

TO: Pennsylvania General Assembly

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RE: Pension Reform

We are writing to you as a coalition of organizations representing more than a million teachers, law enforcement officers, firefighters, nurses, counselors, and other middle-class Pennsylvanians who are committed to retirement security for all and long-term economic sustainability.

At a time when middle-class families across the country are wondering how they will make ends meet in retirement, we firmly believe that now is the time to promote retirement security for all Pennsylvanians, not take a step backwards by eliminating that security for hundreds of thousands of our friends and neighbors.

Our commonwealth's public employees have worked hard in service to their communities, played by the rules, earned modest, middle-class livings and saved for their retirement. And for 100 years PSERS and SERS have provided millions of Pennsylvanians with modest financial security in retirement —through recessions and the Great Depression. Today, these systems serve more than 818,000 current state workers and retirees; pumping more than \$7.6 billion into state and local economies and supporting nearly 100,000 jobs. Despite their success, Governor Corbett

has proposed unconstitutional changes to pension benefits for public employees. Instead of addressing the past debt owed to Pennsylvania's pension systems, his proposal defers necessary pension payments once again and increases costs moving forward. If implemented, his proposal would undermine the retirement security of millions of Pennsylvanians, increase taxpayer costs and destabilize our pension systems.

Defined Benefit Plans Are Worth Preserving

Public workers are not the only ones who benefit from receiving a defined-benefit pension; the plans help curtail government spending. Defined-benefit pensions, which provide retirees with steady income for the remainder of their lives, are a major factor behind keeping seniors out of poverty and off public assistance – which also carries with it a substantial public/taxpayer cost.

Governor Corbett's Plan Will Increase Costs for Taxpayers

While the stated purpose of the governor's proposal is to ease budget woes and reduce the taxpayer's burden, the reality is his plan would do just the opposite. According to the Keystone Research Center, key components of Corbett's massive pension restructuring plan would actually increase costs for the state, school districts, and ultimately taxpayers.

As a result of benefit cuts in the Pension Reform Law of 2010, new employee pension costs are already a very low 2.2 percent of payroll. In fact, they are so low that under Governor Corbett's plan, transitioning new state employees to a defined contribution (DC) plan would actually increase pensions funding costs to taxpayers by \$179 million annually.

Creating an inferior alternative pension system for new employees destabilizes the defined benefit plan and introduces fatal flaws that turn it into a ticking time bomb that will drive up costs for taxpayers.

First, the Governor's plan cuts off funding to the plan. Employee contributions are the only consistent, reliable source of funding for our pension plan. If the governor is successful in creating a separate 401(k) plan for new hires, a critical source of funding for your pension plan – new employee contributions – will be cut off, right when the plan most needs the earnings from these funds to help pay benefits. The health of the fund will be threatened. Actuarial studies in 12 states show that switching from a defined benefit plan to a 401(k)-type plan increases pension debt. The governor is bucking the consensus of actuaries when he says Pennsylvania can close off the current plan and add a new, 401(k) system for new hires and save money.

Second, it decreases investment earnings for the fund. As new employees are enrolled in the new plan, the employees who remain in the existing pension plans will age, and increasing numbers will retire. As the timeframe shrinks over which pension assets must be paid out in retirement checks, fund managers will shift to less risky and more liquid assets that have lower rates of return. This means the state and school districts will have to make additional contributions to meet their pension obligations to current workers and retirees.

Governor Corbett's Proposal for Current Employees is Unconstitutional (and Costly!)

Governor Corbett's proposal to alter the benefit structures for current members of the public pension system is prohibited by Pennsylvania's Constitution and previous case law. If this proposal were to be enacted as presented by the Governor, the likely result would be a long court battle placing any anticipated savings in jeopardy and kicking the can down the road, yet again. Not only is this plan unconstitutional, it poses a severe threat to Pennsylvania's economic well-being. Lowering employer contributions would lead to a projected \$5 billion increase in the state's unfunded pension liability.

Act 120 of 2010 already reduced benefits and lowered costs

Governor Corbett's plan to shift future employees into a new 401(k)-like plan would undo much of the progress made by Act 120 and actually drive up costs for the state, school districts, and ultimately taxpayers.

Act 120 lowered pension costs by reducing benefits for new employees by more than one-fifth, capping the maximum pension benefit an employee can receive, and increasing the time it takes for a pension to vest from 5 to 10 years. The law also increased the age and years of service an employee needs to retire with full benefits, and did away with an employee option to withdraw individual contributions at the start of retirement.

Over the next 30 years, the savings from these changes are estimated at \$24.7 billion in the Public School Employee Retirement System (PSERS) and another \$8.3 billion in the State Employee Retirement System (SERS). The law also made Pennsylvania one of the first states in the nation to require employees hired in 2011 or later to pay an additional "risk sharing" contribution of up to 2% if an economic downturn reduces public pension investment returns.

Finally, the law continues to ask public employees in Pennsylvania to pay a larger share of their salaries toward pensions than public employees in most other states. In fact, over the past decade, employees contributed almost twice as much toward public pensions as state and school employers.

All Pennsylvanians Deserve Retirement Security

It is important to remember that teachers, nurses, and other public employees already pay for a significant portion of their modest pensions, and have always made their contributions on time. The pension shortfall in PA was caused by policy decisions, made in better economic times, not to make appropriate contributions to the fund. The Governor's proposal is less a solution to pension debt as it is a continuation of the payment-deferral that created the problem in the first place.

The more than a million teachers, law enforcement officers, firefighters, nurses, counselors, and other middle-class Pennsylvanians families we represent do not want a long legal fight that will cost us and other taxpayers more money. What we want is a solution that will strengthen our economy and provide retirement security for all Pennsylvanians.