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PENSIONS AND RETIREMENT PLAN ENACTMENTS IN 2006 STATE LEGISLATURES

Ronald K. Snell
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INTRODUCTION. This report summarizes selected pensions and retirement legislation that state legislatures enacted in 2006, some 2005 legislation not reported last year, and a few items of particular interest that failed to pass or were vetoed. Bills summarized below have been enacted into law unless there is a specific indication to the contrary. Not all legislation had been chaptered at the time this report was compiled. Some legislatures remain in session at the time of writing.

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

The goal of this report is to help researchers and policy makers know how other states have addressed issues that could arise in any state. In keeping with that goal, I have excluded most clean-up legislation, cost-of-living adjustments, administrative procedures and technical amendments. This report is organized according to the topics that legislatures addressed in 2006, listed at the end of this introduction. The remainder of the introduction takes note of the main issues of 2006, which are described in more detail under the topical headings in the main part of this paper.

MAJOR ISSUES IN 2006. The long-term security of defined benefits was the issue of broadest concern to state legislatures in 2006 as it was in 2005. Action on it took many forms, including, among others:

- Reduction of future benefits for new employees, and caps on future cost-of-living adjustments
- Increases in employer and employee contribution levels,
- Modification of provisions for service purchase to ensure that the purchaser bear the cost,
- Very limited benefit enhancements.

BENEFIT CHANGES. The most dramatic development of 2006 was that West Virginia members of the defined contribution Teachers' Retirement Plan voted to merge it with the newly-reopened defined benefit teachers' plan. The General Assembly had provided that a favorable vote would mean that all active members of the defined contribution plan would be transferred to the defined benefit plan, with no provision for individual choice. An immediate legal challenge has delayed the actual consolidation.

Colorado enacted a comprehensive package of benefit reductions to address long-range Public Employee Retirement Association funding concerns. They affect employees who become members on or after January 1, 2007. The new package replaces the Rule of 80 with the Rule of 85; institutes a lower limit on salary growth for the purpose of calculating retirement benefits; restricts annual COLAs; and requires an additional member contribution to help fund COLAs. Louisiana extended the period over which final average salary is calculated for members of the School Employees' Retirement System (for new employees) and added new anti-spiking provisions. Iowa added a "spiking control" for members of the Public Employee Retirement System, and Illinois fine-tuned the anti-spiking provision it created in 2005 to provide a number of exemptions.

Legislated benefit increases were few and modest. Georgia increased benefits for members who retired before mid-1987; Washington increased benefits for members who had been retired for 25 years or more. Maryland enacted long-sought increases in benefits for state employees and teachers as an optional program that requires additional employee contributions for participation. Oklahoma enacted legislation that enhances benefits for teachers who stay on past the normal retirement age (62 or the Rule of 90 for members who joined since mid-1992). Washington enacted some reductions in vesting requirements.

CONTRIBUTION LEVELS. In contrast to the relative scarcity of changes in benefit provisions, a substantial number of states enacted increases in contribution levels.

At least three states, Connecticut, New Mexico and West Virginia, made large lump-sum contributions to their retirement plans to address unfunded liabilities. The West Virginia appropriation was $718 million. Washington created a $350 million pension stabilization fund, a reserve for future appropriation to the state retirement systems. Illinois also created a pension stabilization fund, to which the state comptroller is to transfer a share of general fund revenues when they grow by more than a specified percentage from year to year.

In various ways and with various controls, Iowa, Kentucky, Minnesota and Nebraska increased both employer and employee contribution rates for pension systems. A number of states, as shown below, increased minimum required contribution rates for employers.

EARLY RETIREMENT INCENTIVES. Illinois enacted another in its series of offers that allow employees to withdraw from employment and retirement system membership in return for a lump sum payment, in this case in an amount equal to twice their contributions (plus interest) to the system. These programs, effective in reducing public employment in the state in absolute numbers, have apparently not been emulated in any other state. Louisiana adopted a traditional early retirement plan aimed at reducing the number of state employees (it provides that vacated positions must be abolished). Minnesota allowed certain governmental authorities to offer early retirement incentives from July 15 through September 1, 2006, if they were facing budget shortfalls. A widely-attacked early retirement plan for New York teachers was vetoed by Governor Pataki. These four were the only early retirement incentive plans for broad categories of state employees or teachers to come to notice.

GOVERNANCE AND INVESTMENT POLICY. The second significant system merger of 2006 occurred in Minnesota, where the financially-troubled Minneapolis Teachers' Retirement Fund was consolidated with the state Teachers' Retirement Association. Colorado restructured the board of trustees of the Public Employee Retirement Association, reducing its membership by one (the State Auditor) and replacing three trustees elected by association members with three to be appointed by the governor, with Senate confirmation, who are required to have relevant experience. Missouri legislation that would have required continuing education for retirement systems' trustees did not pass in 2006 but is expected to reappear in 2007. California, Connecticut and Maine provided for withdrawal of investments in Sudan. The South Carolina General Assembly sent the voters a question on further broadening the investment authority of its retirement systems.

The Oklahoma Legislature emulated Georgia in providing a delay before any legislation with a fiscal impact on a retirement system can be enacted. According to the Oklahoma law, such legislation must be introduced in the first year of a legislative session, subjected to actuarial evaluation, and reconsidered in the second year of the session.

LIST OF TOPICS

Benefit Calculation and Eligibility		Health Coverage
Contribution Rates and Funding Issues		Legislative Review of Retirement Policy
Cost of Living Adjustments		Legislative Retirement Plans
Defined Benefit Plan Changes		Military Service
Defined Benefit Plan – New		Re-employment after Retirement
Defined Contribution Plans		Service Credit/ Purchase of Service
DROP and related issues		Social Security and Medicare Coverage
Disability		Studies
Early Retirement Incentives		Taxation of Retirement Benefits
Forfeiture of Benefits		Vesting
Governance and Investment Policy		

BENEFIT CALCULATION AND ELIGIBILITY

CALIFORNIA. Chapter 418, Statutes of 2005 (SB 973), allows members who retired before the establishment of the domestic partnership registry to qualify their domestic partners for survivor continuance benefits. The bill also clarifies the administration of domestic partner community property settlements to ensure compliance with federal law, and it eliminates PEMHCA provisions that discriminate against domestic partners in the provision of health benefits.

COLORADO. Chapter 259, Session Laws of 2006 (SB 235) increased the age requirements for regular service retirement (other than for state troopers) to the Rule of 85 for those who become members of the Public Employee Retirement Association (PERA) after January 1, 2007, to the Rule of 85; any age with 35 years of service; or 65/5. The minimum retirement age and service requirements are age 55 with five years of service. The former general rule was the Rule of 80; or, any age/35; or, 65/5.

For those who are members on December 31, 2006 and who retire on or after January 1, 2009, annual salary for the purposes of calculating benefits can increase no more than 15 percent a year. For those who join PERA after December 31, 2006, the cap on salary growth will be eight percent per year. The multiplier remains at 2.5 percent (PERA members are not covered by Social Security).

For those who join PERA after December 31, 2006, retirement benefit COLAs will be effective with July benefit payments, only after the retired member has received a benefit for a full calendar year, and only for members whose age and service credits equal 85 or who have attained the age of 60. No age and service requirements apply for disability retirees.

