PUBLIC EMPLOYEE RETIREMENT COMMISSION

2014 ANNUAL REPORT

Commonwealth of Pennsylvania

2014

Annual Report

of the

Public Employee Retirement Commission

Public Employee Retirement Commission
Commonwealth of Pennsylvania
January 2015

PUBLIC EMPLOYEE RETIREMENT COMMISSION

Gubernatorial Appointees

Mr. John T. Durbin
Chairman
President, Durbin Associates

Mr. Michael P. Gleason, CPCU
Vice Chairman
Pittsburgh Branch Manager
The Gleason Agency, Inc.
A division of Arthur J. Gallagher Risk Management Services

Mr. John J. Egan, Jr.
President, J. Egan Consulting, LLC

Mr. Anthony W. Salomone
Retired Executive Director
Public Employee Retirement Commission
Commonwealth of Pennsylvania

Mr. Christ J. Zervanos
Retired Director of Labor Relations
Office of Administration
Commonwealth of Pennsylvania

Legislative Appointees

Senator Patrick M. Browne
District 16
Lehigh, Monroe and Northampton Counties

Senator John P. Blake
District 22
Lackawanna, Luzerne, and Monroe Counties

Representative Mike Tobash
District 125
Berks and Schuylkill Counties

Representative R. Ted Harhai
District 58
Fayette and Westmoreland Counties

Executive Director: James L. McAneny

Commission Office: 510 Finance Building
P. O. Box 1429
Harrisburg, PA 17105-1429
Telephone: (717) 783-6100
FAX: (717) 787-9531
E-mail: perc@pa.gov
Web Site: www.perc.state.pa.us

COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
HARRISBURG
17120

January 27, 2015

To: Governor Wolf
and Members of the Pennsylvania General Assembly

As required by the Public Employee Retirement Commission Act, this annual public report is issued to summarize the Commission's findings, recommendations, and activities for the year 2014.

During 2014, the Commission authorized the attachment of six actuarial notes to bills and amendments at the request of the various committees of the General Assembly. This report contains a synopsis of each of these notes. This report also describes research conducted during 2014 and summarizes the Commission's administrative activities under the Municipal Pension Plan Funding Standard and Recovery Act and Act 293 of 1972.

On behalf of the Public Employee Retirement Commission and its staff, I am pleased to submit the thirty-second annual public report of the Commission. The Commission hereby expresses its thanks and appreciation to all individuals, organizations, and agencies whose assistance and cooperation contributed to the work of the Commission during 2014.

Sincerely,

John T. Durbin
Chairman

This page intentionally left blank.

Introduction

The Public Employee Retirement Commission was created in 1981 by the Public Employee Retirement Commission Act. The Commission is composed of nine members, five of whom are appointed by the Governor with the advice and consent of the Senate and four of whom are appointed by the leaders of the General Assembly.

Under the Public Employee Retirement Commission Act, the Commission has two main responsibilities. One is to issue the required actuarial notes for proposed legislation affecting public employee retirement systems. The other is to study, on a continuing basis, public employee retirement system policy and the interrelationships, actuarial soundness and costs of the retirement systems.

Under the Municipal Pension Plan Funding Standard and Recovery Act, adopted in 1984, the Commission has two additional responsibilities. The first is to administer the actuarial valuation reporting program for municipal retirement systems, which entails monitoring and enforcing compliance with the statutorily mandated actuarial funding standard. The second is to certify annually municipal pension cost data used in allocating General Municipal Pension System State Aid, an amount that exceeded $248 million in 2014.

One of the other responsibilities of the Commission under the Public Employee Retirement Commission Act is to issue an annual report to the Governor and the General Assembly. The first three reports were issued on a fiscal year basis. This is the twenty-ninth report issued on a calendar year basis, and the fourth to be issued solely in electronic format.

The Commission thanks those who actively participated in its meetings, the members of its advisory committees and the organizations they represent, and all others who have offered advice and support to the Commission during 2014.

This page intentionally left blank.

TABLE OF CONTENTS

TABLE OF CONTENTS (Cont'd)

Page

DUTIES AND RESPONSIBILITIES

OF THE COMMISSION

This page intentionally left blank.

PART I

PREPARATION OF ACTUARIAL NOTES AND ADVISORY NOTES

A. STATUTORY PROVISIONS.

The Public Employee Retirement Commission Act provides, in pertinent part:

Section 6. Powers and duties.

(a) In general - The commission shall have the following powers and duties:

(13) To issue actuarial notes pursuant to section 7.

Section 7. Actuarial notes.

(a) Note required for bills. - Except as otherwise provided in subsection (f)(1), no bill proposing any change relative to a public employee pension or retirement plan shall be given second consideration in either House of the General Assembly, until the commission has attached an actuarial note prepared by an enrolled pension actuary which shall include a reliable estimate of the cost and actuarial effect of the proposed change in any such pension or retirement system.

(b) Note required for amendments. - Except as otherwise provided in subsection (f)(2), no amendment to any bill concerning any public employee pension or retirement plan shall be considered by either House of the General Assembly until an actuarial note prepared by an enrolled pension actuary has been attached.

(c) Preparation of note. - The commission shall select an enrolled pension actuary to prepare an actuarial note which shall include a reliable estimate of the financial and actuarial effect of the proposed change in any such pension or retirement system.

(d) Contents of a note. - The actuarial note shall be factual, and shall, if possible, provide a reliable estimate of both the immediate cost and effect of the bill and, if determinable or reasonably foreseeable, the long-range actuarial cost and effect of the measure.

(e) Notes for proposed constitutional amendments. - The commission shall issue an actuarial note, prepared by an enrolled pension actuary, for any joint resolution proposing an amendment to the Constitution of Pennsylvania which initially passes either House of the General Assembly. If said joint resolution is subsequently amended and passes either House of the General Assembly, a new actuarial note shall be prepared.

A. STATUTORY PROVISIONS. (Cont'd)

The requirement that an actuarial note be attached to public employee pension and retirement bills prior to their second consideration in either house of the General Assembly was a modification of the legislative process. In response to this statutory mandate to prepare the required actuarial notes, the Commission and the leaders of the General Assembly developed and implemented legislative procedures. The standardization of these procedures makes it easier to expeditiously and efficiently provide the required actuarial information to the General Assembly. The procedures clarify the manner of attaching actuarial notes to bills, including floor amended bills and bills in the possession of the House and Senate Appropriations Committees upon the request of the chairman. The procedures also clarify the availability of the Commission's staff to provide technical assistance to members of the General Assembly on matters relating to public employee retirement system design, financing, and administration. The legislative procedures also provide for the preparation of advisory notes for committee chairmen. The Commission uses an advisory note, as distinct from an actuarial note, for the analysis of proposed legislation when the bill is being considered by a committee of the General Assembly. The advisory note is prepared primarily by the Commission's staff with review or additional analysis by one of the Commission's consulting actuaries as deemed necessary.

The legislative procedures are included in this report as Appendix B.

B. SUMMARY OF 2014 ACTIVITY.

During 2014, the Commission authorized the attachment of six actuarial notes to bills and amendments at the request of the General Assembly.

C. SYNOPSES OF ACTUARIAL NOTES.

A synopsis of each actuarial note containing a summary of each bill, its actuarial costs, and the disposition follows. These synopses are arranged by Senate and House Bill in numerical order. A subject index to the actuarial notes is provided in Appendix E.

Bill ID: Senate Bill Number 1078, Printer's Number 1707

System: Act 96 County Pension Plans

Subject: Cost-of-Living Adjustments

SYNOPSIS

Senate Bill Number 1078, Printer's Number 1707, would amend the act of August 31, 1971, P. L. 398, No. 96, known as the County Pension Law (Act 96 of 1971), to clarify that cost-of-living adjustments, if given to retired county employees, would not need to be calculated retroactively to the date of the previous cost-of-living increase and would not need to apply the cost-of-living index change for each year since the previous cost-of-living increase.

DISCUSSION

The County Pension Law (Law) applies to all counties of the Second Class-A through Eighth Class. Under the Law, a county retirement system is established by a resolution of the county commissioners and is administered by a county retirement board, which has full power to invest and manage the assets of the retirement system. As of January 1, 2012, there were 71 county pension plans operating under the Law with total aggregate assets of approximately $6.5 billion. Combined, these county pension plans had approximately 57,312 active members and 30,774 retirees and surviving beneficiaries currently receiving benefits. Members are vested upon attaining five years of credited service. The normal retirement age is age 60, or age 55 if a member has completed 20 years of service. Membership is mandatory for all employees who work or are expected to work 1,000 hours or more per year, and elected county officials have the option to participate.

A postretirement adjustment is a special type of retirement benefit. It is an increase in the amount of the retirement benefit that initially was payable at retirement. Postretirement adjustments may be granted for a number of reasons, but the most common is to increase retirement pay to reflect part of the increase in the cost of living since an individual retired.

In Pennsylvania, some local governments have provided postretirement cost-of-living adjustments to retired municipal employees. The General Assembly has also enacted statewide cost-of-living adjustments for certain municipal retirees on an ad hoc basis.

Under the current interpretation of Section 30 of the County Pension Law, when a county retirement board provides a cost-of-living adjustment (COLA) to retired county employees, the adjustment is calculated as a percentage of the increase in the cost-of-living index (or, Consumer Price Index) from the retiree's year of retirement to the current year. COLAs that have been previously granted to retirees are subtracted from the lifetime COLA to arrive at the current year's adjustment. For a county that has not granted a COLA in several years, granting a COLA now would require including the cost-of-living increases for each year since the last COLA was provided. This can quickly make a COLA unaffordable for the county board to provide to its retirees. The alternative would be for a county board to provide a COLA at a fraction of the increase in the cost-of-living index, or to provide no COLA at all.

The following table, compiled by the Commission staff, shows the year of the most recent COLA for each county and the county's current funded ratio. The information was taken from the individual 2012 Actuarial Valuation Reports for each of the affected county pension plans. Several of the counties included in the table do not have a calculated funded ratio, due to the use of an aggregate actuarial cost method. Entry age normal, the actuarial methodology most commonly used by municipal retirement systems, funds the cost of providing a future retirement benefit to a member by spreading that cost over the working lifetime of a member. Aggregate cost method differs from entry age normal, however, by matching the annual cost of benefits to the normal cost of funding the plan. All plan costs, including past and future service credit, are included in the normal cost. Therefore, this method does not produce an unfunded liability outside the normal cost. The normal cost is also determined for the entire group rather than on an individual basis.

County Name	Date of Last COLA	Funded Ratio (%)
Adams	2007[1]	102.77
Allegheny[2]	2009	55.44
Armstrong	2009	83.08
Beaver	2000	96.81[3]
Bedford	2007	67.13
Berks	2000	80.78
Blair	2011	AGG
Bradford	2004	AGG
Bucks	2011	87.83
Butler	2009	76.29
Cambria	2001	AGG
Cameron	2011	AGG
Carbon	2011	AGG
Centre	2012	AGG
Chester	2007	76.67
Clarion	2008	AGG
Clearfield	2008	AGG
Clinton	2011	94.40
Columbia	2002	AGG
Crawford	2007	77.86
Cumberland	2008	78.99
Dauphin	2007	75.82
Delaware	2005	AGG
Elk	2000	AGG
Erie	2008	AGG
Fayette	2011	88.94
Forest	2007[1]	102.48
Franklin	2009	AGG
Fulton	2009	AGG
Greene	No known COLAs	91.72
Huntingdon	2011	AGG
Indiana	No known COLAs	AGG
Jefferson	2007[1]	102.35

County Name	Date of Last COLA	Funded Ratio (%)
Juniata	2012	AGG
Lackawanna	2008	75.30
Lancaster	2009	79.16
Lawrence	2007	AGG
Lebanon	2012	73.58
Lehigh	2002	84.18
Luzerne	2007[1]	85.70
Lycoming	2012	88.03
McKean	2012	90.92
Mercer	2007	AGG
Mifflin	1998	84.29
Monroe	2009	72.24
Montgomery	2009	AGG
Montour	1990	AGG
Northampton	2011	77.57
Northumberland	2007	95.05
Perry	2007	AGG
Pike	2007	AGG
Potter	1998	AGG
Schuylkill	2007	AGG
Snyder	2011	AGG
Somerset	2005	71.10
Sullivan	Unknown[4]	57.09
Susquehanna	2001	AGG
Tioga	2012	AGG
Union	2000	AGG
Venango	2008	AGG
Warren	2007	AGG
Washington	1998	84.37
Wayne	2007	AGG
Westmoreland	2011	83.85
Wyoming	2007	AGG
York	2008	79.05

AGG - County pension plan using an aggregate cost method, rather than entry age normal methodology, which does not calculate the funded ratio since the plan is technically always fully funded.

[1] A PMRS county plan. PMRS only grants COLAs when excess interest exists.
[2] Allegheny County is a second class county and not subject to Act 96. It is being included for informational purposes only.
[3] Beaver County has two additional county pension plans, both of which use an aggregate cost method.
[4] Joined PMRS in 2009, after the latest COLA was granted. Data on previous COLAs granted is not available.

DISCUSSION (CONT'D)

By amending the Law to clarify the provisions for granting COLAs to county retirees, Senate Bill Number 1078, Printer's Number 1707, would provide more flexibility to county retirement boards when considering COLAs in future years. For years in which a COLA may be deemed to be unaffordable, a county board may choose not to provide a COLA. In subsequent years when a COLA is determined to be affordable, a county board may provide one to its retirees regardless of the number of years since the last COLA was granted.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed Senate Bill Number 1078, Printer's Number 1707, and determined that, since the bill contains no specific COLA proposal, it would have no immediate actuarial cost impact upon the county plans subject to the Law. The costs, if a specific COLA(s) were to be provided, would be a function of the frequency and amount of COLAs granted by county pension plans in future years *with* the passage of the bill, compared to the frequency and amount of COLAs granted in future years *without* the passage of the bill. If the bill were to become law, the consulting actuary anticipates that the actuarial cost of future COLAs would not be markedly different from the actuarial costs of future COLAs if the bill were not to become law.

POLICY CONSIDERATIONS

In reviewing the bill, the Commission identified the following policy considerations:

> Clarification of the Law. The bill seeks to clarify the provisions for granting COLAs to county retirees under the County Pension Law. This change in the interpretation of the Law would provide more flexibility to county retirement boards and allow for COLAs on a more consistent basis to all county retirees.
>
> Optional Implementation. The bill authorizes rather than mandates county retirement boards to provide cost-of-living adjustments, allowing for local determinations of the need for and feasibility of the cost-of-living adjustments.
>
> Definition of "Cost-of-Living Index." There are multiple variations of the Cost-of-Living Index. The bill should be amended to include a definition of cost-of-living index that will clarify precisely which calculation of Cost-of-Living Index is to be used in the determination of the COLA changes provided by the bill.
>
> Prospective COLAs. By reducing the cost of a prospective COLA, the bill may facilitate the grant of additional COLAs that would be otherwise more expensive.

COMMISSION RECOMMENDATION

On May 1, 2014, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

Senate Bill Number 1078, Printer's Number 2187, passed the Senate and had first consideration in the House on September 15, 2014.

To view this note in its entirety, click the following link: Senate Bill Number 1078, Printer's Number 1707

Bill ID: Amendment Numbers 06917, 07089, and 07096 to House Bill Number 1353, Printer's Number 2152

System: Public School Employees' Retirement System and State Employees' Retirement System

Subject: Hybrid Retirement Benefit Plan

SYNOPSIS

Amendment Numbers 06917, 07089 and 07096 to House Bill Number 1353, Printer's Number 2152, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to: 1) implement a hybrid retirement benefit plan; 2) exempt State Police officers from membership in the new hybrid benefit tier; and 3) for PSERS, restore the part-time membership eligibility threshold to pre-Act 120 requirements. More specifically, the amendments would amend the Codes in the following manner.

Amendment Number 06917 would amend the Public School Employees' Retirement Code to:

1) Effective July 1, 2015, establish a hybrid benefit tier, which includes defined benefit and defined contribution components, applicable to all new school employees or employees returning after a break in service. Current members of PSERS would be ineligible to participate in the new hybrid tier.

2) Under the defined benefit component, school employees would become members of "Class T-G" and would earn benefits at a 2% benefit accrual rate. A member would be vested in the defined benefit component after accumulating 10 years of service credit. The benefit formula would be equivalent to 2% multiplied by the member's years of service (maximum of 25 years), multiplied by the member's final average salary (highest five years), with an annual pay limit of $50,000 indexed at 1% per year. Class T-G members would contribute 6% of compensation for the first $50,000 for the first 25 years of service.

3) Establish a defined contribution plan under a new chapter of the Code, Chapter 84, called the School Employees' Defined Contribution Plan, for school employees to contribute 1% of compensation of the first $50,000 for the first 25 years of service, and 7% of compensation on pay above $50,000 or any service over 25 years. The employer contribution would be 0.5% of the member's first $50,000 of compensation for the first 25 years of service, and 4% of compensation on pay above $50,000 or any service over 25 years.

Amendment Number 06917 would amend the State Employees' Retirement Code to:

1) Effective January 1, 2015, establish a hybrid benefit tier, which includes defined benefit and defined contribution components, applicable to most new State employees or employees returning after a break in service. Current members of SERS would be ineligible to participate in the new hybrid tier.

2) For the defined benefit portion, most State employees would become members of "Class A-5" and would earn benefits at a 2% benefit accrual rate. A member would be vested in the defined benefit component after accumulating 10 years of service credit. The benefit formula would be equivalent to 2% multiplied by the member's years of service (maximum of 25 years), multiplied by the member's final average salary (highest five years), with an annual pay limit of $50,000 indexed at 1% per year. Class A-5 members would contribute 6% of compensation for the first $50,000 for the first 25 years of service.

3) Establish a defined contribution plan under a new chapter of the Code, Chapter 58, known as the State Employees' Defined Contribution Plan, for most State employees to contribute 1% of compensation of the first $50,000 for the first 25 years of service, and 7% of compensation on pay above $50,000 or any service over 25 years. The employer contribution would be 0.5% of the member's first $50,000 of compensation for the first 25 years of service, and 4% of compensation on pay above $50,000 or any service over 25 years.

Amendment Number 07089 to House Bill Number 1353, Printer's Number 2152, as amended by Amendment Number 06917, would amend the State Employees' Retirement Code to:

1) Exempt a sworn officer of the Pennsylvania State Police from membership in the new hybrid benefit tier. All prospective employees of this group would continue to be eligible for membership in Class A-3 in the State Employees' Retirement System until they become eligible for the enhanced State Trooper retirement benefits upon attaining 20 years of credited service. Additionally, for new State Police officers hired on or after July 1, 2017, overtime compensation would be limited to 10% of base salary.

Amendment Number 07096 to House Bill Number 1353, Printer's Number 2152, as amended by Amendment Number 06917, would amend the Public School Employees' Retirement Code to:

1) Reinstate the Public School Employees' Retirement System (PSERS) Pre-Act 120 membership qualification requirements applicable to part-time employees. Under the bill as amended, a part-time school employee compensated on an hourly or per diem basis would be required to re-qualify for PSERS membership each year. This would require an employee to work at least 80 days (per diem) or 500 hours (hourly) each year to meet the membership eligibility threshold.

DISCUSSION

The Retirement Codes and Systems

Currently, most full-time public school and state employees are members of either the Public School Employees' Retirement System (PSERS) or the State Employees' Retirement System (SERS). Both PSERS and SERS are governmental, cost-sharing, multiple-employer defined benefit pension plans. The designated purpose of the Public School Employees' Retirement System and the State Employees' Retirement System is to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. As of June 30, 2013, there were approximately 766 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 2013, approximately 105 Commonwealth and other employers participating in SERS. Membership in PSERS and SERS is mandatory for most school and state employees. Certain other employees are not required but are given the option to participate. As of June 30, 2013, there were 267,428 active members and 209,204 annuitant members of PSERS, and as of December 31, 2013, there were 105,186 active members and 120,052 annuitant members of SERS.

For most members of both Systems, the basic benefit formula used to determine the normal retirement benefit is equivalent to the product of 2.5% multiplied by the member's years of accumulated service credit ("eligibility points") multiplied by the member's final average (highest three years) salary. Since the passage of Act 9 of 2001 (which increased the accrual rate for most members from 2.0% to 2.5%), most members of PSERS are Class T-D members and contribute 7.5% of compensation to PSERS, while most members of SERS are Class AA members and contribute 6.25% of compensation to SERS. Within both Systems, there are a number of additional membership classes with corresponding benefit accrual and employee contribution rates that differ from the majority of school and state employees.

Act 120 of 2010 implemented major pension benefit reforms, including the establishment of new benefit tiers applicable to most new members. Effective January 1, 2011, most new members (including members of the General Assembly), are required to become members of one of two membership classes, known as "Class A-3" and "Class A-4." Most new members of SERS, other than State Police officers or members employed in a position for which a class of service other than Class A or Class AA is credited or could be elected, become members of Class A-3 beginning January 1, 2011 (or if a member of the General Assembly, beginning December 1, 2010). Class A-3 members are eligible for an annuity based upon an annual benefit accrual rate of 2% and have a corresponding employee contribution requirement of 6.25% of compensation. As an alternative to Class A-3, an employee who becomes a member of SERS on or after January 1, 2011, may elect Class A-4 membership within 45 days of becoming a member of SERS. A Class A-4 member is eligible for an annuity based upon an annual benefit accrual rate of 2.5% with a corresponding employee contribution requirement equal to 9.3% of compensation.

Effective July 1, 2011, new members of PSERS are required to become members of one of two membership classes, known as "Class T-E" and "Class T-F." Most new members of PSERS are required to become members of Class T-E beginning July 1, 2011. Class T-E members are eligible for an annuity based upon an annual benefit accrual rate of 2% and have a corresponding employee contribution of 7.5% of compensation. As an alternative to Class T-E, an employee who becomes a member of PSERS on or after July 1, 2011, may elect Class T-F membership within 45 days of becoming a member of PSERS. A Class T-F member is eligible for an annuity based upon an annual benefit accrual rate of 2.5% with a corresponding employee contribution requirement equal to 10.3% of compensation.

Under the Codes of both Systems, superannuation or normal retirement age is that date on which a member may terminate service with the public employer and receive a full retirement benefit without reduction. Under the Public School Employees' Retirement Code, superannuation or normal retirement age for most members is age 62 with at least one full year of service, age 60 with 30 or more years of service, or any age with 35 years of service. Under the State Employees' Retirement Code, superannuation or normal retirement age for most members is age 60 with three years of service or any age with 35 years of service, while age 50 is the normal retirement age for members of the General Assembly and certain public safety employees. For most members of the Systems who first became members after the effective dates of Act 120, the superannuation requirement is age 65 with a minimum of three years of service credit, or any combination of age and service that totals 92 with at least 35 years of credited service, and age 55 for members of the General Assembly and certain public safety employees.

Defined Benefit and Defined Contribution Retirement Systems

In a "defined benefit" plan, such as PSERS and SERS, the pension benefit to be provided at retirement is defined, while the contributions to be made over the period of employment are variable based on the experience of the pension fund. Upon retirement, a defined benefit plan participant is entitled to receive a definitely determinable benefit that is calculated using a formulation that considers factors such as age, duration of service with the employer and compensation. Because the benefit is defined and calculated using a formula and is not dependent on an individual's account balance, members of defined benefit plans are largely insulated from both negative and positive fluctuations of the investment markets.

By contrast, in a "defined contribution" pension plan, the contributions to be made over the period of employment are defined, while the pension benefit to be provided at retirement is variable based on the experience of the pension fund. Upon retirement or separation from the employer, a defined contribution plan participant is generally entitled only to the balance standing to the credit of the individual's retirement account. Market performance directly impacts the value of an individual's retirement account.

The distinction between the defined benefit and defined contribution approaches is most significant in the placement of the risk associated with investment earnings over the period of employment. The fixed benefit in a defined benefit pension plan means that the investment experience impacts the contribution requirements, increasing them when investment earnings are lower than anticipated and decreasing them when earnings are greater than anticipated. The fixed contributions in a defined contribution pension plan mean that the investment experience impacts on the benefit amount, increasing it when earnings are higher and reducing it when earnings are lower. Therefore, the employer bears the investment risk in a defined benefit plan, and the employee bears the investment risk in a defined contribution pension plan.

For most employees, defined contribution plans are generally regarded as more valuable for those in the early stages of their careers or for those who are employed in careers that entail greater mobility. Defined contribution accounts are portable and can readily move with the employee as that employee moves from one employer to the next. In contrast, defined benefit plans are relatively more valuable for those employees who tend to remain with one employer and to long-service employees in the later stages of their careers, because the value and cost of the defined benefits earned each year increase as employees approach retirement age.

Hybrid Benefit Tiers for School and State Employees

The bill as amended would establish two new "stacked" hybrid benefit tiers applicable to all new public employees or employees returning after a break in service who are hired by school or State employers within the Commonwealth after July 1, 2015, in the case of PSERS, and January 1, 2015, in the case of SERS. The hybrid benefit tiers would include both a defined benefit and defined contribution component. The bill as amended would not affect the retirement benefits of current active members of the Systems unless or until there is a break in service. Instead, the bill as amended seeks to create reduced benefit tiers within PSERS and SERS applicable only to new employees or returning members on or after the effective dates for each System. Current members of PSERS or SERS cannot elect to become members in the new hybrid plan.

The following table illustrates the major benefit provisions of the new hybrid benefit tiers.

Table 1

Hybrid Benefit Tiers
Members of Class T-G in PSERS and Class A-5 in SERS

	Defined Benefit Component	Defined Contribution Component
Benefit Accrual	2% X Years of Service on first $50,000 of compensation (Max. first 25 years of service) X Final Average Salary (High 5 Years)	Balance of participant's account in form of annuity
Employee Contribution	• 6% contribution on first $50,000 of compensation for first 25 years of service [1] • 0% contribution above $50,000 or over 25 years of service	• 1% contribution on first $50,000 of compensation for first 25 years of service • 7% contribution above $50,000 or over 25 years of service
Employer Contribution	• Actuarially determined rate for compensation below $50,000 • 0% for compensation above $50,000	• 0.50% contribution on first $50,000 of compensation for first 25 years of service • 4% contribution above $50,000 or over 25 years
Vesting	10 years	Immediately for participant, 3 years for employer contributions
Superannuation Age	Age 65 (with 3 years of service for PSERS)	Not applicable
Death Benefit	If more than 10 but less than 25 years of service, eligible for annuity based on service	Payment of participant's account balance
Disability Benefit	If at least 5 years of service, eligible for annuity based on service and compensation	Payment of participant's account balance

[1] Subject to the shared-risk provisions of Act 120

Any employee who first becomes a member of PSERS or returns after a break in service on or after July 1, 2015, would become a mandatory member of the hybrid benefit tier and a member of a new membership class, known as "Class T-G." A Class T-G member would be entitled to a defined benefit equal to a 2% annual benefit accrual rate multiplied by the member's years of service (maximum of 25 years) multiplied by the member's final average salary (highest five years), with an annual pay limit of $50,000 indexed at 1% per year. Class T-G members would be required to make employee contributions equal to 6% of compensation for the first $50,000 for the first 25 years of service. Employer contributions on behalf of the member for the defined benefit plan would be an actuarially determined rate.

