

Membership Class Changes

Presented February
2019



What's Staying the Same

- Shared Risk Concept
- 10 year vesting for defined benefit (DB)
- Cost neutral Option 4 lump sum withdrawal of their contributions and interest (*new with Act 5 for T-E/T-F, but implemented in 2017*)
- Eligibility for health care premium assistance
- Defined benefit (DB) disability benefit with 5 years vesting for DB membership classes
- One contribution rate spread across entire payroll, regardless of membership classes



What's Different?

- Class T-G, Class T-H, Class DC
- Shared Risk Amounts
- Shared Gain Amounts*
- 90 day class election period
- Membership waiver process
- Member and employer contribution rates
- Defined contribution (DC) components
- Five year final average salary (FAS)
- Normal retirement milestone (superannuation)
- Early retirement penalties
- Membership class multiplier (FAS x Years of Service x Membership Class Pension Multiplier)
- Disability benefit accrual rate
- After-tax contribution opportunities



**Class T-E and Class T-F members also have a Shared Gain component but this concept for them and the new membership classes was new with the Act 5 of 2017 legislation.*

- Reporting to Voya
- Reporting by payroll
- Email required with demographics

Act 5 of 2017

New members have 3 options

- **Class T-G** (Default Option) – DB/DC hybrid plan
- **Class T-H** – DB/DC hybrid plan
- **Class DC** – DC plan only



Membership Class Differences at a Glance

Class T-G (Default Option)

- Highest total contribution rate going toward retirement savings
- Highest DB contribution rate which provides the highest guaranteed monthly payment in retirement
- Guaranteed 4% on member contributions and interest into DB

Class T-H (Elective)

- Lower total contribution rate (same as Class DC) going toward retirement savings
- Lower DB contribution rate and lower guaranteed monthly payment in retirement compared to Class T-G
- Guaranteed 4% on member contributions and interest into DB

Class DC Only (Elective)

- Lower total contribution rate (same as Class T-H) going toward retirement savings
- No DB contribution rate
- Member assumes all investment risk in DC Plan with no guaranteed DB monthly payments in retirement



Membership Class Comparison Snapshot

	Employer Contribution to DB	Member Contribution to DC	Member Contribution to DB	Total Member Contribution	Employer Contribution to DC	Total Current Member & Employer DC Contribution*
Class T-G (default)	34.29% <i>less</i> employer contribution already paid to DC	2.75%	+ 5.50%	= 8.25%	+ 2.25%	= 10.50%
Class T-H (elective)	34.29% <i>less</i> employer contribution already paid to DC	3.00%	+ 4.50%	= 7.50%	+ 2.00%	= 9.50%
DC Only (elective)	34.29% <i>less</i> employer contribution already paid to DC	7.50%	+ 0.00%	= 7.50%	+ 2.00%	= 9.50%

- The actual employer contribution rate will be blended so it is the **same** per member/participant, **regardless** of their Membership Class, and it is applied across total payroll.
- Member rates can fluctuate due to shared risk/shared gain.



One Employer Contribution Rate Concept

- PSERS is a cost sharing plan that uses a blended employer contribution rate to fund:
 - Current Retirement Benefits
 - Unfunded Liability
 - The DC plan
- Rates are set by PSERS' actuary and are based on a percentage of total payroll.

Total employer contribution rate across entire payroll is 34.29% for all PSERS members/participants, regardless of membership class.



Class T-G Membership (Default) – DB/DC Hybrid

Class T-G Defined Benefit (DB) Plan Provisions

- Members contribute 5.50%
- Multiplier is 1.25 %
- Highest 5 years = Final average salary
- Superannuation is the earlier of:
 - Age 67 with three years of service; or
 - Rule of 97 (sum of the participant's age and service is at least equal to 97), with 35 years of service
- Special early retirement:
 - Attainment of age 57 with 25 years of service; and
 - Members under age 62 with less than 25 years of service receive a special two-step reduction factor:
 1. one factor for a benefit received between age 62-67; and
 2. another factor for a benefit received prior to age 62



Class T-G Membership (Default) – DB/DC Hybrid

Class T-G Defined Benefit (DB) Plan Provisions (continued)