The annual COLA was preserved at 3 percent (grandfathering those who were members on 6/30/05 at 3.5 percent) but for those who join PERA after December 31, 2006, the actual increase will be calculated annually based on an actuarial valuation of the division (such as state employees or teachers). The act creates a new Annual Increase Reserve for each such division and provides for its funding, consisting of an annual payment of 1 percent of the salaries of members eligible for retirement benefit increases from the reserve, certain other revenues and interest earnings. The annual COLA is to be the least of (1) 3 percent of benefits; (2) the CPI-U; and (3) the amount that would exhaust 10 percent of the year-end market value of the reserve fund. The change may not be negative.

GEORGIA. HB 400 (on governor's desk 4/28/06) increases retirement benefits for those who retired before July 1, 1987: 10% for those who retired before July 1, 1974; 6% for those who retired from July 1, 1974 through June 30, 1982, and 2% for those who retired from July 1, 1982 through June 30, 1987. The full increase applies only to retirees who had 20 or more years of service, and is reduced by 5% for each year of service less than 20.

ILLINOIS. Public Law 94-1057 (Senate Bill 49) modifies Public Act 94-0004 from 2005, which requires school districts to fund pension benefits based upon salary increases over 6 percent used in the determination of final average salary. As a result, the liability associated with these salary increases will be partially paid for by the school districts instead of the state of Illinois. This calculation is applied to any compensation that is paid to members during their average salary period.

- Salary increases paid to a teacher who is 10 or more years from retirement eligibility.
- The transfer of a teacher from one employer to another caused by school consolidation or annexation.
- Earning increases that are the result of overload work and summer school.
- Earning increases due to promotions when the member is required to hold a certificate or supervisory endorsement. This exemption only applies if the certificate or supervisory endorsement is different than the member's previous position.
- Payment to a teacher from the state of Illinois or the State Board of Education when the employer does not have discretion.
- Other exemptions apply to employees of higher education such as promotion to a tenure-track position or compensation for overload teaching (such as summer school).

The school district must provide an affidavit attesting a member's final average salary exemption for an increase over 6 percent. Exemptions apply to contracts entered into, amended, or renewed after June 1, 2005 but before July 1, 2011. Exemptions for these contracts continue until July 1, 2014. All of the exemptions end after June 30, 2014.

IOWA. HF 729 reduced the vesting requirement for members of the Judicial Retirement System from six years to four; provided that a judge is eligible for an unreduced annuity after 20 years of service (current law, 25) if the judge is at least 50 years of age, increased the multiplier for benefits from 3.0% to 3.25%, and increased the maximum percentage of judges' salary that payments are based on from 60% to 65%.

HF 729 also provided a "spiking control" that limits how much of a wage increase applies when calculating pensions. IPERS will compare the average of the highest three years, or the final average salary, to the fourth highest year's salary. If the final average salary is more than 121 percent of the fourth highest wage, the final average wage is adjusted. This approach allows for a wage increase of approximately 10 percent in each of the highest three years.

LOUISIANA. Act 647 of 2006 (SB 88) provides that for members of the School Employees' Retirement System hired after June 30, 2006, the period used for calculating final average compensation is extended from 36 months to 60 months. It also provides an anti-spiking measure: for the calculation of final average salary, the figure used for a 12-month period after the first 12-month period cannot increase by more than 10 percent from the previous period, except for legislatively-enacted increases.

MARYLAND. Chapter 110, Laws of 2006 (HB 1737), the "State Employees' and Teachers' Retirement Enhancement Benefit Act of 2006," provides teachers and employees hired after 1998 with a benefit that equals 54% of salary after 30 years service instead of the current 42% of salary. It increases the multiplier used to calculate a retiree's annual payment from its current level of 1.4% to 1.8%. To help pay for the enhanced benefit, teachers and employees will contribute 5% of their annual compensation, up from the current level of 2%. This increase will be phased in over a three-year period. The bill also allows the 120 local governments who participate in the employee pension system to opt in to the enhanced benefits by June 30, 2007.

The 1.8% multiplier applies only to service earned from July 1, 1998 forward. The act provides no additional benefit to those who retire before July 1, 2006; and is effective for those who retire on that date and thereafter. Formula remains 1.2% (or former non-contributory formula of .8%/1.5%, if greater) of average final compensation times service credit to June 30, 1998.

OKLAHOMA. House Bill 1179, enacted during the 2006 Special Legislative Session, provides that members of the Oklahoma Teachers' Retirement System ("TRS"), who joined TRS prior to July 1, 1995, and who work one or more years beyond "normal retirement age", will qualify for an improved benefit formula at retirement. "Normal retirement age" is when a TRS member reaches age 62, or when age plus total service equal 80 (90 if the member first joined TRS after June 30, 1992). TRS members working in four-year universities do not qualify for EESIP coverage.
The current retirement formula for members who joined TRS before July 1, 1995, is a two-tiered formula:
2% x Final Average Salary not to exceed $40,000* x service performed prior to 7/1/1995 plus
2% x Final Average Salary x service performed after 7/1/1995
The new formula will allow members working beyond normal retirement age to move pre-1995 service to a higher salary. For each year a member works past normal retirement age, the member may move two years of service performed prior to July 1995, to the higher tier of the formula.
For members who retire between July 1, 2006, and June 30, 2007, the maximum average salary that can be used for the moved service is $60,000. For members who retire between July 1, 2007, and June 30, 2008, the maximum average salary increases to $80,000, for moved service. For members who retire on or after July 1, 2008, the member's final average salary, regardless of amount, can be used to calculate the benefit for moved service that was performed before July 1, 1995.

SOUTH DAKOTA. SB 7 provides a level-payment benefit option to members of the South Dakota Retirement System who retire before being eligible for Social Security retirement benefits. They may elect to receive initial retirement benefit payments from the system in an amount greater than the standard benefit payments computed on the basis of the member's age and earnings at retirement. The greater amount, in conjunction with a later reduced amount, will be the actuarial equivalent of the normal retirement allowance computed on the basis of age at retirement. The greater amount shall be paid until the member reaches the age of 62, at which time the payment from the system will be the reduced amount so that, as far as possible, the member's combined monthly retirement income from the system and social security shall approximately equal the greater amount paid prior to age 62.

UTAH. HB 209 provided for a lump-sum benefit for members of the Utah State Retirement System. The benefit may equal either 12 or 24 months' value of the member's retirement benefit, for which the subsequent monthly benefit is actuarially reduced. No member to receive more than one lump-sum benefit.

WASHINGTON. Chapter 244, Laws of 2006 (SB 6453) adjusts the minimum monthly benefit for Public Employee Retirement System and Teachers Retirement System Plan 1 retirees. In 2004, the Legislature established a minimum monthly benefit of $1,000 for PERS and TRS Plan 1 retirees who have at least 25 years of service and have been retired 20 years or more. The legislation increases that minimum benefit by three percent annually. This bill would also extend the minimum monthly benefit, with the three percent annual increase, to PERS and TRS Plan 1 retirees who have at least 20 years of service and have been retired 25 years or more.

CONTRIBUTION RATES AND FUNDING ISSUES

ALASKA. Authorization for cities to issue pension obligation bonds to finance their retirement liabilities passed the House of Representatives in the 2006 regular session, but died in the Senate (HB 278). According to the GFOA *Pensions and Benefits Update* (17:2, March-May 2006) municipal retirement and health benefit liabilities are $6.9 billion statewide.

