

PENSION REFORM IN PENNSYLVANIA

Taxpayers should be deeply concerned. Pennsylvania's two public pension systems, the State Employee Retirement System (SERS) and the Public School Employees' Retirement System (PSERS), are badly in debt.

How bad? At the end of 2011, both systems had a combined unfunded liability of \$41 billion. At the end of 2012, that had increased to over \$47 billion. This equates to an increase of more than \$6 billion in one year, \$510 million each month, or nearly \$17 million for each day that elected officials did nothing to fix this problem. What's worse, unfunded liability is expected to grow to over \$65 billion by 2018. To address that liability, each household in Pennsylvania would need to contribute \$13,000.

In FY 2013-2014, taxpayers are expected to contribute \$1.5 billion into SERS and PSERS. By FY 2017-2018, the taxpayers' bill to SERS and PSERS is expected to rise to \$4.3 billion. This is a nearly 200% increase in taxpayer contributions to SERS and PSERS in just 4 years. In total, increased pension contributions will cost each Pennsylvania family the equivalent of a 36% increase in the Personal Income Tax.

It's clear that taxpayers will continue to pick up the tab.

The cost of doing nothing is staggering—not just in tax increases, but also in spending cuts.

At a local level, more than one-third of our school districts have applied for exceptions to increase property taxes above the school district's established index. For many of these school districts, rapidly increasing pension costs are to blame.

According to the Pennsylvania Association of School Business Officials (PASBO):
“Pension reform is a critical and immediate need in order to prevent more significant cuts to school programs and personnel... The Governor's proposal is an important step forward in addressing the pension crisis schools are now experiencing.”

Failure to enact meaningful pension reform is expected to result in painful cuts in critical government programs. The areas at the greatest risk of being cut because of the failure to enact meaningful pension reform include core government programs such as public education, health and human services, public safety and police services, and roads and bridges.

The time has come to make some changes. We must take action now and enact pension reform.

PENSION REFORM PLAN

- **Retirees will not lose or see any changes to benefits.**
- **Current employees will be able to contribute a higher amount in order to retain their multiplier.**
- **Current employees will not see any changes to any benefits already accrued.**
- New employees will be enrolled in a 401(a) defined contribution plan. Enrollment in the plan will be automatic and employees will be required to contribute the same amounts as in the defined benefit plan for current employees.
- Future pension benefits for current employees will be adjusted through a lower multiplier, compensation reforms and fixes to the employee contribution refund formula.
- The commonwealth will taper employer contributions over the short-term for budgetary relief and institute long-term reforms that will reduce commonwealth risk and address the unfunded liability of the pension systems. The rate by which the commonwealth contributes to the two funds will be reduced to 2.25% in 2013-14, increasing by 0.5% per year until it reaches 4.5% or until the rate is equal to the annual required contribution rate.

With reform, school districts and local education agencies would realize a savings of over \$1 billion in 5 years, close to \$140 million in 2013-14 alone.

Enacting pension reform would save Pennsylvania nearly \$12 billion in employer contribution costs and nearly \$40 billion in plan costs over the next 30 years.

Each Pennsylvania household's share of pension unfunded liability is now about \$9,500. That is expected to rise to more than \$13,000 by 2018.

More than 60 cents of every new General Fund revenue dollar is will be spent on employer pension contributions.