Section III

Hybrid Plan Design

Cash Balance Plan

As the name indicates, a cash balance pension plan features an "account balance" for each member. However, a cash balance pension plan should not be confused with a typical defined contribution plan in which actual individual accounts are maintained. Under a cash balance plan, there only are "credited accounts," which exist as a communications device.

The funds are not segregated into individual accounts, but instead, as in a traditional defined benefit plan, all monies are available to provide benefits to all members. Members in a cash balance plan are kept informed – usually on a quarterly basis – of the ever-increasing lump sum value of their accrued benefit. This is a dramatic means of making members aware of the value of their pension benefits.

A member's cash balance typically is equal to an amount based on annual allocations (e.g., 5% of the year's compensation) which also is credited with interest each year at a rate specified in the plan. Many plans use an interest rate tied to a published index (e.g., prime rate, one-year T-bill rate, federal mid-term rate, etc.).

The ultimate benefit is determined based on the total annual allocations plus the total interest credited to the member's account. The allocation rates might be level over an employee's career or they might vary by age and/or length of service.

Regardless of the manner in which contributions are allocated to accounts, employers may adjust the interest rates used to credit balances. For example, in a low interest rate environment, an employer might increase the interest credited by an additional one or two percent to protect the value of account balances or to provide additional benefits. A minimum interest credit rate, like 3% or 4%, can be set.

If one of the primary reasons for establishing a cash balance plan is to attract young, fast-track employees, the rate of allocation could be set to favor the earlier years of plan participation. Thus, the plan would be relatively frontloaded as opposed to traditional defined benefit plans which often are backloaded (i.e., provide greater benefit accruals to older and longer service employees). Of course, any defined benefit plan could be designed to be frontloaded.

Because cash balance pension plans are defined benefit plans, they usually use five-year, or less, cliff vesting. Under this approach, a member is 100% vested in the value of his or her account after five or fewer years of service. Sometimes even more liberal vesting rules are used to enhance the value of the program. To further enhance the appeal of the cash balance program, an employer typically will allow a 100% vested member to receive the value of the account balance not only upon retirement, but also upon termination for any other reason. A slower vesting schedule could also be used, say 50% after five years, increasing 10% per year to 100% after ten years, if the employer wants to retain employees.

Under a cash balance plan, like other defined benefit plans, the normal form of benefit is a lifetime annuity. However unlike most traditional defined benefit plans, cash balance plans permit retiring members, including those who terminated but left their money in the plan, to receive their benefit as a lump sum instead of as a monthly benefit. A member could also elect a partial lump sum payment and a reduced pension.

The conversion from the cash balance to a monthly benefit amount can be done using an interest rate set on a monthly or other periodic basis and other actuarial factors specified in the plan. The interest rate is flexible so that it stays current. It generally is set using some long-term investment standard outside the plan. For example, the Nebraska Retirement System set its conversion rate for DC transfers to their State and County Cash Balance plans to the PBGC annuity rate, increased by .75% to beat most rates of private insurers.

Pension Equity Plan

The basic concept behind the Pension Equity Plan is that each year the employee is granted credits for retirement benefit purposes. These credits are called retirement credits.

At retirement, death or vested termination, the employee's benefit can be paid as a lump sum, calculated as a percentage of average final salary based on the number of retirement credits earned, or as an annuity based on the value of the account.

For example, assume 10 credits are granted per year of credited service. If the employee works 20 years, the number of retirement credits at retirement or termination would be 200 and the benefit would be 200% or twice the employee's average final salary. Availability of the benefit before normal retirement age is based on the plan's vesting schedule, usually five year cliff vesting or seven-year graded vesting. See the chart below for an example of the benefits under Pension Equity Plan.

Example of Pension Equity Plan Benefit

Retirement Credits:	10 per year of service
Maximum Service:	40 years
Maximum Credits:	400 credits = Benefit of 400% or 4 times final average salary

A member with 20 years of service and a final average salary of $50,000 would get a $100,000 lump sum retirement benefit.

A member with 30 years of service and a final average salary of $40,000 would get a $120,000 lump sum retirement benefit.

The Pension Equity Plan is easy to communicate. For example, the administrator can periodically report the employee's total credits earned. The employee can easily estimate the total benefit by multiplying his or her credits by h is or her current "average final salary."

As compared with traditional defined benefit pension plans, the Pension Equity Plan retains many of the positive aspects of the traditional plan, including the relationship of benefits to average final salary within the government-imposed limits.

As compared with defined contribution plans, the retirement bonus plan would avoid –

- Detailed recordkeeping
- Detailed quarterly or annual statements
- The need to credit interest or actual earnings to individual employee account balances
- The necessity of investment options and fund transfers.

And most importantly from an employee's perspective as compared with most cash balance programs, the benefits for the retirement bonus plan are calculated based on average final compensation.

Floor Offset Retirement Plan

A floor offset plan is comprised of two plans: a defined benefit and a defined contribution plan.

Under a floor offset plan, a vested member receives the greater benefit calculated under a defined benefit plan or his/her account balance in a defined contribution plan. Thus, a minimum benefit level, or "floor", of protection is provided to members. Any shortage between the floor plan's targeted level and the amount provided by the defined contribution plan is compensated for in the defined benefit plan.

To calculate a retirement benefit under a floor offset plan, benefit levels between the defined target benefit level and defined contribution plan are coordinated through a defined benefit plan. Basically, the plan must target a minimum benefit level, or floor. This floor, which depends on the employer's objectives, is normally expressed as a lifetime annuity commencing at normal retirement age or at early retirement age with the appropriate actuarial reduction.

If investments in the defined contribution plan are directed by the employer, the actual account balance is used to determine the floor plan offset. Here, the employee has limited investment risk because of the floor protection. The employee does benefit from investment reward if the account balance exceeds the value of the floor plan targeted level.

The floor offset plan can also be structured using a defined contribution plan where investments are directed by employees. Here, a hypothetical balance is used to determine the floor plan offset. This balance is accumulated using contributions to the defined contribution plan and an interest rate defined by the floor offset plan (in lieu of using actual return). The rate can be fixed (e.g. 8% per year) or reflect standard indices. The employee bears both the investment risk and reward. If actual return of the employee's self-directed investments exceeds the returns using the plan defined interest rate, the total benefit will exceed the floor plan's targeted level. Conversely if actual returns are less than returns using the plan defined interested rate, the total benefit could fall short of the targeted level.

"Inverse" Floor Offset Retirement Plan

An "inverse" floor offset plan, like the floor offset plan, is a combination of a defined benefit and defined contribution plan. However, the main design or benefit is provided by a defined contribution plan, with a scaled-back defined benefit plan used as a minimum benefit or safety net.

For example, let's say plan policy defines a long-term cost of the plan to be a total of 14% of salary (employer and employee rates combined). It is decided to direct 12% of salary into a DC plan with the remainder used to fund a minimum DB benefit for retiring members who want an annuity form of payment. Furthermore, it is determined that a 12% of salary contribution can fund the accruing cost of a DB plan with a 2% multiplier. Also, it is determined that the cost of "guaranteeing" a DB plan benefit based on a 1.5% multiplier is 2% of salary. Therefore, for a total cost of 14% of salary, 12% of salary is contributed to a DC plan and 2% of salary is contributed to a DB plan for purposes of guaranteeing a DB benefit with a 1.5% multiplier.

Members whose DC account investment performance exceeds a conservative rate of return will have a sufficient DB balance to be able to annuitize their balance at or above the 1.5% multiplier level using their DC account balance, and will not need additional funding support. Members who elect a lump sum or installment payment form of distribution from the DC plan will not be eligible for additional funding support. Only members who experience poor DC investment returns and elect an annuity would receive additional funding support that would be required to, when added to their DC account balance, be sufficient to fund an annuity based on a 1.5% multiplier. Under this approach, only the DB safety net plan is subject to actuarial risk.

Costrell and Podgursky: Cash balance plans for school teachers offer a way out of the DB/DC impasse

Teacher Pension Reform: A Way Out of the Impasse

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For more than a decade, debate over reform of public pensions — including teachers — has been in a rut. On one side, some reformers have favored scrapping traditional teacher pension plans (defined benefit, or DB, of the "final average salary" type) in favor of the IRA-type plans received by most private-sector professionals (defined contribution, DC). On the other side, teacher unions, retiree groups, and DB pension plan professionals fight hard to protect existing plans.

Each side has legitimate points.

The critics of DB are correct that current plans are seriously underfunded in part because benefits are not tied to contributions. This makes plans vulnerable to gaming and juicing up of benefits formulae when stock market returns are good, which, of course, leaves the taxpayers and employers holding the bag when stock market returns turn south.

DB advocates are correct in that a movement from DB to DC can shift investment risks from employers to teachers. Last year's stock market meltdown, which left many private sector professionals near retirement with inadequate savings, illustrates the problems associated with shifting these risks to employees. Moreover, DB advocates argue, many educators lack the expertise or interest to make efficient retirement portfolio planning decisions, and will make poor choices, while running up large fees in the process.

In two articles in Education Next, we have highlighted a different set of problems with most teacher pension plans. (The most recent article, "Golden Handcuffs," was published today on the Ed Next website.) As currently configured, these plans create peculiar backloaded incentives that punish mobile teachers and push career teachers into retirement at relatively young ages. One of the key features that create these peculiarities is retirement eligibility rules that disproportionately reward the attainment of certain service benchmarks, such as "25-and-out" rules that encourage teachers to remain in the classroom for 25 years and then retire immediately thereafter. Another feature is the loss of employer contributions for teachers who leave before vesting. Removing the perverse incentives embedded in teacher pension plans could help to boost teacher quality by making the field more attractive to teachers with more varied career paths.

What those who are butting heads over DB vs. DC pensions may not realize is that there are other pension reform options besides the traditional DB and DC plans that can go some way toward addressing the concerns of both groups, and also alleviate the problems we identify with regard to mobility and retirement rules. For example, in our new article "Golden Handcuffs," we illustrate how pension wealth would smoothly accrue under a "cash balance" (CB) plan of the type that has commonly been adopted in the private sector, and also a few places in the public sector. As with most current plans, educators and employers would make regular contributions. The pension fund would guarantee a fixed return on these contributions (which makes it a DB plan, both logically and legally). Each educator would get a notional account in the fund. This would grow each year based on the fixed return and new contributions (which makes it look similar to DC plans, except without the investment risk). When the educator chooses to retire, these returns could be converted into an annuity, just as in current DB plans, to make sure no one risks outliving their retirement savings.

There are two key points to note. First, and most important, investment risk and money management costs stay with the employer, which should please the advocates of DB plans. The pension fund would invest these funds and guarantee the return to the educator. Second, there would no longer be "peaks" and "valleys" in pension wealth accrual – one year would be the same as any other as far as pension wealth accrual is concerned. Unlike a DB plan, however, when teachers quit, the employer contributions would remain in the plan, and would continue to earn the fixed return until the educator chooses to retire.

Such a plan would help address many of the concerns of DB critics as well. Since the final annuity is directly tied to the history of employee and employer contributions and not the just the last few years of earnings, as in current plans, it is harder to game. Indeed, it is quite transparent for all to see how much has been contributed on the educator's behalf. In addition, the mobility costs described in "Golden Handcuffs" would disappear or be greatly reduced. Teaching professionals who move from one state to another in the course of a teaching career would not suffer devastating losses in pension wealth as they do in the current system.

There would, of course, be issues to debate. The degree of generosity can vary, depending both on the employer contribution rate and the guaranteed rate of return. And the fund managers may still make overly risky investments that can leave the plan underfunded, although one suspects there will be less temptation to do so if the guaranteed return approximates the rate on risk-free investments, as is typically the case.

But the key point to understand is that there is nothing inherent in DB plans that require they have the peculiar incentives and penalties that we currently observe. It is possible to design DB plans that keep the investment risk with the employer, but allow smoother and fairer accrual of pension wealth for educators.

The costs of current teacher pension plans are rising rapidly and their sustainability is in question. This is forcing policymakers to consider changes and reforms. In thinking about reform, it is important for policymakers to understand that the DB versus DC – either/or — dichotomy is not helpful. As we have seen, CB plans have features of both. In addition, there is a continuum of options available that includes hybrids of various sorts, with components of CB, DC, and traditional final average salary plans . Indeed, why require that one size fits all? Some teachers may want the freedom to invest at least some of their own funds, and hybrid plans such as TIAA-CREF, which include DC options, as well as CB-type of guaranteed-return funds with annuitization, offer such flexibility.

Actuaries are quite well aware of our main point here: that DB plans, which keep investment risk with the employer, need not generate peculiar incentives and uneven distribution of pension wealth. Concerning the accrual of pension wealth, one actuary noted – "you can make the lines look however you want." And "how the lines look" should be a central focus of reform discussions. What type of deferred compensation plan (and associated pension wealth accrual) is the best way to recruit, retain, and motivate a high quality teaching workforce?

NB: You can listen to a new Ed Next podcast in which we discuss teacher pension reform **here** (http://educationnext.org/pension-reform-would-be-good-for-teachers/) and you can watch an interview about the ways that teacher pension plans punish short-term and mobile teachers and reward teachers who spend their entire career teaching in one state **here** (http://educationnext.org/teacher-pension-reform/).

Comparison of Selected Features of Public Sector Hybrid Retirement Benefit Plans

	Georgia ERS	Indiana PERF	Indiana TRF	Ohio PERS	Ohio STRS	Oregon PERS	Washington DRS
Applicable group(s)	Mandatory for all new members 1/1/09 and after. Current membership may opt-in any time.	Mandatory for all participants	Mandatory for all participants	Optional for new hires and non-vested workers since 2002	Optional for new hires and non-vested workers since 2001	Mandatory for new hires since August 2003	Optional
Normal retirement age/yrs of service	60/10; any/30; early (reduced) any/25;certain law enforcement 55/10	65/10, 60/15, Rule of 85 at age 55	65/10, 60/15, Rule of 85 at age 55	60/5, 55/25, any/30; 48/25 for law enforcement	60/5	65/any, 58/30; 60/any, 53/25 for public safety	65/5
DB plan multiplier	1.25%	1.1%	1.1%	1.0%; 1.5% for years in excess of 30	1.0%	1.5%; 1.8% for public safety	1.0%
Employer funds DB plan benefit?	Employee contributes 1.25%; employer funds remainder	Yes	Pre-'96 hires, no; new hires since, yes	Yes	Yes	Yes	Yes
Social Security?	Yes	Yes	Yes	No	No	Yes	Yes
Employer contribution to DC plan	100% match on employees' 1st 1% of salary; 50% match on next 4% of salary	Employers may elect to make EE contributions, which vest immediately. The State makes contributions for its employees.	Employers may elect to make employees' contributions, which vest immediately	ER contributions are divided among DB, DC, D&D and retiree health care. Five-year vesting period for ER contributions	ER contributions are divided among DB portion, DB UAAL, and retiree health care. 5-year vesting period for ER contributions	Employers may elect to make employees' contribution	No
Employee DC plan contribution	Minimum 1.0%	3.0%	3.0%	9.5%, including 0.1% for admin fees	10.0%	6.0%	5% to 15%, depending on EE election

Compiled by NASRA February 2010

Comparison of Selected Features of Public Sector Hybrid Retirement Benefit Plans

	Georgia ERS	Indiana PERF	Indiana TRF	Ohio PERS	Ohio STRS	Oregon PERS	Washington DRS
DC plan investment options	13 options ranging from conservative to aggresssive, plus 5 lifecycle funds.	Six options administered by the fund, ranging from conservative to aggressive	Six options administered by the fund, ranging from conservative to aggressive	Nine OPERS-sponsored options ranging from conservative to aggressive.	Eight STRSOH-sponsored options ranging from conservative to aggressive and a guaranteed return option	All DC plan contributions are invested in the DB plan fund	Either the Total Allocation Portfolio, which mirrors DB plan fund, or 10 self-directed funds ranging from conservative to aggressive plus balanced funds
Default DC plan investment option	Lifecycle funds based on age.	The Guaranteed Fund, which earns a rate established annually by the Board. The current rate for the Guaranteed Fund is 6.0%.	The Guaranteed Fund, which earns a rate established annually by the Board. The current rate for the Guaranteed Fund is 6.0%.	Moderate pre-mixed portfolio	Money market fund	DB plan fund	Total Allocation Portfolio, which mirrors the DB plan fund
DC plan withdrawal options	Rollover, annuity, lump-sum, partial lump-sum, installments	Annuity, rollover, partial lump sum and annuity, deferral until age 70 ½	Annuity, rollover, partial lump sum and annuity (limited to after-tax assets), deferral until age 70 ½	Annuity, including PLOP; partial distributions; payments for a guaranteed period; monthly payments of a designated amount; deferral until age 70½	Annuity, including PLOP; lump sum and rollover	Lump-sum payment or in equal installments over a 5, 10, 15, or 20-year period.	DB plan fund: lump sum, direct rollover, scheduled payments and a personalized payment schedule. Self-Directed: same as DB plan fund, plus annuity purchase
Info online	www.ersga.org	www.in.gov/perf	www.in.gov/trf	www.opers.org	www.strsoh.org	oregon.gov/PERS (Click on OPSRP & IAP	www.drs.wa.gov (Go to "my plan 3 account")

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Milliman

Public Employee Retirement Systems

Public plan DB/DC choices

Mark Olleman, FSA, MAAA

This article is about choices: When given the choice, do public employees choose a defined benefit (DB) plan or a defined contribution (DC) plan? Do employers give employees the chance to choose a second time? What happens when employees choose their own investments? Can employers choose to offer meaningful death and disability benefits to DC members? What are the implications of an employer choosing to change from a DB to a DC plan? This article looks at the recent experience of statewide retirement systems to provide some answers.

What do public employees choose?

Many people claim that DC plans are more attractive to new employees than DB plans. Is this true? As a test, note that in the last 10 years, the seven statewide systems listed in Table 1 have begun giving new hires the choice between participating in a DB or a DC plan. Their experience indicates that public employees prefer DB plans. The percentage of new employees electing DC plans ranges from 3% in the Ohio Public Employee Retirement System to 26% in Florida.

Table 1 shows that many of the members going into a DB plan never submit an election and are placed in the DB plan by default. However, based on survey data, Florida found that "up to 45% of the defaulters may be using this option as their active election in the belief that by defaulting there could be no mistakes made in their plan choice." What is more, Table 2 shows that in Washington PERS–the only system where DB is not the default–63% of new members have actively chosen an all-DB plan (Plan 2) over the default of a combined DB and DC plan (Plan 3).

Most of these DB/DC choice plans have had relatively stable election percentages in the short time they have existed. However, we do not know how the choices members make will change in the future. The stock market decline of 2000 to 2002 has certainly influenced many members. No doubt factors such as the future of the stock market and the experiences of people retiring with only DC plans will influence future member choices. The financial market experience of late 2008 may have some influence as well.

TABLE 1

NEW HIRE ELECTIONS IN MOST RECENT COMPLETE YEAR

SYSTEM	DB BY DEFAULT	DB ACTIVE ENROLLMENTS	DC ACTIVE ENROLLMENTS	COMBINED PLAN ACTIVE ENROLLMENTS
COLORADO	39%	43%	18%	NOT OFFERED*
FLORIDA	55%	19%	26%	NOT OFFERED*
MONTANA PERS	90%	NOT SEPARATED*	10%	NOT OFFERED*
NORTH DAKOTA**	88%	NOT SEPARATED*	12%	NOT OFFERED*
OHIO PERS	82%	13%	3%	2%
OHIO TEACHERS	72%	14%	11%	4%
SOUTH CAROLINA	80%	NOT SEPARATED*	20%	NOT OFFERED*

* *"NOT SEPARATED" MEANS ACTIVE DB ENROLLMENTS HAVE NOT BEEN SEPARATED FROM DEFAULT DB ENROLLMENTS.*
"NOT OFFERED" MEANS THERE IS NOT AN OPTION TO ENROLL IN A COMBINED DB/DC PLAN.

*** NORTH DAKOTA STATISTICS ARE FOR JANUARY 2001 THROUGH JUNE 2008.*

TABLE 2

CUMULATIVE WASHINGTON PERS NEW HIRE ELECTIONS FROM MARCH 2002 TO SEPTEMBER 2008

PLAN 3 COMBINED DB & DC BY DEFAULT	PLAN 3 COMBINED DB & DC ACTIVE ENROLLMENTS	PLAN 2 ALL DB ACTIVE ENROLLMENTS
19%	18%	63%

Tables 1 and 2 summarize the experience of systems that allow their members to choose between a DB plan and a DC plan. Ohio and Washington state members also have the choice of a "combined" plan, where employer contributions fund a DB plan and employee contributions fund a DC plan. Washington state members do not have the option of an all-DC plan.

What about do-overs?

One plan design choice employers face is whether to give employees a chance to change their mind. This chance for a do-over has been referred to by some as the pension mulligan. Although Montana PERS, North Dakota, Vermont, and Washington state require new hires to make a one-time irrevocable decision, other systems do not. Colorado allows members to change their election one time in years two through five after hire. Ohio Teachers and South Carolina also allow members to change their election once in the first five years, but only from DC to DB. Florida allows members to change once at any time before retirement or termination of employment. Last, Ohio PERS allows members to change up to three times: once in their first five years of employment, once in their second five years, and once more at any time after 10 years of service through retirement.

You might ask, "What do systems do when members change their mind?" Florida allows two choices when members switch from the DB to the DC plan. The members can either (1) freeze their current DB benefits based on service and salary to date and have future contributions accumulate in their DC accounts, or (2) convert their DB benefits into DC accounts based on the value of the normal retirement benefit.

If a Florida member wants to switch from DC to DB, the member must pay the full cost based on either the present value or the actuarial accrued value, depending upon where the member has previous DB service prior to joining the DC plan. The DC account is used first. If there is more money than needed in the DC account, the member keeps the extra in the DC account. If there is not enough money in the DC account, then the member must pay the difference or stay in the DC plan.

Ohio PERS, which allows up to three changes, takes a somewhat different approach. Changes are prospective only, but members transferring to the DB or combined plan have the option to purchase service in the new plan using their DC accounts. Frozen DB benefits are based on salary and service during DB membership only.

The do-over could be particularly valuable when a member's situation changes. As an example, the portability of a DC plan might be attractive to a teacher who does not expect to stay long in a position due to a military spouse who is frequently moved around the country. However, if the couple's plans change and they decide to settle down, the teacher might want to change to the DB plan.

Can meaningful death and disability benefits be provided in a DC environment?

Yes, meaningful death and disability benefits can be provided in a DC environment, but it will require supplemental contributions. Consider the choices three states have made to respond to the criticism that DC accounts do not provide adequate death and disability benefits.

In Florida, where members choose between a DB and a DC plan, disabled members can choose to surrender their DC account balance and receive the same disability benefits as provided by the DB plan. This raises a question: Where does the money to finance this benefit come from? The answer is that the employer pays a separate charge ranging from 0.25% of pay for general members to 1.33% of pay for special risk members, and a side account is maintained to finance the difference between the cost of the disability benefits and the dollar amount of the DC accounts surrendered by the members. If DC members die in Florida, their death benefit is the DC account balance. Montana PERS has a similar provision where 0.30% of DC member pay is set aside to finance long-term disability benefits.

Alaska has a different approach. Alaska public employees hired after July 1, 2006, all go into a DC plan. Here the occupational death and disability benefit is 40% of salary until normal retirement (50% of salary for the occupational death of police and fire members). The employer continues both the employer and employee contributions into a special occupational death and disability trust account until the member reaches normal retirement, or until the date the member would have reached normal retirement in the case of occupational deaths. At normal retirement age, the 40% (or 50%) of salary benefit stops, and the member, or survivor, receives the DC account as well as the accumulated contributions from the occupational death and disability trust account with actual returns net of expenses. Employers make contributions into a separate fund to finance the extra benefit not provided by the DC account.

What happens when employees choose their own investments?

Experience indicates the average employee directing his or her own investments earns lower investment returns than a statewide DB system. Here is the experience of two states.

Nebraska's state and county employees hired between 1964 and 2003 had only a DC plan. During the same period, Nebraska maintained separate DB plans for its school employees, state judges, and state patrol. Over the 20 years leading up to 2002, the average return in the DB plans was 11% and the average return in the DC plans was between 6% and 7%. Why the significant difference? One reason is that nearly 50% of DC member contributions were invested in the stable value fund. The stable value fund was the default for members not making a specific investment election. Although the stable value fund is very conservative and the investor's balance will not decrease, the investor also has a lower expected rate of return. Partially due to the lower returns, employees were receiving a replacement ratio of their pre-retirement income closer to 30% rather than the projected 50% to 60%. Nebraska has since decided that employees hired on or after Jan. 1, 2003, will go into a hybrid defined benefit plan.

West Virginia had a similar experience. Teachers hired between 1991 and 2005 had only a DC plan. Teachers hired after July 1, 2005, go into a DB plan instead. One of the reasons for this change is that average DC returns lagged DB returns. As an example, during the seven years from 2001 to 2007, the DB plan outperformed the DC plan in both the best and worst markets. The DC return was higher in only one of the seven years Over the seven year period, the average DB return was 3.15% higher. Specific returns are shown in the appendix.

Do DC members have to choose their own investments?

Employees directing their own investments tend to earn lower investment returns than statewide DB systems for a variety of reasons. DC members are part-time investors, whereas DB plans are managed by full-time highly trained professionals. DB plans have investment options that are generally not available to DC members, such as real estate, private equity, and hedge funds. DC members often lack discipline and chase returns. Does this mean that DC members cannot earn the same investment returns as DB plans? No, DC members can earn exactly the same returns. Members of Washington state Plan 3 have the option to invest in the Total Allocation Portfolio (TAP), which mirrors the investments in the state DB plan and therefore earns the same returns. Washington has made the TAP the default investment option for Plan 3, and approximately 61% of the members' DC assets are in the TAP option.

The employee contributions of members in the Oregon Public Service Retirement Plan go into the Individual Account Program (IAP). Like Washington's TAP, Oregon's IAP money is invested in the same manner as the DB plan. However, unlike Washington's TAP, which is one of many investment choices, in Oregon's IAP there are no other investment choices, and so all DC money is invested to match the DB plan.

Both Washington and Oregon provide members with a professionally managed portfolio. Washington's approach leaves room for individual risk tolerance. For instance, members near retirement may not want to take as much risk. Oregon's approach ensures that all member funds are invested in a carefully managed portfolio. Either way, it is ironic that DC members may need to give up their ability to choose their own investments in order to earn returns competitive with DB plans.

Both the Washington and Oregon plans are hybrid plans where employer contributions fund a DB plan and employee contributions go into a DC plan. This is significant because the DB plan will provide some level of guaranteed income regardless of DC investment returns.

Does changing to DC solve funding problems?

In 1991, the West Virginia teachers' poorly funded DB plan was closed to new members. All new hires were put into a DC plan. This funding solution overlooked some important considerations:

- New members do not start with any unfunded obligation.
- Projected contributions for new members were worth more than the projected DB costs for those members.
- No unfunded obligations for existing members are reduced when new members go into a DC plan.

As a result, the loss of new members made it more difficult to finance the unfunded obligations of the West Virginia Teachers' Retirement System (TRS).

In 2003, West Virginia studied whether teacher retirement should be returned to a DB plan. Another factor in the decision was that 4,500 members who transferred from the DB to the DC plan in 1991 found it hard to retire after the bear market of 2000–2002. When also considering the lower average returns that were earned on the DC member accounts, the state decided that starting in 2005 all new hires would go into the DB plan to save money. After studying the issue, the state decided that funding a DB plan properly would be less expensive than a DC plan providing equivalent benefits. The state has shown discipline to achieve this proper funding, with extra contributions of $290.1 million in fiscal year 2006 and $313.8 million in fiscal year 2007. In addition, West Virginia completed a tobacco bond securitization in fiscal year 2007 and deposited $807.5 million of those proceeds into TRS as another special appropriation. Most recently, in June of 2008, the teachers in the DC plan were given the choice to switch to the DB plan. Seventy-eight percent chose to switch.

