

# State Retirement Legislation in 2010 and 2011



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**National Conference of State Legislatures**

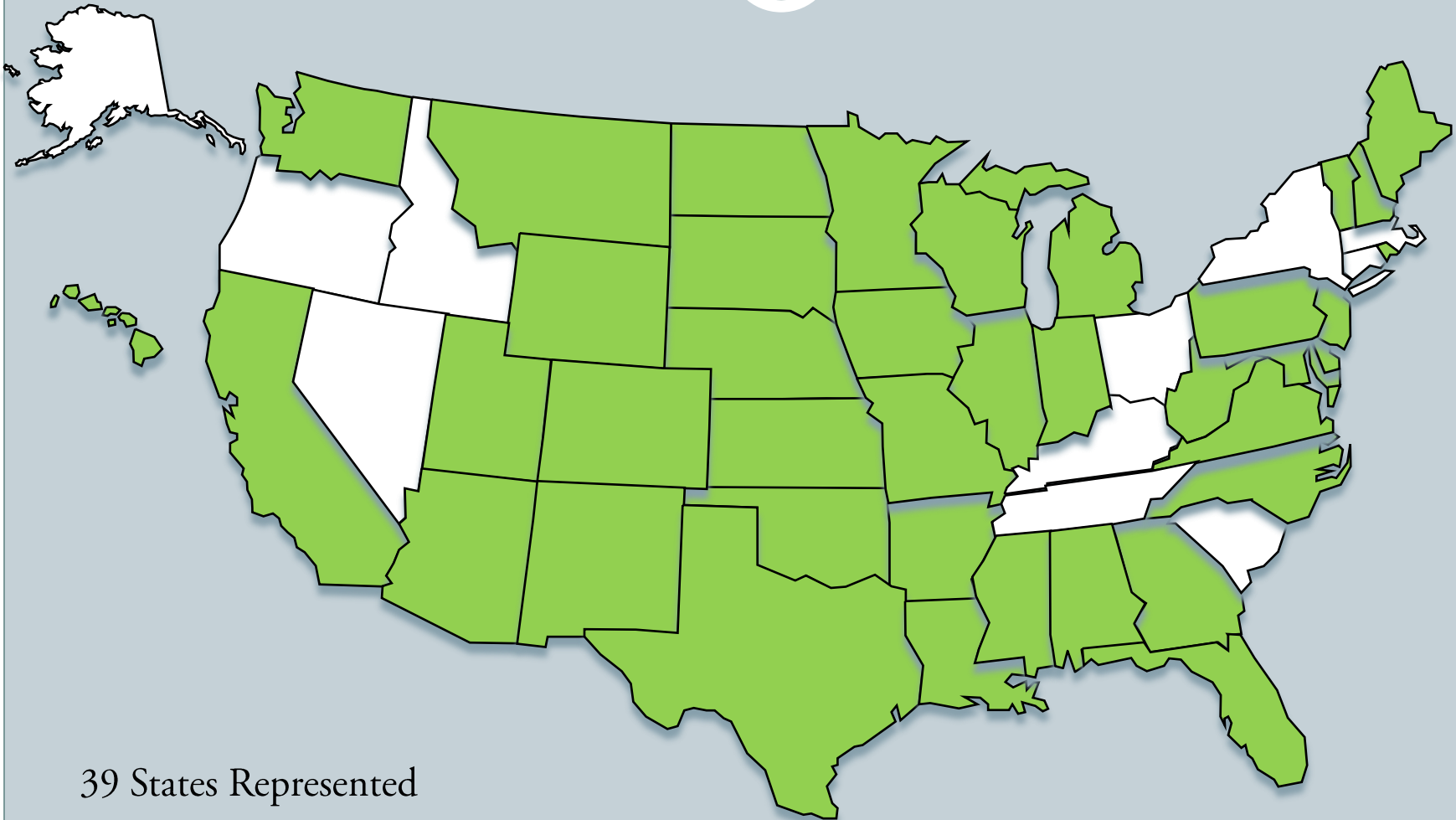
**July 26, 2011**

# Overview

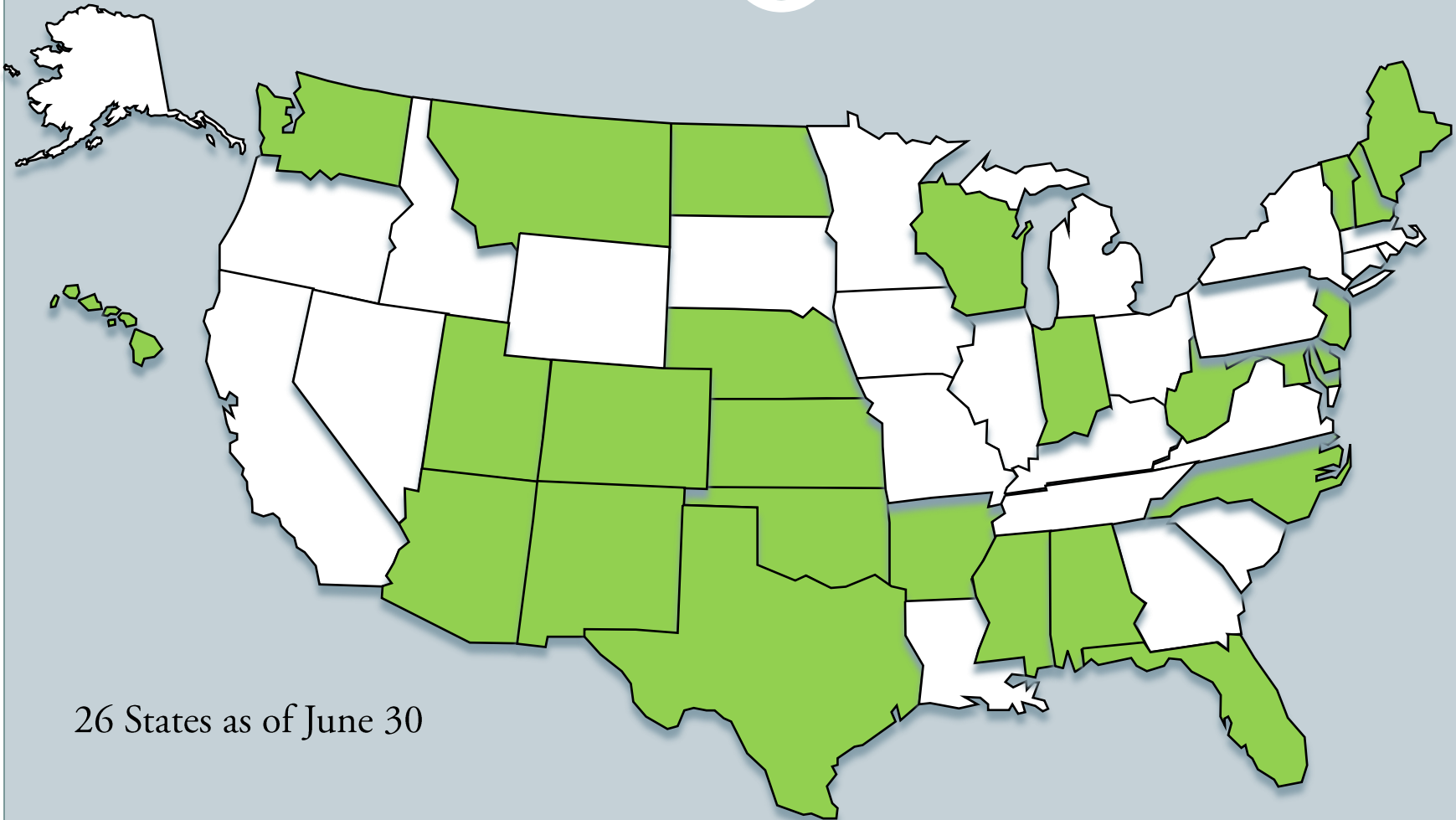


- In 2011, 26 states enacted significant changes in public pension plans by the end of June.
- In 2010, 21 states enacted changes. Some states acted in both years.
- Causes:
  - Concerns about the viability of retirement plan benefits and funding that date to the 2001 recession;
  - Severe investment losses in the 2007-2009 recession;
  - Demographic change and state fiscal conditions.
  -

