



Strengthening State and Local Government Finances: Lessons for Negotiating Public Pension Plan Reforms

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Taxpayers, employees, and employers share a goal when it comes to pensions: they should be funded by the generation that earns them. That goal can be elusive, though, when actuarial assumptions are flawed, state law constrains reforms, investment losses are high, and/or employers do not pay their annual required contribution.

This report looks at how three statewide plans and two local government plans addressed pension funding issues. The findings reinforce the fact that real change takes years to bear fruit and requires careful planning, good communication, and a strong board.

The good news is that pension funding problems can, and are, being addressed in many places. Consider these results:

- The Iowa Public Employees' Retirement System is now on a strong funding path after the state passed legislation in 2010 that allows employer and employee contributions to increase by two percentage points. The legislation was needed because there was a legal cap on contributions; it also includes an increase in the vesting period for new employees and in penalties for early retirement.
- Employers in the Oregon Public Employees Retirement System have saved \$1.6 billion since legislation was passed in 2003. Without those reforms, employer rates were estimated to rise to 27 percent for all pension plans; nearly double what they are today.
- Plan design changes to the Vermont State Teachers' Retirement System are projected to save \$15.3 million in FY 2011 and \$22.9 million (estimated) in FY 2012. The collaboration between the Vermont State Treasurer and the Vermont National Education Association also produced pension enhancements.
- Gwinnett County, Georgia, began offering a defined contribution plan to new employees in 2007, closing its defined benefit plan. Serving 49 percent of employees today, the county's contribution to the defined contribution plan in 2009 was \$8.5 million. The county's contribution to the closed defined benefit plan was \$26.4 million in 2009.
- A series of reforms to the Houston Municipal Employees' Pension System improved that plan's funding status from 46.1 percent in FY 2003 to 70.1 percent in 2007.

Although each of these cases faced unique legal, political, and financial challenges, there are important lessons to be drawn from them. Pensions are part of a broader human resources strategy, so it is important to keep recruitment and retention in mind when considering changes. Policy makers also need to ensure that they have high quality data and rely on solid actuarial analysis before making benefit changes. Accumulating funding reserves, as Oregon has done, and consistently making the annual required contributions help pension plans weather the inevitable storms ahead.

What are the implications for public employees? Like their private sector counterparts, it is increasingly important that they understand what they need to do to reach their retirement goals. Their retirement security will benefit future generations.

A handwritten signature in black ink that reads "Elizabeth K. Kellar".

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Executive Summary

This report offers an in-depth look at five pension systems that have undergone a range of reforms over the past decade. These reforms have made the plans more fiscally sustainable while continuing to provide retirement security to their members. The report also offers lessons learned for reference by other systems implementing or considering similar pension reforms; lessons regarding human resource policies and personnel needs, using good data from high quality experts, stakeholder communication and input, planning for and evaluating changes, plan funding and governance, and financial education.

Introduction

The 2008 stock market downturn and subsequent recession have forced many governments to assess and reform their pension plans to achieve financial sustainability. This research provides an in-depth look at five pension systems that have undergone a range of reforms to achieve that goal. The reform processes varied significantly due to the pension systems' histories,

laws, and political cultures. All five were successful in putting pension plans on financially sustainable footing in order to provide member benefits over the long term. The lessons learned from these cases provide a starting point for other governments and pension stakeholders embarking on reform.

Diversity of Cases

The five cases provide a representative sample of public pension systems from across the country and include three state and two local government systems. The five systems examined in this report are:

- Iowa Public Employees' Retirement System (IPERS), with 166,000 active and 94,000 retired members
- Oregon Public Employees Retirement System (OPERS), with 179,000 active and 111,000 retired members
- Vermont State Teachers' Retirement System (VSTRS), with 10,500 active and 6,150 retired members
- Gwinnett County, Georgia, retirement system, with 6,700 active and retirement members¹
- Houston Municipal Employees Pension System (HMEPS), with 13,000 active and 8,500 retired members.

All of the employer governments in the cases participate in Social Security.

Legal Frameworks

State legal frameworks influence both the structure of the pension plans and the scope of the reform efforts, particularly the representation of employees and the ability of the government to change existing benefits.

Public Employee Representation

Oregon and Vermont have the strongest laws supporting organized labor, which require employers to negotiate with employees over compensation and benefits.

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Iowa, Georgia, and Texas are “right to work” states in which public employers are not required to recognize employee groups for collective bargaining. However, Iowa’s public employee interests are addressed by the legal make-up of the IPERS Benefits Advisory Committee (BAC), which designates four seats of nine for current IPERS members.

Changing Existing Benefits

Both Oregon and Georgia case law provide protections for public employees and their pension benefits. Oregon prohibits retroactive reduction of member pension benefits. In Georgia, reducing current employee pension benefits is not permissible under the state constitution’s impairment clause unless a statute or ordinance creating the benefit indicates that the benefits are subject to change or amendment.² In Houston, citizens voted to opt out of a state constitutional provision that prohibits municipalities from changing benefits for employees who are vested in the system. The referendum vote made it possible for the city to reduce benefits for current employees. Vermont’s state constitution does not protect against changes to pension benefits for current employees.

Unfunded Pension Liabilities

Though the 2008 market downturn was a major contributor to underfunded public pension liabilities, other factors, including decisions made well before 2008, have contributed to growing pension liabilities, prompting governments to reexamine their benefits. The cases presented here are no exception. Three factors other than market losses played significant roles in increasing unfunded liabilities:

- **Benefit creep.** In Oregon, decades of incremental benefit increases led to what employers and legislators considered to be unsustainable benefit levels.
- **Significant benefit increases in the early 2000s.** Gwinnett County and Houston both gave large benefit increases to existing employees that proved to be very expensive for the governments over the long term.
- **Failure to pay the annual required contribution (ARC).** The Iowa and Vermont systems did not fully fund the ARC to cover employees’ pensions over multiple years, worsening the systems’ unfunded liabilities.

Reform Scope

The reforms undertaken in these five systems varied significantly, ranging from tweaking the plans to creating an entirely new system. Reform in Iowa and Vermont

meant keeping the existing pension plans while increasing employee contribution rates, lengthening the vesting period, raising the retirement age, or changing the methodology for calculating the final average compensation.

Oregon created a new hybrid pension plan with both defined benefits and an individual account program similar to a 457 plan, while Gwinnett County took over management of its pension fund and moved from a defined benefit to a defined contribution plan for new employees. In Houston, reforms occurred over multiple years and involved a series of compromises between the city council and the Houston Municipal Employees Pension System (HMEPS).

The differences among the reform processes reflect the legal framework and political dynamics of the various stakeholders, organizational structures of the pension administration systems, the culture of the governments, and the history of employee compensation and public pensions. The cases reinforce the perspective that a “one size fits all” reform process will not work. However, the research and analysis of these five cases revealed surprisingly similar lessons learned.

Synopses of Reforms

Iowa Public Employees’ Retirement System (IPERS)

To address significant investment losses and liabilities caused by the failure to fully fund employer ARCs since 2002, the state legislature passed several relatively minor reforms to its contributory defined benefit plan in 2010. IPERS is managed by an executive director, who receives recommendations from the department’s Investment Board and Benefits Advisory Committee (BAC). The BAC is composed of four employer and four employee representatives plus one public member. It is responsible for providing recommendations and advice to the state legislature and IPERS staff on benefit levels.

At the beginning of the reform process, IPERS administrative staff and the BAC reviewed options prepared by an outside actuary and decided upon a set of recommendations to present to the state legislature. The approved changes³ retained the IPERS defined benefit plan essentially intact, but increased the vesting period, the penalty for early retirement, the years included to calculate final average salary, and both the employers’ and employees’ contribution rates, to a combined total of two percent. The reforms provided guarantees for both employers and employees by lowering the amount that future contribution rates can be increased in any one year from one

percent to 0.5 percent. Because the changes affected not only future but also current employees, the reform package included transitional provisions for employees close to retirement, which helped to avoid mass retirements in advance of reforms. IPERS developed a comprehensive member communications plan to explain the reforms and transitional provisions.

Oregon Public Employees Retirement System (OPERS)

The Oregon legislature passed comprehensive pension reform in 2003, slowing liability increases to three to four percent annually and reducing forecasted employer contribution rates to half their anticipated pre-reform levels. Beginning in the early 2000s, actuarial studies predicted significant increases in unfunded liabilities due primarily to significant payouts to employees under the OPERS money match system.⁴ Retirees could also choose a traditional formula defined benefit, but rarely did so because the money-match formula was more lucrative.

In 2000, four local governments⁵ filed suit against OPERS citing outdated actuarial factors, the variable match that employers paid, and the earnings crediting applied to member accounts. The governments' initial legal victory in 2001 empowered them to lobby the legislature for pension reform. In addition to working with the legislature, the local governments also effectively used the media to gain support for their position that the current benefit levels were financially unsustainable.

By late 2002, the political climate was open to reform and bills moved quickly through the legislature in 2003. The speed at which the bills moved caught the public employee unions off guard. They did not anticipate either the breadth of the reform proposals or the level of support in the legislature, particularly the Democratically controlled senate. The unions immediately sued OPERS over the new legislation, and the court eventually ruled that changes that retroactively affected employee benefits were unconstitutional.

The final reform laws were sweeping, the most significant being the creation of an Individual Account Program (IAP) for employee contributions rather than the OPERS account from which the money-match formula benefit is calculated. Though the Oregon Investment Council invests the funds on behalf of employees, the IAP funds are treated like a defined contribution program with investment risk born by the employee. By redirecting employee contributions to the IAP, the OPERS accounts will only increase in value through investment earnings, making the money-match option less attractive than the defined benefit plan over the long term.

The process also created the Oregon Public Service Retirement Plan (OPSRP), a new pension structure for employees hired on or after August 29, 2003. OPSRP decreased the defined benefit formula from 1.67 to 1.5 percent multiplier for general employees, increased the retirement age to 65, and directed all employee contributions to the individual account program. The legislation also created a new pension board to increase fiduciary responsibility over OPERS.

Vermont State Teachers' Retirement System (VSTRS)

In 2006, Vermont began making changes to VSTRS to address growing unfunded liabilities, including using a new actuarial methodology that would more accurately reflect the fund's value and committing to fully funding its ARC. The steep decline in investment earnings in 2008 greatly increased VSTRS's projected ARC from 7.41 percent in FY2010 to 10.82 percent of payroll in FY2011, resulting in a 53 percent increase in the state's general fund obligation to VSTRS. To address the shortfalls, the legislature created a commission to review and make recommendations for improving the long-term financial viability of the state's two primary retirement systems.

The commission relied on data and analyses from both the state treasurer and independent pension experts, as well as a series of guiding principles. The principles stated that the pension benefit should act as an incentive for employee recruitment and retention; provide retirement security; and be sustainable, affordable, fair to workers and taxpayers, and equitable for all parties. The commission held a series of public meetings before issuing its recommendations to solicit public input. One potential obstacle to implementation of the commission's work was the absence of an officially appointed employee or retiree representative among its membership. That exclusion served as a rallying point for unions to oppose commission recommendations.

The unions, particularly the Vermont National Education Association (NEA), were effective in keeping their members informed of the commission's efforts and helping them reach out to legislators. Though the recommendations ultimately did not affect retirees, the Vermont Retired Teachers Association (VRTA) was also active in supporting NEA's positions on the recommendations. This activism was so successful that the senate president directed the state treasurer to reach a compromise with the NEA before the legislature would act on any recommendations. A compromise was achieved in January 2010, and the legislature passed the reform package in April 2010.

The final changes to the pension plan included raising the normal retirement age for employees more than five years from retirement, increasing the maximum benefit from 50 to 60 percent of the annual final calculation (AFC), expanding retiree health benefits to include spouses, limiting increases in the AFC, and increasing employer and employee contributions.

Gwinnett County, Georgia

In 2007, Gwinnett County took over management of its pension fund and closed its defined benefit plan to new employees, offering them a defined contribution plan instead. The changes were made because the county wanted to:

- gain more control over its pension assets rather than relying on the state county association's pooled asset fund; and
- control pension cost increases and attract younger professionals to county service who were less motivated by a traditional defined benefit plan.

Senior administrative staff drove the reform process, researching and analyzing the benefits and challenges of a countywide defined contribution system. The county had previously implemented an optional defined contribution plan for its exempt employees that provided a foundation for a broader countywide system. Under the optional plan, the county contributed 11 percent of salary to an employee's retirement account. That defined contribution plan was fairly popular, although a few employees who transferred their retirement funds from the defined benefit to the defined contribution plan suffered significant financial losses. This outcome was a serious concern to administrators when developing the countywide plan and prompted them to make investment education a high priority when selecting a plan administrator.

The county commissioners supported the reform proposals, which went into effect with no opposition from the public or from current employees, because the reforms did not affect their pension benefits. Under the new plan, the county contributes seven percent of salary into employee accounts and adds an additional one percent to their 401(a) accounts when the employee contributes 2.5 percent to a 457 account.

Implementation of the new defined contribution plan and the county's role in assuming management of the defined benefit funds went very smoothly. Some county employees voiced concerns about the security of their pension assets under the new pension system, but those concerns were quickly allayed through communication

efforts and the success of the pension board and county staff in managing the defined benefit fund's assets.

Houston Municipal Employees Pension System (HMEPS)

From 2003 to 2008, the pension system for Houston city employees had undergone a series of reforms designed to reduce long-term liabilities while still providing a strong retirement benefit. Liabilities for HMEPS spiked in the early 2000s after the city approved a significant pension benefit increase⁶ for current and future employees, which was followed by a series of investment losses for the pension fund.

Initial reform efforts began in 2003, including a change in the composition of the HMEPS board of trustees and requiring that both the HMEPS board and the city council agree on modifications to statutory pension benefits. In 2004, citizens approved a referendum that allowed the city to modify pension benefits for current employees.

Following the referendum, the city's administration and HMEPS held a series of negotiations to change pension benefits. Pension amendments were approved in 2004, 2005, and 2007. The initial changes reversed some of the pension benefit increases initially approved in 2001. The 2005 reforms focused on expanding the financial expertise of the HMEPS Board by granting the city comptroller an appointed seat. The 2007 amendments created a new pension class for employees hired on or after January 1, 2008. Changes for the new class included a lower defined benefit multiplier and no cost-of-living increases after retirement, but required no employee contribution. The expectation is that employees will invest a portion of their salaries in a deferred compensation plan to supplement their defined benefit.

Role of Stakeholders in the Reform Process

Organized Labor

The role of public sector labor organizations in the reform processes varied significantly among the five cases.

- In **Iowa**, unions played a key role, in part, because the four seats dedicated to employees on the Benefits Advisory Committee are currently held by union representatives.
- In **Vermont**, the strength of the unions was most apparent. Originally, public sector unions were excluded from the reform process, but their leaders rallied members, resulting in the senate president

requiring the state treasurer, who was heading the reform commission, to work with the National Education Association (NEA) to develop a compromise plan.

- Though labor unions in **Oregon** have been historically very strong in state and local government, they were less successful during the 2003 reform effort when employers were able to effectively lobby the state legislature for significant changes to the pension system over the unions' objections. The unions sued the Public Employees Retirement System over the new laws and were successful in having a few important provisions declared unconstitutional.
- In both **Houston** and **Gwinnett County**, unions played little role in the reform process. However, the Houston Municipal Employees Pension System (HMEPS) has a culture of strongly supporting members, which served to ensure that employee interests were considered.

Other Stakeholders

Except for Vermont, the reforms involved relatively little input from business groups, retirees, or the public. The reform processes and negotiations involved “insiders” or key stakeholders such as the pension administrators and their boards, employers, labor unions, and the elected body passing the new laws or ordinances. In Gwinnett County, the reform process was driven by the county's senior administrative and finance staff with final approval coming from the county commission. In Houston, the HMEPS board negotiated with the city council on the reform provisions while, in Iowa, the IPERS Benefits Advisory Committee (BAC) and administrative staff recommended pension changes to the state legislature. Cities in Iowa raised some concerns about increasing contributions, and the BAC decided against reducing the defined benefit multiplier when objections were raised by constituent groups. However, these parties were not directly involved in the reform process. Though the media reported on pension reform in Oregon, this did not translate into engagement of the general public or special groups such as retirees or business groups. This may be because the public and business groups supported reforming the Oregon pension system and retirees knew they would not be affected by any changes.

