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[Pension Portability among Public Health Officials]

A White Paper

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Overview

On December 12, 2005, the Robert Wood Johnson Foundation (RWJF) awarded The Council of State Governments' (CSG) Southern Office, the Southern Legislative Conference (SLC), a grant to determine pension portability among public health employees in the United States. Established in 1933, CSG is a multi-branch organization of the states and U.S. territories that promotes excellence in state government by working with state leaders across the nation and through its regions in seeking to implement best practices, ideas and solutions to common governmental problems. A hallmark of the Council is its regional focus with offices in California, Georgia, Illinois and New York serving the 50 states and territories by providing an array of services to state policymakers. RWJF focuses on the pressing health and healthcare issues facing the United States and is the nation's largest philanthropy devoted exclusively to improving the health and healthcare of all Americans.

In order to meet the requirements of the grant, the SLC conducted a survey of the administrative entities managing the pensions of public health employees in all 50 states to determine their rules and regulations regarding pension portability for this category of public employee. (See Appendix A to review the survey.) Based on the responses to the survey questionnaire and additional research, the SLC researchers were able to ascertain whether the pension plan in a state permits an employee to purchase service credits for prior periods of qualified employment in another jurisdiction, both in another state and within the state; whether the pension plan is a defined benefit (DB) or defined compensation (DC) plan; the minimum amount of time required for an employee's pension benefits to be fully vested; the existence of any recent legislative activity related to the portability of retirement plans of public health officials in each state; whether any federal tax laws impact on the pension portability of these public health employees; and the existence of pension portability in other public employment sector categories.

Methodology

The primary source of information for the preparation of this White Paper was a survey questionnaire that was sent to an assortment of public officials charged with overseeing and administering retirement plans in the 50 states. In order to determine the best source of information on the retirement plans of public health officials, the SLC initially contacted the National Association of County and City Health Officials (NACCHO). In response, NACCHO provided the SLC with a list of contacts associated with the State Associations of County and City Health Officials (SACCHO) with the recommendation that the SLC contact the person identified as the director or administrator of the particular association for pension portability information. The NACCHO official also stressed that there was a great deal of variation in the organization and governance of health departments among the states and indicated that in some states, predominantly in the South, the local health departments were units of state government and that the employees were state employees. For instance, while some local health departments in Texas were units of

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state government, others were units of county or city government. This would require contacting more than one official in certain states to obtain a more comprehensive picture of trends associated with pension portability.

Based on this SACCHO contact list of public health officials, the SLC contacted officials in all 50 states to ascertain the most appropriate official to respond to the survey on pension portability among public health officials. Twelve states (Indiana, Kentucky, Maine, Maryland, North Dakota, Nebraska, Ohio, Oregon, Utah, Vermont, Washington and Wyoming) responded with the contact information for officials in their state retirement plans. For the remaining 38 states on the SACCHO list that did not respond to the SLC request, the SLC carried out additional research and secured the contact information for officials in their retirement plans.

By January 2006, officials in all 50 public retirement plans had been forwarded the SLC survey instrument along with officials in 10 local retirement plans. The SLC researchers conducted extensive follow-up communication via telephone and e-mail to ensure that officials at these public retirement plans would review, complete and return the SLC survey. In certain instances, the assistance of various state officials was secured to ensure that these retirement plan officials completed and returned the survey.

The SLC was successful in securing responses from public retirement plan officials in all 50 states, an impressive 100 percent completion rate. In addition, of the 10 local retirement plans contacted, responses from six local plans were secured. These included the Sacramento County Employees' Retirement System and Alameda County Employees' Retirement Association, both in California; Illinois Municipal Retirement Fund; Rhode Island Municipal Employees Retirement System; and the Texas Municipal Retirement System. The responses detailed trends related to pension portability among public health officials belonging to these local retirement plans. A response from the Texas County and District Retirement System also was received, but since their plan does not serve any public health officials, their responses were not included in the preparation of this report.

Survey responses from all but three states were obtained from state-administered retirement plans such as the California Public Employees' Retirement System (CalPERS); Public Employees' Retirement System of Nevada; Ohio Public Employees' Retirement System; Arizona State Retirement System (AZRS); Colorado Public Employees' Retirement Association (COPERA); and the Florida Retirement System (FRS). The three state exceptions were Connecticut, New York and Vermont. In New York, the survey was completed by the office of the comptroller, while in Vermont it was completed by the office of the state treasurer. In Connecticut, the survey was completed by SLC researchers based on information contained on the office of the comptroller's division of retirement and benefit services' Website, information that was later confirmed by the executive director of the division.

Once all the survey responses were tabulated and analyzed, in certain instances, select individuals who completed the surveys were contacted for additional clarification. Additional research related to the survey responses was carried out by reviewing the information on the different retirement plans' Websites. Finally, in order to ensure that the White Paper contained the most current and accurate information, relevant portions of the White Paper were forwarded to the officials (all 50 state plans and five local government plans) who completed the surveys to enable them to revise and update their state-specific portions.

Each state retirement plan covers public health employees but does not separate public health workers from other state employees. Unlike teachers and public safety workers, such as firefighters, public health workers' retirement plans are administered by the general state retirement plan. Some local retirement plans also cover public health workers but, like the state systems, do not separate public health workers from other local government employees.

Based on the information gleaned from the survey responses and additional research, this report contains:

- » Details on the current status of the different elements of our nation's retirement infrastructure;
- » Information on the public health employee landscape, including a snapshot of current and expected shortages and other workforce challenges facing this employment category;
- » Analysis of the survey responses on pension portability from the 50 states;
- » Federal tax implications relating to pension portability in the states;
- » Information from other non-health, public sector categories on pension portability; and
- » Issues for consideration by state policymakers that would help create an environment to retain and attract professionals to the public health sector.

Chapter 1 America's Retirement Infrastructure: A System under Stress

Very few current topics generate the kind of animated interest among both policymakers and non-policymakers than a discussion on the financial viability of our nation's retirement infrastructure in the coming decades. Prior to delving into trends associated with pension portability among public health workers in the 50 states, a quick review of our nation's retirement architecture remains an important preliminary step. This short overview serves to provide the backdrop to the analysis of the results on the pension portability survey that follows in the ensuing chapters.

As states emerge from their worst financial downturn in six decades, state policymakers now face the overwhelming challenge of dealing with a number of high expenditure categories including weaknesses in public retirement systems. In many cases, these public retirement systems are underfunded at a time when the first wave of the nation's baby boomers is rapidly approaching retirement. Alarmingly, media reports in May 2006 documented that taxpayers owe more than a half-million dollars per household for financial promises made by various governments, largely to cover the cost of retirement benefits for baby boomers. According to these reports, federal, state and local governments (mostly federal, in actuality) have added nearly $10 trillion to taxpayer liabilities in the past two years, bringing the total of government's unfunded obligations to an unprecedented $57.8 trillion.

In addition to weaknesses in these public retirement systems, other elements of the nation's retirement architecture, vital to financing the retirement of millions of Americans in the future, remain extremely tenuous. Specifically, the precarious financial position of corporate pension plans and the federal Pension Benefit Guaranty Corporation (PBGC); the looming shortfalls expected in the Social Security and Medicare programs in coming decades; and the low personal savings rates of most Americans, coupled with the high rates of consumer and household debt, cumulatively amount to a fiscal tsunami looming over our nation's financial horizon.

With the baby boomer generation rapidly nearing retirement age and America's senior population growing faster than the number of younger workers required to cover their retirement needs, policymakers and citizens across the country must begin paying a great deal more attention to this confluence of events. A variety of interest groups and concerned citizens have emphasized that policymakers at all levels of government need to initiate concrete steps to prepare for the "graying" of America and the expected huge increase in retirees. In fact, the number of people in the United States 65 years and older is forecast to grow from about 13 percent of the total population in 2000, to 20 percent in 2030, and to remain above 20 percent for at least several decades thereafter; in contrast, it was about 6 percent in 1935. According to the U.S. Department of Health and Human Services' latest data, nearly 36 million Americans are aged 65 and over and, by the year 2030, this age group will nearly double to 71.5 million. In this context, there is growing concern that more attention needs to be directed toward retirement planning and developing a retirement infrastructure that has the capacity to absorb the retirement needs of all Americans.

Financial planners often recommend the "three-legged stool" concept in planning for retirement. Each leg of the stool represents a source of income in retire-

ment, and the goal is to cumulatively attain a standard of living comparable to, if not slightly below, the one experienced prior to retirement. In this analysis, the stool is supported by the three legs of Social Security income, personal savings, and retirement or pension system income. A close review of national financial and demographic trends reveals that all three legs of this metaphorical retirement stool remain wobbly, a development that could seriously endanger the retirement plans of a majority of Americans and create a senior population that is ill-equipped to support themselves during retirement. Unless these challenges are addressed, there is the likelihood that a sizable proportion of this age group eventually will become our nation's 'new poor' at a time when they are least prepared to handle the exigencies of poverty.

Social Security payments remain critical for most retirees; these payouts comprise about 40 percent of the total income of people 65 and over. In 2008, the first group of baby boomers will reach 62 and be eligible to claim Social Security benefits; a few years later in 2011, they will be eligible to claim Medicare benefits. However, the Social Security Trust Fund will start paying out more than it takes in by 2017 and will be depleted by 2040, according to the projections of the 2006 Social Security Trustees' report. Similarly, the Medicare Trust Fund is projected to be exhausted in 2018, two years earlier than projected in last year's report. Along with the wave of baby boomers nearing retirement, experts point to the fact that people are living longer (according to the latest—April 2006—National Center for Health Statistics, the annual number of deaths in the United States experienced its biggest decline in nearly 70 years in 2004, with American life expectancy inching up to 77.9 years in the same year) and that national birth rates are low leading to a declining worker-to-beneficiary ratio: from 16.5-to-1 in 1950, to 3.3-to-1 today, to 2-to-1 in 40 years.

Unfortunately, the long-term financial viability of Social Security is not the only shaky leg supporting the nation's retirement system; there also are serious problems associated with the other two legs of the symbolic retirement stool. It is becoming increasingly clear that relying on personal savings to bolster retirement income is not a realistic option for most Americans. During the past few decades, savings as a proportion of disposable income have declined steadily. According to the federal government, the personal savings rate dipped into negative territory (-0.5 percent) in 2005, i.e., not only did Americans spend all of their after-tax income last year, they dived into personal savings or increased borrowing to finance their purchases. The U.S. savings rate had been negative for an entire year only twice before, in 1932 and 1933, a period when the nation was in the throes of the Great Depression and when massive business layoffs and job layoffs were rampant. Further compounding this rapidly shrinking personal savings rate is the mountain of debt accumulated by most American households in recent years. For example, outstanding household debt has been increasing steadily as a percentage of disposable personal income, from 70 percent in 1980, to 122 percent by the third quarter of 2005. Overall, U.S. consumers now owe about $12 trillion in debt, more than double what they owed scarcely a decade ago.

Finally, the third leg of the retirement stool, income flows from both public and private pension plans, also is rickety. The asset base of both private and public sector pension plans experienced erosion because of the bleak economic tide that enveloped the country in the initial years of this decade. The Pension Benefit Guaranty Corporation, the federal organization that protects the pensions of 44.1 million American workers, indicated in its November 2005 annual report that it ran a deficit of $23.1 billion and warned that the total estimated shortfall in all insured corporate pension plans nationwide exceeded $450 billion. Furthermore, even corporate pension plans that currently are fully funded have initiated measures to freeze their plans and switch to less generous benefits for future retirees.

In recent years, public retirement funds also have attracted a great deal of attention, sometimes because of their shrinking asset base and sometimes for a variety of other reasons. According to the latest federal data, nationally, there are 2,659 state and local government pension plans. By the end of fiscal year 2004, those retirement systems contained $2.5 trillion in cash and investment holdings for more than 17.9 million total members. These pension funds made payments to more than 6.7 million beneficiaries during this period.

Various studies show, however, that funding levels for public pension funds are plunging. The latest (March 2006) study by Wilshire Associates shows that the ratio of state pension assets-to-liabilities, or funding ratio, for the 125 state pension plans reviewed was 87 percent in 2005, up from an estimated 86 percent in 2004. (In 2001, the ratio was 106 percent, according to this annual Wilshire Associates study). A February 2006 Standard and Poor's report noted that underfunded public employee pension plans were straining state budgets and that state pension plans fell short by about $284 billion as of June 2004. According to the latest (September 2005) public fund survey by the National Association of State Retirement Administrators, the actuarial funding ratio for the 127 public sector pension plans reviewed was 87 percent, while the

unfunded liability level amounted to $322.5 billion. Finally, the October 2004, 50-state survey and report published by CSG's Southern Office revealed that a majority of the plans that responded were underfunded with liabilities exceeding assets in 68 of the 93 plans surveyed.

Another development roiling the already teetering public pension plans involves a ruling from the Governmental Accounting Standards Board (GASB), the independent standard-setter for 84,000 state and local government entities, that state and local governments have to place a value on "other post-employee retirement benefits" (OPEB), i.e., mostly health insurance intended as a plan benefit to future retirees. According to this ruling, states and localities will have to record as an expense the amount—the annual required contribution—they would need to stash away to fully fund this long-term liability over 30 years. While the private sector has had similar rules since 1992, for the public sector, implementation will be phased in over three years beginning December 15, 2006. Given the huge spikes in healthcare costs expected in upcoming years, the explosion in unfunded liabilities as a result of this ruling promises to be most alarming.

Chapter 2 The Public Health Employee Landscape: Multiple Challenges on the Horizon

The "graying" of America in the coming decades, the proportion of the U.S. population falling into the age cohort of 65 and over, remains a trend that has attracted a great deal of publicity in recent years. According to the latest (April 2005) U.S. Census Bureau state-by-state population projections through 2030, the elderly population (65 and over) in every state will grow faster than the total U.S. population, and seniors will outnumber school-age children in 10 states in the next 25 years. (In contrast, in 2000, not a single state had more elderly than children.) In fact, the expansion in the 65 and older population cohort between 2000 and 2030 will be at about three and a half times the expansion rate of the nation's population as a whole. More specifically, from 12.4 percent of the total U.S. population in 2000 (34.9 million), this aging cohort is projected to increase to 13 percent of the total in 2010 (40.2 million), and then to 19.7 percent in 2030 (71.5 million). Appendix B documents the state-by-state population rates in 2000 and projections for 2010 and 2030.

The presence of a large population cohort aged 65 years and older generates a range of questions in many spheres with the healthcare sector facing a particularly demanding set of challenges. As expected, older adults have different healthcare needs in comparison to younger age groups, a development that will undoubtedly impact the healthcare system in the coming decades. For instance, older adults are more likely to suffer from chronic illnesses (cancer, heart disease, diabetes) than younger people and are more likely to require the services of health professionals as a result of injuries and illnesses due to greater physical vulnerability.

