from fund assets to cover administrative costs, using assets' market (rather than book) value. Finally, it addresses the tax treatment of employer "pick ups" of employee contributions to firefighter retirement systems, eliminating their temporary classification as employee wages.

10. Military Service Credit

Montana. 2013 Mont. Laws, Chap. 240 (House Bill 122) makes a number of technical changes to ensure IRS compliance for MPRA retirement systems. To comport with HEART Act standards, the law clarifies that a member who receives differential wage payments during active duty military service is treated as an employee of the employer making the payments. Such payments must be treated as compensation when applying IRC limitations on annual contributions to DC plans. This provision applies retroactively to members receiving differential wage payments while on active duty on or after Jan. 1, 2009.

Pennsylvania. 2013 Pa. Laws, Act 32 (Senate Bill 797) brings the Public Schools Employees' Retirement System (PSERS) code provisions into compliance with USERRA, HEART Act and IRC rules.
The law excludes from the definition of compensation employer payments, including differential wage payments, made to school employees during their military leave. It replaces existing rules regarding the purchase of service credit for returning military service members with federal requirements, capping the payment period at the lesser of five years or three times the length of uniformed service. PSERS members on USERRA leave are no longer permitted to make contributions until they return to public school service, and once members have purchased service credit for the leave period, employers must make their associated contributions. PSERS members who return to school service but choose not to purchase service credit for their USERRA military leave would still be granted eligibility points, or vesting credit, for their military service. Similarly, members who die while on military leave would receive vesting credit for the period of military service prior to their death.

Pennsylvania. 2013 Pa. Laws, Act 33 (Senate Bill 798) grants members of the Public School Employees' Retirement System who are granted leave for military service on or after July 1, 2013 service credit for the leave.

11. OPEB Issues

Alabama. 2013 Ala. Acts, Act 245 (House Bill 89) authorizes the State Employees' Insurance Board to offer a high-deductible health plan with a federally-qualified Health Savings Account (HSA) and a Health Reimbursement Arrangement (HRA) to eligible state employees, retirees and their dependents. The board would establish employer contribution rates and the terms and conditions governing any HSAs or HRAs it adopts. Retirees eligible for Medicare would not be eligible for the high-deductible plans with HSAs.

Arizona. 2013 Ariz. Sess. Laws, Chap. 78 (Senate Bill 1173) amends various provisions governing disability, group health and accident coverage for members of the Corrections Officers Retirement Plan (CORP). It allows local boards to require periodic reevaluation of continued accidental disability or total and permanent disability at any time before disabled retired members reach their normal retirement date (as opposed to the age 62 cutoff under current law). The legislation prohibits retroactive payment of disability/pension benefits for a period of more than 180 days before an application for benefits is filed (rather than the 90-day cutoff under current law). CORP members may not borrow against or remove contributions from their retirement accounts before terminating plan membership or receiving a pension. They may now purchase transferred service on an installment basis for service credits transferred from municipal retirement systems and special retirement plans. The Public Safety Personnel Retirement System (PSPRS) board that administers CORP must establish a separate account to fund group health and accident insurance subsidies.

Arkansas. 2013 Ark. Acts, Act 309 (House Bill 1124) requires the board of the Arkansas State Highway Employees Retirement System (ASHERS) to prorate the health care offset for ASHERS members who are also receiving a retirement benefit from a reciprocal retirement system and who retire after August 16, 2013. Retirees' monthly allowance to offset health care costs would be prorated based on the ratio of years of ASHERS service credit to all years of service credit with specified reciprocal retirement systems. Under current law, the board has the authority to prorate the health care benefit, but it has not exercised that authority, according to the Actuarial Cost Study prepared for the Joint Committee on Public Retirement and Social Security Programs. The bill would reduce ASHERS' actuarial accrued liability by approximately $220,000, according to the study.