Likewise, any employee who first becomes a member of SERS or returns after a break in service on or after January 1, 2015, would become a mandatory member of the hybrid benefit tier and a member of a new membership class, known as "Class A-5." A Class A-5 member would be entitled to a defined benefit equal to a 2% annual benefit accrual rate multiplied by the member's years of service (maximum of 25 years) multiplied by the member's final average salary (highest five years), with an annual pay limit of $50,000 indexed at 1% per year. Class A-5 members would be required to make employee contributions equal to 6% of compensation for the first $50,000 for the first 25 years of service. In the case of employees in Act 111 collective bargaining units, the effective date is delayed until current agreements expire. For Capitol Police and park rangers, the date is July 1, 2015. Employer contributions on behalf of the member for the defined benefit plan would be an actuarially determined rate.

For members returning after a break in service, benefits already accumulated as a former PSERS or SERS member would be frozen in the Systems, but available to the employee upon retirement in conjunction with benefits accrued as a member of Class T-G or Class A-5 and as a participant in the defined contribution plans (Plans). If the member becomes vested in both an existing membership class and either Class T-G or Class A-5, then the member may receive only one annuity under one option upon attaining superannuation age. After becoming a participant in one of the Plans, an employee would be prohibited from purchasing any previous school or creditable nonschool service, in the case of PSERS, or any previous State or creditable nonstate service, in the case of SERS, except for non-intervening military service.

In addition to the defined benefit portion of the hybrid tiers, the bill as amended would amend the PSERS Code by adding Chapter 84, effectively integrating into the Code a defined contribution benefit component, known as the "School Employees' Defined Contribution Plan." Similarly, under the SERS Code, a new chapter, Chapter 58, would be added to incorporate a defined contribution benefit component, known as the "State Employees' Defined Contribution Plan." Participation in the respective defined contribution plans would be mandatory for all Class T-G and Class A-5 members. After the first 25 years of service, benefits would cease to accrue in the defined benefit plan and the defined contribution component would exist in lieu of a defined benefit, but with significantly larger contributions.

Vesting

Whereas the defined benefit component of the hybrid plan does not entitle new members to vesting of retirement benefits until 10 years of service, the defined contribution plan provides 100% vesting from the first day of membership. For both Class T-G and Class A-5, superannuation age is age 65, with 3 years of service required for PSERS. Vested members may not withdraw contributions and interest in lieu of receiving a benefit. Vested members are eligible to receive an early retirement benefit after completing 25 years of service. To receive an unreduced retirement benefit, however, members must attain age 65.

Defined Contribution Plans

The hybrid benefit tiers also contain a defined contribution component. For the purposes of the Commission's discussion, the major issues of the new defined contribution portion of the hybrid benefit tier have been divided into the following four categories: 1) establishment, organization and operation; 2) coverage, benefits and contributions; 3) investments; and 4) ancillary issues.

Establishment, Organization and Operation

The bill as amended mandates that the School Employees' Retirement Board and the State Employees' Retirement Board administer or ensure the administration of the respective Plans, and sets forth the Boards' powers and duties. Most of the details governing the actual operation of the new Plans are delegated to the Boards which will be responsible for establishing the rules and regulations governing the Plans. These rules and regulations will presumably address the many specific details involved in the operation of a public pension plan. It also appears that most of the new Plans' investment and administrative functions may be handled by third-party administrators contracted by the Boards to provide the necessary services.

Coverage, Benefits and Contributions

School and State employees who participate in the new defined contribution plans would contribute 1% of the first $50,000 of compensation for the first 25 years of service, and 7% on pay above $50,000 and for service over 25 years. Employers will contribute 0.5% of the member's first $50,000 of compensation for the first 25 years of service, and 4% of compensation above $50,000 and for service over 25 years. Future Pennsylvania State Police Officers would be exempt from joining the new defined contribution plan, with new employees of this group continuing to be eligible for membership in Class A-3 of SERS after 2015.

Participants in the Plans may make additional contributions to the Plans up to the limits imposed by federal law. Contributions on behalf of the participant and the employer would be credited to an "individual investment account" for each participant of the new Plans, along with all interest and investment gains or losses. For investment purposes, the Boards may pool the assets of the participants in the Plans.

Participants in the Plans would become fully vested in the employer-matching contributions after three years of employment. The participant's contributions would vest immediately.

Investments

While the bill as amended does not specifically mention the type of investments that will be offered to the participants, governmental defined contribution plans typically offer a variety of investment options, including lifestyle funds that are based upon age and projected retirement date. The Plans will most likely also make available investment options that represent a broad cross-section of asset classes and risk profiles. The bill as amended states that the PSERS and SERS Boards will not be held responsible for any investment losses incurred by participants in the Plans or for the failure of any investment to earn a specific or expected return. The Boards will bear the expenses arising from the establishment of the Plans, but all other expenses, fees and costs of the administration of the Plans will be assessed against the accounts created on behalf of participants.

Ancillary Issues

Death and Disability Benefits. Beyond payment of the participant's account balance to the designated beneficiary upon the death of an active participant, there are no special death benefit provisions to provide for the surviving spouse or children of a Plan participant.

Holding Vehicle Trust. The bill as amended creates a temporary "holding vehicle" for each of the Systems in the event that the defined contribution plans are not ready to accept contributions by the effective dates. All employee and employer contributions would be held in a qualified holding vehicle trust until the Boards certify that the defined contribution plans are operational and able to accept the employee and employer contributions. Contributions in the holding vehicle would earn annual interest at a rate of 4%, increased or decreased by any investment earnings or losses.

Pension Forfeiture Act. Under Act 140 of 1978, known as the Public Employee Pension Forfeiture Act (43 P.S. §§ 1311-1315), a public official or public employee who is convicted or pleads guilty or no defense to a crime related to public office or public employment is disqualified to receive a retirement or other benefit or payment of any kind except a return without interest of the contributions paid into a retirement system. Under the bill as amended, the accumulated contributions of a participant shall not be forfeited, but will be made available for payment of any fines or restitution.

Limitations on Compensation and Final Average Salary

The bill as amended proposes two new changes to the limits on compensation that may be used for purposes of calculating the retirement benefits of prospective members of PSERS and SERS. The two changes are: 1) increasing the period over which the member's final average salary may be calculated from three years to five years; and 2) imposing an "annual compensation limit" to limit the amount of compensation eligible to be calculated under the defined benefit plan for retirement benefits to $50,000. The limit will be indexed at 1% per year. The overall impact will be to reduce from current benefit levels the potential future retirement benefits of the affected members.

The Systems currently employ a member's "final average salary" as one of the components of the statutory formula that is used to compute a member's retirement benefit entitlement. Currently, a member's final average salary is calculated as the average of the highest three years of compensation. The bill as amended would amend the Codes to change the final average salary calculation from the average of the highest three to the average of the highest five years of compensation for all prospective employees affected by the bill as amended.

The bill as amended would also apply a new limit on the level of compensation that may be used for final average salary determination purposes. Under this provision, the compensation calculated for the defined benefit component cannot exceed $50,000. All pay above the $50,000 limit (indexed at 1% per year) would not be included in the calculations for employee and employer contributions to the defined benefit plan, but would count toward the employee and employer contributions for the defined contribution plan.

Shared-Risk Provision

One of the major changes to Act 120 was the implementation of a variable employee contribution rate, known as the "shared risk contribution rate" which was applicable to new members (Classes A-3, A-4, T-E, and T-F) of both Systems. The shared risk contribution rate 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. Every three years, 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 ½% 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 ½%. New hires contribute at the rate in effect when they are hired. The additional shared risk contributions are 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. The bill as amended would make members of Class T-G and Class A-5 subject to the shared-risk provision as well, with a maximum employee contribution of 8% of compensation.

Premium Assistance

Section 8509 of the PSERS Code governs administration of the Health Insurance Premium Assistance Program. Through the program, health insurance premium assistance payments are provided to a retired member who is receiving postretirement healthcare benefits through either the PSERS-sponsored Health Options Program (HOP) or through a healthcare provider approved by the retired member's former school employer. To be eligible for premium assistance, a member must have: 1) accumulated at least 24½ years of credited service; 2) be a disability annuitant; or 3) have at least 15 years of service and have both terminated school service and retired after attaining superannuation age (age 65 for members of Class T-E and T-F).

Under current program provisions, participating eligible annuitants receive health insurance premium assistance payments from the Health Insurance Account equal to the lesser of $100 a month or the amount of the actual monthly premium. As of June 30, 2012, there were approximately 87,977 retirees receiving premium assistance benefits from the program. An additional 45,321 retirees were eligible to participate but were either enrolled in non-approved plans or did not purchase healthcare coverage, and so were not eligible to receive premium assistance payments.

Assets to pay premium assistance benefits from the Health Insurance Premium Assistance Program are held in the Health Insurance Account, which is a separate fund within the pension plan trust. The Health Insurance Account is credited with the contributions of the Commonwealth and school employers and is funded on a pay-as-you-go basis, with the required contributions calculated by the consulting actuary as part of the valuation process based upon expected annual disbursements and funded for one year in advance of the actual disbursements. A review of the most recent actuarial valuation report for the Public School Employees' Retirement System (June 30, 2013) reveals contributions to the program equal to 0.90% of total payroll.

The bill as amended would amend the definition of "eligible annuitants" in Section 8102 of the PSERS Code to exclude Class T-G members from participating in the Health Insurance Premium Assistance Program.

Amendment Number 07089
Membership Exemption for Pennsylvania State Police Officers

Special retirement coverage for various public safety employees often is provided in public employee retirement systems. The enhanced benefits are premised on the hazardous nature of public safety employment and the physical and psychological demands of public safety work. Under the State Employees' Retirement Code, the special retirement benefit for most Commonwealth public safety employees, including correction and enforcement officers, is the eligibility to retire at age 50 with full retirement benefits. For public safety employees who first became members of SERS after the effective date of Act 120, retirement age is age 55. Because the death benefit for any Commonwealth employee is dependent on the retirement age, the special public safety employees' retirement coverage also increases the death benefit.

The benefits of State Police officers are affected by the DiLauro arbitration award. The award provided that officers with 20 years of service are eligible to receive a retirement benefit of 50% of the officer's highest full year's salary, and those with 25 years of service shall receive 75% of the highest full year's salary. Years of service between 20 and 25 or after 25 do not produce incremental benefit increases. The award applies to officers who retire on or after July 1, 1989. (Class A members with less than 20 years of service are not affected by the award and are eligible for the statutory Class A benefit at a 2.0% benefit accrual rate. No State Police officer is entitled to the Act 9 benefit accrual rate of 2.5% because members of the State Police were specifically excluded from coverage by that statute). By the act of August 5, 1991 [P. L. 183, No. 23], 71 Pa. C. S. § 5955 was amended to provide that SERS retirement benefits are exclusively statutory and cannot be changed by collective bargaining agreements or arbitration awards under such agreements. That section grandfathered pre-existing awards, including DiLauro, but the amendment does not foreclose the legislature from prospectively altering benefits for new State Police officers by statute.

Amendment Number 07089 would exempt a sworn officer of the Pennsylvania State Police from membership in the new hybrid benefit tier. All prospective employees of this group would continue to be eligible for membership in Class A-3 in SERS until they become eligible for the enhanced State Trooper retirement benefits upon attaining 20 years of credited service. The amendment would also amend the bill to limit overtime compensation for new State Police officers hired on or after July 1, 2017, to 10% of base salary.

Special Membership Classes

Within SERS, there are a number of special membership classes entitled to enhanced retirement benefits, reduced superannuation requirements or both. These include all members of the judiciary, members of the General Assembly, certain enforcement officers and Pennsylvania State Police Officers. Additionally, certain highly compensated employees would be entitled to enhanced retirement benefits by virtue of their higher than normal final average salary calculations. Under the bill as amended, except for Pennsylvania State Police Officers, there would be no special benefit provisions for these groups of employees in the new hybrid benefit tier.

In 1974, an attempt was made to reform and make uniform the benefit provisions of the SERS Code. This attempt at reform prompted a series of lawsuits brought by members of the judiciary challenging the benefit changes as applied to members of the judicial branch. These court cases ultimately resulted in the preservation of the judiciary's entitlement to special membership status and enhanced benefits. The most salient of these cases were the "Goodheart" Supreme Court decisions (See *Goodheart v. Casey*, 521 Pa. 316 (1989); 523 Pa. 188 (1989), and *Klein v. State Employees' Retirement System*, 521 Pa. 330, 555 A.2d 1216, 1221 (1989)). Essentially, the Supreme Court of Pennsylvania ruled that the 1974 amendments to the Code, which eliminated the option to elect special class membership, were unconstitutional as applied to members of the judiciary. The Supreme Court ruled that, in order to preserve an independent judiciary, judges must be adequately compensated, pension benefits are part of compensation, and all members of a single-level court performing similar functions and exercising similar authority must be compensated at the same rate. As a result, all individuals who became members of the judiciary following the 1974 amendments to the SERS Code must be permitted to elect special class (Class E-1 or E-2) membership, make the required higher member contributions, and receive the higher pension benefit attributable to their membership class.

Based upon the independent status of the judiciary in Pennsylvania, the case law regarding the special status of its members and the exclusion of State Police officers and educational employees (as noted below) as the only exemptions from the new benefit tier, if enacted, the bill as amended is likely to be challenged in the courts.

Treatment of Educational Employees

Under current law, "school employees" (employees of the Pennsylvania State System of Higher Education [PASSHE] institutions, most employees of the Pennsylvania State University, and community college employees) are eligible to choose coverage in an employer-approved, defined contribution "alternative retirement program" as an alternative option to membership in either the State Employees' Retirement System or the Public School Employees' Retirement System. Of the school employees who are eligible to choose membership in an alternative retirement program, approximately 50% elect membership in SERS, 45% elect membership in an alternative retirement program and 5% elect membership in PSERS. Section 5301(a)(12) of the SERS Code allows employers to contribute up to 9.29% of pay into the independent retirement program, and all affected employers currently contribute at that rate.

Under the bill as amended, eligible employees would continue to have the option of electing the alternative retirement plan rather than the new hybrid benefit tiers offered by either of the Systems. Since the alternative defined contribution plan offered to school employees would have an employer contribution rate more than twice the amount of what would be offered under the new defined contribution plans and a lower employee contribution rate, it is likely that a majority of future eligible employees would choose the more attractive alternative plan.

Funding Methodology

The funding methodology used by SERS for the defined benefit plan is a variation of the entry age normal cost method. Under the traditional entry age normal cost method (as used by PSERS), a contribution rate is determined for all employees such that if that rate is applied to the member's salary, from date of entry into the plan until the member retires, it will be sufficient to fund the member's lifetime retirement benefit. The method used by SERS (which is set in statute) bases the normal contribution rate only on the benefits and contributions for new employees, rather than for all current members. Since new Act 120 members are entitled to benefits of a lesser value than members hired prior to the effective date of Act 120, the employer normal contribution is artificially low. The difference between the actual normal contribution rate and the rate determined under the SERS methodology becomes a component of the unfunded accrued liability, which is then funded over 30 years. The 30-year amortization period is a longer period than what is considered the average future working lifetime of the member. In other words, the methodology used by SERS funds the cost of the plan over a longer period of time resulting in an artificially low employer contribution rate. If enacted, the bill as amended would serve to further compound this issue by reducing the normal cost calculation even more, since it would be based on new entrants of Class A-5 which has a lower normal cost than Class A-3 and A-4 members.

Amendment Number 07096
Part-Time Membership in PSERS

With the passage of Act 120, the annual membership qualification requirement previously established under the PSERS Code was eliminated. This change allowed part-time school employees that were paid on an hourly or per diem basis to become a member of the System once the employee met the part-time threshold, and to remain an active contributing member of PSERS even if they are only working a limited schedule. Prior to Act 120, a part-time school employee would have to re-qualify for PSERS membership each year. This would require an employee to work at least 80 days (per diem) or 500 hours (hourly) each year. If they did not qualify for membership, they did not receive PSERS credit for the year unless later purchased when they did become a member. Amendment Number 07096 would amend the PSERS Code to restore the part-time membership eligibility threshold to pre-Act 120 requirements and prohibit part-time members from purchasing any previous non-qualified part-time service credit.

Miscellaneous Provisions

Contractual Benefit Rights of Defined Contribution Plan Participants. Section 402 of Article 4 in the bill as amended explicitly states that a member in either of the Systems or a participant in either the School Employees' Defined Contribution Plan or the State Employees' Defined Contribution Plan shall not have "an express or implied contractual right" in relation to requirements for any of the following provisions: 1) qualification of the Plans as a qualified plan(s) under the Internal Revenue Code; 2) compliance with the Uniformed Services Employment and Reemployment Rights Act (USERRA); 3) contributions to, participation in, or benefits from the Plans or Systems; and 4) domestic relations orders regarding alternate payees of participants in the Plans.

Amortization Periods. Currently, changes in the unfunded accrued liability, except those due to legislative action, are amortized on a level-percentage of compensation over 24 years for PSERS and on a level-dollar basis over a 30-year period for SERS. Changes due to legislative action are to be amortized over a ten-year period.

Under the bill as amended, for fiscal years beginning on or after July 1, 2015, for PSERS, any increase or decrease in the unfunded accrued liability will be amortized on a level-percentage of compensation of all active members and participants over a period of 24 years. Changes in the accrued liability of PSERS as a result of legislation will be amortized on a level-percentage of compensation over a ten-year period. In the case of SERS, for the fiscal year beginning July 1, 2015, any increase or decrease in the unfunded accrued liability will be amortized on a level-dollar basis as a percentage of compensation of all active members and participants over a period of 30 years. Beginning July 1, 2014, changes in the accrued liability of SERS due to benefit changes under the bill as amended will be amortized on a level-dollar basis over a period of 20 years.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill as amended and prepared an actuarial cost note. In preparing the actuarial note, the Commission's consulting actuary reviewed actuarial cost estimates provided by Buck Consultants, consulting actuary to the Public School

Employees' Retirement System, Hay Group, consulting actuary to the State Employees' Retirement System and Milliman, Inc., consulting actuary to the Governor's Office of the Budget.

In developing the estimates, the Commission's consulting actuary also utilized projected future benefit streams, payroll projections and other relevant demographic and economic data supplied to the Commission by the consulting actuaries for PSERS and SERS. The Commission's consulting actuary developed the cost estimates independently utilizing the firm's own models.

There has been much discussion and some disagreement with respect to the cost-savings likely to be generated by the proposed hybrid plan. It is important to note that, fundamentally, actuarial science entails the study of risk. Actuaries use a variety of assumptions and techniques in projecting costs of pension plans. Considering that the hybrid plan will apply to future employees only, the demographic characteristics of the future employees used in the modeling will have an impact on the level of savings estimated and ultimately realized. The amount of future savings will be dependent upon the actual number of new employees entering the Systems, the demographics of those employees and the experience of those employees.

While the cost notes from Milliman (consulting actuary to the Budget Office) and Buck (consulting actuary to PSERS) both showed cost savings under the hybrid plan for PSERS over the projection period, there was some variation in the level of savings projected. For the period 2015 through 2044, Milliman's results showed cumulative savings of $7.2 billion whereas Buck's results showed cumulative savings of $3.5 billion. The results exclude the savings from the elimination of the Health Insurance Premium Assistance Program for Class T-G members. Buck's analysis indicated that there would be additional savings of $2.0 billion for the elimination of the Health Insurance Premium Assistance Program. There are two main factors that account for the difference in the results. First, Buck's analysis was based on the data used in the June 30, 2013, actuarial valuation whereas Milliman's analysis was based on the data used in the June 30, 2012, actuarial valuation. A comparison of the data in the valuation reports showed a reduction in the number and compensation of active members. Milliman adjusted their preliminary results for 2013 based on the December 10, 2013, PSERS Board presentation. Second, Milliman and Buck used different assumptions regarding full-time and part-time employees. Buck utilized the average valuation data for new entrants over the past three years, while Milliman used a 25-year period. Because Act 120 of 2010 expanded pension eligibility for part-time employees, some concern was expressed that the last three years presented an analysis based solely upon Act 120's liberalized participation. Buck was not inclined to change its average period despite the return to pre-Act 120 eligibility rules.

The cost notes from Hay (consulting actuary to SERS) and Milliman both showed cost savings under the hybrid plan for SERS. For the period 2015 through 2044, Milliman's results showed cumulative savings of $7.2 billion and Hay's results showed cumulative savings of $6.5 billion.

Although the numbers appear large, in reality, the range of savings calculated by the various actuaries is not significantly different. When you compare the accumulated savings of the hybrid plan over the 30-year period to the total estimated employer contributions under existing law for the 30-year period, then the savings would range from 11% to 13% for SERS and 2.5% to 5% for PSERS. The actual savings will ultimately depend upon actual plan experience.

However, regardless of the actual level of savings projected, the hybrid benefit plan will have the following effects: 1) decrease the level of risk to the Commonwealth and school employers by shifting risk from the employer to the members of the retirement plans; 2) reduce costs on an ongoing basis by implementing a reduced benefit tier for new employees; and 3) apply any savings generated to help make required contributions in a timely fashion over the projection period to ensure proper funding of the Systems over the long-term.

The actuarial cost impact developed by the Commission's consulting actuary is shown in the following tables. Tables 2 and 3 show the impact of the proposal on PSERS and SERS, respectively, in comparison with existing law. As the tables show, there is a measurable savings under the proposed hybrid plan in comparison to existing law. The total cost savings projected by the Commission's consulting actuary for PSERS over the 30-year period is $3.53 billion, plus an additional $2.0 billion from the elimination of the Health Insurance Premium Assistance Program. For SERS, the total cost savings over the 30-year period is projected to be $5.678 billion. The cumulative cost savings for both PSERS and SERS over the 30-year period is projected to be $11.208 billion.

Table 2

Public School Employees' Retirement System
Projection Employer Contributions (DB and DC)

	Under the Existing Law		Under Hybrid Plan Proposal		
Fiscal Year	Percentage	Dollar Amount (In Billions)	Percentage	Dollar Amount (In Billions)	Increase/ (Decrease)[1] (In Billions)
2015	20.5%	$ 2.812	20.5%	$ 2.812	$ -
2016	25.0%	$ 3.520	25.0%	$ 3.523	$ 0.003
2017	29.3%	$ 4.228	27.3%	$ 4.234	$ 0.006
2018	30.0%	$ 4.469	27.8%	$ 4.457	$ (0.012)
2019	30.9%	$ 4.757	28.4%	$ 4.727	$ (0.030)
2020	31.6%	$ 5.022	29.2%	$ 4.974	$ (0.048)
2021	31.4%	$ 5.161	29.9%	$ 5.095	$ (0.066)
2022	31.4%	$ 5.316	29.7%	$ 5.230	$ (0.086)
2023	31.5%	$ 5.511	29.6%	$ 5.406	$ (0.105)
2024	31.5%	$ 5.689	29.7%	$ 5.564	$ (0.125)
2025	31.5%	$ 5.871	29.7%	$ 5.728	$ (0.143)
2026	31.5%	$ 6.052	29.8%	$ 5.892	$ (0.160)
2027	31.6%	$ 6.236	29.8%	$ 6.064	$ (0.173)
2028	31.6%	$ 6.420	29.8%	$ 6.234	$ (0.186)
2029	31.7%	$ 6.603	29.9%	$ 6.409	$ (0.195)
2030	31.8%	$ 6.791	30.0%	$ 6.591	$ (0.200)
2031	31.9%	$ 6.984	30.1%	$ 6.780	$ (0.204)
2032	32.0%	$ 7.181	30.2%	$ 6.974	$ (0.207)
2033	32.1%	$ 7.380	30.3%	$ 7.173	$ (0.207)
2034	32.3%	$ 7.586	30.4%	$ 7.382	$ (0.204)
2035	32.4%	$ 7.796	30.5%	$ 7.596	$ (0.201)
2036	18.9%	$ 4.735	17.0%	$ 4.542	$ (0.193)
2037	15.5%	$ 3.998	13.6%	$ 3.816	$ (0.182)
2038	14.0%	$ 3.689	12.0%	$ 3.521	$ (0.168)
2039	10.6%	$ 2.888	10.5%	$ 2.736	$ (0.153)
2040	9.0%	$ 2.521	9.2%	$ 2.385	$ (0.136)
2041	7.7%	$ 2.209	8.2%	$ 2.097	$ (0.111)
2042	6.6%	$ 1.935	7.2%	$ 1.849	$ (0.086)
2043	5.3%	$ 1.573	6.3%	$ 1.520	$ (0.054)
2044	4.7%	$ 1.282	5.5%	$ 1.377	$ 0.096
				TOTAL PENSION SAVINGS	$ (3.530)
	SAVINGS FROM ELIMINATION OF HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM				$ (2.000)

[1] Excludes cost-savings from elimination of Health Insurance Premium Assistance Program eligibility for Class T-G Members.

Table 3

State Employees' Retirement System
Projection Employer Contributions (DB and DC)

	Under the Existing Law		Under Hybrid Plan Proposal		
Fiscal Year	Percentage	Dollar Amount (In Billions)	Percentage	Dollar Amount (In Billions)	Increase/ (Decrease) (In Billions)
2015	20.5%	$1.254	20.5%	$1.255	$0.000
2016	25.0%	$1.576	25.0%	$1.577	$0.001
2017	29.5%	$1.917	29.5%	$1.920	$0.003
2018	30.4%	$2.035	29.7%	$1.991	($0.044)
2019	29.6%	$2.045	28.9%	$1.994	($0.051)
2020	28.9%	$2.056	28.1%	$1.998	($0.058)
2021	28.2%	$2.066	27.3%	$2.002	($0.065)
2022	27.5%	$2.077	26.6%	$2.006	($0.072)
2023	26.8%	$2.089	25.8%	$2.010	($0.079)
2024	26.2%	$2.101	25.1%	$2.015	($0.085)
2025	25.6%	$2.113	24.5%	$2.021	($0.092)
2026	25.0%	$2.126	23.8%	$2.027	($0.099)
2027	24.4%	$2.139	23.2%	$2.034	($0.105)
2028	23.8%	$2.152	22.6%	$2.041	($0.111)
2029	23.2%	$2.166	22.0%	$2.049	($0.117)
2030	22.7%	$2.180	21.4%	$2.057	($0.123)
2031	22.2%	$2.195	20.9%	$2.067	($0.128)
2032	21.7%	$2.210	20.4%	$2.076	($0.133)
2033	21.2%	$2.225	19.9%	$2.087	($0.138)
2034	20.7%	$2.241	19.4%	$2.098	($0.143)
2035	20.2%	$2.258	16.8%	$1.873	($0.385)
2036	19.8%	$2.275	16.4%	$1.886	($0.390)
2037	19.3%	$2.293	16.0%	$1.898	($0.394)
2038	18.9%	$2.311	15.7%	$1.912	($0.399)
2039	18.5%	$2.329	15.3%	$1.926	($0.404)
2040	18.1%	$2.349	15.0%	$1.940	($0.408)
2041	14.2%	$1.894	11.1%	$1.482	($0.412)
2042	11.3%	$1.559	8.3%	$1.146	($0.414)
2043	8.1%	$1.155	5.2%	$0.739	($0.416)
2044	6.2%	$0.902	3.3%	$0.484	($0.419)
				TOTAL	($5.678)

Tables 4 and 5 show projections for the affected Systems' funded ratios under the existing law compared with the bill as amended. The funded ratio of a retirement system is equal to the actuarial assets divided by the liability and is useful in evaluating the relative health of a retirement system. As the tables show, over time, the liabilities of the defined benefit plan will decline as new members gradually replace current members in the new hybrid plan.