In preparation for the onset of a growing number of older Americans in the coming decades, federal, state and local government entities have begun exploring options to initiate preparatory measures. One of the more critical areas in our nation's healthcare delivery system involves health workers, and given the shortages that are already prevalent among a number of health worker categories, there is a great deal of interest in initiating remedial measures to stave off further setbacks in this sector. In response, these various government entities are either considering or implementing a range of strategies to maintain adequate staffing at all levels in the public health field arena.

There has been growing anecdotal evidence emerging of an imminent crisis brewing with regard to serious shortages expected in the state public healthcare workforce. Given that an important first step in responding to these healthcare worker shortages is determining the extent of the problem, a number of studies released in the last few years at the state level sought to investigate the nature and complexity of the challenges. The goal was to use the information and analysis from these studies to better prepare local and state governments for the wave of older Americans.

For instance, The Council of State Governments and the National Association of State Personnel Executives (NASPE) released a workforce survey in October 2002 of all state agencies indicating that state governments could lose more than 30 percent of their workforce to retirement, private sector employers and alternative careers in a few short years and, alarmingly, public health agencies would be the hardest hit.

The State University of New York at Albany released a report in November 2002 that indicated that 44 of the 50 states had convened task forces or commissions to study potential health workforce shortages and that states already were experiencing shortages in a number of health professions (nursing, pharmacists, nurse aides, home health aides, dentists, radiology technicians). This report listed a number of strategies introduced by states to help retain and attract public health workers including providing scholarship and loan repayment programs for health professionals, launching initiatives to market careers in healthcare, developing career ladder programs in the health professions, offering workforce training and education initiatives, redesigning job descriptions and establishing legislation to prohibit or limit mandatory overtime.

Another report by The Council of State Governments, released in November 2004, documented that the nation's public health workforce faced a series of challenges, including high vacancy rates, soaring turnover rates, an aging workforce and high retirement eligibility rates in a number of healthcare fields with nursing, epidemiology, laboratory services and environmental health facing particular shortages. This latter report also listed a number of strategies adopted by states to curb health worker shortages including promoting educational opportunities; increasing pay and workforce flexibility; promoting careers in public health fields; using information technology to improve recruitment; and enhancing the leadership capacity of public health managers through leadership training institutes.

One of the healthcare worker categories that has continued to experience serious shortages is nursing, a trend documented in a number of surveys including all the surveys listed above. According to an August 2005 Kaiser Family Foundation publication, hospitals in the United States have had to cope with cyclical shortages of nurses since World War II. This report notes that while in 2000, the national supply of full-time equivalent (FTE) registered nurses was an estimated 1.89 million, demand was estimated to be 2 million, resulting in a shortage of 110,000 FTE registered nurses or 6 percent. By 2020, the shortage is expected to grow to a projected 808,400 nurses or 29 percent. Similarly, the number of states with a shortage of nurses is expected to expand from 30 states in 2000, to 44 states in 2020.

Two examples at the state level also help illustrate these expected nursing shortages. In Oklahoma, a recent report of the Governor's Council for Workforce and Economic Development noted a shortage of 1,160 registered nurses and 254 licensed practical nurses in the state along with forecasting that these shortages are expected to double in the next decade. Then, in Tennessee, the state's Independent Colleges and University Association predicts a shortage of nearly 9,500 nurses in the state by 2020. In fact, as the United States runs short of nurses both in the short and long terms, there are several Congressional proposals to remove the limit on the number of nurses who can immigrate to the country as one way to deal with the burgeoning shortfall.

In an era when our nation faces a number of natural and man-made health-related emergencies alongside the "graying" of the American population in coming decades, all trends that will place additional burdens on our healthcare system, the presence of an adequately staffed and competent public healthcare workforce remains crucial. The combination of a well-trained and well-equipped healthcare infrastructure is of paramount importance if we are to respond efficiently and effectively to events like Hurricane Katrina, an avian flu pandemic, anthrax contaminated letter mailings and other bio-terrorism threats, terrorist attacks and longer term phenomena like a national population mix that is weighted more toward aging Americans. This unfortunate confluence of events involving the public healthcare worker landscape requires state policymakers to adopt innovative and creative mechanisms to both retain and attract high quality professionals to staff the cadres of our nation's public healthcare workforce.

As indicated, states have initiated and continue to enact a number of efforts to both recruit and retain workers in the healthcare sector. Yet, very few of these initiatives have involved offering enhanced retirement benefits as an incentive to both recruit and retain qualified individuals in the healthcare arena. In fact, recent trends in the public retirement sphere reveal a tendency to actually reduce the flexibility of the retirement benefits offered to public employees. Given that the presence of an adequately staffed public healthcare system remains the vital cog in responding swiftly and comprehensively to both the man-made and natural calamities that undoubtedly will confront our nation in the coming decades, the sooner policymakers at every level of government initiate remedial measures the better.

Chapter 3 Covered Employees (Question 1)

For many decades now, providing retirement security in the form of pension payments remains one of the strongest incentives proffered by the public sector in recruiting a constant flow of highly qualified individuals to its employment ranks. The promise of a pension after retirement to all employees—once they met certain eligibility criteria—was the hallmark of a career in the public sector. From the earliest public sector pension plan established in New York City in 1857 to provide lump sum benefits to police officers injured in the line of duty, public pension funds in the United States have currently evolved to an elaborate system of benefits provided to retirees and their dependents.

While there is some variation in this format, most states have two major public retirement funds: one for state employees (and on certain occasions for local government employees) and another one for teachers. While the former is referred to as public employees' retirement systems, the latter is referred to as state teachers' retirement systems. There also are instances where certain states have multiple retirement plans that cover a plethora of public sector employees ranging from judicial officers, law enforcement and public safety officials along with the categories mentioned above. A number of states operate a large umbrella plan for all categories of state and local government employees. Public health officials generally are members of the public health employees' retirement systems.

According to the SLC public health employee pension portability survey results (Table 1), all 50 states indicated that the retirement plans in their states cover both public health officials (hospital administrators, doctors, nurses etc.) and public non-health officials (police officers, firefighters, clerks etc.). In addition, 35 of the 50 states indicated that their retirement plans include both state and local government public health officials, while the remaining 15 states indicated that their plans only include state public health officials. In addition to the survey information received from the state retirement plans, the SLC also secured information from five local government plans. All five plans indicated that they cover both public health officials and public non-health officials.

Table I » Covered Employees

State	Plan Covers Both Public Health and Public Non-Health Officials		Plan Covers Both State and Local Public Officials		Notes
	Yes	No	Yes	No	
Alabama	✓		✓		Note 1
Alaska	✓		✓		
Arizona	✓		✓		
Arkansas	✓		✓		Note 2
California	✓		✓		
Colorado	✓		✓		Note 3
Connecticut	✓			✓	
Delaware	✓			✓	
Florida	✓		✓		
Georgia	✓			✓	
Hawaii	✓		✓		
Idaho	✓		✓		
Illinois	✓			✓	
Indiana	✓		✓		
Iowa	✓		✓		
Kansas	✓		✓		
Kentucky	✓		✓		
Louisiana	✓			✓	
Maine	✓		✓		
Maryland	✓		✓		
Massachusetts	✓			✓	
Michigan	✓			✓	
Minnesota	✓			✓	
Mississippi	✓		✓		
Missouri	✓			✓	
Montana	✓		✓		
Nebraska	✓			✓	
Nevada	✓		✓		
New Hampshire	✓		✓		Note 4
New Jersey	✓		✓		
New Mexico	✓		✓		
New York	✓		✓		
North Carolina	✓			✓	Note 5
North Dakota	✓		✓		
Ohio	✓		✓		
Oklahoma	✓		✓		Note 6
Oregon	✓		✓		
Pennsylvania	✓			✓	
Rhode Island	✓			✓	
South Carolina	✓		✓		
South Dakota	✓		✓		
Tennessee	✓		✓		
Texas	✓			✓	
Utah	✓		✓		
Vermont	✓			✓	
Virginia	✓		✓		
Washington	✓		✓		
West Virginia	✓		✓		
Wisconsin	✓		✓		
Wyoming	✓		✓		
Total	50		35	15	

Local Plans	Plan Covers Both Public Health and Public Non-Health Officials		Plan Covers Both State and Local Public Officials		Notes
	Yes	No	Yes	No	
CA Alameda	✔			✔	
CA SCERS	✔			✔	
IL Municipal	✔			✔	
RI MERS	✔			✔	
TX Municipal	✔			✔	
Total	5			5	

Source: SLC Survey Questionnaire

Notes

Note 1: The Retirement System of Alabama (RSA) covers both state employees and teachers with the state health department's employees falling under the RSA. The RSA includes all state agencies and local entities electing to join RSA.

Note 2: Arkansas does not distinguish between public health officials and non-public health officials. The Arkansas Public Employees Retirement System (APERS) is one of five state-supported public retirement systems. APERS covers most state employees, all county employees, and some public school employees hired before July 1, 1989, as well as other public entities (i.e. municipalities, regional airports, etc.) that choose to join the System. The information presented in this White Paper relates only to employees in APERS.

Note 3: In Colorado, local governments may elect to enroll in COPERA, but all state employees, except certain categories such as police and fire personnel, must participate in COPERA.

Note 4: In New Hampshire, the public retirement plan covers all full-time permanent police officers and firefighters; public school teachers who meet the minimum participation standards; full-time state employees; and employees of political sub-divisions (non-state agencies) who elect participation for their employees. Full-time state employees may include public health officials; in addition, there may be local public health employees whose political sub-division elected to participate in the state retirement plan.

Note 5: In North Carolina, to be eligible, an individual must be employed with an entity that is covered by the Teachers and State Employees Retirement System (TSERS) as a permanent full-time employee in a position which requires 30 or more hours per week for at least nine or more months per year, or they must be employed with an entity that is covered by the Local Governmental Employees' Retirement System (LGERS) in a position that requires at least 1,000 hours per year. Both these North Carolina plans include public health officials.

Note 6: Oklahoma does not distinguish between public health officials and public non-health officials. OPERS covers employees at the department of health along with small, regional healthcare facilities that opted to join OPERS.

Chapter 4 Retirement Benefit Rules (Question 2)

Until recently, public pensions were almost universally of the defined benefit (DB) type, i.e., retiring vested employees receive a specified retirement benefit, based on age, years of service and salary, throughout the duration of their retirement. These retirement benefits are funded systematically by contributions, usually from employer and employee, and the investment income resulting from these contributions. Public pension funds, after decades of anemic funding ratios (actuarial value of assets divided by actuarial accrued liability), began improving their financial position by the 1990s. By 2000, the funding levels of public pension plans reached unprecedented heights of financial soundness. As noted previously, since the early years of this decade, the 2001 economic recession, the collapse of the stock market and a number of financially unfortunate structural features, the funding position of public pension plans has reached dire straits. Given these tremendous financial pressures, public sector plans now are being tweaked and refined to respond to the changing financial and demographic landscape, a trend that has eroded the near-universality of the DB pension plan in the public sector.

In fact, there is a growing interest among public pension plans to steer employees toward defined compensation (DC) plans. These DC plans, popular in the private sector, are plans in which the amount contributed to the plan is specified even though the benefit payout is not. Under this system, private sector plan participants maintain a great deal of discretion on where to direct their investments, within certain investment parameters, or options, pre-selected by the employer. Benefit payouts to private sector retirees flow from the contributions and investment income that accrue in participants' accounts. In the event that funds in these accounts are insufficient to pay benefits for the duration of retirement, private sector retirees have to rely on alternate income sources. Based on legislation enacted in 2005, all public sector employees hired in Alaska after July 1, 2006, will be eligible to only participate in a DC plan, the first state in the country to do so.

Even though a vast majority of the public pension plans currently in existence are of the DB variety, some categories of public workers also are eligible to participate in a tax-sheltered annuity under Section 403(b) of the Internal Revenue Code. In addition, certain categories of public sector employees also may participate in a deferred compensation plan under Section 457 of the Internal Revenue Code. While both these Section 403(b) and 457 plans are DC plans, payouts from these plans serve to supplement benefits secured from DB plans during a public employee's retirement.

Cash balance plans and other hybrid plans are geared toward capturing the advantages of both DB and DC plans and have emerged as a strategy for both public and private entities to offer pensions often at a lower cost. These cash balance plans work in the following manner: while the company regularly allocates money for employee retirement, unlike the popular 401-K retirement plans, the company, not the employee, decides how that money is invested. In essence, these cash balance plans, legally classified as DB plans because the employer owns the assets, make the investment choices, bear the direct investment risk and maintain adequate reserves, as required by law. At retirement, employees have accumulated a nest egg to draw down during retirement without the responsibili-

ties of managing a portfolio of stocks and bonds. Yet, the employee's accrual of pension rights resembles that of DC plans; hence, the categorizing of these cash balance plans as hybrid. While the employer contributes to the employee's retirement account, typically as a percentage of current earnings, workers who switch jobs prior to retirement may withdraw or transfer the account balance to other tax-sheltered accounts. The employer also provides a credit based on the account balance at an interest rate specified in advance, rather than depending on the performance of financial markets (like DC plans). The interest credit rate may change over time at the discretion of the employer. As indicated above, DC and DB plans differ in several ways, and both the private and public sector retirement plans in contemporary American society often incorporate various aspects of these DC and DB plans.

According to the SLC survey on pension portability among public health officials, 26 of the 50 states that responded indicated they offer only a DB plan to all categories of public employees, including public health officials. The remaining 24 states noted that they offer both DB and DC plans to all their employees. Four of the five local government plans that responded to the survey indicated that they offer only a DB plan to their employees. A single local plan, Texas Municipal, offers a plan with both DB and DC features. Currently, not a single state only offers DC plans to public sector employees. Table 2 provides a breakdown of the states that responded to the query on whether their plan was a DB or DC plan.

While a majority of the states (26 of the 50) along with four local government plans offer only a DB plan, the survey sought to identify such information as the minimum number of years required to be fully vested in the plan, minimum retirement age, and whether there was a distinction in retirement benefit levels at different salary levels. Table 3 provides the information secured in response to this portion of the survey.

Table 2» Breakdown of DB and DC Plans

State	DB Plan	DC Plan	Both	Notes
Alabama	✓			
Alaska			✓	
Arizona	✓			
Arkansas	✓			
California			✓	Note 1
Colorado	✓			
Connecticut			✓	
Delaware	✓			
Florida			✓	
Georgia			✓	
Hawaii	✓			
Idaho			✓	
Illinois	✓			
Indiana			✓	
Iowa	✓			
Kansas	✓			
Kentucky	✓			
Louisiana			✓	
Maine			✓	
Maryland	✓			
Massachusetts	✓			
Michigan			✓	
Minnesota	✓			
Mississippi			✓	
Missouri	✓			
Montana			✓	
Nebraska			✓	Note 2
Nevada	✓			
New Hampshire	✓			
New Jersey	✓			
New Mexico			✓	
New York	✓			
North Carolina			✓	
North Dakota			✓	
Ohio			✓	
Oklahoma			✓	Note 3
Oregon			✓	
Pennsylvania	✓			
Rhode Island	✓			
South Carolina			✓	
South Dakota	✓			
Tennessee	✓			
Texas	✓			
Utah			✓	
Vermont			✓	
Virginia	✓			
Washington			✓	
West Virginia	✓			
Wisconsin			✓	
Wyoming	✓			
	26	0	24	

Local Plans	DB Plan	DC Plan	Both	Notes
CA Alameda	✓			
CA SCERS	✓			
IL Municipal	✓			
RI Municipal	✓			
TX Municipal			✓	Note 4
	4	0	1	

Source: SLC Survey Questionnaire

Notes

Note 1: The CalPERS DC plan is an optional supplemental savings plan available to members whose employers contract for the optional benefit.

