



Ideas for a Better Pennsylvania

The Keystone Research Center

Pennsylvania Public Pension Basics

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A Discussion Regarding Public Pension Plans

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About the Keystone Research Center

Keystone Research Center (KRC) (www.keystoneresearch.org) is a nonpartisan 501(c)(3) nonprofit research organization, created in 1996 to promote a more prosperous and equitable Pennsylvania economy.

KRC pursues its mission through research, catalyzing and supporting institutions, and advancing public policies that promote prosperity and equity. Rather than simply outlining economic problems, KRC develops, advocates for, and helps to implement workable solutions.

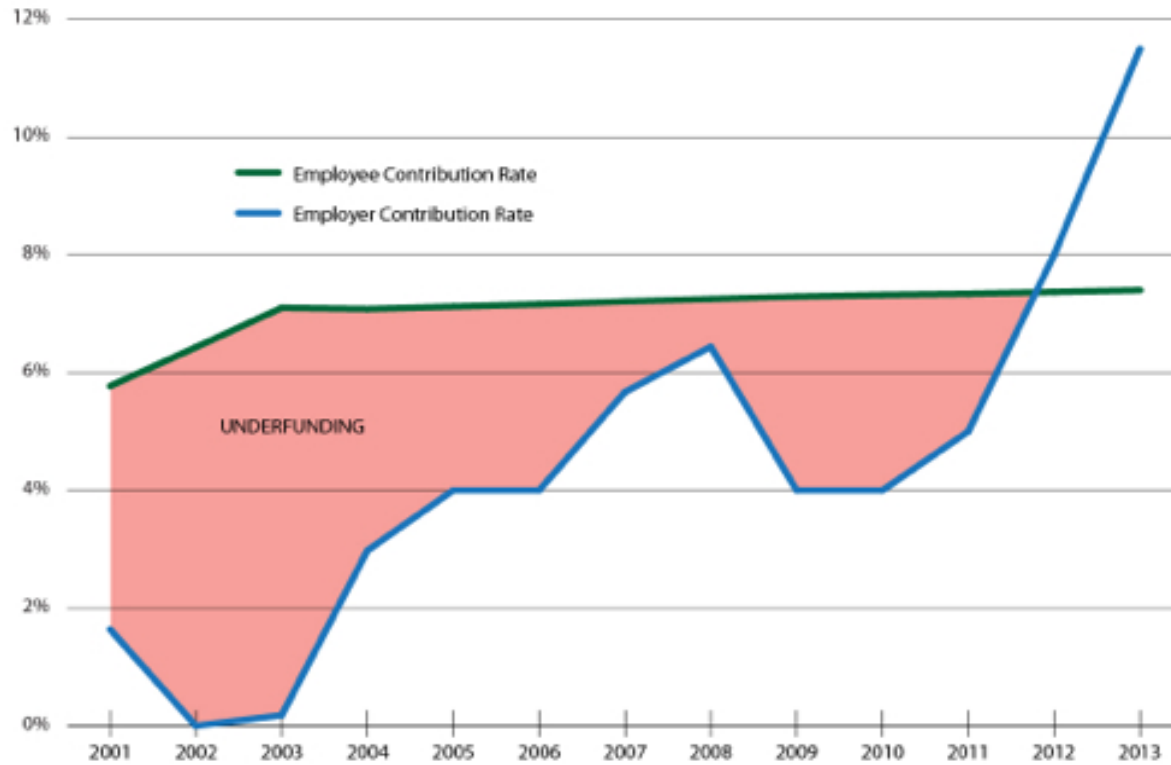
KRC also houses the Pennsylvania Budget and Policy Center (www.pennbpc.org), Pennsylvania's only state tax and budget project, which conducts research, policy analysis, and strategic communications in support of revenue adequacy, fair taxation, and programs that benefit low- and middle-income families.

