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PENSIONS AND RETIREMENT PLAN ENACTMENTS IN 2011 STATE LEGISLATURES AS OF JUNE 30, 2011

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INTRODUCTION

ABOUT THIS REPORT. This report summarizes selected state pensions and retirement legislation enacted from January 2011 through the date of publication. Its goal is to help researchers and policy makers know how other states have addressed issues that could arise in any state. In keeping with that goal, the report excludes most clean-up legislation, cost-of-living adjustments, administrative procedures and technical amendments. This report is organized according to the topics that legislatures addressed in 2011, listed at the end of this introduction.

FINDINGS. Even more state legislatures enacted significant retirement system changes in 2011 than did so in 2010—25 in 2011 compared to 21 in 2010. Since some states revisited the topic, in all, 39 of the 50 states enacted significant revisions to at least one state retirement plan in 2010 or 2011. At the end of June, pending legislation on pension reform remained before the Massachusetts and Ohio legislatures, and the governors of California and New York had proposed changes that are likely to be considered later in 2011 or in 2012.

These have been some of the major developments of 2011, all of which are described in detail in the report.

Employee contributions. Fifteen legislatures enacted increased employee contribution requirements in 2011 (compared to 11 states in 2010). The 2011 increases applied to at least some, and in most cases all, current employees in 12 states and only to new employees in three states. In eight of the 15 states that increased employee contribution requirements, they will be offset, in part or wholly, by reduced employer contributions. Thus these changes are a shift toward equalization of employee and employer retirement contributions, and testimony to continuing pressure on state budgets.

Eligibility for retirement benefits. Fourteen legislatures increased age and service requirements for normal retirement for state employees, teachers or both groups of employees. The legislation generally applies only to people hired after the effective date of the legislation, but also in a few states to non-vested employees. As a rule, the changes move the age of retirement to or closer to 65, and increase the minimum amount of service credit a person must have for any alternative earlier age of retirement. Minimum eligibility requirements, or vesting, also increased in seven states in 2011 (five states in 2010). The changes generally were from five or six year vesting to eight or ten year vesting.

Calculation of retirement benefits. In 2011, five legislature lengthened the period over which final average salary is averaged to provide the base on which pension benefits are calculated. Eight states made similar changes in 2010. In most cases, the change was from a person's highest 36 months to the highest 60 months (three years to five years). Florida changed its provision from the highest five years to the highest eight. Such changes applied in all cases to people hired after the effective date of the legislation. The measure is usually the highest paid-months or years rather than the latest to avoid penalizing people who move to part-time employment before retiring.

Post-Retirement Benefit Increases (COLAs). In 2011, nine states revised their provisions for automatic cost-of-living adjustments, as eight other states had done in 2010. An automatic COLA is one that is made annually, usually pinned to a measure of inflation like the Consumer Price Index. Their purpose is to reduce inflationary erosion of the purchasing power of retirement benefits. In all cases in 2011, as in 2010, state action reduced future commitments. State actions in 2011 affect current benefit recipients in three states, but more frequently were designed to affect people who will retire in the future or, in six states, only people who will be hired in the future. Oklahoma, which does not provide automatic COLAs, enacted legislation requiring future COLAs to be funded at the time of enactment.

SOURCES AND ACKNOWLEDGMENTS. The sources of this report are StateNet searches of current and enacted legislation, retirement systems' websites, state legislatures' reports of enacted legislation, and information provided by legislative and retirement system staff. I am indebted to the many legislative staff who write and share summaries of their legislatures' acts, the many retirement system staff throughout the United States who have posted legislative summaries on their web sites, and the staff of legislatures and retirement systems who have taken time to identify and explain legislation and its context to me.

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1. Contribution Rates and Funding Issues

Alabama. Act 676 of 2011 (House Bill 414) increases employee contribution rates for the Alabama Retirement System in two steps. The increases affect current and future employees.

- Justices, judges and district judges: Contributions will increase from the current rate of 6% to 8.25% beginning on October 1, 2011 and to 8.5% beginning on October 1, 2012.
- Teachers and general state employees: from 5% to 7.25% and 7.5% on dates as above.
- State police: Contribution rate remains at 10%.
- Firefighters, law enforcement officers and correctional officers: from 6% to 8.25% and 8.5% on dates as above.

According to the fiscal note that accompanies the legislation, employer contributions to the retirement funds will be reduced to offset the increased employee contributions.

Arizona. Chapter 26, Laws of 2011 (Senate Bill 1614) revises employee and employer contribution rates for the Arizona State Retirement System (ASRS). Beginning on July 1, 2011, employee contributions will rise from 50% of the total contribution to 53% and employer contributions will fall from 50% of the total to 47%.

Chapter 357, Laws of 2011 (Senate Bill 1609) establishes an Alternative Contribution Rate for employers whose employees are members of the ASRS for retired members who perform services that otherwise would be performed by an employee—that is to say, retired members who return to employment as an employee either as a direct employee, leased employee or contractual employee. The contribution level will be based on the amount required to amortize the unfunded liability of the ASRS. It will begin on the employee's first day of employment.

Contribution rates for members of the Elected Officials Retirement Plan are increased as follows:

- 7% of member's gross salary through June 30, 2011, as under existing law;
- 10% of member's gross salary for Fiscal Year (FY) 2011-2012;
- 11.5% of member's gross salary for FY2012-2013 and,
- For FY2013-2014 and thereafter, either 13% of member's gross salary, or 33.3% of the sum of contribution rate from the preceding fiscal year and the normal cost plus the actuarially determined amount required to amortize the unfunded accrued liability for the employer, whichever is lower.

For members of the Public Safety Personnel Retirement System, employee contributions will increase in stages from 8.65% of compensation in FY2012 to 11.65% of compensation in FY2016 and thereafter. [The goal of the rate increase is eventually to achieve a contribution division such that the employee contributes 1/3 and the employer 2/3 of the requirement. In the future when the employer's required contribution decreases, the employee contribution will also move down in tandem to maintain the 1/3-2/3 split.]

Colorado. Chapter 204, Laws of 2011 (Senate Bill 76) continues a shift of contributions to the Public Employee Retirement Association (PERA) from employers to employees of state government for FY2012. For the state and judicial divisions, it temporarily shifts 2.5% of the total contribution from employers to employees for FY2012 only.

State Employee Division

- Contributions by state-troopers will increase from 10% to 12.5%. The employer contribution rate will decrease from 12.85% to 10.35% ; and
- All other employees will increase their member contribution rate from 8% to 10.5%. The matching employer contribution rate will decrease from 10.15 to 7.65 percent.

Judicial Employee Division

- All employees will increase their member contribution rate from 8% to 10.5% The employer contribution rate will decrease from 13.66% to 11.16 %.

This bill continues the provisions of Senate Bill 146 of 2010, which shifted 2.5% of the state's PERA contributions to state and judicial division employees for FY2011. Employees of institutions of higher education who are PERA members also were included in the contribution swap for FY2011. However, the American Recovery and Reinvestment Act of 2009 prohibits the state from reducing appropriations to institutions of higher education during FY2011.

By increasing their share of PERA contributions, this bill will reduce taxable income for state employees by \$58.3 million and state income tax collections by \$1,750,123 in FY2012. The bill will decrease state expenditures by approximately \$58.3 million in FY2012.

The General Assembly's fiscal note for the bill points out that, due to the funding structure of PERA and depending on the actuarial valuation of the assets of the affected division, each member dollar is worth between 70% and 80% of an employer dollar. A member dollar is deposited into a member's account and earns interest. If a member leaves or withdraws his or her money, PERA must provide a 50% match on the combined amount of the member's contributions plus interest. Shifting the payment of a portion of the employer contribution decreases the amount of funding available to the affected division and increases the amount payable to members who choose to leave the plan. The increase in unfunded liabilities is estimated to be \$6.6 million for the state division, and \$40,000 for the judicial division.

Delaware. Chapter 14, Laws of 2011 (House Bill 81) increases the employee contribution to the Pension Fund from 3% to 5% of annual compensation after the first \$6,000 for employees hired on or after January 1, 2012.

Florida. Chapter 68, Laws of 2011 (Senate Bill 2100) requires all members of the Florida Retirement System (FRS) to make contributions to FRS of 3% of salary, effective July 1, 2011. DROP participants will not be required to contribute. The bill also reduces required employer contributions to FRS for FY2012 and FY2013 in general, although not for all classes of employees. For the Regular Class, employer contributions for FY2012 will fall from the previously scheduled 8.69% to 3.77% for FY2012, and from 9.63% to 5.44% for FY2013.

Hawaii. Chapter 163, Laws of 2011 (House Bill 1038) increases required employee contributions to the Hawaii Retirement System for those hired after June 30, 2012. General employees' contribution rate will increase from 7.8% of compensation to 9.8%. The rate for firefighters, police officers and corrections officers will increase from 12.2% to 14.2%.

Employer contribution rates will also increase. For general employees, they will increase in annual steps from the current rate of 15% to 17% in FY2016. The comparable increase for firefighters, police and corrections officers will be from 19.7% to 25%.

Kansas. House Bill 2194 (signed by the governor May 25, 2011) increases employee and employer contributions to the Kansas Public Employees' Retirement System (KPERS), contingent upon each chamber's voting on recommendations a study commission has been instructed to submit to the Legislature on January 6, 2012 (See Kansas under "Studies" for details of this requirement).

Kansas has long capped the statutory annual contribution rate from state, school and local employers, which has prevented employers from making contributions at the rate actuarially-required to amortize the KPERS UAAL. Under this bill, the statutory state, school and local employer contribution annual rate caps of 0.6% would increase as follows:

- 0.9% in FY2014 (and January 1, 2014 for local employers);
- 1.0% in FY2015 (and January 1, 2015 for local employers);
- 1.1% in FY2016 (and January 1, 2016 for local employers); and
- 1.2% in FY2017 (and January 1, 2017 for local employers).

