PUBLIC EMPLOYEE RETIREMENT COMMISSION

2015 ANNUAL REPORT

Commonwealth of Pennsylvania

2015

Annual Report

of the

Public Employee Retirement Commission

Public Employee Retirement Commission
Commonwealth of Pennsylvania
January 2016

PUBLIC EMPLOYEE RETIREMENT COMMISSION

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COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
HARRISBURG
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January 25, 2016

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 2015.

During 2014, the Commission authorized the attachment of nine 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 2015 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-third 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 2015.

Sincerely,

John T. Durbin
Chairman

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Dedication

The members of the Public Employee Retirement Commission and its staff dedicate this thirty-third annual public report to

Christ J. Zervanos

Mr. Zervanos was appointed as a member of the Public Employee Retirement Commission on November 14, 2001, and served faithfully and conscientiously in the capacity of vice chairman and member until his resignation on February 6, 2015.

During Mr. Zervanos' tenure, the Commission issued more than 200 actuarial notes on proposed public employee pension legislation and issued numerous policy development reports to the Governor and the General Assembly.

The Public Employee Retirement Commission expresses its sincere appreciation to Mr. Zervanos for his technical expertise on public pension issues and for his professional dedication and commitment to the Commission, its staff, and the citizens of the Commonwealth, and wishes him the best of health and happiness in his retirement.

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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 $247 million in 2015.

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 thirtieth report issued on a calendar year basis, and the fifth 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 2015.

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DUTIES AND RESPONSIBILITIES

OF THE COMMISSION

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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 2015 ACTIVITY.

During 2015, the Commission authorized the attachment of nine actuarial notes to bills and amendments at the request of the General Assembly. In addition, the Commission's staff provided the General Assembly with three advisory notes.

C. SYNOPSES OF ADVISORY NOTES.

- <u>Senate Bill Number 755, Printer's Number 1017</u>. At the request of Senator Patrick M. Browne, Majority Chairman, Senate Appropriations Committee, on September 4, 2015, the Commission staff provided an advisory note on Senate Bill Number 755, Printer's Number 1017. Senate Bill Number 755, Printer's Number 1017, would amend Title 53 (Municipalities Generally) to add a new chapter, Chapter 93, titled "Municipal Alternative Retirement Plan." Chapter 93 would authorize, but not require, affected municipalities to establish alternative defined contribution (DC) retirement plans for newly hired full-time police officers of boroughs, towns, townships or regional police departments employing three or more full-time police officers, and all newly hired full-time police officers and firefighters of any city, excluding the City of Philadelphia. Under the bill, the employee contribution would be 6% of total compensation for a member who pays into Social Security or 9% of total compensation for a member who does not pay into Social Security. The municipal contribution would be 4.5% of a member's total compensation. Additionally, members of the DC plans may participate in a supplemental deferred

C. SYNOPSES OF ADVISORY NOTES. (CONT'D)

compensation plan established by the municipality under Section 457(b) of the IRS Code.

- House Bill Number 32, Printer's Number 1205**.** At the request of Representative Kate M. Harper, Majority Chairman, House Local Government Committee, on September 8, 2015, the Commission staff provided an advisory note on House Bill Number 32, Printer's Number 1205. House Bill Number 32, Printer's Number 1205, would amend the Pennsylvania Municipal Retirement Law (Act 15 of 1974) to establish the "Statewide Municipal Police Officers' Pension Plan" ("Plan"). The Plan would require mandatory membership in the Pennsylvania Municipal Retirement System (PMRS) as an Article IV-A member for any municipal police officer hired on or after January 1, 2016, excluding police officers hired by a city of the first or second class. Employer contributions to the plan would be no less than 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 municipal police officers hired on or before December 31, 2015, will be optional.

- House Bill Number 974, Printer's Number 1230. At the request of Representative Kate M. Harper, Majority Chairman, House Local Government Committee, on September 21, 2015, the Commission staff provided an advisory note on House Bill Number 974, Printer's Number 1230. House Bill Number 974, Printer's Number 1230, would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to create a new chapter, Chapter 12, entitled "The Financially Distressed Municipal Pension Recovery Plans and Trusteeship of Distressed Pension Program," that would require severely distressed municipal pension plans to develop a recovery plan to provide for a reduction from severely distressed to moderately distressed in a period of no more than 10 years. Any such recovery plan must be approved by the Public Employee Retirement Commission (Commission). If a municipality fails to comply with the plan, the Commission would be empowered to exercise certain remedies to resolve the noncompliance; including petitioning the Office of the Auditor General to begin proceedings to place the affected municipal pension plan(s) into trusteeship.

D. 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 1, Printer's Number 886

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

Subject: Retirement Benefit Reform

SYNOPSIS

Senate Bill Number 1, Printer's Number 886, would amend the Public School Employees' Retirement Code, the State Employees' Retirement Code and the Military Code. The bill would impose a series of significant retirement benefit changes upon the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) as follows: 1) establish a Defined Contribution (DC) retirement benefit plan applicable to most new members of both PSERS and SERS; 2) add a Cash Balance retirement benefit tier to the existing Defined Benefit (DB) structure that will be mandatory for new members and optional for pre-2016 active members; and 3) modify the future benefit entitlements of current members of both PSERS and 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 (DB) 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, 2014, there were approximately 789 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 2014, 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, 2014, there were 263,312 active members and 213,900 annuitant members of PSERS, and as of December 31, 2014, there were 104,431 active members and 122,249 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 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

There are two predominate approaches to pension plan design employed in the public and private sectors to provide employee retirement benefits. In a traditional “defined benefit” (DB) 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 DB 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 DB plans are largely insulated from both negative and positive fluctuations of the investment markets.

By contrast, in a “defined contribution” (DC) pension plan, such as the plan proposed in the bill as amended for new or returning school and State employees, 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 DC 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 DB and DC approaches is most significant in the placement of the risk associated with investment earnings over the period of employment. The fixed benefit in a DB 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 DC 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 DB plan, and the employee bears the investment risk in a DC 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.

Cash Balance Retirement Benefit Plan

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

A cash balance plan is classified as a defined benefit plan because the employer bears the post-retirement 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 DB 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 Modifications Affecting New School and State Employees

The bill would establish "side-by-side" hybrid retirement benefit plans applicable to most public employees hired by school or State employers within the Commonwealth beginning July 1, 2016, in the case of PSERS, and January 1, 2016, in the case of SERS. The hybrid retirement plans would be comprised of two components: 1) a defined contribution plan; and 2) a cash balance (CB) benefit tier added to the existing defined benefit structure. The new governmental defined contribution retirement plans, known as the School Employees' Defined Contribution Plan and the State Employees' Defined Contribution Plan ("Plans"), would supplement the defined benefit plans provided by PSERS and SERS for new school and State employees. Membership in both PSERS' and SERS' traditional defined benefit tiers would be closed to new entrants effective July 1, 2016, for PSERS, and January 1, 2016, for SERS, and replaced with new cash balance provisions. Current members of PSERS and SERS would retain membership in the Systems, with the exception of members of the General Assembly, as detailed below. Members who return following a break in service would still remain members of their respective classes in the Systems.

Current active member of PSERS or SERS may elect to become a participant in the components of the new hybrid plans of the respective Systems, in addition to their mandatory membership in the PSERS' and SERS' DB plans. Pre Act-120 members of PSERS and SERS would have the option to elect membership in the new cash balance plan. For post Act-120 members of PSERS and SERS, they would have the option to elect membership in both the cash balance plan and the defined contribution plan for compensation earned over the Social Security wage base. This would be, in effect, a "stacked" hybrid pension plan for these members, offering additional benefits on top of the traditional defined benefit plan already provided by the Systems.

The bill mandates the creation of the hybrid retirement plans, directs the PSERS and SERS Boards to 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.

Defined Contribution Plan

New school employees shall be known as Class T-I members and would contribute 3% of compensation with an employer contribution of 2.59% of compensation to the DC plan. State employees who participate in the new DC plan would contribute 3% of compensation with an employer contribution of 4% of compensation. For hazardous duty employees (including Capitol Police and park rangers), the employer contribution rate would be 5.5% of compensation. For Pennsylvania State Police Officers, the employer contribution rate would be 12.2% of compensation. Members of the General Assembly who are re-elected to the General Assembly or a new member of the General Assembly first elected on or after January 1, 2016, would become mandatory members of the new side-by-side hybrid plan.

A participant in the Plans may make up to 3% additional contributions to the Plans. 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 Board may pool the assets of the participants in the Plans.

A participant in the Plans would become fully vested in the employer-matching contributions after four years of employment (50% vested after 2 years and 75% vested after 3 years). The employee's contributions would vest immediately.

Cash Balance Plan

New school employees hired on or after July 1, 2016, and most new state employees hired on or after January 1, 2016, would also become mandatory participants in a new cash balance plan. As part of the new side-by-side hybrid plan, participants from PSERS would become members of Class T-I and participants from SERS would become members of Class CB. Mandatory participants in the cash balance plan would contribute 3% of compensation with no additional employer contributions.

The members' cash balance accounts will be credited with interest at the rate paid by 30-year Treasury bonds, but not more than 4%. In addition to the 30-year Treasury bond interest, starting in 2019, excess interest may be credited on the prior year-end balances in the members' cash balance accounts. One-half of the net returns on the cash balance accounts in excess of the investment return assumptions will be allocated to eligible cash balance tier members. PSERS and SERS will retain the remaining one-half of the net returns for funding benefits.

Upon termination of school or State service, members may receive a full or partial lump sum of the full cash balance value of their individual account (employee and credited employer contribution, 30-year Treasury bond interest and excess interest), which can be rolled over into another account to the extent the IRS allows, or a single life annuity actuarially equivalent to the value of all the employer and employee contributions and interest in their cash balance accounts, or the portion not withdrawn.

Although the new cash balance plans are different in structure from the traditional defined benefit plans already established in the Systems, the new members of Class T-I in PSERS and Class CB in SERS would continue to be a part of the existing defined benefit systems in PSERS and SERS, but as a new class of service with a different tier of benefits.

Treatment of Educational Employees

Under current law, "school employees" (employees and officers of the Pennsylvania State System of Higher Education [PASSHE] institutions and the Department of Education, 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 (SERS) or the Public School Employees' Retirement System (PSERS). 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 directs 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, eligible employees would continue to have the option of electing the alternative retirement plan rather than the new hybrid DC/CB plans 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 side-by-side hybrid plans and significantly lower employee contributions (currently set at 5% by contract), it's likely that most future eligible employees would choose the more attractive plan.

Benefit Modifications Applicable to Current Members of PSERS

Class T-D members of PSERS (Pre Act-120 employees)

Current members of Class T-D in PSERS will become Class T-G members for all service performed or purchased on or after July 1, 2016. Class T-D members who now pay an employee contribution rate of 7.5% will contribute 10.5% of compensation as members of Class T-G. Class T-G members will retain the 2.5% benefit accrual rate and all other benefits of a Class T-D membership.

Alternatively, Class T-D members have 180 days from the effective date of the act to opt out of Class T-G and become a member of Class T-H. Class T-H members would instead contribute 6.25% of compensation and receive a 2% benefit accrual rate for all service performed or purchased on or after July 1, 2016, but would retain all other benefits of a class T-D membership. Class T-G would be the default selection for a member of Class T-D after July 1, 2016, and a member would be required to timely elect into Class T-H before the 180-day election period ends. Opting down to the lower benefit accrual rate would be a one-time irrevocable election.

Class T-G members would be subject to a shared risk provision, tying the member's contribution rate to the investment performance of the System. Every three years, the System would 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. If the actual rate is equal to or more than the assumed rate, the total member contribution rate will decrease by ½%. The shared risk provision will have a 6% corridor, with the maximum rate set at 10.5% and the minimum rate set at 4.5%.

Class T-E & T-F members of PSERS (Post Act-120 employees)

Current members of Class T-E and T-F in PSERS who exceed the Social Security taxable wage base ($118,500 as of 2015) can become optional members of the new DC and cash balance plans for compensation earned over the Social Security wage base. Optional members can contribute from 0% up to 3% of compensation. The affected members would default into the cash balance plan at the same time they default into the DC plan. They can elect out of the cash balance plan at the same time they opt out of the DC plan. They cannot be in the cash balance plan without also participating in the DC plan.

Table 1
Benefit Changes for Public School Employees' Retirement System Members
Under Senate Bill No. 1

	Traditional DB Plan	Cash Balance Plan	Defined Contribution Plan
Class T-D (Pre Act-120 employees)	Become a member of Class T-G (10.5% employee contribution) with a 2.5% accrual rate, or opt-down to Class T-H (6.25% employee contribution) with a 2% accrual rate.	Up to 3% optional employee contribution. No employer contribution.	Not applicable.
Classes T-E & T-F (Post Act-120 employees)	Limited to income earned below the Social Security limit. Shared Risk corridor of 4%.	Optional employee contribution for income earned over the Social Security limit. No employer contribution.	Optional employee contribution for income earned over the Social Security limit. Employer contribution of 2.59%.
Class T-I (new hires as of July 1, 2016)	Not applicable.	Mandatory 3% employee contribution. No employer contribution.	Mandatory 3% employee contribution (plus up to 3% optional contribution) and an employer contribution of 2.59%

Benefit Modifications Applicable to Current Members of SERS

Class AA members of SERS (Pre Act-120 employees)

For all service performed or purchased on or after January 1, 2016, Class AA members in SERS who now pay an employee contribution rate of 6.25% will contribute 8.75% of compensation after the effective date of the act. Their 2.5% annual benefit accrual rate will remain the same for all future years of service.

Alternatively, Class AA members have 180 days from the effective date of the act to opt out of the contribution increase and instead contribute 5% of compensation and receive a 2% benefit accrual rate for all service performed or purchased on or after January 1, 2016. Future service with the higher employer contribution rate would be the default selection for a member of Class AA after January 1, 2016, unless a member elects to opt down into the lower contribution rate before the 180-day election period ends. Opting down to the lower benefit accrual rate would be a one-time irrevocable election.

Members of the General Assembly

Members of the General Assembly in Class D-4 would also be affected by the changes imposed upon current active members in the bill. For all service performed or purchased on or after January 1, 2016, Class D-4 members in SERS who now pay an employee contribution rate of 7.50% will contribute 10% of compensation after the effective date of the act. Their 3% annual benefit accrual rate would remain unchanged for all future years of service. Alternatively, Class D-4 members can make a one-time irrevocable election to opt down to a lower contribution rate of 5% of compensation with a corresponding benefit accrual rate of 2% of compensation.

Upon reelection, (after January 1, 2016) all current members of the General Assembly will cease to accrue benefits in SERS and instead will become mandatory participants in the defined contribution plan.

Class A-3 & A-4 members of SERS (Post Act-120 employees)

Current members of Class A-3 and A-4 in SERS who exceed the Social Security taxable wage base ($118,500 as of 2015) can become optional members of the new DC and cash balance plans for compensation earned over the Social Security wage base. Optional members can contribute from 0% up to 3% of compensation. The affected members would default into the cash balance plan at the same time they default into the DC plan. They can elect out of the cash balance plan at the same time they opt out of the DC plan. They cannot be in the cash balance plan without also participating in the DC plan.

Table 2
Benefit Changes for State Employees' Retirement System Members
Under Senate Bill No. 1

	Traditional DB Plan	Cash Balance Plan	Defined Contribution Plan
Class AA [1] (Pre Act-120 employees)	8.75% employee contribution with a 2.5% accrual rate, or opt-down to a 5% employee contribution with a 2% accrual rate.	Up to 3% optional employee contribution. No employer contribution.	Not applicable.
Classes A-3 & A-4 (Post Act-120 employees)	Limited to income earned below the Social Security limit. Shared Risk corridor of 4%.	Optional employee contribution for income earned over the Social Security limit. No employer contribution.	Optional employee contribution for income earned over the Social Security limit. Employer contribution of 4%. [2]
Class CB (new hires as of January 1, 2016)	Not applicable.	Mandatory 3% employee contribution. No employer contribution.	Mandatory 3% employee contribution and an employer contribution of 4%. [2]

Limitations on Final Average Salary

The bill proposes two new limits on compensation that may be used for purposes of calculating the retirement benefits for certain active members of PSERS and SERS. For members of Classes T-E and T-F in PSERS and Classes A-3 and A-4 in SERS, the bill proposes to limit the retirement compensation to be used in the calculation of the Final Average Salary to not exceed the Social Security taxable wage base ($118,500 as of 2015). The second change would apply only to active SERS members and would increase the period over which the member's final average salary may be calculated from three years to five years.

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 would amend the SERS Code to change the final average salary calculation from the average of the highest three to the average of the highest five years

[1] Class D-4 will contribute 10% of compensation with a continued 3% accrual rate. Alternatively, Class D-4 members can opt down to a lower contribution rate of 5% of compensation with a corresponding benefit accrual rate of 2% of compensation. Class E-1 or Class E-2 members of the judiciary will not have any changes in their employee contribution rate or benefit accrual rate.

[2] For hazardous duty employees (including Capitol Police and park rangers), the employer contribution rate would be 5.5% of compensation. For Pennsylvania State Police Officers, the employer contribution rate would be 12.2% of compensation.

of compensation for all service performed by current SERS members after the effective date of the bill.

Shared-Risk Provision

One of the major pension reforms imposed by Act 120 of 2010 was the implementation of a variable employee contribution rate, known as the "shared risk contribution rate" which is applicable to post-Act 120 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 compares 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 members 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 would make members of Class T-G in PSERS and Class AA in SERS who elect to remain at the higher benefit accrual rate subject to the shared-risk provision as well, with a corridor of 6% for the employee contribution rate.

Shared Gain Provision

For members of Class T-E and T-F in PSERS and Class A-3 and A-4 in SERS, there will be the addition of a shared gain provision that will allow the member's contribution rate to be reduced by up to 2% below the member's initial rate, under the same conditions established under Act 120 that the employee contribution rates could increase. Every three years, each System compares 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 more than the assumed rate by 1% or more, the total member contribution rate will decrease by ½% per year, up to a maximum total increase of 2.0%. If the actual rate is equal to or less than the assumed rate, the total member contribution rate will decrease by ½%. The same calculations will be used by both the shared-risk and shared-gain features (except in reverse directions) to move away from the base contribution rates and to move towards the base contribution rates.

Actuarially Neutral Option 4

In both PSERS and SERS, 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.

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 Classes 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 pre-Act 120 members of PSERS and SERS. However, the manner in which the Option 4 withdrawal is computed would be changed to make Option 4 actuarially cost neutral to the Systems for all service credited after the year 2016. For all service performed and credited before the year 2016 by pre-Act 120 active members of the Systems, the accumulated deduction calculation will remain unchanged.

Actuarial Funding Provisions

The bill would restructure the amortization period for SERS for the fiscal year beginning July 1, 2016. The bill would require the System to re-amortize all of the unfunded actuarial accrued liabilities of its pension trust fund. The liabilities would be reamortized over a 30-year period using level-dollar amortization payments. This "fresh start" of the amortization bases would have the effect of extending the amortization of the System's current pension liabilities, resulting in a reduction in the System's annual amortization contribution requirements.

For PSERS, the bill would require that beginning with the June 30, 2017, actuarial valuation, the 10-year asset averaging method be constrained to be within 30% of the market value of assets.

Normal Cost Calculation

Section 8328 of the PSERS Code and Section 5508 of the SERS Code specify similar 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 current employer normal cost for the average new member, or entrant, to the System is 4.95% of payroll (based upon Class A-3 new entrants). However, if enacted, the bill would decrease the employer normal cost rate (based upon Class CB entrants) to 0% of payroll. This would result in a diminished normal cost calculation that would tend to 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 higher annual benefit accruals. In the short term, the understated normal cost could 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.

According to the Commission's consulting actuary, the version of Entry Age Normal method used by PSERS' consulting actuary is consistent with GASB 67, but may not be consistent with the version intended by the bill's drafters. An alternative version of Entry Age Normal, known as "replacement life," would result in virtually no change in the actuarial accrued liability with any decrease in prospective benefits only impacting the determination of the normal cost. Under the methodology used by the consulting actuary for PSERS, decreases in prospective benefits for current members are recognized more slowly as they are amortized over 24 years rather than over the average working lifetime, but the total dollar savings may be higher as more interest would be reflected. The Commission's consulting actuary suggests the method used by the consulting actuary for PSERS be reviewed for consistency with the language included in the bill and the drafter's intent.

The bill would codify this interpretation of the PSERS normal contribution rate determination effective for the fiscal year beginning on July 1, 2016. The Commission's consulting actuary notes that §8328(b)(1) describes the normal contribution rate for the fiscal years beginning on (or before) June 30, 2015 and that §8328(b)(2) describes the normal contribution rate for the fiscal years beginning on July 1, 2016. As a result, the normal contribution rate for the fiscal year beginning July 1, 2015 and ending June 30, 2016 is not described. This oversight should be corrected, as appropriate, prior to the bill's enactment.

The Commission's consulting actuary believes that the normal cost determined for both PSERS and SERS should reflect the prospective benefits to be earned by the members in the System as of the valuation date, which is more consistent with PSERS' method or using a replacement life version of Entry Age Normal. As noted above, this is especially important if the reduced benefit classes are adopted for new members in order to avoid having a larger decrease in the normal cost for current members than the value of decreases in the benefit and a corresponding increase in the actuarial accrued liability. If this approach is to be used by SERS, the Commission's consulting actuary suggests changing the SERS Code to reflect this approach in determining the normal cost rate. The Commission's consulting actuary strongly encourages consideration of a modification in the method used by SERS.

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, there are no such special benefit provisions for these groups of employees.

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 and the case law regarding the special status of its members, if enacted, the bill is likely to be challenged in the courts.

There is also case law concerning altering the benefit provisions for members of the General Assembly or other State office-holders after being re-elected to office. In *Shiomos v. State Employees' Retirement Board,* 533 Pa. 558, 626 A. 2d 158 (1993), the Supreme Court held that a public official, at every new term of employment, renews his pension contract to include his new public service and to place at risk that which was already earned. A public official's re-election to office renews the official's employment contract subject to the law as it stands at the time the new term of office commences. [3]

Potential Contract Impairment

By altering the benefit provisions for members in PSERS and SERS on or after July 1, 2016, and January 1, 2016, respectively, it appears that the bill would be subject to challenge for impairment of the retirement benefit rights of active members of the 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). [4] *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). *Association of Pa. State College and University Faculties v. State System of Higher Education,* 505 Pa. 369, 479 A.2d 962 (1984). It is likely that affected employees will seek judicial action.

Ancillary Issues

Members of the Judiciary. There will not be any changes in the employee contribution rate or benefit accrual rate of Class E-1 or Class E-2 members of the judiciary. However, Class E-1 and Class E-2 members of the judiciary will be subject to the optional cash balance program participation, the change in the final average salary formula, and the actuarially neutral Option 4 withdrawal on post-December 31, 2015, member contributions and statutory interest on those contributions.

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. This includes a lack of disability benefits for work-related disabilities incurred by public safety employees.

Premium Assistance. Under the PSERS Code, premium assistance eligibility is determined based upon years of service credited in the System. New employees in Class T-I will remain eligible for post-retirement health insurance premium assistance now provided to eligible retired members. For purposes of eligibility, a Class T-I member will earn one eligibility point for each fiscal year in which the employee makes contributions.

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

[3] *Berkhimer v. State Employees' Retirement Board*, 2031 C.D. 2011

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

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, the accumulated contributions of a participant shall not be forfeited but will be made available for payment of any fines or restitution.

Miscellaneous Provisions

Public Pension Management and Asset Investment Review Commission. The bill would provide for the creation of a commission comprised of investment professionals and retirement advisors that would study, publish findings and make recommendations to the General Assembly and the Governor, as to: 1) the performance of current investment strategies and procedures of both state retirement systems as to realized rates of return against established benchmarks and associated fees paid for active and passive management; 2) the costs and benefits of active vs passive investment strategies in relation to future investment activities of both state retirement systems; 3) alternative future investment strategies of both state retirement systems which will maximize future realized net of fees rates of returns with available assets; and 4) extensive, detailed on-line publication of information about assets, returns, financial managers, all consultants, RFPs, and investment performance measured against benchmarks. The commission would include three members appointed by the Speaker of the House, the President Pro tempore of the Senate and the Governor. The commission would submit its recommendations to the Governor and the General Assembly within 6 months of its first organizational meeting.

Funding Protection Mandate. Each member of PSERS and SERS, after the current employer compensation schedule meets the full actuarial amount, will have a contractual right to the annual required contribution made by the employer or by any other public entity. The contractual right to the annual required contribution means that the employer or other public entity must make the annual required contribution on a timely basis and that the previously accrued retirement benefits to which the members have earned by statute will be paid upon retirement. The failure of the State or any other public employer to make the annually required contribution will be deemed to be an impairment of the contractual right of each employee. The Supreme Court will have jurisdiction over any action brought by a member of any system or fund or any board of trustees to enforce this contractual right. The State and other public employers will submit to the jurisdiction of the court and will not assert sovereign immunity in such an action. If a member or board prevails in such the court may award that party reasonable attorney's fees.

Contractual Benefit Rights of DC Plan Participants. Section 501 of Article 5 in the bill explicitly states that 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) Contributions to, participation in, or

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benefits from the Plans; and 3) Domestic relations orders regarding alternate payees of participants in the Plans.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill, the actuarial cost estimate provided to the Commission by Buck Consultants, the consulting actuary for PSERS (see attachments), and the actuarial cost estimate provided to the Commission by Hay Group, the consulting actuary for SERS (see attachments). The actuarial cost impact is shown in the following tables.

Tables 3 and 4 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. According to the consulting actuary for PSERS, the total cost savings for PSERS is projected to be $16.2 billion through 2048 on a cash flow basis and $5.9 billion on a present value basis. For SERS, the total cost savings is projected to be approximately $2 billion through Fiscal Year 2051-2052.

The estimated savings for PSERS shown in Table 3 are presented on two bases: a cash flow basis and a present value basis. Savings shown on a cash flow basis are simply the sums of the dollar amounts of reductions in the projected contributions the Commonwealth would have to make in future years if the proposed changes in System provisions are enacted. The calculation of savings on this basis makes no distinction between a dollar of projected savings in one future year and a dollar of savings in some other year in the nearer or more distant future. The calculation of savings on a present value basis, on the other hand, takes account of the time value of money and involves discounting projected reductions in contributions from the times they are expected to occur to June 30, 2015, at a rate of 7.50% (the assumed interest rate presently used in the annual actuarial valuations of the System) to reflect the time value of money.

Table 3
Public School Employees' Retirement System (PSERS)
Projection of Contribution Rates and Funded Ratios
Current PSERS vs. Senate Bill No. 1

	Total Employer Contribution Rate		Total Employer Contribution (Thousands)				Funded Ratio		Unfunded Accrued Liability (Millions)	
					Cost (Savings)					
Fiscal Year Ending June	Current	SB #1 DB + DC	Current	SB #1 DB + DC	Cash Flow Basis	Present Value as of June 30, 2015	Current	SB #1 DB + DC	Current	SB #1 DB + DC
2013	12.36%	12.36%					63.8%	63.8%	$32,598.6	$32,598.6
2014	16.93	16.93					62.0	62.0	35,121.2	35,121.2
2015	21.40	21.40	$2,885,148	$2,885,148	$0	$0	60.6	61.5	37,413.9	36,136.9
2016	25.84	25.84	3,456,100	3,456,100	0	0	59.6	60.5	39,412.8	38,040.0
2017	29.69	29.12	4,079,195	4,001,230	(77,965)	(67,466)	58.7	59.5	41,424.4	40,040.6
2018	30.62	26.85	4,316,593	3,784,891	(531,702)	(427,999)	58.4	59.0	42,871.0	41,478.6
2019	31.56	27.81	4,569,239	4,026,046	(543,194)	(406,744)	60.0	60.6	42,296.8	40,898.3
2020	32.23	28.51	4,794,454	4,241,735	(552,718)	(385,001)	61.7	62.2	41,603.7	40,202.2
2021	32.02	28.32	4,892,886	4,327,247	(565,639)	(366,512)	63.0	63.4	41,228.1	39,826.9
2022	31.90	28.21	5,005,091	4,425,785	(579,306)	(349,180)	64.7	64.9	40,395.1	38,998.0
2023	31.96	28.30	5,149,606	4,560,582	(589,025)	(330,267)	66.5	66.6	39,344.6	37,955.7
2024	31.90	28.29	5,276,635	4,679,381	(597,254)	(311,518)	68.1	68.1	38,382.2	37,006.1
2025	31.83	28.25	5,404,815	4,797,712	(607,103)	(294,563)	69.9	69.7	37,192.9	35,834.6
2026	31.90	28.36	5,555,781	4,939,375	(616,406)	(278,211)	71.8	71.5	35,741.5	34,406.5
2027	31.99	28.50	5,709,259	5,086,035	(623,223)	(261,663)	73.8	73.4	34,014.0	32,708.6
2028	32.10	28.65	5,865,715	5,234,596	(631,118)	(246,491)	75.9	75.4	31,999.5	30,730.3
2029	32.20	28.82	6,020,442	5,387,660	(632,783)	(229,898)	78.2	77.6	29,682.5	28,457.0
2030	32.31	28.99	6,178,835	5,543,276	(635,558)	(214,797)	80.6	79.9	27,032.1	25,858.4
2031	32.43	29.17	6,340,635	5,703,086	(637,549)	(200,437)	83.1	82.5	24,014.7	22,901.8
2032	32.58	29.37	6,509,681	5,868,979	(640,702)	(187,375)	85.8	85.2	20,597.9	19,555.4
2033	32.72	29.60	6,679,209	6,042,134	(637,075)	(173,316)	88.7	88.2	16,743.8	15,782.5
2034	32.88	29.82	6,856,314	6,217,348	(638,966)	(161,703)	91.8	91.4	12,411.6	11,543.2
2035	33.03	30.04	7,036,790	6,400,506	(636,285)	(149,790)	95.1	95.0	7,559.2	6,796.4
2036	18.12	15.20	3,943,950	3,308,710	(635,240)	(139,111)	96.6	96.5	5,418.8	4,775.5
2037	14.27	11.42	3,173,457	2,539,655	(633,801)	(129,112)	97.6	97.5	3,871.2	3,362.4
2038	12.46	9.69	2,831,765	2,202,016	(629,749)	(119,336)	98.4	98.4	2,529.3	2,171.7
2039	10.43	7.74	2,422,607	1,797,396	(625,211)	(110,211)	99.1	99.1	1,474.9	1,286.3
2040	8.80	6.17	2,090,021	1,464,510	(625,510)	(102,571)	99.6	99.5	654.8	654.8
2041	7.28	5.59	1,769,320	1,359,061	(410,258)	(62,580)	100.0	99.9	72.5	72.5
2042	5.93	4.33	1,476,104	1,078,904	(397,200)	(56,361)	100.2	100.2	(280.8)	(283.4)
2043	4.55	3.21	1,161,604	820,047	(341,556)	(45,084)	100.2	100.3	(362.3)	(418.1)
2044	4.14	3.04	1,085,716	798,382	(287,334)	(35,281)	100.2	100.4	(395.4)	(555.8)
2045	4.00	3.11	1,079,491	839,268	(240,224)	(27,439)	100.2	100.6	(428.1)	(753.3)
2046	3.88	3.17	1,079,385	881,100	(198,286)	(21,068)	100.2	100.7	(463.0)	(1,009.1)
2047	3.75	3.22	1,075,379	923,322	(152,057)	(15,029)	100.3	101.0	(500.9)	(1,326.7)
2048	3.62	3.27	1,070,100	966,091	(104,010)	(9,563)	100.3	101.2	(541.1)	(1,705.9)
			Total Cost/(Savings):		$(16,254,008)	$(5,915,676)				

Table 4
State Employees' Retirement System (SERS)
Projection of Contribution Rates and Funded Ratios
Current SERS vs. Senate Bill No. 1

	Total Employer Contribution Rate		Total Employer Contribution* (Millions)		Funded Ratio		Unfunded Accrued Liability (Billions)	
Fiscal Year	Current	SB #1 DB + DC	Current	SB #1 DB + DC	Current	SB #1 DB + DC	Current	SB #1 DB + DC
2012/2013	11.50	11.50	677.4	-	65.3	65.3	14.69	14.69
2013/2014	16.00	16.00	933.8	-	58.8	58.7	17.78	17.78
2014/2015	20.50	20.50	1,209.0	-	59.2	59.2	17.90	17.90
2015/2016	25.00	24.99	1,505.4	(0.6)	59.4	59.4	18.17	18.17
2016/2017	29.50	27.71	1,830.6	(111.9)	59.7	57.6	18.42	20.10
2017/2018	30.41	26.75	1,944.5	(345.7)	61.4	59.3	18.01	19.65
2018/2019	29.40	25.76	1,937.1	(585.7)	63.2	60.9	17.53	19.12
2019/2020	28.82	25.27	1,957.0	(826.8)	64.2	61.8	17.35	18.96
2020/2021	28.15	24.69	1,970.0	(1,068.9)	65.4	62.7	17.07	18.70
2021/2022	27.52	24.14	1,984.4	(1,312.4)	66.6	63.6	16.77	18.43
2022/2023	26.92	23.63	2,000.2	(1,557.0)	67.8	64.5	16.45	18.15
2023/2024	26.34	23.13	2,016.9	(1,802.3)	68.9	65.3	16.12	17.86
2024/2025	25.78	22.66	2,034.0	(2,048.3)	70.0	66.1	15.76	17.54
2025/2026	25.23	22.20	2,051.7	(2,294.9)	71.2	67.0	15.37	17.21
2026/2027	24.70	21.75	2,070.0	(2,542.0)	72.3	67.8	14.94	16.84
2027/2028	24.19	21.32	2,089.0	(2,789.7)	73.5	68.6	14.48	16.45
2028/2029	23.69	20.91	2,108.5	(3,037.5)	74.8	69.4	13.98	16.03
2029/2030	23.21	20.51	2,128.6	(3,285.5)	76.0	70.3	13.44	15.58
2030/2031	22.74	20.12	2,149.3	(3,533.3)	77.3	71.2	12.85	15.10
2031/2032	22.29	19.75	2,170.7	(3,780.7)	78.7	72.1	12.22	14.57
2032/2033	21.85	19.39	2,192.8	(4,027.2)	80.1	73.1	11.54	14.01
2033/2034	21.42	19.05	2,215.6	(4,273.0)	81.6	74.2	10.79	13.41
2034/2035	21.01	18.71	2,239.0	(4,518.4)	83.1	75.3	9.99	12.76
2035/2036	20.61	18.38	2,263.2	(4,763.6)	84.7	76.5	9.13	12.07
2036/2037	20.22	18.05	2,288.2	(5,009.0)	86.4	77.8	8.19	11.32
2037/2038	19.84	17.74	2,314.0	(5,254.7)	88.2	79.2	7.18	10.51
2038/2039	19.48	17.43	2,340.5	(5,500.5)	90.1	80.7	6.09	9.65
2039/2040	19.12	17.13	2,367.9	(5,746.7)	92.1	82.4	4.91	8.72
2040/2041	15.06	16.84	1,921.8	(5,519.8)	94.2	84.2	3.63	7.72
2041/2042	12.13	16.54	1,595.7	(4,940.1)	95.7	86.3	2.73	6.64
2042/2043	8.86	16.25	1,200.8	(3,939.0)	96.7	88.5	2.11	5.48
2043/2044	6.85	15.96	957.1	(2,667.7)	97.2	91.0	1.87	4.24
2044/2045	6.67	15.67	959.9	(1,372.5)	97.2	93.7	1.87	2.91
2045/2046	6.42	15.39	952.1	(42.6)	97.2	96.8	1.89	1.47
2046/2047	6.18	4.29	944.6	(332.0)	97.1	100.2	1.95	(0.07)
2047/2048	6.30	4.33	992.4	(642.2)	97.0	100.1	2.06	(0.03)
2048/2049	6.44	4.37	1,045.5	(978.6)	96.9	100.1	2.14	(0.04)
2049/2050	6.42	4.40	1,072.9	(1,315.4)	96.8	100.1	2.21	(0.06)
2050/2051	6.43	4.44	1,108.6	(1,659.6)	96.8	100.1	2.29	(0.06)
2051/2052	6.44	4.47	1,144.4	(2,009.9)	96.7	100.2	2.37	(0.07)

*Savings shown are cumulative.

POLICY CONSIDERATIONS

In reviewing the bill, the Commission staff 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). As written, the active member benefit modifications proposed in the bill may be found to impair the benefit rights of the affected active members.

Benefit Value and Security. The hybrid plans proposed in the bill would provide new public school and State employees with a retirement income that is likely to be less valuable, predictable and secure than that provided by the traditional DB pension plans. Retirement planning based on projected DC/cash balance account balances is likely to be less predictable and involve greater individual attention to risk management than participation in a traditional DB plan. Policymakers must determine the appropriateness of such a change in the Commonwealth's public pension policy.

Delegation of Legislative Authority. The bill empowers the Boards of both Systems to develop the details of major DC and cash balance plan design elements and administrative details by rule or regulation. Policymakers must determine if the broad powers afforded the Boards constitutes an appropriate delegation of legislative authority.

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, there are no such special benefit provisions for these groups of employees. The uniform benefit level under the bill 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. The bill 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 disability or retirement provisions.

Alternative Retirement Benefit. It is recommended that the policymakers review the provisions of Section 5301(a)(12) of the SERS Code and the appropriateness of continuing that separate benefit structure unchanged.

Judicial Benefits. The Supreme Court of the Commonwealth has 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. Based upon the independent status of the judiciary in Pennsylvania and the case law regarding the special status of its members, if enacted, the bill is likely to be challenged in the courts.