West Virginia projected a $1.2 billion savings in the first 30 years due to moving new entrants from the DC to the DB plan. This relies on an assumed return of 7.5%. The Legislature asked what return would be needed to break even. The answer was 6.0%. In order for the DB plan to save money, a projected return of more than 6.0% was needed. The employer cannot avoid funding risk with a DB plan, but changing to a DC plan does nothing to take care of unfunded obligations.

Some states require specific contributions to the DB plan as a percent of DC member pay in order to finance preexisting unfunded liabilities and to defray expenses. The systems include Colorado, Montana PERS, Ohio PERS, Ohio Teachers, and South Carolina. Details are in the appendix.

What are the implications of these choices?

The choices discussed in this article have many implications. Public employees have overwhelmingly chosen DB plans over DC plans. This implies that DB plans are more attractive than DC plans to public employees. This is not surprising, as public employees tend to have long service. Some systems have chosen to allow their members a second choice. This do-over could help an employee reverse a bad decision. Some systems have chosen to provide meaningful death and disability benefits in a DC environment; however, supplemental contributions are required. Employees tend to earn less when they choose their own investments. However, this can be countered in a DC plan by using an alternative like Washington state's TAP or Oregon's IAP, where the DC assets are invested in the same manner as the DB assets. Choosing to change from a DB to a DC plan does not solve funding problems.

In the final analysis, it's a question of accumulation and distribution. The accumulation of contributions and investment earnings determines available retirement income. A plan that maximizes investment earnings maximizes the benefits provided by contributions. Public employees are choosing plans that provide lifetime distributions. There is not yet much experience on how many DC members have been able to make their assets last a lifetime. The distribution phase and the loss of longevity risk pooling in retirement is probably the hardest obstacle for DC plans to overcome. The consequences of outliving one's assets are severe. DC plans rarely measure whether assets accumulated will provide adequate retirement income. How many employees can be sufficiently educated and empowered to navigate the risks of pre-retirement accumulation and postretirement distribution?

There often seems to be a choice between the employer bearing all the risk of funding a defined benefit and the member bearing all the risk of accumulating sufficient assets to last a lifetime. However, there are some choices that share risk between employers and employees, such as the combined DB/DC plans in Washington, Oregon, and Ohio, and DB plans where contribution increases are shared by employees. More choices are needed where risk is shared, or better yet reduced, and adequate retirement benefits are provided for a reasonable cost.

Further details are provided in the appendix available on Milliman's Web site.

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Public Employee Retirement Systems

Appendix - Public plan DB/DC choices

This appendix provides further details.

TABLE 3

STATE SYSTEMS REFERRED TO IN THIS ARTICLE

SYSTEM	CURRENT PLAN	EFFECTIVE DATE
ALASKA PERS & TRS	DC	JULY 1, 2006
COLORADO PERA	DB/DC CHOICE	JANUARY 1, 2006
FLORIDA RS	DB/DC CHOICE	JULY 1, 2002
MONTANA PERS	DB/DC CHOICE	JULY 1, 2002
NEBRASKA PERS	HYBRID DB	JANUARY 1, 2003
NORTH DAKOTA PERS	DB/DC CHOICE (LIMITED GROUP)	JANUARY 1, 2000
OHIO PERS	DB/DC/COMBINED CHOICE	JANUARY 1, 2003
OHIO STRS	DB/DC/COMBINED CHOICE	JULY 1, 2001
OREGON PERS	COMBINED	AUGUST 29, 2003
SOUTH CAROLINA RS	DB/DC CHOICE	JULY 1, 2001
VERMONT SRS	DB/DC CHOICE (LIMITED GROUP)	JANUARY 1, 1999
WASHINGTON STATE	DB/COMBINED CHOICE	MARCH 1, 2002
WEST VIRGINIA TRS	DB	JULY 1, 2005

Systems with supplemental contributions

The following systems have contributions paid as a percentage of DC member salaries that are not credited to DC member accounts. Supplemental contributions required to fund DB liabilities show that introducing a DC plan does not reduce the unfunded liabilities of the existing DB plan.

Colorado PERA

- Amortization Equalization Disbursement (AED)–The AED has been 0.5% of pay in 2006, 1% in 2007, and 1.4% in 2008. It is scheduled to increase 0.4% each year to a maximum of 3% in 2012.
- Supplemental Amortization Equalization Disbursement (SAED)–The SAED is 0.5% in 2008, and is scheduled to increase 0.5% each year to a maximum of 3% in 2013.
- In Colorado, the AED and SAED are both contributions to the DB plan to account for adverse selection. Both are applied to both DB and DC payroll. The AED is paid by employers. The SAED, although technically an employer contribution, is considered to be an employee contribution because it comes out of the employee compensation package. Both grade down when trust funds reach 100% funding.

Florida RS

- To fund supplemental disability benefits for DC members, a contribution ranging from 0.25% of DC member pay for general members to 1.33% of DC member pay for special-risk members is paid by employers into a separate side account.
- Employers contribute 0.05% of pay to fund communication and administration.
- In Florida, there is no payment as a percent of DC member salaries to fund DB unfunded liabilities.

Montana PERS

The following contributions are made by Montana PERS employers as a percent of DC member pay:

- A Plan Choice Rate (PCR) contribution equal to 2.505% of pay is made to the DB plan to prevent DB costs from increasing due to financing unfunded liabilities over a smaller payroll and increases in the normal cost rate due to antiselection. The PCR was 2.37% from inception at July 1, 2002, until July 1, 2007, when it increased to 2.505% of pay.
- A payment of 0.30% is made to finance long-term disability benefits.
- A payment of 0.04% is made to the education fund.

Ohio PERS

- A contribution of 0.77% of pay for members in the all DC plan is made to the DB plan by the employer in 2008 as a "mitigation rate." The board reviews the mitigation rate annually, and it can vary between 0% and 6%. The highest level to date is 0.77%.

Ohio STRS

- 3.5% of pay from employer contributions for all DC members is used to pay for the unfunded liabilities of the DB plan.

South Carolina RS

- The South Carolina Retirement System currently collects 4.24% of the employer contribution and may retain an amount as determined by the director to defray any reasonable expenses incurred in performing services regarding the plan. This amount has changed as follows: 3.05% for FYE 6/30/2007, 4.06% for FYE 6/30/2008, and 4.24% for FYE 6/30/2009.

Further system details

The following section provides a brief summary of information relevant to this article for each system.

Alaska

Starting July 1, 2006, Alaska's public employee and teachers defined benefit plans are closed. New hires will go into the defined contribution plan.

The default percent of pay contribution rates are 5% employer and 8% employee in PERS and 7% employer and 8% employee in TRS. Additional employee contributions may be elected once in the first 24 months of hire subject to the IRS maximums in Section 415.

Alaska teachers do not participate in Social Security and many Alaska public employers, like the state of Alaska, have opted out of Social Security participation.

Colorado Public Employee Retirement Administration (PERA)

Starting Jan. 1, 2006, Colorado allowed new employees to choose between the PERA DB plan, the PERA DC plan, and three other state-offered DC plans.

Members have a 60-day election window and can then change their minds once between the PERA DB and PERA DC plans either way in years two through five after retirement. If a member changes to the DC plan, the DB benefit is frozen based on service and salary to the date of the change and the member participates in the DC plan going forward. If the member changes to the DB plan, the member has the option to purchase his or her original time in the DB plan after one year based on actuarial value.

The DB and DC plans require the same employer and employee percentage of pay contributions. The base contribution rates are 10.15% employer and 8% employee for state and school employees, and 12.85% employer and 10% employee for state troopers. For DB members, 1.02% of pay from the base employer contribution is used to fund retiree healthcare instead of pension benefits. For DC members, the 1.02% of pay goes into the members' DC accounts as part of the employer contribution and it is up to the members to pay for healthcare when they retire. The AED and SAED supplemental contributions described earlier are in addition to these base contribution rates.

Table 5 is a historical record of the choices of new hires in Colorado PERA.

Florida Retirement System (FRS)

Starting July 1, 2002, Florida allowed new employees to choose between a DB plan and a DC plan.

Members have a six-month election window and can change their minds once at any time before retirement or termination. Details of how the switch is treated are given in the main body of the article.

There are no employee contributions to either the DB or the DC plan. Employer contributions to members' DC accounts range from 9% of pay for general members to 20% of pay for special risk. Employer contributions to fund additional disability benefits for DC members range from 0.25% of pay for general members to 1.33% of pay for special-risk members. Employers contribute 0.05% of pay to fund communication and administration.

DC accounts vest 100% at one year of service. DB benefits vest 100% at six years of service. Accounts and benefits are 0% vested before these dates.

Table 6 is a historical record of the choices of new hires in Florida. Florida has an active education campaign. DC elections have increased each year and the overall DC election percentage of 26% in the year ending June 30, 2008, is the highest of any system in this study.

Montana Public Employees' Retirement System (PERS)

Starting Jan. 1, 2002, Montana PERS allowed new employees to choose between a DB plan and a DC plan.

Members have 12 months after hire to make a one-time irrevocable decision between the DB plan and the DC plan.

The DB and DC plans require the same employer and employee percentage of pay contributions. Employers contribute 7.035% of pay. Employees contribute 6.90% of pay. Employer DC contributions can be broken down as 4.19% to the DC account, 2.505% plan choice rate (DB funding), 0.30% for long-term disability benefits, and 0.04% for the education fund. The entire employee contribution is credited to the DC account.

Table 7 is a historical record of the choices of new hires in Montana PERS. Members not making a choice are placed in the DB plan by default; however, statistics are not available on what portion of new hires entering the DB plan did so by default.

rth Dakota Public Employees Retirement System (NDPERS)

Starting Jan. 1, 2000, North Dakota allowed nonclassified state employees to choose between a DB plan and a DC plan. As only nonclassified state employees are eligible, there were only 291 members in the DC plan as of July 1, 2008.

Members have six months after hire to make a one-time irrevocable decision between the DB plan and the DC plan.

The DB and DC plans require the same employer and employee percentage of pay contributions. Employers contribute 4.12% of pay and employees contribute 4% of pay for a total contribution of 8.12% of pay.

Table 8 shows that about 12% have actively elected the DC plan and 88% have either actively elected the DB plan or have not made a choice and have been placed in the DB plan as the default. Breakouts by year and the portion of DB elections that were active versus default are not available.

Ohio Public Employees Retirement System (OPERS)

Starting Jan. 1, 2003, OPERS allowed new employees to choose between an all-DB plan (the Traditional Pension Plan), an all-DC plan (the Member-Directed Plan), and the Combined Plan. In the Combined Plan, employer contributions fund DB benefits and all member contributions are credited to DC accounts.

Members have three chances to change their minds about their choice–once in the first five years after hire, once five to 10 years after hire, and once at any time after 10 years from hire and before retirement. Changes are prospective only, but members transferring to the all-DB or combined plan have the option to purchase service in the new plan using their DC accounts. Service purchases are based on service in the plan the member is opting out of; must use the DC account first; and if the DC account is less than the total cost, then the member may still purchase all service with an additional lump sum, rollover, or payroll deduction. Frozen DB benefits are based on salary and service during DB membership only.

The employer contribution is 14% of pay and the employee contribution is 10% of pay for all three plans and for all groups. Members in the all-DC and combined plans have all employee contributions credited to their DC accounts. However, a portion of the employer contribution is used to fund retiree health benefits (4.5% of pay in 2008). Also, the mitigation rate, which is currently 0.77% of pay, comes out of the 14% employer contribution and is not credited to DC accounts.

Table 9 is a historical record of the choices of new hires in OPERS.

State Teachers Retirement System of Ohio (STRS)

Starting July 1, 2001, STRS allowed new employees to choose between an all-DB plan, an all-DC plan, and a combined plan. In the combined plan, employer contributions fund DB benefits and all member contributions are credited to DC accounts.

Members have a six-month election window. After the member is put in the all-DB plan either by default or by active election, he or she cannot elect out. All changes after the first six months are effective at the end of the fiscal year following the fourth anniversary of the hire date. Members must positively elect to stay in the combined or all-DC plan at the end of the fifth fiscal year of participation or they will default into the all-DB plan. If members change into the all-DB plan, they forfeit their DC accounts and are treated as if they had been in the all-DB plan since hire. There are no changes after the end of the fifth fiscal year of participation after hire.

The employer contribution is 14% of pay and the employee contribution is 10% of pay for all three plans. Members in the all-DC and combined plans have all employee contributions credited to their DC accounts. However, a portion of the employer contribution to the all-DC plan is used to fund unfunded liabilities for the all-DB plan (3.5% of pay in 2008).

Table 10 is a historical record of the choices of new hires in STRS of Ohio.

Oregon Public Service Retirement Plan (OPSRP)

Oregon has chosen that starting Aug. 29, 2003, all new hires go into a combined pension plan with two components: the defined benefit pension program and the defined contribution Individual Account Program (IAP).

The pension program provides a defined benefit equal to 1.5% of final average earnings (1.8% for police officers and firefighters) for every year of service and is funded entirely by employer contributions.

The IAP is funded entirely by the employee contributions, which are 6% of pay. All IAP assets are invested in the same portfolio as the DB assets; there is no difference. Employees have no choice in how IAP assets are invested. As a result, the members' DC accounts earn the same return, positive or negative, as the DB assets. Earnings are credited annually to member accounts. Administrative fees are deducted from the fund's earnings as part of the annual crediting process. Members receive an annual statement after interest is credited each year.

South Carolina Retirement Systems

South Carolina allows new employees to choose between a DB plan and a DC plan. This arrangement was made effective over the period from July 1, 2001, to July 1, 2003, varying by group.

DC members choose between four authorized investment providers. Members must choose investment options from their chosen investment provider. Members may change investment providers during the annual open-enrollment period subject to the investment provider's contractual limitations.

Members have a 30-day election window after hire to choose between the DB plan and the DC plan. During their first five years, members can change from the DC plan to the DB plan. Members cannot change from the DB plan to the DC plan. If a member changes to the DB plan during this five-year period, the member has the option to purchase his or her original time in the DB plan. The cost is 16% of the member's highest career salary for each year of service. The member has the option, but is not required, to use his or her DC account for these service purchases.

The DB and DC plans require the same employer and employee percentage of pay contributions. Employers contribute 9.24% of pay. Employees contribute 6.50% of pay. Five percent of employer DC contributions are deposited to the DC account; the South Carolina Retirement System currently collects 4.24% of the employer contribution and may retain an amount as determined by the director to defray any reasonable expenses incurred in performing services regarding the plan. The entire employee contribution is credited to the DC account.

Table 11 is a historical record of the choices of new hires in South Carolina. Like most other systems, the DB plan is the default election. It is interesting to note that the percent of new hires electing DC varies widely by group. The percent of higher education employees choosing DC has varied from 32% to 37%, whereas the DC choice for other groups has only varied from 11% to 16%.

Vermont

Starting Jan. 1, 1999, all new exempt state employees were given a choice between a DB plan and a DC plan. In addition, beginning in July of 2000, the governing body of employers in the Vermont Municipal Employees' Retirement System (VMERS) can elect to offer employees a choice between a DB plan and a DC plan. To date, about 77 of the over 400 VMERS employers have chosen to offer this choice to their employees.

Employees make a one-time irrevocable choice at hire.

In the state DC plan, employers contribute 7% of pay and employees contribute 2.85% of pay. In the VMERS DC plan, employers contribute 5% of pay and employees contribute 5% of pay.

Statistics on the percentage of members electing the DC plan or DB plan are not available.

Washington State Department of Retirement Systems

Starting March 1, 2002, Washington state allowed new hires in the Public Employees' Retirement System (PERS) to choose between an all-DB plan (Plan 2), and a combined plan (Plan 3). In the combined plan, employer contributions fund DB benefits equal to 1% of final average earnings for each year of service and all member contributions are credited to DC accounts. Starting July 1, 2007, new hires in the Teachers' Retirement System (TRS) and the School Employees' Retirement System (SERS) were given the same choice between Plan 2 and Plan 3.

Members have 90 days after hire to make a one-time irrevocable decision between the all DB plan and the combined plan.

At the same time the plan election is made in the first 90 days, members in the combined plan (Plan 3) also choose between six employee contribution-rate options. Once the employee contribution-rate option is chosen, it cannot be changed as long as the member remains with the same employer. If members separate from the employer, they may change their contribution rate with the next employer. All employee contributions are credited to the DC account. The six employee contribution options in the combined plan are as follows:

Option A: 5% of pay contribution at all ages
Option B: 5% to age 35, 6% at ages 35 to 44, 7.5% at ages 45 and up
Option C: 6% to age 35, 7.5% at ages 35 to 44, 8.5% at ages 45 and up

Option D: 7% of pay contribution at all ages
Option E: 10% of pay contribution at all ages
Option F: 15% of pay contribution at all ages

Employees who do not make an election in the first 90 days after hire are placed in the combined plan (Plan 3) with employee contribution option A. Approximately 58% of combined plan members are in option A, with the remainder spread fairly evenly between the other five contribution options.

One of the DC investment options is the Total Allocation Portfolio (TAP), which mirrors the investments in the state DB plan and therefore earns the same returns. Washington has made the TAP the default investment option for Plan 3 and approximately 61% of the members' DC assets are in the TAP option. Starting in October of 2008, target date funds managed by an outside provider are also available. The target date funds allocate investments without the member's involvement and automatically change the asset mix as the member moves closer to retirement.

Table 12 shows that approximately 63% of the PERS members hired between March 1, 2002, and Sept. 26, 2008, have actively chosen the all DB plan over the combined plan, which is the default. Breakouts of choices by year are not available.

West Virginia Teachers Retirement System

The following chronology of the West Virginia TRS fills in some holes not described in the article.

- 1941–West Virginia TRS was established as a DC plan.
- 1960s and 1970s–DB benefits were added to counter the inadequate DC benefits, but the benefits were never properly funded.
- 1991–The DC plan (TDC) was established for new hires in response to funding problems and 4,500 former DB participants also switched from the DB to DC.
- 2003–Many of the 4,500 who switched felt misled and said they could not afford to retire. Other DC members were also not satisfied.
- 2005–The state decided that a given level of benefits could be funded for a lower cost through a DB plan. Average DC returns had been lower than DB returns in both up and down markets. Changing to a DC plan did not solve the state's funding problems. All members hired after July 1, 2005, go into the DB plan instead of the DC plan. West Virginia projected a $1.2 billion savings in the first 30 years due to moving new entrants from the DC to the DB plan.
- 2006 and 2007–Special appropriations of $290.1 million in FY2006 and $313.8 million in FY2007 were deposited. In addition, West Virginia completed a tobacco bond securitization in FY2007 and deposited $807.5 million of those proceeds into TRS as another special appropriation. All these amounts were in addition to the regular contribution determined under the ARC, which was converted to a level dollar amortization (from level percentage of payroll). Clearly, West Virginia is demonstrating a new DB contribution discipline.
- 2008–DC members are given the option to switch to the DB plan. Of those DC members, 78.6% (14,925 members) chose to switch to the DB plan. Surprisingly, the switch, which was expected to cost the state up to $78 million before the elections were made, is now expected to save the state about $22 million. Fewer older TDC members than expected transferred. More young TDC members than expected transferred. Fifty percent of those over 70 transferred. Sixty-nine percent of those age 65 to 69 transferred. Eighty-one percent of those 45 to 64 transferred. Seventy-six percent of members under age 40 transferred.

Table 4 shows the investment returns for the seven years ended June 30, 2001, through June 30, 2007. The seven-year average DB return was 3.15% higher than the average DC return. DB investments did better in both the best and worst investment years. The average DC return was only higher in 2003 when DC investments averaged 4.84% and DB investments earned 4.75%.

TABLE 4

WEST VIRGINIA TEACHERS' DC RETURNS COMPARED TO DB

YEAR ENDING JUNE 30	DC PLAN	DB PLAN
2001	-2.60%	-0.25%
2002	-3.76%	-2.94%
2003	4.84%	4.75%
2004	8.83%	15.08%
2005	6.33%	10.56%
2006	6.73%	9.55%
2007	11.85%	17.43%
7 YR AVERAGE	4.59%	7.74%

TABLE 5

COLORADO PERA NEW HIRE CHOICES*
(EFFECTIVE DATE: JANUARY 1, 2006)

	DB BY DEFAULT	DB ACTIVE ENROLLMENTS	DC ACTIVE ENROLLMENTS
2006	37%	48%	14%
2007	39%	43%	18%
1/08 – 5/08	35%	43%	21%

***BASED ON 11,200 NEW HIRES.**

TABLE 6

FLORIDA RETIREMENT SYSTEM NEW HIRE CHOICES*
(EFFECTIVE DATE: JULY 1, 2002)

	DB BY DEFAULT	DB ACTIVE ENROLLMENTS	DC ACTIVE ENROLLMENTS
9/02 – 6/03	86%	6%	8%
7/03 – 6/04	73%	11%	16%
7/04 – 6/05	61%	18%	21%
7/05 – 6/06	59%	19%	22%
7/06 – 6/07	58%	18%	24%
7/07 – 6/08	55%	19%	26%

**** AT JUNE 30, 2008 THERE ARE 609,888 DB MEMBERS AND 95,392 DC MEMBERS.***

TABLE 7

MONTANA PERS NEW HIRE CHOICES
(EFFECTIVE DATE: JULY 1, 2002)

	DC ACTIVE ENROLLMENTS
7/04 – 6/05	9%
7/05 – 6/06	10%
7/06 – 6/07	10%
7/07 – 6/08	10%

TABLE 8

NORTH DAKOTA PERS NEW HIRE ELECTIONS FROM JANUARY 2001 THROUGH JUNE 2008*
(EFFECTIVE DATE: JANUARY 1, 2000)

DB BY DEFAULT	DC ACTIVE ENROLLMENTS
88%	12%

*** THERE ARE 291 MEMBERS IN THE DC PLAN AS OF JULY 1, 2008.***

TABLE 9

OHIO PERS NEW HIRE CHOICES*
(EFFECTIVE DATE: JANUARY 1, 2003)

	DB BY DEFAULT	DB ACTIVE ENROLLMENTS	DC ACTIVE ENROLLMENTS	COMBINED PLAN ACTIVE ENROLLMENTS
2004	84%	11%	3%	2%
2005	84%	10%	3%	3%
2006	83%	12%	3%	2%
2007	82%	13%	3%	2%
1/08 – 6/08	79%	15%	4%	2%

*** BASED ON 228,234 NEW HIRES.***

TABLE 10

OHIO TEACHERS (STRS) NEW HIRE CHOICES*
(EFFECTIVE DATE: JULY 1, 2001)

	DB BY DEFAULT	DB ACTIVE ENROLLMENTS	DC ACTIVE ENROLLMENTS	COMBINED PLAN ACTIVE ENROLLMENTS
7/01 – 6/04	69%	15%	10%	6%
7/04 – 6/05	70%	15%	11%	4%
7/05 – 6/06	72%	13%	11%	4%
7/06 – 6/07	72%	13%	11%	4%
7/07 – 6/08	71%	14%	11%	4%

** BASED ON 123,781 NEW HIRES.*

TABLE 11

SOUTH CAROLINA RETIREMENT SYSTEMS PERCENT OF NEW HIRES ELECTING DEFINED CONTRIBUTION*
(EFFECTIVE DATES: JULY 1, 2001 TO JULY 1, 2003)

	HIGHER ED.	K - 12 SCHOOLS	STATE AGENCIES	OVERALL
7/04 – 6/05	32%	14%	11%	17%
7/05 – 6/06	34%	14%	12%	18%
7/06 – 6/07	37%	15%	13%	19%
7/07 – 6/08	35%	16%	13%	20%

** BASED ON 128,459 NEW HIRES.*

TABLE 12

CUMULATIVE WASHINGTON PERS NEW HIRE ELECTIONS FROM MARCH 2002 TO SEPTEMBER 2008

PLAN 3 COMBINED DB & DC BY DEFAULT	PLAN 3 COMBINED DB & DC ACTIVE ENROLLMENTS	PLAN 2 ALL DB ACTIVE ENROLLMENTS
19%	18%	63%

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This publication is intended to provide information and analysis of a general nature. Application to specific circumstances should rely on separate professional guidance.
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Section IV

Survey of State Retirement Systems

National Association of State Retirement Administrators

Overview of plan types and their use among statewide retirement systems

According to the U.S. Bureau of Labor Statistics, roughly ninety percent of state and local government employees participate in a *defined benefit* (DB) plan as their primary retirement benefit; *defined contribution* (DC) plans serve as the primary retirement benefit for most others. Some workers have a hybrid plan as their primary benefit; for purposes of this discussion, a hybrid is considered to be a form of DB plan. The summary below focuses on DC plans on a statewide level involving major employee groups: teachers, general employees, and public safety personnel.

Many of the 10 percent of state and local government employees with a DC plan as their primary retirement benefit are higher education faculty and staff, of whom many have been given a choice between a DB and a DC plan. Also, a number of states provide a DC plan for selected, usually narrow employee groups, such as elected and appointed officials and unclassified or exempt staff.

This summary does not present a complete inventory of DC plans among state and local government employees. Although exact statistics are unavailable, most public employees participating in a DB plan also have access to a supplemental, voluntary DC plan. Such plans typically are identified by the section number of the Internal Revenue Code authorizing them, for example, 457, 403(b), 401(a) and 401(k). These plans also are referred to as deferred compensation plans, tax-sheltered annuities (TSA's), and money purchase plans.

Some public employers provide as their workers' primary retirement benefit a hybrid plan, which incorporates elements of both DB and DC plans. Hybrids come in two basic forms: one form combines features of DB and DC plans into a single plan, and resembles what is often recognized as a cash balance plan. This form provides a benefit based partly on the employee's length of service, as in a DB plan; and partly on the plan's investment return, as in a DC plan.

The more common form of hybrid contains two distinct and separate plan types: a traditional DB plan, normally with a lower multiplier; combined with mandatory participation in a traditional DC plan.

A 2003 resolution expresses NASRA's position that a DB plan should serve as an employee's primary benefit, and should be supplemented by a voluntary DC plan. This resolution also expresses NASRA's support for changes in this structure that accommodate many of the objectives supported by advocates of DC plans.

* * * * *

Following is a summary of DC plans and recent changes in plan types affecting major state employee groups and of state employees with access to a DC plan as their primary retirement benefit:

- Most public employees in **Indiana**, including public school teachers and state employees, participate in a hybrid plan that provides a traditional DB plan with a retirement multiplier of 1.1%, accompanied by a DC benefit based on investment returns.

- The **Texas** County & District Retirement System and the Texas Municipal Retirement System provide hybrid plans that base benefits on a combination of service, contributions, and investment returns.

- In 1987, the **District of Columbia** closed its DB plan to new employees other than teachers and public safety personnel. Employees hired since October 1, 1987 participate in a DC plan plus Social Security.

- In response to severe actuarial underfunding, **West Virginia** in 1991 closed its DB plan to new teachers and created a DC plan in its place. In 2005, the state legislature reopened the DB plan to new hires. After a period of legal challenges, 78 percent of DC plan participants, who are the public school teachers hired from 1991 to 2005, elected in 2008 to switch to the DB plan.

- In 1995, **Washington** state created Plan 3 for new teachers and existing participants who elected to switch from the traditional DB plan. Plan 3 is a hybrid plan in which the employer funds a DB component with a multiplier of 1.0%, and the employee contributes to a DC account. New state and local government employees subsequently have been added to Plan 3.

- In 1997, **Michigan** closed its DB plan to new state employees. Existing plan participants were given the option to remain with the DB plan or to switch to the new plan. Approximately 94% of those eligible to switch stayed with the DB plan. In the new DC plan, the state contributes four percent plus matches the employee's contribution up to another three percent.

