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This pension 'reform' will take time

By Colin McNickle

Pension reforms passed by the Pennsylvania Legislature won't give the commonwealth and its school districts any budgetary relief for the next decade or more, an analysis by the Allegheny Institute for Public Policy concludes.

But if current projections bear out, the commonwealth's two statewide pension systems will be close to or more than 100 percent funded in 2050, scholars at the Pittsburgh think tank say (*in Policy Brief Vol. 17, No. 28*).

The Public School Employee Retirement System (PSERS) is 60.5 percent funded while the State Employee Retirement System (SERS) is 59.4 percent funded, based on 2015 data, the latest available, note institute president Jake Haulk and Eric Montarti, a senior policy analyst there.

"By 2030, the actuarial tables that accompany the (Act 5) legislation forecast that funded ratios will rise 15 to 20 points to place them at 72.2 percent and 78.1 percent, respectively," they say.

"By the end point of the projection period, 2050, the ratios would be close to or over 100 percent funded *if the projections hold and that depends on how close to reality the assumptions turn out to be*," Haulk and Montarti stress.

Effective Jan. 1, 2019, new SERS-covered employees will be offered three pension plan options – a defined-contribution plan and two hybrid plans, the latter of which combine features of defined-contribution plans with those of defined-benefit plans. New PERS-covered employees will be offered the same beginning July 1, 2019.

Several aspects of the new pension plans – the employer and employee contribution rates; vesting period; whether overtime is counted; retirement age; years of service and the nature of the benefits – will differ from the plan for existing employees (who, by the way, can opt in to one of the Act 5 programs).

“A principal change brought about by Act 5 is that some of the risks associated with investments, longevity changes and inflation are shifted to employees in their defined contribution component,” the think tank scholars note. “And longer term, the plan becomes more fiscally stable – absent legislative tinkering that reverses the advantages offered government by the defined contribution component.”

Still, Haulk and Montarti say employer (i.e. taxpayer) contributions are projected to rise for another 15 years after the new program goes into effect. That’s because of a requirement to reduce the unfunded liabilities through very large annual employer contributions.

“In short, over the next decade or more, the commonwealth and school districts will face a continuation of budget problems as they deal with the massive unfunded liability issue,” they say.

Haulk and Montarti also remind that there’s still “another year or so of employees joining the workforce and becoming enrolled in (the current defined-benefit) pension systems before the changes take effect in 2019.”

Additionally, the Allegheny Institute scholars say that since the Pennsylvania Constitution’s language on the impairment of contracts has been interpreted to apply to pension benefits, “most reforms are forward looking and thus take a long time to show improvement.”

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