

## INFORMATION REQUESTED REGARDING STATE EMPLOYEE RETIREMENT PLANS IN OTHER STATES

This memorandum provides information in response to requests made at the November 7, 2013, Government Finance Committee meeting.

### COMPARATIVE STUDY OF MAJOR PUBLIC EMPLOYEE RETIREMENT SYSTEMS

The Wisconsin Legislative Council prepares a report every two years which provides a comparison of major public employee retirement systems. The most recent report, which was released in December 2011, is attached as [Appendix A](#). The report provides details regarding 87 major retirement systems that cover state employees, teachers, and political subdivisions.

#### Active Employees, Retirees, and Participation in Social Security

The major state retirement plans included in the report had 12.2 million active employees and 6.5 million retirees and beneficiaries for a total of 18.7 million participants. The average ratio of active employees to retired employees in the plans was 1.87 while North Dakota had a ratio of 2.63.

The report found that participants in 17 of the 87 plans are not covered by Social Security. In plans where employees are not covered by Social Security, the benefit multiplier is generally higher than in plans where employees are also covered by Social Security. For plans in which employees are covered by Social Security, the benefit multiplier ranges from 1 to 2.5 percent. For plans in which employees are not covered by Social Security, the benefit multiplier ranges from 2 to 2.5 percent.

Page 7 of the report details plan membership levels and participation in Social Security.

#### Employee and Employer Contribution Rates

The report found employee contribution rates increased in 22 plans from 2008 to 2010 and employer contribution rates increased in 47 plans between 2008 and 2010. However, 19 plans had employer contribution rates decrease between 2008 and 2010. Some of the employer contribution rates are based on actuarial valuations which cause rates to adjust automatically.

Page 21 of the report details employee and employer contribution rates for each plan as well as the vesting periods for each plan.

#### Retirement Benefit Calculation

Most defined benefit retirement programs use a formula to determine retirement payments that is based on years of service, a formula multiplier, and final average salary as follows:

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| $\text{Years of service} \times \text{Formula multiplier} \times \text{Final average salary} = \text{Retirement benefit}$ |
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The report found the defined benefit plans had an average formula multiplier of approximately 1.95 percent if the employee also participated in Social Security. For plans with employees who do not participate in Social Security, the average formula multiplier is approximately 2.2 percent. Some plans base the formula multiplier on years of service.

Page 27 of the report details the formula multiplier of each plan and the final average salary calculations used by the plans.

#### Cost-of-Living Adjustments

The report reviewed cost-of-living adjustments (COLAs) provided for each of the retirement plans. The report found that 28 plans had automatic adjustments indexed to the consumer price index, 29 plans had automatic percentage increases, 5 plans provided increases based on investment surpluses, 19 plans required a legislative body or decisionmaking board to provide an authorization for increases, and 6 plans had no current provisions for increases.

Page 33 of the report provides information regarding COLAs for each plan as well as the state taxation of retirement benefits from each plan.

## Funding Ratios

Funding ratios are used to compare the actuarial value of assets to the actuarial value of liabilities of plans. The report found the average funding ratio of all plans reviewed was 73.4 percent for fiscal year 2010.

Page 40 of the report provides information regarding the funding ratio of each plan as well as other actuarial information used, such as interest and wage assumptions.

## OTHER INFORMATION REQUESTED

### Rhode Island Retirement Security Act

The Rhode Island Retirement Security Act of 2011 became effective on July 1, 2012, and made several changes to the regular state employee retirement plan. The Act made changes to the retirement plans of both current workers and retirees in addition to new hires by changing from a defined benefit plan to a hybrid defined benefit and defined contribution plan and making other adjustments. Under the previous defined benefit plan, employees contributed 8.75 percent of their salary to the plan. Under the new hybrid plan, employees pay 3.75 percent to the defined benefit component of the plan and 5 percent to the defined contribution component of the plan. Under the old plan and new plan, the state contribution for the defined benefit portion of the plan is based on an actuarial review. For state fiscal year 2012, the state contribution rate was 22.98 percent, and the rate is to decrease to 20.35 percent for state fiscal year 2013.

The Act also provided other changes to the retirement plan. The Act suspended automatic COLAs if the retirement plan is less than 80 percent funded. Any COLA awarded is based on plan investment returns with a maximum adjustment of 4 percent. The Act also changed the vesting period from 10 years to 5 years, adjusted the benefit multiplier from a tiered system to 1 percent per year of service, and adjusted eligible retirement dates.

