

# Retirement Systems of Alabama

Employees Retirement System

Teachers Retirement System

Judicial Retirement Fund

State Employees' Insurance Plan

Public Education Employees' Health Insurance Plan

February, 2012

# Employees Retirement System

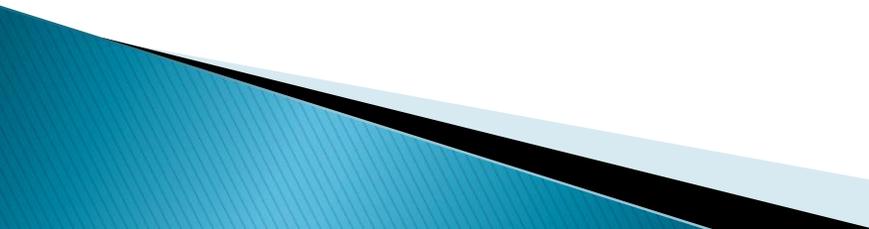
- ▶ Established in 1945
- ▶ Membership includes all regular state employees
- ▶ Governed by ERS Board of Control
- ▶ Defined Benefit Plan – benefit statutorily determined based upon salary, length of service
- ▶ ERS also encompasses almost all of the local government plans such as cities, counties, authorities, etc. These plans pay their own way and all assets and liabilities are the sole responsibility of the local units. A few localities such as Birmingham and Montgomery have elected to have their own systems and are not part of ERS.
- ▶ 32,447 active members and 20,771 retirees at the end of FY 2010 (State only)
- ▶ **Judicial Retirement Fund** administered by ERS Board of Control
- ▶ 338 Active members and 323 retirees as of end of FY 2010

# ERS Board of Control

## 13 Members

- ▶ Governor – Chairman – ex officio
- ▶ State Treasurer – ex officio
- ▶ State Personnel Director – ex officio
- ▶ State Finance Director – ex officio
- ▶ 3 members of ERS who are appointed by Gov.
- ▶ 2 members of ERS who are vested and elected by state employees
- ▶ 1 member who is a state retiree elected by retirees
- ▶ 1 member who is a local retiree elected by retirees
- ▶ 2 members of ERS who are elected by members of ERS

# Teachers Retirement System

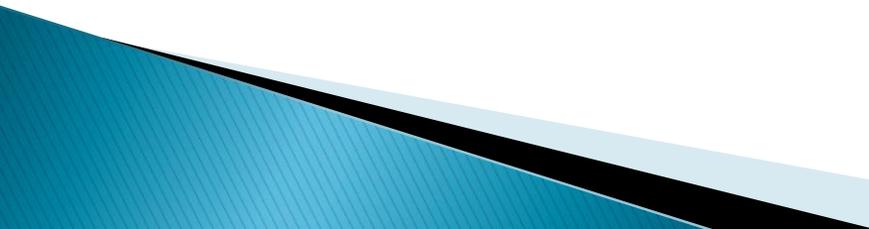
- ▶ Established in 1939
  - ▶ Membership includes teachers, principals, support personnel, transportation workers as well as employees of several associations. See Exhibit 1
  - ▶ Governed by TRS Board of Control
  - ▶ 136,290 active members and 77,428 retirees as of end of FY 2010
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# TRS Board of Control

## 14 members

- ▶ State Supt. of Education – ex officio
- ▶ State Treasurer – ex officio
- ▶ Finance Director – ex officio
- ▶ Executive Secretary of AEA – ex officio (Elected as Chairman)
- ▶ 10 members of the TRS elected by the membership:
  - 2 TRS retirees
  - 1 city or county superintendent
  - 1 principal
  - 1 member from Post Secondary
  - 3 teachers in grades K–12
  - 2 education support personnel

# Benefit Formula– ERS & TRS

- ▶ Both ERS and TRS have same benefit structure
  - ▶ Can retire at any age with 25 years of service or at age 60 with at least 10 years (Vested after 10 years)
  - ▶ Use highest 3 years out of last 10 years employed to get final average salary
  - ▶ Multiply final average salary by .020125 times total number of years of credible service to get maximum benefit
  - ▶ There are several options which reduce benefit to provide for spouse or other individual (actuarially determined)
  - ▶ Separate calculation for state policemen – higher benefit and shorter work requirements, however, not under social security system
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# Benefit Formula – Judicial Retirement

