PRESENTATION FOR

2012 PENNSYLVANIA EDUCATION FINANCE SYMPOSIUM

Presented by

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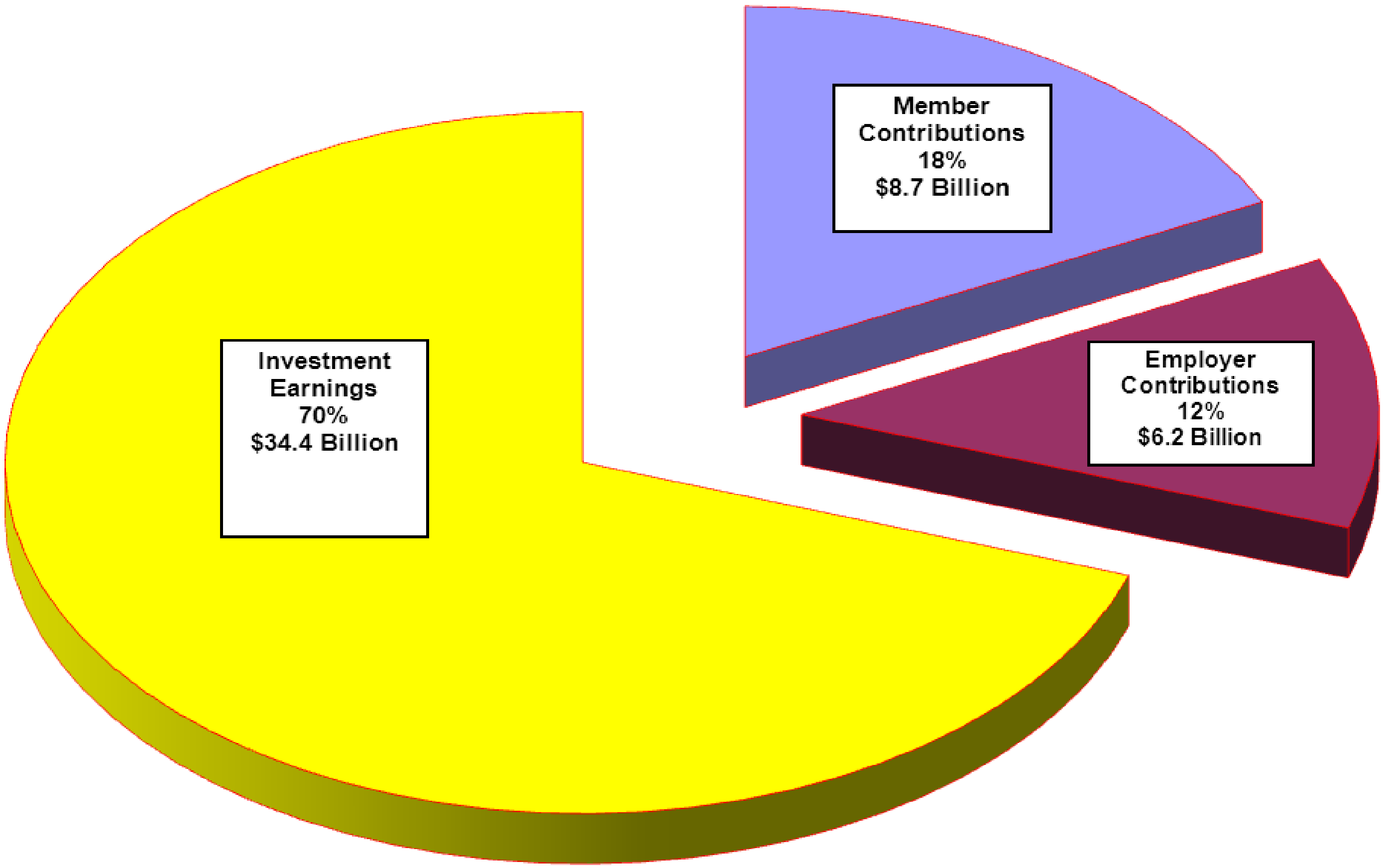
How is PSERS Funded?

- Defined benefit pension systems, like PSERS, are designed to remain solvent by receiving three regular funding streams
  - Investment earnings
  - Employee (member) contributions
  - Employer contributions

- Investment earnings are the largest source of funding for PSERS
  - During the past 10 years, when two significant economic downturns occurred, investment earnings were still by far the largest source of funding for PSERS

PSERS Sources of Funding
Ten Year History (2003 to 2012)



Over the last 25 years, 17% of PSERS' funding has come from school employers. Another 15% has come from PSERS' active members. All the rest – 68% – has come from investment earnings

How have PSERS investments performed?

