State Retirement Legislation in 2010 and 2011

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National Conference of State Legislatures

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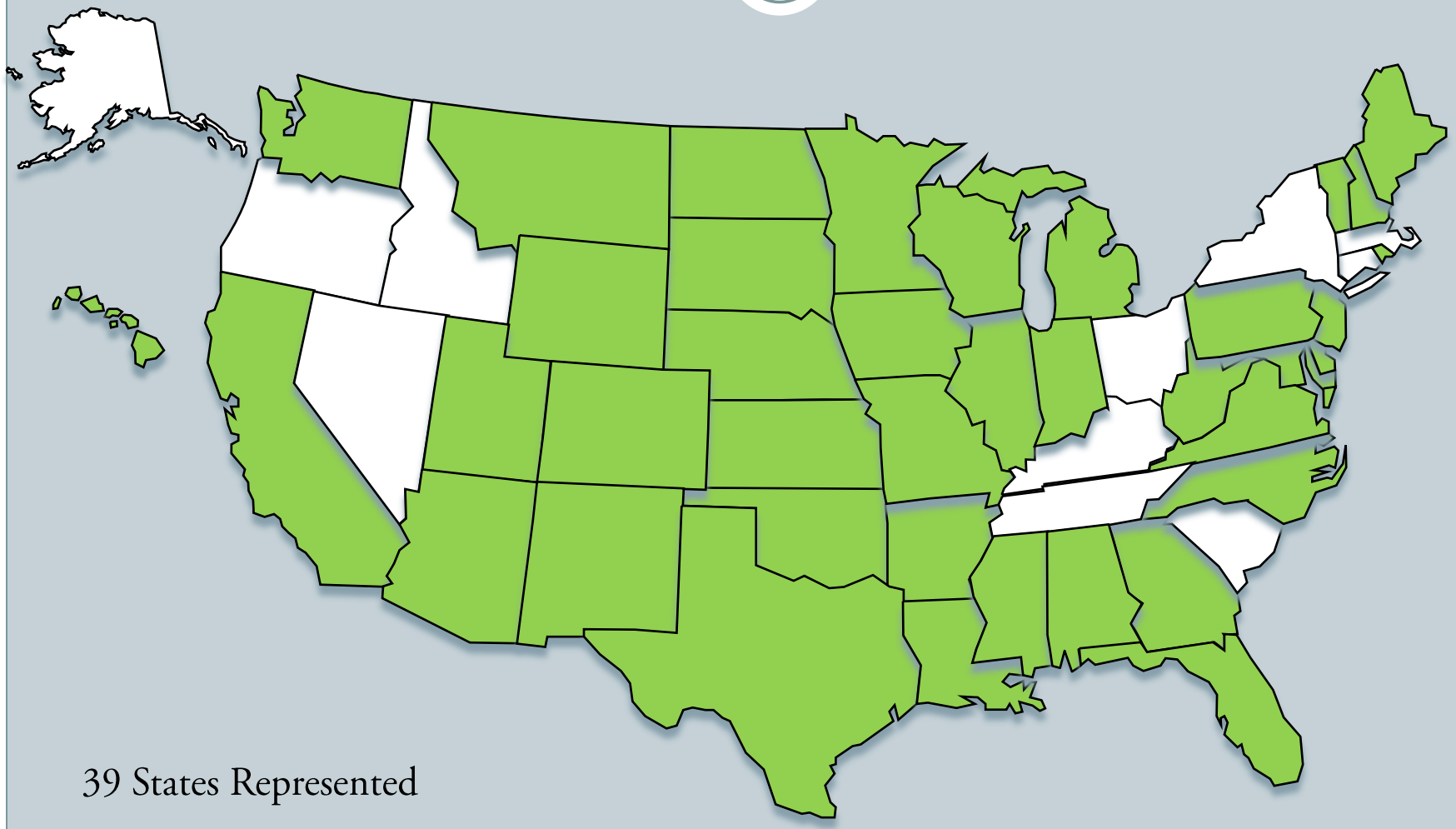
Overview

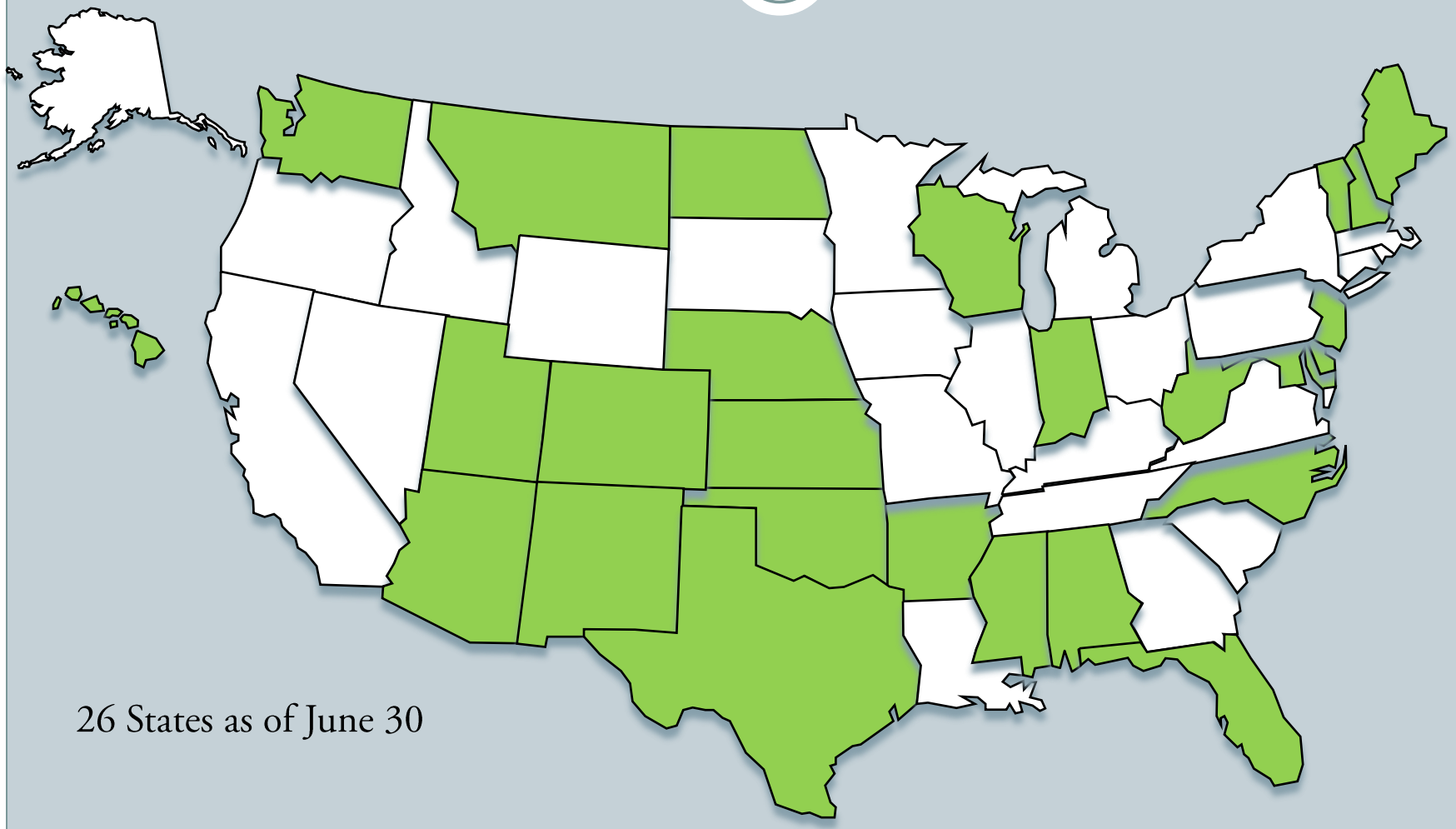
- In 2011, 26 states enacted significant changes in public pension plans by the end of June.
- In 2010, 21 states enacted changes. Some states acted in both years.
- Causes:
  - Concerns about the viability of retirement plan benefits and funding that date to the 2001 recession;
  - Severe investment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

