

# PSERS and BASD

## Rate Spike/Plateau Presentation

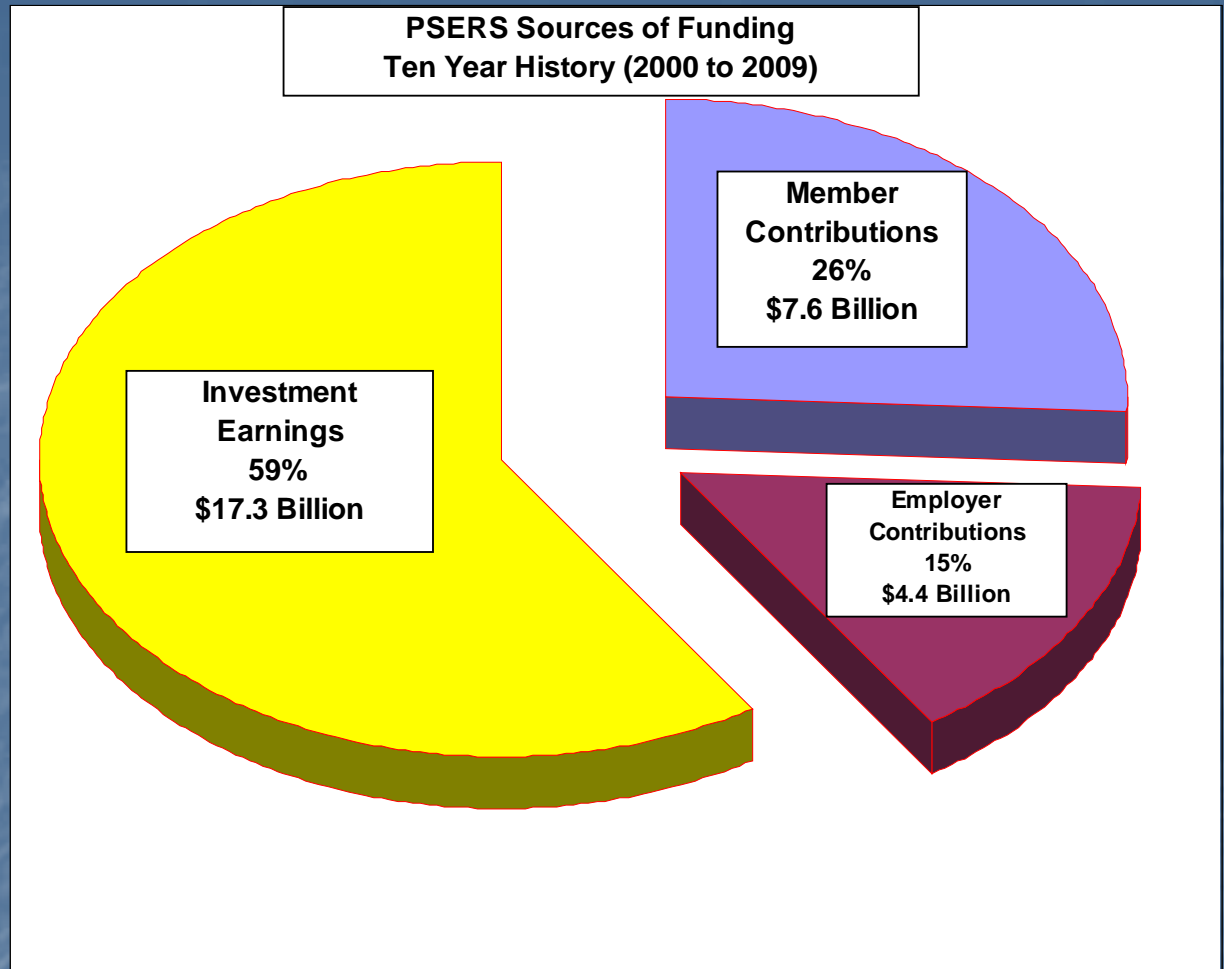


# Pennsylvania Pensions 101

- Pennsylvania School Employees' Retirement System (PSERS) vs. PA State Employees' Retirement System (PA SERS)
- PSERS is a governmental, (non ERISA), mandatory, multi-employer, defined benefit pension plan for Pennsylvania school employees
- PSERS was established on July 18, 1917 and thus is one of the oldest public pension plans in the United States
  - PSERS principal plan document is the Public School Employees' Retirement Code, 24 Pa.C.S. §8101 *et. seq.*
- PSERS is governed by a 15 person Board of Trustees, and has a complement of 310 employees
- PSERS serves over 547,000 members
- Defined Benefit Plan vs. Defined Contribution Plan

# PSERS' Overview

- PSERS is funded by three sources:
  - Employee Contributions,
  - Employer Contributions, and
  - Investment Earnings
- Investment earnings have been the primary source of funding for PSERS benefits, dwarfing the contributions from both school employers and PSERS active members



Over the last 25 years, 20% of PSERS' funding has come from school employers. Another 15% has come from PSERS' active members. All the rest – 65% – has come from investment earnings

# PSERS' Investment Rates of Return as of:

- FY 1999/2000 - 11.9%
- FY 2000/2001 - (7.4)%
- FY 2001/2002 - (5.3)%
- FY 2002/2003 - 2.7%
- FY 2003/2004 - 19.67%
- FY 2004/2005 - 12.87%
- FY 2005/2006 - 15.26%
- FY2006/2007 - 22.93%
- FY 2007/2008 - (2.82)%
- FY 2008/2009 - (26.54)%

Below PSERS' annual actuarial earnings assumption therefore resulting in an actuarial loss

Over the past 25 years the Fund earned an annualized rate of return of 9.23% which is above the Fund's actuarial rate of return for the same period

