




TO: Members of the Legislative Commission on Pensions and Retirement  
 FROM: Ed Burek, Deputy Director   
 RE: Hybrid Plans; Additional Information  
 DATE: October 14, 2011

In the *Retirement Plan Design Study* presented to the Commission at its September 2011 meetings by the executive directors of the Minnesota State Retirement System (MSRS), the Public Employees Retirement Association (PERA), and the Teachers Retirement Association (TRA), there is a section discussing hybrid plans. Hybrid plans are approaches which combine defined benefit and defined contribution coverage, or at least some elements of these two basic approaches.

Page 72 of the report listed examples of governmental hybrid plans, including the Federal Employees Retirement Systems and those of several states. This memo provides further details on the hybrid plans listed in the report for which some basic information was readily available. The descriptions are somewhat incomplete. For some of these plans I was unable to find, through review of online plan summaries or review of plan laws, any information specifically covering deferred retirements. Perhaps the applicable state legislature felt that the issue does not need to be specifically addressed; the laws covering general retirements perhaps are interpreted as sufficient to also cover deferred situations. However, lacking specific information, I chose to leave the deferred benefit age/service requirements and amounts blank. Another area where I found little information was the treatment of dependent children following the death of an active plan member. Perhaps these situations are covered in a chapter of law other than the chapter covering the specific plan, or perhaps it is assumed to be covered by the surviving spouse benefit, or through insurance.

In some cases, the design of these systems suggests underlying goals of the public employer. The system in Utah, for example, appears designed to limit the employer's exposure to no more than ten percent of covered pay. However, that is considerably in excess of employer contributions in law for any Minnesota general employee plans. The approaches in Ohio, on the other hand, seem designed to maximize the options available to the employee.

**Georgia State Employees' Pension and Savings Plan (GSEPS)**

The Georgia State Employees' Pension and Savings Plan (GSEPS) covers full-time Georgia State Employees hired after January 1, 2009. It has two components, a defined benefit component and a defined contribution component. Coverage by the defined benefit component is mandatory. Employees are also automatically enrolled in the defined contribution component, but employees are permitted to opt out of that coverage. Employees with defined contribution coverage select from various employee directed investment options.

Georgia	Defined Benefit Component	Defined Contribution Component
<b>Eligible group</b>	Full-time state employees hired after January 1, 2009; and any earlier employees who elect coverage under the new split system (part defined benefit/part defined contribution).	Same.
<b>Contributions:</b> - Employee - Employer	1.25%. Actuarially determined.	Minimum of 1%. Matching contribution up to 3%.
<b>Vesting</b>	10 years for retirement benefit. 15 years for disability benefit.	Employee portion immediately vested. Employer portion is 20% vested in 1 <sup>st</sup> year, 40% in 2 <sup>nd</sup> , etc. until full vesting in 5 <sup>th</sup> year.
<b>Salary for computing benefit</b>	Average of highest two years.	N/A.
<b>Salary</b>	Salary including overtime pay.	Same.
<b>Retirement benefits:</b> - Normal retirement age and service requirements - Amount - Early retirement age and service requirements - Amount	Age 60 and vested, or any age with 30 years of service. High-two average salary x 1.0% x years of service. Any age with at least 25 years of service.  Computed like normal retirement annuity with reduction of 7% per year. Maximum reduction of 35%.	Determined by vested account value.

