

State Retirement Legislation in 2010 and 2011



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Overview



This report is concerned with state legislation affecting state retirement plans for general employees and statewide plans for teachers. It includes some legislation on statewide plans for municipal employees.

- In 2011, 28 states enacted significant changes in public pension plans through the end of September.
- In 2010, 21 states enacted changes. Some states acted in both years.



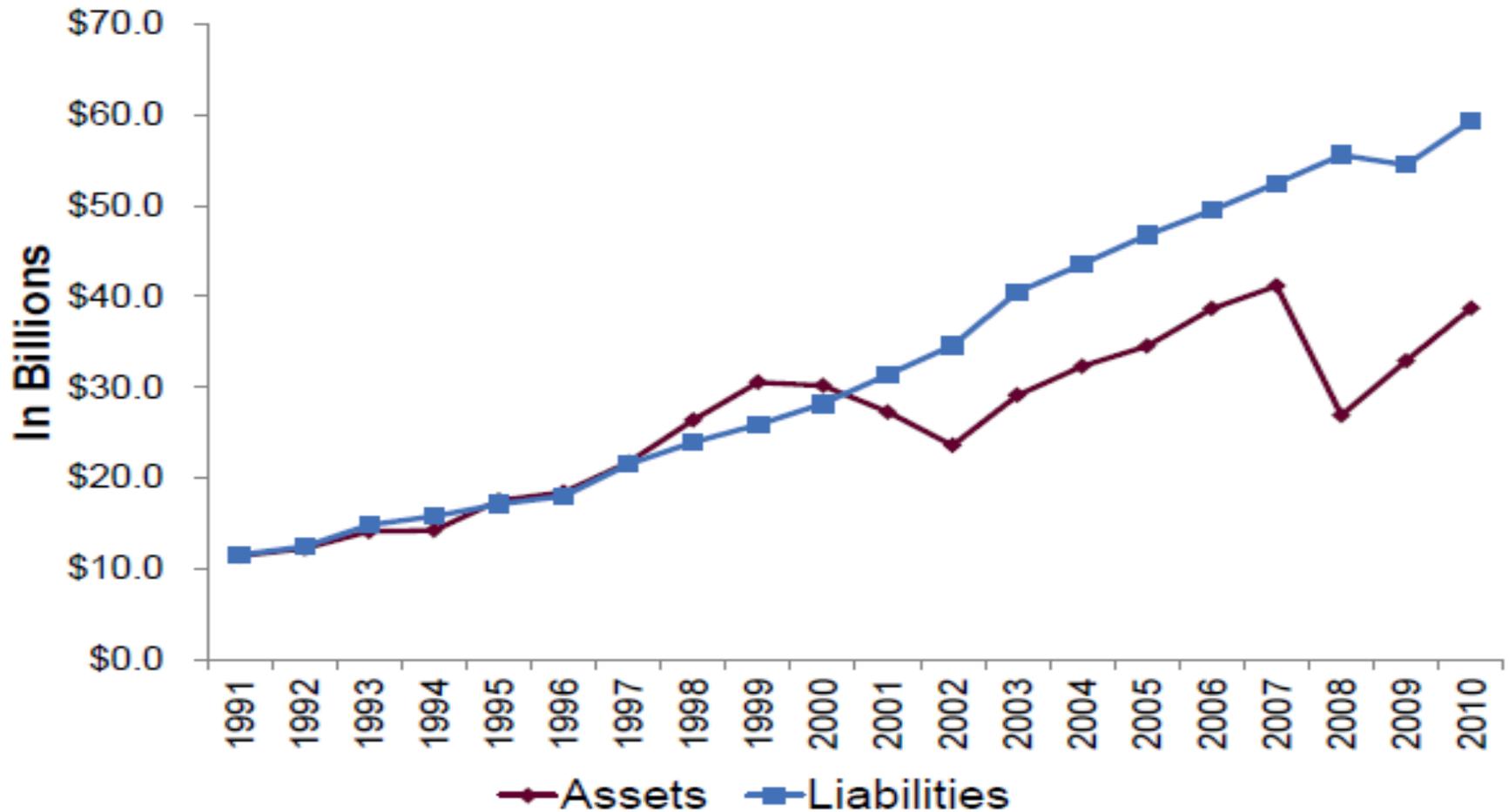
Overview



- **Causes of such activity:**
 - ❖ Concerns about the viability of retirement plan benefits and funding go back to the 2001 recession. Current estimates of the funding gap for state plans begin at \$660 billion (Pew, 2011) and range upward to several times that amount, depending on assumptions about future investment returns.
 - ❖ Such concerns were magnified by the severe investment losses experienced in the 2007-2009 recession and the uncertain investment climate since that time.
 - ❖ Demographic change and state fiscal conditions play into the concerns.