Renewal of Pension Contract. In *Shiomos v. State Employes' Retirement Board,* 533 Pa. 588, 626 A.2d 158 (1993), the Supreme Court held that a public official, at every new elected term of office, renews his pension contract subject to the law in effect when the new term of office commences. While this case, and the subsequent decisions that follow its holding, specifically relates to Section 3 of the Public Employee Pension forfeiture Act, 1978, July 8, P. L. 752, No. 140, 43 P.S. § 1313(c), the core of the court's analysis is that a statutory provision can alter otherwise protected benefits contingent upon a change in the nature of the employment. That analysis may apply equally to the statutory amendment proffered by this legislation.

Normal Cost Calculation. PSERS and SERS use 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, and under the bill, this method will tend to understate the System's normal cost because that cost will be based on new members earning diminished benefits. In contrast, the method employed by PSERS, which is based on a more liberal reading of the statute than the SERS interpretation, the normal cost rate reflects the average cost as a percentage of pay from entry into the System reflecting the actual class of membership of each active member. This is the traditional method for calculating the normal cost under the entry age normal actuarial cost method. Using this method, the PSERS' actuary develops a normal cost rate based on a blend of the benefit accrual rates and member contribution rates, depending on each member's date of hire and class of service. The bill would codify this interpretation of the PSERS normal contribution rate determination effective for the fiscal year beginning on July 1, 2016. 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 of PSERS would gradually decline as new members are added and current members retire.

COMMISSION RECOMMENDATION

On May 12, 2015, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2015

A later version of Senate Bill Number 1 (Printer's Number 1132) was vetoed by the Governor on July 9, 2015 (Veto No. 5 of 2015).

To view this note in its entirety, click the following link: Senate Bill Number 1, Printer's Number 886.

Bill ID: Senate Bill Number 1, Printer's Number 886, as amended by Amendment Number 02434

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

Subject: Retirement Benefit Reform

SYNOPSIS

Senate Bill Number 1, Printer's Number 886, would amend the Public School Employees' Retirement Code, the State Employees' Retirement Code and the Military Code. The bill would impose a series of significant retirement benefit changes upon the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) as follows: 1) establish a Defined Contribution (DC) retirement benefit plan applicable to most new members of both PSERS and SERS; 2) add a Cash Balance retirement benefit tier to the existing Defined Benefit (DB) structure that will be mandatory for new members and optional for pre-2016 active members; and 3) modify the future benefit entitlements of current members of both PSERS and SERS. (On May 12, 2015, the Commission issued an actuarial note on Senate Bill Number 1, Printer's Number 886.)

Amendment Number 02434 would amend the bill in the following manner:

1) Class T-D members of the Public School Employees' Retirement System (PSERS) who agree to an increase in their employee contribution rate from 7.5% to 10.5% for all service performed or purchased on or after July 1, 2016, in order to retain the 2.5% benefit accrual rate, will have the higher employee contribution rate phased-in over a 3-year period.

2) Class AA members of the State Employees' Retirement System (SERS) who agree to an increase in their employee contribution rate from 6.25% to 8.75% for all service performed or purchased on or after January 1, 2016, in order to retain the 2.5% benefit accrual rate, will have the higher employee contribution rate phased-in over a 3-year period.

3) Exempt the following groups of employees from participation in the side-by-side hybrid plan: Pennsylvania State Police officers; correction officers; enforcement officers; wildlife conservation officers and other commissioned law enforcement personnel employed by the Game Commission; Delaware River Port Authority Policeman, park rangers or Capitol Police officers; campus police officers employed by any State-owned educational institutions, community college or Penn State University; and police officers employed by Fort Indiantown Gap or other designated Commonwealth military installations and facilities.

SYNOPSIS (CONT'D)

4) For SERS, remove the language in the bill requiring the System to re-amortize all of its unfunded actuarial accrued liabilities of its pension trust fund over a 30-year period.

DISCUSSION

Amendment Number 02434

Benefit Modifications Applicable to Current Members of PSERS

Class T-D members of PSERS (Pre Act-120 employees)

Under Senate Bill Number 1, Printer's Number 886, current members of Class T-D in PSERS will become Class T-G members for all service performed or purchased on or after July 1, 2016. Class T-D members who now pay an employee contribution rate of 7.5% will contribute 10.5% of compensation as members of Class T-G. Class T-G members will retain the 2.5% benefit accrual rate and all other benefits of a Class T-D membership. Alternatively, under the bill, Class T-D members have 180 days from the effective date of the act to opt out of Class T-G and become a member of Class T-H. Class T-H members would instead contribute 6.25% of compensation and receive a 2% benefit accrual rate for all service performed or purchased on or after July 1, 2016.

Under Amendment Number 02434, the increased employee contribution rate for members who select Class T-G would be phased in over a 3-year period, with the contribution rate increasing by 1.0% each year until reaching the maximum employee contribution rate of 10.5% in 2018.

Benefit Modifications Applicable to Current Members of SERS

Class AA members of SERS (Pre Act-120 employees)

Under the bill, for all service performed or purchased on or after January 1, 2016, Class AA members in SERS who now pay an employee contribution rate of 6.25% will contribute 8.75% of compensation after the effective date of the act. Their 2.5% annual benefit accrual rate will remain the same for all future years of service. Alternatively, Class AA members have 180 days from the effective date of the act to opt out of the contribution increase and instead contribute 5% of compensation and receive a 2% benefit accrual rate for all service performed or purchased on or after January 1, 2016.

Under the amendment, the increased employee contribution rate for members who elect to maintain the 2.5% benefit accrual rate would be phased in over a 3-year period, with the contribution rate increasing by 1.0% the first year and 0.75% the next two years until reaching the maximum employee contribution rate of 8.75% in 2018.

Members of the General Assembly

Members of the General Assembly in Class D-4 would also be affected by the changes imposed upon current active members in the bill. For all service performed or purchased on or after January 1, 2016, Class D-4 members in SERS who now pay an employee contribution rate of 7.50% will contribute 10% of compensation after the effective date of the act. Their 3% annual benefit accrual rate would remain unchanged for all future years of service. Alternatively, Class D-4 members can make a one-time irrevocable election to opt down to a lower contribution rate of 5% of compensation with a corresponding benefit accrual rate of 2% of compensation.

Under the amendment, members of the General Assembly in Class D-4 would see their employee contribution rate increase by 1% each year for the first two years until reaching the maximum employee contribution rate of 10% in 2018. Upon reelection, (after January 1, 2016) all current members of the General Assembly will cease to accrue benefits in SERS and instead will become mandatory participants in the defined contribution plan.

Table 1
Phased-In Contribution Rates for Current Members of
Class T-D in PSERS and Class AA & D-4 in SERS
Under Senate Bill No. 1, as amended by Amendment No. 02434

	PSERS Class T-D members	SERS Class AA members	SERS Class D-4 legislators
Current Contribution Rate	7.50%	6.25%	7.50%
2016	8.50%	7.25%	8.50%
2017	9.50%	8.00%	9.50%
2018	10.50%	8.75%	10.00%

Pennsylvania State Police, Corrections Officers and Enforcement Officers

Amendment Number 02434 would exempt the following groups of employees from participation in the side-by-side hybrid plan: Pennsylvania State Police officers; correction officers; enforcement officers; wildlife conservation officers and other commissioned law enforcement personnel employed by the Game Commission; Delaware River Port Authority Policeman, park rangers or Capitol Police officers; campus police officers employed by any State-owned educational institutions, community college or Penn State University; and police officers employed by Fort Indiantown Gap or other designated Commonwealth military installations and facilities. All prospective employees of these employee groups would continue to be eligible for membership in Class A-3 or A-4 in SERS. In the case of State Police officers, they would continue to be eligible for membership in SERS until they become eligible for the enhanced State Trooper retirement benefits upon attaining 20 years of credited service.

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.

Correction 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 2015, the total number of Correction Officers employed within the Commonwealth was 13,368 employees. This employee group constitutes approximately 13% 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.

The term "enforcement officer" is a defined term in the SERS Code designating certain categories of public safety employees, including 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; and waterways conservation officers of the Pennsylvania Fish and Boat Commission.

While Pennsylvania State Police Officers, Correction Officers, and enforcement officers would be exempt from participation in the side-by-side hybrid plan, they would still be subject to the following changes proposed under Senate Bill Number 1, Printer's Number 886: 1) the change in the final average salary calculation from the average of the highest three to the average of the highest five years of compensation for all future service; and 2) the actuarially neutral Option 4 withdrawal on post-December 31, 2015, member contributions and statutory interest on those contributions.

Under the amendment, one employee group that is currently eligible to retire at age 55 with full retirement benefits, psychiatric security aides, would still be required to become mandatory participants in the new hybrid plan. The rationale for this group's inclusion in the hybrid plan while exempting all other public safety employees is unclear.

Table 2
Employee Groups Affected Under Senate Bill No. 1, P. N. 886,
As Amended By Amendment No. 02434

State Employees' Retirement System Employee Group	Number of Members
Sworn Members of the Pennsylvania State Police	4,677
Enforcement Officers	1,118
Correction Officers	13,368
Wildlife Conservation Officers	70
Other Commissioned Law Enforcement Personnel of the Game Commission	176
Delaware River Port Authority Policemen	142
Park Rangers	181
Capitol Police Officers	90
Campus Police Officers Employed by a State-owned Educational Institution	188
Campus Police Officers Employed by a Community College	20 (estimated)
Campus Police Officers Employed by Penn State University	91
Police Officers Employed by Fort Indiantown Gap	15
Police Officers Employed by Other Designated Military Installations and Facilities	Unknown
Total Estimated Membership	20,136

Note: Amendment Number 02434 does not exempt psychiatric security aides from mandatory participation in the new DC plan, although they are categorized as "enforcement officers" under the SERS Code. (The number of members is unknown.)

Actuarial Funding Provisions

The bill would restructure the amortization period for SERS for the fiscal year beginning July 1, 2016. The bill would require the System to re-amortize all of the unfunded actuarial accrued liabilities of its pension trust fund. The liabilities would be reamortized over a 30-year period using level-dollar amortization payments. This "fresh start" of the amortization bases would

DISCUSSION (CONT'D)

have the effect of extending the amortization of the System's current pension liabilities, resulting in a reduction in the System's annual amortization contribution requirements. Amendment Number 02434 would remove the language from the bill requiring a "fresh-start" of the amortization of the System's liabilities. Additionally, the amendment would remove the requirement that the employer contribution floor rate for SERS cannot be less than 4%.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary (Milliman) has reviewed the amendment, the actuarial cost estimate provided to the Commission by Buck Consultants, the consulting actuary for PSERS (see attachments), and the actuarial cost estimate provided to the Commission by Hay Group, the consulting actuary for SERS (see attachments). The Commission's consulting actuary has made the following observations. For further detail, please see the attached actuarial note provided by Milliman.

- Based on the current valuation methodology used by the Systems, new Class T-I and Class CB members would be expected to be subsidizing the future costs of current members, because:

  - the total normal cost rate of new Class T-I members of PSERS is expected to be less than 0% (see page 21 of the Milliman note for discussion); and

  - the present value of all future benefits is currently expected to be less than the present value of future employee contributions for new Class CB members in SERS (see page 21 of the Milliman note).

- The cost estimates for PSERS reflect in advance the subsidy/potential arbitrage between the cash balance interest crediting rate and the assumed investment return, which results in apparent reduced costs for current members as these new members are added to the system, added risk, and the potential for additional employer costs (see page 21 of the Milliman note).

- The costs estimated for SERS do not reflect in advance the subsidy/potential arbitrage between the cash balance interest crediting rate and the assumed investment return (see page 22 of the Milliman note).

- It is the opinion of Milliman that the normal cost should reflect prospective benefits to be earned by all members in each System (without reflecting any potential subsidy from the cash balance members that may emerge). Consideration should be given to modifying the SERS method for determining the normal cost rate (see page 18 of the Milliman note).

- Milliman is unsure if the timing of employee contributions is properly reflected in the PSERS analysis for Amendment Number 02434. Employee contributions would be increased beginning July 1, 2016, but the employer contribution payable during fiscal year 2016-2017 does not reflect the higher employee contribution rate. Milliman is uncertain of the drafter's intent (see page 23 of the Milliman note).

- It is the opinion of Milliman that the assumed cash balance interest crediting rate of 3% utilized in the projections of both Systems is too low as a long term assumption. Additionally, the expected value of the excess interest credit on cash balance accounts and the potential for lower employee contributions in future years has a positive liability. Therefore, the potential savings for the amended bill are overstated (see page 25 of the Milliman note).

- In light of the shared-risk, shared-gain, and contribution savings program plus the potential for excess interest credit on cash balance accounts, it is the opinion of Milliman that stochastic modeling analyzing various economic outcomes should be performed for both Systems to fully understand the underlying risks associated with these provisions (see page 26 of the Milliman note).

- Anti-selection related to the "opt-down" provision of Amendment Number 02434 may lead to increased employer costs. Consideration should be given to investigating potential costs associated with anti-selection (see page 16 of the Milliman note).

- In light of the potential reduction in employer provided benefits, consideration should be given to having a formal analysis conducted to review member benefit adequacy reflecting varying economic scenarios (see page 15 of the Milliman note).

- Milliman is concerned that the new employee cohort utilized for PSERS may overstate the percentage of part-time employees entering PSERS due to the one-time spike in existing part-time employees becoming members due to Act 120 (see page 26 of the Milliman note).

- In light of the elimination of the participation requirement for PSERS, Milliman does not believe that the projections reflect the possibility of increased membership due to the amended bill (see page 27 of the Milliman note).

The Commission's consulting actuary has created a table (Table 3) showing the expected accumulated nominal dollar cash flow costs/(savings) on the employer contributions for the fiscal years 2015-2016 through 2047-48 for both Systems under Amendment Number 02434, as provided by the System actuaries. The chart also shows the present value of the expected cash flow costs/(savings) as of June 30, 2015, assuming end of year payment, at 3.9% (a proxy for budget growth) and 7.5% (the current investment return for the Systems). The 3.9% proxy for budget growth is based on the annual growth in estimated general fund revenue from 2017-2018 to 2019-2020 shown on page C1-12 in the Governor's Executive Budget for 2015-2016. The reader will note that the total costs/(savings) shown in the Commission's consulting actuary's table differs from that in the System actuary's cost estimates for SERS. The reason for this is that the Commission's consulting actuary shows their projections through 2047-2048, while the System actuary makes projections through 2051-52.

Table 3
Impact on Employer Contributions
If Senate Bill No. 1, P. N. 866, as Amended by Amendment No. 02434 is enacted
For Fiscal Years 2015-2016 through 2047-2048
(Amounts in millions and based on System actuary's projections)

	Cash Flow Costs / (Savings) as determined by System Actuary	Present Value of Cash Flow Costs / (Savings) at 3.9%	Present Value of Cash Flow Costs / (Savings) at 7.5%
PSERS	$(15,965.9)	$(8,908.0)	$(5,672.4)
SERS	(4,017.0)	(2,193.1)	(1,411.6)
Total	(19,982.9)	(11,101.1)	(7,084.0)

The overall impact of the proposal on **PSERS** is summarized in Table 4. As compared to PSERS' consulting actuary's estimates of the cumulative savings that would result under Senate Bill Number 1, Printer's Number 886, the estimated savings for the side-by-side hybrid plan as amended by Amendment Number 02434 would yield a total **reduction in savings of approximately $288.1 million** on a cash flow basis over the 30-year projection period through Fiscal Year 2047-2048 for PSERS. The actuarial cost impact developed by the consulting actuary is shown in the following tables. Table 6 shows the projection of employer contributions under Amendment Number 02434 in comparison with the existing law and under Senate Bill Number 1, Printer's Number 886. Table 7 shows the projection for the System's funded ratio and unfunded liability under Amendment Number 02434 in comparison with the existing law and under Senate Bill Number 1, Printer's Number 886.

The overall impact of the proposal on SERS is summarized in Table 5. As compared to SERS' consulting actuary's estimates of the cumulative savings that would result under Senate Bill Number 1, Printer's Number 886, the estimated savings for the side-by-side hybrid plan as amended by Amendment Number 02434 would yield an **additional savings of approximately $2.958 billion** over the projection period through Fiscal Year 2051-2052 for SERS. The actuarial cost impact developed by the consulting actuary is shown in the following tables. Table 8 shows the projection of employer contributions under Amendment Number 02434 in comparison with the existing law and under Senate Bill Number 1, Printer's Number 886. Table 9 shows the projection for the System's funded ratio and unfunded liability under Amendment Number 02434 in comparison with the existing law and under Senate Bill Number 1, Printer's Number 886.

Table 4
Public School Employees' Retirement System of Pennsylvania
Cost/(Savings) Allocation of Table 6 - Total Potential Projected Cost/(Savings)
Due to Senate Bill No. 1 as Amended by Amendment No. 02434
(Amounts in millions)

	Cash Flow Basis	Present Value as of June 30, 2015
Benefit Reforms		
Employees who first become a member on or after July 1, 2016		
Cash balance plan and defined contribution plan for school employees hired after June 30, 2016 in lieu of Class TE or TF membership under current PSERS	$ (3,536.1)	$ (653.6)
Members as of June 30, 2016		
Reclassification of Class T-D to Class T-G effective July 1, 2016	$ (6,656.9)	$ (2,776.4)
Cost neutral Option 4 withdrawals for service on or after July 1, 2016	(5,772.9)	(2,242.4)
Sub-total	$ (12,429.8)	$ (5,018.8)
Total Senate Bill No. 1 Cost/(Savings) Under Amend. No. 02434	$ (15,965.9)	$ (5,672.4)

Notes:

1 Cost allocation is dependent on the order in which the changes are implemented. If a different order is utilized, individual results will vary. The cost/(savings) allocation presented assumes benefit reforms for employees who first become a member on or after July 1, 2016 are reflected first. This order of reform recognition differs from the May 6, 2016 Draft Senate Bill # 1 cost note.

2 Based on Buck's Amended Senate Bill No. 1 - Track A cost note dated June 24, 2015. All statements of reliance included in that cost note continue to apply. Please refer to that cost note for more information.

3 The present value of the cost/(savings) is based upon the valuation discount rate of 7.5%. Changing that rate would modify the present value.

4 The reported cost/(savings) attributable to employees who first become a member on or after July 1, 2016 includes a (savings) of $(13,710.7) due to the alternative CB plan and a cost of $10,174.6 due to the DC plan.

Table 5
State Employees' Retirement System
Allocation of Potential Projected (Savings)/Cost Through FY 2052
Due to Senate Bill No. 1 as Amended by Amendment No. 02434
(Amounts in millions)

Benefit Reforms	
Amendment - Cash Balance Tier for hires after December 31, 2015	$ (15,906.7)
Amendment - Defined Contribution Plan for hires after December 31, 2015	12,860.7
Amendment - Legacy Changes: Cost Neutral Option 4	(669.4)
Amendment - Legacy Changes: Contribution/Accrual Rate Changes	(2,385.1)
Amendment - Legacy Changes: FAS, including SSWB Limit for A3's & A4's	(605.9)
Sub-total Benefit Reforms	$ (6,706.4)
Funding Reforms	
30-year fresh start of unfunded accrued liability December 31, 2015	4,696.5
Total SB 1 (Savings)/Cost through FY 2052	$ (2,009.9)
Amendment No. 02434	
Amendment - Remove Fresh Start	$ (4,812.0)
Amendment - Exempt State Police, Correction, Hazardous Duty	1,752.9
Amendment - Phase In Employee Contribution Rate Increase	100.8
Variation #3 Subtotal	(2,958.3)
Total SB 1 (Savings)/Cost through FY 2052 under Amendment No. 02434	$ (4,968.2)

Notes:

The potential cost/savings was valued in the following order:

- Cash Balance Tier for new entrants
- Defined Contribution Plan for new entrants
- Fresh start of unfunded accrued liability December 31, 2015
- Legacy DB changes, applicable post-December 31, 2015:
  - Cost Neutral Option 4
  - Future contribution/accrual rate changes, including accruals ceasing upon election/reelection
  - Final average salary changes, including SSWB Limit for A3's & A4's
- Variation Changes are made in the order shown under each variation

If a different order is used, the cost impact will vary from what is shown above.

Table 6
Public School Employees' Retirement System
Projection of Contribution Rates
Current PSERS vs. Senate Bill No. 1 as Amended by Amendment No. 02434

	Under the Existing Law		Under Senate Bill No. 1				Under Amendment No. 02434			
					Cost/(Savings)				Cost/(Savings)	
Fiscal Year	Percent-age	Dollar Amount (In Thousands)	Percent-age	Dollar Amount (In Thousands)	Cash Flow Basis	Present Value as of June 30, 2015	Percent-age	Dollar Amount (In Thousands)	Cash Flow Basis	Present Value as of June 30, 2015
2013	12.36		12.36				12.36			
2014	16.93		16.93				16.93			
2015	21.40	$2,885,148	21.40	$2,885,148	$ 0	$ 0	21.40	$2,885,148	$ 0	$ 0
2016	25.84	3,456,100	25.84	3,456,100	0	0	25.84	3,456,100	0	0
2017	29.69	4,079,195	29.12	4,001,230	(77,965)	(67,466)	29.13	4,002,604	(76,591)	(66,277)
2018	30.62	4,316,593	26.85	3,784,891	(531,702)	(427,999)	28.50	4,017,497	(299,096)	(240,761)
2019	31.56	4,569,239	27.81	4,026,046	(543,194)	(406,744)	28.58	4,137,526	(431,714)	(323,267)
2020	32.23	4,794,454	28.51	4,241,735	(552,718)	(385,001)	28.47	4,235,785	(558,669)	(389,146)
2021	32.02	4,892,886	28.32	4,327,247	(565,639)	(366,512)	28.28	4,321,135	(571,751)	(370,473)
2022	31.90	5,005,091	28.21	4,425,785	(579,306)	(349,180)	28.18	4,421,078	(584,013)	(352,017)
2023	31.96	5,149,606	28.30	4,560,582	(589,025)	(330,267)	28.26	4,554,137	(595,470)	(333,881)
2024	31.90	5,276,635	28.29	4,679,381	(597,254)	(311,518)	28.26	4,674,418	(602,217)	(314,106)
2025	31.83	5,404,815	28.25	4,797,712	(607,103)	(294,563)	28.22	4,792,618	(612,197)	(297,034)
2026	31.90	5,555,781	28.36	4,939,375	(616,406)	(278,211)	28.34	4,935,892	(619,889)	(279,783)
2027	31.99	5,709,259	28.50	5,086,035	(623,223)	(261,663)	28.48	5,082,466	(626,793)	(263,162)
2028	32.10	5,865,715	28.65	5,234,596	(631,118)	(246,491)	28.63	5,230,941	(634,773)	(247,918)
2029	32.20	6,020,442	28.82	5,387,660	(632,783)	(229,898)	28.80	5,383,920	(636,522)	(231,257)
2030	32.31	6,178,835	28.99	5,543,276	(635,558)	(214,797)	28.97	5,539,451	(639,383)	(216,090)
2031	32.43	6,340,635	29.17	5,703,086	(637,549)	(200,437)	29.16	5,701,131	(639,504)	(201,052)
2032	32.58	6,509,681	29.37	5,868,979	(640,702)	(187,375)	29.36	5,866,981	(642,700)	(187,960)
2033	32.72	6,679,209	29.60	6,042,134	(637,075)	(173,316)	29.59	6,040,093	(639,116)	(173,871)
2034	32.88	6,856,314	29.82	6,217,348	(638,966)	(161,703)	29.82	6,217,348	(638,966)	(161,703)
2035	33.03	7,036,790	30.04	6,400,506	(636,285)	(149,790)	30.03	6,398,375	(638,415)	(150,291)
2036	18.12	3,943,950	15.20	3,308,710	(635,240)	(139,111)	15.20	3,308,710	(635,240)	(139,111)
2037	14.27	3,173,457	11.42	2,539,655	(633,801)	(129,112)	11.42	2,539,655	(633,801)	(129,112)
2038	12.46	2,831,765	9.69	2,202,016	(629,749)	(119,336)	9.69	2,202,016	(629,749)	(119,336)
2039	10.43	2,422,607	7.74	1,797,396	(625,211)	(110,211)	7.74	1,797,396	(625,211)	(110,211)
2040	8.80	2,090,021	6.17	1,464,510	(625,510)	(102,571)	6.19	1,469,260	(620,760)	(101,792)
2041	7.28	1,769,320	5.59	1,359,061	(410,258)	(62,580)	5.58	1,356,631	(412,689)	(62,951)
2042	5.93	1,476,104	4.33	1,078,904	(397,200)	(56,361)	4.33	1,078,904	(397,200)	(56,361)
2043	4.55	1,161,604	3.21	820,047	(341,556)	(45,084)	3.21	820,047	(341,556)	(45,084)
2044	4.14	1,085,716	3.04	798,382	(287,334)	(35,281)	3.04	798,382	(287,334)	(35,281)
2045	4.00	1,079,491	3.11	839,268	(240,224)	(27,439)	3.11	839,268	(240,224)	(27,439)
2046	3.88	1,079,385	3.17	881,100	(198,286)	(21,068)	3.17	881,100	(198,286)	(21,068)
2047	3.75	1,075,379	3.22	923,322	(152,057)	(15,029)	3.22	923,322	(152,057)	(15,029)
2048	3.62	1,070,100	3.27	966,091	(104,010)	(9,563)	3.27	966,091	(104,010)	(9,563)
			Total Cost/(Savings):		$(16,254,008)	$(5,915,676)	Total Cost/(Savings):		$(15,965,896)	$(5,672,386)

Table 7
Public School Employees' Retirement System
Projection of Funded Ratio and Unfunded Liability
Current PSERS vs. Senate Bill No. 1 as Amended by Amendment No. 02434

	Under the Existing Law		Under Senate Bill No. 1		Under Amendment No. 02434	
Fiscal Year	Funded Ratio Percentage	Unfunded Liability Dollar Amount (In Millions)	Funded Ratio Percentage	Unfunded Liability Dollar Amount (In Millions)	Funded Ratio Percentage	Unfunded Liability Dollar Amount (In Millions)
2013	63.8	$32,598.6	63.8	$32,598.6	63.8	$32,598.6
2014	62.0	35,121.2	62.0	35,121.2	62.0	35,121.2
2015	60.6	37,413.9	61.5	36,136.9	61.4	36,154.3
2016	59.6	39,412.8	60.5	38,040.0	60.5	38,058.7
2017	58.7	41,424.4	59.5	40,040.6	59.5	40,059.5
2018	58.4	42,871.0	59.0	41,478.6	59.0	41,497.5
2019	60.0	42,296.8	60.6	40,898.3	60.6	40,917.4
2020	61.7	41,603.7	62.2	40,202.2	62.2	40,221.3
2021	63.0	41,228.1	63.4	39,826.9	63.4	39,846.0
2022	64.7	40,395.1	64.9	38,998.0	64.9	39,017.0
2023	66.5	39,344.6	66.6	37,955.7	66.6	37,974.6
2024	68.1	38,382.2	68.1	37,006.1	68.1	37,024.8
2025	69.9	37,192.9	69.7	35,834.6	69.7	35,853.1
2026	71.8	35,741.5	71.5	34,406.5	71.5	34,424.7
2027	73.8	34,014.0	73.4	32,708.6	73.4	32,726.4
2028	75.9	31,999.5	75.4	30,730.3	75.4	30,747.6
2029	78.2	29,682.5	77.6	28,457.0	77.6	28,473.7
2030	80.6	27,032.1	79.9	25,858.4	79.9	25,874.4
2031	83.1	24,014.7	82.5	22,901.8	82.5	22,917.0
2032	85.8	20,597.9	85.2	19,555.4	85.2	19,569.6
2033	88.7	16,743.8	88.2	15,782.5	88.2	15,795.6
2034	91.8	12,411.6	91.4	11,543.2	91.4	11,555.0
2035	95.1	7,559.2	95.0	6,796.4	95.0	6,806.7
2036	96.6	5,418.8	96.5	4,775.5	96.5	4,784.2
2037	97.6	3,871.2	97.5	3,362.4	97.5	3,369.3
2038	98.4	2,529.3	98.4	2,171.7	98.4	2,176.5
2039	99.1	1,474.9	99.1	1,286.3	99.1	1,288.9
2040	99.6	654.8	99.5	654.8	99.5	654.8
2041	100.0	72.5	99.9	72.5	99.9	72.5
2042	100.2	(280.8)	100.2	(283.4)	100.2	(286.0)
2043	100.2	(362.3)	100.3	(418.1)	100.3	(423.5)
2044	100.2	(395.4)	100.4	(555.8)	100.4	(564.2)
2045	100.2	(428.1)	100.6	(753.3)	100.6	(761.9)
2046	100.2	(463.0)	100.7	(1,009.1)	100.7	(1,017.8)
2047	100.3	(500.9)	101.0	(1,326.7)	101.0	(1,335.4)
2048	100.3	(541.1)	101.2	(1,705.9)	101.2	(1,714.6)

Table 8
State Employees' Retirement System
Projection of Contribution Rates
Current SERS vs. Senate Bill No. 1 as Amended by Amendment No. 02434

	Under the Existing Law		Under Senate Bill No. 1			Under Amendment No. 02434		
Fiscal Year	Percentage	Dollar Amount (In Millions)	Percentage	Dollar Amount (In Millions)	Cost/ (Savings) (In Millions) *	Percentage	Dollar Amount (In Millions)	Cost/ (Savings) (In Millions) *
2012/2013	11.50	677.4	11.50	677.4	-	11.50	677.4	-
2013/2014	16.00	933.8	16.00	933.8	-	16.00	933.8	-
2014/2015	20.50	1,209.0	20.50	1,209.0	-	20.50	1,209.0	-
2015/2016	25.00	1,505.4	24.99	1,504.8	(0.6)	24.98	1,504.4	(1.0)
2016/2017	29.50	1,830.6	27.71	1,719.3	(111.9)	29.01	1,800.1	(31.5)
2017/2018	30.41	1,944.5	26.75	1,710.7	(345.7)	28.05	1,793.4	(182.5)
2018/2019	29.40	1,937.1	25.76	1,697.2	(585.7)	27.07	1,784.1	(335.5)
2019/2020	28.82	1,957.0	25.27	1,715.9	(826.8)	26.61	1,807.1	(485.4)
2020/2021	28.15	1,970.0	24.69	1,727.8	(1,068.9)	26.05	1,822.6	(632.9)
2021/2022	27.52	1,984.4	24.14	1,740.9	(1,312.4)	25.51	1,839.5	(777.8)
2022/2023	26.92	2,000.2	23.63	1,755.6	(1,557.0)	24.99	1,857.2	(920.8)
2023/2024	26.34	2,016.9	23.13	1,771.6	(1,802.3)	24.50	1,876.1	(1,061.6)
2024/2025	25.78	2,034.0	22.66	1,788.0	(2,048.3)	24.02	1,895.6	(1,200.0)
2025/2026	25.23	2,051.7	22.20	1,805.1	(2,294.9)	23.56	1,915.6	(1,336.1)
2026/2027	24.70	2,070.0	21.75	1,822.9	(2,542.0)	23.11	1,936.4	(1,469.7)
2027/2028	24.19	2,089.0	21.32	1,841.3	(2,789.7)	22.67	1,957.5	(1,601.2)
2028/2029	23.69	2,108.5	20.91	1,860.7	(3,037.5)	22.24	1,979.3	(1,730.3)
2029/2030	23.21	2,128.6	20.51	1,880.7	(3,285.5)	21.83	2,002.2	(1,856.7)
2030/2031	22.74	2,149.3	20.12	1,901.5	(3,533.3)	21.43	2,025.6	(1,980.4)
2031/2032	22.29	2,170.7	19.75	1,923.3	(3,780.7)	21.04	2,049.4	(2,101.7)
2032/2033	21.85	2,192.8	19.39	1,946.3	(4,027.2)	20.67	2,074.5	(2,220.0)
2033/2034	21.42	2,215.6	19.05	1,969.8	(4,273.0)	20.32	2,101.0	(2,334.6)
2034/2035	21.01	2,239.0	18.71	1,993.6	(4,518.4)	19.97	2,127.7	(2,445.9)
2035/2036	20.61	2,263.2	18.38	2,018.0	(4,763.6)	19.62	2,154.3	(2,554.9)
2036/2037	20.22	2,288.2	18.05	2,042.8	(5,009.0)	19.27	2,180.9	(2,662.2)
2037/2038	19.84	2,314.0	17.74	2,068.3	(5,254.7)	18.93	2,207.7	(2,768.5)
2038/2039	19.48	2,340.5	17.43	2,094.8	(5,500.5)	18.60	2,235.7	(2,873.3)
2039/2040	19.12	2,367.9	17.13	2,121.7	(5,746.7)	18.29	2,265.3	(2,975.9)
2040/2041	15.06	1,921.8	16.84	2,148.7	(5,519.8)	14.27	1,821.1	(3,076.5)
2041/2042	12.13	1,595.7	16.54	2,175.4	(4,940.1)	11.38	1,496.3	(3,176.0)
2042/2043	8.86	1,200.8	16.25	2,201.8	(3,939.0)	8.14	1,102.6	(3,274.2)
2043/2044	6.85	957.1	15.96	2,228.4	(2,667.7)	6.17	861.1	(3,370.2)
2044/2045	6.67	959.9	15.67	2,255.1	(1,372.5)	6.03	867.3	(3,462.8)
2045/2046	6.42	952.1	15.39	2,282.0	(42.6)	5.81	862.3	(3,552.6)
2046/2047	6.18	944.6	4.29	655.2	(332.0)	4.65	710.3	(3,786.8)
2047/2048	6.30	992.4	4.33	682.2	(642.2)	4.84	762.2	(4,017.0)
2048/2049	6.44	1,045.5	4.37	709.1	(978.6)	5.03	815.7	(4,246.8)
2049/2050	6.42	1,072.9	4.40	736.1	(1,315.4)	5.01	837.3	(4,482.4)
2050/2051	6.43	1,108.6	4.44	764.5	(1,659.6)	5.04	868.1	(4,722.9)
2051/2052	6.44	1,144.4	4.47	794.1	(2,009.9)	5.06	899.1	(4,968.2)

*Savings shown are cumulative.

Table 9
State Employees' Retirement System
Projection of Funded Ratio and Unfunded Liability
Current SERS vs. Senate Bill No. 1 as Amended by Amendment No. 02434

	Under the Existing Law		Under Senate Bill No. 1		Under Amendment No. 02434	
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)
2012/2013	65.3	14.69	65.3	14.69	65.3	14.69
2013/2014	58.8	17.78	58.7	17.78	58.7	17.78
2014/2015	59.2	17.90	59.2	17.90	59.2	17.90
2015/2016	59.4	18.17	59.4	18.17	59.4	18.17
2016/2017	59.7	18.42	57.6	20.10	57.6	20.14
2017/2018	61.4	18.01	59.3	19.65	59.3	19.67
2018/2019	63.2	17.53	60.9	19.12	61.0	19.16
2019/2020	64.2	17.35	61.8	18.96	61.9	19.00
2020/2021	65.4	17.07	62.7	18.70	62.9	18.73
2021/2022	66.6	16.77	63.6	18.43	63.9	18.44
2022/2023	67.8	16.45	64.5	18.15	64.9	18.13
2023/2024	68.9	16.12	65.3	17.86	65.9	17.80
2024/2025	70.0	15.76	66.1	17.54	66.9	17.44
2025/2026	71.2	15.37	67.0	17.21	67.9	17.04
2026/2027	72.3	14.94	67.8	16.84	68.9	16.62
2027/2028	73.5	14.48	68.6	16.45	70.0	16.15
2028/2029	74.8	13.98	69.4	16.03	71.0	15.64
2029/2030	76.0	13.44	70.3	15.58	72.2	15.10
2030/2031	77.3	12.85	71.2	15.10	73.4	14.50
2031/2032	78.7	12.22	72.1	14.57	74.6	13.85
2032/2033	80.1	11.54	73.1	14.01	75.9	13.16
2033/2034	81.6	10.79	74.2	13.41	77.3	12.41
2034/2035	83.1	9.99	75.3	12.76	78.8	11.59
2035/2036	84.7	9.13	76.5	12.07	80.4	10.70
2036/2037	86.4	8.19	77.8	11.32	82.2	9.72
2037/2038	88.2	7.18	79.2	10.51	84.1	8.66
2038/2039	90.1	6.09	80.7	9.65	86.2	7.51
2039/2040	92.1	4.91	82.4	8.72	88.4	6.29
2040/2041	94.2	3.63	84.2	7.72	90.8	4.96
2041/2042	95.7	2.73	86.3	6.64	92.6	3.99
2042/2043	96.7	2.11	88.5	5.48	93.9	3.30
2043/2044	97.2	1.87	91.0	4.24	94.5	2.98
2044/2045	97.2	1.87	93.7	2.91	94.5	2.93
2045/2046	97.2	1.89	96.8	1.47	94.6	2.89
2046/2047	97.1	1.95	100.2	(0.07)	94.6	2.87
2047/2048	97.0	2.06	100.1	(0.03)	94.3	3.01
2048/2049	96.9	2.14	100.1	(0.04)	94.0	3.12
2049/2050	96.8	2.21	100.1	(0.06)	93.8	3.20
2050/2051	96.8	2.29	100.1	(0.06)	93.6	3.29
2051/2052	96.7	2.37	100.2	(0.07)	93.4	3.37

POLICY CONSIDERATIONS

In reviewing the bill, the Commission staff 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). As written, the active member benefit modifications proposed in the bill may be found to impair the benefit rights of the affected active members.

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.

Renewal of Pension Contract. In *Shiomos v. State Employes' Retirement Board,* 533 Pa. 588, 626 A.2d 158 (1993), the Supreme Court held that a public official, at every new elected term of office, renews his pension contract subject to the law in effect when the new term of office commences. While this case, and the subsequent decisions that follow its holding, specifically relates to Section 3 of the Public Employee Pension forfeiture Act, 1978, July 8, P. L. 752, No. 140, 43 P.S. § 1313(c), the core of the court's analysis is that a statutory provision can alter otherwise protected benefits contingent upon a change in the nature of the employment. That analysis may apply equally to the statutory amendment proffered by this legislation.