Table 4

Public School Employees' Retirement System
Projection of Funded Ratio and Unfunded Liability

	Under the Existing Law		Under Hybrid Plan Proposal	
Fiscal Year	**Funded Ratio Percentage**	**Unfunded Liability Dollar Amount (In Billions)**	**Funded Ratio Percentage**	**Unfunded Liability Dollar Amount (In Billions)**
2015	59.6%	$ 38.574	59.6%	$ 38.574
2016	58.4%	$ 40.906	58.4%	$ 40.906
2017	57.7%	$ 42.838	57.7%	$ 42.838
2018	56.6%	$ 45.228	56.6%	$ 45.228
2019	56.2%	$ 47.012	56.2%	$ 47.012
2020	57.8%	$ 46.664	57.7%	$ 46.664
2021	59.3%	$ 46.326	59.2%	$ 46.326
2022	60.5%	$ 46.322	60.3%	$ 46.322
2023	62.0%	$ 45.789	61.8%	$ 45.789
2024	63.7%	$ 45.036	63.4%	$ 45.036
2025	65.5%	$ 43.989	65.2%	$ 43.989
2026	67.5%	$ 42.628	67.1%	$ 42.628
2027	69.7%	$ 40.937	69.2%	$ 40.937
2028	72.0%	$ 38.893	71.4%	$ 38.893
2029	74.4%	$ 36.484	73.8%	$ 36.484
2030	77.0%	$ 33.690	76.3%	$ 33.690
2031	79.7%	$ 30.474	79.0%	$ 30.474
2032	82.6%	$ 26.799	81.9%	$ 26.799
2033	85.7%	$ 22.629	85.0%	$ 22.629
2034	88.9%	$ 17.921	88.3%	$ 17.921
2035	92.4%	$ 12.629	91.9%	$ 12.629
2036	94.1%	$ 9.980	93.7%	$ 9.980
2037	95.5%	$ 7.850	95.1%	$ 7.850
2038	96.7%	$ 5.847	96.4%	$ 5.847
2039	97.6%	$ 4.475	97.3%	$ 4.475
2040	98.2%	$ 3.345	98.0%	$ 3.345
2041	98.7%	$ 2.422	98.6%	$ 2.422
2042	99.1%	$ 1.684	99.0%	$ 1.684
2043	99.4%	$ 1.237	99.3%	$ 1.237
2044	99.5%	$ 1.038	99.4%	$ 1.038

Table 5

State Employees' Retirement System
Projection of Funded Ratio and Unfunded Liability

	Under the Existing Law		Under Hybrid Plan Proposal	
Fiscal Year	Funded Ratio Percentage	Unfunded Liability Dollar Amount (In Billions)	Funded Ratio Percentage	Unfunded Liability Dollar Amount (In Billions)
2015	58.6%	$18.276	55.5%	$20.686
2016	58.5%	$18.773	55.6%	$21.083
2017	58.6%	$19.131	56.0%	$21.325
2018	60.2%	$18.814	57.7%	$20.872
2019	61.6%	$18.520	59.2%	$20.472
2020	63.0%	$18.207	60.7%	$20.044
2021	64.4%	$17.871	62.1%	$19.584
2022	65.8%	$17.511	63.6%	$19.089
2023	67.2%	$17.129	65.1%	$18.560
2024	68.6%	$16.720	66.6%	$17.992
2025	69.9%	$16.282	68.0%	$17.382
2026	71.3%	$15.814	69.6%	$16.727
2027	72.7%	$15.313	71.1%	$16.024
2028	74.2%	$14.777	72.7%	$15.268
2029	75.6%	$14.203	74.4%	$14.457
2030	77.1%	$13.589	76.1%	$13.584
2031	78.7%	$12.930	77.9%	$12.647
2032	80.3%	$12.225	79.8%	$11.639
2033	81.9%	$11.470	81.8%	$10.556
2034	83.5%	$10.660	83.9%	$9.392
2035	85.2%	$9.793	86.2%	$8.141
2036	87.0%	$8.864	88.1%	$7.041
2037	88.7%	$7.868	90.2%	$5.858
2038	90.5%	$6.800	92.4%	$4.587
2039	92.4%	$5.656	94.7%	$3.220
2040	94.2%	$4.429	97.1%	$1.751
2041	96.1%	$3.113	99.7%	$0.171
2042	97.3%	$2.194	101.7%	($1.035)
2043	98.2%	$1.577	103.1%	($1.964)
2044	98.5%	$1.359	104.0%	($2.523)

In reviewing the bill as amended, the Commission identified the following policy considerations:

Fundamental Shift in Risk Sharing. The benefit reforms proposed in the bill as amended will take several years to modify the risk profile of the Systems. Over time, as defined benefit plan participation decreases and defined contribution plan participation increases, the Commonwealth and school employers will assume less risk and more risk will be shifted to members of the Systems.

Cost Containment. The bill as amended provides a measurable increase in savings over existing law, which will serve to contain employer costs in future years. These cost savings result because new employees participating in the Systems will accrue benefits that are less costly to the Commonwealth and school employers.

Benefit Value and Security. The hybrid benefit tiers proposed in the bill as amended would provide new school and State employees and members returning after a break in service with a retirement benefit that is likely to be less valuable, predictable and secure than that provided by the current, traditional defined benefit pension plans. Retirement planning based on projected defined contribution account balances is likely to be less predictable and involve greater individual attention to risk management than participation in a traditional defined benefit plan.

Special Membership Classes. Under the SERS Code, there are a number of special categories of public employees entitled to enhanced benefits, reduced superannuation requirements, or both. These include members of the General Assembly, the judiciary, Pennsylvania State Police officers and certain other hazardous duty personnel. Under the bill as amended, except for Pennsylvania State Police officers, there are no special benefit provisions for these groups of employees. The uniform benefit level under the bill as amended would result in a major reduction in the value of employer-provided benefits for these groups of employees in the future and would result in significant benefit disparities between similarly situated employees.

Treatment of Educational Employees. Under current law, “school employees” (employees of PASSHE institutions, most employees of the Pennsylvania State University, and community college employees) are eligible to choose coverage in an employer-approved, defined contribution “alternative retirement program” as an alternative option to default membership in SERS or optional membership in PSERS. Under the bill as amended, new employees of these educational institutions would continue to have the option to select membership in an alternative retirement program such as the Teachers’ Insurance Annuity Association – College Retirement Equity Fund (TIAA-CREF) rather than joining one of the new hybrid benefit tiers. The rationale for maintaining the status quo for this subgroup of educational employees while imposing a reduced benefit tier upon most future members of SERS is not apparent.

Annual Compensation Limit. The $50,000 annual compensation limit proposed in the bill as amended would be increased (indexed) by 1% each year from the prior year’s limit. Because the 1% index is, and can be expected to be, significantly less than either the cost-of-living index or inflation, the effect will be to cause a gradual erosion in the value of the defined benefit component of the hybrid plan over time.

Delegation of Legislative Authority. The bill as amended empowers the Boards of the Systems to develop the details of major defined contribution plan design elements and administrative details by rule or regulation. The General Assembly and the Governor must determine if the broad powers afforded the Boards constitute an appropriate delegation of legislative authority.

Technical Operational Issues. In reviewing the bill as amended, the Commission staff noted the following technical operational issues.

Risk Sharing. Under the defined benefit structure of PSERS and SERS, all of the longevity risk (the risk of members outliving their retirement income) and most of the investment risk is borne by the retirement system. Under current law, only those members subject to Act 120 of 2010 (Classes T-E and T-F, Classes A-3 and A-4) share in the investment risk of the Systems through the shared-risk contribution requirement imposed by Act 120. All pre-Act 120 members of the Systems are exempt from the shared-risk contribution requirement. Under the bill as amended, all new or returning employees would be enrolled in a hybrid benefit tier and would be required to bear all of the investment risk and longevity risk associated with managing their defined contribution accounts. This situation creates significant risk-sharing disparities among the various classes of public employees.

Employee Contributions. Traditionally, school employees have contributed a higher employee contribution amount, while receiving the same level of benefits as most State employees. The bill as amended would mandate employee contribution requirements that are consistent between the two Systems, resulting in members of PSERS and SERS contributing an equal percentage of compensation for the same level of benefits.

COMMISSION RECOMMENDATIONS

On May 28, 2014, the Commission voted to attach the actuarial note to the bill as amended, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 1353, Printer's Number 2152, had first consideration on June 25, 2013, and was reported as committed from the House Human Services Committee on July 2, 2014.

To view this note in its entirety, click the following link: Amendment Numbers 06917, 07089, and 07096 to House Bill Number 1353, Printer's Number 2152

Bill ID: Amendment Number 07160 to
House Bill Number 1353, Printer's Number 2152, as amended by
Amendment Numbers 06917, 07089, and 07096

System: State Employees' Retirement System

Subject: Exempting Corrections Officers from the Hybrid Retirement Benefit Plan

SYNOPSIS

Amendment Number 07160 to House Bill Number 1353, Printer's Number 2152, as amended by Amendment Numbers 06917, 07089 and 07096, would amend the bill as amended to:

1) Exempt a Corrections officer from membership in the new hybrid benefit tier. All prospective employees of this group would continue to be eligible for membership in Class A-3 or A-4 in the State Employees' Retirement System.

2) Restore the membership provision known colloquially as the "footprint rule" for State employees returning to service following a break in service. Members who already participated (i.e., had a footprint) in the retirement system prior to the effective date of the hybrid plan would be eligible to maintain the benefit provisions that originally applied to them.

3) Restore the DiLauro arbitration award eligibility for new State Police officers hired on or after July 1, 2017, who attain 20 years of credited service.

House Bill Number 1353, Printer's Number 2152, as amended by Amendment Numbers 06917, 07089 and 07096, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to: 1) implement a hybrid retirement benefit plan; 2) exempt State Police officers from membership in the new hybrid benefit tier; and 3) for PSERS, restore the part-time membership eligibility threshold to pre-Act 120 requirements. (On May 28, 2014, the Commission issued an actuarial note on House Bill Number 1353, Printer's Number 2152, as amended by Amendment Numbers 06917, 07089 and 07096. For a detailed analysis of that proposal, see the Commission's previous actuarial note.)

DISCUSSION

Amendment Number 07160
Membership Exemption for Corrections Officers, DiLauro Award Retention, and Restoring the "Footprint Rule" for SERS

Among the 104 state and independent agencies participating in SERS is the Department of Corrections. The Department is responsible for the management and supervision of the Commonwealth's adult correctional system. Included are all state correctional institutions and regional facilities, as well as community-oriented pre-release facilities, known as community corrections centers. There are 25 state correctional institutions, 14 community corrections centers, and one motivational boot camp with a total inmate population of more than 51,000.

Corrections Officers are hazardous duty personnel employed by the Department of Corrections who are responsible for the care, custody and control of inmates housed in state correctional institutions located throughout the Commonwealth. As of June 2014, the total number of Corrections Officers employed within the Commonwealth was 14,882 employees. This employee group constitutes approximately 14% of the current active membership for SERS.

Special retirement coverage for various public safety employees often is provided in public employee retirement systems. The enhanced benefits are premised on the hazardous nature of public safety employment and the physical and psychological demands of public safety work. Under the State Employees' Retirement Code, the special retirement benefit for most Commonwealth public safety employees is the eligibility to retire at age 50 with full retirement benefits. For public safety employees who first became members of SERS after the effective date of Act 120, retirement age is age 55. Because the death benefit for any Commonwealth employee is dependent on the retirement age, the special public safety employees' retirement coverage also increases the death benefit.

Under the Code, the employees currently eligible for the special benefit coverage as public safety employees include the following: Liquor Control Board enforcement officers and investigators; Office of Attorney General special agents, narcotics agents, asset forfeiture agents, Medicaid fraud agents, and senior investigators of the hazardous prosecutions unit; Pennsylvania Board of Probation and Parole parole agents; Department of Corrections correction officers; Department of Public Welfare psychiatric security aides; Delaware River Port Authority police officers; Department of General Services capitol police officers; Department of Conservation and Natural Resources park rangers; waterways conservation officers of the Pennsylvania Fish and Boat Commission; and Pennsylvania State Police officers.

Amendment Number 07160 would amend the bill as amended to exempt Corrections Officers from participation in the hybrid plan provided for in the bill as amended. The exemption would have the effect of retaining the Commonwealth's current policy toward hazardous duty personnel by preserving special retirement benefit coverage in SERS for this classification of employee.

The benefits of State Police officers are affected by the DiLauro arbitration award. The award provided that officers with 20 years of service are eligible to receive a retirement benefit of 50% of the officer's highest full year's salary, and those with 25 years of service shall receive 75% of the highest full year's salary. Years of service between 20 and 25 or after 25 do not produce incremental benefit increases. The award applies to officers who retire on or after July 1, 1989. (Class A members with less than 20 years of service are not affected by the award and are eligible for the statutory Class A benefit at a 2.0% benefit accrual rate. No State Police officer is entitled to the Act 9 benefit accrual rate of 2.5% because members of the State Police were specifically excluded from coverage by that statute). By the act of August 5, 1991 [P. L. 183, No. 23], 71 Pa. C. S. § 5955 was amended to provide that SERS retirement benefits are exclusively statutory and cannot be changed by collective bargaining agreements or arbitration awards under such agreements. That section grandfathered pre-existing awards, including DiLauro, but the amendment does not foreclose the legislature from prospectively altering benefits for new State Police officers by statute.

Under Amendment Number 06917 to House Bill Number 1353, Printer's Number 2152, new State Police officers hired on or after July 1, 2017, would be prohibited from being eligible for the DiLauro arbitration award after 20 years of service. Rather than becoming eligible for the DiLauro award after reaching the service requirement, the applicable State Police officers would instead accrue benefits as a member of Class A-5. By removing this provision from the bill as amended, Amendment Number 07160 serves to retain the status quo by allowing prospective employees of this group to continue to be eligible for the enhanced State Trooper retirement benefits upon attaining 20 years of credited service.

Amendment Number 07160 would also restore the membership provision known colloquially as the "footprint rule" for State employees returning to service following a break in service. Members who already participated (i.e., had a footprint) in the retirement system prior to the effective date of the hybrid plan would be eligible to maintain the benefit provisions that originally applied to them.

It is uncommon practice to include rates of rehire among the actuarial assumptions used in performing actuarial valuations for public employee retirement systems. The Systems' consulting actuaries do not currently utilize such assumptions, given their view that rehires do not generally have a material impact on funding.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed Amendment Number 07160 and provided the Commission with the following actuarial cost estimate. Because Amendment Number 07160 only pertains to the State Employees' Retirement System, there is no actuarial cost impact upon the Public School Employees' Retirement System.

As compared to the consulting actuary's estimates of the cumulative savings that would result under the bill as amended by Amendment Numbers 06917, 07089, and 07096, the estimated savings for the hybrid plan as amended by Amendment Number 07160 would yield a total reduction in savings of approximately $934 million over the 30-year projection period through Fiscal Year 2043-2044. The actuarial cost impact developed by the consulting actuary is shown in the following tables.

Table 1 shows the projection of employer contributions in comparison with the existing law and the bill as amended by Amendment Numbers 06917, 07089, and 07096.

Table 1
State Employees' Retirement System
Projection Employer Contributions (DB and DC)

	Under the Existing Law		Under Hybrid Plan Proposal			Under Amendment No. 07160		
Fiscal Year	Percentage	Dollar Amount (In Billions)	Percentage	Dollar Amount (In Billions)	Increase/ (Decrease) (In Billions)	Percentage	Dollar Amount (In Billions)	Increase/ (Decrease) (In Billions)
2015	20.5%	$1.254	20.5%	$1.255	$0.000	20.5%	$1.255	$0.000
2016	25.0%	$1.576	25.0%	$1.577	$0.001	25.0%	$1.577	$0.001
2017	29.5%	$1.917	29.5%	$1.920	$0.003	29.5%	$1.920	$0.003
2018	30.4%	$2.035	29.7%	$1.991	($0.044)	29.8%	$1.993	$ (0.042)
2019	29.6%	$2.045	28.9%	$1.994	($0.051)	29.0%	$1.998	$ (0.047)
2020	28.9%	$2.056	28.1%	$1.998	($0.058)	28.2%	$2.003	$ (0.053)
2021	28.2%	$2.066	27.3%	$2.002	($0.065)	27.4%	$2.008	$ (0.058)
2022	27.5%	$2.077	26.6%	$2.006	($0.072)	26.7%	$2.014	$ (0.063)
2023	26.8%	$2.089	25.8%	$2.010	($0.079)	26.0%	$2.020	$ (0.068)
2024	26.2%	$2.101	25.1%	$2.015	($0.085)	25.3%	$2.028	$ (0.073)
2025	25.6%	$2.113	24.5%	$2.021	($0.092)	24.6%	$2.035	$ (0.078)
2026	25.0%	$2.126	23.8%	$2.027	($0.099)	24.0%	$2.043	$ (0.082)
2027	24.4%	$2.139	23.2%	$2.034	($0.105)	23.4%	$2.052	$ (0.086)
2028	23.8%	$2.152	22.6%	$2.041	($0.111)	22.8%	$2.062	$ (0.090)
2029	23.2%	$2.166	22.0%	$2.049	($0.117)	22.2%	$2.073	$ (0.093)
2030	22.7%	$2.180	21.4%	$2.057	($0.123)	21.7%	$2.084	$ (0.096)
2031	22.2%	$2.195	20.9%	$2.067	($0.128)	21.2%	$2.096	$ (0.099)
2032	21.7%	$2.210	20.4%	$2.076	($0.133)	20.7%	$2.109	$ (0.101)
2033	21.2%	$2.225	19.9%	$2.087	($0.138)	20.2%	$2.123	$ (0.102)
2034	20.7%	$2.241	19.4%	$2.098	($0.143)	19.7%	$2.139	$ (0.103)
2035	20.2%	$2.258	16.8%	$1.873	($0.385)	17.2%	$1.918	$ (0.340)
2036	19.8%	$2.275	16.4%	$1.886	($0.390)	16.8%	$1.934	$ (0.341)
2037	19.3%	$2.293	16.0%	$1.898	($0.394)	16.5%	$1.951	$ (0.342)
2038	18.9%	$2.311	15.7%	$1.912	($0.399)	16.1%	$1.968	$ (0.343)
2039	18.5%	$2.329	15.3%	$1.926	($0.404)	15.8%	$1.986	$ (0.343)
2040	18.1%	$2.349	15.0%	$1.940	($0.408)	15.5%	$2.005	$ (0.343)
2041	14.2%	$1.894	11.1%	$1.482	($0.412)	11.6%	$1.551	$ (0.343)
2042	11.3%	$1.559	8.3%	$1.146	($0.414)	8.8%	$1.218	$ (0.341)
2043	8.1%	$1.155	5.2%	$0.739	($0.416)	5.8%	$0.816	$ (0.339)
2044	6.2%	$0.902	3.3%	$0.484	($0.419)	3.9%	$0.565	$ (0.337)
				TOTAL	($5.678)			$ (4.744)

Table 2 shows the projection for the System's funded ratio under Amendment Number 07160 in comparison with the existing law and the bill as amended by Amendment Numbers 06917, 07089, and 07096.

Table 2
State Employees' Retirement System
Projection of Funded Ratio and Unfunded Liability

	Under the Existing Law		Under Hybrid Plan Proposal		Under Amendment No. 07160	
Fiscal Year	Funded Ratio Percentage	Unfunded Liability Dollar Amount (In Billions)	Funded Ratio Percentage	Unfunded Liability Dollar Amount (In Billions)	Funded Ratio Percentage	Unfunded Liability Dollar Amount (In Billions)
2015	58.6%	$18.276	55.5%	$20.686	55.5%	$20.686
2016	58.5%	$18.773	55.6%	$21.083	55.6%	$21.083
2017	58.6%	$19.131	56.0%	$21.325	56.0%	$21.325
2018	60.2%	$18.814	57.7%	$20.872	57.7%	$20.872
2019	61.6%	$18.520	59.2%	$20.472	59.2%	$20.472
2020	63.0%	$18.207	60.7%	$20.044	60.7%	$20.044
2021	64.4%	$17.871	62.1%	$19.584	62.1%	$19.584
2022	65.8%	$17.511	63.6%	$19.089	63.6%	$19.089
2023	67.2%	$17.129	65.1%	$18.560	65.1%	$18.560
2024	68.6%	$16.720	66.6%	$17.992	66.6%	$17.993
2025	69.9%	$16.282	68.0%	$17.382	68.1%	$17.383
2026	71.3%	$15.814	69.6%	$16.727	69.6%	$16.729
2027	72.7%	$15.313	71.1%	$16.024	71.1%	$16.026
2028	74.2%	$14.777	72.7%	$15.268	72.8%	$15.272
2029	75.6%	$14.203	74.4%	$14.457	74.4%	$14.461
2030	77.1%	$13.589	76.1%	$13.584	76.2%	$13.589
2031	78.7%	$12.930	77.9%	$12.647	78.0%	$12.653
2032	80.3%	$12.225	79.8%	$11.639	79.9%	$11.647
2033	81.9%	$11.470	81.8%	$10.556	81.9%	$10.566
2034	83.5%	$10.660	83.9%	$9.392	84.0%	$9.405
2035	85.2%	$9.793	86.2%	$8.141	86.2%	$8.156
2036	87.0%	$8.864	88.1%	$7.041	88.1%	$7.059
2037	88.7%	$7.868	90.2%	$5.858	90.2%	$5.881
2038	90.5%	$6.800	92.4%	$4.587	92.4%	$4.614
2039	92.4%	$5.656	94.7%	$3.220	94.7%	$3.252
2040	94.2%	$4.429	97.1%	$1.751	97.1%	$1.789
2041	96.1%	$3.113	99.7%	$0.171	99.7%	$0.216
2042	97.3%	$2.194	101.7%	($1.035)	101.6%	$(0.983)
2043	98.2%	$1.577	103.1%	($1.964)	103.0%	$(1.904)
2044	98.5%	$1.359	104.0%	($2.523)	103.8%	$(2.454)

POLICY CONSIDERATIONS

In reviewing the amendment, the Commission identified the following policy considerations:

Special Membership Classes. Under the SERS Code, there are a number of special categories of public employees entitled to enhanced benefits, reduced superannuation requirements, or both. These include members of the General Assembly, the judiciary, Pennsylvania State Police officers and certain other hazardous duty personnel. Under the bill as amended, except for Pennsylvania State Police officers and Corrections officers, there are no special benefit provisions for these groups of employees. The uniform benefit level under the bill as amended would result in a major reduction in the value of employer-provided benefits for the remaining special membership classes in the future and would result in significant benefit disparities between similarly situated employees.

Preservation of Current Policy Toward Hazardous Duty Personnel. Historically, it has been the practice of the Commonwealth to provide special disability and death benefits to public safety employees due to the hazardous nature of such employment. The amendment serves to preserve the status quo with regard to the treatment of Pennsylvania State Police officers and Corrections officers.

Technical Operational Issues. In reviewing the amendment, the Commission staff noted the following technical operational issues.

Inequitable Treatment of Public Employees. The amendment would restore the membership provision known colloquially as the "footprint rule" for State employees returning to service following a break in service, while not doing the same for School employees that return to service following a break in service. Historically, school and State employees have been treated the same when a member with a footprint already in the retirement systems returns to service following a break in service.

COMMISSION RECOMMENDATIONS

On June 27, 2014, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 1353, Printer's Number 2152, had first consideration on June 25, 2013, and was reported as committed from the House Human Services Committee on July 2, 2014.

To view this note in its entirety, click the following link: Amendment Number 07160 to House Bill Number 1353, Printer's Number 2152, as amended by Amendment Numbers 06917, 07089, and 07096

Bill ID: Amendment Numbers 07223 and 09253 to House Bill Number 1353, Printer's Number 2152

System: Public School Employees' Retirement System and State Employees' Retirement System

Subject: Cash Balance Plan for New and Returning Members

SYNOPSIS

Amendment Number 07223 to House Bill Number 1353, Printer's Number 2152, would amend the Public School Employees' Retirement Code and the State Employees' Retirement Code to mandate the establishment of a hybrid benefit tier known as a "cash balance" plan for most new or returning employees hired on or after July 1, 2015, in the case of the Public School Employees' Retirement System (PSERS), and January 1, 2015, in the case of the State Employees' Retirement System (SERS).

More specifically, Amendment Number 07223 would amend the Public School Employees' Retirement Code to:

1) Effective July 1, 2015, establish a "cash balance" benefit tier applicable to all new school employees or employees returning after a break in service. Current members of PSERS in Class T-D would be eligible to make a one-time and irrevocable election to participate in the cash balance plan with corresponding benefit provision changes.

2) Under the cash balance plan, school employees would become a member of "Class T-G" and would be required to contribute 7.0% of compensation with a corresponding employer contribution rate of 4.0% of compensation. After attaining 15 years of service, the employer contribution rate would increase to 5% of compensation. The employer and employee contributions would both be credited to the member's notational cash balance savings account, plus interest, at the rate of 4.0% annually.

3) Establish the superannuation requirement for members of Class T-G as age 55, with the employee's account balance (including all contributions, credit and interest) being 100% vested immediately.

4) Provide 50% of "excess interest" to any active members of the cash balance plan if the System's annual investment return over a five-year average is above 5%. This additional employer credit would be credited to the members' savings accounts on an annual basis, if applicable.

5) Taper the employer contribution rate collars through Fiscal Year 2018-2019 to be limited to 3% of total payroll. Currently, under Act 120 of 2010, the contribution collar is 4.5% of total payroll.

6) Permit the PSERS Board to apply to the Pennsylvania Economic Development Financing Authority (PEDFA) for a total of up to $6 billion in bond proceeds.

