Memo

From the House Appropriations Committee (D)

TO: House Democratic Members and Interested Parties

FROM: Rep. Joseph Markosek, Chairman

SUBJECT: Senate Republican Plan to Overhaul Pension Systems (Senate Bill 1, PN886)

DATE: May 14, 2015

Yesterday, Senate Republicans fast-tracked and passed a complicated, far-reaching and unconstitutional plan to overhaul the state's pension systems. **Ironically, despite claims that the changes are necessary to address the pension debt, according to the [actuarial analysis](), the plan does not pay off the debt any sooner than the current payment plan, nor does it save any money in the short-term to address the budget deficit.**

It appears Senate Republicans are borrowing from former Gov. Corbett's 2013 plan to harshly reduce benefits for workers, including current employees, which many people quickly pointed out did not pass constitutional muster. **Most of the plan's savings, about $13.1 billion for PSERS, are derived by cutting benefits for current workers, which violates contract protections and most certainly will be challenged and overturned in court.** In fact, courts in Illinois and Oregon recently struck down laws that reduced current employee benefits.

The real pension issue is the debt, not the benefits, and this plan fails to address the debt. In fact, the bill would increase the debt for SERS by $3.1 billion. Most of the debt, roughly 70 percent for PSERS, was caused by past policy decisions to skip payments and increase benefits. The General Assembly more than rolled back the benefit increases when it passed Act 120 in 2010, now we have to pay off the debt. Bev Cigler, a Penn State Harrisburg professor, summarized it best in a recent Delaware County Daily Times column: *"It's like a credit card. Just because you get a new credit card doesn't mean the $53 billion debt on the old card goes away."*

Senate Bill 1 would harshly cut worker retirement benefits by about 70 percent compared to employees hired after Act 120 – the harshest cuts we have seen proposed to date. Keep in mind, the cuts would be in addition to the 20 percent benefit reduction in 2010. This plan is an attack on workers' retirement and would jeopardize retirement security for thousands of workers, which is unfair. **According to the actuarial analysis, a worker who retires at age 65 after 35 years of service making just over $31,000 a year, would receive only $6,361 a year in retirement benefits (20 percent of their pre-retirement income). Under this proposal, our seniors who worked their entire careers, would be destined for poverty.**

All along, employees have been faithfully paying their fair share into the systems. Under this plan, Republicans make workers the scapegoats for the employer's past mistakes that created the debt. Why are Republicans pushing a plan that would harshly cut retirement benefits for teachers, law enforcement officers and all other public workers when it does not solve the budget crisis or pay down the debt any faster? We should not make rash changes to our pension systems simply because of an ideological attachment to 401(k)s, which have failed according to a NBC News story (*[Retirement Crisis: The Great 401(k) Experiment Has Failed for Many Americans]()*).

Just five years ago, an overwhelmingly bipartisan majority of the House and Senate approved Act 120 – a pension reform roadmap. We need to let Act 120 work and make our payments. Act 120 cut benefits for future workers by $33 billion and put us on a path to responsibly pay off the pension debt.

Senate Bill 1 is a complicated, 410-page bill, and as with any bill that size, the devil is always in the details. **According to the analysis, the actuaries did not have enough time to read the entire bill and would need two to three weeks to properly analyze it. Pension changes this dramatic must be fully vetted. If the House majority decides to consider this bill, we should begin with a complete and thorough actuarial analysis, and make sure we fully understand the financial consequences in anticipation of the court striking down the plan.**

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