In September, 2006, the Alaska Retirement Management Board set the employer contribution rate for the Public Employees Retirement System at 39.76 percent and the employer's contribution rate for the Teachers' Retirement System at 54.03 percent. According to the *Anchorage Daily News*, the previous year's rates were 18.65 percent and 26 percent, respectively. According the same report, the purpose of the increased employer contribution rates is to amortize the entire UAAL of the Alaska systems, some $6.9 billion, over 25 years. In 2005 the two plans at issue were closed to additional enrollments in favor of creating defined contribution plans for new hires. Governor Murkowski, whose term ends this year, recommends that the state appropriate one billion dollars from surplus to soften the blow of the increased contribution rates. *Anchorage Daily News, September 14, 2006;*

ARIZONA. Chapter 251, Laws of 2006 (SB 1357) revises funding and amortization provisions for several state retirement plans. Currently, the contribution rates for employers participating in the Public Safety Personnel Retirement System (PSPRS), the Corrections Officer Retirement Plan (CORP) and the Elected Officials' Retirement Plan (EORP) are calculated based on normal cost plus an amount required to amortize unfunded actuarial accrued liability (UAAL) over a rolling 20-year period. S.B. 1357 changes the length of the amortization period to a maximum of 30 years, as determined by the Fund Manager. The act:

1. Lengthens the time period for amortizing unfunded actuarial accrued liability of PSPRS, CORP and EORP from a 20-year rolling period to a rolling period of between 20 and 30 years, as determined by the Fund Manager.
2. Increases, from 5 percent to 8 percent, the minimum required contribution rate for employers participating in PSPRS, except that employers with an FY 2006-2007 contribution rate of less than 8 percent have a minimum contribution rate of at least 5 percent, but more than the employer's actual rate.

3. Increases, from 5 percent to 6 percent, the minimum required contribution rate for employers participating in CORP. For employers with an FY 2006-2007 contribution rate of less than 6 percent, the minimum contribution rate is at least 5 percent, but more than the employer's actual rate.
4. Establishes stabilization reserve accounts within PSPRS, CORP and EORP.
5. Requires the Fund Manager to deposit 50 percent of each fund's excess valuation assets in the respective stabilization reserve account for each fund that is more than 100 percent funded. This requirement only applies to excess assets in an employer's account as of FY 2004-2005.
6. Requires, if the actuary determines a valuation asset deficiency and an UAAL, the Fund Manager to use the valuation assets in the stabilization reserve accounts to limit the decline in the funds' funding ratio.

According to PSPRS, if the amortization period for UAAL is changed from a 20-year rolling period to a 30-year rolling period, the FY 2006-2007 aggregate contribution requirement would decline from 17.1 percent to 15.77 percent. For CORP, the employer rate would decline from 7.01 percent to 6.89 percent. For EORP, the employer rate would decline from 24.27 percent to 23.58 percent.

COLORADO. Chapter 259, Session Laws of 2006 (SB 235) reduces the amortization period for each of the divisions of the Public Employee Retirement Association (PERA) from 40 years to 30 years. (The divisions are state, schools, local government and judicial.)

The Act provides for what it calls "supplemental amortization equalization disbursements" (SAEDs), which is to say, additional payments to PERA above the statutory employee and employer contribution rates. The SAEDs are to be paid by the employer--state or local--on behalf of the employee. The beginning rate is 0.5 percent of payroll for calendar 2008, and it will increase by the same amount for each of the following calendar years through 2013, for a total of 6 percent for that year. The SAED is to be funded from money "otherwise available for use as employee compensation increases prior to award as salary or other compensation to employees." If a division of PERA reaches 100 percent of actuarially-required funding, the SAED terminates for that division.

CONNECTICUT. SB 5845, the Appropriations Act, appropriated $245 million for anticipated FY 2006 general fund surplus for the Teachers Retirement System.

FLORIDA. Chapter 35, Session Laws of 2006 (HB 5025) revises payroll contribution rates for the membership classes of the FRS, effective July 1, 2006. Rates scheduled to take effect on July 1, 2006, are:

Regular Class	–	8.69%
Special Risk Class	–	19.76%
Special Risk Administrative Support Class	–	11.39%
Elected Officers' Class:		
Legislators, Governor, Lt. Governor, Cabinet Officers, State Attorneys, and Public Defenders	–	13.32%
Justices and Judges	–	18.40%
County Elected Officers	–	15.37%
Senior Management Service Class	–	11.96%
Deferred Retirement Option Program (DROP)	–	9.80%

ILLINOIS. P.A. 94-0839(SB 1977) creates an additional funding source for the five state-funded pension systems by establishing the Pension Stabilization Fund (PSF) as a special fund in the state treasury. When general funds revenues grow by more than 4 percent over the previous year's general funds revenues, the Comptroller is to transfer 0.5 percent of the estimated general funds revenues to the PSF. If such growth continues for two years in succession, the transfer is to be 1 percent. Funds are to be transferred from the PSF to the vie state-funded retirement systems. Transfers to each are to be in proportion to each system's share of the total unfunded liability of the five systems. Transfers cannot be counted toward the contributions required by P.A. 88-593, which calls for achieving a 90 percent funded ratio by FY 2045. In addition to these amounts, the Governor has the authority to deposit up to $25 million in the PSF on or before August 31, 2006.

IOWA. House File 729 increased maximum employer and employee contribution rates for the Iowa Public Employee Retirement System (IPERS) and for the Judicial Retirement System.

The act defines "fully funded" for IPERS as follows:
"Fully funded" means a funded ratio of at least one hundred percent using the most recent actuarial valuation. For purposes of this subsection, "funded ratio" means the ratio produced by dividing the lesser of the actuarial value of the system's assets or the market value of the system's assets, by the system's actuarial liabilities, using the actuarial method adopted by the investment board pursuant to section 97B.8A, subsection 3.

The act allows employees' and employers' contribution rates to rise gradually from 3.7% and 5.75% of salary, respectively, for FY2006 to 4.5% and 6.95%, respectively, in FY2012, for a total increase from 9.45% to 11.45%. The increases are permissive. IPERS is given authority to increase the rates only if the prior year's combined contribution is insufficient to amortize the UAAL of IPERS within 10 years. IPERS does not have authority to reduce the contribution rate. No funds are to be credited to the Favorable Experience Dividend Fund until the system meets the definition of fully funded.

The act provides that no benefit increases will be enacted unless contribution rates are increased to pay fully for the increased benefit or unless the system would remain fully funded in the wake of a benefit increase.

The act also defines "fully funded" for the Judicial Retirement System as meeting 90% of that system's UAAL. Until the system is fully funded, contribution rates for judges are increased from 5% of salary to 6% of salary, so long as the state contributes the required 23.7% of covered payroll. If the state fails fully to meet its requirement, the judges' required contribution will be reduced to the proportion of 6% that the state's contribution is of its required contribution. The bill also reduced vesting and service requirements for judges' eligibility for retirement annuities, and increased the multiplier.

The act also restricts IPERS from transferring money into the Favorable Experience Dividend (FED) Reserve Account based on favorable actuarial experience, unless IPERS is fully funded. The transfer also must not bring IPERS below fully funded status.

The Legislature created the thirteenth, or FED, check for retirees, recognizing that pensions lose their buying power over time. IPERS does not have a traditional cost-of-living adjustment. The Legislature established a reserve account with money transferred from the general IPERS Fund to pay the checks. The Legislature allowed for additional transfers to replenish the reserve account when IPERS has favorable actuarial experience. Favorable actuarial experience occurs when long-term assets and liabilities are better than predicted.

Under HF 729, IPERS can transfer additional money from the general IPERS Fund to the reserve account only when assets fully fund all pension liabilities. However, IPERS continues to credit investment earnings to the reserve account.

