Selected State Actions Undertaken to Address Challenges in Public Employee Retirement Systems [1]

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Introduction

The impetus for this briefing paper is a request for information made by Rep. Franke Wilmer, Presiding Officer of the State Administration and Veterans' Affairs Interim Committee (SAVA). Rep. Wilmer's request was for an overview of what some other states' legislatures have done in response to unfunded actuarially accrued liabilities (UAAL) of public employee retirement systems in their respective states. The actions listed herein are not exhaustive, but represent actions that appear to be significant and substantial.

Major Issues and Actions in 2007 [2]

Plan Structure And Funding

Sustaining defined benefit plans for the long haul continued to be the major concern of public retirement policy in 2007. No legislature appears to have improved the benefit package for a large plan for public employees or teachers in 2007. Three states revised benefit packages plans for large numbers of public employees to reduce benefits for future employees compared to commitments to current employees. In two states, this included longer vesting requirements, running counter to the trend of the past quarter-century to abbreviate vesting requirements.

Kansas revamped its entire state retirement system. A joint legislative study committee examined such alternatives as a defined contribution plan or a hybrid plan in the fall of 2006, and chose instead to adopt a new defined benefit plan for state, school and local government employees hired on or after July 1, 2009. The new plan makes a number of moderate changes from the existing plan, such as greater age and service requirements for regular retirement eligibility, calculation of benefits on average salary over five years

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[1] The selected state actions listed in this brief are taken, literally "cut and pasted", from a series of annual reports published by the National Conference of State Legislatures, titled *Pensions and Retirement Plan Enactments in [2004 through 2007] State Legislatures*, compiled primarily by Ronald K. Snell, a long-time NCSL staffer who works at the NCSL office in Denver, Colorado. The actions reported herein represent only about 25% of the actions complied and reported by Mr. Snell, and are focused on actions that were likely pursued to address actuarial funding issues of various states' public employee retirement plans.

[2] From *Pensions and Retirement Plan Enactments in 2007 State Legislatures*, Ronald K. Snell, National Conference of State Legislatures, Denver, Colorado, October 2007.

instead of the three years in the existing law, and other incremental changes. The plan provided for an increased employee contribution and committed employers to contributions at the actuarially required amount but at least at the percentage of employee contributions. An unusual feature of the new law is the requirement that future costs of the plan will be equally shared by employers and employees. Future automatic COLAs and reduced vesting requirements for present and future members addressed long-standing concerns.

Mississippi similarly changed vesting and service requirements for its Public Employee Retirement System, effective for those hired on or after July 1, 2007. It lengthened its vesting requirement from four years to eight and stiffened age and service requirements for normal retirement.

North Dakota created a new tier in its Teachers' Fund for Retirement, with longer vesting, retirement according to the Rule of 90 instead of the Rule of 85, other increases in age and service requirements, and a benefit calculation based on a five-year average of salary, rather than three years.

A number of states addressed sustainability through increasing contribution levels to retirement systems. As is generally true, it remained rare for governments to require greater contributions from members of a system, although New Jersey imposed a 10% increase in employee contributions on several statewide plans. Oklahoma addressed the funding problems of its Teachers Retirement Plan with increased employer contributions, to be phased in over several years. New Hampshire limited transfers to its special account for additional benefits in order to protect the principal of the retirement trust fund. Washington repealed its gain-sharing plans after the state actuary reported that they had a detrimental effect upon retirement plan trust funds, and offset the repeal of gain-sharing with other benefit improvements for teachers and other public employees.

Massachusetts and Missouri provided rigorous new laws addressing the funding status of local government plans.

Massachusetts provided for state assumption of the assets of any local government system that fails to meet specified standards for actuarial funding and investment performance over an extended period. Funds so assumed would be managed by the state board that manages investments for the two major state pension funds.

Missouri legislation provides funding standards for local government public pension plans in the state. Those whose funded ratio falls below 60% and whose contributory

government fails to make 100% of the actuarially-required contribution for five successive years can be declared delinquent in contribution payments, which will constitute a first lien on the funds of the sponsor government. The board may require payment by writ. The state treasurer is required to withhold 25% of the contribution delinquency from total moneys due the local government until the delinquency is satisfied. Plans with less than 60% funding shall also require their actuary to prepare an accelerated schedule of contributions to the plan.

The Missouri legislation also prohibits benefit increases from funds that are less than 80% funded. It allows benefit increases for better-funded systems so long as the funded ration remains above 75%.

Connecticut authorized $2 billion in pension obligation funds to benefit its Teachers Retirement fund, as well as appropriating $300 million for the fund for fiscal years 2008 and 2009.

No state created a broad-based defined contribution plan in 2007, although New Jersey established one for elected and certain appointed officials. Alaska fine-tuned provisions of its 2005 legislation that created defined contribution plans. The West Virginia

legislation that consolidated its teachers' defined contribution plan with its teachers defined benefit plan in 2005 was declared unconstitutional by the Kanawha County Circuit Court. The decision has been appealed.

Contribution Rates and Funding Issues

Connecticut. Act 204 (SB 848) creates a municipal pension solvency loan program to lend money to municipalities for their unfunded employee pension liabilities. Loans carry the same interest rate the state pays on the bonds, notes, or obligations it issues to fund the program. The act permits the bonds to be either general obligation or revenue bonds.

Hawaii. Act 286, Laws of 2007 (SB1284), authorizes: the board of trustees of the employees' retirement system to set the salary scale assumptions based on the recommendations of the actuary; provides that the employer contributions for normal cost and accrued liability shall be based on 19 and 7/10 per cent of the member's compensation for police officers, firefighters, corrections officers and 15 per cent of the member's compensation for all other employees; and prohibits benefit enhancements for any group of members, including reduction of retirement age, when there is an unfunded accrued liability from January 2, 2008 until January 2, 2011.

Montana. Chapter 306, Laws of 2007 (HB 95) provides for a one percentage point increase in the employer contribution to employee accounts in the optional retirement program [a DC plan], funded by the state general fund.

Chapter 305 (HB 63) provides for increased state contributions to the Teachers' Retirement System with the goal of amortizing its UAAL by 2033. For that purposes, the legislation calls for future review of the contribution rates. The employee contribution rate will remain at 7.15% through 2010. The employer contribution rate will increase from 7.47% to 9.85% by 2010. The state supplemental contribution will increases from 0.11% for FY2007 to 2.49% for FY2011. If termination pay is used in the calculation of a retirement benefit, the employee and employer must make comparable contributions to the retirement fund based on the amount of the termination pay. The bill appropriates $50 million to the retirement fund.

Chapter 371, Laws of 2007 (HB 131) increases employer contribution rates for the Public Employee Retirement System and a number of other state retirement systems for two bienniums [but] does not result in an actuarially sufficient level of funding. For state employers, the rate increase over the biennium is from 6.9% to 7.17%.

Nebraska. LB 596 increases the monthly benefit for retired school personnel in the School Employees Retirement System to 85 percent of the purchasing power of the original annuity benefit. The employee contribution rate will increase from 7.25 percent to 7.28 percent.

New Jersey. Chapter 103, Laws of 2007 (AB 5005) establishes higher employee contribution rates for various public employee retirement systems. It increases from 5% to 5.5% the member contribution rate for the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS), and the Defined Contribution Retirement Program (DCRP).

It caps the amount of compensation on which contributions to the defined benefit plans will be made. Under current law, base salary is used for members of PERS and TPAF to determine contributions and benefits. This bill imposes a cap on base salary pegged to the annual maximum wage contribution base for Social Security, and requires that for amounts earned above the Social Security annual maximum wage contribution, a person will be eligible for membership in the DCRP with regard to the portion of the salary over the maximum.

North Dakota. Chapter 157, Laws of 2007 (SB 2046) increased the employer contribution for the teachers' retirement system from 7.75% to 8.25%. This level will remain in effect until the system reaches a funded ratio of 90%.

New Hampshire. Chapter 268, Laws of 2007 (HB 653) provides that the amortization period for the New Hampshire Retirement Fund for purposes of calculating the required annual contribution shall be 30 years (up from 20 in previous law) or the maximum allowed by GASB, whichever is less. The law also limits transfers from the fund to the special account for additional benefits to years in which the actuarial study reports that the funded ratio is greater than 85%, and limits the transfer to earnings in excess of 10.5%. The law also requires that employer contributions to the fund never fall below the rate of employee contributions.

Oklahoma. SB 357 (signed into law on April 30, 2007) increased employer contribution rates for the Teachers Retirement System, which on June 30, 2006, was reported to have a funding ratio of 49.3%. Members of the system will continue to contribute 7% of salary. Most employers currently contribute 7.6%. For K-12 school, technical schools and two-year colleges, contribution rates will gradually increase annually to 9.5% on January 1, 2010. For four-year colleges, which contribute 7.05% at present, rates will increase to 8.55% over the same period. The increases are projected eventually to contribute as much as $60 million more a year.

HB 1105 appropriated $10 million to remitting agencies to assist with the additional cost.

Texas. Chapter 1389, Laws of 2007 (SB 1846) would allow the Teacher Retirement System to require that the rate of contribution to the Teacher Retirement System (TRS) retirement trust fund by active members be increased up to 6.58 percent if a supplemental benefit payment is authorized by the legislature and TRS determines that after paying the supplemental benefit payment the funding period of the pension trust fund would exceed 30 years by one or more years. The bill would stipulate that the state contribution rate may not be lower than the active member contribution rate and that the state contribution rate shall be 6.58 percent for the 2008-09 biennium.

The bill would direct TRS to make a one-time supplemental benefit payment to eligible annuitants in September 2007 equal [to] the lesser of $2,400 or the amount of the regular annuity payment to which annuitants are entitled for August 2007. The bill would allow TRS to delay payment in order to allow the determination of actuarial soundness and to determine whether an increase in the active member rate, as permitted by the bill, is warranted.

