

PASBO Summary of House Bill 2497, Printer's Number 3928—Public School Employees' Retirement Code Changes

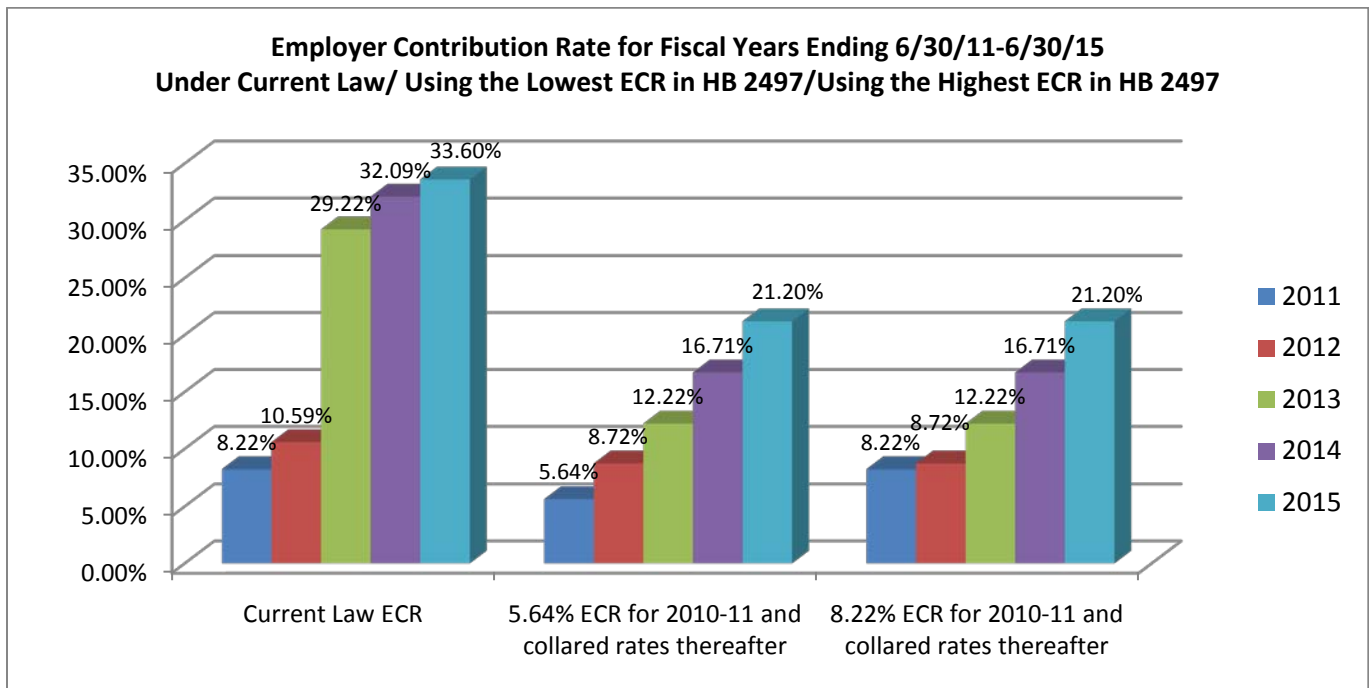
For a copy of the legislation: <http://tinyurl.com/HB-2497-click-here>
 For Additional Information Contact: PA Association of School Business Officials
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The House has passed a pension reform bill, House Bill 2497, by an overwhelming bi-partisan vote of 192-6. The major provisions of the bill as passed by the House are summarized below.

