

## Safeguard the promise of a secure pension system

Retirement benefits that provide education employees with post-employment income security are critical to the growth and maintenance of a well-trained and stable workforce in public education. To support this objective, PSEA urges the Commonwealth to continue to maintain a traditional defined benefit plan, as presently administered by the Public School Employees' Retirement System (PSERS).

### PSEA Recommendations

- Maintain the present defined benefit pension system for current and future school employees.
- Work with the General Assembly to get an affordable funding plan under which the employer pension rate will increase to traditional levels.
- Support the PSERS Board in adopting a more conservative earnings assumption that will help to stabilize the employer pension rate in future years.
- Work to get Pennsylvania back on track by granting periodic cost-of-living adjustments (COLAs) to help protect the incomes of PSERS retirees.

The PSERS benefit plan encourages individuals to become and remain educators, thereby ensuring a stable and highly qualified workforce in our public schools. It promises public school employees a secure and predictable lifetime annuity in retirement that is based on their salary and years of service.

Funding for PSERS comes from three sources: (1) employers, as represented by the Commonwealth and school districts, (2) school employees, and (3) earnings on investments. Prior to 2001, the Commonwealth, school districts, and employees each picked up about one-third of the cost. The combined employer pension rate averaged 12.67 percent between 1960 and 2001; and, the employee rate prior to 2001 was 6.25 percent.

The system was working well and the Legislature was even able to grant periodic cost-of-living adjustments to retirees, as well as a series of "30 and out" early retirement windows.

During the late 1990's, PSERS had average earnings of 15 percent each year over a five year period. This resulted in the system becoming 123 percent funded and a falling employer pension

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rate. The employee rate was increased to 7.5 percent in 2001 to cover the ongoing cost of an increase in pension benefits, while the employer pension rate for 2001-2002 was allowed to drop to zero percent.

An economic downturn in the early years of the decade and investment losses threatened to push the employer pension rate back up to its previous levels. However, the Legislature in 2002 and then again in 2003 passed legislation to push off paying pension liabilities in order to maintain an artificially low employer pension rate.

The Joint State Government Commission indicated in 2004 that without contributions set at a rate to cover normal costs, funding pressures would increase. Despite the warning, the employer pension rate has averaged 3.53 percent from 2001 to today. As a result, the PSERS funding level has dropped from 123 percent to less than 80 percent, as employers have continued on a “pension holiday,” and there were no reserves built up to help sustain the system during the recent market crash.

School employees have been contributing their fair share of retirement contributions during this entire period of time. In fact, over the last decade, school employees have contributed twice as much as the Commonwealth and the districts combined.

Pennsylvania’s elected officials need to demonstrate their commitment to a long-term, secure funding plan for PSERS. We learn from history or we ignore it at our peril. PSERS history shows that PSERS is most financially sound when districts, the state and public school employees are equal contributing partners. At the very least, the employer should pay the cost of benefits accrued each year, rather than employing funding gimmicks. Consistency is the path to solvency for the pension fund and retirement security for hundreds of thousands of public school employees.

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