Arkansas. 2013 Ark. Acts, Act 331 (House Bill 1128) affects the group health insurance program offered to state and public school retirees, changing the eligibility requirements to allow a retiree to rejoin the state's health insurance program. Currently, retirees can rejoin only if they declined coverage at retirement because they were covered by another employer sponsored group policy. The legislation allows retirees who decline coverage at the time of retirement because they have any other health insurance coverage to rejoin (so long as that other coverage is not accident only, specific disease or another limited benefit policy).

California. 2013 Cal. Stats., Chap. 778 (Senate Bill 215) modifies the definition of employee for the purposes of determining eligibility to participate in health benefit plans administered under the Public Employees' Medical and Hospital Care Act (PEMHCA). PEMHCA provides state employees and annuitants access to group health insurance through plans administered by the California Public Employees' Retirement System (CalPERS). Senate Bill 215 expands the definition of employee under PEMHCA to include individuals who meet the definition of full-time employee under the Affordable Care Act provisions governing health coverage obligations for large employers.

California. 2013 Cal. Stats., Chap. 525 (Assembly Bill 410) permits CalPERS retired annuitants to be reinstated to active employment without losing their accrued retiree health benefits earned with their previous employer. Generally, PEMHCA specifies that the last employer of record before a member's retirement is the one responsible for paying the employer contribution for the annuitant's health coverage. According to the Assembly floor analysis, the amount of the employer contribution can vary widely among employers, and annuitants who return to work for a CalPERS employer other than their prior employer may experience a reduction in, or outright loss of, this contribution. The legislation permits a CalPERS annuitant who reinstates with a different state employer or contracting agency after retirement to subsequently re-retire and enroll in PEMCHA as a retiree of the prior employer in order to secure access to a higher employer contribution. This applies to annuitants who re-retire on or after Jan. 1, 2014.

Hawaii. 2013 Hawaii Sess. Laws, Act 268 (House Bill 546) creates the Hawaii Employer-Union Health Benefits Trust (EUTF) Task Force to examine the state health benefits' unfunded liability. The law also requires the EUTF to establish a separate trust fund for employer contributions with separate accounts for each public employer.

Hawaii. 2013 Hawaii Sess. Laws. Act. 282 (Senate Bill 867) (became law without the Governor's signature) increases the cap on base monthly contributions for health benefit plans for retired employees under the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) by 5 percent, beginning Jan. 1, 2014. The base monthly contribution serves as a cap on the amount that state and county employers are required to pay for medical, prescription drug, dental and vision premiums.

Illinois. 2013 Ill. Laws, P.A. 19 (Senate Bill 1515) incorporates components of the recently negotiated AFSCME contract regarding retiree health insurance. Existing law creates a financial incentive for SERS members who are not eligible for Medicare benefits to opt out of the state's health plan coverage. That incentive is capped at $150 per month. Beginning July 1, 2013, Senate Bill 1515 extends the financial incentive to non-Medicare annuitants of all five state retirement systems (SERS, SURS, TRS, JRS and GARS) and caps the amount of the opt-out financial incentive for annuitants with over 20 years of service at $500 per month. It also requires the Department of Central Management Services (CMS) to offer a program of group health benefits for Medicare-eligible retirees and their dependents. Finally, it empowers the Treasurer to adjust contributions to the State Pensions Fund by transferring unexpended funds from the Treasurer's Rental Fee Fund or withholding deposits from the Unclaimed Property Trust Fund.

Illinois. 2013 Ill. Laws, P.A. 43 (Senate Bill 1584) extends payments by four Chicago pension funds to help defray the cost of annuitant participation in the city's health care plans until the city no longer provides a health care plan or Dec. 31, 2016, whichever comes first. The subsidies for retired Chicago police, firefighters' and other municipal employees' health insurance had been set to expire on June 30, 2013.

Nevada. 2013 Nev. Stats., Chap. 303 (Assembly Bill 303) authorizes the board of the Public Employees' Benefits Program (PEBP) to increase subsidies for Medicare retirees where excess plan reserves exist. Each biennium, the Legislature sets the amount of the Medicare subsidy for members who retire with state service and were initially hired before Jan. 1, 2012. The new law grants the board explicit authority to approve additional subsidy increases from available monies, such as excess reserves. Without such explicit authority, the PEBP board had refrained from adding funding for Medicare retirees in 2012, even as tens of millions in excess reserves allowed for significant additional funding of active and retiree health savings and reimbursement accounts.