Perhaps because of the unions' public outcry about benefits, more stakeholders became involved in Vermont's pension reform process. The Vermont Retired Teachers Association was active in supporting current employees in their opposition to the original

proposals offered by the reform commission. Though retired teachers were not directly affected by the proposals, they supported NEA and wanted to help. Retired teachers personally engaged legislators, who in many cases were their former students. On the opposing side, the Vermont Business Roundtable held public meetings and published a blog calling for a defined contribution plan for Vermont's state and local employees in order to reduce long-term costs. That effort was unsuccessful.

Lessons Learned

Even with all the differences among the cases, several significant themes emerged that may prove useful for other governments undertaking pension reform. The lessons transcend not only the size of the governments or pension systems, but also the extent of reform that occurred, suggesting broad applicability. Though some of the lessons may seem to be common sense, these fundamental messages can be lost in the pressure-filled atmosphere of pension reform or the daily workload of pension management.

1. View changes within the context of human resource policies and personnel needs. When confronted with increasing pension liabilities, it can be easy for policy makers to focus exclusively on cost reductions rather than on pension reform options within a human resource framework. Pension reform that results in diminishing a government's overall personnel goals can be counterproductive.

Several of the persons interviewed mentioned the importance of ensuring that pension change does not impair the government's ability to recruit and retain quality employees. When the Vermont legislature created its retirement commission to analyze and propose retirement reform options, one of the guiding principles was the retention of high-quality employees and maintenance of a stable workforce. Similarly, Gwinnett County carried out recruitment studies before moving to a defined contribution plan and found it would help meet their goal of recruiting young professionals.

2. Use good data from high quality experts to understand the problem. All governments and their pension managers believe they are using good data. This lesson addresses the value of independent experts and the importance of reviewing assumptions used in actuarial forecasts. In addition, changing independent actuaries periodically will provide a fresh set of eyes to examine a government's personnel and pension situation, particularly as it relates to forecast assumptions.

For all five governments studied, good data and expertise played an important role in their reform stories. In Houston, inaccurate actuarial assumptions and incorrect data led to severe cost underestimates for a 2001 pension benefit increase. In Oregon, not fully appreciating the impact of its pre-reform money-match system led to projections of significant liability increases. In Vermont, a change in actuarial methods better reflected funding needs and highlighted VSTRS's underfunding, which ultimately led to pension reform.

The value of quality information to support and guide pension reform cannot be understated. After the market collapse of 2008, Iowa enlisted a new actuary to provide a comprehensive analysis of all possible adjustments to the IPERS system. An outside actuary was hired again to assist the IPERS Benefits Advisory Committee and administrative staff for the 2010 reforms. Vermont's pension reform commission and Gwinnett County relied heavily on both in-house experts and outside actuaries for analysis of reform proposals. The Oregon post-reform board hired a new actuary to provide multiple actuarial estimates based on different scenarios to help the board make its decisions. The Gwinnett County administrator, who oversaw the pension reform process, stressed the importance of hiring high quality experts, including actuaries, attorneys, and fund managers, to ensure the pension system stays on track.

3. Foster strong communication by sharing information and reaching out to constituents. Information sharing among stakeholders can remove barriers and create an atmosphere that supports compromise and better outcomes. In addition, effective communication and openness can reduce confusion and concern among both employers and employees after reforms are approved. In Iowa, clear expectations of stakeholders created a climate of openness and enabled fair negotiations. IPERS also created a successful communications plan to inform employees about its reforms. In contrast, Gwinnett administrators did not anticipate the employee rumor mill when developing and approving its pension system changes, which created employee anxiety. To overcome this stress, the county held several meetings to explain the changes, leading to employees better understanding the reform and eventually accepting it. Since the 2007 reform, Houston has placed a high priority on communication and created a position whose main responsibility is to share information with all stakeholders, including the city administration, pension board, state legislature, employees, and the public.

The cases also demonstrate that effectively communicating with constituents can be a key advantage for

improving one's position in the reform process. In Vermont, union leaders quickly reached out to members, who made their disappointment with the proposals known, communicating directly with legislators. As a result, the state treasurer was directed to negotiate with the union's leaders to reach a compromise solution.

In Oregon, the public employee unions were surprised by the breadth of the reform proposals, the widespread political support for pension reform, and the speed at which the reform process took place in the legislature. As a result, they were not prepared to rally their members to lobby the legislature and governor. One union representative⁷ stated that the need to communicate quickly and effectively with members was a key lesson from the Oregon reform process.

4. Don't underestimate the importance of careful planning and thorough evaluation of proposed changes. Pension reform often involves complex issues with significant financial impacts, highlighting the importance of planning and evaluating proposed changes. In the charged political atmosphere in which reform often occurs, finding the time for comprehensive analysis can be difficult, but the cases demonstrate the need for careful planning and thorough analysis. Gwinnett County took nearly two years to plan for its new pension system. Because the reform was internally driven and did not require the support of the state legislature, staff took the time to analyze, review, and debate the benefits and risks of moving to a defined contribution plan. They also planned carefully for what proved to be a smooth implementation process.

Vermont's reform commission also made it a priority to evaluate proposals carefully, starting its analysis with a set of guiding principles and then looking at a variety of options before releasing its recommendations. The Iowa Benefits Advisory Committee and staff also thoroughly reviewed reform options before making a final recommendation to the legislature.

5. Include pension administrators when crafting new policies and consider implementation with policy changes. Smooth implementation of public pension reform is particularly important because of the potentially negative effects on employees and the public if it leads to mass retirements and lower service levels. Policymakers can greatly benefit from consulting with their pension administrators about two key questions: Are the proposed changes allowed under state and federal law, and what are the practical implications of the proposed changes and the potential impact on retirements?

In Iowa, Houston, and Gwinnett County, the pension administrators played key roles in reviewing

proposals with implementation in mind. The Iowa advisory committee and staff originated the reform proposal for the legislature, and the Houston pension administrators worked closely with the city council in negotiating pension changes. Like Iowa, the Gwinnett County administrators who drafted the proposals were also responsible for their implementation. In Vermont, the VSTRS professional staff provided ongoing support to the study commission, which also sought advice from pension officials from other states and hired special counsel to examine the legality of reforming the pension plan structure. These efforts resulted in special transitional provisions in Iowa, exemptions for employees near retirement in Vermont, and a new class of employees for pension purposes in Gwinnett County and Houston. These actions helped prevent mass retirements and legal challenges to the reforms.

The opposite situation occurred in Oregon, where pension staff were not asked to review the legislation for its legality or implementation implications. Labor groups sued OPERS over the new legislation, and provisions that would have retroactively affected employees were eventually declared unconstitutional. Implementation of the new laws was extremely difficult and stressful. Staff had less than five months to develop implementation rules, design a new defined benefit system, create individual retirement accounts for all active employees, and begin installing a new computer system to manage data changes. Because the laws as passed would have negatively affected some existing employees, several thousand employees retired before the reforms took effect, creating an extremely stressful period that left the organization “shell shocked.”⁸

6. Fully fund the annual required contribution. Recommending that employers fully pay their annual required contributions (ARC) is not new, and the cases reinforce this point. In Iowa, employers had not fully paid their ARCs since 2002, which contributed to the system’s growing unfunded liabilities and need for reform in 2010. This occurred, in part, because the state legislature had not increased the statutory employer contribution rate to what was necessary to fully fund the ARC even though IPERS recommended doing so as early as 2003. Similarly, in Vermont, the state legislature chose for several years before the 2010 reform to pay less than the full ARC, which contributed to the system’s underfunding. To change that habit, the Vermont legislature made a commitment to fully fund the ARC beginning in 2006.

Gwinnett County and Oregon both had a history of funding their ARCs. In fact, Oregon state law requires OPERS employers to do so. In Gwinnett County, the

strong culture of fiscal prudence and maintenance of its AAA bond rating served as the incentive. Not surprisingly, employers from both these cases independently cited fully paying the ARC as an important recommendation for other governments seeking to ensure a fiscally sustainable pension system.

7. Appreciate the importance of a strong board. Several of the cases reflect the importance of having a strong board to effectively lead a pension system. In Iowa, the Benefits Advisory Committee (BAC) is represented by employees and employers who have high levels of expertise, which allowed negotiations and tradeoffs between employers and members to occur at this level rather than externally. Once the BAC agreed to a reform package, the state legislature felt comfortable approving the changes because of its confidence in the board’s capability. Likewise, in Houston, HMEPS was a key negotiator in the reform process, working with the city council to create a compromise reform package. Board expertise was also an important consideration, and the 2005 reform specifically focused on broadening the HMEPS board’s financial expertise. Oregon’s public employers considered creation of a new pension system board to be a very important part of the reform effort. The new board was charged with focusing on fiduciary responsibility, long-term thinking, and new ideas.

The make-up of a pension board, in both expertise and representation, is a key factor in its success. When taking over management of its pension fund, Gwinnett County created a new board with a strong focus on financial expertise. Senior administrators also recognized the importance of employee involvement in the board to gain the trust and support of county employees. As a result, employees hold two of seven board seats.

8. Recognize the importance of investment education. In three of the cases, the governments moved to share greater investment risk with employees, reflecting a small but growing national trend. This shared risk requires that employees have a much greater understanding of investment strategies and that employers assume some fiduciary responsibility for protecting employee investments through education. Gwinnett County made investment education an important component in its search for a pension administrator, and the pension board and county administration continue to focus on how to improve it. An important lesson from Gwinnett County is that effective pension education requires significant effort because it involves a major cultural shift for many employees who have no background in personal finance or retirement investing.

Houston and Oregon both created new plans in which employees will take on additional investment risk. In Houston, the newest tier of pension benefit has an implied expectation that employees will contribute to a deferred compensation plan to enhance retirement income because the city lowered the defined benefit pension multiplier and removed cost-of-living increases, while not requiring employee contributions. Though the Oregon Investment Council invests contributions to an individual account program (IAP) on behalf of employees, thus not requiring employees to engage in investment choices, employees still hold the risk if investment returns are poor. Currently, employees are generally satisfied with the Investment Council's decisions. However, employees may be required to take more control over their investment decisions in the future—which reinforces the need for sustained education.

Impact of Reform

The pension reforms covered in this report will continue to affect employers and employees in potentially positive and negative ways. For all five cases, the goal of improving long-term financial sustainability was achieved, enabling the governments to continue offering the retirement benefits. Where reforms affect only new employees, it will take longer to achieve cost savings.

Here is a summary of financial results in the five cases:

- **Iowa:** Decreased unfunded liability by \$634 million and reduced the amortization period from infinity to 34 years.
- **Oregon:** Employer liabilities are increasing at just three to four percent annually and employer rates are half of anticipated pre-reform levels.
- **Vermont:** Projected financial savings of \$15.3 million in FY 2011, increasing to an estimated \$22.9 million by FY 2020
- **Gwinnett County:** The defined contribution plan includes nearly half the county's employees, yet contributions to it are less than one-third of the required contribution for the defined benefit plans.
- **Houston:** The funding status increased from 46.1 percent in FY 2003 to 70.1 percent after the first round of reforms. By 2007, the city's contribution had dropped to 17 percent of payroll from a projected high of 50 percent after a benefit increase in 2001.

The impacts of the reforms on recruitment, retention, and employee morale cannot be fully assessed, given how recently some of them were implemented in several cases. However, initial feedback indicates that the changes have not negatively affected human resource departments' ability to recruit and retain employees. A definitive conclusion will not be known until the governments are financially able to hire new employees at closer to normal rates and general unemployment decreases. The statewide systems are less likely to have recruitment and retention issues related to pension benefits because comparable local employers will have the same pension plans.

The reforms also demonstrate that fiscal sustainability may require reduction in benefits, higher employee and employer contributions, and/or a shift of investment risk from employer to employee. Employees likely will need to take more control over their retirement by saving more and using multiple income sources, such as deferred compensation plans, Social Security, and private savings. This growing complexity in financial planning will also require public employees to become more financially literate. If this education does not occur, public sector employees could face the same risk of insufficient retirement income and the need to work years longer than anticipated, a problem that many private sector employees are confronting today.

Iowa Public Employees' Retirement System

Snapshot

Iowa's statewide population is just over three million people with a median household income of \$50,721, based on 2010 census data. Retirement benefits for most public employees are administered by the Iowa Public Employees' Retirement System (IPERS), which had 165,660 active members and 93,692 retirees receiving benefits in 2010. IPERS is a contributory defined benefit plan.

In 2010, the Iowa State Legislature passed a series of reforms to the state's public pension system. Despite a good track record of fiscal health, consecutive years of investment losses demanded that stakeholders begin to examine systemic reforms that would help the state pension system return to a healthy funding status.

About the Iowa Public Employees' Retirement System

Unlike many pension plans, IPERS is not an independent agency. The Iowa Code establishes it as unit within the governor's office with the governor and state legislature functioning as the plan sponsors.⁹ Together, they determine who can participate, establish benefit levels and funding formulas, and monitor performance against established goals. Iowa public employees are also covered by Social Security.

IPERS is run by a chief executive officer, who is responsible for implementing the benefits program established by the plan sponsor. IPERS has three divisions:

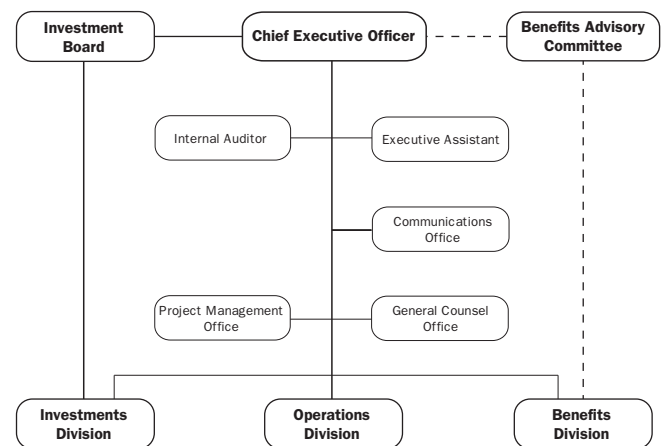
- an investment division that shares responsibility for growing the fund and carries out policies set by the IPERS Investment Board
- an operations division that oversees day-to-day administration of the pension system
- a benefits division that acts on recommendations made by the IPERS Benefits Advisory Committee (BAC).

The IPERS Investment Board is charged with reviewing actuarial findings and adopting actuarial assumptions and investment policies. The Board has seven voting members and four nonvoting members. The voting members include six members appointed by the governor, including three public representatives who are not IPERS members but have significant investment experience, and three IPERS members,

including one current participant employed by a school district, area education agency, or merged area; one active member who is not employed by a school district, area education agency, or merged area; and one retired member. The final voting member of the IPERS Investment Board is the state treasurer. Nonvoting members include two state representatives and two state senators who are appointed by the majority and minority parties of the legislature.

The IPERS Benefits Advisory Committee (BAC) meets quarterly and is charged with making benefit recommendations to the state legislature and IPERS administrative staff. The BAC has nine voting members including four representing employers, four representing IPERS members, and one public member. Of the four IPERS member representatives, one must be from a group that represents teachers. Although Iowa is a right-to-work state, which means that the state is not required to recognize employee groups for collective bargaining purposes, the state ensures that the BAC represents both employees and employers vested in the IPERS system. The IPERS structure is summarized in the following chart.

Figure 1. IPERS Organizational Structure



Source: 2010 IPERS Comprehensive Annual Financial Report (p. 16)

IPERS has three membership classes, each with different contribution rates and benefits. The majority of IPERS members are in the regular class, with only sheriffs, deputy sheriffs, and those working in protection occupations falling into the second and third classes, respectively.