Amendment Number 07223 would also amend the State Employees' Retirement Code to:

1) Effective January 1, 2015, establish a "cash balance" benefit tier applicable to most new State employees or employees returning after a break in service. Sworn officers of the Pennsylvania State Police and members of the judiciary would be exempt from membership in the new benefit tier. Current members of SERS in Class AA would be eligible to make a one-time and irrevocable election to participate in the cash balance plan with corresponding benefit provision changes.

2) Under the cash balance plan, State employees would become a member of "Class QB" and would be required to contribute 7.0% of compensation with a corresponding employer contribution rate of 4.0% of compensation. After attaining 15 years of service, the employer contribution rate would increase to 5% of compensation. The employer and employee contributions would both be credited to the member's notational cash balance savings account, plus interest, at the rate of 4.0% annually.

3) Establish the superannuation requirement for members of Class QB as age 55, with the employee's account balance (including all contributions, credit and interest) being 100% vested immediately.

4) Provide 50% of "excess interest" to any active members of the cash balance plan if the System's annual investment return over a five-year average is above 5%. This additional employer credit would be credited to the members' savings accounts on an annual basis, if applicable.

5) Taper the employer contribution rate collars through Fiscal Year 2018-2019 to be limited to 3% of total payroll. Currently, under Act 120 of 2010, the contribution collar is 4.5% of total payroll.

6) Permit the SERS Board to apply to the Pennsylvania Economic Development Financing Authority (PEDFA) for a total of up to $3 billion in bond proceeds.

Amendment Number 09253 would amend the Public School Employees' Retirement Code to:

1) Remove the language in Amendment Number 07223 that would require the application for bond proceeds for PSERS be contingent on the percentage of Class T-D members who opt in to the cash balance plan. This change in the language would make the PSERS provisions consistent with the language for SERS.

DISCUSSION

The Retirement Codes and Systems

Currently, most full-time public school and state employees are members of either the Public School Employees' Retirement System (PSERS) or the State Employees' Retirement System (SERS). Both PSERS and SERS are governmental, cost-sharing, multiple-employer defined benefit pension plans. The designated purpose of the Public School Employees' Retirement System and the State Employees' Retirement System is to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. As of June 30, 2013, there were approximately 797 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 2013, approximately 104 Commonwealth and other employers participating in SERS.

Membership in PSERS and SERS is mandatory for most school and state employees. Certain other employees are not required but are given the option to participate. As of June 30, 2013, there were 267,428 active members and 209,204 annuitant members of PSERS, and as of December 31, 2013, there were 107,002 active members and 120,052 annuitant members of SERS.

For most members of both Systems, the basic benefit formula used to determine the normal retirement benefit is equivalent to the product of 2.5% multiplied by the member's years of accumulated service credit ("eligibility points") multiplied by the member's final average (highest three years) salary. Since the passage of Act 9 of 2001 (which increased the accrual rate for most members from 2.0% to 2.5%), most members of PSERS are Class T-D members and contribute 7.5% of compensation to PSERS, while most members of SERS are Class AA members and contribute 6.25% of compensation to SERS. Within both Systems, there are a number of additional membership classes with corresponding benefit accrual and employee contribution rates that differ from the majority of school and state employees.

Act 120 of 2010 implemented major pension benefit reforms, including the establishment of new benefit tiers applicable to most new members. Effective January 1, 2011, most new members (including members of the General Assembly) are required to become members of one of two membership classes, known as "Class A-3" and "Class A-4." Most new members of SERS, other than State Police officers or members employed in a position for which a class of service other than Class A or Class AA is credited or could be elected, become members of Class A-3 beginning January 1, 2011 (or if a member of the General Assembly, beginning December 1, 2010). Class A-3 members are eligible for an annuity based upon an annual benefit accrual rate of 2% and have a corresponding employee contribution requirement of 6.25% of compensation. As an alternative to Class A-3, an employee who becomes a member of SERS on or after January 1, 2011, may elect Class A-4 membership within 45 days of becoming a member of SERS. A Class A-4 member is eligible for an annuity based upon an annual benefit accrual rate of 2.5% with a corresponding employee contribution requirement equal to 9.3% of compensation.

Effective July 1, 2011, new members of PSERS are required to become members of one of two membership classes, known as "Class T-E" and "Class T-F." Most new members of PSERS are required to become members of Class T-E beginning July 1, 2011. Class T-E members are eligible for an annuity based upon an annual benefit accrual rate of 2% and have a corresponding employee contribution of 7.5% of compensation. As an alternative to Class T-E, an employee who becomes a member of PSERS on or after July 1, 2011, may elect Class T-F membership within 45 days of becoming a member of PSERS. A Class T-F member is eligible for an annuity based upon an annual benefit accrual rate of 2.5% with a corresponding employee contribution requirement equal to 10.3% of compensation.

Under the Codes of both Systems, superannuation or normal retirement age is that date on which a member may terminate service with the public employer and receive a full retirement benefit without reduction. Under the Public School Employees' Retirement Code, superannuation or normal retirement age for most members is age 62 with at least one full year of service, age 60 with 30 or more years of service, or any age with 35 years of service. Under the State Employees' Retirement Code, superannuation or normal retirement age for most members is age 60 with three years of service or any age with 35 years of service, while age 50 is the normal retirement age for members of the General Assembly and certain public safety employees. For most members of the Systems who first became members after the effective dates of Act 120, the superannuation requirement is age 65 with a minimum of three years of service credit, or any combination of age and service that totals 92 with at least 35 years of credited service, and age 55 for members of the General Assembly and certain public safety employees.

Cash Balance Retirement Benefit Plan

Amendment Number 07223 to House Bill Number 1353, Printer's Number 2152, would establish a mandatory cash balance benefit tier applicable to most new or returning employees of PSERS and SERS, beginning July 1, 2015, in the case of PSERS, and January 1, 2015, in the case of SERS.

A cash balance plan is a type of defined benefit plan with a defined contribution-like portability component. A cash balance plan calculates benefits in a manner similar to a defined contribution plan. Under a cash balance arrangement, benefits are accrued throughout a worker's years of employment. Similar to what tends to occur with defined contribution plans, employees who move from employer to employer frequently or otherwise leave service early will tend to benefit more from a cash balance plan than a traditional defined benefit plan, because the accrued benefits will tend to be greater than would be the case under a traditional defined benefit plan. Conversely, long-service employees will tend to benefit less from a cash balance plan arrangement as compared with a traditional defined benefit plan, because the portion of the benefit accrued in later years of service will tend to be less than under a traditional defined benefit plan.

A cash balance plan is classified as a defined benefit plan because the employer bears the investment risks and rewards along with the mortality risk if the employee elects to receive benefits in the form of an annuity and lives beyond the anticipated retired life expectancy. Unlike a traditional defined benefit plan, a cash balance plan establishes allocations to a hypothetical individual account (the cash balance) for each participant (individual account balances are segregated for accounting purposes only). Benefits under cash balance plans may be paid as a lump sum or annuitized over the retiree's expected remaining lifetime.

The cash balance retirement benefit calculation would differ from the current traditional defined benefit formula. Rather than receiving an annuity based upon the current benefit formula (accrual rate x years of service x final average salary), the cash balance benefit would be equal to the value of all accumulated employee and employer contributions plus interest credited to the member's cash balance ledger account at the time of retirement. A member would be entitled to elect one of three benefit options at the time of separation: 1) a lifetime annuity based upon the total value of the member's account, plus interest (if superannuated); 2) delay receipt of benefits until superannuation age by vesting; or 3) elect to receive a lump-sum distribution of employee contributions and interest, but forfeiting the employer contribution and interest component and any entitlement to a future annuity.

Cash balance plans and other types of hybrid defined benefit plans have been replacing traditional retirement plans in the private sector for many years. Many employers, including some public employers, have moved to cash balance plans in an attempt to control plan costs, reduce employer contribution volatility, and shift some of the inherent risk associated with maintaining a defined benefit plan from the employer to the employee.

Benefit costs under the cash balance plan proposal in the amendment will be lower than the current traditional defined benefit plan. A significant part of this cost difference is due to the difference between the guaranteed investment rate credited on employee accounts (4% under the amendment for the first 15 years of service, then 5% thereafter) and investment return assumptions on pension fund assets (currently 7.5%). Additionally, because the amendment penalizes members for early termination (prior to age 55) by requiring members to forfeit the employer contribution component of the cash balance savings account (or defer receipt of an annuity until age 55), the recouping of these employer contributions may serve to further reduce costs.

The cash balance plan will also shift inflation risk from the employer to the employee since the final retirement benefit is a function of earnings over the working lifetime of the employee instead of the final years when such earnings are typically the highest.

The cash balance benefit proposal in the amendment differs from most private sector plans in several respects. The proposed cash balance plan is less generous and less portable than a typical cash balance plan. Under the amendment, employer contributions with interest are forfeited if a member elects to receive a lump sum of the accumulated member contributions with interest. In the private sector, employees are generally 100% vested in both the employee and employer contributions to the cash balance account, with interest, after three years of service (the minimum required by federal law). Employees in the private sector are typically entitled to a lump sum of the entire vested cash balance account upon termination or retirement. Under the amendment, employees would not be entitled to the employer contributions with interest or to annuitize the cash balance account until reaching age 55. The proposal in the amendment also requires an employee contribution of 7.0% of pay, while private sector cash balance plans often require no employee contributions.

Amendment Number 07223 would not affect the retirement benefit rights of current active members of the Systems (unless they voluntarily elect to participate in the cash balance plan). Instead, the amendment seeks to create new benefit tiers within PSERS and SERS applicable to employees who first become members or are returning after a break in service on or after the year 2015.

The amendment's major design features are described below.

1) **Mandatory Membership**: Membership in Class T-G and Class QB would be mandatory for most new school or State employees hired or returning after a break in service on or after July 1, 2015, or January 1, 2015, respectively. Membership would be mandatory regardless of the number of hours or days worked annually. The current minimum requirement for membership in PSERS (500 hours of work) would be eliminated. For SERS, only sworn officers of the Pennsylvania State Police and members of the judiciary (including district magistrates) would be exempt from membership in the new benefit tier.

2) **Optional Membership:** Current school or State employees who are members of Class T-D or Class AA may make a one-time irrevocable election to participate in the cash balance plan, with consent to the following changes to the member's benefit provisions: a reduction in the member's contribution rate by 1.0% of compensation; an increase in the final average salary calculation from the highest three years to the highest five years; and a modification of the Option 4 lump-sum withdrawal to be actuarially neutral to the System, if selected upon retirement. New members of the Systems

hired after the effective dates of Act 120 (Classes T-E and T-F in PSERS, and Classes A-3 and A-4 in SERS) are prohibited from electing to participate in the cash balance plan.

3) **Contributions**: The contribution rate for Class T-G and Class QB members would be equal to 7.0% of compensation, with a corresponding employer contribution rate of 4.0% of compensation for the first 15 years of service, followed by an increase in the employer contribution rate to 5.0% of compensation for all years of service thereafter. The employer and employee contributions would both be credited to the member's cash balance savings account, plus interest, at the rate of 4.0% annually.

4) **Excess Interest:** Active members of the cash balance plans would be eligible to receive 50% of "excess interest" credited to their savings accounts in the event the Systems' annual investment returns over a five-year average are above 5%. The excess interest shall be calculated and allocated proportionately between the members' savings accounts and the accrued actuarial liabilities of the current defined benefit plans of the Systems. The additional employer credit would be credited to the members' savings accounts on an annual basis, if applicable.

5) **Vesting**: Class T-G and Class QB members would be 100% vested in the employee contribution portion of the cash balance plan from the first day of membership. Members leaving service before age 55 may elect to defer receipt of an annuity until attaining superannuation age, or may elect to receive a refund of member contributions with interest. Members electing to receive a refund of contributions would forfeit eligibility for a future annuity benefit. The employer-share of contributions and interest would be returned to the State accumulation account.

6) **Superannuation:** The superannuation requirement for new members of Class T-G and Class QB would be age 55. The cash balance benefit would be equal to the present value of all accumulated employee and employer contributions plus interest credited to the member's cash balance savings account at the time of retirement and would be paid to the member in the form of a lifetime annuity. An eligible member would be entitled to elect to receive a lump-sum distribution of employee contributions and interest, but would forfeit the employer contributions and interest component and any entitlement to a future annuity.

7) **Service Credit Purchase:** Class T-G and Class QB members would be prohibited from purchasing previous school service or creditable nonschool service except for an approved leave of absence (such as military service). The election of multiple service membership is prohibited for members who only have credit in Class T-G or Class QB. Multiple service membership involves the combining of PSERS service and SERS service for retirement credit purposes. An individual with prior service credit in one of the retirement systems who, due to a change in employment status, becomes a member of the other retirement system may elect to become a multiple service member. Because vesting in a cash balance plan is immediate and no final average salary calculation is used to determine retirement benefits, multiple service membership is irrelevant to the cash balance environment.

8) **Retirement Benefit Entitlement**: Upon termination of service, any Class T-G or Class QB member who is eligible to receive an annuity would be entitled to receive a lifetime annuity with a present value equal to the balance of the member's savings ac-

count. Class T-G and Class QB members (as with all PSERS and SERS members) would be entitled to elect various member benefit distribution options intended to provide members with flexibility in deciding the manner in which members' benefits are disbursed and to ensure that members who choose to do so have the ability to provide a reliable benefit stream to their designated survivor beneficiaries. A superannuated member may elect to receive a lump-sum distribution of employee contributions and interest in lieu of an annuity, but would forfeit the employer contribution and interest component of the cash balance savings account and any entitlement to a future annuity.

9) **Option 4:** Members of Class T-G, Class QB, and currently active members who voluntarily participate in the cash balance plan may elect the Option 4 lump-sum withdrawal upon retirement, but the manner of determining the net annuity will be modified to make the option actuarially cost neutral to the Systems. The lump-sum withdrawal option is currently prohibited for new members of the Systems hired after the effective dates of Act 120.

10) **Disability Benefit:** The amendment would amend the pertinent sections of the PSERS and SERS Codes to provide for a disability benefit if a Class T-G or Class QB member becomes disabled. A member would be eligible to receive an annuity regardless of reaching superannuation age, but with the annuity being limited to the present value of the member's savings account at the time of retirement. Additionally, Class T-G members in PSERS can opt to participate in a Long-Term Disability Group Insurance Program, which is permitted, but not required, to be established by the PSERS Board. The Long-Term Disability Insurance Program would be sponsored by the Board and funded by and for Class T-G members. The organization and administration of the program would be at the sole discretion of the Board.

11) **Death Benefit**: If a member dies prior to retirement, the total value of the member's cash balance savings account (both employer and employee contributions, plus interest accrued) would be paid in a lump sum to the member's designated beneficiaries or estate. Beyond payment of the member's savings account balance in a lump sum, there are no special death benefit provisions to provide for the surviving beneficiaries of a Class T-G or Class QB member.

12) **Pension Obligation Bonds:** As provided in Section 8502(r) and Section 5902(r) in Amendment Number 07223 to the bill, the PSERS and SERS Boards are authorized to apply to the Pennsylvania Economic Development Financing Authority (PEDFA) for a total of up to $6 billion for PSERS and $3 billion for SERS in bond proceeds. Based on the intent of the amendment's sponsor, the borrowing from PEDFA would be required to occur within the first year after the effective date of the proposal. The amendment also repeals Section 13 of Act 120, which prohibited the issuance of pension obligation bonds as a means for funding the liabilities of PSERS and SERS.

Pension Obligation Bonds

Pension obligation bonds (POBs) are a form of taxable general obligation bonds that governments issue to finance pension obligations. POBs may be employed to transform a current pension obligation into a long-term, fixed obligation of the government. While POBs may provide an avenue to alleviate fiscal distress and reduce pension liabilities, they also pose certain risks. For this strategy to be successful, pension fund investment returns must exceed the taxable borrowing rate on the bond issue, resulting in a net gain over time. The timing of the bond issuance is another area of concern. In order to obtain the best possible gains, the debt must be incurred when the borrowing costs are low. There is also a greater risk that investment returns will prove insufficient during periods of liberal monetary policy (i.e., quantitative easing). The net proceeds of a pension bond (after expenses of issuance) are deposited into the pension fund and applied to reduce the unfunded actuarial liability. Like all pension assets, they are projected to earn interest at the plan's assumed discount rate, and the value of the bond asset is determined in accordance with that assumption. Unlike other pension assets, however, a bond imposes debt service costs upon the public employer, in addition to the contribution required to maintain the pension plan. In short, for the bond to be profitable, it must generate both the pension plan's assumed earnings rate and the debt service rate. A detailed analysis published in July 2014 by the Center for Retirement Research at Boston College found that pension obligation bonds are rarely, if ever, profitable to the government employer. The full study is accessible at http://crr.bc.edu/wp-content/uploads/2014/07/slp_40_508rev.pdf. Since this is essentially a budgetary issue, rather than an actuarial matter, the Office of the Budget has submitted a cost projection related to the issuance expenses and debt service costs for the bond proposed by this bill. The net savings must cover the debt service on the bond.

Special Membership Classes

Within SERS, there are a number of special membership classes entitled to enhanced retirement benefits, reduced superannuation requirements or both. These include all members of the judiciary, members of the General Assembly, certain enforcement officers and Pennsylvania State Police Officers. Officers of the Pennsylvania State Police and members of the judiciary will be unaffected by the benefit changes of the amendment. Under the amendment as written, however, membership in Class QB would be mandatory for members of the General Assembly and certain other public safety employees. These groups of employees would no longer be entitled to special benefit provisions that similarly situated employees currently receive. Consequently, these employees would be entitled to benefits that are significantly less valuable than their peers who became members before the effective date of the amendment. Due to the hazardous nature of their duties, it may be desirable to retain some type of enhanced benefit for hazardous duty personnel in the form of special in-service death, disability or retirement provisions.

Determination of Employer Normal Cost

Section 8328 of the PSERS Code and Section 5508 of the SERS Code specify the methods to be used by the actuaries of the respective systems to determine the "employer normal contribution rate" or employer normal cost and the total employer contribution rate, which consists of both the normal cost and the contributions required to fund the accrued liabilities of each plan, plus any amortization contribution requirement.

Both the PSERS and SERS Codes require the normal cost to be determined using "... a level percentage of the compensation of the average new active member…." However, the Systems apply different interpretations to the language. Using the SERS interpretation, the average new member, or entrant, to the System currently earns a benefit at a 2.0% accrual rate. However, if enacted, the proposal would require the normal cost to be calculated on new members in Class QB. This would result in a normal cost calculation of 0.0% that would understate the true cost of SERS, because in the early years of the reduced benefit tier, the majority of members would remain in benefit classes entitling them to an annual benefit accrual of greater value than for new members of Class QB. In the short term, the understated normal cost would generate an unfunded actuarial accrued liability in SERS. This would occur because reducing the benefit accrual rate for new members only would not affect the present value of benefits for current members, but would affect the normal cost calculation.

In contrast, PSERS uses a more traditional method of determining normal cost under the entry age normal actuarial cost method. The traditional method develops the normal cost rate based upon a blending of accrual rates (and subsequently, the costs) attributable to all active members, rather than new entrants only. Use of the traditional method would help to achieve the presumed long-term cost reduction goals of the proposal by both gradually reducing the normal cost and preventing the creation of unfunded actuarial accrued liabilities.

Ancillary Issues

Effective Date for Members of the General Assembly. In the case of members of the General Assembly who enter office on or after December 1, 2014, and before the amendment's effective date of January 1, 2015, for SERS, the effective date for membership in Class QB shall be December 1, 2014.

Pension Forfeiture Act. Under Act 140 of 1978, known as the Public Employee Pension Forfeiture Act (43 P.S. §§ 1311-1315), a public official or public employee who is convicted or pleads guilty or no defense to a crime related to public office or public employment is disqualified to receive a retirement or other benefit or payment of any kind except a return without interest of the contributions paid into a retirement system. The amendment does not include any provisions for the forfeiture of a retirement benefit for members of the cash balance plans.

Internal Revenue Code. The Commission's actuary points out that the proposal's use of a 7.5% discount assumption with a maximum 5.25% earnings rate on deposits (4% plus maximum excess interest) would be prohibited by the IRS for private sector plans, even before the adoption of the Pension Protection Act. The effect on plan tax qualification should be examined.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the amendments and the actuarial cost estimates provided to the Commission by the consulting actuaries for PSERS and SERS and has prepared an actuarial note.

The Commission's consulting actuary has estimated the total cost savings for PSERS and SERS over the 30 year projection period of $19.8 billion and $10.7 billion respectively. Though significant, these projected savings differ from the $26.8 billion in savings projected by Buck Consultants for PSERS and the $15.3 billion in savings projected by Hay Group for SERS, and reflect the generally more conservative approach of the Commission's consulting actuary. The consulting actuary's results assume higher employer contributions in the later years of the projection, based upon the consulting actuary's assessment of cash flow and benefit projection data provided to the Commission staff by Hay and Buck, including estimates as to the population that will be covered by the cash balance plan and anticipated separation rates. Additionally, in the case of SERS, the consulting actuary for the Commission assumed that legacy defined benefit plan members will continue to have a normal cost closer to current levels instead of a normal cost of zero.

Furthermore, in the private sector, the transition to a cash balance plan is normally addressed by selecting a low interest crediting rate and by investing plan assets conservatively to insulate the fund from market volatility. The conservative asset allocation is targeted to ensure a high probability that returns will exceed the guaranteed cash balance plan crediting rate. Retention of the long-term investment assumption of 7.5% utilized by Buck and Hay in their cost estimates may somewhat overstate the long-term cost savings of the proposal. The Commission's consulting actuary developed a model that assumes a gradual reduction in the assumed rate of return as cash balance plan membership increases and represents a larger share of plan liabilities relative to the liabilities of legacy defined benefit plan members.

In its analysis, the Commission's consulting actuary developed two scenarios for each of the projections. The first scenario assumes the investment return assumption for both Systems remains at 7.50%. The second scenario assumes the investment return assumption is "blended" to reflect a gradual reduction of market risk that the funds are exposed to, thereby gradually reducing the investment return assumption. Additionally, the tables include a projection if only the pension obligations bonds are implemented. The results of this analysis are summarized in the following tables.

Tables 1 and 2 show the projection of employer contributions for PSERS in comparison with existing law over the 30-year projection period through Fiscal Year 2043-44. Table 1 shows the employer contributions as a percentage of payroll, and Table 2 shows the employer contributions in dollar amounts (in billions). The first column under the cash balance plan proposal shows the projection of employer contributions assuming a 7.50% investment return assumption. The second column shows the projection of employer contributions using a blended investment return assumption, and the last column projects the employer contributions for the pension obligation bonds only. Similarly, the projection of employer contributions for SERS over the 30-year projection period through Fiscal Year 2043-44 are displayed in tables 3 and 4.

Tables 5 and 6 show the projection of funded ratio and unfunded liabilities, respectively, for PSERS in comparison with existing law over the 30-year projection period through Fiscal Year 2043-44. The first column under the cash balance plan proposal shows the projection of funded ratio/unfunded liability assuming a 7.50% investment return assumption. The second column shows the projection of funded ratio/unfunded liability using a blended investment return assumption, and the last column projects the funded ratio/unfunded liability for the pension obligation bonds only. Likewise, Tables 7 and 8 show the projection of funded ratio and unfunded liabilities for SERS, respectively, over the 30-year projection period through Fiscal Year 2043-44.