Defined Benefit Plan Changes

Mississippi. Chapter 407, Laws of 2007 (HB 1016) increased vesting requirements and requirements for eligibility for benefits for people who join the Public Employees' Retirement System on or after July 1, 2007. The vesting requirement was changed

from four years of membership to eight years. The previous benefit eligibility requirements were age 60 with four years of membership or 25 years of membership. The new requirement is age 60 with eight years of membership.

The act also extended the new vesting requirement to various other system benefits, such as receipt of up to four years of credit for military service, eligibility for a partial lump sum withdrawal upon retirement, purchase of non-covered or retroactive or out-of-state service and so forth.

North Dakota. Chapter 157, Laws of 2007 (SB 2046) created a new tier in the Teachers' Fund for Retirement. Tier 2 Members include all new members and returning refunded members who are employed on or after July 1, 2008. Tier 2 members would have the following benefit changes:

- Rule of 90, instead of Rule of 85
- 5-year vesting, instead of 3-year vesting
- Early (reduced) retirement eligibility would be age 55 and 5 years of service (instead of age 55 and 3 years).

Normal (unreduced) retirement eligibility would be age 65 and 5 years of service (instead of age 65 and 3 years). Final average salary would be computed as a 5-year average, rather than as a 3-year average

Vesting

Mississippi. Chapter 407 (HB 1016) increased the vesting requirement for members of the Public Employee Retirement System from four years to eight years for those who join the system on or after July 1, 2007.

Major Issues and Actions in 2006 [3]

The long-term security of defined benefits was the issue of broadest concern to state legislatures in 2006 as it was in 2005. Action on it took many forms, including, among others:

- Reduction of future benefits for new employees, and caps on future cost-of-living adjustments
- Increases in employer and employee contribution levels,
- Modification of provisions for service purchase to ensure that the purchaser bear the cost,
- Very limited benefit enhancements.

[3] From *Pensions and Retirement Plan Enactments in 2006 State Legislatures*, Ronald K. Snell, National Conference of State Legislatures, Denver, Colorado, October 2006.

Benefit Changes

The most dramatic development of 2006 was that West Virginia members of the defined contribution Teachers' Retirement Plan voted to merge it with the newly-reopened defined benefit teachers' plan. The General Assembly had provided that a favorable vote would mean that all active members of the defined contribution plan would be transferred to the defined benefit plan, with no provision for individual choice. An immediate legal challenge has delayed the actual consolidation.

Colorado enacted a comprehensive package of benefit reductions to address long-range Public Employee Retirement Association funding concerns. They affect employees who become members on or after January 1, 2007. The new package replaces the Rule of 80 with the Rule of 85; institutes a lower limit on salary growth for the purpose of calculating retirement benefits; restricts annual COLAs; and requires an additional member contribution to help fund COLAs. Louisiana extended the period over which final average salary is calculated for members of the School Employees' Retirement System (for new employees) and added new anti-spiking provisions. Iowa added a "spiking control" for members of the Public Employee Retirement System, and Illinois fine-tuned the anti-spiking provision it created in 2005 to provide a number of exemptions.

Legislated benefit increases were few and modest. Georgia increased benefits for members who retired before mid-1987; Washington increased benefits for members who had been retired for 25 years or more. Maryland enacted long-sought increases in benefits for state employees and teachers as an optional program that requires additional employee contributions for participation. Oklahoma enacted legislation that enhances benefits for teachers who stay on past the normal retirement age (62 or the Rule of 90 for members who joined since mid-1992). Washington enacted some reductions in vesting requirements.

Contribution Levels

In contrast to the relative scarcity of changes in benefit provisions, a substantial number of states enacted increases in contribution levels. At least three states, Connecticut, New Mexico and West Virginia, made large lump-sum contributions to their retirement plans to address unfunded liabilities. The West Virginia appropriation was $718 million. Washington created a $350 million pension stabilization fund, a reserve for future appropriation to the state retirement systems. Illinois also created a pension stabilization fund, to which the state comptroller is to transfer a share of general fund revenues when they grow by more than a specified percentage from year to year.

In various ways and with various controls, Iowa, Kentucky, Minnesota and

Nebraska increased both employer and employee contribution rates for pension systems. A number of states, as shown below, increased minimum required contribution rates for employers.

Governance and Investment Policy

The second significant system merger of 2006 occurred in Minnesota, where the financially-troubled Minneapolis Teachers' Retirement Fund was consolidated with the state Teachers' Retirement Association. Colorado restructured the board of trustees of the Public Employee Retirement Association, reducing its membership by one (the State Auditor) and replacing three trustees elected by association members with three to be appointed by the governor, with Senate confirmation, who are required to have relevant experience.... California, Connecticut and Maine provided for withdrawal of investments in Sudan. The South Carolina General Assembly sent the voters a question on further broadening the investment authority of its retirement systems.

The Oklahoma Legislature emulated Georgia in providing a delay before any legislation with a fiscal impact on a retirement system can be enacted. According to the Oklahoma law, such legislation must be introduced in the first year of a legislative session, subjected to actuarial evaluation, and reconsidered in the second year of the session.

Benefit Calculation and Eligibility

Colorado. Chapter 259, Session Laws of 2006 (SB 235) increased the age requirements for regular service retirement (other than for state troopers) to the Rule of 85 for those who become members of the Public Employee Retirement Association (PERA) after January 1, 2007, to the Rule of 85; any age with 35 years of service; or 65/5. The minimum retirement age and service requirements are age 55 with five years of service. The former general rule was the Rule of 80; or, any age/35; or, 65/5.

For those who are members on December 31, 2006 and who retire on or after January 1, 2009, annual salary for the purposes of calculating benefits can increase no more than 15 percent a year. For those who join PERA after December 31, 2006, the cap on salary growth will be eight percent per year. The multiplier remains at 2.5 percent (PERA members are not covered by Social Security).

For those who join PERA after December 31, 2006, retirement benefit COLAs will be effective with July benefit payments, only after the retired member has received a benefit for a full calendar year, and only for members whose age and service credits equal 85 or who have attained the age of 60. No age and service requirements apply for disability retirees.

The annual COLA was preserved at 3 percent (grandfathering those who were

members on 6/30/05 at 3.5 percent) but for those who join PERA after December 31, 2006, the actual increase will be calculated annually based on an actuarial valuation of the division (such as state employees or teachers). The act creates a new Annual Increase Reserve for each such division and provides for its funding, consisting of an annual payment of 1 percent of the salaries of members eligible for retirement benefit increases from the reserve, certain other revenues and interest earnings. The annual COLA is to be the least of: (1) 3 percent of benefits; (2) the CPI-U; and (3) the amount that would exhaust 10 percent of the year-end market value of the reserve fund. The change may not be negative.

Illinois. Public Law 94-1057 (Senate Bill 49) modifies Public Act 94-0004 from 2005, which requires school districts to fund pension benefits based upon salary increases over 6 percent used in the determination of final average salary. As a result, the liability associated with these salary increases will be partially paid for by the school districts instead of the state of Illinois. This calculation is applied to any compensation that is paid to members during their average salary period.

Louisiana. Act 647 of 2006 (SB 88) provides that for members of the School Employees' Retirement System hired after June 30, 2006, the period used for calculating final average compensation is extended from 36 months to 60 months. It also provides an anti-spiking measure: for the calculation of final average salary, the figure used for a 12-month period after the first 12-month period cannot increase by more than 10 percent from the previous period, except for legislatively-enacted increases.

Contribution Rates And Funding Issues

Alaska. Authorization for cities to issue pension obligation bonds to finance their retirement liabilities passed the House of Representatives in the 2006 regular session, but died in the Senate (HB 278). According to the GFOA Pensions and Benefits Update (17:2, March-May 2006) municipal retirement and health benefit liabilities are $6.9 billion statewide.

In September, 2006, the Alaska Retirement Management Board set the employer contribution rate for the Public Employees Retirement System at 39.76 percent and the employer's contribution rate for the Teachers' Retirement System at 54.03 percent. According to the Anchorage Daily News, the previous year's rates were 18.65 percent and 26 percent, respectively. According the same report, the purpose of the increased employer contribution rates is to amortize the entire UAAL of the Alaska systems, some $6.9 billion, over 25 years. In 2005 the two plans at issue were closed to additional enrollments in favor of creating defined contribution plans for new hires. Governor Murkowski, whose term ends this year, recommends that the state appropriate one

billion dollars from surplus to soften the blow of the increased contribution rates.[4]

Arizona. Chapter 251, Laws of 2006 (SB 1351) revises funding and amortization provisions for several state retirement plans. Currently, the contribution rates for employers participating in the Public Safety Personnel Retirement System (PSPRS), the Corrections Officer Retirement Plan (CORP) and the Elected Officials' Retirement Plan (EORP) are calculated based on normal cost plus an amount required to amortize unfunded actuarial accrued liability (UAAL) over a rolling 20-year period. S.B. 1357 changes the length of the amortization period to a maximum of 30 years, as determined by the Fund Manager. The act:

1. Lengthens the time period for amortizing unfunded actuarial accrued liability of PSPRS, CORP and EORP from a 20-year rolling period to a rolling period of between 20 and 30 years, as determined by the Fund Manager.
2. Increases, from 5 percent to 8 percent, the minimum required contribution rate for employers participating in PSPRS, except that employers with an FY 2006-2007 contribution rate of less than 8 percent have a minimum contribution rate of at least 5 percent, but more than the employer's actual rate.
3. Increases, from 5 percent to 6 percent, the minimum required contribution rate for employers participating in CORP. For employers with an FY 2006-2007 contribution rate of less than 6 percent, the minimum contribution rate is at least 5 percent, but more than the employer's actual rate.
4. Establishes stabilization reserve accounts within PSPRS, CORP and EORP.
5. Requires the Fund Manager to deposit 50 percent of each fund's excess valuation assets in the respective stabilization reserve account for each fund that is more than 100 percent funded. This requirement only applies to excess assets in an employer's account as of FY 2004-2005.
6. Requires, if the actuary determines a valuation asset deficiency and an UAAL, the Fund Manager to use the valuation assets in the stabilization reserve accounts to limit the decline in the funds' funding ratio.