Georgia	Defined Benefit Component	Defined Contribution Component
<ul style="list-style-type: none"> <li>- Form of payment</li> <li>- Benefit increases</li> </ul>	<p>Monthly payment.</p> <p>N/A.</p>	
<p><b>Disability:</b></p> <ul style="list-style-type: none"> <li>- Age and service requirements</li> <li>- Amount</li> </ul>	<p>At least 15 years of service and must be under age 60.</p> <p>Computed like retirement benefit with no reduction.</p>	
<p><b>Retirement after disability:</b></p> <ul style="list-style-type: none"> <li>- Age and service requirements</li> <li>- Form of payment</li> <li>- Benefit increases</li> </ul>	<p>Monthly annuity.</p> <p>N/A.</p>	
<p><b>Death</b></p> <p>Surviving spouse optional benefit:</p> <ul style="list-style-type: none"> <li>- Age and service requirements</li> <li>- Amount</li> <li>- Benefit increases</li> </ul>	<p>Spouse receives an annuity if member was active, at least age 60, and had 10 years of service, or was under age 60 but had 15 years of service.</p> <p>100% joint and survivor annuity.</p> <p>N/A.</p>	Determined by vested account value.
<p>Surviving dependent child benefit:</p> <ul style="list-style-type: none"> <li>- Age/service requirements</li> <li>- Amount</li> <li>- Benefit increases</li> </ul>		
<p><b>Refund of contributions in death situations:</b></p> <ul style="list-style-type: none"> <li>- Age/service requirement if death while active</li> <li>- Amount</li> <li>- Age/service requirement if retired or disabled</li> <li>- Amount</li> </ul>	<p>Age 60 but less than 10 years of service, or under age 60 and less than 15 years of service.</p> <p>Refund of employee contribution plus interest.</p>	
<p><b>Termination:</b></p> <ul style="list-style-type: none"> <li>- Refund of contributions age/service requirement</li> <li>- Amount</li> </ul>	<p>Refund of employee contribution plus interest.</p>	
<p><b>Deferred benefit:</b></p> <ul style="list-style-type: none"> <li>- Age/service requirement</li> <li>- Amount</li> </ul>		

**Indiana Public Employees Retirement Fund (PERF)**

The Indiana Public Employees Retirement Fund (PERF) provides coverage to general public employees in the state whose employing units have chosen to participate, other than teachers. The coverage has two components, a defined benefit component and a defined contribution component. Coverage by both is mandatory. Teachers are covered by a similar but not identical program.

The Indiana legislature has moved to merge the administration of the general employee and teacher plan, and all or most other Indiana public plans. In 2010 the board of trustees of the Indiana State Teachers' Retirement Fund (TRF) and the PERF board were required to appoint a single director to direct both of these systems. In 2011, these systems were merged to become the Indiana Public Retirement System (INPRS). This new system also administers the state's other public pension funds and certain non-retirement assets.

Indiana	Defined Benefit Component	Annuity Savings Account Component
Eligible group	All full-time State of Indiana employees.	All full-time State of Indiana employees.
<p><b>Contributions:</b></p> <ul style="list-style-type: none"> <li>- Employee</li> <li>- Employer</li> </ul>	<p>0%.</p> <p>8.6%.</p>	<p>Minimum of 3% of salary.</p> <p>Employer may pay part of the employee contribution.</p>
Vesting	10 years for most benefits, 5 years for disability.	Immediate.
Salary for computing benefit	High-five average salary.	
Salary	"Basic" salary.	



coordinated with Social Security. Ohio public employees do not earn credit in the Social Security Old-Age programs due to the Ohio employment.

Ohio	Traditional Plan	Member-Directed Plan (defined contribution)	Combination Plan	
			Defined Benefit Component	Defined Contribution Component
<b>Eligible group</b>	Ohio public employees who do not elect another plan within 180 days.	Ohio public employees who elect to be covered by the defined benefit plan.	Ohio public employees who elect the combination plan.	Ohio public employees who elect the combination plan.
<b>Contributions:</b> – Employee – Employer	10%. 14%.	10%. 8.5% (an additional 5.5% is deposited in a health-care medical account).	0%. Amount unclear. May be as determined by actuary.	10%. 0%.
<b>Vesting</b>	5 years.	20% vested at 1 year; 40% at 2 years; 60% at 3 years; 80% at 4 years; and 100% vested at 5 years.	5 years.	Immediate.
<b>Salary for computing benefit</b>	Average of highest three years.	N/A.	Average of highest three years.	N/A.
<b>Salary</b>				
<b>Retirement benefits:</b> – Normal retirement age and service requirements – Amount – Early retirement age and service requirements – Amount – Form of payment – Benefit increases	Age 60 with 5 years of service, or any age with 30 years of service. 2.2% of high-three average salary for each of first 30 years, and 2.5% of high-three average salary for each year after 30 years. Age 60 and vested, or age 55 with 25 years of service. Normal retirement annuity with reduction. Monthly payment. 3% annual increase, not compounded.	Age 55. Determined by account value. Age 55. Determined by account value. Can be annuitized by OPERS, or full or partial withdrawal. N/A.	Age 60 with 5 years of service, or any age with 30 years of service. 1.0% of high-three average salary for each of first 30 years; 1.2% of high-three average salary for each year after 30. Age 60 and vested, or age 55 with 25 years of service. Normal retirement benefit with reduction. Monthly annuity payment. 3% annual increase not compounded.	Account value, or an annuity determined by the account value. Age 55. Account value, or an annuity determined by the account value. Can be annuitized by OPERS, or full or partial withdrawal. N/A.
<b>Disability:</b> – Age and service requirements – Amount	Vested. Based on the high-three final average salary, but not less than 30% nor more than 75%.	N/A.	Vested. Similar to traditional plan but presumably a lesser amount. Disablitant must agree to transfer assets to the traditional plan to commence payment.	Immediate. Distribution of account value.
<b>Retirement after disability:</b> – Age and service requirements – Form of payment – Benefit increases	2.2% of high-three average salary x years of service. Monthly benefit to age 65. 3% annual increase, not compounded.		Similar to traditional plan but presumably a lesser amount. Disablitant must agree to transfer assets to the traditional plan to commence payment. Monthly to age 65. 3% annual increase, not compounded.	

