State officials seek pension cuts in Pennsylvania

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Pennsylvania Governor Tom Corbett and state legislators are seeking to cut pensions for hundreds of thousands of state employees and teachers covered by the two state pension systems. The proposal seeks to continue the underfunding of current pension plans while forcing new employees over to a 401(k)-like plan, in which workers' retirement becomes dependent upon the stock market.

In his annual budget address in February, Corbett called for regressive reforms to the state's two public employee retirement systems, the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS). He said, "Billions in new debt to our state is the cost of doing nothing. The only question is whether we will do it now, when it's still a manageable problem, or let others do it later, when it's an all-out-crisis."

The Corbett administration is projecting an overall budget deficit of $1.2 billion for the next fiscal year, beginning on July 1, and is again proposing major cuts to human services especially education, mass transportation, libraries and health care.

However, following the lead set by Michigan Governor Snyder and the Obama administration, Corbett has made his primary goal an attack on the pensions of public employees. According to Corbett, the pension system has $47 billion in unfunded liability on the part of the state. The debt was in part fueled by cuts the state made to employer contribution rates to the pension fund over the past decade.

Act 120, passed by Democrats and Republicans, with the backing of the unions in 2010, represented the first attack on pensions in the state, but it has not solved the funding gap. It increased the retirement age to 65, cut benefits for new employees and prohibited the lump-sum withdrawal option.

The current proposal, backed by Corbett, is a hybrid plan that mixes particular aspects of defined-contribution plans and traditional pensions. It has a defined benefit (DB) component and a defined contribution (DC) component, wherein the employee has to contribute a share of income. Starting in 2015, all new state and school employees will have to enroll in this hybrid plan. They would pay 6 percent of salary up to $50,000 a year into a traditional plan and 1 percent into a 401(k)-like plan, with the employer matching .5 percent. For employees with salaries over the $50,000 cap the employer would pay up to 4 percent of salary match into a 401(k)-like plan. The $50,000 cap would rise over time.

In the short term, Corbett has proposed to delay the problem until the state legislature can enact more drastic pension cuts. He is using tactics such as deferring $300 million in scheduled pension payments, which would accumulate to around $4.7 billion in new pension debt over four to five years, along with the reduction of pension contribution rates for the state and its 500 school districts. Moreover, he will use $225 million in securities from a health venture account and cash reserves from the tobacco settlement fund to cover some of the pension costs.

Last year, Corbett tried to attack current employees' pension plans by re-calculating the benefits earned in future years, ultimately shrinking the amount of money a worker could receive. This was in direct conflict with the state constitution. In 1934 the Pennsylvania Supreme Court ruled that pension benefits could not be taken away as long as workers abide by the rules of employment. Corbett had argued that there would be no infringement on the state constitution since it was a change in future benefits, not present benefits. However, the legislature failed to enact the changes,

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avoiding a court showdown.

Based on recent precedents, it is likely that new attempts will by made on the pensions of Pennsylvania public employees. Corbett's proposal came before the federal bankruptcy court ruling in Detroit opened the way to wholesale pension cuts in that city. In December 2013 Detroit Emergency Manager Kevin Orr, backed by the Obama administration, obtained a ruling that federal bankruptcy law overrides Michigan's constitutional protections of public employees' pensions.

At the same time, in Chicago, Mayor Rahm Emanuel has been working with the Obama administration and Democratic politicians to enact legislation that cuts the city's pension obligations.

State officials demagogically blame rising pension and health care costs for Pennsylvania's budget problems. According to Budget Secretary Charles Zogby, "rising pension costs for state and public school employees, coupled with increased costs for health care to the poor" are wholly responsible for the rising debt.

However, the Pennsylvania legislature and Corbett have drastically lowered taxes for businesses. They have issued cuts to the state's capital stock and franchise tax, costing the state $600 million a year, and lowered a bank tax, costing another $25 million. Further, Corbett is proposing to cut the state's corporate net income tax from 9.99 percent to 6.99 percent, phasing it in over a 10-year period. This will cost more than $771 million per year, according to the Pennsylvania Budget and Policy Center. Meanwhile, the legislature has allowed natural gas drillers in the Marcellus Shale to reap huge profits by blocking a severance tax, and the state has continued its flat income tax, letting millionaires pay the same percentage of taxes as a worker making $33,000.

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