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PA's PENSION PREDICAMENT

Proposed pension 'reforms' could prove to be hazardous to teachers' & public employees' retirement plans

A Message from the President

Pensions are a trending topic. Suddenly, we're hearing about pensions everywhere — in headlines, editorials, on talk radio and the Internet.

"Corbett says pension reform is a top priority for 2013," a PA newspaper proclaimed recently, signaling an escalating PR campaign to turn our public employee pensions into a public enemy.

By referring to our pensions as "a tapeworm" and claiming the cost of pensions threatens other programs, Gov. Corbett is using half-truths and scare tactics to attack our pensions and sell his "reforms." The goal: Eliminate our defined-benefit pensions, cut benefits and turn another valuable public program into a private profit center.

TED KIRSCH

When the legislature convenes in 2013, we must be ready to fight with everything we've got to preserve our defined-benefit pensions, which for nearly 100 years have:

- Provided public employees with retirement security,
- Fueled the state's economic growth and
- Remained the most efficient and cost-effective way to provide employees with retirement income.

WHAT WE BELIEVE

The 2010 pension reform bill will restore healthy funding levels, put an end to under-funding pensions, preserve defined-benefit pensions and save taxpayers $19 billion over the next 30 years. Act 120 was passed to save public employee pensions. Let's give it a chance to work!

We know the state's pension funds were hurt by the 2001 and 2008 stock market crashes. But large pension funds are designed to weather market fluctuations, from financial hiccups to the Great Depression.

Given time, they'll even recover from the billions of dollars in contributions lost when school districts and the state were permitted to pay less than their full share of pension contributions from 2000-2010.

The reforms being floated in Harrisburg won't fix the problems. In fact, some proposals will make matters worse for current and future retirees.

That's why AFT Pennsylvania is committed to doing everything in our power to maintain our defined-benefit pensions for current retirees, existing employees and for future employees.

Whether you are retired, nearing retirement, vested in the pension or just starting your career, a secure pension matters.

A pension is an investment in our futures. Defined-benefit pensions provide us with financial security. They reduce poverty and dependence among seniors. Pension dollars generate spending in our communities, which creates local jobs and supports economic growth. And pensions allow veteran workers to retire with dignity, making way for younger employees to advance.

A pension is a promise, and promises shouldn't be broken.

Protecting pensions for ourselves and future generations is important for everyone, and I'm confident that if we work together, we will prevail.

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Debunking the 'bloated' public pension myth

Pension fiction	*Pension facts*
Pennsylvania's school and public employees, who are members of the Pennsylvania School Employee Retirement System (PSERS) and State Employee Retirement System (SERS), enjoy lavish pensions for which they pay little or nothing.	• The average annual PSERS/SERS pension is under $25,000. • Employees make mandatory contributions to their pensions between 5.25% and 12.3% every payday. • Since 1985, there have been only 4 cost-of-living adjustments, raising benefits 37% while inflation increased 111%.
Switching from "defined benefit" (DB) pensions to "defined contribution" (DC or 410(k)-style) pensions would save taxpayers money and provide public employees with stable and secure retirement income.	• The National Institute on Retirement Security (NIRS) found DC plans have high startup and administrative costs, and retirees with DC plans are less likely to maintain their standard of living after retirement. • DC pensions shift the burden of saving and the risks to employees. Taking new employees out of DB plans cuts off new contributions into existing pensions and leaves taxpayers holding the bag for all the unfunded costs.
School and state employees are greedy. They will fight any change to their pensions, even if taxpayers have to foot the bill.	• Teachers and school employees contributed to their pensions at a higher rate than employers from 1999-2011 (PSERS-CAFR). • Recognizing impending problems, school and state employee unions supported Act 120 pension reforms in 2010. • Act 120 already implemented many of the potential "reforms" listed in the recent Keystone Pension Report.
Pennsylvania taxpayers don't benefit from defined-benefit pensions for public employees.	• Retiree expenditures from state and local pension plans supported 100,000 PA jobs in 2009 and generated $13.7 billion in direct and indirect economic impacts. (NIRS) • DB pensions help keep seniors off public assistance. • Pension plans play an important role in recruiting and retaining qualified teachers and public sector employees.
Current members of PSERS and SERS don't have to worry about pension reforms affecting their pensions now or in the future.	• "A lot of the plans that have been proposed . . . only deal with future employees. I think we're looking beyond that . . . at reforms that might touch current employees as well." Charles Zogby, PA Budget Secretary, 9/24 • "You can cut the multiplier for folks going forward even if they are vested . . ." Gov. Corbett, 12/5
The governor says there's a $41 billion unfunded liability, which sounds like a huge shortfall that will take years to recover.	The US Government Accountability Office considers a pension sound if it has 80% of the money it would need to meet all current and future obligations. PSERS is funded at 69%, and SERS at 65%. Funding levels have varied historically. Government accounting standards allow funding gaps to be paid off over 30 years, which is happening under Act 120.

