

Fiscal Year 2015/2016 Employer Contribution Rate

On December 9, 2014 the PSERS Board of Trustees certified an employer contribution rate of 25.84% for fiscal year 2015/2016, which begins July 1, 2015. PSERS continues to be underfunded as the rate caps established under Act 120 of 2010 remain in effect. The pension component of the rate was capped at a 4.50% increase from the previous year.

Funding Sources for the System

The Public School Employees' Retirement System (PSERS) is a defined benefit plan. 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 7.49% of their salary to help fund their retirement benefit in fiscal year 2015/2016. Employee (member) contributions of approximately \$1 billion are expected in fiscal year 2015/2016.
- As of July 1, 2011 new members bear some of the investment risk via the shared risk provisions of Act 120 of 2010. With a "shared risk" program new members since July 1, 2011 share some of the risk when investments underperform. Since PSERS investment performance exceeded the Act 120 benchmarks, the Board certified and retained the current T-E member contribution rate of 7.50% and T-F member contribution rate of 10.30% for the three year period from July 1, 2015 to June 30, 2018.

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 2015/2016 are estimated at \$3.45 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 and the certified rate for next fiscal year 2015/2016.

HISTORY OF EMPLOYER CONTRIBUTION RATES				
Fiscal Year	Employer Normal Cost %	Employer Pension Rate %	Health Care Contributions %	Total Employer Contribution %
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
13/14	8.57	16.00	0.93	16.93
14/15	8.46	20.50	0.90	21.40
15/16	8.38	25.00	0.84	25.84

- The chart below shows the 10-year projected employer contribution rates using the June 30, 2014 valuation.
 - Longer term employer contributions thru FY 2047 are expected to be nearly \$13.7 billion less than previously projected.
 - The employer normal cost continues to decrease as the impact of the benefit reductions in Act 120 is realized.
 - The pension debt or the unfunded accrued liability (UAL) is \$500 million less than projected for this year due to PSERS strong FY 2014 investment performance and lower employer payroll. It was projected at \$35.6 billion but decreased to \$35.1 billion.

PROJECTED EMPLOYER CONTRIBUTION RATES AND TOTAL EMPLOYER CONTRIBUTIONS		
* (Presumes a 7.5% rate of return)		
Fiscal Year Ending June	Total Employer Contribution Rate %	Projected Total Employer Contribution (thousands) \$
15/16	25.84	3,456,100
16/17	29.69	4,079,195
17/18	30.62	4,316,593
18/19	31.56	4,569,239
19/20	32.23	4,794,454
20/21	32.02	4,892,886
21/22	31.90	5,005,091
22/23	31.96	5,149,606
23/24	31.90	5,276,635
24/25	31.83	5,404,815

Investment Returns

- PSERS' rate of return for fiscal year ended June 30, 2014 was 14.91%, which added approximately \$7.1 billion (net of fees) in investment income to the Fund. The Fund had plan net assets of \$53.3 billion at June 30, 2014. PSERS investment outperformance well above its annual return assumption of 7.5% also helped decrease the unfunded accrued liability.
- From a historical total fund perspective, using active managers for a portion of PSERS' assets has been very beneficial for the Fund. From FY 2011 through FY 2014, PSERS has generated gross excess returns (returns above the index) of approximately \$6.1 billion from active management and paid approximately \$2.0 billion in total management fees and all other investment expenses netting a gain of \$4.1 billion. Without active management, PSERS' net investment income would have been \$4.1 billion lower.

About the Pennsylvania Public School Employees' Retirement System

PSERS is the 19th largest state-sponsored defined benefit pension fund in the nation and has a membership of more than 263,000 active members and nearly 214,000 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.