COMMISSION RECOMMENDATION

On June 29, 2015, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2015

A later version of Senate Bill Number 1 (Printer's Number 1132) was vetoed by the Governor on July 9, 2015 (Veto No. 5 of 2015).

To view this note in its entirety, click the following link: Senate Bill Number 1, Printer's Number 886, as amended by Amendment Number 02434.

Bill ID: Senate Bill Number 1, Printer's Number 886,
as amended by Amendment Number 02701

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

Subject: Retirement Benefit Reform

SYNOPSIS

Senate Bill Number 1, Printer's Number 886, would amend the Public School Employees' Retirement Code, the State Employees' Retirement Code and the Military Code. The bill would impose a series of significant retirement benefit changes upon the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) as follows: 1) establish a Defined Contribution (DC) retirement benefit plan applicable to most new members of both PSERS and SERS; 2) add a Cash Balance retirement benefit tier to the existing Defined Benefit (DB) structure that will be mandatory for new members and optional for pre-2016 active members; and 3) modify the future benefit entitlements of current members of both PSERS and SERS. (On May 12, 2015, the Commission issued an actuarial note on Senate Bill Number 1, Printer's Number 886.)

Amendment Number 02701 would amend the bill in the following manner:

1) Remove the language requiring Class T-D members of the Public School Employees' Retirement System (PSERS) to pay an increased employee contribution rate of 10.5% for all service performed or purchased on or after July 1, 2016, in order to retain the 2.5% benefit accrual rate.

2) Remove the language requiring Class AA members of the State Employees' Retirement System (SERS) to pay an increased employee contribution rate of 8.75% for all service performed or purchased on or after January 1, 2016, in order to retain the 2.5% benefit accrual rate.

3) Exempt the following groups of employees from participation in the side-by-side hybrid plan: Pennsylvania State Police officers; correction officers; enforcement officers; wildlife conservation officers and other commissioned law enforcement personnel employed by the Game Commission; Delaware River Port Authority Policeman, park rangers or Capitol Police officers; campus police officers employed by any State-owned educational institutions, community college or Penn State University; and police officers employed by Fort Indiantown Gap or other designated Commonwealth military installations and facilities.

SYNOPSIS (CONT'D)

4) For SERS, remove the language in the bill requiring the System to re-amortize all of its unfunded actuarial accrued liabilities of its pension trust fund over a 30-year period.

DISCUSSION

Amendment Number 02701

Benefit Modifications Applicable to Current Members of PSERS

Class T-D members of PSERS (Pre Act-120 employees)

Under Senate Bill Number 1, Printer's Number 886, current members of Class T-D in PSERS will become Class T-G members for all service performed or purchased on or after July 1, 2016. Class T-D members who now pay an employee contribution rate of 7.5% will contribute 10.5% of compensation as members of Class T-G. Class T-G members will retain the 2.5% benefit accrual rate and all other benefits of a Class T-D membership. Alternatively, under the bill, Class T-D members have 180 days from the effective date of the act to opt out of Class T-G and become a member of Class T-H. Class T-H members would instead contribute 6.25% of compensation and receive a 2% benefit accrual rate for all service performed or purchased on or after July 1, 2016.

Under Amendment Number 02701, there would be no change in the employee contribution rate or benefit accrual rate for Class T-D members of PSERS. However, all Class T-D members will be subject to the actuarially neutral Option 4 withdrawal on post-December 31, 2015, member contributions and statutory interest on those contributions proposed under Senate Bill Number 1, Printer's Number 886.

Benefit Modifications Applicable to Current Members of SERS

Class AA members of SERS (Pre Act-120 employees)

Under the bill, for all service performed or purchased on or after January 1, 2016, Class AA members in SERS who now pay an employee contribution rate of 6.25% will contribute 8.75% of compensation after the effective date of the act. Their 2.5% annual benefit accrual rate will remain the same for all future years of service. Alternatively, Class AA members have 180 days from the effective date of the act to opt out of the contribution increase and instead contribute 5% of compensation and receive a 2% benefit accrual rate for all service performed or purchased on or after January 1, 2016.

Under the amendment, there would be no change in the employee contribution rate or benefit accrual rate for Class AA members of SERS. However, all Class AA members will be subject to the following changes proposed under Senate Bill Number 1, Printer's Number 886: 1) the change in the final average salary calculation from the average of the highest three to the average of the highest five years of compensation for all future service; and 2) the actuarially neutral Option 4 withdrawal on post-December 31, 2015, member contributions and statutory interest on those contributions.

Members of the General Assembly

Members of the General Assembly in Class D-4 would also be affected by the changes imposed upon current active members in the bill. For all service performed or purchased on or after January 1, 2016, Class D-4 members in SERS who now pay an employee contribution rate of 7.50% will contribute 10% of compensation after the effective date of the act. Their 3% annual benefit accrual rate would remain unchanged for all future years of service. Alternatively, Class D-4 members can make a one-time irrevocable election to opt down to a lower contribution rate of 5% of compensation with a corresponding benefit accrual rate of 2% of compensation.

Under the amendment, there would be no change in the employee contribution rate or benefit accrual rate for current members of the General Assembly. Also, Class D-4 members will be subject to the following changes proposed under Senate Bill Number 1, Printer's Number 886: 1) the change in the final average salary calculation from the average of the highest three to the average of the highest five years of compensation for all future service; and 2) the actuarially neutral Option 4 withdrawal on post-December 31, 2015, member contributions and statutory interest on those contributions. Upon reelection, (after January 1, 2016) all current members of the General Assembly will cease to accrue benefits in SERS and instead will become mandatory participants in the defined contribution plan.

Shared-Risk Provision

One of the major pension reforms imposed by Act 120 of 2010 was the implementation of a variable employee contribution rate, known as the "shared risk contribution rate" which is applicable to post-Act 120 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 compares 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 members 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. Amendment Number 02701 would make members of Class T-D in PSERS subject to the shared-risk provision as well, with a corridor of 4% for the employee contribution rate.

Shared Gain Provision

Under the bill, for members of Class T-E and T-F in PSERS and Class A-3 and A-4 in SERS, there will be the addition of a shared gain provision that will allow the member's contribution rate to be reduced by up to 2% below the member's initial rate, under the same conditions established under Act 120 that the employee contribution rates could increase. Every three years, each System compares 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 more than the assumed rate by 1% or more, the total member contribution rate will decrease by ½% per year, up to a maximum total increase of 2.0%. If the actual rate is equal to or less than the assumed rate, the total member contribution rate will decrease by ½%. The same calculations will be used by both the shared-risk and shared-gain features (except in reverse directions) to move away from the base contribution rates and to move towards the base contribution rates. Under the amendment, members of Class T-D in PSERS and Class AA & D-4 in SERS would also be subject to the shared gain provisions proposed under the bill.

Pennsylvania State Police, Correction Officers and Enforcement Officers

Amendment Number 02701 would exempt the following groups of employees from participation in the side-by-side hybrid plan: Pennsylvania State Police officers; correction officers; enforcement officers; wildlife conservation officers and other commissioned law enforcement personnel employed by the Game Commission; Delaware River Port Authority Policeman, park rangers or Capitol Police officers; campus police officers employed by any State-owned educational institutions, community college or Penn State University; and police officers employed by Fort Indiantown Gap or other designated Commonwealth military installations and facilities. All prospective employees of these employee groups would continue to be eligible for membership in Class A-3 or A-4 in SERS. In the case of State Police officers, they would continue to be eligible for membership in SERS until they become eligible for the enhanced State Trooper retirement benefits upon attaining 20 years of credited service.

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.

DISCUSSION (CONT'D)

Correction 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 2015, the total number of Correction Officers employed within the Commonwealth was 13,368 employees. This employee group constitutes approximately 13% 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.

The term "enforcement officer" is a defined term in the SERS Code designating certain categories of public safety employees, including 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; and waterways conservation officers of the Pennsylvania Fish and Boat Commission.

While Pennsylvania State Police Officers, Correction Officers, and enforcement officers would be exempt from participation in the side-by-side hybrid plan, they would still be subject to the following changes proposed under Senate Bill Number 1, Printer's Number 886: 1) the change in the final average salary calculation from the average of the highest three to the average of the highest five years of compensation for all future service; and 2) the actuarially neutral Option 4 withdrawal on post-December 31, 2015, member contributions and statutory interest on those contributions.

Under the amendment, one employee group that is currently eligible to retire at age 55 with full retirement benefits, psychiatric security aides, would still be required to become mandatory participants in the new hybrid plan. The rationale for this group's inclusion in the hybrid plan while exempting all other public safety employees is unclear.

Table 1
Employee Groups Affected Under Senate Bill No. 1, P. N. 886
As Amended By Amendment No. 02701

State Employees' Retirement System Employee Group	Number of Members
Sworn Members of the Pennsylvania State Police	4,677
Enforcement Officers	1,118
Correction Officers	13,368
Wildlife Conservation Officers	70
Other Commissioned Law Enforcement Personnel of the Game Commission	176
Delaware River Port Authority Policemen	142
Park Rangers	181
Capitol Police Officers	90
Campus Police Officers Employed by a State-owned Educational Institution	188
Campus Police Officers Employed by a Community College	20 (estimated)
Campus Police Officers Employed by Penn State University	91
Police Officers Employed by Fort Indiantown Gap	15
Police Officers Employed by Other Designated Military Installations and Facilities	Unknown
Total Estimated Membership	20,136

Note: Amendment Number 02701 does not exempt psychiatric security aides from mandatory participation in the new DC plan, although they are categorized as "enforcement officers" under the SERS Code. (The number of members is unknown.)

Actuarial Funding Provisions

The bill would restructure the amortization period for SERS for the fiscal year beginning July 1, 2016. The bill would require the System to re-amortize all of the unfunded actuarial accrued liabilities of its pension trust fund. The liabilities would be reamortized over a 30-year period using level-dollar amortization payments. This "fresh start" of the amortization bases would have the effect of extending the amortization of the System's current pension liabilities, resulting in a reduction in the System's annual amortization contribution requirements. Amendment Number 02701 would remove the language from the bill requiring a "fresh-start" of the amortization of the System's liabilities. Additionally, the amendment would remove the requirement that the employer contribution floor rate for SERS cannot be less than 4%.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary (Milliman) has reviewed the amendment, the actuarial cost estimate provided to the Commission by Buck Consultants, the consulting actuary for PSERS (see attachments), and the actuarial cost estimate provided to the Commission by Hay Group, the consulting actuary for SERS (see attachments). The Commission's consulting actuary has made the following observations. For further detail, please see the attached actuarial note provided by Milliman.

- Based on the current valuation methodology used by the Systems, new Class T-I and Class CB members would be expected to be subsidizing the future costs of current members, because:
  - the total normal cost rate of new Class T-I members of PSERS is expected to be less than 0% (see page 21 of the Milliman note for discussion); and
  - the present value of all future benefits is currently expected to be less than the present value of future employee contributions for new Class CB members in SERS (see page 21 of the Milliman note).
- The cost estimates for PSERS reflect in advance the subsidy/potential arbitrage between the cash balance interest crediting rate and the assumed investment return, which results in apparent reduced costs for current members as these new members are added to the system, added risk, and the potential for additional employer costs (see page 21 of the Milliman note).
- The costs estimated for SERS do not reflect in advance the subsidy/potential arbitrage between the cash balance interest crediting rate and the assumed investment return (see page 22 of the Milliman note).
- It is the opinion of Milliman that the normal cost should reflect prospective benefits to be earned by all members in each System (without reflecting any potential subsidy from the cash balance members that may emerge). Consideration should be given to modifying the SERS method for determining the normal cost rate (see page 18 of the Milliman note).
- It is the opinion of Milliman that the assumed cash balance interest crediting rate of 3% utilized in the projections of both Systems is too low as a long term assumption. Additionally, the expected value of the excess interest credit on cash balance accounts and the potential for lower employee contributions in future years has a positive liability.

Therefore, the potential savings for the amended bill are overstated (see page 25 of the Milliman note).

- In light of the shared-risk, shared-gain, and contribution savings program plus the potential for excess interest credit on cash balance accounts, it is the opinion of Milliman that stochastic modeling analyzing various economic outcomes should be performed for both Systems to fully understand the underlying risks associated with these provisions (see page 26 of the Milliman note).

- In light of the potential reduction in employer provided benefits, consideration should be given to having a formal analysis conducted to review member benefit adequacy reflecting varying economic scenarios (see page 15 of the Milliman note).

- Milliman is concerned that the new employee cohort utilized for PSERS may overstate the percentage of part-time employees entering PSERS due to the one-time spike in existing part-time employees becoming members due to Act 120 (see page 26 of the Milliman note).

- In light of the elimination of the participation requirement for PSERS, Milliman does not believe that the projections reflect the possibility of increased membership due to the amended bill (see page 27 of the Milliman note).

The Commission's consulting actuary has created a table (Table 2) showing the expected accumulated nominal dollar cash flow costs/(savings) on the employer contributions for the fiscal years 2015-2016 through 2047-48 for both Systems under Amendment Number 02701, as provided by the System actuaries. The chart also shows the present value of the expected cash flow costs/(savings) as of June 30, 2015, assuming end of year payment, at 3.9% (a proxy for budget growth) and 7.5% (the current investment return for the Systems). The 3.9% proxy for budget growth is based on the annual growth in estimated general fund revenue from 2017-2018 to 2019-2020 shown on page C1-12 in the Governor's Executive Budget for 2015-2016. The reader will note that the total costs/(savings) shown in the Commission's consulting actuary's table differs from that in the System actuary's cost estimates for SERS. The reason for this is that the Commission's consulting actuary shows their projections through 2047-2048, while the System actuary makes projections through 2051-52.

Table 2
Impact on Employer Contributions
If Senate Bill No. 1, P. N. 866, as Amended by Amendment No. 02701 is enacted
For Fiscal Years 2015-2016 through 2047-2048
(Amounts in millions and based on System actuary's projections)

	Cash Flow Costs / (Savings) as determined by System Actuary	Present Value of Cash Flow Costs / (Savings) at 3.9%	Present Value of Cash Flow Costs / (Savings) at 7.5%
PSERS	$(8,351.7)	$(4,237.4)	$(2,501.4)
SERS	(1,771.7)	(945.4)	(606.9)
Total	(10,123.4)	(5,182.8)	(3,108.3)

The overall impact of the proposal on **PSERS** is summarized in Table 3. As compared to PSERS' consulting actuary's estimates of the cumulative savings that would result under Senate Bill Number 1, Printer's Number 886, the estimated savings for the side-by-side hybrid plan as amended by Amendment Number 02701 would yield a total **reduction in savings of approximately $7.902 billion** on a cash flow basis over the 30-year projection period through Fiscal Year 2047-2048 for PSERS. The actuarial cost impact developed by the consulting actuary is shown in the following tables. Table 5 shows the projection of employer contributions under Amendment Number 02701 in comparison with the existing law and under Senate Bill Number 1, Printer's Number 886. Table 6 shows the projection for the System's funded ratio and unfunded liability under Amendment Number 02701 in comparison with the existing law and under Senate Bill Number 1, Printer's Number 886.

The overall impact of the proposal on **SERS** is summarized in Table 4. As compared to SERS' consulting actuary's estimates of the cumulative savings that would result under Senate Bill Number 1, Printer's Number 886, the estimated savings for the side-by-side hybrid plan as amended by Amendment Number 02701 would yield an **additional savings of approximately $713 million** over the projection period through Fiscal Year 2051-2052 for SERS. The actuarial cost impact developed by the consulting actuary is shown in the following tables. Table 7 shows the projection of employer contributions under Amendment Number 02701 in comparison with the existing law and under Senate Bill Number 1, Printer's Number 886. Table 8 shows the projection for the System's funded ratio and unfunded liability under Amendment Number 02701 in comparison with the existing law and under Senate Bill Number 1, Printer's Number 886.

Table 3
Public School Employees' Retirement System of Pennsylvania
Cost/(Savings) Allocation of Table 5 - Total Potential Projected Cost/(Savings)
Due to Senate Bill No. 1 as Amended by Amendment No. 02701
(Amounts in millions)

	Cash Flow Basis	Present Value as of June 30, 2015
Benefit Reforms		
Employees who first become a member on or after July 1, 2016		
Cash balance plan and defined contribution plan for school employees hired after June 30, 2016 in lieu of Class TE or TF membership under current PSERS	$ (3,536.1)	$ (653.6)
Members as of June 30, 2016		
Cost neutral Option 4 withdrawals for service on or after July 1, 2016	$ (4,815.6)	$ (1,847.8)
Total Senate Bill No. 1 Cost/(Savings) Under Amend. No. 02701	$ (8,351.7)	$ (2,501.4)

Notes:

1 Cost allocation is dependent on the order in which the changes are implemented. If a different order is utilized, individual results will vary. The cost/(savings) allocation presented assumes benefit reforms for employees who first become a member on or after July 1, 2016 are reflected first. This order of reform recognition differs from the May 6, 2016 Draft Senate Bill # 1 cost note.

2 Based on Buck's Amended Senate Bill No. 1 - Track B cost note dated June 24, 2015. All statements of reliance included in that cost note continue to apply. Please refer to that cost note for more information.

3 The present value of the cost/(savings) is based upon the valuation discount rate of 7.5%. Changing that rate would modify the present value.

4 The reported cost/(savings) attributable to employees who first become a member on or after July 1, 2016 includes a (savings) of $(13,710.7) due to the alternative CB plan and a cost of $10,174.6 due to the DC plan.

Table 4
State Employees' Retirement System
Allocation of Potential Projected (Savings)/Cost Through FY 2052
Due to Senate Bill No. 1 as Amended by Amendment No. 02701
(Amounts in millions)

Benefit Reforms	
Amendment - Cash Balance Tier for hires after December 31, 2015	$ (15,906.7)
Amendment - Defined Contribution Plan for hires after December 31, 2015	12,860.7
Amendment - Legacy Changes: Cost Neutral Option 4	(669.4)
Amendment - Legacy Changes: Contribution/Accrual Rate Changes	(2,385.1)
Amendment - Legacy Changes: FAS, including SSWB Limit for A3's & A4's	(605.9)
Sub-total Benefit Reforms	$ (6,706.4)
Funding Reforms	
30-year fresh start of unfunded accrued liability December 31, 2015	4,696.5
Total SB 1 (Savings)/Cost through FY 2052	$ (2,009.9)
<u>Amendment No. 02701</u>	
Amendment - Remove Fresh Start	$ (4,812.0)
Amendment - Exempt State Police, Correction, Hazardous Duty	1,752.9
Amendment - Remove Legacy Contribution/Accrual Rate Changes	2,346.1
Variation #4 Subtotal	(713.0)
Total SB 1 (Savings)/Cost through FY 2052 under Amendment No. 02701	$ (2,722.9)

Notes:

The potential cost/savings was valued in the following order:

- Cash Balance Tier for new entrants
- Defined Contribution Plan for new entrants
- Fresh start of unfunded accrued liability December 31, 2015
- Legacy DB changes, applicable post-December 31, 2015:
  - Cost Neutral Option 4
  - Future contribution/accrual rate changes, including accruals ceasing upon election/reelection
  - Final average salary changes, including SSWB Limit for A3's & A4's
- Variation Changes are made in the order shown under each variation

If a different order is used, the cost impact will vary from what is shown above.

Table 5
Public School Employees' Retirement System
Projection of Contribution Rates
Current PSERS vs. Senate Bill No. 1 as Amended by Amendment No. 02701

	Under the Existing Law		Under Senate Bill No. 1				Under Amendment No. 02701			
					Cost/(Savings)				Cost/(Savings)	
Fiscal Year	Percent-age	Dollar Amount (In Thousands)	Percent-age	Dollar Amount (In Thousands)	Cash Flow Basis	Present Value as of June 30, 2015	Percent-age	Dollar Amount (In Thousands)	Cash Flow Basis	Present Value as of June 30, 2015
2013	12.36		12.36				12.36			
2014	16.93		16.93				16.93			
2015	21.40	$2,885,148	21.40	$2,885,148	$0	$0	21.40	$2,885,148	$0	$0
2016	25.84	3,456,100	25.84	3,456,100	0	0	25.84	3,456,100	0	0
2017	29.69	4,079,195	29.12	4,001,230	(77,965)	(67,466)	29.13	4,002,604	(76,591)	(66,277)
2018	30.62	4,316,593	26.85	3,784,891	(531,702)	(427,999)	29.77	4,196,532	(120,061)	(96,644)
2019	31.56	4,569,239	27.81	4,026,046	(543,194)	(406,744)	30.63	4,434,324	(134,916)	(101,025)
2020	32.23	4,794,454	28.51	4,241,735	(552,718)	(385,001)	31.22	4,644,868	(149,586)	(104,195)
2021	32.02	4,892,886	28.32	4,327,247	(565,639)	(366,512)	30.95	4,729,130	(163,756)	(106,108)
2022	31.90	5,005,091	28.21	4,425,785	(579,306)	(349,180)	30.76	4,825,878	(179,213)	(108,021)
2023	31.96	5,149,606	28.30	4,560,582	(589,025)	(330,267)	30.76	4,956,953	(192,653)	(108,021)
2024	31.90	5,276,635	28.29	4,679,381	(597,254)	(311,518)	30.64	5,068,098	(208,537)	(108,769)
2025	31.83	5,404,815	28.25	4,797,712	(607,103)	(294,563)	30.52	5,183,164	(221,651)	(107,544)
2026	31.90	5,555,781	28.36	4,939,375	(616,406)	(278,211)	30.53	5,317,308	(238,473)	(107,633)
2027	31.99	5,709,259	28.50	5,086,035	(623,223)	(261,663)	30.59	5,459,038	(250,221)	(105,056)
2028	32.10	5,865,715	28.65	5,234,596	(631,118)	(246,491)	30.64	5,598,234	(267,481)	(104,468)
2029	32.20	6,020,442	28.82	5,387,660	(632,783)	(229,898)	30.72	5,742,903	(277,539)	(100,834)
2030	32.31	6,178,835	28.99	5,543,276	(635,558)	(214,797)	30.78	5,885,589	(293,246)	(99,107)
2031	32.43	6,340,635	29.17	5,703,086	(637,549)	(200,437)	30.87	6,035,466	(305,169)	(95,941)
2032	32.58	6,509,681	29.37	5,868,979	(640,702)	(187,375)	30.97	6,188,669	(321,012)	(93,881)
2033	32.72	6,679,209	29.60	6,042,134	(637,075)	(173,316)	31.08	6,344,250	(334,959)	(91,125)
2034	32.88	6,856,314	29.82	6,217,348	(638,966)	(161,703)	31.20	6,505,113	(351,201)	(88,878)
2035	33.03	7,036,790	30.04	6,400,506	(636,285)	(149,790)	31.29	6,666,809	(369,982)	(87,099)
2036	18.12	3,943,950	15.20	3,308,710	(635,240)	(139,111)	16.36	3,561,193	(382,757)	(83,820)
2037	14.27	3,173,457	11.42	2,539,655	(633,801)	(129,112)	12.47	2,773,161	(400,295)	(81,544)
2038	12.46	2,831,765	9.69	2,202,016	(629,749)	(119,336)	10.62	2,413,375	(418,390)	(79,284)
2039	10.43	2,422,607	7.74	1,797,396	(625,211)	(110,211)	8.57	1,990,182	(432,424)	(76,227)
2040	8.80	2,090,021	6.17	1,464,510	(625,510)	(102,571)	6.89	1,635,512	(454,509)	(74,530)
2041	7.28	1,769,320	5.59	1,359,061	(410,258)	(62,580)	6.20	1,507,315	(262,005)	(39,966)
2042	5.93	1,476,104	4.33	1,078,904	(397,200)	(56,361)	4.82	1,200,875	(275,229)	(39,054)
2043	4.55	1,161,604	3.21	820,047	(341,556)	(45,084)	3.42	873,660	(287,944)	(38,008)
2044	4.14	1,085,716	3.04	798,382	(287,334)	(35,281)	3.04	798,382	(287,334)	(35,281)
2045	4.00	1,079,491	3.11	839,268	(240,224)	(27,439)	3.11	839,268	(240,224)	(27,439)
2046	3.88	1,079,385	3.17	881,100	(198,286)	(21,068)	3.17	881,100	(198,286)	(21,068)
2047	3.75	1,075,379	3.22	923,322	(152,057)	(15,029)	3.22	923,322	(152,057)	(15,029)
2048	3.62	1,070,100	3.27	966,091	(104,010)	(9,563)	3.27	966,091	(104,010)	(9,563)
			Total Cost/(Savings):		$(16,254,008)	$(5,915,676)	Total Cost/(Savings):		$ (8,351,709)	$(2,501,439)

Table 6
Public School Employees' Retirement System
Projection of Funded Ratio and Unfunded Liability
Current PSERS vs. Senate Bill No. 1 as Amended by Amendment No. 02701

	Under the Existing Law		Under Senate Bill No. 1		Under Amendment No. 02701	
Fiscal Year	Funded Ratio Percentage	Unfunded Liability Dollar Amount (In Millions)	Funded Ratio Percentage	Unfunded Liability Dollar Amount (In Millions)	Funded Ratio Percentage	Unfunded Liability Dollar Amount (In Millions)
2013	63.8	$32,598.6	63.8	$32,598.6	63.8	$32,598.6
2014	62.0	35,121.2	62.0	35,121.2	62.0	35,121.2
2015	60.6	37,413.9	61.5	36,136.9	61.4	36,148.9
2016	59.6	39,412.8	60.5	38,040.0	60.5	38,052.9
2017	58.7	41,424.4	59.5	40,040.6	59.5	40,053.6
2018	58.4	42,871.0	59.0	41,478.6	59.1	41,491.7
2019	60.0	42,296.8	60.6	40,898.3	60.7	40,911.5
2020	61.7	41,603.7	62.2	40,202.2	62.3	40,215.4
2021	63.0	41,228.1	63.4	39,826.9	63.5	39,840.1
2022	64.7	40,395.1	64.9	38,998.0	65.1	39,011.1
2023	66.5	39,344.6	66.6	37,955.7	66.8	37,968.7
2024	68.1	38,382.2	68.1	37,006.1	68.4	37,019.0
2025	69.9	37,192.9	69.7	35,834.6	70.0	35,847.3
2026	71.8	35,741.5	71.5	34,406.5	71.8	34,419.1
2027	73.8	34,014.0	73.4	32,708.6	73.7	32,720.9
2028	75.9	31,999.5	75.4	30,730.3	75.8	30,742.3
2029	78.2	29,682.5	77.6	28,457.0	78.0	28,468.6
2030	80.6	27,032.1	79.9	25,858.4	80.3	25,869.4
2031	83.1	24,014.7	82.5	22,901.8	82.9	22,912.3
2032	85.8	20,597.9	85.2	19,555.4	85.6	19,565.2
2033	88.7	16,743.8	88.2	15,782.5	88.5	15,791.6
2034	91.8	12,411.6	91.4	11,543.2	91.7	11,551.4
2035	95.1	7,559.2	95.0	6,796.4	95.2	6,803.5
2036	96.6	5,418.8	96.5	4,775.5	96.6	4,781.5
2037	97.6	3,871.2	97.5	3,362.4	97.6	3,367.2
2038	98.4	2,529.3	98.4	2,171.7	98.5	2,175.0
2039	99.1	1,474.9	99.1	1,286.3	99.1	1,288.1
2040	99.6	654.8	99.5	654.8	99.5	654.8
2041	100.0	72.5	99.9	72.5	100.0	72.5
2042	100.2	(280.8)	100.2	(283.4)	100.2	(280.8)
2043	100.2	(362.3)	100.3	(418.1)	100.2	(362.3)
2044	100.2	(395.4)	100.4	(555.8)	100.3	(409.0)
2045	100.2	(428.1)	100.6	(753.3)	100.4	(523.9)
2046	100.2	(463.0)	100.7	(1,009.1)	100.5	(706.5)
2047	100.3	(500.9)	101.0	(1,326.7)	100.7	(961.1)
2048	100.3	(541.1)	101.2	(1,705.9)	100.9	(1,291.5)

Table 7
State Employees' Retirement System
Projection of Contribution Rates
Current SERS vs. Senate Bill No. 1 as Amended by Amendment No. 02701

	Under the Existing Law		Under Senate Bill No. 1			Under Amendment No. 02701		
Fiscal Year	Percentage	Dollar Amount (In Millions)	Percentage	Dollar Amount (In Millions)	Increase/ (Decrease) (In Millions) *	Percentage	Dollar Amount (In Millions)	Increase/ (Decrease) (In Millions) *
2012/2013	11.50	677.4	11.50	677.4	-	11.50	677.4	-
2013/2014	16.00	933.8	16.00	933.8	-	16.00	933.8	-
2014/2015	20.50	1,209.0	20.50	1,209.0	-	20.50	1,209.0	-
2015/2016	25.00	1,505.4	24.99	1,504.8	(0.6)	24.98	1,504.4	(1.0)
2016/2017	29.50	1,830.6	27.71	1,719.3	(111.9)	29.72	1,844.0	12.4
2017/2018	30.41	1,944.5	26.75	1,710.7	(345.7)	29.21	1,867.9	(64.1)
2018/2019	29.40	1,937.1	25.76	1,697.2	(585.7)	28.22	1,859.9	(141.3)
2019/2020	28.82	1,957.0	25.27	1,715.9	(826.8)	27.73	1,882.9	(215.4)
2020/2021	28.15	1,970.0	24.69	1,727.8	(1,068.9)	27.13	1,898.4	(287.1)
2021/2022	27.52	1,984.4	24.14	1,740.9	(1,312.4)	26.56	1,915.3	(356.2)
2022/2023	26.92	2,000.2	23.63	1,755.6	(1,557.0)	26.01	1,933.0	(423.4)
2023/2024	26.34	2,016.9	23.13	1,771.6	(1,802.3)	25.49	1,951.9	(488.4)
2024/2025	25.78	2,034.0	22.66	1,788.0	(2,048.3)	24.98	1,971.5	(550.9)
2025/2026	25.23	2,051.7	22.20	1,805.1	(2,294.9)	24.49	1,991.4	(611.2)
2026/2027	24.70	2,070.0	21.75	1,822.9	(2,542.0)	24.01	2,012.2	(669.0)
2027/2028	24.19	2,089.0	21.32	1,841.3	(2,789.7)	23.55	2,033.4	(724.6)
2028/2029	23.69	2,108.5	20.91	1,860.7	(3,037.5)	23.09	2,055.1	(777.9)
2029/2030	23.21	2,128.6	20.51	1,880.7	(3,285.5)	22.66	2,078.0	(828.5)
2030/2031	22.74	2,149.3	20.12	1,901.5	(3,533.3)	22.24	2,101.4	(876.4)
2031/2032	22.29	2,170.7	19.75	1,923.3	(3,780.7)	21.82	2,125.3	(921.8)
2032/2033	21.85	2,192.8	19.39	1,946.3	(4,027.2)	21.43	2,150.3	(964.3)
2033/2034	21.42	2,215.6	19.05	1,969.8	(4,273.0)	21.05	2,176.8	(1,003.1)
2034/2035	21.01	2,239.0	18.71	1,993.6	(4,518.4)	20.68	2,203.5	(1,038.6)
2035/2036	20.61	2,263.2	18.38	2,018.0	(4,763.6)	20.31	2,230.1	(1,071.8)
2036/2037	20.22	2,288.2	18.05	2,042.8	(5,009.0)	19.94	2,256.8	(1,103.2)
2037/2038	19.84	2,314.0	17.74	2,068.3	(5,254.7)	19.58	2,283.6	(1,133.6)
2038/2039	19.48	2,340.5	17.43	2,094.8	(5,500.5)	19.23	2,311.5	(1,162.6)
2039/2040	19.12	2,367.9	17.13	2,121.7	(5,746.7)	18.90	2,341.2	(1,189.3)
2040/2041	15.06	1,921.8	16.84	2,148.7	(5,519.8)	14.86	1,896.9	(1,214.1)
2041/2042	12.13	1,595.7	16.54	2,175.4	(4,940.1)	11.95	1,572.1	(1,237.8)
2042/2043	8.86	1,200.8	16.25	2,201.8	(3,939.0)	8.70	1,178.4	(1,260.2)
2043/2044	6.85	957.1	15.96	2,228.4	(2,667.7)	6.71	936.9	(1,280.4)
2044/2045	6.67	959.9	15.67	2,255.1	(1,372.5)	6.55	943.1	(1,297.2)
2045/2046	6.42	952.1	15.39	2,282.0	(42.6)	6.33	938.1	(1,311.2)
2046/2047	6.18	944.6	4.29	655.2	(332.0)	4.66	712.9	(1,542.8)
2047/2048	6.30	992.4	4.33	682.2	(642.2)	4.85	763.5	(1,771.7)
2048/2049	6.44	1,045.5	4.37	709.1	(978.6)	5.03	815.7	(2,001.5)
2049/2050	6.42	1,072.9	4.40	736.1	(1,315.4)	5.01	837.3	(2,237.1)
2050/2051	6.43	1,108.6	4.44	764.5	(1,659.6)	5.04	868.1	(2,477.6)
2051/2052	6.44	1,144.4	4.47	794.1	(2,009.9)	5.06	899.1	(2,722.9)

*Savings shown are cumulative.

Table 8
State Employees' Retirement System
Projection of Funded Ratio and Unfunded Liability
Current SERS vs. Senate Bill No. 1 as Amended by Amendment No. 02701

	Under the Existing Law		Under Senate Bill No. 1		Under Amendment No. 02701	
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)
2012/2013	65.3	14.69	65.3	14.69	65.3	14.69
2013/2014	58.8	17.78	58.7	17.78	58.7	17.78
2014/2015	59.2	17.90	59.2	17.90	59.2	17.90
2015/2016	59.4	18.17	59.4	18.17	59.4	18.17
2016/2017	59.7	18.42	57.6	20.10	56.5	21.01
2017/2018	61.4	18.01	59.3	19.65	58.3	20.54
2018/2019	63.2	17.53	60.9	19.12	60.0	20.03
2019/2020	64.2	17.35	61.8	18.96	60.9	19.87
2020/2021	65.4	17.07	62.7	18.70	62.1	19.58
2021/2022	66.6	16.77	63.6	18.43	63.1	19.28
2022/2023	67.8	16.45	64.5	18.15	64.2	18.96
2023/2024	68.9	16.12	65.3	17.86	65.3	18.62
2024/2025	70.0	15.76	66.1	17.54	66.3	18.24
2025/2026	71.2	15.37	67.0	17.21	67.4	17.83
2026/2027	72.3	14.94	67.8	16.84	68.5	17.39
2027/2028	73.5	14.48	68.6	16.45	69.6	16.91
2028/2029	74.8	13.98	69.4	16.03	70.8	16.38
2029/2030	76.0	13.44	70.3	15.58	71.9	15.81
2030/2031	77.3	12.85	71.2	15.10	73.2	15.20
2031/2032	78.7	12.22	72.1	14.57	74.5	14.52
2032/2033	80.1	11.54	73.1	14.01	75.9	13.80
2033/2034	81.6	10.79	74.2	13.41	77.3	13.03
2034/2035	83.1	9.99	75.3	12.76	78.9	12.18
2035/2036	84.7	9.13	76.5	12.07	80.6	11.26
2036/2037	86.4	8.19	77.8	11.32	82.3	10.25
2037/2038	88.2	7.18	79.2	10.51	84.3	9.14
2038/2039	90.1	6.09	80.7	9.65	86.3	7.96
2039/2040	92.1	4.91	82.4	8.72	88.5	6.69
2040/2041	94.2	3.63	84.2	7.72	90.9	5.32
2041/2042	95.7	2.73	86.3	6.64	92.7	4.30
2042/2043	96.7	2.11	88.5	5.48	94.0	3.55
2043/2044	97.2	1.87	91.0	4.24	94.6	3.18
2044/2045	97.2	1.87	93.7	2.91	94.8	3.07
2045/2046	97.2	1.89	96.8	1.47	95.0	2.96
2046/2047	97.1	1.95	100.2	(0.07)	95.2	2.87
2047/2048	97.0	2.06	100.1	(0.03)	95.0	3.01
2048/2049	96.9	2.14	100.1	(0.04)	94.8	3.12
2049/2050	96.8	2.21	100.1	(0.06)	94.7	3.20
2050/2051	96.8	2.29	100.1	(0.06)	94.5	3.29
2051/2052	96.7	2.37	100.2	(0.07)	94.4	3.37

POLICY CONSIDERATIONS

In reviewing the bill, the Commission staff 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). As written, the active member benefit modifications proposed in the bill may be found to impair the benefit rights of the affected active members.

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.

Renewal of Pension Contract. In *Shiomos v. State Employes' Retirement Board,* 533 Pa. 588, 626 A.2d 158 (1993), the Supreme Court held that a public official, at every new elected term of office, renews his pension contract subject to the law in effect when the new term of office commences. While this case, and the subsequent decisions that follow its holding, specifically relates to Section 3 of the Public Employee Pension forfeiture Act, 1978, July 8, P. L. 752, No. 140, 43 P.S. § 1313(c), the core of the court's analysis is that a statutory provision can alter otherwise protected benefits contingent upon a change in the nature of the employment. That analysis may apply equally to the statutory amendment proffered by this legislation.

COMMISSION RECOMMENDATION

On June 29, 2015, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2015

A later version of Senate Bill Number 1 (Printer's Number 1132) was vetoed by the Governor on July 9, 2015 (Veto No. 5 of 2015).

To view this note in its entirety, click the following link: Senate Bill Number 1, Printer's Number 886, as amended by Amendment Number 02701.

Bill ID: Senate Bill Number 129, Printer's Number 265

System: Act 96 County Pension Plans

Subject: Cost-of-Living Adjustments

SYNOPSIS

Senate Bill Number 129, Printer's Number 265, 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. The bill would also add a definition for "cost-of-living index" to be used in the determination of cost-of-living adjustments.

