

## **COLA Talking Points for House Bill 1970**

The COLA Coalition was formed in 2006 and is working with various organizations that comprise the coalition to promote cost-of-living adjustment efforts. The COLA Coalition supports legislation that will provide fiscal health to SERS and PSERS, as well as a cost-of-living adjustment (COLA) for retirees. We fully support House Bill 1970, a COLA proposal that has been introduced by State Representative Peter Daley.

### **Urgent reasons for a COLA ...**

It has been seven long years since the last COLA, as COLA's have traditionally been granted every four to five years. This is the longest time retirees have gone without a COLA since the voters authorized the Legislature to grant them in the Constitutional changes of 1968. Pennsylvania public retirees have now gone longer without any cost of living assistance than any other state or public school retiree in the nation.\*(1)

A COLA should reduce the amount by which public retirees fall behind in purchasing power with each year that passes and help them maintain a livable retirement. Remember, Ad Hoc COLAs that have been granted have been pegged at one-half the rate of inflation, and the purchasing power of older retirees has suffered considerable erosion. Urgent action is needed for a COLA to help these retirees with extremely low pensions. There are some individuals whose pensions have been so eroded by inflation, they are choosing between medication and food and spending their days in senior centers because they can not afford to turn on their furnaces.

Public-retirees' pensions are not overly generous, averaging but \$20,523 per year\*(2), and their purchasing power is falling every day without assistance to meet the rising costs of everything from gas to groceries to property taxes. Particularly hard hit are older retirees, who earned lower salaries while on the job, have lost more of their pension's value because of inflation and often don't have the option of returning to work full- or part-time.

### **COLAs are needed more than ever in tough times ...**

In the past, the Commonwealth granted COLAs regularly, even in periods when state finances were difficult due to national recessions. The COLAs granted in

these more challenging times were generally less generous, but Legislators still helped those retired state and public school employees most in need.

Over longer periods of time, both state retirement systems have been able to generate investment returns far beyond expectations. The additional returns in the years following economic downturns in the early 1990's and the early 2000's have more than filled the gap needed to pay for benefits. We trust that the Systems will be able to fill the gap from the present recession, even though it may take some additional time.

### **Public pension systems keep Pennsylvania economy strong ...**

Nearly 700,000 citizens of Pennsylvania are members of the State Employees' Retirement System (SERS) or the Public School Employees' Retirement System (PSERS) including actives and retirees.\*(3) What this Legislature does or does not do on a COLA now, impacts not just the lives of the current state and public school retirees, but hundreds of thousands more dedicated public servants who will be retiring in the future.

Studies conducted by a number of states have all found public pension plans to be very powerful economic engines in their states—providing huge returns and economic benefits for all taxpayers.

A recent National Institute on Retirement Security (NIRS) study \*(2) indicates that “[e]ach \$1 in taxpayer contributions to Pennsylvania’s state and local pension plans supported \$9.46 in total output in the state.” In fact, Pennsylvania’s “Pension Expenditure Multiplier” ranked 2<sup>nd</sup> highest among all 50 states and the study indicates that “[e]ach \$1 in state and local pension benefits paid to Pennsylvania’s residents ultimately supported \$1.49 in total output in the state.”

The total impact is equal to 2.04% of Pennsylvania’s GDP and is greater than the combined percentages of Pennsylvania’s GDP represented by the entire industrial sectors of Mining, Agriculture, Forestry, Fishing and Hunting, and Arts, Entertainment and Recreation.\*(4)

### **The Pennsylvania economy needs a COLA ...**

With an average annual pension of but \$20,523 per year, it is a certainty that any increases granted to retirees in the form of a COLA will be spent. In spending the

additional dollars, public retirees will help stimulate Pennsylvania's economy. As the above NIRS study has indicated, there will be considerable economic spinoff beyond the COLA's actual cost.

The stimulus effect will be felt across the Commonwealth, since public retirees reside in every county.

