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Pensions and Retirement Plan Enactments in 2012 State Legislatures

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Introduction

This report summarizes selected state pensions and retirement legislation enacted in 2012. Its goal is to help researchers and policy makers know how other states have addressed issues that could arise in any state. In keeping with that goal, the report excludes most clean-up legislation, cost-of-living adjustments, administrative procedures and technical amendments. This report is organized according to the topics that legislatures addressed in 2012, listed at the end of this introduction.

Material in brackets is explanatory information in addition to the summary of an act.

Findings

Ten states made major structural changes in state retirement plans in 2012. **Kansas, Louisiana** and **Virginia** replaced defined benefit plans with cash balance or hybrid plans for new employees. **Michigan** added an optional defined contribution plan for public school employees.

- **Alabama** closed its existing retirement plan for most state and local government employees on Dec. 31, 2012, and replaced it with a new defined benefit tier that includes higher age and service requirements for retirement, a longer period for calculating final average compensation, a lower multiplier for calculating benefits, and, uniquely in 2012, a reduced mandatory employee contribution.
- **California** passed legislation affecting new employees that increases age and service requirements for retirement, places a cap on pensionable compensation, increases the period used to calculate final average compensation, implements a new definition of pensionable compensation and requires new employees to share at least 50 percent of the normal cost for benefits. Other changes affect both current and new employees including prohibition on the purchase of nonqualified service credit, an additional 180-day waiting period for re-employment after retirement, prohibition on pension holidays and expanding the benefit forfeiture law to include any public employee convicted of certain felonies.
- **Kansas** concluded a two-year reconsideration of its defined benefit retirement plans for state, school and local public employees with new statutory provisions that include generally higher contributions (or a reduction in benefits) from current employees and a cash balance plan for most new state, school and local public employees hired on or after Jan. 1, 2015.

- **Louisiana** passed legislation to close its defined benefit plan for most state government employees and employees of higher education on July 1, 2013, and replace it with a cash balance plan. *However, the enactment of the cash balance plan was ruled unconstitutional on Jan. 24, 2013 by the 19th Judicial District Court on the grounds that the House of Representatives passed the legislation with a simple majority rather than a two-thirds majority required by the Louisiana Constitution for certain legislation.*
- **Michigan** will offer new members of the Public School Employees' Retirement System a defined contribution plan option in addition to the hybrid plan that has been mandatory for new members since July 2010. Members of previously closed defined benefit plans will be required to choose between higher contribution rates or lower future benefit accrual rates, along with an option to move to a defined contribution plan. The state also terminated retiree health insurance coverage for members of the plan, replacing it with employer matches to employee contributions to deferred compensation plans plus a lump-sum termination payment.
- **New York** closed its latest retirement tier for state and local employees, including most New York City employees, on March 31, 2012, and replaced it with a Tier 6 plan that increases the age of retirement, and provides a longer period for calculating final average compensation and a lower multipliers for calculating benefits. The legislation will increase employee contribution requirements with an unusual plan of scaling contributions to the amount of employees' salary.
- **Ohio** passed a reform package making numerous changes to the state's five plans: the Public Employees Retirement System, the State Teachers Retirement System, the Police and Fire Pension Fund, School Employees Retirement System and the State Highway Patrol Retirement System. The provisions for each plan vary. In general, the legislation modifies age and service requirements, changes the benefit formula multiplier, reduces cost-of-living adjustments, increases costs to purchase service credit and makes various other changes.
- **South Carolina** enacted legislation to increase employee contributions for current and new employees, increase age and service requirements for retirement with full benefits, provide a longer period for calculating final average compensation, cap future cost-of-living increases and terminate a deferred retirement option for general employees and teachers.
- **Virginia** enacted legislation to require local government plan members to begin contributing 5 percent of salary to retirement plans, contributions that employers have picked up for many years. Local government employers will provide an offsetting salary increase. Separate legislation will close defined benefit plans for most state and local government employees at the end of 2013 and replace them with a hybrid plan with defined benefit and defined contribution components. Legislation also limited future cost-of-living increases.
- **Wyoming** created a new defined benefit plan tier applicable to state and local government employees as of Aug. 31, 2012. The new tier includes higher age and service requirements for retirement, a longer period for calculating final average compensation and a lower multiplier for calculating benefits. Contribution requirements are unchanged. Separate legislation provides that cost-of-living adjustments will be granted in the future only when the retirement system is fully funded.

Sources and Acknowledgements

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

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List of Topics

1. Contribution Rates and Funding Issues

Alabama. 2012 Ala. Acts, Act 377 (Senate Bill 388) creates a new tier of membership for the Employees' Retirement System (ERS), the Teachers' Retirement System (TRS) and the ERS plan for state police, effective for those first joining one of the plans on or after Jan. 1, 2013. It reduces future benefits by lengthening the period over which final average salary is calculated and by increasing retirement ages. It reduces required employee contributions for all Tier II members except state police members, in comparison with rates for Tier I members.

	Tier I	Tier II
ERS and TRS	7.5%	6%
ERS State Police Plan	10%	10%
ERS other law enforcement and fire	8.5%	7%

The legislation will result in lower 2013 estimated employer contributions as follows:

	Tier I	Tier II
ERS (all members except state police)	10.12%	10.04%
TRS	10.08%	9.44%
ERS State Police Plan	31.61%	25.32%

The changes are estimated to save employers approximately $5 billion from fiscal year 2016 through fiscal year 2043.

Arizona. 2012 Ariz. Sess. Laws, Chap. 304 (House Bill 2264) reverses employee contribution increases enacted in 2011 that have been declared unconstitutional by the Arizona Superior Court. 2011 Ariz. Sess. Laws, Chap. 26 changed contribution requirements for the Arizona State Retirement System to require that employees contribute 53 percent of the benefits and costs of administering the program, an increase from 50 percent. House Bill 2264 retroactively reverts the contributions to a 50/50 division, effective immediately. The excess contributions will be returned to employees. The bill appropriates about $40 million to cover state and local government employers' costs of the reimbursements.

California. 2012 Cal. Stats., Chap. 296 (Assembly Bill 340) makes various changes affecting contribution rates and funding in California public retirement systems including the Public Employees' Retirement System (PERS), the State Teachers' Retirement System (STRS) the Judges' Retirement System II, the Legislators' Retirement system and other county and city systems.

- *Contributions.* The bill requires new members who are first employed on or after Jan. 1, 2013 to pay at least 50 percent of the annual actuarially determined normal ongoing cost of benefits, or the current contribution rate of similarly situated employees, whichever is greater. Employee contributions can be higher than 50 percent of the normal costs if agreed to through collective bargaining. The bill prohibits public employers from contributing, in combination with employee contributions, less than the plan normal cost. "Pension holidays" or suspensions of contributions are also prohibited, except under very limited circumstances. Assembly Bill 340 also provides that equal sharing of the normal cost between the employer and the employee shall be standard.
- *Anti-spiking.* The bill requires the Board of Administration of PERS to implement program changes to ensure that a contracting agency that creates a significant increase in actuarial liability bears the associated liability. The system actuary will increase the contribution rate for an employer that creates a significant increase in actuarial liability.

Hawaii. 2012 Hawaii Sess. Laws, Act 153 (House Bill 2487) assesses the last employer for those employees who meet the criteria of high compensation levels due to overtime and other non-base pay increases (also known as "pension spiking") in the last years of employment. The unfunded portion attributed to these significant non-base pay increases are required to be paid by the last employer by the next fiscal year after the employee retires.

Kansas. 2012 Kan. Sess. Laws, Chap. 171 (House Bill 2333) re-enacts certain modified changes in contribution requirements for active members of the Kansas Public Employees' Retirement System enacted in 2011. The plans for public safety employees and judges were not changed.

- Employees will select between the options in a 90-day election period beginning on July 1. Tier 1 members are provided contribution options as follows in 2013 (subject to IRS approval). [Tier 1 was closed to new members on June 30, 2009.]
    - The first option is the default in case a member fails to choose or in case the IRS disapproves the election of the options. It will increase the employee contribution from 4 percent to 6 percent over two years and provide an increase in multiplier from 1.75 percent to 1.85 percent for future years of service.
    - The alternative option will be to freeze the employee contribution rate at 4 percent and reduce the member's multiplier for future service from 1.75 percent to 1.4 percent.
- All Tier 2 members will continue the existing employee contribution rate of 6 percent of salary. The legislation eliminates their post-retirement cost-of-living benefit increases. The legislation increases Tier 2 members' annual multiplier for all past and future service from 1.75 percent to 1.85 percent.

The legislation also raises the annual rate of increases in statutory caps on employer contributions to KPERS. Under current law, employer contributions are allowed to increase 0.6 percent annually. This legislation increases the *rate* at which employer contributions may increase. The 0.6 percent *rate cap* is increased to 0.9

percent for FY 2014 and by increments to 1.2 percent for FY 2017. The same changes will apply to local government employers on a calendar year basis.

The legislation also provides that a share of state gaming revenues from state-owned casinos will be directed to the KPERS unfunded liability beginning in FY 2014, when the amount is estimated to be $30 million. Also, 80 percent of the proceeds from any sale of state surplus real estate will be directed to the KPERS unfunded liability until the retirement system reaches an 80 percent funded ratio.

Maryland. 2012 Md. Laws, Chap. 485 (Senate Bill 335) increases the member contribution for Judicial Retirement System members from 6 percent to 8 percent of earnable compensation. The increase matches the two percentage point increase in member contribution rates enacted in 2011 for members of the Teachers' Pension System and the Employees' Pension System (EPS).

Maryland. 2012 Md. Acts of Special Session, Chap. 1 (Senate Bill 1301) the Budget Reconciliation and Financing Act of 2012, in the article on state personnel and pensions, provides for shifting a portion of the employer contribution for teachers who are members of the Maryland State Retirement and Pension System from state government (which has paid the full employer contribution for members until now) to local school boards.

- Retirement costs are shared for school boards only (excludes libraries and community colleges).
- School boards will pay the normal cost of retirement phased in over four years with concurrent county-paid maintenance of effort increases. They will be responsible for 50 percent of the normal cost in FY 2013 and all of the normal cost in FY 2016.
- The required maintenance of effort amount paid by counties increases each year by the additional pension costs during the phase-in period.
- Increased pension costs are offset by new county revenues and local aid to counties and school boards beginning in fiscal 2013 and 2014, and federal fund reimbursement relief to school boards beginning in FY 2015.
- State government maintains its responsibility to pay for the unfunded accrued liabilities of the system, as well as a portion of the normal cost and any costs above the estimates during the phase-in period.

The normal cost for which school boards will be responsible is estimated to increase from $137 million for FY 2013 to $255 million for FY 2016, when it will be entirely shifted to the boards. The new assessment has been offset with various revenue increases and increases in state aid to local governments.

Michigan. 2012 Mich. Pub. Acts, Act 300 (Senate Bill 1040) makes changes in contribution requirements for two closed tiers of the Public School Employees' Retirement System. Currently, employees hired prior to 1990 who never transferred into the Member Investment Plan (MIP) are in a noncontributory plan called the Basic Plan and contribute 0 percent for their pension benefits. Employees hired since Jan. 1990 but before July 2010 or former Basic Plan members who transferred into the MIP plan contribute between 3 percent and 6.4 percent, depending on their level of compensation and their hire date, in return for an enhanced pension benefit compared to the original Basic Plan.

Employees currently in either the Basic or MIP pension plan must choose among the following options. Pursuant to Senate Bill 1360, (*see below*) employees were required to make this election by Jan. 9, 2013 and it took effect on Feb. 1, 2013.

1. Increase their contribution to 4 percent for the Basic Plan and 7 percent for the MIP and maintain the current 1.5 percent pension multiplier. Currently MIP contributions are graduated based on income, while this bill requires a flat 7 percent on all compensation. The bill specifies that the employee contributions could not exceed the normal cost of the pension benefit. Employees who

chose to pay an increased contribution could choose to contribute either until their retirement or until they reach 30 years of service, at which point their contributions would decrease to current levels and their pension multiplier for years of service that exceed 30 would decrease to 1.25 percent

2. Maintain current contribution rates, freeze existing benefits at the 1.5 percent multiplier and receive a 1.25 percent pension multiplier for future years of service.

3. Freeze existing pension benefits and move into a defined contribution (DC), 401(k)-style, plan with a flat 4 percent employer contribution for future service.

