

Defined Benefit Plan Design Changes: for NEW employees only:

- ~~Rollback of benefit enhancement enacted by Act 9 of 2001 for new employees only~~ For PSERS, applies to new employees after July 2, 2011. For SERS, applies to new employees after January 1, 2011.
- Class 1: Reverses the 2.5% accrual rate multiplier benefit for all new employees to 2% percent of pay (Pre-2001 benefit level) and maintains the current employee contribution rate (Post 2001 level) which helps provide more funding to the systems. For PSERS, the rate is 7.5%. For SERS, the rate is 6.25%.
- Class 2: Allows for new members to elect the current 2.5% accrual rate multiplier while requiring a higher employee contribution rate so that the enhancement is cost-neutral. For PSERS, the rate would be 10.3%. For SERS, the rate would be 9.3%.
- Vesting period increases from 5 years to 10 years. Vesting period for disability remains unchanged at five years. State Troopers and enforcement officers remain eligible for disability benefits upon beginning service.
- Retirement age increases to age 65 or at any age with 35 years of service (Previous -- 60/62 and 30 years of service). Member of General Assembly increased from age 50 to age 55. State Police/Capitol Police/Park Rangers -- increased to 55 years from 20 years of service and 50 years of age. Members of the Judiciary are unchanged.
- Eliminates the Option 4 (lump sum payout) upon retirement.

November 24, 2010

Member Update: Governor Signs Pension Reform Legislation

On November 23, 2010, Governor Rendell signed HB 2497 in to law as Act 120. This legislation preserves all the benefits now in place for all current members but mandates a number of benefit reductions for future members effective January 1, 2011 (except that the effective date is the expiration of collective bargaining agreements for State Police Troopers, Capitol Police and Park Rangers, and December 1, 2010 for legislators newly elected in November. State Police would retain the special retirement benefits they currently receive as a result of a collective bargaining arbitration award known as the DiLauro Award).

All of the following benefit reductions are included in the bill:

- **Creates a new A-3 Class of Service for future non-judicial employees entering SERS membership on or after Jan. 1, 2011.** As is the case with most current SERS members, the new A-3 members will contribute 6.25% of their pay toward their benefit; however, they will accrue benefits at only 2% of their Final Average Salary for each year of Credited Service (as opposed to the 2.5% accrual rate for most current members).
- **Creates an optional new A-4 Class of Service for future non-judicial employees entering SERS membership on or after Jan. 1, 2011.** New members who elect this Class of Service will contribute 9.3% of their pay toward their benefit in order to accrue benefits at the rate most members currently do, 2.5% of their Final Average Salary for each year of Credited Service. This higher benefit will be entirely funded through the higher employee contribution rate. There will be no additional cost to the employers.
- **Increases the Vesting period for A-3 and A-4 members to 10 years,** as opposed to five years under current law.
- **Eliminates "Option 4" lump sum withdrawals of Accumulated Deductions for A-3 and A-4 members otherwise eligible to receive monthly benefits.**
- **Increases the Normal Retirement Age for Class A-3 and A-4 members.** Normal retirement age for most members in the new classes will increase from age 60 to age 65 with a minimum of three years of Credited Service. For those members in the new classes in positions that currently have an age 50 Normal Retirement Age, an increase to age 55 with a minimum of three years of Credited Service including law enforcement officers and legislators. The special retirement terms provided to State Police Troopers under their arbitration award will continue in effect.
- **Replaces the current 35-years-of-service superannuation provision with a Rule of 92 with 35 Minimum Years of Service provision.** The "Rule of 92" portion of this new dual superannuation eligibility rule will be met when a member's age (last birthday) plus his/her completed years of credited service total at least 92. The effect of this provision is to require that State employees entering the workforce at a very young age would have to work a few additional years before superannuating. (Upon meeting the superannuation thresholds, a member becomes eligible to retire before reaching normal retirement age without incurring an early retirement reduction.)
- **Requires members who wish to purchase creditable nonstate service, other than intervening military or magisterial service, to pay the full actuarial cost of the increased benefit attributable to the purchase.**
- **Implements a "shared risk" provision that introduces the possibility of higher or lower member contribution rates for future members.** Higher or lower member contribution rates could be triggered when annual investment returns over a multi-year period are higher or lower than the rate assumed for SERS' valuations. Member contributions could never be lower than the base rates set in the bill of 6.25% for A-3 Class of Service or 9.3% for A-4 Class of Service.

The bill also includes the following key provisions affecting SERS funding, which are intended to moderate the steep spike in employer contribution rates that would otherwise occur:

- **Gradually increases funding through the use of collars that cap employer contribution rate increases.** Increases are capped at:
 - o 3% in FY 11/12
 - o 3.5% in FY 12/13
 - o 4.5% each year thereafter until no longer needed
- **Reamortizes the System's existing liabilities over 30 years through an Actuarial "Fresh Start"**

Although the bill at one time proposed changing the funding methodology to level percent of pay, the final version of the bill retains SERS' current law funding methodology of level dollar amortization. Primarily because of the retention of level dollar amortization, it is now projected that through 2043-44 the bill's combined benefit and funding changes will cost \$1.5 billion less than current law.

In addition to the changes detailed above, the bill also prohibits the use of pension obligation bonds (POBs) for funding liabilities. POBs are bonds issued by a state or local government to pay its obligation to the pension fund.

The bill also includes provisions creating an independent Fiscal Office, which will have broad responsibilities with regard to the Commonwealth's budget process. One specific duty would be to study and analyze the impact of the aforementioned shared risk member contributions implemented by this legislation.

The Public Employee Retirement Commission (PERC) prepared an updated Actuarial Note, dated October 12, 2010. In addition, SERS prepared a graph (below) that illustrates the fiscal impact of the various provisions of the bill. For more information on the bill and to stay informed of developments, see Pension Funding "Rate Spike and Plateau" Information.