

The image shows the interior of a grand legislative chamber, likely the Colorado State Capitol. The room features a high, vaulted ceiling with intricate blue and gold decorative patterns and several large, ornate chandeliers. The walls are lined with classical columns and arches. In the foreground, rows of dark wooden desks with red upholstered seats are arranged in a semi-circle, separated by a central aisle covered in a bright red carpet. The text is overlaid in a bold, blue, sans-serif font in the center of the image.

**Overview of Act
120 of 2010
(formerly HB
2497)**

Summary of Benefit Changes

General Information

- **Act 120 was enacted on November 23, 2010**
- **The benefit reductions contained in this legislation will only impact individuals who become new members of PSERS on or after July 1, 2011**
- **Any existing or former members of PSERS who return to service on or after July 1, 2011 will retain their old membership status**
- **The current pension benefit that a PSERS retiree receives is also not impacted by the legislation**

Impact on Current Members of PSERS

- **Once a member qualifies for membership all service earned after the initial qualification will be considered qualified**
- **Previously members had to qualify each year (500 hours or 80 days for hourly and per diem employees)**
- **Creates a three-year window beginning July 1, 2011 for current active members to file an application to purchase Non-Qualifying Part-Time service (NQPT)**
- **Current members who are inactive but return to active service after July 1, 2011, will have a one-year window to purchase NQPT service**

Impact of Benefit Cuts for New Members After July 1, 2011

- **For school employees who become new members of PSERS on or after July 1, 2011, there are two new classes; Class T-E and T-F**
- **All new members will automatically become Class T-E members. New members however, will have a one-time opportunity to elect Class T-F within 45 days of receiving written notification from PSERS**
- **Failure to elect Class T-F at time of original eligibility will make the member ineligible for Class T-F forever**
- **Once the election is made either by action or inaction, the election is permanent**

Pension Multipliers and Contribution Rates

- **Class T-E**

- Pension multiplier is 2%
- Contribution base rate is 7.5% with “shared risk” contribution levels between 7.5% and 9.5%

- **Class T-F**

- Pension multiplier is 2.5%
- Contribution base rate is 10.3% with “shared risk” contribution levels between 10.3% and 12.3%

Class T-E and T-F Members

- **Cannot withdraw contributions and interest in a lump sum when retiring**
- **Have a ten year vesting period**
- **For normal retirement, employees must work until age 65 with minimum of 3 years of service, or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service**
- **One year window for new members to apply for NQPT service (at full actuarial cost)**

Class T-E and T-F Members

- **Once qualified for membership, all service earned thereafter is qualifying**
- **Pension benefit cannot exceed the member's final average salary**
- **The cost to purchase most types of nonschool or nonstate service credit (other than military service) will be the full actuarial cost**
- **No projection of service for determining superannuation age**
- **Employees starting after July 1, 2011 will contribute based on "shared risk" rate in effect at date of hire**

Shared Risk

- **Every 3 years, the System will compare the actual investment rate of return with the assumed rate of return for the prior 10 year period**
- **If the investment rate of return (less investment fees) is equal to or exceeds the assumed rate of return, the member's contribution rate will decrease by .5%**
- **If the earnings during the ten-year period are 1.0% or more below the assumed rate of return, the member's contribution rate would increase by .5%**

Shared Risk

- **If the System is fully funded at the time of the comparison, then the member contribution rate reverts back to base rate for the Class**
- **The investment return measurement return period will begin on July 1, 2011**
- **The rate could never go below the base rate of 7.5% for T-E and 10.3% for T-F members, nor above 9.5% for T-E and 12.3% for T-F members**

Other Shared Risk Restrictions

- **If the employer rate is below the final contribution, the shared risk rate will revert back to the base**
- **If the employer rate has not increased in the prior 3-year period, then the shared risk rate will not increase**
- **If the system is fully funded at the time of the look back, then the shared risk will revert to the base**

