

Pennsylvania Pension System Reform

March 12, 2013

Pension Reform Proposal:

DC Plan for Future Hires, Design Changes for Current Employees and General Fund Relief

Future Employee Pension Changes

- All future employees would be in a Defined Contribution Plan
- Key DC Plan Characteristics
 - Automatic Enrollment, Mandatory Contributions
 - Investor education options
 - Short-term Vesting Period (4 years)
 - Lump sum option available on employee portion
 - 4% employer rate (5.5% for hazardous duty; 12.2% for state police)
- Changes risk profile of the plans over the long-term

Changes to Current Employees' Prospective Accruals

The proposed design changes proposed only apply to the “future service” benefit. Therefore, the closer to retirement, the less impact on a member.

The benefit based on “past service” is not impacted by the proposed plan design.

Therefore, the portion of the benefit based on past service that is earned as of the effective date will continue to increase based on future salary increases and will continue to reflect the provisions of the current plan (for example definition of pensionable pay).

Changes to Current Employees' Prospective Accruals

- Pensionable Compensation Changes
 - Limit pensionable compensation to Social Security Taxable Wage Base
 - Final Average Salary calculation based on 5 years
 - “NY Style Limit” – 110% of average of prior 4 years
 - These changes impact all employees of the systems

Changes to Current Employees' Prospective Accruals

- Neutral Option 4 Withdrawal of Employee Contribution
 - Modify future monthly pension payments for employees who choose to withdraw a portion of their contributions upon termination or retirement
 - Modifying actuarial factors to make the cost of Option 4 consistent with the annuity cost in the actuarial valuation
- Reduce Multiplier by .5% for all employees currently above 2% level, except for those already buying up
 - option to buy-up to retain higher multiplier

General Fund Relief

- The actuarial valuation determines the actuarially required contribution rate based on the methods specified by statute
- This amount is limited by contribution rate collars that increase over time (4.5% of pay per year)
- Once the actuarial rate is less than the collared rate, the collars no longer apply
- Proposal includes tapering the contribution collars
 - Reduce rate increase from 4.5% to 2.25% for 2013-14
 - Increase rate by .5% each year until reaches 4.5% or the ARC

General Fund Relief – Contribution Collar Example

Actuarial Rate	Current Collared Rate	Proposed Collared Rate
30.00%	11.50%	11.50%
30.00%	16.00%	13.75%
30.00%	20.50%	16.50%
30.00%	25.00%	19.75%
30.00%	29.50%	23.50%
30.00%	30.00%	27.75%
30.00%	30.00%	30.00%

Impact of Reform: *General Fund Contributions, Contribution Rates, and Unfunded Liability*

Actuarial Projections

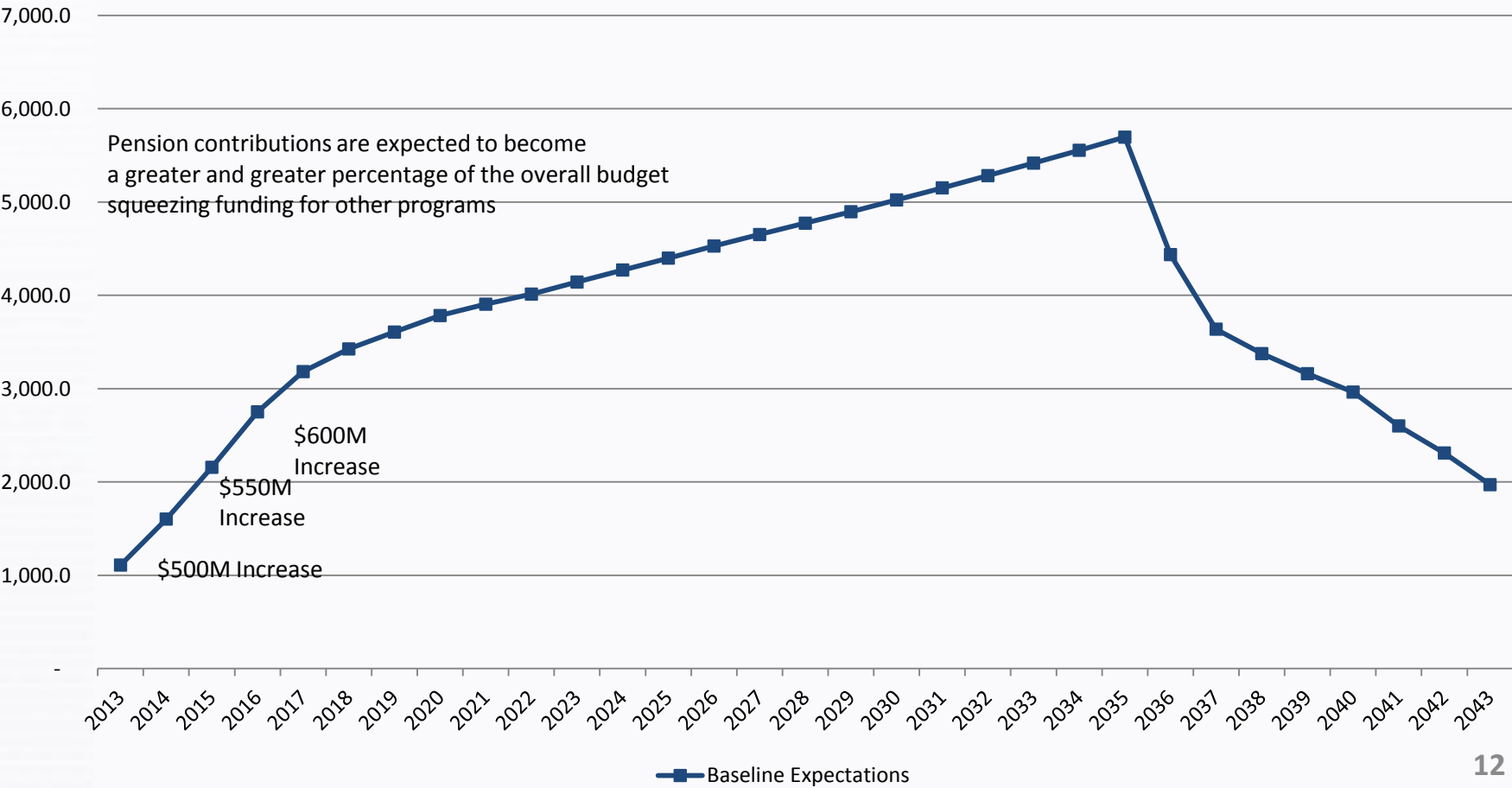
- Projections are estimates of the various proposed reforms for SERS and PSERS
- Based on Milliman's replication valuations of the 2011 valuations (latest information available at the time)
 - Subsequent updates were included for 2012 asset and payroll information
- Actual impact will be determined by the respective actuaries for each system

Actuarial Projections

- Projections are based on a myriad of assumptions
 - Assumptions used in 2011 actuarial valuations by respective actuaries
 - Population projections
 - Market value of assets earn the assumed return of 7.5% each year of the projection (deterministic model)
- Actual costs will ultimately be determined by the benefits provided by the systems; not the actuarial calculations provided in the model
- Future funding obligations will be determined by an actuarial valuation of the system as of future valuation dates

General Fund Contributions

SERS+PSERS: Projected Contribution Dollars Payable From General Fund
(41.4% of SERS contributions and nearly 60% of PSERS)
(Amounts in Millions)



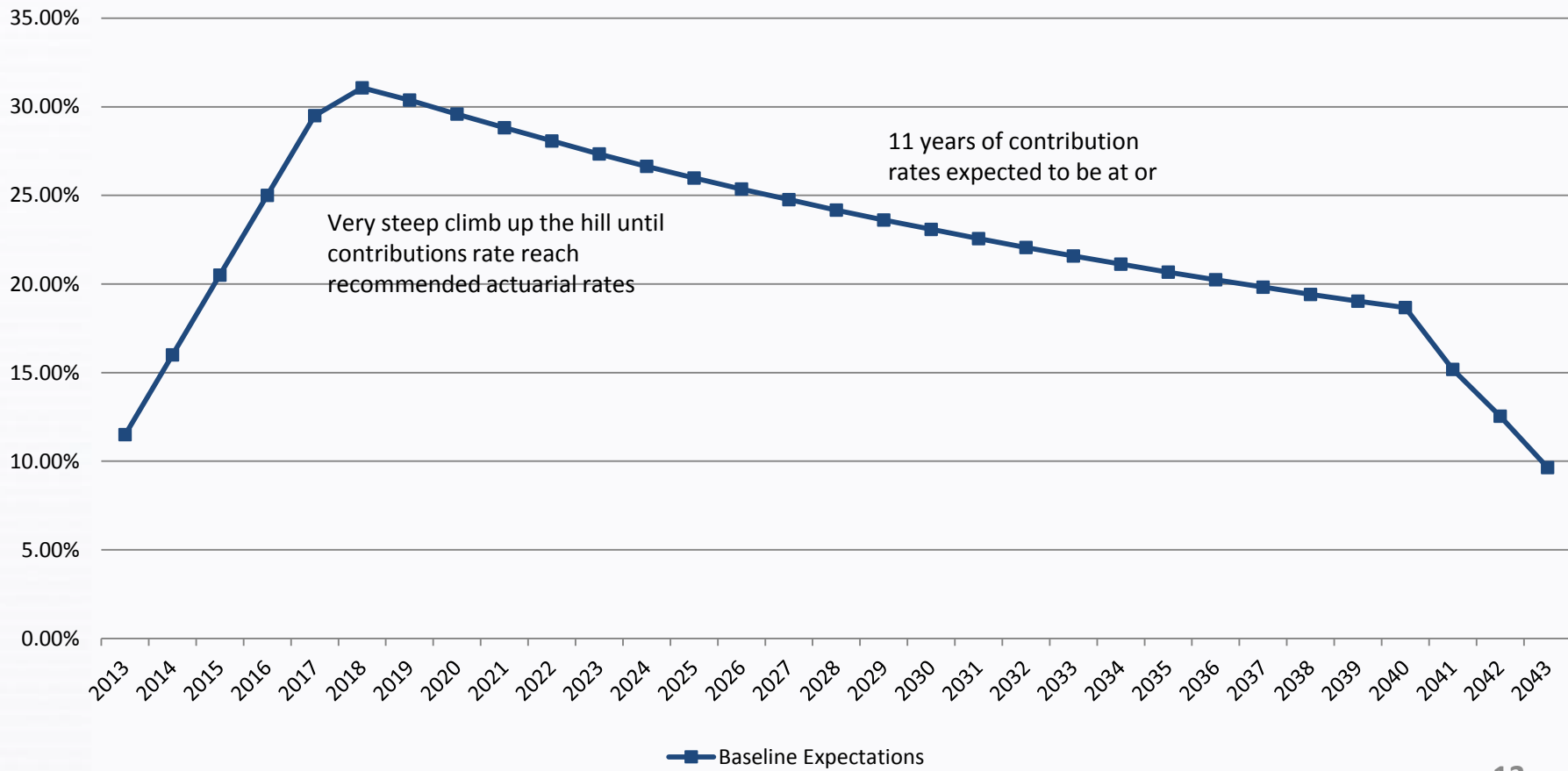
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Contribution Rates SERS

SERS: Blended Contribution Rates as Percent of Payroll



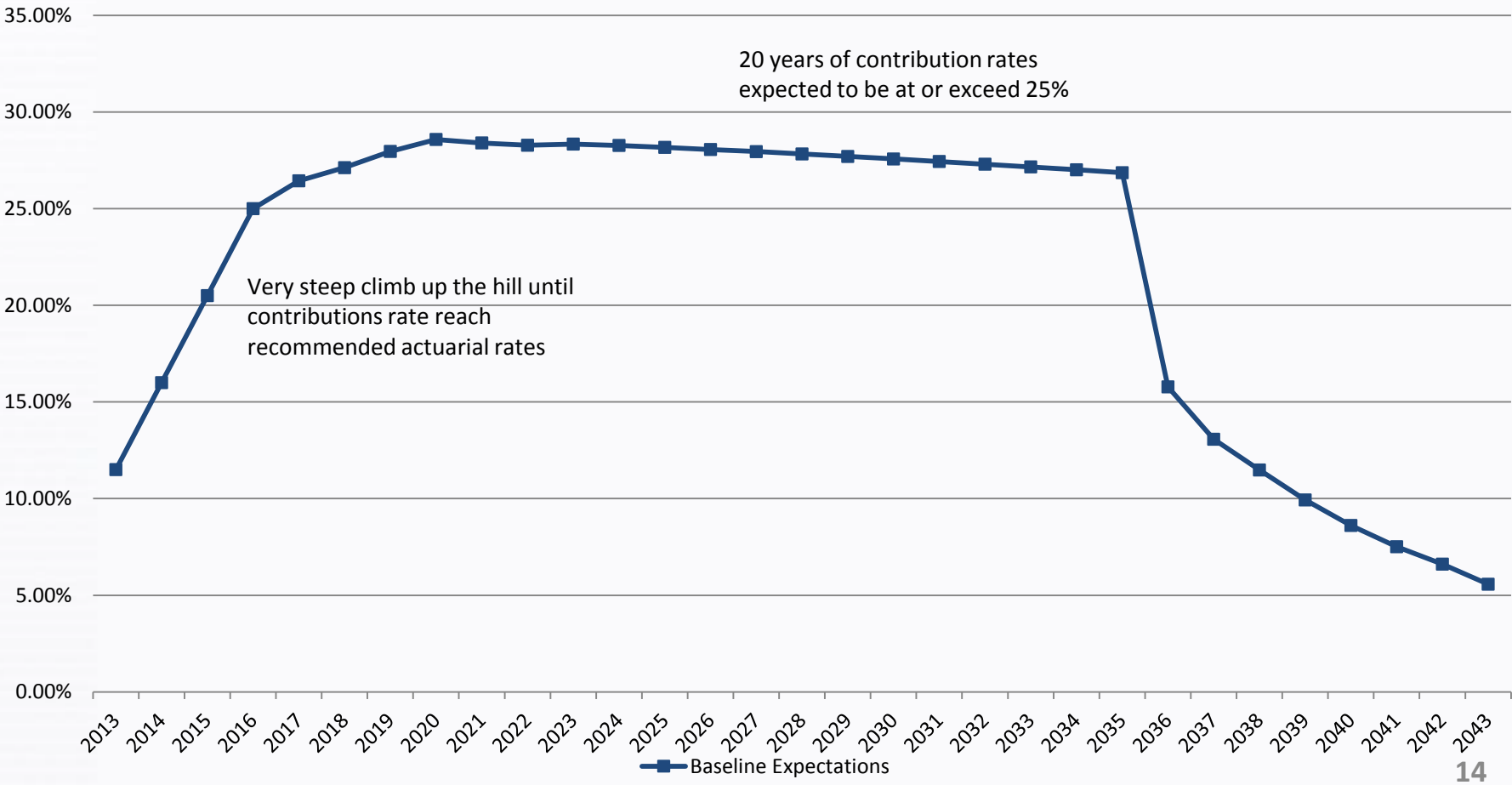
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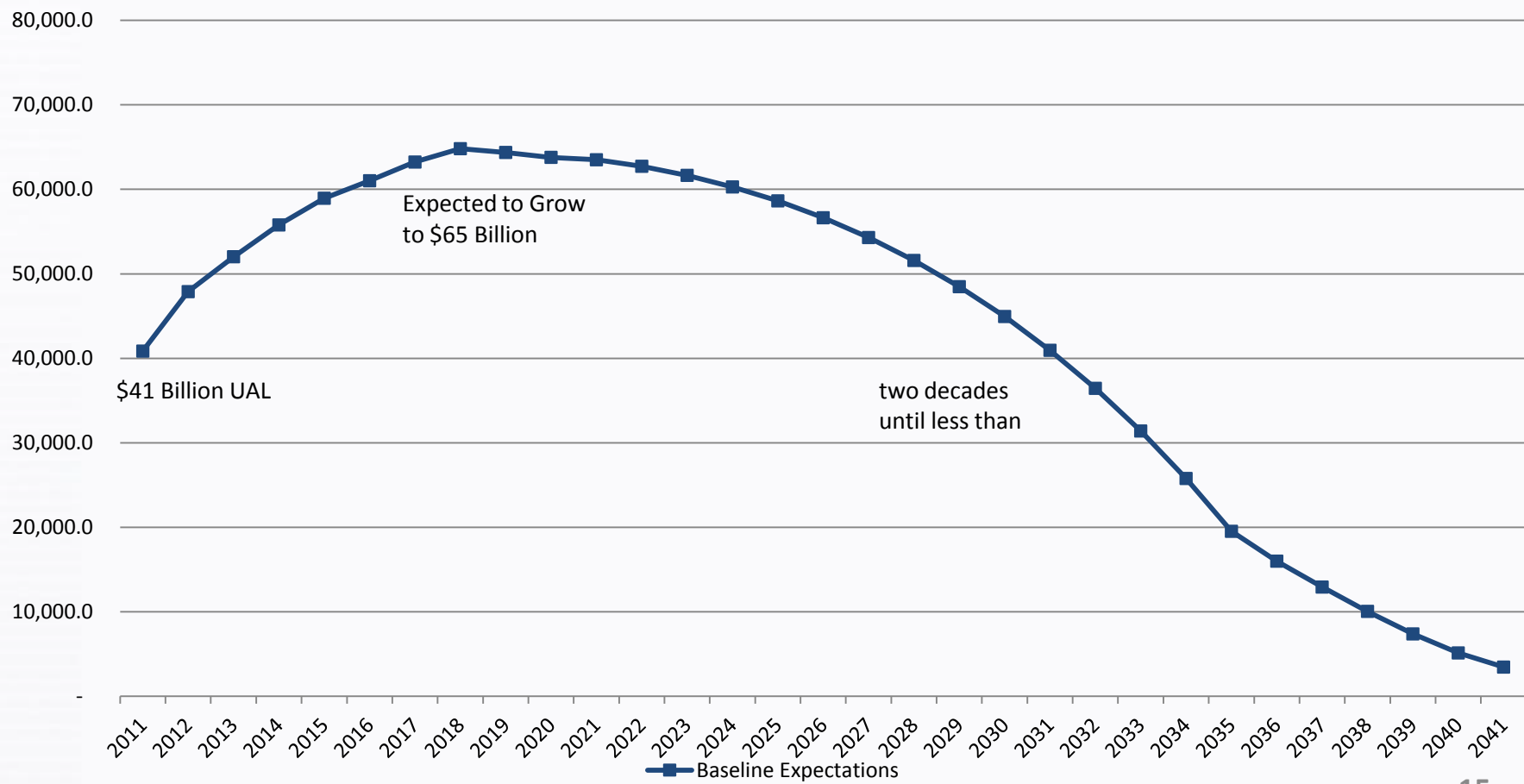
Contribution Rates PSERS

