FREQUENTLY ASKED QUESTIONS

How will the new law affect my future retirement benefits?

All current employees will lose their ability to purchase service credits after September 29, 2017.

Except for the loss of the ability to purchase service credits, only current public school employees in the MPSERS system who were hired since 2012 and opted into the defined contribution system will see a change in their future benefits. Those employees will see an increase in employer contributions into their 401(k)-style plan based on the amount of their own contributions. Currently, an employee in that plan can invest up to 6% of their income and have it 50 percent matched by the employer (e.g. a maximum 6% employee investment will trigger a 3% investment from the employer).

The legislation will automatically shift those employees into an improved defined contribution system in which the employer invests a minimum of 4% of salary, and provides a 100 percent employer match up to an additional 3% of employee contributions (e.g. an employee investing 3% would receive the maximum 7% employer match).

How will the new law affect service credits I have already purchased?

Any service credits already purchased, even if they are still being paid for over time, will not be affected by the new law. This also goes for service credits purchased before September 29, 2017 at 5pm EDT even if they will be paid for into the future.

Will the Reforms Improve the Stability of the System?

The new law changes actuarial assumptions for the new hybrid plan so that the state will be required to invest a larger amount of funds every year. This will have the effect of making it less likely that the hybrid system will accrue debt in the future. However, the current hybrid plan is already 100% funded.

The entirety of the $29 billion in unfunded accrued liabilities rests with the old “Legacy” plans: Basic and MIP. This bill made no changes to those plans other than the elimination of the ability to purchase service credits. Therefore, it is unlikely that anything in PA 92 will by itself improve the funding levels of MPSERS. However, recent changes in investment assumptions

made by the Office of Retirement Services will require additional state funding in upcoming years which will hopefully help reduce the debt.

How does the new law affect Community College employees?

Faculty and administrators at community colleges have the ability to choose either a MPSERS plan or an optional retirement program provided by their employer. Eligible new employees at a community college have 90 days from the date of hire to select an optional employer-provided retirement plan or a MPSERS plan (the default if no option is made is to be placed into the MPSERS system). If they choose or default into MPSERS, they will then have to choose between the new hybrid plan and the enhanced defined contribution plan.

However, the MPSERS plan requires that a new employee choose between the hybrid system and the defined contribution system within 75 days of hire, or else the default is to be placed in the defined contribution plan. Therefore, a newly hired community college employee who fails to choose their retirement plan will automatically default into MPSERS after 90 days, and since the 75 day window to choose a MPSERS plan will already have expired, they will be automatically placed in the defined contribution plan. These choices once made (or defaulted) are irrevocable.

How is the new Hybrid Plan different from the current Hybrid Plan?

Public school employees hired since 2010 have been placed into a hybrid pension system that provides a smaller defined benefit component combined with a small defined contribution plan. Starting in 2012, new hires had a choice of either the hybrid (called Pension Plus) or a strictly defined contribution plan (called Tier 2). The Pension Plus plan's defined benefit component vests after 10 years and has a retirement age of 60 with at least 10 years of service. Its formula uses the average of the 5 highest years of salary, and multiplies that by 1.5 per year of service to determine the benefit. Pension Plus members may also contribute to a 401k-style account. The employer will match 50 percent of the first 2 percent an employee contributes. The Tier 2 plan has no defined benefit component, but allows the employer to match 50 percent of the first 6 percent of an employee contribution.

Employees hired after February 1, 2018 will have the option of being put into a hybrid plan that is virtually identical to the current hybrid plan (called Pension Plus). The multipliers for the defined benefit component, as well as the match rates for the defined contribution component, will remain the same. Those choosing the Tier 2 option that only has a defined contribution component will see the maximum employer match rise from 4% to 7%. The negative changes for the hybrid plan concern the minimum retirement age, the possibility that employees may have to pay for future unfunded liabilities, and that the system could be closed should unfunded levels rise significantly.

The current hybrid plan has a minimum retirement age of 60. The new plan will also begin with a minimum retirement age of 60, but it could go up in the future if the life expectancy of plan participants rises significantly. There are no constraints in the legislation limiting how high the new retirement age may go, but employees in the new plan within five years of the retirement age would be exempt from any increases in that timespan.

The new hybrid plan also will require employees and the employer to split the cost of unfunded accrued liabilities, with employee and employer responsible each responsible for 50 percent of any unfunded liability. Anytime that the actuarial value of the new hybrid plan drops below 100 percent, extra assessments will be placed on the employer and employees to address the shortfall. The law does not specify how the employees' share of the unfunded liability would be collected. Note that this provision only applies to the funding level of the new hybrid plan – not the legacy plans. The current hybrid plan is over 100 percent funded and has never dropped below that since it was originally created in 2010.

While highly unlikely, in the event that the new hybrid plan drops below 85 percent of funding, it will trigger a closure of the new hybrid plan within 12 months. Employees already enrolled would remain in their plans, but new hires would only have the option of the 401(k)-style defined contribution plan. The Legislature could take action to forestall the closure by adding additional funds to bring the plan above 85% funding. Should the plan close, the state would be faced with massive closing costs that – depending on the level of underfunding in the legacy plans – could cost billions of dollars.