Primer
House Appropriations Committee (D)
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Pensions - Talking Points

The Senate, led by Lehigh County Republican Appropriations Committee Chairman Pat Browne, is amending SB 1071 to dramatically change the way state employees and teachers pay for their retirements.

In exchange for marginal savings decades from now, school district costs increase in the near term, the plan falls short of any meaningful reduction in debt, and employees will experience dramatic cuts in retirement benefits worth 20 to 60 percent. All of this in the name of offering employees a more "private-sector-style" choice of three retirement options, but the devil is in the details.

The amendments, which are growing in number by the day, would force SERS and PSERS participants to pay more and increase costs for PSERS employers (school districts) and the commonwealth by $100 million over the next 10 years. The proposal will not pay down the unfunded liability significantly faster than the status quo (Act 120).

Worse, Republican tinkerers are **re-engineering the actuarial science** to neutralize costs in their re-bake of a pension reform proposal to make it appear as if savings will be realized in the first five years for SERS.

While lauding the effort to address a serious financial issue, we believe the proposed changes would fall far short of any meaningful reduction in the unfunded liability.

We also believe the proposed changes would create one of the most complicated pension systems in the United States. That's not good for state employees and teachers; it's especially unfavorable for taxpayers.

Upfront, the plan will require extensive unfunded administrative support (an unfunded mandate), costing roughly $20 million before it takes effect. School districts will also incur significant upfront implementation costs.

How Republicans are representing the long-term budget impact is deceptive. They discuss savings in terms of the future value of money instead of providing a more meaningful measure in today's dollars. Additionally, they count extra years of savings beyond the 30-year time horizon, contrary to the industry standard.

- The proposal saves a sobering $7 million, estimated, in today's dollars for PSERS, Pennsylvania's largest retirement system, over the next 30 years (through 2047) compared with the future value of $400 million (cash flow basis). Worse, Republicans count an extra two years for PSERS to inflate and double those savings in direct conflict with industry standards that stipulate a 30-year time period.
- The proposal saves an estimated $130 million in today's dollars for SERS over the next 30 years (through 2047) compared with the future value of $1.5 billion. Adding insult to injury, they count an extra five years for SERS to inflate those savings by an additional $590 million (in today's dollars), again in sharp conflict with the 30-year industry standard, resulting in a disingenuous headline grabbing $2.1 billion.

All savings for the school retirement system and the vast majority of the savings for the state retirement system are generated from cuts to new employee benefits.

- Benefits will be cut between 20 and 60 percent, depending on the selected plan. The 401k-style benefit is only 37 percent of the current Act 120 benefit.
- Employee contributions rates will remain the same (7.5 percent) for the 1 percent multiplier hybrid plan and for the DC plan. However, for the 1.25 percent multiplier hybrid plan, employee contributions will go up 13 percent to 8.5 percent of pay. Unfortunately, the benefit is reduced by roughly 30 percent.

- Roughly 70 percent of state employees will shoulder the cost of the plan design changes. The plan exempts most hazardous duty employees including state police, corrections officers, enforcement officers and all hazardous duty employees other than psychiatric security aides. Public safety employees make up about 30 percent of the total state workforce.

TALKING POINTS

In exchange for marginal savings decades from now:

- School district costs increase over the next 10 years,
- The plan falls short of any meaningful reduction in the debt, and
- Employees will experience dramatic cuts in retirement benefits worth 20 to 60 percent.

The anticipated amendments to Senate Bill 1071 represent a wolf in sheep's clothing.

- Currently talked about changes would cost school districts and the commonwealth $100 million more over the next 10 years compared to what it will cost today, under Act 120.
- Worse: In the case of the state retirement system, the proposed amendments **suppress actual expenses** to make it appear as if savings would be realized over the reform plan's first five years. This is due to delaying an effective date for the newly proposed formula.

The new pension system would represent a three-headed monster if it succeeded, and it would quickly be labeled as one of the most complex plans in the country.

The amendments to SB 1071 are another in a long line of historically bad pension decisions that account today for 70 percent of the unfunded liability.

Implementing the new plan would cost Pennsylvania taxpayers $20 million in start-up and administrative expenses in the first year, plus more at the local level in school districts.

This proposal has not received the proper public vetting through public hearings, which House lawmakers have made a priority.

Plus, the Legislature already has a bipartisan bill to consider. Additional Republican tinkering is not necessary but is questionable.

If the plan is ever started, employees – especially state employees – would have to pay more for far fewer benefits. For example:

- In a home-buying comparison, the proposed changes to SB 1071 would be like requiring someone to pay $36,000 more for a $100,000 house (36 percent increase in cost) and then being forbidden from using the kitchen and dining room (20 percent reduction in benefits), or the kitchen, dining room and both bedrooms (80 percent reduction in benefits).
- The amendments would disproportionately impact women participants because 75 percent of PSERS is female and has no exemptions.
- And, it would allow a little less than half of state employees to avoid paying an equal share to close the unfunded liability, and close it sooner than prescribed under Act 120.

Under the anticipated amendments, there would be no immediate budgetary relief.

School districts – and the property owners who live in them – would be negatively affected by the expected change. They will be paying more through this proposal than if Act 120 is allowed to work.

The PSERS employers would not realize savings until 2040!

- The next eight years of newborns would grow up and graduate from high school before the PSERS unfunded liability begins to first decline and then decline only marginally.
- Most sitting lawmakers would be, at least, retired before there's any positive momentum towards a small reduction in the combined unfunded pension liability.

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