- ▶ 75% of salary immediately prior to retirement
- ▶ Retirement eligibility varies and provides for retirement upon satisfaction of any of the following service and age requirements:
  - any age with 25 years judicial service including any TRS or ERS time
  - 10 years at age 70
  - 12 years at age 65
  - 15 years at age 62
  - 16 years at age 61
  - 17 years at age 60

# Rates and State Cost

- ▶ Exhibits 2 and 3 show past several years
- ▶ Rates were reduced in FY 1999 mostly due to a change in the way assets were valued (required by GASB to recognize market value)
- ▶ Rates dropped to 4.03% TRS and 3.11% ERS
- ▶ FY 12 rates are 10% TRS and 9.42% ERS (reflects reduced rates due to the provisions of Act 2011-27 & Act 2011-676)
- ▶ FY 13 rates are 10.08% TRS and 10.12% ERS (revised rates based on changes to actuarial assumptions adopted by both boards)

# Unfunded Liability

- ▶ The unfunded liability of the TRS as of the end of FY 2010 was approx. \$7.8 billion (72.1% funded)
- ▶ The unfunded liability of the ERS (state only) as of the end of FY 2010 was approx. \$2.14 billion (68.4% funded)
- ▶ According to a survey of public funds covering 126 different public plans as of FY 2010, the average funding ratio was 77.1%. The lowest state plan was the Illinois State Employee Retirement System plan at 37.4% while the highest was New York State Teachers plan at 103.2%.
- ▶ Alabama's 2 plans exceeded 100% funded in FY's 1999 through 2004. These years were immediately following a required change to recognize market value.
- ▶ Since FY 2004 the ratio has trended downward
- ▶ Because of the 5 year smoothing method of recognition of assets the full effect of both negative and positive years are spread out. This helps keep the employer rates somewhat stable.

# Deferred Retirement Option Program DROP

- ▶ Closed to new participants effective March 24, 2011 pursuant to Act 2011-27
- ▶ Established in FY 2002
- ▶ Applied to TRS and ERS (locals could opt in)
- ▶ Must have had 25 years of creditable service, be at least 55 years of age (52 if state police); and be eligible for service retirement
- ▶ Upon entering program, monthly retirement payments were made to a DROP account along with the 5% employee contribution
- ▶ Interest on both accrued at 4%
- ▶ Must have remained in DROP at least 3 years, but no more than 5 years
- ▶ Upon completion of 5 years, could leave service and get lump sum or roll over to another plan
- ▶ Or may continue in employment with funds remaining in DROP account earning 4% – after March 24, 2011, the amount of interest payable will be the lesser of (1) the investment performance of the previous fiscal year but no less than \$0, or (2) 4%
- ▶ The cost of DROP was the result of changes in the retirement patterns of employees (more retire at age 55 than prior to the DROP)
- ▶ The benefits are the same as if person actually retired, however, the increased frequency of retiring (entering DROP) at a younger age resulted in increased costs

# Comparison of Key Factors

- ▶ Retirement age – Alabama at any age with 25 years or at age 60 with at least 10 yrs
- ▶ Regular (non public safety) – only 7 other state plans allow retirement at any age with 25 years of service or less (3 of these have increased for new employees)
- ▶ Several plans allow the same age and service requirements (7); many plans allow less years at age 60 (30), including 15 with 5 years or less; but majority require age higher than 60
- ▶ Alabama employee contribution rate – As of October 1, 2011 ERS and TRS rates are 7.25%. Beginning October 1, 2012 will increase to 7.50%. Rates from 1975–2010 were 5%.
- ▶ Survey results of employee and or teacher plans from other states show that 51 of those require less than Alabama's 7.25%, 1 plan is at 7.25% and 29 require a higher rate
- ▶ Exhibit 4 – Recap of 18 surrounding systems
  - Funded ratio
  - Retirement age
  - Benefit factor
  - COLA methodology

# History of Significant Changes

- ▶ **1975** – Increased employee rates from 4% to 5% (1% increase would generate \$64m for TRS and \$20m for ERS)
- ▶ **1975** – Passed Judicial Article implementation act which established a retirement system for judges
- ▶ **1987** – reduced number of years of service from 30 to 25 years but with a corresponding reduction in benefits
- ▶ **1988** – allowed for 25 year retirement with no reduction in benefits
- ▶ **2002** – Established DROP
- ▶ **2011** – Repealed DROP
- ▶ **2011** – Increased employee rates from 5% to 7.25%, and authorized increase to 7.50% in 2012

