



# OLR RESEARCH REPORT

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## **UNIFIED PENSION SYSTEMS FOR STATE AND MUNICIPAL EMPLOYEES IN COLORADO, FLORIDA, AND NEW YORK**

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You asked for (1) descriptions of unified pension systems for state and municipal employees in states that allow employees to keep pension credit when they switch from a municipal to a state job, (2) whether any state has recently merged state and local systems into a unified system, and (3) what the obstacles and advantages are of making such a merger in Connecticut.

For the third question we look at merging several defined-benefit plans: the State Employee Retirement System (SERS), which is the major defined-benefit plan for state employees, the state-run Municipal Employee Retirement Fund (MERF), and the 180 plans administered by individual towns. (This means we are excluding the Teachers' Retirement System, as it is not part of the Social Security system and all the other plans are, and all the state's defined-contribution plans, such as the one covering state college professors).

### **SUMMARY**

This report describes the Colorado, Florida, and New York state retirement systems, each are consolidated state-local systems (with some exceptions). In most cases, in these systems when an employee goes from municipal to state employment his retirement credit from the new job is automatically added to the existing credit from the first job without the employee having to complete any paperwork.

No recent mergers of state and local systems have occurred, although in some situations such mergers have been stuck in negotiations for years. The Colorado system and the Denver teachers system have been attempting to merge for several years but have not been able to reach an agreement.

There are several obstacles to such a merger in Connecticut. One is how to mesh the different funding levels of the numerous municipal pension systems. Some plans routinely fund at 100% of liability while others are under funded to varying degrees. Other issues include whether to provide the same benefits to all members or keep different benefit levels for different employers merging into the new consolidated plan.

Furthermore Connecticut's SERS is governed largely by the union contract with the State Employees Bargaining Agents Coalition (SEBAC) and the current agreement lasts until 2017. The state would have to negotiate with SEBAC on the terms of any merger with municipal systems. Similarly on the local level, any union contract that addresses pensions would have to be renegotiated in order to gain approval for a merger.

Advantages of a consolidated system include an employee's keeping retirement credit when he switches jobs, for example, from a municipal to a state job. For most jobs in the Colorado, Florida, and New York systems, such an employee does not have to do anything to keep the credit from his previous job. His name and other identifying information simply connect him to his previous retirement credit when he starts the new job. (Each of these consolidated systems has major exceptions in that public workers in at least one big city of each state are not included in the system.)

Other advantages include administrative cost savings due to centralized administration and greater investment efficiencies due to merged funds creating a larger investment pool.

## **OVERVIEW OF THE THREE STATES**

The Colorado Public Employees' Retirement Association (PERA), the Florida Retirement System (FRS), and the New York State and Local Retirement System each have state, municipal, county, and at least some school district employees as members (see attachment 1 for an overview of the systems). Each provides retirement credit continuation when an employee goes from one member employer to another. For example, if an employee goes from a municipal to a state job, his retirement credit from

the municipal job stays with him and is added to when he begins the new job. In all three systems, the employee has no paperwork to fill out in order to keep the retirement credit. His name and Social Security number connect him to the existing credit.

A consolidated administration handles each of the pension plans. This makes it easy to track an employee who moves from one participating employer to another. Each of these systems has existed for decades.

Each of these systems combines the pension funds from all the participating employers into one large investment fund. That way the merged funds create better investment efficiencies than any individual employer would have if it operated a separate fund.

## **COLORADO PERA**

Colorado PERA's member employers include: (1) the state; (2) numerous municipalities, including some counties and entities such as housing authorities and small taxing districts; (3) courts; and (4) school districts (teachers and non-teachers). PERA is divided into these four groups for the purposes of pension funding levels and actuarial determinations. But the system is completely merged for investment and administrative purposes. In other words, the funding levels necessary to support the actuarially determined liability for each of the four is individually calculated. But the overall system's funds are merged for investment purposes and one central entity administers the entire system.

There is no barrier for an employee to switch from one of the four groups to another. In almost all instances, all pension credit continues with the employee when he switches to a new employer in the system.

### ***Recent Merger Attempt***

For almost a decade, state and Denver school district officials have been working on a possible merger of the Denver public school retirement system into PERA. In 2003 the legislature passed legislation allowing the two retirement systems to merge once the two parties agreed on a several financial issues.

"Both systems want to be sure that a merger won't hurt their members, so it's been very slow going," said Rob Gray, PERA government relations director. Gray said the two sides have not had an easy time

sizing up all the advantages and disadvantages of merging. Since the 2003 enabling legislation, the two parties were twice close to an agreement and each time a different party backed out.

PERA has a retiree health insurance trust fund and Denver public schools do not. The trust fund helps subsidize the health insurance costs of PERA retirees. While this is a reason for Denver to merge with PERA, Denver funds more of its pension liability than PERA. But Denver's higher funding level is somewhat offset by its higher ratio of retirees versus active employees. That means Denver has fewer active employees in the system to support its retirees.

But Gray said PERA is considering a number of changes to its plan this year, which Denver wants time to fully evaluate to see how they would affect its members in a merger.

Gray said it is difficult to predict when and if the merger will take place. The enabling legislation will soon expire, and that will require new legislation to clear the way for a merger.

## **FLORIDA**

The Florida Retirement System (FRS) covers all state government (including state universities and community colleges), all county, all school district, and most municipal employees, except those working for the state's major cities such as, Miami, Orlando, Jacksonville, and Tallahassee. The system has been merged since the 1970's. Municipalities are not required to participate; in fact the big cities left the FRS in the mid-1980's. In all 830 employers participate.

The system has two major administrative components: (1) the State Board of Administration manages the assets and investments, and (2) the State Division of Retirement tracks individual employee retirement credits, administers retirement benefits, and issues pension checks.