Pensions: the Big (PA and U.S.) Picture

- Half of private sector workers get no retirement plan thru their job
- Most of the rest have an (often-lousy) 401(k)-type “defined contribution” plan
- Rising shares of the near-retired will see sharp income drops when they stop working
- The real retirement crisis is the need to improve retirement plans private sector

PA's Underfunded Pensions: How Did We Get Here?

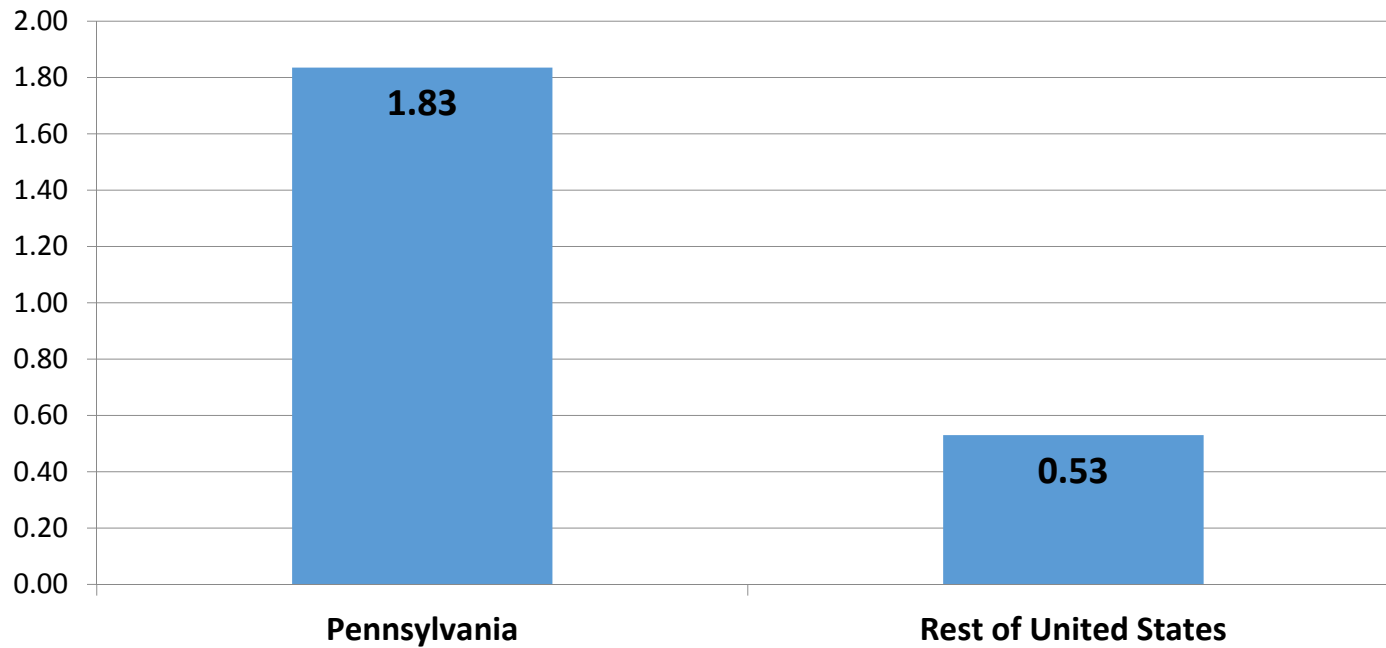
Figure 1. Employer and Employee Contribution Rate (percent of payroll) to the Pennsylvania School Employee Retirement System, 2001-2013



