PUBLIC EMPLOYEE RETIREMENT COMMISSION

ACTUARIAL NOTE TRANSMITTAL

Bill ID: House Bill Number 420, Printer's Number 457

System: Public School Employees' Retirement System
and the State Employees' Retirement System

Subject: Granting "30 and Out" as a Permanent Benefit Enhancement

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SYNOPSIS

House Bill Number 420, Printer's Number 457, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code by establishing the "30 and Out" special early retirement incentive as a permanent benefit enhancement.

Under House Bill Number 420, Printer's Number 457, an eligible individual would be either:

> A member of PSERS who has at least 30 eligibility points, terminates service, and files an application for an annuity with an effective date of retirement after the completion of the school term (as defined in section 8324 (c) of the bill), but no earlier than May 15, nor later than the ensuing July 15 of any year after the effective date of the Act; or
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> A member of SERS who has at least 30 eligibility points, terminates service, and files an application for an annuity in any year after the effective date of the Act.

DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of PSERS and SERS (Systems) are to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. As of June 30, 1999, there were 664 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 1999, there were 108 participating state and other organizations in SERS. Membership in the Systems is mandatory for most school and state employees. Certain other employees are not required but are given the option to participate. As of June 30, 1999, PSERS had 223,495 active members, and as of December 31, 1999, SERS had 108,308 active members. The general annual retirement benefit is the product of two percent of the member's high three-year average salary multiplied by the member's years of service.

DISCUSSION (Cont'd)

Under the Public School Employees' Retirement Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service, and under the State Employees' Retirement Code, superannuation or normal retirement age for most members is age 60 with three years of service or any age with 35 years of service, while age 50 is the normal retirement age for members of the General Assembly and certain public safety employees. Temporary provisions of the Codes also have permitted members with 30 or more years of service to retire at any age and receive full retirement benefits with no benefit reduction for retiring prior to the superannuation or normal retirement age. The most recent special early retirement provisions expired June 30, 1999. The special early retirement provisions were adopted in 1984 and revised and extended in 1985 (SERS only), 1986, 1987, 1988, 1991, 1994 (retroactive to 1993), and 1998.

In adopting the original special early retirement windows in 1984, the General Assembly indicated that it was the intention of the General Assembly:

> During a period of reduced student population in the public school districts, changing governmental services, and of fiscal restraint, to avail the school districts and the Commonwealth of cost-sharing opportunities and to reduce the need for the school districts and the Commonwealth to furlough employees by granting eligible employees a temporary option for early retirement, and
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> During a period of changing governmental services and fiscal restraint to avail the Commonwealth of cost-sharing opportunities and to reduce the need for the Commonwealth to furlough state employees by granting eligible state employees a temporary option for early retirement.

As discussed above, these temporary early retirement windows, which originally were from July 1, 1985, to June 30, 1986, were extended and revised a number of times until the most recent one that expired on June 30, 1999.

Summary of Actuarial Cost Impact

Public School Employees' Retirement System

The consulting actuary of the Public School Employees' Retirement System has estimated the cost for the provision of "30 and Out" as a permanent benefit enhancement. The estimate has been reviewed by the consulting actuary of the Commission who has determined that the new early retirement provisions contained in the bill will result in the following costs.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$1,058,000,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$27,000,000	0.27%
Amortization Payment[2]	84,000,000	0.84%
Total Increase in Employer Annual Costs[3]	$111,000,000	1.11%

1 Paid in part by the Commonwealth and in part by the school districts and other educational employers.

2 First year payment only. Amortization payments increase five percent a year for 20 years.

3 First year costs only.

State Employees' Retirement System

The consulting actuary of the State Employees' Retirement System has estimated the cost for the provision of "30 and Out" as a permanent benefit enhancement. The estimate has been reviewed by the consulting actuary of the Commission who has determined that, if SERS were not prefunding "30 and Out," the bill would result in the following cost.

	Amount
Increase in Unfunded Actuarial Accrued Liability[1]	$331,500,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$ 6,100,000	0.13%
Amortization Payment[2]	24,100,000	0.52%
Total Increase in Employer Annual Costs[3]	$30,200,000	0.65%

1 The annual funding requirements for the increased actuarial accrued liability attributable to the bill are being satisfied by current employer contributions due to the system's assumption that the benefit provided in the bill is already in effect.

2 First year payment only. Amortization payments increase five percent a year for 20 years.

3 First year costs only.

POLICY CONSIDERATIONS

In reviewing the bill, the Commission staff identified the following policy considerations.

Fundamental Benefit Enhancement. **( )** The proposed adoption of "30 and Out" as a permanent benefit enhancement differs significantly in purpose from the now expired, previous, temporary early retirement windows that were intended to function as an incentive to induce early retirement. The purpose of the bill shifts from providing an early retirement incentive to providing a fundamental benefit enhancement. In order to encourage early retirements in the future, temporary early retirement provisions based only on the service credits accumulated would need to provide for unreduced retirement earlier than the previous "30 and Out" windows.

Impact on Cost-of-Living Adjustments. **(-)** To the extent that members take advantage of the benefit enhancement, they will tend to retire with smaller pensions that will be exposed to erosion of purchasing power resulting from inflation over longer retired lifetimes. This aspect of providing "30 and Out" as a permanent benefit enhancement could result in an increased need for future ad hoc postretirement cost-of-living adjustments.

Impact of Postretirement Health Insurance Costs **(-)** To the extent that members take advantage of the benefit enhancement, they will have longer retired lifetimes. The additional years on retirement will likely increase the cost of providing postretirement health insurance benefits to those members.

COMMISSION RECOMMENDATION

The Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

ATTACHMENTS

Actuarial note prepared by William A. Reimert and Katherine A. Warren of Milliman & Robertson, Inc.

House Bill Number 420, Printer's Number 457.