Summary of Funding/Actuarial Changes

Funding Changes - Employer Contributions

- **The legislation suppresses the employer contribution rate by using rate caps in future years to keep the rate from rising too high, too fast**
- **The rate caps limit the amount the pension component of the employer contribution rate can increase over the prior year's rate as follows:**
 - **FY 2011/12 - not more than 3.0% plus the premium assistance contribution rate**
 - **FY 2012/13 - not more than 3.5% plus the premium assistance contribution rate**
 - **FY 2013/14 - not more than 4.5% plus the premium assistance contribution rate**
 - **Thereafter - not more than 4.5%**

Funding Changes - Employer Contributions

- **The rate cap remains at 4.5% until the rate cap no longer applies, i.e. the rise in the employer contribution rate is less than the rate cap in effect at that time**
- **After that, the rate is what is calculated by PSERS actuary and approved by the PSERS Board, subject to a new minimum employer contribution rate that will be the employer normal cost (currently about 8%), plus the premium assistance contribution rate**
- **The “employer normal cost” is the amount needed from the school employers to fund the benefits earned by the active members for that year**

Actuarial Changes

- **Currently liabilities are funded over various periods of time using level dollar of pay.**
- **Act 120 re-amortizes all unfunded liabilities over a 24 year period and uses level percentage of pay amortization**
 - **Level percentage of pay amortization is calculated using the same percentage of compensation each year during the amortization period. Under the level dollar of pay amortization, the annual dollar amount of the payment remains the same each year**

Actuarial Changes

- **Changes the recognition of investment gains and losses from a 5 year smoothing period to a 10 year smoothing period**
- **Any future legislation enacted that adds liabilities to the system (i.e. cost-of-living adjustments, “30 and Out”) will be amortized over 10 years, using a level percentage of pay method**
- **Establishes a prohibition on the use of Pension Obligation Bonds to fund the System**

Independent Fiscal Office (IFO)

- IFO will analyze the shared risk provisions starting 12/15/2015



Public School Employees' Retirement System of Pennsylvania
Market Returns and Pension Rate Floors Set by User and are the same for both Current and Alternative Funding
Market Returns Scenario 1

HB2497 Funding assumptions effective 6/30/10 valuation:

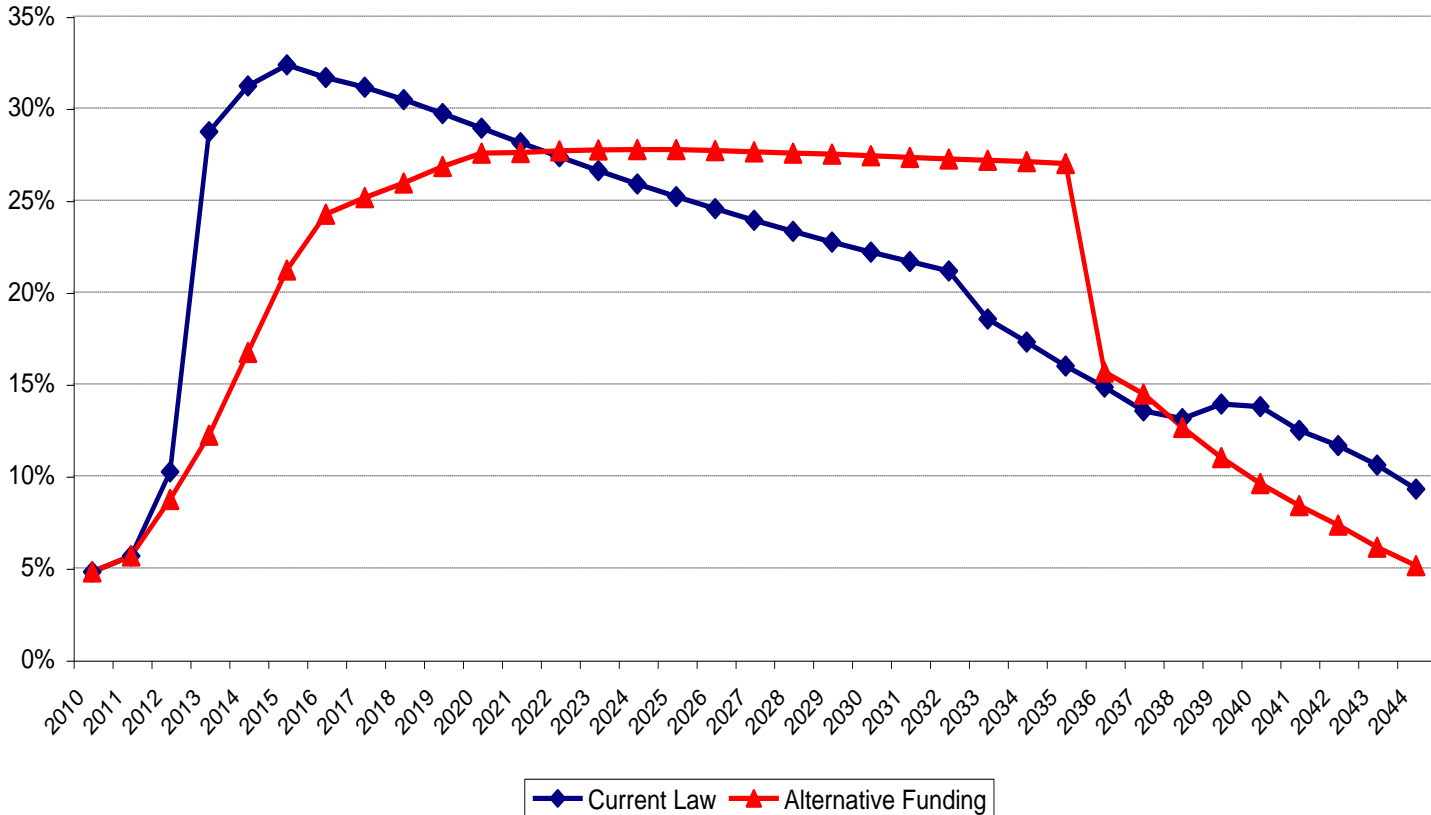
- Fresh-start accrued liability payments over 24 years with level percent of pay amortization.
- Entry Age Normal funding method.
- 10-year asset smoothing method effective 6/30/10 valuation.
- Pension Collar limits contribution to prior fiscal year + the collar:
3.00% for FY2012, 3.50% for FY2013, 4.50% for FY2014 and later.

- Ten year average return on market value of assets used for Class T-E members' shared-risk additional member contribution determination (maximum additional rate = 2.00%):

FYE 2014 = 8.00%, FYE2017 = 8.00%, FYE 2020 = 8.00%, FYE 2023 = 8.00%,
 FYE 2026 = 8.00%, FYE2029 = 8.00%, FYE 2032 = 8.00%, FYE2035 = 8.00%,
 FYE 2038 = 8.00%, FYE2041 = 8.00%.

**8% FY 2010-2011
Rate of Return**

Projection of Total Employer Contribution Rate



**June 30, 2009
Valuation w/
actual FY 2009-
2010 Rate of
Return**

Alternative funding benefit provisions in accordance with Senator Browne Amendments to HB2497 (Last revised October 7, 2010)

