

# Pennsylvania Pension System History

November 13, 2014

## Pennsylvania's Public Pension Systems

### § State Employees' Retirement System (SERS)

- § Executive, Legislative and Judicial Branch
- § Authorities (Turnpike Commission, etc.)
- § Pennsylvania State System of Higher Education
- § State-Related Universities

### § Public School Employees' Retirement System (PSERS)

- § Public school teachers, administrators and employees

## State Employees' Retirement System (SERS)

- §Employer contributions from commonwealth and entities
  - § Money appropriated in each agency's budget
  
- §Employee contributions are a percentage of pay
  - § Fixed by statute based on hire date and multiplier selection
  - § Between 5 to 10 percent, most 6.25 percent of pay
  
- §Investment earnings
  - § Assumes investment returns of 7.5 percent per year

## Public School Employees' Retirement System (PSERS)

- §Employer contributions from commonwealth and public schools
  - § Commonwealth contribution
    - § Minimum of 50 percent up to 89 percent
  
- §Employee contributions are a percentage of pay
  - § Fixed by statute based on hire date and multiplier selection
  - § Between 5.23 to 10.3 percent, most 7.5 percent of pay
  
- §Investment earnings
  - § Assumes investment returns of 7.5 percent per year

## Defined Benefit Plan

- § Basic formula
  - § Multiplier
    - § Either 2 or 2.5 percent
  - § Years of Service
  - § Final Average Salary

## Historical Overview

- § 2000-2001
  - § SERS funded at 132 percent
  - § PSERS funded at 124 percent
  
- § Act 9 of 2001
  - § Increased multiplier from 2 to 2.5 percent
  - § No increase in employee contribution
  - § Current (retroactive) and new members
  - § Lowered vesting from 10 years to 5 years
  - § Enacted May 17, 2001

## Historical Overview

- § 2001 Investment Return
  - § SERS had a 10 percent decrease
  - § PSERS growth of less than 3 percent
  - § Employer contribution increase from 0 to over 5 percent
  
- § Act 38 of 2002
  - § Capped employer contributions at 1.15 percent
    - § Resulting in underfunding of systems
  - § Established a Cost of Living Adjustment (COLA)
    - § Actuarial cost was \$1.75 billion for both systems

## Historical Overview

- § Act 40 of 2003
  - § Suppressed employer contribution rate
  - § Created underfunding of approximately \$5.9 billion
  - § Allowed General Fund dollars to be spent other places
  
- § Great Recession of 2008
  - § Investment earnings plummeted



## Historical Overview

### § Act 120 of 2010

- § Created annual rate collars
  - § 3 percent for FY 2011-12
  - § 3.5 percent for FY 2012-13
  - § 4.5 percent for FY 2013-14
- § New employee plan revisions
  - § Reduced multiplier from 2.5 to 2 percent
  - § Retirement age increased to 65
  - § Increased vesting from 5 years to 10 years
  - § “Shared risk” provision

## Current Status

§ Combined, both systems have an unfunded liability of nearly \$50 billion

§ The state's contribution to PSERS

§ \$288 million in 2011;

§ \$600 million in 2012;

§ \$856 million in 2013;

§ \$1 billion in 2014; and

§ \$1.382 billion in the current fiscal year

§ \$1.57 billion appropriated

§ \$225 million in asset transfers

§ By 2019, the state's contribution will be about \$2.6 billion

For more information please visit PDE's website at  
[www.education.state.pa.us](http://www.education.state.pa.us)

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