Greater Lehigh Valley State Pension Reform Subcommittee
Opening Pension Statement
FINALIZED June 22, 2015

The mission of the Greater Lehigh Valley Chamber of Commerce is to improve the economy and quality of life in the Lehigh Valley Metropolitan Statistical Area. As such, we are very concerned about the economic impact of the state pension crisis. Our Chamber lives in the shadow of a once great company, Bethlehem Steel, which in failing to address changes in markets, went bankrupt. The net result ended all pension and healthcare benefits to thousands of employees at their most vulnerable time in life. The unsettling effect of the current pension shortfall is endlessly increasing property taxes, cuts in government services, and putting the burden on employees and teachers to pay for ever increasing pension shortfalls.

The Commonwealth of Pennsylvania now has an unfunded pension liability of $50 billion, making it the second most underfunded pension system in the country.[1] A recent Mercatus Center study projects that the two state pension funds, the Public School Employees Retirement System (PSERS) and the State Employees Retirement System (SERS), may run dry by the 2030s.[2] Without reform, significant cuts may have to be made to General Fund core programs and services, including school budgets, or require tax increases. The Chamber believes that ideally all SERS and PSERS participants should be placed in a defined contribution plan such as a 401(K) used in the private sector. We understand, however, that there is not currently the political will to do so. Action must be taken now. We believe reform must be swift, comprehensive and sustainable over the long term.

More than 750,000 residents receive, or will receive, state pensions. (SERS has 233,734 members; [3]PSERS has 609,776 members.[4]) The budget cost to the General Fund has risen from $696.2 million in 2010-2011 to $2.64 billion in 2014-2015 and is projected to increase to $4.49 billion by 2018-2019.[5] The average annual state pension for a SERS or PSERS retiree is $22,424.[6]

Several factors are contributing to the unfunded liability problem. These include:

- Return on pension investment has not met assumptions. Decisions made on current performance in an expanding economic environment proved to be short-sighted and not sustainable. Pensions are 71% funded by investment earnings, 19% by member contributions, and 10% by employer contributions.[7]
- Management fees are too high: many other states are paying significantly lower fees for better performing funds. PA averages .88%; the states with the four healthiest pension systems pay .31% to .44% in management fees[8]
- Overtime spiking: artificially increasing overtime in the last few years before retirement contributes to unrealistic pension amount increasing current employees salaries
- Employees collecting two or more full pensions
- Increased lifespan has a negative impact on actuarial assumptions

We support solutions that:

- Protect taxpayers from tax increases to meet the state’s obligations to public employees
- Do no harm to current retirees. Former public and school employees have worked hard and deserve the pensions they have been promised.
- Respect current employees
- Incorporate best practices from other states

Specifically, we support proposals that would:

- Put new employees into a defined contribution plan
- Place newly elected and re-elected legislators into the same defined contribution plan
- Seek voluntary concessions from unions
- Consider all the benefits retirees receive (e.g., health insurance)
- Raise the retirement age and offer reduced pensions for employees who voluntarily retire early
- Require school districts and related entities to set aside reserves to prepare for known rate spikes

- Consider all options to mitigate and reduce future liabilities, including, but not limited to, reducing the rate multiplier for all new hires.
- Provide flexibility for changing market conditions and actuarial assumptions.
- Coordinate benefits of multiple pensions
- Place restrictions on lump sum pension distributions when the plan is underfunded.
- Create a Commission to provide oversight, make recommendations and evaluate ROI, management fees and performance

We oppose proposals that:

- Leave Act 120 time to work as the solution without taking other action
- Would harm current retirees
- Shift tax liabilities down to the local level
- Involve issuing bonds
- Continue a defined benefit plan
- Allow retirees to receive more than one Pennsylvania public pension
- Set a defined market return rate

The Chamber implores the legislature to take immediate, sustainable action to resolve the pension crisis. We intend this policy to be a living document responsive to changes in environment.

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[1] National Association of State Retirement Administrators, March, 2015
[2] *Can Public Pensions Fulfill Their Promises?* Mercatus Center, George Macon University, April 2015
[3] Psers.pa.gov/pdf/SERS-SnapShot.pdf June 30, 2014
[4] psers.state.pa.us/content/about December 31, 2014
[5] Keystone Pension Report, Fall 2012
[6] Pennsylvania Retirement Security Coalition
[7] Keystone Pension Report, Fall 2012
[8] www.ballotpedia.org

3/1/2/15 Pension Sub-Committee met with PA Reps. Ryan Mackenzie and Mike Schlossberg to hear their views on pension issues
4/15/15 Concept presented to Public Policy Committee
4/22/15 Pension Sub-Committee reviewed history and features of PA pension plan and those of other states
4/29/15 Pension policy draft created
5/14/15 Discussed and amended by Pension Sub –Committee
5/15/15 Revisions made and emailed to Sub-Committee for review
5/18/15 Pension Sub-Committee voted by email to accept policy
5/20/15 Public Policy Committee discussed and voted to accept policy with revisions
6/1/15   Chair made final revisions
6/2/15   Policy sent to Executive Committee for review
6/8/15   Executive Committee discussed and voted, unanimous approval
6/11/15 Policy sent to BOG for review
6/22/15 Board of Governors discussed and voted, unanimous approval with amendment to clarify wording graph 3