



NATIONAL CONFERENCE
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The Forum for America's Ideas



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)

- This session, pension related legislation is being or has been considered in at least 43 different states, territories or D.C.
- NCSL's Pension Legislation Database has 612 bills so far for 2018.
- At least 148 bills were enacted in 2017 in 39 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 2017 – some more than once:

- **2009 – 10 states**
- **2010 – 21 states**
- **2011 – 32 states**
- **2012 – 10 states**
- **2013 – 6 states and Puerto Rico**
- **2014 – 8 states**
- **2015 – 4 states**
- **2016 – 2 states**
- **2017 – 8 states**

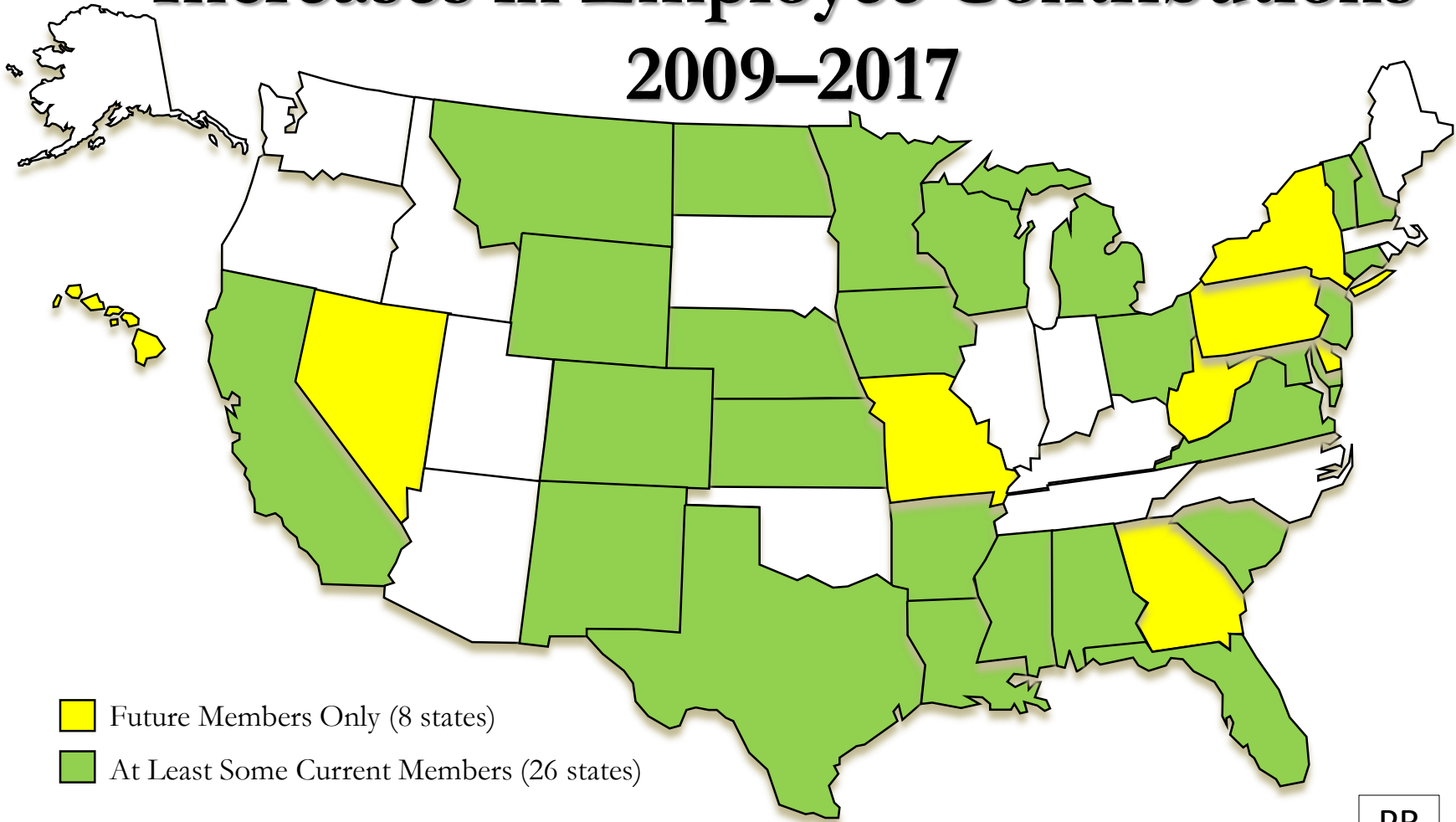


Major Pensions Legislation 2009–2017: All Topics





Increases in Employee Contributions 2009–2017



 Future Members Only (8 states)

 At Least Some Current Members (26 states)

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Changes in Employee Contributions in 2012

Kansas – Tier 1

Employees hired *before* July 1, 2009

Employee Contribution	Raises from 4% to 5%	OR	Remains at 4%
Multiplier	Remains at 1.85%		Reduces to 1.4% for future service

Kansas–Tier 2

Employees hired *after* July 1, 2009

Employee Contribution	Remains at 6%
Multiplier	Gains an increase from 1.75% to 1.85%
COLA	Loses annual COLA provided in 2007 legislation.



Changes in Employee Contributions in 2012

New York – Tier VI

New Tier Scales Employee Contributions to Salary

Applicability Most state & local government employees & teachers, including NYC plans.

\$45k or less 3%

\$45k – \$55k 3.5%

\$55k – \$75k 4.5%

\$75k – \$100k 5.75%

\$100k – \$179k 6%

No contribution on earnings in excess of the governor's salary, currently \$179k.

Employee contributions were 3% for general employees; 3.5% for teachers.