# Insurance

## State Employees Insurance Plan

- ▶ Covers all state employees and dependents
- ▶ Governed by Board
  - State Personnel Board members
  - Finance Director
  - Sec/Treasurer of RSA
  - 2 state employees
  - 2 ERS retirees covered under plan
- ▶ Exhibit 5 – History of Rates and Costs
- ▶ State premiums
  - increased by 111% over last 10 yrs – SGF 30%
  - Increased by 208% over last 15 yrs – SGF 69%
- ▶ 15 years ago – 4.6% of SGF
- ▶ FY 2011 – 8.5% of SGF

# Insurance

## Public Educational Employees Health Insurance Plan

- ▶ Covers all K-14 employees, TRS retirees as well as other entities who have joined the TRS
- ▶ Universities have option to join but only 1 (Jacksonville State University) has done so
- ▶ Governed by Board which is the TRS Board of Control
- ▶ Exhibit 6 shows a history of rates and funding (approximately 70% is from ETF)
- ▶ Employer premiums
  - 122% inc. over last 10 yrs – ETF 30%
  - 319% inc. over last 15 yrs – ETF 56%
- ▶ 15 years ago – 6.4% of ETF
- ▶ FY 2011 – 16.9% of ETF

# Non - State TRS Participating Agencies and year allowed in TRS

- ▶ Alabama High School Athletic Association 1967
- ▶ Alabama Association of School Boards 1976
- ▶ Council for Leaders in Alabama Schools 1980
- ▶ Alabama Education Association 1939
- ▶ Alabama Higher Education Partnership 2010
- ▶ Alabama State Employees Association 1989
- ▶ Alabama Vocational Association 1982
- ▶ Jefferson County American Federation of Teachers 1997
- ▶ Community Action and Community Development Agency of North Alabama 1990
- ▶ Organized Community Action Program, Inc. 1990
- ▶ Alabama Congress of Parents and Teachers 1985
- ▶ Alabama Retired State Employees Association 1989
- ▶ School Superintendents of Alabama (previously allowed to participate under CLAS) 2010
- ▶ Community Service Programs of West Alabama, Inc. 1990
- ▶ Etowah County Community Service Programs, Inc. 1990
- ▶ Developing Alabama Youth Foundation 1991
- ▶ Central Alabama Opportunities Industrialization Center 1986
- ▶ Tennessee Valley Rehabilitation Center 1996

# Retirement Contribution Rates

## Employer Contribution Rates:

<u>Fiscal Year</u>	<u>Teachers</u>	State <u>Employees</u>	<u>State Police</u>	<u>Judges</u>
1992	6.35%	6.02%	12.59%	27.00%
1993	6.35%	6.00%	12.59%	28.70%
1994	6.31%	6.00%	14.23%	27.01%
1995	6.31%	6.99%	15.22%	27.01%
1996	9.23%	6.99%	15.22%	23.05%
1997	9.23%	6.99%	15.17%	19.71%
1998	9.66%	7.56%	15.74%	19.71%
1999	4.03%	3.11%	6.85%	9.16%
2000	6.38%	4.08%	9.45%	21.19%
2001	6.38%	4.08%	9.45%	21.19%
2002	5.96%	3.95%	9.24%	21.19%
2003	5.02%	3.95%	9.24%	21.19%
2004	6.56%	4.19%	13.87%	21.93%
2005	7.03%	5.57%	18.03%	21.93%
2006	8.17%	6.77%	21.36%	21.93%
2007	9.36%	7.78%	24.12%	22.50%
2008 <sup>(1)</sup>	11.75%	10.26%	30.42%	23.23%
2009 <sup>(2)</sup>	12.07%	11.88%	30.99%	23.23%
2010	12.51%	11.94%	30.57%	24.20%
2011	12.51%	11.94%	30.57%	24.20%
2012	10.00%	9.42%	29.92%	24.35%
2013	10.08%	10.12%	31.61%	32.06%

<sup>(1)</sup> The FY 2008 rates include the following one-time amounts attributable to bonus payments to retirees: teachers, .69%; state employees, .42%; state police, .42%; judges, .18%.

