www.RepBenninghoff.com

STATE REPRESENTATIVE
KERRY A. BENNINGHOFF
House of Representatives Commonwealth of Pennsylvania
171st Legislative District

DISTRICT OFFICES:
140 W. High St., Bellefonte, PA 16823
(814) 355-1300 (814) 355-3523 FAX

77 North Main St.
PO Box 592, Reedsville, PA 17084
(717) 667-1175 (717) 667-6025 FAX

HARRISBURG OFFICE:
147 Main Capitol, PO Box 202171
Harrisburg, PA 17120-2171
(717) 783-1918 (717) 782-2913 FAX

Email: kbenning@pahousegop.com

Pennsylvania's Pension Crisis Timeline

2000-Early 2001

- Great economic expansion and job creation.
- PA was experiencing wealth.
- SERS and PSERS experienced high investment return.
- Both systems had funding ratios well in excess of 100%.

Act 9 of 2001

- Substantially increased pension benefits for public employees and public school employees.
- Pension benefit multiplier was retroactively increased from 2% to 2.5% (a 25% increase), without an adequate corresponding increase in employee contributions.
- The vesting threshold was lowered from 10 years of service to five years.

September 2001

- Stock market drops more than 14% in five days after reopening.
- Investment returns of PA's pension plans were not immune to the 2001 economic downturn.
- SERS – experienced a more than 10% decrease.
  - PSERS – less than 3% growth in the value of its investments.
  - A decline in investment returns meant an increase in employer contribution rates.

Act 38 of 2002

- Arbitrarily capped employer contributions at 1.15 percent for FY 2002-03.
  - Underfunded the pension systems.
  - Limited growth in future employer contributions below actuarially recommended rates.
- Established a cost of living adjustment (COLA) for pre-Act 9 retirees without a funding source.
- Act 38 was enacted with the hope the economic downturn would be short-lived and the Commonwealth could backfill any gap through increased market performance.

Act 40 of 2003

- Adopted to ease the impending fiscal shock of rising employer contribution rates.
- Artificially suppressed employer contribution rates.
- Resulted in $5.9 billion plus underfunding.
- Freed up General Fund dollars, while exacerbating future pension obligations.

Act 120 of 2010

- Created short-term funding relief for PA through a series of annual rate caps ("collars").
- Reduced pension benefits for new employees.
- Increased the retirement age to 65 for new employees.
- Extended the vesting period for new employees from five to 10 years.
- Eliminated the lump sum withdrawal option at retirement for new employees.
- Implemented a "shared risk" provision for new employees – employee contribution increases if investments fall.

PA Public Pensions

Policy Committee Issue Brief

PENNSYLVANIA
HOUSE OF REPRESENTATIVES

RETIREMENT PLANS

"DB" Plan – Defined Benefit Plan

- A traditional pension plan that promises the participant a specified monthly benefit at retirement. Often, the benefit is based on factors such as the participant's salary, age and the number of years he or she worked for the employer.
- Taxpayers bear the entire investment risk of the plan.

"DC" Plan – Defined Contribution Plan

- A retirement plan in which the employee and/or the employer contribute to the employee's individual account, which at distribution includes contributions and investment gains or losses, minus any investment and administrative fees.
- Examples of defined contribution plans include 401(k) plans, 403(b) plans, employee stock ownership plans and profit-sharing plans. Employees bear the entire investment risk of the plan.

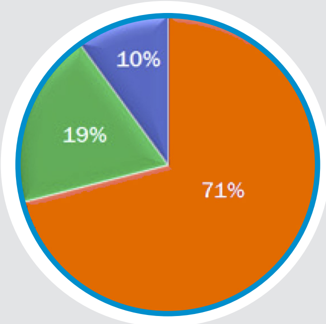
PA PENSION SYSTEMS

SERS – State Employees' Retirement System
- 229,834 members (active and retired)

PSERS – Public School Employees' Retirement System
- 597,805 members (active and retired)

PENSION FUNDING BREAKDOWN*

1. Investment earnings (71%)
2. Member contributions (19%)
3. Employer contributions (10%)



*Of these three components, SERS and PSERS rely overwhelmingly on investment returns as their primary source of funding. Nearly 71 cents of every dollar is derived from investment earnings.

BUDGET COST FOR PENSIONS

(SERS+PSERS budget costs)

- 2010/11 - $696.2 million
- 2011/12 - $1.01 billion
- 2012/13 - $1.46 billion
- 2013/14 – $2.04 billion
- 2014/15 (budgeted) - $2.64 billion
- 2015/16 (projected) - $3.28 billion
- 2016/17 (projected) - $3.94 billion
- 2017/18 (projected) - $4.31 billion
- 2018/19 (projected) - $4.49 billion

FUNDED STATUS RATIO

- Funded status is measured by comparing the actuarial value of assets to liabilities. Eighty percent is considered a healthy funding ratio.
- Current Funded Ratios
  - SERS: 59.22%
  - PSERS: 63.79%
  - TOTAL: 62.29%

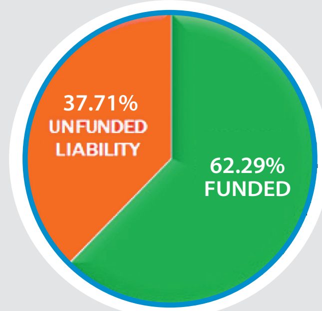
UNFUNDED LIABILITY

The difference between the fund's accrued liability (what they must pay out) and the value of the fund's assets.

SERS
- Actuarial Accrued Liability $44.8 billion
- Actuarial Value of Assets $26.6 billion
- Unfunded Accrued Liability $18.2 billion

PSERS
- Actuarial Accrued Liability $92.46 billion
- Actuarial Value of Assets $57.34 billion
- Unfunded Accrued Liability $35.1 billion

Combined Public Pension Liability = $53.3 billion



PA'S DEFINED BENEFIT PLAN STRUCTURE

In a DB plan, the final benefit is based on a fixed ("defined") formula:

Basic Benefit Formula

2.5% or 2.0% Multiplier X **Years of Service** X **Final Average Salary (3 Yr. FAS)** = **Maximum Single Life Annuity**

In a **Defined Benefit plan**, the employer (the Commonwealth and, ultimately, the taxpayer) bears the entire investment risk of the plan.

When investment returns fall, the Commonwealth's employer contribution rate increases (and vice versa).