

State Retirement Legislation in 2010



MARYLAND PUBLIC EMPLOYEES' AND RETIREES' BENEFIT SUSTAINABILITY COMMISSION

Ron Snell
National Conference of State Legislatures
October 7, 2010

Overview

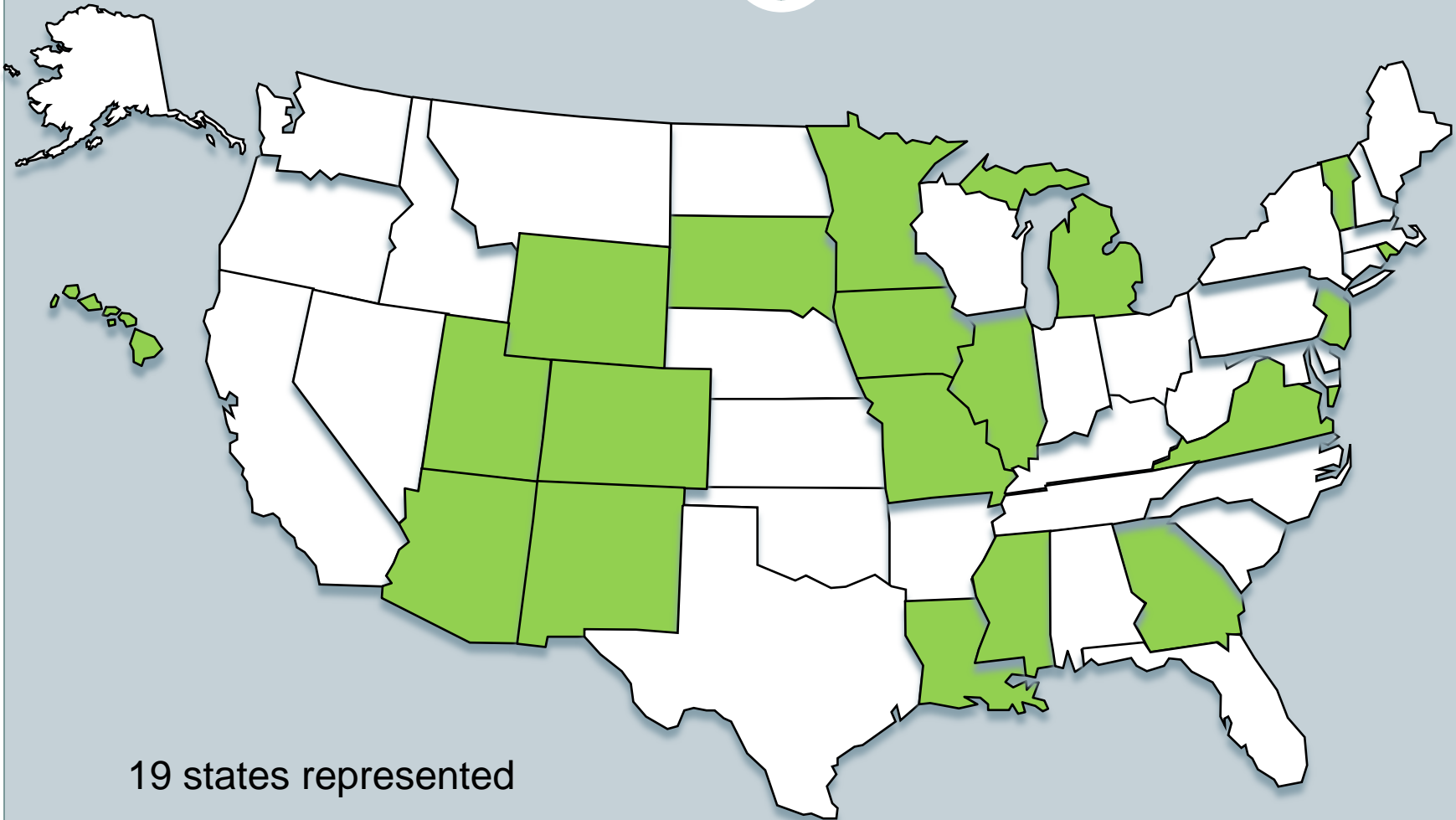


- More states have enacted significant retirement legislation in 2010 than in any other year in memory.
- This reflects:
 - Concerns about the viability of retirement plan benefits and funding that date to the recession of 2000-2001.

Severe investment losses in the recent recession.

