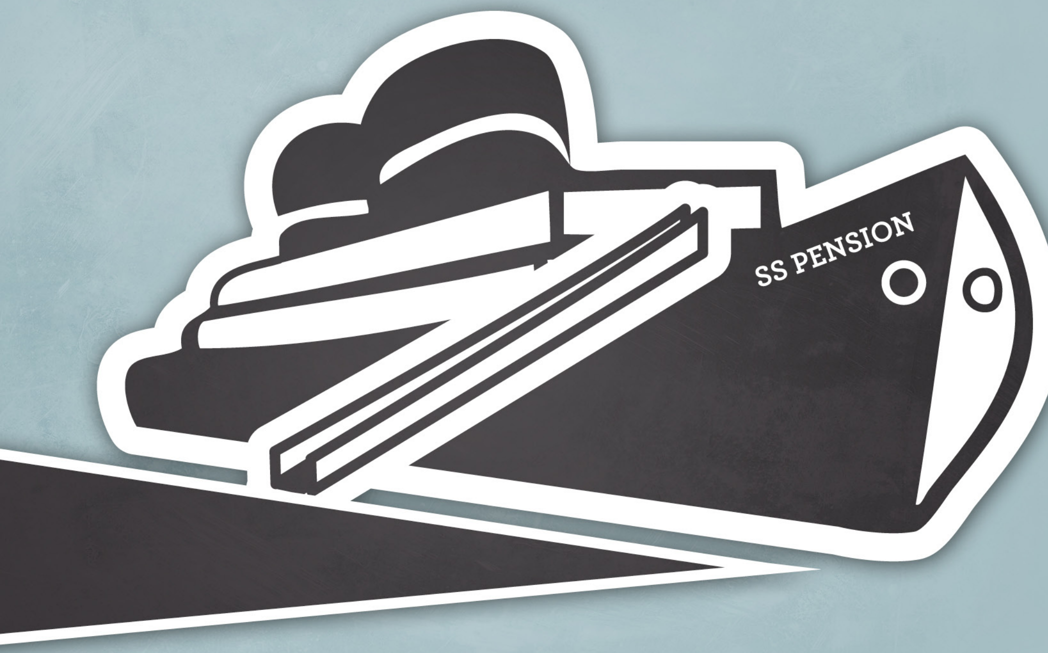
UNSINKABLE

The True Story of Pennsylvania's Sinking Pension System

Legislators "grant lavish benefits in good years and [decide] not to pay in bad years – precisely what created the current crisis."[9]



2001

The $8.2 Billion Crack

- With a stock market riding high from the 1990s, the Pennsylvania School Employees' Retirement System (PSERS) and State Employees' Retirement System (SERS) were more than 110% funded. Legislators pass **Act 9**, which:
  - o Increases pension benefits by 50% for legislators and 25% for state and public school employees.
  - o Relies on pension system surplus to lower what state government and school districts were required to contribute to workers' pensions.
  - o Makes the new benefit increases retroactive, adding $8.2 billion in taxpayer debt, an "unfunded liability," that will have to be paid back with interest.
  - o Allows the $8.2 billion shortfall to be paid off like a loan over 10 years.[1]

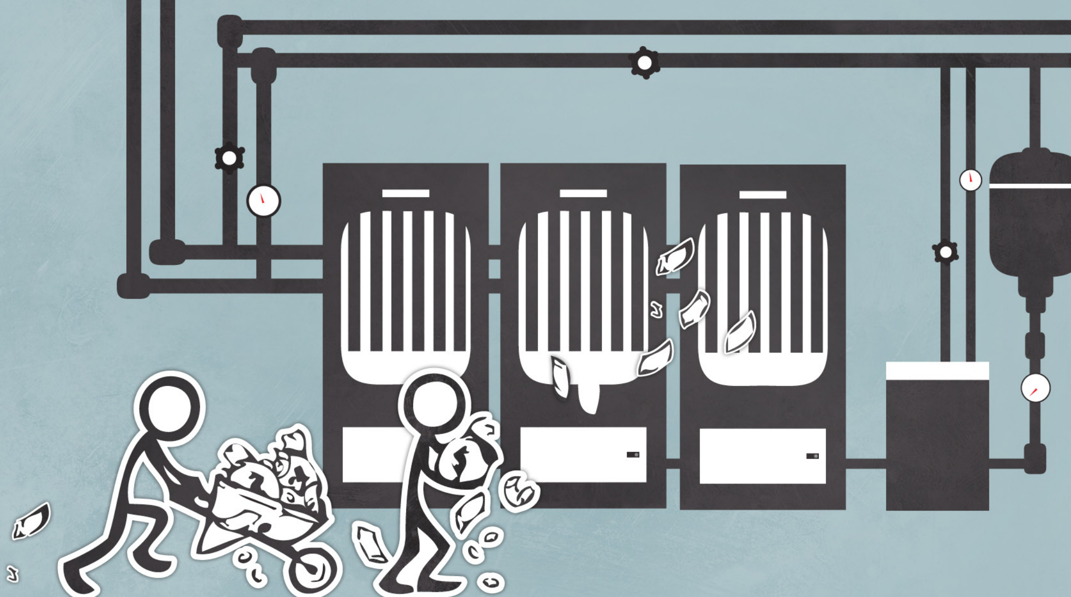
2002

The $1.7 Billion Gash

- Legislators pass **Act 38**, which increases benefits for already retired workers—adding another $1.75 billion to the funding shortfall.[2]
- The PSEA lobbies for 2001 and 2002 benefit increases.[3]
- After 9/11 and a recession, the stock market drops significantly, creating the first pension system losses in years. Lawmakers add pension "smoothing" to **Act 38**, an accounting gimmick that prevents stock market losses from fully showing up on the books for five years.[4]

