

## **PENSIONS AND RETIREMENT PLAN ENACTMENTS IN 2000 STATE LEGISLATURES: SECOND PRELIMINARY REPORT**

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**INTRODUCTION.** This report summarizes major policy issues in state pensions and retirement legislation enacted in 2000. The criterion for selection has been usefulness to policy makers in other states who may face similar issues. Corresponding with that basic goal, the report is organized by topics, listed below. Actions to provide cost-of-living adjustments generally are excluded from this report.

This report covers legislation signed into law through September 26, 2000. The table at the end of the report shows the states for which this report includes information, the states that had no sessions in 2000, and the states in which legislation may be enacted later than September 26. A final report scheduled for January 2001 will include any additional enactments in 2000.

As in 1999, the major development in state retirement policy in 2000 has been to broaden the retirement choices available to state and local government employees. The most important policy developments have been the adoption of optional defined contribution retirement plans in several states: for state and local employees and teachers in Florida, for teachers and for public employees in Ohio, for new teachers and administrators in the South Carolina public schools, and for public employees in Washington. The Florida legislation is noteworthy for its requirements for educational programs for employees who are considering changing to the DC plan. No state adopted a mandatory defined contribution plan for a broad class of employees in 2000, although California's diversion of teacher retirement contributions from the defined benefit plan to a new mandatory savings plan could be regarded as a qualification of that broad statement.

Other measures that increase employee flexibility in retirement planning include the adoption of deferred retirement option plans (DROPs) for some employees in Arizona, Connecticut and Maryland, and provisions allowing for partial lump-sum distributions from defined benefit retirement plans in Kansas and Mississippi. Colorado and Virginia have moved toward implementation of employer matches for employee deposits in deferred compensation plans. Idaho created a gain-sharing program to distribute retirement trust fund earnings above system requirements to active and retired employees and to employers when investment experience warrants. Active employees may make additional contributions to the individual accounts that are set up to receive their shares. The South Carolina General Assembly enacted a broad and innovative service-credit-purchase plan.

**SOURCES AND ACKNOWLEDGMENTS.** All the legislation this report refers to has been signed into law unless the item is identified to the contrary. The principal sources for this report are state legislation, summaries posted on legislative and retirement system web sites, and discussions with legislative and retirement systems staff, whose generous assistance

is gratefully acknowledged. Users of this report are urged to submit additions and corrections for the final version to [ron.snell@ncsl.org](mailto:ron.snell@ncsl.org).

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## CONTRIBUTION RATES

**Alabama.** S.B. 267 increased the employee contribution for firefighters and law enforcement officers (mostly local employees in both cases) by 1% of salary to fund one additional year of service credit for each five years of active service as “stress time” on a continuing basis (see “Service Credit,” below).

**Colorado.** H.B. 1458 reduced employer contributions for state and school employees from 11.4% to 10.4% on July 1, 2000 and mandates a further reduction to 9.9% in FY 2002; reduced employer contributions for judicial system members from 15% to 14% in FY 2001 and to 13.5% in FY 2002, and envisions further future reductions in both cases.

**Florida.** H.B. 2393 increased contribution rates for the Florida Retirement System DB plan (a non-contributory system) in future years to offset increased costs associated with benefit enhancements. The legislation reduced employer contribution rates by 1.1 percentage points in FY 2001 and 0.1 percentage points in FY 2002. Under existing law, rates will return to a

level slightly higher than the present level in FY 2003 (for most classes within the retirement system). The legislature expressed its intent that a portion of the system's actuarial surplus be recognized to offset the costs of the contribution reductions and certain benefit increases. The legislation also assessed each employer 0.1% of gross compensation paid to fund the implementation of the optional retirement plan.

**Maryland.** See "Defined benefit provisions."

**Massachusetts.** See "Defined benefit provisions."

**Mississippi.** H.B. 1281 increased contribution rates for the legislators' supplemental retirement plan from 3% to 6% for members and from 6/33% to 17.09% for the employer.

**New Jersey.** Chapter 415, Public Laws of 1999 (Jan. 2000), provides that contribution rates for state and local government employees who are members of the Public Employees' Retirement System (PERS) will be reduced 4.5% to 3% for calendar years 2000 and 2001. This is not a permanent reduction, and it will be possible for the rate to return to a higher rate. The act also provides for a contribution rate reduction of up to 2% of compensation in future calendar years if the State Treasurer determines that excess valuation assets will be used to reduce the normal contributions made to the system by the State and local employers.

**New York.** Assembly Bill 11418/Senate Bill 8142 ended the mandatory 3% employee contribution to the Teachers Retirement System and to the State and Local Employees Retirement System for Tier 3 and 4 members after 10 years of membership, effective October 1, 2000. The mandatory contribution will be terminated for employees with less than 10 years of service when they reach 10 years.

**South Dakota.** S.B. 6 increased both the employee and employer contribution rates by 1 percentage point. Starting July 1, 2002, Class A members will contribute 6 percent of their salary, an amount matched in turn by their employers. Contributions until July 1, 2002 will continue to be 5 percent. The class does not include public safety and judicial employees, whose contribution rates remain at 8% and 9%.

**Washington.** The budget bill reduced employer contribution rates for the Public Employees', Teachers', and Law Enforcement Officers' retirement plans following a study by the Office of the State Actuary that indicated statutory pension funding requirements can be met with reduced contributions.

## **DEFERRED COMPENSATION PLAN MATCHES**

**Colorado.** H.B. 1225 created a deferred compensation 401(a) plan to receive state matching contributions that will begin in 2001 according to legislation enacted in 1999.

**Virginia.** Beginning April 14, 2000, Virginia began an employer cash match plan – to a maximum of \$10 per payday – for eligible Deferred Compensation Plan (DCP) participants who have at least 12 consecutive months of salaried state service and who are making

continuous deferrals of at least \$10 per payday to the DCP. The match will 50 percent of the DCP deferral or \$10, whichever is less, per payday. The dollar amount of the cash match depends on the funding available and may be changed each fiscal year.

## **DEFINED BENEFIT PROVISIONS**

**Arizona.** HB 2238 changed eligibility for COLAs to allow any retiree or beneficiary who has been receiving benefits by July 31 of the previous calendar year to receive a benefit increase regardless of age. Previous law required beneficiaries to be 55 to be eligible for a COLA.