WHAT WE BELIEVE

Defined-benefit pensions are the most cost-effective way to provide stable, secure retirement income to retired workers. We will fight to maintain defined-benefit pensions for our current and future members.

The Promise & the Perils of Pensions

For 100 years, PSERS and SERS have provided school and public employees with secure retirement income. There's no reason they can't continue to do so in the future.

Pennsylvania has two pension funds, the Public School Employee Retirement System (PSERS) for public school employees and the State Employee Retirement System (SERS) for state employees. Both are "defined benefit" (DB) pension plans.

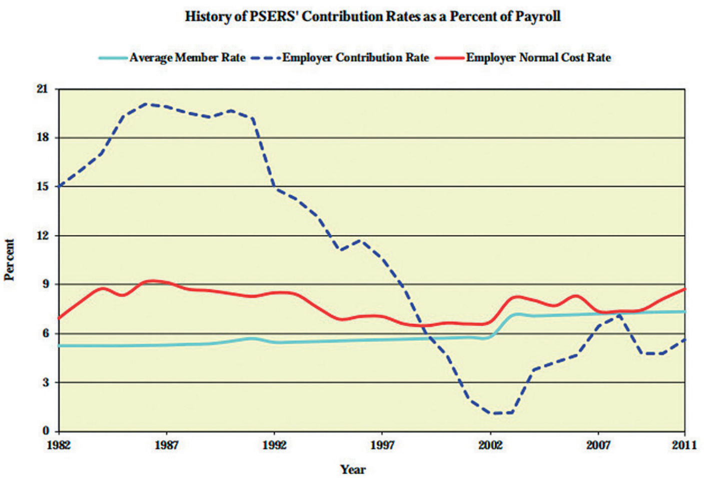
For almost 100 years, the plans have provided school and public employees with secure, stable retirement income, which in turn has supported hundreds of thousands of jobs and stimulated our economy.

More than 800,000 working and retired Pennsylvanians count on PSERS and SERS, which have had stellar national reputations as well-run pensions with healthy funding levels, until recently.

The funding ratios (what's in the bank now vs. what they owe now and in the future) for PSERS & SERS have dropped from 100% in 1999 to 69% and 65%, respectively. Legislators are using this to argue for a major pension overhaul. "Reforms" being floated include:

- Raising the retirement age,
- Changing the way pensions are calculated, which will reduce benefits,
- Shifting public employees from defined-benefit pensions to defined contribution (401k), cash balance or hybrid plans.

Gov. Corbett likens pension funds to "a tapeworm" devouring state revenues. And, setting the stage for an epic pension battle this spring, his budget secretary said that without "meaningful structural pension reform," PA must choose "between . . . fully funding pension obligations or making cuts to the core functions of government."



The escalating rhetoric is as predictable as it is calculated to scare Pennsylvanians into banding together, with pitchforks and torches in hand, to help the administration slay the pension beast. For citizens still reeling from two years of slash-and-burn budgets, the prospect of more budget cuts is frightening.

So what's wrong with the administration's narrative? While true that pension funds have a ways to go to regain their financial footing, the administration's story line ignores significant structural changes made to the pension system in 2010 that will, over the next two decades, strengthen and preserve school and public employee pensions.

A little history

PA's pension systems — like public and private retirement savings in general — have been ravaged over the past decade by unforeseen events (9/11, Wall Street's meltdown, two recessions and declining investment returns). Variables out of our control, however, were exacerbated by several political decisions — some made with the best of intentions.

