

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.



2009 Legislation Reflected Those Facts

- A number of states acted to control long-term costs -- which means reduced benefits promised to new employees.
- 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

- 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.



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?

- Similar changes are proposed or under consideration in Colorado, Iowa, Minnesota, New Jersey, Utah and Vermont, and were enacted in New York at the end of 2009.
- Study commissions in six states -- Illinois, Maine, Montana, Nebraska, New Mexico and Vermont-- reviewed the entire structure of their state retirement plans in 2009. Louisiana and Utah are 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).