

Fiscal Year 2017/2018 Employer Contribution Rate

On December 7, 2016 the PSERS Board of Trustees certified an employer contribution rate of 32.57% for fiscal year 2017/2018, which begins July 1, 2017. The 32.57% rate is composed of a 0.83% rate for health insurance premium assistance and a pension rate of 31.74%. Nearly 75% of the employer contribution rate is for the payment of unfunded liability, which is primarily for past service already earned by members.

Funding Sources for the System

The Public School Employees' Retirement System (PSERS) is a defined benefit plan. PSERS is funded through three sources: contributions from employees (members), the employer contribution rate which includes contributions from school employers and the Commonwealth, and investment returns from the System.

Employee (Member) Contributions

- Employee (Member) contributions range from 5.25% to 10.30% of payroll depending on the class of membership of the employee and when they joined PSERS. Employees are expected to contribute an average of 7.54% of their salary to help fund their retirement benefit in fiscal year 2017/2018. Employee (member) contributions of approximately \$1 billion are expected in fiscal year 2017/2018.

Shared Investment Risk

- As of July 1, 2011 new members bear some of the investment risk via the shared risk provisions of Act 120 of 2010. Under the "shared risk" provisions, new members since July 1, 2011 share some of the risk when investments underperform. Since PSERS investment performance exceeded the Act 120 benchmarks during the last measurement period, the Board certified and retained the current T-E member contribution rate of 7.50% and T-F member contribution rate of 10.30% for the three year period from July 1, 2015 to June 30, 2018. The next measurement period for the "shared risk" provisions ends June 30, 2017.

Employer (School District and Commonwealth) Contributions

- Both the employer and the Commonwealth are responsible for paying a portion of the employer contribution rate. Employers are divided into two groups: school entities and non-school entities. School entities are responsible for paying 100 percent of the employer share of contributions to PSERS. The Commonwealth reimburses school entities for one-half the payment for employees hired on or before June 30, 1994. School entities are reimbursed by the Commonwealth based on a statutory formula for employees hired after June 30, 1994, but not less than one-half of the payment. Non-school entities and the Commonwealth each contribute one-half of the total employer rate. Total employer contributions for FY 2017/2018 are estimated at \$4.4 billion.
- The employer contribution rate-setting methodology is set forth in statute. The chart below shows the employer contribution rate history over the past 15 years and the certified rate for next fiscal year 2017/2018.

HISTORY OF EMPLOYER CONTRIBUTION RATES				
Fiscal Year	Employer Normal Cost %	Employer Pension Rate %	Health Care Contributions %	Total Employer Contribution %
01/02	5.63	0.00	1.09	1.09
02/03	7.20	0.18	0.97	1.15
03/04	7.25	2.98	0.79	3.77
04/05	7.48	4.00	0.23	4.23
05/06	7.61	4.00	0.69	4.69
06/07	6.62	5.72	0.74	6.46
07/08	6.68	6.44	0.69	7.13

08/09	6.68	4.00	0.76	4.76
09/10	7.35	4.00	0.78	4.78
10/11	8.08	5.00	0.64	5.64
11/12	8.12	8.00	0.65	8.65
12/13	8.66	11.50	0.86	12.36
13/14	8.57	16.00	0.93	16.93
14/15	8.46	20.50	0.90	21.40
15/16	8.38	25.00	0.84	25.84
16/17	8.31	29.20	0.83	30.03
17/18	7.70	31.74	0.83	32.57

- The chart below shows the 5-year projected employer contribution rates using the June 30, 2016 valuation.

PROJECTED EMPLOYER CONTRIBUTION RATES AND TOTAL EMPLOYER CONTRIBUTIONS *(Presumes a 7.25% rate of return)				
Fiscal Year Ending June	**Pre- Act 5 Total Employer Contribution Rate %	*** Act 5 Total Employer Contribution Rate %	**Pre-Act 5 Projected Total Employer Contribution (thousands) \$	*** Act 5 Projected Total Employer Contribution (thousands) \$
17/18	32.57	32.57	4,380,339	4,380,339
18/19	34.18	34.18	4,668,189	4,668,189
19/20	35.53	35.62	4,933,711	4,946,834
20/21	35.95	36.13	5,081,955	5,107,359
21/22	36.40	36.56	5,244,647	5,267,856

Investment Returns

- PSERS' rate of return for quarter ended September 30, 2016 was 3.65%, which added approximately \$1.4 billion (net of fees) in investment income to the Fund. The Fund had plan net assets of \$51.0 billion at September 30, 2016.

About the Pennsylvania Public School Employees' Retirement System

PSERS is the 20th largest state-sponsored defined benefit pension fund in the nation and has a membership of approximately 257,000 active members and nearly 225,000 annuitants and beneficiaries receiving benefits. For more information visit PSERS' website at www.psers.state.pa.us

*The projection of contribution rates is based on the assumption that there are no changes in demographics or economic assumptions, no changes in benefit provisions, and no actuarial gains or losses other than gains or losses on the actuarial value of assets that result from recognizing currently deferred gains or losses on the market value of assets. Those assumptions may vary from actual experience and as a result projected employer contribution rates will increase or decrease.

**Pre-ACT 5 Projections of Contribution Rates, Total Employer Contributions, Funded Ratios and Unfunded Accrued Liabilities are presented for comparison. These projections are included in PSERS' June 30, 2016 actuarial valuation.

*** On June 12, 2017 Act 5 of 2017 was signed into law. The ACT 5 Projections of Contribution Rates, Total Employer Contributions, Funded Ratios and Unfunded Accrued Liabilities represent the Pre-Act 5 projections that have been updated to show the impact of Act 5.