Testimony for Public Hearing
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S. B. 1 Pension Reform Legislation

Chairman Metcalfe, Chairman Cohen and members of the State Government Committee: Good morning and thank you for the opportunity to address all of you today regarding pension reform.

My name is Jon DeArment, and I am a proud Pennsylvania native. I am also the President and Chief Operating Officer of Channellock Inc. We are located in Meadville where our nearly 400 employees forge, machine, heat treat, finish, and distribute our high quality hand tools to over 45 countries worldwide. We like to say our pliers are Fiercely Made in Meadville, PA. In addition, as a parent of 3 children, I serve on the Crawford Central School Board in my local community.

I've been a school board member for nearly five years and like so many other districts, we've certainly had our share of budget challenges. We've had to make tough choices, like asking our teachers to pay more towards their health insurance. These changes required intense negotiations for over 3 years with our teachers that without a doubt had a negative impact on the morale and atmosphere in our school buildings.

We've also had to close one of our valued community's elementary school buildings. This also did not go over well in our community and was a very difficult decision our school board had to make. These actions although not popular were necessary and a result of these rising pension costs which are outside our control at the local level.

Many people assume that the problem is simply that we are underfunding the k-12 public education system. But, as counterintuitive as it may seem, the root cause of these problems is not a shortage of taxpayer dollars, but escalating pension payments.

As you are well aware, public school funding has been ***increasing***—in fact it's at an all-time high. However, in my view, those dollars haven't always been spent in ways that would best benefit our children.

To provide the quality education our students deserve, we must address the elephant in the room: public sector pension costs.

The pension crisis is swamping our district's budget, driving calls for higher taxes and cuts to programs and faculty, including outsourcing our technology department and substitute teacher services.

I would like to share some figures with you. During my five years on the School Board at Crawford Central, total pension contributions skyrocketed from more than **six hundred fifty thousand dollars ($650,000)** during 2010-2011 budget year to an estimated **one point nine million dollars ($1.9 million)** in the 2014-2015 budget year. Initial estimates for the 2015-2016 budget year are **nearly two point three million dollars** ($2.3 million). That is an increase of three-and-a-half times in just five years!

And please keep in mind that these amounts are the net costs to the district after state reimbursement of approximately 50%.

Rising pension costs make it harder to balance the budget each year without raising property taxes. As pensions continue to consume a larger percentage of state and local budgets, vital government services are crowded out. Worse, it's impacting the quality of education our children are receiving due to the cuts in programs and staff to offset pension increases.

I think it is fair to ask the question, “What’s being done to fix this crisis?”

Respectfully, Governor Wolf’s proposed budget largely ignores the pension problem. Instead of offering a sustainable solution, the Governor’s budget includes a variety of middle class tax hikes with paltry promises of property tax relief. The net result is an increase in the size of state government. All together, the Governor’s tax increases will raise twice as much revenue as school tax relief. Plus, local school districts can ***and will*** continue to raise property taxes.

The Governor’s budget does propose $3 billion in pension obligation bonds. Unfortunately, this approach runs the risk of worsening the state’s financial position, and does nothing but kick the can further down the road. Pension obligation bonds are not a long-term solution—they are analogous to paying off your mortgage with a credit card. Pennsylvania taxpayers should not be exposed to the very real possibility that stock market returns fail to exceed the interest payments on the bonds.

Thankfully, there is a better solution. Senate Bill 1 would go a long way toward repairing Pennsylvania’s broken retirement system, while also providing a stable, secure retirement for current and future employees. Instead of continuing to overpromise and underfund, SB 1 would take local districts off of the roller coaster by providing newly hired teachers with a defined contribution plan similar to a 401(k). This legislation also makes reasonable changes to future benefits of current employees. SB 1 also expands Act 120’s anti-spiking protection to all employees—an important step to protect taxpayers from excessive pension costs.

Most private sector employers made the transition to defined contribution plans years ago. As the President and Chief Operating Officer for Channellock Inc., I speak from experience. Our family owned company, which has been in business for 5 generations and more than 129 years, switched to defined contribution plans in 2006 with our nonunion employees and in 2008 with our union workforce.

Even after all these years, we are still faced with the high costs of a frozen defined benefit plan due to increased regulatory costs or PBGC premiums. But we recognized the problem and took action to reduce the financial risk of sustaining the defined benefit plan in an effort to remain a viable employer in the community. In addition, we continue to offer a competitive 401(k) retirement benefit to our valued associates and a competitively priced product for our customers.

The bottom line is this: defined contribution plans are ***predictable and capable of delivering a secure retirement.***

Under SB 1, school districts will no longer be victims of political manipulation or vulnerable to stock market volatility. Teachers will be protected from lawmakers who may find it politically expedient to underfund the pension system. In 401(k)-style plans, all funds promised to an employee are paid up front and become the employee’s property.

Most importantly, SB 1 does not take away any earned benefit from employees or retirees. A defined contribution retirement plan gives employees complete ownership of their retirement future. It also provides increased portability in the event that an employee decides to change careers.

What’s more, we must not lose sight of the fact that teachers and state employees are taxpayers just like everyone else. If the pension crisis is not addressed in a responsible fashion, they will feel the pain of increased taxes, too. In many respects, state workers are already feeling the pain—since thousands of school employees have been laid off and other state programs have been cut in order to meet pension payments.

We all want to see our schools thrive. We want our teachers, support staff, and school administrators secure in their retirement. And we want to protect our families from rising taxes. Real pension reform can achieve that.

Mr. Chairman, members of the committee, it is time to face the elephant in the room and get politics out of the pension system. Lawmakers must make the changes necessary to not only secure the future retirement of our educators, but also the financial solvency of the Commonwealth.

Thank you for your time and the opportunity to speak with all of you. I welcome any questions you may have.