Pension Legislation Moves: What You Need to Know

Status of Pension Reform Legislation:

- The Senate has passed SB 1082 (be warned that it's a 729 paged bill) by a vote of 38-12.
- The House (at this point) has indicated its newly passed budget plan does not include pension reform and liquor reform.
- What happens from here? Only the foolhardy would make any prediction about any legislative events in Harrisburg at this point. Eventually we will know more. Right now, it does not appear that the House wants to move pension reform with their budget so we are at another stalemate. If the House does decide to move pension reform there is no guarantee the Governor would sign this bill if he does not get a budget that complies with the framework agreement.

Here's what Senate Bill 1082 does:

If You Are A Pre-Act 120 Employee (Translation: You Were Hired Prior to July 1, 2011)

- No change in your multiplier (2.5) or final average salary calculation.
- The bill changes the actuarial calculation for withdrawal of employee contributions. Currently, PSERS subsidizes the lump sum withdrawal of employee contributions for pre-Act 120 employees. In other words, your monthly benefit is not reduced sufficiently to offset the lump sum withdrawal. Under SB 1082, instead of PSERS subsidizing the withdrawal of employee contributions, the calculation of the monthly benefit will be actuarially neutral. IF SB 1082 is enacted, withdrawals of employee contributions after July 1, 2016 will be subject to the revised actuarially neutral calculation. Moreover, the new law would only apply the revised actuarial neutral calculation for prospective employee contributions (so you continue to have a subsidy for all the contributions made prior to July 1, 2016).
- A rate of return shared gain/loss provision will have an effect on pre-Act 120 employees. If the rate of investment return for PSERS is below the assumed rate of return (7.5%) as measured over ten years on a triennial calculation, the employee contribution can be adjusted upward by 0.5% for every 1% that the rate of return is under 7.5%. Conversely, if the rate of return is greater than 7.5%, the employee contribution can drop by 0.5% for every 1%. In no case can the employee contribution rate increase/decrease by more than 2 percentage points.
- There are no other changes for pre-Act 120 employees that we know at this point in our review.

If You Are A Post-Act 120 Employee (Translation: You Were Hired After July 1, 2011)

- No change in your multiplier (2%) or final average salary calculation
- You are already subject to a shared loss increase in the employee contribution. SB 1082 adds a shared gain provision. So if the rate of return is greater than 7.5%, the employee contribution can drop by 0.5% for every 1% based on a ten year average calculated on a triennial schedule.
- There are no other changes for post-Act 120 employees that we know at this point in our review.

If You Are Hired On or After July 1, 2017

- You will be subject to a new "side by side hybrid" plan. The multiplier will be 1% and final average salary will be calculated on the last five years of service.
- The defined contribution component will have an employee contribution rate of 3.5% and an employer contribution rate of 2.5%. The defined benefit component will have an employee contribution rate of 4% and the employer contribution rate apparently would be calculated pursuant to current law by PSERS.
- New employees would also be subject to the rate of return gain/loss calculation.

Rate Collars

For 2016-17 the current rate collar of 4.5% would be lowered to 2.25%. As a result the PSERS rate for July 1, 2016 that was just certified at 30.03% would be reduced to 27.78% if SB 1082 is enacted. The rate collar reduction would only apply to 2016-17. For 2017-18 the rate collar would return to 4.5%.