



Leadership • Service • Advocacy

the PENSION CRISIS

Agenda

- **Background on PSERS**
- **The genesis of the pension crisis**
- **The Pension Crisis**
- **What can be done?**
- **What PSBA is doing**
- **How you can help**
- **Resources**

Background on PSERS

- **Authorized in 1917; began operating in 1919**
- **100% defined benefits plan**
 - Pension calculated on years of service, a multiplier and highest average salary
- **Funded by employer contributions, employee contributions and investment earnings**

Background on PSERS

- Employer contributions come from state and school employers and are expressed as percentage of payroll. State pays about 55 % of cost and school employers about 45%
- Last 10 years – 59% of funding from investment earnings; 26% from employee contributions and 15% from employer contributions
- Last 25 years – 65% from investment earnings; 15% from employee contributions and 20% from employer contributions

Background on PSERS

- Investment rates of return lower than system assumptions in 5 of last 10 years
 - 8.5% earnings assumption
 - FY 2008/09 earnings: -26.54%

The genesis of the pension crisis

Genesis of the Pension Crisis

- Two major causes:
 - Poor stock market performance
 - Legislative Actions
- Key events that started the “avalanche”:
 - Act 9 of 2001
 - Increased multiplier
 - Reduced vesting time
 - Poor stock market performance
 - 2001-03, 2007-08, 2008-09

Genesis of the Pension Crisis

- Issue compounded by the proximity of events
 - Act 9 – May 2001
 - 9/11/01
 - Act 38 COLA, change in valuation – April 2002
 - Act 40 change in valuation – Dec. 2003
 - Downturn in markets '00-'01, '01-'02, '02-'03

Genesis of the Pension Crisis

- **Add to that...**
 - **Stock market losses in 2007-08 and 2008-09**
- **All of these conditions have all but erased any gains made due to the relatively strong market conditions from 2004 to 2007**

The results are...

- **Sizeable increase in the employer contribution rate in 2010 and continuing each year until 2015**
- **A plateau of continuously high employer contribution rates for the next two decades**

The pension crisis

The pension crisis

- 2010-11 employer contribution rate set at 8.22% in Dec., an increase of 72% over the 2009-10 rate.
 - Index of 2.9%
 - Budget difficulties in PA, may be looking at even funding
 - Legislative reluctance to act

The pension crisis- part 1

- Projected increases at this point:
 - 2011-12: 10.59%
 - 29% increase over 2011
 - 2012-13: 29.22 % ←
 - 176% increase over 2012
 - 2013-14: 32.09%
 - 9.8% increase over 2013
 - 2014-15: 33.60%
 - 4.7% increase over 2014

The pension crisis- part 2

- Projections are that the employer contribution rate will remain over 30% from 2015-2020; above 25% from 2021 to 2027; and above 20% from 2028 to 2032
- Available data do not project out far enough to show an employer contribution rate in the neighborhood of the 8.22% rate for 2010.

Projections

- **Based on current conditions and expectations**
- **Will change with changes in markets**
- **Will change if action taken by Legislature**
- **Not definite**

What can be done?

Options

- **Basically, there are three ways to address the pension crisis:**
 - **Increase the funding of the system**
 - **Decrease/cut the costs/liabilities of the system**
 - **Defer the liabilities of the system**
- **The solutions will likely involve all three options**

What is PSBA doing?

- PSBA Legislative Platform addresses both a long-term and short-term solution
- Long-term solution is changing PSERS to a hybrid defined benefit/defined contribution system
- Short-term solution is a mixture of fixes, including benefit changes and deferral of liability, plus no new benefits

What is PSBA doing?

- **HB 2135 and SB 1185 are PSBA's hybrid pension proposal**
- **HB 2135/SB 1185 would do the following:**
 - **Create a new class of employees for pension purposes who would be subject to new plan**
 - **On the db side, reduce the multiplier from 2.5% to 1%; increase the vesting time to 10 yrs., up from the current 5-yr. vesting, reduce employee contribution rate from 7.5% to 3.25%**

What is PSBA doing?

- **HB 2135/SB 1185 (cont'd):**
 - **Creates a defined contribution (d/c) component in the PSERS system to accompany the d/b portion**
 - **D/C would require minimum 3% employee contribution and 2% employer contribution**
 - **These funds could be invested in one of several investment portfolios created by PSERS**

What is PSBA doing?

- **HB 2135/SB 1185 (cont'd):**
 - Pension benefit would be d/b + d/c earnings
 - Caps the school employer contribution at the index
 - Maintains all current buyback and military service provisions
 - Drafted with PSERS oversight
 - Will be on the table as a solution

What is PSBA doing?

- **Positive effects of HB 2135/SB 1185:**
 - Gradually reduces employer contribution
 - Reduces state and school employer liability for pension benefits
 - Caps school employer payments
 - Still provides incentive for prospective teachers
 - Only pension proposal on table from education organizations

What is PSBA doing?

- Short-term pension solutions:
- Item added to PSBA platform this year supporting efforts to “limit eligibility, funding levels, and/or the extent of benefit levels...and/or provide other sources of revenue independent of the employer contribution rate”

What is PSBA doing?

- **Potential short-term solutions include**
 - **Deferring liability payments**
 - **Reducing benefits**
 - **Multiplier**
 - **Vesting time**
 - **Withdrawal of contributions**
 - **Tightening eligibility**
- **Best solution will have to combine multiple approaches; even then it will only lessen increases; not totally remove them**
- **Big problem...nobody's listening!!!!**

How you can help

How you can help

- **Get in your legislator's ear**
 - This issue demands a visit from you or inviting your legislator to a board meeting
 - All legislators need to know that this crisis is upon us (remember the 72% increase in employer contribution for 2010?); it is not something that is going to happen down the road!!!
 - Senate Republicans/House Democrats especially

How you can help

- **Talk to your neighbors and community**
 - **Chambers of Commerce**
 - **Service organizations (Lions, Rotary, Jaycees)**
 - **AARP chapters**
 - **Talk about the effect of the contribution increases on your school districts at your board meetings**

How you can help

- **The Messages:**
 - The problem is upon us now; it can't wait until we get a new governor
 - New taxes will result if nothing is done
 - Must look at benefit levels and dedicate new funding to the system; deferral-only solution will not resolve the problem
 - Hybrid plan is a good long-term solution
 - Counter the arguments
 - This is the “issue of a generation” for PSEA and other school employee groups

Resources

- **Historical employer/employee contribution rates**
- **Pension resolution**
- **Talking points on PSBA hybrid proposal**
- **Addressing the rhetoric**
- **Effects of increasing contributions on school district tax rates**



Pennsylvania School Boards Association

(800) 932-0588

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