Montana PERS Contribution Changes in 2013

Montana Public Employees Retirement System

Employee Contribution	Increased from 6.9% to 7.9% for all members. Tied to funding level.
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Employer Contribution	Increased by 1%. Will increase by 0.1% per year until 2024.
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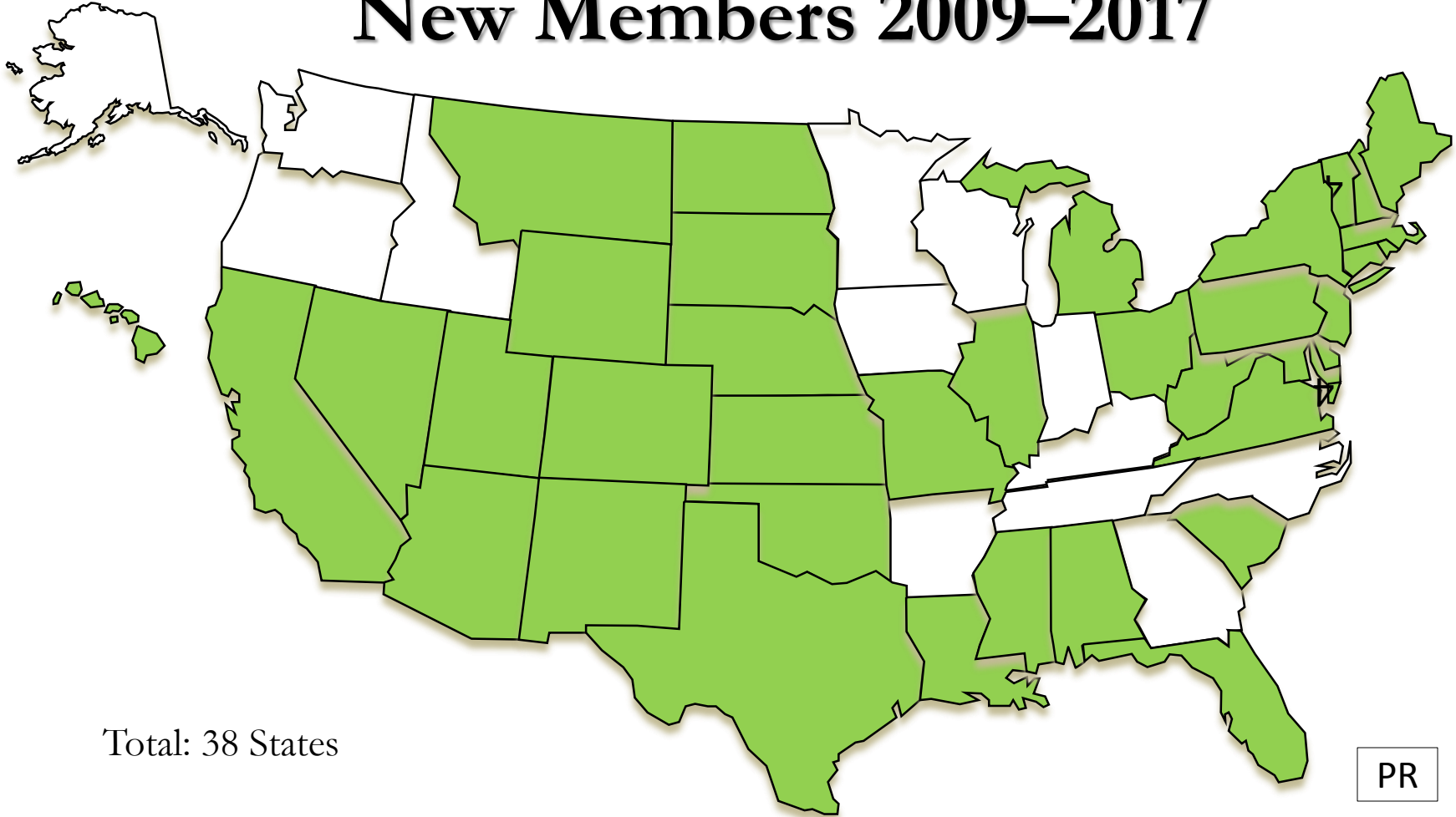
Montana Funding Changes in 2013

Montana Public Employees Retirement System
Funding of PERS through natural resources.





Higher Age and Service Requirements for New Members 2009–2017





Higher Age and Service Requirements, Alabama's New Members in 2012

Alabama–Tier 1

Employees hired *before* January 1, 2013

Normal Retirement	After 25 years or at age 60.
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Benefits Base	Highest 3 years out of last 10.
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Multiplier	2.0125%
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Alabama–Tier 2

Employees hired *after* January 1, 2013

Normal Retirement	At age 62 (no more 25 years & out)
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Benefits Base	Highest 5 years out of last 10.
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Multiplier	1.65%
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Higher Age and Service Requirements for Montana PERS in 2011

Montana PERS (Employees hired *before* July 1, 2011)

Employee Contribution	6.9%
Multiplier	1.7857% (less than 25 years of service) 2.0% (25 years of service)
Average Final Salary	Average of highest 3 consecutive years.
Age and Service Reqs. (Normal Retirement)	Age 60 (5 years of service) or Age 65 or 30 years of service

Montana PERS (Employees hired *after* July 1, 2011)

Employee Contribution	7.9%
Multiplier	1.5% (10 years of service) 1.7857% (between 10 and 30 years of service) 2.0% (30+ years of service)
Average Final Salary	Average of highest 5 consecutive years.
Age and Service Reqs. (Normal Retirement)	Age 65 (5 years of service) or Age 70



Higher Age and Service Requirements for Montana Teachers in 2013

Montana Teachers Retirement System – Tier 1

Employees hired *before* July 1, 2013

Employee Contribution	Increased from 7.15% to 8.15%.
Average Final Salary	Average of highest 3 years.
Age and Service Reqs. (Normal Retirement)	Age 60 with 5 years of service; or 25 years of service at any age