Major Pensions Legislation in 2010-2011: All Topics



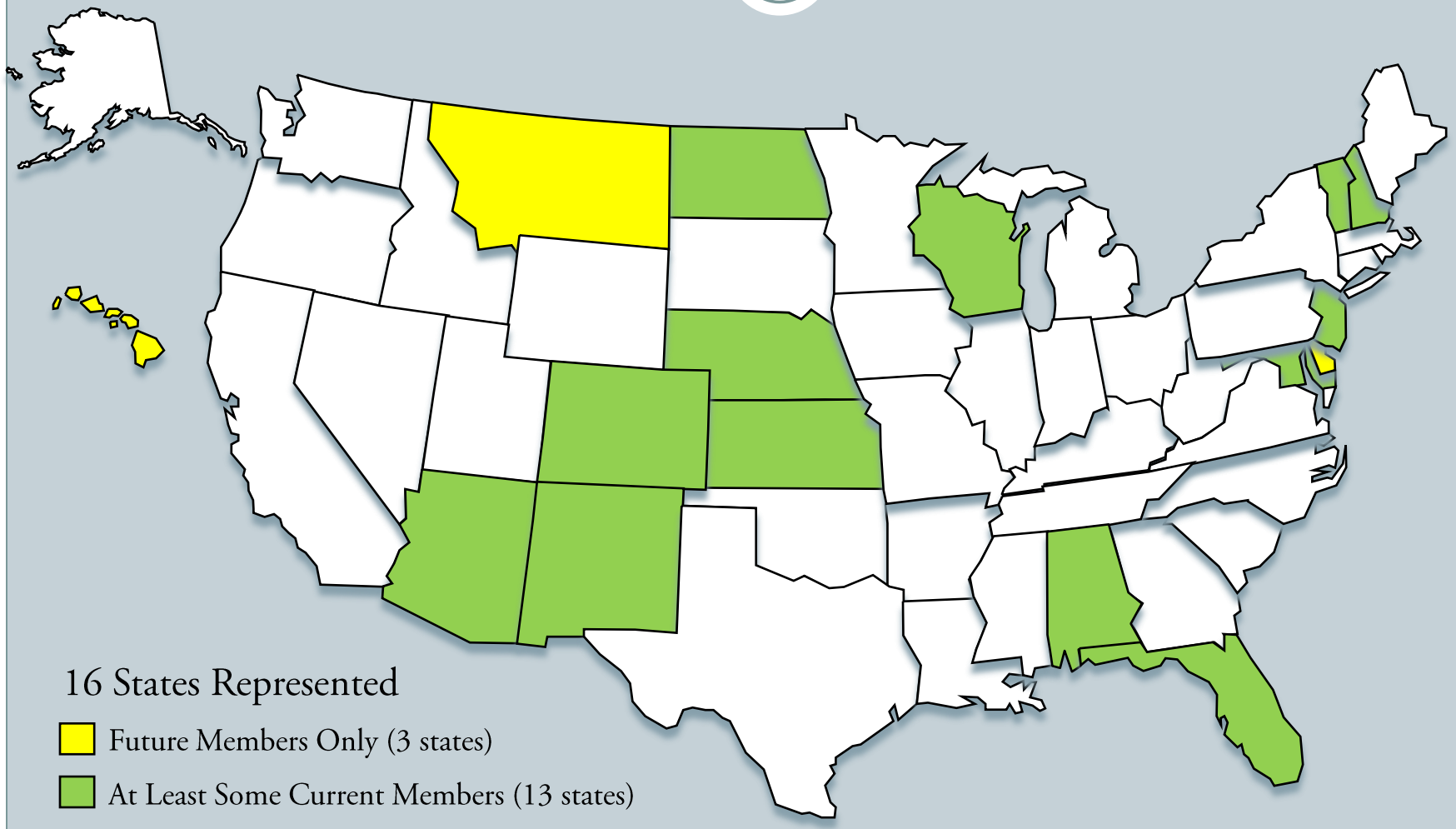
39 States Represented

Major Pensions Legislation in 2011: All Topics