2003 *A Tidal Wave of Debt*

- The legislature passes **Act 40** when stock market losses become too steep to ignore. This bill:
  - o Continues to reduce government payments to state pension systems, even though the surplus has disappeared.
  - o Continues to pay off the $8.2 billion cost of the 2001 pension bump—but extends the time from 10 to 30 years.
  - o Spreads payments for stock market losses—a taxpayer responsibility—over 30 years, pushing more costs onto our children.[5]
  - o Creates a sharp "spike," or increase, in what taxpayers must contribute to pensions, quadrupling their annual costs between 2010 and 2012.[6]



2008-09

The Stock Market Tumbles

- Stock markets crash again, even more severely than in 2002, triggering the Great Recession.
- The losses make the pension spike created in **Act 40** much worse, as taxpayers must make up the difference in stock market losses.

2010

Temporary Fixes

- To alleviate the **Act 40** spike, the legislature passes **Act 120**. This bill:
  - o Caps taxpayer payments—limiting how much state government and school districts will have to pay—and refinances pension costs again. Instead of a sudden spike, taxpayers have to pay more for decades.
  - o Reduces pension benefits for new employees to what they were before the 2001 increases.[7]

2011-2012

The $5.5 Billion Hole

- PSERS and SERS officials determine that the 8% rate of return assumed from stock market investments is too high, and lower it to 7.5%.
- The 0.5% downward adjustment alone adds $5.5 billion to what taxpayers must cover for the state's pension funding shortfall.
- Many financial experts think even a 7.5% rate of return is too optimistic. If stock market investments don't earn that much, taxpayers will have to pay more to cover pensions.[8]

2014

The $50 Billion Iceberg

- Despite a surplus just 13 years ago, Pennsylvania is now stuck with more than $50 billion in unfunded liabilities between PSERS and SERS.
- The moral: Government pension plans that are "defined benefit"—guaranteeing a fixed yearly income—are inherently political and unsafe for workers in the pension system.

1 Joint State Government Commission, General Assembly of the Commonwealth of Pennsylvania, "The Funding and Benefit Structure of the Pennsylvania Statewide Retirement Systems: A Report with Recommendations," February 2004, http://jsg.legis.state.pa.us/resources/documents/ftp/publications/2004-48-PENSIONS.PDF.
2 Ibid.
3 Pennsylvania State Education Association, "PSEA Hails Passage of COLA Legislation," April 18, 2002, http://www.commonwealthfoundation.org/docLib/20130207_pseacolaincrease.pdf.
4 Joint State Government Commission, General Assembly of the Commonwealth of Pennsylvania, "The Funding and Benefit Structure of the Pennsylvania Statewide Retirement Systems: A Report with Recommendations," February 2004, http://jsg.legis.state.pa.us /resources/documents/ftp/publications/2004-48-PENSIONS.PDF.
5 Joint State Government Commission, General Assembly of the Commonwealth of Pennsylvania, "The Funding and Benefit Structure of the Pennsylvania Statewide Retirement Systems: A Report with Recommendations," February 2004, http://jsg.legis.state.pa.us/resources/documents/ftp/publications/2004-48-PENSIONS.PDF.
6 Nathan Benefield, "Chart: PA Pension Spike Delayed," Nov. 16, 2010, http://www.commonwealthfoundation.org/policyblog/detail/chart-pa-pension-spike-delayed.
7 Public Employee Retirement Commission, "School and State Pension Legislation Enacted Since 2001," http://www.perc.state.pa.us/portal/server.pt/community/perc_home/2513/pension_bills_enacted_since_2001/525841; Richard Dreyfuss, "Did Lawmakers Fix the Pension Mess?", December 16, 2010, http://www.commonwealthfoundation.org/policyblog/detail/did-lawmakers-fix-the-pension-mess.
8 Public School Employees' Retirement System of Pennsylvania, "Actuarial Valuation 2011," June 30, 2011, http://www.psers.state.pa.us/content/publications/actuarialvaluations/PSERS%202011%20Val%20Actuary%27s%20Report%20%28Final%29.pdf; Eric Boehm, "PA Public Pension Fund Lowers Expectations," May 3, 2012, http://paindependent.com/2012/05/pa-public-pension-fund-lowers-expectations/.
9 Donald Gilliland, "Corbett's Coming Pension Fight: Altering Benefits for Current Teachers and State Employees," January 18, 2013, http://www.pennlive.com/midstate/index.ssf/2013/01/corbett_to_make_pension_reform.html.