The legislation also makes adjustments in employee contribution adjustments, contingent upon the 2012 legislative votes mentioned previously. These add two options applicable to all active KPERS Tier 1 members:

- Tier 1 members as the default option would have an employee contribution increase from 4% to 6% and also would be given an increase in multiplier from 1.75% to 1.85% for future years of service; or if an election is permitted by the IRS, then the alternative option could be chosen: Tier 1 members would be able to elect freezing the employee contribution rate at 4% and reducing their future multiplier from 1.75% to 1.4%.
- Two options would also be available, with IRS approval, to all Tier 2 members. The default option would continue the existing employee contribution rate of 6% of salary and eliminate post-retirement cost-of-living benefit increases. The alternative option would also continue the 6% contribution rate. It would retain the post-retirement COLA, but reduce the benefit multiplier from 1.75% to 1.4%.

Inactive KPERS members upon return to covered employment will be offered an election for alternative options in their respective tier before July 1, 2013. After that date, or if there were no election approved, inactive members would be given the default option in their tier upon returning to covered employment.

The bill also provides that 80% of the proceeds from the sale of surplus state real property will be transferred to KPERS for reducing the unfunded actuarial liability.

Maryland. House Bill 72, the Budget Reconciliation and Financing Act, included extensive changes to Maryland retirement plans. The bill became law without the governor's signature on April 8, 2011. The legislation increases employee contribution requirements for most current and future members of state plans.

Current Members

- Employees' Pension System (EPS) and Teachers' Pension System (TPS): Increase member contribution from 5% to 7%;

- Law Enforcement Officers' Pension System (LEOPS): Increase member contribution from 4% to 6% in FY2012 and to 7% in FY2013 and thereafter.

Future Members (as of July 1, 2011)

- EPS and TPS: Member contribution is 7%.
- LEOPS and State Police: member contribution of 6% in FY2012 (up from 4%) and 7% in FY2013 and thereafter.

The legislation also establishes the goal of reaching 80% actuarial funding within 10 years by reinvesting a portion of the savings generated by the benefit restructuring into the pension system in the form of increased state contributions above the contribution required by statute. In fiscal years 2012 and 2013, all but \$120 million of the savings generated by the benefit restructuring will be reinvested, with the \$120 million dedicated to budget relief each year. Beginning in FY2014, the amount reinvested in the pension fund will be subject to a \$300 million cap, with any savings over that amount dedicated to budget relief.

Montana. Chapter 369, Laws of 2011 (House Bill 122) revises contribution rates and other Montana Public Employee Retirement System provisions for members who join the system on or after July 1, 2011. The contribution rate for such new members will be 7.9%. It will remain at 6.9% for those hired before July 1, 2011.

Nebraska. Legislative Bill 382 (approved by the governor May 4, 2011) increases employee and employer contribution requirements for the School Employees Retirement System, the State Patrol Retirement System and the Omaha School Employees Retirement System.

- Beginning September 1, 2011, the member contribution rate in the School Employees Retirement System increases from 8.28% to 8.88% and to 9.78% on September 1, 2012. It will return to 7.28% beginning on September 1, 2017. The employer match continues at 101% of the employee contribution.
- The state contribution of 1% of total salary compensation for the Schools Employees Retirement System and Class V (Omaha) School Employees Retirement System is extended from July 1, 2014 to July 1, 2017 when it returns to 0.7%.
- Beginning September 1, 2011, the contribution rate for Class V (Omaha) School increases by one percentage point to 9.3%.
- For the Nebraska State Patrol Retirement Act, beginning July 1, 2011, the patrol and state/employer contribution rates increase from 16% to 19%. The member and state/employer contribution rates return to 16% on July 1, 2013.

New Hampshire. House Bill 2, the Budget Trailer Bill (to the governor June 22, including the retirement provisions formerly included in Senate Bill 3, which the governor vetoed) increases employee contribution requirements for the New Hampshire Retirement System as well as making extensive additional changes.

- For all Group I members (general state and local government employees and teachers), the employee contribution will be 7% of salary beginning July 1, 2011. This is the rate in effect for state employees hired after June 30, 2009; for all others, it represents an increase from 5%.
- For all Group II members (police and firefighters), except those who are freed from contribution requirements by virtue of having served more than 40 years, the increase for police members is from 9.3% to 11.55% and for firefighters from 9.3% to 11.8%.

New Jersey. Senate Bill 2937 (signed by the governor on June 28, 2011) makes various changes to the manner in which the Teachers' Pension and Annuity Fund (TPAF), the Judicial Retirement System (JRS), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), and the State Police Retirement System (SPRS) operate and to the benefit provisions of those systems.

The bill provides for increases in the employee contribution rates:

- For TPAF and PERS, including legislators, Law Enforcement Officer (LEO) members, and workers compensation judges), from 5.5% to 6.5% plus an additional 1% phased-in over 7 years beginning in the first year, after the bill's effective date;
- For JRS, from 3% to 12% for JRS phased-in over seven years;
- For PFRS members and members of the Prosecutors Part of PERS, from 8.5% to 10%; and
- For SPRS members, from 7.5% to 9%

New Mexico. Chapter 178, Laws of 2011 (HB 628) makes three primary changes for pension contributions for state employee plans administered by the Public Employees Retirement Association (PERA) and the Educational Retirement Board (ERB). The legislation

- Extends the two-year 1.5% contribution shift implemented for FY2010 and FY2011 from the employer to the employee for those employees making more than \$20,000 for another two years (FY2012 and FY2013), but provides for the cancellation of the extension to FY2013 contingent upon specified levels of General Fund revenue and state reserves;
- Makes a one-year contribution shift of 1.75% from the employer rate to the employee rate for those making more than \$20,000 for FY2012; and
- Delays the two remaining 0.75% increases for ERB members, currently scheduled for FY2012 and FY2013, to FY2014 and FY2015.

The purpose of the legislation is to prevent additional costs the state general fund would incur for employer contributions to the retirement funds. Those costs are estimated at \$49.2 million in FY2013 and \$61.5 million in FY2014. The Legislature's fiscal impact report on the bill notes "The fiscal impact to employees of an additional 1.75% contribution shift will be offset by the 2011 reduction in the federal social security tax of -2%. Assuming normal pretax deductions, the 18-month impact is minimal when compared with the baseline salary as of December 2011."

Source: New Mexico Legislature, Fiscal Impact Report, HB 628, March 15, 2011.

North Dakota. Senate Bill 2108 (signed by the governor on April 26, 2011) increases member and employer contributions for the North Dakota Public Employee Retirement System's main retirement system, judges' plan, defined contribution and Highway Patrol systems by one percentage point each in January of 2012 and 2013. The law enforcement plan increase is 0.5% for the member and 0.5% for the employer. For the main retirement plan, the two-year increases will be from 10.3% for employees to 12.3%, and for employers, from 16.7% to 18.7% of compensation over the two years.

North Dakota. House Bill 1134 (signed by the governor on April 28, 2011) increased contribution requirements for the Teachers' Retirement Fund from the present level of 7.75% of annual salary to 9.75% beginning on July 1, 2012 and 11.75% beginning on July 1, 2014. Employers' contributions will increase from the current rate of 8.75% to 10.75% and 12.75% on the same dates. The legislation provides that the member and employer contributions will be reduced to 7.75% effect for the first July

that follows an actuarial valuation that indicates that the actuarial value of assets for the teachers' fund is equal to or exceeds a ratio of 90%.

Texas. Senate Bill 1664 (signed by the governor June 17, 2011) amends current law to maintain the member contributions for the Employees Retirement System and the Law Enforcement and Custodial Officer Supplemental Retirement System at 6.5 percent and 0.5 percent, respectively, for fiscal year 2012 regardless of the state contribution level. It is expected that the state contribution rates will decrease from the current contribution rates of 6.95 percent for ERS and 1.59 percent for LECOS for the 2012-13 biennium. The bill would therefore prevent an expected loss of member contributions to the ERS fund estimated to be \$29.4 million, and a loss of member contributions to the LECOS retirement fund estimated to be \$7.5 million.

Wisconsin. Act 10 of 2011 (Assembly Bill 11 of the January 2011 Special Session) amended provisions affecting employer and employee contributions to the Wisconsin Retirement System (WRS). Under current law, the Employee Trust Funds (ETF) Board, in consultation with actuaries, annually determines the total actuarial contribution required to fund the WRS. This total contribution is the sum of three components: the employee rate; the employer rate; and the benefit adjustment contribution (BAC). Employer contributions to the WRS vary depending upon the type of position held by the employee. Employee contributions are currently required as follows:

- For general employees, 5% of earnings;
- For elected officials and executive employees, 5.5% of earnings;
- For protective occupations covered by Social Security, 6% of earnings; and
- For protective occupations not covered by Social Security, 8% of earnings.

Employer contributions (currently 5.1%) are generally paid by the employer, except that any contribution increase after 1989 is required to be distributed between the employer and the employee, with one-half of the increase paid by the employer and the other half of the increase added to the BAC portion of the total contribution.

The BAC was created to fund WRS retirement improvements established under 1983 Wisconsin Act 141. The employee is responsible for paying BAC contributions unless the employer agrees to cover the cost (generally through collective bargaining). Currently, state employers are responsible for 1.3% of the BAC and general employees, 0.2%. A BAC is not necessary for the protective or elected official and executive categories.

While current law requires an employer to pay the full employer contribution, it also provides that an employer may pay all or part of the employee required contributions. This is generally derived through bargaining or the compensation plan. At this time, most state employers have agreed to pay the employee contribution (up to 5%) and 1.3% of the BAC for general employees. Protective occupations pay the portion of the employee contribution that exceeds 5%.

