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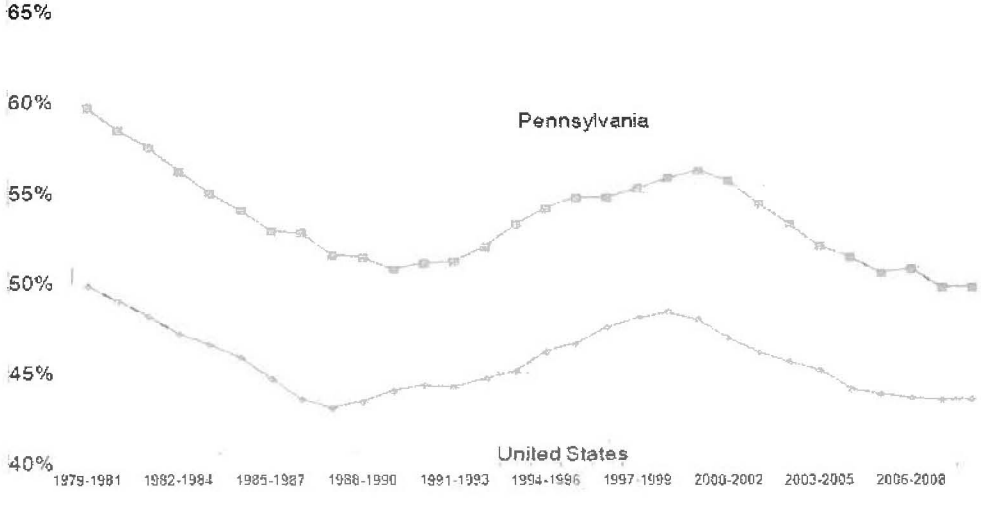
**HOUSE STATE GOVERNMENT & FINANCE COMMITTEES**
**JOINT HEARING ON PENSION LEGISLATION**
**August 14, 2012**

Good afternoon Chairman Metcalfe, Chairman Benninghoff and members of the State Government and Finance Committees. My name is Stephen Herzenberg and I have a PhD in economics from the Massachusetts Institute of Technology (MIT). I have been the Executive Director of the Keystone Research Center since its creation in the mid-1990s. KRC is an independent, non-partisan economic research and policy organization or "think tank." A core focus of KRC's research is on the performance of the Pennsylvania economy from the perspective of typical families. One component of this research is on retirement security, in both the private and the public sectors.

Before addressing the pension bills that are the focus of these hearings, I want to start by providing some background on the broader context related to pension issues, overall and in the public sector.

**The retirement security crisis.** First, let me agree that the United States and Pennsylvania do face a pension crisis. The most serious crisis, from our perspective, is the erosion of retirement security in the private sector. Over the past three decades, even as productivity has grown steadily and profits in most periods have been robust, some employers have walked away from any shared obligation to fund a secure retirement. The Figure below shows that the share of private sector workers with any kind of pension has fallen by 10 percentage points in Pennsylvania, to just below half.

**Share of U.S. and Pennsylvania Private Sector Workers with a Pension, 1979-2010**




*Source* Economic Policy Institute analysis of the March Current Population Survey

Also important is the erosion of the quality of pensions for those private sector workers who do have one. Between 1980 and 2008, the proportion of private wage and salary workers participating in Defined Benefit pension plans fell from 38 to 15 percent.[1] Meanwhile, the share of workers participating in Define Contribution pension plans rose from 17 to 43 percent. In theory, employers and employees could both contribute substantially to DC pension plans. In practice, too often, neither party contributes adequately. As a result, in 2010, the average balance in a 401(k) account was only $60,329 according to the Employee Benefit Research Institute (EBRI).[2] The median value was $17,686. Nearly four in 10 accounts have less than $10,000.[3]

While Americans and Pennsylvanians across the political spectrum acknowledge the high level of income inequality in the United States, preliminary calculations indicate that retirement income is distributed even more unequally, especially if you exclude the shrinking minority of workers with a DB plan.[4] Are we moving to a situation in which workers get no pension, many workers get an inadequate one, and a very small group of executives receive outsize pensions? In the words of Bartlett and Steele: "As companies have killed or curtailed pensions for employees, executive pensions have soared, largely because they are based on executives' compensation—which has ballooned in recent decades. At some companies the only employees who have pensions are the corporation's executives."