Public School Employees' Retirement System of Pennsylvania
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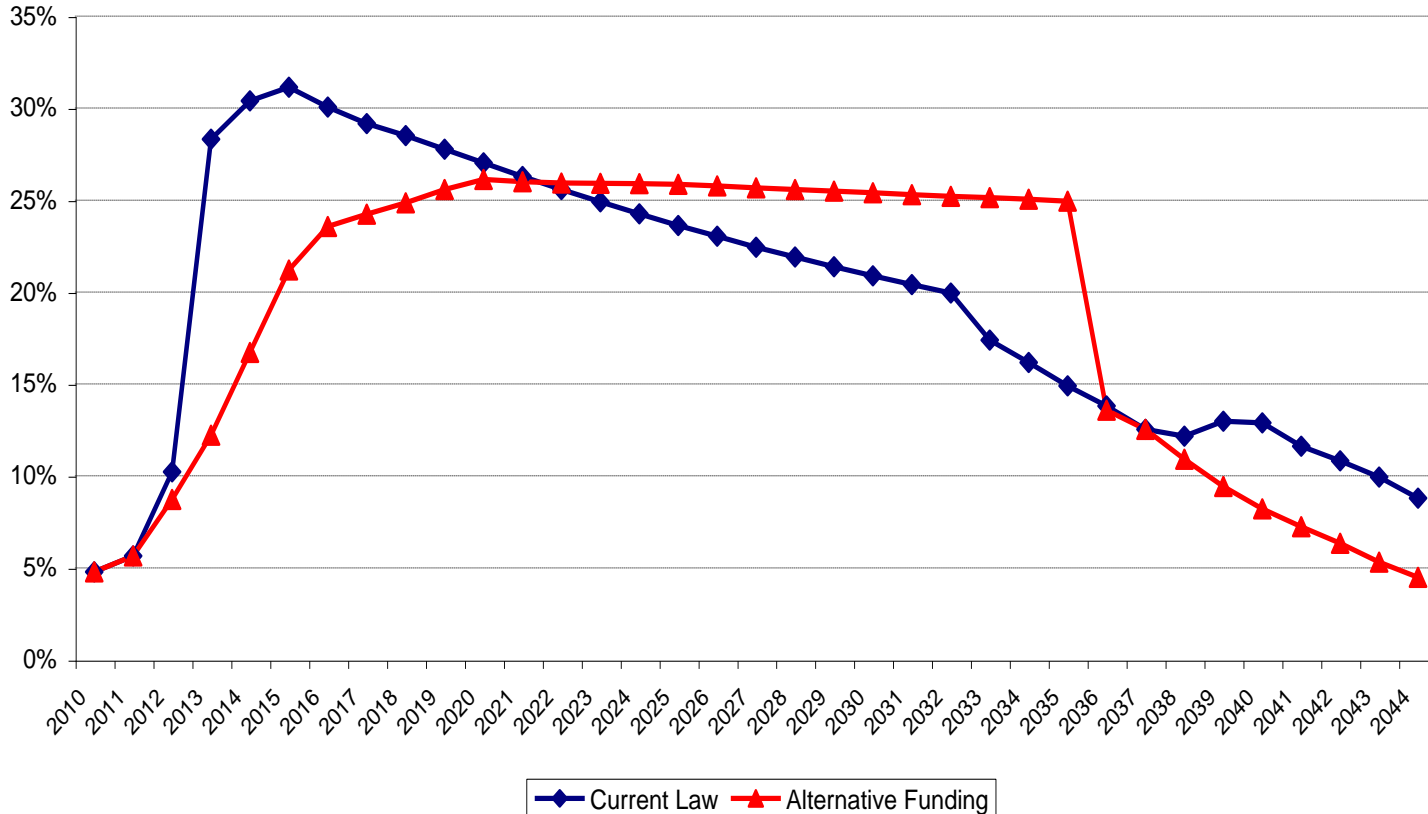
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**15% FY 2010-2011
Rate of Return**

