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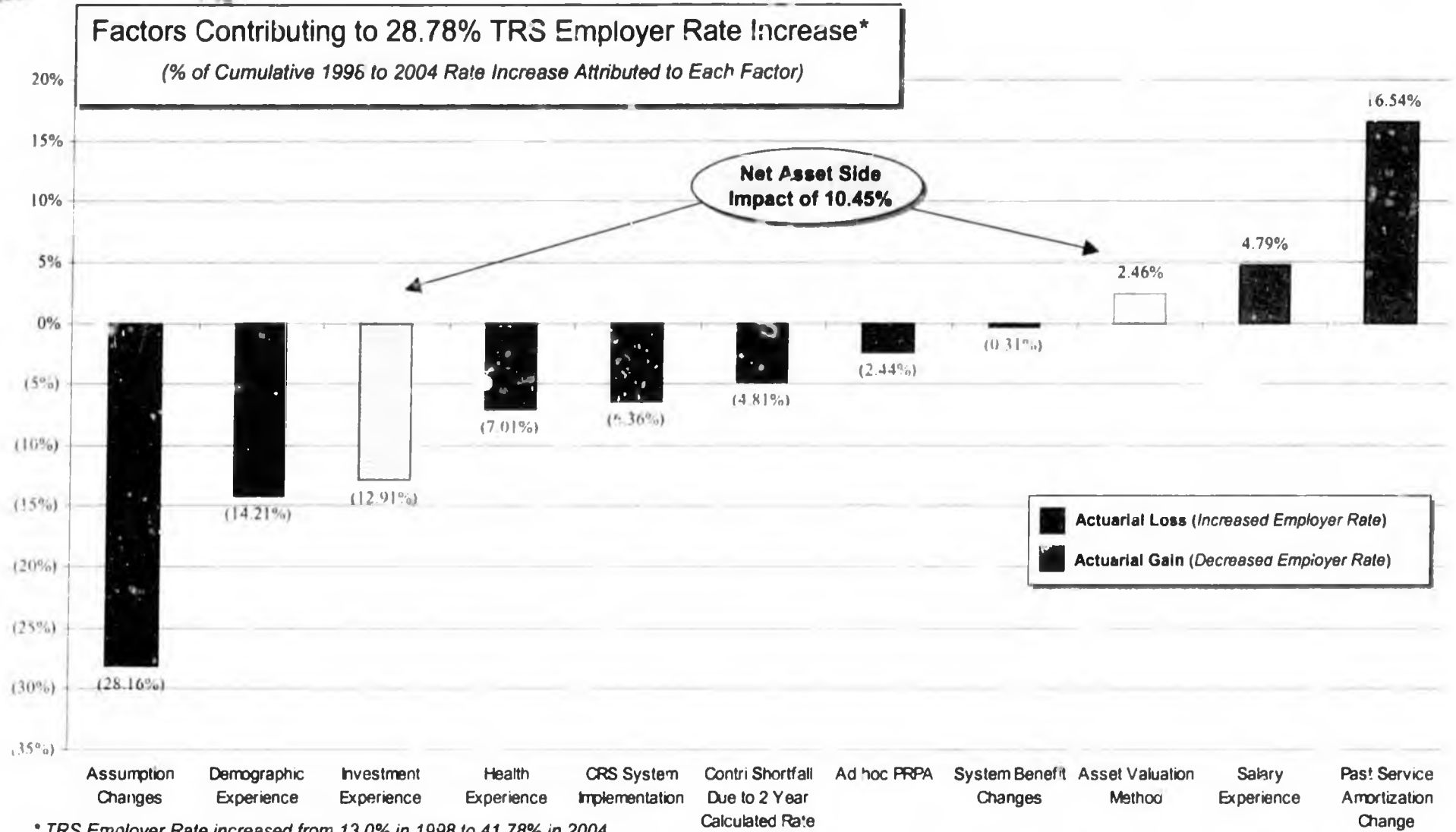
1707 HOUSE STATE AFFAIRS



PERS Analysis of Valuation
Cumulative Change in Average Employer Contribution Rate
1998 to 2004

Type of Gain or Loss (as of June 30)	Weighted Absolute Change	Absolute Change	Total	2004	2003	2002	2001	2000	1999	1998
Health Experience	10.51%	3.68%	3.68%	0.00%	0.00%	3.68%	0.00%	0.00%	0.00%	0.00%
Salary Experience	5.80%	2.03%	(2.03%)	0.08%	(0.19%)	(0.20%)	(1.03%)	0.00%	(0.23%)	(0.46%)
Investment Experience	10.68%	3.81%	3.81%	0.02%	0.31%	7.24%	0.11%	(0.12%)	(0.49%)	(3.26%)
Demographic Experience	9.83%	3.44%	3.44%	0.54%	0.40%	1.21%	0.77%	(0.81%)	0.21%	1.12%
Net Gains & Loss Due to Experience			8.90%	0.64%	0.52%	11.93%	(0.15%)	(0.93%)	(0.51%)	(2.60%)
Asset Valuation Method	4.11%	1.44%	1.44%	0.00%	0.00%	4.11%	0.00%	(2.67%)	0.00%	0.00%
102% Funding Ratio Adjustments	1.89%	0.66%	0.66%	0.00%	(0.90%)	0.00%	0.57%	0.00%	0.00%	0.99%
Past Service Amortization Change	14.45%	5.06%	(5.06%)	0.00%	0.00%	(5.06%)	0.00%	0.00%	0.00%	0.00%
Contribution Shortfall compared to average Employer Calculated rate	5.68%	1.99%	1.99%	0.89%	1.10%					
Assumption Changes	34.79%	12.18%	12.18%	1.03%	0.00%	6.98%	0.00%	3.09%	0.00%	1.08%
System Benefit Changes	0.60%	0.21%	0.21%	0.00%	0.00%	0.04%	0.17%	0.00%	0.00%	0.00%
Ad hoc PRPA	1.46%	0.51%	0.51%	0.00%	0.00%	0.14%	0.06%	0.07%	0.04%	0.20%
Total Non-Recurring Changes	100.00%	35.01%	11.93%	1.92%	0.20%	6.21%	0.80%	0.49%	0.04%	2.27%
Composite (Gain) or Loss During Year				2.56%	0.72%	18.14%	0.65%	(0.44%)	(0.47%)	(0.33%)
Beginning Average Employer Contribution Rate				25.63%	24.91%	6.77%	6.12%	6.56%	7.03%	7.36%
Ending Average Employer Contribution Rate				28.19%	25.63%	24.91%	6.77%	6.12%	6.56%	7.03%
Annual Payroll (000's)				1472987	1460783	1402686	1360401	1321480	1283549	1235439
Annual Contribution				377527	363881	94962	83257	86689	90233	90928
Yr to Yr Change				13646	268919	11705	-3433	-3544	-695	





A Combination of Factors Created Our Present Situation



By: The Senate Finance Committee
Date: April 19th, 2005

TRS Analysis of Valuation

Cumulative Change in Average Employer Contribution Rate 1998 through 2004

TRS Employer Rate increased cumulatively by 28.78% over 6 years - from 13.0% in 1998 to 41.78% in 2004

What factors contributed to that increase?

% of Cumulative 1998 to 2004 Rate Increase Attributed to Each Factor

Type of Gain or Loss	Impact Years	TRS		
		Weighted Absolute Change	Absolute Change 1998-2004	Payroll Impact (000's)
Assumption Changes	2000, 2002, 2004	(28.16%)	15.46%	\$ (14,922)
Demographic Experience	All	(14.21%)	7.80%	\$ (7,528)
Investment Experience	All	(12.91%)	7.09%	\$ (6,843)
Health Experience	2002	(7.01%)	3.85%	\$ (3,716)
CRS System Implementation	2001	(6.36%)	3.49%	\$ (3,368)
Contri Shortfall Due to 2 Year Calculated Rate	2003 ~ 2004	(4.81%)	2.64%	\$ (2,548)
Ad hoc PRPA	1998 thru 2002	(2.44%)	1.34%	\$ (1,293)
System Benefit Changes	2001	(0.31%)	0.17%	\$ (164)
Asset Valuation Method	2000, 2002	2.46%	1.35%	\$ 1,303
Salary Experience	All but 2002	4.79%	2.63%	\$ 2,538
Past Service Amortization Change	2002	16.54%	9.08%	\$ 8,764
		100.00%	54.90%	\$ 52,988



TRS Analysis of Valuation
 Cumulative Change in Average Employer Contribution Rate
 1998 to 2004

Type of Gain or Loss (as of June 30)	Weighted Absolute Change	Absolute Change	Total	2004	2003	2002	2001	2000	1999	1998
Health Experience	7.01%	3.85%	3.85%	0.00%	0.00%	3.85%	0.00%	0.00%	0.00%	0.00%
Salary Experience	4.79%	2.63%	(2.63%)	0.54%	0.10%	(0.11%)	(1.68%)	0.00%	(0.64%)	(0.84%)
Investment Experience	12.91%	7.09%	7.09%	0.06%	0.43%	15.03%	1.35%	(3.35%)	(3.73%)	(2.70%)
Demographic Experience	14.21%	7.80%	7.80%	(0.85%)	1.35%	4.21%	2.66%	(0.91%)	0.80%	0.54%
Net Gains & Loss Due to Experience			16.11%	(1.25%)	1.88%	22.98%	2.33%	(4.26%)	(3.57%)	(3.00%)
Asset Valuation Method	2.46%	1.35%	(1.35%)	0.00%	0.00%	0.03%	0.00%	(1.38%)	0.00%	0.00%
CRS System Implementation	6.36%	3.49%	3.49%	0.00%	0.00%	0.00%	3.49%	0.00%	0.00%	0.00%
Past Service Amortization Change	16.54%	9.08%	(9.08%)	0.00%	0.00%	(9.08%)	0.00%	0.00%	0.00%	0.00%
Contribution Shortfall compared to average Employer Calculated rate	4.81%	2.64%	2.64%	1.24%	1.40%					
Assumption Changes	28.16%	15.46%	15.46%	1.94%	0.00%	6.84%	0.00%	6.68%	0.00%	0.00%
System Benefit Changes	0.31%	0.17%	0.17%	0.00%	0.00%	0.00%	0.17%	0.00%	0.00%	0.00%
Ad hoc PRPA	2.44%	1.34%	1.34%	0.00%	0.00%	0.36%	0.16%	0.16%	0.11%	0.55%
Total Non-Recurring Changes	100.00%	54.90%	12.67%	3.18%	1.40%	(1.85%)	3.82%	5.46%	0.11%	0.55%
Composite (Gain) or Loss During Year				2.93%	3.28%	21.13%	6.15%	1.20%	(3.46%)	(2.45%)
Beginning Average Employer Contribution Rate				38.85%	35.57%	14.44%	8.29%	7.09%	10.55%	13.00%
Ending Average Employer Contribution Rate				41.78%	38.85%	35.57%	14.44%	8.29%	7.09%	10.55%
Annual Payroll (000's)				522421	532630	509437	496188	482571	466414	469433
Annual Contribution				202961	189456	73563	41134	34214	49207	61026
Yr to Yr Change				13504	115894	32429	6920	-14992	-11820	





Assumptions:

Demographic Assumptions *Relate to the plan's populations and how they are expected to change over time*

Total Turnover Rate

Disability Rate

Retirement Rates

Assumed Retirement Date if Before Age 50

Mortality Rates

Economic Assumptions *Relate to the expected long-term financial experience of the plan*

Total Inflation

Annual investment return

Annual Salary Increases

Post Retirement Health Premium Trend

Actuarial Assumptions *In addition to Demographic and Economic Assumptions, the following additional assumptions are inputs in the actuarial analysis*

Target Funding Ratio

COLA – % of retirees receiving

Spouse's Age

Dependent Children

Contribution Refund Rates

New entrants

Post-Pension Retirement Adjustments

Expenses

Marital Status

Assumption Changes:

As a result of a 2000 experience study in which system experience was compared to actuarial assumptions, a new set of assumptions was adopted in December of 2000. The net effect of the change resulted in an actuarial loss of 3.09% in PERS and 6.68% in TRS.

As a result of the 2002 Actuarial Audit performed by Milliman USA, a new set of actuarial assumptions were adopted effective June 30, 2002. Assumption changes included Health Cost Trends, Mortality, % of Retirees receiving COLA, Turnover Rates, Assumed Retirement Ages. For 2002, changes in the health cost trend assumption only, resulted in an actuarial loss in TRS of 6.84% and in PERS by 6.98%.





Investment Experience:

Adjustments as a result of differences between assumed investment results and actual investment experience (results).

In 2002, the board changed the asset valuation method and immediately recognized all deferred losses. This resulted in an actuarial loss in PERS of 7.24% and in TRS of 15.03%.

Health Experience:

Adjustments as a result of differences between assumed health expenses and actual health experience (costs).

On June 30, 2002, the assumed total blended Health premium was reset to the actual total blended premium for FY03. The resetting increased the total employer contribution rate by 3.85% in TRS and 3.68% in PERS. Going forward, the difference between the assumed rate and the actual rate will be tracked annually and reduced if the gap becomes too wide.

Demographic Experience:

Adjustments as a result of comparing assumptions about the demographic statistics (i.e. population) of the system, with the actual statistics. Factors include - number of active participants, average age of participants, average credited service, number of beneficiaries, number of vested/terminated, etc.

CRS System Implementation:

The Div of Retirement & Benefits implemented a new administrative system (CRS) in 2000 for TRS. The new system provides more accurate data to be used in the annual actuarial valuations. Due to the differences in the data between the old and new systems, there were one-time data adjustments which affected the liabilities calculated for the System. The net effect of these changes was to increase the 2001 employer contribution rate in TRS by 3.49%.

Contribution Shortfall:

2003: An average employer calculated rate are determined 2 years prior to the fiscal year. So the 2003 valuation is setting the FY05 and FY06 rates. When the next year's valuation is finished, the difference between the new calculated rate and the one from the year prior determines the shortfall.





Asset Valuation Method:

PERS:

Prior to 2002, in developing asset valuations, PERS used what's called the corridor method. Investment returns are expected to be equal to the investment assumption of 8.25%. The valuation assets, plus (minus) the outstanding balance of previously amortized amounts, are then compared to a 5% corridor around the market value of assets. Any amount outside the corridor is amortized and applied to the employer contribution rates as a level percentage of the present value of pay over 20 years under the 1% population scenario. For 2000, recognition of additional investment gains outside the corridor resulted in an actuarial gain of 2.67%.

Effective June 30, 2002 - As a result of the Actuarial Audit performed by Milliman USA in 2002, the Board adopted a new asset valuation method. This new smoothing method - recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method is being phased in over the next five years. Due to this change, the accumulated adjustment from the corridor method is now included in the amortization of the unfunded liability. Elimination of the corridor adjustment created a 2002 actuarial loss of 4.11% in PERS.

TRS:

Prior to 2000, in developing asset valuations, TRS used a smoothing technique to smooth over five years the difference between actual and expected return. One purpose was to adopt a method which better accomplished the goal of smoothing volatility in investment returns.

Beginning in 2000, TRS began using the corridor method instead of the smoothing method. The corridor adjustment for 2000 resulted in an actuarial gain of 1.38%.

Effective June 30, 2002 - As a result of the Actuarial Audit performed by Milliman USA in 2002, the Board adopted a new asset valuation method. This new smoothing method - recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method is being phased in over the next five years. Due to this change, the accumulated adjustment from the corridor method is now included in the amortization of the unfunded liability. Elimination of the corridor adjustment created a 2002 actuarial loss of .03% in TRS.





102% Funding Ratio Adjustments:

1998: PERS Board adopted an actuarial method that would target an ultimate funding ratio of 102%. An adjustment 's made to the current and projected unfunded accrued liability so that the projected employer contributions to the System will result in an ultimate funding ratio of 102%. The 1998 adjustment created an actuarial loss of 0.99%.

2001: The adjustment for the 102% Target Funding Ratio created an actuarial loss of 0.57%

2003: Effective June 30, 2003, the PERS Board eliminated the requirement that the average employer contribution rate be calculated based on 102% of the system's accrued liability and instead adopted a target ratio of 100%. The change created an actuarial gain of 0.90%.

Ad hoc PRPA

1998: An ad hoc Post Retirement Pension Adjustment (PRPA) was granted which increased benefit payments to many Tier I (hired before July 1, 1990) retirees and producing an actuarial loss to TRS of approx. \$28,954,000 and PERS of \$28,204,000.

1999: An ad hoc PRPA was granted producing an actuarial loss to TRS of \$5,681,000/PERS of \$6,084,000

2000: An ad hoc PRPA was granted producing an actuarial loss to TRS of \$8,410,000 & PERS of \$9,495,000

2001: An ad hoc PRPA was granted producing an actuarial loss to TRS of \$8,226,000 & PERS of \$8,897,000

2002: An ad hoc PRPA was granted producing an actuarial loss to TRS of \$19,456,000 & PERS of \$20,105,000





System Benefit Changes:

2001 - TRS/PERS - Effective June 30, 2001, all retired member over age 60 and all members who retire with at least twenty-five years of membership service become eligible for full System-paid post employment healthcare benefits, regardless of hire date.

2002 - PERS - Effective June 30, 2002: For all Police/Fire member, the number of years for calculation of average monthly compensation is now 3 years; the occupational death benefit for survivors of Police/Fire members is not the greater of 50% of the member's final salary or 75% of the normal retirement benefit the member would have earned had the member survived to normal retirement age; upon reaching normal retirement age, a disabled Police/Fire member now receives the greater of his/her disability benefit or his/her normal retirement benefit.

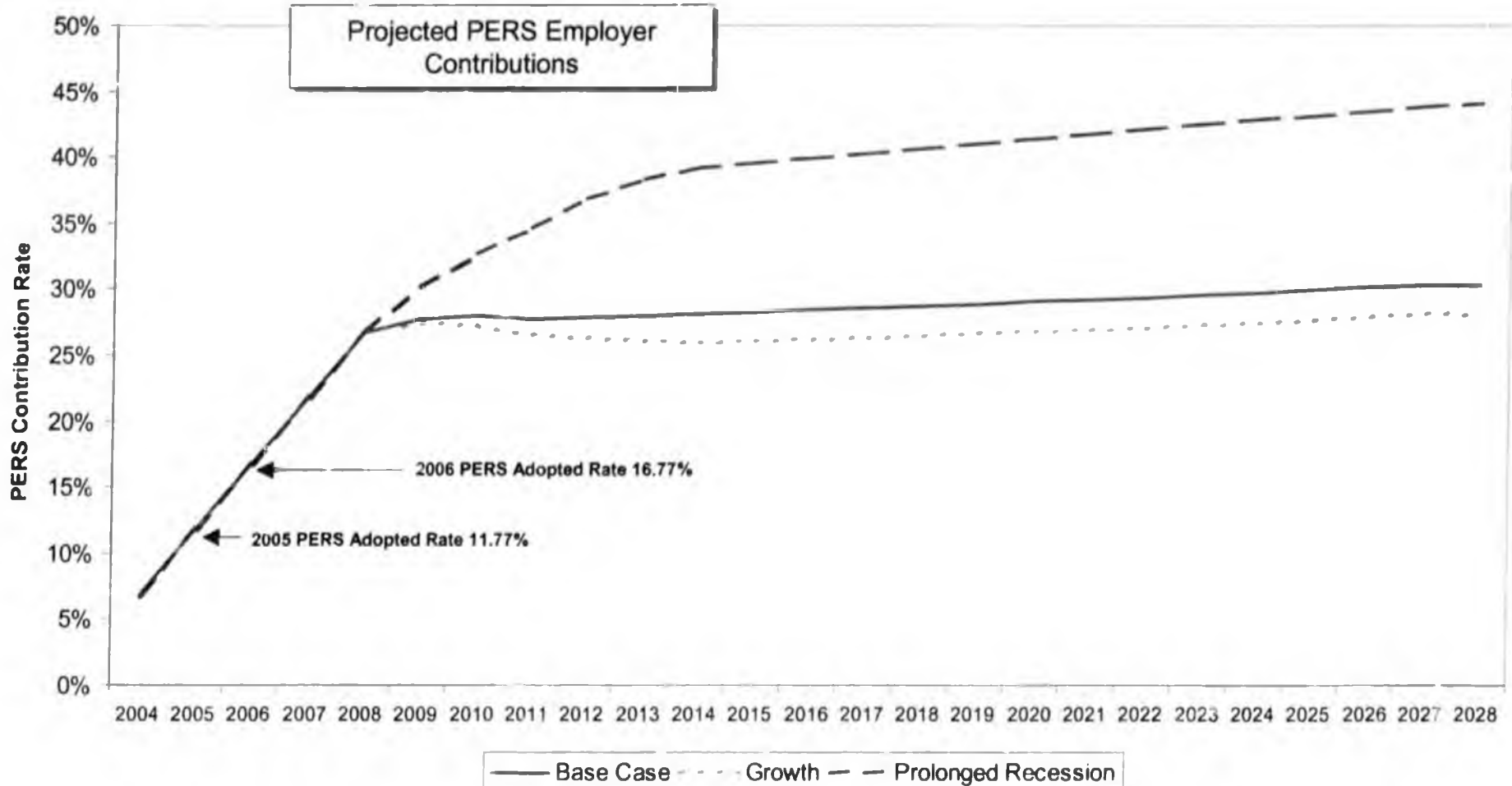
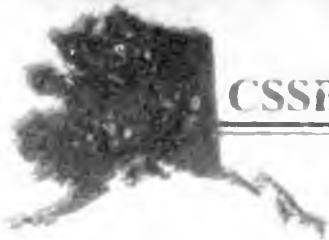
Salary Experience:

Adjustments as a result of differences between assumed salary increases and actual salary experience. For both PERS and TRS, salary increases over the past several years have been less than anticipated which has resulted in net actuarial gains to both systems.

Past Service Amortization Change:

As a result of the 2002 Actuarial Audit performed by Milliman USA in 2002, effective June 30, 2002, the Board adopted a 25-year fixed period level percentage of pay amortization of the Unfunded Accrued Liability. This change is consistent with the 5-year recognition of gains or losses used in the new asset valuation method. The change in the Past Service Amortization methodology caused an actuarial gain in TRS of 9.08% and PERS of 5.06%.