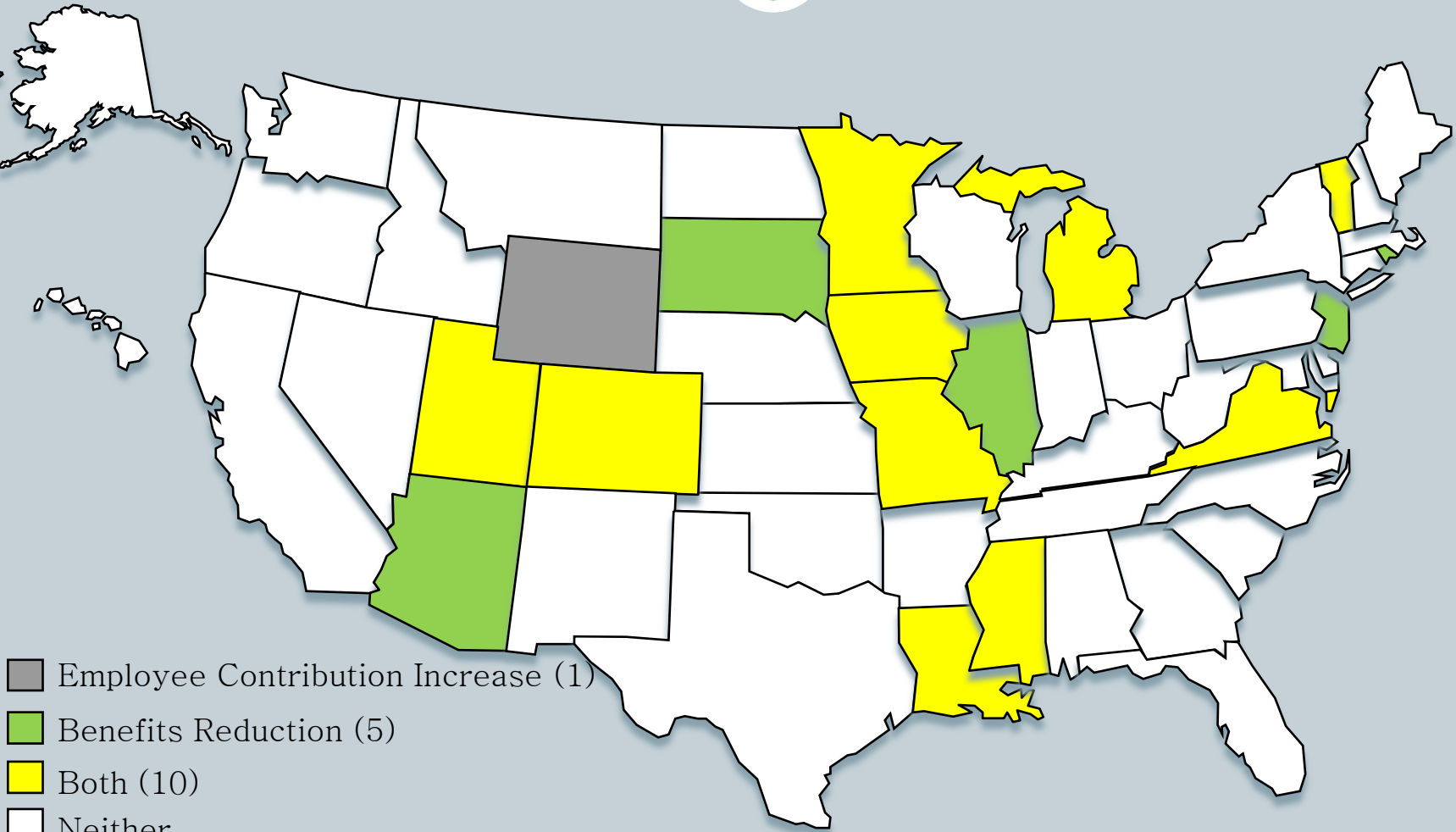
State fiscal conditions.