Note 2: Nebraska's response indicated that the state offers a hybrid plan.

Note 3: Oklahoma has both DB and DC plans. The DC plan (457 plan) is available only to state of Oklahoma employees, not local government employees who may be members of OPERS.

Note 4: The Texas Municipal (Texas Municipal Retirement System-TMRS) is a hybrid plan with both DB and DC features. Each member has an individual account into which their deposits are paid and and which earns interest annually (DC plan feature). These funds are then invested as a whole by the system (DB plan feature).

Table 3» Details Related to DB Plans

Years to be Fully Vested; Minimum Retirement Age; Difference in Benefits Based on Salary

State	Minimum Requirements		Other Retirement – Option (1)		Other Retirement - Option (2)		Difference in Benefits Based on Salary		Notes
	Minimum Years to be Fully Vested	Minimum Retirement Age	Years of Service	Age	Years of Service	Age	Yes	No	
Alabama	10	60	25	Any Age				✔	
Alaska	5	60	30	Any Age				✔	Note 1
Arizona	80 points	Any Age	10	62	Any Age	65		✔	
Arkansas	5	65	28	Any Age				✔	Note 2
California	5	50						✔	Note 3
Colorado	5	65	30	55	80 points	50		✔	Note 4
Connecticut	10	65	25	55				✔	
Delaware	5	62	15	60	30	Any Age		✔	Note 5
Florida	6	Any Age + 30 Years Service						✔	Note 6
Georgia	10	60						✔	
Hawaii	5	55	10	62	5	62		✔	Note 7
Idaho	5	50 (Police & Fire), 55 (General Member)						✔	Note 8
Illinois	8	60						✔	
Indiana	10	65	15	60	85 points	55		✔	Note 9
Iowa	4	55						✔	
Kansas	9.5	55						✔	
Kentucky	4	65	27	Any Age				✔	Note 10
Louisiana	10	60	25	55	30	Any Age		✔	Note 11
Maine	5	60	10	62				✔	Note 12
Maryland	5	62						✔	
Massachusetts	10	55	20	Any Age				✔	
Michigan	10	60	30	55				✔	Note 13
Minnesota	3	65	90 points	90 points		65		✔	Note 14
Mississippi	4	60	25	Any Age				✔	Note 15
Missouri	5	62						✔	
Montana	5	60	30	Any Age				✔	Note 16
Nebraska	2	55						✔	Note 17
Nevada	5	65	10	60	30	Any Age		✔	Note 18
New Hampshire	10	60						✔	Note 19
New Jersey	10	60	25	Any Age				✔	Note 20
New Mexico	5	Any Age	20	60	25	Any Age		✔	Note 21
New York	5	62	30	55				✔	
North Carolina	5	65	25	60	30	Any Age		✔	Note 22
North Dakota	3	65	85 points	85 points				✔	Note 23
Ohio	5	60	30	Any Age				✔	Note 24
Oklahoma	8	62	80 points		90 points			✔	Note 25
Oregon	5	50						✔	Note 26
Pennsylvania	3	60	35	Any Age				✔	Note 27
Rhode Island	10	65	29	59				✔	Note 28
South Carolina	5	65	28	Any Age				✔	Note 29
South Dakota	3	65	85 points	55				✔	Note 30
Tennessee	5	60	30	Any Age				✔	Note 31

	Minimum Requirements		Other Retirement – Option (1)		Other Retirement - Option (2)		Difference in Benefits Based on Salary		
	Minimum Years to be Fully Vested	Minimum Retirement Age	Years of Service	Age	Years of Service	Age	Yes	No	Notes
Texas	5	60						✔	Note 32
Utah	4	65	10	62	20 or 30	60 or Any Age		✔	Note 33
Vermont	5	62	30	Any Age				✔	Note 34
Virginia	5	50 (Police & Fire), 55 (General Member)	10	55				✔	Note 35
Washington	5	65	5	65	10	65		✔	Note 36
West Virginia	5	60	80 points	55				✔	Note 37
Wisconsin	5	55						✔	Note 38
Wyoming	4	60						✔	Note 39

	Minimum Requirements		Other Retirement – Option (1)		Other Retirement - Option (2)		Difference in Benefits Based on Salary		
Local Plan	Minimum Years to be Fully Vested	Minimum Retirement Age	Years of Service	Age	Years of Service	Age	Yes	No	Notes
CA Alameda	5	50		70		Any Age		✔	Note 40
CA SCERS	5	50	10	Any Age	20 or 30	Any Age		✔	Note 41
IL Municipal	8	60						✔	Note 42
RI MERS	10	58	30	Any Age				✔	
TX Municipal	5	60	20 or 25	Any Age				✔	

Source: SLC Survey Questionnaire

Points refer to a combination of age *plus* years of service. For instance, the 80 points referenced in Arizona's plan refers to any combination of an employee's age and years of service.

Notes

Note 1: There is a 10-year requirement for system-paid health insurance during retirement. Retirement benefits are calculated by taking the average of the employee's three highest consecutive years (the five highest years for employees hired on or after July 1, 1996) and multiplying that by a multiplier of 2 percent for the first 10 years, 2.25 percent for over 10 years, and 2.5 percent for over 20 years.

Note 2: As long as the member does not exceed IRS regulations, there is no difference in retirement benefits as a result of salary differences. All other factors being equal, a higher salary would result in a higher retirement benefit amount. The minimum retirement age for reduced benefits is 55 years.

Note 3: All other factors being equal, a higher salary would result in a higher retirement benefit amount.

Note 4: Full retirement benefits are payable at age 50 with 30 years of service credit (55 years of age for members hired after July 1, 2005), or when age and service credit equals 80 years or more, or at age 65 with five years of service credit, or at age 65 with any amount of service credit, or at any age with 35 years of service credit. Under Internal Revenue Code Section 401(a) 17, employees hired after December 31, 1995, cannot make contributions on a PERA salary in excess of $220,000 for calendar year 2006. There is no limit for employees hired before January 1, 1996.

Note 5: While there are no specific differences in the retirement benefit formula that is driven by salary level, the latter is an important component of the eventual benefit level; benefit levels increase as salary levels increase. However, an employee who meets one of the following two criteria qualifies for securing reduced retirement benefits: age 55 with at least 15 years of creditable service; 25 years of creditable service at any age.

Note 6: There are no differences in benefits at different salary levels, but there are different accrual levels for DB plan members (and contribution percentages for DC plan members) depending on the "class" of employee. For instance, police officers earn a higher accrual/contribution than do regular (non-high risk) employees.

Note 7: Hawaii has three benefit plans including a contributory plan, a non-contributory plan (to be phased out) and a hybrid plan (effective July 1, 2006, for new employees).

Note 8: Retirement benefits are based on a formula that factors in the average monthly salary of the employee.

Note 9: All other factors being equal, a higher salary results in higher retirement benefits.

Note 10: An employee may retire with reduced benefits at age 55 with five years of service or at any age with 25 years of service.

Note 11: Employees hired on or after July 1, 2006, will have to be 60 years of age with 10 years of service to retire. There also are "unique" groups with different eligibility requirements. There is a salary cap for benefit levels; once that cap is reached, retirement benefits are maxed out.

Note 12: Prior to July 1, 1993, the requirements for employees to be fully vested and the minimum age retirement were different. Specifically, an employee's normal retirement age was 60 if the employee had at least 10 years of service credit, or had reached age 60 and had at least a year of service credit immediately prior to reaching age 60. If the employee did not meet those criteria, the employee's normal retirement age was 62. In addition, if before July 1, 1993, the employee was eligible to purchase enough additional service credit to secure 10 years of service credit prior to July 1, 2003, the employee's normal retirement age was 60. Then, if the employee's final termination from MSRS-covered employment was before October 1, 1999, the employee must have had at least 10 years of service credit to be vested. If the employee's final termination from MSRS-covered employment is after September 30, 1999, the employee must have had at least five years of service credit to be eligible for retirement benefits.

Note 13: Reduced retirement benefits are available at age 55 with at least 15 but less than 30 years of service.

Note 14: If hired prior to July 1, 1989, full retirement benefits are available at age 65 or when age *plus* years of service equal 90. Reduced retirement benefits are available at age 55. If hired on or after July 1, 1989, full retirement benefits are available at the age for unreduced Social Security benefits (65 years) but capped at age 66.

Note 15: The service retirement formula provides a base annual retirement allowance equal to 2 percent of the final average salary for each year of service up to and including 25 years, plus 2.5 percent of the final average salary for each year of service above 25 years.

Note 16: Five years of service and reaching the age of 50 is required for early retirement, or 25 years of service regardless of age. A member with between five and 24 years of service would receive a monthly benefit based on 1.785 percent of their highest average compensation (HAC) for each year of service. A member with more than 25 years service would receive a monthly benefit based on 2 percent of their HAC.

Note 17: In Nebraska, the cash balance plan is a hybrid DB plan.

Note 18: If an employee is a contributing member of PERS after June 30, 1989, the employee earns the right to receive a retirement allowance after five years of service.

Note 19: Vesting requires 10 years service; age 60 is the normal retirement age regardless of years of service and does not require vesting. The retirement benefit formula for all members is based on service and salary credit.

Note 20: Terminated employees who are vested members are entitled to a deferred pension at age 60. There is an early retirement provision that allows a PERS member to retire after 25 years of pension service credit regardless of age; however, there is a .25 percent reduction for each month below age 55. An annual PERS pension is based on years of service divided by 55 multiplied by the final average salary in the last three years.

Note 21: An employee's pension is determined by the final average salary. A member is considered vested when the member reaches the normal retirement age of the plan of which the member is in at the time of retirement, or was last a member. If there is a termination of the employee from the PERA retirement system, or if employer contributions to the PERA fund are completely discontinued, the rights of each affected member to the benefits accrued at the date of termination or discontinuance, to the extent funded at that point, are non-forfeitable.

Note 22: Law enforcement officers must be at least 55 years with at least five years of service as a law enforcement officer or have 30 years of service (five of which must be in law enforcement and retire while a law enforcement officer) to retire at any age.

Note 23: Employees are eligible to receive retirement benefits when their age and years of service combination total 85. Early retirement is possible at age 55 with a .5 percent per month reduction in benefits to age 65.

Note 24: Reduced retirement benefits are available with 25 years of service credit at age 55.

Note 25: Early retirement—with reduced benefits—is possible after 10 years of service and once the age of 55 years is reached.

Note 26: Members have the option to retire at 55 years.

Note 27: Early retirement is possible at any age after five years of service.

Note 28: Those vested on or prior to July 1, 2005, may collect a benefit at any age with 28 years of service, or at age 60 with the minimum 10 vesting years of service under "Schedule A" benefit. Those vesting after July 1, 2005, are in the "Schedule B" structure and may retire at age 59 with 29 years of service, or at age 65 with the minimum of 10 years vesting service.

Note 29: A member may retire with reduced benefits after reaching 55 years with at least 25 years of creditable service. In addition, a member may retire with reduced benefits after reaching 60 years, even without reaching 28 years of creditable service.

Note 30: The rule of 85 points applies at age 55 or older in South Dakota.

Note 31: Employee retirement benefits are based on salary and service. While 55 years is the minimum age to retire, only reduced benefits are available at this age.

Note 32: An annuity cannot exceed 100 percent of the 36 highest months of an employee's compensation.

Note 33: The benefit formula is 2 percent multiplied by the final average salary (FAS) multiplied by years of service, where FAS is based on the employee's three highest years.

Note 34: Early retirement is 55 years in Vermont.

Note 35: A member may retire under early retirement after reaching at least 50 years with 10 or more years of service or after reaching 55 years with five or more years of service.

Note 36: Washington maintains three plans. Plan 1: Vesting is in five years and the normal retirement age is 65. However, early retirement is possible at age 55 with 25 years of service and at age 60 with five years of service alongside active membership. Under this plan, individuals—with inactive membership—may also retire at age 60 with five years of service at an actuarially reduced benefit. Plan 2: Vesting is in five years and the normal retirement age is 65 with early retirement—at actuarially reduced benefits—is available at age 55 and 20 years of service. Plan 3: Vesting is in 10 years and the normal retirement age is 65 with early retirement—at actuarially reduced benefits—available at age 55 and 10 years of service.

Note 37: A member may retire with reduced benefits at 55 years with 10 or more years of service.

Note 38: If a member began employment covered under the WRS before January 1, 1990, or worked under the WRS plan on or after April 23, 1998, the member is automatically vested under WRS. If the member began WRS employment on or after January 1, 1990, and ended WRS-covered employment before April 23, 1998, the member must have earned some creditable WRS service in at least five separate calendar years to meet the WRS vesting requirement. If the member is not vested based on these conditions, the member is only eligible for a separation benefit regardless of age when applying for WRS benefits. All employees, other than those in the protective categories (police, firefighters, etc.) can retire and receive a retirement benefit at age 55; participants who have protective category service (other than purchased service) can retire at age 50.

Note 39: Early retirement is available at 50 years with four years of service.

Note 40: General members may retire at age 50 with 10 years of service credit; at any age with 30 years service credit; or at age 70, regardless of service credit. Safety Tier members may retire at age 50 with 10 years credit; at any age with 20 years of service credit; or at age 70, regardless of service credit.

Note 41: Retirement depends on membership tier: Miscellaneous and Safety Tier members must be 50 years with at least 10 years of service; Miscellaneous Tier members must have 30 years service and any age; and Safety Tier members may be of any age with 20 years of service.

Note 42: Employees may retire at 55 years with a reduced benefit. If the employer adopts an early retirement incentive, employees may retire with a minimum of 20 years of service at age 50. The benefit formula is the same for all employees regardless of salary level.

Table 3 enables a range of different analyses to be arrived related to how the different state and local government plans regard the minimum number of years for employees to be fully vested and also the minimum retirement age maintained by these plans. For instance, a bulk of the plans, 28 of the total 55 plans, for which information was obtained consider five years to be the minimum time period for an employee's retirement benefits to be fully vested. An additional 11 plans consider 10 years to be the minimum period for the vesting of retirement benefits. The remaining 16 plans had varying time periods for this requirement such as two years (1 plan), three years (4 plans), four years (5 plans), six years (1 plan), eight years (3 plans), and 9.5 years (1 plan). An additional plan, Arizona, indicated that they consider any years of service plus age combination that add up to 80 points to suffice for employees to be fully vested in their retirement plan and also as the minimum age to retire.

