THE PENNSYLVANIA STATE EDUCATION ASSOCIATION
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PSERS is Sound

The Pennsylvania School Employees' Retirement System manages retirement funds and pensions for more than 500,000 active and retired public school employees. The PSERS fund has increased from $7.3 million in 1924 to approximately $64.1 billion in net assets today. Here is some information about PSERS that PSEA members may find useful in discussions about the future of PSERS.

The Pennsylvania School Employees' Retirement System is sound. There is no immediate crisis.

- The system has sufficient funds to pay its regular commitments and is among the best funded public pension plans in the country. 2004 JSG report (http://jsg.legis.state.pa.us/PENSIONS.HTM)
- Currently the system has a funded ratio (dollars held to dollars owed on a shut-down basis) of 86%. Graph 4
- The fund's holdings are earning at a higher rate than anticipated—an average of over 17 percent during the last three years. This is compared to a projected earnings rate of 8.5%. Graph 2
- For the period ending June 30, 2007, PSERS performed among the top 1% of all Wilshire Public Pension Funds over the previous year, two years, three years, and five years. Wilshire Total Public Sponsors Universe database. Graph 15

Concerns about the long-range funding of Pennsylvania's public pension plans are primarily a result of the poor economy in 2001 through 2003 and the systematic under-funding of the plans by state and local employers.

- Just like all pension funds—public and private—the school employees' fund suffered through three years of very poor stock market returns, resulting from a drop in the market not seen since the Great Depression.
- In years 2001 and 2002, the fund suffered losses in investments (-7.36% in 2001 and -5.25% in 2002). The return on investments in 2003 was only 2.74%. Graph 2
- While earnings dropped during those years, state government and school districts also took a virtual holiday from making the regular employer's contributions to the fund. Graph 3
- The Employer Contribution Rate first dropped below the Employers' Normal Cost (approximately 7%) in 1999 and dropped to less than 2% of payroll in the very same years that the stock market plummeted and the fund needed employer contributions more than ever: 2001, 2002 and 2003. Graph 7, Graph 8 and Graph 3.
- The Pennsylvania Employer Contribution Rate has been and remains significantly lower than the national average for employer contributions. Graph 12
- Pension benefit improvements are not the primary cause of the current unfunded liability of the PSERS system. Since 2001, factors other than pension benefit improvements contributed 72% of PSERS' unfunded liability. Act 9 (increase in the multiplier) and Act 38 (partial COLA for current retirees) contributed only 23% and 5%, respectively, of the current Unfunded Liability. Graph 13
- Both state and school employers spent funds that should have been placed in the pension system.
  - Beginning in his second term, Governor Ridge cited the reduction in the employer's share of retirement funding and counted it as "increases" in money available to school districts.
  - Since the state and school districts share equally in the employer's contribution, these "increases" in school funding represent twice the amount that should have been placed in the PSERS funding.
  - Considering the cumulative effect of this policy, the school employees' pension fund was denied $636 million in contributions, as well as the interest and investment gains over those years and since.
- These reductions in employer contributions continued even when the General Assembly adopted more costly benefits for members of the Legislature, the administration, state employees and school employees in 2001. Graph 5
- A report released in 2004 by Pennsylvania's Joint State Government Commission warned that without contributions set at a rate that will cover the normal cost, funding pressures will increase. Employees have paid their part, but employers have not. 2004 JSG report (weblnk: http://jsg.legis.state.pa.us/PENSIONS.HTM)

School employees pay their part at an increased rate for a modest retirement benefit.

- While the employer rates decreased, school employees consistently and increasingly paid their share into the plan. In 1998, employees contributed an average of 5.65% of their salary to the plan. During the 2008-2009 school year, school employees are contributing an average of 7.29% of their pay to the plan. Graph 6

- When the pension changes were adopted in 2001, the contribution rate for school employees increased by 1.25% to pay their share of increased costs. Graph 6
- The rate increase for employees contrasts with a rate decrease for employers from 4.6% in 2000 to 1.9% in 2001, to 1.1% in 2002, and again, a drop from 7.13& in 2008 to 4.8% in 2009. Graph 7
- At the lowest point of employer contributions—2002—employers contributed $539,000 to the fund, while employees contributed 1,200 times that amount--$662.6 million. PSERS Financial Statement, 2002.
- Over the past 10 years (1997 to 2006), employees have provided far more to PSERS than have employers: 13% to 8%. Graph 14.
- PSERS' pension benefits are adequate, not extravagant. The average annual annuity benefit paid by the school employees fund in 2007 was just under $22,000 a year. Graph 1
- Unlike state employees, school employees do not receive full health benefits when they retire. They receive a small supplement to their health insurance if they were employed for 24.5 or more years--$100 a month to offset health insurance that can cost an individual as much as $765 per month.

A pension plan for school employees is just as important today as it was when it was created in 1919.

