

State Retirement Legislation in 2010 and 2011



A REPORT FOR THE KPEERS STUDY COMMISSION

Ron Snell
National Conference of State Legislatures

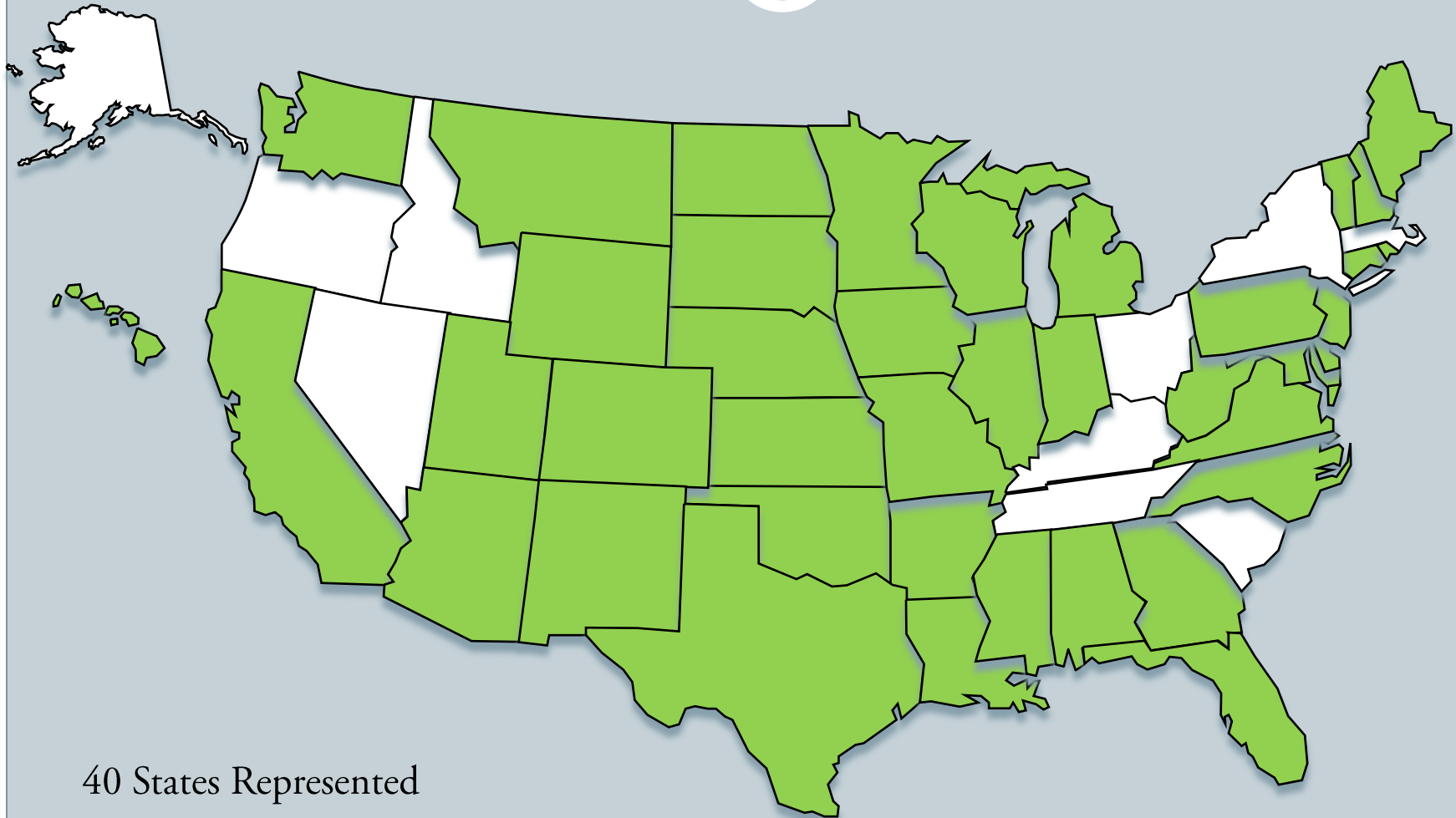
August 31, 2011

Overview



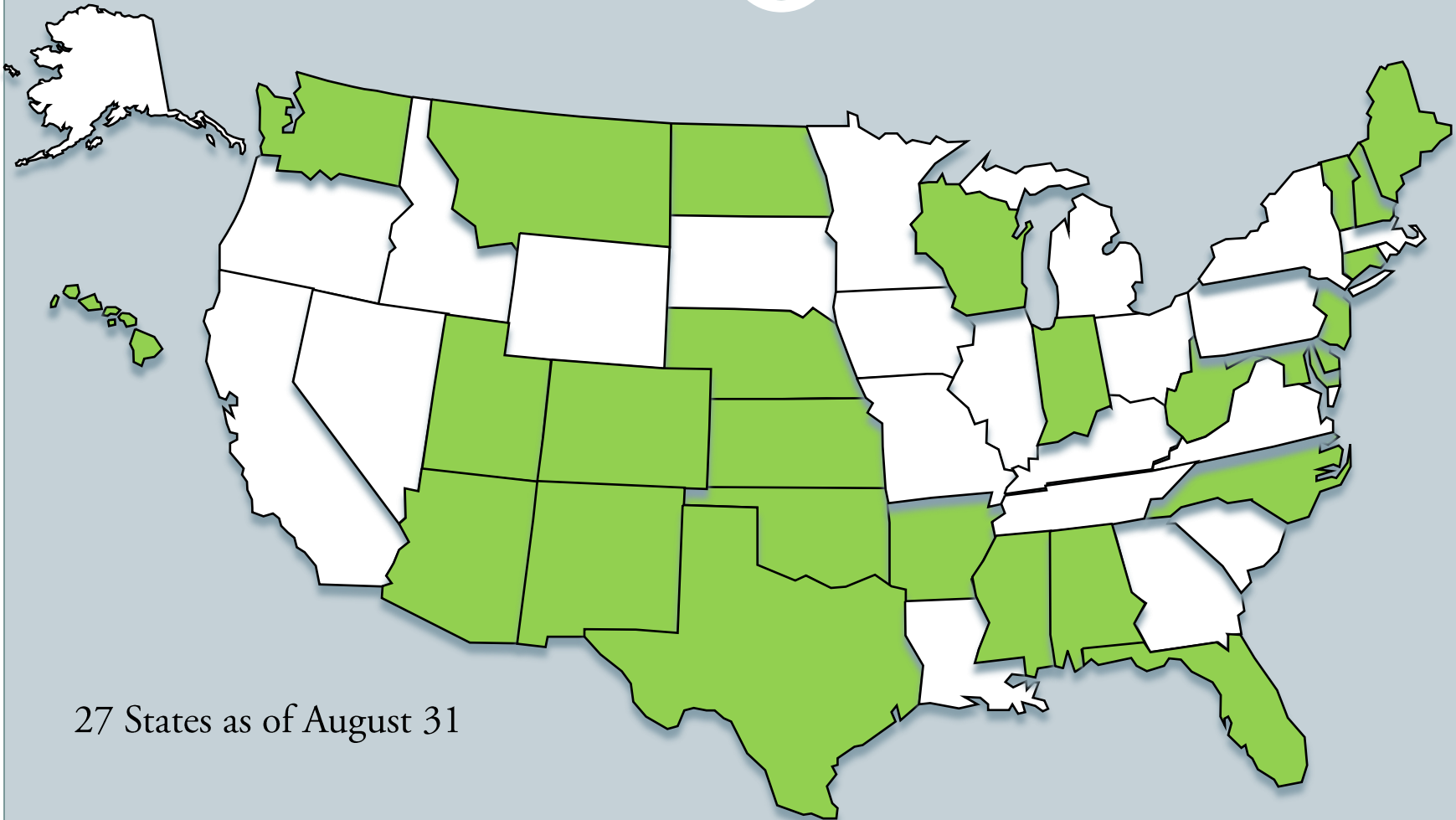
- In 2011, 27 states enacted significant changes in public pension plans through the end of August.
- In 2010, 21 states enacted changes. Some states acted in both years.
- Causes:
 - Concerns about the viability of retirement plan benefits and funding that date to the 2001 recession;
 - Severe investment losses in the 2007-2009 recession;
 - Demographic change and state fiscal conditions.
 -

