DC, Cash Balance, and Hybrid Plans

2013

Indiana. Public Law 66-2013 (IN H 1148), relates to the public employees' defined contribution plan, changes the definition of normal retirement age in the public employees' defined contribution plan to reduce the minimum number of years required for participation in the plan, requires a vested plan member to be separated from employment for a specified number of days before the member may make a withdrawal from the member's account.

Tennessee. Chapter 259, Laws of 2013 (TN S 1005), creates the Hybrid Retirement Plan for State Employees and Teachers, provides a plan that provides a combination of a defined benefit plan and a defined contribution plan which, together, are intended to comply with the provisions of the Internal Revenue Code that are applicable to governmental plans.

Virginia. Chapter 701, Laws of 2013 (VA H 1130), relates to Virginia retirement system, relates to optional hybrid retirement plan, creates a new optional hybrid retirement plan with a defined benefit retirement plan component and a defined contribution retirement plan component for all state employees except judges and employees currently eligible for optional retirement plans, provides that the plan will be available beginning January 1, 2014, creates a disability program for hybrid retirement program participants.

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2012

Kansas. Chapter 171, Laws of 2012 (House Bill 2333), provides for a cash balance plan for new members of the Kansas Public Employee Retirement System beginning January 1, 2015.

Kansas Tier 3 Cash Balance Plan Design	
Who's included	New employees starting January 2015 Correctional Officers are not included, will be in KPERS tier 2
Employee contributions	6% Deposited in employee account
Employer pay credits	Employee earns pay credits quarterly based on years of service 1-4 yrs = 3% of compensation 5-11 yrs = 4% 12-23 yrs = 5% 24 yrs+ = 6%
Investments	KPERS board directs investments as part of the KPERS trust.
Interest	Annual 5.25% guaranteed interest on account balance (employee and employer amounts) Possible additional interest (0% to 4%) based on KPERS investment returns and funding
Vesting	5 years
Leaving employment before retirement	Employees can withdraw employee contributions, but forfeit employer credits. Vested members can leave employee contributions and receive a benefit at retirement age, including employer pay credits.
Retirement age	Unreduced benefits: 65/5 or 60/30 Early retirement, reduced benefit: 55/10

Retirement benefit	Guaranteed lifetime benefit with survivor options Annuity benefit based on account balance at retirement Partial-lump sum option up to 30% with full retirement (not available with early retirement) Can use part of account balance to fund a cost-of-living increase (COLA) $4,000 retiree death benefit

Louisiana. Act 483 of the 2012 Regular Session (House Bill 61), provides for a cash balance retirement plan for certain members of the Louisiana State Employees' Retirement System (LASERS), and all members of the Teachers Retirement System of Louisiana (TRSL) and the Louisiana School Employees' Retirement System (LSERS), whose first employment making them eligible for state system membership begins on or after July 1, 2013.

Louisiana Cash Balance Plan	
Who's included	Mandatory for members of LASERS other than those in positions of hazardous duty, and for post-secondary members of TRSL. All members of LSERS and primary and secondary school members of TRSL may make an irrevocable election to join the cash balance plan within 60 days of their initial employment.
Employee contributions	8% [LASERS and TRSL members are not covered by Social Security.]
Employer pay credits	Each account will receive a pay credit of 4% of the owner's salary annually as well as interest on the existing balance.
Investments	Managed by LASERS
Interest	Interest will be calculated monthly at a rate 100 basis points below the system's actuarial rate of return, presently calculated at 8%. The interest rate is guaranteed not to fall below zero.
Vesting in pay credits	Five years
Leaving employment before retirement	Members who withdraw from the plan with less than five years of service will receive a refund of member contributions without interest. Members who withdraw after five years of service are entitled to the balance of their account including the value of the pay credits and interest credits. The balance may be taken as a lump-sum payment, may be transferred to another qualified retirement plan or an individual retirement account, or may be left with the system to be annuitized when the member is 60. No additional interest will be credited to the account after the member leaves service.
Retirement age	Upon reaching age 60 active or inactive vested members with five years of service may convert the account balance to a variety of annuitized or cash benefits.
Retirement benefit	Lifetime annuity or to various options that will provide for a lump-sum withdrawal and a reduced annuity. The plan provides for survivor and disability benefits based upon the balance in a member account. In any event, benefits will not be less than the member's accumulated balance.

Two actuarial valuations of the legislation as submitted to the governor are available: Valuation 1 and Valuation 2.

Michigan. Senate Bill 1040 (to governor August 15, 2012) offers new members of the Public School Employees' Retirement System as of September 4, 2012, the option of choosing between the existing DB/DC hybrid plan, enacted in 2010) and a defined contribution plan. The latter will provide employees a 50% match on employee contributions up to 6% of the employee's salary. The maximum employer match would be 3% of salary. Members will be automatically enrolled in the plan at the 6% contribution level, but may choose to contribute less or to make no contributions. There will be no employer contribution in the absence of employee contributions.