According to PSPRS, if the amortization period for UAAL is changed from a 20-year rolling period to a 30-year rolling period, the FY 2006-2007 aggregate contribution requirement would decline from 17.1 percent to 15.77 percent. For CORP, the employer rate would decline from 7.01 percent to 6.89 percent. For EORP, the employer rate would decline from 24.27 percent to 23.58 percent.

Colorado. Chapter 259, Session Laws of 2006 (SB 235) reduces the amortization period for each of the divisions of the Public Employee Retirement Association (PERA) from 40

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[4] From *Anchorage Daily News*, September 14, 2006. http://www.revenue.state.ak.us/treasury/ARMB/contribution_rates.asp

years to 30 years. (The divisions are state, schools, local government and judicial.)

The Act provides for what it calls "supplemental amortization equalization disbursements" (SAEDs), which is to say, additional payments to PERA above the statutory employee and employer contribution rates. The SAEDs are to be paid by the employer--state or local--on behalf of the employee. The beginning rate is 0.5 percent of payroll for calendar 2008, and it will increase by the same amount for each of the following calendar years through 2013, for a total of 6 percent for that year. The SAED is to be funded from money "otherwise available for use as employee compensation increases prior to award as salary or other compensation to employees." If a division of PERA reaches 100 percent of actuarially-required funding, the SAED terminates for that division.

Connecticut. SB 5845, the Appropriations Act, appropriated $245 million for anticipated FY 2006 general fund surplus for the Teachers Retirement System.

Illinois. P.A. 94-0839(SB 1977) creates an additional funding source for the five state-funded pension systems by establishing the Pension Stabilization Fund (PSF) as a special fund in the state treasury. When general funds revenues grow by more than 4 percent over the previous year's general funds revenues, the Comptroller is to transfer 0.5 percent of the estimated general funds revenues to the PSF. If such growth continues for two years in succession, the transfer is to be 1 percent. Funds are to be transferred from the PSF to the vie (sic) state-funded retirement systems. Transfers to each are to be in proportion to each system's share of the total unfunded liability of the five systems. Transfers cannot be counted toward the contributions required by P.A. 88-593, which calls for achieving a 90 percent funded ratio by FY 2045. In addition to these amounts, the Governor has the authority to deposit up to $25 million in the PSF on or before August 31, 2006.

Iowa. House File 729 increased maximum employer and employee contribution rates for the Iowa Public Employee Retirement System (IPERS) and for the Judicial Retirement System.

The act defines "fully funded" for IPERS as follows:

> "Fully funded" means a funded ratio of at least one hundred percent using the most recent actuarial valuation. For purposes of this subsection, "funded ratio" means the ratio produced by dividing the lesser of the actuarial value of the system's assets or the market value of the system's assets, by the system's actuarial liabilities, using the actuarial method adopted by the investment board pursuant to section 97B.8A, subsection 3."

The act allows employees' and employers' contribution rates to rise gradually from 3.7% and 5.75% of salary, respectively, for FY2006 to 4.5% and 6.95%, respectively, in FY2012, for a total increase from 9.45% to 11.45%. The increases are permissive. IPERS is given authority to increase the rates only if the prior year's combined contribution is insufficient to amortize the UAAL of IPERS within 10 years. IPERS does not have authority to reduce the contribution rate. No funds are to be credited to the Favorable Experience Dividend Fund until the system meets the definition of fully funded.

The act provides that no benefit increases will be enacted unless contribution rates are increased to pay fully for the increased benefit or unless the system would remain fully funded in the wake of a benefit increase. The act also defines "fully funded" for the Judicial Retirement System as meeting 90% of that system's UAAL. Until the system is fully funded, contribution rates for judges are increased from 5% of salary to 6% of salary, so long as the state contributes the required 23.7% of covered payroll. If the state fails fully to meet its requirement, the judges' required contribution will be reduced to the proportion of 6% that the state's contribution is of its required contribution. The bill also reduced vesting and service requirements for judges' eligibility for retirement annuities, and increased the multiplier.

The act also restricts IPERS from transferring money into the Favorable Experience Dividend (FED) Reserve Account based on favorable actuarial experience, unless IPERS is fully funded. The transfer also must not bring IPERS below fully funded status.

The Legislature created the thirteenth, or FED, check for retirees, recognizing that pensions lose their buying power over time. IPERS does not have a traditional cost-of-living adjustment. The Legislature established a reserve account with money transferred from the general IPERS Fund to pay the checks. The Legislature allowed for additional transfers to replenish the reserve account when IPERS has favorable actuarial experience. Favorable actuarial experience occurs when long-term assets and liabilities are better than predicted.

Under HF 729, IPERS can transfer additional money from the general IPERS Fund to the reserve account only when assets fully fund all pension liabilities. However, IPERS continues to credit investment earnings to the reserve account.

Kentucky. HB 380 of 2006, the appropriations act, increased contribution rates for the Kentucky Employee Retirement System for both non-hazardous and hazardous employees and for the State Police Retirement Board, although not to the level requested by KERS on the basis of actuarial calculations. The KERS request for non-hazardous employees was a contribution rate of 17.13% for FY 2007 and 20.15% for FY 2008. The General Assembly approved 7.75% and 8.5%, respectively. The enacted increases of 22% and 24.25% for hazardous employees are slightly below the

request. Enacted increases of 25.5% and 28% for the Police Retirement Board compare with requests of 42.3% and 47.06%.The increases in contribution amounted to approximately $101 million. KERS notes that the legislature has also required KERS to fund certain subsidies for retiree dependent health insurance coverage from this additional funding, a departure from previous practice.

Louisiana. Act 563 of 2006 provides that if an employer out sources, privatizes, or contracts out for workers who would ordinarily be covered by membership in the School Employees' Retirement System, the employer will remain liable for payment of its share of the UAAL attributable to the positions so eliminated. The amount owed will be amortized over 10 years.

Act 642 (HB 1208) appropriates $13,600,000 towards the State Employee Retirement System initial unfunded accrued liability and $26,400,000 to the Teachers Retirement System for the same purpose.

Minnesota. Chapter 271, Laws of 2005-2006 (SF 2239) provides for increases in employer and employee contributions to several Minnesota state retirement plans, and provides a method for alternations in the contribution rates depending upon whether, after July 1, 2011, the statutory contribution is smaller or larger than the amount normal cost, the administrative expenses, and the amortization contribution of the retirement plan as reported in the most recent actuarial valuation of the retirement plan. If the executive director of the affected plan determines that a rate adjustment is required, after a deficiency or surplus exists in two consecutive fiscal years, he or she is to report a recommended change to the Legislative Commission on Pensions and Retirement. If the commission does not recommend to the contrary or does not recommend a different rate adjustment, the adjustment will be put into effect, but no annual adjustment can be more than 0.25% of payroll. Employer and employee rates must both be adjusted. No subsequent change can be made until two years shall have passed. The rate increases set in Chapter 271 are as follows. All are phased in over specified periods. The increases will begin in July 2007:

- General plan employer and employee contributions: From 4% to 5%. Phased in over four years.
- Correctional plan employee contribution: from 5.69% to 8.6%. Phased in over four years.
- Correctional plan employer contribution: from 7.98% to 12.1%. Phased in over four years.
- State patrol employee contribution: from 8.4% to 10.4%. Phased in over three years.
- State patrol employer contribution: from 12.6% to 15.6%. Phased in over three years.

Washington. Chapter 56 (ESSB 6896) creates a pension funding stabilization account in the state treasury. The account will be used to pay state government employer contributions for members of PERS, TRS, SERS and PSERS, and appropriates $350 million to the Stabilization Account. The fund is subject to appropriation and is not to be used to fund any benefit increase or new benefit.

The act also increased employer contribution rates for various state retirement plans in order to amortize UAALs:

- Teachers Retirement System, 1.29% of salary, effective September 1, 2006
- School Employees Retirement Fund, 0.87% of salary, effective September 1, 2006
- Public Employees Retirement Plan and public safety plan, 1.77% of salary, effective January 1, 2007.

These rate increases will be effective through June 30, 2007.

Cost of Living Adjustments

This section does not attempt to report all cost of living adjustments. Its purpose is to report on structural changes, such as the ways COLAS are determined or capped.

Minnesota. Chapter 277, Laws of 2005-2006 (SF 1057) caps future post-retirement adjustments. Under the old law, effective in 2010, post-retirement adjustments are based on two components: (1) a cost-of-living adjustment, of up to 2.5 percent per year; and (2) an investment-based adjustment, which is not capped. Under the new law, if investment earnings (combined with the cost-of-living adjustment) would cause the total increase to exceed 5 percent in any year, the adjustment will be capped at 5 percent, with excess investment earnings being retained and made available to support adjustments in future years. An annual cap, also effective in 2010, was also placed on COLAs paid by the St. Paul Teachers' Retirement Fund.

Chapter 277 reduced the amount that deferred pensions are adjusted annually until the annuity is taken. Under the old law, when a person leaves public employment but does not yet begin to draw a pension, the amount of the deferred pension is augmented by 3 percent per year until the employee reaches age 55, and by 5 percent per year after that until the person begins to draw a pension. For people first hired after June 30, 2006, this article changes the augmentation rate to a flat 2.5 percent for each year the pension is deferred. The changes affect funds administered by the Minnesota State Retirement system, the Public Employees Retirement Association, teacher funds, and combined service annuities.