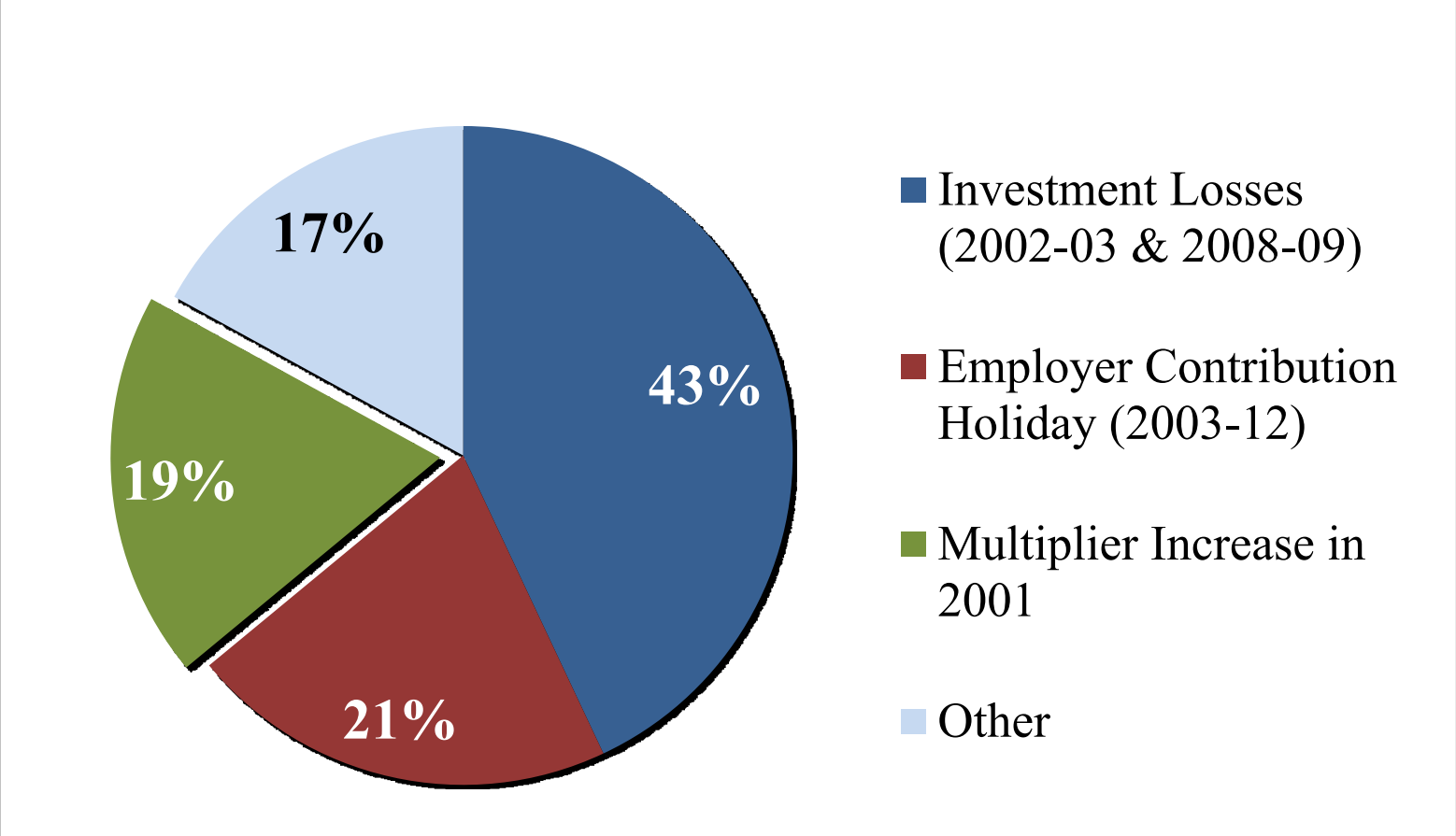
Source: Keystone Research Center (KRC) based on Pennsylvania School Employee Retirement System (PSERS) data

Employer vs. Employee Public Pension Contributions, PA & U.S. 2001 to 2011

(ratio of employee to employer contributions)



The biggest factors contributing to the PSEERS unfunded liability, in order....

