



NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

**PENSIONS AND RETIREMENT PLAN ENACTMENTS
IN 2010 STATE LEGISLATURES**

November 17, 2010

Ronald K. Snell

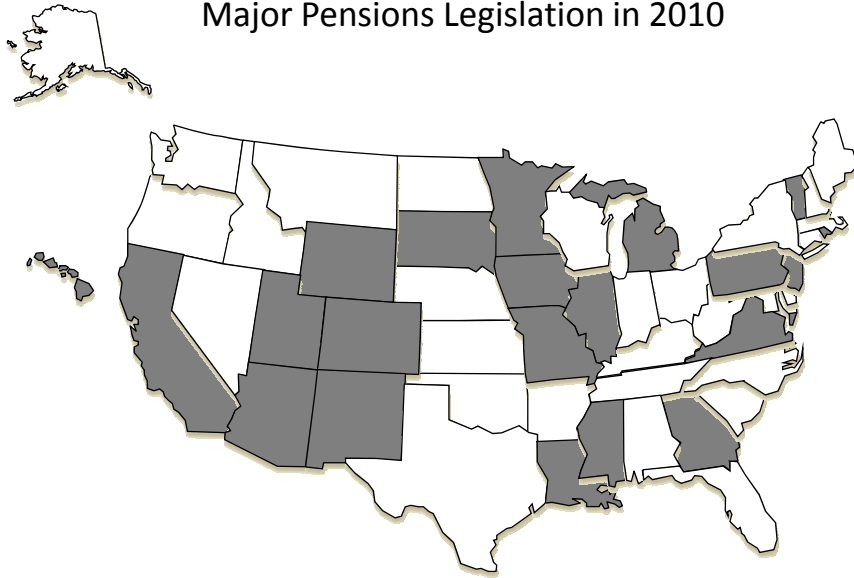
ABOUT THIS REPORT

This report summarizes selected state pensions and retirement legislation enacted from January 2010 through the date of publication. 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 2010, listed at the end of this introduction.

Bills summarized below have been enacted into law unless there is a specific indication to the contrary. Not all legislation had been chaptered at the time this report was compiled. Some legislatures remain in session at the time of publication.

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. I am indebted to the many legislative staff who write and share summaries of their legislatures' acts, the many retirement system staff throughout the United States 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 to me.

Major Pensions Legislation in 2010



LIST OF TOPICS

Contribution Rates and Funding Issues	Governance and Investment Policy
Cost of Living Adjustments	Health Coverage
Defined Benefit Plan Changes	Legislative Process
Defined Contribution & Hybrid Plans	Military Service
Divestment	Re-employment after Retirement
Early Retirement Incentives	Return of Contributions
Elected Officials Retirement Program	Social Security
Ethics, Forfeiture of Benefits, Privacy	Studies

CONTRIBUTION RATES AND FUNDING ISSUES

California. Chapter 162 (SB 846) and Chapter 163 (AB 1592), laws of 2010, and Chapter 3 (S22f) of the 6th Extraordinary Session revise contribution and benefit provisions for numerous state bargaining units and new employees who are members of bargaining units not currently subject to an existing Memorandum of Understanding with the state. All employees covered by the agreements will pay 10% or 11% of compensation for employee retirement benefits, with the higher rate applicable to members in public safety occupations. The agreements also initiate a contribution requirement for retiree health care programs of 0.5% of salary.

California. On June 16, 2010, the Board of Administration of the California Public Employee Retirement System (CalPERS) approved a proposal to increase state government contributions to the retirement fund in the fiscal year beginning July 1, 2010. The State contribution is projected by CalPERS staff to be approximately \$600 million more than the State contribution of \$3.3 billion in the current fiscal year. School districts will pay an additional \$108 million to cover retirements of non-teaching personnel.

CalPERS reports that the State Legislative Analyst's Office (LAO) estimates the actual contribution may be as low as \$481 million based on more recent projections of lower payroll growth. According to the LAO analysis, the estimated increase to the State general fund budget will be \$184 million; the rest of the increase will be paid with non-general-fund revenues generated by self-funded agencies – commonly referred to as special fund agencies.

The total contribution increase is caused by two key factors:

- \$299 million in additional contributions to adjust for a recent demographic study that found CalPERS retirees living longer and workers retiring slightly earlier.
- \$217 million in additional contributions to compensate for investment losses during the recent economic recession. The value of the CalPERS pension fund dropped by 24 percent in the 12 months that ended June 30, 2009.

CalPERS adjusts employer contribution rates every year based on whether the pension fund experiences actuarial gains or losses. Typically, the biggest factor affecting gains or losses is investment performance. Given the severe financial market downturn of the past two years, a rate increase was necessary to maintain proper funding of the pension fund.

Source: CalPERS press release June 16, 2010

Colorado. Chapter 65, Laws of 2010 (SB 146), increases the employee contribution rates to the Public Employee Retirement Association for state employees, troopers and judges for fiscal year 2011 by 2.5 percentage points and decreases the employer contribution by the same amount. For example, the state employee contribution rate changes from 8% to 10.5% of salary, while the employer rate goes from 10.15% to 7.65%, except for state troopers. For troopers, the member contribution rate is increased from 10% to 12.5% and the employer rate falls from 12.85% to 10.35%. For the Judicial Division, similarly, 2.5 percentage points of the contribution is shifted from employers to employees. Contribution rates for local government members and teachers are not affected. The one-year modification is expected to save state government \$37 million in FY2011.

Florida. HB 5607 (vetoed) amends employers' contribution rates for the Florida Retirement System for fiscal years 2011 and 2012. FRS requires no employee contributions. For the regular class, the contribution rate for FY 2011 increases from 8.695 to 9.76%, and remains at 9.76% for FY2012. Changes for the special classes of membership are close to that increase. However, the act also levies additional employer increases in FY 2010 to amortize UAALs. These range from an additional 1.74% for the general class to 18.76% for the elected officers' class and 21.73% for the class of county elected officers.

Illinois. Public Act 96-0889 (SB 1946) sets contribution amounts from the Chicago Board of Education to the Chicago Teachers Retirement System at \$187 million for FY 2011, \$192 million for FY 2012 and \$196 million for FY 2013, which provides budget relief for the school district of roughly \$400 million a year for each of the three years. The bill also extends the period in which the retirement system is scheduled to reach 90% of funding from 2045 to 2059.

Iowa. House File 2518 (signed by governor, April 23, 2010) will increase contribution rates for employees and employers for the Peace Officers Retirement System (PORS) and the Iowa Public Employees Retirement System (IPERS).

For PORS, the 2010 contribution rates are 21.00% for the employer and 9.35% for the employee. The employer contribution rate by previous law would rise to 27% in FY 2013. This act will increase the employee contribution by 0.5% a year for to 11.35% in FY 2013 and will increase the employer's rate by 2% a year to 37% or the normal cost, whichever is less, in FY 2018. The act also calls for an annual general fund

contribution (in addition to the employers' contributions) of \$5,000,000 until the fund reaches a funding ratio of at least 85%.

For regular members of IPERS – most members other than public safety officers, EMT members and jailers – under existing law on July 1, 2011 contributions will increase to a total of 11.95%, with members paying 4.7% of salary and employers paying 7.25%. This act increases the total contribution to 13.45% on that date, and allows IPERS to increase or decrease the rate by one percentage point a year for regular members. Employees will continue to pay about 40% of the total; employers, 60%.

Louisiana. Act 992 of 2010 (HB 1337) generally makes changes to the organizational structures, requirements for contributions and benefit provisions of the four state retirement systems: the State Employees' Retirement System (LASERS), the Teachers' Retirement System (TRSL), the School Employees' Retirement System (LSERS), and the State Police Pension and Retirement System (LSPRS), for persons whose first employment making them eligible for membership in any state retirement system occurs on or after Jan. 1, 2011.

The consolidation of smaller plans into broader plans provides for contribution changes for some employees, both increases and decreases, but for the great majority of covered employees—general state employees and teachers statewide—the employee contribution remains at 8% of salary. For the School Employees Retirement System, the contribution rate will increase from 7.5% of salary to 8%. The employment categories that will be grouped in the hazardous duty provisions of LASERS currently have contribution rates ranging from 8% to 9.5%; all in the future will be at the 9.5% rate. The contribution rate for the Judges' Plan will increase from 11.5% to 13%. Future members of the State Police retirement system will also contribute 9.5% under Act 992, up from 8.5%.

Minnesota. Chapter 359, Laws of 2010 (Senate File 2918 and House File 3281), provided for contribution increases for various Minnesota state and local government retirement plans. Provisions include

- State Patrol Retirement Plan: employer contribution increased by 2 percent of salary; employee contribution increased by 3 percent of salary.
- Public Employee Retirement Association (PERA) General Employee Plan: employer contribution increased from 6 percent to 6.25 percent; employee contribution from 6 percent to 6.25 percent.
- PERA Police and Fire Plan: employer contribution increased from 14.1 percent to 14.4 percent; employee contribution increased from 9.4 percent to 9.6 percent.
- The automatic PERA-General contribution adjustment provision enacted in 2006 is modified to cover larger potential contribution increases in the event of large contribution deficiencies.
- Teachers Retirement Association (TRA): Employing unit contribution rates will increase 0.5 percent a year for four years beginning July 1, 2011; member contribution rates (currently 5.5 percent) will increase 0.5 percent each July 1 for four years beginning on July 1, 2011.
- After July 1, 2015, if the TRA actuarial valuation indicates a contribution rate deficiency (i.e., total support as a percentage of covered salary compared to total financial requirements expressed as a percentage of covered salary) of at least 0.5 percent of covered payroll, with the approval of (or inaction by) the Legislative Commission on Pensions and Retirement, the member contribution rate will increase by 0.25 percent of covered salary and the employer contribution rate will increase by 0.25 percent of covered salary, with the downward adjustment if there is a contribution sufficiency.
- Duluth Teachers Retirement Fund Association (DTRFA): employer contribution rate is increased from 5.79 percent to 6.79 percent; member rate from 5.5 percent to 6.5 percent, both in two annual steps.
- The St. Paul Teachers Retirement Fund Association (SPTRFA) basic program member contribution rate is increased from 8.0 percent to 9.0 percent and the coordinated program member contribution is increased from 5.5 percent to 6.5 percent in four annual steps. The basic program employer

contribution is increased from 8.0 percent to 9.0 percent, and the coordinated program employer contribution is increased from 4.5 percent to 5.5 percent in four steps.

Mississippi. Chapter 1, laws of the First Special Session of 2010 (HB 1), increases the employee contribution rate for the Public Employees Retirement System from 7.25 percent of salary to 9 percent (as passed by both houses April 23, 2010). Effective July 1, 2010 to July 1, 2012. HB 1 includes two benefit enhancements intended to offset the bearing of the rate increase on employees.

The first enhancement provides that members of PERS will receive an additional one-half day of leave toward retirement for each full year of membership service accrued after June 30, 2010 (e.g., a member who accrues 30 years of membership service after June 30, 2010, will receive 15 days of leave toward retirement service credit that will be added to any other leave that has been certified to PERS for service credit).

The second enhancement provides an additional benefit option, a 75 percent joint and survivor annuity, to members of PERS who retire on or after January 1, 2011.

Missouri. HB 1 of the First Extraordinary Session of 2010 (signed by the governor on July 19, 2010), enacted new contributory tiers for those who become members of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS), the Missouri State Employees' Retirement System and the retirement plan for judges. Those hired after January 1, 2011, will make a pre-tax employee contribution of 4 percent of salary. Until this legislation, Missouri plans were non-contributory.