PSERS: Blended Contribution Rates as Percent of Payroll

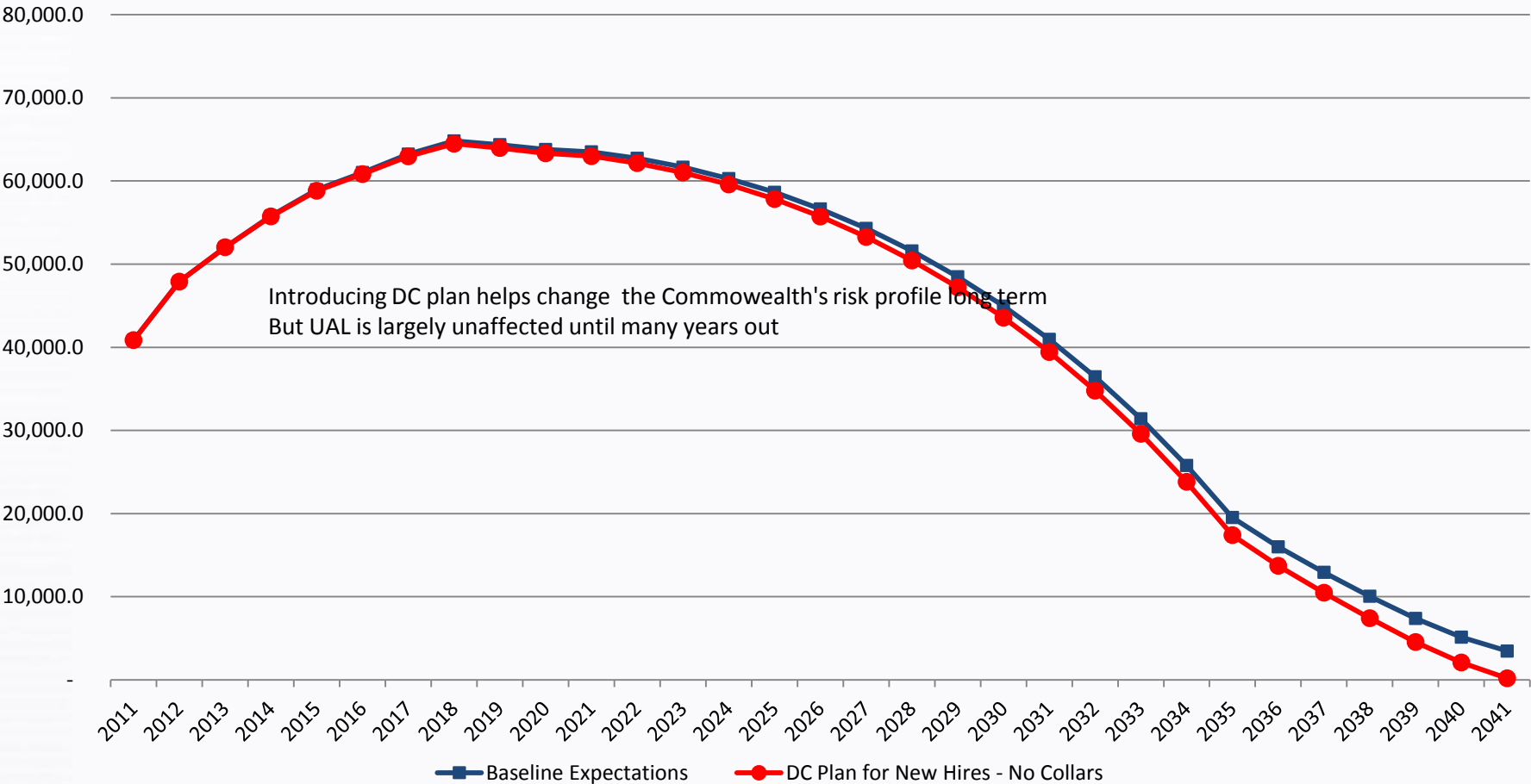


The Current Unfunded Liability Situation

SERS+PSERS: Unfunded Liability
(Amounts in Millions)

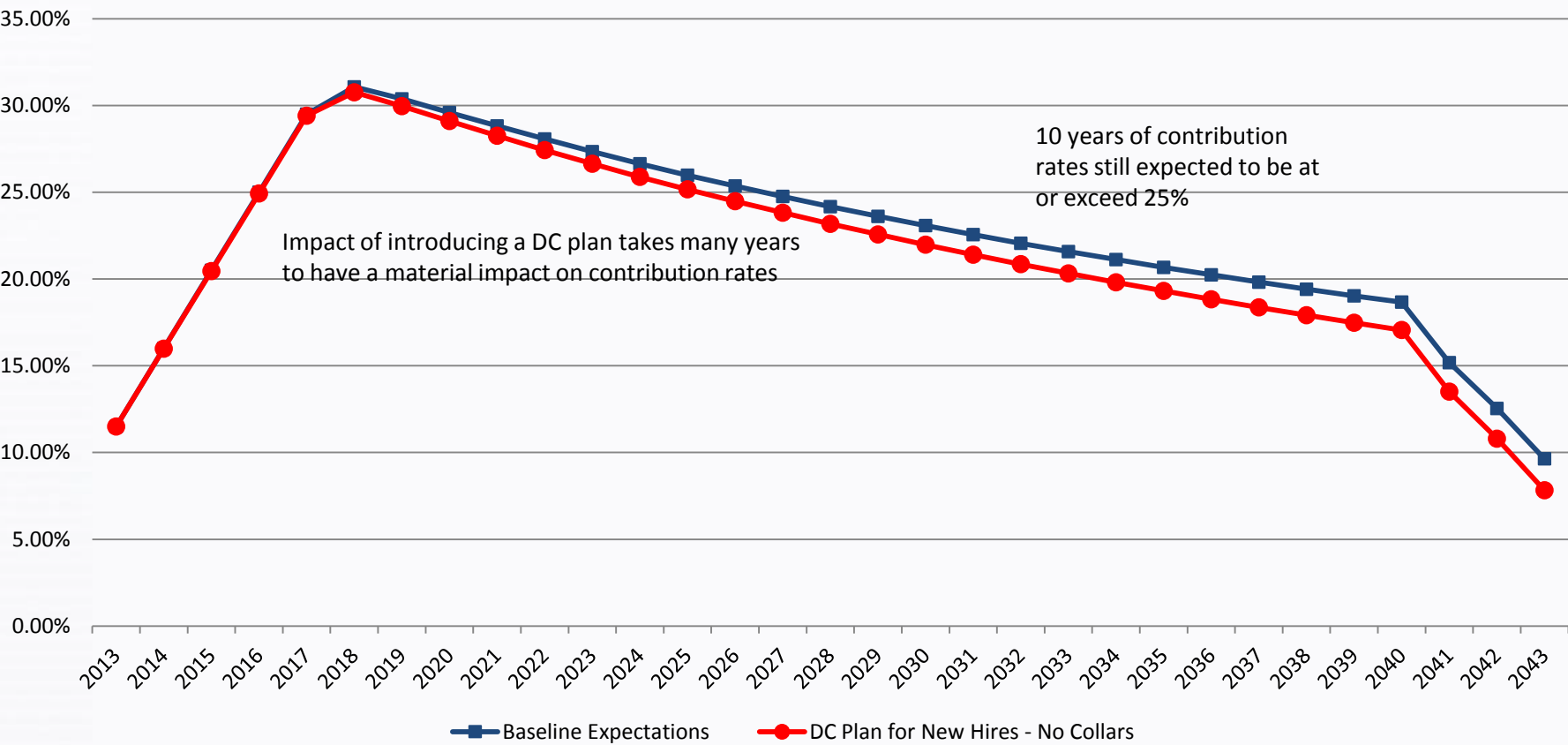


DC Plan Only
SERS+PSERS: Unfunded Liability
(Amounts in Millions)



Contribution Rates SERS-DC Plan Only

SERS: Blended Contribution Rates as Percent of Payroll



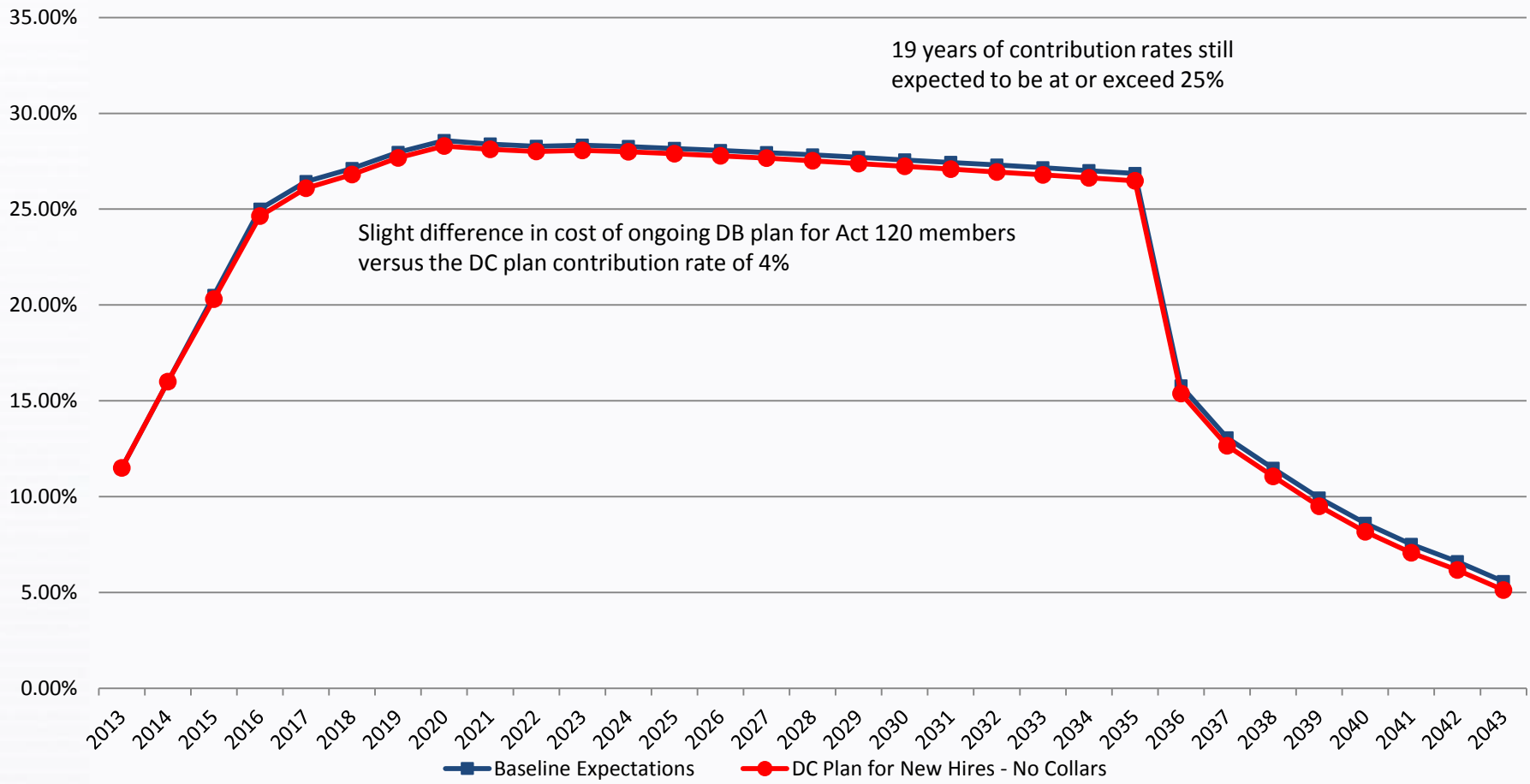
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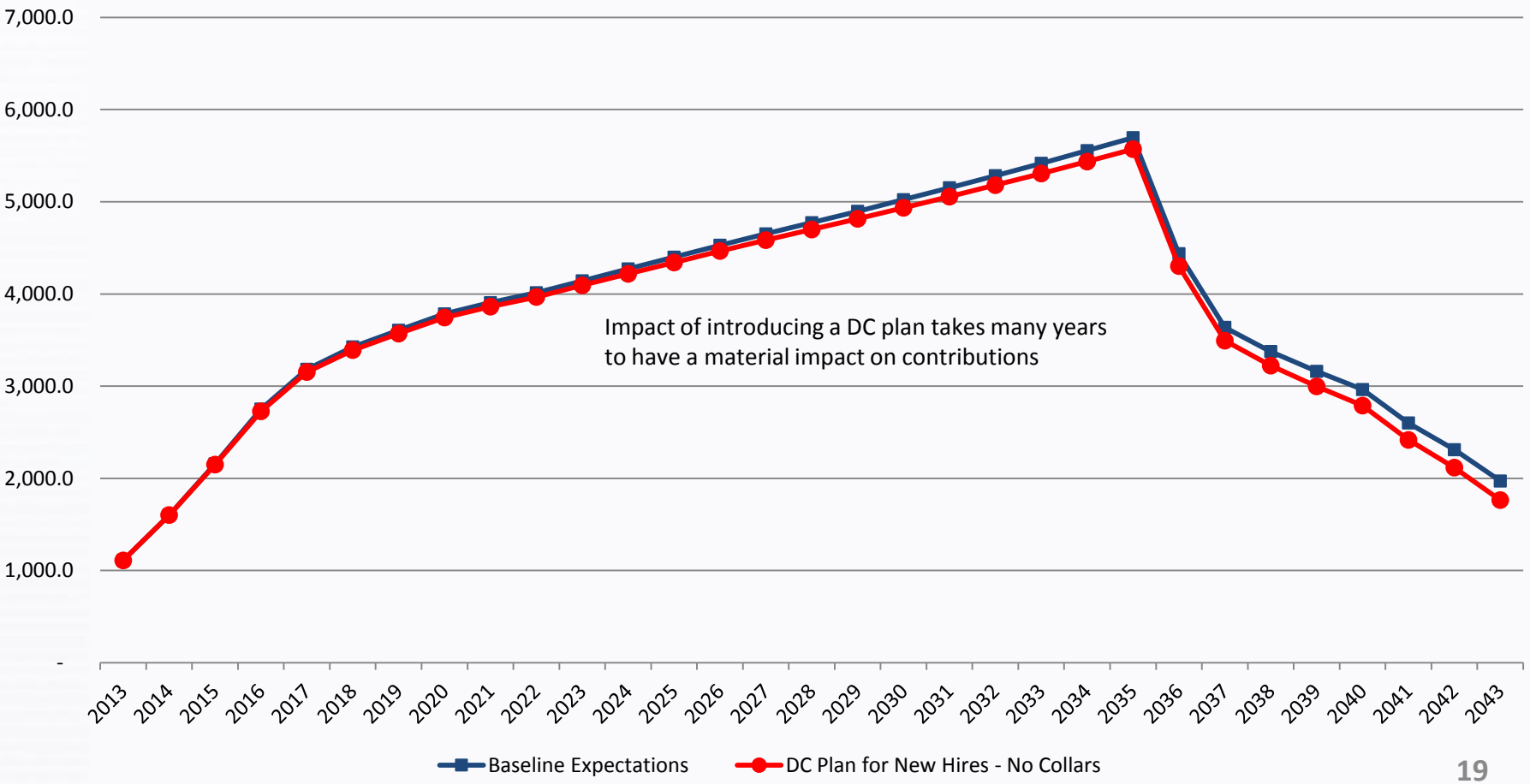
Contribution Rates PSERS-DC Plan Only

PSERS: Blended Contribution Rates as Percent of Payroll



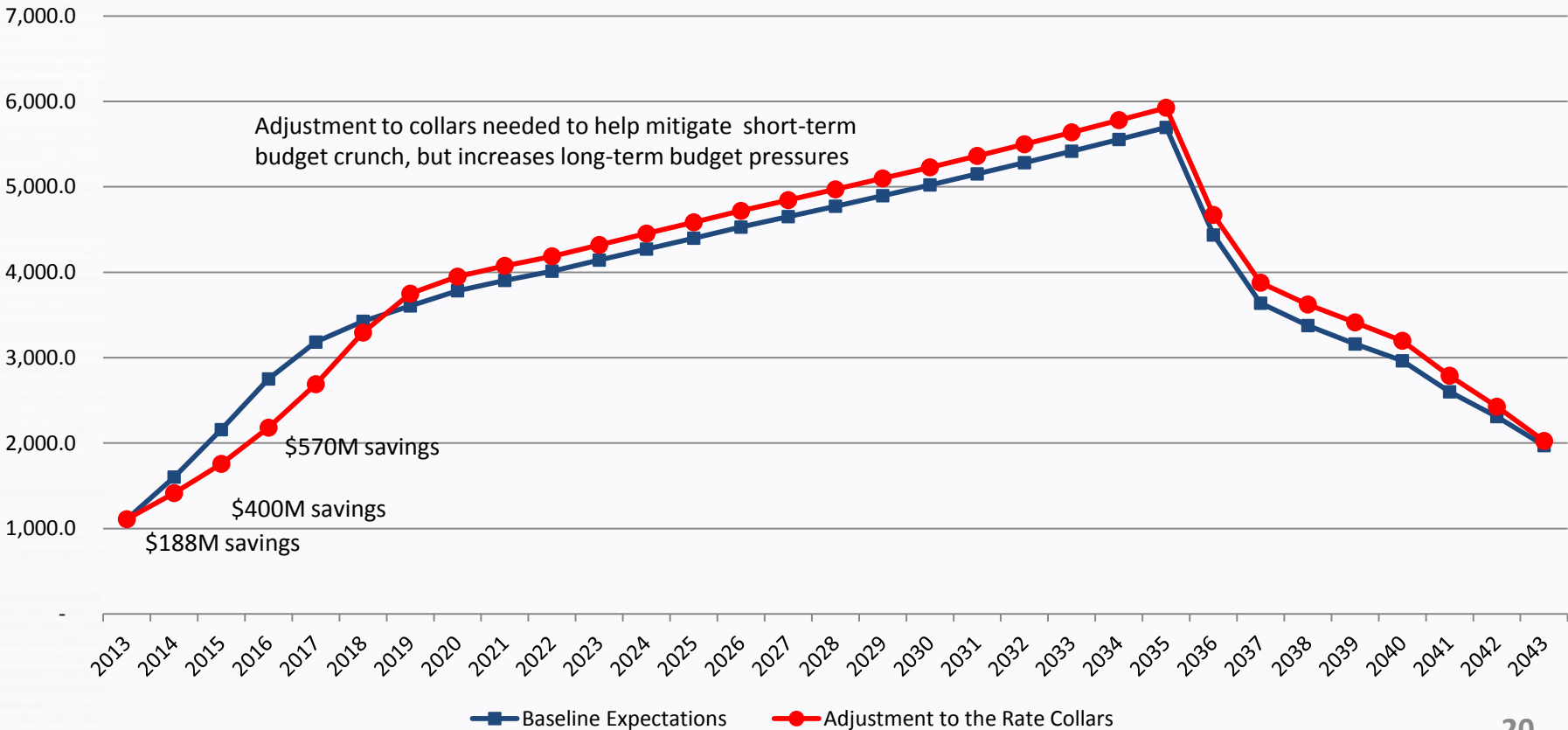
General Fund Contributions with DC Plan Only