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 $7.2 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[5]	102.77
Allegheny[6]	2009	55.44
Armstrong	2009	83.08
Beaver	2000	96.81[7]
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[5]	102.48
Franklin	2009	AGG
Fulton	2009	AGG
Greene	No known COLAs	91.72
Huntingdon	2011	AGG
Indiana	No known COLAs	AGG
Jefferson	2007[5]	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[5]	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[8]	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.

5 A PMRS county plan. PMRS only grants COLAs when excess interest exists.
6 Allegheny County is a second class county and not subject to Act 96. It is being included for informational purposes only.
7 Beaver County has two additional county pension plans, both of which use an aggregate cost method.
8 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 129, Printer's Number 265, 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.

The bill also adds a definition for "cost-of-living index," which is to mean the Consumer Price Index for All Urban Consumers (CPI-U) for the Pennsylvania, New Jersey, Delaware and Maryland area. Since there are many variations of the "cost-of-living index" in practice, having a specific definition included in Act 96 is useful from the standpoint that each county providing cost-of-living adjustments is basing it upon the same measure of increase in the cost of living.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed Senate Bill Number 129, Printer's Number 265, and determined that no precise cost estimate can be made since the bill contains no specific COLA proposal for retired county employees. The costs, if a specific COLA(s) were to be provided under the bill, would be a function of the frequency and amount of COLAs granted under 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 increases, allowing for local determinations of the need for and feasibility of the cost-of-living adjustments.
>
> 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 February 25, 2015, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2015

A later version of Senate Bill Number 129 (Printer's Number 1120) passed the Senate on June 26, 2015, and was referred to the House Finance Committee on June 28, 2015.

To view this note in its entirety, click the following link: Senate Bill Number 129, Printer's Number 265.

Bill ID: Senate Bill Number 401, Printer's Number 315

System: State Employees' Retirement System

Subject: State Legislators' Defined Contribution Program

SYNOPSIS

Senate Bill Number 401, Printer's Number 315, would amend Title 71 (State Government) by adding a new chapter, Chapter 56, titled "State Legislators' Defined Contribution Program," and by modifying the mandatory and prohibited membership sections in Chapter 53 regarding membership in the State Employees' Retirement System (SERS). Chapter 56 of Title 71 would establish a new voluntary retirement program applicable to any State legislator who first becomes a member of the General Assembly on or after December 1, 2016, or who is re-elected to serve as a member of the General Assembly beginning on or after December 1, 2016. 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, 2016. A current member who is re-elected to serve in the General Assembly beginning on or after December 1, 2016, would cease accruing service credit in SERS as of November 30, 2016, but would have the opportunity to elect membership in the State Legislators' Defined Contribution Program.

DISCUSSION

The Retirement Codes and Systems

The State Employees' Retirement Code (Code) is a governmental, defined benefit, cost-sharing, multiple-employer retirement plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits to State employees. As of December 31, 2014, there were approximately 104 participating State and other organizations in SERS.

Membership in SERS is mandatory for most State employees. Certain other employees are not required but are given the option to participate. As of December 31, 2014, there were 104,431 active members and 122,249 annuitant members of SERS.

For most members of the System, 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 SERS are Class AA members and contribute 6.25% of pay to the System. Within SERS, there are a number of additional membership classes with corresponding benefit accrual and employee contribution rates that differ from the majority of State employees.

Act 120 of 2010 implemented major pension 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.

Under the State Employees’ Retirement Code, superannuation or normal retirement age for most members is age 60 with at least 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 SERS who first became members after the effective date 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.

State Legislators’ Defined Contribution Program

Effective December 1, 2016, the new retirement program established by the bill, known as the State Legislators’ Defined Contribution Program (Program), would consist of a defined contribution (DC) plan with an employer-matching contribution of up to 4% of the member’s pensionable earnings. Once eligible, a State legislator would have 90 days to elect to participate in the program. A participant may contribute to the pension plan up to the limits imposed by Federal law. A participant would become vested in the employer-matching contributions after three years of service in the General Assembly during which the member participated in the program.

If enacted, the bill would create an additional benefit tier for State legislators, replacing the traditional defined benefit tiers currently provided by SERS with a defined contribution plan applicable to all current and prospective members of the General Assembly. For the purposes of the Commission’s discussion, the major issues of the new pension plan 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 mandates the creation of the State Legislators' Defined Contribution Program, establishes the SERS Board as administrator of the program, and sets forth the board's powers and duties. Most of the details governing the actual operation of the new program are delegated to the SERS Board which will be responsible for establishing the rules and regulations governing the Program. These rules and regulations will presumably address the many specific details involved in the operation of a public pension plan, such as the collection of contributions, investment options, benefit payment methods, domestic relations orders, beneficiary designations, etc. It also appears that most of the new program's investment and administrative functions will be handled by third-party administrators contracted by the board to provide the necessary services.

Coverage, Benefits and Contributions

The General Assembly consists of 253 members – 203 representatives with two-year terms and 50 senators with four-year terms. Based on the demographic data provided by the System, as of December 31, 2014, there are currently 227 legislators participating in SERS. With the exception of special elections, terms will end for all representatives and half of the senators in 2016. Terms will end for the remaining senators in 2018.

As it is currently written, the bill would cease active membership in SERS for currently participating legislators as of November 30, 2016. It is the understanding of the Commission, however, that active membership cannot be ended for a legislator in the middle of a term. Any such active membership in SERS would cease at the end of an elected term. The current language of the bill would need to be revised before enactment to reflect that active membership in SERS would end as of November 30, 2016, or the date a legislator's current term ends, whichever is later.

Upon the end of a member's term, the bill would freeze the accrued benefits of the State legislator in SERS, along with credited service. Member contributions would cease and the member would not be eligible for disability benefits. Because the current definition of "final average salary" in the SERS Code refers to a member's compensation and is not limited to an *active* member's compensation, the bill as currently written would not freeze a legislator's compensation for purposes of determining the final average salary once active membership in SERS has ended. This would enable a current legislator who becomes an inactive member of SERS to continue receiving increased benefits due to salary increases during the member's working career. If it is the intent of the bill's sponsors to freeze the final average salary upon the end of active membership in SERS, then the bill should be revised to clarify this language prior to enactment.

By prohibiting continued membership in SERS and the accrual of service credit after November 30, 2016, for current members of the General Assembly, it appears that the bill would impair the retirement benefit rights of active members who are re-elected to serve beginning on or after December 1, 2016. It has been well-established that in the Commonwealth, 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). *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 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).

Participants in the Program would become fully vested in the employer-matching contributions after three years of service during which the member participated in the program. Presumably, non-vestees who terminate service prior to vesting would be entitled to a return of their own contributions to the plan; however, there is no specific provision for this contingency.

Under the Program, the maximum employer contribution is 4% of compensation. The current employer normal cost rate for SERS members is 5% of compensation. Because legislators currently have an earlier superannuation age than Class A-3 members, the employer normal cost rate for legislators would be more than 4% of compensation. Therefore, the value of the employer-provided benefits to the participants of the program will generally be lower than the employer-provided benefits provided to current SERS members. Historically, members of the General Assembly have been a part of special membership classes that have been entitled to enhanced retirements benefits and reduced superannuation requirements.

Although the new pension plan is established as a defined contribution pension plan, the language in the bill is unclear as to whether member contributions to the plan are mandatory or voluntary. Section 5609 seems to indicate that participant contributions are mandatory by stating that "regular participant contributions shall be made to the program on behalf of each participant," and that the employer "shall cause participant contributions for current service to be made." However, later in the section, it is stated that participants "*may* elect to contribute to the program on their behalf." Participants may make contributions to the program on their own behalf to the extent permitted by Federal law, with a dollar-for-dollar employer-matching contribution of up to 4% of the member's "pensionable earnings," a term that is not defined. The bill does not set a minimum participant contribution rate for either the participant or the employer, which could mean that participants may choose to contribute nothing, and likewise, the employer would also make no contributions toward the participant's retirement plan. Further, there may be serious tax-qualification issues involved with such an approach. Based on the Commission's understanding of the IRC tax-qualification rules, employee contributions to a defined contribution plan sponsored by a governmental entity can only be made on a pre-tax basis if plan membership is mandatory or there is a one-time irrevocable salary reduction agreement in place.

Investments

Participants of the Program will be provided with a variety of investment options, including lifestyle funds that are based upon age and projected retirement date. The Program will also make available investment options that represent a broad cross-section of asset classes and risk profiles. The bill includes no provision in the event an active participant does not select a specific investment option, such as providing a default investment option that would be the lifestyle fund which most closely represents the current demographic of the active participant and the projected retirement date of the active participant.

The SERS Board will designate a third-party administrator to run the daily operations of the new retirement program. The third-party administrator will be responsible for informing participants of specific investment options offered, along with designing a comprehensive educational program to assist participants in retirement planning education and financial planning guidance on matters such as investment diversification, investment risks, investment costs and asset allocation.

The SERS Board will not be held responsible for any investment losses incurred by participants in the Program or for the failure of any investment to earn a specific or expected return. The board will bear the expenses arising from allowing public employee participation in the Program and for contribution deductions to the fund managers. All other expenses from the administration of the Program will be assessed against the accounts created on behalf of participants, either by the fund managers or by the board.

Ancillary Issues

Liability Contributions. If the bill is enacted, legislators would no longer be considered active members of SERS and employer contributions to SERS from the General Assembly would not be required. Because SERS has an unfunded actuarial accrued liability, consideration should be given to requiring a past service liability contribution from the General Assembly prior to the bill's enactment. Such contribution could be equal to the SERS' employer contribution rate applied to the legislators' compensation less the defined contribution employer-matching contributions and could be payable until SERS no longer has an unfunded actuarial accrued liability.

DISCUSSION (CONT'D)

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. Because ownership of the funds vests immediately with the employee at the time of contribution under a defined contribution plan, it is unclear to what extent the Public Employee Pension Forfeiture Act would apply to the individual retirement accounts of the Program's participants.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has estimated the actuarial cost of the bill as written and as if it were amended to freeze the final average salary for current legislators upon re-election to the General Assembly. According to Section 5508(c)(3) of the SERS Code, increases due to legislation enacted subsequent to December 2009 are to be amortized in equal dollar payments over 10 years. The estimate is based on census data provided by the System for 227 legislators who are currently members of SERS. As of June 2015, the payroll was $20,069,578.

Estimated Actuarial Cost for SERS
($ Amount In Millions)

	Senate Bill 401 as Drafted	Senate Bill 401 if Amended to Freeze Final Average Salary
Change in Unfunded Accrued Liability (UAL)	$(1.5)	$(6.3)
% of Affected Payroll	- 7.5%	- 31.4%
Change in First Year Employer Contribution		
Normal Cost	$(1.0)	$(1.0)
UAL Amortization	(0.2)	(0.9)
Total	(1.2)	(1.9)
% of Affected Payroll	- 6.0%	- 9.5%

The amounts do not include the employer-matching contributions to the new DC plan. If all legislators currently in SERS elect to contribute at least 4% of payroll to the new plan, the employer-matching contribution would be about $803,000 reflecting the June 2015 payroll.

Because legislators would no longer be considered active members of SERS, their payroll would not be included in the appropriation payroll used to determine the employer contribution rate. Because the appropriation payroll would be slightly lower and the amortization amount of the unfunded actuarial accrued liability would not be changing, the employer contribution rate, prior to the application of the collared contribution rate, would increase slightly. The example provided by the Commission's consulting actuary shows that if the legislative payroll of $20,000,000, as of December 31, 2013, were not included in the SERS appropriation payroll of $5,897,627,000, the employer contribution rate for fiscal year 2014-2015 would increase by 0.10% prior to the application of the collared contribution rate.

POLICY CONSIDERATIONS

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

Contract Impairment. By prohibiting continued membership in SERS and the accrual of service credit after November 30, 2016, for current members of the General Assembly, it appears that the bill would impair the retirement benefit rights of active members who are re-elected to serve beginning on or after December 1, 2016. It has been well-established that in the Commonwealth, 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).

Benefit Value and Security. While a detailed benefit comparison was beyond the scope of the Commission's actuarial note, the DC plan proposed in the bill would provide members of the General Assembly (both current and prospective) with a retirement income that is likely to be less valuable, predictable and secure than SERS' traditional defined benefit plan. During the past decade, defined contribution plan participants have endured two major market down-turns that have negatively affected the investment performance of their retirement accounts; the first during the period from roughly 2001-2003, and most recently in 2008. In view of these past market fluctuations, retirement planning based on projected DC account balances is likely to be less predictable and involve greater individual attention to risk management than participation in a traditional defined benefit plan. Historically, members of the General Assembly have been a part of special membership classes that have been entitled to enhanced retirement benefits and reduced superannuation requirements. Policymakers must determine the appropriateness of such a change in the Commonwealth's public pension policy.

Appropriate Delegation of Legislative Authority. The bill empowers the SERS Board to develop the details of major plan design elements and administrative details by rule or regulation. Policymakers must determine if the broad powers afforded the SERS Board constitutes an appropriate delegation of legislative authority.

Potential Liability Exposure. As drafted, the bill contains numerous plan design deficiencies and ambiguities. If left unaddressed, these deficiencies may expose the SERS Board and the Commonwealth to litigation brought by employees over retirement benefit entitlement issues.

Tax Qualification. The bill states that the State Legislators' Defined Contribution Program shall be administered as a tax-qualified plan under the IRC. However, this declaration alone may prove insufficient to ensure the tax-qualified treatment of the Program. Based on the Commission's understanding of the IRC tax-qualification rules, employee contributions to a DC plan sponsored by a governmental entity can only be made on a pre-tax basis if plan membership is mandatory or there is a one- time irrevocable salary reduction agreement in place. The bill should be reviewed by qualified legal counsel specializing in tax-qualification issues to ensure IRC compliance.

Pension Forfeiture Act. It is unlikely that the Public Employee Pension Forfeiture Act, 1978, July 8, P. L. 752, No 176, as amended, would apply to the new defined contribution plan, since the employee's share of the funds vests immediately with the employee at the time of contribution.

Technical Considerations. In reviewing the bill, the Commission staff noted numerous deficiencies in the areas of plan design, drafting ambiguities, drafting inconsistencies, the use of undefined terms, and the use of apparently contradictory language. The bill should be thoroughly reviewed and revised to correct these deficiencies prior to enactment. Following are the more significant issues noted by the staff.

> *Active membership status.* As it is currently written, the bill would cease active membership in SERS for currently participating legislators as of November 30, 2016. It is the understanding of the Commission, however, that active membership cannot be ended for a legislator in the middle of a term. Any such active membership in SERS would cease at the end of an elected term. The current language of the bill would need to be revised before enactment to reflect that active membership in SERS would end as of November 30, 2016, or the date a legislator's current term ends, whichever is later.
>
> *"Final Average Salary" Calculation.* Because the current definition of "final average salary" in Section 5102 of the SERS Code refers to a member's compensation and is not limited to an *active* member's compensation, the bill as currently written would not freeze a legislator's compensation for purposes of determining the final average salary once active membership in SERS has

ended. This would enable a current legislator who becomes an inactive member of SERS to continue receiving increased benefits due to salary increases during the member's working career. If it is the intent of the bill's sponsors to freeze the final average salary upon the end of active membership in SERS, then the bill should be revised to clarify this language prior to enactment of the bill.

Vesting and Treatment of Non-Vested Participants. The vesting provisions require clarification. Participants in the State Legislators' Defined Contribution Program would become fully-vested in the employer contribution portion of the plan after three years of service. Presumably, employees who terminate service prior to vesting would be entitled to a return of their own contributions to the plan; however, there is no specific provision for this contingency. The bill should clearly indicate that the account balance derived from employee contributions adjusted for earnings and expenses is always 100% vested.

Optional or Mandatory Nature of Participation. The nature of participation in the State Legislators' Defined Contribution Program requires clarification. Section 5609 seems to indicate that participant contributions are mandatory by stating that "regular participant contributions shall be made to the program on behalf of each participant," and that the employer "shall cause participant contributions for current service to be made." However, later in the section, it is stated that participants "*may* elect to contribute to the program on their behalf." Participants may make contributions to the program on their own behalf to the extent permitted by law, with a dollar-for-dollar employer-matching contribution of up to 4% of the member's "pensionable earnings," a term that is not defined. The bill does not set a minimum participant contribution rate for either the participant or the employer, which could mean that participants may choose to contribute nothing and, likewise, the employer would also make no contributions toward the participant's retirement plan. Further, there may be serious tax-qualification issues involved with such an approach. Based on the Commission's understanding of the IRC tax-qualification rules, employee contributions to a defined contribution plan sponsored by a governmental entity can only be made on a pre-tax basis if plan membership is mandatory or there is a one-time irrevocable salary reduction agreement in place.

"Pensionable Earnings." Section 5610 of the bill states that the General Assembly shall match the contributions to the program made by the participant dollar-for-dollar up to 4% of the participant's "pensionable earnings." As it is currently written, the bill does not include a definition for the term "pensionable earnings."

COMMISSION RECOMMENDATION

On May 12, 2015, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2015

Senate Bill Number 401, Printer's Number 315, had second consideration in the Senate on April 22, 2015, and was re-referred to the Senate Appropriations Committee on April 22, 2015.

To view this note in its entirety, click the following link: Senate Bill Number 401, Printer's Number 315.

Bill ID: Senate Bill Number 1082, Printer's Number 1460,
Amendment Number 04826 to
Senate Bill Number 1082, Printer's Number 1460, and
Amendment Number 05049 to
Senate Bill Number 1082, Printer's Number 1460

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

Subject: Retirement Benefit Reform

SYNOPSIS

Senate Bill Number 1082, Printer's Number 1460, would amend the Public School Employees' Retirement Code, the State Employees' Retirement Code and the Military Code to: 1) implement a hybrid retirement benefit plan applicable to most new members of both PSERS and SERS; 2) exempt State Police officers, Correction officers, and other hazardous duty officers from membership in the new hybrid benefit tier; 3) permit certain "elected officers" who are currently active members of SERS and are re-elected to a term of office that begins on or after January 1, 2018, the option to "opt-out" of the new hybrid plan and remain in their current class of service; 4) modify the future benefit entitlements of current members of both PSERS and SERS; and 5) further modify the actuarial funding requirements of both PSERS and SERS.

More specifically, the bill would amend the Public School Employees' Retirement Code to:

1) Effective July 1, 2017, establish a hybrid benefit tier, which includes defined benefit and defined contribution components, applicable to all new school employees. Current members of PSERS would be ineligible to participate in the new hybrid benefit tier.

2) Under the defined benefit component, new school employees would become members of "Class T-G" and would earn benefits at a 1% benefit accrual rate. A member would be vested in the defined benefit component after accumulating 5 years of service credit. The benefit formula would be equivalent to 1% multiplied by the member's years of service, multiplied by the member's final average salary (highest five years). Class T-G members would contribute 4% of compensation.

3) Establish a defined contribution plan under a new chapter of the Code, Chapter 84, called the School Employees' Defined Contribution Plan, for new school employees with an employee contribution of 3.5% of compensation. The employer contribution would be 2.5% of compensation.

4) Taper the employer contribution rate collars for Fiscal Year 2016-2017 to be limited to 2.25% of total payroll. Currently, under Act 120 of 2010, the contribution collar is 4.5% of total payroll.

The bill would amend the State Employees' Retirement Code to:

1) Effective January 1, 2018, establish a hybrid benefit tier, which includes defined benefit and defined contribution components, applicable to most new State employees. Current members of SERS would be ineligible to participate in the new hybrid benefit tier.

2) Under the defined benefit component, most new State employees would become members of "Class A-5" and would earn benefits at a 1% 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 1% multiplied by the member's years of service, multiplied by the member's final average salary (highest five years). Class A-5 members would contribute 3% of compensation.

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 new State employees with an employee contribution of 3.25% of compensation. The employer contribution would be 2.5% of compensation.

4) Exempt the following groups of employees from participation in the hybrid plan: Pennsylvania State Police officers; correction officers; enforcement officers; wildlife conservation officers and other commissioned law enforcement personnel employed by the Game Commission; Delaware River Port Authority Policeman, park rangers or Capitol Police officers; campus police officers employed by any State-owned educational institutions, community college or Penn State University; and police officers employed by Fort Indiantown Gap or other designated Commonwealth military installations and facilities. 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.

5) Permit "school employees" (employees and officers of the Pennsylvania State System of Higher Education [PASSHE] institutions and the Department of Education, most employees of the Pennsylvania State University, and community college employees) to continue to have the option of electing the alternative retirement plan provided under Section 5301(a)(12) of the SERS Code rather than participating in the hybrid plan.

6) Permit the Governor, the Lieutenant Governor, the Attorney General, the Auditor General, the State Treasurer and all members of the General Assembly who are

SYNOPSIS (CONT'D)

currently active members of SERS and are re-elected to a term of office that begins on or after January 1, 2018, the option to "opt-out" of the new hybrid plan and retain membership in their current class of service.

7) Taper the employer contribution rate collars for Fiscal Year 2016-2017 to be limited to 2.25% of total payroll. Currently, under Act 120 of 2010, the contribution collar is 4.5% of total payroll.

Amendment Number 04826 would amend the bill to:

1) Remove the tapered employer contribution rate collar of 2.25% of total payroll for the Fiscal Year 2016-2017 for both PSERS and SERS.

Amendment Number 05049 would amend the bill to:

1) Remove the option for "elected officers" who are currently members in SERS to opt out of the new hybrid plan once they are re-elected to a term of office that begins on or after January 1, 2018, and instead require them to become mandatory members of Class A-5 upon re-election.

2) Remove the tapered employer contribution rate collar of 2.25% of total payroll for the Fiscal Year 2016-2017 for both PSERS and SERS.

DISCUSSION

Benefit Modifications Affecting New School and State Employees

The bill would establish "side-by-side" hybrid retirement benefit plans applicable to most public employees hired by school or State employers within the Commonwealth beginning July 1, 2017, in the case of PSERS, and January 1, 2018, in the case of SERS. The hybrid retirement plans would be comprised of two components: 1) a defined contribution (DC) plan; and 2) a defined benefit (DB) benefit tier added to the existing defined benefit structure. The new governmental defined contribution retirement plans, known as the School Employees' Defined Contribution Plan and the State Employees' Defined Contribution Plan ("Plans"), would supplement the defined benefit plans provided by PSERS and SERS for new school and State employees. Future Pennsylvania State Police Officers, Correction Officers and other hazardous duty personnel would be exempt from participation in the side-by-side hybrid plan. Members who return following a break in service would still remain members of their respective classes in the Systems.

The bill mandates the creation of the hybrid retirement plans, directs the PSERS and SERS Boards to 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.

Defined Contribution Plan

New school employees would contribute 3.5% of compensation with an employer contribution of 2.5% of compensation to the DC plan. State employees who participate in the new DC plan would contribute 3.25% of compensation with an employer contribution of 2.5% of compensation. Future Pennsylvania State Police Officers, Correction Officers and other hazardous duty personnel would be exempt from participation in the side-by-side hybrid plan. Current members of the General Assembly along with the Governor, the Lieutenant Governor, the Attorney General, the Auditor General, and the State Treasurer would have the option to opt out of the new hybrid plan once re-elected to office beginning on or after January 1, 2018, and instead remain in their current class of service.

A participant in the Plans may make additional contributions to the Plans up to the IRS limits allowed by 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 Board may pool the assets of the participants in the Plans. Additionally, the bill states that the Systems' boards will not be held responsible for any investment losses incurred by participants in the Plan or for the failure of any investment to earn a specific or expected return. All fees, costs and expenses of administering the Plans will be assessed against the accounts created on behalf of participants, except that for fiscal years 2015-2016 and 2016-2017 (with an additional fiscal year in the case of SERS), the fees, costs and expenses of establishing and administering the Plans shall be paid by the Commonwealth through annual appropriations, made on the basis of estimates from the Boards.

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

Upon termination of school or State service, members may receive a full or partial lump sum of the vested balance in their individual investment account, which can be rolled over into another account to the extent the IRS allows, or a single life annuity actuarially equivalent to the value of all the employer and employee contributions and interest in their individual investment accounts, or the portion not withdrawn.

Defined Benefit Tier

New school employees hired on or after July 1, 2017, and most new state employees hired on or after January 1, 2018, would also become members in the new defined benefit tiers. As part of the new side-by-side hybrid plan, new school employees would become members of Class T-G in PSERS and new State employees would become members of Class A-5 in SERS. The employee contribution to the DB plan for school employees would be 4% of compensation with a 1% accrual rate. The employee contribution to the DB plan for State employees would be 3% of compensation with a 1% accrual rate.

Class T-G members in PSERS would become vested in the employer contributions after accumulating 5 years of service credit. For SERS, Class A-5 members would become vested in the employer contributions after accumulating 10 years of service credit. The superannuation age for members of the new classes would be age 65 with 3 years of service, or the "Rule of 92" with 35 years of service as currently applicable to post-Act 120 members of the Systems.

Treatment of Educational Employees

Under current law, "school employees" (employees and officers of the Pennsylvania State System of Higher Education [PASSHE] institutions and the Department of Education, 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 (SERS) or the Public School Employees' Retirement System (PSERS). According to the latest demographic data available from SERS (as of December 31, 2014), the number of educational employees in question constitutes approximately 8,000 active members (or 7-8% of the total population). 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 directs 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, eligible employees would continue to have the option of electing the alternative retirement plan rather than the new hybrid DC/DB plans 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 side-by-side hybrid plans and significantly lower employee contributions (currently set at 5% by contract), it is likely that there will be a significant shift in the percentage of future eligible employees choosing the alternative retirement plan as the more attractive plan.

Pennsylvania State Police, Correction Officers and Enforcement Officers

The bill would also exempt the following groups of employees from participation in the side-by-side hybrid plan: Pennsylvania State Police officers; correction officers; enforcement officers;

wildlife conservation officers and other commissioned law enforcement personnel employed by the Game Commission; Delaware River Port Authority Policeman, park rangers or Capitol Police officers; campus police officers employed by any State-owned educational institutions, community college or Penn State University; and police officers employed by Fort Indiantown Gap or other designated Commonwealth military installations and facilities. All prospective employees of these employee groups would continue to be eligible for membership in Class A-3 or A-4 in SERS. In the case of State Police officers, they would continue to be eligible for membership in SERS until they become eligible for the enhanced State Trooper retirement benefits upon attaining 20 years of credited service.

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.

Correction 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 2015, the total number of correction officers employed within the Commonwealth was 13,368 employees. This employee group constitutes approximately 13% 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.

The term "enforcement officer" is a defined term in the SERS Code designating certain categories of public safety employees, including 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; and waterways conservation officers of the Pennsylvania Fish and Boat Commission.

While Pennsylvania State Police Officers, Correction Officers, and enforcement officers would be exempt from participation in the side-by-side hybrid plan, they would still be subject to the following changes proposed under Senate Bill Number 1082, Printer's Number 1460: 1) the actuarially neutral Option 4 withdrawal on post-July 1, 2016, member contributions and statutory interest on those contributions; 2) the change in the final average salary calculation from the average of the highest three to the greater of a 3-year final average salary, excluding overtime, for all future service or a 5-year final average salary, including overtime; and 3) a shared risk provision, tying the member's contribution rate to the investment performance of the System.

Under the bill, one employee group that is currently eligible to retire at age 55 with full retirement benefits, psychiatric security aides, would still be required to become participants in the new hybrid plan. The rationale for this group's inclusion in the hybrid plan while exempting all other public safety employees is unclear.

Employee Groups Affected Under Senate Bill No. 1082, P. N. 1460

State Employees' Retirement System Employee Group	Number of Members
Sworn Members of the Pennsylvania State Police	4,677
Enforcement Officers	1,118
Correction Officers	13,368
Wildlife Conservation Officers	70
Other Commissioned Law Enforcement Personnel of the Game Commission	176
Delaware River Port Authority Policemen	142
Park Rangers	181
Capitol Police Officers	90
Campus Police Officers Employed by a State-owned Educational Institution	188
Campus Police Officers Employed by a Community College	20 (estimated)
Campus Police Officers Employed by Penn State University	91
Police Officers Employed by Fort Indiantown Gap	15
Police Officers Employed by Other Designated Military Installations and Facilities	Unknown
Total Estimated Membership	20,136

Benefit Modifications Applicable to Current Members of PSERS and SERS

Current members of Class T-D, T-E and T-F in PSERS would be subject to the following changes: 1) the actuarially neutral Option 4 withdrawal on post-July 1, 2016, member contributions and statutory interest on those contributions; and 2) a shared risk provision, tying the member's contribution rate to the investment performance of the System.

Current members of Class AA, A-3 and A-4 in SERS would be subject to the following changes: 1) the actuarially neutral Option 4 withdrawal on post-July 1, 2016, member contributions and statutory interest on those contributions; 2) a change in the final average salary calculation from the average of the highest three to the greater of a 3-year final average salary, excluding overtime, for all future service or a 5-year final average salary, including overtime; and 3) a shared risk provision, tying the member's contribution rate to the investment performance of the System.

Elected Officers

Under the bill, upon re-election after January 1, 2018, all current members of the General Assembly, the Governor, the Lieutenant Governor, the Attorney General, the Auditor General, and the State Treasurer would have the option of remaining in their current class of service instead of becoming participants in the new hybrid plan as Class A-5 members. While the bill exempts current members of the judiciary from becoming mandatory participants in the new hybrid plan, future members of the judiciary elected to a term of office that begins on or after January 1, 2018, would be required to become members of Class A-5 in the DB plan and mandatory participants in the State Employees' DC Plan.

Limitation on Final Average Salary

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 would amend the SERS Code to change the final average salary calculation from the average of the highest three to the greater of a 3-year final average salary, excluding overtime, or a 5-year final average salary, including overtime, for all service performed by current SERS members after the effective date of the bill.

Shared-Risk Provision

One of the major pension reforms imposed by Act 120 of 2010 was the implementation of a variable employee contribution rate, known as the "shared risk contribution rate" which is applicable to post-Act 120 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 compares 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 members 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 would make both pre-Act 120 active members of PSERS and SERS as well as new members of Class T-G in PSERS and Class A-5 in SERS subject to the shared-risk provision, with a corridor of 4% for the employee contribution rate.

Actuarially Neutral Option 4

In both PSERS and SERS, 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.

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 Classes 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. The bill would now allow members of Classes T-E, T-F, A-3 and A-4 to elect to withdraw their accumulated deductions, but the Option 4 withdrawal would be actuarially neutral for all member contributions and statutory interest on those contributions. New members of Class T-G in PSERS and Class A-5 in SERS would also be subject to the actuarially neutral Option 4 withdrawal provisions.

Additionally, the bill would change the manner in which the Option 4 withdrawal is computed for pre-Act 120 active members of PSERS and SERS. For all current members, the Option 4 withdrawal would only be actuarially neutral for all member contributions and statutory interest on those contributions credited on or after July 1, 2016. For all service performed and credited before July 1, 2016, the accumulated deduction calculation will remain unchanged.

Actuarial Funding Provisions

PSERS and SERS are funded through: 1) employer contributions, 2) employee contributions, and 3) returns on investments. The employer normal contribution rate represents the employer portion of the value or cost (normal cost) of the benefits earned during a given year, based upon the Systems' actuarial funding methods. The employer contribution requirements for both PSERS and SERS are determined using the employer portion of the employer normal cost, plus any amortization contribution requirements necessary to amortize the unfunded liabilities of the System over the statutorily specified amortization time periods as modified by the experience adjustment factor. The experience adjustment factor is a reference to the experience of the pension funds, most importantly, the investment experience of those funds. If gains from positive plan experience are greater than expected, employer contributions may be reduced. Conversely, losses from negative plan experience require additional employer contributions to compensate for those losses.

Under Act 120 of 2010, the methods used to determine the employer contribution requirements for both PSERS and SERS were modified by imposing limits, referred to as "collars," on the rate at which employer contributions may rise from year to year. For the fiscal years beginning July 1, 2011, July 1, 2012, and on or after July 1, 2013, Act 120 established temporary collared contribution rates, equal to 3%, 3.5% and 4.5%, for each year respectively. The collars apply only if the calculation of the employer contribution rate results in an actuarially required contribution rate that is greater than the collared rate. The effect is to limit the year-to-year increase in the employer contribution rate by the percentage amounts specified for each year. Beginning with the July 1, 2013, fiscal year, and for each year thereafter, Act 120 limits the annual increase in employer contributions to no more than 4.5%, until such time as the actuarially required contribution rate calculated by the Systems' actuaries results in an increase in the employer rate that is less than the collared rate of 4.5%. At this point, the collared contribution limits would expire and a new employer contribution floor rate equal to each System's employer normal cost rate would be established.

As it is written, the bill would further modify the collars by tapering the rate at which the employer contributions may rise from year to year. For the fiscal year 2016-2017 only, the bill would establish a one-time collared contribution rate that the contribution rate shall be limited to 2.25% greater than the prior year's final contribution rate. For fiscal years 2017-2018 and later, the contribution collars would once again limit the annual increase in employer contributions to no more than 4.5%.

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, there are no such special benefit provisions for members of the judiciary or members of the General Assembly in the new hybrid plan.

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 and the case law regarding the special status of its members, if enacted, the bill is likely to be challenged in the courts.

There is also case law concerning altering the benefit provisions for members of the General Assembly or other State office-holders after being re-elected to office. In *Shiomos v. State Employees' Retirement Board,* 533 Pa. 558, 626 A. 2d 158 (1993), the Supreme Court held that a public official, at every new term of employment, renews his pension contract to include his new public service and to place at risk that which was already earned. A public official's re-election to office renews the official's employment contract subject to the law as it stands at the time the new term of office commences. [9]

Potential Contract Impairment

By altering the benefit provisions for active members in PSERS and SERS on or after July 1, 2017, and January 1, 2018, respectively, it appears that the bill would be subject to challenge for impairment of the retirement benefit rights of active members of the 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

[9] *Berkhimer v. State Employees' Retirement Board*, 2031 C.D. 2011

Pennsylvania Constitution (Article I section 17). [10] *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). *Association of Pa. State College and University Faculties v. State System of Higher Education,* 505 Pa. 369, 479 A.2d 962 (1984). It is likely that affected employees will seek judicial action.

Ancillary Issues

Members of the Judiciary. Under the bill, it appears that Class E-1 and Class E-2 members of the judiciary will be subject to: 1) the actuarially neutral Option 4 withdrawal on post-July 1, 2016, member contributions and statutory interest on those contributions; 2) the change in the final average salary formula; and 3) the shared risk provision, tying the member's contribution rate to the investment performance of the System.

Premium Assistance. New employees in Class T-G would be eligible for the same post-retirement health insurance premium assistance now provided to eligible retired members.

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, the accumulated contributions of a participant shall not be forfeited, but will be made available for payment of any fines or restitution.

Miscellaneous Provisions

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, for fiscal years beginning on or after July 1, 2016, changes in the accrued liability of SERS due to benefit changes under the bill will be amortized on a level-dollar basis over a period of 30 years.

Additional Board Member. Under the bill, membership in the boards of both Systems' would be expanded to include the Secretary of Banking and Securities as an ex-oficio member. By doing so, the number of members on each board would consist of an even number of members (16 for

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

the PSERS Board and 12 for the SERS Board). As it is currently written, however, there are no tie-breaking procedures in place in the event of a tie vote.

Normal Cost Calculation. PSERS and SERS use dissimilar methods for calculating the normal cost rate. Under the current SERS method, the normal cost is calculated based upon the average new entrant to the System. In contrast, the method employed by PSERS, which is based on a more liberal reading of the statute than the SERS interpretation, the normal cost rate reflects the average cost as a percentage of pay from entry into the System reflecting the actual class of membership of each active member. This is the traditional method for calculating the normal cost under the entry age normal actuarial cost method. Using this method, the PSERS' actuary develops a normal cost rate based on a blend of the benefit accrual rates and member contribution rates, depending on each member's date of hire and class of service. Under the bill, both Systems would codify the PSERS interpretation of the normal contribution rate determination effective for the fiscal year beginning on July 1, 2016.

Public Pension Management and Asset Investment Review Commission. The bill would provide for the creation of a commission comprised of investment professionals and retirement advisors that would study, publish findings and make recommendations to the General Assembly and the Governor, as to: 1) the performance of current investment strategies and procedures of both state retirement systems as to realized rates of return against established benchmarks and associated fees paid for active and passive management; 2) the costs and benefits of active versus passive investment strategies in relation to future investment activities of both state retirement systems; 3) alternative future investment strategies of both state retirement systems which will maximize future realized net of fees rates of returns with available assets; and 4) extensive, detailed on-line publication of information about assets, returns, financial managers, all consultants, RFPs, and investment performance measured against benchmarks. The commission would include five members appointed by the Speaker and Minority Leader of the House, the President Pro tempore and Minority Leader of the Senate and the Governor. The commission would submit its recommendations to the Governor and the General Assembly within six months of its first organizational meeting.

Funding Protection Mandate. Each member of PSERS and SERS, after the current employer compensation schedule meets the full actuarial amount, will have a contractual right to the annual required contribution made by the employer or by any other public entity. The contractual right to the annual required contribution means that the employer or other public entity must make the annual required contribution on a timely basis and that the previously accrued retirement benefits to which the members have earned by statute will be paid upon retirement. The failure of the State or any other public employer to make the annually required contribution will be deemed to be an impairment of the contractual right of each employee. The Supreme Court will have jurisdiction over any action brought by a member of any system or fund or any board of trustees to enforce this contractual right. The State and other public employers will submit to the jurisdiction of the court and will not assert sovereign immunity in such an action. If a member or board prevails in such, the court may award that party reasonable attorney's fees.

DISCUSSION (CONT'D)

Contractual Benefit Rights of DC Plan Participants. Section 401 of Article 4 in the bill explicitly states that 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) contributions to, participation in, or benefits from the Plans; 3) compliance with the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA); and 4) domestic relations orders regarding alternate payees of participants in the Plans.