Another level of analysis that might be extracted from Table 3 relates to the minimum retirement ages enforced by the different plans. In this context, a large number of the plans (19) require a minimum age of 60 years for their employees to retire. The next age cohort with the highest number of states was 65 years and 14 plans enforce this requirement. The remaining plans enforce a range of ages as their minimum retirement age including 50 years (6 plans, with Idaho and Virginia's police and fire officials being the exception in their states), 55 years (8 states, with this being the age for Idaho and Virginia's general members), 58 years (1 plan, Rhode Island Municipal) and 62 years (6 states). Once again, Arizona's plan indicated that they recognize any age plus service combination that adds up to 80 points as the minimum for an employee to retire from their system. Similarly, in Florida, an employee at any age, with 30 years service, is eligible to retire.

In addition, the survey obtained a number of additional details from the different plans on other retirement options. For instance, in Michigan, once a member reaches 55 years and completes 30 years of service, the member is eligible to retire. Similarly, in New Jersey, once a member completes 25 years service, the member is eligible to retire regardless of age. In a number of the examples elaborated upon by the plans, there were additional rules listed and these are enumerated in the notes section of Table 3. Finally, all 55 plans indicated that there is no distinction in the formula deployed to calculate retirement benefits at different salary levels. However, several of the plans noted that benefit levels increase when salaries increase.

Alongside the information related to DB plans, the survey also determined details on the DC plans offered such as the percentage of salary contributed by the employer and the employee. Table 4 enumerates these details.

Table 4» DC Plan Contributions

Contributions Made by Employee and Employer

State	Contributions: Employee Percentage	Contributions: Employer Percentage	Notes
Alabama	0	0	
Alaska	8%	5%	
Arizona	0	0	
Arkansas	0	0	
California	Optional Amount	0	
Colorado	0	0	
Connecticut	Optional Amount	0	
Delaware	0	0	
Florida	0	9%, 20%, 11.35%	Note 1
Georgia	7.50%	0	
Hawaii	0	0	
Idaho	Optional Amount	0	
Illinois	0	0	
Indiana	Optional Amount	3%	
Iowa	0	0	
Kansas	0	0	
Kentucky	0	0	
Louisiana	7.50%	19.10%	Note 2
Maine	See Note	0	Note 3
Maryland	0	0	
Massachusetts	0	0	
Michigan	Optional Amount	4% (mandatory) + 3% (match)	Note 4
Minnesota	0	0	
Mississippi	7.25%	8.25%	Note 5
Missouri	0	0	
Montana	6.90%	6.90%	Note 6
Nebraska	4.80%	156% of employee match	Note 7
Nevada	0	0	
New Hampshire	0	0	
New Jersey	0	0	
New Mexico	Optional Amount	0	
New York	0	0	
North Carolina	Optional Amount	0	Note 8
North Dakota	4.12%	4%	Note 9
Ohio	9% (local employee 9%)	13.54% (local government 13.70%)	Note 10
Oklahoma	Optional Amount	$25	Note 11
Oregon	6%	See Note	Note 12
Pennsylvania	0	0	
Rhode Island	0	0	
South Carolina	6.25%	5%	
South Dakota	0	0	
Tennessee	0	0	
Texas	0	0	
Utah	Optional Amount	1.50%	Note 13
Vermont	2.85%	8.10%	
Virginia	0	0	
Washington	5% - 15%	0	Note 14
West Virginia	0	0	
Wisconsin	5%	4.70%	Note 15
Wyoming	0	0	

State	Contributions: Employee Percentage	Contributions: Employer Percentage	Notes
CA Alameda	0	0	
CA SCERS	0	0	
IL Municipal	0	0	
RI MERS	0	0	
TX Municipal	5%, 6%, or 7%	Actuarially Determined	

Source: SLC Survey Questionnaire

Many DC plans have voluntary participation, so the amount employees wish to contribute is optional and can range from 0 to 100 percent.

Notes

Note 1: The employer percentages depend on gross salary and FRS membership class – Regular (9 percent), Special Risk (20 percent) or Administrative Support (11.35 percent). Additional public officials' membership classes and percentages are as follows: legislators - 13.4 percent; governor, lieutenant governor and cabinet officers - 13.4 percent; state attorneys and public defenders - 13.4 percent; justices, judges - 18.9 percent; county elected officials - 16.2 percent; senior management service - 10.95 percent.

Note 2: The employer percentage adds up to 19.10 percent comprising 7.076 percent normal cost and 12.0238 percent UAL (Unfunded Accrued Liability).

Note 3: MSRS administers a small DC plan available only to members employed by municipal/ local entities. Fewer than 500 of the 58,000 active members participate in this DC plan. Rules related to this plan are negotiated between the employer and the employees in participating local districts, mostly municipalities. The payments go directly to the plan's third-party administrator; consequently, the exact percentages are not known.

Note 4: The employer contributes a 4 percent mandatory contribution with an additional employer match of up to 3 percent. The employee can contribute an amount between 0 and 100 percent. The DC plan applies to employees hired after March 31, 1997.

Note 5: Most public sector employees are not required to participate in a mandatory DC plan; however, the employees have the option of participating in a voluntary DC plan to which the employer makes no contribution. An optional retirement plan is offered to eligible employees of state institutions of higher learning. This plan provides both DB and DC options and, effective July 1, 2006, the employer contributions to the DC portion of the plan will increase to 8.80 percent.

Note 6: PERS members contribute 6.9 percent of compensation, the employer contributes 6.9 percent. If applicable, the local government contributes 6.8 percent along with the state general fund contribution of 0.1 percent, for a total of 6.9 percent for local government employees. State and university employers contribute 6.9 percent.

Note 7: There are two DC plans, one for state employees and another for county employees. The rates are the following: State–4.8 percent and an employer match of 156 percent of the employee's contribution; County–4.5 percent employee and an employer match of 150 percent employee's match. As of January 1, 2007, the state employee rate changes to a flat rate of 4.8 percent.

Note 8: The DC plan is a 401(k) plan. Law enforcement officers who are part of LGERS get a 401(k) contribution on behalf of their employers. No other member has this benefit.

Note 9: The DC plan is available to non-classified employees and only about 300 participate. The percentage contributions are the same as for the DB plan.

Note 10: Public employees and public employers covered by Ohio PERS contribute the same percentage of earnable salary regardless of the retirement plan in which the public employee participates in. The statutory maximum is 14 percent for employers and 10 percent for employees. These are scheduled to increase over the next two to five years.

Note 11: Oklahoma's DC plan has an optional plan with a $25 monthly minimum contribution for participants, which is matched only up to $25 in the companion 401(a) DC plan.

Note 12: While employees contribute 6 percent of their salary, some employers may also contribute 6 percent.

Note 13: For state employees and public school employees, the employer must contribute 1.5 percent of salary. The member is not required to make any contribution, but can make voluntary contributions.

Note 14: The DC plan is part of a hybrid plan that includes the state's DB plan. Employees choose one of six rate options available at which they wish to contribute to and that rate is irrevocable unless the employee changes employers. The employer contribution is 2.44 percent and is part of the DB plan.

Note 15: The employer's contribution is determined actuarially each year.

Several important trends may be gathered from reviewing the information provided in Table 4. For instance, 26 of the 50 state plans do not have a DC plan in existence. While the remaining 24 state plans do have a DC plan, only 16 of these states (employers) have provisions to contribute a percentage of an employee's salary toward the retirement income of their employees. As expected, there was a fair amount of variation in the contribution levels provided by these 16 states. In most instances, these employer contribution percentages depend on gross salary and membership category or class.

For instance, in the Florida Retirement System (FRS), there were three membership classes—Regular, Special Risk and Administrative Support—that secured contribution levels of 9 percent, 20 percent and 11.35 percent, respectively. In addition, in the Florida system, state legislators, governors, lieutenant governors and cabinet officers secure a 13.4 percent contribution level from the state; judicial officers 18.9 percent; county elected officers 16.2 percent; and senior management service 10.95 percent. In Nebraska, the employer provides a matching contribution of up to 156 percent of the amount contributed by the employee. Then, in Oklahoma, while the employee has the option of participating and contributing an amount more than $25 toward a DC retirement plan, the employer has the option of matching this amount up to a total of $25.

Furthermore, 23 state plans permit their employees to make contributions to their DC plans. Nine of the 23 states permit their employees to contribute an optional amount into their DC plans.* However, of these nine states only four (Indiana, Michigan, Oklahoma and Utah) also make an employer contribution toward the DC plans of their members. In Michigan, for instance, along with a 4 percent mandatory contribution, the state plan also indicated that they have the option of providing an additional 3 percent contribution. In Indiana, the state makes a 3 percent contribution toward the DC plan of the employee. The remaining 14 states permit their members to make contributions but specify the exact amount that they may contribute, and these percentages range from 2.85 percent (Vermont) to 15 percent (Washington). The Florida plan does not authorize an employee contribution but does provide for employer contributions of varying percentages. The 23 plans referenced at the beginning of this paragraph and the Florida plan totals 24 plans, which is the total for the number of states that noted the presence of DC plans as an option to employees.

*While Oklahoma employees may contribute an optional amount, the plan does require a $25 minimum contribution.

In terms of the five local government plans that responded to the SLC survey, four indicated that neither employees nor employers are allowed to make, or made, a contribution toward the DC plans of members. A single plan, Texas Municipal, indicated that employees are permitted to contribute 5 percent, 6 percent, or 7 percent and that the employer's contribution is actuarially determined. In addition, in providing information on their state plan, Ohio indicated that local government employees in that state may contribute up to 9 percent and that the local government employers contributed up to 13.7 percent toward the DC plans of local government members. Furthermore, as stated in Note 4 of Table 4, the Maine plan administers a small DC plan that is available only to members employed by municipal and local government entities. Fewer than 500 of the 58,000 active members in the Maine state plan participate in this DC plan. While rules related to this plan are negotiated between the employer and the employees in participating local districts, mostly municipalities, the payments go directly to the plan's third-party administrator.

An important objective of the SLC survey was to determine whether there was a difference in the treatment of public health officials and public non-health officials in the arena of retirement benefits. Based on the survey responses, 48 of the 50 states indicated that there is no distinction in the rules governing the distribution of retirement benefits to these two public sector employment categories. The two states that listed treating certain public health officials differently from other public officials, Arkansas and Kansas, further elaborated on their responses that some elected public non-health officials receive multiple service credits, i.e., service credits used to determine the eligibility and payment of monthly retirement benefits (Arkansas) and that the secretary of health and environment, an individual appointed by the governor, may opt not to be covered by the state's DB plan that applied to all other personnel in the state's department of health and environment (Kansas). Similarly, the five local government plans that responded to the survey indicated that there is no distinction in the rules governing retirement benefits to public health officials and public non-health officials.

Chapter 5 Portability (Question 3)

During the course of their working life, American workers might hold a series of jobs in both the public and private sectors. Documented research shows that a major disadvantage associated with a worker switching jobs involves the fact that those workers generally receive lower retirement benefits from employer-sponsored plans in comparison to a worker who remains with a single employer for the duration of their working life. Introducing a system that links a worker's pension to the worker as opposed to the specific job, i.e., a portable pension, is a crucial factor in mitigating some of the negative features of the current system which does not allow for widespread pension portability. In the context of a vital profession like public health workers that continues to face increasing staffing shortages in the coming decades, the presence of portable pension benefits will be a strong incentive to both retain and attract qualified employees in the future. In terms of portability, it is important to mention both interstate portability (portability between states) and intrastate portability (portability within the state).

In terms of a definition, portability involves the right of an employee to move future pension benefits to a new employer without losing any benefits as a result of the job change. While both DB and DC plans might allow for the portability of benefits, a worker's ability to retain and transfer accumulated benefits upon changing jobs is generally less of an issue in a DC plan than in a DB plan. In essence, a DC plan is an account that holds funds while generating investment earnings for the worker; in a DB plan, the employee does not maintain an account but accrues credit corresponding to years of service and salary.

With regard to the DC plan, given that benefits flowing from these plans are not predetermined or guaranteed but depend on the amount contributed and the investment earnings generated, changing jobs does not have an effect on benefits flowing to the employee during retirement. Under rules established by the Internal Revenue Service, an employee may roll over retirement funds (such as an Individual Retirement Account or IRA) accrued under a former employer's retirement plan into a similar retirement plan of a new employer without incurring any penalties. In contrast, given that DB plans calculate retirement payments based on years of services and salary, and because the public sector employer generally sponsors the plan, the portability of these pension benefits becomes more complicated. For instance, portability in the DB arena involves the movement of years of service credit with the purchase of service credit. The purchase of service credit allows the employee to receive credit for years of work that would otherwise be lost due to changing jobs and working too few years at a specific agency in order to secure the maximum retirement benefits allowed.

There is a great deal of variation in the way state and local government entities might cover the portability of pension benefits. The two major mechanisms that allow the portability of pension benefits involve the following: the purchase of service credit and reciprocity. With regard to the purchase of service credits, once the worker establishes eligibility to purchase service credits into the new retirement plan, the purchase of these credits, often with pre-tax dollars accumulated in a tax-deferred account or with post-tax, out-of-pocket dollars, may take place based on the new plan's calculations. Purchasing service credit is the more common approach to portability in DB plans.

The reciprocity mechanism in DB plans is slightly more complicated since it involves transferring the value of an individual's retirement benefit from one system to another. As noted earlier, state and local governments often operate separate retirement plans for teachers, firefighters, police officers and general state employees. (Public health workers often belong to the latter category.) For instance, the state teachers retirement system might maintain reciprocity with the state's general employees retirement system; consequently, a participant in one system who later works in a system covered by the other system may request and secure approval that allows previously credited service and contributions to be taken into account at retirement. Similarly, another example might involve a local retirement system that maintains reciprocity with the state employee retirement system; consequently, this allows the direct transfer of credited service from one system to the other in the event that an employee moves between systems.

The pension portability of public health officials based on information accrued in the SLC survey and presented in Tables 5 through 10 provides information on whether these plans accept direct rollovers from a previous employer, permit the installment purchase of service credit and the pre-tax purchase of service credit alongside some of the rules covering such purchases and interstate and intrastate reciprocity agreements.

