

# NASRA Issue Brief: Employee Contributions to Public Pension Plans



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Unlike in the private sector, nearly all employees of state and local government are required to share in the cost of their retirement benefit. Employee contributions typically are a percentage of salary as specified in statute. Although investment earnings and employer contributions account for a larger portion of total public pension fund revenues (see Figure 1), by providing a reliable and predictable stream of revenue to public pension funds, contributions from employees fill a vital role in financing pension benefits.<sup>i</sup> In the wake of the 2008-09 market decline, employee contribution rates in many states have increased. This issue brief examines employee contribution plan designs, policies and recent trends.

## Mandatory Participation & Shared Financing

For the vast majority of employees of state and local government, both participation in a public pension plan and contributing toward the cost of the pension are mandatory terms of employment. Requiring employees to contribute distributes some of the risk of the plan between employers and employees. The primary types of risk in a pension plan pertain to investment, longevity, and inflation. Employees who are required to contribute toward the cost of their pension assume a portion of one or more of these risks, depending on the design of the plan.<sup>ii</sup>

The prevailing model for employees to contribute to their pension plan is for state and local governments to collect contributions as a deduction from employee pay. This amount usually is established as a percentage of an employee's salary and is collected each pay period. As shown in Appendix A, employee contribution rates typically are between four and eight percent of pay. In some cases, required employee contributions are subject to change depending on the condition of the plan and other factors. In some plans, the employee contribution is actually paid by the employer in lieu of a negotiated salary increase or other fiscal offset.

Some 25 to 30 percent of employees of state and local government do not participate in Social Security. In most cases, the pension benefit—and required contribution—for those outside of Social Security is greater both than the typical benefit and the required contribution for those who do participate in Social Security.

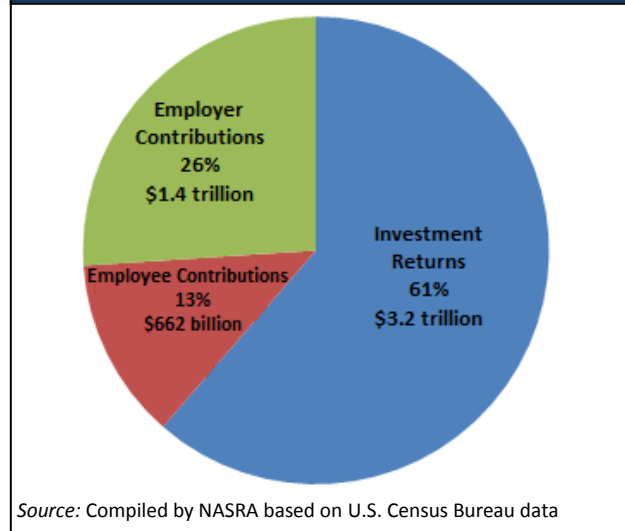
## Trends in Employee Contributions

Many states in recent years have made changes requiring employees to contribute more toward their retirement benefits: since 2009, 36 states (including Puerto Rico) have increased required employee contribution rates<sup>iii</sup> (see Figure 2). Appendix A lists employee contribution requirements for state plans in the Public Fund Survey.

### *New Contributions*

Some states, such as **Missouri**, **Florida**, and **Virginia**, which previously did not require some employees to make pension contributions, have now added required contributions for newly hired employees, existing workers, or both.

Figure 1: Public pension sources of revenue, 1982-2011



## Variable Contributions

**Pennsylvania** recently joined other states, such as **Arizona, Iowa, Kansas, and Nevada**, in maintaining an employee contribution rate that varies depending on the pension plan's actuarial condition. Because of the effect investment returns have on a pension plan's actuarial condition, employee contributions generally will rise following periods of sub-par investment returns and fall when investment returns exceed expectations. Changes approved in **California** require many workers to pay one-half of the normal cost of the benefit, which can result in a variable contribution rate. And the **Utah** plan affecting new hires requires employees to contribute the full cost of the benefit above 10 percent of pay, which could become variable.

## Increased Contributions for Current Plan Participants

States such as **New Mexico** and **Wyoming** have increased employee contributions for all workers-current and future. In some cases, such as **Virginia** and **Wisconsin**, new and existing employees are now required to pay the contributions that previously were made by employers in lieu of a salary increase.