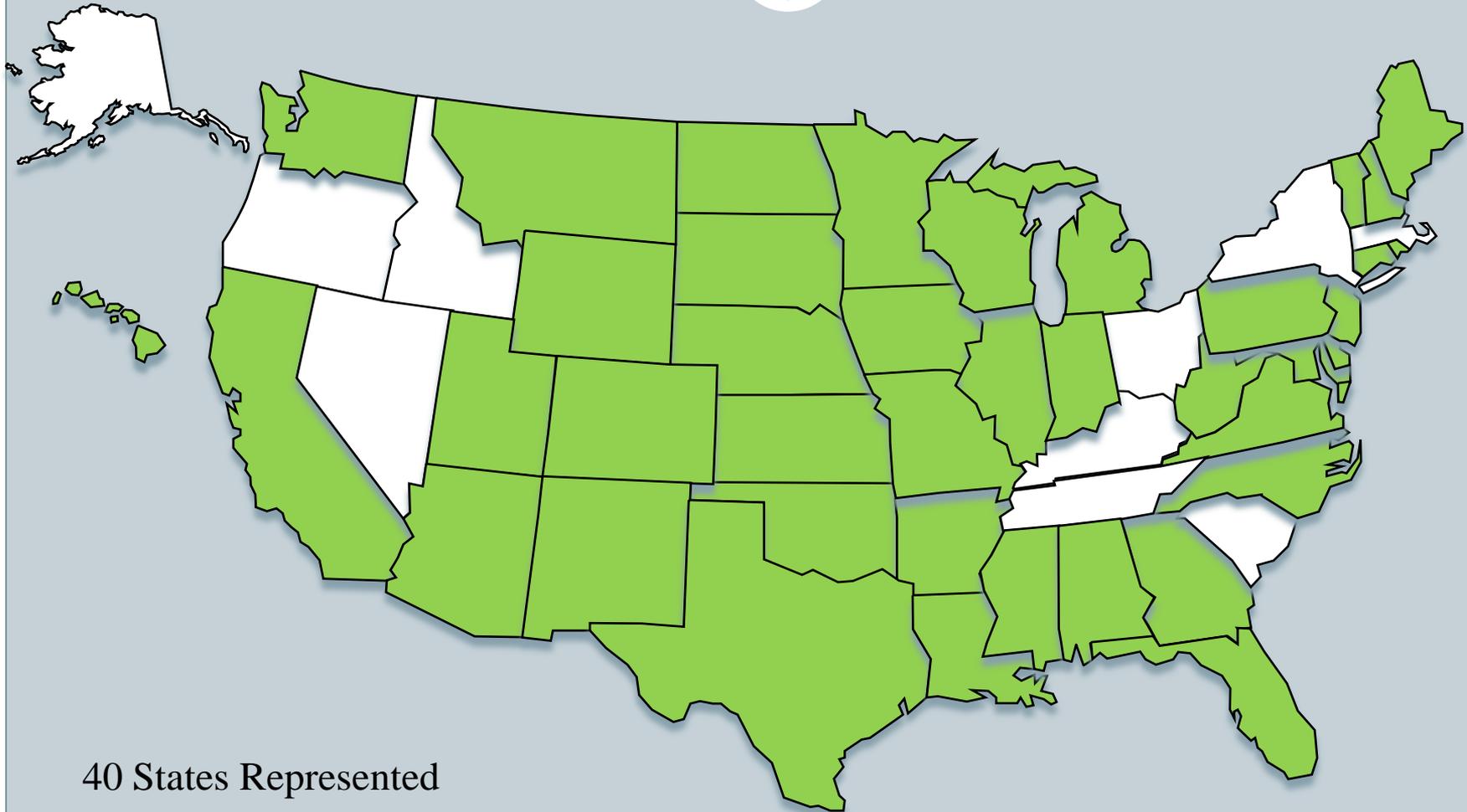
PERA Assets vs. Liabilities

Market Value as of December 31 for each year