Ohio	Traditional Plan	Member-Directed Plan (defined contribution)	Combination Plan	
			Defined Benefit Component	Defined Contribution Component
<b>Death</b> Surviving spouse optional benefit: – Age and service requirements – Amount – Benefit increases	Minimum of 18 months.  If at least 18 months of service but less than 10 years, \$250 per month or 25% of high-three average salary, whichever is greater. If at least 10 years of service, amount is the greater of \$250 per month, 25% of high-three average salary, or an amount determined by retirement formula.  3% annually.	Refund of account value.	Minimum of 18 months.  Amount is unclear.  3% annually.	
Surviving dependent child benefit: – Age/service requirements – Amount – Benefit increases	Under age 18 (or 22 if a qualified student).  An amount based on high-three average salary.  3% annual increase.	Refund of account value.	Under age 18 (or 22 if a qualified student).  An amount based on high-three average salary, presumably less than the traditional plan.  3% annual increase.	
<b>Refund of contributions in death situations:</b> – Age/service requirement if death while active – Amount – Age/service requirement if retired or disabled – Amount	Refund of full or partial employee contributions.	Refund of account value.	Refund of full or partial employee contributions.	
<b>Termination:</b> – Refund of contributions age/service requirement – Amount	None.  Partial refund of employee contributions plus interest (33% with 5 years of service, 67% with 10 or more years of service).	Refund of account value.	If at least 5 years of service, an amount equal to 1/3 of employee's contributions plus interest. If at least 10 years of service credit, an amount equal to 2/3 of employee's contributions plan plus interest.	Refund of account value.
<b>Deferred benefit:</b> – Age/service requirement – Amount				

**Oregon Public Service Retirement Program (OPSRP)**

Public employees hired since 1993 have a combination of coverage through a defined benefit component, called the Oregon Public Service Retirement Program (OPSRP), and a defined contribution component called the Individual Account Plan (IAP).

Oregon	Oregon Public Service Retirement Program (OPSRP)	Individual Account Plan (IAP)
Eligible group	Public employees hired after August 29, 2003.	Public employees hired after August 29, 2003.

