State Pension Legislation in 2009 and 2010

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Retirement System Troubles Come From Many Directions

- Asset Values
- Aging Public Workforce
- Declining Number of Public Employees
- State Fiscal Conditions
- Questions from the public why government employees should look forward to a more secure retirement than most private sector employees.

State Fiscal Overview

- The state fiscal situation is dire, possibly the worst in modern state history.
- To date, states have reported a total estimated budget gap of $281 billion (FY 2008 through FY 2011) and this year have raised taxes by record amounts.
- The current fiscal crisis is predicted to last beyond FY 2011.

2009 Legislation Reflected Those Facts

- A number of states acted to control long-term costs -- which means reduced benefits promised to new employees.
- Changes affected state and local general employees and teachers, depending on the state
- Some increases in required employee contributions
- No significant benefit increases
- No shifts to defined contribution plans

New Tiers for New Employees

- Nevada PERS (including education personnel)
  - Increased age and service requirements
  - Somewhat smaller benefit as a percent of final compensation
  - Reduced benefit for early retirees further than previously
  - Reduced commitment to post-retirement benefit increases

New Tiers for New Employees

- New Mexico PERS and Education Retirement Board
  - Increased age and service requirements
  - Disincentives for teachers to retire before age of 60
  - Two-year increase in required employee contribution of 1.5% of salary (for education system, from 7.75% to 9.25%). Under legal challenge.

New Tiers for New Employees

- Rhode Island PERS (including education personnel)
  - Increased age and service requirements: from 60 to 62 years
  - Somewhat smaller benefits as a percent of salary
  - Reduced amounts of future post-retirement benefit increases
  - Substantially tightened disability retirement eligibility.

New Tiers for New Employees

- Texas ERS (not including education personnel)
  - Increased age and service requirements for regular retirement from 60/5 to 65/10
  - Somewhat smaller benefits as a percent of salary
  - Increased actuarial charge for earlier retirement.
  - Prohibited use of accumulated annual and sick leave in calculating eligibility for retirement (they can still be used for calculation of final average salary)

On the Revenue Side

- Besides New Mexico, Nebraska and Texas increased required employee contributions for current employees.
- Connecticut, Nevada and New Hampshire raised contribution rates for future employees.
- Illinois provided for issuance of almost $3.5 billion in pension obligation bonds to fund state contributions to retirement systems for fiscal year 2010.
- Numerous states will increase the employer contribution.

Post-retirement Benefit Changes

- As noted, legislation reduced the commitment in a number of states in conjunction with a new plan tier; Louisiana did so for existing state employees.
- Georgia prohibited post-retirement increases for anyone who joins a state-wide plan after July 1, 2009 (including teachers).

An Overview

- The changes listed include almost all possibilities of revision in state retirement plans.
- In all, over the years from 2005 through 2009, 18 states have enacted such changes to reduce long-term costs of retirement plans.
- Only two states, however, have moved away from traditional defined benefit plans: Alaska and Georgia.

Alternatives to Defined Benefit Plans

- Alaska closed its defined benefit plans for state and local employees and teachers in 2005 and required all new employees to enroll in defined contribution plans.

- In 2008, Georgia created a hybrid defined benefit/defined contribution plan for new state employees. The defined contribution or 401(k) portion of the plan is voluntary, though employees are initially enrolled in it.

What's Likely for 2010?

- Even if financial markets improve, and help retirement trust funds recover, the state fiscal crisis, political and demographic issues will continue their stress on retirement systems.
- I'd expect additional states to make the kinds of changes I have reported for 2009--broad programs of increases in employee and employer contributions; higher age and service requirements for retirement; smaller post-retirement benefit increases.

What's Likely for 2010?

- Such recommendations were made in October to the Colorado by the state state retirement systems and by the Alabama Superintendent of Schools to his legislature, and are being reviewed in Iowa.
- Six states--Illinois, Maine, Montana, Nebraska, New Mexico and Vermont--have formal commissions studying the entire structure of all their state retirement plans this fall. Louisiana is considering defined contribution plans.

What's Likely for 2010?

- My *guesses* are
  - More of the same: in many states, revision of many features of retirement provisions to reduce benefits a little at a time.
  - Increased contributions from employees as partial matches of increased contributions from employers
  - Widespread investigation of defined contribution plans, but few adoptions.
  - Possibly more use of hybrid plans as an alternative to defined benefit plans (over time, not necessarily in 2010).
  - A focus on staying afloat.

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