FAST FACTS
House Appropriations Committee (D)

JOE MARKOSEK, DEMOCRATIC CHAIRMAN March 31, 2014

Act 120 of 2010 Retirement Benefit Changes for New Employees

In 2010, an overwhelmingly bi-partisan majority of the House and Senate approved Act 120 – a pension reform roadmap. Act 120 made significant benefit changes for new employees.

- ***It gave new employees the choice to contribute the same amount as current employees and receive less in benefits, or contribute an even larger amount of their pay to receive the same benefits as current employees (in an effort to net the same impact to the systems).***
- ***Act 120 reduced benefits for new employees by more than $33.1 billion or 60 percent. (Estimated savings through 2043/44, at time of enactment.) <u>Basically, new employees are paying for their own retirement benefits, as well as paying towards the debt of the pension systems.</u>***

Despite these significant benefit changes just four years ago, the governor and GOP lawmakers are looking to make further reductions to new employee benefits under the guise of pension "reform". Additional changes to new employee benefits may not have any significant near-term saving and will likely have long-term costs.

The governor claims under the current defined benefit pension system "taxpayers bear the full financial risk of the pension plans"; however, that is not the case because Act 120 of 2010 includes a shared-risk provision that requires employees to contribute more if investment returns are inadequate. Also, as a point of reference, the cost to employers (the state and school districts) for new employees in the Public School Employees Retirement System (PSERS) is now <u>less than 3 percent</u>, which is incredibly low and should be considered in evaluating any new pension proposals.

Act 120 Benefit Changes for New Employees

For the Public School Employees' Retirement System (PSERS) and State Employees' Retirement System (SERS):

- Extended the number of years required to be eligible to receive a retirement benefit ("vesting period") from 5 to 10 years.
- Eliminated lump sum withdrawal of contributions and interest at the time of retirement.
- Created a new "shared risk" component allowing for increased employee contribution for investment underperformance.
- Increased the minimum requirement for full retirement ("superannuation"). Members must reach retirement age (age 65 in most cases or 55 in limited cases, with a minimum three years of service) or any combination of age plus years of service that totals 92 with at least 35 years of service (i.e. "Rule of 92").
- Requires members to pay full actuarial cost to purchase prior eligible service (with the exception of military service due to federal law).
- Prohibits the use of pension obligation bonds for funding liabilities.

For PSERS only:

- Decreased the multiplier rate used in the formula to calculate retirement benefits from 2.5 percent to 2 percent.

- The member contribution rate remained at 7.5 percent of pay. (However, new members could opt-in to receive the same multiplier as current employees if they pay a higher base rate - 10.3 percent of pay.)
- Increased the retirement age from age 62 (with one year of service) or to age 65 (with three years of service).
- Limited the maximum annual retirement benefit at not more than 100 percent of final average salary. (SERS already had this provision in law.)
- Prohibited the purchase of non-qualifying part-time service after a one-year window.

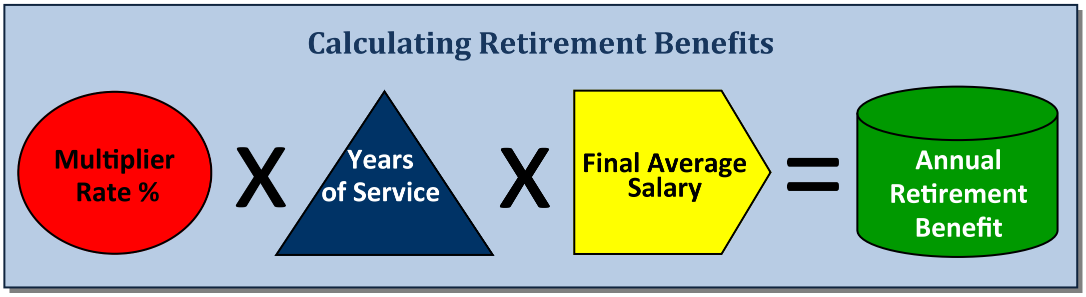
For SERS only:

- Decreased multiplier rate used in the formula to calculate retirement benefits from 2.5 percent (or 3 percent for legislators) to 2 percent.