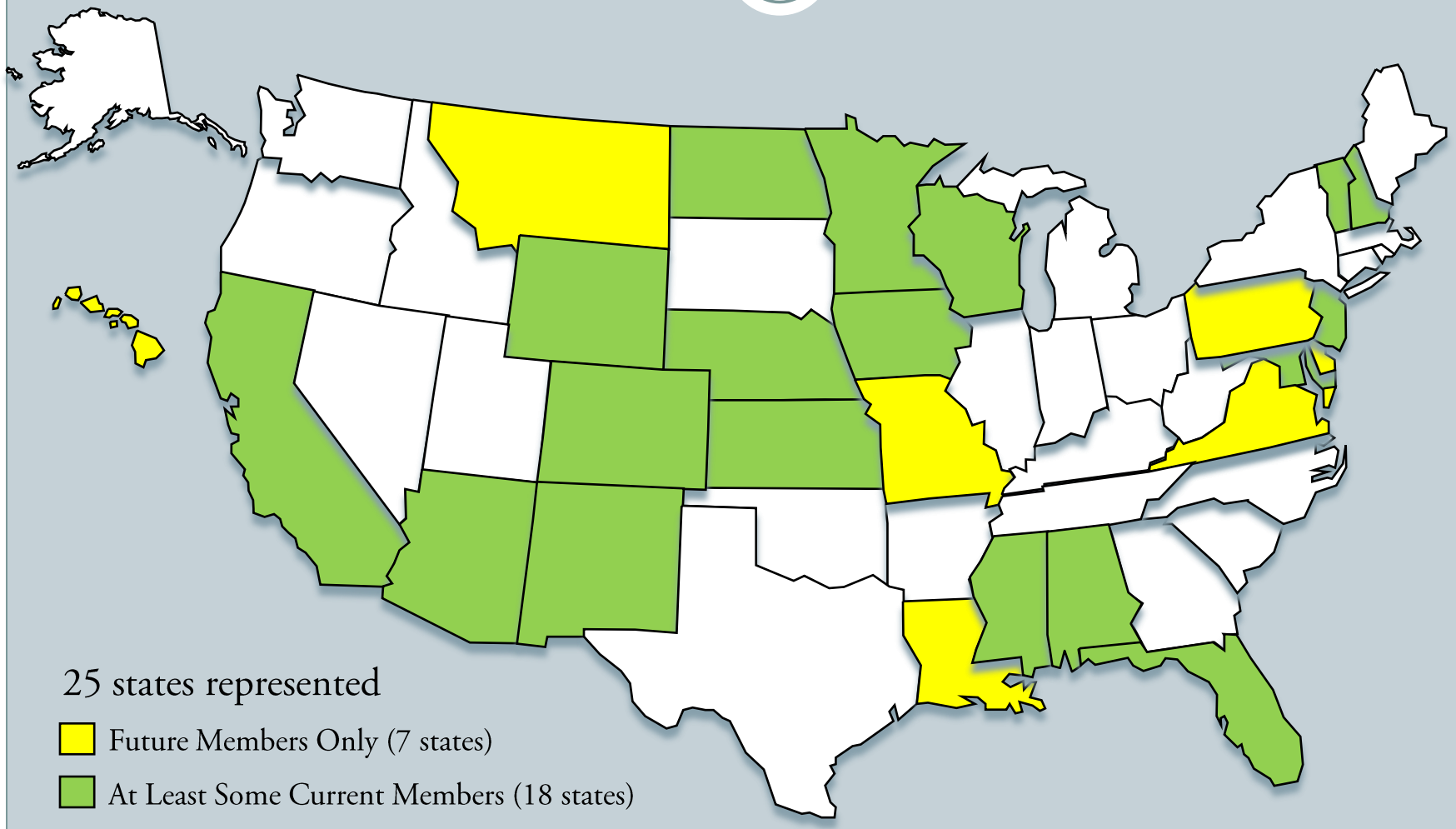


26 States as of June 30

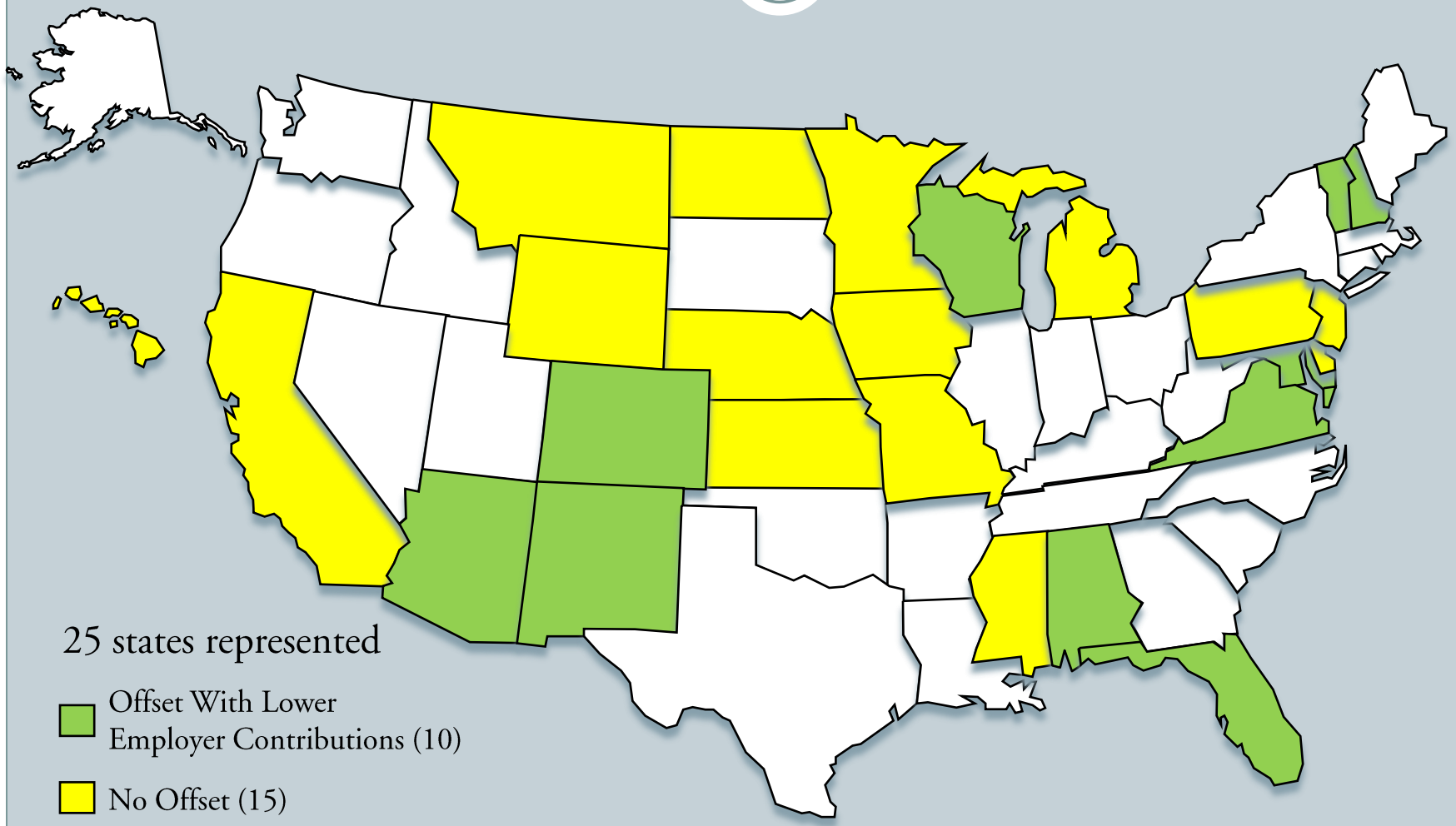
Increases in Employee Contributions, 2011