Table 5» Public Plans that Accept Direct Rollovers

State	DB Plan Yes	DB Plan No	DC Plan Yes	DC Plan No	Notes
Alabama		✔		✔	
Alaska		✔	✔		
Arizona		✔		✔	Note 1
Arkansas	✔			✔	Note 2
California		✔		✔	
Colorado		✔	✔		Note 3
Connecticut	✔		✔		
Delaware		✔		✔	Note 4
Florida		✔	✔		Note 5
Georgia	✔			✔	Note 6
Hawaii		✔		✔	
Idaho		✔	✔		
Illinois	✔			✔	Note 7
Indiana		✔	✔		
Iowa	✔			✔	
Kansas	✔			✔	Note 8
Kentucky	✔			✔	Note 9
Louisiana		✔		✔	
Maine		✔		✔	
Maryland	✔			✔	Note 10
Massachusetts	✔			✔	Note 11
Michigan		✔	✔		Note 12
Minnesota	✔			✔	Note 13
Mississippi	✔			✔	Note 14
Missouri	✔			✔	Note 15
Montana	✔			✔	Note 16
Nebraska	✔		✔		Note 17
Nevada	✔			✔	Note 18
New Hampshire	✔			✔	Note 19
New Jersey	✔			✔	Note 20
New Mexico		✔	✔		Note 21
New York		✔		✔	
North Carolina	✔			✔	Note 22
North Dakota		✔		✔	
Ohio	✔		✔		Note 23
Oklahoma	✔		✔		
Oregon		✔		✔	
Pennsylvania	✔			✔	Note 24
Rhode Island		✔		✔	
South Carolina	✔			✔	
South Dakota	✔			✔	Note 25
Tennessee	✔			✔	Note 26
Texas		✔		✔	Note 27
Utah	✔			✔	Note 28
Vermont	✔			✔	Note 29
Virginia	✔			✔	Note 30
Washington		✔		✔	Note 31
West Virginia	✔			✔	Note 32
Wisconsin		✔		✔	
Wyoming		✔		✔	Note 33
	28	22	11	39	

State	DB Plan Yes	DB Plan No	DC Plan Yes	DC Plan No	Notes
CA Alameda	✔			✔	Note 34
CA SCERS		✔		✔	
IL Municipal		✔		✔	
RI MERS		✔		✔	
TX Municipal		✔		✔	Note 35
	1	4	0	5	

Source: SLC Survey Questionnaire

If there are no entries under the DC plan column, then the state only provided information for the DB plan.

Notes

Note 1: Members cannot roll over funds into the plan directly; however, members can purchase service.

Note 2: Direct rollovers in Arkansas are accepted for eligible service purchases only.

Note 3: PERA's 401(k) plan, or DC plan, will accept rollovers from qualified plans that can be used to purchase service credit in the DB Plan.

Note 4: Direct rollovers are not accepted under general circumstances; only if there is an allowable period of service that the employee wishes to purchase and then only to the extent of buying of service allowed by Delaware law governing this pension plan.

Note 5: Rollovers are generally not allowed for DB plan members, but benefits are portable for any FRS-participating employers within the state.

Note 6: Direct rollovers are accepted for service purchases only.

Note 7: Rollovers are permitted to purchase optional service credit.

Note 8: Currently, there is a one-year service requirement for membership. Members may use rollover funds to purchase non-covered service within the state, out-of-state public service, but not federal service.

Note 9: Members may roll over funds from another qualified plan to purchase service credit. More than 31 types of service purchases are available under state law to participating members.

Note 10: Rollovers are permitted but only for in-state plans.

Note 11: Rollovers are permitted on a limited basis, if the funds are being used to purchase eligible past creditable service from another Massachusetts public contributory retirement system.

Note 12: The DC plan allows active state employees to roll over funds directly into the plan.

Note 13: Rollovers are permitted only if the member is buying back time in a position previously covered by the retirement system and in which the member took a refund.

Note 14: PERS accepts eligible rollover distributions or a direct transfer of funds from an eligible retirement plan or a traditional IRA in a lump sum payment or in increments to purchase out-of-state service or to reinstate previously withdrawn service credit.

Note 15: This is allowed only when transferring service from a qualified plan within the state of Missouri.

Note 16: The plan will accept a transfer of funds from the former employer as long as the transfer is not greater than the balance due to qualify the service into the state's system. The member can purchase a maximum of five years.

Note 17: A member may transfer his/her account balance from another qualified plan. This transfer adds to the member's account balance and thus enlarges his/her account at retirement.

Note 18: The member must have five years vested and may then purchase an additional five years. There are three ways to pay for purchases.

Note 19: Direct rollovers are accepted from qualified plans for all NHRS members, not just public health positions.

Note 20: PERS accepts direct rollovers or trustee-to-trustee transfers of tax-deferred funds from a qualified retirement plan in conjunction with the purchase of eligible pension service credit.

Note 21: Rollovers are not accepted into the 401(a) plan, but are accepted into the voluntary supplemental 457 plan.

Note 22: Direct rollovers are accepted from other qualified plans.

Note 23: The plan accepts indirect rollovers and trustee-to-trustee transfers, to the extent permitted by federal law.

Note 24: The plan accepts rollovers from a qualified plan for the purchase of creditable service as defined by the state's Employee's Retirement Code.

Note 25: Members may make trustee-to-trustee transfers.

Note 26: TCRS accepts rollovers (IRA, tax-deferred investments) for the purchase of all prior service from a qualified plan. The employer must authorize the purchase of prior service.

Note 27: Texas does have a proportionate retirement option with certain other in-state plans.

Note 28: All public employees in Utah are covered under the Utah Retirement Systems and all of them receive the same benefits (except public safety officers and firefighters), consequently, the benefit is totally portable within Utah for any public employee changing positions among different public employers.

Note 29: Vermont's retirement system accepts direct rollovers from qualified plans for the purchase of eligible service credit. This is not to be mistaken for a direct transfer of service from one qualified plan to another, however. Pre-tax contributions and interest may be rolled over, but the actual cost to purchase service is based on the salary and age of the participating member.

Note 30: These are allowed provided the member qualifies to purchase service credit.

Note 31: A member may roll over qualified monies to purchase previously withdrawn or un-credited optional service from the state's retirement system. Effective July 1, 2006, Plan 2 and 3 retirees may purchase up to 60 months of service credit with a qualified rollover provided they retire after July 1, 2006 with an actuarially reduced benefit.

Note 32: PERS allows employees to purchase permissive service credit with rollovers from qualified plans.

Note 33: Members may purchase an annuity for up to five years of service in another public entity.

Note 34 The plan allows for rollovers only to purchase service credit allowed by statute. This also depends on the fund type.

Note 35: TMRS does not accept direct rollovers for all employees. However, if the local government in question had adopted a provision authorizing the re-purchase of previously forfeited TMRS credit, TMRS will accept a rollover. In addition, the employee has to qualify for such a repurchase.

As documented in Table 5, 28 of the 50 states that maintain DB plans do permit direct rollovers from public health officials who had terminated service at another employer and sought to transfer funds from the qualified retirement plan of the previous employer. The remaining 22 states indicated that they do not permit such direct rollovers into their DB plans. In addition, a single local government plan (California's Alameda County) permits direct rollovers into their DB plan.

In terms of the states with DC plans that accept direct rollovers, the survey responses indicated that 11 of the 50 states did so; a majority of the states (39) do not accept such rollovers into their DC plans. Of these 11 states permitting rollovers into their DC plans, seven states (Alaska, Colorado, Florida, Idaho, Indiana, Michigan and New Mexico) do not authorize direct rollovers into their DB plans while the remaining four states (Connecticut, Nebraska, Ohio and Oklahoma) do. Consequently, it was only the latter four states that authorize direct rollovers into both their DB and DC plans. However, as indicated in the notes, there are various rules and provisions governing rollovers authorized into both the DB and DC plans.

While the period of time an employee works for a particular public employer, i.e., credited service, will count in computing the employee's retirement benefits, eligible members also may be entitled to purchase additional credited service. In general, to be eligible to make such additional purchases, the employee must be a contributing member of a public plan and have prior public employment, including military service, federal, state or local government employment, Peace Corps service and a host of other public service categories. Also, most often, the cost to purchase credited service depends on the employee's age at the time of purchase. In terms of paying for these additional service credits, the different public plans maintain a range of rules and criterion but they often include lump sum payments, installment purchase agreements, purchases through payroll deductions and the trustee-to-trustee transfer of funds from the employee's previous retirement plan. Certain plans might authorize the use of pre-tax funds for the purchase of these service credits while other public plans might not authorize the use of such funds.

Two important considerations in the portability of pension plans involve the installment purchase and the pre-tax purchase of service credit for public health officials both interested and permitted to enroll in a particular state's plan. The survey sought information on both these issues and the responses of all 50 states are presented in Tables 6 and 7.

Table 6» Purchase of Service Credit

State	DB Plan		DC Plan		Notes
	Yes	No	Yes	No	
Alabama		✔		✔	
Alaska	✔			✔	
Arizona	✔			✔	
Arkansas		✔		✔	
California	✔			✔	
Colorado	✔			✔	Note 1
Connecticut	✔		✔		
Delaware		✔		✔	
Florida	✔			✔	Note 2
Georgia		✔		✔	
Hawaii	✔			✔	
Idaho	✔			✔	
Illinois	✔			✔	Note 3
Indiana	✔			✔	Note 4
Iowa		✔		✔	
Kansas	✔			✔	Note 5
Kentucky	✔			✔	
Louisiana		✔		✔	
Maine	✔			✔	Note 6
Maryland	✔			✔	Note 7
Massachusetts	✔			✔	Note 8
Michigan	✔			✔	
Minnesota		✔		✔	
Mississippi	✔			✔	
Missouri	✔			✔	
Montana	✔			✔	
Nebraska		✔		✔	Note 9
Nevada	✔			✔	Note 10
New Hampshire	✔			✔	Note 11
New Jersey	✔			✔	Note 12
New Mexico	✔			✔	Note 13
New York	✔			✔	
North Carolina	✔			✔	Note 14
North Dakota	✔			✔	Note 15
Ohio	✔		✔		Note 16
Oklahoma	✔			✔	Note 17
Oregon		✔		✔	
Pennsylvania	✔			✔	
Rhode Island	✔			✔	Note 18
South Carolina	✔			✔	Note 19
South Dakota	✔			✔	
Tennessee	✔			✔	Note 20
Texas		✔		✔	
Utah	✔			✔	
Vermont	✔			✔	Note 21
Virginia	✔			✔	
Washington		✔		✔	
West Virginia	✔			✔	Note 22
Wisconsin		✔		✔	
Wyoming		✔		✔	
	37	13	2	48	

Local Plan	DB Plan		DC Plan		Notes
	Yes	No	Yes	No	
CA Alameda	✔			✔	
CA SCERS	✔			✔	Note 23
IL Municipal	✔			✔	
RI MERS	✔			✔	
TX Municipal		✔		✔	
	4	1	0	5	

Source: SLC Survey Questionnaire

If there are no entries under the DC plan column, then the state only provided information for the DB plan.

Notes

Note 1: Monthly ACH payments are allowed, in addition to two rollovers from the PERA 401(k) Plan each year.

Note 2: It does not have to be paid as a lump sum, and installment payments are limited to two or three per year. DB participants are allowed to purchase service credit for military service but no benefit rollovers are permitted from outside the FRS.

Note 3: The installment purchase of service credit is permitted for the purchase of optional permissive resource credit.

Note 4: It is permitted under certain circumstances.

Note 5: The installment purchase of service credit is permitted in certain cases.

Note 6: Public health employees are subject to the portability provisions of the applicable plan.

Note 7: The installment purchase of service credit is permitted for out-of-state service.

Note 8: It is permitted but subject to state law.

Note 9: Service credit is not applicable since the plans are not traditional defined benefit plans. Benefits are not based on service credit but rather on the amount in the account at retirement.

Note 10: Any member with five or more years of service credit earned in the Nevada system may purchase up to an additional five years of service credit. There are three ways to pay for such purchases: A lump sum payment; installment payments; or a lump sum rollover from a qualified tax-deferred retirement plan. If members choose to purchase service credit with a lump sum payment, then no interest is charged. If they choose to purchase service credit through installment payments, 8 percent in interest is charged. However, Nevada does not have a provision for purchasing service credit prior to a member obtaining five years of service credit in the state system.

Note 11: NHRS allows purchase of prior service credit in 6-month increments.

Note 12: The purchase of eligible service credit can be paid through payroll deductions over a maximum period of 10 years.
Note 13: Service credit can only be purchased by vested and currently participating members of PERA.
Note 14: If a member is eligible to purchase creditable service, it must be done as a lump sum payment.
Note 15: Up to five years of service may be purchased at an actuarially neutral cost.
Note 16: Service credit purchases are available to all OPERS members participating in the Traditional Pension Plan and Combined Plan, assuming the member otherwise meets the requirements necessary to complete the purchase. Purchases may be made by direct rollover, indirect rollovers and trustee-to-trustee transfers (to the extent permitted under federal tax law), direct payment by the member, or by pre-tax or after-tax installment payments.
Note 17: Oklahoma's DB plan accepts installment payments for the purchase of service credit as long as the member is employed by the state and payments are made through payroll deductions.
Note 18: Rhode Island general law allows active contributing members to purchase up to five years of retirement credit for certain types of public service, i.e. military, Peace Corps and other service specified by statute.
Note 19: The installment purchase of service credit is allowed if the member is enrolled in the state's DB plan.
Note 20: An installment plan for the purchase of prior service is available to all members.
Note 21: Members may purchase eligible service and make equal annual installment payments toward the total cost of the purchase of this service. The money from each installment is credited to the member's account when received, but the corresponding service credit is not added to the member's account until the final installment payment is made. The purchase must be completed prior to the commencement of the member securing retirement benefits.
Note 22: Participation in PERS is mandatory and a condition of employment.
Note 23: Members may purchase SCERS service credits and set up installment payments.

Based on the response to the SLC survey, 37 of the 50 states offering DB plans allow the installment purchase of service credit by public health officials; the remaining 13 states do not permit this feature, a deterrent to pension portability. With regard to the DC plans, only two states (Connecticut and Ohio) indicated that they allow installment purchases while 48 states do not authorize this feature of pension portability. In terms of the local plans, four plans allow the installment purchase of credit into their DB plans and a single plan (Texas Municipal) does not. None of the local plans that responded allow installment purchases into their DC plans. These public plans enforce a range of conditions and rules in allowing the installment purchase of service credit.

Table 7 breaks down these rules into broad categories including payment mechanisms, credit for other public service and certain plan-specific rules. Based on the responses provided and additional research, some plans operated more than one of the broad rule categories.

As indicated, based on the survey responses and additional research, it is possible to place the different rules maintained by the plans into five broad rule categories. These rules authorize the installment purchase of service credit and establish rules for lump sum payments, installment payments and payroll deductions, along with the purchase of service credit for other, permissible public service. It should also be noted that 14

Table 7» Broad Rule Categories for Installment Purchase of Service Credit

Category	State
1. Payroll deduction agreements	AZ, HI, KY, MA, MI, MO, NJ, OK, PA, SC, VA
2. Installment payments	CA, IL, KS, KY, MA, MD, MI, MO, MS, MT, NH, OH, SC, TN, VA, IL-MUNI
3. Other public service	AK, CT, FL, MA, MD, ME, MO, ND, NH, NY, PA, RI, SD, UT, VA, WV, CA- SCERS, CA-ALAMEDA, IL-MUNI, RI-MERS
4. Lump sum payments	ID, IL, KS, MA, MI, MO, NC, ND, NH, NM, NV, OH, SD, TN, UT, VA, WV, IL-MUNI
5. Plan-specific rules	CO, IN, MO
6. Plan does not permit the installment purchase of service credit for public health officials	AL, AR, DE, GA, IA, LA, MN, NE, OR, TX, VT, WA, WI, WY, TX-MUNI

state plans and a single local government plan do not authorize the installment purchase of service credit.

