Summary of public pension changes under consideration in other states

Prepared by Laurie Hacking October 2009

Outlined below are public pension benefit changes under consideration in other states. The sources for this information are published news articles (from NASRA News Clips, IFEBP Headlines) and reports from the National Council on State Legislatures (NCSL).

Common themes for public pension legislation have been increasing revenue and reducing pension costs to compensate for the unprecedented investment losses, and increasing restrictions on the ability of retired members to return to work for employers participating in the plan. Many states are increasing employer and employee contribution rates. A number of states have revised or are considering revisions in their benefits, mainly for future employees. These revisions include requiring longer service or higher ages for retirement, discouraging early retirement, limiting future cost-of-living adjustments, and tightening disability standards. Several states created commissions or interim legislative committees to study their retirement structures.

Actions Taken or Considered	States
Contributions/Revenues	
Contribution increases	California, Cincinnati, Colorado, Illinois, Iowa, Louisiana, Missouri, Nebraska, New Hampshire, New Mexico, Ohio, Oklahoma, Oregon, Texas, Utah, Virginia, Wisconsin
Contribution cuts	New Jersey
Change actuarial techniques (increase amortization periods, expand asset smoothing methods, widen corridors)	California, Louisiana, Missouri, Oregon, Vermont, Washington
Taxes – tax retirement income, add tax for pensions	Illinois, Indiana, Philadelphia
Benefits	
COLA cuts	Colorado, Georgia, Illinois, Louisiana, Massachusetts, Nevada, New York, Ohio, Rhode Island, Wisconsin
Increase normal retirement age (NRA) or minimum eligibility age	Cincinnati, Kansas, Kentucky, Illinois, Nevada, New Mexico, New York, Ohio, Rhode Island, Texas, Virginia
Lower tier of benefits for new hires	California, Illinois, Nevada, New Mexico, Rhode Island
Switch to DC or hybrid DB/DC	Kansas, Louisiana, Rhode Island
Increase vesting requirement	Iowa, Massachusetts
Increase high salary period	Iowa, Massachusetts, Ohio, Texas
Early retirement incentives to reduce workforce	Connecticut, Maine, Vermont

California

- School districts will see their contribution rates increase to 11.3% of payroll next year, up from 9.7%.
- For CalPERS and CalSTRS, investment losses in the next three years will be amortized over a fixed and declining 30-year period instead of a rolling 30-year period. Investment losses were previously spread over 15 years.
- Governor Schwarzenegger is calling for a two-tier system in which new hires would have:
  - 2% multiplier (CalPERS is not covered by Social Security),
  - age 60 NRA with age 55 minimum
  - high-three average salary instead of high-one
  - lifetime health care only with 25+ years of service (currently 20+ years)
- An initiative is likely to be on the ballot in 2010 that would reduce pension benefit levels for all public employees in the state.

University of California

- In February, California adopted changes that will require most of the 114,000 employees of the University of California to begin paying 2 percent of their salaries to fund pension benefits, with the contribution rate rising by 1 point a year until it reaches 5 percent in 2013. It will be the employees' first contribution in 20 years to what had been an overfunded pension plan.

Cincinnati (city workers)

- Increase NRA from age 60 to 65
- Increase employee contribution from 7 to 9%
- City contribution to system (currently 17% of payroll) is expected to increase from $25 million annually to $125 million

Colorado

- State workers contribution rate expected to increase from 11.03% to 17.91% and school employee contributions are projected to increase from 11.03% to 16.56%. Local government employee contributions to rise from 10.88% to 11.14% from 10.88%.
- Proposals are under consideration to reduce COLAs from 3.5% to 2% annually.

Connecticut

- Enacted early retirement incentive to reduce size of state workforce.

Georgia

- Enacted law to eliminate post-retirement increases for new hires.
- Enacted new law in 2008 creating hybrid plan for new state hires as of 1/1/09, featuring DB plan multiplier of 1.0 percent and optional DC plan participation.

Kansas

- Legislative leaders want to examine switching to a DC plan for new hires, but the governor has rejected that idea. Kansas State Treasurer has stated that switching to a DC could cost the state even more money since, as new employee switch to a new plan the state would have to fund both the existing plan for current members and a new plan.
- State has not contributed the actuarially required levels for the past 15 years.
- Pending legislation would affect new hires and require a member to be at least 60 with 30 years of service or at least 65 with 5 years of service to be fully eligible for benefits.