Tennessee. Chapter 939, Public Acts of 2012 (Senate Bill 3216), authorizes a number of new retirement plan options for new employees among which local governments may choose.

Currently the Tennessee Consolidated Retirement System sponsors a Political Subdivision Pension Plan within TCRS that is a defined benefit plan and is optional for local governments. Each local government participating in the plan is responsible for the liabilities of its employees and retirees. Local government employers may choose a noncontributory plan or a contributory plan with a 5% employee contribution requirement and an employer option of no COLA or a COLA capped at 3%. The state also permits local governments to participate in its supplemental defined contribution plans.

This legislation continues the availability of the plans described above, and adds the option of a 2.5% employee contribution requirement. This option will be applicable only to new hires.

This legislation adds two new optional plans applicable only to employees hired after the local government adopts the option. The legislation includes a provision that local governments may freeze, suspend or modify benefits, employee contributions, plan terms and design prospectively for employees hired after July 1, 2012. Such changes would not affect accrued benefits.

The new options are:

- A defined benefit plan with a lower annual multiplier than the current plan (1.4% vs. 1.575%), higher requirements for normal retirement (65 or Rule of 90 vs. 60 or 30 years of service), maintaining the same local options on COLAs and employee contributions as the existing defined benefit plan, with the addition of the option of a 2.5% employee contribution.
- A hybrid plan whose defined benefit component will have a multiplier of 1% and the same requirements for normal retirement as listed for the new DB plan above. Employers who choose this option must provide a qualified defined contribution plan, which they may obtain from the state or from any other source. The legislation recommends, but does not mandate, that local government sponsors require a combined employee-employer contribution of at least 5% of salary to the DC component of the hybrid.

Complete details are available at the Tennessee Treasury Dept.

Nebraska. Legislative Bill 916, (approved by the governor April 6, 2012) establishes a new period in which members of the Nebraska State and County Defined Contribution retirement plans may elect to participate in the Cash Balance plan. Individuals already participating in Cash Balance are not affected by this legislation.

- Defined Contribution members may make a one-time, irrevocable election to transfer to the Cash Balance plan during the election period beginning September 1, 2012, and ending October 31, 2012.
- Only members who are actively employed and contributing to the plan on October 31st will be eligible to transfer.

Virginia. Act 702 of 2012 (HB 1130/Senate Bill 498) creates a new hybrid retirement plan including defined benefit and defined contribution components. As of January 1, 2014, all new state general employees, teachers, general local employees and judges will be required to enroll in the hybrid plan. Act 702 does not affect members of the State Police Officers' Retirement System, the Virginia Law Officers' Retirement System, or political subdivision employees who have enhanced hazardous duty coverage.

Employees in service on December 31, 2013, will be given until April 30, 2014 to exercise the one-time option of an irrevocable transfer to the new plan. For such members, previously-earned benefits will be frozen according to plan provisions for them effective at the time of transfer.

The legislation also makes changes to the existing defined benefit plan that are discussed in other sections of this report.

- Each member of the hybrid plan will be required to make contributions to both the DB and DC component. The employee contribution to the DB component will be 4%. The mandatory employee contribution to the DC component will be 1%, and employees may contribute up to 5% of salary to earn a partial employer match. The latter will be capped at 3.5% of employee compensation. Details are provided in Part 1 of this report.
- No loans or hardship withdrawals from the member account will be permitted.

- The DB component of the plan will have a 1% multiplier.
- For the DB component, the vesting, age and service requirements for normal and early retirement and calculation of average final compensation are the same as for Plan 2 DB members. Vesting is at five years; normal retirement is at a person's Social Security age with five years of service or at the Rule of 90. Early retirement is available at the age of 60 with five years of service. Average final compensation is the average of the highest 60 months.
- For the DB component, cost of living adjustments will be capped at 3% with the other provisions described in Part 2 of this report.

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2011

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

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

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

Rhode Island. Chapter 408, Laws of 2011 (Senate Bill 1111) revised the state defined benefit plan for state employees, teachers, and covered municipal employees to reduce employee required contributions and benefits for members as of July 1, 2012 and to add a defined contribution component for members of the plan.

Teachers, state employees and MERS municipal plans would all participate in this new structure. Corrections officers, State Police, judges and MERS public safety personnel would not have a defined contribution plan. MERS public safety employees currently not participating in Social Security would have a supplemental defined contribution plan described further below. The key elements of the defined contribution component of the hybrid plan include:

• A mandatory 5.0 percent employee contribution and 1.0 percent employer contribution;
• Employees vest immediately, but three year vesting period for employer contributions;
• Teachers not participating in Social Security would have an additional 4.0 percent contributed to the defined contribution plan, of which 2.0 percent would come from the teacher and 2.0 percent paid by the local employer;
• MERS police and fire personnel not participating in Social Security would have an additional 6.0 percent contributed to the defined contribution plan, of which 3.0 percent would come from the employee and 3.0 percent paid by the local employer; and.
• The State Investment Commission is responsible for administering and providing employee investment support.

