



the PENSION CRISIS

Talking points -Pension Hybrid Legislation – HB 2135, SB 1185

HB 2135 (Grell – R- Cumberland) and SB 1185 (Yaw – R- Lycoming) represent PSBA's long term solution to the pension issue. These bills call for the creation of a hybrid pension system for school employees, one that combines the advantages of a defined benefit and a defined contribution system.

The bills would do the following:

- Create a new class of employees, T-E, comprised of individuals who join the system after June 30, 2010. These employees would be enrolled in the new hybrid system rather than the current defined benefit system
- Class T-E employees would earn the benefits of a defined benefit system, albeit at a lower benefit level. Changes in the DB portion of the hybrid plan are:
 - Multiplier lowered from 2.5% to 1%
 - Vesting time lowered from 10 years to 5 years
 - Employee contribution lowered from 7.5% to 3.25%
- Would create a defined contribution program to accompany the defined benefits portion. The defined contribution plan would:
 - Require a minimum 3% contribution on the part of school employees
 - Require a 2% maximum contribution on the part of school employers
 - Require PSERS to create a series of investment portfolios so that members could invest their contributions. At least one of the investment packages would be designated a default investment should a member not choose any specific investment
 - Requires PSERS to set the rules and regulations for investing in the D/C fund
- Sets a minimum employer contribution so that even when system is fully funded, the lowest the employer rate could go would be 4%
- Provides that increases in school district contributions to the pension system would be capped at the Act 1 index. Should the increase in the school district share of the employer contribution rate exceed the current year Act 1 index, the state would pick up the difference between the new employer contribution rate and the index.

Advantages to taxpayers, school employers and the commonwealth:

- System would gradually reduce the employer contribution rate as more members of the current system retire and are replaced with members of the new hybrid plan
- A reduction in the liability of taxpayers, school employers and the commonwealth to ensure the provision of pension benefits
- Provides a sensible method of reducing system costs and liabilities while continuing to provide an adequate pension

Advantages to school employees:

- Provides a sensible method of reducing system costs and liabilities while continuing to provide an adequate pension.
- Will provide anywhere from 53% to 63% of final average salary depending on stock market performance and amount invested
- Provides a pension system that is better than most private employers