# Major Pensions Legislation in 2010-2011: All Topics

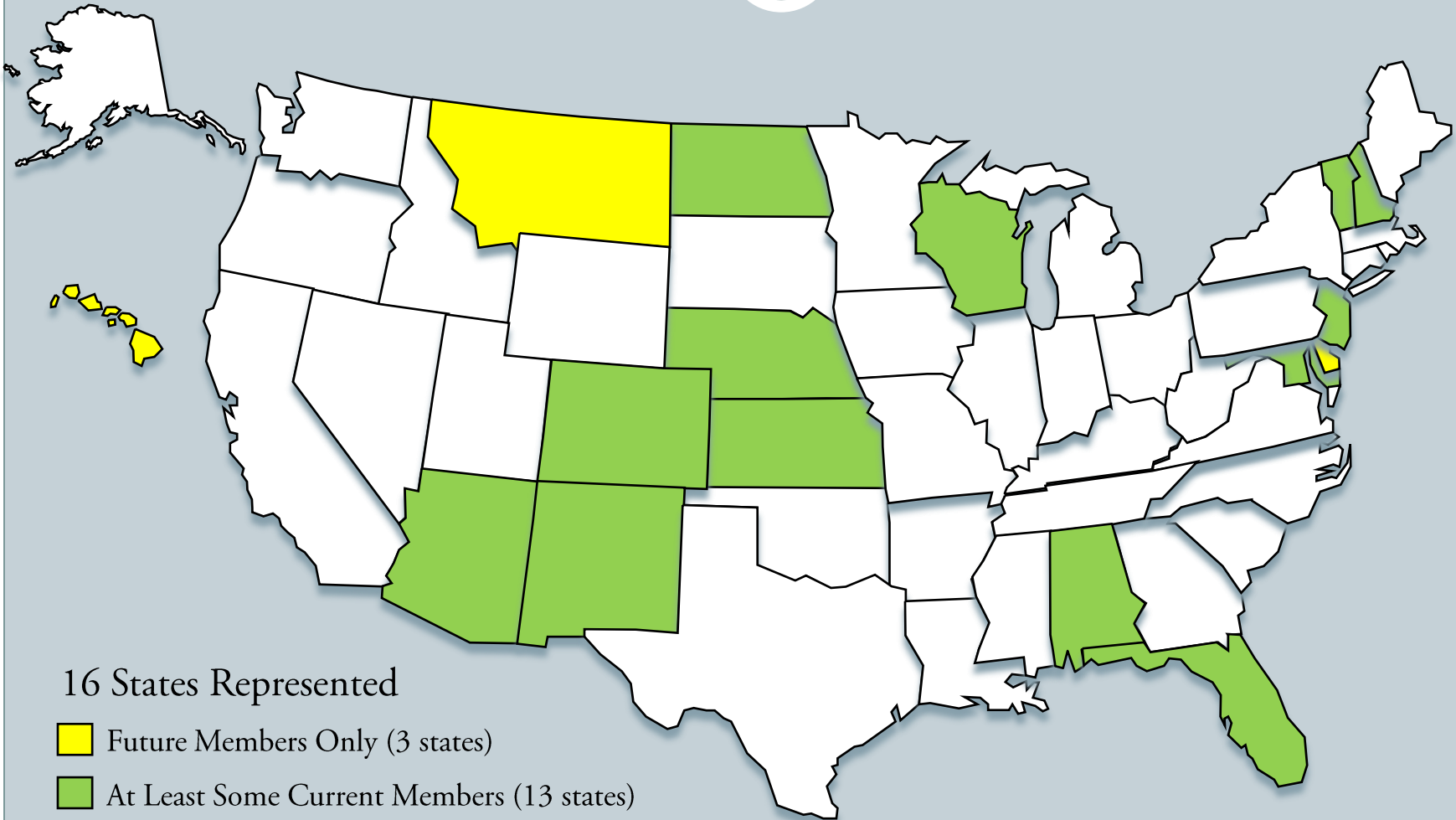


# Major Pensions Legislation in 2011: All Topics



26 States as of June 30