Major Pensions Legislation in 2010: All Topics

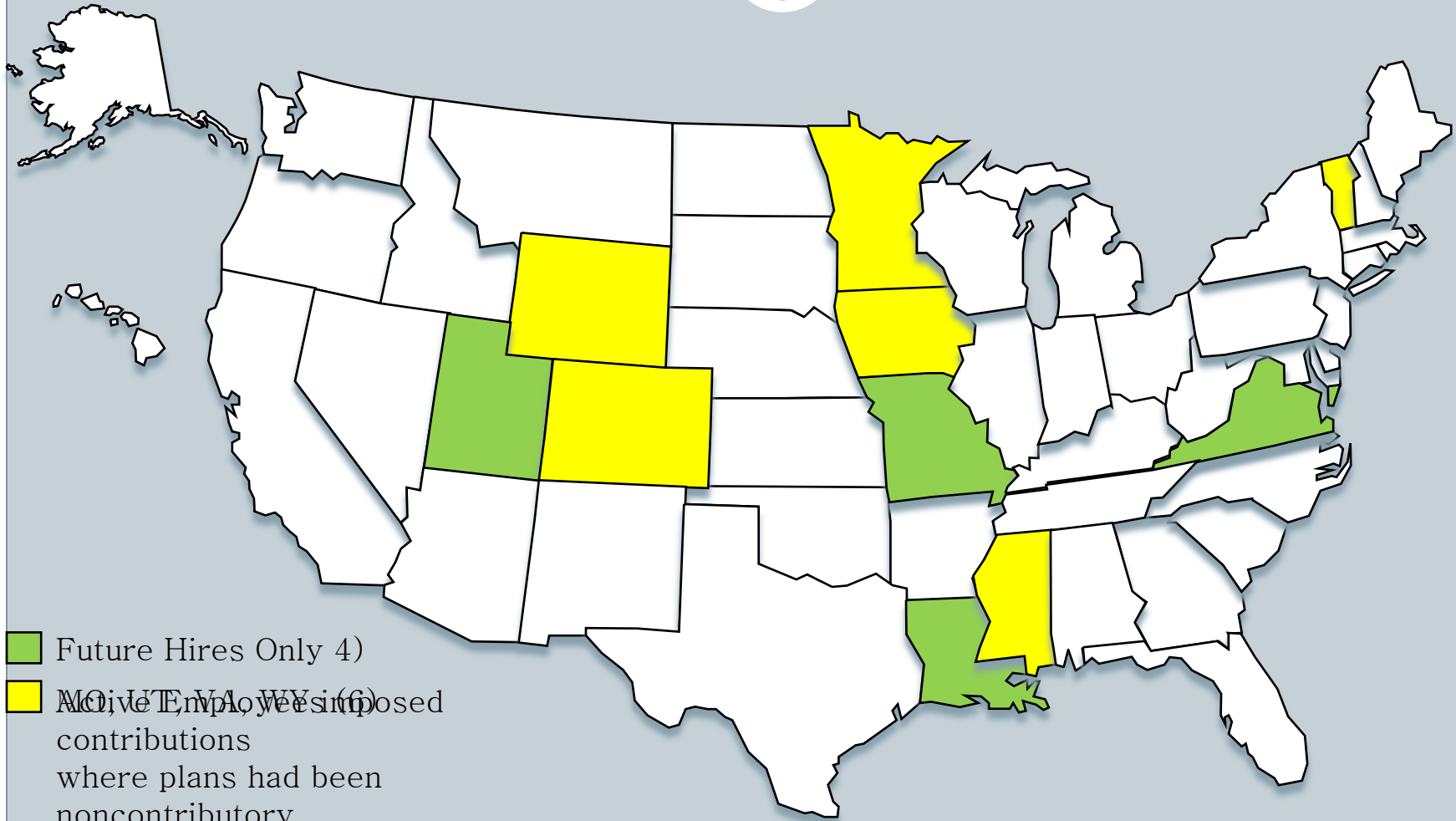




19 states represented

Benefits and Contribution Changes in Statewide Retirement Plans, 2010

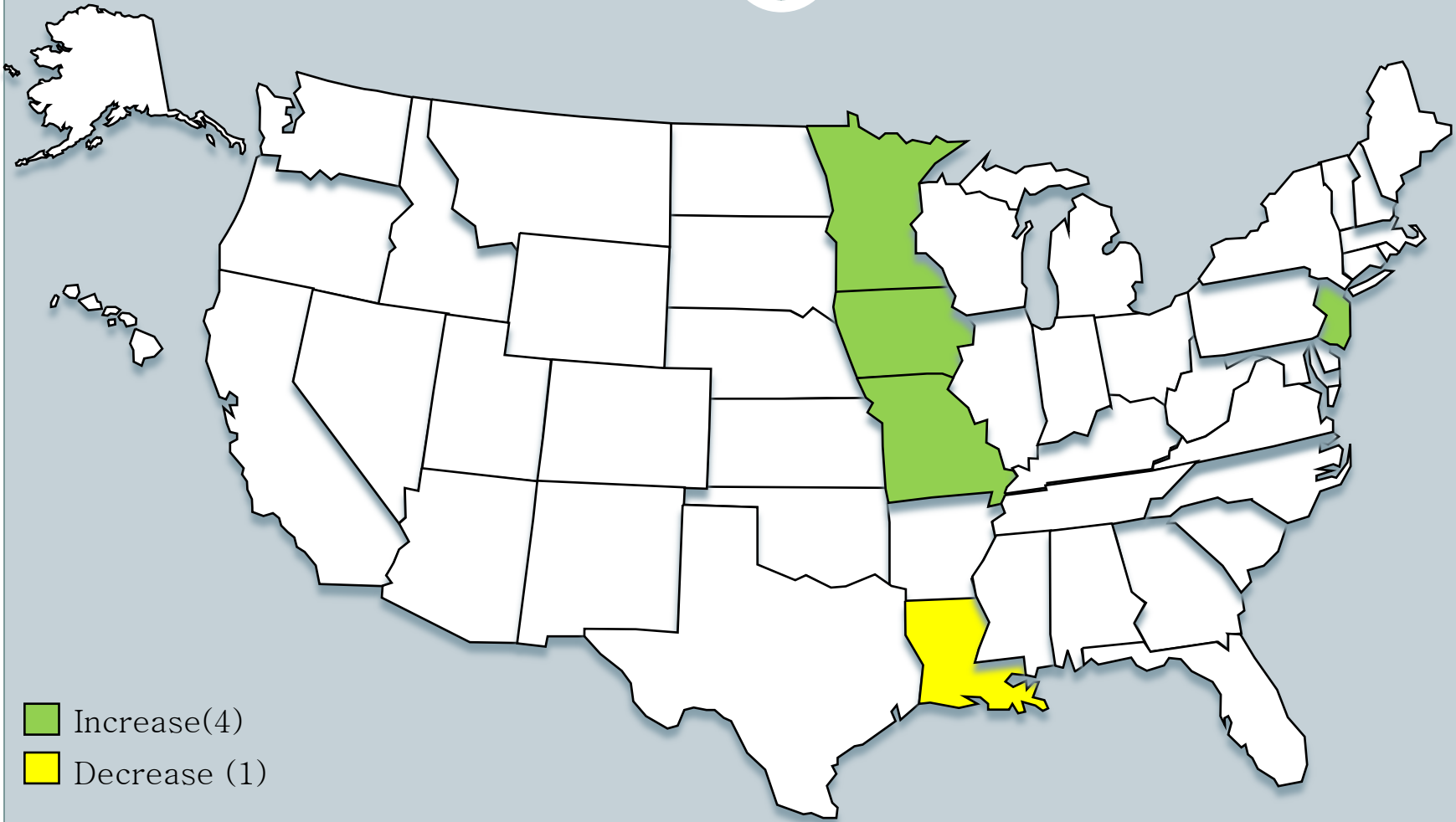


