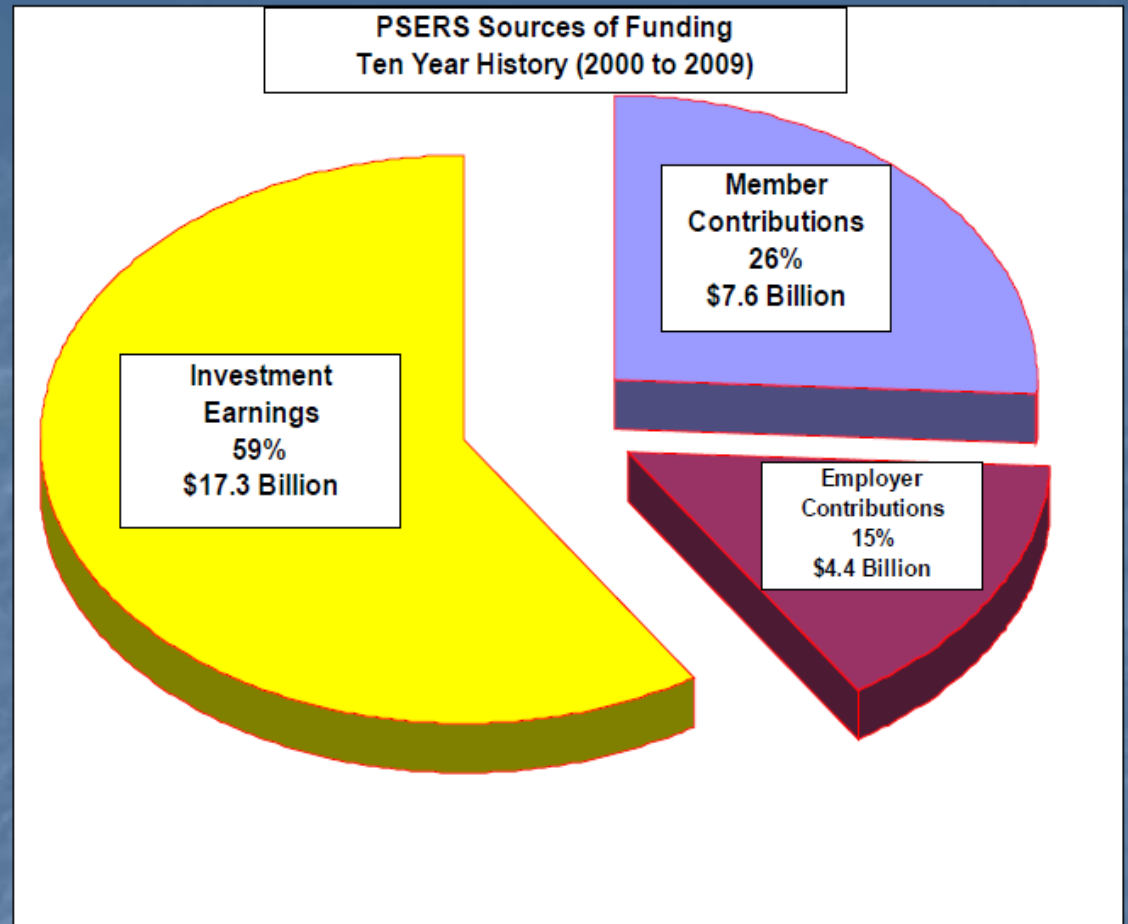


PSERS' Overview

- PSERS is funded by three sources:
 - Employee Contributions,
 - Employer Contributions, and
 - Investment Earnings
- Investment earnings have been the primary source of funding for PSERS benefits, dwarfing the contributions from both school employers and PSERS active members



Over the last 25 years, 20% of PSERS' funding has come from school employers. Another 15% has come from PSERS' active members. All the rest – 65% – has come from investment earnings

PSERS' Investment Rates of Return as of:

- **FY 1999/2000 - 11.9%**
- **FY 2000/2001 - (7.4)%**
- **FY 2001/2002 - (5.3)%**
- **FY 2002/2003 - 2.7%**
- **FY 2003/2004 - 19.67%**
- **FY 2004/2005 - 12.87%**
- **FY 2005/2006 - 15.26%**
- **FY 2006/2007 - 22.93%**
- **FY 2007/2008 - (2.82)%**
- **FY 2008/2009 - (26.54)%**

Below PSERS' annual actuarial earnings assumption therefore resulting in an actuarial loss

Over the past 25 years the Fund earned an annualized rate of return of 9.23% which is above the Fund's actuarial rate of return for the same period

History of the Employer Contribution Rate from the Peak Rate in 1986

SCHOOL YEAR ENDED	TOTAL EMPLOYER CONTRIBUTION RATE	AVG. EMPLOYEE CONTRIBUTION RATE
1986	20.040%	5.27%
1987	19.900%	5.29%
1988	19.540%	5.34%
1989	19.270%	5.37%
1990	19.680%	5.53%
1991	19.180%	5.69%
1992	14.900%	5.46%
1993	14.240%	5.48%
1994	13.170%	5.51%
1995	11.060%	5.55%
1996	11.720%	5.59%
1997	10.600%	5.62%
1998	8.760%	5.65%
1999	6.040%	5.69%
2000	4.610%	5.72%
2001	1.940%	5.77%
2002	1.090%	6.43%
2003	1.150%	7.10%
2004	3.770%	7.08%
2005	4.230%	7.12%
2006	4.690%	7.16%
2007	6.460%	7.21%
2008	7.130%	7.25%
2009	4.760%	7.29%
2010	4.780%	7.32%
2011	8.22%	7.34%

