

SCHOOL AND STATE PENSION LEGISLATION ENACTED SINCE 2001

LEGISLATIVE SESSION 2013 - 2014

Act 2013 - 32 (Senate Bill Number 797, Printer's Number 1148).

Signed into law on July 1, 2013, Act 32 amended Titles 51 (Military Affairs) and 24 (Public School Employees' Retirement Code) to bring the Public School Employees' Retirement System (PSERS) into compliance with the following Federal laws: 1) the Heroes Earnings Assistance and Relief Tax Act of 2008 ("HEART Act"); 2) the Uniformed Services Employment and Reemployment Rights Act of 1994 ("USERRA"); and 3) Internal Revenue Code Section 414(u) [IRC §414(u)].

Act 2013 - 33 (Senate Bill Number 798, Printer's Number 818).

Signed into law on July 1, 2013, Act 33 further brought PSERS into compliance with Federal law by amending the Public School Code of 1949, to entitle members of the System who are granted leave for military service on or after July 1, 2013, to receive credit in PSERS and to purchase the service as "nonintervening" military service, as provided in the Retirement Code.

LEGISLATIVE SESSION 2011 - 2012

Act 2012 - 181 (House Bill Number 2591, Printer's Number 3980).

Signed into law on October 24, 2012, Act 181 amended the Military and State Employees' Retirement System (SERS) Codes to bring SERS into compliance with the following Federal laws: 1) the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART Act); 2) the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA); and 3) Internal Revenue Code Section 414(u) [IRC §414(u)]. Additionally, the bill would require SERS to revert back to the method used to calculate the cost to purchase nonintervening military service that was in effect prior to the enactment of Act 120 of 2010.

LEGISLATIVE SESSION 2009 - 2010

Act 2010 - 44 (Senate Bill Number 928, Printer's Number 1923).

Signed into law on July 2, 2010, Act 44 created the Protecting Pennsylvania's Investments Act, mandating divestiture by the State Treasurer, the Public School Employees' Retirement System and the State Employees' Retirement System of investments in companies doing business in the nations of Iran and Sudan, and mandating the reimbursement of the affected public funds for investment losses incurred as a result of compliance with the bill's divestiture provisions from the Commonwealth's General Fund. Reinvestment in Iran and Sudan would be permitted if the countries do not appear on the List of State Sponsors of Terrorism, or the President

or Congress declares that the mandatory divestment as provided for in this Act interferes with the conduct of United States foreign policy.

Act 2010 - 120 (House Bill Number 2497, Printer's Number 4476).

Signed into law on November 23, 2010, Act 120 amended both the Public School Employees' Retirement Code and the State Employees' Retirement Code. The act implemented major pension reforms affecting both the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS). The act mandated the establishment of new benefit tiers applicable to most new members of both PSERS and SERS, and modified the actuarial funding requirements of both retirement systems.

The benefit changes mandated by the act affect only individuals who first become members on or after July 1, 2011, in the case of PSERS, or on or after January 1, 2011, in the case of SERS. Current members of PSERS and SERS, including all current active members, members currently receiving retirement benefits, and members returning to service, are unaffected by the benefit changes mandated by the act.

Benefit Changes Applicable to New Members of PSERS or SERS

- Established a new class of membership in PSERS, known as "Class T-E." Any employee who becomes a member of the System after June 30, 2011, would become a member of Class T-E unless the member elects to become a member of the new optional membership class, known as "Class T-F." A Class T-E member would be eligible for an annuity based upon an annual benefit accrual rate of 2% and would have a corresponding employee contribution requirement equal to 7.5% of compensation.
- Established an optional new class of membership in PSERS, known as "Class T-F." Any employee who becomes a member of the System after June 30, 2011, would have the option of electing Class T-F membership within 45 days of becoming a member of the System. A Class T-F member would be eligible for an annuity based upon an annual benefit accrual rate of 2.5% and would have a corresponding employee contribution requirement equal to 10.3% of compensation.
- Established a new class of membership in SERS applicable to most new members (including members of the General Assembly), known as "Class A-3," requiring all new members of the System, other than a member employed in a position for which a class of service other than Class A or Class AA is credited or could be elected, to become a member of Class A-3 beginning January 1, 2011 (or if a member of the General Assembly, beginning December 1, 2010), including an employee who is not an active member of the System (because membership is optional or prohibited), but who becomes a member of the System on or after January 1, 2011, unless the member elects to become a member of the optional membership class known as "Class A-4." Class A-3 members would be eligible for an annuity based upon an annual benefit accrual rate of 2% and would have a corresponding employee contribution requirement of 6.25% of compensation.