<sup>(2)</sup> The FY 2009 rates include the following one-time amounts attributable to bonus payments to retirees: state employees, .51%; state police, .51%; judges, .18%.

## Employee Contribution Rates FY 2013:

- 7.5% Teachers and State Employees (except state police, certified law enforcement, correctional officers and firemen); for all years prior to FY 2012, the rate was 5%
- 10% State Police
- 8.5% Judges and certified law enforcement, correctional officers, and firemen; for all years prior to FY 2012, the rate was 6%

Note: Employee contribution rates are set by statute.

# Employer Cost for Retirement System

FY	TRS <sup>(1)</sup>	ERS <sup>(2)</sup>	JRF <sup>(3)</sup>
1992	233,507,746	53,628,567	5,979,485
1993	235,429,461	54,506,267	6,859,219
1994	245,783,913	56,265,932	6,280,387
1995	289,703,296	69,619,376	6,854,217
1996	284,615,456	68,802,114	6,494,717
1997	328,195,083	68,911,987	5,866,165
1998	355,953,472	74,055,482	5,397,838
1999 <sup>(4)</sup>	182,895,065	33,428,569	2,969,304
2000	267,906,340	43,442,959	5,582,715
2001	280,051,290	49,144,145	7,531,949
2002	266,510,671	46,053,625	8,200,383
2003	238,725,494	48,522,435	8,627,322
2004	305,887,402	52,218,449	8,982,290
2005	343,724,774	68,739,801	8,946,381
2006	425,544,602	90,951,802	8,915,570
2007	532,004,599	115,156,793	9,293,711
2008	716,912,822	160,623,070	9,861,941
2009	752,874,357	192,528,482	10,309,412
2010	773,177,416	191,361,347	10,797,333
2011	780,224,248	187,294,046	10,915,820
2012	621,287,412	152,626,320	10,889,000
2013	626,000,000	160,000,000	14,000,000

<sup>(1)</sup> Teachers' Retirement System **total** cost. Since FY 1996, a small portion of the employer contribution shown above has been paid from funds other than the ETF.

<sup>(2)</sup> Employees' Retirement System **total** cost.

<sup>(3)</sup> Judicial Retirement Fund **total** cost.

<sup>(4)</sup> The Retirement System changed from book to market value for assets in FY 1999, resulting in a lowering of the employer rate/contributions most significantly in FY 1999, but which also affected employer contributions each year thereafter to a lesser degree.

Note: The amounts shown for FY 2012 are budgeted amounts.

The amounts shown for FY 2013 are estimated amounts.

# Comparison of State Retirement System Provisions for Public Employees

State	Plan Name	Actuarial Funding Ratio	Actuarial Valuation Date	Normal Retirement (age/service)	Benefit Factor	Employee Contribution Rate	Employer Contribution Rate	Post-Retirement Increase Provisions	
Alabama	ERS	67.0	9/30/2010	any/25, 60/10	2.0125%	7.25%; state police contribute 10%	9.42% for state employees; 29.92% for state police (FY 2012)	Ad hoc as provided by the Legislature	
Alabama	TRS	71.1	9/30/2010	any/25, 60/10	2.0125%	7.25%	10.00% (FY 2012)	Ad hoc as provided by the Legislature	
Arkansas	Arkansas Teachers	73.8	6/30/2009	any/28, 60/5	2.15%	Non-contributory for approximately one-half of plan participants; those who contribute are required to contribute 6%	14% (FY 2010)	Automatic 3% compounded	
Arkansas	Arkansas PERS	74.1	6/30/2010	any/28, 65/5, 55/35		1.72% for members hired before 7/1/2005; 2% for members hired after 6/30/2005	Non-contributory for those hired before 7/1/05; 5% for those hired since	11.01% for most participants (FY 2010)	Automatic 3% compounded
Florida	Florida RS	86.6	7/1/2010	any/30, 62/6; any/25, 55/6 for public safety personnel*		1.6% for most general employees and teachers; 3% for most public safety personnel	Non-contributory**	8.74%; 19.81% for public safety personnel (FY 2010)	Automatic 3% compounded; no additional COLA credit after 7/1/11
Georgia	Georgia ERS	80.1	6/30/2010	any/30, 65/10		2%; those hired after 2008 participate in a hybrid plan with a multiplier of 1.25%	1.25%	10.41% (FY 2010)	Ad hoc as provided by the Legislature
Georgia	Georgia Teachers	87.2	6/30/2009	any/30, 60/10	2.0%		5.25%	9.74% (FY 2010)	Automatic 1.5% every 6 months as long as CPI increases, compounded