TABLE 1

Public School Employees' Retirement System
Projection of Employer Contributions

Fiscal Year	Existing Law	Cash Balance/Funding Reform		Pension Obligation Bonds Only
		7.5% Rate of Return	Blended Return	7.5% Rate of Return
2015	20.5%	20.5%	20.5%	20.5%
2016	25.0%	23.5%	23.5%	25.0%
2017	28.1%	26.5%	26.5%	28.1%
2018	29.0%	25.9%	25.9%	26.0%
2019	30.1%	26.8%	26.8%	27.0%
2020	30.9%	27.4%	27.4%	27.8%
2021	30.8%	27.2%	27.2%	27.7%
2022	30.8%	27.1%	27.1%	27.7%
2023	31.1%	27.2%	27.2%	28.0%
2024	31.1%	27.2%	27.2%	28.0%
2025	31.2%	27.2%	27.2%	28.1%
2026	31.3%	27.2%	27.2%	28.2%
2027	31.4%	27.2%	27.2%	28.2%
2028	31.5%	27.3%	27.2%	28.3%
2029	31.6%	27.3%	27.2%	28.3%
2030	31.6%	27.3%	27.3%	28.4%
2031	31.7%	27.4%	27.4%	28.4%
2032	31.8%	27.5%	27.5%	28.5%
2033	31.9%	27.6%	27.6%	28.6%
2034	32.0%	27.8%	27.8%	28.6%
2035	32.1%	28.0%	28.0%	28.7%
2036	18.5%	14.5%	14.6%	15.1%
2037	15.1%	11.1%	11.3%	11.6%
2038	13.4%	9.6%	9.8%	9.9%
2039	11.6%	7.9%	8.2%	8.0%
2040	9.9%	6.2%	6.7%	6.2%
2041	8.3%	4.8%	5.4%	4.7%
2042	6.9%	7.1%	7.8%	6.9%
2043	5.5%	5.6%	6.5%	5.5%
2044	4.4%	4.6%	5.7%	4.4%

TABLE 2

Public School Employees' Retirement System
Projection of Employer Contributions
(in billions)

Fiscal Year	Existing Law	Cash Balance/Funding Reform				Pension Obligation Bonds Only	
		7.5% Rate of Return	Increase/ (Decrease)	Blended Return	Increase/ (Decrease)	7.5% Rate of Return	Increase/ (Decrease)
2015	$ 2.812	$ 2.812	$ -	$ 2.812	$ -	$ 2.812	$ -
2016	$ 3.520	$ 3.309	$ (0.211)	$ 3.309	$ (0.211)	$ 3.520	$ -
2017	$ 4.059	$ 3.832	$ (0.226)	$ 3.832	$ (0.226)	$ 4.059	$ -
2018	$ 4.314	$ 3.847	$ (0.467)	$ 3.846	$ (0.469)	$ 3.866	$ (0.448)
2019	$ 4.596	$ 4.101	$ (0.495)	$ 4.097	$ (0.499)	$ 4.133	$ (0.463)
2020	$ 4.856	$ 4.317	$ (0.538)	$ 4.313	$ (0.543)	$ 4.376	$ (0.480)
2021	$ 4.989	$ 4.409	$ (0.580)	$ 4.403	$ (0.586)	$ 4.493	$ (0.496)
2022	$ 5.138	$ 4.518	$ (0.619)	$ 4.510	$ (0.627)	$ 4.624	$ (0.514)
2023	$ 5.326	$ 4.669	$ (0.657)	$ 4.660	$ (0.666)	$ 4.795	$ (0.532)
2024	$ 5.498	$ 4.804	$ (0.694)	$ 4.794	$ (0.704)	$ 4.948	$ (0.550)
2025	$ 5.674	$ 4.944	$ (0.730)	$ 4.933	$ (0.741)	$ 5.104	$ (0.570)
2026	$ 5.848	$ 5.084	$ (0.764)	$ 5.072	$ (0.776)	$ 5.258	$ (0.590)
2027	$ 6.025	$ 5.226	$ (0.798)	$ 5.214	$ (0.811)	$ 5.414	$ (0.610)
2028	$ 6.201	$ 5.370	$ (0.830)	$ 5.358	$ (0.843)	$ 5.569	$ (0.632)
2029	$ 6.377	$ 5.516	$ (0.861)	$ 5.505	$ (0.872)	$ 5.723	$ (0.654)
2030	$ 6.556	$ 5.667	$ (0.889)	$ 5.657	$ (0.899)	$ 5.879	$ (0.677)
2031	$ 6.742	$ 5.825	$ (0.916)	$ 5.818	$ (0.924)	$ 6.041	$ (0.700)
2032	$ 6.929	$ 5.989	$ (0.941)	$ 5.985	$ (0.944)	$ 6.205	$ (0.725)
2033	$ 7.120	$ 6.165	$ (0.954)	$ 6.166	$ (0.953)	$ 6.370	$ (0.750)
2034	$ 7.317	$ 6.351	$ (0.966)	$ 6.359	$ (0.958)	$ 6.541	$ (0.776)
2035	$ 7.518	$ 6.544	$ (0.974)	$ 6.562	$ (0.956)	$ 6.714	$ (0.803)
2036	$ 4.447	$ 3.470	$ (0.977)	$ 3.500	$ (0.947)	$ 3.615	$ (0.832)
2037	$ 3.700	$ 2.723	$ (0.977)	$ 2.769	$ (0.931)	$ 2.839	$ (0.861)
2038	$ 3.381	$ 2.409	$ (0.971)	$ 2.476	$ (0.905)	$ 2.490	$ (0.891)
2039	$ 2.997	$ 2.035	$ (0.962)	$ 2.127	$ (0.870)	$ 2.075	$ (0.922)
2040	$ 2.606	$ 1.645	$ (0.961)	$ 1.767	$ (0.839)	$ 1.652	$ (0.954)
2041	$ 2.254	$ 1.295	$ (0.959)	$ 1.455	$ (0.799)	$ 1.266	$ (0.988)
2042	$ 1.935	$ 1.968	$ 0.033	$ 2.173	$ 0.238	$ 1.935	$ 0.000
2043	$ 1.573	$ 1.607	$ 0.034	$ 1.867	$ 0.294	$ 1.573	$ 0.000
2044	$ 1.282	$ 1.354	$ 0.072	$ 1.679	$ 0.398	$ 1.282	$ 0.000
Total			$ (19.778)		$ (18.568)		$ (16.416)

TABLE 3

State Employees' Retirement System
Projection of Employer Contributions

Fiscal Year	Existing Law	Cash Balance/Funding Reform		Pension Obligation Bonds Only
		7.5% Rate of Return	Blended Return	7.5% Rate of Return
2015	20.5%	20.5%	20.5%	20.5%
2016	25.0%	23.5%	23.5%	25.0%
2017	29.5%	26.5%	26.5%	26.8%
2018	30.4%	25.6%	25.6%	26.0%
2019	29.6%	24.9%	24.9%	25.3%
2020	28.9%	24.2%	24.2%	24.7%
2021	28.2%	23.6%	23.5%	24.2%
2022	27.5%	22.9%	22.8%	23.6%
2023	26.8%	22.3%	22.2%	23.0%
2024	26.2%	21.7%	21.6%	22.5%
2025	25.6%	21.1%	21.0%	22.0%
2026	25.0%	20.5%	20.5%	21.5%
2027	24.4%	20.0%	20.0%	21.0%
2028	23.8%	19.5%	19.5%	20.5%
2029	23.2%	19.0%	19.0%	20.1%
2030	22.7%	18.5%	18.6%	19.6%
2031	22.2%	18.1%	18.3%	19.2%
2032	21.7%	17.7%	17.9%	18.8%
2033	21.2%	17.3%	17.7%	18.4%
2034	20.7%	16.9%	17.4%	18.0%
2035	20.2%	16.6%	17.2%	17.6%
2036	19.8%	16.2%	17.0%	17.2%
2037	19.3%	15.9%	16.8%	16.8%
2038	18.9%	15.6%	16.7%	16.5%
2039	18.5%	15.3%	16.6%	16.2%
2040	18.1%	14.9%	16.5%	15.8%
2041	14.2%	11.1%	12.9%	12.0%
2042	11.3%	8.3%	10.4%	9.2%
2043	8.1%	5.2%	7.7%	6.1%
2044	6.2%	3.3%	6.1%	4.1%

TABLE 4

State Employees' Retirement System
Projection of Employer Contributions
(in billions)

Fiscal Year	Existing Law	Cash Balance/Funding Reform				Pension Obligation Bonds Only	
		7.5% Rate of Re-turn	Increase/ (Decrease	Blended Return	Increase/ (Decrease)	7.5% Rate of Return	Increase/ (Decrease)
2015	$ 1.254	$ 1.254	$ -	$ 1.254	$ -	$ 1.254	$ -
2016	$ 1.576	$ 1.482	$ (0.095)	$ 1.482	$ (0.095)	$ 1.576	$ -
2017	$ 1.917	$ 1.722	$ (0.195)	$ 1.722	$ (0.195)	$ 1.742	$ (0.175)
2018	$ 2.035	$ 1.716	$ (0.319)	$ 1.713	$ (0.322)	$ 1.739	$ (0.296)
2019	$ 2.045	$ 1.719	$ (0.326)	$ 1.715	$ (0.330)	$ 1.749	$ (0.296)
2020	$ 2.056	$ 1.722	$ (0.333)	$ 1.718	$ (0.338)	$ 1.759	$ (0.296)
2021	$ 2.066	$ 1.726	$ (0.341)	$ 1.721	$ (0.346)	$ 1.770	$ (0.296)
2022	$ 2.077	$ 1.729	$ (0.348)	$ 1.724	$ (0.353)	$ 1.781	$ (0.296)
2023	$ 2.089	$ 1.733	$ (0.356)	$ 1.728	$ (0.361)	$ 1.793	$ (0.296)
2024	$ 2.101	$ 1.738	$ (0.363)	$ 1.733	$ (0.368)	$ 1.804	$ (0.296)
2025	$ 2.113	$ 1.743	$ (0.370)	$ 1.739	$ (0.374)	$ 1.817	$ (0.296)
2026	$ 2.126	$ 1.748	$ (0.377)	$ 1.746	$ (0.380)	$ 1.829	$ (0.296)
2027	$ 2.139	$ 1.754	$ (0.384)	$ 1.754	$ (0.385)	$ 1.842	$ (0.296)
2028	$ 2.152	$ 1.761	$ (0.391)	$ 1.763	$ (0.389)	$ 1.856	$ (0.296)
2029	$ 2.166	$ 1.768	$ (0.398)	$ 1.775	$ (0.391)	$ 1.869	$ (0.296)
2030	$ 2.180	$ 1.776	$ (0.404)	$ 1.788	$ (0.392)	$ 1.884	$ (0.296)
2031	$ 2.195	$ 1.791	$ (0.404)	$ 1.809	$ (0.386)	$ 1.898	$ (0.296)
2032	$ 2.210	$ 1.804	$ (0.406)	$ 1.830	$ (0.380)	$ 1.914	$ (0.296)
2033	$ 2.225	$ 1.818	$ (0.408)	$ 1.855	$ (0.371)	$ 1.929	$ (0.296)
2034	$ 2.241	$ 1.833	$ (0.409)	$ 1.883	$ (0.359)	$ 1.945	$ (0.296)
2035	$ 2.258	$ 1.849	$ (0.409)	$ 1.915	$ (0.343)	$ 1.962	$ (0.296)
2036	$ 2.275	$ 1.867	$ (0.408)	$ 1.952	$ (0.323)	$ 1.979	$ (0.296)
2037	$ 2.293	$ 1.887	$ (0.406)	$ 1.993	$ (0.299)	$ 1.996	$ (0.296)
2038	$ 2.311	$ 1.908	$ (0.403)	$ 2.041	$ (0.270)	$ 2.014	$ (0.296)
2039	$ 2.329	$ 1.923	$ (0.406)	$ 2.087	$ (0.242)	$ 2.033	$ (0.296)
2040	$ 2.349	$ 1.939	$ (0.410)	$ 2.139	$ (0.209)	$ 2.052	$ (0.296)
2041	$ 1.894	$ 1.480	$ (0.414)	$ 1.724	$ (0.170)	$ 1.598	$ (0.296)
2042	$ 1.559	$ 1.142	$ (0.417)	$ 1.436	$ (0.123)	$ 1.263	$ (0.296)
2043	$ 1.155	$ 0.735	$ (0.421)	$ 1.086	$ (0.069)	$ 0.859	$ (0.296)
2044	$ 0.902	$ 0.478	$ (0.424)	$ 0.895	$ (0.007)	$ 0.606	$ (0.296)
Total			$ (10.743)		$ (8.569)		$ (8.175)

TABLE 5

Public School Employees' Retirement System
Projection of Funded Ratio

Fiscal Year	Existing Law	Cash Balance/Funding Reform		Pension Obligation Bonds Only
		7.5% Rate of Return	Blended Return	7.5% Rate of Return
2015	59.8%	59.8%	59.8%	59.8%
2016	58.5%	64.6%	64.6%	64.8%
2017	57.1%	63.3%	63.3%	63.7%
2018	56.4%	62.4%	62.4%	62.9%
2019	57.7%	63.5%	63.5%	64.0%
2020	59.0%	64.6%	64.6%	65.1%
2021	59.9%	65.4%	65.4%	65.8%
2022	61.2%	66.5%	66.6%	67.0%
2023	62.7%	67.8%	67.9%	68.2%
2024	64.3%	69.3%	69.4%	69.6%
2025	66.0%	71.0%	71.0%	71.1%
2026	67.9%	72.8%	72.8%	72.8%
2027	70.0%	74.7%	74.8%	74.6%
2028	72.2%	76.9%	76.9%	76.5%
2029	74.5%	79.1%	79.2%	78.6%
2030	77.0%	81.6%	81.6%	80.8%
2031	79.6%	84.2%	84.2%	83.1%
2032	82.3%	87.1%	87.0%	85.5%
2033	85.2%	90.1%	89.9%	88.1%
2034	88.3%	93.4%	93.1%	90.8%
2035	91.6%	96.9%	96.4%	93.7%
2036	93.1%	98.5%	97.8%	94.8%
2037	94.2%	99.6%	98.8%	95.5%
2038	95.1%	100.6%	99.5%	95.9%
2039	95.9%	101.7%	100.3%	96.2%
2040	96.4%	102.7%	100.9%	96.2%
2041	96.7%	103.5%	101.3%	96.0%
2042	96.8%	104.8%	102.1%	96.0%
2043	96.7%	105.9%	102.6%	95.9%
2044	96.1%	107.0%	103.0%	95.3%

TABLE 6

Public School Employees' Retirement System
Projection of Unfunded Liability
(in billions)

Fiscal Year	Existing Law	Cash Balance/Funding Reform		Pension Obligation Bonds Only
		7.5% Rate of Return	Blended Return	7.5% Rate of Return
2015	$38.458	$ 38.458	$38.458	$38.458
2016	$40.866	$ 34.856	$34.856	$34.645
2017	$43.418	$ 37.233	$37.228	$36.731
2018	$45.424	$ 39.230	$39.217	$38.699
2019	$45.438	$ 39.205	$39.182	$38.689
2020	$45.359	$ 39.073	$39.036	$38.601
2021	$45.615	$ 39.261	$39.209	$38.865
2022	$45.423	$ 38.973	$38.904	$38.699
2023	$45.011	$ 38.451	$38.365	$38.335
2024	$44.325	$ 37.641	$37.539	$37.718
2025	$43.355	$ 36.534	$36.419	$36.844
2026	$42.096	$ 35.123	$34.999	$35.707
2027	$40.521	$ 33.378	$33.252	$34.286
2028	$38.621	$ 31.285	$31.168	$32.573
2029	$36.376	$ 28.830	$28.737	$30.552
2030	$33.752	$ 25.984	$25.933	$28.193
2031	$30.725	$ 22.721	$22.736	$25.475
2032	$27.270	$ 19.026	$19.139	$22.378
2033	$23.349	$ 14.858	$15.106	$18.867
2034	$18.898	$ 10.154	$10.583	$14.885
2035	$13.896	$ 4.901	$ 5.566	$10.415
2036	$11.691	$ 2.451	$ 3.416	$ 8.811
2037	$10.088	$ 0.608	$ 1.948	$ 7.884
2038	$ 8.688	$ (1.019)	$ 0.777	$ 7.242
2039	$ 7.572	$ (2.904)	$ (0.564)	$ 6.974
2040	$ 6.789	$ (4.569)	$ (1.589)	$ 7.136
2041	$ 6.361	$ (6.008)	$ (2.255)	$ 7.758
2042	$ 6.270	$ (8.278)	$ (3.604)	$ 7.771
2043	$ 6.605	$ (10.354)	$ (4.592)	$ 8.219
2044	$ 8.018	$ (12.414)	$ (5.379)	$ 9.754

TABLE 7

State Employees' Retirement System
Projection of Funded Ratio

Fiscal Year	Existing Law	Cash Balance/Funding Reform		Pension Obligation Bonds Only
		7.5% Rate of Return	Blended Return	7.5% Rate of Return
2015	58.6%	58.6%	58.6%	58.6%
2016	58.5%	65.3%	65.3%	65.3%
2017	58.6%	65.6%	65.6%	65.9%
2018	60.2%	67.2%	67.2%	67.4%
2019	61.6%	68.4%	68.4%	68.6%
2020	63.0%	69.6%	69.6%	69.8%
2021	64.4%	70.8%	70.8%	70.9%
2022	65.8%	72.0%	72.0%	72.0%
2023	67.2%	73.2%	73.2%	73.2%
2024	68.6%	74.4%	74.5%	74.3%
2025	69.9%	75.7%	75.7%	75.4%
2026	71.3%	77.0%	77.0%	76.6%
2027	72.7%	78.3%	78.2%	77.7%
2028	74.2%	79.6%	79.5%	78.9%
2029	75.6%	81.1%	80.9%	80.1%
2030	77.1%	82.5%	82.3%	81.3%
2031	78.7%	84.1%	83.6%	82.6%
2032	80.3%	85.7%	85.1%	83.8%
2033	81.9%	87.3%	86.5%	85.2%
2034	83.5%	89.1%	88.0%	86.5%
2035	85.2%	90.9%	89.5%	87.9%
2036	87.0%	92.7%	91.0%	89.3%
2037	88.7%	94.6%	92.5%	90.7%
2038	90.5%	96.6%	94.0%	92.2%
2039	92.4%	99.1%	96.0%	93.7%
2040	94.2%	101.8%	98.0%	95.2%
2041	96.1%	104.6%	100.1%	96.7%
2042	97.3%	106.8%	101.6%	97.6%
2043	98.2%	108.7%	102.7%	98.1%
2044	98.5%	110.1%	103.2%	98.1%

TABLE 8

State Employees' Retirement System
Projection of Unfunded Liability
(in billions)

Fiscal Year	Existing Law	Cash Balance/Funding Reform		Pension Obligation Bonds Only
		7.5% Rate of Return	Blended Return	7.5% Rate of Return
2015	$18.276	$18.276	$18.276	$18.276
2016	$18.773	$15.694	$15.690	$15.662
2017	$19.131	$15.898	$15.888	$15.788
2018	$18.814	$15.502	$15.483	$15.401
2019	$18.520	$15.235	$15.209	$15.158
2020	$18.207	$14.942	$14.908	$14.900
2021	$17.871	$14.618	$14.577	$14.623
2022	$17.511	$14.262	$14.215	$14.327
2023	$17.129	$13.874	$13.824	$14.013
2024	$16.720	$13.451	$13.400	$13.677
2025	$16.282	$12.990	$12.944	$13.319
2026	$15.814	$12.488	$12.453	$12.936
2027	$15.313	$11.942	$11.928	$12.526
2028	$14.777	$11.350	$11.369	$12.088
2029	$14.203	$10.709	$10.776	$11.620
2030	$13.589	$10.016	$10.148	$11.118
2031	$12.930	$ 9.274	$ 9.492	$10.582
2032	$12.225	$ 8.471	$ 8.800	$10.008
2033	$11.470	$ 7.607	$ 8.076	$ 9.394
2034	$10.660	$ 6.678	$ 7.321	$ 8.736
2035	$ 9.793	$ 5.681	$ 6.533	$ 8.032
2036	$ 8.864	$ 4.613	$ 5.713	$ 7.277
2037	$ 7.868	$ 3.469	$ 4.858	$ 6.470
2038	$ 6.800	$ 2.247	$ 3.966	$ 5.604
2039	$ 5.656	$ 0.598	$ 2.722	$ 4.677
2040	$ 4.429	$ (1.216)	$ 1.368	$ 3.684
2041	$ 3.113	$ (3.211)	$ (0.093)	$ 2.620
2042	$ 2.194	$ (4.910)	$ (1.178)	$ 1.971
2043	$ 1.577	$ (6.419)	$ (1.989)	$ 1.645
2044	$ 1.359	$ (7.655)	$ (2.440)	$ 1.739

In reviewing the amendments, the Commission identified the following policy considerations.

Reduced Benefit Tier. Amendment Number 07223 would have the effect of reducing the value of retirement benefits for most future members of PSERS and SERS relative to most current members of the Systems. Amendment Number 07223 would also lower the normal retirement age to age 55 for most new members, while increasing employee contributions relative to the benefits earned.

Benefit Disparities. By creating additional, reduced benefit tiers, Amendment Number 07223 creates the potential for pension benefit inequities in the treatment of similarly situated public employees, and in some cases, the potential for litigation brought by members over resulting pension benefit disparities. The complexities involved in the administration of multiple benefit tiers will also likely add to the Systems' operational and administrative costs.

Further Departure from Actuarial Funding Standards. The proposal would taper the collared contribution rates implemented under Act 120 for both PSERS and SERS, further delaying the increases in employer contributions and spreading the increases over future years. The Commission is well aware of the fiscal challenges facing the Commonwealth resulting from the increased pension contributions. However, it must be noted that the tapering of the collared contribution rates proposed in the amendment will generate additional liabilities for the Systems in the long term. The short-term effect of the tapering of the collars would be to further defer the payment of contributions to both PSERS and SERS, resulting in the additional underfunding of both retirement Systems. This would also offset the savings realized under the proposal from the establishment of zero-cost benefit tiers and the proceeds from the pension obligation bonds. The Commonwealth's policymakers must determine whether the further departure from actuarial funding standards proposed by the amendment is consistent with the Commonwealth's pension plan funding and fiscal management goals.

Pension Obligation Bonds. Amendment Number 07223 authorizes the PSERS and SERS Boards to apply for pension bonds in amounts up to $6 billion and $3 billion, respectively, to pay down the unfunded accrued liabilities of the Systems. Based on the understanding of the sponsor's intent, the borrowing would be required to occur within the first year after the effective date of the proposal. The infusion of the bond proceeds would have a positive impact on the funding of both the Systems. It must be noted that the actuarial cost analyses do not address the costs to the Commonwealth for debt service on the bonds.

Normal Cost Calculation. PSERS and SERS use somewhat dissimilar methods for calculating the normal cost rate. Under the SERS method, the normal cost is calculated based upon the average *new entrant* to the System. As a result, the normal cost for SERS would decrease even though the cost of providing benefits to current members would not change. Because benefits provided to current members are higher than the benefits provided to members of the new Class QB, the employer normal cost under SERS would be significantly lower than the average cost of the benefits provided to current members, and will tend to understate the System's normal cost. In the short term, the understated normal cost would generate a significant unfunded actuarial accrued liability in SERS. In contrast, the normal cost method employed by PSERS is based on a blending of the normal cost rates of all active members. This is the traditional method for calculating the normal cost under the entry age normal actuarial cost method.

The Commission's consulting actuary has indicated that the PSERS' method would be the preferred approach for determining the normal cost for both PSERS and SERS. This is especially important if the reduced benefit classes are adopted for new members in order to avoid having a decrease in the normal cost for current members and an increase in the actuarial accrued liability. Under the PSERS' approach, the normal cost and unfunded actuarial accrued liability would not change for current members, but there would be a reduced normal cost for new members as they join the system. Thus, the total normal cost would gradually decline as new members are added and current members retire. Use of the traditional method would help to achieve the presumed long-term cost reduction goals of Amendment Number 07223 by both gradually reducing the normal cost and preventing the creation of additional unfunded actuarial accrued liabilities.

Special Membership Classes. Under the SERS Code, there are a number of special categories of public employees entitled to enhanced benefits, reduced superannuation requirements, or both. These include members of the General Assembly, the judiciary, enforcement officers and certain other hazardous duty personnel. Under Amendment Number 07223, there are no special benefit provisions for several of these groups of employees. The uniform benefit level for Class QB would result in a major reduction in the value of employer-provided benefits for these groups of employees in the future and would result in significant benefit disparities between similarly situated employees.

Adequacy of Disability and Death Benefits for Hazardous Duty Personnel. Historically, it has been the practice of the Commonwealth to provide special disability and death benefits to public safety employees due to the hazardous nature of such employment. Amendment Number 07223 represents a major departure from past practice by providing no such special benefits for hazardous duty personnel. Due to the hazardous nature of their duties, it may be desirable to retain some type of enhanced benefit for hazardous duty personnel in the form of special in-service death, disability or retirement provisions.

Benefit Disparity among Hazardous Duty Personnel. By implementing a reduced benefit tier for new hazardous duty employees while exempting members of the Pennsylvania State Police, the proposal creates the potential for benefit inequities in the treatment of similarly situated public employees that may result in employee bargaining disputes and subsequent litigation over benefit disparities.

Personnel Recruitment and Retention. One unintended effect of Amendment Number 07223 may be to decrease the attractiveness of public employment, particularly among certain subgroups of employees who have traditionally received enhanced retirement benefits. The consulting actuary for PSERS estimates the value of the cash balance benefit to be half of the defined benefit available under Act 120. Policymakers must determine whether the benefit provisions of Amendment Number 07223 are consistent with the Commonwealth's long-term personnel management goals.

COMMISSION RECOMMENDATIONS

On July 30, 2014, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 1353, Printer's Number 2152, had first consideration on June 25, 2013, and was reported as committed from the House Human Services Committee on July 2, 2014.

To view this note in its entirety, click the following link: Amendment Numbers 07223 and 09253 to House Bill Number 1353, Printer's Number 2152

Bill ID: Amendment Numbers 07405, 07449 and 07849 to
House Bill Number 1353, Printer's Number 2152, as amended by
Amendment Numbers 06917, 07089, and 07096

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

Subject: Benefit Changes to the Hybrid Retirement Benefit Plans

SYNOPSIS

House Bill Number 1353, Printer's Number 2152, as amended by Amendment Numbers 06917, 07089 and 07096, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to: 1) implement a hybrid retirement benefit plan; 2) exempt State Police officers from membership in the new hybrid benefit tier; and 3) for PSERS, restore the part-time membership eligibility threshold to pre-Act 120 requirements. (On May 28, 2014, the Commission issued an actuarial note on House Bill Number 1353, Printer's Number 2152, as amended by Amendment Numbers 06917, 07089 and 07096. For a detailed analysis of that proposal, see the Commission's previous actuarial note.)

The following amendments would amend the bill as amended to:

- Amendment Number 07405 would amend the bill as amended to reduce the benefit accrual rate for the defined benefit portion of the hybrid plan for both PSERS and SERS from 2.0% to 1.5%.

- Amendment Number 07449 would amend the bill as amended to change the eligibility for superannuation for the defined benefit portion of the hybrid plan for both PSERS and SERS from age 65 to the Social Security full retirement age.

- Amendment Number 07849 would amend the bill as amended to implement a variable benefit accrual rate for the defined benefit portion of the hybrid plan for both PSERS and SERS, depending upon a member's annual compensation history.

DISCUSSION

Amendment Number 07405
Reducing the Benefit Accrual Rate

Under the original bill as amended by Amendment Number 06917, any employee who first becomes a member of PSERS or SERS or returns after a break in service on or after July 1, 2015, in the case of PSERS, or January 1, 2015, in the case of SERS, would become a mandatory member of the hybrid benefit tier and a member of a new membership class, "Class T-G" for PSERS or "Class A-5" for SERS. For the defined benefit component of the hybrid retirement benefit plan, Class T-G and A-5 members would earn benefits equal to a 2% annual benefit accrual rate multiplied by the member's years of service (maximum of 25 years) multiplied by the member's final average salary (highest five years). Under amendment Number 07405, new and returning members of PSERS and SERS would earn a reduced benefit accrual rate of 1.5% for the defined benefit portion of the hybrid plan.

Amendment Number 07449
Change in Eligibility for Superannuation

Under the original bill as amended by Amendment Number 06917, superannuation age for both Class T-G and Class A-5 is age 65 (with 3 years of service required for PSERS). Amendment Number 07449 would change the eligibility for superannuation for the defined benefit portion of the hybrid plan for both members of PSERS and SERS to the Social Security full retirement age (with three years of service required for PSERS).

The full retirement age for Social Security had been age 65 for many years. However, under the Social Security Amendments of 1983 (P. L. 98-21, H. R. 1900), a provision was included to raise the full retirement age beginning with persons born in 1938 or later. For persons born between 1938 and 1942, the full retirement age was incrementally raised by two months for each subsequent year. For persons born between 1943 and 1954, full retirement age is 66. For persons born between 1955 and 1959, the full retirement age was raised incrementally by two months for each subsequent year. Finally, for persons born in 1960 or later, full retirement age is 67.

Amendment Number 07849
Variable Benefit Accrual Rate

The original bill as amended by Amendment Number 06917 applies a new limit on the level of compensation that may be used for final average salary determination purposes for members of Class T-G and Class A-5. Under this provision, the compensation calculated for the defined benefit component cannot exceed $50,000. All pay above the $50,000 limit (indexed at 1% per year) would not be included in the calculations for employee and employer contributions to the defined benefit plan, but would count toward the employee and employer contributions for the defined contribution plan.