PSERS' Performance (Net of Fees) As of September 30, 2012

Asset Class	Quarter	Fiscal Year to Date*	1 Year	3 Years (Annualized)	5 Years (Annualized)	10 Years (Annualized)
Equities						
U.S. Equities	6.29%	6.29%	29.74%	14.20%	0.80%	8.26%
Non-U.S. Equities	7.77	7.77	16.04	5.57	-1.92	11.39
Fixed Income	4.33	4.33	12.09	12.18	9.80	8.05
Commodities	11.45	11.45	11.31	7.87	-1.40	N/A
Absolute Return	2.43	2.43	3.59	9.39	N/A	N/A
Master Limited Partnership	9.25	9.25	31.72	29.06	N/A	N/A
Risk Parity	7.23	7.23	24.36	N/A	N/A	N/A
Real Estate	1.70	1.70	6.85	7.11	-9.57	6.53
Private Equity / Venture Capital / Private Debt	0.61	0.61	5.85	14.55	4.76	13.00
TOTAL FUND	3.85%	3.85%	11.45%	10.71%	0.39%	8.78%

* - PSERS' Fiscal Year ends on June 30.

PSERS Market Rates of Return
1971 to 2012**

Year Ended 6/30	Investment Return (Net of Fees)	Investment Return (Gross of Fees)	Year Ended 6/30	Investment Return (Net of Fees)	Investment Return (Gross of Fees)
2012	3.43%	3.73%	1991		8.1%
2011	**20.37%**	**20.89%**	1990		9.2%
2010	14.59%	15.01%	1989		13.8%
2009	-26.54%	-26.33%	1988		2.6%
2008	-2.82%	-2.59%	1987		12.7%
2007	**22.93%**	**23.23%**	**1986**		**21.5%**
2006	15.26%	15.51%	**1985**		**26.0%**
2005	12.87%	13.08%	1984		1.0%
2004	19.67%	19.90%	**1983**		**37.3%**
2003	2.74%	2.92%	1982		5.4%
2002	-5.26%	-5.14%	1981		-0.4%
2001		-7.4%	1980		1.3%
2000		12.2%	1979		7.1%
1999		12.4%	1978		2.0%
1998		16.0%	1977		10.8%
1997		19.1%	1976		11.4%
1996		17.9%	1975		11.3%
1995		17.1%	1974		-7.4%
1994		1.9%	1973		5.5%
1993		13.3%	1972		12.3%
1992		14.2%	1971		15.5%

Over the past 25 years ending September 30, 2012, PSERS earned an annualized average rate of return of 8.51%, which is above the Fund's actuarial rate of return for the same period. Therefore there has been no actual investment risk for PSERS' employers.

Over the past 30 years ending September 30, 2012, PSERS earned an annualized average rate of return of 9.80%.

**** Prior to 2002 all fees are Gross of Fees**

What are the components of the PSERS' pension issue?

- There are two components to the pension issue in Pennsylvania
  1. Pension **funding** – How to pay PSERS' unfunded liability; a debt that has been incurred and is owed for benefits already earned?
  2. Pension **reform** – What should PSERS' retirement benefits look like in the future?
     - Despite comments or articles in the media the pension **reform** component has a marginal effect on the pension **funding** component

