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Pension Reform in Pennsylvania

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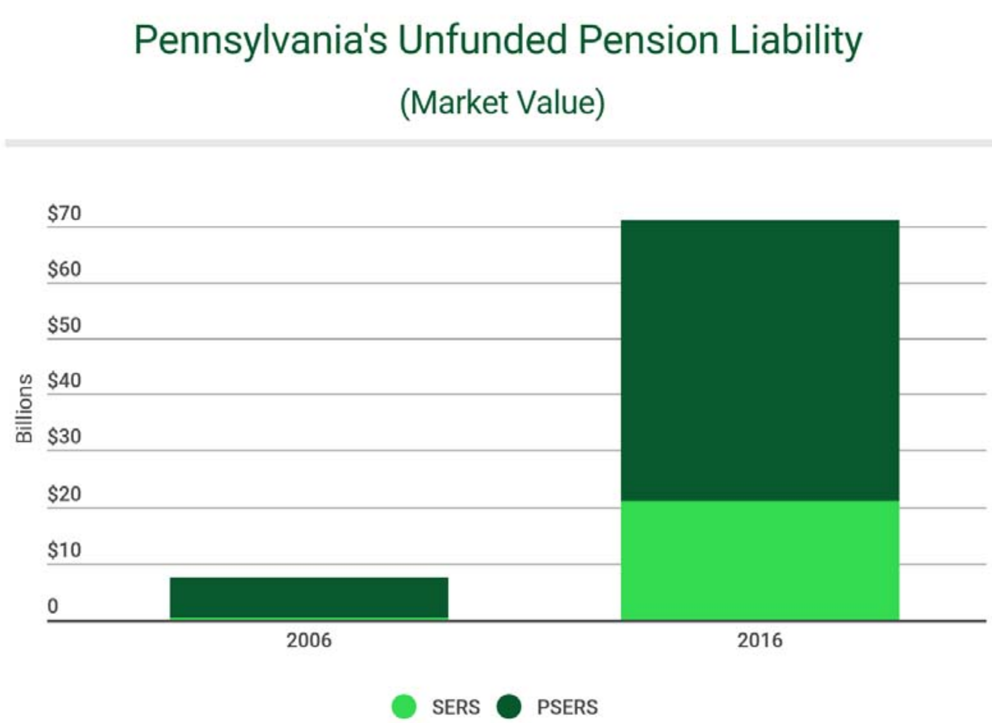
The Pension Problem

Pennsylvania's $71 billion unfunded pension liability is unsustainable for taxpayers and puts public employees at risk. Without timely reform, pension payments will crowd out funding for other services, property taxes will rise, and teachers may be laid off.

- Pennsylvania has enough assets to cover just 60% of liabilities. **Only four states** have pension plans with a worse funding ratio.
- The Independent Fiscal Office estimates pension payments in 2019-20 will consume 9.4% of the state's General Fund. That's more than double the share of pension payments in 2011-12.
- About 15 years ago, Pennsylvania's public pension plans enjoyed a surplus. Stock market losses, retroactive benefit increases, and delayed pension payments created an unfunded liability growing from $7.6 billion in 2006 to $71 billion in 2016.



Good Pension Reform

Good pension reform means fixing the broken system *and* paying down pension debt without new taxes or borrowing. Establishing a predictable retirement system is a critical first step.

Senate Bill 1: This side-by-side hybrid plan contains a 401(k)-component paired with a smaller defined benefit component for new employees. New and current employees can also choose a 401(k)-style only plan. SB 1 accomplishes key goals of good pension reform:

- **Predictability:** Unlike defined benefit plans, the 401k component is not subject to political manipulation. Any reform that reduces the political aspect of the pension system is an improvement.
- **Employee control:** SB 1's defined contribution component will provide portability and retirement control for public employees.
- **Slowing the accumulation of debt:** Since the defined contribution portion is, by definition, fully-funded it cannot add to our unfunded liability. PEW notes the side-by-side hybrid approach would mitigate more risk than any state that has enacted pension reform, while protecting workers.

Five Reasons Pension Reform Can't Wait

1. **The pension crisis is driving property tax hikes.** From 2009 to 2015, school district revenue statewide grew by $3.9 billion, yet 47% of this increase went to pension payments. This represents an increase of more than $578 per homeowner. In fact, over the last five years, 99% of school districts seeking exemptions to raise property taxes cited pension costs.

2. **School budgets are getting squeezed.** In one year, Pittsburgh School District's pension debt grew 10%, equal to the average salary of more than 1,000 classroom teachers.

3. **Our pension system discourages young teaching talent:** A defined contribution retirement would correct the bias against new employees. Only 36% of Pennsylvania's teachers are projected to become vested in the pension system, meaning that the defined benefit plan is not attractive enough to retain talent.

4. **Public employees' retirements are at risk:** Detroit's bankruptcy showed earned pension benefits can be reduced. Public employees should not have to worry if the state will make good on its pension funding promises.

5. **Pennsylvanians want pension reform**. Polling shows 54% of voters supported placing new state employees in a 401(k)-style retirement plan. Pension reform isn't a partisan issue: 67% of Republicans, 51% of Independents and a plurality of Democrats are in favor.