



## SENATE OF PENNSYLVANIA BILL SUMMARY

### Senate Bill 1 Printer's No. 902

Prime Sponsor: Corman  
Committee: Appropriations

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#### **SYNOPSIS:**

Amends Title 24 (Education) relating to the Public School Employees' Retirement Code and Title 71 (State Government) relating to the State Employees' Retirement Code.

#### **SUMMARY:**

##### *New Retirement Benefit Plan Options*

Provides new members of the State Employees' Retirement System ("SERS") and the Public School Employees' Retirement System ("PSERS") with the option to elect one of three retirement benefit options, either one of two side-by-side hybrid defined benefit ("DB")/defined contribution ("DC") plans or a stand-alone DC plan.

Allows current SERS and PSERS members, including elected officials, to opt into one of the new plans within 90 days from effective date of the respective plan. The new retirement plans become effective for SERS members January 1, 2019, and for PSERS members July 1, 2019. The plans are as follows:

##### *Option 1 - Side-by-Side DB/DC Hybrid (SERS Class A-5 and PSERS Class T-G)*

- If a member fails to elect one of the three plan options, the member is placed in this plan.
- The DB plan multiplier is 1.25%.
- Employees contribute 8.25% of compensation split between the DB and DC components as follows:
  - SERS employees - 5% DB component and 3.25% DC component.
  - PSERS employees - 5.5% DB component and 2.75% DC component.
- Provides for the employer contribution to be actuarially determined for the DB component and 2.25% of compensation for the DC component.
- Provides for "shared-risk" and "shared-gain" provisions to be calculated every three (3) years comparing the actual and assumed rate of return for the past ten (10) years. For every percentage point in earnings realized in excess of or below the assumed rate of return, the employee contribution requirement will be increased or reduced by 0.75%, but no more than 3% above or below the initial contribution rate.
- Members will have an individual retirement account for the DC in which employee and employer contributions accumulate, and investment earnings and fees are credited and charged.
- The final average salary calculation is based on the five (5) highest years and limits SERS voluntary overtime to 10% of base salary.

- Provides for ten (10)-year vesting in the DB component.
- DC component employer contributions vest in three (3) years, and employee contributions and related investment earnings vest immediately.
- Superannuation is age 67 with three (3) years of service or “the rule of 97.” The “rule of 97” is calculated by adding the member’s age and number of years of service.
- Provides for an actuarially neutral option 4 “lump sum” withdrawal of contributions.
- Provides reduced benefits for early retirement.
- Allows voluntary DC contributions.

**Option 2 - Side-by-Side DB/DC Hybrid (SERS Class A-6 and PSERS Class T-H)**

- The DB plan multiplier is 1%.
- Employees contribute 7.5% of compensation split between the DB and DC components as follows:
  - SERS employees - 4% DB component and 3.5% DC component.
  - PSERS employees - 4.5% DB component and 3% DC component.
- Provides for the employer contribution to be actuarially determined for the DB component and 2% of compensation for the DC component.
- Provides for “shared-risk” and “shared-gain” provisions to be calculated every 3 years comparing the actual and assumed rate of return for the past ten (10) years. For every percentage point in earnings realized in excess of or below the assumed rate of return, the employee contribution requirement will be increased or reduced by 0.75%, but no more than 3% above or below the initial contribution rate.
- Members will have an individual retirement account for the DC in which employee and employer contributions accumulate, and investment earnings and fees are credited and charged.
- The final average salary calculation is based on the five (5) highest years and limits SERS voluntary overtime to 10% of base salary.
- Provides for ten (10)-year vesting in the DB component.
- DC component employer contributions vest in three (3) years, and employee contributions and related investment earnings vest immediately.
- For SERS members, superannuation is age 67 with three (3) years of service or “the rule of 97.”
- For PSERS members, superannuation is age 67 with three (3) years of service.
- Provides for an actuarially neutral option 4 “lump sum” withdrawal of contributions.
- Provides reduced benefits for early retirement.
- Allows voluntary DC contributions.