Here's the "SparkNotes" version:

- In 1999, SERS & PSERS were funded at more than 100%. Riding the crest of record investment returns in the 1990s, legislators passed Act 9 in May 2001. It raised the "multiplier" used to calculate individual pensions from 2% to 2.5% and 3% for legislators and judges and cut the vesting period from 10 years to 5. Act 9 made pensions bigger and more people eligible and were to be paid for by higher member contributions.
- After 9/11, legislators realized that with investments in a nosedive, the state and school districts would have to increase pension contributions to meet Act 9 obligations. To keep employer contributions from spiking, legislators passed Act 38 of 2002 to limit increases in their contributions to 3.77%, instead of the 9% needed to keep pension funds financially sound. They also gave retirees who had not benefited from the increase in the multiplier a much-needed but unfunded cost-of-living increase.
- As pension funding-ratios continued their slide, the legislature passed Act 40, which again suppressed employer contribution rates and shorted pension funds by nearly $6 billion over the next five years. Some years, school districts and the state contributed nothing.
- Throughout this period, PSERS and SERS members made their full contributions (5.25% to 7.5% of their salaries) every paycheck, every year.

The day of reckoning

By 2010, it was clear that PA had to make changes to the pension funds. Employer (state and school district) contributions were going to hit nearly 30% of wages in a few years, which after being in single digits for 10 years, was a major budget buzzkill.

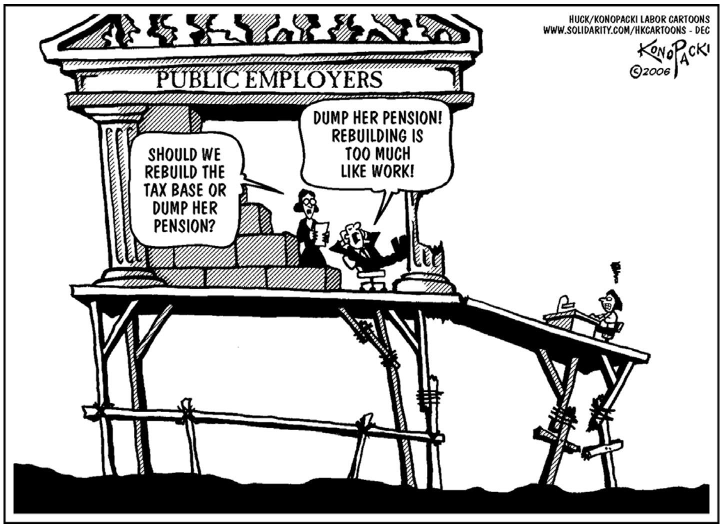
Legislators, the previous governor, school districts and school and public employee unions reached agreement and passed Act 120. Given a chance to work, Act 120 will restore pension funding gradually, create a system of shared risk in the event of big investment losses and stabilize employer and employee contributions: Act 120:

- Reduced the multiplier for new members to 2% of wages,
- Raised the retirement age,
- Eliminated lump-sum withdrawals of employee contributions with interest,
- Returned the vesting period for new employees to 10 years,
- Created "shared risk" so if investments under perform, employee contributions could be increased,
- Capped annual growth of employer contributions at 4.5%.

Act 120 remains the best hope for Pennsylvania to improve pension funding levels over a period of years and return PSERS and SERS to financial health.

AFTPA PENSION TALKING POINTS

- ☑ School and public employees always made their contributions to their pensions while the state and school districts did not. Pennsylvania needs to keep its promise to its public employees and fund our pensions.
- ☑ The average PA public employee pension is under $25,000 a year.
- ☑ Our current public pensions protect retirees from poverty. A 2012 study shows that moving from a defined-benefit to a defined-contribution plan increases poverty among seniors about 30%.
- ☑ Public pensions help sustain the local and state economy. For every $1 invested into public pensions by taxpayers, $7.95 is generated in consumer spending. (NIRS) PA ranks 2nd in the nation in terms of economic activity generated by public pension spending.
- ☑ Some proposals to "fix" the system exacerbate a funding shortfall. Taxpayers would be responsible for the entire unfunded liability for existing PSERS/SERS members, and new members would have to save substantially more during their careers to achieve the same level of retirement security (NIRS).
- ☑ Allow Act 120, the 2010 pension reform bill, to work. Act 120 put the state on a path to healthy pension funding. It passed with bipartisan support and will close the funding gap, with employers and employees sharing the responsibility.
- ☑ Vacating defined-benefit pension plan in favor of a defined-contribution plan exposes taxpayers to greater expense. 401k-type plans are 46% more expensive than DB plans, not including significant transitional costs. (Pension Rights Center)
- ☑ Every Pennsylvanian deserves secure, stable retirement income. Instead of eliminating defined-benefit pensions, we should be working together to ensure every working person can retire with security and dignity.



