



National Association of State Retirement Administrators

Overview of plan types and their use among statewide retirement systems

According to the U.S. Bureau of Labor Statistics, ninety percent of state and local government employees participate in a *defined benefit* (DB) plan as their primary retirement benefit; *defined contribution* (DC) plans serve as the primary retirement benefit for most others. Some workers have a hybrid plan as their primary benefit; for purposes of this discussion, a hybrid is considered to be a form of DB plan. The summary below focuses on DC plans on a statewide level involving major employee groups: teachers, general employees, and public safety personnel.

Many of the 10 percent of state and local government employees with a DC plan as their primary retirement benefit are higher education faculty and staff, of whom many have been given a choice between a DB and a DC plan. Also, a number of states provide a DC plan for selected, usually narrow employee groups, such as elected and appointed officials and unclassified or exempt staff.

This summary does not present a complete inventory of DC plans among state and local government employees. Although exact statistics are unavailable, most public employees participating in a DB plan also have access to a supplemental, voluntary DC plan. Such plans typically are identified by the section number of

the Internal Revenue Code authorizing them, for example, 457, 403(b), 401(a) and 401(k). These plans also are referred to as deferred compensation plans, tax-sheltered annuities (TSA's), and money purchase plans.

Some public employers provide as their workers' primary retirement benefit a hybrid plan, which incorporates elements of both DB and DC plans. Hybrids come in two basic forms: one form combines features of DB and DC plans into a single plan, and resembles what is often recognized as a cash balance plan. This form provides a benefit based partly on the employee's length of service, as in a DB plan; and partly on the plan's investment return, as in a DC plan.

The more common form of hybrid contains two distinct and separate plan types: a traditional DB plan, normally with a lower multiplier; combined with mandatory participation in a traditional DC plan.

A 2003 resolution expresses NASRA's position that a DB plan should serve as an employee's primary benefit, and should be supplemented by a voluntary DC plan. This resolution also expresses NASRA's support for changes in this structure that accommodate many of the objectives supported by advocates of DC plans.

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Following is a summary of DC plans and recent changes in plan types affecting major state employee groups and of state employees with access to a DC plan as their primary retirement benefit:

- Most public employees in **Indiana**, including public school teachers and state employees, participate in a hybrid plan that provides a traditional DB plan with a retirement multiplier of 1.1%, accompanied by a DC benefit based on investment returns.
- The **Texas** County & District Retirement System and the Texas Municipal Retirement System provide hybrid plans that base benefits on a combination of service, contributions, and investment returns.
- In 1987, the **District of Columbia** closed its DB plan to new employees other than teachers and public safety personnel. Employees hired since October 1, 1987 participate in a DC plan plus Social Security.

- In response to severe actuarial underfunding, **West Virginia** in 1991 closed its DB plan to new teachers and created a DC plan in its place. In 2005, the state legislature reopened the DB plan to new hires. Participants in the DC plan, who are new public school teacher hires in WV from 1991 to 2005, elected in 2006 to switch en masse to the DB plan. The legality of that switch currently is being challenged in state court.
- In 1995, **Washington** state created Plan 3 for new teachers and existing participants who elected to switch from the traditional DB plan. Plan 3 is a hybrid plan in which the employer funds a DB component with a multiplier of 1.0%, and the employee contributes to a DC account. New state and local government employees subsequently have been added to Plan 3.
- In 1997, **Michigan** closed its DB plan to new state employees. Existing plan participants were given the option to remain with the DB plan or to switch to the new plan. Approximately 94% of those eligible to switch stayed with the DB plan. In the new DC plan, the state contributes four percent plus matches the employee's contribution up to another three percent.
- **Ohio** created an optional DC retirement plan in 1998 for new education employees and those not yet vested (five years). Under this plan, new employees may choose from among three alternatives: a DC plan, the traditional DB plan, or a hybrid. These options were extended to teachers in 2001 and to state and local government employees in 2002. More than 95% of active, working state and local employees eligible to choose opted for either the traditional DB plan or the hybrid (combined) plan, with the vast majority of those electing to remain with the traditional DB plan.
- Beginning in 2000, new and current teachers and educational employees in **South Carolina** were given a choice to participate in a DC plan as an alternative to the DB plan; this option was extended to state and local government employees in 2002. Since the onset of choice, approximately 17 percent of those eligible have elected to switch to the DC plan.
- Also in 2000, **Florida** established an optional retirement plan for all current and future FRS participants. This legislation allowed existing to participants to make one of three choices: remain with the DB plan; switch to the DC plan but keep their existing DB service credit; or switch to the DC plan and transfer the cash value of their DB plan credit to their new DC account. Approximately 95% of existing employees elected to stay with the DB plan. Since the open enrollment period, approximately 17 percent of new hires have elected to participate in the DC plan.
- New and existing employees in the **Montana** PERS were given a choice between the traditional DB plan and a DC alternative during a one-year open enrollment process that ended in June 2003. Approximately three percent of those eligible elected to participate in the DC plan.
- In 2002, in response to concerns that employees were not accumulating enough for retirement in their DC plan, the **Nebraska** Legislature established a hybrid cash balance plan for new state and county employees and existing DC plan participants who elected to switch.
- **Oregon** in 2003 established a hybrid plan for new Oregon PERS participants, in lieu of the traditional DB plan. The hybrid combines a DB component multiplier of 1.5% (1.8% for public safety personnel), funded by the employer, with mandatory participation in a DC plan, funded by the employee (unless the employer elects to make its employees' contributions).
- In 2004, **Colorado** established a defined contribution option for new state employees beginning January 1, 2006. This option was extended in 2006 to university faculty and staff, effective 1/1/08.
- In 2005, the **Alaska** Legislature closed the DB plan for public employees in the state hired after June 2006.