8.65	$ 1,220,688	66.3
12.36	1,767,109	63.9
16.75	2,470,057	62.2

Public School Employees' Retirement System of Pennsylvania

Projection of Contribution Rates and Funded Ratios As of June 30, 2011

Market Returns Set by User

Fiscal Year Ending June	Appropriation Payroll (thousands)	Fiscal Year Market Rate of Return	Pension Rate Floor	Employee Contribution Rate	Employer Normal Cost	Class T-E & T-F Members Shared Risk: Appropriation Payroll ($1,000)	Class T-E & T-F Members Shared Risk: Additional Member Contribution	Employer Unfunded Liability Rate	Preliminary Employer Pension Rate	Health Care Contribution	Total Employer Contribution Rate	Projected Total Employer Contribution (thousands)	Funded Ratio	Unfunded Accrued Liability ($ Millions)
2010	$ 12,899,000	14.59 %	4.00 %	7.32 %	7.35 %			(3.72) %	3.63 %	0.78 %	4.78 %		75.1 %	$ 19,698.6
2011	13,510,000	20.37	4.00	7.34	8.08			(0.50)	7.58	0.64	5.64		**69.1**	**26,499.3**
2012	14,112,000	7.50	4.00	7.37	8.12			10.15	18.27	0.65	8.65	$ 1,220,688	66.3	29,892.6
2013	**14,297,000**	7.50	4.00	**7.40**	**8.66**			**12.99**	**21.65**	**0.86**	**12.36**	1,767,109	63.9	33,066.4
2014	14,746,607	7.50	4.00	7.42	8.34			14.37	22.71	0.75	16.75	2,470,057	62.2	35,787.0
2015	15,137,573	7.50	4.00	7.43	8.06			15.81	23.87	0.75	21.25	3,216,734	61.1	37,982.4
2016	15,553,058	7.50	7.80	7.44	7.80	$ 1,891,028	0.00 %	17.02	24.82	0.74	25.56	3,975,362	60.5	39,717.5
2017	15,998,404	7.50	7.56	7.45	7.56	2,478,157	0.00	17.98	25.54	0.72	26.26	4,201,181	59.7	41,854.4
2018	16,473,589	7.50	7.35	7.46	7.35	3,056,478	0.00	18.74	26.09	0.71	26.80	4,414,922	59.4	43,463.5
2019	16,975,059	7.50	7.14	7.47	7.14	3,658,401	0.00	19.69	26.83	0.70	27.53	4,673,234	61.0	43,063.1
2020	17,499,806	7.50	6.95	7.47	6.95	4,288,628	0.00	20.41	27.36	0.68	28.04	4,906,946	62.6	42,554.3
2021	18,049,475	7.50	6.75	7.48	6.75	4,940,412	0.00	20.35	27.10	0.66	27.76	5,010,534	63.9	42,372.7
2022	18,625,435	7.50	6.58	7.48	6.58	5,615,639	0.00	20.35	26.93	0.65	27.58	5,136,895	65.4	42,007.1
2023	19,221,445	7.50	6.40	7.48	6.40	6,314,247	0.00	20.52	26.92	0.63	27.55	5,295,508	66.9	41,409.6
2024	19,831,799	7.50	6.23	7.48	6.23	7,048,046	0.00	20.67	26.90	0.63	27.53	5,459,694	68.6	40,565.5
2025	20,453,582	7.50	6.06	7.48	6.06	7,816,368	0.00	20.82	26.88	0.63	27.51	5,626,780	70.4	39,459.9
2026	21,090,386	7.50	5.89	7.49	5.89	8,616,537	0.00	20.95	26.84	0.63	27.47	5,793,529	72.4	38,077.4
2027	21,737,736	7.50	5.72	7.49	5.72	9,475,229	0.00	21.07	26.79	0.63	27.42	5,960,487	74.4	36,403.0
2028	22,392,199	7.50	5.55	7.49	5.55	10,380,615	0.00	21.19	26.74	0.63	27.37	6,128,745	76.5	34,424.5
2029	23,055,134	7.50	5.38	7.49	5.38	11,334,597	0.00	21.32	26.70	0.63	27.33	6,300,968	78.8	32,125.7
2030	23,726,455	7.50	5.21	7.49	5.21	12,337,404	0.00	21.45	26.66	0.63	27.29	6,474,950	81.1	29,474.6
2031	24,409,079	7.50	5.05	7.49	5.05	13,368,060	0.00	21.59	26.64	0.63	27.27	6,656,356	83.6	26,437.0
2032	25,108,427	7.50	4.88	7.49	4.88	14,470,525	0.00	21.74	26.62	0.63	27.25	6,842,046	86.2	22,979.5
2033	25,820,281	7.50	4.71	7.49	4.71	15,625,262	0.00	21.88	26.59	0.63	27.22	7,028,280	88.9	19,066.0
2034	26,547,411	7.50	4.54	7.50	4.54	16,833,739	0.00	22.03	26.57	0.63	27.20	7,220,896	91.7	14,656.9
2035	27,295,066	7.50	4.37	7.50	4.37	18,091,453	0.00	22.18	26.55	0.63	27.18	7,418,799	94.7	9,709.2
2036	28,064,496	7.50	4.21	7.50	4.21	19,374,936	0.00	10.65	14.86	0.63	15.49	4,347,190	96.1	7,454.1
2037	28,856,135	7.50	4.06	7.50	4.06	20,737,512	0.00	7.79	11.85	0.63	12.48	3,601,246	97.0	5,770.8
2038	29,673,088	7.50	3.90	7.50	3.90							3,222,497	97.8	4,330.1
2039	30,521,566	7.50	3.75	7.50	3.75							2,823,245	98.5	3,172.8
2040	31,406,773	7.50	3.61	7.50	3.61							2,481,135	98.9	2,263.4
2041	32,334,604	7.50	3.48	7.50	3.48							2,205,220	99.3	1,557.9
2042	33,307,914	7.50	3.36	7.50	3.36							1,985,152	99.6	1,020.2
2043	34,318,418	7.50	3.25	7.50	3.25							1,674,739	99.7	753.2
2044	35,359,579	7.50	3.15	7.50	3.15							1,439,135	99.7	709.7
2045	36,432,327	7.50	3.04	7.50	3.04							1,493,725	99.8	606.9

21.25	3,216,734	61.1
25.56	3,975,362	60.5
26.26	4,201,181	59.7
26.80	4,414,922	59.4
27.53	4,673,234	61.0
28.04	4,906,946	62.6

** Results beginning with fiscal year ending 2013 (June 30, 2011 valuation) are based on the revised demographic and economic assumptions resulting from the 7/1/05 though 6/30/10 experience study.*

Public School Employees' Retirement System of Pennsylvania

...ojection of Contribution Rates and Funded Ra...