West Virginia. The Legislature appropriated $718 million to the Teachers' Retirement System in 2006 -- the scheduled $334 million for amortization of its UAAL plus an

additional $385 million that would otherwise have been deposited in the state rainy day fund.[5]

Governance and Investment Policy

Colorado. Chapter 259, Session Laws of 2006 (SB 235) revised the composition of the board of trustees of the Public Employee Retirement Association, effective January 1, 2007. The number of trustees was reduced from 16 to 15 with the removal of the State Auditor from membership. Three elective member positions (one each from the state division, the school division, and the local government division) were replaced with three members to be appointed by the governor, subject to Senate confirmation, no more than two of whom are to be from one political party, each of whom is to have relevant expertise (with various possibilities such as investment management, finance, banking, actuarial analysis, and so forth). The elected appointees will hold staggered three-year appointments.

South Carolina. R225 and S617, a joint resolution, submits to the voters proposed constitutional amendments to repeal the constitutional restrictions on retirement systems' investments in equities and to abolish the State Retirement Systems Investment Panel. The effect of the repeal of the restrictions on investments would be to allow investments in foreign equities.

Wisconsin. Act 316 of the 2005 Session (SB 527), transfers the statutory functions of the Legislature's Retirement Research Committee to the staff of the Legislative Council and eliminates the vacant positions of Retirement Research Director and staff. The staff of the Council will be responsible for the legal and research staff services for the Joint Survey Committee on Retirement Systems and will prepare fiscal estimates on bills referred to that committee. The staff of the Council will also be responsible under the statutes for preparation of the comparative study of major public employee retirement systems in the country. Readers will remember the late Blair Testin's long history with the Retirement Research Committee.

Studies

Iowa. HF 729 Requires the Public Retirement Systems Committee to report to the Legislature by October 1, 2007, on alternatives to the current IPERS plan. The

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[5] From *Final Wrapup*, May 2006, and *Budget Digest*, 2005-2006.

committee will review pension flexibility, including defined contribution, supplemental, and hybrid retirement plans, and cost-of-living adjustments.

Louisiana. HSR1 requests the Louisiana House Committee on Retirement to study the actuarial soundness, liabilities, and benefits of the DROP programs of the state retirement systems and to report its findings to the legislature prior to the convening of the 2007 regular session.

HSR8 requests the Louisiana House Committee on Appropriations to study methods of funding the unfunded accrued liability of the state retirement systems.

Minnesota. Chapter 277, Laws of 2005-2006 (SF 1057) requires the Legislative Commission on Pensions and Retirement to study structure and implication of procedures used by major Minnesota public pension plans to provide investment performance based postretirement increases. Requires a report by December 1, 2006.

The act also requires the commission to study the structure of the Minnesota combined investment funds and the Minnesota postretirement fund. Requires a report by December 1, 2006.

Major Issues and Actions in 2005 [6]

The long-term security of defined benefits was the issue of broadest concern to state legislatures in 2005. Action on it took many forms, including, among others

- the termination of defined benefit retirement plans in Alaska,
- increases in employer and employee contribution levels,
- reduction of benefits packages, and
- modification of provisions for service purchase to ensure that the purchaser bear the cost.

Defined Benefit and Defined Contribution Plans

The Alaska Legislature became the first legislature in a decade to replace a statewide defined benefit plan with a defined contribution plan, doing so for the state plans that covered public employees and teachers. West Virginia moved in the opposite direction, closing its defined contribution plan for teachers to new enrollment and reopening the Teachers Retirement System defined benefit plan that was closed in 1991.

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[6] From *Pensions and Retirement Plan Enactments in 2005 State Legislatures*, Ronald K. Snell, National Conference of State Legislatures, Denver, Colorado, November 2005.

In March 2006, West Virginia members of the teachers' defined contribution plan will vote on transferring as a group to the defined benefit plan. Individual transfer is not an option. California proposals to replace major state defined benefit plans with defined contribution plans did not go to the voters, as originally proposed.

Arkansas created a new contributory defined benefit plan for public employees hired after July 1, 2005, and allowed a window for existing members of the noncontributory plan to transfer into it. Washington created the Public Safety Officers Retirement System, a defined benefit plan for specified types of positions in state and local government that involve some physical danger for the employee, but which do not qualify the employee for the state law enforcement and firefighters' plan.

Rhode Island enacted major changes in retirement eligibility and benefit calculation for new and nonvested teachers and general employees. Since vesting is set at 10 years in Rhode Island, the changes will affect a number of existing members. Age and service requirements for formula retirement benefits have been increased and the multipliers have been reduced from previous law.

Texas increased the minimum age for unreduced benefits for retiring teachers to 60 for those hired after September 1, 2006 and increased the number of years to be included in calculations of final average salary from three to five.

Anti-Spiking Measures

Illinois, Louisiana and Nebraska enacted measures to limit the spiking of salaries in the years just before retirement. The Illinois law makes school districts and institutions of higher education liable for the present value of an increase in benefits that results from annual salary increases of more than 6 percent in the years used to determine final average salary (FAS). The Louisiana law caps increases in salary included in the FAS calculation at 15 percent a year, down from 25 percent in old law. The Nebraska law reduced its cap from 10 percent to 7 percent for the five years preceding retirement.

Employee Contributions

This report[7] includes more increases in employee contribution rates than any of its predecessors. In some cases, the increased contribution rates apply only to new system members, not to existing members. This is the case with the Arkansas contributory plan for new employees, and for an increases in Louisiana from 7.5 percent of salary to 8 percent for state employees. Increases for broad categories of membership in Minnesota, Nebraska, New Mexico, South Carolina and Washington apply to both present and future members. A provision in the Wisconsin budget bill that would have required a retirement contribution of 1.5% from non-unionized public employees was vetoed by Governor Doyle. The state detail below also includes enacted employer contribution changes.

Early Retirement Incentives

What little legislation on early retirement incentives there was in 2005 tended to limit rather than expand existing possibilities. The legislation was concerned with funding potentially increased liabilities to an unusual degree for this sort of legislation.

Arizona legislation set guidelines for employers to offer early retirement incentives, accompanied with a requirement that the employer pay any ensuing unfunded liability. Illinois terminated its existing policy on teachers' early retirement. The replacement policy requires all member teachers to contribute an additional 0.4 percent of salary toward an early retirement plan (refundable individually if not used) and sets fairly steep age requirements and employer and employee contribution levels to ensure adequate funding for the program. Texas prohibited local school districts from offering early retirement incentives.

Funding

Pension obligation bonds did not reappear on the state funding scene in 2005. The Maine legislature considered but finally rejected $240 million for the retirement system in the bond package it proposed to send to the voters. The Illinois legislature reduced state funding for several major state retirement plans by somewhat over $1 billion for both FY 2006 and FY 2007, as a budget balancing measure. At year's end, in special session, the Montana legislature appropriated $125 million to the trust funds of the state public employees' and teachers' retirement funds. The Washington legislature, similarly, delayed recognition of the future cost of gain-sharing benefits until the 2007-09 biennium, at a saving to employers of nearly $900 million in the 2005-07 biennium.

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[7] Reference to "this report" is to: *Pensions and Retirement Plan Enactments in 2005 State Legislatures*, Ronald K. Snell, National Conference of State Legislatures, Denver, Colorado, October 2005.

Governance

Maryland enacted legislation requiring any new public pension system established by a local jurisdiction on or after July 1, 2005 to adhere to the principles incorporated in the Uniform Management of Public Employee Retirement Systems Act (UMPERSA). The bill also requires existing public pension systems, including the State Retirement and Pension System (SRPS), to certify to the Joint Committee on Pensions by July 1, 2006 that the plan provisions governing these plans adhere to the principles incorporated in UMPERSA addressing investment and management of funds for a public pension system. Wyoming adopted UMERSA before Maryland did so, becoming the first state to do so.

Purchases of Service Credit

Arkansas enacted legislation to allow members of the Public Employee Retirement System to purchase service credit for out-of-state service. Louisiana tightened the requirements for the purchase of air time to require five previous years of service credit and to prevent the purchased service from being used to gain eligibility for benefits. Texas repealed the law that allowed members of the Teachers Retirement System with seven years of actual service to purchase up to five years of air time; the law is in effect until January 1, 2006. Members of the Employee Retirement System retain the right to purchase 36 months of air time, down from the previous law cap of 60 months. Washington expanded the availability of air time purchases for members of its retirement systems to five years' service credits, effective in July 2006.

Future Issues

Resolutions requiring studies are a guide to the issues legislatures expect to take up or to continue to address. For 2005, these include service requirements, COLAs and contribution rates (Illinois); general state retirement system issues (Louisiana, Rhode Island and Vermont); retiree health insurance subsidies (Maryland); investment performance (Montana); COLAs (New Hampshire); shifting to a defined contribution plan (New Mexico); and health savings accounts and high-deductible health care plans (Texas).

Benefit Calculation and Eligibility

Arkansas. Act 146 clarifies that for Teachers Retirement System benefit calculations, the salary used to calculate FAS cannot grow by more than 10% a year over the preceding year's salary.

Louisiana. Act 75 (SB 311) provides that retirement benefits in the Louisiana State Employee Retirement System hired after July 1, 2005, will be based on the member's

highest 60 months of service, and will stay at 36 months (as in existing law) for those hired before that date and certain specified classes of public employees (which include the governor, lieutenant governor, certain legislative officials and judges).

For existing employees the amount to be considered in the FAS calculation is capped for the second 12 months of the period at 125% of the amount in the first 12 months, and in the third 12 months at 125% of the second 12 months. New law reduces the anti-spiking percentage to 15% per 12-month period (from 25%) and provides an exception for pay increases that result from system-wide increases adopted by the Department of Civil Service or enacted by the legislature.

Old law provided a number of provisions for benefit eligibility: Any age, 30 years of service; age 55 with 25 years of service; age 60 with 10 years of service; any age, 20 years of service with an actuarial reduction in benefits. These provisions remain in effect for those hired before July 1, 2006. For those hired thereafter, benefit eligibility is limited to age 60 with 10 years of service.