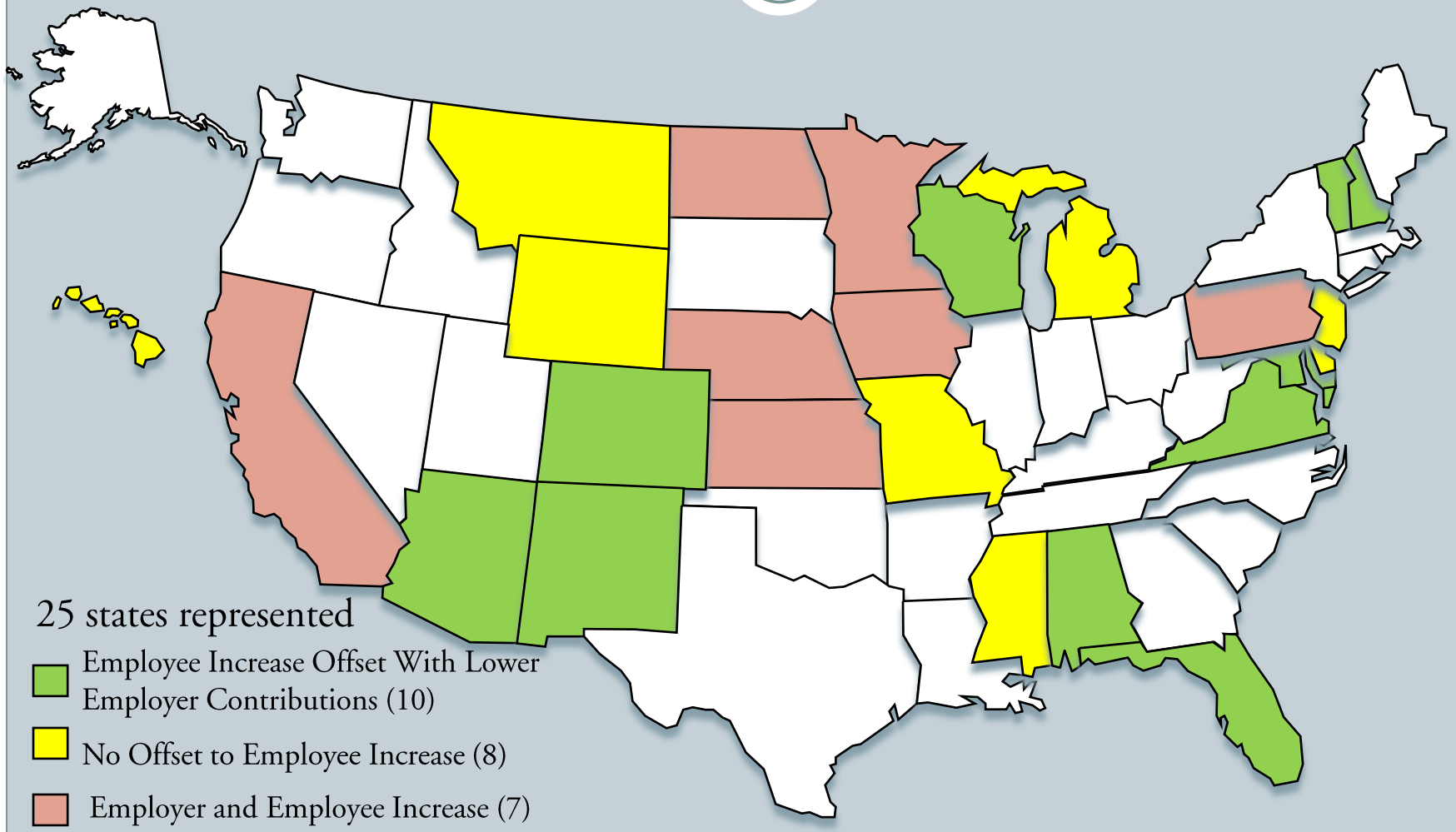
Increases in Employee Contributions, 2010 and 2011