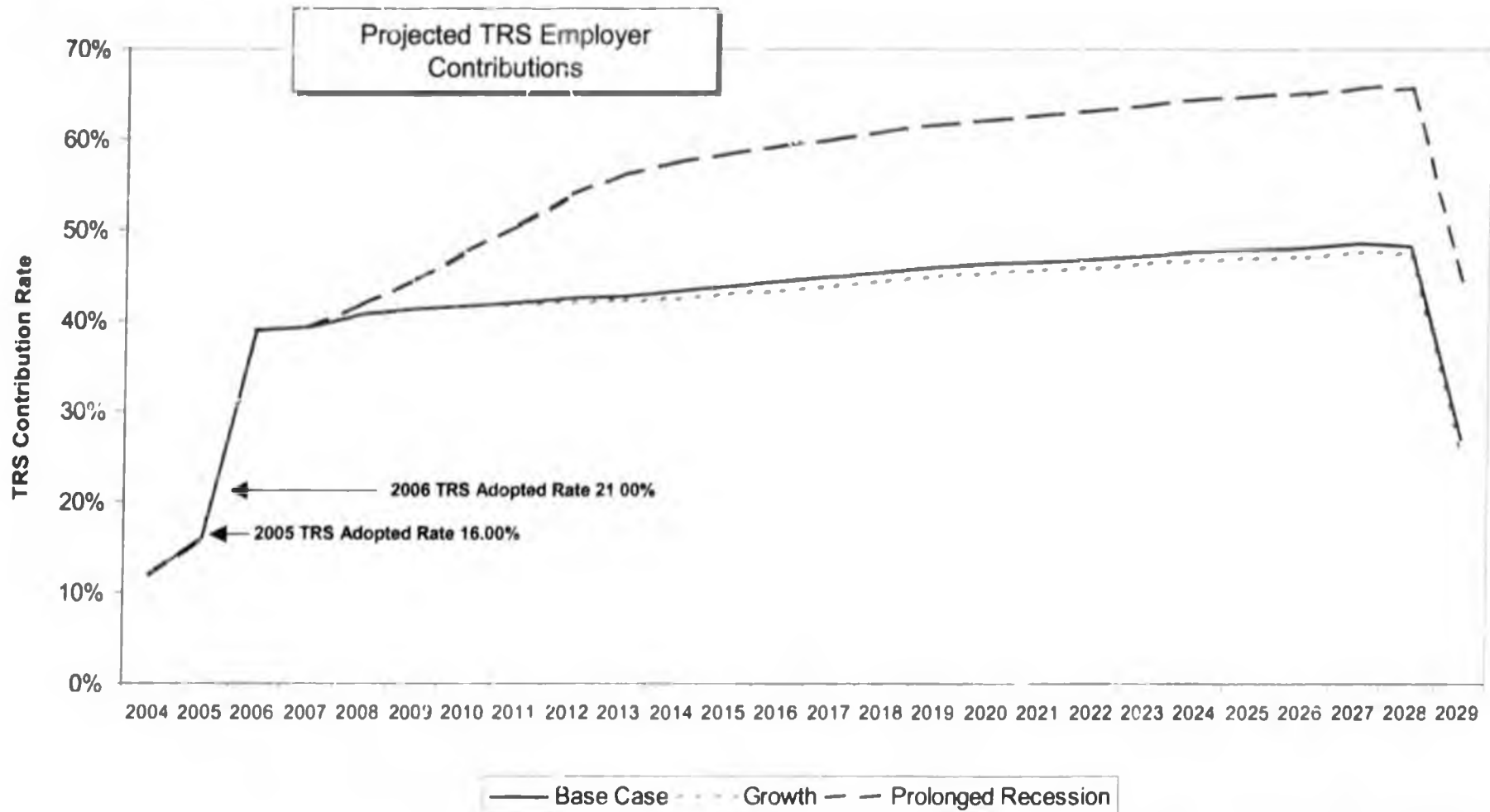




Assuming an Annual Population Increase 1%

To Catch Up, We're Now Facing Untenable Contribution Rates





To Catch Up, We're Now Facing Untenable Contribution Rates





FY 06 Normal Cost Comparisons – Proposed DC Plan vs. Existing TRS/PERS (all Tiers)

FY 06 Normal Cost Rates

	TRS	PERS	DC Plan
Medical normal cost rate	9.07%	8.68%	1.75%
Defined contribution rate	13.90%	11.37%	12.50%
HRA contribution rate	0.0%	0.0%	2.00%
Gross normal cost rate	22.97%	20.05%	16.25%
Member contribution rate	(8.69)%	(6.81)%	(8.00)%
Employer normal cost rate	14.28%	13.24%	8.25%





FY 07 Normal Cost Comparisons – Proposed DC Plan vs. Existing TRS/PERS (all Tiers)

FY 07 Normal Cost Rates

	TRS	PERS	DC Plan
Medical normal cost rate	8.75%	8.86%	1.75%
Defined contribution rate	13.69%	11.27%	12.50%
HRA contribution rate	0.0%	0.0%	2.00%
Gross normal cost rate	22.44%	20.13%	16.25%
Member contribution rate	(8.68)%	(6.81)%	(8.00)%
Employer normal cost rate	13.76%	13.32%	8.25%



Hire Date 7/1/2004
 Age at hire 25
 Age at retirement 55
 Normal retirement age 50
 Service 30

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 25 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group, does not change from current

Salary \$35,000
 Wage inflation 4.0%

HRA contribution rate 1.0%
 HRA accumulation rate 8.25%

Subsidy Base \$5,982
 Subsidy index 5%
 Subsidy percent 90%

HRA Fund at retirement \$64,622
 Total retiree contribution \$153,721
 Net retiree cost (w/HRA int) \$72,348

Mid year or monthly slightly Bonus fund of year bonus
limited by 5% growth
90%

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	25	\$35,000	\$350	\$364	\$6,260	1.11	\$0	\$6,260	\$5,634	\$0	\$0	\$0	\$0
2	26	\$36,430	\$364	\$773	\$6,935	1.11	\$0	\$6,573	\$5,916	\$0	\$0	\$0	\$0
3	27	\$37,856	\$379	\$1,231	\$7,645	1.10	\$0	\$6,902	\$6,212	\$0	\$0	\$0	\$0
4	28	\$39,370	\$394	\$1,742	\$8,385	1.10	\$0	\$7,247	\$6,522	\$0	\$0	\$0	\$0
5	29	\$40,945	\$409	\$2,311	\$9,149	1.09	\$0	\$7,609	\$6,848	\$0	\$0	\$0	\$0
6	30	\$42,583	\$426	\$2,945	\$9,930	1.09	\$0	\$7,990	\$7,191	\$0	\$0	\$0	\$0
7	31	\$44,286	\$443	\$3,649	\$10,721	1.08	\$0	\$8,389	\$7,550	\$0	\$0	\$0	\$0
8	32	\$46,058	\$461	\$4,429	\$11,511	1.07	\$0	\$8,809	\$7,928	\$0	\$0	\$0	\$0
9	33	\$47,900	\$479	\$5,293	\$12,292	1.07	\$0	\$9,249	\$8,324	\$0	\$0	\$0	\$0
10	34	\$49,816	\$498	\$6,248	\$13,053	1.06	\$0	\$9,711	\$8,740	\$0	\$0	\$0	\$0
11	35	\$51,809	\$518	\$7,302	\$13,783	1.06	\$0	\$10,197	\$9,177	\$0	\$0	\$0	\$0
12	36	\$53,881	\$539	\$8,465	\$14,473	1.05	\$0	\$10,707	\$9,636	\$0	\$0	\$0	\$0
13	37	\$56,036	\$560	\$9,747	\$15,196	1.05	\$0	\$11,242	\$10,118	\$0	\$0	\$0	\$0
14	38	\$58,278	\$583	\$11,157	\$15,956	1.05	\$0	\$11,804	\$10,624	\$0	\$0	\$0	\$0
15	39	\$60,609	\$606	\$12,708	\$16,754	1.05	\$0	\$12,395	\$11,155	\$0	\$0	\$0	\$0
16	40	\$63,033	\$630	\$14,412	\$17,592	1.05	\$0	\$13,014	\$11,713	\$0	\$0	\$0	\$0
17	41	\$65,554	\$656	\$16,284	\$18,471	1.05	\$0	\$13,665	\$12,299	\$0	\$0	\$0	\$0
18	42	\$68,177	\$682	\$18,336	\$19,395	1.05	\$0	\$14,348	\$12,913	\$0	\$0	\$0	\$0
19	43	\$70,904	\$709	\$20,597	\$20,364	1.05	\$0	\$15,066	\$13,559	\$0	\$0	\$0	\$0
20	44	\$73,740	\$737	\$23,072	\$21,383	1.05	\$0	\$15,819	\$14,237	\$0	\$0	\$0	\$0
21	45	\$76,689	\$767	\$25,852	\$22,452	1.05	\$0	\$16,610	\$14,949	\$0	\$0	\$0	\$0
22	46	\$79,757	\$798	\$28,706	\$23,574	1.05	\$0	\$17,440	\$15,696	\$0	\$0	\$0	\$0
23	47	\$82,947	\$829	\$31,938	\$24,753	1.05	\$0	\$18,312	\$16,481	\$0	\$0	\$0	\$0
24	48	\$86,265	\$863	\$35,470	\$25,991	1.05	\$0	\$19,228	\$17,305	\$0	\$0	\$0	\$0
25	49	\$89,716	\$897	\$39,330	\$27,290	1.05	\$0	\$20,189	\$18,171	\$0	\$0	\$0	\$0
26	50	\$93,304	\$933	\$43,545	\$28,655	1.05	\$0	\$21,199	\$19,079	\$0	\$0	\$0	\$0
27	51	\$97,036	\$970	\$48,147	\$30,088	1.05	\$0	\$22,259	\$20,033	\$0	\$0	\$0	\$0
28	52	\$100,918	\$1,009	\$53,170	\$31,592	1.05	\$0	\$23,372	\$21,035	\$0	\$0	\$0	\$0
29	53	\$104,955	\$1,050	\$58,648	\$33,172	1.05	\$0	\$24,540	\$22,086	\$0	\$0	\$0	\$0
30	54	\$109,153	\$1,092	\$64,622	\$34,830	1.05	\$0	\$25,767	\$23,191	\$0	\$0	\$0	\$0
31	55	\$0	\$0	\$57,238	\$36,572	1.05	\$36,572	\$27,056	\$24,350	\$24,350	\$12,221	\$64,622	\$12,221
32	56	\$0	\$0	\$43,608	\$38,400	1.05	\$38,400	\$28,409	\$25,568	\$25,568	\$12,833	\$57,238	\$12,833
33	57	\$0	\$0	\$38,600	\$40,320	1.05	\$40,320	\$29,829	\$26,846	\$26,846	\$13,474	\$48,608	\$13,474
34	58	\$0	\$0	\$27,064	\$42,336	1.05	\$42,336	\$31,320	\$28,188	\$28,188	\$14,148	\$38,600	\$14,148
35	59	\$0	\$0	\$13,841	\$44,453	1.05	\$44,453	\$32,886	\$29,598	\$29,598	\$14,855	\$27,064	\$14,855
36	60	\$0	\$0	\$0	\$46,676	1.05	\$46,676	\$34,531	\$31,078	\$31,078	\$15,598	\$13,841	\$13,841
37	61	\$0	\$0	\$0	\$49,010	1.05	\$49,010	\$36,257	\$32,632	\$32,632	\$16,376	\$0	\$0
38	62	\$0	\$0	\$0	\$51,460	1.05	\$51,460	\$38,070	\$34,263	\$34,263	\$17,197	\$0	\$0
39	63	\$0	\$0	\$0	\$54,033	1.05	\$54,033	\$39,974	\$35,976	\$35,976	\$18,057	\$0	\$0
40	64	\$0	\$0	\$0	\$56,735	1.05	\$56,735	\$41,972	\$37,775	\$37,775	\$18,900	\$0	\$0

Please contact

Early Hire 17.

Hire Date 7/1/2004
 Age at hire 25
 Age at retirement 55
 Normal retirement age 50
 Service 30

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 25 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group, does not change from current

Salary \$35,000
 Wage inflation 4.0%

HRA contribution rate 1.5%
 HRA accumulation rate 8.25%

Subsidy Base \$5,962
 Subsidy index 5%
 Subsidy percent 90%

HRA Fund at retirement \$96,933
 Total retiree contribution \$153,721
 Net retiree cost (w/HRA int) \$12,714

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	25	\$35,000	\$525	\$546	\$6,260	1.11	\$0	\$6,260	\$5,634	\$0	\$0	\$0	\$0
2	26	\$36,400	\$546	\$1,159	\$6,935	1.11	\$0	\$6,573	\$5,916	\$0	\$0	\$0	\$0
3	27	\$37,856	\$568	\$1,846	\$7,645	1.10	\$0	\$6,902	\$6,212	\$0	\$0	\$0	\$0
4	28	\$39,370	\$591	\$2,613	\$8,385	1.10	\$0	\$7,247	\$6,522	\$0	\$0	\$0	\$0
5	29	\$40,945	\$614	\$3,467	\$9,149	1.09	\$0	\$7,609	\$6,848	\$0	\$0	\$0	\$0
6	30	\$42,583	\$639	\$4,418	\$9,930	1.09	\$0	\$7,990	\$7,191	\$0	\$0	\$0	\$0
7	31	\$44,286	\$664	\$5,472	\$10,721	1.08	\$0	\$8,389	\$7,550	\$0	\$0	\$0	\$0
8	32	\$46,053	\$691	\$6,644	\$11,511	1.07	\$0	\$8,803	\$7,928	\$0	\$0	\$0	\$0
9	33	\$47,900	\$718	\$7,939	\$12,292	1.07	\$0	\$9,249	\$8,324	\$0	\$0	\$0	\$0
10	34	\$49,816	\$747	\$9,372	\$13,053	1.06	\$0	\$9,711	\$8,740	\$0	\$0	\$0	\$0
11	35	\$51,809	\$777	\$10,953	\$13,783	1.06	\$0	\$10,197	\$9,177	\$0	\$0	\$0	\$0
12	36	\$53,881	\$808	\$12,698	\$14,473	1.05	\$0	\$10,707	\$9,636	\$0	\$0	\$0	\$0
13	37	\$56,036	\$841	\$14,620	\$15,105	1.05	\$0	\$11,242	\$10,118	\$0	\$0	\$0	\$0
14	38	\$58,273	\$874	\$16,736	\$15,656	1.05	\$0	\$11,804	\$10,624	\$0	\$0	\$0	\$0
15	39	\$60,609	\$909	\$19,062	\$16,754	1.05	\$0	\$12,395	\$11,155	\$0	\$0	\$0	\$0
16	40	\$63,033	\$945	\$21,619	\$17,592	1.05	\$0	\$13,014	\$11,713	\$0	\$0	\$0	\$0
17	41	\$65,554	\$983	\$24,425	\$18,471	1.05	\$0	\$13,665	\$12,299	\$0	\$0	\$0	\$0
18	42	\$68,177	\$1,023	\$27,504	\$19,395	1.05	\$0	\$14,348	\$12,913	\$0	\$0	\$0	\$0
19	43	\$70,904	\$1,064	\$30,860	\$20,364	1.05	\$0	\$15,066	\$13,559	\$0	\$0	\$0	\$0
20	44	\$73,740	\$1,106	\$34,579	\$21,383	1.05	\$0	\$15,819	\$14,237	\$0	\$0	\$0	\$0
21	45	\$76,689	\$1,150	\$38,628	\$22,452	1.05	\$0	\$16,610	\$14,949	\$0	\$0	\$0	\$0
22	46	\$79,757	\$1,196	\$43,060	\$23,574	1.05	\$0	\$17,440	\$15,696	\$0	\$0	\$0	\$0
23	47	\$82,947	\$1,244	\$47,907	\$24,753	1.05	\$0	\$18,312	\$16,481	\$0	\$0	\$0	\$0
24	48	\$86,265	\$1,294	\$53,205	\$25,991	1.05	\$0	\$19,228	\$17,305	\$0	\$0	\$0	\$0
25	49	\$89,716	\$1,346	\$58,995	\$27,290	1.05	\$0	\$20,189	\$18,171	\$0	\$0	\$0	\$0
26	50	\$93,304	\$1,400	\$65,318	\$28,655	1.05	\$0	\$21,199	\$19,079	\$0	\$0	\$0	\$0
27	51	\$97,036	\$1,456	\$72,221	\$30,088	1.05	\$0	\$22,259	\$20,033	\$0	\$0	\$0	\$0
28	52	\$100,918	\$1,514	\$79,754	\$31,592	1.05	\$0	\$23,372	\$21,035	\$0	\$0	\$0	\$0
29	53	\$104,955	\$1,574	\$87,972	\$33,172	1.05	\$0	\$24,540	\$22,086	\$0	\$0	\$0	\$0
30	54	\$109,153	\$1,637	\$96,933	\$34,830	1.05	\$0	\$25,767	\$23,191	\$0	\$0	\$0	\$0
31	55	\$0	\$0	\$92,214	\$36,572	1.05	\$36,572	\$27,056	\$24,350	\$24,350	\$12,221	\$96,933	\$12,221
32	56	\$0	\$0	\$86,471	\$38,400	1.05	\$38,400	\$28,409	\$25,568	\$25,568	\$12,833	\$92,214	\$12,833
33	57	\$0	\$0	\$79,586	\$40,320	1.05	\$40,320	\$29,820	\$26,846	\$26,846	\$13,474	\$86,471	\$13,474
34	58	\$0	\$0	\$71,432	\$42,336	1.05	\$42,336	\$31,320	\$28,188	\$28,188	\$14,148	\$79,586	\$14,148
35	59	\$0	\$0	\$61,869	\$44,453	1.05	\$44,453	\$32,886	\$29,598	\$29,598	\$14,855	\$71,432	\$14,855
36	60	\$0	\$0	\$50,744	\$46,676	1.05	\$46,676	\$34,531	\$31,078	\$31,078	\$15,598	\$61,869	\$15,598
37	61	\$0	\$0	\$37,890	\$49,010	1.05	\$49,010	\$36,257	\$32,632	\$32,632	\$16,378	\$50,744	\$16,378
38	62	\$0	\$0	\$23,124	\$51,460	1.05	\$51,460	\$38,070	\$34,263	\$34,263	\$17,197	\$37,890	\$17,197
39	63	\$0	\$0	\$6,245	\$54,033	1.05	\$54,033	\$39,974	\$35,976	\$35,976	\$18,057	\$23,124	\$18,057
40	64	\$0	\$0	\$0	\$56,735	1.05	\$56,735	\$41,972	\$37,775	\$37,775	\$18,960	\$6,245	\$6,245

Early Hire 1.5%

Hire Date	7/1/2004
Age at hire	40
Age at retirement	50
Normal retirement age	60
Service	20

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 25 years to normal retirement
 Assumes demographic composition of pre-Medicare retiree group does not change from current

Salary	\$35,000
Wage Inflation	4.0%

HRA contribution rate	1.0%
HRA accumulation rate	8.25%

Subsidy Base	\$5,962
Subsidy index	5%
Subsidy percent	60%

HRA Fund at retirement	\$23,052
Total retiree contribution	\$68,993
Net retiree cost (w/HRA int)	\$44,543

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	40	\$35,000	\$350	\$364	\$6,260	1.11	\$0	\$6,260	\$3,756	\$0	\$0	\$0	\$0
2	41	\$36,400	\$364	\$773	\$6,935	1.11	\$0	\$6,573	\$3,944	\$0	\$0	\$0	\$0
3	42	\$37,856	\$379	\$1,231	\$7,645	1.10	\$0	\$6,902	\$4,141	\$0	\$0	\$0	\$0
4	43	\$39,370	\$394	\$1,742	\$8,385	1.10	\$0	\$7,247	\$4,348	\$0	\$0	\$0	\$0
5	44	\$40,945	\$409	\$2,311	\$9,149	1.09	\$0	\$7,609	\$4,566	\$0	\$0	\$0	\$0
6	45	\$42,563	\$426	\$2,945	\$9,930	1.09	\$0	\$7,990	\$4,794	\$0	\$0	\$0	\$0
7	46	\$44,286	\$443	\$3,649	\$10,721	1.08	\$0	\$8,389	\$5,033	\$0	\$0	\$0	\$0
8	47	\$46,058	\$461	\$4,429	\$11,511	1.07	\$0	\$8,809	\$5,285	\$0	\$0	\$0	\$0
9	48	\$47,900	\$479	\$5,293	\$12,292	1.07	\$0	\$9,249	\$5,549	\$0	\$0	\$0	\$0
10	49	\$49,816	\$498	\$6,248	\$13,053	1.06	\$0	\$9,711	\$5,827	\$0	\$0	\$0	\$0
11	50	\$51,809	\$518	\$7,302	\$13,783	1.06	\$0	\$10,197	\$6,118	\$0	\$0	\$0	\$0
12	51	\$53,881	\$539	\$8,465	\$14,473	1.05	\$0	\$10,707	\$6,424	\$0	\$0	\$0	\$0
13	52	\$56,036	\$560	\$9,747	\$15,196	1.05	\$0	\$11,242	\$6,745	\$0	\$0	\$0	\$0
14	53	\$58,278	\$583	\$11,157	\$15,956	1.05	\$0	\$11,804	\$7,083	\$0	\$0	\$0	\$0
15	54	\$60,609	\$606	\$12,708	\$16,754	1.05	\$0	\$12,395	\$7,437	\$0	\$0	\$0	\$0
16	55	\$63,033	\$630	\$14,412	\$17,592	1.05	\$0	\$13,014	\$7,809	\$0	\$0	\$0	\$0
17	56	\$65,554	\$656	\$16,284	\$18,471	1.05	\$0	\$13,665	\$8,199	\$0	\$0	\$0	\$0
18	57	\$68,177	\$682	\$18,336	\$19,395	1.05	\$0	\$14,348	\$8,609	\$0	\$0	\$0	\$0
19	58	\$70,904	\$709	\$20,587	\$20,364	1.05	\$0	\$15,066	\$9,039	\$0	\$0	\$0	\$0
20	59	\$73,740	\$737	\$23,052	\$21,383	1.05	\$0	\$15,819	\$9,491	\$0	\$0	\$0	\$0
21	60	\$0	\$0	\$11,963	\$22,452	1.05	\$22,452	\$16,610	\$9,966	\$9,966	\$12,486	\$23,052	\$12,486
22	61	\$0	\$0	\$0	\$23,574	1.05	\$23,574	\$17,440	\$10,464	\$10,464	\$13,110	\$11,963	\$11,963
23	62	\$0	\$0	\$0	\$24,753	1.05	\$24,753	\$18,312	\$10,987	\$10,987	\$13,766	\$0	\$0
24	63	\$0	\$0	\$0	\$25,991	1.05	\$25,991	\$19,226	\$11,537	\$11,537	\$14,454	\$0	\$0
25	64	\$0	\$0	\$0	\$27,290	1.05	\$27,290	\$20,189	\$12,114	\$12,114	\$15,177	\$0	\$0

