OVERVIEW: Pennsylvania State Employees Retirement System

The **Pennsylvania State Employees Retirement System (SERS)** provides a defined benefit (DB) fund for public employees. It offers a modest but stable monthly income over a retiree's life. DB pensions help to recruit and retain experienced employees.

The spending from the pension checks of the 132,731 retired public employees helps support:

$18.3 billion in economic output in Pennsylvania.

112,922 jobs paying $6.6 billion in wages supported by retirees' spending from public pensions in Pennsylvania.

$2.7 billion in federal, state, and local tax revenues based on spending of pension benefits in Pennsylvania.

Pensions are a good deal for taxpayers:

Funding of public employee pensions is shared by employees and employers. New SERS employees contribute 5% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2018, taxpayers (via employer contributions) paid only 24.72% of the cost of pension benefits in Pennsylvania.

62.2% Investment Earnings

24.7% Employer Contributions

13.1% Employee Contributions

Key facts about the plan and its benefits:

102,850 Total active members of Pennsylvania State Employees Retirement System.

37.5% After a 30-year career, a pension benefit from SERS will replace 37.5% of an employees' pre-retirement income.

$1,952 Average pension benefit paid to retired SERS members each month.

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Pennsylvania taxpayers (employers) in these plans supported $6.75 in total economic activity in the state.

$1.00 → **$6.75**

All data come from retirement system financial reports, Public Plans Database, or the National Institute on Retirement Security.

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The Pennsylvania State Employees Retirement System (SERS) provides benefits to qualified state and local employees, including state police.

The SERS Pension Works for Pennsylvania Stakeholders

Defined benefit (DB) pensions help recruit and retain effective and experienced public employees, which is essential to delivering high quality service to citizens.
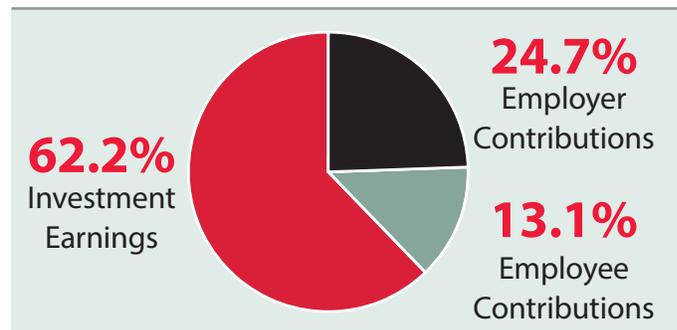
The spending by retired public employees from pension checks supports jobs, greater tax revenues and economic growth in our communities.

Pensions offer employees the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. New SERS employees contribute 5% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2018, taxpayers paid only 24.72% of the cost of benefits in Pennsylvania.

62.2% Investment Earnings

24.7% Employer Contributions

13.1% Employee Contributions

Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:

10%
cost savings from pooling longevity risk

+

11%
cost savings from optimal asset allocation

+

27%
cost savings due to higher returns and lower fees

=

48%
total cost savings

Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 4.3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

SERS serves 102,850 active employees and 132,731 retired members and survivor beneficiaries.

New employees contribute 5% of pay to SERS.

Employers contribute 17.31% to the fund.

The average monthly retirement benefit for members is $1,952.

After a 30-year career, a pension benefit from SERS will replace 37.5% of an employee's final average salary.

Historical SERS Funding Experience

Pennsylvania established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2019 year, SERS had $29.93 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund is financially sound over time.

Pennsylvania Paid 83.20% of Weighted Average Percent of ADC from FY2001-FY2019 for SERS

Pennsylvania Made Plan Changes to SERS in Recent Years

Following the global stock market crash in 2008-2009, Pennsylvania policymakers proactively made changes to SERS to ensure long-term sustainability. These included:

- For newly hired state employees, as of 1/1/19, and newly hired public school employees, as of 7/1/19, and current active members: new hires are required to make and current employees may make a one-time, irrevocable decision to select from one of three plan options: two different versions of a hybrid DB-DC plan or a DC-only plan.
- For new hires, also lengthened the period of time used to determine Final Average Salary, and increased normal retirement eligibility.
- For current active members, they are now subject to shared-risk contribution requirements.