Nebraska. LB 503 (originally in LB 411) changes the definition of compensation in the School Employees Retirement System to provide that the amount of compensation which would be subject to retirement could increase no more than 7% per year (the current limit is 10%) during the five years before retirement unless certain conditions are met. The bill also stipulates the employer would report compensation which exceeds the limit to the Nebraska Public Employees Retirement System. Changes in pay that result from a collective bargaining agreement or from a substantial change in an employee's job position do not qualify as exceptions.

New Hampshire. Chapter 210, Laws of 2005, reduces the number of years that inactive members may leave their funds in the New Hampshire Retirement System (NHRS). An inactive member refers to someone who is no longer making contributions to NHRS through NHRS-covered employment. This new law does not affect vested members--those with at least 10 years of NHRS creditable service. Currently, members who are not vested and terminate their NHRS-covered employment may leave their contributions in NHRS for up to six years, during which time their contributions are credited with interest (current interest rate is 9.0%).

Effective June 30, 2006, inactive members may leave their contributions in NHRS for up to two years, not six years. NHRS will issue refunds to members who have been inactive for two or more years as of June 30, 2006, unless they are vested.

Rhode Island. Chapter 117, Laws of 2005, Article 7 changed retirement eligibility and benefit calculation provisions for teachers and general employees who were not vested (at the 10 year requirement) on or before July 1, 2005. Previous-law eligibility requirements were age 60 with 10 years of service or at any age with 28 years of

service. New minimum requirements are age 59 with 29 years of total service; age 60 with 10 years of contributory service, or age 55 with 20 years of total service at an actuarial reduction. Benefit provisions were changed for the same groups as follows:

Years of Service	Previous Multiplier	New Multiplier
1 – 10	1.7%	1.6%
11-20	1.9%	1.8%
21-34 (Old plan)	3.0%	
35th year (Old	2.0%	
21 -25 (New plan)		2.00%
26 - 30 (New plan)		2.25%
31 - 37 (New plan)		2.50%
38th (New plan)		2.25%

The benefit cap was changed for the new plan. The old plan provision is a cap of 80% of final average compensation. The new cap is 75%.

Former law, still applicable to employees vested on or before June 30, 2005, provided for an annual COLA of 3%. New law delays any COLA until three years after retirement, and sets it at 3% or CPI, whichever is less, unless the CPI is negative.

South Carolina. Act 153 (SB 618) provides for a guaranteed annual COLA of up to 1% if the annual CPI index through the previous December 31 is up at least 1%. The act allows the State Budget and Control Board to grant a greater COLA if the unfunded liability amortization period of the S.C. Retirement System does not exceed 30 years. The board approved a 3.4% COLA effective July 1, 2005.

Texas. SB 1691 concerns the Texas Teachers Retirement System. It increases the minimum age required for an unreduced retirement benefit to age 60 for members hired on or after September 1, 2006 and for these participants, adds a new reduced retirement benefit for members who have satisfied the Rule of 80, with a 5% reduction for each year under the age of 60.

The bill will eliminate the early retirement subsidy provided by Section 824.202(c), increase the number of years included in the final average salary calculation from 3 years to 5 years, and requires a member to satisfy the rule of 90 to be eligible to elect a partial lump sum distribution. These three provisions will not apply to TRS members who have already met eligibility for retirement or who have, on or before August 31, 2005, met one of the following: (i) age 50, (ii) 25 years of service, or (iii) age and years of service equal to 70.

§ 28 requires local employers to pay contributions to TRS during the first 90 days

of an employee's employment and requires employers of a TRS retiree to pay the member contribution and the employer contribution unless they were reported to TRS in January 2005.

West Virginia. Chapter 201, Acts of 2005 (HB 2984) provides that no retirement system contributions can be withheld from lump sum payments for unused accrued annual leave, nor can the lump sum payments be included in final average salary calculation for the purpose of calculating benefits, because no service credit is granted in relation to them. The act also provides that a member of the Public Employee Retirement System who becomes a member of PERS after July 1, 2005 and who is retired from a public retirement system for police or firefighters, cannot receive a total, combined benefit greater than 105% of the highest salary received in a position covered by PERS or the police or firefighter positions.

Contribution Rates and Funding Issues

Illinois. P.L. 94-0004 (SB 27) changes the pension funding plan enacted in 1994 in Public Act 88-0593 by setting state contribution levels for FY 2006 and FY 2007 rather than making contributions based on actuarial calculations as the 1994 act required. The 2005 act also eliminated separate funding for the liability created by the 2002 State Employee Retirement System early retirement incentive. State funding for FY 2006 will be about 44% of the actuarial requirement for five state retirement funds, a reduction of $1,179 million from the actuarial requirement. State funding for FY 2007 will be about 55% of the actuarial requirement for five state retirement funds, a reduction of $1,133 million from the actuarial requirement. The ramp-up to contributions at a level percent of payroll, scheduled to commence in 2010, will resume for FY2008. The act also appropriated $74.9 million for the Chicago Teachers Pension Fund, an increase in the traditional appropriations level because the funded level had fallen below 90%.[8]

P.L. 94-0004 also created mechanisms by which the liability associated with salary increases for members of the State Universities Retirement System (SURS) and the Teachers' Retirement System (TRS) can be shifted to the employer or school district that provides the increases. For both systems, the act provides that during the years used to determine final average salary, the employer must pay the system an amount equal to the present value of the increase in benefits that results from salary increases more than 6%. The provision applies to salaries paid under contracts or bargaining agreements entered, amended or renewed after the effective date of the act.

P.L. 94-0004 also addresses sick leave credit for members of TRS. Currently members may establish up to two years of service credit for unused and

[8] From Illinois Commission on Government Forecasting and Accountability, Sept. 2005.

uncompensated sick leave without making contributions. The act provides that if days granted by an employer are in excess of normal sick leave, the employer is required to contribute to TRS the normal cost of the benefits that are based on the excess sick leave.

Montana. HB 1 of the 2005 Special Session in December, 2005, appropriated $100 million to the Teachers' Retirement System pension trust fund and $25 million to the Public Employees' Retirement System pension trust fund to address the two systems' potential combined long-term shortfall of $1.46 billion. The governor has signaled his intention to support legislation in the 2007 regular session to make the state retirement systems actuarially sound.

Nebraska. LB 503 raises contribution rates for the School Employees Retirement System and the State Patrol Plan for two years to address a shortfall in funding. The bill increases employee contributions for the State Patrol plan from 12 percent to 13 percent of pay and raises employer contributions from 12 percent to 15 percent, beginning July 1, 2005. However, in July 2007, the employee contribution reverts to the current 12-percent level and the employer rate will be lowered to 13 percent. (Rates were increased in 2004 for one year from 11 percent to 12 percent for both employee and employer.)

LB 503 also temporarily increases contribution rates for school employees and employers to 7.98 percent and 8.06 percent, respectively, for one year beginning September 2005. In September 2006, contributions will decrease to 7.83 percent for the employee and to 7.91 percent for the employer for one year. However, the rates will revert to the current level of 7.25 percent and 7.32 percent in September 2007.

LB 348 provides for increases in court fees to increase funding for the state judges' retirement fund. Nebraska law forbids increasing judges' contribution to the retirement system without increasing their salary or benefits.

New Mexico. SB 181 increases the amount of employer contributions for the New Mexico Educational Retirement Association from 8.65 percent of salary as follows: Starting July 1, 2005, 9.4 percent; July 1, 2006, 10.15 percent; July 1, 2007, 10.9 percent; July 1, 2008, 11.65 percent; July 1, 2009, 12.4 percent; July 1, 2010, 13.15 percent; July 1, 2011 and thereafter 13.9 percent. This measure also increases the amount of employee contributions as follows: Starting July 1, 2005, 7.675 percent; July 1, 2006, 7.75 percent; July 1, 2007, 7.885 percent; July 1, 2008 and thereafter 7.9 percent.

SCR 4 set a goal for the legislature of increasing the funded ratio of the Teachers Retirement System to 60% (from a current 47.3%, according to the resolution) by 2015.

Rhode Island. Chapter 117, Laws of 2005, Article 7, provides that in any year in which the actuarially determined state contribution rate for state employees or teachers is lower than that of the previous fiscal year, the governor shall recommend an appropriation to the system equal to 20% of the rate reduction to be applied to the actuarial accrued liability of the system.

South Carolina. Act 153 (SB 618) increased employer and employee contribution rates for the South Carolina Retirement System and the Police Officers Retirement System. Employer contributions will increase from 7.55% of salary to 8.05% on July 1, 2006 and to 8.55% on July 1, 2007. Employee contributions increased from 6% of gross pay to 6.25% as of July 1, 2005 and will increase to 6.5% on July 1, 2007. Retired members who return to covered employment will make active member contributions for the duration of their covered employment. The contribution requirement applies to members of South Carolina's Teacher and Employee Retention Incentive (TERI), a DROP. The requirement for employed retirees and TERI members to contribute to the retirement plan has been challenged in a suit before the state supreme court as of September 1, 2005.

Act 153 (SB 618) capped equity investments of the S.C. Retirement System at 70% of the total portfolio, up from a previous 40%. The act created an investment commission to be appointed by the State Budget and Control Board. The commission may include the state treasurer. Fiduciary responsibility for the retirement system's investments is moved to the new commission.

Texas. SB 1 increases the employer contribution to the Texas Employee Retirement System from 6% to 6.45% beginning September 1, 2005.

Newspaper accounts report that the purpose of the contribution increases is to finance continued annual COLAs for retirees.

Washington. Chapter 370, Laws of 2005 (HB 1044) affects the Public Employees' Retirement System Plans 1 and 3 (PERS 1 & PERS 3), the Teachers' Retirement System Plans 1 and 3 (TRS 1 & TRS 3) and the School Employees' Retirement System Plan 3 (SERS 3) by delaying recognition of the cost of future gain-sharing benefits until the 2007-09 biennium. It appears that the intention of the legislation is to move contributions gradually to high levels now projected for future years with (sic) imposing a sudden fiscal impact on the state.

