

Selected 2011 State Pension Reform Proposals

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This report is intended to convey a sense of the kinds of changes governors and legislators will consider to address state retirement issues in 2011. It draws upon such sources as governors' recommendations, state pension study commissions, legislative interim committee recommendations and legislation sponsored by legislative leaders, including the chairs of the committees whose jurisdiction includes retirement legislation. None of the proposals summarized here have become law, and it is impossible to predict what final actions will occur.

**ARIZONA.** House Speaker Kirk Adams is sponsor of a pension reform bill (House Bill 2726) that includes these provisions:

- Changes retirement provisions for elected officials and judges by removing both their early retirement eligibility and the ability to retire after 20 years service without reaching the retirement age of 62 with 10 years of service or 65 with five years of service. Additionally, the reform package changes the period of earnings on which pensions are based from three years to five years. The proposals change the retirement multiplier for elected officials and judges from 4 percent to a graded system tied to years of service, ranging from 2.1 percent for 10 to 19.99 years to 2.3 percent for 30 years or more. Changes are for those entering office January 1, 2012 and after.
- Requires employer contributions in connection with the hiring of a pension beneficiary.
- For the Arizona State Retirement System, removes the Rule of 80 and Rule of 85 retirement options for people hired on July 1, 2011 and after. Retains existing options of 62 with 10 years of service or age 65.
- Repeals the Deferred Retirement Option Plan, or DROP, which lets workers receive lump-sum cash payouts for up to five years of service. Currently available to general and law enforcement employees. Repeal is effective on January 1, 2012 for all system members who are not then in a DROP.

- Repeals the Cost of Living Adjustment Plan, or COLA, which provides post-retirement benefit increases for all four systems.
- For Public Safety, Corrections Officers' and Elected Officials' plans, provides for employee contribution increases over five years to produce a 50-50 division of contributions between employees and employers (such a division currently exists for general employees). Effective July 2011.
- For Public Safety, Corrections Officers' and Elected Officials' plans, changes the salary base for calculating a retirement benefit from the highest average three years of the last 10 to highest average of five of the last 10.
- For Public Safety and Corrections Officers' plans, repeals the 20-years-and-out option; replaces it with a 25-year option and otherwise retains current age-and-service provisions, effective for those hired after January 1, 2012.
- Requires a study by the Board of Investment about the feasibility and cost of moving towards a 401k-style defined contribution plan, due December 31, 2011.

Source: Arizona House of Representatives *News Release: Speaker Kirk Adams Unveils Sweeping Pension Reform*, February 8, 2011.

**ARIZONA.** Senate Bill 1609 proposes numerous changes to retirement provisions affecting elected officials, police, firefighters and corrections officers.

- Current police and firefighters would increase their pension contributions over the next three years to 11.65 percent of their salary. They currently pay 7.65 percent. New hires would eventually pay 13.65 percent.
- Elected officials would increase their pension contributions during the next three years to 11 percent of their salary. They currently pay 7 percent. New hires would pay 13 percent.
- Reduce the pension benefits for anyone elected, re-elected or retained in public office.
- All corrections officers would pay one half of 1 percent more of their salaries for their pensions. Dispatchers now pay 7.96 percent, and non-dispatchers pay 8.4 percent. The rate would be the same for new hires.
- Change the formula for funding COLA to make them dependent upon the funding level of the plan. This likely would allow COLAs to be paid in the three systems for another two years or fewer. They would then be suspended for as long as a decade if funding does not improve.

Source: Arizona State Senate Fact Sheet, S. B. 1609, February 22, 2011.

<http://www.azleg.gov/FormatDocument.asp?inDoc=/legtext/50leg/1r/summary/s.1609fin.doc.htm>

**CALIFORNIA.** Governor Jerry Brown called for pension reform in his 2010 campaign for governor. The following is an excerpt from his campaign platform that includes his major proposals.

- *1. Stop Pension Spiking and Abuse.* Pensions are meant to be a percentage of regular salary. Unfortunately, there are a number of reported instances (most often at the local level) where special bonuses, last minute promotions, excessive overtime, or other gimmicks are used to artificially inflate final compensation and consequently the favored employee's pension. These abuses must be stopped. Pension benefits should be based on normal, recurring salary only.
- *2. Two Tiered System. Renegotiate Retirement Benefit Amounts for New Employees.* Over time, formulas have been negotiated that have allowed employees to retire at earlier ages for higher pension amounts. For example, when I was Governor, a miscellaneous employee could retire at 2 percent per year at age 60. In recent years, this was changed to 2 percent at age 55. For new employees, these ages must be brought back to the more appropriate levels in place when I was Governor.
- *3. Stop Retroactive Application of Benefit Enhancements.* To date, when new retirement benefits have been approved/negotiated, those new benefits have applied retroactively to years already worked. That practice should be ended.
- *4. Increase Employee Contributions for all Employee.* Currently, state employees contribute between 5-9 percent of their salaries to their pensions; at the local level, contributions vary widely among different jurisdictions. Recently, a number of unions have agreed to increase their current employee contributions to 10 percent of salary. We need to obtain similar increases in the employee contribution rate for the other government employees.
- *5. Prohibit Pension "Holidays."* In recent years, with high investment returns ensuring well funded pension plans, employers (State or Local Governments) decided to reduce or temporarily cease (take a "holiday" from) contributions into pension plans. We must require consistent contributions to public pension funds over time - no more "contribution holidays" by employers or employees. This will ensure that we maintain funds adequate to pay promised benefits and that the state's annual pension obligations are steady, adequate and predictable.

Source: *Jerry Brown Governor 2010* <http://www.jerrybrown.org/pension>. Proposals have been abbreviated and reformatted.