**Public vs. Private Compensation in Pennsylvania**. Another important part of the context for this hearing is the relative pay of public and private sector workers in Pennsylvania. The most definitive research on this topic is a report by the Economic Policy Institute that KRC released in Pennsylvania last year.[5] That report shows that state and local government employees in Pennsylvania are paid substantially less in wages than private sector workers who have the same level of education, experience, and other characteristics that economists "control for" when examining relative wages. The public sector wage gap is particularly pronounced at the high end and among more educated workers. Controlling for education (but not other variables), Pennsylvania workers with a college degree or more earn 27% to 59% less in annual

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[1] Figure 1, on line at http://www.ebri.org/publications/benfaq/index.cfm?fa=retfaq14.

[2] Jack VanDerhel et al., *401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2010*, Employee Benefit Research Institute (EBRI) Issue Brief No. 36, December 2011, online at http://www.ebri.org/pdf/briefspdf/EBRI_IB_12-2011_No366_401%28k%29-Update.pdf, Figure 9, p. 13; cited in Donald L. Bartlett and James B. Steele, "Without a Pension's Security," *Philadelphia Inquirer*, Sunday, August 12, 2012, online at http://articles.philly.com/2012-08-12/news/33168224_1_retirement-age-pension-rules-retirement-benefits

[3] VanDerhel et al., *401(k) Plan Asset Allocation*, Figure 10, p. 14.

[4] Looking at the 85 percent of Americans without a DB plan, the 5% of this group with the most generous DC pensions have roughly half of all funds in (DC) retirement accounts. ((This estimate is a rough estimate based on data in Figure 10 in VenDerhel et al.) By comparison, the highest-income 5% of taxpayers in Pennsylvania take home about 28% of total Pennsylvania income (based on income data in *State of Working Pennsylvania 2009*, online at http://keystoneresearch.org/sites/default/files/SWP2009_2.pdf.)

[5] Jeffrey Keefe, *Public Versus Private Employee Costs in Pennsylvania: Comparing Apples to Apples* (Washington, DC: Economic Policy Institute, 2011), online at http://keystoneresearch.org/publications/research/public-versus-private-employee-costs-pennsylvania.

wages plus than similarly educated private-sector workers.[6] At the very top end of the wage distribution, the two highest-paid CEOs in Pennsylvania earned more in 2010 than the highest-paid 100 public sector workers combined.[7] There is a reason people never say "I'm leaving the private sector to go make more money."

When you take into account benefits, the compensation (wages plus benefits) gap between the private sector and the public sector in Pennsylvania shrinks: public sector workers are still paid less in wages plus benefits, on average, when you control for education and other individual characteristics, but the gap is small.[8]

Summing up, the biggest overall difference between the public and private sectors in Pennsylvania with regards to compensation is not the gap between the two but the share of compensation received in benefits. The private sector allocates more of compensation in the form of wages and salaries and the public sector more in the form of benefits.

When considering public sector pension proposals going forward, the starting-point public vs. private sector compensation differences are important. What these differences mean is that if proposals are passed which substantially worsen public sector pensions—without any offsetting wage adjustment—relative compensation in the public sector, particularly at the high end, will be substantially lower than in the private sector. What this means, in turn, is that, if benefits are eroded significantly for public sector workers going forward, there probably will need to be an offsetting increase in wages for more educated public-sector workers. This will be required to attract and retain high-quality teachers and professionals in state government.

Bottom line: it is a myth that public sector workers make more than comparable private sector workers; this leads to a second myth—that significant money can be saved, going forward, by cutting public sector pensions for new workers. Money can't be saved because public-sector pay is not out of line.

**Act 120—a Significant Step Forward.** Another part of the context for these hearings is the underfunded state of the pension funds for state workers (SERS) and public school employees in Pennsylvania (PSERS). In Act 120 of November 2010, an overwhelming bi-partisan majority of Pennsylvania House and Senate members already enacted pension reform that significantly lowered the 2012-13 spike in pension contributions. For FY 2012/13, Act 120 will save the Commonwealth approximately $2.2 billion ($1.4 billion contribution to PSERS and $813 million to SERS) and school districts approximately $1.1 billion.

