SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

BILL NO. Senate Bill 1

PRINTER NO. 886

AMOUNT

$(16.254) billion savings
$(2.010) billion savings

FUND

School Employees Retirement Fund
State Employees Retirement Funds

DATE INTRODUCED

May 8, 2015

PRIME SPONSOR

Senator Corman

DESCRIPTION AND PURPOSE OF BILL

Senate Bill 1 amends Title 24 (Education) relating to the Public School Employees' Retirement Code and Title 71 (State Government) relating to the State Employees' Retirement Code. The changes are as follows:

New Defined Contribution (DC) Plan

- Establishes the PSERS DC Plan and requires all school employees hired beginning July 1, 2016 to be enrolled in the plan. Provides for a minimum employee contribution requirement of 3% and an employer contribution requirement of 2.59%. Allows PSERS members to make additional voluntary contributions.
- Establishes the SERS DC Plan and requires all state employees hired beginning January 1, 2016 to be enrolled in the plan. Provides for a minimum employee contribution requirement of 3% and a Commonwealth contribution requirement of 4% generally, 5.5% for park rangers, port authority police, enforcement officers, psychiatric security guards and capital police, and 12.2% for State Police. Allows SERS members to make additional voluntary contributions.
- Employee contributions to the DC plans vest immediately, and employer contributions vest over a 4-year time period.
- Provides for each DC plan participant to have an individual retirement account.
- Upon separation employees would be eligible to receive a lump sum withdrawal or a single life annuity option.

New Cash Balance (CB) Plan

- Establishes PSERS CB defined benefit plan and requires all school employees hired, beginning July 1, 2016, to be enrolled in the plan.
- Establishes SERS CB defined benefit plan and requires all Commonwealth employees hired, beginning January 1, 2016, to be enrolled in the plan.
- Provides for an employee contribution requirement of 3% for both PSERS and SERS mandatory members and provides no employer contribution requirement.
- Provides for CB plan members to earn interest on contributions at the rate paid by 30-year U.S. treasury bonds, but not more than 4% annually.

- Provides for one-half of earnings over the assumed rate of return of the system to be credited to the employee's CB account beginning in 2019.
- Employee contributions to the CB plans vest immediately.
- Upon separation employees would be eligible for a lump sum withdrawal or a single life annuity option.
- Allows voluntary participation by Pre-Act 120 and Post-Act 120 PSERS and SERS members.

Pre-Act 120 Member Benefit Changes

- Increases the employee contribution requirement for PSERS members to 10.5%, as compared to 7.5%, beginning July 1, 2016.
- Increases the employee contribution requirement for SERS members to 8.75%, as compared to 6.25%, beginning January 1, 2016.
- Maintains the current benefit accrual rate of 2.5% for these members.
- Provides for "shared-risk" and "shared-gain" provisions for PSERS members to be calculated every 3 years comparing the actual and assumed rate of return for the past ten years. For every percentage point in earnings realized in excess of or below the assumed rate of return, the employee contribution requirement will be reduced or increased by ½ of a percentage point. Provides that the employee contribution requirement cannot exceed the regular employee contribution requirement (10.5%) and may not decrease by more than 6%.
- Provides for a "contributions savings" provision for SERS members to be calculated every 3 years comparing the actual and assumed rate of return for the past ten years. For every percentage point in earnings realized in excess of the assumed rate of return, the employee contribution requirement will be reduced by ½ of a percentage point. Provides that the employee contribution requirement may not decrease by more than 5%.
- Allows pre-Act 120 members to elect a 2% benefit accrual rate within 180 days. PSERS members that elect the reduced benefit accrual rate will pay an employee contribution requirement of 6.25% and will not be eligible for the contribution savings provision or impacted by the shared-risk provision. SERS members that elect the reduced benefit accrual rate will pay an employee contribution requirement of 5% and will not be eligible for the contribution savings provision.
- Provides for members with a footprint in the defined benefit plan who return after a break in service to default to the increased employee contribution requirements (PSERS - 10.5% and SERS - 8.75%).

Post-Act 120 Member Benefit Changes

- Employee contribution requirements and benefit accrual rates remain the same for these members. (PSERS T-E Class members 2% and T-E class is 2.5% and SERS Class A-3 members 2% and A-4 members 2.5%)
- Provides for a "shared-gain" provision for both PSERS and SERS members for which "shared-risk" provisions currently apply. Provides that the employee contribution requirement cannot be reduced below the regular employee contribution requirement by more than 2%.
- Limits retirement covered compensation to the Social Security wage base (SSWB), which is $118,500 for 2015.

