Reform Options for State and Local Pension Plans

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Retirement Plan Objectives

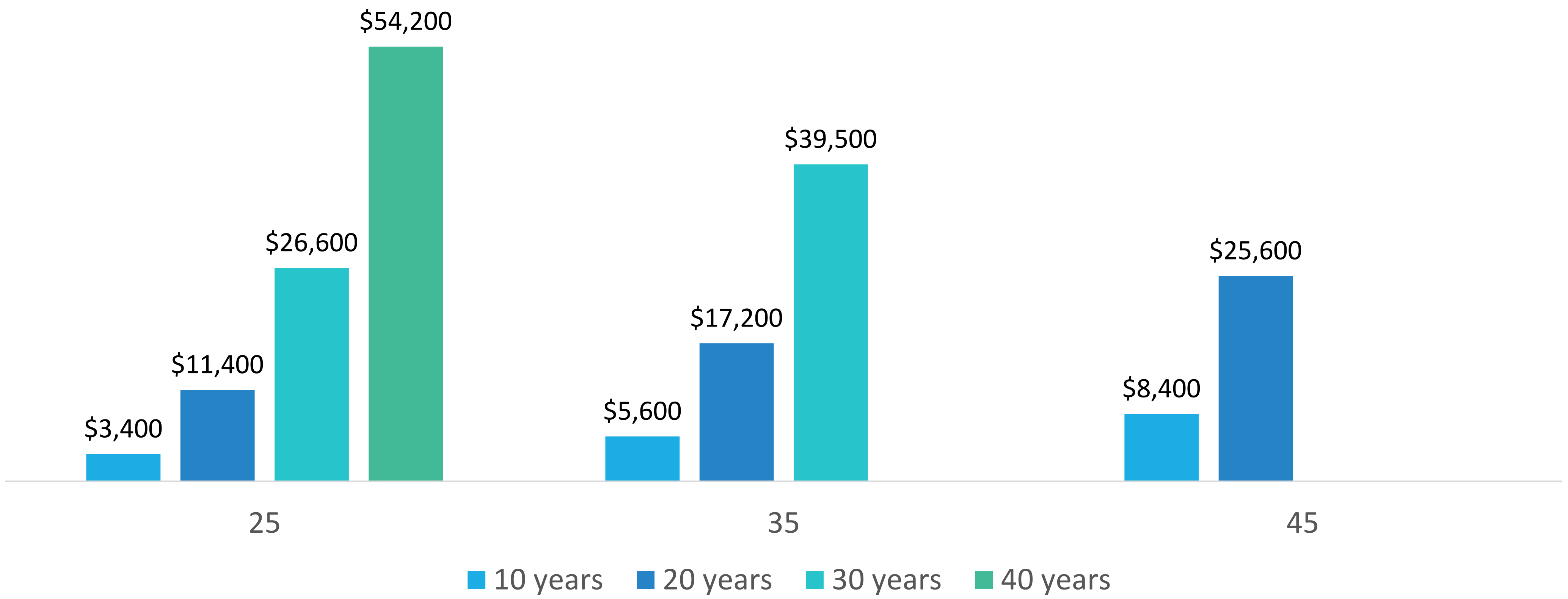
- Future benefits should be fully financed
- The plan should provide retirement security to employees
- Benefit structure should help employers attract and retain qualified workers
- All employees should be treated fairly

Pennsylvania State Employees' Retirement System (SERS)

Plan feature	PA value for newly hired employees
Vesting	10 years of service (YOS)
Percentage factor	2.0% (plus 2% bonus for each year in excess of 40, up to 10%)
Years included in final average salary (FAS)	Top 3
Benefit cap	100% of FAS
Eligibility for normal retirement	age 65/10 YOS age+YOS=92/35 YOS (65/3 if employed at age 65)
Eligibility for early retirement	Any age/10 YOS (actuarial reduction)
Cost-of-living adjustments (COLA)	Discretionary; we assume no COLA
Mandatory employee contribution	6.25%
Return on refunded contributions	4.0% (trustees assume 7.5% return on investments)