In addition, Senate Bill 1040 offers new members of the Public School Employees' Retirement System as of September 4, 2012, the option of choosing between the existing DB/DC hybrid plan, (enacted in 2010) and a defined contribution plan. The latter will provide employees a 50 percent match on employee contributions up to 6 percent of the employee's salary. The maximum employer match would be 3 percent of salary. Members will be automatically enrolled in the plan at the 6 percent contribution level, but may choose to contribute less or to not contribute. There will be no employer contribution in the absence of employee contributions.

The legislation also includes two significant changes to the employer contribution rates:
- The legislation will re-amortize the cost of the early retirement program of 2010 from five years to 10 years in order to create short-term savings and allow additional funding in the short term to be redirected to prefunding retiree health care for greater long-term savings.
- Second, the bill would cap the employer rate for the unfunded accrued liability at 20.96 percent of payroll, with intent to provide School Aid Fund contributions to pay the amount that exceeds the employer maximum rate.

Michigan. 2012 Mich. Pub. Acts, Act 359 (Senate Bill 1360) is an amendatory act that extends the employee election deadline of 2012 Mich. Pub. Acts, Act 300 (Senate Bill 1040, *see above*). Under Senate Bill 1040, members of previously closed defined benefit plans were required to choose between higher contribution rates, lower future benefit accrual rates or moving to a defined contribution plan. The election deadline under Senate Bill 1040 was scheduled for Oct. 26, 2012 and the selections were to take effect on Dec. 1, 2012. However, on Sept. 4, 2012 an Ingham County Circuit Court ruled that the reform was constitutional except for the length of the election window and it issued a temporary restraining order prohibiting the state from enforcing the election deadline and the implementation of the provisions related to employee elections indefinitely. In response, Senate Bill 1360 established new deadlines for the election, gave members of the Members Investment Plan and the Basic Plan until Jan. 9, 2013 to choose which between the plan options and made those elections take effect Feb. 1, 2013.

New Hampshire. 2012 N.H. Laws, Chap. 261 (House Bill 1483) repeals legislation of 2008 scheduled to take effect July 1, 2012, which states that if a municipal public employee's final average pay is greater than 125 percent of the employee's average base pay, cities and towns must pay the part attributed to "spiking." According to the New Hampshire Retirement System, the anti-spiking law was enacted to "discourage employers from allowing extreme end-of-career spikes in earnable compensation." The system states with the "spiking-charge" in effect, those employers paying the charge will contribute, over an extended period of time, a greater percentage of payroll than those employers who are not subject to the "spiking-charge." Municipal governments sought the repeal to ward off unanticipated charges from the retirement system.

New Jersey. Senate Concurrent Resolution 110 (passed by both chambers and filed with the Secretary of State; does not require the governor's signature) proposes a constitutional amendment that clarifies the legislature's authority to enact laws that deduct contributions from the salaries of Supreme Court Justices and Superior Court Judges to help fund their employee benefits, which include their pension and health care coverage. The amendment specifically concerns only these justices and judges, as only their salaries are referenced and protected from various reductions during their terms of appointment under the current provisions of Article VI, Section VI, paragraph 6 of the New Jersey Constitution.

The amendment responds to a question raised in a 2011 lawsuit, *DePascale v. State*, MER-L-1893-11, filed after the legislature passed and the governor signed into law P.L.2011, c.78. That law increased the contributions to be deducted from the salaries of current and future Supreme Court Justices and Superior Court Judges (as well as other public employees), starting in October 2011. The lawsuit, which was appealed to the State's Supreme Court argued for stopping the higher contributions with respect to currently appointed justices and judges, citing to the Constitution's Article VI, Section VI, paragraph 6, which states that salaries for justices and judges "shall not be diminished during the term of their appointment."

The amendment adds language to that provision to clarify that benefit contributions may be deducted from justices' and judges' salaries during their terms as set from time to time by law. It would become part of the New Jersey Constitution immediately upon approval by the voters, and make the higher benefit contribution requirements of P.L.2011, c.78 applicable to all current and future justices and judges as of that date.

New York. 2012 N.Y. Laws, Chap. 18 (Senate Bill 6735) establishes Tier VI retirement plans affecting most new members of the state and New York City retirement plans as of April 1, 2012.

As it relates to new members of the New York State Teachers' Retirement System and the New York State and Local Retirement System, the legislation requires 3.5 percent contributions regardless of salary until April 1, 2013. Thereafter, the contribution rate in a given year is based upon regular compensation in the year two years previously, as follows:

Wages of $45,000 or less	3%
More than $45,000 to $55,000	3.5%
More than $55,000 to $75,000	4.5%
More than $75,000 to $100,000	5.75%
More than $100,000 to $179,000	6%
No contribution on earnings in excess of the governor's salary, currently $179,000.	

[For comparison, the Tier V state and local employee contribution is 3 percent and the teacher's system's employee contribution is 3.5 percent.]

Ohio. 2012 Ohio Laws, S. 342 (Substitute Senate Bill 342) increases the State Teachers Retirement System of Ohio member contribution rate by 4 percent. The increases are phased in at 1 percent per year from July 1, 2013 through July 1, 2016. Members will contribute 14 percent of their salary beginning July 1, 2016. The board may reduce the employee contribution rate after July 1, 2017 if the board's actuary determines that a reduction in the rate does not materially impair the fiscal integrity of the retirement system.

Ohio. 2012 Ohio Laws, S. 340 (Substitute Senate Bill 340) increases the Ohio Police and Fire Pension Fund member contribution rates by 2.25 percent. The law phases in the increases by .75 percent each year from July 1, 2013 through July 1, 2015. Members will contribute 12.25 percent of their salary beginning July 1, 2015. The law also gives the board the authority to adjust member contribution rates in the future if the board's actuary determines that it is necessary to meet funding period requirements.

Ohio. 2012 Ohio Laws, S. 345 (Substitute Senate Bill 345) permits the State Highway Patrol Retirement Board to increase member contribution rates from 10 percent to 14 percent as necessary, effective June 24, 2013. The law requires the Ohio Retirement Study Council to make recommendations on the authority of the board to adjust the employee contribution rate.

South Carolina. 2012 S.C. Acts, Act 278 (House Bill 4967) increases employee and employer contribution rates for the South Carolina Retirement System. The increases affect current members and new hires. Employee contributions will increase from the current rate of 6.5 percent to 8 percent in 0.5 percent increments beginning on July 1, 2012 with the final increase effective on July 1, 2014. Employer contributions will increase from 10.6 percent to 10.9 percent over the same period. If additional contribution increases are required, both employee and employer contribution rates will be increased to maintain a 2.9 percentage point differential between the rates. No decrease in contribution rates may be made until the system is at least 90 percent funded.

For current and new members of the Police Officers' Retirement System, member contributions will change as above. Employer contributions will increase from 12.3 percent at present to 13 percent on July 1, 2014. The 5-percentage point differential will be maintained if additional increases are required.

For current members of the General Assembly Retirement System, employee contributions will increase from the current 10 percent to 11 percent on Jan. 1, 2013. This legislation closes the plan to people first elected to the General Assembly in November 2012 and after.

Virginia. 2012 Va. Acts, Chap.702 (House Bill 1130/Senate Bill 498) establishes a hybrid plan applicable to most new state and local government employees as of Jan. 1, 2014. General plan provisions are summarized in the Defined Contributions, Cash Balance and Hybrid Plans section of this report.

Mandatory employee contributions for the hybrid plan will total 5 percent of salary, the same as the member contribution for Virginia Retirement System (VRS) defined benefit plans. Employees must contribute to both the DB and the DC component of the hybrid plan.

- The employee contribution will be 4 percent to the DB component and 1 percent to the DC component. Employees may contribute as much as an additional 4 percent of salary to the DC component to earn an additional partial employer match.
- Employer contributions for the DB plan will be actuarially determined at the rate set for the legacy defined benefit plans. After employers' matches for employee DC plan contributions are satisfied, any excess employer contribution will be credited to the accrued unfunded liability of the VRS defined benefit plans. The fiscal note to HB 1130 states: "Because the legacy defined benefit plan is not being closed in order to implement the hybrid plan, the more significant contribution rates that would otherwise result from a complete shift to a defined contribution plan are avoided."
- Employer contributions to each employee's DC account will be as follows:
    - For the 1 percent mandatory employee contribution, 1 percent of salary.
    - For the first 1 percent voluntary employee contribution, 1 percent.
    - 0.5 percent for each additional 1 percent voluntary contribution, up to the full 5 percent that is subject to match.
    - The total possible employer contribution would be 3.5 percent on a 5 percent employee contribution.
- Vesting of employer contributions to the DC account will begin at 25 percent after an employee has participated continuously in the program for one year, increasing at 25 percent a year until the employee is fully vested in the employer contribution after four years of continuous membership.

Virginia. 2012 Va. Acts, Chap. 822 (Senate Bill 497) affects contributions to the Virginia Retirement System from local governments and local government employees. It provides that:

- School division and political subdivision employees whose employers currently pay all or part of the 5 percent Plan 1 or Plan 2 member contribution will begin paying the contribution on a salary reduction basis on July 1, 2012.
- Employers may, at their option, phase in the member contribution over five years, except that new or returning employees as of July 1 must make the entire 5 percent contribution.
- Localities and school boards are required to increase employee compensation on July 1, 2012 to offset the member contributions.
- The offsetting raise is to be effective July 1 unless a government is phasing in the member contribution.
- Plan 1 or Plan 2 employees who were paying the member contribution or some portion of it as of Jan. 1, 2012, will not receive an offsetting raise for the amount they were already paying as of that date.
- As enacted, the legislation will allow all local government employers to phase in the offsetting salary increases it requires for local government employees over five years.

Wyoming. 2012 Wyo. Sess. Laws, Chap. 23 (Senate File 30/Senate Enrolled Act 11) increases the contribution rate for the Warden, Patrol & DCI Plan by 3.25 percent. The increase was split between employers and employees, with the employer share increasing by 1.63 percent and the employee share increasing by 1.62 percent. The 1.62 percent increase in the employee share will be deducted from employee pay as of July 1, 2012.

2. Cost-of-Living Adjustments (COLAs)

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

Kansas. 2012 Kan. Sess. Laws, Chap. 171 (House Bill 2333) repeals post-retirement cost-of-living increases for Tier 2 members (those hired on or after July 1, 2009) of the Kansas Public Employee Retirement System. Members will instead receive a higher multiplier, 1.85 percent instead of 1.75 percent, for all service, effective for those who retire on and after Jan. 1, 2014. The repeal of the COLA does not affect members who retire before July 2012.

North Carolina. 2012 N.C. Sess. Laws, Chap. 178 (Senate Bill 803) clarifies that the Board of Trustees of the Local Governmental Employees' Retirement System has full discretion over the granting of post-retirement increases as long as any changes are not inconsistent with actions of the General Assembly. The long-time policy of the State of North Carolina is to provide ad hoc COLAs to retirees, rather than automatic COLAs. This clarification is being sought in anticipation of forthcoming standards from the Governmental Accounting Standards Board that would potentially create unfunded long-term liabilities for local government employers based on an alternate reading of this statute that would require trustees to give automatic COLAs.

Ohio. 2012 Ohio Laws, S. 343 (Substitute Senate Bill 343), modifies the COLA provision for the Public Employees Retirement System from an automatic annual benefit adjustment of 3 percent to the average change in Consumer Price Index (up to 3 percent) . This provision applies to future retirees who retire on or after Jan. 7, 2013 and it takes effect in 2019. The law also specifies that COLAs granted after Jan. 7, 2013 to members who retire on or after that date are not vested.

Ohio. 2012 Ohio Laws, S. 342 (Substitute Senate Bill 342) reduces the COLA provision for current and future retirees of the State Teachers Retirement System of Ohio from 3 percent to 2 percent, eliminates the COLA for fiscal year 2014, and defers the COLA for future retirees. Members who retire before July 1, 2013 will not receive a COLA during the 2014 fiscal year. Members who retire after July 1, 2013 will not receive a cola on July 1, 2014. After missing one COLA, retirees will resume COLAs at 2 percent per year. Members who retire after July 1, 2014 will not receive a cola until the fifth anniversary of retirement, at which point the member will receive a 2 percent COLA. The law also authorizes the board to adjust the COLA if the board's actuary determines that the adjustment does not materially impair, or is necessary to preserve, the fiscal integrity of the system.

