



NATIONAL CONFERENCE
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The Forum for America's Ideas



State Retirement Reform Legislation

Presentation to the South Carolina Joint Committee on Pension Systems Review

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Overview

- **State-administered plans represent only 6% of systems, but represent 88% of active members and 83% of assets.**
- **30% of the state & local workforce – roughly 6 million workers – are not covered by Social Security.**
 - Majority of public safety employees are not covered by Social Security.
- **Majority are traditional defined benefit plan designs.**



Overview (Cont'd)

- This year pension related legislation was considered in at least 47 different states, territories or D.C.
- NCSL's Pension Legislation Database has 1189 bills so far for 2016.
- At least 260 bills were enacted in 2015 in 46 different states.



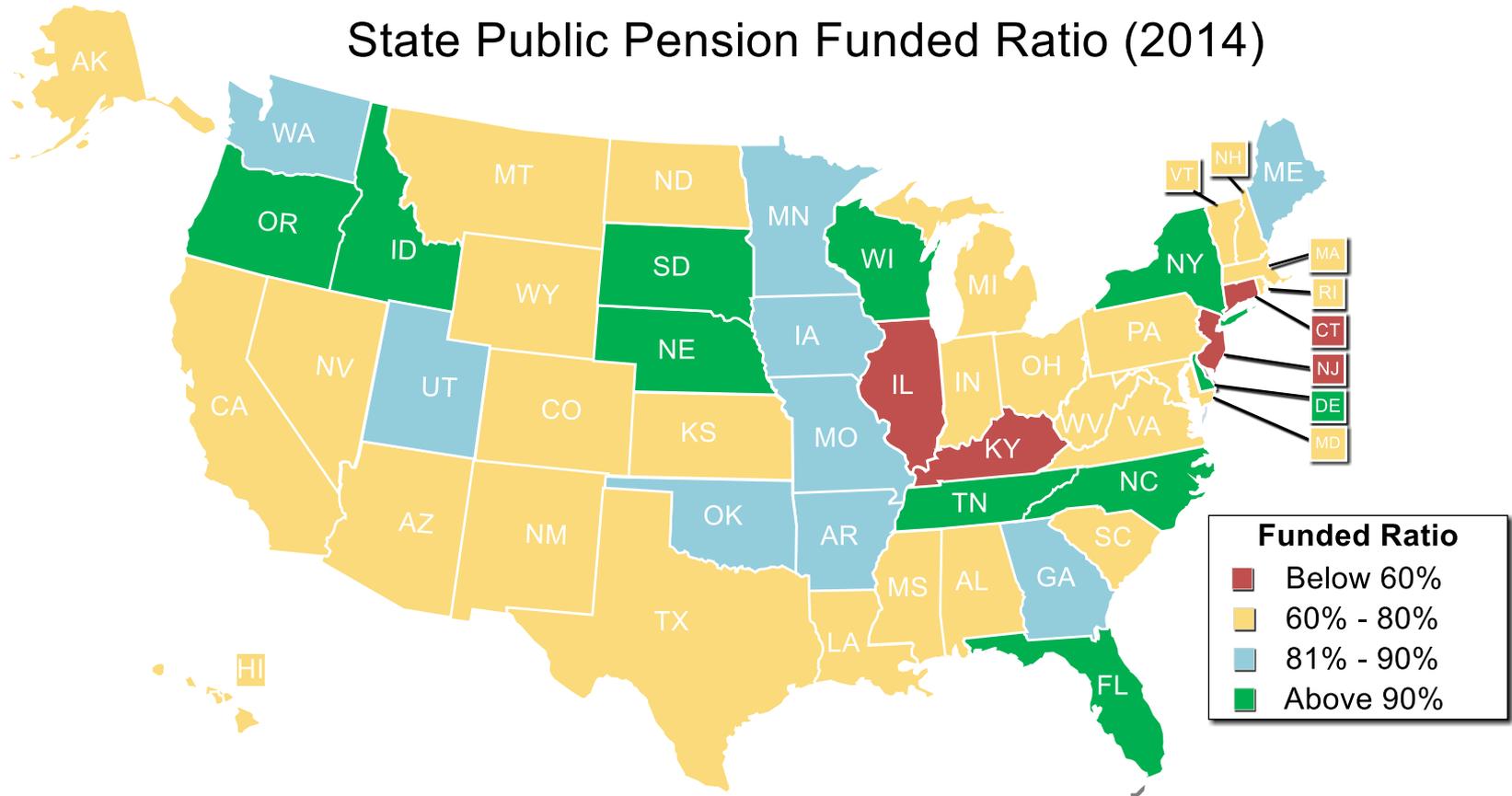
Overview (Cont'd)