Market Returns Set by Us...

This chart shows the impact of the 2012 fiscal year investment performance with the impact of the 2011 actuarial valuation

The rate caps in Act 120 of 2010 remain in effect for the next fiscal year. The employer rate projection of 16.75%, however, may fluctuate slightly higher due to an expected increase in the health care portion of the rate.

The employer rate projection now peaks at 28.79% instead of 28.04% in 2020. The rate projections plateau at the 28% level for a number of years instead of the previous plateau at the 27% level.

Fiscal Year Ending June*	Appropriation Payroll (thousands)	Fiscal Year Market Rate of Return	Pension Rate Floor	Employee Contribution Rate	Employer Normal Cost	Class T-E & T-F Members Shared Risk: Appropriation Payroll ($1,000)	Class T-E & T-F Members Shared Risk: Additional Member Contribution	Empl... Unfun... Liability								...on ...nt ...C
2010	$ 12,899,000	14.59 %	4.00 %	7.32 %	7.35 %			(3.72) %	3.63 %	0.78 %	4.78 %		75.1 %	$ 19,698.6		
2011	13,510,000	20.37	4.00	7.34	8.08			(0.50)	7.58	0.64	5.64		69.1	26,499.3		
2012	14,112,000	3.43	4.00	7.37	8.12			10.15	18.27	0.65	8.65	$ 1,220,688	66.1	30,064.7	$ 2,964,931	38.1 %
2013	**14,297,000**	7.50	4.00	**7.40**	**8.66**			**12.99**	**21.65**	**0.86**	**12.36**	**1,767,109**	63.5	33,466.6	**3,564,242**	**46.1**
2014	14,746,607	7.50	4.00	7.42	8.34			14.45	22.79	0.75	16.75	2,470,057	61.5	36,445.3	3,869,510	61.0
2015	15,137,573	7.50	4.00	7.43	8.06			16.00	24.06	0.75	21.25	3,216,734	60.1	38,932.2	4,158,291	74.6
2016	15,553,058	7.50	4.00	7.44	7.80	$ 1,891,028	0.50 %	17.32	25.12	0.74	25.74	4,003,357	59.3	40,947.9	4,412,403	88.1
2017	15,998,404	7.50	7.56	7.45	7.56	2,478,157	0.50	18.40	25.96	0.72	26.68	4,268,374	58.2	43,353.3	4,626,738	89.8
2018	16,473,589	7.50	7.35	7.46	7.35	3,056,478	0.50	19.28	26.63	0.71	27.34	4,503,879	57.7	45,236.4	4,805,346	91.3
2019	16,975,059	7.50	7.14	7.47	7.14	3,658,401	0.50	20.33	27.47	0.70	28.17	4,781,874	59.1	45,114.3	5,017,827	92.9
2020	17,499,806	7.50	6.95	7.47	6.95	4,288,628	0.50	21.16	28.11	0.68	28.79	5,038,194	60.6	44,886.0	5,186,942	94.8
2021	18,049,475	7.50	6.75	7.48	6.75	4,940,412	0.50	21.20	27.95	0.66	28.61	5,163,955	61.7	44,984.0	5,178,394	97.4
2022	18,625,435	7.50	6.58	7.48	6.58	5,615,639	0.50	21.30	27.88	0.65	28.53	5,313,837	63.1	44,692.7	5,166,696	100.5
2023	19,221,445	7.50	6.40	7.48	6.40	6,314,247	0.50	21.57	27.97	0.63	28.60	5,497,333	64.7	44,135.1	5,180,179	103.8