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

• Provides that a person initially entering regular full-time employment after July 1, 2011, has one year instead of 30 days to make an irrevocable election between a Tier II hybrid retirement system and a Tier II defined contribution retirement plan and that the election must be submitted electronically;

• Allows the Legislature to decrease benefits in the defined benefit portion of the Tier II Hybrid Retirement System for new public employees and new public safety and firefighter employees for future years of service under certain conditions;
• Provides that vesting of the defined contribution balance occurs upon accruing four years of service credit instead of four years from the date of employment under the Tier II hybrid retirement systems.

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2010

Michigan. Act 75 of 2010 (SB 1227) provides that all newly hired school employees after July 1, 2010 will be enrolled in a hybrid defined benefit and defined contribution system. The hybrid plan increases age and service requirements for its defined benefit portion in comparison to the existing two defined benefit plans for school employees, and adds an optional defined contribution plan open to all members in this tier.
The provisions are:

- Increase final average compensation period from 3 years to 5 years, which will decrease the final average compensation for most employees.
- Increase the minimum retirement age to 60 with 10 years of service (currently minimum age for Basic plan is 55 and the MIP plan has no minimum age with 30 years of service).
- Prohibit the purchase of service credit to meet service requirements.
- Eliminate cost of living adjustments to pension allowances.
- Provide a defined contribution benefit (Tier 2) with a 50% employer match on a maximum employee contribution of 2% of salary, for a maximum employer contribution of 1%. An employee would automatically be enrolled with the maximum contribution of 2% unless the employee expressly chooses not to contribute, or to contribute a smaller amount.
- An employee would also be allowed to contribute additional funds without the match and subject to Department of Technology, Management, and Budget [rules] and the Internal Revenue Code.
- The employee would vest in the employer match as follows: 50% after 2 years of service, 75% after 3 years of service, and 100% after 4 years of service.
- In addition, individual employers could negotiate higher contributions up to a maximum of a 50% employer match on an additional employee contribution of 4% of salary, for a total maximum employer contribution of 3%. Additional employer contributions and matches would be subject to negotiations for both employees in the new hybrid plan as well as those in the Basic Plan and the current Member Investment Plan.
- Provides for a regular interest rate for the Hybrid of between 0% and 7%, and assumes a rate of return of 7%.
- Would allow other entities that receive direct or indirect funding from the School Aid Fund to opt into the new hybrid system.

A summary and fiscal impact study of Senate Bill 1227 of 2010, are available.

Utah. Chapter 266, laws of 2010 (SB 63), §25, closes the existing defined benefit plans of the Utah State Retirement System and replaces them with the New Public Employees' Tier II Contributory Retirement Plans, which includes alternative plans: a defined contribution plan and a hybrid plan. Employees hired on or after July 1, 2011, may choose to join one of the two. Those failing to make a choice will become members of the hybrid plan, except for legislators and governors, who may join only the defined contribution plan.

The defined contribution plan will provide individual employee accounts to which employers will contribute 10% of employee compensation for public employees, legislators and the governor. The contribution rate will be 12% for public safety and firefighter members. Employees are not required to contribute but may do so, either to the same DC plan or to any other DC plan the employer offers. Employee contributions are immediately vested. Employer contributions will be vested after four years' covered employment. Employees may direct the investment of their contributions and the investment of employer contributions after those are vested.
The hybrid plan (§29) will include a defined benefit and a defined contribution component.

- For the DB component, employers will pay up to 10 percentage points of an employee's compensation toward the amount that is required to keep the plan actuarially sound. (The 2010 employer contribution rate for the existing non-contributory plan is 14.22%.) The employee will contribute any additional amount required to make up the actuarial requirement. In the event this is required, it will be the only mandatory contributory element in the two plans. The member contribution is vested and nonforfeitable in case of the employee's departure from covered service without taking a retirement benefit, will be held in an individual account for the member or the member's beneficiary, and will earn interest.
- Employers will also make contribution necessary to amortize existing liabilities of the Tier I retirement plan.
- Benefits provided under the DB plan may not be increased until all the plans created in the bill reach 100% of their actuarial funding requirement.
- For the DC component, employers will contribute 10% of employee compensation less the amount the employer contributes to the DB component. The employer contribution will be deposited in a 401(k) plan to which the member may choose, but is not required, to make additional contributions. Employer contributions will vest after four years' membership in the plan; employee contributions vest immediately. The member may direct the investment of his or her contributions immediately, and those of the employer after they are vested.
- Eligibility for the DB benefit is at age 65 with four years of service, 60/20, 62/10, or any age with 35 years of service. The plan provides an option for the purchase of five years of service credit immediately before retirement.
- The benefit formula for people who retire at 65 or who have 35 years of service will be 1.5% of final average salary (FAS) times years of service. FAS will be the average of the highest five years (as opposed to the highest three years in the old non-contributory plan).
- An actuarial reduction will apply for those who retire between age 60 and 65, unless they have 35 years of service. An annual cost-of-living increase applies: CPI to an annual maximum of 2.5%. Amounts of CPI greater than 2.5% will be accumulated and applied to the COLA in years when the CPI is less than 2.5%.

