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PENSIONS AND RETIREMENT PLAN ENACTMENTS IN 2003 STATE LEGISLATURES

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INTRODUCTION. This report summarizes selected pensions and retirement legislation that state legislatures enacted in 2003. We have reviewed legislation enacted in all 50 states through October 31, 2003. The report also includes a few items of legislation enacted too late in 2002 for inclusion in the 2002 report.

The sources of this report are retirement systems' Web sites and direct communication with legislative staff and retirement system staff. We are grateful to the many legislative staff who write and share summaries of their Legislatures' acts, the many retirement system staff throughout the United States who have posted legislative summaries on their web sites, and the staff of legislatures and retirement systems who have taken time to identify and explain legislation and its context to us.

Our goal has been to include information that will help policy makers know how other states have addressed issues that could arise in any state. For that reason we exclude most clean-up legislation, cost-of-living adjustments, administrative procedures and technical changes that are state-specific. This report is organized by a list of the topics that legislatures addressed in 2003. The following summarizes action on the issues that received the most attention in 2003, in terms of the volume of legislation. Following it is a list of the topics the report covers and summaries of legislation, organized by topic.

Contribution Rates and Funding Issues

Fiscal, economic, and funding concerns dominated state retirement legislation in 2003.

- A number of states--California, Illinois, Kansas, New Jersey, Oregon, West Virginia and Wisconsin--authorized pension obligation bonds to address state or local current funding issues or actuarially accrued unfunded liabilities. New York authorized local governments to bond for any contributions in excess of 7 percent of salaries for FY 2005.

- Some states increased mandatory contribution rates by statute, including Connecticut, Florida, Kansas, Massachusetts, Missouri, Nebraska and Washington. Many states do not require legislation to increase contribution rates.

- Some states limited the mandatory contributions of state agency employers and local governments in order to phase in substantial increases in contributions (Colorado, Missouri, New York and New Jersey) or otherwise provided temporary fiscal relief to local governments (Massachusetts). The Colorado legislation was vetoed.

- Some states prohibited benefit increases until pensions systems' finances improve (Missouri and New Jersey)

- Oregon completely reorganized the Public Employee Retirement System to address an unfunded accrued liability that had grown from less than one billion dollars in 1999 to approximately $15 billion in October 2002.

Early Retirement Incentives

At least eight states--Connecticut, California, Indiana, Maine, Michigan (in late 2002), Missouri, New Jersey and Texas--made early retirement incentive programs available to state employees or local government employees in 2003, in part to reduce or control the number of state employees in light of current state fiscal difficulties. Indiana, Maine and Texas adopted the unusual procedure of making cash payments to employees who took advantage of the early retirement incentives. Six states adopted such programs in 2002.

Governance

The reorganization of retirement system boards of trustees in Maryland and Oregon was in both states at least in part because of issues related to financial management.

Health Coverage

Health coverage for retirees was an issue in several states. California increased the minimum employer contribution for agencies that contract with the Public Employees Retirement System for health benefits and provided that after 2008 the minimum payment will be adjusted annually to reflect changes in the medical care component of the consumer price index. Kentucky, New Hampshire and Texas tightened eligibility for future retiree health benefits through minimum service requirements. Texas also enacted a levy on active Teachers Retirement System members for retiree health insurance; the levy will increase over time. Connecticut increased active teachers' and the state's payments to cover health insurance for retired teachers who are not eligible for Medicare, and also increased the beneficiaries' copayments.

LEGISLATORS' RETIREMENT PLANS

Several states made relatively minor adjustments in their legislative retirement plans to increase flexibility for legislators who previously were or subsequently become eligible for other state retirement programs, probably reflecting shorter legislative terms and term limits. Three states made more significant changes. Illinois reduced potential retirement benefits for long-term legislators. New Mexico created new optional retirement programs that would require higher contributions from legislators and increase potential benefits. Oregon will allow future legislators either to join its new Oregon Public Service Retirement Plan, join the state deferred compensation plan, or opt out of a retirement benefit based on legislative service.

RE-EMPLOYMENT AFTER RETIREMENT

Easing or removing restrictions on collecting retirement benefits when a retiree returns to covered employment was again an important issue in 2003, as it has been in the last few years. Ten states enacted such legislation in 2002, and 20 did so in 2001. New legislation in Connecticut, Florida, Illinois, Missouri, Montana, New Mexico, North Dakota, and Texas facilitates retired teachers' return to covered employment. Alaska allowed a retiree covered by the Public Employee Retirement System to enter teaching and earn credit in the Teachers' Retirement System within one year.

New York authorized local governments to hire retirees to fill in for activated employees without the replacement losing retirement benefits; Colorado enacted somewhat similar legislation. Maryland and West Virginia legislation eased the return of certain retired public safety personnel to covered employment. New Mexico legislation allows any retired public employee to return to covered employment without a loss of retirement benefits, but the returning employee must contribute to the retirement fund without earning any additional service credit.

LIST OF TOPICS

- Benefit Cap
- Conformity with provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTERRA)
- Contribution rates and funding issues
- Deferred Compensation Plans/Optional Retirement Plans
- Defined Benefit Plan Changes
  (including partial lump-sum options)
- Defined Benefit Plan – New
- Defined Contribution Plans For Broad Categories of Employees
- Deferred Retirement Option Plans
- Disability
- Early Retirement Incentives
- Governance
- Guarantee of Benefits

- Health Coverage
- Investments
- Legislators' Retirement Plans
- Loans
- Re-employment after Retirement
- Retirement Eligibility
- Service Credit/ Purchase of Service/ Transfer of Credit
- Special Pay Plans
- Studies
- Taxation
- Vesting
- Withdrawn Contributions

BENEFIT CAP

Louisiana. SB 428 provides that retirement benefits provided by existing law shall not exceed 100%, and when a member has earned a benefit accrual equal to 100% no further contributions shall be required of him. However, the state shall continue to pay to the system the employer's contribution.

CONFORMITY WITH PROVISIONS OF THE ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001 (EGTERRA)

Alaska. HB 254
North Dakota. SB 2057

CONTRIBUTION RATES AND FUNDING ISSUES

California. Chapter 11, Statutes of 2003 (SBX1 29) authorized the sale of pension obligation bonds to fund or refund the state's pension obligations. The act also authorizes the Pension Obligation Bond Committee, as established by the bill, to bring an action to determine the validity of the bonds issued pursuant to the act. According to the Legislative Analyst's Office, the bonds would be repaid over five years.

The plan to issue bonds for $1.9 billion was blocked as unconstitutional by a justice of the state supreme court on September 24, 2003.

In addition, the budget reduces a payment to the State Teachers' Retirement System supplemental benefit program (which protects retirees' benefits from the effects of inflation) by $500 million on a one-time basis (reported by the Legislative Analyst's Office).

Colorado. SB 101, vetoed by the governor, would have limited year-over-year employer contribution rate increases, providing among other things that rates would have remained constant when the Public Employees' Retirement Association's funding ratio is between 95 percent and 110 percent, be amortized over 30 years when the ratio is between 85 percent and 95 percent, and be amortized over 20 years when the funding ratio is below 85 percent or above 115 percent. The bill would have frozen employer contributions until July 1, 2004, for state, school and judicial employers. The bill also included a ceiling on the year-over-year employer contribution rate increase. In the wake of the veto, the contribution rate for state and school division employers will increase from 10.04 percent in FY 2002 to 10.15 percent for FY 2003.

Connecticut. PA 03-6 requires that the state's contribution to the state employee retirement fund for FY 2004 and FY 2005 be revised to take the costs of the early retirement incentive program into account.

Florida. Chapter 2003-260 changed employer contribution rates for Florida Retirement System pensions. Increases included the contribution rate for regular members going from 5.76 percent for FY 2002 to 7.39 percent for FY 2003; for legislators and the governor, from 9.41 percent to 12.49 percent, and for county, city and special district elected officers, from 11.86 percent to 15.23 percent. Full details at http://www.frs.state.fl.us/frs/public/conrate/2003_contribs.htm .

Illinois. HB 2660 authorized the sale of $10 billion in pension obligation bonds to pay the state employer's contribution to the State Employees' Retirement System of Illinois; the Teachers' Retirement System of the State of Illinois; the State Universities Retirement System; the Judges Retirement System of Illinois; and the General Assembly Retirement System for 2004 plus a remaining amount due for 2003 (about $2.16 billion in all). The remainder will be used to reduce the accrued unfunded actuarial liability .

Kansas. HB 2014 provides for annual increases in the state employer contribution to the Kansas Public Employees Retirement Fund (KPERS) from 4.58 percent for FY 2004 to 7.58 percent for FY 2010. The bill also suspends state and local government contributions for the Death and Long Term Disability Benefits plan administered by KPERS from April 1, 2003 throught June 30, 2004 for a savings of nearly $28 million.