# Increases in Employee Contributions, 2011

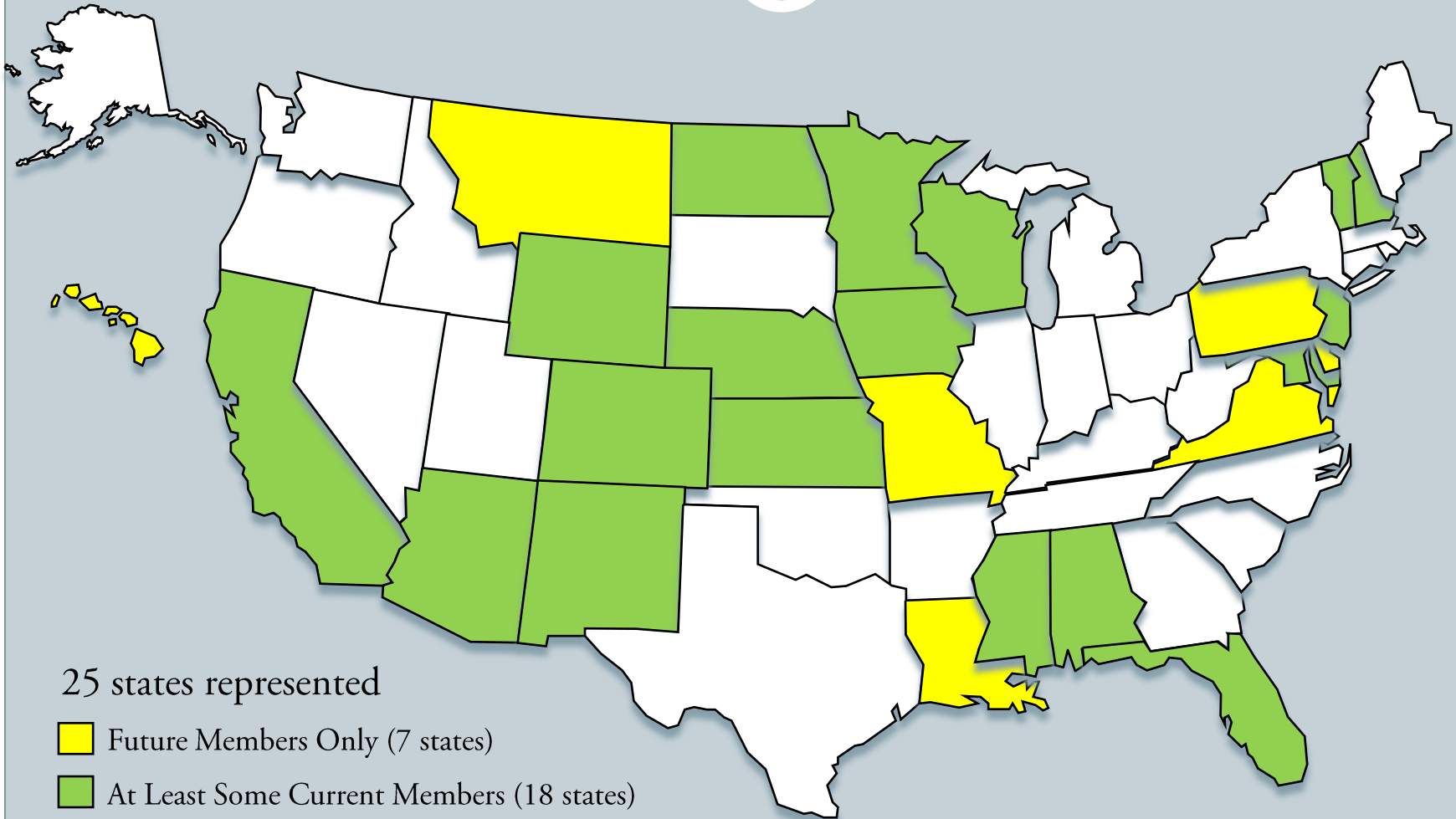


16 States Represented

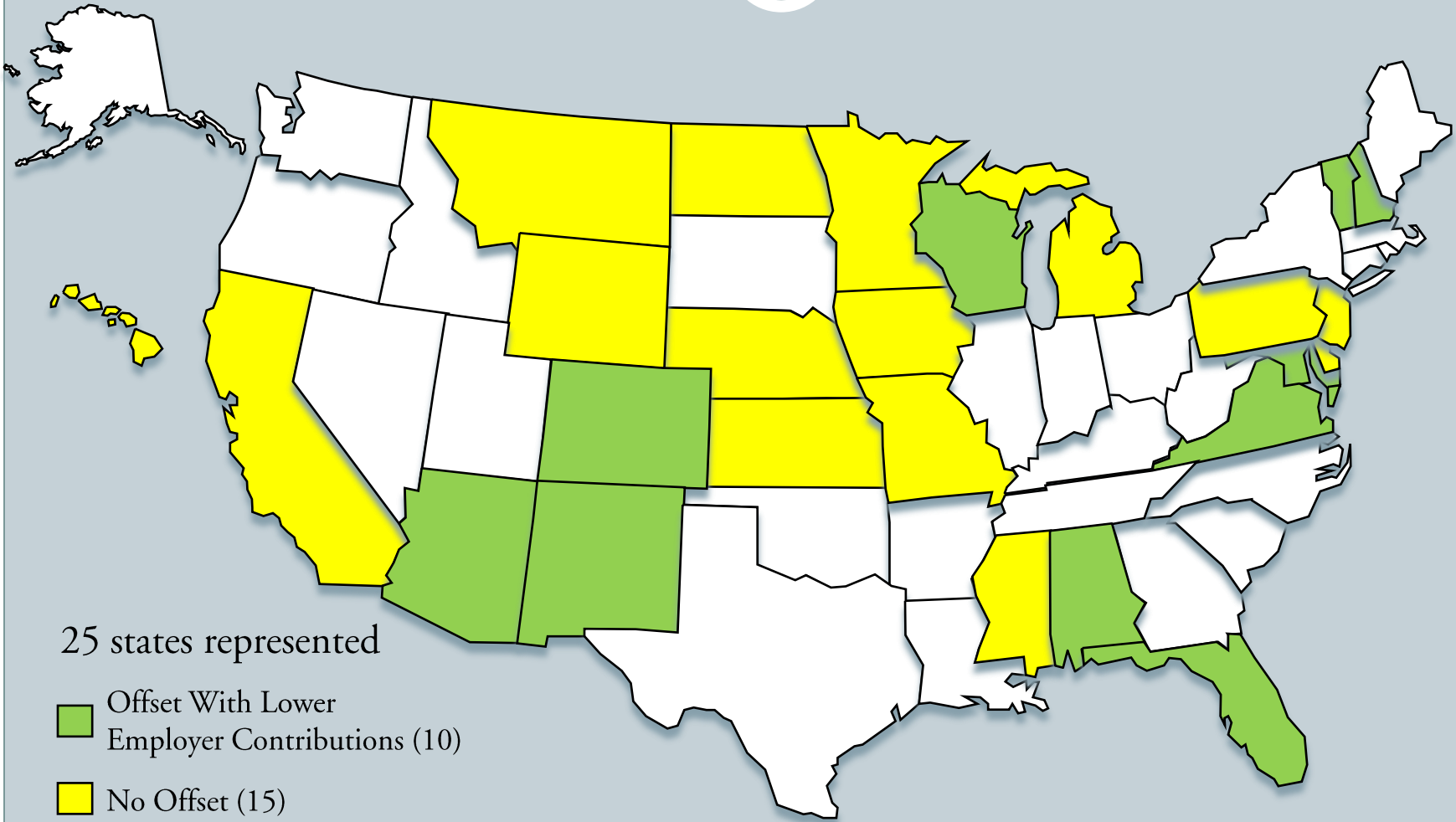
Future Members Only (3 states)

At Least Some Current Members (13 states)