Increase in Employee Contributions, 2010



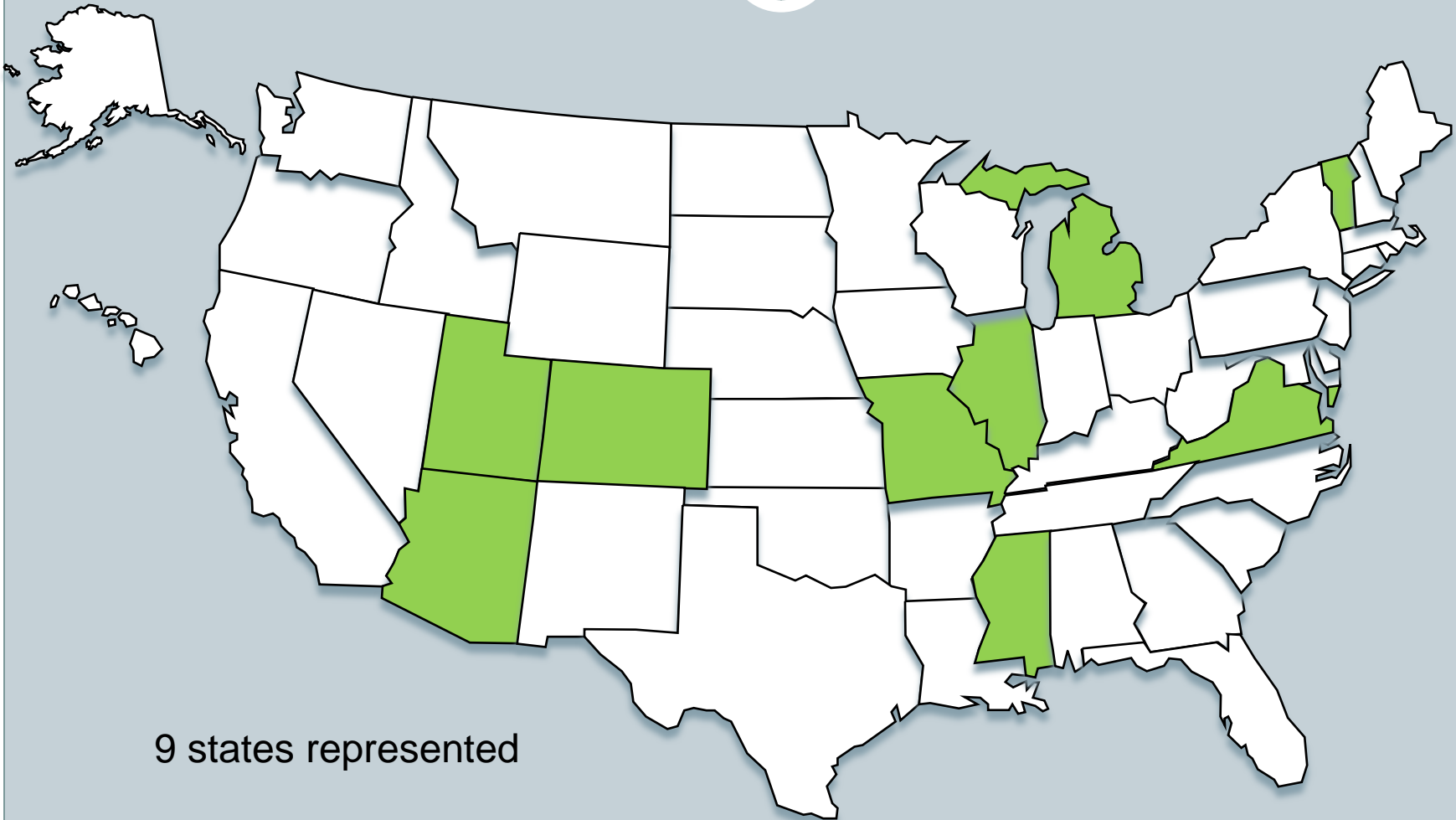
-  Future Hires Only 4)
 -  All Employees 6)
- All of the employees in the states where plans had been noncontributory.

