State Retirement Reform Legislation

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Overview

• State-administered plans represent only 6% of systems, but represent 88% of active members and 83% of assets.

• 30% of the state & local workforce – roughly 6 million workers – are not covered by Social Security.
  ▪ Majority of public safety employees are not covered by Social Security.

• Majority are traditional defined benefit plan designs.
Overview (Cont’d)

• Pension related legislation is being considered in at least 52 different states, territories or DC.

• NCSL's Pension Legislation Database has 1,336 bills for 2013.

• 216 bills have been enacted in 2013 in 45 different states.
Overview (Cont’d)

This report is concerned with state legislation changing state retirement plans for general employees and teachers, which 48 states revised between 2009 and 2013 – some more than once:

- 2009 – 10 states
- 2010 – 21 states
- 2011 – 32 states
- 2012 – 10 states
- 2013 – 5 states and Puerto Rico, so far
Major Pensions Legislation 2009–2013: All Topics

Total: 48 States
Significant Structural Changes in 2013

Total: 5 states + Puerto Rico

- Enacted legislation in 2013
Increases in Employee Contributions

2009–2012

- **Future Members Only (7 states)**
- **At Least Some Current Members (23 states)**

(PR)
Increases in Employee Contributions

2013*

*As tracked so far.
Increases in Employer Contributions

2013*

*As tracked so far.
Higher Age and Service Requirements for New Members 2009–2012

Total: 32 States
Higher Age and Service Requirements for New Members, 2013*

Total: 4 States

*As tracked so far.
## Significant Plan Changes in 2013

### Montana Public Employees Retirement System

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee Contribution</strong></td>
<td>Increased from 6.9% to 7.9% for all members. Tied to funding level.</td>
</tr>
<tr>
<td><strong>Employer Contribution</strong></td>
<td>Increased by 1%. Will increase by 0.1% per year until 2024.</td>
</tr>
<tr>
<td><strong>GABA</strong></td>
<td>Reduced from 3% to 1.5%. Tied to funding level.</td>
</tr>
</tbody>
</table>
Significant Plan Changes in 2013

Montana Public Employees Retirement System
Funding of PERS through natural resources.
# Significant Plan Changes in 2013

**Montana Teachers Retirement System – Tier 1**  
Employees hired *before* July 1, 2013

<table>
<thead>
<tr>
<th>Employee Contribution</th>
<th>Increased from 7.15% to 8.15%.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Final Salary</td>
<td>Average of highest 3 years.</td>
</tr>
</tbody>
</table>

**Montana Teachers Retirement System – Tier 2**  
Employees hired *after* July 1, 2013

<table>
<thead>
<tr>
<th>Employee Contribution</th>
<th>8.15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiplier</td>
<td>1.67% or 1.85% with 30 YOS and at age 60.</td>
</tr>
<tr>
<td>Average Final Salary</td>
<td>Average of highest 5 years.</td>
</tr>
</tbody>
</table>
## Significant Plan Changes in 2013

### Nebraska School Employees – Tier 1
Employees hired *before* July 1, 2013

<table>
<thead>
<tr>
<th>Employee Contribution</th>
<th>Remains at 9.78%.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Final Salary</td>
<td>Average of highest 3 years.</td>
</tr>
<tr>
<td>COLA</td>
<td>Maximum of 2.5%.</td>
</tr>
</tbody>
</table>

### Nebraska School Employees – Tier 2
Employees hired *after* July 1, 2013

<table>
<thead>
<tr>
<th>Employee Contribution</th>
<th>9.78%.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Final Salary</td>
<td>Average of highest 5 years.</td>
</tr>
<tr>
<td>COLA</td>
<td>Maximum of 1%.</td>
</tr>
</tbody>
</table>
### Significant Plan Changes in 2013

Public Employees Retirement Association of New Mexico – Tier 2

Employees hired after July 1, 2013 General Members

<table>
<thead>
<tr>
<th>Employee Contribution</th>
<th>Increased by 1.5% for employees earning over $20,000.*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement Eligibility</td>
<td>Rule of 85; or 8 YOS + Minimum age of 65.</td>
</tr>
<tr>
<td>Multiplier</td>
<td>Reduced from 3% to 2.5%.</td>
</tr>
<tr>
<td>FAS &amp; Vesting</td>
<td>FAS 5 Years (current plan is 3); Vested at 8 (current plan is 5).</td>
</tr>
<tr>
<td>COLA</td>
<td>Reduced from 3% to 2%*; Delayed until 7 years after retirement.</td>
</tr>
</tbody>
</table>