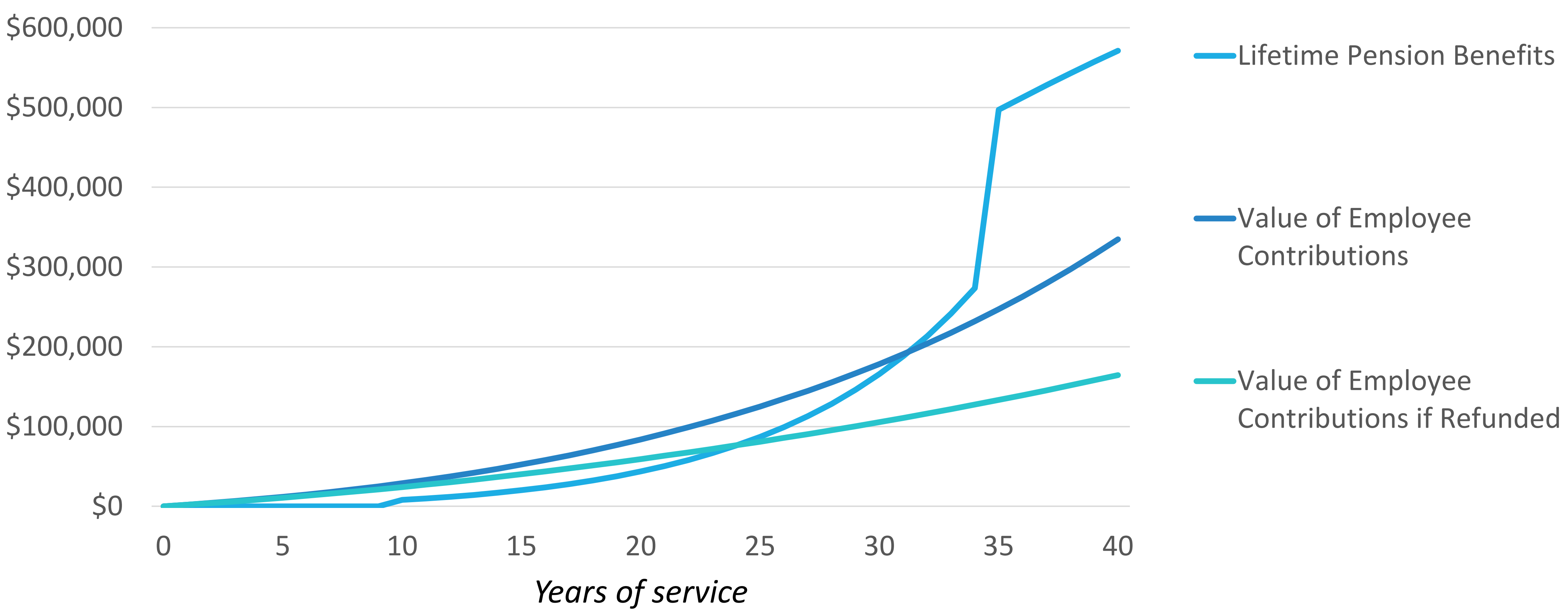
Annual Pension Benefit at Age 65 ($2014)