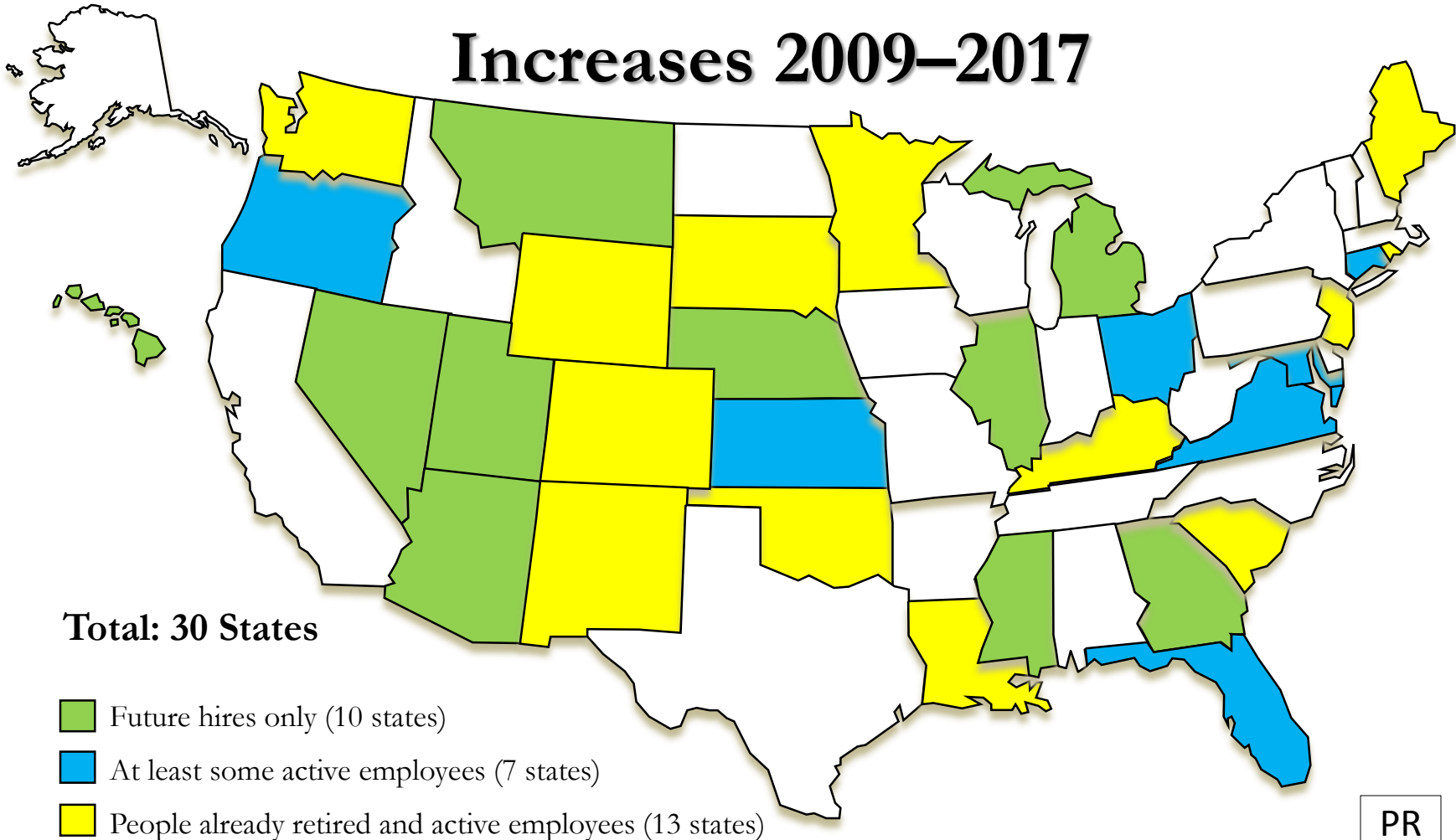
Montana Teachers Retirement System – Tier 2