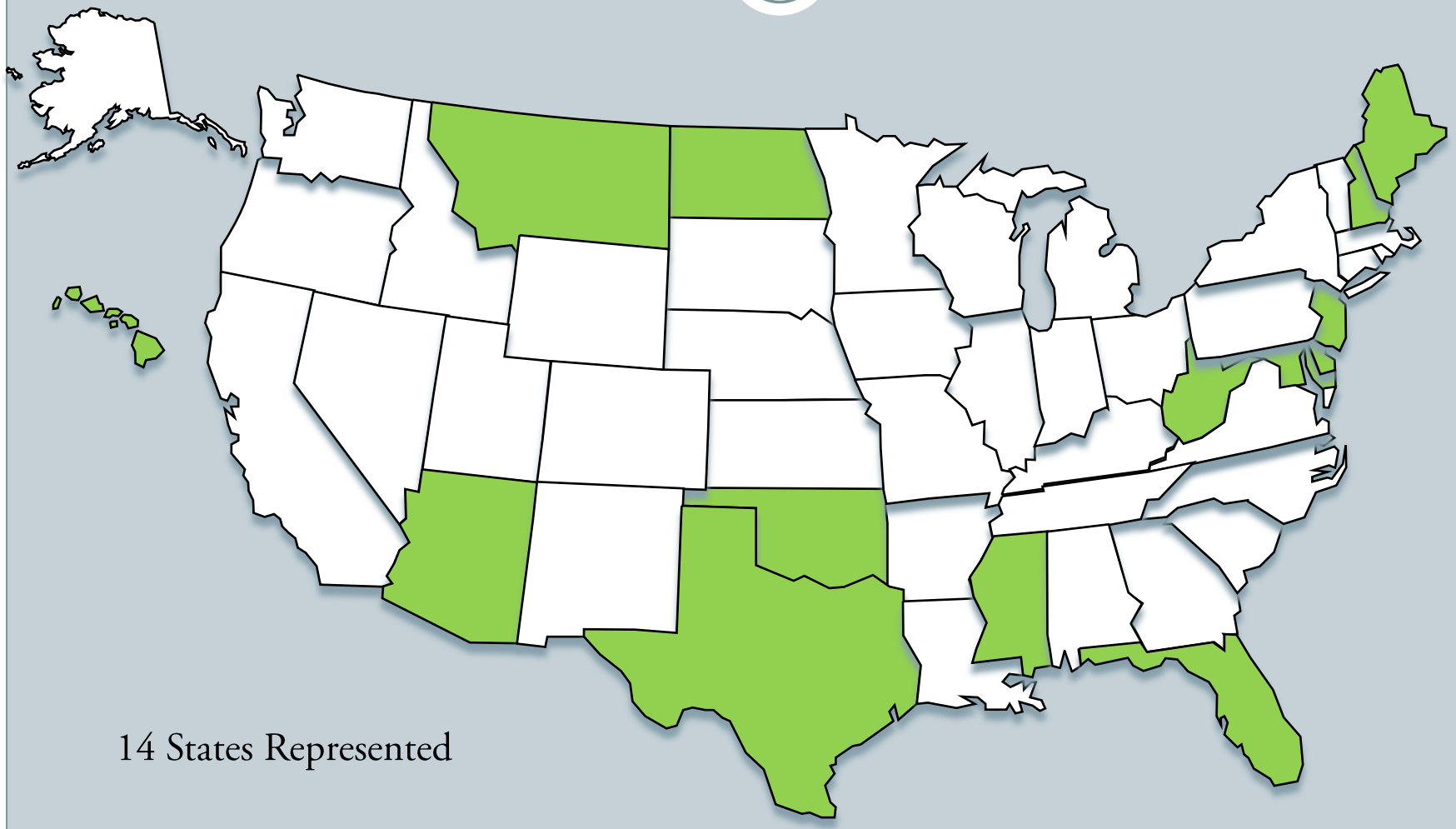
Offsets to Increases in Employee Contributions, 2010 and 2011