**Georgia.** The General Assembly appropriated funding to allow monthly benefits for retired public school employees to increase from \$10.50 to \$12 per year of service, under existing law.

**Idaho.** H.B. 760 provides changes to the judicial retirement system. These changes include new retirement eligibility and compensation criteria based on age and years of service, an increase in the maximum retirement compensation that may be earned by a judge, new provisions for converting the payout of retirement compensation into optional annuity allowances, an option to increase retirement compensation in exchange for a commitment to provide 35 days of pro tem service annually for a period of five years without compensation, and a provision which provides a full surviving spouse benefit without a reduction in the retirement compensation earned by the judge. This bill also provides a retiring judge with a credit equal to .0065 of unused accumulated sick leave earned after July 1, 2000, towards the cost of state insurance benefits.

**Kansas.** H.B. 2624 provided that legislators and elected local officials may retire from a second Kansas Public Employees Retirement System (KPERs) employer and continue service in office (in which the person is also covered by KPERs) without having to resign from office in order to retire. Benefits will be recalculated when a legislator retires from the Legislature. Officials under these provisions will be subjected to an annual \$15,000 earnings limitation, which will be effective for legislators on January 8, 2001.

**Maine.** L.D. 2510 provided for retirement with unreduced benefits after 25 years of service for members of the State Police, replacing a regular 25/55 rule that allowed for retirement before age 55 with reduced benefits.

**Maryland.** H.B. 605 changed contribution and benefit provisions for members of the Law Enforcement Officers' Pension System (LEOPS) to increase benefits. Employee contributions changed from no contribution on the Social Security base and 5% above that to a flat 4% contribution rate; employer contributions will rise from approximately 23% to approximately 32%. annuity benefits will increase from 1% of final average compensation to the Social Security integration rate plus 1.7% above that rate for each year of service to 2% for each year of service. For 25 years of service, this will mean an benefit that increases from 30% of final average compensation to 50%. H.B. 605 extended membership in LEOPS to a number of additional law enforcement personnel.

**Massachusetts.** Chapter 114 of the Acts of 2000 (H.B. 5116), “An Act Improving Teacher Retirement, Retention and Retirement,” created an alternative enhanced retirement benefit for current teachers with 30 or more years of service. The new provisions will be mandatory for all teachers hired after July 1, 2001. Benefits for participants will be based on current law plus an additional 2% for each full year of creditable service in excess of 24 years of service, which can produce eventual benefits increases between 12% and 32% above the amounts the existing program will provide. Participants, including all new members after July 1, 2001, will contribute 11% of salary. Eligibility requirements include making the 11% payment for at least five years (with a provision for payment even if the member does not teach for the full five years) and a requirement of at least 30 years of service, including at least 20 years of teaching service. No retirement under the program can commence before July 1, 2001.

Also, this law allows for the buy back of service for certain maternity leave (prior to 1975) and allows retirees to return to work two years after retirement without limitation.

**Mississippi.** H.B. 1281 increased retirement benefits for state legislators.

**New York.** Assembly Bill 11418/Senate Bill 8142 provides one month of additional service credit for each year of credited service up to a total of two years of additional service credit for Tier 1 and Tier 2 members of the Teachers’ Retirement System as of June 1, 2000; allows benefits to exceed the maximum of 75% of final salary now in law; eligibility includes active service from April 1 2000 through the end of the 1999-2000 school year. The additional service credit also applies to members of the State and Local Employees Retirement Systems with the condition of active service from April 1 through October 1, 2000.

**South Carolina.** Act 567 reduced the years of service required for retirement without reduction in benefits for members of the South Carolina Retirement System from 30 to 28.

## **DEFINED CONTRIBUTION PLANS FOR BROAD CATEGORIES OF EMPLOYEES**

**California:** Chapter 74, Statutes of 2000 (AB 1509) creates the Defined Benefit Supplement Program (DBSP) for all State Teachers' Retirement System (STRS) members. The plan will divert 25% of STRS contributions, or 2% of payroll, into a tax deferred account that will be available to the teacher upon retirement in a lump sum payment or as an annuity. Interest rates for the defined benefit supplement program will be set by the STRS board prior to the beginning of each plan year.

**Florida.** H. B. 2393 created the Florida Retirement System (FRS) Public Employee Optional Retirement Program (PEORP), effective June 2002. It is a defined contribution plan to be offered beginning in 2002 that will establish individual retirement investment accounts for each participant. The plan will be administered by the State Board of Administration which will contract with a third party administrator for administrative services and select investment options among which participants may choose. The plan will be open to state and local government employees, teachers and school employees.

Current employees may choose to join PEORP. Employees will have 90 days in which to join after the optional plan is opened to their category of employment. New employees hired after an option window has opened for their employer will have 180 days in which to decide. After the option window, each employee will have one additional opportunity to move from one plan to another. Existing employees may retain benefits they have earned in the existing DB plan or may have the present value of their accumulated benefit transferred to PEORP.

Vesting in employer contributions made to PEORP occurs after one year of service. Existing FRS service applies toward vesting in the PEORP. To vest in a balance transferred from the DB plan requires six years of creditable service toward which service covered by DB plan membership applies.

No employee contributions will be required or allowed. Employer contributions will be at the same level as DB plan contributions, about 9.4% of salary for most employees in FY 2002 and 10.1% of salary in FY2003, with other rates for special classes. Participants will be responsible for investment fees, but those will be negotiated at a later date. An additional contribution will be paid by the employer to provide disability coverage for participants in the PEORP plan, but that coverage will also be negotiated at a later date.

The State Board of Administration, headed by the Governor, Treasurer, and Comptroller, will administer the PEORP. The Division of Retirement will continue to administer the FRS defined benefit plan.

All employees eligible for the FRS DB plan will be eligible for the PEORP except retirees (including DROP participants) and those university employees already participating in the State University System Optional Retirement Program.

**Ohio.** S.B. 190 requires the State Teachers Retirement System (STRS) to establish one or more defined contribution plans. The STRS Board may administer the plans, contract with other entities to do so or both. Plans are to include options under which members may receive definitely determinable retirement benefits, including life insurance, annuities, variable annuities, investment trusts or other forms of investment.

