FAST FACTS

House Appropriations Committee (D)

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Gov. Corbett's Pension Arguments Debunked

Gov. Corbett's push for pension "reform" appears to be nothing more than a desperate attempt to distract the public's attention from his budget crisis and severe cuts to public education. The governor is misleading Pennsylvanians when he claims passing pension "reform" will reduce local property taxes.

The Corbett-Tobash pension plan failed to gain traction in the legislature for good reasons: it does not produce any near-term budgetary savings for the state or school districts, nor does it pay down the pension debt any faster than the reform plan the state has in place (Act 120 of 2010). In fact, no matter how deeply Gov. Corbett cuts benefits for future workers, it will not provide any near-term budgetary savings for the state or school districts – therefore, it will have no effect on local property taxes.

Gov. Corbett's pursuit of pension "reform" begs the question: Is "reform" more about his ideology, rather than what makes the most financial sense? When you hear Gov. Corbett use the following talking points and false choices as justification for harshly cutting retirement benefits for future workers, consider the counter-arguments.

When Gov. Corbett says…	Consider the following…
Passing pension reform will provide property tax relief for homeowners.	• The governor's claim that passing pension "reform" will reduce local property taxes is incredibly misleading. ➢ The Corbett-Tobash pension plan does not produce any near-term budgetary savings for the state or school districts, nor does it pay down the debt any faster than the reform plan we have in place (Act 120 of 2010) - according to the official actuarial note. Therefore, "reform" will have no effect on local property taxes. ➢ In fact, no matter how deeply Gov. Corbett cuts benefits for future workers, it will not provide any near-term budgetary savings for the state or school districts. • Local property taxes are increasing because Gov. Corbett failed to provide adequate state funding for public schools. ➢ Gov. Corbett cut education funding by $1 billion in his first year, and those cuts now total $3 billion over his tenure. His state funding cuts have left school districts with few options but to increase local property taxes, increase class sizes, layoff teachers and other school employees and cut course offerings. ➢ The state's share of school funding is declining. The state provides 35.2% of school funding, as compared to 40% in 1995/96. School districts rely on federal funding and other sources, such as local property taxes, for the rest of their funding.
About 63 cents of every new dollar in revenue is spent on pensions.	• Pension costs are less than 6% of the state's entire operating budget. • More than half of today's pension payment goes towards paying old debt, not to current pension costs. • None of the state's pension debt is associated with the retirement benefits for new school and state employees hired since the Act 120 reforms took effect in 2011. • Under Act 120 reforms, the cost to the employer of providing pension benefits for new teachers is less than 3% of payroll (shared between the school districts and state) – which is incredibly low.

We must address our spiraling pension costs at both the state level and in every school district across the commonwealth.	• In 2010, an overwhelmingly bipartisan majority of the House and Senate approved Act 120 – a pension reform roadmap. • Act 120 cut new employee benefits by 20%; thereby, reducing the cost to the state by 60% (or $33 billion), and charted the course for addressing the debt. • Act 120 put in place predictable, moderated payments before the governor assumed office, yet he imprudently decided to cut education funding and business taxes – making it difficult for the state and school districts to make these payments. • None of the state's pension debt is associated with the retirement benefits for new school and state employees hired since the Act 120 reforms took effect in 2011. • For more information, see: Act 120 of 2010 Retirement Benefit Changes for New Employees.
In the case of PSERS, roughly half the pension cost is borne by school districts, meaning skyrocketing property taxes.	• If Gov. Corbett had not cut education funding by $3 billion over his tenure, school districts could better afford to make their required pension payments. • According to the latest survey from the school administrators and business officials, three-fourths of school districts expect to have to increase property taxes in 2014/15 because of budgetary pressures.
Every dollar saved through pension reform is another dollar for our children's educations, or another dollar to help get someone off the waiting list for services they need, or another dollar to keep our citizens safe. OR As more of the state budget goes to covering pension debt, money is crowded out for everything from classrooms to public safety.	• The Corbett-Tobash pension plan provides NO short-term savings for the state or school districts, nor does it pay down the pension debt any faster than the current reform plan (Act 120 of 2010) - according to actuaries that analyzed the proposal. • In fact, no matter how deeply Gov. Corbett cuts retirement benefits for future workers, it will not help solve the immediate budget crisis. • Gov. Corbett cut business taxes by $2.1 billion over his tenure - that is $2.1 billion less the state has for education, public safety and to help those in need. • House Democrats have a plan to close the budget gap, improve tax fairness and begin to restore Gov. Corbett's budget cuts. For more information, see: Gov. Corbett's Corporate Favors: Fast Facts.
Right now, SERS and PSERS are a combined $50 billion short of what they need to cover current and future retirees, and the figure is climbing. By 2018, the unfunded liability for pensions will pass $65 billion. Every household in this state will owe $13,000 to cover that debt.	• The Corbett-Tobash plan does not pay down the debt any faster than Act 120. In fact, the plan would ADD to the pension debt, increasing it to $67.1 billion or $13,525 per household in 2018. • In the past, Pennsylvania has increased its pension debt by taking a pass on making the necessary payments. More than half of today's pension payment goes towards paying old debt. • We need to focus on paying down the pension debt – not on making the long-term situation worse just to score political points or free up revenue for the governor's election-year budget. • The only way to reduce the debt is to make the payments. However, Gov. Corbett's budget proposal assumed taking a pass on making the legally required payments for the next 4 years - which is comparable to making LESS than the minimum payment on the state's credit card. • None of the state's pension debt is associated with the retirement benefits for new school and state employees hired since the Act 120 reforms took effect in 2011.