SERS+PSERS: Projected Contribution Dollars Payable From General Fund
(41.4% of SERS contributions and nearly 60% of PSERS)
(Amounts in Millions)



Collar Adjustment Only

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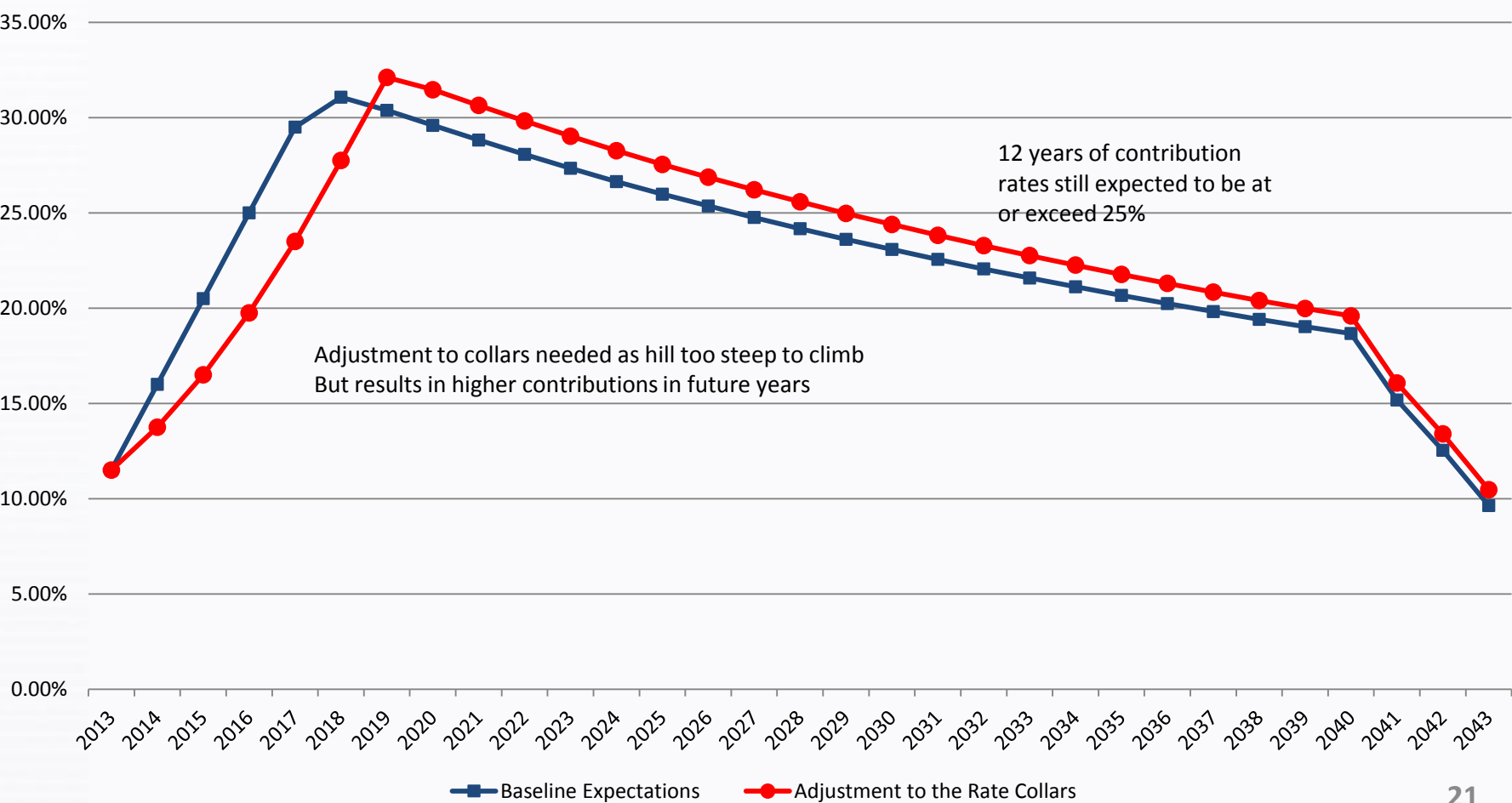
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Contribution Rates SERS with Collars

SERS: Blended Contribution Rates as Percent of Payroll

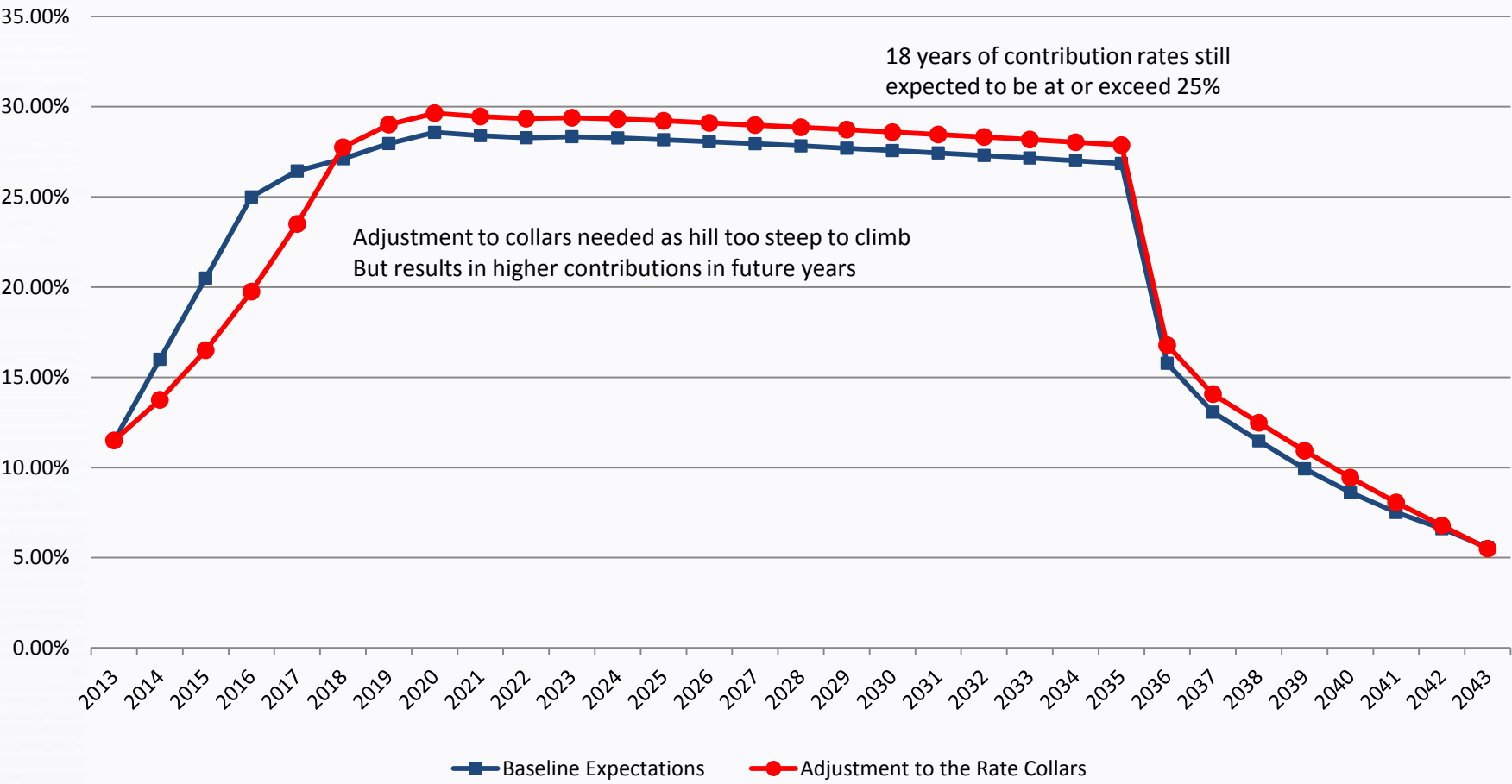


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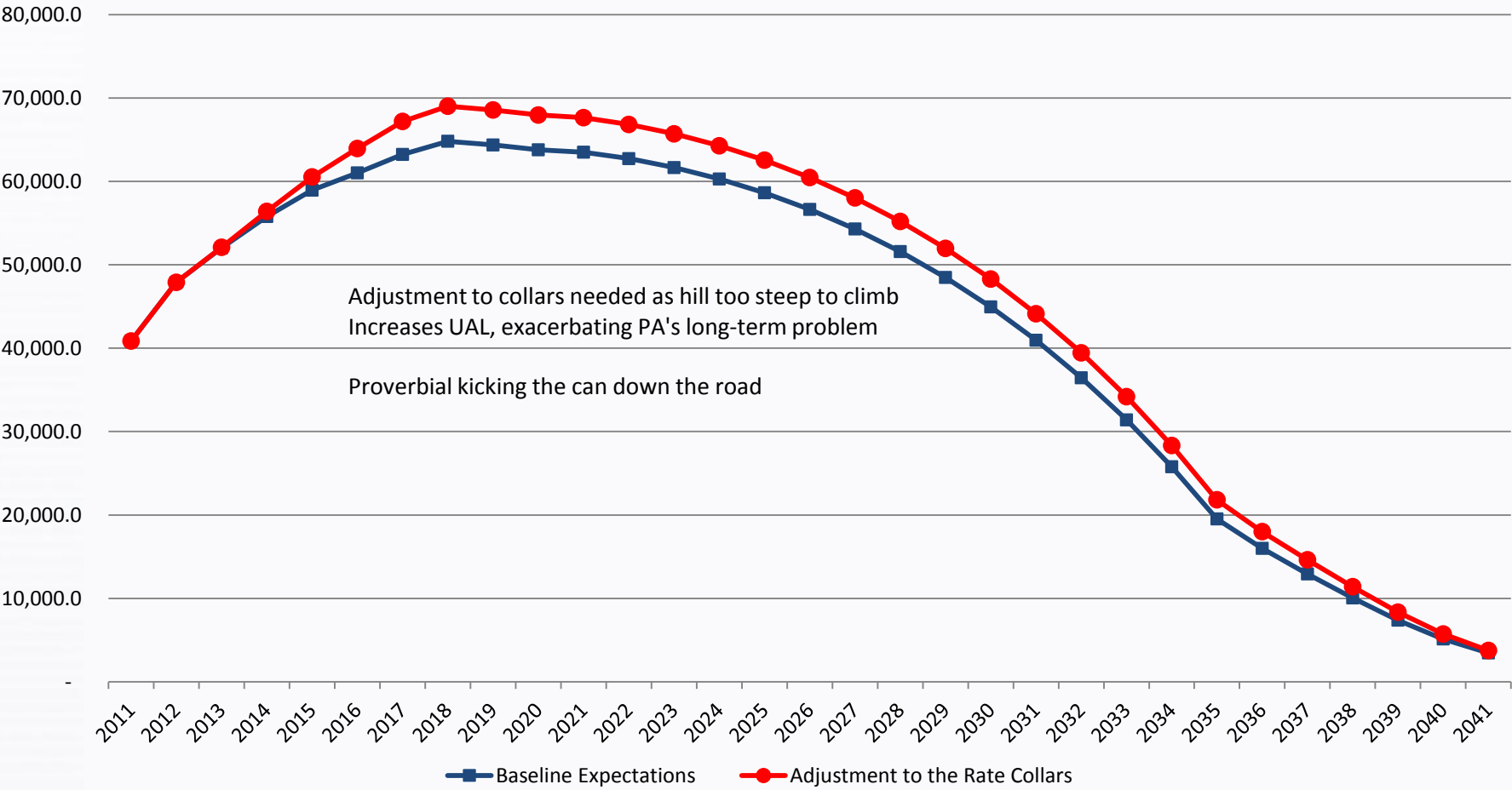
Contribution Rates PSERS with Collars

PSERS: Blended Contribution Rates as Percent of Payroll



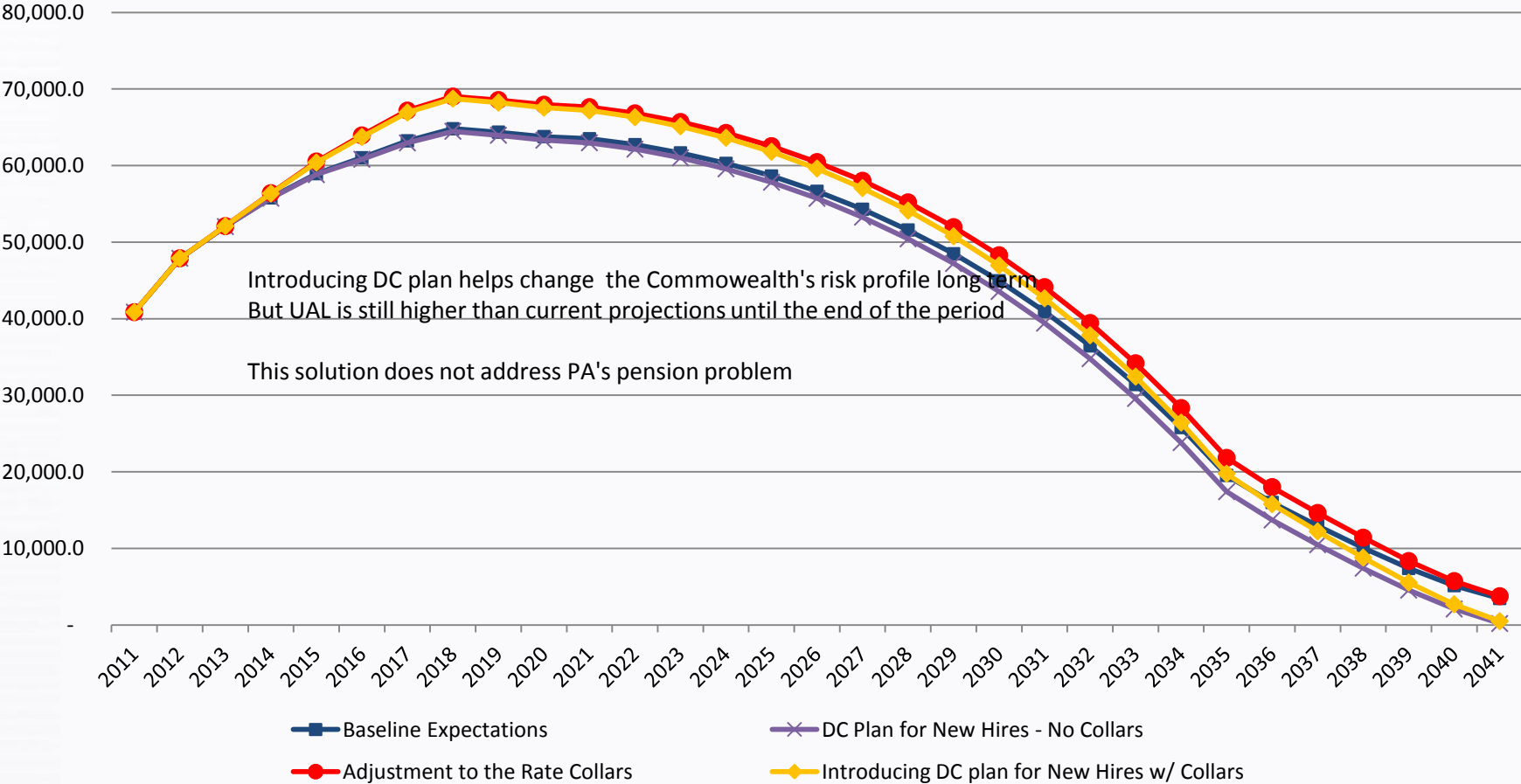
Collar Adjustment Only

SERS+PSERS: Unfunded Liability (Amounts in Millions)