2024	19,831,799	7.50	6.23	7.48	6.23	7,048,046	0.50	21.75	27.98	0.63	28.61	5,673,878	66.5	43,307.6	5,158,251	107.6
2025	20,453,582	7.50	6.06	7.48	6.06	7,816,368	0.00	21.91	27.97	0.63	28.60	5,849,724	68.3	42,241.8	5,113,396	111.9
2026	21,090,386	7.50	5.89	7.49	5.89	8,616,537	0.00	22.05	27.94	0.63	28.57	6,025,523	70.3	40,882.3	5,044,820	116.8
2027	21,737,736	7.50	5.72	7.49	5.72	9,475,229	0.00	22.20	27.92	0.63	28.55	6,206,124	72.4	39,210.8	4,951,856	122.6
2028	22,392,199	7.50	5.55	7.49	5.55	10,380,615	0.00	22.35	27.90	0.63	28.53	6,388,494	74.6	37,214.9	4,832,237	129.3
2029	23,055,134	7.50	5.38	7.49	5.38	11,334,597	0.00	22.49	27.87	0.63	28.50	6,570,713	77.0	34,878.2	4,682,498	137.2
2030	23,726,455	7.50	5.21	7.49	5.21	12,337,404	0.00	22.64	27.85	0.63	28.48	6,757,294	79.4	32,168.9	4,503,281	146.7
2031	24,409,079	7.50	5.05	7.49	5.05	13,368,060	0.00	22.80	27.85	0.63	28.48	6,951,706	82.0	29,052.9	4,293,557	158.3
2032	25,108,427	7.50	4.88	7.49	4.88	14,470,525	0.00	22.95	27.83	0.63	28.46	7,145,858	84.7	25,497.1	4,049,989	172.5
2033	25,820,281	7.50	4.71	7.49	4.71	15,625,262	0.00	23.11	27.82	0.63	28.45	7,345,870	87.5	21,464.1	3,767,179	190.7
2034	26,547,411	7.50	4.54	7.50	4.54	16,833,739	0.00	23.27	27.81	0.63	28.44	7,550,084	90.5	16,913.0	3,443,199	214.4
2035	27,295,066	7.50	4.37	7.50	4.37	18,091,453	0.00	23.43	27.80	0.63	28.43	7,759,987	93.6	11,799.1	3,076,154	246.7
2036	28,064,496	7.50	4.21	7.50	4.21	19,374,936	0.00	11.91	16.12	0.63	16.75	4,700,803	95.1	9,351.9	2,666,127	169.7
2037	28,856,135	7.50	4.06	7.50	4.06	20,737,512	0.00	9.05	13.11	0.63	13.74	3,964,833	96.2	7,448.5	2,207,494	171.4
2038	29,673,088	7.50	3.90	7.50	3.90	22,148,886	0.00	7.51	11.41	0.63	12.04	3,572,640	97.1	5,785.7	1,979,195	171.1
2039	30,521,566	7.50	3.75	7.50	3.75	23,608,039	0.00	5.94	9.69	0.63	10.32	3,149,826	97.9	4,412.0	1,797,720	164.5
2040	31,406,773	7.50	3.61	7.50	3.61	25,115,891	0.00	4.61	8.22	0.63	8.85	2,779,499	98.5	3,297.5	1,642,574	157.2
2041	32,334,604	7.50	3.48	7.50	3.48	26,650,456	0.00	3.53	7.01	0.63	7.64	2,470,364	98.9	2,405.0	1,513,259	149.8
2042	33,307,914	7.50	3.36	7.50	3.36	28,230,752	0.00	2.67	6.03	0.63	6.66	2,218,307	99.3	1,698.7	1,408,925	142.6
2043	34,318,418	7.50	3.25	7.50	3.25	29,832,006	0.00	1.59	4.84	0.63	5.47	1,877,217	99.5	1,282.1	1,328,123	125.1
2044	35,359,579	7.50	3.15	7.50	3.15	31,524,083	0.00	0.76	3.91	0.63	4.54	1,605,325	99.6	1,111.7	1,262,337	109.5
2045	36,432,327	7.50	3.04	7.50	3.04	33,312,135	0.00	0.79	3.83	0.63	4.46	1,624,882	99.6	908.2	1,220,483	114.3

