

State Pension Legislation 2005–2010



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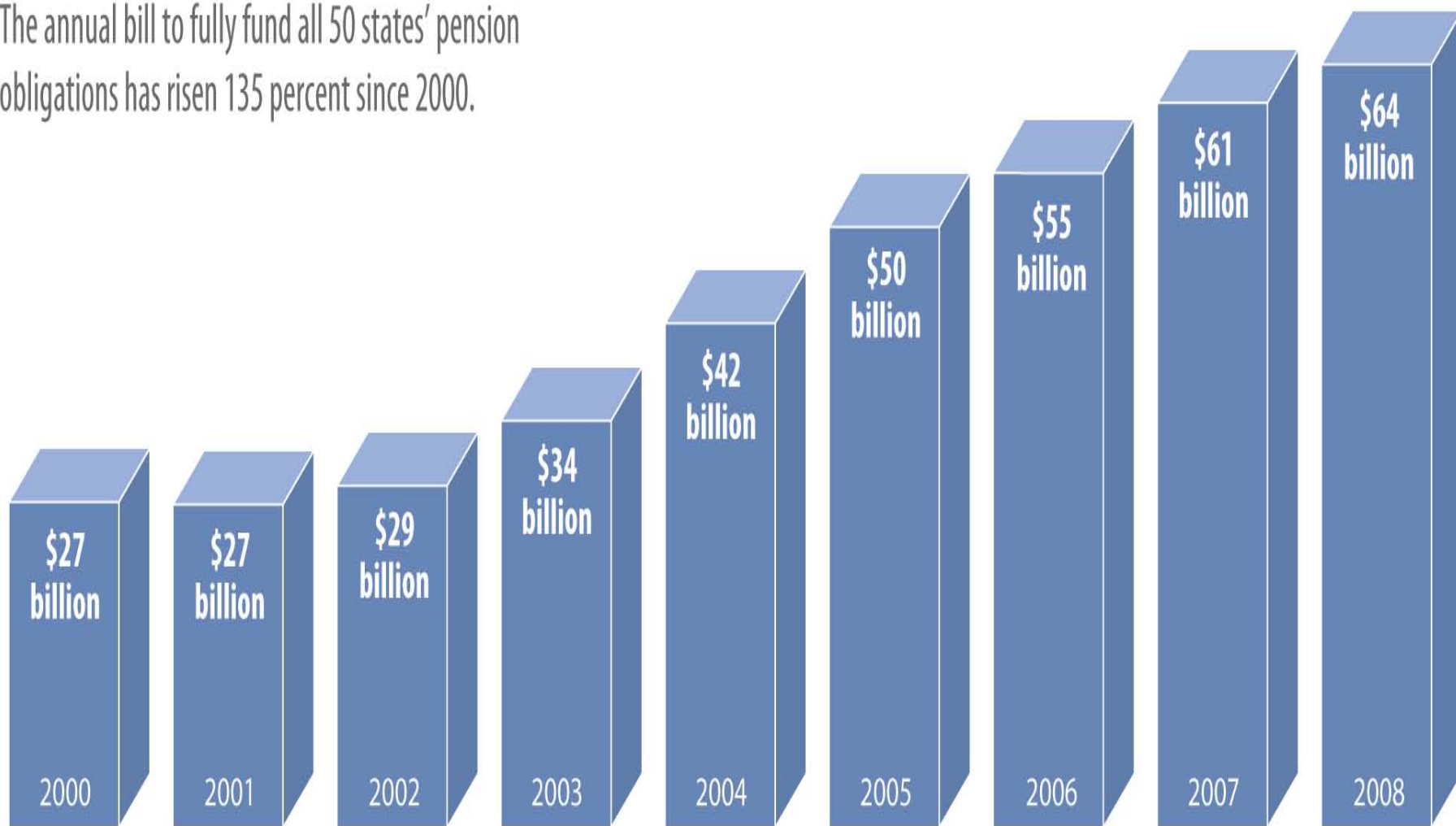


The 50 States' Challenge for Funding Retirement Benefits

- According to the Pew Center for the States, the 50 states in 2008 were \$1 trillion short of funding the commitments made to present and future retirees:
 - About \$450 billion in unfunded liabilities for pension programs
 - In addition, about \$550 billion in unfunded commitments for retiree health care programs.
- Both numbers would be substantially higher if we had accurate numbers for 2010.