New Jersey. Public Law 1 of 2010 (SB 2) provides that beginning on July 1, 2011, the state is to make in full the annual employer's contribution, as computed by the actuaries, to all state retirement systems. The state would be in compliance with this requirement provided it makes a payment, to each state-administered retirement system or fund, of at least 1/7th of the full contribution, as computed by the actuaries, in the fiscal year commencing July 1, 2011 and makes a payment in each subsequent fiscal year that increases by at least an additional 1/7th until payment of the full contribution is made in the eighth fiscal year and thereafter.

The budget enacted on June 29, 2010, for FY 2011 provides that the state will not make its scheduled contribution to the state retirement funds for FY 2011. According to the Office Full funding of these contributions would total \$3.1 billion in FY 2011.

Source: Office of Legislative Services, *Analysis of the New Jersey Budget: Interdepartmental Accounts*, p. 6. http://www.njleg.state.nj.us/legislativepub/budget_2011/interdepartmental_accounts11.pdf

New Mexico. Chapter 67, laws of the 2010 regular session (SB 91), delays until FY 2012 the 0.75% contributions increase previously scheduled for the Educational Retirement Fund. The increase would have cost school districts and charter schools throughout the state about \$12 million in FY 2012, and would have cost institutions of higher education about \$7 million, for a total of \$19 million.

[In 2005, legislation was enacted to increase the employer and employee contributions to the fund in order to restore solvency to the fund. The employer contribution was set to increase by 5.25 % over seven years (a 0.75 % increase per year) to increase the employer's contribution from 8.65% in FY 2005 to 13.9% in FY 2012. The act leaves intact the requirement for a 0.75% increase in the employer contribution in FY2012, bringing the total contribution to 13.15%. The act will take full effect in FY 2013 (13.9%). The employee contribution increases included a 0.30% increase over a four-year period (a 0.075% increase per year), which resulted in 7.9 % by FY 2009.] The act will take full effect in FY 2013.

New York. The 2010-2011 budget provides local governments and the State the option to amortize a portion of their pension costs beginning in 2010-11. Specifically, pension contribution costs in excess of the amortization thresholds, which are 9.5 percent for ERS and 17.5 percent for PFRS, may be amortized. The

authorizing legislation also permits amortization in all future years if the actuarial contribution rate is greater than the amortization threshold, which may increase or decrease by no more than one percentage point for each year. Repayment of the amortized amounts will be made over a 10-year period at an interest rate to be determined by the State Comptroller. The assumed interest rate is 5 percent. For planning purposes, the Financial Plan assumes that the State will authorize pension costs, consistent with the provisions of the authorizing legislation. The amounts assumed to be amortized over the Financial Plan period total \$242 million in 2010-11, \$504 million in 2011-12, \$825 million in 2012-13, \$1.1 billion in 2013-14, and \$1.2 billion in 2014-15. Source: 2010-11 *Enacted Budget Financial Plan August 20, 2010*. <http://publications.budget.state.ny.us/budgetFP/2010-11FinancialPlanReport.pdf>
Report page 115; PDF page 117

Pennsylvania. HB 2497 (to governor Nov. 15, 2010) makes numerous changes affecting the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS). The bill makes the following changes to the actuarial funding methodologies used by PSERS and SERS:

- Re-amortizes all PSERS actuarial accrued liabilities over a 24 year period and SERS actuarial accrued liabilities over a 30 year period.
- Changes the asset smoothing period in which investment gains and losses are recognized for PSERS from 5 to 10 years. SERS asset smoothing period remains at 5 years.
- Provides for the increases in PSERS and SERS accrued liabilities resulting from the enactment of new legislation, other than this bill, to be funded over a 10 year period.
- Institutes level percentage of pay methodology to pay PSERS debt. Currently, PSERS utilizes the level dollar methodology.
- Imposes collars on the rate at which employer contributions may increase annually for PSERS and SERS. The collars are set as follows: for FY 2011-12, 3%; FY 2012-13, 3.5%; and, FY 2013-14 and each year thereafter, 4.5%. When the actuarially required contribution rate is less than the collared rate, the rate is to be set at the actuarially required contribution rate and the collars will no longer apply.
- Prohibits the use of pension obligation bonds to fund liabilities.

The legislation also makes changes in employee contributions for future employees, those who become members of PSERS on or after July 1, 2011 and those who become members of SERS on January 1, 2011, except for state legislators, for whom the changes are effective on December 1, 2010.

Such new members, except for members of the judiciary, will belong to a Shared Risk Defined Benefit Plan. Every three years, this plan will compare PSERS's and SERS's actual investment rate of return to the actuarial assumed rate of return for the previous 10 years. If the actual rate of return is less than the actuarial assumed rate by 1%, the employee contribution rate will increase by 0.5%. Conversely, if the actuarial assumed rate is greater than the actual rate by 1%, the employee contribution rate will decrease by 0.5%. The employee contribution rate will never drop below the regular contribution rate and the employee rate may not increase by more than 2%.

For PSERS, the legislation establishes a new membership class (T-E) for all new members. Employees in this class will make an employee contribution of 7.5% of compensation, the same amount as most current employees pay and have an annual benefit accrual rate of 2%, as compared to 2.5% for most current employees. The legislation also establishes an optional new class (T-F) of PSERS membership that provides an annual benefit accrual rate of 2.5%, but requires an employee contribution requirement of 10.3% of compensation. An employee will be required to select this option within 45 days of becoming a member of PSERS.

For SERS, the legislation establishes a new membership class (A-3) for all new members, including members of the General Assembly. Employees in this class will have an annual benefit accrual rate of 2%, as compared to 2.5% for most current employees and an employee contribution requirement of 6.25% of compensation,

the same amount as most current employees pay. As for PSERS, the legislation establishes an optional new class (A-4) of SERS membership that provides an annual benefit accrual rate of 2.5%, but requires an employee contribution requirement of 9.3% of compensation. An employee would be required to select this option within 45 days of becoming a member of SERS.

Rhode Island. Public Law No. 2010-23 (HB 7397, the budget bill), Article 6, removes a statutory obligation to make certain payments to the state retirement system for state employees and for teachers.

Vermont. Act 74 of 2010 (HB 764) increases the employee contribution rate for all members of the Teachers Retirement System from 3.54% of compensation to 5%. The legislation requires the state to fund the full actuarial requirement annually, after taking into account the changes made by HB 764 in terms of reduced costs as well as increased employee contributions.

Vermont. Act 139 of 2010 (HB 778) increases member contribution rates for the Vermont Municipal Retirement System for FY 2011 for group C members from 9% to 9.5%.

Virginia. In the budget bill, item 469, paragraph H and following provides that approximately \$504 million that would have been paid to the Virginia Retirement System (VRS) as employer contributions for the biennium will instead be retained in the general fund. Payments will be made to retirement funds and other post-employment benefit funds to cover the normal costs of the members of those funds. The deferred amount will be paid to VRS over a period of 10 years beginning in the 2012-2014 biennium. The repayment will include interest at the VRS assumed rate of amortization.

Chapter 737, Laws of 2010 (HB 1189/SB 232), modifies for new employees the defined benefit retirement plans administered by the Virginia Retirement System ("VRS"), as follows:

- Requires employees to contribute five percent of creditable compensation (only local employers would be allowed to pick up this contribution);

Wyoming. Chapter 85, laws of 2010 (Senate File 72, effective September 1, 2010), provides for an employee contribution to the state retirement plan. The new contribution requirement affects current and future employees. The act changes the contribution requirement for all state and local government employees, excluding public safety and EMT employees. The bill increases the employee contribution from 5.57% to 7% of salary. For state employees, the agency will continue to pay the 5.57%, but the employee must pay the additional 1.43% unless the legislature enacts specific legislation authorizing payment of the 1.43%. Other entities participating in the system are authorized to pay any of the additional increase. The employer contribution is increased from 5.68% to 7.12% of salary. The bill appropriates funds to pay the increased employer contributions required of state agencies, the university, and community colleges. It also contains a school foundation program appropriation to pay the increased employer contribution required of school districts.

COST-OF-LIVING ADJUSTMENTS

Colorado. Chapter 2, Laws of 2010 (SB 1), reduces PERA's commitment to post-retirement cost of living adjustments.

- Reduces the COLA to the lesser of 2% or inflation for 2010, and requires the inflation calculation to be based on periods in 2009, resulting in a 0% COLA;
- Limits the COLA to 2% in 2011 and future years, unless PERA experiences a negative investment return, in which case the COLA will be calculated as the lesser of the inflation from the preceding 3 years or 2 percent;

- Provides for COLA adjustments to be made with the July benefit, and requires those that retire after January 1, 2011, to receive benefits for at least 12 months before receiving a COLA adjustment; and
- Sets rules for adjusting the COLA based on PERA's actuarial funded ratio.

Suit has been filed challenging the reduction in benefits as a violation of contract.

Illinois. Public Act 96-0889 (SB 1946) affects most statewide pension plans. The bill's provisions include the Chicago Teachers' Pension Fund, Metropolitan Water Reclamation District, Cook County employees, Chicago municipal employees, Cook County Forest Preserve, Chicago Park District, Judges Retirement System, General Assembly Retirement System, State Employees Retirement System, Illinois Municipal Retirement Fund, Teachers Retirement System, Chicago laborers, and the State Universities Retirement System. Excluded from the bill are the Chicago Transit Authority, Chicago fire or police, downstate and suburban fire and police plans, and those covered by the sheriff's formula in the Illinois Municipal Retirement Fund. Provisions apply to those who become members of plans on or after January 1, 2011.

Post-retirement increases will be available one year after a beneficiary begins receiving benefits or reaches the age of 67, whichever is later. The increase will be 3% or 50% of CPI, whichever is less, but not less than zero. The increases will apply only to the base annuity, and will not be compounded. Current law provides an annual 3% increase for SERS and TRS, compounded. For members of the General Assembly plan and judges, the annual post-retirement increase will be at full CPI.

Maryland. Chapters 56 and 57, Laws of 2010 (SB 317 and HB 775), require that retirement allowances for most Maryland State Retirement and Pension System (MSRPS) retirees not be subject to COLAs in fiscal 2011 if the average change in the CPI-U from 2008 to 2009 is negative. If COLAs are not applied in fiscal 2011, then fiscal 2012 retirement allowances must be reduced by the difference between fiscal 2010 allowances and the allowances that would have been paid in fiscal 2011 if COLAs had been applied. The acts do not apply to retirees of the Legislative Pension Plan or the Judges' Retirement System, whose benefits are linked to the salaries of active legislators and judges, respectively. The Acts also require the MSRPS Board of Trustees to study options for addressing future situations in which the CPI-U is negative and report its findings and recommendations to the General Assembly.

Michigan. Act 75 of 2010 (SB 1227) provides that all newly hired school employees after July 1, 2010 will be enrolled in a hybrid defined benefit and defined contribution system. The hybrid plan eliminates cost of living adjustments to pension allowances.

Minnesota. Chapter 359, Laws of 2010 (Senate File 2918 and House File 3281), provided for post-retirement increase rate reductions or suspensions. Generally speaking, for state-administered plans, post-retirement increases are reduced from existing rates until plans attain a 90% funding ratio, based on the market value of assets as a percentage of the AAL. For example, for Minnesota State Retirement Plan general employees, legislators, constitutional officers and some others, the rate is reduced from 2.5% to 2% and for the State Patrol Plan from 2.5% to 1.5%. For Public Employee Retirement Association members other than Police & Fire, the rate is reduced from 2.5% to 1%. For the Teachers Retirement Association, the post-retirement increase is suspended for 2011 and 2012, to be followed by 2% increases until the plan is 90% funded. The bill also requires a retiree or beneficiary of any State Retirement or Teachers Retirement Association plan to have been retired at least six months before qualifying for an initial post-retirement adjustment.

