

# HYBRID PLAN TO ADDRESS PENNSYLVANIA'S PUBLIC PENSION CRISIS

## AN OVERVIEW

- § NEW employees entering the state systems will be enrolled in a combination of 401K-type and traditional pension (hybrid) plan.
- § Benefits of current employees will not change.
- § All state and public school employees will be subject to the same plan. The only exception will be for employees who do not receive Social Security benefits. These individuals will receive an additional defined contribution plan component.
- § Shared Risk Provisions from Act 120 will apply to all new employees.
- § If an employee takes a leave of absence, he or she will continue in the current pension system. Provisions for a leave of absence will include furloughs, intervening military service, disability, inactive employment status for up to a two-year period, maternity leave, and Family Medical Leave Act.

### § DEFINED BENEFIT (DB) plan details:

- 2 percent accrual rate.
- Employee contribution of 6 percent.
- Lifetime final average salary, not to exceed \$50,000 (indexed 1 percent annually).
- DB is fully earned after 25 years of service.
- Participants are vested after 10 years of service.
- DB payments cannot be collected prior to age 65 without penalty.
- DB payments cannot be collected prior to age 60 without penalty for those not covered by Social Security.
- No different classes of service. The only distinction between members and levels of benefits is if the position is covered by Social Security.

### § DEFINED CONTRIBUTION (DC) plan details:

- Employee contribution of 1 percent and employer contribution of 0.5 percent on all compensation up to \$50,000.
- Employee contribution of 7 percent and employer contribution of 4 percent on all compensation more than \$50,001.
- Employee contributions vest immediately and three-year vesting of employer contributions.
- No loans or in-service distributions from the DC plan.
- Portability, withdrawal penalties, etc., per IRS rules.
- Additional DC employer contribution of 6 percent for those employees not covered by Social Security.

**This plan is estimated to save between \$11 billion and \$15 billion over a 30-year projection period.**