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William Hamilton, President & Eastern PA Legislative Coordinator – Joseph Molinero, Sec.-Treasurer & Western PA Legislative Coordinator – Tim O'Neill, Consultant – Dan Grace, Trustee & Legislative Advisor – Robert Baptiste, Esq. Legal Advisor

LEGISLATIVE ACTION ALERT

UNDERSTANDING THE NEW PA PROPOSED PENSION BILL

The Patriot-News

(Information taken from various news articles)

- Starting in 2019, only hazardous-duty state employees, such as state troopers and corrections officers among others, will be eligible to participate in the current defined benefit system that has been part of public school and state employees' compensation package for decades.
- State employees hired after Jan. 1, 2019, and school employees hired after July 1, 2019, will be forced to move into a new plan that offers them three retirement savings options. Employees hired before that date will have the option of making a one-time switch to one of the new retirement savings plan options.
- Two of the three options are a combination of a guaranteed pension plan and a defined contribution, or 401(k)-style plan. The third option is a straight defined contribution plan. You'll find more detail on each plan below.
- **Option 1** The first option offered to future employees would be a hybrid defined contribution/defined benefit plan that would require workers to contribute 8.25 percent of their pay for retirement, split between the guaranteed pension and the new 401(k)-style plan. Upon retirement, they would receive a guaranteed pension based on 1.25 percent of their final average salary (see below for how that is calculated) times years' service, plus whatever they earned through their 401(k)-style account.
- **Option 2** This is another hybrid plan in which workers could reduce their payroll deduction to 7.5 percent (also split between the guaranteed pension and 401(k)-style plan), and receive a guaranteed pension based on 1 percent of final average salary times years of service, also supplemented by the new 401(k)-style plan.
- **Option 3** This is a full defined contribution plan which is similar to what most workers in the private sector have. It would require a minimum employee payroll contribution of 7.5 percent. The employer contributes 2 percent of salary for public school employees and 3.25 percent for state government employees.

- Under all scenarios, the fiscal analyses tell us, the workers coming into employment will rest on a new third-tier benefit that is lower than the pension kings living off of Act 9 from 2001, and the post-2011 hires using Act 120.
- The Independent Fiscal Office found that under the best-case scenario, a career worker with a final year salary of \$60,000 would see a benefit that equals from 82 to 84 percent of a similar worker hired today. That would equate to a replacement of pre-retirement income of about 55 percent to 57 percent. Coupled with Social Security, that would get our worker to about 90 percent.
- Even though employees have several options, one thing they can't do is change their mind. Once in a plan, they are there to stay for the duration of their employment with state government or a public school.
- Anyone who leaves state or school service and later returns must go back into the retirement savings option they previously chose. There's no switching allowed.
- Those opting for hybrid plans wouldn't become vested for the defined benefit component until after 10 years of service. They become vested for the employer contribution to the 401(k)-style components of the hybrid plans or the standalone defined contribution after three years of employment but would vest immediately for the employee contribution to a plan.
- The pension bill also changes the way the final average salary is calculated. It would be the equal of the average of the five highest years of compensation, instead of three years which is used to calculate benefits in the current system.
- Another big change is the normal retirement age for full pension benefits is pushed back two years, to 67, or any combination of age and years of service that adds up to 97. The 97 is five more than what is the current rule that is used to determine eligibility for full pension benefits.
- Starting in 2019, state lawmakers and judges would be treated no differently than state and school employees in the proposed pension bill. Those taking office after Jan. 1 that year will be eligible to participate in any of the three new pension plan options. Those in office before that date have the option of switching to one of the new plans or they can remain in the guaranteed pension system.

Who can stay in the current pension plan?

Exempted from the new plan are most uniformed or hazardous-duty state employees such as state police, correctional officers, game wardens, state park rangers and Capitol police, among others, which make up about a quarter of the state workforce. They would remain in the defined benefit plan that provides a guaranteed pension benefit.