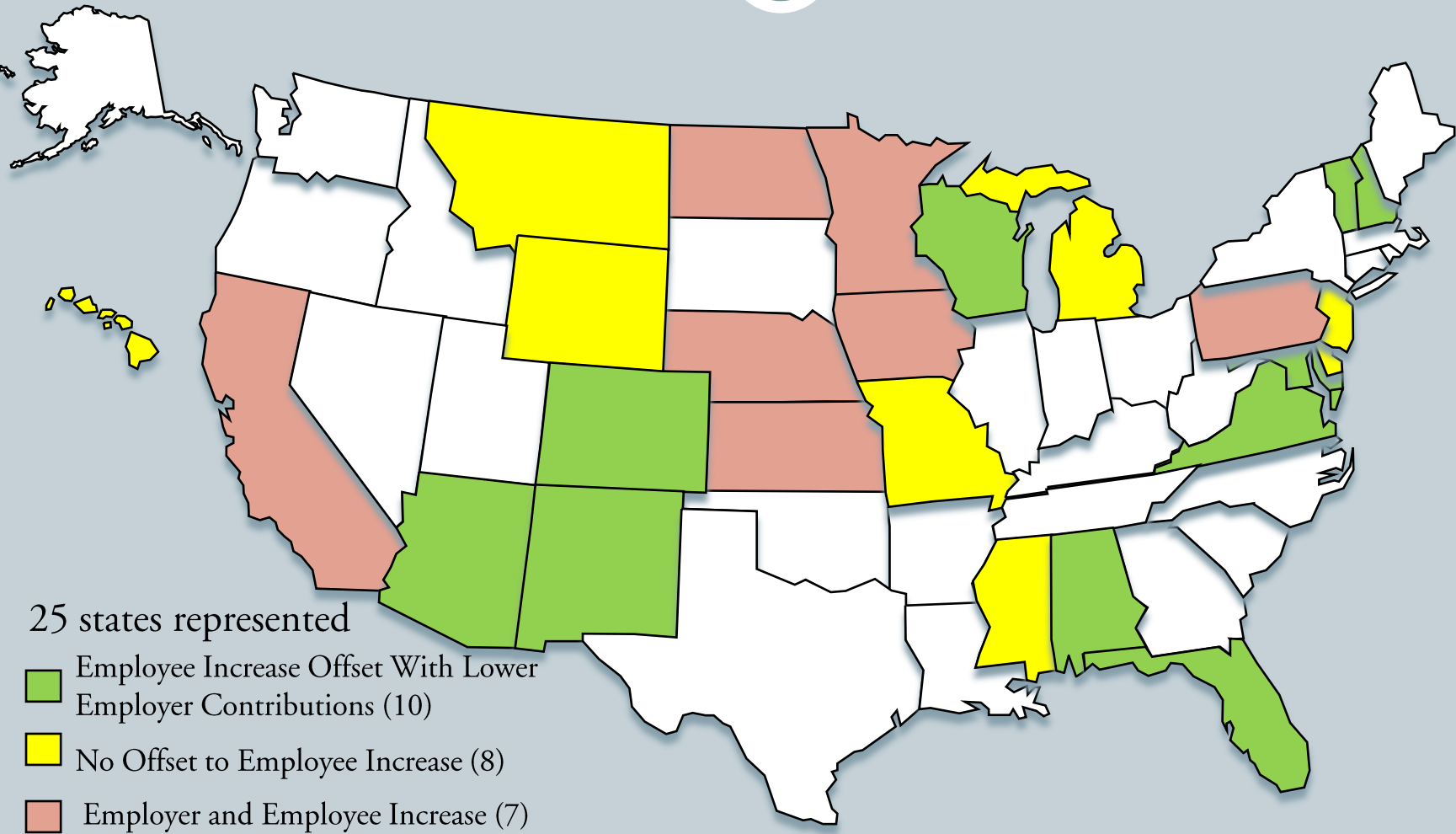
# Increases in Employee Contributions, 2010 and 2011