- **Ohio** created an optional DC retirement plan in 1998 for new education employees and those not yet vested (five years). Under this plan, new employees may choose from among three alternatives: a DC plan, the traditional DB plan, or a hybrid. These options were extended to teachers in 2001 and to state and local government employees in 2002. More than 95% of active, working state and local employees eligible to choose opted for either the traditional DB plan or the hybrid (combined) plan, with the vast majority of those electing to remain with the traditional DB plan.

- Beginning in 2000, new and current teachers and educational employees in **South Carolina** were given a choice to participate in a DC plan as an alternative to the DB plan; this option was extended to state and local government employees in 2002. Approximately three percent of those eligible elected to switch to the DC plan.

- Also in 2000, **Florida** established an optional retirement plan for all current and future FRS participants. This legislation allowed existing to participants to make one of three choices: remain with the DB plan; switch to the DC plan but keep their existing DB service credit; or switch to the DC plan and transfer the cash value of their DB plan credit to their new DC account. Approximately 95% of existing employees elected to stay with the DB plan. Since the open enrollment period, approximately 17 percent of new hires have elected to participate in the DC plan.

- New and existing employees in the **Montana** PERS were given a choice between the traditional DB plan and a DC alternative during a one-year open enrollment process that ended in June 2003. Approximately three percent of those eligible elected to participate in the DC plan.

- In 2002, in response to concerns that employees were not accumulating enough for retirement in their DC plan, the **Nebraska** Legislature established a hybrid cash balance plan for new state and county employees and existing DC plan participants who elected to switch.

- **Oregon** in 2003 established a hybrid plan for new Oregon PERS participants, in lieu of the traditional DB plan. The hybrid combines a DB component multiplier of 1.5% (1.8% for public safety personnel), funded by the employer, with mandatory participation in a DC plan, funded by the employee (unless the employer elects to make its employees' contributions).

- In 2004, **Colorado** established a defined contribution option for new state employees beginning January 1, 2006. This option was extended to higher education employees in 2008.

- In 2005, the **Alaska** Legislature closed the DB plan for public employees hired after June 2006.

- A list of statewide hybrid plan designs is accessible at http://www.nasra.org/resources/hybrid%20grid.pdf

WISCONSIN LEGISLATIVE COUNCIL

2008 COMPARATIVE STUDY OF MAJOR PUBLIC EMPLOYEE RETIREMENT SYSTEMS

Prepared by:

Daniel Schmidt, Senior Analyst
Wisconsin Legislative Council

December 2009

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INTRODUCTION

This report compares significant features of major state and local public employee retirement systems in the United States. The report compares retirement benefits provided to general employees and teachers, rather than benefits applicable only to narrower categories of employees such as police, firefighters, or elected officials. Generally, the report has been prepared every two years since 1982 by the Wisconsin Retirement Research Committee staff or the Legislative Council staff.

The 2008 Report includes data from the same 85 public employee retirement systems that have been compared in each of the previous reports. For 2008, two new systems were added in order to account for larger systems that have been split. The new systems are the Kentucky CERS and the Nebraska CEPP. Although this report does not cover all major public employee retirement systems, it does include at least one statewide plan from each state. Because the same public employee retirement systems have been covered in the report over time, it can be used to determine long-term trends in public employee retirement systems.

The methodology for preparing the 2002-08 Reports differs from that of previous reports. Through the 2000 Report, each public employee retirement system covered by the report was asked to send to the Wisconsin Retirement Research Committee or the Legislative Council all annual reports, employee handbooks, statutes, actuarial reports, and related materials. One issue with this approach is that, in many cases, the published reports, handbooks, and materials were not current with respect to the data included in the report for a given year. In addition, because of the large volume of material that each plan was asked to send and the storage of that material, this was a relatively inefficient way of gathering the data necessary for the report.

For the 2002-08 Reports, the data was gathered, to the extent possible, from the web site maintained by each of the plans covered by the report. All information is based on the most recent actuarial valuation available at the time of publishing. Most of the data was gathered from the 2008 actuarial analyses of each of the plans. Any information not available from a web site was gathered by addressing specific questions, either by e-mail or telephone, to plan administrators. The response by public employee pension plan administrators, who took time from their busy schedules to respond to request for data, is greatly appreciated. In addition, the wealth of information available on web sites with respect to public employee pension plans is impressive.

In many cases, the public employee retirement systems in this report have features that differ according to when an employee was initially hired or the identity of the employer. Where this situation exists, an attempt was made to describe the features of the plan applicable to the largest category of participants and to employees who are newly hired.

One feature of the 2008 Report is that it discusses how retirement benefits and certain other features of the Wisconsin Retirement System (WRS) compare to the other plans in this report. This feature of the report is intended to be useful to Wisconsin legislators and persons interested in comparing the WRS, while maintaining the structure of prior reports for the convenience of retirement system administrators and policymakers from other states.

While every attempt was made to ensure the accuracy of the great amount of data in this report, it is inevitable that errors have occurred in both prior and current reports. Please communicate reports of any errors or comments you may have about the report to: Daniel Schmidt, Senior

Analyst; Wisconsin Legislative Council Staff; Suite 401, One East Main Street; Madison, Wisconsin, 53703; or at the following e-mail address: dan.schmidt@legis.wisconsin.gov.

Any corrections that need to be made to the report will be included in the version maintained at the Wisconsin Legislative Council web site: http://www.legis.state.wi.us/lc.

PART I
DESCRIPTION OF RETIREMENT SYSTEMS IN REPORT

A. INTRODUCTION

Chart 1, on pages 7 and 8, provides descriptive data pertaining to the public employee retirement systems covered in this report.

B. NUMBER OF PARTICIPANTS

The 87 plans in the 2008 Report provide pension coverage for 12,029,028 active employees and 6,002,982 retirees and beneficiaries, for a total of 18,032,010 participants. This total is 1.7% greater than the 17,738,158 participants in the 2006 Report. The number of active participants has decreased between the 2006 and 2008 Reports by 0.5% while the number of retirees has grown by 6.3% in the same time period.

C. CATEGORIES OF EMPLOYEES INCLUDED IN PLANS

The column entitled "Employee Coverage" in Chart 1 shows whether the plan reported on provides pension coverage to state employees ("S"), local employees ("L"), teachers ("T"), or some combination of these categories of employees. The 87 plans are categorized as follows:

Employee Coverage	Number of Plans
State employees only	13
Teachers only	27
Local employees only	10
State and local employees	14
State employees and teachers	3
State employees, local employees, and teachers	20

See Figure 1, *2008 Employee Coverage*, for a graphical representation of the categories.

D. RATIO OF ACTIVE EMPLOYEES TO RETIRED EMPLOYEES

Chart 1 also shows the ratio of active employees to retired employees in the 87 systems surveyed. The average ratio has declined over prior years. For 2008, the average ratio was two while the comparable figures for the 2006 Report, the 2004 Report, the 2002 Report, the 2000 Report, and the 1996 Report, respectively, were 2.14, 2.24, 2.38, 2.52, and 2.89 (see Figure 2, *Participant Growth 2000 to 2008*). Forty-seven of the systems (including the City of Milwaukee and Milwaukee County) had an active employees to retired employees ratio of less than two. In the 2000 Report, 17 of the systems had an active employees to retired employees ratio of less than two.

E. SOCIAL SECURITY COVERAGE

In 70 of the 87 plans, participants are also covered under the federal Social Security program. Of the 17 public employee retirement systems included in this report that do not provide Social Security coverage, 10 represent pension plans covering teachers only. The decision on whether to participate in the Social Security program was at one time elective, rather than mandatory, for public employers. However, for those employers who elect coverage, future participation is mandatory.

F. TRENDS

Chart 1 shows a continued growth in the total number of participants in the plans surveyed. However, the number of retirees is growing at a faster rate than is the number of active employees. This is reflected in the declining ratios of active to retired participants for the plans surveyed. As compared to the 2006 Report, there has been no change in the number of plans whose participants are covered by the federal Social Security program.

G. THE WISCONSIN RETIREMENT SYSTEM

The WRS, in 2008, had 263,186 active employees and 144,033 beneficiaries and annuitants, for a total of 407,219 participants. This total is 4.5% greater than the 389,591 participants in the 2006 Report. The number of active employees covered by the WRS increased by 2,884 between 2006 and 2008. The WRS covers state and local employees and teachers. The ratio of active employees to retired employees in the WRS in 2008 is 1.83, which is a reduction from the ratio of 2.01 found in the 2006 Report. The ratio of active employees to retired employees in the WRS for 2008 (1.83) is somewhat lower than the average ratio for all plans in the report (2.0). Most WRS employees are covered by Social Security.

CHART I
PUBLIC RETIREMENT SYSTEMS SURVEYED

	State	Fund Name	Employee Coverage*	Active Employees	Beneficiaries & Annuitants	Ratio	S.S. Coverage
1	Alabama	ERS	S, L	87,247	34,175	2.55	Yes
2	Alabama	TRS	T	141,528	66,928	2.11	Yes
3	Alaska	PERS	S, L	28,850	24,082	1.20	No
4	Alaska	TRS	T	8,531	10,026	0.85	No
5	Arizona	SRS	S, L, T	227,730	92,673	2.46	Yes
6	Arkansas	PERS	S, L	44,340	23,555	1.88	Yes
7	Arkansas	TRS	T	70,172	26,801	2.62	Yes
8	California	PERS	S, L	836,914	468,898	1.78	Yes
9	California	TRS	T	461,378	223,968	2.06	No
10	Colorado	PERA	S, L, T	190,367	80,965	2.35	No
11	Connecticut	SERS	S	53,196	38,093	1.40	Yes
12	Connecticut	TRS	T	51,738	28,787	1.80	No
13	Delaware	SEPP	S, T	34,764	18,056	1.93	Yes
14	Florida	FRS	S, L, T	683,302	276,252	2.47	Yes
15	Georgia	ERS	S	75,293	35,579	2.12	Yes
16	Georgia	TRS	T	225,024	78,633	2.86	Yes
17	Hawaii	ERS	S, L, T	65,251	35,324	1.85	Yes
18	Idaho	PERS	S, L, T	66,765	30,912	2.16	Yes
19	Illinois	SERS	S	66,237	60,813	1.09	Yes
20	Illinois	TRS	T	165,572	91,462	1.81	No
21	Illinois	MRF	L	180,615	90,132	2.00	Yes
22	Indiana	PERF	S, L	138,863	60,332	2.30	Yes
23	Indiana	TRF	T	76,256	42,817	1.78	Yes
24	Iowa	PERS	S, L, T	167,823	87,309	1.92	Yes
25	Kansas	PERS	S, L, T	153,804	64,188	2.40	Yes
26	Kentucky	ERS	S	52,478	37,711	1.39	Yes
27	Kentucky	CERS	L	95,394	43,001	2.22	Yes
28	Kentucky	TRS	T	75,539	40,739	1.85	No
29	Louisiana	SERS	S	61,780	37,575	1.64	No
30	Louisiana	TRSL	T	85,979	64,830	1.33	No
31	Maine	PERS	S, L, T	51,402	34,182	1.50	No
32	Maryland	SRPS	S, L, T	199,255	112,422	1.77	Yes
33	Massachusetts	SERS	S	86,529	50,873	1.70	No
34	Massachusetts	TRS	T	89,636	50,024	1.79	No
35	Michigan	SERS	S	28,568	48,078	0.59	Yes
36	Michigan	MERS	L	37,135	23,995	1.55	Yes
37	Michigan	PSERS	T	278,642	167,265	1.67	Yes
38	Minnesota	MSRS	S	48,361	25,346	1.91	Yes
39	Minnesota	PERA	L	146,226	61,436	2.38	Yes
40	Minnesota	TRA	T	76,938	47,190	1.63	Yes
41	Mississippi	PERS	S, L, T	165,733	73,540	2.25	Yes
42	Missouri	SERS	S	54,542	30,132	1.81	Yes
43	Missouri	LAGERS	L	31,424	13,356	2.35	Yes
44	Missouri	PSRS	T	78,436	41,738	1.88	No
45	Montana	PERS	S, L	28,293	16,627	1.70	Yes

46	Montana	TRS	T	18,292	11,788	1.55	Yes
47	Nebraska	SEPP**	S	17,200	410	41.95	Yes
48	Nebraska	CEPP**	L	7,711	187	41.24	Yes
49	Nebraska	SPP	T	37,832	15,339	2.47	Yes
50	Nevada	PERS	S, L, T	106,203	33,479	3.17	No
51	New Hampshire	NHRS	S, L, T	50,988	22,870	2.23	Yes
52	New Jersey	PERS	S, L	319,182	133,017	2.40	Yes
53	New Jersey	TPAF	T	142,887	68,479	2.09	Yes
54	New Mexico	PERA	S, L	52,507	24,910	2.11	Yes
55	New Mexico	ERA	T	63,698	31,192	2.04	Yes
56	New York	ERS	S, L	528,435	328,726	1.61	Yes
57	New York	TRS	T	274,901	136,706	2.01	Yes
58	North Carolina	TSERS	S, T	338,490	145,855	2.32	Yes
59	North Carolina	LGERS	L	127,959	42,408	3.02	Yes
60	North Dakota	PERS	S, L	19,296	6,836	2.82	Yes
61	North Dakota	TRF	T	9,561	6,317	1.51	Yes
62	Ohio	PERS	S, L	374,002	166,516	2.25	No
63	Ohio	STRS	T	173,327	126,506	1.37	No
64	Oklahoma	PERS	S, L	45,120	26,033	1.73	Yes
65	Oklahoma	TRS	T	88,678	45,238	1.96	Yes
66	Oregon	PERS	S, L, T	198,626	98,066	2.03	Yes
67	Pennsylvania	SERS	S	110,866	108,146	1.03	Yes
68	Pennsylvania	PSERS	T	272,690	173,540	1.57	Yes
69	Rhode Island	ERS	S, T	35,051	23,419	1.50	Yes
70	South Carolina	SCRS	S, L, T	187,968	100,897	1.86	Yes
71	South Dakota	SRS	S, L, T	37,707	19,321	1.95	Yes
72	Tennessee	CRS	S, L, T	212,725	98,230	2.17	Yes
73	Texas	ERS	S	134,626	72,678	1.85	Yes
74	Texas	TRS	T	801,455	275,228	2.91	No
75	Texas	MRS	L	100,459	34,123	2.94	Yes
76	Utah	SRS	S, L, T	93,576	31,731	2.95	Yes
77	Vermont	SRS	S	8,442	4,555	1.85	Yes
78	Vermont	TRS	T	10,685	5,555	1.92	Yes
79	Virginia	SRS	S, L, T	345,737	136,394	2.53	Yes
80	Washington	PERS	S, L	158,022	71,244	2.22	Yes
81	Washington	TRS	T	64,939	38,091	1.70	Yes
82	West Virginia	PERS	S, L	35,491	20,912	1.70	Yes
83	West Virginia	TRS	T	35,219	28,522	1.23	Yes
84	Wyoming	WRS	S, L, T	35,021	16,275	2.15	Yes
85	Milwaukee	City	L	11,581	11,082	1.05	Yes
86	Milwaukee	County	L	4,837	7,308	0.66	Yes
87	Wisconsin	WRS	S, L, T	263,186	144,033	1.83	Yes
	Totals: (87 Funds)			12,029,028	6,002,982	2.00	

*Coverage: S = State; L = Local; T = Teachers

**Converted to individual cash balance plans from defined contribution plan

Figure 1. 2008 Employee Coverage

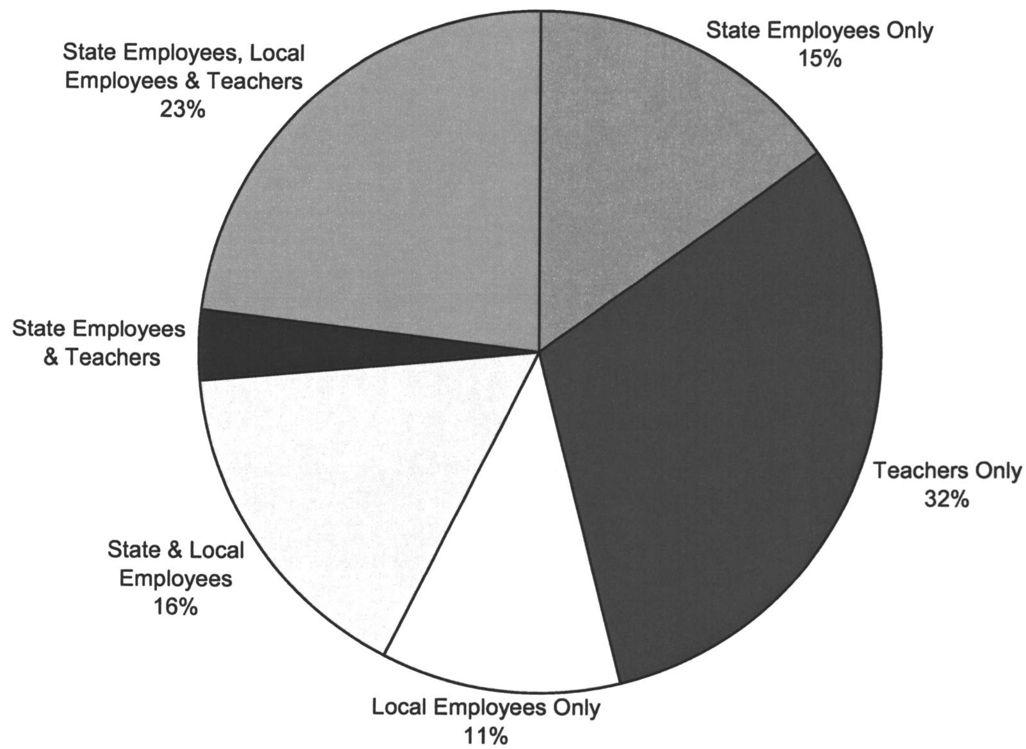
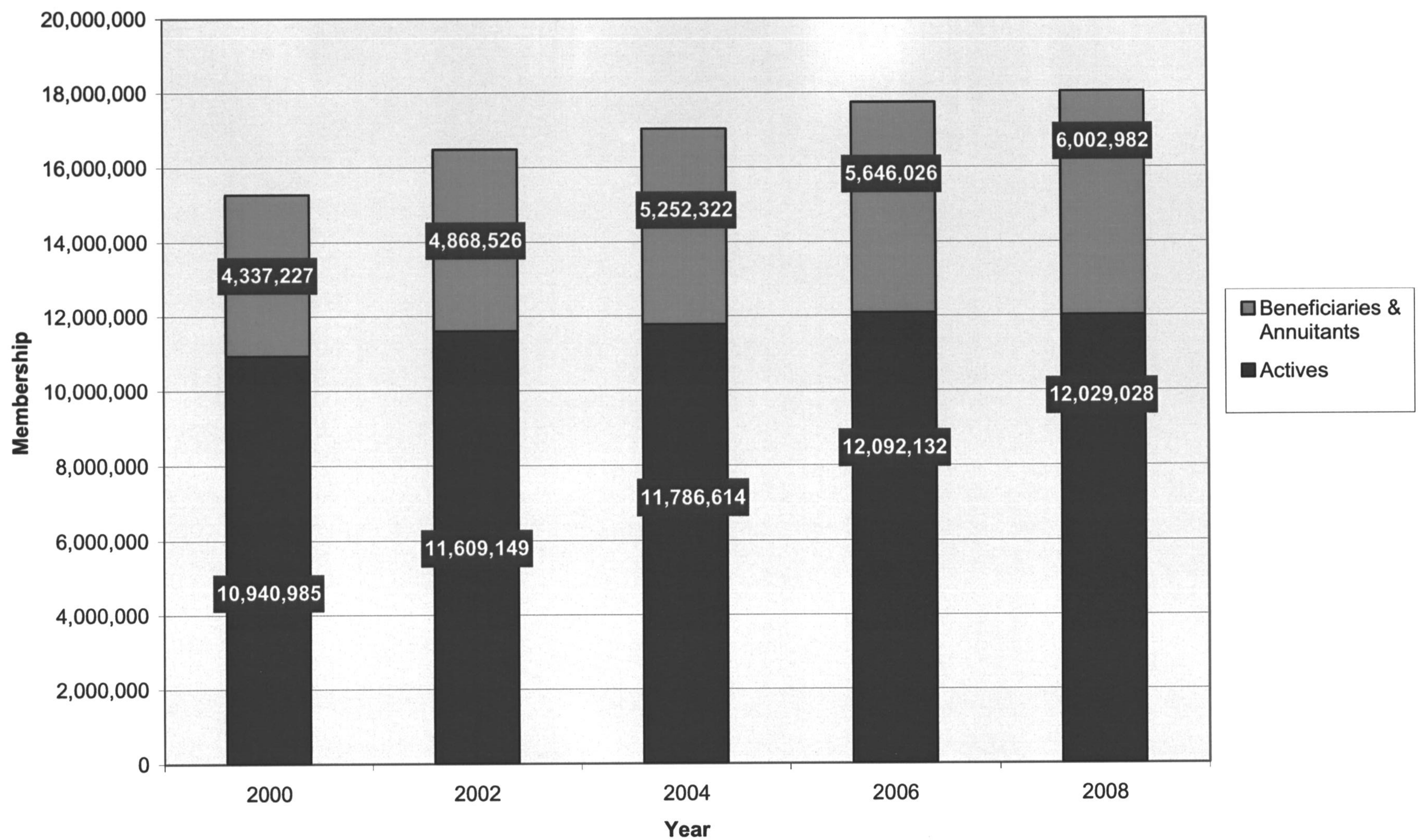


Figure 2. Participant Growth 2000 to 2008



PART II
NORMAL AND EARLY RETIREMENT PROVISIONS

A. INTRODUCTION

Chart 2, on pages 14 and 15, shows the normal and early retirement provisions for each of the plans covered in the report. All but four of the plans covered in this report are "defined benefit plans" in which retirement benefits are calculated by a formula that takes into account years of service and final average salary. Two of the exceptions are "money purchase" plans in which retirement benefits are calculated by the amount of money in the person's account and the age of the person at the time he or she retires. Benefits are calculated as the total value of the employer and employee contributions plus investment earnings at the time of retirement. The other two exceptions are "defined contribution plans" that have been converted from defined benefit plans (both in Alaska). Benefits are calculated for defined contribution plans as the total value of the employer and employee contributions plus investment earnings at the time of retirement.

Note that some of the defined benefit plans also contain elements of money purchase plans, generally an option under which an employee may elect to have some of his or her contribution to the retirement plan placed in a money purchase account. These "money purchase options" are not reflected in Chart 2, which describes the features of each plan that are standard and that apply to employees generally.

B. NORMAL RETIREMENT

"Normal retirement" refers to the age, number of years of service, or both, that a person must attain in order to qualify for full retirement benefits without an actuarial reduction in his or her annuity for early retirement. Most plans in this report have adopted multiple combinations of age and service under which a person may qualify for normal retirement. These are shown in the column entitled "Normal Retirement" in Chart 2.

Some retirement plans integrate normal retirement with the age under which a person is entitled to receive retirement benefits under the Social Security system. Age 65 is the age at which a person is entitled to receive full Social Security benefits, but this age is scheduled to increase to 66 and then to 67 over time.

Age 62 is the earliest age at which a person can receive Social Security retirement benefits, although the amount of the benefits are reduced to reflect the longer payout period. Chart 2 shows that 84 of the 87 plans allow normal retirement at age 62 or earlier, for persons with many years of service. In addition, Chart 2 shows that 57 of the 87 plans permit normal retirement at age 62 or earlier, with 10 or less years of service. Only two of the plans in this report restrict normal retirement to persons who are at least 65.

Some plans that permit persons to retire earlier than age 62 also allow them to elect to increase their annuity prior to age 62 to reflect the amount of Social Security benefits it is estimated that they will receive at that time. The amount of the annuity paid after age 62 is then adjusted to compensate for the earlier payments.

Many of the plans in this report have adopted "**X years and out**" provisions, which allow employees to retire at any age (or at a minimum age) with normal retirement benefits after "X" years of service. The most common provision is 30 years of service combined with a minimum age of 55. The following table shows the number of plans that, in 2008, had in effect X years and out provisions and compares these with the number of plans that had in effect X years and out provisions in the 2000 Report:

	2006	2008
35 years of service/age 55 or older	7 plans	8 plans
30 years of service/age 55 or older	28 plans	29 plans
28 years of service/age 55 or older	4 plans	4 plans
27 years of service/age 55 or older	2 plans	3 plans
25 years of service/age 55 or older	11 plans	11 plans
20 years of service/age 55 or older	4 plans	8 plans
TOTAL	56 plans	63 plans

See Figure 3, *2008 Normal Retirement "X Years and Out" Provisions*, for a graphical representation of the 2008 "X years and out" provisions.

In addition to the "X years and out" provisions, some plans have adopted "**Rule of Y**" provisions under which a person can retire with normal retirement benefits when that person's number of years of service, plus his or her age, equals a specified number. The following table shows the number of plans that, in 2008, had Rule of Y provisions and compares these with the number of plans that had Rule of Y provisions in 2006:

	2006	2008
Rule of 90	3 plans	4 plans
Rule of 88	1 plan	1 plan
Rule of 85	5 plans	9 plans
Rule of 80	5 plans	7 plans
Rule of 75	1 plan	2 plans
TOTAL	15 plans	23 plans

See Figure 4, *Normal Retirement "Rule of Y" Provisions (Of 23 Plans Incorporating "Rule of Y" Provisions)*, for a graphical representation.

C. EARLY RETIREMENT

Seventy-five of the 87 plans covered in the 2008 Report permit "early retirement" before the normal age and service requirements of the plans have been met. The annuity of a person who elects early retirement is reduced from the amount that would have been received if the person had reached the normal retirement requirements. The early retirement provisions of each of the plans are shown in the column entitled "Early Retirement" in Chart 2. The most common minimum age for early retirement is age 55, with some minimum years of service. The second most common minimum age for early retirement is age 50.

Fifty-four of the 87 plans in the 2008 Report allow early retirement at a minimum age of 55 or more. Thirteen of the 87 plans in the report allow early retirement at a minimum age of less than

55. Ten of the 87 plans in the report do not allow early retirement. The remainder of the plans are either money purchase plans or allow early retirement after a certain number of years of service, without specifying any minimum age (see Figure 5, *2008 Early Retirement Provisions*).

The annuity of a person who elects to retire before reaching the minimum age and years of service required for normal retirement is subject to a reduction that is commonly referred to as an "**actuarial discount**." The amount of the reduction for each of the plans is shown in the column entitled "Reduction for Early Retirement" in Chart 2. In many cases, the column in Chart 2 is not able to show all of the complexity of how the amount of the reduction is actually computed, because this amount is frequently different for employees at different ages or with different numbers of years of service or for various classifications of employees. However, the column does show the most common percentage reduction for each of the plans in the report.

D. TRENDS

The 2008 Report indicates the return to a trend noted in previous reports that permits retirement at earlier ages. Between the 2000 and 2004 Reports, the plans reduced their normal retirement provisions by reducing the minimum age or the number of years of service required, or both. Between the 2004 and 2006 Reports, only two plans did so. Between the 2006 and 2008 Reports, an additional seven plans reduced their normal retirement provisions.

In addition, between the 2000 and 2004 Reports, 10 plans reduced their early retirement provisions by reducing the minimum age or the number of years of service required, or both. Between the 2004 and 2006 Reports, only two plans did so. Between the 2006 and 2008 Reports, an additional eight plans reduced their early retirement provisions.

E. THE WRS

The normal retirement requirement for general employees in the WRS is 65 years of age. However, general employees who are at least 57 years of age and who have at least 30 years of service can retire without an actuarial discount. General employees in the WRS may retire at 55 years of age with an actuarial discount. The amount of actuarial discount for early retirement for general employees in the WRS varies according to the employee's number of years of service.

