POLICY POINTS

from the COMMONWEALTH FOUNDATION

November 2010

Union Pension Bailout & Generational Theft

Pennsylvania's largest public pension plans—Public School Employees Retirement System (PSERS) and State Employees Retirement System (SERS)—are severely underfunded. But instead of reforming the defined-benefit pension system and paying down these liabilities, House Bill 2497 would defer pension payments and increase the unfunded liability by tens of billions of dollars in lost investments and interest. Simply put, HB 2497 is generational theft—forcing our children and grandchildren to pay for Harrisburg's fiscal irresponsibility and a union pension bailout.

Just How Large is the Pension Problem?

- Taxpayers paid $843 million in pension contributions to PSERS and SERS in Fiscal Year 2009-10. In Fiscal Year 2012-13 those contributions are scheduled to increase to **$5.8 billion.**
- This represents an effective **$1,360 increase in state and local taxes** per homeowner/household.

How Did We Get Into this Mess?

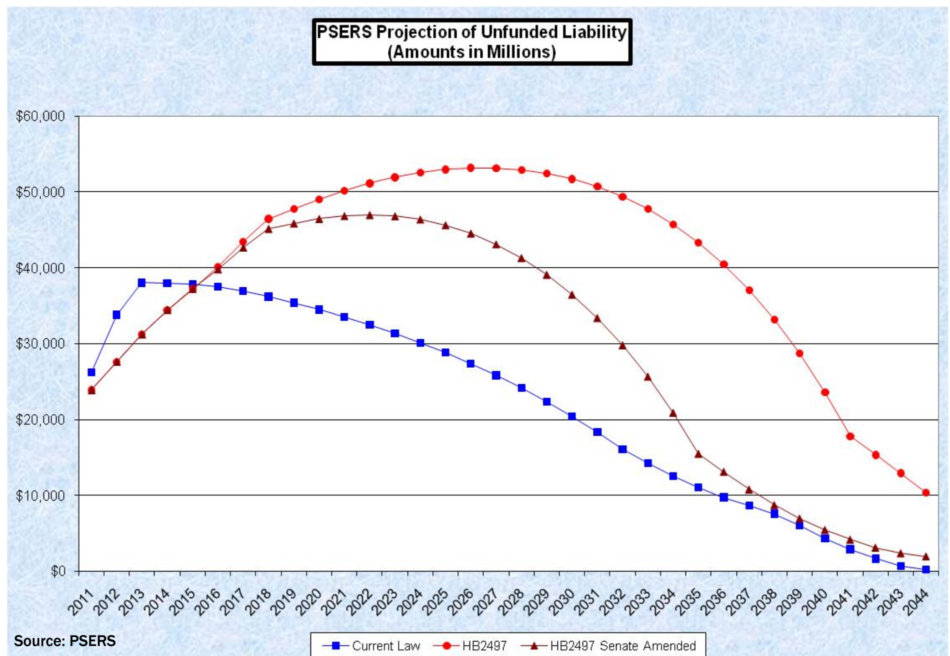
- Pennsylvania's generous public pensions are leveraged as political capital by politicians with powerful special interests, especially the state and school employee labor unions. Over time, these pensions have been financially manipulated to give the illusion of affordability and sustainability.
- Pensions for public school employees and state employees, including legislators and judges, will require higher taxpayer contributions beginning in 2012 due to:
  - **Losses in the stock market** in 2001-03 and 2008.
  - Reduced taxpayer contributions as a result of **deferring pension payments** into the future in 2003 (a mistake HB 2497 would repeat).
  - Generous benefit enhancements—a 50% increase for legislators and 25% for teachers—in 2001.

Why the Urgency to Pass this "Non-Reform"?

- Public employee unions helped craft HB 2497 and have spent millions in lobbying and campaign contributions to push this non-reform.
- HB 2497 offers some benefit changes that some may celebrate as "reform."
- HB 2497 offers short-term political benefits—lower pension payments—by allowing lawmakers to procrastinate making the necessary tough decisions about how to fund pensions.
- Those pushing the legislation hope to rush it through under lame-duck Gov. Ed Rendell, before a new administration—which would likely support real pension reform—takes office.

Key Facts about HB 2497

- HB 2497 retains the current defined-benefit pension system that is subject to political manipulation and deal making.
  - Politicians claim the bill would "save" money over the next 14 years—but these savings come from paying less into the fund. It is like "saving" money by not paying your monthly mortgage payment.
  - After 14 years of "savings," ***taxpayers will have to pay more*** from 2026-2042.
- HB 2497 dramatically increases the unfunded liability in the pension systems (as shown in the chart from PSERS).



- Taxpayer costs could be much higher because the estimated costs of HB 2497 are based on wishful thinking:
  - ➪ The plans will earn 8% per year on their assets (private sector pensions currently use assumptions in the range of 5-6%).
  - ➪ Policymakers will adhere to the schedule of increased future contributions, and not defer these once again.
  - ➪ There will be no benefit increases or Cost of Living Adjustments.
- HB 2497 would reduce the benefits under the existing pension plan for new hires.
  - ➪ While lower benefits reduce future costs, it retains the current system that is ripe for political manipulation. Policymakers can always retroactively improve benefits and defer liabilities.
- HB 2497 creates risk-sharing for new employees who will pay more into the funds with investment losses.
  - ➪ This would lower costs over time, but also opens up a dual benefit plan between existing and new employees that will be the focus of future union lobbying.

Why Not A Defined Contribution Retirement Plan for Public Employees?

- Only by moving to a defined-contribution retirement plan, like a 401(k), can we remove the politics from public pensions and give taxpayers more affordable and predictable costs.
- SB 566 would create a defined contribution plan for new employees in which the employer (the state, school districts, and local governments) would contribute 6% of salary into a retirement fund owned by employees. Employees would also contribute 6% of their salaries.
- The Senate legislation has 18 cosponsors and Republican gubernatorial nominee Tom Corbett has campaigned on adopting a defined contribution plan.
- Pennsylvania voters support moving to a defined contribution plan, as most of the private sector already has, according to a poll from April 2010 (see table below).

Q: Most government employees - including teachers, state workers, judges, and legislators - receive a pension plan which provides a guaranteed annual payment upon retirement. There is legislation to move all new government employees to a 401(k) type plan, similar to what many employees in the private sector receive. Generally speaking, do you favor or oppose this legislation?

	Total Favor	Total Oppose	Undecided/Refused
All Voters	54%	34%	12%
Republican	58%	33%	9%
Democrat	50%	36%	14%
Independent	60%	29%	11%

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For more on **Pension Reform**, visit CommonwealthFoundation.org/pensions