Pension Reform
Testimony to the Senate Finance Committee
Submitted by
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May 29, 2013

Thank you, Majority Chairman Brubaker, Minority Chairman Blake and Senate Finance Committee Members for this opportunity to submit testimony on the critical issues confronting the State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS).

I am Ted Kirsch, president of AFT Pennsylvania, which represents 36,000 active and retired teachers and support employees; community college and university professors, instructors and staff; and state government employees. The majority of AFTPA members are also members of PSERS or SERS.

AFT Pennsylvania supports maintaining defined-benefit pensions for all school and public employees. Research shows that defined-benefit pensions are good for retirees and for state and local economies. Pension reforms under consideration by the General Assembly, on the other hand, would put retirees at risk of falling into poverty, while leaving Pennsylvania taxpayers responsible for paying a larger share of the current pension systems' unfunded liability.

As you consider all of today's testimony, I urge you to keep the following facts in mind.

• Research shows that defined-benefit pensions are the most cost-effective way to provide employees with stable, secure retirement income. Providing the same retirement benefit with a defined-contribution plan would cost 46 percent more than under defined-benefit pension plans, according to the Pension Rights Center. Further, according to the National Institute on Retirement Security (NIRS) rates of poverty among seniors without defined-contribution pensions were about nine times higher in 2010 than those with define-benefit pensions. Although the average public employee pension benefit in Pennsylvania is less than $25,000 a year, defined-benefit pensions help to reduce poverty and dependence among seniors.

• Public pensions help sustain local and state economies. Across the country, defined-benefit pension benefits translate into 6.5 million American jobs and $1 trillion in economic output. What does that mean for Pennsylvania? *Pensionomics 2012* calculated that pension expenditures supported nearly 100,000 jobs that paid $4.6 billion in income and $1.8 billion in local, state and federal tax revenue every year. For every $1 invested in public pensions by taxpayers, $7.95 is generated in consumer spending, the report said. According to PSERS and SERS analysis, more than 90 percent of Pennsylvania's public employees remain in Pennsylvania after retirement, allowing retired public employees to continue fueling economic growth in their communities after they retire.

• Some pension reform proposals being considered by the General Assembly would exacerbate, not reduce, current pension liabilities. For example, moving all new school and state employees into defined-contribution retirement plans would reduce sharply contributions to PSERS and SERS, while increasing the state's pension debt by $25 billion by 2046, according to the Pennsylvania Treasurer's Office.

• Pension reform proposals that seek in any way to reduce future pension benefits to current school employees are likely to face court challenges that will be costly and protracted. This is particularly troubling when the illusory "savings" are used to plug holes in the current state budget, and leave that money unavailable if cuts in benefits for current PSERS and SERS members are not upheld in the courts.

In 2010, with bipartisan support, the legislature passed Act 120 which was designed to put the state on a path to healthy pension funding. The bill, which was designed with the cooperation of legislators and public employee unions, took major steps to limit future employer contributions and future pension costs. In fact, Act 120 included the same pension reforms that other states are now considering including: reducing the multiplier, raising the retirement age, eliminating lump-sum withdrawals and increasing the vesting period for new employees. The bill also capped growth of employer contributions and instituted shared risk allowing employee contributions to increase if investments under perform.

In the face of mounting research that all of the pension reform legislation under consideration would likely cost taxpayers more money, provide retirees with vastly inferior retirement income and face expensive court battles, AFT Pennsylvania urges lawmakers to reject current pension reform proposals and allow Act 120 to gradually restore public pension plans to full funding.

Thank you.