HB 2014 also authorized, but did not require, three bond issues:

- The Secretary of Administration was given discretion to issue up to $15.5 million in revenue bonds to finance the unfunded actuarial liability that would ensue to KPERS as a result of the legislature's transferring a closed group of higher education and University of Kansas Hospital Authority active, inactive and retired employees to KPERS. The bonds would be for 10 years and would be repaid by the regents and the hospital authority from appropriated funds. The group members are presented covered by defined contribution plans.
- A second bond authorization in the amount of $24.9 million would transfer the "13th check" for a closed group of about 15,000 KPERS members into a guaranteed benefit. 13th checks have been funded from fund investment returns above forecast. This provision would guarantee the benefit for the lives of the beneficiaries. The 10-year bonds would be repaid with increased state employer contributions beginning in 2005. An additional unfunded accrued liability will be unbonded and will be covered by an increase in the local government employer contribution beginning in 2005.

- Third, the legislation authorizes the issue of as much as $500 million of revenue bonds to offset the unfunded actuarial liability of KPERS (presently $1.5 billion), subject to the decision of the State Finance Council whether to issue such bonds. The council may also decide whether to issue taxable or untaxed bonds. The council itself will be advised by the Joint Committee on Pensions, Investments and Benefits after the committee studies the issue. The purpose of the proposed bond issue is to produce long-term savings in employer contributions.

Maine. Chapter 20, PL 2003, the budget bill, lengthened the amortization period of the unfunded actuarial liability for the Maine State Retirement System (MSRS) for the two years of the 2004-05 biennium. At the end of the 2004-05 biennium the amortization period is re-shortened, to the period it would have been absent the lengthening for the biennium. The Constitutionally-required amortization period for payment of the UAL is 31 years or less from July 1, 1997.

Massachusetts. Chapter 46, Acts of 2003, Section 128 allows local governments and authorities the option of reducing their appropriations for the unfunded accrued liability portion of their pension obligation for FY 2004 and 2005. Appropriations must meet or exceed normal cost; the reduction may not exceed the reduction a city or town received in local aid according to 2002 and 2003 legislation; the reduction must be approved by the state Department of Revenue and the Public Employee Retirement Administration Commission; and no reduction may occur if the local government has access to certain reserve funds.

Missouri. HB 152 provides that the contribution rate for the Public School Retirement System (PSRS) shall rise no more than one-half of 1 percentage point at year, and the rate for the Non-Teacher Retirement System (NTRS) by no more than one-quarter of 1 percentage point a year. No legislation is to be enacted after July 1, 2003, to increase benefits to plan participants until the contribution rate is equal to or less than that in effect on July 1, 2003.

HB 346 enacted contribution rate increases at the cap specified in HB 152 and specified that no benefit enhancements may be enacted until the contribution rate equals 10.5 percent for PSRS and 5 percent for NTRS.

HB 221 requires county recorders of deeds to collect an additional $1 on each document or instrument recorded to be contributed to the County Employees Retirement Fund.

Nebraska. LB 320 raised the contribution rates for the judges' retirement system, beginning July 1, 2003, from 6 percent to 8 percent of salary, for judges with less than 20 years of service. It also initiates a 4 percent contribution for judges with more than 20 years service. (It takes 20 years to earn the maximum retirement benefit in the judges retirement plan.)

Court fees are increased by the bill from one to five dollars. Fees accrue for all civil and criminal cases, traffic misdemeanors or infractions, and city and village ordinance violations filed in the district and county courts. Fees are, in effect, the state matching contribution for the judges plan. [The changes prescribed in LB 320 are meant to improve the financial condition of the judges system.]

New Jersey. Chapter 108, P.L. 2003, reduces for four years the pension contributions that local employers must make to the Public Employees' Retirement System of New Jersey (PERS) and the Police and Firemen's Retirement System (PFRS).

The State Treasurer will reduce local employer PERS normal and accrued liability contributions to be a percentage of the amount certified annually by PERS as follows: 20% for payments due in State fiscal year 2005; not more than 40% for payments due in State fiscal year 2006; not more than 60% for payments due in State fiscal year 2007; and not more than 80% for payments due in State fiscal year 2008. Local employer PFRS normal and accrued liability contributions will similarly be reduced.

The law also provides that, for the respective four-year periods during which local public employers' pension contributions to PERS and PFRS will be reduced, and for the year thereafter when the employers would again be subject to the full contribution requirement, the affected contribution payments shall be exempt from the limits imposed by the local budget "cap" law.

Chapter 15 and chapter 42, Laws of 2003 (S-109 and 2-577), allow local governments to issue refunding bonds to retire the unfunded accrued liability resulting from the granting of early retirement incentive benefits to employees of their local units under the State's various pension systems. In essence, the bill would permit local units to "refinance" certain of their existing pension liabilities.

The unfunded liability of a local unit accrues interest at 8.75 percent, the actuarially established rate of return for the State's various pension systems. This bill would allow a local unit to issue refunding bonds to fund the present value of the accrued liability, effectively financing an existing debt at a lower rate of interest. This bill would offer this option to counties, municipalities, boards of education and local boards, authorities and commissions that have unfunded liabilities due to early retirement incentive benefits granted under the 1991 and 1993 laws, and under P.L.1999, c.59.

The Office of Legislative Services notes:

- At present, according to the Division of Pensions and Benefits, hundreds of local units have individual unfunded liabilities within the State administered pension systems. These unfunded liabilities were created when eligible employees of a local unit accepted the early retirement incentive benefits offered by the local unit pursuant to a series of laws adopted and effective in 1991 and 1993, and pursuant to P.L.1999, c59. These unfunded liabilities must be paid off by the local unit over a period of thirty-three years, although some local units have opted to fund the liability over shorter periods of time. In CY 2000, these units made payments in excess of $66 million on these debts. As of June 30, 1999, the present value of these debts were believed to exceed $594 million.

New Mexico. Chapter 86, laws of 2003 (SB 621) requires operators of oil and gas interests to withhold 6.75 percent from payments to out-of-state royalty and working-interest owners to support changes made in the Legislative Retirement fund. Receipts are deposited in the Tax Administration Suspense Fund. According to the Legislative Council Service, the legislation reflects a suspicion, supported by another state's experience, that out-of-state royalty owners do not always report royalties for income tax purposes; the goal of the legislation is enhanced income tax collection to support the retirement plan changes.

New York. Chapter 49, Laws of 2003, restructures the way state and local government members of the New York State and Local Retirement Systems make employer contributions to the systems. Annual minimum contributions of 4.5 percent of salaries will be required, with no suspension in the future, contrary to past practice, to establish a continual funding stream and build assets even in years when investment performance would allow a lower contribution.

The calculation of contributions will be changed to inform employers of their obligation for a coming year in time to plan for it in budgets. This will prevent the state government from delaying contributions, although it still will be able to do so in FY 2004 since the full required contribution was not budgeted.

For FY 2004-2005, local governments will be permitted to bond any contributions in excess of 7 percent of estimated salaries. In addition, the state comptroller may allow state and local governments to amortize required contribution above 7 percent of salaries over five years. Employers who do so will be required to pay 8 percent interest on the amortized amount.

Without these provisions, contributions for state and local governments would rise to 11 percent of payment for the Employee Retirement System for FY 2004 and to 15 percent of payroll for the Police and Fire Retirement System. They will rise to that for the following fiscal year, but governments are informed in time to address the budget issue. The required FY 2004 contributions from state and local governments have been reduced from an estimated $2.7 billion to $1.13 billion.

North Carolina. The General Assembly authorized a payment of $10 million to the employee retirement funds toward the employer contribution funds withheld in 2001.

Oklahoma. HB 1278 established a lottery, subject to approval by the people. Five percent of the proceeds are earmarked for the Teachers Retirement System.

SB 206 redirected $85.8 million in insurance premium taxes from pension funds for general budgetary purposes. The Insurance Premium Tax generates $144 million a year. SB 206 provides that the tax, most of which is dedicated to the Oklahoma Police Pension and Retirement System, Oklahoma Firefighters Pension and Retirement System and the Oklahoma Law Enforcement Retirement System, will be diverted for one year in order to help balance the state budget. In return, the three retirement systems will be repaid over five years in an amount equal to the principal plus 7.5% beginning July 1, 2004.

SB 643 requires the employer's contribution rate for OPERS members to increase by 1% beginning July 1, 2006, and to increase by 1% each year thereafter until 2012.

Oregon. HJR 17 submitted a constitutional amendment to the vote of the people, to allow the state to issue general obligation bonds to finance the State of Oregon's pension liabilities.

The voters approved the referred issue on September 16, 2003.

HB 2003, 2004 and 3020 required the board of the Public Employee Retirement System to recalculate employer rates to reflect the effects of all bills passed pertaining to PERS. The new rates are effective July 1, 2003.

Washington. HB 2254 increased contribution rates the following plans:

- Public Employees' Retirement System (PERS) Plan 2
- Teachers' Retirement System (TRS) Plan 2
- School Employees' Retirement System (SERS) Plan 2
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2.

Effective July 1, 2003

	OLD	NEW	Change
PERS Plan 2	0.65%	**1.18%**	0.53%
LEOFF Plan 2	4.39%	**5.05%**	0.66%

Effective September 1, 2003
Most members will see the change in September paychecks. Member contribution rates changed as follows:

	OLD	NEW	Change
SERS Plan 2	0.35%	**0.85%**	0.50%
TRS Plan 2	0.15%	**0.87%**	0.72%

West Virginia. HB 2592 increased employer contribution rates to PERS to 10.5 percent effective July 1, 2003.

