

Pension Reform Proposals



PAPERS CONFERENCE

MAY 2014

Starting Point: PA's Two Pension Plans



SERS

- 229,908 state employees
- 106,152 active
- 117,061 retired
- \$25.3 billion in assets
- \$2.5 billion paid/year

Numbers reported by SERS in February 2013

PSERS

- 597,805 public school employees
- 273,504 active
- 202,015 retired
- \$49.7 billion in assets
- \$6 billion paid/year

Numbers reported by PSERS in April 2013

Tensions



- Climbing Employer Contribution Rates
- Changes in the Private Sector – Migration to D.C.
- Investment Risk Paradigm
- Lack of Discipline to Pay ARC

Corbett/Kampf/Ross/Brubaker (2013)



- Defined Contribution Plan for New Employees
- Prospective Plan Changes for Current Employees
- Rate Collar Tapering – 4.5% to 2.25%

Reaction to the 2013 Plan



- Legal Issue with the Prospective Changes
 - PA Constitution – Article 1, Section 17
- “Transition Costs” – “Closing” DB Plan
- Conflict in Actuarial Analysis
 - Buck
 - Hay
 - Milliman
 - PERC

Corbett - 2014



- Budget Address - February
- Challenge to Enact Reform – No Specific Plan
- Objective: Save \$170 Million in 2014-15 GF Budget and \$130 Million Savings to Districts

Legislative Reactions to Corbett 2014 Plan



- Brubaker/Browne Bill – Plan Still Alive
- Tobash – “Side-by-Side Hybrid”
- Grell – “Three Buckets Plan”
- Senate Democrats – Borrowing
- House Democrats – “Let Act 120 Work”
- Gubernatorial Candidates – No Crisis

Tobash Plan Details



- New Employees Would Be Enrolled in a Hybrid Plan

Defined Benefit

- 2 percent accrual rate
- Employee contribution of 6 percent
- Lifetime final average salary calculation capped at \$50,000
- DB is fully earned after 25 years of service



Defined Contribution

- Employee contribution of 1 percent and employer contribution of 0.5 percent on all compensation up to \$50,000
- Employee contribution of 7 percent and employer contribution of 4 percent over \$50,000
- Employee contributions vest immediately and 3-year vesting of employer contributions

- PERC Actuarial Analysis Pending

Three Buckets Plan



Future Employees

- New Cash Balance Plan
 - Employee Contribution – 7%
 - Employer Contribution – 4 to 5%
 - Guaranteed Return – 4%
- Savings - \$7 to \$10 Billion



Past Underfunding

- General Fund borrows \$9 billion to make up for 10 year underfunding
- Savings - \$15 Billion



Current Members

- Agree to modest plan changes:
 - Lump sum option modification
 - 5-year final avg. salary
- Receive a reduction in their employee contribution rate
- Net Savings - \$15 Billion

The Clock Is Ticking



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A bright yellow sunburst graphic with many sharp rays emanating from a central point, set against a light blue background.

THANK YOU

I Welcome Your Questions

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