- 10 year vesting
- Cost neutral Option 4 lump sum withdrawal
- Shared risk/gain provision - member's rate can increase or decrease 3% below or 3% above member's basic contribution rate, in increments of 0.75%
- Eligible for Health Care Premium Assistance
- Disability benefits – 5-year minimum based on a 2.0% accrual rate

Class T-G Defined Contribution (DC) Plan Provisions

- Mandatory participant contributions (MPC): 2.75%
 - MPC are pre-tax “pickup” contributions
 - MPC vest immediately
- Employer contribution: 2.25%
 - Employer contributions vest after 3 eligibility points
- Each DC participant will have an individual investment account -all participant and employer contributions are accumulated; investment income, fees, and costs are credited or charged



Class T-H Membership (Elective) – DB/DC Hybrid

Class T-H DB Plan Provisions

- Members contribute 4.50%
- Multiplier is 1.00 %
- Highest 5 years = Final average salary
- Superannuation is earlier of:
 - Age 67 with at least three years of service
- Special early retirement:
 - Attainment of age 55 with 25 years of service; and
 - Members under age 62 and with less than 25 years of service receive a special two-step reduction factor:
 1. one factor for a benefit received between age 62-67; and
 2. another factor for a benefit received below age 62

Class T-H Membership (Elective) – DB/DC Hybrid

Class T-H DB Plan Provisions (continued)

- 10 year vesting
- Cost neutral Option 4 lump sum withdrawal
- Shared risk/gain provision - member's rate can increase or decrease 3% below or 3% above member's basic contribution rate, in increments of 0.75%
- Eligible for Health Care Premium Assistance
- Disability benefits – 5-year minimum based on a 2.0% accrual rate

Class T-H Defined Contribution (DC) Plan Provisions

- Mandatory participant contribution (MPC): 3% of pay
 - MPC are pre-tax “pickup” contributions
 - MPC vest immediately
- Employer contribution: 2% of pay
 - Employer contributions vest after 3 eligibility points
- Each DC participant will have an individual investment account - all participant and employer contributions are accumulated; investment income, fees, and costs are credited or charged

Class DC Membership (Elective) –DC Only Plan

Class DC (Defined Contribution) Plan Provisions

- Mandatory participant contributions (MPC): 7.5% of pay
 - MPC are pre-tax “pickup” contributions
 - MPC vest immediately
- Employer contribution: 2% of pay
 - Employer contributions vest after 3 eligibility points
- Each DC participant will have an individual investment account - all participant and employer contributions are accumulated; investment income, fees, and costs are credited or charged
- Participants are eligible for Health Care Premium Assistance
- Class DC participants earn one eligibility point for each fiscal year in which the participant contributes to the trust

Current Member Election

- Election window for current members will be September 1 through December 1, 2019
- Requires counseling with PSERS



1.888.773.7748

- Personalized election form sent from PSERS to member upon request by member
- Employers will be notified in December of any members that elected for January 1, 2020 implementation
- Members have benefits for their old and new membership class calculated separately and combined.



