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FOR IMMEDIATE RELEASE
April 16, 2013

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Read the Pension Primers & More: http://keystoneresearch.org/issues-guides/pensions

Steve Herzenberg, executive director of the Keystone Research Center and author of the pension primers, is available to speak with journalists on pension-related news stories and editorials.

Governor's Proposal to Delay State Contributions Would Add Billions to Public Pension Debt

Keystone Pension Primer finds pension debt would be half what it is today if Pennsylvania's employee-to-employer contribution ratio had mirrored national average since 2011

HARRISBURG, PA (April 16, 2013)—Delaying state and school district pension contributions, as Governor Corbett has proposed doing, would worsen Pennsylvania's public pension debt, according to the fourth in a series of "Pension Primers" released today by the Keystone Research Center (KRC).

Despite referring to this approach as "kicking the proverbial can down the road," the Corbett administration's own analysis shows that reduced pension payments between now and 2019 will increase Pennsylvania's pension debt by nearly $5 billion over the period.

"Never has Ronald Reagan's famous statement 'There You Go Again' seemed so apropos," said Dr. Stephen Herzenberg, KRC's executive director and an economist who authored the pension primer. "Everyone including the Governor recognizes that short-sighted delays in employer pension contributions is a big part of how Pennsylvania ran up its current pension debt."

KRC released the latest primer in conjunction with testimony delivered by Dr. Herzenberg at the Pennsylvania House State Government's hearing on public pensions today. The hearings represent an early step in the Legislature's deliberation over pensions since the Governor's sweeping pension proposal released in his annual budget address in February.

In his testimony, Dr. Herzenberg reviewed key points from three KRC pension primers released in February and March, which highlighted other ways the Governor's proposal would increase Pennsylvania's pension debt and the cost of pensions for new employees.

"The Governor's pension proposal has a serious case of pension deficit disorder," said Dr. Herzenberg, noting that Pennsylvania Treasurer Rob McCord has estimated that the Governor's plan could increase Pennsylvania's pension debt by $25 billion by 2016.

The latest pension primer assesses employer and employee contributions to Pennsylvania's defined benefit pension funds since 2001, and the Governor's proposal to reduce employer contributions going forward. It compares high employee and low employer contributions to the State Employment Retirement System (SERS) and the Public School Employee Retirement System (PSERS) since 2001.

Over the crucial period from 2001 to 2009 when Pennsylvania began to run up a large pension debt, employees contributed an average of 6.7% of their salaries to their pensions, while in some years the state and school district employers contributed nothing. During this period, Pennsylvania employees contributed nearly twice as much to statewide pension funds as employers, according to U.S. Census data. Nationally, public employers provided nearly twice as much funding to state pension plans as employees during this period.

Altogether, the ratio of Pennsylvania employee-to-employer pension contribution from 2001 to 2009 equaled nearly 3.5 times that of the rest of the country. If Pennsylvania and its school districts had contributed as much as the public employers' national average toward pensions since 2011 (assuming employee contributions remained the same), SERS and PSERS would now have upwards of $20 billion more, counting investment returns from higher contributions. That would have allowed Pennsylvania to reduce its pension debt by more than half.

In his House testimony, Dr. Herzenberg provided a comprehensive analysis of the Governor's proposal and more incremental proposals to shift state and school employees into defined contribution pensions. This included a review of KRC's earlier pension primers.

- The first primer, *Digging a Deeper Pension Hole*, pointed out that closing the state's defined benefit pensions to new employees will reduce the plans' investment earnings. With new member contributions no longer flowing into the plans' asset pool and remaining plan members aging and retiring as a group, pension plan managers will be forced to invest in less risky and more liquid assets. Studies in a dozen other states agree that a closed defined benefit plan loses investment earnings and increases taxpayer costs for meeting pension commitments to current workers and retirees. Experience in the three states that have closed defined benefit plans—Alaska, Michigan, and West Virginia—also show negative impacts for taxpayers, retirees or both.
- The second primer, *Paying More for Less*, estimated the increase in cost for pensions of new employees at $189 million once the Governor's proposal is fully phased in and all employees are enrolled in a 401(k)-like plan, with $112 million of this cost falling on the backs of school districts and local property taxpayers.
- The third primer, *Long-term Savings in 2010 Pension Reform Law Hard to Beat*, documented the pension savings for new employees as a result of the Pension Reform Act of 2010. It also highlighted a unique shared risk feature of the 2010 law, which will increase employee contributions up to 2% in the event that financial markets fall short of investment returns projected by SERS and PSERS (currently 7.5%). This shared risk feature is wisely conditioned on employers also maintaining or increasing contributions if financial markets plunge.

"Act 120's shared risk feature is well designed to avoid exactly the kind of shortsighted decisions that reduced employer funding for pensions starting in 2001 and throughout a period of time that required more robust contributions," said Dr. Herzenberg.

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