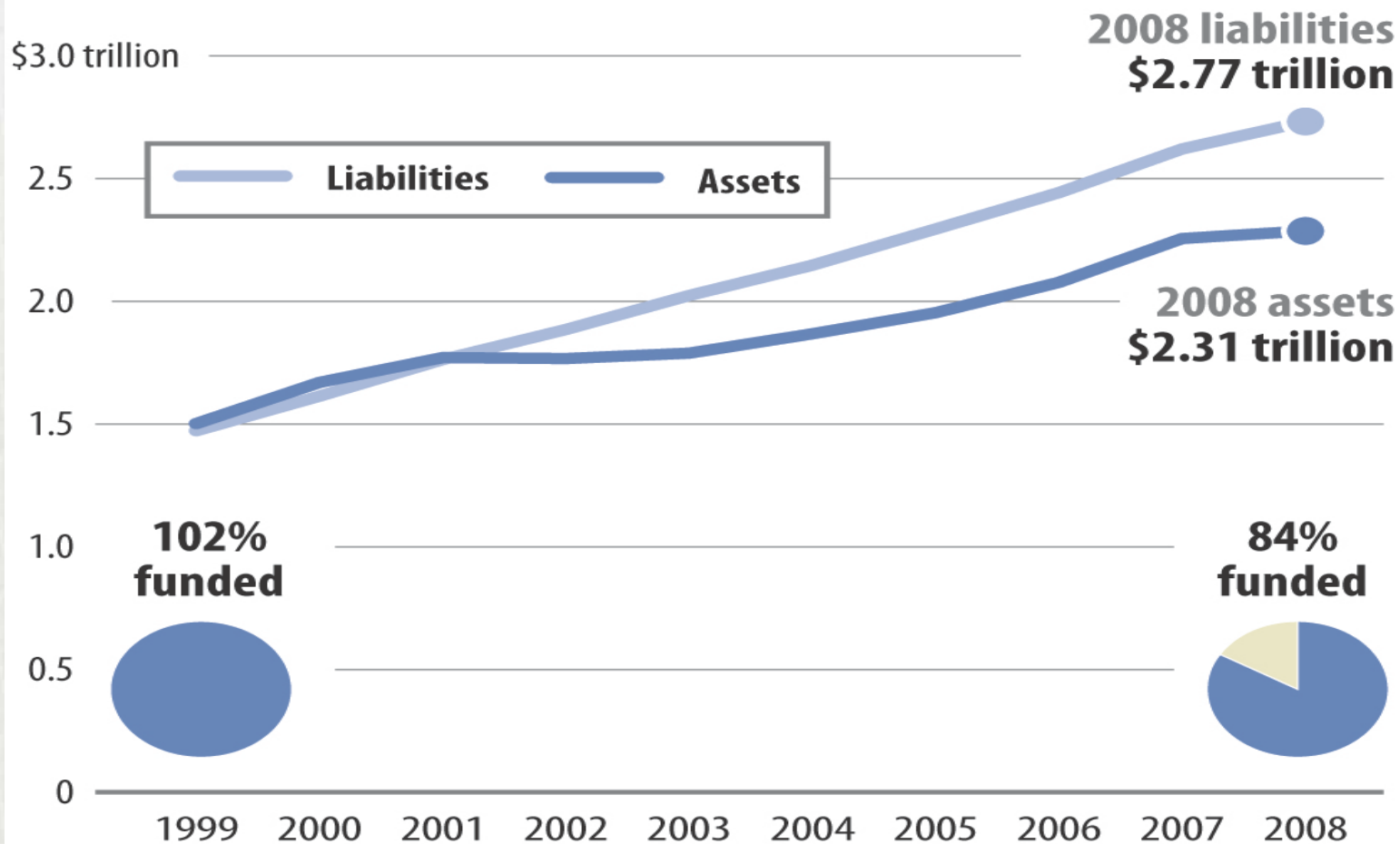
The annual bill to fully fund all 50 states' pension obligations has risen 135 percent since 2000.