Pension History

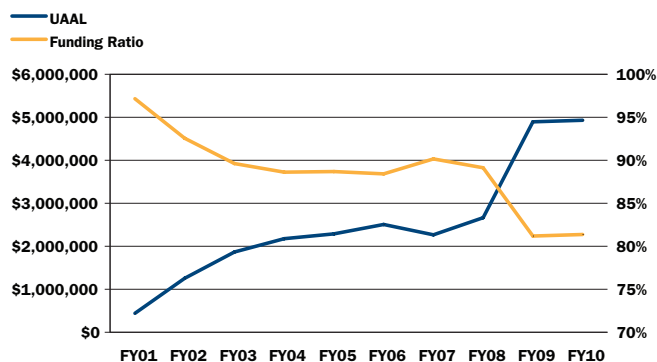
IPERS was established in 1953 as a money purchase system that calculated benefits based on contribu-

tions.¹⁰ Today, it is a contributory defined benefit plan that provides benefits based on a formula using a member's years of service, a multi-year average wage, and a multiplier based on years of service.¹¹

Tight constraints on IPERS benefits were in place before the late 1990s. In 1998, a \$32,000 cap on available salary to be used in benefit calculations was lifted. At that time, a hybrid cost-of-living adjustment (COLA) was introduced in the form of a dividend account that would be available for payout to post-1990s retirees, provided a certain level of earnings was realized.¹² These benefit increases made the IPERS benefits package more comparable with many other state pension plans at the time.¹³

Throughout the early 2000s, IPERS maintained a fairly solid ratio of assets to liabilities and controlled growth of its unfunded actuarial accrued liability (UAAL). The 2008 stock market collapse changed the fund's status dramatically, as shown in the following chart. [The following chart came from pg. 22 of <http://www.ipers.org/publications/misc/pdf/financial/cafr/cafr.pdf>]

Figure 2. IPERS UAAL and Funding Ratio: FY01–FY10



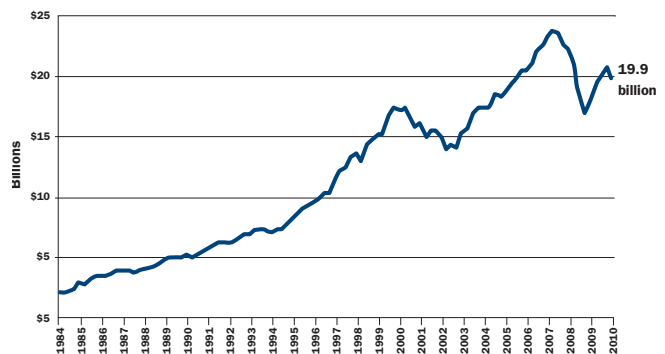
Source: 2010 IPERS Comprehensive Annual Financial Report 2010

Three consecutive years of losses compared to actuarial assumptions prompted IPERS staff and the BAC to commission a 2003 actuarial study, which recommended an increased statutory rate from 9.45 percent of salary to 13.45 percent. The state legislature did not act on this recommendation until the latest market downturn prompted the need for pension reforms. After the 2008 market collapse, the BAC enlisted an actuary to provide a comprehensive analysis of all possible adjustments to the IPERS system, including examinations of what contribution rate was necessary to sustain current benefit levels and what multiplier would be needed to sustain current contribution rates.¹⁴ It was determined that the system could not rely on investment recovery alone and that systemic changes were needed.

What Happened?

In 2008 and 2009, the deepest recession in IPERS's 57-year history led to back-to-back investment losses and a precipitous drop in its funding ratio.¹⁵ The following chart shows the history of the IPERS investment portfolio.

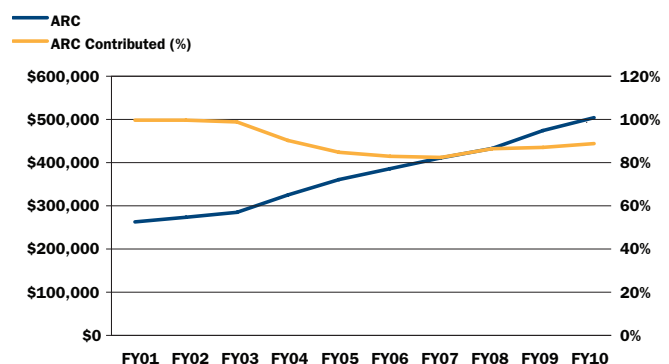
Figure 3. Growth of Net Investment Portfolio Assets, fiscal years ended June 30



Source: 2010 IPERS Comprehensive Annual Report, p. 139

Another factor that contributed to the drop in IPERS's funding ratio was a failure to pay the annual required contribution (ARC) consistently.¹⁶ Since 2002, IPERS employers have failed to pay the full ARC,¹⁷ which has added more than \$1 billion to the total unfunded liability.¹⁸ The following chart shows the percentage of ARC contributed from FY 2001–2010.

Figure 4. IPERS ARC and Percent Contributed: FY01–FY10



Source: 2010 Comprehensive Annual Financial Report

Pension Reform

Adopted Reforms. As a result of the drop in investment returns in 2008 and 2009, the Iowa legislature enacted

pension reforms in 2010. The BAC and IPERS administrative staff suggested these changes after reviewing the options presented to them by the actuary hired to study proposed reforms. The following adjustments affecting members of IPERS' regular class will be effective July 1, 2012.¹⁹

- The vesting period for new employees will increase from four years to seven years.
- The penalty for early retirement (retirement before reaching one of three normal retirement rules—age plus years of service, age 62 with 20 years of service, or age 65) will increase from three percent to six percent for each year before age 65.
- The number of years used to calculate final average salary for benefits will increase from three years to five years.

The amount that the contribution rate can be raised or lowered annually will change from 0.5 percent to one percent.²⁰ The reform package also included a one-time increase of two percentage points (11.45 to 13.45 percent) in the total employee and employer contribution rate effective July 1, 2011. Before the FY 2008 increase of 0.5 percent, the legislature had not changed contribution rates since 1979.²¹

The following table shows the recent IPERS contribution history:

Table 1. *IPERS Contribution History, FY07–FY10*

Year	Member Contribution	Employer Contribution	Total Contribution
FY 2007	3.78%	5.67%	9.45%
FY 2008	3.98%	5.97%	9.95%
FY 2009	4.18%	6.27%	10.45%
FY 2010	4.38%	6.57%	10.95%
FY 2011	4.58%	6.87%	11.45%
FY 2012	5.38%	8.07%	13.45%

Transitional Provisions. The adopted reforms apply to both current and new IPERS members. To address concerns about the security of accrued benefits, the reform package also included some transitional provisions. For example, IPERS provides members with a “benefit snapshot” that allows them to choose between the benefit calculated using the highest average three years of salary as of June 30, 2012, or the benefit calculated using the highest average five years of salary as of the date of retirement. This was put in place to address any concern that the

changes would result in members receiving less benefits under the new rules than they would have under the previous rules. Eventually, inflation will ensure that, for most, the highest average five years of salary produces the highest benefit.

IPERS also enacted transitional provisions to deal with early retirement. Members electing to retire before the normal age may still do so with a three percent penalty on years of service prior to the new rules taking effect on July 1, 2012. The six percent penalty is only applied to years that are worked after the reforms take effect.

The transitional provisions made the process easier for current IPERS members and helped avoid a potential mass retirement of the state and local workforce ahead of the reforms. They also provided assurance to current employees that, in addition to returning the system to stable funding status, IPERS sought to provide the best possible pension benefits.²²

Negotiation Framework and Alternative Proposals. The adopted reforms passed without a great deal of dissent. However, some stakeholders expressed concerns about the nature of the reforms, and some alternatives were proposed. Iowa cities said increased contributions would add to their fiscal pressures, perhaps resulting in employee layoffs. The legislature has introduced a bill proposing a delay of the contribution rate increase by one year.²³ The BAC also considered dropping the multiplier to less than two percent per year, but constituent groups determined that such a low multiplier would significantly alter the benefit offered to public employees.²⁴

With regard to retirement eligibility rules, Iowa teachers found the 62/20 rule (retirement eligibility at age 62 with 20 years of service) to be valuable. Many participants also were reluctant to see changes to the Rule of 88 (retirement eligibility when age plus years of service equals 88). As a result, IPERS and the BAC did make material changes to eligibility requirements at this time.

Between 1998 and 2002, IPERS and the BAC had considered creating a defined contribution plan to supplement the current defined benefit plan. However, they found that personal disposable income among public workers was insufficient to consider adoption at that time, so no in-depth analysis was conducted to determine its feasibility or savings. Some state legislators preferred this option, but lack of support prevented it from getting serious consideration.²⁵

Communication. IPERS developed a series of comprehensive information resources that were distributed and made available on its public website to ensure that

accurate information was provided to all employees, and to dispel any rumors about the intent or effect of the reforms.

In the summer of 2010, IPERS released a series of documents in various formats designed to present information on benefit changes for IPERS members, including example calculations and dates of effective changes.²⁶

Reform Results. Though many of Iowa's negotiated reforms have not yet taken effect, a significant reduction in the system's unfunded liability is already shown in the FY2010 IPERS Actuarial Report. Most public retirement systems carry some amount of unfunded actuarial accrued liability (UAAL). Unfunded liabilities occur whenever benefits are added or losses are recognized and must be amortized over a measurable time period to set a pension plan on a sound funding path. With the increase in contribution rates that was passed with the 2010 legislation, IPERS now has a manageable approach to amortize its unfunded liability. Based on the actuarial valuation as of June 30, 2010, the benefit changes decreased the IPERS unfunded liability by \$673.9 million. In addition, the amortization period is now 34 years, which is the first valuation in nine years that shows an amortization period less than infinity.

Challenges and Benefits

One advantage Iowa had at the outset of the reform process was how pension contributions are handled in state law. According to Iowa law, contributions are divided 60/40 between the employer and employee.²⁷ Since the statute provides clarity to all stakeholders, there were fewer fears that employees would be required to contribute more without employers also picking up more of the tab. This created a climate of open, fair negotiations in the BAC in which participants knew what would be expected of their group.

Having a fully representative Benefits Advisory Committee was essential to successful negotiations. Since the BAC features a diverse and comprehensive representation of IPERS stakeholders, the political negotiations and trade-offs took place at the committee level. This opened the door for relatively smooth action at the legislative

level, since legislators can be confident that what comes out of BAC deliberations has been thoroughly debated and refined. The BAC takes its role seriously and expects members to have a high level of financial expertise. Members of the legislature, who have less expertise on pension issues, recognize the value of the professional backgrounds that BAC members bring to the table.

Lessons Learned

The following lessons emerged from the IPERS reform experience.

1. Realize the magnitude of the problem. The IPERS administration and the BAC recognized that the system had a significant funding problem requiring material changes. Some Iowa legislators believed that the system could invest its way out of trouble without changing contribution levels or modifying benefits. The IPERS administration and the BAC moved quickly to lay out the facts and provide focused, long-term strategies for addressing the growing unfunded liability.

2. Be pragmatic in approach. Pension funding issues cannot be solved overnight. Incremental steps to "course-correct" are effective because of the long-term nature of a pension system. IPERS understood this and elected to make incremental reforms to contribution levels and benefits that would have long-term impacts rather than looking for a short-term solution such as issuing a bond to cover outstanding debt.

3. Survey the possibilities. Before deciding on changes, IPERS and the BAC considered a wide range of possible adjustments as presented by their professional actuary. While various stakeholders preferred some changes over others, everything was given serious attention before agreeing on the final change package.

4. Ease pension plan members through the change process. When changes to a retirement system are discussed publicly, members and retirees often question whether or not their benefits are secure. To ease their concerns, IPERS made transitional provisions and provided members with accurate and timely communications.

Oregon Public Employees Retirement System

Snapshot

Oregon's statewide population is 3.8 million people with a median household income of just under \$50,000, based on 2010 census data. Retirement benefits for public employees are provided by the Oregon Public Employees Retirement System (OPERS), which had 178,606 active members and 110,724 retirees receiving benefits in 2010. OPERS is a defined benefit plan.

In 2003, the state overhauled its retirement system to slow the growth of its unfunded liability to about three percent annually and reduce employer contribution rates to half their anticipated pre-reform levels.²⁸ However, the reform process was not collaborative, resulting in a stressful implementation process and a series of lawsuits. The major stakeholders involved learned valuable lessons during this overhaul leading to the potential for more effective future reform processes.

About the Oregon Public Employees Retirement System

In 1945, Oregon established the Public Employees Retirement System (OPERS), which provides retirement benefits for employees in the state and general and single purpose local governments. As of December 31, 2009, the system included 900 employers and 328,647 members (active, retired, and inactive), or about 95 percent of the state's public employers and employees. Of those members, 25 percent are state government employees. OPERS manages \$50.6 billion in assets.²⁹ Public employers are required to negotiate with employees, including issues related to compensation.³⁰ Oregon public employees also participate in Social Security.

OPERS originated as an account-based pension plan that used a money-match method to calculate benefits. This was supplemented in the late 1960s with a formula-based benefit because the existing benefit did not provide an adequate retirement. The formula benefit was replaced for new hires with another formula benefit in the early 1980s. Retirees receive the highest of three benefit calculations for which they qualify. Due to high earning rates to member accounts in the 1980s and 1990s, the money-match calculation became the dominant choice and continued to be so even after the 2003 reform. More recent retirement reforms will gradu-

ally shift employee benefits to the traditional defined benefit formula option over the next decade.

The Oregon money-match retirement formula requires the employer to match accumulated contributions and earnings in an employee's account upon retirement. The total is used to fund a lifelong annuity for the employee. An employee's account balance is equal to his or her contributions plus investment earnings. Employers make annual contributions based on actuarial estimates of what funds will be needed to pay for their employees' projected benefits, taking into consideration key factors including employees' ages, years of service, and estimated life spans.

The OPERS Board sets employers' contribution rates biennially to coincide with the state's fiscal budget. Since all Oregon local governments are on the same July 1 fiscal year, there are no timing conflicts between setting rates and developing local budgets.

The Oregon Investment Council (OIC), headed by the Department of Treasury, is responsible for OPERS investing. The OPERS executive director is a non-voting member on the OIC. The OIC has historically been very successful in its investing practices and OPERS board members,³¹ staff, and labor groups are comfortable with the OIC continuing to manage OPERS investments.

Because of benefits adjustments over the years, public employees fall into one of three groups with different benefits in each—tier one for employees hired before January 1, 1996; tier two for employees hired between January 1, 1996, and August 29, 2003; and the Oregon Public Service Retirement Plan (OPSRP) for employees hired on or after August 29, 2003.

Pension History

Benefit Growth

Though the initial benefits for OPERS were quite modest,³² they expanded over time, particularly in the 1970s. In 1975, state law required OPERS to assign a minimum or floor earnings to members' accounts equal to the assumed earnings rate. At the same time, the earnings rate was increased from 5.5 percent to seven percent, and OPERS began crediting member accounts above the assumed earnings rate. If OPERS investments earned more than the assumed rate, additional dollars were deposited into active member accounts to reflect the actual earned rate. OPERS could have kept the extra funds in reserve to offset years when investments were below the assumed earnings rate, but chose not to do so.

By the 1990s, members were receiving investment credits worth as much as 21 percent while the lowest credit was still 12.5 percent, an indication of just how

successful the state's investment strategy had been. In 1989, the assumed earnings rate was raised to eight percent, which is the current level. As a result of these practices, OPERS members never lost money in their retirement accounts because of the floor and received the majority of the investment earnings in good years.

In 1979, some employers negotiated with unions to pay the employees' six percent contribution in lieu of pay raises that were needed due to high inflation. Taking on the contribution was seen as a win for both the employers and employees since neither would need to pay additional Social Security taxes and employees would not be taxed on the compensation increase. Today, 53 percent of employers pay the employee contribution covering 70 percent of employees.

Increasing Unfunded Liabilities

The 1990s were a time of scrutiny for OPERS and the beginning of change. In order to reduce long-term costs, the legislature passed a law effective January 1, 1996, creating a second tier retirement plan that eliminated the earnings floor for new hires so that account earnings followed both positive and negative investment returns. The retirement age was also raised from 58 to 60, and lump sum vacation payouts were eliminated in calculating final average salary.

During the early 2000s, actuarial studies projected significant increases in unfunded liabilities. Employers were concerned that they would face rate increases of 30 percent in a few years in stark contrast to the relative rate stability of the late 1980s and mid-1990s, when contribution rates had not been more than 11.4 percent annually.³³ In addition to investment losses early in the decade, two other issues contributed to the projected unfunded liability increases:

- **Historical assumptions used by the actuary.** Until 1995, the actuary had estimated liabilities assuming employees would retire using a full formula method that was created in 1981. The formula multiplier for general employees at the time was 1.67 percent and two percent for fire and police. However, by the mid-1990s, the money-match calculated benefit provided a more lucrative benefit. With employers paying contributions on a benefit that was far cheaper than what was actually occurring, the system was being underfunded.
- **Failure to update mortality tables in calculating the monthly annuity available to retirees under the money match.** OPERS was calculating the annuity based on older mortality tables that predicted shorter life spans, resulting in underfunding

the system.³⁴ And, employees received monthly benefits that were larger than appropriate, had a more accurate mortality table been used.

As a result of these issues, the OPERS unfunded liabilities jumped from \$21 million in 1991 to \$257 million in 1997.