**CONNECTICUT.** Governor Dannel P. Malloy's budget address to the General Assembly on February 16, 2011, indicated that employee concessions on salaries and benefits will be necessary over the next two years, and in particular said that increasing the retirement age could save \$300 million over the biennium.

Source: Office of the Governor, *Governor Dannel P. Malloy's Fiscal Year 2012-2013 Budget Address* <http://www.governor.ct.gov/malloy/cwp/view.asp?A=11&Q=474024>

**FLORIDA.** Governor Rick Scott has reportedly called for current members of the Florida Retirement System (FRS) to begin making a contribution of 5 percent of salary for pension benefits. FRS is one of the few remaining statewide public non-contributory retirement plans. The governor has also recommended that the plans be closed to new membership and replaced with a defined contribution system, similar to a 401(k) plan, according to the *St. Petersburg Times* on February 2. The issue of requiring employee contributions was legislatively considered in 2010 without action.

**KANSAS.** Two bills recommended to the legislature from the Joint Committee on Pensions, Investments and Benefits, which met before the legislative session convened, address state pension funding issues. Senate President Steve Morris has said that although the current retirement funding situation does not allow Kansas to shift from defined benefit to defined contribution plans at present, the legislature will explore such a shift.

House Bill 2086 would increase the maximum amounts employers may contribute to the Kansas Public Employee Retirement System on behalf on plans affecting state employees and teachers within the state.

Senate Bill 49 would gradually increase employee contributions for the same two groups of employees by 2 percentage points over several years, and also would increase the rate at which those employees earn retirement benefits in the future.

Source: Kansas Legislative Research Department, February 3, 2011; Kansas Reporter.org, February 3, 2011. <http://kansasreporter.org/70881.aspx>

**KENTUCKY.** Senate Bill 2, passed by the Senate on February 11, 2011, would close the current defined benefit pension plans to new county and state employees, legislators and judges on June 30, 2012. New employees would be offered the opportunity to join a defined-contributions plan. As reported from committee, the legislation would close the Legislators' Retirement Plan, Judicial Retirement Plan, State Police Retirement System, Kentucky Employees Retirement System, and County Employees Retirement System to new members on July 1, 2012.

The legislation creates a new Public Employees Retirement System, a defined contribution plan with an individual account for each member, to be managed by the Kentucky Retirement System (KRS). Employees may contribute if they wish to do so. Employees not performing hazardous duty could contribute up to 5 percent of their pay, to be matched by the state. Hazardous-duty employees could contribute up to 8 percent, also to be matched by the state. Employers will match the contribution within specified limits. Employers will contribute an amount equivalent to what they currently pay for similarly-situated employees to the KRS out of which employer matches to employee contributions to

individual accounts will be paid. Any balance will be used for administrative expenses and for amortizing existing unfunded liabilities of the respective retirement plans.

The system will make life insurance, short-term disability insurance, and long-term disability insurance coverage available to employees eligible for membership in the system through one or more insurance companies. The costs of coverage will not be paid by the system but shall instead be paid by employees or employers. The legislation also provides for retiree health insurance, with an eligibility requirement of 180 months of covered service, and benefits proportioned to length of service. A mandatory salary deduction will fund the retiree health insurance.

Source: SB 2. <http://www.lrc.ky.gov/record/11RS/SB2.htm>

News reports based on actuarial studies indicate that the revised retirement plan would initially cost the state more than the current plan but that the state should break even by 2028.

Source: Lexington *Herald-Leader*, "Kentucky's Cost Might Increase Under Proposed Pension Overhaul," January 27, 2011.

**ILLINOIS.** According to media reports, House Speaker Michael Madigan hinted Tuesday that more changes are possible to state employee pension and retiree health benefits - including the constitutionally sticky possibility that future retirement benefits for existing employees could be reduced.

House Minority Leader Tom Cross, R-Oswego, has introduced House Bill 149 that would allow current state employees, university employees, teachers, judges and lawmakers to choose from three different plans:

- They could keep their current benefits, but would have to make significantly higher contributions to cover the benefits' true costs, according to a House Republican fact sheet. The fact sheet estimates employee contributions would be 28 percent of salary under this option.
- Current employees could choose to participate in the second-tier pension plan created for future state employees by the General Assembly last year. That plan carries reduced benefits compared with the pension plan for existing employees and, in most cases, does not allow retirement with full benefits until an employee, teacher or university employee is 67 years old.
- Cross's bill would create a third, defined-contribution plan in which employees and the state would both contribute at least 6 percent of the employees' salaries.

Benefits that have already been earned would not be affected. If current employees select the second or third option, they would receive whatever pension they earned through June 30, 2012 under the old

system. From June 30, 2012 until they retired, they would earn benefits based on whichever option they select.

Source: *Journal-Star*, February 9, 2011

**ILLINOIS.** Sen. Jeff Schoenberg, D-Evanston, chair of the Commission on Government Forecasting and Accountability, pressed for a study of retiree health-care benefits after hearing testimony from Gov. Pat Quinn administration officials who said that 90 percent of the retirees and survivors pay no premiums. Schoenberg has suggested the state considering requiring a means test, such as basing retiree health-care costs on how much they can afford per household.

Julie Hamos, director of the Illinois Department of Healthcare and Family Services, said one different model the agency ran showed the state could save about \$100 million a year if the 84,000 retirees and survivors in state systems picked up as much as 25 percent of the costs. The Commission on Government Forecasting and Accountability voted to go forward with an “income-based study” on how retirees could share costs, including a comparison of plans with other states and the private sector.