Major Pensions Legislation in 2010-2011: All Topics



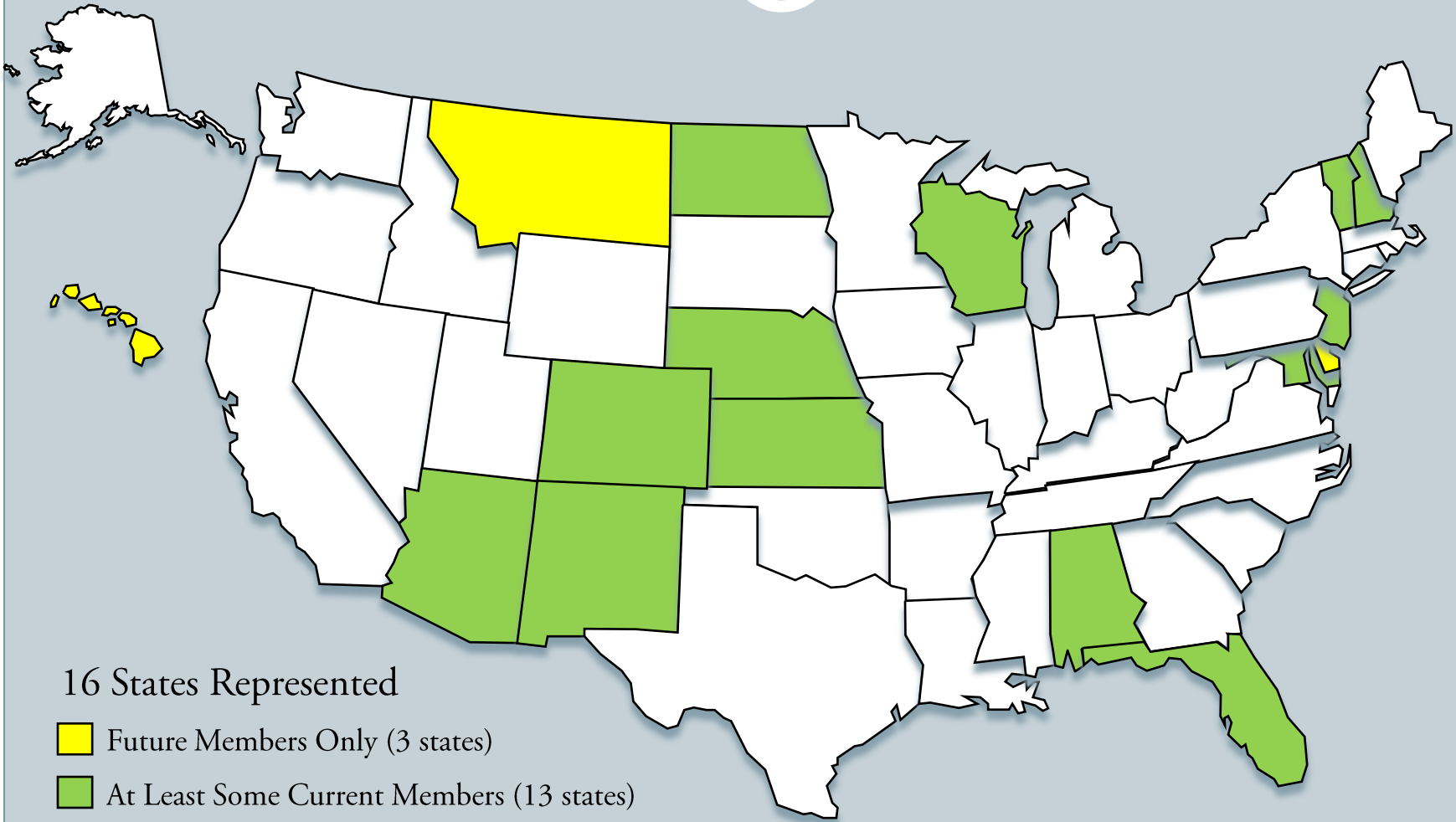
40 States Represented

Major Pensions Legislation