Rising Benefits and Interim Solutions

To begin to address these problems, the OPERS Board voted to increase the amount of assets in its gain-loss reserve account to an amount equal to 30 months of earnings. The reserve was used to make up for shortfalls if investment earnings did not reach the assumed rate. This reserve fund was especially important in Oregon because the actuarial value of assets equals market value rather than smoothing investment results over multiple years.³⁵

Benefits for retirees reached an all-time high during the early 2000s, and the market downturn in 2000 exposed systemic issues with the money-match plan. From 1999–2003, the average benefit for a new retiree with 30 years of service was at least 93 percent of his or her final average salary, excluding Social Security.³⁶ By comparison, career employees who retired in 1990 received an OPERS benefit equal to 61 percent of final average salary, excluding Social Security. The media published several articles highlighting the generous government retirement benefits and criticizing the OPERS structure.

By this time, OPERS staff began to understand how costs were increasing after years of not fully appreciating the dynamics of the money-match system. Similarly, the OPERS Board, whose members relied on legal and actuarial professionals for information, had not recognized the long-term impacts of their decisions when assigning earnings credits to employee accounts. The OPERS Board tried to address the liability problems by finding consensus solutions that could be proposed to the legislature for adoption. However, no compromises were reached on how to amend the retirement plans.³⁷

Due to their concern with projected pension cost increases, four local governments filed suit against OPERS in 2000 for its use of outdated actuarial tables, the variable match employers paid, and the earnings crediting applied to members' accounts.³⁸ The employers claimed that OPERS inappropriately over-credited members' accounts in 1999 rather than direct more investment earnings into reserve accounts. In 2001, there was an initial ruling in favor of the employers and a final ruling in 2003, that included requiring OPERS to update its actuarial tables. OPERS and the employ-

ers subsequently reached a settlement on the amount of crediting due employees in 1999, reducing it from 20 percent to 11.33 percent with the difference going into the reserve accounts. In 2005, the Oregon Supreme Court ruled that the settlement and the 2003 reform legislature settled the issues in the case.

The legal victory had these impacts:³⁹

- Saved employers \$1.6 billion;
- Established a precedent permitting changes to the money-match system for current employees; and
- Created the environment for a reform movement because it empowered local governments to lobby the legislature for significant changes to OPERS.⁴⁰

Pension Reform

In 2001, an interim legislative working group was established to develop consensus legislation on reforming OPERS. One outcome from that group was to strengthen the reserve system. In December 2002, the outgoing governor convened a working group composed of OPERS' stakeholders in order to reach consensus on reforms that could be approved by the legislature in the upcoming session. No significant agreements were reached among the participants, and the four major local government employers who had participated in the OPERS lawsuit decided to lobby the legislature for the changes they wanted.

In November 2002, Oregon elected a new Democratic governor who had a long history of supporting organized labor and a legislature composed of a solid Republican majority in the house and a slight Democratic majority in the senate. The local governments found support for pension reform from the Republican chair of the House Committee on the Public Employees Retirement System⁴¹ and a Democratic freshman legislator on the committee⁴² who was a personnel attorney. The attorney representing the local governments worked primarily with the freshman legislator and the committee chair to draft legislation. The bills were introduced in early March 2003. The House OPERS Committee held eight public hearings and four work sessions before passing the bills, while the senate passed the bills with only one hearing and one work session. Through a well-coordinated lobbying and media outreach effort, the legislation passed with strong majorities, and the governor signed the bills eight weeks after their introduction.

The bills were strongly opposed by the unions.⁴³ The new governor, though he had a long history of supporting labor, had campaigned for OPERS reform and

came out in favor of the bills, despite union opposition.

Several key stakeholders were not active players in developing the legislation. OPERS itself was not a visible participant, having lost credibility with legislators for not addressing pension reform on its own years earlier. This lack of input had severe consequences for OPERS when it came to implementing the new laws.

The PERS Coalition, a consortium of public employee unions, was surprised by the new legislation, thinking the agreements made in the interim legislative committee would be the only benefit change. When the legislation was introduced, the unions chose to fight the new proposals rather than work with the employers to develop compromise legislation. Interviewees agreed that the PERS Coalition was ineffective at countering media coverage of retirees receiving benefits that were more than 100 percent of their final salary. In addition, the coalition had a difficult time communicating with members to rally their opposition since the legislation moved so quickly.⁴⁴

The reform bills included the following components:⁴⁵

- Tier one regular accounts would be credited with eight percent earnings until the tier one-assumed rate deficit had been eliminated and the reserve account was fully funded in each of the last three years.
- Investment earnings would not be credited to a tier one account in any year in which there was a deficit, and no earnings could be credited that would result in a deficit.
- Tier one members who retired on or after April 1, 2000, and before April 1, 2004, would not receive a cost-of-living adjustment (COLA) until their annual benefit equaled the amount they would have received if their 1999 crediting was 11.33 percent rather than the 20 percent OPERS originally credited to their accounts.
- New actuarial equivalency factor tables would be used beginning July 1, 2003, with updates every two years.
- Employee contributions for tier one and tier two members would be directed to accounts in a new Individual Account Program (IAP), similar to a 457 retirement account in which earnings fluctuate with market returns. By directing the employee contributions to these accounts, the regular accounts from which the money match is calculated no longer receive new contributions. As a result, growth in the OPERS accounts comes only from investment earnings on existing balances.

- A new retirement plan for employees hired on or after August 29, 2003, called the Oregon Public Service Retirement Plan (OPSRP) was established. OPSRP (1) decreased the defined benefit multiplier from 1.67 percent to 1.5 percent for regular employees and from two percent to 1.8 percent for public safety employees and redirected employee contributions to the new Individual Account Program; (2) increased the retirement age to 65 for general employees and 60 for public safety employees; (3) eliminated the COLA bank that existing employees could use when inflation exceeded the statutorily set two percent COLA;⁴⁶ and (4) excluded sick leave and overtime crediting from calculating the final average salary.
- A new five-member pension board was created that includes three citizens not affiliated with OPERS who have business management, pension management, and/or investing experience; one state employee or local elected official representing management; and one person representing employees. The new Board was charged with focusing on its fiduciary responsibilities to the fund.

In crafting legislation, the local governments relied on their knowledge of OPERS and input from the actuary working for their attorney rather than using studies or examining other government plans.⁴⁷ The actuary designed the Individual Account Program (IAP), which is the most significant component of the reform because it essentially freezes the money match. The other two key changes were capping earnings crediting to eight percent for tier one members and creating the new board.

When it came to changing the defined benefit formula for the new OPSRP, the reform proponents used their political judgment. The local employers wanted the plan to be a little cheaper, but realized that if they asked to reduce the formula too much there would be far greater pushback. The employers did not try to shift to a total defined contribution plan because that would have been too much change with less chance of support from moderate Democrats. They also did not want to fund both the existing defined benefit plan and a new defined contribution plan.

The final legislation achieved virtually all of the changes that local employers wanted. As one city of Portland representative said, “Employers did not have to compromise on the legislation,” and “We hit a home run.”⁴⁸

Reform Implementation

Labor groups immediately sued OPERS over the new legislation, and the courts found some important com-

ponents to be unconstitutional, including elimination of the annual account crediting for tier one members when there was a deficit and the COLA freeze for tier one employees who retired between April 2000 and 2004.⁴⁹ Moving employee contributions to the IAP was deemed legal. As a result of all the legal battles, “about 90 percent of what can be litigated about OPERS has been,” one interviewee stated.⁵⁰

Implementing reform was extremely difficult for OPERS as an organization.⁵¹ Staff had four-and-a-half months from the time the legislative session ended until the new laws took effect. To prepare for implementation, OPERS needed to:

- analyze the new laws and develop administration rules
- develop a system for the new Individual Account Program (IAP)
- develop a defined benefit system for the new Oregon Public Service Retirement Plan (OPSRP)
- implement a new computer system to handle all the changes.

Because the new laws would not give crediting in any year in which there was a deficit and because of the change in actuarial tables, 12,000 employees retired within a six-month period before the reforms took effect—more than double the record for retirements in any one year.

New OPERS Board

Though the organization as a whole was under major pressure to implement reform, the new pension board worked very well. In fact, three of the five original members are still on the board, which is a testament to how well they function together. The board’s success could be attributed, in part, to the competence, diverse skills, and experience of the members who provided different perspectives.⁵² The governor directed the board to stress fiduciary responsibility in its decision making, focus on long-term thinking, and explore new ideas. Because all board members supported this directive, they were able to make decisions and be effective. Having a majority of the board independent of the retirement system also contributed to its success.

The new OPERS board wanted to develop a new culture for the organization.⁵³ They made it clear to staff that the board intended to be “hands on” and would look to staff for information, not decisions. The board would not push liabilities into the future and would set realistic employer rates. They also communicated with stakeholders that principles mattered to them.

Board members had a steep learning curve and immediately began making decisions about administrative rules to implement reform and deal with the lawsuits facing OPERS. More specifically, the board needed to decide whether to fight the cases against reform or settle with a plaintiff who had typically been supportive of OPERS. For the last several years, OPERS had been in legal battles with employers and now it was defending itself against employees. This was a strong shift in orientation for OPERS staff.

OPERS Staff Changes

The OPERS executive director left in October 2003, a few months before the reform laws were to take effect. An interim director guided staff until June 2004 when the current executive director was appointed.⁵⁴ Having a new director was also important in building the organizational culture and implementing priorities. The implementation pressures also prompted many OPERS employees to leave the organization. However, OPERS has rebounded and was described by interviewees outside the organization as effective and much better managed than before reform.⁵⁵

Reform Impacts

Since implementation of the reforms, the OPERS liability growth has dropped to three to four percent annually and is close to the system's annual assumed inflation rate of 2.7 percent. Cost projections for 2010–11 compare pre-reform contribution growth rates to post-reform rates, and the differences are striking:

- Without reform, employer rates would have been 27 percent for all pension plans combined. With reform they are 12.42 percent for all pension plans combined.⁵⁶
- For the new Oregon Public Services Retirement Plan, 2009–2010 employer rates were 6.2 percent for general employees and 8.9 percent for police and fire.
- With reform, retirement benefits as a percent of final average salary are expected to decline, but still be sufficient to cover retirement needs. OPERS estimates⁵⁷ that the vast majority of tier two employees will receive a formula-based defined benefit rather than a money-match benefit. The typical benefit for a career employee with 30 years of service will equal 50 percent of the final average salary. Earnings from the individual account program could equal an additional 15–20 percent of the final average salary. For employees in the new retirement program (OPSRP),

the benefit would be slightly less at 45 percent of the final average salary after 30 years with a similar added benefit of 15–20 percent of final average salary from the individual account program.

Though the reform resulted in massive retirements, recruitment and retention of public employees does not appear to be a problem seven years later. A Portland employee focus group reported that the work itself was more important in recruitment than the pension benefit, but the pension has served as a retention incentive. A few of the interviewees also stressed the importance of pension benefits as part of a total compensation package⁵⁸ in promoting the retention of quality employees. They believed that the reformed OPERS and new OPSRP still meet that goal.

A labor representative interviewed for this case study said that employee morale issues exist in some areas, particularly for OPSRP employees once they realize the degree to which their benefit differs from longer serving colleagues.⁵⁹ However, as tier one employees retire, the issues will become moot. Because tier two employees never had the benefit of an earnings floor for their OPERS accounts, the likelihood that these employees would have used the money-match formula for calculating retirement benefits was never strong.

Though employers were the clear winners in this reform process, labor organizations have rebounded and continue to have political influence in the state.⁶⁰ Labor does not agree with all portions of the reform, but they acknowledge that if no action was taken in 2003, even more dramatic changes would have been made in today's political climate, such as moving to a total defined contribution plan. One union leader predicted that the movement to cut pension benefits will negatively affect the recruitment and retention of public servants over the long term.⁶¹

Even though the 2003 reform has controlled unfunded liability growth, the governor and several legislators introduced additional pension changes in the 2011 session in order to further reduce costs. This time, local governments are not actively involved since they see no real need for additional change. However, OPERS is very involved in reviewing the bills to assess their conformance with federal and state laws and to anticipate implementation challenges. This engagement reflects the improved management and reputation of the organization among policymakers in the state.

The most significant legislative changes being proposed in 2011 are to:

- end the employer payment of employee contributions for new employees

- extend the amortization period for unfunded liabilities to 30 years.

No major legislative changes to OPERS have yet occurred, but the broad interest in reducing the cost of public pensions suggest that attempts to further reform OPERS will likely arise the next time state and local governments face fiscal stress.

Challenges and Benefits

OPERS was severely challenged in implementing the reforms because of the complexities of the laws and the unintended consequences of mass retirements and lawsuits. Furthermore, corrections to the legislation were needed in subsequent legislative sessions because parts of the reform laws were unworkable. Had OPERS been an active player in developing the reform legislation, these corrections may not have been necessary and some the implementation problems could have been foreseen. The implementation challenges led to serious morale problems within the organization.

So far, state and local employees are satisfied with the management of the IAPs.⁶² By having the OIC invest funds in the accounts, administrative costs are low and returns, excluding 2008, have been strong. Discussions from interviewees and the employee focus group have shown confidence in the OIC to manage investments on behalf of employees rather than having employees make investment decisions themselves. Interviewees acknowledged that the majority of employees lack the OIC's investing expertise and, therefore, could not be as successful in achieving similar returns.

One concern was raised about how the OIC's investment strategies may affect employees nearing retirement. Since the OIC invests using a long-term horizon, its choices are more risky than would be typical for an individual close to retirement. OPERS staff, the labor representative, and one focus group member retiring this year all suggested adding an investment choice for employees nearing retirement, such as allowing them to transfer their IAP money to a very secure mutual fund.⁶³ Even with this option, the OIC would continue to manage the investments.

The former OPERS board member interviewed also stated that OPERS's complexity is a challenge.⁶⁴ The system has very different methods for calculating benefits (money match vs. formula), a defined contribution component, differing retirement ages, and different calculations for FAS. Assuming the legislature leaves the system relatively unchanged, the complexity will lessen with retirements. Under its present leadership,

OPERS has been able to meet this challenge, which is an encouraging sign for other governments considering major reform.

Lessons Learned

The following lessons emerged from the OPERS reform experience.

For Policymakers, Employers, and Employee Organizations

1. Recognize that prior agreements may not continue when new policy makers come to power. Pension stakeholders should continually scan the environment and stay prepared for change. By winning a court case and having new faces in top political offices, local employers felt empowered to push for major OPERS reform.

2. Thoroughly understand the objectives for reform and craft legislation to solve problems, not score political points. Changes should focus on long-term plan sustainability and provide adequate and sustainable benefits. The reform should encourage generational equity, including employers fully funding their required contributions. Reform that results in not meeting recruitment and retention needs is counter-productive, and defined benefit plans can be very effective for retaining quality employees.

3. Integrate administrative changes with policy reforms. Think about how a new policy will affect pension administration. The 2003 reforms overwhelmed OPERS administratively. Make sure that policy changes have realistic time frames for implementation and think about possible unintended consequences, such as a surge in retirements, and how that might affect employers.

4. If substantially changing pension board membership, think about how the board could affect organizational culture and the desired board policy direction. Key components that make the OPERS board successful are the members' expertise and the balance between public and private sector interests that leads to a diversity of perspectives.

5. Focus on communication and public perception in the pension reform process. In Oregon, local employers used the media to their advantage. Having a communications plan ready to educate stakeholders on key positions will ensure that the organization is not left behind. The PERS Coalition did not have communication plans ready to counter employer proposals or to rally its members. Better information sharing among all stakeholders, including labor, might have led to

more opportunities for compromise rather than both sides “digging in” on their positions. A coalition of stakeholders can be effective for fostering communication. Though the PERS Coalition (group of public employee unions) was unprepared for the scope of reform in 2003, it became effective for ongoing information sharing and advocacy.

For Administrators and Pension Board Members

1. Keep credibility with policymakers and other stakeholders by providing accurate and credible information. OPERS lost credibility and its voice during the legislative stage of reform. That lost credibility contributed to a very difficult initial implementation phase and other unintended consequences such as mass retirements. OPERS now has a voice in the policy making process and is prepared to avoid similar implementation problems in future reforms.

2. Have a realistic view of reform plans. Administrators should understand the financial dynamics of all aspects of their plan and work to ensure it is financially sustainable, rather than waiting for other stakeholders to introduce legislation and force the issue.

3. Ensure that pension board members are transparent and openly communicate with all stakeholders. Share the same information with all stakeholders and make the information thorough so they understand the reasons for board decisions and are therefore more likely to accept them.

4. Provide good technical advice to the board to support effective decision making. The new OSPERS Board wanted the financials to have a “fresh look,” so they hired a new actuary who presented multiple cost scenarios using a variety of assumptions and time horizons. This information was extremely helpful to the board in deciding upon employer rates.