*Also affects current employees.
# Significant Plan Changes in 2013

## New Mexico Education Retirement Board – Tiers 1 & 2

**Employees hired before July 1, 2013**

<table>
<thead>
<tr>
<th>Employee Contribution</th>
<th>Increased from 9.4% to 10.7% (phased in over 2 years).</th>
</tr>
</thead>
<tbody>
<tr>
<td>COLA</td>
<td>Begins at age 65. Existing retirees will see a 10% or 20% COLA reduction.</td>
</tr>
</tbody>
</table>

## New Mexico Education Retirement Board – Tier 3

**Employees hired after July 1, 2013**

<table>
<thead>
<tr>
<th>Employee Contribution</th>
<th>10.7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement Eligibility</td>
<td>30 YOS + Minimum age of 55.</td>
</tr>
<tr>
<td>COLA</td>
<td>Begins at age 67.</td>
</tr>
</tbody>
</table>
Reductions in Post-Retirement Benefit Increases 2009–2012

Total: 24 States

- Future hires only (7 states)
- At least some active employees (6 states)
- People already retired and active employees (11 states)
Reductions in Post-Retirement Benefit Increases 2013*

Total: 5 States

- Future hires only (1 state)
- At least some active employees (0 states)
- People already retired and active employees (4 states)

*As tracked so far.
Non-DB Statewide Retirement Plans

Total: 18 States
+ Puerto Rico

- Mandatory Hybrid Plan (6 states)
- Mandatory Cash Balance Plan (3 states)
- Mandatory Defined Contribution Plan (2 states)
- Choice of Primary Plan (7 states)
Replaced DB Plans 2009–2013

Total: 7 States + Puerto Rico
Defined Contribution (DC) Plans

- Function like savings accounts.
- Funds are more portable.
- Stabilizes states’ costs for new hires.
- Risks and responsibilities shifted to employee:
  - Risk of losing funds with investment fluctuations.
  - No guaranteed rate of return.
  - Employee must (usually) choose:
    - Employee contribution amount (risk of saving too little);
    - Among investment options.
- Administrative & investment costs are generally higher than with DB plans.

Sources: Center for Retirement Research at Boston College, *A Role for Defined Contribution Plans in the Public Sector*
National Institute on Retirement Security, *A Better Bang for the Buck*
# Tennessee Hybrid Plan (2013)

<table>
<thead>
<tr>
<th>Applicability</th>
<th>Future State Employees, Teachers and Higher Ed Employees hired after July 1, 2014.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Contribution</td>
<td>7% (DB: 5%, DC: 2%) – Provision for employees to opt out of 2% DC contribution.</td>
</tr>
<tr>
<td>Employer Contribution</td>
<td>8% (DB: 4%, DC: 4%).</td>
</tr>
<tr>
<td>Retirement Eligibility</td>
<td>Age 65 with 5 YOS or Rule of 90 (current plan is 30 YOS or age 60).</td>
</tr>
<tr>
<td>Multiplier</td>
<td>1% (current plan is 1.575%).</td>
</tr>
<tr>
<td>Vesting</td>
<td>5 Years for DB Benefits. Immediate vesting for DC contributions.</td>
</tr>
</tbody>
</table>
Cash Balance Plans

• Kentucky adopted in 2013.
• Kansas and Louisiana adopted in 2012, but the Louisiana plan was ruled unconstitutional.
• Very rare in the public sector.
• A cash balance plan:
  – Provides each member with an individual account.
  – Employees and employers contribute to the account.
  – The member cannot choose how the money is invested.
  – Members' accounts are managed in one trust fund, and members are guaranteed a return on investment.
  – If investment return makes it possible, member accounts can receive additional returns.
  – In public plans, upon retirement, the member receives an annuity based on the account balance.
Kentucky Cash Balance Plan (2013)

<table>
<thead>
<tr>
<th><strong>Applicability</strong></th>
<th>State Employees and County Employees hired after July 1, 2013.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee Contribution</strong></td>
<td>5% for non-hazardous employees. 8% for hazardous employees.</td>
</tr>
<tr>
<td><strong>Employer Contribution</strong></td>
<td>4% for non-hazardous employees. 7.5% for hazardous employees.</td>
</tr>
<tr>
<td><strong>Vesting</strong></td>
<td>After 5 Years.</td>
</tr>
<tr>
<td><strong>Guaranteed Interest Credit</strong></td>
<td>4% annually with additional interest credits made each year equal to 75% of the 5 year average investment return in excess of 4%.</td>
</tr>
</tbody>
</table>
Sources and Contact

• Visit www.ncsl.org/pensions for retirement reports, legislative summaries, webinars and presentation materials prepared by NCSL.

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