- Before Act 120, PSERS faced a dramatic spike to 29.65% in its employer contribution rate in 2012/13; after Act 120 the rate is 12.36%.

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[6] Keefe, *Public Versus Private Employee Costs*, Table 2, p. 5. Including benefits, the total compensation gap (wages plus benefits) for workers with a college degree or more is almost as big, ranging from 21% to 57%.

[7] For details and sources, go to http://thirdandstate.org/2011/april/ceo-pay-soars-while-workers%E2%80%99-pay-stalls.

[8] Keefe, *Public Versus Private Employee Costs*, Table 4, p. 9. The annual wage and compensation gaps are still statistically significant: public compensation trails private sector by 5.4%. When examining compensation per hour, the gap shrinks to 2.1% for all public employees and 3.8% for state government employees, neither of which is statistically significant.

- Before Act 120, SERS faced a dramatic spike to 26.71% in its employer contribution rate in 2012/13; after Act 120 the rate is 11.5%.

The General Assembly has not received enough credit for passage of Pennsylvania's pension reform legislation. These changes significantly reduced the long-term cost of benefits. The changes the General Assembly has already made for new state government and school employees include the following:

- The pension multiplier, which determines the final level of the retirement benefits, was reduced by 20 percent, and falling from 2.5 percent to 2 percent per year of service. An exception was made for those new hires that upon joining SERS/PSERS elect to pay the full cost difference for the higher multiplier, so that employers will not pay any of the additional cost.
- The vesting requirement was increased from five years to 10 years;
- A cap was placed on the maximum pension benefit, so that retirees with longer years of service cannot earn more than their final salary;
- There were substantial increases in the age and years of service required to retire at full benefit;
- The option that allows a member to withdraw their own contributions when they retire was eliminated.
- The basic contribution rate was effectively raised, because new hires are paying the same amount for a reduced level of benefits; and,
- Pennsylvania was the first in the nation to require new hires to pay an additional "risk sharing" rate of up to 2 percent if SERS/PSERS do not meet their earnings assumptions. So instead of just the employer rate going up following an economic meltdown, employees too will directly share in the pain.

With the changes, the cost of benefits earned by new PSERS employees ("normal costs") was reduced by 60 percent to 3 percent of salary; for new SERS employees the figure is 5.1%.[9] Over the next 30 years, the savings from Act 120 project to more than $19 billion in the PSERS plan and another $7 billion in the SERS plan.

It is worth noting that the 2010 reforms further strengthened one feature of Pennsylvania's current plans that stand out in comparison to other plans: the heavy reliance on **employee** contributions. For example, the average school employee in Pennsylvania is paying 40 percent more toward her retirement benefits than public employees in other states. By contrast, **employer** contributions in Pennsylvania have been substantially lower than the national average over the last decade. In 2010, for example, PSERS had the second lowest percentage paid of Annual Required Contributions[10] in the entire United States. While nationally employers contribute more toward retirement than do their employees, the reverse has been true in Pennsylvania for more than a decade with school employees paying more than the Commonwealth and district combined.

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[9] These are the estimated costs for pensions of new members of PSERS and SERS which consciously or by default select a 2.0 multiplier (i.e., Class T-E members).

[10] Annual Required Contributions—ARC—equals normal cost plus payments on an unfunded liability. ARC is determined in a consistent way across states using Government Accounting Standard Board (GASB) standards

**The Bills Under Consideration.** Turning now to the specific bills at issue in these hearings, the Table below summarizes their key provisions and compares them to current law.[11] The most important point that emerges is that four of the six bills listed would increase the employer's (i.e., the taxpayers') cost for the pension benefits for new employees (3% for PSERS and 5.1% for SERS). In addition, none of them actually deal with the problem that is causing the SERS and PSERS rates to go higher: the cost of paying off the system's unfunded liabilities.

The two bills on which there is debate about costs are HB 1676 and HB 1677. Our preliminary analysis is that HB 1677—the cash balance plan for school employees—will be more expensive for employers than the current law. We base this on the 3% cost of benefits for new employers under current law and the 5% contribution under this bill. The SERS cost of benefits for new employees, however, is higher than PSERS. As a result, HB 1677 is a closer call, given the 5.1% contribution under current law versus 5% under the bill.