Amendment Number 04826

Amendment Number 04826 would amend the bill to remove the provision in the bill that would further modify the contribution collars to 2.25% for the fiscal year 2016-2017 only. Instead, the collared contribution rate would remain limited to 4.5% greater than the prior year's final contribution rate, as implemented under Act 120.

Amendment Number 05049

Amendment Number 05049 would remove the provision in the bill that would further modify the contribution collars to 2.25% for the fiscal year 2016-2017 only. Instead, the collared contribution rate would remain limited to 4.5% greater than the prior year's final contribution rate, as implemented under Act 120.

Additionally, the amendment would remove the language in the bill that would allow elected officers the option to decline membership in the new class A-5 and instead remain a member in their current class of service after re-election. By removing the language in the bill allowing elected officers to decline membership in the new hybrid plan, elected officers would instead be required to become mandatory members of Class A-5 upon re-election.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary (Milliman) has reviewed the bill, the amendments, the actuarial cost estimate provided to the Commission by Buck Consultants, the consulting actuary for PSERS (see attachments), and the actuarial cost estimate provided to the Commission by Hay Group, the consulting actuary for SERS (see attachments).

The Commission's consulting actuary has created a table showing the expected accumulated nominal dollar cash flow costs/(savings) on the employer contributions for the fiscal years 2015-2016 through 2047-48 for both Systems under the bill, with and without the amendments, as provided by the System actuaries. The table also shows the present value of the expected cash flow costs/(savings) as of June 30, 2015, assuming end of year payment, at 3.9% (a proxy for budget growth) and 7.5% (the current investment return for the Systems).

The 3.9% proxy for budget growth is based on the annual growth in estimated general fund revenue from 2017-2018 to 2019-2020 shown on page C1-12 in the Governor's Executive Budget for 2015-2016. The reader will note that the total costs/(savings) shown in the Commission's consulting actuary's table differs from that in the System actuary's cost estimates for SERS. The reason for this is that the Commission's consulting actuary shows their projections through 2047-2048, while the System actuary makes projections through 2051-52. For further detail, please see the attached actuarial notes provided by Milliman and the Systems' consulting actuaries.

Impact on Employer Contributions if Senate Bill 1082, PN 1460 is enacted
For Fiscal Years 2015-2016 through 2047-2048
(Amounts in millions and based on System actuary's projections)

	Cash Flow Costs / (Savings) as determined by System Actuary	Present Value of Cash Flow Costs / (Savings) at 3.9% as of June 30, 2015	Present Value of Cash Flow Costs / (Savings) at 7.5% as of June 30, 2015
Without any Amendments			
PSERS	$(484)	$(947)	$(904)
SERS	(2,468)	(1,402)	(892)
Total	$(2,952)	$(2,349)	$(1,796)
With Amendment No. 04826 or Amendment No. 05049 *			
PSERS	$(716)**	$(1,020)	$(910)
SERS	(2,644)	(1,452)	(887)
Total	$(3,360)	$(2,472)	$(1,797)

* Amendment No. 04826 removes the tapered employer contribution rate collar. Amendment No. 05049 removes the tapered employer contribution rate collar and requires "elected officers" reelected after January 1, 2018, to become members of Class A-5.
** Number overstated by $630 million per supplemental note for Amendment No. 05367.

The Systems' actuaries' cost estimates also indicated the costs/(savings) of the various provisions on a step-by-step basis. The attached exhibit (see Exhibit 1, page 24 of the Milliman actuarial note) summarizes the impact for the various steps for the changes in the bill (without any amendments) on the cash flow costs/(savings) for fiscal years 2015-2016 through 2047-2048 and shows the present value of the cash flow costs/(savings) at 7.5% as of June 30, 2015. The cost of each step is dependent upon the order in which the changes were implemented. If a different order is used, the individual step results would vary but the total costs/(savings) would remain the same. Specifically, the cost of the DC plan is determined after the savings of reducing the DB plan benefit has been determined.

Public School Employees' Retirement System
Projection of Employer Contribution Rates
Senate Bill Number 1082, Printer's Number 1460,
Without Amendments

	Total Employer Contribution Rate		Total Employer Contribution (Thousands)			
					Cost/(Savings)	
	Current PSERS	Side-by-Side Hybrid Proposal DB + DC	Current PSERS	Side-by-Side Hybrid Proposal DB + DC	Cash Flow Basis	Present Value as of June 30, 2015
2013	12.36 %	12.36 %				
2014	16.93	16.93				
2015	21.40	21.40	$2,885,148	$ 2,885,148	$ 0	$ 0
2016	25.84	25.84	3,456,100	3,456,100	0	0
2017	29.69	28.09	4,079,195	3,859,367	(219,829)	(190,225)
2018	30.62	29.72	4,316,593	4,189,764	(126,829)	(102,092)
2019	31.56	30.84	4,569,239	4,465,605	(103,634)	(77,601)
2020	32.23	31.53	4,794,454	4,690,940	(103,514)	(72,103)
2021	32.02	31.33	4,892,886	4,787,663	(105,223)	(68,181)
2022	31.90	31.21	5,005,091	4,897,479	(107,611)	(64,863)
2023	31.96	31.30	5,149,606	5,043,602	(106,005)	(59,437)
2024	31.90	31.25	5,276,635	5,168,578	(108,058)	(56,361)
2025	31.83	31.19	5,404,815	5,296,225	(108,590)	(52,687)
2026	31.90	31.28	5,555,781	5,446,937	(108,844)	(49,126)
2027	31.99	31.39	5,709,259	5,602,280	(106,979)	(44,916)
2028	32.10	31.51	5,865,715	5,757,347	(108,367)	(42,324)
2029	32.20	31.65	6,020,442	5,918,385	(102,057)	(37,079)
2030	32.31	31.78	6,178,835	6,077,905	(100,930)	(34,111)
2031	32.43	31.95	6,340,635	6,247,167	(93,468)	(29,385)
2032	32.58	32.13	6,509,681	6,420,408	(89,273)	(26,108)
2033	32.72	32.32	6,679,209	6,596,699	(82,510)	(22,447)
2034	32.88	32.49	6,856,314	6,774,896	(81,419)	(20,605)
2035	33.03	32.69	7,036,790	6,965,211	(71,580)	(16,851)
2036	18.12	17.82	3,943,950	3,878,480	(65,471)	(14,337)
2037	14.27	14.00	3,173,457	3,114,482	(58,975)	(12,014)
2038	12.46	12.25	2,831,765	2,784,256	(47,508)	(9,003)
2039	10.43	10.26	2,422,607	2,382,582	(40,025)	(7,056)
2040	8.80	8.66	2,090,021	2,057,518	(32,503)	(5,330)
2041	7.28	8.02	1,769,320	1,948,339	179,019	27,307
2042	5.93	6.73	1,476,104	1,674,464	198,360	28,147
2043	4.55	5.30	1,161,604	1,353,813	192,210	25,371
2044	4.14	4.93	1,085,716	1,293,932	208,216	25,566
2045	4.00	4.83	1,079,491	1,303,271	223,779	25,560
2046	3.88	4.73	1,079,385	1,315,242	235,857	25,060
2047	3.75	4.66	1,075,379	1,336,984	261,604	25,857
2048	3.62	4.62	1,070,100	1,366,455	296,354	27,248
				Total Cost/(Savings):	$(483,802)	$(904,125)

Public School Employees' Retirement System
Projection of Employer Contribution Rates
Senate Bill Number 1082, Printer's Number 1460
with Amendment Numbers 04826 and 05049

	Total Employer Contribution Rate		Total Employer Contribution (thousands)			
					Cost/(Savings)	
	Current PSERS	Side-by-Side Hybrid Proposal DB + DC	Current PSERS	Side-by-Side Hybrid Proposal DB + DC	Cash Flow Basis	Present Value as of June 30, 2015
2013	12.36 %	12.36 %				
2014	16.93	16.93				
2015	21.40	21.40	$ 2,885,148	$ 2,885,148	$ 0	$ 0
2016	25.84	25.84	3,456,100	3,456,100	0	0
2017	29.69	29.05	4,079,195	3,991,264	(87,931)	(76,090)
2018	30.62	29.72	4,316,593	4,189,764	(126,829)	(102,092)
2019	31.56	30.77	4,569,239	4,455,471	(113,769)	(85,190)
2020	32.23	31.46	4,794,454	4,680,527	(113,927)	(79,357)
2021	32.02	31.26	4,892,886	4,776,966	(115,920)	(75,112)
2022	31.90	31.14	5,005,091	4,886,496	(118,594)	(71,483)
2023	31.96	31.23	5,149,606	5,032,323	(117,283)	(65,761)
2024	31.90	31.18	5,276,635	5,156,999	(119,636)	(62,400)
2025	31.83	31.11	5,404,815	5,282,641	(122,175)	(59,278)
2026	31.90	31.21	5,555,781	5,434,745	(121,036)	(54,629)
2027	31.99	31.32	5,709,259	5,589,787	(119,472)	(50,161)
2028	32.10	31.44	5,865,715	5,744,556	(121,158)	(47,320)
2029	32.20	31.57	6,020,442	5,903,427	(117,015)	(42,513)
2030	32.31	31.71	6,178,835	6,064,518	(114,316)	(38,635)
2031	32.43	31.87	6,340,635	6,231,526	(109,109)	(34,302)
2032	32.58	32.05	6,509,681	6,404,423	(105,258)	(30,783)
2033	32.72	32.24	6,679,209	6,580,369	(98,840)	(26,889)
2034	32.88	32.42	6,856,314	6,760,299	(96,015)	(24,299)
2035	33.03	32.60	7,036,790	6,946,037	(90,754)	(21,365)
2036	18.12	17.74	3,943,950	3,861,067	(82,883)	(18,150)
2037	14.27	13.92	3,173,457	3,096,691	(76,766)	(15,638)
2038	12.46	12.16	2,831,765	2,763,802	(67,963)	(12,879)
2039	10.43	10.18	2,422,607	2,364,000	(58,607)	(10,331)
2040	8.80	8.57	2,090,021	2,036,143	(53,878)	(8,835)
2041	7.28	7.94	1,769,320	1,928,896	159,576	24,342
2042	5.93	6.64	1,476,104	1,652,061	175,957	24,968
2043	4.55	5.30	1,161,604	1,353,813	192,210	25,371
2044	4.14	4.93	1,085,716	1,293,932	208,216	25,566
2045	4.00	4.83	1,079,491	1,303,271	223,779	25,560
2046	3.88	4.73	1,079,385	1,315,242	235,857	25,060
2047	3.75	4.66	1,075,379	1,336,984	261,604	25,857
2048	3.62	4.62	1,070,100	1,366,455	296,354	27,248
				Total Cost/(Savings):	$(715,582)	$(909,521)

SERS Projected Employer Contributions
(Based Upon Final December 31, 2014 Valuation)

12/3/2015

Consensus Side By Side Hybrid DB/DC Design 12/01/2015 = Legacy DB Plan With New Provisions, Including New 1.00% Accrual Defined Benefit Tier, Plus New DC Plan (DC/DB) With Er Contrib @ 2.5%; State Police, Correction Officers, and Other Hazardous Duty ONLY Remain in Current DB Plan; No Fresh Start; No Legacy Contribution/Accrual Rate Changes; Traditional Entry Age Normal Cost; Revised Contribution Collars; Cost of Legislation Amortized Over 30 Years

Year	Investment Return	Fiscal Year	Floor Contribution	Projected DB Percent Contribution	Expected DB Plan FY Payroll ($ in millions)	Expected FY DB Contribution ($ in millions)	Expected DC/DB Plan FY Payroll ($ in millions)	Expected FY DC/DB Contribution ($ in millions)	Total DB+DC/DB Contribution ($ in millions)	Total DB+DC/DB Contribution as a % of DB+DC/DB Pay	Annual (Savings) / Cost Relative to Baseline	Cumulative (Savings) / Cost Relative to Baseline	Funded Ratio (AV%)	UAL ($ in billions)	Funded Ratio (MV%)	Baseline Percent	Baseline $ ($ in millions)
2011	2.70%	2012/2013	5.10%	11.50	5,890.7	677.4	-	-	677.4	11.50	-	-	65.3	14.69	57.6	11.50	677.4
2012	12.00%	2013/2014	5.01%	16.00	5,836.4	933.8	-	-	933.8	16.00	-	-	58.7	17.78	58.9	16.00	933.8
2013	13.60%	2014/2015	5.00%	20.50	5,897.6	1,209.0	-	-	1,209.0	20.50	-	-	59.2	17.90	62.4	20.50	1,209.0
2014	6.40%	2015/2016	4.95%	25.00	6,021.7	1,505.4	-	-	1,505.4	25.00	-	-	59.4	18.17	61.1	25.00	1,505.4
2015	7.50%	2016/2017	9.72%	27.25	6,205.3	1,690.9	-	-	1,690.9	27.25	(139.7)	(139.7)	65.4	14.43	67.1	29.50	1,830.6
2016	7.50%	2017/2018	9.57%	29.74	6,277.3	1,890.6	117.3	14.2	1,904.8	29.79	(39.7)	(179.4)	67.1	14.06	67.7	30.41	1,944.5
2017	7.50%	2018/2019	9.34%	28.66	6,233.5	1,855.1	356.1	42.2	1,897.3	28.79	(39.8)	(219.3)	68.7	13.62	68.7	29.40	1,937.1
2018	7.50%	2019/2020	9.11%	27.93	6,173.5	1,840.2	617.1	71.7	1,911.9	28.15	(45.1)	(264.4)	69.8	13.42	69.9	28.82	1,957.0
2019	7.50%	2020/2021	8.90%	27.13	6,130.2	1,821.2	867.5	98.9	1,920.1	27.44	(49.9)	(314.3)	70.9	13.13	71.0	28.15	1,970.0
2020	7.50%	2021/2022	8.70%	26.37	6,088.0	1,803.9	1,123.2	125.8	1,929.7	26.76	(54.7)	(369.0)	72.1	12.82	72.1	27.52	1,984.4
2021	7.50%	2022/2023	8.51%	25.65	6,046.0	1,788.1	1,385.1	152.5	1,940.6	26.11	(59.6)	(428.6)	73.1	12.50	73.1	26.92	2,000.2
2022	7.50%	2023/2024	8.32%	24.95	6,001.4	1,772.9	1,656.4	179.2	1,952.1	25.49	(64.8)	(493.4)	74.2	12.17	74.2	26.34	2,016.9
2023	7.50%	2024/2025	8.13%	24.27	5,953.3	1,757.8	1,938.0	206.1	1,963.9	24.89	(70.1)	(563.5)	75.2	11.80	75.2	25.78	2,034.0
2024	7.50%	2025/2026	7.95%	23.61	5,902.1	1,742.9	2,229.9	233.1	1,976.0	24.30	(75.7)	(639.3)	76.3	11.41	76.3	25.23	2,051.7
2025	7.50%	2026/2027	7.78%	22.97	5,848.6	1,728.3	2,531.4	260.1	1,988.4	23.73	(81.6)	(720.8)	77.3	11.00	77.3	24.70	2,070.0
2026	7.50%	2027/2028	7.61%	22.35	5,794.6	1,714.3	2,841.0	287.1	2,001.4	23.18	(87.6)	(808.4)	78.4	10.55	78.4	24.19	2,089.0
2027	7.50%	2028/2029	7.44%	21.75	5,741.4	1,700.8	3,157.6	314.0	2,014.8	22.64	(93.7)	(902.1)	79.5	10.07	79.5	23.69	2,108.5
2028	7.50%	2029/2030	7.29%	21.17	5,687.3	1,687.8	3,483.1	340.8	2,028.6	22.12	(100.0)	(1,002.1)	80.6	9.55	80.6	23.21	2,128.6
2029	7.50%	2030/2031	7.13%	20.61	5,631.7	1,675.1	3,818.4	367.8	2,042.9	21.62	(106.4)	(1,108.5)	81.8	8.99	81.8	22.74	2,149.3
2030	7.50%	2031/2032	6.98%	20.06	5,574.5	1,662.8	4,163.9	394.9	2,057.7	21.13	(113.0)	(1,221.5)	83.1	8.39	83.1	22.29	2,170.7
2031	7.50%	2032/2033	6.84%	19.53	5,514.5	1,650.6	4,520.9	422.2	2,072.8	20.65	(120.0)	(1,341.5)	84.4	7.75	84.4	21.85	2,192.8
2032	7.50%	2033/2034	6.70%	19.01	5,453.9	1,638.8	4,887.6	449.6	2,088.4	20.19	(127.2)	(1,468.7)	85.7	7.05	85.7	21.42	2,215.6
2033	7.50%	2034/2035	6.57%	18.52	5,395.8	1,627.8	5,261.1	477.0	2,104.8	19.75	(134.2)	(1,603.0)	87.2	6.31	87.2	21.01	2,239.0
2034	7.50%	2035/2036	6.44%	18.04	5,340.5	1,617.4	5,641.4	504.3	2,121.7	19.32	(141.5)	(1,744.5)	88.8	5.51	88.8	20.61	2,263.2
2035	7.50%	2036/2037	6.32%	17.57	5,287.0	1,607.5	6,029.9	531.7	2,139.2	18.90	(149.0)	(1,893.4)	90.5	4.65	90.5	20.22	2,288.2
2036	7.50%	2037/2038	6.20%	17.12	5,233.4	1,598.1	6,428.6	559.4	2,157.5	18.50	(156.5)	(2,049.9)	92.3	3.72	92.3	19.84	2,314.0
2037	7.50%	2038/2039	6.09%	16.69	5,179.3	1,588.9	6,838.4	587.4	2,176.3	18.11	(164.2)	(2,214.1)	94.4	2.73	94.4	19.48	2,340.5
2038	7.50%	2039/2040	5.98%	16.26	5,126.3	1,580.1	7,258.0	615.6	2,195.7	17.73	(172.2)	(2,386.3)	96.5	1.66	96.5	19.12	2,367.9
2039	7.50%	2040/2041	5.88%	12.14	5,075.4	1,097.5	7,686.6	644.1	1,741.6	13.65	(180.2)	(2,566.6)	98.9	0.51	98.9	15.06	1,921.8
2040	7.50%	2041/2042	5.78%	9.16	5,027.9	734.6	8,123.3	672.8	1,407.4	10.70	(188.3)	(2,754.9)	100.5	(0.25)	100.5	12.13	1,595.7
2041	7.50%	2042/2043	5.69%	5.83	4,984.3	302.6	8,568.0	701.7	1,004.3	7.41	(196.5)	(2,951.4)	101.5	(0.71)	101.5	8.86	1,200.8
2042	7.50%	2043/2044	5.60%	5.60	4,945.7	277.1	9,020.0	731.0	1,008.1	7.22	51.0	(2,900.4)	101.7	(0.78)	101.7	6.85	957.1
2043	7.50%	2044/2045	5.52%	5.52	4,913.7	271.4	9,477.9	760.5	1,031.9	7.17	72.0	(2,828.4)	101.3	(0.59)	101.3	6.67	959.9
2044	7.50%	2045/2046	5.45%	5.45	4,889.4	266.4	9,941.2	790.3	1,056.7	7.12	104.6	(2,723.9)	101.4	(0.62)	101.4	6.42	952.1
2045	7.50%	2046/2047	5.38%	5.38	4,874.9	262.3	10,408.0	820.3	1,082.6	7.08	138.0	(2,585.8)	101.4	(0.64)	101.4	6.18	944.6
2046	7.50%	2047/2048	5.32%	5.32	4,871.5	259.2	10,877.5	850.7	1,109.9	7.05	117.5	(2,468.3)	101.9	(0.83)	101.9	6.30	992.4
2047	7.50%	2048/2049	5.27%	5.27	4,881.5	257.1	11,347.9	881.4	1,138.5	7.01	93.0	(2,375.4)	102.1	(0.89)	102.1	6.44	1,045.5
2048	7.50%	2049/2050	5.22%	5.22	4,907.6	256.2	11,816.8	912.3	1,168.5	6.99	95.6	(2,279.8)	102.3	(0.96)	102.3	6.42	1,072.9
2049	7.50%	2050/2051	5.18%	5.18	4,950.0	256.5	12,284.5	943.6	1,200.1	6.96	91.5	(2,188.3)	102.5	(1.03)	102.5	6.43	1,108.6
2050	7.50%	2051/2052	5.15%	5.15	5,006.8	257.7	12,753.3	975.3	1,233.0	6.94	88.6	(2,099.7)	102.8	(1.10)	102.8	6.44	1,144.4

SERS Projected Employer Contributions (Based Upon Final December 31, 2014 Valuation) Under:
Either SB 1082, PN 1460, A04826 Or SB 1082, PN 1460, A05049

12/14/2015

				Legacy DB Plan With New Provisions, Including New 1.00% Accrual Defined Benefit Tier, Plus New DC Plan (DC/DB) With Er Contrib @ 2.5%; State Police, Correction Officers, and Other Hazardous Duty ONLY Remain in Current DB Plan; No Fresh Start; No Legacy Contribution/Accrual Rate Changes; Traditional Entry Age Normal Cost; Cost of Legislation Amortized Over 30 Years; No Change to Act 120 Collars												Baseline	
Year	Investment Return	Fiscal Year	Floor Contribution	Projected DB Percent Contribution	Expected DB Plan FY Payroll ($ in millions)	Expected FY DB Contribution ($ in millions)	Expected DC/DB Plan FY Payroll ($ in millions)	Expected FY DC/DB Contribution ($ in millions)	Total DB+DC/DB Contribution ($ in millions)	Total DB+DC/DB Contribution as a % of DB+DC/DB Pay	Annual (Savings) / Cost Relative to Baseline	Cumulative (Savings) / Cost Relative to Baseline	Funded Ratio (AV%)	UAL ($ in billions)	Funded Ratio (MV%)	Baseline Percent	Baseline $ ($ in millions)
2011	2.70%	2012/2013	5.10%	11.50	5,890.7	677.4	-	-	677.4	11.50	-	-	65.3	14.69	57.6	11.50	677.4
2012	12.00%	2013/2014	5.01%	16.00	5,836.4	933.8	-	-	933.8	16.00	-	-	58.7	17.78	58.9	16.00	933.8
2013	13.60%	2014/2015	5.00%	20.50	5,897.6	1,209.0	-	-	1,209.0	20.50	-	-	59.2	17.90	62.4	20.50	1,209.0
2014	6.40%	2015/2016	4.95%	25.00	6,021.7	1,505.4	-	-	1,505.4	25.00	-	-	59.4	18.17	61.1	25.00	1,505.4
2015	7.50%	2016/2017	9.72%	29.50	6,205.3	1,830.6	-	-	1,830.6	29.50	-	-	65.4	14.43	67.1	29.50	1,830.6
2016	7.50%	2017/2018	9.57%	29.65	6,277.3	1,884.5	117.3	14.2	1,898.7	29.69	(45.8)	(45.8)	67.2	13.98	67.9	30.41	1,944.5
2017	7.50%	2018/2019	9.34%	28.47	6,233.5	1,842.7	356.1	42.2	1,884.9	28.60	(52.2)	(98.1)	69.1	13.47	69.0	29.40	1,937.1
2018	7.50%	2019/2020	9.11%	27.75	6,173.5	1,827.8	617.1	71.7	1,899.5	27.97	(57.5)	(155.6)	70.1	13.28	70.2	28.82	1,957.0
2019	7.50%	2020/2021	8.90%	26.95	6,130.2	1,808.8	867.5	98.9	1,907.7	27.26	(62.3)	(217.9)	71.3	12.98	71.3	28.15	1,970.0
2020	7.50%	2021/2022	8.70%	26.20	6,088.0	1,791.5	1,123.2	125.8	1,917.3	26.59	(67.1)	(285.0)	72.5	12.68	72.5	27.52	1,984.4
2021	7.50%	2022/2023	8.51%	25.48	6,046.0	1,775.7	1,385.1	152.5	1,928.2	25.95	(72.0)	(357.0)	73.6	12.36	73.6	26.92	2,000.2
2022	7.50%	2023/2024	8.32%	24.79	6,001.4	1,760.5	1,656.4	179.2	1,939.7	25.33	(77.2)	(434.2)	74.7	12.03	74.7	26.34	2,016.9
2023	7.50%	2024/2025	8.13%	24.12	5,953.3	1,745.4	1,938.0	206.1	1,951.5	24.73	(82.5)	(516.7)	75.8	11.67	75.8	25.78	2,034.0
2024	7.50%	2025/2026	7.95%	23.46	5,902.1	1,730.5	2,229.9	233.1	1,963.6	24.15	(88.1)	(604.9)	76.9	11.28	76.9	25.23	2,051.7
2025	7.50%	2026/2027	7.78%	22.83	5,848.6	1,715.9	2,531.4	260.1	1,976.0	23.58	(94.0)	(698.8)	78.0	10.87	78.0	24.70	2,070.0
2026	7.50%	2027/2028	7.61%	22.21	5,794.6	1,701.9	2,841.0	287.1	1,989.0	23.03	(100.0)	(798.8)	79.2	10.42	79.2	24.19	2,089.0
2027	7.50%	2028/2029	7.44%	21.61	5,741.4	1,688.5	3,157.6	314.0	2,002.5	22.50	(106.0)	(904.8)	80.4	9.94	80.4	23.69	2,108.5
2028	7.50%	2029/2030	7.29%	21.04	5,687.3	1,675.5	3,483.1	340.8	2,016.3	21.99	(112.3)	(1,017.1)	81.6	9.43	81.6	23.21	2,128.6
2029	7.50%	2030/2031	7.13%	20.48	5,631.7	1,662.8	3,818.4	367.8	2,030.6	21.49	(118.7)	(1,135.8)	82.9	8.87	82.9	22.74	2,149.3
2030	7.50%	2031/2032	6.98%	19.93	5,574.5	1,650.4	4,163.9	394.9	2,045.3	21.00	(125.4)	(1,261.2)	84.2	8.28	84.2	22.29	2,170.7
2031	7.50%	2032/2033	6.84%	19.41	5,514.5	1,638.2	4,520.9	422.2	2,060.4	20.53	(132.4)	(1,393.6)	85.5	7.64	85.5	21.85	2,192.8
2032	7.50%	2033/2034	6.70%	18.89	5,453.9	1,626.5	4,887.6	449.6	2,076.1	20.08	(139.5)	(1,533.1)	87.0	6.95	87.0	21.42	2,215.6
2033	7.50%	2034/2035	6.57%	18.40	5,395.8	1,615.4	5,261.1	477.0	2,092.4	19.63	(146.6)	(1,679.8)	88.5	6.21	88.5	21.01	2,239.0
2034	7.50%	2035/2036	6.44%	17.92	5,340.5	1,605.0	5,641.4	504.3	2,109.3	19.21	(153.9)	(1,833.7)	90.0	5.41	90.0	20.61	2,263.2
2035	7.50%	2036/2037	6.32%	17.46	5,287.0	1,595.2	6,029.9	531.7	2,126.9	18.79	(161.3)	(1,994.9)	91.7	4.56	91.7	20.22	2,288.2
2036	7.50%	2037/2038	6.20%	17.02	5,233.4	1,585.7	6,428.6	559.4	2,145.1	18.39	(168.9)	(2,163.8)	93.4	3.64	93.4	19.84	2,314.0
2037	7.50%	2038/2039	6.09%	16.58	5,179.3	1,576.5	6,838.4	587.4	2,163.9	18.01	(176.6)	(2,340.4)	95.3	2.65	95.3	19.48	2,340.5
2038	7.50%	2039/2040	5.98%	16.17	5,126.3	1,567.8	7,258.0	615.6	2,183.4	17.63	(184.5)	(2,524.9)	97.2	1.59	97.2	19.12	2,367.9
2039	7.50%	2040/2041	5.88%	12.04	5,075.4	1,085.2	7,686.6	644.1	1,729.3	13.55	(192.5)	(2,717.5)	99.2	0.44	99.2	15.06	1,921.8
2040	7.50%	2041/2042	5.78%	9.06	5,027.9	722.2	8,123.3	672.8	1,395.0	10.61	(200.7)	(2,918.2)	100.5	(0.31)	100.5	12.13	1,595.7
2041	7.50%	2042/2043	5.69%	5.74	4,984.3	290.2	8,568.0	701.7	991.9	7.32	(208.9)	(3,127.1)	101.3	(0.77)	101.3	8.86	1,200.8
2042	7.50%	2043/2044	5.60%	5.60	4,945.7	277.1	9,020.0	731.0	1,008.1	7.22	51.0	(3,076.1)	101.4	(0.83)	101.4	6.85	957.1
2043	7.50%	2044/2045	5.52%	5.52	4,913.7	271.4	9,477.9	760.5	1,031.9	7.17	72.0	(3,004.1)	101.0	(0.62)	101.0	6.67	959.9
2044	7.50%	2045/2046	5.45%	5.45	4,889.4	266.4	9,941.2	790.3	1,056.7	7.12	104.6	(2,899.6)	101.1	(0.66)	101.1	6.42	952.1
2045	7.50%	2046/2047	5.38%	5.38	4,874.9	262.3	10,408.0	820.3	1,082.6	7.08	138.0	(2,761.5)	101.1	(0.68)	101.1	6.18	944.6
2046	7.50%	2047/2048	5.32%	5.32	4,871.5	259.2	10,877.5	850.7	1,109.9	7.05	117.5	(2,644.0)	101.4	(0.87)	101.4	6.30	992.4
2047	7.50%	2048/2049	5.27%	5.27	4,881.5	257.1	11,347.9	881.4	1,138.5	7.01	93.0	(2,551.1)	101.4	(0.94)	101.4	6.44	1,045.5
2048	7.50%	2049/2050	5.22%	5.22	4,907.6	256.2	11,816.8	912.3	1,168.5	6.99	95.6	(2,455.5)	101.5	(1.02)	101.5	6.42	1,072.9
2049	7.50%	2050/2051	5.18%	5.18	4,950.0	256.5	12,284.5	943.6	1,200.1	6.96	91.5	(2,364.0)	101.6	(1.09)	101.6	6.43	1,108.6
2050	7.50%	2051/2052	5.15%	5.15	5,006.8	257.7	12,753.3	975.3	1,233.0	6.94	88.6	(2,275.4)	101.7	(1.17)	101.7	6.44	1,144.4

As the actuarial analyses demonstrate, the bulk of the savings achieved by Senate Bill Number 1082 arise from the changes to the Option 4 lump-sum contributions return to active employees. Should that provision not survive a legal challenge, the bill's savings are significantly reduced.

However, the restructuring of the retirement system from a purely defined benefit program to a hybrid of defined benefit and defined contribution features does entail a significant shift of the investment, inflation and longevity risks from the employer (i.e., taxpayers) to the employees. This is consistent with the trend among private sector employers over recent years. The shifting of risk does not guarantee a cost savings; it is not designed to do so. What it does is limit volatility in the employer contribution requirement. This can be helpful in budgeting future expenses for pension plans, since annual payments are less susceptible to market fluctuations.

The Commission's consulting actuary (Milliman) has made the following observations on the analyses for the bill's impact on the Systems (starting on page 19 of the Milliman actuarial note).

- The consulting actuary for PSERS (Buck) assumes that employees who became members of PSERS during the period July 1, 2011, through June 30, 2014, would be representative of members entering the system each year in the future. Act 120 reduced the requirements for membership into PSERS such that part-time school employees who work at least 500 hours or 80 days became members for all future service until a break in membership occurs, whereas previously part-time members had to qualify for PSERS membership each year. Therefore, there may be a higher percentage of part-time members entering PSERS in the past three years than would necessarily be expected in future years. These members would have lower salaries and lower DB plan costs than full-time members as these members would not be expected to accrue a full year of service each year in the future. Milliman recommends that the System and its actuary review the new entrant profile used in the projection to determine if its representative of members entering the system in future years.

- In Buck's actuarial valuation, they note that no specific additional provision is made to reflect the possible future improvements in mortality. If such provisions were made and included in the projections, Milliman would expect that the expected contributions to PSERS would increase under current provisions and also increase to a lesser extent under the bill due to the lower DB plan benefits and the additional DC benefits which would be unaffected by a change in the mortality assumption.

- For SERS, in the consulting actuary's (Hay) actuarial valuation, they note the current mortality table includes a margin for future improvements in life expectancy. However, this margin would be expected to decrease or be eliminated over a 30-year projection period. If improvements in mortality were included in the projections beyond the current margins, Milliman would expect that the expected contributions to SERS would increase under current provisions and also increase to a lesser extent under the bill due to the lower DB

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

plan benefits and the additional DC benefits which would be unaffected by a change in the mortality assumption.

- The projected DB percent contribution shown on Hay's projection for the amended bill is the rate that would be applied to the DB plan and DC/DB plan payroll, not just the DB plan payroll. Because Class A-5 members would remain part of the DB plan if the bill is enacted, Milliman recommends that the DB payroll shown include the payroll associated with Class A-5 members, in addition to showing the DC plan payroll separately. Milliman also recommends revising the presentation to develop the DB plan and the DC plan employer contributions separately, as they are currently combined.

- In Hay's December 14, 2015, cost estimate, they indicated that, based on the small percentage of elected officials currently in SERS active membership (about .025%) and their expectation that most of the affected elected officials would not opt out of Class A-5 membership upon re-election, the opt-out provision would have no material impact on their overall December 3, 2015, cost estimates. Milliman agrees that the opt-out provision for elected officials does not have a material impact on the overall costs of the bill.

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). As written, the active member benefit modifications proposed in the bill may be found to impair the benefit rights of the affected active members.

Benefit Value and Security. The hybrid plans proposed in the bill would provide new public school and State employees with a retirement income that is likely to be less valuable, predictable and secure than that provided by the traditional DB pension plans. Retirement planning based on the side-by-side hybrid plan is likely to be less predictable and involve greater individual attention to risk management than participation in a traditional DB plan. Policymakers must determine the appropriateness of such a change in the Commonwealth's public pension policy.

Further Departure from Actuarial Funding Standards. The bill 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 bill 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. The Commonwealth's policymakers must determine whether the further departure from actuarial funding standards proposed by the bill is consistent with the Commonwealth's pension plan funding and fiscal management goals. Amendment Numbers 04826 and 05049 would remove this provision from the bill.

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

Delegation of Legislative Authority. The bill empowers the Boards of both Systems to develop the details of major DC plan design elements and administrative details by rule or regulation. Policymakers must determine if the broad powers afforded the Boards constitutes an appropriate delegation of legislative authority.

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, there are no such special benefit provisions for members of the General Assembly or the judiciary in the new hybrid plan. The uniform benefit level under the bill 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.

Alternative Retirement Benefit. It is recommended that the policymakers review the provisions of Section 5301(a)(12) of the SERS Code and the appropriateness of continuing that separate benefit structure unchanged.

Judicial Benefits. The Supreme Court of the Commonwealth has 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. Based upon the independent status of the judiciary in Pennsylvania and the case law regarding the special status of its members, if enacted, the bill is likely to be challenged in the courts.

POLICY CONSIDERATIONS (CONT'D)

Renewal of Pension Contract. In *Shiomos v. State Employes' Retirement Board,* 533 Pa. 588, 626 A.2d 158 (1993), the Supreme Court held that a public official, at every new elected term of office, renews his pension contract subject to the law in effect when the new term of office commences. While this case, and the subsequent decisions that follow its holding, specifically relates to Section 3 of the Public Employee Pension forfeiture Act, 1978, July 8, P. L. 752, No. 140, 43 P.S. § 1313(c), the core of the court's analysis is that a statutory provision can alter otherwise protected benefits contingent upon a change in the nature of the employment. That analysis may apply equally to the statutory amendment proffered by this legislation.

Normal Cost Calculation. PSERS and SERS use dissimilar methods for calculating the normal cost rate. Under the current SERS method, the normal cost is calculated based upon the average new entrant to the System. In contrast, the method employed by PSERS, which is based on a more liberal reading of the statute than the SERS interpretation, the normal cost rate reflects the average cost as a percentage of pay from entry into the System reflecting the actual class of membership of each active member. This is the traditional method for calculating the normal cost under the entry age normal actuarial cost method. Using this method, the PSERS' actuary develops a normal cost rate based on a blend of the benefit accrual rates and member contribution rates, depending on each member's date of hire and class of service. Under the bill, both Systems would codify the PSERS interpretation of the normal contribution rate determination effective for the fiscal year beginning on July 1, 2016. The Commission's consulting actuary has historically indicated that the PSERS' method is 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 new 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 Systems. Thus the total normal cost of the Systems would gradually decline as new members are added and current members retire.

COMMISSION RECOMMENDATION

On December 17, 2015, the Commission voted to attach the actuarial note to the bill and the amendments, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2015

Senate Bill Number 1082, Printer's Number 1460, had third consideration and final passage in the Senate on December 7, 2015, and was referred to the House State Government Committee on December 10, 2015.

To view this note in its entirety, click the following link: Senate Bill Number 1082, Printer's Number 1460, Amendment Number 04826 to Senate Bill Number 1082, Printer's Number 1460, and Amendment Number 05049 to Senate Bill Number 1082, Printer's Number 1460.

Bill ID: House Bill Number 79, Printer’s Number 69

System: Third Class City Code

Subject: Killed-in-Service Survivor Benefits

SYNOPSIS

House Bill Number 79, Printer’s Number 69, would amend the act of June 24, 1976 (P. L. 424, No. 101), known as the Emergency and Law Enforcement Personnel Death Benefits Act, to: 1) retroactively repeal certain provisions of the Third Class City Code which require or authorize the payment of death benefits (*also known as survivor benefits*) on behalf of firefighters, ambulance service or rescue squad members, law enforcement officers or National Guard members who are killed in the line of duty; 2) ratify benefits already paid by the Commonwealth under Act 51 of 2009 on behalf of firefighters, ambulance service or rescue squad members, law enforcement officers or National Guard members who were killed in the line of duty on or after October 1, 2011; and 3) require the Commonwealth to reimburse a city of the third class for payments previously made on behalf of firefighters, ambulance service or rescue squad members, law enforcement officers or National Guard members who were killed in the line of duty on or after October 1, 2011.