Employees hired *after* July 1, 2013

Employee Contribution	8.15%.
Multiplier	1.67% or 1.85% with 30 YOS and at age 60.
Average Final Salary	Average of highest 5 years.
Age and Service Reqs. (Normal Retirement)	Age 60 with 5 years of service; or 30 years of service and age 55



Reductions in Post-Retirement Benefit Increases 2009–2017



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Montana's GABA Reduction in 2013 and Subsequent Litigation

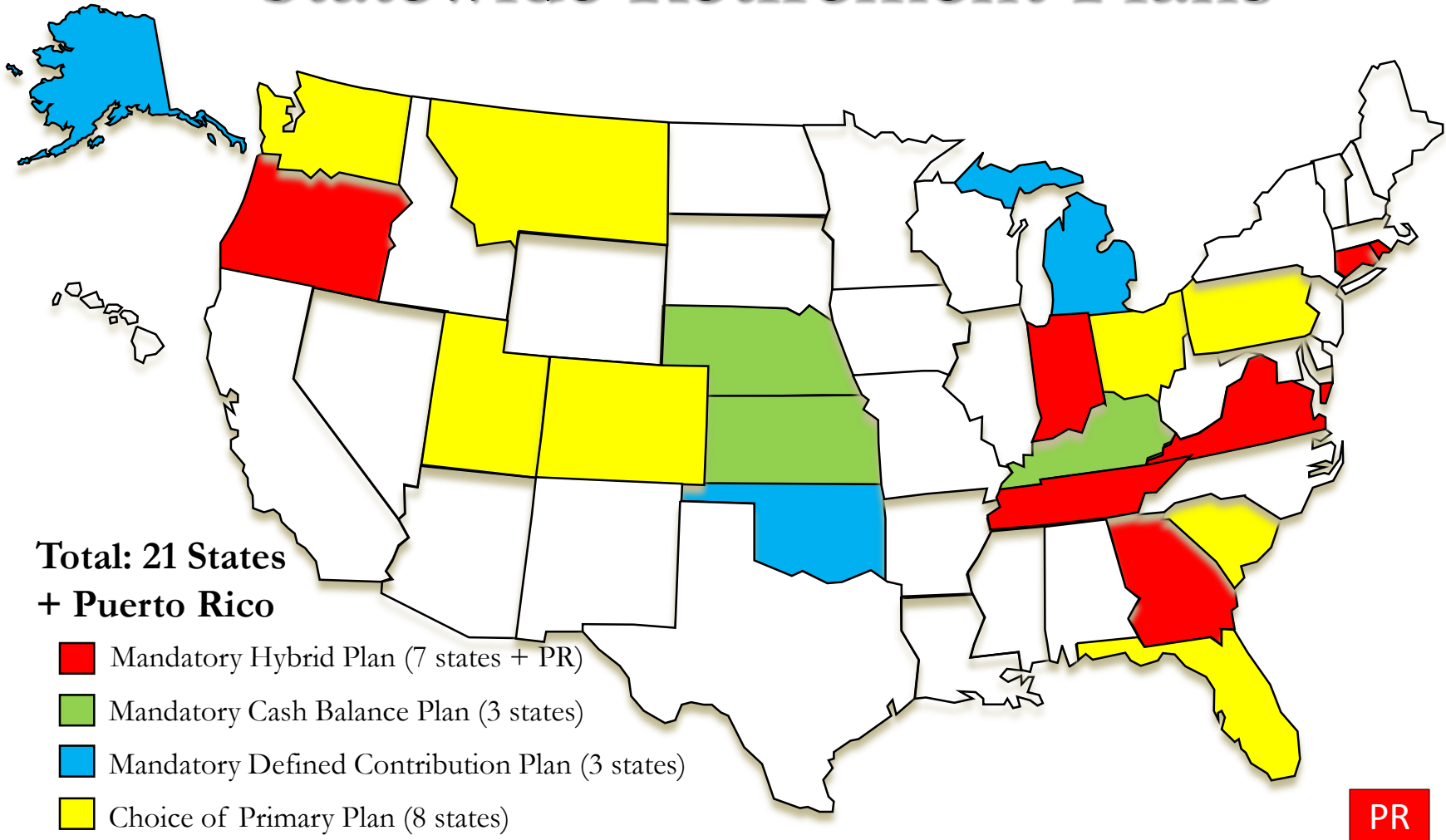
Montana Public Employees Retirement System GABA changes