SCR 35 authorized the Secretary of Administration to issue bonds in an amount not to exceed $3.9 billion to fund the Teachers' Retirement System, Trooper A Plan, and the Judges' Retirement System.

CREDIT FOR ACCRUED LEAVE

(No entry)

DEFERRED COMPENSATION PLANS/OPTIONAL RETIREMENT PLANS

Texas. HB 264 permits institutions of higher education to make contributions to employees' optional retirement plans.

Virginia. SB 849 authorizes institutions of higher education to establish optional retirement plans for teaching, administrative, or research employees, as an alternative to the Virginia Retirement System ("VRS") defined benefit retirement plan. Provides for review of new plans by VRS, requires substantial conformity to VRS policies, and requires reporting to the Legislature. Outlines membership and transfer requirements, and establishes exceptions.

DEFINED BENEFIT PLAN CHANGES (INCLUDING PARTIAL LUMP-SUM OPTIONS)

Alaska. HB 254 changes the number of years for calculation of average monthly compensation for peace officers and fire fighters from five years to three years.

Maryland. Chapter 229, Laws of 2003, allows retired members of the Employees' and the Teachers' Retirement and Pensions Systems eligible for a vested retirement allowance to convert it to a lump sum payment if the monthly vested allowance is less than $50.

Missouri. HB 346 provides for a partial lump sum option for members of the Public School Retirement System (PSRS) and the Non-Teacher Employee Retirement System (NTRS) who have either 33 years of creditable service or whose age and service total 86 or more. Members may choose a lump-sum of either 1, 2 or 3 times the annual retirement allowance. Lifetime benefit is actuarially reduced accordingly, providing cost neutrality.

HCS for HB 347 and 348 provides a partial lump sum option for members of the Local Government Employees Retirement System eligible for normal retirement at age 60 in the amount equal to 24 months of the member's monthly annuity. Election of this option reduces the lifetime monthly annuity by 16%.

New Jersey. Chapter 108, P.L. 2003**,** provides for an increase to the special retirement benefit for members of the Police and Firemen's Retirement System (PFRS) beginning with the fiscal year following the adopted valuation report for the retirement system which indicates a funded level in excess of 104%. PFRS members who have 25 or more years of service are currently eligible for a pension of 65% of final compensation, plus 1% of final compensation multiplied by the number of years of creditable service over 25 but not over 30 (70% maximum). This law will increase that benefit to a pension of 70% of final compensation, plus 1% of final compensation for each year of creditable service over 25 but not over 30 (75% maximum) once the funded level exceeds 104%.

The law also provides for the establishment in PFRS of a benefit enhancement fund to which will be credited an amount of excess valuation assets for the valuation period beginning with the valuation report which indicates a funded level of 104%. The amount of excess valuation assets credited to the benefit enhancement fund will not exceed the present value of the expected additional normal and accrued liability contributions attributable to the increase in the PFRS special retirement benefits payable on behalf of the active PFRS members. No additional excess valuation assets will be credited to the benefit enhancement fund after the maximum amount is attained. The normal and accrued liability contributions for this increase in PFRS benefits for active employees will be paid from the benefit enhancement fund. If fund assets are insufficient to pay those contributions for a valuation period, the retirement system will pay the amount not covered by assets from the benefit enhancement fund.

New York. Chapter 167, Laws of 2003, allows retiring members to elect a lump-sum benefit payment in lieu of a maximum service retirement pension that would total $2,400 per year or less. Previously, only members who would have a maximum pension of $1,000 per year or less had this option. Enables certain current service retirees, as well as certain beneficiaries currently receiving a lifetime benefit (other than a Tier 3 or 4 accidental death benefit), to "cash out" their benefit entitlements if their annual benefit is no more than $2,400 per year.

North Dakota. SB 2057 creates a partial lump sum distribution option (PLSO) for members of the Teachers' Fund for Retirement eligible for an unreduced retirement annuity to provide a lump sum cash payment in exchange for a permanent monthly benefit reduction.

- Member makes a one time election at retirement to receive a lump sum payment equal to 12 times the amount of the Single Life Annuity payable at the same time the monthly retirement annuity begins.
- The monthly retirement option selected is actuarially reduced to reflect the partial lump sum payment.
- This option is not available to members who select the level income option, members receiving disability benefits, or to beneficiaries of deceased members.

Oklahoma. SB Bill 643 allows for most members of the Oklahoma Public Employees Retirement System (OPERS) to make an election to increase or "step-up" the computation factor for all future service from 2% to 2½%, effective January 1, 2004. The step-up election is irrevocable and is binding for all future employment under OPERS, even if there has been a break in service. This step-up election is available for all state, county and local government employees, except for elected officials and specified public safety categories of employees. After January 1, 2004, the election can be made at any time and will be effective the first day of the month following the election. Those making the election will also pay a higher or stepped-up contribution rate, currently an additional 2.91%.

HB 1440 provides a partial lump sum option for Teachers Retirement System members, permitting a payment equal to 12, 24 or 36 months' benefit with a commensurately reduced lifetime benefit. Only members with 30 or more years of credited service are eligible for the option.

Oregon. HB 2001, 2003 and 3020 provide that Tier One regular member accounts may not be credited earnings in coming years until the deficit reserve account has been eliminated. Accounts may not be credited with a level of earnings that would create a new deficit reserve. Tier One regular accounts may be credited in excess of the assumed rate only after the deficit reserve account has been eliminated and the Tier One assumed rate reserve account is fully funded in each of three previous calendar years.

The limit on earnings crediting does not apply to any Tier One member who retires before April 1, 2004 or to judges (who are judge members on June 30, 2003). Only earnings on Tier One regular accounts may be used to eliminate the deficit account. The measures also eliminated the five-year limitation on a deficit reserve account.

Each Tier One member will have a minimum account balance guarantee if they retire on or after April 1, 2004. At the time of retirement, the regular account may be no less than what it would have been if it had been credited with the assumed interest rate (currently 8%) in every year the account existed. PERS must make an adjustment to the member's regular account if the account balance does not meet this test.

HB2003, 2020 and 3020 provided that Tier One and Tier Two members may not contribute or transfer funds to the Variable Annuity Account after January 1, 2004. Those accounts will continue to gain or lose interest earnings on existing balances.

Also starting January 1, 2004, the six percent employee contribution for Tier One and Tier Two members may not be made to a member's PERS account. Active members must instead make payments equaling six percent of their salary to the individual account program (IAP) portion of the Oregon Public Service Retirement Plan (set up for new hires per HB 2020). Each member will have a separate account that will be credited with earnings and losses over the lifetime of the account.

[Tier One, closed in 1996, provides member accounts to which member and employer contributions were credited. They were credited with interest earnings, in recent years guaranteed at 8 percent annually. When a member retired, the member's benefit calculation was based on accumulated contributions in member and employer accounts plus earnings and alternatively as a benefit based salary and years of service. The member received a benefit based on the higher result. In the recent past, the 8 percent earnings guarantee so far exceeded actual investment earnings as to create a very large accrued actuarial deficit that exhausted the deficit reserve (accumulated from investment earnings in excess of guarantees) and created a negative reserve. This legislation is part of an effort to bring the plan back into balance. It is currently challenged in the courts -- 10/03.]

DEFINED BENEFIT PLAN – NEW

OREGON. HB 2020 established a successor retirement plan, the Oregon Public Service Retirement Plan (OPSRP). The new plan consists of a defined benefit program (the pension program) and a defined contribution portion (the individual account program or IAP). OPSRP will be governed by the PERS Board and administered by the PERS agency. The Oregon Investment Council will make investments on behalf of the plan.

New public employees hired on or after August 29, 2003, become part of OPSRP. Tier One or Tier Two PERS members who have a six-month service break will become a member of OPSRP when rehired for any subsequent employment. Beginning January 1, 2004, all current PERS member contributions will go into the Individual Account Program (IAP) portion of OPSRP (see "Employee Contributions" section, above).

The pension portion of the OPSRP provides a life pension funded by employer contributions. The formula for the life pension and retirement age varies for general service and police and fire members.

	Pension Calculation	Retirement Age
General service	1.5 percent × final average salary × years of service	65 or 58 with 30 years of retirement credit.

Police and fire	1.8 percent × final average salary × years of service	60 or 53 with 25 years of retirement credit

OPSRP members are required to contribute six percent of their salary to the individual account program (IAP). Each member will have a separate account that will be credited with earnings and losses over the lifetime of the account. At retirement, the amount in a member's IAP will be distributed to the member in a single lump sum or an employee may opt to receive installment payments over 5, 10, 15, or 20 years.

Employers are allowed to agree to pay the six percent contribution ("pick up"). An employer picking up the employee contribution must do so until December 31, 2005. The employer must continue picking up the contribution after this time, unless the employer notifies the PERS Board in writing of a change in the employer's policy.