Late Hire 1%

Hire Date	7/1/2004
Age at hire	40
Age at retirement	60
Normal retirement age	60
Service	20

Assumes participant retires from system and is receiving system sponsored benefits
 Assumes only use of HRA funds is to pay for Net (after subsidy if applicable) retiree premium contributions
 Assumes 25 years to normal retirement:
 Assumes demographic composition of pre-Medicare retiree group does not change from current

Salary	\$35,000
Wage inflation	4.0%

HRA contribution rate	1.5%
HRA accumulation rate	8.25%

Subsidy Base	\$5,962
Subsidy index	5%
Subsidy percent	60%

HRA Fund at retirement	\$34,579
Total retiree contribution	\$68,393
Net retiree cost (w/HRA int)	\$30,580

Duration	Age	Salary	Contribution	End of Year HRA Balance	Pre MC Composite Premium	Pre MC Composite Trend	Retiree Med/Rx Premium	Subsidy Base	Retiree Subsidy	Retiree Subsidy	Retiree Contribution	Beg of Year HRA Balance	HRA Spend
1	40	\$35,000	\$525	\$546	\$6,260	1.11	\$0	\$6,260	\$3,756	\$0	\$0	\$0	\$0
2	41	\$36,400	\$546	\$1,150	\$6,935	1.11	\$0	\$6,573	\$3,944	\$0	\$0	\$0	\$0
3	42	\$37,856	\$568	\$1,846	\$7,645	1.10	\$0	\$6,902	\$4,141	\$0	\$0	\$0	\$0
4	43	\$39,370	\$591	\$2,613	\$8,385	1.10	\$0	\$7,247	\$4,348	\$0	\$0	\$0	\$0
5	44	\$40,945	\$614	\$3,467	\$9,149	1.09	\$0	\$7,609	\$4,566	\$0	\$0	\$0	\$0
6	45	\$42,583	\$639	\$4,418	\$9,930	1.09	\$0	\$7,990	\$4,794	\$0	\$0	\$0	\$0
7	46	\$44,286	\$664	\$5,473	\$10,721	1.08	\$0	\$8,389	\$5,033	\$0	\$0	\$0	\$0
8	47	\$46,058	\$691	\$6,644	\$11,511	1.07	\$0	\$8,809	\$5,285	\$0	\$0	\$0	\$0
9	48	\$47,900	\$718	\$7,939	\$12,292	1.07	\$0	\$9,249	\$5,549	\$0	\$0	\$0	\$0
10	49	\$49,816	\$747	\$9,372	\$13,053	1.06	\$0	\$9,711	\$5,827	\$0	\$0	\$0	\$0
11	50	\$51,809	\$777	\$10,953	\$13,783	1.06	\$0	\$10,197	\$6,118	\$0	\$0	\$0	\$0
12	51	\$53,881	\$808	\$12,698	\$14,473	1.05	\$0	\$10,707	\$6,424	\$0	\$0	\$0	\$0
13	52	\$56,036	\$841	\$14,620	\$15,196	1.05	\$0	\$11,242	\$6,745	\$0	\$0	\$0	\$0
14	53	\$58,273	\$874	\$16,736	\$15,956	1.05	\$0	\$11,804	\$7,083	\$0	\$0	\$0	\$0
15	54	\$60,609	\$909	\$19,062	\$16,754	1.05	\$0	\$12,395	\$7,437	\$0	\$0	\$0	\$0
16	55	\$63,033	\$945	\$21,619	\$17,592	1.05	\$0	\$13,014	\$7,809	\$0	\$0	\$0	\$0
17	56	\$65,554	\$983	\$24,425	\$18,471	1.05	\$0	\$13,665	\$8,199	\$0	\$0	\$0	\$0
18	57	\$68,177	\$1,023	\$27,504	\$19,395	1.05	\$0	\$14,348	\$8,609	\$0	\$0	\$0	\$0
19	58	\$70,904	\$1,064	\$30,880	\$20,364	1.05	\$0	\$15,066	\$9,039	\$0	\$0	\$0	\$0
20	59	\$73,740	\$1,106	\$34,579	\$21,383	1.05	\$0	\$15,819	\$9,491	\$0	\$0	\$0	\$0
21	60	\$0	\$0	\$24,440	\$22,452	1.05	\$22,452	\$16,610	\$9,966	\$9,966	\$12,486	\$34,579	\$12,486
22	61	\$0	\$0	\$12,817	\$23,574	1.05	\$23,574	\$17,440	\$10,464	\$10,464	\$13,110	\$24,440	\$13,110
23	62	\$0	\$0	\$0	\$24,753	1.05	\$24,753	\$18,312	\$10,987	\$10,987	\$13,766	\$12,817	\$12,817
24	63	\$0	\$0	\$0	\$25,991	1.05	\$25,991	\$19,228	\$11,537	\$11,537	\$14,454	\$0	\$0
25	64	\$0	\$0	\$0	\$27,290	1.05	\$27,290	\$20,189	\$12,114	\$12,114	\$15,177	\$0	\$0

Late Hire 1.5%

LEGAL SERVICES

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LEGISLATIVE AFFAIRS AGENCY
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MEMORANDUM

January 29, 2005

SUBJECT: Accrued benefits of public employment retirement systems and legislative changes to the employee contribution rate (Work Order No. 24-LS0429)

TO: Representative Mike Kelly
Attn: Heath Hilyard

FROM: Barbara R. Cramer
Legislative Counsel *BRC*

You have asked questions regard the scope of Article XII, sec. 7 of the Alaska constitution¹ and how it affects the legislature's ability to amend the employee contribution rates of the teacher's retirement system (TRS) and the public employee's retirement system (PERS).² In our conversations about this request you asked about changing the contribution rates of vested employees.³

¹ Alaska Constitution Article XII, Sec. 7:

SECTION 7. Retirement Systems. Membership in employee retirement systems of the State or its political subdivisions shall constitute a contractual relationship. Accrued benefits of these systems shall not be diminished or impaired.

This provision protects the "accrued benefits" of the systems. The question considered here is whether the employee contribution rate is part of the "accrued benefits."

² AS 14.25.050 and AS 39.35.160 respectively.

³ PERS has three tiers at this time, the contribution rates are the same for employees in all tiers, but the benefits are decreased in Tier II and Tier III:

police and fire employees - 7.5% (last increased in 1987)

"other" employees - 6.75% (last increased in 1987)

school district employees - 9.6% (last increased in 1999)

Tier I is for employees first employed between January 1, 1961 and June 30, 1986, Tier II is for employees entering service between July 1, 1986 through June 30, 1996, and Tier III applies to employees entering service July 1, 1996 and later.

TRS has two tiers, the employee contribution is 8.65%, last increased in 1991.

Tier I is for teachers first employed between July 1, 1955 and June 30, 1990,

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Employee contribution rates have been raised on several occasions in the past without creating a new tier of employees. In 1986 the PERS employee contribution rates were changed from 5% to 7.5% for firefighters and police officers, and the contribution rates for all others were raised from 4.25% percent to the current 6.75%.⁴ In 1990 the TRS employee contribution rates were raised from 7% to 8.65%.⁵ Both of these changes in compensation rates were made after the Hammond v. Hoffbeck decision in 1981. Hammond v. Hoffbeck, 627 P.2d 1052 (Alaska 1981).⁶ These increases in contribution rates apparently did not result in legal challenges. This memorandum, thus, considers whether a new law which raises the employee contribution rates in TRS and PERS while maintaining the accrued benefits in each Tier would be subject to constitutional challenge.

While such a challenge may certainly be brought, it is not a foregone conclusion that the argument would prevail. A strong counter argument can be made that the employee contribution rates are not part of the "accrued benefit" to which members are entitled. The accrued benefits are the rights to receive the retirement and medical plan offered upon employment; the rights accrue as they are earned. A person's contribution rate cannot be changed retroactively for benefits that have already accrued, however, it can be argued that the employee contribution rate can change prospectively to pay for vested benefits.

An employee facing an increased contribution rate for vested benefits can reject the increase by terminating employment while still preserving the employee's vested right to "accrued benefits."⁷ An accrued benefit is one that has already been earned, it is not one

Tier II is for teachers first employed on July 1, 1990 and later.

⁴ sec. 15, ch. 82 SLA 1986.

⁵ sec. 1, ch. 97 SLA 1990. There was at least one other change in PERS for noncertificated employees of school districts to 9.6% in 1999.

⁶ The reductions in benefits in the Hammond v. Hoffbeck case involved a reduction in occupational disability benefits for public safety employees, a requirement that an employee be totally unemployable in order to be eligible for an occupational disability pension rather than "incapacitated for service in the position held" and reducing occupational death benefits from one hundred percent to forty per cent of monthly salary at the time of death.

⁷ A New York case (New York has constitutional protection of pension benefits like Alaska) involving diminution of disability benefits to employees in the public service makes this point, that employees do not have a constitutional right to stay in public employment:

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that has not yet been earned. The constitutional promise is that earned benefits cannot be diminished, and the future right to a specified benefit is vested, however Hoffbeck recognized that "rigid adherence to labels like "gratuity," "compensation," "contract," and "vested rights" has not allowed courts the flexibility necessary to deal properly with legitimate legislative response to changing economic and social conditions."⁸ The Hoffbeck court found the following language in a California case to be "instructive."

An employee's vested contractual pension rights may be modified prior to retirement for the purpose of keeping a pension system flexible to permit adjustments in accord with changing conditions and at the same time maintain the integrity of the system. Such modifications must be reasonable, and it is for the courts to determine upon the facts of each case what constitutes a permissible change. To be sustained as reasonable, alterations of employees' pension rights must bear some material relation to the theory of a pension system and its successful operation, and changes in a pension plan which result in disadvantage to employees should be accompanied by comparable new advantages.⁹

Following that discussion the decision found:

We agree with this analysis and hold that the fact that rights in PERS vest on employment does not preclude modifications of the system; that fact does, however, require that any changes in the system that operate to a given employee's disadvantage must be offset by comparable new advantages to that employee.

An important qualification is found in note 11 of Hoffbeck. It may apply to the situation at hand where the system finds that failing to increase employee contributions, and thus increasing the projected unsupportable burden on employees, will threaten the fiscal future of the system as a whole:

It is long settled, however, that the fact that there can be no constitutional impairment of pension system benefits does not create a constitutional right to stay in public employment. To do this would place the regulation of public employment beyond the control of any authority, which certainly was not intended by our Constitution (Gorman v. City of New York, 280 App Div 39, 45, affd 304 NY 865).

Cook v. Binghamton, 48 N.Y.2d 323, 332 (N.Y., 1979)

⁸ Hammond v. Hoffbeck, 627 P.2d at 1057

⁹ Id.

We are not called upon to consider the problem, which has frequently arisen in other jurisdictions, presented by a pension fund that is insufficient to satisfy all employee claims brought under its provisions. We intimate no view as to the appropriate legal analysis of any legislative alteration in employee benefits systems made in response to such circumstances.

In this case, it may not be that the system is currently insufficient to handle current claims, and no alteration in the benefits to be received is contemplated. However, the continued fiscal health of the plan for future claims by current beneficiaries may reasonably require a prospective increased contribution rate. Such an argument is not precluded by Hammond v. Hoffbeck.

Four other states have constitutional protection for public employee retirement benefits very similar to Alaska: Hawaii,¹⁰ Michigan,¹¹ New York and Illinois¹². There is a case from Michigan which is squarely on point. The Michigan Supreme Court was asked to determine whether a statute increasing the employee contribution rate for certain employees was constitutional. Advisory Opinion re Constitutionality of 1972 PA 258, 389 Mich. 659, (Mich. 1973). The court found that "the Legislature cannot diminish or impair accrued financial benefits, but we think it may properly attach new conditions for earning financial benefits which have not yet accrued."¹³ The Michigan court found that raising the employee contribution rate was a "new condition" which was not "a diminishment or impairment of such accrued benefits unless the new conditions were unreasonable and hence subversive of the constitutional protection."

¹⁰ Art. XVI, Section 2 of the Hawaii Constitution, provides:

Membership in any employees' retirement system of the State or any political subdivision thereof shall be a contractual relationship, the accrued benefits of which shall not be diminished or impaired.

¹¹ Michigan's constitution, art 9, sec. 24 reads:

The accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby. Financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities.

¹² While the constitutional provisions are similar in Illinois and New York the cases have focused on the time of vesting, not relevant to this discussion.

¹³ Advisory Opinion re 1972 PA 258, 389 Mich. 659, emphasis added.

A case in Hawaii involved determining the date a firefighter was considered to have begun his retirement. Chun v. Employee's Retirement Sys., 607 P.2d 415, 421 (Hawaii 1980). The court discussed its constitutional protection of public employee retirement systems and found that although benefits attributable to past services could not be reduced, the legislature could make general changes in the retirement system. While not discussed in that case, it could be argued that the employee compensation rate for continued benefits may be a condition that can be changed without violating the constitutional protection of accrued benefits.¹⁴

After Hoffbeck the next discussion of Article XII, sec. 7 by the Alaska Supreme Court occurred in 2003 where the court considered how to evaluate changes to public employee benefits, specifically health plans. Duncan v. Retired Public Employees of Alaska, Inc. (Duncan) 71 P.3d 882, (Alaska 2003) The state argued that health insurance benefits were not covered by Article XII, sec. 7, and if they were, the dollar amount of the

¹⁴ Id. at 421, citations omitted.

This court has never been called upon to examine or construe this particular provision of the Hawaii Constitution. It was proposed from the floor of the 1950 Constitutional Convention and adopted by the Committee of the Whole. The Committee of the Whole Report states:

It should be noted that the above provision would not limit the legislature in effecting a reduction in the benefits of a retirement system provided the reduction did not apply to benefits already accrued. In other words, the legislature could reduce benefits as to (1) new entrants into a retirement system, or (2) as to persons already in the system in so far as their future services were concerned. It could not, however, reduce the benefits attributable to past services. Further, the section would not limit the legislature in making general changes in a system, applicable to past members, so long as the changes did not necessarily reduce the benefits attributable to past services.

The Committee of the Whole's interpretation of the provision, which we accept, indicates that a member of the retirement system is entitled to the benefits available under the system that have been accrued by the member. From the Committee of the Whole Report, we conclude that the provision was meant to protect an employee from a reduction in accrued benefits. However, the extent of such benefits as well as the conditions under which an employee should receive benefits, are governed by applicable statutory provisions. . . .

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premium was all that was protected, not the type of coverage, and third if the first two arguments failed, that changes could be made to vested health benefits so long as any disadvantages from changes were outweighed by advantages, as considered from a group perspective. The court agreed with the third argument only, and found that health benefits could be changed without violating the constitution. Duncan states that "[t]he natural and ordinary meaning of "benefits" in a health insurance context refers to the coverage provided rather than the cost of the insurance."¹⁵

The language in Duncan does not preclude an argument that the employee contribution rate, applied prospectively, does not diminish accrued benefits. The Michigan case illustrates the argument that employee contribution rates are a condition of current and prospective employment and do not diminish accrued rights. Because the Alaska court has not spoken in regard to the rate of employee contributions in public retirement systems, there can be no certainty. However, there have been changes in employee contribution rates since Hoffbeck, none of them generating a constitutional challenge. Increasing the contribution rates of employees prospectively is not explicitly barred by Hoffbeck, or Duncan. Other states with similar constitutional protections have either allowed increases in contribution rates or have acknowledged the need for some flexibility in administering the retirement programs while protecting accrued benefits of public employees.

If I may be of further assistance, please advise.

BRC:med

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¹⁵ Duncan, 71 P.3d 882 at 888 - 889. One of the issues in Duncan was whether health benefits consisted of a certain level of coverage, or only a certain dollar amount applied towards health insurance premiums.

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Representative Mike Kelly House District 7

COMPARATIVE SUMMARY "Kelly Plan" v. Retirement Security Act

Key Component	"Kelly Plan" <i>(HB 170, HB 177, & HB 191)</i>	Retirement Security Act <i>(SB 141)</i>
Pure Defined Contribution Plan?	Yes (Pg. 2; Pp. 13-14) ¹	Yes (Pg. 13; Pg. 69)
Employee Contribution Rates	TRS (Pg. 2) ² 10% PERS (Pg. 13) Public Safety 8.5% Others 8%	TRS (Pg. 13) 8% PERS (Pg. 69) All 8%
Employer Contribution Rates (Retirement/Non-medical)	Employer contributions will eventually reach 8% for TRS and 8.75% for PERS over the course of a five year period in the following increments ³ : Year 1 – 0% Year 2 – 25% Year 3 – 50% Year 4 – 75% Year 5 – 100% (Pg. 3, Pp. 14-15)	Employer contributions are split between the member's individual account and the retiree medical insurance. Individual Account – 3.5% Retiree Medical – 3.75% (Pg. 14; Pg. 70)

¹ HB 191

² HB 191

³ HB 191

Key Component	"Kelly Plan" (HB 170, HB 177 & HB 191)	Retirement Security Act (SB 141)
Vesting	100% at the time of enrollment (Pg 4, Pg. 15)	Graduated vesting in the following increments: Year 1 – 0% Year 2 – 25% Year 3 – 50% Year 4 – 75% Year 5 – 100% (Pg. 16, Pg. 72)
Medical Benefits (Health Reimbursement Arrangement & Retiree Major Medical Insurance)	*NOTE: This version of HB 191 does not contain this provision. We are completing a committee substitute that will incorporate this language. The new language in HB 191 will mirror SB 141.	<p>Yes. There are two components of the medical benefits provided in this bill depending upon the members' status (active or retired).</p> <p><u>Health Reimbursement Arrangement</u> Established under AS 39.30.300, which creates a managed "trust" account, which is comprised of an employer contribution in the amount of 1% employees average annual compensation not to exceed \$500. (Pp 47-48)</p> <p><u>Retiree Major Medical Insurance</u> As noted above, as part of the employer contribution to the individual retirement accounts, the employer will pay 3.75% to provide for an insurance benefit at the time of retirement. In order to access this benefit a member must meet one of several criteria. In summary, these are:</p> <ul style="list-style-type: none"> • The member must retire directly from the system; • In order to retire, the member must have 30 years of service to the system or be 65 and have at least 10 years of service with the system • The member has been an active member for the whole school year during the 12 months prior (TRS only) <p>(Pp. 24-27, Pp. 80-83)</p>

Key Component	"Kelly Plan" (HB 170, HB 177, & HB 191)	Retirement Security Act (SB 141)
Investment Flexibility	*NOTE: This version of HB 191 does not contain this provision. We are completing a committee substitute that will incorporate this language. The new language in HB 191 will mirror SB 141.	Yes. A member's ability to select from a number of investment options is expressly provided for. (Pp. 16-17; Pp. 72-73)
Increased Active Employee Contribution Rates	Yes ⁴ . Using language similar to that that sets annual employer contribution rates, HB 177 provides for an increase in employee contribution rates not to exceed 5% annually. The administrator would establish the contribution rate on the basis of what is necessary to "fund the system." In addition, this bill stipulates that the employee and employer contribution rates will be coordinated in an effort to maintain parity between the two groups regardless of the actuarial valuation. (Pp. 2-4)	Likely yes. The language in this bill provides that the employee will pay a contribution rate whichever is the greater of their current contribution rate or one half of the "normal cost rate as actuarially calculated." This will have the effect of creating a contribution "floor". (Pg. 7; Pp. 58-59) <u>EXAMPLE</u> Current PERS Contribution Rates: Police/Fire – 7.5% Other – 6.75% Avg. Normal Cost Rate ⁵ - 20.05% New rate – 10.025%
PERS/TRS/ASPIB Board Restructuring	HB 170 proposes a modest restructuring of the PERS and TRS boards but leaves the Alaska State Pension Investment Board (ASPIB) board untouched. (Pp. 1-3) <u>HB 170 provides that:</u> <ul style="list-style-type: none"> • A majority of the members of the boards will not be or ever have been employed by an employer participating in any of the State's retirement systems • Two of the public members of each board will have "private sector experience in administration, financing, accounting, or economic development." 	The Retirement Security Act completely restructures all three existing boards, by eliminating them in their current incarnations and replacing them with a single board renamed the "Alaska Retirement Management Board" under the Department of Revenue. The board will consist of nine trustees in addition to the commissioners of Administration and Revenue. Further, it provides for specific members from political subdivisions, school districts, and system membership. (Pp. 36-41)

⁴ HB 177

⁵ PERS 2003 Actuarial Valuation Report, Pg. 22



Pensions and Retirement Plan Enactments in 2004 State Legislatures

Ronald K. Snell
25 October 2004

Introduction

This report summarizes selected pensions and retirement legislation that state legislatures enacted in 2004. I have reviewed legislation enacted in all states that held regular legislative sessions through September, 2004. The report also includes a few items of legislation enacted too late in 2003 for inclusion in the 2003 report.

The sources of this report are retirement systems' Web sites and direct communication with 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.