Oregon	Oregon Public Service Retirement Program (OPSRP)	Individual Account Plan (IAP)
<b>Contributions:</b> – Employee – Employer	0%.  Contribution rate as set by the Public Employees Retirement Board.	6%.  Voluntary.
<b>Vesting</b>	5 years with at least 600 hours of employment in each year.	Immediate.
<b>Salary for computing benefit</b>	High three years.	N/A.
<b>Salary</b>	Compensation including deferred compensation and contributions to tax-sheltered plans. Salary for pension purposes must not exceed \$200,000.	Same.
<b>Retirement benefits:</b> – Normal retirement age and service requirements – Amount – Early retirement age and service requirements – Amount – Form of payment – Benefit increases	Age 65, or age 58 with 30 years of service.  Years of service x 1.5% x high three-year average salary.  Age 55 and vested.  Normal retirement benefit with an actuarial reduction.  Monthly annuity benefit.  2% inflation match.	Value of account.     Lump sum, or even payment over 5, 10, 15, or 20 years.  N/A.
<b>Disability:</b> – Age and service requirements – Amount	Vested.  45% of final monthly salary.	
<b>Retirement after disability:</b> – Age and service requirements – Form of payment – Benefit increases	Terminates at normal retirement age.  Monthly payment.  2% inflation match.	
<b>Death</b> Surviving spouse optional benefit: – Age and service requirements – Amount – Benefit increases	Vested member.  50% joint-and-survivor annuity.  2% inflation match.	
Surviving dependent child benefit: – Age/service requirements – Amount – Benefit increases		
<b>Refund of contributions in death situations:</b> – Age/service requirement if death while active – Amount – Age/service requirement if retired or disabled – Amount		
<b>Termination:</b> – Refund of contributions age/service requirement – Amount	N/A.  	N/A.  Value of account.
<b>Deferred benefit:</b> – Age/service requirement – Amount		

## Utah Retirement Systems

General public employees have an election during the first year of employment between a defined contribution plan and a hybrid system which combines a defined benefit component and a defined contribution component. If no election is made, the hybrid plan is the default. Similar programs cover police and paid firefighters. There is no pure defined benefit plan providing coverage to newer public safety employees.

Utah	Hybrid System (part defined contribution, part 401(k))		
	Defined Benefit Component	Defined Contribution Component	Defined Contribution Plan
<b>Eligible group</b>	Utah public employees who do not elect the defined contribution plan.	Utah public employees who do not elect the defined contribution plan.	Utah public employees who elect the defined contribution plan rather than the hybrid plan.
<b>Contributions:</b> - Employee - Employer	0%  Currently 7.59%.	Voluntary.  2.41% (10% minus the employer contribution to the defined benefit plan).	Voluntary.  10%.
<b>Vesting</b>	4 years for retirement benefits, higher for survivor benefits.	4 years on employer contributions, immediate on employee contributions.	4 years on employer contributions, immediate on employee contributions.
<b>Salary for computing benefit</b>	Average of highest five years. Yearly salary increase for pension purposes cannot exceed 10% plus inflation.	N/A.	N/A.
<b>Salary</b>	Compensation received from employer including bonuses, cost-of-living adjustments, and any deferral amounts.	Compensation received from employer including bonuses, cost-of-living adjustments, and any deferral amounts.	Compensation received from employer including bonuses, cost-of-living adjustments, and any deferral amounts.
<b>Retirement benefits:</b> - Normal retirement age and service requirements - Amount - Early retirement age and service requirements - Amount - Form of payment - Benefit increases	Age 65, or any age with 35 years of service.  Years of service x 1.5% high-five average salary  62 with 10 years of service, or age 60 with 20 years of service.  Normal retirement benefit with an actuarial reduction.  Monthly benefit.  Matching inflation up to 4%.	N/A.  Determined by account value.  N/A.  Determined by account value.  Monthly, quarterly, semi-annually, or annually. Payments can be fixed dollar, or based on life expectancy and expected return.  N/A.	N/A.  Determined by account value.  Determined by account value.  Monthly, quarterly, semi-annually or annually. Payments can be fixed dollar, or based on life expectancy and expected return.  N/A.
<b>Disability:</b> - Age and service requirements - Amount	Coverage under employer's long-term disability program.	Coverage under employer's long-term disability program.	Coverage under employer's long-term disability program.
<b>Retirement after disability:</b> - Age and service requirements - Form of payment - Benefit increases			
<b>Death</b> Surviving spouse optional benefit: - Age and service requirements - Amount - Benefit increases	At least 15 years of service.  Lump sum payment of 75% of highest annual salary, plus annuity.  Inflation match up to 4%.	N/A.  Account balance distributed to surviving spouse.  N/A.	N/A.  Account balance distributed to surviving spouse.  N/A.
Surviving dependent child benefit: - Age/service requirements - Amount - Benefit increases			

