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State trying to fix pension problem with a long history

By **TOM JOYCE**
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York, PA - Evelyn Miller of Springfield Township said the prospect of getting a pension wasn't one of the factors that led her into teaching.

When she graduated from teacher's college in 1970, retirement was far from her mind. Foremost in her thoughts was a kindergarten teacher who had been a big influence in her life, and her desire to be a similar influence in the lives of her pupils.

Since she retired in June of 2005 after a career spent mostly teaching young children in Dallastown, she's come to appreciate the pension fund that she paid into all those years.

"Without that, it would be difficult," Miller said.

Anyone who becomes a teacher come the start of 2011 will get considerably less in the way of pension than current retirees, after the state House of Representatives passed a bill last week that refinanced two pension funds: one for public school employees and one for state workers.

All state workers -- including appointees of incoming Gov. Tom Corbett, state police, PennDOT employees and newly elected state lawmakers -- who come on board after Jan. 1 will face similar pension cuts.

The bill had already passed by a wide margin in the Senate, and passed by a wide margin in the House as well. The goal was to reduce a spike in pension payments that would have cost the state about \$6

billion through the 2017-18 fiscal year.

Some observers, notably the Commonwealth Foundation conservative think tank, have criticized the measure as costing Pennsylvania more money in the long term, tantamount to "saving" money by not making credit card payments.

But most state lawmakers said the measure was necessary to prevent a legally mandated financial burden that the state simply wouldn't be able to bear in this economy.

So how did this situation come about in the first place?

Good years and bad years

A traditional folk song called "The Arkansas Traveler" describes a traveler who encounters an old man sitting in a cabin with rainwater pouring through a leaky roof.

The traveler advises the old man to patch his roof, which the old man says he can't do when it's raining. The traveler then suggests the old man patch it on a sunny day, to which the old man replies that there's no need because it doesn't leak on sunny days.

Steve Nickol, assistant director of the Pennsylvania State Education Association's retirement programs, says a similar mindset in Harrisburg contributed to the pension crisis that last week's bill was meant to rectify.

In bad economic times, state lawmakers avoided shoring up the funds because the state couldn't afford it. And in good times, they avoided it because, well, times were good and there was no immediate need.

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According to Nickol, both pension funds have three sources of money: employer contributions, meaning money from the state and from school districts; contributions from the employees themselves; and the investment earnings from the funds.

He attributes the pension crisis to three factors. The first was a cut in state contributions to the plans, which started in the late 1990s. The second was back-to-back recessions: the one in the wake of the 2001 terrorist attacks and the one that came after the bank collapse of 2008.

To a lesser degree, an increase in pension payouts from 2001 also led to the crisis, Nickol said.

Nickol, as a former state lawmaker from Hanover, was there to witness most of it. The whole downward spiral started precisely because the pension funds were doing so well, he said. For five straight years in the late 1990s, both funds earned more than 15 percent on average. So lawmakers cut the employer contributions, on the grounds that they weren't necessary.

From 1960 until 2001, Nickol said, the average employer contribution to the public school employees' pension fund was 12.39 percent. From 2001 to the present, that average dropped to 3.47 percent.

Then came the first of the past decade's recessions, and the funds' earnings plummeted.

At that point, the employer contributions should have increased. But the state legislature passed legislation to keep the contributions artificially low through 2012, on the justification that the state couldn't afford the expense and the economy would surely recover in the years ahead.

And the economy did recover, Nickol said. From

2004 to 2007, the pension funds' investment earnings edged up past their annual return assumption of 8 percent. Then came the 2008 collapse, which sent them plummeting once more.

At that point, Nickol said, state lawmakers couldn't simply renege on the back-payments they owed going back to 2002. The state Supreme Court has ruled that public pensions are essentially a contract between employer and employee, and promised benefits must be delivered.

"Now there was a huge cliff in 2012," Nickol said.

And last week's legislation eliminated that cliff, Nickol said -- or at least reduced its height to a reasonably safe level.

Growing pool of retirees

Dennis Baughman, a former superintendent of the Northwestern School District who's now the coordinator for Penn State York's graduate program in education, argues that the underlying cause of the pension crisis goes back further than the late 1990s.

He traces it back to the 1970s, when the state increased the "multiplier" used to calculate pension rates for state workers and school employees from 2 to 2.5.


Beyond that, he said, the underlying flaw in the system is the same one that's plaguing Social Security. Basically, people are living longer and a dwindling pool of younger people are paying for their elders.

Teachers, for example, can get full retirement after 35 years of service, Baughman said. So you could have people retiring at the age of 55 and collecting a pension for decades to come. Meanwhile, you've

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got districts trying to reduce the number of teachers to cut costs.

Baughman said one of the ostensible reasons for having a teacher's pension in the first place was the fact that teaching was a historically low-paying profession, and the pension recipients would need something to support them in retirement. These days, he said, it's highly debatable whether that justification applies any more.

Still, judging by the aspiring educators Baughman sees in his current job, he doubts the prospect of reduced pension benefits will thin their ranks much.

"I think students coming out of college know that's one of the benefits they get," he said of the teachers' pension. "I don't think they understand or even think about the details."

Pennsylvania's two state pension funds

--- Name: State Employees Retirement System
For: All state employees who aren't part of the public school system

Number of active members still contributing to the system as of 2009: Slightly more than 110,000
Retired members: Slightly less than 110,000
Average age of active members: 46.5
Average age of retired members: 73
Average years of service for active members: 12
Average annual benefit: nearly \$23,000
Total fund: \$23.7 billion as of June 30
2009 investment return: 9.1 percent

--- Name: Public School Employees' Retirement System
For: All public school employees
Number of active members still contributing to the system: 279,000

Retired members: Slightly less than 177,963
Average age of active members: 44.6
Average age of retired members: 69.8
Average years of service for active members: 10.6
Average annual benefit: nearly \$22,456
Total fund: \$45.8 billion as of June 30
2009 investment return: 14.95 percent as of June 30

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