Increases in Employer and Employee Contributions, 2010 and 2011

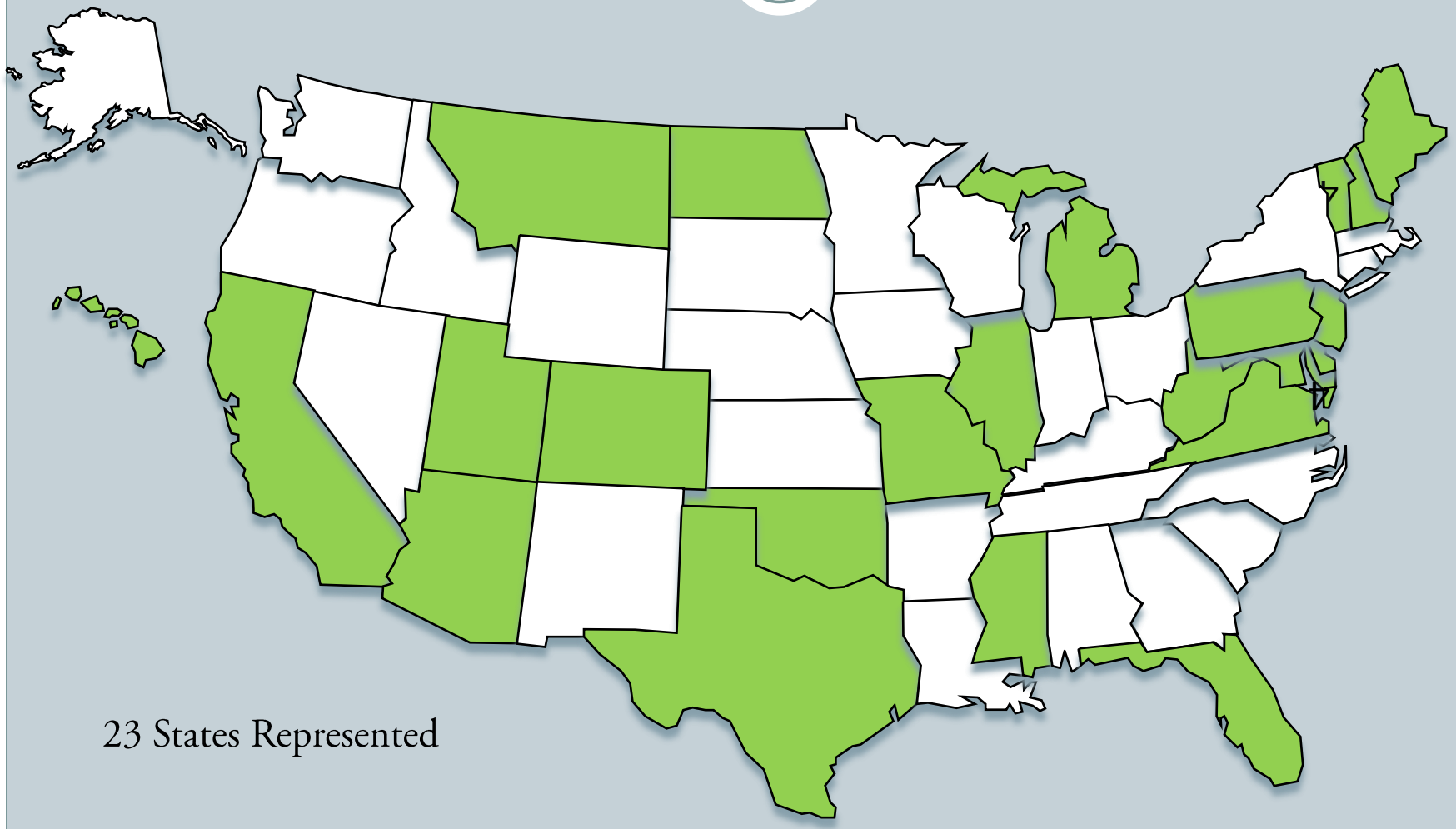


Higher Age and Service Requirements for Normal Retirement, for New Members, 2011



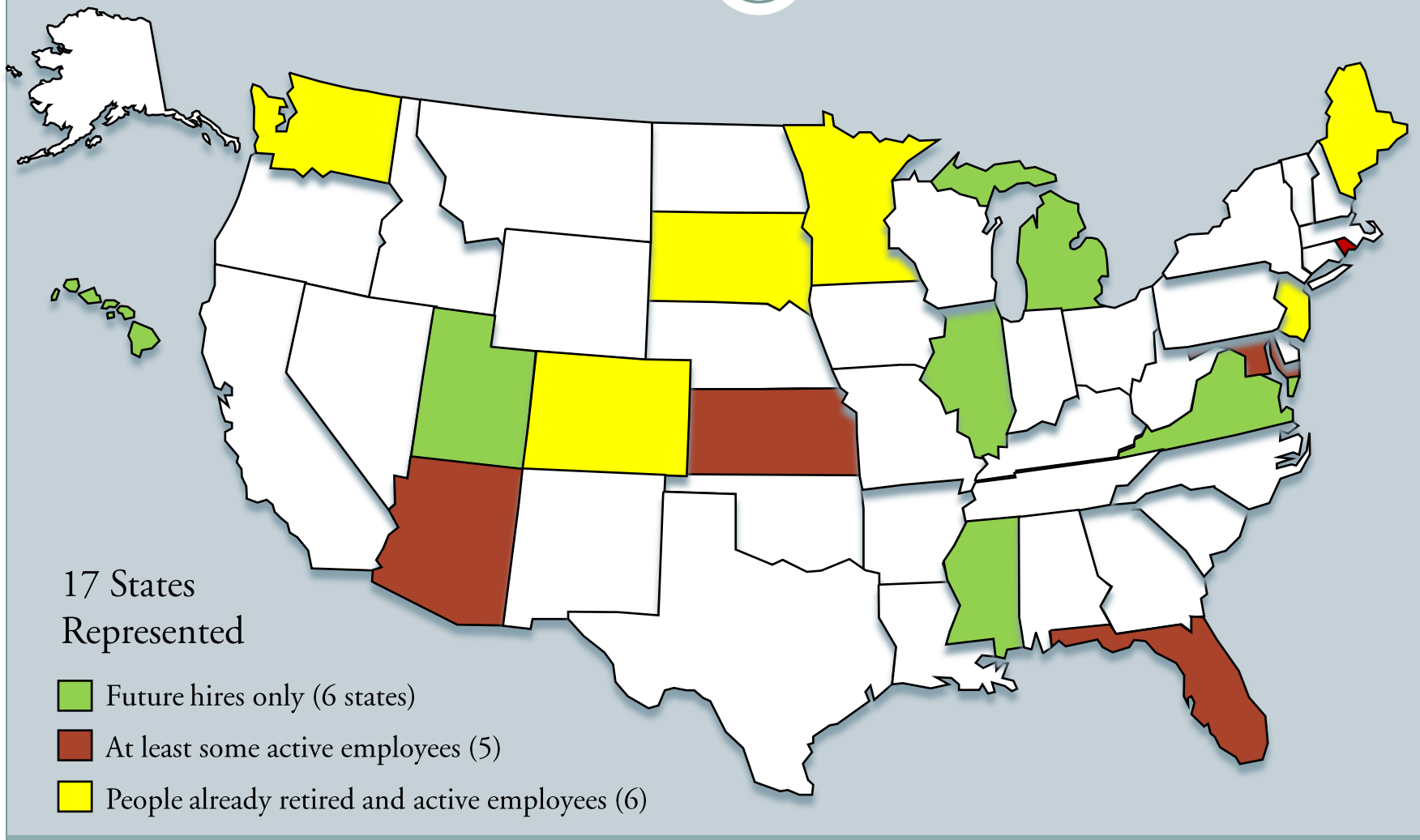
