

Fiscal Year 2016/2017 Employer Contribution Rate

On December 8, 2015 the PSERS Board of Trustees certified an employer contribution rate of 30.03% for fiscal year 2016/2017, which begins July 1, 2016. The rate caps established under Act 120 of 2010 are no longer in effect. This year the increase in the pension component of the rate was less than the 4.50% rate collar.

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 7.52% of their salary to help fund their retirement benefit in fiscal year 2016/2017. Employee (member) contributions of approximately \$1 billion are expected in fiscal year 2016/2017.
- 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 during the last measurement period, 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 2016/2017 are estimated at \$4.1 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 2016/2017.

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
16/17	8.31	29.20	0.83	30.03

- The chart below shows the 10-year projected employer contribution rates using the June 30, 2015 valuation.

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) \$
16/17	30.03	\$4,068,765
17/18	32.04	4,376,026
18/19	33.27	4,662,017
19/20	34.20	4,919,810
20/21	33.51	4,951,277
21/22	33.51	5,087,398
22/23	33.75	5,262,621
23/24	33.84	5,416,727
24/25	33.94	5,574,748
25/26	34.18	5,759,285

Investment Returns

- PSERS' rate of return for fiscal year ended June 30, 2015 was 3.04%, which added approximately \$1.3 billion (net of fees) in investment income to the Fund. The Fund had plan net assets of \$51.9 billion at June 30, 2015.
- 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 2015, PSERS has generated gross excess returns (returns above the index) of approximately \$8.2 billion from active management and paid approximately \$2.5 billion in total management fees and all other investment expenses netting a gain of \$5.7 billion. Without active management, PSERS' net investment income would have been \$5.7 billion lower over the past five fiscal years which would have to be made up through additional increases to the employer contribution rate.

About the Pennsylvania Public School Employees' Retirement System

PSERS is the 20th largest state-sponsored defined benefit pension fund in the nation and has a membership of approximately 260,000 active members and nearly 220,000 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.