** Results beginning with fiscal year ending 2013 (June 30, 2011 valuation) are based on the revised demographic and economic assumptions resulting from the 7/1/05 though 6/30/10 experience study.*

1. Pension funding

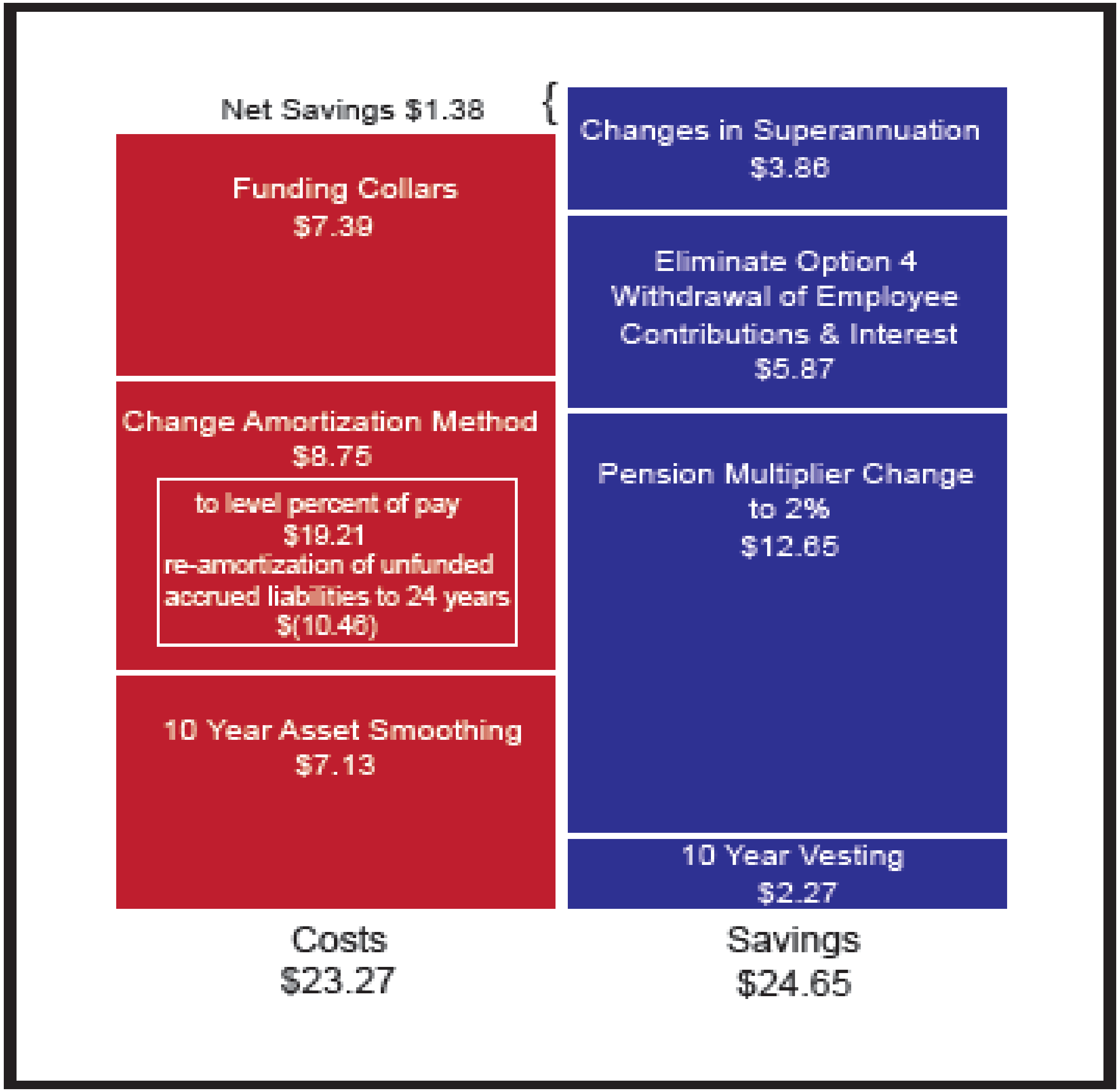
- **PSERS has a current $26.5 billion actuarial unfunded liability, which is a debt that has already been incurred, is growing, and must be paid**
  - **PSERS unfunded liability is a debt of the Commonwealth, backed by the full faith and credit of the Commonwealth**
    - "Statutory interest charges payable, the maintenance of reserves in the fund, and the payment of all annuities and other benefits granted by the board under the provisions of this part are hereby made obligations of the Commonwealth. All income, interest, and dividends derived from deposits and investments authorized by this part shall be used for the payment of the said obligations of the Commonwealth." *Section 8531 of Public School Employees' Retirement Code,(PSERC) 24, Pa.C.S. §8531*
  - **The pension funding component is a budgetary and appropriations issue – in other words how will the existing debt/unfunded liability be paid off?**

2. Pension reform

- Despite continued discussion for additional pension reform, it will only marginally impact the pension funding issue, whether a defined contribution, hybrid or no plan is provided
- Why?
- Because significant pension reform has already occurred
  - Act 120 of 2010 reformed the benefit structure and actuarial and funding methodologies at PSERS
  - The benefit reductions in Act 120 produced projected savings of over $24.6 billion
  - As a consequence, the projected employer normal cost for Act 120 members is approximately 3.0% of payroll which is 68% less than the employer normal cost for pre-Act 120 members
    - The employer normal cost is the amount needed from the school employers to fund the benefits earned by the active members for that year

Act 120 of 2010
Costs and Savings Compared to Prior Law
Projected to FY 2043/2044

($ in billions)



What are the causes of the pension funding issue?