in 2011: All Topics




27 States as of August 31

Increases in Employee Contributions, 2011

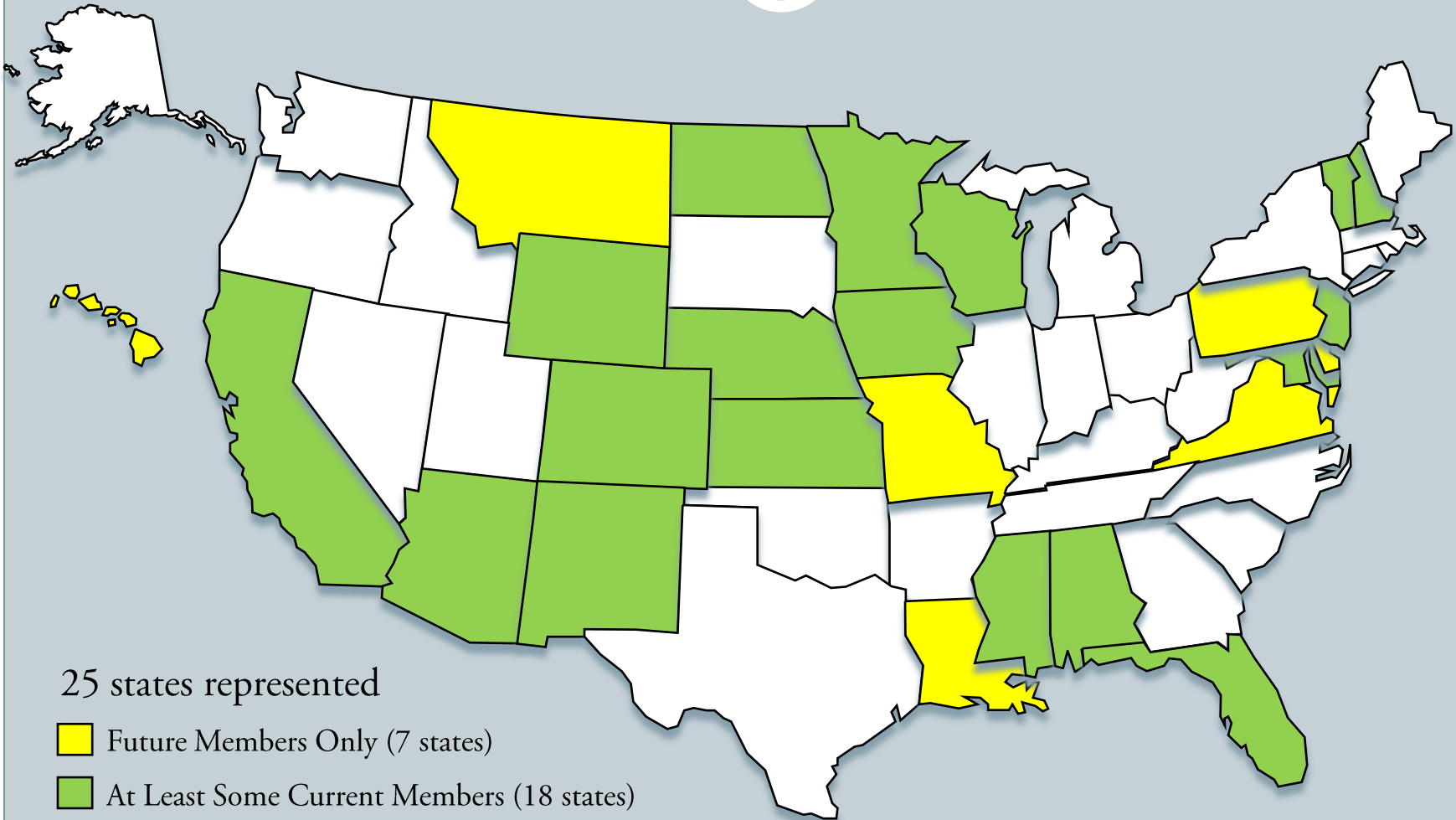