Comparable new plans are created for firefighters and public safety officers, with a higher employer contribution and earlier retirement ages for the defined benefit portion of the hybrid plan. Employers are required to provide disability coverage for professional and voluntary firefighters and public safety officers.
An actuarial study is available. (6/15/10)

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2009

Colorado. Chapter 73, Laws of 2009 (SB 66), transfers the administration of the State Public Officials' and the Employees 457 Plan to the Public Employee Retirement Association as of July 2009, and allows certain members of the DC plan as of 2006 to transfer to the PERA DB plan. The separate PERA DC plan will continue, and all new DC plan participants will become members of it, though the provisions of the existing Public Officials' Plan will continue for its existing members.

Nebraska. LB 188 of 2009 waives the 2009 minimum distribution requirement for members of the defined contribution plans for state and county employee retirement programs, reflecting a recently-enacted federal temporary moratorium. The intent is to allow time for investments to recover before mandating withdrawals from DC plans.

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2008

Georgia. Act 757, Laws of 2008 (SB 328), creates a hybrid retirement plan for Georgia state employees. The "Georgia State Employees' Pension and Savings Plan" (GSEPS) provides a defined benefit plan (DB) and 401(k) plan for new hires on and after January 1, 2009 and an opt-in to those employees in the membership of ERS on December 31, 2008. The ERS Board of Trustees will administer the pension and savings plans.

Persons who first or again become an employee entitled to membership in ERS on or after January 1, 2009 shall be a member of GSEPS. Group term life insurance will not be provided, and the employee contributions in GSEPS will correspondingly be reduced from 1.5% to 1.25% for the DB. The DB formula will be 1% for each year of service times the average of the highest 24 consecutive calendar months of salary while a member. The formula can be increased in the future up to 2% by the board of trustees provided funds are appropriated by the General Assembly. Vesting in the DB is 10 years.

GSEPS members will be automatically enrolled in the 401(k) plan and will have a one-time 90 day window to opt out of the 401(k) and receive a refund of the account balance at that time. Participating members can stop and start 401(k) participation at any time thereafter. However, funds in the 401(k) must remain in the fund until separation. Participation in the 401(k) requires a mandatory employee contribution of 1% of compensation with voluntary elective contributions after the first 1%. Each employer shall match the first 1%, plus a 50% match for each percent above the first 1% up to a total 3% employer match. Participants may contribute up to the IRS maximum limit each year. Each participant shall have a non-forfeitable right to the employee contributions and associated investment earnings. Employer contributions will be vested in the employee gradually over five years at a rate of 20% per year.

Upon separation from service for greater than 31 days, the vested percentage freezes on the sub-account balance. Upon return to service and future contributions into the 401(k), the vesting schedule starts over at zero.

West Virginia. Chapter 7, Laws of the First Extraordinary Session of 2008 (HB 101), provided an opportunity for members of the Teachers' Defined Contribution Retirement System (TDC) to elect to transfer to the West Virginia Teachers' Retirement System (TRS).

Provides for voluntary transfer of members of the Teachers Defined Contribution Plan (TDC) to the Teachers Retirement System (TRS). If 65% or less than 75% of the TDC participants choose to transfer to the TRS defined benefit plan, then those transferring will take with them 75% of their service credit. The remaining 25% of service credit can be purchased at the actuarial reserve value.

- If 75% or more of the TDC participants choose to transfer to the TRS system, then 75% of service credit will transfer. Members may buy back the remaining 25% of your service credit at 1.5% of your salary over the time they have been in the TDC plan plus 4% interest.
- If either of the above thresholds is met, those people who indicated they would move to TRS will be transferred to that system on 7/1/08. Those who indicated their desire to remain in the TDC will be allowed to do so. If the 65% threshold is not met then no one will be allowed to transfer.
- TDC participants who transfer to TRS are not required to purchase the additional service credit. TDC participants who choose to transfer to TRS will have one year (until 7/1/09) to make the decision to buy back the service credit.
- The retirement board will make loans available for those choosing to buy back their service credit.
- Provides for public education on the effects of the bill.

The requirement for 75% approval was met.

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2007

Alaska. Chapter 20, Laws of 2007, provides for certain retirement benefits not included in Senate Bill 141 of 2005, which established defined contribution plans in the state. This act provides for annual cost of living increases for recipients of disability benefits and recipients of a survivor's pension, medical premium cost-sharing for recipients of disability benefits and their survivors at normal retirement, and funding for disabled peace officer and firefighter members who choose a monthly retirement benefit. This will be defined benefit additions to the defined contribution plan, funded through separate trust funds with contributions from employers.