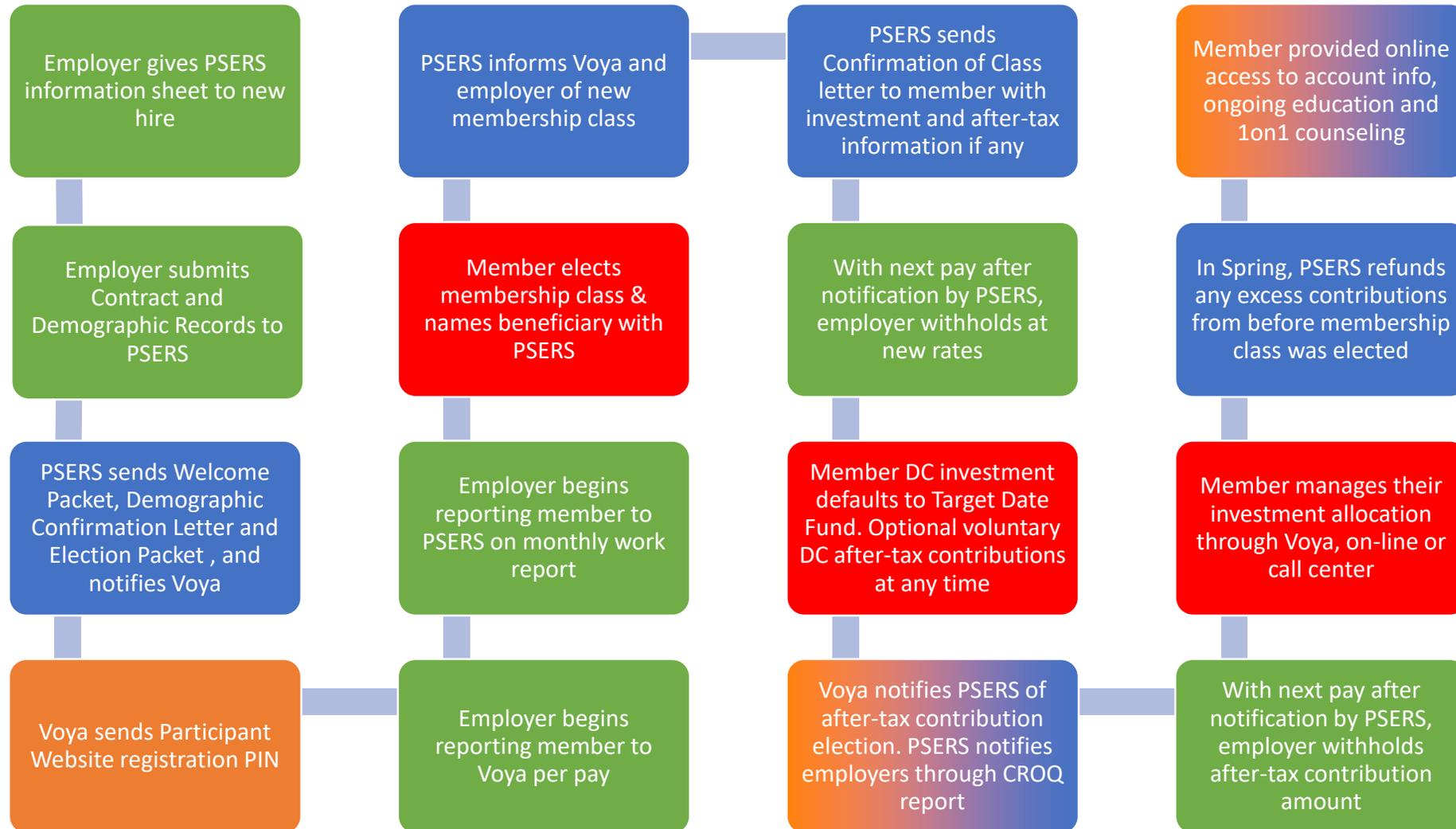
Employees Who Never Qualified

- School employees who have never qualified but had contributions withheld at the 7.5% rate in the past will be withheld at 5.5% starting July 1, 2019.
- These school employees receive automatic refunds of their PSERS contributions with the partial refund batch.
- Once qualified, DB contributions are owed to PSERS back to qualification, DC contributions are prospective from notification by PSERS.



Post 7/1/2019, employers can withhold DB contributions in anticipation of qualification but cannot pre-emptively withhold DC contributions.