16 States Represented

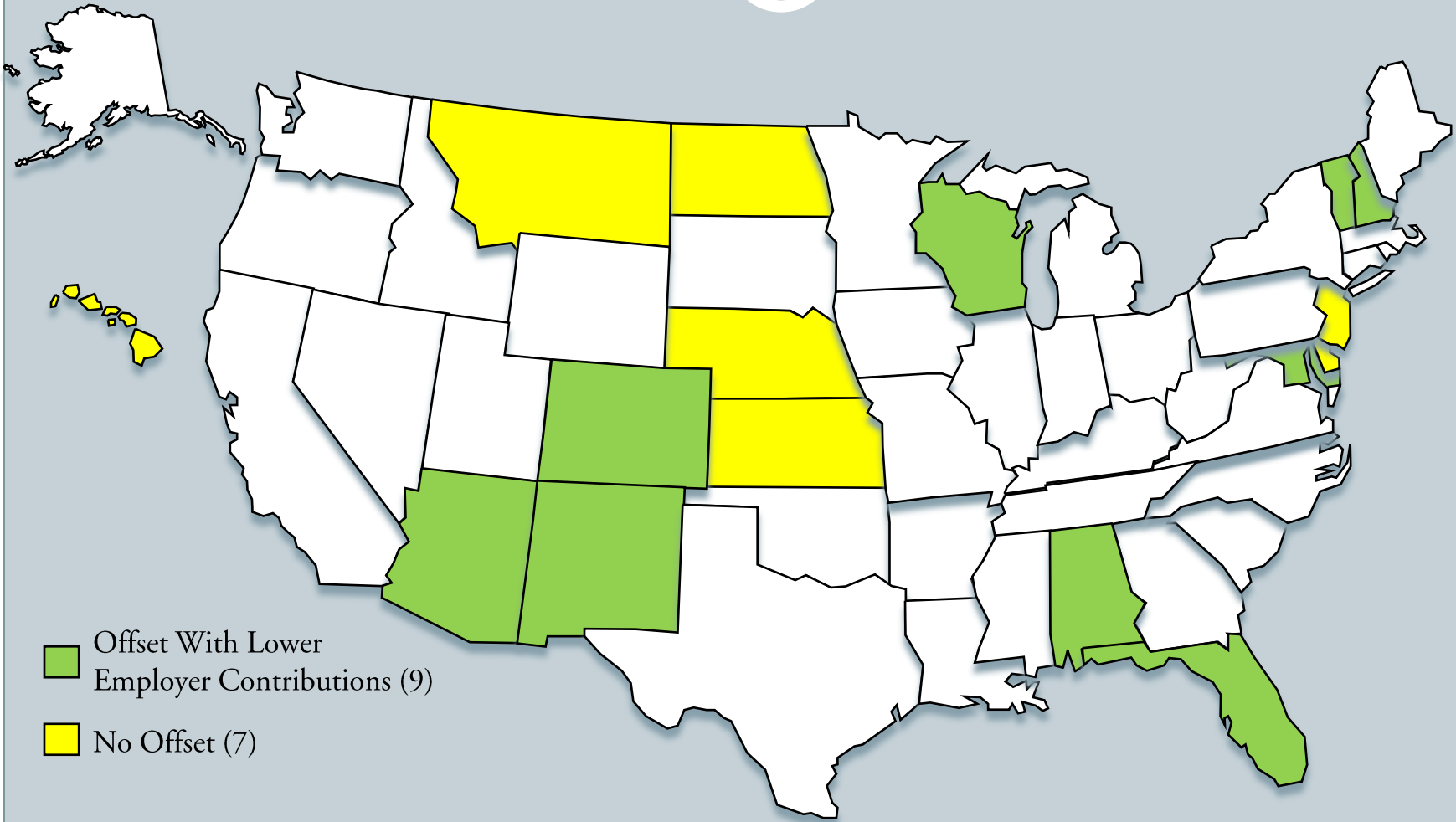
 Future Members Only (3 states)

 At Least Some Current Members (13 states)