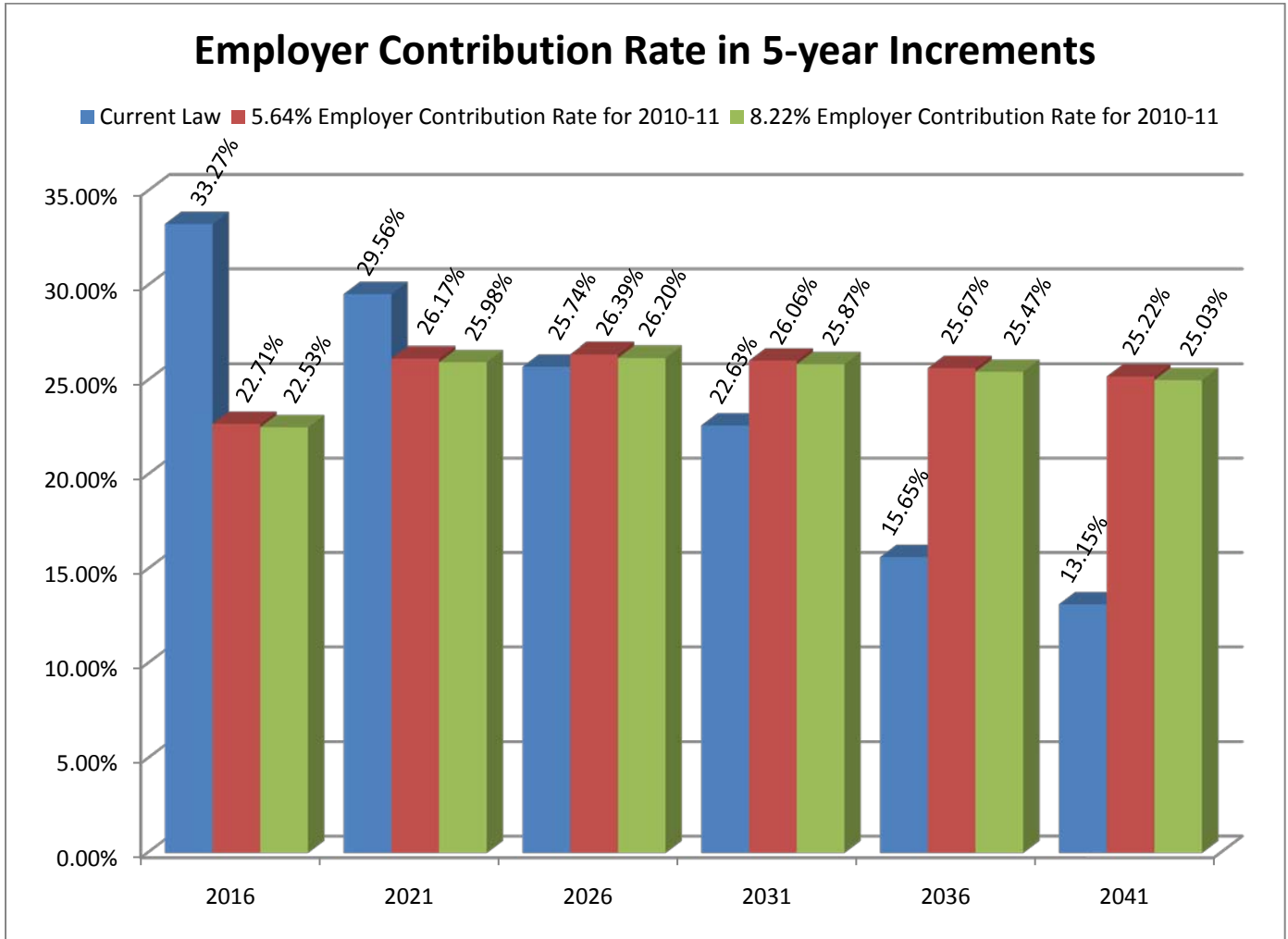
We strongly urge you to NOT revise your pending school budgets based on the House action. The bill faces an uncertain fate in the Senate both in terms of agreement with the House proposal and timing. We believe you should proceed with the assumption that the Employer Contribution Rate (ECR) for 2010-11 will remain at 8.22%. If and when we believe that you should change this assumption, we will let you know immediately.