The Economic Impact of Pennsylvania Pensions:

$18.3 billion
in economic output generated by retirees' spending from public pensions in Pennsylvania.

112,922 jobs
paying $6.6 billion in wages supported by retirees spending from public pensions in Pennsylvania.

$2.7 billion
in federal, state, and local tax revenues generated by retiree benefits and spending in Pennsylvania.

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The **Pennsylvania Public School Employees' Retirement System (PSERS)** provides a defined benefit (DB) pension for teachers. It offers a modest but stable monthly income over a retiree's life. DB pensions help to recruit and retain experienced employees.

The spending from the pension checks of the 237,339 retired public employees helps support:

$18.3 billion
in economic output in Pennsylvania.

112,922 jobs
paying $6.6 billion in wages supported by retirees' spending from public pensions in Pennsylvania.

$2.7 billion
in federal, state, and local tax revenues based on spending of public pension benefits in Pennsylvania.

Pensions are a good deal for taxpayers:

Funding of teacher pensions is shared by employees and employers. New PSERS employees contribute 5.50% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2018, taxpayers (via employer contributions) paid only 24.72% of the cost of pension benefits in Pennsylvania.

62.2% Investment Earnings
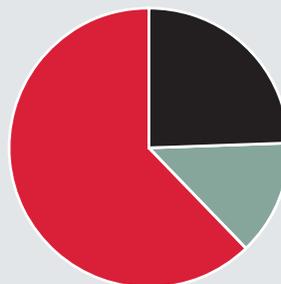
24.7% Employer Contributions

13.1% Employee Contributions

Key facts about the plan and its benefits:

255,749
Total active members of Pennsylvania Public School Employees' Retirement System.

37.5%
After a 30-year career, a pension benefit from PSERS will replace 37.5% of an employee's pre-retirement income.

$2,125
Average pension benefit paid to retired PSERS members each month.

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Pennsylvania taxpayers (employers) in these plans supported $6.75 in total economic activity in the state.

$1.00 → **$6.75**

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The Pennsylvania Public School Employees' Retirement System (PSERS) provides benefits to qualified public school employees.

The PSERS Pension Works for Pennsylvania Stakeholders

Effective teachers are the cornerstone of education quality, but teachers are underpaid. Pensions help schools keep teachers and compensate for low pay.
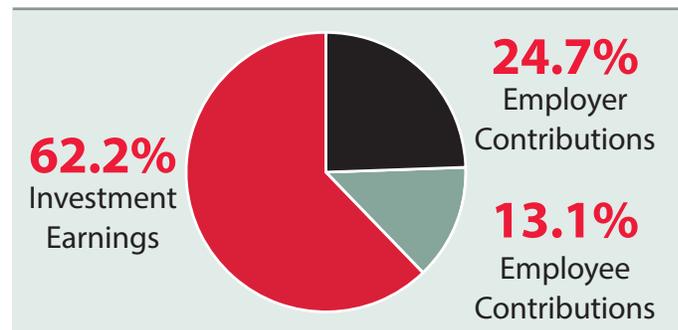
Retaining experienced midcareer teachers boosts student performance. Pensions help keep effective midcareer teachers in the classroom, increasing education quality.

Pensions offer teachers the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

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48% total cost savings

Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 4.3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

PSERS serves 255,749 active employees and 237,339 retired members and survivor beneficiaries.

New employees contribute 5.50% to PSERS.

Employers contribute 33.51% to the fund for employees.

The average monthly retirement benefit for members is $2,125.

After a 30-year career, a pension benefit from PSERS will replace 37.5% of final average salary for Class T-G members.

Historical PSERS Funding Experience

Pennsylvania established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2019 year, PSERS had $61.07 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund is financially sound over time.