The bill eliminates the BAC as a separate contribution, and adds the BAC costs to the total actuarially defined contribution. The bill requires that the contribution rate for general employees and elected officials and executive employees must equal one-half of all actuarially required contributions, as approved by the ETF Board. Protective occupation employees are required to pay a contribution equal to the percentage of earnings paid by general employees.

The bill requires that members of the Milwaukee County and City Employees Retirement Systems pay all of the employee required contribution. The bill also prohibits any local governmental unit from establishing a defined benefit pension plan for its employees unless the plan requires the employees to pay half of all actuarially required contributions for funding plan benefits. It also prohibits the local governmental unit from paying, on behalf of an employee, any of the employee's share of the actuarially required contributions.

These provisions were intended to take effect on the first pay period following March 13, 2011, for non-represented employees, elected officials, and judges and justices, and on the expiration, termination, extension, modification, or renewal of the collective bargaining agreement, whichever occurs first, for represented employees. [Legal challenges have suspended the changes as of the date of this report.]

Source: Wisconsin Legislative Council Amendment Memo, Assembly Bill 11, published February 25, 2011. <http://legis.wisconsin.gov/lc/publications/amendment/2011/PDFs/jr1ab011.pdf>

2. Cost-of-Living Adjustments.

Please note: This section does not attempt to track all post-retirement benefit increases or cost-of-living adjustments; it reports changes in the enabling legislation for such benefits.

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) revises the structure of cost-of-living adjustments for members of the Elected Officials', the Public Safety Personnel's and the Correction Officers' retirement plans.

- The new provisions require a total return of more than 10.5% for the prior fiscal year to allow for a cost of living increase, and limit that increase to:

Ratio of actuarial value of assets to accrued liability	Percentage of benefit being received on preceding June 30
60% or more but less than 65%	2.0%
65% or more but less than 70%	2.5%
70% or more but less than 75%--	3.0%
75% or more but less than 80%--	3.5%
At least 80%	4.0%

- States that the amount available to fund the increase to be 100% of the earnings of the fund that exceed 10.5% of the total return of the fund for the fiscal year ending June 30 of the calendar year preceding the July 1 of the increase. If that 100% is insufficient to fully fund the present value of the appropriate percentage increase, the increase is limited to the percentage that can be fully funded.
- Reverts any earnings in excess of the amount necessary to fully pay that amount to the appropriate public fund. Such earnings will not be available for future benefit increases.
- Allows the Legislature to enact permanent one-time increases, from and after December 31, 2015, after an analysis of the effect of the increase on the plan by the Joint Legislative Budget Committee (JLBC).

Florida. Chapter 68, Laws of 2011 (Senate Bill 2100) eliminates the cost-of-living adjustment (COLA) for service earned on or after July 1, 2011. Subject to the availability of funding and the Legislature's enacting sufficient employer contributions specifically for the purpose of funding the reinstatement of the COLA, the new COLA formula will expire effective June 30, 2016, and the current 3% cost-of-living adjustment will be reinstated.

Hawaii. Chapter 163, Laws of 2011 (House Bill 1038) reduces the annual post-retirement benefit increase for those who become members of the Hawaii Retirement System after July 1, 2012, from 2.5% to 1.5%.

Maine. Chapter 380, Public Laws of 2011 (L.D. 1043, the Biennial Budget Bill for fiscal years 2012 and 2013) makes changes that affect state employees, legislators and judges. The retiree cost-of-living adjustment will be frozen for three years, and then capped at 3% in future years based on the Consumer Price Index (CPI). Retirees will receive a COLA on their first \$20,000 of benefits. The cap amount will be indexed, or increased, each year by the CPI for that year. A non-cumulative, one-time COLA may be awarded if funds are available, but such payments would not become a permanent part of the retiree's benefit.

Maryland. House Bill 72, the Budget Reconciliation and Financing Act, included extensive changes to Maryland retirement plans. The bill became law without the governor's signature on April 8, 2011.

Under current law, all SRPS retirement benefits are adjusted automatically to account for annual inflation, but the size of the adjustments varies by plan. Retirees of the Employees' Pension System (EPS) and Teachers' Pension System (TPS), as well as the Law Enforcement Officers' Pension System (LEOPS), receive automatic annual COLAs linked to inflation, subject to a 3% cap. The State Police Retirement System (SPRS) and the Correctional Officers' Retirement System (CORS) also receive COLAs linked to inflation, but they are not subject to a cap.

The changes in House Bill 72 do not affect COLAs for individuals retired as of July 1, 2011, but do affect COLAs that current active members in EPS, TPS, LEOPS, SPRS, and CORS will receive when they retire. For service credit earned after June 30, 2011, the COLA will be linked to the performance of the SRPS investment portfolio. If the portfolio earns its actuarial target rate (7.75% for fiscal 2011), the COLA is subject to a 2.5% cap. If the portfolio does not earn the target rate, the COLA is subject to a 1% cap. For service credit earned before July 1, 2011, the COLA provisions in effect during that time still apply for each plan.

The COLA provisions do not apply to current or future retirees of the Judges' Retirement System (JRS) or the Legislative Pension Plan (LPP) because their benefit increases are linked to the salaries of current judges and legislators, respectively, and not limited to inflation rates.

Mississippi. Chapter 469, Laws of 2011 (Senate Bill 2439), Section 2, changes COLA provisions for people who join the retirement system on or after July 1, 2011. For people who became members of the system before July 1, 2011, the COLA is equal to the sum of 3% for each full fiscal year in retirement before the member reaches age 55, plus 3% compounded for each full fiscal year in retirement after the member reaches age 55. For those hired on or after July 1, 2011, the COLA will remain at 3% but the age at which the compounding begins will increase from age 55 to age 60.

New Jersey. Senate Bill 2937 (signed by the governor June 27, 2011) makes numerous changes to the operations and benefit provisions of state-administered retirement plans. It terminates post-retirement cost-of-living adjustments for current and future retirees, and provides a mechanism for their potential reactivation when the retirement plans meet specified funding ratios in the future. The mechanism is described below in Section 10: Governance and Investment Policy.

Oklahoma. Chapter 199, Laws of 2011 (House Bill 2132) amends the Oklahoma Pension Legislation Actuarial Analysis Act (OPLAAA), so that cost of living adjustments (COLAs) are considered fiscal retirement bills for purposes of OPLAAA procedures, thus requiring COLAs to be funded by the Legislature at the time of enactment. According to the legislative fiscal analysis of the legislation, the practical application of the concurrent funding requirement would suggest the retirement systems remove their unfunded COLA assumption. According to the legislative actuary's calculations, removal of COLA assumptions will affect the UAAL and the funded ratios of the pension systems as follows:

- Teachers Retirement system: UAAL will decrease by approximately \$2.9 billion and increase OTRS's funded ratio from 48% to 56%;
- Public Employee Retirement System: UAAL will decrease by approximately \$1.4 billion and increase the OPERS funded ratio from 66% to 77%;

Washington. Chapter 362, Laws of 2011 (House Bill 2021) eliminates further increases of Public Employees' and Teachers' Retirement Systems Plan 1 (PERS Plan 1 and TRS Plan 1) benefits through the annual increase, or "Uniform COLA" above the amount in effect on July 1, 2010, unless a retiree qualifies for the minimum benefit. It reduces the minimum employer contribution rates for the PERS Plan 1 unfunded liability from 5.75 to 3.5%, and for the TRS Plan 1 unfunded liability from 8.0 to 5.75%. The bill also increases the alternative minimum benefit to \$1,500, and continues to index the alternative minimum benefit by 3% per year. [The two plans were closed to new members in 1977. Employers are responsible for amortization of the UAAL in the plans.]

3. Deferred Retirement Option Plans (DROP)

Alabama. Chapter 27, Laws of 2011 (Senate Bill 72) prohibits new membership in the DROP for state employees and teachers on and after April 1, 2011 and limits the interest payable on existing accounts.

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) limits eligibility for the deferred retirement option plan in the Public Safety Personnel Retirement System to those who become a member of the system before January 1, 2012.

The bill limits the amount credited monthly for a participant of DROP who has fewer than 20 years of credited service on January 1, 2012 to interest at a rate equal to the average annual return of the system over the period of years established by the Board for use in calculation of the actuarial value of assets for the previous year, but not to exceed the system's assumed investment rate of return but at least 2%.

It also requires a member who has fewer than 20 years of credited service on January 1, 2012 and who elects to participate in the DROP on or after January 1, 2012, to make employee contributions to the system equal to a regular employee who participates in PSPRS.

Florida. Chapter 68, Laws of 2011 (Senate Bill 2100) reduces the rate of interest to accrue on accounts of members who enter the DROP on or after July 1, 2011. For current members and those who join before that date, the interest rate remains at 6.5%. For new members it will be 1.3%.

4. Defined Benefit Plan Changes

Arizona. Chapter 26, Laws of 2011 (Senate Bill 1614) provides that a new state employee hired after the effective date of the bill who is regularly scheduled to work must wait at least six months before being eligible for and enrolled in the Arizona State Retirement System.

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) makes numerous changes in state retirement plan provisions. Some of the changes are summarized under other topic headings in this report. The bill removes the Rule of 85 for calculating age and service requirements for normal retirement for all members of the Arizona State Retirement System. The bill leaves in place the Rule of 80 for members hired before July 1, 2011. For those hired after the effective date of the legislation, retirement options will be 55/30; 60/25; 62/10 and age 65.

The legislation makes a number of changes in plans for elected state officials, summarized under that heading.

