



APSCUF

FACULTY & COACHES

NEWS UPDATE: November 16, 2010

Pension Reform Legislation Passes House; Needs Rendell's Signature to Become Law

Yesterday the State House voted to concur in Senate amendments to House Bill 2497, popularly known as "pension reform." This bill provides PASSHE schools with budgetary certainty for the foreseeable future, while fundamentally changing the base defined benefits package for new PASSHE employees – including APSCUF faculty and coaches.

The legislation flattens the projected pension "spike" and is estimated to save the Commonwealth almost \$3 billion over the next several decades. The bill does make benefit changes for future state and school employees, but preserves existing benefits for current members of the SERS and PSERS systems.

"The passage of House Bill 2497 was a true bipartisan effort, and we thank the members of the General Assembly for approving this legislation now," APSCUF President Steve Hicks said. "The General Assembly recognizes that the pension fund payment spike due next year would have created a financial hardship for everyone from school districts to our state universities."

APSCUF joined with several other public employee unions in CLEAR (Coalition for Labor Engagement and Accountable Revenues) in the late spring to work on a pension bill

that flattened the spike for SERS and PSERS. House Appropriations Chair Dwight Evans (D-Philadelphia) sponsored HB 2497 in cooperation with leadership in both parties in the House, leading to its bipartisan passage in June. The union coalition supported the bill despite its benefits changes. The 165-31 vote by the House was the culmination of months-long of effort on the part of many, as the amendments approved by the Senate created new obstacles, including an Independent Fiscal Office.

"The amended version of House Bill 2497 is not a perfect solution but an acceptable compromise for all parties in the battle to reduce pension costs. Ultimately, the bill protects the promise of a secure retirement for present and future employees, while saving taxpayer dollars and helping school districts and the Commonwealth during difficult fiscal times," Hicks said.

Laura Saccente, APSCUF Government Relations, credited faculty members for help with the organization's lobbying efforts.

"Several faculty members boosted our efforts by making calls to legislators and urging them to support our position," Saccente said.

Lauren Gutshall, the organization's public policy staff member, also spent

many hours working on pieces of the pension legislation.

"We spent a lot of hours, and a lot of meetings, working both the bigger legislation and our transfer legislation through the two chambers," President Hicks said. "Laura and Lauren worked and reworked numerous legislators and their staffs to make this happen. They are to be commended for their work, and their coordination with APSCUF members on this. After nine years of pushing the transfer legislation, it's not a happy day that it's not in the final legislation."

The transfer legislation would allow a one-time transfer from a member's defined contribution plan to a defined-benefit plan.

"As with all compromises, not everyone is totally happy with House Bill 2497 and its amendments. But it really helps the universities' bottom line the next few years, particularly, and it maintains a defined benefit option for our members, which we feel is a big positive."

**Please see pages
2 and 3 for a Bill
Summary created by
the Senate Finance
Committee.**

BILL SUMMARY

(Information from Senate Finance Committee)

Liability Management Plan:

- Fresh start re-amortization of all unfunded liabilities over 30-year period using level percent of pay. (Note: The 30-year rate is for SERS; The PSERS amortization is 24 years).
- 5 year smoothing of assets for SERS (current); 10 year smoothing for PSERS (increase from 5 years).
- Contribution rate for 2010/2011 FY between:
 - PSERS : 5%/7.58% (certified rate: 5.64%)
 - SERS: 5% (certified rate: 5%)
- Enacts employer contribution rate "collars", or limits, which are maximum amounts that the rate can increase each year over the previous year's rate.
 - 2010-11 is 1 % of payroll
 - 2011-12 is 3% of payroll
 - 2012-13 is 3.5% of payroll
 - 2013-14 and each year thereafter is 4.5% of payroll.
 - *These collars expire when no longer necessary.
- Funds any increases in accrued liability enacted by legislation, other than HB 2497, subsequent to June 30, 2010, over a 10-year period, using level percentage of pay amortization payments
- Keeps the future minimum employer contribute rate at "normal cost". This means that, once the current liabilities are paid down, future unfunded liabilities will not accrue again.
- Ensures that neither retirement system falls below 50 percent funded ratio.

BILL SUMMARY

(Information from Senate Finance Committee)

Defined Benefit Plan Design Changes: for NEW employees only:

- Rollback of benefit enhancement enacted by Act 9 of 2001 for new employees only. For PSERS, applies to new employees after July 2, 2011. For SERS, applies to new employees after January 1, 2011.
- Class 1: Reverses the 2.5% accrual rate multiplier benefit for all new employees to 2% percent of pay (Pre-2001 benefit level) and maintains the current employee contribution rate (Post 2001 level) which helps provide more funding to the systems. For PSERS, the rate is 7.5%. For SERS, the rate is 6.25%.
- Class 2: Allows for new members to elect the current 2.5% accrual rate multiplier while requiring a higher employee contribution rate so that the enhancement is cost-neutral. For PSERS, the rate would be 10.3%. For SERS, the rate would be 9.3%.
- Vesting period increases from 5 years to 10 years. Vesting period for disability remains unchanged at five years. State Troopers and enforcement officers remain eligible for disability benefits upon beginning service.
- Retirement age increases to age 65 or at any age with 35 years of service (Previous 60/62 and 30 years of service). Member of General Assembly increased from age 50 to age 55. State Police/Capitol Police/Park Rangers -increased to 55 years from 20 years of service and 50 years of age. Members of the Judiciary are unchanged.
- Eliminates the Option 4 (lump sum payout) upon retirement.

Additional Note:

*** The employee contribution rate would increase by up to ½ percent per year if the actual investment rate of return is less than the assumed rate of return by 1 percent or more. When the actual rate of return is higher than the assumed rate by 1 percent or more, the employee contribution is decreased by ½ percent, but can never be lower than the normal rate.**