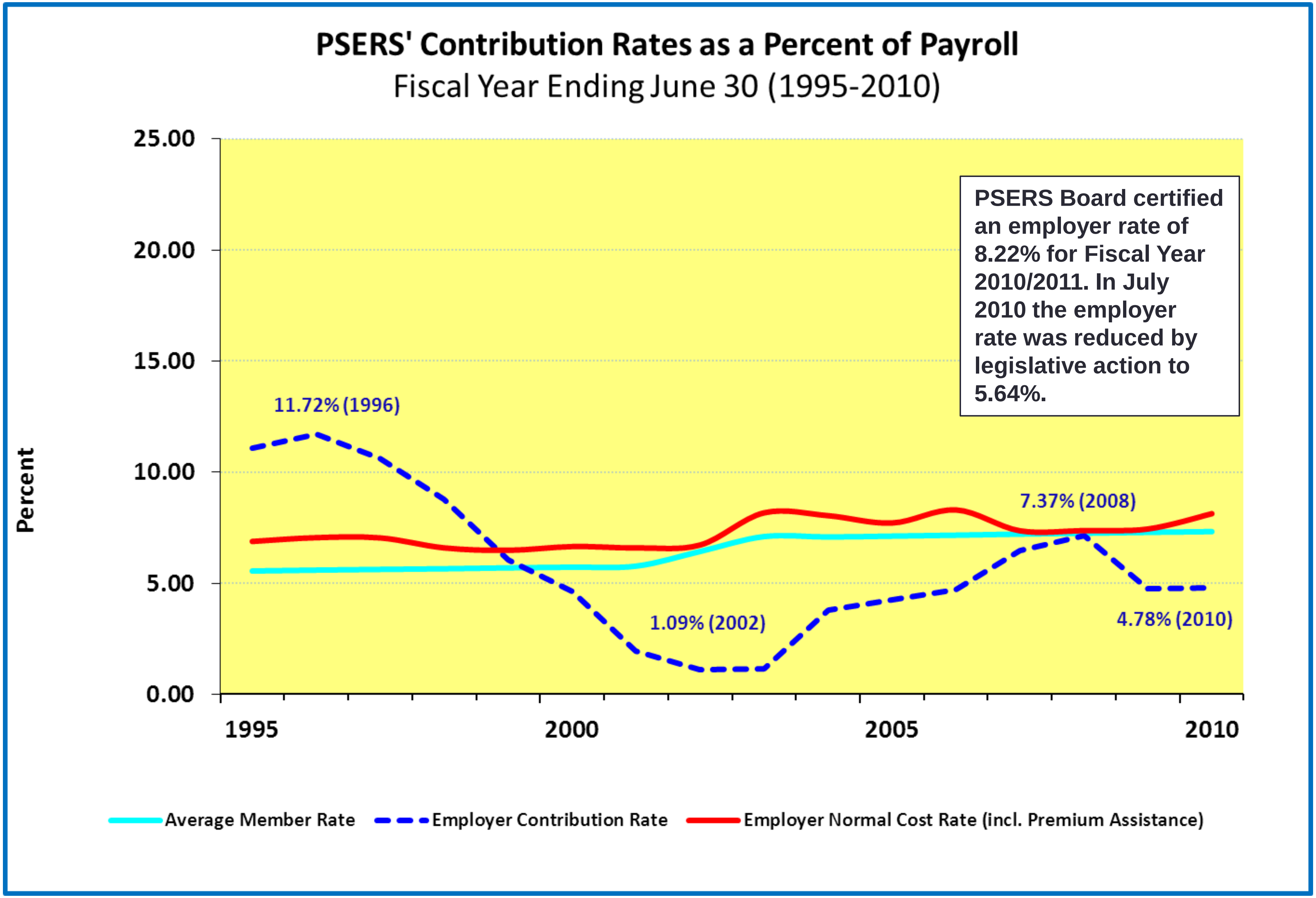
- There is no <u>single</u> issue that is entirely responsible for the pension funding issue

- The pension funding issue was caused by multiple issues both:
  - Short-term
  - Long-term

What are the causes of the pension funding issue?

- **Short-term causes**

1. **The design of a defined benefit pension plan**
   - **In a defined benefit pension plan like PSERS the employer bears the economic and demographic risks of the plan, which is reflected in the annual employer contribution rate which will fluctuate up and down**
2. **Two historic downturns in the investment markets within a short 10 year timeframe**
3. **Acts 9 and 38 benefit enhancements**
4. **The actuarial and funding methodology changes made by Acts 2002-38, 2003-40 and 2010-120**
5. **Intentional underfunding of PSERS by the suppression of employer contributions (school district and Commonwealth) for the last 10+ years**



PSERS' Contribution Rates as a Percent of Payroll
Fiscal Year Ending June 30 (1995-2010)
Percent
25.00
20.00
15.00
10.00
5.00
0.00
1995
2000
2005
2010
11.72% (1996)
1.09% (2002)
7.37% (2008)
4.78% (2010)
PSERS Board certified an employer rate of 8.22% for Fiscal Year 2010/2011. In July 2010 the employer rate was reduced by legislative action to 5.64%.
Average Member Rate
Employer Contribution Rate
Employer Normal Cost Rate (incl. Premium Assistance)

What are the causes of the pension funding issue?

- Long-term causes
  1. Failure to properly fund with "new money" post-funded benefit increases (ad hoc COLAS, early retirement incentives, Act 9 enhancements) over an extended period of time
  2. Failure to payoff in a timely fashion the unfunded liability created by post-funded benefit enhancements
     - For example the cost of the COLA granted in 1979 has not been fully paid as a result of the frequent re-financings
  3. Negative arbitrage caused by intentionally paying below the employer's normal cost for 14 years; 10+ years when there has been an unfunded accrued liability
     - In effect, the employers are not paying for the annual benefits earned, much less the principal and interest needed to amortize the accrued unfunded liability of the System
  4. Cumulative impact from the above on PSERS' investment performance—less assets to invest, greater benefits payments, greater need to maintain liquidity, etc.

