



Corbett Pension Plan Does Not Equal Property Tax Relief: What the Pension Experts Say

Keystone Research Center • 412 North 3rd St., Harrisburg, PA 17101 • 717-255-7181

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 at the pension debate. This is the pension primer #10.* **July 17, 2014**

In his fourth year in office, Governor Corbett has been unable to persuade legislators that his proposal to change state pensions for school teachers, nurses, and other public servants is a good plan. This week, he therefore began a road trip across the state, highlighting the pressure on local communities to raise property taxes. His pension plan, however, DOES NOT deliver property tax relief.

That's a fact – according to the experts that took a look at the pension plan the Governor now favors. The Corbett-Tobash pension plan DOES NOT save the taxpayers any money in the short term, and DOES NOT save the taxpayers much over the next 30 years. (It could even increase pension costs.)

Governor Corbett's Pension Plan Won't Reduce Property Taxes

If the Governor's pension plan saves little or no money for the state and school districts, how can it reduce property taxes? The answer is simple. IT CAN'T.

That's the Conclusion Reached by Independent Pension Experts

Cheiron, an independent pension expert (or "actuary") that the Public Employee Retirement Commission (PERC) tasked with analyzing the Tobash proposal found that the savings would be meager at best. The tables below, pages 17 and 19 of the Cheiron report to PERC, compare what employers would contribute to pensions under the Corbett-Tobash "hybrid" plan and under current law.ⁱ

It Will Take Until 2027 for the Gov.'s Pension Plan to Save the Nearly \$1 Billion Cut in School Funding

Here's one way to put the meager savings in context: for the pension system that covers teachers and other school employees, the savings from Governor Corbett's plan will take until 2027 to add up to the nearly \$1 billion cut from school budgets in 2011 alone.ⁱⁱ

The Governor's Pension Plan Also Has Costs That Could Exceed the Meager Savings.

Cheiron's tables are a best-case scenario that leave out at least three costs of the Corbett-Tobash plan: the costs that actuaries say could result because the plan drains the existing pensions of funds, reducing investment returns down the road; the cost of switching employees into inefficient 401(k)-type savings that have high fees and low returns; and the likely hidden cost of future wage increases that would be needed to retain good teachers after benefits for many have been cut by 40% or more.ⁱⁱⁱ

School Funding Cuts Are Causing Property Tax Increases

To stop property tax increases, policymakers need to address the root of this problem – deep school funding cuts. These unprecedented cuts have caused a school funding crisis, and reversing them is the only way to end that crisis – and to stop property tax increases.

Gov. Corbett wants to change the subject to local property taxes because that is a priority for many Pennsylvanians. But the plan he is now promoting does nothing to address that issue – and also won't fix the pension debt or put more money in the classroom, even while deeply slashing benefits. That is why lawmakers of both parties have given the plan the thumbs down: it is bad public policy.

For a comprehensive analysis of the Corbett-Tobash pension plan based on the four actuarial studies of the plan, go to <http://goo.gl/dlo1ax>. All four actuarial studies are contained in the PERC note transmitted on May 28, 2014 and online at the URL at the end of end note 1.

ⁱ Kenneth A. Kent and Janet Cranna, Cheiron, Letter to James L. McAneny, Executive Director, Public Employee Retirement Commission, May 26, 2014, p. 17 and p. 19. (These Cheiron letter is also part of the 359-page packet sent by the Public Employee Retirement Commission (PERC) to the legislature on May 28, 2014. Page 17 and 19 of the letter correspond to page 45 and page 47 of the PDF. See PERC, *Actuarial Note Transmittal: Amendment Numbers 06917, 07089, and 07096 to House Bill Number 1353, Printer's Number 2152, Public School Employees' Retirement System and State Employees' Retirement System: Hybrid Retirement Benefit Plan*, May 28, 2014, online at <http://goo.gl/WNpjBv>.

ⁱⁱ For details on the school funding cuts in the 2011-12 budget, see "2011-12 State Budget Highlights," online at <http://goo.gl/ucMvQ5>.

ⁱⁱⁱ For more detail on these three costs and direct quotes on the potential costs of the Corbett-Tobash plan from the actuarial studies, see p. 3 and especially pp. 11-14 of Stephen Herzenberg, *Moving Backwards on Pension Reform: Tobash Plan Does Little to Reduce Pension Debt But Will Erode Quality of Public Schools and Services, Hurt Retirement Security*, Keystone Research Center Pension Primer #9, online at <http://goo.gl/mvyohl>.

State Employees' Retirement System Projection of Employer Contributions (DB and DC)		
Fiscal Year	Existing Law	Hybrid Plan
2015	20.5%	20.5%
2016	25.0%	25.0%
2017	29.5%	29.5%
2018	30.4%	29.7%
2019	29.6%	28.9%
2020	28.9%	28.1%
2021	28.2%	27.3%
2022	27.5%	26.6%
2023	26.8%	25.8%
2024	26.2%	25.1%
2025	25.6%	24.5%
2026	25.0%	23.8%
2027	24.4%	23.2%
2028	23.8%	22.6%
2029	23.2%	22.0%
2030	22.7%	21.4%
2031	22.2%	20.9%
2032	21.7%	20.4%
2033	21.2%	19.9%
2034	20.7%	19.4%
2035	20.2%	16.8%
2036	19.8%	16.4%
2037	19.3%	16.0%
2038	18.9%	15.7%
2039	18.5%	15.3%
2040	18.1%	15.0%
2041	14.2%	11.1%
2042	11.3%	8.3%
2043	8.1%	5.2%
2044	6.2%	3.3%