Changes in Vesting Requirements, 2010



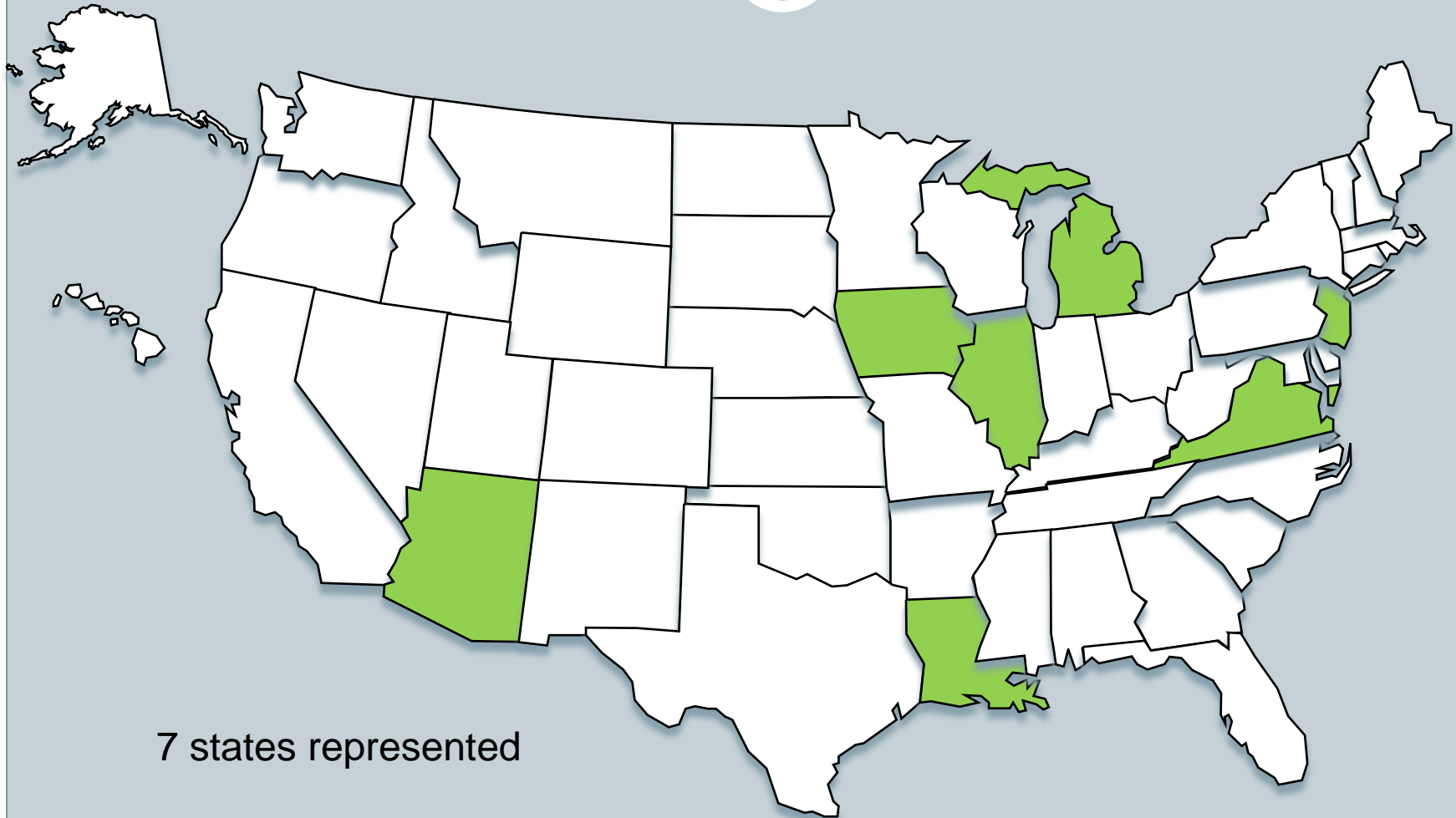
■ Increase(4)
■ Decrease (1)

