TESTIMONY OF

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AFSCME COUNCIL 13

May 29, 2013

Thank you Mr. Chairman, and the rest of the Committee for this opportunity to address the important issue of public employee pensions.

My name is David Fillman. I am the Executive Director of AFSCME Council 13. Council 13 represents over 65,000 employees in Pennsylvania. 45,000 of these employees work for the Commonwealth of Pennsylvania, and 20,000 work for various Counties, Townships, Boroughs, Cities, Authorities, School Districts and non-profit employers.

A majority of our members are Commonwealth of Pennsylvania employees who participate in the State Employees Retirement System (SERS) but we also represent thousands of School District employees, who are members of the Pennsylvania School Employees Retirement System (PSERS). The governor's plan, as proposed in Senate Bill 922 and House Bill 1350, will negatively affect both our current and future members. The governor has proposed putting workers who maintain our roads and bridges, care for our sick and elderly, teach our children, and keep us safe, into a 401(k) plan, trading the promise of retirement security for retirement insecurity.

I serve as a governor appointed trustee to SERS and have proudly done so since my original appointment in the year 2000, and in 2011 I was re-appointed by Governor Corbett. In that position I monitor our investments and benefits for Commonwealth employees which are represented by over 20 different labor organizations. The system also covers management employees, the governor, as well as all of you sitting before me, and the Judiciary in PA. I am also the Chairman of the CLEAR Coalition. This is a group of 8 labor organizations representing over 1.1 million members, many of whom represent public employees who would be affected by any pension changes.

I can assure you that no one is more committed to a well-run and properly funded retirement system than AFSCME and the other members of the CLEAR coalition. For the majority of our members, their pension is their life savings. It ensures that a large portion of our citizens can retire with dignity. It also serves as a very effective recruitment and retention tool so that the public sector can employ a high quality workforce despite often lower wages. Pensions also play an important role in Pennsylvania's economic development.

I think we should begin any discussion over possible changes to pension benefits with an understanding that the Courts of Pennsylvania have ruled that the State Constitution prohibits any reduction to the contractually owed defined benefit pension to all current members and annuitants of SERS as well as PSERS. If SB 922 and HB 1350 were to be enacted as written, it would be illegal. The result would be a long court case placing any anticipated savings in jeopardy and kicking the can down the road, yet again.

It is indisputable that the Commonwealth has consistently deferred making required contributions, and continued to do so when we passed Act 120. Over the last ten years, employer contributions to SERS have been the smallest component of additions to the retirement system's assets. Employer contributions were set legislatively and did not fully meet the level set by the actuaries to keep the plans fully funded. For example, in the SERS plan, employer contributions totaled $2.0 billion from 2002 to 2011, representing 9% of total additions to plan net assets, compared to $3.3 billion or 16% of total additions attributed to employee contributions, and $15.4 billion, or 75%, of total additions attributed to investment earnings.

When Act 120 was enacted nobody said more was needed to be done down the road - and nothing has changed! The $47 million dollar liability number being fed to the media and tax payers is deceiving. That would only occur if every one of you - and every one of your fellow legislators, every judge, and every single state and school employee retired on the SAME DAY! Obviously this would never happen. Act 120 is effective. Act 120 is working as planned. Act 120 should be allowed to continue to work.

You should also know that retirees did not escape sacrifice either. An important issue that sets Pennsylvania apart from most other states is the lack of a regular and recurring COLA (cost of living allowance) benefit for retirees. Although the vast majority of public employees in other states receive COLA increases annually, the Commonwealth of PA has saved almost $2 billion in pension costs by denying this benefit to our pensioners for over 10 years.

We know that conversion to a 401k-type system would have negative consequences for employees. According to the National Institute on Retirement Security "Even after accounting for all the significant advantages of a DB retirement system over DC accounts, research shows that DB plans are more economically efficient then DC plans. DB pensions can deliver the same level of retirement benefits at nearly half the cost of a DC plan." Despite rhetoric to the contrary, a defined contribution plan is bad for both employees and taxpayers.

