

# SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

**BILL NO.** Senate Bill 1071

**PRINTER NO.** 1410

**AMOUNT**

See Fiscal Impact

**FUND**

School Employees' Retirement Fund  
State Employees' Retirement Fund

**DATE INTRODUCED**

November 17, 2015

**PRIME SPONSOR**

Senator Browne

**DESCRIPTION AND PURPOSE OF BILL**

Senate Bill 1071 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, and 5.5% for psychiatric security guards. 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, except, Pennsylvania State Police, Enforcement Officers, Corrections Officers, Wildlife Conservation Officers, Port Authority Police Officers, Park Rangers, Capitol Police Officers, Campus Police Officers and Police Officers at military installations 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.

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- 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**

- 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 10 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 0.5%. Provides that the employee contribution requirement cannot increase or decrease from the regular employee contribution requirement by more than 2%.
- 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 0.5%. Provides that the employee contribution requirement may not decrease by more than 5%.

### **Post-Act 120 Member Benefit Changes**

- 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."

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**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.

**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 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:**

The Public Employee Retirement Commission in a letter dated November 20, 2015 indicated that actuarial notes prepared for Senate Bill 1, Printer’s Number 866 and Senate Bill 1, Printer’s Number 866 amended by amendment 02701 apply to Senate Bill 1071. Based on the information in these actuarial notes, the amendments made by Senate Bill 1071 are estimated to save a total of \$10.123 billion. This includes \$8.352 billion in savings to PSERS and \$1.772 billion in savings to SERS.

CUMULATIVE (SAVINGS)/COSTS		
PSERS	SERS	TOTAL
\$ (8,352)	\$ (1,772)	\$ (10,124)

Dollars in millions

SERS and PSERS have also indicated they anticipate incurring costs related to the implementation of the new pension plans and changes to the existing plan. For PSERS the cost is estimated to be \$9 million in the first year and \$7 million each year thereafter. For SERS, the cost is estimated to be \$11.5 million in the first year and \$3.6 million each year thereafter.

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.