

Changes for New Employees

Act 120 of 2010 is pension reform that Keeps the Promise of a secure retirement for current and future school employees. It addresses the employer pension spike by providing a more affordable payment plan for the Commonwealth and school districts to fund the Public School Employees' Retirement System (PSERS) and pay for past actuarial losses, while also protecting taxpayers. The law includes changes to pension benefits provided by PSERS for school employees hired on or after July 1, 2011.

Current members will not be directly affected by changes outlined in this document.

See www.psea.org/pension for a description of two small changes affecting employees who are enrolled in PSERS before July 1, 2011.

Key benefit changes for employees hired on or after July 1, 2011:

- **Vesting:** Employees must work for 10 years in order to vest in PSERS. Current law requires employees to work for five years to vest.
- **Option 4:** Act 120 eliminates the option of a lump sum withdrawal in Option 4, under which retirees could cash out their accumulated contributions with interest in exchange for a reduced annuity.
- **Multiplier options:** New hires can choose between two multiplier options. The decision affects how much they contribute to PSERS and how much they'll receive in retirement.
 - ✓ 2.0% multiplier will require a base 7.5% employee contribution rate.
 - ✓ 2.5% multiplier will require a base 10.3% employee contribution rate and result in a higher pension.
- **Shared Risk:** Employees will share costs with employers if PSERS does not achieve its assumed rates of return.
 - ✓ The employee contribution rate could increase or decrease by 0.5% every three years. The rate will increase for a three-year period if the Fund does not meet its assumption over the previous 10-year period, and will decrease by the same amount if the Fund meets or exceeds its assumption.
 - ✓ The employee contribution rate will never be less than the base rate, nor exceed it by more than 2.0%.

New Pension Law (HB 2497/Act 120 of 2010)

✓ Employee contributions will revert to the base rate if at any point the employers do not maintain their commitment to the shared risk arrangement.

• **Normal Retirement Age:** Employees must be age 65 with at least three years of service, or have a combination of age and years of service totaling 92, provided the member has at least 35 years of service.

• **Purchase of Service:** Employees will have one year from when they first become active contributing members of PSERS to purchase any previous Non-Qualifying Part-Time service (NQPT). NQPT service refers to service by part-time per diem or hourly employees who work fewer than 80 days or 500 hours during a school year. NQPT service does not qualify a person for membership in PSERS, but credit for such service can be purchased if an individual later becomes an active contributing member of PSERS. There is no time limit for an active contributing member of PSERS to purchase any type of school or non-school service other than NQPT.

In addition, the law changed the calculation that PSERS will use to determine the cost of purchasing NQPT and non-school service (other than military service).

• **Benefit Cap:** Benefits will be capped at 100% of Final Average Salary (the average of the highest three years of salary).