Kentucky

- Kentucky last year adopted changes that will allow public employees to retire as early as age 57 if they have worked for at least 30 years; previously, they could retire at any age after 27 years of service

Illinois

- Teachers in Illinois forced Governor Quinn to withdraw a proposal to increase their pension contributions by 2 percent of salary, from 9 percent to 11 percent.
- Law authorized issuance of $3.466 billion in bonds for the purpose of making a portion of the state's FY2010 required contribution to statewide retirement systems. The bonds are to be payable within five years of their date of issue. An equal amount of general revenue is to be spent upon human services programs.
- Benefit reduction ideas that have surfaced include: a new lower tier for new hires, eliminating 3% annual COLAs, raise minimum retirement age (currently 55 for state workers), tax retirement income (currently exempt from state income tax).
- Pension System Modernization Task Force created to recommend pension changes.

Indiana

- Assigned the topic of state taxation of retirement benefits to Commission on State Tax and Financing Policy.

Iowa

- Evaluating proposal to increase contribution rates from 10.95% to 13.45% and then 15% (combined employer/employee). Currently employers pay 60% of contributions.
- No plans to eliminate Rule of 88 or full retirement age of 62.
- Considering increasing vesting from 4 to 7 years and raising hi-3 to hi-5.
- Rising contributions for municipal employers participating in the state plan for police and firefighters.

Louisiana

- Enacted law to reduce state’s funding for post-retirement increases. COLAs are limited to those who are at least age 60. Also created a retirement option for new retirees that allows a retiree to self-fund an annual 2.5% COLA by taking an actuarially reduced initial benefit.
- Increased employer contributions
- Extended amortization period to 30 years.

- House and Senate committees on retirement requested to study issue of converting new hires to DC plan.

Maine
- Enacted early retirement incentive to reduce size of state workforce.
- Established an interim task force to consider plan design changes.

Massachusetts (state workers)
- Proposing to: move from high-three to high five salary period; cap salary used for pension calculation at 75% of $245,000; institute anti-spiking rules; and permit retirees to elect a lower pension payout in exchange for more generous COLA.
- Elected officials will no longer get a full year service for one day (Jan. 1) work
- Eliminate: "One-day-one-year" rule allowing elected officials to be credited with a year's service for just one day's work in a calendar year;
- Base disability pensions on average one-year compensation, not last day of compensation
- Housing, car and travel allowances and bonuses are excluded from compensation in calculating pensions.
- Vesting for elected officials increased from 6 to 10 years
- Prohibit employees who retire and are hired back as consultants or independent contractors from adding more years to their pension;

Missouri
- State contribution rate to MOSERS increased from 12.75% to 13.81%, less than the 15.31% rate calculated in actuarial reports. Increased actuarial corridor from 20% to 30% to mitigate need for contribution increases.

Montana
- Increased maximum pension income tax exclusion.
- An interim committee is charged with reviewing retirement benefits for the state-sponsored retirement plans, including, “With respect to the teachers' retirement system, the committee shall compare and contrast various options for redesigning the system, including money purchase plan design options and other alternative and hybrid defined benefit plan options, and shall develop legislation to implement a redesign of the teachers’ retirement system …”

Nebraska
- Employee and employer contribution increases by 1%. State general appropriation contribution to fund will also increase.

Nevada
- Enacted law to increase age and service requirements for new hires with somewhat lower multiplier (2.5% multiplier in place of 2.67% multiplier), reduce early retirement benefits (by increasing early retirement reduction factor from 4% to 6% per year) and reduce commitment to post-retirement increases.

New Hampshire

- Employee contribution rate increased for members hired after June 30, 2009, from 5% to 7%. The employer contribution rate for non-state government employers will increase from 65% of the actuarially-required contribution in FY 2009 to 70% in FY2010 and to 75% in FY 2011 [state government contributes the remainder]. The non-state employer contribution will revert to 65% for FY2012.

New Jersey

- Governor Jon Corzine in March won passage of a bill that will allow cities to defer half their pension contributions from this year until 2012; in May he slashed the state's pension contributions by $150 million, notwithstanding the fact that the system's $60.5 billion in assets represents just under half of its liabilities.

New Mexico

- Employer contributions increased.
- Under an agreement reached in April, public employees in New Mexico will kick in an extra 1.5 percent of their salaries next year to pay for pensions and contribute more to the cost of their health benefits. At the same time, state contributions will decrease by the same amount. Union has sued the state on constitutional grounds but court upheld the increase.
- Created new retirement plans with higher age and service requirements and disincentives to retire before age 60. Under new plan, 30 and out is allowed, age 67 with 5 years of service or Rule of 80 but with reduction if member retires before age 60.

New York

- New York Governor David Paterson has proposed setting a minimum retirement age of 50 and requiring workers to put in at least 25 years of service, up from 20 currently. He also wants to limit annual cost-of-living adjustments to 1.5 percent and require new hires to contribute 1 percent of their salary for retiree health benefits.