For both HB 1676 and HB 1677, this cost of benefits for new employees is only part of the picture. It ignores that we have an existing plan that once closed off will go into a rundown period during which the average age of participants will increase. As a result, the asset allocation will have to change (become more conservative), resulting in a lower expected return on investments. As a result, the plan's earnings assumption will need to be reduced and this will likely result in higher employer contributions over the next several decades.

| Legislative Proposals | Key Provisions | Comparison to Current Law |
|---|---|---|
| HB 551 and 552 | Optional 401(a) plans funded with 6% in contributions by members and 6% in contributions by employers (split for school employees 50/50 between the Commonwealth & school districts) | Increases costs of pension benefits to taxpayers.<br>• More expensive for employers than the current retirement benefits for new hires (6%, which is twice the Act 120 PSERS cost for new employees and also higher than the Act 120 SERS cost for new employees).<br>• Reduces vesting to one year from Act 120 10 years<br>• Increase in costs mitigated because most new employees likely to opt for current plan. |

[11] The table does not analyze HB 418 or HB 2200 because each of these would apply to relatively small groups (in one case state legislators; in the other case [FIX AFTER READING HB 2200].

| | | |
|---|---|---|
| HB 1676 and HB 1677 | Create cash balance plans for all new employees (except police officers) funded with 7.5% in employee and 5% employer contributions. The money would be invested, with each account credited with 4% statutory interest each year. (These members would also have an option for of "an independent retirement plan (such as TIAA-CREF).)<br><br>At time of separation, a member would be entitled to a lifetime annuity, delaying benefits until superannuation age by vesting, or receive a lump sum of employee contributions and interest—but forfeit employer contribution and interest | Increases cost of pension benefits to taxpayers for new employees and employees remaining in the current plans<br>• 5% in employer contributions for the cash balance plan compares with current 3% for PSERS and 5.1% for SERS for new employees<br>• Will also increase costs by raising the employer contribution rate required for current SERS and PSERS defined benefit plans. These would become closed-end funds with the average age of members increasing as the plans wind down. Plan assets will have to be invested more conservatively as the ratios of retirees to active members increases. PSERS/SERS will need to gradually lower their investment earnings assumption, presently 7.5% |
| HB 2453 and HB 2454 | These create 401(a) plan for all new employees that would be funded with a minimum 4% in contributions by members and 4% employer match. They also offers an option for members enrolled in the current SERS/PSERS defined benefit plans to switch to the 401(a) plan, with the incentive of a 7% employer match. | • **Similar Cost of Benefits:** 4% in employer contribution for the 401(a) plan is comparable to the 3% normal cost and 4.25% cost of the current retirement pension benefit for PSERS and SERs; savings also from the elimination of disability retirement and health insurance premium assistance for new employees.<br>• **Increased Payout to Members with Early Terminations:** immediate vesting instead of 10 years vesting as in Act 120.<br>• **Increased Costs Related to Closing Off Current Plans:** The current SERS and PSERS defined benefit plans would become closed-end funds with the average age of members increasing as the plans wind down. Plan assets will have to be invested more conservatively as the ratio of retirees to active members grows. SERS and PSERS will need to gradually lower their investment earnings assumption, presently 7.5%.<br>• **Impact of Incentive for Current Members to Switch Plans:** The incentive for current members of SERS/PSERS to switch to the 401(a) plan is a 7% employer match. Those that do switch are likely to be people who wouldn't vest or stay in the system until retirement. As a result, the incentive is most likely to increase the overall cost of the plan. |

**Experiences in Other States with Switching to DC Plans.** The idea that switching to a DC plan will not solve the problem of an unfunded liability or save money for a state is not just theory. It's the experience of the states that have moved in that direction. There are three states that have closed off their defined benefit plans and put all new hires in 401(a) plans. The states include West Virginia (1991), Michigan (1997), and Alaska (2006).

