Memo

The House Appropriations Committee (D)

TO: House Democratic Members and Interested Parties

FROM: Rep. Joseph Markosek, Chairman

SUBJECT: Pension Points – Corbett's Pension Plan; A Gamble We Cannot Afford

DATE: June 17, 2013

In a quiet meeting last week, the Public School Employees Retirement System (PSERS) met and heard a report from an actuary about the latest cost estimates for Gov. Corbett's pension proposal.

The bottom line is: **The governor's proposed changes to the pension plan for school employees will cost Pennsylvania taxpayers nearly $22 billion over the long term; $39 billion if constitutionally questionable changes to the benefits of current employees are overturned in court.**

Pennsylvanians should be alarmed at the long-term cost implications of the governor's proposal (H.B. 1350 PN 1760) to move employees from the current defined benefit plan to a 401-k style pension plan (defined contribution plan).

Attached is a one-page summary of the report. The most alarming aspects of the report involve the costs, which are driven by:

- Closing the defined benefit plan ($30.7 billion) and switching to a 401k-style plan ($7.2 billion) – which is the centerpiece of Gov. Corbett's purported pension "reform" plan.
- "Remortgaging" the debt, which creates $2.1 billion in savings in the short term, but costs $22 billion in the long term.
- Changing the benefits of current employees, which could cost taxpayers an additional $17 billion if, as expected, the courts find the changes to be unconstitutional.

Governor Corbett is offering the same types of pension policies he has criticized prior governors and legislatures for doing – artificially reducing the state's contribution to the pension systems in the short term and significantly increasing long-term debt. **Apparently the administration's philosophical attachment to a 401(k)-style plan has clouded its ability to assess the facts.** Those facts, a long-time coming, are now laid out in an actuarial note.

While the analysis of the cost implications is complex, it is important for Pennsylvanians to understand the long-term financial consequences of Gov. Corbett's pension "reform" plan.

Corbett's Pension Plan - A Gamble We Cannot Afford

Governor Corbett is offering the same types of pension policies he has criticized prior governors and legislatures for doing - artificially reducing the state's contribution to the pension systems in the short-term and pushing the costs off to future generations (i.e. kicking the can down the proverbial road).

As we have been saying all along, changing to a different style plan will cost more for future generations, does nothing to resolve the unfunded liability and will be challenged in court.

A recent analysis of the governor's proposal (H.B. 1350 PN 1760) by the Public School Employees' Retirement System's (PSERS) actuary concluded that switching from a defined benefit plan to a defined contribution plan will COST the state nearly $22 BILLION through 2046.

PSERS analysis confirms that the costs associated with closing the state's current defined benefit plan far exceed any savings realized from switching to a defined contribution plan. **And if aspects of the pension reform plan are challenged in court and subsequently overturned, the governor's plan could cost taxpayers an additional $17 billion, for a total of $39 BILLION.**

The governor's proposed pension reform plan is fiscally irresponsible because he assumes savings that are not grounded in legal or economic reality.

The governor claims his goal with pension reform is to save money, but in reality, it is generational theft and will COST future taxpayers billions of dollars.

The governor's pension reform plan is a gamble the state simply cannot afford to make.

Projected Costs of Gov. Corbett's Pension Reform Plan (HB 1350 PN 1760)

Cost/(Savings) in Millions ($)

	Cost	Savings	Total
Funding Changes			
Revised pension contribution rate collars	2,145		
Decrease in amortization period from 24 to 10 years	3,182		
Special determination of normal cuts under entry age normal		(1,498)	
Sub-total Funding Changes	**5,327**	**(1,498)**	**3,829**
Benefit Changes			
DC plan membership for employees hired after June 30, 2015 *(Switch to a 401(k)-style plan)*	7,218		
Class T-G 2% accrual for service after June 30, 2015 *(Accrual rate reduction from 2.5% to 2%)* *		(10,921)	
Health care premium assistance for employees hired after June 30, 2015		(2,673)	
Cost neutral Option 4*		(3,444)	
Final average salary*		(2,710)	
Social security taxable wage base limit on compensation*		(39)	
Sub-total Benefit Changes	**7,218**	**(19,787)**	**(12,569)**
Closure of Defined Benefit Plan	**30,706**	**0**	**30,706**
Total HB 1350 Cost/(Savings)	**43,251**	**(21,285)**	**21,966**
*Potential reduced savings as a result of a failed legal challenge	0	17,114	17,114
Total HB 1350 Cost/(Savings) if plan is found to be unconstitutional	**43,251**	**(4,171)**	**39,080**

Source: Advisory note prepared by PSERS' actuary BUCK Consultants for House Bill 1350 (PN 1760), dated June 11, 2013.

Gov. Corbett's pension reform plan will COST taxpayers $22 BILLION...

$39 BILLION if the court finds it to be unconstitutional.

Learn more about state pension issues online at www.hacd.net