The goal of this report 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, I have excluded 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 2004. The remainder of the introduction summarizes action on the issues that received the most attention in 2004, in terms of the volume of legislation. Following it is a list of the topics the report covers and summaries of legislation, organized by topic.

Legislative Oversight and Administrative Management

Legislation in 2004 reflected concerns over the financial and administrative management of public retirement programs. Major concerns about the management of pensions systems in Ohio were addressed in Senate Bill 133, summarized at length in Appendix A of this report. Louisiana strengthened legislative oversight of the state retirement systems, requiring legislative approval of budgets and proposals for benefits increases. Oklahoma and South Dakota also increased requirements for systems' financial transparency and reporting.

Finances and Bonds

Funding was a major concern across the country. Across-the-board benefit increases do not appear in any substantial way in the legislation summarized below.

Pension obligation bonds, an issue in a number of states in 2003, were authorized for state government use only in California in 2004. Legislation established a unique funding method for the proposed bonds. New state employees will be members of an alternative retirement plan instead of the regular defined benefit plan for their first 24 months of employment, after which they will begin making contributions to the defined benefit plan. The state will not make contributions on their behalf during the 24 months, providing potential funding for pension bonds.

States did not otherwise authorize pension obligation bonds in 2004, although Kansas completed the authorization it initiated in 2003 with the issuance of bonds, and the 2003 authorization in West Virginia continued to work its way through the courts. Colorado and South Dakota limited some former employee benefits. A number of states statutorily increased employer contribution rates. Employee contribution rates generally continued unchanged, although Nebraska levied a one-year employee increase in response to poor investment returns, and the Arizona State Retirement System announced an increase in both employee and employer contribution rates for the fiscal years following July 1, 2005. (This report generally includes only statutory contribution changes, and has not attempted to track those made by

administrative rules.)

South Carolina prepared for future state fiscal difficulties by providing that employees who are furloughed in the course of the fiscal year will continue to accrue retirement benefits as well as receive any other employee benefits. The furloughing agency will pay the employee's share of the costs as well as the employer's share, in most cases.

Defined Contribution and Alternative Retirement Plans and other Structural Changes

Structural changes in plan design were rare in 2004. The Colorado General Assembly created a defined contribution plan as an optional alternative to its defined benefit plan for state and local government employees hired after January 1, 2006. Colorado also will open its defined contribution plan for elected officials to general employees on that date. Oklahoma and Ohio broadened opportunities for alternative plan choices for employees in higher education. Hawaii created a new contributory defined benefit plan for all new state and county employees and teachers after July 1, 2006, when the existing non-contributory defined benefit plan will be closed to additional members. A New Jersey bill, not enacted at the time of writing, is notable for permitting higher education employees who are members of a defined contribution plan to transfer membership back to the state defined benefit plan or TIAA/CREF, depending on the person's earlier have been a member of one or the other. The person could return only to the plan of which he or she was formerly a member.

Early Retirement Options and Service Credit

The widespread use of early retirement options in recent years may have contributed to their limited creation in 2004. Illinois offered an unusual early termination benefit to specified groups of state employees who ended their employment and waived future retirement benefits in exchange for twice their employee retirement contributions plus interest, an incentive that fewer employees than expected were willing to accept. A follow-up program of increased severance payments was not completed at the time this was being written. Iowa, Louisiana and Utah provided more traditional early retirement incentives; Michigan's legislature turned them down out of concerns about previous reductions in the size of the state workforce.

A substantial number of legislatures turned their attention to provisions for the purchase of service credit, without specifying that more generous provisions were intended as a retirement incentive. New Mexico doubled its allowance of time that may be purchased to 24 months to aid members in meeting requirements for maximum retirement benefits. A number of states, including Arizona, Georgia, Louisiana, South Dakota and Washington, specified that purchases of service credit must be at the actuarial value of the credit. Provisions in a number of states appear to be intended to assist public employees called to active military duty, explicitly so in Idaho, Iowa and Oklahoma.

Re-employment after Retirement

As in other recent years, states continued to ease restrictions on teachers' and other public employees' return to covered employment after retirement. Ten states acted on the issue in 2004, generally on behalf of returning retired teachers to work.

List of Topics

- Alternative Retirement Plans
- Benefits
- Charter Schools
- Contribution rates and funding issues
- Deferred Compensation Plans/Optional Retirement Plans
- Defined Benefit Plan Changes (including partial lump-sum options)
- Defined Benefit Plan--New
- Defined Contribution Plans For Broad Categories of Employees
- Disability
- Early Retirement Incentives
- Furloughs

- Governance
- Health Coverage
- Legislators' Retirement Plans
- Military Service
- Re-employment after Retirement
- Service Credit/ Purchase of Service/ Transfer of Credit
- Studies
- Taxation
- Vesting

Alternative Retirement Plans

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

New Jersey. Senate Bill 1967 (not enacted in October 2004) addresses the desire of some higher education employees to change their retirement plan from a defined contribution plan to the state defined benefit plan. Current law requires faculty and officers of institutions of public higher education to be members of the Alternative Benefit Plan (ABP), a defined contribution plan. This bill would require anyone who enters such a position with 10 years or more membership in TIAA/CREF or the New Jersey Public Employees Retirement System to continue membership in that plan. In addition, the bill allows any person who (1) is employed by a county college or community college as a full-time officer, full-time member of the faculty, a regularly appointed teacher or an administrative staff member; (2) is a member of the ABP; and (3) was previously a member of either the TPAF or the PERS and elected to transfer to the ABP to transfer back to the TPAF or PERS, if the person files an application within six months of the effective date of the bill.

Benefits

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

Louisiana. HB 224 provides that benefits paid a member's heirs from the Teachers Retirement System must at least equal a member's accumulated contributions, whether through survivor benefits or a payment to the former member's estate.

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

Wisconsin. SB 344 allows the percentage threshold for fixed annuity increases to be established by rule promulgated by the Department of Employee Trust Funds, and provides that administrative rules promulgated by the department

do not require the approval of the Teachers Retirement Board or the Wisconsin Retirement Board. Previous law required that the minimum increase in annuitants' payments be 2 percent. The new law sets the threshold at 0.5 percent unless the department establishes a different threshold upon advice from its actuary. [The effect of the new legislation is to allow increases in annuity payments when resources are not sufficient to cover a 2 percent increase, as in 2004.]

Charter Schools

Washington. Chapter 22, Laws of 2004, provides for the creation of charter schools. It establishes charter schools as employers and charter school employees as members of the Teachers' Retirement System, the School Employees' Retirement System and the Public Employees' Retirement System, respectively.

Contribution Rates and Funding Issues

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

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

Colorado. Chapter 214, Laws of 2004 (SB 137) ends MatchMaker contributions for payrolls for which the payroll period ends June 1, 2004, or later; reduces interest credit on member contributions to a maximum of 5 percent per year; sets the due date for PERA contributions at five business days after payroll date; reallocates 0.08% of salary of employer contributions to the Public Employee Retirement Association (PERA) trust funds rather than to the PERA Health Care Trust Fund.

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

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

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

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

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

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

Florida. Florida Retirement System contribution rates for 2004-2005 were set at levels slightly below those for 2003-2004. See Chapter 2003-260; 2004-293.

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

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

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

The member contribution rate for 2004-2005 will remain at 7.5%.

Act 588 (SB 622) addressed major funding issues for the State Employees' Retirement System (LASERS), the Teachers' Retirement System (TRSL) and the school employees' system. Previous legislation had established the Employee Experience Account to share actuarial gains and losses and required that the retirement boards provide COLAs when the experience account showed a sufficient balance. Investment losses in recent years removed the resources for COLAs while the legal requirement to provide them remained. Act 588 rolls the EA losses into the systems' main funds and reamortizes them over 30 years while the reamortization period for the previous fund bases remains at 25 years. Employer contributions to LASERS and TRSL must be at least 15.5% a year for 25 years. The legislation makes any future COLAs subject to legislative approval.

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

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

Nebraska. LB 514 increased contribution rates for employees and employers from 11 percent of salary to 12 percent of salary for one year to redress poor investment returns. LB1097 created a new optional retirement plan to benefit the spouses of judges by providing the spouse a benefit of 50 percent of a retired judge's benefit after the judge's death, provided that the judge had joined the optional plan. It requires a contribution of 8 percent of salary for 20 years and 4 percent of salary thereafter.

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

- allow municipal governments to set up reserve funds for future pension contributions;
- change the due date for local governments to pay retirement contributions from Dec. 15 to Feb. 1 of the year after the payment statement is issued -- providing a cash flow benefit in fiscal year 2004-2005 of

- approximately \$980 million to about 1,100 local governments that have a calendar year fiscal year;
- cap the maximum local governments must pay as a percent of payroll at 9.5% in 2005-06 and 10.5% in 2006-07. Obligations above those percentages may be amortized over 10 years at a market rate of interest to be set by the State Comptroller; and,
- modify the annual amortization payments due for local governments' fiscal year 2004-05 by making the first payment due on Feb. 1, 2006, instead of Dec. 15, 2004.
- One estimate is that the legislation provides \$1.7 billion in fiscal relief to local governments in FY 2004-05.

Oklahoma. SB 1134 provides for increases in employer contribution rates for the Public Employees Retirement System. Currently, all participating state agencies pay a contribution rate of 10% of the monthly compensation of each member. Beginning July 1, 2005, state agencies will contribute 11.5%. This percentage will increase by 1% annually beginning July 1, 2006, and each year thereafter, through the fiscal year ending June 30, 2011, when it tops out at a rate of 16.5%.

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

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

10-Year Projected Employer Contribution Rates--Selected Years

(Presumes an 8.5% rate of return)

Total Employer Contribution Rate

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

Pennsylvania. Act 40 of 2003, signed 12/10/03, concerns the Public School Employee Retirement System (PSERS) and the State Employee Retirement System (SERS) Beginning July 1, 2004, it would change the amortization period for the increased liabilities of Act 9 of 2001 for the outstanding balances of the net actuarial losses incurred in fiscal year 2000-2001 and fiscal year 2001-2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar; 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities, the Act 38 of 2002 asset valuation method change, and for future benefit changes and cost-of-living adjustments (COLAs); and 3) Beginning July 1, 2004, increase from 1% to 4.0% the minimum employer contribution rate exclusive of the premium assistance contribution rate. The bill would amend the SERS Code to: 1) Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001 for the outstanding balances of the net actuarial losses incurred in calendar year 2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar; 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities and for future benefit changes and cost-of-living adjustments (COLAs); 3) Increase the 1% minimum employer contribution rate in the following manner: 2% for the year beginning July 1, 2004; 3% for the year beginning July 1, 2005; and 4% for the year beginning July 1, 2006.

Rhode Island. The State Retirement Board has recommended that the state increase its employer contribution for retirement plans for state employees and teachers from \$196 million for FY 2005 to \$284 million for FY 2006. Workers' contributions rates set in law at 8.75 percent of pay for state workers, 9.5 percent for teachers. The state's contribution for state employees will increase from 11.51 percent of payroll this year, to 16.96 in FY 2006. That for teachers will increase from 8.4 percent this year to 20.01 percent of payroll next year. The anticipated result will be an increase of \$55.1 million, from \$124.7 million this year to \$179.8 million next year in state and local payments toward the teachers' pension, with the state responsible for paying about 60 percent of that amount, and the cities and towns where each of these teachers work, the rest. The board decided against scaling back its assumed 8.25-percent rate of return on investment. Providence Journal September 14, 2004

South Dakota. HB 1033 provides that for all South Dakota Retirement System members over the age of 55 who receive more than \$2,000 in termination pay (annual leave, sick leave, contract buyouts, retirement incentives), the amount will be deposited in a Special Pay Plan and not considered compensation for SDRS or Social Security purposes. Federal taxes will be deferred. No retirement system contributions will be made from the termination pay and it will not count in the calculation of final average earnings. Members will receive tax advantages, and the retirement system will reduce its long-term obligations.

HB 1034 provides that the contribution rate for members who choose optional spousal benefits will increase from 0.8% to 1.2% of compensation with the intention of making the program self-sustaining.

Utah. SB 83 provides that the actuarial funded ratio of the state retirement systems may reach and be maintained at 110%, as determined by the board's actuary using assumptions adopted by the board, before the board is required to certify a decrease in contribution rates, and that the board may not increase contribution rates to attain an actuarial funded ratio greater than 100%.

Defined Benefit Plan Changes

California. AB 1852 removes an age requirement for electing a partial lump sum payment option at retirement for members of the State Teachers' Retirement System (Calstrs). In order to maintain no net actuarial effect on CALSTRS, the act requires that a lump sum payment be adjusted by a factor adopted by the governing board to account for possible adverse selection.

Colorado. Chapter 392, Laws of 2004 (SB 257) separates the state and school employee division of the Public Employee Retirement Association into separate divisions with different employer contribution requirements to take into account the creation of two new optional defined contribution plans for state employees. The separation protects the School Division from any actuarial losses stemming from the new DC plans. See "Contribution rates and funding issues," above.

Iowa. HF 2262 provides that the retirement age for sheriffs and deputy sheriffs with 22 or more years of eligible service to qualify for a full retirement benefit will be reduced from 55 to 50 over a period of five years. The increased cost will be met by increasing the share of contributions to the system that comes from employee salaries as well as increasing contributions overall.

Georgia. Act 248 and Act No. 547 allow a reduced retirement benefit together with a partial lump sum distribution for teachers and public employees. The amount of the lump sum may not exceed the sum of 36 months of the monthly retirement allowance that would have been received if the lump sum option had not been elected.

New Mexico. SB 426 provides that any elected official may gain exemption from membership in the Public Employee Retirement Association within 24 months of taking office. The exemption cannot be retroactive.

Washington. HB 2538 (Chapter 85, Laws of 2004) establishes a \$1,000 minimum monthly benefit for PERS Plan 1 members and TRS Plan 1 members who have at least twenty-five years of service and who have been retired at least twenty years.

Deferred Compensation Plans/Optional Retirement Plans

Oklahoma. HB 2226 creates the "Alternate Retirement Plan for Eligible Employees of Participating State Institutions of Higher Education Act of 2004"

1. Allows new employees at the University of Oklahoma, the OU Health Sciences Center, or Oklahoma State University to enroll in either an alternate retirement plan established by the universities, or enrolling in the Oklahoma Teachers Retirement System (TRS).
2. Provides for a one-time election by current TRS members employed at OU, the OU Health Sciences Center, or OSU to opt out of TRS if the Internal Revenue Service approves.
3. Changes the retirement formula for TRS members employed by OU, the OU Health Sciences Center, or OSU to more closely parallel benefits received by other TRS members. A special provision will increase benefits for retired university employees effective Jan. 1, 2005, but will not allow payment of retroactive benefits
4. Requires the universities to fund the cost of this proposal over 30 years, and provides that the surcharge paid by the universities can increase if liabilities increase.

Defined Benefit Plan -- New

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

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

Most members will contribute 6% of salary to the new plan; some public safety and technical workers who are eligible for earlier retirement than most employees will contribute 9.75%. For general employees the unreduced retirement provisions are 62/5 or 55/30, and the benefit calculation is 2% of average final compensation times years of service. Age and service requirements are similar to those for retirement in the existing contributory plan, but its benefit calculation uses a factor of 1.25%. See <http://www2.state.hi.us/ers/> for details.

The legislation also created a "pop-up" benefit for retirees who had selected a beneficiary benefit.

Defined Contribution Plans For Broad Categories of Employees

Colorado. Chapter 392, Laws of 2004 (SB 257) created a new defined contribution plan for eligible state employees. An eligible employee is one hired on or after January 1, 2006, who has not been a member or retiree of the Public Employee Retirement Association (PERA--the state DB plan) or the (existing) DC plan for public officials and employees, and is not a higher education employee. Such new employees must elect the new DC plan within 60 days or will become a PERA member. Members of the DC plan may continue membership if they move to a state position in which the DC plan is not available. Members of the DC plan will be immediately vested in their contributions and 50% of employer contributions, plus earnings, and will be vested gradually in the remaining employer contributions over five years. Employer and employee contributions will be the same as for the DB plan. Members of the DC plan are to be provided investment options, will control the investment of their accounts, and will be provided options for disability, survivor and retiree health care coverage. Those who elect a choice of PERA or the DC plan may make an irrevocable decision to change plans during the 2nd through the 5th years of employment. A person who changes from the DC to the DB plan may use the DC account to buy service credit through a direct rollover. Any such service credit will not count toward vesting in the DB plan.

The chapter further provides an additional DC option to employees newly hired on or after January 1, 2006, by opening to them the existing DC plan administered by the state department of personnel for elected officials and other specified state employee. That plan is also authorized to provide its members options for disability, survivor and retiree health care coverage. A choice to participate in this plan is irrevocable and can be carried forward if the employee moves to a state position for which the plan is not otherwise available.

Ohio. SB 133 extends eligibility to participate in an alternative retirement plan to all full-time employees, with less than five years of service, of a public institution of higher education. Under current law, full-time academic and administrative employees are eligible to participate in an alternative retirement plan, rather than PERS, STRS, or SERS. The state retirement systems would not pay health and disability benefits for those employees who choose an alternative retirement plan.

Virginia. HB 576 created a new defined contribution plan that employers may use to provide supplemental retirement benefits to designated employees. Initially the plan will be used by local school board to provide enhanced retirement benefits to the middle school teacher corps and "turnaround specialists" in schools not meeting minimum standards.

Disability

Arizona. HB 2077 (partial summary)

- Requires existing employees of new employers to meet the same 12-month preexisting condition limitations as new employees of existing employers.
- Suspends the disability payment if the member refuses to participate in a recommended work rehabilitation program for which the member is reasonably qualified by education, training or experience.
- Requires members to pursue obtaining Social Security disability benefits through all available levels
- Clarifies that LTD benefits shall be reduced by both primary and dependent social security benefits received by the member.
- Allows a member on LTD program to elect to rely on treatment by prayer through spiritual means in accordance with the tenets and practice of a recognized church or religious denomination or Native American traditional medicine without suffering a reduction or suspension of LTD benefits.
- Prohibits an ASRS member convicted of a criminal offense and sentenced to more than six months in any penal institution from receiving LTD benefits for the period of confinement beginning the first day of the month following the first 30 days continuous of the member's confinement.

Early Retirement Incentives

Illinois. Public Act 93-0839 (SB 2206) proved an early termination incentive and a separate severance payment plan for specified job titles under the governor's purview and all other state job titles.

The early termination plan will be available to the first 3,000 employees who apply to the State Employee Retirement System (SERS). Depending on position, application had to be made by September 1 or September 30 and the employee was required to terminate service within two weeks of approval of the application, but no later than October 31, 2004. The enhanced refund will be the employee's total contributions to SERS at 6.5 percent annual interest, multiplied by two. (The regular refund is only contributions with no interest.) The recipient must waive rights to any type of SERS benefit, but retains group health insurance benefits. An employee who subsequently returns to covered employment must repay the enhanced refund (not including the employee contributions) plus interest. To re-establish the service credit forfeited by taking the refund, the employee may return the full enhanced refund plus interest from the date of the refund to the date of repayment.

The Act also specified job titles under the governor's purview eligible for a severance payment and provides that the Department of Central Management Services may limit the number of eligible people. Department or agency heads not

under the governor's purview may limit the number of their eligible staff and otherwise limit the severance payments. For those under the governor's purview, applications are due by October 31 and termination must occur between November 1 and December 31, 2004. The maximum severance payment is 25 percent of final monthly salary for each year of state service up to a maximum equal to six months' salary. Anyone who returns to state service must repay the severance payment unless returning in a temporary position or as an elected official. The payment may include up to 6 months' cost of health insurance. Payments will be funded from agencies' salary pool. *Illinois Economic and Fiscal Commission Monthly Revenue Briefing, July 2004.*

Iowa. Chapter 1035, Acts of 2004 (HF 2497) permits eligible executive branch employees for which the sum of the number of years of credited service under the Iowa Public Employees' Retirement System (IPERS) and the Public Safety Peace Officers' Retirement, Accident, and Disability System (PORS) and the employee's age as of December 31, 2004, equals or exceeds 75 to separate from service with the state and receive a sick leave and vacation incentive benefit payable in five fiscal years beginning with the fiscal year that ends on June 30, 2005. The incentive benefit is equal to the employee's unused vacation plus the lesser of an amount equal to 75 percent of the employee's regular annual salary or an amount equal to 75 percent of the value of the employee's sick leave. To receive the incentive benefit, an eligible employee must acknowledge the employee's ineligibility to return to permanent part time or permanent full time employment with the state, and waive any claims to unused sick leave or vacation balances otherwise payable upon termination of employment. Employees who participate in the program are eligible to continue to participate in group insurance coverage from the state in the same manner as employees who retire from state employment. The act also establishes a goal of increasing the ratio of employees per supervisor to 12 to 1 by December 31, 2005, for executive branch agencies.

Louisiana. Act 194 (HB 58), the "Early Retirement and Permanent Payroll Reduction Act of 2004," provides that members of the State Employees' Retirement System (LASERS) are eligible for early retirement through 12/31/06. Eligibility requirements include attaining the age of 50 with 10 years of service credit other than military service credit. Existing law provides for early retirement with 20 years of service. Actuarial reduction of benefits applies. Positions that become vacant under the new law or existing law shall remain vacant and must be abolished. They can be recreated only by specific administrative action in any branch of government. The law also limits the number that may be recreated. Reestablished positions may be filled only by moving a qualified person from another position in the agency (if such a person exists), in which case the person's previous position shall be abolished.

Utah. HB 263 provides an early retirement incentive by offering the possibility for members of the State Retirement System to purchase up to five years service credit on condition that the purchaser retire immediately after the purchase. The amount of time purchased must be sufficient to allow the purchaser to retire immediately with no actuarial reduction in benefits. The purchaser's employer may share the cost of the purchase, but the purchaser must pay at least 5% of the cost, which is the actuarial cost of the service. The purchaser must previously have at least five years of service credit before the purchase.