North Dakota. 2013 N.D. Sess. Laws, Chap. 433 (House Bill 1058) closes the Public Employees Retirement System (PERS) health plan to pre-Medicare retirees beginning July 1, 2015 and makes retiree health credit portable. By eliminating medical coverage for retirees who are not yet eligible for Medicare, PERS would remove from its books a GASB 43/45 liability of $65.2 million, according to the state's most recent valuation. According to the testimony of PERS Executive Director Sparb Collins, coverage options available through the health insurance exchanges mean these retirees can secure coverage without being subject to pre-ACA medical underwriting requirements/pre-existing condition provisions.

In order to avoid a scenario in which pre-Medicare retirees would be ineligible for both the PERS health plan and the Retiree Health Insurance Credit Program (RHIC), the new law makes the latter portable. The legislation makes the RHIC benefit portable for any health insurance coverage and also allows it to be used for the PERS dental, vision, prescription and long term care coverage.

Oregon. 2013 Or. Laws, Chap. 731 (House Bill 2279) allows local governmental entities to participate in health insurance benefit plans offered by the Public Employees Benefit Board (PEBB) and the Oregon Educators Benefit Board (OEBB). Currently Oregon cities, counties and special districts each negotiate their own benefits directly with carriers. The new law specifies that a local government's decision to participate in a PEBB or OEBB benefit plan is a permissive subject of collective bargaining. Members of collective bargaining units that represent police and firefighters are ineligible to participate. The Governor must appoint additional PEBB or OEBB board members, one representing local management and one local employee interests, if a local government elects to join one of the plans (with two more board appointments for each 25,000 local government employees who enroll).

Texas. 2013 Tex. Gen. Laws, Chap. 1214 (Senate Bill 1458) provides that if a member of the Teacher Retirement System of Texas retires before age 62, the member is only eligible to participate in TRS-Care 1. TRS-Care consists of three levels of coverage, with TRS-Care 1 providing basic catastrophic coverage with higher deductibles than TRS-Care 2 and TRS-Care 3. Once the member reaches age 62, the member would be eligible for TRS-Care 2 and 3. The law applies to future hires and current members, with an exemption for members whose age and service credit equals 70 or those who have 25 years of service as of Aug. 31, 2014.

Texas. 2013 Tex. Gen. Laws, Chap. 618 (Senate Bill 1459) implements tiered health insurance premium contributions for future members of the Employees Retirement System of Texas. Previously, the state covered 100 percent of the insurance premium costs for employees who retired with 10 years of service. The new insurance tiers affect members who have less than five years of insurance participation on Aug. 31, 2014. This law implements new insurance contributions based on the years of service a member retires with, according to the following schedule:

Texas Employees Group Benefits *State Insurance Contribution*	
Years of Service	**% Paid by State**
20 Years	100%
15 years	75%
Less than 15 years	50%

Utah. 2013 Utah Laws, Chap. 277 (House Bill 194) freezes post-retirement medical benefits for state employees under the Unused Sick Leave Retirement Program II and creates a new defined contribution match benefit instead. 2005 legislation limited state employees' ability to convert unused sick leave into medical and life insurance benefits during retirement. It created separate programs for leave accrued before and after Jan. 1, 2006. Program I (pre-2006) provided for a 25 percent cash out of unused sick leave into a 401(k) and allowed employees to purchase medical and life insurance benefits with the remainder (one month of coverage for every eight hours of unused sick time). It was funded through an OPEB trust fund. Program II also provided for a 25 percent cash out into a 401(k), with the value of the remainder deposited into a medical expense reimbursement plan. Unfunded liabilities for the pay-as-you-go Program II reached approximately $70 million in 2013, according to the Utah Public Employees' Association.

