

**COLA COALITION
REPRESENTATIVES OF PUBLIC EMPLOYEE
RETIREE ORGANIZATIONS**

Testimony on Public Pension and COLA Issues

Presented by the:

COLA Coalition

Donald Mayer, Chairman

Prepared for the Senate Finance Committee

January 27, 2010

Good morning Chairman Browne, Chairman Ferlo and members of the Senate Finance Committee. Thank you for the opportunity to testify before this committee regarding important pension issues.

My name is Donald Mayer and I am Chairman of the COLA Coalition and president of APSCURF, the Association of Pennsylvania State College and University Retired Faculties. I am joined today by several of my colleagues from the COLA coalition.

The COLA Coalition represents many organizations of retired Pennsylvania state and school employees. Our group has been meeting since 2006 to advocate for a cost-of-living adjustment (COLA) for state and school retirees.

The COLA Coalition is here today to urge the General Assembly to enact legislation to solve the state and school pension spike issue and provide for a cost-of-living adjustment for state and school retirees.

In our discussions with state lawmakers, officials of the SERS and PSERS Boards, and key legislative and Board staff this Session, we have learned that the needed COLA will not be considered until the looming pension spike issue is resolved. As you know, the magnitude of the pension spike is such that it will force a steep increase in employer contribution rates in fiscal year 2012-2013.

The COLA Coalition stands ready to work with the Legislature, the Legislative Leaders, SERS and PSERS to solve this issue. The COLA Coalition extends an offer of help and our resources to the General Assembly in solving the pension spike even as we advocate a COLA for our pensioners. Conversations with Legislators and their staff have revealed there are many proposed solutions:

- Raise the employer contribution rates gradually over several years so that they are able to meet the Systems' ongoing cost obligations and desist in accumulating debts due to underfunding by the state and local school districts.
- PSERS and SERS are required by law to use five-year smoothing methods. Consideration should be given to extending the smoothing period to ten years and implementing temporary caps on annual rate hikes or decreases.
- Implement a fresh start refinancing of the retirement systems. This would require that the retirement boards recalculate their existing unfunded liabilities based upon its current measurement of liabilities and comparing it to the actual, market value of its assets as of its most recent actuarial valuation.
- Restore equal thirty-year amortization periods for the recognition of annual investment gains and losses and for the funding of active member liabilities.
- Authorize state-issued Pension Obligation Bonds to help retire the debt and begin the process of pre-funding future COLAs.

- In April 2009, State Representative John Galloway called for the creation of a Speaker's Commission on the state and school pensions. A similar suggestion is to establish a special commission comprised of persons knowledgeable with the retirement systems and charge them with the responsibility of determining a solution or possible solutions with a recommended course of action to the Legislature within 60 days.

While we do not endorse any of these specific solutions, we stand ready to work with you to resolve the spike issue. SERS and PSERS officials have made the Legislative Leaders aware of the necessity of solving the spike issue in the very near future.

We strongly urge the Legislative Leaders to provide a COLA to the state and school retirees as part of any legislative remedy to the spike issue. It has been over seven years since the Legislature passed a COLA for our state and school retirees (Act 38 of 2002) after decades of passing COLA legislation every five years. Pennsylvania public retirees have now gone longer without a COLA than almost all retired state and/or public school employees in the nation. Our state and school retirees, especially those who retired decades ago, have suffered significant erosion of their pension amounts from over seven years of inflation.

A COLA for all state and school retirees will stimulate the economy. The National Institute of Retirement Security (NIRS) recently published the results of a study quantifying the economic impact of public employee pension disbursements in all fifty states. The study concluded that, in Pennsylvania, public employee benefit disbursements provide more economic benefits to the citizens of the state than the taxpayers were asked to contribute to produce those benefits. The impact on Pennsylvania's economy of each dollar invested in public defined benefit pension plans supported \$9.46 in total output in the state.