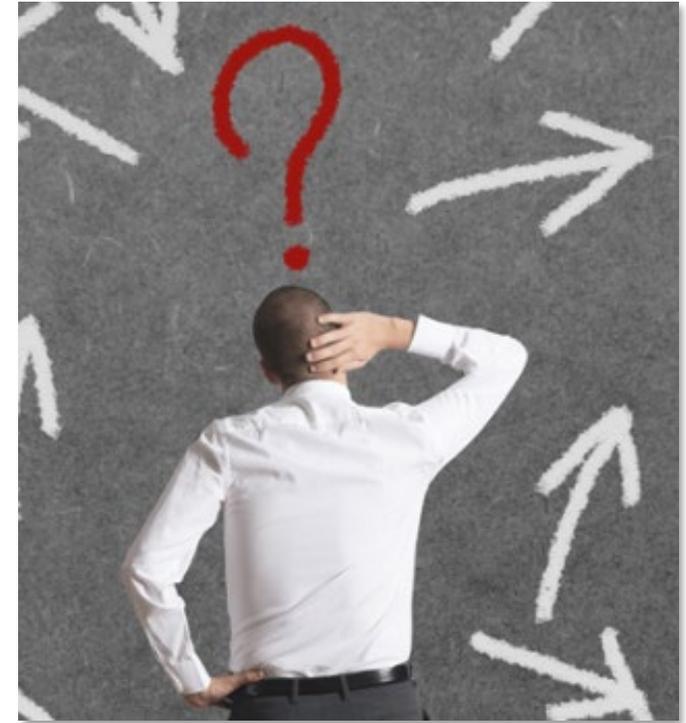
New Member Visual Timeline



New Member Election

Affects new members as of July 1, 2019

- 90 days from notification by PSERS to make election
- Qualification rules have not changed
 - Once qualified, always qualified
 - If never qualified, will be subject to new membership classes



Kicking It Off

- New employee handout with summary about PSERS is being revised for employers to give to all new hires
- Employer submits Demographic Record and Contract Record to PSERS
 - Employers will be required to submit a member email address in the demographic record that is reported to PSERS
 - PSERS sends a demographic confirmation letter pushing the employee to PSERS' member self-service website
 - If non-qualifying Contract Record, then no additional action until qualification. If qualifying Contract Record...



New Member Election Process Begins

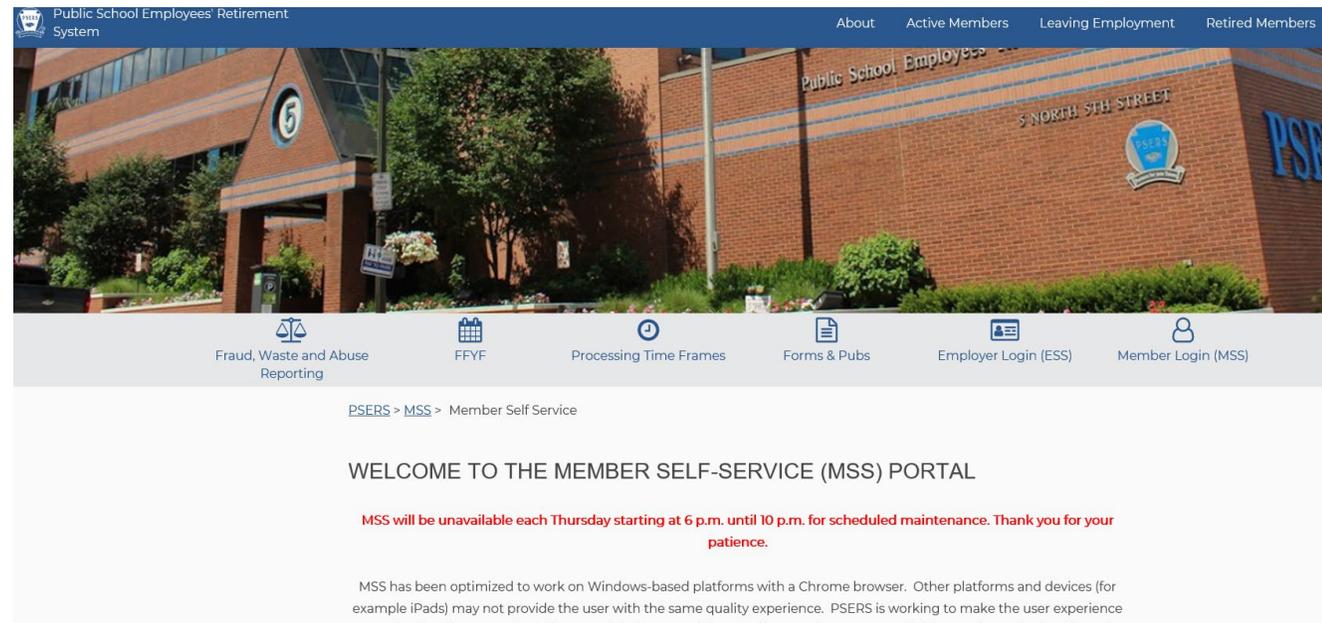
PSERS sends Election Packet and a Welcome Packet at the same time

