

Hybrid and Defined Contribution Plans as the Primary or Optional State Retirement Benefit



According to the U.S. Bureau of Labor Statistics, 91 percent of full-time employees of state and local government have access to a defined benefit plan, and 96 percent of those eligible participate in them. This translates into roughly 87 percent of state and local government employees participating in a defined benefit (DB) plan as their primary retirement benefit; defined contribution (DC) plans serve as the primary retirement benefit for most others.

The definition of “hybrid” is somewhat nebulous, and the fact that nearly all participants of public pension plans are required to contribute toward the cost of their pension benefit means most public sector plans marry elements of DC and DB to some degree.

The listing below identifies states that provide a defined contribution plan to broad employee groups (public school teachers, public safety officers, correctional officers, or general employees), or a hybrid retirement plan (that has elements beyond mandatory employee contributions to a traditional pension plan) to these employee groups.

Many 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, such as 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.

A 2010 resolution expresses NASRA’s support for retention of core, indispensable elements of public plan design, namely mandatory participation, shared financing, benefit adequacy, pooled investment and longevity risks, and lifetime benefit payouts.

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Following is a listing of exceptions to the prevailing model among states of automatic, mandatory participation in a DB plan only.

- In 2005, the **Alaska** Legislature closed the DB plan for public employees hired after June 2006. All new hires since participate in a DC plan.
- In 2004, **Colorado** established a defined contribution option for new state employees beginning January 1, 2006. This option was extended to higher education employees in 2008.

- 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 2000, **Florida** established an optional retirement plan for all current and future FRS participants. This legislation allowed existing 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.
- In 2008, **Georgia** created a hybrid retirement plan for state employees hired on or after January 1, 2009. The DB multiplier is 1.0%. Participants are automatically enrolled in the DC plan but may opt out within 90 days.
- 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.
- In 2010, **Michigan** established a hybrid DB/DC system for all newly hired school employees as of July 1, 2010. Employees are automatically enrolled in the DC portion with 2% of their salary withheld, and the employer matches up to 50% of the initial employee contribution.
- 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.
- Many municipalities participating in the Municipal Employees' Retirement System of **Michigan** have established hybrid plans as the primary retirement benefit for their employees.
- 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.
- **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.
- **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).

- 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. Approximately three percent of those eligible elected to switch to the DC plan.
- 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 2010 **Utah** provided a DC plan as one option available to state and local government employees hired after July 1, 2011. The Utah DC plan provides individuals with employee accounts, to which employers will contribute 10% of employee compensation (12% for public safety and firefighters). Employees may elect to make additional contributions to this plan.
- In 1995, **Washington** 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 response to severe underfunding brought about by years of not paying contributions, **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. In 2008, the plan was also opened as an option to those hired when the DC plan was mandatory; 78 percent elected to switch to the DB plan.

Source: NASRA and Employee Benefits Research Institute

Related Resources

- Key Elements of State Hybrid Retirement Plans, NASRA
http://www.nasra.org/resources/Hybrid_Grid.pdf
- State Retirement System Defined Contribution Plans, NCSL
<http://www.ncsl.org/Portals/1/Documents/employ/StateGovtDCPlansSept2009.pdf>
- State Defined Contribution and Hybrid Pension Plans, NCSL
http://www.nasra.org/resources/NCSL_DC_Hybrid.pdf
- National Compensation Survey: Employee Benefits in States and Local Government in the U.S., September 2007, U.S. Department of Labor, Bureau of Labor Statistics
<http://www.bls.gov/ncs/ebs/sp/ebsm0007.pdf>

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