News Scan

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Consultants & Actuaries

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The following news summaries were developed by Gabriel, Roeder, Smith & Company to inform clients and other benefit professionals of news in the benefits industry. Our thanks to Mary Ann Vitale for her diligent work on this issue. If you would like to receive our publications via email, please go to our "Subscribe to GRS Publications" web page at: http://www.gabrielroeder.com/utilities/subscribe.html, fill out the short form and click the "Submit" button. To stop receiving our publications electronically, go to the same web page and indicate you wish to be removed from our distribution list. Copies of this and other benefit-related publications are available on the GRS website at http://www.gabrielroeder.com.

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Michigan Governor Signs Legislation Regarding State Employees' Retirement Benefits

On December 15, 2011, Michigan Governor Rick Snyder signed two House Bills (H.B. 4701 and H.B. 4702) making significant changes to the Michigan State Employees' Retirement System (SERS). H.B. 4701 amends the State Employees' Retirement Act and H.B. 4702 amends the Public Employee Retirement Health Care Funding Act. The two bills are tie-barred to each other. Changes made by H.B. 4701 include, but are not limited to:

- Currently, employees in the SERS defined benefit (DB) plan do not make contributions. As a result of H.B. 4701, employees in the DB plan must choose whether to: (1) remain in the DB plan and contribute 4% of salary, or (2) not contribute 4% of salary, freeze their DB benefit and convert to the SERS defined contribution (DC) plan for future service.
- Beginning 1/1/2012, in calculating a DB plan member's final average compensation, any prospective overtime payments will be averaged into the member's final average compensation over a six-year period.
- Currently, all State employees contribute 3% of salary for retiree health care benefits. Under H.R. 4701, the 3% employee contribution is eliminated and employee contributions made after 11/1/2010 will be refunded with interest. State-provided retiree health insurance is eliminated for employees hired on or after 1/1/2012 and replaced with a State matching contribution of up to 2% of the employee's compensation made to a 401(k) or 457 account. For employees hired on or after 1/1/2012, the State will also deposit $2,000 into a Health Reimbursement Account (HRA) for an employee terminating employment after age 60 with at least 10 years of service. For an employee terminating service on or before age 60 with at least 10 years of service, the State will deposit $1,000.
- Employees in the SERS DC plan (hired between 3/31/97 – 12/31/11) must choose whether to remain in their current retiree health insurance plan or change to a plan providing a 2% employer matching contribution paid to the 401(k) or 457 accounts. Those who make the change will give up State coverage of health care premiums during retirement. In exchange, a portion of the current value of their retiree health care benefit will be "monetized" and deposited into their 401(k) or 457 account when they terminate service. The full monetized amount will be deposited for employees meeting the normal retirement age and service conditions when they retire (i.e., age 55 with 30 years of service or age 60

with 10 years of service). Half of the monetized amount will be deposited for those who do not meet the age requirements but have at least 10 years of service.

- Employees who receive the 2% employer matching contribution in lieu of health benefits are permitted to purchase health care coverage from the State's health care plans upon retirement or separation from the State.
- Employees are prohibited from borrowing the employer matching contribution for retiree health care deposited into 401(k) or 457 accounts.
- The retirement system will be required to design and implement an automatic enrollment feature for employee contributions into the 401(k) and 457 plans.

H.B. 4702 creates individual HRAs for irrevocable health care trusts established in 2010. For newly hired employees who work for the State until age 60 with 10 or more years of service, the State will deposit $2,000 into the employee's HRA (or $1,000 for those with at least 10 years of service but who did not work to age 60). Additional employer and mandatory employee contributions could be deposited into the HRAs, but voluntary contributions are not currently permitted under Federal tax law. These funds could be used for eligible medical expenses in retirement.

Governor Snyder has estimated that the new legislation could save $5.6 billion from the State's $15 billion in long-term unfunded liabilities, positioning the State for a "more sustainable and affordable" balance sheet. However, the short-term and long-term savings cannot be precisely quantified.