## Transferred Risk

Another way employees are paying more is through the establishment of hybrid plans, which transfer risk from the employer to the employee. For example, in 2012 **Kansas** created a new cash balance plan (effective 1/1/15) and **Tennessee** in 2013 created a new combination defined benefit-defined contribution plan, for newly-hired workers in the case of both states. Some employees in other states, including **Georgia, Nebraska, Oregon, and Texas**, already participate in hybrid plans, which distribute a greater share of risk to the employee.

## Collective Bargaining

Employee contributions in some cases are set by collective bargaining, and can be changed when labor agreements are negotiated. For example, required employee contribution rates for many employee groups in **California** have increased in recent years as a result of labor agreements in that state.

## Legal Landscape

The legality of increasing contributions for current plan participants varies. Some states prohibit an increase in contributions for existing plan participants. Judges in **Arizona** and **New Hampshire** have ruled recently that legislative efforts to increase contributions on existing workers are a violation of the state constitution or contractual rights. In other states, however, higher employee contributions either have not produced a legal challenge (such as in **Minnesota** and **Mississippi**), or have withstood legal challenges (such as **New Mexico**). Legal challenges to higher employee contributions remain unsettled in several states.

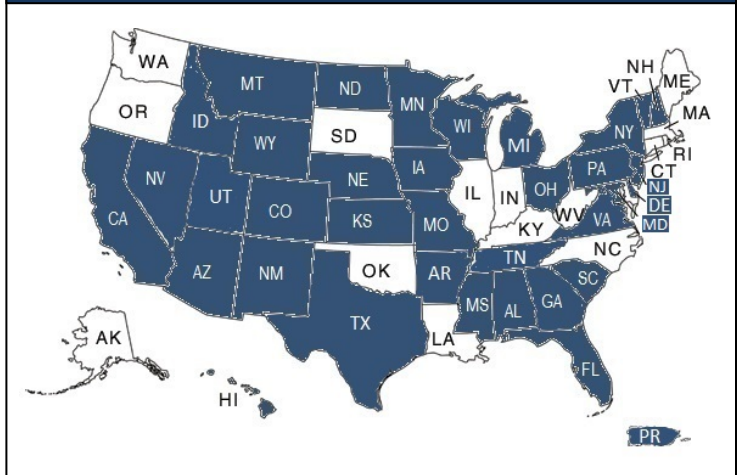
## Conclusion

The vast majority of employees of state and local government are required to contribute to the cost of their pension benefit. This number has grown in recent years, as most states that previously administered non-contributory plans now require worker contributions.

Employees also are being required to contribute more. In some cases, this requirement applies to both current and new workers; in other cases, only to new hires.

A growing number of states are exposing employee contributions to risk – either by tying the rate directly to the plan's investment return, or by requiring hybrid or 401k-type plans as a larger component of the cost of the employee's benefit.

Figure 2: States that have increased employee contributions in at least one public pension plan since 2009



Some of these changes to contribution requirements affecting existing plan participants are currently under legal review. The outcome of these legal challenges is likely to affect additional future reforms in this area.

## See Also

Information is available on public pension contributions at

- [Contributions @NASRA.org](#)
- [Pension Reform @NASRA.org](#)
- [Contribution Rates and Funding Issues @NASRA.org](#)
- [Public Fund Survey Summary of Findings for FY 2012](#), NASRA and NCTR

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<sup>i</sup> NASRA Issue Brief: Public Pension Plan Investment Return Assumptions (December 2013)

<sup>ii</sup> NASRA Issue Brief: State Hybrid Retirement Plans, Part II: Shared-risk arrangements (August 2012)

<sup>iii</sup> In 2011, Arizona passed a law increasing employee contributions which was ruled unconstitutional. Decisions are expected in cases involving similar contribution increases in other states.

## Appendix A: Employee contribution rates for statewide plans

State	Plan	Employee Contribution Rate (Percent of Pay)	Social Security Coverage
AK	Alaska PERS	6.75% for general employees; 7.5% for police and fire	No
AK	Alaska Teachers	8.65%	No
AL	Alabama ERS	6.0% to 7.5% depending on date of hire; state police contribute 10.0%; other law enforcement officers, correctional officers, and firefighters contribute 7.0% to 8.5% depending on date of hire	Yes
AL	Alabama Teachers	6.0% to 7.5%, depending on date of hire	Yes
AR	Arkansas PERS	5.0% for those hired since 7/1/05	Yes
AZ	Arizona Public Safety Personnel	9.55%, rising gradually to 11.65% by 2014	Yes
AZ	Arizona SRS	11.30%	Yes