Source: “Lawmakers eye cost savings on state retiree health care, pensions, “ *Chicago Tribune*, February 9, 2011. [http://newsblogs.chicagotribune.com/clout\\_st/2011/02/lawmakers-eye-cost-savings-on-state-retiree-health-care-pensions.html](http://newsblogs.chicagotribune.com/clout_st/2011/02/lawmakers-eye-cost-savings-on-state-retiree-health-care-pensions.html)

**MAINE.** Governor Paul LePage’s budget for the coming biennium proposes increases in employee contributions to Maine retirement plans by 2 percentage points of salary; would increase the retirement age to 65 for state employee and teacher members of the Maine Public Employee Retirement System who have fewer than five years of service on July 1, 2011; and would reduce the cap on cost-of-living increases on the retirement benefit for members of the State Employee and Teacher Retirement Program, the Judicial Retirement Program and the Legislative Retirement Program from 4 percent to 2 percent effective January 1, 2014. It also requires that retirement benefits for members of these retirement programs may not be adjusted in September 2011, September 2012 or September 2013.

The proposed budget legislation also:

- Requires retired teachers who are eligible for Medicare to be enrolled in the program administered for state employees.
- Requires teachers to have 10 years of service to qualify for a retiree health benefit.
- Caps the State’s cost for retired teachers health insurance for fiscal years 2011-12 and 2012-13 at fiscal year 2010-11 levels and caps increases in subsequent years to 4 percent each year.

The budget also proposes to repeal certain “solemn contractual commitments” previously made to state employees regarding state-provided health insurance and pension benefits. The commitments to be repealed are contained in 5 MRSA §285 sub§12 and 5 MRSA §17801.

In his budget address to the Legislature, Governor LePage described the goals of his retirement reform proposals as follows:

Our budget calls for reasonable changes to the retirement system that saves \$524 million over the current biennium, with most of the savings accruing to the General Fund. This budget asks retirees to forgo cost of living increases in the short term and to accept modest increases in the future. This budget also asks retirees for the same shared sacrifice we are asking of our state employees and increases the retirement age to 65 for new and recent hires.

The two year savings of over half-a-billion dollars realized by these modest changes is critical to funding today’s priorities and sustaining the pension fund going forward.

Over the longer term, these changes reduce our unfunded pension liabilities by \$2.5 billion and reduce our retiree health liability by almost \$1 billion.

Our changes keep almost \$7 billion in Maine’s private sector economy through 2028. All things being equal, the pension reforms in this budget save every Maine tax filer \$10,700 over the next 16 years.

Sources: Governor’s Address

[http://www.maine.gov/tools/whatsnew/index.php?topic=Gov\\_Speeches&id=197265&v=article2011;](http://www.maine.gov/tools/whatsnew/index.php?topic=Gov_Speeches&id=197265&v=article2011;)

State of Maine, *Governor’s Recommended 2012-2013 Budget: Overview.*

<https://docs.google.com/viewer?a=v&pid=explorer&chrome=true&srcid=0B-Y6j4GH8THyNTE4NGRmZTAtNTFhNi00YmEzLWEzZjUtOWY2OTU1Yjg0ZGVl&hl=en>

**Maryland.** The Public Employees’ and Retirees’ Benefit Sustainability Commission submitted an interim report, including recommendations, to the governor and legislative leadership in January. The commission was established by statute in 2010 to review a variety of pension and retiree health policy and funding issues. Its recommendations include the following:

*Pensions and Retirement Benefits*

- Increase the vesting requirement for pension benefits in all state retirement and pension plans for new and nonvested members.
- Increase the age and service requirements for normal and early retirement benefits for new and nonvested members.

- Reduce the interest paid on DROP accounts for new enrollees from the currently guaranteed 6 percent compounded monthly to 4 percent compounded annually, and explore the possibility of adding members of the State Police Retirement System to the Social Security System.
- Provide current members of the Employee Pension System and the Teachers' Pension System, a menu of options for future benefits with the following characteristics:
  - An option to protect all accrued benefits while potentially providing a reduced benefit level in the future
  - An option to allow members to retain their current benefit structure in the future in exchange for a higher member contribution rate.
  - Possibly, the opportunity to convert accrued benefits into a cash balance plan administered by the State Retirement and Pension System.
- Shift some of the employer contribution for teachers' pensions to local boards of education (at present the state government is fully responsible for the employer contribution).

*Employee and Retiree Health Plans*

- Because Maryland's health program for employees and retirees is among the most generous in the United States, to reduce state expenditures on those programs by 10 percent through a variety of program changes.
- Establish a goal of reducing the state's unfunded actuarial liability for retiree health and other retiree benefits (OPEB) by 50 percent, and commit to funding the annual required contribution within 10 years.
- Increase the service requirement for retiree health benefits, require direct retirement from state service as an eligibility criterion for retiree health benefits, and require (by 2020) that Medicare-eligible state retirees join Medicare Part D.

Source: Public Employees' and Retirees' Benefit Sustainability Commission, *2010 Interim Report*. January 2011. <http://mlis.state.md.us/other/BenefitsSustainabilityCommission/2010InterimReport.pdf>

**MASSACHUSETTS.** Governor Deval Patrick, Senate President Therese Murray and House Speaker Robert A. DeLeo have proposed extensive changes to Massachusetts public defined benefit pension plans. Some are listed below, and all are available at the source listed at the end of this entry.

*Increase the retirement age for virtually all state workers, reflecting the fact that people are living and working longer.*

- Group 1 (elected officials and most general employees): Increase the retirement age to 60-67 from the current 55-65;
- Group 2 (employees with titles reflecting hazardous duties): Increase the retirement age to 55-62 from the current 55-60;
- Group 3 (state police): The maximum benefit is currently reached with 25 years of service. Our proposal would increase this to 30 years by lowering the benefit factor after 20 years of service from 3.0 to 2.5 per year of service;
- Group 4 (firefighters, police officers, some corrections officers): Increase the retirement age to 50-57 from the current 45-55

*Eliminate early retirement subsidies*

The current system provides an incentive for those who have reached minimum retirement age to retire before reaching maximum retirement age, as the increase in benefits resulting from additional years of service is less than the benefit of additional years of pension. The Administration's proposal would eliminate this incentive.

