

Testimony to the Pennsylvania Senate Finance
Committee

On Retirement Security for Pennsylvania Educators
By Gerri Madrid-Davis, Executive Director, National
Public Pension Coalition

Good Morning, Chairman Browne, Minority Chair Ferlo and distinguished members of the Committee, I am Gerri Madrid-Davis, Executive Director of the National Public Pension Coalition. The NPPC is a 501(c) 4 incorporated in 2006 whose primary goal is to maintain defined benefit pension plans as the foundation of retirement security for public employees. We believe that defined benefit plans, in conjunction with Social Security and private savings through supplemental accounts and other retirement savings vehicles provide the best means for public employees to retire with dignity and provides the lowest cost alternative for public employers to meet their recruitment, retention and retirement goals.

Our member organizations include the AFL-CIO, Change to Win, AFT, AFSCME, NEA, NCPERS and SEIU. Over the past several years we has assisted state based coalitions which include union affiliates, research institutions, retiree groups,

employee associations and others with efforts designed to maintain and secure defined benefit systems to insure their continued success in providing a modest yet significant source of retirement income for public employees. In this regard, I am pleased to share some of what we have learned with the committee. As my colleague John Abraham has already shared public sector defined benefit pensions provide a modest yet significant source of retirement income to state and local government employees at a significantly lower cost than individual accounts according to research from the National Institute on Retirement Security (NIRS). Further the funds provide a significant source of liquidity for the markets as our national economy recovers and also provide significant stimulus to local economies as retirees can continue to purchase goods and services, pay the mortgage and their state and local taxes.

While attacks on public sector defined benefit plans have grown in recent years; so too has the retirement insecurity experienced by many private sector workers, with barely one in five (21%) private sector workers having access to defined benefit pensions and nearly half (49%) having no access to retirement saving vehicles of any kind at work. In its most recent Retirement Confidence

Survey released earlier this month, the Employee Benefits Research Institute (EBRI) found that only 29% of workers surveyed are very confident about having enough money to pay for basic expenses during retirement. In survey also found that an increased percentage of workers report they have virtually no savings and investments. 27% of those surveyed say they have less than \$1,000 in savings, up from 20 percent in 2009 and more than half of these workers (54%) report that the total value of their household's savings and investments is less than \$25,000.

Contrast these realities with another research study by NIRS. In its 2009 *Pension Factor* report they found that defined benefit pension income plays a critical role in reducing the risk of poverty and hardship for older Americans. Poverty rates among older households lacking pension income are about six times greater than those with such income. The study found that pensions reduce - and in some cases eliminate - the greater risk of poverty and public assistance dependence that women and minority populations in particular would otherwise face. The key findings indicate that pension receipt among older American households in 2006 was associated with:

- 1.72 million fewer poor households and 2.97 million fewer near-poor households
- 560,000 fewer households experiencing a food hardship
- 380,000 fewer households experiencing a shelter hardship
- 320,000 fewer households experiencing a health care hardship
- 1.35 million fewer households receiving means-tested public assistance
- \$7.3 billion in public assistance expenditures savings, representing about 8.5 percent of aggregate public assistance dollars received by all American households for the same benefit programs

Retirement income insecurity in the private sector is real, its significant and it has a tremendous impact on support for public sector defined benefit plans across the country. Americans who have had little access to retirement savings vehicles; those who have seen their savings compromised by high fees; and those who have saved insufficiently in their individual accounts will place tremendous burdens on our national, state and local economies, as these workers will likely require significant income supports in retirement. Medicaid expenses, which already present a significant challenge to

Pennsylvania and most states, will be significantly strained as more Americans retire but are unable to meet their basic health care needs. It has become increasingly clear that defined contribution savings accounts and Social Security alone will leave many Americans unprepared for a secure retirement.

Contrast this potential impact with the impact of a secure retirement income from a defined benefit plan and the case for maintaining the current system with modifications to assure its sustainability is clear.

The current plan has done a good job for the state of Pennsylvania, its participating employers, taxpayers and plan beneficiaries. Over the past 25 years the PSERS fund has earned 9.30 percent, which is 1.3% over the Funds actuarial rate of return assumption for the same period. Yet, funding changes are needed in order to make PSERS sustainable over the long term. Any changes should be considered with full attention to the importance of making required contributions in full and on time.

Paramount to any decisions about plan design change should be the continued sustainability of the

plan, continued adequacy of the benefit provided, reducing the plans unfunded liability over time and insuring predictable contributions for both employers and employees over time. The current system relies on shared responsibility and any modified plan should continue to do so. In our work we have seen significant reforms to state pension systems that have managed to maintain a defined benefit and meet each of these goals insuring a secure retirement income for plan participants and significant future resources for states. In closing I would offer one thought, a primary difference between public and private employers is that the relationship for public employers does not end at termination or retirement. Public employees who lack a significant source of retirement income will require significant governmental supports.

Modification of the current system allows these workers to live in dignity in retirement and further allows them to remain contributing members of society. If the National Public Pension Coalition or I can provide additional assistance to you or your staff we would be happy to do so. Thank you again for the opportunity to testify.