**Option 3 - Stand-alone DC Plan Only**

- This plan does not include a DB component and is similar to a 401(k).
- Employees contribute 7.5% of compensation.
- Provides for the employer contribution to be 3.5% for SERS members, and 2% for PSERS members.
- Members would have an individual retirement account in which employee and employer contributions accumulate, and investment earnings and fees are credited and charged.

- Employer contributions vest in three (3) years, and employee contributions and related investment earnings vest immediately.
- Allows voluntary contributions into the plan.

### Hazardous Duty Employees

- Exempts hazardous duty employees from participation in the new retirement benefit plan provisions. Hazardous duty employees would continue to become members of the current SERS DB plan. Exempt hazardous duty employees include: (1) State Police; (2) enforcement officers; (3) wildlife conservation officers; (4) Delaware River Port Authority Police Officers; (5) park rangers; (6) capitol police officers; (7) campus police officers at state-owned universities, community colleges, and The Pennsylvania State University; (8) police officers employed by Fort Indiantown Gap or other designated Commonwealth military installations or facilities; and (9) corrections officers.
- Changes the final average salary calculation for hazardous duty employees hired after January 1, 2019, to limit voluntary overtime to 10% of base salary.

### Post-Act 120 Member Benefit Changes

- Provides for “shared-gain” provisions which mirror the “shared-risk” provisions that currently apply to Act 120 members. For every percentage point in earnings realized in excess of the assumed rate of return, the employee contribution requirement will be reduced by 0.5%, but no more than 2% below the initial contribution rate.
- Provides for an actuarially neutral option 4 “lump sum” withdrawal of contributions.

### Other Provisions

- Maintains provisions allowing employees of the state-owned universities, The Pennsylvania State University, and the Department of Education to choose an alternative retirement plan (TIAA-CREF).
- Maintains the “footprint rule” whereby members who return to service are reenrolled in the class of service they enrolled in prior to the enactment of the new retirement benefit plan options.
- Provides for a “plow-back” of savings to accelerate the funding of SERS. In any year when there is projected to be a savings, the amount of savings is to be assessed as a percentage of DB and DC compensation.
- Changes the actuarial cost method for determining SERS normal cost from a “new entrant” method to a “blended” traditional entry-age actual cost method. The new method bases the normal cost on the benefits and contributions for all covered employees from their date of entry.
- Establishes the Public Pension and Asset Investment Review Commission to study and make recommendations to the General Assembly and the Governor regarding investment performance and investment strategies.
- Provides that PSERS employers will be charged interest at the assumed rate of return for delinquent payments.
- Adds the Secretary of Banking and Securities to both the PSERS and SERS boards.

- Requires PSERS and SERS Board members to obtain eight (8) hours of relevant training annually.
- Provides for PSERS and SERS legal counsel to serve independently from the Governor's General Counsel, the General Assembly and the Attorney General.

Effective Date: Immediately.

**COMMENT:**

**Changes from Conference Committee Report to Senate Bill 1, Printer's No. 902:**

- The Conference Committee Report included an age 62 lockout to be eligible to collect benefits. In Senate Bill 1, there is an actuarially neutral reduced benefit available for those who retire before the age of 62.
- Shared risk/shared gain is changed from the Conference Committee Report (increase/decrease of 0.5% and a corridor of 2%) to an increase/decrease of 0.75% and a corridor of 3%.
- Vesting in the DB side of both hybrid plans in the Conference Committee report was five (5) years for PSERS and ten (10) years for SERS. The vesting for the DB side of the hybrid plans in this proposal is ten (10) years for both PSERS and SERS.
- Language concerns regarding the Pennsylvania State Police have been clarified and updated.
- Senate Bill 1 includes language directing the systems and the Pension Management and Asset Investment Review Commission to target \$3.0 billion in cost and fee reductions over the life of the projection.
- *Opt-in:* Current employees will have the ability to opt-in to one of the three new plan options, coinciding with the beginning of the new plan (January 1, 2019, for SERS, and July 1, 2019, for PSERS).

**BILL HISTORY:**

Prepared by: Acri 6/4/2017