### **Pennsylvania retirees need a COLA ...**

There are approximately 168,000 retirees in the PSERS system including approximately 60,000 individuals who receive less than \$1,000 a month. There are 108,146 retired members of SERS. Of these SERS retirees, 51,990 of them receive less than \$1,000 a month annuity.\*(5)

The average retiree will live 25 to 35 years following retirement and inflation can double or triple the dollars needed to maintain their living conditions.

### **The economy has changed since 2002 ...**

The Consumer Price Index has risen by more than 18 percent since the last COLA in 2002.

The COLA for federal Social Security was 5.8 percent in 2009 and may drop to nothing in 2010. Many state retirees, over the past eight years, have seen their Social Security annuity exceed their annual state pension.

Since the last COLA, health care costs have dramatically risen. Retirees have waited since 2002 for a COLA while shouldering a greater percentage of out-of-pocket medical costs.

### **The public sector should not be blamed ...**

The public sector is unfairly being blamed for what the private sector is no longer providing—adequate pensions.

The public and the Legislature should be very concerned - not over the amount of public pensions but at private employers that have gradually eliminated their own plans.

## **Pennsylvania retirees have paid more than their fair share into the system ...**

COLA recipients have paid more than their fair share into the retirement systems. They consistently contributed the required amounts throughout their working careers, even when the Commonwealth and school districts took a break.

Employer contributions have been low since 1998. The Commonwealth's pension contributions were lowered to zero at both SERS and PSERS (PSERS adds a small amount on their rate for health insurance premium assistance). The pension rate is presently 4% for both retirement systems. This rate at SERS is less than half of the System's normal cost, the amount needed to pay for the added year of service credit toward retirement that active workers earn each year; and at PSERS only a little above half of normal cost.

The increase in contributions forecast for 2012 has been made much larger as the result of the state not meeting its normal cost obligations to the systems over the past eleven years. Current retirees should not be made to suffer for the Commonwealth's failure to properly fund the benefits for those who will be retiring in the future.

## **Other states have prioritized a COLA ...**

Most states provide COLAs to their retired state and public school employees.\*<sup>(1)</sup> In fact, 69 percent of the state and school employee pension plans in the nation have automatic, annual COLA processes.\*<sup>(6)</sup> There are another 20 retirement plans in which the Legislature votes to authorize ad hoc COLAs for retired state and/or school employees similar to Pennsylvania.\*<sup>(7)</sup> The Legislatures in most of these "ad hoc COLA" states have historically granted COLAs either annually or biannually. Pennsylvania is among very few states that have gone longer than two years before granting a COLA to its retired public workers.

## Sources

*\*(1) NEA Characteristics of Large Public Education Pension Plans (2008) contains a Summary Chart entitled, "COLAs by Plan Size". There are 114 plans covering state and/or school employees listed in the publication, including twenty with ad hoc COLAs and eleven with none.*

*\*(2) Boivie, I. and Almeida, B. 2009. Pensionomics. Washington, DC: National Institute of Retirement Security (NIRS).*

*\*(3) PSERS had more than 432,000 active and retired members on June 30, 2007. As of December 31, 2008, SERS has 218,012 active and retired members.*

*\*(4) Percentages of Pennsylvania's 2006 GDP calculated by the Pennsylvania Education Association based on data from Pensionomics and the Bureau of Economic Analysis, U.S. Department of Commerce.*

*\*(5) PSERS had about 160,000 annuitants eligible on June 30, 2007, plus about 8,000 survivor annuitants and beneficiaries who are drawing benefits. Only the annuitants would be eligible for a COLA. PSERS has 65,793 annuitants, all with less than 25 years of service, who on average receive less than \$1,000 a month. This information can be found in PSERS' Certified Annual Financial Report (CAFR). According to the SERS Comprehensive Annual Financial Report, as of December 31, 2008, SERS has 110,866 active members and 108,146 annuitants. There are 51,990 SERS retirees receiving less than \$1,000 a month pension.*

*\*(6) 69% of the plans listed in the NEA publication Characteristics of Large Public Education Pension Plans (2008) have automatic annual COLAs.*

*\*(7) NEA lists 20 plans with ad hoc COLAs.*