Ohio. 2012 Ohio Laws, S. 340 (Substitute Senate Bill 340) modifies the COLA provision for new hires and members with less than 15 years of service on or before July 1, 2013 of the Ohio Police and Fire Pension Fund. Such members will receive the lesser of a 3 percent COLA or the increase in the Consumer Price Index. The law provides that COLAs will only be granted to recipients age 55 who have received a pension or benefit for one year. Disability recipients who are permanently and totally disabled are not required to have attained age 55, and current retirees and members with more than 15 years of service will continue to receive a 3 percent COLA.

Ohio. 2012 Ohio Laws, S. 345 (Substitute Senate Bill 345) modifies the COLA provision for members of the State Highway Patrol Retirement System. The law no longer requires a 3 percent COLA, and instead, the board has discretion to grant COLAs of no more than 3 percent to current and future retirees. However, retirees age 65 and over who receive a pension of less than 185 percent of the federal poverty level will still receive a 3 percent COLA. Additionally, members retiring after Jan. 7, 2013 must be 60 years or older and must receive a pension benefit for one year before a COLA will be granted.

Oklahoma. 2012 Okla. Sess. Laws, Chap. 109 (House Bill 2322) removes a statutory requirement that the Oklahoma Public Employees Retirement System (OPERS) include an estimate of the actuarial impact of potential future cost-of-living increases in its annual actuarial studies. This conforms with language enacted in Senate Bill 794 of 2011. The removal of the actuarial cost of potential COLAs has had a substantial effect in reducing the OPERS unfunded actuarial accrued liability. [COLAs in Oklahoma are not automatic, but are periodically enacted.]

South Carolina. 2012 S.C. Acts, Act 278 (House Bill 4967) changes the COLA provision for retired members (and future retirees) of the South Carolina Retirement System from an automatic annual benefit adjustment of 1 percent to 1 percent subject to an annual cap of $500, effective July 1, 2012. The same new provision will apply to the Police Officers' Retirement Plan, which has not had a guaranteed annual COLA in the past.

Virginia. 2012 Va. Acts, Chap. 702 (House Bill 1130/Senate Bill 498) makes various changes to Plan 1 and Plan 2 of the Virginia Retirement System as well as establishing a hybrid plan applicable to most new state and local government employees. Plan 2 affects members hired or rehired as of July 1, 2010. The following provisions address the defined benefit component of the new hybrid plan as well as the specified Plan 1 and Plan 2 members. The legislation:

- Caps cost-of-living increases at 3 percent for new hires, Plan 2 members and any Plan 1 member not vested as of Jan. 1, 2013. The COLA will match the first two percentage points of an increase in the CPI-U plus half of the increase in the next two percentage points.
- Defers cost-of-living increases for any member who retires with less than 20 years of creditable service until one year after attaining unreduced retirement eligibility. Employees within five years of eligibility for an unreduced benefit as of Jan. 1, 2013, are grandfathered.

Wyoming. 2012 Wyo. Sess. Laws, Chap. 107 (Senate Bill 59) expresses the intent of the Legislature that the board of trustees of the Wyoming Retirement System (WRS) grant no post-retirement benefit increases until the system is fully funded with a likelihood of remaining so despite future investment fluctuations. The act instructs the Board of Trustees to educate members of WRS on the point and emphasize to them that public retirement benefits "should not be expected to provide one hundred percent (100 percent) of the member's required income in retirement…."

[Under existing law, as summarized in the WRS *Public Employee Pension Plan Handbook*, the WRS Board may grant an annual cost of living increase up to the actual inflation rate in Wyoming, but not above 3 percent. The actuaries who compare total liabilities to assets of the plan must deem the COLA affordable.]

3. Deferred Retirement Option Plans (DROP)

Ohio. 2012 Ohio Laws, S. 340 (Substitute Senate Bill 340) increases the years a participant is required to participate in DROP from three to five years to receive the full DROP accrual, for new Ohio Police and Fire Pension Fund DROP participants.

Ohio. 2012 Ohio Laws, S. 345 (Substitute Senate Bill 345) provides that amounts over 10 percent of a members salary contributed to the State Highway Patrol Retirement System DROP by participants are to be deposited in a plan accumulation fund and will not accrue to the benefit of the member.

South Carolina. 2012 S.C. Acts, Act 278 (House Bill 4967) terminates the state Teacher and Employee Retention Incentive (TERI) program, a deferred retirement option. Enrollment in the program will remain open until Jan. 2, 2013. Participants must end their participation within five years of beginning in the program (as in current law) or by June 30, 2018, whichever is earlier.

4. Defined Benefit Plan Changes

Alabama. 2012 Ala. Acts, Act 377 (Senate Bill 388), creates a new tier of membership for the Employees' Retirement System (ERS), the Teachers' Retirement System (TRS) and the ERS plan for state police, effective for those first joining one of the plans on or after Jan. 1, 2013. It reduces future benefits by lengthening the period over which final average salary is calculated and by increasing retirement ages.

For all members, the base for final average salary is changed from the highest three of the last 10 years of service to the highest five. Tier II members will be unable to convert unused sick leave to creditable service, as Tier I members may.

The Tier I provision for retirement in any of the plans after 25 years of service will not apply to Tier II. Age and service requirements for normal retirement for TRS members and general state and local government employees are changed from age 60 with 10 years of service (the vesting requirement) to age 62 with 10 years of service. For state police, the change is from 52/10 to 56/10. For other state and local law enforcement members and firefighters, the change is from the former provisions of 25-and-out or 60/10 to 56/10.

The service multiplier for TRS and ERS members (including firefighters and law enforcement members other than state police) was reduced from 2.0125 percent of final average salary for Tier I members to 1.65 percent of final average salary for Tier II members, with benefits for Tier II members capped at 80 percent of final average salary. The multiplier for state police members was reduced from 2.875 percent to 2.375 percent.

Hawaii. 2012 Hawaii Sess. Laws, Act 152 (Senate Bill 1269) redefines the definition of final average salary for those who become members of the Employees' Retirement System as of July 1, 2012. It excludes overtime, supplementary payments, bonuses, lump sum salary supplements, allowances or differentials, including differentials for stand-by duty, temporary unusual work hazards, compression differentials or temporary differentials from the definition of compensation.

Idaho. 2012 Idaho Sess. Laws, Chap. 31 (House Bill 418) specifies that salary for the purposes of calculating retirement benefits does not include employer reimbursements for employee expenses related to travel.

Kansas. 2012 Kan. Sess. Laws, Chap. 171 (House Bill 2333) provides changes in various contribution and benefit provisions for current members of Tier 1 and Tier 2 of the Kansas Public Employees' Retirement System. See Contribution Rates and Funding Issues in this report for details on the contribution changes. The legislation makes substantial additional changes in the existing KPERS plan, including closing Tier 2 to new membership as of Dec. 31, 2014 (except for certain state correctional officers) and providing a cash balance plan (described in Part 5) for state, school and local public employees (other than certain state correctional officers) hired after that date.

Louisiana. La. Acts 2012, 483 (House Bill 61) provides for a cash balance retirement plan for certain members of the Louisiana State Employees' Retirement System (LASERS), all members of the Teachers Retirement System of Louisiana (TRSL) and the Louisiana School Employees' Retirement System (LSERS), whose first employment making them eligible for state system membership begins on or after July 1, 2013. See Part 5 of this report, "DC, Cash Balance and Hybrid Plans," for details.

Louisiana. La. Acts 2012, 524 (Senate Bill 7) affects the Municipal Employees' Retirement System and changes the period over which final average compensation (FAC) will be calculated. The changes affect only the members of MERS who joined the retirement system on or before June 30, 2006. The legislation provides that FAC will be based on 60 months' compensation rather than 36 as has been law.

The change in the FAC period will be phased in. FAC for members who retire on or before Dec. 31, 2012 will be based on 36 months. FAC for members who retire on or after Jan. 1, 2013 but before Dec. 31, 2014 will be based on 36 months plus the number of whole months after Jan. 1, 2013. In no event will the FAC amount for a member who retires on or after Jan. 1, 2013 be less than his FAC calculated on Jan. 1, 2013.

[The legislative actuary notes that the changes are potentially subject to legal challenge.]

Louisiana. La. Acts 2012, 522 (House Bill 1174) affects new members of the Municipal Police Employees' Retirement System (MPERS) hired on or after Jan. 1, 2013. The law creates a new Hazardous Duty sub-plan and a new Nonhazardous Duty sub-plan within MPERS with new benefit structures and requirements.

- Hazardous Duty Plan: Employee contribution rates do not change (the rates are currently determined on a sliding scale based on the members' salaries relative to the federal poverty guideline and total contributions). For new members, final average compensation will be determined using the average annual compensation of the highest five years (increased from three). New members who reach age 50 with 20 years of service are no longer eligible for retirement, but other retirement eligibility factors remain the same.
- Nonhazardous Duty Plan: The employee contribution rates are set at 8 percent or equal to the Hazardous Duty Plan if less than 8 percent. For new members, final average compensation will be determined using the average annual compensation of the highest five years (increased from three). The retirement eligibility for new member is raised to 30 years of service at any age or 25 years of service at age 55 (up from 25 at any age or 12 years at age 55). Other retirement eligibility factors remain the same.

[Disability benefit changes and survivor benefit changes implemented through House Bill 1174 are excluded from this report.]

Maryland. 2012 Md. Laws, Chap. 485 (Senate Bill 335) instituted a five-year vesting requirement for Judicial Retirement System (JRS) members hired on or after July 1, 2011. Before this legislation, there was no vesting requirement for JRS members.

New York. 2012 N.Y. Laws, Chap. 18 (Senate Bill 6735) establishes Tier VI retirement plans affecting most new members of the state and New York City retirement plans as of April 1, 2012. The changes include:

- A new contribution schedule in which the required employee contribution varies with compensation
- An increase in the normal retirement age; a reduction of the retirement multiplier.
- A change in the computation of final average salary to base the average of five years instead of three.
- Various anti-spiking measures.
- A cap on the total amount of salary that can be included in final average salary.
- An optional DC plan for highly-compensated employees.
- A requirement that the state fund any benefit enhancements to prevent costs from being transferred to local governments.

The governor's office estimates that the state will save $874 million over 10 years. New York City will save $1.8 billion and other member governments and authorities will cumulatively save $5 billion, for a total of about $5.9 billion over 10 years.

The changes affect the State Teachers' Retirement System, the State and Local Employees' Retirement System [which includes options for different categories of members and options for local governments to choose for their employees]; and five New York City plans. Most provisions do not apply to New York City police and fire employees. This report summarizes changes for general members of the State and Local Government plan and the state plan for teachers.

As it relates to new members of the New York State Teachers' Retirement System (NYSTRS) and the New York State and Local Retirement System (NYSLRS), the legislation:

- Increases the retirement age for an unreduced benefit to 63. Members who retire between age 55 and age 63 are subject to a reduction of 6.5 percent for each year that retirement precedes age 63. [Tier V for teachers and ERS: Normal retirement at age 62/10 or later, or at 57/30. 55/10 was the minimum for retirement with a benefit reduction].
- Mandates a 5-year final average salary (FAS) calculation using regular compensation for determining retirement benefits. [Tier V for teachers and ERS: highest three years.]
- Excludes from the FAS calculation wages exceeding the average of the previous four years by more than 10 percent. [Tier 5 for both teachers and ERS used the previous two years' base to calculate the 10 percent cap.]
  Caps salary allowable in a FAS calculation at the New York State governor's salary [currently $179,000, this cap also is a cap on the amount of compensation subject to contributions after April 1, 2013. The cap will change when the governor's salary is changed.]
- Requires 10 years of service credit to vest. [For teachers and ERS, no change from Tier V.]
- Requires a 6 percent contribution to purchase military and prior service.
- Allows non-unionized employees earning $75,000 or more hired after June 30, 2013 the option of a defined contribution plan rather than the NYSTRS defined benefit plan. For these employees, employers will contribute 8 percent of salary to the State University of New York Optional Retirement Plan. Employees will contribute at the same sliding scale rates as those in the defined benefit plan.
- Changes the pension multiplier for years of service to the following:

Service Credit	Multiplier (also known as Pension Factor)
Less than 20 years of service	1.67% for all service
20 years of service	1.75% for all service
Years exceeding 20 years of service	2% only for years exceeding 20

[The following multipliers are in effect for Tier V for teachers and the state and local employees' system:]

Service Credit	Multiplier (also known as Pension Factor)
Less than 25 years of service	1.67% for all service
25 to 30 years of service	2% for all service
30 or more years of service	60% of FAS plus 1.5% for each year over 30

[Comparison of initial benefits: If a person retires with allowable compensation of $46,000, $47,000, $48,000, $49,000 and $50,000 for the last five years of service and a total of 30 years of service, Tier V provides an initial annual benefit of $29,400 while Tier VI provides an initial annual benefit of $26,400.]