Increases in Employee Contributions, 2010 and 2011

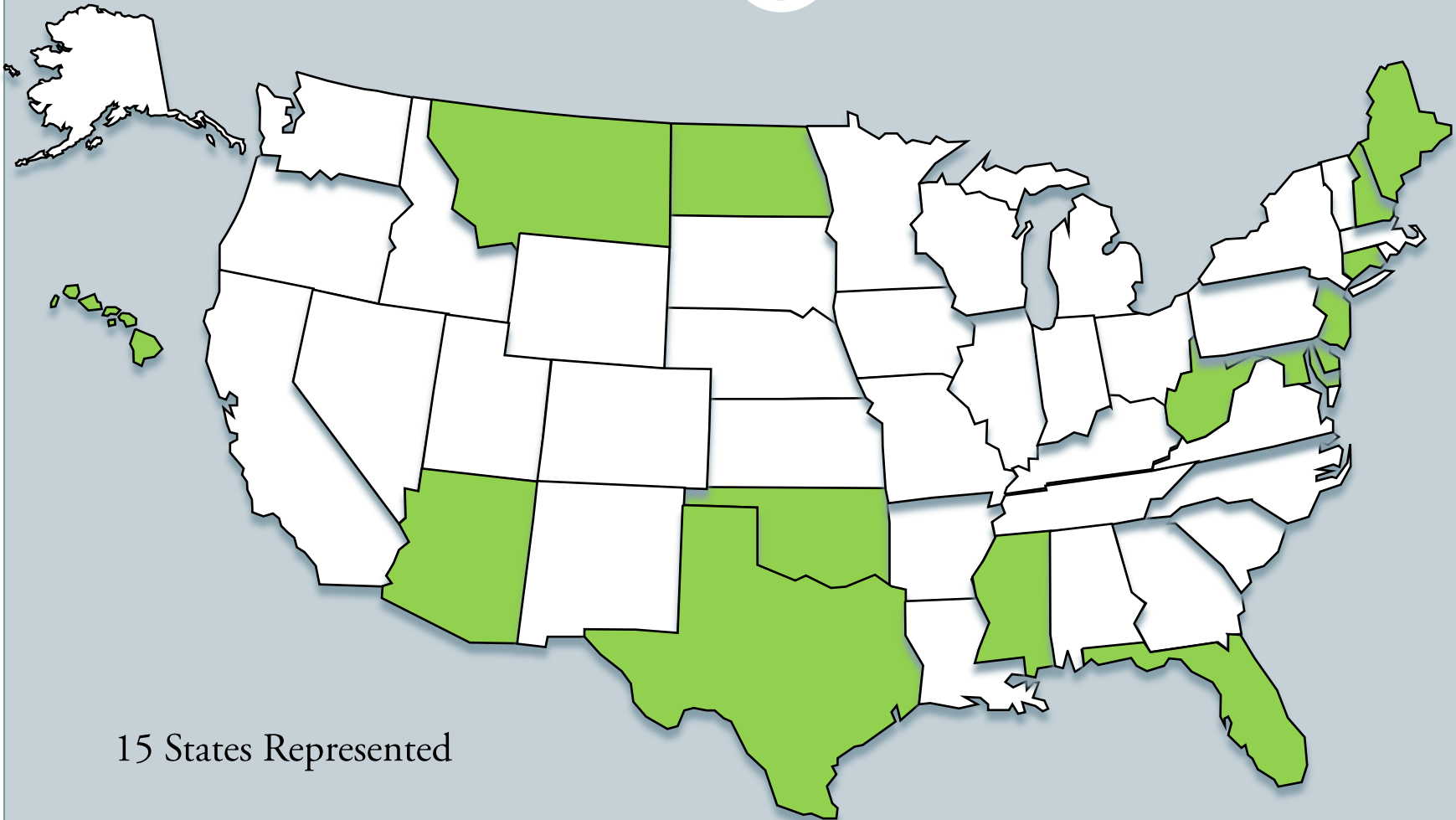


Offsets to Increases in Employee