The legislation also makes changes to the structure of the Public Safety Personnel Retirement System and the Correctional Officers' Retirement Plan by implementing a new tier for new hires. The new tier (known as the 2nd Tier) combines the requirement for 25 years of service to achieve normal retirement with five year "salary smoothing" to determine the pension benefit.

Delaware. Chapter 14, Laws of 2011 (House Bill 81) changes the normal retirement age for employees hired on or after January 1, 2012. Under current law, employees are eligible to retire at age 62 with five years of service, at age 60 with 15 years of service, or at any age with 30 years of service. Under this act, post-2011 employees will be eligible to retire at age 65 with 10 years of service, at age 60 with 20 years of service, and at any age with 30 years of service.

The act increases the early retirement reduction factor for employees who retire prior to normal retirement age. Under current law, an employee may retire at age 55 with 15 years of service with a benefit reduction of 2/10th of one percent for each month the employee is under the age of 60. Under this act, the employee's pension would be reduced by 4/10th of one percent for each month the employee is under the age of 60.

The act increases the vesting requirement for employees hired on or after January 1, 2012 from five years to 10 years.

The act excludes overtime payments from the definition of final average compensation" for employees hired on or after January 1, 2012. Section 8 of the Bill declares the intent of the General Assembly to prevent the limited abuse of the State Employee's Pension Plan when employees voluntarily work overtime in order to inflate their final pension calculation, and recognizes that to protect the health and safety of employees and the citizens they serve, agency management should limit the assignment of mandatory overtime. This section requires each cabinet secretary to devise a written policy by June 30, 2012 to limit the use of mandatory and voluntary overtime.

Florida. Chapter 68, Laws of 2011 (Senate Bill 2100) changes vesting requirements and age and service requirements for normal retirement for employees initially enrolled in the pension plan on or after July 1, 2011. Such members will vest in 100% of employer contributions upon completion of 8 years of creditable service. For existing employees, vesting will remain at 6 years of creditable service. The base for computing final average compensation will increase from the five highest years to the eight highest years, for new employees.

For employees initially enrolled on or after July 1, 2011, the legislation increases the normal retirement age and years of service requirements, as follows:

- For Special Risk Class: Increases the age from 55 to 60 years of age; and increases the years of creditable service from 25 to 30.
- For all other classes: Increases the age from 62 to 65 years of age; and increases the years of creditable service from 30 to 33 years.

Hawaii. Act 29 of 2011 (House Bill 1035) prohibits any retirement benefit enhancements, including any reduction of retirement age, until the actuarial value of the system's assets is 100% of its actuarial accrued liability.

Hawaii. Chapter 163, Laws of 2011 (House Bill 1038) changes age, service and vesting requirements for new members of the Employees' Retirement System as of July 1, 2012.

Current provisions allow employees hired between June 30, 1984 and June 30, 2006, to retire at 62 with at least 10 years of service, or at 55 with 30 years of service. Employees hired after June 30, 2006 can retire at 62 with five years of service, or at 55 after 30 years of service.

Under this legislation, eligibility for normal retirement benefits will be at age 60 with 10 years of service or age 55 with 25 years of service. Police and firefighters will continue to be eligible for normal retirement after 25 years of service.

The legislation increases the vesting requirement from five years to 10 years, and changes the calculation of final average compensation from the highest three to the highest five. For new employees, the retirement multiplier will be reduced from 2% to 1.75%.

Kansas. House Bill 2194 (signed by the governor May 25, 2011) increases employee and employer contributions to the Kansas Public Employees' Retirement System (KPERS), contingent upon each chamber's voting on recommendations a study commission has been instructed to submit to the Legislature on January 6, 2012 (See Kansas under "Studies" for details of this requirement). [This summary is copied from Section 1," Contribution Rates and Funding Issues" because of the way contribution and other policy decisions are intertwined.]

The legislation makes adjustments in employee contribution adjustments, contingent upon the 2012 legislative votes mentioned previously. These add two options applicable to all active KPERS Tier 1 members. [Tier 1 members are those who joined KPERS before July 1, 2009.]

:

- Tier 1 members as the default option would have an employee contribution increase from 4% to 6% and also would be given an increase in multiplier from 1.75% to 1.85% for future years of

service; or if an election is permitted by the IRS, they could choose an alternative option: Freeze the employee contribution rate at 4% and reduce their future multiplier from 1.75% to 1.4%.

Additional employee contribution adjustments, that would be triggered by the 2012 Session dual votes, include adding two options that would apply to all active KPERS Tier 2 members.

- The default option would freeze the employee contribution rate at 6% and eliminate future cost-of-living adjustments. If the IRS permits the election of an alternative option, Tier 2 members could freeze the employee contribution at 6% and reduce their multiplier from 1.75% to 1.4% in order to retain their COLA.

Inactive KPERS members upon return to covered employment will be offered an election for alternative options in their respective tier before July 1, 2013. After that date, or if there were no election approved, inactive members would be given the default option in their tier upon returning to covered employment.

Maine. Chapter 380, Public Laws of 2011 (L.D. 1043, the Biennial Budget Bill for fiscal years 2012 and 2013) enacts changes affecting state retirement plans. It changes the normal retirement age for most participants with less than five years of service on July 1, 2011 from 62 to age 65. This provision applies to retirement plans for Teachers, State Employees, Legislators and Judges but not to the members of the local government plan that the state administers nor to public safety personnel. It also changes provisions for post-retirement benefit increases and establishes new provisions for return to covered service after retirement (discussed in those sections of this report.)

Maryland. House Bill 72, the Budget Reconciliation and Financing Act, included extensive changes to Maryland retirement plans. The bill became law without the governor's signature on April 8, 2011.

Current Members

- All plans except Employees' Pension System (EPS) and Teachers' Pension System (TPS):
For service credit earned after June 30, 2011, the COLA earned for retirement is contingent on achieving 7.75% investment return. For years in which investment return is not achieved, COLA is capped at 1%; for years in which the investment return achieves 7.75%, the cap increases to 2.5%.
- Employees' Pension System (EPS) and Teachers' Pension System (TPS):
Increase member contribution from 5% to 7%;
Maintain 1.8% multiplier and all retirement eligibility and vesting criteria.
- Law Enforcement Officers' Pension System (LEOPS):
Increase member contribution from 4% to 6% in FY2012 and to 7% in FY2013 and thereafter;
Maintain 2.0% multiplier
- Judges: no change

Future Members (as of July 1, 2011)

- All plans (except Legislators and Judges):
Average final compensation (AFC) is calculated based on highest five consecutive years instead of highest three consecutive years, except that for the correctional officers' and state police officers' plans the five highest years need not be consecutive ;
Vesting increases from five to 10 years;

Contingent COLA based on achieving 7.75% investment return. For years in which investment return is not achieved, COLA is capped at 1%; for years in which the investment return achieves 7.75%, the cap increases to 2.5%.

- Employees' Pension System (EPS) and Teachers' Pension System (TPS):
Member contribution is 7%;
Multiplier is 1.5%;
Normal service retirement eligibility is age 65 with 10 years (up from 62 with 5 years) *or* Rule of 90;
Early service retirement eligibility is age 60 with 15 years (up from age 55 with 15 years), with 0.5% reduction for every month before age 65.
- Law Enforcement Officers Pension System (LEOPS) and State Police:
LEOPS member contribution is 6% in FY2012 (up from 4%) and 7% in FY2013 and thereafter;
State Police normal service retirement eligibility is age 50 or 25 years of service (up from 22);
Any new DROP account started after July 1, 2011 (including one started by current members) earns 4% annual compound interest (instead of 6% monthly compound interest).

Funding Provisions

In FY2012 and 2013, reinvest all but \$120 million of the savings generated by the reforms into the pension fund (the \$120 million goes to budget relief); beginning in FY2014, reinvest up to \$300 million of the savings generated by the reforms, with the remainder going to budget relief.

Mississippi. Chapter 469, Laws of 2011 (Senate Bill 2439) changes eligibility for retirement benefits and the formula for them. For people who become members of the Mississippi Public Employees Retirement System on or after July 1, 2011:

- Age and service requirements for benefits will be age 60 with 8 years of service (unchanged from 2007 legislation) or 30 years of service (25 years in 2007 legislation).
- Those who retire after age 60 without 30 years of service will be entitled to a benefit with an actuarial reduction for each year of service below 30 years or the number of years in age that the member is below age 65, whichever is less.
- A new benefit formula will provide a benefit of 2% of average compensation for the first 30 years of service and 2.5% for each additional year of service (2% for first 25 years and 2.5% for additional years in previous law). Average compensation is the average of the four years during which the member's compensation was the highest.

Montana. Chapter 369, Laws of 2011 (House Bill 122) changes various provisions of the Montana Public Employee Retirement System for people hired on or after July 1, 2011. The employee contribution rate for such members will be 7.9% of compensation and will remain at 6.9% for those hired before that date. Also for people hired after that date:

- Highest average compensation will be based on the highest average of 60 consecutive months of employment (36 months for members before that date);
- Eligibility for normal retirement will be at age 65 with five years of service or age 70 (for members before that date, unchanged at 60/5, 65 or 30 years of service);
- Eligibility for early retirement will be at age 55 with five years of service (for members before that date unchanged at 50/5 or 25 years of service); and
- Calculation of retirement benefits will be as follows:

- If less than 10 years of membership service, 1.5% of highest average compensation multiplied by the years of total service credit;
- If 10 or more years but less than 30 years of membership service, 1.7857 or 1/56 of highest average compensation multiplied by the years of total service credit;
- If 30 or more years of membership service, 2.0% of highest average compensation multiplied by the years of total service credit;
- In each instance above, the minimum benefit will be the actuarial equivalent of double the member's accumulated contributions; and
- The formula for prior members with less than 25 years of service is a multiplier of 1/56 and for those with more than 25 years of service a multiplier of 2%.