Pension Primer: defined-benefit pensions — Our best hope for retirement security

PSERS and SERS offer defined benefit (DB) pensions, funded by employee and employer contributions and investment earnings. Individual pensions are determined based on a formula and provide a specific benefit at retirement for each individual. In PA the formula considers salary, years of service, age and a multiplier. DB plans are the most secure retirement plans because they guarantee employees a predictable monthly benefit for the rest of their lives.

WHAT WE BELIEVE

Every Pennsylvanian benefits from public employee pensions. Pensions keep retirees out of poverty and off public assistance. In 2009, pension expenditures supported nearly 100,000 PA jobs that paid $4.76 billion in wages, $1.8 billion in tax revenues and $13.7 billion in economic output. The impact of pension spending ripples through the economy.

Why we support defined-benefit pensions

Defined-benefit pensions play a major role in providing stable retirement income to employees. They are more cost effective than other options because they pool contributions, are professionally managed and earn better investment returns over the long haul. According to the National Institute on Retirement Security "the cost to deliver the same retirement income to . . . employees is 46% lower in the [define benefit] plan than in the [defined contribution] plan.

Popular 'alternative:' defined contribution (DC)

Several PA lawmakers have proposed converting PSERS and SERS into DC plans. In a DC plan, your contribution is set, and often employers contribute a set amount. But a DC plan's performance depends on your ability to save, investment skills and luck. Research shows that DC plan retirees are less likely to maintain their pre-retirement standard of living.

Another "alternative" retirement plan proposed in 2011 by legislators was a "cash balance" plan. In a cash-balance plan, the employer contributes a set amount each year for each employee, whose "retirement account" is credited with a specific amount of interest income. When an employee retires, the actual balance in his/her "account" is paid out as an annuity or a lump-sum payment. The proposed cash-balance plan bill would have credited employee accounts with only 4% interest annually, although the average interest earned by PSERS over the last 30 years was 8%.

Why our pension plans are under attack

Lawmakers are legitimately concerned because the state and school districts will have to increase their contributions temporarily to recoup investment losses as well as deferred employer and state contributions. With the slow economic recovery and reduced tax revenues, cutting pension contributions that affect teachers and public employees is easier politically than cutting programs that affect more Pennsylvanians.

WHAT YOU CAN DO TO PROTECT PENSIONS

AFTPA members can make a difference by taking action to preserve secure, stable pensions for themselves and for future school and state employees. Here's what you can do:

1. Make sure AFTPA has your email address

Make sure AFTPA has your personal **email address** to receive news about attacks on our pensions and action alerts.

- Visit www.aftpa.org. Look for the **email signup** on the right side of the home page.
- Also, make sure that your union leaders have phone numbers for your union phone tree messages.

2. Call and email your state legislators

Check out the Actions & Events tab at www.aftpa.org to find your senator and representative, their email addresses and phone numbers and call/write to urge them to Protect our Pensions.

Want to do more? Write letters to the editors of local newspapers, call radio and TV talk shows on the subject and speak to co-workers, neighbors and friends. We will post sample letters on the website during the session.

3. Support AFTPA's political action committee

Show your solidarity by supporting AFT Pennsylvania's new Committee to Support Public Education, the union's political action arm. Find out more about CSPE on page 6 or look for the CSPE widget on our web page.

4. Stay informed at aftpa.org

Visit our website: www.aftpa.org regularly for information on pensions and other key legislative issues.

Connect with AFTPA on Facebook and Twitter to share information, read pertinent news articles and discuss information on protecting our pensions and other education and legislative issues.