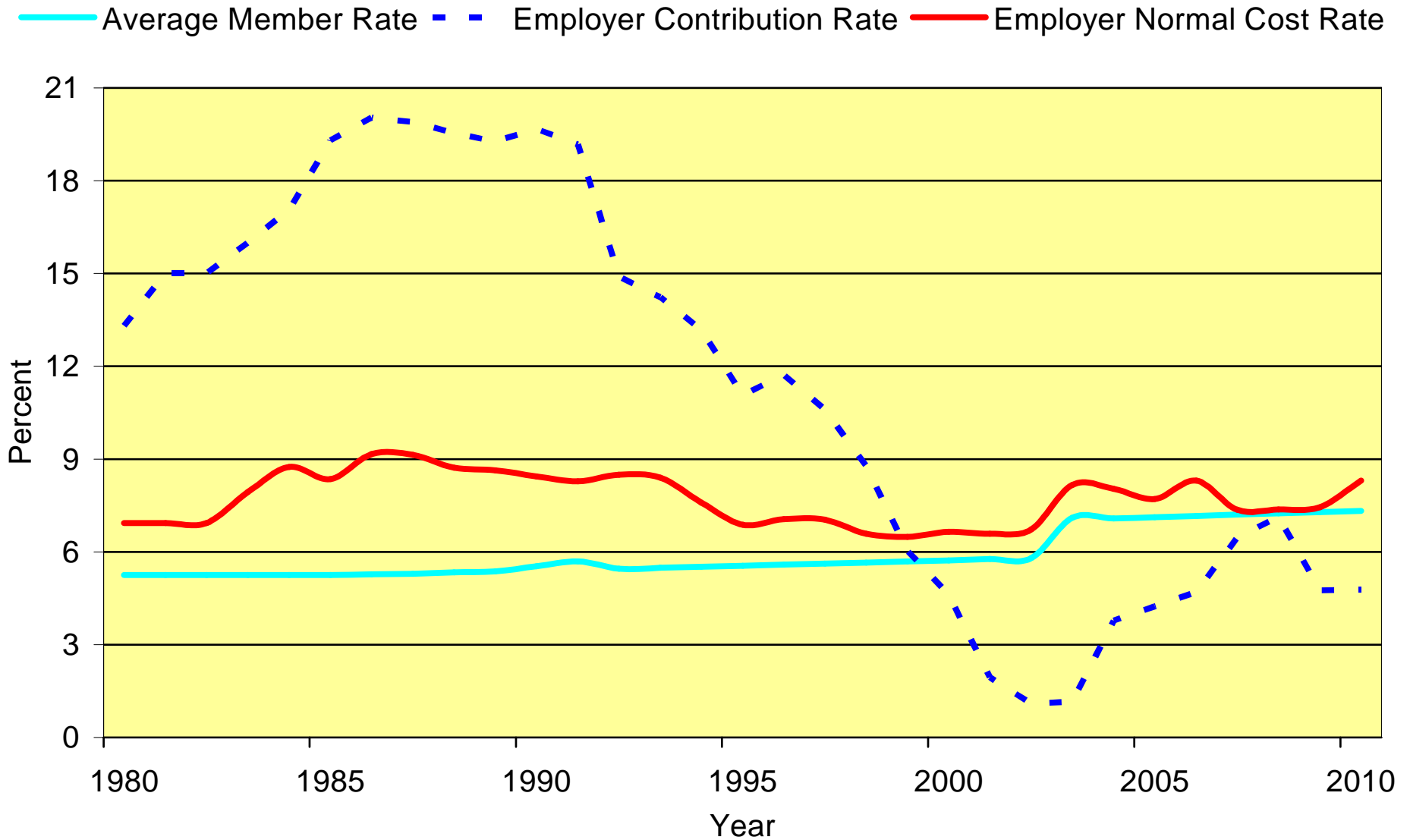
# Current Employer Contribution Rate



# Employer Contribution Rate

- **Employer contribution rate for the current fiscal year 2009/2010 - ends June 30, 2010**
  - The FY 2009/2010 rate is **4.78%**
  - The **4.78%** rate is composed of a **0.78%** rate for health insurance premium assistance and a pension rate of **4.00%**
  - School payroll for FY 2009-2010 is estimated to be \$12.9 billion
- **Employer contribution rate for the next fiscal year 2010/2011 - begins on July 1, 2010**
  - On December 11, 2009, PSERS Board certified the employer contribution rate for FY 2010-2011
  - The rate for FY 2010-2011 is **8.22%** (**0.64%** for health insurance premium assistance and **7.58%** for the pension rate)
  - School payroll for FY 2010-2011 is estimated to be \$13.5 billion
- **The Commonwealth reimburses school employers for not less than 50% of the employer contribution rate**