Chapter 154, Laws of 2011 (House Bill 134) alters the formula for computing the final average salary of game wardens from the highest consecutive 36 months to 60 months for members hired on or after July 1, 2011. Chapter 155 (House Bill 135) makes a similar change for the sheriffs' retirement system.

Nebraska. Legislative Bill 509 (approved by the governor April 14, 2011) increases the 7% annual salary cap in the School Employees Retirement Plan to 9% beginning July 1, 2012 and eliminates the current salary cap exemptions for purposes of calculating benefits on annual compensation during each of the last five years of employment prior to actual retirement. The cap is further reduced to 8% beginning July 1, 2013. Current exemptions include:

- Members who experience a substantial change in employment position (job or duty change;
- Excess compensation occurred as the result of a collective bargaining agreement between the employer and a recognized collective bargaining unit or category of school employee;
- Excess compensation occurred as the result of a district wide permanent benefit change made by the employer for a category of school employee.

New Hampshire. House Bill 2, the Budget Trailer Bill (to the governor June 22) makes numerous changes to provisions of the New Hampshire Retirement Plan. Changes in contribution rates are reported in that section of this report.

- For members vested before July 1, 2012, the definition of average annual compensation (the base for benefit calculation) remains at the three highest years of creditable service. However, new language provides that the amount of pay for special or extra duty service included in each of the three highest years cannot exceed the average for the last seven years of service.
- For members who are not vested on July 1, 2012 or who began service after July 1, 2011, average annual compensation will be the average of the highest five years. The amount of compensation in addition to base compensation for each of the last five years cannot annually exceed the average of all creditable service years other than the five highest years.
- For members who are not vested on July 1, 2012 or who began service after July 1, 2011, retirement benefits cannot exceed the lesser of 85% of average annual compensation or \$120,000. The \$120,000 limit is in existing law.
- Normal retirement age for Group I members (state and local government general employees and teachers) is increased from 60 to 65 for those who begin service after July 1, 2011. Early retirement is available at age 60 with 30 years of service with a benefit reduction of 0.25% for each month the applicant is under the age of 65. The benefit factors remain unchanged from existing law .
- Normal retirement age for Group II members (police and firefighters) is increased from 50 to 52.5 for those who begin service after July 1, 2011. Early retirement is available at age 50 with

25 years of creditable service with a benefit reduction of 0.25% for each month the applicant is under the age of 52.5.

- For Group II members who begin service on or after July 1, 2011, the multiplier for calculating a retirement benefit is reduced to 2% (from 2.5% for those who vested before January 1, 2012). The legislation provides a transitional schedule of multipliers for those who will have at least four years of service but less than the 10 years it requires to vest as of January 1, 2012. For such members, age and service requirements for normal retirement and the multiplier are less for members who will have longer service records on January 2, 2012.
- The age at which non-active vested members whose service begins after July 1, 2011, can receive a benefit is set at 65 with a reduced benefit available after age 60, if the person has 30 years of credited service. For Group II members, the comparable provisions are age 52.5 and 50 with 25 years of service.

New Jersey. Senate Bill 2937 (signed by the governor June 27, 2011) makes various changes to the manner in which the Teachers' Pension and Annuity Fund (TPAF), the Judicial Retirement System (JRS), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), and the State Police Retirement System (SPRS) operate and to the benefit provisions of those systems.

New members of TPAF and PERS will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of 1/4 of 1% for each month that the member is under age 65. TPAF and PERS members enrolled before November 1, 2008 are eligible for a service retirement benefit at age 60 and members enrolled on or after that date are eligible at age 62. New members will be eligible for a service retirement benefit at age 65.

A new PFRS member's special retirement benefit will be 60% of final compensation, plus 1% of final compensation multiplied by the number of years of creditable service over 25 but not over 30, instead of the current benefit of 65% of final compensation plus 1% for each year of service over 25 but not over 30.

North Carolina. Chapter 232, Laws of 2011 (House Bill 1134) increases vesting requirements for people who become members of the North Carolina Teachers' and State Employees' Retirement System and the Consolidated Judicial Retirement System on or after August 1, 2011. It does not affect those who became members before that date. The vesting requirement is increased from five years to 10 years.

North Dakota. House Bill 1134 (signed by the governor on April 28, 2011) increased age and service requirements for members of the Teachers' Fund for Retirement. The new provisions will not affect Tier 1 employees who are vested (3 years of service credit) and who are at least 55 years of age OR who have a total of age plus years of service that equal 65 as of June 30, 2013. Current retirement eligibility requirements continue to apply to them. Those are the Rule of 85 for Tier I members.

For other Tier 1 members and all Tier 2 member (now subject to the Rule of 90), eligibility requirements for normal retirement are amended. The new requirement for members of both tiers will be the Rule of 90 with a minimum age of 60, or a minimum age of 65 for those who do not meet the Rule of 90. The reduction factor for early retirement, available according to the earlier of age 60 and Rule of 90 or age 65 will increase from 6% to 8% per year.

Oklahoma. Chapter 203, Laws of 2011 (Senate Bill 377) increases age and service requirements for normal retirement for members of the Teachers Retirement System (TRS). For those whose membership began before November 1, 2011, the requirements remain age 62 or the Rule of 90 with no minimum age. For new employees on or after November 1, the bill increases requirements to age 65 or the Rule of 90 with a minimum age of 60. The bill provides a schedule of percentages of benefit reductions for such new members who take early retirement (available at age 60), which provides for a benefit reduction to 65% of normal benefits at age 60 ranging up year by year to 93% at age 64.

Chapter 206, Laws of 2011 (Senate Bill 794) similarly changes age and service requirements for retirement for members of the Oklahoma Public Employee Retirement System (OPERS) for those who are new members as of November 1, 2011 from 62 or the Rule of 90 to 65 or the Rule of 90 with a minimum age of 60.

Chapter 206 also increases normal retirement requirements for elected officials who first serve in elective office on or after November 1, 2011, from age 62 to age 65 or age 62 with 10 years of service in an elective office (age 60 or the Rule of 80 previously). Elected officials with 10 years of service may choose early retirement at age 60 with reduced benefits. The schedule of reductions is increased from the previous schedule. Vesting for elected officials is increased from six years to eight years of service. Contribution requirements for elected officials are changed from a choice tied to different benefit packages to the same 3.5% that is required of other members of OPERS. The benefit provisions were changed from the variety of choices open to current members to 2% of final average compensation times years of service.

Chapter 190, Laws of 2011 (House Bill 1010) increases the age and service requirements for retirement for members of the Uniform Retirement System for Justices and Judges whose initial service as a member of the system is on or after January 1, 2012. For previous members, eligibility requirements for normal retirement are 65/8, 60/10 or the Rule of 80 with eight years of service. The new requirements are 67/8 or 62/10. The Rule of 80 was not continued.

Texas. Senate Bill 1664 (signed by the governor June 17, 2011), § 10, changes the provision for retirement under the Rule of 80 for members of the Employee Retirement System hired on or after September 1, 2009. This change increases the minimum service requirement for such employees from five years to 10. The alternative provision, age 64 with 10 years of service, was not changed.

Washington. Chapter 5, Laws of the First Special Session of 2011 (House Bill 2070) provides that pensions from specified Washington retirement systems based on salaries earned during the 2011-13 biennium will not be reduced by compensation forgone by a member due to reduced work hours, mandatory leave without pay, temporary layoffs, or reductions to current pay if the measures are an integral part of a state or local government employer's expenditure reduction efforts.

The bill applies this change to the Law Enforcement Officers' and Fire Fighters' Retirement System, the School Employees' Retirement System, the Washington State Patrol Retirement System, the Teachers' Retirement System, the Public Safety Employees' Retirement System, and the Public Employees' Retirement System.

West Virginia. Act 150 of 2011 (HB 2939) provides that for people who join the Public Employees Retirement System on or after July 1, 2011, the existing provision for retirement when a person meets the Rule of 80 is amended to require five or more years of contributory service. The bill also redefines

final average compensation to exclude such lump-sum payments as attendance or performance bonuses, one-time flat fee or lump sum payments, payments paid as a result of excess budget, or employee recognition payments.

Wisconsin. Act 32 of 2011 (Assembly Bill 40, the budget act for state fiscal years 2012 and 2013), establishes a vesting period for public employees hired after the date of the act to receive retirement benefits. Previous law provided for immediate vesting. New employees will be required to earn five years of creditable service to be entitled to a benefit.

[The requirement as enacted demonstrates the Wisconsin governor's uniquely powerful item veto. The language the Legislature sent the governor established a scale of vesting by which employees would be entitled to reduced pension benefits according to a scale that would have provided 50% of benefits (as calculated by the usual formula) to those with less than one year of service, 100% of benefits to those with five years, and proportionate shares for intermediate years of service. The governor used his veto authority to strike letters and numerals to change this language:

If the participant has at least 4 years of creditable service, but less than 5 years of creditable service, the annuity amount under par. (e) shall be reduced by 1 0 percent .

To this language:

If the participant has less than 5 years of creditable service, the annuity amount under par. (e) shall be 0 percent .

See Section 40.23 of Assembly Bill 40.

5. Defined Contribution and Hybrid Plans

Indiana. Public Law No. 22-2011 (Senate Bill 524) establishes a defined contribution (DC) plan as an option for new state employees. A state employee who does not make an explicit choice to become a member of the DC plan will become a member of the Public Employees' Retirement Fund (PERF).