Ohio. 2012 Ohio Laws, S. 343 (Substitute Senate Bill 343) makes various changes to the Public Employees Retirement System (OPERS), which includes state and local employees, law enforcement officers and OPERS public safety officers. The law creates three transition groups, however members retired before Dec. 31, 2012 are not impacted by the new law. The major changes to the OPERS include the following provisions:

- *Transition Groups:*
    - Group A: Member who are eligible to retire or will be eligible on or before Jan. 7, 2018.
    - Group B: Members who will be eligible to retire after Jan. 7, 2018 but on or before Jan. 7, 2023 or have 20 years of service credit on Jan. 7 2013; and
    - Group C: All other members—those eligible to retire after Jan. 7, 2023 and new members.
- *Age and Service Eligibility.* For a full list of retirement eligibility changes, see the Ohio Legislative Service Commission's Bill Analysis.
    - Group C state and local employees must have 32 years of service credit at age 55, or have five years of service credit at age 67 to receive an unreduced retirement allowance.
    - Group B state and local employees must have 32 years of service credit at any age, 31 years of service at age 52 or five years of service credit at age 66 to receive an unreduced retirement allowance.
    - Group A state and local employees are grandfathered under the current law (30 years of service credit or five years of service credit at age 65) for retirement eligibility.
- *Early Retirement.* The law reduces the early retirement benefits for Group B and C members. The reduction factors will be determined in the future by an OPERS' consulting actuarial firm.
- *Multiplier.* The law changes the benefit formula for Group C members to receive a multiplier increase. The old benefit formula for an unreduced benefit was 2.2 percent of the final average compensation for the first 30 years of service plus 2.5 percent for each additional year over 30. Under the new benefit formula, Group C members must earn 35 years of service to receive the multiplier increase.
- *Final Average Compensation.* Group C members' final average compensation will be determined using a members' highest five calendar years of earnings (increased from three).
- *Anti-spiking*: The law authorizes the board to establish a contribution based benefit cap to limit the retirement allowance a member may receive. The benefit cap is calculated by multiplying a member's career contributions (converted to an annuity) by a number designated by the board. The cap will apply to Group A, B and C members who retire on Feb. 1, 2013 or later, however for members in Group A, the reduction caused by the benefit cap cannot exceed 5 percent (with some exceptions).
- *Minimum Salary.* The minimum earnable salary to earn full-time service credit is increased from $250 per month to $600 per month, effective Jan. 1, 2014. The law provides for future increases in this threshold.

Ohio. 2012 Ohio Laws, S. 342 (Substitute Senate Bill 342) increases the age and service requirements for the State Teachers Retirement System of Ohio, implements a lower fixed benefit formula and increases the period for determining the final average salary.

- *Age and Service Eligibility*. The law increases the age and service requirements from 30 years of service at any age to 35 years of service at age 60 for normal retirement. The law provides that this increase is phased in over time and will be fully implemented by Aug. 1, 2026. The law retains the existing provision under which normal retirement is allowed for a member at age 65 with five years of qualifying service credit.
    - The service requirements for early retirement will be increased from 25 years of service at age 55 to 30 years of service at any age, gradually phased in beginning Aug.1, 2015 through Aug. 1, 2023. Members may still retire early at age 60 with a minimum of five years of qualifying service credit, however the benefit will be actuarially reduced beginning Aug. 1, 2015.
    - The law also permits the board to adjust retirement eligibility requirements if the actuary determines that an adjustment does not materially impair, is necessary to preserve, the fiscal integrity of the system.
- *Multiplier*. The law reduces the rate used to calculate benefits to 2.2 percent of final average salary for each year of service credit beyond 30 years, rather than 2.5 percent plus an amount increasing by .1 percent for each year beyond 30. This provision applies to members who retire on or after Aug. 1, 2015. Members who are eligible to retire on July 1, 2015 may receive the greater of the benefit determined under the existing benefit formula or the new benefit formula. The law also eliminates alternate methods of calculating the retirement allowance.
- *Final Average Salary*. Beginning on or after Aug. 1, 2015, final average salary will be determined using a members' highest five calendar years of earnings (increased from three).

Ohio. 2012 Ohio Laws, S. 341 (Substitute Senate Bill 341) increased age and service requirements for future retirees of the School Employees Retirement System of Ohio with less than 25 years of service on Aug. 1, 2017.

- The law increases age and service requirements from five years of service at age 65 or 30 years of service at any age to 10 years of service at age 67 or 30 years of service at age 57.
    - However, members with less than 25 years of service credit as of Aug. 1, 2017, may retire under current retirement eligibility requirements if they pay the actuarial difference between the benefit they would have received under the new requirements and the benefit they may receive under the current requirements.
- The service requirements for early retirement will be increased from five years of service at age 60 or 25 years of service at age 55 to 10 years of service at age 62 or 25 years of service at age 60.
- The law permits the board to adjust eligibility requirements if the board's actuary determines that an adjustment is necessary to ensure that the plan meets amortization period requirements of continuing law.
- The law also eliminates an alternative method of calculating the retirement allowance.

Ohio. 2012 Ohio Laws, S. 340 (Substitute Senate Bill 340) makes various changes to the Ohio Police and Fire Pension Fund.

- *Retirement Eligibility*. The law increase the retirement age for new members hired on or after July 2, 2013 from 48 to 52 for normal retirement. It also establishes a reduced pension at age 48 for members with 25 years of service for new members. The board is authorized to increase the age and service requirements for all members if the board's actuary determines that an increase is necessary to meet funding requirements.

- *Final Average Salary*. For new members and members with less than 15 years of service on or before July 1, 2013, the law increases the number of years used to determine a member's final average salary from three to five.
- *Anti-spiking*. The law establishes a salary benchmark under which certain increases are excluded from a member's salary for determining final average salary. This provision affects members with 15 or more years of service on or before July 1, 2013. New members and those with less than 15 years are not affected.

Ohio. 2012 Ohio Laws, S. 345 (Substitute Senate Bill 345) increases the years used to calculate the final average salary, from three to five, for members of the State Highway Patrol Retirement System, effective Jan. 1, 2015.

South Carolina. 2012 S.C. Acts, Act 278 (House Bill 4967) makes various changes affecting South Carolina Retirement System benefits for new general members and members of the Police Officers' Retirement System.

- *Vesting*. For new general and Police Officer members as of July 1, 2012, the vesting requirement will increase from five years to eight years for eligibility for service retirement benefits, disability benefits based upon non-work-related injuries, in-service death benefits the ability to purchase non-qualified service credit (i.e., "air time").
- *Final Average Compensation*. For new general and Police Officer members as of that date, final average compensation will be based on the member's five highest years of earned compensation instead of the three highest years.
- *Retirement Eligibility*. Under existing law, general members may retire after 28 years of service to be eligible for full benefits and are eligible for reduced benefits at age 55 with at least 25 years of service. For new non-Police members as of July 1, 2012, full benefits will be available at age 65 with eight years of earned service credit or under the Rule of 90. Reduced benefits will be available at 60, with eight years of service. The benefit reduction will be 5 percent for each year the member is below the age of 65.
- Under existing law, Police Officer members may retire with full benefits after 25 years of service. New members' eligibility for full retirement benefits will be after 27 years of service or at age 55 with eight years of earned service credit.
- *Compensation Base for FAS*. Also for new general and Police Officer members, payments for up to 45 days of unused annual leave will no longer be to included in the calculation of final average salary (average final compensation) and no service credit will be awarded for unused days of sick leave (current law allows the use of up to 90 such days).
- For all members, including current and new members of the Police Officers' Retirement System, the legislation terminates the accrual of interest on inactive accounts as of July 1, 2012. Inactive members will retain interest credited to their accounts before that date.

Virginia. 2012 Va. Acts, Chap.702 (House Bill 1130/Senate Bill 498) makes changes in existing defined benefit plans (Plan 1 and Plan 2) of the Virginia Retirement System and also establishes Plan 3, a hybrid plan applicable to most new state and local government employees hired on or after Jan. 1, 2014. The hybrid plan is described in Part 5 of this report. The following summarizes changes affecting Plan 1 and Plan 2 members.

- *Final Average Compensation*. For Plan 1 members who are not vested as of Jan. 1, 2013, final average compensation will be based on the average of the employee's highest consecutive 60 months instead of the highest consecutive 36 months. The changes applies to general state and local government employees, school division employees, state police, members of the Law Enforcement Officers' System, hazardous-duty employees and judges. This provision already applies to Plan 2 members.

- *Multiplier*. For the most of same categories of members, the multiplier for future service earned or granted on and after Jan. 1, 2013, will be reduced from 1.7 percent to 1.65 percent. The reduction in the multiplier will not apply to state and local police or to hazardous duty employees.
- *Age of Retirement for Full Benefits*. For general state and local government employees and school division employees who are not vested on Jan. 1, 2013, the age of retirement for full benefits will be normal Social Security age with at least five years of service credit or the Rule 0f 90. Early retirement with reduced benefits will be available at age 60 with at least five years of service credit. These provisions will not apply to state and local police or to hazardous duty employees, or to judges. These provisions already apply to Plan 2 members.
- *Cost*-of-*Living Adjustments*. Future COLAs will be capped at 3 percent for all non-vested Plan 1 members and all Plan 2 members, vested or non-vested, including all law enforcement, hazardous duty and judicial members. For all vested and non-vested Plan 1 and Plan 2 members who retire in the future under reduced-benefit provisions with less than 20 years of service credit, COLAs will go into effect on the July 1 that is at least one year after the date of the person's actual retirement. The latter provision will not affect members who will be within five years of eligibility for early retirement on Jan. 1, 2013.

Washington. 2012 Wash. Laws, Chap. 7 (Senate Bill 6378) changes early retirement provisions for members of the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), which provides retirement benefits for certificated instructional staff of public schools and the School Employees' Retirement System (SERS), which covers classified school employees. It affects members of Plans 2 and 3 of each of the three systems. In each system, Plan 2 is a defined benefit plan and Plan 3 is a hybrid plan with a DB and a defined contribution component. In each system, new members choose between the plans when they enter system membership. In each case, Plan 3 is the default applicable to those who do not make an explicit choice.

Plans 2 and 3 offer early retirement with an actuarially-reduced benefit to members who have 20 years of service but fewer than 30. This program is not affected by SB 6378.

An alternative early retirement option was enacted in 2000 for members who have 30 years of service but who have not reached the systems' normal retirement age of 65. The alternative plan reduced normal benefits by 3 percent for each year the retiree's age was short of 65. The alternative was made more attractive by 2007 legislation that allowed members with 30 years of service to retire at 62 without a benefit reduction, and somewhat reduced the reduction factors for other circumstances.

SB 6378 provides that those who establish membership in PERS, TRS and SERS after April 30, 2013, will be ineligible for the alternative early retirement options. Such members will be eligible for early retirement at age 55 with 30 years of service. The retirement allowance for such members will be reduced by 5 percent for each year of difference between the person's age at retirement and 65.

Wyoming. 2012 Wyo. Sess. Laws, Chap. 108 (Senate Bill 97) increases age requirements and changes benefit provisions for normal and early retirement for members of the Wyoming Retirement System (WRS) whose service begins after Aug. 31, 2012, as well as for previous members who return to covered service but who withdrew their contributions when they left covered service earlier, or who left with fewer than four years of service (certain exceptions apply).

- *Final average salary*. The calculation of final average salary will be based on the member's highest paid five years of continuous service (formerly, three highest continuous years);
- *Retirement eligibility*. Normal retirement eligibility will be at age 65 with four years of service (formerly 60/4) or in accord with the Rule of 85 as in existing law.
  - Early retirement will be available at age 55 with four years of service or before age 55 with 25 years of service, in both cases with an actuarial reduction in benefits as set by the Board

of the WRS (formerly, 50/4 or any age with 25 years of service and a 5 percent per year reduction).

