# Key Facts About
# Pennsylvania Pensions

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Pennsylvania's policymakers are currently debating changes to pensions for school employees and state workers. Governor Tom Corbett has proposed switching future school and state employees to a 401(k)-type defined contribution plan, lowering state contributions to pensions for the next five years, and reducing benefits earned by current workers in the future. Here are some key facts about the Governor's proposal.

- **The Governor's proposal would <u>increase</u> Pennsylvania's pension debt (or "unfunded liability")**.
  - The Governor's proposed reductions in state contributions to pensions would <u>increase</u> Pennsylvania's pension debt by $5 billion by 2019.
  - Closing the state's current pension plans to new workers also increases the pension debt—as those left in the plans grow older and retire, fund managers will invest in less risky and more liquid assets, lowering returns and requiring more contributions to meet pension obligations.
  - The Pennsylvania Treasurer's office estimates that the Governor's plan increases pension debt by $25 billion by 2046.
- **The Governor's pension proposal would increase the cost of pensions for new employees** above the low levels (3% of salaries) achieved in the 2010 Pension Reform Act. Once the Governor's new 401(k)-type plan is fully phased in, it will cost taxpayers an estimated $179 million more each year than current pensions, including $112 million paid by local school districts.
- **The Governor's proposal does not make the responsible contributions to pensions required by the 2010 Pension Reform Act.** Diverting pension contributions repeats the short-sighted political decisions that helped create the current pension debt in the first place.
- **The Governor's proposal to cut current workers' pensions risks court reversal** for violation of a constitutionally protected contract. **It leaves the state uncertain of pension costs for years** and then with potentially higher pension debt.
- **Teachers, nurses, emergency responders, and other public employees contribute heavily to their own pensions and earn lower salaries than comparable private-sector workers**. School and state employees have contributed 7%, on average, every single paycheck to their own pensions. Even with good benefits, public workers earn lower wages plus benefits than equivalent private-sector workers.
- **The Pension Reform Act of 2010 reduced pensions for future employees by more than 20%** and protects taxpayers by requiring even higher employee pension contributions if financial markets plummet.
- **Pennsylvania's pension debt should be kept in perspective**. Pension debt is a small share of total state funding over the decades the state has to pay it off. In addition, the vast majority of Pennsylvanians lose each year an amount close to the current pension debt because the richest 1% garner a bigger piece of the economic pie today than in the 1970s

**Learn More:** For more information, including Keystone Research Center "Pension Primers" that break down each key pension issue, go to http://keystoneresearch.org/issues-guides/pensions.

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