# Offsets to Increases in Employee Contributions, 2010 and 2011

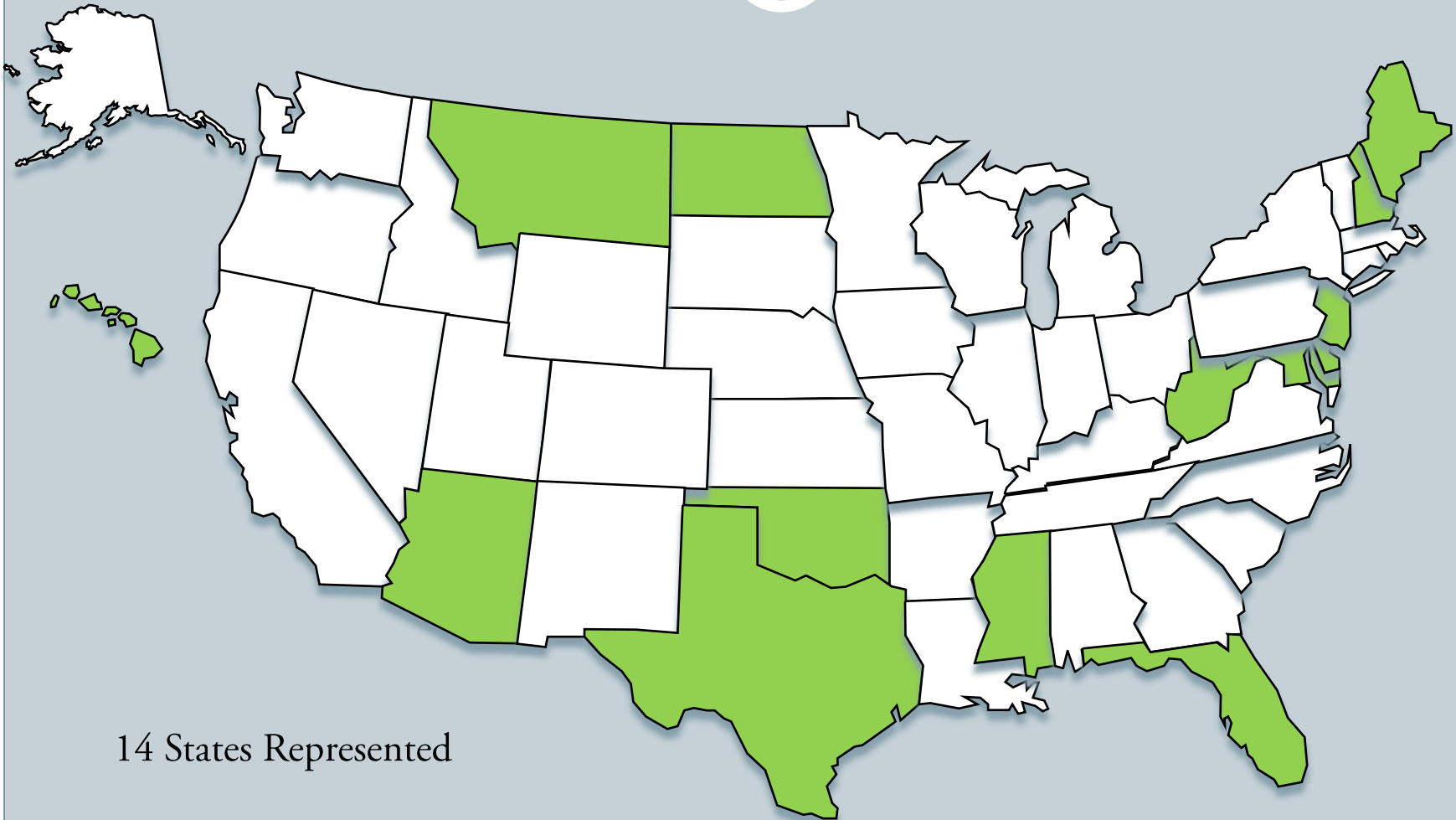


# Increases in Employer and Employee Contributions, 2010 and 2011



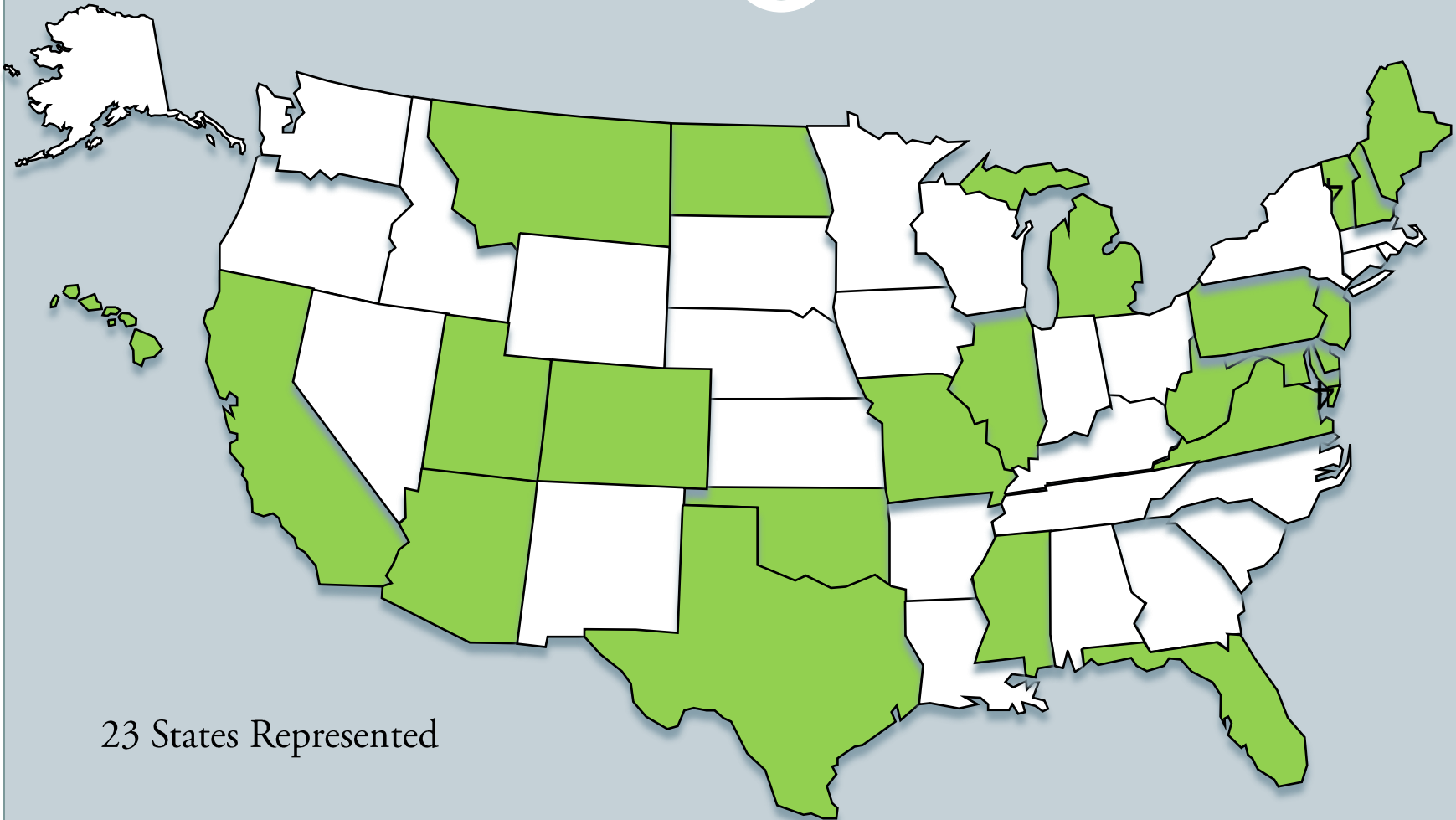


# Higher Age and Service Requirements for Normal Retirement, for New Members, 2011



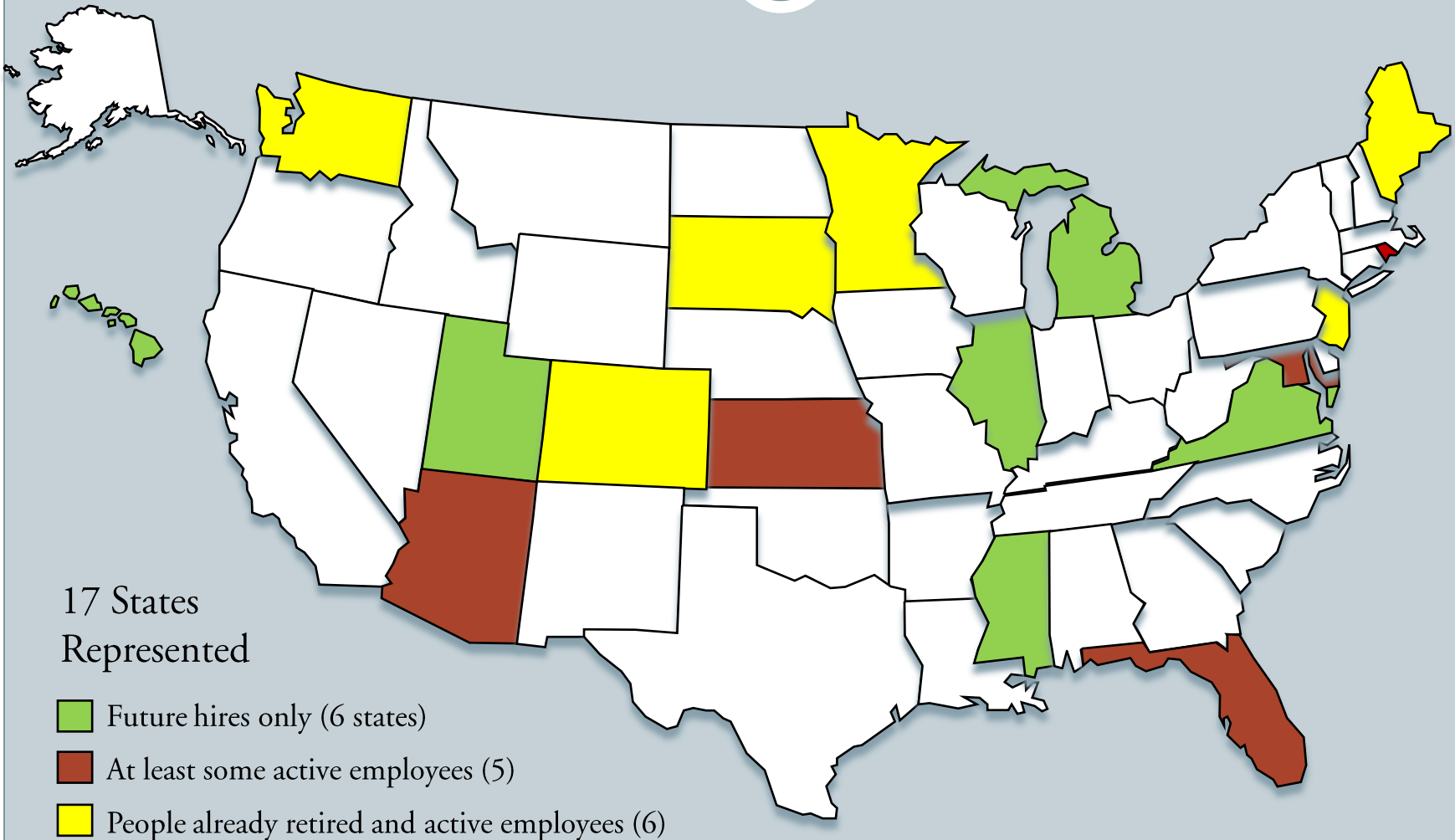
