



Senate of Pennsylvania

MEMORANDUM

TO: All Senators

FROM: Senators Patrick Browne, Jake Corman, Joseph Scarnati and John Gordner

RE: Pension Reform Legislation

DATE: March 13, 2017

In the near future, we will introduce legislation that will reform pensions for future public school and state employees which will contain the same provision as the October 2016 Conference Committee Report for Senate Bill 1071, Printer's Number 2202.

The one change to the Conference Committee Report language in this version will be the inclusion of an option for all current members of PSERS and SERS to opt-in to the new plan.

The key provisions of SB 1071, PN 2202 are as follows:

General Provisions:

- Creates a new plan design for new employees on or after 1/1/18 for SERS and 7/1/18 for PSERS.
- Three options will be available to new employees:
 - A side-by-side DB/DC hybrid with a 1.0% accrual rate
 - A side-by-side DB/DC hybrid with a 1.25% accrual rate (this will be the default plan if no election is made by the employee)
 - A DC-only option
- New employees (1/1/18 for SERS and 7/1/18 for PSERS) have 90 days for PSERS and 45 days for SERS to elect one of the new hybrid tiers or the DC-only plan. Such election will be irrevocable and will cover all future non-exempt service regardless of breaks in service or terminations or withdrawals.
- Exempts State Police Officers, Corrections Officers and certain other enforcement officers from side-by-side hybrid DB/DC or DC plans for new employees.
- "Footprint" rule that was utilized for Act 120 remains for pre-hybrid workers who leave and return. Therefore, members who have pre-hybrid tier membership who leave and return to service will be re-enrolled in the class of service to which they belonged prior to the new plan design.
- Establishes Pension Management and Asset Investment Review Commission (same as in SB 1 except membership increased from 3 to 5 members: one appointed by each caucus of the House and Senate and one appointed by the Governor).
- Includes employer funding mandate protection (same as in SB1).

- Adds Secretary of Banking and Securities to PSERS and SERS Boards as an ex officio member, replacing the next of the Governor's appointees to have their term expire or to vacate their position.
- Requires eight hours of annual training for PSERS and SERS board members in investment strategies, actuarial cost analysis and retirement portfolio management (same as in SBI).
- Legal counsel to the boards shall serve independently from the Governor's Office of General Counsel, the General Assembly and the Attorney General.
- Shared Risk and Shared Gain apply to new hybrid classes: Every 3 years, system boards will compare the actual rate of return to the assumed rate of return for the prior 10 years:
 - Shared Risk: If the actual investment rate of return is 1% or more below the assumed rate of return, the employee contribution rate would increase by 0.5% per year, but never more than 2% above their initial rate.
 - Shared Gain: If the actual investment rate of return exceeds the assumed rate of return by 1% or more, the employee contribution rate will decrease by 0.5% per year, but never by more than 2% below their initial rate.
- Shared gain provision added for Act 120 members to potentially reduce employee DB system contributions (Act 120 members are already subject to shared risk provisions.)
- Permits employees of PSU, PASSHE, and Dept. of Ed to continue to have the option of electing the alternative retirement plan (TIAA CREF).
- Caps voluntary overtime as a component of final average salary to 10%.
- Adds revenue-neutral option 4 lump sum withdrawal option for Act 120 members.
- The savings generated by the reform proposal will be re-invested into the systems.
- Moves SERS from a "new entrant" normal cost method to a more traditional blended rate model (which PSERS already had).
- Current employer contribution rate collar schedule remains in effect.
- No fresh start for assets or liabilities. The current amortization schedules will remain in effect.

New Plan Design Options:

Option 1: Side-by-Side DB/DC with 1.0% accrual rate:

Defined Benefit (DB) Plan Design:

- 1.0% DB accrual rate
- Effective for new members 1/1/18 for SERS and 7/1/18 for PSERS
- Employee contribution rate of 4.5% to the DB component for PSERS, 4.0% for SERS
- 5 year vesting for PSERS; 10 year vesting for SERS
- 5 year Final Average Salary (FAS)
- Shared Risk and Shared Gain apply to hybrid classes
- Employer contribution rate shall not drop below the normal cost
- Cost-neutral option 4 lump sum withdrawals
- Age 67 Superannuation
- Age 62 early retirement age

Defined Contribution (DC) Component:

- Employee contribution rate of 3.0 % to the DC for PSERS and 3.5% for SERS
- Employer contribution rate of 2.0% to the DC for PSERS and SERS

Option 2: Side-by-side Hybrid DB/DC plan with 1.25% multiplier (Default plan):

Defined Benefit (DB) Plan Design:

- 1.25% DB accrual rate

- Effective for new members 1/1/18 for SERS and 7/1/18 for PSERS
- Employee contribution rate of 5.5% to the DB component for PSERS, 5.0% for SERS
- 5 year vesting for PSERS; 10 year vesting for SERS
- 5 year Final Average Salary (FAS)
- Shared Risk and Shared Gain apply to hybrid classes
- Employer contribution rate shall not drop below the normal cost
- Cost-neutral option 4 lump sum withdrawals
- Age 67 Superannuation
- Age 62 early retirement age

Defined Contribution (DC) Component:

- Employee contribution rate of 3.0 % to the DC for PSERS and 3.5% for SERS
- Employer contribution rate of 2.0% to the DC for PSERS and SERS

Option 3: Full DC-only plan:

- Effective for new members 1/1/18 for SERS and 7/1/18 for PSERS
- Participant contribution is 7.5% for PSERS and SERS
- Employer contribution is 2.0% for PSERS and 3.5% for SERS

PSERS	Multiplier	Employee Contribution to the DB	Employee Contribution to the DC	Employer Contribution
1.0 Hybrid	1.0%	4.5%	3.0%	2.0%
1.25 Hybrid	1.25%	5.5%	3.0%	2.0%
DC Only	N/A	N/A	7.5%	2.0%

SERS	Multiplier	Employee Contribution to the DB	Employee Contribution to the DC	Employer Contribution
1.0 Hybrid	1.0%	4.0%	3.5%	2.0%
1.25 Hybrid	1.25%	5.0%	3.5%	2.0%
DC Only	N/A	N/A	7.5%	3.5%

Projected Actuarial Savings:

(Participation: 55% 1.25 plan, 35% 1.0 plan and 10% DC Participation)

SERS:

Before savings are reinvested into the trust: Savings - \$2.138 Billion

After savings are reinvested into the trust: \$2.099 Billion

PSERS:

Before savings are reinvested into the trust: Savings - \$1.120 Billion

After savings are reinvested into the trust: \$.809 Billion

Total

Before savings are reinvested into the trust: Savings - \$ 3.258 Billion

After savings are reinvested into the trust: \$ 2.908 Billion