14 States Represented

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

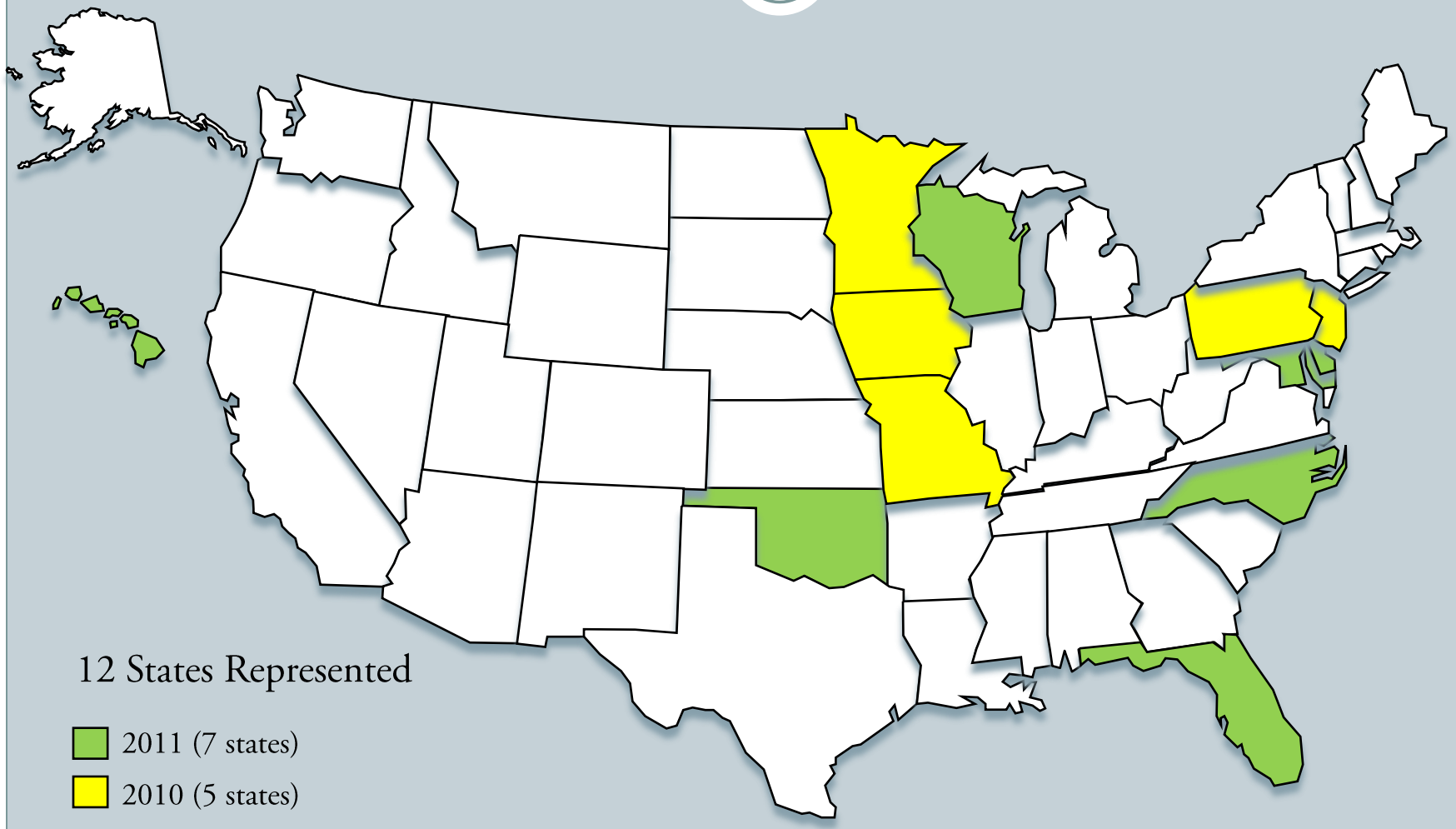


23 States Represented

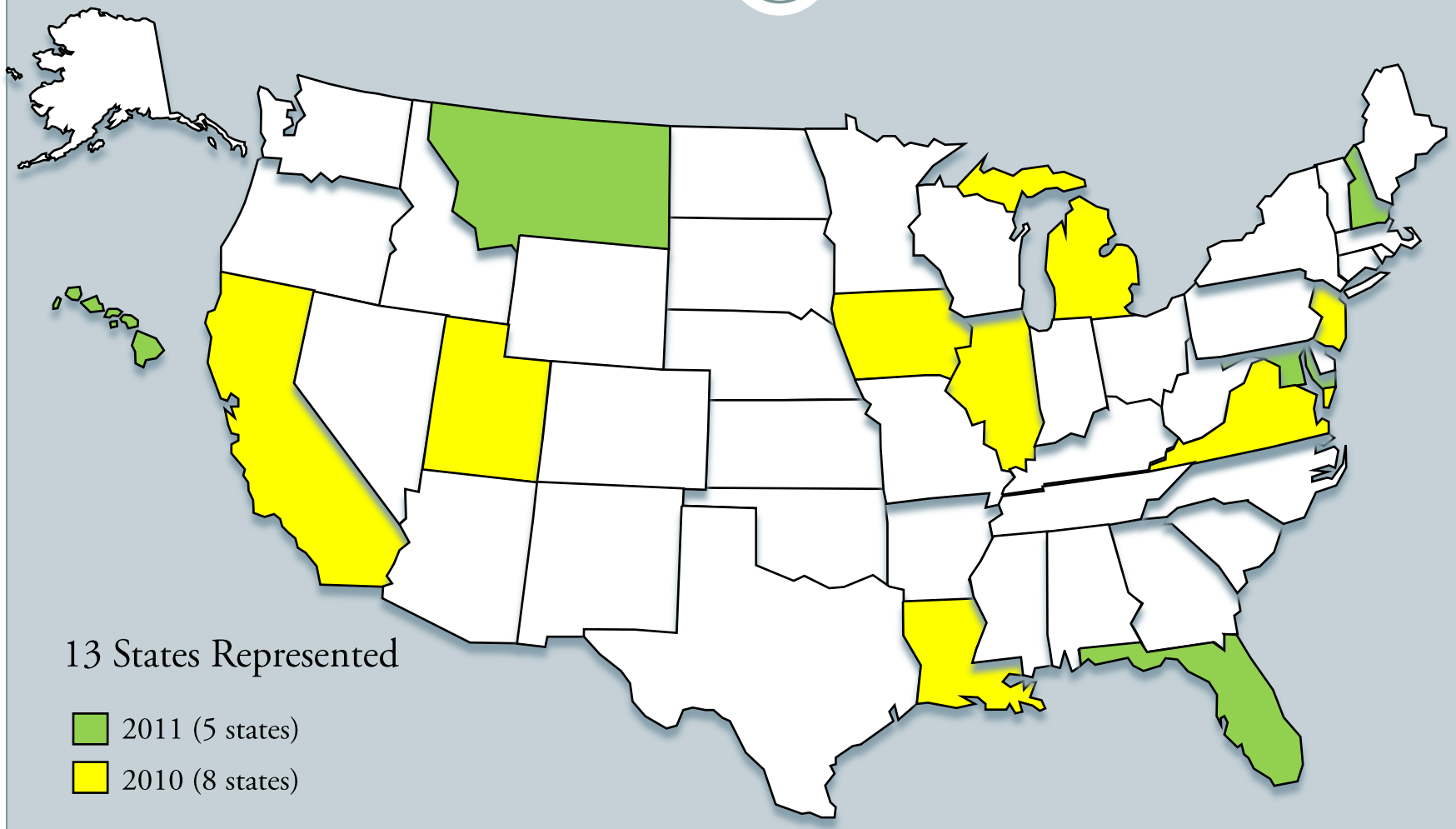
Reduced Post-Retirement Benefit Increase 2010 and 2011