Vermont State Teachers' Retirement System

Snapshot

Vermont's population is 625,000 with a median household income of \$52,000, based on 2010 census data. The state has three public employee pension plans—the Vermont State Teachers' Retirement System (VSTRS), the Vermont State Employees' Retirement System (VSERS), and the Vermont Municipal Employees' Retirement System (VMERS). This case study focuses on the Vermont State Teachers' Retirement System, which had 10,509 active members, 2,853 inactive members, and 6,146 retirees receiving benefits as of June 30, 2010. VSTRS is a contributory defined benefit plan.

Studies of the state's retirement system in 2006 and 2007 led to a series of reforms designed to improve VSTRS's funding, including increasing contribution rates, changing the actuarial methodology, and committing to fully funding the annual required contribution (ARC). In 2009, a legislatively created study commission examined the state's retirement systems in depth, which led to changes in benefits and contributions and a stronger financial foundation.

About the Vermont State Teachers' Retirement System

The Vermont State Teachers' Retirement System was founded in 1947 with the unusual provisions of full funding of employer contributions from the state general fund and no school district involvement. The system is administered by the Office of the State Treasurer's Department of Retirement Operations and managed by a board of trustees. The Vermont Pension Investment Committee (VPIC) manages VSTRS's investments as well as those for the two other statewide plans—the Vermont State Employees' Retirement System (VSERS) and the Vermont Municipal Employees' Retirement System (VMERS). Public employees in Vermont also participate in Social Security.

Before the most recent plan changes, employees contributed 3.54 percent of salary to the retirement system. The employee contribution increased to five percent in 2009. Until the 2008 recession, 63.7 percent of VSTRS' pension fund revenues came from investment earnings and 24.3 percent from employer contributions.⁶⁵ The steep decline in investment earnings led to an increase in unfunded liabilities, which prompted establishment of the study commission.

Pension History

In 2005, as a result of more than a decade of underfunding, then-State Treasurer Jeb Spaulding commissioned a study of VSTRS with the goal of improving its funding level. Underfunding was attributed to two factors—the actuarial methodology used and the lack of consistent discipline by the state appropriators to fully fund the annual required contribution (ARC).⁶⁶ VSTRS had been legislatively mandated to use the frozen initial liability (FIL) actuarial method, which does not reflect actuarial gains or losses in the unfunded liability, but instead reflects actuarial losses and the effects of underfunding through increases in normal cost. The entry age normal (EAN) method for funding and reporting is used by more than 70 percent of public sector pension plans.⁶⁷

Drawing on the results of the study, the legislature approved two changes in 2006 to improve the plan's funding level:

- use of the entry age normal (EAN) actuarial method
- a commitment to fully fund the ARC beginning in FY 2007.⁶⁸

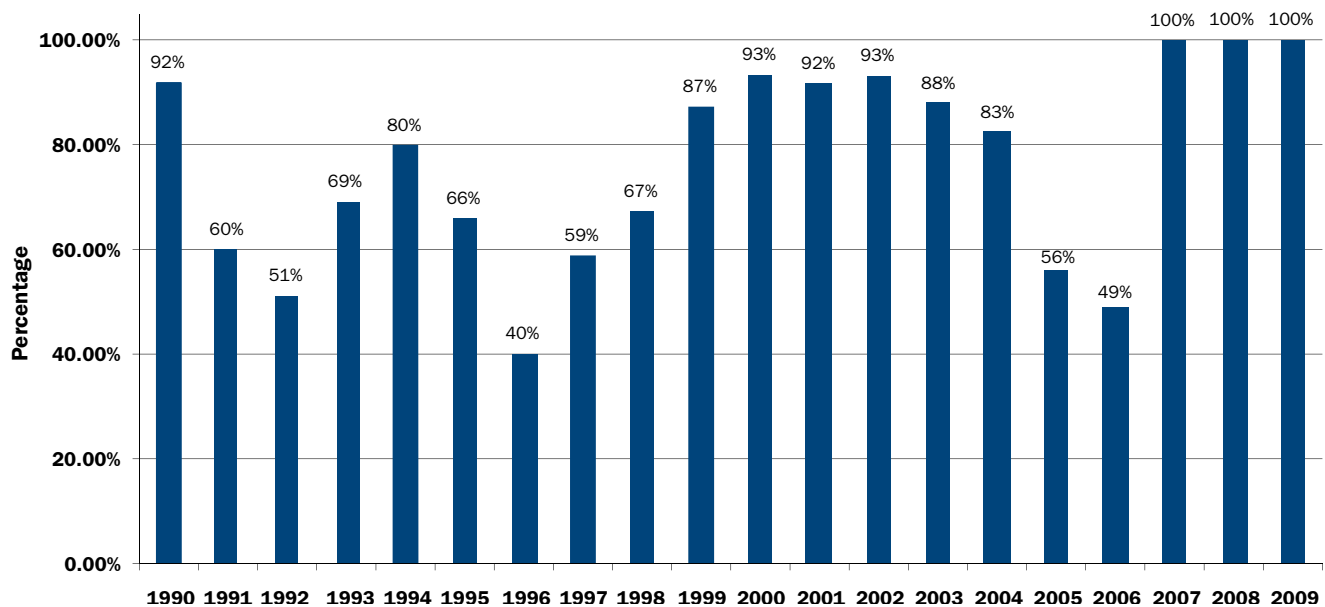
In 2007, with an aging employee population and rising pension and retiree health care costs, the state treasurer commissioned another review of statewide pension systems that led to changes in contributions, wages, and benefits for both VSERS and VSTRS. In Vermont, pension plan changes are negotiated individually with employee groups.

Fiscal Conditions

With the steep decline in investment earnings in 2008, the plan faced a \$348.3 million increase in unfunded liabilities and a 15.5 percent decline in the funding ratio.⁶⁹ The ARC was projected to rise from \$41.5 million in FY 2010 to \$63.5 million in FY 2011—a 7.41 percent increase—to 10.82 percent of total covered payroll and an increase from seven to nine percent of the state general fund. The total general fund is estimated at \$1.1 billion for FY 2011. This huge increase in one year was not feasible in an already-stretched state budget. Historic VSTRS funding requirements and funding levels that were used to assess future plan changes are provided in Table 2 and Figure 5 (p. 24).⁷⁰

Pension Reform

To address both the \$22 million VSTRS shortfall and a \$9.6 million shortfall in the VSERS, the legislature created the Commission on the Design and Funding of Retirement and Health Benefit Plans for State Employees and Teachers in 2009. Its mission was to review and make

Figure 5. VSTRS Funding Percentage of Actuarially Required Contribution Appropriated By Fiscal Year

Note: FY07, FY08, and FY09 include anticipated Medicare D reimbursements. FY07 and later data based on conversion to “entry age normal” actuarial method. FY09 uses revised ARC based on March 09 experience study.

Source: Vermont Pension Overview: Preliminary Cost Projections, the Economic Context, and Sustainability Issues. Office of the State Treasurer (July 14, 2009) (p. 23)

recommendations for improving the long-term financial viability of both state retirement systems.⁷¹ Members of the commission were the state treasurer, a state representative, a state senator, the secretary of administration, the commissioner of education, and one appointee each by the governor, house speaker, and senate president pro tem. The commission held nine meetings in the summer and fall of 2009 and one public hearing using Vermont Interactive Television in which 280 people participated.

The following principles guided the commission’s work:

- **Recruitment**—The plan should act as an incentive for recruiting high-quality employees and be competitive with those in other states and within Vermont.
- **Retention**—The plan should act as an incentive for retaining high-quality employees and maintaining a stable workforce, and be compatible with changing workforce and demographic trends.
- **Reward**—The plan should provide a solid foundation for retirement security following a career in public service.
- **Sustainability**—The cost of the plan should be sustainable and predictable over the long term.
- **Affordability**—The plan should be affordable for current and future public employees and other taxpayers.

- **Fairness**—The plan should be fair to workers and other taxpayers.
- **Equity**—The plan should be equitable for all parties.

Another source of guidance for the commission’s work was the state legislative Joint Fiscal Committee, which established a 3.5 percent target for annual expenditure growth to help maintain the state’s ability to pay for its long-term pension commitments.

The commission was thorough in its analyses, which included a review of the financial impact of pension benefits on the state economy. These benefits were calculated to include income taxes paid on retirement benefits as well as expenditures stemming from state and local pension benefits, which support nearly 1,400 jobs in Vermont,⁷² further contributing to economic activity in the state.

The following plan changes pertaining to teachers were recommended by the commission:

1. Make **no changes** to:

- pension or retiree health benefits for those already retired
- pension or retiree health benefits for anyone within five years of eligibility for a particular benefit
- basic provisions such as maximum benefit, multiplier, and cost-of-living adjustment (COLA) that

would make the plans less competitive than the other state public systems.

2. Do not replace the current defined benefit plan with a defined contribution plan.
3. Continue to fully fund the ARC for the state employees' and teachers' retirement systems, as calculated after any or all recommendations are enacted.
4. Develop and implement a structural plan to fund other post employment benefit (OPEB) obligations and set money aside through a separate, independent funding mechanism. The commission voted not to take a position on shifting the state's payment for the teachers' retirement plan from the general fund to the education fund or local districts.
5. Raise the normal retirement calculation from age 62 or 30 years of service at any age to age 65 or rule of 90 (the combination of age and years of service must equal 90) for those more than five years from normal retirement eligibility.
6. Raise the early retirement age from 55 to 58 for those more than five years from early retirement eligibility. Change the early retirement penalty to full actuarial reduction.
7. Lengthen the salary averaging period to five years instead of three years to calculate benefits for those more than five years from retirement eligibility.
8. Increase the maximum benefit from 50 percent to 60 percent of final compensation. This would provide an opportunity for increased benefits to employees who choose to work more than 30 years. Right now most teachers and state employees are capped at their maximum retirement benefit of 50 percent of average final compensation after 30 years of service. With this change, employees would receive 60 percent of their average final compensation after 36 years of service.
9. Revise the contribution rate ratio and rates for employer and employees. While contribution levels for state employees and teachers have remained constant in recent years at 5.1 percent⁷³ and 3.54 percent, respectively, the state employer share as a percentage of payroll is expected to continue escalating. Instead of having a fixed employee contribution rate set in statute with the employer contribution rate floating on an annual basis, the commission recommended a proportional contribution system between the state and employees/teachers. The commission recommended

capping growth in the state share at 3.5 percent to accommodate the growth target set by the Joint Fiscal Committee.

NEA Response

Once the final votes were tallied and the recommendations were delivered to the legislature in December 2009, the Vermont National Education Association (NEA) held a press conference highlighting what it called a "retirement crisis" that would occur if the legislature adopted the commission's recommendations. On December 29, 2009, the then-senate president (who is now governor⁷⁴) directed the state treasurer to work out a compromise solution with NEA.

According to Joel Cook, Vermont NEA executive director, NEA's position was based on two primary principles:

- Teachers should be assured of financial security after a career of public service; and
- Benefits should not be reduced for any future retirees.

However, the NEA felt it needed to see how it could help the state deal with its difficult financial position. Therefore, NEA explored options that:

- modified the calculation of average final compensation
- addressed the inadequate retiree health care coverage to bring it closer to the benefit offered by the state that included spousal benefits
- considered changes to the age at which teachers could retire with full benefits.

According to the NEA executive director, the VSTRS had been anything but generous in the past. The highest allowable retirement benefit was 50 percent of average salary, the lowest maximum benefit in New England.⁷⁵ Further, while the health benefit covered 80 percent of retired teacher premiums, no family or spousal retiree health coverage was offered.

NEA kept its members informed of commission discussions and helped members reach out to legislators to voice their concerns. It produced reports, updates, and letters to the editor, and disseminated information within its member networks and more broadly to the public and elected officials. According to NEA Director of Benefits Programs Mark Hage, the retirement crisis was treated as a campaign and permeated all parts of the organization. NEA organized frequent meetings with local affiliates, sent regular email messages to all members, and routinely called its members to action to preserve teachers' benefits.

Beginning as soon as an agreement was made between the state treasurer and the NEA in January 2010, NEA held 19 meetings with its members from February to May to inform them of the impending plan changes. Approximately 500 members attended those meetings.

According to Cynthia Webster, director of retirement policy and outreach in the treasurer's office, the union was instrumental in preparing its members for the plan changes during a very narrow implementation window.

Other Stakeholder Response

The Office of the State Treasurer's Department of Retirement Operations actively supported the commission's work. Its role included preparing background information about plan finances and evaluating the impacts of various scenarios on plan funding; working with the actuarial consultants to assess long-term impacts of potential changes; and processing retirements and purchases of service credit for employees wishing to retire prior to the enactment of plan changes, for which the window of opportunity was slightly more than two months.

While the commission included State Representative Terry Macaig, who is both a retired member of the Vermont State Employees Association (VSEA) and a former contract employee of VSEA, there were no official employee or retiree representatives appointed to the commission. However, all commission meetings were open to the public, and union and retired members actively participated as observers and provided comments and feedback.

While retirees were not personally at risk for benefit reductions, they never separated their interests from those of the active teachers. Linda Deliduka of the Vermont Retired Teachers Association (VRTA) said many retirees had been engaged in the early days of the union and fought for equal gender pay, so they recognized the significance of the commission's proposals for all teachers—retired, active, and future.

Both the VRTA as well as NEA relied heavily on economic messages. They pointed to the financial impact of teacher pensions on the state economy and highlighted the fact that if the funds do not go to pay retirees' promised benefits, then the state will pay the same or more money for social services that retirees will need if they cannot be self-sufficient.

In addition to employee groups, the Vermont Business Roundtable played a vocal role in the debate over pension benefits. It held public meetings and published a regular blog about the need for a defined contribution plan to save long-term costs and require individuals to assume personal responsibility for their own retirement savings.

External Experts

The legislation creating the commission allocated funds for professional services to support its efforts. The treasurer retained both legal counsel and an actuarial consulting firm for analysis and support.⁷⁶ A law firm was brought in to explore the legal possibilities for modifying the pension plan structure and benefits, which were established by legislation and considered a contract. There are no constitutional protections for pensions in Vermont. The actuaries had a long-standing relationship with the treasurer's office to conduct annual valuations, experience studies, GASB-required reporting, and other pension plan analyses and reporting.

There were sensitivities among some commission members and the unions that the law firm selected had a reputation of being historically opposed to organized labor. Some felt that its recommendations went too far in removing promised benefits to employees and retirees.^{77, 78} As a result, the VSEA commissioned its own legal support and issued a report that detailed the constitutional protections for state employees it felt were ignored in the report prepared by the commission's legal counsel.⁷⁹

In addition to contractual expert support, the commission relied on pension officials from other states that had tried various approaches to improving the fiscal conditions of their plans. For example, the commission heard from the Kentucky Office of Financial Management regarding that state's use of pension obligation bonds, an idea that the Vermont commission rejected.

Final Plan Changes and Implementation

The following changes were agreed upon by NEA and the state treasurer in January 2010 and passed by the state legislature in April 2010:⁸⁰

1. For employees more than five years from normal retirement eligibility (less than 25 years of service or less than 57 years old), normal retirement will be 65 or rule of 90 instead of 62 years old or with 30 years of service at any age. Early retirement will stay at 55, but the benefit reduction will be an actuarial calculation.
2. Employees more than five years from normal retirement eligibility will be eligible for a maximum benefit of 60 percent of their annual final calculation (AFC) instead of the original 50 percent of AFC, with a two percent multiplier upon completion of 20 years of service on or after July 1, 2010, instead of 1.67 percent.

3. Employees within five years of normal retirement eligibility will be eligible for a maximum benefit up to 53.34 percent of AFC instead of the current 50 percent maximum, using the 1.67 percent multiplier, in recognition of years earned after July 1, 2010.
4. Retiree health care changes, based on years of service at June 30, 2010, include:

For new hires and those with less than 10 years of service:

- 1 to 14 years: No subsidized coverage
- 15 years: 60 percent single coverage
- 20 years: 70 percent single coverage
- 25 years: 80 percent single or spousal coverage

For active teachers with more than 10 years of service:

- 80 percent single coverage – no change
- 25 years: 80 percent single or spousal coverage

Exceptions:

- Those with more than 30 years of service will have to work five additional years to be eligible for spousal coverage
- Those with 25 to 30 years of service will have to work a total of 35 years.
- Those with 15 to 24 years of service will have to work 10 more years.
- Those with 10 to 15 year of service will be eligible upon 25 years of service.

5. Contribution Levels:

- The employee contribution rate will increase from 3.54 percent to five percent for all employees.
- The state commits to funding the full annual required contribution (ARC) after taking into account the savings from reforms. The pre-change ARC increase was approximately \$22 million. The changes reduce the ARC by approximately \$15.3 million. The new FY 2011 ARC will increase approximately \$6.8 million.
- Prohibition of extraordinary increases in average final compensation above 10 percent per year to determine retirement benefit levels.

