Pennsylvania Pension Reform Bill Could Backfire, NCPERS Warns

Lost Spending by Retirees under Proposed Law Would Harm State’s Economy

Harrisburg, Pa. – The National Conference on Public Employee Retirement Systems (NCPERS) today warned Pennsylvania lawmakers that SB 1, a pending pension reform bill, could inadvertently increase income inequality and undermine the state’s prosperity.

“The kind of reforms proposed in SB 1 in Pennsylvania will be harmful to the Pennsylvania economy,” said Hank Kim, Esq., executive director and counsel of NCPERS, in testimony submitted to the State Government Committee of the Pennsylvania House of Representatives. “In the end everyone in Pennsylvania will suffer, not just public employees.”

Kim cited a study conducted by NCPERS that showed a strong correlation over three decades between the declining number of workers covered by defined benefit pension plans and the growing income gap between rich and poor Americans. The study, “Income Inequality: Hidden Economic Cost of Prevailing Approaches to Pension Reforms,” examined national trends in pension changes, income inequality, and economic growth in the 1980s, 1990s, and 2000s, as well as trends in each of the 50 states from 2000 to 2010.

“SB 1 proposes to reform pensions further in several adverse ways, including proposing to convert defined-benefit pensions into defined-contribution plans, in the hope of saving money,” Kim said. If the proposed changes are adopted in Pennsylvania, the loss to the economy would equal approximately $110 billion by the time amortized pension liabilities are paid off, a period of about 30 years, he noted. This figure was derived by applying the NCPERS study model, which is based on the experience of 50 states, to the specific changes proposed in Pennsylvania.

“We urge Pennsylvania to investigate this matter thoroughly and conduct a study on the likely economic impact of the pension changes proposed in SB 1,” Kim said.

Kim added that rather than diminish pensions, Pennsylvania should consider closing tax loopholes. He pointed to a 2014 study of 10 states, including Pennsylvania, by Good Jobs First,
which showed that on average states gave away twice as much in economic development subsidies and loopholes as they were required to pay into annual pension contributions.

“Wealthy taxpayer money given through loopholes and subsidies often ends up in overseas tax havens, pension checks are spent locally and stimulate local economies,” Kim stressed. “Pennsylvania’s legislature might want to consider a study that examines how much is given away in tax subsidies and through loopholes and whether closing these loopholes will result in closing the pension funding gap,” he said.

SB 1 was approved by the Pennsylvania Senate on May 13 and referred to the State Government Committee of the Pennsylvania House of Representatives. The State Government Committee conducted a hearing on the issue today. If approved by the House and enacted as law, the bill in its current form would create a side-by-side hybrid pension plan for future state and school employees and a defined contribution plan for legislators first elected or re-elected after Jan. 1, 2016; modify benefits for current state and school employees; and create a Public Pension Management and Asset Investment Review Commission.

About NCPERS

The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public sector pension funds, representing more than 500 funds throughout the United States and Canada. It is a unique non-profit network of public trustees, administrators, public officials and investment professionals who collectively manage more than $3 trillion in pension assets. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders.

###