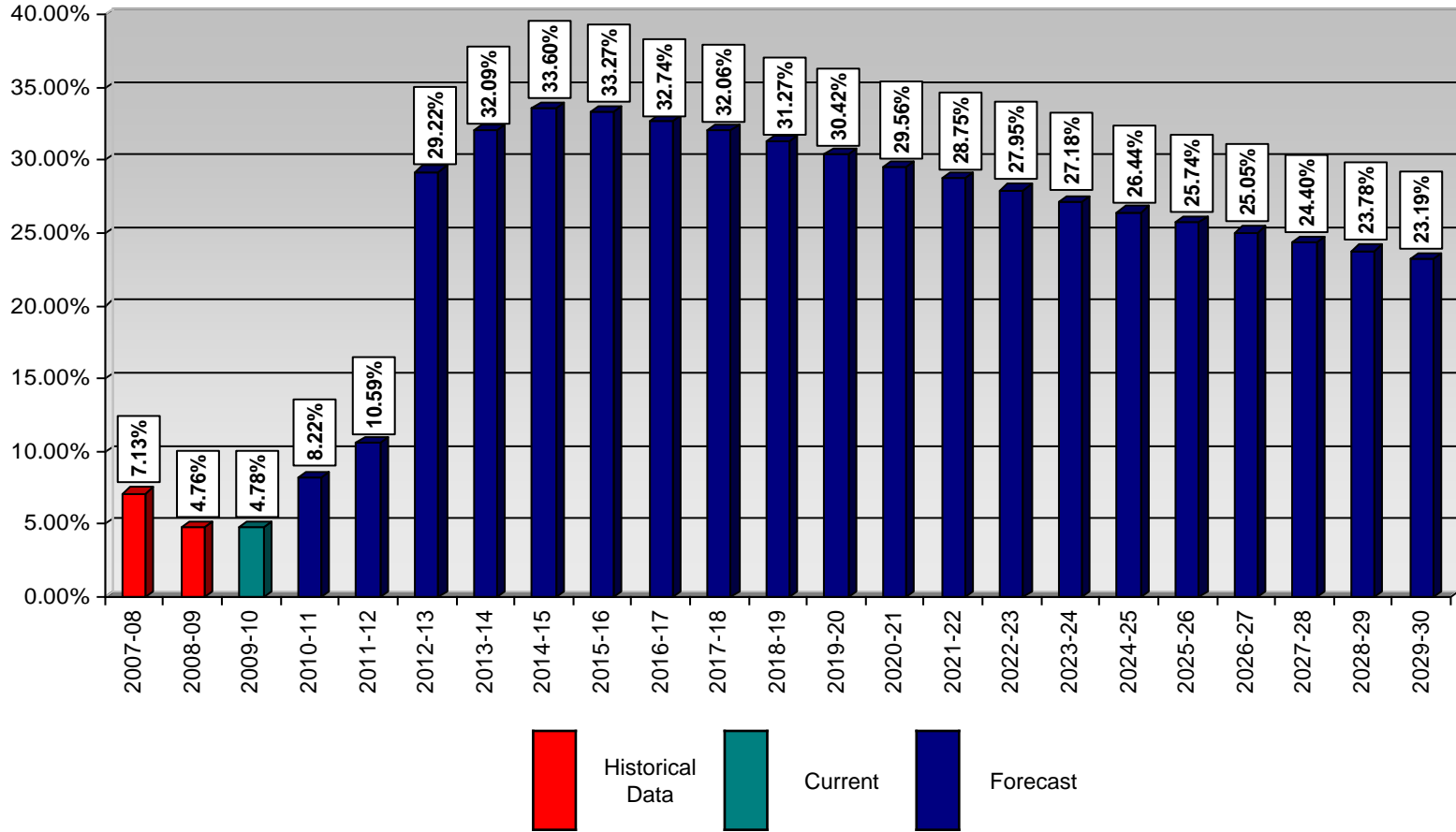
Employer Contribution Rate Spike

- The projected sharp rise in PSERS' employer contribution rate from 10.59% in FY 2011-2012 to an estimated **29.22%** in FY 2012/2013 is primarily the result of:
 - The unfunded liabilities primarily created by
 - The FYs' 2001-2003, 2008-2009 down investment markets
 - Earnings assumption change
 - Cost of deferring contributions
 - Act 2001-9 multiplier increase
 - The Act 2002-38 phased COLA
 - The actuarial funding changes made by Acts 2002-38 and 2003-40

Employer Contribution Rate Spike

- **Without going into details about the funding changes of Act 38 and Act 40, each had the effect of pushing off liability to the future to provide fiscal relief to both the Commonwealth and School Employers during recessionary times**
 - **Of the two, Act 40 had the greatest impact as it created a mismatch of the amortization of PSERS' actuarial gains and losses for 10 years ending with the start of FY 2012-2013**
 - **This technique lowered the employer contribution rate below the employer normal cost notwithstanding the existence of unfunded liability**
 - **This artificial suppression has also resulted in additional unfunded liability for PSERS**

Public School Employees Retirement System (PSERS) Employer Contribution Rate



RETIREMENT PROJECTIONS

FY Ending	Est. Payroll Subject to PSERS	Estimated PSERS Rate	Estimated Retirement Expense	Estimated State Share	Net District Cost	Change	Millage Equivalent of PSERS Increase	Millage Equivalent of PSERS District Total	% Tax Increase
09 Actual	52,327,423	4.76	2,490,785	1,245,393	1,245,393			0.35	
10	53,847,175	4.78	2,573,895	1,286,947	1,286,947	41,555	0.012	0.37	0.1%
11	56,955,377	8.22	4,681,732	2,340,866	2,340,866	1,053,919	0.300	0.67	1.3%
12	60,372,700	10.59	6,393,469	3,196,734	3,196,734	855,868	0.244	0.91	1.1%
13	63,995,062	29.22	18,699,357	9,349,678	9,349,678	6,152,944	1.753	2.66	7.6%
14	67,834,765	32.09	21,768,176	10,884,088	10,884,088	1,534,410	0.437	3.10	1.9%
15	71,904,851	33.60	24,160,030	12,080,015	12,080,015	1,195,927	0.341	3.44	1.5%
16	76,219,142	33.27	25,358,109	12,679,054	12,679,054	599,039	0.171	3.61	0.7%
17	80,792,291	32.74	26,451,396	13,225,698	13,225,698	546,644	0.156	3.77	0.7%
					66,288,475		3.413		