KENTUCKY. HB 380 of 2006, the appropriations act, increased contribution rates for the Kentucky Employee Retirement System for both non-hazardous and hazardous employees and for the State Police Retirement Board, although not to the level requested by KERS on the basis of actuarial calculations. The KERS request for non-hazardous employees was a contribution rate of 17.13% for FY 2007 and 20.15% for FY 2008. The General Assembly approved 7.75% and 8.5%, respectively. The enacted increases of 22% and 24.25% for hazardous employees are slightly below the request. Enacted increases of 25.5% and 28% for the Police Retirement Board compare with requests of 42.3% and 47.06%.

The increases in contribution amounted to approximately $101 million. KERS notes that the legislature has also required KERS to fund certain subsidies for retiree dependent health insurance coverage from this additional funding, a departure from previous practice.

LOUISIANA. Act 563 of 2006 provides that if an employer out sources, privatizes, or contracts out for workers who would ordinarily be covered by membership in the School Employees' Retirement System, the employer will remain liable for payment of its share of the UAAL attributable to the positions so eliminated. The amount owed will be amortized over 10 years.

Act 642 (HB 1208) appropriates $13,600,000 towards the State Employee Retirement System initial unfunded accrued liability and $26,400,000 to the Teachers Retirement System for the same purpose.

MINNESOTA. Chapter 271, Laws of 2005-2006 (SF 2239) provides for increases in employer and employee contributions to several Minnesota state retirement plans, and provides a method for alternations in the contribution rates depending upon whether, after July 1, 2011, the statutory contribution is smaller or larger than the amount normal cost, the administrative expenses, and the amortization contribution of the retirement plan as reported in the most recent actuarial valuation of the retirement plan. If the executive director of the affected plan determines that a rate adjustment is required, after a deficiency or surplus exists in two consecutive fiscal years, he or she is to report a recommended change to the Legislative Commission on Pensions and Retirement. If the commission does not recommend to the contrary or does not recommend a different rate adjustment, the adjustment will be put into effect, but no annual adjustment can be more than 0.25% of payroll. Employer and employee rates must both be adjusted. No subsequent change can be made until two years shall have passed.

The rate increases set in Chapter 271 are as follows. All are phased in over specified periods. The increases will begin in July 2007:

- General plan employer and employee contributions: From 4% to 5%. Phased in over four years.
- Correctional plan employee contribution: from 5.69% to 8.6%. Phased in over four years.
- Correctional plan employer contribution: from 7.98% to 12.1%. Phased in over four years.
- State patrol employee contribution: from 8.4% to 10.4%. Phased in over three years.
- State patrol employer contribution: from 12.6% to 15.6%. Phased in over three years.

Chapter 277, Laws of 2005-2006, changed contribution rates for members of the Teachers Retirement System. For coordinated members (which refers to being subject to Social Security and hired since July 1, 1978) the rate will be 5.5 percent of pay. Previously for TRA members the rate was 5 percent and for Minneapolis Teachers' Fund members, now merged into the state TRA, the rate was 4.5 percent. The basis member rate (for members not subject to Social Security under the plan that was closed to new members in 1978) the rate remains at 9 percent, and will be 9 percent for former Minneapolis system members who previously paid 8.5 percent. Employer contribution rates were also increased 0.5% of salary for each class referred to.

MISSOURI. The Missouri General Assembly considered sweeping pension reform legislation that reportedly would have passed both chambers and been signed into law by the governor except for scheduling glitches on the last night of the legislative session. The sponsor, Representative Todd Smith, Chair of the Joint Committee on Public Employee Retirement and of the corresponding House committee, intends to reintroduce the legislation in 2007. Its provisions would appl;y to all Missouri state and local retirement plans. Regarding funding issues:

- Prohibit benefit enhancements, including COLAs and DROPs, for plans that are less than 80 percent funded
- Allow such enhancements for plans that are greater than 80 percent funded provided the funded ratio will remain at 75 percent or more after adoption.
- Require 20-year amortization of any benefit increases.
- Require funds that are less than 60 percent funded to have an actuary prepare an accelerated contribution schedule. If such plans fail to make the entire required contribution for three successive plan years, state funds will be withheld from the plan.
- UAALs must be amortized over a maximum period of 30 years.

NEBRASKA. LB 366 provides that the state and county plans employee contribution rate will be 4.8% of compensation. Currently, employees contribute 4.33% on the first $19,954 of annual compensation and 4.8% of compensation thereafter.

Because the state matches the employee contribution at a rate of 156 percent, the increased contribution level also results in a higher state contribution.

The higher contribution rate is partly the result of a consultant's study of the state's pension system, conducted by the Public Employees Retirement Board and completed in 2000. The study concluded that total annual contributions to a state employee's retirement account should equal approximately 12 percent of his of her salary to provide an adequate retirement benefit. With the passage of LB 366, the total contribution to an employee's account will exceed 12 percent. LB 366 passed 46-0 but was vetoed by the Governor. The motion to override the Governor's veto passed 30-14 on April 13, 2006.

LB 1019 changes the actuarial valuation in the School, Judges and State Patrol plans. Beginning July 1st, 2006, changes in the funded actuarial accrued liability shall be measured and amortized over a 30 year period. Previously the liability was amortized over a 25 year period.

NEW MEXICO. HB 2, the General Appropriation Act of 2006, included an appropriation of $13,555,000 to provide a 0.75 percent increase in the employer contribution to the education retirement fund to be transferred in fiscal year 2007 to the educational retirement board to provide in advance for the fiscal year 2008 cost of the employer share of contribution increases for public education employees. The appropriation was vetoed.

WASHINGTON. Chapter 365, 2006 Laws (HB 2681) provides minimum employer contribution rates for amortizing the UAAL beginning July 1, 2009, for PERS Plan 1 at 2.68 percent, and beginning September 1, 2009 for TRS Plan 1 at 4.71 percent. These minimum contribution rates remain in effect until the actuarial value of assets in either PERS Plan 1 or TRS Plan 1 equal 125 percent of actuarial liabilities, or June 30, 2024, whichever comes first. A process for determining minimum contribution rates for employers and employees in PERS, TRS, and SERS Plans 2 and 3 is established. The contribution rate for the normal cost portion of these Plans 2 and 3 is set at 80 percent of employer or employee normal cost calculated under the entry age normal cost method. Upon completion of each biennial actuarial valuation, the State Actuary shall review the appropriateness of the minimum contribution rates and recommend changes to the Legislature, if needed. The term "normal cost" is defined as the portion of the cost of benefits allocated to a period of time under the actuarial method, typically twelve months.

Chapter 56 (ESSB 6896) creates a pension funding stabilization account in the state treasury. The account will be used to pay state government employer contributions for members of PERS, TRS, SERS and PSERS, and appropriates $350 million to the Stabilization Account. The fund is subject to appropriation and is not to be used to fund any benefit increase or new benefit.

The act also increased employer contribution rates for various state retirement plans in order to amortize UAALs:
Teachers Retirement System, 1.29% of salary, effective September 1, 2006
School Employees Retirement Fund, 0.87% of salary, effective September 1, 2006
Public Employees Retirement Plan and public safety plan, 1.77% of salary, effective January 1, 2007.

These rate increases will be effective through June 30, 2007.