Wisconsin. 2003 Wisconsin Act 33, Section 181 ff (the budget act), authorizes the issuance of $1.35 billion in revenue obligation or appropriation obligation bonds, $750 million of which would be to pay all or part of the state's unfunded prior service pension liability, and the remaining $600 million of which would cover the state's unfunded liability for its accumulated sick leave conversion credit program. Revenue obligation bonds would be funded by the state's excise taxes on alcoholic beverages, cigarettes and other tobacco products. Appropriation obligations are payable from annual general revenue appropriations and are not considered debts of the state. Both kinds of issue would be considered moral obligations of the state.

DEFINED CONTRIBUTION PLANS FOR BROAD CATEGORIES OF EMPLOYEES

Oregon. See "Defined Benefit Plans -- New."

Virginia. HB 1986 provides that the Commonwealth, the Board of Trustees of the Virginia Retirement System ("VRS"), the employees of VRS, and the Investment Advisory Committee of VRS shall not incur any liability for losses suffered by deferred compensation and defined contribution retirement plans administered by VRS.

DEFERRED RETIREMENT OPTION PLANS

Oklahoma. SB Bill 668 and HB 1464 created a "Back" DROP for members of the three statewide public safety retirement plans. The "Back" DROP allows the members who have worked for more than 20 years to decide retroactively to have service in excess of 20 years (up to a total of five years) to be treated as though the member had entered a DROP plan upon completing 20 years of service. A member, however, cannot receive credit to the DROP account any years prior to when the member reached his normal retirement date. The member's regular retirement benefit will not take into account any years of service credited to the "Back" DROP. The systems' actuary has advised that that the fiscal impact of the "Back" DROP is negligible.

DISABILITY

Alaska. HB 254 allows a disabled peace officer or fire fighter to elect the higher of their disability benefit or their normal retirement benefit upon reaching normal retirement age. Currently, they are automatically converted to a normal retirement benefit, which often has the effect of reducing their pension benefit.

North Carolina. HB 397 rewrote definitions of disability for the short- and long-term disability plans to change the definition of short-term disability from "no longer able to perform his usual occupation" to "unable to perform the duties of the participant's job or any other available jobs with the State…" and the definition of long-term disability from "mentally or physically incapacitated for the further performance of duty" to "unable to perform any occupation for which the beneficiary or participant is reasonably qualified for by training or experience …."

Oklahoma. SB 643 provides that an member of the Public Employees Retirement System (OPERS) who has retired under early retirement provisions, and who becomes qualified for a disability benefit under OPERS plan provisions with a disability date on or after July 1, 1999 can apply to receive disability benefits in lieu of the early retirement benefits

Utah. Chapter 241, Laws of 2003, requires that all public safety employees covered by the Utah State Retirement System be provided with long-term disability insurance.

Virginia. HB 1622 clarifies that state disability benefits are not to be offset by certain benefits received by a participating employee for service in the U.S. armed forces.

EARLY RETIREMENT INCENTIVES

Connecticut. P.A. 03-2 establishes an early retirement incentive program for active full-and part-time state employees who retire directly from state employment between March 1 and June 1, 2003. The incentive allows an eligible employee to add up to three years to his age or service credit. The credit must be applied first to the employee's actual age to reach age 55, with any remainder added to his service. Additional credit for hazardous duty members must be applied to their service. (Hazardous duty members may retire after 20 years' hazardous duty service regardless of age.) Credit must be applied in one-month units.

Provisions include an age requirement of 52; 10 or 20 years of actual service depending on service category; eligibility for laid-off employees who would have been eligible had they not been laid off; and restrictions on return to work. The legislation also contained restrictions on replacing employees who take early retirement.

An employee who was laid off or whose position was abolished between November 1, 2002, and May 31, 2003, who would otherwise have been eligible for the Early Retirement Incentive Program, shall be eligible to receive the benefits of the plan beginning March 1, 2003, if such employee is at least fifty-two years of age. Any such employee who retires shall not be rehired. If such employee has received payment for accrued vacation and sick leave, such employee shall not be required to repay such amount in order to be eligible for ERIP.

PA 03-232 authorizes local boards of education to provide an early retirement incentive plan for teachers by buying up to five years of credited service per teacher, paying the Teachers Retirement Board the full actuarial value of the increased benefits for each participant. The purchase may be made in annual installments over a period not to exceed three times the additional number of years purchased.

California. AB 593, Chapter 1023, instructs the governor to issue an executive order giving state departments and agencies the option of participating in the "golden handshake" program, which credits retiring workers with two extra years of service, but does not add to age credits. Eligible workers would be able to retire with the extra two years of service credit from December 3, 2002 through February 1, 2003.

[The governor's executive order directs agencies to designate eligible employees' by job classification and organizational units only if savings generated by their early retirements would offset any cost to the state, and agency participation must be approved by the Department of Finance. A new report on October 14, 2003, reported that very few agencies had made use of the option in AB 593 on the ground that the program would not save money.]

AB 457 was vetoed by Governor Davis in October 2003. It would have allowed the state government and local governments and schools to offer workers an incentive to retire early, including two years of service credit and two years of age credit for free.

Indiana. The Indiana State Personnel Department administered a program of early retirement incentives in late 2002 and early 2003, not reported in the 2002 version of this report.

Eligibility requirements were state employment on November 1, 2002; age of at least 50 on the proposed date of retirement; 10 years of service credit in the public employees' or state teachers' retirement plan; at least one full year of state employment; and eligibility for retirement on the proposed retirement date when the incentive service credit made available under this plan was included. An employee had to indicate a decision to take advantage of the plan between 11/1/2002 and 2/28/2003 and retire by June 14, 2003. Employees who had previously submitted an intention to retire during the window were eligible for the incentive.

Employees who were eligible to purchase additional service credit under existing law could do so in order to augment the benefit calculation.

The incentives consisted of one additional year of service credit for each five years of creditable service, prorated for additional incentive credit for service over ten years that did not add to a five year segment. The additional incentive credit would increase retirement benefits. In addition, employees received $300 in cash for each year of credited service (including the additional incentive credit added under this program) paid in three equal payments from July 1, 2003 through July 1, 2004.

Maine. Pursuant to Chapter 451, P.L 2003, Part M, the Department of Administrative & Financial Services offered a payment of $3,000 in cash to state employees qualified to retire who did so on September 1 or October 1, 2003. Employees had to meet normal retirement age qualifications and age requirements, if any, imposed by the plan to which they belonged. The $3,000 could be pro-rated for eligible part-time and seasonal employees. Employees who had given notice of their intention to retire before the incentive was announced were eligible for the incentive. The incentive did not alter retirement benefits or requirements other than by providing the cash payment.

Vacated positions cannot be filled before April 1, 2004, and participating employees cannot be re-employed by the state before July 1, 2004, on penalty of having to repay the incentive.

[On October 16, 2003, the Department reported that 68 state employees had taken advantage of the incentive program. According to the *Portland Press Herald* on July 31, 2003, about 760 state employees met the criteria for the program, and the goals of the program were to provide salary savings to finance merit increases for other state employees and to open senior positions to allow promotions for less senior employees.]

Michigan. HB 4605 (Substitute H-3 as passed) in 2002 created an early retirement incentive for legislative and governor's office employees and certain other unclassified state employees, effective in the month of December 2002, with a proposed retirement date no later than February 1, 2003. Qualifications included age and length of credited service that total at least 70 as of 12/31/02 with no minimum age requirement. For members of the Michigan State Retirement System defined benefit plan, the benefit calculation multiplier would be increased from 1.5 percent to 1.75 percent. Members of the defined contribution plan would receive a defined benefit calculated at 0.25 percent of final average compensation. The bill would also pay for accumulated sick leave in month installments over five years, as taxable compensation. It was thought that about 100 employees were eligible for the early retirement package. [This legislation was not included in the 2002 enactments report.]

Missouri. SB 248 Provides a medical incentive of 5 years of health care insurance at the active employee rate for those who are eligible to retire between February 1, 2002 and January 1, 2004. Members must retire by September 1, 2003. The Department of Transportation, Conservation, Highway Patrol, state colleges and universities may elect to provide the same medical incentive.

Replacement of positions vacated due to this incentive is limited to 25% with the exception of critical or seasonal positions or positions entirely federally funded. These exceptions will be determined by the office of administration. State colleges and universities are exempt from the 25% restriction.

Affected retirement plans are required to report by 04/01/04 on the workforce, payroll and fiscal effects of this incentive. The Office of Administration will report to the Governor by 04/01/04 on the budgetary effects of this incentive.

New Jersey. Chapters 127, 128, 129 and 130, P.L. 2003, authorize early retirement incentive programs for various local governments and educational institutions, with the authorization effective for one year, at the discretion of the employer government. Incentives include enhanced pension and health benefits. The cost of the enhanced benefits will be funded by the public agency or instrumentality that elects to participate through employer contributions to be paid over 15 years.

Texas. HB 3208 provides for a lump-sum payment of 25 percent of a retiree's previous twelve-months salary for persons eligible to retire on or after August 1, 2003 and before September 1, 2005, upon retirement. To be eligible for the lump-sum payment, a person must retire as soon as eligible for retirement.

