Pennsylvania Has Modest Public Pension Benefits

State's Two Pension Plans Rank in Bottom Quarter for Benefits Provided Out of the 100 Biggest State Plans Nationally

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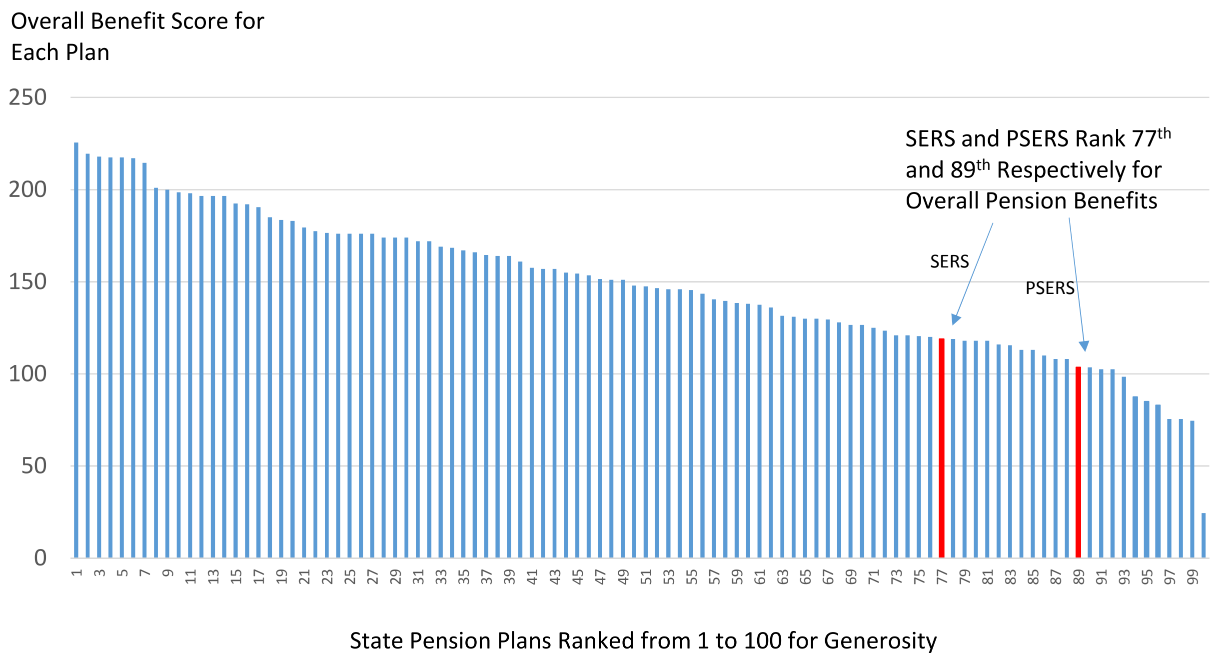
KRC Pension Primers: *As policymakers, members of the media, and citizens evaluate pension proposals, the Keystone Research Center's "pension primers" seek to demystify the often complex details of the pension debate. This is pension primer #13.* **June 29, 2015**

Retirement benefits for Pennsylvania public sector workers are among the least generous of all large public sector pension plans in the country. Benefits provided by Pennsylvania's pension plans for state workers and for public school employees rank 77th and 89th,respectively, among the country's 100 largest plans (measured by pension plan assets).

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



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 benefits in Pennsylvania average about $25,000 to $26,000 per year. The average yearly benefit paid by the Pennsylvania State Employees' Retirement Systems (SERS) is $25,839, and the average yearly benefit paid by the Pennsylvania Public School Employees' Retirement System (PSERS) is $24,962.[1] Comparing pension benefits across different plans cannot be done simply by comparing average benefits for each plan because comparable information is not readily available and the profiles of each plan's retirees (age, years-of-service, and years-since-retirement) are different. To rank the benefits provided by PSERS and SERS, therefore, we measured three key dimensions of public pensions: whether the plans offer inflation protection to retirees, how benefits are calculated, and the amount employees contribute to their own retirement plans. (For the full methodology, see Appendix A).

