

Pension Reform Legislation

Update

Board of Trustees Meeting

May 29, 2013

State University Retirement System (SURS)

➤ **Defined Benefit Plans**

Tier I: Joined prior to January 1, 2011

Tier II: Joined on or after January 1, 2011

➤ **Defined Contribution Plan (SMP)**

Four Components of Reform Plans

Tier I
Benefit Change

Amortization of
Liability

Tier II
Benefit Change

Normal Cost Shift

Two Active Bills

House Amendment to SB 1 Passed May 3

Senate Bill 2404 Passed May 9

Four Components of Reform Plans

Tier I
Benefit Change

Amortization of
Liability

~~Tier II
Benefit Change~~

~~Normal Cost Shift~~

House Bill Changes:

Retirement Age

Annual Annuity Increases (COLA)

Pensionable Salary Cap

Contributions

All changes effective on enactment

Retirement Age
(Current: 60 years)

- **Above 45 years no change**
- **40 – 45 years increase by 1 year**
- **35 - 39 increase by 3 years**
- **All others increase by 5 years**

Annual Annuity Increases
(COLA)
(Current: 3% compounded)

COLA starts 5 yrs. after retirement or age 67, whichever is first. Maximum annual increase \$900.
Provision affects retirees

Pensionable Pay
(Current: IRS cap approx \$245K)

Capped at SS wage limit or current salary if higher than that limit

Employee Contributions
(Current: 8% of pay)

Increases by 1% in FY14 and 2% in FY15

Senate Bill Benefit Changes

Set of Choices Involving:

- COLA
- Health Care Benefits
- Pensionable Salary Cap
- Additional Contributions

Choice to be made by May 31, 2014

Changes Effective July 1, 2014

Benefit	Option A	Option B (Default)	Option C
Annual Annuity Increase (COLA)	3% <u>simple</u> Starts 2 yrs. after retirement	3% <u>compounded</u>	3% <u>compounded</u> Starts 3 yrs. after retirement
Access to Retire Health Care Plan	YES	NO	YES
Pensionable Salary Cap	Existing IRS Cap	No future salary increase included in benefits	Existing IRS Cap
Contribution	No Change (8%)	No Change (8%)	10%

Amortization of Unfunded Liabilities

SURS currently funded approx. 42% of required level

Both bills would accelerate payment of unfunded liabilities

House bill would reach 100% funding in 2045

Senate bill would reach 90% funding in 2045

Normal Cost Shift (Proposed House Bill)

Annual Cost of Pension for Benefits Accrued that Year

**In FY2014 employer portion of normal cost :
11.09% of pensionable pay**

Currently employer portion is paid by the State

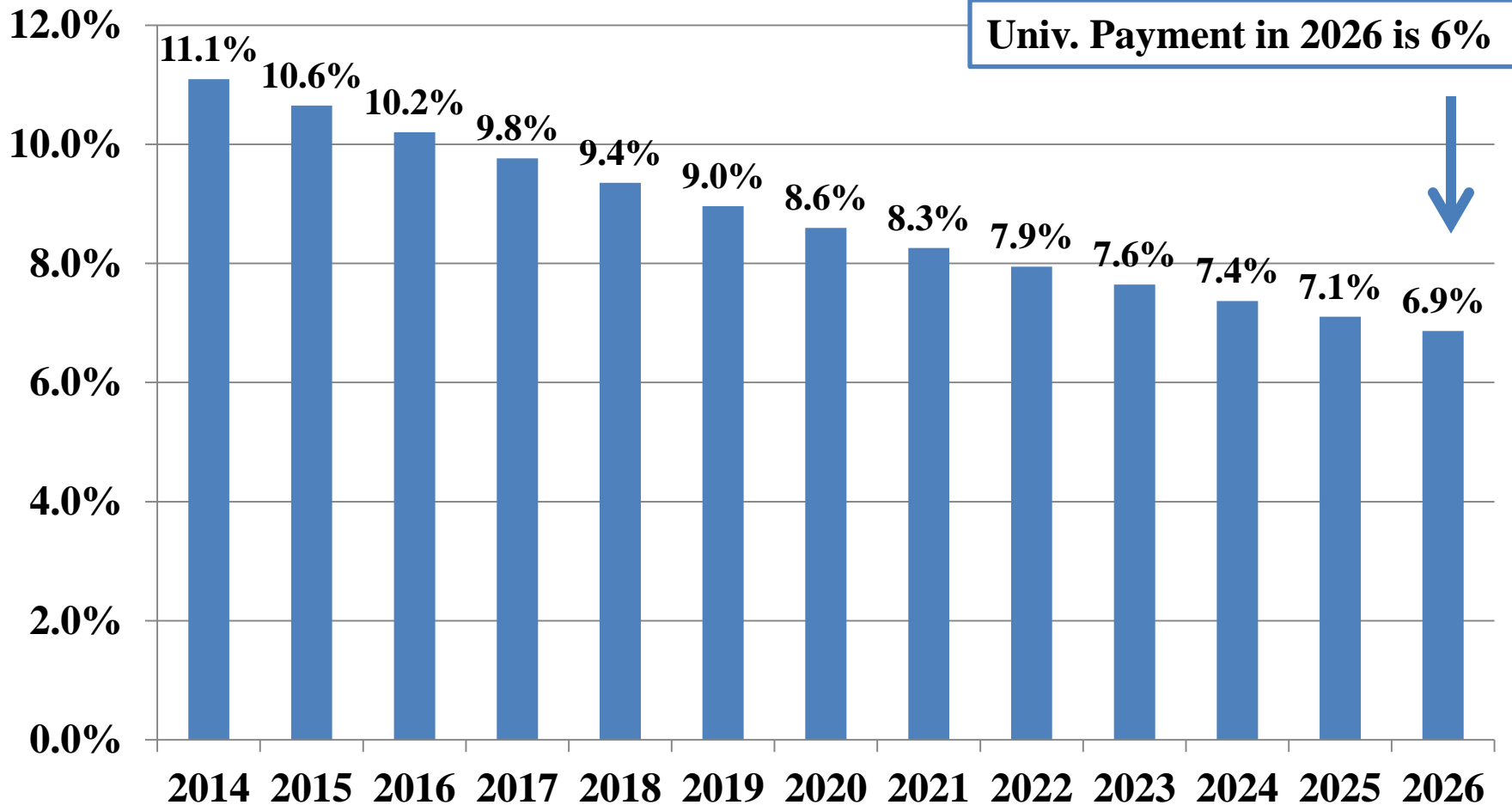
**Gradual transfer to university starting in FY15
@ 0.5% per year cumulative**

Cost to University

Each 0.5% equivalent to:

- \$4.34 million for state funds
- \$2.95 million for auxiliary funds
- Approx \$7.3 million in total

Normal Cost Projections



Expected Maximum University Payment Approx. 6.5%

BUT...

Projections may change due to actuarial adjustments

Creating potential for liabilities

30 year straight line amortization of liabilities

Related Requests by Universities

University control over future changes to plan

University representation on SURS Board

Stability in General Revenue appropriations

Relief from regulations that impede efficiency