*Increase "high 3" to "high 5"*

Increase the period for averaging earnings, for purposes of calculating a member's retirement allowance, from 3 to 5 years. A slightly longer averaging period more accurately reflects an employee's career earnings.

*Eliminate Section 10 early retirements for all employees*

Currently, employees with 20 years of service who are terminated at no fault of their own are entitled to an early retirement benefit equal to one third of their high 3 earning years, plus an annuity from contributions. In most cases, that lifetime termination benefit is significantly larger than what the employee would have received if not terminated, and declines with further increases in age and service. Under the Administration's proposal, employees would not be eligible for early retirement until they reach minimum retirement age, and all employees within each Group would receive these benefits based on the same formula.

*Pro-rate benefits based on employment history*

The Administration's proposal would pro-rate the retirement allowance for employees who have served in more than one Group, taking into account the number of years of service in each Group. Pro-rating prevents windfalls for people who have only a short period of service in a Group with higher benefit levels at the end of their career.

*Introduce an anti-spiking rule*

The Patrick-Murray proposal would introduce an “anti-spiking rule” which would limit the annual increase in pensionable earnings to no more than 7 percent of the average pensionable earnings over the last two years plus inflation. This provision would not apply to bona fide promotions or job changes.

*Eliminate “Double Dipping”*

Pension Reform III would eliminate the right to receive a pension while receiving compensation for service as an elected official.

Source: “Governor Patrick Announces Third Phase of Pension Reform” press release, January 18, 2011.  
[http://www.mass.gov/?pageID=gov3pressrelease&L=1&L0=Home&sid=Agov3&b=pressrelease&f=110118\\_pension\\_reform\\_III&csid=Agov3](http://www.mass.gov/?pageID=gov3pressrelease&L=1&L0=Home&sid=Agov3&b=pressrelease&f=110118_pension_reform_III&csid=Agov3)

**MONTANA.** At its August 17, 2010, meeting, the State Administration and Veterans' Affairs Interim Committee (the SAVA Committee) requested legislation to draft two alternative designs for the Teachers' Retirement System (TRS). Both alternatives would apply only to new hires after the effective date of the legislation.

TRS Option 1 is a choice between two money purchase (or cash balance) plans. TRS Option 2 is a modification of the current defined-benefit TRS structure. Option 2 is also referred to as the Professional Retirement Option, or PRO.

The following are general descriptions of each plan as requested by the SAVA Committee. Details may change during the drafting and legislative processes.

Option 1: Choice between money purchase plans

- Establish two plans between which new hires can select membership.
- Both would be money purchase plans (also referred to as individual account defined-benefit plans or cash balance plans). The benefit would be an annuity at retirement age based on the accrued balance in the member's account.
- A member's account would be credited with their employee contributions (currently set at 7.15 percent of salary) and interest credits • at retirement the vested member's accumulated account balance would be matched up to 100 percent by the employer and the total would be annuitized for a retirement benefit
- The TRS Board would grant a minimum interest rate of 5 percent and a maximum of 9 percent. The goal would be to average 7 percent over the member's career.

- Fifteen-year graded vesting (The member would be 25 percent vested after 5 years, increasing 5 percent each year for years 6 through 10, and increasing 10 percent each year for years 11 through 15 until the member is fully vested after 15 years.)
- Retirement eligibility age would be 60 and vested

The second money purchase plan would have the same provisions as the first, except that a member would pay an additional one-half percent of salary into his or her account. If the member remained for 30 years, the employer would match the additional employee contribution at retirement, along with interest on the additional contribution.

#### Option 2: Professional Retirement Option (PRO)

- Would keep general structure of the existing Teachers' Retirement System.
- New employees' contribution rate would increase by 0.54 percent.
- Increase the number of years used to calculate a member's average final compensation from three to five years
- Revise the time to vest in the employer contributions to the benefit from five-year cliff vesting to a 15-year graded system. (The member would be 25 percent vested after 5 years, increasing 5 percent each year for years 6 through 10, and increasing 10 percent each year for years 11 through 15 until the member is fully vested after 15 years.)
- The benefit multiplier would be 1.667 percent for retirement before 30 years of service
- A 2.0 percent multiplier would apply for all years of service if the member retired with 30 or more years of service
- Service retirement at any age with 30 or more years of service (currently it is 25 years of service) or age 60 and vested.
- Early retirement age would be 55 and vested, with a full actuarial reduction taken for early retirement.

Source: Montana Legislature, Interim Committees, HB 659 - Retirement plan study and redesign.

[http://leg.mt.gov/css/Committees/Interim/2009\\_2010/State\\_Administration\\_and\\_Veterans\\_Affairs/Assigned\\_Studies/hb659.asp](http://leg.mt.gov/css/Committees/Interim/2009_2010/State_Administration_and_Veterans_Affairs/Assigned_Studies/hb659.asp)

**NEVADA.** The Segal Company found that shifting from a defined benefit plan to a defined contribution plan for the Public Employee Retirement System of Nevada would require substantially increased contributions to amortize the unfunded liability of the closed defined benefit plans. For regular

employees, the needed contributions for the defined benefit plan would rise from approximately 24 percent of compensation to approximately 34 percent. For public safety employees, the rate would rise from approximately 40 percent to between 51 percent and 52 percent, as of July 1, 2010.

Source: The Segal Company, *Analysis and Comparison of Defined Benefit and Defined Contribution Retirement Plans: Public Employees' Retirement System of the State Of Nevada*.