Pennsylvania Paid 66.45% of Weighted Average Percent of ADC from FY2001-FY2019 for PSERS

Pennsylvania Made Plan Changes to PSERS in Recent Years

Following the global stock market crash in 2008-2009, Pennsylvania policymakers proactively made changes to PSERS to ensure long-term sustainability. These included:
- For newly hired state employees, as of 1/1/19, and newly hired public school employees, as of 7/1/19, and current active members: new hires are required to make and current employees may make a one-time, irrevocable decision to select from one of three plan options: two different versions of a hybrid DB-DC plan or a DC-only plan.
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Pensions Help Deliver Quality Education in Pennsylvania

There are important policy reasons to continue offering teachers defined benefit (DB) pensions. DB pensions give schools an effective tool to retain high-quality, experienced teachers. These teachers are the most important school-based element that provides positive educational outcomes for our children.

Pension benefits provide teachers an incentive to continue delivering quality education to K-12 students. This incentive becomes all the more important over a teaching career as the erosion of teachers' wages, when compared to the wages of similar college-educated workers, widens for more experienced teachers.

Because pensions help attract and retain workers, Pennsylvania can keep skilled teachers in the classroom and empower students to achieve their highest potential. The nationwide teacher shortage is impacting Pennsylvania, as enrollment in traditional teacher preparation programs has *declined by 67%* between 2009-2010 and 2017-2018.

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Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 19 percent pay gap relative to comparable private sector workers in 2019. At the same time, teachers' benefits, including pensions, help bridge that gap and allow states to attract and retain highly qualified educators by reducing that overall gap in compensation to 10 percent. In Pennsylvania, teachers experience a 13.0% wage gap when compared to other college graduates in the workforce.[2]

19%
teacher
wage gap

offset by...

9% teacher
benefit
advantage

reduces...

**the teacher
compensation
gap to 10%**
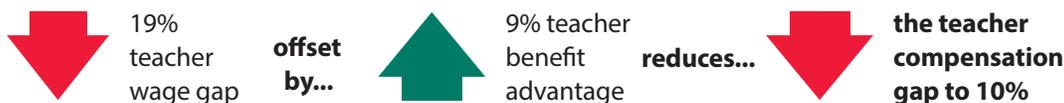
Americans understand that teacher pensions play an important role in retaining quality teachers and in offsetting the impact of their lower salaries.

83% 83 percent of Americans say pensions are a good way to recruit and retain qualified teachers.

74% 74 percent of Americans agree that teachers deserve pensions to compensate for lower pay.[3]

Pensions Reduce Teacher Turnover and Save Money

Experienced teachers are better teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.[4]

5.2%

Percentage of Pennsylvania teachers who leave education.

916

The number of Pennsylvania teachers retained each year due to the DB pension.

$4.8M to $10.5M

Savings created by the DB system through reduced teacher turnover costs in school districts across Pennsylvania.

PSERS Key Facts

PSERS serves 255,749 active employees and 237,339 retired members and survivor beneficiaries.

New employees contribute 5.50% to the fund.

Employers contribute 33.51% to the fund.

The average monthly retirement benefit for members is $2,125.

PSERS has $61.1 billion in assets and $44.1 million in unfunded actuarial accrued liability.[5]

The Economic Impact of Pennsylvania Pensions

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$2.7 billion

in federal, state, and local tax revenues based on spending of pension benefits in Pennsylvania.[6]

[1] Weller, C. 2017. "Win-Win: Pensions Effectively Serve American Schools and Teachers." Washington, DC. National Institute of Retirement Security (NIRS).

[2] Allegretto, S. A. and Mishel, L. 2020. "Teacher pay penalty dips but persists in 2019." Washington, DC. Economic Policy Institute.

[3] Oakley, D. and Kenneally, K. 2019. "Retirement Insecurity 2019: Americans' Views of the Retirement Crisis." Washington, DC. NIRS.

[4] Boivie, I. 2017. "Revisiting the Three Rs of Teacher Retirement Systems: Recruitment, Retention, and Retirement." Washington, DC. NIRS.

[5] All data, unless otherwise noted, as of fiscal year ended 2019.

[6] Boivie, I. 2021. "Pensionomics 2021: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.

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