STRS members with less than five years of service on the June 30 immediately before the DC plan becomes effective will have 180 days from the establishment of the DC plan to make an irrevocable decision to transfer to the DC plan. A new member of STRS will have 180 days to decide to join the DC plan. In the absence of such a decision either category of member will be a member of the existing DB plan. New members (but not existing members) who elect the DC plan will be switched to the DB plan on the fourth anniversary of their joining the DC plan unless they elect to remain in the DC plan.

Upon an existing member's decision to transfer to the DC plan, STRS will credit an account with the member's accumulated contributions plus any interest that would be due if the member withdrew contributions. If a new member elects on the fourth anniversary to move to the DB plan, the member's contributions, any supplemental contributions and all earnings

will be moved to the STRS Teachers' Savings Fund. STRS rules will determine the amount of service credit awarded a member who moves to the DB plan.

Member and employer contributions will be the same for the DB and DC plans (currently 9.3% for members and 14% for employers). A portion of the employer contribution will be transferred to the STRS Employer Savings Fund if necessary to mitigate any negative financial effect on the DB plan from members' having transferred to the DC plan.

The STRS Board may contract for health care coverage for recipients of benefits under a DC plan on the basis that the recipient or the recipient's benefits plan will pay for the coverage. The Board may pay the recipient's Medicare Part B payments if the recipient's benefits plan funds the payments.

The STRS Board may offer DC plan members the opportunity to participate in one or more of the benefit options available under a DC plan.

H.B. 628 provides for a similar optional defined contribution plan for public employees.

**South Carolina.** Act 268 of the 2000 Session created an optional defined contribution plan for teachers and administrators in the state's K-12 schools open only to newly-hired persons eligible for membership in the South Carolina Retirement System (SCRS), who must make an irrevocable decision to join the DC plan within 90 days of hire or be deemed a member of the SCRS. After 60 months have passed, the employee may decide to join the SCRS but must make this decision within 90 days after the 60 months have passed. After such a transfer, the employee may purchase up to five years' credit within SCRS at a cost determined by the SCRS board.

The director of SCRS shall designate no fewer than four companies to provide annuity contracts, mutual fund accounts, or similar investment products offered through state or national banking institutions, or a combination of them, under the program.

Contribution provisions of the bill: "Each participant shall contribute monthly to the program the same amount he would be required to contribute to SCRS if the participant were a member of that system. Participant contributions may be made by payroll deduction, by a reduction in salary, or by employer pick up in accordance with any applicable provisions of the Internal Revenue Code of 1986. Each employer shall contribute on behalf of each participant the same amount it would be required to contribute to SCRS if the participant were a member of that system. Each employer shall remit to the designated companies, for application to participants' contracts or accounts, or both, an amount equal to the participant's contribution plus that percentage of each employer's contribution which would have been used to fund all retirement system benefits for future service if the participants had been members of the retirement system, but the employer's contribution may not be less than four and one-quarter percent of compensation. The employer shall remit the remainder of its required contribution to the retirement system, but the contribution to the retirement system must not be less than two and fifty-five hundredths percent of the employee's compensation."

**Washington.** S.B. 6530 created an optional retirement plan (PERS Plan 3) for employees of state agencies, higher education, and local governments that consists of defined benefit and a defined contribution portions. Employer contributions fund the DB plan, and employee contributions fund the DC plan, similarly to the teachers' Plan 3 created in 1995.

The new plan will become effective March 1, 2002 for state agency and higher education classified employees and September 1, 2002 for local government employees. State employees hired after that date may exercise an option to join Plan 3 within 90 days of hire and will be considered members of Plan 2 (a DB plan without a DC component) until they do so.

Current state members of Plan 2 will have from March 1, 2002, until September 1, 2002, to exercise an option to transfer to Plan 3. For those who do so, their contributions and transfer payment equal to 110% of their accumulated contributions (representing past employer contributions) in Plan 2 will be transferred to a Plan 3 account.

Local governments' employees dates for transfer will be September 1, 2002, until March 1, 2003 and will receive an amount equal to 111% of their accumulated contributions for deposit in Plan 3 accounts as well as a transfer of their past contributions. All Plan 3 members will be eligible for gain sharing payments. Those who do not elect to transfer to Plan 3 will remain members of Plan 2.

## **DEFINED CONTRIBUTION PLANS--TARGETED DEFINED CONTRIBUTION PLANS**

**Utah.** H.B. 109 allowed legislators to choose to join the existing defined contribution plan for elected officials instead of the regular DB legislators' retirement plan.

## **DEFERRED RETIREMENT OPTION PLANS**

**Arizona.** S.B. 1328 created a DROP for members of the Public Safety Personnel Retirement System.

**California.** A.B. 2456. See "Retirement Options."

**Connecticut.** Public Act 00-192, Sec. 98, allows the Retirement Commission to create a DROP for members of the Municipal Employees' Retirement Fund, whose members can participate if the municipality in which they work adopts the plan.

**Maryland.** H.B. 605 authorized a DROP for members of the Law Enforcement Officers' Pension System.

**South Carolina.** H. 4775, the appropriations bill, created a Teacher and Employee Retention Incentive (TERI) program, or DROP program. The program allows eligible employees to retire and defer receiving retirement benefits for five years while continuing employment. Upon termination of employment or the end of the TERI period, the



employee will receive the accumulation of benefits in either a taxable lump-sum distribution or through a rollover into a qualified tax-sheltered annuity. Beneficiaries will then begin receiving their monthly retirement service benefit plus any COLAs granted during the TERE period. No interest is paid on the accumulation of benefits. TERE participants do make retirement system contributions. They are exempt from service retirement earnings limitations during the TERE period.

## **EARLY RETIREMENT INCENTIVES**

**New York.** Chapter 86, Laws of 2000, provided an early retirement incentive for certain state employees including teachers (with the proviso that local districts or state agencies must adopt the incentive for their employees to be eligible). Open periods for application range through various dates ending in 2001, depending upon agencies and employers.

The plan provides one-twelfth of a year of additional service credit for each year of service credited at retirement, to a maximum of three years. To be eligible, a member must be age 50 with at least 10 years of service OR age 55 with 5 years of service. Members younger than 55 at retirement will have their benefit reduced for each year their age precedes 55, except for Tier 1 members with 35 or more years of service. Effective June 23, 2000.