This report is concerned with state legislation changing state retirement plans for general employees and teachers, which 48 states revised between 2009 and 2015 – some more than once:

- **2009 – 10 states**
- **2010 – 21 states**
- **2011 – 32 states**
- **2012 – 10 states**
- **2013 – 6 states and Puerto Rico**
- **2014 – 8 states**
- **2015 – 4 states**



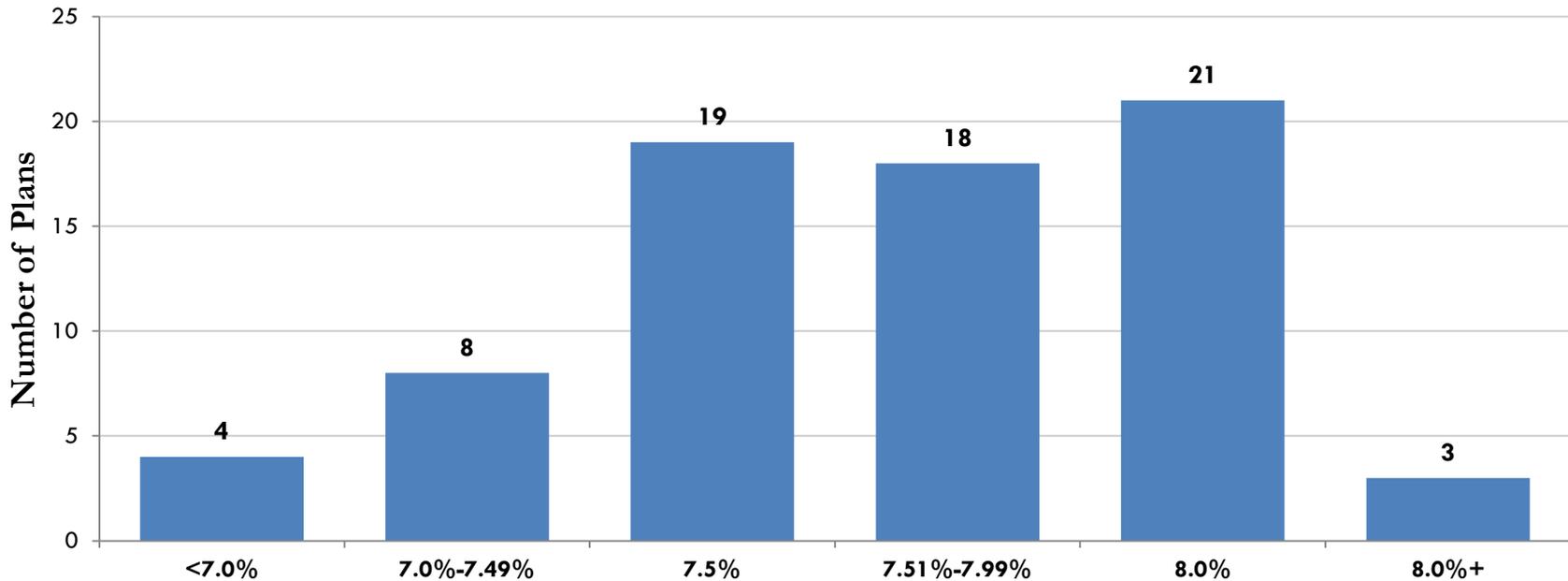
State Public Pension Funded Ratio (2014)





State Pension Fund Expected Rates of Return

Most public pensions target a long-term rate of return between 7 and 8 percent



Source: Analysis by the Pew Charitable Trusts of state Comprehensive Annual Financial Reports.

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Major Pensions Legislation 2009–2015: All Topics





Changes in Employee Contributions in 2012

Kansas – Tier 1

Employees hired *before* July 1, 2009

Employee Contribution	Raises from 4% to 5%	OR	Remains at 4%
Multiplier	Remains at 1.85%		Reduces to 1.4% for future service

Kansas–Tier 2

Employees hired *after* July 1, 2009

Employee Contribution	Remains at 6%
Multiplier	Gains an increase from 1.75% to 1.85%
COLA	Loses annual COLA provided in 2007 legislation.



