

Act 5 of 2017

Brief Overview

June 28, 2017



Who we are currently...

- A defined benefit plan with 4 different membership classes
 - Class TC – Pre-Act 9 of 2001
 - Class TD – Act 9 of 2001
 - Class TE and Class TF – Act 120 of 2010 added a defined contribution-like element by putting in place “shared risk” for new members hired on or after July 1, 2011
- Benefit is determined by a formula, not investment performance

Years of Service	x	Pension Multiplier	x	Final Average Salary	=	Maximum Annual Benefit
		(2% or 2.5 %)		(Highest 3 years)		

Who we are on July 1, 2019...

- ▶ A legacy defined benefit plan with 4 membership classes **AND a hybrid benefit plan with two membership classes AND a separate defined contribution plan (401 a)**
 - Class TC – Pre-Act 9 of 2001
 - Class TD – Act 9 of 2001
 - Class TE and Class TF – Act 120 of 2010
 - **Class TG – Act 5 of 2017 (Default plan)**
 - **Class TH – Act 5 of 2017**
 - **DC participant – Act 5 of 2017**



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- ▶ Governor signed into law on June 12, 2017
 - No impact on class TC or TD active members
 - No impact on retired members
 - Minimal impact on Class TE and TF
- ▶ Affects new members as of July 1, 2019
- ▶ Current members who are active on July 1, 2019 will have a one-time, irrevocable right to elect into any of the three new plans within 90 days after notice

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- ▶ New members have 3 options:
 - Class TG – DB/DC hybrid plan – **Default Plan**
 - Class TH – DB/DC hybrid plan
 - DC plan only

Class TG membership– Hybrid Plan **Default**

▶ T–G Defined Benefit (DB) Plan Provisions

- Members contribute 5.50%
- Multiplier is 1.25 %
- 5 year Final average salary
- Superannuation is the earlier of:
 - Age 67 with three years of service; or
 - Rule of 97 (sum of the participant’s age and service is at least equal to 97), with 35 years of service
- Special early retirement:
 - Attainment of age 57 with 25 years of service; and
 - Members under age 62 with less than 25 years of service receive a special two–step reduction factor:
 - (1) one factor for a benefit received between age 62–67; and
 - (2) another factor for a benefit received below age 62

Class TG membership– Hybrid Plan **Default**

- ▶ **T–G Defined Benefit (DB) Plan Provisions (continued)**
 - 10 year vesting
 - Cost neutral Option 4 lump sum withdrawal
 - Shared risk/gain provision – member’s rate can increase or decrease 3% below or 3% above member’s basic contribution rate, in increments of 0.75%
 - Eligible for Health Care Premium assistance
 - Disability benefits – 5–year minimum based on a 2.0% accrual rate

Class TG membership– Hybrid Plan **Default**

- ▶ **T–G – Defined Contribution (DC) Plan Provisions**
 - Mandatory participant contributions (MPC): 2.75%
 - MPC are pre–tax “pickup” contributions
 - MPC vest immediately
 - Employer contribution: 2.25%
 - Employer contributions vest after 3 years of service
 - Each DC participant will have an individual investment account –all participant and employer contributions are accumulated, investment income, fees, and costs are credited or charged

Class TH membership – Alternative Hybrid Plan

▶ T–H DB Plan Provisions

- Members contribute 4.50%
- Multiplier is 1.00 %
- Superannuation is:
 - Age 67 with three years of service
- Special early retirement:
 - Attainment of age 55 with 25 years of service; and
 - Members under age 62 and with less than 25 years of service receive a special two–step reduction factor:
 - (1) one factor for a benefit received between age 62–67; and
 - (2) another factor for a benefit received below age 62

Class TH membership – Alternative Hybrid Plan

▶ T–H DB Plan Provisions (continued)

- 10 year vesting
- Cost neutral Option 4 lump sum withdrawal
- Shared risk/gain provision – member’s rate can increase or decrease 3% below or 3% above member’s basic contribution rate, in increments of 0.75%
- Eligible for Health Care Premium assistance
- Disability benefits – 5–year minimum based on a 2.0% accrual rate

Class TH membership – Alternative Hybrid Plan

▶ T–H Defined Contribution (DC) Plan Provisions

- Mandatory participant contribution(MPC): 3% of pay
 - MPC are pre-tax “pickup” contributions
 - MPC vest immediately
- Employer contribution: 2% of pay
 - Employer contributions vest after 3 years of service
- Each DC participant will have an individual investment account – all participant and employer contributions are accumulated, investment income, fees, and costs are credited or charged

Class Defined Contribution (DC) Participant – DC-only Plan

- ▶ DC plan – MPC: 7.5% of pay
 - MPC are pre-tax “pickup” contributions
 - MPC vest immediately
- ▶ Employer contribution: 2% of pay
 - Employer contributions vest after 3 years of service
- ▶ Each DC participant will have an individual investment account – all participant and employer contributions are accumulated, investment income, fees, and costs are credited or charged
- ▶ Participants are eligible for Health Care Premium Assistance
- ▶ Class DC participants earn one eligibility point for each fiscal year in which the participant contributes to the trust

Class TE and TF Benefit Reform Provisions

- ▶ Effective immediately, TE and TF members are eligible to elect a cost neutral Option 4 lump sum withdrawal at benefit commencement for all service
- ▶ Members are immediately subject to a shared **gain** provision under which the member's rate can decrease no more than 2% below member's basic contribution rate
 - Note: members already subject to shared risk

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- ▶ Other Significant Changes
 - Creates the Pension Management and Asset Review Commission
 - Employer must allow leave to Board members to attend Board and committee meetings
 - Establishes Board training requirements of 8 hours per year
 - Delinquent employers will be charged interest at the assumed rate of return
 - Secretary of Banking and Securities added as Board member, ex officio; gubernatorial appointments are reduced from 2 to 1
 - Pension benefits determined solely by the Code; CBAs or arbitration awards cannot change terms of the Code

Act 5 – Significant Changes – Continued

- Shared risk payments will not be required in any fiscal year in which the actuarially required contributions are not made
- Military service will be credited in the Class in which the member is when the purchase is made
- Purchases of service of Class T-G and Class T-H members will be at full actuarial cost, except for military service
- Defines the actuarially required contribution as the normal cost plus the amount to fully amortize the unfunded liability in accordance with actuarial standards of practice
- Board becomes an independent agency under the Commonwealth Attorneys Act – Board has full authority to hire its own legal counsel

Questions