COST OF LIVING ADJUSTMENTS

THIS SECTION DOES NOT ATTEMPT TO REPORT ALL COST OF LIVING ADJUSTMENTS. ITS PURPOSE IS TO REPORT ON STRUCTURAL CHANGES, SUCH AS THE WAYS COLAS ARE DETERMINED OR CAPPED.

MINNESOTA. Chapter 277, Laws of 2005-2006 (SF 1057) caps future post-retirement adjustments. Under the old law, effective in 2010, post-retirement adjustments are based on two components: (1) a cost-of-living adjustment, of up to 2.5 percent per year; and (2) an investment-based adjustment, which is not capped. Under the new law, if investment earnings (combined with the cost-of-living adjustment) would cause the total increase to exceed 5 percent in any year, the adjustment will be capped at 5 percent, with excess investment earnings being retained and made available to support adjustments in future years. An annual cap, also effective in 2010, was also placed on COLAs paid by the St. Paul Teachers' Retirement Fund.

Chapter 277 reduced the amount that deferred pensions are adjusted annually until the annuity is taken. Under the old law, when a person leaves public employment but does not yet begin to draw a pension, the amount of the deferred pension is augmented by 3 percent per year until the employee reaches age 55, and by 5 percent per year after that until the person begins to draw a pension. For people first hired after June 30, 2006, this article changes the augmentation rate to a flat 2.5 percent for each year the pension is deferred. The changes affect funds administered by the Minnesota State Retirement system, the Public Employees Retirement Association, teacher funds, and combined service annuities.

WEST VIRGINIA. The Legislature appropriated $718 million to the Teachers' Retirement System in 2006 -- the scheduled $334 million for amortization of its UAAL plus an additional $385 million that would otherwise have been deposited in the state rainy day fund. -- *Final Wrapup,* May 2006, and *Budget Digest,* 2005-2006.

WYOMING. Enrolled Act No. 32 caps firefighters' annual COLA at 3 percent.

DEFINED BENEFIT PLAN CHANGES

NEBRASKA. LB 366 provides that state and county employees will begin participation in their respective retirement plans immediately upon permanent full-time employment rather than waiting 12 months. Full-time elected county officials will also begin immediate participation upon taking office.

Permanently employed part-time state and county employees who have attained the age of 20 may exercise the option to begin immediate participation in the retirement plan. All part-time elected county officials may exercise the option to begin immediate participation upon taking office. Changes vesting language to reflect immediate plan participation. Prior language stipulated three years to vest, which included the 12 months of eligibility and 24 months of plan participation. New language clarifies vesting as three years of plan participation.

WASHINGTON. Chapter 189, Laws of 2006 (HB 2691), allows current judges in PERS Plans 1 and 2 to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5% multiplier. The benefit would be capped at 75% of average final salary. Judges in PERS Plan 3 can elect a 1.6 % of pay per year of service benefit, capped at 37.5% of average final salary.

Chapter 350, Laws of 2006 (HB 2688), removes the current retirement benefit cap of 60 percent of a member's final average salary for members of LEOFF Plan 1 enrolled on or after February 19, 1974.

Chapter 309, Laws of 2006 (HB 2685) replaces the list of job classes in the statutes governing eligibility requirements for the Public Safety Employees' Retirement System (PSERS), established in 2004, with a duty-based set of membership criteria. To be eligible for membership, employees must work full-time and hold a position that requires completion of a certified criminal justice training course and which has the authority to arrest, investigate crimes, enforce the law, and carry a firearm; in which the primary duty is to ensure the custody and security of incarcerated individuals as a probation officer, corrections officer or jailer; that is a limited authority Washington Peace Officer; or in which the primary responsibility is to supervise employees who are eligible for membership under one of the previously listed membership criteria.

WEST VIRGINIA. The Consolidated Public Retirement Board reported on April 3, 2006, that 12,747 (56.1%) of the 22,707 teachers eligible to vote on consolidating the teachers' defined contribution plan with the teachers' defined benefit plan had cast valid ballots. Of those voting, 61.4% voted in favor of the consolidation (7,821-4,926). Under West Virginia law, the vote is valid and the consolidation was scheduled to occur on July 1, 2006. A legal challenge to the consolidation has brought a postponement of the merger; the hearing on the challenge is scheduled for July 28, 2006.

DEFINED CONTRIBUTION PLANS FOR BROAD CATEGORIES OF EMPLOYEES

ALASKA. The legislature considered but did not pass legislation that would have amended its 2005 creation of DC plans for state employees and teachers to increase the likelihood that the plans would qualify for tax-exempt status under IRS rules. The legislation as passed by the House of Representatives would also have delayed the closure of DB plans and their replacement by DC plans for one year. Senate refusal to agree with the delay brought about the death of the bill at the end of session.

COLORADO. Chapter 259, Session Laws of 2006 (SB 235) extended Colorado's menu of defined contribution plans to new employees of institutions of higher education, as of January 1, 2008.

DROP AND RELATED ISSUES

UTAH. Chapter 305, Laws of 2006 (HB 209) allows a member of a Utah State Retirement System to elect to receive either 12 or 24 months of the member's retirement allowance in a lump-sum payment upon retirement; provides for an actuarial reduction of the members allowance to reflect the lump-sum payment; prohibits more than one lump-sum payment per member; and allows the Retirement Board to make rules to implement the provisions of the bill.

DISABILITY

LOUISIANA. Act 578 of 2006 (SB 183) provides that members of the School Employees' Retirement system hired after June 30, 2006, are required to earn 10 years of service credit to be eligible for disability benefits, an increase of five years from previous law. The factor for calculating the benefit is increased from 2.5 percent to 3.0 percent of final average salary.

SOUTH DAKOTA. SB 10 provides conditions for the termination of disability benefits:
A member's disability allowance shall terminate one year after the earliest of the following:
(1) The member no longer is disabled;
(2) The member no longer is subject to the medical condition that caused the disability;
(3) The member refuses to undergo a medical examination requested by the system for the purpose of reviewing the medical condition that caused the disability;
(4) The member returns to continuous employment in the position the member held prior to becoming disabled; or
(5) The member returns to continuous employment in a position of comparable level to the position the member held prior to becoming disabled.
However, a member's disability allowance shall terminate immediately if the member's disability allowance is converted to a service retirement allowance.

EARLY RETIREMENT INCENTIVES

ILLINOIS. Public Act 94-0839 allows state employees to receive an Alternative Retirement Cancellation Payment (ARCP) consisting of a lump sum payment of their contributions with regular interest, times two. Five hundred Group 1 employees, those in executive branch agencies under the governor, are eligible (the first 500 to apply before August 31, 2006). Group 2 -- all employees of legislative and constitutional officers, including the courts, and all legislative agency employees -- are all eligible, and must apply before September 30, 2006. All applicants must have been hired before January 1, 2006, be on payroll on June 1, 2006, and must terminate employment within one month of application or by the terminal date for their group to apply. Anyone who returns to covered employment for more than 75 days a year must repay the amount by which the ARCP exceeded the employee's original contributions, within 60 days of re-employment.

LOUISIANA. Act 672 of 2006 (HB 45), the "Early Retirement and Payroll Reduction Act" allows members of the Louisiana State Employee Retirement System who are 50 years of age with at least 10 years of service credit to receive an annual, actuarially reduced, retirement allowance. The position vacated by the person taking early retirement is abolished, except those positions excluded by the Act or reestablished in accordance with the Act.