Here's how Pennsylvania gets its low ranking for benefits provided:

- **Pennsylvania retirees have no automatic protection against inflation.** While 69 of the 100 largest plans offer retirees some automatic inflation protection, Pennsylvania pension plans provide no such protection.
- **Pennsylvania school employees pay more into the system than workers in most other systems.** PSERS requires employees to contribute 7.5 percent, which is more than employees contribute in about two-thirds of the top 100 plans. SERS requires employees to contribute 6.25 percent of their salaries to their own pensions, more than 50 other plans in the top 100.
- **Pennsylvania's multiplier is in the middle-of-the-pack.** The percentage by which Pennsylvania increases state pensions per year of service – known as the multiplier – is in the middle of the pack nationally, at 2 percent. With this multiplier, pension benefits increase by 2 percent of final average salary for each additional year of service. Pennsylvania lowered the multiplier from 2.5 percent to 2 percent in 2010. (Twenty other state pension plans, in addition to Pennsylvania's two, have a multiplier of 2 percent).

Despite the modest level of retirement benefits from Pennsylvania's public sector pensions, some observers claim that these pensions are outsized. For example, state Sen. Scott Wagner recently claimed that there are "huge disparities" between benefits of public workers (including, but not limited to, pension benefits) as compared to private workers. The *York Daily Record* found it did not have enough information to fact-check Sen. Wagner's claim and called for a more comprehensive study.[2] In fact, a careful study of public vs. private compensation in Pennsylvania has already been done. That study found that benefits <u>are</u> higher for public sector workers – but overall compensation is lower because

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[1] These average benefit figures are taken from the most recent comprehensive annual financial report of each of the Pennsylvania pension systems. They are not directly comparable because SERS only includes members who work to full retirement age, excluding anyone who has taken an early retirement, a disability retirement, or who receives survivor benefits. PSERS includes all of these groups, which brings down the average compared to just looking at people who work to full retirement age. SERS Staff, *Comprehensive Annual Financial Report for the Year Ended December 31, 2013*, SERS, http://www.sers.pa.gov/pdf/CAFR/2013-CAFR-Full-Web.pdf: page 91; PSERS Staff, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2014*, PSERS, http://www.psers.state.pa.us/content/publications/financial/cafr/cafr14/Combined%202014%20CAFR.pdf: page 6.

[2] The paper decided it could not determine the accuracy of Wagner's claim "…because there appear to be too many assumptions and apples-to-oranges comparisons in Sen. Wagner's statements." The paper then noted "…we'd like to see a more comprehensive study before weighing in…" See Flint McColgan, "Pa. Fact Finder: Is Sen. Scott Wagner right about public workers' high benefits?" *York Daily Record*, Jun 15, 2015; online at http://www.witf.org/news/2015/06/pa-fact-finder-is-sen-scott-wagner-right-about-public-workers-high-benefits.php

public sector wages are below those of comparable private sector workers by a larger amount. As a result, total annual compensation is 5.4 percent lower for public employees than for comparable private employees (with similar levels of education and other characteristics).[3] The study also found a particularly large (21 percent gap between the salaries of college-educated public-sector workers – who make up more than half of Pennsylvania's full-time public-sector workers compared to only one-third of full-time private workers – and their private counterparts. The "huge disparity" in salaries between the public and private sectors is one reason you rarely here the phrase "I'm leaving the private sector to go and make more money."

The Real Pension Problem? The State's Failure to Contribute

Pennsylvania's real pension problem is lack of employer contributions, not overly generous retirement benefits. Since the early 2000s, Pennsylvania persistently has failed to make annual required contribution payments into its pension plans. As a result, Pennsylvania ranks *second to last* among the 50 states for the share of required pension contributions actually made since the early 2000s (see figure below from the National Association of State Retirement Administrators).