Under Amendment Number 07849, the benefit accrual rate for the defined benefit portion of the hybrid plan for PSERS and SERS is retroactively increased to 2.5% for members whose compensation never exceeds the compensation limit within the first 25 years of service. For members whose compensation does exceed the compensation limit within the first 25 years of service, the amendment sets the benefit accrual rate at 1.5%. In either case, the employee contribution rate is 6% of compensation.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the amendments and provided the Commission with the following actuarial cost estimates. The following tables summarize the overall impact of each amendment when compared with existing law and the original hybrid plan, embodied in the consulting actuary's original actuarial note on House Bill Number 1353, Printer's Number 2152, as amended by Amendment Numbers 06917, 07089, and 07096. For a detailed actuarial cost estimate for each amendment, see the consulting actuary's actuarial note attached to this note transmittal.

As compared to the consulting actuary's estimates of the cumulative savings that would result under the bill as amended by Amendment Numbers 06917, 07089, and 07096, the estimated savings for the hybrid plan as amended by **Amendment Number 07405** would yield an additional projected cost savings of **$5.805 billion for PSERS** over the 30-year projection period through Fiscal Year 2043-2044. **For SERS**, the estimated savings for the hybrid plan as amended by **Amendment Number 07405** would yield an additional projected cost savings of **$2.198 billion** over the 30-year projection period through Fiscal Year 2043-2044.

Estimated Actuarial Cost for PSERS
Under Amendment Number 07405
Through Fiscal Year 2043-2044
($ amounts in millions)

	Existing Law	Original Hybrid Plan	Hybrid Plan with Lower Accrual Rate of 1.5%
Projection of Employer Contributions (Inc./Dec.)	-	$(3.530)	$(9.335)
Projection of Employer Contribution Rate %	4.4%	4.7%	2.8%
Projection of Unfunded Accrued Liability (UAL)	$8.018	$3.272	$1.496
Projection of Funded Ratio %	96.1%	98.1%	99.1%

Estimated Actuarial Cost for SERS
Under Amendment Number 07405
Through Fiscal Year 2043-2044
($ amounts in millions)

	Existing Law	Original Hybrid Plan	Hybrid Plan with Lower Accrual Rate of 1.5%
Projection of Employer Contributions (Inc./Dec.)	-	$(5.678)	$(7.876)
Projection of Employer Contribution Rate %	6.2%	3.3%	2.4%
Projection of Unfunded Accrued Liability (UAL)	$1.359	$(2.523)	$(3.750)
Projection of Funded Ratio %	98.5%	104.0%	106.5%

As compared to the consulting actuary's estimates of the cumulative savings that would result under the bill as amended by Amendment Numbers 06917, 07089, and 07096, the estimated savings for the hybrid plan as amended by **Amendment Number 07449** would yield an additional projected cost savings of **$0.917 billion for PSERS** over the 30-year projection period through Fiscal Year 2043-2044. **For SERS**, the estimated savings for the hybrid plan as amended by **Amendment Number 07449** would yield an additional projected cost savings of **$0.44 billion** over the 30-year projection period through Fiscal Year 2043-2044. According to the Commission's consulting actuary, the employer contributions would be dependent in part on changes in retirement patterns and behavior.

Estimated Actuarial Cost for PSERS
Under Amendment Number 07449
Through Fiscal Year 2043-2044
($ amounts in millions)

	Existing Law	Original Hybrid Plan	Hybrid Plan with Soc. Sec. Retirement Age
Projection of Employer Contributions (Inc./Dec.)	-	$(3.530)	$(4.447)
Projection of Employer Contribution Rate %	4.4%	4.7%	4.4%
Projection of Unfunded Accrued Liability (UAL)	$8.018	$3.272	$2.991
Projection of Funded Ratio %	96.1%	98.1%	98.3%

Estimated Actuarial Cost for SERS
Under Amendment Number 07449
Through Fiscal Year 2043-2044
($ amounts in millions)

	Existing Law	Original Hybrid Plan	Hybrid Plan with Soc. Sec. Retirement Age
Projection of Employer Contributions (Inc./Dec.)	-	$(5.678)	$(6.118)
Projection of Employer Contribution Rate %	6.2%	3.3%	3.1%
Projection of Unfunded Accrued Liability (UAL)	$1.359	$(2.523)	$(2.768)
Projection of Funded Ratio %	98.5%	104.0%	104.4%

As compared to the consulting actuary's estimates of the cumulative savings that would result under the bill as amended by Amendment Numbers 06917, 07089, and 07096, the estimated savings for the hybrid plan as amended by **Amendment Number 07849** would yield a total reduction in savings of **$3.483 billion for PSERS** over the 30-year projection period through Fiscal Year 2043-2044. **For SERS**, the estimated savings for the hybrid plan as amended by **Amendment Number 07849** would yield a total reduction in savings of **$2.198 billion** over the 30-year projection period through Fiscal Year 2043-2044.

Estimated Actuarial Cost for PSERS
Under Amendment Number 07849
Through Fiscal Year 2043-2044
($ amounts in millions)

	Existing Law	Original Hybrid Plan	Hybrid Plan with Variable Accrual Rate
Projection of Employer Contributions (Inc./Dec.)	-	$(3.530)	$(0.047)
Projection of Employer Contribution Rate %	4.4%	4.7%	5.8%
Projection of Unfunded Accrued Liability (UAL)	$8.018	$3.272	$4.337
Projection of Funded Ratio %	96.1%	98.1%	97.6%

Estimated Actuarial Cost for SERS
Under Amendment Number 07849
Through Fiscal Year 2043-2044
($ amounts in millions)

	Existing Law	Original Hybrid Plan	Hybrid Plan with Variable Accrual Rate
Projection of Employer Contributions (Inc./Dec.)	-	$(5.678)	$(3.480)
Projection of Employer Contribution Rate %	6.2%	3.3%	4.3%
Projection of Unfunded Accrued Liability (UAL)	$1.359	$(2.523)	$(1.297)
Projection of Funded Ratio %	98.5%	104.0%	101.9%

The consulting actuary noted several concerns regarding Amendment Number 07849. Under the Internal Revenue Code (IRC), a tax qualified defined benefit plan must provide for a benefit that is definitely determinable at any time. Under this amendment, the benefit is dependent upon the member's annual compensation over the total years of service and cannot be determined until the member retires and their annual compensation history is fully known. This type of benefit structure could potentially run afoul of the IRC and would impact the tax qualification status of the Systems. There is also the potential for a member's compensation to increase right before retirement, which could cause a significant reduction in their accrued benefit (if they pass the compensation limit).

POLICY CONSIDERATIONS

In reviewing the amendments, the Commission identified the following policy considerations.

Reduced Benefit Tier. Amendment Numbers 07405 and 07849 would have the effect of reducing the value of retirement benefits for most future members of PSERS and SERS relative to most current members of the Systems.

Benefit Disparities. By lowering the benefit accrual rate for most future members of PSERS and SERS, Amendment Numbers 07405 and 07849 create the potential for pension benefit inequities in the treatment of similarly situated public employees, and in some cases, the potential for litigation brought by members over resulting pension benefit disparities. The complexities involved in the administration of multiple benefit tiers will also likely add to the Systems' operational and administrative costs.

Technical Operational Issues. In reviewing the amendments, the Commission staff noted the following technical operational issue.

Variable Benefit Structure. Amendment Number 07849 would alter the benefit accrual rate for members of Class T-G and A-5 depending upon the member's annual compensation history. Because of the rules for tax qualified defined benefit plans under the IRC, the Commission's consulting actuary recommends that the amendment be reviewed by legal counsel to determine the legality of the benefit structure established under this amendment.

COMMISSION RECOMMENDATIONS

On October 7, 2014, the Commission voted to attach the actuarial note to the amendments, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 1353, Printer's Number 2152, had first consideration on June 25, 2013, and was reported as committed from the House Human Services Committee on July 2, 2014.

To view this note in its entirety, click the following link: Amendment Numbers 07405, 07449 and 07849 to House Bill Number 1353, Printer's Number 2152, as amended by Amendment Numbers 06917, 07089, and 07096

Bill ID: House Bill Number 2421, Printer's Number 3957

System: Public School Employees' Retirement System and State Employees' Retirement System

Subject: Members' Retirement Options

SYNOPSIS

House Bill Number 2421, Printer's Number 3957, would amend both the Public School Employees' Retirement System (PSERS) Code and the State Employees' Retirement System (SERS) Code for current members of both Systems who select the Option 4 lump-sum withdrawal upon retirement after July 1, 2015, in the case of PSERS, and January 1, 2015, in the case of SERS, by modifying the manner of determining the net annuity to make the option actuarially cost neutral to the Systems for all employee contributions made after the year 2015.

DISCUSSION

The Retirement Codes and Systems

Currently, most full-time public school and State employees are members of either the Public School Employees' Retirement System (PSERS) or the State Employees' Retirement System (SERS). Both PSERS and SERS are governmental, cost-sharing, multiple-employer defined benefit pension plans. The designated purpose of the Public School Employees' Retirement System and the State Employees' Retirement System is to provide retirement allowances and other benefits, including disability and death benefits to public school and State employees. As of June 30, 2013, there were approximately 797 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 2013, approximately 104 Commonwealth and other employers participating in SERS.

Membership in PSERS and SERS is mandatory for most school and State employees. Certain other employees are not required but are given the option to participate. As of June 30, 2013, there were 267,428 active members and 209,204 annuitant members of PSERS, and as of December 31, 2013, there were 107,002 active members and 120,052 annuitant members of SERS.

For most members of both Systems, the basic benefit formula used to determine the normal retirement benefit is equivalent to the product of 2.5% multiplied by the member's years of accumulated service credit ("eligibility points") multiplied by the member's final average (highest three years) salary. Since the passage of Act 9 of 2001 (which increased the accrual rate for most members from 2.0% to 2.5%), most members of PSERS are Class T-D members and contribute 7.5% of compensation to PSERS, while most members of SERS are Class AA members and contribute 6.25% of compensation to SERS. Within both Systems, there are a number of additional membership classes with corresponding benefit accrual and employee contribution rates that differ from the majority of school and State employees.

Act 120 of 2010 implemented major pension benefit reforms, including the establishment of new benefit tiers applicable to most new members. Effective January 1, 2011, most new members (including members of the General Assembly) are required to become members of one of two membership classes, known as "Class A-3" and "Class A-4." Most new members of SERS, other than State Police officers or members employed in a position for which a class of service other than Class A or Class AA is credited or could be elected, become members of Class A-3 beginning January 1, 2011 (or if a member of the General Assembly, beginning December 1, 2010). Class A-3 members are eligible for an annuity based upon an annual benefit accrual rate of 2% and have a corresponding employee contribution requirement of 6.25% of compensation. As an alternative to Class A-3, an employee who becomes a member of SERS on or after January 1, 2011, may elect Class A-4 membership within 45 days of becoming a member of SERS. A Class A-4 member is eligible for an annuity based upon an annual benefit accrual rate of 2.5% with a corresponding employee contribution requirement equal to 9.3% of compensation.

Effective July 1, 2011, new members of PSERS are required to become members of one of two membership classes, known as "Class T-E" and "Class T-F." Most new members of PSERS are required to become members of Class T-E beginning July 1, 2011. Class T-E members are eligible for an annuity based upon an annual benefit accrual rate of 2% and have a corresponding employee contribution of 7.5% of compensation. As an alternative to Class T-E, an employee who becomes a member of PSERS on or after July 1, 2011, may elect Class T-F membership within 45 days of becoming a member of PSERS. A Class T-F member is eligible for an annuity based upon an annual benefit accrual rate of 2.5% with a corresponding employee contribution requirement equal to 10.3% of compensation.

Under the Codes of both Systems, superannuation or normal retirement age is that date on which a member may terminate service with the public employer and receive a full retirement benefit without reduction. Under the Public School Employees' Retirement Code, superannuation or normal retirement age for most members is age 62 with at least one full year of service, age 60 with 30 or more years of service, or any age with 35 years of service. Under the State Employees' Retirement Code, superannuation or normal retirement age for most members is age 60 with three years of service or any age with 35 years of service, while age 50 is the normal retirement age for members of the General Assembly and certain public safety employees. For most members of the Systems who first became members after the effective dates of Act 120, the superannuation requirement is age 65 with a minimum of three years of service credit, or any combination of age and service that totals 92 with at least 35 years of credited service, and age 55 for members of the General Assembly and certain public safety employees.

Members' Retirement Options

The maximum single-life annuity is the basic retirement benefit entitlement for members of PSERS and SERS. The maximum single-life annuity provides the largest monthly pension payment to which an eligible member is entitled for the member's retired lifetime. When a member who has elected to receive benefit payments in the form of the maximum single-life annuity dies, that member's designated beneficiaries are entitled to receive a death benefit in an amount equal to the member's total accumulated deductions, less any accumulated deductions withdrawn by the member at retirement and any retirement benefit payments that the member received prior to death. The member's "accumulated deductions" are the total of the member's employee contributions to the retirement system that have accrued over the member's working lifetime, plus accumulated interest at the statutory rate of four percent. If the total amount of benefit payments the member received prior to death exceeds that member's accumulated deductions, no death benefit will remain to be paid to the member's designated beneficiaries.

In addition to the maximum single-life annuity, the Retirement Codes of both PSERS and SERS provide additional member options intended to provide members with flexibility in deciding the manner in which members' benefits are disbursed and to ensure that members who choose to do so have the ability to provide a reliable benefit stream to their designated survivor beneficiaries. Retirement Option 4 permits a retiring member to withdraw all or a portion of the member's accumulated deductions. A member may elect to receive this withdrawal in one lump sum or in up to four installment payments. The installments continue to earn interest at the statutory rate of four percent per year until they are paid to the member. A member who elects to withdraw his or her accumulated deductions is entitled to a lifetime monthly pension benefit that is smaller than under either the maximum single-life annuity or Options 1 thru 3, because the benefit will be computed on the present value of the member's benefit entitlement less the amount of the accumulated deductions that were withdrawn.

Under Act 120 of 2010, the election to withdraw the member's accumulated deductions under Option 4 was eliminated as an option for new members of PSERS and SERS who otherwise would be eligible to receive retirement benefits. Members of Class T-E , T-F, A-3 and A-4 who terminate service before vesting continue to be entitled to withdraw their accumulated deductions plus the interest earned on those contributions upon termination of service, in lieu of any claim to other benefits.

Under the bill, the election to withdraw the member's accumulated deductions under Option 4 would remain available to current members of Class T-D in PSERS and Class AA in SERS. However, the bill would implement a change in the manner in which the Option 4 withdrawal is computed to make Option 4 actuarially cost neutral to the Systems for all service credited after the year 2015. For all service performed and credited before the year 2015 by current active members of the Systems, the accumulated deduction calculation will remain unchanged.

Potential Contract Impairment

By altering the membership provisions for current members in PSERS and SERS for school or State service performed after July 1, 2015, in the case of PSERS, and January 1, 2015, in the case of SERS, it appears that the bill may impair the retirement benefit rights of active members of both Systems. Historically, public employee retirement benefits are recognized as deferred compensation for work already performed, which confers upon public employees certain contractual rights protected by the Pennsylvania Constitution (Article I section 17).[1] *Police Officers of Hatboro v. Borough of Hatboro,* 559 A.2d 113 (Pa. Cmwlth 1989); *McKenna v. State Employees' Retirement Board,* 495 Pa. 324, 433 A.2d 871 (1981); *Catania v. State Employees' Retirement Board,* 498 Pa. 684, 450 A.2d (1982). These contractual pension rights become fixed upon the employee's entry into the retirement system and cannot be subsequently unilaterally diminished or adversely affected, regardless of whether (1) the member is vested; or (2) the devaluation is necessary for actuarial soundness. *Association of Pa. State College and University Faculties v. State System of Higher Education,* 505 Pa. 369, 479 A.2d 962 (1984). See also *Hughes v. Public School Employees' Retirement Board*, 662 A.2d 701 (Pa. Cmwlth. 1995), *alloc. denied,* 542 Pa. 678, 668 A.2d 1139 (1995) (member has property interest in pension benefit).

[1] The Pa. Constitution provides: "No ex post facto law, nor any law impairing the obligations of contract, … shall be passed."

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill and the actuarial cost estimates provided to the Commission by the consulting actuaries for PSERS and SERS.

To summarize the work of the actuaries, the bill is estimated to yield a total projected cost savings through fiscal year 2045 of $4.456 billion for PSERS and $730 million for SERS. The large discrepancy in projected cost savings between the two Systems can be attributed to several factors. In the case of PSERS, the reduction in liability due to the bill was amortized over 24 years. For SERS, the reduction in liability due to the bill was amortized over 10 years. Secondly, the Systems have assumed different utilization rates by their members in developing their estimates. PSERS assumes that all eligible members will elect Option 4, while SERS assumes that 92.5% of all eligible members will elect the option. And finally, there is a significantly higher membership population in PSERS than in SERS (as of the year 2013, 267,428 members in PSERS and 107,002 members in SERS).

While the Commission's consulting actuary only reviewed the work of the Systems' consulting actuaries for reasonableness and generally concurs with their findings, they have offered the following observations:

1) The present value of the savings impact for PSERS is shown as $1.74 billion. This estimate was not provided for SERS, but the Commission's consulting actuary estimates the present value of the savings impact to be $446 million. This may be the best way to consider the cost impact of the bill because any demonstration of savings on an amortization basis includes interest credits spread over time.

2) The consulting actuary for SERS has assumed that the bill would increase the utilization rate for Option 4 by members at the time of retirement. The Commission's consulting actuary expects that there would be a higher incidence of Option 4 election initially, but over time the popularity of the option would decline because of the elimination of the subsidy. If this were to happen, the anticipated cost savings for SERS may also decline.

3) Both the proposed bill and the appropriate sections of the Systems' Codes are silent on the amortization periods that would apply when there is a reduction in the Systems' unfunded liabilities due to a change by legislation enacted. The bill also does not identify a valuation date on which the effect of the change in provisions would first be recognized. The Commission's consulting actuary recommends that these issues should be clarified in the bill.

For a full year-by-year projection of the bill's impact, see the Systems' consulting actuaries' actuarial notes attached to this note transmittal.

POLICY CONSIDERATIONS

In reviewing the bill, the Commission identified the following policy considerations:

Potential Contract Impairment. Historically, public employee retirement benefits are recognized as deferred compensation for work already performed, which confers upon public employees certain contractual rights protected by the Pennsylvania Constitution (Article I, section 17). The bill proposes to modify the benefits of current active members. As written, the active member benefit modifications proposed in the bill may be found to impair the benefit rights of the affected active members.

Funding Provisions. As it is currently written in the Codes, any time there is a change in the accrued liability of the Systems by legislation enacted, the Systems must amortize the liability over ten years. In the case of the PSERS Code specifically, the Code only refers to increases in liability. The Code is silent with respect to the recognition of decreases in liability due to legislation. This can lead to the System developing its own interpretation of the provision, in the absence of specific language in the Code. The bill's sponsor may wish to consider clarifying the funding provisions in the proposed legislation.

COMMISSION RECOMMENDATIONS

On October 7, 2014, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2421, Printer's Number 3957, was introduced on July 29, 2014.

To view this note in its entirety, click the following link: House Bill Number 2421, Printer's Number 3957

PART II

PUBLIC EMPLOYEE RETIREMENT SYSTEM ADMINISTRATION

A. ACT 205 OF 1984.

- **2013 Filing Period**

March 31, 2014, was the deadline for the 2013 municipal pension plan reports. Of the 4,582 local governments submitting questionnaire responses, 2,050 indicated that they had established one or more pension plans. About 350 of the local governments required to submit employee pension plan reports to be eligible for General Municipal Pension System State Aid failed to meet the statutory filing deadline. Through transmitting multiple delinquency notices, the Commission was able to significantly reduce the number of delinquent local governments that were not included in the initial State aid certification to the Department of the Auditor General on July 31, 2014. Only 27 municipalities remained delinquent as of the date of initial certification. As of December 31, 2014, no municipality remained delinquent in submitting their 2013 municipal pension plan reports.

With 50% of the more than 3,000 municipal pension plan actuarial valuation reports received near the filing deadline, the Commission utilized its computer-assisted review procedures to expedite the review of the incoming reports. The data extracted from the reporting forms was verified using electronic data processing. The Commission issued its *Status Report on Local Government Pension Plans* based on the 2013 Act 205 data in December 2014.

- **Act 44 of 2009**

Act 44 of 2009 was signed into law by the Governor on September 18, 2009, and made significant changes to the Municipal Pension Plan Funding Standard and Recovery Act. The most significant for the Commission was the calculation of a distress score, based upon the aggregate funded ratio, for every municipality with a pension plan. The Commission notified 1,448 municipalities of their distress score. Fifty-five percent of the municipalities were not distressed, but they only accounted for 19 percent of the active membership.

- **Municipal Pension Cost Certification**

In the summer of 2014, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 2014 allocation of General Municipal Pension System State Aid. In 2014, the State aid provided to municipalities to offset their employee pension costs totaled $248.3 million. Calculation of the municipal pension cost data for the over 1,500 municipalities was accomplished through the municipal employee pension plan data base that is maintained by the Commission through the data extracted from the over 3,000 pension plan reports submitted by municipalities.

B. ACT 293 OF 1972.

- **2014 Filing Period**

The Commission transmitted filing notices and reporting forms to the 66 counties required to submit employee pension plan reports for 2014. The reports are due by March 31, 2015.

PART III

PUBLIC EMPLOYEE RETIREMENT SYSTEM POLICY DEVELOPMENT AND COORDINATION

A. STATUTORY PROVISIONS.

The Public Employee Retirement Commission Act provides, in pertinent part:

Section 6. Powers and Duties.

(a) In general. - The Commission shall have the following powers and duties:

(1) To study generally the subject of retirement, income after retirement, disability and death benefits and the retirement needs of public employees. The Commission shall have responsibility to formulate principles and objectives applicable thereto and to recommend any new legislation it deems advisable.

(2) To analyze on its own or upon request from either the legislative or executive branch any bill relating to public employee retirement or pension policy and issue a report thereto in a timely fashion. Such report shall be submitted to the General Assembly and the Governor and shall include an assessment of the actuarial soundness, feasibility and cost of such legislation.

(9) To monitor and evaluate from time to time all the laws and systems thereunder which relate to public employee pension and retirement policy in the Commonwealth.

(10) To study the relationship of retirement and pension policy to other aspects of public personnel policy and to the effective operation of government generally.

(11) To examine the interrelationships among public employee pension and retirement systems throughout the State.

B. RESEARCH.

- **Pension Reform**

The Commission staff spent much of the legislative session in consultation with the Governor's administration and the legislature on various pension reform proposals that would have the potential to address the current pension funding issues facing the Public School

Employees' Retirement System and the State Employees' Retirement System. The actuarial notes included in this Annual Report represent only a fraction of the reform proposals that the Commission staff reviewed and offered insight into during the legislative session. In addition to the six actuarial notes that were attached to bills and amendments in 2014, the Commission staff issued over 90 Commission letters in response to actuarial note requests by legislators.

APPENDICES

This page intentionally left blank.

APPENDIX A

ADVISORY COMMITTEES AND CONSULTING ACTUARIES

Advisory Committees

Under Section 8 of the Public Employee Retirement Commission Act, the Commission appoints a Municipal Pension Advisory Committee and a Municipal Employee Pension Advisory Committee. Both advisory committees are appointed annually from nominations submitted by organizations of municipalities and municipal employees and meet with the Commission at least once each year to discuss the activities of the Commission and to present information or recommendations. The members of the advisory committees for calendar year 2014 and their sponsoring organizations were as follows:

MUNICIPAL PENSION ADVISORY COMMITTEE

Dr. Lee J. Janiczek
PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP COMMISSIONERS

Mr. Ronald Grutza
PENNSYLVANIA STATE ASSOCIATION OF BOROUGHS

Ms. Amy C. Sturges
PENNSYLVANIA MUNICIPAL LEAGUE

Ms. Diane Calhoun
PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP SUPERVISORS

Mr. Craig Lehman
COUNTY COMMISSIONERS ASSOCIATION OF PENNSYLVANIA

Mr. Douglas E. Bilheimer
PENNSYLVANIA MUNICIPAL AUTHORITIES ASSOCIATION

MUNICIPAL EMPLOYEE PENSION ADVISORY COMMITTEE

Mr. Art Martynuska
PENNSYLVANIA PROFESSIONAL FIRE FIGHTERS' ASSOCIATION

Mr. Richard Costello
PENNSYLVANIA FRATERNAL ORDER OF POLICE

Mr. Michael Maguire
AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES

Chief Joseph F. Lawrence
PENNSYLVANIA CHIEFS OF POLICE ASSOCIATION

Mr. Steven R. Nickol
PENNSYLVANIA STATE EDUCATION ASSOCIATION

Consulting Actuaries

The actuarial services committee developed and adopted guidelines for providing actuarial services to the Commission on June 2, 1982. The guidelines establish the educational and experience standards for the selection of consulting actuaries. The engagement of multiple actuarial consultants was considered appropriate to provide the Commission with an enhanced scope of actuarial experience and a greater response capacity, and to avoid potential conflicts of interest. The actuarial consultants engaged by the Commission during 2014 were:

Conrad Siegel Actuaries
Mr. David H. Killick

Milliman, Inc.
Ms. Katherine A. Warren
Mr. Timothy J. Nugent

Cheiron, Inc.
Mr. Kenneth A. Kent

APPENDIX B

LEGISLATIVE PROCEDURES UNDER SECTION 7 OF THE PUBLIC EMPLOYEE RETIREMENT COMMISSION ACT

I. Implementation by the General Assembly.

A. At the beginning of each legislative session of the General Assembly, the Speaker of the House and the President Pro Tempore of the Senate formally advise the chairmen of each standing committee in their respective chamber of the actuarial review provisions implemented by Act No. 1981-66.

B. Both chambers of the General Assembly adopt procedures most consistent with their operating rules to ensure that committee approved bills or floor amended bills are not considered prior to receipt of an actuarial note from the Commission or the passage of 20 legislative days from the date of first consideration or adoption of the floor amendment.

1. Actuarial Note Requests for Committee Approved Bills.-

   The Committee chairman in either chamber of the General Assembly shall notify the Commission upon reporting a bill to the floor which proposes any change relative to a public employee pension system and request preparation of an actuarial note.

2. Actuarial Note Requests for Floor Amended Bills.-

   The majority leader of either chamber of the General Assembly shall request preparation of an actuarial note for the floor amended bill on behalf of the respective chamber. The Commission shall provide the actuarial note as expeditiously as possible.

3. Actuarial Note Requests for Bills Referred by Other Chamber.-

   When a committee in either chamber of the General Assembly approves without amendment a bill to the floor which has had an actuarial note attached in the other chamber, preparation of a new actuarial note is unnecessary. Where an amendment to the bill has been approved by the committee, the chairman shall notify the Commission and request preparation of a new actuarial note. The Commission shall provide the actuarial note as expeditiously as possible.

4. Actuarial Note Requests from the House or Senate Appropriations Committees.-

   Whenever a request is received by the Commission from the chairman of either the House Appropriations Committee or the Senate Appropriations Committee for an actuarial note on a bill in the possession of the committee, the Commission shall formally authorize preparation of the actuarial note, as opposed to an advisory note, and transmit the actuarial note to the requesting committee as expeditiously as possible.