For instance, a large number of the plans (20) recognize a range of other public service stints and permit members to carry out the installment purchase of service credit based on these other service periods. For instance, members in Alaska's Public Employees' Retirement System may purchase several types of service credit based on prior (other) public service in order to increase the number of service years used in the calculation of their retirement benefits. The different types of other public service includes full-time temporary service credit; military service credit; Alaska Bureau of Indian Affairs credit; unlicensed vessel participant annuity retirement plan; village public safety officer service; rural public safety officer service; workers' compensation; and temporary legislative service prior to July 1, 1979. Similarly, the Employees Retirement System of Rhode Island permits the purchase of permissible service credit so that a member may increase the final benefit amount received at retirement. There are many types of service credit that are eligible for purchase such as service credit for periods of official leave; active duty military service prior to joining the state system; prior service in a public school system or local city or town; or allowable state service where no contributions were made to the Employees Retirement System of Rhode Island.

Permitting the pre-tax purchase of service credit is another feature that promotes pension portability, and based on the responses of the 50 states to the SLC survey (Table 8), a majority of both the DB and DC plans authorize this feature.

According to the responses depicted in Table 8, 36 of the 50 state plans permit the pre-tax purchase of service credit in their DB plans; the remaining 14 plans do not. Then, three of the 50 state plans allow the pre-tax purchase of service credit in their DC plans while the rest of the plans (47) do not. Of note, the three states that allow this feature with their DC plans (Connecticut, Ohio and South Carolina) also permit it with their DB plans. At the local government level, only a single plan (Texas Municipal) allows this feature in both its DB and DC plans.

Table 8» Pre-Tax Purchase of Service Credit

State	DB Plan		DC Plan		Notes
	Yes	No	Yes	No	
Alabama	✔			✔	Note 1
Alaska	✔			✔	Note 2
Arizona	✔			✔	
Arkansas	✔			✔	
California	✔			✔	Note 3
Colorado	✔			✔	
Connecticut	✔		✔		
Delaware	✔			✔	Note 4
Florida		✔		✔	
Georgia	✔			✔	
Hawaii	✔			✔	
Idaho		✔		✔	
Illinois	✔			✔	
Indiana	✔			✔	
Iowa	✔			✔	
Kansas	✔			✔	
Kentucky	✔			✔	
Louisiana	✔			✔	Note 5
Maine	✔			✔	
Maryland	✔			✔	
Massachusetts	✔			✔	
Michigan	✔			✔	
Minnesota	✔			✔	Note 6
Mississippi		✔		✔	Note 7
Missouri		✔		✔	
Montana	✔			✔	
Nebraska		✔		✔	
Nevada	✔			✔	Note 8
New Hampshire	✔			✔	Note 9
New Jersey	✔			✔	Note 10
New Mexico	✔			✔	Note 11
New York		✔		✔	
North Carolina		✔		✔	
North Dakota	✔			✔	
Ohio	✔		✔		
Oklahoma		✔		✔	
Oregon		✔		✔	
Pennsylvania		✔		✔	
Rhode Island	✔			✔	Note 12
South Carolina	✔		✔		Note 13
South Dakota	✔			✔	
Tennessee	✔			✔	
Texas	✔			✔	
Utah	✔			✔	
Vermont	✔			✔	
Virginia	✔			✔	
Washington		✔		✔	
West Virginia		✔		✔	
Wisconsin		✔		✔	
Wyoming		✔		✔	
	36	14	3	47	

State	DB Plan		DC Plan		Notes
	Yes	No	Yes	No	
CA Alameda	✔			✔	
CA SCERS	✔			✔	
IL Municipal	✔			✔	
RI MERS	✔			✔	
TX Municipal	✔		✔		Note 14
	5	0	1	4	

Source: SLC Survey Questionnaire

If there are no entries under the DC plan column, then the state only provided information for the DB plan.

Notes

Note 1: Service credit may be purchased by rolling over money from another plan.

Note 2: In Alaska, the pre-tax purchase of service credit is possible by lump sum, rollover or pre-tax payroll deduction.

Note 3: Pre-tax lump sum payment of service credit purchases is acceptable from eligible plans.

Note 4: Pre-tax service credit purchases are permitted under certain circumstances, but only if there is an allowable period of service that the employee wishes to purchase, i.e. other governmental service, and then only to the extent of buying a total of five years service and as allowed by state law governing this pension plan.

Note 5: Any DB plan member meeting the eligibility requirements may purchase service credit using direct rollover or pre-tax funds.

Note 6: All contributions are pre-tax, but Minnesota does not allow the purchase of service credits for time worked in a non-covered position.

Note 7: This is allowed only in the case of a direct rollover to purchase permissive service credit.

Note 8: A member must have five or more years of service credit earned in the system and may purchase up to an additional five years of service credit.

Note 9: Trustee-to-trustee transfer of funds to make service credit purchases may be carried out.

Note 10: This is permissible only if the purchase is being paid by a direct rollover or a trustee-to-trustee transfer or with tax-deferred funds from a qualified retirement plan.

Note 11: Vested and currently participating members of PERA can purchase service credit with rollover funds from other qualified plans.

Note 12: All purchases are billed for both lump sum payment (after-tax) and payroll deduction (pre-tax) plans. The member selects the payment type when invoiced, either a lump sum or payroll deduction for up to a five-year-term.

Note 13: Service credit can be purchased by active members of the state DB plan through a pre-tax installment program or a tax-deferred rollover from an IRA; 401(k) plan; 401(a) eligible plan; 403 (b) plan; or a 457 plan.

Note 14: TMRS is qualified under the Internal Revenue Code.

Table 9» Broad Rule Categories for Pre-Tax Purchase of Service Credit

Category	State
1. Rollovers, including lump sums, from another qualified plan	AK, AL, AR, CA, GA, HI, KS, LA, MA, MI, MT, ND, NH, NJ, NM, NV, OH, RI, TN, TX, UT, VA, VT, CA-SCERS, CA-ALAMEDA, IL-MUNI, RI-MERS, TX-MUNI
2. Payroll deduction agreements	AK, AZ, CA, CT, HI, IL, KS, KY, MA, MI, OH, RI, SC, VA, CA-SCERS, CA-ALAMEDA, IL-MUNI, RI-MERS
3. Purchasing service credit in increments with cost determined for each individual by an actuarial calculation	CA, DE, IA, KY, MA, MD, MI, ND, NH
4. Trustee-to-trustee transfer of funds	CA, MI, NH, NJ, OH, SD
5. Plan-specific rules	CO, IN, ME, SC
6. Plan does not permit the pre-tax purchase of service credit for public health officials	FL, ID, MN, MO, MS, NC, NE, NY, OK, OR, PA, WA, WI, WV, WY

As in the case of the installment purchase of service credit for public health (and other) officials in the different states, the SLC survey sought to identify several broad rule categories governing the purchase of pre-tax service credit. While some state plans operate under more than one broad rule category, 15 state plans do not authorize the pre-tax purchase of service credit. This information is presented in Table 9.

As documented, 23 state plans and all five local plans included in the survey accept lump sum rollovers from other qualified plans for the pre-tax purchase of service credit. For instance, the New Jersey Public Employees' Retirement System allows members to pay for all or part of a service credit purchase by transferring or rolling over tax-deferred funds from an eligible or qualified retirement savings plan. The types of plans from which a transfer or rollover can be made include a 401(a) qualified plan (including 401(k) plan) and 403(a) qualified annuity plan; a 403 (b) tax-sheltered annuity plan; and a 457(b) state and local government deferred compensation plan including an IRA (with tax-deferred funds), a traditional IRA, a simple IRA (must have been open for two or more years), a simplified employee pension plan (SEP), a conduit IRA or a rollover IRA.

In addition, Table 9 provides information on the existence of rules concerning the pre-tax purchase of service credit with payroll deductions (14 state plans and four local plans) and increment purchases (nine state plans). Furthermore, six state plans permit the trustee-to-trustee transfer of funds with four plans providing additional details on state-specific rules.

Another issue area that deals with pension portability and covered by the SLC survey is the existence of agreements between different retirement plans, both interstate reciprocity (between states) and intrastate reciprocity (within the same state), authorizing the transfer of a participant's credit. Once again, the focus was public health officials. Accordingly, the responses of the different states to this question are presented in Table 10.

Table 10» Interstate and Intrastate Reciprocity

State	Intrastate		Interstate		Notes
	Yes	No	Yes	No	
Alabama		✔		✔	
Alaska		✔		✔	
Arizona	✔			✔	Note 1
Arkansas	✔			✔	Note 2
California	✔			✔	Note 3
Colorado		✔		✔	
Connecticut	✔		✔		
Delaware		✔		✔	
Florida	✔			✔	Note 4
Georgia	✔			✔	Note 5
Hawaii		✔		✔	
Idaho		✔		✔	Note 6
Illinois	✔			✔	
Indiana		✔	✔		
Iowa		✔		✔	
Kansas	✔			✔	Note 7
Kentucky	✔			✔	
Louisiana	✔			✔	
Maine	✔			✔	Note 8
Maryland	✔			✔	
Massachusetts	✔			✔	Note 9
Michigan	✔			✔	Note 10
Minnesota	✔			✔	
Mississippi		✔		✔	
Missouri	✔			✔	
Montana	✔			✔	Note 11
Nebraska	✔			✔	
Nevada	✔			✔	
New Hampshire	✔		✔		Note 12
New Jersey	✔			✔	
New Mexico	✔			✔	Note 13
New York	✔			✔	Note 14
North Carolina	✔			✔	Note 15
North Dakota	✔			✔	Note 16
Ohio	✔			✔	Note 17
Oklahoma	✔			✔	Note 18
Oregon		✔		✔	
Pennsylvania	✔			✔	Note 19
Rhode Island		✔		✔	
South Carolina		✔		✔	Note 20
South Dakota		✔		✔	
Tennessee	✔			✔	Note 21
Texas	✔			✔	Note 22
Utah	✔			✔	Note 23
Vermont	✔			✔	Note 24
Virginia	✔			✔	
Washington	✔			✔	
West Virginia	✔		✔		Note 25
Wisconsin	✔			✔	
Wyoming		✔		✔	Note 26
	36	14	4	46	

Local Plan	Intrastate		Interstate		Notes
	Yes	No	Yes	No	
CA Alameda	✔			✔	Note 27
CA SCERS	✔			✔	Note 28
IL Municipal	✔			✔	Note 29
RI MERS		✔		✔	
TX Municipal	✔			✔	Note 30
	4	1	0	5	

Source: SLC Survey Questionnaire

Notes

Note 1: The plan has an intrastate reciprocity agreement with six major retirement systems in the state of Arizona.

Note 2: Vested members may purchase credit for out-of-state service provided they do not receive any benefits from their former plan. APERS has intrastate reciprocity agreements with the other major retirement systems in the state of Arkansas.

Note 3: CalPERS does not accept transfers of service credit or contributions from other retirement systems. CalPERS does have reciprocity agreements with many other public retirement systems within California, which generally allow plan participants to retire with less service credit or with a higher salary than would be available without reciprocity. However, each system is responsible for their retirement liabilities. CalPERS does not have reciprocity agreements with out-of-state retirement plans.

Note 4: Reciprocity is permitted only within the FRS, i.e., intrastate, between FRS participating employers.

Note 5: Reciprocity is permitted specifically to or from the Teachers' Retirement System of Georgia.

Note 6: Members must be vested and up to four years of service may be purchased at time of retirement.

Note 7: Reciprocity is permitted only within the systems administered by the KPERS.

Note 8: It is permissible if an agreement exists between the different agencies.

Note 9: With limited exceptions, intrastate reciprocity exists for all eligible members with prior out-of-state teaching service.

Note 10: There is no agreement covering interstate reciprocity; however, up to five years of service from another state or federal government plan can be purchased by a DB member.

Note 11: Only members of PERS are able to transfer service to the Teachers' Retirement System. In addition, members of the Municipal Police Officers' Retirement System; Judges' Retirement System; Sheriff's Retirement System; Game Wardens and Peace Officers' Retirement System; Highway Patrol Officers' Retirement System;

and Firefighters' Unified Retirement System may move service between PERS and one of the systems listed above, provided the individual is an active member of one of these systems. PERS members also may transfer service into these systems.

Note 12: Members may purchase credit for out-of state service.

Note 13: PERA only has reciprocity with the Educational Retirement Association of New Mexico.

Note 14: All service is portable among the different New York public retirement plans, the teachers plan and all the NYC plans.

Note 15: Members can transfer from local to state systems.

Note 16: Reciprocity is permitted only with the North Dakota teachers plan.

Note 17: OPERS has options available for members to move their service credit and contributions among other Ohio state retirement systems. OPERS members also are permitted to purchase service credit for federal or out-of-state service.

Note 18: Transports between OPERS and Oklahoma Teachers Retirement System are the only arrangements currently in place. In addition, service with other OK retirement plans may be purchased.

Note 19: Intrastate reciprocity with the Public School Employee's Retirement System is allowed.

Note 20: Any establishment of service credit with another plan for previous employment—through the South Carolina Retirement System—would depend exclusively on the member to initiate and establish that credit with the other plan.

Note 21: Reciprocity is permitted available for all members under TCRS and service within the system is portable.

Note 22: Intrastate reciprocity with the Teacher Retirement System of Texas is permitted.

Note 23: All public service in Utah is portable since the benefits are the same. Each member has an account and all service is accumulated there, regardless of the public employer. Public service rendered in states outside of Utah may be purchased, provided the member is not eligible to receive a benefit for that out-of-state service.

Note 24: Members who leave their employment and join either the Vermont State Teachers' Retirement System or the Vermont Municipal Employees' Retirement System may transfer their retirement credit to either system within one year of their new employment, and vice versa.

Note 25: PERS employees may transfer service credit from the Teachers' Retirement System into their PERS account. PERS also allows employees to purchase out-of-state service. Out-of-state service credit is considered permissible service credit and may be purchased with a rollover.

Note 26: Members may roll over their employee contributions and interest to other qualified pension plans upon termination of their employment.

Note 27: Reciprocity is permitted as long as eligibility requirements are met and are under established reciprocal agreements with CalPERS. ACERA (CA Alameda) has reciprocal agreements with every county in the state, and with many California cities. ACERA does not have inter-system agreements with the State Teachers Retirement System, Judges Retirement System and the University of California Retirement System. Previous employment with these systems does not qualify for inter-system member status. Reciprocal agreements based on the 1937 Counties Act and CalPERS acknowledge service credit earned in a reciprocal system for eligibility of benefits. Funds are not transferred between systems. Upon eligibility to retire, each system pays separate benefits based on service credit totals, age, and highest average salary earned between the systems.

Note 28: CA SCERS has reciprocity agreements with qualified agencies covered by the California Public Employees' Retirement System (CalPERS), public agencies having reciprocity agreements with CalPERS, and reciprocal county systems under the 1937 Act.