By starting age and years of service

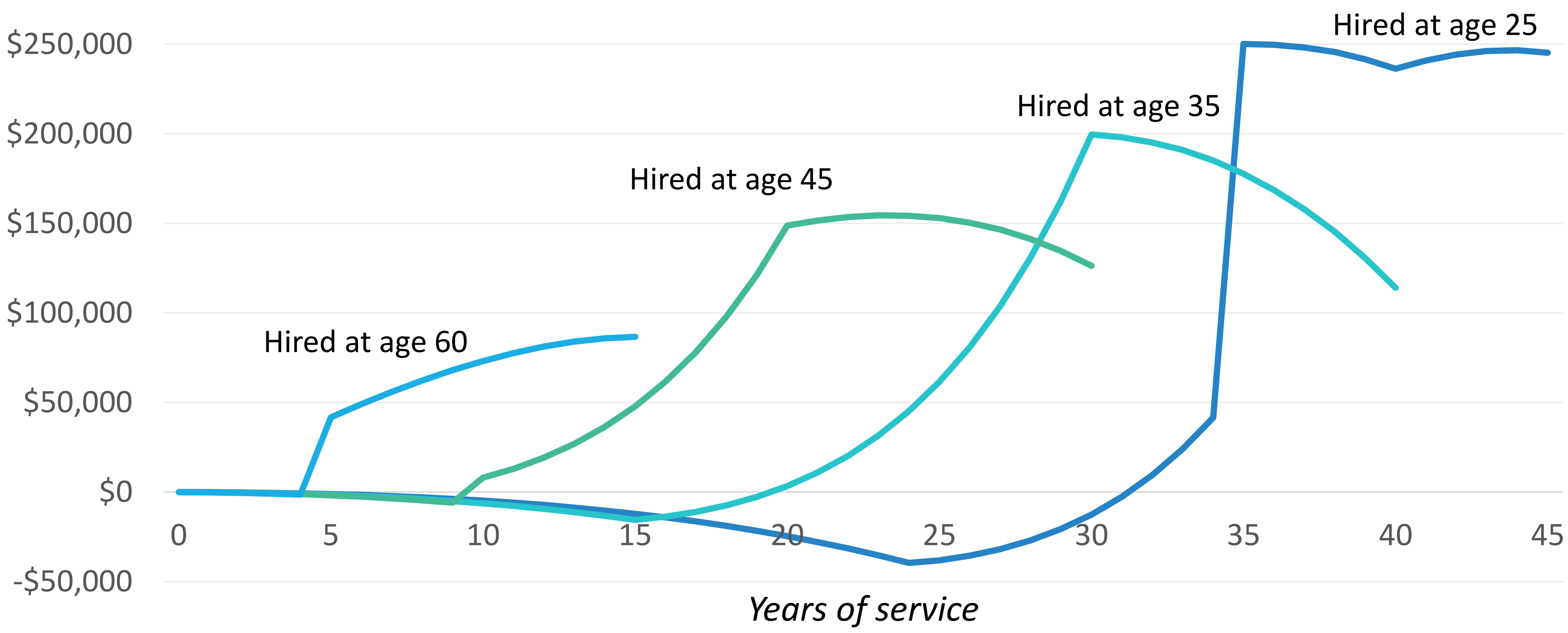


Value of Employee Contributions and Future Benefits

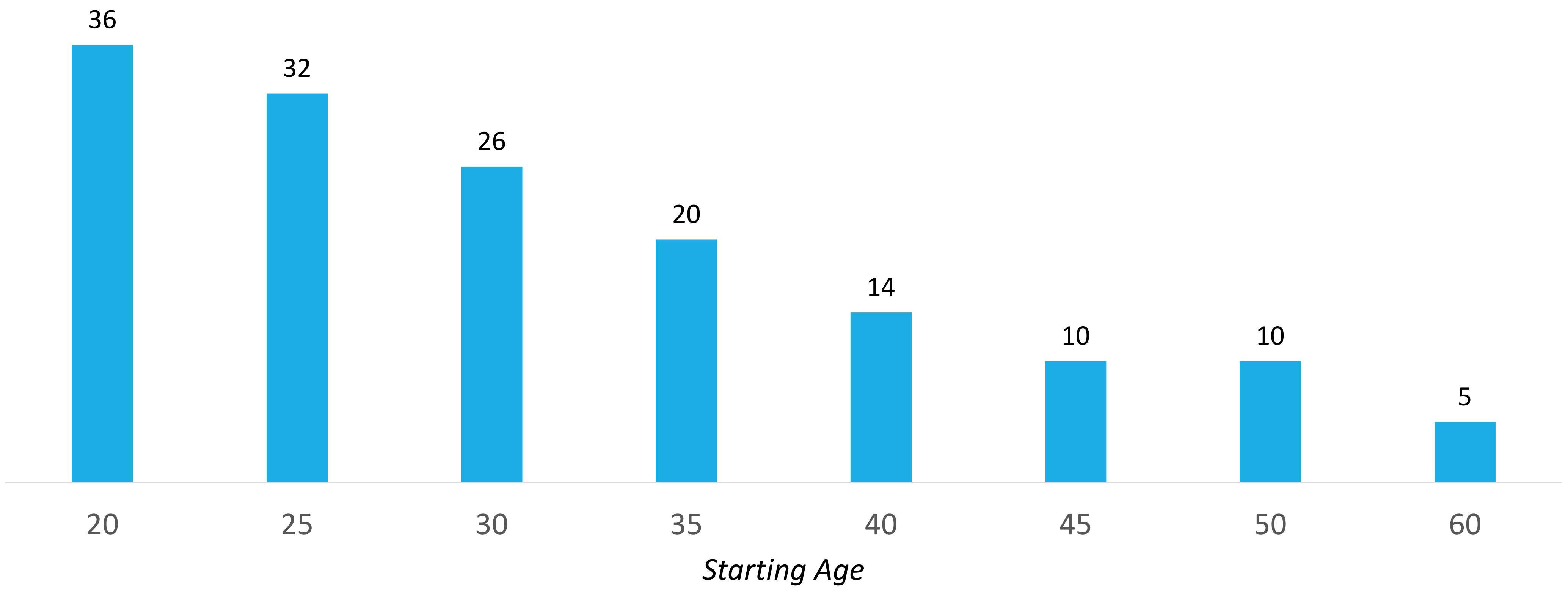