14 States Represented

# Higher Age and Service Requirements for Normal Retirement, for New Members, 2010 and 2011

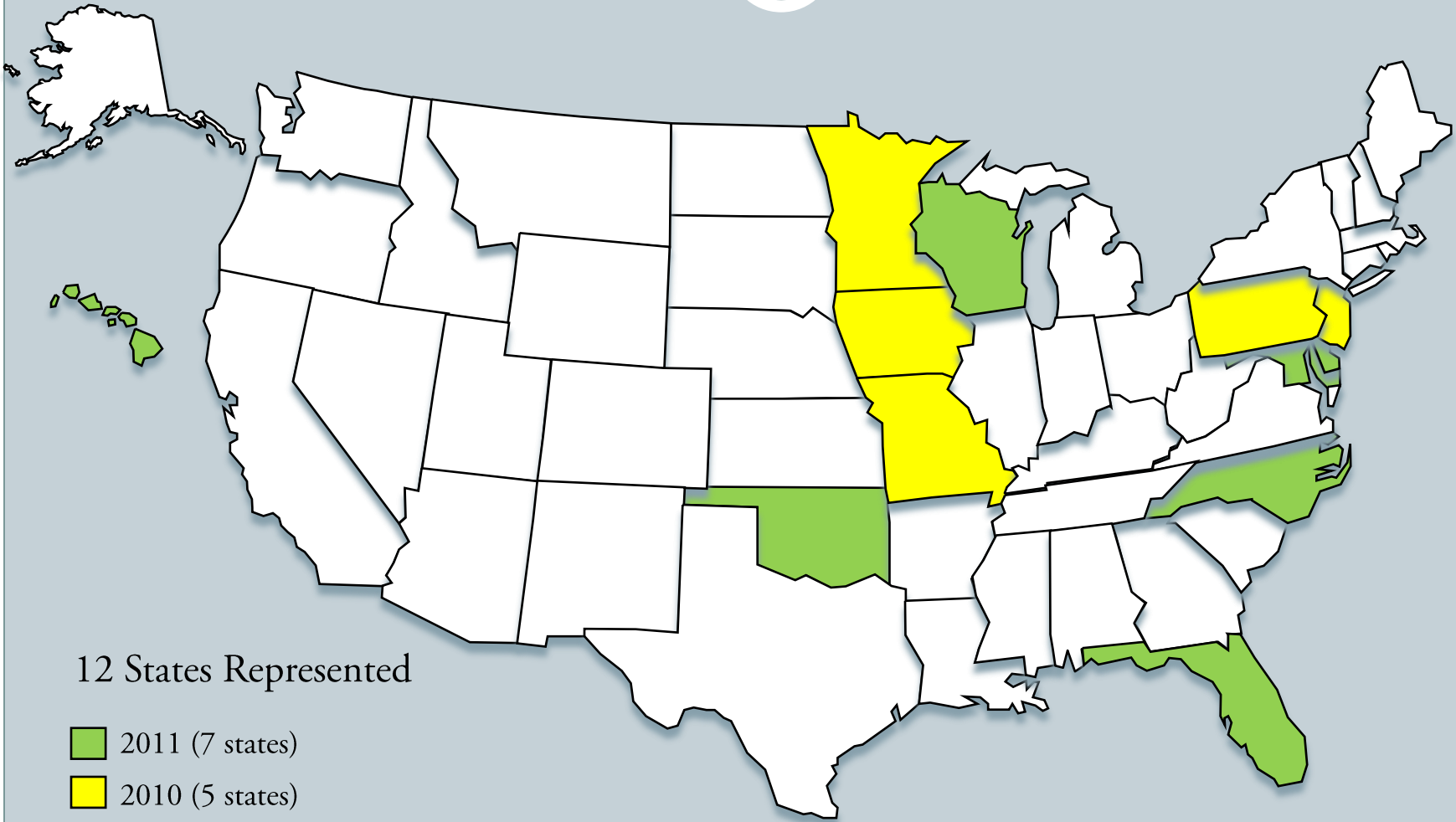


23 States Represented

# Reduced Post-Retirement Benefit Increase 2010 and 2011



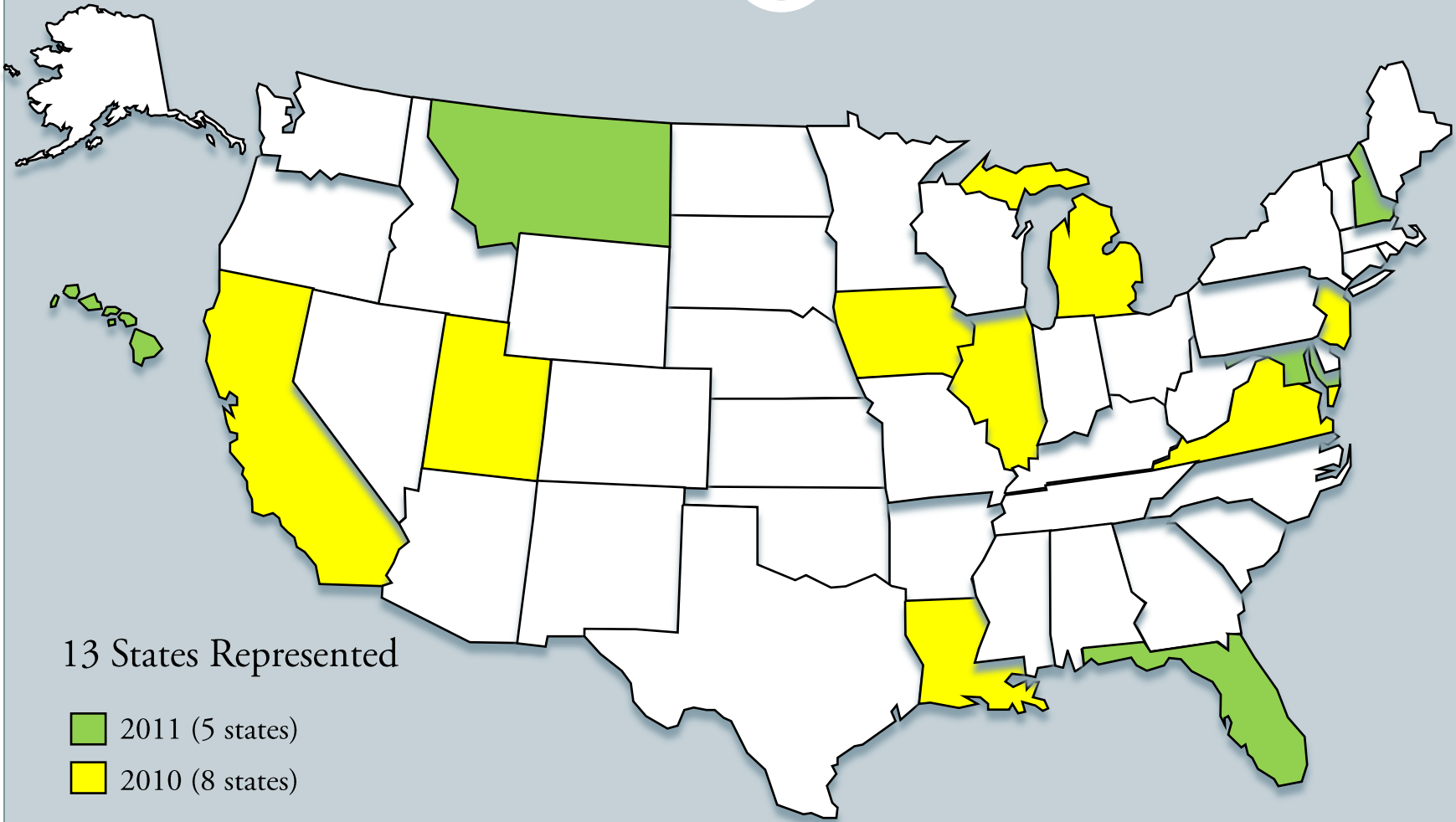