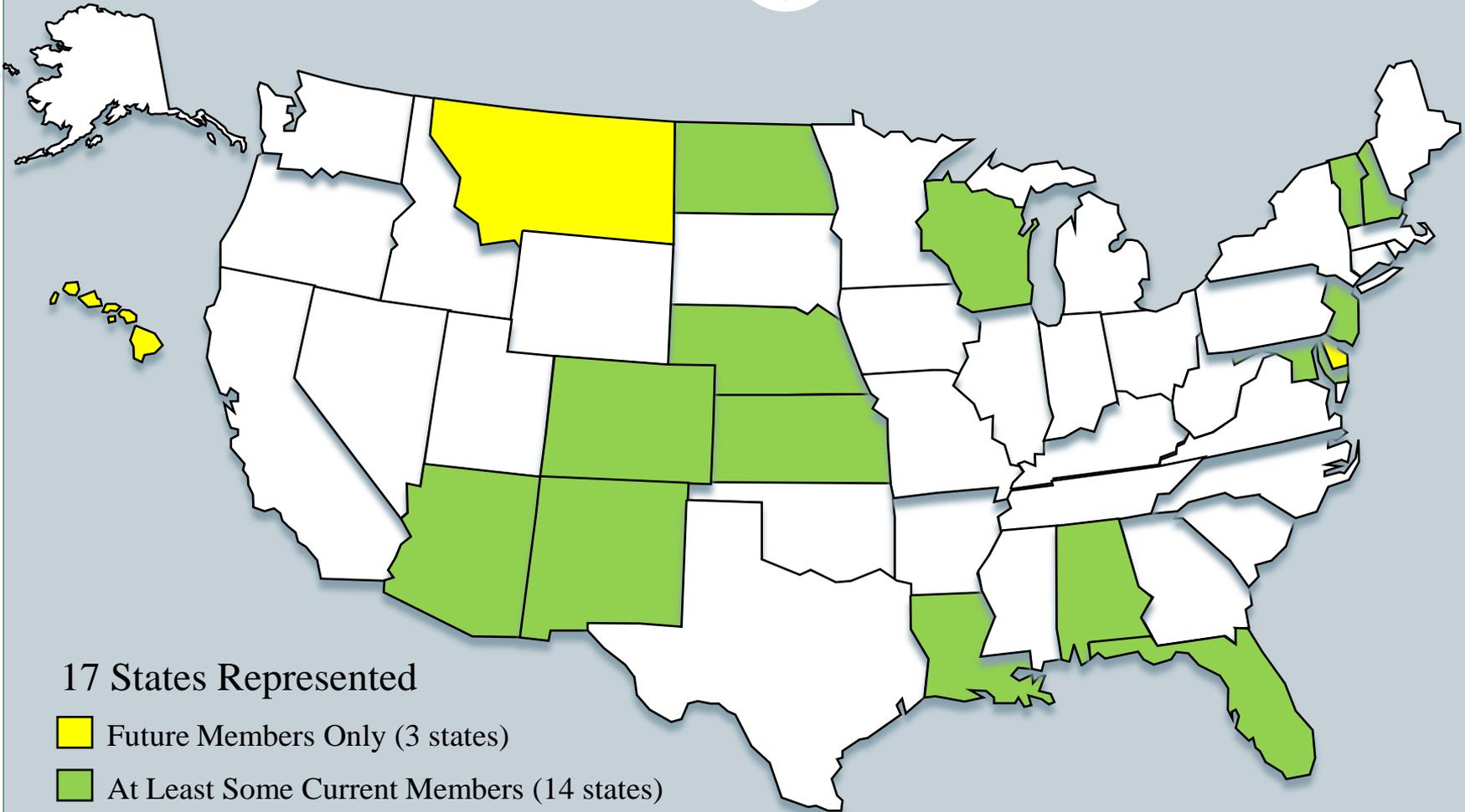
Source: Colorado PERA, October 2011

Major Pensions Legislation in 