The bill continues the suspension of payments to the PERS 1 and TRS 1 unfunded actuarial accrued liability (UAAL) for the 2005-07 biennium. This suspension would impact the contribution rates for PERS, TRS, SERS, and Public Safety Employees' Retirement System (PSERS) employers.

This bill also affects PERS, SERS and TRS by establishing a 4-year phase-in of

employer and Plan 2 member rates for the 2005-07 and 2007-09 biennia. The rates under the phase-in are lower in the 2005-07 biennium than required by the 2003 actuarial valuation and will be higher in the 2007-09 biennium than required by the projected 2005 actuarial valuation.

The Pension Funding Council is required, upon completion of the 2005 actuarial valuation, to adopt contribution rates that will complete the four-year phase-in schedule. The bill established employee and employer contribution rates for the state retirement systems for FY 2006. The table below shows EMPLOYEE contribution rates for these retirement systems:

- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2
- Public Employees' Retirement System (PERS) Plan 2
- School Employees' Retirement System (SERS) Plan 2
- Teachers' Retirement System (TRS) Plan 2
- Washington State Patrol Retirement System (WSPRS) Plan 2

Employer contribution rates will increase by comparable or larger amounts.

Washington Employee Contribution Rates

	FY 2005	FY2006	FY2007	Effective Date of change
LEOFF Plan 2	5.09%	6.75%		July 1, 2005
PERS Plan 2	1.18%	2.25%	3.50%	July 1, 2005
SERS Plan 2	0.85%	2.75%	3.75%	September 1, 2005
TRS Plan 2	0.87%	2.48%	3.00%	September 1, 2005
WSPRS Plan 2	2.00%	4.51%		July 1, 2005

West Virginia.[9] Voters on Saturday June 25, 2005, rejected Gov. Joe Manchin's plan to repair West Virginia's ailing retirement system by selling up to $5.5 billion in bonds. Unofficial results from the special election showed the pension bond measure failed 46 percent to 54 percent.

Manchin, a Democrat who took office in January, said in a statement that he would not seek to hold another election for a pension bond issue. The defeat leaves in place a 40-year payment plan that relies on growing outlays from the state budget to aid

[9] From Charleston *Gazette* June 26, 2005.

the pension plans. This year's payment takes about $350 million from general revenue: the final, 2034 payment is estimated at $724 million - about one-fourth of this year's budget.

The Legislature approved the special election because the state constitution required an amendment for Manchin's plan to devote bond proceeds to the state's pension plans.

Chapter 201, Acts of 2005 (HB 2984) repeals a statutory provision that limited total annual public employer contributions to the Public Employee Retirement System to 10.5% of payroll.

The act provides that new benefits or benefit increases in PERS or the Trooper A plan will be limited to no more than 1% of the accrued actuarial liability of the plan and that any benefit changes that increase the UAAL shall be fully amortized over the following six fiscal years. No benefits will be increased unless the plan is at least 85% funded. Any UAAL resulting from changes in actuarial assumptions or actual experience must be amortized over 10 years.

Defined Benefit Plan Changes

West Virginia. Chapter 201, Acts of 2005 (HB 2984) re-opens the Teachers Retirement System, a defined benefit plan, to new employees as of July 1, 2005. The act closes the Teachers' Defined Contribution Plan (TDC) to new employees as of July 1, 2005 and requires new employees to join the Teachers' Retirement System, which had been closed to new members since 1991.

The law also requires a vote of existing members of TDC on merging it with the TRS. For the merger to occur, at least 50% of the TDC members must vote, and at least 50% of those voting must approve the proposed merger. The election will be held in March 2006 after an educational program conducted by the WV Consolidated Retirement Board. All TDC members will be bound by the results of the election. If the merger is approved, TDC will cease to exist on July 1, 2006. If the merger is not approved, current members will continue in TDC and it will be closed to new members. The law makes no provision for individual choice.

If members approve the merger, TDC assets will be transferred to TRS. Transferred members will be given an opportunity to increase their TRS assets by making payments to the TRS fund. The payments will be determined by individual members' salary history and accumulated service in TDC. The law provides for loans to TRS members to assist them in making such payments, through June 30, 2007.

TRS employee contribution rates are set at 6% of gross salary rather than of earnable compensation as in previous law. Gross salary is defined to exclude any lump-sum payments. Employer contribution rates are set at 7.5% for employees who become members for the first time on or after July 1, 2005 and for any person who

becomes a member of TRS as a result of the merger proposed for 2006.

Governance and Investment Policy

Georgia. HB 319 allows large retirement systems to invest in Exchange Traded Funds (ETF's). An ETF allows a system to buy and sell baskets of stocks representing an index just as it would an individual company stock. This provides the advantages of increased liquidity and efficient trading for these groups of stocks. This legislation would not change what the system could invest in, but allows a different way to accomplish it.

Mississippi. HB 1233 allows the Board of Trustees of the Public Employees Retirement Systems to invest in types of investments not specifically authorized by statute if the investments are in the form of a limited partnership, commingled fund or separate account managed by a Securities and Exchange Commission registered investment advisory firm retained as an investment manager by the board; provided that the total book value of such investments shall at no time exceed ten percent (10%) of the total book value of all investments of the system.

New Mexico. HB 389 eliminates the current legal list of permissible investments and replace it with the guiding principles of the Uniform Prudent Investor Act (UPIA) for the Public Employees Retirement Association (PERA), Educational Retirement Board (ERB), and the State Investment Council (SIC). HB 389 also requires investing agencies to report quarterly to the Legislative Finance Committee and Department of Finance and Administration on investment performance and annually on any changes in written investment policies.

Under the UPIA, trustees shall invest and manage the trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the trust.

To satisfy this higher standard, trustees shall exercise reasonable care, skill, and caution. As a result of the standard of care, trustees' investment and management decisions respecting individual assets must be evaluated in the context of the trust as a whole and part of an overall investment strategy with specific risk and reward objectives identified by the trust.

South Carolina. Act 153 (SB 618) capped equity investments of the S.C. Retirement System at 70% of the total portfolio, up from a previous 40%. The act created an investment commission to be appointed by the State Budget and Control Board. The commission may include the state treasurer. Fiduciary responsibility for the retirement system's investments is moved to the new commission.

Vermont. Act 50 of 2005 (H 117) creates a new joint investment committee, to be called

the Vermont Pension Investment Committee (VPIC), to oversee and constitute the trustees for the combined investment assets of the state teachers' retirement system of Vermont, the Vermont state employees' retirement system, and the Vermont municipal employees' retirement system. The VPIC would comprise the trustees of the three retirement systems. The three existing retirement boards would continue to oversee the operations of each system in areas such as actuarial valuation, medical disability, benefits revisions, contribution levels, and general administration as provided under current law.

Wyoming. Chapter 119, Session Laws of 2005 (HB 0155), adopts the Uniform Management of Public Employee Retirement Systems Act as developed by the National Conference of Commissioners on Uniform State Laws. Wyoming became the first state to adopt the act.

Studies

Illinois. Public Act 94-0004 (SB 27) creates an Advisory Task Force on Pension Benefits for New Employees, consisting of 15 members, eight of whom the governor will appoint and who must include primary teachers and state employees. Each legislative leader will appoint one member. The directors of the Teachers' Retirement System, the State Employees Retirement System, and the State Universities Retirement System will be members. The task force is to submit recommendations on changing age and service requirements, automatic annual increases and employee contribution rates for future members of the retirement systems to the governor and the general assembly by November 1, 2005.

Louisiana. HR 3 created the Special Subcommittee on State Employee Compensation and Benefits with members from several House standing committees to review all matters related to salary and benefits for state employees, and to recommend needed legislation to the House. SR 175 asked the Senate Committee on Retirement to conduct a comprehensive investigation and study of state retirement systems.

Maryland. Chapter 298, Laws of 2005, establishes a legislative-executive task force to commission an actuarial valuation of the liabilities associated with the State's retiree health insurance subsidy in accordance with the standards established in the Government Accounting Standards Board Statement 45, develop options for addressing the unfunded liability, and evaluate the costs associated with each option.

Montana. HJR 42 requests that an interim committee be assigned to study how the retirement funds are invested, and how investment performance, retirement plan

benefits, actuarial assumptions, and legislative policy decisions interact to affect the actuarial soundness of the public retirement systems and the employer's funding obligations. The interim committee is charged to identify legislative policy issues and concerns, consider options, and develop recommendations.

New Hampshire. Chapter 8, laws of 2005 (HB 181) creates a joint legislative study committee to develop the most appropriate method for increasing special account balances in order to provide COLAs for retirees in the future. The committee may consider increasing employee contributions as an appropriate method and shall determine how much employee contributions would have to be increased in order to fund member special accounts at a level that would allow for 5 percent cost of living adjustments for each of 3 years. The committee is also directed to develop strategies for increasing special account balances in order to extend health insurance subsidies for future retirees.

New Jersey. Acting Governor Richard J. Codey created the Benefits Review Task Force on May 25, 2005, and charged it with "Examining the current laws, regulations, procedures and agreements governing the provision of employee benefits to State and local government workers; analyzing the current and future costs of the benefits; comparing the level of benefits provided to government employees in this State to the benefits provided to other workers; recommending changes to the laws, regulations, procedures and agreements designed to control the costs of such benefits to the State's taxpayers, while ensuring the State's public employees a fair and equitable benefit system." [10]

New Mexico. House Joint Memorial 9 & SJM 17 require the Educational Retirement Board to study the implications of changing the Educational Retirement System from a Defined Benefit Plan to a Defined Contribution plan for new education employees.

SJM 13 requests the Legislative Council to appoint members of the Legislature to a State Investment Funds Task Force, to continue the work of the State Permanent Fund Task Force created by SJM 14 in 2004. The DFA, PERA, Educational Retirement Board and State Investment Council are also requested to appoint members. The task force is to examine the controls and safeguards applicable to investments of the state.