Note 29: All public pension systems in Illinois are reciprocal, except for the police and fire systems. Illinois has 13 reciprocal systems. IMRF has an out-of-state service provision for members, although it is not an interstate reciprocity arrangement. Members cannot receive a pension for the same service from both IMRF and the out-of-state plan.

Note 30: TMRS participates in intrastate reciprocity agreements for statewide pension systems.

Based on the responses to the SLC survey, a large majority of the states, 36 of the 50 states (or 72 percent), indicated they have agreements permitting intrastate reciprocity between eligible plans in their own states. The remaining 14 states indicated they do not have such agreements permitting reciprocity at the intrastate level. At the interstate reciprocity level, or reciprocity between states, only four states (Connecticut, Indiana, New Hampshire and West Virginia) noted they have agreements that permit the purchase of credits for out-of-state service, a relatively rare trend in the realm of public pension plans. Consequently, the remaining 46 states indicated they do not currently have agreements permitting interstate reciprocity. Another interesting level of analysis was the fact that 13 states permit neither intrastate nor interstate reciprocity for their different retirement plans. Of note, according to the information conveyed by Indiana, while they do not have agreements allowing for intrastate reciprocity, the state does have arrangements providing for interstate reciprocity.

At the local level, four of the five plans responding indicated the presence of agreements between different retirement entities within their states, while a single local plan, in Rhode Island, indicated no agreement permitting intrastate reciprocity. As expected, at the interstate level, none of the local plans indicated the presence of agreements permitting interstate reciprocity among their plans. Once again, there were a number of rules and eligibility requirements that were operational when either intrastate or interstate reciprocity arrangements went into effect.

Chapter 6 Legislative Activity (Question 4)

The final question in the SLC survey sought to determine whether there was any recent legislation that involved pension portability for public health officials. An overwhelming majority of the responses (44 of the 50 states) indicated there has not been any recent legislation on this topic in their states. In addition, all five county plans that responded indicated there has been no recent legislation on this specific topic within their jurisdictions either. Of the six states indicating there has been some recent legislative activity related to pension portability that applied to public health officials in their states, four states (Alaska, Florida, Louisiana and South Carolina) noted that this activity involved their DC plans. Three states (Colorado, Kentucky and South Carolina) indicated that the recent legislation related to the purchase of service credits. The following presents additional details on the responses provided by these six states. While these legislative changes are not specifically directed at public health officials, they could influence the pension portability of this class of public officials.

Alaska

As mentioned earlier, Alaska became the first state in the country to replace a statewide DB plan with a DC plan, doing so for the state plans that cover public employees and teachers hired after July 1, 2006. Members will make an 8 percent contribution and may make additional contributions as allowed by federal law, including rollovers. Employers will make a 7 percent contribution for teachers' retirement, 5 percent contribution for public employees' retirement, and an additional contribution, as determined annually, for retiree health insurance. (For fiscal year 2007, the retiree health insurance contribution for employers was set at 1.75 percent of salary).

Colorado

Recent legislative activity related to portability does not specifically affect public health officials but the Colorado PERA Board of Trustees increased the rates for purchasing years of service to actuarial rates as of November 1, 2005. In addition, legislation that limited up to 10 years the number of years that may be purchased while passed in 2003 went into effect on November 1, 2004.

Florida

A new DC plan was implemented in 2002 allowing all Florida Retirement System participants to choose between the existing DB plan and the new DC plan.

Kentucky

During its 2002 legislative session, the General Assembly authorized the Kentucky Retirement Systems' Board of Trustees to establish a program to purchase service credit by "employer pickup" before-tax-payroll deductions. The System began administering this new payment option in October 2002.

Louisiana

A DC plan has been set up for a select group unclassified employees who typically do not remain in state government for an extended length of time, i.e., Governor's appointees.

South Carolina

Recent legislation expanding the State Optional Retirement Program (State ORP), a DC plan, relates to the portability of retirement benefits because State ORP benefits are fully portable for participants. Prior to 2000, only employees of higher education institutions and technical schools could participate in the

Higher Education ORP program. The South Carolina General Assembly created the ORP for Teachers and School Administrators in Act No. 268 of 2000 for employees of school districts. In 2001, the General Assembly created the State ORP, which included state employees hired on or after July 1, 2002, as well as participants in the former Higher Education ORP and the ORP for Teachers and School Administrators. Finally, temporary and part-time employees hired on and after July 1, 2003, were allowed to participate in State ORP through Act No. 77 of 2003. Thus, during the past five years, South Carolina has greatly expanded the scope of the fully portable DC program.

Moreover, legislation expanding service purchase opportunities in the South Carolina Retirement System (SCRS), the state's DB plan, increases the portability of retirement benefits too. In 2000, the General Assembly increased the portability for the SCRS DB program through comprehensive service purchase legislation that increased the types of service that could be purchased. A member would be eligible to purchase SCRS service credits with other public service, educational service and military service at a cost of 16 percent of the higher of either the member's current salary or the member's career highest fiscal year salary. Members also could purchase up to five years of nonqualified service at a cost of 35 percent of the higher of either the member's current salary or the member's career highest fiscal year salary. Legislation in 2003 allowed a member of SCRS to purchase service credit for any period that the member participated in the State ORP, Higher Education ORP, or the ORP for Teachers and School Administrators.

In addition to these specific legislative actions that involved the pension portability of public health officials, a number of states enacted a series of pension and retirement plan changes during recent legislative sessions. Many of the legislative initiatives and enactments were driven by the financial pressures faced by a vast majority of the public retirement systems. It is very likely that issues related to public pensions will continue to roil state legislatures in the coming years as policymakers seek to devise innovative ways to address, among other trends, the unfunded and underfunded liability levels in their plans, the requirements of meeting GASB's recent healthcare ruling (Other Post Employment Benefits or OPEB) along with other issues.

An overview of some of the legislative actions and proposals enacted recently reveals the following major topics, a reflection of the efforts by states to preserve the long-term financial security of their plans by cutting costs, increasing revenue or introducing a combination of both features.

» Moving workers away from DB plans to 401(k)-style, DC plans (AK, CA, SC, MA, MI);
» Issuing pension obligation bonds (CA, NJ, OR, IL, WI);
» Linking annual increases to the CPI or consumer price index (IL, RI, NH);
» Increasing employee contributions—often to new members and not existing members—to the public retirement plan (AR, LA, MN, NE, NM, SC, WA, WI);
» Adjusting age at which retirees are paid full benefits (IL, RI, TX, LA);
» Reducing percentage of pay retirees get each year (RI);
» Eliminating Deferred Retirement Option Plans or DROPs (LA);
» Ending the practice of employees serving a short period in a position to boost overall pension (MO);
» Limiting the spiking of salaries in the years just before retirement (IL, LA, NE);
» Eliminating new retirement breaks through special interest legislation (LA);
» Placing salary caps on rehired retirees (NM);
» Taxing retirement benefits (KY, OK, WI);
» Debating the ability of plans to offer lucrative health plans to retirees (NC, MI); and
» Prohibiting and limiting early retirement incentives (TX, AZ, IL).

Chapter 7 Pension Portability in Other Public Sector Categories and Federal Tax Implications

Other Public Sector Categories

While the information secured on the pension portability of public health officials remains the crux of this White Paper, a snapshot of trends related to several other public sector employment categories remains useful. Information on how several states handle the issue of pension portability for different public sector employment categories also remains relevant. Once again, the issue of interstate and intrastate portability remains an important consideration in this discussion.

A 2003 report on interstate pension reciprocity among teachers is one such snapshot of how the teaching profession deals with the issue. According to this report, the National Council on Teacher Retirement (NCTR) surveyed its members about whether their individual retirement system had the power, either through statute or other authority, to enter into an agreement with the retirement system of another state for transferring and receiving funds that represent the value of a teacher's (or other public employee's) retirement service credit. Based on the responses, 38 of the 43 member states indicated their plans contained no provision for interstate reciprocity.

While plans in four of the five NCTR member states (Louisiana, Missouri, New York and Rhode Island) do have statutory authority, one state (Florida) studied the feasibility of such an agreement and then authorized the purchase credit for out-of-state service shortly thereafter. More specifically, the Louisiana Teachers' Retirement System, Missouri Public School Retirement System, New York State Teachers' Retirement System, and Rhode Island Employees' Retirement System maintain authority to enter into interstate pension reciprocity agreements. While the statutes all cover how an eligible employee may request the transferring plan to forward the relevant amount to the receiving plan, they differ in two important ways, i.e., the manner in which the transferring plan values the pension benefit to be transferred and what the eligible individual secures in the form of retirement benefits in the receiving plan. The plans in Louisiana, Missouri and New York look to their respective funding practices to determine the value of the transaction, while the Rhode Island plan bases the transaction cost on a standard formula.

With regard to the fifth state, the Florida Retirement System (FRS) released a portability study in September 1992 which noted that few states were interested in entering into interstate pension reciprocity agreements. The study also recommended purchase of service credit as the simplest method for providing portability of pensions between states. Consequently, FRS members are permitted by statute to purchase credit for out-of-state service, thus creating pension portability.

The SLC also solicited information about the status of pension portability for additional public sector categories in several states including Arkansas (police and fire fighters); Arizona (public safety personnel, corrections officers and elected officials) and Ohio (police and fire fighters). This information is presented below.

» *Arkansas Local Police and Fire Retirement System (LOPFI)*

At the intrastate level, a member's years of service with other Arkansas state-supported retirement systems count toward LOPFI retirement eligibility; however, periods of overlapping paid service only can be credited under a single system. For instance, if the member has service credit with the Arkansas Public Employees Retirement System, Arkansas Teacher Retirement, Arkansas Judicial Retirement, District Judges, Arkansas State Police, or an alternate retirement plan authorized by Arkansas

Code, the member is eligible for reciprocal service credit certification. With this certification, upon meeting the retirement eligibility guidelines for LOPFI, the member is eligible for retirement from LOPFI. Benefit payment eligibility is based upon the benefit program in effect by each related system and the member will receive a separate retirement benefit from each system which the member had service credit.

At the interstate level, as dictated by statute, members cannot purchase service credit for out-of-state time. However, there is a provision referred as Other Service Credit (Arkansas Code 24-10-508) which allows "[A]ny member of the Arkansas Local Police and Fire Retirement System who has at least five (5) years of service and who has service in an Arkansas law enforcement agency or fire department and who has been employed as a public safety or law enforcement officer in any agency not covered by the system or any other system that is reciprocal to the system shall receive credited service for that service." Under this provision, while LOPFI can recognize out-of-state police or firefighter work carried out by a member, there is an important restriction. Specifically, even though out-of-state time may be recognized—with the proper paperwork—for the purposes of vesting and the calculation of years for retirement, it will not be a factor in the calculation of retirement benefits.

» *Arizona Public Safety Personnel Retirement System*

The Arizona Public Safety Personnel Retirement System allows for intrastate portability, and a firefighter who wants to become a teacher can transfer his/her DB plan to this system. However, there may be some limits on the extent of the reciprocity and there might not be an exact year-to-year match in terms of service years.

With regard to interstate portability, the passage of recent legislation enables individuals entering or currently in the Arizona Public Safety Personnel Retirement System (DB plan) to purchase service credits for eligible out-of-state service.

» *Ohio Police and Fire Pension Fund*

The Ohio Police and Fire Pension Fund permits intrastate reciprocity and is portable within the state. Consequently, a firefighter who wants to become a teacher can transfer his/her DB plan to this retirement system. However, there may be some limits on the transfer of service years and which might not be a direct year-for-year transfer.

Even though the Ohio Police and Fire Pension Fund permits interstate portability and the purchase of service credit for full-time federal or public out-of-state service, there are several stringent requirements. For instance, the member must retire within 90 days of the purchase of his/her service credit. Also, the member is only eligible to purchase this service credit if the member is eligible to retire, or it is used to satisfy the service eligibility requirements for retirement. In addition, the member has to pay the present value of the predicted increase in benefits, a requirement that makes purchasing the service credit an expensive proposition.

Federal Tax Implications

In order to ascertain potential federal tax implications related to the portability of pension benefits, the SLC contacted the federal Internal Revenue Service (IRS) for a ruling. Based on information provided by an official at the IRS, while transfers, rollovers and the purchase of additional service credit, all conditions that assist pension portability, are entirely permissible without incurring federal tax penalties, there are a number of IRS code sections that apply in all these instances. The official also cautioned that in addition to any relevant IRS code sections, the rules and regulations relating to the specific state plan also remained important.

With regard to transfers, the IRS official indicated that the plan from which the individual is separating may make a distribution in the form of a direct rollover. As long as the receiving plan allows for rollover money to be moved in, these funds are portable and may be transferred. Internal Revenue Code 402(c)(4) provides details on eligible rollover distributions. However, in the event that the individual seeks to transfer money to a non-rollover destination, other provisions of the Internal Revenue Code may apply. Some of these provisions include I.T. Regulations 1.411(d)-4 for rules on protected benefits of transfers and 1.457-10(b) for rules on 457(b) plans. In terms of considering the purchase of additional service credit, section 415(n) of the IRC needs to be considered while purchasing service credit using pre-income tax funds requires reviewing IRC 414(h)(2). Finally, transfers from 457(b) and 403(b) plans to purchase service credit are possible in limited situations for DB plans with 1.457(b)-10(b)(8) and IRC 403(b)(13) being applicable.

Conclusion

For some years now, a variety of interest groups and concerned citizens have emphasized that policymakers need to initiate concrete steps to prepare for the "graying" of America and the huge increase in the percentage of Americans 65 years and over in the total population. These efforts have pivoted around the impact of an ageing population and the demands created on the nation's healthcare and retirement infrastructures. In terms of the nation's healthcare framework, there is a growing body of evidence suggesting that the nation faces, and will continue to face, even greater shortages in a number of healthcare categories in the coming decades. Along with the pressures of reacting to a population mix that contains a large cohort 65 years and over in the coming decades, the potential for both natural and man-made health-related emergencies and disasters raises the pressure for a healthcare delivery system that can respond effectively and efficiently.

Similarly, in terms of the nation's retirement framework, there is growing concern that more attention needs to be directed toward retirement planning and developing a retirement infrastructure that has the capacity to absorb the retirement needs of all Americans. As described, detailed analysis of the different elements comprising the nation's retirement architecture indicates some disturbing trends, a development that should cause a greater degree of consternation among both citizens and policymakers across the country. Specifically, the financial weaknesses in the nation's public retirement systems, the precarious financial position of corporate pension plans and the federal Pension Benefit Guaranty Corporation; the looming shortfalls expected in the Social Security and Medicare programs in coming decades; and the low personal savings rates of most Americans, coupled with the high rates of consumer and household debt, create a scenario where adequately financing the retirement of millions of Americans in the future remain extremely tenuous.

