Act 120 of 2010
Funding/Actuarial Changes Summary

Funding Changes - Employer Contributions
The legislation suppresses the employer contribution rate by using rate caps in future years to keep the rate from rising too high, too fast.

The rate caps limit the amount the pension component of the employer contribution rate can increase over the prior year's rate as follows:

FY 2011/12 - not more than 3.0% plus the premium assistance contribution rate
FY 2012/13 - not more than 3.5% plus the premium assistance contribution rate
FY 2013/14 - not more than 4.5% plus the premium assistance contribution rate
Thereafter - not more than 4.5%

The rate cap remains at 4.5% until the rate cap no longer applies, i.e. the rise in the employer contribution rate is less than the rate cap in effect at that time

After that, the rate is what is calculated by PSERS actuary and approved by the PSERS Board, subject to a new rate floor or minimum employer contribution rate that will be the employer normal cost (currently about 8%), plus the premium assistance contribution rate.

- The "employer normal cost" is the amount needed from the school employers to fund the benefits earned by the active members for that year.

Actuarial Changes

- Currently liabilities are funded over various periods of time using level dollar amortization. Act 120 re-amortizes all unfunded liabilities over a 24 year period and uses level percentage of pay amortization.
    - Level percentage of pay amortization is calculated using the same percentage of compensation each year during the amortization period. Under the level dollar amortization, the annual dollar amount of the payment remains the same each year.
- Changes the recognition of investment gains and losses from a 5 year smoothing period to a 10 year smoothing period.
- Any future legislation enacted that adds liabilities to the system (i.e. cost-of-living adjustments, "30 and Out") will be amortized over 10 years, using a level percentage of pay method.
- Establishes a prohibition on the use of Pension Obligation Bonds to fund the System.

(Nov. 16, 2010)