State	Plan	Employee Contribution Rate (Percent of Pay)	Social Security Coverage
CA	California PERF	Most state employees contribute 8.0%; state safety, firefighters, and police contribute 9% to 12% depending on the benefits offered; school employees contribute 7.0%; most local agency miscellaneous, firefighters and police officers contribute between 7% and 9% depending on the benefits offered. Beginning January 1, 2013, new members will contribute between 6.0% up to a maximum of 12.0% depending on the employee classification and benefits offered.	Both
CA	California Teachers	8.0%; members hired on or after 1/1/13 are required to pay at least one-half of the plan's normal cost, rounded up to the nearest one-quarter percent. The normal cost currently is estimated to be 7.85%, so all participants are paying 8.0%.	No
CO	Colorado Affiliated Local	Varies by plan; most employees contribute between 5% and 10% of pay	No
CO	Colorado Fire & Police Statewide	8.0%	No
CO	Colorado Municipal	8.0%	No
CO	Colorado School	8.0%	No
CO	Colorado State	8.0%; state troopers contribute 10.0%	No
CT	Connecticut SERS	2.0% for those hired since July 1997; 5.0% for public safety personnel	Yes
CT	Connecticut Teachers	6.0%	No
DC	DC Police & Fire	8.0%	No
DC	DC Teachers	8.0%	No
DE	Delaware State Employees	3.0% of pay above \$6,000; employees hired after 12/31/11 pay 5.0% of pay above \$6,000	Yes
FL	Florida RS	3.0%	Yes
GA	Georgia ERS	1.25%	Yes
GA	Georgia Teachers	6.0%	Yes
HI	Hawaii ERS	7.8% for general employees and teachers; 12.2% for public safety officers; those hired after 6/30/12 pay 9.8% and 14.2%, respectively	Yes
IA	Iowa PERS	5.95% for regular employees; 6.76% for protection occupations; 9.88% for sheriffs. These rates are in effect from 7/1/13-6/30/15. The IPERS board has authority to adjust rates up to one percent in a given year.	Yes
ID	Idaho PERS	6.79%; 8.36% for public safety personnel	Yes

State	Plan	Employee Contribution Rate (Percent of Pay)	Social Security Coverage
IL	Illinois Municipal	3.75% for general employees; 6.75% for law enforcement personnel; all members contribute an additional 0.75% for survivor's pension, for total contribution rates of 4.50% and 7.50%, respectively	Yes
IL	Illinois SERS	3.5% for those covered by Social Security, plus 0.5% for survivor's pension benefit, 7.0% for those not covered, plus 1.0% for survivor's pension benefit; public safety members contribute 9.5%; rates decrease by 1.0% on 7/1/14	Yes
IL	Illinois Teachers	8.40%, plus an additional 1.0% for survivor's pension benefits for a total of 9.40%; rates decrease by 1.0% on 7/1/14	No
IL	Illinois Universities	7.0%; public safety personnel contribute 8.5%; all members contribute an additional 1.0% for survivor's pension benefits; rates decrease by 1.0% on 7/1/14	No
IN	Indiana PERF	3.0%	Yes
IN	Indiana Teachers	3.0%	Yes
KS	Kansas PERS	4.0% or 6.0%, depending on employee election of benefit level	Yes
KY	Kentucky County	5.0%; for those hired after 8/31/08, contributions are made to individual plan accounts	Yes
KY	Kentucky ERS	5.0%; for those hired after 8/31/08, contributions are made to individual plan accounts	Yes
KY	Kentucky Teachers	Non-university members contribute 11.355% (increasing to 12.855% in 2015-16); University members contribute 7.16% (increasing to 8.185% in 2015-16)	No
LA	Louisiana Parochial Employees	9.25% for members covered by Social Security; 3.0% for members not covered by Social Security	No, for approximately 85% of members
LA	Louisiana SERS	8.0% for regular employees; hazardous duty members contribute 9.5%	No
LA	Louisiana Teachers	8.00%	No
MA	Massachusetts SERS	5% to 9%, depending on member's date of entry, plus 2% of pay above \$30,000; state police contribute 12%	No
MA	Massachusetts Teachers	5% to 11%, depending on member's date of entry; those hired after 2000 pay 11.0%	No
MD	Maryland PERS	7.0%	Yes
MD	Maryland Teachers	7.0%	Yes
ME	Maine Local	Ranges from 3.0% to 8.0%	Yes, for approximately half of the members
ME	Maine State and Teacher	7.65%; 8.65% for law enforcement officers	No
MI	Michigan Municipal	0% to 10%, depending on employer election	Yes