- Allows members whose salary exceeds the SSWB to participate in the new DC plan under the same terms and conditions as new employees for the amount of salary that exceeds the SSWB.

Members of the General Assembly

- Requires Members of the General Assembly elected or reelected beginning January 1, 2016 to be automatically enrolled in the new DC and CB plans.
- Closes the defined benefit plan to new members and existing members upon reelection.

Revised Final Average Salary Calculation

- Provides for final average salary to be calculated for SERS members using the higher of the current 3-year average salary formula excluding overtime or a 5-year average salary formula including overtime beginning January 1, 2016.
- This provision does not apply to State Police who qualify for the "DiLauro Award."

Actuarially Neutral Option 4 Withdrawals

- Provides for an actuarially neutral option 4 lump sum withdrawal on contributions made beginning on July 1, 2016 for PSERS members and beginning on January 1, 2016 for SERS members.
- Contributions and statutory interest made prior to the respective dates are not subject to this provision.

Actuarial Funding Methodology Changes

- Re-amortizes SERS unfunded accrued liability over 30 years using a level-dollar method.
- Provides for SERS unfunded accrued liability resulting from the enactment of this legislation to be amortized over 30 years using a level-dollar amortization method.
- Provides for PSERS, beginning with the 2017 actuarial valuation, to utilize a 10-year asset averaging method constrained to lie within 30% of the market value of assets.

Other Provisions

- Establishes the Public Pension and Asset Investment Review Commission to study and make recommendations to the General Assembly and the Governor regarding investment performance and investment strategies. Provides for the commission to include 3 members appointed by the President Pro Tempore of the Senate, 3 members appointed by the Speaker of the House of Representatives and 3 members appointed by the Governor.

- Provides funding mandate protection to each PSERS and SERS member so that after the employer compensation schedule meets the full actuarial amount, members will have a contractual right to enforce that the annual employer required contribution be made on a timely basis and ensure that previously accrued retirement benefits will be paid upon retirement. Provides that failure of the state or any other public employer to make the annually required employer contribution will be deemed an impairment of contract. Provides that the Supreme Court will have jurisdiction over any action brought to enforce the contractual right.
- Provides that PSERS employers will be charged interest at the assumed rate of return for delinquent payments.
- Adds the Secretary of Banking and Securities to both the PSERS and SERS boards.
- Requires PSERS and SERS Board members to obtain 8 hours of relevant training annually.
- Prohibits the PSERS or SERS board chair from being a member of the board that represents active system members or annuitants or is a current member of the General Assembly.
- Provides for PSERS and SERS legal counsel to serve independently from the Governor's Chief Counsel, the General Assembly and the Attorney General.

FISCAL IMPACT:

Based on the actuarial cost note prepared for PSERS by Buck Consultants, the changes made by Senate bill 1 related to public school employees are estimated to save $16.254 billion. This includes: (1) a savings of $(7.028) billion for pre-Act 120 member benefit changes; (2) a savings of $(6.056) billion for requiring cost neutral option 4 withdrawals for prospective service; (3) a savings of $(13.345) billion for moving new employees from the post-Act 120 defined benefit to the cash balance plan; and (4) a cost of $10.175 billion related to providing the DC plan for new employees.

Based on the actuarial cost note prepared for SERS by the Hay Group, the changes made by the Senate Bill 1 related to state employees are estimated to save $(2.010) billion.

Cumulative (savings) and costs to PSERS and SERS as projected by Buck Consultants and the Hay Group are provided in the chart below.

CUMULATIVE (SAVINGS)/COSTS		
PSERS	SERS	TOTAL
$ (16,254)	$ (2,010)	$ (18,264)

Dollars in millions

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Annual (savings) and costs to PSERS and SERS as projected by Buck Consultants and the Hay Group over the next five years are provided in the chart below.

ANNUAL (SAVINGS)/COSTS					
FUND	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
PSERS	$ -	$ -	$ (77,965)	$ (531,702)	$ (543,194)
SERS	$ -	$ (600)	$ (111,300)	$ (233,800)	$ (239,900)
TOTAL	$ -	$ (600)	$ (189,265)	$ (765,502)	$ (783,094)

Dollars in thousands

Additionally, the Commonwealth provides for 56% of costs related to PSERS through General Fund appropriations, and school entities fund the remainder. The costs related to SERS are shared between the Commonwealth General Fund, Special Funds and Federal funds.