



HOUSE OF REPRESENTATIVES
Commonwealth of Pennsylvania
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Rep. Dan Moul
91st Legislative District

(717) 334-3010

Fix Needed Now to Avert Crisis in Pennsylvania's Public Pension Systems

Proposed legislation would close funding gap approaching \$50 billion

In my six-plus years in office, I have never been shy about taking a position that is controversial or unpopular, particularly when it is the right thing to do and it benefits my constituents or a majority of Pennsylvanians. Such is the case now with the looming state pension crisis. I am co-sponsoring sweeping legislation that would make necessary, yet somewhat unpopular, changes to the current public pension systems.

The unwillingness, to date, of our electorate to make needed changes to the state's two public employee pension systems has cost us dearly, yet the present course is clearly unsustainable. We are at a point where we no longer have the luxury of "kicking the can down the road" on this problem. We must work together to address it now. Failure to do so would be both foolish and irresponsible.

Pennsylvania currently faces an unfunded liability of more than \$47 billion in the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS). This reflects the difference between the benefits promised and the amount of revenue available to meet those obligations, and the gap grows wider with every passing day. In fact, if steps are not taken this year to bring these costs under control, school districts may force higher taxes or be faced with making deeper cuts to programs and staff. For its part, the Commonwealth may no longer be able to meet its obligation to provide essential services.

Both SERS and PSERS have what is known as a "defined benefit" pension system, which guarantees a set rate of return – regardless of market conditions. Contrast this with a "defined contribution" plan – such as a 401(k). This plan, which is more common in the private sector, provides retirement contributions that are based on actual investment returns.

The pension challenges we face today stem from the economic downturn, coupled with generous enhancements to the retirement systems during the robust economy of the 1990s and the failure of school districts and the state to make adequate contributions to the fund when investment returns exceeded expectations. While employee contribution rates have remained stable, when

there are fluctuations in the economy, the employer must make up for any shortfall. In this case, that responsibility falls squarely on taxpayers.

In fiscal year 2013-14, taxpayers are expected to contribute \$1.5 billion to SERS and PSERS. By fiscal year 2017-18, taxpayer contributions to the two public pension funds are expected to increase to \$4.3 billion – nearly 200 percent in just four years or the equivalent of a 36 percent increase in the Personal Income Tax.

Act 120 of 2010 reversed some of the enhancements to the pension program for new hires, but much more is needed to save the system from collapse. The legislation that I am co-sponsoring is based on a proposal by Gov. Tom Corbett that would place new employees, hired after Jan. 1, 2015, in a defined contribution-style pension plan. **House Bill 1350**, which was introduced last week, and its companion bill, **Senate Bill 922**, would maintain the existing defined benefit plan for current employees with some adjustments. The governor’s plan to recalculate the pension benefits for current employees would reduce the multiplier used to determine benefits by one-half of a percentage point, and the “final average salary,” on which the payout is based, would be the average of a worker’s five highest salary years instead the current three.

No changes are proposed for current retirees.

While this legislation will likely undergo a number of changes, and alternative plans will be introduced, I believe House Bill 1350 reflects the realities we all face. State employees, teachers, school administrators, legislators, judges, police officers and others covered by these pension plans, are also Pennsylvania taxpayers and will share the burden. By addressing the pension issue now, we can assure the solvency of our public pension system, relieve the burden on taxpayers and ensure the Commonwealth is able to meet its obligations to its citizens into the future.

For details on the plan and other pension-related information and updates, go to www.RepMoul.com.

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