In the context of these twin challenges looming in the near horizon, it is imperative that policymakers at every level of government engage the public in a substantive discussion on both bolstering the shaky pillars of our retirement infrastructure and initiating preparatory measures to deal with the expected shortages in the healthcare field. A question to be explored in terms of dealing with the latter challenge involves reviewing whether states should offer incentives to retain and attract an adequate supply of well-trained healthcare workers to respond to both natural and non-natural health-related events. In this regard, enhancing pension portability at both the intrastate and interstate levels remains an important consideration.

The focus of this 50-state White Paper is the assessment of the portability of pension plans, both interstate and intrastate, for public health officials. Beyond the critical role played by these officials in our current healthcare framework, all estimates indicate that the role of these public health officials will only be enhanced in the coming decades given the reasons previously elaborated. Even though state and local governments have initiated a variety of measures to both retain and recruit additional workers into the different healthcare categories across the country, offering added retirement benefits have not cropped up as a strategy. Consequently, the information presented in this White Paper on a range of aspects related to pension portability will prove to be a useful springboard for policymakers as they deliberate mechanisms to deal with both the aging population and healthcare worker shortages.

Among the key findings, based on the responses of all 50 states and five local government retirement plans, presented in the White Paper are the following:

- All 50 states and five local governments indicated that their retirement plans cover both public health officials (hospital administrators, doctors, nurses etc.) and public non-health officials (police officers, firefighters, clerks etc.);
- Twenty-six of the 50 states and four of the five local government plans indicated they only offer a DB plan to all categories of the public employees, including public health officials. The remaining 24 states and a single local plan noted that they offer both DB and DC plans to all their employees;
- A bulk of the plans, 28 of the total 55 plans, reported that five years was the minimum time period for an employee's retirement benefits to be fully vested;
- A number of the plans (19 of the 55) require that their employees reach a minimum age of 60 years before retiring with full benefits;
- Of the 24 states (employers) offering a DC plan, only 16 contribute a percentage of salary—at varying levels—to their employee's DC accounts;
- Twenty-three state plans and a single local plan permit their employees to make contributions to their DC plans;
- Forty-eight of the 50 states indicated no distinction in the rules governing the distribution of retirement benefits to public health officials and public non-health officials. Two states (Arkansas and Kansas) listed minor differences in the application of retirement rules to these two public sector employment categories;
- Twenty-eight of the 50 states (and a single local government plan—CA Alameda) with DB plans permit direct rollovers from public health officials who had terminated service at another employer and sought to transfer funds from the qualified retirement plan of this previous employer;
- Eleven of the 50 states with DC plans accept direct rollovers and the remaining 39 states (and five local government plans) do not accept such rollovers;
- A large majority of the states, 36 of the 50 states (and four of the five local plans), acknowledge the presence of arrangements permitting intrastate pension portability between eligible plans within their states; and
- At the interstate level, only four states (Connecticut, Indiana, New Hampshire and West Virginia) noted they have agreements that permit the purchase of credits for out-of-state service, evidently, a relatively rare trend in the realm of public pension plans.

In conclusion, prior and ongoing research undertaken by The Council of State Governments' Southern Office, the Southern Legislative Conference, clearly demonstrates the serious weaknesses prevalent in all elements of our nation's retirement architecture. Research carried out by a variety of institutions also highlights the expected shortages in our nation's healthcare workforce in the coming decades, a situation made more dire as a result of the increasing proportion of older Americans in our population mix and the potential for both natural and man-made healthcare emergencies. In the healthcare shortage context, policymakers at every level of government have been exploring a range of options to both attract and retain a highly trained and adequately staffed healthcare workforce to proactively deal with the healthcare demands in the upcoming years. The objective of this White Paper is to explore an area not previously researched on a state-by-state basis and establish the existence of pension portability for public healthcare workers. Consequently, the results of this White Paper on pension portability will be of enormous interest to policymakers at the state level as they deliberate and continue to propose specific strategies to enhance our nation's capacity to deal with emerging healthcare challenges in the future.

Appendix A

Survey Instrument

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The Council of State Governments' (CSG) Southern Office
The Southern Legislative Conference (SLC)
White Paper on the Portability of Retirement Benefits of Public Health Officials

Project Background

In October 2004, The Council of State Governments' Southern Office, the Southern Legislative Conference (SLC), released a 50-state report reviewing trends in public retirement systems. This report concluded that all the elements in our nation's retirement infrastructure, both public and private, faced significant fiscal pressures, particularly in the context of the wave of baby boomers scheduled to begin retiring in large numbers in 2008. (Please visit www.slcatlanta.org to view the full report and related publications). Given the vital importance of this topic and its huge impact on state finances, CSG's Southern office continues to track and research trends in public retirement systems very closely.

As a result of this ongoing review, CSG's Southern office is in the preliminary stages of preparing a White Paper on the portability of retirement benefits of public health officials. For purposes of this White Paper, public health officials are defined to include, but not limited to, members of the Association of State and Territorial Health Officials (ASTHO)—the national nonprofit organization representing the state and territorial public health agencies of the United States, the U.S. Territories, and the District of Columbia—and the National Association of County and City Health Officials (NACCHO)—the organization that represents all local governmental public health agencies, including counties, cities, city/counties, districts, townships and public health agencies serving tribal communities on reservation lands.

The White Paper emerging from results of this survey will be a useful tool to state and local government policymakers, public health officials and other officials as they seek to bolster the depleted finances of public retirement plans and ensure a qualified pool of state and local health officials through the offering of an attractive and competitive benefits program.

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North Carolina • Oklahoma • South Carolina • Tennessee • Texas • Virginia • West Virginia

Survey Questionnaire

Name:
State:
Plan Name:
Title:
Contact Information
Phone:
E-mail:

1. Covered Employees
   a) Does your plan cover both public health officials and public non-health officials?
   b) Does your plan include both state and local government public health officials?

2. Retirement Benefit Rules
   a) Is your plan a DB plan or a DC plan?
   b) If your plan is a DB plan, will you please list the minimum amount of time (years of service) required for pension benefits to be fully vested and minimum retirement age? Also, is there a difference in benefit levels after a certain salary level?
   c) If your plan is a DC plan, will you please list the percentage of salary contributed by the employee and the percentage of salary contributed by the public sector employer?
   d) Is there a distinction in the retirement benefit rules that govern public health officials and public non-health officials?
   e) If yes, will you please describe the major differences?

3. Portability
   a) Does your plan accept direct rollovers from public health officials who have terminated previous employment and wish to move funds directly into your plan from a qualified plan of the previous employer?
   b) Does your plan permit the installment purchase of service credit for public health officials wishing to enroll in your plan?
   c) If yes, what are the rules covering such purchases for public health officials?
   d) Does your plan permit the pre-tax purchase of service credit for public health officials?
   e) If yes, what are the rules covering such purchases for public health officials?
   f) Some states, particularly as they relate to public non-health officials (teachers, in particular), have authorized their retirement systems to transfer a participant's credit to other retirement systems. If the transfers are authorized between retirement systems in the same state, they are referred to as "intrastate reciprocity." If the transfers are authorized between retirement systems in different states, they are referred to as "interstate reciprocity." Does your plan, specifically as it relates to public health officials, maintain such agreements with other plans?

4. Legislative Activity
   a) Has there been any legislative activity as it relates to the portability of retirement plans of public health officials in your state recently?

Appendix B

Interim Projections: Population Under Age 18 and 65 and Older: 2000, 2010, and 2030

State	2000 Under 18 Number	2000 Under 18 Percent of total population	2000 65 and older Number	2000 65 and older Percent of total population	2010 Under 18 Number	2010 Under 18 Percent of total population	2010 65 and older Number	2010 65 and older Percent of total population	2030 Under 18 Number	2030 Under 18 Percent of total population	2030 65 and older Number	2030 65 and older Percent of total pop.
United States	**72,293,812**	**25.7**	**34,991,753**	**12.4**	**74,431,511**	**24.1**	**40,243,713**	**13.0**	**85,707,297**	**23.6**	**71,453,471**	**19.7**
Alabama	1,123,422	25.3	579,798	13.0	1,092,184	23.8	648,889	14.1	1,112,264	22.8	1,039,160	21.3
Alaska	190,717	30.4	35,699	5.7	183,983	26.5	56,548	8.1	249,293	28.7	127,202	14.7
Arizona	1,366,947	26.6	667,839	13.0	1,688,464	25.4	922,010	13.9	2,607,152	24.3	2,371,354	22.1
Arkansas	680,369	25.4	374,019	14.0	702,656	24.4	412,152	14.3	783,223	24.2	656,406	20.3
California	9,249,829	27.3	3,595,658	10.6	9,496,978	24.9	4,392,708	11.5	11,046,140	23.8	8,288,241	17.8
Colorado	1,100,795	25.6	416,073	9.7	1,188,583	24.6	517,419	10.7	1,464,836	25.3	956,278	16.5
Connecticut	841,688	24.7	470,183	13.8	814,008	22.8	515,621	14.4	823,436	22.3	794,405	21.5
Delaware	194,587	24.8	101,726	13.0	202,208	22.9	124,972	14.1	218,760	21.6	237,823	23.5
D.C.	114,992	20.1	69,898	12.2	114,064	21.5	61,036	11.5	100,589	23.2	58,238	13.4
Florida	3,646,340	22.8	2,807,597	17.6	4,086,123	21.2	3,418,697	17.8	5,770,082	20.1	7,769,452	27.1
Georgia	2,169,234	26.5	785,275	9.6	2,502,386	26.1	980,824	10.2	3,146,624	26.2	1,907,837	15.9
Hawaii	295,767	24.4	160,601	13.3	316,263	23.6	191,065	14.3	325,503	22.2	326,957	22.3
Idaho	369,030	28.5	145,916	11.3	400,237	26.4	181,416	12.0	486,088	24.7	361,033	18.3
Illinois	3,245,451	26.1	1,500,025	12.1	3,196,906	24.7	1,600,863	12.4	3,259,113	24.3	2,412,177	18.0
Indiana	1,574,396	25.9	752,831	12.4	1,596,185	25.0	811,290	12.7	1,701,424	25.0	1,231,873	18.1
Iowa	733,638	25.1	436,213	14.9	711,056	23.6	449,887	14.9	663,301	22.4	663,186	22.4
Kansas	712,993	26.5	356,229	13.3	698,996	24.9	375,315	13.4	708,946	24.1	593,091	20.2
Kentucky	994,818	24.6	504,793	12.5	1,002,307	23.5	557,471	13.1	1,027,976	22.6	903,450	19.8
Louisiana	1,219,799	27.3	516,929	11.6	1,171,502	25.4	582,340	12.6	1,149,939	23.9	944,212	19.7
Maine	301,238	23.6	183,402	14.4	269,232	19.8	212,278	15.6	255,393	18.1	374,017	26.5
Maryland	1,356,172	25.6	599,307	11.3	1,406,294	23.8	717,987	12.2	1,718,368	24.5	1,235,695	17.6
Massachusetts	1,500,064	23.6	860,162	13.5	1,483,853	22.3	908,565	13.7	1,545,614	22.0	1,463,110	20.9
Michigan	2,595,767	26.1	1,219,018	12.3	2,487,058	23.8	1,334,491	12.8	2,433,329	22.8	2,080,725	19.5
Minnesota	1,286,894	26.2	594,266	12.1	1,289,963	23.8	670,429	12.4	1,505,527	23.9	1,193,124	18.9
Mississippi	775,187	27.3	343,523	12.1	759,450	25.6	379,025	12.8	712,022	23.0	634,067	20.5
Missouri	1,427,692	25.5	755,379	13.5	1,411,394	23.8	821,645	13.9	1,497,099	23.3	1,301,714	20.2
Montana	230,062	25.5	120,949	13.4	212,312	21.9	144,961	15.0	210,342	20.1	269,558	25.8
Nebraska	450,242	26.3	232,195	13.6	446,256	25.2	243,313	13.8	456,338	25.1	375,811	20.6
Nevada	511,799	25.6	218,929	11.0	665,085	24.7	329,621	12.3	1,075,633	25.1	797,179	18.6
New Hampshire	309,562	25.0	147,970	12.0	304,164	22.0	178,823	12.9	355,531	21.6	352,786	21.4
New Jersey	2,087,558	24.8	1,113,136	13.2	2,088,224	23.2	1,231,585	13.7	2,175,752	22.2	1,959,545	20.0
New Mexico	508,574	28.0	212,225	11.7	479,405	24.2	278,967	14.1	455,808	21.7	555,184	26.4
New York	4,690,107	24.7	2,448,352	12.9	4,420,876	22.7	2,651,655	13.6	4,325,477	22.2	3,916,891	20.1
North Carolina	1,964,047	24.4	969,048	12.0	2,268,838	24.3	1,161,164	12.4	3,080,611	25.2	2,173,173	17.8
North Dakota	160,849	25.0	94,478	14.7	141,964	22.3	97,108	15.3	128,313	21.2	152,358	25.1
Ohio	2,888,339	25.4	1,507,757	13.3	2,744,431	23.7	1,586,981	13.7	2,640,671	22.9	2,357,022	20.4

Oklahoma	892,360	25.9	455,950	13.2	895,073	24.9	494,966	13.8	977,929	25.0	757,553	19.4
Oregon	846,526	24.7	438,177	12.8	863,166	22.8	494,328	13.0	1,118,070	23.1	881,957	18.2
Pennsylvania	2,922,221	23.8	1,919,165	15.6	2,747,595	21.8	1,956,235	15.5	2,746,199	21.5	2,890,068	22.6
Rhode Island	247,822	23.6	152,402	14.5	249,273	22.3	157,358	14.1	252,731	21.9	246,507	21.4
South Carolina	1,009,641	25.2	485,333	12.1	1,036,349	23.3	605,660	13.6	1,143,807	22.2	1,134,459	22.0
South Dakota	202,649	26.8	108,131	14.3	194,152	24.7	114,459	14.6	195,896	24.5	185,064	23.1
Tennessee	1,398,521	24.6	703,311	12.4	1,478,915	23.7	829,023	13.3	1,791,281	24.3	1,417,708	19.2
Texas	5,886,759	28.2	2,072,532	9.9	6,785,408	27.5	2,587,383	10.5	8,990,095	27.0	5,186,185	15.6
Utah	718,698	32.2	190,222	8.5	818,985	31.6	234,798	9.0	1,060,166	30.4	460,553	13.2
Vermont	147,523	24.2	77,510	12.7	132,372	20.3	93,442	14.3	138,959	19.5	173,940	24.4
Virginia	1,738,262	24.6	792,333	11.2	1,880,184	23.5	994,359	12.4	2,320,190	23.6	1,843,988	18.8
Washington	1,513,843	25.7	662,148	11.2	1,488,423	22.8	795,528	12.2	1,964,633	22.8	1,563,901	18.1
West Virginia	402,393	22.3	276,895	15.3	382,311	20.9	292,402	16.0	325,351	18.9	426,443	24.8
Wisconsin	1,368,756	25.5	702,553	13.1	1,319,144	23.0	771,993	13.5	1,365,476	22.2	1,312,225	21.3
Wyoming	128,873	26.1	57,693	11.7	116,273	22.4	72,658	14.0	99,997	19.1	138,586	26.5

Source: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005

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