House Bill 194 closes out Program II for sick leave accrued after Jan. 3, 2014, decoupling post-retirement medical benefits and sick leave accrual. As an alternative, the new law establishes a 401(k) matching benefit with biweekly employer contributions capped at $26. Employees who contribute less than the full employer amount are eligible for matching funds equal to their contribution, and employees cannot receive employer funds if they do not contribute themselves. Employer and employee contributions vest immediately and can be withdrawn at any time, subject to IRC rules.

12. Purchase of Service Credit

Arkansas. 2013 Ark. Acts, Act 223 (House Bill 1227) grants classified employees in the Arkansas Teacher Retirement System (ATRS) the same right to purchase private school service credit that exists for certified system employees. Current law allows the purchase of up to 15 years of private school service at an actuarially equivalent rate, defining private school service as service rendered in a private school or agency that is recognized by the Department of Education for the issuance of teaching licenses. House Bill 1227 expands the definition to include service with private, educationally-related entities recognized by the ATRS board, but it imposes a five-year limit on the amount of educationally-related service that can be purchased from these private entities.

Illinois. 2013 Ill. Laws, P.A. 439 (House Bill 2656) relates to the cost of transferring service credit from a downstate police pension fund to the Illinois Municipal Retirement Fund (IMRF). Members wishing to transfer credits must pay any additional contribution necessary to reflect the true cost to IMRF based on appropriate actuarial assumptions and the member's service, age and salary history.

Louisiana. La. Acts 2013, 365 (Senate Bill 14) permits a benefit accrual upgrade on service credit transferred between public retirement systems and allows reverse transfers in certain cases. Where there is a discrepancy between the accrual rates in the transferring and receiving retirement systems, the law enables a member to upgrade the accrual rate on transferred service to the accrual rate of the receiving system by paying the actuarial cost of the upgrade.

Louisiana. La. Acts 2013, 10 (House Bill 36) changes the eligibility requirements for members of the Sheriffs' Pension and Relief Fund (SPRF) to transfer service credit from another Louisiana public retirement system into the fund. The new law requires active membership in SPRF for one year rather than six months before becoming eligible to transfer prior service credit.

West Virginia. 2013 W.Va. Acts, Chap. 64 (House Bill 2800) permits only those members of the Teachers Retirement System (TRS) who were honorably discharged from active duty to receive military service credit for prior service in the armed forces. The legislation also changes the cost of purchasing service credit for periods of employment with the federal government, another state or a West Virginia parochial school. The old formula directed members to pay double the amount they contributed during the first full year of current employment (as a TRS or Teachers' Defined Contribution Retirement System member) multiplied by the number of years of qualifying federal, out-of-state or parochial school service (plus interest). The revised formula changes the first factor to 12 percent of the member's gross salary earned during the first full year of current employment.

13. Re-employment after Retirement

Utah. 2013 Utah Laws, Chap. 316 (House Bill 24) amends provisions pertaining to the Utah Retirement System that govern retiree reemployment. The law prohibits a participating employer from making a retirement-related contribution that exceeds the normal cost rate for all reemployed retirees, not just full-time employees.

Illinois. 2013 Ill. Laws, P.A. 596 (Senate Bill 2196) revises the return-to-work provisions for retirees in the State Universities Retirement System (SURS), which were subject to more extensive amendment in 2012. The 2012 changes imposed new limits on the ability of a public university to hire or re-hire someone receiving an annuity from SURS, creating financial penalties for employers who retain annuitants for a specified duration and at a specified salary level. For each "affected annuitant," employers must make an additional SURS contribution equal to the retiree's annual annuity. The 2013 changes remove one of the conditions that had been required to trigger affected annuitant status. Now affected annuitants need not be employed for a total of more than 18 paid weeks in order to compel additional employer contributions. They need only be employed in a position that earns more than 40 percent of their highest annual rate of earnings prior to retirement.

