

Select Committee on Pension Policy



2010 Legislative Update

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Challenging Times For Policy Makers

- Budget pressures
- Rising contribution rates
- Investment losses



Today's Presentation Highlights Responses To Budget Challenges

- SCPP response
- Legislature response
- Responses in other states
- What can we anticipate for this year?

SCPP Recommended Fewer Proposals In 2009 Interim

- Three policy changes and a study
 - For comparison
 - From 2003 - 2008 the SCPP recommended between nine and 18 proposals each year
 - Issues often appeared more than once



SCPP Recommendations Mostly Endorsements Of Prior Efforts

- Two were endorsements of previous SCPP recommendations
 - HECB proposal
 - Past part-time service credit
- One was endorsement of bill from prior year
 - LEOFF 1 survivor benefits
- One was for continuation of a study
 - WSIPP disability study

SCPP Proposals Had Comparatively Small Cost

- HECB proposal
 - Total employer cost: (\$0.5) million
- Past part-time service credit
 - Total employer cost: \$0.1 million
- Continuation of disability benefits study
 - One-time supplemental appropriation: \$30,000



Legislature Passed Three SCPP Recommendations

- HECB proposal
 - SHB 1545
 - Authorizes HECB to offer participation in higher education retirement plans
- Past part-time service credit
 - HB 1541
 - Provides half-time service credit to certain PERS and SERS Plans 2/3 members who worked for an educational employer prior to January 1, 1987
- Continuation of disability benefits study
 - Approved in budget (ESSB 6444)

Legislature Passed Two Non-SCPP Pension Bills

- LEOFF 2 and WSPRS total disability (SHB 1679)
- Public safety duty-related death benefits (EHB 2519)
 - Response to tragedy
 - Over half duty-related deaths are in public safety



Legislature Passed Two Non-Pension Bills Of Interest To SCPP

- Furloughs (ESSB 6503)
- Boards and Commissions (ESSHB 2617)



Furlough Bill Has Indirect Impact On Pensions

- Uncertain costs
- DRS will calculate retirement benefits as though furloughs never happened
 - Salary average will not be affected by lost wages/hours
 - Previous legislation (SB 6157) only included PERS
 - Expands to state employees in TRS, PSERS, LEOFF, and WSPRS
 - Does not apply to local government employees

Boards And Commissions Bill Has Indirect Effect On SCPP

- Class One groups (including SCPP) not funded by general fund are encouraged to
 - Reduce travel and other costs
 - Conduct business using meeting formats that do not require travel



Key Take-Away

- Challenges ahead
- Have not had to cut benefits or restructure plans

Many Other States Are Not So Lucky

- Since 2009 many states have
 - Made major overhauls of plans
 - Changed or cut back benefits
 - Some have been the target of lawsuits



Fourteen States Are Increasing Income

- Increasing employer and/or employee contribution rates
- Increasing employee share of contribution
- Requiring contribution for previously non-contributory plans
 - Example in Virginia
 - Old plan required 5 percent employee contribution, but employers could pay employee's share
 - New plan still requires 5 percent employee contribution, but only higher education and local government employers can pay employee's share

Twelve States Are Increasing Retirement Age

- Illinois increased to age 67 with ten years of service
 - Highest in nation



Fifteen States Are Changing The Way Benefits Are Calculated

- Lowering percentage multiplier
 - Example
 - Service credit X average salary X 2%
 - Service credit X average salary X 1.75%
- Expanding salary average period

Eight States Are Restructuring Or Limiting Post-Retirement COLAs

- Permanent or temporary reduction
- Tying COLAs to funded status
 - Example in South Dakota
 - If funded status is below 90 percent, then automatic COLA reduced from 2.5 percent to 2.0 percent
 - Or lower based on plan



Four States Have Created New Plans Or Tiers

- Changes to benefits for current employees may be not be enforceable
- States can change benefits that will be given to new employees

Legal Mechanisms Exist To Protect Employee Benefits

- Often cannot change benefits for existing employees
- Anti-cutback provisions in federal law
- Other benefit protections vary from state to state
 - State constitution
 - Statutes
 - Case law
- Many states view pensions as a contract right
 - Includes Washington
 - See *Bakenhus v. City of Seattle*
 - Do not have to enter into contract, but once you do you must adhere to terms

Are Benefit Reductions Prohibited?

- States can reduce benefits when
 - Reductions apply to future employees only
 - For example by creating a new tier
 - Utilizing the state's police power
 - Inherent power of state to ensure public health and safety
 - Employees agree to the reductions
 - More common in collective bargaining
- Under *Bakenhus* court may also allow changes if
 - Necessary for plan integrity and flexibility
 - Reasonable
 - For example is a reduction accompanied by a corresponding increase?

Washington Has Addressed These Issues Already

- Closed unsustainable plans
- Created new plans
 - Funding policy for COLAs
 - Hybrid plan
 - Plan 3 touted as model hybrid plan
- Increased the retirement age
- Addressed cost sharing



What Can SCPP Anticipate For This Year?

- Budget challenges will continue
- Rates are projected to go up significantly
- Funded statuses are projected to go down
- More info in preliminary valuation briefing today



SCPP Can Take Active Role In Navigating The Challenges

- SCPP goals 2 and 5
 - Long-term view
 - Commitment to systematic actuarial funding
- Long-term disability benefits policy
 - WSIPP Disability Study results
- Recommending contribution rates
 - Briefing today
- Future health of retirement systems
 - Risk Assessment

For More Information

- Legal protections
 - Public Pension Plan Reform: The Legal Framework, by Amy Monahan, University of Minnesota Law School:
 - http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1573864
- Other states
 - Pensions and Retirement Plan Enactments in 2010 State Legislatures, by Ron Snell, NCSL
 - <http://www.ncsl.org/IssuesResearch/EmploymentWorkingFamilies/2010PensionLegislationsofMay32010/tabid/20255/Default.aspx?TabId=20255>



Questions?