- *Multipliers.* The multiplier for calculating benefits is set at 2 percent (formerly 2.125 percent for the first 15 years of service and 2.25 percent for additional years of service).
    - The multiplier for firefighters will remain at 2.5 percent as in existing law.

5. Defined Contribution, Cash Balance and Hybrid Plans

Kansas. 2012 Kan. Sess. Laws, Chap. 171 (House Bill 2333) provides for a cash balance plan for new members of the Kansas Public Employee Retirement System beginning Jan. 1, 2015.

Kansas Tier 3 Cash Balance Plan Design	
Who's included:	• New employees starting Jan. 2015 (Correctional Officers are not included; they will be in KPERS Tier 2.)
Employee contributions:	• 6% deposited in employee account
Employer pay credits:	• Employee earns pay credits quarterly based on years of service. • 1-4 yrs = 3% of compensation • 5-11 yrs = 4% of compensation • 12-23 yrs = 5% of compensation • 24 yrs+ = 6% of compensation
Investments:	• KPERS board directs investments as part of the KPERS trust
Interest :	• Annual 5.25% guaranteed interest on account balance (employee and employer amounts) • Possible additional interest (0% to 4%) based on KPERS investment returns and funding
Vesting:	• 5 years
Leaving employment before retirement:	• Employees can withdraw employee contributions, but forfeit employer credits. • Vested members can leave employee contributions and receive a benefit at retirement age, including employer pay credits.
Retirement age:	• Unreduced benefits: 65/5 or 60/30 • Early retirement, reduced benefit: 55/10
Retirement benefit:	• Guaranteed lifetime benefit with survivor options • Annuity benefit based on account balance at retirement • Partial-lump sum option up to 30% with full retirement (not available with early retirement) • Can use part of account balance to fund a COLA • $4,000 retiree death benefit

Louisiana. La. Acts 2012, 483 (House Bill 61) provides for a cash balance retirement plan for certain members of the Louisiana State Employees' Retirement System (LASERS), and all members of the Teachers Retirement System of Louisiana (TRSL) and the Louisiana School Employees' Retirement System (LSERS), whose first employment making them eligible for state system membership begins on or after July 1, 2013. However, the enactment of the cash balance plan was ruled unconstitutional on Jan. 24, 2013 by the 19th Judicial District Court on the grounds that the House of Representatives passed the legislation with a simple majority rather than a two-thirds majority required by the Louisiana Constitution for certain legislation.

Louisiana Cash Balance Plan	
Who's included :	• Mandatory for members of LASERS other than those in positions of hazardous duty, and for post-secondary members of TRSL. All members of LSERS and primary and secondary school members of TRSL may make an irrevocable election to join the cash balance plan within 60 days of their initial employment.
Employee contributions:	• 8% [LASERS and TRSL members are not covered by Social Security.]
Employer pay credits:	• Each account will receive a pay credit of 4% of the owner's salary annually as well as interest on the existing balance.
Investments:	• Managed by LASERS
Interest:	• Interest will be calculated monthly at a rate 100 basis points below the system's actuarial rate of return, presently calculated at 8%. The interest rate is guaranteed not to fall below zero.
Vesting in pay credits:	• Five years
Leaving employment before retirement:	• Members who withdraw from the plan with less than five years of service will receive a refund of member contributions without interest. • Members who withdraw after five years of service are entitled to the balance of their account including the value of the pay credits and interest credits. The balance may be taken as a lump-sum payment, may be transferred to another qualified retirement plan or an individual retirement account, or may be left with the system to be annuitized when the member is 60. No additional interest will be credited to the account after the member leaves service.
Retirement age:	• Upon reaching age 60 active or inactive vested members with five years of service may convert the account balance to a variety of annuitized or cash benefits.
Retirement benefit:	• Lifetime annuity or to various options that will provide for a lump-sum withdrawal and a reduced annuity. The plan provides for survivor and disability benefits based upon the balance in a member account. In any event, benefits will not be less than the member's accumulated balance.

Michigan. 2012 Mich. Pub. Acts, Act 300 (Senate Bill 1040) offers new members of the Public School Employees' Retirement System as of Sept. 4, 2012, the option of choosing between the existing DB/DC hybrid plan, enacted in 2010) and a defined contribution plan. The latter will provide employees a 50 percent match on employee contributions up to 6 percent of the employee's salary. The maximum employer match would be 3 percent of salary. Members will be automatically enrolled in the plan at the 6 percent contribution level, but may choose to contribute less or to make no contributions. There will be no employer contribution in the absence of employee contributions.

Tennessee. 2012 Tenn. Pub. Acts, Chap. 939 (Senate Bill 3216) authorizes a number of new retirement plan options for new employees among which local governments may choose. Currently the Tennessee Consolidated Retirement System sponsors a Political Subdivision Pension Plan within TCRS that is a defined benefit plan and is optional for local governments. Each local government participating in the plan is responsible for the liabilities of its employees and retirees. Local government employers may choose a noncontributory plan or a contributory plan with a 5 percent employee contribution requirement and an employer option of no COLA or a COLA capped at 3 percent. The state also permits local governments to participate in its supplemental defined contribution plans.

This legislation continues the availability of the plans described above, and adds the option of a 2.5 percent employee contribution requirement. This option will be applicable only to new hires.

This legislation adds two new optional plans applicable only to employees hired after the local government adopts the option. The legislation includes a provision that local governments may freeze, suspend or modify benefits, employee contributions, plan terms and design prospectively for employees hired after July 1, 2012. Such changes would not affect accrued benefits.

The new options are:
- A defined benefit plan with a lower annual multiplier than the current plan (1.4 percent vs. 1.575 percent), higher requirements for normal retirement (65 or Rule of 90 vs. 60 or 30 years of service), maintaining the same local options on COLAs and employee contributions as the existing defined benefit plan, with the addition of the option of a 2.5 percent employee contribution.
- A hybrid plan whose defined benefit component will have a multiplier of 1 percent and the same requirements for normal retirement as listed for the new DB plan above. Employers who choose this option must provide a qualified defined contribution plan, which they may obtain from the state or from any other source. The legislation recommends, but does not mandate, that local government sponsors require a combined employee-employer contribution of at least 5 percent of salary to the DC component of the hybrid.

Nebraska. 2012 Neb. Laws, L.B. 916 (Legislative Bill 916) establishes a new period in which members of the Nebraska State and County Defined Contribution retirement plans may elect to participate in the Cash Balance plan. Individuals already participating in Cash Balance are not affected by this legislation.
- Defined Contribution members may make a one-time, irrevocable election to transfer to the Cash Balance plan during the election period beginning Sept. 1, 2012, and ending Oct. 31, 2012.
- Only members who are actively employed and contributing to the plan on Oct. 31 will be eligible to transfer.

Virginia. 2012 Va. Acts, Chap.702 (House Bill 1130/Senate Bill 498) creates a new hybrid retirement plan including defined benefit (DB) and defined contribution (DC) components. As of Jan. 1, 2014, all new state general employees, teachers, general local employees and judges will be required to enroll in the hybrid plan. Act 702 does not affect members of the State Police Officers' Retirement System, the Virginia Law Officers' Retirement System or political subdivision employees who have enhanced hazardous duty coverage.

Employees in service on Dec. 31, 2013, will be given until April 30, 2014 to exercise the one-time option of an irrevocable transfer to the new plan. For such members, previously earned benefits will be frozen according to plan provisions for them effective at the time of transfer.

The legislation also makes changes to the existing defined benefit plan that are discussed in other sections of this report.

- Each member of the hybrid plan will be required to make contributions to both the DB and DC component. The employee contribution to the DB component will be 4 percent. The mandatory employee contribution to the DC component will be 1 percent, and employees may contribute an additional 4 percent of salary (for a maximum of 5 percent) to earn a partial employer match. The latter will be capped at 3.5 percent of employee compensation. Details are provided in the Contribution Rates and Funding Issues section of this report.
- No loans or hardship withdrawals from the member account will be permitted.

- The DB component of the plan will have a 1 percent multiplier.
- For the DB component, the vesting, age and service requirements for normal and early retirement and calculation of average final compensation are the same as for Plan 2 DB members. Vesting is at five years; normal retirement is at a person's Social Security age with five years of service or at the "Rule of 90." Early retirement is available at the age of 60 with five years of service. Average final compensation is the average of the highest 60 months.
- For the DB component, cost of living adjustments will be capped at 3 percent with the other provisions described in Part 2 of this report.

6. Divestiture

Arizona. 2012 Ariz. Sess. Laws, Chap. 63 (Senate Bill 1115) stipulates that loans, guarantees, investment management agreements and investment contracts made by Public Safety Personnel Retirement System receive due diligence regarding the Arizona Sudan Act, the Arizona Iran Act, federal immigration law and state e-verify requirements prior to their approval.

[The Arizona Sudan Divestment and Accountability Act of 2007 authorizes state and local governments to divest from companies that support the Sudanese government in response to genocide occurring in the Darfur region of Sudan. Following the federal divestment act, Arizona enacted statutes requiring the State Treasurer and all four of Arizona's retirement systems to divest from companies supporting Sudan as well as Iran.]

Connecticut. 2012 Conn. Acts, P.A. 203 (Reg. Sess.), (Senate Bill 285) gives the state treasurer greater discretion in divesting investments in companies located in Northern Ireland that have not implemented the MacBride Principles. Currently, state statute requires mandatory divestment. Allowing the state treasurer the discretion to determine whether divestment is warranted on a case-by-case basis will bring the MacBride statute in line with the state's divestment policies on Sudan and Iran. The bill calls for the statute to be repealed automatically on Jan. 1, 2020, unless it is extended by the legislature.

New York. 2012 N.Y. Laws, Chap. 1 (Assembly Bill 8668) enacts the Iran Divestment Act of 2012 to prevent public investment in companies operating in Iran's energy sector with investments that have the result of directly or indirectly supporting the efforts of the Government of Iran to achieve nuclear weapons capability.

Oregon. 2012 Or. Laws, Chap. 72 (House Bill 4110) directs the Oregon Investment Council and State Treasurer to try to ensure that the Public Employees Retirement Fund is not invested in companies with an interest in the energy sector of Iran. The bill directs the state treasurer to adopt an engagement policy with private investment fund managers and to encourage managers to end investments in companies with an interest in the energy sector of Iran.

7. Elected Officials and Judicial Retirement Programs

California. 2012 Cal. Stats., Chap. 296 (Assembly Bill 340) closes the Legislators' Retirement System (LRS) to legislative statutory officers, elective officers of the state and the Insurance Commissioner who take position on or after Jan. 1, 2013. Optional membership is still available to such officials in the Public Employees' Retirement System. Legislators elected after 1990 are already excluded from participating in the LRS following a voter-approved proposition in 1990. In effect, Assembly Bill 340 closes LRS to new members on Jan. 1, 2013.

Idaho. 2012 Idaho Sess. Laws, Chap. 169 (House Bill 660) changes provisions of the Judges' Retirement Fund—the retirement plan of which Supreme Court justices, court of appeals judges and district judges are members. It makes the following changes:

- *Contribution Rates.* The employer's contribution rate is increased from 7 percent to 10.5 percent through two steps in 2013 and 2014. The employee's contribution rate is also increased from 6 percent to 9 percent through two steps in 2013 and 2014. Additional a civil filing fee that is contributed to the fund is increased from $18.00 to $26.00.
- *COLA.* The annual cost of living adjustment for new justices and judges who take office beginning July 1, 2012 will no longer be based on the current annual compensation of sitting justices and judges and will now be equal the Public Employee Retirement System of Idaho's (PERSI) adjustment. Current members have the one-time option to elect to convert to the PERSI adjustment by Aug. 1, 2012.
- *Plan Administration.* The Judges' Retirement Fund plan administration is transferred to PERSI if an IRS determination letter is used stating that the fund is a qualified plan.
- *Plan B Service.* The plan allows judges and justices to participate in Plan B service, where retiring judges may provide service for five years in return for an increased retirement benefit. The law increases the days of service that new judges who take office July 1, 2012 must provide to 60 days of service a year (increased from 35 days of service). Members eligible for retirement at age 55 with at least 15 years of service are no longer eligible for Plan B service.
- *Spousal Benefits.* New justices and judges who take office July 1, 2012 spousal benefit is reduced from 50 percent of compensation to 30 percent of compensation.