North Carolina

- Legislation is likely to be introduced in the 2010 session to examine retirement benefits.

Ohio

- Governor forced to back off proposal to reduce OPERS employer contribution rate from 14% to 8% for two years. Lawmakers have reportedly shelved this idea because, according to news reports, "the plan put retiree health care in jeopardy and could have downgraded Ohio's bond rating, making it more expensive for the state to borrow money."
- Also considering reducing COLAs (3% currently) and raising retirement age (currently have 30 and out).
- Ohio Retirement Study Council (Legislative Pension Commission) has asked Ohio system boards to estimate the impact of the following pension system changes which could apply either to those retiring after 2015 or to new hires:

    - Increase employer rate from 14% to 16% and employee rate from 10% to 12%.
    - Replace 30 years and out with 32 years in out and impose minimum retirement age of 57 with this early retirement option
    - Increase NRA to 67
    - Use high-five salary instead of high-three
    - For teachers, lower formula to 2.2% (not Social Security covered) for first 30 years and 2.5% for years thereafter.
    - COLA options – eliminate 3% simple COLA, delay first COLA payment until age 60 or 65, reduce COLA to 2% or 1.5%.
- Ohio Teachers system (STRS) proposed the following changes:
    - Increase employee rates from 10% to 12.5% and employer rates from 14% to 16.5%.
    - Increase 30 and out provision to 35 and out starting with new retirees in 2015.
    - Starting in 2011, permanently reduce COLAs for current retirees from 3% to 2% and for new retirees the COLA would be permanently reduced to 1.5%.
    - Hi-3 would be increased to Hi-5 for calculating benefits.

Oklahoma

- Allows combined employer/employee contributions for county employees to rise from 10% to 16.5%

Oregon

- Statewide, contribution rates to Oregon PERS are expected to rise from an average of 4.7 % to 13.1 % starting July 2011. OPERS funding ratio declined from 98% to 71% - 80% (depending upon whether side account assets are included).
- OPERS has a contribution rate collar that normally limits the change in employer rates from one period to the next to 3 percentage points. But if the system is less than 80 percent funded, as it is now, the rate can jump by 6 percentage points, as it will in 2011.
- The OPERS board is contemplating at least one accounting change to lessen the impact on employers. The strategy would be to "smooth" the system's losses over five years, recognizing only 20 percent of the decline each year for five years.

Pennsylvania

- Bill moving through state legislature for state to takeover municipal plans due to financial problems. Bill would allow "severely distressed" plans to make reduced payments toward pension costs. It would require revised benefit plans for new hires and allow for defined contribution plans. I believe this bill has died for now, but legislation to reform municipal plans in PA made more progress this year than in prior years. I’ll check on the status.

Philadelphia

- Philadelphia's pension fund saved $172 million in pension contributions by lengthening the period for smoothing asset values from five years to ten years and stretching the amortization period for paying off the unfunded liability from 20 years to 40.
- Philadelphia granted authority to raise sales tax to generate revenue for pension system.

Rhode Island

- Enacted law to raise retirement age from 60 to 62 and reduced future post-retirement increases to 3% or CPI, whichever is lower.
- Commission also made recommendations for new hires: increase normal retirement age to 65 after 10 years of service; cap COLAs at 3% with no compounding; use high-five salary; tighten disability to all occupation definition.
- A new retirement system will be implemented for all new State of Rhode Island hires similar to the Federal Hybrid System (FERS), which is partly "defined benefit" and partly "defined contribution," and will take into consideration a Social Security component.

Texas

- Enacted law affecting new state hires – eligibility requirements changed to age 65 with 10 years of service (previously was only 5 years of services) or Rule of 80 with 5 years.
- Final average salary period increased from high-three to high-four.
- Early retirement reduction will now be 5% for each year retiring prior to age 60.
- Employee contribution requirement increased from 6.0% to 6.45%.

Utah

- Require employees to contribute to their pension system for the first time in 20 years. Legislation is likely to be introduced in 2010 proposing switching new hires to DC plan.

Vermont

- Enacted early retirement incentive to reduce size of state workforce.
- Extended amortization period from 2018 to 2039.
- Commission created to review and report on design and funding of retirement plans.

Virginia

- Increase minimum retirement age for state employees from 50 to 60.
- Require state employees to contribute to system (now they are not); state began paying employee contribution of 2% in 1983.
- General Assembly in 2010 is expected to take up recommendations of 2008 benefits study recommending significant changes in retirement benefits, including higher retirement age, employee contributions, a hybrid plan, a COLA cap, etc.