For further details, see the bill summary of the Legislative Commission on Pensions and Retirement at http://www.commissions.leg.state.mn.us/lcpr/documents/omnibus/2010/s2918_cc_report_summary.pdf

Legal challenges have been filed.

Rhode Island. Public Law 23 of 2010 (HB 7397(the budget bill), Article 6, reduces post-retirement benefit increases for state employees, teachers, justices and judges who are ineligible for retirement as of the date of enactment. The legislation limits post-retirement cost of living adjustments for such future retirees to the first \$35,000 of retirement benefits, with that base to be increased annually by the CPI-U or 3%, whichever is less.

South Dakota. Chapter 20, Laws of 2010 (SB 20), makes various cost-saving changes affecting post-retirement increases. The bill

- Removes COLAs for retirees in the first year of retirement.
- Reduces refunds of employer contributions to people who withdraw from the system after July 1 2010. Current law provides a 75% refund to non-vested members and 100% to vested members; the percentages are reduced, respectively to 50% and 85%.
- Pins the annual improvement factor (COLA), currently 3.1%, to 2.1% for one year, and thereafter pins it to the market value funded ratio for the system.
 1. If the ratio is 100% or more, the COLA remains at 3.1%
 2. If the ratio is 90% to 99.9%, the COLA will be indexed to the CPI with a maximum of 2.8% and a minimum of 2.1%
 3. If the ratio is 80% to 89.9%, the COLA will be indexed to the CPI with a maximum of 2.4% and a minimum of 2.1%
 4. If the ratio is less than 80% the COLA will be 2.1%

According to the Pierre *Capitol Journal* , June 16, 2010, retirees have filed a challenge to the law on the grounds of a violation of contract.

Virginia. Chapter 737, Laws of 2010 (HB 1189/SB 232), for those hired or rehired after July 1, 2010, reduces the portion of the increase in the Consumer Price Index used for determining annual retirement allowance supplements ("COLA") from three percent plus one-half of the next four percent to two percent plus one-half of the next eight percent.

DEFINED BENEFIT PLAN CHANGES

Arizona. Chapter 50, Laws of 2010, (HB 2389), makes numerous changes to retirement provisions for the Arizona State Retirement system, affecting employees who join the system on or after July 1, 2011. The changes are in response to calculations from ASRA that present provisions will require a 0.5% annual increases in contributions for each of the next five years. The act:

- Modifies the average monthly compensation used in a retiring member's retirement benefit calculation from the average of the highest consecutive 36 months in the last 120 months to the average of the highest consecutive 60 months in the last 120 months.
- Changes the provision permitting normal retirement under the rule of 80 to normal retirement under the rule of 85. Eliminates employer contribution refunds for a member hired on or after July 1, 2011 except for a member who was terminated due to an employer reduction in force or position elimination in which case the member will receive the current refund vesting schedule.
- Reclassifies early retirement for members joining after July 1, 2011 to require a 3% decrease in benefits for each point or fraction of a point less than 85 but equal to or greater than 82 points.

California. Chapter 3 (SB 22f) of the 6th Extraordinary Session reverses retirement benefit changes enacted in SB 400 in 1999. This action affects members of the California Public Employees Retirement System hired after November 10, 2010. For most employees, the new formula provides a benefit of 2% of FAS at age 60 and 2.148% at age 63 or higher (before this legislation, 2% at age 55 and 2.5% at age 63 or higher). For state

safety employees the new formula multiplier is 2% at age 55 or older (formerly 2.5% at age 55). For state peace officers and firefighters, California State University, and the Legislature and Judicial branch plans, the new formula is 2.5% at age 55 (formerly 3% at age 50.) The legislation also provides that for employees hired after November 10, retirement benefits will be based on the highest consecutive three-year average salary instead of the single highest year.

Colorado. Chapter 2, Laws of 2010 (SB 1), makes numerous changes in the provisions of the retirement benefits the Public Employee Retirement Association (PERA) offers teachers and state and local government employees. The bill modifies contributions to and benefits paid from the Public Employees' Retirement Association (PERA). Among other things, it changes the amounts to be contributed by both employers and employees, places a cap on cost of living adjustments for retirees, modifies benefit calculations and eligibility, and creates new contributions and guidelines for working retirees. The act:

- Creates higher age and service requirements for members' normal retirement. For members with less than five years of service credit as of January 1, 2011, normal retirement will be under the Rule of 85. Those who begin employment on or after that date but before January 1, 2017, retirement will be under the Rule of 88 with a minimum age of 58. For those who begin employment on or after January 1, 2017, normal retirement will be under the Rule of 90 with a minimum age of 60.
- Increases employer contributions in PERA's state, school and Denver Public Schools divisions, but not in the local government and judicial divisions.
- Increases employee contributions through a mechanism of diverting funds that otherwise would be used for increases in salary and wages for current employees in state and school divisions of PERA. This is applicable to all active members of the affected divisions of PERA.
- Imposes an 8% cap on the amount of salary increases from one year to the next that will be counted toward the calculation of highest average salary. This applies to vested members who will not be eligible for retirement on January 1, 2011 and to nonvested members.
- Revises reduction factors for early retirement to reflect an actuarial reduction. This applies to vested members who will not be eligible for retirement on January 1, 2011 and to nonvested members. PERA advises that the change will mean a reduction in benefits for most who are affected by it.
- Specifies conditions for receiving the 50% employer matching contribution for members who receive a refund of their PERA account. The condition is five years of service, and it applies to members who are vested but not eligible for retirement on January 1, 2011, unless they have five years of service credit, and applies to non-vested members.
- Requires PERA to provide written notice to current and inactive members about the possibility of a future actuarial necessity, and that the General Assembly can modify the benefits allowed to members in the defined benefit plan.
- Requires a retiree who returns to work for a PERA employer to make a contribution to PERA equal to the member contribution, and specifies that working retiree contributions are not credited to the retiree's member contribution account (applicable to present and future retirees);
- Specifies conditions where increases in work limits are allowed for certain retirees; prevents working retirees who suspend their retirement benefit and return to work for a PERA employer from adding to their service credit, and requires that each period of service for a PERA employer following retirement be calculated as a separate benefit segment under the benefit structure in place at the time of retirement.

The bill also requires PERA to calculate the actuarial funding status of PERA as a whole prior to calculating the funding status of a division separately, and submit a report concerning the plan's funding status to the General Assembly on January 1, 2016, and every 5 years thereafter.

Illinois. Public Act 96-0889 (SB 1946) affects most statewide pension plans. The bill's provisions include the Chicago Teachers' Pension Fund, Metropolitan Water Reclamation District, Cook County employees,

Chicago municipal employees, Cook County Forest Preserve, Chicago Park District, Judges Retirement System, General Assembly Retirement System, State Employees Retirement System, Illinois Municipal Retirement Fund, Teachers Retirement System, Chicago laborers, and the State Universities Retirement System. Excluded from the bill are the Chicago Transit Authority, Chicago fire or police, downstate and suburban fire and police plans, and those covered by the sheriff's formula in the Illinois Municipal Retirement Fund. Provisions apply to those who become members of plans on or after January 1, 2011.

No changes are made to benefits of those who are currently members of any state or local system. No changes are made in current or future employee contributions.

- The legislation sets normal retirement age at 67 with 10 years of service. For members of the General Assembly plan and for judges, the service requirement is eight years. An "Alternative Plan" that applies to state police, firefighters, and certain prison system employees allows retirement at 60/20. Current requirements vary by plan. In State Employees (SERS) requirements are 60 with 8 years of service or the Rule of 85. In the teachers' plan (TRS) requirements are 62/5/ 60/10/ 55/35. [A legislative staff summary points out that currently almost one-third of state workers are covered by the existing Alternative Plan, which allows retirement as early as age 50.]
- Early retirement benefits are available at age 62 with 10 years of service with a reduction in the benefit of ½ of 1% for each month the person is under age 65.
- The legislation provides that final average salary (FAS) will be the average of the highest consecutive 96 months of the last 120 (that is, the highest eight years of the last 10). Currently for SERS and TRS FAS is the four highest consecutive of the last 10.
- FAS cannot exceed \$106,800, to be annually increased by the lesser of 3% or 50% of CPI. For members of the General Assembly plan and judges, the annual adjustment will be CPI [A legislative staff summary points out that the indexed salary limit is currently \$245,000.]
- The benefit formula was not changed otherwise.
- Post-retirement increases will be available one year after a beneficiary begins receiving benefits or reaches the age of 67, whichever is later. The increase will be 3% or 50% of CPI, whichever is less, but not less than zero. The increases will apply only to the base annuity, and will not be compounded. Current law provides an annual 3% increase for SERS and TRS, compounded. For members of the General Assembly plan and judges, the annual post-retirement increase will be at full CPI.
- The maximum benefit for members of the General Assembly plan and judges is capped at 60% of FAS in the legislation. Current law provides a cap of 85% of FAS for those members.
- Survivors' benefits are set at 66 2/3% of a deceased member's benefit. Under current law, survivor's benefits range from 50% to 65%, except for police and fire members, whose survivors' benefit is 100% of the deceased member's benefit.

Sources: Senate Republican Staff analysis; SB 1946.

Illinois. Public Act 96-0961 (HB 4644) allows members of the state employees' retirement system to establish up to 24 days' service credit for voluntary or involuntary furloughs taken during FY 2010 and FY 2011. Employees are required to pay employee contributions plus the employer's normal cost plus interest to establish the credit.

Iowa. House File 2518 (signed by governor April 23, 2010) revises various provisions of the Iowa Public Employees Retirement System (IPERS) as well as increasing contribution rates (see above).

Sections 19, 21, 22, and 30 – The bill makes the following changes effective July 1, 2012:

- Increases the vesting requirement from four years to seven years; changes vesting regardless of years of service from employment at age 55 to age 65. Affects all employees who are not vested by 7/1/2012.

- Calculates retirement benefits using a member's high five years of salary instead of the current three years. This provision affects members who are vested before July 1, 2012. The act provides as a transitional calculation that such members' FAS will be the higher of a three-year average based on service before July 1, 2012, and the average of the member's five highest years of service.
- Implements a 6% per year reduction in retirement benefits for each year the member receives a retirement allowance before age 65 when a member retires prior to normal retirement age. The added reduction will apply only to service earned after July 1, 2012. The current reduction of 0.25% per month, or 3% per year, calculated not to age 65 but to the normal retirement age for that employee, which could be as early as 55.

Source: IPERS, Proposed IPERS Changes, March 19, 2010

Louisiana. Act 992 of 2010 (HB 1337) generally makes changes to the organizational structures, requirements for contributions and benefit provisions of the four state retirement systems: the State Employees' Retirement System (LASERS), the Teachers' Retirement System (TRSL), the School Employees' Retirement System (LSERS), and the State Police Pension and Retirement System (LSPRS), for persons whose first employment making them eligible for membership in any state retirement system occurs on or after Jan. 1, 2011.

Under existing law, LASERS includes a variety of plans for hazardous-duty and non-hazardous duty employees, and TRSL includes three plans for various public school employees. HB 1337 consolidates the provisions of the LASERS plans into one hazardous-duty plan and one non-hazardous duty plan. It moves some employees whose current jobs involve hazardous duty from the category of general employees to the category of hazardous duty. The bill also consolidates the provisions of the three TRSL plans into one set of provisions. In all cases the consolidations affect employees first eligible for membership in a state plan on or after January 1, 2011.

Along with the structural consolidation, the changes conform contribution and benefit provisions for classes of employees that in the past have had differing provisions. The following discussion reports some of the changes made by HB 1337, but because of the number of affected systems and plans, it is not possible to provide a full discussion here. The bill text, summaries, and actuarial studies are available on the website of the Louisiana Legislature: <http://www.legis.state.la.us/> Search for HB 1337. On the page for HB 1337, "notes" refers to actuarial analyses, and "digest" refers to bill summaries.