Higher Age & Service Requirement for Normal Retirement, 2010



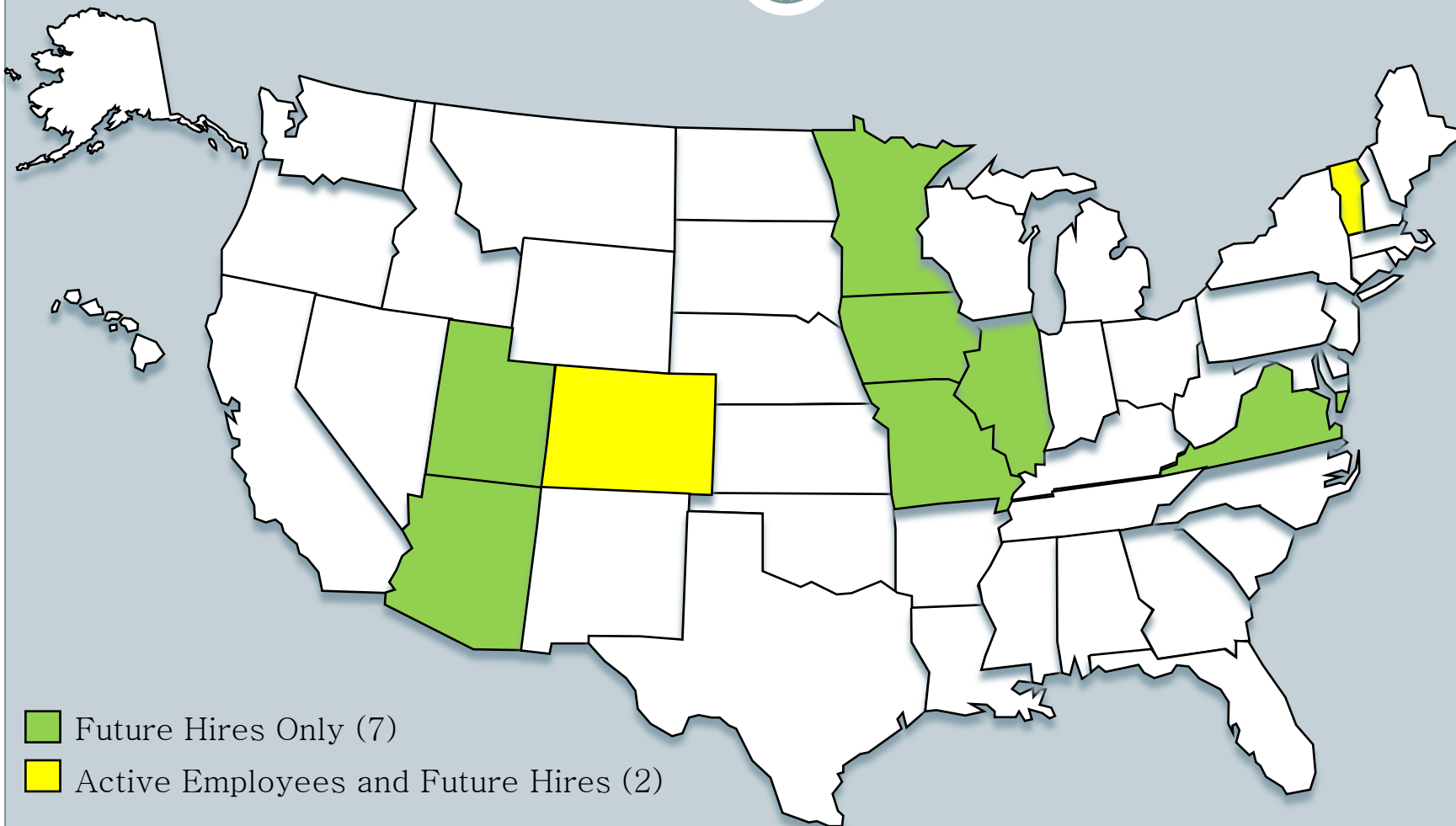
9 states represented

Longer Period for Calculation of Final Average Salary, 2010