Figure 2. Weighted Average of Annual Required Contribution Paid, by State

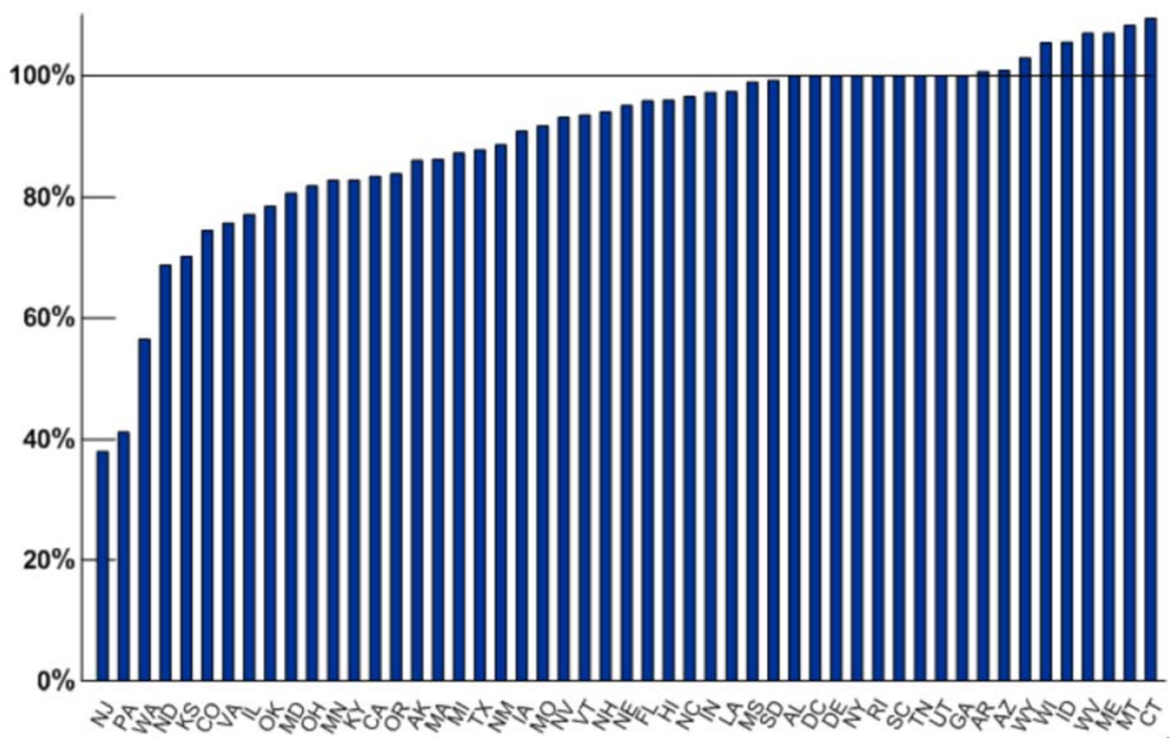

Figure C 1. Weighted average of Annual Required Contribution paid, by state

Source. Keith Brainard and Alex Brown, *The Annual Required Contribution Experience of State Retirement Plans, FY 01 to FY 13*, National Association of State Retirement Administrators, http://www.nasra.org/files/JointPublications/NASRA ARC Spotlight.pdf

[3] Find the full study here: Jeffrey H. Keefe, *Public Versus Private Pension Costs in Pennsylvania*, Economic Policy Institute, http://keystoneresearch.org/sites/keystoneresearch.org/files/EPIBriefingPaper313.pdf

In sum, Pennsylvania's pension benefits are not more generous than most other large plans. What is out of line is Pennsylvania's 49th-place ranking when it comes to making required employer pension contributions. Since chronic underfunding is the primary reason Pennsylvania has a $54 billion unfunded pension liability, maintaining the schedule of contributions to public pension plans required under Act 120 of 2010 is the policy most important to solving Pennsylvania's pension problem.

Appendix A: Methodology

For this analysis, we compared each of Pennsylvania's main public pension plans (the plans for school employees and for state government employees) with the 99 other largest public pension plans (measured by pension plan assets) for non-public safety personnel in a national state pension database.[4] This database is maintained by the National Association of State Retirement Administrators (NASRA) and is accessible online at http://www.publicfundsurvey.org/www/publicfundsurvey/normalretirementprovisions.asp.

To rank the benefits of each pension plan, we first compared the 100 largest state pension plans on three separate measures:

- The strength of their automatic inflation protection (assuming 2.5 percent inflation).
- The amount by which pensions increase with each additional year of public service as a percent of "final average salary," an amount commonly referred to as "the multiplier." (Final average salary is usually calculated as the average salary over the final three or five years of an individual's public service).
- The amount employees contribute to their own pensions. When employees contribute less, we consider the pensions more generous.

The overall ranking is determined by giving each pension plan a score out of 100 based on its rank on these three separate dimensions. A pension plan ranked first on one of the dimensions receives 100 points, a pension plan ranked 100th receives one point.

Adding up the three ranks generates the plan's overall score and rank. The 1st-place-ranked plan received an overall score of 225.5. The lowest-ranked pension plan by far, with a score of 24.5, covers municipal employees in California's Contra Costa County. The pension plan ranked 99th, the New Hampshire Retirement System, received an overall score of 74.5. PSERS received a score of 103.5 and SERS a score of 119.