Based on changes made by the Act, the unfunded liability of the regular state employee pension plan is anticipated to decrease from \$2.7 billion to \$1.8 billion, which represents an increase in funded ratio from 48.4 percent to 60.6 percent. The plan is anticipated to be fully funded by 2035. The Act applied to all public pension plans with the exception of public safety and judges' plans.

In June 2012 a lawsuit was filed against the state of Rhode Island by several entities representing retired state employees who claimed the Act breached a contract the employees had with the state. Both parties agreed to conduct mediation sessions, which are still continuing.

### Georgia State Employee's Pension and Savings Plan

The Georgia Legislature enacted changes to its retirement plan for employees who were first employed or rehired on or after January 1, 2009. The state employee's pension and savings plan is comprised of a defined benefit component and a defined contribution component. For the defined benefit component, the employee contributes 1.25 percent and the state contributes an amount which varies based on an actuarial review. There are no COLAs provided for retirees under the new plan.

The defined contribution component allows members to place up to 5 percent of their salary in a 401k plan with the state providing a match of up to 3 percent. The state provides a 100 percent match for the member's first 1 percent contribution and provides a 50 percent match for each additional percentage contributed by the member.

### Illinois State Employees' Retirement System

In December 2013 the Illinois General Assembly passed Senate Bill No. 1 to enact changes to the Illinois State Employees' Retirement System. The bill primarily affects COLAs for retirees. Beginning in January 2015, the maximum annual COLA a retiree may receive is the lesser of 3 percent of the retiree's annuity or an amount equal to 3 percent of the retiree's years of service times \$800. As an example, a retiree with 30 years of service would receive a maximum COLA of \$720. If a retiree is a member of a plan that did not include Social Security coverage, the COLA maximum formula dollar multiplier is increased to \$1,000. The \$800 and \$1,000 formula multipliers are to be indexed annually based on the consumer price index.

In addition to maximum COLAs, employees who retire on or after July 1, 2014, will have certain annual adjustments skipped based on their age as of July 1, 2014. The number of skipped COLAs will range from one for employees who are age 50 or older on that date to five skipped COLAs for employees who are age 43 or younger on that date. Other adjustments made to the plan affect an employee's eligible retirement age and also allows up to 5 percent of employees in certain plans to switch to a defined contribution plan.

The Illinois General Assembly is dedicating supplemental funding to be divided among state-funded retirement systems. In fiscal year 2019, the state is to contribute \$364 million to the state pension stabilization fund. Beginning in fiscal year 2020 and continuing thereafter, the state is to contribute \$1 billion each year to the pension stabilization fund. The annual contributions are to continue through fiscal year 2045 or until the retirement systems are 100 percent funded. Based on current estimates, the retirement plans are to be fully funded by fiscal year 2044.

### **Cost-of-Living Adjustments for the New Tennessee Hybrid Plan**

The Tennessee Consolidated Retirement System hybrid retirement plan, which applies to employees hired on or after July 1, 2014, includes a COLA for the defined benefit component of the plan. An annual COLA based on the consumer price index may be provided up to a maximum of 3 percent. However, the adjustments may be reduced if the employer cost of the defined benefit component exceeds 4 percent of payroll or if the target unfunded liabilities of the defined benefit component are exceeded.

### **Status of State Employee Pension Lawsuits in Other States**

Several states and municipalities have recently enacted changes to public employees retirement plans. An April 2013 report ([Appendix B](#)) by the Laura and John Arnold Foundation reviewed 54 lawsuits that have been filed against a state or municipality between 2009 and 2013 due to changes in public employees retirement plans.

The Montana Legislature enacted changes in 2011 to 2013 affecting the Public Employees Retirement System (PERS). The changes affected employee contribution rates, the retirement eligibility age, the benefit multiplier, and the guaranteed annual benefit adjustments (GABAs) for retired employees. The Montana Legislature also allocated a portion of natural resources taxes to the PERS fund. Based on the changes, the estimated funding ratio of the plan was increased from 70 to 80 percent.

In October 2013 a group of retired Montana state employees filed a lawsuit challenging the changes made by the Montana Legislature to the GABAs. The bill passed by the legislature reduced the GABAs from 3 percent annually to 1.5 percent annually. In addition, the GABAs may be further reduced by 0.1 percent for each 2 percent the retirement plan is below a 90 percent actuarial funded ratio. Based on the most recent actuarial funded ratio of 80 percent, program retirees will have a benefit adjustment of 1 percent on January 1, 2014. The retired employees are contending the changes violate a contract the employees had with the state relating to retirement benefits. The first series of hearings for the lawsuit are expected to take place in December 2013.

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