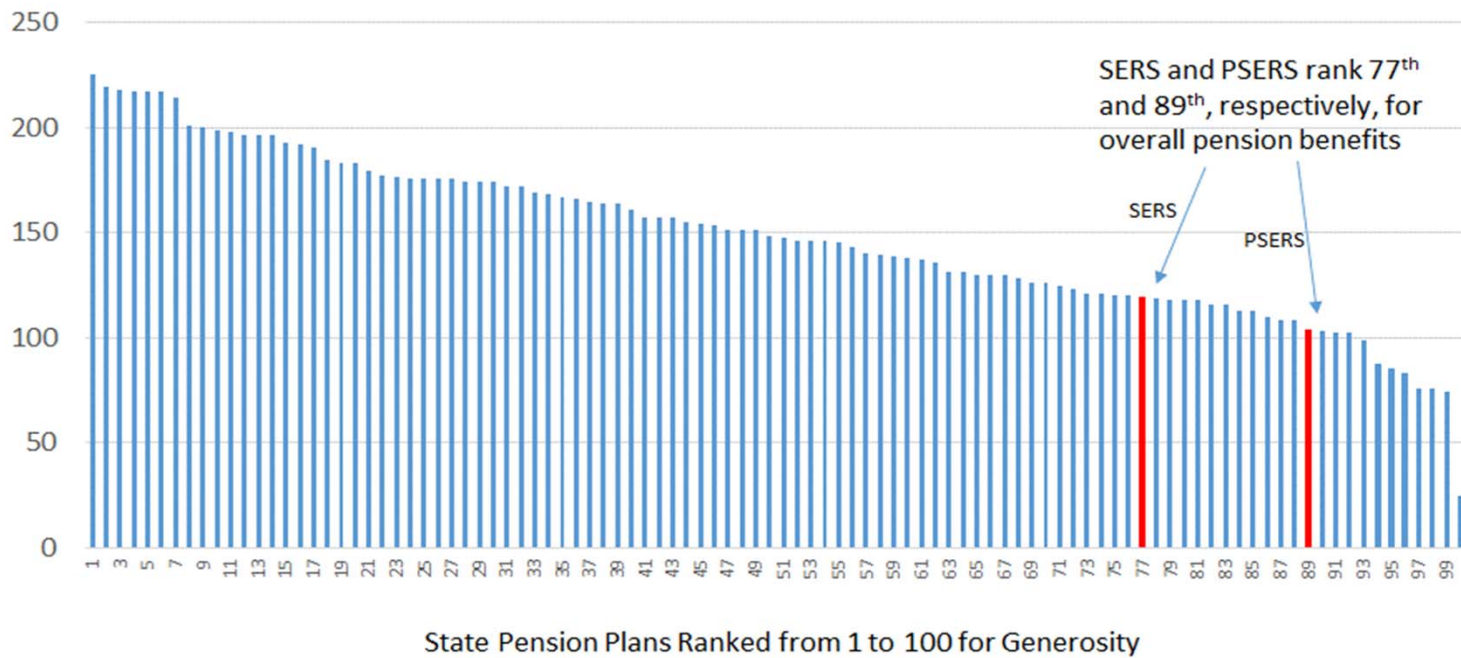


PA's Pensions Are Not Overgenerous

- Benefits of public sector workers are higher...but wages/salaries are lower by a larger amount.
 - [Keefe 2011](#) found that total compensation for PA public workers is 5.4 percent lower for public employees than for comparable private employees
- Ranking the 100 biggest state and local public pensions in the NASRA data base based on an index that considers
 - Multiplier
 - Inflation protection (hint: PA has none)
 - Employee contributions...