**South Carolina.** H3696 (R200) General Appropriations Act, Part II Provisos, Section 52. Effective July 1, members of the South Carolina Retirement System who are at least age 55 with 25 or more years of service may retire without a permanent reduction in benefits due to early retirement by making a lump-sum payment of 20% of the higher of current annual salary or average final compensation for each year of service less than 30 (partial years are prorated). Members making this lump-sum payment must retire within 90 days after the date of payment. This buy-out does not increase the amount of service credit; benefits will be calculated based on the member's actual service.

## **FORMULA ANNUITY MULTIPLIERS**

**Delaware.** S.B. 417 changes the multiplier used in calculating the benefits in the State Employees' Pension Plan from 1.66% of final average salary to 1.8%.

**Idaho.** H. B. 511 increased the retirement benefit formula multiplier from 1.917% to 2.0% for general members and from 2.225% to 2.3% for PERSI firefighters/police officers. This affects only those members retiring on or after July 1, 2000.

**Ohio.** S.B. 190 increased the benefit formula for future retirees in the State Teachers Retirement System. The benefit formula was increased from 2.1% to 2.2% for all service. For teachers with 35 or more years of contributing service the formula for the first 30 years was changed to 2.5%. Service over 30 years will be calculated under current law. The law also provides an inflation protection component for current retirees. All benefits would be recalculated using the current 2.1% formula. Any benefit that still falls below 85% of the purchasing power of the original benefit would be increased to that level.

H.B. 628 increased the multiplier for members of the Public Employees Retirement System (other than law enforcement officers) from 2.1% to 2.2% for the first 30 years of service credit; the multiplier remains at 2.5% for additional years of service credit. For law enforcement officers, the multiplier was changed from 2.5% for the first 20 years of service credit plus 2.1% for additional years, to 2.5% for the first 25 years of service credit, plus 2.1% for additional years.

**South Dakota.** S. B. 19 revised formula multipliers to increase retirement benefits formula multipliers for all active and retired South Dakota Retirement System members by .075 percent. That means most SDRS members' benefits will increase 5% for credited service earned before July 1, 2002. Benefit formulas after July 1, 2002 were not changed.

**Wyoming.** H.B. 75 increased the formula annuity multiplier for Plan B Firemen's Pension multiplier increased to 2.5% for the first twenty years of service. H.B. 76 increased the Plan A Firemen's Pension base benefit for twenty years to 57.5%.

**Ohio.** S.B. 190 increased the multiplier for State Teachers Retirement System (STRS) DB benefits from 2.1% to 2.2% for each of the first 30 years of service credit, except that for those with 35 or more years of service credit, the percentage is 2.5%. The multiplier for each year over 30 (more or less as in existing law) increases from 2.5% for the 30<sup>th</sup> year to 3.3% for the 38<sup>th</sup> year. The revised formula allows an STRS member to reach the maximum allowable benefit of 100% of FAS after 39 years of service rather than after 43 years of service as in current law.

H.B. 628 increased the multiplier for Public Employees Retirement System (state and local government employees) benefits from 2.1% to 2.2% for the first 30 years of service, leaving the multiplier for additional years of service unchanged at 2.5%. The multiplier for Law Enforcement members was changed from 2.5% for the first 20 years of service to 2.5% for the first 25 years of service, and 2.1% thereafter (formerly 2.1% after 20 years). Benefits for current beneficiaries will be recalculated according to the new formulas and benefits will be increased to restore 85% of their original purchasing power.

## FUNDING ISSUES

**Colorado.** H.B. 1458 provided that 30% of the amount of any reduction in the employer contribution rates that occurs on or after July 1, 2001, that amortizes any Public Employees Retirement System overfunding, be deposited in the Health Care Trust Fund, and that 20% of the amount be used to reduce employer contributions. (The law currently provides for 50% of the overfunding be used in the program to match voluntary contributions to defined contribution plans.)

S.B. 209 eliminated the list of permissible investments that county, municipal, and special district employee retirement plans may make, and instead required trustees of such plans to invest in accordance with the prudent investor rule and provisions of the Uniform Prudent Investor Act. The provisions of the UPIA are very similar to the investment provisions of the Uniform Management of Public Employee Retirement Systems Act (UMPERSA), which will be proposed in 2001. Neither the UPIA nor UMPERSA contains restrictions on specific

types of investments or asset categories.

**Kansas.** H.B. 2034 requires that the actuarial cost of any future Kansas Public Employees Retirement System benefit adjustment, including COLAs, enacted by the Legislature will be included in the employer contribution rate in the fiscal year immediately following the enactment.

**Minnesota.** 2000 Minnesota Laws, Chapter 461, Article 1, Section 3, redefined the actuarial value of assets. The provision applies to all Minnesota public pension funds required to provide annual actuarial valuations, except the Minneapolis Fire Department Relief Association and the Minneapolis Police Relief Association.

- **Actuarial Value Of Assets (Current Assets), Revised Definition.** The definition of actuarial value of assets (currently defined as cost plus one-third of the difference between cost and market) is revised by basing the actuarial value on current market value at the date of the current actuarial valuation adjusted for past differences between the expected annual change in market value between actuarial valuation dates, given the actuarial earnings assumption, and the actual change in market value on the date of the applicable prior valuations. Following a transition period beginning June 30, 2000, the new system will be fully implemented for valuations after July 1, 2002. For valuations after July 1, 2002, the actuarial value of assets is the market value on the valuation date reduced by:
  - 20 percent of the difference between the net change in market value for the fiscal year beginning four years prior to the current valuation date and the computed increase for the same period assuming asset growth at the pre-retirement interest rate assumption;
  - 40 percent of the difference between the net change in market value for the fiscal year beginning three years prior to the current valuation date and the computed increase for the same period assuming asset growth at the pre-retirement interest rate assumption;
  - 60 percent of the difference between the net change in market value for the fiscal year beginning two years prior to the current valuation date and the computed increase for the same period assuming asset growth at the pre-retirement interest rate assumption; and
  - 80 percent of the difference between the net change in market value for the fiscal year beginning one year prior to the current valuation date and the computed increase for the same period assuming asset growth at the pre-retirement interest rate assumption.

