

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE RESOLUTION

No. 266 Session of
2001

INTRODUCED BY NICKOL, JUNE 21, 2001

INTRODUCED AS NONCONTROVERSIAL RESOLUTION UNDER RULE 35,
JUNE 21, 2001

A RESOLUTION

1 Directing the Public Employee Retirement Commission to undertake
2 a study relating to the nature of Pennsylvania's current
3 defined benefit pension plans versus defined contribution
4 plans.

5 WHEREAS, The Commonwealth of Pennsylvania maintains two
6 Statewide pension plans, the Public School Employees' Retirement
7 System (PSERS) and the State Employees' Retirement System
8 (SERS); and

9 WHEREAS, Nearly all full-time and part-time public school
10 employees are required to join PSERS and most full-time and
11 part-time State employees are required to join SERS; and

12 WHEREAS, Both systems are financed through employer and
13 employee contributions and investment earnings, with the
14 employer rate being variable based upon actuarial experience and
15 investment returns; and

16 WHEREAS, The PSERS employer rate has decreased from 20.04% of
17 payroll in 1985-1986 to 1.94% in 2000-2001, the SERS employer
18 rate has decreased from 18.09% in 1983 to 1.39% in 1999 and both

1 systems currently have assets in excess of actuarial accrued
2 liabilities; and

3 WHEREAS, Nearly all full-time and part-time public school and
4 State employees have the option to participate on a voluntary
5 basis in either an IRS 457 or 403(b) defined contribution plan;
6 and

7 WHEREAS, Defined benefit (DB) plans have been established in
8 every state, and defined contribution (DC) plans have become
9 more popular following the market strength of the last two
10 decades; and

11 WHEREAS, The features of DC plans make them attractive to
12 employers in terms of the avoidance of unfunded liabilities
13 currently paid off at the taxpayer's expense, more precise
14 budgeting, fixed employer costs, a risk shift to the member,
15 improved recruiting tools and a potential loosening of political
16 pressures for increasing employer-paid benefits; and

17 WHEREAS, The features of DC plans make them attractive to
18 employees in terms of their portability, shorter vesting
19 periods, more flexibility and control over investments, the
20 potential ability to accumulate wealth to pass on to
21 beneficiaries, a wide range of distribution options and ease of
22 understanding; and

23 WHEREAS, The features of DB plans make them attractive to
24 employers in terms of retaining older, long-service and skilled
25 employees, designing benefits for special target groups,
26 recognizing past service, the ability to provide early
27 retirement incentives and the most efficient use of investment
28 talent; and

29 WHEREAS, The features of DB plans may make them attractive to
30 employees in terms of providing a secure, well-defined benefit,

1 a benefit payable for life, protection from inflation through
2 the ability to pay subsequent cost-of-living adjustments
3 (COLAs), the existence of death and disability benefits and the
4 inability to decrease the benefit once the member is vested; and

5 WHEREAS, Since the Congress of the United States created the
6 first 401(k) plan in 1978, public employers have taken notice of
7 the success of individually directed investments of employee
8 retirement contributions, and as a consequence state
9 legislatures are considering proposals that would create a DC
10 option; and

11 WHEREAS, Under DB plans, benefits are not fully portable,
12 vesting schedules do not favor short-term employees,
13 recordkeeping is complex for plan administrators, the funding
14 process is statutorily controlled and can often be politically
15 charged, employee benefits do not reflect a more transient work
16 force, plan design is relatively inflexible and the employee
17 does not directly share in heightened investment returns except
18 in cases of periodic benefit enhancements or COLAs; and

19 WHEREAS, Under DC plans, benefits are indeterminable,
20 benefits can decrease with investment performance, subsequent
21 COLAs are not granted, the member may lack investment experience
22 and the death or disability benefits are limited to the account
23 balance or nonexistent; therefore be it

24 RESOLVED, That due to the complexity of issues in offering a
25 DC plan and the limited information available in the context of
26 Pennsylvania's pension system, the House of Representatives
27 direct the Public Employee Retirement Commission to study and
28 report on the following:

- 29 (1) Projections of comparative benefits under the
30 current DB plans versus possible DC plans and options using

1 various demographic and financial scenarios to show the
2 positive and negative impact of each plan option on employers
3 and employees.

4 (2) Employer cost considerations given the current fully
5 funded status of PSERS and SERS and estimated future
6 contribution rates pursuant to recently enacted legislation.

7 (3) National trends and studies on the degree to which
8 employees terminating employment under DC plans liquidate
9 their funds instead of maintaining them for retirement as
10 well as related DB plan issues including the number of
11 participants who enter the PSERS and SERS systems, the number
12 who earn a full benefit, who earn a reduced or partial
13 benefit and who receive no benefit.

14 (4) An analysis of the exposure to liability on the part
15 of the Commonwealth and school employers arising out of
16 providing employees a choice between and/or a right to
17 convert to either a DB or DC plan, including any liability
18 for poor investment performance in a DC plan and possible
19 contract impairment issues.

20 (5) An analysis of any changes in the fiduciary
21 responsibilities and duties of the Commonwealth and school
22 employers that may result from instituting a DC plan.

23 (6) A national review of DC plan implementation in the
24 public sector from a structural standpoint including hybrid
25 structure solutions.

26 (7) Implementation considerations and any other issues
27 pertinent to the General Assembly's consideration, such as
28 recruitment benefits of DC plans and the State's future
29 employment needs;

30 and be it further

1 RESOLVED, That the Public School Employees' Retirement System
2 and the State Employees' Retirement System are directed to
3 provide all relevant information and staff assistance, in
4 response to the issues above, to the Public Employee Retirement
5 Commission upon request; and be it further

6 RESOLVED, That the Public Employee Retirement Commission
7 report its findings concerning the provision of a DC option in
8 Pennsylvania's Statewide pension funds to the General Assembly
9 by December 31, 2002.