

Act 120 Summary

Designed to address PSERS and SERS rate spikes over 30 years.

Smoothing measures estimated to cost \$52 billion. Benefit reductions estimated to save \$35 billion. Net cost of \$27 billion over 30 years.

Provisions:

- “Actuarial fresh start” – re-amortizes systems’ liabilities.
- Changes amortization method from current level dollar method to level percent of pay (lowers early payments but later payments are higher).
- Imposes “collars” on the rate at which employer contributions may rise annually – gradually increasing funding, but capping the rate increases at:
 - 3% of payroll in FY 2011/12
 - 3.5% of payroll in FY 2012/13
 - 4.5% of payroll in FY 2013/14 and thereafter until no longer needed
 - Beginning in 2014 imposes minimum contribution levels set at normal cost.
- Reduces retirement benefits for new hires by:
 - Changing the benefit multiplier from 2.5% to 2%
 - Raising the retirement age to 65 (from 62 for PSERS, 60 for SERS)
 - Ending lump sum payments to retirees
 - Increasing the vesting period from 5 to 10 years.
- Implements a “shared risk system”
 - For every 1% the fund under-performs actuarial assumptions, employee contributions (for new hires) will increase by 0.5% (maximum increase of 2%).
 - For every 1% of over-performance, the employee contribution decreases by 0.5% (though never falling below the original base contribution rate).

Act 120 achieves some important cost savings, but does not solve the long-term problem:

- Shifts costs to future taxpayers.
- The new rate collars will allow contributions to lag behind accrued benefits. SERS and PSERS funding levels will steadily decrease.