7 states represented

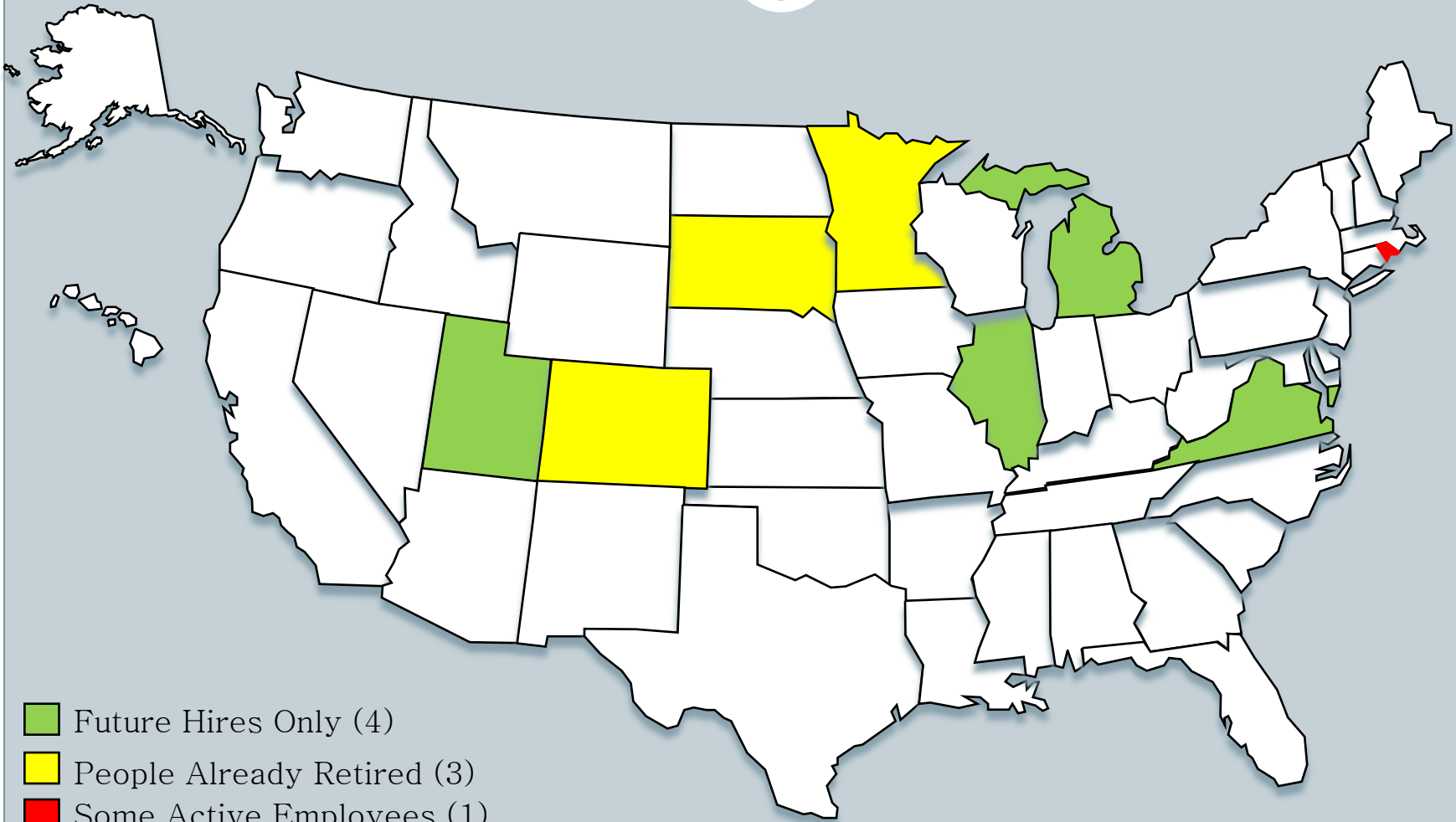
Reduced Benefit For Retirement Before Normal Age, 2010






Future Hires Only (7)

