

Pennsylvania Local Government Pension Distress

January 2011

Public pension reform is central to competitiveness

Pennsylvania local government fragmentation

Number of Local Governments in Neighboring and Competitor States

- PA has the second highest number of local governments in the nation.
- The 10-county SWPA region alone has more local governments than 22 states.

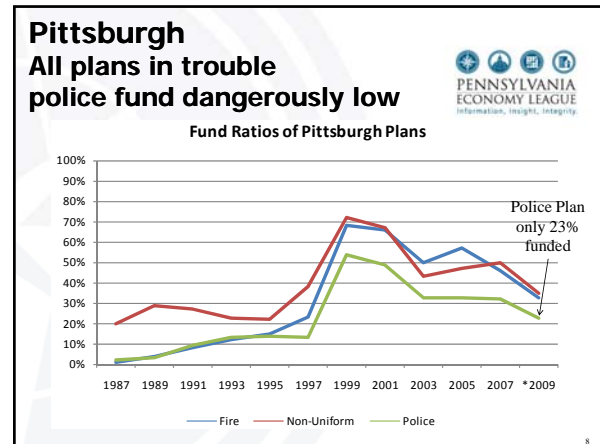
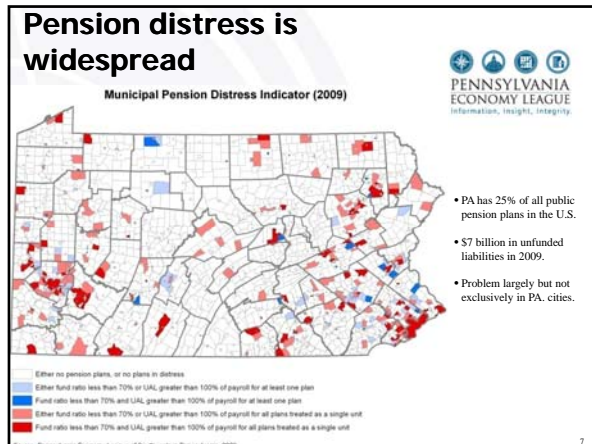
Financial stress by the numbers

- 26 municipalities have been declared distressed under Act 47
 - Most recent additions: Reading, Harrisburg.
- Only 6 have emerged from Act 47 since 1987
- Many, many more financially stressed but not yet Act 47
 - Pennsylvania Early Intervention Program
 - PELSW Municipal Stress Index
 - PELSW Pension Plan Distress Analysis

Financial stress is widespread

Created by the Pennsylvania Economy League of Southwestern Pennsylvania, April 2010

5 million Pennsylvanians live in financially stressed places – 40% of population



Consequences of inaction

- Unfunded liabilities (2009)
 - Philadelphia – \$4.9 billion
 - Pittsburgh – \$0.7 billion
 - Balance of Pa – \$1.4 billion
- If nothing is done to address the problem, either:
 - Service Reductions...
 - ...or Tax Increases.

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Public School Employees Retirement System (PSERS)

- Established by the Pennsylvania Public School Employees Retirement Act of 1917
- Independent administrative board of the Commonwealth governed by a 15-member board of trustees
- All full-time and qualifying part-time public school employees are eligible to participate
- 260,000 active and 500,000 total members (including retirees and other beneficiaries)

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Act 120 (2010) provisions

Actuarial/funding changes:

- Creates annual rate increase caps
 - 3.0% in FY 2011/12
 - 3.5% in FY 2012/13
 - 4.5% in FY 2013/14 and thereafter until no longer necessary
- Re-amortization of liabilities over 24 years using level percent of pay instead of level dollar amortization
- Actuarial gains/losses smoothed over 10 years instead of over 5
- Prohibits pension obligation bonds to fund PSERS liabilities

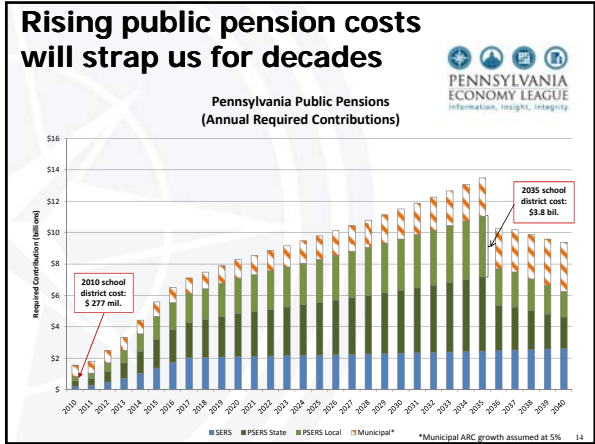
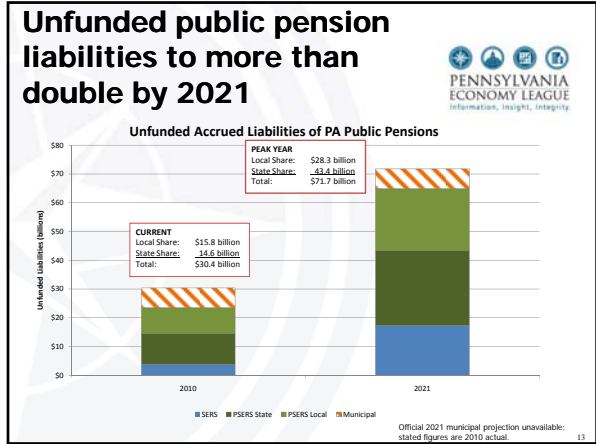
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Act 120 (2010) provisions (cont.)

Benefit changes (affecting post-legislation new hires only):

- Reduces benefit multiplier from 2.5% to 2.0%
 - Employees opting for 2.5% multiplier must contribute 10.3% of pay instead of 7.5%
- Risk sharing implemented
 - Employee contribution rate may increase based on PSERS fund market performance – increases capped at 2.0%
- Retirement age raised from 62 to 65
- Prohibits lump sum withdrawals upon retirement

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Lancaster County school district and taxpayer increases

District	2010 Contribution	2015 Contribution	2010 Tax on \$200,000 House	2015 Tax on \$200,000 House	2010-2015 Change
Hempfield SD	\$1,110,933	\$4,922,504	\$64	\$282	\$219
Lancaster SD	\$1,430,626	\$6,339,049	\$124	\$549	\$425
Manheim Township SD	\$833,955	\$3,695,224	\$55	\$242	\$188
Penn Manor SD	\$736,625	\$3,263,957	\$63	\$278	\$215
Warwick SD	\$648,983	\$2,875,619	\$68	\$301	\$233
State Average	\$489,821	\$2,170,376	\$80	\$355	\$275

Prospects for Reform

- The Economy League would like to see legislation that contains several key provisions:
 - Cost controls – longer vesting and superannuation periods, increased retirement ages;
 - No benefit plan enhancements permitted unless a plan is at least 90% funded;
 - Municipalities should be authorized to offer an optional defined contribution plan to all employees; and
 - Benefits based on regular, base salaries – not to include overtime, longevity, etc. (i.e., anti-spiking).

Thank You.
Questions?