



the **PENSION CRISIS**

Addressing the Rhetoric Against PSBA's Plan for Long-Term Pension Reform

As momentum grows within the General Assembly to act on PSBA's plan for long-term pension reform, opponents from statewide teachers' groups will continue to speak out against any changes to the current system. Here are some of the arguments that are being made regarding the pension issue generally and PSBA's pension proposal specifically, along with some recommended responses to these statements.

1. **Opposing Argument** – School employees have been making their regular contributions to the system for the last 10 years, while the commonwealth and school employers have not done so. Why punish school employees for this by lowering benefits?

Response – While it is true that school employers and the commonwealth have been paying less than the “employer normal cost” for the last 10 years, a longer term view of the history of employer and employee contribution rates show that the employers have paid more into the system over the years than employees. Furthermore, the increased employee contributions called for in Act 9 of 2001 were supported by employee organizations in exchange for increased benefits. Finally, the costs of other forms of compensation, including salary and healthcare, have increased significantly during that ten-year period.

2. **Opposing Argument** --The PSBA hybrid plan is a “silver bullet” that will not fix the PSERS rate spike and will end up costing more to administer.

Response - PSBA believes that there are two pension issues that need to be addressed. First, the so-called pension spike, where the employer contribution rate will increase sharply between 2010 and 2015 and the pension plateau, in which employer contributions will remain in excess of 20% between 2016 and 2032. The association fully acknowledges that its hybrid proposal is a long-term solution and, as such is aimed at reducing costs for the long run. A solution to the short-term pension spike must involve deferring the liabilities of the system, but it also must involve reducing its costs and liabilities, especially some of the benefits that are currently awarded to members. Deferring liabilities alone only puts the problem on the backs of future generations and does not result in permanent change. It would also continue the very thing that is being protested – lower

employer contribution rates while employee contribution rates would remain the same. Finally, PSBA acknowledges that the hybrid system may cost more to operate in the first few years of its existence because of the creation of a defined contribution program and the operation of dual systems. However, this cost is minor compared to the continued cost of the current defined benefits system.

3. **Opposing Argument** --Defined benefit plans are good for employees, the economy and the profession of teaching.

Response – There is no question that employees benefit most from a defined benefits plan. Their pensions are calculated based on longevity and salary and they are guaranteed by the state and by school employers. Unfortunately, these types of plans have become unaffordable to employers and taxpayers. PSBA’s hybrid plan retains a portion of a defined benefit, but adds a component of defined contribution to the mix. In doing so, school employees are provided a benefit that would still be better than most private sector pension plans.

4. **Opposing Argument** -- Defined contribution plans have been tried and repealed in other states.

Response – PSBA’s long-term proposal is not calling for the creation of a defined contribution system, but is calling for the creation of a hybrid plan that combines the best features of both the defined benefit plan and defined contribution plans. In June, 2008, the National Association of State Retirement Administrators compared selected features of seven hybrid retirement plans from across the country. The same features of the plan being proposed by PSBA compare favorably with NASRA’s findings. This hybrid plan balances everyone’s interests, respects school employees, continues public education as an attractive occupation and makes PSERS a more affordable and fair system.

FACT: If the General Assembly Does Not Address the Pension Crisis:

- The state and local tax increases that will be needed to sustain the growing employer contribution rate will be substantial and, to many, unthinkable.
- How much will school property tax bills increase in order to fund the projected spike in employer contributions? How could it harm our children’s education, our children’s school environment and other community programs?
- How many laptop computers for students will not be purchased? How many new teachers will not be hired? How many new textbooks will not be purchased? How many infrastructure improvements to technology or science labs will be delayed?