

Pension Benefit Reform Time Line – 2015-16 (Bills considered by the House)

SENATE BILL 1 (Corman) – June/July 2015

- **Passed House June 30, 2015 (106-89)**
- **Vetoed by Governor July 9, 2015**
- Establishes a hybrid defined contribution (DC) /cash balance (CB) retirement benefit plan for future state and school employees; and
- Applies various retirement benefit changes to current state and school members for benefits earned prospectively.

Future Employee DC Plan

- Minimum employee contribution rate of 3% for both SERS and PSERS
- Voluntary employee contributions are permitted, up to an additional 3%.
- Employer contribution of 2.59 % for PSERS and 4% for SERS
- At least 10 investment options will be available, through at least 3 providers

Future Employee CB Plan

- Mandatory participation in CB component of hybrid plan
- Employee contribution rate of 3% for PSERS and SERS.
- No employer contribution
- Members earn interest at the rate paid on 30-year treasury bonds, but no more than 4%
- Excess interest may be earned if actual returns exceed investment return assumptions.

Current State and School Employees

Prospective Benefit Changes -- Pre-Act 120 Members Only

- Shared risk/shared gain provisions for both PSERS and SERS members.
- The bill makes the portion of the Option 4 lump sum withdrawal and annuity that is applicable to future service actuarially neutral

Prospective Benefit Changes -- Post- Act 120 Members Only

- Shared-gain provisions will apply to post-Act 120 members of SERS and PSERS, who are already subject to shared risk provisions. The shared risk/shared gain rate cannot be 2 percentage points more or less than the applicable employee contribution rate.

Prospective Benefit Changes Specific to Current Members of the General Assembly

- Upon election/re-election, legislators will be enrolled in the new DC/CB hybrid

Anti-Spiking Provisions/Prospective Service -- Pre- and Post-Act 120 Members of SERS ONLY

- 3 highest years without overtime or 5 highest with overtime, whichever is higher. Applicable only to the portion of benefits earned prospectively.
- Applies to pre and post Act 120 employees, except for Troopers

SENATE BILL 1071 PN 1481 (Browne) -- December 2015

- ***Defeated in the House December 19, 2015 by a vote of 52-149***
- Establishes a hybrid defined contribution (DC) /defined benefit (DB) retirement benefit plan for future state and school employees; Allows current state and school employees to opt into the hybrid plan; and
- Applies various retirement benefit changes to current state and school members for benefits earned prospectively on or after the above mentioned dates.

Side-by-Side Hybrid (DB/DC)

- As a side-by-side hybrid, this plan provides for both employee and employer contributions to the DC and DB plans from the first day of participation in the plans.
- Future Troopers, corrections officers enforcement officers and other hazardous duty employees are exempt from mandatory participation in the hybrid plan and will have membership in the existing DB plan.
- Former employees, who have a “footprint” in their respective system, will be placed in the DB plan upon returning after a break in service.

DB Component

- PSERS employee contribution is 4%
- SERS employee contribution is 3%
- Final average salary (FAS) for PSERS and SERS is 5 highest years
- Vesting for PSERS is 5 years; vesting for SERS is 10 years
- Shared risk/shared gain employee contributions,
- Lump sum withdrawals will be permitted in an actuarially neutral manner.
- The benefit accrual rate/multiplier is 1%

DC Component

- PSERS – Employee contribution of 3.5%; employer contribution of 2.5%
- SERS – Employee contribution of 3.25%; employer contribution of 2.5%
- Immediate vesting of employee contributions and earnings.
- 3-year “cliff vesting” of employer contributions. Employer contributions and earnings vest 100 % upon accrual of 3 years of service.

Current Employee Opt In

- SB 1071 will permit current school or state employees, except current hazardous duty employees (listed above), to opt into the hybrid plan for future service.

Current Member Benefit Changes for Future Service

- Shared Risk/Shared Gain -- Pre-Act 120 Members
- Actuarially Neutral Option 4 – Pre-Act 120 Members
- Actuarially Neutral Option 4 – Post Act 120 Members
- Shared Gain -- Post- Act 120 Members Only
- Anti-Spiking Provisions/Prospective Service – Pre/Post-Act 120 Members of SERS

SENATE BILL 1071, PN 1913 (Browne) – June/July 2015

- *House passed bipartisan hybrid plan legislation by a vote of 136-59 June 14, 2016*
- *Senate non-concurred in House amendments by a vote of 31-19 on June 23.*
- The bill establishes a hybrid retirement plan, containing DB and DC components, for future state and school employees (a version of the Tobash stacked hybrid)
- Future Troopers are exempt from hybrid plan. For future Troopers compensation attributable to voluntary overtime will be limited to no more than 10% of base salary.
- The “footprint rule” applies to current state/school employees who return after a break in service.
- The bill will not alter pension benefit calculations for current state and school employees.

Stacked Hybrid Plan for Future State and School Employees

Features of the DB component of the hybrid plan include:

- Contributions and benefit accruals apply only to the first \$50,000 of income, indexed at 3% per year (known as the DB compensation limit).
- Vesting -- 10 years.
- Employees are subject to shared risk employee contributions
- Benefit formula -- 2% x years of service (max 25 years) x final average salary (average of the highest 5 years, up to the DB compensation limit).
- Full retirement age is 65 years of age or combination of age and years totaling 92,
- 55/25 early retirement benefit available under PSERS DB component.

Features of the DC component of the hybrid plan include:

- Employee contribution –1.5% of pay up to the DB compensation limit for first 25 years of service; 7.5% on pay above the DB compensation limit or any service over 25 years.
- Employer contribution -- 0.5% of member’s compensation up to the DB compensation limit for first 25 years; 4% on pay above the DB compensation limit or any service over 25 years.
- There will be at least 10 investment options, through at least 3 providers.

CONFERENCE REPORT SENATE BILL 1071 (Browne) – October 2015

- ***October 25, 2016 – House/Senate Conference Committee formed to resolve differences between House and Senate passed versions of SB 1071 met to consider and approve the conference report. No further action on the conference report***
- Establishes a side-by-side hybrid retirement benefit plan, containing DB and DC components, for most future state and public school employees.
- Establishes DC-only plans for future state and public school employees, which may be elected in lieu of the hybrid plan.
- Future Troopers, corrections officers, enforcement officers and other state enforcement personnel will be exempt from hybrid plan and will be enrolled in the existing DB plan.
- The “footprint rule” is applicable to current state/school employees who return to active service after a break in state or school employment. Act 120 classes in both PSERS and SERS will be eligible

for an actuarially neutral Option 4 lump sum benefit for all service (currently not available to Act 120 members).

- Act 120 members will now be eligible for shared gain contribution reductions.
- Employees are subject to shared risk and shared gain employee contributions under the DB component of the plan.
- An actuarially neutral Option 4 lump sum benefit will be available to members under the DB component of the plan.
- The boards may establish rules to provide for at least 10 investment options/at least 3 providers.
- Savings realized by each system as a result of the enactment of this legislation will be applied toward paying down the accrued unfunded liability.