GOVERNANCE

Hawaii. Act 134 requires the Employee Retirement (ERS) system to pay retirees 4½ percent interest if their pensions are not finalized within six months effective January 1, 2004. ERS shall assess departments $10 per month for delays in retirement information. Unused sick leave and vacation pay must be provided within 90 days of retirement. Requests for other information must be answered within 30 days.

Louisiana. HB 1684 reestablished the Commission on Public Retirement, which expired in August, 1990. The commission's responsibility is to review the administration, benefits, investments and funding of the public retirement systems in Louisiana. It will make recommendations and annual reports to the Joint Legislative Retirement Committee on those issues. It will also review the efficiency and accountability of the various systems, differences in benefits within individual systems, issuance of bonds, and the need for retirement legislation. It will include legislators, the state treasurer, actuaries, attorneys with experience in public pension design and management and the president of the public affairs research council.

Maryland. Senate Bill 721 changes the composition and governance of the Board of Trustees of the State Retirement and Pension System. Changes include:

- removing the Secretary of State Police as a trustee starting on July 1, 2003, and the State Superintendent of Schools as a trustee starting on July 1, 2004, and filling these vacancies with two members of the public appointed by the Governor to serve as investment experts;
- removing one of the two State Police trustees and filling this vacancy with a member of the public appointed by the Governor to serve as an investment expert;
- adding experience requirements for the investment expert trustees and for expert members of the board's investment committee;
- requiring appointed or elected trustees to attend at least 80 percent of the board's monthly meetings, not including excused absences, or face removal from the board;
- providing that the board is not responsible for considering benefit enhancements or reviewing the benefit structures for any of the several systems, except for the purpose of making technical corrections;
- requiring all trustees to receive at least eight hours of investment and fiduciary training each year;

- requiring the Department of Budget and Management to conduct, or hire an outside independent third party to conduct, a peer benefits study every four years;
- requiring that with regard to the two trustees representing the Employees' Retirement System (ERS) and the Employees' Pension System (EPS), one must be an active member of either the ERS or EPS, while the second trustee must be a retiree of either the ERS or the EPS; and
- requiring that with regard to the two trustees representing the Teachers' Retirement System (TRS) and the Teachers' Pension System (TPS), one must be an active member of either the TRS or TPS, while the second trustee must be a retiree of either the TRS or the TPS.

Oregon. HB 2005 and 3020 changed the Public Employee Retirement System (PERS) Board to a five member board beginning September 1, 2003, and the governor now appoints the board chair. Starting October 1, 2007, one of the five PERS Board members will also serve on the Oregon Investment Council.

HB 2003, 2004 and 3020 provide that, beginning January 1, 2005, the PERS Board must adopt actuarial equivalency factor tables, including factors for mortality, every two calendar years for the purpose of calculating retirement payments. For all members retiring between July 1, 2003, to January 1, 2005, PERS is required to use the updated actuarial equivalency factor tables adopted by the PERS Board on September 10, 2002.

Updated actuarial equivalency factors will be used to calculate all retirements after July 1, 2003 (except for certain judge members). PERS will perform two calculations to determine the member's retirement allowance. One calculation will use a member's account balance, final average salary, years of service, and the actuarial equivalency factors in effect on their effective retirement date. The calculation will be adjusted for the retirement option selected by the member. The second calculation, called a "look-back", will be made using the member's account balance, final average salary, years of service, and the actuarial equivalency factors in effect on June 30, 2003. The member will receive the higher of these two calculations.

The PERS Board is also required to conduct a study regarding the life expectancy of police and firefighter members of the system. If the board finds a substantially shorter life expectancy, the board is directed to use separate actuarial equivalency factor tables for those members starting January 1, 2005.

Oklahoma. HB 1067 repealed the Pension Commission's requirement to review retirement-related legislation.

Texas. H.B. 2240 adopted the prudent investor rule as the standard for governance of investment of pension system assets (Title 9, Section 117.001 ff).

Washington. Chapter 295, Laws of 2003, replaces the Joint Committee on Pension Policy with a 20-member Joint Select Committee on Pension Policy comprising eight legislators, stakeholder representatives, employer representatives and the directors of the Department of Retirement Systems and the Office of Financial Management. The Select Committee will study pension issues, the retirement systems' funding status, and actuarial assumptions. Based on its findings, the committee will make recommendations to the Legislature.

Chapter 92, Laws of 2003, implements Initiative 790 which created the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) Board in November 2002. Initiative 790 provides that the LEOFF 2 Board chooses the economic assumptions, actuarial methods, and sets the contribution rates for LEOFF 2 employees, employers, and the state based on consultation with an enrolled actuary retained by the Board. The legislation was required to reconcile existing law with the new board. Chapter 93, Laws of 2003, repealed a section of Initiative 790 that provided that investment gains above the actuarially assumed rate of return would be used exclusively to fund additional benefits.

GUARANTEE OF BENEFITS

Connecticut. PA 03-232 prohibits the state from passing any law that diminishes specific retirement benefits (1) in effect on October 1, 2003, for active members vested in the Teachers Retirement System as of that date or (2) for members not yet vested on October 1, 2003, in effect on the date they either vest or accumulate 10 years of credited service, whichever occurs later. It also extends the ban to diminishing any enhancements in the specified benefits enacted after October 1, 2003.

The prohibition applies to statutory TRS retirement provisions concerning credited service; retirement and survivors' benefits eligibility; benefit formulas, payment schedules, and cost of living allowances; death and survivors' benefits; and disability benefits. It does not apply to retired teachers' health coverage and health coverage contributions or to annual state contributions to the Teachers' Retirement Fund.

HEALTH COVERAGE

California. SB 1464, Chapter 896, increases the minimum employer contribution for agencies contracting with the California Public Employees Retirement system for health benefits from $16 per month per member up to $97 for the 2008 calendar year. The amount would be $32.20 per month in 2004 and increase incrementally thereafter until 2008. After 2008, the minimum employer contribution would be adjusted annually to reflect changes in the medical care component of the Consumer Price Index.

Connecticut. PA 03-232 increased the contributions that active teachers and the state will make toward to cost of health insurance for retired teachers. Retired teachers who are not eligible for Medicare continue to be covered by their last employing board of education and the Teachers' Retirement Board subsidizes their coverage. This legislation increases the active teachers' contribution from 1 percent to 1.25 percent of salary and increases the state contribution from 25 percent to one-third of the cost of the state's basic health plan as of 7/1/2004. As of 7/1/2005, the retirees' copayment will be increased from 25 percent ot one-third of the basic plan premium.

Kentucky. HB 430 provides that employees hired July 1, 2003 or after will be required to earn at least 120 months of service credit before they will be eligible for insurance benefits at retirement. The percentage of the monthly insurance contribution paid for employees hired after July 1, 2003 is 0-119 months., none; 120-179 months, 50%; 180-239 months, 75%; and 240 months or more, 100%. The 120 month service requirement will be waived if the employee is disabled in the line of duty or killed in the line of duty. The provisions of the bill also allow the General Assembly to alter the level of insurance benefits for employees hired after July 1, 2003. Retired members and members with existing service credit in a Kentucky state retirement plan are unaffected by this legislation.

New Hampshire. RSA 21:I-30 changed retiree health insurance coverage for new hires. Those hired on or after July 1, 2003, must have 20 years of State service to be eligible at age 60 for retiree health insurance. Otherwise, the eligibility requirements for those employees hired prior to July 1, 2003 continues to be as follows: Group I must have at least 10 years of service at age 60 **or** 30 years of service at any age; Group II must have at least 20 years of service at age 45 **or** at age 60 with no minimum service required.

Chapter 124, Laws of 2003: Prior service purchases will no longer be applied as time toward eligibility for the medical insurance subsidy. They will continue to count to increase the level of the member's pension. This applies to:

- Previously withdrawn service.
- Probationary, temporary and non-permanent service.
- Modifications - service prior to your employer joining New Hampshire Retirement System.

New Jersey. Chapter 172, P.L. 2003, provides that a part-time state employee or a part-time faculty member, including part-time lecturers and adjunct faculty members, at a public institution of higher education, who is enrolled in a state-administered retirement system, will be entitled to participate in the State Health Benefits Program (SHBP) and may purchase health benefits coverage in the State managed care plan under the SHBP for the employee or faculty member, and the dependents of the employee or faculty member.

Chapter 142, P.L. 2003, provides health care benefits coverage through the SHBP to members of the New Jersey National Guard, and their dependents, during the period when the member is called to state active duty by the Governor for at least 30 days within a 35 consecutive day period.

Chapter 119, P.L. 2003, provided that state employees hired after July 1, 2003 will not be able to enroll in SHBP option of traditional plan --a fee for service plan, the only non-managed care plan in SHBP).

Chapter 3, P.L. 2003, expanded the group of employers that are allowed to waive health coverage for an employer-offered monetary incentive.

Oklahoma. SB 669 requires non-state agency employers who participate in the Public Employees Retirement System (OPERS) who offer health insurance to their active employees, to offer that same coverage to their retired and vested employees on or before

January 1, 2004. If the member terminates employment and elects this coverage within 30 days, OPERS will pay $105 each month after retirement towards the health insurance premium. Any former who terminated employment between 1/1/02 and 12/31/03 has a one-time opportunity to make an election to join the insurance plan, and OPERS will begin the $105 insurance premium supplement if the retiree is receiving monthly benefits from OPERS.

