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Senate Bill 1 the Wrong Starting Point for Pennsylvania Pension Changes

Insistence of Lawmakers on Pension Plan That Would Hurt Taxpayers, Public Employees and the Quality of Schools and Other Public Services Is Misguided

HARRISBURG, Pa. -- Republican legislators this week have sought to pressure Gov. Wolf into making Senate Bill 1 the basis of pension changes to be enacted in this year's state budget. In response, Keystone Research Center Executive Director and economist Dr. Stephen Herzenberg released the following statement today:

"While Harrisburg continues to treat the back-and-forth negotiations on pension reform as simply a game of political football, Pennsylvania lawmakers and pension observers need to remember the thumbs-down verdict of pension experts on SB 1 as public policy. The bill would cut pension benefits deeply without saving taxpayers significantly, a losing combination that should have rendered the proposal dead on arrival.

The main findings of pension experts on the impacts of SB 1, drawn primarily from actuarial studies (and summarized in more detail in an earlier KRC fact sheet and pension primer), include the following:

- SB 1 would eviscerate the pensions of future nurses, teachers and other public servants – by as much as 70 percent, according to estimates by the actuary for Pennsylvania's largest public pension system.
- Despite deep cuts in benefits, SB 1 would not substantially reduce taxpayer pension costs. The most significant savings – from reducing benefits for current employees – are likely to be rejected by the courts as unconstitutional. Moreover, deep cuts in future benefits would likely require offsetting increases in wages to maintain competitive compensation for teachers, nurses and other public sector workers.
- By starving the existing pension funds of future contributions, SB 1 could create a multi-billion dollar transition cost, another reason the bill does not benefit taxpayers.
- SB 1 would undercut the quality of Pennsylvania schools and state agencies by robbing them of the one human-resource tool they have for attracting and retaining great employees -- good pension benefits -- which offsets the low salaries of public employees compared to equivalent private-sector workers.

Gov. Wolf opened the door to bipartisan compromise by moving significantly on pensions. His stacked hybrid proposal earlier this month, while also troublesome for future employees, resembled in its basic contours Republican state Rep. Mike Tobash's 2014 proposal. Rather than responding positively to the governor's opening to negotiation of a plan with which both parties could live, Republican legislative leaders returned to a deeply flawed SB 1 proposal that eliminates any secure pension for future public workers. That is not the route to political progress."

Background. The version of SB 1 (Amendment 02701) passed by the Pennsylvania legislature would remove future Pennsylvania state and school employees from the state's existing defined benefit pension (DB) plans. It would establish for each employee a 401(k)-style "defined contribution" (DC) savings account and a supplementary "cash balances" account. The proposed Republican modifications to SB 1 reported this week are minor, slightly increasing employer contributions to the DC and CB accounts. These changes would slightly reduce the cuts in benefits for future employees while costing taxpayers more than the original SB 1.