Like Colorado PERA, the system is seamless from the employee point of view. When an employee switches jobs from one participating employer to another, he picks up his retirement credit in the new job right where he left off from the previous job.

## **NEW YORK**

The New York State and Local Retirement System (NYSLRS) is similar to those in Colorado and Florida except it does not include teachers. New York, like Connecticut, has a separate retirement system for teachers. The NYSLRS includes all state, county, and municipal employees in the state, except New York City.

The NYSLRS has existed since the 1920's. In 1966, the state legislature created the police and fire retirement system as a parallel entity to the larger public employee system. At that time police and firefighters were transferred out of the larger system and into the police and fire system. But both are administered as one entity by the state Comptroller's Office and the pension funds are combined for investment purposes into one large fund. Today the two together are referred to as the New York State and Local Retirement System.

The police and firefighter system generally permits retirement after only 20 years. The portability issues are more complicated if an employee attempts to switch from a job that requires working until age 62 in order to get full retirement benefits to a job with full retirement after 20 years.

Generally speaking, switching from one police job to another police job or one general government job to another general government job is as seamless a transfer as it is in Florida or Colorado.

## **OBSTACLES & ADVANTAGES REGARDING A UNIFIED PUBLIC PENSION SYSTEM**

### ***Obstacles***

The obstacles to such a merger in Connecticut include how to mesh the different funding levels of SERS, MERF, and the more than 180 municipal pension systems that currently exist in the state. Some municipal plans routinely fund at 100% or more of liability while other plans are under funded to lesser degrees. Some towns have multiple pension funds which are not all funded at the same level. This poses the problem of how to put the municipal pensions on the same footing in a merger.

MERF sets standards for new towns that want to enter; they could be used as a model for bringing under-funded pensions up to MERF levels. A town with an under-funded pension must agree to a long-term plan of

increased annual pension fund payments (and possibly other requirements) in order to join MERF and have its retirees receive MERF-level benefits. Currently about 100 towns have all or part of their workforce in MERF. About 180 municipal pensions are not part of MERF.

Other issues include whether to provide the same benefits to all members or keep different benefit levels for different employers merging into the new consolidated plan. Different pension plans also have different vesting periods, different levels of employee contributions, and other significant variations that must be addressed. For example, if one town requires its employees to contribute to their retirement and another town does not, how is that reconciled if the two towns are part of a merger into a larger system?

Furthermore, Connecticut's SERS is governed largely by the union contract with the State Employees Bargaining Agents Coalition (SEBAC) and the current agreement lasts until 2017. Presumably, the state would have to negotiate with SEBAC on the terms of any merger with municipal systems. The union coalition might be wary of adding pension systems that are under funded or that do not require employee contributions. The state's system is currently under funded, and it requires contributions from all new employees.

Similarly on the local level, any union contract that includes pension provisions would have to be renegotiated in order to gain approval to move forward with the merger.

Finally, municipalities would lose local control of their pension plans, and possibly some local jobs would be lost, if the plans were consolidated in a statewide plan with central administration.

### ***Advantages***

The primary advantage employees would get from a merger of public pensions is allowing continuous pension credit accumulation when an employee changes jobs from one member employer to another. Such a merger could provide the same seamless pension credit accumulation that many employees have in the Colorado, Florida, and New York systems.

Currently under Connecticut law, an employee may purchase credit in SERS based on time earned in MERF or he may transfer his MERF retirement contributions directly to SERS. Employees coming from a non-MERF town to the state cannot purchase retirement credit based on their municipal time if they are in Tier II or Tier IIA of SERS.

Other merger advantages include administrative cost savings due to centralized administration. Keith Brainard, research director at the National Association of State Retirement Administrators (NASRA), said numerous small pension systems around a state result in unnecessary administrative costs. He noted they all must have someone administering the plan, and each plan has a board of trustees to oversee it.

“These small ‘Mom and Pop’ plans, which are common in New England, are almost indefensible to have so many boards and so much duplication,” he said.

There are also efficiencies of merging the pension assets into one larger fund for investment purposes. “The larger the pool of money to invest, the more efficiently it can be invested,” said Ron Snell of the National Conference of State Legislatures. “That efficiency continues to be beneficial no matter how large the fund is. If it gets bigger, it gets more efficient.” He said the efficiencies come from reduced investment management costs and higher earnings in part due to greater compounding.

### Attachment 1

<i>Plan Name</i>	<i>Plan Type</i>	<i>No. of Employees (active members)</i>	<i>Employees Included (exceptions also shown)</i>	<i>No. of Employers</i>	<i>Consolidated Administration</i>	<i>Investment Funds Merged</i>	<i>Automatic Pension Credit Portability Between Participating Employers</i>
Colorado PERA	Defined Benefit (DB)	176,840	State, municipal, county, judicial, school districts, (does not include many counties, Denver city school system)	400	Yes	Yes	Yes
Florida Retirement System (FRS)	DB with a limited Defined Contribution option	633,642	State, municipal, county, school districts (does not include cities of Miami, Orlando, Jacksonville and Tallahassee)	830	Yes	Yes	Yes
New York State and Local Retirement Systems (NYSLRS)*	DB	541,244	State, county, municipal, school district (non-teaching), (does not include teachers and all NY City public employees)	3,651	Yes	Yes	Yes, for most employees but different rules for police and fire*
Sources: Colorado, Florida, and New York retirement systems.							
*In New York, police and firefighters generally have 20 year full retirement plans. Thus police and firefighters are treated as a separate parallel plan but the entire NYSLRS is administered by one office and all NYSLRS pension funds are invested as one fund.							

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