Can the funding issue be resolved by reducing the benefits for existing members?

- **No! As a significant body of case law establishes that the contract clause of the Pennsylvania Constitution protects public retirement benefits from being retroactively changed in any way that may be interpreted as a "net detriment" to employees**
  - **This prohibits not only reductions in already earned benefits but also reductions in the rate of future benefit accruals**
- **Any benefit changes would have to be prospective only, (meaning impacting new hires after the effective date of the change), to avoid the PA Constitution's prohibition against the impairment of a contract (Article I, Section 17)**
  - **The courts have ruled that PSERS' pension benefits are contracts with the existing members of the System, *regardless of vesting*, and thus subject to the constitutional impairment of contract prohibition**
    - **See e.g. *Pennsylvania Federation of Teachers v. School District of Philadelphia*, 484 A.2d 751 (Pa. 1984) and *American Federation of State, County and Municipal Employees, AFL-CIO, v. Commonwealth*, 479 A.2d 962 (Pa. 1984)**

Can the Pennsylvania Constitution be amended to permit the impairment of public pension contracts?

- Potentially, but it is questionable whether one can make something retroactively constitutional that was formerly unconstitutional
- Such an amendment would also set a precedent that may permit the impairment of other contracts since Article I, Section 17 applies to all contracts
- Even if a court challenge to the existing case law or constitutional amendment is successful, it does not resolve the funding issue as the elements of PSERS' unfunded liability are more than just benefit enhancements, e.g. debt incurred due to the intentional underfunding of the System

Can the state and/or school districts file for bankruptcy to avoid paying the pension debt?

- With respect to the Commonwealth, the answer is no for two reasons:
  - Under Federal Bankruptcy laws, States are not permitted to file for bankruptcy protection as a debtor
  - Even if it was permitted to file, the Commonwealth is not bankrupt
- With respect to School Districts, they can file for bankruptcy protection, but only after receiving the approval of the Commonwealth
  - If successful, however, the pension debt would presumably fall back to the Commonwealth as the ultimate guarantor under Section 8531 of the PSERC

What are some of the changes that can be made to the existing pension system?

- Some of the more popular options being discussed by legislators and the media seem to be:
  - Creating a “cash balance” tier to the current defined benefit plan
  - Developing a “hybrid” plan that includes both defined benefit and defined contribution components
  - Closing the defined benefit plan in favor of a 401(k)-style defined contribution plan
- Many of these options that have been mentioned to further reduce costs do not actually cost less
  - For example, if a DC plan has an employer match greater that 3%, the employer cost for that benefit will exceed the employer normal cost under Act 120 for arguably a lesser benefit

Will closing the DB plan or converting the existing DB plan to a DC plan (401k) solve the pension funding issue?

- No, as explained earlier the debt has already been earned and further benefit reform would be prospective only for new members due to contract impairment and have little effect on the existing debt
  - This essentially means the Commonwealth would have to pay off the existing debt while also paying for the new retirement benefit put in its place (401(k) match, etc.)
- In addition if the DB plan was closed, PSERS would need to be fully funded by the time the last member retires; thus because there would be no new members, the payment of the debt would be accelerated over its existing schedule

So what is the solution to the pension funding issue?

- Unfortunately there is no simple solution or silver bullet for resolving the pension funding issue
- The systemic and intentional underfunding of the System has gone on too long to be resolved by one "fix"

So what is the solution to the pension funding issue?

- It will take a combination of solutions including:
  - Continued contributions from PSERS' assets, although it is unlikely that PSERS can earn its way out of the funding issue through investment earnings alone
  - Finding a dedicated funding source
  - One-time cash infusions potentially from the sale of assets or from the proceeds of pension obligation bonds, the latter of which are currently prohibited under Act 120
  - Potential further pension reform notwithstanding that Act 120 has significantly reduced benefits for new members going forward
- In all cases, the solution will require substantial funding infusions and consistently higher levels of employer funding over time to make up for the long-term underfunding of the System

Conclusion:

The real question everyone should be asking is…

- **What is an appropriate/adequate retirement plan, not just for the public sector but also for the private sector?**
- **Is it the frequently mentioned DC plan?**
- **Just because some in the private sector are moving away from DB plans does that make it a correct or viable option?**
- **If DB plans and Social Security go away, and the U.S. personal savings rate is nearly zero, will a DC Plan, by itself, provide an adequate retirement benefit?**

The real question everyone should be asking is:

- **Is the answer a DB Plan with its perceived investment risk?**
- **Or is the answer a hybrid plan?**
- **Bottom line: Whatever the answer, the question of what constitutes adequate retirement security for all public and private sector employees needs to be addressed**
- **It is a policy decision that needs to be made before an effective solution can be developed**
- **One thing is certain: A race to the bottom is not the right choice**

Questions?