Texas. SB 1369, SB 1370 and HB 3459 strengthened funding and tightened eligibility for the Teachers Retirement System health program: TRS-Care. The state contribution was doubled to 1 percent of salary, the active member levy to 0.5 percent of salary, and the school district contribution to amounts between 0.25 percent and 0.75 percent of salary, on a scale that increases with time. [Previously, school districts did not contribute to health care costs.] In the future, the state will pay a maximum of 55 percent of program costs and retirees will pay at least 30 percent. The annual supplemental compensation for full-time non-professional employees to use toward health care was reduced from $1000 to $500; professional employees are ineligible for the supplement. Eligibility for TRS membership will occur after 90 days employment in 2004-2005 biennium, but members may purchase service credit for these 90 days at a cost yet to be determined.

Effective 9/1/04, eligibility for TRS-Care will be tightened. A member must have 10 years of actual Texas public school service, though purchased military service credit (up to five years) counts toward the 10 years. Purchased out-of-state service does not count. In addition, members must be 65 or older or must meet a Rule of 80 (age plus years of actual Texas service). Members as of 8/31/03 are grandfathered.

Other legislation broadened or adjusted health benefits under TRS-Care: HB 1735, HB 3257, SB 1117, and SB 1173.

INVESTMENTS

Louisiana. Act 788 of 2003 requires that 10 percent of trades of listed equity and fixed income in separately managed account shall be directed to broker-dealers who maintain offices in Louisiana, and another 10 percent by broker-dealers who are incorporated and domiciled in Louisiana. Sunsets on June 30, 2005. Retirement Systems must do a cost study. The Louisiana Public Employee Retirement System must present a policy to both House and Senate Retirement Committees on or before December 31, 2003, in which the system will propose how it intends to invest in small and emerging businesses, venture capital, and in-state money management firms which either have been incorporated and domiciled in the state for at least 2 years.

LEGISLATORS' RETIREMENT PLANS

Illinois. Act 93-494 revises the legislators' retirement plan to eliminate benefit increases for legislators whose total public service (including legislative service) exceeds 20 years. The revised program is effective for people elected to the legislature hereafter. It repeals a provision that increased legislators' pensions by 3 percent for each year of public service above 20 years. It leaves a 3 percent per year post-retirement COLA intact. [Illinois elected officials' retirement benefits were the subject of media criticism in early 2003.]

Indiana. P.L. 126-2003 directs the trustees of the public employees' retirement system (PERS) to conduct a pilot program concerning the defined contribution portion of the legislators' retirement system. The program would implement a member's investment selection by the next business day after PERS received it; allocate contributions to an account not later than the last day of the quarter in which they are received; use the market value of an account five days previous to a member's distribution or annuitization as the amount to be credited to it upon retirement, disability, death or withdrawal; and pay state contributions in quarterly allocations equal to 20 percent of the member's salary for the quarter at issue. PERS is to report findings before November 1, 2005, and if the findings are favorable, recommend legislation to implement the program for all funds for which PERS is responsible.

Kansas. HB 2014 affects legislators who are unclassified employees of the Board of Regents or a state university. Existing law provides that, beginning with the 2001 Legislative Session, a Regents' employee elected to the Legislature may choose to have the Board of Regents make contributions to the Regents' retirement plan on the employee's behalf while the employee holds elected office. This bill allows any employee who made use of that provision to have retroactive contributions made to the Regents retirement plan for legislative service before January 8, 2001.

Second, the bill allows legislators, who have retired from a KPERS participating employer and who are no longer eligible for membership as an active KPERS employee, to participate in the deferred compensation plan for specified state officials and legislative employees. The bill excludes death and disability coverage for the retired legislators who elect the defined contribution plan.

Third, any legislator who voluntarily chooses not to participate in KPERS may elect membership in the KPERS administered death and disability plan.

Missouri. Former general assembly members vested under the Missouri State Employees Plan "closed" plan appointed or employed as a state officer or employee mid-term are provided an election to transfer remaining legislative service equal to a pro rata portion of the biennial assembly actually served. Members continue to be prohibited from accumulating service simultaneously in more than one state retirement system. MSEP 2000 segregates all state service.

New Mexico. Chapter 86, Laws of 2003, revised the voluntary legislative retirement plan, which also applies to a lieutenant governor.

The previous plan, now identified as Plan 1A, required a legislator or the lieutenant governor to contribute $100 for each year of service. Benefits were provided at age 65 with 5 years of service (or 64/8, or 63/11, or 60/12, or any age with 14 years of service). The annual benefit was $250 x years of credited service. Plan 1B was enacted to allow the option of paying $100 additional for each year of credited service after 1959 and receiving an annual benefit of $500 x years of credited service. Interest is charged against annual contributions that are not made prior to December 31 of each year. Plan 1B is available only to those whose term ended on or before 12/1/02. Enrollment must be completed by 12/31/03. Retroactive purchase of service credit years must be exercised by 12/31/03.

Plan 2 is available to current and future officeholders, who must choose to enroll within 180 days of taking office. It requires an annual contribution of $500 per year of service. Current legislators may enhance years of service credit earned under Plan 1 to the Plan 2 level by making additional contributions by 12/31/04; the deadline for electing the enhancement is 12/31/03. The Plan 2 benefit equals 11 percent of the IRS per diem rate in effect on December 31st of the year a legislator retires x (60) x (the years of credited service). For a member who retires in 2003, the annual benefit would be $957 x years of credited service. The legislation provides for an annual 3 percent COLA. Retirement benefits are available at age 65 with five years of service or at any age with 10 years of service.

Oregon. HB 2020 provides that within 30 days of being elected or appointed to the Legislative Assembly, a person must decide whether to: 1) become a member of the Oregon Public Service Retirement Plan (OPSRP, newly created in 2003); 2) become a legislator member of the state deferred compensation plan; or 3) decline to become a member of either the OPSRP or state deferred compensation plan. Legislators are allowed to roll over their regular Public Employee Retirement System (PERS) accounts to the OPSRP or the state deferred compensation plan if they choose those options. The Legislative Assembly is required to make a six percent of salary contribution on behalf of legislators opting to become a member of the OPSRP or the state deferred compensation plan.

Legislators who serve on August 29, 2003, may elect to stay in the current PERS system, so long as they continuously serve in the Legislative Assembly. However, upon re-election to office, service performed after August 29, 2003 will be subject to a reduced retirement calculation (1.67 percent × final average salary × years of service). [The current multiplier is 2.0. The range of new options is in part a response to legislators who felt that it is inappropriate for legislators to participate in a plan they have authority to change.]

Utah. Chapter 240, Laws of 2003, provides that when a retired legislator is elected to another term in the Legislature or continues to serve in the Legislature after reaching age 65, the legislative allowance ceases at the beginning of each session under rules established by the board, but is restored at the same amount at the end of the session. A member receiving an allowance while serving as a legislator is eligible for additional service credits and allowance adjustments at the end of each term of office if the legislator continues as a contributing member during the member's service as a legislator.

LOANS

New York. Chapter 106, Laws of 2003, allows a public retirement system to suspend the obligation to repay any loan to a member of any such system during any period such member is absent on military duty, for as long as the member is absent on military duty. Any suspension of loan repayments based on absence for military duty shall extend the time for repayment of the unpaid balance for the same period of time as the loan is suspended.

RE-EMPLOYMENT AFTER RETIREMENT

Alaska. HB 254 creates an incentive for retired public employees to enter teaching by reducing the requirement for a TRS "conditional service benefit" from two years to one year. A retired PERS member will now be able to teach one year in a TRS covered position and earn a TRS pension benefit.

Colorado. SB 98 allows retirees to fill the position of a member called into active military duty without the 110 calendar day limit on work after retirement.

Connecticut. PA 03-232 increased the amount a retired teacher can earn by returning to part-time covered employment before losing retirement benefits. Prior law allowed earnings of 45 percent of entry-level salary for the same subject area; the act increases the allowance to 45 percent of the position maximum. A teacher who earns more than the maximum allowance must return the excess to the Teachers Retirement Board (TRB).

Previous law also suspended Teachers Retirement System (TRS) benefits if a retired teacher returned to full time covered employment once the teacher exceeded the 45 percent limit. The act allows a local board of education to reemploy a retired teacher for a full school year, and allows the teacher to earn more than the 45% limit while continuing to receive a TRS benefit, in a position the education commissioner designates as a subject shortage area for that year. The act eliminates the requirement that the local board of education certify to TRB that a retiree's reemployment is in the school system's or constituent unit's best interest.

The act allows the shortage area reemployment to be extended for a second year, with prior approval from the TRB.

Returning teachers are barred from receiving benefits from the state health plan for retired teachers. Their employees must provide them the health benefits provided to other active teachers. The act also prospectively eliminates options that allowed returning teachers to choose to resume contributions to TRS in order to earn additional retirement benefits. The law grandfathered teachers who previously had chosen the option.

