

2012-2013 Employer Contribution Rate

Defined Benefit Vs. Defined Contribution

- The Public School Employees' Retirement System (PSERS) is a defined benefit plan and therefore the amount of a member's pension benefit is not tied to the investment performance of the Fund. The member's pension benefit is based on a fixed formula that is defined by the Legislature in the Retirement Code. A defined benefit plan differs from most pension plans in the private sector, which are typically defined contribution plans, like a 401K plan or Individual Retirement Account (IRA). In a defined contribution plan, the member's pension benefit will fluctuate up and down with investment performance.

Who bears investment performance risk?

- In a defined benefit plan, the members do not benefit when the investment performance of the fund is good. The Commonwealth and school employers benefit as "employer" contributors to the System through a reduced employer contribution rate to the System.
- Likewise, PSERS' members do not bear the investment risk of a down market. Investment risk is borne by the Commonwealth and school employers through the employer contribution rate, which will rise when there is investment loss at the System during a down market.
- Effective July 1, 2011 new members will bear some of the investment risk via the shared risk provisions of Act 120.

Funding Sources for the System

PSERS is funded through three sources: contributions from employees (members), the employer contribution rate which is contributions from employers (generally school districts) and the Commonwealth, and investment returns from the System.

Employee (Member) Contributions

- Employee (Member) contributions range from 5.25% to 10.30% of payroll depending on the class of membership of the employee and when they joined PSERS. Employees are expected to contribute an average of 7.40% of their salary to help fund their retirement benefit in fiscal year 2012/2013.
- Employee (member) contributions of approximately \$1.1 billion are expected in fiscal year 2012/2013.

Employer (School District and Commonwealth) Contributions

- Both the employer and the Commonwealth are responsible for paying a portion of the employer contribution rate. Employers are divided into two groups: school entities and non-school entities. School entities are responsible for paying 100 percent of the employer share of contributions to PSERS. The Commonwealth reimburses school entities for one-half the payment for employees hired on or before June 30, 1994. School entities are reimbursed by the Commonwealth based on a statutory formula for employees hired after June 30, 1994, but not less than one-half of the payment. Non-school entities and the Commonwealth each contribute one-half of the total employer rate. Total employer contributions for FY 2012/2013 are estimated at \$1.8 billion.

- The employer contribution rate setting methodology is set forth in statute. The chart below shows the employer contribution rate history over the past 15 years.

| HISTORY OF EMPLOYER CONTRIBUTION RATES | | | | |
|---|-------------------------------|--|------------------------------------|--------------------------------------|
| Fiscal Year | Employer Normal Cost % | Preliminary Employer Pension Rate % | Health Care Contributions % | Total Employer Contribution % |
| 98/99 | 6.33 | 5.89 | 0.15 | 6.04 |
| 99/00 | 6.40 | 4.36 | 0.25 | 4.61 |
| 00/01 | 6.29 | 1.64 | 0.30 | 1.94 |
| 01/02 | 5.63 | 0.00 | 1.09 | 1.09 |
| 02/03 | 7.20 | 0.18 | 0.97 | 1.15 |
| 03/04 | 7.25 | 2.98 | 0.79 | 3.77 |
| 04/05 | 7.48 | 4.00 | 0.23 | 4.23 |
| 05/06 | 7.61 | 4.00 | 0.69 | 4.69 |
| 06/07 | 6.62 | 5.72 | 0.74 | 6.46 |
| 07/08 | 6.68 | 6.44 | 0.69 | 7.13 |
| 08/09 | 6.68 | 4.00 | 0.76 | 4.76 |
| 09/10 | 7.35 | 4.00 | 0.78 | 4.78 |
| 10/11 | 8.08 | 5.00 | 0.64 | 5.64 |
| 11/12 | 8.12 | 8.00 | 0.65 | 8.65 |
| 12/13 | 8.66 | 11.50 | 0.86 | 12.36 |

- The chart below shows the 10-year projected employer contribution rates using the June 30, 2011 valuation.

| 10-YEAR PROJECTED EMPLOYER CONTRIBUTION RATES [*] | | |
|---|---|---|
| (Presumes an 7.5% rate of return) | | |
| Fiscal Year Ending June | Total Employer Contribution Rate % | Projected Total Employer Contribution (thousands) \$ |
| 12/13 | 12.36 | 1,767,109 |
| 13/14 | 16.75 | 2,470,057 |
| 14/15 | 21.25 | 3,216,734 |
| 15/16 | 25.56 | 3,975,362 |
| 16/17 | 26.26 | 4,201,181 |
| 17/18 | 26.80 | 4,414,922 |
| 18/19 | 27.53 | 4,673,234 |
| 19/20 | 28.04 | 4,906,946 |
| 20/21 | 27.76 | 5,010,534 |
| 21/22 | 27.58 | 5,136,895 |

Investment Returns

- PSERS actual rate of return for fiscal year ended June 30, 2011 was 20.37% and the plan net assets increased from \$45.8 billion at June 30, 2010 to \$51.4 billion at June 30, 2011.

About the Pennsylvania Public School Employees' Retirement System

PSERS is the 16th largest state-sponsored defined benefit pension fund in the nation. As of September 30, 2011 PSERS had net assets of \$47.7 billion and a membership of more than 279,000 active members and over 194,000 annuitants and beneficiaries receiving benefits. For more information visit PSERS' website at www.psers.state.pa.us

^{*} The projection of contribution rates is based on the assumption that there are no changes in demographics or economic assumptions, no changes in benefit provisions, and no actuarial gains or losses other than gains or losses on the actuarial value of assets that result from recognizing currently deferred gains or losses on the market value of assets. Those assumptions may vary from actual experience and as a result projected employer contribution rates will increase or decrease.