Indiana. 2013 Ind. Acts, P.L. 195 (Senate Bill 526) prohibits retired Public Employees' Retirement Fund (PERF) members who are rehired on or after July 1, 2013 from earning additional retirement benefits during their period of reemployment. Current law prevents rehired, retired members of the state Teachers' Retirement Fund from accruing additional service credit or making/receiving additional contributions based on their period of reemployment. Senate Bill 526 extends this prohibition to reinstated members of PERF. According to the fiscal impact statement, ending this supplemental retirement benefit for reemployed PERF retirees is estimated to decrease PERF's unfunded actuarial liability by $5.5 million, while lowering employer contribution rates slightly. Other provisions related to PERF membership for current and future employees of the State Lottery Commission are discussed in the Defined Benefit Plan Changes section of this report.

Maryland. 2013 Md. Laws, Chap. 480 (House Bill 494) requires members of the State Retirement and Pension System to observe a 45-day waiting period before returning to work in a covered position. The waiting period is codified to comply with IRS requirements.

Michigan. Mich. Pub. Acts, Act 112 (House Bill 4664) postpones the sunset of a provision that permits retired corrections officers to return to work while continuing to receive a retirement allowance. Current law generally requires retirees who return to state employment to forgo a retirement allowance during the period of reemployment. One exception is for corrections officers who are rehired for limited terms, without benefits, at a rate of pay that does not exceed 80 percent of the maximum hourly wage for employees in similar positions. These retired corrections officers may not work more than 1,040 hours in a year. House Bill 4664 allows corrections officers to be rehired until Sept. 30, 2015, postponing the sunset of their exemption by two years.

Montana. 2013 Mont. Laws, Chap. 238 (House Bill 78) and 2013 Mont. Laws, Chap. 366 (House Bill 54). House Bill 78 requires members of the Teachers Retirement System (TRS) who retire after Jan. 1, 2014 to observe a 180-day waiting period before returning to work in a covered position. The waiting period is codified to comply with IRS requirements. House Bill 54 provides that if a member of TRS is under age 60 and has a prearranged agreement to return to work after retirement, that member is not eligible for TRS retirement benefits.

Montana. 2013 Mont. Laws, Chap. 239 (House Bill 95) requires employers to continue to pay the employer contribution for working retirees. This applies to the three systems that allow retirees to return to work and continue to receive a pension, the Public Employees Retirement System, the Sheriffs' Retirement System and the Firefighters' Unified Retirement System.

Utah. 2013 Utah Laws, Chap. 48 (House Bill 95) clarifies that Utah Retirement Systems employers are only required to make amortization rate contributions on behalf of reemployed retirees who 1) have completed a one year post-retirement separation period, and 2) elect to continue to receive a retirement allowance during reemployment.

West Virginia. 2013 W.Va. Acts, Chap. 167 (House Bill 2469) raises the cap on earnings from $15,000 to $20,000 for members of the Public Employees Retirement System (PERS) who temporarily return to employment with a participating employer after retirement and wish to continue drawing full PERS retirement benefits.

Wisconsin. 2013 Wis. Laws, Act 20 (Assembly Bill 40) suspends annuities for participants in the Wisconsin Retirement System (WRS) who return to covered employment and work at least two-thirds of full-time. Under current law, rehired individuals may either terminate their annuities and again become WRS participating employees or continue to receive their annuities in addition to the earned wages from re-employment (but cannot use their service as a rehire for any WRS purpose). Assembly Bill 40 would require that if an annuitant is employed or contracts to provide services in a WRS-covered position in which she is expected to work at least two-thirds of full-time employment, then her annuity must be suspended until after the she terminates covered employment. The legislation also creates new procedures for administering the WRS accounts of rehired annuitants and increases the required minimum period of separation from employment before returning to work with a WRS employer from 30 to 75 days.

14. Studies

Indiana. 2013 Ind. Acts, P.L. 15 (Senate Bill 228) urges the Legislative Council to assign the Pension Management Oversight Commission (PMOC) to study the guaranteed fund, an investment option in the annuity savings account of the Public Employees' Retirement Fund and the Teachers' Retirement Fund. Study topics include members' selection of the fund, the investment of member contributions and the crediting of interest on those contributions to the fund. The commission must report on its findings and recommendations (including any recommended legislation) no later than Nov. 1, 2013.