State	Plan	Employee Contribution Rate (Percent of Pay)	Social Security Coverage
MI	Michigan Public Schools	Employees hired on or after 7/1/10 choose between a hybrid plan with a 6.4% contribution for the DB component and a 2.0% optional contribution to the DC component, or a DC plan with a zero to 6.0% optional contribution. Active DB members contribute based on their designated plan type, ranging from zero to 7.0%.	Yes
MI	Michigan SERS	Employees hired since 1997 are enrolled in a DC plan with an optional contribution rate of zero to 3.0%; (active DB plan members contribute 4%	Yes
MN	Minnesota PERF	6.25%; 9.6% for police and fire	Yes (except police and fire)
MN	Minnesota State Employees	5.0%; 8.6% for correctional officers	Yes
MN	Minnesota Teachers	7.0%, increasing to 7.5% on 7/1/14	Yes
MO	Missouri DOT and Highway Patrol	4.0% for those hired after 12/31/10	Yes
MO	Missouri Local	Non-contributory or 4%, depending on employer election; most plans are non-contributory	Yes
MO	Missouri PEERS	6.86%	Yes
MO	Missouri State Employees	4.0% for those hired after 12/31/10	Yes
MO	Missouri Teachers	14.50%	No
MS	Mississippi PERS	9.0%; Highway Patrol Officers contribute 7.25%	Yes
MT	Montana PERS	7.90%	Yes
MT	Montana Teachers	7.15%; those hired since 7/1/13 contribute 8.15%	Yes
NC	North Carolina Local Government	6.0%	Yes
NC	North Carolina Teachers and State Employees	6.0%	Yes
ND	North Dakota PERS	7.0%; law enforcement officers pay 8.31%	Yes
ND	North Dakota Teachers	9.75%, rising to 11.75% as of 7/1/14	Yes
NE	Nebraska County	4.5%	Yes
NE	Nebraska Schools	9.78%	Yes
NE	Nebraska State	4.8%	Yes
NH	New Hampshire Retirement System	7.0% for general employees and teachers; 11.8% for firefighters; 11.55% for police officers.	Yes, for general employees and teachers; No, for public safety

State	Plan	Employee Contribution Rate (Percent of Pay)	Social Security Coverage
NJ	New Jersey PERS	6.50%, rising gradually to 7.50%	Yes
NJ	New Jersey Police & Fire	10.0%	Yes
NJ	New Jersey Teachers	6.50%, rising gradually to 7.50%	Yes
NM	New Mexico PERF	7.42% for those with a salary below \$20,000; 8.92% for those with a salary above \$20,000	Yes
NM	New Mexico Teachers	7.9% for those with a salary below \$20,000; 10.1% for those with a salary above \$20,000, rising to 10.7% in FY 15 and thereafter	Yes
NV	Nevada Police Officer and Firefighter	20.75%	No
NV	Nevada Regular Employees	13.25%	No
NY	New York State Teachers	Those hired before 1/1/10 contribute 3.0% if <10 years of service, 0% if 10+ years of service; Those hired on or after 1/1/10 but before 4/1/12 contribute 3.5%; Those hired on or after 4/1/12 contribute 3.0% to 6.0% depending on date of hire and salary	Yes
NY	NY State & Local ERS	Those hired before 1/1/10 contribute 3.0% if <10 years of service, 0% if 10+ years of service; Those hired on or after 1/1/10 but before 4/1/12 contribute 3.5%; Those hired on or after 4/1/12 contribute 3.0% to 6.0% depending on date of hire and salary	Yes
NY	NY State & Local Police & Fire	Those hired between 7/1/09 through 1/8/10 contribute 3.0%; Those hired since 1/9/10 contribute 3%-6% based on annual salary for most participants	Yes
OH	Ohio PERS	10.0%; law enforcement personnel contribute 13.0%	No
OH	Ohio Police & Fire	10.75%; increasing by an additional 0.75% in each of the next two years until reaching 12.25% on 7/1/15	No
OH	Ohio School Employees	10.0%	No
OH	Ohio Teachers	11.0%; increasing by an additional 1% in each of the next 3 years until reaching 14% on 7/1/16	No
OK	Oklahoma PERS	3.5% for state employees; 3.5% to 8.5% for employees of county and local agencies; hazardous duty members pay 8.0%	Yes
OK	Oklahoma Teachers	7.0%	Yes
OR	Oregon PERS	Effective 1/1/04, non-contributory for the DB plan; 6.0% for the individual accounts	Yes
PA	Pennsylvania School Employees	7.5% for most participants; rates for those hired after 6/30/11 are subject to class selection, either 7.5% or 10.30%. Rates are subject to a limited graduating scale (200 bps) based on investment performance and the plan's funding level	Yes
PA	Pennsylvania State ERS	6.25% for most participants; rates for those hired after 6/30/11 are subject to a limited graduating scale based on investment performance and the plan's funding level	Yes (except state police officers)