- Based on Contract Record or Qualification Batch
- Welcome Packet includes multiple service, nomination of beneficiary, and non-qualifying part-time service purchase of service information.
- Election packet includes information on different classes and waiving PSERS membership
 - Membership class election or waiving membership is done through PSERS' Member Self-Service (MSS) portal



Member Self-Service (MSS) Capabilities

- Make class election
- Manage personal information
- Nominate/update beneficiaries
- Create estimates
- See account balances
- View PSERS correspondence
- Access their Voya account



Waiving PSERS Membership

- Qualification rules for waiving membership is not changing (part-time, etc.).
- Cannot waive until actually qualify for membership in PSERS.
- Must waive within 90 days of notice from PSERS or within 90 days of qualification following a break in service.
- Waiver for new members done through MSS (current members done through PSERS paper process).
- Once approved it remains in effect until the employee accepts a mandatory membership position or elects to enroll in PSERS.
- If an active member is being reported and contributing to PSERS for a seasonal or temporary position, e.g. coaches, the active member must experience a break in service from all school service, including the seasonal or temporary position, before requesting to waive membership. The employer's official decision to hire the employee for the next seasonal or temporary position, as reflected in the board minutes, cannot be made prior to the employee's effective date of termination or retirement.



Election Comparison Example

Member and Calculation assumptions

- \$30,000 starting salary with 3% annual increases, working for 35 years and retire at age 67
- Final average salary: \$79,593
- Class T-G & T-H have a guaranteed 4% investment earnings on their DB contributions that are withdrawable at retirement
- Compounding 6% rate of return assumed on member and employer contributions to DC Plan in all Classes
- At retirement member leaves contributions and interest in the System and elects the maximum benefit (maximum single life annuity)



Election Comparison – At Retirement

	Your Default Option	Your Other Elective Options	
	Class T-G Highest guaranteed retirement income	Class T-H Reduced guaranteed retirement income	Class DC No guaranteed retirement income
Total Present Value of DB and DC Accounts at Retirement	\$646,293	\$568,683	\$490,632
Retirement Benefit Breakdown	\$33,827 Annual Pension for life + DC Plan lump sum* of \$258,227 at retirement	\$27,062 Annual Pension for life + DC Plan lump sum* of \$258,227 at retirement	No Annual Pension (You assume all investment risk) + DC Plan lump sum* of \$490,632 at retirement
First Year Member Contributions (based on a \$30,000 starting salary)	\$2,475 or \$95.19 from bi-weekly pay	\$2,250 or \$86.54 from bi-weekly pay	
Total Member Contributions	\$144,619	\$131,472	
Employer DC Contributions	\$39,441	\$35,059	

* Assuming 6% compounding interest



What Should Members Consider?

- How long will they work in public education in PA?
 - 10 years service required for vesting in DB vs. 3 eligibility points for DC component
 - Class T-G also has an alternative to 10 years in the DB which is the earlier of age 67 with three years of service; or the “Rule of 97” (sum of the participant’s age and service is at least equal to 97), with 35 years of service
 - Class T-H only has the alternative of the age 67 with three years of service
- How is their health or family history?
 - No disability benefit for Class DC
- Are they comfortable with a guaranteed retirement income or desire the potential increased investment growth (or loss) in stock market returns?
 - Class T-G & T-H DB contributions guarantee 4% growth, Class DC all investment market performance driven



DC Plan Communication from Voya Financial

- As PSERS sends out the Election Packet and the Welcome Packet to new members, Voya sends an enrollment confirmation letter with a PIN for the member to register their DC Plan online at PSERSDC.voya.com. *This is not needed if members go through PSERS' MSS portal.*
 - 11 core investment options + 9 Target Date Funds
 - After-tax contributions by percentage of pay can be added to mandatory pre-tax contributions
 - Allows for holistic retirement planning opportunity
- After 90-day election window ends, confirmation of class sent to all members with additional participant website, after-tax election and investment information