**New York.** Funding for the state and local retirement system, administered by the New York State Comptroller, is adequate to allow for no employer contributions to the system in 2000, for legislation to repeal the requirement for employee contributions permanently, and for enactment of automatic cost-of-living increases hereafter. The annual increase will be 50% of the rate of inflation but within the range of 1% to 3% on a base of the first \$18,000 of benefits. Retirees will have to be 62 and have been retired for five years before they are

eligible for the COLA, except for police and firefighters for whom the requirement is age 55 with 10 years of retirement. *New York Times*, June 14, 2000

**West Virginia.** S.B. 175, the Pension Liability Redemption Act, provided for the issuance and sale of bonds to redeem the state's unfunded actuarial accrued liability for the public safety, judicial, and teachers' retirement funds. The legislation allowed for an issue of debt of \$3.9 billion or the amount needed to fund the combined actuarial accrued liability of the three systems after deduction of issuance costs, whichever is less.

The legislation included a provision that issuance will require a further resolution, or resolutions, from the legislature. They are not to be issued unless the governor finds that the true interest rate on the bonds will be at least 30 basis points less than the assumed actuarial interest rate used to calculate the unfunded actuarial accrued liability and that the issuance will not cause the standard bond rating agencies to reduce the state's general obligation credit rating. The state is awaiting a Supreme Court decision whether the issue requires voter approval.

Information provided by the West Virginia Department of Administration in September 1999 indicates that the annual fixed debt service on the proposed bonds would be less than the amounts the Legislature has appropriated in recent years to address unfunded actuarial accrued liabilities. Those amounts were \$218.5 million in FY 1999, \$199 million in FY 1998 and \$212 million in FY 1997. In September 1999, the Department of Administration estimated future savings to be between \$2 million and \$27 million per year depending on market conditions at the time the bonds will be issued.

## **GAIN SHARING PLANS**

**Idaho.** HB 510 created a gain sharing plan to allow active employees, retired employees and employers to receive investment gains above a formula-driven amount needed to amortize future liabilities of the Public Employment Retirement System of Idaho (PERSI). The legislation provides for individual defined contribution accounts to be established for active members to receive their shares. Active members will be eligible for gain sharing for a year (if it is available) if they have 12 months of active service in the year. Amounts will be based on their account balance in PERSI. Active members may make additional contributions to their accounts and will be able to direct investment of the funds. Retiree gain sharing benefits will be paid in a lump sum in January of each year gain sharing is possible and will be in proportion to benefits. Employer gain share benefits will take the form of a credit toward obligations. The PERSI board will determine whether gain share benefits can be paid for a given year and how gain shares will be distributed among the three groups of recipients, as well as the administrative design of the program. Benefits will be paid in 2001 if investment experience in 2000 warrants doing so.

## **GOVERNANCE**

**Florida.** H.B. 2393 required an annual actuarial evaluation of the Florida Retirement System (rather than every two years) and specified that the actuarial model must include a specific

rate stabilization mechanism and offset to the extent possible any experience loss by an actuarial surplus. When the actuarial surplus exceeds 5% of the actuarial liabilities, a portion of the excess surplus may be used to offset total retirement system costs. The legislature retains the power to set the retirement contribution annually and to address the use of surplus funds in the FRS Trust Fund.

**Indiana.** S.B. 64 provides that the Public Employees' Retirement Fund (PERF) and the Indiana State Teachers' Retirement Fund (TRF) are independent bodies corporate and politic and not departments or agencies of the state; that they are independent instrumentalities exercising essential government functions; that each shall adopt an annual budget; and that they report annually to the governor, the state budget committee and the pension management oversight commission.

**Ohio.** S.B. 190 required the Ohio Retirement Study Commission (ORSC) to review semiannually the policies, objectives, and criteria adopted by the board of each state retirement system for the operation of each system's investment program. The review must include a review of asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, relative volatility, and performance evaluation guidelines. Not later than 30 days after completing its review, ORSC is required to submit to the Governor and General Assembly a report summarizing its findings.

The act also required ORSC to have an independent actuary prepare, at least once every ten years, an actuarial review of the annual actuarial valuations and five-year actuarial investigations prepared by the board of each state retirement system. The review must include a review of the actuarial assumptions and methods, the data underlying the valuations and investigations, and the adequacy of each system's employee and employer contribution rates to amortize its unfunded actuarial pension liability, if any, and to support the payment of benefits by each system. ORSC is required to submit to the Governor and the General Assembly a report summarizing the review

## **RE-EMPLOYMENT AFTER RETIREMENT**

**Arizona.** S.B. 1463 provided that teachers may return to teaching after retirement without any loss of benefits. Under former law, if a retired member returned to work for 20 weeks at 20 hours per week for a fiscal year, the person resumed active membership and payment of benefits was suspended. When the member retired again, benefits were recomputed. S.B. 1463 permitted a retired member to return to work and remain eligible to receive retirement benefits on certain conditions:

- The retired member reached the normal retirement age.
- The retired member terminated their employment at least 12 months prior to returning to work.
- The retired member is working as a certified teacher.
- The retired member is not subject to 15-538 through 15-543.
- The retired member acknowledges these regulations.

The employers of retired members are exempted from paying contributions on behalf of the retired member. The retired member returning to work does not accrue credited service,

retirement benefits or long term disability benefits for the period the person returned to work.

SB 1094 prohibited a retiree of the Arizona Public Safety Personnel Retirement System (PSPRS), who returns to work in the same position and for the same employer from which the member retired, from collecting the PSPRS pension until such employment ceases, and specified that the PSPRS retiree's pension upon leaving reemployment will be based on the retiree's service and compensation before the date of reemployment.

**Massachusetts.** Chapter 14 of the Acts of 2000 amended existing law to allow retired teachers to return to employment without loss of retirement benefits; such a returning teacher does will not be considered an active member of the teachers' retirement system and will not earn creditable service toward retirement.

**North Carolina.** Section 8.24 of Session Law 2000-67 (H.B. 1840) amended existing law to facilitate the return of retired teachers to service by exempting earnings from teaching on a substitute, interim or permanent basis from the earnings limitation that otherwise applies to retirement system beneficiaries who return to covered employment.