# Increases in Vesting Requirements for New Members 2010 and 2011





12 States Represented

- 2011 (7 states)
- 2010 (5 states)

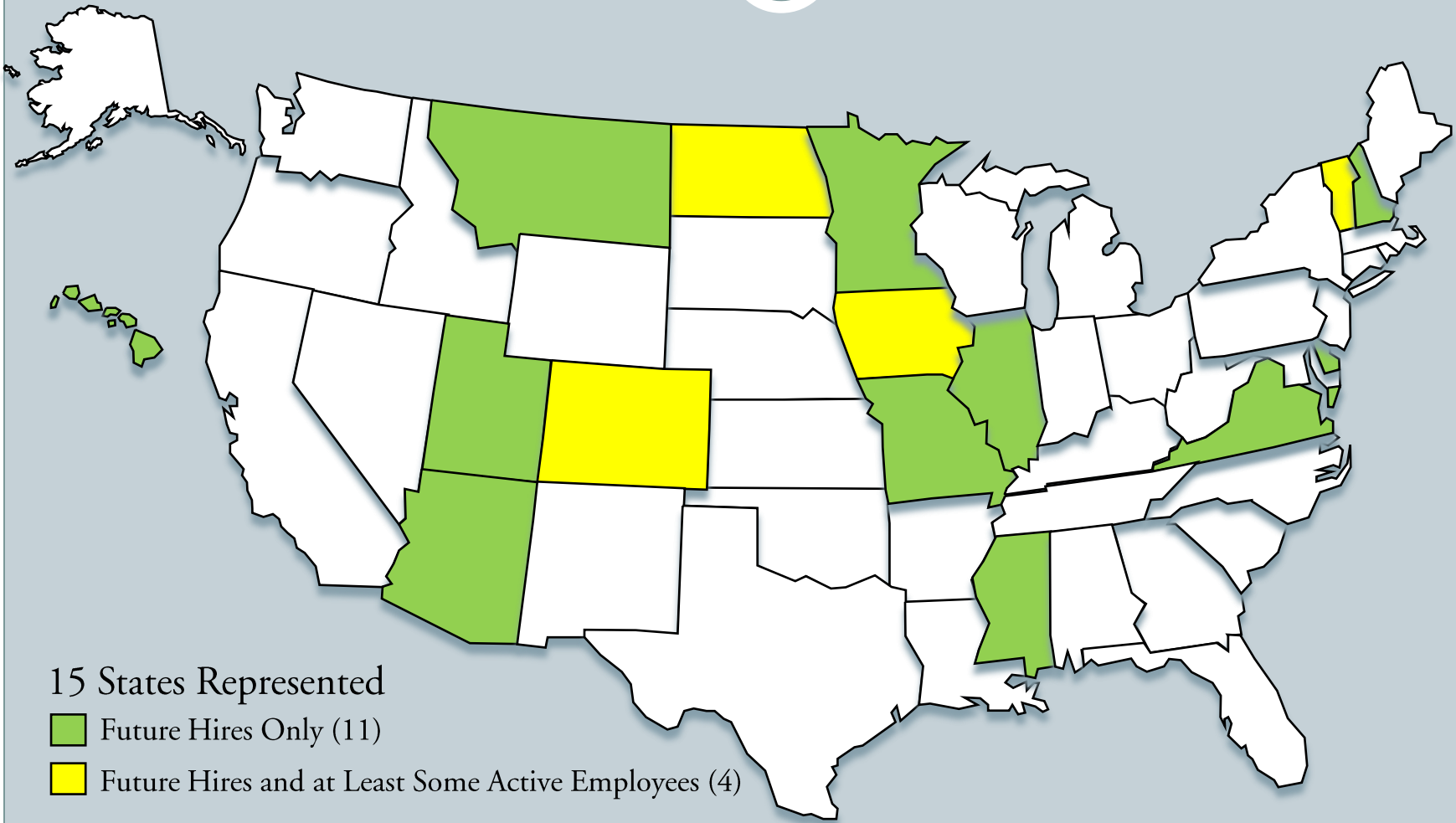
# Longer Period for Calculation of Final Average Salary for New Members, 2010 and 2011



13 States Represented

-  2011 (5 states)
-  2010 (8 states)