SB 922 and HB 1350 claim to only affect future employees, but once the current pension plans are closed and new employees are enrolled in individual accounts, those left in the pension plans will retire and age out as a group. Investment managers will have to shift to more conservative and lower-return investments to be able to pay out benefits as they come due.

When investment returns decrease and contributes less to existing pension commitments, the burden on taxpayer's increases. Treasurer Rob McCord's office estimates that the governor's plan will increase the states pension debt by $25 billion dollars by 2046.

A DC plan will lower retirement benefits for public employees. 401k-type accounts waste money on administration costs, financial management and trading fees. According to estimates from the National Institute on Retirement Security, individual retirement accounts, like those proposed in SB 922 and HB 1350, offer only half the retirement security of today's pensions with the same contributions.

Keep in mind, SERS and PSERS pay out over $6.5 billion dollars in pension benefits each year to 300,000 annuitants. The average benefit from both systems is just $24,000 a year; in fact 70% of SERS annuitants receive benefits of ***less*** than $24,000. Because almost 90% of our pensioners live in the state, $6 billion in economic activity is generated as pensioners buy goods from local merchants, and pay local, school and state taxes. The costs?? For every dollar of $2.7 billion that is for payments to SERS annuitants only; 9 cents is from employers/taxpayers; 16 cents is from SERS members, so they have more skin in the game; and 75 cents has been from SERS investment income.

All of us as public employees didn't come into public service seeking high wages, stock options, or golden parachutes. Many of our public jobs come with inherent physical demands, as well as physical hazards. Much more so than the private sector. OSHA laws don't cover PA public employees. Direct care nursing jobs are plagued with back and other injuries, often from clients that have "acted up." Correctional Officers and other Law Enforcement Officers protect us from the worst of the worst. Highway Workers have some of the highest rates of occupational injuries and death. Unfortunately, 100 AFSCME PennDOT workers have lost their lives making the roads safer for the driving public.

We must also consider that a traditional DB pension plan has what no DC plan has……disability retirement. After subjecting Commonwealth employees to life threatening or debilitating injuries, the least we can do is provide them with a reasonable return for their sacrifices and provide a safety net in the event of injury. If the retirement benefit is converted to a defined contribution arrangement, the employers must be prepared to pay for the added and considerable cost of obtaining life and disability insurance for its workforce.

Finally, we should consider that our current pension plan offers our employers flexibility. The Commonwealth has reduced its work force on numerous occasions by offering early retirement options. These savings help keep down the General Operating Budget; yet this would not be possible under a DC, hybrid, or cash balance plan.

Other programs funding in the Budget have grown considerably more than our pension obligations. As an aggregate, using 2009 data the US Census Bureau calculates that spending on state and local employees' pensions nationwide is just 2.9% of all state and local spending and just 1.7% of all state and local government spending in Pennsylvania. While the level of pension expense is likely to grow in Pennsylvania, that cost must be put in context. During the 2002 to 2009 period, the employer contribution rate to SERS never once exceeded 5% of payroll. Currently, SERS is 65% funded. In 1983 it was 59% funded. In 2001 it was 130% funded. There's a natural cycle to this system and Act 120 makes certain that we will bounce back. Changing everything now would be catastrophic all around.

As a SERS Trustee, I can say that the SERS Board is doing everything possible in asset allocation, and administration, to help raise investment revenues and reduce costs. The current system and benefit structure is effective. The governor’s proposal as presented in SB 922 and HB 1350 will not address our funding challenges, but will create a host of new problems and challenges in the years ahead.

It is politically immoral to sacrifice the modest and promised retirement of these workers under threat of more cuts to public schools and our state's poorest citizens. Especially while tax cuts for corporations, Delaware loopholes for tax evasion and untaxed profits for Marcellus Shale drillers continue unchallenged.

With court battles, payouts, failing 401(k)'s, loss of pooled investments and other inefficiencies; the governor's plan would make any existing problem much worse. The plan would not only reverse the successful progress of Act 120; it would hurt our members, hurt our seniors and hurt our economy.

For all of these reasons AFSCME strongly opposes SB 922 and H 1350. I'd be happy to answer any questions at this time.