



June 2, 2017

To: Members of the Pennsylvania General Assembly
From: ALEC Action
Re: **Support Pension Reform in Pennsylvania**

As you know, Pennsylvania's public pension system needs structural changes in order to honor promises to public sector retirees while protecting hardworking taxpayers. According to the ALEC report *Unaccountable and Unaffordable 2016*, Pennsylvania's pensions are the 10th worst funded in America and the unfunded liabilities exceed \$16,500 for every man, woman and child in the Commonwealth. The comprehensive pension reforms under consideration begin to address those daunting challenges and may establish Pennsylvania as one of the brightest turnaround stories among the states.

I understand some legislators want a perfect solution to the unfunded public pension crisis in Pennsylvania. As a former Washington State legislator (1978-88), I am fully aware of how the "perfect solution" is sometimes not attainable. During my time in the legislature, I was never able to get a bill switching all public employees exclusively to a 401k defined contribution model – which is the best solution that works so well for many professionals in higher education around the country. But I did compromise and was able to work with legislators on both sides of the aisle to pass legislation that made significant progress in reducing the unfunded pension problem in Washington State. I didn't allow my desire for a perfect bill get in the way of passing a good bill.

The "side by side" pension reform being negotiated by House and Senate leaders seeks to provide workers with several retirement options, including two defined benefit/contribution hybrids and a 401k-style plan. This type of model has been successfully implanted in Rhode Island, Tennessee, Virginia and Washington. The most beneficial part of the plan creates a defined contribution component for every new state and school district employee by 2019.

Employees, especially millennials, benefit from the portability of the 401k component, which empowers workers to make career and geographic decisions based on their own aspirations and preferences, rather than out of fear of losing retirement benefits.

In addition to employee retirement security, overall financial risk to the government is mitigated with reforms, since the government must fully fund its share of the defined contribution plan each year, no long term liabilities can accrue from this component.

The time for reform is now. In the Commonwealth Foundation's call for reform, they reported that "from 2009 to 2015 school district revenue statewide **grew by \$3.9 billion**, yet 47 percent of this increase went to pension payments." Failure to address the looming crisis means one or more of the following: higher tax burdens, cuts in essential government services, or renegeing on promises to public sector retirees.

Both public employees and taxpayers win by preserving retirement security for existing and future employees while putting in place a more fiscally sustainable benefit for new workers. If you have any questions, or would like to discuss the issue in more detail, please feel free to contact me.

Thank you for your dedicated service.

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