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PA Pension Benefits Already Modest, Keystone Research Center Finds, As General Assembly Advances Bill With Deep Additional Cuts

Benefits of PA Pensions Rank 77th and 89th Out of 100 Big Pension Plans

(HARRISBURG, Pa.) – Legislative leaders are right: Pennsylvania is facing a significant pension system problem. But those who blame overly generous benefits for these woes are off base, according to an analysis of the largest 100 public pension plans in the country released today by Keystone Research Center.

In fact, the benefits provided by Pennsylvania’s two main pension plans rank in the bottom quarter, at 77th and 89th out of 100, respectively, for the State Employees Retirement System and Pennsylvania School Employees’ Retirement System, in part because of cuts enacted in the pension reforms of 2010.

“Retirement benefits are clearly not to blame for Pennsylvania’s pension debt,” said Keystone Research Center economist and Executive Director Dr. Stephen Herzenberg. “The culprit, it turns out, is much simpler to understand, though harder for politicians to demonize, than teachers and other public servants: chronic state underfunding.” Figure 2 in the new report shows that New Jersey and Pennsylvania are the two worst states for making required state contributions from 2001 to 2013.

The benefits provided by the Pennsylvania pension plans were measured by three factors: whether the plans offer inflation protection to retirees, how much benefits increase with each year of service and the amount employees contribute to their own retirement plans. On the inflation protection factor, Pennsylvania’s plans fared worst: 69 of the top 100 plans have some automatic inflation protection, but Pennsylvania’s two plans have none. On the employee contribution factor, the school employees’ pension plan requires employees to contribute 7.5 percent of their salary, more than about two-thirds of other plans, while state employees contribute 6.25 percent, as much or more than half the other plans. Both Pennsylvania plans are in the middle of the pack for the amount by which pensions increase for each year of service (i.e., 2 percent of final average salary).

Average benefits for retirees in both Pennsylvania plans currently fall below $26,000. Keystone’s new pension primer also finds that, while benefits are higher for Pennsylvania’s public employees than for its private sector workers, overall compensation is slightly lower for comparable workers in the public sector because of the large amount by which public wages and salaries trail private ones. “There’s a
reason,” Herzenberg said, “that you rarely hear the phrase ‘I’m leaving the private sector to go make more money.’”

The new report was released in advance of a Public Employee Retirement Commission (PERC) meeting at 4:30 p.m. today that is expected to consider an actuarial report on the version of SB 1 amended and passed over the weekend by the House State Government Committee. An earlier KRC report (pension primer #12 online at www.keystoneresearch.org/pensions) found that the Senate-passed SB 1 would cut benefits for new employees by as much as 70 percent and benefits for existing employees by 24 percent to 28 percent. That primer also found that the proposal would have no meaningful savings that would stand up in court and would end up costing the state and taxpayers more in the long run because of a shift to less efficient 401(k)-style and “cash balance” savings vehicles.

After the PERC meeting, KRC will release an analysis of the amended SB 1. The amended bill still appears to have the same basic flaws as the original, including cutting benefits for new employees by up to 70 percent. “How can we expect to recruit and retain great teachers, nurses and public health workers if their low salaries are combined with pension benefits that fall below $10,000 for many career workers,” Herzenberg asked.

KRC will also release shortly an updated summary of “Key Facts on Pennsylvania Pensions,” which highlights findings from all 13 of KRC’s pension primers released since 2013.

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