ACT 120 NEW MEMBER BENEFIT CHANGES & LONG-TERM IMPACT

PSERS - Benefit	Pre-Act 120	Act 120	Net Savings ($ in billions)
Multiplier rate used in formula to calculate benefits	2.5%	2%	($12.65)
Retirement age (savings included in "superannuation")	Age 62	Age 65	
Employee contribution rate	7.5%	7.5%	
Vesting period	5 years	10 years	($2.27)
Lump sum withdrawal of employee contributions & interest	Yes	No	($5.87)
Shared risk (employee contribution increases if investment returns are poor)	No	Yes	
Increased minimum requirement for full retirement ("superannuation")	No	Yes	($3.86)
Members must pay full (actuarial) cost to purchase service	No	Yes	
TOTAL BENEFIT REDUCTIONS (SAVINGS FOR PSERS)			**($24.65)**

SERS - Benefit	Pre-Act 120	Act 120	Net Savings ($ in billions)
Multiplier rate used in formula to calculate benefits	2.5% (Legislators: 3%)	2%	($3.58)
Retirement age (savings included in "superannuation")	Age 60 (Age 50 in some cases)	Age 65 (Age 55 in some cases)	
Employee contribution rate	6.25%	6.25%	
Vesting period	5 years	10 years	($0.02)
Lump sum withdrawal of employee contributions & interest	Yes	No	($1.72)
Shared risk (employee contribution increases if investment returns are poor)	No	Yes	
Increased minimum requirement for full retirement ("superannuation")	No	Yes	($2.89)
Members must pay full (actuarial) cost to purchase service	No	Yes	($0.22)
TOTAL BENEFIT REDUCTIONS (SAVINGS FOR SERS)			**($8.43)**
TOTAL BENEFIT REDUCTIONS (SAVINGS TO PSERS & SERS)			**($33.1)**



- The member contribution rate for legislators and other effected members remained at 6.25 percent of pay. (However, new members, including legislators, could opt-in to receive the same multiplier as current employees if they pay a higher rate - 9.3 percent of pay.)
- Increased the normal retirement age by 5 years, from 60 to 65, for most members of SERS. For those members currently eligible to retire at age 50, the new retirement age was increased to 55.

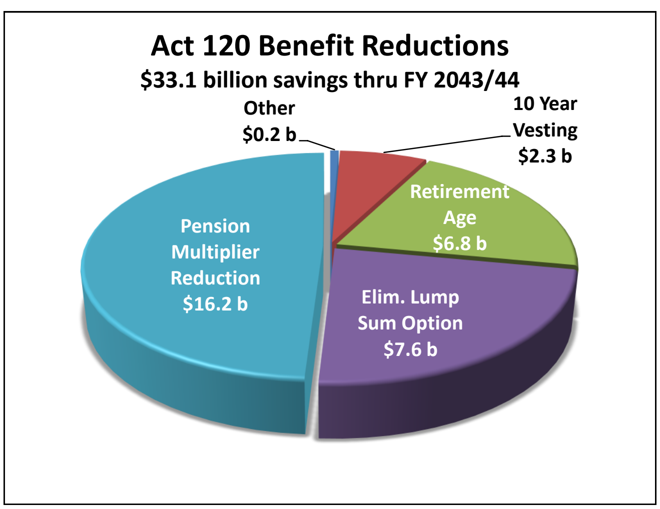
Note: Under Act 120, benefit changes were made for new members of the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS), with certain exclusions. Benefit changes for new employees did not affect the Judiciary. State Police benefits under the DiLauro Award were also not affected. Benefits changes to State Police, Park Rangers and Capitol Police went into effect after the expiration of their respective collective bargaining agreements.

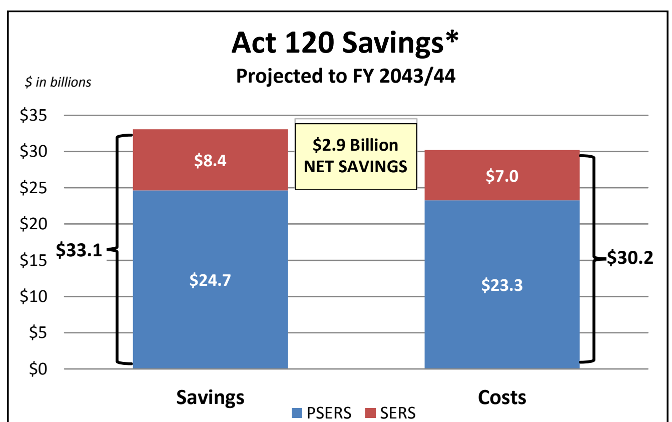
Act 120 Net Savings

Overall, Act 120 was estimated to generate about $33.1 billion in savings from member benefit reductions and concessions through 2043/44.

The benefit changes for new employees were coupled with "rate collars" that capped the growth in the employer pension payments. Therefore, for the first time, the state and school districts had predictable, moderated increases in their pension payments.

The $33.1 billion in savings from employee benefit cuts were offset by $30.2 billion in costs related to deferring the employer payments and actuarial methodology changes - for a net savings of $2.9 billion.





**$33.1 billion in savings from employee benefit cuts offset by $30.2 billion in costs related to deferred employer contributions.*

House Appropriations Committee (D)
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