Figure 1. Pennsylvania Pension Plan Benefits Rank 77th and 89th Out of Top 100 Plans

Overall Benefit Score for Each Plan

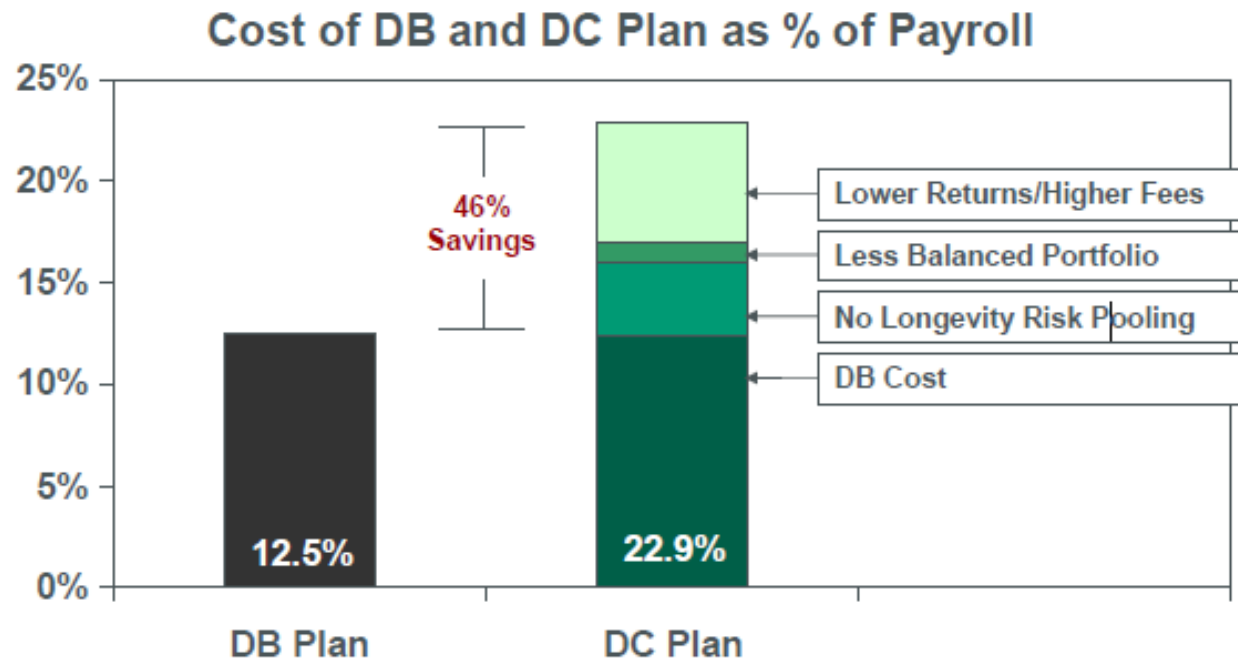


Source. Keystone Research Center based on National Association of State Retirement Administrator (NASRA) Public Plan Database; online at <http://www.publicfundsurvey.org/publicfundsurvey/index.htm>

