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*House of Representatives*

COMMONWEALTH OF PENNSYLVANIA  
HARRISBURG

**DUANE D. MILNE, Ph.D.**  
STATE REPRESENTATIVE

**COMMITTEES**

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LEGISLATIVE OFFICE FOR RESEARCH LIAISON  
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## MEMORANDUM

**TO: ALL HOUSE MEMBERS**

**FROM: REPRESENTATIVE DUANE D. MILNE** *DM*

**RE: Legislation – Pension Study**

**DATE: February 7, 2012**

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As a result of the significant and continuing fiscal issues both PSERS and SERS, and therefore Pennsylvania taxpayers, are facing, I will be introducing legislation in the near future to require the Public Employee Retirement Commission (PERC), in conjunction with PSERS and SERS, to complete a comprehensive review of both systems, to include recommendations for a path forward.

As you know, the General Assembly in 2010 passed pension reform legislation which was signed by Governor Rendell. Act 125 of 2010 reduced the pension obligations for employees hired beginning in 2011 and going forward by decreasing multipliers, increasing vesting time periods and re-amortizing the existing unfunded liability.

While these were important and necessary steps forward, the changes made by Act 125 did nothing to alleviate the large obligation being created by current employees. In fact, even with the \$2.9 billion saved as a result of pension reforms, a combined \$29.4 billion debt has already been incurred within PSERS and SERS as a result of investment losses, employer contribution rates not meeting normal costs and benefit enhancements without the creation of new revenue streams. Additionally, within the next ten to fifteen years, PSERS expects its unfunded liability to be approximately 25% of the total employer payroll costs. SERS projects that its unfunded liability will grow to approximately \$10.79 billion within the same time period.

This study will require PERC to measure the fiscal impact annuities will have on both PSERS and SERS as current employees retire. This work will detail the impact a switch to defined contribution, hybrid plan or cash balance plan would have on PSERS, SERS and state and public school employees. Part of this approach will be to examine the average pension disbursement to both state and public school retirees and compare it to average retirement compensation private sector employees typically receive.

Additionally, PERC will examine how other states have addressed pension funding issues in recent years. Based on its findings, PERC will determine the feasibility of enacting like measures in Pennsylvania and the impact such would have on both PSERS and SERS. Finally, PERC will be responsible for identifying policy strategies that will provide for the transition of at least some portion of current employees in Pennsylvania to defined contribution plans. Specifically, background information regarding these strategies will be provided by reviewing changes of this manner that have been enacted in Rhode Island and other states.

The only way to address the pension problems faced by the Commonwealth is to determine the depth of the problems and investigate all of the possible remedies. I am hopeful that a study of this nature will be able to provide this strategic quantifiable information and offer some paths forward. Please contact Lori Losch in my office at [llosch@pahousegop.com](mailto:llosch@pahousegop.com) or 787-8579.