- Employee contribution rates. The consolidation of smaller plans into broader plans provides for contribution changes for some employees, both increases and decreases, but for the great majority of covered employees—general state employees and teachers statewide—the employee contribution remains at 8% of salary. See above for the effect on other employees.
- Final average compensation. Currently, final average compensation is calculated on a base of a person's three or five highest consecutive years, depending on system and plan. For all state system members hired after January 1, 2011, the base will be the five highest consecutive years. That is presently the rule for general state employees and LSERS members. It will be extended to teachers statewide, hazardous duty personnel, and other categories now at three years. A 15% anti-spiking cap will apply to all new members.
- Age and service requirements for normal retirement. For some employee categories, present requirements have been relaxed. The legislation simplifies the range of options, which vary substantially among classes of employees. All employees in non-hazardous occupations will be eligible for normal retirement at age 60 with five years of service, or for an actuarially reduced benefit at any age with 20 years of service. The current rule for normal retirement for state employees hired on or after July 1, 2006, is age 60 with 10 years of service; the new rule (of 60/5 or 20/any age, actuarially reduced) will be applied to those current employees hired on or after July 1, 2006, allowing them to attain deferred vested status five years sooner than under existing law.

- The current rule for normal retirement for general state employees is age 60 with 10 years of service; the new rule will apply to current employees. Teachers currently have the 60/5 provision as one of several options including 55/25 and any age with 30 years of service. Those two options have been eliminated. Judges also have had a variety of options that have been simplified to the 60/5 rule or an actuarially-reduced benefit after 20 years of service with no age restriction. The new options for hazardous-duty personnel will be any age with 25 years of service, 55/12 or an actuarially-reduced benefit with 20 years of service.
- Benefit accrual rates. Present law provides a 2.5% annual accrual rate (multiplier) for most members of the four state systems other than judges and hazardous-duty employees, whose rate generally has been 3.33%. Some general employees have been at 3.5% and some hazardous employees, who were outside the hazardous-duty systems, were at 2.5%. HB 1337 provides a 2.5% rate for all non-hazardous duty personnel hired after January 1, 2011, and a 3.33% rate for all hazardous-duty personnel. For judges, the factor remains 3.5% per year of service as a judge.
- The legislation also makes extensive changes to disability retirement and to the programs of survivors' benefits.

Michigan. Act 75 of 2010 (SB 1227) makes numerous changes affecting the Michigan Public School Employees' Retirement System (MPERS). The legislation:

- Creates an early retirement incentive for members who meet certain eligibility requirements and who retire before September 1, 2010 (see below under Early Retirement Incentives for details).
- Enrolls all newly hired school employees after July 1, 2010 in a hybrid pension and defined contribution system (see below under Defined Contribution & Hybrid Plans for details).
- Requires all MPERS members to contribute 3 percent of compensation in the irrevocable trust that is expected to be created in HB 4073, the Public Employee Retirement Health Care Funding Act, to pay for retirement health care benefits for retirees and their eligible dependents. Employees who earn less than \$18,000 would have to contribute 1.5% for FY 2010-11 but would contribute 3.0% in subsequent years.
- Restricts benefits for retired members who return to covered service (see below under Re-employment After Retirement for details)

The benefits changes are expected to yield a savings of \$3.1 billion over 10 years, net of the retiree health care and benefits costs of the early retirement incentive package. The savings would be local and would be experienced by the employers in MPERS, which include public school districts, intermediate school districts, participating universities, community colleges, public school academies, and certain libraries.

Minnesota. Chapter 359, Laws of 2010 (Senate File 2918 and House File 3281), enacts numerous changes in Minnesota state retirement plans. Provisions include:

- Increasing contribution rates for a number of state and local government plans. See above, "Contribution Rates and Funding Issues" for details.
- Providing for post-retirement increase rate reductions or suspensions. See above, "Cost of Living Adjustments," for details. [According to the Minneapolis-St. Paul *Star-Tribune*, May 17, 2010, retired public employees immediately filed suit to overturn this provision on the grounds of breach of a contract.]
- Decreasing the compound interest during the deferred period on deferred retirement annuities. For the Minnesota State Retirement System (MSRS), the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA), the current rates are 3% before age 55 and 5% after age 54 for people hired before 2005 or 2006 (date varies by plan), and 2.5% at any age for people hired since. Rates are reduced, varying by plan, to 2%, 1% or none. For details see http://www.commissions.leg.state.mn.us/lcpr/documents/omnibus/2010/s2918_cc_report_summary.pdf

- Increasing the vesting requirements for newly enrolled members:
 - MSRS general plan and State Patrol Plan: increases from three years to five years of credited service for people hired after June 30, 2010. For MSRA Correctional Plan, from three years to 10 years, with partial vesting after five years.
 - PERA general plan: vesting increases from three years to five years of credited service for people hired after June 30, 2010. For PERA police and fire and for PERA-Correctional, vesting is shifted from three-year cliff vesting to gradual vesting—50% with five years to service to 100% vesting with 10 years of service.
 - Duluth Teachers Plan: increases from three years to five years of credited service for people hired after June 30, 2010.
- Increasing the early retirement reduction factor. The amount a retirement annuity is reduced upon early retirement for each year that a person is short of normal retirement age is increased from 1.2% to 2.4% for members of the State Patrol Retirement Plan newly hired after June 30, 2010, and from 2.4% to 5% for members of MSRS-Correctional if employed before July 1, 2010, and retiring after June 30, 2015, or if employed after June 30, 2010.
- Eliminating the 6 percent interest earned on the escrow accounts of reemployed retirees who exceed PERA's earning limits beginning January 1, 2011
- Transfer the administration of the Minneapolis Employees Retirement Fund to PERA. MERF members, Minneapolis and other MERF employers, and the state would remain responsible for all funding of the plan.

Source: Minnesota Legislative Commission on Pensions and Retirement:

http://www.commissions.leg.state.mn.us/lcpr/documents/omnibus/2010/s2918_cc_report_summary.pdf

Mississippi. Chapter 389, Laws of 2010 (SB 3078), increases the service requirement for normal retirement in the Public Employee Retirement System from 30 to 33 years, for those who enter the system on or after July 1, 2011.

Missouri. HB 1 of the First Extraordinary Session of 2010, (signed by the governor on July 19, 2010), enacted new contributory tiers for those who become members of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS), the Missouri State Employees' Retirement System and the retirement plan for judges on or after January 1, 2011. The employee contribution will be 4% of salary on a pre-tax basis. It is applicable to all the categories of employees mentioned below.

- To be eligible for normal retirement under this plan, employees will be required to reach age 67 and have at least 10 years of service or reach age 55 with the sum of the member's age and service equaling at least 90 (previously 62 with five years of service or the Rule of 80 with a minimum age of 48).
- Uniformed members of the Highway Patrol will be required to reach age 60 or reach age 55 with 10 years credited service. (previously age 60 or the Rule of 80 with a minimum age of 48). The mandatory retirement age for uniformed members is age 60.
- Members of the General Assembly will be eligible for normal retirement at age 62 after having served in three biennial assemblies, or the Rule of 90 with a minimum age of 55 (previously 55 after having served in three biennial assemblies, or the Rule of 80 with a minimum age of 50).
- Elected officials will be eligible for normal retirement at age 62 with one four-year term of office or the Rule of 90 with a minimum age of 55 (previously age 55 after having served one term of office, or the Rule of 80 with a minimum age of 50).
- Employees, except for uniformed members of the highway patrol, are eligible for early retirement with reduced benefits at age 62 with 10 years of service.
- Employees must work for the state for 10 years to vest (previous law: five years).

- Members will not be able to purchase credit in the retirement plan for their past non-federal full-time public employment, their military service, or transfer credit from other public retirement plans.
- The employee contribution rate, the benefits under the year 2000 plan, and any other provision of the year 2000 plan may be altered, amended, increased, decreased, or repealed, but such change will only apply to service or interest credits after the effective date of the change.
- Employees under this plan shall not be eligible for the Backdrop option, which provides a lump sum payment (and a reduced annual annuity) at retirement for those working at least two years beyond normal retirement eligibility.

The plan for judges was changed in comparable ways.

- Judges hired for the first time after January 1, 2011, will be required to reach age 67 and have at least 12 years of service or reach age 62 and have 20 years of service before they are eligible for normal retirement (previously 62/12, or 60/15, or 55/20). Mandatory retirement for judges, per the Constitution, is age 70.
- Early retirement with reduced benefits will be available to judges at age 67 with less than 12 years of service, or age 62 with less than 20 years of service (previously 60 <15 and 62 <12).
- Judges will not be able to purchase credit in the retirement plan for their past non-federal full-time public employment or their military service.
- Judges under this plan who continue to work after their normal retirement date will not have cost-of-living increases added to their retirement compensation for the period of time between their eligibility for retirement and their actual retirement date.
- When a retired judge under this plan dies, their beneficiary will not receive an amount equal to fifty percent of the judge's retirement compensation. Instead, judges will make a choice at retirement among the benefit payment options, that includes options for the amount received by the beneficiary.
- The employee contribution rate, the benefits under the judicial retirement plan, and any other provision of the judicial retirement plan may be altered, amended, increased, decreased, or repealed, but such change will only apply to service or interest credits after the effective date of the change.
- This act prohibits a retired judge who becomes employed after January 1, 2011, as an employee eligible to participate in the MOSERS retirement plan, from receiving their judicial retirement benefits while they are employed. Any judge who serves as a judge while he or she is receiving their judicial retirement is prohibited from receiving their judicial retirement while serving as a judge. A judge who serves as a senior judge or senior commissioner while receiving judicial retirement will continue to receive judicial retirement and additional credit and salary for their service.

New Jersey. Public Law 1 of 2010 (SB 2) made numerous changes to the state-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the enrollment waiver, the prosecutor's part of the Public Employees' Retirement System (PERS), special retirement under the Police and Firemen's Retirement System (PFRS) and employer contributions to the pension systems.

Specifically, the bill provides that:

1) New members in the Teachers' Pension and Annuity Fund (TPAF) and the PERS will be eligible only if their hours of work are 35 or more per week for State employees and 32 or more per week for political subdivision employees. Persons not eligible for TPAF or PERS because the hours of work are fewer than required may be eligible for enrollment in the Defined Contribution Retirement Program (DCRP). The membership compensation threshold for the DCRP is increased to \$5,000 from \$1,500.

2) The multiplier for retirement calculation purposes, other than for veterans' and disability benefits, for new PERS and TPAF members will be changed from 1/55 to 1/60, the pre-2001 level.

3) Maximum compensation upon which contributions will be made for PFRS and State Police Retirement System (SPRS) purposes for new police officers, firefighters, and State Police officers who become members of those systems will be the amount of base salary equivalent to the annual maximum wage contribution base for Social Security, pursuant to the Federal Insurance Contributions Act, with a member

becoming a participant of the DCRP with regard to any amount over the maximum. [This change was previously enacted for other plans.]

4) The retirement allowance for a new member of the TPAF or PERS will be calculated using the average annual compensation for the highest five years of service (increased from the three highest years of service), and for a new member of the PFRS and SPRS will be calculated using the average annual compensation for the three highest years of service as opposed to compensation in the final year of service.

5) A person will be eligible for membership in the PERS or TPAF based upon only one position of several that may be held concurrently. The retirement system will designate the position providing the highest compensation as the basis for membership, contributions, and pensions calculations.

6) New members of the TPAF, the Judicial Retirement System (JRS), the Prison Officers' Pension Fund, the PERS, the Consolidated Police and Firemen's Pension Fund, the PFRS, and the SPRS will not have a non-forfeitable right to receive benefits upon the attainment of five years of service credit.

