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SB 1 Would Make Young Workers Pay for Politicians' Mistakes

PA Public Employee Retirement Benefits Would Be Lowest of Any Large Public Plan in U.S.

(HARRISBURG, Pa.) – Sept. 30, 2015 –Senate Bill 1, a redesign of Pennsylvania's public pension system passed by the General Assembly in June, would make the commonwealth's public employee retirement benefits the lowest of any large public retirement plan in the United States, according to a new pension primer released today by the Keystone Research Center. Although Gov. Tom Wolf promptly vetoed SB 1, negotiations of a compromise pension deal are stalled because Senate leaders remain committed to it.

The brief, authored by KRC Executive Director and economist Stephen Herzenberg, also compares SB 1's benefits to those provided by typical private sector 401(k) plans. "We find that SB 1's benefits would be about 16 percent lower than with a typical private sector 401(k)," Herzenberg said. "This would create obvious problems with recruiting new teachers and other public employees in Pennsylvania. Gone would be the pension advantages that compensate for lower public salaries."

SB 1 would achieve benefits lower than a private 401(k) plan (with lower returns and higher costs than the existing pension plans) for a simple reason: nearly half (40 percent) of the contributions to SB 1 retirement accounts would be forced into a "cash balance" account that, by design, delivers low returns for the employee. This would allow the pension systems to skim excess returns (over and above the amounts credited to employees' accounts) to help pay down the state's unfunded pension liability.

"Essentially, SB 1 steals from younger workers to pay down unfunded liabilities that resulted from policy mistakes made by politicians since the early 2000s," Herzenberg said.

Yet despite artificially repressing returns to young employees' cash balance retirement accounts, SB 1's pension plan redesign would not save significant funds, the primer's analysis found. The savings would come instead from reducing benefits for existing public employees, partly in ways that may be ruled unconstitutional by the courts. The lack of savings reflects the inefficiency of the SB savings accounts.

"In sum, SB 1 is a "three strikes and you're out" pension proposal – harmful to public employees, taxpayers in the long run and to schools and state agencies as employers. On policy grounds, SB 1 should be a non-starter," Herzenberg said.

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