Washington

- Modified actuarial assumptions and methods to save $449 million in future contributions. Modifications included adopting new funding method, changing salary growth assumptions, suspending minimum contribution rates and delaying adoption of new mortality tables.

- State actuary has announced that some plans will require steep increases in contributions to avoid insolvency.

Wisconsin

- Employer contribution rates projected to rise from current level of 10.4% to 11.2% in 2010 and to 14.8% by 2014.
- For most public employees, employers pickup virtually all employee contributions to the system.
- Current law allows employees with 30 or more years of service to retire with full benefits beginning at age 57.
- Retiree benefits are not adjusted for inflation, but instead increase or decrease depending upon investment returns. Since 1990, the annual average increase has been 4.9%. Due to the recent market downturn, benefits from the Core Fund will be reduced for the first time in history. Reductions are expected to average between 3% to 7% per year through 2014.

Public pensions focus on reforms to promote sustainability

More Public Pensions Likely To Change Retirement Rules

Dow Jones Newswires September 1, 2009

Taxpayers who complain that state employee pensions are too generous are starting to see increased movement toward changing the rules of retirement for public servants.

The shift coincides with funding shortfalls following 2008's market meltdown, and the realization that public pensions can neither invest their way out of their declines nor demand increased contributions in the form of tax dollars from cash-strapped citizens. Pensions in states including Ohio, Nevada, Kentucky and New Mexico are considering or have already instituted new rules for public employees' retirement plans, and more are expected, say pension consultants and administrators.

"I think everyone in the public sector arena realizes that changes need to be made to save defined benefit plans," says Cathie G. Eitelberg, national director of the public sector market for benefits consulting firm Segal Co. "It's a next-year legislative focus. Come September, October and November, we'll start to see legislation introduced to make some changes."

Such moves come as both states and municipalities struggle with budget gaps as sales, income and property taxes decline. On Tuesday, the National League of Cities released an annual report showing nearly 90% of city finance officers say it will be difficult to meet fiscal needs this year and next, the worst outlook since the survey began 24 years ago.

In response to their own funding gaps, pension administrators are considering an array of modifications, including increasing the age of retirement, restructuring plans' cost of living adjustments, and requiring higher contributions from public employees. According to projections from PriceWaterhouseCoopers, 15 years from now, the typical public pension will only be 40% funded if something isn't done.

"It's not sustainable. A plan can't function without a change either in contributions, benefits or investments. We did some modeling on investments, and even if the typical plan earned a 15% return for the next three years and then 8% each year after," it still won't be enough, says Kim Nicholl, an actuary who leads PriceWaterhouseCoopers' public sector retirement practice. "States don't have the money to put into their plans, either - so most are looking into ways to change benefits."

The easiest way to alter benefits is to target new hires rather than the soon-to-retire, but the breadth of budgetary problems could force revisions that could affect established employees, too, says William B. Fornia, a senior vice president and actuary for Aon Consulting. Such is the case in New Mexico, which is increasing workers' salary contributions to their pensions over the next two years.

Today's economic environment makes it increasingly unpopular to repair underfunded pensions by turning to tax dollars; backlash against public pension plans has been further fueled by publicized instances of retirees who "spike" their pension benefits and pull in more than their normal salaries after leaving the work force.

"When the market sinks, taxpayers are the party at risk, and that is the part that rankles the public when they are seeing their own 401(k)s tank," says Alicia H. Munnell, director of the Center for Retirement Research at Boston College.

But Munnell and others say traditional pension structures serve a public purpose often overlooked by critics. For police, firefighters and teachers, it's in residents' best interests to reduce employee turnover through traditional pensions, says Fornia. The money that public servants receive doesn't get stuffed under mattresses; it ripples through their local economies, to the tune of $358.6 billion a year, according to research from the National Institute on Retirement Security.

Although six-figure annual pensions have received plenty of publicity, the average benefit payment in 2007 was around $22,000 a year; about a quarter of the people included in that calculation didn't collect Social Security under individual states' laws, according to the National Association of State Retirement Administrators. The majority of public employees make a median contribution of 5% of their annual salaries to their pensions; in states where they can't accept Social Security, it climbs to 8%, says Keith Brainard, research director for NASRA.

"In the 1990s, when private sector workers' 401(k)s were growing dramatically, there was this idea that defined benefit pensions were a dinosaur, and everybody should switch to 401(k)s," says Fornia, of Aon Consulting. "After this crash and the 2000 to 2001 market correction, public opinion switched the other way and turned into pension envy when private workers lost their retirement balances and public workers didn't. In my opinion, defined benefit plans are an efficient way to manage retirement income - I'd rather see the private sector increasing their use than the public sector decreasing it."