DISCUSSION

Under the original provisions of the Emergency and Law Enforcement Personnel Death Benefits Act (Act 101 of 1976), the Commonwealth provides a $100,000 lump-sum survivor benefit, adjusted annually for changes in the Consumer Price Index (CPI) since 1995, to the surviving beneficiaries of public safety personnel who are killed in the course of performing their official duties (Act 21 of 2007 added individuals who are “certified hazardous material response team members” to the list of those entitled to this benefit). The program is administered by the Bureau of Risk Management of the Department of General Services, which pays the benefit to the employer who in turn pays the benefit to the survivor beneficiary or beneficiaries. The benefit is paid to the decedent’s surviving spouse, or if no spouse survives, the benefit is divided equally among any surviving minor (under age 18 or, if attending college, under age 23) children. In the absence of a minor child or children, the benefit is paid to the decedent’s parents.

The Third Class City Code (act of June 23, 1931, P. L. 932, No. 317, article XLIII) governs the retirement of police officers and firefighters in cities of the third class. The Code mandates survivor benefits of one-half the pension that the member would have been receiving if retired at the time of death. Third class cities are also empowered to increase the survivor benefit up to the full amount of the pension that the member would have been receiving.

The act of May 29, 1956 (1955 P. L. 1804, No. 600), as amended, governs the retirement of police officers in boroughs, towns and townships with three or more full-time officers. The act formerly allowed, but did not require, that the survivors of deceased police officers (spouses and minor children) could receive a benefit equal to one-half the benefit that would have been payable to the officer, if retired. The act did not distinguish between causes of death (service connected or not service connected).

The act of April 17, 2002 (P. L. 239, No. 30) amended Act 600 to conform to the Third Class City Code provisions by requiring a survivor's benefit of not less than one-half the pension to which the officer would have been entitled, and allowing that benefit to be greater. Act 30 also created a new killed-in-service survivor's benefit equal to the full salary paid to the deceased officer, less any Workers' Compensation benefits paid. This last benefit proved to be overly expensive in the boroughs and townships which incurred this liability. A 40-year amortization period was allowed to pay the liabilities for this provision, but that was an insufficient remedy.

Act 51 of 2009 amended the Emergency and Law Enforcement Personnel Death Benefits Act to mandate payment of a killed-in-service survivor benefit to the surviving spouse or, if there is no surviving spouse, the minor child, of a paid firefighter, ambulance service or rescue squad member, or law enforcement officer in an amount equal to the decedent's monthly salary, less the amount of any Workers' Compensation or pension benefit payable to an eligible beneficiary. The benefit is annually adjusted by an amount equal to the change in the CPI. Act 51 had the effect of providing a killed-in-service benefit applicable to all paid public safety employees (police, fire and emergency services personnel) similar to that previously applicable only to members of municipal police pension plans subject to Act 600. Act 51 repealed the special killed-in-service benefit provisions in Act 600 (since they would no longer be required) and repealed the special 40-year amortization period applicable to the benefit provision. Because the amendment was not retroactive, those municipalities that had already incurred a liability for the Act 600 killed-in-service benefit were unaffected.

House Bill Number 79, Printer's Number 69, would amend the Emergency and Law Enforcement Personnel Death Benefits Act to repeal certain provisions of the Third Class City Code that require the cities to fund a portion of killed-in-service survivor benefits for surviving beneficiaries. Instead, the obligation to pay the killed-in-service benefit would be borne exclusively by the Commonwealth (less any Workers' Compensation). The repeal of the benefits authorized by the Third Class City Code is retroactive to October 9, 2009.

More specifically, the bill would seek to avoid liability for the payment of killed-in-service benefits under the Third Class City Code and Act 51 of 2009. The following excerpt is taken from the Department of the Auditor General's Compliance Audit Report for the City of Lower Burrell Police Pension Plan, Westmoreland County, for the period January 1, 2011, to December 31, 2012, and provides background information on the purpose of the provisions contained in the bill.

> *"A city police officer was killed in service on October 12, 2011. At the time of the police officer's death, the City of Lower Burrell Police Pension Plan provided for a 50 percent killed in service benefit. The city subsequently removed the plan's killed in service benefit provision through the adoption of Ordinance No. 7-2011... The police officer's surviving spouse has received the mandated $100,000 lump sum payment issued by the Commonwealth pursuant to Act 51 of 2009 and is also receiving monthly Workers' Compensation benefits. The payments currently being made by the Commonwealth are supplementing the Workers' Compensation benefits to equal 100 percent of the police officer's base monthly salary at the time of his death... Since the City of Lower Burrell Police Pension Plan had a killed in service benefit in place at the time of the officer's death pursuant to the Third Class City Code, it would appear that the pension plan is liable to pay a portion of the benefits mandated by Act 51 of 2009.*
>
> *During the current audit period, the Commonwealth continues to pay 100 percent of the survivor benefit, reduced by the benefit paid by Workers' Compensation, with no benefit being paid from the city's police pension plan."*

In that same report, the management for the City of Lower Burrell Police Pension Plan responds to those claims by stating that the Third Class City Code is silent on the subject of killed-in-service benefits and that survivor benefits shall only be given to a survivor had the member been retired at the time of his death. The management further states that Act 51 did not include any repeal of killed-in-service benefit provision under the Third Class City Code because the Code does not contain a killed-in-service benefit provision.

House Bill Number 79, Printer's Number 69, would exempt third class cities (in this specific case, Lower Burrell City) from any requirements to make payments on behalf of firefighters, ambulance service or rescue squad members, law enforcement officers or National Guard members who were killed in the line of duty on or after October 1, 2011. As a result, the payment of survivor benefits for third class city public safety employees would come from Workers' Compensation and supplemented by the Commonwealth.

While Act 51 resolved a case of disparate treatment among classes of municipality (only Act 600 municipalities had the full pay survivors' benefit), House Bill Number 79 would create a new disparity in that boroughs, towns, townships, counties, and cities of the first and second class would continue to be liable to pay earned pension benefits to survivors, while third class cities would not. The actuarial note issued for Senate Bill Number 369 (which became Act 51) specifically addressed the fact that the employing municipality would continue to be liable to pay existing survivors' benefits, which together with Workers' Compensation benefits, would offset the newly established Commonwealth expense. Under House Bill Number 79, third class cities would receive special treatment, and it is reasonable to anticipate that other municipal classes will seek future amendments to resolve that disparity.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed House Bill Number 79, Printer's Number 69, and determined that because the bill provides no additional benefits to the affected individuals, there is no actuarial cost associated with the bill. The bill will, however, provide an actuarial gain to the affected municipalities in the event a public safety employee is killed in the line of service.

The retroactive repeal of the survivor benefit payable under the Third Class City Code, however, is a concern to the Commission's consulting actuary. Even though the bill would transfer the liability for the payment of survivor benefits from the third class city pension plans to the Commonwealth, ensuring the survivors would not receive reduced benefits, the reality is that under the third class city pension plans, survivor benefits are being taken away from the survivors subsequent to the deaths of the individuals that resulted in the payments of the survivor benefits. If the bill is enacted and the existing benefits are removed from the Third Class City Code, this may set a precedent to allow a reduction or elimination of benefits under any governmental pension plan within the Commonwealth after such benefits are in pay status.

The consulting actuary also notes that while Act 51 repealed the killed-in-service benefit which was provided under Act 600, the repeal was on a prospective basis. There continues to be borough and township police pension plans subject to Act 600 that are still providing the killed-in-service benefit mandated by Act 30 of 2002 because such benefit resulted from a death that occurred prior to the passage of Act 51. The retroactive repeal of the Third Class City Code survivor benefit under the bill would result in pension plans of the third class cities being treated more favorably than the pension plans of other municipalities with respect to this issue.

POLICY CONSIDERATIONS

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

> Lack of Benefit Uniformity. While Act 51 of 2009 made survivor benefits uniformly applicable to all public safety employees throughout the Commonwealth, the bill if enacted would again make the benefits inequitable by exempting cities of the third class from any obligation to fund killed-in-service benefits. This would result in cities of the third class being treated more favorably than other municipalities.
>
> Abolishment of Survivor Benefits. By allowing the retroactive repeal of certain provisions in the Third Class City Code that require a payment of a survivor benefit for public safety employees that are killed in service, the bill sets a precedent for certain benefits in other municipal codes to be repealed retroactively when a municipality or municipalities find their obligations to public employees to be too onerous. Policymakers must determine if the retroactive repeal of pension benefits is appropriate.

POLICY CONSIDERATIONS (CONT'D)

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). As written, the provision in the bill that would repeal retroactively to October 9, 2009, certain parts of the Third Class City Code that require the cities to fund a portion of killed-in-service survivor benefits for surviving beneficiaries, may be found to impair the benefit rights of the affected members of retirement systems in cities of the third class.

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

Drafting Ambiguity. Section 2 (2)(i) of the bill states that parts of the act of June 23, 1931 (P. L. 932, No. 317), known as the Third Class City Code, are repealed to the extent it requires or authorizes the payment of retirement or pension benefits on behalf of public safety personnel who die as a result of the performance of their duties. The bill, however, does not provide specific changes to the language in the Third Class City Code. Since the pertinent sections of the Third Class City Code concerning survivor benefits do not differentiate between a death in service and a death as a result of the performance of duty, there is the potential that no surviving spouse or children would receive a survivor's benefit, regardless of how the death occurred.

COMMISSION RECOMMENDATION

On February 25, 2015, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2015

House Bill Number 79, Printer's Number 69, was referred to the House Local Government Committee on January 22, 2015.

To view this note in its entirety, click the following link: House Bill Number 79, Printer's Number 69.

Bill ID: House Bill Number 727, Printer's Number 1555

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

Subject: Defined Contribution Retirement Plan

SYNOPSIS

House Bill Number 727, Printer's Number 1555, would amend the Public School Employees' Retirement Code of the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement Code of the State Employees' Retirement System (SERS) to:

1) Effective July 1, 2016, 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 would become participants in the new plan. Membership in the PSERS' defined benefit retirement plan would be closed to all new employees. School employees participating in the DC plan would contribute 6.5% of compensation with an employer contribution of 4% of compensation; and

2) Effective January 1, 2016, 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 would become participants in the new plan, except for future Pennsylvania State Police Officers, who would continue to be eligible for membership in the SERS defined benefit plan after 2016, and school employees who elect the alternate retirement plan under Section 5301(a)(12). Most State employees participating in the DC plan would contribute 6.5% of compensation with an employer contribution of 4% of compensation. For hazardous duty employees (including Capitol Police and park rangers), the employer contribution rate would be 5.5% of compensation.

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 (DB) 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, 2014, there were approximately 789 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 2014, 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, 2014, there were 263,312 active members and 213,900 annuitant members of PSERS, and as of December 31, 2014, there were 104,431 active members and 122,249 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 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

There are two predominate approaches to pension plan design employed in the public and private sectors to provide employee retirement benefits. In a "defined benefit" (DB) plan, such as PSERS, 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 DB 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 DB plans are largely insulated from both negative and positive fluctuations of the investment markets.

By contrast, in a "defined contribution" (DC) pension plan, such as the plan proposed in the bill for new or returning school employees, 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 DC 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 DB and DC approaches is most significant in the placement of the risk associated with investment earnings over the period of employment. The fixed benefit in a DB 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 DC 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 DB plan, and the employee bears the investment risk in a DC 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.

Defined Contribution Plan for School and State Employees

The bill would establish new mandatory governmental retirement plans, known as the School Employees' Defined Contribution Plan and the State Employees' Defined Contribution Plan ("Plans"), for most new school and State employees on or after the year 2016. The defined benefit plan provided by PSERS and SERS would be closed to most new entrants effective July 1, 2016, and January 1, 2016, respectively. Under the bill, a part-time school employee compensated on an hourly or per diem basis would become a mandatory participant in the Plan.

The membership provision known colloquially as the "footprint rule" would be preserved for school and State employees returning to service following a break in service. Generally, under the bill, members who already participated (i.e., had a footprint) in the retirement systems prior to the effective date of the defined contribution plans would be eligible to maintain the benefit provisions that originally applied to them.

Optional members of SERS listed under Section 5301(a) would retain membership in the System unless they choose to become a "participant" in the new DC plan. The State employees that can elect to participate in the DC plan include the following: the Governor, the Lieutenant Governor, members of the General Assembly, heads of administrative departments, the Budget secretary, and legislative employees. Once the eligible employees elect participation in the Plan, they would cease accruing service credit in SERS and would continue as participants in the DC plan until termination of State service.

Membership benefits already accumulated prior to election in the DC plan would be frozen in the System, but available to the employee upon retirement. Election to participate in the plan can be made at any time, and would be an irrevocable election. An employee who is both a member of the System and a participant in the Plan would be known as a "combined service employee." After electing to participate in the Plan, the employee would be prohibited from purchasing any previous school or creditable nonschool service. Under Section 5307 of the bill, for an active member who elects to become a participant in the Plan, vesting requirements under the System (five-year vesting for Class AA and ten-year vesting for Classes A-3 & A-4) shall be considered to have been satisfied if the employee participates in the Plan for three or more years. A combined service employee would also be eligible for a superannuation annuity only after attaining superannuation age and three years of credited service (or three years of participation in the DC plan).

For the purposes of the Commission's discussion, the major issues of the new pension plan 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 mandates the creation of the Plans, establishes the PSERS and SERS Boards as administrators of the respective Plans, and sets forth the Boards' powers and duties. Most of the details governing the actual operation of the new Plan 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 DC plans would be required to contribute a mandatory 6.5% of compensation with an employer contribution of 4% of compensation. For hazardous duty employees (including Capitol Police and park rangers), the employer contribution rate would be 5.5% of compensation. Future Pennsylvania State Police Officers would be exempt from joining the new DC plan, with new employees of this group continuing to be eligible for membership in Class A-3 of SERS after 2016. A participant may make additional contributions to the pension plan 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 be 100% vested immediately in all employee contributions, as well as any interest and earnings attributed to those contributions. Employer contributions would become vested over a three-year period: 33% after the first year of service, 66% after the second year of service, and 100% vested after the third year of service.

The Plans include the requirement that any disbursement of an individual investment account made after the participant reaches age 55 must include at least a partial payout as a life annuity. Since no specific annuity options are mentioned, it will be up to the board to determine the minimum annuity amount and what types of lifetime annuity options will be provided.

Investments

While the bill 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 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. All fees, costs and expenses of administering 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 or disability benefit provisions to provide for the surviving spouse or children of a Plan participant. This includes a lack of disability benefits for work-related disabilities incurred by public safety employees.

Premium Assistance. Under the PSERS Code, premium assistance eligibility is determined based upon years of service credited in the System. Because DC plan participants will no longer accrue service credit in the System, PSERS' DC plan participants would be ineligible for post-retirement health insurance premium assistance now provided to eligible retired members.

Retired Employee Health Program. The Retired Employee Health program (REHP) is administered jointly by the Governor's Office of Administration and SERS. The REHP provides for Commonwealth-subsidized post-retirement healthcare benefits to employees of most Commonwealth agencies. Eligibility for these benefits is tied to an employee's years of credited service in SERS and an employee's age at retirement. Because a participant in the Plan would not accrue credited service in the System, SERS' DC plan participants appear to be ineligible for REHP participation now provided to eligible retired members.

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, the accumulated contributions of a participant shall not be forfeited but will be made available for payment of any fines or restitution.

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.

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.

The bill would exempt a sworn officer of the Pennsylvania State Police from membership in the new DC plan. 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.

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, except for Pennsylvania State Police Officers, there would be no special benefit provisions for these groups of employees in the new State Employees' DC plan.

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 and the case law regarding the special status of its members, if enacted, the bill is likely to be challenged in the courts.

Treatment of Educational Employees

Under current law, "school employees" (employees and officers of the Pennsylvania State System of Higher Education [PASSHE] institutions and the Department of Education, 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 (SERS) or the Public School Employees' Retirement System (PSERS). 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 directs 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, these school employees would no longer be eligible to elect membership in either of the Systems or to become a participant in the Plan. Instead, all future eligible employees would be limited to choosing coverage in an alternative retirement program.

Implications of Closing PSERS to New Members and Retention of a Vestigial DB Plan for SERS

As noted previously, membership in PSERS would be closed to school employees hired or returning after a break in service on or after July 1, 2016. In the case of SERS, only members of the Pennsylvania State Police would remain eligible for membership in the System on or after January 1, 2016. Although SERS will be closed to most new members, SERS will maintain a vestigial DB plan containing State Police Officers. However, both PSERS and SERS will retain their current active and annuitant populations and funding for the retirement benefits of those members will continue for many decades. In actuarial terms, the funding dynamics of such "closed groups" differ significantly from an open group in which there is a continuous influx of new active members. Closed groups present funding challenges that will need to be addressed in the future through modification of the Systems' respective statutory funding provisions.

When the population of a retirement system is an open group, with a continuous influx of new active members, payroll generally increases and the level-dollar amortization represents a decreasing percentage of payroll. However, in a closed group, the payroll will begin shrinking in the future and the level-dollar payments will represent an increasingly larger percentage of payroll. Each System currently has a large unfunded actuarial accrued liability that will need to be covered by future contributions. The liabilities of PSERS and SERS are not unlike a home mortgage or other long-term debt. The debt must be paid (amortized), with interest, over a certain span of time. In the event PSERS and SERS are closed to new members, the period over which these liabilities will need to be amortized will be no more than 30 years on a level-dollar basis. The fixed-dollar cost of paying down these liabilities will result in increased amortization payments as a percentage of payrolls and may become excessively burdensome for the remaining active member employers.

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, for PSERS, any increase or decrease in the unfunded accrued liability will continue to 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, with the result of the 10-year asset averaging method being constrained to within 30% of the market values of assets. In the case of SERS, for the fiscal year beginning July 1, 2015, any change 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, 2015, changes in the accrued liability of SERS due to benefit changes under the bill will be amortized on a level-dollar basis over a period of 20 years.

As the active membership declines within each System, it may not be reasonable to assume that future changes in the unfunded accrued liability should be amortized over 24 or 30 years. A ten-year period may also be unreasonable for future legislative changes. Consideration should also be given to the appropriate period over which future plan experience should be amortized.

Once active membership in PSERS and SERS has significantly declined and retired members are the majority of each System's total membership, the Systems may also need to consider revising their investment policies. Due to the need to ensure sufficient liquidity to provide for the payment of benefits, both PSERS and SERS may be inclined to invest assets in a more conservative manner resulting in a lower discount rate. This revision would result in a lower valuation interest rate, which would result in higher actuarial accrued liabilities, requiring larger employer contributions as a percentage of payroll.

Based on discussion provided by the Systems' investment consultants, the Systems' actuaries recommend that the investment return assumption be reduced over time if the bill is enacted. The Commission's consulting actuary, Milliman, cautions the reader to determine whether this is a cost of the bill or a change in assumptions. The Systems' Boards (Boards) can change asset allocation strategy at any time, which could have an impact on the investment return assumption. A more conservative or diversified portfolio could result in a reduction in the expected investment return, but the variability of returns may be reduced. On the other hand, a more aggressive portfolio could result in an increase in the expectation, but the variability of returns may be increased. A larger variation of returns would result in more volatility in the annual contribution requirement. Milliman asks, if a change in benefit design is made, would that ***require*** the Boards to modify the assumption? Milliman believes that there is much uncertainty regarding the possible actions of the Boards in future years under the current design or if the bill is enacted. In the Systems' actuaries' analyses, they note the following reasons for the change.

Future Expected Benefit Commitments of the Systems

In determining if the Systems' asset allocation should be modified due to the enactment of the bill, Milliman reviewed the plans' liquidity ratio to determine the percentage of assets to be used to cover a year of benefit payments. If this percentage increases over time, Milliman would then expect a shift in the plan's asset allocation to more liquid assets. As of June 30, 2014, expected benefit payments for the upcoming year represent approximately 12% of market value for PSERS and 11% for SERS. If the bill is enacted, the expected benefit payments represent approximately 8.0% of market value as of June 30, 2047, for PSERS, and 6% of market value as of December 31, 2049, for SERS. Therefore, the liquidity ratio, based on this metric, is expected to decrease from its current levels assuming all current actuarial assumptions are met and all employers, including the Commonwealth, make the annual actuarial contribution.

Consideration of the Illiquidity of Certain Investment Classes

As of June 30, 2047, for PSERS, and December 31, 2049, for SERS, the projected market value is $140 billion for PSERS and at least $60 billion for SERS. The projected benefit payments are $11 billion for PSERS and $4 billion for SERS. Based on this ratio, Milliman does not believe that current illiquid investments would need to be reduced by the end of the projection period.

Expected Reduction of Risk and Surplus Volatility Over the Period Examined to Minimize Employer Contribution Requirements While Securing Assets for Benefit Commitments

Assuming a Commonwealth budget growth assumption of 3.9%, the ratio of the total projected plan liability to the Commonwealth budget is expected to be reduced by over 60% during the projection period if the bill is enacted. Milliman agrees that the plans will mature over time, but the Commonwealth is not expected to mature assuming the tax base and population will continue at current levels. Therefore as the size of the plans is reduced, the DB plans become less of a risk to the Commonwealth. As a result, the Commonwealth might be able to take on more risk regarding the investments of the plan and continue to manage the plan at its current investment risk levels.

The Median of the Future Expected Asset Returns

Based on the PSERS investment consultant's analysis, the median return is approximately 7%, which is 50 basis points less than the current investment return assumption (as referenced in the attached report from Aon Hewitt, the investment consultant for PSERS, entitled *Asset/Liability Plan Change Study*, dated May 2015). Milliman agrees that the investment return assumption should be set at the median return regardless of plan design. Milliman is uncertain if the reduction contained in the analyses represents a change in the current assumption or if they are solely a result of the bill.

Miscellaneous Provisions

Contractual Benefit Rights of DC Plan Participants. Section 401 of Article 4 in the bill explicitly states that 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) contributions to, participation in, or benefits from the Plans; and 3) domestic relations orders regarding alternate payees of participants in the Plans.

SUMMARY OF ACTUARIAL COST IMPACT

The specific elements of the current issue involve significant differences in the actuarial analyses provided by our consultant, Milliman, and the actuaries for the retirement systems. Regarding the amortization of the existing unfunded liability, all of the actuaries agree that some reduction of the current amortization period would be advisable. The Systems' actuaries applied that amortization reduction to their analysis. Milliman, noting that the amortization period is established by existing statute and the House Bill Number 727 does not alter that amortization period, did not. Further, the Systems' actuaries opined that the closure of the existing defined benefit pension would require a future shift in investment policy to a more conservative one, while Milliman disagreed that such a change would be "required" (emphasis in the Milliman letter at pages 14 and 16). The fundamental problem with this is that investment policy is set by the Systems' Boards. House Bill Number 727 does not restrict the Boards' discretion in this area, but expands upon it. While the bill does not compel a change in investment policy, it does not prevent it, either. Given that the Boards' investment advisor and actuary are both recommending the change, it may be unrealistic to discount the work of the Systems' actuaries.

The Commission's consulting actuary has reviewed the bill and has stated:

> If this Bill is enacted, the following chart shows the expected accumulated nominal dollar cash flow costs/(savings) on the employer contributions for the fiscal years 2015-2016 through 2047-2048 for both Systems, without and with the System actuary's recommended changes in amortization methodology and reduction in investment return assumption. The chart also shows the present value of the expected cash flow costs/(savings) as of June 30, 2015, assuming end of year payment, at 3.9% (a proxy for budget growth) and 7.5% (the current investment return for the System). The 3.9% proxy for budget growth is based on the annual growth in estimated general fund revenue from 2017-2018 to 2019-2020 shown on page C1-12 in the Governor's Executive Budget for 2015-2016. *As a reminder, it is up to the reader to determine what portion, if any, of the increase in cost due to the System actuaries' recommendations should be included as a cost of the Bill*.

Impact on Employer Contributions if House Bill 727, PN 1555 is enacted
For Fiscal Years 2015-2016 through 2047-2048
(amounts in millions and based on System actuary's projections)

	Cash Flow Costs/(Savings)	Present Value of Cash Flow Costs/(Savings) at 3.9%	Present Value of Cash Flow Costs/(Savings) at 7.5%
Without the System actuary's recommended changes in amortization methodology and reductions in investment return assumption			
PSERS	$5,208.9	$2,303.8	$1,217.1
SERS	(3,030.6)	(1,279.9)	(641.5)
Total	2,178.3	1,023.9	575.6
With the System actuary's recommended changes in amortization methodology and reductions in investment return assumption			
PSERS	$28,264.1	$10,649.5	$4,903.7
SERS	2,964.1	1,105.0	462.2
Total	31,228.2	11,754.5	5,365.9

Prior to reflecting the System actuary's recommended changes for amortization methodology and reduction in investment returns, there is a cost for PSERS and a savings for SERS if the Bill is enacted. This difference is due to the relationship between the current employer normal cost rate for recent hires and the 4% DC plan contribution rate – such normal cost rate is below 4% for PSERS and vice versa for SERS.

Each of the system's assets is assumed to earn 7.5% or alternative assumption, as applicable, each year of the projection. To the extent adverse (favorable) investment returns are experienced, the contribution rates would be higher (lower).

Tables 1 and 2 detail the actuarial impact of the bill ***without*** the recommended changes of the Systems' actuaries. Tables 3 and 4 detail the actuarial impact of the bill ***with*** the recommended changes of the Systems' actuaries. To see the work and commentary of the Systems' actuaries in their entirety, please see the attached actuarial cost estimates provided by Buck Consultants and Hay Group.

Table 1
Public School Employees' Retirement System
Projection of Contribution Rates and Funded Ratios as of June 30, 2014
Current PSERS vs. House Bill No. 727, Printer's No. 1555
Without Reflecting Potential Funding Reforms Associated with Financing of a Closed Benefit Plan

	Total Employer Contribution Rate		Total Employer Contribution (thousands)				Funded Ratio		Unfunded Accrued Liability (millions)	
					Cost /(Savings)					
Fiscal Year Ending June	Current PSERS	HB 727 DB + DC	Current PSERS	HB 727 DB + DC	Cash Flow Basis	Present Value as of June 30, 2015	Current PSERS	HB 727 DB	Current PSERS	HB 727 DB
2013	12.36%	12.36%					63.8%	63.8%	$32,598.6	$32,598.6
2014	16.93	16.93					62.0	62.0	35,121.2	35,121.2
2015	21.40	21.40	$ 2,885,148	$ 2,885,148	$ 0	$ 0	60.6	60.6	37,413.9	37,413.9
2016	25.84	25.84	3,456,100	3,456,100	0	0	59.6	59.6	39,412.8	39,412.8
2017	29.69	29.85	4,079,195	4,100,953	21,757	18,827	58.7	58.7	41,424.4	41,424.4
2018	30.62	30.93	4,316,593	4,359,776	43,183	34,760	58.4	58.4	42,871.0	42,871.0
2019	31.56	31.88	4,569,239	4,616,291	47,051	35,232	60.0	60.0	42,296.8	42,296.8
2020	32.23	32.58	4,794,454	4,846,262	51,808	36,088	61.7	61.6	41,603.7	41,603.7
2021	32.02	32.40	4,892,886	4,950,628	57,742	37,414	63.0	62.9	41,228.1	41,228.1
2022	31.90	32.29	5,005,091	5,066,369	61,278	36,936	64.7	64.5	40,395.1	40,395.1
2023	31.96	32.39	5,149,606	5,218,695	69,088	38,738	66.5	66.3	39,344.6	39,344.6
2024	31.90	32.36	5,276,635	5,353,474	76,839	40,078	68.1	67.8	38,382.2	38,382.2
2025	31.83	32.30	5,404,815	5,484,779	79,964	38,798	69.9	69.5	37,192.9	37,192.9
2026	31.90	32.42	5,555,781	5,646,066	90,285	40,750	71.8	71.3	35,741.5	35,741.5
2027	31.99	32.53	5,709,259	5,805,198	95,939	40,280	73.8	73.3	34,014.0	34,014.0
2028	32.10	32.68	5,865,715	5,971,382	105,668	41,270	75.9	75.3	31,999.5	31,999.5
2029	32.20	32.81	6,020,442	6,134,617	114,175	41,481	78.2	77.5	29,682.5	29,682.5
2030	32.31	32.97	6,178,835	6,304,186	125,352	42,365	80.6	79.9	27,032.1	27,032.1
2031	32.43	33.12	6,340,635	6,476,080	135,445	42,582	83.1	82.4	24,014.7	24,014.7
2032	32.58	33.31	6,509,681	6,656,031	146,350	42,800	85.8	85.1	20,597.9	20,597.9
2033	32.72	33.50	6,679,209	6,839,343	160,134	43,564	88.7	88.1	16,743.8	16,743.8
2034	32.88	33.70	6,856,314	7,026,865	170,551	43,161	91.8	91.3	12,411.6	12,411.6
2035	33.03	33.89	7,036,790	7,220,565	183,774	43,263	95.1	94.7	7,559.2	7,559.2
2036	18.12	19.03	3,943,950	4,141,623	197,673	43,288	96.6	96.2	5,418.8	5,418.8
2037	14.27	15.21	3,173,457	3,383,434	209,977	42,775	97.6	97.3	3,871.2	3,871.2
2038	12.46	13.45	2,831,765	3,056,868	225,103	42,657	98.4	98.3	2,529.3	2,529.3
2039	10.43	11.46	2,422,607	2,661,073	238,467	42,036	99.1	99.0	1,474.9	1,474.9
2040	8.80	9.88	2,090,021	2,346,674	256,653	42,086	99.6	99.6	654.8	654.8
2041	7.28	8.40	1,769,320	2,041,689	272,369	41,547	100.0	100.0	72.5	72.5
2042	5.93	7.09	1,476,104	1,763,645	287,542	40,801	100.2	100.2	(280.8)	(280.8)
2043	4.55	5.73	1,161,604	1,463,364	301,760	39,831	100.2	100.3	(362.3)	(362.3)
2044	4.14	4.72	1,085,716	1,237,753	152,037	18,668	100.2	100.2	(395.4)	(221.3)
2045	4.00	4.89	1,079,491	1,318,784	239,293	27,332	100.2	100.1	(428.1)	(142.9)
2046	3.88	4.98	1,079,385	1,385,584	306,198	32,534	100.2	100.1	(463.0)	(111.3)
2047	3.75	4.83	1,075,379	1,384,055	308,676	30,509	100.3	100.0	(500.9)	(56.5)
2048	3.62	4.89	1,070,100	1,446,842	376,741	34,639	100.3	100.0	(541.1)	(30.0)
			Total Cost/(Savings)		$ 5,208,873	$ 1,217,092				

Table 2
State Employees' Retirement System (SERS)
Projection of Contribution Rates and Funded Ratios
Current SERS vs. House Bill No. 727
Without Reflecting Potential Funding Reforms Associated with Financing of a Closed Benefit Plan

	Total Employer Contribution Rate		Total Employer Contribution* (Millions)			Funded Ratio		Unfunded Accrued Liability (Billions)	
Fiscal Year	Current SERS	HB 727 DB + DC	Current SERS	HB 727 DB + DC	(Savings)/ Cost	Current SERS	HB 727 DB + DC	Current SERS	HB 727 DB + DC
2012/2013	11.50	11.50	677.4	677.4	-	65.3	65.3	14.69	14.69
2013/2014	16.00	16.00	933.8	933.8	-	58.8	58.7	17.78	17.78
2014/2015	20.50	20.50	1,209.0	1,209.0	-	59.2	59.2	17.90	17.90
2015/2016	25.00	24.98	1,505.4	1,504.4	(1.0)	59.4	59.4	18.17	18.17
2016/2017	29.50	29.45	1,830.6	1,827.6	(4.1)	59.7	59.7	18.42	18.42
2017/2018	30.41	30.29	1,944.5	1,937.1	(11.5)	61.4	61.5	18.01	17.98
2018/2019	29.40	29.22	1,937.1	1,925.3	(23.2)	63.2	63.2	17.53	17.48
2019/2020	28.82	28.58	1,957.0	1,940.6	(39.6)	64.2	64.3	17.35	17.27
2020/2021	28.15	27.85	1,970.0	1,948.9	(60.7)	65.4	65.5	17.07	16.95
2021/2022	27.52	27.16	1,984.4	1,958.5	(86.6)	66.6	66.7	16.77	16.63
2022/2023	26.92	26.50	2,000.2	1,969.3	(117.5)	67.8	67.9	16.45	16.28
2023/2024	26.34	25.87	2,016.9	1,980.8	(153.6)	68.9	69.0	16.12	15.92
2024/2025	25.78	25.25	2,034.0	1,992.6	(195.0)	70.0	70.1	15.76	15.52
2025/2026	25.23	24.65	2,051.7	2,004.9	(241.9)	71.2	71.3	15.37	15.10
2026/2027	24.70	24.08	2,070.0	2,017.5	(294.3)	72.3	72.4	14.94	14.64
2027/2028	24.19	23.52	2,089.0	2,030.7	(352.6)	73.5	73.6	14.48	14.15
2028/2029	23.69	22.97	2,108.5	2,044.3	(416.8)	74.8	74.8	13.98	13.61
2029/2030	23.21	22.44	2,128.6	2,058.3	(487.1)	76.0	76.1	13.44	13.04
2030/2031	22.74	21.93	2,149.3	2,072.7	(563.7)	77.3	77.4	12.85	12.42
2031/2032	22.29	21.44	2,170.7	2,087.5	(646.9)	78.7	78.8	12.22	11.75
2032/2033	21.85	20.96	2,192.8	2,103.0	(736.7)	80.1	80.2	11.54	11.02
2033/2034	21.42	20.49	2,215.6	2,118.9	(833.4)	81.6	81.7	10.79	10.25
2034/2035	21.01	20.04	2,239.0	2,135.2	(937.2)	83.1	83.3	9.99	9.41
2035/2036	20.61	19.60	2,263.2	2,152.2	(1,048.2)	84.7	85.0	9.13	8.50
2036/2037	20.22	19.17	2,288.2	2,169.6	(1,166.8)	86.4	86.8	8.19	7.53
2037/2038	19.84	18.76	2,314.0	2,187.7	(1,293.1)	88.2	88.7	7.18	6.48
2038/2039	19.48	18.36	2,340.5	2,206.3	(1,427.3)	90.1	90.7	6.09	5.35
2039/2040	19.12	17.97	2,367.9	2,225.4	(1,569.8)	92.1	92.9	4.91	4.13
2040/2041	15.06	13.88	1,921.8	1,770.9	(1,720.7)	94.2	95.2	3.63	2.81
2041/2042	12.13	10.92	1,595.7	1,436.0	(1,880.4)	95.7	96.8	2.73	1.87
2042/2043	8.86	7.62	1,200.8	1,032.3	(2,048.8)	96.7	98.0	2.11	1.21
2043/2044	6.85	5.58	957.1	779.4	(2,226.5)	97.2	98.5	1.87	0.93
2044/2045	6.67	5.37	959.9	772.9	(2,413.5)	97.2	98.5	1.87	0.89
2045/2046	6.42	5.09	952.1	755.5	(2,610.1)	97.2	98.6	1.89	0.88
2046/2047	6.18	4.83	944.6	738.2	(2,816.5)	97.1	98.5	1.95	0.90
2047/2048	6.30	4.94	992.4	778.3	(3,030.6)	97.0	98.5	2.06	0.96
2048/2049	6.44	5.07	1,045.5	823.6	(3,252.5)	96.9	98.4	2.14	1.01
2049/2050	6.42	5.04	1,072.9	843.1	(3,482.3)	96.8	98.4	2.21	1.04
2050/2051	6.43	5.05	1,108.6	870.3	(3,720.6)	96.8	98.4	2.29	1.08
2051/2052	6.44	5.05	1,144.4	897.2	(3,967.8)	96.7	98.4	2.37	1.11

*Savings shown are cumulative.

