Act 120 of 2010 Benefit Changes Summary

Act 120 of 2010 was passed by the General Assembly on November 15 and signed by the Governor on November 23, 2010. The benefit reductions contained in this legislation will only impact individuals who become new members of PSERS on or after July 1, 2011. Any existing or former members of PSERS who return to service on or after July 1, 2011, will retain their old membership status. The current pension benefit that a PSERS retiree receives is not impacted by the legislation.

Changes that Impact All Members

Membership with PSERS
Membership - Once a member qualifies for PSERS membership all service earned as a member after the initial qualification will be considered qualified until there is a break in membership. Previously, part-time hourly and per diem members had to qualify for PSERS membership each year (500 hours, 80 days for hourly and per diem employees).

The following constitutes a break in membership:
- A member terminates and refunds his contributions and interest
- A non-vested member terminates without refunding his contributions and interest and does not return to service prior to the expiration of inactive member status (a period of two full fiscal years from June 30 of the last FY of the member’s last day of paid service)

Note: Inactive membership status is retained if a member was granted Multiple Service (MS) and they are active with SERS; therefore rules applying to inactive members are applicable.

- A non-vested member is not reported as being employed by a public school employer for a period of two full fiscal years from June 30 of the last FY of the member’s last day of paid service, irrelevant of refunding his contributions and interest, unless the member was granted MS and is active with SERS.

Note: If member was granted MS then their member status is considered inactive with PSERS while they are active with SERS and therefore rules applying to inactive members are applicable.

Obtaining Service Credit
Applying for Additional Service Credit – Active members only have a one-time opportunity to apply for Non-Qualifying Part Time (NQPT) Service. This purchase of service must be applied for within specific timeframes.
- Class T-C and Class T-D members active on July 1, 2011 have a three-year window, beginning July 1, 2011, to file an application to purchase Non-Qualifying Part-Time service (NQPT).
- Class T-C and Class T-D members who are not active on July 1, 2011 have a one-year window, from the date of notification by PSERS, to file an application to purchase Non-Qualifying Part-Time service (NQPT).
- Class T-E and Class T-F members have a one-year window, from the date of notification by PSERS, to file an application to purchase Non-Qualifying Part-Time service (NQPT).

No Benefit Changes for Class T-C and Class T-D Members
The benefit changes/reductions contained in Act 120 only impact individuals who become new members of PSERS on or after July 1, 2011. Any existing or former members of PSERS who return to service on or after July 1, 2011 will be a Class T-D member and will not be subject to the benefit reductions for the new classes of Membership (Class T-E and Class T-F).

Two new classes of membership (Class T-E and Class T-F) were created for anyone that becomes a new member of PSERS for the first time on or after July 1, 2011. These changes are outlined in the following sections.
Changes that Impact New Members

For school employees who become new members of PSERS on or after July 1, 2011, there are two new classes; Class T-E and Class T-F. These classes of membership determine the amount of money withheld from your paychecks and the amount of your retirement benefit when you retire.

Class T-E
- Pension multiplier is 2%
- Effective July 1, 2011 employee contribution base rate is 7.5% (base rate) with a “shared risk” provision that could cause the total contribution levels to fluctuate between 7.5% and 9.5%

Class T-F
- Pension multiplier is 2.5%
- Effective July 1, 2011 employee contribution base rate is 10.3% (base rate) with a “shared risk” provision that could cause the total contribution levels to fluctuate between 10.3% and 12.3%

All new members will automatically become Class T-E members. New members however, will have a one-time opportunity to elect Class T-F within 45 days of receiving written notification from PSERS. Failure to elect Class T-F at time of original eligibility will make the member ineligible for Class T-F forever. In other words, once the election is made either by action or inaction, the election is permanent.

Class T-E and T-F Members
- The cost to purchase Non Qualifying Part Time (NQPT) service and most types of nonschool or nonstate service credit (other than military service) will be the full actuarial cost of the service
- Have a ten year vesting period
- For normal retirement, employees who terminate employment at or after age 65 with minimum of 3 years of service, or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service
- No projection of service for determining normal retirement
- May not withdraw contributions and interest in a lump sum when retiring
- Pension benefit cannot exceed the member’s final average salary
- New employees starting later than July 1, 2011 will contribute based on the “shared risk” rate in effect at date of hire.

What is Shared Risk?

With a “shared risk” program Class T-E and T-F members benefit when investments of the fund are doing well and share some of the risk when investments underperform. The member contribution rate will stay within the specified range allotted for Class T-E or T-F; but could increase or decrease by 0.5% every three years starting July 1, 2015, dependent on investment performance of PSERS. The member contribution rate could never go below the base rate of 7.5% for T-E and 10.3% for T-F members, or above 9.5% for T-E and 12.3% for T-F members.