MINNESOTA. Chapter 271, Acts of 2005-2006, permitted a short-term option for executive or legislative branch agencies, school districts and some other public agencies that faced budget shortfalls that would cause layoffs to offer an early retirement incentive effective from July 1 through

September 1, 2006. It was available to employees with 15 years' membership in a defined benefit plan or the unclassified plan. The incentive was a payment not to exceed $17,000. The employer had to certify that the incentive payment was less than the cost of a layoff.

NEW YORK. A11805/S8408 (vetoed by Governor Pataki) would have provided two 90-day periods (the first beginning on June 3, 2006 and one next year) in which eligible Tier 2, 3 and 4 members of the New York State Teachers Retirement System aged 55 or older with 25 or more years of service would be permitted to retire without a benefit reduction. For these members, the current requirements for retiring without a reduction are age 55 with 30 years of service, or age 62 with five years of service.

FORFEITURE OF BENEFITS

MISSOURI. HJR 55 submits to the voters a proposed constitutional amendment that provides that any public official who is convicted in any court of a felony which occurred while in office or who has been removed from office for misconduct or following impeachment shall be disqualified from receiving any pension from the state of Missouri, effective January 1, 2007. (approved by voters)

GOVERNANCE AND INVESTMENT POLICY

CALIFORNIA. Chapter 442, Statutes of 2006 (AB 2941) prohibits the California State Teachers' Retirement System and the Public Employees' Retirement System from investing in companies with business operations in Sudan that meet specified criteria, and establishes procedures for identifying, engaging and divesting from such companies. Indemnifies from the General Fund all past, present, future board members, officers, employees and investment managers from liability sustained by reason of any decision not to invest in companies with business operations in Sudan.

AB 2570 (vetoed) would have required large public pension funds to report annually to the Controller on investments made in California's emerging domestic markets. Also stated legislative intent that local retirement systems invest in those emerging domestic markets within the state.

COLORADO. Chapter 259, Session Laws of 2006 (SB 235) revised the composition of the board of trustees of the Public Employee Retirement Association, effective January 1, 2007. The number of trustees was reduced from 16 to 15 with the removal of the State Auditor from membership. Three elective member positions (one each from the state division, the school division, and the local government division) were replaced with three members to be appointed by the governor, subject to Senate confirmation, no more than two of whom are to be from one political party, each of whom is to have relevant expertise (with various possibilities such as investment management, finance, banking, actuarial analysis, and so forth). The elected appointees will hold staggered three-year appointments.

CONNECTICUT. Public Act 06-51 (HB5632) provides for Sudan divestment. While federal Executive Order 13067 is in effect, this act (1) allows the state treasurer to divest, or decide against further or future investments of, state funds in any company doing business in Sudan and (2) requires her to divest and halt further investments in any security or instrument issued by Sudan. A "company" is any corporation, utility, partnership, joint venture, franchisor, franchisee, trust, entity investment vehicle, financial institution, or its wholly-owned subsidiary. It is doing business when it maintains equipment, facilities, personnel, or other business apparatus in Sudan.

MAINE. Public Law 2005, chapter 537 requires the Board of Trustees of the Maine State Retirement System to review the extent to which assets of state pension and annuity funds are invested in companies doing business in or with the nation of Sudan or its instrumentalities and to divest itself of any such holdings.

The law also prohibits the Board of Trustees from investing any assets in Sudan or such companies and cites extreme human rights abuses in that country. The law allows the Board to divest in accordance with sound investment criteria and consistent with its fiduciary obligations, and requires divestment to be complete by January 1, 2008. It provides an exemption for short-term investment funds that commingle commercial paper or futures and for other commingled investment or index funds.

The law requires the board to report annually to the Legislature on the progress of divestment and the implementation of the statutory section and provides for the repeal of the section on July 1, 2009. It also repeals statutory provisions relating to shareholder initiatives by state officials on state investments in Northern Ireland.

MINNESOTA. Chapter 277, Laws of 2005-2006 (SF 1057) merged the Minneapolis Teachers Retirement Fund Association (MTRFA) into the Teachers Retirement Association (TRA). The article also increases the formula used to calculate TRA benefits for coordinated members, in most cases from 1.7 to 1.9 percent of high-five salary for each year of service. The formula increase applies only to service after July 1, 2006. Increases employer and employee contributions to TRA by .5 percent of pay each, with the increased employer contribution not taking effect until July 2007. Increases state aid to school districts by the amount of the school districts' increase in the TRA contribution.

MISSOURI. The Missouri General Assembly considered sweeping pension reform legislation that reportedly would have passed both chambers and been signed into law by the governor except for scheduling glitches on the last night of the legislative session. The sponsor, Representative Todd Smith, Chair of the Joint Committee on Public Employee Retirement and of the House Retirement Committee, intends to reintroduce the legislation in 2007. Its provisions would appl;y to all Missouri state and local retirement plans. Regarding Boards of Trustees:

- Board members may not receive gains or profit from any fund or plan transaction
- Board members may not accept political contributions or compensation intended to influence an action with respect to plan investments
- Retirement benefits would be forfeited upon conviction for a plan-related felony committed after passage of the act
- Plans must implement education programs for new members including fiduciary responsibilities and sunshine law requirements
- Members who have served one year or more must annually attend at least two continuing education programs.

NEW MEXICO. HB 212, vetoed by Governor Richardson, would have created the State Investment and Retirement Systems Oversight Committee as a joint interim legislative committee. It would have included five voting members from each legislative house and five nonvoting members; one each from the State Investment Office, PERA, Secretary of Finance and Administration, State Treasurer's office and the Educational Retirement Board. The committee's responsibilities were:

- To create a plan for oversight of the retirement fund activities of the organizations represented by the five nonvoting members.
- Analyze the financial status of those funds and develop recommendations for improved investment practices to ensure the financial soundness of those funds.

The bill requested that all future legislation affecting state investment practices, the permanent funds or the retirement funds be presented to the committee for review and analysis prior to the session in which that legislation will be introduced. The bill appropriated $150,000 to the Legislative Council Service for technical and legal assistance to the committee through the end of fiscal year 2007.

The governor provided no reason for his veto, a pocket veto at the end of the session.

SOUTH CAROLINA. R225 and S617, a joint resolution, submits to the voters proposed constitutional amendments to repeal the constitutional restrictions on retirement systems' investments in equities and to abolish the State Retirement Systems Investment Panel. The effect of the repeal of the restrictions on investments would be to allow investments in foreign equities.

WISCONSIN. Act 316 of the 2005 Session (SB 527), transfers the statutory functions of the Legislature's Retirement Research Committee to the staff of the Legislative Council and eliminates the vacant positions of Retirement Research Director and staff. The staff of the Council will be responsible for the legal and research staff services for the Joint Survey Committee on Retirement Systems and will prepare fiscal estimates on bills referred to that committee. The staff of the Council will also be responsible under the statutes for preparation of the comparative study of major public employee retirement systems in the country. Readers will remember the late Blair Testin's long history with the Retirement Research Committee.

WYOMING. Act No. 35 makes the administrative budget developed by the trustees of the Wyoming Retirement system subject to legislative approval.

HEALTH COVERAGE.

MAINE. Public Law 2005, chapter 636 allows retired county and municipal law enforcement officers and retired municipal firefighters who are enrolled in a county or municipal self-insurance health coverage plan to join the state group health plan under certain circumstances and provides a state premium subsidy.