Brief Summary: As passed by the House, HB 2497 will create a new plan for new school employees. Existing employees are not affected by the changes proposed by the legislation. Since the bill does not establish an exact ECR for 2010-11 (it provides a range between the Governor's "Fresh Start" proposal of 5.64% and the previously PSERS certified rate of 8.22%) we believe any change in school budgets is speculative at best.

The bill establishes "collars" or limits on annual increases in the ECR. For the three fiscal years after 2010-11, the collars limit annual increases in the ERC to 3%, 3.5% and 4%. Thereafter the collar will continue if the ECR certified by PSERS would exceed the collar. For the immediate future, the collars will provide a reduction in the ECR that eliminates the "launch" in FY 2012-13. The collars will mean that although there can be different rates for the upcoming fiscal year, there will not be any difference in the ECR for the subsequent four fiscal years as indicated below.

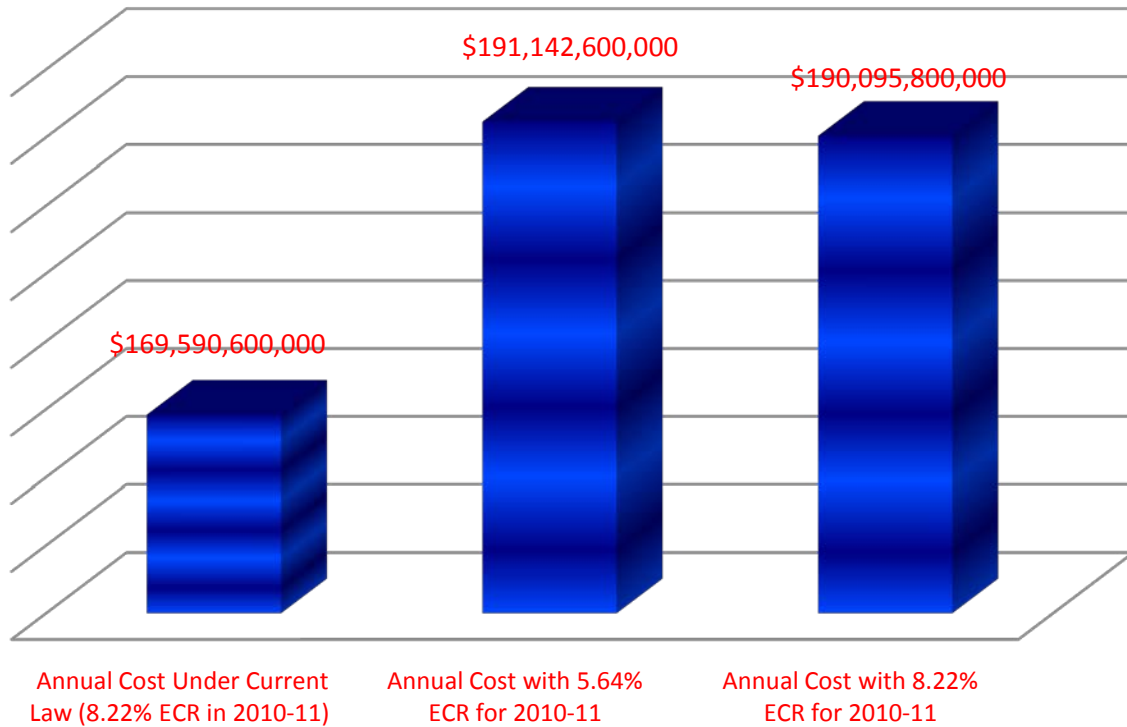


The short term rate reductions (from current law) are then negated by the long term consequences of deferring liabilities to the future. As seen below, the ECR under current law starts to decline while the ECR under HB 2497 continues to increase. The deferral under HB 2497 would push the ECR above 20% for 27 years.



