SUMMARY OF RETIREMENT PLANS IN OTHER SELECTED STATES

OVERVIEW

All states offer some form of retirement plan to state employees. Most plans fall into one of the following three categories:

- Defined benefit plans - Provide a lifelong annuity upon retirement that is based on factors such as final average salary, length of service, and benefit multipliers.
- Defined contribution plans - Provide individual employee retirement accounts which normally consist of employee contributions, employer contributions, and investment earnings. Final retirement benefits are based on total contributions and investment earnings or losses.
- Hybrid plans - Combine elements of defined benefit plans and defined contribution plans. Some states offer a cash balance plan which uses individual accounts similar to a defined contribution plan except that a minimum level of investment return is guaranteed.

A National Conference of State Legislatures (NCSL) study in 2012 detailed the number of states and Washington, D.C., and Puerto Rico that offer each type of plan as follows:

- Thirty-two states and Puerto Rico have a defined benefit plan only for state employees.
- Two states and Washington, D.C., have a defined contribution plan only for state employees.
- Three states have a cash balance plan only for state employees.
- Thirteen states have either a hybrid retirement plan or allowed employees the option of choosing which type of plan to participate in.

Attached as Appendix A is the NCSL report detailing the types of retirement plans offered in each state.

RECENT CHANGES TO OTHER STATES' RETIREMENT PLANS

Montana

The Montana Legislature enacted changes in 2011 and 2013 affecting the Public Employees Retirement System (PERS). In 2011 the employee contribution rate for employees hired after June 30, 2011, increased from 6.9 to 7.9 percent. In addition, the benefit plan calculations for new hires after June 30, 2011, were changed as follows:

- Highest average compensation for retirement benefits calculated on salary levels in the last 60 months instead of 36 months.
- Normal retirement eligibility age increased to age 70 or age 65 with five years of service.
- Retirement benefit multiplier changed according to length of service ranging from 1.5 percent for employees with less than 10 years of service to 2 percent for employees with 30 or more years of service.

In 2013 the employee contribution rate for all participants, including those hired prior to July 1, 2011, was increased from 6.9 to 7.9 percent. The employer contribution rate was increased by 1 percent on July 1, 2013, and is being increased by 0.1 percent each year for 10 years beginning July 1, 2014. The annual cost-of-living adjustment (COLA) for all current and future retirees is set at 1.5 percent as long as the retirement system maintains a funding level of at least 90 percent. The COLA is reduced by 0.1 percent for each 2 percent the funding level is below 90 percent. If the amortization period of the unfunded liability is 40 years or greater, the COLA will be zero.

The Montana Legislature also allocated a portion of natural resources taxes to the PERS fund. On July 1 of each year, the fund will receive a portion of coal severance tax collections to be approximately $15 million per year. In addition, a portion of interest from the coal tax permanent fund will be deposited in the PERS fund. The fund will receive up to $21 million of interest income per year until July 1, 2019, and after that date, annual interest income contributions may not exceed $24 million.

Tennessee

Pursuant to statutory changes in 2013, the Tennessee Consolidated Retirement System is creating a hybrid retirement plan for employees hired on or after July 1, 2014. The hybrid plan includes both a defined benefit and defined contribution component. The employee contribution will total 7 percent--5 percent is allocated to the defined benefit plan and 2 percent is allocated to the defined contribution plan. However, the employee may choose not to make the 2 percent contribution to the defined contribution plan. The total employer contribution is 9 percent--4 percent is allocated to the defined benefit plan and 5 percent is allocated to the employee's defined contribution account. The defined benefit multiplier is 1 percent under the new plan.

Employees hired prior to July 1, 2014, will continue on the existing defined benefit plan, which includes a 15.03 percent employer contribution and no employee contribution. The defined benefit plan multiplier is 1.575 percent under the existing plan.

Kansas

In 2012 the Kansas Legislature enacted changes to the Kansas PERS. Effective January 1, 2015, new state employees (with some exceptions) will be placed in a new cash balance retirement plan tier. Employees will provide a contribution of 6 percent, and the state will provide a contribution based on years of service. The state contribution will range from 3 percent for employees with less than 5 years of service to 6 percent for employees with more than 24 years of service. The employee accounts receive interest credits of 5.25 percent per year and may receive additional interest credits of up to 4 percent if the investment rate of return is 10 percent or more for that fiscal year. However, the additional interest credits are limited based on the funding ratio of the entire PERS.

To address the existing unfunded liability in the defined benefit plan, the Kansas Legislature increased existing employee contribution rates to the fund and directed additional state revenues to address the unfunded liability. Beginning in 2014, a portion of state gaming revenue and surplus property sales revenue will be used to address the unfunded liability.

Changes in Other States

Attached as Appendix B is a document prepared by the National Association of State Retirement Administrators detailing changes made to state retirement plans.

WISCONSIN RETIREMENT SYSTEM ANNUITY ADJUSTMENTS

The Wisconsin Retirement System uses a shared risk design that increases or decreases payments to system retirees. When a member employee retires, the member's core retirement account is converted to an annuity based on average final employee earnings, a formula factor, and years of service. A minimum core annuity payment amount is established, which is the minimum payment amount guaranteed to be paid for the lifetime of the retiree.

The Wisconsin Retirement System does not have an automatic COLA, but retiree annuity payments may be adjusted based on investment returns and other factors. The annuity payments may be adjusted if the actual retirement fund balance is more or less than the actuarially calculated reserve requirement. The actuarially calculated reserve requirement amount uses expected investment returns, mortality rates, and fund carryover to determine the proper amount of funds needed to support future retiree payments. If the fund balance exceeds the estimated reserve requirement, retiree annuity payments may be increased. If the fund balance is less than the reserve requirement, the retiree annuity payments may be decreased except for employees who are already at their minimum core annuity payment level.

Employees of the Wisconsin Retirement System also have the option to place a portion of their retirement contributions into a variable annuity fund which is invested in stocks. When the employee retires, the employee's variable account funds are converted to an annuity payment similar to the core fund. However, unlike the core fund, there is no minimum annuity payment for the portion of the retirement plan placed in the variable annuity fund. Also, the variable annuity fund recognizes fund investment gains or losses each year as opposed to the core fund which recognizes gains or losses over a five-year period. This results in greater fluctuations in annuity adjustments for the variable fund compared to the core fund. Since 1986, the core fund annuity adjustments have ranged from a negative 9.6 percent to a positive 17.1 percent while variable fund annuity adjustments have ranged from a negative 42 percent to a positive 25 percent.

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