**Ohio.** S.B. 144 made the amount of time a member of the public employees', teachers', school employees', police and firefighters', and highway patrol's retirement systems must wait to be re-employed after retirement without penalty under the same system two months for all systems.

**Rhode Island.** Chapter 334, Laws of 2000, allows retired teachers to substitute for an absent teacher for 90 days in any one school year (increased from 75 days) without a reduction or forfeiture of retirement benefits.

Chapter 349, Laws of 2000, allows re-employment at a state college, state school or university with a cap on annual earnings of \$12,000 (up from \$10,000) without reduction or forfeiture of retirement benefits.

**South Carolina.** The earnings limitation for service retirees increased to \$25,000. Service retirees may return to work for an employer covered by SCRS and PORS, and earn up to \$25,000 per fiscal year (July 1 - Jun 30). If they exceed this limit, their benefits will be discontinued during any period of service in the remainder of the fiscal year. H3696 (R200) General Appropriations Act Part II Provisos, Section 27 Amends Code §§9-1-1790 and 9-11-90(4)

Retirees who are certified teachers may return to covered employment without affecting their retirement benefits provided that the district has been identified as having critical need by the State Board of Education and the district has documented the lack of qualified, non-retired teachers. --H3696 (R200) General Appropriations Act, Part 1B Provisos, Section 1.30 and Part II Provisos, Section 82.

Also see "Deferred Retirement Option Plans."

**Tennessee.** Chapter 903, Laws of 2000, allows teachers who have been retired for at least one year to return to service without loss of benefits under certain conditions including district certification that no other qualified person is available; that the area is certified as lacking qualified teachers; the returning teacher is not eligible for tenure or additional retirement benefits; that appointments are for one year at a time; and certain salary limitations. The program will expire in 2005.

## **RETIREE HEALTH COVERAGE**

**Colorado.** H.B. 1458 provided that 30% of the amount of any reduction in the employer contribution rates that occurs on or after July 1, 2001, that amortizes any Public Employees Retirement System overfunding, be deposited in the Health Care Trust Fund, and that 20% of the amount be used to reduce employer contributions. (The law currently provides for 50% of the overfunding be used in the program to match voluntary contributions to defined contribution plans.) H.B.1215 provided for an increase in the state contribution for active state employees enrolled in the state's health plans, which will occur only if the reduction in the state's PERA contribution becomes effective July 1, 2000 (as provided by H.B.1458). The state's health, life, and dental contribution for its active employees would become \$160 per month for employee only coverage, \$230 per month for employee plus one, and \$316 per month for employee plus two or more coverage, effective December 1, 2000.

**Delaware.** S.B. 417 provides a mechanism for funding the state's post retirement health insurance premiums for the employees retired under the State Employees' plan. The appropriation resulting from this process will be accounted for in a separate Post Retirement Health Insurance Premium Fund managed by the Board and commingled with the other pension funds for investment purposes.

**New Hampshire.** S.B. 415 extends the state health insurance subsidy for retired members to qualified former local government employees.

**New Mexico.** H.B. 195 provided that the Retiree Health Care Authority may provide health care subsidies to retired employees based upon length of service rather than as an equal amount for each person. The bill will affect only people who enroll in the program after June 30, 2001. The change will extend the solvency of the Authority (a pre-funded plan) by five years.

## **RETIREMENT OPTIONS**

**California.** A.B. 1933 (on the governor's desk as of Sept. 20) would allow local school districts to extend the Rule of 85 to employees if agreed to by the employer and the employees' representatives. The bill also increases the age bonus for employees who retire on or after January 1, 2001, with at least 29 years of service. The legislation would also increase the "career bonus" for employees with 30 or more years of service.

A.B. 2456 (on the governor's desk as of Sept. 20) would allow retirees in the California State Teachers' Retirement System's defined benefit program to select a lump-sum payment and a

reduced annuity at the time of retirement. This provision replaced a DROP plan in that an earlier version of the legislation contained. The lump-sum payment could not exceed the lesser of

1. the actuarial present value of the difference between the monthly service allowance currently payable and an amount equal to 2% of the member's final compensation multiplied by the number of years of credited service and divided by 12 and
2. 15% of the actuarial present value of the monthly allowance payable.

**Colorado.** H.B. 1458 enacted the Rule of 80 for members of the Public Employees Retirement Association who have at least 5 years of service credit, minimum age 55..

Delaware. H.B. 115 reduces the penalty for early retirement from 4/10% per month of credited service to 2/10% per month of credited service.

**Hawaii.** S.B. 2859, § 115, part of the *Civil Service Reform Bill*, provided early retirement incentive options. Members of the contributory system of the Hawaii Employee Retirement System may retire without an actuarial reduction in benefits at age 50 with 10 years of service or at any age with 20 years of service (as opposed to 55/5 or any age/25 years of service). Members of the non-contributory system may retire without actuarial reduction at 57/10 or any age with 25 years of service (as opposed to 55/20). *Pending governor's action as of 6/7/2000.*

**Kansas.** H.B. 2624 provided for partial lump-sum distributions of retirement benefits for members of the regular Public Employee Retirement System, the police and firefighters' system and the judicial system. The lump-sum distribution may be no greater than 50% of the actuarial present value of the benefit. Effective July 1, 2001.

**Mississippi.** H.B. 1281 provided for partial lump-sum distributions of retirement benefits for members of the Public Employees Retirement System who are at least 63 years old and have at least 28 years of service and members of the Highway Safety Patrol Retirement System when they retire. At the time of retirement, members may withdraw a lump sum equal to 12, 24 or 36 months' benefit, at their discretion. Annuity benefits are to be actuarially reduced to prevent any loss to the system. The option is available only once, and is not available to retirees or survivors.

**Missouri.** H.B. 1808 extended the 25-years-and-out option for Public School Retirement System members until July 1, 2003. The option allows teachers to retire with a reduced benefit if they have at least 25 years of service and if their combined age and service years to not exceed 80.

