

#### **News for Immediate Release**

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### **Governor Corbett Releases Pension Reform Plan**

**Harrisburg** –Governor Tom Corbett today unveiled a comprehensive pension reform plan to address Pennsylvania's \$41 billion in unfunded liability and the effects that increasing pension contributions have had on the state's budget.

Without reform, the Governor's Budget Office has calculated that pension costs will consume approximately 60 percent of all new revenues in the 2013-14 fiscal year. That translates to more than \$500 million that could be spent on core programs and services.

"Reforming our pension system is not going to be easy," Corbett said. "We understand the challenges ahead. It's imperative that we find some budget relief so that we can continue supporting the core functions of government."

The plan can be located at www.pa.gov. Highlights of the plan include:

### 1. Moving new employees to a defined contribution plan

State Employees' Retirement System, or SERS, employees hired after Jan. 1, 2015 and Public School Employees' Retirement System, or PSERS, employees hired after July 1, 2015 will be enrolled in a 401(a) defined contribution plan, similar to a 401(k) plan.

To ensure that the commonwealth's new employees have an adequate retirement, enrollment in the 401(a) plan will be automatic, and most state employees will be required to contribute at least 6.25 percent of their salary to their plan, while public school employees will need to contribute at least 7.5 percent.

## 2. Changing the formula for future benefits for current employees' plans

Changes to the formula will be effective for SERS employees on Jan. 1, 2015 and for PSERS employees on July 1, 2015, and include:

 Reducing the multiplier in the formula used to determine future pension benefits by .5 percent for all employees that are currently locked into a multiplier above the 2 percent level, except for those who previously bought up to the higher multiplier. Current employees can still keep their higher multiplier by paying a higher contribution rate.

- Capping pensionable compensation to 110 percent of the average salary of the prior 4 years when determining an employee's final average earnings.
- Capping pensionable income at the Social Security wage base, which is \$113,700 for 2013.
- Determining an employee's final salary by averaging the employee's last five years of compensation.

Corbett's plan also corrects a provision in the retirement calculation that provided an annuity that was higher than the amount that could be supported by the remaining funds in employees' pension accounts. Moving forward, if current employees choose to withdraw their contributions, their pension payments will be based on the amount remaining in their pension account.

# 3. Limiting the amount by which the commonwealth's employer contributions can be increased

Currently, the state must pay an annual required employer contribution rate, which is determined by the amount of unfunded liability and other costs. By law, the state must increase that rate by 4.5 percent each year. This annual rate, currently hovering over 10 percent for both funds and expected to rise to close to 30 percent in the next 8 years, has caused unsustainable growth in employer contributions.

Corbett's plan reduces current annual employer contribution limits from the mandated 4.5 percent to 2.25 percent in 2013-14. That amount would increase half a percentage per year until it reaches 4.5 percent again, or until it is equal to the annual required contribution rate. This is otherwise known as "tapering the collars."

As a result of making these reforms, Corbett said the state's contributions to the pension systems can be reduced, providing much-needed budgetary relief.

Over the next five years, through the employer contribution limit changes, the commonwealth will realize nearly \$2 billion in savings.

School districts and local education agencies would realize savings of more than \$1 billion over five years, nearly \$140 million in 2013-14 alone.

"This is a comprehensive approach that will require unprecedented collaboration among not only the administration and the legislature, but SERS and PSERS and the unions representing state and school employees as well," Corbett said. "But we must work together, as we have to take action now."

Corbett added that the pension reform plan includes no changes to benefits for retirees and no changes to benefits accrued by current employees through the effective date of the plan.

In November 2012, the Governor's Budget Office released The Keystone Pension Report, which provides additional details on Pennsylvania's current pension situation and is available for download at <a href="https://www.budget.state.pa.us">www.budget.state.pa.us</a>.

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