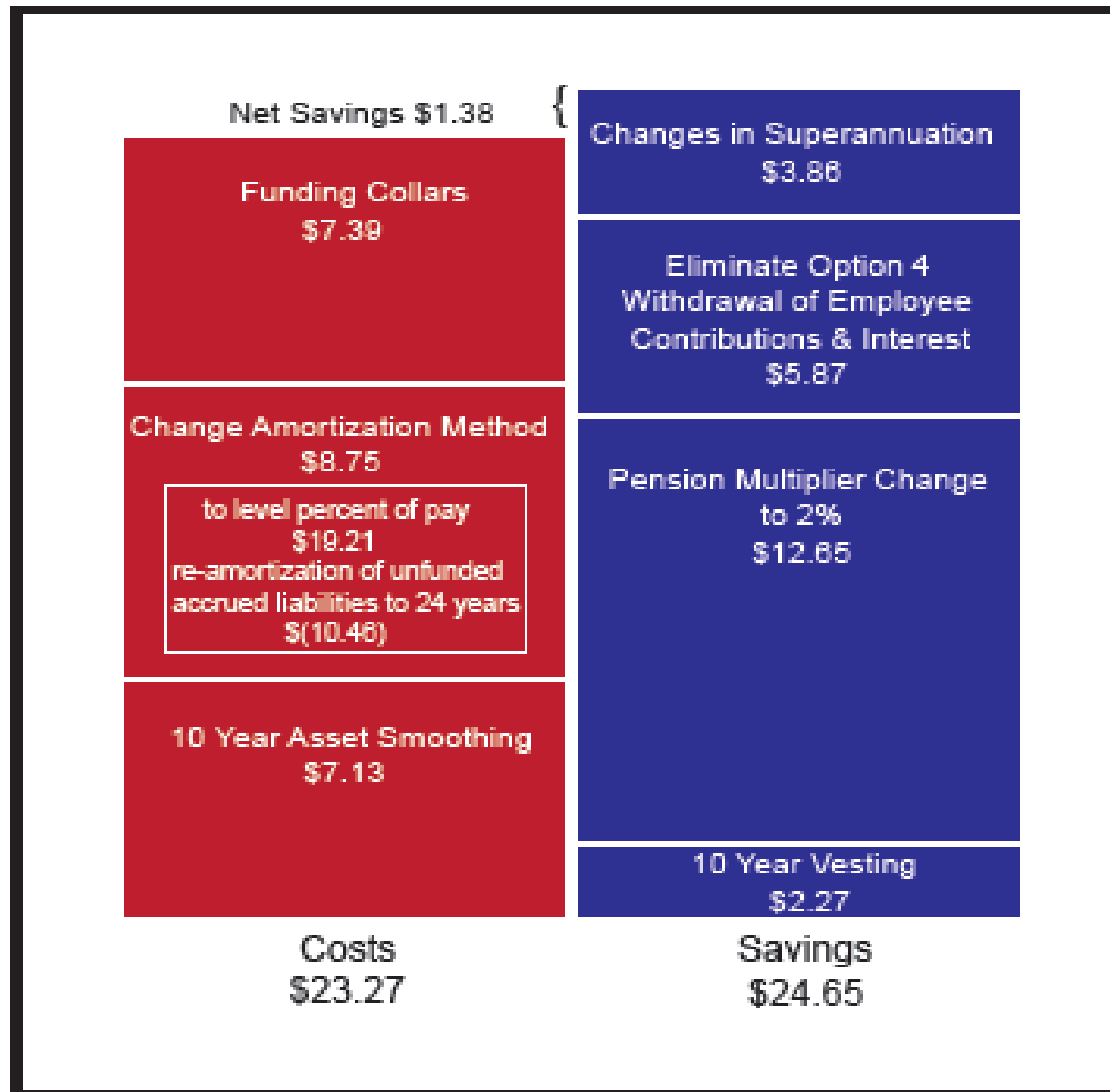
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