



To: Pennsylvania House of Representatives
From: John Callahan, Director of Government Relations
Subject: **House Bill 2497 – Re-amortization of Pension Liability**
Date: June 11, 2010

Legislation to re-amortize both the Pennsylvania State Employee Retirement System's (PSERS) and State Employee Retirement System's (SERS) unfunded liability, allow for the smoothing of assets from 5 years to 10 years (PSERS only) and institute arbitrary collars on contribution rates was approved by the House Appropriations Committee on June 7, 2010. The PA Chamber believes this "reform" legislation would continue to defer already unaffordable costs and further underfund these plans leading to increased unfunded liabilities. According to a the Public Employee Retirement Commission (PERC) analysis this type of deferral will result in a \$40 billion cost for PSERS and a \$12 billion cost for SERS in order to ramp up the employer contributions over 10 years rather than over 3 years. This \$52 billion burden on future generations and would do nothing to provide cost control, affordability or predictability to PSERS or SERS. Of significant note, these funding estimates are based upon the attainment of an 8% annual investment assumption.

Pennsylvania's entire public pension system is in need of significant reforms. While looking to provide relief from the immediate "pension spike," it is important to provide significant changes from a defined benefit system that is out of step with the real world. These alternatives must include:

- Establishment of a state-wide unified defined contribution plan for all new members. This would curtail open-ended liabilities and eliminate long-term taxpayer commitments. Alaska, the District of Columbia, Michigan and West Virginia now have defined contribution plans as primary plans for at least some state and local workers. Over the past several decades, the private sector has rapidly shifted away from defined-benefit plans and toward defined contribution plans for a good reason – traditional plans are expensive, unpredictable and unsustainable in the long run.
- Spending and debt controls on the current defined benefit system. The options include:
 - Prohibiting Deferred Retirement Options Plans (DROP)
 - Prohibiting any benefit increases if the result would cause the funded ratio to fall below 90%
 - Prohibit pension obligation bonds
 - Control amortization periods: prohibit the ability to spread pension liabilities beyond the average retirement age of members in the plan

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- Give current employees the option to join the defined contribution plan
 - Prevent certain officers or employees on an approved leave of absence from his/her regular duties from enrolling in or continuing enrollment in any state-administered retirement system
 - Extend vesting periods. Individuals who spend a short time working for government have not earned a lifetime taxpayer subsidy. Even five to 10 years is too short in light of the need for workforce flexibility and the growing transferability of skills from public to private sectors.

House Bill 2497 allows state government to continue underfunding liabilities. The bill caps the total increase for this year for both plans at 1 percent. This means the employer rate, which is set at 8.22 percent for PSERS, will be lowered to 5.64 percent, allowing the government to underfund the pension system for the current fiscal year.

The proper funding solution should involve significantly increasing the employer contributions without increasing tax rates.

The PA Chamber does not support:

- Pension obligation bonds
- Defined contribution plans with predetermined annuity payouts
- Early retirement incentive plans
- Fresh Start plans – House Bill 2497

We look forward to working with you to craft a package that deals with the short-term “pension spike” and the long-term affects of our unsustainable pension systems. We need reform that controls costs and provides predictability!

If you have any questions or concerns please contact John Callahan, Director of Government Relations for the Pennsylvania Chamber, at 717/720-5431 or email jcallahan@pachamber.org.

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