Table 3
Public School Employees' Retirement System
Projection of Contribution Rates and Funded Ratios as of June 30, 2014
Current PSERS vs. House Bill No. 727, Printer's No. 1555
Reflecting Potential Funding Reforms Associated with Financing of a Closed Benefit Plan

	Total Employer Contribution Rate		Total Employer Contribution (thousands)				Funded Ratio		Unfunded Accrued Liability (millions)	
					Cost /(Savings)					
Fiscal Year Ending June	Current PSERS	HB 727 DB + DC	Current PSERS	HB 727 DB + DC	Cash Flow Basis	Present Value as of June 30, 2015	Current PSERS	HB 727 DB	Current PSERS	HB 727 DB
2013	12.36%	12.36%					63.8%	63.8%	$ 32,598.6	$ 32,598.6
2014	16.93	16.93					62.0	62.0	35,121.2	35,121.2
2015	21.40	21.40	$ 2,885,148	$ 2,885,148	$ 0	$ 0	60.6	60.6	37,413.9	37,413.9
2016	25.84	25.84	3,456,100	3,456,100	0	0	59.6	59.6	39,412.8	39,412.8
2017	29.69	29.85	4,079,195	4,100,953	21,757	18,827	58.7	58.7	41,424.4	41,424.4
2018	30.62	34.73	4,316,593	4,895,473	578,880	465,976	58.4	58.9	42,871.0	42,335.8
2019	31.56	35.21	4,569,239	5,098,406	529,167	396,240	60.0	61.0	42,296.8	41,241.3
2020	32.23	35.32	4,794,454	5,253,858	459,404	320,002	61.7	63.1	41,603.7	40,063.6
2021	32.02	34.14	4,892,886	5,216,512	323,626	209,697	63.0	64.7	41,228.1	39,305.5
2022	31.90	33.10	5,005,091	5,193,458	188,367	113,539	64.7	65.0	40,395.1	40,868.3
2023	31.96	32.40	5,149,606	5,220,306	70,700	39,641	66.5	66.6	39,344.6	39,843.3
2024	31.90	33.50	5,276,635	5,542,043	265,408	138,433	68.1	68.3	38,382.2	38,736.3
2025	31.83	32.54	5,404,815	5,525,532	120,717	58,571	69.9	69.9	37,192.9	37,542.3
2026	31.90	31.82	5,555,781	5,541,569	(14,212)	(6,415)	71.8	71.6	35,741.5	36,229.7
2027	31.99	31.13	5,709,259	5,555,339	(153,919)	(64,624)	73.8	73.3	34,014.0	34,801.9
2028	32.10	30.45	5,865,715	5,563,889	(301,826)	(117,882)	75.9	73.3	31,999.5	36,197.2
2029	32.20	29.77	6,020,442	5,566,228	(454,214)	(165,022)	78.2	74.8	29,682.5	34,758.5
2030	32.31	31.47	6,178,835	6,017,332	(161,502)	(54,582)	80.6	76.6	27,032.1	32,807.3
2031	32.43	30.75	6,340,635	6,012,703	(327,932)	(103,098)	83.1	78.4	24,014.7	30,722.6
2032	32.58	30.08	6,509,681	6,010,657	(499,024)	(145,941)	85.8	80.2	20,597.9	28,495.6
2033	32.72	29.40	6,679,209	6,002,401	(676,808)	(184,125)	88.7	82.1	16,743.8	26,114.8
2034	32.88	28.74	6,856,314	5,992,579	(863,735)	(218,585)	91.8	84.0	12,411.6	23,567.5
2035	33.03	28.09	7,036,790	5,984,919	(1,051,871)	(247,624)	95.1	85.9	7,559.2	20,842.3
2036	18.12	25.11	3,943,950	5,464,979	1,521,029	333,089	96.6	86.0	5,418.8	21,277.3
2037	14.27	22.50	3,173,457	5,004,632	1,831,176	373,030	97.6	87.3	3,871.2	19,331.0
2038	12.46	24.96	2,831,765	5,672,727	2,840,963	538,358	98.4	89.1	2,529.3	16,610.7
2039	10.43	21.88	2,422,607	5,081,357	2,658,751	468,678	99.1	90.6	1,474.9	14,273.2
2040	8.80	19.24	2,090,021	4,569,696	2,479,675	406,615	99.6	90.3	654.8	14,992.2
2041	7.28	17.00	1,769,320	4,131,819	2,362,499	360,372	100.0	91.3	72.5	13,434.9
2042	5.93	17.63	1,476,104	4,387,277	2,911,173	413,085	100.2	92.4	(280.8)	11,532.6
2043	4.55	17.07	1,161,604	4,358,437	3,196,834	421,971	100.2	93.7	(362.3)	9,506.9
2044	4.14	14.67	1,085,716	3,847,143	2,761,427	339,069	100.2	94.8	(395.4)	7,836.9
2045	4.00	12.72	1,079,491	3,431,888	2,352,397	268,693	100.2	95.6	(428.1)	6,460.4
2046	3.88	11.12	1,079,385	3,093,683	2,014,298	214,023	100.2	96.4	(463.0)	5,325.6
2047	3.75	9.84	1,075,379	2,820,761	1,745,382	172,512	100.3	97.0	(500.9)	4,390.2
2048	3.62	8.81	1,070,100	2,605,625	1,535,524	141,181	100.3	97.5	(541.1)	3,619.0
				Total Cost/(Savings)	$ 28,264,109	$ 4,903,707				

Table 4
State Employees' Retirement System (SERS)
Projection of Contribution Rates and Funded Ratios
Current SERS vs. House Bill No. 727
Reflecting Potential Funding Reforms Associated with Financing of a Closed Benefit Plan

	Total Employer Contribution Rate		Total Employer Contribution* (Millions)			Funded Ratio		Unfunded Accrued Liability (Billions)	
Fiscal Year	Current SERS	HB 727 DB + DC	Current SERS	HB 727 DB + DC	(Savings)/ Cost	Current SERS	HB 727 DB + DC	Current SERS	HB 727 DB + DC
2012/2013	11.50	11.50	677.4	677.4	-	65.3	65.3	14.69	14.69
2013/2014	16.00	16.00	933.8	933.8	-	58.8	58.7	17.78	17.78
2014/2015	20.50	20.50	1,209.0	1,209.0	-	59.2	59.2	17.90	17.90
2015/2016	25.00	24.98	1,505.4	1,504.4	(1.0)	59.4	59.4	18.17	18.17
2016/2017	29.50	29.45	1,830.6	1,827.6	(4.1)	59.7	59.7	18.42	18.42
2017/2018	30.41	30.29	1,944.5	1,937.1	(11.5)	61.4	61.5	18.01	17.98
2018/2019	29.40	29.22	1,937.1	1,925.3	(23.2)	63.2	63.2	17.53	17.48
2019/2020	28.82	28.58	1,957.0	1,940.6	(39.6)	64.2	64.3	17.35	17.27
2020/2021	28.15	27.85	1,970.0	1,948.9	(60.7)	65.4	65.5	17.07	16.95
2021/2022	27.52	27.16	1,984.4	1,958.5	(86.6)	66.6	66.7	16.77	16.63
2022/2023	26.92	26.50	2,000.2	1,969.3	(117.5)	67.8	67.9	16.45	16.28
2023/2024	26.34	25.87	2,016.9	1,980.8	(153.6)	68.9	69.0	16.12	15.92
2024/2025	25.78	25.25	2,034.0	1,992.6	(195.0)	70.0	70.1	15.76	15.52
2025/2026	25.23	24.65	2,051.7	2,004.9	(241.9)	71.2	71.3	15.37	15.10
2026/2027	24.70	26.08	2,070.0	2,185.8	(126.0)	72.3	69.9	14.94	16.53
2027/2028	24.19	25.45	2,089.0	2,197.9	(17.1)	73.5	71.0	14.48	15.99
2028/2029	23.69	24.84	2,108.5	2,210.4	84.8	74.8	72.3	13.98	15.41
2029/2030	23.21	24.25	2,128.6	2,223.4	179.6	76.0	73.6	13.44	14.79
2030/2031	22.74	23.67	2,149.3	2,236.6	266.9	77.3	75.0	12.85	14.11
2031/2032	22.29	23.11	2,170.7	2,250.2	346.4	78.7	76.4	12.22	13.39
2032/2033	21.85	22.56	2,192.8	2,264.5	418.1	80.1	77.9	11.54	12.62
2033/2034	21.42	22.04	2,215.6	2,279.1	481.6	81.6	79.4	10.79	11.78
2034/2035	21.01	21.53	2,239.0	2,294.3	536.9	83.1	81.0	9.99	10.89
2035/2036	20.61	21.03	2,263.2	2,309.9	583.6	84.7	82.8	9.13	9.93
2036/2037	20.22	22.02	2,288.2	2,491.5	786.9	86.4	82.2	8.19	10.55
2037/2038	19.84	21.50	2,314.0	2,507.0	979.9	88.2	84.2	7.18	9.39
2038/2039	19.48	20.99	2,340.5	2,523.1	1,162.5	90.1	86.3	6.09	8.15
2039/2040	19.12	20.51	2,367.9	2,539.7	1,334.3	92.1	88.5	4.91	6.82
2040/2041	15.06	16.44	1,921.8	2,098.1	1,510.6	94.2	90.9	3.63	5.40
2041/2042	12.13	13.48	1,595.7	1,773.4	1,688.3	95.7	92.7	2.73	4.34
2042/2043	8.86	10.21	1,200.8	1,383.5	1,871.1	96.7	94.1	2.11	3.55
2043/2044	6.85	8.16	957.1	1,139.7	2,053.7	97.2	94.8	1.87	3.11
2044/2045	6.67	7.87	959.9	1,132.4	2,226.2	97.2	95.2	1.87	2.90
2045/2046	6.42	7.52	952.1	1,115.0	2,389.1	97.2	95.6	1.89	2.71
2046/2047	6.18	8.09	944.6	1,237.1	2,681.6	97.1	94.1	1.95	3.67
2047/2048	6.30	8.10	992.4	1,274.9	2,964.1	97.0	94.4	2.06	3.47
2048/2049	6.44	8.12	1,045.5	1,318.1	3,236.7	96.9	94.8	2.14	3.23
2049/2050	6.42	8.00	1,072.9	1,337.4	3,501.2	96.8	95.3	2.21	2.96
2050/2051	6.43	7.91	1,108.6	1,363.5	3,756.1	96.8	95.8	2.29	2.67
2051/2052	6.44	6.91	1,144.4	1,228.0	3,839.7	96.7	96.3	2.37	2.35

*Savings shown are cumulative.

POLICY CONSIDERATIONS

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

Differing Actuarial Opinions. The specific elements of the current issue involve significant differences in the actuarial analyses provided by our consultant, Milliman, and the actuaries for the retirement systems. Regarding the amortization of the existing unfunded liability, all of the actuaries agree that some reduction of the current amortization period would be advisable. The Systems' actuaries applied that amortization reduction to their analysis. Milliman, noting that the amortization period is established by existing statute and that House Bill Number 727 does not alter that amortization period, did not. Further, the Systems' actuaries opined that the closure of the existing defined benefit pension would require a future shift in investment policy to a more conservative one, while Milliman disagreed that such a change would be "required" (emphasis in the Milliman letter at pages 14 and 16). The fundamental problem with this is that investment policy is set by the Systems' Boards. House Bill Number 727 does not restrict the Boards' discretion in this area, but expands upon it. While the bill does not compel a change in investment policy, it does not prevent it, either. Given that the Boards' investment advisor and actuary are both recommending the change, it may be unrealistic to discount the work of the Systems' actuaries.

Benefit Value and Security. While a detailed benefit comparison was beyond the scope of this actuarial note, the DC plans proposed in the bill would provide new public school and State employees with a retirement income that is likely to be less valuable, predictable and secure than that provided by the traditional DB pension plans. Retirement planning based on projected DC account balances is likely to be less predictable and involve greater individual attention to risk management than participation in a traditional DB plan. Policymakers must determine the appropriateness of such a change in the Commonwealth's public pension policy.

Delegation of Legislative Authority. The bill empowers the Boards of both Systems to develop the details of major DC plan design elements and administrative details by rule or regulation. Policymakers must determine if the broad powers afforded the Boards constitute an appropriate delegation of legislative authority.

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, except for Pennsylvania State Police Officers, there are no special benefit provisions for these groups of employees. The uniform benefit level under the bill 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. The bill 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 disability or retirement provisions.

Judicial Benefits. The Supreme Court of the Commonwealth has 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 drafted, the bill ignores the special status of judicial benefits. Based upon the independent status of the judiciary in Pennsylvania and the case law regarding the special status of its members, if enacted, the bill is likely to be challenged in the courts.

State Police Officers Benefits. 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. It is unclear why State Police are given special treatment in the bill while other traditional, special membership classes are not exempt from the new DC plan.

Treatment of Educational Employees. Under current law, "school employees" (employees of PASSHE institutions and the Department of Education, 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 if enacted, new employees of these educational institutions would have no other option besides selecting membership in an alternative retirement program such as the Teachers' Insurance Annuity Association – College Retirement Equity Fund (TIAA-CREF). The rationale for special treatment of this subgroup of educational employees while imposing reduced benefit plans upon most future school and State employees is unclear.

Renewal of Pension Contract. In *Shiomos v. State Employes' Retirement Board,* 533 Pa. 588, 626 A.2d 158 (1993), the Supreme Court held that a public official, at every new term of office, renews his pension contract subject to the law in effect when the new term of office commences. While this case, and the subsequent decisions that follow its holding, specifically relates to Section 3 of the Public Employee Pension forfeiture Act, 1978, July 8, P. L. 752, No. 140, 43 P.S. § 1313(c), the core of the court's analysis is that a statutory provision can alter otherwise protected benefits contingent upon a change in the nature of the employment. That analysis may apply equally to the statutory amendment proffered by this legislation.

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

Closed Group Funding Dynamics. The bill would close both PSERS and SERS to new entrants effective 2016 (except for Pennsylvania State Police Officers, in the case of SERS), substituting membership in the Systems with participation in DC plans for new employees. In their respective work products, the Commission's consulting actuary (Milliman) and the consulting actuaries for both PSERS and SERS describe the major issues associated with the funding dynamics of a defined benefit retirement system that has been closed to new entrants. The use of level percentage of payroll amortization periods, amortization periods that exceed the average remaining service of active members, and the manner in which investment return assumptions are set by the respective retirement system boards may all require review and adjustment if the bill becomes law. It should be noted, however, that the Commission's consulting actuary maintains that there is no need to alter either Systems' liquidity ratios over the course of the projection period, but does agree with the Systems' actuaries that the amortization periods should be shortened to more closely reflect the remaining service of the active members in the legacy defined benefit plans. Ultimately, the decisions as to investment policy and amortization periods will be made by the Boards of the respective Systems.

Nondiscrimination Provision. As the existing defined benefit plan gradually loses active members other than members of the State Police (and probably judges), the risk of violating the nondiscrimination provisions and participation requirements of the Internal Revenue Code, Sections 401(a)(4) and (26), and 414, is likely to develop. These issues should be reviewed by qualified tax counsel.

Premium Assistance. Under the PSERS Code, premium assistance eligibility is determined based upon years of service credited in the System. Because DC plan participants will no longer accrue service credit in the System, PSERS' DC plan participants would be ineligible for post-retirement health insurance premium assistance now provided to eligible retired members.

Retired Employee Health Program. The Retired Employee Health program (REHP) is administered jointly by the Governor's Office of Administration and SERS. The REHP provides for Commonwealth-subsidized post-retirement healthcare benefits to employees of most Commonwealth agencies. Eligibility for these benefits is tied to an employee's years of credited service in SERS and an employee's age at retirement. Because a participant in the Plan would not accrue credited service in the System, SERS' DC plan participants appear to be ineligible for REHP participation now provided to eligible retired members.

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 systems. Under current law, only those members subject to Act 120 of 2010 (Classes A-3, A-4, T-E and T-F) share in the investment risk of the Systems through the shared-risk contribution requirement imposed by Act 120. All pre-Act 120 members of both Systems are exempt from the shared-risk contribution requirement. Under the bill, all new employees would be enrolled in a DC plan and would be required to bear all of the investment risk and longevity risk associated with managing their retirement accounts. This situation creates significant risk-sharing disparities among various cohorts of employees.

Drafting Ambiguities. Section 5955(b) of the bill appears to be attempting to prohibit new State Police Officers hired on or after the effective date of the bill from being eligible for the DiLauro arbitration award after 20 years of service. However, the additional language necessary to effectuate this prohibition for future State Police Officers is absent from the provision. Policymakers may wish to review the intention of this provision in the bill. Furthermore, Section 5955(b)(2)(ii) makes reference to a "Class A-5" in SERS in relation to current or former sworn police officers. Under the SERS Code, there is currently no Class A-5 membership class and there is no other mention of Class A-5 made in the text of the bill. The reference to Class A-5 in the bill appears to be a drafting error.

COMMISSION RECOMMENDATION

On June 17, 2015, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2015

House Bill Number 727, Printer's Number 1555, had first consideration in the House on May 12, 2015.

To view this note in its entirety, click the following link: House Bill Number 727, Printer's Number 1555.

Bill ID: House Bill Number 900, Printer's Number 1569

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

Subject: Accelerated Amortization Schedule

SYNOPSIS

House Bill Number 900, Printer's Number 1569, would amend the Public School Employees' Retirement System (PSERS) Code and the State Employees' Retirement System (SERS) Code to require the unfunded accrued liabilities of the Systems to be funded in equal dollar installments over a period of 20 years, beginning July 1, 2015. Additionally, any changes in the accrued liability due to legislation subsequently enacted would also be funded in equal dollar installments over a period of 20 years.

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 (DB) 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, 2014, there were approximately 789 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 2014, 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, 2014, there were 263,312 active members and 213,900 annuitant members of PSERS, and as of December 31, 2014, there were 104,431 active members and 122,249 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 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.

History of the Pension Funding Crisis

After a decade of extraordinary investment gains, the financial markets spoke of the "new paradigm:" an anticipation that double-digit growth would continue indefinitely. This was the argument that supported the benefit improvements of Act 9 of 2001, and the cost-of-living adjustment provided by Act 38 of 2002. In reality, the markets lost heavily in 2001, when technology stocks fell dramatically.

The benefit improvements of Act 9, although generous, would not have caused significant risk if those benefit improvements had been applied only to future service. Instead, that statute granted a twenty-five percent increase in the annual pension accrual rate going back throughout each active employee's entire career. (Even greater increases were provided to members of the General Assembly and judiciary, but the number of employees within those classifications is not sufficient to place the entire system at risk).

During the halcyon days of the late 1990s, the investment earnings of the State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS) were such that the plan actuaries determined that employer contributions were unnecessary, resulting in the suspension of employer contributions in multiple years. With the market downturn in 2001, the actuarial calculations called for the reinstatement of employer contributions, but the funds had been committed to other uses. The Commonwealth passed Act 40 of 2003, resetting the amortization period for the increased liabilities of Act 9 of 2001; and amortizing the pre-Act 9 gains over 10 years and the post-Act 9 losses over 30 years. Employer contributions were artificially suppressed by that process. This was the genesis of the steeply increased employer contribution requirements that occupied much discussion during the first decade of this century, as failure to achieve sufficient income would trigger a substantial increase in employer pension contributions.

In fact, the retirement systems almost succeeded in generating the revenues necessary to avoid that increase. But the extreme market downturn of 2008 brought those hopes to an abrupt end. The anticipated contribution increase was not just significant; it was beyond the range of budgetary possibility.

Act 120 of 2010 was the legislative response to that situation. It repealed the Act 9 benefit improvements for future employees while retaining the higher employee contributions imposed by that act, increased normal retirement age, abolished the lump-sum distribution of accumulated employee pension contributions as a retirement option, re-amortized the unfunded actuarial accrued liabilities of the Systems, and imposed a system of limits on employer contributions until such time as the allowable contribution level equaled the actuarially required rate. While significant, the Act 120 reforms have not resolved the funding crisis.

Unfunded Liabilities and Amortization Periods

Generally, the overall funding objective of a public employee pension plan is to provide reserves sufficient to fund the benefits of plan members when those benefits become due and to fund, over time, any unfunded liability through installment payments. As the funded ratio (ratio of assets to liabilities) of a pension plan declines below 100%, the plan's assets represent an increasingly smaller portion of the System's accrued liabilities. A pension trust fund in which the value of the actuarial accrued liabilities exceeds the actuarial value of assets is said to have an unfunded actuarial accrued liability. This funding shortfall may occur for many reasons, including benefit liberalizations, unfavorable investment or other actuarial experience, changes in major economic or demographic assumptions, or underfunding of the System by the employer.

The unfunded liability represents a long-term debt, not unlike a home mortgage, that must be paid-off, or amortized, over time through installment payments. However, unlike a home mortgage, the unfunded liability is not a fixed dollar amount. Instead, the liability varies in response to plan experience. Favorable plan experience, resulting from an event such as an extended period of investment returns that exceed the pension fund's assumed rate of return, would result in an actuarial gain, causing the unfunded liability to decline and improving the funded condition of the plan. The reverse is also true; a period of unfavorable plan experience would result in an actuarial loss, causing the unfunded liability to grow and ultimately resulting in the need for additional funding to offset those losses. Also, unlike the home mortgage, the time period over which the unfunded liability is amortized need not be fixed.

Based upon the June 30, 2014, actuarial valuation for PSERS, the retirement System reported unfunded actuarial accrued liabilities totaling $35.1 billion, representing a funded ratio of 62.0%. Based upon the December 31, 2014, actuarial valuation for SERS, the retirement System reported unfunded actuarial accrued liabilities totaling $18.2 billion, representing a funded ratio of 59.4%. By fiscal year 2017-2018, the combined unfunded liabilities of the two systems are projected to approach $65 billion. These liabilities represent a debt that must be paid and will result in increasing employer contribution requirements. Current projections indicate that employer contributions for the two State systems will increase from $1.7 billion, or 6% of appropriations, in fiscal year 2014-2015 to $3.3 billion, or nearly 10% of appropriations, by fiscal year 2019-2020.[1]

The bill would restructure the amortization periods of both PSERS and SERS to require the Systems to fund all of the unfunded actuarial accrued liabilities of their pension trust funds (defined as the balance of any recognized unfunded accrued liability net of market value of assets) over a 20-year period beginning July 1, 2015. Any changes in the accrued liability due to legislation subsequently enacted would also be funded in equal dollar installments over a period of 20 years. Additionally, the temporary contribution collars imposed under Act 120 of

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[1] Independent Fiscal Office, Pennsylvania's Economic & Budget Outlook: Fiscal Years 2014-15 to 2019-20, November 2014, p. 28.

DISCUSSION (CONT'D)

2010 would no longer be applicable for the Systems effective for the fiscal year beginning July 1, 2014. This accelerated amortization table would have the effect of shortening the amortization of the Systems' current pension liabilities, resulting in a temporarily drastic increase in the Systems' annual amortization contribution requirements.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill, the actuarial cost estimate provided to the Commission by Buck Consultants, the consulting actuary for PSERS (see attachments), and the actuarial cost estimate provided to the Commission by Hay Group, the consulting actuary for SERS (see attachments).

The Commission's consulting actuary has created a table (Table 1) showing the expected accumulated nominal dollar cash flow costs/(savings) on the employer contributions for the fiscal years 2015-2016 through 2047-48 for both Systems. The table also shows the present value of the expected cash flow costs/(savings) as of June 30, 2015, assumed end-of-year payment, at 3.9% (a proxy for budget growth) and 7.5% (the current investment return for the Systems). The 3.9% proxy for budget growth is based on the annual growth in estimated general fund revenue from 2017-2018 to 2019-2020 shown on page C1-12 in the Governor's Executive Budget for 2015-2016. The reader will note that the total costs/(savings) shown in the Commission's consulting actuary's table differs from that in the System actuary's cost estimates for SERS. The reason for this is that the Commission's consulting actuary shows their projections through 2047-2048, while the System actuary makes projections through 2051-52.

The interpretation of the language in House Bill Number 900, Printer's Number 1569, suggests that the bill is proposing a fresh start of the asset valuation basis used for the funding of the Systems. This provision in the bill seems to call for the "recognized unfunded actuarial accrued liability" to be based on market value of assets rather than the actuarial value of assets as of the System's most recent actuarial valuations. Hay Group, the consulting actuary for SERS, finds it unclear whether this asset fresh start is intended under the bill, and has provided estimates for the bill both with and without the asset fresh start.

The overall impact of the proposal on PSERS and SERS is summarized in Tables 2 and 3. As the tables show, there is a measurable savings under the proposal in comparison with existing law due to the accelerated amortization schedule. Table 1 shows that according to the consulting actuary for PSERS, the total potential savings of the bill is projected to be approximately $13.011 billion through 2048 on a cash flow basis. For SERS, Table 3 shows the total potential savings of the bill is projected to be approximately $6.975 billion through Fiscal Year 2051-2052 assuming a fresh start and approximately $7.239 billion assuming no fresh start.

For a more detailed breakdown of the projected savings of the bill, see Tables 4 through 6. The projection shown for SERS in Table 5 reflects the impact of the proposal assuming *no* fresh start and Table 6 reflects the impact of the proposal assuming there *will be* a fresh start.

Table 1
Impact on Employer Contributions if HB 900, PN 1569 is enacted
For Fiscal Years 2015-2016 through 2047-2048
(amounts in millions and based on System actuary's projections)

	Cash Flow Costs/(Savings)	Present Value of Cash Flow Costs/(Savings) at 3.9%*	Present Value of Cash Flow Costs/(Savings) at 7.5%
PSERS	$(13,011.3)	$(3,807.9)	$(46.0)
SERS	(6,868.4)	(1,687.0)	53.9
Total	(19,879.7)	(5,494.9)	7.9

* The Commission's consulting actuary has provided this for informational purposes only.

Table 2
Public School Employees' Retirement System
Allocation of the Total Potential Projected Cost/(Savings)
Due to House Bill No. 900, Printer's No. 1569
(Amounts in millions)

	Cash Flow Basis
Funding Reforms	$ (13,011)
Total House Bill No. 900 Cost/(Savings) – Table 4	$ (13,011)

Estimated cost/(savings) are presented above on a cash flow basis only since HB 900 only proposes funding reforms and no benefit reforms. Since the proposed funding reforms are all based on a discount rate of 7.5%, the costs/(savings) on a present value bases would only be $(46) with initial upfront costs offset by larger savings in future years. Cost/(savings) shown on a cash flow basis are the sums of the dollar amounts of (reductions)/increases in the projected contributions the employers would have to make in future years if the proposed changes in System provisions are enacted. The calculation of cost/(savings) on this basis makes no distinction between a dollar of projected cost/(savings) in one future year and a dollar of cost/(savings) in some other year in the nearer or more distant future. The calculation of cost/(savings) on a present value basis, on the other hand, involves discounting projected reductions in contributions from the times they are expected to occur to June 30, 2015, at a rate of 7.50% (the assumed interest rate presently used in the annual actuarial valuations of the System) to reflect the time value of money. It is useful to compare cost/(savings) measured on a present value basis with those measured on a cash flow basis because a dollar of cost/(savings) in future years has a lower value in today's dollars than a dollar that must be paid today.

Table 3
State Employees' Retirement System
Allocation of Potential Projected (Savings)/Cost Through FY 2052
Due to House Bill No. 900, Printer's No. 1569
(Amounts in millions)

	Cash Flow Basis
Elimination of Act 120 Contribution Collars	$ (843.9)
20-Year Amortization of Unfunded Liabilities (Current Fresh-Started and Future)	$ (6,395.0)
Total HB 900 (Savings)/Cost through FY 2052, Assuming No Asset Fresh Start	$ (7,238.9)
20-Year Amortization of Asset Fresh Start (From Actuarial Value to Market Value)	$ 264.1
Total HB 900 (Savings)/Cost through FY 2052, Assuming An Asset Fresh Start	$ (6,974.8)

Notes: The potential (savings)/cost was valued in the following order:

1. Elimination of Act 120 contribution collars
2. 20-year amortization of liability fresh start and all future liability amortizations
3. 20-year amortization of asset fresh start (from actuarial value to market value)

If a different order is used, the cost impact will vary from what is shown above.

Table 4
Public School Employees' Retirement System
Projection of Contribution Rates and Funded Ratios as of June 30, 2014
Current PSERS vs. House Bill No. 900, Printer's No. 1569

	Total Employer Contribution Rate		Total Employer Contribution (thousands)				Funded Ratio		Unfunded Accrued Liability (millions)	
					Cost /(Savings)					
Fiscal Year Ending June	Current PSERS	HB 900	Current PSERS	HB 900	Cash Flow Basis	Present Value as of June 30, 2015	Current PSERS	HB 900	Current PSERS	HB 900
2013	12.36%	12.36%					63.8%	63.8%	$32,598.6	$32,598.6
2014	16.93	16.93					62.0	57.4	35,121.2	39,372.9
2015	21.40	21.40	$ 2,885,148	$2,885,148	$0	$0	60.6	57.1	37,413.9	40,730.2
2016	25.84	38.53	3,456,100	5,153,388	1,697,288	1,578,872	59.6	59.2	39,412.8	39,815.7
2017	29.69	38.17	4,079,195	5,244,287	1,165,092	1,008,192	58.7	61.3	41,424.4	38,757.2
2018	30.62	37.22	4,316,593	5,247,015	930,422	748,953	58.4	63.4	42,871.0	37,634.5
2019	31.56	36.28	4,569,239	5,252,598	683,359	511,700	60.0	65.5	42,296.8	36,440.5
2020	32.23	35.34	4,794,454	5,257,090	462,636	322,253	61.7	67.6	41,603.7	35,169.2
2021	32.02	34.45	4,892,886	5,264,207	371,321	240,602	63.0	69.7	41,228.1	33,808.6
2022	31.90	33.60	5,005,091	5,271,820	266,729	160,772	64.7	71.7	40,395.1	32,352.6
2023	31.96	32.75	5,149,606	5,276,896	127,290	71,372	66.5	73.8	39,344.6	30,793.5
2024	31.90	31.94	5,276,635	5,283,252	6,616	3,451	68.1	75.8	38,382.2	29,123.1
2025	31.83	31.14	5,404,815	5,287,651	(117,164)	(56,847)	69.9	77.9	37,192.9	27,333.0
2026	31.90	30.38	5,555,781	5,291,054	(264,727)	(119,483)	71.8	79.9	35,741.5	25,414.0
2027	31.99	29.67	5,709,259	5,295,208	(414,051)	(173,841)	73.8	82.0	34,014.0	23,355.6
2028	32.10	29.00	5,865,715	5,299,244	(566,471)	(221,242)	75.9	84.1	31,999.5	21,146.9
2029	32.20	28.34	6,020,442	5,298,737	(721,705)	(262,205)	78.2	86.2	29,682.5	18,775.4
2030	32.31	27.70	6,178,835	5,297,237	(881,598)	(297,950)	80.6	88.3	27,032.1	16,228.5
2031	32.43	27.08	6,340,635	5,294,616	(1,046,019)	(328,855)	83.1	90.5	24,014.7	13,491.5
2032	32.58	26.50	6,509,681	5,294,860	(1,214,821)	(355,278)	85.8	92.8	20,597.9	10,548.5
2033	32.72	25.93	6,679,209	5,293,151	(1,386,058)	(377,076)	88.7	95.0	16,743.8	7,380.3
2034	32.88	25.39	6,856,314	5,294,459	(1,561,855)	(395,257)	91.8	97.4	12,411.6	3,968.1
2035	33.03	24.88	7,036,790	5,300,495	(1,736,296)	(408,747)	95.1	99.8	7,559.2	285.6
2036	18.12	6.43	3,943,950	1,399,536	(2,544,414)	(557,199)	96.6	99.8	5,418.8	241.0
2037	14.27	6.19	3,173,457	1,376,573	(1,796,884)	(366,044)	97.6	99.9	3,871.2	170.4
2038	12.46	5.76	2,831,765	1,309,066	(1,522,699)	(288,549)	98.4	99.9	2,529.3	131.5
2039	10.43	5.42	2,422,607	1,258,919	(1,163,687)	(205,132)	99.1	99.9	1,474.9	105.2
2040	8.80	5.16	2,090,021	1,225,512	(864,509)	(141,761)	99.6	100.0	654.8	79.7
2041	7.28	4.88	1,769,320	1,186,027	(583,292)	(88,975)	100.0	100.0	72.5	59.8
2042	5.93	4.65	1,476,104	1,157,484	(318,619)	(45,211)	100.2	100.0	(280.8)	36.4
2043	4.55	4.41	1,161,604	1,125,862	(35,742)	(4,718)	100.2	100.0	(362.3)	16.0
2044	4.14	4.19	1,085,716	1,098,829	13,113	1,610	100.2	100.0	(395.4)	(2.1)
2045	4.00	4.02	1,079,491	1,084,889	5,397	617	100.2	100.0	(428.1)	(10.8)
2046	3.88	3.88	1,079,385	1,079,385	0	0	100.2	100.0	(463.0)	(14.4)
2047	3.75	3.75	1,075,379	1,075,379	0	0	100.3	100.0	(500.9)	(18.5)
2048	3.62	3.62	1,070,100	1,070,100	0	0	100.3	100.0	(541.1)	(22.5)
				Total Cost/(Savings)	$(13,011,346)	$ (45,976)				

Table 5
State Employees' Retirement System (SERS)
Projection of Contribution Rates and Funded Ratios
Current SERS vs. House Bill No. 900, Printer's No. 1569
No Asset Fresh Start

	Total Employer Contribution Rate		Total Employer Contribution* (Millions)			Funded Ratio		Unfunded Accrued Liability (Billions)	
Fiscal Year	Current SERS	HB 900	Current SERS	HB 900	(Savings)/ Cost	Current SERS	HB 900**	Current SERS	HB 900
2009/2010	4.00	4.00	226.4	226.4	-	89.0	89.0	3.80	3.80
2010/2011	4.00	5.00	296.8	296.8	-	84.4	84.4	5.59	5.59
2011/2012	4.08	8.00	468.1	468.1	-	75.2	75.2	9.76	9.76
2012/2013	11.50	11.50	677.4	677.4	-	65.3	65.3	14.69	14.69
2013/2014	16.00	16.00	933.8	933.8	-	58.8	58.8	17.78	17.78
2014/2015	20.50	20.50	1,209.0	1,209.0	-	59.2	59.2	17.90	17.90
2015/2016	25.00	34.54	1,505.4	2,080.0	574.6	59.4	59.4	18.17	18.17
2016/2017	29.50	34.12	1,830.6	2,117.3	861.3	59.7	60.5	18.42	18.03
2017/2018	30.41	32.62	1,944.5	2,085.6	1,002.4	61.4	63.2	18.01	17.16
2018/2019	29.40	31.40	1,937.1	2,069.5	1,134.8	63.2	65.5	17.53	16.41
2019/2020	28.82	30.79	1,957.0	2,090.9	1,268.7	64.2	66.9	17.35	16.02
2020/2021	28.15	30.07	1,970.0	2,104.3	1,403.0	65.4	68.6	17.07	15.50
2021/2022	27.52	29.39	1,984.4	2,119.4	1,538.0	66.6	70.2	16.77	14.95
2022/2023	26.92	28.74	2,000.2	2,135.9	1,673.7	67.8	71.8	16.45	14.36
2023/2024	26.34	28.12	2,016.9	2,153.4	1,810.2	68.9	73.5	16.12	13.74
2024/2025	25.78	27.52	2,034.0	2,171.5	1,947.7	70.0	75.1	15.76	13.06
2025/2026	25.23	26.93	2,051.7	2,190.1	2,086.1	71.2	76.8	15.37	12.32
2026/2027	24.70	26.37	2,070.0	2,209.4	2,225.5	72.3	78.6	14.94	11.53
2027/2028	24.19	25.82	2,089.0	2,229.3	2,365.8	73.5	80.5	14.48	10.68
2028/2029	23.69	25.28	2,108.5	2,249.8	2,507.1	74.8	82.4	13.98	9.75
2029/2030	23.21	24.76	2,128.6	2,271.0	2,649.5	76.0	84.4	13.44	8.75
2030/2031	22.74	24.26	2,149.3	2,292.8	2,793.0	77.3	86.4	12.85	7.67
2031/2032	22.29	23.78	2,170.7	2,315.4	2,937.7	78.7	88.6	12.22	6.51
2032/2033	21.85	23.30	2,192.8	2,338.6	3,083.5	80.1	90.9	11.54	5.25
2033/2034	21.42	22.85	2,215.6	2,362.6	3,230.5	81.6	93.3	10.79	3.89
2034/2035	21.01	22.40	2,239.0	2,387.3	3,378.8	83.1	95.9	9.99	2.43
2035/2036	20.61	5.74	2,263.2	630.9	1,746.5	84.7	98.6	9.13	0.84
2036/2037	20.22	5.56	2,288.2	629.0	87.3	86.4	98.5	8.19	0.92
2037/2038	19.84	5.98	2,314.0	697.1	(1,529.6)	88.2	98.3	7.18	1.02
2038/2039	19.48	6.25	2,340.5	750.9	(3,119.2)	90.1	98.3	6.09	1.09
2039/2040	19.12	6.20	2,367.9	768.3	(4,718.8)	92.1	98.2	4.91	1.12
2040/2041	15.06	6.23	1,921.8	794.9	(5,845.7)	94.2	98.2	3.63	1.16
2041/2042	12.13	6.24	1,595.7	821.1	(6,620.3)	95.7	98.1	2.73	1.20
2042/2043	8.86	6.25	1,200.8	847.1	(6,974.0)	96.7	98.1	2.11	1.24
2043/2044	6.85	6.25	957.1	873.5	(7,057.6)	97.2	98.0	1.87	1.28
2044/2045	6.67	6.26	959.9	900.7	(7,116.8)	97.2	98.0	1.87	1.33
2045/2046	6.42	6.26	952.1	928.7	(7,140.2)	97.2	98.0	1.89	1.37
2046/2047	6.18	6.27	944.6	957.5	(7,127.3)	97.1	97.9	1.95	1.41
2047/2048	6.30	6.27	992.4	987.2	(7,132.5)	97.0	97.9	2.06	1.46
2048/2049	6.44	6.27	1,045.5	1,017.9	(7,160.1)	96.9	97.8	2.14	1.51
2049/2050	6.42	6.27	1,072.9	1,049.5	(7,183.5)	96.8	97.8	2.21	1.56
2050/2051	6.43	6.28	1,108.6	1,082.0	(7,210.1)	96.8	97.7	2.29	1.61
2051/2052	6.44	6.28	1,144.4	1,115.6	(7,238.9)	96.7	97.7	2.37	1.66

*Savings shown are cumulative.

**Due to the shortened amortization period, the funded ratio almost reaches 100% earlier if the bill is enacted. The funded ratio does not reach 100% during the projection period due to the anticipated liability loss that occurs when new members (State Police) join SERS each fiscal year as a consequence of the normal contribution rate determination.