*West Virginia*: West Virginia pulled the plug on the 401(a) plan it originally adopted in 1991, and reopened its defined benefit plan for all new hires in 2005. The state also allowed the members of the 401(a) plan to switch into the defined benefit plan. There were several reasons cited for the switch, including a study done by West Virginia's Consolidated Public Retirement Board which found that the individual account balances in the 401(a) plan were not on track to generate adequate retirement income for public employees. A particular concern was that public employees would have such low incomes in retirement that they would depend more on means-tested public programs, driving up costs to the state.

*Michigan*: Michigan started putting all new state employees into a 401(a) plan in 1997 to reduce costs. After it made the change, Michigan lowered its employer contribution rate, giving the appearance of significant savings. In fact, Michigan has not made its annual required contributions under GASB in nine of the last 10 years.[12] As a result, the system's unfunded liabilities have skyrocketed by 585 percent from 1997 through 2010, even as the number of active members paying into the plan has dropped by 65 percent.

The example of Michigan underscores the fact that unfunded liabilities still need to be paid off regardless of what you do with new employees. A state cannot simply adopt a 401(a) plan, walk away from funding responsibilities for the existing plan, and get an easy exit from pension funding problems. The following table shows how Michigan's unfunded liabilities have grown since adoption of their 401(a) plan for state employees, and how the system's funded ratio has dropped.

| Michigan State Employees' Retirement System[13] | | | |
|---|---|---|---|
| | | | |
| | Number of Active Members | Unfunded Liabilities | Funded Ratio |
| June 30, 1997 | 55,434 | $697 million | 91.5% |
| June 30, 2010 | 19,650 | $4,078 million | 72.6% |

*Alaska*: Alaska adopted a 401(a) plan for both new state and public school employees that became effective in 2006. Although sold as a way to reduce the employer contribution rates, it actually caused the rates to increase. These increases were due to the impact of closing off the existing pension plans and having to pay off the unfunded liabilities that had been allowed to

[12] Michigan State Employees' Retirement System, CAFR for Fiscal Year Ended June 30, 2011, Required Supplementary Information, Schedule of Employer Pension Contributions, p. 44.

[13] Michigan State Employees' Retirement System, CAFRs for Fiscal Years Ended June 30, 1998 and June 30, 2011.

accrue with a declining payroll base. The following two tables show a before and after snapshot of Alaska's two major public pension plans.

| Alaska Teachers' Retirement System Pension Retirement Benefits[14] | | | |
|---|---|---|---|
| | Number of Active Members | Unfunded Liabilities | Employer Contribution Rate |
| June 30, 2005 | 9,656 | $1,694 million | 16.0% |
| June 30, 2010 | 7,832 | $2,747 million | 39.6% |

| Alaska Public Employees' Retirement System Pension Retirement Benefits[15] | | | |
|---|---|---|---|
| | Number of Active Members | Unfunded Liabilities | Employer Contribution Rate |
| June 30, 2005 | 33,732 | $2,429 million | 11.8% |
| June 30, 2010 | 26,442 | $3,902 million | 27.7% |

**The Adequacy of Pension Benefits Under DC Plans**. Another critical part of the pension debate must consider the quality of pension benefits under different proposals. A general concern with DC plans is that they have higher administrative costs. For example, Christian Weller and co-authors (p. 22) note that the management of DC plans consumes 0.8 percent to 1.25 percent of assets annually. Over the course of a lifetime, this can amount to a substantial loss in savings. In addition, these fees and reductions are higher than for DB plans, since these are better able to take advantage of economies of scale.

In this testimony, I will not attempt a specific analysis of benefits under most of the proposed bills because my organization does not have at its disposal the necessary models. For House Bill 1677, the Public Employee Retirement Commission (PERC) issued an Actuarial Note that permits some comparisons.

A pre-Act 120 school employee can earn a retirement benefit that is 100% of their Final Average Salary (FAS) if they work a full 40 years based on the 2.5% multiplier for Class T-D service.[16] With passage of Act 120, a new school employee, with a 2% multiplier for Class T-E service, will be able to earn 80% of their FAS if they work 40 years. Act 120 therefore represented a 20% cut in retirement benefits for new school employees.[17]

[14] Alaska Teachers' Retirement System, CAFRs for Fiscal Year Ended June 30, 2006 and June 30, 2011.

[15] Alaska Public Employees' Retirement System, CAFRs for Fiscal Year Ended June 30, 2006 and June 30, 2011.

