THE STATE OF STATE PENSION FUNDING AND UNDERFUNDING
SIGNIFICANT REFORMS TO STATE RETIREMENT SYSTEMS

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Online:
http://www.nasra.org/content.asp?admin=Y&contentid=219
OVERVIEW

- Changes to plan design and financing have never been more numerous or significant than in the years following the Great Recession.

- The 2008-09 market crash significantly reduced asset values and increased pension costs right as the economic recession lowered state and local government revenues.

- From 2009-2015 nearly every state passed meaningful modifications to one or more of its pension plans.

- Differing plan designs, budgets, and legal frameworks across the country defied a one-size-fits-all solution.
BALANCED OBJECTIVES IN PENSION CONSIDERATIONS

Public pension changes balanced multiple stakeholder objectives. Focusing on one to the exclusion of others can have unintended consequences. Objectives include:

- For employees, competitive compensation that includes income security in retirement.
- For employers, a management tool to maximize the training and experience invested in their employees and an orderly progression of personnel.
- For taxpayers, public services performed in the most effective and cost-efficient manner.
KEY TAKEAWAYS

Most states retained plan features known to best balance retirement security, workforce management, and economic efficiencies sought by stakeholders. These include:

- Mandatory participation
- Shared financing/risk
- Targeted income replacement
- Pooled, professionally-managed investments
- Required annuitization
- Integrated survivor, disability and supplemental savings
KEY TAKEAWAYS

The vast majority of states retained a pension plan, but modified financing and/or benefits accordingly:

- Employers and employees required to pay more
- Increased age and/or service requirements to qualify or receive a pension
- Lower benefit formulas/calculations
- Reduced, eliminated, or suspended cost-of-living allowances
- A handful of states adopted a hybrid pension plan
States That Recently Reformed Their Pension Plans
STATES THAT INCREASED EMPLOYEE CONTRIBUTION RATES
STATES THAT REDUCED PENSION BENEFITS
STATES THAT REDUCED AUTOMATIC COLAS
STATES THAT ESTABLISHED HYBRID PLANS
INDIVIDUAL STATE PAGES DETAILING CHANGES

Retirement Systems of Alabama

Types of Pension Changes

- Increased Employee Contributions (for active members)
- Decreased Employee Contributions (for new hires)
- Reduced Pension
- Increased Age/Service Requirement

Overview

The Retirement System of Alabama administers pension and other benefits to most public employees in Alabama. The system consists of the Teachers’ Retirement System (TRS) and the Employees’ Retirement System (ERS), which includes state employees, state police officers, and employees of political subdivisions that have elected to participate. RSA also administers the Judicial Retirement Fund.

In 2011, the Alabama legislature increased the amount current active state employees, teachers, and public safety officers must contribute toward the cost of their pension benefits. 2012 legislation created a new tier with reduced benefits for newly hired employees as of January 1, 2013. For these members, benefits are earned at a lower rate than in the old tier and their benefits are subject to an overall limit. New hires must be older to retire and begin drawing a normal (unreduced) benefit. New tier members also no longer will be able to retire based solely on completing 25 years of service, and are required to contribute less toward the cost of their benefits.

Members of the new tier are estimated to have a beginning benefit that is approximately 20 percent less than an employee in the old tier1. According to the State’s Executive Budget Office, the effect of the new tier was projected to produce savings for RSA employers of approximately $5 billion from FY16 through FY43.

Reform Detail

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<th>Year</th>
<th>Affected Worker Groups</th>
<th>Modifications</th>
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| 2012  | Newly hired state employees, teachers, public safety officers, and state police officers as of 1/1/13 | - Reduced employee contribution rates for general employees and teachers, from 7.5% of salary to 6.0%, and for police officers and firefighters from 8.5% of salary to 7.0%  
- Lengthened the period used to calculate final average salary from highest 3 years to highest 5 years  
- Reduced the benefit multiplier (percent of final average salary earned toward a retirement benefit for every year worked) for general employees, teachers, and public safety officers from 2.0125% to 1.65%, and for state police officers from 2.875% to 2.375%  
- Placed a limit on annual retirement benefit of 80% of final average salary  
- Required general employees and teachers with at least 10 years of service to be age 62, rather than age 60, in order to retire and begin receiving a normal (unreduced) benefit. Eliminated the provision that employees with 25 years of service may retire with unreduced benefits regardless of age. |
| 2011  | Current active members and new hires                                                   | Increased contribution rates, phased in over two years; for general employees and teachers, from 5.0% of salary to 7.25% on 10/1/11, and to 7.5% on 10/1/12, and for police officers and firefighters, from 6.0% of salary to 8.25% on 10/1/11 and 8.5% on 10/1/12. |

1Effects of Pension Plan Changes on Retirement Security, Center for State and Local Government Excellence and National Association of State Retirement Administrators, April 2014

Appendix, Significant Reforms to State Retirement Systems, National Association of State Retirement Administrators, June 2016
QUESTIONS?

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