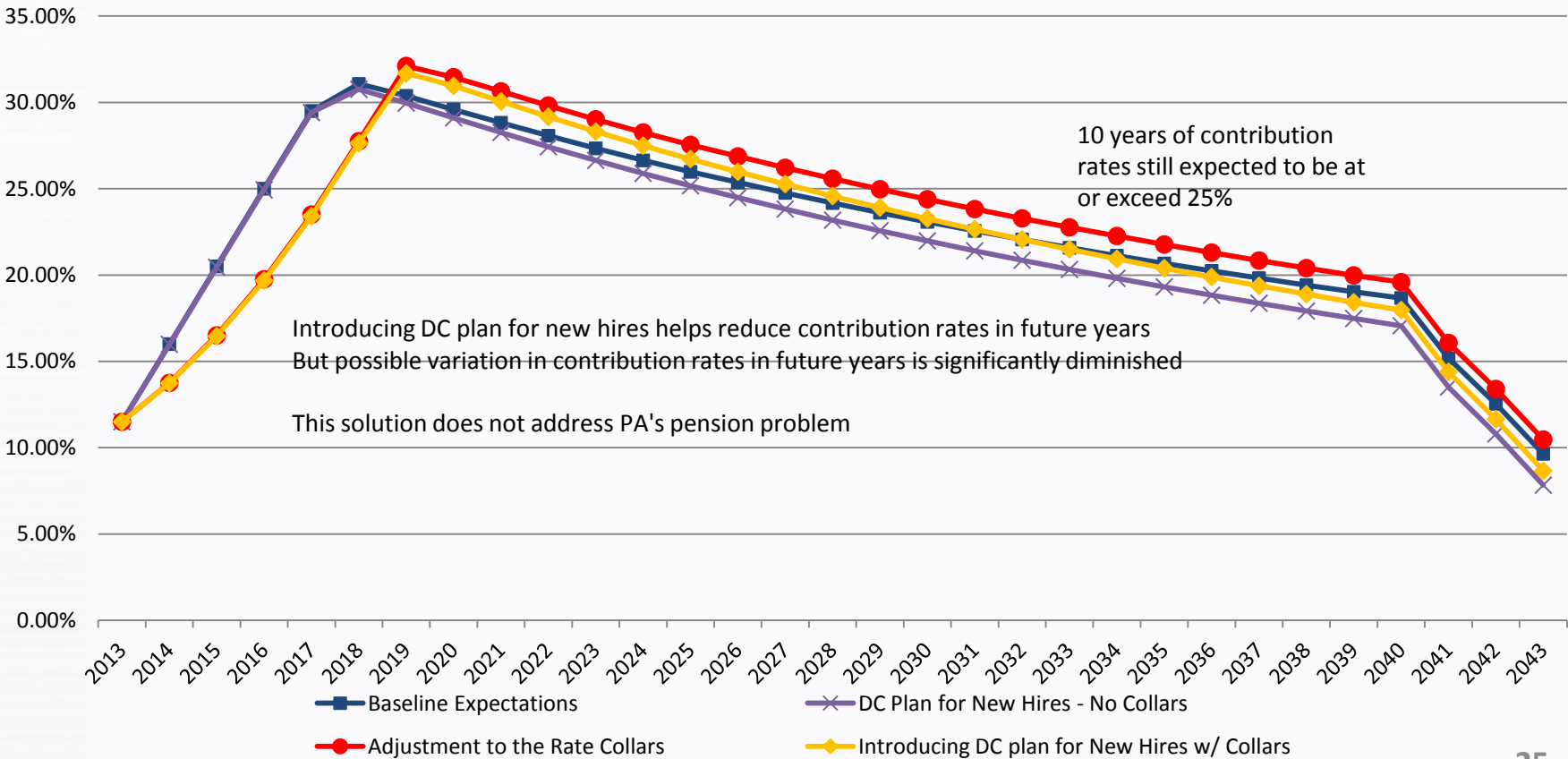
UAL Collar Comparison- DC Plan for New Employees

SERS+PSERS: Unfunded Liability
(Amounts in Millions)



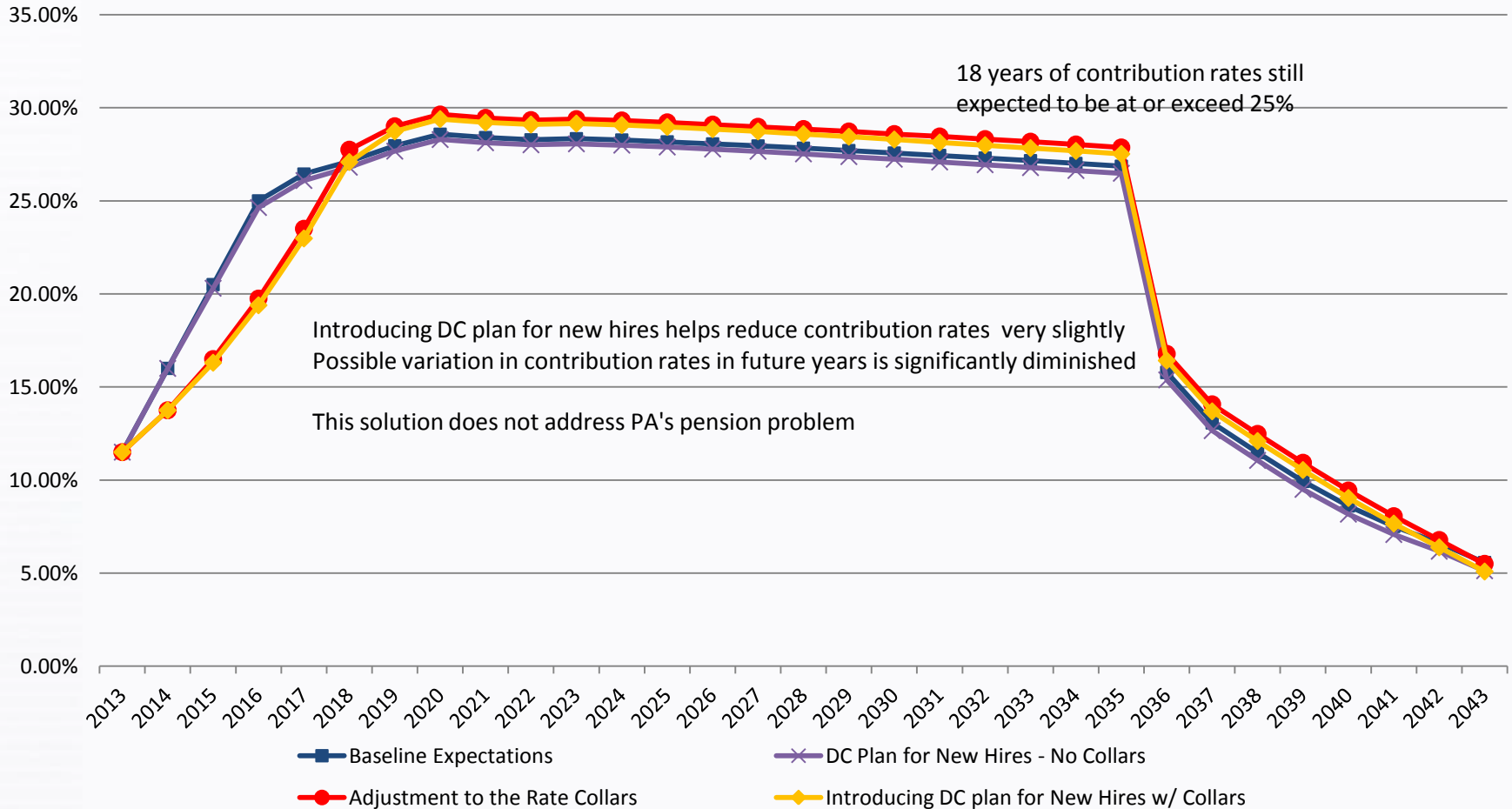
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SERS: Blended Contribution Rates as Percent of Payroll



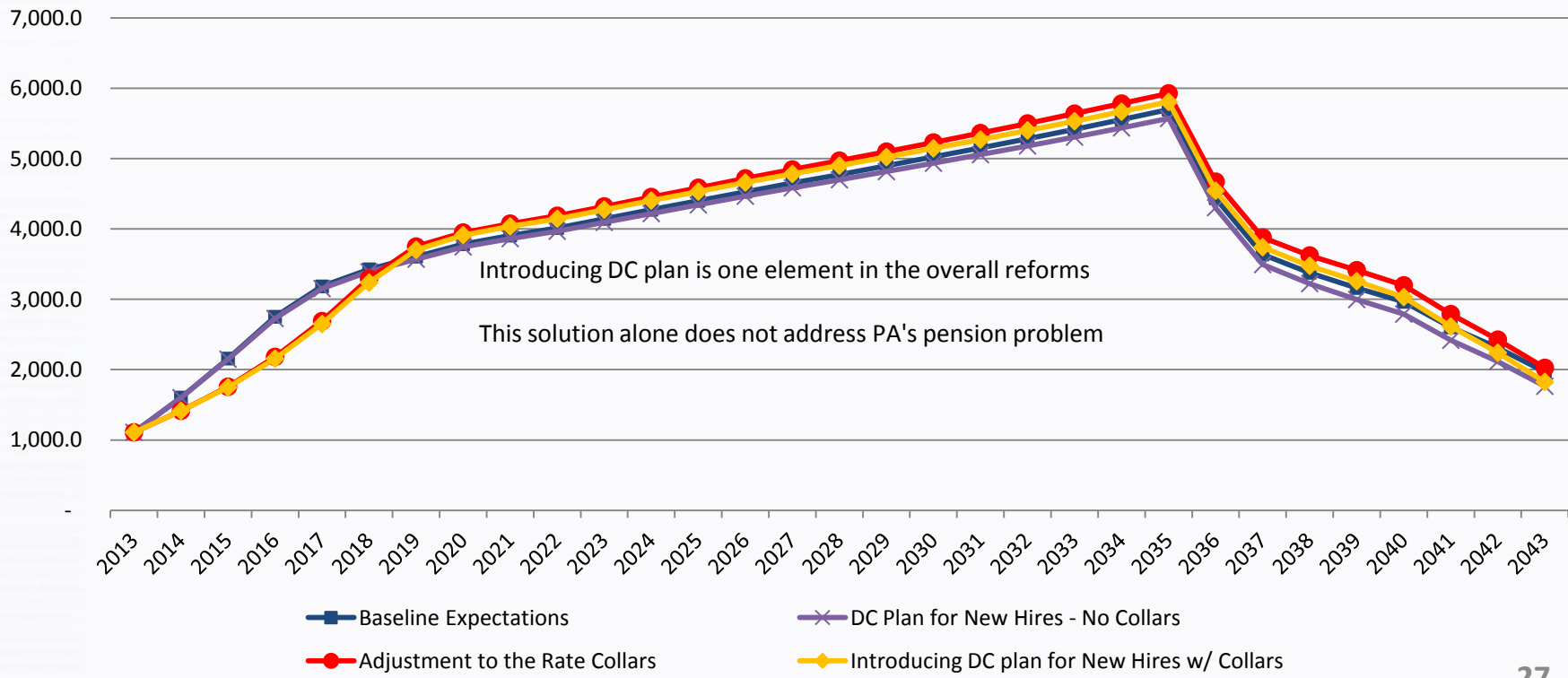
Contribution Rates PSERS with Collars and DC Plan

PSERS: Blended Contribution Rates as Percent of Payroll



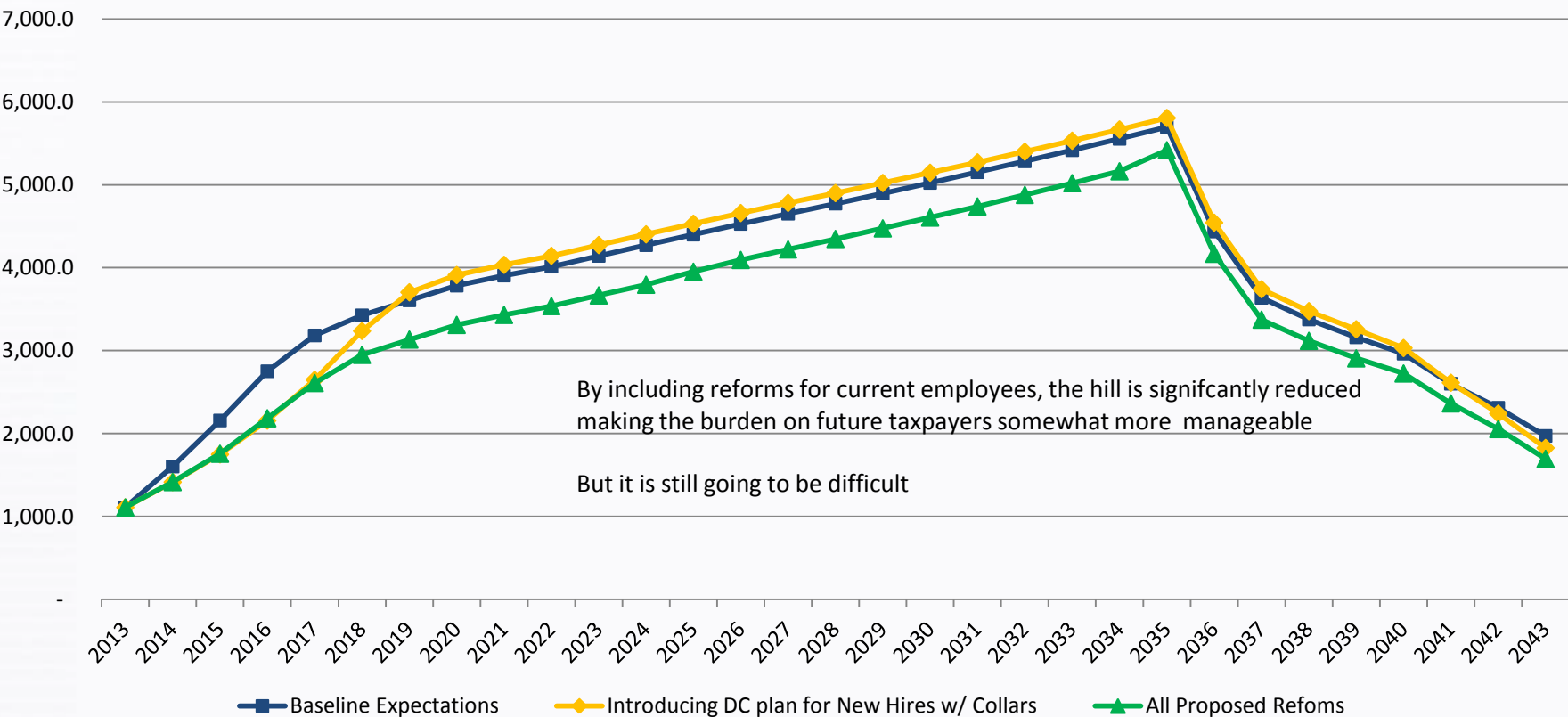
Collar Adjustment Plus DC Plan for New Employees

SERS+PSERS: Projected Contribution Dollars Payable From General Fund
(41.4% of SERS contributions and nearly 60% of PSERS)
(Amounts in Millions)



Collar Adjustment Plus Changes to New and Current Employees

SERS+PSERS: Projected Contribution Dollars Payable From General Fund
(41.4% of SERS contributions and nearly 60% of PSERS)
(Amounts in Millions)



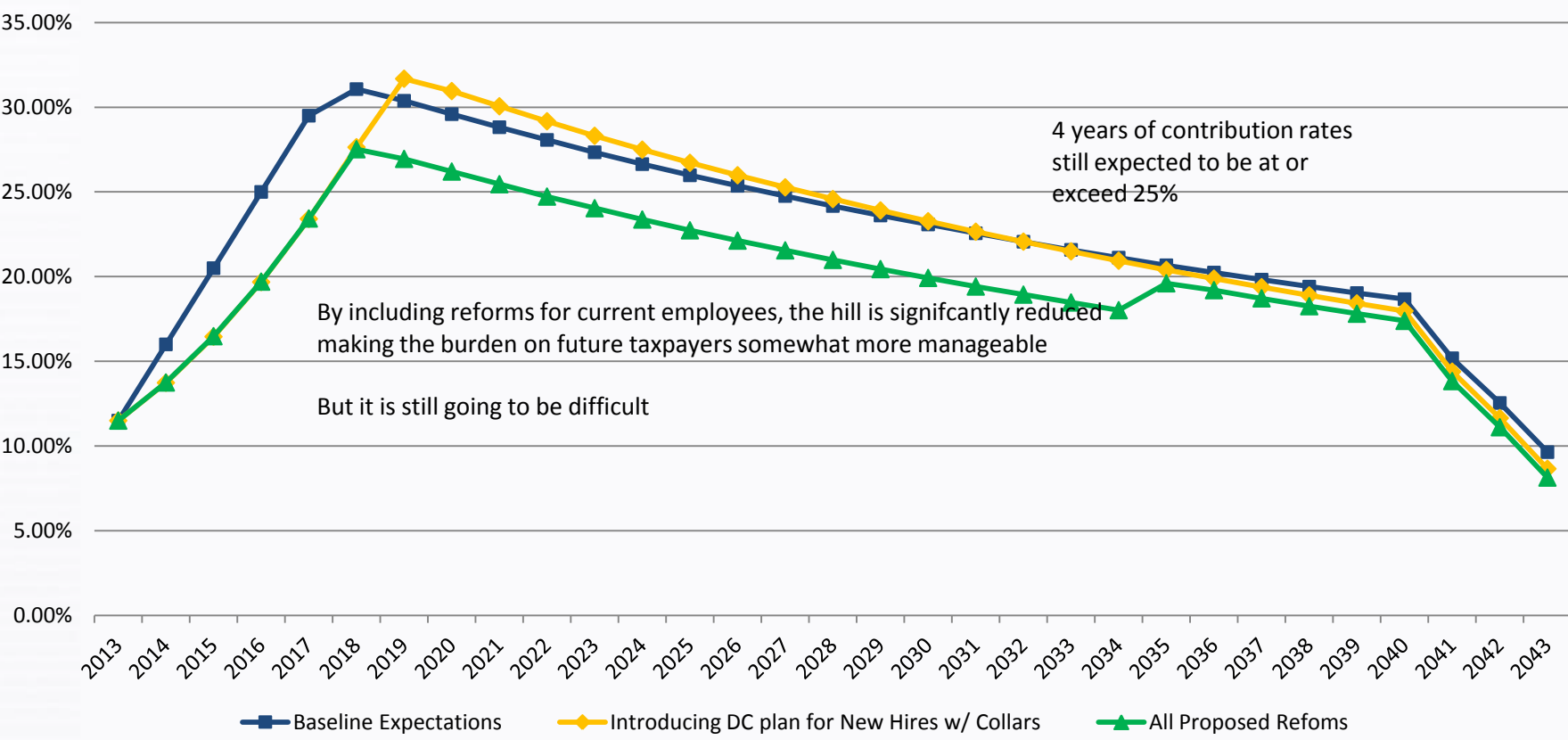
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Contribution Rates SERS- DC Plan for New Employees and All Reforms for Current