The legislation does not attempt to change any benefits for existing employees. Doing so would have driven the ECR down for future fiscal years. While we know there is legal precedent regarding the contract impairment doctrine, we believe that the PA Supreme Court has left the actuarial soundness argument open in its prior decisions. Without any short term savings created by reducing the multiplier for future years of service for existing employees, we will have to defer significant pension liabilities to the future. Through 2042, we will see more than \$21 billion in retirement costs deferred to the future. When the ECR exceeds 8% (either 2010-11 or the following year under House Bill 2497) schools and the state will be required to contribute in excess of a billion dollars annually to PSERS. In 2014 the combined school/state contributions will be more than \$2.4 billion. The following fiscal year, the annual retirement cost for employers exceeds \$3 billion.

Deferred Pension Liabilities Under HB 2497 Aggregate Annual Cost Through 2041



Benefit Change/ECR	Current Law	House Bill 2497	PASBO Proposal
Multiplier	2.5%	2% for new employees; 2.5% for existing employees	2% for new employees; 2.5% for existing employees for existing years of service; 2% for future years of service
Employee Contributions	7.5% generally	No change	Reduced to 7% for new employees and current employees with a blended multiplier.
Election of higher multiplier for new employees	N/A	A member must elect to become a Class T-F member by filing a written election with the board within 45 days; upon election the employee contribution is 10.3%.	N/A
Superannuation or normal retirement age	62 or age 60 provided the member has 30 eligibility points or any age upon accrual of 35 points	65 with accrual of at least three eligibility points or any age upon accrual of 35 eligibility points	62 with accrual of at least thirty eligibility points or any age upon accrual of 35 eligibility points

Vesting	5 years	10 years for new employees	10 years for new employees
Final Average Salary	Final Average Salary is calculated using the highest three years.	No change from current law.	Final Average Salary is calculated using the highest five years for new employees.
Withdrawal of Contributions	Employees can withdraw all accumulated employee contributions.	New employees are prohibited from withdrawing all accumulated employee contributions.	New employees can withdraw all accumulated employee contributions but a benefit reduction must result in the withdrawal being revenue neutral.
Part Time Employees	With 500 hours, school employees are eligible for coverage.	No change from current law.	With 900 hours, school employees are eligible for coverage.
Employer Contribution Rate (ECR) for 2010-11	For 2010-11 the ECR has been certified by PSERS at 8.22%	The bill establishes the ERC at "between 5% and 7.58%" plus the premium assistance rate which is 0.64% for a total range of 5.64% to 8.22%.	For 2010-11 the ECR is 8.22%
ECR beginning July 1, 2011	For the following three fiscal years beginning July 1, 2011, the ECR is projected at 10.59%, 29.22% and 32.09%	For the following three fiscal years beginning July 1, 2011, the ECR can be increase no more than 3%, 3.5% and 4.5% annually.	For the following three fiscal years beginning July 1, 2011, the ECR can be increase no more than 3%, annually.
ECR beginning July 1, 2014	The ECR is set according to the PSERS rate setting methodology.	The ECR is set according to the PSERS rate setting methodology. Collars may be continued if necessary.	The ECR is set according to the PSERS rate setting methodology but capped at 20%. The state is solely responsible for any contributions above 20%.
Asset smoothing	Asset "smoothing" (the period over which gains and losses are recognized) is five years.	Beginning July 1, 2011 asset smoothing is extended to ten years	Asset smoothing is extended to ten years
Normal Cost	4% ECR plus premium assistance as the minimum rate or floor.	After collared rates end, the normal cost is established as the minimum ECR. Normal cost is about 8%.	Same as HB 2497.

Amortization of liabilities	Current liabilities have various funding periods using the level dollar of pay amortization method	Beginning July 1, 2011 actuarial liabilities are funded over a 30 year period using level percentage of pay amortization method; new benefits must be amortized over ten years.	Actuarial liabilities are funded over a 30 year period using the unit credit projection method
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