[16] Final Average Salary (FAS) is an average of the three highest years of compensation based on a July 1 to June 30 school year.

[17] Act 120 made a number of significant changes to the benefits of new school employees who first become members of PSERS on or after July 1, 2011. These include, but are not limited to, a reduction in the accrual rate (i.e. – multiplier) from 2.5% to 2% for new school employees, an increase in the normal retirement age and a change in vesting to 10 years. Only the change in the accrual rate was included in the estimate of a 20% reduction in benefits as a result of passage of Act 120.

Our analysis of House Bill 1677 suggests that it would further reduce the level of replacement income that future school employees will be able to achieve. The impact, however, varies significantly for different members of the retirement system.

1) The change to a cash balance plan will have a serious impact on those school employees who enter the system at an older age.
    - A teacher hired at age 25, will, after 40 years, have retirement benefits that are about 56.1% of their FAS under the proposed cash balance plan.[18] This is a 30% cut to the PSERS retirement benefit for future members, and comes on top of the 20% cut to benefits contained in Act 120.
    - Someone coming into teaching at age 45, would, after 20 years, have retirement benefits of about 22.3% of their FAS under the proposed plan. This is a 44.3% cut to the PSERS benefits payable for future members, and comes on top of the 20% cut that was enacted in 2010.
    - These comparisons add flesh to comments in Milliman's analysis that is attached to PERC's Actuarial Note on House Bill 1677:

        *"Projected retirement benefits expected to be received by members are typically lower under a cash balance plan than a traditional final average pay retirement plan. Most notably, the expected reduction in retirement benefits typically impacts members who enter the system at older ages since the time available to accumulate substantial account balances is limited."*

2) There would also be a disproportionate impact on lower paid employees when compared to more highly compensated employees from a cash balance plan.
    - A teacher hired at age 25, would, after 40 years, be able to earn about 56.1% of their FAS under the cash balance plan.
    - A lower paid education support employee hired at age 25, working the same hours, but earning half the wages of a teacher, would, after 40 years, only be able to earn about 49.8% of their FAS.
    - The cash balance plan represents a 30% cut in benefits for a teacher, but an even larger 37.8% cut in benefits for the lower earning education support employee. The difference is because someone with a substantial account balance will enjoy greater growth due to the compounding impact of interest payments.

3) New employees will no longer be able to receive a disability annuity should they become disabled prior to normal retirement age under the proposed legislation. The legislation directs that PSERS make a disability protection plan available to members

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[18] All calculations are based on a comparison of four employees: two employees hired at age 25 and two hired at age 45. One of the employees hired at each age with a starting salary of $20,000, and the other with a starting salary of $40,000. The salaries of each of these employees are increased by 3% annually until their retirement at age 65. There is a 7.5% member contribution, a 5% employer contribution and 4% statutory interest credited to the account each year. The amount of the annuity was determined using the accumulated balance of the individual member's account, using an 18-year life expectancy and 4% statutory interest credited on the balance in the account.

who are enrolled in the cash balance plan, but the cost of coverage would be paid by the employee themselves.

4) The legislation would end the health care premium assistance program for all future employees. The program presently provides up to $100 a month in health care premiums assistance for qualified members of the system.

5) PSERS members presently have death benefits that are payable to their named beneficiary(ies). In the event of the in-service death of a member, the beneficiaries would have the option of taking an annuity, as opposed to a lump sum payment. House Bill 1477 would eliminate the annuity option for the beneficiary(ies) of members who have not reached superannuation, which is age 55. The option of an annuity would remain for the beneficiary(ies) if the member dies after reaching superannuation.

In sum, a switch to a cash balance plan will significantly reduce retirement benefits for all future school employees. The cuts would fall most heavily on school employees who are less well compensated, and those who enter school employment at an older age, or exit school employment before reaching superannuation. The proposed plan is unlikely to generate the income replacement levels necessary to be adequately support school employees in retirement.