**New Jersey.** Chapter 428, Public Law of 1999 (enacted January 2000), allowed members of the Police and Firemen's Retirement System (PFRS) with 20 years of service to retire with a retirement allowance of 50% of final compensation, regardless of age, and, if required to retire because of attaining the mandatory retirement age of 65, an additional 3% of final compensation for every additional year of creditable service up to 25 years; changed the basis on which the deferred retirement allowance is calculated from average final compensation to final compensation; changed the service eligibility for ordinary disability retirement from five years to four years of creditable service and provided for a survivor's pension after the death



of an active member for any cause (not just in the line of service). Previous law based retirement benefits on final average salary over three years.

**Washington.** SB 6530 reduced the normal retirement age for Plan 2 members of the Law Enforcement Officers and Fire Fighters' Retirement System to 53 (with at least 5 years of service as in existing law) and provided that LEOFF members who are at least 50 years old and have at least 20 years of service may receive a benefit reduced by 3% for each year the member is less than age 53.

SB 6530 also reduced early retirement reduction factors for members of PERS 2, PERS 3, SERS 2, SERS 3, TRS 2 and TRS 3 aged 55 with 30 years of service are lowered to 3% per year from age 65. Effective September 1, 2000.

## **SERVICE CREDIT/PURCHASE OF SERVICE**

**Alabama.** S.B. 267 gave firefighters and law enforcement officers (mostly local employees in both cases) one additional year of service credit for each five years of active service as "stress time" on a continuing basis. In return, the employee contribution rate was increased by 1% of salary. Those provisions are mandatory; the law provides for optional purchase of comparable stress time for previous years of service.

**Georgia.** S.B. 45 (Act 892 of the 2000 General Assembly) provided for purchase of military service credit for active duty whenever the draft was in effect, with a limit of two years' purchase. The purchaser will pay 5% of last compensation before duty or first compensation after duty plus interest at 4%. The legislation allows Viet Nam veterans to purchase such military service credit.

**Idaho.** H.B. 717 allowed active, vested Public Employment Retirement System of Idaho members to purchase up to 48 months of service in the PERSI plan. The full cost must be paid before retirement to be counted toward retirement.

**Iowa.** S.F. 2411 allowed members with five or more calendar years of covered wages to purchase time as a Canadian public school teacher.

**Minnesota.** 2000 Minnesota Laws, Chapter 461, Article 4, §§1,4, allow vested members of the Minnesota State Retirement System who failed to acquire service credit while on a military leave of absence or who performed service before becoming an MSRS member to purchase service credit for the full actuarial value, for specified service, if the member is not eligible for a military pension and has no service credit for the same service in another plan.

**Mississippi.** S.B. 2738 allowed up to four years of service credit for active military service to members of the Highway Safety Patrol Retirement System but explicitly not to members of other retirement systems.

**New York.** Assembly Bill 11418/Senate Bill 8142 provides one month of additional service credit for each year of credited service up to a total of two years of additional service credit for Tier 1 and Tier 2 members of the Teachers' Retirement System as of June 1, 2000; allows

benefits to exceed the maximum of 75% of final salary now in law; eligibility includes active service from April 1 2000 through the end of the 1999-2000 school year.

**Ohio.** S.B. 144 permits members of the School Employees Retirement System who resigned from covered employment due to pregnancy or the adoption of a child and later returned to covered employment to purchase up to two years service credit for the period of the resignation; allows members of the State Teachers Retirement System System who resigned from covered employment due to the adoption of a child and later returned to covered employment to purchase up to two years service credit for the period of the resignation.

**Oklahoma.** S.B. 1002 replaced the current grant of military service credits for members of the public employee, judicial and law enforcement systems with an option to purchase the same service. The bill also provided that both active and retired members of the system may receive up to five years' free service credit for military service irrespective of receipt of a federal military pension for that service.

**South Carolina.** S. 1204 repealed all existing provisions for purchase of service credit for the South Carolina Retirement Systems (SCRS, covering general state and local employees, education employees and educators) and replaced them with general provisions that make purchase of service available to almost all active members of the system. The new rules provide for purchase of qualified service at 16% of salary and nonqualified service for 35% of salary. Qualified service includes public employment, military service including the National Guard, approved leaves of absence, primary or secondary private school teaching (including teaching in sectarian schools) and withdrawn service. Non-qualified service includes any employment but is limited to purchase of five years service credit. The legislation allows several methods of payment: 401(k) deferral, installment loan and lump sum. The purchaser must be an active contributing member of the SCRS and must have five years of earned retirement credit to purchase non-qualified service. The service purchase rates will be in effect only for requests received by December 31, 2000.

The legislation also provided for the category of Special Monthly Contributor, which allows 25-year members of the system to purchase up to three additional years of service credit by paying the employee and employer contributions due on salary, with contributions to begin at the time of termination from covered employment.

**Vermont.** H. 688 allowed state employees and teachers who have 25 years of service credit in their Vermont retirement system to purchase up to five years additional service credit basically at its cost to the retirement system. The act increases the amount of purchasable credit for military service and certain other federal service from three to five years. It allows credit for leave for professional study for state employees, a provision already available to teachers.

## **STUDIES**

**Arizona.** H.B. 2079 created a 12-person Actuarial Computation Method Legislative Study Committee to examine and compare actuarial computation methods appropriate for the

Arizona State Retirement System and to report to the governor and legislature by December 1, 2000.

**Delaware.** H.C.R. 34 establishes a state employees pension task force to review Delaware's employee retirement benefit calculation rate and make recommendations to the General Assembly. The Resolution expresses concern that employee benefits in Delaware have not kept pace with those in the region.

**Iowa.** The Iowa Public Employees Retirement System (IPERS) issued an RFP for professional consultants to assist the Task Force on IPERS Structure and Government to assist the task force in recommending to the governor changes to make IPERS more effective, efficient and responsive to its members. S.F. 2411 requires IPERS to study ways to give members greater portability of pensions into and from IPERS after IPERS covered employment has ended.

**Kansas.** Interim study topics for 2000 will include a review of early retirement incentive programs in community colleges and school districts; an optional employer match for the Section 457 plan; a new retirement option for legislators; a retirement option plan for legislative staff; establishment of the Kansas Public Employees Retirement System as an independent state authority; and further changes regarding service of public employees after retirement than were provided in H.B. 2624.

**Mississippi.** H.B. 1281 provided that the Board of Trustees of the Public Employees' Retirement System shall conduct a comprehensive study of the feasibility of providing a health insurance program for all retired public employees, using funds appropriated by the Legislature. The study shall be completed by December 15, 2000.