The bill requires the PERF Board of Trustees to establish the same investment options for the DC plan that are available for the investment of a PERF member's annuity savings account. It provides that a member's contribution to the plan will be 3% of the member's compensation and will be paid by the state on behalf of the member. It also provides that the state's employer contribution rate for the plan will be equal to the state's employer contribution rate for PERF. The amount credited from the employer's contribution rate to the member's account shall not be greater than the normal cost of PERF with any amount not credited to the member's account applied to PERF's unfunded accrued liability. The bill establishes a minimum state employer contribution of 3% of plan members' compensation.

The bill establishes a five-year vesting schedule for employer contributions, and requires a member who terminates state employment before the member is fully vested to forfeit amounts that are not vested. It establishes provisions for the withdrawal of amounts in member accounts. The bill also authorizes rollover contributions to the plan.

Utah. Chapter 439, Laws of 2011 (Senate Bill 308), makes numerous clarifying amendments to Utah's 2010 legislation restructuring its public pension plans. In addition to other changes and clarifications, the bill:

- Provides that a person initially entering regular full-time employment after July 1, 2011, has one year instead of 30 days to make an irrevocable election between a Tier II hybrid retirement system and a Tier II defined contribution retirement plan and that the election must be submitted electronically;
- Allows the Legislature to decrease benefits in the defined benefit portion of the Tier II Hybrid Retirement System for new public employees and new public safety and firefighter employees for future years of service under certain conditions;
- Provides that vesting of the defined contribution balance occurs upon accruing four years of service credit instead of four years from the date of employment under the Tier II hybrid retirement systems.

6. Divestiture

Iowa. House File 484 (signed by the governor April 20, 2011) restricts the Treasurer of State, the State Board of Regents, the Iowa Public Employees' Retirement System (IPERS), the Public Safety Peace Officers' Retirement System (PORS), the Statewide Fire and Police Retirement System and the Judicial Retirement System from directly investing in certain companies with active business operations in Iran. The act encourages the use of commingled funds (indirect holdings) that do not invest in scrutinized companies.

The act requires each public fund to develop and maintain a list of scrutinized companies by March 1, 2012. The act permits IPERS to act on behalf of the system and other public funds to develop and issue a request for proposal for third-party services to identify and compile a scrutinized companies list. An annual report to the General Assembly is required on October 1, 2012, and each October 1 thereafter.

New Hampshire. Chapter 53, Laws of 2011 (House Bill 491) relates to the state's existing law requiring divestiture of retirement system assets relating to Sudan. This bill allows the New Hampshire Retirement System to cease divesting and/or to reinvest in certain scrutinized companies if the system concludes there would be economic harm to the system's trust fund as a result of divestiture and/or lack of reinvestment.

Utah. Chapter 352, laws of 2011 (S.B. 112), requires the Utah State Retirement Office to provide data in its annual report designed to explain the extent to which the retirement office is preventing the investment of public funds in scrutinized companies and, beginning July 1, 2011, requires the Utah State Retirement Office to prevent the investment of retirement funds in Iran's petroleum sector (scrutinized companies) by adjusting future investment practices within the office and by stipulating in future investment management contracts that no new investments may be made in a scrutinized company.

7. Early Retirement Incentives.

Maine. Chapter 380, Public Laws of 2011 (L.D. 1043, the Biennial Budget Bill for fiscal years 2012 and 2013) authorizes the Commissioner of Administration to offer a retirement incentive program to

employees who are eligible to retire and who have reached their normal retirement age, but not to employees who are eligible to retire under any special retirement plan [that is, public safety members]. Employees choosing to participate in this retirement incentive program must make application for participation in the manner specified by the commissioner, with retirements effective on or before November 1, 2011. The legislation budgets \$5.5 million in expected savings.

8. Elected Officials Retirement Programs.

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) makes numerous changes in the Elected Officials' Retirement Plan (EORP), which covers state and county elected officials, those of cities and towns at those governments' option, higher court judges and superior court commissioners. The legislation:

- Changes the definition of average yearly salary from the highest three of the last 10 years of service to the highest five consecutive years of service of the last 10 as an elected official. The act provides an alternative calculation for officials who do not have five consecutive years of service.
- Increases contribution rates in annual steps from the present 7% of gross salary to, in FY2014, 13% or an actuarially-based calculation which can be revised. [The goal of the revision will be to provide a continuing 1/3 – 2/3 split of contributions between members and employers, respectively.]
- Allows a member to withdraw the member's contributions plus interest if the member ceases to hold office for any reason other than death or retirement. The effect of this provision is that members will no longer be eligible to receive part or all of employer contributions upon withdrawal of their contributions.
- Requires contributions by a retired member's employer if a retired member subsequently becomes an elected official.
- Removes the ability for an elected official to retire early after reaching age 60 and at least 10 years of service, which removes early retirement and retirement based on years of service (set at 20 years in previous law).
- Changes the amount of payment for a surviving spouse of a deceased retired or deceased active or inactive member to one-half, rather than three-fourths, of the deceased retired member's pension at the time of death, and allows a member to elect, an actuarially reduced pension and an increased surviving spouse's benefit.
- Changes the benefit formula for those who become members on or after January 1, 2012. The new benefit formula is 3% of the member's average yearly salary multiplied by credited service, not to exceed 75% of average yearly salary. Under previous law it was 4% of average annual salary for each year of service, capped at 80% of average annual salary.
- Newly-hired court commissioners will be placed in the state retirement system (ASRS) instead of EORP, contingent upon approval from the SSA.

Delaware. Chapter 14, Laws of 2011 (House Bill 81) changes the number of years it will take an elected official elected on or after January 1, 2012 to vest for a pension, from 5 years to 10 years. Under current law, employees are eligible to retire at age 62 with five years of service, at age 60 with 15 years of service, or at any age with 30 years of service. Age and service requirements for normal retirement were conformed to those for other employees: age 65 with 10 years of service, age 60 with 20 years of service or any age with 30 years of service.

Florida. Chapter 68, Laws of 2011 (Senate Bill 2100) changes retirement provisions for members of the Elected Officers class. Changes reported here affect the governor, lieutenant governor and state legislators. All members will be required to contribute 3% of compensation to the Florida Retirement System, beginning July 1, 2011. Employer contributions will fall by somewhat more than the amount of employee contributions for FY2012, but will rise to about 28% for FY2013.

Members enrolled on or after July 1, 2011, will be eligible for normal retirement at age 65 or after having completed 33 years of service regardless of age (previously 62 with six years of service or the age of 62). The base for average final compensation will increase from the highest five years to the highest eight years. Vesting will increase from six years, for those enrolled in the system before July 1, 2011, to eight years, for those enrolled on or after that date.

New Jersey. Senate Bill 2937 (signed by the governor June 27, 2011) makes various changes to the manner in which the Teachers' Pension and Annuity Fund (TPAF), the Judicial Retirement System (JRS), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), and the State Police Retirement System (SPRS) operate and to the benefit provisions of those systems.

The bill repeals language that allows a member of PERS or PFRS to retire while holding an elective public office covered by PERS or PFRS and continue to receive the full salary for that office, if the member's PERS or PFRS retirement allowance is not based solely on service in the elected public office. It also provides that the PFRS or PERS retirees who were granted a retirement allowance under those sections prior to the bill's effective date and are currently in an elective office covered by either of those systems may continue to receive their pension benefit and salary for the elective office.

Oklahoma. Chapter 206, Laws of 2011 (Senate Bill 794) increases normal retirement requirements for elected officials who first serve in elective office on or after November 1, 2011, from age 62 to age 65 or age 62 with 10 years of service in an elective office (age 60 or the Rule of 80 previously). Elected officials with 10 years of service may choose early retirement at age 60 with reduced benefits. The schedule of reductions is increased from the previous schedule. Vesting for elected officials is increased from six years to eight years of service.

Contribution requirements for elected officials are changed from a choice tied to different benefit packages to the same 3.5% that is required of non-elective members of OPERS. The benefit provisions were changed from the variety of choices open to current members to 2% of final average compensation times years of service.

Wisconsin. Act 10 of 2011 (Assembly Bill 11 of the January 2011 Special Session) changes the annual benefit accrual rate for elected officials (including legislators) from 2% of final average salary to 1.6% for service accrued after the effective date of the legislation.

9. Ethics, Forfeiture of Benefits, Privacy

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) requires a judge to order the forfeiture of retirement benefits if a member is convicted or pleads no contest to a Class 1, 2, 3, 4, or 5 felony. The bill provides that the member will receive a return of the member's contributions, plus interest, in a lump sum upon the ordered forfeiture and that if the member is successful on appeal, no rights are

forfeited and benefits are reinstated. The bill permits a judge to award some or all of the member's forfeited amount to a spouse, dependent, or former spouse taking into consideration:

- The role, if any, the person had in the illegal conduct.
- The degree of knowledge, if any, the person had about the illegal conduct.
- The community property nature of the benefits involved.
- The extent to which the person was relying on the forfeited benefits.

The bill provides that a person subject to the forfeiture order is not eligible for membership in a public retirement plan in the future and that the member forfeits benefits in the retirement system in which the member was contributing at the time of the illegal conduct.

Oklahoma. Chapter 202, Laws of 2011 (Senate Bill 347) establishes that municipal officers or employees guilty of a crime related to the duties of his or her employment will forfeit retirement benefits, less the person's contributions to the retirement system or any benefit vested at the effective date of this act. The penalty of forfeiture is applicable both during and after the officer's or employee's term of office or employment. The law provides a right of hearing for the person whose benefits are subject to forfeiture.

Virginia. Chapter 493, Acts of 2011 (House Bill 2095), provides that a member of any of the retirement programs administered by the Virginia Retirement System forfeits his retirement benefits if it is determined that the member has been convicted of a felony that arose out of misconduct in any position covered under the retirement programs administered by the Virginia Retirement System.

