



AFT Pennsylvania

A Union of Professionals

Pension 'Reform' Talking Points

BACKGROUND: Pennsylvania's policymakers are debating changes to pensions for teachers, nurses, public safety workers and other public employees. Last year, Gov. Corbett proposed ending the defined-benefit plan for new school and state employees and moving them to a defined-contribution, 401k-style retirement plan AND cutting benefits to current public employees. His proposals were rejected by legislators. This year, Gov. Corbett proposed giving the state and school districts a break on the amount they pay into the school and state pension funds, another contribution holiday that increases the state's pension debt. Republican State Rep. Glenn Grell proposed switching all new employees to a cash balance plan, issuing pension obligation bonds AND cutting pension benefits to current members. And Republican Rep. Mike Tobash proposed a "hybrid" plan giving new employees a capped defined-benefit pension up to the first \$50,000 of income and a 401(k)-style retirement account for new employees earning over \$50,000. What all of the proposals have in common is that they would not resolve the fundamental problem: For more than a decade, while educators and state employees paid into their pensions consistently, the state and school districts made insufficient contributions. The result: A \$47 billion combined pension debt for the Pennsylvania School Employees Retirement System and the State Employees Retirement System that covers 817,000 Pennsylvania workers.

WHAT WE BELIEVE: Every Pennsylvanian deserves secure, stable retirement income. Instead of eliminating defined-benefit pensions for public employees, we should work together to ensure that every working Pennsylvanian can retire with economic security and dignity.

TALKING POINTS: AFTPA members can use the points below when they email, write, call and visit lawmakers; write letters to the editor and talk to co-workers, friends and neighbors about why traditional pensions make sense for current and future workers.

- ❖ Teachers, nurses, emergency responders and other public employees contribute to their own pensions. They've made their full contributions to the pension funds every paycheck, without fail.
- ❖ PA employee pensions are modest but keep public employees from falling into poverty after retirement and becoming dependent upon taxpayer-funded public assistance. The average PA public employee pension is \$24,000 a year. A 2012 study shows that moving from a defined-benefit plan to a defined-contribution, 401(k)-type plan increases poverty among seniors significantly.
- ❖ Public pensions help sustain local and state economies. For every \$1 invested in public pensions by taxpayers, \$7.95 is generated in consumer spending.
- ❖ Under a defined-contribution plan, new teachers, college faculty and state and school employees would have to save 46 percent more during their careers to achieve the same level of retirement security as defined-benefit plans provide.
- ❖ In 2010, a bipartisan legislature passed pension reform (Act 120), which put the state on a path to healthy level pension funding. Given a chance to work, it will close the funding gap, with employers and employees sharing the responsibility.

- ❖ Act 120 was the responsible way to bring pension funding back into line using a variety of reforms including: reducing benefits to new members, raising the retirement age, eliminating lump-sum withdrawals; doubling the vesting period to 10 years and creating ‘shared risk’ so that both employees and employers contribute more if investments underperform.
- ❖ Employees continued to contribute an average of 6.7 percent of their paychecks every payday to fund their own retirement, while employers – school districts and the state –made small to no contribution from 2000 to 2010 and only recently started paying more into the system.
- ❖ Defined-benefit pensions are fiscally responsible for taxpayers as well as retirees. A National Institute for Retirement Security study found that defined benefit plans deliver the same benefit at roughly half the cost of defined contribution or hybrid plans.
- ❖ 70 percent of pension benefits are funded by investment earnings.
- ❖ The governor’s 2014-15 budget proposal, if passed, would once again permit employers to avoid making responsible pension contributions and will cost taxpayers more in the long run. Postponing payments again would ‘kick the can down the road’ and increase the debt in the long term.
- ❖ Actuarial reports concluded that switching employees to a 401(k)-type plans would nearly double Pennsylvania’s pension debt – adding \$40 billion to the existing \$47 billion debt. And that doesn’t include significant transitional costs. No one gets out of debt by failing to make required payments or paying less than the minimum – and that’s what most pension reform proposals would do.
- ❖ Three states (Alaska, West Virginia and Michigan) that closed existing pension plans and moved new employees to 401(k)-type or hybrid plans saw pension debt skyrocket.
- ❖ Teacher pension plans reduce the cost of teacher turnover, leaving more resources for instruction. A national pension study found that teacher pension plans play a critical role in recruiting and retaining teachers, saving districts nationwide hundreds of millions of dollars each year in teacher turnover costs.
- ❖ Because of the national shift away from DB pensions, 1 in 3 Americans today has no retirement savings at all. (Frontline: The Retirement Gamble, April 2013) The 401(k) industry is eager for us to “invest” in individual accounts because retirement is Big Business. The more money we stash in 401(k)-type accounts, the more money Wall Street makes in commissions and fees.

For nearly 100 years – through market swings, recessions and even the Great Depression – PSERS and SERS have provided working Pennsylvanians with secure, stable retirement income, which in turn has supported thousands of local jobs and stimulated Pennsylvania’s economy. We believe every working person should be able to retire with a secure pension. Current pension reform proposals represent a race to the bottom for working Pennsylvanians.

For additional information and resources visit us at www.aftpa.org, on [Facebook](#) and [Twitter](#).