**Montana.** H.B. 79 of the 1999 session called for interim oversight of the Public Employees' Retirement Board implementation of a new Defined Contribution (DC) retirement throughout the 1999-2000 interim.

**Nebraska.** Legislative Resolution 336 called for an interim study of the General Principles of Sound Retirement Planning (a document the Nebraska legislature uses to evaluate retirement policy issues) and the benefit adequacy of each of the five Nebraska retirement systems.

**New Mexico.** The Educational Retirement Board, the Department of Education and legislative staff will study options for better recruitment and retention of teachers and report to the legislature in the fall of 2000.

**South Dakota.** H.B. 1002 requires appointment of an independent actuary to review equity issues in SDRS. The act requires the study to include the class A alternate formula, class differences, length of service issues, purchase of credited service, cost of living allowance, death and disability benefits, married members, members with younger spouses, life expectancy, early retirement, and re-employment after retirement.

## TAXATION

**Georgia.** H.B. 1159 increased the income tax pension exclusion to \$13,500 for tax year 2000 and to \$14,000 for tax year 2001.

**Maine.** The first \$6,000 of income from private and public pensions was exempted from state income tax. (budget bill)

**West Virginia.** S.B. 669 exempted the first \$30,000 in income from U.S. military pensions from the state income tax.

## VESTING

**Alaska.** S.B. 85 provides that a member of the Public Employees' Retirement System (PERS) with at least two years paid service credit may use service credit in the Teachers' Retirement System (TRS) to vest in PERS. [The vesting requirement for PERS is five years and in TRS is eight years.] Funds will be transferred from TRS to PERS to cover benefit allowances paid as a result of this provision.

**Florida.** H.B. 2393 reduced the vesting requirement for active members of the Florida Retirement System (FRS) defined benefit plan whose present vesting requirement is 10 years to six years (certain classes of members within FRS already had vesting requirements of seven or eight years). The reduction is effective on July 1, 2001. Regular class members of FRS who are not employed by a covered employer on July 1, 2001, with 6 to 10 years of prior service, must be re-employed and complete one work year of service to take advantage of the reduced vesting requirement.

**Maine.** L.D. 2614 changed the vesting requirement for all employees for whom it was not reduced in 1999 from 10 years to 5 years, which affects legislators, judges and employees of local governments who belong to the state system. The 1999 legislation similarly changed the vesting requirement for state government employees and teachers.

**Vermont.** H. 688 reduced the vesting requirement in the teachers' retirement system from 10 years to five years.

## WITHDRAWN CONTRIBUTIONS

**Hawaii.** S.B. 2369 authorized members of the contributory system to make a one-time withdrawal of funds from the member's contributions in the event of economic hardship, which the bill defines broadly. Members who withdraw funds shall be refunded all of their contributions, shall be transferred from the contributory system to the noncontributory system and shall not be required to make any further contributions. *Pending governor's action as of 6/7/2000.*

**Ohio.** S.B. 144 required the Public Employees' Retirement System (PERS) to credit member contributions with interest (not required by current law since 1959); provided for

interest rates and the method of calculating and compounding interest; provided that when a member withdraws contributions, PERS will refund an additional amount equal to 33% of the employer's contributions for members with 5 – 10 years of service and an amount equal to 67% for members with at least 10 years of service; and provided for coordination of service among PERS, the State Teachers' Retirement System and the School Employees' Retirement System.

## LEGISLATION LISTED BY STATE

The table below shows the states for which this report lists legislation (indicated by a bill or chapter number following the name of the state; the states that had no regular legislative session in 2000; the states that completed sessions but which did not enact legislation that addressed the issues included in this report—indicated by “No legislation to report here;” and the states that had not completed their sessions when this report was issued—indicated by “Legislation possible later in 2000.”

Alabama	S.B. 267
Alaska	S.B. 85
Arizona	H.B. 2079; H.B. 2238; S.B. 1328; S.B. 1463
Arkansas	No session
California	Chapter 74, Statutes of 2000; A.B. 1933; A.B. 2456; further legislation possible later in 2000
Colorado	H.B. 1215; H.B.1225, H.B. 1458
Connecticut	Public Act 00-192
Delaware	H.B. 115; H.C.R. 34; S.B. 417
Florida	H.B. 2393
Georgia	S.B. 45
Hawaii	S.B. 2369, S.B. 2859 § 115
Idaho	H.B. 510, H.B. 511, H.B. 717, H.B. 760
Illinois	Legislation possible later in 2000
Indiana	S.B. 64
Iowa	S.F. 2411
Kansas	H.B. 2034, H.B. 2624
Kentucky	No legislation to report here
Louisiana	No legislation to report here
Maine	L.D. 2510, L.D. 2614
Maryland	H.B. 605
Massachusetts	Chapter 114 of the Acts of 2000 (H.B. 5116)
Michigan	Legislation possible later in 2000
Minnesota	2000 Minnesota Laws, Chapter 461, Article 1, § 3; Article 4, §§1,4
Mississippi	H.B. 1281, S.B. 2738
Missouri	H.B. 1808
Montana	No Session
Nebraska	No legislation to report here
Nevada	No session
New Hampshire	S.B. 415
New Jersey	Chapter 415, Public Laws of 1999; Chapter 428, Public Laws of 1999
New Mexico	H. B. 195
New York	Assembly Bill 11418/Senate Bill 8142; Chapter 86, Laws of 2000. Additional legislation possible in 2000.
North Carolina	Section 8.24 of Session Law 2000-67 (H.B. 1840)
North Dakota	No session
Ohio	S.B. 144, S.B. 190, H.B. 628.

Oklahoma	S.B. 1002
Oregon	No session
Pennsylvania	Legislation possible later in 2000
Rhode Island	Chapter 334 and Chapter 349, Laws of 2000,
South Carolina	Acts 268 and 567 of the 2000 Session; H. 3696
South Dakota	S.B. 6
Tennessee	Chapter 903, Laws of 2000
Texas	No session
Utah	HB 109
Vermont	H. 688
Virginia	Not specified
Washington	S.B. 6530
West Virginia	H.B. 4317, S.B. 669
Wisconsin	No legislation to report here
Wyoming	H.B. 75