The projected financial savings from the approved reforms was \$15.3 million for FY 2011, increasing to an estimated \$22.9 million by FY 2020. While the negotiations between the NEA and state treasurer did not capture the desired \$22 million in savings needed to meet the full FY 2011 ARC increase, it did achieve 69.5 percent of that objective.

The outcome was considered a success by all parties because it achieved close to the financial goal set by the commission and raised benefits for employees by increasing the multiplier from 50 to 60 percent, adding greater benefits for teachers working longer than 20 years, and offering a spousal retiree health option.

Lessons Learned

The following lessons emerged from the VSTRS reform experience.

1. Focus on fiscal prudence and collaborative problem solving. The Vermont legislative and executive branches have a history of fiscal prudence. During the 1990s, when budgets were strong, the retirement boards did not consider any pension enhancements because there was a recognition that the financial cycle would ultimately level off or even decline in the future. Traditionally, the legislative and executive branches have attempted to address issues before they become major problems and have dealt with budget crises by bringing together a range of stakeholders to work together and resolve the challenge. So, solving the VSTRS pension challenge in a collaborative fashion was not a new approach for state leaders and stakeholders.

2. Ensure a well-versed and supportive legislature. Beginning with the pension reform efforts in 2005, the state treasurer regularly informed legislators about pension issues. This meant that there were no surprises when budget discussions took place. It also helped legislators understand and keep track of where the state pension system stood financially. With this knowledge base, the legislature was committed to the reform process in 2010 and fully stood behind the commission's efforts. This support made it easier for the commission to make progress despite the outcry from some stakeholders.

3. Rely on strong research and analysis. The commission used the expertise of the state treasurer's office and engaged outside support to analyze every potential option for pension reform. Commission meetings included presentations of the financial impacts of various plan changes, demographic data, and comparisons with other state and national plans. These data helped the commission understand the implications of all of its options and its decisions.

4. Look to well-organized employee and retiree representatives as potential resources. The NEA, VRTA, and the SEA were organized, active, and vocal when it came to the commission's work. By raising awareness and facilitating engagement of their members, these orga-

nizations helped bring attention to the work and called the commission to task when it issued its recommendations. According to the NEA president, these efforts led to the senate president's directive that the state treasurer should work out a final agreement with the NEA. NEA's education and outreach helped its members understand the impending plan changes and make necessary adjustments to their retirement plans. This was especially important given the short time frame between the legislative enactment of the reforms and implementation.

5. Ensure transparency in reform processes. Every commission meeting was open to the public, and comments were allowed from external stakeholders at the public hearing and at all meetings. Employee representatives, the media, and the public had a clear sense of what was under consideration and where commission members stood on each of the issues. This transparency reduced the potential conflict and feeling of injustice that public employees could have had if the commission's work had been closed to the public.

Gwinnett County, Georgia

Snapshot

Gwinnett County, Georgia, a growing suburb of the Atlanta metropolitan area with a population of more than 800,000, had provided a defined benefit plan to all full-time employees since 1971. The county added a defined contribution plan for exempt employees in 2000 as a recruitment tool, believing that a portable retirement plan would be attractive to many senior-level employees. Between 2006 and 2010, the funded status of the defined benefit plan decreased from 80 percent to 70.2 percent.

In 2007, the county undertook a major reform of its pension system, which included taking over management of the defined benefit pension fund and closing it to new employees, offering them a defined contribution plan instead. As of 2010, nearly half the county's 4,500 employees were in the defined contribution plan, to which the county contributes seven percent of employees' salaries.

About Gwinnett County and its Pension Plans

Gwinnett County has experienced significant population growth since the 1990s, which led to an increase in the size and complexity of the county government. The government provides both traditional county services, such as courts and elections, plus all city services such as fire, police, recreation, and water. Since 1990, the county's population has more than doubled, increasing from 352,910 to 808,167 in 2009.⁸¹

The county's FY 2011 general fund operating budget was more than \$488 million with total government operational spending⁸² at close to \$1 billion (\$977,570,780). Revenue comes from property taxes (55 percent), sales taxes (17 percent), and service charges (13 percent). Sales tax revenue is dedicated to capital projects.⁸³

Georgia is a "right to work" state, which means that Gwinnett County is not required to recognize employee groups for collective bargaining purposes.

In 2000, the county created a 401(a) defined contribution plan for its exempt employees and hired a plan administrator selected through a formal bidding process. In addition to its recruitment benefits, the county believed that exempt employees would have the education and skills to effectively manage their own investments.⁸⁴ Because of the high investment returns during the 1990s, participating employees saw the new plan as a positive benefit of county employment.

The existing defined benefit plan was managed by the Association County Commissioners of Georgia (ACCG) as a pooled asset fund.⁸⁵ Employees who were promoted into exempt positions had the option to transfer from the defined benefit plan to the defined contribution plan. If an employee chose to transfer, an actuarial-determined value of the employee's defined benefit pension was transferred into the new defined contribution account. In addition, the county contributed 11.5 percent of the employee's salary to the account annually.

The defined benefit plan had three options with different multipliers for calculating benefits and different employee contribution levels:

- Plan A, which closed in 1994, had a 2.25 percent multiplier and no employee contribution
- Plan B had a 2.25 percent multiplier and a 5.75 percent employee contribution
- Plan C had a 2.5 percent multiplier and a nine percent employee contribution.

Pension History

The addition of the defined contribution plan for exempt employees was the first major change to Gwinnett County's employee pension program. A second major change occurred in 2004 when the benefit levels in the defined benefit plan were increased for all employees. The formula percentage rose from a standard two percent multiplier to 2.25 percent or 2.5 percent depending on which plan the employee elected.⁸⁶

Employees hired before 1995, who were in Plan A, were not required to make contributions to their pensions, but received the new 2.25 percent formula. Vesting increased from three to five years for new employees. To establish the retirement age, the county created a "Rule of 75" with a minimum retirement age of 50. Previously, the retirement age was 60 with at least 10 years of service. By making the increases apply to both new and existing employees and even those within months of retirement, the new benefits put substantial fiscal stress on the pension fund.

The plan change was driven by two of the five county commissioners, who strongly supported public safety employees, particularly fire, and one of whom was running for commission chair. The public safety employees lobbied the commissioners and vowed to be a voice in the upcoming election if the pension benefit was not improved. However, the then-commission chairman, who was running for reelection, insisted the benefit increase apply to all employees, not just public

safety, in order to avoid creating a dual pension system. County staff provided extensive research about the proposal's short- and long-term cost impacts and recommended that the commission not approve the changes. Nevertheless, all changes were approved.

Several of the employees who had elected to convert to the defined contribution plan realized that they preferred the security of the defined benefit pension. The county offered a one-time opportunity for those employees to buy back into the defined benefit plan at the full actuarial-equivalent cost. Unfortunately, some exempt employees had lost significant sums of money in their defined contribution funds and could not afford to buy back into the defined benefit plan, even though they had worked many years for the government. This situation served as a lesson in terms of ensuring that employees had access to investing education when the administration decided to make additional changes to the pension system in the future.⁸⁷

Pension Reform

In 2005, the county administrator retired and the assistant administrator was promoted. The new finance director had been promoted from within that department as well. The new leadership team believed that the county should take over management of its defined benefit pension fund from ACCG to provide more control over asset management, policies, and procedures. Senior management also believed the county held a disproportionate amount of risk under ACCG's pooled fund since Gwinnett County represented 50 percent of all assets in the fund, yet was one of approximately 80 participating counties. In September 2005, the commissioners agreed to withdraw from the ACCG fund effective January 1, 2007.

At the same time, administrators realized that the defined benefit fund would become very expensive in the future, particularly as county's growth slowed. Furthermore, though generous, the defined benefit pension was not an attraction for younger professionals. Market studies showed that these potential employees were not anticipating a career with a single government and preferred the flexibility and portability of a defined contribution plan. The need to control costs for financial sustainability and the desire to be a competitive employer led senior management to close the defined benefit plan to new employees and offer a defined contribution pension instead.

Staff took time mapping out a strategy to accomplish the dual goals of internally managing the defined benefit fund and expanding the defined contribution

pension plan. Taking over the defined benefit fund meant creating a pension board, trust agreements, policies, benchmarks, and plan documents.

Creating a Pension Board

To create the new board and establish the right balance of membership, staff looked at other governments for examples. The administration wanted the proper balance of expertise and checks and balances in power. The county finally decided on a seven-member board⁸⁸ consisting of the county administrator (ex officio), human resources director (ex officio), finance director (ex officio), and four appointees, including one public safety employee (from police or fire) and one general employee. The other two appointees consist of a citizen who is not in the pension system and a county administrator appointee.

The county administrator felt having a public safety appointment was very important. To satisfy the second largest group of employees, which includes the law departments, corrections, and the sheriff, the general employee appointment was given to a person from the district attorney's office. The administrator believed that having these representatives would help build trust and confidence in the board as it managed the employees' pension assets. The other two appointees came from the private sector, bringing strong expertise in investing and financial management.

To assist with investment decisions, the county also has an advisory investment committee composed of employees that provides investment information and recommendations to the board.

The new board and transfer of the defined benefit assets from ACCG became effective as planned in January 2007.

Establishing Pension Policy

In changing the pension policy, senior staff were thorough in their planning and execution. Administrative personnel carried out staffing studies to see how a defined contribution plan would affect recruitment and retention, and actuarial studies to understand when the defined benefit plan would transition to a retiree-only fund and the cost of concurrently funding the defined benefit and defined contribution plans. The county administrator worked with his assistant administrator, human resources director, and finance staff to learn their views and concerns. Because the defined benefit funded ratio was near 80 percent in 2007, and the county had a plan to reach 90 percent in five years, staff were not concerned about the financial impacts of losing contributions from new employees.

The county was also projecting continued strong growth for the next few years so staff felt the government could handle the additional financial burden. From 1998 to 2008, the county had paid annual contributions above the actuarially determined amount. In addition, the county administrator spoke with the directors of the police and fire departments to see how the change might affect their recruitment and retention. Both directors believed the move would not negatively affect them because young officers and firefighters coming into the system are generally less worried about retirement and current employees would not be affected.

Under the state's "right to work" laws, the county is not required to consult with employees over compensation changes, and administrators have historically chosen not to do so.

Staff decisions on expanding the defined contribution plan were, in many respects, based on lessons learned from previous pension plan changes. Staff performed benefit comparison studies and looked to its own compensation policy, which limits total employee compensation—salaries, pension, and health benefit costs—to no more than 70 percent of operating costs. The county chose a more private-sector approach to compensation, focusing on increasing salaries with less money going toward pensions. With all these factors in mind, the county lowered the new contribution rate to seven percent, but will add an additional one percent for employees who contribute at least 2.5 percent to their 457 accounts.⁸⁹

Engaging the County Commission

Since these pension changes were staff developed, senior management focused on educating the commissioners about the proposals. Staff followed their usual process when proposing significant and possibly controversial legislation. Senior management spoke individually with commissioners, allowing them to raise concerns and ask questions in private. The commissioners were very open to the pension changes, particularly when they realized how the move to a defined contribution plan would save the county substantial money over the long term and that the changes did not penalize existing employees. In addition, staff had built a strong level of trust with the commissioners by ensuring that their ideas were taken seriously. In September 2006, the county commission passed the proposal to close the defined benefit fund to new employees.

Reform Implementation

Implementation of the defined contribution plan and new defined benefit trust went smoothly. The media

did not give the reforms any attention nor did the public at large. Neither the county administrator nor the human resources director received many complaints from employees about the new defined contribution plan, although rumors swirled somewhat about the reforms. Concerns that were raised centered on the county's commitment to keeping the defined benefit fund and whether it had the capacity to manage the fund.

Management held a series of meetings explaining the changes and sent out written notices to all employees. The rumors faded as retirees received their pension checks on time and employees realized their benefits remained intact and their money was safe.

The administrative aspects associated with expanding the defined contribution plan were straightforward. The new pension board established policies for the defined contribution plan, including the number of mutual funds available for investing and performance benchmarks for the plan administrator and the funds. The county held a competitive bid for a plan administrator, which included provisions for an on-site counselor as well.⁹⁰

Ensuring High Quality Investment Education

The county made educating employees about investment options and strategies a high priority. Gwinnett's pension plan members have shown a significant interest in this area, participating in educational outreach efforts and using web-based tools.

Gwinnett's education counselor is an employee of the plan administrator⁹¹ for the county's defined contribution, defined benefit, and 457 plans. Though he is employed by the plan administrator, he works full-time assisting Gwinnett employees and has an office in the county's administrative building. His responsibilities include providing pension plan orientations to new employees and ongoing educational services about the county's various plans through department meetings, lunch and learn sessions, and individual counseling. He works with the county human resources department in distributing retirement forms and explaining policies as well.

Having a person dedicated to working with Gwinnett employees was particularly important in ensuring regular access to a high quality investment specialist who could explain how to effectively manage investments and reach retirement goals. The pension board established performance goals for the plan administrator that focus on diversifying asset allocation, improving education and learning, and increasing outreach to retired and severed members. The education counselor does not provide direct investment advice on choosing

funds because that would create a liability for both the county and the plan administrator.

Beyond being dedicated to the government, employees must also feel they can trust their education counselor. To maximize trust, the education counselor is salaried rather than paid on a commission basis. “When employees learn I don’t earn a commission, their defenses drop,” he says. They know he is not steering them toward any particular fund, but rather helping them reach their retirement goals.

The plan administrator also provides several other investment tools to assist employees, including the ability to research funds and track and adjust their investment portfolios online, and having managed accounts.⁹² Pension board members stressed the benefits of managed accounts⁹³ as a way to ensure employees have sufficient assets to retire.

Establishing Policies to Protect Investments

In establishing policies for the defined contribution plan, the county tried to minimize the chance that employees could have insufficient funds for retirement. For example, employees cannot take loans from their accounts nor opt out of joining the plan. Employees must contribute to their 401(a) plan, though they can choose from three percentages (2.5 percent, 5 percent, or 7.5 percent). However, unlike a 401(k), once an employee chooses a contribution rate, it cannot change as they progress in their careers.⁹⁴ This is one limitation of the 401(a) that the human resources director would like changed.

Under the defined contribution plan, employees vest in three years, and the standard retirement age is 65.

Reform Impacts

Gwinnett’s pension reform has been in place for four years, and the overall impacts have been generally positive. The county has not seen any decrease in

recruitment or retention, although the human resources director acknowledges that the recession may be having some impact here. However, the director has not heard that employees hired under the new defined contribution plan are dissatisfied or would like to leave Gwinnett County for a government with a defined benefit plan. The county undertakes annual benefit reviews against its three comparison governments in the Atlanta metropolitan area and believes its total compensation package continues to compare well against them. By the end of 2010, nearly half the county’s 4,500 employees⁹⁵ were in the defined contribution plan. This relatively large shift in the proportion of employees to the defined contribution plan is due, in part, to the retirement of 200 employees who took advantage of an incentive program in 2009.

The 2008 recession has been the most significant challenge to the county’s reform planning. The county will not reach its goal of 90 percent funding for the defined benefit plan by 2012 because of the decrease in pension assets from stock market losses and the stalled growth in county revenues. Compounding the fiscal pressures caused by investment losses and lower tax revenues that other governments are facing, the county is funding the defined benefit plan without contributions from new members. In 2009 and 2010, the county’s contribution rates for the pension fund were 17.5 percent⁹⁶ and 20.56 percent, respectively. However, the 2009 defined benefit fund required contribution at \$26.4 million was only \$756,000 more than the 2006 required contribution, though the county chose to over-contribute that year by \$11.3 million in order to reach its funding goal. In 2009, the county again over-contributed to the defined benefit fund, resulting in a total combined defined benefit and defined contribution pension contribution of approximately \$46 million. Gwinnett County’s history of pension funding is shown in Table 3.

Table 3. Gwinnett County Pension Contributions (in thousands of dollars)

Fiscal Year	Defined Benefit—required contribution	Defined Benefit—actual contribution	Defined Contribution (401a) contribution	Total Pension Contribution
2009	\$26,360	\$37,535	\$8,468	\$46,003
2008	\$31,715	\$28,828	n/a	n/a
2007	\$33,037	\$32,939	\$5,759	\$38,698
2006	\$25,604	\$36,920	\$3,979	\$40,899
2005	\$23,940	\$30,025	\$2,329	\$32,354

Source: Gwinnett County Comprehensive Annual Financial Reports 2005–2007 and 2009.