Colorado. Chapter 426, Laws of 2007 (HB 1377) changes retirement plans options that would have been provided to employees of higher education as of January 1, 2008. That legislation gave new employees of that date and thereafter the choice of two statewide DC plans plus the PERA DB plan. This legislation changes that to limit their choice to the PERA DB and DC plans.

New Jersey. Chapter 92, Laws of 2007 (SB 17, AB 21), §§ 1-19, establishes a Defined Contribution Retirement Program for elected and certain appointed officials and for retired elected officials who choose to participate in the program. The program becomes operational on July 1, 2007. State and local government employers will contribute to the program three percent of the employee's base salary; group life insurance and the option for disability benefits coverage will be provided to participants. Participants will contribute five percent of their salary. Participants in the program will be allowed to allocate their contributions and the contributions of their employer into investment alternatives as determined by the new program board. A Defined Contribution Retirement Program Board is established. Service credit earned in the defined contribution retirement program would be excluded from service required for employer-paid health care benefits in retirement. The legislation does not provide for transfer of membership from any other public retirement plan to this plan.

West Virginia. In January 2007, the Circuit Court of Kanawha County declared unconstitutional the 2005 West Virginia legislation that provided for the merger of the West Virginia defined contribution retirement plan for teachers into the defined benefit State Teachers' Retirement System STRS). The court found that the provisions that required that the amounts in the individual accounts maintained under the DC plan be consolidated into the trust fund of the STRS represented an unconstitutional taking of private property. The law that consolidated the plans did not provide for severability. On April 11, 2007, the Consolidated Public Retirement Board voted to appeal the decision to the West Virginia Supreme Court.

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2006

Alaska. The legislative considered but did not pass legislation that would have amended its 2005 creation of DC plans for state employees and teachers to increase the likelihood that the plans would qualify for tax-exempt status under IRS rules. The legislation as passed by the House of Representatives would also have delayed the closure of DB plans and their replacement by DC plans for one year. Senate refusal to agree with the delay brought about the death of the bill at the end of session.

Colorado. Chapter 259, Session Laws of 2006 (SB 235) extended Colorado's menu of defined contribution plans to new employees of institutions of higher education, as of January 1, 2008.

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2005

Alaska. SB 141 created a new defined contribution retirement plan for Alaska teachers hired after July 1, 2006. Non-vested DB plan members may elect to join. Vested DB members may not join the new DC plan. A comparable and separate plan was created for state and local public employees.

Members will make an 8% contribution and may make additional contributions as allowed by federal law, including rollovers. Employers will make a 7% contribution for teachers retirement, a 5% contribution for public employees' retirement, and an additional contribution, as annually determined, for retiree health insurance. The latter was set at 1.75% of salary for fiscal year 2007.

Provisions otherwise are the same for both new plans. Each eligible member who elects to participate in the defined contribution retirement plan shall have transferred to a new account the member contribution account balance held in trust for the member under the defined benefit retirement plan. A matching employer contribution shall be on behalf of that employee to the new account. The employer shall make the matching contribution from funds other than the trust funds of the defined benefit retirement plan.

Members are immediately vested in their contributions and those contributions' earnings, and are gradually vested in employer contributions will full vesting in the latter after five years' membership. The legislation provides that a variety of investment options shall be made available. It provides a variety of distribution options. It provides for retiree health insurance, disability benefits and death benefits. It provides service requirements for eligibility for retiree health benefits. The plan does not guarantee a return on investments.

West Virginia. Chapter 201, Acts of 2005 (HB 2984) closes the Teachers' Defined Contribution Plan (TDC) to new employees as of July 1, 2005 and requires new employees to join the Teachers' Retirement System, an existing defined benefit plan that has been closed to new members for some years.

The law also requires a vote of existing members of TDC on merging it with the TRS. For the merger to occur, at least 50% of the TDC members must vote, and at least 50% of those voting must approve the proposed merger. The election will be held in March 2006 after an educational program conducted by the WV Consolidated Retirement Board. All TDC members will be bound by the results of the election. If the merger is approved, TDC will case to exist on July 1, 2006. If the merger is not approved, current members will continue in TDC and it will be closed to new members. The law makes no provision for individual choice.

If members approve the merger, TDC assets will be transferred to TRS. Transferred members will be given an opportunity to increase their TRS assets by making payments to the TRS fund. The law provides for loans to TRS members to assist them in making such payments, through June 30, 2007.

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2004

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.

