EMPLOYEE CHOICE & SHARED RESPONSIBILITY ACT

Current Law: Retirement Benefits and Costs

Currently PERS requires all participating employers (state, school districts, cities, counties and special districts) to offer both a pension plan, the costs of which are borne in full by employers, and a 401K-style retirement savings plan, the costs of which are paid by employees or picked up by their employers.

The costs of the PERS pension plans, with three different benefit formulas based on an employee's date of hire, now amount to 20% of payroll, will increase to 25% of payroll in July 2019 and will top out above 30% of payroll within two to four years thereafter.

The 401K-style retirement savings plan, known as the Individual Account Program or IAP, is supported by employee contributions of 6% of salary, which, for two-thirds of all payrolls, is picked up by employers as part of an employee's salary package.

Proposed Changes

Employee Choice

Effective 1/1/20, this legislation will require that all current employees and all new hires choose enrollment in either the PERS pension plan (at the benefit level applicable to their date of employment) or an expanded version of the IAP administered by the PERS Board.

Shared Responsibility for Financing Future Benefits

In the pension plans, all employees will be required to contribute 6% of salary to share in the cost of benefits accruing on a going forward basis.

In the expanded retirement savings plan, to be known as the Individual Retirement Savings Plan (IRSP), employers will be required to contribute 6% of an employee's salary to match the 6% contributed by employees. In effect, this would double the existing IAP. Other provisions:

- All employer and employee contributions shall vest for the employee on day one.
- Upon retirement, employees shall be offered the option of PERS-administered annuities based on their account balances and PERS estimated earnings rate.

Salary Cap: Extends the maximum salary for employer and employee contributions, pursuant to Internal Revenue Code Section 401(a)(17), to active members in the Tier 1 pension plan. Note: The current limitation is $275,000 per year, adjusted annually for inflation. Currently, Tier I members are exempt from this limit. With this change, all employees in all plans would be subject to the same limitation.

Maintenance of Employee IAP Accounts: For current employees opting for the pension plan, the existing IAP will close to new contributions on 1/1/20, but employee account balances shall be maintained by PERS and shall continue to be credited with interest until withdrawn by the employee.

Continuation of the Employer Pickup: Where employers pick up the employee contribution of 6% to the IAP, employers may continue such practices provided they apply these payments to the employee's contribution to the pension plan or to the IRSP, whichever is applicable.

Analysis of Effects

Employer savings would amount to approximately 6% of payroll initially, but would decline over time as more employees choose to enroll in the IRSP.

- For current public employees who remain in PERS pension plans, employers would receive a dollar-for-dollar credit against their required contribution rates, amounting to 6% of payroll.
- For new hires who choose to enroll in the pension plan, the savings for employers would also amount to 6% of payroll.
- For new hires who choose to enroll in the retirement savings plan, savings for employers would amount to approximately 2.5% of payroll.

Effect on Budgets, Services and Salaries: Employer savings of 6% of payroll would amount to $630 million per year, initially, which would free up resources for services, staffing and raises.

No Effect on Employee Paychecks: No employee would incur any reduction in pay from these changes. Where employers now pick up an employee's 6% IAP contribution, they would continue to pick up the employees' 6% contributions to the pension plans or the savings plan. Where employees now pay their own 6% contribution to the IAP, they would shift their payments to the pension plan or the retirement savings plan.

No Effect on Employee Pension Benefits: Benefits for *employees in the pension plans* would remain the same (with the exception of the salary cap for Tier 1), but would no longer be supplemented by the IAP.