2010-2011: All Topics

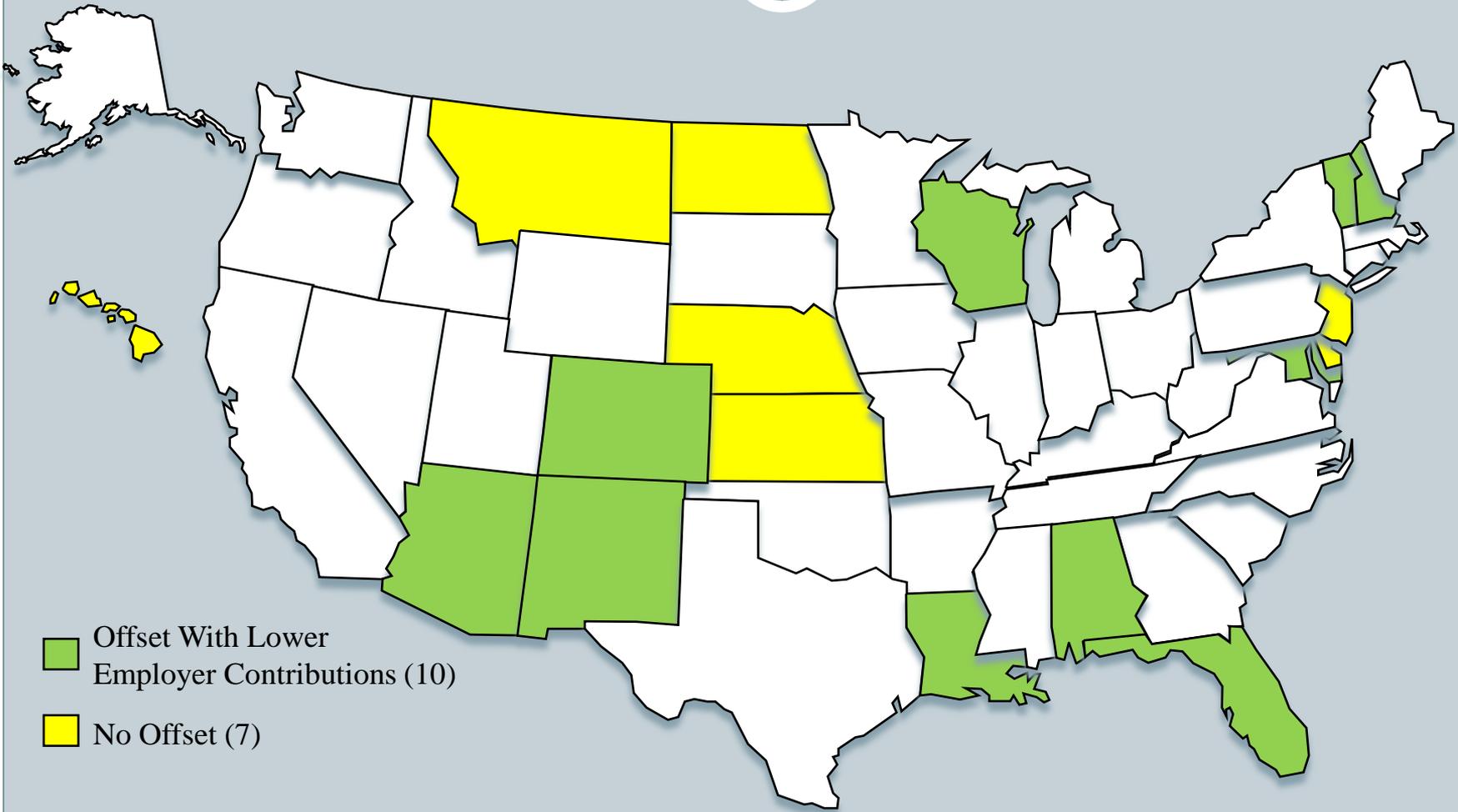


40 States Represented

Increases in Employee