**Conclusion**. As noted at the outset, while the unfunded liabilities in the SERS and PSERS plans are challenges that cannot be ducked, our broader concern on the pension front is erosion of retirement security. So far, this erosion has taken place primarily in the private sector, creating a sobering picture for the future. As Professor Teresa Ghilarducci states:

> "Seventy-five percent of Americans nearing retirement age in 2010 had less than $30,000 in their retirement accounts. The specter of downward mobility in retirement is a looming reality for both middle- and higher-income workers. Almost half of middle-class workers, 49 percent, will be poor or near poor in retirement, living on a food budget of about $5 a day."[19]

Now, powerful forces are pushing to reduce public sector pension benefits—for new and, if the courts will allow it, existing and already-retired employees. Professor Ghilarducci again:[20]

> "What's so wrong with state employees getting 401(k) plans instead of their pensions? A main drawback is that more 401(k) plans would make the nation's retirement crisis even worse. **Traditional pension plans** are better deals than 401(k) plans for taxpayers because they **cost less, attract and retain suitable workers, and help stabilize the economy**."

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[19] Teresa Ghilarducci, "Our Ridiculous Approach to Retirement," *New York Times*, July 22, 2012, online at http://www.nytimes.com/2012/07/22/opinion/sunday/our-ridiculous-approach-to-retirement.html

[20] Teresa Ghilarducci, "When I'm 64: The Plot Against Pensions and the Plan to Save Them," *New York Times*, April 7, 2011.

She then adds:

> "Bankers and brokers are the only clear winners when pensions switch over to 401(k) plans. 401(k) plans are bad deal for taxpayers. Dollar for dollar, a traditional pension plan yields more pension benefits than do 401(k) plans because **401(k) management and investment fees are three times higher**."[21]

In effect, the transition from DB pensions to DC pensions for public-sector workers risks being a transfer from Main St. to Wall St, with lower benefits and potentially higher costs for taxpayers. The only way to save money is to make large cuts in benefits, as was already done in a responsible way under Act 120. One scenario is that cuts in benefits for new employees will lead to offsetting improvements in wages for higher-paid workers. Workers with a high-school degree or less are the ones most vulnerable to cuts in pension benefits without a need for offsetting wage increases, because these workers' wages as well as benefits are higher in the public sector. This scenario would increase fees to financial services firms at the expense of sacrificing the small part of our economy within which custodians, food service workers, school secretaries, and bus drivers can earn a secure retirement. If legislators and Pennsylvanians step away from the ideology and the abstractions, and think about what this means in concrete and human terms, I think there will be wide agreement across the political spectrum that this is not a trade worth making.

What do we do instead of switching to public-sector DC plans and cutting pension benefits for public sector workers? Here are two thoughts.

We do need more revenues to help deal with unfunded pension liabilities but without requiring more cuts to education, other investments in the future, and essential state services. In the context of pension issues, a number of sources of revenue come to mind: a financial transactions tax (which might help stabilize the market fluctuations that contributed to the current unfunded liabilities); a tax on high-end pensions, so that more affluent retirees can contribute to limiting poverty among other retirees; a higher tax rate on some classes of non-wage income (legal under the state's uniformity clause) so that those with the ability to pay again contribute disproportionately to forestalling increases in poverty and low-income status among seniors; a portion of revenues from closing corporate tax loopholes, given that financial games contribute both to the erosion of pension security in the private sector and to corporations paying lower taxes than commensurate with their real profitability and operations in Pennsylvania.

We also recommend, as in our 2006 report on pensions, that the state facilitate the creation of "universal savings accounts" for those who have no pension at all in the private sector. The state could create a turnkey system that allows small businesses to set up savings vehicles for

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[21] Bartlett and Steele note that, from 1990 to 2012, the financial industry—stockbrokers, investment houses, brokerage firms, and financial planners—contributed $875 million to members of Congress, according to the Center for Responsive Politics. From 1998 to 2011, the period for which data are available, the securities and investment industry spent an estimated $900 million lobbying Congress and federal agencies. An obvious question with regard to the push to switch to DC plans for state and local public sector workers is how much it is driven by contributions and lobbying.

their employees, with simple low-cost investment options, and with the default being that employees contribute to these plans. (Legislation that would establish Pennsylvania Voluntary Accounts has been introduced several times over the past decade.) This would be a first step towards addressing the most disturbing pension crisis: the erosion of retirement security in the private sector.

Thank you again for the opportunity to testify. I would be happy to answer any questions.