SERS: Blended Contribution Rates as Percent of Payroll

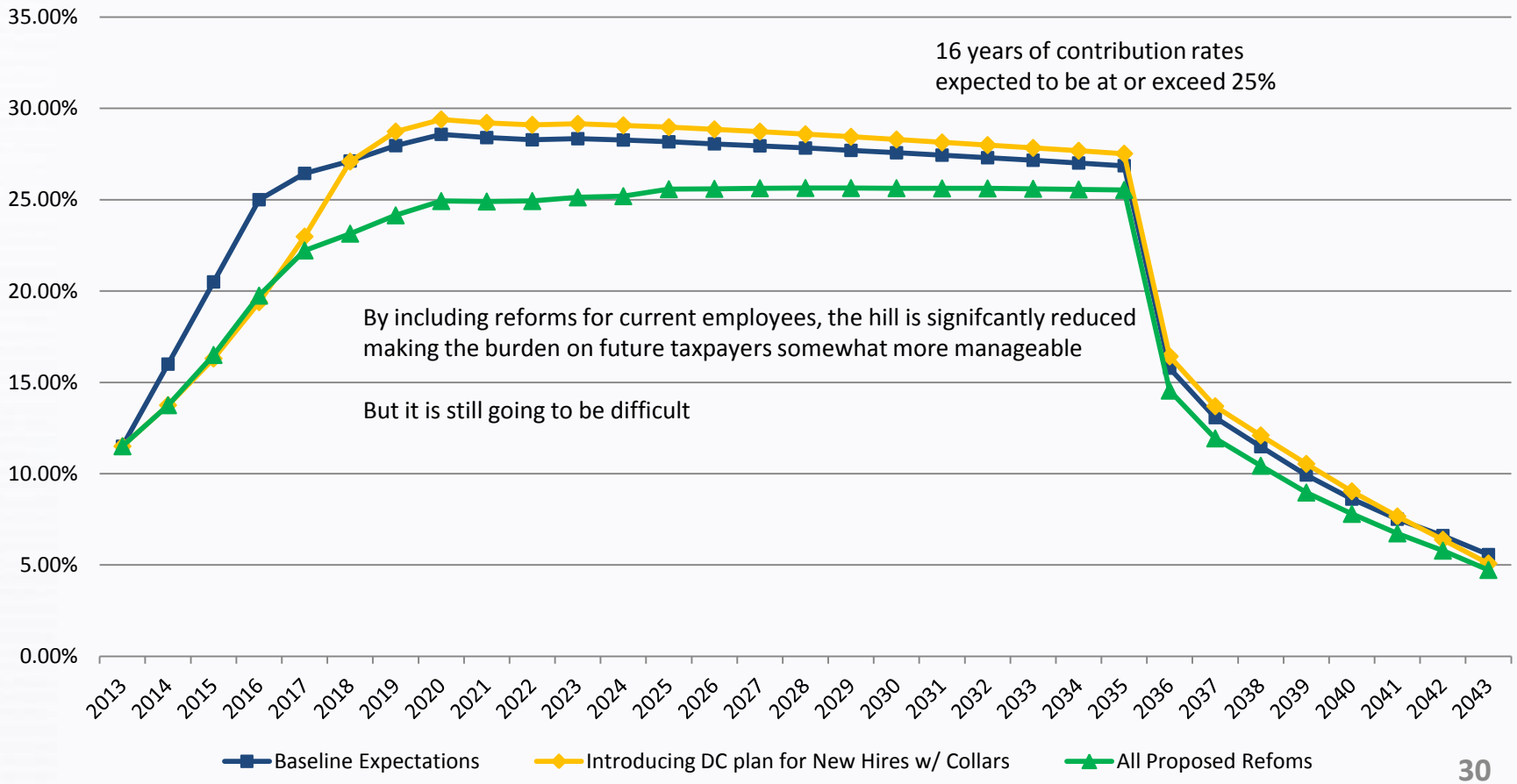


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Contribution Rates PSERS- DC Plan for New and All Reforms for Current Employees

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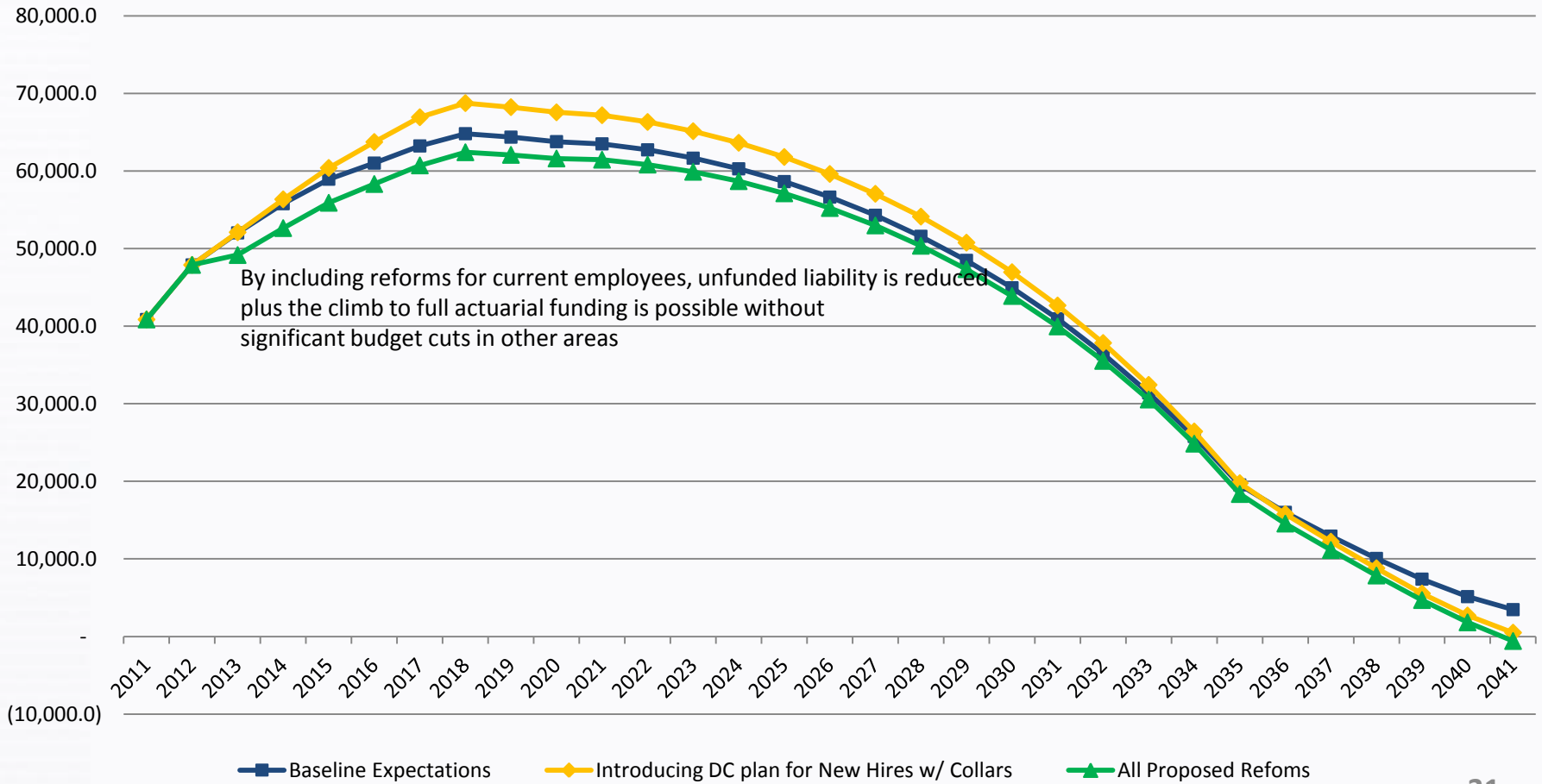
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UAL Comparison- DC Plan for New and All Reforms for Current Employees

SERS+PSERS: Unfunded Liability
(Amounts in Millions)



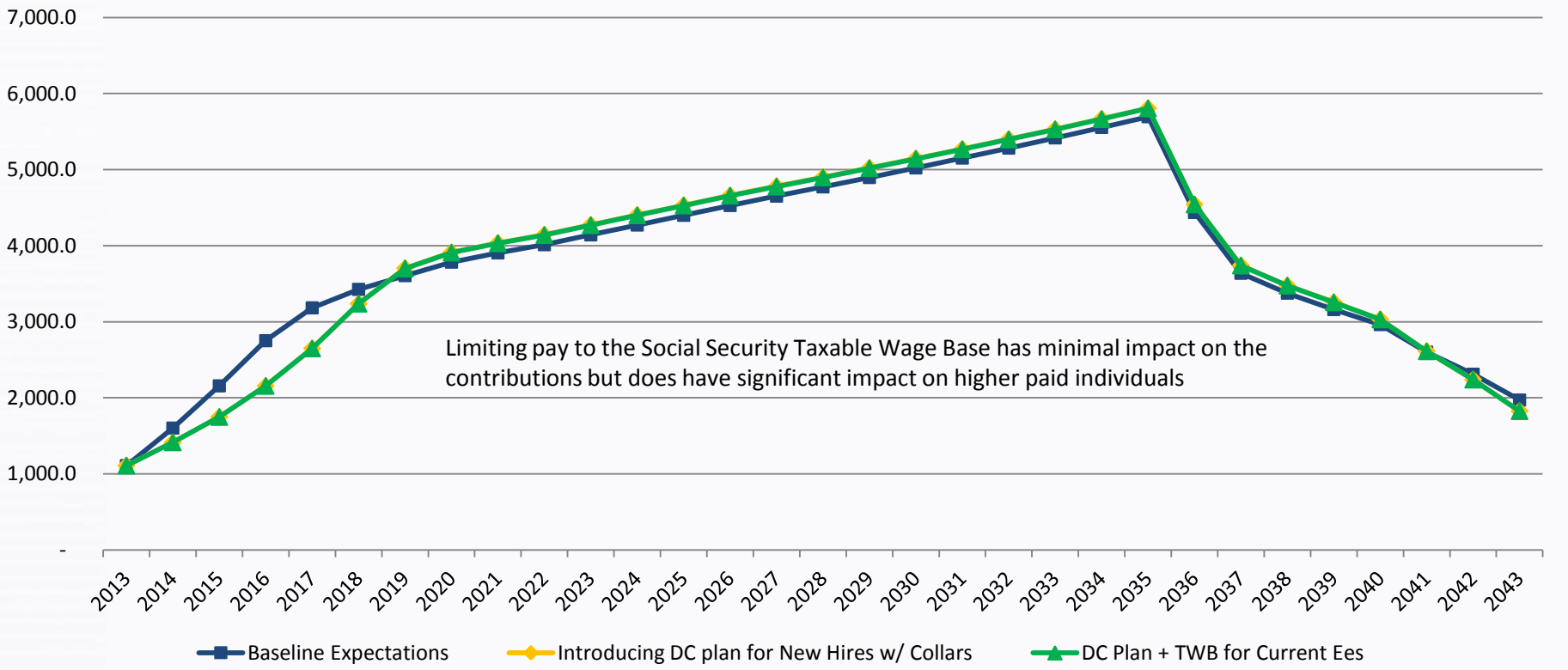
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Collar Adjustment Plus DC Plan for New Employees and TWB for Current Employees

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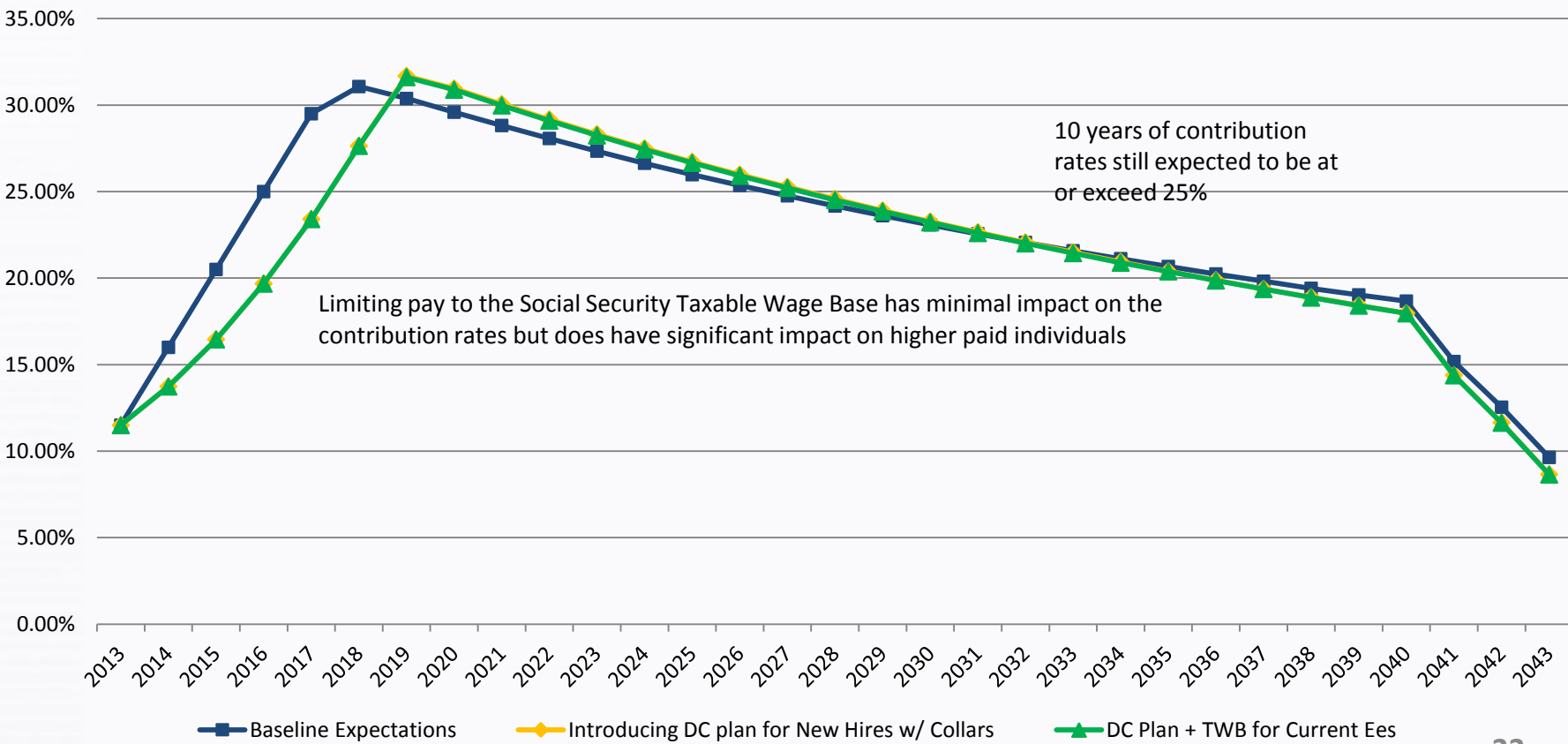
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Contribution Rates SERS-DC Plan for New and TWB for Current Employees

SERS: Blended Contribution Rates as Percent of Payroll

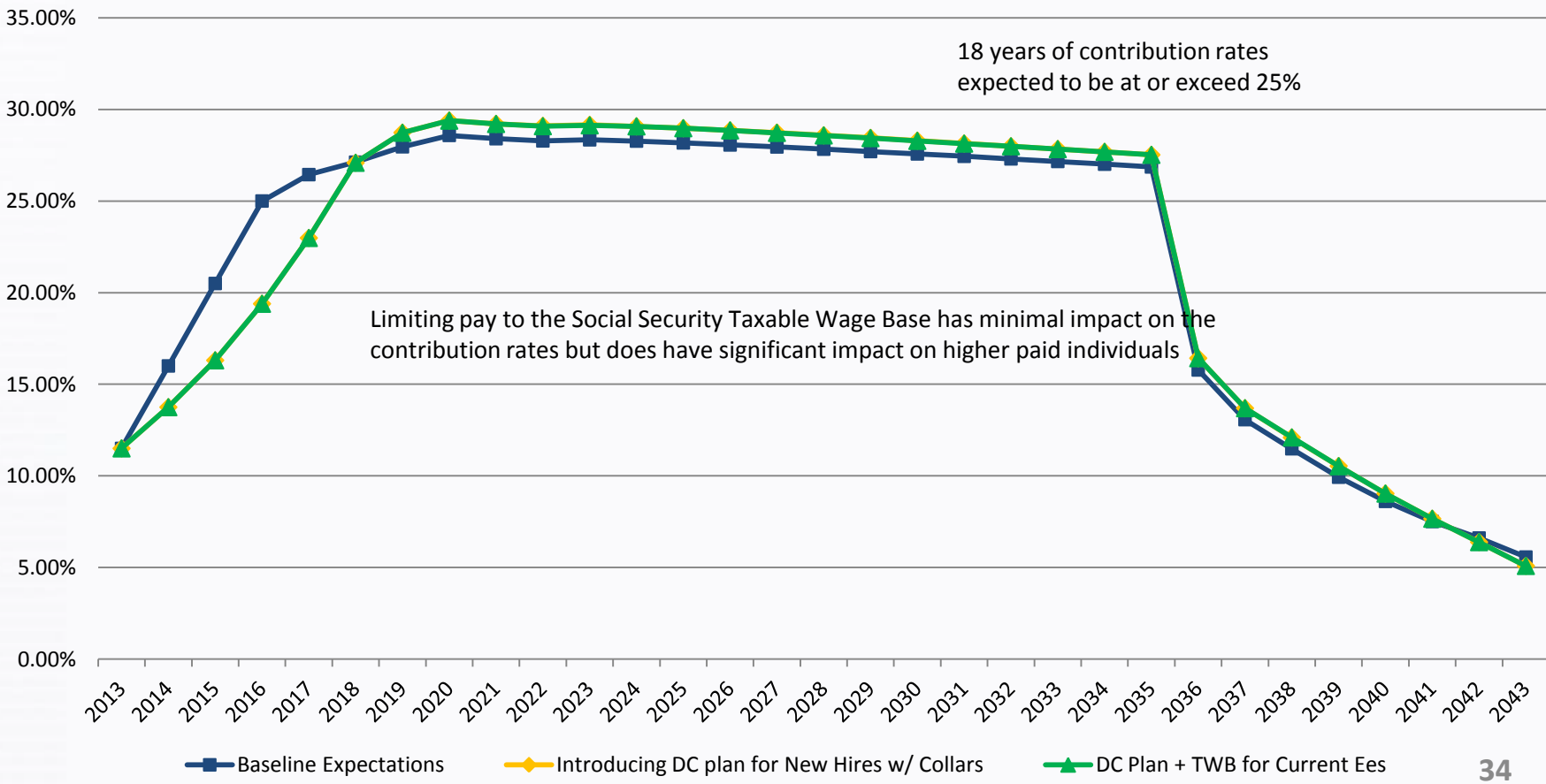


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Contribution Rates PSERS- DC Plan for New and TWB for Current Employees

