

Pension Crisis — We've Been Here Before

Thirty years ago during a period of economic uncertainty, Pennsylvania had a pension crisis similar to what we face today. Employers (state agencies, school districts, and public colleges, among others) faced burdensome payments to sustain the pension systems due to a growing unfunded liability. The graph below provides historical context for the period from 1983 through 2011:

- At their peak, employer contribution rates for both state pension systems came close to or exceeded 20 percent of salaries;
- Unfunded liabilities also grew as represented by a low funded status (ratio of assets to liabilities);
- Funded ratios fell to between 49 percent (PSERS) and 58 percent (SERS).

Through disciplined employee and employer contributions and fruitful investment returns, the systems fully recovered and prospered.

Due to a variety of factors in the past 10 years, the commonwealth is presently facing a similar situation where funded ratios are low and employer contributions are increasing. Act 120 of 2010 –

which was passed by an overwhelmingly bi-partisan majority of both House and Senate members – put in place a **pension reform roadmap** that provides a responsible solution to a difficult situation. **This legislation cut new employee benefits by 60 percent, a move that provides more than \$33 billion in savings.** These savings are offset by \$30 billion in deferred employer costs, yielding a net savings of approximately \$3 billion through 2044.

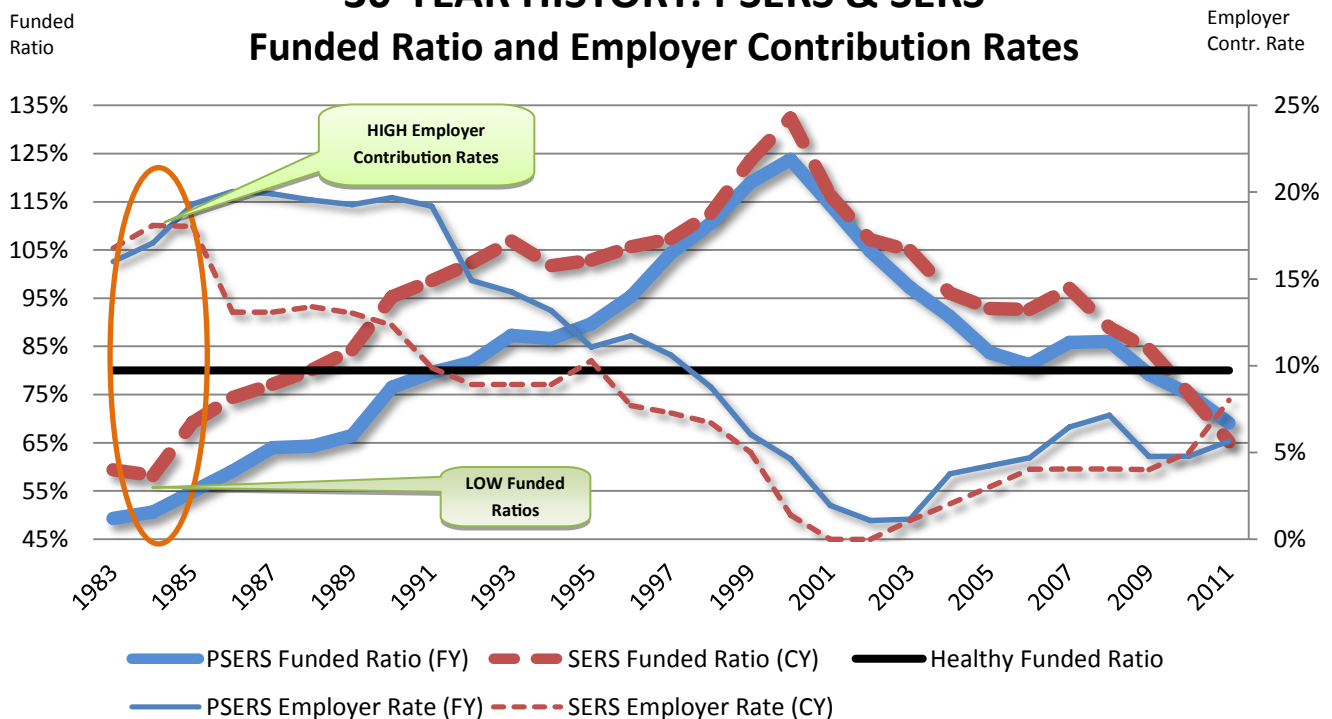
Deferred employer costs can be roughly explained as a remortgaging of debt, a move which made payments more manageable for employers* — payments were restructured and stretched out over a somewhat longer period of time.

The lesson to be learned from the past 30 years is that pension systems are designed to accommodate economic changes when employee and employer contributions meet funding expectations. However, they can quickly become less stable when artificially manipulated by short-term policy changes.

* Employers include the commonwealth, school districts, community colleges, and other authorized employers.

Don't let Gov. Corbett do a 180° on Act 120.

30-YEAR HISTORY: PSERS & SERS Funded Ratio and Employer Contribution Rates



Learn more about state pension issues online at www.hacd.net