Testimony of the
Service Employees International Union
Local 668

Presented to the
House State Government Committee
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Public hearing on SB 1

By
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Chairman Metcalfe, Chairman Cohen, members of the House State Government Committee, please accept this testimony on behalf of the Service Employees International Union Local 668.

As you may know, SEIU Local 668 represents nearly 20,000 health and human services workers, employment and youth counselors, social workers, corrections and probation officers, ChildLine caseworkers, 911 dispatchers, drug and alcohol counselors, and court employees, among other vocations. Approximately half of those workers are employed by the Commonwealth, and the remainder work for municipal, county, and private employers. The workers we represent take the pension debt situation very seriously. The ongoing and prolonged debate of how to address the pension debt in the State Employees' Retirement System (SERS), [as well as the Pennsylvania School Employees' Retirement System (PSERS)] will affect not only the lives of the thousands of State workers we represent, but also have a broader economic impact on Pennsylvania.

In testimony previously submitted to this Committee on March 24, and to the Senate Finance Committee on April 15, I outlined both the causes of the pension debt, as well as the long-term impact of weaker retirement savings plans on those that need them most. In sum, the contributions by employers to PSERS and SERS were ignored and deferred for almost a decade. While the employees contributed their full share toward their retirement benefit with every paycheck, their employers provided only about half the amount recommended by actuaries. Those decisions to "kick the can down the road," have resulted in the accrued liabilities that exist today. State government is responsible for the creation of this debt problem, not its employees.

In addition, as you know, this is not the first time a Pennsylvania Governor, Legislature and the public have discussed the concept of pension reform. In 2010, with the support of SEIU, Act 120 was passed with bipartisan support and signed by Governor Rendell. Despite making their complete contributions and not being responsible for the pension debt, the members of SEIU and other public sector workers made historic sacrifices to lower costs to taxpayers. Now, after public workers have sacrificed to help, their punishment is further attacks on their retirement security.

The 20 percent cut to the retirement security of nurses, school employees, social service workers and other members in PSERS and SERS since Act 120 took effect reduces costs to the state by 60 percent. As a result, the cost to the employer for providing pension benefits for new school employees, for example, is less than 3 percent of payroll, which is incredibly low. Just as importantly, none of the pension debt – which is the real problem - is associated with the retirement benefits of those new school and state employees hired after Act 120.

In addition to the sacrifices made by new public employees in Act 120, the law created a roadmap of predictable employer contributions to repay the pension debt in PSERS and SERS. Unfortunately, proposals have been repeatedly introduced and debated that would break this promise to workers and the public. Workers have done their part to

help end the burden, now it's up to the Legislature to step up and honor the commitment to their employees when they were hired.

We are astounded at the Senate's display of the Corbett-era pension reform mentality – blame both public servants and the pension system itself for the pension debt, then try to ram a bill through the General Assembly that does not actually address the underlying debt but does weaken retirement security for public employees.

Neither this hearing nor the current conversations on the pension debt problem in the Capitol should be a referendum on the effectiveness of the defined benefit pension plan as a retirement savings vehicle. Numerous studies have proven its efficacy over time – when these funds are properly managed. Systematic mismanagement in the form of State agency employer underfunding over a decade-long period – as has been the case in Pennsylvania – cannot be solved by redesigning a system that fundamentally, does not need a redesign.

Moreover, while several bills have been introduced or discussed that would close PSERS and SERS to new employees, reduce benefits or create a hybrid model, all have a significant flaw; none will provide any substantial reductions in the pensions' unfunded liabilities, and some could make the debt much worse.

Senate Bill 1 is simply more of the same, at a time when Pennsylvanians can least afford more of the same. Addressing the pension debt problem most likely requires additional revenue, strategic borrowing, strategic cuts, or likely some combination of the three. However, any feasible solution cannot legally, or morally, be imposed on the backs of those currently in the system. We must state, unequivocally, that the reduction in the benefits of current employees is also unconstitutional, as per Article 1, Section 17 of the Pennsylvania State Constitution, which prohibits the impairment of contracts by the State Legislature. In Illinois and Oregon, similar proposals were struck down by their state's respective high courts as unconstitutional within the past two months. Not only is this proposal legally and ethically unfavorable, it is likely to cost taxpayers court fees as well.

By forcing State workers to choose between paying more to maintain their existing benefit level or reducing their benefits, Senate Bill 1 puts State workers on the hook for the problem created by legislators. This is worse than the public narrative that blames public workers for the pension debt problem rather than legislators. This actually forces public workers to solve a problem they did not create, nor can afford to solve.

We are concerned about provisions for new workers as well. Senate Bill 1 would cut retirement savings for new workers by two-thirds. As the average pension for workers now is $25,000, this proposal would provide those who have spent a lifetime in public service with just over $8,000 a year. These workers provide valuable services to the impoverished, the mentally and physically disabled, children, seniors, and other vulnerable population, at compensation levels lower than their private sector counterparts. Is this how we reward those who take care of our State's most vulnerable citizens?

This plan does nothing to pay the debt down any faster than any other proposal or law, including Act 120. Moreover, recently Alaska, Michigan, and West Virginia switched from defined benefit pension plans to defined contribution plans for teachers and public employees, which is a provision of Senate Bill 1. Each State experienced more pension debt, higher taxpayer costs, or both.

An oft-repeated argument in favor of so-called "pension reform" is that we cannot burden future generations with the pension debt created by this generation. We cannot continue to kick the can down the road. We agree with that. However, when you weaken retirement security, you merely shift the debt. A recent study[i] noted that 9 of Pennsylvania's 10 largest cities have more (public) pensioners than workers. Our retirees stay in Pennsylvania and spend their money here. NIRS estimated that in 2012 each dollar paid out in state and local pension benefits supported $1.80 in total economic activity in Pennsylvania, 121,615 jobs (or 1.9% of the 2012 workforce levels), $17.5 billion in total economic output, and $2.3 billion in federal, state, and local tax revenue[ii]. Reduce their dollars by two-thirds and you not only lose the benefits to their local economy, you place retirees in poverty. You shift the burden to the State who now must provide public assistance to retirees who can no longer work. Senate Bill 1 continues to kick the can of pension debt down the road, just in a different fashion.

As the voice of nearly 10,000 State employees, we will continue to advocate for the retirement security of our members. We support discussions about strengthening the three-legged stool of retirement security - pensions, 401ks, and Social Security. Defined benefit pensions themselves are structurally viable, and we believe it is incumbent on the State Legislature work with Governor Wolf on pension proposals that leverage revenue enhancements and cuts to address the pension debt over time. As I have said previously, the pension system is not broken, nor is it in need of reform. It is the best retirement savings vehicle for workers, and should not be restructured for political expediency.

Governor Wolf has laid out a roadmap for addressing the pension debt – part of which involves the creation of a dedicated funding stream to pay it down. On behalf of the 20,000 health and human services workers SEIU Local 668 represents, I ask that you oppose SB 1 and instead explore the ways in which that funding stream can be created to pay down the debt during these and other upcoming discussions.

Thank you.

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[i] "Nine of Pennsylvania's 10 largest cities have more pensioners than workers" (http://watchdog.org/207916/pension-pa-york-cities/)

[ii] "Pensionomics 2014: Measuring the Economic Impact of DB Pension Expenditures" (http://www.nirsonline.org/storage/nirs/documents/Pensionomics%202014/pensionomics2014_final.pdf)