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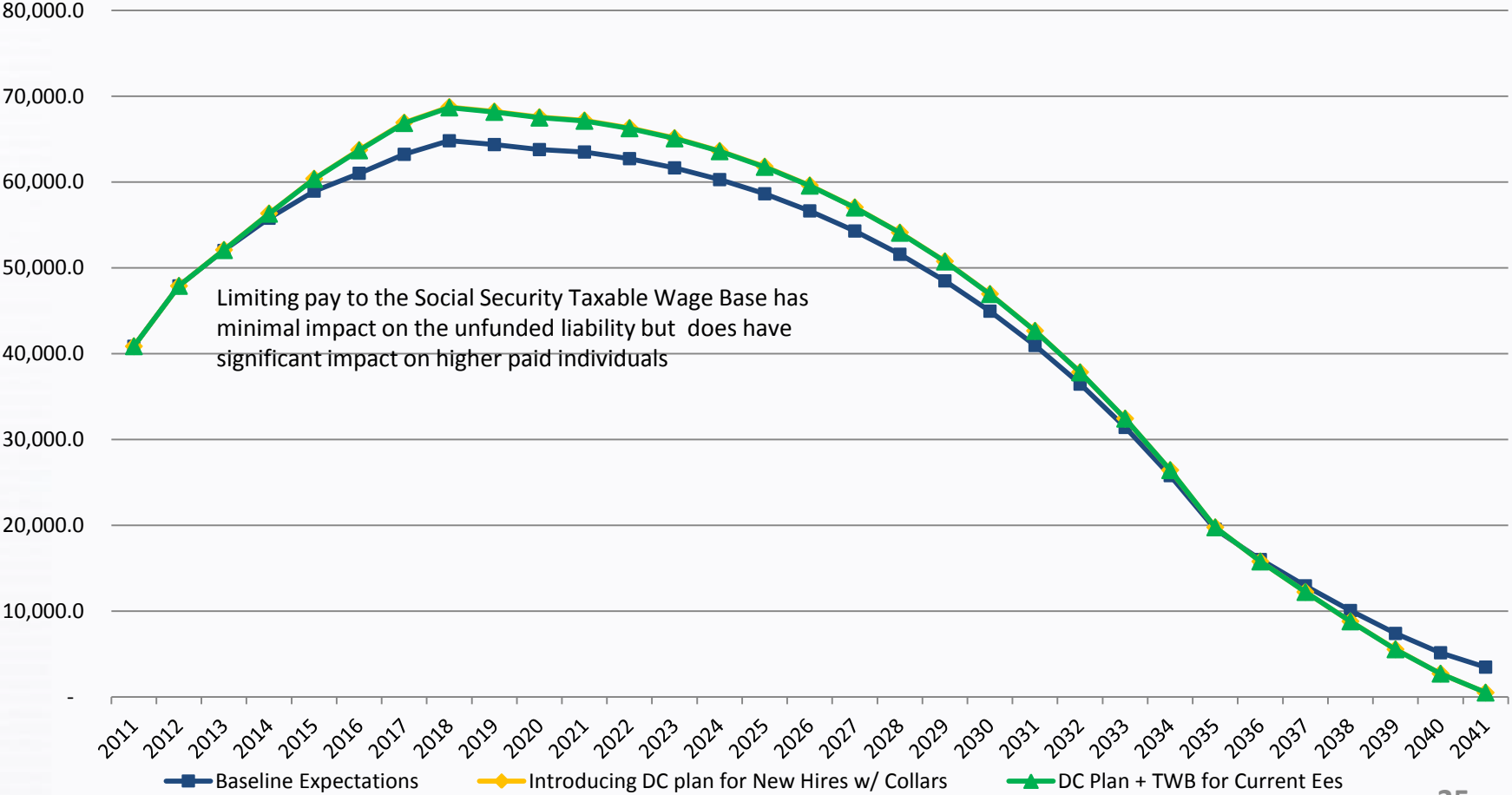
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UAL Collar Comparison- DC Plan for New and

TWB for Current Employees

SERS+PSERS: Unfunded Liability

(Amounts in Millions)



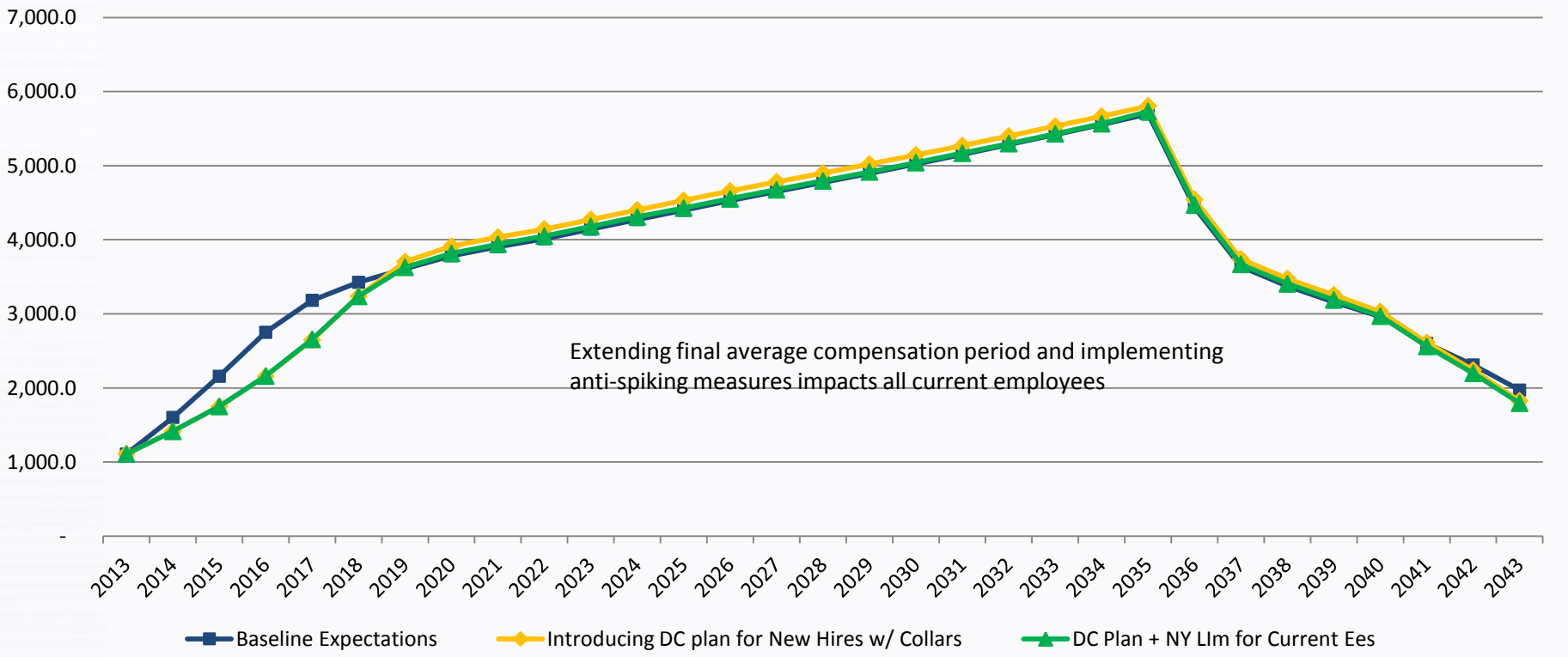
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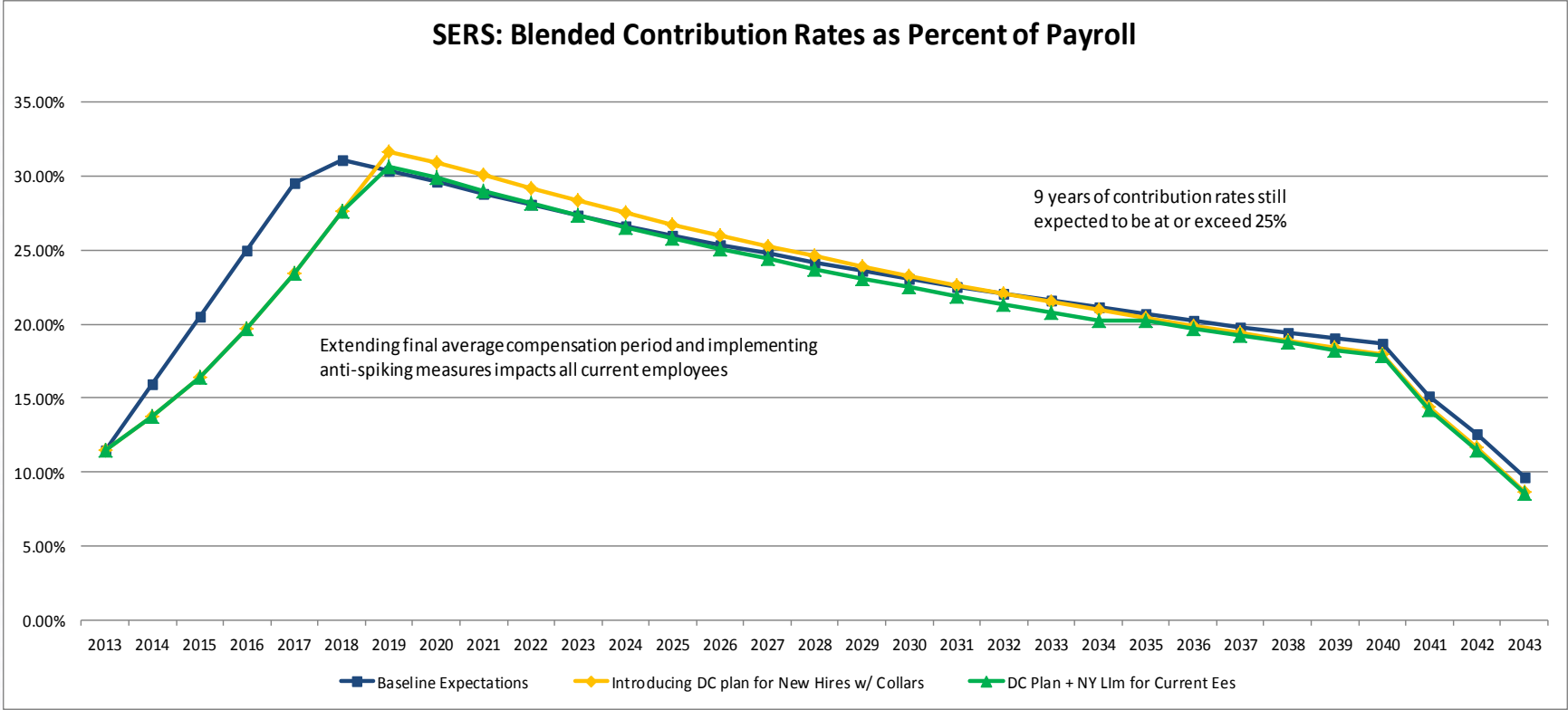
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Collar Adjustment Plus DC Plan for New Employees and NY Style Limit for Current Employees

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(Amounts in Millions)



Contribution Rates SERS- DC Plan for New Employees and NY Style Limit for Current

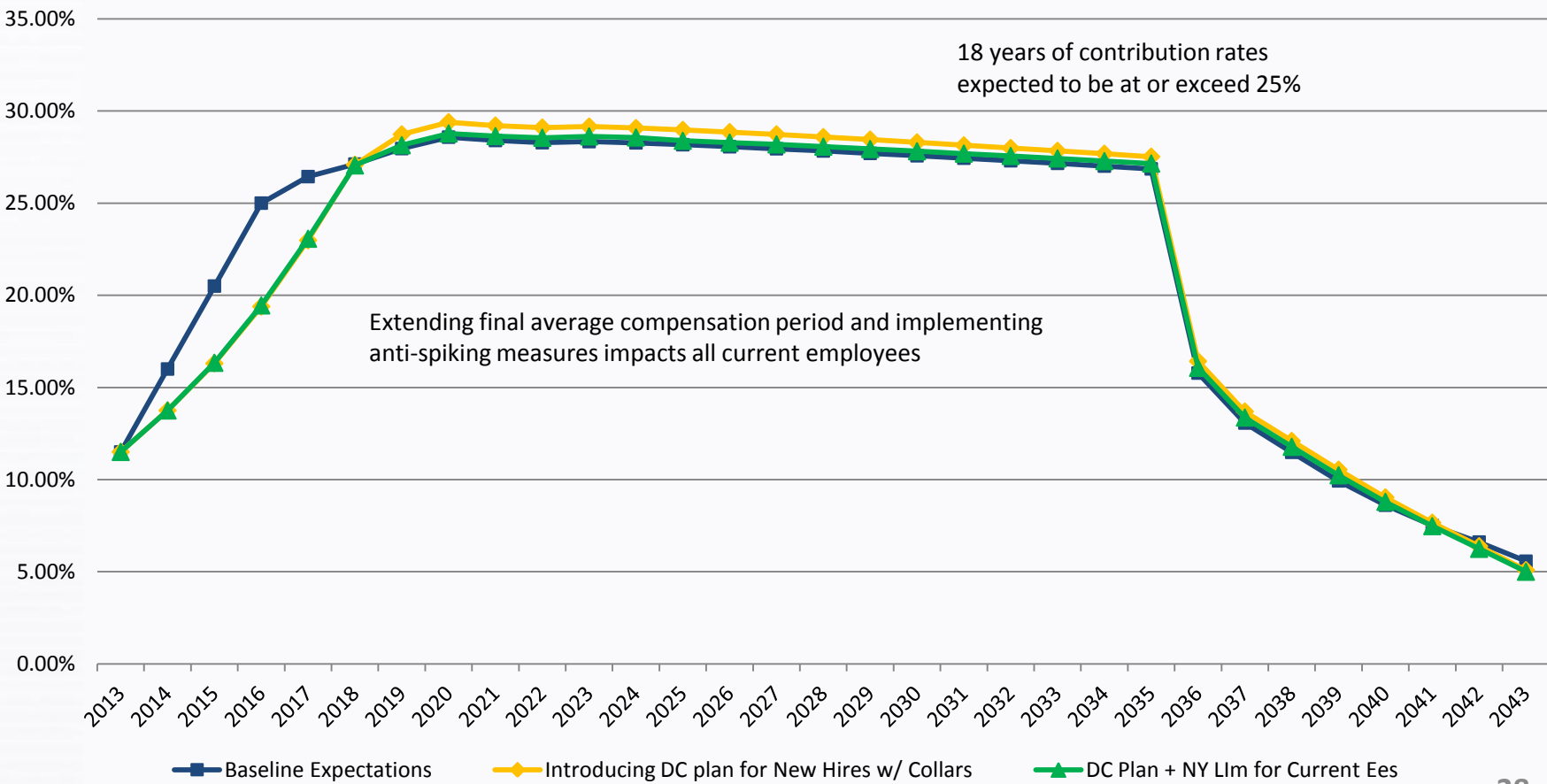


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Contribution Rates PSERS- DC Plan for New Employees and NY Style Limit for Current PSERS: Blended Contribution Rates as Percent of Payroll