Georgia. 2012 Ga. Laws p. 646 (House Bill 183) changes provisions for newly-elected legislators' membership of the Legislative Retirement System, from automatic enrollment with a provision that a member may withdraw to a requirement that each member elected after July 1, 2012 explicitly choose whether to be enrolled within two months of his or her election. Thereafter, returning members will preserve their previous status. It appears from the legislation the choice is irrevocable, though that is not explicit. Legislative service may not be used for credit in any other retirement system.

The legislation also removes the eligibility for membership in the Legislative Retirement System of the secretary of the senate, the clerk of the house, and the messengers and doorkeepers of the two chambers.

Kansas. 2012 Kan. Sess. Laws, Chap. 171 (House Bill 2333) removes an anomaly in existing law that provided that legislators' compensation and the basis of calculation for retirement benefits were based on a year of 372 days. The year has been changed to 365 days.

New Mexico. 2012 N.M. Laws, Chap. 61 (House Bill 42) increases the annual required member contribution for the Legislative Retirement Fund to $600 from $500. The legislative fiscal agency notes:

> "State Legislator Member Coverage Plan 2 is unlike other Public Employee Retirement Association plans in that it is not funded with contributions from salary. Legislators are not salaried employees and their "retirement benefits" do not derive from employment. Plan 2 members are required to pay annual contributions of $500 per year of service. This contribution rate is not calculated actuarially. The state contributes the amount sufficient to finance the benefits provided to legislators under Plan 2 on an actuarial reserve basis. See, NMSA 1978, Section 10-11-43. The legislature transfers $2.4 million annually, which applies to both the normal costs associated with State Legislator Member Coverage Plans 1 and 2 and their respective unfunded actuarial accrued liability ("UAAL").
>
> The Legislative Retirement Fund is currently funded at 89.2 percent as of June 30, 2011. If the legislature's annual contribution to the fund remains at $2.4 million, the existing unfunded liability of $2.8 million for the Legislative Retirement Fund is expected to be paid off in one to two years, in the

absence of future gains and losses. Since the state contributes the amount sufficient to finance the benefits provided to legislators under Plan 2 on an actuarial reserve basis, an increase in the Plan 2 annual contribution rate is not actuarially required. However, additional contributions are always a gain to the Fund."

[The plan also covers the lieutenant governor.]

Oklahoma. 2012 Okla. Sess. Laws, Chap. 109 (House Bill 2322) permits elected officials to participate in the Oklahoma Public Employees' Retirement System's "Step Up" program available to other OPERS members. The Step Up allows members to increase their retirement calculation multiplier from 2.0 percent to 2.5 percent, by paying an additional member contribution. The additional contribution is set at a level that equals the actuarial cost of the increased benefits. For this reason, HB 2322 is expected to have no actuarial impact on the system.

South Carolina. 2012 S.C. Acts, Act 278 (House Bill 4967) closes the General Assembly Retirement Plan to those newly elected to the General Assembly on or after November 2012. New legislators must choose between membership in the South Carolina Retirement System or the State Optional Retirement Plan, a defined contribution plan.

Current members of the General Assembly plan will be subject to a member contribution increase from 10 percent to 11 percent of compensation as of Jan. 1, 2013. No other changes will affect current members except a provision that the purchase of airtime will be at an actuarially determined cost as of Jan. 2, 2013.

Utah. Chapter 376, Laws of 2012 (Senate Bill 156), eliminates retiree health benefits for any governor or legislator first elected to office after Jan. 1, 2012 and provides for OPEB funding for those who remain eligible.

8. Ethics, Forfeiture of Benefits and Privacy

Alabama. 2012 Ala. Acts, Act 412 (Senate Bill 213) provides that any person who is a member of the Employees' Retirement System, the Teachers' Retirement System or the Judicial Retirement Fund, either an active or inactive member who has an accrued retirement benefit or a retired member, shall forfeit the employer-paid portion and the interest or gains on the employer-paid portion of his or her retirement benefits upon a guilty plea, a plea of no contest, or a final conviction of a felony offense related to the person's performance.

California. 2012 Cal. Stats., Chap. 296 (Assembly Bill 340) requires a public employee, including those who are elected or appointed to public office, who is convicted of the following state or federal felonies to forfeit retirement benefits:

- Any felony in connection with conduct related to the performance of his or her official duties or in pursuit of elected office or appointment.
- Any felony in connection with obtaining salary, disability retirement, service retirement or other benefits.
- Any felony committed within the scope of official duties against or involving a child the employee has contact with as part of his or her official duties.

Contributions made by the public employee on or after the earliest date of commission of the felony are returned to the public employee without interest unless a court or pension administrator orders otherwise. The convicted employee must forfeit all accrued rights and benefits in any public retirement system in which he or she is a member and shall not accrue further benefits in that system, effective on the date of the conviction.

Kentucky. 2012 Ky. Acts, Chap. 75 (House Bill 300) requires the Kentucky Teachers' Retirement System board of trustees to be subject to the executive branch code of ethics; requires placement agents who are involved with Kentucky Retirement Systems and Kentucky Teachers' Retirement System investments to register as lobbyists and to define placement agents and unregulated placement agents; exempts placement agents from the contingent fee prohibition in the Executive Branch Code of Ethics; provides for public disclosure of expenditures.

Louisiana. La. Acts 2012, 868 (House Bill 9) submits a constitutional amendment to the voters that would authorize the legislature to provide for the forfeiture of retirement benefits by public officials and employees who are convicted of felonious acts associated with their employment. The amendment would not, in itself, provide for such forfeiture. The vote occurred on Nov. 6, 2012 and the amendment passed.

Louisiana. La. Acts 2012, Chapter 479 (House Bill 10) will implement the provisions of the proposed constitutional amendment if it is approved by the voters. The legislation will require the forfeiture of benefits earned on or after Jan. 1, 2013 if a public employee or official is convicted of a state or federal felony associated with his or her employment or office. The following conditions must be satisfied for forfeiture to occur:

- The member must have been first employed or reemployed on or after Jan. 1, 2013.
- The member commits a "public corruption crime" on or after Jan. 1, 2013 and is convicted of that crime.
- The court determines that forfeiture is appropriate.

Maine. 2012 Me. Laws, Chap. 606 (Laws of Maine), (House Paper 1351/Legislative Document 1831) gives a court discretion to order the forfeiture of retirement benefits of a member of the Public Employees Retirement System if the member pleads guilty or no contest to a crime committed in connection with the member's public office or public employment, or a crime the member's position placed the member in a position to commit. The penalties of the crime must be greater than or equal to the penalties for a "Class C Crime" (crimes punishable by up to five years incarceration and a $5,000 fine) for this provision to apply. The member's own contributions may be returned, without interest. This provision also allows a court to consider a member's spouse or dependents of former spouses as an alternative payee through a determination of the totality of the circumstances including the alternate payee's connecting with the crime, knowledge of the crime and the alternate payee's reliance on the benefit.

Nebraska. 2012 Neb. Laws, L.B. 916 (Legislative Bill 916) provides in connections with Nebraska retirement plans that "If an employee or appointee who is a member of the retirement system is convicted of or pleads no contest to a felony that is defined as assault, sexual assault, kidnapping, child abuse, false imprisonment, or theft by embezzlement and is found liable for civil damages as a result of such felony, following distribution of the employee's or appointee's benefits or annuities from the retirement plan, the court may order the payment of the employee's or appointee's benefits or annuities under the retirement plan for such civil damages, except that the benefits or annuities to the extent reasonably necessary for the support of the employee or appointee or any of his or her beneficiaries shall be exempt from such payment. Any order for payment of benefits or annuities shall not be stayed on the filing of any appeal of the conviction. If the conviction is reversed on final judgment, all benefits or annuities paid as civil damages shall be forfeited and returned to the employee or appointee. The changes made to this section by this legislative bill shall apply to persons convicted of or who have pled no contest to such a felony and who have been found liable for civil damages as a result of such felony prior to, on, or after the effective date of this act."

North Carolina. 2012 N.C. Sess. Laws, Chap. 193 (House Bill 153) prohibits a person who has been convicted of a felony related to employment or holding office from receiving benefits from the Teachers' and State Employees' Retirement System, the local governmental employees' retirement system, the consolidated judicial retirement system, the legislative retirement system, the retirement programs for the University of North Carolina or state-funded community colleges, or the retirement income plans for law enforcement officers.

Ohio. 2012 Ohio Laws, S. 343 (Substitute Senate Bill 343), 2012 Ohio Laws, S. 342 (Substitute Senate Bill 342) and 2012 Ohio Laws, S. 341 (Substitute Senate Bill 341) modify the Ohio Public Employees Retirement System, the State Teachers Retirement System of Ohio and the School Employees Retirement System of Ohio. These laws each allow for forfeiture of a disability benefit granted if the disability was caused by commission of specific felonies for members of each retirement plan. The laws also provide that the office of any board member who is convicted of or pleads guilty to certain offenses is deemed vacant. (Prior law only applied to the office of an employee member or a retired member of the board.) Such persons are ineligible to run for or be appointed to a retirement board.

Oklahoma. 2012 Okla. Sess. Laws, Chap. 46 (House Bill 2623) relates to the Teachers' Retirement System; provides that members who have final felony convictions forfeit retirement benefits; delays benefits until completion of deferred sentence; provides that members who have left active contributory service and who have certain final felony convictions forfeit retirement benefits; provides for rejection of claims; provides that suspension or forfeiture continues until conviction or plea is reversed; provides procedure for investigation and suspension of benefits.

9. Governance and Investment Policy

Colorado. 2012 Colo., Sess. Laws, Chap. 227 (Senate Bill 149) authorizes the board of a defined benefit plan or system created by a local government to modify the benefits, and the age and service requirements for the plan, when the board determines the modification is necessary to ensure the plan's sustainability. Any modifications shall not adversely affect vested benefits already accrued by members of defined benefit plans, including members who are retired or eligible to retire as of the effective date of the modifications, unless otherwise permitted under, or required by, Colorado or federal law.

Boards of defined benefit plans affected by the bill may provide written notice to each member, inactive member and beneficiary that the possibility of a reduction of benefits to ensure the sustainability of the plan could occur in the future. No plan changes are mandated by the bill. The defined benefit plans of Adams, Arapahoe, El Paso, Pueblo and Weld Counties have been identified as being governed by the authority described in the bill.

Georgia. 2012 Ga. Laws p. 603 of 2012 (Senate Bill 402) authorizes Georgia retirement plans to invest in alternative investments as defined in the legislation.

Georgia. 2012 Ga. Laws p. 650 (House Bill 297) prohibits public retirement systems in Georgia from purchasing so-called "dead peasants' insurance." The bill says, "No public retirement system in this state shall have an insurable interest in active or retired members of such retirement system. No public retirement system shall have the authority to expend or obligate funds under the control of such retirement system to purchase life insurance on its members except where all benefits are paid to a member's estate or to a beneficiary designated by the individual member."

Illinois. 2012 Ill. Laws, P.A. 694 (Senate Bill 179) directs the Illinois auditor general to contract with or hire an actuary to serve as state actuary, whose responsibilities will be to:

- Review assumptions and valuations prepared by actuaries retained by the boards of trustees of the state-funded retirement systems.
- Issue preliminary reports to the boards of trustees of the state-funded retirement systems concerning proposed certifications of required state contributions submitted to the state actuary by those boards.

- Cooperate with the boards of trustees of the state-funded retirement systems to identify recommended changes in actuarial assumptions that the boards must consider before finalizing their certifications of the required State contributions.
- Conduct reviews of the actuarial practices of the boards of trustees of the state-funded retirement systems.
- Annually submit a written report to the General Assembly and governor documenting the initial assumptions and valuations prepared by actuaries retained by the boards of trustees of the state-funded retirement systems, any changes recommended by the state actuary in the actuarial assumptions, and the responses of each board to the state actuary's recommendations.

Indiana. 2012 Ind. Acts, P.L. 138 (House Bill 1123) provides that not later than Dec. 1 of each year, the Office of Management and Budget shall submit to the state budget committee the following: (1) A report prepared by the Office of Management and Budget concerning post-employment benefits and liabilities of state agencies. (2) Reports prepared by state educational institutions concerning post-employment benefits and liabilities of those institutions.