State Employees' Retirement System Projection of Employer Contributions (DB and DC) (in billions)			
Fiscal Year	Existing Law	Hybrid Plan	Inc./Dec.
2015	\$ 1.254	\$ 1.255	\$ 0.000
2016	\$ 1.576	\$ 1.577	\$ 0.001
2017	\$ 1.917	\$ 1.920	\$ 0.003
2018	\$ 2.035	\$ 1.991	\$ (0.044)
2019	\$ 2.045	\$ 1.994	\$ (0.051)
2020	\$ 2.056	\$ 1.998	\$ (0.058)
2021	\$ 2.066	\$ 2.002	\$ (0.065)
2022	\$ 2.077	\$ 2.006	\$ (0.072)
2023	\$ 2.089	\$ 2.010	\$ (0.079)
2024	\$ 2.101	\$ 2.015	\$ (0.085)
2025	\$ 2.113	\$ 2.021	\$ (0.092)
2026	\$ 2.126	\$ 2.027	\$ (0.099)
2027	\$ 2.139	\$ 2.034	\$ (0.105)
2028	\$ 2.152	\$ 2.041	\$ (0.111)
2029	\$ 2.166	\$ 2.049	\$ (0.117)
2030	\$ 2.180	\$ 2.057	\$ (0.123)
2031	\$ 2.195	\$ 2.067	\$ (0.128)
2032	\$ 2.210	\$ 2.076	\$ (0.133)
2033	\$ 2.225	\$ 2.087	\$ (0.138)
2034	\$ 2.241	\$ 2.098	\$ (0.143)
2035	\$ 2.258	\$ 1.873	\$ (0.385)
2036	\$ 2.275	\$ 1.886	\$ (0.390)
2037	\$ 2.293	\$ 1.898	\$ (0.394)
2038	\$ 2.311	\$ 1.912	\$ (0.399)
2039	\$ 2.329	\$ 1.926	\$ (0.404)
2040	\$ 2.349	\$ 1.940	\$ (0.408)
2041	\$ 1.894	\$ 1.482	\$ (0.412)
2042	\$ 1.559	\$ 1.146	\$ (0.414)
2043	\$ 1.155	\$ 0.739	\$ (0.416)
2044	\$ 0.902	\$ 0.484	\$ (0.419)
Total			\$ (5.678)

**Public School Employees' Retirement System
 Projection of Employer Contributions (DB and DC)**

Fiscal Year	Existing Law	Hybrid Plan
2015	20.5%	20.5%
2016	25.0%	25.0%
2017	29.3%	27.3%
2018	30.0%	27.8%
2019	30.9%	28.4%
2020	31.6%	29.2%
2021	31.4%	29.9%
2022	31.4%	29.7%
2023	31.5%	29.6%
2024	31.5%	29.7%
2025	31.5%	29.7%
2026	31.5%	29.8%
2027	31.6%	29.8%
2028	31.6%	29.8%
2029	31.7%	29.9%
2030	31.8%	30.0%
2031	31.9%	30.1%
2032	32.0%	30.2%
2033	32.1%	30.3%
2034	32.3%	30.4%
2035	32.4%	30.5%
2036	18.9%	17.0%
2037	15.5%	13.6%
2038	14.0%	12.0%
2039	10.6%	10.5%
2040	9.0%	9.2%
2041	7.7%	8.2%
2042	6.6%	7.2%
2043	5.3%	6.3%
2044	4.7%	5.5%

**Public School Employees' Retirement System
 Projection of Employer Contributions (DB and DC)
 (in billions)**

Fiscal Year	Existing Law	Hybrid Plan	Inc./Dec.
2015	\$2.812	\$2.812	\$0.000
2016	\$3.520	\$3.523	\$0.003
2017	\$4.228	\$4.234	\$0.006
2018	\$4.469	\$4.457	(\$0.012)
2019	\$4.757	\$4.727	(\$0.030)
2020	\$5.022	\$4.974	(\$0.048)
2021	\$5.161	\$5.095	(\$0.066)
2022	\$5.316	\$5.230	(\$0.086)
2023	\$5.511	\$5.406	(\$0.105)
2024	\$5.689	\$5.564	(\$0.125)
2025	\$5.871	\$5.728	(\$0.143)
2026	\$6.052	\$5.892	(\$0.160)
2027	\$6.236	\$6.064	(\$0.173)
2028	\$6.420	\$6.234	(\$0.186)
2029	\$6.603	\$6.409	(\$0.195)
2030	\$6.791	\$6.591	(\$0.200)
2031	\$6.984	\$6.780	(\$0.204)
2032	\$7.181	\$6.974	(\$0.207)
2033	\$7.380	\$7.173	(\$0.207)
2034	\$7.586	\$7.382	(\$0.204)
2035	\$7.796	\$7.596	(\$0.201)
2036	\$4.735	\$4.542	(\$0.193)
2037	\$3.998	\$3.816	(\$0.182)
2038	\$3.689	\$3.521	(\$0.168)
2039	\$2.888	\$2.736	(\$0.153)
2040	\$2.521	\$2.385	(\$0.136)
2041	\$2.209	\$2.097	(\$0.111)
2042	\$1.935	\$1.849	(\$0.086)
2043	\$1.573	\$1.520	(\$0.054)
2044	\$1.282	\$1.377	\$0.096
Total			(\$3.530)