SOURCE: Pew Center on the States, 2010.



Funding was strong in 1999 and 2000, but has since been declining.



SOURCE: Pew Center on the States, 2010.



Challenges to Pension Plans Surfaced as Early as 2001

- Asset Values fell in the recessions of 2001 and 2008
- 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.

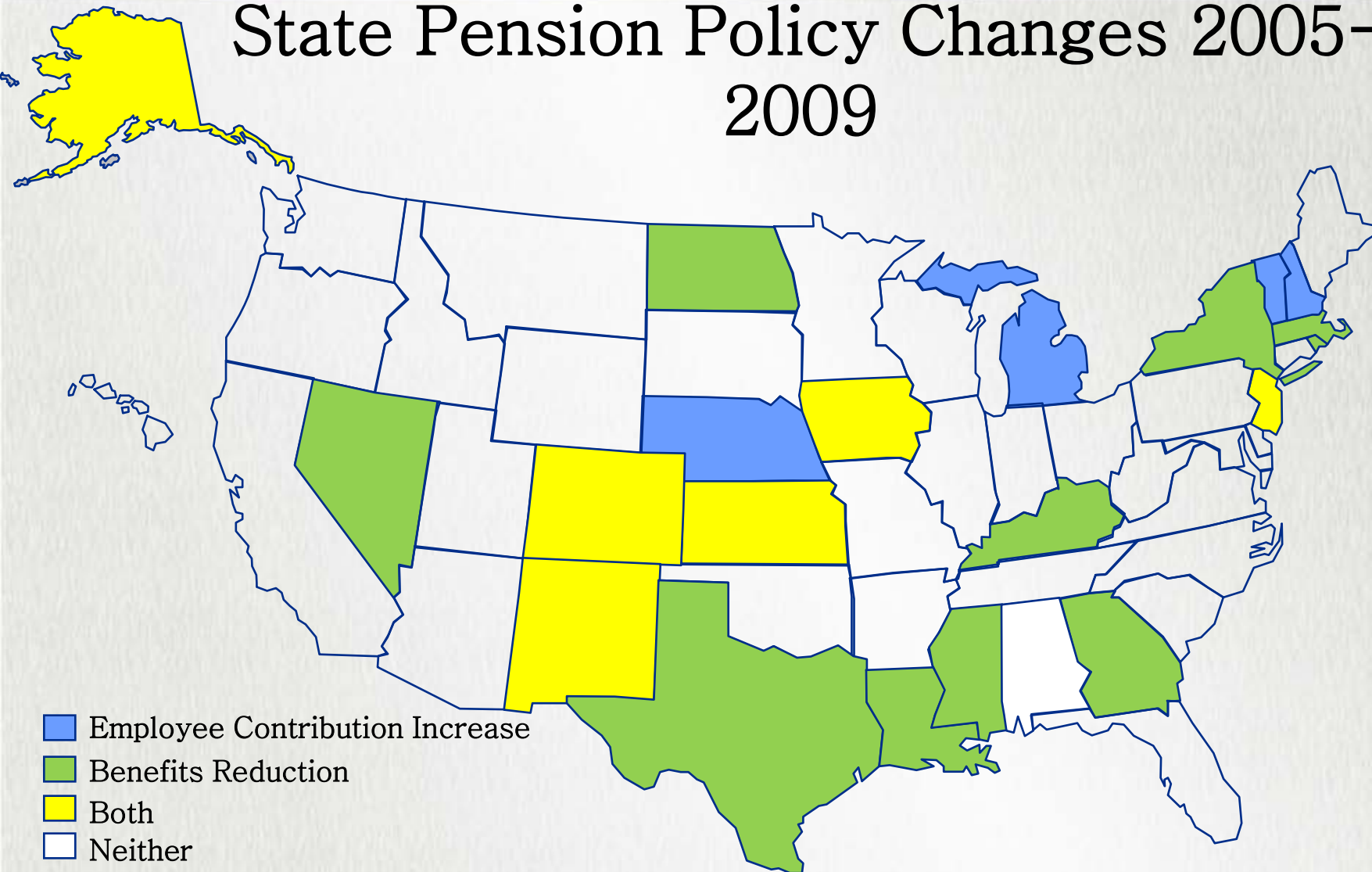


States Began to Address These Issues in 2005

- From 2005 through 2009, at least 19 states passed legislation to control long-term costs
 - Reduced benefits for and higher contributions from new employees.
 - In some states, also for current employees and retirees.
- Benefit increases were very rare, unlike years before 2000.
- Policymakers have been reluctant to enact dramatic plan redesign and are limited in their ability to reduce benefits for existing employees and retirees.



