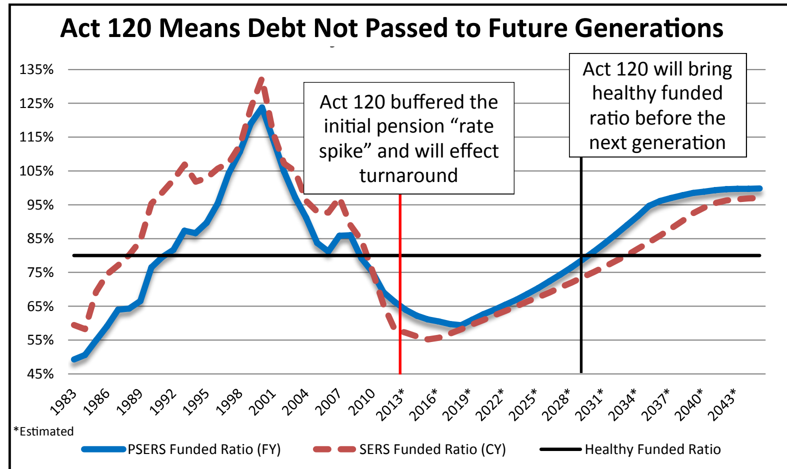
Act 120 — Pension Reform in Action

In 2010, the legislature and the governor faced rapidly rising employer pension contribution rates that were set to begin climbing in FY 2010/11 and then jump sharply — to nearly 30 percent — in 2012/13; peaking in 2013/14 for SERS, and in 2015/16 for PSERS. This increase is often referred to as the "**rate spike**."



In response to the pending employer contribution pension rate spike, an overwhelmingly bi-partisan majority of the House and Senate approved Act 120 (HB 2497) – a pension reform roadmap in November 2010.

Act 120 was widely viewed as a responsible solution. The design of the broadly-supported legislation establishes predictable, moderated increases in employer funding in a series of small steps over several years ("rate collars"), rather than one huge step in 2012. It also **reduces the cost of benefits by 60 percent for new employees** — in effect new members are paying for their own retirement benefits. Each pension system will return to a healthy funded ratio before the torch is handed to the next generation (see chart above).

Act 120 made significant benefit cuts for new employees, however it gave them the option to receive the same benefits as current employees if they paid a higher rate.

The following **benefit cuts to new employees generate $33.1 billion in savings** through 2043/44:

- Reduces the monthly payment (multiplier) for retirees by changing the underlying formula
- Eliminates lump sum withdrawal of contributions and interest at retirement
- Increases normal retirement age by 5 years, from 60 to 65 for most people
- Extends vesting period from 5 to 10 years
- Creates "shared risk" allowing increased employee contributions for investment underperformance

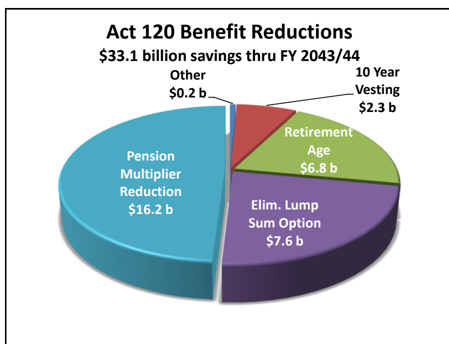
Don't let Gov. Corbett do a *180° on Act 120*.

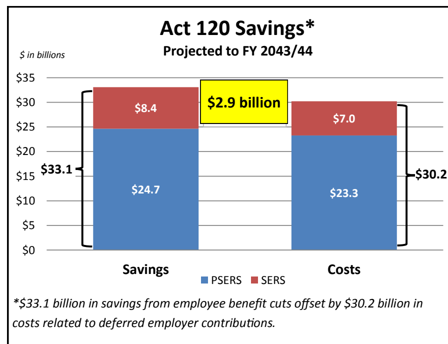
To reduce the impact to employers, Act 120 put in place "rate collars" that capped the growth of employer contributions to 3 percent in FY 11/12; 3.5 percent in FY 12/13; and 4.5 percent thereafter until no longer needed.

Actuarial adjustments were applied that reset the repayment of the unfunded liability over time using $30.2 billion from the $33.1 billion in employee benefit savings to provide short-term relief to employers.

In summary, the Act 120 reform roadmap provides a projected **net savings of $2.9 billion** through FY 2043/44 for both systems, and includes a shared risk provision requiring workers to contribute more for investment underperformance over a period of time.

Additionally, Act 120 **prohibits the use of pension obligation bonds** — a financing tool that essentially borrows to repay the unfunded liability.





*$33.1 billion in savings from employee benefit cuts offset by $30.2 billion in costs related to deferred employer contributions.

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