Kentucky. 2012 Ky. Acts, Chap. 75 (House Bill 300) requires the Kentucky Teachers' Retirement System board of trustees to be subject to the executive branch code of ethics; requires placement agents who are involved with Kentucky Retirement Systems and Kentucky Teachers' Retirement System investments to register as lobbyists and to define placement agents and unregulated placement agents; exempts placement agents from the contingent fee prohibition in the Executive Branch Code of Ethics; provides for public disclosure of expenditures.

Kansas. 2012 Kan. Sess. Laws, Chap. 96 (House Bill 2461) raises the cap on alternative investments for the Kansas Public Employees' Retirement System to not more than 15 percent.

Maryland. 2012 Md. Laws, Chap. 561 and 562 (House Bill 806 and Senate Bill 672, companion bills) give the Board of Trustees of the State Pension and Retirement System independent authority to determine the qualifications and compensation for the deputy chief investment officer and managing director positions within the State Retirement Agency's Investment Division, subject to specified limitations. Any salary increase for either position may not be greater than 10 percent of the lowest salary for the position in the prior fiscal year. The board may not provide a bonus to an employee in a position covered by the bills.

Minnesota. 2012 Minn. Laws, Chap. 286 (Senate Bill 1808) changes future investment return assumptions for the all statewide and major local Minnesota public retirement plans. The legislation temporarily lowers the rate of return assumptions. The pre-retirement rate of return assumption will be 8 percent rather than 8.5 percent through June 30, 2017, and the post-retirement assumption will be 5.5 percent rather than 6 percent through that date.

Oklahoma. 2012 Okla. Sess. Laws, Chap. 109 (House Bill 2322) removes a statutory requirement that the Oklahoma Public Employees Retirement System (OPERS) include an estimate of the actuarial impact of potential future cost-of-living increases in its annual actuarial studies. This conforms to language enacted in Senate Bill 794 of 2011. The removal of the actuarial cost of potential COLAs has had a substantial effect in reducing the OPERS unfunded actuarial accrued liability. COLAs in Oklahoma are not automatic, but are periodically enacted.

Oklahoma. 2012 Okla. Sess. Laws, Chap. 312 (House Bill 2320) provides that the board of trustees of the Teachers' Retirement System (TRS) may invest the system's assets in real property owned or acquired by the state. The board is authorized to invest up to 10 percent of the system's total assets in real property. The law also removes a statutory requirement that TRS include an estimate of the actuarial impact of potential future cost-of-living increases in its annual actuarial studies, just as House Bill 2322 (*see above)* does for OPERS.

South Carolina. 2012 S.C. Acts, Act 278 (House Bill 4967) provides that in the future the General Assembly will set the assumed rate of return on the investments of state retirement plans. The initial rate is set at 7.5 percent. Because of the proposed repeal of the South Carolina Budget and Control Board, which has been the governing body of South Carolina Retirement plans, this legislation creates the Public Employee Benefit Authority to administer state retirement systems and programs and the state deferred compensation plan.

The governor will appoint three of the Authority's members and General Assembly officers will appoint the other eight. The members will include four active or retired public employees and teachers. The other seven members must meet certain professional qualifications that include (as alternatives) experience in finance, insurance, accounting, or law, or have 12 years experience in public employment and a degree from an accredited institution.

Tennessee. 2012 Tenn. Pub. Acts, Chap. 941 (Senate Bill 3262) provides for retirement system investments. It provides that private equity investments may include strategic lending, international venture capital, corporate buyouts, mezzanine and distressed debt and secondary funds; provides that private equity investment vehicles may include limited partnerships, private placements, co-investments, funds-of-funds and commingled funds; and prohibits any investment that would cause the aggregate book value to exceed the market value of the total assets of the retirement system.

Washington. 2012 Wash. Laws, Chap. 7 (Senate Bill 6378), amends the assumed rate of return on pension fund investments for the purpose of calculating retirement system contribution rates. The rate will be changed from the current 8 percent to 7.9 percent on July 1, 2013, to 7.8 percent on July 1, 2015, and to 7.7 percent on July 1, 2017. By June 1, 2017, the state actuary must submit a report to the Pension Funding Council describing the financial condition of the state retirement systems and recommending a long-term investment return assumption. The changes affect the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS) and the School Employees' Retirement System (SERS).

10. Legislative Process

Kansas. 2012 Kan. Sess. Laws, Chap. 171 (House Bill 2333) requires that bills that would provide new or increased retirement benefits, including post-retirement benefit increases, must include an actuarial valuation, appraisal of liability and estimated contribution changes. The actuary of the Kansas Public Employee Retirement System (KPERS) must provide the information. The fiscal note must be available before a standing committee may consider such a bill. The actuarial note is to be provided to KPERS and the Joint Committee on Pensions, Investments and Benefits.

Louisiana. La. Acts 2012, 224 (Senate Bill 2) provides that as ex officio members of each of the state and statewide retirement system boards, the chairman of the House Committee on Retirement and the chairman of the Senate Committee on Retirement may each independently authorize legislative staff to attend any executive session of any board meeting or committee meeting of any state or statewide retirement system board or committee. The legislative staff who attend under this act will not be permitted to vote.

Louisiana. La. Acts 2012, 872 (Senate Bill 21) proposes a constitutional amendment that would require that any proposed legislation regarding public retirement systems must be prefiled 45 days before the first day of a regular legislative session. The state constitution requires that all legislation be prefiled no less than 10 days before the beginning of a session. This amendment would make an exception for legislation on public retirement plans in the interest of providing more time for legislators and staff to draft, analyze and consider such legislation.

11. Military Service Credit

Maryland. 2012 Md. Laws, Chap. Chapter 646 (House Bill 19), expands eligibility for State Retirement and Pension System (SPRS) members who are members of a reserve component of the U.S. Armed Forces to earn military service credit currently available only to members of the Maryland National Guard. Specifically, the bill allows reservists to earn four months of additional service credit for every year of active service or inactive training duty in the reserves that interrupts employment. It also allows SRPS members with at least 10 years of service credit to earn four months of service credit for every year of duty in the reserves that occurred prior to membership, up to three years of credit. The bill does not apply to members of the Legislative Pension Plan.

Ohio. 2012 Ohio Laws, S. 340 (Substitute Senate Bill 340) provides that a member retains membership in the Ohio Police and Fire Pension Fund for the duration of his or her active military duty.

12. OPEB Issues

Hawaii. 2012 Hawaii Sess. Laws, Act 304 (Senate Bill 2753) authorizes the board of the Employer-Union Health Benefits Trust Fund to create a trust fund to receive employer contributions that will prefund post-employment health and other benefit costs for retirees and their beneficiaries.

Illinois. 2012 Ill. Laws, P.A. 695 (Senate Bill 1313) grants the Director of Central Management Services (CMS) the power to adopt emergency rules to alter the contributions for retiree health insurance to be paid by the state, annuitants, survivors, retired employees, or any combination of those entities. The legislation provides that contributions required of annuitants, survivors, and retired employees shall be the same for all retirement systems and shall also be based on whether an individual has made an election under a specific provision of the State Universities Article of the Illinois Pension Code. The legislation specifies that contributions may be based on annuitants', survivors', or retired employees' Medicare eligibility, but may not be based on Social Security eligibility. It will take effect on July 1, 2012.

According to Representative Sandy Cole, the bill addresses the following issue:

Currently, there are 78,000 retirees who pay no premium for healthcare. Another 7,400 pay a portion of their premium and 36,000 dependents are enrolled but whose premium does not cover the true cost of the healthcare benefit. This bill does not affect public school teachers or community college employees who already contribute premiums to the Teachers' Retirement Insurance Program (TRIP) or the College Insurance Program (CIP).

The change puts in place a mechanism that allows the Director of CMS to determine the State's premium payments on behalf of retired employees— including lawmakers and judges. CMS has proposed guidelines for determining what retirees' contributions will be, based upon a sliding scale that takes into account length of service and ability to pay. The percent of cost the retiree will pay will also be based on his or her pension level.

If the remaining payment determined for retirees is deemed unacceptable, the Joint Commission on Administrative Rules (JCAR) may object. In addition, the suggested retiree contributions will be subject to union negotiations.

Indiana. 2012 Ind. Acts, P.L. 138 (House Bill 1123) permits the creation of trust funds to prefund OPEB liabilities.

Michigan. 2012 Mich. Pub. Acts, Act 300 (Senate Bill 1040) makes a number of changes regarding retiree health provisions for members of the Public School Employees' Retirement System. The legislation:

- Increases the retiree health insurance premium contribution of both existing and future retires to at least 20 percent, capping the retirement system's premium share at 80 percent beginning Jan. 1, 2013. For retirees who are receiving a benefit and who are age 65 or older on Jan. 1, 2013, the cap on the maximum employer contribution for medical, dental and vision benefits would be 90 percent.
- Eliminates retiree health insurance for employees hired on or after September 4, 2012, and replaces it with a 401(k) or 457 plan with an employer match of up to 2 percent of compensation plus a lump sum deposit of either $1,000 or $2,000 into a Health Reimbursement Account upon termination of employment.
- Continues the 3 percent employee contribution for retiree health but guarantees an employee's individual contributions. Uses the 3 percent contributions toward prefunding future retiree health benefits. Allows existing employees to opt out of retiree health insurance and instead choose the 2 percent matching contribution into a defined contribution plan in lieu of retiree health benefits.
- Shifts from paying for retiree health care benefits on a pay-as-you-go method to prefunding with a combination of employee contributions, employer contributions and state funding. (If the employee 3 percent contribution is ruled unconstitutional, the method will revert to a cash basis.)

New Hampshire. 2012 N.H. Laws, Chap. 175 (House Bill 1521) makes changes in health insurance provisions for retired public employees. The legislation eliminates a retired employee's option to elect health benefits for a non-spouse beneficiary, an option that according to the Department of Administration has in the past attracted few people.
The second change affects the provisions that allow retirees to enroll eligible dependents in the state employee group insurance, at full premium cost, if the retiree's monthly pension benefit from the New Hampshire Retirement System is sufficient to cover all monthly health coverage premium costs. This legislation removes the requirement that the monthly benefit imposes on enrollment of dependents, which the Department of Administration states could result in many more participants in the state employee group insurance plan. The retiree would still be liable for the full monthly premium.
Third, the legislation establishes a time limit for retirees to provide verification of eligibility for health benefits, and a penalty for failure to update the state in the event of a change in eligibility status and implementation of these requirements, which could result in certain retirees losing eligibility for state paid health benefits.

Ohio. 2012 Ohio Laws, S. 343 (Substitute Senate Bill 343) authorizes the Ohio Public Employees Retirement System board to determine criteria for who is eligible to participate in the health care program and set the Medicare Part B reimbursement rate. In September of 2012, the board adopted a set of changes to the OPERS health care plan. Complete details are available on the OPERS Health Care Changes Overview.

Ohio. 2012 Ohio Laws, S. 342 (Substitute Senate Bill 342) creates a health care fund for the State Teachers Retirement System of Ohio. The law provides that if the plan discontinues health care coverage, any remaining surplus funds will be distributed to employers who have contributed to the health care fund. The law permits, rather than requires, the board to reimburse Medicare Part B premiums to benefit recipients. It limits reimbursements to an amount determined by the board not to exceed 90 percent of basic premium and it provides that reimbursements may be made only to recipients who are "enrolled in," rather than merely eligible for Medicate Part B. The law also permits, rather than requires, the plan to offer long-term care insurance.

Ohio. 2012 Ohio Laws, S. 341 (Substitute Senate Bill 341) revises the authority of School Employees Retirement System of Ohio to offer health care coverage to retirees and authorizes the board to establish criteria for determining who is eligible for coverage. The law clarifies that the plan is not required to provide health care coverage, and may set the monthly reimbursement for Medicare Part B premiums at an amount over $45.50.

West Virginia. 2012 W.Va. Acts, Chap. 152 (Senate Bill 469) dedicates $30 million annually to the West Virginia Retiree Health Benefit Trust Fund to pay off the state's $5 billion other post-employment benefits (OPEB) debt by 2036. Another $5 million annually would be transferred into a trust fund for public workers hired after July 1, 2010.
The $35 million would come from personal income tax revenue currently being used to pay of the Workers' Compensation Old Fund, which should be available by 2016 when the state retires the debt. The bill also provides relief for county school systems, with the state taking responsibility for retiree health care costs within the school aid formula, though schools would have to take responsibility for amounts billed outside the school aid formula.