- Established an optional new class of membership in SERS, known as “Class A-4.” An employee who becomes a member of the System on or after January 1, 2011, would have the option of electing Class A-4 membership within 45 days of becoming a member of the System. A Class A-4 member would be eligible for an annuity based upon an annual benefit accrual rate of 2.5% and would have a corresponding employee contribution requirement equal to 9.3% of compensation.
- Increased the superannuation requirements for most new members to age 65 with a minimum of three years of service credit, or any combination of age and service that totals 92 and at least 35 years of credited service.
- Increased the vesting requirements for new members from 5 years to 10 years.
- Established a variable employee contribution rate applicable to new members, known as the “shared risk contribution rate,” that is tied to the investment performance of each System’s pension fund and would be added to the basic contribution rate of each membership class under certain conditions. For PSERS, beginning with the annual actuarial valuation performed for the period ending June 30, 2014, and for SERS, beginning with the December 31, 2013, valuation, and every 3 years thereafter, each System will compare the actual investment rate of return, net of fees, to the actuarial assumed rate of return for the previous 10-year period. If the actual rate of return is less than the assumed rate by 1% or more, the total member contribution rate will increase by 2% per year, up to a maximum total increase of 2.0%. If the actual rate is equal to or more than the assumed rate, the total member contribution rate will decrease by 2%. New hires will contribute at the rate in effect when they are hired. The additional shared risk contributions will be used to reduce the unfunded accrued liabilities of the Systems. If the System is fully funded at the time of the comparison, then the shared risk rate will be zero for that period. For any year in which the employer contribution rate is lower than the final contribution rate, the employee contribution rate would be the basic contribution rate. There would be no increase in the employee contribution rate where there has not been an equivalent increase to the employer contribution rate over the previous three year period. Until there is a full 10-year “look back” period, the look back period will begin as of the effective date of the act.
- Required new members who purchase most types of nonschool or nonstate service credit (other than intervening military service) to contribute an amount equal to the full actuarial cost of the service purchase.
- Limited the maximum annual retirement benefit of Class T-E and Class T-F members of PSERS to not more than 100% of final average salary.
- Eliminated new members’ eligibility to withdraw their accumulated deductions in a lump sum at retirement under retirement Option 4.
- Removed the Non-Qualifying Part-time Service (NQPTS) service purchase authorization for members of PSERS. Previously, members were required to qualify for membership in PSERS each year by working a minimum of 500 hours

or 80 days annually. Under Act 120, any school employee who qualifies for membership will remain a member of the System and be credited for all service without regard to the number of hours or days worked in future years, eliminating the need to purchase previous NQPTS in the future. Beginning July 1, 2011, current active members of PSERS will have three years to purchase any previous NQPTS. Current members who are inactive but return to active service after July 1, 2011, and new members of Class T-E or Class T-F, will have one year within which to purchase any previous NQPTS.

Modifications to the Actuarial Funding Requirements of PSERS and SERS

- Beginning July 1, 2011, re-amortized all of the unfunded actuarial accrued liabilities of PSERS over a 24-year period using level-percentage of pay amortization payments, including the costs of the act.
- Beginning July 1, 2010, re-amortized all of the unfunded actuarial accrued liabilities of SERS, including previously enacted supplemental annuities, over a 30-year period using level-dollar amortization payments, including the costs of the act.
- Beginning July 1, 2011, extended from five years to ten years the asset smoothing period over which investment gains and losses are recognized for PSERS.
- Maintained the current five-year asset smoothing period over which investment gains and losses are recognized for SERS.
- Funded any increases in accrued liability of PSERS enacted by legislation, other than the act, subsequent to June 30, 2010, over a 10-year period using level percentage of pay amortization payments.
- Funded any increase in accrued liability of SERS enacted by legislation, other than the act, subsequent to December 31, 2009, over a 10-year period using level-dollar amortization payments.
- For the fiscal year beginning July 1, 2010, established the total employer contribution rate as the “final contribution rate” of 5.0% of the total compensation for all active members, plus the premium assistance contribution rate for PSERS.
- Modified employer contribution requirements to PSERS and SERS by imposing limits, referred to as Acollars@ on the rate at which employer contributions may rise from year to year. For the fiscal years beginning July 1, 2011, July 1, 2012, and on or after July 1, 2013, establishes a temporary collared contribution rate, that if the contribution rate is more than 3%, 3.5% and 4.5%, respectively, of total compensation of all active members greater than the prior year’s final contribution rate, then the collared contribution rate shall be applied and equal to 3%, 3.5% and 4.5%, respectively, of total compensation for all active members.
- For all other fiscal years in which the actuarially required contribution rate is less than the collared rate, established the final contribution rate as the actuarially

required contribution rate, provided that the final contribution rate is not less than the employer normal contribution rate.