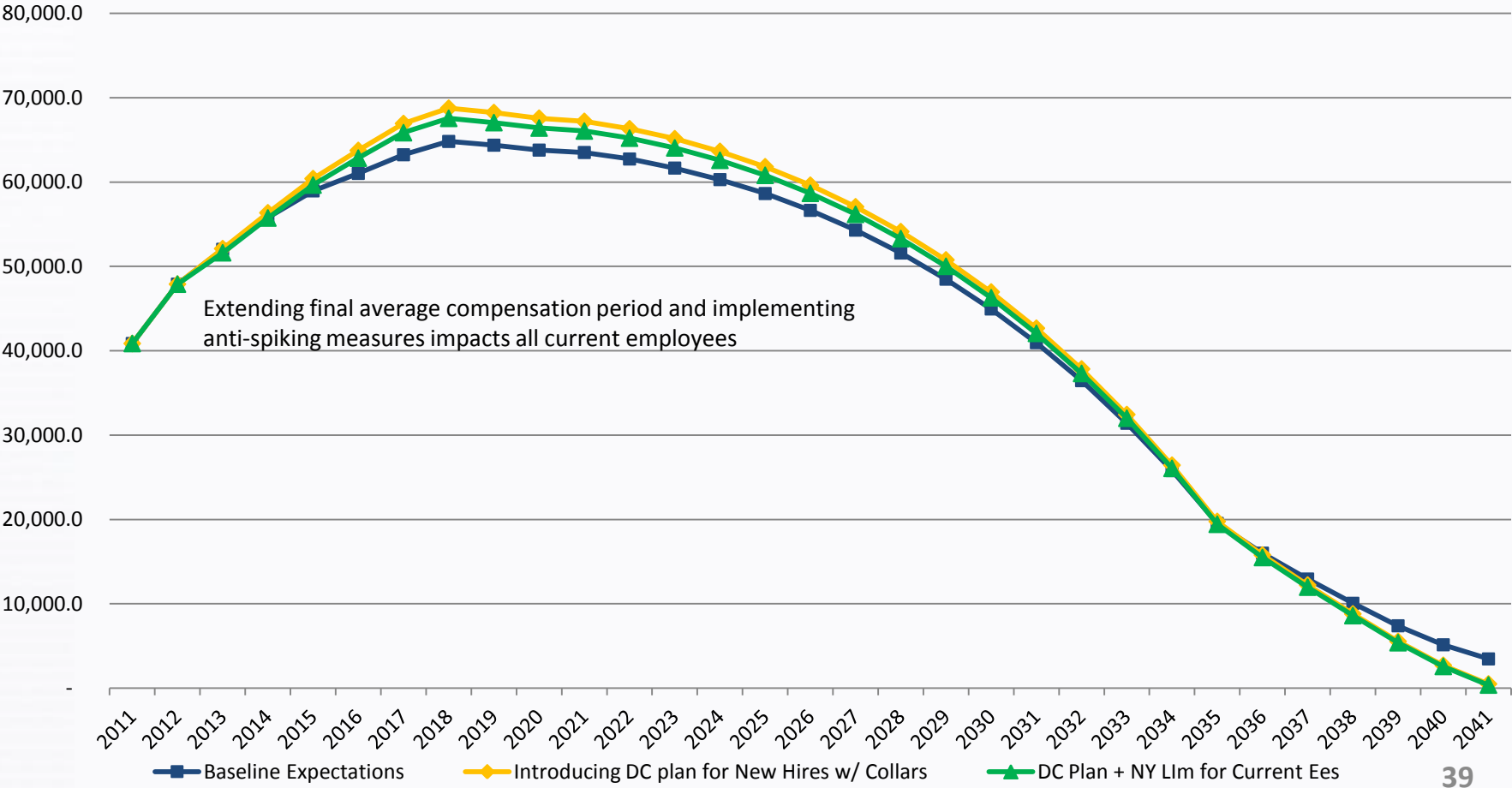


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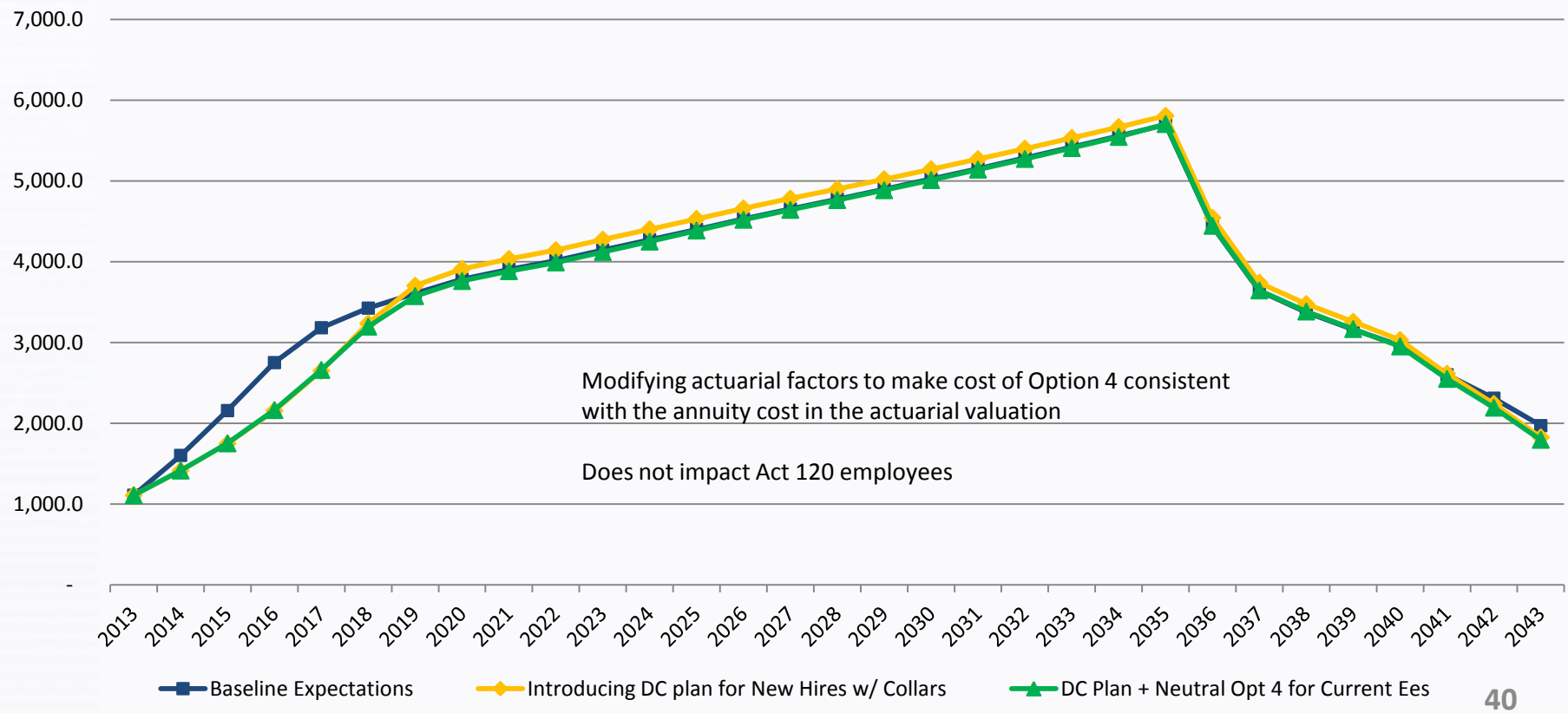
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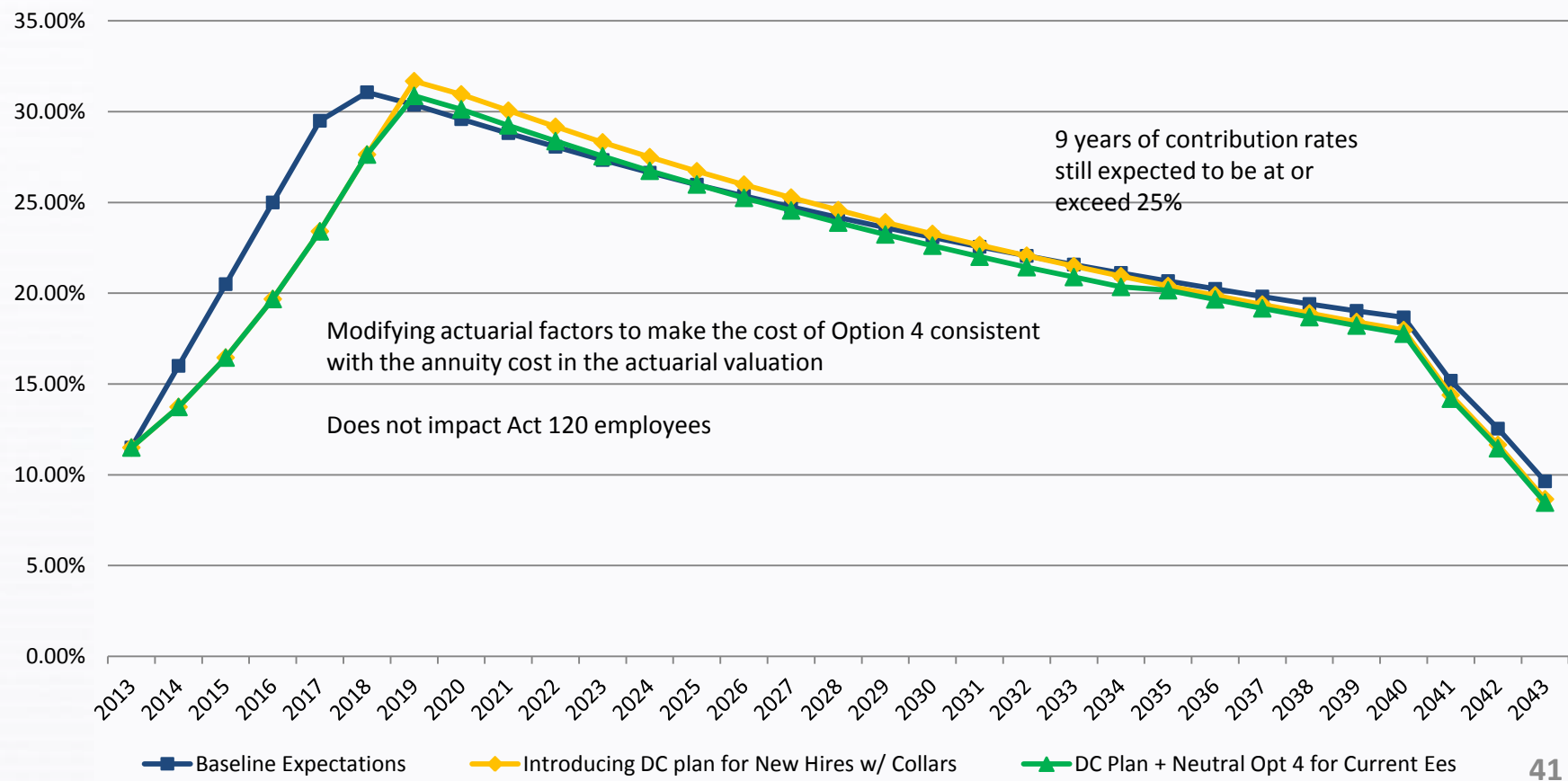
Collar Adjustment Plus DC Plan for New Employees and Neutral Option 4 for Current Employees

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Contribution Rates SERS-DC Plan for New and Neutral Option 4 for Current Employees

SERS: Blended Contribution Rates as Percent of Payroll

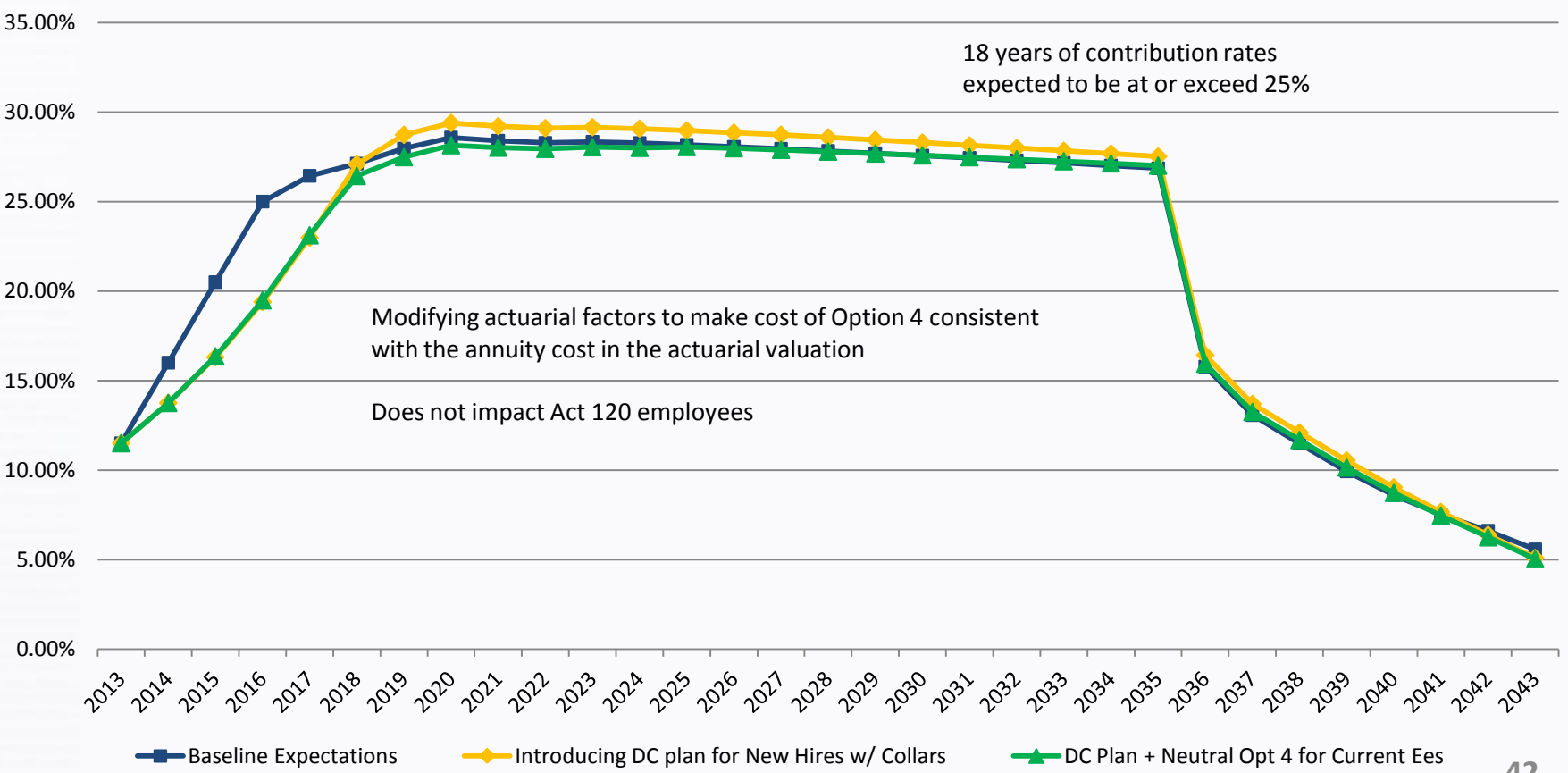


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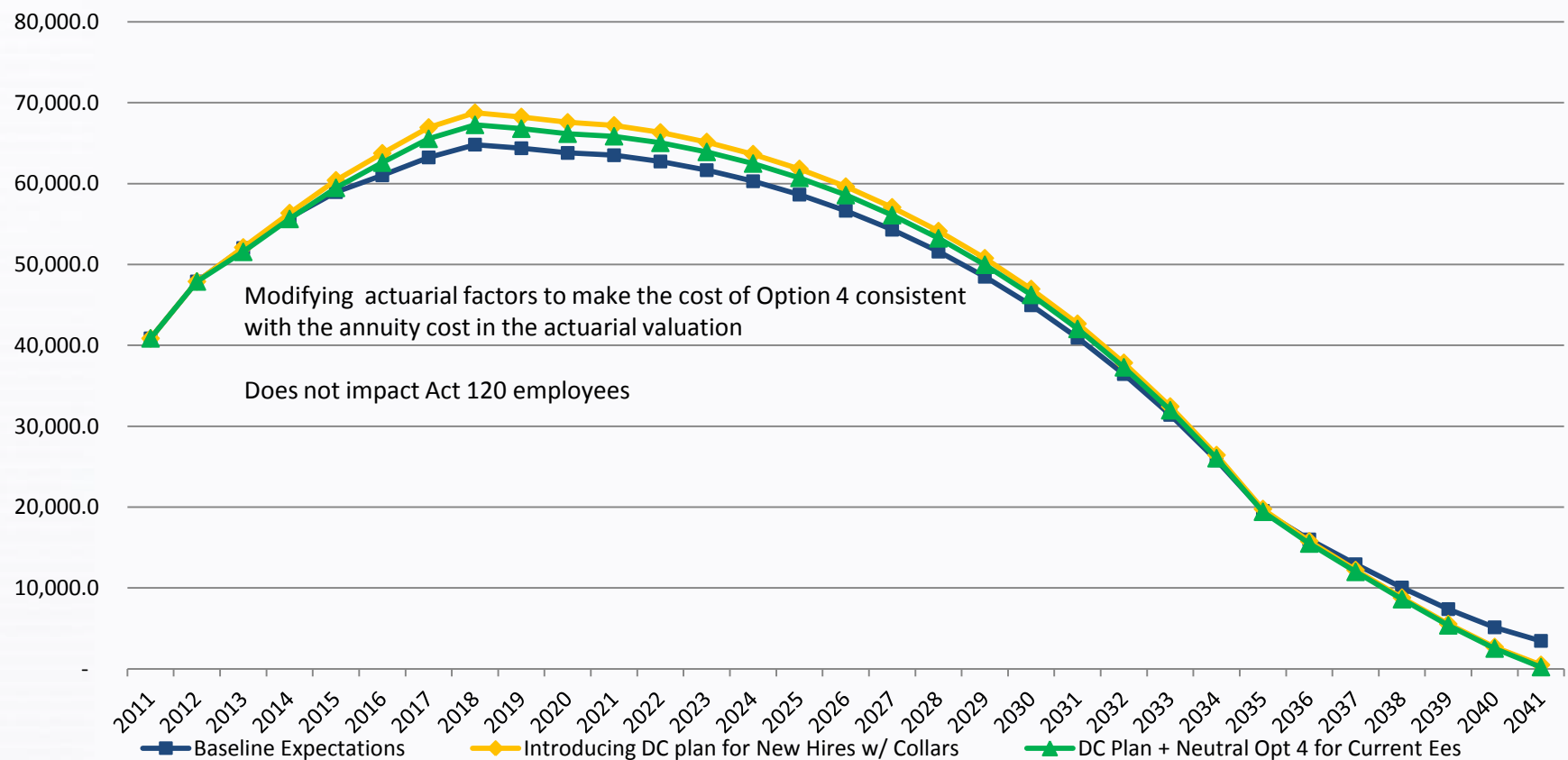


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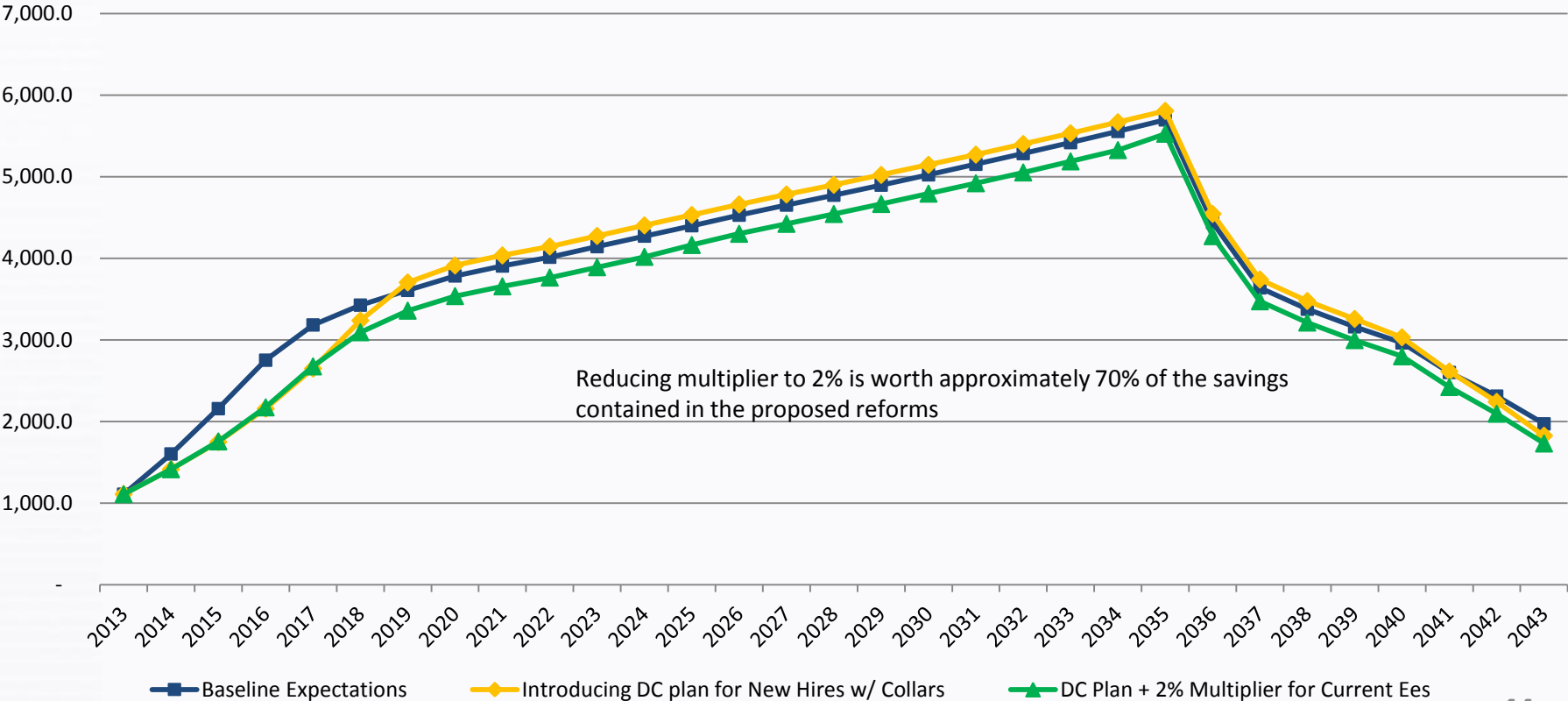
UAL Collar Comparison- DC Plan for New and Neutral Option 4 for Current Employees