For 25-year-old hires



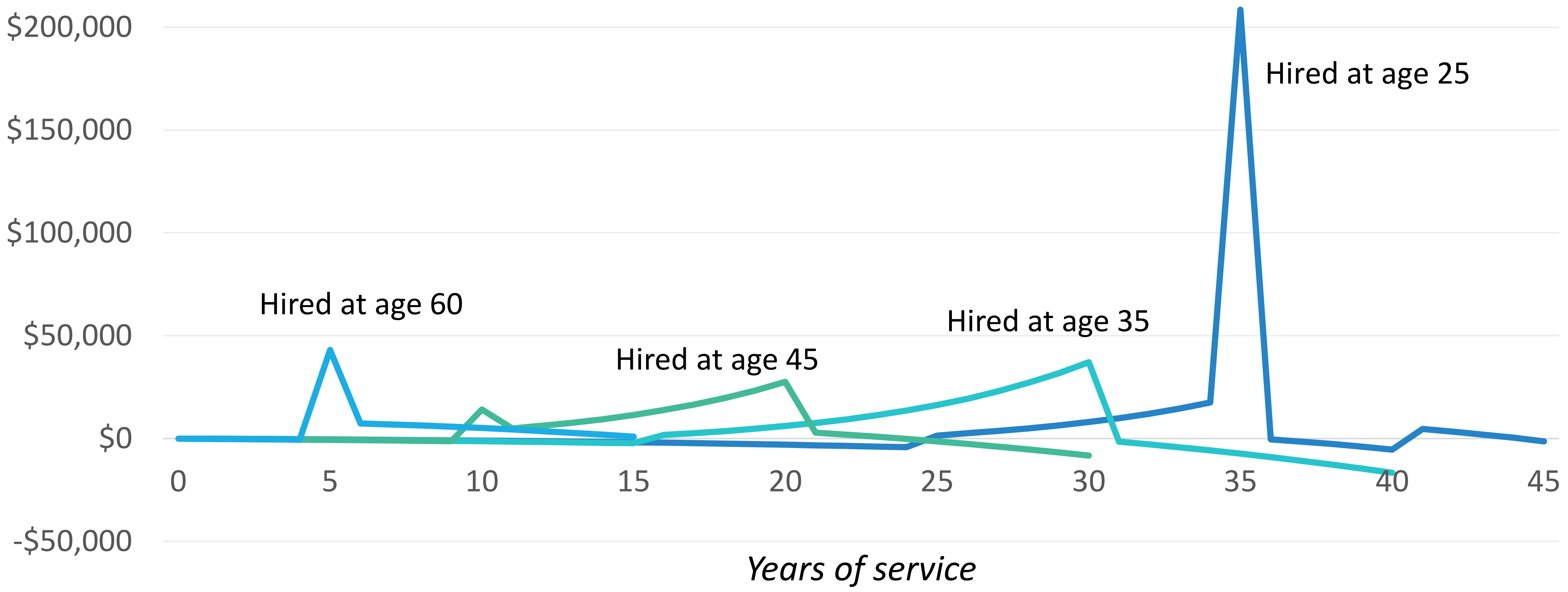
Expected Value of Lifetime Pension Benefits Net of Employee Contributions