5. Build relationships

AFTPA's ACE program is a non-partisan effort to strengthen relationships between members and their elected representatives. ACE Committees — composed of members who live in the legislative districts — meet face to face with state lawmakers to help them understand our issues and explain how proposed laws would affect our members, our families and our students. To participate, please contact your local president.

WHAT WE BELIEVE

Pennsylvania can resolve its financial problems if the state's leaders turn their attention to the other side of the balance sheet and look for opportunities to increase revenues. Close corporate tax loopholes, end corporate tax breaks and tax credits and impose a competitive extraction tax on gas drillers. It's time for Pennsylvania to balance the books by improving the revenue side of the equation, instead of slashing programs, services and pensions.

'I contributed to PSERS for 31 years, and it is unthinkable that the state would break its promise to me and my colleagues. We have to work together — current teachers and public employees and retirees — if we want future generations to have stable and secure retirement income.'

Lorraine McCrea Overton

'Some legislators want to replace secure, defined-benefit pensions with riskier 401k retirement plans, which won't provide future employees with secure retirement income and makes taxpayers responsible for funding pensions for members already in the pension systems.'

Jeanne Boone

CSPE

Committee to Support Public Education

Stand Up Speak Up Sign Up

"In the past few years, we have become punching bags for politicians," says AFTPA President Ted Kirsch.

"We've been maligned professionally. Funding for our schools, colleges and programs has been slashed. Our salaries and healthcare have been under constant attack, and now politicians want to cut or change our pensions."

That's why we've launched the Committee to Support Public Education — CSPE — AFT Pennsylvania's political action committee to help elect candidates who share our values and will support us, our families and the people we serve.

It takes a minute to join CSPE using an online contribution system at www.aftpa.org. Current dues-paying members, as well as retirees, can make recurring or one-time contributions via credit or debit card or their checking account.

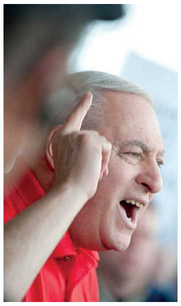
"Some AFTPA members already contribute to local CSPE or COPE funds," Kirsch says. "But many of our locals and retired members don't have an opportunity to be part of a political action committee and want their voices heard when we advocate for members."

In 2013, we are concerned about another round of budget cuts that would mean fewer resources in the face of growing need among our students, increased emphasis on testing instead of teaching, more attempts to privatize our programs and jobs and a big push to reduce our healthcare and pension benefits.

"We face a tremendous uphill battle as Gov. Corbett continues to keep his 'no new taxes' promise to Grover Norquist and big corporate donors, while denying students, families, seniors and working Pennsylvanians the help they need," Kirsch says.

By building the Committee to Support Public Education, we will be able to elect and educate lawmakers on key issues, advocate for our students and speak with one, clear voice on the issues that are important issues to us.

"Help elect candidates who will strengthen Pennsylvania, fund our schools and programs, protect collective bargaining rights, fight for good salaries and benefits and safeguard our pensions," Kirsch says.



Make sure your voice is heard Join CSPE www.aftpa.org

CSPE - Frequently Asked Questions

Who can contribute to CSPE?
Active, dues-paying AFT Pennsylvania members, as well as AFTPA retirees.

How can I make a contribution?
Use our secure web link at www.aftpa.org and a credit card, debit card or checking account. We recommend using a secure computer or mobile device (never on a work computer). Members can also mail a check to AFTPA-CSPE.

Why can't AFTPA use my union dues for political advocacy?
Federal law prohibits the use of union dues for political purposes.

Is there a recommended contribution?
We suggest contributing $5-$10 per month through automatic deductions using your debit card, credit card or checking account, but members are free to contribute any amount. The system meets the highest industry security standards. The union does not have access to any of your personal banking information, and information will never be shared.

Does CSPE support candidates from all political parties?
Yes. We support state and local candidates who support our mission and issues, no matter what party they belong to. We look at voting records and/or their stands on issues that are important to our members.

How are contributions used?
100% of CSPE funds support AFTPA-endorsed candidates for state office, as well as for candidates in some local races that our affiliates identify. No CSPE funds are used to pay administration or overhead.

Look for the CSPE widget at www.aftpa.org