[http://www.nvpers.org/public/documentation/2010-DB-DC percent20Study percent20By percent20Segal.pdf](http://www.nvpers.org/public/documentation/2010-DB-DC%20Study%20By%20Segal.pdf)

**NEW JERSEY.** Competing pension reform proposals have been filed in the General Assembly. The Republican plan (Assembly Bill 3796), following Governor Christie's recommendations, includes the following proposals among others:

- All public employees would pay 8.5 percent of their wages towards pensions.
- The retirement age would be raised to 65 for most workers. To retire early, employees would need to have accumulated 30 years on the job, rather than 25, and would be docked one-quarter of 1 percent for every month of their age under 65.
- Pensions for most workers would be calculated on a five-year average of their highest salaries, up from three.
- The 9 percent pension bump given to employees 10 years ago would be rolled back for current and future employees.
- Police and firefighter retirees would see their maximum benefit shrink from 70 percent to 65 percent of their salaries.
- Annual cost of living adjustments would be eliminated.

Senate President Stephen Sweeney and Assembly Speaker Sheila Oliver (both Democrats) in January called for these changes among others:

- All public employees would pay 8.5 percent of their wages towards pensions.
- The retirement age would be raised to 65 for most workers. To retire early, employees would need to have accumulated 30 years on the job, rather than 25, and would be docked one-quarter of 1 percent for every month of their age under 65.
- Pensions for most workers would be calculated on a five-year average of their highest salaries, up from three.

- The 9 percent pension bump given to employees 10 years ago would be rolled back for current and future employees (the Senate version of the bill provides for a somewhat greater rollback.)
- Police and firefighter retirees would see their maximum benefit shrink from 70 percent to 65 percent of their salaries.
- Annual cost of living adjustments would be eliminated.

Source: NewJersey.com, "Dems propose restructuring of state's pension system," January 7, 2011.  
[http://www.northjersey.com/news/politics/010711\\_Dems\\_propose\\_restructuring\\_of\\_states\\_pension\\_system.html](http://www.northjersey.com/news/politics/010711_Dems_propose_restructuring_of_states_pension_system.html)

NewJersey.com, "N.J. Assembly, Senate Republicans propose pension reform bills," February 8, 2011.  
[http://www.nj.com/news/index.ssf/2011/02/nj\\_democrats\\_to\\_push\\_pension\\_r.html](http://www.nj.com/news/index.ssf/2011/02/nj_democrats_to_push_pension_r.html)

**NORTH CAROLINA.** The North Carolina Future of Retirement Study Commission met throughout 2010 to consider recommendations for changes to the retirement systems covering state and local government employees in North Carolina. After consideration of a long list of alternatives, the Commission recommends the following changes:

- Choice between a defined benefit (DB) and defined contribution (DC) plan for all current and future employees. New employees would be required to choose a plan within 60 days of employment, but would default to the appropriate DB plan in the lack of a decision. The recommendations include contributions at the same level as the DB plans, extensive education for employees and the opportunity to change the plan choice once after the initial choice.
- A minimum unreduced retirement age of 55 for all future hires other than law-enforcement officers. The current provision is for retirement after 30 years of service at any age.
- Giving more flexibility to the Local Governmental Employees' Retirement System Board of Trustees to grant Cost of Living Adjustments (COLAs).
- Changing the way interest is calculated on employee contributions.
- Automatic enrollment in a supplemental DC plan.

Source: North Carolina Future of Retirement Study Commission. *Final Report to Boards of Trustees of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System.* November 2010.  
<http://www.nctreasurer.com/NR/rdonlyres/E96ED33D-BEB0-4B07-A5D8-8A29C1030842/0/FORSCreport.pdf>

The North Carolina Boards of Trustees of the Teachers' and State Employees' Retirement System (TSERS) and the Local Governmental Employees' Retirement System (LGERS) voted to recommend automatic enrollment of future employees into supplemental savings plans that would encourage more personal savings. However, the boards rejected providing a choice between enrollment in the current defined benefit plan and enrollment in a defined contribution (401K/457) plan. They also rejected recommending a minimum unreduced retirement age of 55 for state and local employees and teachers.

Source: Press release from the North Carolina Department of Treasury, January 28, 2011

<http://www.nctreasurer.com/dsthome/OfficeOfTheTreasurer/NewsItems>

**NORTH DAKOTA.** The House of Representatives on February 22 defeated House Bills 1228 and 1258, which would have created defined contribution plans for state employees and teachers to replace existing defined benefit plans.

House Bill 1228 would close the Public Employee Retirement System defined benefit (DB) plan to new state employees hired on or after July 31, 2011, replacing it with a defined contribution (DC) plan. Employees of political subdivisions would remain eligible to join the DB plan. Contribution rates for the DC plan would be the same as for the existing DB plan.

Source: Segal Company analysis, October 26, 2010.

House Bill 1258 concerns the Teachers Fund for Retirement. As introduced, the bill would close the DB plan to new members as of July 31, 2011. Current members would continue as active participants in the DB plan. Teachers employed on or after August 1, 2011, would be required to join the defined contribution plan created in the bill. Contribution levels would be the same as now exist for the DB plan: 7.75 percent of salary from members and 8.75 percent of salary from employers. Member contributions would vest immediately. Employer contributions would vest gradually over four years. At retirement, members could leave their accumulated funds with the retirement system in return for a stream of payments.

Source: Gabriel Roeder Smith & Company analysis, October 22, 2010.

**OHIO.** House Bill 69, under consideration in the Ohio House of Representatives, would make extensive changes to contribution and benefit provisions of the five major state retirement plans. The following are among the provisions, which also would change existing disability retirement provisions (not included in the summary here). A full summary of the introduced legislation is available on the General Assembly website, as of February 22, 2011.