Contributions, 2011



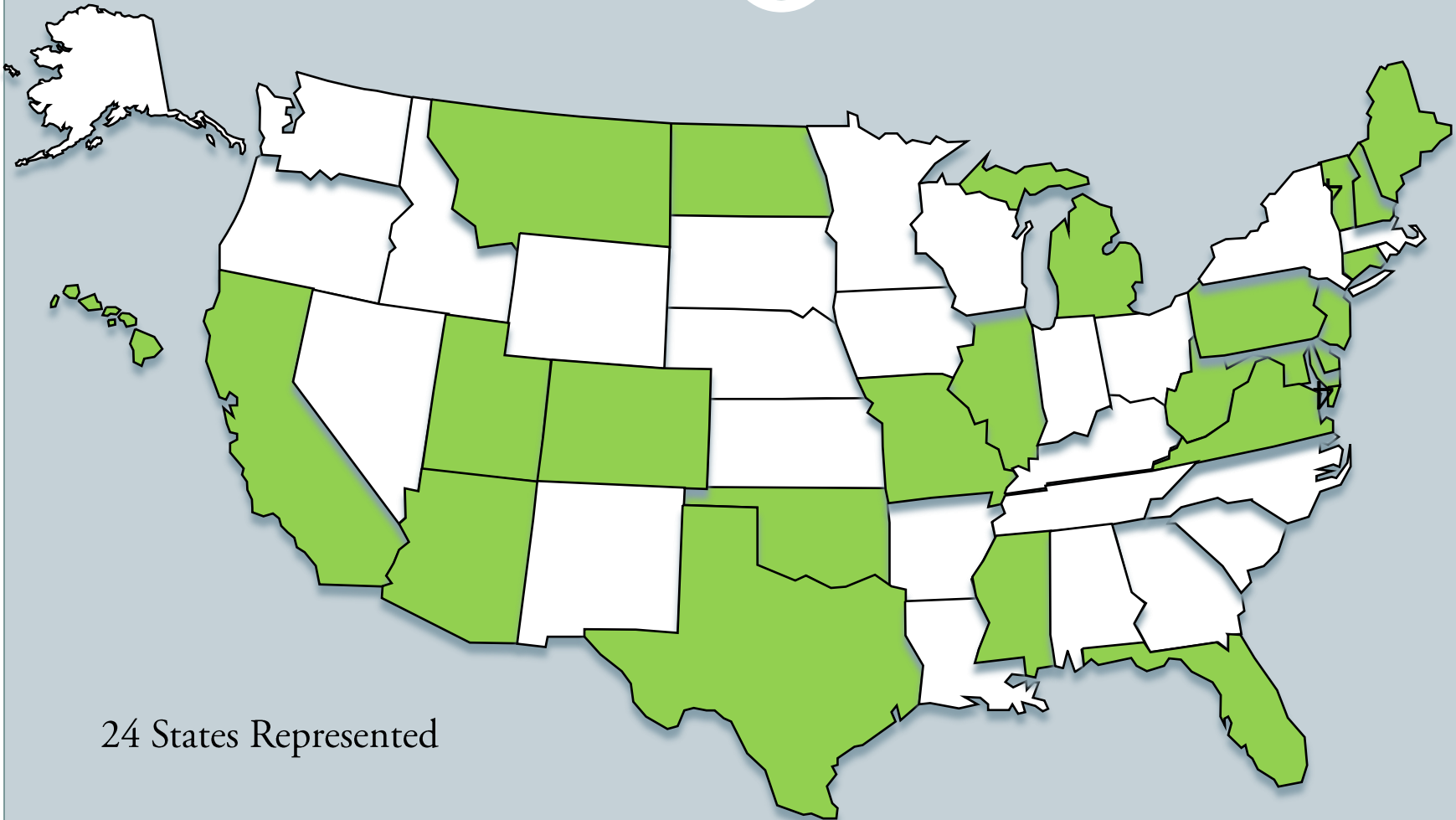
- Offset With Lower Employer Contributions (9)
- No Offset (7)