Changes in Employee Contributions in 2012

New York – Tier VI

New Tier Scales Employee Contributions to Salary

Applicability Most state & local government employees & teachers, including NYC plans.

\$45k or less 3%

\$45k – \$55k 3.5%

\$55k – \$75k 4.5%

\$75k – \$100k 5.75%

\$100k – \$179k 6%

No contribution on earnings in excess of the governor's salary, currently \$179k.

Current employee contributions are 3% for general employees; 3.5% for teachers.



Higher Age and Service Requirements for New Members in 2012

Alabama—Tier 1

Employees hired *before* January 1, 2013

Normal Retirement	After 25 years or at age 60.
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Benefits Base	Highest 3 years out of last 10.
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Multiplier	2.0125%
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Alabama—Tier 2

Employees hired *after* January 1, 2013

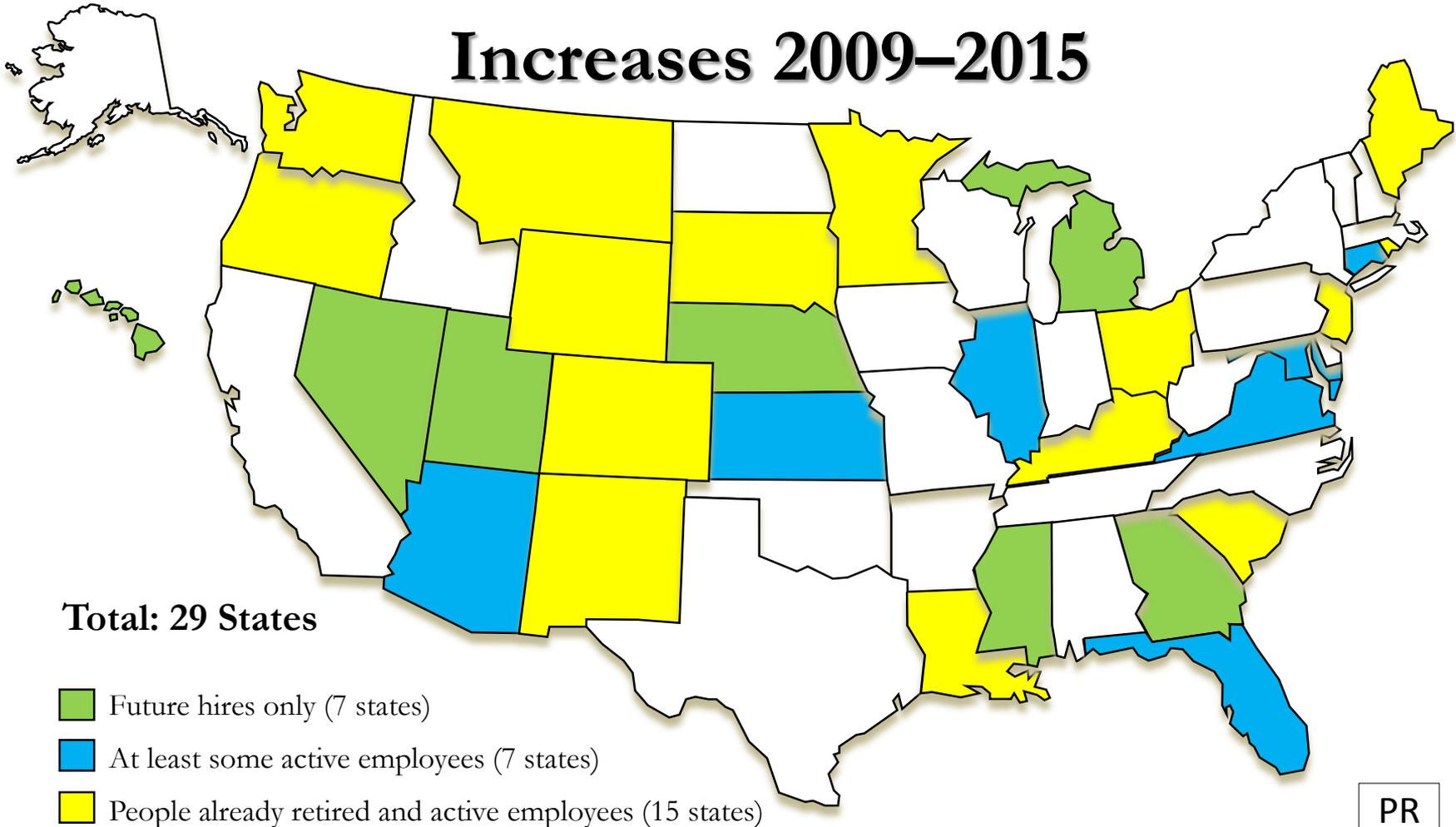
Normal Retirement	At age 62 (no more 25 years & out)
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Benefits Base	Highest 5 years out of last 10.
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Multiplier	1.65%
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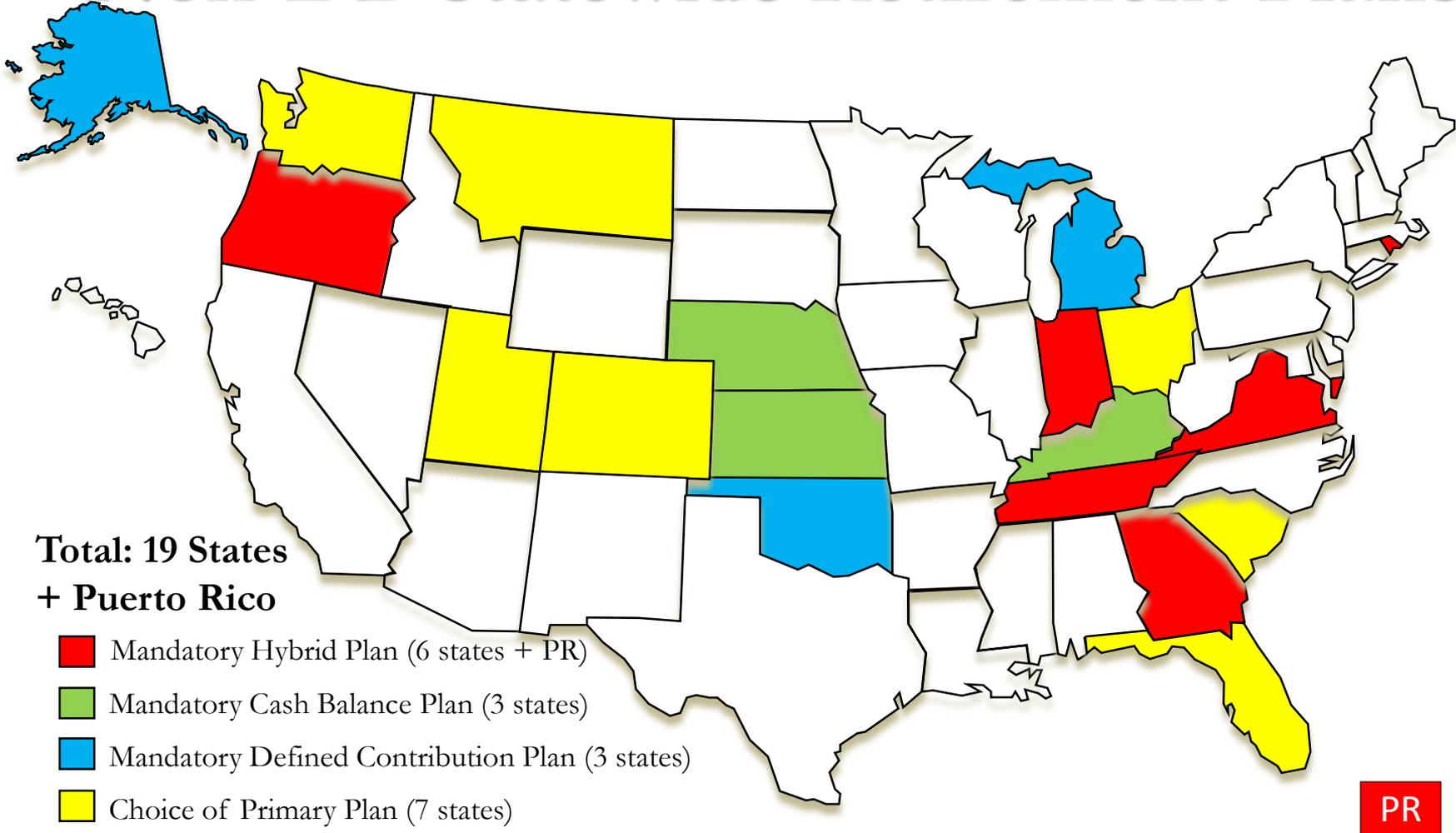
Reductions in Post-Retirement Benefit Increases 2009–2015