*Public Employees Retirement System (PERS)*

- Changes retirement and disability benefit eligibility criteria for PERS members but exempts from the new criteria members who under current law will be eligible to retire not later than ten years after the bill's effective date or who on that date have 20 or more years of total service credit.
- For members subject to the new criteria, generally requires an additional two years of service credit or of age to be eligible to retire, and requires members retiring based on 32 or more years of service credit to be at least age 55.
- For members subject to the new eligibility criteria, changes to five (from three) the number of years used to determine final average salary that is used to calculate a retirement allowance or disability benefit.
- Changes the cost of living adjustment (COLA) to the increase in the Consumer Price Index (CPI), not exceeding 3% (from an automatic 3%) for benefits granted five years after the bill's effective date.
- Specifies that the PERS vesting provisions do not apply to COLAs granted after the bill's effective date.
- Changes the cost to the member of purchasing certain service credit to an amount equal to 100% of the additional liability to PERS resulting from the additional credit.

#### *Ohio Police & Fire Pension Fund (OP&F)*

- Increases police officer and firefighter contributions by increments to 12% (from 10%) of salary beginning with the payroll period ending not later than 31 days after the bill's effective date.
- Increases the age requirement for an unreduced retirement pension with 25 years of service to age 52 (rather than 48) for those whose OP&F membership begins on or after January 1, 2011.
- Establishes an early (reduced) retirement pension for members with 25 years of service credit and age 48 whose OP&F membership begins on or after January 1, 2011.
- Provides that, in calculating average annual salary (AAS), five years (rather than three) is to be used for members who have less than 15 years of active service on January 1, 2011.
- Delays to age 55 eligibility for a cost-of-living adjustment for a retirement pension or disability benefit recipient.
- Provides that a member must have attained age 52 (rather than be eligible to retire) to participate in the deferred retirement option plan (DROP) and must participate in the plan for six years (rather than four) to receive the entire DROP accrual.

#### *State Teachers Retirement System (STRS)*

- Increases member contributions by increments to 12.5% (from 10%) of compensation beginning July 1, 2011.
- Increases the requirement for an unreduced retirement benefit to 35 years of service credit (from 30), beginning August 1, 2015

- Increases the requirement for early retirement with a reduced benefit to 30 years of service credit (from 25) at age 55, beginning August 1, 2015
- Reduces the benefit accrual rate to 2.5% of final average salary (FAS) for each year of service credit beyond 30 years (rather than 2.5% plus an amount increasing by .1% of FAS for each year beyond 30), beginning August 1, 2015
- Increases the number of years used to calculate a member's final average salary (FAS) to five (from three), beginning August 1, 2015
- Permits an STRS member who under current law would be eligible to retire on July 1, 2015 to retire on or after August 1, 2015 under current law's eligibility and benefit provisions.
- Reduces the cost-of-living adjustment (COLA) to an annual 2% (from 3%) for those retiring no later than July 31, 2011 and 1.5% (from 3%) for those retiring on or after August 1, 2011.

*School Employees Retirement System (SERS)*

- Effective July 1, 2015:
- Establishes a minimum retirement age of 57.
- Increases service credit and age requirements for eligibility retirement for members hired before May 14, 2008 to match those for members hired on or after that date.
- Uses an actuarial equivalent to determine a reduced benefit for early retirement instead of a percentage specified by law.

*State Highway Patrol Retirement System (SHPRS)*

- Increases the contribution rate for State Highway Patrol Retirement System (SHPRS) members to 11% of salary (from 10%).
- Increases the number of years used in determining final average salary (FAS) to five (from three) for use in determining benefits.
- Reduces the annual cost-of-living adjustment (COLA) to 2% (from 3%), except in certain instances
- Provides that no recipient of an SHPRS pension (including those receiving a disability or survivor pension) is to receive a COLA before attaining age 60.

Source: Ohio Legislative Service Commission Analysis of House Bill 69 as introduced

[http://www.legislature.state.oh.us/analyses.cfm?ID=129\\_HB\\_69&ACT=As%20Introduced](http://www.legislature.state.oh.us/analyses.cfm?ID=129_HB_69&ACT=As%20Introduced)

Cleveland *Plain Dealer*, "Ohio's Public Workers Would Shoulder Costs of Pension Fix," February 22, 2011

<http://www.governing.com/news/state/Ohios-Public-Workers-Would-Shoulder-Costs-of-Pension-Fix.html>

**OKLAHOMA.** Senator Mike Mazzei has introduced legislation to replace the Oklahoma Teachers Retirement System (TRS) defined benefit plan with a defined contribution plan (S.B. 787) and to replace

it with a system similar to the Utah legislation enacted in 2010 that offers new employees a choice between a defined contribution plan and a combined plan with defined benefit and defined contribution components, known as "The New Education Employees' Hybrid Retirement System (S. B. 892).

**OKLAHOMA.** Legislation sponsored by Speaker Kris Steele and Representative Randy McDaniel, Chair of the Economic Development, Tourism and Financial Services Committee, to be heard in committee on February 16, 2011, would make these changes:

House Bill 1003, by McDaniel and Mazzei, would replace the defined benefit plan for state employees with a defined contribution plan, effective for those employed on January 1, 2012 and thereafter, allowing with employee contributions of 3.5 percent with an equal employer match, or employee contributions of 10 percent with a six percent employer match. Choice appears to be irrevocable. Employers would vest in the employer contribution at the rate of 20 percent a year for five years with full vesting after five years of membership.

House Bill 1004, by McDaniel, creates the "Leadership by Example Act" and would place all new members of the Oklahoma Legislature and statewide officials into a new defined contribution plan. The new defined contribution plan, "Save Oklahoma," will build on the existing and successful SoonerSave program.

Another pair of bills would significantly improve the financial standing of state pensions in future years. House Bill 2132, by Steele, would require that all COLAs be fully funded when authorized. House Bill 1006, by McDaniel, would help stabilize state pensions by requiring that a pension system be at least 80-percent funded before a cost-of-living adjustment (COLA) can be authorized for the system.

