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Pennsylvania Lawmakers Compromise on Pension-Overhaul Bill.

Measure will move most future state and public school workers at least partly into 401(k)-style plans

Pennsylvania Gov. Tom Wolf signed a pension-overhaul bill Monday that the nonpartisan Pew Charitable Trusts says will be one of the most comprehensive state-level reforms in the U.S.

The compromise measure will move most future state and public school workers at least partly into 401(k)-style plans to help shore up the deeply underfunded pension system and shift market risk from taxpayers to employees. An independent analysis estimates the state will save \$5 billion to \$20 billion over 30 years, depending on investment performance.

"I think we have a road map to actually move out of the nightmare that we've been in for the last 20 years," Gov. Wolf, a Democrat, said in an interview Monday.

Pennsylvania is one of many states, including New Jersey, Illinois and Connecticut, grappling with rising pension costs and huge unfunded liabilities—the gap between promised benefits and the funding available to meet those obligations. A 2015 Pew report found that the nation's state-run retirement systems had a collective \$968 billion shortfall.

Pennsylvania's pension crunch dates to a 2001 move by the legislature to sweeten benefits, combined with subsequent underfunding by state government and school districts, and weak investment returns, particularly after the 2008 financial crash.

A 2010 law boosted the government pension contributions, and Mr. Wolf said the current bill represents a key second step.

Republicans and Democrats in the GOP-led state legislature hashed out the bipartisan deal along with the governor and his aides.

The Pennsylvania School Boards Association applauded the bill, saying school districts have faced growing financial pressure because legally required pension contributions have risen at an unprecedented rate.

Current and retired employees will remain under the traditional "defined benefit" pension that provides set retirement payments. The two pension systems for state and public school employees have about 863,000 active, vested and retired members. The new law won't apply to state troopers or correctional officers.

Greg Mennis, director of Pew's public-sector retirement systems project, said the bill breaks new ground.

"Our research indicates that this would be one of the most—if not the most—comprehensive and

impactful reforms any state has implemented,” he wrote in a letter to lawmakers.

Critics of the legislation say it would do little to address the state’s roughly \$62 billion in existing pension debt.

“Pension debt is the sole reason for doing pension reform and yet, ironically and bizarrely,” the bill doesn’t address existing unfunded liabilities, Republican state Rep. John McGinnis said during a recent debate. “We’re not making history, we are repeating it.”

Gov. Wolf said the criticism amounts to “crying over spilled milk,” adding: “A big part of that is because the commonwealth didn’t pay its bill and kicked the can down the road” until the 2010 change.

Republican House Speaker Mike Turzai acknowledged the state isn’t likely to see major savings for years under the pension overhaul, but said it is time to follow the private sector into 401(k)-type retirement plans, where the market determines future benefits.

“At a certain point you’ve just got to turn off the spigot, and you’ve got to move to where the private sector’s been,” he said in a video on his website.

His office says 18 states have enacted some 401(k)-style plan for state workers, and notes that the state’s Independent Fiscal Office estimates pension payments by Pennsylvania taxpayers will account for nearly 10% of the state’s general fund budget by 2019.

Gov. Wolf, who vetoed a 2015 GOP pension bill that he deemed unfair, said one key element of the current bill is a push to cut Wall Street investment fees by \$3 billion over three decades. Pennsylvania has the fifth-highest fee levels of any state, according to Pew.

The union representing more than 65,000 Pennsylvania state employees said it can “live with” the bill because it lets current employees keep their plans and offers retirement security for new employees.

“Ultimately, this proposal may be as good as it gets with a Republican-controlled legislature that has constantly been going after pension reform,” said David Fillman, executive director of the American Federation of State, County and Municipal Employee Council 13, on the union’s website.

Starting in 2019, the retirement age for new employees will rise to 67 from 65.

Mr. Wolf said the new approach offers portability that better suits many workers. “There are a lot of people who might want to stay in public service four or five years,” he said, but it takes employees 10 years to vest in the state pension system.

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By Scott Calvert

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