H.B. 4701 and H.B. 4702 are available respectively at:
http://www.legislature.mi.gov/documents/2011-2012/publicact/pdf/2011-PA-0264.pdf and
http://www.legislature.mi.gov/documents/2011-2012/publicact/pdf/2011-PA-0265.pdf

NCSL Updates Report on State Pension Legislation Enacted in 2011

On December 31, 2011, the National Conference of State Legislatures (NCSL) released an updated report on major state pension and retirement plan legislation enacted in 2011. The report provides a comprehensive and detailed summary of selected legislation enacted from January 1, 2011, through December 31, 2011.

In 2010 and 2011, 41 states enacted significant changes to at least one state retirement plan. Consistent with recent economic events, cost containment and long-term sustainability of defined benefit plans were significant concerns for state legislatures. Several states established committees to study the future of their retirement systems. Many states enacted legislation in efforts to manage future pension costs by reducing benefits for newly hired employees, increasing employee contributions, establishing early retirement incentives, and other benefit changes. Overall, in 2011, 29 states made significant changes to retirement benefits, including:

- 16 states increased employee contributions;
- 16 states increased the age and service requirements for pension benefits;
- 6 states lengthened the averaging period for final average salary; and
- 10 states changed provisions related to cost-of-living adjustments.

Other policy issues addressed by legislation included: funding issues, governance and investment policy, re-employment after retirement, purchase of service credit and taxation of retirement income. The report is organized by topics and summarizes the legislation enacted by state.

The report is accessible on the NCSL website at:
http://www.ncsl.org/issues-research/employment-working-families/2011-pension-and-retirement-enacted-legislation.aspx

Wisconsin Legislative Council Publishes 2010 Public Retirement Systems Study

In December 2011, the Wisconsin Legislative Council published its *2010 Comparative Study of Major Public Employee Retirement Systems*. The biennial survey covers retirement benefits for general employees and teachers in 87 large public retirement systems. The study provides information regarding retirement benefits, employer and employee contributions, actuarial methods and assumptions, plan funding, and other relevant topics.

The systems in the survey cover 12 million active employees and 6 million retirees, for a total of 18 million participants. From 2008 to 2010, the number of active participants decreased 1.4%, while the number of retirees increased 7.9%, resulting in the ratio of active to retiree members falling from 2.00 in 2008 to 1.87 in 2010. In 2010, the average funded ratio was 73.4% and funded ratios for the group were distributed as follows:

- 5% had funded ratios of 100% or more;
- 39% had funded ratios of 80-99%;
- 38% had funded ratios of 60-79%;
- 16% had funded ratios of less than 60%; and
- 2% had funded ratios that were not determined.

From 2000 to 2010, the percent of plans with high funded ratios (i.e., ratios over 100%) declined from 39% in 2000 to 5% in 2010, while the percent of plans with relatively low funded ratios (i.e., ratios between 60-79%) rose from 7% in 2000 to 38% in 2010. Additionally, the percent of plans with funded ratios between 80-99% remained relatively stable from 2000 to 2010.

The study is available on the Wisconsin State Legislature website at:
http://legis.wisconsin.gov/lc/publications/crs/2010_retirement.pdf

EPI Releases Briefing Paper on Oregon Retirement Security

On January 18, 2012, the Economic Policy Institute (EPI) published its briefing paper, *Oregon Retirement Security: How are retirement needs being met now and in the future?* The paper examines current retirees in Oregon, from both the public and private sectors, to better understand their sources of income and their access to retirement benefits. The report is based on data collected over the period from 2002-11 and published in the U.S. Bureau of Labor Statistics' Current Population Survey, *Annual Social and Economic Supplement*. Key findings include:

- Total retirement income averaged about $23,700 for Oregon retirees (in 2010 dollars). For retirees in the lowest income quartile, total retirement income averaged $7,100. For retirees in the highest income quartile, total retirement income averaged $52,500.
- Social Security made up 48% of all income for Oregon retirees, and averaged 85% of income for retirees in the lowest income quartile and 26% of income for retirees in the highest quartile.
- Income from retirement plans (including defined benefit and defined contribution plans) averaged 28% of retirement income for all retirees, but only 2% for retirees in the lowest quartile and 41% for retirees in the highest quartile.
- Access to retirement plans is more limited for lower-income employees and employees working for smaller employers. For full-time employees in the lowest income quartile, 41% had access to retirement plans compared with 84% for employees in the highest income quartile. For full-time employees working for very small businesses (i.e., less than 25 employees), 36% had access to retirement plans compared with 84% for employees working for businesses with 1,000 or more employees.
- Access to retirement plans is more limited for private-sector employees. For full-time employees in the private sector, 67% had access to retirement plans compared with 92% for employees in the public sector.

Interestingly, the report also found that income inequality was less pronounced among retirees than among working-age adults. Between 2001 and 2010, 11.8% of all Oregon residents were in families with income below the federal poverty level, compared with 7.5% of retirees.

The report is available at: http://www.epi.org/publication/bp334-oregon-retirement-security-needs-met/

U.S. Census Bureau Updates Report on Income, Poverty, and Health Insurance Coverage

In September 2011, the U.S. Census Bureau released its annual report, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*. The data were compiled from information collected in the 2011 and earlier Current Population Survey *Annual Social and Economic Supplements*, based on a sample of 100,000 addresses in all 50 states and the District of Columbia. Key findings include:

- Real median household income was $49,445 in 2010, down 2.3% from 2009 and 7.1% below the peak in 1999. "Real income" refers to income adjusted for inflation, with income expressed in 2010 dollars.
- For households with householders under age 65, real household income declined 2.6% between 2009 and 2010. However, the change in household income for householders age 65 and older was not significant. The largest income decline (9.3%) occurred in households with householders under age 25.
- The number of people in poverty grew from 43.6 million in 2009 (14.3% of the population) to 46.2 million in 2010 (15.1% of the population). The poverty rate (15.1%) is the highest since 1993.
- Between 2009 and 2010, the poverty rate for children under age 18 grew from 20.7% to 22.0%; the poverty rate for people between ages 18 and 64 grew from 12.9% to 13.7%, and the poverty rate for those over age 65 remained at about 9.0%.
- Between 2009 and 2010, the percent of people without health insurance increased from 16.1% in 2009 to 16.3% in 2010, with the number growing from 49.0 million to 49.9 million. The percent of people covered by employer-based health insurance slipped from 56.1% to 55.3%. The percent of people on Medicare increased slightly from 14.3% to 14.5%. While the percent of people on Medicaid increased slightly from 15.7% in 2009 to 15.9% in 2010; the increase since 2007 was much greater, when the percentage was 13.3%.

The report is available at: http://www.census.gov/prod/2011pubs/p60-239.pdf

SOA Posts Research on Pension and Post-Retirement Needs and Risks

The Society of Actuaries (SOA) has posted a collection of research briefs that discuss the major decisions people make when considering retirement. The research was carried out by the SOA's Committee on Post Retirement Needs and Risks, and currently includes 11 briefs with practical advice written in plain language. Selected titles include:

- Big Question: When Should I Retire?
- Deciding When to Claim Social Security
- Designing a Monthly Paycheck for Retirement
- Treating Asset Allocation Like a Roadmap
- Securing Health Insurance for the Retirement Journey
- Taking the Long-Term Care Journey
- Where to Live in Retirement
- Finding Trustworthy Financial Advice for Retirement and Avoiding Pitfalls

The reports are available on the SOA website at:
http://www.soa.org/research/research-projects/pension/research-managing-retirement-decisions.aspx