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FOUR KEY FACTS: WHY PENSION CUTS IN SB 1071 ARE BAD FOR TAXPAYERS

Actuarial studies released by Pennsylvania's Public Employee Retirement Commission (PERC) this week confirmed what Keystone Research Center has said for more than a month about the hybrid plan now under consideration in the House. **SB 1071 fails to address the pension debt, increases costs for new hires while cutting benefits and, if unconstitutional benefit cuts are overturned by the courts, will increase the total pension costs to taxpayers.**

Key Facts from the independent actuarial studies released by PERC

- **Taxpayer costs for new employee's retirement would increase by at least \$1 billion.** New employees receive 401(k)-style savings accounts plus a traditional pension that is half the size of current employees' pension. This combination costs employers (thus taxpayers) more than the existing pension plan: over \$5 billion more on a cash flow basis and over \$1 billion more on a "present value" basis. (See Exhibit I in the report of the PERC actuary, Milliman.)
- **Most of the savings in SB 1071 come from unconstitutional cuts to current workers.** In its note to the Legislature, PERC warns that pensions of current workers are protected by the Pennsylvania Constitution. *"It appears that the bill would be subject to challenge for impairment of the retirement benefit right of active members."* If the courts, as expected, overturn the benefit changes for existing members as the state Supreme Court has overturned pension changes in the past,¹ *"the bills savings are significantly reduced."* In fact, the only impact left of the change in pension design would be to increase costs by over \$5 billion (on a cash flow basis) and over \$1 billion on a present value basis.²
- **Despite likely increasing costs, SB 1071 cuts retirement benefits by an estimated 27 percent to 29 percent** according to the Public School Employees' Retirement System (PSERS) actuary (see Table 3 of its report to PSERS). This is because inefficient 401(k)-type accounts have higher costs and lower investment returns than traditional pooled pensions. More money for Wall Street financial firms. Less money in middle class retirement checks.
- **SB 1071 fails to address the unfunded liability.** This bill does nothing to address the debt in SERS and PSERS, and will likely make it worse.

The Bottom Line

SB 1071 is a bad deal for taxpayers and workers. The bill fails to address the unfunded liability, increases costs for new hires while offering less retirement savings, and the phantom savings come from unconstitutional cuts that will be challenged in court.

When removing politics from the debate, the facts clearly show that taxpayers as well as teachers, nurses and other public servants are better off staying with the current pension plan as modified by the Act 120 of 2010,

which already cut benefits over 20 percent and established a schedule for ramping up employer contributions to the required level.

END NOTES

¹ The Pennsylvania Supreme Court has twice struck down changes to the pensions of current workers. *APSCUF v. State System of Higher Education*, (Pa. 1984); and *Pennsylvania Federation of Teachers v. School Dist. of Philadelphia*, (Pa. 1984).

² There are some “other” savings in SB 1071 that are not a result of having a hybrid pension for new members or of cutting benefits for new members. If those other savings are a good idea – near-term savings from lowering pension contributions this year are not a good idea – they could be achieved without changing pension design for future school or state employees.