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2003

Virginia. HB 1986 provides that the Commonwealth, the Board of Trustees of the Virginia Retirement System ("VRS"), the employees of VRS, and the Investment Advisory Committee of VRS shall not incur any liability for losses suffered by deferred compensation and defined contribution retirement plans administered by VRS.
Deferred Retirement Option Plans

Oklahoma. SB Bill 668 and HB 1464 created a "Back" DROP for members of the three statewide public safety retirement plans. The "Back" DROP allows the members who have worked for more than 20 years to decide retroactively to have service in excess of 20 years (up to a total of five years) to be treated as though the member had entered a DROP plan upon completing 20 years of service. A member, however, cannot receive credit to the DROP account any years prior to when the member reached his normal retirement date. The member's regular retirement benefit will not take into account any years of service credited to the "Back" DROP. The systems' actuary has advised that that the fiscal impact of the "Back" DROP is negligible.

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2002

Florida. H.B. 807 (*2002 Fla. Laws, Chap. 2002-66*) revised the Public Employee Optional Retirement Plan to provide an extension of time for asset transfer in the event of a market disruption; modify election/enrollment periods to give existing employees and newly hired employees 6 months to educate themselves and make a plan election or default to the FRS Pension Plan; revise statutes governing continued coverage of retirees under the State Group Insurance Program to provide for coverage of FRS Investment Plan participants who meet specified criteria; and establish a disability benefit program for participants of the FRS Investment Plan similar to the program for members of the FRS Pension Plan.

Ohio. S.B. 247 revised 2000 law that established a defined contribution plan for members of the Public Employees' Retirement System (PERS). S.B. 247 allows the PERS board to establish hybrid plans to include such benefits as retirement, disability, survivor or death benefits, health or long-term care insurance and cost of living increases. Provides for transfer into the plan by existing members of the defined benefit plan. Provides for participation of elected state or local officials in the PERS defined benefit plan and any defined contribution plan PERS may create. Provides for transfer of membership between DB and DC plans, and for the fiscal transfers and service credits related to such membership transfers. Provides that a DC plan may include a requirement for participants to accumulate a portion of their contributions for health insurance. Authorizes PERS to withhold a portion employee or employer contributions for administering the plan or for health insurance coverage.

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2001

Arizona. Arizona has authorized the board of the AZ State Retirement System to establish and manage a voluntary, supplemental DC plan. The legislation repealed the previously-created optional DC retirement plan (Title 38, chapter 5, article 8) and the tax deferred annuity and deferred compensation program (Laws 1999, chapter 329, section 8). The legislation:

- Allows the ASRS Board or the Fund Manager to establish and operate a supplemental 401(a) DC plan for all contributing members of the retirement systems and plans they administer. If the supplemental DC is established the Board or Fund Manager may delegate authority to implement the plan.
- States that the supplemental DC plan is in addition to the employees existing DB retirement plan and allows any contributing member of an eligible group to participate in the supplemental DC plan.
- Requires employee contributions to be picked-up and paid by the employer
- Requires an employee, if electing to participate in the supplemental plan, to contribute at least 1% of the employee's gross salary and irrevocably contribute for at least one year · Allows the employer to elect to match the contributions made by the employee for the supplemental DC plan or any other program established by the employer, including any 401(a), 403(b) or 457 at a rate determined by the employer with the employer rate determined at the beginning of the employer's budget cycle and terminating at the end of the budget cycle.
- Specifies that employee contributions and earnings on employee contributions are immediately vested. Provides a vesting schedule on employer matching contributions and the earnings on employer matching contributions as follows:
    - one year but less than two years of credited service in an eligible group = 20%
    - two years but less than three years of credited service in an eligible group = 40%
    - three years but less than four years of credited service in an eligible group = 60%
    - four years but less than five years of credited service in an eligible group = 80%
    - five years of credited service in an eligible group = 100%.
- terminates the optional DC retirement plan and the tax-deferred annuity and deferred compensation pilot program while allowing those who have already elected to participate in these plans to continue to do so and the employer is required to continue to make the appropriate employer contributions. *SB 1295.*

Idaho. All active members of the Public Employee Retirement System of Idaho (PERSI) are permitted to make voluntary contributions to the PERSI 401k Choice Plan. Previously, only members who were eligible for Gain Sharing were permitted to make these 401k contributions. *HB 38.*

Montana. [The Legislature addressed the issue of disability benefits for members of the defined contribution retirement plan it created in 1999 and which goes into effect on July 1, 2002. At the time the plan was created, the Legislature postponed consideration of disability benefits.]

Members of the DC plan will be eligible for disability benefits after five years of membership service. The benefit will be the same as the DB plan retirement benefit: with a multiplier of 1.786 percent for members with less than 25 years of service, and 2 percent for those with 25 or more years of service. For DC plan members the disability benefit will cease upon their 60th birthday and the disabled member will be eligible for DC plan benefits. If the disabled member dies before reaching age 60, the disability benefit will terminate upon death and the member's heir is entitled to the member's DC account. *HB 63*.