"One of the major causes of the current unfunded liability is that past COLAs were enacted without actually paying for them," McDaniel said. "As a result, money was drained from pension systems, leaving them in an increasingly precarious position for future generations. Under the reforms we are now advancing, we will focus on paying current obligations first and then making sure we actually pay as we go when enacting future COLAs."

House Bill 1011, by McDaniel, would provide a funding source for COLAs. Under the bill, a portion of the revenues received by the Commissioners of the Land Office would be dedicated to funding COLAs for retired teachers. If enacted into law, House Bill 1011 would be the first dedicated funding source for COLAs in state history.

The Commissioners of the Land Office, also known as the "School Land Trust," manages state-owned public lands to produce income for education.

Source: House Media Office, "Lawmakers to Consider Major Pension Reforms," February 16, 2011. <http://www.okhouse.gov/OkhouseMedia/ShowStory.aspx?MediaNewsID=3809>

**VIRGINIA.** Governor Bob McDonnell has recommended the resumption of employee pension contributions to the Virginia Retirement System for current employees. 2010 legislation provided for contributions from new employees, but did not address current employees. According to news reports, the state has paid the employee contribution for 27 years. On February 6, the House Appropriations Committee and the Senate Finance Committee approached the compensation matter in different ways.

The House panel voted to require the employees to pay the money into the retirement system, but it would give them a 5 percent salary increase to offset it.

The Senate committee rejected the McDonnell proposal that employees pay 5 percent into the plan, partly offset by a 3 percent raise. Senate Finance Committee Chairman Charles J. Colgan, D-Prince William, said it is not appropriate to ask employees to absorb a 2 percent reduction in their pay.

On February 2, the General Assembly divided today on whether to give state and local employees the option of participating in a defined contribution plan, such as a 401 (k), instead of a traditional pension. The Senate Finance Committee defeated two proposals, one by Gov. Bob McDonnell, to create such a plan, while the House Appropriations Committee moved in the opposite direction by approving a revised proposal that would give government employees the option after Jan. 1, 2012.

In the Senate committee, senators said they recognize the need for further reform to the Virginia Retirement System, which underwent major changes in eligibility and benefits last year. But they said the issues are too complex and the stakes too high for quick action, and promised instead a comprehensive study to recommend actions next year. The state and most local school divisions have paid the employee share, amounting to 5 percent of salary, since 1983, when the state agreed to cover the benefit in lieu of a pay raise. McDonnell has proposed budget amendments that would require employees to begin paying the 5-percent share, which would be partly offset by a 3-percent raise.

The Finance Committee voted 11-3 against Watkins' proposal, including the employee payments. It rejected the second proposal, made on behalf of McDonnell, by a voice vote, despite warnings that the state needs to act on changes to the retirement system now. "At some point, we're going to have to swallow this toad," Watkins said. "It's not getting any tastier. Instead, it's getting bigger."

The House Appropriations voted unanimously to approve a substitute for McDonnell's proposal that would give current employees and new hires the option of managing their own defined-contribution retirement plan beginning next year. Employees would pay 5 percent of pay, which the state would match. The state would match up to 3.5 percent in addition, for a total of 8.5 percent.

In addition, the state or local government would pay a surcharge to the Virginia Retirement System to help pay the unfunded liabilities of pension plans, which would lose contributions as employees shifted to the 401 (k)-style plans. The VRS Board of Trustees would determine the amount of surcharge.

The revised House bill, sponsored by Del. Lacey E. Putney, I-Bedford, and Del. S. Chris Jones, R-Suffolk, drew wide support from all employee groups except for teachers because the plan includes provisions for sickness and disability for retirees, including law enforcement, firefighters and others who are covered by benefits in the Line of Duty Act. Some of those groups, including representatives of State Police, local police, and firefighters, opposed Watkins' bills because they did not include those safeguards.

"We've always supported giving employees additional retirement options," said R. Ronald Jordan, executive director of the Virginia Governmental Employees Association, which had opposed Jones' original proposal that new employees participate in a mandatory 401 (k)-style plan.

**WASHINGTON.** Governor Chris Gregoire has proposed pension reforms to reduce costs. Highlights of her proposal include:

- End future automatic benefit increases provided to members of closed pension plans by 1995 legislation, which would eliminate more than one-half of the unfunded liability in the closed plans.
- Discontinue incentives to retire earlier than age 65 for new hires in Plans 2 and 3 for PERS, TRS and SERS.
- Place restrictions upon higher education retirees to prevent people from drawing full-time retirement benefits as well as a salary.
- Align state support for higher education retirement plans more closely with that provided for other state employees. These plans now provide both a defined contribution amount and a supplemental guaranteed minimum benefit similar to the formula used in the old state pension systems that closed in 1977. As an alternative, new higher education employees would be given the option to participate in one of the state's hybrid pension plans. The governor's proposal will cap the state's contribution to these plans at 6 percent,

Source: Governor Chris Gregoire, *2011 Policy Brief: Reforming Pensions to Hold Down Costs*.

[http://www.governor.wa.gov/priorities/budget/pension\\_reform.pdf](http://www.governor.wa.gov/priorities/budget/pension_reform.pdf)

**WASHINGTON.** Senate Joint Resolution 8214 proposes a state constitutional amendment to require that annual contributions to state-sponsored defined benefit plans are at least 80 percent of the actuarially-required amount, and setting floors for employer contributions to state employees' and teachers' plans.

**WISCONSIN.** Senate Bill 11 and House Bill 11 of the January 2011 Special Session of the Wisconsin Legislature embody Governor Scott Walker's proposals for altering employee contributions for retirement and health insurance. The following discussion of the provisions of the bills is excerpted from the bill analysis provided by the Wisconsin Legislative Reference Bureau.