Pension Debt Is Small Compared to Impact of Inequality

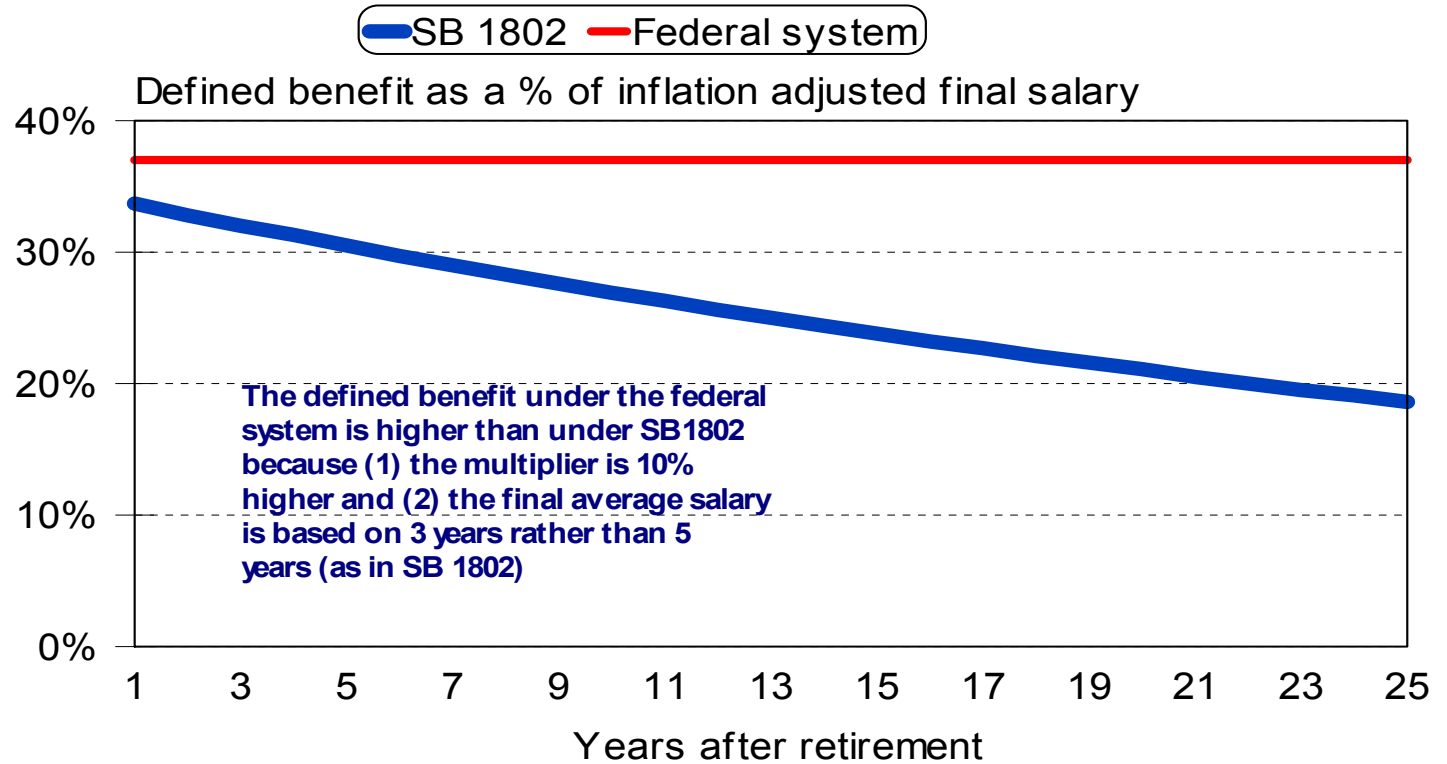
- Pennsylvania pension debt of \$53 billion – which can be paid off over 30 years...
- ...roughly equals the annual transfer to the “one percent” because of the [increase in inequality since the 1970s](#)

The General Challenge with DC and Hybrid Plans: DB Plans Deliver Same Benefit at About Half the Cost of DC Plans



**The
Specific
Challenge
of the PA
Side-by-
Side
Hybrid: It's
Nowhere
Near as
Good as
the
"Model"
Federal
Hybrid**

25 years after retirement, federal employees' defined benefit pension keeps pace with their inflation-adjusted salary at retirement. Under SB 1802, the defined benefit pension will fall from 34% to 19% of inflation-adjusted salary at retirement.



Based on 2.5% inflation projection.

An Area of Agreement: PA Should Establish Retirement Savings Options for Private Workers

- Pooled fund with low administrative costs
- Limited number of high-quality savings options
- Automatic enrollment at a standard (default) contribution rate
- Option of annuitized benefits
- Self-sustaining (i.e., the participation of private employees would not require state funding)
- To find out more come to the Keystone Research Center 20th Anniversary Conference June 8-9, to hear Matthew Brokman, Chief Advisor and Policy Manager for CT House Majority Leader

More Information

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