



# Senate Finance Committee

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## BILL SUMMARY

**Legislation:** Senate Bill 922, P.N. 1079  
**Sponsor:** Senator Brubaker  
**Act Amended:** Titles 24 (Education), 51 (Military Affairs) and 71 (State Government) of the Pennsylvania Consolidated Statutes  
**Topic:** Pension Reform  
**Date:** June 19, 2013

### Summary:

Senate Bill 922 amends Titles 24 (Education), 51 (Military Affairs) and 71 (State Government) of the Pennsylvania Consolidated Statutes to implement comprehensive pension reform that would affect both future and current employees.

In regards to changes for new employees, Senate Bill 922 creates a Defined Contribution (DC) pension system for new hires effective 1/1/15 for the State Employees Retirement System (SERS) and 7/1/15 for the Public School Employees' Retirement System (PSERS).

For current employees, beginning on 1/1/15 for SERS and 7/1/15 for PSERS, Senate Bill 922 reduces future benefits by making the following changes:

- Reducing the pension multiplier by .5% for all employees earning above 2.0 level. Employees do have the option to "buy-up" to retain their current multiplier.
- Caps the pensionable income at the Social Security wage base, which for 2013 is \$113,700.
- Final average salary will be calculated based on the final five years of service, as opposed to the final three years of services as is currently done.
- Implements a "New York Style Limit", or a maximum of 100% of an employee's salary over a four year period.
- Actuarial Factors will be modified to make the cost of a lump sum withdrawal consistent with the annuity cost in the actuarial valuation.

Senate Bill 922 does not impact current retirees in any way.

### Analysis

#### Collar Adjustment

Senate Bill 922 makes adjustments to the collar schedule for the next five years and employer contribution rates would be based on the total Defined Benefit (DB) system and Defined Contribution (DC) plan appropriation payroll.

Additionally, the bill reduces the rate of increase in the collars from 4.5% for FY 2013-14 to 2.25%. The collars would increase by 0.5% each year thereafter until reaching the original 4.5% level.

### **Defined Contribution Plan**

Effective 1/1/15 for SERS and 7/1/15 for PSERS, new hires will be automatically enrolled in a 401(a) retirement plan, a type of DC plan for public sector employees. Participation in the DC plan for both SERS and PSERS members shall be mandatory unless employee is in a position that currently allows optional membership into the current DB plan. Mandatory membership will be consistent with current participation requirements for the DB plan.

Language concerning USERRA leave is consistent with Federal law (Senate Bill 797 and Senate Bill 798 were passed by the Senate on June 5, 2013 to bring PA into compliance with Federal Law. Language in SB 922 is consistent with the language passed in these two bills).

Participants in the DC plan may make voluntary contributions up to the limits permitted by IRC, which is presently capped at \$51,000 annually for 2013.

Any current employee who is a member of the DB plan may elect to become a participant in the DC plan through written notice to their respective board (SERS or PSERS). Election to become a participant in the DC plan is irrevocable and the employee shall remain a participant in the DC plan through all future service.

The Boards shall provide participants in the DC plan with a statement showing accumulated total defined contributions credited to the participant's individual investment account, the nature and type of investments, and the investment allocation of future contributions as of June 30<sup>th</sup> of the current year on or before December 31 of each year.

### **Vesting**

- During first and second year of service – 0%
- At and after second year of service – 50%
- At and after third year of service – 75%
- At and after the fourth year of service – 100%

### **Agreements with Financial Institutions**

The boards may enter into written agreements with one or more financial institutions relating to the plan's administration and investment of funds. Investor education options are provided for.

### **Contribution Rates**

Employer Contribution: 4% of an active participant's compensation (5.5% for hazardous duty; 12.2% for State Police)

Employee Contribution Rates:

PSERS: 7.5 %

SERS: 6.25%

### **PSERS**

The PSERS Board will administer and manage the DC plan for their members.

The School Employees' Defined Contribution Trust will be created and shall be comprised of the individual investment accounts and all assets and moneys in those accounts. The members of the board shall be the trustees of the trust, which shall be administered exclusively for the benefit of those school employees who participate in the plan and their beneficiaries within the meaning of and in conformity with IRC § 401(a).

## SERS

The SERS Board will administer and manage the DC plan for their members.

State Employees' Defined Contribution Trust will be created and shall be comprised of the individual investment accounts and all assets and moneys in those accounts. The members of the board shall be the trustees of the trust, which shall be administered exclusively for the benefit of those State employees who participate in the plan and their beneficiaries within the meaning of and in conformity with IRC § 401(a).

## **Changes to Current Employees' Future Benefits**

Senate Bill 922 reduces future benefits for current employees by making the following changes effective 1/1/15 for SERS and 7/1/15 for PSERS:

- Reducing the pension multiplier by .5% for all employees earning above 2.0 level. Employees do have the option to “buy-up” to retain their current multiplier. Buy-up rates would be in addition to the member’s current contribution rates.
- Caps the pensionable income at the Social Security wage base, which for 2013 is \$113,700.
- Final average salary will be calculated based on the final five years of service, as opposed to the final three years of services as is currently done.
- Implements a “New York Style Limit”, or a maximum of 100% of an employee’s salary over a four year period.
- Actuarial Factors will be modified to make the cost of a lump sum withdrawal consistent with the annuity cost in the actuarial valuation.

All branches of government, including legislative, executive, and judicial are contained in the reforms to future and current employees.

Milliman, the actuaries on contract for the Governor’s Budget Office, estimated the plan contained in Senate Bill 922 will save approximately \$12 billion over a 30 year period.

## Legal Considerations

Senate Bill 922 contains a provision allowing for a direct right of appeal to the Pennsylvania Supreme Court, which is designed to permit the Court to rule on the legality of the changes to the future benefits of current employees before those changes take effect. Additionally, the language calls for a panel of senior judges to be formed to review the merits of any potential legal challenge.