PR

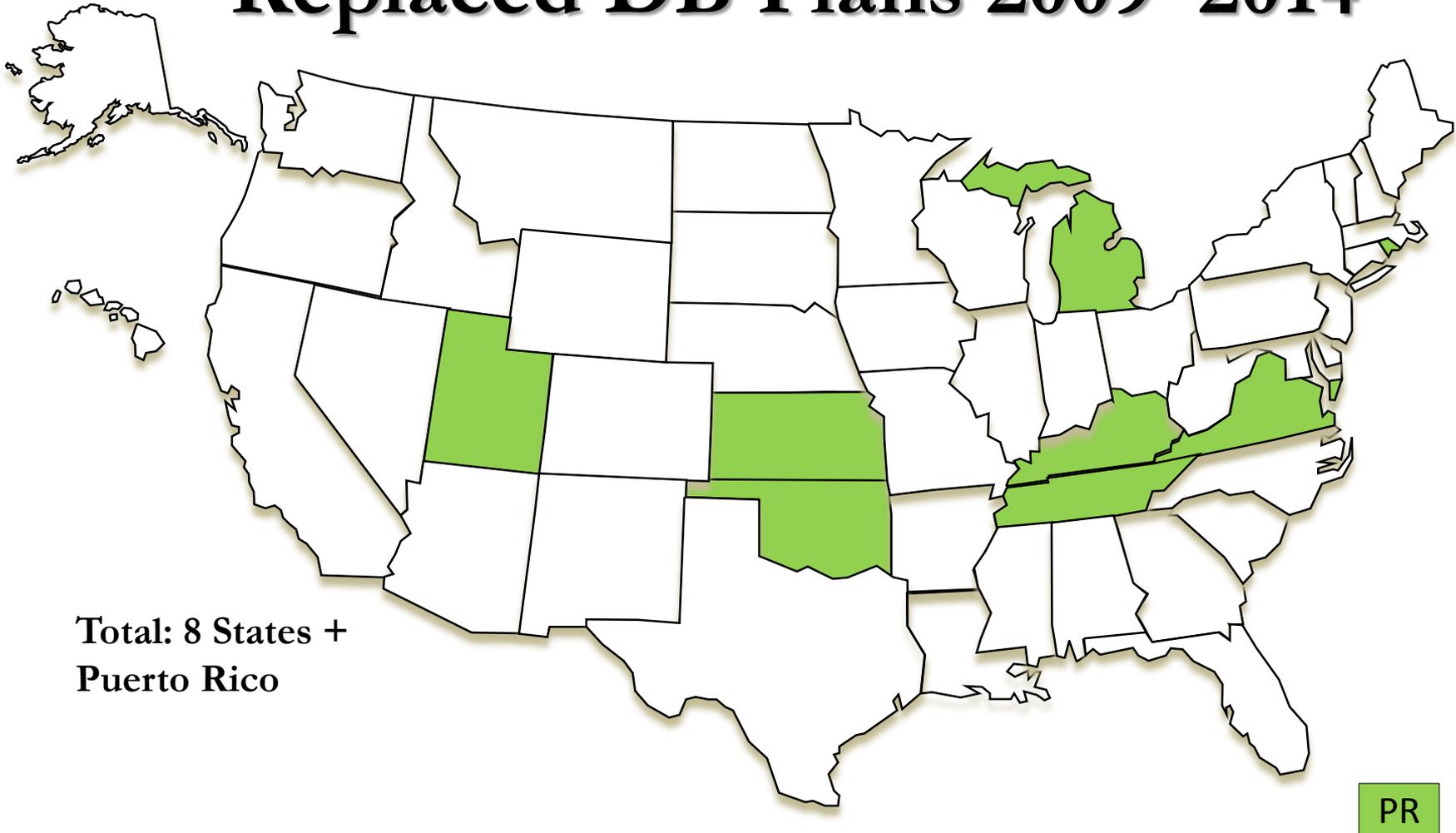


Non-DB Statewide Retirement Plans





Replaced DB Plans 2009–2014



**Total: 8 States +
Puerto Rico**

PR



Defined Contribution (DC) Plans

- Function like savings accounts.
- Funds are more portable.
- Stabilizes states' costs for new hires.
- Risks and responsibilities shifted to employee:
 - Risk of losing funds with investment fluctuations.
 - No guaranteed rate of return.
 - Employee must (usually) choose:
 - Employee contribution amount (risk of saving too little);
 - Among investment options.
- Administrative & investment costs are generally higher than with DB plans.