Note: Excludes employee contributions and county match to the 457 plan.

Challenges and Benefits

Interviewees identified two primary challenges to managing a government-wide defined contribution plan—educating employees about investments and managing the fiduciary responsibility associated with a defined contribution plan. Though the county has tried to offer as many investment tools as possible to employees, education continues to be a challenge because many employees are not particularly interested in actively managing their retirement accounts. To overcome this attitude, the county has encouraged employees to invest in managed accounts, which has had some success. Though employees are increasingly monitoring their accounts' performance, they are still heavily invested in fixed asset funds, which are lower risk and produce lower returns.

The county also maintains a strong fiduciary responsibility with its defined contribution plan. Through the pension board, the county is responsible for selecting the number and type of funds available to employees. Too many funds can be confusing for employees while too few may limit their investment opportunities. The pension board has also established benchmarks for individual fund performance that remove poor performers as investment options.

Finally, the county, through the bid process for a plan administrator, is responsible for ensuring that defined contribution account administration costs are well managed and controlled since employees pay these fees against their earnings.

The primary benefits of the defined contribution plan are cost savings and improved recruiting. Under the defined contribution plan, the most the county contributes to an employee's pension (apart from Social Security) is 11.5 percent of employee salaries. Even this cost will eventually decrease as exempt employees who enrolled in the early defined contribution plan retire, and the county pays seven percent for all employees plus the optional one percent 457 plan match, unless commissioners choose to raise the contribution rate. The differences between the plan costs are striking. In 2009, 49 percent of the employees participated in the defined contribution plan, and the county's pension contribution for them was \$8.5 million. In contrast, the government's annual pension cost for the defined benefit plan in 2009 was \$26.4 million. While the cost differential is significant, it is important to note that the county focused on both anticipated cost savings and how the defined contribution plan would affect employee recruitment and retention. County officials concluded that a defined

contribution pension would assist in the recruitment of young professionals.

One additional consideration in adopting a defined contribution pension plan, according to the county administrator who oversaw the reform,⁹⁷ is how a defined contribution pension may affect employees whose jobs have significant physical demands. Unlike a defined benefit pension that is structured to encourage retirement at particular age by guaranteeing a pension income, defined contribution plans have no guarantees. An employee who loses substantial assets near retirement may have to continue working beyond an age that he or she or the government anticipated. This issue is particularly important for fire, police, and public works personnel. These employees need to have sufficient pension assets so that they are not working in jobs beyond their physical capabilities. This issue is linked, of course, to investment education. As an employer, governments will likely need to provide continuous outreach to these populations in order to prevent situations in which employees struggle to continue working in a physically demanding job because they have insufficient retirement assets.

Lessons Learned

The following lessons learned emerged from the Gwinnett County reform experience.

1. Ensure that staff thoroughly discuss and plan for pension reforms within the context of human resource management.

By researching the issues and looking at them from multiple viewpoints, Gwinnett's senior management team was aware of the risks and implications of their decisions and avoided many unintended consequences and potential controversies. The one unintended event, the 2008 recession, was beyond their control. Gwinnett staff said they would support the pension reforms again even knowing about the recession because they believe the policies are right for the government over the long term. Furthermore, they analyzed the proposed changes as part of their overall human resource management plan. While saving money was an important reason for moving to a government-wide defined contribution plan, the change took into account the importance of recruiting quality employees, including public safety personnel.

2. Allow sufficient time to implement the pension reforms and make sure all documents are in order. Gwinnett gave itself two years to take over management of the defined benefit fund, which was critical to ensure that 1) all their documents were in proper order; 2) they were able to appoint high-quality pension board members;

and 3) they developed thorough policies and administrative rules.

3. Draw on existing experience to support change when possible. Having experience with a defined contribution plan on a smaller scale was helpful, but not critical to offering a government-wide defined contribution plan. With its “exempt employee” 401(a) plan, the county had learned key lessons about managing a defined contribution plan and developing rules to promote a better retirement for its employees. Examples include establishing a moderate default option and healthy employee contribution rate, not permitting employees to opt out of the plan, and not allowing employees to take loans on their account balances.

4. Hire the right experts, including strong legal and accounting firms and a fund administrator, and make sure they work together. Perform due diligence and craft thorough requests for proposals when seeking bids for expert resources. A good plan administrator is particularly important. Weigh the benefits and costs of having a sole fund administrator rather than several in terms of product offerings and cost savings to employees. When Gwinnett County decided to manage its defined benefit fund, several local businesses offered their services and approached commissioners, so following government procurement policies became particularly important.

5. Fully appreciate the government’s fiduciary responsibilities. Even with a defined contribution plan, governments retain a fiduciary responsibility to their employees. Examples of responsibilities include setting performance benchmarks for investment funds, selecting funds and ensuring the proper balance among types of funds, hiring a qualified plan administrator, and reviewing account administration fees. This fiduciary responsibility also means the government needs to understand its employees, including their educational backgrounds, investment experience, average employment tenure, future trends, and the median retirement age.

6. Develop a communication plan before implementing the pension changes. Rumors are bound to arise, but being transparent and clear about the government’s actions can defuse them. Transparency also helps build trust, which leads to a smoother transition to a new pension plan or pension management system. Tailor the information to reach all employees. For example, make sure information is sent both electronically and on paper since some employees may not have access to or do not feel comfortable using a computer. If necessary, visit employees at their work locations, such as at fire stations and precincts, so they can ask questions and feel heard.

Houston Municipal Employees Pension System

Snapshot

Houston is the fourth-largest city in the United States and the largest city in Texas, with a population of 2.3 million.⁹⁸ The city is governed by an elected mayor and city council who are elected on a nonpartisan basis and are limited to three consecutive two-year terms.⁹⁹ Retirement benefits for municipal employees are administered by the Houston Municipal Employees Pension System (HMEPS).¹⁰⁰ As of 2010, HMEPS had 12,913 active members and 8,526 retirees receiving benefits.¹⁰¹ HMEPS is a defined benefit plan.

Beginning in 2004, the city and HMEPS made a series of negotiated reforms to the municipal pension plan to manage higher-than-expected contribution levels and reduce a growing unfunded liability resulting from benefit increases in 2001, followed by significant investment losses due to market downturn. The reforms adopted by the city and the municipal pension system helped shore up liabilities while preserving good benefits for municipal employees.

About Houston and the Houston Municipal Employees Pension System

The Houston Municipal Employment Pension System (HMEPS) is an independent governmental entity that was established by the Texas legislature in 1943. It has been administered by an eleven-member board of trustees, including four elected trustees who are members of HMEPS; two elected trustees who are HMEPS retirees; a trustee appointed by the elected trustees; a mayoral appointee; an appointee of the city's elected controller; and two city council appointees.

HMEPS offers one defined benefit plan with three groups:¹⁰²

- **Group A** is a contributory group for employees who were hired before January 1, 2008
- **Group B** is a noncontributory group also for employees hired before January 1, 2008
- **Group D** is a noncontributory group for employees who were hired on or after January 1, 2008.

In addition to the regular pension benefit, municipal employees in Groups A and B have had the ability to participate in a Deferred Retirement Option Plan (DROP). A DROP is an arrangement under which an employee who would otherwise be entitled to retire

and receive benefits under an employer's defined benefit plan instead continues working. Rather than having the continued salary and additional years of service factored into the benefit formula, the employee has a sum of money credited during each year of continued employment to a national account under the employer's retirement plan. This account earns interest and is available to be paid to the employee upon retirement.¹⁰³

In addition to pension benefits administered by HMEPS, Houston city employees also have the opportunity to participate in a supplemental 457(b) deferred compensation plan.¹⁰⁴ Houston employees may voluntarily set aside pre-tax money for their 457(b) plans through a salary reduction agreement per pay period.

Pension History

For most of its history, HMEPS members participated in Group A, which offered a contributory defined benefit pension. In 1981, the city established Group B, which offered a noncontributory pension option with lower benefit levels. A pre-2001 snapshot of the plan provisions for HMEPS Group A and B are as follows¹⁰⁵:

- **Group A** provided a multiplier of 3.25 percent for over 20 years of service with a 3.5 percent COLA. Employees contributed four percent of salary.
- **Group B** provided retirement multiplier of 2.5 percent for over 20 years of service with a 3.5 percent COLA. No employee contribution was required.

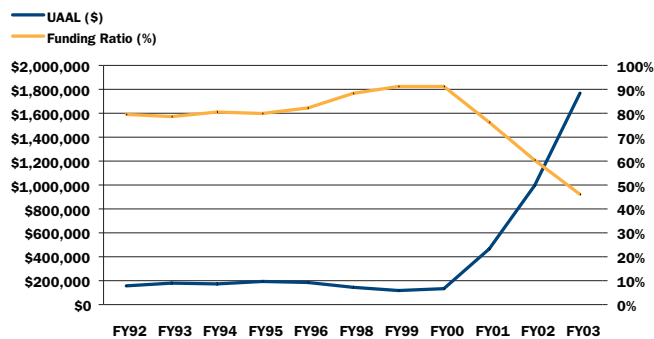
Following a decade of high investment returns, the plan was amended in 2001. Actuaries produced a study concluding that the city could afford to provide enhanced benefits for its employees. A 2001 amendment to the HMEPS statute provided the following benefit enhancements at an employer contribution rate of 15 percent of payroll:

- an increase in the plan multiplier to 4.25 percent for Group A participants for 20 years of service
- an increase in the COLA from 3.5 percent not compounded to four percent not compounded
- a provision allowing Group B participants to transfer to Group A by paying Group A contribution rates plus interest.

Until 2000, HMEPS was sufficiently funded on an actuarially determined basis with annual city contributions of approximately 10 percent of payroll. The benefit increases in 2001 were determined by an actuary hired by HMEPS to bring the future city contributions to 15 percent of payroll.

A 2003 study produced different numbers once the benefit enhancements took effect, which determined that a contribution of approximately 50 percent of payroll was needed to fund the plan. This period of healthy funding and sharp increase in liability and the precipitous drop in funding ratio are shown in the following chart:

Figure 6. HMEPS UAAL and Funding Ratio: FY92–FY03



Source: 2010 HMEPS Comprehensive Annual Financial Report

Several unforeseen events helped trigger a sharp increase in city contributions. It was determined that the 15 percent of payroll that the HMEPS actuaries provided to cover the city contributions with the benefit modifications assumed that only a small number of employees would transfer from Group B to Group A. In reality, a much larger number of employees migrated to the contributory plan, and their contributions were insufficient to offset the corresponding benefit liability.¹⁰⁶ Several other features of the plan increased liabilities much more than had been assumed including:

- participation in DROP
- errors in workforce assumptions
- failure of investments to grow as assumed due to market downturn.

Early Reform Legislation

In 2003, the governor signed a bill with support from both HMEPS and city administration making the following changes to HMEPS law:

- Reduced the pension board composition from eleven to nine members, replacing the three city council-appointed trustees with a single trustee appointed by a majority of the elected members of the board;
- Established a meet and confer process that allowed the city and the HMEPS Board to modify statutory pension benefits only if both the city and board agreed.

This was viewed as a compromise between HMEPS and city officials. The new law gave the city the right

to negotiate changes to municipal benefits through a “meet and confer” process. In exchange for this allowance, the city council gave up two seats on the HMEPS Board. Because the council must vote on any agreement reached by HMEPS and the city administration, three council appointees on the HMEPS Board were seen as having a conflict of interest because they would effectively have representatives on both sides.

A second reform bill authorized Texas municipalities to issue obligations (bonds, certificates, or notes) to pay for all or part of an unfunded liability in the municipal pension fund. This authorization would come into play during the Houston reform process.

Pension Reform

Reforms to HMEPS benefit levels were put on the table shortly after the 2004 mayoral election. Prior to 2004, pension reform had not risen to the forefront in Houston, but newly-elected Mayor Bill White worked with HMEPS to make reform a priority as early as one month into his administration.

One initial hurdle to pension reform in Houston was a constitutional amendment that prohibited changes to municipal benefits for Texas employees who were vested in the system. On September 13, 2003, Texas voters approved an amendment to the Texas constitution that dealt specifically with public retirement systems and was designed to protect the accrued retirement benefits of vested members and retirees. The constitutional amendment provided a one-time opt-out opportunity for political subdivisions that wanted to hold an election to exclude themselves from its provisions. Mayor White set up an election on May 15, 2004, for the city to exercise the opt-out provision. The election, which was contested by employee unions and some members of the HMEPS Board, allowed voters to vote either “for” or “against” opting out of the proposed amendment. Section 66 of the Texas State Constitution specifies that:¹⁰⁷

(h) A retirement system described by Subsection (a) and the political subdivision or subdivisions that finance benefits under the retirement system are exempt from the application of this section if:

- 1) The political subdivision or subdivisions hold an election on the date in May 2004 that political subdivisions may use for the election of their officers;*
- 2) The majority of the voters of a political subdivisions voting at the election favor exempting the political subdivision and the retirement system from the application of this section and;*

3) *The exemption is the only issue relating to the funding and benefits of the retirement system that is presented to the voters at the election.*

The election favored opting out of the proposed amendment, which allowed the city and HMEPS to initiate a series of reforms to the municipal pension system that could affect vested and retired employees.

Following the May 2004 referendum, Houston city administration and the HMEPS Board began negotiations to modify the 2001 contract. The original meet and confer agreement made the following changes:

- increased the employee contribution rate for Group A from four percent to five percent of salary
- disallowed the conversion of Group B service time to Group A other than for an additional year at the actuarially determined cost
- reduced the COLA from four percent to three percent for retirees hired before January 1, 2005, and from four percent to two percent for retirees hired on or after January 1, 2005
- reduced the plan multiplier in Group A to 2.5 percent for the first 20 years
- increased retirement eligibility age from the “Rule of 70” to “Rule of 75”
- eliminated the DROP for new employees
- transferred a \$300 million note from the city to HMEPS.

The agreement also specified the following city contribution ceiling levels for the next three years:

Table 4. *City of Houston Contribution Ceiling Levels, FY05–FY07*

Fiscal Year	City Contributions	Pension Obligation Bonds
FY 2005	\$33 million	\$33 million
FY 2006	\$36 million	\$33 million
FY 2007	\$39 million	\$33 million

The \$300 million note was secured by a deed of trust on a city-owned hotel. The plan was to pay off the note through hotel revenues. The real estate market at the time of the proposed sale was poor, so the city instead refinanced its debt into a pension obligation bond for the same amount at a lower interest rate. The only material change was that instead of owing HMEPS directly, the city owed the bondholders.

The 2004 changes reduced the city contribution rate to 24 percent of payroll. However, since that was still higher than the anticipated 15 percent, a series of amendments were added to the meet and confer agreement.¹⁰⁸ Two adopted amendments had significant impacts:

- The second amendment, which was adopted in April 2005, altered the composition of the HMEPS Board again to provide for more diverse financial expertise. As a result, the elected city controller was given an appointed seat on the board.
- The fourth amendment, which was adopted in June 2007, created a new HMEPS tier, Group D, covering all employees hired on or after July 1, 2008. Group D features a retirement age of 62 (with early retirement available at age 55 with reduced benefits) and a multiplier of 1.8 percent for the first 25 years of service, and one percent for each succeeding year. Group D participants do not contribute to the system, nor do they receive a COLA upon retirement. Additionally, they are ineligible to participate in DROP. The amendment also established new four-year city contribution ceiling amounts as shown in Table 5:

Table 5. *City of Houston Contribution Ceiling Levels, FY08–FY011*

Fiscal Year	City Contributions
FY 2008	\$75.0 million
FY 2009	\$78.5 million
FY 2010	\$83.5 million
FY 2011	\$88.5 million

In June 2011, the city and HMEPS reached an agreement on a funding extension to provide structured contributions from the city. Under this new agreement, the city will contribute \$98.5 million to HMEPS in FY 2012. For each of the years following FY 2012, the city will contribute either the previous year’s rate plus two percent of payroll or the previous year’s contribution amount plus \$10 million, whichever is greater¹⁰⁹. This provision will remain in effect until the actuarially determined contribution rate is met, at which time that rate becomes the effective contribution rate.

