PAESSP

Grell PSERS Proposal

On September 2013, Rep. Glen Grell (R-Cumberland) announced a comprehensive new plan for pension reform that he describes as a balanced approach in addressing future employees, current members and past underfunding of the state and school employee retirement systems (SERS and PSERS, respectively). There is a strong likelihood that a plan similar to this will be re-introduced after the November general election.

Grell's "Three Buckets Plan" includes these components:

Bucket #1: Cash Balance Plan for future employees **--** The plan creates a cash balance plan for new employees who begin after Jan. 1, 2015 (SERS) or June 30, 2015 (PSERS). Instead of relying on a formula that considers an employee's length of service and makes calculations based on final years of employment, the plan would rely on a guaranteed 4% interest rate over the course of their employment combined with fixed employee contribution rate of 7% and employer contributions of 4%. After 15 years of service, the employer contribution would increase to 5%. If financial conditions produced a return greater than the fund's assumed rate of return, the excess earnings would be split equally between the employer and employee. At retirement, like a traditional pension, the account value of the cash balance plan would be paid in monthly annuity installments for life.

Bucket #2: General borrowing **–** The state would borrow up to $9 billion through a bond to make up for past underfunding of the retirement systems. Currently, Pennsylvania's two pension funds have an unfunded liability of about $45 billion. Grell indicated this would not be a pension obligation bond, but to avoid any question the prohibition on such bonds in Act 120 of 2010 would need to be repealed.

Bucket #3: Voluntary modifications for current members **–** The plan provides current members with an opportunity to opt-in to minor plan modifications. Employees who opt into the modifications will pay a 0.5% lower employee contribution rate (currently 7.5% for PSERS). In return, members would agree to modifications to the present "Option 4" lump sum withdrawal to make it actuarially neutral and change the final average salary calculation to use the five highest salary years rather than the current three highest years.

Corbett/Tobash Pension Proposal

Act 120 of 2010

- Reduced state costs by 60%.
- Reduced the benefit multiplier from 2.5% to 2.0% for each year of service for new employees.
- Eliminated lump-sum withdrawal of contributions and interest at retirement.
- Increased normal retirement age by five years, to 65, for most people.
- Doubled the vesting period to 10 years.

Corbett/Tobash Pension Proposal

- Benefits of current employees will not change (unless they leave then return to public service).
- Share risk provisions from Act 120 will apply to all new employees.
- Public and school employees hired/re-hired on/after January 1, 2015 must enroll in a defined. benefit/defined contribution hybrid retirement plan.

Defined Benefits and Contributions

- The defined benefit plan applies to final average salaries of up to $50,000 (indexed 1% annually) with final average salary computed over the five highest-pay years not three years as under Act 120.
- Defined benefit accrues for only the first 25 years of service.
- 2% multiplier for each year of eligible service. With a cap of 25 years, the maximum benefit would be $25,000 (indexed 1% annually).
- Employees vest after 10 years of service but cannot apply for early retirement unless they have 25 years of service.

Defined Contribution Plan

- Employee contribution of 1% and employer contribution of 0.5% on compensation up to $50,000 (indexed 1% annually).
- Employee contributions of 7% and employer contribution of 4% on salary above $50,000.

For more information on this proposal, go to: http://www.paneedspensionreform.com/

FACTS ABOUT PSERS

- Active Members: 273,500
- Retired Members: 202,015
- Employee Contribution: 7.43%
- Employer Contribution: 21%
- Average annual Benefit: $24,122