The traditional pension structure must be replaced with 401(k) style defined contribution plans. We can no longer have the taxpayer foot the bill when investments don't live up to expectations.	• As we learned last year with Gov. Corbett's pension proposal, the costs associated with closing the state's current defined benefit plan FAR exceed any savings realized from switching to a 401(k)-style plan - costing the state upwards of $40 billion. ➢ Why? Because the debt still has to be paid and closing the state's defined benefit plan cuts in half the time to pay down the debt – so there is less time to generate investment returns. ➢ Moving employees to a 401(k)-style plan is an impractical solution to solving the debt problem. • The current reform plan (Act 120 of 2010) includes a shared-risk provision that requires employees to contribute more if investment returns are inadequate.
The Corbett-Tobash plan would combine the traditional benefits of a guaranteed retirement for employees with a contribution plan that would limit taxpayer liability if the pension's investments underperform.	• The Corbett-Tobash plan would harshly cut future worker benefits - jeopardizing retirement security for thousands of young people. ➢ The plan would cut retirement benefits by 40% on average, in addition to the 20% reduction under Act 120 of 2010. ➢ The plan would eliminate a modest health care premium supplement for school retirees. Roughly 40% of the plan's long-term savings for the school employees' retirement system would come from eliminating the $100 per month supplement - the only statewide health care benefit for school retirees. • All along, public servants have been faithfully paying their fair share into the pension systems – they are not the ones who created the debt. However, under the Corbett-Tobash plan, younger workers would be unfairly penalized. • Act 120 includes a shared-risk provision that requires employees to contribute more if investment returns are inadequate. • For more information, see: House Republican's Pension Proposal, Memo from the Chair.
The Corbett-Tobash plan saves taxpayers $11 billion over the cost of the current pension system.	• There are NO short-term savings for the state or school districts. • Any long-term savings touted by the plan's supporters are decades away. Also, any savings will be significantly reduced or eliminated when the plan is paired with Gov. Corbett's budget proposal to shortchange the pension obligations for the next 4 years. • The savings are overstated and misleading – a dollar many years in the future is not worth as much as a dollar that can be used to earn interest today.
The Corbett-Tobash pension plan only affects NEW employees.	• The Corbett-Tobash plan contains a "break in service" clause that under certain circumstances would force current employees, or former employees who return to service, into the reduced retirement plan. ➢ For example, if a woman takes time off work to care for a child, when she returns to work she could be forced into the reduced benefit plan and it would take her an additional 10 years to vest in the new retirement plan. ➢ In Pennsylvania, women teachers outnumber men 3 to 1; therefore, benefit cuts would disproportionally affect women.

All the legal protections in the world mean nothing if a pension plan is insolvent.	• Under the current reform plan (Act 120 of 2010), the pension systems will hit a healthy funded ratio (commonly considered to be 80%) before the next generation. • The Corbett/Tobash plan exacerbates the debt. Any long-term savings will be significantly reduced or eliminated when the plan is paired with Gov. Corbett's budget proposal to shortchange the pension obligations for the next 4 years.
Pennsylvania, like many other states, had counted on a 7.5 percent return on investment. It never arrived. Instead, the burden went on the taxpayers to make up the difference and the pension hole deepened.	• The state's pension systems have historically returned higher than 7.5% on their investments: ➢ Public School Employees' Retirement System (PSERS): 8.0% for the fiscal year; 10.4% for the 3-year; 7.7% for the 10-year; and 8.7% for the 25-year periods that ended June 30, 2013. ➢ State Employees' Retirement System (SERS): 13.6% for the fiscal year; 9.3% for the 3-year; 7.4% for the 10-year; and 9.2% for the 25-year periods that ended Dec. 31, 2013.
In the past year Moody's and Fitch, two of the major investment ratings firms, lowered the state's rating. The lower your credit rating, the higher the interest you pay on what you borrow.	• What credit agencies look at is Pennsylvania's ability to pay its debts. The Corbett-Tobash pension plan does not pay down the debt any faster than the current reform plan (Act 120); therefore, it could actually harm Pennsylvania's credit rating. • Ironically, Gov. Corbett's budget proposal would further erode the commonwealth's credit because he seeks to make less than the legally required pension payments for the next 4 years. • Credit agencies look at both sides of the balance sheet – not just costs, but also adequate revenues. ➢ Pension costs were addressed by Act 120 of 2010, which reduced employer benefit costs by 60%. Under Act 120, the cost to the employer of providing pension benefits for new teachers is less than 3% of payroll (shared between the school districts and the state) – which is incredibly low. ➢ Pennsylvania has less revenues, in part because Gov. Corbett reduced business taxes by $2.1 billion over his tenure, at a time when the state could not afford to do so. • True reform would be to show the credit rating agencies that Pennsylvania is committed to paying its debt. • ANY changes to the pension systems need to be carefully considered, especially in light of recent warnings from the credit rating agencies.

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