Houston’s chief pension officer believes the city will be paying the actuarially determined rate within the next five years.¹¹⁰

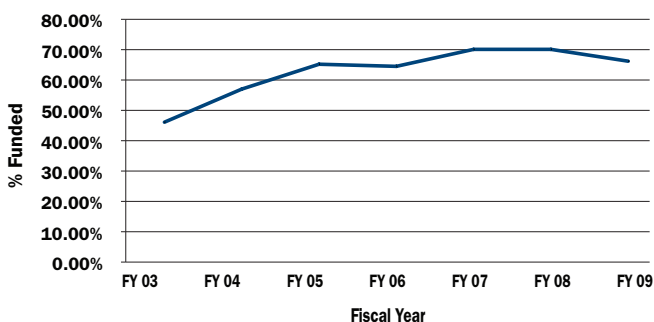
Reform Results

As a result of the adopted changes, the plan's funding status improved greatly. By the time fourth amendment reforms were adopted in June 2007, HMEPS' funding status was 70.1 percent, up from a low 46.1 percent in FY 2003. At the time the fourth amendment passed in 2007, city contributions had dropped to 17 percent of payroll. The 2008–2010 market downturns led to a slight increase in city contributions to 22 percent of payroll but, on the whole, contributions are down considerably from pre-2004 levels.

The pension reforms also added diversity to the administration of benefits for municipal employees. The reforms in 2004 and 2007 removed the “one size fits all” designation that previously defined retirement benefits in Houston. With the creation of Group D, Houston offered a defined benefit plan that can be coupled with a voluntary supplemental employee contribution account administered through the existing 457 plan. City officials believe that the combination of a defined benefit plan, a deferred compensation plan, and Social Security can create a stable retirement for its municipal workforce.

Figure 7 gives a graphic summary of the recovery in HMEPS funding as a result of the reform package:

Figure 7. HMEPS Funding Ratio: FY03–FY09



Source: 2010 HMEPS Comprehensive Annual Financial Report

Challenges and Benefits

Houston experienced firsthand the consequences of not having a good communication mechanism in place to share information with all sides. Recognizing that this needed to change, in 2005 the city created the position of chief pension officer, who is responsible for monitoring the health of the city's three pension funds and communicating any issues to all stakeholders, including city administration, pension boards and staff, the legislature, and the public. The chief pension officer also serves as a trustee on the HMEPS Board.

Houston's term limits for all elected officials provided both benefits and challenges in the reform process. On the one hand, term limits can create an environment in which elected stakeholders make decisions that only carry them to the end of their terms in office. In addition, an elected body that changes frequently may face frequent learning curves on retirement and benefits issues. On the other hand, the presence of a defined end-of-term for elected leadership means that officials can approach sensitive issues with less electability concerns.

Another challenge prompted by pension reform in Houston was increased retirements among municipal workers. According to actuarial valuations, the number of retirements jumped from 428 to 633 between 2003–2004, which coincided with the initial reform efforts.¹¹¹

Lessons Learned

The following lessons emerged from the Houston pension reform experience.

1. Ensure that there is significant institutional economic, actuarial, and investment expertise. Professional actuaries are resources used by benefit providers to forecast the financial impacts of benefit decisions. Actuaries should be employed to calculate the likelihood of events based on workforce demographic assumptions provided by pension plan administrators. Analyses conducted by professional actuaries should provide stakeholders with different scenarios and potential contribution rates for long-term planning. In particular, the pension board should include individuals with significant economic, actuarial, and investment expertise.

2. Provide consistent, accurate, and carefully timed communication of issues to all stakeholders, including the general public. Pension issues are long-term in nature, and public perception of a crisis sometimes does not match reality. Providing the long-term context is particularly important when reporting to the public to avoid over-reactions. The chief pension officer is responsible for monitoring the health of the city's three pension funds and regularly communicating any issues to all stakeholders including city administration, pension boards and staff, the legislature, and the public.

3. Consider offering a range of retirement options that support cost management while continuing to provide stable benefits for public employees. Houston recognized that it could reduce its dependency on pension benefits while still providing a good package of retirement benefits to municipal employees. With this comes the need for continued employee financial education, which HMEPS offers.¹¹²

4. Encourage collaboration among all parties involved in the provision of pension benefits to minimize large increases in government costs. Unanticipated increases in government contribution levels to fund public pensions are disruptive to municipal finances and can interfere with service provision. Providing accurate demographic information to professional actuaries keeps all parties informed and reduces the chance that an unexpected increase will occur. Benefit increases should not be given unless an independent actuary has determined that they are affordable in the long-term.

Endnotes

- 1 Retirees who participate in Gwinnett County's defined contribution plan are not included as they pose no liability to the county.
- 2 *Withers v. Register*, 246 Ga. 158 (1980) and *Murray County School District v. Adams*, 218 Ga. App. 220 (1995).
- 3 The changes were limited to the pension plan for regular employees.
- 4 The Oregon money-match formula requires a retired employee's employer to match accumulated contributions and earnings in an employee's account when the employee retires. This total sum is used to fund a life annuity (defined benefit) for the employee.
- 5 Cities of Portland and Eugene and Multnomah and Lane counties. The suit also included a number of other smaller, single purpose governments. However, these governments were not major advocates for reform.
- 6 After the city council approved the benefit increase, the changes were adopted into state law by the legislature.
- 7 Interview with Bob Livingston, Legislative Director, Oregon State Firefighters Council (OSFC) on February 9, 2011.
- 8 Interview with Dale Orr, manager, Actuarial Analyst Section, OPERS on February 8, 2011.
- 9 "The Iowa Public Employees' Retirement System is established as an independent agency within the executive branch of state government." Chapter 97, Code 1950, Iowa Public Employees' Retirement System (IPERS).
- 10 A Short History of IPERS, http://www.ipers.org/ipers_central/history/history.html.
- 11 For most IPERS members, the multiplier increases two percent each year up to 30 years, and one percent for the next five years.
- 12 Pre-1990s retirees receive a COLA-type payment that has not been adjusted since 2002.
- 13 Interviews with Donna Mueller, IPERS CEO, and Bradley Hudson, IPERS BAC Member, March 3, 2011.
- 14 The analyses were carried out by Milliman, Inc.
- 15 Center for State and Local Government Excellence, State Fact Sheet: Iowa Public Employees' Retirement System, January 2011.
- 16 The ARC is the amount an employer is required to contribute for a given year, calculated by actuaries in accordance with plan assumptions.
- 17 Employers are required by state law to pay the statutory rate, which may be lower than the full ARC.
- 18 Interview with Donna Mueller, IPERS CEO, March 1, 2011.
- 19 IPERS has had the authority to adjust contributions for protection occupation class members, so they were not behind on paying contributions when the recession hit. Therefore, the adopted changes were not targeted for those membership groups.
- 20 This limitation does not apply to the one-time increase effective July 1, 2011.
- 21 "IPERS Law Changes," Iowa Public Employees' Retirement System, page 1, updated April 27, 2010.
- 22 Interview with Donna Mueller, IPERS CEO, and Bradley Hudson, BAC Representative, March 11, 2011.
- 23 HSB 197. At the time of this study, no action has been taken by the legislature.
- 24 Interview with Donna Mueller, IPERS CEO, and Bradley Hudson, BAC Representative, March 11, 2011.
- 25 Interview with Iowa Senator Steve Kettering (R), March 2, 2011.
- 26 Documents were issued in summary and Q&A formats. All IPERS-issued documents that do not contain information about plan changes are marked as such.
- 27 Iowa Code § 97B.11
- 28 Oregon Public Employees Retirement System, OPERS by the Numbers, February 2011, page 17.
- 29 Combined defined benefit and individual account program (IAP) as of June 30, 2010.
- 30 The Public Employees Collective Bargaining Act (PECBA) was passed in 1973.
- 31 Persons interviewed for this study include Paul Cleary, OPERS executive director, on November 23, 2010; Bob Livingston, OSFC legislative director, on February 9, 2011; Steve Manton, Portland policy analyst, on January 10, 2011; Dale Orr, OPERS actuarial analyst manager, on November 23 and December 12–13, 2010 and February 8, 2011; and Brenda Rockin, former OPERS Board of Trustees member and current CEO of SAIF Corporation, on February 9, 2011.
- 32 The Oregon Public Employees Retirement System History: The First 60 Years, 2010 Tigard, OR, Public Employees Retirement System, Oregon at www.oregon.gov/PERS/section/general.../history_1-11-2011.pdf.
- 33 Excluding side accounts. Side accounts are prefunded liabilities by employers. For example, the state issues pension bonds to create a side account with the expectation that investment earnings from the side account would be greater than the bond payment and thereby reduce future pension liabilities.
- 34 Interview with Steve Manton, Portland policy analyst, January 10, 2011.
- 35 Asset changes were smoothed for the 2000 to 2003 valuations.
- 36 The highest benefit based was reached in 2000 when a 30-year OPERS member would earn on average 106 percent of FAS, excluding Social Security.
- 37 Interview with Dale Orr, manager, Actuarial Analyst Section, OPERS, February 8, 2011.
- 38 Cities of Portland and Eugene and Multnomah and Lane counties filed the suit. The suit also included a number of other smaller, single purpose governments. However, these latter governments were not the major advocates for reform. The case is referred to as *City of Eugene vs. OPERS*.
- 39 Steve Manton, Portland policy analyst, cited these as the three primary impacts of the case, January 10, 2011.
- 40 Ibid.
- 41 Tim Knopp (R)
- 42 Greg MacPherson (D)
- 43 Interview with Steve Manton, Portland policy analyst, January 10, 2011.
- 44 Interview with Bob Livingston, OSFC legislative director, February 9, 2011.
- 45 The Oregon Public Employees Retirement System History: The First 60 Years.

- 46 State law provides for an annual two percent COLA increase for pension benefits. When the inflation rate is more than two percent, the excess inflation is accumulated and applied to benefits when inflation is below two percent.
- 47 Interview with Steve Manton, Portland policy analyst, January 10, 2011.
- 48 Ibid.
- 49 The Oregon Public Employees Retirement System History: The First 60 Years.
- 50 Interview with Bob Livingston, OSFC legislative director, February 9, 2011.
- 51 Interview with Dale Orr, OPERS manager, Actuarial Analyst Section, February 8, 2011.
- 52 Interview with Brenda Rocklin, former OPERS Board of Trustees member and current CEO of SAIF Corporation February 9, 2011.
- 53 Ibid.
- 54 The current OPERS executive director is Paul Cleary.
- 55 Interviews with Bob Livingston, OFSC legislative director, on January 9, 2011, and Steve Manton, Portland policy analyst, January 10, 2011.
- 56 Rates exclude side accounts.
- 57 OPERS: By the Numbers, February 2011, Tigard, OR, at www.oregon.gov/PERS/.
- 58 Interviews with Bob Livingston and Steve Manton, January 10, 2011, and Brenda Rocklin, February 9, 2011.
- 59 Interview with Bob Livingston, February 9, 2011.
- 60 Interview with Steve Manton, on January 1, 2011.
- 61 Interview with Bob Livingston, OSFC Legislative Director, February 9, 2011.
- 62 Interviews with Bob Livingston, February 9, 2011; Steve Manton, January 10, 2011; and Dale Orr, OPERS manager, Actuarial Analyst Section, February 8, 2011.
- 63 Interviews with Bob Livingston, February 9, 2011, and Dale Orr, February 8, 2011.
- 64 Interview with Brenda Rocklin, former OPERS Board of Trustees member and current CEO of SAIF Corporation, February 9, 2011.
- 65 National Association of State Retirement Administrators, Key Facts Regarding State and Local Government Defined benefit Plans, January 2007.
- 66 Interview with Beth Pearce, then-deputy state treasurer and current state treasurer, March 21, 2011.
- 67 Alicia H. Munnell, Jean-Pierre Aubry, and Laura Quinby, *The Funding of State and Local Pensions: 2009-2013*, Center for State and Local Government Excellence, April 2010, page 5.
- 68 Report of the Commission on Funding the Vermont State Teachers' Retirement System, Recommendations to the Governor and the General Assembly, November 2005.
- 69 Public Pension Database, 2001-2010, Center for Retirement Research at Boston College and Center for State and Local Government Excellence.
- 70 Vermont Office of the State Treasurer, Vermont Pension Overview: Preliminary Cost Projections, the Economic Context and Sustainability Issues, July 14, 2009.
- 71 Note that the VMERS receives no state funding. All employer contributions to this system come from participating local governments.
- 72 National Institute on Retirement Security, Pensionomics: Measuring the Economic Impact of State and Local Pension Plans, February 2009.
- 73 Note that since the Commission proposal was made, state employees have agreed to give up \$5 million through increased employee contributions of 1.3 percent, 3 percent salary reductions for FY 2011–2012, and deferred post-retirement increases.
- 74 Peter Shumlin, then-senate president, became governor on January 26, 2011.
- 75 Report of the Commission on the Design and Funding of Retirement and Retiree Health Benefits for State Employees and Teachers, Recommendations to the Governor and General Assembly, Exhibit #4, December 2009.
- 76 Ice Miller LLP was the law firm and Buck Consultants was the actuarial firm.
- 77 Vermont Commission on Design and Funding of Retirement and Retiree Health Benefits, Legal Advisory Report, Preliminary Draft, Attorney-Client Communications, Ice Miller LLP, October 5, 2009.
- 78 Appendix A—To Legal Advisory Report for Vermont Commission on Design and Funding of Retirement and Retiree Health Benefits.
- 79 The report issued by the VSEA counsel is not publicly available. Description provided by Jes Kraus, Executive Director of VSEA, April 2011.
- 80 H. 764, An act relating to the state teachers' retirement system of Vermont, 2010.
- 81 US Census Bureau data.
- 82 Total government spending includes all tax-related funds, special-use funds, enterprise funds, and internal service funds.
- 83 Gwinnett County 2009 Consolidated Annual Financial Report, page 23.
- 84 Interview with Jock Connell, retired county administrator, February 4, 2011.
- 85 Georgia does not permit local governments to join the state-administered pension fund so the county and municipal associations have created pension administration services for their members. In 2000, ACCG created GEB Corp to serve as the ACCG plan administrator rather than the county association itself.
- 86 Effective January 1, 2010, employee contribution rates were increased for Plan B to 5.75 percent and for Plan C to nine percent. This was the first change in the contribution rate since 2004.
- 87 Interviews with Jock Connell, retired county administrator, February 4, 2011 and Lisa Johnsa, retired chief financial officer, December 9, 2010.
- 88 The official name of the pension board is the Gwinnett County Retirement Plans Management Committee.
- 89 Gwinnett County CAFR, 2009, page 84.
- 90 Governments can have a plan administrator who is separate from the education specialist, although these services are typically bundled. The county also held a competitive bid for plan administrator for the defined benefit fund.
- 91 The education counselor for Gwinnett County is Fred Minot.
- 92 For an extra administrative fee, the plan administrator will adjust the employee's portfolio to match his or her age and retirement goals. For example, younger employees will have a more aggressive investment strategy than a person nearing retirement.
- 93 With a managed account, the plan administrator invests the member's money for an additional fee, taking into account the member's age and retirement goals. Interviewees making these statements included Jock Connell, retired county administrator, on February 4, 2011; Kenneth Poe, human resources director, on November 18, 2010; and Fred Minot, senior education counselor, Great West Retirement Services, on December 21, 2010.
- 94 This limitation is due to federal law established as part of the 1986 Tax Reform Act.

- 95 2,212 of the county's 4,524 employees are in the define contribution pension plan as of December 31, 2010.
- 96 The 2009 ARC was 17.02 percent.
- 97 Interview with Jock Connell, retired county administrator, February 4, 2011.
- 98 US Census
- 99 City of Houston, Demographic Statistics (2000)
- 100 Houston police officers and firefighters participate in their own separate plans and are not covered by HMEPS.
- 101 Actuarial valuation report as of July 1, 2010.
- 102 HMEPS Benefit Handbook.
- 103 http://www.hmeps.org/benefits/drop_overview.pdf
- 104 The city's 457(b) plan is not administered by HMEPS.
- 105 HMEPS Historical Overview: Retirement Eligibility and Benefit Accrual Rates (Effective Dates 9/1/99–5/11/01)
- 106 Interview with Craig Mason, chief pension officer, April 6, 2011.
- 107 Article XVI, Section 66, Texas State Constitution
- 108 The first amendment (December 2004) eliminated Group C. The third amendment (November 2005) provided eligibility definitions for participants of Phase Down Option A before April 14, 2005. The fifth amendment (December 2010) addressed credited service for furloughed employees, allowing for the receipt of one day of credited service for each day that employees were voluntarily or involuntarily furloughed.
- 109 Amended and Restated Meet and Confer Agreement Between the Houston Municipal Employees Pension System and the City of Houston (July 1, 2011)
- 110 Communication with Craig Mason, chief pension officer, July 5, 2011
- 111 HMEPS Retirement Rates, provided by HMEPS staff (May 12, 2011)
- 112 Communication with HMEPS staff (April 27, 2011)



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