Contributions, 2011

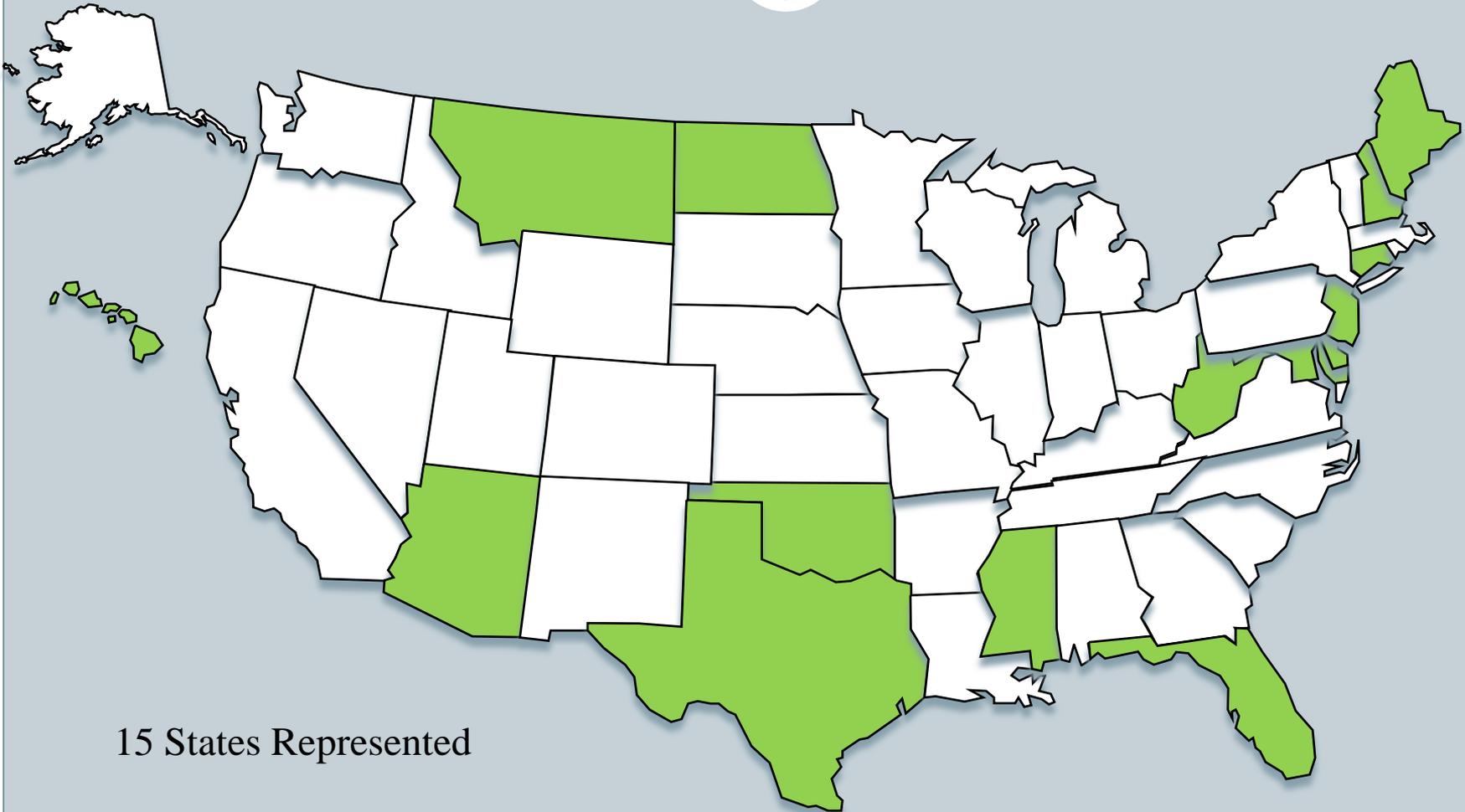


Offsets to Increases in Employee Contributions, 2011