Furloughs

South Carolina. The 2004 budget bill included provisions allowing school districts, institutions of higher education and state agencies to furlough employees under certain fiscal conditions. The length of the furloughs is limited, variously by type of employer. For state agencies, the furlough may be as long as 90 days a year, but is to be voluntary. Furloughed employees are to receive all benefits except salary while furloughed, and during the furlough employers are responsible for both employee and employer contributions for the benefits, except that for benefits that require only an employee contribution, the employee remains responsible. Constitutional officers may take 45 days furlough, while retaining their authority, and may expend the savings as they see fit. Same benefit provisions apply to them.

Governance

Arizona. Chap. 217, Laws 2004, requires the state treasurer and the retirement system fund manager to report annually to the Legislature on the economic impact of global security risks of investments under their management,

including a list of companies in their portfolios known or suspected of doing business in terrorist-sponsoring countries, the total amount invested in each company and an assessment of the level of global security risk based on the "prudent investor rule."

Ohio. SB 133 provides various pension system governance reforms.

- Requires the Ohio Retirement Study Council (ORSC) to have an independent auditor conduct a fiduciary performance audit of each of the state retirement systems at least once every ten years;
- Requires the Auditor of State to conduct an audit of any of the five state retirement systems at the request of the ORSC;
- Makes several changes in membership to each of the boards, including an increase in the total number of board members for each board except the Ohio Police and Fire Board;
- Imposes rules upon candidates who seek election to a retirement board including filing certain disclosures with the Ohio Secretary of State;
- Requires the boards of the state retirement systems to jointly develop an ethics policy and an orientation and continuing education program for board members;
- Requires each board to review its existing travel and travel reimbursement policies and to adopt rules establishing new or revised policies pertaining to travel and bonus awards to all employees of the system
- Requires every state retirement investment officer hired after the effective date of the bill to be licensed with the Division of Securities within the Department of Commerce.

More details are available in [Appendix A](#) to this report.

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

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

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

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

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

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

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

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

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

Act 951 (HB 938) requires LASERS to report on utilization of Louisiana broker-dealers in regard to state systems.

Oklahoma. S.B. 1134 provides that the Public Employees Retirement System (OPERS) Board of Trustees must include a cost of living adjustment assumption in its annual actuarial valuation report.

S.B. 1434 permits OPERS to disclose a member's name, age, amount of contributions paid in, benefits being paid, amount of credited service, and any documents verifying credited service or benefits. The prior consent of the member is not required to release such information. All other information related to a member, as kept in his or her retirement file, shall be kept confidential unless the member has consented to its release. Any information in a member's retirement file is subject to subpoena or court order. [Note: the bill followed media scrutiny of state legislators' retirement benefits.]

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

Health Coverage

Kentucky. Chapter 33, Laws of 2004 (HB 290), provides that state and county employee retiree health insurance shall not be considered as benefits protected by the inviolable contract provisions of the Kentucky Statutes. The General Assembly reserves the right to suspend or reduce retiree insurance benefits if in its judgment the welfare of the Commonwealth so demands. The law also provides that no employee hired after July 1, 2003, is entitled to retiree health benefits unless the employee has earned 120 months of service credit in a state retirement system. The benefit will be a monthly benefit of \$10 for each year of service for employees not in hazardous duty, and \$15 per year for those in hazardous duty. The amounts will be annually adjusted for inflation measured by the CPI up to 5% a year.

Chapter 121 (HB 434), section 12, establishes an Employer Medical Insurance Fund Stabilization Contribution. These state-funded employer contributions would be utilized to provide an adequate funding formula for the teachers' retirement system's medical insurance fund that provides medical insurance for eligible participants. The percentage to be contributed by the employer would be determined by the retirement system's actuary for each biennial budget period. The retirement system actuary has determined the employer contribution to be 0.85% for fiscal year 2004-2005 and 1.87% for fiscal year 2005-2006. This amounts to \$21,250,000 in fiscal year 2004-2005 and approximately \$46,750,000 in fiscal year 2005-2006. No budget has been enacted for those fiscal years as of August 1, 2004.

Illinois. Public Act 93-0679, creates the Teachers' Retirement Insurance Program (TRIP) agreement which provides retired teachers a health insurance program. This replaces expiring legislation. The new legislation does not include a date of expiration. It increases the mandatory contributions from teachers and employers, includes incentives to move to managed care health plans with a slower rate increase than for the teacher-optin plan, limits future annual contribution increases to 5% a year, provides for subsidies for people in areas where managed-care options are unavailable, increases benefits, and creates a commission to find a long-term solution for funding issues.

Maryland. SB 548 provides that beginning in fiscal 2006, any subsidy received by the State that is provided to employers as a result of the federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 or other similar federal subsidy must be deposited in the Postretirement Health Benefits Trust Fund. For fiscal 2006 through 2016, no payments may be made from the fund. For fiscal 2016 and each fiscal year thereafter, the board must transfer to the general fund, for the sole purpose of assisting in the payment of the State's postretirement health insurance subsidy, the lesser of: (1) one-quarter of the prior year's investment gains; or (2) the amount necessary to pay the annual health insurance premium and other costs that constitute the State's postretirement health insurance

subsidy.

Oklahoma. SB 1226 provides for what is commonly known as a "Medicare Gap" option or "income leveling." This option allows those who retire before becoming Medicare eligible to receive a higher benefit to cover the cost of health insurance until that person becomes Medicare eligible. The year after that person becomes Medicare eligible, his or her retirement benefit will be reduced. The total benefits payable to the member over a lifetime will remain essentially the same, on average, and the calculation of the benefit must be actuarially neutral to the Public Employee Retirement System (OPERS). The option must be chosen prior to retirement, and if a member chooses this option, such election is irrevocable. OPERS has until January 2005 to make the option available. It will not be implemented until the appropriate formulas are determined with the assistance of an actuary.

SB 1144 requires an Oklahoma Teachers Retirement System retiree to have at least 10 years of credited service to continue insurance coverage and receive the premium supplement paid by the retirement system.

Vermont. Enacted as statute a regulatory requirement that a retired teacher must have a minimum of 10 years of service to receive the Teachers Retirement System's contribution to the cost of medical premiums.

Legislators' Retirement Plans

Idaho. HB 831 - Separation of Legislative Service from Other PERSI Service (not enacted). This bill would have segregated service as a State Legislator from all other PERSI service for benefit calculation purposes. For legislators whose service first begins after December 1, 2004, service and average salary for that service will be calculated separately from all other PERSI service.

Military Service

Alaska. Chap. 65 SLA 03 (SB 26) provides that the governor may authorize state employees who are members of a reserve or auxiliary component of the armed forces of the United States, including the Alaska Guard and the Alaska Naval Militia, and who are called to active duty by the appropriate state or federal authority to continue to receive the equivalent of their state compensation and some or all of their state benefits. Benefits include credited service in a state retirement system, membership in the supplemental employee benefits system and group life and health insurance. Retroactive to September 11, 2001.

Delaware. Vol. 74, chap 189 (S.B. 143) will protect the retirement benefits of those State employees who take military leave in order to serve in Operation Noble Eagle, Operation Enduring Freedom and Operational Iraqi Freedom. It will also protect such benefits for future, like operations. This will assure that the employee will not realize a reduction in pension benefits because of a reduction in their salary during a period of time that might fall in their highest three years of earnings. The law reads: If the Final Average Compensation of an employee has been reduced because of a leave of absence resulting from Presidential determinations to augment active forces, such employee shall have their Final Average Compensation adjusted by their amount of military compensation. This adjustment will be no greater than what the employee would have received had they remained in employment for the period of leave. The employee will contribute 3% of the amount that was adjusted. §5533, Chapter 55, Title 29

Re-employment After Retirement

California. SB 1852 modifies restrictions upon return to covered employment for retired teachers who received a retirement incentive from their employer.

Florida. Chapter 2004-355 provides that after a retired TRS member has been retired for 1 calendar month, a district school board may reemploy the retiree as a substitute or hourly teacher on a noncontractual basis, or as a classroom teacher on an annual contractual basis, without further restriction. All retirees reemployed under this paragraph will

become renewed members of the FRS, and district school boards must make appropriate contributions on such renewed members' behalf. Refunds will be provided for any TRS retiree who was reemployed by a district school board on or after July 1, 2003, if the retiree had to suspend or repay benefits under s. 121.091(9)(b)2., F.S., and for any employer held liable for such repayment. The legislation also similarly eases reemployment restrictions for instructional personnel employed by developmental research schools and the Florida School for the Deaf and the Blind, as well as for charter schools participating in the FRS.

Georgia. Act 758, H.B. 366, allows a member of the Teachers Retirement System who has retired to return to work and continue to receive retirement benefits. The retiree must have retired before 12/31/03. Local school districts may re-employ a retiree as a fulltime teacher, principal, superintendent, counselor or librarian, except that a retired principal may not return to the school at which he or she was employed at retirement, nor may a superintendent return to his or her previous district. System must make employer contributions to TRS as if the retiree were an active member.

Kentucky. Chapter 121, Laws of 2004 (HB 434) provides that the Kentucky Teachers' Retirement system may reduce a member's retirement allowance on a dollar-for-dollar basis for each dollar that a retired member earns in employment exceeding 100 days or 12 teaching hours, and provide that the board shall adopt a methodology for a pro rata apportionment of days and hours for retired members who return to work in both teaching and non-teaching positions.

Massachusetts. Chapter 149, Acts of 2004, section 88, allows a person retired under G.L. c. 32, §§ 5 or 10, to return to membership in the Retirement System when employed in the public sector after retirement. The retiree would become a member upon payment to the appropriate retirement system of an amount equal to the retirement allowance that the person had received while retired plus "actuarial assumed interest". The person will contribute to the retirement system at the rate in effect on the date that the person waived his or her allowance or the date that the member was reinstated to membership, whichever date is earlier. If the person remains a reinstated member (as a full-time employee) for more than 5 years, he or she will be eligible to retire again, with additional creditable service and a likely new three year average rate of regular compensation. If the person is reinstated to membership for less than 5 years, upon retirement, he or she will receive a refund of all amounts that were paid into the system.

New Mexico. SB 426 reduces contribution requirements for Public Employee Retirement Association (PERA) members who return to covered employment. Previous law required contributions at the same level as others working for the same employer. Starting January 1, 2007, employee contributions will not be required on the first \$25,000 earned in a calendar year. Employer contributions are required on all earnings. Someone who earns \$25,000 in one calendar year must begin making contributions on the first dollar of earnings in the next year regardless of what total earnings may be in the subsequent year.

Effective on passage, PERA retirees who return to work as session-only legislative employees are exempt from contributions as is their employer. They must apply for the exemption, and earn no service credit from the employment.

New York. Chapter 4, Laws of 2004, effective February 2, 2004, increased the amount of money a retired state or local employee or teacher may earn in public employment from \$25,000 to \$27,500. The law applies to salary earned in 2004 and after.

Pennsylvania. Act 2004--63 expands the period of time and conditions under which PSERS retirees may return to Pennsylvania public school employment without loss of their monthly retirement benefit. This law specifically defines the ability of a PSERS retiree to be employed by a Pennsylvania public school in emergency, shortage of personnel and extracurricular situations.

Whenever a school employer determines there has been an increase in workload that creates a serious impairment of service to the public, or there is a shortage of appropriate subject certified teachers or other personnel, a retiree may return to Pennsylvania public school service for a period not to extend beyond the school year during which the emergency or shortage occurs.

A retiree may be employed under separate contract by a Pennsylvania public school in an extracurricular position performed primarily outside regular instructional hours and not part of the mandated educational curriculum. The new legislation specifically includes the position of athletic director as being eligible for the extracurricular designation and extends this provision to employment with community colleges and public universities.

A retiree returning under either of the exceptions noted may not earn any service credit; no retirement contributions may not be deducted and no credit for the service may be purchased at any time.

Previous law required an emergency or shortage of subject certified teachers; New law requires emergency or shortage of any school personnel. Previous law limited employment to 95 days per school year; new law allows employment to throughout the school year in which the emergency or shortage occurs

Rhode Island. Chapter 379, Laws of 2004, increased the amount that a retired person who returns to service as a university or public school teacher or state employee may earn in a year from \$12,000 to \$15,000 without loss of retirement benefits: limited to specified kinds of re-employment.

South Dakota. HB 1037 provides new provisions for benefits for retired members who are rehired in covered employment to prevent the accrual of additional benefits who cost must be shifted to the system and other employees. Those retired and rehired before July 1, 2004, will continue to accrue benefits under the former law. Under the new provisions, regular retirees may receive benefits but no COLAs during re-employment. Early retirees will receive no benefits during re-employment. In both cases, rehired members will be considered as new members, and in both cases, benefits will be recalculated at final retirement.

Service Credit/ Purchase of Service/ Transfer of Credit

Arizona. H.B. 2029 provided that the formula used to calculate the cost to purchase the service credit is changed to a single standard based on the actuarial present value of the additional benefit. Payment for credited service may be via a rollover contribution of the member's accrued vacation, sick leave or overtime pay as long as certain conditions are met.

Georgia. Act No. 533 (House Bill 480) allows a member to purchase up to three additional years of creditable service by paying the full actuarial cost. Application and payment must be made in conjunction with and simultaneously with the member's application for retirement. Creditable service shall not be used to obtain 10 years of service for vesting purposes or to qualify for a benefit at age 60.

Idaho. Chapter 232, Laws of 2004, (SB 1446) amended the requirements for Military Service to permit accrual of military service in the case of survivor benefits. Former law required a member to leave active PERSI service and assume active military duty within 90 days, and return to active PERSI service from military duty within 90 days. There was no provision for crediting military service in case of a member on active military duty who might be killed. This amendment provided for military service from date of active duty to date of death.

Iowa. H.F. 2262 allows members of the Iowa Public Employees Retirement System on unpaid leave to purchase IPERS service credit. A member on an unpaid leave of absence, other than under the Family Medical Leave Act (FMLA) and military leave qualifying under the Uniformed Services Employment and Reemployment Rights Act (USERRA), cannot earn IPERS service credit. Service credit may be purchased for period of the unpaid leave.

A member whose wages are reduced due to a reduction in hours or lay-off may replace contributions to IPERS that would have been paid on the higher wages. This change only applies to members who receive a layoff notice and stay in IPERS covered employment by exercising bumping rights. It does not apply to laid off members who completely leave IPERS covered employment, or who voluntarily take a lower paying position prior to receiving a layoff notice, without the exercise of bumping rights. This is limited to reductions in pay for the eligible group beginning January 1, 2002 through June 30, 2005.

Louisiana. Act 349 (HB 980) allows purchase of up to five years of service credit for members with one year of

service, requires that the purchase cost offset the increased actuarial cost to the system based upon the purchaser's current salary, repeals various provisions for the purchase of specified kinds of previous service, and permits purchases in one-month increments until 12/31/04.

Minnesota. SF 676, the 2004 Omnibus Retirement Bill extended the sunset date on the service credit purchase provisions for prior military service for various retirement plans to 2006, removed a prohibition against purchase if the individual is entitled to a current or deferred military pension, and modified a prior prohibition on purchases that were credited by another defined benefit plan to prohibit the multiple purchase of the same military service credit period in more than one Minnesota defined benefit pension plan.

New Hampshire. Chapter 216 (SB 338) makes changes to eligibility requirements for Out-of-State Service and Modifications purchases.

Out of State: Members who had prior service with a public employer in another state or with the federal government may apply to purchase that time as creditable service with NHRS at any point before they retire. (Previous law restricted the opportunity to make purchases to only those who had a break in service between that job and joining NHRS of no more than 18 months and to those who applied within 5 years of joining NHRS.)

Modifications: Members who worked for their employer (a municipality, school district or other political subdivision) before their employer joined NHRS can now apply to buy that service at any point before they retire, as long as they joined NHRS within a year of the date their employer joined.

- These purchases will not count toward eligibility for the Medical Insurance Subsidy.
- The cost of the purchases is calculated on the employee's share plus the employer's share of contributions, as a percentage of the member's current base pay.

New Mexico. SB 426 allows members of the Public Employee Retirement Association to purchase up to 12 months of "air time" even if they have already purchased the limit of 12 months of service credit for time not earned (for example, through military service." Such time can be used to meet requirements to achieve maximum retirement benefits.

Oklahoma. SB 1345 broadened the definition of military service for which the Oklahoma Public Employees Retirement System may grant military service credit. The bill adds language that allows military service credit if the member served during a period of war or combat military operation other than the conflicts listed in the statute. The war or combat military operation must have lasted for a period of *ninety (90) days or more*. The member must have served in the area of responsibility of the war or combat military operation and only the service time while in that area of responsibility may be used as credited service for retirement. A member who served on active duty for training only is excluded from claiming a military service credit unless the member was discharged from that duty for a service-connected disability. The burden of proof is on the member to provide adequate documentation of such service including exact dates served in the specified area of responsibility, and the proof must be provided in the time and manner required by the System.

South Dakota. HB 1036 provides that a member's cost to purchase credited service will be based on compensation and the actuarially-determined rate for the member's age in order to cover the full cost of the increased benefit. The previous purchase provisions did not cover the cost of the additional benefits.

Utah. HB 263 provides an early retirement incentive by offering the possibility for members of the State Retirement System to purchase up to five years service credit on condition that the purchaser retire immediately after the purchase. The amount of time purchased must be sufficient to allow the purchaser to retire immediately with no actuarial reduction in benefits. The purchaser's employer may share the cost of the purchase, but the purchaser must pay at least 5% of the cost, which is the actuarial cost of the service. The purchaser must previously have at least five years of service credit before the purchase.

Washington. HB 2535 (Chapter 172, Laws of 2004) provides that a member who applies for early retirement in PERS or SERS Plan 2 or Plan 3 may, at the time of retirement purchase up to five years of additional service credit. The cost

of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit. A member may pay all or part of the cost of the additional service credit with an eligible transfer from a qualified retirement plan. Additional purchased service credit could not be used to qualify a member for the three percent per year early retirement reduction available to members of PERS and SERS Plan 2 or Plan 3 with 30 years of service.

Studies

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

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

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

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

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

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

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

Taxation

Georgia. Act No. 928 (H.B. 1313) increases the State of Georgia retirement income exclusion of taxable net income from any source for income tax purposes to \$14,500 for taxable year beginning on or after January 1, 2002 and prior to January 1, 2003 and \$17,000 for taxable years beginning on or after January 1, 2003.

Vesting

South Dakota. HB 1039 provides that a minimum of three years of contributory service will be required for a members to receive a regular or disability benefit. Previous law allowed a new member to purchase credited service to

meet the three-year vesting requirement. That will no longer be allowed. A re-hired employee will not be eligible for a disability benefit without three additional years of contributory service after re-entry into SDRS, unless the disability is job-related.

Vermont. Act 122 (H768) clarified that members of the Vermont state employees' retirement system and the state teachers' retirement system of Vermont hired after July 1, 2004, must complete five years of creditable service for the purpose of determining the normal retirement date. Under previous law people over 62 years of age were not required to have five years of service to be eligible for retirement and retiree health benefits.

Appendix A.

Summary of Ohio Senate Bill 133 of 2004.

This summary is based on the Ohio Legislative Service Commission's fiscal note for the enrolled version of SB 133, enacted in May 2004.

- The bill requires that the Ohio Retirement Study Council (ORSC) have an independent auditor conduct a fiduciary performance audit of each of the state retirement systems at least once every ten years. The cost of the audits would be paid by the retirement system being audited. This could range from \$300,000 to \$400,000 per audit. However, there could be a potential for future savings as a result of the findings and recommendations of such audits.
- The bill requires the Auditor of State to conduct an audit of any of the five state retirement systems at the request of the ORSC. This could increase expenditures in the Public Audit Expense Fund, depending on how many audits the Auditor is required to complete. The Auditor may be able to recover part or all of these costs by charging the retirement systems.
- The bill requires several changes in membership to each of the boards, including an increase in the total number of board members for each board except for the OP&F board. This could result in additional administrative expenses for the boards.
- The bill requires candidates, campaign committees, and persons making expenditures in connection with a candidate's efforts to be elected to a retirement board to file campaign financial disclosure statements with the Secretary of State. If a person fails to file a complete and accurate statement, then the Ohio Elections Commission may impose a fine of not more than \$100 per day of the violation. In addition, persons who knowingly attempt to affect the nomination or outcome of a board election may be imprisoned for up to six months and/or fined up to \$5,000. There could be a potential minimal increase in costs for the Ohio Elections Commission to investigate any violations of this provision.
- The bill requires the boards of the state retirement systems to jointly develop an ethics policy and an orientation and continuing education program for board members. There could be some administrative costs associated with developing and conducting these training and education programs.
- The bill requires each board to review its existing travel and travel reimbursement policies and to adopt rules establishing new or revised policies pertaining to travel and bonus awards to all employees of the system. This provision could present some savings to the retirement systems if the new rules are more restrictive.
- The bill requires every state retirement investment officer hired after the effective date of the bill to be licensed with the Division of Securities within the Department of Commerce. The license fee is set at \$50 and would need to be renewed on an annual basis. Current state retirement investment officers would not be required to be licensed. There could be a potential increase in administrative costs for the Division of Securities to begin licensing a new class of investment officer.
- The bill allows employees of public institutions of higher education to participate in an alternative retirement plan. While there would be a loss in revenues to the affected state retirement systems if employees choose to opt out, there would also be a decrease in expenditures for the state retirement systems. In addition, if an employee chooses an alternative retirement plan, the public institution of higher education would still be required to contribute a certain percentage (currently set at 3.5%) to the affected state retirement system.

Detailed Fiscal Analysis

The bill makes several changes to the five state retirement systems: the Public Employees Retirement System (PERS), the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS), the Ohio Police & Fire Pension Fund (OP&F), and the Highway Patrol Retirement System (HPRS).

Fiduciary Performance Audits

The bill requires that the Ohio Retirement Study Council (ORSC) have an independent auditor conduct a fiduciary performance audit of each of the state retirement systems at least once every ten years. The cost of the audits would be paid by the retirement system being audited. The cost for an audit could range from \$300,000 to \$400,000. There could be a potential for future savings as the recommendations of the audits are implemented by the retirement systems.