CHART II
NORMAL AND EARLY RETIREMENT REQUIREMENTS

	State	Fund Name	Coverage*	Normal Retirement (Age/Years)	Early Retirement (Age/Years)	Reduction for Early Retirement
1	Alabama	ERS	S, L	60/10; any/25	None	
2	Alabama	TRS	T	60/10; any/25	None	
3	Alaska	PERS	S, L	59-1/2*	None	
4	Alaska	TRS	T	59-1/2*	None	
5	Arizona	SRS	S, L, T	65; 62/10; R80	50/5	Table
6	Arkansas	PERS	S, L	65/5; any/28	55/5; any/25	6% a yr
7	Arkansas	TRS	T	60/5; any/28	Any/25	Lesser of 5% for each yr less than 28 yrs of service or 5% for each yr prior to age 60
8	California	PERS	S, L	55/5	50/5	Multiplier varies
9	California	TRS	T	60/5	55/5; 50/30	3% to 6% a yr
10	Colorado	PERA	S, L, T	65/5; 50/30; 55/R85; any/35	50/25; 55/20; 60/5	Table
11	Connecticut	SERS	S	62/10; 60/25	55/10	3% a yr
12	Connecticut	TRS	T	60/20; any/35	Any/25; 55/20; 60/10	3% a yr
13	Delaware	SEPP	S, T	62/5; 60/15; any/30	55/15; any/25	2.4% a yr
14	Florida	FRS	S, L, T	62/6; any/30	Any/6	5% a yr
15	Georgia	ERS	S	65/10; any/30	60/10; any/25	7% a yr; max 35%
16	Georgia	TRS	T	60/10; any/30	Any/25	7% a yr
17	Hawaii	ERS	S, L, T	62/5; 55/30	55/20	5% a yr
18	Idaho	PERS	S, L, T	65/5; R90	55/5	3% a yr for 1st 5 yrs; 5.75% a yr thereafter
19	Illinois	SERS	S	60/8; R85	55/25	6% a yr
20	Illinois	TRS	T	62/5; 60/10; 55/35	55/20	6% a yr
21	Illinois	MRF	L	60/8; 55/35	55/8	3% a yr
22	Indiana	PERF	S, L	65/10; 60/15; 55/R85	50/15	Table
23	Indiana	TRF	T	65/10; 60/15; 55/R85	50/15	5% a yr to 60; 1.2% a yr age 60 to 65
24	Iowa	PERS	S, L, T	65; 62/20; R88	55/4	3% a yr
25	Kansas	PERS	S, L, T	65/1; 62/10; R85	55/10	2.4%/7.20% a yr
26	Kentucky	ERS	S	65/4; any/27	55/5; any/25	5%/4% a yr
27	Kentucky	CERS	L	65/4; any/27	55/5; any/25	5%/4% a yr
28	Kentucky	TRS	T	60/5; any/27	55/5	5% a yr
29	Louisiana	SERS	S	60/10	Any/20	Table
30	Louisiana	TRSL	T	60/5; 55/25; any/30	Any/20	Multiplier varies
31	Maine	PERS	S, L, T	62/5	Any/25	6% a yr
32	Maryland	SRPS	S, L, T	60/5; any/30	Any/25	6% a yr; max 42%
33	Massachusetts	SERS	S, L	55/10; any/20	None	
34	Massachusetts	TRS	T	55/10; any/20	None	
35	Michigan	SERS	S	60/10; 55/30	55/15	6% a yr
36	Michigan	MERS	L	Varies by plan	Varies by plan	Varies by plan
37	Michigan	PSERS	T	60/5; any/30	55/15	6% a yr
38	Minnesota	MSRS	S	62; 60/6; any/30; R90	55/3	Table
39	Minnesota	PERA	L	65/1; any/30; R90	55/3	Table
40	Minnesota	TRA	T	65/1; 62/30; any/30; R90	55/3	Table

41	Mississippi	PERA	S, L, T	60/8; any/25	None	
42	Missouri	SERS	S	65/5; 65/4 active; 62/5; 60/15; 48/R80	57/5; 55/10	6% a yr
43	Missouri	LAGERS	L	60/5; R80 option	55/5	6% a yr
44	Missouri	PSRS	T	60/5; R80; any/30	55/5; any/25	Table
45	Montana	PERS	S, L	65/any; 60/5; any/30	50/5; any/25	Table
46	Montana	TRS	T	60/5; any/25	50/5	6%; 3.6% a yr
47	Nebraska	SERS	S	55		Money purchase
48	Nebraska	CERS	L	55		Money purchase
49	Nebraska	SPP	T	65; 55/R85	60/5; any/35	3% a yr
50	Nevada	PERS	S, L, T	65/5; 60/10; any/30	Any/5	4% a yr
51	New Hampshire	NHRS	S, L, T	60/any	50/10; R70/20	1.5%; 3%; 4%; 6.67% a yr
52	New Jersey	PERS	S, L	62/any	Any/25	3% a yr
53	New Jersey	TRS	T	60/any	Any/25	3% a yr
54	New Mexico	PERA	S, L	65/5 to 60/20; any/25	None	
55	New Mexico	ERA	T	65/5; any/25; 60/R75	R75	Table
56	New York	ERS	S, L	62/5; 55/30	55/5	6%/3% a yr
57	New York	TRS	T	62/5; 55/30	55/5	6%/3% a yr
58	North Carolina	TSERS	S, T	65/5; 60/25; any/30	60/5; 50/20	3% a yr
59	North Carolina	LGERS	L	65/5; 60/25; any/30	60/5; 50/20	3% a yr
60	North Dakota	PERS	S, L	65/any; R85	55/3	6% a yr
61	North Dakota	TRF	T	65/5; R90	55/5	6% a yr
62	Ohio	PERS	S, L	60/5; any/30	55/25	3% a yr
63	Ohio	STRS	T	65; any/30	60/5; 55/25	3% a yr
64	Oklahoma	PERS	S, L	62/6; R90	55/10	Table
65	Oklahoma	TRS	T	62/5; R90	55/5; any 30	Table
66	Oregon	PERS	S, L, T	65/any; 60/any; 58/30	55; any 30	Full actuarial reduction
67	Pennsylvania	SERS	S	60/3; any/35	Any/5	3% to 6% per yr average
68	Pennsylvania	PSERS	T	62; 60/30; any/35	55/25	3% a yr
69	Rhode Island	ERS	S, T	60/10; any/28	55/20	Table
70	South Carolina	SCRS	S, L, T	65/any; any/28	60; 55/25	5% a yr for each yr under age 65; 4% a yr for each yr under age 28
71	South Dakota	SRS	S, L, T	65/3; 55/R85	55/3	Table
72	Tennessee	CRS	S, L, T	60/5; any/30	55/10; any/25	4.8% a yr
73	Texas	ERS	S	60/5; R80	None	
74	Texas	TRS	T	65/5; 60/20; R80	55/5; any/30	Table
75	Texas	MRS	L	60/5; 60/10; any/20 or 25 option	None	
76	Utah	SRS	S, L, T	65/4; any/30	Any/25; 60/20; 62/10	3% a yr; full actuarial reduction for each yr before age 60
77	Vermont	SRS	S	62/any; any/30	55/5	6% a yr
78	Vermont	TRS	T	62/any; any/30	55/5	6% a yr
79	Virginia	SRS	S, L, T	65/5; 50/30	50/10; 55/5	6%; 4.8% a yr
80	Washington	PERS	S, L	65/5; 65/10	55/20; 55/10	3% a yr or table
81	Washington	TRS	T	65/5; 65/10	55/20; 55/10	3% a yr or table
82	West Virginia	PERS	S, L	60/5; 55/R80	55/10	Full actuarial reduction
83	West Virginia	TRS	T	60/5; 55/30; any/35	Any/30	Full actuarial reduction
84	Wyoming	WRS	S, L, T	60/4; R85	50/4; any/25	5% a yr
85	Milwaukee	City	L	60/any; 55/30	55/15	Table
86	Milwaukee	County	L	60/any; R75	55/15	5% a yr
87	Wisconsin	WRS	S, L, T	65/any; 57/30	55	Varies by amt of service

Coverage: S = State; L = Local; T = Teachers; x/y = Age/Service.

*Defined contribution plan: taxes and penalties may apply if contributions are withdrawn prior to age 59-1/2

Figure 3. 2008 Normal Retirement "X Years and Out" Provisions

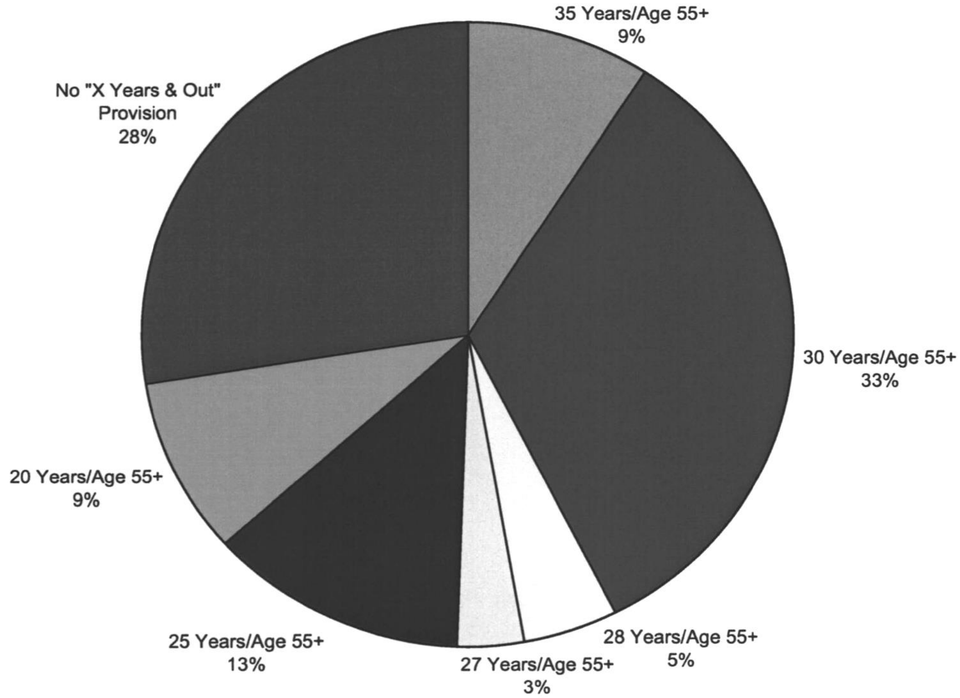


Figure 4. Normal Retirement "Rule of Y" Provisions (Of 23 Plans Incorporating "Rule of Y" Provisions)

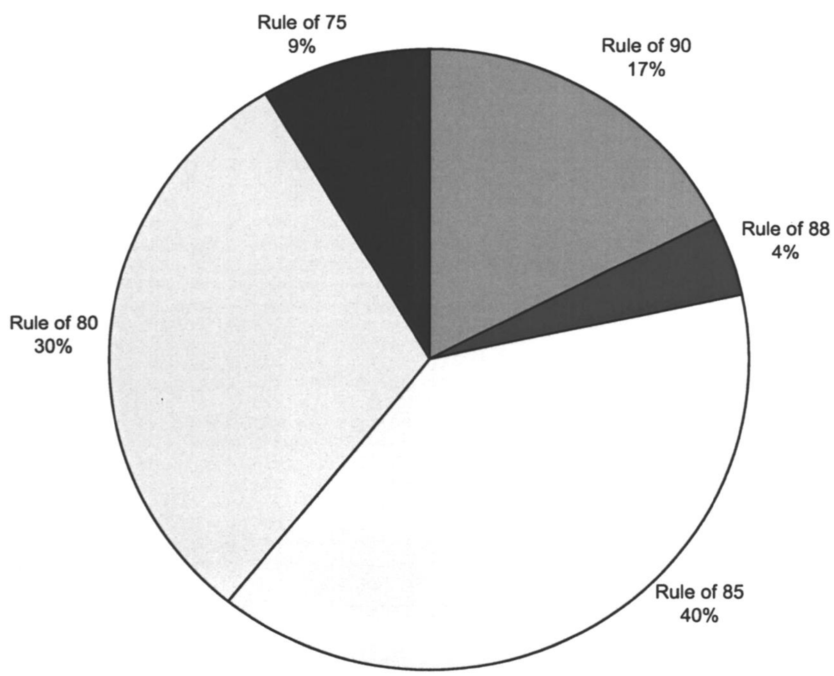
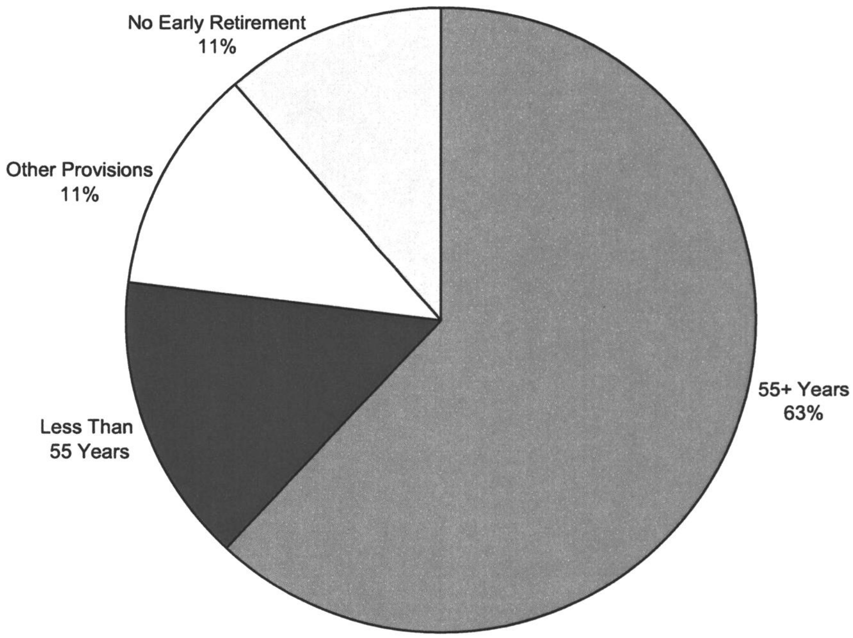


Figure 5. 2008 Early Retirement Provisions



PART III
CONTRIBUTION RATES AND VESTING REQUIREMENTS

A. INTRODUCTION

Chart 3, on pages 22 and 23, shows the employee contribution rate, the employer contribution rate, and the vesting period for each of the 87 plans in the report. The contribution rates are shown as a percentage of salary.

B. EMPLOYEE CONTRIBUTIONS

Large private sector corporations that provide defined benefit pension plans frequently do not require employee contributions to the primary plan, but frequently also provide supplemental profit-sharing or savings plans that allow employees to contribute to the plan and receive an employer "match" to some or all of the contribution. Conversely, most public employee pension plans at least nominally require employees to contribute a certain percentage of their salary to the plan, although some public employee pension plans provide for employer "pick-up" of the employee contribution. In addition, secondary savings plans for public employees, such as Section 457 deferred compensation plans, are funded totally from employee contributions with no employer match.

In many plans, amounts designated as employee contributions for accounting purposes are actually paid by the employer. There are financial advantages to both the employer and the employee if, instead of granting compensation increases, an employer pays the employee contribution to the retirement plan. Compensation payments are subject to old age, survivors and disability insurance payments (Social Security), and Medicare payments while contributions to a retirement plan are not. In addition, the practice may be attractive to employers because employer pick-up of retirement contributions is not added into employee base wages, limiting future percentage-based salary increases.

The column in Chart 3 entitled "Employee Contribution" shows the employee contribution rates, expressed as a percentage of payroll, for the 87 plans covered in the report. These requirements are compared with employee contributions in the 2000 Report in the following table:

Employee Contribution Rates	2006	2008
5% or less	28 plans	30 plans
More than 5%	45 plans	46 plans
Rate varies (usually by age or employee classification)	6 plans	5 plans
Plan is noncontributory	6 plans	6 plans
TOTAL	85 plans	87 plans

See Figure 6, *2008 Employee Contribution Rates*, for a graphical representation.

C. EMPLOYER CONTRIBUTIONS

As has been noted in previous reports, the employer contribution information in Chart 3 is of less reliability than other information found in this report. Employer contributions often vary between categories of employees and change significantly from year to year, particularly if investment returns from pension funds are volatile. In addition, employer costs are often designated under several categories reflecting normal costs, amortization, administrative costs, and unfunded post-retirement increases and the designation of these costs may vary from plan to plan. The employer contribution rates shown in Chart 3 are derived from actuarial reports and, where these were not available, by information received from plan administrators. Where possible, the normal cost rate or the statutory rate is stated. Medical and other nonpension costs are generally not included in "employer contributions."

In addition, the employer contributions reported in Chart 3 are intended to reflect actual contributions made by the employer. In some plans covered by the report, employers paid contributions to the retirement plans at rates less than those that were determined by actuarial valuation as necessary to fully fund the pension plan.

D. VESTING

The term "vesting" refers to an employee's right, after satisfying some minimum service requirement, to receive some pension benefits regardless of whether the employee remains in a job covered by the pension plan. Vesting requirements for the plans included in the 2006 Report are displayed in the last column of Chart 3. The following table shows the changes that have occurred since 2000 in the plans covered by the report:

	2006	2008
Immediate vesting	2 plans	2 plans
Vesting after 3 years	6 plans	7 plans
Vesting after 4 years	5 plans	4 plans
Vesting after 5 years	50 plans	51 plans
Vesting after 6 years	0 plans	1 plan
Vesting after 8 years	4 plans	4 plans
Vesting after 10 years	17 plans	17 plans
Graded or varying	1 plan	1 plan
TOTAL	85 plans	87 plans

In 2008, a total of 64 plans, or 73.6% of the 87 plans in the report, require five or less years of service to vest. This is an increase of one plan since the 2006 Report and nine plans since the 2000 Report. The trend appears to be towards vesting periods of five years or less, perhaps reflecting federal vesting requirements that apply to private sector pension plans. The number of plans in 2008 that require 10 years of service to vest has decreased by eight plans from the 2000 Report and by 23 plans from the 1990 Report. See Figure 7, *2008 Vesting Rates*, for a graphical representation.

E. TRENDS

The trend in public employee pension plan vesting is generally toward vesting periods of five years or less than five years. Only 22 of the 87 plans covered in the 2008 Report had vesting requirements that were greater than five years. Employee contribution rates were increased in 17 plans between the 2006 and 2008 Reports. Employer contribution rates increased for 32 plans between 2006 and 2008. There were a significant number of rates that decreased between 2006 and 2008. However, it should be noted that the majority of these decreases were due to the adjustment of rates to the normal cost or statutory rates from prior rates that included actuarial liabilities.

F. THE WRS

No vesting period is required for employees in the WRS. The employee contribution rate for general employees for 2006 is 5% but, for the reasons discussed above, in practice, almost all contributions to the WRS are paid by employers. The employer contribution rate for 2006 was 4.5%, plus an additional 0.9% benefit adjustment contribution credited to the employer accumulation account.

CHART III
CONTRIBUTION AND VESTING REQUIREMENTS

	State	Fund Name	Social Security	Employee Contribution	Employer Normal Cost or Statutory Contribution	Vesting Period
1	Alabama	ERS	Yes	5.00%	4.90%	10 years
2	Alabama	TRS	Yes	5.00%	6.39%	10 years
3	Alaska	PERS	No	8.00%	5.00%*	5 years
4	Alaska	TRS	No	8.00%	7.00%*	5 years
5	Arizona	SRS	Yes	9.00%	6.45%	Immediate
6	Arkansas	PERS	Yes	5.00%	12.54%	5 years
7	Arkansas	TRS	Yes	6.00%	12.87%	5 years
8	California	PERS	Yes	5.00% or 6.00%	10.55%	5 years
9	California	TRS	No	8.00%	8.25%	5 years
10	Colorado	PERA	No	8.00%	10.22%	5 years
11	Connecticut	SERS	Yes	2.00%	4.70%	5 years
12	Connecticut	TRS	No	6.00%	4.40%	10 years
13	Delaware	SEPP	Yes	3.00% above $6,000	6.85%	5 years
14	Florida	FRS	Yes	Non-contributory	8.69%	6 years
15	Georgia	ERS	Yes	1.25%	6.80%	10 years
16	Georgia	TRS	Yes	5.00%	7.96%	10 years
17	Hawaii	ERS	Yes	6.00%	5.85%	5 years
18	Idaho	PERS	Yes	6.23%	10.39%	5 years
19	Illinois	SERS	Yes	4.00%	16.56%	8 years
20	Illinois	TRS	No	9.40%	9.15%	5 years
21	Illinois	MRF	Yes	4.50%	7.58%	8 years
22	Indiana	PERF	Yes	3.00%	6.26%	10 years
23	Indiana	TRF	Yes	3.00%	4.97%	10 years
24	Iowa	PERS	Yes	3.90%	6.05%	4 years
25	Kansas	PERS	Yes	4.00%	7.39%	10 years
26	Kentucky	ERS	Yes	5.00%	3.55%	5 years
27	Kentucky	CRS	Yes	5.00%	3.85%	5 years
28	Kentucky	TRS	No	9.86%	9.86%	5 years
29	Louisiana	SERS	No	7.80%	7.31%	10 years
30	Louisiana	TRSL	No	8.00%	15.5% min	5 years
31	Maine	SRS	No	7.65%	17.01%	5 years
32	Maryland	SRS	Yes	2.00%	8.86%	5 years
33	Massachusetts	SERS	No	9.00%	3.80%	10 years
34	Massachusetts	TRS	No	11.00%	1.96%	10 years
35	Michigan	SERS	Yes	Non-contributory	8.30%	10 years
36	Michigan	MERS	Yes	Varies by plan	Varies by plan	6, 8, or 10 yrs
37	Michigan	PSERS	Yes	3.00% to 4.30%	5.60%	10 years
38	Minnesota	MSRS	Yes	4.50%	4.50%	3 years
39	Minnesota	PERA	Yes	6.00%	6.50%	3 years
40	Minnesota	TRA	Yes	5.50%	5.50%	3 years
41	Mississippi	PERS	Yes	7.25%	11.85%	8 years
42	Missouri	SERS	Yes	Non-contributory	12.75%	5 years
43	Missouri	LAGERS	Yes	0%-4.00%	Varies by plan	5 years
44	Missouri	PSRS	No	10.86%	10.86%	5 years
45	Montana	PERS	Yes	6.90%	6.94%	5 years

46	Montana	TRS	Yes	7.15%	7.47%	5 years
47	Nebraska	SERS	Yes	4.80%	156% of mbr contr	3 years
48	Nebraska	CERS	Yes	4.50%	150% of mbr contr	3 years
49	Nebraska	SPP	Yes	7.28%	101% of mbr contr	5 years
50	Nevada	PERS	No	11.25%	11.25%	5 years
51	New Hampshire	NHRS	Yes	5.00%	4.67%	10 years
52	New Jersey	PERS	Yes	5.50%	4.80% state; 3.44% local	10 years
53	New Jersey	TPAF	Yes	5.50%	1.8 billion (total varies)	10 years
54	New Mexico	PERA	Yes	7.42%	16.59%	5 years
55	New Mexico	ERB	Yes	7.90%	5.66%	5 years
56	New York	ERS	Yes	3.00%	9.60%**	5 years
57	New York	TRS	Yes	3.00%	7.63%	5 years
58	North Carolina	TSERS	Yes	6.00%	3.36%	5 years
59	North Carolina	LGERS	Yes	6.00%	4.80%	5 years
60	North Dakota	PERS	Yes	4.00%	4.12%	3 years
61	North Dakota	TRF	Yes	7.75%	8.25%	5 years
62	Ohio	PERS	No	10.00%	14.00%	5 years
63	Ohio	STRS	No	10.00%	14.00%	5 years
64	Oklahoma	PERS	Yes	3.00% to 3.50%	12.46%	8 years
65	Oklahoma	TRS	Yes	7.00%	9.00%	5 years
66	Oregon	PERS	Yes	6.00%	7.50%	5 years
67	Pennsylvania	SERS	Yes	6.25%	9.51%	5 years
68	Pennsylvania	PSERS	Yes	7.32% (average)	4.00%	5 years
69	Rhode Island	ERS	Yes	8.75% (9.50% teachers)	1.64% (2.33% teachers)	10 years
70	South Carolina	SCRS	Yes	6.50%	9.24%	5 years
71	South Dakota	SRS	Yes	6.00%	6.00%	3 years
72	Tennessee	CRS	Yes	Non-contributory	13.58%	5 years
73	Texas	ERS	Yes	6.00%	6.45%	5 years
74	Texas	TRS	No	6.40%	6.58%	5 years
75	Texas	MRS	Yes	5.00%, 6.00%, or 7.00%	5.00% to 14.00%	5 years
76	Utah	SRS	Yes	Non-contributory	11.62% to 14.22%	4 years
77	Vermont	SRS	Yes	5.10%	5.93%	5 years
78	Vermont	TRS	Yes	3.40%	3.54%	5 years
79	Virginia	SRS	Yes	5.00%	6.15%	5 years
80	Washington	PERS	Yes	4.61%; non-contributory	4.72%	5 yrs; 10 yrs
81	Washington	TRS	Yes	4.93%; non-contributory	5.70%	5 yrs; 10 yrs
82	West Virginia	PERS	Yes	4.50%	10.50%	5 years
83	West Virginia	TRS	Yes	6.00%	7.50%	5 years
84	Wyoming	WRS	Yes	5.57%	5.68%	4 years
85	Milwaukee	City	Yes	5.50%	11.22% (due in 2010)	4 years
86	Milwaukee	County	Yes	Non-contributory	$34,981,095	5 years
87	Wisconsin	WRS	Yes	5.00%	4.80%	Immediate

*Alaska PERS and TRS converted to a defined contribution plan on July 1, 2006

**Average rate for 2008

Figure 6. 2008 Employee Contribution Rates

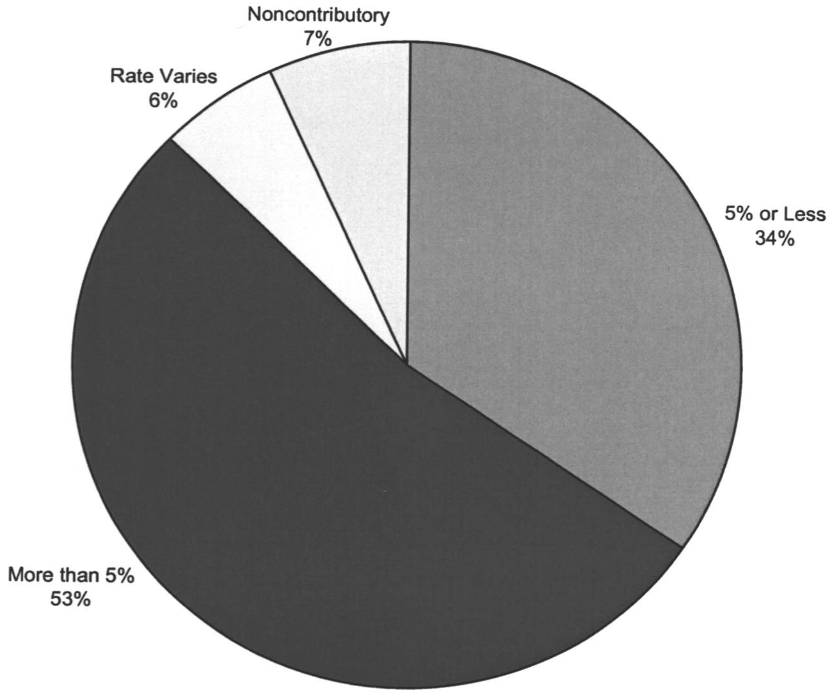
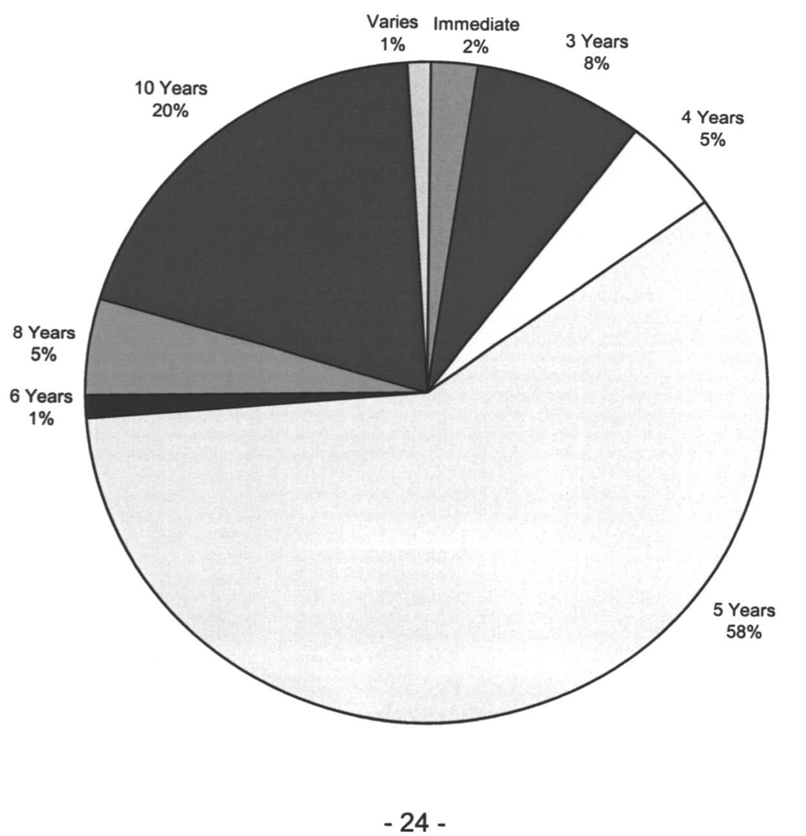


Figure 7. 2008 Vesting Rates



PART IV
RETIREMENT BENEFIT CALCULATIONS

A. INTRODUCTION

Chart 4, on pages 28 and 29, shows the retirement benefit formulas in effect for 2008 for each of the plans. The formulas are those used to calculate the benefits of general employees and teachers and may not apply to other categories of employees. For example, elected officials and employees who are classified as "protective employees" generally have higher formula benefit multipliers and earlier normal retirement dates.