State Pension Policy Changes 2005–2009





Recent Legislation

- General trend from 2005 – 2009 (17 states) was to change contribution, eligibility and benefit provisions *for new employees*:
 - Increased age and service requirements
 - Somewhat smaller benefit as a percent of final compensation
 - Lower benefits available with early retirement than previously
 - Smaller COLAs
 - Higher employee contributions.



Two States Made Structural Changes

- 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.

- Changes similar to those :
 - Broad programs of increases in employee and employer contributions;
 - Higher age and service requirements for retirement;
 - Smaller post-retirement benefit increases.



Many States are Re-examining Policy

- Retirement systems have made similar recommendations to legislatures in Iowa, Minnesota and Colorado, as has the Alabama Superintendent of Schools to his legislature.
- Six states--Illinois, Maine, Montana, Nebraska, New Mexico and Vermont--had formal commissions studying the entire structure of all their state retirement plans last fall. Louisiana is considering defined contribution plans.



Changes Proposed for 2010

- Proposals for 2010 are raising additional issues that formerly would have been thought impossible or were extremely rare:
 - Replacement of defined benefit plans with defined contribution or hybrid plans
 - Changing non-contributory plans to contributory plans.
 - Increasing current employees contribution requirements.
 - Adjusting current employees contribution requirements annually according to actuarial requirements.
 - Increasing vesting requirements (reversing a decades-long trend).
- Public employees will have to provide a greater share of their eventual retirement security.



Colorado Will Cut COLAs

- Colorado legislation signed in February
- Increases in age and service requirements and contribution requirements, but also
- Repeal of the COLA previously promised retired members for 2010 and a permanent reduction of level of COLA for all members -- retired and future
- Rare example of reducing a benefit provision for people previously receiving that benefit



Utah Created Hybrid/DC Plans

- Utah legislation on governor's desk as of 3/9/10
- For new employees, replaces non-contributory DB plan with two choices:
 - A defined contribution or 401(k) with a 10% employer contribution and no required employee contribution (down from this year's 14% contribution).
 - A plan with both defined benefit and defined contribution components that caps the amount the state will ever have to contribute to 10% of salary; a 1.5% multiplier instead of 2%; and a required employee contribution if it ever happens that the 10% state contribution is not enough to fund the defined benefit portion of the plan.



Hybrid Plan Proposed for Michigan

- Governor Granholm's proposals in Michigan
 - Contribution increases from current members of state defined benefit programs, up to 3% of salary (taking level as high as 7.3% for some employees).
 - Cap amount of service current members can earn at 30 years (members would be transferred to a 401(k) if they stay on the job after 30 years.)
 - Enroll new School Employees (including teachers) in a hybrid plan somewhat like the Utah plan, though apparently with a higher employee contribution and possibly lower benefits.



The Outlook

- Issues before legislatures suggest:
 - More of the same: in many states, revision of many features of retirement provisions to stabilize the funding situation.
 - More use of defined contribution and hybrid plans as an alternative to defined benefit plans.
 - More testing of states' ability to change provisions for current employees.
 - The central theme is to increase employees' responsibility for their retirement security.



The Outlook

- Three major questions are outstanding:
 - How will states deal with accrued unfunded liabilities? Higher contributions from employees and lower benefits in the future do not address that issue directly, though they can reduce the growth of an unfunded liability.
 - To what extent can a state reduce benefits or increase contributions from current employees? Law is not settled in many states. Some states are enacting legislation to allow changes in new retirement plans as actuarially required in the future.
 - How will states address the long-term cost of health care for retired employees? A separate issue of comparable fiscal magnitude to that of pension funding.

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