\*New hires as of 7/1/11, 65/8, any/33; Any/30 for public safety

\*\*Noncontributory thru 6/30/11; 3% for those hired as of 7/1/11

# Comparison of State Retirement System Provisions for Public Employees

Kentucky	Kentucky ERS	40.3	6/30/2010	Nonhazardous: 65/any, any/27; Hazardous: 55/any, any/20; those hired after 8/31/08, Non-hazardous: 65/5, Rule of 87 at age 57	Non-hazardous: 1.97% to 2.2%; Hazardous: 2.49%; for those hired after 8/31/08, graduated factor beginning at 1.1% for the first 10 years, rising to 2% for 30 or more years of service	5%; 8% for hazardous duty workers; for those hired after 8/31/08, rates are 6% and 9% respectively	11.61% for most employers; 29.45% for hazardous duty workers (FY 2010)	Automatic, tied to CPI, not to exceed 1.5% after 12 months of retirement	
Kentucky	Kentucky Teachers	61.0	6/30/2010	60/27, 55/5; for those joining after 6/30/08, 60/27, 55/10	2.5%, 3% with 30 years of service; members joining after 6/30/02 and before 7/1/08 and accrue less than 10 years of service receive 2%; for those joining after 6/30/08, a graduated multiplier is in place from 1.7% to 3%, depending on length of service	Members hired before 7/08 contribute 9.85%; those hired after must also contribute an additional 1% to the medical insurance fund. University members contribute 8.375%	13.105% for non-university participants; 13.84% for university participants. .75% is for retiree health for those hired before 7/08. 1.75% for those hired after (FY 2009)	Automatic 1.5%, compounded	
Louisiana	Louisiana SERS	57.7	6/30/2010	any/30, 60/10, 55/25		2.50%	7.5% for those hired before 7/1/06; 8.0% for those hire after 6/30/06; correctional officers contribute 9.0%	18.6% (FY 2010)	Lesser of 2% or CPI, plus up to 1% additional based on investment returns
Louisiana	Louisiana Teachers	54.4	6/30/2010	any/30, 60/5, 55/25		2.50%	8.0%	15.5% (FY 2010)	Based on investment return
Mississippi	Mississippi PERS	64.2	6/30/2010	any/25, 60/4; 60/8 for those hired after 6/30/07	2% for the first 25 years and 2.5% for each year thereafter	7.25%; Highway Patrol Officers contribute 6.50%	12.0%; 30.30% for Highway Patrol Officers (FY 2010)	Automatic 3% simple until age 55, then compounded thereafter	

# Comparison of State Retirement System Provisions for Public Employees

North Carolina	North Carolina Teachers and State Employees	99.3	12/31/2008	any/30, 65/5, 60/25; 55/5 for public safety personnel	1.82%	6.00%	3.36% (FY 2010)	Ad hoc
South Carolina	South Carolina RS	67.8	7/1/2009	any/28, 65/5	1.82%	6.50%	9.24%, plus .15% for the death benefit (FY 2010)	Automatic, based on CPI up to 2% annually
Tennessee	TN State and Teachers	90.6	7/1/2009	any/30, 60/5	1.5% plus .25% of FAS over SSIL	Non-contributory for most state and higher education employees; 5% for teachers	15.01% for state and higher ed employees; 9.05% for teachers (FY 2010)	Automatic, based on CPI up to 3% annually
Texas	Texas ERS	85.4	8/31/2010	60/5, Rule of 80; for those hired after 2009, 65/10	2.30%	6.00%	6.95% (FY 2010)	Ad hoc as provided by the Legislature
Texas	Texas Teachers	82.9	8/31/2010	65/5, Rule of 80; for those hired after 2009, 65/10	2.30%	6.9%, which includes .5% for health care benefits	7.99%, which includes 1.4% for health care benefits (FY 2010)	Ad hoc as provided by the Legislature
Virginia	Virginia Retirement System	80.2	6/30/2009	65/5, 50/30	1.70%	5% for participants other than law enforcement and corrections personnel, and judges.	8.81% for teachers; 6.25% for state employees; rates vary for political subdivisions from 0% to 25% (FY 2010)	Automatic, based on CPI up to 5% annually

