

Public Agenda Item #14

Review of 87th Legislative Session

August 25, 2021

Porter Wilson, Executive Director

87th Legislative Session Update



- 87th Legislative Session commenced on January 12, 2021 and adjourned on May 31, 2021
- With approaching depletion dates, there was significant focus on strategies to return ERS plans to actuarial soundness
- In addition, ERS tracked over 200 pieces of legislation related to ERS Board of Trustees, agency operations, trust fund investments and health care benefits programs

87th Legislative Update

Legislation Impacting ERS Board of Trustees



- **HB 917** - permits an ERS retiree to serve as one of the three elected members of the Board of Trustees
 - The legislation goes into effect on September 1, 2021
 - Applies to the 2023 ERS Board of Trustees election

87th Legislative Update



Legislation Impacting Certain Investments & Contracts

- **SB 13** – prohibits statewide pension plans and Permanent School Fund from directly investing in and governmental entities from contracting with companies that boycott certain energy companies
 - Comptroller will create the list of companies
 - Legislation includes fiduciary duty language
- **SB 19** - prohibits governmental entities from contracting with companies that discriminate against the firearm or ammunition industries
 - Applies to non-sole source contracts greater than \$100,000
 - Requires all vendors to sign an attestation related to the provision

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Legislation Impacting ERS Group Benefits Programs

- **SB 1** – the Legislature maintained funding levels for state employee, retiree and dependent health coverage
- **SB 827** - limits member cost share for insulin to \$25 per prescription / per month
- **SB 1065** - requires ERS health plans to cover diagnostic imaging (mammograms, ultrasound and MRI) to detect breast cancer and abnormalities in the breast for those with a personal history of breast cancer

87th Legislative Update

Legislation Impacting ERS Retirement Programs



- **SB 1071** – related to occupational disability retirements
 - Adjusts the formula to determine an occupational disability retirement annuity for certain state agency peace officers
 - Recalculates the current annuities for members with occupational retirement benefits
- **SB 483** - requires ERS to include additional information related to investment returns in the actuarial valuation prior to each session

87th Legislative Update



Legislation Impacting ERS Retirement Programs

- **SB 321 is historic legislation that protects the long-term stability of the ERS pension plan for all employees and retirees and addresses the state's unfunded pension liabilities**
- Two critical parts to SB 321:
 - **Stabilizes all current and future ERS plan retirement benefits**
 - Establishes an annual, actuarially determined **Legacy Payment Schedule** that fully pays down the current unfunded liability within 33 years
 - **Mitigates future unfunded liabilities and modernizes state pension benefit**
 - Creates a **Group 4 Cash Balance** benefit structure for new state employees starting on/after 9/1/2022

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SB 321 – Legacy Payments



- SB 321 established a state payment schedule to address the current unfunded liabilities by at least Fiscal Year 2054
- This is in addition to the current 10% of payroll state contributions
- Prior to each legislative session, ERS retirement actuaries will calculate the actuarially determined payments levels for the next biennium
- The FY23 – 24 payment level was \$510m each year of the biennium
- The full funding was included in HB 2, Supplemental Appropriations bill

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SB 321 – Group 4 Cash Balance Benefit

- Establishes a new group for state employees beginning their employment on or after September 1, 2022
- These future employees will be enrolled in a different type of defined benefit retirement structure known as a cash balance benefit which will be referred to as “Group 4”

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SB 321 - Group 4 Cash Balance Benefit

- Guarantees a lifetime annuity in retirement
- Lower active employee contribution (6% of pay vs 9.5%)
- Five-year vesting period (vs current 10 year)
- Retirement eligibility
 - Rule of 80 or
 - 65 years of age with 5 years of service
- Maintains enhanced Law Enforcement and Custodial Officers benefit
- Provides death benefits
- Provides disability benefits
- Maintains Proportionate Retirement Program

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SB 321 - Group 4 Cash Balance Benefit



- **Annual Interest**

- Guaranteed 4% annual interest on member account

- **Gain Share**

- In years when the ERS Trust Fund has investment earnings greater than 4% over a five-year average, half is shared with members and retirees through gain share
 - Not less than 0% and capped at 3%
 - Gain share credited to member account annually
 - Future Group 4 retirees may receive annual annuity increase based on gain share

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SB 321 - Group 4 Cash Balance Benefit



- **State Match**

- For every \$1 in the employee's cash balance account, the state matches \$1.50 to be set aside until retirement

- **Annuity**

- The total accumulated member account -- contributions, interest, gain sharing and state match -- is used to determine the member's lifetime annuity

Questions?