The bill requires the Auditor of State to conduct financial audits and any special audits of the retirement systems at the request of the ORSC. The bill also requires that the Auditor report on any findings to the ORSC. This provision could increase costs for the Auditor, depending on how many audits are requested by the ORSC.

Board Composition and Elections

Current law provides for all elections of board members to be conducted under the supervision of the retirement boards. The bill requires the Secretary of State to adopt rules governing the election of board members to the state retirement systems. This could lead to a potential increase in administrative costs for the Secretary of State's office because the bill also requires the Secretary to oversee the administration of board member elections.

The bill also makes several changes to the compositions of the state retirement boards, as outlined below:

- The Attorney General is removed as a statutory member from the PERS, STRS, SERS, and OP&F boards and an appointee of the Treasurer of State, who has investment experience and is not a public employee, is added as a statutory member to the PERS, STRS, SERS, OP&F, and HPRS boards.
- The Director of Administrative Services is added as a member to the PERS board.
- The Auditor of State is removed as a statutory member from the PERS, STRS, SERS, OP&F, and HPRS boards.
- Three members are added to the PERS board, two who are investment experts, and one additional retired member.
- Two members are added to the OP&F and the HPRS boards who are to be investment experts.
- The municipal fiscal officer is removed as a member of the OP&F board.
- One additional retired member is added to the HPRS board.
- Three members are added to the SERS board, two who are investment experts, and one additional retired member.
- Three members are added to the STRS board, two who are investment experts, and one additional retired member.

The bill requires candidates for election to the retirement boards, campaign committees, and individuals or entities that make expenditures in connection with a candidate's efforts to be elected to a retirement board to file two itemized statements with the Secretary of State's office that detail the contributions, in-kind contributions, and expenditures relative to the board election. The first statement is required to be filed 12 days before the election and the second is required to be filed no later than 38 days following the election. The bill also requires candidates elected to fill a vacancy to a retirement board to file a single itemized statement. If the Secretary of State's office determines that a statement is incomplete or inaccurate, then the Ohio Elections Commission can fine that person up to \$100 per day that they are in violation. This could result in an increase in revenues to the Ohio Elections Commission Fund. The potential increase is dependent on the number of people who fail to properly file their campaign disclosure statements. Monitoring the elections for the retirement systems could potentially increase the expenditures for the Secretary of State's office.

Ethics Training, Orientation and Continuing Education for Board Members

The bill requires the boards of the state retirement systems to develop an ethics policy, in consultation with the Ohio Ethics Commission, and to provide periodic ethics training to members and employees of the boards.

In addition, the bill requires the boards to jointly develop orientation and continuing education programs for board members. There could be some administrative costs associated with developing and conducting these training and education programs. The boards would jointly pay any cost for establishing and conducting the programs.

Travel and Bonus Policies

The bill requires each board to review its existing travel and travel reimbursement policies and to adopt rules establishing new or revised policies pertaining to travel and bonus awards to all employees, including board members, of the system. In addition, each board is required to submit proposed operating budgets (including administrative budgets) to the ORSC for the next immediate fiscal year, and to submit plans to improve the dissemination of public information about the board. The proposed budgets for each board are required to be submitted to ORSC 60 days prior to adoption. Provided that the new policies are more restrictive, this could offer some savings to the retirement systems.

Licensing of State Retirement Investment Officers

The bill requires investment officers with the retirement boards to hold a valid state retirement system investment officer license issued by the Division of Securities within the Department of Commerce. The bill sets the license fee at \$50 and requires holders of the license to renew on an annual basis. Current state retirement investment officers would not be required to be licensed, but anyone hired by the retirement systems as an investment officer after the effective date of the bill would be required to be licensed. All license fees collected under this provision would be paid into the Division of Securities Fund. The potential increase in revenues to this fund would be dependent on the number of new retirement investment officers hired after the effective date of the bill. There is a potential increase in administrative costs for the Department of Commerce to begin licensing a new type of investment officer.

In addition, the bill requires each retirement board to designate a person who is a licensed state retirement investment officer to be the chief investment officer for the retirement fund. The chief investment officer will supervise other investment officers and persons employed by the retirement fund with a view toward preventing violations of federal and state securities laws and rules and regulations pertaining to those laws.

Investment Policy

The bill requires that the five state retirement boards designate qualifying securities dealers as Ohio-qualified agents. Ohio-qualified agents would be so designated if, among other reasons, they have practiced as a securities dealer in Ohio for at least three years, they are subject to Ohio taxes, and employ at least five Ohio residents. In a given year, the bill requires that the retirement boards have a goal to increase utilization of Ohio-qualified agents for the execution of domestic equity and fixed income trades on behalf of the retirement systems.

See also: [Pensions and Retirement Plan Enactments](#)

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Teacher Recruitment

This site contains the text of a recent report written by Eric Hirsch at NCSL as part of a larger project on teacher mobility in collaboration with the State Higher Education Executive Officers (SHEEO), the National Governors Association (NGA) and the North Central Regional Education Laboratory (NCREL). A formatted copy of this report, "[Teacher Recruitment: Staffing Classrooms with Quality Teachers](#)," with notes and an appendix of legislation enacted during the 2000 session can be downloaded. A description of the project and links to the other reports completed as part of this joint project are also available on the [SHEEO web site](#).

Summary

Many states are pursuing aggressive strategies to recruit high quality elementary and secondary teachers in response to teacher shortages caused by high enrollment growth, teacher retirements and attrition, and recent efforts to reduce student-teacher ratios.

This brief focuses on two particular areas:

- Increasing the pipeline of potential teachers, and
- Providing incentives for educators to work in areas of highest need.

The paper analyzes the recent trends and offers suggestions for strengthening the recruitment of high quality teachers. It proposes improving the collection and analysis of teacher supply and demand data, integrating recruitment initiatives into comprehensive strategies to address teacher quality, systemically evaluating recruitment policies, and modifying policies based on emerging knowledge of effective practices.

Background

The nation faces an impending teacher shortage, especially in specific high demand areas. The U.S. Department of Education estimates that school districts will need to hire more than two million new teachers over the next decade. According to recent reports by the American Association for Employment in Education, current shortages of licensed teachers are most severe in traditional high demand areas of special education, mathematics, science, bilingual education, and technology education - and it will worsen in the coming years.

There is a double challenge of increasing both the number and the quality of teachers. States are creating more rigorous licensure standards at the same time that they seek to hire more teachers. The need to find and to keep good teachers is especially critical if states and local districts are to meet rigorous education goals aimed at raising student achievement levels. Recent studies in Tennessee, Boston, and Texas confirm that students taught by the most qualified and effective teachers achieve at higher levels.

The need is especially great in low performing schools because they tend to get the most poorly trained teachers. The

deficiency of qualified teachers is most prevalent in low-income urban and isolated rural schools and places students in these schools at risk of not achieving full educational opportunities. Indeed, a recent study by *Education Week* reports that the poorest schools were the most likely to employ teachers with the lowest college entrance examination scores. Further, a joint study by The Council of Great City Schools and Recruiting New Teachers, Inc. reported that more than 87 percent of urban districts allow "noncredentialed" individuals to teach because they cannot find qualified educators.

To ensure that all students are taught by high quality teachers, policymakers and education leaders in every state will need to carefully examine the complex factors that both challenge and support the recruitment and retention of the teaching workforce.

Shortages in the states' teacher workforces

National and state studies have forecast impending teacher shortages every year during the past decade. Predictions for the growing demand for teachers have been based for the most part on the following factors: the number of prospective teachers in traditional and non-traditional teacher preparation programs, anticipated growth in K-12 enrollments, expected teacher retirements, and estimates of licensed teachers who will leave the profession altogether. Further, some recent studies also have focused on the impact that new or proposed state education policies - such as initiatives to reduced class size - will have on local communities. The following snapshot shows some of the key areas of concern in the teacher workforce pipeline:

Student enrollments are growing. In the fall 2000, a record 53 million students entered the nation's public and private K-12 classrooms. This enrollment level is expected to remain constant over the next decade. These high enrollments are creating demands for additional educators, especially in western and southern states. The U.S. Department of Education reports that while eight of the nine northeastern states are expecting a decline in the student population, western states such as California, Idaho, Nevada, and New Mexico are projected to have double-digit increases in enrollment. Further, class size reduction policies in approximately one-half of the states will necessitate serving these new students with more staff than ever before.

Many students preparing to teach never enter the classroom. Recent college graduates make up a significant source of new teacher hires. In 1990-91, one-third of new hires in public schools and one-fifth of new hires in private schools entered teaching directly from college. Over the past decade, a growing number of college students have indicated interest in teaching and have entered teacher preparation programs. However, upon graduation many of these students - especially those in high demand fields - decide not to apply for teaching jobs or do not accept positions when they are offered. According to a recent U.S. Department of Education study, of the 1992-93 graduates who had prepared to teach, only 9 percent of mathematics, computer science, and natural science majors entered teaching compared with 58 percent of education majors and 16 percent of humanities majors.

The teaching population is aging rapidly. According to data from the U.S. Census Bureau, almost one-half of all elementary and secondary education school teachers were 45 years old or older in 1998. While these figures illustrate a teaching corps with vast experience - nearly one-third of teachers have been in the profession for more than 20 years - they also point to new staffing dilemmas for schools. Nearly one-half of current teachers will become eligible to retire during the next decade. The impact of an aging teaching pool will affect some states more than others. About 30 percent of the teachers in 20 states have more than 20 years of classroom experience; these states are predominately in the central and northeast regions of the country.

Poor working conditions influence many well-qualified teachers to leave the profession prematurely. On average, 30 to 50 percent of teachers leave the profession altogether within the first five years. Surveys of teachers who have left reveal that working conditions have the greatest affect on whether or not they stay. Teachers claim that their decisions to leave teaching were based primarily on their dissatisfaction with administrative support and leadership, student behavior, school atmosphere, and a lack of autonomy.

Challenges to recruitment of quality teachers in high demand areas

In addition to the number of teachers available, state leaders are concerned about the quality of their teaching workforce. State and district leaders want qualified teachers to teach high demand subjects, and they need stronger

teachers to increase the achievement levels of students in the disadvantaged urban and rural schools that have traditionally been difficult to staff. However, several obstacles to effective recruitment and hiring act as barriers to finding these qualified teachers.

There is a mismatch in the supply and demand of quality teachers. Many students preparing to become teachers are not majoring in subject areas that match the needs of schools and districts experiencing shortages. Even in states that produce enough new teachers to meet overall demand, there remain acute shortages in mathematics, science, bilingual, and special education. Moreover, many teaching candidates prefer suburban districts. They are unwilling to teach in many urban and rural schools.

This mismatch in the supply and demand of teachers is exacerbated by the lack of targeted state strategies. For example, few states collect or analyze data that can project the hiring needs of local districts. Also problematic are gaps in communication between state and local K-12 agencies and higher education systems and institutions concerning hiring needs. State strategies that encourage institutions to reduce programs that oversupply teachers and build programs that will produce teachers in critical fields could help alleviate shortages and strengthen relationships between the K-12 and postsecondary education sectors.

Local school districts are pressured to hire minimally qualified teachers. Without an adequate supply of qualified teachers, schools and districts have hired teachers who have yet to meet state licensure requirements. Recent state studies show that these educators tend disproportionately to teach in low performing schools and schools serving low-income students. For example, more than 10 percent of the California teaching force (approximately 28,500 people during the 1998-99 school year) worked on an emergency permit. In 1999, 16 percent of California teachers in schools serving populations with the greatest proportion of students receiving free or reduced lunch did not have appropriate credentials; this compares to 4 percent of teachers in schools serving fewer low-income children.

In addition to hiring teachers without appropriate credentials, districts are also filling open positions with teachers who are teaching in a subject where they do not have a college major or minor. In North Carolina, a 1998 study found that teachers in low-performing districts are much more likely to be teaching "out of field" or with a substandard license. Out-of-field and unlicensed teachers also are prominent in specific subject areas such as mathematics and science. For example, more than one-half of districts in Colorado report difficulty finding qualified math teachers.

Low salaries and lack of incentives may discourage qualified individuals from entering and staying in the profession. Many college students and teachers view low teacher salaries as a prime deterrent to entering and staying in the profession. State and local leaders complain that salaries that are below those offered in neighboring districts or states make it difficult to find and keep good teachers. The average beginning salary for teachers nationwide was \$26,639 in 1998-99, ranging from over \$31,000 in Connecticut and Alaska to under \$20,000 in North Dakota. In today's job market, these salaries can not compete with what is being offered in other professions. According to a recent survey conducted by the American Federation of Teachers (AFT), "During the past five years, salary offers for college graduates in all fields have grown at twice the rate as those for new teachers." Well-qualified college students majoring in mathematics, science, or foreign languages see significant disparities when they compare teacher salary levels with beginning salaries in other professions. For example, AFT reports that average beginning teacher salaries are about \$7,500 less than the expected starting salary in marketing and \$15,000 less than that for computer scientists.

These challenges point to the need for a comprehensive, multifaceted approach to recruiting and retaining teachers. Every state's situation is complex, and an array of strategies will be necessary to ensure that enough qualified teachers are available across all subject areas. In addition to the challenges raised above, strategies also will need to support teachers who are willing to relocate to fill high demand positions and increase diversity of the teaching workforce.

Tackling Recruitment: How States Are Attracting Teachers

In general, local districts currently design and support their own recruitment programs. These isolated approaches often create inequities across the state as the wealthiest districts have the resources that poor districts lack to recruit and retain a quality workforce. To address recruitment and retention challenges, some state policymakers have

developed new strategies to expand the supply and provide incentives to teachers who work in areas of highest need. In addition to intrastate efforts, plans are underway in some regions to establish interstate agreements that support teacher recruitment across state lines. The following synthesizes approaches recently implemented in states across the country.

Expanding the Pipeline: Strategies to Attract Prospective Teachers to the Profession

Many states have attempted to expand the production pipeline in order to increase the number of potential teachers entering the profession. Their diverse strategies include stimulating early interest in teaching through secondary school and community college cadet programs, making it easier for potential educators to complete their degrees by offering scholarships and forgivable loans, and expediting the process for earning teaching credentials through alternative routes to licensure.

In addition, many states have increased beginning salaries to attract high caliber individuals to the teaching profession. Some states are working with districts to develop policies to provide differentiated compensation for teachers in high demand fields.

Increase Salaries for Teachers

States and school districts compete with each other and the public and private sectors for teaching personnel. The strong job market for recent college graduates that began in the late 1990s made it more difficult to find quality school staff. Swaying these new entry-level professionals are data showing that in 1999 new college graduates in all fields received average salary offers in excess of \$37,000 compared to an average beginning salary of \$26,639 for teachers. Some states are using these current labor force data to push for salary increases for teachers.

Both to attract new entrants and to keep experienced teachers in the profession, several states recently have passed legislation to increase salaries. Eleven states passed legislation to increase salaries for teachers in 2000. Complementing this trend, the American Federation of Teachers' 1999 teacher salary survey found a 3.3 percent increase nationally in the average teacher salary, from \$39,278 in 1998 to \$40,574 in 1999.

These states hope that more competitive salaries give them an important recruitment tool to attract the best and brightest teachers while at the same time increasing the quality of the statewide teaching workforce. For example, under the Excellent Schools Act enacted in 1997, North Carolina increased teachers' salaries by 11.3 percent over the previous year, but in return, teachers must meet more rigorous requirements for licensure and tenure. Alabama provided an 8.5 percent cost of living adjustment in 1998. Pending increases in education trust fund revenues designed to place teachers' salaries at the national average, the state approved additional pay raises in 2000. The current average teacher salary in Alabama is about \$36,000 and starting salary is more than \$29,000.

These salary increases are creating intense competition for educators among states in the same region. Supply and demand studies in Oklahoma, for example, show educators crossing the border to Texas where \$1.7 billion has been allocated to provide \$3,000 annual raises for full-time teachers over the next two years. In an attempt to keep more teachers in the state, Oklahoma raised teacher salaries \$3,000 in 2000 and established a statewide minimum starting salary of approximately \$27,000.

Strengthen Early Outreach -- Teacher Cadet and Future Teachers Programs

Raising students' interest in teaching as a career is another strategy for building a teacher workforce pipeline. Today's students are aware of many options, and those who may have once considered a teaching career are choosing other professions. A recent study shows that the appeal to become a teacher among college freshmen has declined from 10 percent in the early 1990s to 8 percent in 1999.

To rebuild interest, many states have developed strategies to begin teacher recruitment before college through career fairs, education clubs, and early exposure to teacher preparation programs. Currently, 12 states have state-level programs that recruit at the high school level and six offer programs at community colleges.

The South Carolina Center for Teacher Recruitment is an impressive example of a comprehensive state-level approach

to pre-collegiate teacher recruitment. In elementary school, students learn about how to become a teacher through career fairs. Middle school students may enroll in a year-long ProTeam Program that promotes teaching as a career and encourages students to make the necessary academic choices for college entry and success. Three programs target high school students: the Teacher Cadet Program, Teaching Assistant Program, and the Teaching Fellows Program. Students selected for these programs are enrolled in challenging coursework and provided extensive hands-on exposure to classroom teaching.

The state investment in these efforts is showing positive results. For example, the Teacher Cadet Program that began in 1985-86 now serves over 2,500 academically able high school students annually and operates in 149 high schools across the state. Twenty-two of the state's 30 colleges and universities with teacher education programs provide support to the Teacher Cadet sites, and over two-thirds of the college partners grant college credit for satisfactory completion of the course. More than 2,000 former cadets are currently teaching and an average of 35 percent of participants indicate plans to pursue teaching credentials. Districts in 18 states currently offer programs that replicate the Teacher Cadet Program.

Develop "Grow Your Own" Programs

"Grow your own" programs allow schools and districts experiencing severe shortages to create their own pipeline of new teachers by partnering with colleges to recruit, prepare, and retain teachers. "Grow your own" programs tend to target paraprofessionals and classroom aides already working in local schools. Further, these programs enable administrators to tailor preparation programs to the specific needs and resources in their communities and schools.

To date, few states have enacted policies that facilitate the creation of these programs; rather, districts and institutions of higher education have come together to design initiatives. These efforts could be expanded in the states through incentive funding or grant programs to partnerships of higher education institutions and districts.

The U.S. Department of Education's Title II Teacher Quality Enhancement Recruitment Grant program is supporting several "grow your own" efforts. For example, using federal grant dollars, the Los Angeles Unified School District partnered with the California State University System to begin its own recruitment program - the In-House Teacher Recruitment Program (ITRP). The ITRP includes a high school Internship program where participants are prepared to work as paraeducators and to study at one of the California State University campuses upon graduation. Following high school graduation, participants enroll in a university program while concurrently working as paraeducators in the schools. The program provides support services such as stipends, scholarships, and mentors. Upon completion, students will have earned a bachelor's degree and a preliminary teaching credential. Through California's federal grant, similar "grow your own" recruitment programs are being implemented in the Salinas Valley, Oakland, and San Jose.

Provide College Scholarships, Forgivable Loans, and Tuition Assistance

Twenty-seven states offer college scholarships, forgivable loans, or tuition assistance to recruit more high quality teachers and to motivate teachers to serve in shortage areas. In 1999, \$81 million was budgeted nationwide for these programs. Programs in 11 states specifically target academically talented candidates who are required to commit a designated number of years to teaching in K-12 schools.

For most students in these programs, the primary incentive is the financial assistance to cover the cost of their college education. However, the North Carolina Teaching Fellows Program established in 1986 offers even more. Along with scholarships of \$6,500 per year for four years, fellows are involved in extensive enrichment activities (e.g., conferences, workshops, and visits to schools across the state). Program graduates currently work in 96 of the state's 100 counties.

These student aid programs also seek to increase the diversity of the teaching workforce and to recruit teachers who have the skills needed to work with a multicultural student population. Approximately 87 percent of the teachers in public schools are non-Hispanic Caucasian, but they are teaching a student body that is approximately one-third minority. To increase the numbers of underrepresented teachers of color working in local schools, 10 states have developed scholarships or forgivable loans specifically for minority candidates. Connecticut implemented a program in 1998 that provides incentive grants of up to \$20,000 to encourage minority students to become teachers. Grants are

available for up to 50 students per year who enter teacher education programs in their junior or senior years at four-year colleges or who are enrolled in post-baccalaureate certification programs.

Support Effective Alternative Certification Programs

Alternative routes to achieving teacher licensure - often designed to encourage minorities and mid-career professionals to enter teaching - have grown in popularity in recent years. A combination of teacher shortages, a need to provide preparation for post-baccalaureate recruits, and criticism of traditional teacher preparation programs have made these alternative routes an attractive option for policymakers and potential teachers.

According to a National Center for Education Information (NCEI) report published in 2000, more than 115 alternative certification programs currently are operating in 40 states and the District of Columbia. To date, these programs have prepared more than 125,000 teachers. State leaders who support them have argued that they help address the recruitment and development of teachers for shortage areas and that they are preferable over emergency credentials and misassignments.

Many studies over the past decade have examined the characteristics of individuals most likely to enter teaching through alternative routes. They provide strong evidence that alternative programs have added minorities and men to the teaching ranks in urban areas. The three largest state programs are in states with large minority and urban student populations - New Jersey, California and Texas - where between 16 and 22 percent of new teacher hires earned certificates through alternative routes.

Based on NCEI and other studies, alternative certification programs deemed to be the most successful have the following criteria in common:

- They are directed to individuals who already have a baccalaureate degree.
- Successful candidates have passed rigorous screening.
- The programs are based in schools.
- The programs include coursework in professional education studies before or during teaching assignments.
- Candidates work closely with quality mentor teachers.
- Candidates meet high performance standards for completion of the programs.

Researchers have not achieved consensus about the impact of alternative programs on student achievement. Given the variety of programs currently in operation, most agree that comprehensive evaluations to assess this linkage are surely needed.

Streamline Hiring Processes

The complexity and timing of hiring decisions can create barriers to getting qualified teachers into classrooms. Information on district or school vacancies is not easily accessible to teachers searching for jobs. Teachers applying in several districts or at different schools must submit multiple and duplicative application forms and documentation. Because of delays in processing applications, districts often lose the most capable teachers to other competitors.