SERS+PSERS: Unfunded Liability
(Amounts in Millions)



Collar Adjustment Plus DC Plan for New Employees and Multiplier Change for Current Employees

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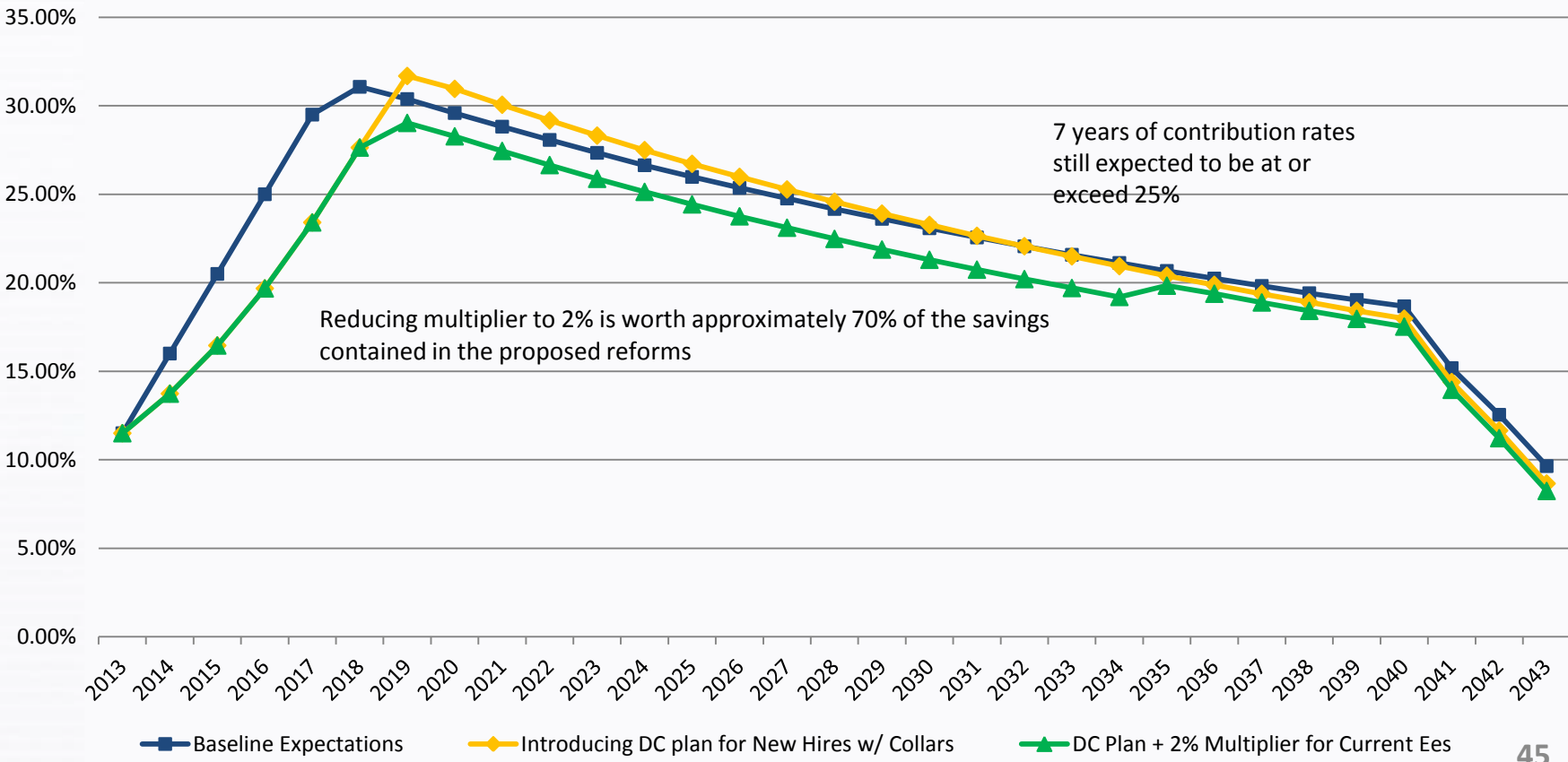
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Contribution Rates SERS-DC Plan for New and Multiplier Reduction for Current Employees

SERS: Blended Contribution Rates as Percent of Payroll

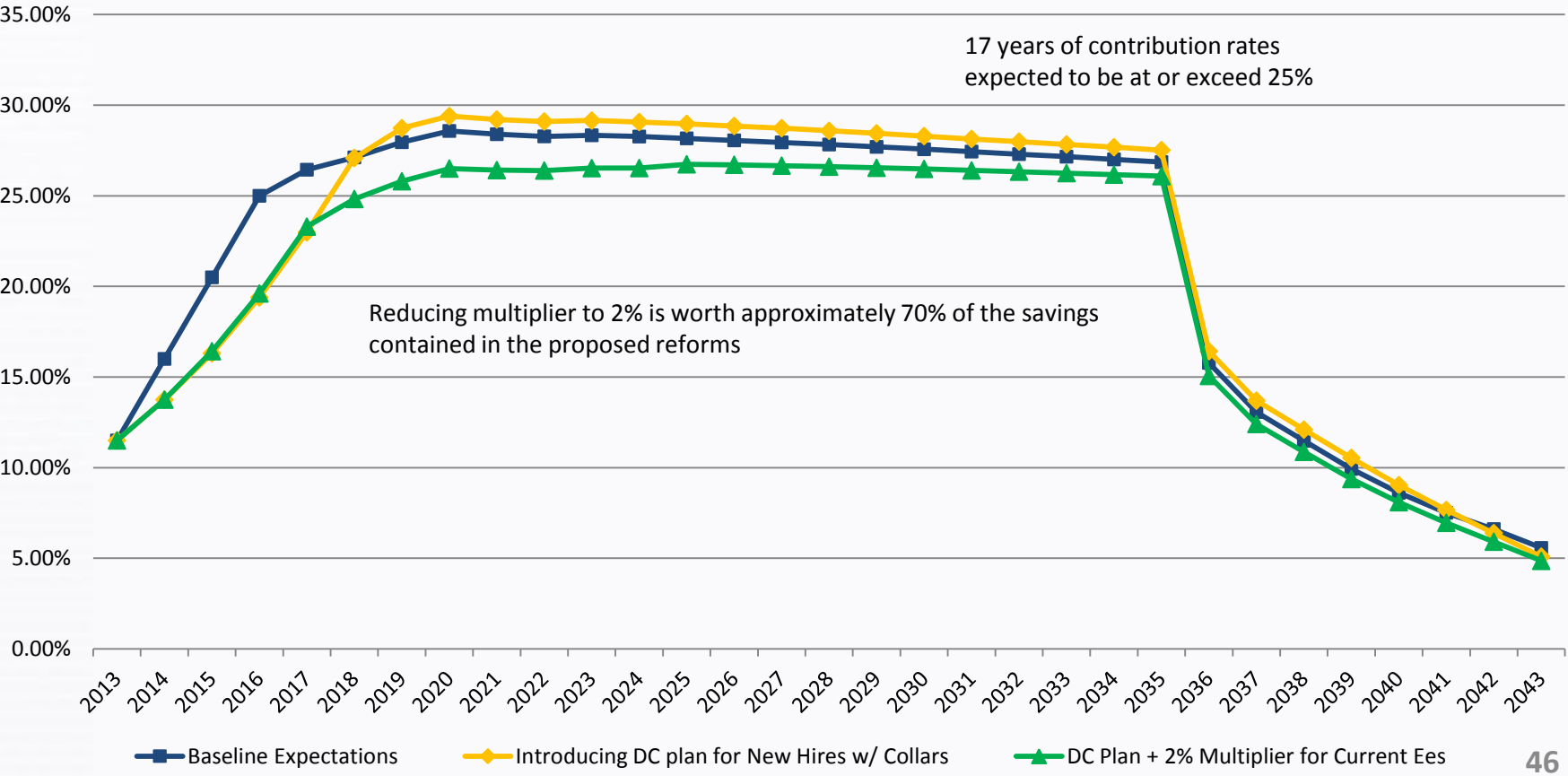


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Contribution Rates PSERS- DC Plan for New
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PSERS: Blended Contribution Rates as Percent of Payroll

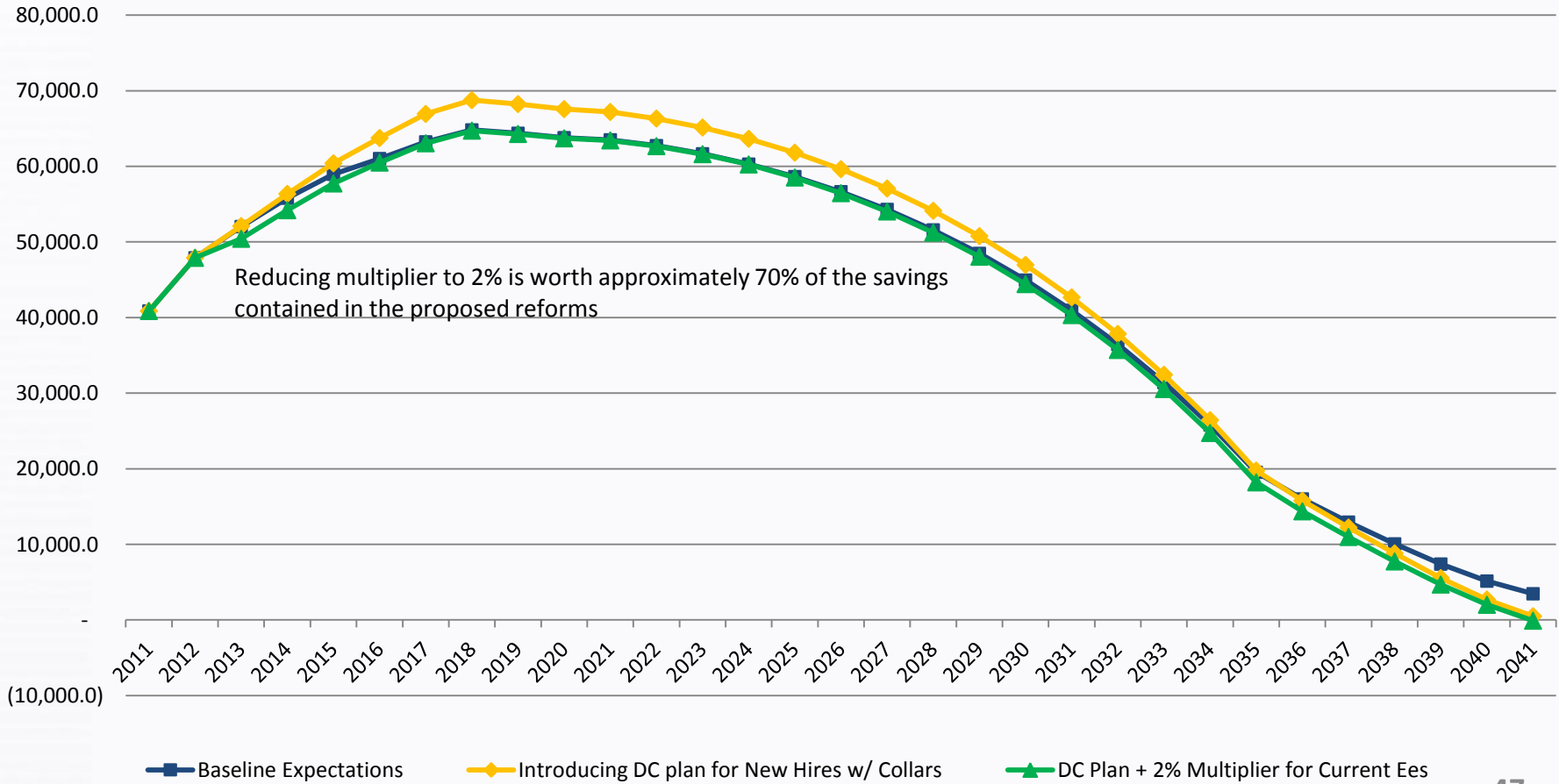


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UAL Collar Comparison- DC Plan for New and Multiplier reduction for Current Employees

SERS+PSERS: Unfunded Liability
(Amounts in Millions)



Five-Year Summary Impact of Various Proposed Reforms

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
	Difference in Expected General Fund Dollars due to Indicated Reform				
	(\$ Amounts In Millions - negative numbers represent "savings")				
	PSERS (Amounts represent about 57% - 60% of total contribution dollars)				
Tapering of Collars	(129.3)	(293.3)	(425.0)	(321.5)	(33.6)
Defined Contribution Plan for New Employees					
4% ER Contribution Rate - Eff July 2014	0.0	(7.2)	(22.6)	(38.1)	(53.6)
Current Employee Reforms					
Taxable Wage Base Limit	0.0	0.0	0.1	0.1	0.1
NY Style Limit & 5-year Final Earnings	0.0	1.9	4.4	7.1	(0.4)
Neutral Option 4	0.0	3.0	7.1	11.2	(40.6)
Reduce Multiplier from 2.5% to 2%	0.0	7.2	16.6	26.1	(143.8)
Combined (will not add due to interaction of changes)	0.0	11.6	27.0	(40.5)	(284.9)
All Changes	(129.3)	(288.9)	(420.6)	(400.1)	(372.1)
All Changes - DC 2015	(129.3)	(293.3)	(420.3)	(399.7)	(371.7)
	SERS (Amounts represent 41.4% of total contribution dollars)				
Tapering of Collars	(58.2)	(107.1)	(145.4)	(171.9)	(98.3)
Defined Contribution Plan for New Employees					
4% ER Contribution Rate - Eff Jan 2014	(0.4)	(1.2)	(1.9)	(2.6)	(3.3)
Current Employee Reforms					
Taxable Wage Base Limit	0.0	0.0	0.0	0.0	0.0
NY Style Limit & 5-year Final Earnings	0.0	0.0	0.0	0.0	0.0
Neutral Option 4	0.0	0.0	0.0	0.0	0.0
Reduce Multiplier from 2.5% to 2%	0.0	0.0	0.0	0.0	0.0
Combined (will not add due to interaction of changes)	0.0	0.0	0.0	0.0	0.0
Reduce multiplier for JUD, LEG and STP	0.0	0.0	0.0	0.0	(3.2)
All Changes	(58.6)	(108.3)	(147.3)	(174.5)	(104.8)
All Changes - DC 2015	(58.2)	(107.6)	(146.7)	(173.9)	(105.1)
SERS + PSERS All Changes - DC 2015	(187.5)	(400.9)	(567.0)	(573.6)	(476.8)

Thirty-Year Summary Impact of Various Proposed Reforms

	5 Years Thru FY 2018	Next 5 Years FY 2019 - 2023	Next 10 Years FY 2024 - 2033	Next 10 Years FY 2034 - 2043	30-Year Totals Thru FY 2043
Difference in Expected General Fund Dollars due to Indicated Reform					
(\$ Amounts In Millions - negative numbers represent "savings")					
PSERS (Amounts represent about 57% - 60% of total contribution dollars)					
Tapering of Collars	(1,202.7)	539.3	1,425.0	1,465.5	2,227.1
Defined Contribution Plan for New Employees 4% ER Contribution Rate - Eff July 2014	(121.5)	(116.7)	(318.1)	(625.8)	(1,182.1)
Current Employee Reforms					
Taxable Wage Base Limit	0.3	(6.4)	(9.5)	(3.2)	(18.8)
NY Style Limit & 5-year Final Earnings	13.0	(285.4)	(691.9)	(534.5)	(1,498.8)
Neutral Option 4	(19.3)	(608.8)	(1,085.1)	(684.3)	(2,397.5)
Reduce Multiplier from 2.5% to 2%	(93.9)	(1,442.5)	(2,719.6)	(2,017.1)	(6,273.1)
Combined (will not add due to interaction of changes)	(286.8)	(2,247.1)	(4,039.7)	(2,738.8)	(9,312.4)
All Changes	(1,611.0)	(1,824.5)	(2,932.8)	(1,899.1)	(8,267.4)
All Changes - DC 2015	(1,614.3)	(1,820.3)	(2,931.4)	(1,905.6)	(8,271.6)
SERS (Amounts represent 41.4% of total contribution dollars)					
Tapering of Collars	(580.9)	289.9	579.0	560.3	848.3
Defined Contribution Plan for New Employees 4% ER Contribution Rate - Eff Jan 2014	(9.4)	(95.1)	(437.5)	(906.3)	(1,448.3)
Current Employee Reforms					
Taxable Wage Base Limit	0.0	(11.8)	(23.8)	(9.0)	(44.6)
NY Style Limit & 5-year Final Earnings	0.0	(171.1)	(341.8)	(111.1)	(624.0)
Neutral Option 4	0.0	(131.1)	(284.7)	(137.9)	(553.7)
Reduce Multiplier from 2.5% to 2%	0.0	(422.3)	(865.0)	(334.3)	(1,621.6)
Combined (will not add due to interaction of changes)	0.0	(689.5)	(1,368.0)	(442.9)	(2,500.4)
Reduce multiplier for JUD, LEG and STP	(3.2)	(55.5)	(108.1)	(32.4)	(199.2)
All Changes	(593.5)	(550.2)	(1,334.6)	(821.3)	(3,299.6)
All Changes - DC 2015	(591.5)	(551.4)	(1,338.8)	(817.0)	(3,298.7)
SERS + PSERS All Changes - DC 2015	(2,205.8)	(2,371.7)	(4,270.2)	(2,722.6)	(11,570.3)