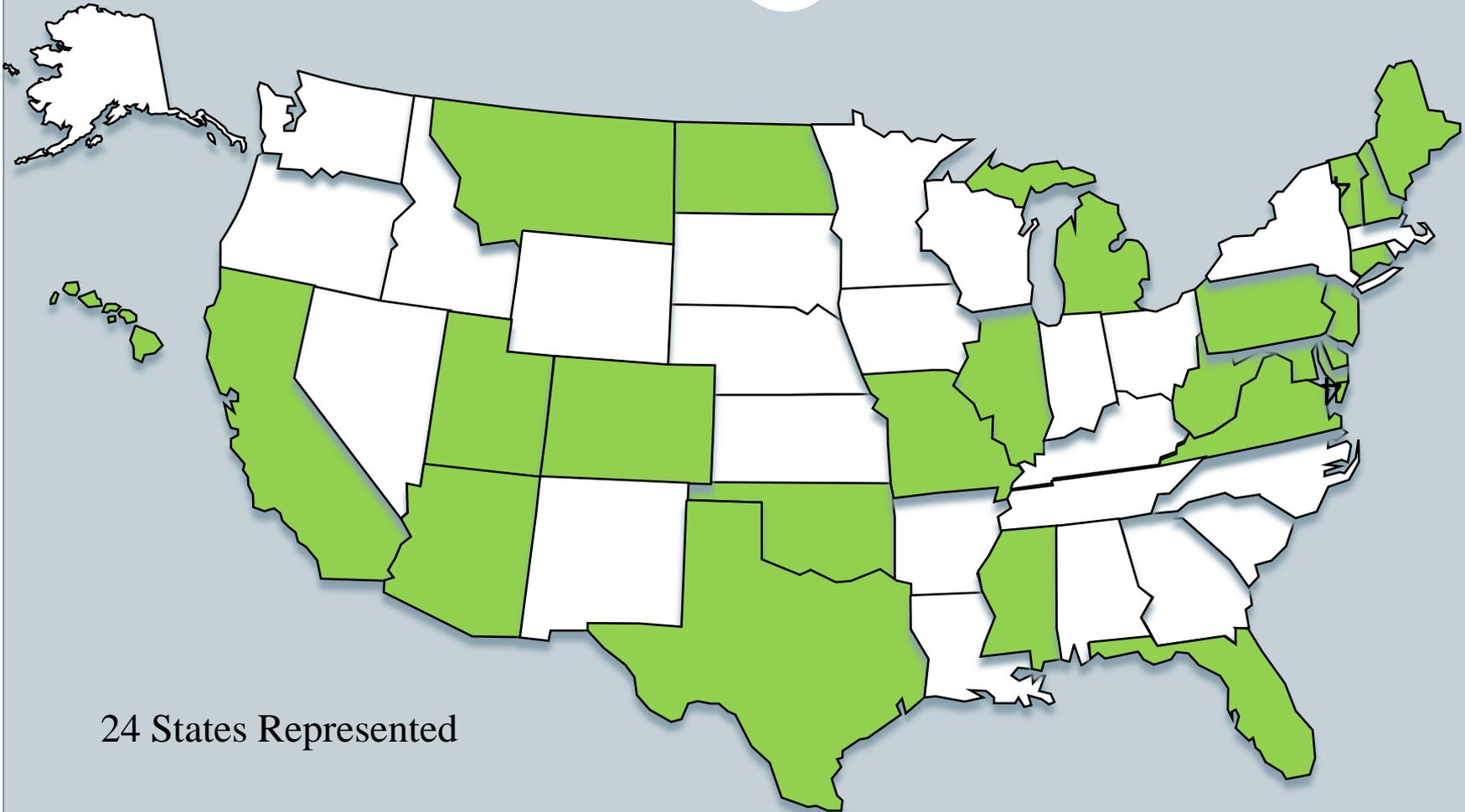
-  Offset With Lower Employer Contributions (10)
-  No Offset (7)