# Reduced Benefit For Retirement Before Normal Age, 2010 and 2011

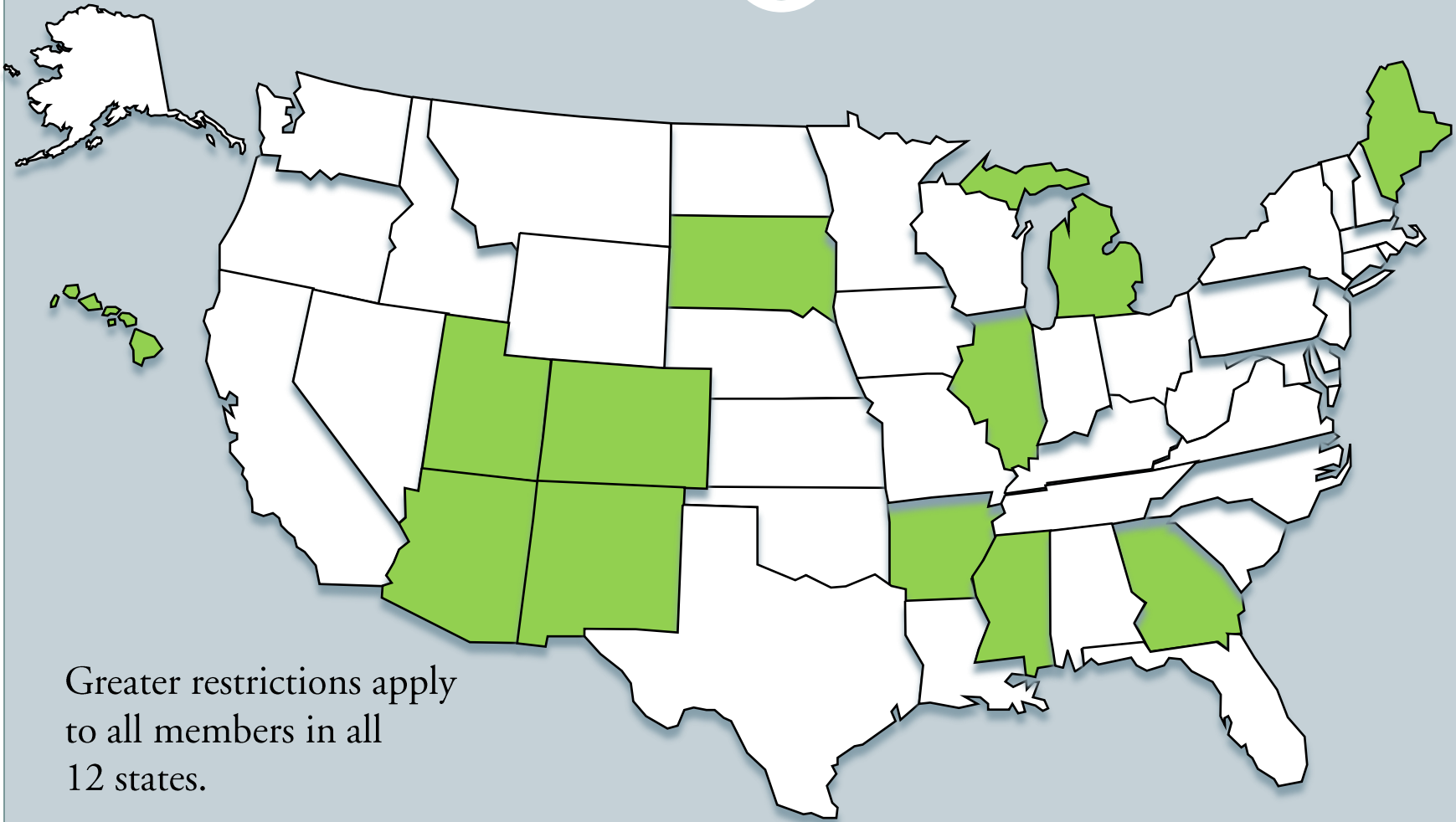


15 States Represented

Future Hires Only (11)

Future Hires and at Least Some Active Employees (4)

# Greater Restrictions on Return to Covered Service 2010 and 2011



Greater restrictions apply  
to all members in all  
12 states.

# Trends in Pensions Policy in 2010 and 2011



- With two exceptions, states have revised rather than replaced traditional defined benefit pension plans.
- In 2010, Utah closed its DB plan for all state and local employees and is offering new employees a choice of a defined contribution plan and of a combined plan that includes a DB plan and a mandatory 401(k).
- Also in 2010, Michigan replaced its School Employees DB plan with a combined plan.
- Indiana created an alternative DC plan in 2011.



# Trends in DB Plans in 2010 and 2011



- Costs have been shifted to members through higher contributions, longer service requirements, higher ages for normal retirement, and lower post-retirement benefit adjustments.
- More restrictions on retirement before normal age and on retired people returning to covered service (often called "double-dipping").

# Contribution Requirements in 2011



- Most states that increased employee contribution requirements in 2011 offset them with lower employer contributions, at least temporarily.
- This is a trend toward equalizing the employer and employee contribution rates.
- Also helps balance to highly-stressed state budgets (and local government budgets in some cases).
- An employee dollar is not worth as much as an employer dollar, and the practices does not leave pension funds harmless.

# Policy Innovations in 2010 and 2011



- Utah and Pennsylvania provided for "shared risk" defined benefit plans, in which employee contributions will be adjusted as actuarially-required contributions require. (2010).
- Pennsylvania offers new employees a choice. (2010)
  - present contribution rate and lower benefit accrual, or
  - higher contribution and the current rate of benefit accrual
- Kansas legislation provides a similar choice for active employees with regard to contribution rates and post-retirement benefit increases. (2011)

# Structural Change in Utah in 2010



- The Utah hybrid plan:
  - For DB component, employers will contribute 10% of salary.
  - Employees will contribute only when the 10% is insufficient to meet the actuarially required contribution to meet full funding
  - When the 10% is more than is required to keep the plan actuarially sound, the difference will be deposited in an employee 401(k) account.
  - Employees may contribute to the 401(k) but are not required to.
- The other choice is a defined contribution plan to which employers contribute 10% of salary; no required employee contribution.

# Structural Change in Michigan in 2010



- **Michigan School Employees Retirement System**
  - Includes K-12 teachers statewide and other school employees.
  - Replaces a defined benefit (DB) plan for employees hired after July 1, 2010 with a combined plan:
    - ✦ A DB with higher age and service requirements and a lower benefit than the former plan. FAS based on 5 years (3 years in the closed plan).
    - ✦ Plus an opt-out defined contribution (401k) plan, with an employer match (4-year vesting) to employee contributions. Within limits, school districts may negotiate levels of employee contributions and employer match.
    - ✦ No post-retirement COLA for the DB portion.

# Sources and Contact Information



- This report is based on NCSL's annual reports on state pensions and retirement legislation.
- The 2010 report, covering legislation enacted through November 15, 2010, is available on the NCSL website at <http://www.ncsl.org/default.aspx?tabid=20836>
- Several 2011 reports are available at <http://www.ncsl.org/Default.aspx?TabID=756&tabs=951,69,140#140>
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