  - Statewide average is **55/45%** split with the Commonwealth paying **55%**

## History of PSERS' Contribution Rates as a Percent of Payroll



# History of the Employer Contribution Rate from the Peak Rate in 1986

SCHOOL YEAR ENDED	TOTAL EMPLOYER CONTRIBUTION RATE	AVG. EMPLOYEE CONTRIBUTION RATE
1986	20.040%	5.27%
1987	19.900%	5.29%
1988	19.540%	5.34%
1989	19.270%	5.37%
1990	19.680%	5.53%
1991	19.180%	5.69%
1992	14.900%	5.46%
1993	14.240%	5.48%
1994	13.170%	5.51%
1995	11.060%	5.55%
1996	11.720%	5.59%
1997	10.600%	5.62%
1998	8.760%	5.65%
1999	6.040%	5.69%
2000	4.610%	5.72%
2001	1.940%	5.77%
2002	1.090%	6.43%
2003	1.150%	7.10%
2004	3.770%	7.08%
2005	4.230%	7.12%
2006	4.690%	7.16%
2007	6.460%	7.21%
2008	7.130%	7.25%
2009	4.760%	7.29%
2010	4.780%	7.32%
2011	8.22%	7.34%

# Projected Employer Contribution Rate Spike



May 6, 2010

[www.psers.state.pa.us](http://www.psers.state.pa.us)

