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Keystone Research: PA Budget Framework's Pension Deal Needs Major Upgrade

It's Better than SB1 but Cuts Benefits for New Teachers, Nurses & Other State Workers While Increasing Costs & Doing Nothing to Reduce State's Unfunded Pension Liability

Access the report online [here](#)

HARRISBURG, Pa. – Nov. 18, 2015 – Keystone Research Center's 15th pension primer, released today, analyzes a proposed agreement to create a "side-by-side" hybrid pension for new public employees, reportedly included in the tentative budget framework being negotiated between Gov. Wolf and Republican legislative leaders. Under the side-by-side plan, new employees hired beginning next year would receive a smaller defined benefit (DB) pension than existing employees, along with individual 401(k)-style defined contribution (DC) savings accounts. Several changes also would be made to existing workers' benefits for their future years of service.

[*A Silk Purse from a Sow's Ear: Making the Best of a Side-by-Side Hybrid Pension*](#), by KRC Executive Director and economist Dr. Stephen Herzenberg, is based on KRC's understanding of a still-changing pension proposal. The primer concludes that:

- While this new plan is an improvement on Senate Bill 1, it would still cut retirement benefits for new teachers, nurses and other state workers by 10.5 percent to 23 percent.
- This plan would provide a retirement benefit inferior to the side-by-side pension provided to federal employees that some advocates have advanced as a model for a Pennsylvania hybrid. The federal DB pension includes an automatic cost-of-living adjustment that translates into a lifetime inflation-adjusted retirement benefit that is about 20 percent higher than Pennsylvania's proposed hybrid would be. The proposed Pennsylvania hybrid plan is also inferior to many of the existing hybrid pensions in other states.
- Pennsylvania's proposed hybrid plan would *increase* the cost of retirement benefits for new employees. Why? Because DC savings accounts are inefficient, with high fees and low returns.
- The new design would do nothing to reduce the state's unfunded pension liability.
- Courts will likely reject as unconstitutional the only savings from the new pension proposal, which would result from benefit reductions for existing employees in their future years of service.

The primer also highlights ways the side-by-side hybrid plan can be improved, including:

- Increasing the multiplier for the DB portion of the pension above the reported 1 percent;
- Adding some automatic COLA protection to the DB portion of the hybrid when Pennsylvania's DB pensions are at least 80 percent funded;
- Exploring the potential for reducing management fees paid to hedge funds and other investment firms that manage some of the pooled assets of the pension funds;
- Initiating a process that allows private-sector workers the option of savings accounts that capitalize on the infrastructure set up to manage public workers' DC accounts.

"These changes to the side-by-side hybrid plan would mitigate its negative impacts on school and state employees and vastly improve the retirement savings options of private workers, more than half of whom have no savings at all through their job," Herzenberg said.

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