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



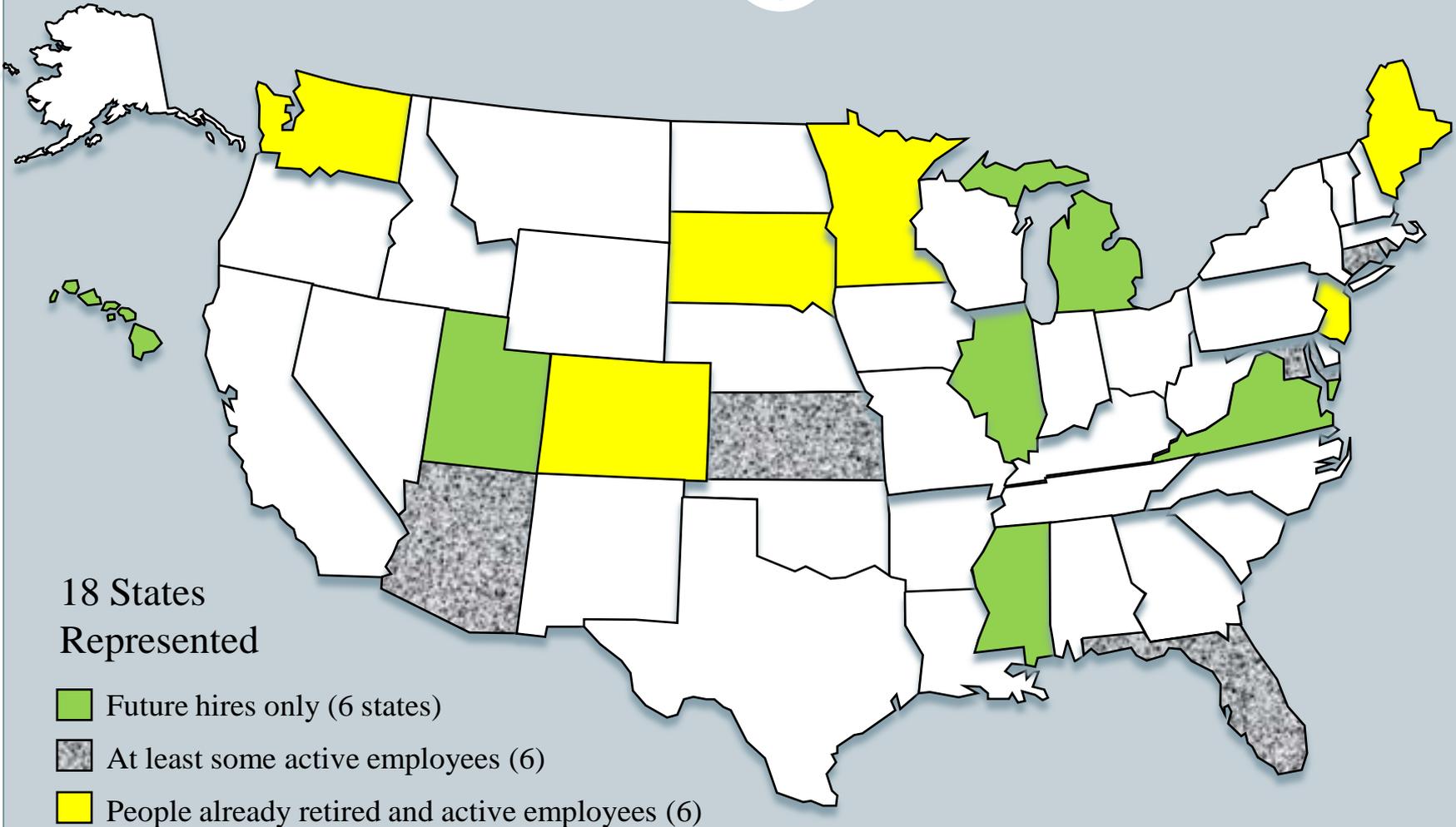
15 States Represented

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



24 States Represented

Reduced Post-Retirement Benefit Increases Enacted in 2010 and 2011



Additional State Issues in 2010 and 2011



- Longer vesting period for new members -- 13 states.
- Longer period for calculating final average compensation (meaning a lower base for a pension in most cases) --14 states.
- Reduced benefit for early retirement -- 16 states. For current employees in 5 states.
- Greater restrictions on retirees' return to covered service -- all retirees -- 12 states.

Trends in Pensions Policy in 2010 and 2011



- A trend to revise, not replace, traditional DB plans.
- In 2010, Utah closed its DB plan for all state and local employees. As of July 1, 2011, Utah offers new employees the choice of a defined contribution plan or a combined plan that includes a DB plan and a mandatory 401(k).
- As of July 1, 2010, Michigan replaced its School Employees DB plan with a combined plan.
- Indiana created a voluntary alternative DC plan in 2011.

Trends in DB Plans in 2010 and 2011



- **States are shifting more of the eventual cost of retirement to members.**
 - ❖ Higher contributions;
 - ❖ Longer service requirements;
 - ❖ Higher ages for normal retirement; and
 - ❖ Lower post-retirement benefit adjustments.
- **More restrictions on retirement before normal age and on retired people returning to covered service (often called "double-dipping").**

Contribution Requirements in 2011



- Most states that increased employee contribution requirements in 2011 offset them with lower employer contributions, at least temporarily.
- This is a trend toward equalizing the employer and employee contribution rates.
- Also helps balance to highly-stressed state budgets (and local government budgets in some cases).
- An employee dollar is not worth as much as an employer dollar, and the practices does not leave pension funds harmless.

Sources and Contact Information



- This report is based on NCSL's annual reports on state pensions and retirement legislation and *The Widening Gap* (Pew Center on the States, 2011).
- The 2010 NCSL legislative report is available at <http://www.ncsl.org/default.aspx?tabid=20836>
- The 2011 legislative report through September 30 is available at <http://www.ncsl.org/default.aspx?tabid=22763>
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