

**Synopsis of Pension Reform Legislation**  
**Act 120 of 2010 (House Bill Number 2497, Printer's Number 4476)**

Act 120 of 2010 was signed into law by the Governor on November 23, 2010, and implements major pension reforms affecting both the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS). The act mandates the establishment of new benefit tiers applicable to most new members of both PSERS and SERS, and modifies the actuarial funding requirements of both retirement systems.

The benefit changes mandated by Act 120 affect only individuals who first become members on or after July 1, 2011, in the case of PSERS, or on or after January 1, 2011, in the case of SERS. Current members of PSERS and SERS, including all current active members, members currently receiving retirement benefits, and members returning to service, are unaffected by the benefit changes mandated by the act.

**Benefit Changes Applicable to New Members of PSERS or SERS**

- Establishes a new class of membership in PSERS, known as "Class T-E." Any employee who becomes a member of the System after June 30, 2011, would become a member of Class T-E unless the member elects to become a member of the new optional membership class, known as "Class T-F." A Class T-E member would be eligible for an annuity based upon an annual benefit accrual rate of 2% and would have a corresponding employee contribution requirement equal to 7.5% of compensation.
- Establishes an optional new class of membership in PSERS, known as "Class T-F." Any employee who becomes a member of the System after June 30, 2011, would have the option of electing Class T-F membership within 45 days of becoming a member of the System. A Class T-F member would be eligible for an annuity based upon an annual benefit accrual rate of 2.5% and would have a corresponding employee contribution requirement equal to 10.3% of compensation.
- Establishes a new class of membership in SERS applicable to most new members (including members of the General Assembly), known as "Class A-3," requiring all new members of the System, other than a member employed in a position for which a class of service other than Class A or Class AA is credited or could be elected, to become a member of Class A-3 beginning January 1, 2011 (or if a member of the General Assembly, beginning December 1, 2010), including an employee who is not an active member of the System (because membership is optional or prohibited), but who becomes a member of the System on or after January 1, 2011, unless the member elects to become a member of the optional membership class known as "Class A-4." Class A-3 members would be eligible for an annuity based upon an annual benefit accrual rate of 2% and would have a corresponding employee contribution requirement of 6.25% of compensation.

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- Establishes an optional new class of membership in SERS, known as “Class A-4.” An employee who becomes a member of the System on or after January 1, 2011, would have the option of electing Class A-4 membership within 45 days of becoming a member of the System. A Class A-4 member would be eligible for an annuity based upon an annual benefit accrual rate of 2.5% and would have a corresponding employee contribution requirement equal to 9.3% of compensation.
- Increases the superannuation requirements for most new members to age 65 with a minimum of three years of service credit, or any combination of age and service that totals 92 and at least 35 years of credited service.
- Increases the vesting requirements for new members from 5 years to 10 years.
- Establishes a variable employee contribution rate applicable to new members, known as the “shared risk contribution rate,” that is tied to the investment performance of each System’s pension fund and would be added to the basic contribution rate of each membership class under certain conditions. For PSERS, beginning with the annual actuarial valuation performed for the period ending June 30, 2014, and for SERS, beginning with the December 31, 2013, valuation, and every 3 years thereafter, each System will compare the actual investment rate of return, net of fees, to the actuarial assumed rate of return for the previous 10-year period. If the actual rate of return is less than the assumed rate by 1% or more, the total member contribution rate will increase by ½% per year, up to a maximum total increase of 2.0%. If the actual rate is equal to or more than the assumed rate, the total member contribution rate will decrease by ½%. New hires will contribute at the rate in effect when they are hired. The additional shared risk contributions will be used to reduce the unfunded accrued liabilities of the Systems. If the System is fully funded at the time of the comparison, then the shared risk rate will be zero for that period. For any year in which the employer contribution rate is lower than the final contribution rate, the employee contribution rate would be the basic contribution rate. There would be no increase in the employee contribution rate where there has not been an equivalent increase to the employer contribution rate over the previous three year period. Until there is a full 10-year “look back” period, the look back period will begin as of the effective date of the act.
- Requires new members who purchase most types of nonschool or nonstate service credit (other than intervening military service) to contribute an amount equal to the full actuarial cost of the service purchase.
- Limits the maximum annual retirement benefit of Class T-E and Class T-F members of PSERS to not more than 100% of final average salary.
- Eliminates new members’ eligibility to withdraw their accumulated deductions in a lump sum at retirement under retirement Option 4.

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- Removes the Non-Qualifying Part-time Service (NQPTS) service purchase authorization for members of PSERS. Previously, members were required to qualify for membership in PSERS each year by working a minimum of 500 hours or 80 days annually. Under Act 120, any school employee who qualifies for membership will remain a member of the System and be credited for all service without regard to the number of hours or days worked in future years, eliminating the need to purchase previous NQPTS in the future. Beginning July 1, 2011, current active members of PSERS will have three years to purchase any previous NQPTS. Current members who are inactive but return to active service after July 1, 2011, and new members of Class T-E or Class T-F, will have one year within which to purchase any previous NQPTS.

**Modifications to the Actuarial Funding Requirements of Both Systems**

- Beginning July 1, 2011, re-amortizes all of the unfunded actuarial accrued liabilities of PSERS over a 24-year period using level-percentage of pay amortization payments, including the costs of the act.
- Beginning July 1, 2010, re-amortizes all of the unfunded actuarial accrued liabilities of SERS, including previously enacted supplemental annuities, over a 30-year period using level-dollar amortization payments, including the costs of the act.
- Beginning July 1, 2011, extends from five years to ten years the asset smoothing period over which investment gains and losses are recognized for PSERS.
- Maintains the current five-year asset smoothing period over which investment gains and losses are recognized for SERS.
- Funds any increase in accrued liability of PSERS enacted by legislation, other than the act, subsequent to June 30, 2010, over a 10-year period using level percentage of pay amortization payments.
- Funds any increase in accrued liability of SERS enacted by legislation, other than the act, subsequent to December 31, 2009, over a 10-year period using level-dollar amortization payments.
- For the fiscal year beginning July 1, 2010, establishes the total employer contribution rate as the “final contribution rate” of 5.0% of the total compensation for all active members, plus the premium assistance contribution rate for PSERS.

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- Modifies employer contribution requirements to PSERS and SERS by imposing limits, referred to as “collars” on the rate at which employer contributions may rise from year to year. For the fiscal years beginning July 1, 2011, July 1, 2012, and on or after July 1, 2013, establishes a temporary collared contribution rate, that if the contribution rate is more than 3%, 3.5% and 4.5%, respectively, of total compensation of all active members greater than the prior year’s final contribution rate, then the collared contribution rate shall be applied and equal to 3%, 3.5% and 4.5%, respectively, of total compensation for all active members.
- For all other fiscal years in which the actuarially required contribution rate is less than the collared rate, establishes the final contribution rate as the actuarially required contribution rate, provided that the final contribution rate is not less than the employer normal contribution rate.

**Other Provisions**

- Establishes an independent fiscal office charged with providing independent revenue estimates and other functions, and requires the newly established independent fiscal office to undertake a study to be completed by December 31, 2015, on certain aspects of the pension provisions of the act, and to report the findings of such study to the General Assembly and to the Governor.
- Prohibits the use of pension obligation bonds for funding liabilities of PSERS or SERS.