Utah	Hybrid System (part defined contribution, part 401(k))		Defined Contribution Plan
	Defined Benefit Component	Defined Contribution Component	
<b>Refund of contributions in death situations:</b> - Age/service requirement if death while active - Amount - Age/service requirement if retired or disabled - Amount	Less than 15 years of service.  Refund of employee contributions.		
<b>Termination:</b> - Refund of contributions age/service requirement - Amount	None.  Refund of employee contributions.	Account balance if vested (4 years of service).	Account balance if vested (4 years of service).
<b>Deferred benefit:</b> - Age/service requirement - Amount			

**Washington State Department of Retirement Services; Public Employees' Retirement System (PERS)**

Newer employees can elect between two plans, referred to as Plan 2 and Plan 3. Plan 2 is a defined benefit plan and is the default option if no election is made. Plan 3 is a combination plan with a defined benefit component and a defined contribution component. The employee makes an irrevocable election within first 90 days of employment (if Plan 3 is elected, selection cannot be changed). Employees in Plan 2 can elect to switch to Plan 3 in January of any year.

Washington State	Plan 2	Plan 3	
	Defined Benefit Plan	Defined Benefit Component	Defined Contribution Component
<b>Eligible group</b>	State employees, other than elected officials, who do not elect Plan 3.	State employees, other than elected official, who elect Plan 3.	State employees, other than elected official, who elect Plan 3.
<b>Contributions:</b> - Employee - Employer	4.64%.  7.25%.	None.  7.25%.	Employee selects contribution rate by irrevocable election. Options range from 5% to 15%, including options which escalate rates at later ages.  None.
<b>Vesting</b>	5 years.	Generally 10 years.	Immediate vesting.
<b>Salary for computing benefit</b>	High-five average salary.	High-five average salary.	
<b>Salary</b>			
<b>Retirement benefits:</b> - Normal retirement age and service requirements - Amount - Early retirement age and service requirements - Amount - Form of payment - Benefit increases	Age 65 with at least 5 years of service or age 62 with at least 30 years of service.  Years of service x 2.0% x high-five average salary.  Age 55 with 20 years of service.  With less than 30 years of service, normal benefit with actuarial reduction. With 30 years of service, 3% per year reduction.  Monthly annuity.  Inflation match up to 3%.	Age 65 with 10 years of service or with 5 years of service attained after age 44.  Years of service x 1.0% x high-five average salary.  Age 55 with at least 10 years of service.  With less than 30 years of service, normal benefit with actuarial reduction. With 30 years of service, 3% per year reduction.  Monthly annuity.  Inflation match up to 3%.	N/A.  Value of account.  N/A.  None.
<b>Disability:</b> - Age and service requirements - Amount	Must be duty-related.  2/3 of high-five salary.	Must be duty-related.  2/3 of high-five salary.	



Washington State	Plan 2	Plan 3	
	Defined Benefit Plan	Defined Benefit Component	Defined Contribution Component
<b>Retirement after disability:</b> - Age and service requirements - Form of payment - Benefit increases	Age 60.  Monthly annuity benefit. Inflation match up to 3%.	Age 60.  Monthly annuity benefit. Inflation match up to 3%.	
<b>Death</b> Surviving spouse optional benefit: - Age and service requirements - Amount - Benefit increases	Member contribution refund if not vested; 100% joint-and-survivor annuity if vested with actuarial reduction for early receipt.  Inflation match up to 3%.	100% joint-and-survivor annuity with actuarial reduction if early receipt.  Inflation match up to 3%.	
Surviving dependent child benefit: - Age/service requirements - Amount - Benefit increases	If there is no surviving spouse, 100% joint-and-survivor annuity equal to a surviving spouse benefit assuming same age as deceased member.  Inflation match up to 3%.	100% joint-and-survivor option equal to surviving spouse benefit.  Inflation match up to 3%.	
<b>Refund of contributions in death situations:</b> - Age/service requirement if death while active - Amount - Age/service requirement if retired or disabled - Amount			
<b>Termination:</b> - Refund of contributions age/service requirement - Amount	None.  Refund of employee contributions without interest.		
<b>Deferred benefit:</b> - Age/service requirement - Amount			

### **Federal Employees Retirement System**

Newer federal employees have a combination of defined benefit and defined contribution coverage. The defined benefit component is called the Basic Benefit Plan, and the defined contribution component is the called the Thrift Plan.