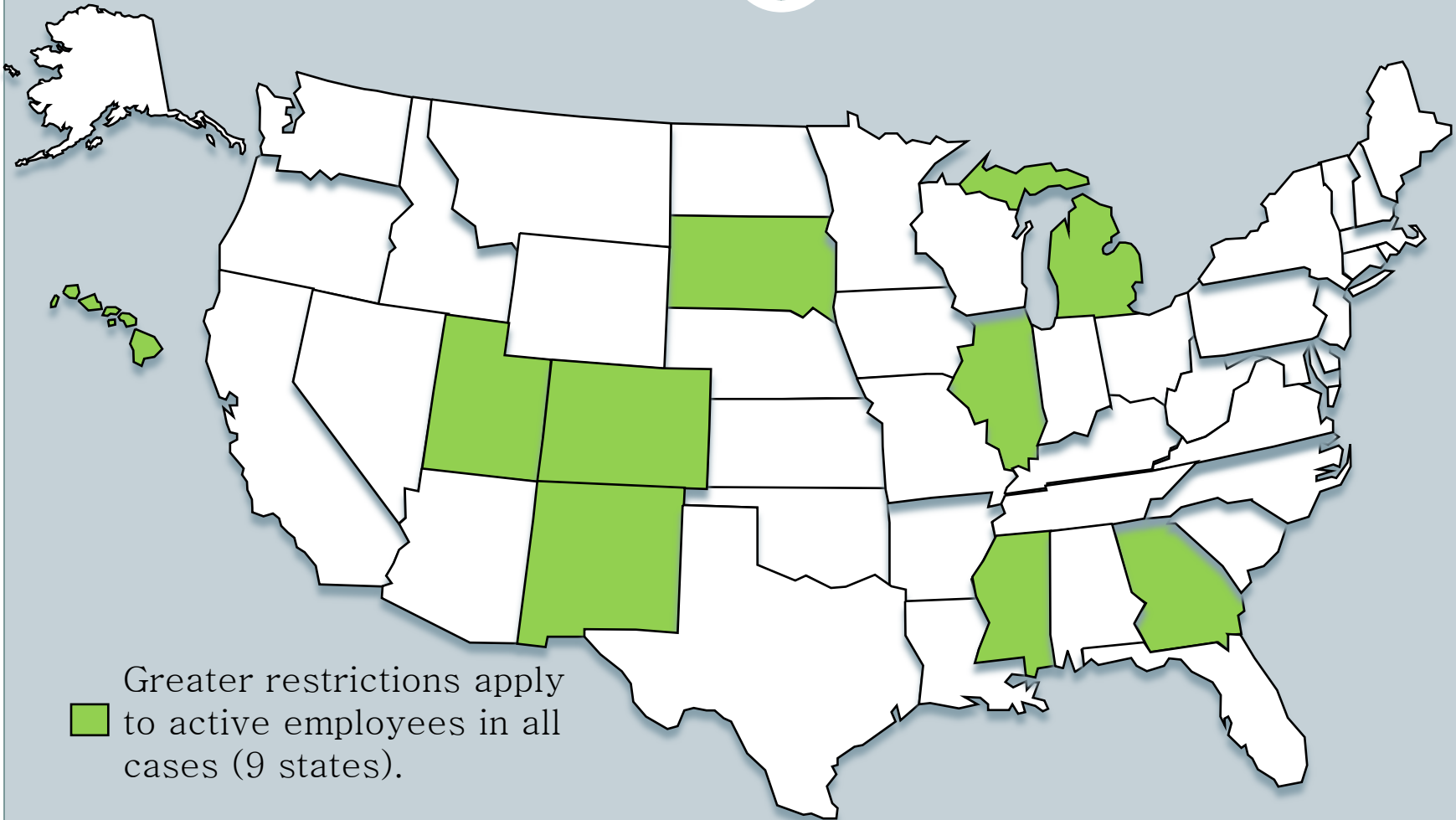
Active Employees and Future Hires (2)

Reduced Post-Retirement Benefit Increase, 2010



-  Future Hires Only (4)
-  People Already Retired (3)
-  Some Active Employees (1)

Greater Restrictions on Return to Covered Service, 2010



Trends in 2010



- Reduced benefits for new employees with the same service and compensation.
- Higher employee contributions as a percent of salary.
- More restrictions on retirement before normal age and on retired people returning to covered service
- Most changes occur within the framework of defined contribution (DB) plans.
- Replacement of DB plans with hybrid plans in Michigan and Utah.

Structural Change in Michigan in 2010



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

Structural Change in Utah in 2010



- The Utah Legislature also replaced a traditional defined benefit plan with an alternative structure in 2010.
- It provided choice for employees:
 - A defined contribution plan fully funded by employers with a contribution of 10% of salary or
 - A plan that combines features of a defined contribution and a defined benefit plan.

Structural Change in Utah in 2010



- **The Utah hybrid plan:**
 - For DB component, employers will contribute 10% of salary.
 - When the 10% is insufficient to meet the actuarially required contribution to meet full funding, employees will make up the difference.
 - When the 10% is more than is required to keep the plan actuarially sound, the difference will be deposited in an employee 401(k) account.
 - Employees may but are not required to contribute to the 401(k).
 - DB benefit available at 65/4; 60/20; 62/10; any age with 35 years of service. Five-year FAS; DB benefit = 1.5% FAS for each year of service (presently 3-year FAS, 2% factor)



- This report is based on NCSL's annual report on state pensions and retirement legislation.
- The 2010 report covering legislation enacted through July 20, 2010 is available on the NCSL website at

<http://www.ncsl.org/?tabid=20836>

- For further information:
Ron Snell -- ron.snell@ncsl.org
303-856-1534