New York. Act 522, Laws of 2005, directed the state comptroller to study deferred retirement option plans and partial lump sum options for members of the state and local

[10] The task force report, released on December 1, 2005, is available at http://www.state.nj.us/benefitsreview/final_report.pdf

retirement plans and state police and fire retirement plans who are eligible to retire regardless of age.

Rhode Island. Chapter 117, Laws of 2005, Article 7, creates a special joint legislative oversight commission to study state employee retirement benefits.

Texas. HB 2772 requires the Employee Retirement System to conduct a study on the long-term impact of implementing a health reimbursement account or a health savings account with a high-deductible health plan; a report to be issued no later than 12/31/06.

Vermont. §34b, Act 71 of 2005 (H.516) establishes a commission of 13 members, chaired by the state treasurer, with two members of each House, state government officials, and representatives of education associations to make recommendations to the legislature by November 15, 2005, for funding an adequate, sustainable, and actuarially sound retirement benefit plan for the state teachers' retirement system of Vermont.

Act 48 of 2005 (H.133) requires the Board of Trustees of the Vermont State Retirement System and the Board of Trustees of the State Teachers' Retirement System of Vermont to submit its recommendation for achieving and preserving the financial integrity of the respective retirement funds to the House and Senate committees on Government Operations and Appropriations by November 1 of each year. This act also requires the State Treasurer and the Commissioner of Finance and Management to present the recommendations to a joint meeting of the House and Senate committees on Government Operations and Appropriations within 30 days of submitting the recommendations.

Washington. Chapter 370, Laws of 2005 (HB 1044) requires the Select Committee on Pension Policy to study the options available to the legislature for addressing future gain-sharing liability, including repealing, delaying or suspending the gain-sharing provisions, making gain-sharing discretionary, or replacing gain-sharing with other benefits. The committee is to report no later than December 15, 2005.

Major Issues and Actions in 2004 [11]

[11] From *Pensions and Retirement Plan Enactments in 2004 State Legislatures*, Ronald K. Snell, National Conference of State Legislatures, Denver, Colorado, October 25, 2004.

Alternative Retirement Plans

California. Chapter 214, Laws of 2004 (SB 1105) provides that new state employees who become members of the California Public Employee Retirement system (CalPERS) shall not make contributions to CalPERS, nor receive service credit for their service, and the state employer shall not make contributions on their behalf, during their first 24 months of employment. Requires those members to make contributions to an alternative retirement program (ARP), administered by DPA, during that 24 months, after which the members shall begin contributing to CalPERS and earning service credit in the system. Provides that, in months 47 to 49, the member may elect to receive the ARP contributions as cash or transfer the accumulated contributions in the ARP to CalPERS and thereby receive service credit for that 24-month period. Provides that the 24-month period shall be treated as state service for vesting for preretirement death benefits, retirement eligibility, and retiree health coverage regardless of whether contributions are transferred to CalPERS. Provides that a member who does not transfer the contributions from ARP to CalPERS may, at any time prior to retirement, purchase the service credit at full present value cost.

Benefits

Kentucky. HB 290 reduced the multiplier for members of the County Employee Retirement System from 2.25 to 2% for employees whose participation begins on or after August 1, 2004.

South Dakota. HB 1032 provides that beginning July 1, 2004, for the purposes of calculating benefits from the SD Retirement System, compensation in a person's last quarter cannot exceed 115% of any previous quarter and the average compensation of the last four quarters cannot exceed 110% of any previous quarter. Termination pay will not be considered as compensation for SDRS purposes and no employer or member contributions will be required. Beginning July 1, 2004, the percentages mentioned above will be reduced to 105%. See also South Dakota in "Contribution rates."

Wisconsin. SB 344 allows the percentage threshold for fixed annuity increases to be established by rule promulgated by the Department of Employee Trust Funds, and provides that administrative rules promulgated by the department do not require the approval of the Teachers Retirement Board or the Wisconsin Retirement Board. Previous law required that the minimum increase in annuitants' payments be 2 percent. The new law sets the threshold at 0.5 percent unless the department establishes a different threshold upon advice from its actuary. [The effect of the new legislation is to allow increases in annuity payments when resources are not sufficient to cover a 2

percent increase, as in 2004.]

Contribution Rates and Funding Issues

Arizona. On October 1, the Arizona Retirement System announced an increase in employee and employer contribution rates from 5.2 percent to approximately 7.75 percent. The system cited past benefit increases, mid-term investment returns and changing demographics of the ASRS membership as factors that helped require the increase. The increase is effective for the two fiscal years that follow July 1, 2005. ASRS Weekly Report, October 1, 2004

California. Chapter 215, Laws of 2004 (SB 1106) establishes the Pension Obligation Bond Committee, authorized to issue bonds and take other actions under the California Pension Obligation Financing Act. Enacts the California Pension Restructuring Bond Act of 2004, authorizing the issuance, during any 2 fiscal years after June 30, 2004, of bonds for the purpose of funding or refunding the state's obligations to the PERF. Authorizes the cumulative amount of the bonds to be the lesser of $2 billion or the anticipated reduction, as estimated by the Director of Finance, in state contributions to CalPERS due to enactment of SB 1105. See Alternative Retirement Plans, above, for SB 1105.

Colorado. Chapter 214, Laws of 2004 (SB 132) ends MatchMaker contributions for payrolls for which the payroll period ends June 1, 2004, or later; reduces interest credit on member contributions to a maximum of 5 percent per year; sets the due date for PERA contributions at five business days after payroll date; reallocates 0.08% of salary of employer contributions to the Public Employee Retirement Association (PERA) trust funds rather than to the PERA Health Care Trust Fund.

Chapter 393 (SB 257) provides that the state employer contribution rate will be 10.15% of salary, down from 10.4%. This amount goes to the State DC Plan if the new hire elects that plan, and it goes to PERA if the new hire elects PERA. (See "Defined Contribution Plans For Broad Categories of Employees" below.)

The legislation also provides a separate school employer contribution rate of 10.15%, formerly 10.4%, and provides that it will increase to 10.55% on January 1, 2013. This reflects the separation of PERA's state employee and school plan into two separate programs. The actuarial normal cost of PERA benefits in the School Category is about 0.4 percent of salary higher than in the State Category. This difference would be applied to the School employer rate beginning January 1, 2013 (after the Amortization Equalization Disbursement has been fully implemented, see below). At that time, the School employer rate becomes 10.55 percent (10.15 percent plus 0.4 percent), not including the AED.

Each PERA employer in the State Division will pay to PERA an amount equal to 0.5 percent of the salaries paid to all employees who are PERA members or who were eligible to elect PERA membership on or after January 1, 2006. This is called the Amortization Equalization Disbursement (AED). The AED payment begins January 1, 2006. The AED will increase by 0.5 percent of salary in 2007, and then by 0.4 percent of salary per year to a maximum of 3 percent of salary by 2012. The School Division is scheduled under the bill to have another increase effective in 2013.

If the unfunded liability amortization period drops to 40 years or less, the AED would be scaled back in that division. Any reduction in the AED would be permanent. Current projections indicate it is unlikely that the amortization period will drop to 40 years for a long time.

The legislation also require employers contributions on salaries paid to PERA retirees. This will help compensate PERA for the cost of early retirement. Beginning July 1, 2005, PERA employers will pay employer contributions on salaries of PERA retirees working for them.

Note: Creation of the AED seems to reflect the provision of DC plans for state employees in the same legislation. AED payments will be made to PERA on the salaries of DC plan members, rather than deposited in individual DC members' accounts.

<u>Kansas</u>. SB 520 raised the statutory caps on contributions from local government employers to the <u>Kansas</u> Public Employee Retirement System (KPERS) so that contributions will reach approximately 7.81% in calendar year (CY) 2013 and ensure the long term stability of retirement system funding. The increases will mean about $3.3 million additional expense for local governments in CY 2006, an additional $8.2 million in CY 2007 and an additional $15 million in CY 2008, with further increases in the following years.

SB 520 also separated the KPERS state and school systems for actuarial calculations and determination of employer contribution rates. Actuarial calculations indicate that the combined systems would reach equilibrium at an employer contribution rate of 12.3% in 2018, whereas separately the state employees group will reach equilibrium in FY 2009 at 6.84% and the school group in 2024 at approximately 16%.

<u>Louisiana</u>. The Public Retirement Systems' Actuarial Committee has recommended that the employer contribution rate for the Louisiana School Employees' Retirement System be set at 18.8% of payroll for FY 2005, up from 11.2% for FY 2004. The committee observed that the rate for FY 2004 should have been 17.4%, from an actuarial perspective, and that the rate of 18.8% includes the shortfall from FY 2004. The member contribution rate for 2004-2005 will remain at 7.5%.

Act 588 (SB 622) addressed major funding issues for the State Employees' Retirement System (LASERS), The Teachers' Retirement System (TRSL) and the

school employees' system. Previous legislation had established the Employee Experience Account to share actuarial gains and losses and required that the retirement boards provide COLAs when the experience account showed a sufficient balance. Investment losses in recent years removed the resources for COLAs while the legal requirement to provide them remained. Act 588 roles the EA losses into the systems' main funds and reamortizes them over 30 years while the reamortization period for the previous fund bases remains at 25 years. Employer contributions to LASERS and TRSL must be at least 15.5% a year for 25 years. The legislation makes any future COLAs subject to legislative approval.

The reamortization reduces employer contribution rates for the three systems from previous assumptions: LASERS, from 19.1% to 17.8%; TRSL, from 17.3% to 15.5%; and School from 18.8% to 14.8%.

Mississippi. The Mississippi State Employees' Retirement System will increase the employer contribution rate from 9.75% to 10.75 percent effective July 1, 2005.