Federal	Basic Benefit Plan	Thrift Savings Plan
<b>Eligible group</b>	Federal civilian employees.	Federal civilian employees.
<b>Contributions:</b> - Employee - Employer	Not specified in available materials.  Not specified in available materials.	3% of pay unless modified by the employee; additional contributions permitted.  1% automatic, plus up to 4% in matching contributions.
<b>Vesting</b>	Generally 10 years.	Immediate.
<b>Salary for computing benefit</b>	High-three average salary.	N/A.
<b>Salary</b>		
<b>Retirement benefits:</b> - Normal retirement age and service requirements - Amount	Age 62 with 20 or more years of service  Years of service x 1.1% x high-three average salary.	Separation from service.  Lump sum of account value, or monthly payments from account balance, or purchase of annuity from private insurance firm.

Federal	Basic Benefit Plan	Thrift Savings Plan
<ul style="list-style-type: none"> <li>- Reduced retirement age and service requirements</li> <li>- Amount</li> <li>- Form of payment</li> <li>- Benefit increases</li> </ul>	<p>Age 62 with less than 20 years of service; or less than age 62 and at least age 57</p> <p>Years of service x 1.0% x high-three average salary, reduced by 5% per year due to early receipt.</p> <p>Monthly annuity payment.</p> <p>Inflation match up to 2%. If inflation is over 3%, the benefit adjustment is the inflation rate minus 1%. No increases permitted if under age 62.</p>	<p>Lump sum of account value, monthly payments from account balance, or purchase of annuity from private insurance firm.</p> <p>N/A.</p>
<p><b>Disability:</b></p> <ul style="list-style-type: none"> <li>- Age and service requirements</li> <li>- Amount</li> </ul>	<p>At least 18 months of service.</p> <p>Same as retirement annuity if disabilitant is at least age 62; if under age 62 benefit is 40% of high-three average salary minus 60% of Social Security disability benefit.</p>	<p>Based on account value.</p>
<p><b>Retirement after disability:</b></p> <ul style="list-style-type: none"> <li>- Age and service requirements</li> <li>- Form of payment</li> <li>- Benefit increases</li> </ul>	<p>Monthly payment.</p> <p>Inflation match up to 2%. If inflation exceeds 3%, the increase is the inflation rate minus 1%.</p>	
<p><b>Death</b> Surviving spouse optional benefit:</p> <ul style="list-style-type: none"> <li>- Age and service requirements</li> <li>- Amount</li> <li>- Benefit increases</li> </ul>	<p>At least 18 months of service, or 9 months of service is accidental or if there is a child or children.</p> <p>55% of a disability benefit amount computed as if the deceased had become disabled on the date of death, plus a one-time lump sum payment based on salary.</p>	<p>Distribution of account value.</p> <p>N/A.</p>
<p>Surviving dependent child benefit:</p> <ul style="list-style-type: none"> <li>- Age/service requirements</li> <li>- Amount</li> <li>- Benefit increases</li> </ul>	<p>\$469 per month per child, or \$563 if no living parent.</p> <p>Inflation match up to 2%. If inflation is 3% or higher, benefit increase equals inflation rate minus 1%.</p>	
<p><b>Refund of contributions in death situations:</b></p> <ul style="list-style-type: none"> <li>- Age/service requirement if death while active</li> <li>- Amount</li> <li>- Age/service requirement if retired or disabled</li> <li>- Amount</li> </ul>		
<p><b>Termination:</b></p> <ul style="list-style-type: none"> <li>- Refund of contributions age/service requirement</li> <li>- Amount</li> </ul>		<p>Account value.</p>
<p><b>Deferred benefit:</b></p> <ul style="list-style-type: none"> <li>- Age/service requirement</li> <li>- Amount</li> </ul>	<p>Age 62 with 5 years of service, or minimum retirement age with 10 years of service.</p> <p>1% of high-three average salary x years of service, with 5% per year reduction if receipt starts prior to age 62.</p>	<p>Account value.</p>