Several states have developed one-stop services in order to increase the number of applicants for open positions, to streamline the process, and to reduce the obstacles for hiring the best teacher candidates. Electronic web sites provide information about teaching opportunities across the state, allow districts to post job openings, and promote application uniformity.

In addition to state-based efforts, several national job banks, such as the National Teacher Recruitment Clearinghouse hosted by Recruiting New Teachers, Inc. (RNT), provide helpful information about how individuals can become a teacher and find a job, and how districts can locate and retain teachers. The RNT web site also contains a comprehensive job bank portal to national, state, and district job banks across the country.

Lure Retired Teachers Back to the Classroom

Given the difficulties of finding new teachers, a new trend is for states to draw on retired educators to staff

classrooms. States are allowing teachers to draw full pension benefits while teaching full- or part-time. In 1999, California, Maryland, Missouri, North Carolina, South Carolina, and Texas passed legislation that created new policies to attract retirees or altered existing regulations that capped returning retirees' salaries. Alabama, Kentucky, Louisiana, Maryland, Massachusetts, Oklahoma, and Tennessee passed similar policies in 2000.

Some states are using these policies as incentives to lure retired teachers to hard-to-staff schools. For example, South Carolina's plan will help channel retired educators to "critical need areas." Similarly, in Texas, the new law targets retired teachers who specialize in math, science, or technology. Additional strategies to direct teachers to areas of highest need are described in the following section.

Redistributing the Workforce: Strategies to Recruit New and Veteran Teachers to Areas of Highest Need

Many states are exploring incentives to encourage new and veteran teachers to work in hard-to-staff schools and to prepare to teach in subject areas with critical shortages. These will be most successful, however, if teachers can move to take advantage of them without having to meet re-licensure requirements or to lose retirement benefits or credit for accrued work experience. Activities are underway in some regions to consider initiatives that will allow states through reciprocity agreements to accept the teaching credentials and accrued experience that teachers earn in other districts and states. In addition, some states and local districts have examined strategies to ease portability of pension benefits for teachers.

Provide Incentives for Accomplished Teachers in Critical Areas

In addition to the general increases in teacher salaries mentioned earlier, some states are using one-time signing bonuses or other rewards to lure qualified teachers into open positions. In 1998, Massachusetts began awarding \$20,000 signing bonuses to newly hired teachers who meet qualification standards specified by the state and teach there for four years. The Massachusetts Signing Bonus Program for New Teachers is designed to attract mid-career professionals, recent college graduates, and college seniors with backgrounds in mathematics, science, and foreign language.

Other incentives to recruit teachers in shortage fields or to less desirable locations include bonuses, support to cover home loans, and relocation expenses. New York provides an annual stipend of \$3,400 for up to three years to any certified teacher agreeing to work in a critical shortage area. In Baltimore, \$5,000 is provided toward the closing costs on a home in the city and \$1,200 to cover relocation expenses. This is in addition to a recent \$3,000 starting salary increase. Similarly, Mississippi in 1998 passed legislation that targets teachers seeking a master's degree to locate in critical shortage areas. In exchange for three years of service, recipients receive tuition scholarships toward completion of a degree program, professional development opportunities, a computer, participation in a mentoring program, home loans, and up to \$1,000 for moving expenses.

To increase teacher expertise and skill in the schools, 39 states and nearly 200 school districts offer a variety of incentives and subsidies for veteran teachers who are certified by the National Board for Professional Teaching Standards. For example, California enacted legislation in 2000 that pays a \$20,000 bonus for National Board certified teachers who agree to teach in districts designated as low performing. New York created a similar program for National Board certified teachers by providing a \$10,000 bonus as part of the Teachers of Tomorrow legislation.

A new report published by the National Board found that compared to other teachers, board certified teachers were more effective educators and improved student learning in the schools where they taught. Although the scope of the study was narrow - based on 65 teachers in three states and the District of Columbia - it provides important preliminary evidence demonstrating the linkage between National Board certification and student achievement.

There is limited information about whether policies supporting salary increases and bonuses work. It appears that the most recent efforts are based on general market principles that higher salaries will attract more teachers. Some policy analysts have argued that to improve teacher quality, states should forego blanket salary increases and target their efforts on teachers filling critical shortage areas or demonstrating the greatest affect on student achievement. To ensure that monetary incentives to teachers meet their intended goals, states will need to evaluate their programs, examining the number of teachers recruited under the plans, retention rates, and the academic performance of schools.

and students where these teachers were hired.

Enhance Teacher Mobility

Nobody really knows the extent to which teachers are moving to take advantage of recruitment opportunities. However, a number of recent publications and public discourses on teacher quality have stressed the importance of teacher mobility. In addition, state and regional studies aimed at supply and demand and teacher salaries suggest that teachers will cross local district and state lines for jobs and better salaries. Further, the issue is being studied as part of new regional efforts sponsored by the Council for Basic Education and the North Central Regional Education Laboratory to ensure adequate supply of qualified teachers across states.

The stories of teachers who have encountered specific barriers restricting their ability to move from a teaching job in one district or state to another are driving these studies. These barriers include the lack of reciprocity of teacher licenses and certification, restrictions on pension portability, and the unwillingness or inability of most districts to pay them for accrued experience.

Available resources on teacher mobility, as well as examples of initiatives to provide reciprocity of state teaching licenses and portability of pension benefits for teachers, are identified and discussed in a reference guide and two other strategy briefs published in conjunction with this brief. These four documents are part of a national study on teacher mobility sponsored by the State Higher Education Executive Officers (SHEEO).

Improve Working Conditions through Induction Programs for Teachers

According to national reports aimed at explaining teacher attrition, job satisfaction appears to be influenced as much by working conditions and feelings of control as by salary and benefits. Thus, to ensure teachers remain in the profession after they are hired, state strategies also need to focus on initiatives that empower teachers and make classrooms more attractive work environments.

New teacher mentoring programs can help alleviate some of the factors that negatively affect job satisfaction. More than one-half the states have induction programs that support new teachers. However, there appears to be some disparity, even within the same state, on critical components of these mentoring programs. Research indicates that more effective induction programs include the following:

- Programs should be based in schools and classrooms.
- New models should be designed especially for novice teachers and differentiate between teachers in their first job, mid-career changers, and veterans who have changed grade levels or subject areas.
- Programs need sufficient financial resources to compensate mentor teachers for their participation and to allow mentors to work with novice teachers during class time throughout the first years of teaching.
- Programs should be evaluated and new or scaled-up efforts should be based on effective practice.
- Comparative data across programs should be collected to identify program components and capacity to support beginning teachers.

California's Beginning Teacher Support and Assessment program (BTSA) includes many of these components and is showing successful results. Begun in 1992, new California teachers are provided an extensive induction experience consisting of assessment, individual support, advanced study, and frequent reflection on the practice of teaching. This level of support works to retain teachers. A recent evaluation of the first phases of the program shows that 37 percent of teachers who did not participate in the program left the field over the first five years of teaching compared to 9 percent of those who went through BTSA.

Hiring and Keeping Quality Teachers: Taking a Comprehensive Approach

Approximately 450 bills addressing teacher recruitment were introduced in 41 states during the 2000 legislative sessions. The Appendix lists state legislation adopted in the past year and illustrates that many states are relying on multiple strategies to support teacher recruitment.

While most legislation creating recruitment policies focused on district activities, a few states are taking comprehensive policy approaches that address both pipeline and redistribution issues. California, for example, is attempting to link recruitment of high quality teachers to its statewide goals for quality teaching and learning. California Senate Bill 1666, passed in 2000, created a comprehensive recruitment package aimed at addressing the state's severe teacher shortage. The bill's multiple strategies (described below) are designed to support a system that aligns different parts of the teacher pipeline using local and statewide strategies.

Teacher Preparation: New programs are aimed at increasing the number and quality of students entering teacher preparation programs. California Teaching Fellowships provides \$20,000 in competitive awards to teaching candidates who earn credentials and agree to teach in a low performing school for four years. The Assumption Program for Loans for Education (APLE) provides loan forgiveness awards to teacher education graduates. SB 1666 provides \$43.6 million to increase the amount of annual grants from \$1,500 to \$2,500 to teacher interns. It also expands the intern and pre-intern programs from 7,300 to 12,700 students providing additional teacher trainees who will work in classrooms under mentor supervision while earning their teaching credentials.

Teacher Recruitment: The Teacher Recruitment Incentive Program (TRIP) establishes teacher recruitment centers in six California regions where there is a demonstrated need to aggressively recruit qualified teachers to the state's most challenging schools. Funded at more than \$9 million, centers will recruit college students and others to pursue teaching as a career and entice qualified veteran teachers to teach in schools with the greatest need. To support low performing schools, the Teaching as a Priority Block Grant Program (TAP) provides \$118.6 million for discretionary grants to schools to recruit and retain quality teachers. Incentives may be used to award signing bonuses, improve working conditions, increase salaries, provide housing subsidies, or establish a longer school year.

Teacher Salaries and Benefits: To encourage qualified individuals to enter teaching, \$55 million is available to California school districts to increase beginning salaries to \$34,000. A Teacher's Supplemental Retirement Account Program is aimed at increasing teacher retirement benefits. Members of the State Teacher's Retirement System (STRS) will be allowed to place 25 percent of their STRS contributions, or 2 percent of earnings, in a supplemental retirement account that will be available as a lump sum payment or an annuity when the member retires.

Teacher Retention: Three programs focus on retaining good teachers and rewarding them for their service to education. Beginning with the 2000 tax year, teachers who serve at least four years in public or private schools will be entitled to tax credits ranging from \$250 to \$1,500 based on their years in the profession. Teachers who achieve advanced certification under the National Board for Professional Teaching Standards will receive \$10,000 bonuses. Finally, board certified teachers who teach in low performing schools for four years will receive a \$20,000 bonus.

Next Steps for States

No simple solution can ensure that all students have access to quality teachers. State recruitment strategies need to be integrated into long-term, comprehensive initiatives that address both the supply and quality of the teaching workforce. The following suggestions can help state policymakers and education leaders to begin this process:

Gather data on teacher supply and demand

Most states do not systematically collect and analyze data to help state policymakers and local education leaders determine recruitment and hiring needs. Recruiting New Teachers, Inc. has identified some basic information that should be included in state data collection efforts.

- Estimate the number of teachers needed based on attrition, student demographics, and retirement.
- Identify diversity needs based on how well teacher staffs reflect the diversity of the student population.
- Anticipate attrition rates of new teachers.
- Assess the number of candidates coming from traditional and alternative sources of teachers, such as graduates from local universities, "grow your own" programs, recruitment programs aimed at underrepresented groups, and mid-career professionals, etc.

Along with state data collection, regional or national data collection also can help assess teacher shortages. Working

together, states with an oversupply of educators in one subject area could help teachers find good jobs in states with severe shortages. But this sort of interstate cooperation is impractical without addressing barriers to teacher mobility, such as restrictions on licensure reciprocity and pension portability.

Integrate recruitment initiatives into comprehensive strategies to address teacher quality

Most states have initiated reforms aimed at strengthening the quality of teachers. In some states, these efforts are part of broad systemic efforts to link K-12 and postsecondary education. Recruitment initiatives should be integrated into this work. Formalized partnerships between higher education and K-12 schools will increase cross-sector communication and ensure that institutions are preparing teachers in grade levels and subject areas of particular need. Moreover, effective collaboration will support a seamless system of teacher preparation, recruitment, induction, and professional development that will benefit both K-12 and higher education systems.

Evaluate recruitment policies based on data and modify practices based on what works

Despite the numerous state strategies described in this brief, little is known about how effective they are at recruiting and retaining quality teachers. Constructive program evaluation will allow states to identify and eliminate ineffective efforts and scale up promising practices.

Conclusion

In 1997, the National Commission on Teaching and America's Future outlined an "audacious plan" to ensure a competent, caring and qualified teacher for every child. While keen interest to expand the supply of good teachers is apparent in the recent high volume of state recruitment policies, significant challenges still exist. This brief highlights many bold and innovative strategies to build the pipeline of qualified teachers and the special efforts to place them in schools and subjects that historically have been difficult to staff.

These actions, however, may not yield the most effective results without thoughtful planning. Comprehensive data collection and analysis on teacher supply and demand, integration of recruitment efforts into well-developed state teacher quality initiatives, and evaluation and modification of strategies based on evidence of success will help to ensure that states' interests are met and the "audacious" goal for quality teachers is achieved.

Additional information on the web:

[Recruiting New Teachers](#)

[Education Week](#)

[National Commission on Teaching and America's Future](#)

[North Carolina Teaching Fellows Program](#)

[South Carolina Teacher Teaching Fellows Program](#)

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GM, UAW likely to discuss health care costs at annual meeting

April 14, 2005, 12:07 AM

DETROIT (AP) -- Skyrocketing health care costs -- and whether union workers should pay a larger share of them -- was expected to be a hot topic Thursday at an annual meeting of General Motors Corp. and the United Auto Workers.

Several hundred GM and UAW officials were scheduled to meet in the Detroit suburb of Dearborn, including UAW President Ron Gettelfinger and top GM executives.

The meeting comes at a difficult time for GM, which cited rising health care expenses when it slashed its 2005 earnings guidance by 80 percent last month. The world's largest automaker spent \$5.2 billion last year to cover 1.1 million salaried and hourly employees, retirees and family members. GM has said that could grow to \$5.8 billion this year.

Two top GM executives -- product development chief Bob Lutz and manufacturing chief Gary Cowger -- have said recently the company should adopt a health care plan that provides the same benefits for salaried and hourly workers.

GM's salaried workers pay 27 percent of their total health care costs, while the company's UAW-covered hourly workers pay 7 percent, according to GM. The average U.S. corporate employee pays 32 percent of the cost of health care, GM said.

Merrill Lynch analyst John Casesa noted GM's health care costs when he downgraded the company's rating from neutral to sell last

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month. In a research note, Casesa said GM had \$73 billion in retiree health care liability at the end of last year and a ratio of 2.4 retirees to every one active employee.

"Its liabilities for pensions and retiree health care costs have become an immense burden," Casesa said.

Gettelfinger has said the UAW recognizes that rising health care costs are a serious problem for automakers. But he also says the best solution is national health care reform, not further bargaining.

GM may ask the UAW to reopen its contract and negotiate new health care benefits. The contract was last negotiated in 2003 and expires in 2007.

The automaker also may try to negotiate a deal similar to one recently reached between the UAW and DaimlerChrysler AG's Chrysler Group. Under that agreement, which went into effect April 1, roughly 35,000 Chrysler hourly workers and retirees now pay annual deductibles of between \$100 and \$1,000 for health care that previously was free.

GM shares fell 67 cents to close at \$28.33 Wednesday in trading on the New York Stock Exchange. The shares have traded as low as \$27.98 and as high as \$50.04 in the past year.

On the Net:

General Motors Corp.: <http://www.gm.com>

United Auto Workers: <http://www.uaw.org>
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Personal Finance

Retirees' Families Face Health Cuts — As Medical Costs Increase, Some Big Employers Move To Trim Dependent Coverage

By Jennifer Saranow

739 words

03/03/2005

The Wall Street Journal

D2

English

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More companies are joining the wave of employers who are cutting health-care costs by reducing the benefits they offer to their workers' dependents.

A growing number of big employers are excluding new dependents -- such as spouses and children -- from their retirees' health-care plans, while others are cutting coverage amounts for retirees' current dependents.

These moves come after many employers already have raised premiums for the dependents of active employees and imposed surcharges to encourage spouses to seek coverage from their own employer. Others are dropping current employees' future retirement benefits.

Employees of International Business Machines Corp. who retire on or after Jan. 1 won't be able to enroll new dependents in the company's health plan beyond the dependents covered on their retirement date. Similarly, Boeing Co. has told its nonunion employees who retire on or after Jan. 1 that they won't be able to seek medical coverage for new dependents after their retirement date.

Other companies are going further and making retirees pay for much of their dependents' health coverage. As of Jan. 1, for example, Lucent Technologies Inc. stopped paying for the cost of medical coverage for dependents of management retirees who retired on or after March 1, 1990, and whose annual salaries were at least \$65,000. The salary limit, first effective in 2004, was previously \$87,000.

According to a survey on retiree health benefits released in December by the Kaiser Family Foundation and consulting firm Hewitt Associates, 79% of surveyed large employers reported having increased retiree contributions to premiums in the past year and 68% reported increasing contributions for dependent coverage.

Typically, many large companies cover employees who retire before age 65 when people qualify for Medicare, and then later help pay for what Medicare doesn't cover. But with costs rising -- and retirees living longer -- a growing number of employers are considering

the potential costs of covering retirees' dependents, which until now generally has been routine.

"Companies are trying to manage their costs, and cutting back on dependents is one of the first things they look at," says Derek Guyton, a principal with Mercer Human Resource Consulting in Chicago.

The upshot is that retirees could be left bearing the brunt of covering their families, or left in the lurch if spouses with insurance elsewhere lose coverage. Some may even have to return to work.

John DeCastro estimates he paid about \$60 a month for medical coverage for himself, his wife and now 20-year-old daughter when he retired from his job as a director of manufacturing and planning at Lucent four years ago.

Now, the 56-year-old San Francisco resident pays about \$600 a month. "It's a major hit on the retiree, and that's part of the reason I decided to go back to work," says Mr. DeCastro, now a salesman for a software company.

Companies say they want to focus their resources on those who were actually employees and discourage new dependents who might have lost or lack retiree coverage elsewhere.

"Our goal has been to maintain access to health-care benefits for all our retirees, while balancing that with what the company can afford and still remain competitive," says Lucent spokesman Bill Price.

Cutting dependent coverage also enables employers to cut liabilities on their balance sheets. Accounting rules require employers offering retiree health benefits to count the future cost of paying such benefits as a liability. Lucent says the changes it made in 2004 resulted in an approximate \$1 billion reduction in future obligations.

Lucent estimates its most recent change will affect 5,400 management retirees with about 7,400 dependents. The company currently provides retiree health-care benefits for about 48,000 management retirees and 71,000 formerly union retirees.

Boeing estimates its changes will impact about half of its work force. A spokeswoman for IBM declined to comment on the impact of IBM's changes.

Cutting Benefits

Large companies have been making major changes to retiree health benefits, such as raising contributions and deductibles. Here's what more than 300 surveyed companies have done last year:

	PERCENTAGE INCREASED
Retiree Contributions to Premiums	79%
Dependent Contributions to Premiums	68
Retiree Coinsurance of Copayments	45
Deductibles	37
Out-of-Pocket Limits	29



Kaiser Daily Health Policy Report

Thursday, April 07, 2005

Health Care Marketplace

Wall Street Journal Examines Impact of Rising Health Costs on Automaker GM

The *Wall Street Journal* on Thursday examined the difficulties that General Motors is facing in its efforts to reduce the cost of providing health care benefits for workers, retirees and dependents, including the potential for "heated negotiations with the United Auto Workers union, which has long fought to protect the gold-plated health benefits workers enjoy." This year, GM expects to spend \$5.6 billion to provide health coverage for about 1.1 million active and retired employees and their families (Hawkins, *Wall Street Journal*, 4/7). GM is the nation's largest private health care provider. Last month, the company announced that the first quarter of fiscal year 2005 would be its second consecutive quarter reporting a loss. In an effort to achieve fiscal solvency, GM announced last month that it will negotiate with UAW union leaders to shift more health care costs to hourly employees. According to company data, salaried employees are responsible for about 27% of their health care costs, compared with about 7% for hourly workers. Salaried workers also pay deductibles and monthly premiums for health care coverage, unlike hourly workers (*Kaiser Daily Health Policy Report*, 3/24). GM's U.S. CEO Rick Wagoner "blames [health care] costs for much of GM's profit woes," the *Journal* reports. About 26% of GM's beneficiaries are obese, a figure that is "slightly below the national average," the *Journal* reports. The company estimates that it pays \$1,000 to \$3,000 more in health services to cover an obese beneficiary. In addition, according to the *Journal*, "[s]moking is one area that shows how far GM has to go just to catch up with health standards in many other parts of the country." The company has begun "cautiously encouraging" workers to initiate designated smoking areas but permits workers to smoke while on the job and "shies away from provoking union members with a blanket smoking ban," the *Journal* reports.

Action Steps

GM has begun expanding programs to discourage employees from engaging in habits such as smoking, drinking alcohol, eating unhealthy foods and leading a sedentary lifestyle. Under its LifeSteps program, which began in 1996, the company added gyms to some manufacturing plants and now offers health care seminars and classes "to get workers ready for the hunting season" -- a popular activity among GM workers that can cause heart attacks in out-of-shape people, the *Journal* reports. However, "[e]ven if employees get healthier, it's not clear how much the company can save" because 69% of the company's health care spending goes to retired employees and their families -- a demographic that is more difficult to "reach with the live healthy message," according to the *Journal* (*Wall Street Journal*, 4/7).

ALASKA STATE PENSION INVESTMENT BOARD
Biographical Listing

Wilson L. Condon, Chair, was elected by the Public Employees' Retirement System. He is currently Chief of the Oil, Gas & Mining Section at the Department of Law. Previously, Mr. Condon was Commissioner of the Alaska Department of Revenue from 1995-2002. Prior to serving as commissioner, he was a partner in a private law firm from 1983-1995 and acted as lead counsel for the state in a series of oil and gas royalty and tax cases. He served as Attorney General from 1980 - 1982 and as Deputy Attorney General from 1975 - 1980. He holds an A.B. Political Science degree and a J.D. degree from Stanford University. Mr. Condon's term expires December 31, 2006.

Dorothy Wells, Vice Chair, was elected by the Teachers' Retirement System. A resident of Alaska for 37 years, Ms. Wells is a retired teacher who taught business education at Eielson Air Force Base, and business classes for the University of Alaska night school program at Eielson. She obtained her B.S. degree from the University of Minnesota/Minneapolis and did graduate work both there and at the University of Alaska/Fairbanks. Mrs. Wells served on the Teachers' Retirement Board for 20 years, and is active with NEA-Alaska/Retired. Her term expires December 31, 2005.