In addition, many of the plans in the report have different "tiers" of formula benefits that apply to employees depending upon when they were hired. In Chart 4, an attempt was made to present the data for each plan that is applicable to the largest category of employees and to employees who newly entered public service.

As is shown in Chart 4, 83 of the 87 plans in the report are "defined benefit plans" in which an employee's retirement benefits are generally calculated by multiplying the employee's number of years of service times a "formula multiplier" and multiplying the product of this calculation by the employee's final average salary:

Years of Service x Formula Multiplier x Final Average Salary = Retirement Annuity

In effect, the formula multiplier is the percentage of the final average salary that an employee earns as a retirement annuity for each year of service.

As previously noted, two of the 87 plans in the report are "money purchase" plans in which an employee's retirement benefits are calculated by the amount of money in the employee's retirement account. Some of the defined benefit plans in the report also include "money purchase" elements. The other two plans are defined contribution plans where the value of contributions plus interest equals the retirement benefit.

B. "BASIC" PLANS IN WHICH EMPLOYEES ARE NOT COVERED BY SOCIAL SECURITY

Employees of 17 of the 87 plans are not covered by Social Security. The plans in which employees are not covered by Social Security frequently have a higher formula multiplier to compensate for the lack of Social Security coverage.

The 17 plans in which employees are not covered by Social Security have formula multipliers ranging between 2% and 3.3% for each year of service. The average formula multiplier for these 17 plans is approximately 2.3% for each year of service.

C. "COORDINATED" PLANS IN WHICH EMPLOYEES ARE COVERED BY SOCIAL SECURITY

Seventy of the 87 plans in this report are "coordinated" with the Social Security system, meaning that employees earn Social Security benefits for their employment. There are a wide range of formula multipliers in effect for these 70 plans, which sometimes vary by number of years of service, by date of employment, or by age at retirement. For 2008, the average formula multiplier for the coordinated plans that are not money purchase plans, defined contribution plans, or plans in which the employer determines the formula multiplier is approximately 1.94%. This number may be somewhat misleadingly low because a number of plans increase their multiplier rates following a certain number of years of service; generally 15, 25, or 30 years. Since the 2006 Report, four of the plans coordinated with Social Security have increased their formula multiplier.

The formula benefits for 2008, as shown in Chart 4, are summarized and compared with the data found in the 2006 Report in the following table:

Formula Multiplier	2006	2008
1.1% to 1.3%	0 plans	0 plans
Over 1.3% to 1.5%	2 plans	2 plans
Over 1.5% to 1.7%	12 plans	15 plans
Over 1.7% to 1.9%	14 plans	13 plans
Over 1.9% to 2.1%	24 plans	25 plans
Over 2.1%	8 plans	6 plans
Employer determines formula multiplier	2 plans	2 plans
Formula benefit plus money purchase	4 plans	3 plans
Money purchase plan	2 plans	2 plans
Defined contribution plan	0 plans	2 plans
TOTAL	68 plans	70 plans

See Figure 8, *2008 Formula Multipliers*, for a graphical representation.

D. FINAL AVERAGE SALARY

Defined benefit plans base the amount of a retirement annuity on the employee's "final average salary." The final average salary is generally the employee's highest earnings over a specified number of years or months, which are sometimes required to be consecutive years or months. Generally, an employee's highest salary will be the amount of salary he or she earned immediately prior to retirement.

Since the 2006 Report, there has been little change in how any of the plans calculate final average salary. The most common method is to use a three-year average, which may be required to be consecutive years or may be required to be years that fall within a given period. (For example, the three highest years within a 10-year period.) Fifty-five of the 87 plans in the report use a three-year final average salary. The next most prevalent calculation of final average salary is a five-year period--18 of the 87 plans used a five-year period in 2008. See Figure 9, *2008 Final Average Salary Period*, for a graphical representation.

E. LIMITATIONS ON BENEFITS

The last column of Chart 4 shows the plans that have established a limit on the amount of pension benefits that may be received by a retiree. This limitation may be expressed as a maximum percentage of final average salary, as a maximum number of years that may be credited, or as a maximum percentage of highest salary. The majority of plans surveyed in the report impose no maximum benefit limitation. They are followed by those with a limit of 100% of final average salary.

F. TRENDS

The trend noted in previous reports to increase formula multipliers has noticeably slowed. Four (including both "basic" and "coordinated" plans) of the 87 plans increased their formula multipliers between 2006 and 2008. Thirty-two of 85 plans increased their formula multipliers between 1996 and 2000. Little change has been noted regarding how final average salary is computed or in the number of plans that cap retirement benefits.

G. THE WRS

The WRS is primarily a defined benefit plan. However, it also has a "money purchase" feature that computes an employee's retirement benefits by the amount of an annuity that can be purchased with moneys in the employee's retirement account. The employee receives the higher of either the formula-based defined benefit annuity or the money purchase annuity.

The formula multiplier for general employees in the WRS is 1.6%, which is lower than the 1.94% average formula multiplier for the plans in the report that are coordinated with the Social Security system. 1999 Wisconsin Act 11 added an additional 0.165 to the formula multiplier for creditable service on or before January 1, 2000. However, for creditable service earned after January 1, 2000, the formula multiplier for general employees returned to 1.6%.

Final average salary under the WRS is an average of the three highest years of an employee's salary. Annuities for general employees are capped at 70% of final average salary.

CHART IV
FINAL AVERAGE SALARY PERIODS-FORMULAS-LIMITATIONS

	State	Fund Name	FAS Period	Formula Multiplier	Limitation
1	Alabama	ERS	3 H/10	2.0125%	None
2	Alabama	TRS	3 H/10	2.0125%	None
3	Alaska	PERS	N/A	N/A; defined contribution plan	None
4	Alaska	TRS	N/A	N/A; defined contribution plan	None
5	Arizona	SRS	3 HC	2.1% (1st 20 yrs); 2.15% (next 5 yrs); 2.2% (next 5 yrs); 2.3% over 30 yrs	80% FAS
6	Arkansas	PERS	3 H	2%	100% FAS
7	Arkansas	TRS	3 H	2.15%	None
8	California	PERS	3 H	2% at 55; 2.5% at 63 or older	65 yrs max
9	California	TRS	1 H	2% at 60; 2.4% at 63	100% FAS
10	Colorado	PERA	3 H	2.5%	100% FAS
11	Connecticut	SERS	3 H (130% cap)	1.33% + .5% over $48,800; 1.625% yrs over 35	None
12	Connecticut	TRS	3 H	2%	75% FAS
13	Delaware	SEPP	3 H	1.85%	None
14	Florida	FRS	5 H	1.6% to 1.68% (age & yrs of service)	100% FAS
15	Georgia	ERS	2 HC	2%	90% high yr
16	Georgia	TRS	2 HC (cap)	2%	40 yrs max
17	Hawaii	ERS	3 H	2%	None
18	Idaho	PERS	3 1/2 HC	2%	100% FAS
19	Illinois	SERS	4 HC/10	1.67%	75% FAS
20	Illinois	TRS	4 HC/10 (cap)	2.2%	75% FAS
21	Illinois	MRF	4 HC/10 (cap)	1.67% (1st 15 yrs); 2% (added yrs)	75% FAS
22	Indiana	PERF	5 H	1.1% + money purchase annuity	None
23	Indiana	TRF	5 H	1.1% + money purchase annuity	None
24	Iowa	PERS	3 H	2% (1st 30 yrs); 1% (next 5 yrs)	65% FAS
25	Kansas	PERS	3 H	1.75%	None
26	Kentucky	ERS	5 H	1.97%	None
27	Kentucky	CERS	5 H	2%	None
28	Kentucky	TRS	3 H	2.5% for up to 30 yrs; 3% for over 30 yrs	100% FAS
29	Louisiana	SERS	3 HC	3.33%	100% FAS
30	Louisiana	TRSL	3 HC + (cap)	2.5%	100% FAS
31	Maine	SRS	3 H	2%	None
32	Maryland	SRS	3 HC	1.82%	100% FAS
33	Massachusetts	SERS	3 HC	.5% to 2.5% (age-related)	80% FAS
34	Massachusetts	TRS	3 HC	.1% to 2.5% (age-related) + 2% for each yr over 24	80% FAS
35	Michigan	SERS	3 HC	1.5%	None
36	Michigan	MERS	5/3 HC	1.3% to 2.5% (employer option)	80% FAS for multipliers of 2.25% and over
37	Michigan	PSERS	3 HC	1.5%	None
38	Minnesota	MSRS	5 HC	1.7%	None
39	Minnesota	PERA	5 HC	1.7%	None
40	Minnesota	TRA	5 HC	1.9%	None

41	Mississippi	PERS	4 HC (cap)	2% (1st 25 yrs); 2.5% (added yrs)	100% FAS
42	Missouri	SERS	3 HC	1.7% (and .8% to age 62 if R80 met)	None
43	Missouri	LAGERS	5/3 HC	1% to 8% (varies by employer option)	None
44	Missouri	PSRS	3 HC	2.5%; 2.55% with 31 or more yrs of service	100% FAS
45	Montana	PERS	3 HC	1.785%; 2% with at least 25 yrs of service	None
46	Montana	TRS	3 HC	1.67%	None
47	Nebraska	SERS		Money purchase	None
48	Nebraska	CERS		Money purchase	None
49	Nebraska	SPP	3 HC	2%	None
50	Nevada	PERS	3 HC	2.67%	75% FAS
51	New Hampshire	NHRS	3 H (cap)	1.67% to 65; 1.515% after 65	100% FAS
52	New Jersey	PERS	3 H	1.82%	None
53	New Jersey	TPAF	3 H	1.82%	None
54	New Mexico	PERS	3 HC	3%	80% FAS
55	New Mexico	ERA	5 HC	2.35%	None
56	New York	ERS	3 HC (cap)	1.67% (under 20 yrs); 2% (over 20 yrs); 3.5% (over 30 yrs)	None
57	New York	TRS	3 HC (cap)	Same as New York's ERS	None
58	North Carolina	TSERS	4 HC	1.82%	None
59	North Carolina	LGERS	4 HC	1.85%	None
60	North Dakota	PERS	3 H/10	2%	None
61	North Dakota	TRF	5H	2%	None
62	Ohio	PERS	3 H	2.2% (1st 30 yrs); 2.5% (added yrs)	100% FAS
63	Ohio	STRS	3 H	2.2% (1st 35 yrs); 2.5% (35 or more yrs)	100% FAS
64	Oklahoma	PERS	3 H/10	2%	None
65	Oklahoma	TRS	5 HC	2%	None
66	Oregon	PERS	3 H	1.67%	None
67	Pennsylvania	SERS	3 H	2.5%	100% high yr
68	Pennsylvania	PSERS	3 H	2.5%	None
69	Rhode Island	ERS	3 HC	1.7% (1st 10 yrs); 1.9% (2nd 10 yrs); 3% (21-34 yrs); 2% (35+)	80% FAS
70	South Carolina	SCRS	3 HC	1.82%	None
71	South Dakota	SRS	3 HC/10	1.7%	None
72	Tennessee	CRS	5 HC	1.5% + .25% FAS over SSIL	94.5% FAS
73	Texas	ERS	3 H	2.3%	100% FAS
74	Texas	TRS	5 H	2.3%	None
75	Texas	MRS		Money purchase options	None
76	Utah	SRS	3 H	2%	None
77	Vermont	SRS	3 HC	1.67%	50% FAS
78	Vermont	TRS	3 HC	1.67%	50% FAS
79	Virginia	SRS	3 HC	1.7%	100% FAS
80	Washington	PERS	5 HC	2%; 1% + .25% per yr after 20 yrs (non-contributory)	None
81	Washington	TRS	5 HC	2%; 1% + .25% per yr after 20 yrs (non-contributory)	None
82	West Virginia	PERS	3 HC/10	2%	None
83	West Virginia	TRS	5 H/15	2%	None
84	Wyoming	WRS	3 H	2.125% (1st 15 yrs); 2.25% (added yrs)	None
85	Milwaukee	City	3 H	2%	70% FAS
86	Milwaukee	County	3 HC	2%	80% FAS
87	Wisconsin	WRS	3 H	1.6%	70% FAS

Figure 8. 2008 Formula Multipliers

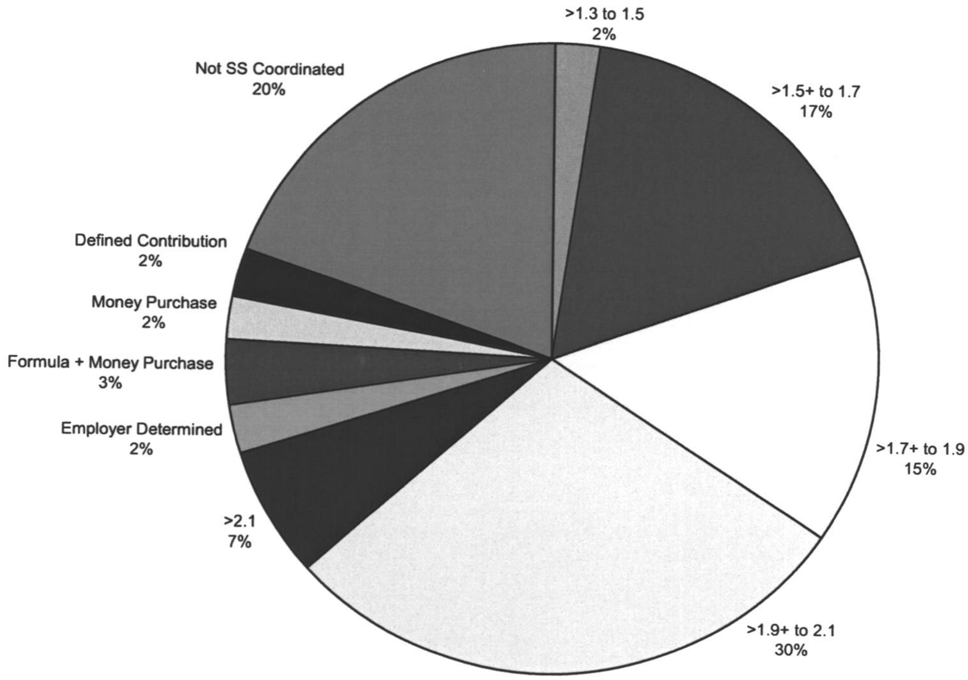
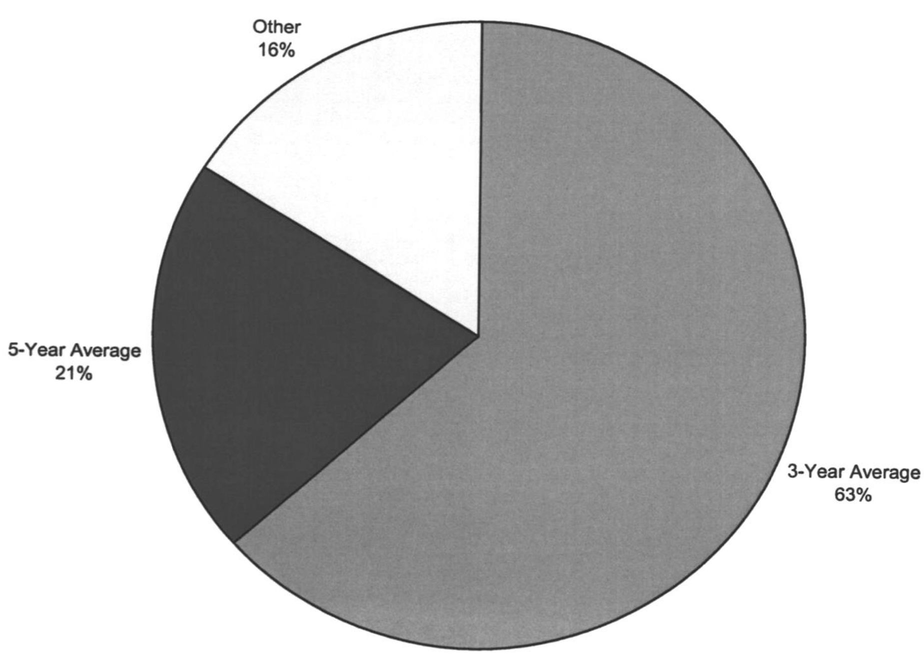


Figure 9. 2008 Final Average Salary Period



PART V
POST-RETIREMENT ANNUITY INCREASES AND TAXES

A. INTRODUCTION

Chart 5, on pages 34 and 35, shows the provisions of each plan for increasing retirement annuities after an employee has retired. Chart 5 also shows how annuity payments from each plan are treated under that state's income tax laws. In addition, benefit adjustments in the Social Security program over the last 10 years and income taxation of Social Security benefits are also discussed in this part.

B. SOCIAL SECURITY

Pension designers are concerned with the adequacy of benefits at the time of retirement and also with the continuing purchasing power of those benefits during retirement as affected by inflation. Since 1975, Social Security benefits have been automatically adjusted each year by the percentage increase in the consumer price index (CPI). The increases in Social Security benefits for each of the last 10 years are shown below and displayed in Figure 10, *Social Security CPI % Adjustments 2000 to 2009*:

CPI Year	Date on Which First Payable	Percentage Increase
2000	1/1/2001	3.5%
2001	1/1/2002	2.6%
2002	1/1/2003	1.4%
2003	1/1/2004	2.1%
2004	1/1/2005	2.7%
2005	1/1/2006	4.1%
2006	1/1/2007	3.3%
2007	1/1/2008	2.3%
2008	1/1/2009	5.8%
2009	1/1/2010	0.0%

For those employees in the 70 of the 87 plans in this report (80%) that are also covered by the Social Security program, at least that portion of their total retirement income that is received from Social Security automatically keeps pace with inflation.

Under federal law, up to 50% of Social Security benefits are subject to income taxation if the taxpayer's adjusted gross income is between $25,000 and $34,000 for single taxpayers or between $32,000 and $44,000 for married taxpayers filing a joint income tax return. If a taxpayer's income exceeds these levels, then 85% of his or her Social Security benefits are subject to federal income taxation.

State income taxation of Social Security benefits varies. Twenty-six states completely exempt Social Security benefits from income taxation. Fifteen states impose income taxes on all or a portion of Social Security benefits and nine states have no personal income tax or a very limited personal income tax that does not affect Social Security payments.

C. POST-RETIREMENT ANNUITY COST-OF-LIVING ADJUSTMENTS

Most of the plans in this report have provisions for post-retirement annuity adjustments to protect the purchasing power of annuities against inflation. The provisions of each of the plans are described in the fourth column of Chart 5. The following table summarizes and compares the post-retirement annuity adjustment provisions found in the 2006 Report against those found in the 2008 Report:

	2006	2008
Adjustments indexed to CPI	38 plans	35 plans
Automatic percentage increase	23 plans	26 plans
Investment surplus	4 plans	5 plans
Ad hoc (any increase must be authorized by Legislature or a decision-making board) or money purchase	20 plans	19 plans
No increase	0 plans	2 plans
TOTAL	85 plans	87 plans

Note that, as shown in Chart 5, many of the plans in which post-retirement annuity increases are indexed to the CPI also include a cap on the total percentage adjustment that may be made within any given year. Also, many of the plans in which post-retirement annuity increases are indexed to the CPI or are automatic also include provisions for additional annuity adjustments if there are investment surpluses in the retirement fund. Nineteen of the 87 plans are either money purchase plans or provide post-retirement annuity increases only on an "ad hoc" basis, where either the Legislature or a decision-making board determines whether, and when, a post-retirement annuity increase is granted. See Figure 11, *2008 Cost of Living Adjustments (COLA)*, for a graphical representation.

D. STATE INCOME TAXATION OF ANNUITIES

The last column of Chart 5 shows the treatment of pension benefits under each of the plans by the state income tax laws in effect in that state. In 23 of the 87 plans, pension benefits are subject to state income taxation and no specific amount of retirement benefits is tax exempt. In 21 of the 87 plans, pension benefits are totally exempt from state income taxation. Eleven of the plans are in states with no income taxation.

Caution must be used in interpreting the information in the last column of Chart 5. In many of the states in which pension income is fully taxable, other provisions of state income tax laws may ameliorate or completely eliminate the effect of the state income tax laws on retirees. For example, some state income tax laws have a level of exemptions, deductions, or tax credits that substantially reduce or eliminate state income taxation for persons at certain income levels. In addition, some of these exemptions, deductions, or tax credits may be increased for taxpayers who have reached a certain age. In these states, the level of income taxation on retirees may be equal to or less than that in states where public employee pension income is exempt from state income taxation.

E. TRENDS

Most of the plans in this report have adopted provisions in which retirement annuities are annually increased, either by a set percentage or in response to changes in the CPI. These provisions were mostly adopted in the 1970s and 1980s, in response to the high inflation that occurred in those years.

F. THE WRS

Retirees in the WRS whose annuities are paid from the "core" fund receive annual annuity adjustments tied to whether reserve surpluses in the fund, as adjusted by a formula, are sufficient to generate an increase. In addition, the annual adjustment may result in a reduction of annuities if investment losses are severe, particularly if investment losses occur over a number of consecutive years. However, annuities paid from the "core" fund may not be reduced below the level initially paid to a retiree. For annuities paid in 2008, the annuity adjustment in the core fund was -2.1%.

WRS retirement benefits are subject to state income taxation except for certain payments made with respect to persons who were employees prior to 1964 or who had retired prior to 1964. Beginning in 2008, income from Social Security will be completely exempt from Wisconsin income taxes. Beginning in 2009, up to $5,000 per year of income from qualified retirement plans is exempt from Wisconsin income taxes for taxpayers with an adjusted gross income of $15,000 or less ($30,000 for married joint filers) who are 65 or older.

CHART V
POST-RETIREMENT INCREASES AND STATE TAX PROVISIONS

	State	Fund Name	Social Security	Annual Post-Retirement Increases	State Taxation of PERS Benefits
1	Alabama	ERS	Yes	Ad hoc only	Benefits exempt
2	Alabama	TRS	Yes	Ad hoc only	Benefits exempt
3	Alaska	PERS	No	N/A: acct balance + invest earnings	No income tax law
4	Alaska	TRS	No	N/A: acct balance + invest earnings	No income tax law
5	Arizona	SRS	Yes	Excess earnings - 4% cap	Exempt to $2,500
6	Arkansas	PERS	Yes	3%	Exempt to $6,000
7	Arkansas	TRS	Yes	3%	Exempt to $6,000
8	California	PERS	Yes	2%	Benefits taxable
9	California	TRS	No	2%	Benefits taxable
10	Colorado	PERA	No	3% or actual CPI	Exempt to $20,000/$24,000
11	Connecticut	SERS	Yes	60% of CPI up to 6%, 2.5% minimum	Benefits taxable
12	Connecticut	TRS	No	Excess earnings - 1.5% or 6% cap	Benefits taxable
13	Delaware	SEPP	Yes	Ad hoc only	Exempt to $12,500
14	Florida	FRS	Yes	3%	No state income tax
15	Georgia	ERS	Yes	CPI - 1.5% semi-annual cap	Exempt to $35,000
16	Georgia	TRS	Yes	CPI - 1.5% semi-annual cap	Exempt to $35,000
17	Hawaii	ERS	Yes	2.5%	Benefits exempt
18	Idaho	PERS	Yes	CPI - 1% minimum to 6% max (conditional)	Benefits taxable
19	Illinois	SERS	Yes	3%	Benefits exempt
20	Illinois	TRS	No	3%	Benefits exempt
21	Illinois	MRF	Yes	3%	Benefits exempt
22	Indiana	PERF	Yes	Ad hoc only (1.5% presumed)	Benefits taxable
23	Indiana	TRF	Yes	Ad hoc only (1.5% presumed)	Benefits taxable
24	Iowa	PERS	Yes	Excess earnings - CPI; 3% cap	Exempt to $6,000, $12,000 married
25	Kansas	PERS	Yes	Ad hoc only	Benefits exempt
26	Kentucky	ERS	Yes	1.5%	Exempt to $41,110
27	Kentucky	CERS	Yes	1.5%	Exempt to $41,110
28	Kentucky	TRS	No	1.5%	Exempt to $41,110
29	Louisiana	SERS	No	Excess earnings; CPI; 3% cap	Benefits exempt
30	Louisiana	TRSL	No	CPI - 3% cap	Benefits exempt
31	Maine	SRS	No	CPI - 4% cap	Exempt to $6,000
32	Maryland	SRS	Yes	CPI - 3% cap	Exempt to $23,600
33	Massachusetts	SERS	No	CPI - on 1st $12,000-conditional, 3% cap	Benefits exempt
34	Massachusetts	TRS	No	CPI - on 1st $12,000-conditional, 3% cap	Benefits exempt
35	Michigan	SERS	Yes	3% ($300 annual cap)	Benefits exempt
36	Michigan	MERS	Yes	3 plans - depending on employer agreement (generally 2.5%)	Benefits exempt
37	Michigan	PSERS	Yes	3%	Benefits exempt
38	Minnesota	MSRS	Yes	CPI - 2.5% cap plus investment surplus	Benefits taxable
39	Minnesota	PERA	Yes	CPI - 2.5% cap plus investment surplus	Benefits taxable
40	Minnesota	TRA	Yes	CPI - 2.5% cap plus investment surplus	Benefits taxable