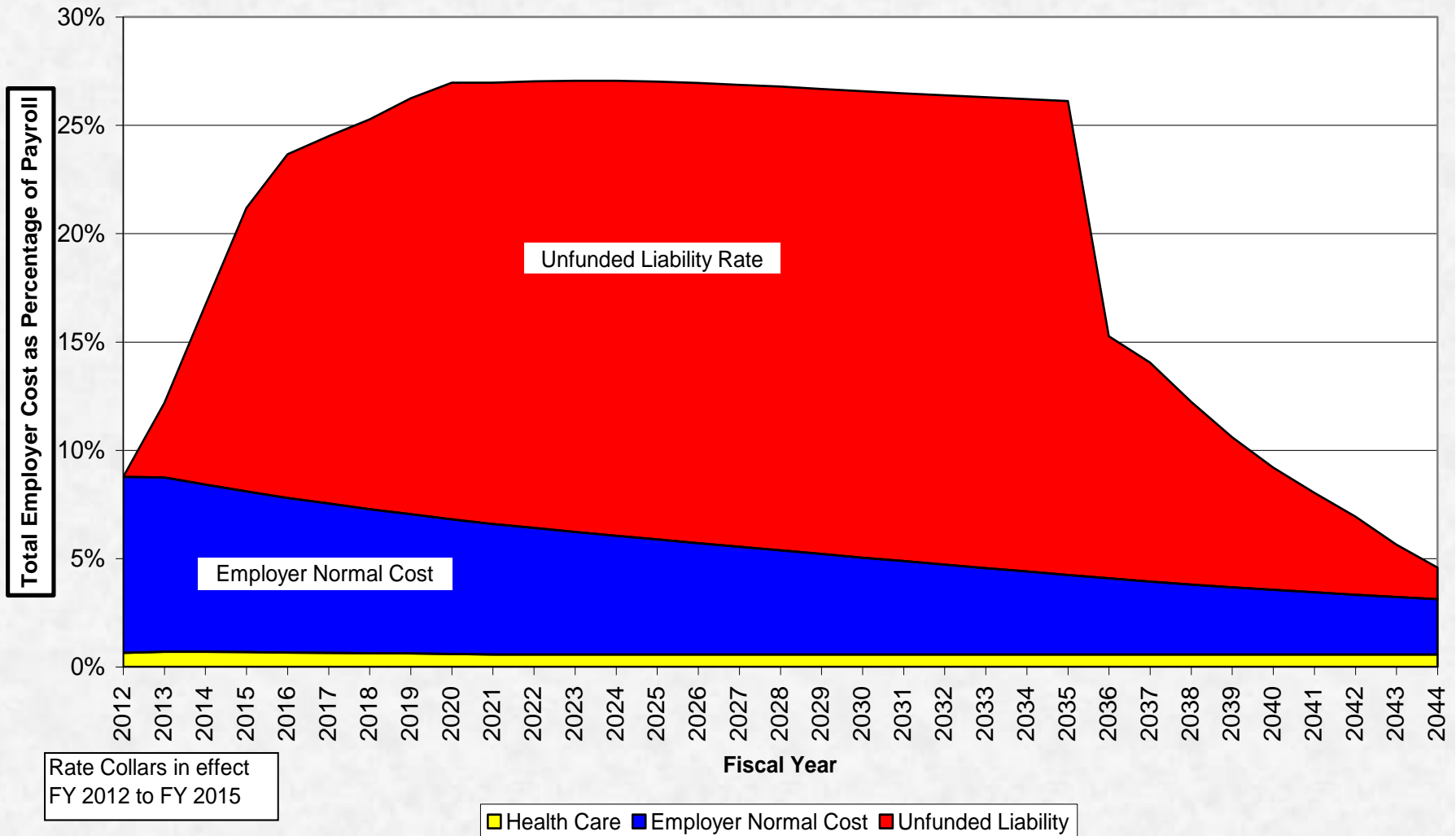
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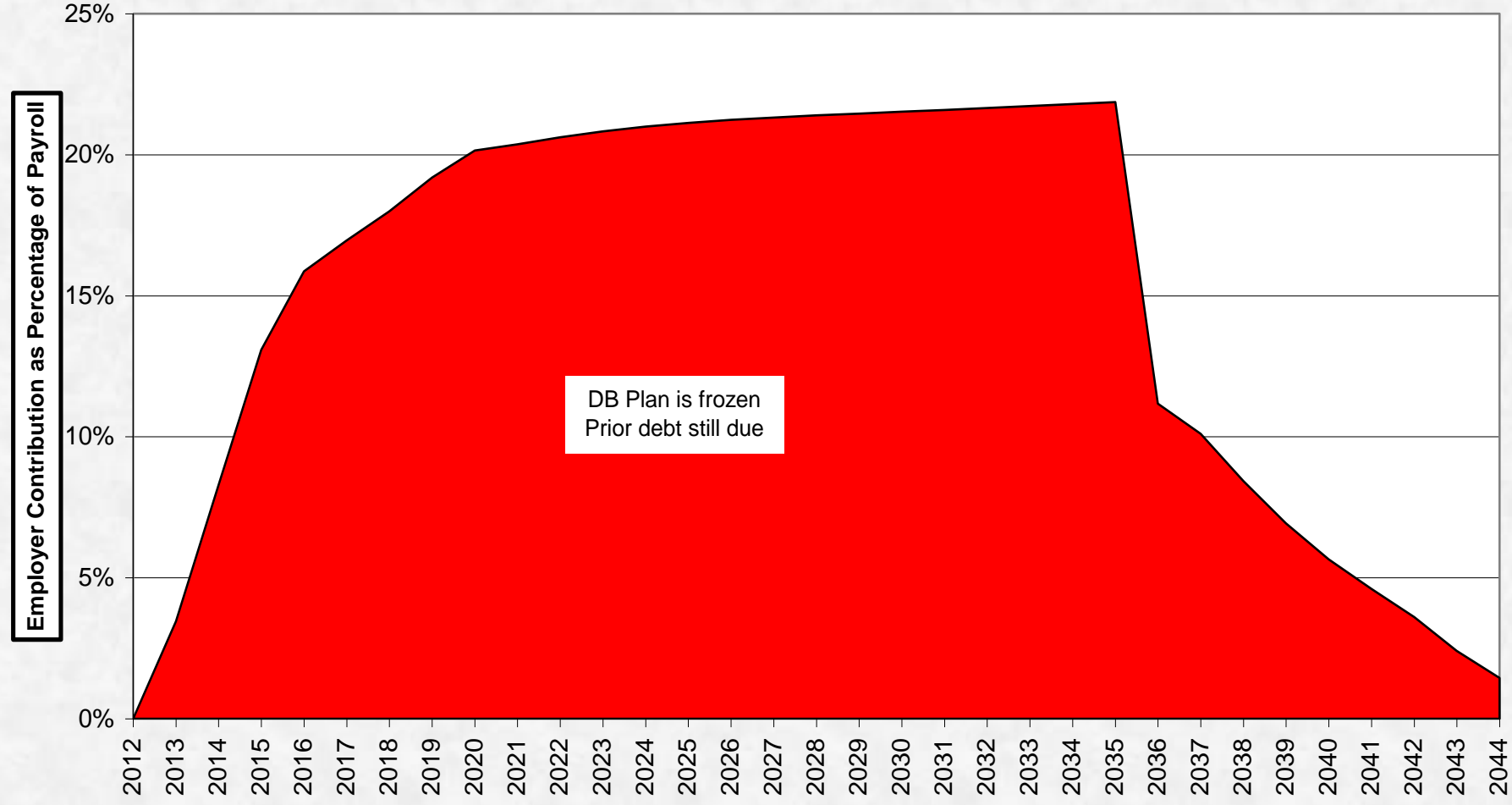
Act 120 of 2010
Costs and Savings Compared to Prior Law
Projected to FY 2043/2044
(\$ in billions)



