Testimony

Submitted on behalf of the
Pennsylvania Chamber of Business and Industry

Public Hearing on Senate Bill 1

Before the:
Pennsylvania House State Government Committee

Presented by:

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Chairman Metcalfe and members of the Committee, my name is Sam Denisco and I am Vice President of the Pennsylvania Chamber of Business and Industry. The PA Chamber is the largest, broad-based business advocacy association in Pennsylvania. We represent employers of all sizes, crossing all industry sectors throughout Pennsylvania. Thank you for the opportunity to testify today on Senate Bill 1.

The increasing costs associated with Pennsylvania's public pension systems represent the greatest threat to the fiscal health and stability of our Commonwealth. The cost borne by taxpayers to fund the State Employees' Retirement System and the Public School Employees' Retirement System is increasing precipitously and the unfunded accrued liability is over $53 billion and growing. While numerous factors led the state pension systems to this perilous position – including years of underfunding, a retro-active upgrade in benefits and lower than anticipated investment returns – it is clear that addressing this public policy crisis will require concerted attention and meaningful action.

The Commonwealth's public pension crisis affects all Pennsylvanians and its impact will be more acute in the years ahead unless substantial reform is enacted to mitigate increasing costs and address the unfunded liability. Schools are impacted, as a growing portion of school district budgets must be allocated to fund the local share of pension obligations, pulling scarce resources away from classrooms and students. The

Commonwealth itself is impacted, as Pennsylvania's credit has been downgraded by the major credit rating agencies, which cited state pensions as a significant factor; and lower bond ratings mean higher costs to borrow money. Some have suggested that changes to the state pension systems adopted in previous sessions are sufficient and the status quo is acceptable. And yet it stands to reason that if the major credit rating agencies shared this interpretation of existing law, they may not have come to the conclusion that Pennsylvania's credit should be among the worst in the country.

The Commonwealth's taxpayers, which include thousands of job creators, are and will continue to be impacted, as rising costs have precipitated and will continue to require considerable additional revenue and higher taxes at the local and state level.

To be sure, taxpayers are already feeling the pinch from the rising cost to fund public employee retirements. For the 2014-2015 school year, the Pennsylvania Department of Education granted exceptions to 164 school districts allowing those districts to raise property taxes beyond 2.1 percent, the rate set under Act 1 of 2006. Nearly all of these school districts cited pension costs as the reason school property tax increases beyond the Act 1 index were necessary. At the state level, pension obligation costs represent an ever-growing portion of state expenditures, resulting in budget deficits and prompting proposals to create new taxes or increase existing taxes simply to cover these costs.

Employers of all sizes are sensitive to any change to the cost of doing business in Pennsylvania, including higher taxes. Increasingly, employers in the Commonwealth are recognizing the threat posed by rising public pension costs and the prospect of this public policy crisis ultimately harming economic development and job creation. The PA Chamber surveyed 259 of our members from Feb. 24 to March 20, 2015 and one of the questions directed respondents to identify the top two legislative issues on which they believed PA Chamber advocacy should focus. The second most popular response – trailing only businesses taxes – was state pension reform. Pension reform has never ranked so high in previous surveys in which PA Chamber members were asked to identify top legislative priorities and it is clear that more and more Pennsylvanians are realizing the unsustainable burden imposed by the cost to fund these systems.

The PA Chamber supported passage in the Senate of S.B.1, which we believe would put the state pension systems on a path to become more stable and sustainable. According to Pennsylvania's Public Employees Retirement Commission, S.B. 1 is projected to produce $18.3 billion in savings over 30 years through a number of changes including: transitioning new employees to a defined-contribution plan; providing current employees the option to increase their contribution rate or return their prospective benefits to where it existed before ill-conceived enhancements were

enacted as part of Act 9 of 2011; some common-sense reforms such as an anti-spiking provision that would prohibit beneficiaries from artificially inflating through overtime and other extra duty service their wages in the final years in which pension benefits are based; and the establishment of a Public Pension Management and Asset Investment Review Commission.

In particular, the PA Chamber supports transitioning new employees to a defined-contribution plan. The workplace has evolved tremendously over the years, including worker demographics and the tendency for modern employees to frequently change jobs and careers during their professional life. Much of the private sector has acknowledged these changes by adopting retirement plans that reflect this new reality – plans that are more portable and provide more discretion for the employee to make decisions concerning savings and retirement age. Senate Bill 1 represents a long overdue acknowledgment of this reality in the public sector.

Again, thank you for the opportunity to testify. I would be happy to answer any questions.