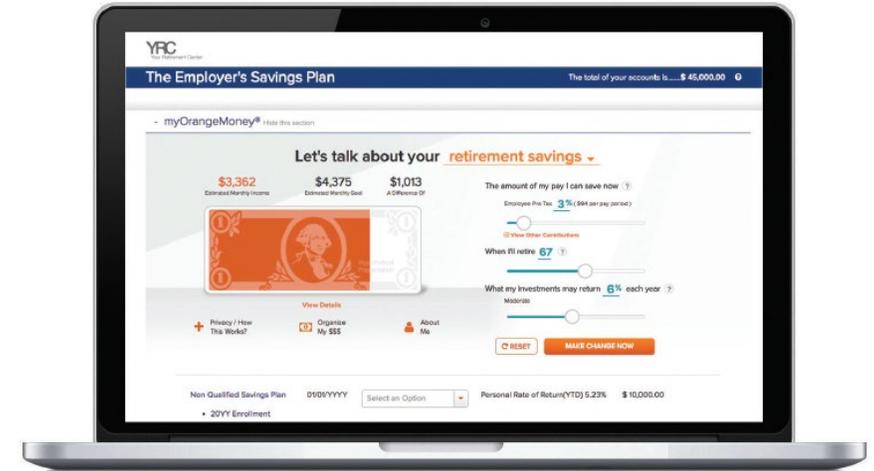


Voya Financial, Inc. is one of the largest Defined Contribution record keepers in the country



How Does the DC Plan Work?

- Contributions (member & employer) are invested in the same account
- Member allocates balances among 11 core investment choices and/or 1 of 9 Target Date Funds
- Employer contributions vest after accumulating 3 eligibility points
- Account value fluctuates based on market performance
- Asset-based fees and mutual fund investment fees apply
- Members can also make after-tax contributions and roll qualified former employer plans into the DC Plan
- Members cannot borrow from their account



New Member Contributions

- Contributions begin with the first payroll period after the school employee satisfies the minimum service qualifications
- Do not wait until the beginning of the month to withhold at a new elected Class T-H or Class DC rate
- After changing from the default Class T-G to a Class T-H or Class DC Election
 - PSERS will transfer additional member contributions from the DB Plan to Voya to make the DC Plan whole.
 - PSERS will transfer excess contributions made by new members directly back to participants.
 - The extra .25% already paid by an employer would remain in the participant's account in the employer bucket.



Investment Options

- DC Plan investment option allocations elected through Voya
- New Members default to a Target Date Fund based on their date of birth (ex. DOB between 1/1/88 – 12/31/92 defaults to the T. Rowe Price Retirement Blend 2055)
- 11 additional core investment options available in the DC Plan investment lineup
- Investment allocation for existing balances and/or future contributions can be changed online or by phone
- Default investment information is provided in election notice sent by PSERS
- Target Date Fund and additional investment information provided in Confirmation of Class letter sent by PSERS



After-Tax Contributions

- Voluntary after-tax contributions are elected through Voya and deducted through payroll
- Voya notifies PSERS of the after-tax election and PSERS notifies the employer through the weekly CROQ report
- After-tax contributions are voluntary and can be added, increased, decreased or stopped at any time during employment
- With a total termination from all employers and official termination notification from PSERS to Voya, the after-tax deferral rate is changed to zero



Voya Financial Resources & Tools

Voya provides financial education resources that are available in-person, online, in print, and on demand

- Toll-free Phone Service **833-4DC-MMBR (833-432-6627)**
 - Automated Interactive Voice Response (IVR) service
 - Customer Service Associates available from 8 a.m. – 8 p.m. Mon - Fri (except NYSE holidays) to answer questions and conduct transactions
- Participant Website through **www.psers.pa.gov** or **PSERSDC.voya.com**
 - Provides account access to view balances, investment allocation, and conduct certain transaction
 - Includes the myOrangeMoney® interactive educational experience that helps estimate savings scenarios to stay on track for retirement
- Financial education specialist(s)
 - Provides information about the Membership Classes, DC plan, financial education webinars, one-on-one appointments, and local in-person support
 - They do not provide financial advice or sell products



Termination

- Two year rule of inactive service resulting in a term record being entered by PSERS still applies
- Once terminated, a participant can choose to delay taking a benefit in one system or plan and take a benefit from the other
- Voya will pay distributions from the DC plan
- PSERS will pay DB refunds
- Members can be on a PSERS disability benefit w/o termination and not be eligible for plan distribution