New York. A11758/S.7677 is designed to assist local governments in New York cope with rapidly rising requirements for employer contributions to the New York Employees' Retirement System. The bill will:

- allow municipal governments to set up reserve funds for future pension contributions;
- change the due date for local governments to pay retirement contributions from Dec. 15 to Feb. 1 of the year after the payment statement is issued -- providing a cash flow benefit in fiscal year 2004-2005 of approximately $980 million to about 1,100 local governments that have a calendar year fiscal year;
- cap the maximum local governments must pay as a percent of payroll at 9.5% in 2005-06 and 10.5% in 2006-07. Obligations above those percentages may be amortized over 10 years at a market rate of interest to be set by the State Comptroller; and,
- modify the annual amortization payments due for local governments' fiscal year 2004-05 by making the first payment due on Feb.1, 2006, instead of Dec. 15, 2004.

One estimate is that the legislation provides $1.7 billion in fiscal relief to local governments in FY 2004-05.

Oklahoma. SB 1134 provides for increases in employer contribution rates for the Public Employees Retirement System. Currently, all participating state agencies pay a contribution rate of 10% of the monthly compensation of each member. Beginning July 1, 2005, state agencies will contribute 11.5%. This percentage will increase by 1% annually beginning July 1, 2006, and each year thereafter, through the fiscal year

ending June 30, 2011, when it tops out at a rate of 16.5%.

Non-state participating employers and their employees currently pay a total of 13.5% of the monthly compensation of each member. For the fiscal year ending June 30, 2006, the total employer and employee contributions will be 15%. That total will increase by 1% each year, finally reaching 20% in FY 2011. In addition, the maximum employer contribution rate of 10% is increased to 11.5% for FY 2006 and increases by 1% each fiscal year thereafter to a maximum of 16.5%.

Pennsylvania. The School Employees' Retirement System has announced the employer contribution rate for FY 2005 of 4.23%, up from a total contribution rate of 3.77% for FY2004. The total includes a decrease in the health care contribution from .77% to .23%. The SERS also has released estimates of future employer contribution requirements:

10-Year Projected Employer Contribution Rates--Selected Years
(Presumes an 8.5% rate of return)
Total Employer Contribution Rate

05/06	4.82%
07/08	10.11%
09/10	11.15%
11/12	11.20%
13/14	26.61%
14/15	25.08%

Pennsylvania. Act 40 of 2003, signed 12/10/03, concerns the Public School Employee Retirement System (PSERS) and the State Employee Retirement System (SERS) Beginning July 1, 2004, it would change the amortization period for the increased liabilities of Act 9 of 2001 for the outstanding balances of the net actuarial losses incurred in fiscal year 2000-2001 and fiscal year 2001-2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar; 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities, the Act 38 of 2002 asset valuation method change, and for future benefit changes and cost-of-living adjustments (COLAs); and 3) Beginning July 1, 2004, increase from 1% to 4.0% the minimum employer contribution rate exclusive of the premium assistance contribution rate. The bill would amend the SERS Code to: 1) Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001 for the outstanding balances of the net actuarial losses incurred in calendar year 2002, and for the future gains and losses experienced in all future years

from 10-year level dollar to 30-year level dollar; 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities and for future benefit changes and cost-of-living adjustments (COLAs); 3) Increase the 1% minimum employer contribution rate in the following manner: 2% for the year beginning July 1, 2004; 3% for the year beginning July 1, 2005; and 4% for the year beginning July 1, 2006.

Rhode Island. The State Retirement Board has recommended that the state increase its employer contribution for retirement plans for state employees and teachers from $196 million for FY 2005 to $284 million for FY 2006. Workers' contributions rates set in law at 8.75 percent of pay for state workers, 9.5 percent for teachers. The state's contribution for state employees will increase from 11.51 percent of payroll this year, to 16.96 in FY 2006. That for teachers will increase from .84 percent this year to 20.01 percent of payroll next year. The anticipated result will be an increase of $55.1 million, from $124.7 million this year to $179.8 million next year in state and local payments toward the teachers' pension, with the state responsible for paying about 60 percent of that amount, and the cities and towns where each of these teachers work, the rest. The board decided against scaling back its assumed 8.25-percent rate of return on investment.[12]

Defined Benefit Plan -- New

Hawaii. Act 179 created a contributory defined benefit plan as an optional alternative to and eventual replacement for the old (now closed) state contributory plan and the current non-contributory plan. Although the plan is referred to as a hybrid plan in Hawaii, it is not the combination of DB and DC provisions to which that term usually refers.

The new plan will go into effect on July 1, 2006. All state and county general employees and teachers and certain other public employees hired after that date will be members. Members of the existing contributory plan may transfer as may certain other employees. Legislators, judges, legislative officers, most public safety employees, and employees not covered by Social Security are not eligible. The system is seeking an IRS letter ruling on the question whether non-contributory plan members can transfer to the new "hybrid" plan.

Most members will contribute 6% of salary to the new plan; some public safety and technical workers who are eligible for earlier retirement than most employees will contribute 9.75%. For general employees the unreduced retirement provisions are 62/5 or 55/30, and the benefit calculation is 2% of average final compensation times years of service. Age and service requirements are similar to those for retirement in the existing

[12] From *Providence Journal,* September 14, 2004.

contributory plan, but its benefit calculation uses a factor of 1.25%. [13]

Governance

Arizona. Chap. 217, Laws 2004, requires the state treasurer and the retirement system fund manager to report annually to the Legislature on the economic impact of global security risks of investments under their management, including a list of companies in their portfolios known or suspected of doing business in terrorist-sponsoring countries, the total amount invested in each company and an assessment of the level of global security risk based on the "prudent investor rule."

Iowa. HF 2262 allows the Iowa Public Employee Retirement system to step up efforts to identify when wages are being manipulated to make members eligible for more benefits than they should get. A change in the schedule of when wages are paid or an increase in wages of 10% or more for any two consecutive years may trigger a review. IPERS may refer cases of wage manipulation to the state auditor and to law enforcement for prosecution.

Kansas. SB 520 Adjusts the limit on alternative investments by the Public Employee Retirement System (KPERS) but continues to allow only a small percentage of the total portfolio to be invested in this manner.

Under current law, KPERS alternative investments are limited to five percent of the total portfolio. This bill replaces the five percent limitation with an annual limitation of one percent of total market value in new alternative investments. Alternative investments are those that are not publicly traded on an exchange. Because they are typically less liquid and potentially more risky than more traditional investments, there have been limits on the percentage of the portfolio that may be invested in this asset class. Over time, the proposed modification is expected to have a positive fiscal impact to the extent that it provides the opportunity for additional investment opportunity and income. The amount and timing of that impact will depend on long-term market conditions.

Louisiana. Provisions in a number of enactments increase legislative oversight of the state retirement systems.

Act 588 (SB 622) provides that State Employees" Retirement System (LASERS), the Teachers; Retirement System (TRSL) and the School Employees' Retirement System (School) cannot provide cost-of-living increases to members without legislative approval in a concurrent resolution.

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[13] See http://www2.state.hi.us/ers/ for details.

Act 686 (SB 835) requires that consultants and fund managers for state retirement systems provide full disclosure of any conflicts of interest and that consultants disclose any hard or soft payments they receive for any service from money managers.

SCR 14 requires the legislative auditor to perform a financial and compliance audit on the relationships of the public retirement systems board and investment advisors, consultants and managers.

Act 868 (HB 1215) requires persons who have or who are seeking to obtain a contractual or other relationship with a state public retirement system to disclose certain expenditures on trustees and/or employees.

Act 275 (HB 1200) requires LASERS to submit its operating budget to the Joint Legislative Committee on the Budget for review and approval.

Act 851 (HB 938) requires LASERS to report on utilization of Louisiana broker-dealers in regard to state systems.

South Dakota. HB 1040 clarifies and enlarges upon statutory requirements for the board of the Retirement System to report its funding status to the governor and Legislature. The new requirement includes an annual report on the system's funding status, and an analysis of the conditions required for improvement in the funding status when the funding ratio is less than 80% or the market value of assets is less than 90% of the actuarial value of assets. If such conditions exist for three consecutive years, the board is required to make recommendations for action to the Legislature.

Studies

Colorado. Chapter 250, Laws of 2004 (HB 1171) requires the State Personnel Department to investigate the feasibility of a program in which active state employees could elect to make voluntary contributions to an account that would be used for their future retiree health care expenses.

Indiana. HB1285 requires the pension management oversight commission to study the feasibility of authorizing members of the retirement funds administered by the board of trustees of the Public Employees' Retirement Fund (PERF board) to withdraw, before retirement, a member's contributions when the member demonstrates an immediate and great financial need. Provides that individual participant records and membership information for the retirement funds administered by the PERF board are confidential.

Louisiana. SCR 15 requires the Commission on Public Retirement to study the feasibility of establishing a portable DC plan or a modified DB plan, as specified in the resolution, in the major state retirement plans and to report in early 2005.

Oklahoma. SB 1134 requires the Public Employees Retirement System (OPERS) to study the creation of a deferred retirement option plan ("DROP") for active and future members of the system. A report on the DROP study must be issued and submitted to the Legislature no later than December 1, 2004.

OPERS also is required to conduct a comparative study of retirement benefit designs used by other states regarding retirement benefits for employees engaged in public safety positions. The study is to cover retirement benefits, disability benefits and survivor benefits. The study must have a recommendation for what jobs should be included in such a benefit structure, as well as recommended employer and employee contribution rates. The study is to be submitted to the Legislature no later than December 1, 2004.

HB 2536 creates the "Task Force for the Study of Public Retirement Systems Benefit Design and Equity." Its purpose is to conduct a review of the major state public retirement systems. The Task Force is to consist of 17 members and must include the Executive Director of OPERS, or a person designated by the Executive Director. The review must cover a history of benefit designs of each state system, the funding history of each system, dedicated taxes going to certain systems, COLA's, and other relevant matters.

Virginia. HJR 34 establishes a joint subcommittee to study the benefit structure and funding of retirement plans administered by the Virginia Retirement System (VRS). This study will also examine line of duty benefits for public safety officers. VRS is to provide technical support to the joint subcommittee.

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