41	Mississippi	PERS	Yes	3%	Benefits exempt
42	Missouri	SERS	Yes	80% CPI - 5% cap	Exempt to $6,000/$12,000
43	Missouri	LAGERS	Yes	CPI - 4% cap	Exempt to $6,000/$12,000
44	Missouri	PSRS	No	CPI - 5% cap; 80% of original benefits lifetime cap	Exempt to $6,000/$12,000
45	Montana	PERS	Yes	3%	Exempt to $3,600
46	Montana	TRS	Yes	1.5%	Exempt to $3,600
47	Nebraska	SERS	Yes	Money purchase	Benefits taxable
48	Nebraska	CERS	Yes	Money purchase	Benefits taxable
49	Nebraska	SPP	Yes	CPI - 2.5% cap	Benefits taxable
50	Nevada	PERS	No	2% to 5% (varies)	No income tax law
51	New Hampshire	NHRS	Yes	Ad hoc	Benefits exempt
52	New Jersey	PERS	Yes	60% of CPI	Exempt to $15,000/$20,000
53	New Jersey	TPAF	Yes	60% of CPI	Exempt to $15,000/$20,000
54	New Mexico	PERA	Yes	3%	Benefits taxable
55	New Mexico	ERA	Yes	50% of CPI - 2% min; 4% cap	Benefits taxable
56	New York	ERS	Yes	50% of CPI, max 3% on 1st $18,000	Benefits exempt
57	New York	TRS	Yes	50% of CPI, max 3% on 1st $18,000	Benefits exempt
58	North Carolina	TSERS	Yes	Ad hoc	Exempt to $4,000/$8,000
59	North Carolina	LGERS	Yes	Ad hoc	Exempt to $4,000/$8,000
60	North Dakota	PERS	Yes	Ad hoc	Benefits taxable
61	North Dakota	TRF	Yes	Ad hoc	Benefits taxable
62	Ohio	PERS	No	3% cap	Benefits taxable
63	Ohio	STRS	No	3% cap	Benefits taxable
64	Oklahoma	PERS	Yes	Ad hoc	Exempt to $10,000
65	Oklahoma	TRS	Yes	Ad hoc	Exempt to $10,000
66	Oregon	PERS	Yes	CPI - 2% cap	Benefits taxable
67	Pennsylvania	SERS	Yes	Ad hoc	Benefits exempt
68	Pennsylvania	PSERS	Yes	Ad hoc	Benefits exempt
69	Rhode Island	ERS	Yes	3%	Benefits taxable
70	South Carolina	SCRS	Yes	CPI - 4% cap	$15,000 deduction
71	South Dakota	SRS	Yes	3.1%	No income tax law
72	Tennessee	CRS	Yes	CPI - 3% cap	Benefits exempt
73	Texas	ERS	Yes	Ad hoc	No income tax law
74	Texas	TRS	No	Ad hoc	No income tax law
75	Texas	MRS	Yes	Up to 70% of CPI (employer option)	No income tax law
76	Utah	SRS	Yes	CPI - 4% cap	Exempt to $7,500/$15,000
77	Vermont	SRS	Yes	50% of CPI - 5% cap	Benefits taxable
78	Vermont	TRS	Yes	50% of CPI - 5% cap	Benefits taxable
79	Virginia	SRS	Yes	CPI - 5% cap	Exempt to $12,000
80	Washington	PERS	Yes	CPI - 3% cap	No income tax law
81	Washington	TRS	Yes	CPI - 3% cap	No income tax law
82	West Virginia	PERS	Yes	No	Exempt to $2,000
83	West Virginia	TRS	Yes	No	Exempt to $2,000
84	Wyoming	WRS	Yes	CPI - 3% cap	No income tax law
85	Milwaukee	City	Yes	1.5% yrs 1-4; 2% thereafter	Exempt for some
86	Milwaukee	County	Yes	2%	Exempt for some
87	Wisconsin	WRS	Yes	Investment earnings; reductions possible	Exempt for some

Figure 10. Social Security CPI % Adjustments 2000 to 2009

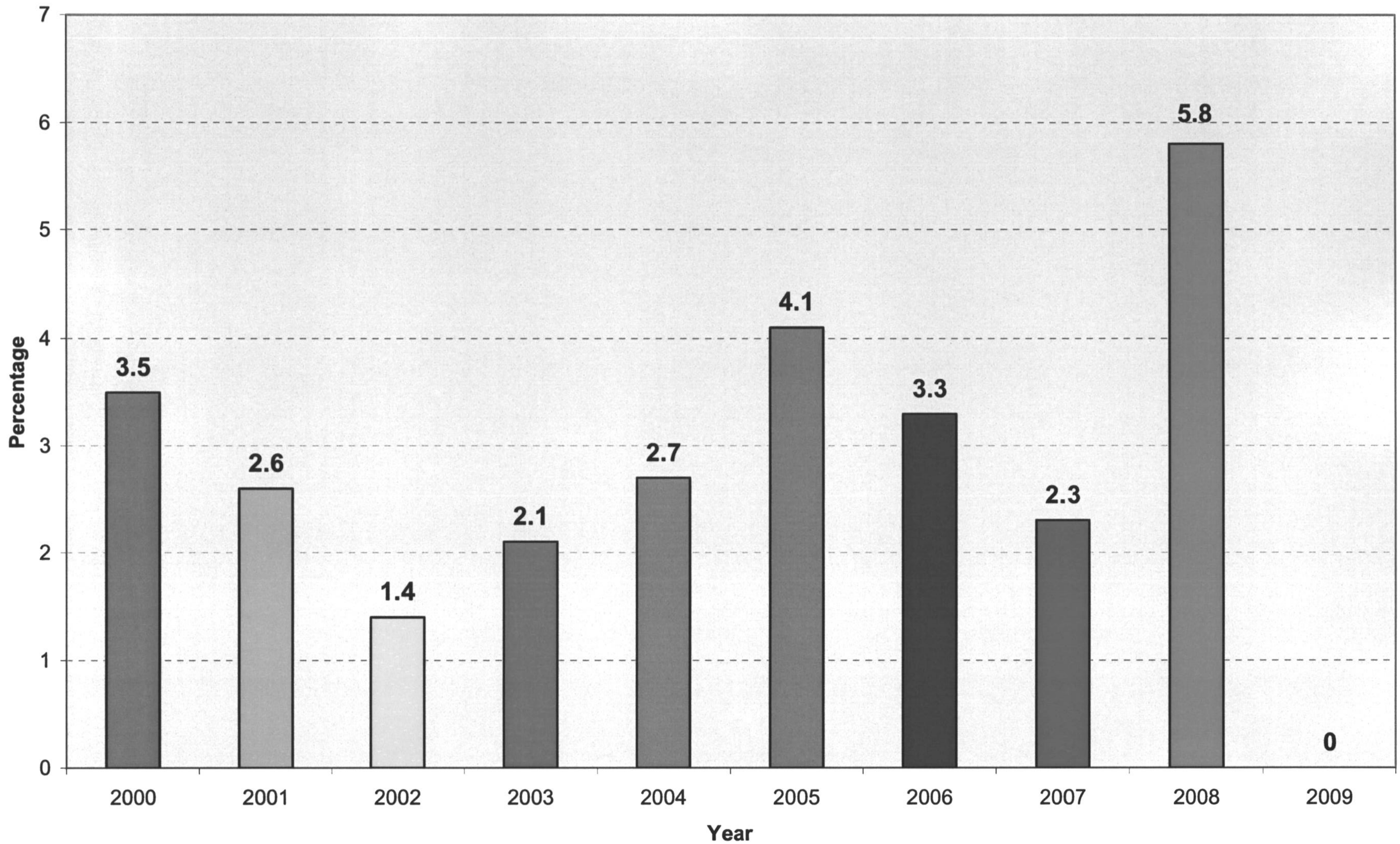
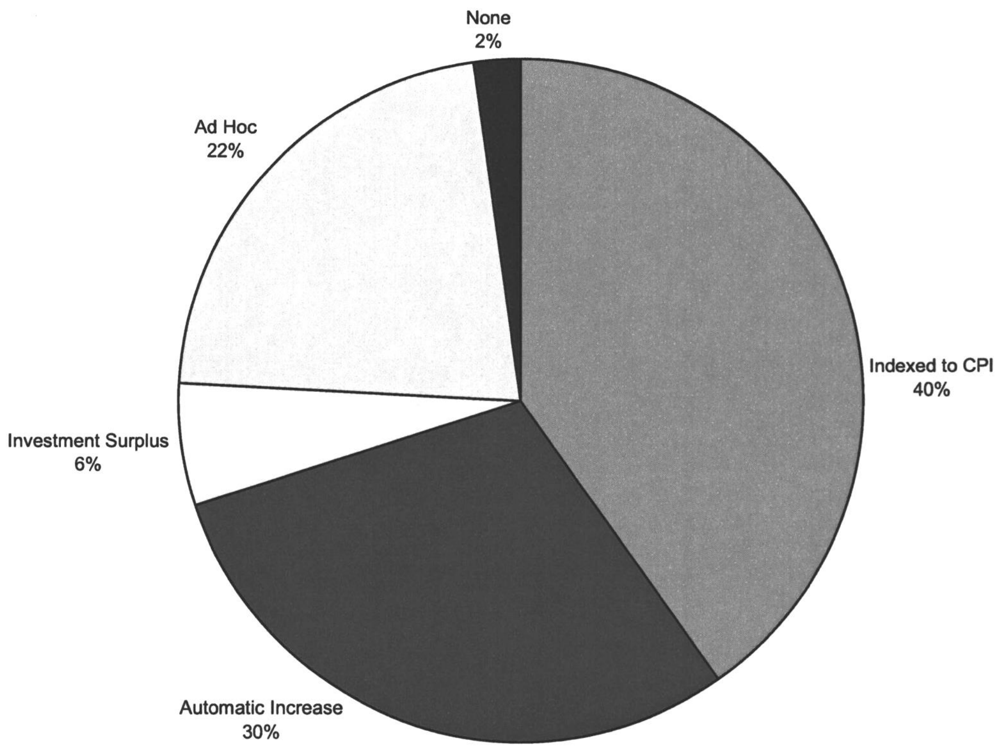


Figure 11. 2008 Cost of Living Adjustments (COLA)



PART VI
ACTUARIAL AND ACCOUNTING INFORMATION

A. INTRODUCTION

Chart 6, on pages 42 and 43, provides selected actuarial and accounting information about each of the plans in the report. This part of the report discusses the actuarial method used by each of the plans, provides the interest assumption, wage inflation assumption, and economic spread for each of the plans, and provides the Governmental Accounting Standards Board (GASB) 25 funding ratio for each of the plans in 2008.

B. ACTUARIAL METHODS

The third column in Chart 6 lists the actuarial methods used by each of the 87 plans. An actuarial method is a procedure for determining the present value of pension benefits that will be paid in the future and allocating that value and the cost of the benefits to specific time periods. There are a number of accepted actuarial methods that presumably will reach the goal of fully funding all pension obligations as they become due, but they allocate costs in different ways during the period of employment of participants in the plan.

Sixty-nine, or 79%, of the 87 plans use the entry age actuarial method; 14, or 16%, of the 87 plans use the unit credit method; four of the 87 plans use the aggregate cost method or other methods.

C. INTEREST ASSUMPTION

The interest assumption, which is also sometimes referred to as the "earnings assumption," is one of the key economic assumptions in determining the level of contribution rates. The fourth column in Chart 6 provides the interest assumption for each of the 87 plans in the report. This information is compared with previous reports in the following table:

Interest Assumption	2000	2004	2006	2008
From 5% to 7%	1 plan	1 plan	1 plan	1 plan
Over 7% to 8%	56 plans	59 plans	61 plans	63 plans
Over 8%	27 plans	24 plans	23 plans	21 plans
Not determined or not applicable	1 plan	1 plan	0 plans	2 plans
TOTAL	85 plans	85 plans	85 plans	87 plans

See Figure 12, *2008 Plan Interest Assumptions*, for a graphical representation of current data.

D. ECONOMIC SPREAD

Another key economic assumption in pension planning is the assumption of the wage inflation rate or general salary increases in excess of those provided for merit or seniority. The difference between the wage inflation assumption and the interest assumption is often referred to as the "economic spread," which is the assumed real rate of return on invested assets above the wage inflation rate. The fifth and sixth columns of Chart 6 show the wage inflation assumptions and the resultant economic spread for each of the plans in the report.

E. FUNDING RATIO

Until 1995, the GASB required public pension plans to disclose the "pension benefit obligation," which is a measure of the present value of pension benefits, adjusted for the affects of projected salary increases. The pension benefits were estimated only on service earned by employees up to the date of the estimate.

GASB 25, issued in November 1994, requires that for funding disclosures beginning with periods after June 15, 1996, the funding disclosures be based upon regular actuarial valuations. Included in the requirements under GASB 25 is a "schedule funding progress that reports the actuarial value of assets, the actuarial accrued liability and the relationship between the two over time...."

The following table summarizes the funding ratios for each of the plans in the 2008 Report and compares them with the 2006, 2004, and 2000 Reports.

Funding Ratio	2000	2004	2006	2008
More than 100%	33 plans	9 plans	7 plans	10 plans
90% to 100%	22 plans	28 plans	21 plans	19 plans
80%, but less than 90%	14 plans	19 plans	20 plans	18 plans
70%, but less than 80%	5 plans	15 plans	17 plans	24 plans
60%, but less than 70%	1 plan	7 plans	11 plans	6 plans
50%, but less than 60%	1 plan	3 plans	3 plans	6 plans
Less than 50%	3 plans	2 plans	3 plans	2 plans
Not determined	6 plans	2 plans	3 plans	2 plans
TOTAL	85 plans	85 plans	85 plans	87 plans

See Figure 13, *2008 Plan Funding Ratios*, for a graphical representation of current data.

F. TRENDS

Funding ratios of more than 100% have decreased substantially since the 2000 Report, reflecting the general decline in earnings that occurred during the period. However, there was a small increase between 2006 and 2008. Thirty-three plans had funding ratios in excess of 100% in 2000, but only 10 plans had funding ratios in excess of 100% in 2008. However, 33% of the plans studied had funding ratios of 90% or more in 2008. The average funding ratio in 2008 was 81%.

The entry age method is still the predominant method used by the plans studied.

G. THE WRS

The actuarial method used by the WRS is entry age. The interest assumption for 2008 is 7.8% and the "economic spread" is 3.7%.

For 2008, the funding ratio for the WRS was 99.7%, which was greater than the average funding ratio of 81% for the plans studied.

CHART VI
ACTUARIAL AND ACCOUNTING PROVISIONS

	State	Fund Name	Actuarial Method	Interest Assumption	Wage Inflation	Economic Spread	Funded Ratio
1	Alabama	ERS	Entry age	8.00%	4.50%	3.50%	75.90%
2	Alabama	TRS	Entry age	8.00%	4.50%	3.50%	77.60%
3	Alaska	PERS	Unit credit	N/A	N/A	N/A	N.D.
4	Alaska	TRS	Unit credit	N/A	N/A	N/A	N.D.
5	Arizona	SRS	Unit credit	8.00%	4.25%	3.75%	82.20%
6	Arkansas	PERS	Entry age	8.00%	4.00%	4.00%	90.00%
7	Arkansas	TRS	Entry age	8.00%	4.00%	4.00%	84.90%
8	California	PERS	Entry age	7.75%	3.00%	4.75%	87.20%
9	California	TRS	Entry age	8.00%	3.25%	4.75%	89.00%
10	Colorado	PERA	Entry age	8.50%	3.50%	5.00%	67.90%
11	Connecticut	SERS	Unit credit	8.25%	4.00%	4.25%	51.92%
12	Connecticut	TRS	Entry age	8.50%	4.00%	4.50%	70.00%
13	Delaware	SEPP	Entry age	8.00%	3.75%	4.25%	103.10%
14	Florida	FRS	Entry age	7.75%	3.00%	4.75%	105.35%
15	Georgia	ERS	Entry age	7.50%	3.75%	3.75%	89.40%
16	Georgia	TRS	Entry age	7.50%	3.75%	3.75%	94.70%
17	Hawaii	ERS	Entry age	8.00%	4.00%	4.00%	67.50%
18	Idaho	PERS	Entry age	7.25%	4.50%	3.25%	93.30%
19	Illinois	SERS	Unit credit	8.50%	3.00%	5.50%	46.10%
20	Illinois	TRS	Unit credit	8.50%	3.50%	5.00%	56.00%
21	Illinois	MRF	Entry age	7.50%	4.00%	3.50%	84.30%
22	Indiana	PERF	Entry age	7.25%	N.D.	N.D.	98.20%
23	Indiana	TRF	Entry age	7.50%	3.25%	4.25%	48.20%
24	Iowa	PERS	Entry age	7.50%	4.00%	3.50%	89.13%
25	Kansas	PERS	Entry age	8.00%	4.00%	4.00%	70.80%
26	Kentucky	ERS	Entry age	7.75%	3.50%	4.25%	54.20%
27	Kentucky	CERS	Entry age	7.75%	3.50%	4.25%	77.10%
28	Kentucky	TRS	Unit credit	7.50%	4.00%	3.50%	68.20%
29	Louisiana	SERS	Unit credit	8.25%	N.D.	N.D.	67.00%
30	Louisiana	TRSL	Unit credit	8.25%	3.20%	5.25%	70.20%
31	Maine	SRS	Entry age	7.75%	4.50%	3.25%	79.70%
32	Maryland	SRS	Entry age	7.75%	3.50%	4.25%	78.62%
33	Massachusetts	SERS	Entry age	8.25%	N.D.	N.D.	71.60%
34	Massachusetts	TRS	Entry age	8.25%	N.D.	N.D.	73.90%
35	Michigan	SERS	Entry age	8.00%	3.50%	4.50%	71.10%
36	Michigan	MERS	Entry age	8.00%	4.50%	3.50%	77.70%
37	Michigan	PSERS	Entry age	8.00%	3.50%	4.50%	71.50%
38	Minnesota	MSRS	Entry age	8.50%	4.50%	4.00%	90.18%
39	Minnesota	PERA	Entry age	8.50%	4.50%	4.00%	73.60%
40	Minnesota	TRA	Entry age	8.50%	4.50%	4.00%	81.99%
41	Mississippi	PERS	Entry age	8.00%	4.00%	4.00%	72.90%
42	Missouri	SERS	Entry age	8.50%	4.00%	4.50%	85.90%
43	Missouri	LAGERS	Entry age	7.50%	4.00%	3.50%	97.50%
44	Missouri	PSRS	Entry age	8.00%	3.25%	4.75%	83.40%
45	Montana	PERS	Entry age	8.00%	4.25%	3.75%	90.00%

46	Montana	TRS	Entry age	7.75%	4.50%	3.25%	79.90%
47	Nebraska	SERS	Entry age	7.75%	3.50%	4.10%	103.40%
48	Nebraska	CERS	Entry age	7.75%	3.50%	4.10%	108.10%
49	Nebraska	SPP	Entry age	8.00%	3.50%	4.50%	90.60%
50	Nevada	PERS	Entry age	8.00%	3.50%	4.50%	76.20%
51	New Hampshire	NHRS	Entry age	8.50%	3.50%	5.00%	67.80%
52	New Jersey	PERS	Unit credit	8.25%	4.00%	4.25%	77.40%
53	New Jersey	TPAF	Unit credit	8.25%	4.00%	4.25%	72.10%
54	New Mexico	PERA	Entry age	8.00%	4.00%	4.00%	92.00%
55	New Mexico	ERB	Entry age	8.00%	3.00%	5.00%	71.50%
56	New York	ERS	Aggregate	8.00%	3.00%	5.00%	105.80%
57	New York	TRS	Aggregate	8.00%	3.00%	5.00%	104.20%
58	North Carolina	TSERS	Entry age	7.25%	N.D.	N.D.	104.70%
59	North Carolina	LGERS	Entry age	7.25%	N.D.	N.D.	99.50%
60	North Dakota	PERS	Entry age	8.00%	4.50%	3.50%	92.60%
61	North Dakota	TRF	Entry age	8.00%	3.00%	5.00%	81.90%
62	Ohio	PERS	Entry age	8.00%	4.00%	4.00%	96.30%
63	Ohio	STRS	Entry age	8.00%	3.00%	5.00%	79.10%
64	Oklahoma	PERS	Entry age	7.50%	3.00%	4.50%	73.00%
65	Oklahoma	TRS	Entry age	8.00%	3.00%	5.00%	50.50%
66	Oregon	PERS	Unit credit	8.00%	2.75%	5.25%	112.20%
67	Pennsylvania	SERS	Entry age	8.00%	3.30%	4.70%	89.00%
68	Pennsylvania	PSERS	Entry age	8.25%	3.25%	5.00%	91.20%
69	Rhode Island	ERS	Entry age	8.25%	3.00%	5.25%	57.50%
70	South Carolina	SCRS	Entry age	7.25%	3.00%	4.25%	69.70%
71	South Dakota	SRS	Entry age	7.75%	N.D.	N.D.	97.20%
72	Tennessee	CRS	Entry age-FIL**	7.50%	3.00%	4.50%	96.20%
73	Texas	ERS	Entry age	8.00%	3.50%	4.50%	92.60%
74	Texas	TRS	Entry age	8.00%	3.00%	5.00%	86.20%
75	Texas	MRS	Unit credit	7.00%	3.00%	4.00%	74.40%
76	Utah	SRS	Entry age	7.75%	3.00%	4.75%	84.20%
77	Vermont	SRS	Entry age	8.25%	3.00%	5.25%	94.10%
78	Vermont	TRS	Entry age	8.25%	3.00%	5.25%	80.90%
79	Virginia	SRS	Entry age	7.50%	2.50%	5.00%	82.30%
80	Washington	PERS	Hybrid	8.00%	3.50%	4.50%	119.89%
81	Washington	TRS	Hybrid	8.00%	3.50%	4.50%	130.37%
82	West Virginia	PERS	Entry age	7.50%	3.00%	4.50%	84.20%
83	West Virginia	TRS	Entry age	7.50%	3.00%	4.50%	50.00%
84	Wyoming	WRS	Entry age	8.00%	3.50%	4.50%	78.60%
85	Milwaukee	City	Unit credit	8.50%	3.00%	5.50%	99.10%
86	Milwaukee	County	Entry age	8.00%	3.00%	5.00%	95.70%
87	Wisconsin	WRS	Entry age-FIL	7.80%	4.10%	3.70%	99.70%

*N.D. = Not defined.

**FIL = Frozen initial liability method.

Figure 12. 2008 Plan Interest Assumptions

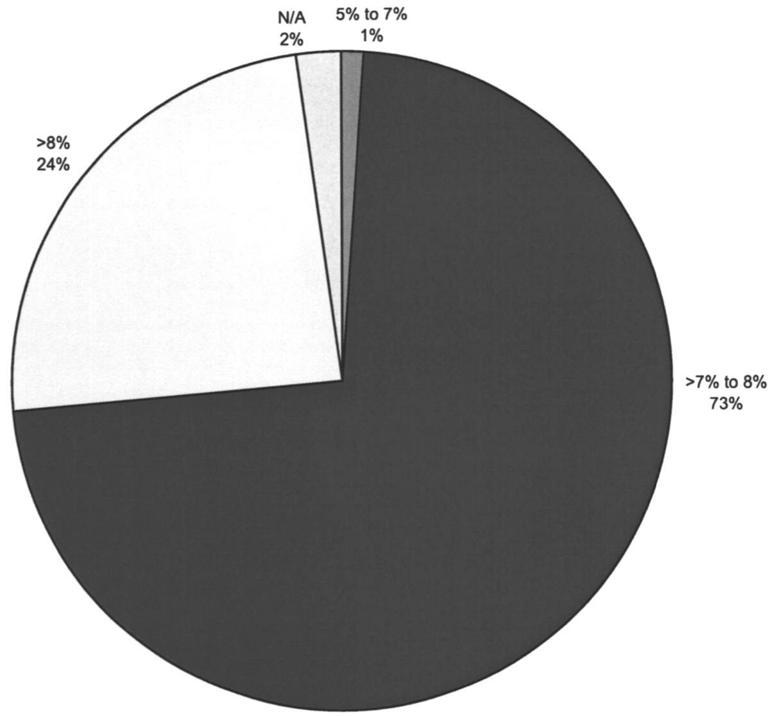
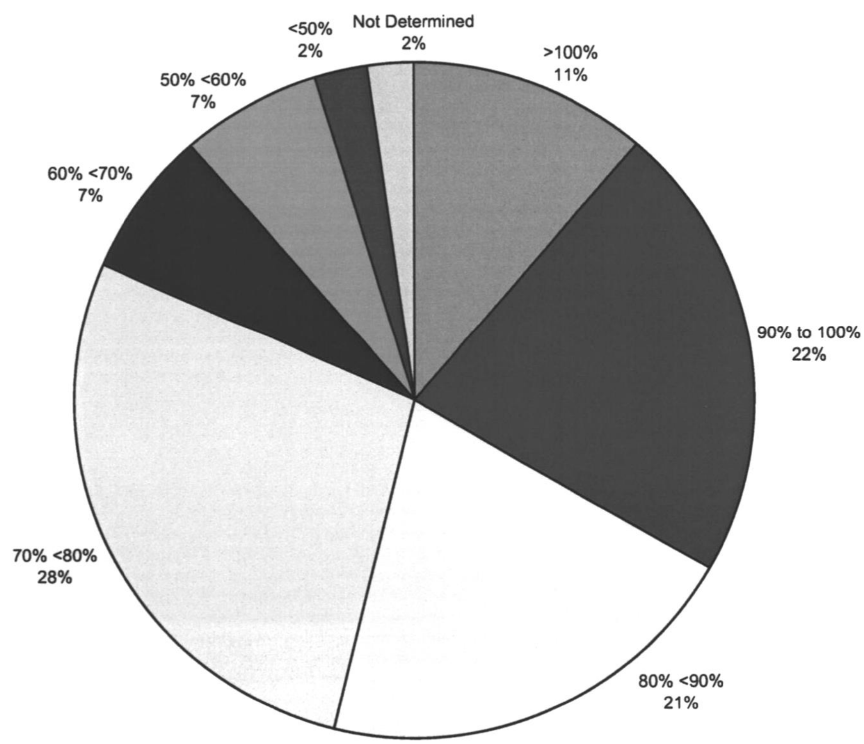


Figure 13. 2008 Plan Funding Ratios



Section V

What Other States Are Doing

Recent Articles on What Other States are Doing

Utah House approves bill creating choice of DC plan or hybrid for new hires

The Utah House of Representatives Friday approved a bill that provides new hires as of July 1, 2011 a choice between a defined contribution plan and a new hybrid plan. Both plan options would be non-contributory, as is the existing DB plan for most public workers participating in the URS.

The DC plan for civilian workers provides an employer contribution of 10 percent of pay to an employee-directed account. The DC plan for public safety officers provides an employer contribution of 12 percent.

The hybrid plan for both civilian workers and public safety officers includes a retirement multiplier of 1.5 percent and an auto-COLA of 2.5 percent. The hybrid for public safety officers permits retirement with 25 years of service, compared to 35 for civilian workers. (Civilian and public safety workers also qualify for retirement at 65/4, 62/10, 60/20.)

The Utah Senate approved the changes made by the House, and the bill has been sent to the governor, who is expected to sign it.

Read a news story on the bill here:

http://www.sltrib.com/ci_14492252?IADID=Search-www.sltrib.com-www.sltrib.com

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A growing number of states are addressing public employee retirement issues this year

States tackling public employee retirement benefits in 2010
Stephen C. Fehr Stateline February 19, 2010

He has been on the job for only a month, but already Governor Chris Christie of New Jersey has done all states a favor by elevating the crisis facing public pension systems across the country.

While other governors were declaring snow emergencies last week, Christie proclaimed New Jersey a financial disaster area—with good reason. He blamed a shortfall of billions of dollars to pay for state employee pension benefits as a big reason why he needs immediate executive powers to cut spending.

"Make no mistake about it, pensions and benefits are the major driver of our spending increases at all levels of government—state, county, municipal and school board," Christie said. "We cannot in good conscience fund a system that is out of control, bankrupting our state and its people, and making promises it cannot meet in the long term."

With Christie raising the stakes, New Jersey appears headed towards changing its state employee retirement system this year to bring down costs. At least 16 other states besides New Jersey are considering similar changes that could mean lower benefits, higher retirement ages, freezes in cost-of-living adjustments and increased employee contributions. Most of the changes would affect newly hired state workers, but some states are weighing higher contributions from current employees. The proposals are already getting major pushback from state employees and retirees and their unions.