**PA Public School Employees' Retirement System
 Components of Projected Total Employer Contribution Rate - Act 120
 Based on June 30, 2010 Actuarial Valuation - Assumes 8% Rate of Return**

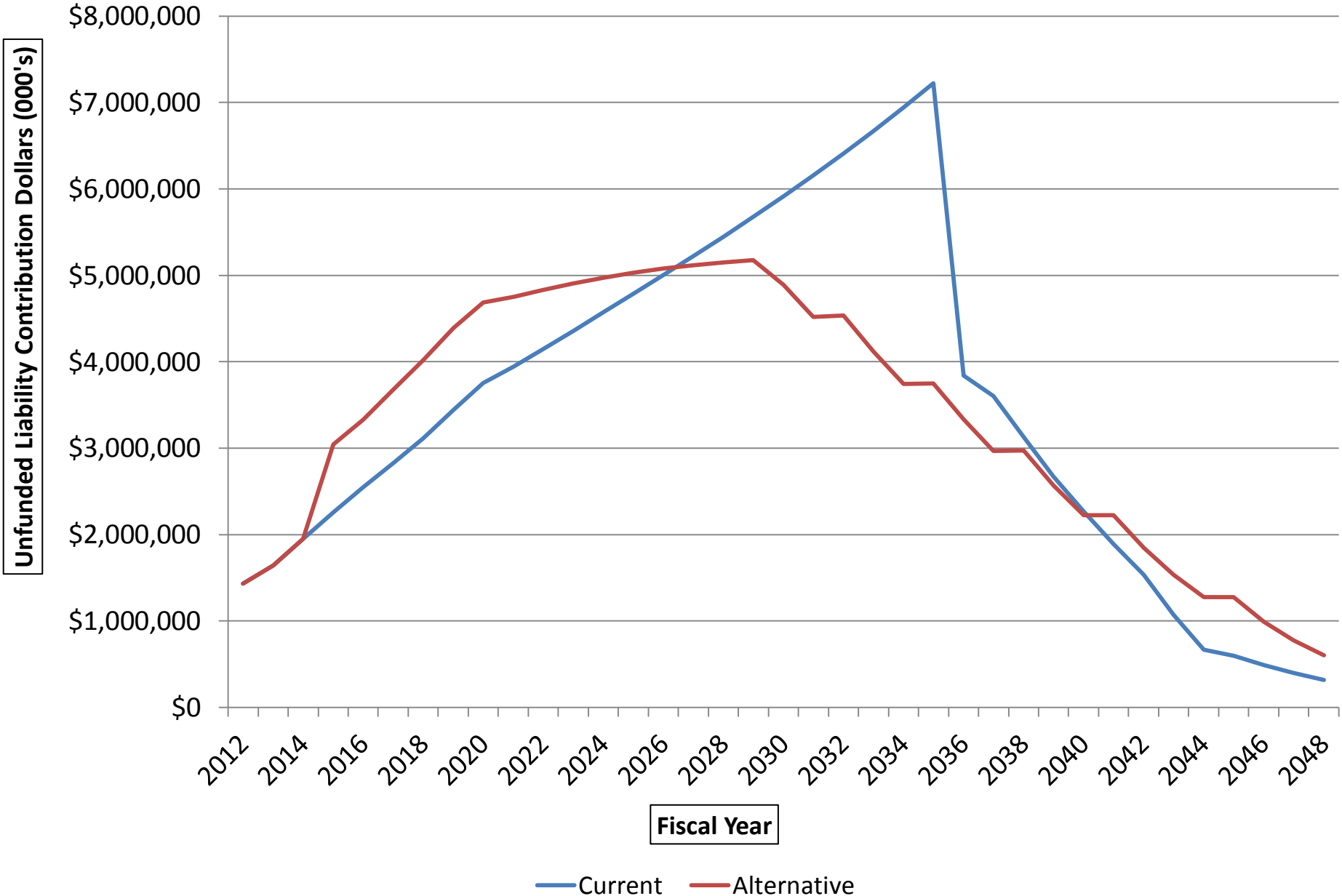


PA Public School Employees' Retirement System
Projected Employer Contribution Rate - DB plan is frozen, no future benefits offered
Based on June 30, 2010 Actuarial Valuation - Assumes 8% Rate of Return



Rate Collars in effect
 FY 2012 to FY 2015

**PA Public School Employees' Retirement System
 DB Closing Analysis: Projected Employer Contributions for Unfunded Liabilities
 Compares Current Act 120 to Alternative Amortization**



Questions?