Digging a Deeper Pension Hole

10 Reasons Gov. Corbett's Pension Plan Will Cost Taxpayers More

1. **It kicks the can down the road.** The plan continues a practice that helped create the pension funding problem: it reduces employer pension contributions over the next five years rather than meeting the scheduled obligations. The plan banks on savings likely to be overturned by the courts, and adds $4 to $5 billion to the state's pension debt by 2019.

2. **It cuts off funding to the state's pension funds.** The plan closes the state's defined benefit pensions and enrolls new employees in 401(k)-like individual accounts. Closing the pension plans to new employees reduces and then eliminates a major source of funding for the defined benefit plan—employee contributions. Taxpayers will make up any shortfalls.

3. **It lowers investment returns.** Closing the pension plans to new employees also increases the average age of plan members. Fund managers must then shift pension funds to safer, shorter-term investments that yield lower returns. Lower returns = higher costs for taxpayers.

4. **Pension funds must be ready to pay out, further lowering returns.** As employees in the pension plans all retire, pension funds will have to be invested in liquid assets, ready to pay out in monthly benefit checks. This also lowers investment returns, raising taxpayer costs.

5. **It shifts to a less efficient retirement savings plan.** The plan shifts new hires into individual 401(k)-like accounts that have high administrative costs and financial fees, and low investment returns because professionals will not be managing these accounts.

6. **It increases retirement costs for future employees.** Proposed 401(k)-like accounts will cost public employers (and taxpayers) more per employee than current pension costs under 2010 reforms. Fully phased in, taxpayers will pay $179 million more each year.

7. **It flies in the face of experience and studies in other states.** Studies in 12 other states find that switching from a defined benefit pension to a 401(k)-type plan increases pension debt. Alaska and Michigan went down that road and saw their pension debts increase.

8. **It produces less retirement security for teachers, nurses, and first responders.** West Virginia adopted a 401(k)-like plan for public employees in 1991 but reversed course in 2006. A report found public employees had such low incomes in retirement they would be eligible for means-tested public programs, driving up costs to the state.

9. **It will make it harder to recruit qualified staff.** 401(k)-type plans offer less retirement security and reduced incentives for experienced teachers and other public servants to stick around. Higher levels of turnover in schools and government will cost taxpayers more.

10. **It's simple math: two retirement plans are more expensive than one.**

The Keystone Research Center is a nonprofit, nonpartisan research organization that promotes a more prosperous and equitable Pennsylvania economy. For full details and documentation on these 10 reasons, go to http://keystoneresearch.org/pensions