

Testimony

of Sue Houghton

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Presented to the

**Senate Finance Committee
Wednesday, January 27, 2010**

Good morning, Chairman Browne, Chairman Ferlo, and members the Senate Finance Committee. My name is Sue Houghton. I am an elementary school teacher who taught in the Central Dauphin School District. I am a member of PSEA-Retired, but today I am here representing the COLA Coalition, which consists of ten separate organizations representing retired state, public school and higher education employees who worked in Pennsylvania.

Thank you for inviting me to testify on the critical issue of the Commonwealth's pension system from the perspective of retired public servants.

School retirees have been actively monitoring the pension situation for many years now, and we comprehend the seriousness of the challenges you face. As retirees, we understand the importance of retirement security because it directly affects how we live our daily lives.

The current recession has underscored the importance of a defined benefit pension plan to public school retirees and, as an extension, its value to the communities in which we live.

While the market value of our homes has dropped and monthly costs like utilities and fuel have spiked, our pension benefits have been a consistent and secure financial anchor.

As a result, in many of the hardest hit communities in our state, I believe that spending by retirees has buffered the decline in the local economy. I can only imagine how much worse things might be today if Social Security had been privatized and all defined benefit pension plans, public and private, had been converted to 401(k)-type accounts. Retirees would be totally dependent on investment performance, and the impact of any market downturns would be greatly magnified.

State and local pension plans operate under authority of the state, so I can talk to you on these issues. I will also contact my Congressional delegation to express my concern about the unhealthy decline in retirement security for an increasing number of my neighbors who work for private employers. I urge you to make retirement security for all an issue on which our Commonwealth leads by example instead of contributing to the decline in security for future retirees.

Last year, the National Institute on Retirement Security (NIRS) released the results of a study that measured the impact of state and local pension plans on the economy of each state. They found that the average public employee pension in Pennsylvania was \$20,523 per year, and that those pensions resulted in expenditures directly supporting 70,981 jobs that paid \$4.4 billion in wages and salaries. This is an economic impact that is greater than the combined percentages of Pennsylvania's GDP represented by adding together the GDP represented by Mining, and Agriculture, Forestry, Fishing, and Hunting industries.

The impact of state and local pensions is even higher if you look at the multiplier effect of the spending. NIRS used economic models to determine the multiplier effect of retiree spending and determined that retiree spending gave a \$10.5 billion boost to our state's economy, and estimated that it generated \$1.6 billion in federal, state and local tax revenues.

Pennsylvania was less hard hit in the recent recession than other areas of the nation thanks to having a higher percentage of senior citizens with pension income. The associated spending provided an economic floor for many communities when the economy was otherwise in free fall. As indicated by the NIRS study, this helped preserve other jobs in the community and at the same time served to prop up state and local tax revenues.

Without a secure, defined retirement benefit for public employees, these results surely would have been different. That is why the number one goal of our PSEA-Retired group is to preserve and maintain the strength and security of PSERS. For the last several decades, you and General Assemblies before you have demonstrated your support for continuing this security for retired school employees, and, on behalf of all 169,919 annuitants and their families, I thank you.

However, even the best defined benefit retirement program is affected by inflation, and there are some retirees who are living below the poverty level because of inflation and because it has been a long time since we received a of cost of living increase.

For most of the second half of the last century, the General Assembly granted state and public school retirees a cost-of-living adjustment (COLA) every four or five years.. These COLAs typically made up for one-half the rate of inflation, along with additional assistance to those who were retired the longest and subsisting on the smallest pension checks.

This includes a COLA that was granted in 1984, a year when the employer pension rate spiked to 19.31 percent. The last COLA was approved by the Legislature eight years ago – in 2002.

Retirees first became aware of the pension spike from legislators who started giving it as the reason a COLA was not affordable. This was difficult for many older retirees to accept in seeing the low level of the employer pension rate and watching it fall by more than one-third from 2007 to today.

After all, many school retirees came from an era when for each dollar they put into the retirement system, their contributions were matched by a dollar from the state and a dollar from the district. The average employer pension rate for the forty years leading up to 2001 was 12.67 percent, with school employees contributing 5.25 or 6.25 percent, depending when they were hired.

It is worth repeating that the retirees in our coalition understand the seriousness of the issues you face. But at the same time, we want you to also be aware that many of our older retirees have seen a

great reduction in the purchasing power of their benefit and they feel that the Legislature's delay in addressing the funding situation has also delayed any hope they have of getting a COLA in the future.

We urge the Senate Finance Committee to continue to push forward to enact responsible solutions to the pension spike, assessing them all, and taking appropriate action. The sooner the Legislature deals with these pension issues, the sooner the Commonwealth can return to funding pensions on a normal basis with a return to periodic COLAs.

During this process, we ask that you remember the plight of state and public school retirees and consider granting a COLA.

I realize the retirement benefits earned by the most highly paid state and school employees get all the attention in the media, but we need to remember that there are retirees who are also in need of a COLA. This is a disparity that can be dealt with by properly targeting any COLA to those most in need.

Thank you for the opportunity to testify on this important issue and share the views of retired school employees.