State	Plan	Employee Contribution Rate (Percent of Pay)	Social Security Coverage
PR	Puerto Rico Government Employees	10% (except members selecting the Coordination Plan contribute 5.775% up to \$6,600 plus 8.275% of compensation in excess of \$6,600)	Yes (except police)
PR	Puerto Rico Teachers	9.0%	No
RI	Rhode Island ERS	State employees and teachers contribute 3.75% to the DB plan plus 5% to the DC plan; teachers who do not participate in Social Security contribute 7% to the DC plan	Yes
RI	Rhode Island Municipal	1.0 to 2.0% for general employees; 7.0% to 10.0% for public safety personnel; 5% for general employees to the DC plan; 7% for public safety personnel (non-SS) to the DC plan	Yes
SC	South Carolina Police	7.50%; increasing to 8.0% on 7/1/14	Yes
SC	South Carolina RS	7.50%; increasing to 8.0% on 7/1/14	Yes
SD	South Dakota PERS	6.0%; public safety personnel contribute 8.0%	Yes
TN	TN Political Subdivisions	Employers may elect the non-contributory option; otherwise, 5%; Newly hired local government employees may participate in a hybrid plan upon their employer's election. Mandatory contribution rates are 5% to the DB plan and 2% to the DC plan.	Yes
TN	TN State and Teachers	Non-contributory for most state and higher education employees; 5% for teachers; Employees hired after 7/1/14 participate in a hybrid plan with mandatory contribution rates of 5% to the DB plan and 2% to the DC plan	Yes
TX	Texas County & District	Employers set the employee contribution rate in a range from 4.0% to 7.0%; the weighted average is 6.7%	Yes
TX	Texas ERS	6.6%, rising to 7.5% in FY 17 and thereafter	Yes
TX	Texas LECOS	LECOS is a supplementary plan to the ERS of Texas; participants contribute 0.5% plus the ERS of Texas contribution.	Yes
TX	Texas Municipal	5%, 6%, or 7%, depending on ER election	Yes
TX	Texas Teachers	6.4%, rising to 7.7% in FY 17 and thereafter	No
UT	Utah Noncontributory	Non-contributory for employees hired before 7/1/11; Employees hired after that date may elect participate in a hybrid plan or a DC plan. Employee contributions in the hybrid plan are required when the costs of the DB portion of the plan exceed 10%. DC contributions are optional.	Yes
VA	Virginia Retirement System	5.0% for participants other than judges and elected officials; Employees hired on or after 1/1/14 participate in a hybrid plan with mandatory contributions of 4% to the DB plan and 1% to the DC plan.	Yes



<b>State</b>	<b>Plan</b>	<b>Employee Contribution Rate (Percent of Pay)</b>	<b>Social Security Coverage</b>
VT	Vermont State Employees	6.40% through 6/30/16 (rate is lowered to 5% if plan funding is 100% before 6/30/16)	Yes
VT	Vermont Teachers	5.0%	Yes
WA	Washington LEOFF Plan 1	0%	Yes
WA	Washington LEOFF Plan 2	8.41%	Yes
WA	Washington PERS 1	6.0%	Yes
WA	Washington PERS 2/3	4.92%; Plan 3 members contribute only to their defined contribution plan at between 5% and 15%	Yes
WA	Washington School Employees Plan 2/3	4.64% for Plan 2 members; Plan 3 members contribute only to their defined contribution plan at between 5% and 15%	Yes
WA	Washington Teachers Plan 1	6.0%	Yes
WA	Washington Teachers Plan 2/3	4.96% for Plan 2 members; Plan 3 members may contribute 5% to 15% to the defined contribution plan component	Yes
WI	Wisconsin Retirement System	7.0%	Yes
WV	West Virginia PERS	4.50%	Yes
WV	West Virginia Teachers	6.0%	Yes
WY	Wyoming Public Employees	7.0%; law enforcement personnel contribute 8.6%	Yes