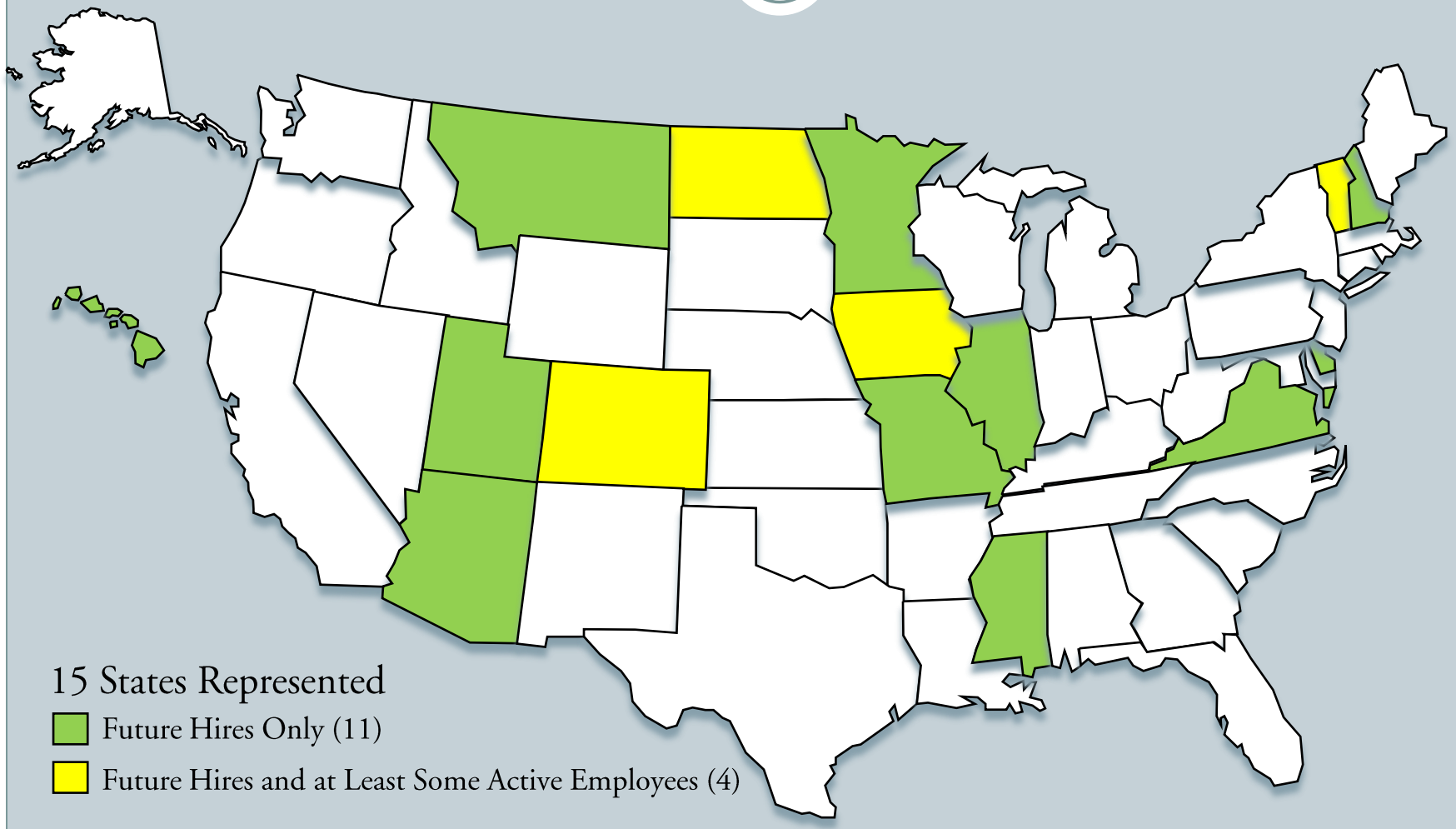
Increases in Vesting Requirements for New Members 2010 and 2011



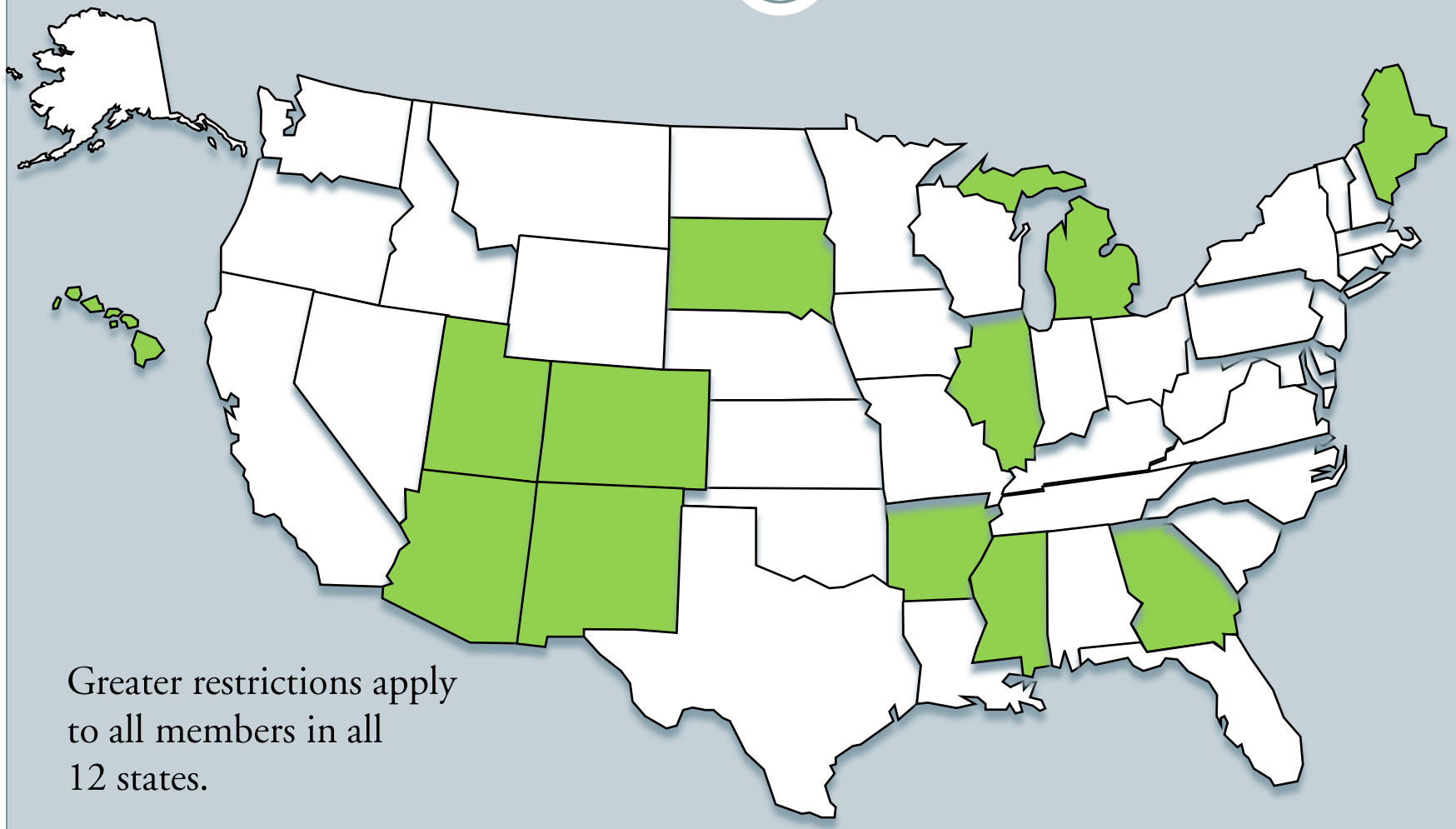
Longer Period for Calculation of Final Average Salary for New Members, 2010 and 2011



Reduced Benefit For Retirement Before Normal Age, 2010 and 2011



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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