10. Governance and Investment Policy.

Illinois. Public Act 753 of 2009 (HB 2557, not previously reported) affects investments of pension funds. It provides that

- Every pension fund, retirement system, and investment board created under this Code, except those whose investments are restricted by Section 1-113.2 of this Code, shall instruct the fund's, system's, or board's investment advisors to utilize investment strategies designed to ensure that all securities transactions are executed in such a manner that the total explicit and implicit costs and total proceeds in every transaction are the most favorable under the circumstances.
- It is the public policy of the State of Illinois to encourage the pension funds, and any State entity investing funds on behalf of pension funds, to promote the economy of Illinois through the use of economic opportunity investments to the greatest extent feasible within the bounds of financial and fiduciary prudence.
- Each pension fund, except pension funds created under Articles 3 and 4 of this Code, shall submit a report to the Governor and the General Assembly by September 1 of each year, beginning in 2009, that identifies the economic opportunity investments made by the fund, the primary location of the business or project, the percentage of the fund's assets in economic opportunity investments, and the actions that the fund has undertaken to increase the use of economic opportunity investments.
- Any State agency investing funds on behalf of pension funds must make reasonable efforts to invest in economic opportunity investments.

Indiana. Public Law No. 23-2011 (Senate Bill 549) establishes the Indiana Public Retirement System to administer and manage:

1. The Public Employees' Retirement Fund (PERF);
2. The Teachers' Retirement Fund (TRF);
3. The Judges' Retirement Fund;
4. The Prosecuting Attorneys Retirement Fund;
5. The State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Fund;
6. The 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund);
7. The Legislators' Retirement System;
8. The Pension Relief Fund;
9. The Special Death Benefit Fund; and
10. The State Employees' Death Benefit Fund.

The bill creates a nine-member Board of Trustees for the system, who will be appointed by the governor as follows:

1. At least one member with experience in economics, finance, or investments;
2. At least one member with experience in executive management or benefits administration;
3. The Director of the Budget Agency (or designee), ex officio;
4. Two members nominated by the Speaker of the House of Representative, one an active or retired police officer or firefighter and one TRF member;
5. Two members nominated by the President Pro Tempore of the Senate: one PERF member and one TRF member;
6. One member nominated by the Auditor of State: the Auditor of State or an individual with experience in professional financial accounting or actuarial science; and
7. One member nominated by the Treasurer of State: the Treasurer of State or an individual with experience in economics, finance, or investments.

The bill requires that initial appointments to the board give preference to current trustees of PERF and TRF. This bill says that a trustee is strongly encouraged to complete at least 12 hours of trustee education annually. The board's powers and duties are the combined powers and duties of the PERF and TRF boards. Each retirement fund will continue as a separate fund managed by the board. The board will appoint a director of the system to serve at the pleasure of the board.

New Hampshire. House Bill 2, the Budget Trailer Bill (to the governor June 22) revises the membership of the board of trustees of the New Hampshire Retirement System. The board has 13 members. The two employee, two teacher, two police and two firefighter members are reduced to one from each category of membership. The two legislative members were dropped. They will be replaced by two additional nonmember trustees appointed by the governor and council, and four employer members appointed by the governor and council from nominations from employer groups.

New Jersey. Senate Bill 2937 (signed by the governor June 27, 2011) makes various changes to the manner in which the Teachers' Pension and Annuity Fund (TPAF), the Judicial Retirement System (JRS), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), and the State Police Retirement System (SPRS) operate and to the benefit provisions of those systems.

The bill establishes new pension committees as follows, to be appointed when the system or part of a system to which they appertain shall have reached a targeted funded ratio. The term "target funded ratio" [in non-technical language] means a funded ratio of 75% in fiscal year 2012, which is to increase

annually by equal increments in each of the subsequent seven fiscal years, until the ratio reaches 80 percent at which it is to remain for all subsequent fiscal years:

- One 8-member committee for the TPAF and one for the SPRS;
- Two 8-member committees in the PERS, one for the State part of the PERS and one for the local part of the PERS; and
- two 10-member committees in the PFRS, one for the State part of the PFRS and one for the local part of the PFRS.

Half of the members of each committee will be appointed by the Governor to represent public employers and half appointed by certain unions whose members are in the retirement system. When a target funded ratio for the system or part of the system is achieved, each committee will have the discretionary authority to modify the: member contribution rate; formula for calculation of final compensation or final salary; fraction used to calculate a retirement allowance; age at retirement; and benefits provided for disability retirement. A committee will not have authority to change the number of years required for vesting.

The term “target funded ratio” means a ratio of the actuarial value of assets against the actuarially determined accrued liabilities expressed as a percentage that will be 75% in fiscal year 2012, and increased annually by equal increments in each of the subsequent seven fiscal years, until the ratio reaches 80% at which it is to remain for all subsequent fiscal years.

The committees of these systems will have the authority to reactivate the cost of living adjustment on pensions and modify the basis for the calculation of the cost of living adjustment and set the duration and extent of the activation. A committee must give priority consideration to the reactivation of the cost of living adjustment.

The bill also provides a revised amortization schedule for the funds. Beginning with the July 1, 2018 actuarial valuation, the accrued liability contribution shall be computed so that if the contribution is paid annually in level dollars, it will amortize over a closed 30 year period. Beginning with the July 1, 2028 actuarial valuation, when the remaining amortization period reaches 20 years, any increase or decrease in the unfunded accrued liability as a result of actuarial losses or gains for subsequent valuation years shall serve to increase or decrease, respectively, the amortization period for the unfunded accrued liability, [with additional provisions in case actuarial losses should extend the amortization period for more than 20 years from 2028].

The bill also provides that each member of the TPAF, JRS, Prison Officers' Pension Fund, PERS, Consolidated Police and Firemen's Pension Fund, PFRS, and SPRS will have a contractual right to the annual required contribution made by the employer or by any other public entity. The contractual right to the annual required contribution means that the employer or other public entity must make the annual required contribution on a timely basis and that the retirement benefits to which the members are entitled by statute will be paid upon retirement.

The failure of the state or any other public employer to make the annually required contribution will be deemed to be an impairment of the contractual right of each employee. The Superior Court will have jurisdiction over any action brought by a member of any system or fund or any board of trustees to enforce the contractual right set forth in this bill. The state and other public employers will submit to the

jurisdiction of the court and will not assert sovereign immunity in such an action. If a member or board prevails in such the court may award that party reasonable attorney's fees.

The bill also provides that the rights reserved to the state in current law to alter, modify, or amend such retirement systems and funds, or to create in any member a right in the corpus or management of a retirement system or pension fund, cannot diminish the contractual right of employees established by this bill.

North Carolina. Chapter 45, Laws of 2011 (House Bill 200, the Budget Bill), §29.22(b), changed the amortization period for the accrued unfunded liabilities of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the North Carolina National Guard Pension Fund and the Firemen's and Rescue Squad Workers' Pension Fund from nine years to 12 years.

11. Military Service Credit

Arkansas. Act 66 of 2011 (HB 1111) allows members of the teacher retirement system to purchase armed forces reserve service credit; allows the purchase of one year of credit in the Teacher Retirement System for one year of service in the National Guard and armed forces reserve up to a maximum of five years.

Act 91 (SB 57) provides that any active member of the Arkansas Local Police and Fire Retirement System may purchase credited service in the system equivalent to a period not to exceed five years for service rendered by the member while on active duty in the armed forces of the United States before the member's employment covered by the system. Previous law allowed the purchase of two years. The purchase must be at the actuarial cost as of the time of the purchase.

12. Purchase of Service Credit

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) limits purchases of credited service for public service, leave without pay, leave of absence and active military service to 60 months and requires a member to have 10, rather than five, years of credited service in the state system to which the member belongs to elect to receive those credits. The bill also requires that the member not yet be eligible for a military retirement benefit. The legislation applies to the state retirement system, elected officials retirement system, the public safety personnel system and the correctional officers plan.

New Hampshire. Chapter 158, Laws of 2011 (House Bill 461) repeals the authorization for members of the New Hampshire Retirement System to purchase credit for out-of-state service. The repeal affects all members—general employees, teachers, police and firefighters.

13. Re-employment after Retirement

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) establishes an Alternative Contribution Rate for employers whose employees are members of the Arizona State Retirement System or any other state plan, for retired members who perform services that otherwise would be performed by an employee—

that is to say, retired members who return to employment as an employee either as a direct employee, leased employee or contractual employee.

The contribution level will be based on the contribution required to amortize the unfunded liability of the ASRS plus the cost of long-term disability benefits. It will begin on the employee's first day of employment. It is to be calculated annually by the ASRS actuary.

The retired member will not accrue credited service, member service (for UORP), account balances, retirement benefits or long-term disability program benefits, and the time will not later be eligible for service purchase. Chapter 277, Laws of 2011 (House Bill 2024) provides additional detail on these changes.

Arkansas. Act 558, Laws of 2011 (Senate Bill 127), requires employers to make retirement contributions for retired persons who return to covered service as they do for active employees, and provides that when employees enter the Arkansas Public Employees' Retirement System Deferred Retirement Option Plan, employers shall continue to make contributions on behalf of members to the retirement plan.

Maine. Chapter 380, Public Laws of 2011 (L.D. 1043, the Biennial Budget Bill for fiscal years 2012 and 2013) makes changes that affect state employees, legislators and judges. State employees or teachers who are 1) of normal retirement age; 2) retire after July 2011; and 3) return to work in a position covered by the State or Teacher Retirement Plan may work no more than five years and only at a salary not more than 75% of the salary established for the position. Substitute teachers are exempt from this provision.