II. Response by the Commission.

A. The Commission acknowledges receipt of requests for the preparation of actuarial notes for committee approved bills and floor amended bills to the presiding officer of the requesting chamber of the General Assembly within 48 hours.

B. The Commission transmits the requested actuarial notes to the presiding officer of each chamber of the General Assembly as promptly as possible, recognizing that the 20 legislative days permitted for the preparation of actuarial notes is a maximum rather than a norm. Where there are no substantive actuarial or policy implications, the Commission will communicate that fact as the requested actuarial note.

C. The Commission provides copies of the transmittals of the requested actuarial notes to the following:

1. the chairman and minority chairman of the requesting committee;
2. the majority and minority leaders;
3. the majority and minority whips;
4. the majority and minority caucus chairmen;
5. the majority and minority appropriation committee chairmen;
6. the prime sponsor of the bill;
7. the Secretary of the Senate;
8. the Chief Clerk of the House; and
9. the Director of the Legislative Reference Bureau.

D. Upon the request of the committee chairman, the Commission staff may whenever possible provide supplemental reviews for bills prior to consideration by a committee. The information is transmitted to the committee chairman and minority chairman. Such assistance may contain actuarial data, but is considered to be an "advisory note" not constituting or substituting for the required actuarial note.

E. The Commission staff provides advice and counsel to members of the General Assembly on relevant matters pertaining to retirement plan design, financing, and administration.

F. The Commission provides actuarial notes or advisory notes only to appropriate officials of the legislative and executive branches.

G. The Commission transmits notice of its meetings to the Secretary of the Senate and Chief Clerk of the House for publication on the Senate and House daily meeting calendars.

Adopted April 10, 1985.

APPENDIX C

BY-LAWS OF THE PUBLIC EMPLOYEE RETIREMENT COMMISSION

Title 4. Administration

Part XII. Public Employee Retirement Commission

Section 401.1. Definitions.

The following words and terms, when used in this part shall have the following meanings, unless the context clearly indicates otherwise:

Act - the act of July 9, 1981 (P. L. 208, No. 66), known as the "Public Employee Retirement Commission Act."

Advisory Committee - a municipal pension advisory committee established under the provisions of Section 8 of the Act.

Commission - the Public Employee Retirement Commission created under the Act.

Member - a member of the Commission.

Chapter 402. By-Laws

Section 402.1. Meetings

Meetings of the Commission shall be held as necessary at the call of the chairman, but in no case less than six times per year. Meetings shall be held on the dates and at the times and locations specified by the chairman in the notice of the meeting. Notices of meetings shall contain an itemized agenda in reasonable detail. Notice of meetings shall be given to all members in writing at least seven days prior thereto; provided that such notice may be given at least twenty-four hours prior to such meeting where deemed necessary by the chairman under the circumstances. The chairman shall call a meeting upon the request in writing of five or more members.

Section 402.2. Quorum and Voting.

Five members shall constitute a quorum for meetings. The majority vote of the members present at a meeting or otherwise entitled to vote pursuant to these By-Laws shall constitute official action of the Commission. In the event that one or more vacancy or long-term disability exists four members shall constitute a quorum. A Commission member who is a member of the Senate or House of Representatives of the Commonwealth of Pennsylvania may, from time to time, appoint a designee in writing. A designee may cast a vote for a member on any matter pending before the Commission relating to an agenda item; provided that the member has set forth in writing with reasonable particularity the position of the member on the agenda item and the vote of the designee is not inconsistent therewith. Otherwise, a member may only vote in person. The Commission may take official action on any matter properly before a meeting whether or not mentioned in the notice of the meeting.

Section 402.3. Open Meetings.

Meetings of the Commission shall be held and notice thereof shall be given in accordance to Act No. 1986-84 relating to public meetings, as applicable.

Section 402.4. Minutes.

Minutes shall be kept of all meetings of the Commission and shall be filed in the office of the Commission, subject to the Act of June 21, 1957 (P. L. 390) §§ 1-4, as amended, (65 P. S. §§ 66.1-66.4) relating to the inspection and copying of public records, as applicable.

Section 402.5. Officers.

The Commission shall annually elect a chairman, a vice-chairman and such other officers as it finds necessary or desirable at the first meeting of the Commission occurring in each calendar year. All such officers shall be members and shall serve until the election of a successor. Election shall also occur in the event of a vacancy in any office. The chairman shall preside over all meetings of the Commission at which he is present, or in his absence the vice-chairman, or in both of their absence a member chosen by the Commission. In the event that the Chairman is unable to act hereunder for any reason, the vice-chairman may do so.

Section 402.6. Office.

The Commission may establish an office for the use of the Commission in the conduct of its official business.

Section 402.7. Committees.

The Commission may, from time to time, establish such committees as it deems necessary or desirable in the conduct of its official business. Appointments to committees shall be made by the chairman. The term of each committee shall be coterminous with that of the chairman. For the purposes of this section, any liaison shall be deemed to be a committee.

Section 402.8. Advisory Committees.

The Commission shall appoint each advisory committee pursuant to the applicable law no later than the third meeting of the Commission occurring in each calendar year. The term of each advisory committee shall be for one calendar year or until the appointment of a successor, whichever occurs later.

Section 402.9. Budget.

The executive director of the Commission shall annually submit a proposed budget to the Commission for approval prior to the submission date under budget guidelines applicable to Commonwealth agencies.

Section 402.10. Miscellaneous.

The Commission may, from time to time, do such other things and take such other actions as it deems necessary or desirable in the conduct of its official business.

Section 402.11. Amendment.

The Commission may, from time to time, amend these By-Laws by majority vote of the members present at a meeting or otherwise entitled to vote pursuant to these By-Laws; provided that notice of the meeting shall have set forth at least the general nature of the amendment.

Revised November 17, 1987

This page intentionally left blank.

APPENDIX D

PUBLIC EMPLOYEE RETIREMENT COMMISSION

COMPREHENSIVE LIST OF 2013 - 2014 SESSIONS LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES AS OF DECEMBER 31, 2013

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 79 P. N. 58 (Harper)	The bill would amend the Constitution of the Commonwealth to increase the mandatory retirement age for justices, judges and justices of the peace from age 70 to age 75.	Introduced and referred to House Judiciary Committee	01/10/2013
		Commission Letter (P. N. 58)	03/08/2013
		First Consideration	05/14/2013
		Second Consideration	06/24/2013
		Re-referred to House Appropriations Committee	06/24/2013
		Third Consideration and Final Passage (156-44)	06/28/2013
		Referred to Senate Judiciary Committee	06/30/2013
		First Consideration	10/01/2013
		Second Consideration	10/02/2013
		Third Consideration and Final Passage (44-6)	10/15/2013
		Joint Resolution #3 of 2013	10/24/2013
H. B. 128 P. N. 126 (Haggerty)	City of Scranton, amending the Second Class City A Employee Pension Law, removing the statutory three year limit within which a member must commence employment with the city following military service in order to be eligible to purchase service credit for nonintervening military service and mandating that the city permit eligible active members to purchase up to five years of nonintervening military service credit.	Introduced and referred to House Urban Affairs Committee	01/16/2013
		First Consideration	06/03/2013
		Commission Letter (P. N. 126)	06/04/2013
		Second Consideration	06/17/2013
		Re-referred to House Appropriations Committee	06/17/2013
		Third Consideration and Final Passage (196-0)	06/18/2013
		Referred to Senate Finance Committee	06/24/2013
		First Consideration	05/05/2014
		Re-referred to Senate Appropriations Committee	05/07/2014
		Second Consideration	06/04/2014
		Third Consideration and Final Passage (50-0)	06/10/2014
		Signed by the Governor (Act 58 of 2014)	06/18/2014
H. B. 131 P. N. 128 (Haggerty)	City of Scranton, changing certain eligibility requirements for the purchase of nonintervening military service credit by members who are policemen or firemen by removing the requirement that the member must have become a city employee within three years of release of active duty and inserting language mandating that the city permit the purchase and crediting of certain military service.	Introduced and referred to House Urban Affairs Committee	01/16/2013
		First Consideration	06/03/2013
		Commission Letter (P. N. 128)	06/04/2013
		Second Consideration	06/17/2013
		Re-referred to House Appropriations Committee	06/17/2013
		Third Consideration and Final Passage (196-0)	06/18/2013
		Referred to Senate Finance Committee	06/24/2013

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 136 P. N. 130 (Keller, F.)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding definitions for "felony offense" and "crime of violence."	Introduced and referred to House State Government Committee First Consideration	01/16/2013 03/12/2013
H. B. 240 P. N. 253 (Petri)	PSERS, amending the Code to establish an optional defined contribution plan to be known as the Public School Employees' Optional Retirement Program for school employees hired on or after January 1, 2014.	Introduced and referred to House State Government Committee	01/23/2013
H. B. 242 P. N. 255 (Petri)	SERS, amending the Code to establish an optional defined contribution plan to be known as the State Employees' Optional Retirement Program for school employees hired on or after January 1, 2014.	Introduced and referred to House State Government Committee	01/23/2013
H. B. 253 P. N. 265 (Boyle)	Emergency and Law Enforcement Death Benefits Act (Act 101 of 1976), providing a death benefit for the spouse or beneficiary of a natural gas responder killed in the performance of duty.	Introduced and referred to House Veterans Affairs Emergency Preparedness Committee	01/23/2013
H. B. 356 P. N. 369 (Reed)	SERS, defining "campus police officer" and providing age 50 superannuation retirement benefits to certain campus police officers.	Introduced and referred to House State Government Committee	01/29/2013
H. B. 413 P. N. 423 (Krieger)	SERS, establishing a new voluntary retirement program applicable to any state legislator who first becomes a member of the General Assembly on or after December 1, 2014, or who is re-elected to serve as a member of the General Assembly beginning on or after December 1, 2014. Membership in the State Employees' Retirement System (SERS) would be prohibited for a state legislator who first becomes a member of the General Assembly on or after December 1, 2014. A current member who is re-elected to serve in the General Assembly beginning on or after December 1, 2014, would cease accruing service credit in SERS as of November 30, 2014, but would have the opportunity to elect membership in the new retirement program.	Introduced and referred to House State Government Committee	01/29/2013
H. B. 500 P. N. 522 (Sainato)	Emergency and Law Enforcement Death Benefits Act (Act 101 of 1976), providing a death benefit for the spouse or beneficiary of a member of the Pennsylvania Civil Air Patrol.	Introduced and referred to House Veterans Affairs and Emergency Preparedness Committee First Consideration Floor amendment adopted Second Consideration	02/04/2013 02/11/2013 09/24/2014 09/24/2014

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
		Re-referred to House Appropriations Committee	09/24/2014
		Third Consideration and Final Passage (196-0)	10/06/2014
		Referred to Senate Veterans Affairs and Emergency Preparedness Committee	10/07/2014
H. B. 546 P. N. 2595 (Turzai)	Second Class County Code, amending the definition of "compensation" to exclude overtime pay in excess of 10% of pay from the calculation of a member's retirement benefit; increasing the superannuation requirement for new members to age 60 with 25 years of service; increasing the vesting period to 10 years; further providing for the calculation of retirement allowances; and further providing for membership of the Allegheny County Retirement Board.	Introduced and referred to House Finance Committee	02/05/2013
		First Consideration	02/06/2013
		Actuarial Note (P. N. 580)	03/08/2013
		Second Consideration	03/12/2013
		Re-referred to House Appropriations Committee	03/12/2013
		Third Consideration and Final Passage (189-7)	03/13/2013
		Referred to Senate Finance Committee	03/15/2013
		Reported as amended	10/23/2013
		First Consideration	10/23/2013
		Commission Letter (P. N. 2595)	10/24/2013
		Second Consideration	11/13/2013
		Re-referred to Senate Appropriations Committee	11/13/2013
		Third Consideration and Final Passage (50-0)	12/10/2013
		Re-referred to House Rules Committee	12/11/2013
		House concurred in Senate amendments (194-3)	12/16/2013
		Signed by the Governor (Act 125 of 2013)	12/23/2013
H. B. 567 P. N. 629 (Sonney)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), amending the special municipal taxing authority for financially distressed municipal pension systems to tax only residents of the municipality.	Introduced and referred to House Finance Committee	02/08/2013
H. B. 686 P. N. 783 (Goodman)	PSERS, expanding the membership of the PSERS Board of Trustees and providing for the appointment of designees.	Introduced and referred to House Education Committee	02/13/2013
H. B. 711 P. N. 803 (Baker)	Pennsylvania Conservation Corps Act (Act 112 of 1984), beginning July 1, 2013, providing for membership in SERS for Pennsylvania Conservation Corps "crewleaders," and authorizing the provision of state healthcare benefits for crewleaders.	Introduced and referred to House State Government Committee	02/13/2013
H. B. 712 P. N. 804 (Baker)	PSERS and SERS, beginning July 1, 2011, amending the SERS Code to provide for optional membership in SERS for "crewleaders" employed pursuant to the PA Conservation Corps Act (Act 112 of 1984). The bill	Introduced and referred to House State Government Committee	02/13/2013

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	also amends the PSERS and SERS Codes to provide for the purchase of up to five years of nonschool or nonstate service credit for service as a crewleader with the PA Conservation Corps rendered prior to July 1, 2011, provided the member elects to purchase the service within three years of becoming eligible to do so and the member pays the full actuarial cost of the benefit enhancement.		
H. B. 761 P. N. 873 (Evankovich)	SERS, amending the Code to establish an optional defined contribution plan to be known as the Legislative Agency Official and Employee Defined Contribution Benefit Program, a voluntary retirement program applicable to members of the General Assembly or employees of a legislative agency who first become members of the System on or after November 30, 2014.	Introduced and referred to House State Government Committee	02/25/2013
H. B. 1021 P. N. 1214 (Simmons)	PSERS and SERS, beginning with the 2012-2013 fiscal year, if there is a surplus in the General Fund at the end of the fiscal year, 50% of the surplus shall be transferred in proportion to the current unfunded actuarial accrued liabilities of the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS).	Introduced and referred to House Appropriations Committee	03/19/2013
H. B. 1037 P. N. 1235 (Mullery)	SERS, amending the definition of "enforcement officer" to include officers of the Pennsylvania Game Commission.	Introduced and referred to House State Government Committee	03/20/2013
H. B. 1132 P. N. 1381 (Mundy)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding to the list of criminal offenses any offense relating to theft by unlawful taking or disposition.	Introduced and referred to House State Government Committee	04/08/2013
H. B. 1134 P. N. 1383 (Grell)	PSERS, amending the Military and PSERS Codes to bring PSERS into compliance with the following Federal laws: 1) the Heroes Earning 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 Â§414(u)].	Introduced and referred to House Finance Committee	04/08/2013
H. B. 1204 P. N. 1509 (Grell)	PSERS, amends Section 8507(h) of the PSERS Code to insure a member's eligibility to collect an annuity and preserves the tax-qualified status of PSERS.	Introduced and referred to House Education Committee	04/16/2013

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 1277 P. N. 1999 (Adolph)	SERS, making an appropriation from the State Employees' Retirement Fund in the amount of $21,002,000, to provide for expenses of the State Employees' Retirement Board for the fiscal year beginning July 1, 2013.	Introduced and referred to House Appropriations Committee	04/30/2013
		Reported as amended	06/10/2013
		First Consideration	06/10/2013
		Re-referred to House Rules Committee	06/10/2013
		Second Consideration	06/19/2013
		Re-referred to House Appropriations Committee	06/19/2013
		Third Consideration and Final Passage (199-0)	06/27/2013
		Referred to Senate Appropriations Committee	06/28/2013
		First Consideration	06/28/2013
		Second Consideration	06/29/2013
		Third Consideration and Final Passage (50-0)	06/30/2013
		Signed by the Governor (Act 4A of 2013)	07/09/2013
H. B. 1278 P. N. 2000 (Adolph)	PSERS, making an appropriation from the Public School Employees' Retirement Fund in the amount of $41,689,000, to provide for expenses of the Public School Employees' Retirement Board for the fiscal year beginning July 1, 2013.	Introduced and referred to House Appropriations Committee	04/30/2013
		Reported as amended	06/10/2013
		First Consideration	06/10/2013
		Re-referred to House Rules Committee	06/10/2013
		Second Consideration	06/19/2013
		Re-referred to House Appropriations Committee	06/19/2013
		Third Consideration and Final Passage (199-0)	06/27/2013
		Referred to Senate Appropriations Committee	06/28/2013
		First Consideration	06/28/2013
		Second Consideration	06/29/2013
		Third Consideration and Final Passage (50-0)	06/30/2013
		Signed by the Governor (Act 5A of 2013)	07/09/2013
H. B. 1323 P. N. 1704 (Briggs)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), amending the definition of "professional services contract" to exclude municipal pension systems with less than 100 active members.	Introduced and referred to House Local Government Committee	05/06/2013
		First Consideration	06/25/2014
		Re-referred to House Rules Committee	06/25/2014
H. B. 1350 P. N. 1760 (Ross)	PSERS and SERS, amending the Codes of both Systems to: 1) Modify the employer contribution limits to PSERS and SERS enacted under Act 120 of 2010, by further limiting the rate at which employer contributions may rise from year to year. The bill proposes to reduce the current collared contribution rate of 4.5% for the upcoming fiscal year to 2.25%, and to further limit the contribution rate increase by no more than 0.50% per year until July 1, 2018, at which point the collared contribution rate	Introduced and referred to House State Government Committee	05/09/2013
		Advisory Note (P. N. 1760)	05/31/2013
		Addendum to Advisory Note (P. N. 1760)	06/11/2013

returns to the 4.5% collared rate; 2) Effective July 1, 2015, establish a defined contribution retirement benefit plan under a new chapter of the PSERS Code, Chapter 84, called the School Employees' Defined Contribution (DC) Plan. All new school employees or employees returning after a break in service would become participants in the new plan. Membership in the PSERS' defined benefit retirement plan would be closed to all new or returning employees. School employees participating in the DC plan would contribute 7.5% of compensation with an employer contribution of 4% of compensation; 3) Effective January 1, 2015, establish a defined contribution retirement benefit plan under a new chapter of the SERS Code, Chapter 54, called the State Employees' Defined Contribution (DC) Plan. Most new State employees or employees returning after a break in service will become participants in the new plan. Membership in the SERS' defined benefit retirement plan would be closed to all new or returning employees. Most State employees participating in the DC plan would contribute 6.25% of pay with an employer contribution of 4% of compensation. For hazardous duty employees (excluding Capitol police and park rangers), the employer contribution rate would be 5.5% of compensation. For State police officers, the employer contribution rate would be 12.2% of compensation; 4) Modify benefits for active members of both Systems (with the exception of members subject to Act 120 of 2010) by creating new classes of membership for current school and State employees effective July 1, 2015, in the case of PSERS, and January 1, 2015, in the case of SERS. Most current members in PSERS would receive a reduced benefit accrual rate of 2.0% with a corresponding employee contribution of 7.5% of compensation. Most current members in SERS would receive a reduced benefit accrual rate of 2.0% with a corresponding employee contribution of 6.25% of compensation. The new classes of service would be for prospective service only; 5) For current members of both Systems who select the Option 4 lump-sum withdrawal upon retirement after Ju-

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	ly 1, 2015, in the case of PSERS, and January 1, 2015, in the case of SERS, modify the manner of determining the net annuity to make the option actuarially cost neutral to the Systems for all employee contributions made after the year 2015; 6) For all service performed or first credited on or after July 1 ,2015, in PSERS, and January 1, 2015, in SERS, modify the calculation of "Final Average Salary" from the average of the highest three years of service to the average of the highest five years; 7) Further limit pensionable compensation for members to not exceed 110% of the average of the four preceding years of pensionable compensation for Final Average Salary calculation purposes; and 8) Cap the pensionable compensation for Final Average Salary at the Social Security wage base ($113,700 in 2013).		
H. B. 1352 P. N. 2151 (Kampf)	PSERS, amending the Public School Employees' Retirement Code to: 1) Add a new chapter, Chapter 84, titled "School Employees' Defined Contribution Plan." Chapter 84 would establish a mandatory defined contribution plan for public school employees whose most recent period of public school service starts on or after July 1, 2015. Employer contributions to the plan would be equal to 4% of salary, with a mandatory employee contribution of 4% of salary; 2) Permit current PSERS members to elect to participate in the defined contribution plan prospectively, with a 4% employer contribution and 4% employee contribution for all subsequent school service; 3) Modify the calculation of "final average salary" applicable to current PSERS members from the average of the highest three years of service to the average of the highest five years for all service performed or first credited on or after July 1, 2015; 4) For service performed or credited to current members on or after July 1, 2015, further limit pensionable compensation to not exceed 110% of the average of the four preceding years of pensionable compensation for final average salary calculation purposes; and 5) For current members of the System who elect the Option 4 lump-sum withdrawal upon retirement after July 1, 2015, modify the manner	Introduced and referred to House State Government Committee **Actuarial Note (P. N. 1846)** Reported as amended First Consideration Re-referred to House Rules Committee **Commission Letter (A. 06977)**	05/17/2013 06/25/2013 06/25/2013 06/25/2013 06/25/2013 05/29/2014

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	of determining the net annuity to make the option actuarially cost neutral to the System for all employee contributions made after the year 2015.		
H. B. 1353 P. N. 2152 (Kampf)	SERS, amending the State Employees' Retirement Code to: 1) Add a new chapter, Chapter 54, titled "State Employees' Defined Contribution Plan." Chapter 54 would establish a mandatory defined contribution plan for state employees whose most recent period of state service starts on or after January 1, 2015. Employer contributions to the plan would be equal to 4% of salary for most employees, with a mandatory employee contribution of 4% of salary; 2) Permit current SERS members to elect to participate in the defined contribution plan prospectively, with a 4% employer contribution and 4% contribution for all subsequent state service; 3) For current members of the System who elect the Option 4 lump-sum withdrawal upon retirement after January 1, 2015, modify the manner of determining the net annuity to make the option actuarially cost neutral to the System for all employee contributions made after the year 2015; 4) Modify the calculation of "final average salary" applicable to current SERS members from the average of the highest three years of service to the average of the highest five years for all service performed or first credited on or after January 1, 2015; and 5) For service performed or credited to current members on or after January 1, 2015, limit pensionable compensation for members to not exceed 110% of the average of the four preceding years of pensionable compensation for final average salary calculation purposes.	Introduced and referred to House State Government Committee	05/17/2013
		Reported as amended	06/25/2013
		First Consideration	06/25/2013
		Actuarial Note (P. N. 1847)	06/25/2013
		Re-referred to House Rules Committee	06/25/2013
		Commission Letter (A. 02680)	09/12/2013
		Commission Letter (A. 02735)	09/12/2013
		Commission Letter (A. 02782)	09/12/2013
		Actuarial Note (A. 02634, 02717, 02750)	09/18/2013
		Commission Letter (A. 02775)	09/24/2013
		Commission Letter (A. 02777)	09/24/2013
		Commission Letter (A. 02758)	10/10/2013
		Commission Letter (A. 02761)	10/10/2013
		Commission Letter (A. 02766)	10/10/2013
		Commission Letter (A. 02773)	10/10/2013
		Actuarial Note (A. 06917, 07089, 07096)	05/28/2014
		Commission Letter (A. 06976)	05/29/2014
		Commission Letter (A. 07099)	05/29/2014
		Commission Letter (A. 07418)	06/09/2014
		Commission Letter (A. 07321)	06/09/2014
		Commission Letter (A. 07397)	06/09/2014
		Commission Letter (A. 07165)	06/10/2014
		Commission Letter (A. 07447)	06/10/2014
		Commission Letter (A. 07580)	06/11/2014
		Commission Letter (A. 07142)	06/11/2014
		Commission Letter (A. 07147)	06/11/2014
		Commission Letter (A. 07161)	06/11/2014
		Commission Letter (A. 07149)	06/11/2014
		Commission Letter (A. 07184)	06/11/2014
		Commission Letter (A. 07186)	06/11/2014
		Commission Letter (A. 07614)	06/13/2014
		Commission Letter (A. 07377)	06/13/2014
		Commission Letter (A. 07679)	06/16/2014
		Commission Letter (A. 07470)	06/17/2014
		Commission Letter (A. 07612)	06/17/2014
		Commission Letter (A. 07716)	06/17/2014
		Commission Letter (A. 07829)	06/19/2014
		Commission Letter (A. 07835)	06/19/2014
		Commission Letter (P. N. 2152)	06/19/2014
		Commission Letter (A. 07872)	06/23/2014
		Commission Letter (A. 08109)	06/25/2014
		Commission Letter (A. 08111)	06/25/2014
		Commission Letter (A. 08110)	06/26/2014
		Actuarial Note (A. 07160)	06/27/2014
		Commission Letter (A. 08590)	06/27/2014
		Commission Letter (A. 08561)	06/28/2014
		Commission Letter (A. 08273)	06/28/2014
		Commission Letter (A. 08274)	06/28/2014
		Commission Letter (A. 08759)	06/30/2014
		Commission Letter (A. 08798)	06/30/2014

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
		Commission Letter (A. 08799)	06/30/2014
		Commission Letter (A. 08795)	06/30/2014
		Commission Letter (A. 08858)	06/30/2014
		Commission Letter (A. 07139)	06/30/2014
		Commission Letter (A. 07158)	06/30/2014
		Commission Letter (A. 08553)	06/30/2014
		Commission Letter (A. 08559)	06/30/2014
		Commission Letter (A. 09008)	07/01/2014
		Recommitted to House Human Services Committee	07/01/2014
		Commission Letter (A. 07144)	07/25/2014
		Commission Letter (A. 07152)	07/25/2014
		Commission Letter (A. 07154)	07/25/2014
		Commission Letter (A. 07156)	07/25/2014
		Commission Letter (A. 07159)	07/25/2014
		Commission Letter (A. 07162)	07/25/2014
		Commission Letter (A. 07163)	07/25/2014
		Commission Letter (A. 07166)	07/25/2014
		Commission Letter (A. 07168)	07/25/2014
		Commission Letter (A. 07169)	07/25/2014
		Commission Letter (A. 07170)	07/25/2014
		Commission Letter (A. 07173)	07/25/2014
		Commission Letter (A. 07174)	07/25/2014
		Commission Letter (A. 07175)	07/25/2014
		Commission Letter (A. 07178)	07/25/2014
		Commission Letter (A. 07181)	07/25/2014
		Commission Letter (A. 07182)	07/25/2014
		Commission Letter (A. 07188)	07/25/2014
		Commission Letter (A. 07198)	07/25/2014
		Commission Letter (A. 08416)	07/25/2014
		Commission Letter (A. 08418)	07/25/2014
		Commission Letter (A. 08420)	07/25/2014
		Commission Letter (A. 08422)	07/25/2014
		Commission Letter (A. 08447)	07/25/2014
		Commission Letter (A. 07471)	07/25/2014
		Actuarial Note (A. 07223, 09253)	07/30/2014
		Commission Letter (A. 09245)	07/31/2014
		Commission Letter (A. 09261)	07/31/2014
		Commission Letter (A. 09262)	07/31/2014
		Commission Letter (A. 09263)	07/31/2014
		Commission Letter (A. 07599)	08/13/2014
		Commission Letter (A. 07842)	08/13/2014
		Commission Letter (A. 07869)	08/13/2014
		Commission Letter (A. 07143)	08/20/2014
		Commission Letter (A. 07146)	08/20/2014
		Commission Letter (A. 07155)	08/20/2014
		Commission Letter (A. 09310)	08/20/2014
		Commission Letter (A. 09316)	08/20/2014
		Commission Letter (A. 09333)	08/20/2014
		Commission Letter (A. 09341)	08/28/2014
		Commission Letter (A. 09342)	08/28/2014
		Commission Letter (A. 09343)	08/28/2014
		Commission Letter (A. 09345)	08/28/2014
		Commission Letter (A. 09357)	08/28/2014
		Actuarial Note (A. 07405, 07449, 07849)	10/07/2014