# State Employees' Health Insurance Plan Monthly Rates and Employer Costs

1993	\$211	\$97,165,197	\$34,979,471	
1994	\$243	\$103,629,524	\$37,306,629	6.65%
1995	\$255	\$117,989,175	\$42,476,103	13.86%
1996	\$255	\$115,667,901	\$41,640,444	-1.97%
1997	\$255	\$112,947,717	\$40,661,178	-2.35%
1998	\$255	\$91,502,406	\$32,940,866	-18.99%
1999	\$320	\$131,585,762	\$47,370,874	43.81%
2000	\$357	\$148,115,489	\$53,321,576	12.56%
2001	\$400	\$169,112,747	\$60,880,589	14.18%
2002	\$445	\$193,682,768	\$69,725,796	14.53%
2003	\$490	\$217,474,419	\$78,290,791	12.28%
2004 <sup>(1)</sup>	\$550	\$227,042,877	\$81,735,436	4.40%
2005	\$650	\$276,662,054	\$99,598,339	21.85%
2006 <sup>(2)</sup>	\$668	\$281,492,460	\$101,337,286	1.75%
2007	\$717	\$319,123,823	\$114,884,576	13.37%
2008 <sup>(3)</sup>	\$775	\$322,591,716	\$116,133,018	1.09%
2009 <sup>(3)</sup>	\$775	\$322,232,685	\$116,003,767	-0.11%
2010 <sup>(4)</sup>	\$805	\$361,793,265	\$130,245,575	12.28%
2011 <sup>(5)</sup>	\$805	\$356,520,996	\$128,347,559	-1.46%
2012	\$805	\$328,568,771	\$118,284,758	-7.84%

## Notes:

(1) A one month credit of \$250 reduced the effective monthly employer cost per active employee to \$529.17.

(2) A one month credit of \$216 reduced the effective monthly employer cost per active employee to \$650.

(3) A one month credit of \$775 reduced the effective monthly employer cost per active employee to \$710.42.

(4) In FY 2010, state agencies made eleven monthly payments, reducing the effective rate to \$737.92.

(5) The General Fund budget act for FY 2011 set the employer rate at \$805 per month and required the Board to adjust the program wherever appropriate to maintain this fixed rate for FY 2011.

## Public Education Employees' Health Insurance Plan Monthly Employer Rates and Costs

<b>Fiscal Year</b>	<b>Monthly Employer Cost Per Active Employee</b>	<b>Total Employer Cost</b>	<b>Estimated Education Trust Fund Employer Cost</b>	<b>% Growth</b>	
1993	N/A	\$237,911,040	\$237,911,040		
1994	N/A	\$237,911,040	\$237,911,040	0.00%	
1995	N/A	\$117,500,000	\$117,500,000	-50.61%	
1996	\$210.50	\$214,606,434	\$150,224,504	27.85%	
1997	\$165.00	\$180,450,600	\$126,315,420	-15.92%	
1998	\$200.00	\$271,768,000	\$190,237,600	50.61%	
1999	\$225.00	\$317,273,000	\$222,091,100	16.74%	
2000	\$317.00	\$373,727,784	\$261,609,449	17.79%	
2001	\$345.00	\$404,200,620	\$282,940,434	8.15%	
2002	\$414.00	\$481,170,672	\$336,819,470	19.04%	
2003	\$433.00	\$509,244,372	\$356,471,060	5.83%	
2004	\$479.00	\$566,126,268	\$396,288,388	11.17%	
2005	\$583.00	\$698,704,512	\$489,093,158	23.42%	
2006	\$668.00	\$805,407,600	\$563,785,320	15.27%	
2007	\$717.00	\$881,981,604	\$617,387,123	9.51%	
2008	\$775.00	\$961,452,126	\$673,016,488	9.01%	
2009	\$752.00	\$925,317,517	\$647,722,262	-3.76%	
2010	\$752.00	\$911,875,393	\$638,312,775	-1.45%	
2011	\$752.00	\$900,050,546	\$630,035,382	-1.30%	
2012	\$714.00	\$829,510,920	\$580,657,644	-7.84%	
Note:					
Prior to FY 1996 PEEHIP received an appropriation from the ETF. Since 1996 premiums have been paid directly by employers based on a premium rate set in the ETF budget act.					