"A growing number of policy makers recognize that their states' fiscal health depends on how well they manage the bill coming due for public sector retirement benefits," said Susan Urahn, managing director of the Pew Center on the States. "We are seeing more and more states explore policy reforms aimed at putting their systems on stronger fiscal footing."

The Pew Center on the States released a report Thursday (Feb. 18) saying that there is a $1 trillion gap between what states have promised to pay retirees and the money they have set aside to cover those costs. New Jersey, the report said, was one of the worst states in keeping up with its required annual pension payments, amassing a $34 billion shortfall in 2008 after finishing with a surplus in its retirement fund in 2000. [*Stateline.org* is a unit of the Pew Center on the States.]

Christie, invoking emergency powers similar to those when a natural disaster takes place, is trying to plug an $11 billion budget gap with deep spending cuts. He has challenged lawmakers to enact tough, cost-cutting changes to the state employee retirement system, including reducing benefits for newly hired employees and requiring current and future employees to contribute to their retiree health care costs.

New Jersey is not alone in connecting future fiscal stability to the public retirement system. Delaware Governor Jack Markell called for reduced pension benefits for new hires in his state of the state address. West Virginia budget director Mike McKown told the Associated Press, "The major driver of the fiscal year 2011 budget will be shoring up the retirement systems."

The other GOP governor elected in November besides Christie, Virginia's Robert McDonnell, also is taking aim at worker pensions, proposing a benefit cut for new hires.

States usually are barred by law from trimming future benefits for current employees. But one of the striking things this year is the willingness of some states to look at ways to boost pension contributions from current employees. In Wyoming, for example, some lawmakers are proposing that current and future state employees pay a larger share of their retirement costs. Governor Dave Freudenthal, also questions the rationale for cost-of-living increases. "We have had a habit of taking a fixed benefit plan and inserting cost of living increases," the Democrat said in his state of the state address. "We need to assess whether that makes sense."

Other states are cleaning up abuses that allow some employees to collect overly generous benefits when they retire. New Mexico lawmakers, for instance, say they will approve a bill preventing government workers from retiring with a monthly pension check and going right back on the state payroll in another job. A bill approved by the state Senate would require state employees to wait for a year after retiring to return to a government job. The pension checks would cease as long as they keep working.

Although such abuses are inherently unfair and do not help the image of state retirees among private sector workers, they are not the main reason why states are falling behind in their pension payments. Still, the numbers can add up. Utah's auditor found in November that double dippers would cost the state $897 million over the next decade if the Legislature did not change the law.

California voters may get to decide the fate of state employee pensions in an election. Signatures are being collected for at least three initiatives for the November ballot aimed at tightening retirement eligibility and offering reduced benefits to new hires.

Retiree health care costs are a target, too. Michigan Governor Jennifer Granholm, a Democrat, wants newly hired workers to chip in 20 percent of the cost of their health insurance plan, comparable to the private sector. The Pew Center on the States report found that states have done a poor job funding their $587 billion retiree health care liability.

The spurt of pension activity in 2010 follows three busy years in states. Last year, 15 states approved legislation to change their state-run retirement systems, compared to 12 in 2008 and 11 in 2007. Most of the reforms centered on reducing benefits, increasing the retirement age, hiking employee contributions and keeping up with funding requirements. The Pew report discusses many of these reforms in greater detail.

Ronald Snell, who tracks pension developments in the states for the National Conference of State Legislatures, predicts that many state lawmakers will discuss shifting employees from a defined benefit plan, with a guaranteed pension benefit, to a defined contribution plan similar to a 401(k) in which the employee assumes most of the risk because they choose where to invest their money. "The record suggests few states will adopt them," Snell said.

The record is that only Alaska and Michigan have defined contribution plans—for now. Alaska lawmakers considered changing back to a defined benefit plan last year after state employees' defined contribution plans suffered substantial investment losses. Replacing existing pension systems with defined contributions is emotionally and politically charged. The truth is there has not been enough objective, nonpartisan examination of the costs and benefits of both plans to offer states much help in deciding between the two options.

Making changes to pension plans will not be easy. In Vermont, union representatives have threatened legal action if the state adopts a panel's recommendations to require larger contributions from newly hired employees and adopt a higher retirement age. Earlier this month, hundreds of state employees and retirees rallied at the Utah State Capitol against plans to place newly hired employees in a cheaper pension plan with reduced benefits. Union officials in New Jersey vow to fight Christie's plans to shrink benefits.

Former California Assembly Speaker Willie Brown, who was revered by Democrats and unions during his 15 years as speaker, offers a reality check on the need for states to responsibly manage their pension bills. He recently wrote a column that said lawmakers created a too-generous pension system for state workers in exchange for their political support.

"The deal used to be that civil servants were paid less than private sector workers in exchange for an understanding that they had job security for life," wrote Brown. "But we politicians, pushed by our friends in labor, gradually expanded pay and benefits to private-sector levels while keeping the job protections and layering on incredibly generous retirement packages that pay ex-workers almost as much as current workers. Talking about this is politically unpopular and potentially even career suicide for most officeholders. But at some point, someone is going to have to get honest about the fact that [a portion] of the state, county and city budget deficits are due to employee costs."

Colorado governor signs PERA reform bill

Colorado Governor Bill Ritter Tuesday signed SB 10-001, making official a series of changes to the Colorado PERA benefits and financing structures necessitated primarily by the 2008 decline in investment markets.
Following a series of hearings held around the state, the Colorado PERA board last fall recommended a legislative reform package featuring phased increases in employee and employer contributions and a reduction in the automatic COLA for current and future retirees, from 3.5 percent to CPI-W up to 2.0 percent. The recommended package also included other, less consequential changes to the benefit structure, such as increases in the penalty for early retirement, an allowance to increase or decrease future COLAs based on the plan's funding level, and a one-year delay in the onset of the COLA for future retirees.

The Senate Finance Committee and the full Senate approved minor amendments to the original PERA proposal, and the House passed the bill as approved by the Senate.

For details on the original recommendation and the bill as amended and signed, go here: http://www.copera.org/pdf/Misc/2010LegChart1-27.pdf

In face of public employee protests, New Jersey Senate unanimously approves pension reforms

N.J. Senate approves sweeping pension changes for public employees

Newark Star-Ledger February 22, 2010

TRENTON -- Despite a show of force from hundreds of protesting union workers, the state Senate today easily passed legislation that would dramatically change public employee pensions.

The changes, which now head to the Assembly, are on a fast track and have already been endorsed by Gov. Chris Christie — who has said he wants even stronger reforms. The three bills each passed in 36-0 votes.

"Those chants out there should really be cheers," Sen. Nicholas Scutari (D-Union) said of the union members in purple and red shirts packing the Statehouse hallways. "We're acting to save the future checks that these people are going to get. If we don't take action now, there's a very real likelihood ... that at some point we're not going to be able to afford the pensions that they've been promised."

Unions say leaning on their workers for more sacrifices is unfair, because they already shouldered the cost of their own pensions and relinquished raises in exchange for health benefits and pledges against layoffs. The bills are "sound bite politics," said Bob Master, a spokesman for Communications Workers of America, the largest state workers union.

"We remain disappointed that these bills were basically railroaded to passage without any serious consideration," he said. "There are a lot of unanswered questions."

The bills largely affect future hires and are expected to save local governments at least $314 million next year by requiring workers to contribute 1.5 percent of their salary to their health care coverage. But they are expected to save much more over time as new hires replace current workers in the system.

"It's a long-term fix, it is not a quick fix," said Sen. Barbara Buono (D-Middlesex), the majority leader. "Don't underestimate what we're doing here today. This is the New Jersey Legislature, where things are maddeningly incremental."

The action now shifts to the Assembly, which is expected to introduce its versions of the bills on Thursday.

State and local workers in the state system — about 700,000 in all — said New Jersey's politicians have put the $68 billion pension fund in peril by not contributing their fair share. Since 2004, the state has contributed only $2.4 billion of the nearly $12 billion required by actuarial calculations. The pension fund is underfunded by more than $34 billion. Senators point to that number as part of the reason they need to reduce benefits.

The bills cap at $15,000 the amount of unused sick leave future hires can cash in when they retire, eliminates some disability and injury leave programs, limits participation of part-time employees and changes the calculations of benefits to factor in more years of service.

The Senate will hold a public hearing Monday on the fourth bill in the package that would ask voters to approve a constitutional amendment that would bind the state to making its full payment to the pension fund.

NCSL posts compilation of enactments to sustain state pensions

Ron Snell at the National Conference of State Legislatures last month posted a compilation of legislative enactments since 2005 intended to help sustain statewide retirement plans. An excerpt:

> Since 2007, investment losses and the weakness of state and local government revenues have produced extraordinary stress for public retirement funds in the United States. This stress magnified the funding issues retirement funds encountered because of the recession at the turn of the century.
>
> Policymakers' responses are occurring in the context of an additional issue, that of providing for the commitments state and local governments have made for retiree health insurance and other post-employment benefits. These obligations have accumulated gradually for many years. Current accounting rules now require recognition of them. State government liabilities, aside from any local government amounts, have recently been estimated to be as much as $560 billion.

Legislatures and governors began to address pension system issues while the economy was still strong; the recession added urgency to their endeavors to strengthen the funding streams and reduce the long-term costs of their public retirement systems. This report summarizes the most significant features of state public retirement plan changes in 18 states from 2005 through 2009.

In general, states have made a broad range of relatively minor changes to plans, rather than undertaking fundamental change. Their goal has been to adjust rather than radically alter their retirement plans. Several of the states listed in this report have made a number of the following changes at once:

- Increases in employee contributions
- Extending the period over which salary is calculated for the purpose of determining retirement benefits
- Increases in the age or service requirement, or both, for eligibility for retirement benefits
- Anti-spiking provision
- Reductions in or greater controls over post-retirement cost-of-living adjustments

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Pennsylvania School Boards Association proposes hybrid plan for newly-hired school teachers, not DC plan only

NASRA News Clips last week cited a story in the Pittsburgh Union-Tribune stating that the Pennsylvania School Boards Association is proposing eliminating the DB plan for newly-hired public school teachers in lieu of a DC plan. In fact, the PSBA is proposing new hires participate in a hybrid plan, featuring a DB component with a 1.0 percent retirement multiplier and mandatory participation in a DC plan. Employees would contribute 3.25 percent to the DB plan and 3.0 percent to the DC plan, with the employer matching 2.0 percent to the DC plan. I apologize for any confusion caused by reporting this error.

Minnesota teachers pension board proposes higher contributions, COLA freeze, and lower auto-COLA

Fix sought for Minnesota teacher pension fund
Legislators must OK increased employee, district contributions

The board that oversees pensions for teachers and administrators is asking legislators to increase employee and employer contributions and reduce annual increases for retirees.

Last year, the Teachers Retirement Association fund dropped from $18.1 billion to $13.8 billion because of falling investments and increasing benefit costs. Its assets could be exhausted by 2032 if nothing is changed.

"Doing nothing is not an option," said John Wicklund, assistant executive director of administration for the TRA. "Investments are up, but we just can't count on that. We're not going to invest our way out of this. The hole is just too deep."

A bill was introduced this week in the Senate to make the changes. The TRA is not looking for state funds, but the changes would cost local school districts millions of dollars and reduce paychecks for thousands of teachers and retirees. It will be difficult for school districts to pay for increased contributions, said Bob Meeks, executive director of the Minnesota School Boards Association. "But it has to be fixed. The more we put it off, the more it's going to cost."

The TRA covers about 50,000 retirees and 77,000 active teachers across the state. Teachers in St. Paul and Duluth are covered by their own pension funds. Employees and employers each put 5.5 percent of the employee's salary into the fund. The association's board wants to increase that amount incrementally to 7.5 percent over four years. Retirees get a 2.5 percent cost-of-living increase annually. That would be frozen for 2011 and 2012. In 2013, the increase would be 2 percent. Benefit payouts are determined by salary and years of service. Wicklund said members who retired this past summer on average received a monthly pension of about $2,200.

Meeks said his group supports the fix, but he hopes lawmakers will give school districts additional levying authority to help pay for their increased contributions. He also would like to see a more stringent freeze on retiree payouts until the fund is stabilized. "We need access to some property-tax dollars," Meeks said. "Otherwise, we'll have to cut more employees to save employees' retirements."

The TRA's $4.3 billion fund drop in 2009 is mainly due to falling investments — $3.3 billion to be exact. Benefit payments made during that time totaled about $1.4 billion. The fund brought in about $453 million in employee and employer contributions last year. As of last June, 23 percent of the pension's long-term liabilities were unfunded.

Pensions of the Minnesota State Retirement System, which represents state workers and those at the University of Minnesota and the Metropolitan Council, and the Public Employees Retirement Association, which represents city, county and nonteaching school workers, experienced similar declines in 2009.

Sen. Don Betzold, DFL-Fridley, said each fund has a unique situation, but the funds share some problems: fewer active employees paying into the system, more retirees who are living longer and a bad economy. All three funds will need to be fixed this session, he said. "There is not going to be any state money to do it," said Betzold, who chairs the Legislative Commission on Pensions and Retirement. "But the stakeholders recognize that it needs to be done and are on board, as long as everyone involved shares in the pain."

Tom Dooher, president of Education Minnesota, said the statewide teachers union is not endorsing any specific solutions at this time. In a statement, Dooher said stable pensions, equitable contributions and competitive benefits are critical to attracting and retaining the best teachers. Dooher said previous legislative actions played a part in weakening the pension fund and any remedy should include state contributions. "Minnesota's pension plan for teachers already significantly lags behind most other states, and it's important that we address these issues," he said.

There is a major sticking point that observers say could crumble the whole deal — disagreement over whether the fix should include better benefits for teachers hired after 1989. Those teachers are not eligible for full retirement benefits until age 66, unlike those hired before 1989, who can qualify for retirement when their age and years of service add up to 90.

Charlie Kyte, executive director of the Minnesota Association of School Administrators, said changes need to be made now to stabilize the fund, and better benefits can be dealt with later. "It would be irresponsible not to fix this," Kyte said.

South Dakota Senate approves new auto-COLA based on plan funding level

> Note: This bill would establish an auto-COLA of 2.1 percent when the SDRS funding level is below 80 percent; 2.1 percent to 2.4 percent when the plan funding level is higher than 80 percent but lower than 90 percent; CPI but not less than 2.1 percent and not more than 2.8 percent when the funding level is above 90 percent but lower than 100 percent; and not less than 3.1 percent when the plan is funded at greater than 100 percent. kb

Cost-of-living adjustments could be reduced
Senate-approved measure now heading to House

Aberdeen American News Correspondent January 27, 2010

PIERRE - State senators decided Tuesday that government and school district retirees should receive smaller cost-of-living adjustments in times when the South Dakota Retirement System's investments are faring poorly. Retirees would still get the normal 3.1 percent annual increase when the market values of SDRS investments meet or exceed the system's long-range obligations.

But if market values fall below that threshold, the increases would be smaller, ranging from 2.9 percent down to 2.1 percent, depending upon how far out of balance the system stood.

The legislation, Senate Bill 20, was approved by senators on a 32-1 vote. It now goes to the House of Representatives for consideration.

The SDRS board of trustees recommended the changes in the wake of devastating losses in investment values in recent years.

An actuarial report presented to the trustees in September showed the system at that time was facing a $1.2 billion long-term deficit.

The trustees are trying to offset the roughly $350 million of additional long-term obligations that resulted from benefit increases passed by the Legislature in 2008 at the trustees' request. The trustees opted to recommend the smaller cost-of-living adjustments rather than seek the repeal of the 2008 increases.

Sen. Mike Vehle, R-Mitchell, cast the only "no" vote on Tuesday. Vehle said he is concerned that a 2.1 percent increase would be allowed no matter how poorly investments were performing. "I think that was a concern of a number of us," replied Sen. Corey Brown, R-Gettysburg. "They have worked through the numbers time and time again. At this time they feel confident the 2.1 percent is going to be sufficient."

The legislation also would reduce the refunds for members who want to withdraw from SDRS.

Wyoming legislative committee seeks to require state employees to contribute to their retirement benefit

Bill targets state employees

Casper Star-Tribune January 26, 2010

CHEYENNE --For the first time in many years, state employees would pay a share of their retirement system costs under a bill set in motion Monday by the Joint Appropriations Committee.

The proposal splits the increased contribution to the retirement system between the state and public employees covered by the state retirement system. The committee will take a roll-call vote on the bill at the end of this week.

The increase is needed to remedy a $600 million to $700 million unfunded liability in the state retirement system.

The system covers more than 37,000 active employees of the executive and judicial branches of government, the University of Wyoming, community colleges, school districts, local governments and other political subdivisions of the state.

The Joint Appropriations Committee's action is contrary Gov. Dave Freudenthal's budget recommendation.

In his budget message, Freudenthal said he is aware of the actuarial problem with the system but isn't prepared to increase the level of contributions at this time. He recommended a $48.8 million appropriation beginning in the 2012 fiscal year, pending a review by the Legislature.

The $48.8 million is to offset the need for additional employer contributions for state employees, local government employees as well as employees of the university and the community colleges.

Freudenthal is standing by his original recommendation, his press secretary, Jonathan Green, said Monday afternoon.

Members of the JAC said the committee has a fiduciary responsibility to make the fund actuarially sound and a delay is not going to make the fix any easier. "I strongly believe we need to split it so everyone has some skin in the game," said Rep. Bryan Pedersen, R-Cheyenne.

The state, school districts and many other public employers have been paying all of their employee retirement system contributions for many years. Pedersen said there was a shortfall in the retirement system even before the downturn in the stock market and the economy.

Sen. Mike Massie, D-Laramie, pointed out that the budget contains no pay raises for state government employees for the two-year biennium. Contributing to the retirement system will be tantamount to a pay cut, he said.

The retirement contribution would cost $1,250 per year for the average employee earning $45,000 per year.

Sen. Phil Nicholas, R-Laramie, the JAC co-chairman, said the private sector continues to get hit by the sluggish economy and has been reducing pay and retirement pay for its employees. "This is a $100 million issue for the biennium," Nicholas said of retirement system financing.

Rep. Steve Harshman, R-Casper, said he agreed with Freudenthal that a delay is appropriate. "We haven't advertised it. We have had no public comment. We're going to have to listen to folks," Harshman said.

Rep. Rosie Berger, R-Big Horn, a committee co-chairwoman, said there will be time for participation by employees as the bill moves forward in legislative committees. "We have $48 million in the budget and we can work from there," Berger added.

The committee is back in Cheyenne this week to mark up the governor's budget bill in preparation for the 20-day budget session that begins Feb. 8.

Massachusetts governor proposes pension reform that includes higher retirement age, annual pension cap of $85k, and anti-spiking

PATRICK OFFERS PENSION REFORM PLAN

STATE HOUSE NEWS SERVICE

STATE HOUSE, BOSTON, JAN. 26, 2010......Gov. Deval Patrick filed legislation Tuesday boosting the retirement age for government workers and capping public pensions, reaching for an election-year legislative victory on an issue that has vexed voters weary of lucrative perks for public employees.

The governor rolled out his plan, which draws from recommendations of a special commission that studied the system last year, as Treasurer Tim Cahill, running as an independent, and Republicans Charles Baker and Christy Mihos campaign against Patrick, all three promoting themselves as more fiscally conservative than the governor.

The administration says its plan, if adopted, would save $2 billion over 30 years. Patrick aides said the savings would be "minimal" upon the bill's passage but would ramp up quickly as new employees enter the system, with the vast majority of savings derived from higher retirement ages.

Senate President Therese Murray said it appeared Patrick had rolled out many of the ideas weighed by a panel headed by Alicia Munnell, director of the center for Retirement Research at Boston College. The panel ended up divided over reform ideas and proposals based on its work did not take shape last fall, as some anticipated. "I think most of those things came from the recommendations of the commission," said Murray.

The cap on pensions proposed by Patrick would limit pensions to a percentage of the federal limit, which could result in a maximum pension of $85,000, based on current data. The cap proposed by Patrick is three times the median U.S. wage. According to the administration, less than 1 percent of current state retirees receive pensions of more than $85,000 per year and the average state retiree receives a pension of about $26,000 a year.

Patrick says he wants to raise retirement ages for most state workers because people are working and living longer than when the retirement ages were set in state laws 60 years ago – overall life expectancy has increased 9.6 years since 1950. Patrick also wants to reduce a "subsidy" for state workers who retire at younger ages.

For elected officials and most other state workers, the retirement age would rise to 60-67, up from 55-65; for workers in hazardous duty jobs the retirement age would rise to 55-62 from 55-60, and the retirement age would jump to 50-57 from 45-55 for firefighters, police officers and some correction officers.

Munnell, in an interview, said the higher retirement ages are "reasonable given the increase in life expectancy and improvement in health of older people." She said legislators who served on the commission seemed "engaged" and predicted the reforms could pass. "I think they would really like to get something done," Munnell said, referring to the Legislature. "I think that he would find a lot of support in the Legislature."

Patrick wants to pro-rate pension benefits based on employment history, a plan aimed at preventing windfalls based on short periods of employment in groups with higher benefit levels. His plan also eliminates Section 10 early retirement incentives for all state government employees, after such benefits were stripped for elected officials in a pension law last passed last year. Critics of the benefits say they serve to boost the pensions of political hires.

Patrick would extend the "high three" rule, under which payments are calculated on the three highest-paid years of a worker's career, to a "high five" provision, a change aides say will better reflect career earnings of workers.

The governor is also targeting the Supreme Judicial Court, noting its seven justices are the only state employees who do not currently contribute to the retirement system and forcing them to begin contributions.

Murray said she thought the justices should contribute to their pension accounts. "That was surprising to me," Murray said. "But, yeah, everybody should pay into their pension."

Patrick will also ask lawmakers to pass an "anti-spiking" provision limiting growth in "pensionable earnings" to no more than 7 percent plus inflation of the average pensionable earnings over the previous two years. The provision would not apply to earnings associated with a promotion or job change.

Pension system changes have traditionally encountered strong resistance from public employees unions. The governor says his reforms, if passed, would apply to current state employees "where constitutionally permissible" and to new employees in cases where the constitution prohibits law changes from affecting current employees.

The governor believes it is constitutionally permissible to apply some provisions of his bill to current and future state employees, including plans to pro-rate benefits, the anti-spiking provisions, requiring members who re-enter the system to purchase creditable service within one year or pay a higher interest rate; collecting pension payouts from convicted retirees; increasing scrutiny of individual retirement legislation; and charging retiree health insurance to prior employers. All other provisions of the bill would apply to new hires only, officials said.

Michael Widmer, president of the business-backed Massachusetts Taxpayers Foundation, said the savings estimates seemed "reasonable" and predicted the plan, if passed, would lead to savings to help offset pension fund investment losses that he predicted would take years to recover from.

"It's a comprehensive and thoughtful set of proposals which will put the pension system on much stronger financial footing for years to come," Widmer said.

Baker released a pension reform plan in December, after the special commission completed its work and after Baker promised last summer to make it a pillar of his campaign.

"He's imitating me," Baker told the News Service Tuesday afternoon. "I've been talking about this issue for six months," Baker said. "Others have been talking about it for a lot longer than that, and three years into the administration for the governor to catch the pension bug is, I think, sort of odd."Baker's plan included bumping the retirement age, capping pensions, prorating benefits, and swapping the "high three" provision for calculating pensions based on average salary adjusted for inflation. He also wanted to require a two-thirds legislative vote for any changes to the pension system, and a revenue stream attached to the changes.

House Minority Leader Bradley Jones suggested Patrick should have filed the plan earlier in his term.

"Where has he been? Why has it taken so long for him to file this?" asked Jones. "It's almost like: 'I'm filing this so late because I don't want it to really happen so I can blame the Legislature and run against the Legislature'.""We welcome him to the cause," Jones said of Patrick's proposal. Treasurer Timothy Cahill, running against Patrick as an independent, declined comment through a spokeswoman, who said Cahill's office had not received details from Patrick's office.

Other proposals included in Patrick's bill:

-- Requiring bills benefitting the pensions of individual employees to be accompanied by a cost estimate;

-- Requiring elected officials to repay the full value of the pension they have receives in order to rejoin the system;

-- Requiring pensioners who rejoin the system or new members eligible to receive creditable service based on work elsewhere to purchase creditable service within one year or pay the full actuarial interest rate;

-- Allowing retirement boards to withhold the processing of pension benefits for retirees charged with an offense relating to their employment;

-- Charging retiree health insurance to prior employers based on the portion of an employee's service in each jurisdiction;

-- Reducing the employee contribution for new employees who will be subject to the restricted benefit system, a change aimed at ensuring that employees do not contribute more into the pension system than they are likely to receive in benefits. The reduction would apply to elected officials and most general state workers.

Iowa newspaper and legislature turn sights on "double-dippers"

State 'double dipping' on the rise

January 24, 2010 Des Moines Register

More than 6,500 Iowa government employees who draw retirement benefits partially paid by taxpayers have returned to government work in each of the past two years, according to records obtained by The Des Moines Register.

These pseudo-retirements are drawing scrutiny as lawmakers shape an early retirement package to save money in future budgets. The Iowa Senate passed an early retirement bill Thursday that specifically forbids those who take the package from returning to work for the state. House passage is anticipated this week.

The Iowa Public Employees' Retirement System also is in the limelight this session because legislators are discussing whether to increase taxpayer and employee contributions to IPERS. Investment losses mean the system needs more cash to pay future benefits.

The issue also reflects generational divisions. Some people think retirees with pensions should stay retired and make way for younger workers to enter the work force. Retirees returning to the work force say they offer valuable skills that governments need.

Under current rules, some local and state government employees can return to work four months after retirement, sometimes sooner. They can collect both pay and pension checks, a situation often referred to as double dipping. The number of such return-to-work IPERS retirees increased 68 percent from 2002 to 2008.

In 2008, the last year for which complete data are available, state government rehired 6,837 IPERS retirees, often in part-time roles. They were paid a combined total of almost

$46.2 million in salaries. Those same individuals collected nearly $126.6 million in retirement benefits, state records show.

IPERS covers many state, county, state university and public school employees. The data do not indicate how many of the returning employees work in their old jobs. A hypothetical example of those counted in the mix: A state secretary could retire and return to work as a school bus driver.

Proponents of allowing retirees to return say the cost to the taxpayer is minimal. The annual median re-employment wage is less than $7,000 a year, indicating high numbers of part-time workers. Proponents say allowing some retirees to return to work is critical for public safety because of worker shortages for positions such as registered nurses.

"One thing people should understand about public employees who return to work is that, often, there is a need by employers for those retirees to return," said Keith Brainard of the National Association of State Retirement Administrators.

Other people question whether taxpayers are being too generous by handing an individual a pension and a paycheck.

"I would think it would be incumbent on the Legislature to look at this and find out if the taxpayers are actually being cheated by this type of double dipping of state resources," said John Gilliland of the Iowa Association of Business and Industry.

Several lawmakers say they will take steps to make changes. Senate President Pro-Tem Jeff Danielson, D-Cedar Falls, said he'll push to examine double dipping as the Legislature conducts its annual review of IPERS.

"We ought to have a very high bar for somebody who retires and then comes back to work," Danielson said. "That high bar should be based on unique skill sets that are beneficial for the state, and those are very rare circumstances."

Rep. Ray Zirkelbach, D-Monticello, has proposed legislation, House File 2029, that would prohibit IPERS employees from returning to work to the same employer until at least a year after their retirement.

Zirkelbach, a correctional counselor at Anamosa State Penitentiary, said his bill was "a start" and that more needs to be done.

"How much does one need?" asked Zirkelbach, 31. "You're getting a very good retirement check from IPERS, and then you want to take away from the next generation."

In 2008, 3,623 people who were 65 or older worked for another IPERS employer while also collecting IPERS retirement benefits. A few were older than 90.