7) The state, beginning July 1, 2011, is to make in full the annual employer's contribution, as computed by the actuaries, to the TPAF, the JRS, the Prison Officers' Pension Fund, the PERS, the Consolidated Police and Firemen's Pension Fund, the PFRS, and the SPRS. The State would be in compliance with this requirement provided the State makes a payment, to each State-administered retirement system or fund, of at least 1/7th of the full contribution, as computed by the actuaries, in the State fiscal year commencing July 1, 2011 and makes a payment in each subsequent fiscal year that increases by at least an additional 1/7th until payment of the full contribution is made in the eighth fiscal year and thereafter.

The cumulative state and local savings from FY 2013 to FY 2026 are projected to total \$1.6 billion and \$1.16 billion, respectively, excluding the provision requiring phasing-in of full actuarial contributions. The Department of the Treasury indicates that the provision of this bill requiring the State to make its full annual pension contribution, phased-in over seven years, will result in a payment by the State of at least \$540.3 million in FY 2012, \$1.156 billion in FY 2013, and \$1.884 billion in FY 2014. The State's full contributions for these fiscal years are estimated to be \$3.477 billion for FY 2012, \$3.705 billion in FY 2013, and \$3.923 billion in FY 2014.

The final version of the bill omitted a provision passed by the Senate that would have allowed new employees covered by any of the state systems or a person already enrolled but with less than 10 years of service credit, to choose either to be enrolled in the relevant retirement system, enrolled in the defined contribution plan, or to withdraw entirely from enrollment in any State-administered retirement system.

Pennsylvania. HB 2497 (to governor Nov. 15, 2010) makes numerous changes affecting the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS). The legislation will affect those who become members of PSERS on or after July 1, 2011 and those who become members of SERS on January 1, 2011, except for state legislators, for whom the changes are effective on December 1, 2010. Members of the judiciary are not included in the changes described here, and benefit changes for certain state public safety officials will become effective only after the expiration of their collective bargaining agreements.

Members who are covered by the new provisions will belong to a Shared Risk Defined Benefit Plans as described above in the section on Contribution Rates and Funding Issues.

For both PSERS and SERS, the legislation:

- Increases the vesting requirement from 5 years to 10 years.
- Eliminates the lump-sum payout option
- Replaces the provision for retirement at any age with 35 years of service with the Rule of 92 with at least 35 years of service
- Requires that any purchase of service credit other than military service covered by USERRA be at full actuarial cost.

For PSERS, the legislation establishes a new membership class (T-E) for all new members. Employees in this class will make an employee contribution of 7.5% of compensation, the same amount as most current employees pay and have an annual benefit accrual rate of 2%, as compared to 2.5% for most current employees. The legislation also establishes an optional new class (T-F) of PSERS membership that provides an annual benefit accrual rate of 2.5%, but requires an employee contribution requirement of 10.3% of compensation. An employee will be required to select this option within 45 days of becoming a member of PSERS.

Also for PSERS, the legislation:

- Increases the retirement age from 62 with one year of service to 65 with three years of service
- Caps retirement benefits at not more than 100% of final average salary (a provision in existing law for SERS)
- Prohibits the purchase of non-qualifying part-time service after a one-year window.

For SERS, the legislation establishes a new membership class (A-3) for all new members, including members of the General Assembly. Employees in this class will have an annual benefit accrual rate of 2%, as compared to 2.5% for most current employees and an employee contribution requirement of 6.25% of compensation, the same amount as most current employees pay. As for PSERS, the legislation establishes an optional new class (A-4) of SERS membership that provides an annual benefit accrual rate of 2.5%, but requires an employee contribution requirement of 9.3% of compensation. An employee would be required to select this option within 45 days of becoming a member of SERS.

Also for SERS, the legislation increases the retirement age by 5 years, which for most members is equivalent to a retirement age of 65 rather than 60. For those currently eligible to retire at 50, the new retirement age will be 55.

Vermont. Act 74 of 2010 (HB 764) changes retirement provisions for the Teachers Retirement System. For current members who are more than five years away from eligibility for normal retirement (less than 25 years of service or less than age 57), normal retirement will be 65 or rule of 90 (combination of years of service and age), instead of 62 years old or with 30 years of service at any age. Early retirement will stay at 55, but the reduction will be an actuarial calculation instead of a percentage reduction. Employees more than five years from normal retirement eligibility will be eligible for a maximum benefit of 60% AFC, instead of the current 50% AFC, with a higher (2%, instead of 1.67%) multiplier upon completion of 20 years of service. Employees within five years of normal retirement eligibility will be eligible for a maximum benefit up to 53.34% of AFC instead of current 50% maximum, using the 1.67% multiplier, in recognition of years earned after July 1, 2010.

The bill also increases the employee contribution rate for all members of the Teachers Retirement System from 3.54% of compensation to 5%. The legislation requires the state to fund the full actuarial requirement annually, after taking into account the changes made by HB 764 in terms of reduced costs as well as increased employee contributions.

The bill caps compensation growth for the purposes of calculating FAS at 10% per year for the period of FAS determination.

Source: Office of the State Treasurer, Vermont

Virginia. Chapter 737, Laws of 2010 (HB 1189/SB 232), modifies for new employees the defined benefit retirement plans administered by the Virginia Retirement System ("VRS"), as follows:

- Requires employees to contribute five percent of creditable compensation (only local employers would be allowed to pick up this contribution);
- Increases the number of months used to calculate average final compensation from 36 to 60;
- Increases the cost, and decreases the time in which employees may purchase certain prior service credits, and;
- Reduces the portion of the increase in the Consumer Price Index used for determining annual retirement allowance supplements ("COLA") from three percent plus one-half of the next four percent to two percent plus one-half of the next eight percent;
- Decreases the Commonwealth's contribution for employees in institutions of higher education participating in an optional retirement plans from 10.4 percent to 8.5 percent of creditable compensation. However, institutions of higher education may provide an additional contribution up to 0.4 percent each year at their own cost. New employees of institutions of higher education would also be required to contribute 5 percent of salary;
- For new state and local employees covered under the main defined benefit plan, (i.e. excluding the separate plans for state and local law enforcement employees and judges), the bill changes the requirements for unreduced early retirement benefits from the Rule of 80 to the Rule of 90 or a person's normal retirement age for federal social security with five years of service.
- Allows reduced early retirement to be taken only by those persons who have attained the age of 60 with at least five years of creditable service;
- For judges appointed or elected to an original term commencing on or after July 1, 2010, service as a judge would be multiplied by the weighted years of service factor of (i) 1.5 if the person was less than 45 at the time of such original term, (ii) 2.0 if the person was at least 45 but less than 55 at the time of such original term, and (iii) 2.5 if the person was at least 55 at the time of such original term.

Chapter 758, Laws of 2010 (HB 892), requires a member of the Virginia Retirement System to be vested before being eligible to withdraw that portion of his accumulated contributions made by his employer on his behalf subsequent to July 1, 2010.

DEFINED CONTRIBUTION & HYBRID PLANS

Michigan. Act 75 of 2010 (SB 1227) provides that all newly hired school employees after July 1, 2010 will be enrolled in a hybrid defined benefit and defined contribution system. The hybrid plan increases age and service requirements for its defined benefit portion in comparison to the existing two defined benefit plans for school employees, and adds an optional defined contribution plan open to all members in this tier.

The provisions are:

- Increase final average compensation period from 3 years to 5 years, which will decrease the final average compensation for most employees.
- Increase the minimum retirement age to 60 with 10 years of service (currently minimum age for Basic plan is 55 and the MIP plan has no minimum age with 30 years of service).
- Prohibit the purchase of service credit to meet service requirements.
- Eliminate cost of living adjustments to pension allowances.
- Provide a defined contribution benefit (Tier 2) with a 50% employer match on a maximum employee contribution of 2% of salary, for a maximum employer contribution of 1%. An employee would automatically be enrolled with the maximum contribution of 2% unless the employee expressly chooses not to contribute, or to contribute a smaller amount.
- An employee would also be allowed to contribute additional funds without the match and subject to Department of Technology, Management, and Budget [rules] and the Internal Revenue Code.

- The employee would vest in the employer match as follows: 50% after 2 years of service, 75% after 3 years of service, and 100% after 4 years of service.
- In addition, individual employers could negotiate higher contributions up to a maximum of a 50% employer match on an additional employee contribution of 4% of salary, for a total maximum employer contribution of 3%. Additional employer contributions and matches would be subject to negotiations for both employees in the new hybrid plan as well as those in the Basic Plan and the current Member Investment Plan.
- Provides for a regular interest rate for the Hybrid of between 0% and 7%, and assumes a rate of return of 7%.
- Would allow other entities that receive direct or indirect funding from the School Aid Fund to opt into the new hybrid system.

A summary and fiscal impact study of Senate Bill 1227 of 2010, are available at <http://www.legislature.mi.gov/documents/2009-2010/billanalysis/Senate/htm/2009-SFA-1227-E.htm>

Utah. Chapter 266, laws of 2010 (SB 63), §25, closes the existing defined benefit plans of the Utah State Retirement System and replaces them with the New Public Employees' Tier II Contributory Retirement Plans, which includes alternative plans: a defined contribution plan and a hybrid plan. Employees hired on or after July 1, 2011, may choose to join one of the two. Those failing to make a choice will become members of the hybrid plan, except for legislators and governors, who may join only the defined contribution plan.

The defined contribution plan will provide individual employee accounts to which employers will contribute 10% of employee compensation for public employees, legislators and the governor. The contribution rate will be 12% for public safety and firefighter members. Employees are not required to contribute but may do so, either to the same DC plan or to any other DC plan the employer offers. Employee contributions are immediately vested. Employer contributions will be vested after four years' covered employment. Employees may direct the investment of their contributions and the investment of employer contributions after those are vested.

The hybrid plan (§29) will include a defined benefit and a defined contribution component.

- For the DB component, employers will pay up to 10 percentage points of an employee's compensation toward the amount that is required to keep the plan actuarially sound. (The 2010 employer contribution rate for the existing non-contributory plan is 14.22%.) The employee will contribute any additional amount required to make up the actuarial requirement. In the event this is required, it will be the only mandatory contributory element in the two plans. The member contribution is vested and nonforfeitable in case of the employee's departure from covered service without taking a retirement benefit, will be held in an individual account for the member or the member's beneficiary, and will earn interest.
- Employers will also make contribution necessary to amortize existing liabilities of the Tier I retirement plan.
- Benefits provided under the DB plan may not be increased until all the plans created in the bill reach 100% of their actuarial funding requirement.
- For the DC component, employers will contribute 10% of employee compensation less the amount the employer contributes to the DB component. The employer contribution will be deposited in a 401(k) plan to which the member may choose, but is not required, to make additional contributions. Employer contributions will vest after four years' membership in the plan; employee contributions vest immediately. The member may direct the investment of his or her contributions immediately, and those of the employer after they are vested.
- Eligibility for the DB benefit is at age 65 with four years of service, 60/20, 62/10, or any age with 35 years of service. The plan provides an option for the purchase of five years of service credit immediately before retirement.

- The benefit formula for people who retire at 65 or who have 35 years of service will be 1.5% of final average salary (FAS) times years of service. FAS will be the average of the highest five years (as opposed to the highest three years in the old non-contributory plan).
- An actuarial reduction will apply for those who retire between age 60 and 65, unless they have 35 years of service. An annual cost-of-living increase applies: CPI to an annual maximum of 2.5%. Amounts of CPI greater than 2.5% will be accumulated and applied to the COLA in years when the CPI is less than 2.5%.

Comparable new plans are created for firefighters and public safety officers, with a higher employer contribution and earlier retirement ages for the defined benefit portion of the hybrid plan. Employers are required to provide disability coverage for professional and voluntary firefighters and public safety officers.