James "Pat" Wellington, Secretary, was elected by the Public Employees' Retirement System. Mr. Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers, Chief of Police of Juneau, Deputy Commissioner and Commissioner of the Department of Public Safety, and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also the Chairman of the Public Employees' Retirement Board. He resides in Anchorage. Mr. Wellington's term expires December 31, 2008.

William Corbus was appointed Commissioner of the Department of Revenue in December 2002. He oversees an agency that has very diverse responsibilities, including tax collection, investing state funds, child support enforcement and distributing permanent fund dividends. Bill Corbus is the retired president of Alaska Electric Light and Power, the electric company that serves the Juneau area, where he has lived since 1970. He served as a Lt. J.G. in the U.S. Naval Reserve, including one year as an advisor to the Vietnamese Navy in 1962-63. Mr. Corbus then worked for Stone & Webster in New York City providing public utility security analysis, financial planning, and accounting. The Commissioner sits on nine boards, including the Board of Trustees of the Alaska Permanent Fund Corporation. Mr. Corbus holds a B.S. in industrial engineering from Stanford University and an MBA from the Amos Tuck Graduate School of Business Administration at Dartmouth College.

Merritt C. Olson was elected in 1992 to serve as a trustee on the newly-created ASPIB and reelected for three more terms. Mr. Olson served previously as a trustee for the Teachers' Retirement Systems Board. He also served as president of NEA-Alaska/Retired and sat on the national NEA-Retired Advisory Council for six years. He earned the doctoral degree in psychology from Rutgers University and was a Fulbright scholar and lecturer at the University of Ibadan in Nigeria. Dr. Olson taught mathematics in Anchorage secondary schools and served as an adjunct professor of psychology at the University of Alaska Anchorage and at Alaska Methodist University. His term expires December 31, 2007.

Martin Pihl was appointed to the board in 2003 by Governor Murkowski. Mr. Pihl came to Alaska in 1962 to work for Ketchikan Pulp Company, becoming President and General Manager in 1987 until his retirement in 1994. He then served as Acting Executive Director for the Alaska Permanent Fund Corporation in 1994-1995. Mr. Pihl serves as a director of National Bank of Alaska and on Wells Fargo Bank's Alaska Statewide Advisory Board, as Chairman of the Board of Governors of the Alaska Timber Insurance Exchange, and as a regent for Pacific Lutheran University. He is also a member of several advisory boards including Holland America-Westmark-Ketchikan Advisory Board, Ketchikan Ports and Harbors Advisory Board, and Alaska Airlines Southeast Alaska Community Advisory Board. Mr. Pihl holds a BA in Accounting from the University of Washington and has been a CPA since 1958. His term expires December 31, 2006.

Gail R. Schubert was first appointed to the board by Governor Hickel, then reappointed by Governor Knowles and Governor Murkowski. She is currently Executive Vice President and General Counsel to Bering Straits Native Corporation, President of its two 8(a) subsidiaries, and of counsel to the law firm of Foster, Pepper Rubini & Reeves LLC in Anchorage. From 2002 to 2003, Mrs. Schubert was General Counsel to Southcentral Foundation, and from 1995 to 2002, she was a member of Foster Pepper. From 1992 to 1995, Mrs. Schubert practiced law at Birch, Horton, Bittner & Cherot, and from 1982 to 1992, Mrs. Schubert practiced law in New York City at the firms of Rogers & Wells; Fried and Frank, Harris, Shriver & Jacobson; and at the Federal Reserve Bank of New York. Mrs. Schubert attended the School of Law at Cornell University; the Johnson School of Management (MBA) at Cornell; and Stanford University. She serves as Chair of the Boards of the Alaska Native Heritage Center and Akeela Treatment Services, Inc., and on the boards of the Bering Straits Native Corporation, the Alaska Federation of Natives, Khoanic Broadcast Corporation, the Alaska Native Justice Center, and is a member of the Anchorage Downtown Rotary. Mrs. Schubert's term expires December 31, 2007.

Jeffrey E. Sinz was appointed to the board in 1998 by Governor Knowles. Mr. Sinz is currently employed as Chief Fiscal Officer for the Municipality of Anchorage. He has over twenty years experience in public sector financial management and analysis, including fourteen years with the Municipality of Anchorage. Prior to accepting his current position in Anchorage, he served as Director of Finance for the Kenai Peninsula Borough. Mr. Sinz has also held positions with the Alaska Railroad Corporation and prior to moving to Alaska in 1981, with a Wisconsin public school district. He also serves as vice president of the Alaska Municipal League Investment Pool Board of Directors and is on the Board of Directors for the Anchorage Parking Authority. He has an MBA in Management from the University of Alaska Anchorage and a BBA in Finance from the University of Wisconsin Eau Claire. His term expires December 31, 2004.

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Duluth struggles with retiree health costs

by [Bob Kelleher](#), Minnesota Public Radio
December 30, 2004



City services, like snow plowing, could be at risk, unless Duluth comes to terms with escalating costs for retiree health care. That's the warning from Duluth Mayor Herb Bergson. (MPR Photo/Bob Kelleher)

People are feeling the rising costs of health care from the living room to the board room. In Duluth, health expenses could put basic city services at risk. Officials warn that the city's generous coverage for retired employees could eventually gobble up Duluth's entire budget - with nothing left for police and firefighters, parks or street maintenance.

Duluth, Minn. — Duluth's City Council has just finished its annual budget ritual, another painful exercise in what to cut next. But next year looks even worse. Duluth Mayor Herb Bergson says every city service is at risk unless something is done about soaring health costs.

"Unless we do, in my lifetime, we will be in the health care business, and out of public service business," Bergson says.

Blame a uniquely generous benefit package which promises life time coverage for retired city workers. And blame something we all face - which some call medflation. That's a rapid expansion in the cost of health procedures and drugs, combined with an aging population that requires more health care.

According to Bergson, even a small increase in medflation adds up to a huge bill.

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"If the inflationary percentage is 5.5 percent on health care, then it costs \$2.6 million to insure that employee from the day we hire him or her tomorrow until the day they die," Bergson says. "Fourteen million if the inflationary number is 10 percent."

Employee health coverage isn't just a problem for Duluth. It's a problem for other cities, and for private businesses. But according to Stephanie Lake, with the Minnesota League of Cities, businesses have options that cities don't.

In my lifetime, we will be in the health care business, and out of public service business.

- Duluth Mayor
Herb Bergson

"Unlike, perhaps a private company, they (cities) are stuck between the rising costs and budget cuts," Lak says. "A private company might be able to go out and raise the cost for its end product, but the cities, because they face those cuts in budgets, combined with that rising health care cost, really got pinched."

You can't just change the benefit package. Retirees keep the benefits they retire under. Try to change that and expect a lawsuit. And officials with AFSCME the American Federation of State, County, and

Municipal Employees - say they're not interested in re-opening current employee contracts which are good for another year. They say the city has the means to pay the coverage.

Complicating things is a new federal rule.

Duluth pays its health obligations year by year, depositing a year's worth of expenses with a plan manager. That's worked for 20 years, according to City Administrative Assistant Mark Winson.

But when you pay-as-you-go, there's nothing in the bank for future expenses. Something called The Government Accounting Standards Board, GASB, is about to change that. The board has issued new rules on how cities account for future obligations to retirees. According to Winson, until GASB rule 43, Duluth's health expenses were worrisome, but still manageable.

"But that was still looking at a kind of pay-as-you-go," says Winson. "The implementation of GASB statement 43 brought it to a much higher level of importance."

American cities will soon have to have something in the bank to back up what they'll owe retirees in coming years. If not, the city's bond rating is a risk.

Duluth is facing a 30 year health cost that tops \$150 million. By this time next year, city officials will need an \$11 million down payment on that expense in the bank. That's on top of \$10 million dollars budgeted for ongoing health care bills. The accounting standards are faced by cities everywhere, but Winson says Duluth's generosity to retirees makes the city unique in Minnesota.

"With the new accounting standards that are coming into place, we will have probably a higher liability, unfunded liability, for retiree health care, compared to any other city our size," Winson says.

The solution will likely come from several directions. Already, the city's

moved to cut costs. There are now 16 unfilled city jobs that won't be filled. And a new contract with city workers includes fewer health benefits for newly hired employees. Meanwhile, the city's share of property taxes is going up more than 5 percent. That fixes the 2005 budget. But there's still a big hole ahead in 2006, an \$11 million dollar hole, and just 12 months to figure out how to fill it.

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State Retirement System Needs Help

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Since the start of the legislative session I've been studying the problems with the Public Employees and Teachers Retirement Systems (PERS/TRS) in an attempt to find solutions for the \$5 billion unfunded liability. As a demonstration of my commitment, I declined participation in PERS as a new legislator.

I've come to the conclusion that solving the unfunded liability problem will require all three parties to come to the payment table – the State, local government employers, and the thousands of active, non-retired employees who receive the generous benefits which are now costing much more to provide. There is a common belief that the only employees who can participate in the fix are the ones hired in the future under a new tier to be developed by the Legislature. Without question a new tier is an essential component of the broader solution, but it isn't enough. It won't have a meaningful impact for a decade or more.

The PERS/TRS Boards, the Legislature and the Administration have been wringing their hands while the fund has slid another billion dollars under water. In an attempt to create an equitable plan to include existing non-retired employees in the \$5 billion unfunded liability solution, I've met with several Administration officials. Each time I've been told it could not be done because of a provision in our state Constitution and a 1981 court case. Following these conversations, I instructed my staff to pose the question to the Legislature's lawyers. Initially, they joined the administration saying it couldn't be done.

Constitutionally providing that the Legislature is forbidden to adjust benefits or beneficiary contributions, even to reflect dramatic changes in costs or to protect the financial viability of the system, would mean that if the State hired a 25 year-old employee today, thus beginning a 60 year relationship (30 years active and 30 years retired), the state would be powerless to change anything. This seemed to me legally questionable and managerially absurd. After I requested in-depth legal research, our Legislative lawyers offered an initial legal opinion that convinces me the Legislature may well be permitted to make changes to the plans that protect "accrued" benefits, but allow us to include active PERS/TRS members as contributors to the PERS/TRS solution.

In an effort to involve current non-retired employees in the solution, I'd start by recognizing that there has been a long-standing monthly payment-sharing scheme between our employers and employees. For example, until very recently, PERS involved roughly a 50/50 sharing between employer and employee in bearing the employees benefit cost. The legal opinion also suggests we may be able to require employees to come to the party on the health care side of the solution. Some folks in the Administration and some of my colleagues may not like this approach. Our public employees are a sizeable voter bloc, and the unions that represent them are a powerful lobbying force. There will undoubtedly be political pressure, and perhaps even a lawsuit, to prevent this measure. I am confident we will be able to build broader support among the general public and the boroughs/municipalities if our comprehensive plan to fix PERS/TRS brings all affected constituencies to the table. I believe if the employees and unions take a long-term view they may support active beneficiaries paying a fair share to get their retirement and health care programs back in good financial therefore the long term.

The public should demand no less than a detailed long-term plan for a solution to the PERS/TRS problems before the Legislature adjourns in May. I've been asked by House leadership to help formulate a PERS/TRS solution and to coordinate with efforts in the Senate. I'll be very reluctant to forego involving active employees in this solution. For more information, including a copy of the legislative legal opinion, please visit my website at www.akrepublicans.org.

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Representative Mike Kelly *House District 7*

The Coming PERS/TRS Funding Crisis

As my staff and I prepare for this Legislative Session I am studying the important issues that will drive the agenda of the House. The more I study the crisis in funding of the Public Employees' and Teachers' Retirement System (PERS/TRS), the more concerned I become. It is currently under funded by over \$5 billion. To put this in perspective, \$5 billion could fund the state portion of our University budget for 25 years, fund K-12 Education for the next decade, or fund the State operating budget for the next two years. I want to make it clear that, although I believe we must make changes to the troubled system, we also have an obligation to PERS/TRS participants who are counting on it for retirement. We must also be able to attract and retain qualified public employees and teachers. As a new legislator I am eligible for benefits under PERS. I have chosen to decline enrollment at this time. Admittedly, waiving PERS benefits is easier for me than it might be for legislators who are already participating, or have no other retirement plan.

A 20/20 hindsight view of PERS/TERS reveals a system destined to hit the rocks. Health care costs far exceeded plan expectations; the aging beneficiary population is boosting retirement costs, while fewer younger employees are paying into the plan because of cutbacks in government; the plan provides a "defined benefit" instead of a "defined contribution," which places considerable risk on government employers; and asset investment returns have fallen lower than anyone believed possible. I was disappointed to learn that the current investment rate recovery will only have a small positive impact because PERS/TERS is so far under water.

While I find reasons given for financial failure of PERS/TERS to be instructive, I believe the core problem may be more insidious. The benefits bargaining table is a "round table"! Although there have been cost and abuse control measures implemented in the past, it appears we have not consistently maintained an independent and fiscally conservative management team across the table from the motivated beneficiary team. A look at the roster of PERS/TERS participants helps one understand the problem. Our Governor; his commissioners; local and State government employees and supervisors; school board, council and assembly members; professors, teachers and even legislators are all eligible to receive benefits at the round table.

I've been told two of every five Alaskans are PERS/TERS beneficiaries, covered dependents, or are related to these participants. Several of my own extended family are public employees or teachers. The round table structure is not unique to Alaska, or to government. But wherever it exists – there is a recipe for trouble. The round table breeds patronage – and it influences votes. I mean no criticism of

participants who fully utilize PERS/TERS benefits, options and privileges. But simply stated, we cannot afford this near-bankrupt system!

Prior to the State paying it's fair share of the unfunded liability, I believe a new defined-contribution plan covering new hires and re-entrants, and establishing provisions to prevent abuse, must be in place. We must be prepared to change law, renegotiate agreements, and do whatever it takes to craft a long-term, fair and affordable solution before asking the people of Alaska to provide a \$5 billion bailout.

I suggest we begin deliberations with three stakeholders – each taking ownership of one third of the problem (we must start somewhere): 1) the State acting as employer and representing all Alaskans benefiting from the labor of the beneficiaries; 2) local government employers; 3) PERS/TERS beneficiaries. Ideally we should place non-beneficiary management representatives on one side of the table, and non-management employee beneficiaries on the other. That will be a real challenge given the "round table" configuration of PERS/TERS. Changing the make-up of the PERS/TRS boards to provide for 50% non-beneficiary directors deserves some thought. Our goal should be to craft a fiscally sound and fair solution by the end of session.

Repairing the PERS/TERS meltdown and making sure it never recurs poses a significant challenge for lawmakers. If we are successful, we will probably only upset one out of every two Alaskans. As a freshman, I obviously have much to learn in a very short time. I can perhaps be more effective in helping my colleagues to craft a sound solution if I decline PERS enrollment. So I shall.

I wish everyone abundant blessings in the New Year and look forward to serving you in Juneau.

Mike Kelly, Representative District 7

The State of Michigan - Defined Contribution Program

This does not change the retirement benefits (pension or health) of any current state employee or retiree.

This Defined Contribution program will provide all **NEW** state employees with a portable defined contribution retirement plan. The plan will be mandatory for new state employees hired on or after March 31, 1997. The Defined Contribution plan will also be an option for current state employees who are members of the existing retirement systems or for those who are former employees who are re-hired. The current retirement systems will be closed to new state employees as of March 31, 1997.

Retirement benefits:

- Mandatory employer contribution of 4 percent of each employee's annual compensation to a personal Defined Contribution Account.
- Employer match of employee voluntary contributions up to an additional 3 percent of compensation. If an employee contributes 3 percent, the employer will match the 3 percent employee contribution to total 10 percent of employee's compensation. [Calculation: 4 percent employer contribution + voluntary contribution + maximum 3 percent employer match.]
- Employees may contribute additional voluntary amounts to their Defined Contribution Account or other tax-sheltered plans to the extent permitted by the Internal Revenue Code with no employer match.
- Employees will be 100 percent vested in the employer contributions after four years of service.
- A Defined Contribution Account is portable. Employee contributions and vested employer contributions can be taken by the employee when they leave public service.

Retiree health benefits:

- New employees who are enrolled in the defined contribution plan will vest in retiree health benefits after 10 years of service. The employee will be entitled to a state or school district contribution towards the insurance premium for state health insurance coverage upon retirement of 3 percent for each year of service, up to a maximum of 90 percent (for 30 or more years of service). Current or former employees who elect to be a member of the defined contribution plan will receive the same retiree health insurance premium contribution as if they had stayed in their current defined benefit plan.
- Retiree health benefits are portable. A retiree may choose their own insurance provider and may direct the employer's contribution for their health insurance premium toward payment of their private insurance coverage.
- Direct payment of employer's contribution for retiree's health insurance premium into Medical Savings Account.

Advantages of the program:

- No current employee is required to leave their current retirement system.
- Defined Contribution Accounts are portable. When an employee terminates employment before retirement, they do not lose their accumulated assets. This improves career mobility and enhances the state's ability to attract well-qualified employees.
- The employee controls the investment of their funds in qualified funds.
- Michigan taxpayers no longer bear the investment risk for those employees in the defined contribution plans.

Choice for current employees:

- Current members of the State Employees Retirement System may choose to transfer to the defined contribution plan. Members who transfer to either of the DC plans will be 100 percent vested for employer contributions after four years of service, 75 percent after three years, and 50 percent after two years. Years of service under both the DB and DC plans will count toward retiree health benefits.
- Current vested state employees who choose to transfer to a defined contribution plan will have an amount equal to the present value of their accumulated benefits (including any employee contributions) deposited into their Defined Contribution Account. They will relinquish their membership in their defined benefit plan and the state will make future retirement contributions into their Defined Contribution Account.
- Employees who transfer from their current retirement system to their defined contribution plan will pay the same retiree health benefit insurance premium that defined benefit members pay and may count years of service under both the defined contribution and defined benefit plans for purposes of vesting in the retiree health benefit.

218 Contracts	SBS	PERS	TRS
Soldotna, City of		123	
Southwest Region School District		102	758
Special Education Service Agency		218	779
St. George, City of		256	
St. Paul, City of	0072	172	
State of Alaska - Administration	0001	101	737
Tagiugmiullu Nunamiullu Housing Authority		293	
Tanana City School		166	775
Tanana, City of		169	
Thorne Bay, City of		206	
Tlingit-Haida Regional Housing Authority		279	
University of Alaska		113	733
Upper Kalskag, City of		290	
Valdez City Schools		137	730
Valdez, City of		107	
Wasilla, City of	0031	131	
Whittier, City of		202	
Yukon-Koyukuk School District		160	762

All teachers are excluded from Social Security in Alaska.

Note: Matanuska-Susitna Borough School District employees participate in SBS with some excluded employee classifications. These excluded employees are enrolled in Default Mandatory Social Security.

PERS/TRS employers without Social Security

218 Contracts	Employer Number		
	SBS	PERS	TRS
Aleutian Housing Authority		267	
Aleutians East Borough		230	
Aleutians East Borough School District		244	780
Aleutians West Coastal Resource Service Area		245	
Aiakaket, City of		259	
Anaktuvuk Pass, City of		273	
Atka, City of		243	
Baranof Island Housing Authority		281	
Bering Straits Coastal Resource Service Area		232	
Bering Straits Regional Housing Authority		270	
Bethel, City of		136	
Bristol Bay Borough		144	
Bristol Bay Borough School District		184	742
Chugach School District		121	771
Cook Inlet Housing Authority	0705	262	
Copper River Basin Regional Housing Authority	0295	224	
Denali Borough		258	
Denali Borough School District (aka Railbelt)	0018	118	764
Eek, City of		292	
Egegik, City of	0795	271	
Fairbanks, City of		129	
Haines Borough	0189	189	
Haines Borough School District		240	707
Hooper Bay, City of		285	
Hydaburg City Schools		168	709
Interior Regional Housing Authority		263	
Inter-Island Ferry Authority		284	
Kachemak, City of		260	
Kaltag, City of		237	
Kashunamiut School District		211	777
Kenai, City of		115	
Kivalina, City of		231	
Kotzebue, City of		140	
Koyuk, City of		287	
Lake & Peninsula Borough	0555	247	
Lake & Peninsula School District		164	757
Marshall, City of (aka Fortuna Ledge)		268	
Matanuska-Susitna Borough	0009	109	
Matanuska-Susitna Borough School District	0010	110	722
Mekoryuk, City of		254	
North PAC Fish Management Council		170	
North Pacific Rim Housing Authority		276	
North Pole, City of		191	
Northwest Arctic Borough		220	
Northwest Arctic Borough School District		154	751
Northwest Inupiat Housing Authority		288	
Petersburg City Schools		228	724
Petersburg General Hospital		187	
Petersburg, City of		143	
Quinhagak, City of		266	
Sand Point, City of		176	
Selawik, City of		222	
Seward, City of		182	
Shaktolik, City of		291	
Sitka Borough School District	0033	133	727
Sitka Community Hospital	0065	165	
Sitka, City & Borough	0020	120	

75 PERS.
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Aid To Communitines From Past Service Offset Account					
Actual Dolliar Value					
Valuation Year	PSC State Aide Until Blended Rate	Total PSC Paymna	Total Employer PSC Payments After State Aide		
2005	59,854,472	61,024,000	1,169,528.32		
2006	74,216,999	146,707,000	72,490,000.62		
2007	88,999,019	238,945,000	149,945,980.60		
2008	104,493,323	280,279,000	175,785,677.45		
2009	120,568,676	295,088,000	174,519,324.47		
2010	137,353,683	310,344,000	172,990,317.09		
2011	154,783,006	326,448,000	171,664,994.14		
2012	172,841,421	343,250,000	170,408,579.13		
2013	191,780,849	360,869,000	169,088,151.05		
2014	211,311,021	379,348,000	168,036,979.32		
2015	231,514,256	398,753,000	167,238,744.40		
2016	252,484,282	418,799,000	166,314,717.88		
2017	274,195,360	439,709,000	165,513,640.43		
2018	296,674,517	461,776,000	165,101,482.84		
2019	319,821,065	484,879,000	165,057,935.50		
2020	343,579,788	509,151,000	165,571,211.62		
2021	368,075,676	534,694,000	166,618,323.77		