Maryland. Chapter 6, Laws of 2011 (House Bill 176) reduces from nine to five the number of years that a retiree of the Employees' Retirement System (ERS), Employees' Pension System (EPS), Teachers' Retirement System (TRS), or Teachers' Pension System (TPS) must wait in order to be exempt from a reemployment earnings limitation if the retiree is hired by the individual's last employer prior to retirement. [The earnings limitation is designed to limit a return-to-work employee's income from salary or wages plus pension to the amount of average final compensation at the time of the person's retirement. This act does not change the formula, but reduces the period in which it affects individual retired people.]

New Mexico. Chapter No. 2011-6, Laws of 2011 (House Bill 129) requires retired teachers who return to employment covered by the Education Retirement Association (ERA) member to pay the same amount of member contributions as active employees, and removes the requirement for employers to pay both the employer and employee contributions to the ERA fund. Under previous law, the employer pays 100% of employee contributions for return-to-work employees, as well as the employer contribution. The Legislative Finance Committee has estimated the General Fund savings that will result from shifting contributions to the return to work employee to be more than \$4.8 million.

[Starting in July 2011, employers will contribute 9.15% of a worker's salary into the pension program and employees will pay 11.15% if the employee earns more than \$20,000 a year. The amount paid by employees has been rising — up from about 7.9% two years ago — because of temporary budget-balancing measures approved by the Legislature. A similar contribution requirement was enacted in 2010 for state and local government workers who retired and went back to work before July 2010. Those workers are covered by the Public Employees Retirement Association.]

Utah. Chapter 138, laws of 2011 (SB 127), amends provisions related to a retiree who returns to work for a participating employer. The bill allows a retiree who begins reemployment with a participating employer on or after July 1, 2010, to be reemployed within one year after a waiting period of at least 60 days, if the retiree does not receive any employer paid benefits or the retiree does not earn more than a specified amount. The earning limitation is the lesser of \$15,000 or 50 percent of the retiree's final average salary.

14. Studies

Arizona. Chapter 357, Laws of 2011 (Senate Bill 1609) creates the Defined Contribution Study Committee, including six members of the Legislature, to study these issues and report its findings to the Governor and the Legislature by December 31, 2012:

- the feasibility and cost of transferring existing members and/or new members to a defined contribution plan;
- the advantages and disadvantages of existing supplemental retirement plans and the feasibility of merging these plans to achieve maximum effectiveness;
- the definitions of compensation, average yearly salary and salary as used by the plans to ascertain the actuarial effect of these definitions, particularly the ability and actuality of "spiking" compensation;
- the advantages and disadvantages of the local board system, the agent multiple-employer public retirement system model and the feasibility of establishing a single employer public retirement system model; and
- procedures, determinations and granting of accidental and ordinary disability retirements and the effect of local boards in providing adequate cost controls for these disability requirements.

Indiana. Chapter 95, Laws of 2011 (Senate Bill 39) requires the Commission on State Tax and Financing Policy to study how the Indiana income tax structure, including existing and potentially new income tax credits and deductions, may influence a senior's decision on residency in Indiana after retirement.

Public Law No. 22-2011 (Senate Bill 524) urges the Legislative Council to assign to the Pension Management Oversight Commission the study of whether to create a defined contribution plan as an option for new employees of political subdivisions that participate in PERF and for new employees who are eligible to become members of the Teachers' Retirement Fund. It requires, if the Commission is assigned the topic, that the Commission issue findings and recommendations, including any recommended legislation, not later than November 1, 2011.

Kansas. House Bill 2194 (signed by the governor May 25, 2011) makes its various revisions to the Kansas Public Employee Retirement plans contingent upon both chambers holding a vote on recommendations of a pension study commission that the bill establishes. The 13-member KPERS Study Commission will consider alternative retirement plans, including defined contribution plans, hybrid plans that could include a defined contribution component, and other possible plans. The commission is required to make its recommendations no later than January 6, 2012. The recommendations then will be introduced as identical bills in each chamber of the legislature. For other provisions in the bill to become effective, each chamber will have to vote on the bill introduced in that chamber in 2012.

Maine. Chapter 380, Public Laws of 2011 (L.D. 1043, the Biennial Budget Bill for fiscal years 2012 and 2013) Establishes a working group to develop an implementation plan designed to close the current defined benefit retirement plan for all state employees and teachers and replace it with a retirement benefit plan, supplemental to Social Security, that applies to all state employees and teachers who are first hired after June 30, 2015 with no prior creditable service.

Nebraska. The Legislature will conduct an interim study to conduct to analyze the costs of converting the school plan and the state patrol plan to cash balance plans. In addition the actuary is looking at the cost savings of enacting new tiers of reduced benefits in each of these plans.

New Hampshire. Chapter 101, Laws of 2011 (House Bill 580) establishes a committee of three senators and four representatives to study such matters as it deems necessary related to public employer collective bargaining agreements with public employees and to report its findings on or before December 1, 2011.

New Hampshire. House Bill 2, the Budget Trailer Bill (to the governor June 22) establishes a joint legislative study committee to make recommendations on the establishment of a tax qualified voluntary defined contribution plan, and a second joint study committee to review disability retirement, medical subsidies and cost of living adjustments. Both are to report by November 1, 2011.

15. Taxation of Retirement Income

Maine. Public Law No. 2011-138 (House Bill 284) provides a state income tax exemption for annuity income made to the survivor of a deceased member of the military as the result of service in active or reserve components of the United States Army, Navy, Air Force, Marines or Coast Guard under a survivor benefit plan or reserve component survivor benefit plan pursuant to 10 United States Code, Chapter 73, to the extent the annuity income is included in federal adjusted gross income, effective for tax year 2011 and thereafter.

Michigan. Chapter 38, Laws of 2011 (House Bill 4361), increases personal income taxes on retirement income.

The bill restricts and restructures the retirement income tax exemptions. Under current law, Social Security, military, federal, state and local government retirement/retirement income is fully exempt. Private retirement benefits are exempt up to \$45,120 single/\$90,240 joint (Tax Year 2010). These levels are indexed to inflation. In Michigan, defined benefit plans, IRAs, and annuities are fully exempt. Also, 401(k) distributions attributable to employer contributions or to employee contributions that are matched by the employer are exempt, but distributions attributable to employee contributions that are not matched by the employer are currently subject to the state income tax, subject to the private retirement limits. In addition, 401(k)s with no employer match are not considered retirement income and therefore are completely subject to the income tax.

Under this legislation, the treatment of retirement income would depend upon a taxpayer's age (and the age of the older spouse for a joint return), as follows:

- Taxpayers born before 1946 would continue to have the same treatment of retirement and Social Security income as in current law, and could claim the personal exemptions for which they are eligible.
- Taxpayers born in 1946 and through 1952 could take an exemption of \$20,000 for a single return and \$40,000 for joint return against retirement income until age 67, and then could take that same exemption amount against all types of income. In addition, these taxpayers at any age could claim personal exemptions for which they were eligible and could exempt Social Security income. However, the \$20,000/\$40,000 exemption would not be available when total household resources exceed \$75,000 for a single return or \$150,000 for a joint return. (Further, taxpayers would not be eligible for the \$20,000/\$40,000 unrestricted deduction if they take the deduction for Armed Forces retirement income or income under the Railroad Retirement Act.)
- Taxpayers born after 1952 will receive no exemption for retirement income until reaching age 67, except for the Social Security exemption. Then, the taxpayer will have a choice between (1) the \$20,000/40,000 exemption against all types of income, with no personal exemptions and with no additional exemption for Social Security, or (2) continuing the exemption for Social Security, along with the personal exemptions for which they were eligible. However, the \$20,000/\$40,000 exemption would not be available where total household resources exceeded \$75,000 for a single return or \$150,000 for a joint return. (Further, taxpayers would not be eligible for the \$20,000/\$40,000 unrestricted deduction if they took the deduction for Armed Forces retirement income or income under the Railroad Retirement Act.)

The legislation eliminates the dividends, interest, capital gains exemption received by seniors, but only for seniors born after 1945. Under current law, senior investment income up to \$10,058 single/\$20,115 joint (TY 2010, indexed to inflation) is exempt. This exemption would continue to apply to seniors born in 1945 and earlier.

Source: House Legislative Analysis, May 23, 2011

<http://www.legislature.mi.gov/documents/2011-2012/billanalysis/House/htm/2011-HLA-4361-6.htm>

Other bills address additional technical details related to these changes. These bills (House Bills 4480-4484) would amend the State Employees Retirement Act, the Public School Employees Retirement Act, the Michigan Legislative Retirement System Act (for legislators), the Judges Retirement Act, and Public Act 339 of 1927, which provides for retirement allowances for employees of public libraries in cities over 250,000. Summaries of these bills are available on the Michigan Legislature's website.

Opponents of the taxation of retirement income raised the question of its constitutionality in light of the state constitution's language protecting pensions. In mid-June 2011, the Michigan Supreme Court granted Gov. Rick Snyder's request to consider the constitutionality of how pension income will be taxed beginning Jan. 1. Snyder is asking the seven justices to rule whether applying the personal income tax to the pension income of public retirees violates the state constitutional prohibition against impairing or diminishing a public pension benefit. Oral arguments are scheduled for September 7.

New Jersey. Senate Bill 2345, vetoed by the governor on February 18, 2011, would have expanded the amounts of personal income exempted from personal income tax for people over 62. It would have exempted income up to \$100,000 and phased out the exemption for amounts between \$100,000 and \$110,000. The estimated revenue loss of the legislation was \$62.4 million to \$64.8 million in FY2012 and FY2013, with annual increases thereafter.

Tennessee. Chapter 396, Laws of 2011 (Senate Bill 261) increases exemptions from the Hall Income Tax (a tax on interest and dividends) for people over the age of 65 from a total income of \$16,200, filing singly, to \$26,200, and from \$27,000 to \$37,000 for those filing jointly.