Service Years Required to Earn Any State-Financed Benefits

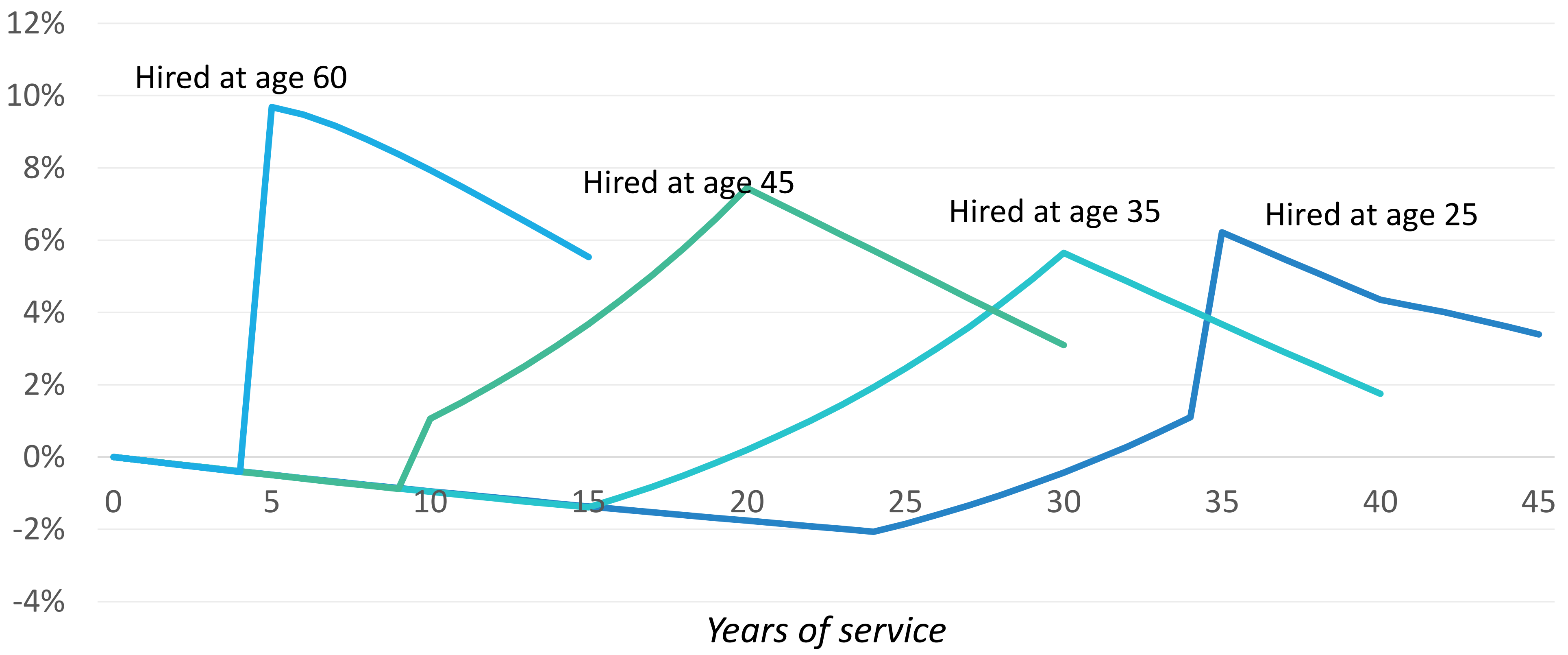


Annual Increment to the Expected Value of Lifetime Pension Benefits Net of Employee Contributions