Indiana. 2013 Ind. Acts, P.L. 56 (Senate Bill 527) urges the Legislative Council to require the Pension Management Oversight Commission (PMOC) to study the retirement, disability and death benefits currently provided to judges and full-time magistrates. Specified topics include benefit costs, the adequacy of existing funding methods and possible additional ones, and the advisability of benefit changes. The deadline for any report containing the commission's findings and recommendations (including any recommended legislation) is Nov. 1, 2013.

Maine. 2013 Me. Laws, Chap. 391 (Legislative Document 1440, House Paper 1034) directs the Maine Public Employees Retirement System (MainePERS) to conduct a study of the Participating Local District Retirement Program and the Participating Local District Consolidated Retirement Plan, examining the advantages and disadvantages of each plan's codification in the statutes, the effect of repeal and the effect of permitting specific plan provisions to be amended through the rule-making process. Study results and recommendations are due Jan. 15, 2014 to the Joint Standing Committee on Appropriations and Financial Affairs, which may submit a related bill.

Oregon. 2013 Or. Laws Spec. Sess., Chap. 2 (Senate Bill 861) directs the Public Employees Retirement System (PERS) board to report to the Governor, Senate President and Speaker of the House on recommendations related to COLAs, including approaches to COLA calculations that take account of a retired member's years of creditable service and the continuation of supplemental COLA payments discussed in the Cost of Living Adjustments section of this report.

North Dakota. 2013 N.D. Sess. Laws, Chap. 431 (House Bill 1452) provides for a Legislative Management study of existing and potential state retirement plans during the 2013-14 interim. The study must analyze defined benefit and defined contribution plan options, including the consequences of transitioning to a state defined contribution plan. Findings and legislative recommendations must be reported to the sixty-fourth legislative assembly.

Texas. 2013 Tex. Gen. Laws, Chap. 618 (Senate Bill 1459) requires the Employees Retirement System of Texas to conduct an interim study on the feasibility of adding custodial officers employed by the Texas Juvenile Justice Department to the Law Enforcement and Custodial Officer Supplemental Retirement Fund.

Texas. 2013 Tex. Gen. Laws, Chap. 14 (House Bill 13) requires the Pension Review Board to study the financial health of the Texas retirement systems, including each system's ability to meet long-term obligations. The report will be issued Sept. 1, 2014, and submitted to the legislature by Dec. 31, 2014.

15. State Sponsored Retirement Savings Accounts

Oregon. 2013 Or. Laws, Chap. 714 (House Bill 3436) creates the Oregon Retirement Savings Task Force to develop recommendations for increasing the percentage of Oregonians saving for retirement and the amount of their savings. The task force is charged with considering several factors, including: access to existing employer-sponsored plans and individual retirement products; tax incentives currently offered to encourage savings; design options for a state-run or state-facilitated plan, along with associated costs, advantages and disadvantages; and the feasibility of creating a public-private partnership to offer plans directly to individuals. The task force completed its report to the legislature in September 2014, recommending a voluntary, auto-enrollment payroll deduction plan for Oregon workers without access to other workplace savings options.

16. Taxation of Retirement Income

Oregon. 2013 Or. Laws, Chap. 53 (Senate Bill 822) eliminates a supplemental tax benefit for Oregon Public Employees Retirement System (PERS) retirees who do not pay income taxes in Oregon because they do not reside in Oregon. The Public Employees Retirement Board previously offered an increased retirement benefit for PERS retirees who began PERS-covered service before July 14, 1995. This was intended to serve as a remedy after the legislature applied state income taxes to PERS benefits. Under current law, retirees living outside of Oregon who did not pay Oregon income taxes still received an increased benefit. This law eliminates the increased benefit for such retirees. PERS estimates that this change will produce system-wide savings of $55 million from reduced employer contributions for the 2013-15 biennium. This will reduce employer contribution rates by approximately 0.3 percent.