Miscellaneous Provisions

- Established an independent fiscal office charged with providing independent revenue estimates and other functions, and required the newly established independent fiscal office to undertake a study to be completed by December 31, 2015, on certain aspects of the pension provisions of the act, and to report the findings of such study to the General Assembly and to the Governor.
- Prohibited the use of pension obligation bonds for funding liabilities of PSERS or SERS.

LEGISLATIVE SESSION 2007 - 2008

Act 2007 – 8 (House Bill Number 876, Printer’s Number 1446).

Signed into law on June 27, 2007, Act 8 amended the State Employees’ Retirement Code to extend and make permanent the currently mandated minimum employer contribution floor rate of four percent.

LEGISLATIVE SESSION 2005 - 2006

Act 2006 – 120 (House Bill Number 126, Printer’s Number 4579).

Signed into law on October 27, 2006, Act 120 amended the State Employees’ Retirement Code to permit the Board of Trustees to exempt certain sensitive investment information from immediate public disclosure under the Pennsylvania Right-to-Know Law.

Act 2006 – 148 (Senate Bill 592, Printer’s Number 2044).

Signed into law on November 9, 2006, Act 148 amended the Public School Employees’ Retirement Code to permit the Board of Trustees to exempt certain sensitive investment information from immediate public disclosure under the Pennsylvania Right-to-Know Law.

Act 2006 – 188 (Senate Bill Number 1285, Printer’s Number 2251).

Signed into law on November 29, 2006, Act 188 amended 1) Section 5302(b)(2) of the State Employees’ Retirement Code (Code) to expand the number of affected employee organizations in which an active member may serve as a full-time elected officer or official and be eligible for the creditable leave of absence to include a Statewide organization covered by the Policemen and Firemen Collective Bargaining Act (Act 111 of 1968), retained the current limit of three consecutive terms of the same office applicable to elected and appointed officers and officials of the affected Statewide employee organizations, and beginning January 1, 2007, expanded the number of active members eligible for the creditable leave of absence to include up to fourteen full-time business agents appointed by an employee organization that represents correction officers employed by State correctional institutions, and limited the duration of the paid leave of

absence applicable to the affected members to no more than three consecutive terms of the same office, and 2) Section 5306 of the Code to permit an active member who is a bail commissioner of the Philadelphia Municipal Court to elect Class E-2 membership for all periods of previous bail commissioner service.

LEGISLATIVE SESSION 2003 - 2004

Act 2004 – 63 (Senate Bill Number 200, Printer’s Number 1765).

Signed into law on July 4, 2004, Act 63 amended Section 8346 of the Public School Employees’ Retirement Code to: 1) extend from 95-days to a full school year the period during which an annuitant may return to service in an emergency without being subject to the cessation of annuity provisions of the Code; 2) prohibit an annuitant who returns to school service from earning additional retirement service credit during an emergency return to service; 3) permit an annuitant to be employed by a public school or charter school in an extracurricular position performed *primarily* outside regular instructional hours and not part of the mandated course curriculum without being subject to the cessation of annuity provisions of the Code; 4) define *Aextracurricular position@* to mean a contract position filled by an annuitant that is separate from the established academic course structure, including the position of athletic director; and 5) clarify that nothing in section 8346(b)(1) of the Code shall be construed to abridge or limit any rights provided under a collective bargaining agreement or any rights provided under the Public Employe Relations Act.

Act 2003 – 40 (House Bill Number 85, Printer’s Number 3060).

Signed into law on December 10, 2003, Act 40 amended the Public School Employees’ Retirement Code and the State Employees’ Retirement Code.

The Act amended the Public School Employees’ Retirement Code to:

- 1) Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001 for the outstanding balances of the net actuarial losses incurred in fiscal year 2000-2001 and fiscal year 2001-2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar;
- 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities, the Act 38 of 2002 asset valuation method change, and for future benefit changes and cost-of-living adjustments (COLAs); and
- 3) Beginning July 1, 2004, increase from 1% to 4% the minimum employer contribution rate exclusive of the premium assistance contribution rate.