Nebraska. The Legislature created a supplemental retirement plan for commissioned law enforcement personnel in those counties with populations of less than 85,000 which participate in the county employees retirement system. (There is already a supplemental plan for commissioned officers in counties with populations above 85,000.) The employee contribution to the plan will be one percent, and the county will match this amount. These additional contributions will be added to the member's county retirement employee and employer accounts. LB 186 also increases the employee contribution rate for members of the county employees retirement system from 4 percent to 4.5 percent. (The employer matching contribution will remain at 150 percent of the employee contribution.) Both provisions of LB 186 take effect on January 1, 2003. *LB 186.*

North Dakota. The Legislature extended the time for members of the defined benefit plan to transfer to the defined contribution retirement plan; required state employees who are members of the state DC plan who transfer to local government employment to remain members of the DC plan, and clarified the situation of people who make other changes of employment. *HB 1100, 1216.*

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California: Chapter 74, Statutes of 2000 (AB 1509) creates the Defined Benefit Supplement Program (DBSP) for all State Teachers' Retirement System (STRS) members. The plan with divert 25% of STRS contributions, or 2% of payroll, into a tax deferred account that will be available to the teacher upon retirement in a lump sum payment or as an annuity. Interest rates for the defined benefit supplement program will be set by the STRS board prior to the beginning of each plan year.

Florida. H. B. 2393 created the Florida Retirement System (FRS) Public Employee Optional Retirement Program (PEORP), effective June 2002. It is a defined contribution plan to be offered beginning in 2002 that will establish individual retirement investment accounts for each participant. The plan will be administered by the State Board of Administration which will contract with a third party administrator for administrative services and select investment options among which participants may choose. The plan will be open to state and local government employees, teachers and school employees.

Current employees may choose to join PEORP. Employees will have 90 days in which to join after the optional plan is opened to their category of employment. New employees hired after an option window has opened for their employer will have 180 days in which to decide. After the option window, each employee will have one additional opportunity to move from one plan to another. Existing employees may retain benefits they have earned in the existing DB plan or may have the present value of their accumulated benefit transferred to PEORP.

Vesting in employer contributions made to PEORP occurs after one year of service. Existing FRS service applies toward vesting in the PEORP. To vest in a balance transferred from the DB plan requires six years of creditable service toward which service covered by DB plan membership applies.

No employee contributions will be required or allowed. Employer contributions will be at the same level as DB plan contributions, about 9.4% of salary for most employees in FY 2002 and 10.1% of salary in FY2003, with other rates for special classes. Participants will be responsible for investment fees, but those will be negotiated at a later date. An additional contribution will be paid by the employer to provide disability coverage for participants in the PEORP plan, but that coverage will also be negotiated at a later date.

The State Board of Administration, headed by the Governor, Treasurer, and Comptroller, will administer the PEORP. The Division of Retirement will continue to administer the FRS defined benefit plan.

All employees eligible for the FRS DB plan will be eligible for the PEORP except retirees (including DROP participants) and those university employees already participating in the State University System Optional Retirement Program.

Ohio. S.B. 190 requires the State Teachers Retirement System (STRS) to establish one or more defined contribution plans. The STRS Board may administer the plans, contract with other entities to do so or both. Plans are to include options under which members may receive definitely determinable retirement benefits, including life insurance, annuities, variable annuities, investment trusts or other forms of investment.

STRS members with less than five years of service on the June 30 immediately before the DC plan becomes effective will have 180 days from the establishment of the DC plan to make an irrevocable decision to transfer to the DC plan. A new member of STRS will have 180 days to decide to join the DC plan. In the absence of such a decision either category of member will be a member of the existing DB plan. New members (but not existing members) who elect the DC plan will be switched to the DB plan on the fourth anniversary of their joining the DC plan unless they elect to remain in the DC plan. Upon an existing member's decision to transfer to the DC plan, STRS will credit an account with the member's accumulated contributions plus any interest that would be due if the member withdrew contributions. If a new member elects on the fourth anniversary to move to the DB plan, the member's contributions, any supplemental contributions and all earnings will be moved to the STRS Teachers' Savings Fund. STRS rules will determine the amount of service credit awarded a member who moves to the DB plan.
Member and employer contributions will be the same for the DB and DC plans (currently 9.3% for members and 14% for employers). A portion of the employer contribution will be transferred to the STRS Employer Savings Fund if necessary to mitigate any negative financial effect on the DB plan from members' having transferred to the DC plan.

The STRS Board may contract for health care coverage for recipients of benefits under a DC plan on the basis that the recipient or the recipient's benefits plan will pay for the coverage. The Board may pay the recipient's Medicare Part B payments if the recipient's benefits plan funds the payments.

The STRS Board may offer DC plan members the opportunity to participant in one or more of the benefit options available under a DC plan.

H.B. 628 provides for a similar optional defined contribution plan for public employees.

South Carolina. Act 268 of the 2000 Session created an optional defined contribution plan for teachers and administrators in the state's K-12 schools open only to newly-hired persons eligible for membership in the South Carolina Retirement System (SCRS), who must make an irrevocable decision to join the DC plan within 90 days of hire or be deemed a member of the SCRS. After 60 months have passed, the employee may decide to join the SCRS but must make this decision within 90 days after the 60 months have passed. After such a transfer, the employee may purchase up to five years' credit within SCRS at a cost determined by the SCRS board.