'Added costs' disputed

Most return-to-work employees don't pose additional costs to taxpayers if a position is going to be filled anyway, Brainard said. Retirees have earned their benefits and the system is obligated to pay, he said.

The caveat: Additional costs arise if the prospect of retiring and then returning to government work prompts employees to retire earlier than anticipated, Brainard said. Then employees aren't paying into the system as long and, in addition, draw benefits longer.

Employees who are part of the IPERS system can retire with full benefits at the age of 55 if their age plus years of service equal 88. So someone who starts working for the government out of college at age 22 could work for 33 years and retire at age 55 with full benefits, having reached the so-called rule of 88.

Reduced benefits are available for others who are 55 or older and haven't met the 88 rule.

The most recent study of the issue shows no evidence that IPERS has a problem with too many early retirements. In fact, the 2006 study showed a 15 percent lower retirement rate than expected between 2001 and 2005. A new study will be released in June.

Lawmakers or state officials in Arkansas, New Mexico, South Dakota and Utah are considering measures that would prohibit or place greater restrictions on a government retiree's ability to return to work, according to an article published last month by USA Today. Florida last year enacted a law requiring retirees to wait at least six months before returning to work.

South Dakota estimates its planned changes would save about $5 million a year, while New Mexico's would save around $7 million.

Any potential savings to Iowa would be minimal, in light of the median annual re-employment wage of less than $7,000, said Donna Mueller, chief executive officer of IPERS.

"I hate to call it double dipping. People are working. They earned their first retirement, and met all the guidelines," Mueller said. "I hate to denigrate people who have a good work ethic."

Early retirement debate

The early retirement package nearing legislative approval was recommended by a consultant hired by Gov. Chet Culver last year to find savings in the state budget. The consultant estimated the savings at $59.8 million a year. The nonpartisan Legislative Services Agency estimates the plan would save about $57 million.

Iowa has about 6,600 employees who are 55 or older and are eligible for the plan, according to a Legislative Services Agency report.

Today, when state employees retire, they can remain part of the health insurance program, but they have to pay their own premiums. Under Culver's plan, the state would pick up a portion of premiums for the early retirees.

The package also would offer up to $25,000 ($1,000 for every year of employment up to 25 years) and cash for unused vacation time.

The state still saves money, because those costs are lower than paying for the workers' salaries.

Republican leaders have expressed caution about such a plan because of double-dipping concerns.

"What is the work that they're allegedly doing now? Who will pick up that work? Will we have to rehire people?" Senate Republican Leader Paul McKinley asked in December.

State budget director Dick Oshlo, who helped work on Senate File 2062, said the legislation was shaped to create real savings.

"We don't want just a revolving door," Oshlo said.

Another concern surfaced last week in a letter from Charlie Krogmeier, leader of the Iowa Department of Human Services, to Oshlo.

So many front-line human services workers are eligible for early retirement that their departure could leave a gaping hole in Iowa's system of care for vulnerable Iowans, Krogmeier wrote.

Krogmeier asked the state to allow earlier rehiring of replacements or to lengthen the time between when workers must apply for the retirement incentive and when they leave, to allow adequate time for hiring and training new workers.

IPERS is facing a long-term shortfall

Payouts from the Iowa Public Employees' Retirement System for current retirements are not in jeopardy, but the program faces major shortfalls in 20 or so years if steps aren't taken now, IPERS officials say.

Bills before the Legislature would increase the contribution rate for employees and the governments that employ them. So taxpayers would chip in more dollars.

IPERS's unfunded liability stands at $4.9 billion, up from $2.7 billion a year ago. That amount, much like a house loan, is amortized over 30 years.

When markets plummeted in 2008, so did IPERS's investment earnings. The program also has been stressed by more and more retirees and longer life spans.

In 1980, 152,000 employees contributed to the IPERS program, with 33,000 retirees and beneficiaries. As of 2009, IPERS had 167,717 active members and 89,852 retirees, almost 150 of whom have lived past 100.

In November, the IPERS Benefits Advisory Committee recommended to lawmakers that state and local governments and their employees contribute far more to IPERS, roughly $80 million in the first year.

Public employers and employees now contribute 10.95 percent of an employee's wages to IPERS. Employees contribute 40 percent of the cost, while employers - state government, cities, counties, public school districts and other agencies - contribute 60 percent.

The proposal, Senate Study Bill 3069 and House Study Bill 566, would increase the contribution rate to 13.45 percent in the fiscal year that begins July 1, 2011. Each percentage point equals roughly $40 million.

In addition, IPERS officials have proposed allowing no cap upon the contribution rate, allowing them to adjust it by 1 percentage point each year. The rate would likely peak at around 17 percent, said Donna Mueller, chief executive officer of IPERS.

Officials also recommended increasing the time before an employee is fully vested from four to seven years.

The age of retirement would not be affected.

Struggle to reform Ohio pensions will be "epic"

Pension reform fight has makings of a war

System isn't sustainable without some changes

Dayton Daily News January 4, 2010

COLUMBUS — Like it or not, lawmakers will be asked this year to overhaul the state's public pension systems that serve 1.7 million Ohioans and cost local governments more than $4 billion a year.

It'll be an epic struggle among powerful interest groups to determine how the burden of shoring up the pension systems is shared.

Teachers, cops and firefighters may be asked to work longer. Retirees will likely face higher medical costs. And taxpayers may be asked to chip in as much as $5 billion toward the pension systems, if lawmakers accept proposed increases from two of the state's five public pension funds.

The Ohio Police & Fire Pension Fund and State Teachers Retirement System are asking for rate increases that, over the next five years alone, would cost local governments hundreds of millions of dollars.

State Sen. Kirk Schuring, R-Canton, described the viability of making taxpayers shell out more through higher employer contributions as "highly unlikely, probably impossible," given the economic slump and the financial struggles local governments already face.

Still, some change is inevitable. Thanks to market losses, skyrocketing health care costs and baby boomer retirees living longer, nobody thinks the current system is sustainable without changes. The market has rebounded some, but investment portfolios from the five pension systems lost a staggering $56.6 billion in 2008.

"This isn't just putting a new coat of paint on the house" said Ken Thomas, a city of Dayton employee who chairs the Ohio Public Employees Retirement System board, which is proposing adding two years to the eligibility age for a full pension for its members. "This is re-doing the foundation."

None of the proposed changes, however, call for following the private sector into 401(k)-type plans that might ease the burden on local governments and schools.

"The goal should be to continue the defined-benefit plan," said state Rep. Todd Book, a Portsmouth Democrat who chairs the Ohio Retirement Study Council.

Opposition to raising employer contribution rates already has begun to surface. In Springboro, where multiple levy defeats have forced the district to close a school, cut back on busing routes, lay off workers and boost participation fees for extracurricular activities, the proposal is about as welcome as an H1N1 outbreak.

"The community already feels we compensate every employee in our school system wonderfully," said Kelly Kohls, who was elected to the school board in November. "We've been very generous."

Oklahoma legislator seeks to replace DB plan with DC

Legislator wants to change retirement system

The Edmond Sun December 24, 2009

— State Rep. Lewis Moore recommends that state workers not already in the retirement system be placed in a defined contribution plan instead of a defined benefit plan. He also favors eliminating the state income tax.

The Oklahoma Employees Retirement System and the Teachers Retirement System combined is nearly $12 billion in the red, Moore said recently.

"Every time we pass a cost of living adjustment, we increase the benefits," said Moore, R-Edmond. "We're increasing the length of time it's going to take to get back in the black."

The combined $12 billion retirement system deficit exceeds the 2011 legislative state budget authority forecasted at about $5.3 billion, Moore said. The state will need to work itself out of a hole, he added.

Moore said it will strain the state's retirement system as workers opt for early retirement with voluntary buyouts. Lawmakers will be faced with finding ways to help the Oklahoma Employees Retirement System as well as the Teachers Retirement System to survive. Otherwise, the state will be in California's predicament of needing a federal bailout.

"We need to be able to take care of ourselves, and we can," Moore said. "We have to be smarter than that." A defined 401(k) contribution plan offers flexibility, he said.

"If we do that alone, we stop the madness of creating more red ink," Moore said. "It's like if you have personal consumer debt, do you just keep piling more and more on or do you stop? We stop."

Louisiana Legislature contemplates switch to defined contribution

Benefit plan change mulled

State employees may take on risk

Baton Rouge Advocate Dec 26, 2009 - Page: 1A

State retirement systems continue to oppose proposed changes to providing lifelong benefits for retired state government workers.

But making the state's four retirement systems more like private pension plans is a key recommendation that the Commission on Streamlining Government wants the Louisiana Legislature to adopt.

Commissioners want all state government employees hired after July 1, 2010, to join what is called a defined contribution plan. The proposal was among about 10 recommendations approved by the commission.

The state systems currently offer defined benefit plans, which are calculated based on years served and compensation, with benefits lasting a retiree's lifetime. The system invests employer and employee contributions to pay the benefits, which the state guarantees.

A defined contribution plan requires the employee to make his own retirement investment decisions. A 401(k) is an example of a defined contribution plan.

Whatever money the employee has accumulated based on investments and their returns funds his retirement years. The state would not guarantee a benefit.

Retirement system officials have stood on the side of defined benefit plans. However, system boards are not taking a specific stance on this or other recommendations unless they become legislation.

The Louisiana House and Senate retirement committees have been meeting jointly to study the issue but had not yet reached a conclusion as of their last meeting Dec. 1.

"Most of them would agree there doesn't seem to be a lot of cost savings to establish a defined contribution plan to replace the defined benefit plans," said Irwin Felps, director of the Louisiana State Police Retirement System. "I was a little surprised there wasn't a stronger conclusion," he said. "Maybe that will come."

Legislators have been concerned about the systems' unfunded accrued liability, called UAL, which is the debt that systems owe to pay out benefits. "We are living behind the curve by not trying to get that UAL paid off," said state Sen. Jack Donahue, chairman of the Streamlining Commission.

Donahue said his group knew the retirement committees were meeting on the issue and the commission wanted to put its two cents in with the recommendations. "Hopefully they can take the recommendations we made and we can come up with something that will take care of that debt," he said.

The retirement committees had discussed the potential of hybrid plans that allow system members to take advantage of both benefit structures.

Legislators also considered changes to the current defined benefit plan to ease the burden on the state. The Streamlining Commission made a separate recommendation asking the committee to study such changes that would decrease risk to the state, increase predictability of costs and allow for greater portability of benefits.

Treasurer John Kennedy, who made the recommendation to move to a defined contribution structure, said broader recommendations that call for more studies are meaningless. "The Legislature and the governor don't need our advice to study something further," he said.

The recommendation to continue studying changes to the current defined benefit plans was insufficient, Kennedy said. When comparing the two benefit structures, each with its own pros and cons, the advantages outweigh the disadvantages in a defined contribution plan, he said. "In the last 20 years, most large institutions throughout the world have had to reinvent themselves or let go of some things, or die," Kennedy said. "We have a lot of sacred cows we cling to that, if we're serious about living within our means, we have to get rid of."

Kennedy or his designee sits on all four of the retirement system boards. He said he has told his designee to vote his conscience and the two do not always agree. "My job is to protect the systems but it's also to protect the taxpayers," Kennedy said.

Donahue said the recommendations can either become administrative changes by the governor or legislative changes made through bills. "These are just recommendations from a commission that worked pretty hard over a short period of time to help streamline and save money in government," Donahue said. "It's just a starting point of what we may be able to do."

Other recommendations from the Streamlining Commission on retirement are:

- Ensure any proposal of a separation package, such as early retirement or retirement incentive program, does not outweigh the savings to the state. Half of the annual savings from the severance of employees receiving the separation package should go back to the retirement system and group health insurance provider.
- Allow members of the state employees' retirement system to purchase service credit to become eligible for retirement. The Legislature could choose to restrict this to members who are within five years of retirement. However, system officials say that restriction could make the option costly to employees. As a person nears retirement, the time the system has to invest his money and earn returns on that investment shortens and makes the potential cost to the system greater.
- Close the Deferred Retirement Option Plans of the state employees', teachers' and school employees' retirement systems on Jan. 1, 2015. The optional program allows an employee to set aside part of his retirement benefit in a separate account for a period of time while he continues to work.

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Sustaining State Retirement Benefits:
Recent State Legislation Affecting Public Retirement Plans, 2005-2009

Ronald Snell
January 2010

INTRODUCTION

Since 2007, investment losses and the weakness of state and local government revenues have produced extraordinary stress for public retirement funds in the United States. This stress magnified the funding issues retirement funds encountered because of the recession at the turn of the century.

Policy makers' responses are occurring in the context of an additional issue, that of providing for the commitments state and local governments have made for retiree health insurance and other post-employment benefits. These obligations have accumulated gradually for many years. Current accounting rules now require recognition of them. State government liabilities, aside from any local government amounts, have recently been estimated to be as much as $560 billion.

Legislatures and governors began to address pension system issues while the economy was still strong; the recession added urgency to their endeavors to strengthen the funding streams and reduce the long-term costs of their public retirement systems. This report summarizes the most significant features of state public retirement plan changes in 18 states from 2005 through 2009.

In general, states have made a broad range of relatively minor changes to plans, rather than undertaking fundamental change. Their goal has been to adjust rather than radically alter their retirement plans. Several of the states listed in this report have made a number of the following changes at once:

- Increases in employee contributions
- Extending the period over which salary is calculated for the purpose of determining retirement benefits
- Increases in the age or service requirement, or both, for eligibility for retirement benefits
- Anti-spiking provision
- Reductions in or greater controls over post-retirement cost-of-living adjustments

As an example, these are the changes that Kansas enacted in 2008 for newly-hired state employees and teachers in the Kansas Public Employee Retirement System:

- Employee contribution increased from 4% to 6% of salary
- Future cost increases, in the old plan the employer's responsibility, will be shared equally by employees and employers in the new plan.
- The base for calculating final average salary increased from the four highest years to five highest years.
- Age and service requirements were increased to allow retirement at 60 only with 30 years of service and to encourage retirement at 65.
- Included benefits employees had requested, including immediate membership for all members (in place of a six-month wait); vesting in five years (as opposed to 10 years) and a guaranteed post-retirement benefit increase of 2% a year for retirees over age 65.

Although the Kansas legislation included the widest range of policy changes reported here, the kinds of changes in that legislation and the general approach of changing a number of features of the plan in a relatively moderate degree are typical of the state legislation of the period.

Kansas acted in another way typical of most states in the period in choosing to preserve and reform a traditional defined benefit retirement plan (which provides a guaranteed life-time annuity) rather than fundamentally restructure the kind of benefit it provides. Two states in this period did carry out fundamental restructuring of their retirement provisions: Alaska and Georgia. They replaced traditional defined benefit (DB) plans with alternatives. Alaska created defined contribution (DC) plans for teachers and public employees. Georgia enacted a hybrid plan that combines a traditional defined benefit plan with a 401(k) in which all new employees are automatically enrolled.

In recent years, many legislatures have considered replacing a DB plan with a DC plan. Defined contribution plans provide each member with an individual account to which the member and the employer make contributions throughout the member's employment at some percentage of the employee's salary. The member's retirement benefit depends upon the accumulation of contributions and investment earnings in the account when the member retires. The general practice is for the employee to control the investment of his or her account.

At present, DC plans are the basic state retirement plan only for state employees in Michigan, public employees and teachers in Alaska, and state employees in Nebraska, which now uses the variant of a cash balance plan. The District of Columbia also has a DC plan as its primary pension coverage. West Virginia's retirement plan for teachers was a defined contribution plan from 1991 to 2005, when it was closed to new enrollment. Otherwise, and except for higher education, their use in state government takes two forms:

- An alternative to a defined benefit plan that employees may choose to join if they wish to. Examples are Colorado, Florida, Ohio, Montana and South Carolina. A few additional states sponsor DC plans for elected officials, as in Utah and Virginia. In these jurisdictions, a new employee is enrolled in the defined benefit plan unless he or she makes an explicit decision to join the DC plan.

- A component of a mandatory hybrid plan, in which the general practice is for employee contributions to support a defined contribution account and employer contributions to support a defined benefit program. Such plans, with various plan designs, exist in Georgia, Indiana, Oregon and Washington.

In 2005, Alaska became the first state to close statewide DB plans and enroll all new employees in DC plans since Michigan had done so for state employees in 1997.

In 2008, Georgia became the first state to enroll all new employees in a hybrid plan since Washington had created hybrid plans for its teachers and state employees in 1998-2000. Its DB component is funded by both employers and employees but with the employee contribution and potential benefit reduced from the previous state DB plan. All new members will also be enrolled in a 401(k) with a provision for self-directed levels of employee contributions and a limited employer match. Employees may withdraw from the 401(k) plan if they wish to do so.

About this report. In the following chart, major changes in state retirement plan provisions are organized first by topic—for example, employee contribution changes or changes in age and service requirements for retirement eligibility—and then by year and state. The data in this chart are taken from NCSL's annual reports on state pensions and retirement legislation. The complete reports are available on the NCSL website at http://www.ncsl.org/default.aspx?tabid=13399 or by searching on the NCSL website for "Pension and Retirement Plan Enactments."

Major Changes in State Public Retirement Plan Provisions, 2005 – 2009

The changes listed in this chart affect only new hires unless otherwise stated.

Employee Contributions	Alaska Public Employees and Teachers' Defined Contribution Plans: 2006	Increased employee contribution from defined benefit plan level to 8 % of salary, and provided for a flat employer contribution of 5%.
	Colorado Public Employees: 2006	Additional 1% of salary to fund post-retirement benefit increases
	Iowa Public Employees: 2006	To increase 0.5% a year, 2008-2012, if needed to fully fund the system by 2016
	Kansas Public Employees: 2007	Contribution for new employees was increased from 4% to 6%.
	New Jersey Public Employee System, Teachers' Fund, and defined contribution plan: 2007	Increased to 5.5% (from 5%), and caps the base on which contributions are made at the maximum amount on which Social Security contributions are levied. Effective for current and future employees.
	Iowa Public Employees: 2008	Re-enacts the 2006 legislation on employee contributions and caps the annual increase at 0.5%
	Kentucky Public Employee Retirement Plan: 2008	Additional 1% of salary dedicated to the retiree health insurance plan.
	Nebraska School Employees: 2009	Increase of 1% for five years (current employees).
	New Hampshire Retirement System: 2009	Increased from 5% to 7% of salary for new employees.
	New Jersey Public Employee System, Teachers' Fund, and defined contribution plan: 2007	Increased to 5.5% (from 5%), and caps the base on which contributions are made at the maximum amount on which Social Security contributions are levied. Effective for current and future employees.

	Georgia Public Employees Retirement System: 2009	For new hybrid plan, employee contribution to the defined benefit portion is 1.25% of salary; for personal account may range from 0% to 5% of salary.
	New Mexico Public Employee plan and teachers' plan: 2009	Increase of 1.5% of salary for fiscal years 2010 and 2011, affecting current employees.
Calculation of final average salary, and percentage factor for calculating benefits	Alaska Public Employees and Teachers' Defined Contribution Plans: 2006	No defined retirement benefit; the benefit will depend upon the accumulations in a member's account.
	Louisiana Teachers: 2005	Base for final average salary increased from 36 months to 60 months.
	Rhode Island Public Employees: 2005	Rhode Island applies different multipliers to groups of years of service. As service grows longer, the multiplier increases. The scale was reduced for shorter mounts of service in 2005. The former highest multiplier was 3.0%; under new law, the highest multiplier is 2.5%. The cap of benefits as a percent of final average salary was reduced from 80% to 75%.
	Kansas Public Employees: 2007	Base for final average salary increased from four years to five years.
	New Jersey State and Local Plans: 2007	Limited to salary on which Social Security tax is levied.
	North Dakota Teachers: 2007	Base for final average salary increased from 36 months to 60 months.
	Kentucky Public Employees 2008	Benefit percentage previously was 1.97%; changed to range from 1.1% to 1.7 percent depending on years of service. For years in excess of 30, a factor of 2% applies.
	Georgia Public Employees: 2009	For the member account, the benefit base will be the accumulation in the account. For the defined benefit portion, the multiplier was reduced from 2% to 1%.

	Nevada Public Employees Retirement System: 2009	Formerly allowed a benefit factor of 2.67% for service after July 1, 2001. This was reduced to 2.5%.
	Rhode Island Public Employees System: 2009	Base for final average salary increased from three highest consecutive years to five highest consecutive years.
	New York State & Local Employees: 2009	Increased the minimum retirement age from 55 to 62; increased the minimum retirement age for the NY State Teachers system from 55 to 57 with 30 years of service.
Age and Service Requirements for Normal Retirement	Alaska Public Employees and Teachers' Defined Contribution Plans: 2006	No state restrictions, but receipt of benefits is subject to federal rules governing withdrawals from individual retirement accounts.
	Colorado Public Employees: 2006	Rule of 85 replaces the Rule of 80.
	Louisiana Teachers: 2005	Minimum age of 60, up from 55.
	Rhode Island Public Employees System: 2005	Previous law allowed general employees to retire at age 60 with 10 years or service or any age with 28 years. New law for new and non-vested employees allows normal retirement at age 65 with 10 years of service or age 59 with 29 years of service. For current employees, the minimum age of eligibility for retirement will vary with length of service.
	Kansas Public Employees: 2007	Increased from age 65, or age 62 with 10 years of service, or the Rule of 85, to age 65 with five years of service or age 60 with 30 years of service; the Rule of 85 will not apply.
	New Jersey State and Local: 2007 and 2008	Prohibited contractual employees from earning service credit. Raised normal retirement age for public employees and teachers' systems from 60 to 62 for those who become members after the effective date of the bill (previously 55/25 or age 60).

	North Dakota Teachers: 2007	Rule of 90 instead of the Rule of 85; 5 year service minimum for benefits.
	Kentucky Public Employees Retirement System: 2008	Previously allowed general employees to retire at age 65 with four years of service, or any age with 27 years of service. For subsequent hires, it will be age 57 with 30 years of service; rule of 87 (with minimum age of 57); 65 with five years of service.
	Nevada Public Employee Retirement System: 2009	Previously allowed general members to retire at age 60 with 10 years of service; revised to age 62 with 10 years of service. For new police and firefighter members, the eligible age for retirement after 10 years of service is raised from age 55 to age 60 and the former option to retire at any age after 25 years of service was eliminated.
	Texas Employee Retirement System: 2009	Minimum eligibility at age 65 with 10 years of service rather than 60/5; or the Rule of 80.
Anti-Spiking Provisions	Colorado Public Employees: 2006	Annual salary growth for calculation of benefit capped at 8%.
	Iowa Public Employees: 2006	Annual salary growth for calculation of benefit capped at about 7%
	Louisiana State Employee System: 2005	Annual salary growth for calculation of benefit capped at 15%, down from 25%
	Kansas Public Employees: 2007	Annual salary growth for calculation of benefit capped at 7.5%, down from 15%
	New Hampshire, all members: 2008	If compensation in the final year of service exceeds 125% of final average compensation, the retiree's last employer will be assessed the cost of the excess benefit.
	Nevada Public Employees Retirement System: 2009	Annual salary growth for calculation of benefit capped at 10% for last five years of service.

	Georgia all systems: 2009.	For all members, the employer must pay the system the actuarial cost of benefits whose calculation includes a pay increase of more than 5% in the last 12 months before retirement; for future employees, such salary increases will not be included in the benefit calculation.
Post-Retirement Increases	Alaska Public Employees and Teachers' Defined Contribution Plans: 2006.	DB plan provided annual automatic adjustments; no provision for post-retirement increases in the defined contribution plans.
	Colorado Public Employees: 2006.	Capped at 3% per year (previously 3.5%) or less depending on the consumer price index (CPI).
	Missouri local government plans: 2006.	Allowable only in plans that are at least 80% funded; must be amortized over 20 years.
	Kansas Public Employees: 2007.	For all pre-retirement employees, provided an annual adjustment of 2% in place of ad hoc adjustments.
	Georgia, all systems: 2009.	Future post-retirement increases are prohibited for public employees hired after July 1, 2009.
	Iowa Public Employees: 2006.	No future benefit increases without increases in contribution rates.
	Kentucky Public Employee Retirement Plan: 2008.	Replaced a COLA at the rate of the consumer price index, capped at 5%, with an annual 1.5%, for all future retirees.
	Louisiana State Employees: 2009.	Future permanent benefit increases require age of 60 for eligibility (previously age 55) and link them to the system's actuarial funding level and investment return.

	Vermont Retirement System: 2008	Replaces the existing-law COLA, which is an annual adjustment equal to 50% of the CPI, whether positive or negative. For active members as of June 30, 2008 who retire after July 1, 2008, the COLA will be the CPI percentage or at least 1%, to a maximum of 5%, beginning on January 1, 2014. Members' contribution rates are increased from 3.25% to 5% until July 1, 2019, when the contribution rate will fall to 4.75%. The additional cost of the COLA will be amortized separately from the existing UAAL over 30 years.
Vesting	Alaska defined contribution plans: 2006	Employee contributions to the individual account are immediately vested and employer contributions are vested gradually with 100% vesting after five years of service.
	Mississippi Public Employees: 2007	Vesting period increased from four years to eight years.
	North Dakota Teachers: 2007	Vesting period increased from three years to five years.
	Kentucky Public Employee Retirement Plan: 2008	Vesting period for retiree health insurance benefits increased from 10 years to 15 years.
	Georgia hybrid plan: 2009	Vesting for the defined benefit portion of the plan remains at 10 years. Employee contributions to the individual account are immediately vested and employer contributions are vested gradually with 100% vesting after five years of service.
	New York State and Local Employees System, and the State Teachers System: 2009	Increased vesting requirement for new employees from five years to 10 years.

SOURCES

This report is based on NCSL's annual compilation of state legislation concerning pensions and retirement plans. The annual reports are available on the NCSL website at http://www.ncsl.org/default.aspx?tabid=13399

Section VI

Possible Alternative Plan Designs

SAVA POTENTIAL DESIGN ALTERNATIVES

SAVA has identified the following potential design alternatives for both PERS and TRS and expects the successful Offeror to identify other potential design alternatives for consideration.

1. Apply the reduced early retirement benefit for an employee retiring before the age of 60, regardless of years of service.

2. Apply the reduced early retirement benefit for an employee retiring with less than 15 full-time years of service in the system.

3. Increase the state's contribution rate.

4. Change the timeframe used in PERS-DB to calculate the highest average compensation (HAC) from the three highest consecutive years of service to up to 15 consecutive years of service.

5. Change the timeframe used in TRS to calculate the average final compensation (AFC) from the three highest consecutive years of full-time service to up to 15 consecutive years of service.

6. Create a mechanism that would automatically adjust the full-benefit retirement age for members based on changes in life expectancy.

7. Alter the Guaranteed Annual Benefit Adjustment (GABA) to reduce costs (including but not limited to creating a GABA that would fluctuate based on investment returns) for:

    A. New employees only; or

    B. Potentially, new employees, current employees, and current retirees.

8. Create a money purchase plan in which:

    A. All assets are invested by the Montana Board of Investments.

    B. Fixed employee and employer contribution rates are set by the Legislature.

    C. Employee contributions earn a guaranteed interest rate set by the Legislature.

    D. The minimum age to start drawing the annuity is set by the Legislature.

    E. At the time of retirement, an annuity is calculated based on the employee's account balance, which is then doubled to determine the benefit payable for the employee's lifetime.

F. A larger annuity is earned by a member who waits longer to apply for benefits.

G. Member account earnings continue to accrue if a member leaves covered employment and does not withdraw the account.

H. A refund in lieu of an annuity would include only the employee's contributions plus earnings on those contributions.

I. A COLA provision is included. (The design could range from a fixed adjustment similar to the current 1.5% GABA to a COLA that fluctuates with investment returns).

9. For current TRS members only, create a professional retirement option (PRO) increasing benefits for members who wish to extend their careers to 30 years.

10. For PERS only, change the current multiplier for PERS members with 25 or more years of service from 1/50 to 1/56 for each year of service.