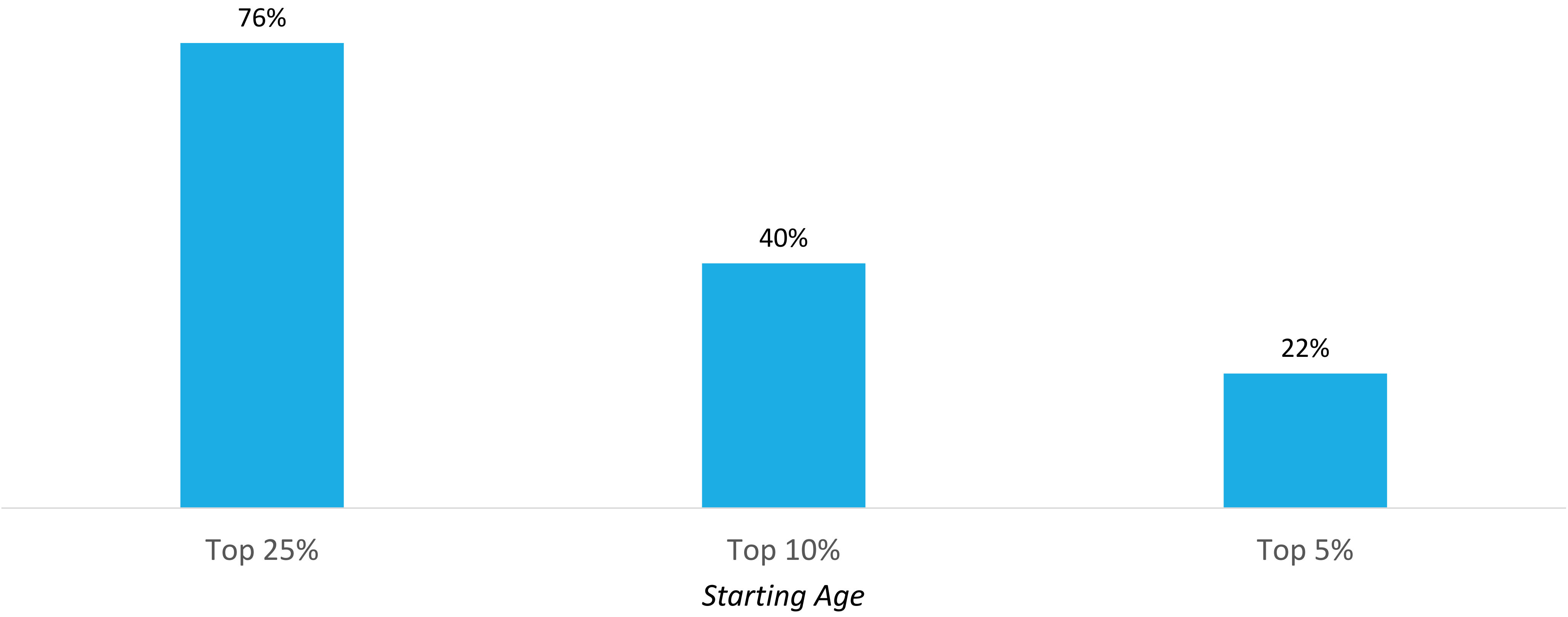


Value of State-Financed Lifetime Pension Benefits

Percentage of salary that must be set aside each year to finance benefits



Percentage of Employer-Financed Benefits Going to Participants with the Highest Lifetime Benefits



Key Questions for Reform

- How can competing goals by reconciled?
  - Improve financing and control costs
  - Maintain adequate benefits
  - Attract and retain qualified workers
- How should reforms costs be distributed?
  - Taxpayers
  - Current employees and retirees
  - New/future employees

Common reform options

- Change rules governing traditional pensions
  - Increase employee contributions
  - Reduce/suspend COLAs
  - Trim multiplier, bump up retirement age
  - Less commonly, adjust FAS for early separators, award longevity bonus to late retirees
- Move to cash balance or hybrid plans
- SAFE Retirement Plan

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