Pennsylvania can support enactment of a COLA. A COLA can be provided as part of a refinancing of the retirement systems without imposing greater obligations on Pennsylvania's taxpayers, and the COLA Coalition urges the Legislative Leaders to do so.

American Federation of Teachers – Pennsylvania (AFT-PA)

Association of Pennsylvania State College and University Retired Faculties (APSCURF)

Local 668 Service Employees International Union (SEIU)

Pennsylvania Association of School Retirees (PASR)

Pennsylvania Association of Retired State Employees (PARSE)

Penn State Retired Faculty/Staff Club (PSU retirees)

Pennsylvania State Education Association-Retired (PSEA-Retired)

Retired Public Employees of Pennsylvania AFSCME Chapter 13

Benefits of PA's Public Pension Plans to PA's Economy

A new study deserves special attention because it is the first to assess, in real numbers, the significant size of the impact on Pennsylvania's economy of each dollar invested in public defined benefit pension plans: "[e]ach \$1 in taxpayer contributions to Pennsylvania's state and local pension plans supported \$9.46 in total output in the state."

Pennsylvania's "Pension Expenditure Multiplier" ranks 2nd best among all 50 states according to Ilana Boivie and Beth Almeida of the National Institute on Retirement Security (NIRS), the authors of the attached study *Pensionomics: Measuring the Economic Impact of State and Local Pension Plans*. This economic multiplier indicates that "[e]ach \$1 in state and local pension benefits paid to Pennsylvania residents ultimately supported \$1.49 in total output in the state."

Pensionomics reports that despite the modest size of the Pennsylvania's average public employee pension, only \$20,523 per year, "[t]he expenditures stemming from state and local pensions supported. . .

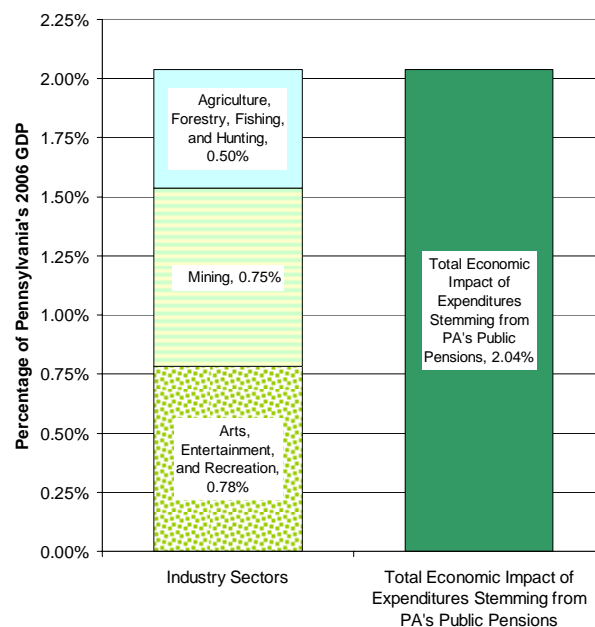
- 70,981 jobs that paid \$4.4 billion in wages and salaries
 - \$10.5 billion in total economic output
 - \$1.6 billion in federal, state and local tax revenues
- . . . in the state of Pennsylvania."

The total economic impact of expenditures stemming from Pennsylvania's public pensions is calculated in three categories: \$6.8 billion of Direct Impact (initial spending from pension benefits), \$1.7 billion of Indirect Impact (additional rounds of spending by local merchants as a result of the direct impact), and \$1.9 billion of Imputed Impact

("additional outputs when new employees, hired as a result of the direct and indirect spending rounds, spend their paychecks in the local economy").

The total economic impact is equal to 2.04% of Pennsylvania's GDP*, and is greater than to 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. (See chart.)

The total economic impact of expenditures stemming from PA's Public Pensions represents the same percentage of Pennsylvania's GDP* (2.04%) as do three industry sectors combined.



* Percentages of Pennsylvania's 2006 GDP calculated by PSEA based on data from *Pensionomics* and the Bureau of Economic Analysis, U.S. Department of Commerce.