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**Public School Employees' Retirement System of Pennsylvania**  
**Projection of Contribution Rates and Funded Ratios As of June 30, 2009**  
**Market Returns and Pension Rate Floors Set by User**  
**Contributions Determined under Current Law**

**Market Returns Scenario 1**

Fiscal Year Ending June	Appropriation Payroll (thousands)	Fiscal Year Market Rate of Return	Pension Rate Floor	Employee Contribution Rate	Employer Normal Cost	Unfunded Liability Rate	Preliminary Employer Pension Rate	Health Care Contribution	Total Employer Contribution Rate	Projected Total Employer Contribution (thousands)	Funded Ratio	Unfunded Accrued Liability (\$ Millions)	GASB Compliant?
2008	\$ 12,881,244	(2.82) %	4.00 %	7.25 %	6.68 %	(0.24) %	6.44 %	0.69 %	7.13 %		86.0 %	\$ 9,923.0	
2009	12,500,000	(26.54)	4.00	7.29	6.68	(3.37)	3.31	0.76	4.76		<b>79.2</b>	<b>15,739.2</b>	
2010	12,899,000	8.00	4.00	7.32	7.35	(3.72)	3.63	0.78	4.78	\$ 616,572	73.4	20,898.6	
<b>2011</b>	<b>13,510,000</b>	8.00	4.00	<b>7.34</b>	<b>8.08</b>	<b>(0.50)</b>	<b>7.58</b>	<b>0.64</b>	<b>8.22</b>	1,110,522	66.8	27,049.9	
2012	13,920,859	8.00	4.00	7.37	8.02	1.85	9.87	0.72	10.59	1,474,219	58.3	35,213.4	
2013	14,345,321	8.00	4.00	7.38	8.00	20.50	28.50	0.72	29.22	4,191,703	54.2	40,138.3	yes
2014	14,797,664	8.00	4.00	7.40	7.96	23.42	31.38	0.71	32.09	4,748,570	55.1	40,732.8	yes
2015	15,280,148	8.00	4.00	7.42	7.93	24.97	32.90	0.70	33.60	5,134,130	56.7	40,743.0	yes
2016	15,794,512	8.00	4.00	7.43	7.91	24.68	32.59	0.68	33.27	5,254,834	58.5	40,443.9	yes
2017	16,341,270	8.00	4.00	7.44	7.89	24.18	32.07	0.67	32.74	5,350,132	60.5	39,884.5	yes
2018	16,926,735	8.00	4.00	7.45	7.87	23.54	31.41	0.65	32.06	5,426,711	62.6	39,149.0	yes
2019	17,557,664	8.00	4.00	7.46	7.85	22.78	30.63	0.64	31.27	5,490,282	64.7	38,312.8	yes
2020	18,232,076	8.00	4.00	7.46	7.84	21.97	29.81	0.61	30.42	5,546,198	66.8	37,388.2	yes
2021	18,948,040	8.00	4.00	7.47	7.82	21.15	28.97	0.59	29.56	5,601,041	68.9	36,378.2	yes
2022	19,703,172	8.00	4.00	7.47	7.81	20.35	28.16	0.59	28.75	5,664,662	71.0	35,282.2	yes
2023	20,493,701	8.00	4.00	7.48	7.79	19.57	27.36	0.59	27.95	5,727,989	73.0	34,096.3	yes
2024	21,321,539	8.00	4.00	7.48	7.78	18.81	26.59	0.59	27.18	5,795,194	75.0	32,814.5	yes
2025	22,185,011	8.00	4.00	7.48	7.77	18.08	25.85	0.59	26.44	5,865,717	77.0	31,429.6	yes
2026	23,081,835	8.00	4.00	7.48	7.77	17.38	25.15	0.59	25.74	5,941,264	79.0	29,933.6	yes
2027	24,006,797	8.00	4.00	7.49	7.75	16.71	24.46	0.59	25.05	6,013,703	80.9	28,317.8	yes
2028	24,958,599	8.00	4.00	7.49	7.74	16.07	23.81	0.59	24.40	6,089,898	82.8	26,572.8	yes
2029	25,937,456	8.00	4.00	7.49	7.73	15.46	23.19	0.59	23.78	6,167,927	84.6	24,688.1	yes
2030	26,943,962	8.00	4.00	7.49	7.72	14.88	22.60	0.59	23.19	6,248,305	86.5	22,652.6	yes
2031	27,978,093	8.00	4.00	7.49	7.71	14.33	22.04	0.59	22.63	6,331,442	88.2	20,454.2	yes
2032	29,041,527	8.00	4.00	7.49	7.70	13.81	21.51	0.59	22.10	6,418,177	90.0	18,080.0	yes
2033	30,136,493	8.00	4.00	7.49	7.69	11.18	18.87	0.59	19.46	5,864,562	91.4	16,158.1	yes
2034	31,268,441	8.00	4.00	7.49	7.68	9.89	17.57	0.59	18.16	5,678,349	92.7	14,357.1	yes
2035	32,446,271	8.00	4.00	7.50	7.66	8.57	16.23	0.59	16.82	5,457,463	93.8	12,724.7	yes
2036	33,675,824	8.00	4.00	7.50	7.64	7.42	15.06	0.59	15.65	5,270,266	94.7	11,242.6	yes
2037	34,956,565	8.00	4.00	7.50	7.63	6.11	13.74	0.59	14.33	5,009,276	95.5	10,006.0	yes
2038	36,292,078	8.00	4.00	7.50	7.62	5.67	13.29	0.59	13.88	5,037,340	96.2	8,748.9	yes
2039	37,690,635	8.00	4.00	7.50	7.60	6.45	14.05	0.59	14.64	5,517,909	97.1	7,017.7	yes

