

Fiscal Year 2020/2021 Employer Contribution Rate

On December 6, 2019 the PSERS Board of Trustees certified an employer contribution rate of 34.51% for fiscal year (FY) 2020/2021, which begins July 1, 2020. The 34.51% rate is composed of a 0.82% rate for health insurance premium assistance, 0.18% for Act 5 Defined Contribution, and a pension rate of 33.51%. Over 78% of the employer pension contribution rate is for the payment of unfunded liability, which is primarily debt for past service already earned by members.

Funding Sources for the System

The Public School Employees' Retirement System (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 7.61% of their salary to help fund their retirement benefit in FY 2020/2021. Employee (member) contributions of approximately \$1.1 billion are expected in FY 2020/2021.

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 and Act 5 of 2017. 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 shared risk 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, 2018 to June 30, 2021. The next measurement period for the "shared risk" provisions ends on June 30, 2020.

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 2020/2021 are estimated at \$4.9 billion.
- The employer contribution rate-setting methodology is set forth in statute. The chart below shows the employer contribution rate history beginning in FY 2002/2003 through the certified rate for next FY 2020/2021.

HISTORY OF EMPLOYER CONTRIBUTION RATES					
Fiscal Year	Employer Normal Cost %	Employer Pension Rate %	Act 5 Defined Contribution %*	Health Care Contributions %	Total Employer Contribution %
02/03	7.20	0.18	NA	0.97	1.15
03/04	7.25	2.98	NA	0.79	3.77
04/05	7.48	4.00	NA	0.23	4.23
05/06	7.61	4.00	NA	0.69	4.69
06/07	6.62	5.72	NA	0.74	6.46
07/08	6.68	6.44	NA	0.69	7.13
08/09	6.68	4.00	NA	0.76	4.76
09/10	7.35	4.00	NA	0.78	4.78
10/11	8.08	5.00	NA	0.64	5.64

HISTORY OF EMPLOYER CONTRIBUTION RATES					
Fiscal Year	Employer Normal Cost %	Employer Pension Rate %	Act 5 Defined Contribution %*	Health Care Contributions %	Total Employer Contribution %
11/12	8.12	8.00	NA	0.65	8.65
12/13	8.66	11.50	NA	0.86	12.36
13/14	8.57	16.00	NA	0.93	16.93
14/15	8.46	20.50	NA	0.90	21.40
15/16	8.38	25.00	NA	0.84	25.84
16/17	8.31	29.20	NA	0.83	30.03
17/18	7.70	31.74	NA	0.83	32.57
18/19	7.59	32.60	NA	0.83	33.43
19/20	7.49	33.36	0.09	0.84	34.29
20/21	7.37	33.51	0.18	0.82	34.51

*Estimated average DC contribution rate. The actual employer DC contribution rate will be based on each employer's Class T-G, Class T-H, and Class DC membership.

- The chart below shows the 7-year projected employer contribution rates using the June 30, 2019 valuation.

PROJECTED EMPLOYER CONTRIBUTION RATES AND TOTAL EMPLOYER CONTRIBUTIONS ** (Presumes a 7.25% rate of return)		
Fiscal Year Ending June	Total Employer Contribution Rate %	Projected Total Employer Contribution (thousands) \$
20/21	34.51	4,858,318
21/22	34.95	4,993,968
22/23	35.62	5,170,820
23/24	36.12	5,332,756
24/25	36.60	5,497,431
25/26	37.23	5,691,399
26/27	37.79	5,873,900
27/28	38.17	6,027,091

Investment Returns

- PSERS' rate of return for fiscal year ended June 30, 2019 was 6.68%, which added approximately \$3.6 billion (net of fees) in investment income to the Fund. The Fund had plan net assets of over \$59 billion at June 30, 2019.

About the Pennsylvania Public School Employees' Retirement System

PSERS, founded in 1917, began operations in 1919 to oversee a statewide defined benefit pension plan for public school employees. PSERS' role expanded upon the passage of Act 5 of 2017 to include oversight of two new hybrid options consisting of defined benefit and defined contribution (DC) components and a stand-alone DC plan. PSERS membership covers about 256,000 active and 237,000 retired school employees.

For more information visit PSERS' website at www.psers.pa.gov.

**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.