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 1405 P. N. 1828 (Tallman)	An Act, creating the School Pension Liability Assistance Act, to provide monies to school districts based on the total pension liability of a school district and the local taxing effort of the local school district. The School Pension Liability Assistance Fund will be funded through appropriations and return on the money in the fund.	Introduced and referred to House Education Committee	05/15/2013
H. B. 1453 P. N. 1881 (Caltagirone)	An Act, establishing the Public School Employees' Benefit Board as an independent administrative board for public school employees and annuitants. The Act would require the Board to do the following: 1) Conduct a school employee health benefits study; 2) Examine future cost forecasts and collect data necessary to create a program that will reduce long-term costs for public school entities; and 3) Provide for a statewide health benefit program and a retirement health savings program.	Introduced and referred to House Education Committee	05/28/2013
H. B. 1471 P. N. 1911 (McGinnis)	PSERS and SERS, requiring that the annual financial statements for both Systems include a "mark-to-market" balance sheet, and the discount rate used to determine the market value of each System's liabilities on the balance sheet shall be the yield on 20-year U.S. Treasury Separate Trading of Registered Interest and Principal Securities (STRIPS).	Introduced and referred to House State Government Committee **Commission Letter (P. N. 1911)** First Consideration	06/03/2013 06/14/2013 01/28/2014
H. B. 1496 P. N. 1978 (Haluska)	SERS, authorizing the purchase of nonstate service credit for certain previous employment in the mining industry.	Introduced and referred to House State Government Committee	06/10/2013
H. B. 1518 P. N. 2025 (O'Neill)	PSERS, amending the Code to: 1) credit the annuity reserve account with "actual interest," which the bill defines as the difference between the Fund's earnings and the actuarial assumed rate of return (currently 7.5%), instead of the currently mandated "valuation interest," defined in the Code as 5.5% and which is credited to all accounts (including the annuity reserve account) except for the members' savings account which is credited at 4%; 2) changing the amortization period for COLA liabilities from the currently mandated 10-year level dollar to 20-year level dollar; and 3) beginning July 1, 2004, and annually thereafter, provide an automatic COLA to all annuitants of the System who retired on or before	Introduced and referred to House State Government Committee	06/12/2013

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	July 1, 2014, and equal to the lesser of 3% or the increase in CPI during the previous year.		
H. B. 1545 P. N. 2149 (Boback)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding to the list of criminal offenses several offenses committed against the elderly or children. The bill also amends the act to require public employees or public officials who upon entering a plea of guilty or are found guilty by a jury to forfeit their pension benefits.	Introduced and referred to House Judiciary Committee Reported as amended First Consideration Re-referred to House Rules Committee	06/18/2013 06/25/2013 06/25/2013 06/25/2013
H. B. 1581 P. N. 2146 (Grove)	An Act, establishing a new "cash balance" retirement benefit plan applicable to all full-time police officers and firefighters hired by boroughs, townships and cities (except for the City of Philadelphia) within the Commonwealth on or after January 1, 2013. Member contributions would be equal to 6% of pay for members participating in Social Security and 9% of pay for members not participating in Social Security. The employer "crediting rate" would be equal to 4.5% of pay. Members would become fully vested in the employer contributions after 12 years of service. Members would attain superannuation age upon age 55 with 25 years of service. Existing municipal defined benefit plans would be closed to any new members after the effective date of the act. Current members of the plans would be unaffected by the new cash balance plan.	Introduced and referred to House Finance Committee Re-referred to House Local Government Committee **Advisory Note (P. N. 2146)**	06/25/2013 09/30/2013 12/24/2013
H. B. 1611 P. N. 2222 (Daley)	SERS, permits an active member of SERS to retire during the period of February 28, 2014, through June 2, 2014, with 30 years of service, or with a combination of years of service and age that when added together total 80, without the member's annuity being reduced on account of a retirement age that is under superannuation age. The bill would entitle an eligible member to insurance coverage under contract of insurance affecting the member that is in effect on the member's effective date of retirement. The bill would also temporarily require that 60% of the "net savings cost" realized from the replacement of retiring members be deducted from the required reimbursement to each agency and be transmitted to the State Employees' Retirement Fund.	Introduced and referred to House Finance Committee Re-referred to House State Government Committee	07/15/2013 09/30/2013

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 1612 P. N. 2223 (Daley)	PSERS, permits active members of PSERS to retire during the period of February 28, 2014, through June 2, 2014, with 30 years of service, or with a combination of years of service and age that when added together total 80, without the member's annuity being reduced on account of a retirement age that is under superannuation age. The bill would entitle an eligible member to insurance coverage under a contract of insurance affecting the member that is in effect on the member's effective date of retirement. The bill would also temporarily require that 60% of the "net savings cost" realized from the replacement of retiring members be deducted from the required reimbursement to each school district and be transmitted to the Public School Employees' Retirement Fund.	Introduced and referred to House Finance Committee	07/15/2013
H. B. 1645 P. N. 2268 (Gibbons)	PSERS and SERS, providing a supplemental annuity (COLA) to eligible annuitants, commencing with the first monthly annuity payment after July 1, 2013, with percentage increases ranging from 20% to 100%, depending upon the member's date of retirement and paid over a five-year period. An eligible annuitant is defined as any superannuation, withdrawal or disability annuitant who is receiving an annuity on July 1, 2012, and whose most recent effective date of retirement is prior to July 1, 2001. Annuitants with creditable service in Class T-D, Class D-4 or Class AA service would not be eligible to receive the supplemental annuity.	Introduced and referred to House State Government Committee	08/23/2013
H. B. 1651 P. N. 2282 (Grell)	An Act, amending the Pennsylvania Municipal Retirement Law (Act 15 of 1974) to establish the Statewide Municipal Police Officers Pension Plan. The plan would require mandatory membership as an Article IV-A member for any municipal police officers hired on or after January 1, 2014, excluding police officers hired by a city of the first or second class. Employer contributions to the plan would be equal to 7.5% of salary, with a mandatory employee contribution of 7.5% of salary. An Article IV-A member would be eligible for an annual benefit accrual rate of 2.5%, not to exceed 65% of the member's final salary. Membership in the plan for mu-	Introduced and referred to House Local Government Committee **Advisory Note (P. N. 2282)**	08/29/2013 11/07/2013

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	nicipal police officers hired on or before December 31, 2013, will be optional.		
H. B. 1708 P. N. 3717 (Tobash)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), amending the act to provide, beginning in fiscal year 2014-15 and each year thereafter, up to 0.25% of the amount deposited in the General Municipal Pension System State Aid Program to the Public Employee Retirement Commission for the costs and expenses directly related to the Commission's duties. The bill would also amend the act to require municipal pension systems with less than 100 active members to use a request for proposal process rather than being required to develop and implement bidding procedures for entering into professional services contracts.	Introduced and referred to House Local Government Committee Reported as amended First Consideration **Commission Letter (P. N. 3717)**	09/26/2013 06/11/2014 06/11/2014 06/25/2014
H. B. 1752 P. N. 2467 (Murt)	Municipal Police Pension Law (Act 600 of 1955), permitting members to purchase service credit for up to five years of previous part-time service.	Introduced and referred to House Local Government Committee **Advisory Note (P. N. 2467)**	10/11/2013 12/24/2013
H. B. 1849 P. N. 2703 (Barbin)	PSERS and SERS, amending the Act of June 9, 1936, known as the Johnstown Flood Tax Act, to provide for the funds collected by the tax from January 1, 2016, through December 31, 2020, to be distributed equally between the State Employees' Retirement Fund and the Public School Employees' Retirement Fund. The bill would phase out the collection of the tax by January 1, 2021.	Introduced and referred to House Liquor Control Committee	11/21/2013
H. B. 1927 P. N. 2834 (Gibbons)	SERS, permitting the purchase of up to five years of nonstate service credit by a member of the Pennsylvania State Police for previous service as a municipal police officer.	Introduced and referred to House State Government Committee	12/19/2013
H. B. 2273 P. N. 3586 (Costa, D.)	Second Class County Code, amending the Code to provide for a retirement allowance plus a service increment to any police officer, firefighter, county detective, sheriff or deputy sheriff who incurs a permanent impairment in the line of duty, regardless of age or years of service.	Introduced and referred to House Local Government Committee	05/28/2014
H. B. 2284 P. N. 3599 (Adolph)	PSERS, making an appropriation from the Public School Employees' Retirement Fund in the amount of $41,689,000, to provide for expenses of the Public School Employees' Retirement Board for the fiscal year beginning July 1, 2014.	Introduced and referred to House Appropriations Committee First Consideration Re-referred to House Rules Committee Second Consideration	05/29/2014 06/11/2014 06/11/2014 06/23/2014

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
		Re-referred to House Appropriations Committee	06/23/2014
		Third Consideration and Final Passage (202-0)	06/24/2014
		Referred to Senate Appropriations Committee	06/25/2014
		First Consideration	06/26/2014
		Second Consideration	06/27/2014
		Third Consideration and Final Passage (50-0)	06/30/2014
		Signed by the Governor (Act 6A of 2014)	07/10/2014
H. B. 2285 P. N. 3600 (Adolph)	SERS, making an appropriation from the State Employees' Retirement Fund in the amount of $22,303,000, to provide for expenses of the State Employees' Retirement Board for the fiscal year beginning July 1, 2014.	Introduced and referred to House Appropriations Committee	05/29/2014
		First Consideration	06/11/2014
		Re-referred to House Rules Committee	06/11/2014
		Second Consideration	06/23/2014
		Re-referred to House Appropriations Committee	06/23/2014
		Third Consideration and Final Passage (202-0)	06/24/2014
		Referred to Senate Appropriations Committee	06/25/2014
		First Consideration	06/26/2014
		Second Consideration	06/27/2014
		Third Consideration and Final Passage (50-0)	06/30/2014
		Signed by the Governor (Act 7A of 2014)	07/10/2014
H. B. 2307 P. N. 3964 (Santarsiero)	An Act, amending the Pennsylvania Municipal Retirement Law (Act 15 of 1974) to require annuitants of PMRS to obtain spousal consent of any benefit payment structure that does not provide at least a 50% survivor benefit.	Introduced and referred to House Finance Committee	07/30/2014
H. B. 2308 P. N. 3965 (Santarsiero)	PSERS and SERS, amending the Codes of both Systems to require annuitants of PSERS and SERS to obtain spousal consent of any benefit payment structure that does not provide at least a 50% survivor benefit.	Introduced and referred to House Finance Committee	07/30/2014
H. B. 2421 P. N. 3957 (Petri)	PSERS and SERS, amending the Codes for current members of both Systems who select the Option 4 lump-sum withdrawal upon retirement after July 1, 2015, in the case of PSERS, and January 1, 2015, in the case of SERS, by modifying the manner of determining the net annuity to make the option actuarially cost neutral to the Systems for all employee contributions made after the year 2015.	Introduced and referred to House State Government Committee	07/29/2014
		Actuarial Note (P. N. 3957)	10/17/2014

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 2518 P. N. 4167 (Bloom)	SERS, amending the Code to allow State employees who are optional members of the System the option to elect to discontinue active membership in the System. The election must be made within 90 days after the effective date of the bill, or before the member terminates State service, whichever occurs first.	Introduced and referred to House State Government Committee	09/23/2014
H. R. 88 P. N. 716 (Milne)	A resolution directing the Public Employee Retirement Commission (PERC), along with PSERS and SERS, to conduct a comprehensive study of the respective State-sponsored pension systems.	Introduced and referred to House State Government Committee	02/11/2013
H. R. 701 P. N. 3153 (Mustio)	PSERS and SERS, encouraging the Systems' pension fund fiduciaries to support protection of all pension fund members by embracing new technology capable of uncovering National Best Bid and Offer violations through forensic analysis.	Introduced and referred to House State Government Committee	03/13/2014
S. B. 2 P. N. 183 (Browne)	An Act, would amend Title 71 (State Government) by adding a new part, Part 27, titled "Unified Contribution Pension Plan." Chapter 71 of Part 27 would establish a new mandatory retirement system applicable to newly hired school and state employees and employees reentering public service after December 31, 2013. The new retirement system established by the bill, known as the Public Employees' Retirement System (PERS), would be a defined contribution (DC) pension plan with an employer matching 6% contribution rate.	Introduced and referred to Senate Finance Committee	01/22/2013
S. B. 147 P. N. 100 (Ward)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding to the list of criminal offenses any offense relating to the unlawful contact with a minor, reaching a felony level of third degree or higher.	Introduced and referred to Senate Finance Committee	01/15/2013
S. B. 283 P. N. 202 (White, D.)	SERS, establishing a new voluntary retirement program applicable to any state legislator who first becomes a member of the General Assembly on or after December 1, 2014, or who is re-elected to serve as a member of the General Assembly beginning on or after December 1, 2014. Membership in the State Employees' Retirement System (SERS) would be prohibited for a state legislator who first becomes a member of the General As-	Introduced and referred to Senate Finance Committee	01/24/2013

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	sembly on or after December 1, 2014. A current member who is re-elected to serve in the General Assembly beginning on or after December 1, 2014, would cease accruing service credit in SERS as of November 30, 2014, but would have the opportunity to elect membership in the new retirement program.		
S. B. 289 P. N. 208 (Erickson)	Emergency and Law Enforcement Death Benefits Act (Act 101 of 1976), providing a death benefit for the spouse or beneficiary of an ambulance service or rescue squad member working for a hospital killed in the performance of duty.	Introduced and referred to Senate Labor and Industry Committee	01/24/2013
S. B. 319 P. N. 230 (Farnese)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding to the list of criminal offenses any offense that requires registration under 42 PA.C.S. Sec. 9795.1 (relating to registration).	Introduced and referred to Senate Finance Committee	01/25/2013
S. B. 396 P. N. 332 (Solobay)	SERS, permitting the purchase of nonstate service for certain periods of previous service as a mine worker.	Introduced and referred to Senate Finance Committee	02/04/2013
S. B. 447 P. N. 393 (Solobay)	Title 71 (State Government), defining "Commonwealth firefighter or firefighter instructor" and providing age 50 superannuation retirement benefits to certain Commonwealth firefighters or firefighter instructors.	Introduced and referred to Senate Finance Committee	02/07/2013
S. B. 456 P. N. 1251 (Blake)	An Act, amending the Tax Reform Code of 1971 to establish the "Innovate in PA" program which would provide for the structured auctioning of insurance premium tax credits. Auction proceeds would then be distributed to a number of economic development programs. The bill contains a "hold harmless" provision that would require the State Treasurer to transfer from the General Fund into the General Municipal Pension System State Aid revenue account under Section 402(b) of Act 205 an amount equal to the amount of tax credits claimed by insurance companies who pay the Foreign Casualty Insurance Premium Tax and Foreign Fire Insurance Premium Tax.	Introduced and referred to Senate Finance Committee Reported as amended First Consideration **Commission Letter (P. N. 1251)** Second Consideration Re-referred to Senate Appropriations Committee	04/01/2013 06/19/2013 06/19/2013 06/20/2013 06/20/2013 06/24/2013
S. B. 463 P. N. 584 (Stack)	Emergency and Law Enforcement Death Benefits Act (Act 101 of 1976), providing a death benefit for the spouse or beneficiary of a natural gas responder killed in the performance of duty.	Introduced and referred to Senate Veteran Affairs and Emergency Preparedness Committee	03/06/2013

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
S. B. 493 P. N. 457 (Vance)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding definitions for "infamous crime."	Introduced and referred to Senate Finance Committee	02/13/2013
S. B. 703 P. N. 708 (Blake)	City of Scranton, changing certain eligibility requirements for the purchase of nonintervening military service credit by members who are policemen or firemen by removing the requirement that the member must have become a city employee within three years of release of active duty and inserting language mandating that the city permit the purchase and crediting of certain military service.	Introduced and referred to Senate Finance Committee **Actuarial Note (P. N. 708)** First Consideration Re-referred to Senate Appropriations Committee Second Consideration Third Consideration and Final Passage (50-0) Referred to House Urban Affairs Committee First Consideration Second Consideration Re-referred to House Appropriations Committee Third Consideration and Final Passage (199-0) Signed by the Governor (Act 64 of 2014)	03/15/2013 05/16/2013 10/02/2013 10/22/2013 12/03/2013 12/10/2013 12/12/2013 01/15/2014 01/28/2014 01/28/2014 06/10/2014 06/18/2014
S. B. 704 P. N. 709 (Blake)	City of Scranton, amending the Second Class City A Employee Pension Law, removing the statutory three year limit within which a member must commence employment with the city following military service in order to be eligible to purchase service credit for nonintervening military service and mandating that the city permit eligible active members to purchase up to five years of nonintervening military service credit.	Introduced and referred to Senate Finance Committee **Actuarial Note (P. N. 709)** First Consideration Re-referred to Senate Appropriations Committee Second Consideration Third Consideration and Final Passage (50-0) Referred to House Urban Affairs Committee First Consideration	03/15/2013 05/16/2013 10/02/2013 10/22/2013 12/03/2013 12/10/2013 12/12/2013 01/15/2014
S. B. 730 P. N. 762 (McIlhinney)	SERS, amending the definition of "enforcement officer" to include officers of the Pennsylvania Game Commission.	Introduced and referred to Senate Finance Committee	03/26/2013
S. B. 742 P. N. 772 (Leach)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), amending the definition of "professional services contract" to exclude municipal pension systems with less than 100 active members.	Introduced and referred to Senate Finance Committee **Actuarial Note (P. N. 772)**	03/26/2013 05/16/2013
S. B. 791 P. N. 812 (Costa)	Second Class County Code, amending the definition of "compensation" to exclude overtime pay in excess of 10% of pay from the calculation of a member's retirement benefit; increasing the superannuation requirement for new members to age 60 with 25 years of service; increasing the vesting period to 10 years; further providing for the calculation of retirement allowances; and further providing for	Introduced and referred to Senate Finance Committee **Actuarial Note (P. N. 812)**	04/01/2013 09/18/2013

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	membership of the Allegheny County Retirement Board.		
S. B. 797 P. N. 1148 (Browne)	PSERS, amending the Military and PSERS Codes to bring PSERS into compliance with the following Federal laws: 1) the Heroes Earning 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 Â§414(u)].	Introduced and referred to Senate Finance Committee	04/01/2013
		First Consideration	05/01/2013
		Re-referred to Senate Appropriations Committee	05/06/2013
		Actuarial Note (P. N. 817)	05/16/2013
		Reported as amended	06/03/2013
		Commission Letter (P. N. 1148)	06/04/2013
		Second Consideration	06/04/2013
		Third Consideration and Final Passage (50-0)	06/05/2013
		Referred to House Finance Committee	06/10/2013
		First Consideration	06/18/2013
		Second Consideration	06/20/2013
		Re-referred to House Appropriations Committee	06/20/2013
		Third Consideration and Final Passage (202-0)	06/29/2013
		Signed by the Governor (Act 32 of 2013)	07/01/2013
S. B. 798 P. N. 818 (Browne)	PSERS, entitling members of the System who are granted leave for military service on or after July 1, 2013, to receive credit in PSERS for the leave.	Introduced and referred to Senate Finance Committee	04/01/2013
		First Consideration	05/01/2013
		Re-referred to Senate Appropriations Committee	05/06/2013
		Actuarial Note (P. N. 818)	05/16/2013
		Second Consideration	06/04/2013
		Third Consideration and Final Passage (50-0)	06/05/2013
		Referred to House Finance Committee	06/10/2013
		First Consideration	06/18/2013
		Second Consideration	06/20/2013
		Re-referred to House Appropriations Committee	06/20/2013
		Third Consideration and Final Passage (202-0)	06/29/2013
		Signed by the Governor (Act 33 of 2013)	07/01/2013
S. B. 887 P. N. 987 (Kasunic)	PSERS and SERS, mandating the payment of annual CPI-based COLAs to eligible annuitants of both Systems beginning July 1, 2013.	Introduced and referred to Senate Finance Committee	04/26/2013
S. B. 888 P. N. 988 (Kasunic)	PSERS and SERS, amending the Codes of both systems to, beginning July 1, 2011, provide for mandatory, permanent, bi-annual cost-of-living adjustments equal to the change in CPI and payable to all annuitants of both systems.	Introduced and referred to Senate Finance Committee	04/26/2013
S. B. 890 P. N. 990 (Kasunic)	An Act establishing the Annual Municipal Employee Postretirement Adjustment Act, mandating the payment	Introduced and referred to Senate Finance Committee	04/29/2013

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	of annual cost-of-living adjustments to all retired municipal employees of any borough, city, incorporated town or township by municipal retirement systems in amounts equal to the change in the CPI up to a maximum of 5% annually; mandating actuarial funding and reporting pursuant to Act 205; establishing a separate postretirement adjustment ledger account; providing for funding of the postretirement adjustments by deducting the required sums from funds available for General Municipal Pension System State Aid; and making repeals.		
S. B. 917 P. N. 1031 (Argall)	PSERS and SERS, authorizing certain annuitant associations to obtain annuitant data from the system for the purpose of promoting membership in the annuitant associations.	Introduced and referred to Senate Finance Committee	05/06/2013
S. B. 922 P. N. 2227 (Brubaker)	SERS, amending the Code to establish a mandatory defined contribution retirement benefit plan effective January 1, 2015, under a new chapter of the SERS Code, Chapter 54, called the State Employees' Defined Contribution (DC) Plan. Only “elected officials” who are elected, re-elected, or retained to a term of office that begins on or after January 1, 2015, will become participants in the new plan. Elected officials are defined as the Governor, the Lieutenant Governor, members of the General Assembly, members of the Judiciary, the Attorney General, the Auditor General, and the Treasurer. After the effective date, elected officials would be prohibited from joining or continuing membership in the traditional defined benefit (DB) retirement plan offered by SERS, and instead would automatically be enrolled in the new DC plan. All other school and State employees would retain membership eligibility in PSERS and SERS and be entitled to the current DB benefit provisions provided under the Codes. Additionally, the bill calls for the creation of a task force to develop and make recommendations that may be implemented to address the unfunded liabilities of the Systems.	Introduced and referred to Senate Finance Committee Reported as amended First Consideration Second Consideration Re-referred to Senate Appropriations Committee **Actuarial Note (A. 02498)** **Commission Letter (A. 08126)** **Commission Letter (A. 07914)** Reported as amended Third Consideration and Final Passage (50-0) Referred to House Finance Committee	05/15/2013 06/19/2013 06/19/2013 06/20/2013 06/20/2013 06/26/2013 06/26/2014 06/28/2014 06/29/2014 06/30/2014 07/01/2014
S. B. 1078 P. N. 2187 (Wiley)	County Pension Law (Act 96 of 1971), amending the Law to further provide that triennial cost-of-living adjustments (COLAs) do not need to be cal-	Introduced and referred to Senate Finance Committee First Consideration **Actuarial Note (P. N. 1707)**	01/16/2014 04/02/2014 05/01/2014

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	culated retroactively to the date of the previous COLA approved by the board and do need to apply the cost-of-living index change for each year since such previous COLAs.	Re-referred to Senate Appropriations Committee	05/06/2014
		Reported as amended	06/24/2014
		Commission Letter (P. N. 2187)	06/25/2014
		Second Consideration	06/25/2014
		Third Consideration and Final Passage (50-0)	06/27/2014
		Referred to House Finance Committee	06/29/2014
		First Consideration	09/15/2014
		Commission Letter (A. 09464)	09/18/2014
S. B. 1169 P. N. 1563 (Folmer)	PSERS, amends the Code by prohibiting associations that receive membership dues from a public school entity (such as the Pennsylvania School Boards Association) from being recognized as a "governmental entity." Employees hired after the effective date of the bill would be ineligible to become members of PSERS and receive a retirement benefit from the System.	Introduced and referred to Senate Finance Committee	11/15/2013
		First Consideration	04/02/2014
		Commission Letter (P. N. 1563)	05/08/2014
		Second Consideration	06/18/2014
S. B. 1271 P. N. 1817 (Hughes)	PSERS and SERS, authorizing the Boards of both Systems to employ individuals as legal advisors in order to represent the interests of the Systems.	Introduced and referred to Senate Finance Committee	03/12/2014
S. B. 1389 P. N. 2065 (Corman)	SERS, making an appropriation from the State Employees' Retirement Fund in the amount of $22,303,000, to provide for expenses of the State Employees' Retirement Board for the fiscal year beginning July 1, 2014.	Introduced and referred to Senate Appropriations Committee	06/02/2014
		First Consideration	06/09/2014
		Second Consideration	06/10/2014
		Third Consideration and Final Passage (48-0)	06/16/2014
		Referred to House Appropriations Committee	06/18/2014
S. B. 1390 P. N. 2066 (Corman)	PSERS, making an appropriation from the Public School Employees' Retirement Fund in the amount of $41,689,000, to provide for expenses of the Public School Employees' Retirement Board for the fiscal year beginning July 1, 2014.	Introduced and referred to Senate Appropriations Committee	06/02/2014
		First Consideration	06/09/2014
		Second Consideration	06/10/2014
		Third Consideration and Final Passage (48-0)	06/16/2014
		Referred to House Appropriations Committee	06/18/2014
S. B. 1474 P. N. 2266 (Teplitz)	PMRS, amends the Pennsylvania Municipal Retirement Law (Act 15 of 1974) to require annuitants of municipal pension plans to obtain spousal consent of any benefit payment structure that does not provide at least a 50% survivor benefit.	Introduced and referred to Senate Finance Committee	09/15/2014

APPENDIX E

CONCISE INDEX TO ACTUARIAL NOTES

Page

STATE EMPLOYEES' RETIREMENT SYSTEM (SERS)