An actuarial study is available at <http://www.le.state.ut.us/documents/ActuarialAnalysesSB63S3.pdf> (6/15/10)

DIVESTMENT

Pennsylvania. Act 44 of 2010 (SB 928) provides for divestiture by the State Treasurer, the State Employees' Retirement System and the Public School Employees' Retirement System of investments in companies doing business in Iran and Sudan. Includes power production activities. Relates to property or assets, employees or facilities, goods or services, distribution agreements, credit or loans, purchasing bonds or commercial paper issued by, investing in or having equity ties to or with Iran, Sudan or any company domiciled in Iran or Sudan.

EARLY RETIREMENT INCENTIVES

Iowa. Senate File 2062, signed by the governor on February 10, enacted an early retirement incentive program for executive branch employees and authorizes similar programs for legislative council staff and judicial branch employees if those agencies agree. Employees who are 55 years of age or older and who have 10 years of service have until June 24, 2010, to accept the incentive. The incentive includes health insurance and monetary benefits for five years. 2,700 employees are estimated to be eligible for the program, and an early estimate is that between 1,200 and 1,300 will accept it.

The incentive includes payment over five years of an amount consisting of the value of the employee's accrued but unused vacation leave plus \$1,000 for each year of state employment service up to 25, paid at the rate of 20 percent of the total per year. The state will also cover state health insurance costs for five years. Employees agree to leave state employment by June 24 and to waive any future employment in state government other than as an elected official. Employers are prohibited from offering temporary, part-time or permanent employment or contractual service contracts to anyone who accepts this early retirement incentive, and from filing vacancies thus created without approval from the Department of Management. Annual reports are required.

Savings were estimated at \$57.4 million in FY 2011 by the legislative Fiscal Services Division.

Michigan. Act 75 of 2010 (SB 1227) makes numerous changes affecting the Michigan Public School Employees' Retirement System (MPERS). Provisions include establishment of an early retirement incentive for members who meet certain eligibility requirements and who retire before September 1, 2010.

Currently MPERS employees have to be age 55 and have 30 years of service to be eligible to retire in the Basic plan or may retire with 30 years with no minimum age requirement under the Member Investment Plan (MIP). [The Basic Plan is a noncontributory DB plan closed to new members on December 31, 1986. The

MIP is a contributory DB plan in which new members of MPERS have been enrolled since January 1, 1987, and which now includes the majority of MPERS members.]

The bill would allow employees to be eligible if they had a combined age and years of service totaling 80 for employees who retire before September 1, 2010. Retirees would have to apply before June 11, 2010 and would have until June 11, 2010 to withdraw their application. In addition, for members who retire by September 1, 2010 the bill would provide a 1.6% multiplier in the pension formula for an employee who is eligible to retire under current eligibility and a 1.55% multiplier for members who qualify under the 80 and out. Currently a member's pension calculation equals their final average compensation (FAC) multiplied by their years of service multiplied by 1.5%. The bill would cap the final average compensation to which the additional multiplier was applied at \$90,000.

The bill would allow a superintendent or chief administrator to provide an extension to allow an employee to remain until September 1, 2011. Each reporting unit would be allowed to grant 1 extension. Another 2,500 extensions would be available statewide to be distributed on a pro rata basis by the Office of Retirement Services. The bill would require that the additional costs to the pension system created by the increased multiplier and the early out be amortized over a 5-year period.

June 28, 2010. *Flint Journal*, Flint, Michigan — The state today released the final number of school employees who decided to retire this summer, taking advantage of pension incentives the Governor passed in May. The Office of Retirement Services counted 17,063 who filed. The number falls short of what the state originally hoped, but officials still estimate savings of \$515 million as a result.

The state initially estimated \$670 million in savings if half of the 55,000 eligible veteran employees had chosen to retire. "The number of school retirements is more than triple what we typically see in a given summer," said Governor Jennifer Granholm in a statement.

Michigan. SB 1226 (to governor September 29, 2010) creates an early retirement incentive for state employees in the defined benefit retirement plan. The present age and service requirements for normal retirement are age 55 with 30 years of service. The incentive allows normal retirement for those who qualify for the Rule of 80 or who have 30 years of service. The incentive includes civil service employees, unclassified state employees, legislative branch staff and judicial branch employees. Applications are due by November 1, 2010. In addition members eligible to retire under existing law who do so by January 1, 2011, receive an increased multiplier (from 1.5% to 1.6%) and those who qualify under the incentive receive a multiplier of 1.55%. Those who retire under either provision forfeit their right to a lump-sum payment of the value of accumulated annual and sick leave and will instead receive an equal amount in 60 monthly installments beginning January 1, 2011. Department directors may request extensions to allow employees to remain on the job until July 1, 2011, subject to a demanding approval process.

The act also provides that, beginning October 1, 2010, retirees who contract with the state to provide services must forfeit their retirement benefits while so employed (existing law provides a similar condition for retirees employed by the state or who are employed through a contractual agreement with a third party).

The incentive is estimated to cost about \$385 over seven years, to be offset by \$406 million in savings from filling only two of every three positions vacated.

Response to the Michigan State Employees' early retirement incentive:

Lansing State Journal November 10, 2010

State officials said Tuesday that 4,755 employees will be headed out the door - 44 percent more than the 3,300 employees officials predicted would retire. About a third of the state's 53,000 employees were eligible

to retire under the plan, and they faced a deadline last Friday to apply for the incentive, which provided a slight pension sweetener. Those who remain must pay 3 percent of their salary toward retiree health care costs. Roughly a third of those eligible took the incentive approved by lawmakers in September.

"Because the number (of retirements) is much higher, we feel very solid that we'll get \$60 million in savings," said Kurt Weiss, spokesman for the state Department of Technology, Management and Budget. "The final savings will depend on decisions by the new administration" of Gov.-elect Rick Snyder. State budget officials based their savings projection on the premise that the state would replace roughly two out of every three employees who took the incentive. Weiss said Snyder's administration may push to hire more or fewer workers.

Weiss said the Department of Human Services was among the hardest hit departments, with 1,306 employees out of approximately 10,000 employees opting to leave.

Minnesota. Chapter 337, Laws of 2010 (Senate File 1481) authorizes early retirement incentive programs for the retirement plans covering state and local employees and teachers in Minnesota, including the Minneapolis employee plan and the Duluth and St. Paul teachers' plans. Plans are listed in Minn.Stat. 356.30 subdiv. 3 at <https://www.revisor.mn.gov/statutes/?id=356.30>

The incentive may be offered by any appointing authority whose employees are covered by one of the listed plans. Elected officials are not eligible. Eligibility requirements are 15 years of allowable service, existing eligibility for an immediate annuity or benefit from the plan that the applicant belongs to, and the lack of any existing benefit or pension from one of the listed plans. The incentive is extension of the employee's health and dental insurance (including coverage for dependents if the applicant had dependent coverage before retirement) for 24 months after retirement. Applicants must accept the offer by December 31, 2010, and retire by June 30, 2011. An individual who receives an incentive payment under these provisions may not be reemployed or hired as a consultant by any agency or entity that participates in the State Employee Group Insurance Program for a period of three years after termination of service.

New York. Chapter 45, Laws of 2010 (SB 6972), provides a temporary retirement incentive for certain public employees. The act eliminates the early retirement reductions for Tier 2, 3, and 4 members of the New York State and Local Employees' Retirement System and the State Teachers' Retirement System who retire within their employer's 90-day open election period, which cannot extend beyond December 31, 2010. Participants must be at least age 55 with at least 25 years of service; currently 30 years of service are required for normal retirement.

Chapter 105, Laws of 2010 (AB 11144), provides a broader temporary early retirement incentive program for members of the New York State and Local Employees' Retirement System, the State Teachers' Retirement System, the New York City Teachers' Retirement System, the NYC Board of Education, and the NYC Employees' Retirement System. It offers two different plans for targeted employees. One plan allows participating employers to provide eligible employees an incentive of 1/12 of a year additional service for each year of accrued service credit to a maximum of three additional years. Eligibility is limited to members who are at least 50 years of age with 10 years of service credit; participants who are less than 55 years of age will have benefits reduced by 5% for each year they are under the age of 55. The second plan allows Tier 2, 3 and 4 members of the plans to choose early retirement without a reduced benefit with 25 years of service instead of 30 years of service; the minimum age of 55 remains a criterion as in existing law.

Employers have some discretion as to the length of the window in which employees may choose to take early retirement, but the window has to be between 30 and 90 days in length and cannot extend beyond August 31, 2010. No employee may take advantage of both options. Employers are to pay the cost of the retirement incentive over five years beginning in fiscal year 2012.

Oklahoma. Chapters 179 and 186, Laws of 2010 (HB 2363 and SB 1442 respectively), created an employee buy-out or early retirement incentive program for state employees eligible for unreduced retirement. The incentive included a subsidy for health insurance costs for 18 months, longevity pay, and \$5,000 in cash. Officials believe that the state could save \$67.6 million the first year and nearly \$89 million the second year.

ELECTED OFFICIALS RETIREMENT PROGRAMS

Illinois. Public Act 96-0889 (SB 1946) amends retirement policy for legislators who take office after January 1, 2011, as well as for all other state government employees. The legislation sets normal retirement age for legislators at 67 with eight years of service, bases FAS on the highest eight of the last 10 years of service (presently the highest four of the last 10); caps FAS at \$106,800 annually adjusted by CPI (currently \$245,000); and provides an annual adjustment of 3% or CPI, whichever is less, compounded. Legislators' benefit is capped 60% of FAS (currently, 85%). The legislation also provides that the benefit will be earned at the rate of 3% of salary for each year of service (currently 5%) so that a legislator would reach the maximum allowable benefit after 20 years of service.

Source: Senate Republican staff analysis.

Missouri. HB 1 of the First Extraordinary Session of 2010, (signed by the governor on July 19, 2010), amended provisions of the retirement plans for members of the General Assembly and for other elected officials in the state who enter the plan on or after January 1, 2011. The legislation provided for member contributions of 4% of salary on a pretax basis. The plans previously were non-contributory. For such members of the General Assembly, normal retirement will be at age 62 with service in three biennial assemblies or the Rule of 90 with a minimum age of 55 (previously 55/3 assemblies or the Rule of 80 with a minimum age of 50. For elected officials, normal retirement will be at age 62 after one term of office or the Rule of 90 with a minimum age of 55 (previously 55/1 term or the Rule of 80 with a minimum age of 50).

Oklahoma. Chapter 435, Laws of 2010 (SB 1889) amended the plan for state and local elected officials, which includes legislators and the governor, affecting people elected to office after November 1, 2010. Under existing law, people elected to office may choose a retirement plan from a menu of six choices that differ in the required contribution from the officer's salary and the percent factor that will eventually be applied to the person's final average compensation to calculate a benefit. This legislation removes the four middle choices and leaves only the highest (10% contribution and a 4% factor) and the lowest (4.5% contribution and a 1.9% factor) because few people elected the intermediate choices.

Pennsylvania. HB 2497 (to governor Nov. 15, 2010) changes the General Assembly Retirement Plan to provide for higher contributions from employees, reduced benefits for new employees, and a Shared Risk Defined Benefit Plan, as described above under Defined Benefit Plan Changes.

Utah. Chapter 266, laws of 2010 (SB 63, §17), closes existing state retirement plans to a governor or legislators elected on or after July 1, 2011, and limits their retirement eligibility to the Tier II defined contribution plan created in that legislation. They are not eligible to join the hybrid plan created in the bill. <http://le.utah.gov/~2010/bills/sbillint/sb0063s03.htm> §66 provides a choice of retirement plans to the lieutenant governor and the other constitutional officers.