- The ability of schools to attract and retain qualified workers would be impaired if the system were abandoned or reduced. NASRA 2006
- Public employers must compete in the labor market for a limited pool of talent. NASRA 2006
- For schools, recruiting qualified employees is complicated by lower pay for school teachers who earn on average about 12% per week less than similar professionals in the private sector. The Teaching Penalty, Economic Policy Institute, 2008.
- A defined benefit retirement helps districts attract professionals to teaching and helps keep them in the profession once they are employed. NASRA 2006
- Ensuring the long-term fiscal health of the pension plan will take careful planning and research.
- Pension costs need to be paid. In essence, the state was in a "pay now or pay later" situation in 2003 and chose the "pay later" route with Act 40. If the state had not modified the pension funding structure, the employer contribution rate would have been 9.69%, still below the national average, but Act 40 reduced the rate to 4.23%. The net effect was to reduce the contribution to the fund by $313.9 million from the state and $290 million from school districts.
- The systematic under-funding of the system by the state and school district employers cannot be solved easily and it cannot be solved by reducing benefits for current or future retirees. NASRA 2006
- If employers hope to avoid paying their share of pension costs, they're being unrealistic. But even so, the fund is a long-term endeavor with natural ups and downs in asset values. For example, because of solid investment returns (over 17% over the past three years), the projected PSERS Employer Contribution Rate for 2012-13 has already fallen by 56.7% from 27.73% in 2003 to less than 12% in 2007. Graph 10
- The resolution to the long-term funding concern is to require steady and regular contributions to the fund. That has been accomplished with the employee rate, but not with the employer rate. 2004 JSG report (See: http://jsg.legis.state.pa.us/PENSIONS.HTM)
- After 2007-08, for example, the Employer Contribution Rate is expected to decrease to 4.8%. The Normal Cost of the PSERS is projected to run around 6.6% (without the additional 0.72% for the Health Insurance). Graph 9
- Under current predictions, the employer rate will increase from more than 7% today to less than 12% in 2013. Employers were contributing around 12% as recently as 1995-97. Before then, theemployers had larger Employer Contribution Rates. The sooner the state steps up to its commitment to fund the plan, the less painful the increased funding will be. Graph 9
- Other states have tried to shift the cost of pensions and the risk of investments onto employees by changing to plans that do not guarantee an employee a fixed pension (Defined Contribution instead of defined benefit plans). Those plans have failed, are actually more costly, and two states (Nebraska and West Virginia) have recently eliminated those plans. Olleman (2007) (See: http://eservice.ifebp.org/feb3.pdf); Brainard (2005) (weblink: http://www.nasra.org/misperceptions.pdf)
- In general, actuaries agree that Defined Benefit plans are more efficient (for both employers and employees) at delivering benefits to employees than are Defined Contribution Plans. Destefano (2007) (weblink: http://www.contingencies.org/septoct07/trade.pdf)

Public employee pensions are under attack.

- Some organizations and elected officials are seeking to undermine public employee pension systems in Pennsylvania and throughout the U.S. In Pennsylvania, there has been considerable public debate about changes to PSERS and SERS, including various methods of converting to a defined contribution system.
- The Commonwealth Foundation has been the most vocal opponent of the existing defined benefit system. The Foundation issued a report in February 2006 claiming public pension systems were financially unsound. The report was used by many to call for major changes to PSERS and SERS. In reality, the report used inaccurate and out-of-date data and was unnecessarily alarmist. NEA Report
- The report used old data and questionable methods. It would earn an F in any college research class.

- The Commonwealth Foundation has latched onto a national attempt to destroy defined benefit pension plans for all employees. Its report parallels a national attack on public pension programs issued in 2005 by the Reason Foundation.
- The Commonwealth Foundation also supports privatizing Social Security.

Main points to consider::

- Public employee pension systems are under attack by anti-union, anti-public education and anti-public employee groups.
- There is no crisis in the Pennsylvania state pension plans. PSERS and SERS are among the strongest Pension Plans in the nation. Graph 15
- There are concerns about PSERS' long-term health that result from the state's decision to reduce the employer's share of funding beginning in 1999 and continuing into the present. The state and districts took a virtual holiday from funding pensions in the early 2000s. Since the year 1997, the state and districts combined paid less into the plan than did the employees.
- The resolution to long-term funding concerns is to require steady and regular contributions to the fund by employers and employees alike.
- Warnings of a "spike" in the employer contribution rate in 2012-2013 are proving to be overrated. Originally projected to rise to 27.73%, projections in September 2007 now put the increase at less than 12%.
- There is a significant risk that any changes to pension benefits for PSEA members would be to "two-tier" the pension system: all new employees would have lower pension benefits. There is growing evidence that such changes would increase the costs for the pensions of those already in the current system. (2004 Joint State Government Commission Study) (See: http://jsg.legis.state.pa.us/PENSIONS.HTM)

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