RETIREMENT PROJECTIONS - Rendell's Proposal 1% First year, 3% thereafter

FY Ending	Est. Payroll Subject to PSERS	Estimated PSERS Rate	Estimated Retirement Expense	Estimated State Share	Net District Cost	Change	Millage Equivalent of PSERS Increase	Millage Equivalent of PSERS District Total	% Tax Increase
09 Actual	52,327,423	4.76	2,490,785	1,245,393	1,245,393			0.35	
10	53,847,175	4.78	2,573,895	1,286,947	1,286,947	41,555	0.012	0.37	0.1%
11	56,955,377	5.78	3,292,021	1,646,010	1,646,010	359,063	0.102	0.47	0.4%
12	60,372,700	8.78	5,300,723	2,650,362	2,650,362	1,004,351	0.286	0.75	1.2%
13	63,995,062	11.78	7,538,618	3,769,309	3,769,309	1,118,948	0.319	1.07	1.4%
14	67,834,765	14.78	10,025,978	5,012,989	5,012,989	1,243,680	0.354	1.43	1.5%
15	71,904,851	17.78	12,784,683	6,392,341	6,392,341	1,379,352	0.393	1.82	1.7%
16	76,219,142	20.78	15,838,338	7,919,169	7,919,169	1,526,828	0.435	2.26	1.9%
17	80,792,291	23.78	19,212,407	9,606,203	9,606,203	1,687,034	0.481	2.74	2.1%
					39,528,724		2.382		

Options

- **Fundamentally, there are only three ways to address the funding issues at the Pension Fund**
 - **Increase the funding of the System**
 - **Decrease/cut the costs/liabilities of the System**
 - **Defer the liabilities of the System**

Spring-Ford Area School District

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RESOLUTION 2010 -09

WHEREAS, the Board of Directors of the Pennsylvania Public School Employees Retirement System (PSERS) has voted to increase the employer contribution to the system for the 2010-2011 school year to 8.12% , a 72% increase over the 2009-2010 rate; and

WHEREAS, the employer contribution rate is projected to increase sharply in the next five years, reaching a peak of 33.60% in the 2014-2015 school year; and

WHEREAS, the employer contribution rate is projected to remain over 30% until the year 2020; over 25% until the year 2027 and over 20% until the year 2032; and

WHEREAS, the projected increases in employee contribution would cost the Spring-Ford Area School District and its taxpayers an additional \$10,793,068 between the 2010-2011 school year and the 2014-2015 school year or a total tax increase of 13.38% (10/11 \$1,053,919 tax increase of 1.3%; 11/12 \$855,868 tax increase of 1.06%; 12/13 \$6,152,944 tax increase of 7.63%; 13/14 \$ 1,534,410 tax increase of 1.9%; 14/15 \$1,195,927 tax increase of 1.9%); and

WHEREAS, these projections present critical problems that effectively force the addition of significantly higher financial burdens on taxpayers, school districts, and the commonwealth and consequently demand both a short-term and a long-term solution; and

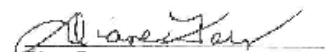
WHEREAS, a meaningful solution to these problems must involve the identification of another funding source for PSERS, decreasing or cutting the costs/liabilities of the system, including benefit levels, and deferring the system's liabilities.

NOW THEREFORE, BE IT RESOLVED that the Board of School Directors of the Spring-Ford Area School District calls upon the General Assembly to begin immediate consideration of school employee pension reform with the dual purpose of reducing projected employer contribution rate increases over the next five years and reducing projected costs to school districts, taxpayers and the commonwealth over the next two decades, while maintaining an appropriate pension benefit school employees; and

BE IT FURTHER RESOLVED that the General Assembly approve HB 2135 or SB 1185, both of which would make PSERS a hybrid defined benefits/defined contribution system for future school employees, as a potential solution to the long-term cost issues presented by projections in the employer contribution rate.

ENACTED into a RESOLUTION this 22nd day of March, 2010


Joseph P. Ciresi
Board President


Diane Fern
Board Secretary