Oklahoma Defined Contribution Plan (2014)

Applicability	Future State Employees and Elected Officials hired after November 1, 2015.
Employee Contribution	3% Mandatory, up to 7% permissible. (pre-tax basis)
Employer Contribution	3% Base + dollar-for-dollar match of employee contribution up to an additional 4%
Vesting	After 1 Year: 20% After 2 Years: 40% After 3 Years: 60% After 4 Years: 80% After 5 Years: 100%



Tennessee Hybrid Plan (2013)

Applicability	Future State Employees, Teachers and Higher Ed Employees hired after July 1, 2014.
Employee Contribution	7% (DB: 5%, DC: 2%) – Provision for employees to opt out of 2% DC contribution.
Employer Contribution	8% (DB: 4%, DC: 4%).
Retirement Eligibility	Age 65 with 5 YOS or Rule of 90 (current plan is 30 YOS or age 60).
Multiplier	1% (current plan is 1.575%).
Vesting	5 Years for DB Benefits. Immediate vesting for DC contributions.



Cash Balance Plans

- **Kentucky adopted in 2013.**
- **Kansas and Louisiana adopted in 2012, but the Louisiana plan was ruled unconstitutional.**
- **Very rare in the public sector.**
- **A cash balance plan:**
 - **Provides each member with an individual account.**
 - **Employees and employers contribute to the account.**
 - **The member cannot choose how the money is invested.**
 - **Members' accounts are managed in one trust fund, and members are guaranteed a return on investment.**
 - **If investment return makes it possible, member accounts can receive additional returns.**
 - **In public plans, upon retirement, the member receives an annuity based on the account balance.**



Kentucky Cash Balance Plan (2013)

Applicability	State Employees and County Employees hired <i>after</i> July 1, 2013.
Employee Contribution	5% for non-hazardous employees. 8% for hazardous employees.
Employer Contribution	4% for non-hazardous employees. 7.5% for hazardous employees.
Vesting	After 5 Years.
Guaranteed Interest Credit	4% annually with additional interest credits made each year equal to 75% of the 5 year average investment return in excess of 4%.



Kansas Cash Balance Plan (2012)

Applicability	State Employees, Teachers, County Employees, Some City Employees
Social Security Coverage	Yes
Employee Contribution	6% Mandatory
Employer Contribution	3%-6%, depending on YOS 4% at 5 Years 5% at 12 Years 6% at 24 Years
Vesting	After 5 Years
Guaranteed Interest Credit	5.25% 4% Annually, possibility of additional dividends if investment experience warrants.



Benefits in South Carolina's DB Plan

South Carolina (Defined Benefit)

General State Employees Hired *after* July 2012

Normal Retirement	Age 65 with eight years or the Rule of 90
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Benefits Base	Average of highest five consecutive years
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Multiplier	1.82 %
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Benefits in Surrounding States

North Carolina (Defined Benefit)

General State Employees Hired *after* July 2011

Normal Retirement Age 65 with 10 years, age 60 with 25 years, or at any age with 30 years

Benefits Base Average of highest four consecutive years

Multiplier 1.82 %

Florida (Defined Benefit)

General State Employees hired *after* July 2011

Normal Retirement Age 65 with eight years

Benefits Base Average of highest eight years

Multiplier 1.6%, 1.63%, 1.65% or 1.68% depending on age and/or years of service



Benefits in Surrounding States

Tennessee (Hybrid)

General State Employees and Teachers Hired *after* July 2014

Normal Retirement Age 65 with five years or Rule of 90

Benefits Base Average of highest five years

Multiplier 1%

Georgia (Hybrid)

General State Employees hired *after* January 2009

Normal Retirement Age 60 with 10 years or at any age with 30 years

Benefits Base Average of highest two consecutive years

Multiplier 1%



Sources and Contact

- Visit www.ncsl.org/pensions for retirement reports, legislative summaries, webinars and presentation materials prepared by NCSL.
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