*Retirement Systems.* At present, employer required and employee required contribution rates for the Wisconsin Retirement Systems are set on an annual basis. This bill provides that the employee required contribution rate for general participating employees and for elected and executive participating employees must equal one-half of all actuarially required contributions, as determined by the Employee Trust Funds Board. For protective occupation employees, the bill provides that the employee required contribution rate must equal the percentage of earnings paid by general participating employees.

Current law also requires the employer to pay all of the employer required contributions, but permits the employer to also pay all or part of the employee required contributions. This bill provides that an employer may not pay any of the employee required contributions under the WRS or under an employee retirement system of a first class city or a county having a population of 500,000 or more.

Currently, when a WRS participant terminates employment and becomes eligible for a retirement annuity, the amount of the annuity is determined by multiplying the participant's final average earnings by the participant's years of creditable service and by a percentage multiplier. For a protective occupation participant, the multiplier is either 2 percent or 2.5 percent, depending on whether the person is covered by social security. For elected officials and executive participating employees, the multiplier is 2 percent. For all other participants in the WRS, the multiplier is 1.6 percent.

This bill decreases the multiplier for elected officials and executive participating employees from 2 percent to 1.6 percent for creditable service that is performed on or after the bill's effective date.

This bill also requires the secretary of administration, the director of the Office of State Employee Relations (OSER), and the secretary of employee trust funds to study the WRS. The study must specifically address establishing a defined contribution plan as an option for WRS participating employees; establishing different vesting periods for employer contributions and eligibility for WRS retirement benefits; modifying the supplemental health insurance premium credit program for state employees; and permitting participating employees to not make employee required contributions under the WRS and limiting retirement benefits for these employees to a money purchase annuity. The bill requires a report of findings and recommendations to be submitted to the governor by June 30, 2012.

*Public Sector Group Insurance.* Currently, state employees, as well as employees of public authorities created by the state, receive health care coverage under plans offered by the Group Insurance Board (GIB), whose plans are assigned to one of three tiers depending on the employee's premium costs. The employer share of premium costs for employees who work more than 1,565 hours a year is an amount not less than 80 percent of the average premium costs under the various health care coverage plans. The amount for represented employees is subject to collective bargaining and the amount for nonrepresented employees is established in various compensation plans.

This bill provides that the employer may not pay more than 88 percent of the average premium cost of plans offered in the tier with the lowest employee premium cost. For employees who work less than 1,566 hours a year, with exceptions, the employer must pay an amount determined by the director of OSER. Under the bill, the actual employer and employee share of premium costs is established on an annual basis by the director of OSER.

For the remainder of 2011, however, beginning in April 2011, the bill provides that state employees, as well as employees of public authorities created by the state, who work more than 1,565 hours a year shall pay \$84 a month for individual coverage and \$208 a month for family coverage for health care coverage under any plan offered in the tier with the lowest employee premium cost; \$122 a month for individual coverage and \$307 a month for family coverage for health care coverage under any plan offered in the tier with the next lowest employee premium cost; and \$226 a month for individual coverage and \$567 a month for family coverage for health care coverage under any plan offered in the tier with the highest employee premium cost.

Employees who work less than 1,566 hours a year are required to pay the same amount for health care coverage during 2011 that they were required to pay before the bill's effective date.

The bill further provides that a local government employer who participates in the local government health insurance plan offered by GIB may not participate in the plan if it intends to pay more than 88 percent of the average premium cost of plans offered in any tier with the lowest employee premium cost.

This bill requires the director of OSER and the secretary of employee trust funds to study the feasibility of offering to employees eligible to receive health care coverage under the GIB plans, beginning on January 1, 2013, the option of receiving health care coverage through either a low-cost health care coverage plan or through a high-deductible health plan and the establishment of a health savings account, as described under federal law. The study must also examine the feasibility of requiring state employees to receive health care coverage through a health benefits exchange established pursuant to the federal law and creating a health care insurance purchasing pool for all public employees and individuals receiving health care coverage under the Medical Assistance program. No later than June 30, 2012, the director and secretary shall report their findings and recommendations to the governor.

Source: Senate Bill 11. <http://legis.wisconsin.gov/JR1SB-11.pdf>

This is the governor's office's statement regarding the proposals:

Governor Scott Walker's Budget Repair Bill, which will adjust the current biennium's budget, will require state employees to contribute 5.8 percent of salary to pension plans and about 12 percent of salary for health care. The governor's office says that both figures are about half the national average for such contributions and that they will help the state save \$30 million in the last three months of the current fiscal year.

The governor's office noted:

*Pension contributions:* Currently, state, school district and municipal employees that are members of the Wisconsin Retirement System (WRS) generally pay little or nothing toward their pensions. The bill would require that employees of WRS employers, and the City and County of Milwaukee contribute 50 percent of the annual pension payment. The payment amount for WRS employees is estimated to be 5.8 percent of salary in 2011.

*Health insurance contributions:* Currently, state employees on average pay approximately 6 percent of annual health insurance premiums. This bill will require that state employees pay at least 12.6 percent of the average cost of annual premiums. In addition, the bill would require changes to the plan design necessary to reduce current premiums by 5 percent. Local employers participating in the Public Employers Group Health insurance would be prohibited from paying more than 88 percent of the lowest cost plan. The bill would also authorize the Department of Employee Trust Funds to use \$28 million of excess balances in reserve accounts for health insurance and pharmacy benefits to reduce health insurance premium costs.

Source: *Governor Walker Introduces Budget Repair*, Governor's Office Press Release, February 11, 2011  
[http://www.wisgov.state.wi.us/journal\\_media\\_detail.asp?prid=5622&locid=177](http://www.wisgov.state.wi.us/journal_media_detail.asp?prid=5622&locid=177)