ETHICS, FORFEITURE OF BENEFITS, PRIVACY

Louisiana. Act 634 of 2010 (SB 13) provides for garnishment of pension contributions or benefits under certain circumstances. Any pension, retirement allowance, or benefit, or any refund of accumulated contributions payable to any member, former member, or retiree under the provisions of any public pension or retirement system, plan, or fund shall be subject to garnishment to pay any court-ordered restitution or

fine, or any costs of incarceration, probation, or parole, imposed on such member, former member, or retiree as a result of a conviction of or a plea of guilty or nolo contendere to the commission of a felony for misconduct associated with such person's service as an elected official or public employee for which credit in the system, plan, or fund was earned or accrued, the commission of which felony occurred on or after July 1, 2010. The act provides protection for community-property interests.

Tennessee. Chapter 914, Laws of 2010 (SB 2205/H2349), provides that no member or former member of the general assembly may elect to retain state employees' health group insurance if that person is convicted of a felony arising out of that person's official capacity as a member of the general assembly. If the spouse or dependent children of the member or former member are otherwise eligible to participate in the state employees' health group insurance plan but for the conviction, then the coverage shall continue to be available provided the monthly contributions are made. The forfeiture of benefits can be reversed if a conviction is overturned or if the person is granted a pardon.

GOVERNANCE AND INVESTMENT POLICY

California. Legislation submitted to the governor for signature requires the California Public Employee Retirement System to report to the governor, treasurer and legislature data underlying its adoption of employer contribution rates. The data to be reported include

- The discount rate used to calculate pension liabilities and the value of those liabilities if a risk-free discount rate was used;
- Its assumed rate of investment return for the purpose of projecting contributions and how the contributions would change if a lower assumed investment return was used;
- The period over which unfunded liabilities are amortized and how contributions would change if unfunded liabilities were amortized over a period equal to the estimated average remaining service periods of employees covered by the contributions; and
- The market value of assets and the difference between market value and the system's actuarial value of those assets.

The treasurer is to evaluate the report and submit an opinion of it to the legislatures.

Kentucky. Act 127, Laws of 2010 (HB 146), requires that two of the three members appointed by the Governor to the Kentucky Retirement Systems board of trustees possess 10 years of investment experience and defines what that means. It establishes a five-member investment committee for the Kentucky Retirement Systems comprised of the two gubernatorial appointees with investment experience and three trustees appointed by the board chair and limits the amount of assets managed by a single external investment manager to no more than 15 percent of the systems' portfolio.

Minnesota. Chapter 359, Laws of 2010 (Senate File 2918 and House File 3281), provided for the administrative consolidation of the Minneapolis Employees Retirement Fund (MERF) with the Public Employee Retirement Association—General Plan, effective June 30, 2010. This measure did not make PERA responsible for funding MERF; funding provisions (Minneapolis, MERF employers, the state, and members remain responsible for funding) but it provides for an eventual full merger of the systems.

The act also extended the amortization date for MSRS-General from 2020 to 2030.

Missouri. HB 1 of the First Extraordinary Session of 2010 (signed by the governor on July 19, 2010), which creates new contributory tiers for certain state retirement systems, provides that

The employee contribution rate, the benefits provided under the year 2000 plan to members covered under this section, and any other provision of the year 2000 plan with regard to members covered

under this section may be altered, amended, increased, decreased, or repealed, but only with respect to services rendered by the member after the effective date of such alteration, amendment, increase, decrease, or repeal, or, with respect to interest credits, for periods of time after the effective date of such alteration, amendment, increase, decrease, or repeal.

New Mexico. Chapter 60, Laws of 2010 (HB 231) amends the *Educational Retirement Act* to authorize the disclosure to the public of Education Retirement Board (ERB) members' or retired members' pension amounts.

Oregon. Chapter 1, Laws of 2010 (SB 897, vetoed and overridden), provides that one member of the Public Employees Retirement Board must be either a public employee who is in an appropriate bargaining unit or a retired member of the system who retired from a position in the unit.

Vermont. Act 24 (HB 431) changes the name of the state employees' postemployment benefits pension trust fund to the state employees' postemployment benefits trust fund a trust fund (omitting the word *pension*) and provides new language stating that " it shall be impossible at any time prior to the satisfaction of all liabilities, with respect to employees and their beneficiaries, for any part of the corpus or income of the fund to be used for, or diverted to, purposes other than the payment of retiree postemployment benefits to members and their beneficiaries and reasonable expenses of administering the fund and related benefit plans."

HEALTH COVERAGE

Connecticut. The 2009 State Employees Bargaining Agent Coalition Agreement implemented a new requirement for funding retiree health benefits. Beginning July 1, 2009, all new employees who are eligible for State-paid health insurance are required to contribute 3 % of their compensation to offset the cost of providing retiree health benefits. Effective July 1, 2010, all health-care eligible employees who have less than five years of actual State service as of that date will be required to contribute 3 % of compensation to the Retiree Health Fund until they have completed 10 years of service or otherwise qualify for retiree health coverage.

Kentucky. Act 159 of 2010 (HB 540) provides a new advance-funding basis for retiree health benefits for members of the Kentucky Teachers Retirement System. The final version of the bill was approved unanimously in both chambers of the General Assembly. The act replaces current pay-as-you-so funding which has required subsidies of more than \$560 million from the teachers' retirement fund since 2004. The state will repay this amount and interest.

Currently, active employees of KTRS contribute 0.75% of salary for retiree health insurance, except for those hired after June 30, 2008, who contribute 1.75%. Those contributions will continue. This act adds additional contributions.

Effective July 1, 2010, most members of KTRS will contribute an additional 0.25% of salary to a medical insurance fund. The contribution will gradually increase to 3% in the course of six years. Retired members will participate by paying either the Medicare Part B premium if they are eligible for Medicare, or by paying the medical insurance fund the equivalent amount if they are under age 65. Those over age 65 are already paying the Medicare Part B premium and will experience no change. Retirees under age 65 will begin paying the equivalent on July 1, 2010 at an initial levy of 1/3 of the premium or, for the last six months of 2010, \$37 a month. The amount will increase to 100% of the premium on July 1, 2012. These contributions will be deducted from pension payments.

Employers will pay an additional contribution equal to that paid by active members.

The act created a new trust fund for the purpose of advance funding future retiree medical benefits. This enactment was in separate legislation: Act 164 of 2010 (HB 545).

Effective July 1, 2010, the state will pay the net cost of medical insurance for new retirees who are not Medicare eligible.

The act is intended, in part, to encourage teachers to retire before age 65, though its provision of medical insurance to such retirees. The goal of this policy is to reduce overall salary costs to districts by allowing them to replace long-tenured teachers with lower-paid starting teachers.

Source: Kentucky Teachers' Retirement System:

http://ktrs.ky.gov/07_legislation/Shared%20Solution%20ARTICLE%204-30-2010.pdf

Michigan. Act 75 of 2010 (SB 1227) makes numerous changes affecting the Michigan Public School Employees' Retirement System (MPSERS). The legislation requires all MPSERS members to contribute 3 percent of compensation in the irrevocable trust that is expected to be created in HB 4073, the Public Employee Retirement Health Care Funding Act, to pay for retirement health care benefits for retirees and their eligible dependents. Employees who earn less than \$18,000 would have to contribute 1.5% for FY 2010-11 but would contribute 3.0% in subsequent years.

Michigan. Public Act 77 of 2010 (HB 4073) creates irrevocable trusts for the purpose of holding, investing, and distributing assets for certain postemployment health care benefits; sets forth certain rights that public employees have in retirement health care benefits under certain circumstances; provides for the establishment and amendment of certain irrevocable trusts agreements.

A legal challenge has been filed against the requirement of a additional contribution on the grounds of violation of contract.

Michigan. SB 1226 (to governor September 29, 2010) requires an employee contribution for retiree health insurance of 3% of compensation, beginning November 1, 2010. The contributions will be deposited in an irrevocable trust established under Public Act 77 of 2010 (see above). The act also modified the state's obligation for retiree health benefits for the State Employees Tier 2 Defined Contribution plan to tie the state's premium share to future changes in the premium share for Tier 1 employees, and for Tier 2 employees hired after April 1, 2010. The bill also eliminated the option that allows retirees to elect health insurance coverage other than what is provided by the Civil Service Commission with a state subsidy equal to that for insurance provided by the CSC. After January 1, 2011, employees must pay the full cost of any alternative retiree health coverage.

New Hampshire. Chapter 104, Laws of 2010 (HB 1668), requires that group II state employees have 20 years of creditable service with the state in order to receive state paid medical and surgical benefits for retired state employees.

SJR 2 (adopted by both chambers) endorses the establishment of a statewide retiree medical trust for public employee health care reimbursement benefits after retirement. The resolution is available at <http://www.gencourt.state.nh.us/legislation/2010/SJR0002.html> and the recommendations of the New Hampshire Commission to Propose a Retiree Health Care Benefits Funding Model, which led to the resolution, are available at <http://gencourt.state.nh.us/statstudcomm/reports/1927.pdf>

Michigan. Act 77 of 2010 (HB 4073) creates irrevocable trusts for the purpose of holding, investing, and distributing assets to be used for postemployment health care benefits for each state retirement fund.

New Jersey. Public Law 2 of 2010 (SB 3) changes the State Health Benefits Program (SHBP) and the School Employees' Health Benefits Program (SEHBP) concerning eligibility, cost sharing, choice of a plan, the application of benefit changes, the waiver of coverage and multiple coverage under the plans.

Specifically, the bill provides that after the expiration of any applicable binding collective negotiations agreement, active employees of the state, local governments, and boards of education will contribute 1.5 percent of base salary toward the cost of health care coverage under the SHBP and the SEHBP. Employees of the state, local governments, and boards of education who become members of a State or locally-administered retirement system on or after the bill's effective date will be required to pay in retirement 1.5 percent of their pension benefit toward the cost of health care coverage under the SHBP and the SEHBP. This amount will be in addition to any other amount that maybe required through the collective negotiations process for employees with a majority representative for collective negotiations and, for those without such a representative, through the application of the terms of a collective negotiations agreement upon them.

After the bill's effective date, enrollment in the SHBP will be limited to a person who:

- is a full-time appointive or elective officer of the State or local government whose hours of work are fixed at 35 or more per week, a full-time employee of the State, or a full-time employee of an employer other than the State whose hours of work are fixed by the governing body at not less than 25 per week; or
- An appointive or elective officer, an employee of the State, or an employee of an employer other than the State who has or is eligible for health benefits coverage in SHBP on that effective date and continuously thereafter. The bill similarly limits enrollment in the SEHBP to persons employed full-time whose hours of work are fixed by the governing body at not less than 25 per week.

The governments whose employees are affected by the changes are expected to save \$314 million in FY 2011, \$324 million in FY 2012, and \$333 million in FY 2013.

Rhode Island. The *Providence Journal* reported on April 16, 2010, that U.S. District Court Judge William E. Smith has upheld the state's reduction of health-care benefits for state employees who retire early. Rhode Island Council 94 of the American Federation of State, County and Municipal Employees had sued to block implementation of the law on state-subsidized health-care benefits, a law that Judge Smith described as an attempt by the state amid a fiscal crisis in 2008 "to tighten its belt" by reducing the amount it spends on those benefits.

Smith rejected claims by the union that the reduction in benefits violated employee rights under the contract clauses of the Rhode Island and U.S. Constitutions. Contrary to the union claims, he said, no enforceable contract exists for retiree health benefits under the state's past practice regarding retirees, the negotiated collective-bargaining agreement between Council 94 and the state, state statute or common law.

Texas. The Texas Employee Retirement System has approved retiree health insurance cost increases effective September 1, 2010, by vote of the board in May, 2010. The board reports that the changes were designed to encourage low-cost options, such as seeing primary care physicians instead of specialists, and using generic drugs instead of name brands and that the changes targeted the most costly areas of the plan-hospitalization, name brand drugs, and high-tech radiology .

