



**Leadership • Service • Advocacy**

# The pension crisis- part 1

- **Projected increases at this point:**
  - **2011-12: 10.59%**
    - 29% increase over 2011
  - **2012-13: 29.22 %** ←
    - 176% increase over 2012
  - **2013-14: 32.09%**
    - 9.8% increase over 2013
  - **2014-15: 33.60%**
    - 4.7% increase over 2014

## The Pension Crisis- part 2

- Projections are that the employer contribution rate will remain over 30% from 2015-2020; above 25% from 2021 to 2027; and above 20% from 2028 to 2032
- Available data do not project out far enough to show an employer contribution rate in the neighborhood of the 8.22% rate for 2010.

# What Can Be Done?

- **Options:**
  - There are three ways to address the pension crisis:
    1. **Increase the funding/find a new source of funding of the system**
    2. **Defer the liabilities of the system**
    3. **Decrease/cut the costs/liabilities of the system**
- **The key is that all three options are used**

# Comprehensive Pension Reform: a 3-part solution

- **How to mitigate the rate spike:**
  - **Find an alternative funding source for PSERS**
    - **Clear that current funding cannot keep up with projections**
    - **Governor has laid several ideas for new revenue on the table**
    - **New funding for transportation, MCARE may be an opening to get new funding for PSERS**

# Comprehensive Pension Reform: a 3-part solution

- **Mitigating the pension spike (cont'd):**
  - **Defer the system's liabilities**
    - A “double-edged sword” and cannot be the only solution because it artificially lowers the employer rate and just “kicks the can down the road”
    - PSBA will only support this approach if it is coupled with alternative funding and benefit restructuring

# Comprehensive Pension Reform: a 3-part solution

- Long term relief – the contribution “plateau:”
  - Changes to benefits
  - Change to a hybrid system
    - PSBA bills – HB 2135, SB 1185
  - Look at assumptions being used
  - Eligibility, withdrawal options, etc.
- Long term because these changes can only effect prospective system members

# What is PSBA doing?

- **HB 2135 and SB 1185 are PSBA's hybrid pension proposal**
- **HB 2135/SB 1185 would do the following:**
  - **Create a new class of employees for pension purposes who would be subject to new plan**
  - **On the db side, reduce the multiplier from 2.5% to 1%; increase the vesting time to 10 yrs., up from the current 5-yr. vesting, reduce employee contribution rate from 7.5% to 3.25%**

# What is PSBA doing?

- **HB 2135/SB 1185 (cont'd):**
  - **Create a defined contribution (d/c) component in the PSERS system to accompany the d/b portion**
  - **D/C would require minimum 3% employee contribution and 2% employer contribution**
  - **These funds could be invested in one of several investment portfolios created by PSERS**

# What is PSBA doing?

- **HB 2135/SB 1185 (cont'd):**
  - Pension benefit would be d/b + d/c earnings
  - Caps the school employer contribution at the index
  - Maintains all current buyback and military service provisions
  - Drafted with PSERS oversight
  - Will be on the table as a solution

# What is PSBA doing?

- **Positive effects of HB 2135/SB 1185:**
  - Gradually reduces employer contribution
  - Reduces state and school employer liability for pension benefits
  - Caps school employer payments
  - Still provides incentive for prospective teachers
  - Only pension proposal on table from education organizations

# How you can help

- **The Messages:**
  - **The problem is upon us now; it can't wait until we get a new governor**
  - **Additional taxes in 2010-11 will result if nothing is done**
  - **Must look at benefit levels and dedicate new funding to the system; deferral-only solution, as proposed by governor, will not resolve the problem**
  - **Hybrid plan is a good long-term solution**
  - **Counter the arguments**