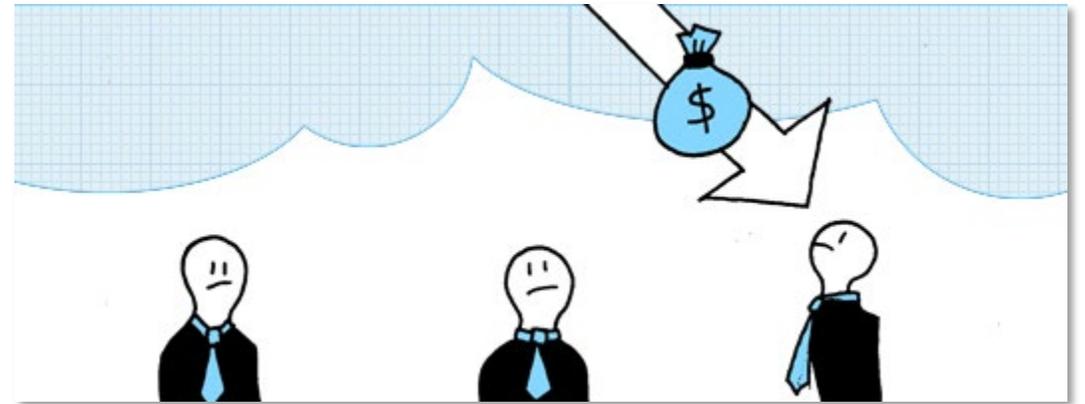
Distributions

- Small amounts will be automatically paid out after termination. The DC Plan shall distribute small accounts as follows:
 - If the account is greater than \$1,000 but less than or equal to \$5,000 and the participant does not make an election, the account is paid to an IRA established on behalf of the participant
 - If the account is equal to or less than \$1,000 and the participant does not make an election, the account is paid out as a single lump-sum payment directly to the participant



Beneficiaries

- The beneficiary named on the DB Plan is the default beneficiary for the DC Plan unless the participant chooses to name a different DC beneficiary
- Beneficiary designation can be separate for each Plan but is named, changed or processed all through MSS or on a PSERS form
- When a member dies, PSERS will certify the date of death and beneficiaries.



Retirees

- Can choose to take a distribution from the plan or system and not from the other



Returning to Service

- A participant receiving distributions, who returns to school service, will not be eligible to receive any further distributions until a subsequent termination of school service
- An annuity purchased using distributions from the plan is not considered as an ongoing plan distribution



Your “Preparing for Act 5” Checklist

- “Whitelist” your school for Voya emails
- Confirm your software vendor is prepared for new payroll fields/files to Voya
- Attend a PSERS Spring Workshop
- Business managers provide your school’s payroll information in May via **PSERSDCPayroll.com**
- Participate in Voya Sponsor Website training in June
- Submit test payroll file to Voya before July 1 “live” date
- Use new “Important Information for New Employees” handout
- Watch your ESS feed for updates



Spring Workshop Schedule at IUs

April 8 – Munhall	April 25 - Clarion	May 6 – Norristown	May 17 – Doylestown
April 9 - Monaca	April 26 - Smethport	May 7 - Pottsville	May 20 – New Oxford
April 10 – Coal Center	April 29 – West Decatur	May 9 - Reading	May 21 - Altoona
April 11 – Greensburg	April 30 - Canton	May 10 - Lancaster	May 22 - McVeytown
April 12 - Indiana	May 1 - Archbald	May 13 - Downingtown	May 24 - Summerdale
April 15 – Grove City	May 2 - Kingston	May 14 - Morton	May 28 - Milton
April 24 - Edinboro	May 3 - Easton	May 15 - Philadelphia	May 31 - Schnecksville



For Employer Questions

DB Plan Questions

- Web: PSERS.pa.gov
- Phone: Call your ESC representative

DC Plan Questions

- Web: Sponsor.voya.com
- Phone: Call Voya (# forthcoming)



For Member Questions

DB Plan Questions

- Web: PSERS.pa.gov
- Phone: 888-PSERS4U (773-7748)

DC Plan Questions

- Web: PSERSDC.voya.com
- Phone: 833-4DC-MMBR (432-6627)

Questions about making a Membership Class election (new members) or Membership Class election change (current members)

- Phone: 888-PSERS4U (773-7748)