Source: Employee Retirement System of Texas: <http://www.ers.state.tx.us/insurance/default.aspx>
June 8, 2010

Vermont. Act 74 of 2010 (HB 764) changes state subsidies and eligibility requirements related to retirees' health care.

- 1) For new hires and those with less than 10 years of service:

- 1 to 14 years: No subsidized coverage
 - 15 years: 60% Single
 - 20 years: 70% Single
 - 25 years: 80% Single or spousal
- 2) Current actives with more than 10 years of service:
- 80% single coverage - same as now
 - 25 years: 80% single or spousal coverage
- However:
- Those with more than 30 years of service will have to work another 5 years to be eligible for spousal coverage.
 - Those with 25 to 30 years of service will have to work a total of 35 years.
 - Those with 15 to 24 years of service will have to work 10 more years.
 - Those with 10 to 15 year of service will be eligible upon 25 years of service.

Source: Office of the State Treasurer, Vermont

LEGISLATIVE PROCESS.

Louisiana. HB 229, a joint resolution, submits a constitutional amendment to the voters that would provide that a two-thirds majority of each chamber would be required to enact any benefit provision for members of public retirement plans that would carry an actuarial cost.

MILITARY SERVICE

Delaware. Chapter 167, Laws of 2010 (SB 135) protects the retirement benefits of state troopers who take military leave prior to retirement; assures that the employee will not realize a reduction in pension benefits because of a reduction in state salary during a period of time that might fall in the highest three years of earnings.

RE-EMPLOYMENT AFTER RETIREMENT

Colorado. Chapter 2, Laws of 2010 (SB 1), requires a retiree who returns to work for a PERA employer to make a contribution to PERA equal to the member contribution, and specifies that working retiree contributions are not credited to the retiree's member contribution account.

Georgia. Act 455, Laws of 2010 (HB 916), provides that if a retiring employee has not reached normal retirement age on the date of retirement and returns to any paid service, his or her application for retirement shall be nullified; provides that certain service as an independent contractor shall not result in a suspension of retirement benefits.

Act 457, Laws of 2010 (HB 969), provides that retired teachers who have reached normal retirement age have two options if they return to a position that ordinarily would require membership in the teachers' retirement system:

- Contribute to the system, in which event the member's retirement benefit will cease and the retired member will reestablish active membership in this retirement system. The member will have the same creditable service that the member possessed at the time of retirement and will accumulate additional

creditable service so long as such active membership continues. Upon cessation of such service, the retired member, after proper notification to the board, will receive a retirement benefit based on the member's total accrued service reduced by any amounts already received; or

- Not contribute to the system, in which event the member's retirement benefit shall not cease, and no additional benefits will accrue

It will be the employer's responsibility to see that teachers who return to covered service follow the rules specified above although the teacher has a responsibility to notify the employer of his or her retirement status before accepting a position.

Hawaii. Act 179, Laws of 2010 (HB 2533), provides that retirees of the Hawaii Retirement System may not be rehired by the state or a county government unless they are re-enrolled in the retirement system, with exceptions. Those who are rehired without being re-enrolled, when identified, are required to reimburse the system the amount of benefits received, make the employee contributions they would have owed with 8% annual interest, and contribute to the system for the administrative costs it bore in the matter, if the employee is found to have been at fault. Employers of such employees are to make the foregone employer contributions to the system with 8% interest, and contribute to the system for its administrative expenses, if the employer is found to have been at fault.

Exceptions to the above provisions exist for elected officials, jurors and precinct officials, certain part-time or temporary employees, and people who were not employed by state or county for 12 months and then return to a position identified as a labor shortage or difficult-to-fill position. Teachers may return after 12 months to a position the Department of Education or a charter school has identified as difficult to fill, if no agreement had previously been made between employer and employee that the person would be asked to return. In both sets of circumstances, employers are to make employer contributions to the Hawaii Retirement System, but those who return do not earn service credit or additional benefits for the service.

Illinois. Public Act 96-0889 (SB 1946) covers most statewide retirement plans including the state employees' plan (SERS) and the state teachers' plan (TRS). For employees entering the plans on or after January 1, 2011, it provides that annuities will be suspended for a person who returns to service covered by the systems included in the act. The legislation says the benefit will be recalculated "if appropriate," without explaining under what circumstances re-calculation would be appropriate. See, for example, in Section 1 of the legislation, 40 ILCS 5/1-160 (h) at <http://www.ilga.gov/legislation/BillStatus.asp?DocNum=1946&GAID=10&DocTypeID=SB&LegId=44843&SessionID=76&GA=96>

Maryland. Chapter 698, Laws of 2010 (HB 774 /SB 498), increases the maximum average final compensation from \$10,000 to \$25,000 that retirees of the Employees Retirement and Pension System must have at the time of retirement in order to be exempt from a reemployment earnings limitation.

Michigan. Act 75 of 2010 (SB 1227) provides that retirees who retire after July 1, 2010 and work directly for a MPSERS reporting unit, may maintain pension and health benefits if they earn less than 1/3 of their final average compensation. If they earn more than 1/3 of their final average compensation, their pension and health care benefits would be suspended until the employment ends.

For those retirees who retire after July 1, 2010 and afterward perform core services for a MPSERS reporting unit but who are employed independently or by a third party, the bill would suspend their pension and health care benefits.

Mississippi. Chapter 546, Laws of 2010 (HB 957), provides that no one who is being paid a retirement allowance or a pension after retirement can be employed or paid for any service by the State of Mississippi, including services as an employee, contract worker, contractual employee or independent contractor, until the retired person has been retired for 90 consecutive days from the effective date of retirement. Thereafter the

person may be reemployed while being paid a retirement allowance. Employers are to make the full employer contribution for the person who is re-employed. People who return to covered employment while receiving a retirement benefit are not eligible to earn additional service credit while so employed.

New Mexico. Chapter 18, Laws of 2010 (SB 207), amends the return-to-work (RTW) program in the Public Employees Retirement Act. The bill does not affect members of the Education Retirement Board plan. For retirees returning to a PERA-affiliated employer on or after July 1, 2010, the following conditions will apply:

- The period before a retired person can return to covered employment is extended from 90 days to 12 months, during which the return-to-work (RTW) employee cannot act as an independent contractor for the employer from which the employee retired.
- The retiree then has two options:
 1. Suspend the pension, choose not to contribute to PERA and not earn service credit for the period of reemployment; or
 2. Suspend the pension, rejoin PERA, accrue additional service credit and be eligible to have the pension recalculated when the period of employment ends.

RTW employees in the program as of July 1, 2010, will be subject to current provisions. Currently, RTW employees wait out 90 days, do not suspend pension, and the employer pays both the employee and employer contributions (or the actuarial cost as determined by PERA). However, the bill would require RTW employees to pick up the employee contribution as of the effective date, leading to savings for employers.

The bill deletes the exemptions for an appointed chief of police or undersheriff but retains the exemptions for a retired member who works for the legislature during the legislative session and for a retiree who is an elected official. Exempted employees do not suspend their pensions for the duration of employment or term of office.

PERA explained in *La Voz* in March 2010:

An unintended consequence of double dipping recently began to impact the financial solvency of the program. Double dipping was encouraging employees to retire earlier than they would have otherwise. There was no incentive for a retiree to work until he or she reached their pension maximum when the opportunity to receive a pension and a salary was available by retiring and returning to work. The practice of employees retiring when they were first eligible resulted in the employee paying into PERA for a shorter period of time, receiving a pension sooner and being eligible for a 3% Cost-of-Living Adjustment (COLA) sooner. PERA's latest experience study indicated that the return-to-work program was no longer cost neutral to the fund and that PERA contributions would need to be increased in the future if the trend continued.

South Dakota. Chapter 23, Laws of 2010 (SB 18), provides that retirement benefits will be cancelled for any retired member who returns to covered service within three months of retirement. The retiree must repay any benefits received in the period, or accept an offsetting actuarial reduction in eventual retirement benefits.

For those who return to covered employment after three months, retirement benefits shall be reduced by 15% and the member forfeits annual increases during the period of re-employment. Employee and employer contributions will be made during the period of re-employment. The employee contributions will be deposited in a deferred contribution retirement account. The employer contributions will be made to the Retirement System without any credit to the member, and the member cannot earn additional service credit during the period of re-employment.

Utah. Chapter 263, laws of 2010 (SB43), provides that after July 1, 2010 a retired person who returns to employment with any employer covered by the Utah Retirement System (URS) within one year of retirement is returned to active service, the employee's retirement benefit is cancelled, and the employee can earn additional service credit. Anyone who returns to any covered employment after a one-year separation may choose to continue to receive a retirement benefit and forfeit accumulation of any additional retirement credit

(though the employer must pay an amortization rate to URS) or may choose to cancel his or her retirement benefit and earn additional service credit for the period of re-employment. Two years' service is required to earn additional credit. The benefit will be recalculated when the employee finally retires.

Previous law allowed return to covered employment after six months but the six-month requirement was waived for work that was less than 20 hours a week or was with a different agency than the one from which the person retired. A retiree is also prohibited from part-time and contractual work during the separation period.

RETURN OF CONTRIBUTIONS

Virginia. Chapter 758, Laws of 2010 (HB 892), limits the return of contributions to an employee who voluntarily leaves public employment to the member's contribution, unless the employee is a vested member of the Virginia Retirement System (vesting requirement is five years). The law does not affect employer contributions made before July 1, 2010. Previous law allows the return of employer contributions as well as employee contributions. Employer contributions will be returned under the new law in the case of death or involuntary separation for other than cause.

SOCIAL SECURITY

California. Resolution Chapter 103 (AJR 10) requests the President and Congress to enact the Social Security Fairness Act of 2009, which would repeal the Government Pension Offset and the Windfall Elimination Provisions from the Social Security Act.

Illinois. HR 927 urges the U.S. Congress to pass the Social Security Fairness Act of 2009 or other legislation that eliminates both the Government Pension Offset and the Windfall Elimination Provision.

Louisiana. HCR 224 and SCR 6 memorialize Congress to eliminate or reduce the Social Security reductions known as the Government Pension Offset and the Windfall Elimination Provision.

STUDIES

Connecticut. Executive Order 38 (February 2010) established a State Post-Employment Benefits Commission whose members, to be appointed by the governor, consist of representatives of the Office of the Treasurer, Office of the Comptroller, the Office of Policy and Management, the Office of Labor Relations, the State Employees Bargaining Agent Coalition, certified public accountants, certified actuaries, and members of the business community. By July 1, 2010, the commission is to identify the amount and extent of unfunded liabilities for pensions and other post-employment benefits; compare and evaluate the advantages and disadvantages of various approaches for addressing unfunded pension liabilities and post-employment benefits; and propose a short and long term plan or plans for addressing unfunded pension liabilities and post-employment benefits.

Minnesota. Chapter 359, Laws of 2010 (Senate File 2918 and House File 3281), calls for two studies: The State Auditor is directed to convene a study group to review the investment authority and fiduciary provisions for large and small retirement plans, with recommendations due by January 15, 2011, and the executive directors of MSRS, PERA, and TRA are directed to study defined contribution retirement coverage and other alternatives to the current defined benefit plans and to report to the Commission by June 1, 2011.

Puerto Rico. Executive Order 10 of 2010 establishes the Commission for the Reform of the Retirement Systems of the Government of Puerto Rico.

Virginia. SR 10 directs the Senate Committee on Finance to study the investment portfolio managed by the Virginia Retirement System. In conducting its study, the committee shall examine how the Virginia Retirement System selects firms to manage its investment portfolio and determine if more minority-owned firms should be used to help the Virginia Retirement System manage its investment portfolio.