The law also creates the Retired County and Municipal Law Enforcement Officers and Municipal Firefighters Health Insurance Program, which provides for health insurance coverage when the retiree is at least 50 years of age, is eligible for a retirement benefit under certain conditions and participated in the county or municipal health plan while employed. The program provides for a state premium subsidy, beginning July 1, 2007, equal to 45% of the cost of insurance premiums, or dollar equivalents, for each eligible retiree. Health insurance coverage under the program is not effective until July 1, 2007 or the date of retirement, whichever occurs later.

Each participant must contribute 1.5 % of gross wages to a fund to offset the costs of the program. An enrollee must make contributions to the fund for 60 months, or pay a lump sum dollar equivalent that is computed based on the enrollee's age, in order to be eligible for coverage under the program. Members of volunteer or call firefighters' associations in this State, as well as persons serving as county or municipal law are also eligible for the plan.

NORTH CAROLINA. Session Law 2006-174 (SB 837) Retired teachers, state employees, members of the General Assembly, and retired State law enforcement officers who first take office on and after February 1, 2007, health care coverage as retired employees and retired members of the General Assembly is subject to a requirement that the future retiree have 20 or more years of retirement service credit in order to be covered. Except that, employees and members of the General Assembly with 10 but less than 20 years of retirement service credit shall be eligible for coverage on a partially contributory basis, provided the employees were first hired on or after October 1, 2006, and the members first took office on or after February 1, 2007. For such future retirees, the state will pay 50% of the plan's total noncontributory premiums. Individual retirees will pay the balance.

UTAH. Chapter 276, Laws of 2006, requires the Public Employees' Benefit and Insurance Program (PEHP) to offer a high deductible health plan with a federally qualified health savings account; prohibits the program from allowing an employee to change from the high deductible health plan to another health plan more frequently than every three years; and requires the high deductible health plan to include a health savings account for each covered individual with certain contributions made by the employer and optional contributions made by the employee.

VIRGINIA. Chapter 622, Laws of 2006 (HB 59), removes a limit on subsidies for health insurance for retirees. It retains the monthly health insurance credits provided to retired state employees at $4 per year of creditable service, and removes the maximum monthly cap of $120. Subject to appropriation of required funds.

LEGISLATIVE REVIEW OF RETIREMENT POLICY

OKLAHOMA. Chapter 292, Laws of 2006 (Senate Bill 1894) provides for extended review of legislation that carries a fiscal impact on a retirement plan. Any legislation with a fiscal impact on a retirement plan must be introduced in the first legislative session and cannot be passed until the second legislative session. Any measure with a fiscal impact must be assigned to the State Auditor and Inspector and an actuarial impact statement provided before the Legislature acts on the measure.

LEGISLATIVE RETIREMENT PLANS

GEORGIA. Act No. 580 (House Bill 644) allows up to 10 years of creditable service to any member who rendered temporary, full-time service in the legislative branch of state government prior to July 1, 2006. Member must make application by January 1, 2007 and pay employer and employee contributions that would have been paid during such period, plus regular interest thereon.

NEW MEXICO. SB 20 (vetoed by Governor Richardson) would have revised the method for calculating legislators' and lieutenant governors' retirement benefits. Under existing law, the benefit is a multiple of the per diem rate allowed legislators in the year a legislator or the lt. gov. retires. This law would have based the calculation on the average of the three highest rates in effect during the official's service, and would probably have resulted, on average, in higher retirement benefits because of the fluctuation of per diem rates from year to year. The governor vetoed the bill because the retirement provision had been added to a bill concerning mileage reimbursement rates in a way that the governor contended altered the original purpose of the bill in an unconstitutional manner.

TENNESSEE. Chapter 982, Public Acts of 2006 (SB 3178), provides a annual cost of living increase for legislative pensions, which statute sets at a dollar amount per year of service, and makes the COLA, though not the underlying benefit, optional at a legislator's written request.

UTAH. Chapter 143, Laws of 2006 (HB 346) allows the following at-will employees to be excluded, upon written request, from coverage under the Public Employees' Contributory Retirement System and the Public Employees' Noncontributory Retirement System: a person appointed by the speaker of the House of Representatives, the House of Representatives minority leader, the president of the Senate, or the Senate minority leader; or an employee of the Governor's Office of Economic Development who has been hired directly from a position not covered by a system.

MILITARY SERVICE

KENTUCKY. Chapter 85, Acts of 2006 (HB 79) requires the Commonwealth of Kentucky to pay the member's contribution to the Teachers Retirement System for all certified staff employed in local school districts who are members of a state national guard or reserve component ordered to active service by the president of the United States and who return to their former employment in a timely fashion upon release from active duty, so the member can receive service credit for the time spent in active duty.

MARYLAND. Chapter 277, Laws of 2006 (SB 866) provides that members or former members with 10 years of credited service in a state system who are entitled to a vested retirement allowance may apply for service credit in a state system for military service; prohibiting retirees from applying for service credit in a State system for military service; and providing that the military service that specified members or former members of a State system who are entitled to a vested retirement allowance receive is applied toward their retirement allowance using a specified accrual rate.

VERMONT. Act 163 of the 2005-2006 session (H 238) provides a one-time military service stipend for beneficiaries of the Vermont state retirement system and the state teachers' retirement system who retired prior to July 1, 2006 and who, prior to retirement, would have been otherwise eligible for credit for military service in what is now the Republic of Vietnam between February 28, 1961 and August 4, 1964. Upon a determination that the beneficiary was eligible prior to retirement for a grant of military service credit for service under this section, the beneficiary shall be entitled to a stipend of $500.00 for each year served, up to a maximum of $1,500.00. The stipend shall be pro-rated for partial years of service.

RE-EMPLOYMENT AFTER RETIREMENT

CONNECTICUT. Public Act 06-192 provides that a former teacher receiving retirement benefits from the system may be reemployed by a local board of education or by any constituent unit of the state system of higher education in a position designated by the Commissioner of Education as a subject shortage area for the school year in which the former teacher is being employed. Such employment may be for up to one full school year but may, with prior approval by the board, be extended for an additional school year.

IDAHO. Chapter 185, Laws of 2006, (SB 1345) allows a retired member of the Public Employee Retirement System to continue receiving retirement benefits from the system after election to office, provided the person does not return to an office from which he or she retired, has been retired at least six months, and retired with an unreduced retirement benefit. Previous law limited continuation of benefits to retirees elected to offices that required less than 20 hours per week employment.

ILLINOIS. Public Act 94-0914 (House Bill 5331), extends existing return-to-work provisions until June 30, 2011 and allows retired teachers to return to work for 120 days or 600 hours without entering into active service.

KANSAS. Senate Bill 270 (signed 4/18/2006) addresses several issues:
The bill raises the working after retirement salary limitation from $15,000 to $20,000 for retired Kansas Public Employee Retirement System (KPERS) members who return to work after retirement for the same participating employer from which they retired. There is no salary limitation if a retiree returns to work for a different KPERS participating employer. For local elected officials and legislators who retire from a KPERS participating employer while serving in elected office and participating in KPERS as an elected official with a different participating employer, the bill raises the

salary limitation from $15,000 to $20,000 per year while serving in public office and drawing a KPERS retirement benefit.

The bill requires any KPERS participating employer who hires a KPERS retired member to pay the KPERS actuarially-determined employer and employee contributions on behalf of the retired member. There is no payment required if a KPERS retiree returns to work for the same KPERS participating employer that employed the individual before retirement. The fiscal note indicates that this provision would increase contributions to KPERS, with the following FY 2007 (CY 2007 for the local group) rates attributed the members of the three principal KPERS groups of participating employers: Participating employers from all groups will pay the statutory employee rate of 4.0 percent. For FY 2007, those employers in the state group will pay an employer rate of 5.84 percent, the school group 9.75 percent, and the local group 7.69 percent.