Table 6
State Employees' Retirement System (SERS)
Projection of Contribution Rates and Funded Ratios
Current SERS vs. House Bill No. 900, Printer's No. 1569
Asset Fresh Start as of December 31, 2014

	Total Employer Contribution Rate		Total Employer Contribution* (Millions)			Funded Ratio		Unfunded Accrued Liability (Billions)	
Fiscal Year	Current SERS	HB 900	Current SERS	HB 900	(Savings)/ Cost	Current SERS	HB 900	Current SERS	HB 900
2009/2010	4.00	4.00	226.4	226.4	-	89.0	89.0	3.80	3.80
2010/2011	4.00	5.00	296.8	296.8	-	84.4	84.4	5.59	5.59
2011/2012	4.08	8.00	468.1	468.1	-	75.2	75.2	9.76	9.76
2012/2013	11.50	11.50	677.4	677.4	-	65.3	65.3	14.69	14.69
2013/2014	16.00	16.00	933.8	933.8	-	58.8	58.8	17.78	17.78
2014/2015	20.50	20.50	1,209.0	1,209.0	-	59.2	59.2	17.90	17.90
2015/2016	25.00	33.32	1,505.4	2,006.6	501.2	59.4	61.1	18.17	17.42
2016/2017	29.50	33.10	1,830.6	2,054.0	724.6	59.7	61.9	18.42	17.41
2017/2018	30.41	32.35	1,944.5	2,068.6	848.7	61.4	63.5	18.01	17.02
2018/2019	29.40	31.62	1,937.1	2,083.7	995.3	63.2	65.1	17.53	16.60
2019/2020	28.82	30.91	1,957.0	2,099.2	1,137.5	64.2	66.7	17.35	16.14
2020/2021	28.15	30.23	1,970.0	2,115.2	1,282.7	65.4	68.3	17.07	15.65
2021/2022	27.52	29.56	1,984.4	2,131.8	1,430.1	66.6	69.9	16.77	15.11
2022/2023	26.92	28.92	2,000.2	2,148.8	1,578.7	67.8	71.5	16.45	14.54
2023/2024	26.34	28.29	2,016.9	2,166.4	1,728.2	68.9	73.1	16.12	13.91
2024/2025	25.78	27.68	2,034.0	2,184.6	1,878.8	70.0	74.8	15.76	13.23
2025/2026	25.23	27.09	2,051.7	2,203.3	2,030.4	71.2	76.5	15.37	12.50
2026/2027	24.70	26.52	2,070.0	2,222.6	2,183.0	72.3	78.3	14.94	11.71
2027/2028	24.19	25.97	2,089.0	2,242.5	2,336.5	73.5	80.1	14.48	10.85
2028/2029	23.69	25.43	2,108.5	2,263.0	2,491.0	74.8	82.0	13.98	9.93
2029/2030	23.21	24.91	2,128.6	2,284.2	2,646.6	76.0	84.0	13.44	8.93
2030/2031	22.74	24.40	2,149.3	2,306.0	2,803.3	77.3	86.1	12.85	7.85
2031/2032	22.29	23.91	2,170.7	2,328.6	2,961.2	78.7	88.3	12.22	6.69
2032/2033	21.85	23.44	2,192.8	2,351.8	3,120.2	80.1	90.6	11.54	5.43
2033/2034	21.42	22.97	2,215.6	2,375.8	3,280.4	81.6	93.0	10.79	4.07
2034/2035	21.01	22.53	2,239.0	2,400.5	3,441.9	83.1	95.6	9.99	2.60
2035/2036	20.61	6.53	2,263.2	717.5	1,896.2	84.7	98.3	9.13	1.02
2036/2037	20.22	6.23	2,288.2	705.5	313.5	86.4	98.3	8.19	1.02
2037/2038	19.84	6.24	2,314.0	727.4	(1,273.1)	88.2	98.3	7.18	1.06
2038/2039	19.48	6.24	2,340.5	749.9	(2,863.7)	90.1	98.3	6.09	1.09
2039/2040	19.12	6.24	2,367.9	773.2	(4,458.4)	92.1	98.2	4.91	1.13
2040/2041	15.06	6.25	1,921.8	797.2	(5,583.0)	94.2	98.2	3.63	1.16
2041/2042	12.13	6.25	1,595.7	821.9	(6,356.8)	95.7	98.1	2.73	1.20
2042/2043	8.86	6.25	1,200.8	847.4	(6,710.2)	96.7	98.1	2.11	1.24
2043/2044	6.85	6.26	957.1	873.7	(6,793.6)	97.2	98.0	1.87	1.28
2044/2045	6.67	6.26	959.9	900.8	(6,852.7)	97.2	98.0	1.87	1.33
2045/2046	6.42	6.26	952.1	928.7	(6,876.1)	97.2	98.0	1.89	1.37
2046/2047	6.18	6.27	944.6	957.5	(6,863.2)	97.1	97.9	1.95	1.41
2047/2048	6.30	6.27	992.4	987.2	(6,868.4)	97.0	97.9	2.06	1.46
2048/2049	6.44	6.27	1,045.5	1,017.9	(6,896.0)	96.9	97.8	2.14	1.51
2049/2050	6.42	6.27	1,072.9	1,049.5	(6,919.4)	96.8	97.8	2.21	1.56
2050/2051	6.43	6.28	1,108.6	1,082.0	(6,946.0)	96.8	97.7	2.29	1.61
2051/2052	6.44	6.28	1,144.4	1,115.6	(6,974.8)	96.7	97.7	2.37	1.66

*Savings shown are cumulative.

**Due to the shortened amortization period, the funded ratio almost reaches 100% earlier if the bill is enacted. The funded ratio does not reach 100% during the projection period due to the anticipated liability loss that occurs when new members (State Police) join SERS each fiscal year as a consequence of the normal contribution rate determination.

POLICY CONSIDERATIONS

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

Accelerated Amortization Schedule. Recognizing the budgetary constraints placed upon the Commonwealth and its policymakers, from a pension perspective, the accelerated funding proposed in this bill would positively impact the funding of the State's two largest public pension systems in a financially responsible manner. In order to achieve these savings, there will be an immediate substantial increase in employer contribution costs.

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

Lack of Additional Funding Sources. House Bill Number 900, Printer's Number 1569, requires the Systems' unfunded accrued liabilities to be fully funded over a period of 20 years, beginning July 1, 2015. Yet the bill fails to detail the source(s) of the additional funding necessary to fund the unfunded accrued liabilities in an accelerated amortization schedule. Policymakers may want to determine the viability of such a proposal in light of the Commonwealth's current budgetary climate.

Drafting Ambiguities. The bill proposes to fresh start the amortization of the Systems' unfunded accrued liabilities based on the market value of assets rather than the actuarial value of assets effective with the Systems' most recent actuarial valuations. However, the bill is silent as to the asset valuation method to be used in future valuations. The Systems' consulting actuaries have made certain assumptions in order to provide estimates on the projected financial impact of the bill, including the assumption that the change from actuarial valuation to market valuation is permanent, but policymakers may wish to provide clearer language on this issue. Additionally, the Codes should be reviewed to make sure that the fresh start is appropriately addressed in all necessary sections of the Systems' Codes.

The bill also prescribes an amortization method for increases in the accrued liability resulting from legislation but does not specify a method for amortizing decreases in the accrued liability resulting from legislation.

The bill eliminates the employer contribution collars imposed under Act 120 of 2010 but does not propose a change to the pertinent sections of the Codes, which set the minimum employer pension contribution rate to no less than the employer normal cost rate. The Systems' consulting actuaries have made calculations that are based upon the assumption that a minimum employer contribution equal to the normal cost rate would be payable if the bill is enacted.

COMMISSION RECOMMENDATION

On June 17, 2015, 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.

LEGISLATION AS OF DECEMBER 31, 2015

House Bill Number 900, Printer's Number 1569, was referred to the House State Government Committee on May 13, 2015.

To view this note in its entirety, click the following link: House Bill Number 900, Printer's Number 1569.

PART II

PUBLIC EMPLOYEE RETIREMENT SYSTEM ADMINISTRATION

A. ACT 205 OF 1984.

- **2015 Filing Period**

In April of 2015, the Commission transmitted filing notices to the 4,500 local governments required to file employee pension plan reports pursuant to Act 205. A follow-up notice was sent to local governments that failed to respond to the filing notice and were known to have a pension plan. The filing deadline for the 2015 Act 205 reports will be March 31, 2016.

- **Municipal Pension Cost Certification**

In August of 2015, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 2015 allocation of General Municipal Pension System State Aid. In 2015, the State aid provided to municipalities to offset their employee pension costs totaled $247 million. More than 1,400 individual allocations of General Municipal Pension System State Aid were determined by the cost data certified by the Commission.

B. ACT 293 OF 1972.

- **2014 Filing Period**

Since the passage of the Municipal Pension Plan Funding Standard and Recovery Act, the actuarial reporting program under Act 293 has only been applicable to county employee retirement systems. The 2014 actuarial reports on these systems were filed in 2015. The financial, demographic, and actuarial data contained in the reports has been reviewed and will be summarized in the Status Report on Local Government Pension Plans to be published by the Commission late in 2016.

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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 year in consultation with the General Assembly and the Governor's Office on numerous, complex pension reform proposals that were intended 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 during 2015. In addition to the nine actuarial notes that were attached to bills and amendments in 2015, the Commission staff issued three Advisory Notes and thirty-four Commission Letters in response to actuarial note requests by members of the General Assembly.

APPENDICES

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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 2015 and their sponsoring organizations were as follows:

MUNICIPAL PENSION ADVISORY COMMITTEE

Mr. Thomas Mehaffie
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. Charles Anderson
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 2015 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

APPENDIX D

PUBLIC EMPLOYEE RETIREMENT COMMISSION

COMPREHENSIVE LIST OF 2015 - 2016 SESSIONS LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES AS OF DECEMBER 31, 2015

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 16 P. N. 581 (Petri)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding to the definition of "crimes related to public office or public employment," all criminal offenses committed by a public official or public employee through his public office or position or when his public employment places him in a position to commit the crime.	Introduced and referred to House Judiciary Committee	02/23/2015
H. B. 17 P. N. 1184 (Petri)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding to the definition of "crimes related to public office or public employment," any criminal offense classified as a felony or punishable by a term of imprisonment exceeding five years.	Introduced and referred to House Judiciary Committee Reported as amended First Consideration	02/23/2015 04/14/2015 04/14/2015
H. B. 18 P. N. 583 (Petri)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding to the definition of "crimes related to public office or public employment," any infamous crime as determined under section 7 of Article II of the Constitution of Pennsylvania.	Introduced and referred to House Judiciary Committee	02/23/2015
H. B. 32 P. N. 1205 (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, 2016, 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 municipal police officers hired on or before December 31, 2015, will be optional.	Introduced and referred to House Local Government Committee **Advisory Note (P. N. 1205)**	04/14/2015 09/08/2015

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 36 P. N. 1206 (Grell)	An Act, amending Title 71 to abolish the Public Employee Retirement Commission and to reassign the powers and duties to the Independent Fiscal Office.	Introduced and referred to House State Government Committee	04/14/2015
H. B. 49 P. N. 2546 (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	01/21/2015
		First Consideration	01/28/2015
		Second Consideration	02/02/2015
		Re-referred to House Appropriations Committee	02/02/2015
		Third Consideration and Final Passage (199-0)	02/03/2015
		Referred to Senate Veterans Affairs and Emergency Preparedness Committee	02/06/2015
		Reported as amended	11/17/2015
		First Consideration	11/18/2015
H. B. 79 P. N. 69 (Evankovich)	An Act, amending Act 51 of 2009, which amended the Emergency and Law Enforcement Personnel Death Benefits Act (Act 101 of 1976) to: 1) mandate payment of a killed-in-service death benefit to the surviving spouse or minor child of a paid firefighter, ambulance service or rescue squad member, or law enforcement officer; 2) repeal Section 5(e)(2) of the Municipal Police Pension Law (Act 600 of 1955) which currently provides the killed-in-service death benefit applicable only to members of Act 600 pension plans; and 3) repeal Sections 202(b)(3)(vi) and (4)(vi) of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) which provides for a special extended amortization period applicable to the funding of liabilities resulting from the payment of the Act 600 killed-in-service benefit. The bill would further repeal parts of the Third Class City Code relating to the payment of benefits on behalf of firefighters, ambulance service or rescue squad members, law enforcement officers or National Guard members.	Introduced and referred to House Local Government Committee	01/22/2015
		Actuarial Note (P. N. 69)	02/25/2015
H. B. 89 P. N. 79 (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	01/21/2015
		First Consideration	02/03/2015
		Commission Letter (P. N. 79)	02/04/2015
		Second Consideration	02/09/2015
		Re-referred to House Appropriations Committee	02/09/2015
		Third Consideration and Final Passage (154-44)	02/10/2015

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
		Referred to Senate Judiciary Committee	02/13/2015
		First Consideration	02/17/2015
		Re-referred to Senate Appropriations Committee	06/30/2015
		Second Consideration	10/28/2015
		Third Consideration and Final Passage (36-13)	11/16/2015
		Signed by the Governor (Act 62 of 2015)	11/24/2015
H. B. 90 P. N. 251 (Harper)	The joint resolution 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	01/21/2015
		First Consideration	02/03/2015
		Second Consideration	02/09/2015
		Re-referred to House Appropriations Committee	02/09/2015
		Third Consideration and Final Passage (154-44)	02/10/2015
		Referred to Senate Judiciary Committee	02/13/2015
		First Consideration	02/17/2015
		Re-referred to Senate Appropriations Committee	06/30/2015
		Second Consideration	10/28/2015
		Third Consideration and Final Passage (36-13)	11/16/2015
		Filed in the Office of the Secretary of the Commonwealth	11/17/2015
		Joint Resolution #1 of 2015	11/17/2015
H. B. 107 P. N. 93 (Costa)	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	01/21/2015
H. B. 152 P. N. 1181 (Tallman)	Emergency and Law Enforcement Death Benefits Act (Act 101 of 1976), extending the deadline for submitting certification of death to the Commonwealth from within 90 days to within 4 years, in order for a spouse or beneficiary to receive a death benefit.	Introduced and referred to House Veterans Affairs and Emergency Preparedness Committee	01/22/2015
		Reported as amended	01/28/2015
		First Consideration	01/28/2015
		Second Consideration	02/02/2015
		Re-referred to House Appropriations Committee	02/02/2015
		Third Consideration and Final Passage (199-0)	02/03/2015
		Referred to Senate Veterans Affairs and Emergency Preparedness Committee	02/06/2015
		Reported as amended	02/18/2015
		First Consideration	02/18/2015
		Re-referred to Senate Appropriations Committee	02/23/2015
		Reported as amended	04/13/2015
		Second Consideration	04/14/2015

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
		Third Consideration and Final Passage (49-0)	04/15/2015
		Referred to House Rules Committee	04/15/2015
		Re-referred to House Rules Committee	04/15/2015
		House concurred in Senate amendments (191-0)	04/21/2015
		Signed by the Governor (Act 1 of 2015)	05/13/2015
H. B. 239 P. N. 2334 (Greiner)	County Pension Law (Act 96 of 1971), clarifying the Law to further provide that triennial cost-of-living adjustments (COLAs) do not need to be calculated retroactively to the date of the previous COLA approved by the board. The bill would also require that prior to approving any COLAs, the county retirement boards shall have an actuarial note prepared regarding the proposed adjustment and the funded ratio must by eighty percent or higher based upon entry age normal methodology.	Introduced and referred to House Local Government Committee	01/28/2015
		Reported as amended	04/01/2015
		First Consideration	04/01/2015
		Commission Letter (P. N. 1073)	04/06/2015
		Commission Letter (A. 00582)	04/15/2015
		Commission Letter (A. 00598, 00599 & 00600)	04/15/2015
		Reported as amended	04/15/2015
		Second Consideration	04/15/2015
		Re-referred to House Appropriations Committee	04/15/2015
		Commission Letter (P. N. 1238)	04/16/2015
		Third Consideration and Final Passage (200-0)	04/20/2015
		Referred to Senate Finance Committee	05/01/2015
		Reported as amended	06/24/2015
		First Consideration	06/24/2015
		Commission Letter (P. N. 1887)	06/25/2015
		Second Consideration	06/28/2015
		Re-referred to Senate Appropriations Committee	06/28/2015
		Reported as amended	10/13/2015
		Commission Letter (P. N. 2334)	10/14/2015
		Third Consideration and Final Passage (49-0)	10/14/2015
		Re-referred to House Rules Committee	10/19/2015
		House concurred in Senate amendments (191-1)	11/10/2015
		Signed by the Governor (Act 63 of 2015)	11/24/2015
H. B. 316 P. N. 1752 (Greiner)	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, 2016. 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	Introduced and referred to House State Government Committee	03/26/2015
		Reported as amended	06/09/2015
		First Consideration	06/09/2015
		Re-referred to House Rules Committee	06/09/2015

	of service. Members would attain superannuation age upon age 55 with 25 years of service. Existing municipal defined benefit plans would be closed to new members after the effective date of the act. Current members would retain membership in the defined benefit plans.		
H. B. 348 P. N. 370 (O'Neill)	An Act, establishing the Public School Employees' Benefit Board, mandating a school employee benefits study, providing for a statewide health benefits program for public school employees, for retirement health savings plans, and establishing the Public School Employees' Benefit Trust Fund.	Introduced and referred to House Education Committee	02/05/2015
H. B. 359 P. N. 396 (Readshaw)	Emergency and Law Enforcement Death Benefits Act (Act 101 of 1976), extending the deadline for submitting certification of death to the Commonwealth from within 90 days to within 3 years, in order for a spouse or beneficiary to receive a death benefit.	Introduced and referred to House Veterans Affairs and Emergency Preparedness Committee	02/09/2015
H. B. 414 P. N. 2545 (Briggs)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), amending the Act to implement special provisions applicable to the uniformed pension plans of all cities, boroughs, townships and regional police or fire departments. For pension plans with a funded ratio of 90% or higher, the municipality may choose to maintain their current pension plan structure for all current and future employees, or they may choose between a cash balance plan or a defined contribution plan for all future employees. For pension plans with a funded ratio between 50% and 89%, the municipalities may choose between a cash balance plan or a defined contribution plan for all future employees. For pension plans with a funded ratio below 50%, the plan must shift administration of the plan for both current and future employees into the Pennsylvania Municipal Retirement System (PMRS). All future hires shall be subject to a cash balance plan designed and managed by PMRS. Additionally, the definition of "professional services contract" is amended to exclude municipal pension systems with less than 100 active members, and adding special procedures for municipal pension systems	Introduced and referred to House Local Government Committee Reported as amended First Consideration Re-referred to House Rules Committee **Commission Letter (P. N. 1837)** Second Consideration Re-referred to House Appropriations Committee Third Consideration and Final Passage (194-4) Referred to Senate Finance Committee Reported as amended First Consideration Re-referred to Senate Appropriations Committee	02/09/2015 06/17/2015 06/17/2015 06/17/2015 10/20/2015 10/26/2015 10/26/2015 10/27/2015 11/06/2015 11/17/2015 11/18/2015 11/23/2015

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	with less than 100 active members to select the most qualified person to enter into a contract.		
H. B. 727 P. N. 1555 (Kampf)	PSERS and SERS, amending both the Public School Employees' Retirement Code and the State Employees' Retirement Code to: 1) Add a new chapter to the PSERS Code, Chapter 84, titled "School Employees' Defined Contribution Plan." Chapter 84 would establish a mandatory defined contribution plan for public school employees who begin public school service on or after July 1, 2016. Employer contributions to the plan would be equal to 4% of salary, with a mandatory employee contribution of 6.5% of salary; and 2) add a new chapter to the SERS Code, Chapter 54, titled "State Employees' Defined Contribution Plan." Chapter 54 would establish a mandatory defined contribution plan for state employees who begin state service on or after January 1, 2016. Employer contributions to the plan would be equal to 4% of salary for most employees, with a mandatory employee contribution of 6.5% of salary.	Introduced and referred to House State Government Committee Reported as amended First Consideration **Actuarial Note (P. N. 1555)** **Commission Letter (A. 01625)** **Commission Letter (A. 01626)** **Commission Letter (A. 01627)** **Commission Letter (A. 01628)** **Commission Letter (A. 01629)**	03/06/2015 05/12/2015 05/12/2015 06/18/2015 06/30/2015 06/30/2015 06/30/2015 06/30/2015 06/30/2015
H. B. 787 P. N. 1188 (Boback)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding to the definition of "crimes related to public office or public employment," all criminal offenses relating to neglect of care-dependent persons, institutional sexual assault, and endangering welfare of children.	Introduced and referred to House Judiciary Committee Reported as amended First Consideration	03/12/2015 04/14/2015 04/14/2015
H. B. 861 P. N. 1057 (Daley, P.)	PSERS, permits an active member of PSERS to retire during the period of February 29, 2016, through June 2, 2016, 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 Public School Employees' Retirement Fund.	Introduced and referred to House Education Committee	04/01/2015

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 862 P. N. 1058 (Daley, P.)	SERS, permits an active member of SERS to retire during the period of February 29, 2016, through June 2, 2016, 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 State Government Committee	04/01/2015
H. B. 867 P. N. 1062 (Daley, M.)	PSERS and SERS, amending the membership requirements of the PSERS and SERS Boards to ensure gender proportionality on the PSERS and SERS Boards.	Introduced and referred to House State Government Committee	04/01/2015
H. B. 900 P. N. 1569 (McGinnis)	PSERS and SERS, amending the Codes to require the unfunded accrued liabilities of the Systems be funded in equal dollar installments over a period of 20 years, beginning July 1, 2015.	Introduced and referred to House State Government Committee **Actuarial Note (P. N. 1569)**	05/13/2015 06/17/2015
H. B. 964 P. N. 1209 (McGinnis)	County Pension Law (Act 96 of 1971), amending the Law to create a new independent defined contribution retirement savings program for all county employees newly hired, appointed or elected on or after January 1, 2017 (excluding Philadelphia and Allegheny Counties). The retirement plan would provide an individual investment account for each participant with a 5% participant contribution and a 5% employer contribution to the participant's individual investment account.	Introduced and referred to House Local Government Committee	04/14/2015
H. B. 974 P. N. 1230 (Petri)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), amending the act to create a new chapter that would require severely distressed pension plans to develop a recovery plan to provide for a reduction from severe distress to moderate distress in a period of no more than 10 years. Any recovery plan would have to be approved by the Public Employee Retirement Commission.	Introduced and referred to House Urban Affairs Committee **Advisory Note (P. N. 1230)**	04/15/2015 09/21/2015

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	If the municipality fails to comply with the act, the Commission may exercise certain remedies to resolve the non-compliance, including petitioning the Office of the Auditor General to begin proceedings to place the pension plan in question into trusteeship.		
H. B. 977 P. N. 1245 (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	04/16/2015
H. B. 1032 P. N. 1308 (Murt)	SERS, authorizing the purchase of nonstate service credit for certain previous employment in the mining industry.	Introduced and referred to House State Government Committee	04/20/2015
H. B. 1050 P. N. 1368 (Harkins)	Act 362 of 1945, providing members of any third class city's retirement system a post-retirement adjustment. The city council shall approve the increase subject to the approval of the board, provided the provisions of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205) have been satisfied.	Introduced and referred to House Local Government Committee	04/27/2015
H. B. 1084 P. N. 2316 (Hill)	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 House State Government Committee **Commission Letter (P. N. 1394)** Reported as amended First Consideration	04/28/2015 10/05/2015 10/06/2015 10/06/2015
H. B. 1085 P. N. 1395 (Mullery)	SERS, amending the definition of "enforcement officer" to include officers of the Pennsylvania Game Commission.	Introduced and referred to House State Government Committee	04/28/2015
H. B. 1138 P. N. 1876 (Markosek)	SERS, making an appropriation from the State Employees' Retirement Fund in the amount of $23,743,000, to provide for expenses of the State Employees' Retirement Board for the fiscal year beginning July 1, 2015.	Introduced and referred to House Appropriations Committee Reported as amended First Consideration Re-referred to House Rules Committee Second Consideration Re-referred to House Appropriations Committee	05/11/2015 06/23/2015 06/23/2015 06/23/2015 06/25/2015 06/25/2015
H. B. 1139 P. N. 1877 (Markosek)	PSERS, making an appropriation from the Public School Employees' Retirement Fund in the amount of $44,011,000, to provide for expenses of the Public School Employees' Retirement Board for the fiscal year beginning July 1, 2015.	Introduced and referred to House Appropriations Committee Reported as amended First Consideration Re-referred to House Rules Committee Second Consideration	05/11/2015 06/23/2015 06/23/2015 06/23/2015 06/25/2015

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
		Re-referred to House Appropriations Committee	06/25/2015
		Re-committed to House Rules Committee	07/21/2015
H. B. 1149 P. N. 1705 (Frankel)	An Act, known as the Public School Employees' Retirement System Reform Act, establishing a restricted account with funds being dedicated and appropriated for the payment of the Commonwealth's share of retirement contributions due each fiscal year under the PSERS Code. Additionally, the Pennsylvania Economic Development Financing Authority may issue bonds to finance the prepayment of all or a portion of the System's unfunded accrued actuarial liabilities. The total principal amount of bonds issued may not exceed $3 billion.	Introduced and referred to House State Government Committee	06/05/2015
H. B. 1185 P. N. 1658 (Santarsiero)	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 House Local Government Committee	06/01/2015
H. B. 1186 P. N. 1659 (Santarsiero)	PSERS and SERS, amends Titles 24 and 71 to require annuitants of the state and school 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 House Local Government Committee	06/01/2015
H. B. 1332 P. N. 1814 (Godshall)	PSERS and SERS, amending the Systems' Codes to bring the retirement systems into compliance with the Internal Revenue Service rules in order to retain tax deferred status.	Introduced and referred to House Finance Committee	06/16/2015
		Commission Letter (P. N. 1814)	09/11/2015
		First Consideration	09/21/2015
		Second Consideration	09/30/2015
		Re-referred to House Appropriations Committee	09/30/2015
		Third Consideration and Final Passage (195-0)	10/05/2015
		Referred to Senate Finance Committee	10/14/2015
		First Consideration	10/27/2015
		Re-referred to Senate Appropriations Committee	11/16/2015
		Second Consideration	11/24/2015
		Third Consideration and Final Passage (50-0)	12/23/2015
		Approved by the Governor (Act 93 of 2015)	12/28/2015

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 1383 P. N. 1994 (Quinn)	PSERS, amending the Code to establish the School District Contribution Fund. The Fund would be established in the State Treasury as a restricted revenue account within the General Fund to receive voluntary donations made on an individual's income tax return.	Introduced and referred to House Education Committee Re-referred to House Finance Committee	06/29/2015 09/21/2015
H. B. 1400 P. N. 2029 (McGinnis)	PSERS and SERS, amending the Systems' Codes to increase the number of Board members to include two members who are licensed with the Securities and Exchange Commission or the Financial Industry Regulatory Authority. Additionally, the bill would establish standards for the selection of investment advisors and counselors by the Boards.	Introduced and referred to House State Government Committee	07/09/2015
H. B. 1401 P. N. 1935 (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 and Emergency Preparedness Committee	06/25/2015
H. B. 1435 P. N. 2022 (Daley, P.)	SERS, amending the definition of enforcement officer to include "institutional parole assistants."	Introduced and referred to House State Government Committee	07/06/2015
H. B. 1451 P. N. 2041 (Gillespie)	SERS, amending the definition of "enforcement officer" to include officers of the Pennsylvania Game Commission.	Introduced and referred to House State Government Committee	07/16/2015
H. B. 1608 P. N. 2347 (Gibbons)	PSERS and SERS, providing a supplemental annuity (COLA) to eligible annuitants, commencing with the first monthly annuity payment after July 1, 2015, 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 benefit recipient is defined as any superannuation, withdrawal or disability annuitant who is receiving an annuity on July 1, 2015, 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	10/14/2015
H. B. 1609 P. N. 2326 (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	10/08/2015

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. R. 212 P. N. 1958 (Ross)	A concurrent resolution, establishing a task force comprised of 28 members appointed by the General Assembly, to: 1) identify the problems and causes associated with unfunded municipal retirement program liability; 2) examine the management and funding of municipal retirement programs; and 3) provide practical solutions to promote the solvency of municipal retirement programs.	Introduced and referred to House Local Government Committee Reported as amended Floor amendment adopted Resolution adopted in the House (141-49) Referred to Senate Finance Committee	04/06/2015 05/06/2015 06/26/2015 06/26/2015 06/29/2015
S. B. 1 P. N. 1132 (Corman)	PSERS and SERS, amending the Codes to impose a series of significant retirement benefit changes upon the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) as follows: 1) establish a Defined Contribution (DC) retirement benefit plan applicable to most new members of both PSERS and SERS; 2) add a Cash Balance retirement benefit tier to the existing Defined Benefit (DB) structure that will be mandatory for new members and optional for pre-2016 active members; 3) modify the future benefit entitlements of current members of both PSERS and SERS; and 4) exempt future State Police, correction officers, enforcement officers and other hazardous duty personnel from participation in the side-by-side hybrid plan.	Introduced and referred to Senate Finance Committee First Consideration Re-referred to Senate Appropriations Committee **Actuarial Note (P. N. 886)** Second Consideration Third Consideration and Final Passage (28-19) Referred to House State Government Committee Reported as amended First Consideration **Commission Letter (A. 02716)** **Commission Letter (A. 02728)** **Commission Letter (A. 02797)** **Commission Letter (A. 02829)** **Commission Letter (A. 02831)** **Actuarial Note (A. 02434)** **Actuarial Note (A. 02701)** Second Consideration Re-referred to House Appropriations Committee **Commission Letter (P. N. 1132)** Third Consideration and Final Passage (106-89) Senate concurred in House amendments (29-20) Vetoed by the Governor	05/08/2015 05/11/2015 05/11/2015 05/12/2015 05/12/2015 05/13/2015 05/14/2015 06/27/2015 06/27/2015 06/29/2015 06/29/2015 06/29/2015 06/29/2015 06/29/2015 06/29/2015 06/29/2015 06/29/2015 06/29/2015 06/30/2015 06/30/2015 06/30/2015 07/09/2015
S. B. 7 P. N. 501 (Folmer)	An Act, creating the Taxpayer Protection Act to limit the total spending by the Commonwealth in a fiscal year to not exceed the spending appropriation limit set forth in the Act. For a fiscal year in which there is a surplus, 50% of the surplus will be deposited into a newly created "PSERS/SERS Unfunded Accrued Liability Fund," which is established in the State Treasury.	Introduced and referred to Senate Finance Committee First Consideration Re-referred to Senate Appropriations Committee	02/23/2015 04/21/2015 05/12/2015
S. B. 113 P. N. 911 (Blake)	An Act, known as the Public School Employees' Retirement System Reform Act, establishing a restricted account with funds being dedicated and appropriated for the payment of the Commonwealth's share of retirement	Introduced and referred to Senate Finance Committee	05/14/2015

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	contributions due each fiscal year under the PSERS Code. Additionally, the Pennsylvania Economic Development Financing Authority may issue bonds to finance the prepayment of all or a portion of the System's unfunded accrued actuarial liabilities. The total principal amount of bonds issued may not exceed $3 billion.		
S. B. 129 P. N. 1120 (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 calculated 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.	Introduced and referred to Senate Finance Committee **Actuarial Note (P. N. 265)** Reported as amended First Consideration **Commission Letter (P. N. 511)** Re-referred to Senate Appropriations Committee Second Consideration Amended on Third Consideration (P. N. 1120) **Commission Letter (P. N. 1120)** Final Passage (49-0)	01/29/2015 02/25/2015 02/25/2015 02/25/2015 03/02/2015 03/02/2015 06/24/2015 06/25/2015 06/26/2015 06/26/2015
S. B. 304 P. N. 219 (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	01/26/2015
S. B. 337 P. N. 249 (Boscola)	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 Senate Judiciary Committee	01/28/2015
S. B. 401 P. N. 315 (White)	SERS, establishing a mandatory defined contribution retirement program for persons who become members of the General Assembly after December 1, 2016, or who are re-elected to serve as a member of the General Assembly beginning on or after December 1, 2016. Matching employer contributions shall not exceed 4% of the member's compensation, while members can contribute to the program to the extent permitted by law.	Introduced and referred to Senate Finance Committee First Consideration Second Consideration **Actuarial Note (P. N. 315)**	02/04/2015 04/21/2015 04/22/2015 05/12/2015
S. B. 408 P. N. 324 (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 **Commission Letter (P. N. 324)**	02/04/2015 02/06/2015

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
S. B. 564 P. N. 604 (Schwank)	An Act, establishing the Public Pensions Review Commission, to examine the condition of both PSERS and SERS and to issue a final report that includes specific recommendations to achieve and maintain a long-term, sound, stable public pension structure for State and local governments.	Introduced and referred to Senate Finance Committee	03/11/2015
S. B. 581 P. N. 752 (Ward)	Emergency and Law Enforcement Death Benefits Act (Act 101 of 1976), extending the deadline for submitting certification of death to the Commonwealth from within 90 days to within 3 years, in order for a spouse or beneficiary to receive a death benefit.	Introduced and referred to Senate Veterans Affairs and Emergency Preparedness Committee	04/15/2015
S. B. 755 P. N. 1017 (Eichelberger)	An Act, creating the Municipal Alternative Retirement Plan, an optional defined contribution retirement plan applicable to all full-time police officers and firefighters employed by a borough, town, township or regional police department maintaining a police force of three or more full-time police officers, or a city of the second class, second class A or third class, who are hired on or after the effective date of the Act. The employee contribution shall be 6% of total compensation for a member who pays into Social Security and 9% of total compensation for a member who does not pay into Social Security. The municipal contribution shall be 4.5% of a member's total compensation.	Introduced and referred to Senate Finance Committee First Consideration **Advisory Note (P. N. 1017)**	06/04/2015 06/24/2015 09/04/2015
S. B. 816 P. N. 1081 (Hughes)	PSERS, making an appropriation from the Public School Employees' Retirement Fund in the amount of $44,011,000, to provide for expenses of the Public School Employees' Retirement Board for the fiscal year beginning July 1, 2015.	Introduced and referred to Senate Appropriations Committee Reported as amended First Consideration Second Consideration Third Consideration and Final Passage (49-0) Referred to House Appropriations Committee First Consideration Second Consideration Third Consideration and Final Passage (195-0) Signed by the Governor (Act 4A of 2015)	05/08/2015 06/22/2015 06/22/2015 06/24/2015 06/25/2015 06/26/2015 06/27/2015 06/29/2015 06/30/2015 07/02/2015
S. B. 817 P. N. 1082 (Hughes)	SERS, making an appropriation from the State Employees' Retirement Fund in the amount of $23,743,000, to provide for expenses of the State Employees' Retirement Board for the fiscal year beginning July 1, 2015.	Introduced and referred to Senate Appropriations Committee Reported as amended First Consideration Second Consideration Third Consideration and Final Passage (49-0)	05/08/2015 06/22/2015 06/22/2015 06/24/2015 06/25/2015

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
		Referred to House Appropriations Committee	06/26/2015
		First Consideration	06/27/2015
		Second Consideration	06/29/2015
		Third Consideration and Final Passage (195-0)	06/30/2015
		Signed by the Governor (Act 5A of 2015)	07/02/2015
S. B. 903 P. N. 1066 (Blake)	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, 2016, 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 municipal police officers hired on or before December 31, 2015, will be optional.	Introduced and referred to Senate Finance Committee	06/18/2015
S. B. 965 P. N. 1193 (Hughes)	PSERS and SERS, amends Titles 24 and 71 to require annuitants of the state and school 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	07/23/2015
S. B. 982 P. N. 1215 (Teplitz)	PSERS and SERS, amending the Systems Codes to: 1) require at least one board member of each System to have investment expertise; 2) provide for administrative duties for the Boards; 3) require formal training for Board members; 4) develop conflict of interest standards relating to a Board member's fiduciary duty; 5) require all investment advisors to provide disclosure statements of all campaign contributions; and 6) amend the Codes to reflect the prudence formulation in the Uniform Prudent Investor Act.	Introduced and referred to Senate Finance Committee	08/25/2015
S. B. 1071 P. N. 1481 (Browne)	PSERS and SERS, amending the Codes to: 1) implement a hybrid retirement benefit plan applicable to most new members of both PSERS and SERS; 2) exempt State Police officers, Correction officers, and other hazardous duty officers from membership in the new hybrid benefit tier; and 3)	Introduced and referred to Senate Finance Committee	11/17/2015
		First Consideration	11/18/2015
		Commission Letter (P. N. 1410)	11/20/2015
		Second Consideration	11/23/2015
		Re-referred to Senate Appropriations Committee	11/23/2015

Bill Number / Printer's Number (Prime Sponsor)	Synopsis	Concise Status and History	Date
	modify the future benefit entitlements of current members of both PSERS and SERS.	Third Consideration and Final Passage (30-20)	12/04/2015
		Referred to House State Government Committee	12/07/2015
		Reported as amended	12/15/2015
		First consideration	12/15/2015
		Commission Letter (P. N. 1475)	12/17/2015
		Commission Letter (A. 05305)	12/17/2015
		Commission Letter (A. 05313)	12/17/2015
		Commission Letter (A. 05322)	12/17/2015
		Commission Letter (A. 05333)	12/17/2015
		Commission Letter (A. 05323)	12/18/2015
		Commission Letter (A. 05316)	12/18/2015
		Commission Letter (A. 05337)	12/18/2015
		Floor amendments adopted	12/18/2015
		Second Consideration	12/18/2015
		Re-referred to House Appropriations Committee	12/18/2015
		Third Consideration and defeated on Final Passage (52-149)	12/19/2015
S. B. 1082 P. N. 1460 (Browne)	PSERS and SERS, amending the Codes to: 1) implement a hybrid retirement benefit plan applicable to most new members of both PSERS and SERS; 2) exempt State Police officers, Correction officers, and other hazardous duty officers from membership in the new hybrid benefit tier; 3) permit certain "elected officers" who are currently active members of SERS and are re-elected to a term of office that begins on or after January 1, 2018, the option to "opt-out" of the new hybrid plan and maintain membership in their current class of service; 4) modify the future benefit entitlements of current members of both PSERS and SERS; and 5) further modify the actuarial funding requirements of both PSERS and SERS.	Introduced and referred to Senate Finance Committee	12/04/2015
		Commission Letter (P. N. 1450)	12/04/2015
		First Consideration	12/04/2015
		Second Consideration	12/05/2015
		Re-referred to Senate Appropriations Committee	12/05/2015
		Reported as amended	12/06/2015
		Third Consideration and Final Passage (38-12)	12/07/2015
		Referred to House State Government Committee	12/10/2015
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