13. Purchase of Service Credit

California. 2012 Cal. Stats., Chap. 296 (Assembly Bill 340) disallows members of the Public Employees' Retirement System, the State Teachers' Retirement System and county, city and district systems from purchasing nonqualified service credit after Jan. 1, 2013. Such employees were previously allowed to purchase up to five years of nonqualified service credit by making specified contributions to the system.

Ohio. 2012 Ohio Laws, S. 343 (Substitute Senate Bill 343) modifies the Ohio Public Employees Retirement System. The law increases the cost to purchase service credit for service as an elective official, service for which a member was exempted from contributions, prior service, municipal, out-of-state or federal service, school board service and leave of absence service. The new cost to purchase such credit must be equal to 100 percent of the additional liability to the plan resulting from the additional credit.

Ohio. 2012 Ohio Laws, S. 342 (Substitute Senate Bill 342) modifies the cost to purchase service credit for members of the State Teachers Retirement System of Ohio, effective Jan. 1, 2014. The new cost to purchase such credit must be equal to 100 percent of the additional liability to the plan resulting from the additional credit. For more information, see the Ohio Legislative Service Commission's Final Bill Analysis.

Ohio. 2012 Ohio Laws, S. 341 (Substitute Senate Bill 341) modifies the cost to purchase service credit for a leave of absence for members of the School Employees Retirement System of Ohio. The law requires members to pay both the employee and employer contributions plus interest to purchase employer approved leave of absence service credit. Service credit may be purchased for multiple leaves of absence, but the total years purchased cannot exceed five and the maximum amount of service that may be purchased for a period of leave is two years.

South Carolina. 2012 S.C. Acts, Act 278 (House Bill 4967) changes the cost of purchasing service credit for current and new members of the South Carolina Retirement System, the General Assembly Retirement System and the Police Officers' Retirement System, as of July 1, 2012. The former provisions allowed the purchase of service at 16 percent of a person's highest salary for qualified time and 35 percent for non-qualified time. This legislation sets those amounts as minimum charges and provides for an actuarial calculation of the purchase cost.

The service purchase provisions apply to military service but not to purchases of leaves of absence, workers' compensation or previously withdrawn service.

[The member's handbook explains: Active members may establish additional service credit for various types of previous employment and leaves of absence, and up to five years of non-qualified service.]

14. Re-employment after Retirement

California. 2012 Cal. Stats., Chap. 296 (Assembly Bill 340) places limitations on re-employment after retirement for the members of a public retirement system, excluding public safety officers, firefighters and certain judges. It establishes a new waiting period during the first 180 days of a member's retirement in which the member is ineligible to be re-employed. An exception to the 180 waiting period exists if the re-employment is necessary to fill a critical need or the retiree is eligible to participate in the Faculty Early Retirement Program pursuant to collective bargaining.

Idaho. 2012 Idaho Sess. Laws, Chap. 169 (House Bill 579) repealed a sunset provision (§ 4 Idaho Code 59-1356 enacted in 2007 though House Bill 202) which was set to repeal a return to work provision on July 1, 2012. Under House Bill 597, retired teachers and administrations may continue to return to work in certain positions without stopping Public Employee Retiree System of Idaho pension benefits. The law allows teachers and administrators who retire to return to work in that same capacity if the retiree did not participate in the early retirement incentive program, is age 62 or older at retirement and retired with an unreduced benefit.

Kansas. 2012 Kan. Sess. Laws, Chap. 171 (House Bill 2333) extends for three years to July 1, 2015, a salary cap exemption for public school professionals who go back to work after retiring from the Kansas Public Employee Retirement System and who are employed full time by the same KPERS participating employer. The latter will continue to pay a special KPERS contribution rate for retired members who return to work.

Maryland. 2012 Md. Laws, Chap. 469 and 470 (Senate Bill 250 and House Bill 84, companion bills) reduce from nine to five the number of years that a Correctional Officers' Retirement System (CORS) and State Police Retirement System (SPRS) retiree must wait in order to be exempt from a reemployment earnings limitation.

Maryland. 2012 Md. Laws, Chap. 526 (Senate Bill 497 and House Bill 630, companion bills), exempt Employee Retirement System and Employee Pension System retirees from the earnings limitation if they are reemployed as contractual parole and probation officers for up to four years.

Michigan. 2012 Mich. Pub. Acts, Act 464 (House Bill 5261) allows Michigan Public School Employees' Retirement System retirees to return to work in schools with a critical shortage discipline or as a substitute teacher, instructional coach or school improvement facilitator without a reduction in pension or health benefits. The critical shortage provision applies if a retiree has been retired for at least 12 months and is employed for no more than 3 years in a critical shortage discipline, a list of disciplines determined by the state superintendent and updated annually. Under House Bill 5261, an employee who retired after July 1, 2010 is allowed to return to work as a substitute teacher, instructional coach or school improvement facilitator if the retiree has been retired for at least one month and earns no more than one-third of his or her final average compensation in a calendar year. For both return to work provisions, the retiree's pension benefits are not recalculated based on this additional service or compensation, the reporting unit employer is required to make contributions and the laws will sunset on July 1, 2014.

Ohio. 2012 Ohio Laws, S. 342 (Senate Bill 342) modifies the reemployment after retirement provisions for the State Teachers Retirement System of Ohio (STRS). Retired members of the *Ohio Public Employees Retirement System* (OPERS) or the *Ohio School Employees System* (SERS) defined contribution plans or an alternative retirement plan will be required to wait two months before being reemployed in a STRS covered position (just as STRS plan participants must wait) without being subject to a benefit forfeiture provision. Members who hold more than one position with STRS, OPERS or SERS and who plan to retire from one employer while continuing to work in the secondary position with another employer may do so only if they have continuously held that position for at least 12 consecutive months immediately prior to retirement, effective July 1, 2014. For more details on the provisions affecting reemployment after retirement, see the Ohio Legislative Service Commission's Final Bill Analysis.

South Carolina. 2012 S.C. Acts, Act 278 (House Bill 4967) places a limit on the amount that can be earned when a retiree from the South Carolina Retirement System returns to covered service, affecting those who retire on or after Jan. 2, 2012. Current law does not limit earnings of a returning retiree. This law requires an absence from employment of 30 days and suspends retirement benefits after the returning retiree has earned $10,000. Retirees will be able to repeat the process yearly. The limitation will not apply to people who are at least 62 years old when they retire, or those returning to specified elective or appointive positions. Similar provisions will apply to members of the Police Officers' Retirement System, except that people who are at least 57 years old when they retire will not be subject to the limit on earnings.

15. Studies

Hawaii. 2012 Hawaii Sess. Laws, Act 16 (House Bill 1858) requires the director of human resource development to compile an executive branch workforce demographic profile to include both civil service and exempt employees including the number of employees who are currently eligible for retirement and the projected retirements.

Kentucky. 2012 Ky. Acts. Chap. 155 of 2012 (House Concurrent Resolution 162) establishes the Kentucky Public Pensions Task Force to study issues regarding Kentucky's state-administered pension funds and to develop consensus recommendations concerning the benefits, investments, and funding of those funds. It is to report to the General Assembly by Dec. 7, 2012.

Maryland. 2012 Md. Laws, Chap. 578 (House Bill 916) requires the Governor's Office of Minority Affairs to conduct a study of the State Retirement and Pension System and all funds managed by the Board of Trustees for the System to determine the capacity to select minority fund managers across all asset classes and to determine methods that best assure the recruitment and selection of minority companies for fund-to-fund management or direct management by the Investment Division of the State Retirement Agency.

Michigan. 2012 Mich. Pub. Acts, Act 300 (Senate Bill 1040) requires the Director of the Department of Management, Budget and Technology (DTMB), with the Senate Majority Leader and the Speaker of the House of Representatives, to commission an independent third party to prepare a report by Nov. 15, 2012. The report would provide recommendations regarding the following:

- Defined contribution, hybrid defined contribution and other plan options including the additional costs related to implementing a 401(k) plan identical to the one offered to state employees (which provides an automatic match equal to 4 percent of salary with an additional match of up to 3 percent based on employee contributions).
- Plan design, funding methods, benefits provided and other features of other public state school employee plans and private retirement plans covering comparable employees.
- Funding or not funding the annual required contributions for unfunded liabilities.
- Changing member contributions, vesting requirements, service credit purchases, pension formulas, cost of living increases, rates of investment returns, mortality rates and longevity.
- Prefunding retiree health care costs rather than paying on a cash basis.
- The degree to which current operating expenditures (COE) are a stable, growing, and equitable base for charging unfunded accrued liabilities as compared to payroll or alternative methods.

Ohio. 2012 Ohio Laws, S. 342 (Substitute Senate Bill 342), 2012 Ohio Laws, S. 342 (Substitute Senate Bill 342) and 2012 Ohio Laws, S. 341 (Senate Bill 341) require the Ohio Retirement Study Council to study and make recommendations on the authority each act gives the State Teachers Retirement System of Ohio Board, the State Teachers Retirement System of Ohio Board and the School Employees Retirement System of Ohio Board to modify certain plan design provisions and requires a report be submitted to the Senate President and House Speaker.

South Dakota. 2012 S.D. Sess. Laws, Chap. 27 (Senate Bill 30) authorizes the Board of Trustees to establish an alternative benefit enhancement methodology to make the South Dakota Retirement System (SDRS) more sustainable while mitigating risk to the system, subject to approval by the legislature.

The South Dakota Retirement System explains:

> "Considering the volatility of the capital markets, the SDRS Board of Trustees is focusing on ways to make SDRS more sustainable over the long-term and better balance risks in the plan. This enabling legislation would provide the authority to the Board of Trustees to explore and design alternative benefit enhancement methods. SDRS already has several hybrid features within the plan and this legislation would give SDRS more alternatives for benefit enhancements in the future. While the details are not fully defined yet, this legislation would allow SDRS to explore the possibility of providing both formula based benefits and account based benefits under the total SDRS umbrella. Such a design would grow additional benefits when the market moves up, but would also mitigate risk by contracting when markets fall. In short, this will add another benefit enhancement alternative for the Board of Trustees to consider in the future."

Washington. 2012 Wash. Laws, Chap. 7 (Senate Bill 6378) directs the Select Committee on Pension Policy (SCPP) and the Department of Labor and Industries to study the range of job classifications covered by the state retirement systems to identify positions that entail high levels of physical or psychological risk. The SCPP, with the assistance of the Office of the Superintendent of Public Instruction, must also study the job requirements for classroom employees that may limit the effectiveness of older employees. No later than Dec. 15, 2012, the SCPP must submit a report to the fiscal committees of the legislature evaluating the appropriateness of enrolling certain employee groups in the Public Safety Employees' Retirement System (PSERS) and the creation of other early retirement options within the Teachers' Retirement System.

The legislation also directs the state actuary to submit a report to the Pension Funding Council by June 1, 2017, describing the financial condition of the state retirement systems and recommending a long-term investment return assumption.

16. State Sponsored Retirement Savings Accounts

California. 2012 Cal. Stats., Chap. 296 (Assembly Bill 340) creates a statewide retirement savings plan for private workers who do not participate in an employer sponsored retirement savings plan. It establishes investment board and a trust for creating a statewide program known as the California Secure Choice Retirement Savings Program (SCRSP). The bill requires eligible employees to participate in the program, unless the employee opts out of the program. For SCRSP to become operational, this bill requires a market analysis to determine various factors concerning implementing the SCRSP and to report to the legislature on its findings. This analysis will only be completed if sufficient funds to do so are made available through a nonprofit or private entity, federal funding or an annual budget act appropriation.

Massachusetts. 2012 Mass. Acts, Chap. 60 (House Bill 3754) will allow non-profit organizations with fewer than 20 employees to enter into a contributory retirement plan. No state money will be used to fund the retirement plan, which will be overseen by the Treasurer's Office. Currently, the Treasurer's Office oversees a contributory plan with $5 billion in assets that includes approximately 300,000 members. Adding the plan for non-profit organizations will not have a significant impact on operations.

To establish the plan, the Treasurer's Office may create a trust to receive qualified contributions from non-profit employers and employees, and will establish a non-profit defined contribution committee that will include the Treasurer and four other members. The legislation was supported by the Massachusetts Nonprofit Network and is considered one of the first of its kind in the nation.