

# State Pension System Update

**House State Government Committee Testimony**

Matthew Knittel, Director  
Independent Fiscal Office



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# Recent Legislation

- **Act 5 of 2017:** Act 5 established two hybrid defined benefit and defined contribution plans and a pure defined contribution plan for both state systems. Changes were also made to benefit accrual rates, employee contributions, and retirement ages, among others.
- **Act 105 of 2019:** Allows qualified employers to issue bonds to pre-fund 75-100% of their unfunded accrued liability (UAL). To date, two employers have made lump sum payments: (1) The Pennsylvania State University (\$1.1 billion in 2020) and (2) the Pennsylvania State System of Higher Education (\$825 million in 2021).
- **Act 128 of 2020:** Enacts administrative and reporting changes for SERS and PSERS. The act requires both systems to conduct prescribed stress testing of their systems. The IFO will compile those data in a report that summarizes outcomes and calculate the ratio of projected employer pension contributions to projected state revenues.

# State Pension System Funding Outlook

FY Ending	SERS <sup>1</sup>				PSERS			
	Empl. Rate	\$ State Contrib	System Return	Unfunded Liability	Empl. Rate	\$ State Contrib	System Return	Unfunded Liability
2005-10	3.53%	\$225	3.50%	\$9,736	5.34%	\$337	2.99%	\$19,699
2010-15	10.87	745	6.90	19,452	11.63	699	9.73	37,336
2016	25.01	1,622	6.51	19,923	25.84	1,719	1.29	42,724
2017	29.51	1,897	15.08	19,662	30.03	2,064	10.14	44,512
2018	33.24	2,049	-4.55	22,793	32.57	2,264	9.27	44,855
2019	32.93	2,115	18.75	23,039	33.43	2,488	6.68	44,134
2020	33.59	3,186 <sup>2</sup>	11.11	22,395	34.29	2,628	1.11	44,035
2021	33.48	2,936 <sup>3</sup>	7.00	17,217	34.51	2,702	25.00 <sup>4</sup>	44,574
2022	33.81	2,146	7.00	16,436	34.94	2,734	7.25	44,713
2023	34.51	2,191	7.00	14,931	35.80	2,894	7.25	44,654

Note: Millions of dollars. Data sourced from various system projections, releases and financial reports, unless noted otherwise. For year ranges (ex: 2005-10), Employer Contribution Rate and State Contributions are averages. System Return is 5-year performance as noted in system CAFR. Unfunded Liability is final year UAL. Calculations by the IFO.

1 SERS reported on calendar year basis except for Employer Contribution Rate. Includes all funds.

2 SERS 2020 employer contributions include \$1.1 billion prepayment in unfunded liability from The Pennsylvania State University.

3 SERS 2021 employer contributions include \$825 million prepayment in unfunded liability from The Pennsylvania State System of Higher Education.

4 PSERS FY 2020-21 returns are preliminary. Final figures are not yet available and will affect UAL and employer contribution rates once finalized.

# Pension Funding as Share of Total General Fund Revenues

FY Ends	SERS	PSERS	Total	Annual Growth	Share of Revenue
2016	\$665	\$1,719	\$2,384	--	7.7%
2017	784	2,064	2,848	19.5%	9.0
2018	840	2,264	3,104	9.0	9.0
2019	856	2,488	3,344	7.7	9.6
2020	877	2,628	3,505	4.8	10.2
2021	650	2,702	3,352	-4.4	8.7
2022	931	2,734	3,665	9.3	9.5
2023	982	2,894	3,876	5.8	10.2

Note: Dollars in millions. Excludes any funds from non-General Fund sources, including federal COVID-19 relief funds. FYE 2020 General Fund revenues increased by approximately \$2.0 billion due to revenue delays resulting from the COVID-19 pandemic. FYE 2021 values reduced by same amount.

Sources: Various reports issued by the Independent Fiscal Office, the State Employees' Retirement System and the Public School Employees' Retirement System.

# Rate of Return Sensitivity Analysis

FYE	SERS Employer Contributions			PSERS Employer Contributions		
	6.00%	7.00%	8.00%	6.25%	7.25%	8.25%
2022	\$2,104	\$2,104	\$2,104	\$4,993	\$4,993	\$4,993
2023	2,753	2,224	1,603	6,182	5,195	4,291
2024	2,744	2,204	1,571	6,380	5,382	4,469
2025	2,685	2,128	1,477	6,585	5,577	4,651
2026	2,672	2,102	1,437	6,820	5,802	4,867
2027	2,685	2,105	1,429	7,041	6,010	5,065
2028	2,696	2,112	1,430	7,245	6,203	5,243
2029	2,709	2,120	1,435	7,463	6,409	5,437
2030	2,723	2,131	1,442	7,686	6,621	5,637
2031	2,739	2,142	1,450	7,915	6,839	5,843
2032	2,765	2,165	1,470	8,125	7,035	6,026
<b>Difference</b>	<b>-5,736</b>	--	<b>6,689</b>	<b>-10,368</b>	--	<b>9,548</b>

Note: Dollars in millions.  
Sources: Submissions supplied by SERS and PSERS in accordance with Act 37 of 2020.



# State Pension System Funding Comparison

State	2014			2018		
	Funded Ratio	Rank	Per Capita	Funded Ratio	Rank	Per Capita
New York	98.1%	6	\$186	98.0%	2	\$217
Delaware	92.4	9	810	85.1	10	1,824
Georgia	83.3	17	1,639	80.1	18	2,182
Ohio	80.3	20	3,162	75.8	22	4,284
West Virginia	77.7	23	2,066	82.3	13	1,861
Virginia	75.1	27	2,569	79.0	20	2,392
Maryland	71.3	31	3,085	70.4	28	3,637
<b>Pennsylvania</b>	<b>59.6</b>	<b>46</b>	<b>4,257</b>	<b>54.8</b>	<b>45</b>	<b>5,377</b>
Illinois	41.3	49	8,658	39.0	49	11,050
New Jersey	42.5	48	12,762	38.4	50	14,710
U.S. Total	74.8	--	2,933	70.7	--	3,789

Note: Per capita column equal to unfunded accrued liability divided by state population. Excludes municipal pension systems.

Source: The State Pension Funding Gap: 2018 and 2014, Pew Charitable Trusts.