Florida. Chapter 2003-60, laws of 2003, expands exceptions to post-retirement reemployment limitations under the Florida Retirement System (FRS) Pension Plan to permit retirees of the FRS Pension Plan to become employed with a district school board after having been retired for 1 calendar month, without further restriction. To qualify, a retiree must be employed as a K-12 classroom teacher hired on an annual contractual basis, or as a substitute or hourly teacher, education paraprofessional, transportation assistant, bus driver, or food service worker hired on a noncontractual basis.

Illinois. Public Act 93-0320 allows a Teachers' Retirement System retiree to return to work without post-retirement employment limitations. The regional superintendent must designate the employment to be in a subject shortage area in order for a retiree to be able to return to work without limitation. The retiree who returns to work in a subject shortage area is not required to comply with the 120-days/600-hours post-retirement limitations specified in the Illinois Pension Code. The retiree will receive a pension although they are employed by a school district beyond the post-retirement employment limitations.

Maryland. SB 92/HB 234 exempt retired members of the Local Fire and Police System from a reemployment earnings limitation unless they are reemployed by the same participating employer that employed them when they retired.

Missouri. HB 346 allows for employment after retirement up to 2 years without losing benefits for members of the Public School Retirement System and the Non-Teacher Employee Retirement System. The number of teachers/support employees rehired shall not exceed 10% of the total teachers/support employees of the district or a maximum of 5 teachers/support employees. A shortage must be declared with the hiring district. The school district must pay the employer contribution, eliminating the fiscal impact.

HCS for HB 347 and 348 allows retired members of the Local Government Employees Retirement system to return to work in a political subdivision from which the member has not retired.

Montana. HB 178 allows retired teachers and other educational specialists to return to K-12 and certain educational institutions for one year without loss of retirement benefits from the Montana Teachers Retirement System. Restrictions include a school's demonstration that there was no other applicant for a vacancy or that no one else would accept an offer of employment. Employers must make employer contributions on the salary of the rehired person. The conditions must be met again for any subsequent year of employment.

New Mexico. Chapter 248, Laws of 2003 (Senate Bill 609) adds a new section to the Educational Retirement Act to exempt retired Public Employees Retirement Association (PERA) employees from making employee contributions to the Educational Retirement Association (ERA) fund, should they accept employment with a local administrative unit. Such employees are not eligible to purchase or acquire service credit for the time worked with local administrative units. Local administrative units, however, must make required employer contributions for these employees.

Currently, persons employed more than .25 FTE by an ERA local administrative unit make contributions to the ERA fund. This includes PERA retirees who have not suspended PERA retirement. When such persons leave employment with a local administrative unit, ERA refunds their contributions, plus interest.

Chapter 60 (HB 22) and Chapter 439 (HB 283) allow members of ERA who retired before January 1, 2001, to return to covered employment without losing retirement benefits.

Chapter 86 eliminates the cap on the amount a retired public employee may earn from a public employer affiliated with the Public Employees Retirement Association, which had been $15,000, before losing retirement benefits. Retired members who return to service during retirement will make nonrefundable contributions to the retirement fund, as will their employers, but shall not acquire service credit or be entitled to purchase service credit for such service while retired.

New York. Chapter 136, Laws of 2003, enables Tier 2 retirees who suspend their pension and restore their active status to receive an additional benefit after two extra years of service credit. By extension, this new law also covers members who retire under Tier 4. [Previously, Tier 2 and 4 retirees had to complete five extra years of service credit to be eligible for an additional benefit.]

Chapter 106, Laws of 2003, authorizes local governments to employ public retirement system retirees to fill in for activated employees, without diminution of retirement benefits.

North Dakota. SB 2056 adjusted the number of hours that retired teachers may return to service without losing retirement benefits to reflect the length of their annual contract: from 700 hours for all, changed to as many as 1,000 hours for those with a 12-month contract.

Texas. HB 3237, regarding return to employment by retired members of the Teachers' Retirement System, restricts the total time worked to one-half time for a given month, the same maximum allowed in current law, and clarifies that a combination of both substitute work and part-time work can qualify, so long as it does not exceed one-half time in that month. For disability retirees, one-half time employment may not exceed 90 days in the school year.

Virginia. SB 812 provides that state police officers in service at age 60 or older with five or more years of service may elect to retire and to continue to receive their retirement allowance while employed as an employee of the Department of State Police. The bill also provides that state police officers, between the ages of 55 and 59, with five or more years of creditable service who (i) have been rehired as an employee of the Department of State Police and (ii) have been receiving a service retirement allowance for at least 30 days prior to such reemployment may elect to continue to receive such service retirement allowance while an employee of the department. The bill limits the number of years that a person may receive a retirement allowance while an employee of the Department of State Police to two. The provisions of the bill sunset on July 1, 2005.

Washington. Chapter 412, Laws of 2003, provides that a member of the public employee retirement system will not be separated from service upon termination of employment if the employee and employer verbally agree that the employ will resume employment with the same employer after termination. An employee must be suspended from employment three months before reemployment to avoid suspension of the pension, if the employee works more than 867 hours. The employer must document the need to rehire an employee and superior approval is required. The rehired employee cannot work more than 1,500 hours in a calendar year without suspension of retirement benefits.

The bill's similar provisions affecting teachers were vetoed.

WEST VIRGINIA. HB 2799 allowed certain retired state troopers to be temporarily employed by the state police without loss of retirement annuity. They will not contribute toward retirement nor earn additional service credit.

RETIREMENT ELIGIBILITY

Missouri. SB 248 reduces the eligibility age for "80 & Out" from 50 to 48 years of age for members of the Missouri State Employees' Retirement System.

SERVICE CREDIT/ PURCHASE OF SERVICE/ TRANSFER OF CREDIT

Alaska. HB 254 allows PERS members who were temporary employees of the legislature before July 1, 1979, to claim that service. Prior to July 1, 1979, temporary legislative employees were not allowed in PERS. The new law allows PERS members to claim this service. The service must be claimed no later than July 1, 2003, or by the date of retirement if sooner. A member is eligible to receive up to 10 years of credited service for service as a temporary employee of the legislature of the state or territory during legislative sessions before July 1, 1979. Members claiming this legislative service must pay the full actuarial cost of the associated pension and health benefits.

California. SB 2094, Chapter 546**,** allows Public Employee Retirement System members to purchase up to three years' credit for service performed as a volunteer in AmeriCorps.

Colorado. SB 98 sets maximum purchase of service credit in Public Employees' Retirement Association (PERA--state employees, and many teachers and local government employees in Colorado) for non-covered employment at 10 years; allows employees of new affiliates to purchase the total number of years they worked for the newly-affiliated employer, under certain conditions; allows purchases of service credit for employment by a foreign employer, all effective November 1, 2003.

SB 277 allows any member of PERA who is furloughed from July 2002 through June 2004 to have his highest average salary calculated based on full salary. Members must pay the member contribution on the unpaid salary, and if the member does so, the employer must pay the employer contribution, but payments are not required until three months prior to retirement.

HB 1327 continued through June 2005 provisions, scheduled to expire, to allow school districts that declare a critical shortage of nonlicensed personnel to hire PERA retirees to work full time in nonlicensed positions with no reduction in PERA retirement benefits. The program is similar to one that allows retired teachers to return to work, upon declaration of a critical shortage, with no diminution of benefits.

Delaware. SB 143 protects the retirement benefits of those State employees who take military leave in order to serve in Operation Noble Eagle, Operation Enduring Freedom and Operational Iraqi Freedom. This will assure that the employee will not realize a reduction in pension benefits because of a reduction in their salary during a period of time that might fall in their highest three years of earnings.

Florida. Chapter No. 2003-399, Laws of 2003, in effect for one year only, allows members of the Florida Retirement System to buy credit under the system for up to 10 years of out-of-state public service and allows members to buy up to an additional 5 years of in-state service in public employment or in accredited nonpublic schools and colleges. (In addition to temporarily raising the limit on out-of-state service credit purchases from 5 to 10 years, the act temporarily removes the aggregate 5-year limit that otherwise applies to purchases of in-state and out-of-state service credit, combined.)

Kentucky. HB 461 provides that employees who retired and returned to work with a participating agency prior to August 1, 1998, may be eligible to purchase the period of reemployment, if the following conditions are met: Retirement from one of the retirement systems administered by the Kentucky Retirement System and re-employment before August 1, 1998 in a regular full-time position, earning less than the maximum permissible earnings under the Federal Social Security Act; participation in a second retirement account effective August 1, 1998; at least 48 months of service if age 65 or older, or at least 60 months of service if under age 65, in a second account in the systems administered by Kentucky Retirement Systems.

Maine. Chapter 486, PL 2003, permits members of the judicial, state employee, and teachers' retirement plans who were required to take days off without pay during FY 2002, to elect to pay the member contributions and interest in order to include what would have been their earnings in those days as earned compensation. A decision to do so must be made at the time of retirement, and the cost will be deducted from the retiree's first check. Already retired persons may also make the election.