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



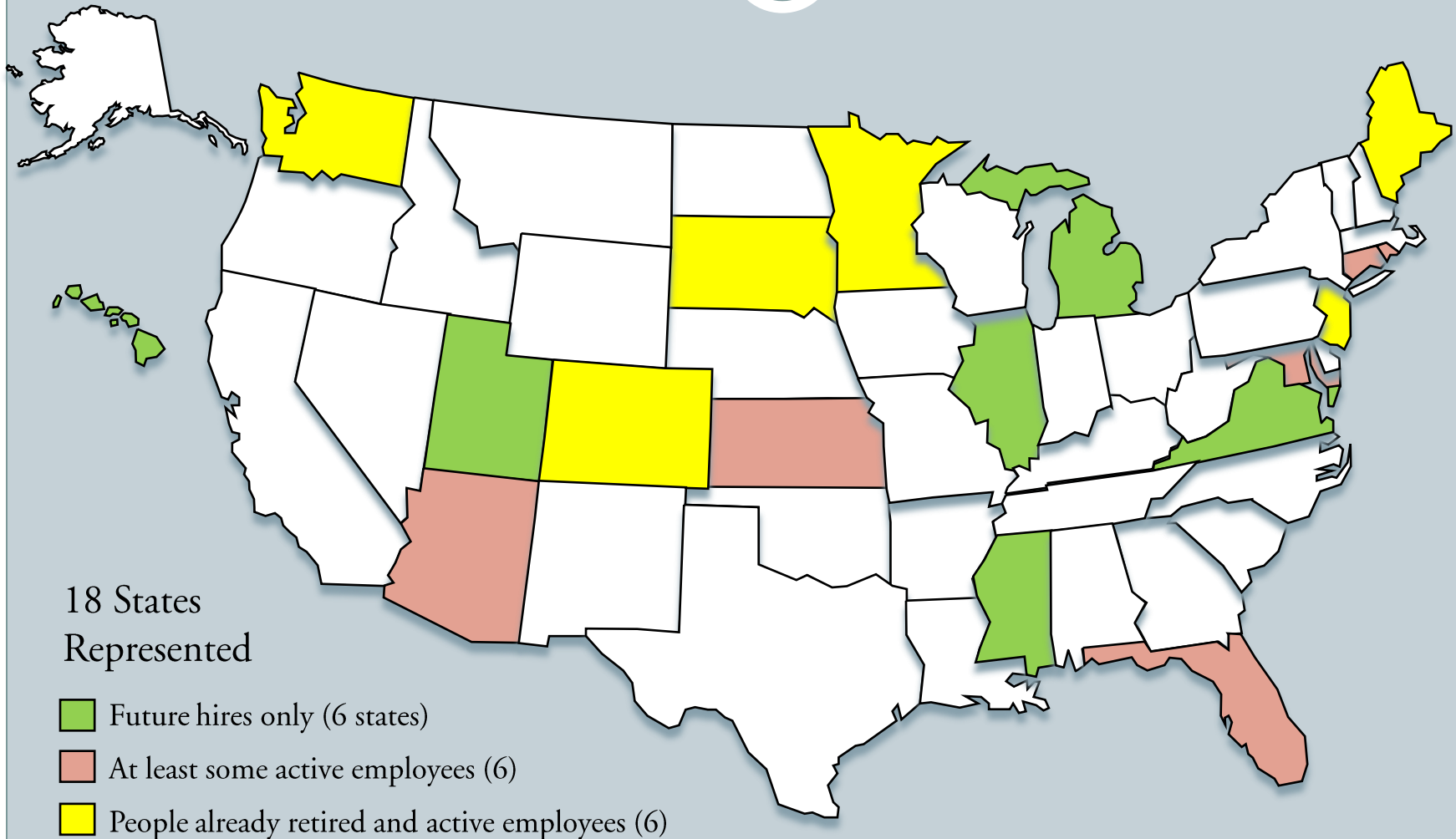
15 States Represented

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



24 States Represented

Reduced Post-Retirement Benefit Increase 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



- With two exceptions, states have revised rather than replaced traditional defined benefit pension plans.
- In 2010, Utah closed its DB plan for all state and local employees and is offering new employees a choice of a defined contribution plan and of a combined plan that includes a DB plan and a mandatory 401(k).
- Also in 2010, Michigan replaced its School Employees DB plan with a combined plan.
- Indiana created an alternative DC plan in 2011.

Trends in DB Plans in 2010 and 2011



- Costs have been shifted to members through 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.
- The 2010 legislative report is available on the NCSL website at <http://www.ncsl.org/default.aspx?tabid=20836>
- The 2011 legislative report, as of June 30, is available at <http://www.ncsl.org/default.aspx?tabid=22763>
- For further information:
Ron Snell -- ron.snell@ncsl.org
303-856-1534