Hired before July 1, 2007	3%
Hired b/t 2007 and July 1, 2013	1.5%
Members hired July 1, 2013 and later	1.5% (each year funding at or above 90%) 1.5% minus 0.1% (for each 2% PERS is funded below 90%) 0% whenever PERS amortization period is 40+ years

Litigation => 2013 GABA reduction does not apply to retirees and current members

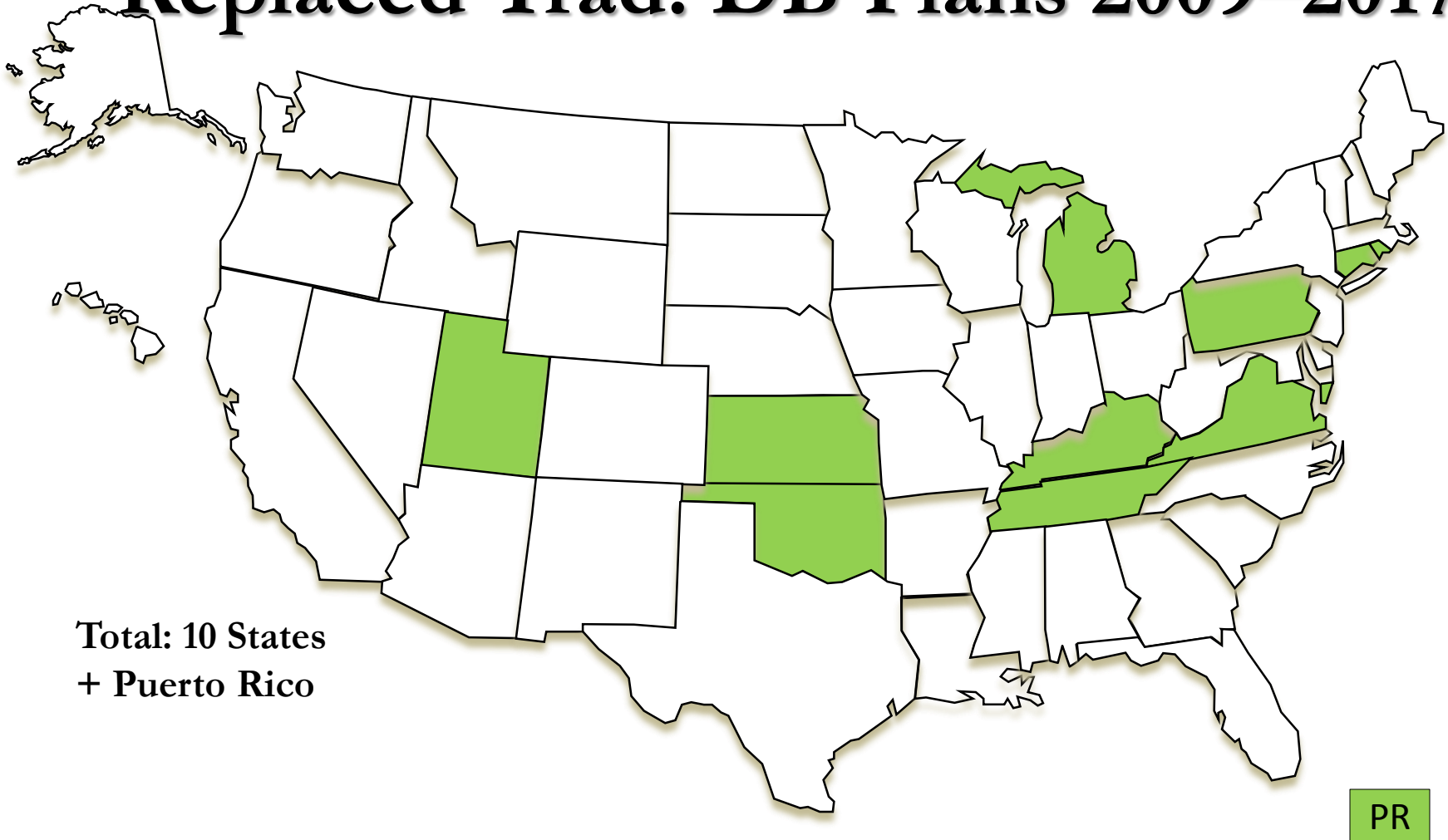


Statewide Retirement Plans





Replaced Trad. DB Plans 2009–2017



**Total: 10 States
+ Puerto Rico**

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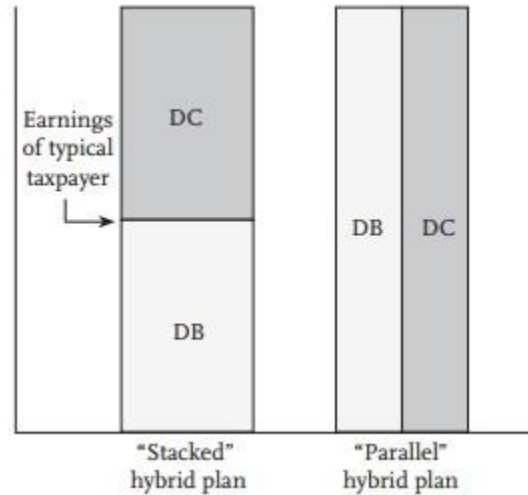


Defined Contribution (DC) Plans

- 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.



Some States Adopt Hybrid Plans



<u>Defined Benefit</u>		<u>401(k)-style Defined Contribution</u>		
Multiplier Rate (%)		Member contribution (% of salary)		Final Benefit
x		+		
Years of Service		Employer contribution (% of salary)		
x		+		
Final Average Salary	+	Investment Gains or Losses	=	



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.**



Retirement Plan Choices for Public Employees

Table 2. **New Hire Elections in Most Recent Complete Year***

System	DB Plan Enrollments	DC Plan Enrollments	Combined Plan Enrollments
Colorado Public Employees' Retirement Association	88%	12%	Not offered
Florida Retirement System	75%	25%	Not offered
Montana Public Employee Retirement Administration	97%	3%	Not offered
North Dakota Public Employees Retirement System**	98%	2%	Not offered
Ohio Public Employees Retirement System	95%	4%	1%
State Teachers Retirement System of Ohio	89%	9%	2%
South Carolina Retirement Systems	82%	18%	Not offered

"Not offered" means enrollment in a combined DB/DC plan is not offered.

**Data for Colorado, North Dakota, and Ohio PERS are for January 2010 through December 2010. Data for Florida, Montana, STRS Ohio, and South Carolina are for July 2010 through June 2011.*

*** One new employee out of the 63 eligible joined the North Dakota DC plan in 2010.*

Source: Decisions, Decisions: Retirement Plan Choices for Public Employees and Employers, Milliman, National Institute on Retirement Security, August 2017.



So How are Post-recession Reform Efforts Playing Out?

- Competitive compensation and adequate retirement benefits for public employees?
- Employers' ability to attract and retain qualified workers?
- Stable and predictable costs for taxpayers?
 - intergenerational equity?



Sources and Contact

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