The Act amended the State Employees’ Retirement Code to:

- 1) Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001 for the outstanding balances of the net actuarial losses incurred in calendar year 2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar;

- 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities and for future benefit changes and cost-of-living adjustments (COLAs);
- 3) Increase the 1% minimum employer contribution rate in the following manner: 2% for the year beginning July 1, 2004; 3% for the year beginning July 1, 2005; and 4% for the year beginning July 1, 2006; and
- 4) Permit Bail Commissioners of the Philadelphia Municipal Court to elect class E-2 service within 30 days of the date of employment or within 30 days of the effective date of the act, and setting the class of service multiplier of 1.5 for class E-2 service.

LEGISLATIVE SESSION 2001 - 2002

Act 2002 – 38 (House Bill Number 27, Printer’s Number 3727).

Signed into law on April 23, 2002, Act 38 amended:

- The Public School Employees’ Retirement Code and the State Employees’ Retirement Code by setting a minimum employer contribution rate equal to no less than one percent, plus, in the case of the Public School Employees’ Retirement Code, the premium assistance contribution rate, except that in the case of the employer contribution rate for fiscal year 2002-2003, an amount not to exceed 1.15 percent;
- The Public School Employees’ Retirement Code by setting at five years the period over which all realized and unrealized investment gains and losses are to be recognized in determining the actuarial asset value;
- The State Employees’ Retirement Code to permit former employees of the Department of Education who were transferred to the Department of Corrections pursuant to Act 15 of 1999 to elect membership in the State Employees’ Retirement System (SERS) and receive SERS age 50 retirement credits in connection with their new status as corrections employees;
- The Public School Employees’ Retirement Code to require that the Board re-certify the employer contribution rate for the fiscal year commencing July 1, 2002, to reflect the impact of the amendments contained in the legislation;
- The State Employees’ Retirement Code to permit a former employee of the Shippensburg University of Pennsylvania who was transferred to the Juvenile Court Judges’ Commission due to an interagency transfer of staff approved by the Office of Administration and who, while an employee of Shippensburg University, had elected membership in an independent retirement program (TIAA-CREF) approved by the employer, to continue to participate in the alternative retirement program following the administrative transfer, or at the discretion of the employee, to elect membership in the SERS;

- The Public School Employees' Retirement Code and the State Employees' Retirement Code to provide a two-part cost-of-living adjustment to annuitants of both systems commencing July 2, 2002, and July 2, 2003, respectively, but excluding annuitants of both systems who have Class AA, T-D or D-4 service credit; and
- The Public School Employees' Retirement Code and the State Employees' Retirement Code to make various other changes of a technical, administrative or editorial nature.

Act 2002 – 234 (Senate Bill Number 315, Printer's Number 2451).

Signed into law on December 30, 2002, Act 234 amended:

- The Public School Employees' Retirement Code to permit an annuitant of the System to return to school service in an extracurricular capacity without incurring the cessation of annuity provisions of the Code;
- The State Employees' Retirement Code to permit an active member of the System who is an employee of the Delaware River Joint Toll Bridge Commission to purchase service credit for the other one-half of the member's previous service with the former Delaware River Joint Free Bridge Commission during the period after September 1, 1973, and before July 1, 1987; and
- The State Employees' Retirement Code by adding a section (Section 5941) requiring the State Employees' Retirement Board to establish and serve as trustee of a benefits completion plan in compliance with IRC Section 415(m).

Act 2001 – 9 (House Bill Number 26, Printer's Number 1905).

Signed into law on May 17, 2001, Act 9 amended the Public School Employees' Retirement Code and the State Employees' Retirement Code to affect multiplier/accrual rate increases for members of PSERS and SERS, including members of the General Assembly; reducing vesting to 5-years for all members; changing the amortization period from 20 years to 10 years amortization; changing the way the employer contribution is made to PSERS for a charter school; membership eligibility for charter school employees; permitting board members to serve for 30 days past the end of their legislative terms or until appointment of their successors; changing the provisions on permitted venture capital investments; and various other benefit changes.

Act 2001 – 35 (Senate Bill Number 485, Printer's Number 1236).

Signed into law on June 22, 2001, Act 35 amended the Public School Code of 1949 by providing various non-pension amendments to the Code B school voucher program, testing, aid to distressed districts, etc; and permitting school employees to participate in a private "alternative retirement plan" as an alternative to membership in PSERS, SERS or TIAA-CREF.