Maryland. SB 245 allows members of a State retirement or pension system to receive military service credit for service with the Maryland National Guard when they are called to active duty on the same basis that they would receive such credit for inactive duty under current law.

Minnesota. Chapter 1, Laws of 2003, First Special Session, allows for the continuation of benefits for employees of the Legislative Coordinating Commission (which supervises several legislative staff agencies) in case they are required to take leave without pay before June 30, 2005. For the first 80 hours of such leave in each fiscal year, benefits will continue to accrue for vacation, sick leave, health care, seniority, and service and salary credit in the pension plan. Employers may (but are not required to) make employer contributions to a defined contribution plan. Uncertain whether employee contributions are allowed.

Other state appointing authorities may allow employees to take up to 1040 hours leave without pay before June 30, 2005. Benefits other than pension benefits will accrue as above. Employer and employee contributions must be made for pension benefits to accrue. Employers may pay employee contributions on behalf on the employee through the period.

Chapter 12, Laws of 2003, First Special Session, authorizes the continuation of accrual of pension benefits in the cases of local government employees' voluntary reduction in hours and voluntary leaves [intended to assist local government to reduce budgets]. In the case of voluntary leaves, the employee may make contributions during a leave in order to accrue credit, but if that is done, the employer must make applicable contributions.

The legislature appears to have intended to make comparable provision for extended leave for teachers, but according to the Minnesota Legislative Commission on Pensions and

Retirement, the legislation may be misdrafted. (*Summary of the 2003 First Special Session Pension Provisions,* June 10, 2003.)

New Hampshire. SB 23 allows veterans the right to purchase credit in the retirement system. Eligible members may apply to purchase up to 3 years of prior military service. Cost = the member's annual compensation at the time of purchase, multiplied by the sum of the member and employer contribution rates in effect at the time of purchase, multiplied by the years of service to be purchased. The current rates for each group:

- Employee: 5% + 5.9% = 10.9%
- Teacher: 5% + 4.06% = 9.06%
- Police Officer: 9.3% + 12.11% = 21.41%
- Firefighter: 9.3% + 20.68% = 29.98%

North Carolina. HB 397 allows transfer of service in the Legislative Retirement System and the Consolidated Judicial Retirement System to the Teachers and State Employees' Retirement System (TSERS) , effective January 1, 2004, and after completion of five years membership service in TSERS.

HB 331 Clarifies current law to state that for members of the state employees, teachers, or local government employee retirement plans to purchase out-of-state service, the required membership service must be performed after the out-of-state employment in order to qualify for a purchase. If a member has membership service prior to the out-of-state service, the member must complete a total of five years of membership service and must return to service for a least one year in order to be eligible to purchase the out-of-state service. Changes allowable purchases from one year of out-of-state service for each two years of service in this System to one year of out-of-state service for each year of service in this System (with a maximum allowable of 10 years of out-of-state service).

North Dakota. SB 2057 allows a participating employer [of a member of the Teachers' Fund for Retirement] to purchase up to three years of service credit on behalf of a member. The member must not be given the option of a service purchase and an equivalent amount in cash. To be eligible the member's age plus service credit must be equal to or greater than 77; or the member must be at least age 55 with three years of service credit.

South Carolina. Act 77 makes numerous revisions to the current state retirement system**.** These revisions include, but are not limited to:

- A revision of the term "earned service" so as to include in that definition service rendered while participating in the State Optional Retirement Program (ORP); the Optional Retirement Program for Teachers and School Administrators (ORPTSA); or the Optional Retirement Program for Publicly-Supported Four-Year and Postgraduate Institutions of Higher Education (Higher Ed ORP) that has been purchased pursuant to specified procedure; or service earned as a participant in the system, the South Carolina Police Officers Retirement System (PORS), the General Assembly Retirement System (GARS), or the Judges' and Solicitors' Retirement System (JSRS) that is transferred to or purchased in the system;
- A provision that a retirement system member's highest fiscal year salary shall include the salary while participating in the ORP, the ORPTSA, or the Higher Ed ORP if the

member has purchased service rendered under any of these programs pursuant to specific provisions of the bill;

- A provision that an active member on an approved leave of absence from a participating employer who returns to covered employment within four years may purchase service credit for the approved leave, under specified conditions; currently, there is no time specified for return to employment;
- Provisions regarding an active member's establishment of service credit for periods of service in the ORP, ORPTSA, or the Higher Ed ORP by making payments to the system which are determined by the State Budget and Control Board, but which must be at least sixteen percent of the member's current salary or career highest fiscal year salary, whichever is greater, for each year of credit purchased;
- A provision that earned service previously withdrawn and reestablished, purchased service credit earned as a participant in the ORP, the ORPTSA, or the Higher Ed ORP, or service earned as a participant in the system, the PORS, the GARS, or the JSRS that is transferred to or purchased in the system, is "earned service" and is eligible to be counted toward the required five or more years of service necessary for benefit eligibility;
- Elimination of current exceptions to the provision that election to participate in the State ORP is irrevocable, and addition of language providing for a State ORP participant to join the SCRS and addition of a provision that any ORP participant who was a participant in the Higher Ed ORP may irrevocably elect to participate in the SCRS during the open enrollment period from January 1, 2004, to March 1, 2004.

Virginia. HB 1717 changes the requirements under which a member may receive retirement credit for service in the armed forces to conform to requirements under federal law. Under Virginia law, a member may receive retirement credit at no cost for service in the armed forces if the member (i) was on leave of absence from a covered position, (ii) was not dishonorably discharged, (iii) has not withdrawn his accumulated contributions, and (iv) has reentered service in a covered position within one year of discharge from the armed forces. Under former Virginia law, retirement credit was not granted for service in the armed forces for re-enlistments that follow the cessation of hostilities. Federal law, however, provides that any service in the armed forces, when performed on a leave of absence, is eligible for retirement credit upon a person's reemployment with his employer, regardless of whether the service is in wartime.

Washington. Chapter 157, Laws of 2003, allows substitute school employees to apply to the Washington Department of Retirement Systems for service credit at the end of a school year in which the work was performed. The substitute must pay the required contribution; upon notification of the payment, the employer will pay its required contribution.

West Virginia. HB 2984 allows teachers to purchase up to five years of retirement service credit for time lost due to a workers' compensation injury.

HB 3109 allows members of the teachers' defined contribution plan to receive service credit for time spent working for the state legislature.

SB 455 allows members of the Public Employee Retirement System to purchase up to five years' service credit for work performed in another state's employment, provided the purchaser is not vested or receiving an annuity from the other state's retirement plan.

SPECIAL PAY PLANS

Wyoming. Senate File 117 authorized the Wyoming Retirement System (WRS) Board to establish a special pay plan at its discretion. Such a plan is intended to convert accrued sick and vacation pay from compensation to a benefit, and thus avoid FICA taxes. Once implemented, participation in the plan would be mandatory for all state employees. No immediate changes are being implemented as WRS engages in an extensive study of both plan design and policy issues for these special pay plans.

STUDIES

Hawaii. HCR 97 requires the Employee Retirement System (ERS) to study the feasibility of implementing a hybrid retirement plan combining the features of the contributory and noncontributory plans.

HCR 109 requires ERS to study the feasibility of establishing a Deferred Retirement Option Plan (DROP) for firefighters and police officers.

Indiana. *See Legislative Retirement Issues.*

Louisiana. SR 11 instructs the thirteen state and statewide public retirement systems to study the effective use of the state funds provided to the systems and the systems' overall investment management structure, performance and expenses, and also to develop a more equitable benefit structure for new hires. A report is to be made to the State Senate before its 2004 regular session convenes.

Minnesota. Chapter 12, Laws of 2003, First Special Session, requires the Legislative Commission on Pensions and Retirement to perform an actuarial valuation report on the merger of the Teachers' Retirement Association and the Duluth, St. Paul and Minneapolis teacher associations.

North Carolina. HB 397, the state budget act, established a study commission on the state disability income plan, the death benefit plan, and separate insurance benefits plan for law enforcement officers.

Oklahoma. SB 409 requires the Oklahoma Public Employees Retirement System (OPERS), the Teachers Retirement System and several other agencies to conduct a study of different plans and vehicles available for health care expenses after retirement. SB 411 requires OPERS to conduct a study of a possible specialized retirement plan for OPERS members who are employed in a hazardous duty position, due December 22, 2003.

West Virginia. SCR 41 directed the Joint Committee on Pensions and Retirement to study the financial impact of closing the Teachers' Defined Contribution plan and replacing it with a defined benefit plan.

SCR 42 directed the committee to study the creation of retirement plans for correctional officers, EMS personnel and others.

TAXATION

Georgia. HB 492 continued Georgia's program of exempting a portion of retirement income from any source from state income taxation. The exemption will rise incrementally from $14,500 in tax year 2002 to $65,000 in tax years beginning on or after January 1, 2007.

VESTING

Oklahoma. HB 1362 reduced vesting for the Teachers Retirement System from 10 years to five years.

WITHDRAWN CONTRIBUTIONS

Oklahoma. HB 1362 allows an interest payment for former member of the Teachers Retirement System who withdraw contributions with fewer than seven years of membership (all others are allowed interest under previous law).