The director of SCRS shall designate no fewer than four companies to provide annuity contracts, mutual fund accounts, or similar investment products offered through state or national banking institutions, or a combination of them, under the program.

Contribution provisions of the bill: "Each participant shall contribute monthly to the program the same amount he would be required to contribute to SCRS if the participant were a member of that system. Participant contributions may be made by payroll deduction, by a reduction in salary, or by employer pick up in accordance with any applicable provisions of the Internal Revenue Code of 1986. Each employer shall contribute on behalf of each participant the same amount it would be required to contribute to SCRS if the participant were a member of that system. Each employer shall remit to the designated companies, for application to participants' contracts or accounts, or both, an amount equal to the participant's contribution plus that percentage of each employer's contribution which would have been used to fund all retirement system benefits for future service if the participants had been members of the retirement system, but the employer's contribution may not be less than four and one-quarter percent of compensation. The employer shall remit the remainder of its required contribution to the retirement system, but the contribution to the retirement system must not be less than two and fifty-five hundredths percent of the employee's compensation."

Utah. H.B. 109 allowed legislators to choose to join the existing defined contribution plan for elected officials instead of the regular DB legislators' retirement plan.

Washington. S.B. 6530 created an optional retirement plan (PERS Plan 3) for employees of state agencies, higher education, and local governments that consists of defined benefit and a defined contribution portions. Employer contributions fund the DB plan, and employee contributions fund the DC plan, similarly to the teachers' Plan 3 created in 1995.

The new plan will become effective March 1, 2002 for state agency and higher education classified employees and September 1, 2002 for local government employees. State employees hired after that date may exercise an option to joint Plan 3 within 90 days of hire and will be considered members of Plan 2 (a DB plan without a DC component) until they do so.

Current state members of Plan 2 will have from March 1, 2002, until September 1, 2002, to exercise an option to transfer to Plan 3. For those who do so, their contributions and transfer payment equal to 110% of their accumulated contributions (representing past employer contributions) in Plan 2 will be transferred to a Plan 3 account.

Local governments' employees dates for transfer will be September 1, 2002, until March 1, 2003 and will receive an amount equal to 111% of their accumulated contributions for deposit in Plan 3 accounts as well as a transfer of their past contributions. All Plan 3 members will be eligible for gain sharing payments. Those who do not elect to transfer to Plan 3 will remain members of Plan 2.

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Arizona legislation created an optional DC plan for exempt state employees and elected state officials who are subject to term limits. Contributions will be 2.66 percent of salary from employers and employees each. Active members of the Arizona State Retirement System who transfer to the new DC plan will receive a deposit of the actuarial accrued value of their benefits in their new account. Vesting will occur after one year. The plan will become effective on December 1, 2000.

Arizona legislation also created a 401(a) plan for term-limited officials and legislative staff members. The employer contribution is 5%. No member contribution is required. There is no provision for a transfer from other member accounts in the retirement system to the deferred compensation account. This plan is an alternative to the DC plan described above, not a supplement to it. *SB 1238*

Louisiana legislation created an optional DC plan for a small group of unclassified state employees, including statewide elected officials and political appointees. Occupants of about 100 positions are eligible. The plan will be managed by the Louisiana State Employees Retirement System (LSERS). Enrollment in the new DC plan will be available for one year and will then be closed, according to current law.

Eligible state employees who are members of LSERS may transfer to the new DC plan, and those newly-hired to fill eligible positions may choose to join the DC plan within 60 days of beginning employment. If they make no choice, they default to the DB plan.

Participant and employer contributions to the DC plan will be the same amounts that would have been contributed if the participant remained in the state DB plan. *HB 1973*

North Dakota legislation created a defined contribution plan for present and future "exempt" or non-classified state employees, representing about 3,000 positions, over 75 percent of which are in higher-education. (North Dakota has approximately 20,000 state employees in all.) Membership in the DC plan is optional for present members of the North Dakota Public Employees Retirement System (PERS), who must irrevocably choose whether to change to the DC plan by December 31, 1999.

Contributions to the DC plan will be 4 percent from employees and 4.12 percent from employers. Member contributions are immediately vested. Members will partially vest in employer contributions after two years of service and fully after four years of service. The actuarial present value of PERS members' accrued benefit will be transferred to accounts of those who elect the DC plan as well as a prorated allocation of any asset surplus in the PERS fund (the latter according to the bill analysis). The PERS board will govern and administer the DC plan as fiduciary and trustee. The board will make investment choices available to DC plan members.

The PERS board must establish a method for a member to use a portion of the member contribution to purchase disability insurance. The legislation is not clear on how members will become eligible for benefits under the Retiree Health Insurance Credit Fund. *H.B. 1257*

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