*The Board at its January 2009 meeting adopted to reduce the interest rate from 8.50% to 8.25% for the June 30, 2008 valuation and to 8.00% thereafter.*

# BASD Expenditure Impact

	<u>Wages</u>	<u>PSERS Rate</u>	<u>Contributions</u>
2007-2008	\$42,293,175	7.13%	\$3,015,503
2008-2009	\$44,366,441	4.76%	\$2,111,843
2009-2010	\$46,604,212	4.78%	\$2,227,681
2010-2011	\$48,636,059*	8.22%	\$3,997,884
2011-2012	\$50,095,141*	10.59%	\$5,305,075
2012-2013	\$51,597,995*	29.22%	\$15,076,934
2013-2014	\$53,145,935*	32.09%	\$17,054,531
2014-2015	\$54,740,031*	33.60%	\$18,392,650

\*Projected Wages for illustration

# BASD Expenditure Impact

	<u>Contributions</u>	<u>State Revenue</u>	<u>Net Increase</u>
2007-2008	\$ 3,015,503	\$1,507,752	\$1,507,752
2008-2009	\$ 2,111,843	\$1,055,921	\$1,055,921
2009-2010	\$ 2,227,681	\$1,113,841	\$1,113,841
2010-2011	\$ 3,997,884*	\$1,998,942	\$1,998,942
2011-2012	\$ 5,305,075*	\$2,652,538	\$2,652,538
2012-2013	\$15,076,934*	\$7,538,467	\$7,538,467
2013-2014	\$17,054,531*	\$8,527,265	\$8,527,265
2014-2015	\$18,392,650*	\$9,196,325	\$9,196,325

\*Projected for illustration

# BASD Tax Impact

	<u>Net Increase</u>	<u>\$ Difference</u>	<u>Tax Mills*</u>
2007-2008	\$1,507,752		
2008-2009	\$1,055,921	\$ (451,830)	- 0.23
2009-2010	\$1,113,841	\$ 57,919	+0.03
2010-2011	\$1,998,942	\$ 885,101	+0.44
2011-2012	\$2,652,538	\$ 653,596	+0.33
2012-2013	\$7,538,467	\$4,885,929	+2.44
2013-2014	\$8,527,265	\$ 988,798	+0.49
2014-2015	\$9,196,325	\$ 669,060	+0.33

\*1 Mill = \$2,000,000