Another provision in the bill changes the statutory definition of a professional employee to exclude, beginning in the 2006-2007 school year, any person who retires from school employment as a KPERS member, regardless of whether an agreement on terms and conditions of professional service between a board of education and an exclusive representative of professional employees provides to the contrary. Another provision in the bill changes the statutory definition of teacher to exclude, beginning in the 2006-2007 school year, any person who retires from school employment as a KPERS member. No fiscal note is available for this provision.

NEW YORK. Chapter 74, Laws of 2006, allows a retired member of the New York State and Local Employees' Retirement System and the Police and Fire Retirement System to earn $30,000 a year in public employment without diminution of retirement benefits, in 2007 and thereafter. The cap was increased from $27,500 for 2005 and 2006.

VIRGINIA. Chapter 513, Laws of 2006 (SB 99) allows persons who retired as other than a teacher to teach in a critical shortage position while continuing to receive a retirement allowance, provided the person becomes licensed by the Board of Education to serve as a local school board instructional or administrative employee. Under current law, only those retired persons who served as teachers are eligible to teach in critical shortage positions while continuing to receive a retirement allowance.

SERVICE CREDIT/ PURCHASE OF SERVICE/ TRANSFER OF CREDIT

COLORADO. Chapter 259, Session Laws of 2006 (SB 235) requires that purchases of service credit be at full actuarial cost.

UTAH. HB 11 provides for the purchase of service credit in the Utah State Retirement System for employment in a private school based in the U.S., including employment in a U.S. territory, if the purchaser was eligible for an employer-paid retirement benefit for the employment. Requires that the payments be made to the retirement system of which the purchaser is currently a member.

VIRGINIA. Chapter 635, Laws of 2006 (HB 406) permits any member of the Virginia Retirement System to purchase prior service credit for creditable service at a private institution of higher education if the private institution is merged with a public institution of higher education and graduates of the private institution are then issued new degrees from the public institution.

WASHINGTON. Chapter 214, Laws of 2006 (HB 2690), permits members of the Teachers', School Employees', and Public Employees' Plans 1, 2 and 3, the Public Safety Employees' Retirement System Plan 2, the Law Enforcement Officers' and Fire Fighters' Plan 1, and the Washington State Patrol Retirement System to purchase up to five years of service credit at time of normal or early retirement. The service credit purchased is not regular membership service and may not be used for purposes such as qualifying for improved early retirement benefits, such as the 3 percent per year reduction available to members of the PERS, TRS, and SERS Plans 2 and 3 with 30 years of service. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit. The member may pay all or part of the cost of the additional service with an eligible transfer from a qualified retirement plan. The DRS must adopt rules to ensure that all purchases and transfers comply with the requirements of the federal Internal Revenue Code and regulations.

Chapter 257, Laws of 2006 (HB 2680) provides that members of the Teachers Retirement System's Tiers 2 and 3 may make a one-time purchase of up to seven years of service credit for public education experience outside Washington's retirement systems. The education experience must have been covered by a government retirement plan, and the member must have earned at least five years of service credit in TRS 2/3. In addition, the member must not be receiving, or be eligible to receive, a retirement benefit from the other plan. The service credit purchased is considered membership service in TRS 2/3, and it thus may be used to qualify the member for retirement or early retirement. The member must pay a cost for the service credit equal to the actuarial value of the increase in value of the member's benefits. A member that purchases out-of-state service credit may not use credit in other state's retirement systems for the purposes of qualifying for retirement in Washington. A member may pay for all or part of the cost of a service credit purchase with an eligible rollover from an eligible qualified retirement plan.

WYOMING. Enrolled Act No. 47 (SF 91) allows any vested member of the Wyoming Retirement System a one-time purchase of up to five years at actuarial cost, for any prior FICA-covered employment or in the cases of law enforcement personnel or firefighters, under rules that the WRS board may establish.

SOCIAL SECURITY AND MEDICARE COVERAGE

MINNESOTA. Chapter 271, Laws of 2005-2006 (SF 2239) amends laws governing Social Security coverage for public employees. These laws are administered by PERA for all Minnesota public employees. This article allows each local government unit to determine whether to provide Social Security coverage to its elected officials who are members of the PERA defined contribution plan. This article also allows retirement plans to conduct Medicare-only referendums to allow public employees who have not previously been covered by Medicare to be covered. This applies only people hired before 1986, as people hired since then all are covered by Medicare

STUDIES

IOWA. HF 729 Requires the Public Retirement Systems Committee to report to the Legislature by October 1, 2007, on alternatives to the current IPERS plan. The committee will review pension flexibility, including defined contribution, supplemental, and hybrid retirement plans, and cost-of-living adjustments.

LOUISIANA. HSR1 requests the Louisiana House Committee on Retirement to study the actuarial soundness, liabilities, and benefits of the DROP programs of the state retirement systems and to report its findings to the legislature prior to the convening of the 2007 regular session.

HSR8 requests the Louisiana House Committee on Appropriations to study methods of funding the unfunded accrued liability of the state retirement systems.

MINNESOTA. Chapter 277, Laws of 2005-2006 (SF 1057) requires the Legislative Commission on Pensions and Retirement to study structure and implication of procedures used by major Minnesota public pension plans to provide investment performance based postretirement increases. Requires a report by December 1, 2006.

The act also requires the commission to study the structure of the Minnesota combined investment funds and the Minnesota postretirement fund. Requires a report by December 1, 2006.

TAXATION OF RETIREMENT BENEFITS

MARYLAND. Chapter 226, Laws of 2006 (SB 22/HB 35), provides an exclusion of $5,000 of military retirement income for people retired from the U.S. armed forces or Maryland National Guard and specified other federal agencies after July 1, 1991, effective for tax year 2006 and thereafter. This exclusion cannot be taken in addition to the maximum pension exclusion generally available to Maryland residents.

IOWA. S.F. 2408 progressively reduces the amount of Social Security benefits taxable under Iowa law from tax years 2008 through 2014, at which time no Social Security benefits will be taxable under Iowa law. The act also provides a tax exclusion of $18,000 for a single taxpayer and $24,000 for married couples filing jointly or separately on a joint reform for tax years 2007 and 2008. The exclusion will increase to $24,000/$32,000 for tax year 2009 and following years. Social Security income is included in net income for the purposes of calculating the effect of the tax exclusions on Iowa tax liability.

WEST VIRGINIA. SB 786 added an additional income tax modification for the tax year 2006 only of as much as $30,000 of severance wages for permanent termination through reduction in force and through no fault of employee. Reduction in force is defined as a net reduction of employees employed by the employer in WV, determined based on the total WV employment of the employer's controlled group. The new provision also defines severance wages, controlled group and corporation for purposes of this limited modification. W.Va. Code §11-21-12(c)(11)(i),(ii),(iii) & (iv). (SB786 (2006RS)-effective from passage).

VESTING

IOWA. HF 729 reduced the vesting requirement for members of the Judicial Retirement System from six years to four.

WASHINGTON. Chapter 33, Laws of 2006 (HB 2684) reduces the vesting requirement for the defined benefit portion of the benefit plans for members of the Public Employee Retirement System, School Employees Retirement System and the Teachers Retirement System Plan 3, from 10 years or five years with one year after age 54 to 10 years or five years of service with one year after age 44.