Pennsylvania government is preparing to destroy public pensions

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Pennsylvania lawmakers have passed a comprehensive public pension reform bill that will permanently end pensions for future state workers and diminish the returns of current workers. The bill would impact over 350,000 workers throughout the state.

The state's Republican-controlled Senate passed the bill by a 28-19 vote last week. All new state employees would be enrolled into a 401(k)-type plan, while current employees would be forced to pay more into their plans. Workers who cannot afford the higher payments will have their pension benefits cut.

For some workers, this bill would eliminate up to 70 percent of their pensions. The Pennsylvania School Employees' Retirement System (PSERS) conducted a study using formulas from the bill modeling typical workers. The results found that "three of the six young employees modeled, despite an expected 35 years of service in two cases, are projected to have annual pension benefits of less than $10,000."

Senator Jake Corman, the leading Senator in passing the bill, mouthed the usual threats to the effect that, unless cuts to pensions are made, the state faces drastic cuts in other programs and the pension system will go bankrupt. He told radio listeners on Smart Talk that this is the principal issue driving spending in the state capital of Harrisburg, that the state cannot invest in schools or infrastructure, because of the pension problem. He continued, "Moving forward [we are] giving people options to design the system which best meets their needs but also saves their system, which is the most important thing. … This is about securitizing their retirement."

The bill now goes to the state House and then to Governor Tom Wolf for his signature. The Republican-controlled House is expected to pass the measure.

Wolf has not indicated whether or not he will sign the measure. A Democrat, he came into office with the strong backing of the state employees' and teachers' unions. In general he supports a shift towards a 401(k)-style pension for new workers and some cuts for current employees, but not as deep as those contained in the Senate bill. He has proposed a series of tax increases that fall primarily on the working class and poor, and a bond issue that would make up $3 billion of the $50 billion pension shortfall.

The Senate proposal will now become the basis of negotiations between the two sides, with the July 1 budget deadline for the next fiscal year approaching. The outcome will surely lead to drastic cuts for government workers and teachers. This is part of a perpetual assault on public service employees pensions, both in Pennsylvania and nationwide.

In 2010, then-Democratic Governor Ed Rendell signed the Pension Reform Act, reducing pension benefits for new employees by more than 20 percent, raising the retirement age to 65, and increasing employee contributions. Taking office after Rendell, former Governor Tom Corbett advocated for the elimination of pensions for current and future workers, and was even willing to reduce monthly payments for retirees.

Across the country, Democrats no less than the Republicans have terminated pension or are attempting to do so, as in Detroit, Chicago, and Stockton, California. In the case of Detroit the judiciary has fully backed the creditors, Wall Street financiers and the propertied class as a whole in slashing the pensions and other benefits of retirees.

Altering the pension plans of current workers in Pennsylvania is in violation of the State's constitution. However, the bankruptcy of Detroit has underscored the fact that both Democrats and Republicans will use the courts to bypass such restrictions. Pennsylvania can be expected to follow this example.

A recent study by the National Association of State Retirement Administrators of pensions systems in every state found that Pennsylvania had the second largest underfunded pensions in the country, following only New Jersey. The report found that “the chronic underfunding began when required contributions [by the state] had dropped to very low levels by historical standards, including to as low as zero for some plans, chiefly as a result of strong investment gains experienced from 1995 to 1999…When required contribution rates rose, chiefly as a result of the 2000-02 market decline, the states [PA and NJ] experienced great difficulty in restoring the stream of pension funding payments that had previously been in place.”

Put differently, the state decided to inadequately fund pensions on the assumption that the stock market would continue to prosper, freeing up money to invest elsewhere. Once the market turned sour, Harrisburg was unprepared to contribute its share. Compounding the problem, the state has cut taxes on the wealthy and corporations.

The pension debt amounts to over $50 billion and will increase by $1 billion over the next year. Municipal pensions in Pennsylvania are experiencing the same problems, with debt amounting to $7.7 billion. Earlier this year the Democratic auditor general, Eugene DePasquale, called for the plundering of these pensions, threatening that otherwise many Pennsylvania cities would face a Detroit-style bankruptcy.

The looming attacks on Pennsylvania pensions come just months after recently elected Democratic Governor Tom Wolf proposed new taxes that primarily targeted the working class. Wolf also called for a task force that is being led by DePasquale and that is charged with “solving” the municipal pensions problem.

Wolf has postured not as a defender of the pension system, but as the politician best able to ram through pension reform, with the backing of the union bureaucracy. He has stated publicly that he will not touch retirees’ benefits, but that he is willing to cut pensions for new and current employees. However, nothing Wolf says in public should be taken at face value: he ran for governor on the platform of raising taxes on the wealthy, but did entirely the opposite once elected.

An agreement is taking shape between Wolf and the Republican-controlled Legislature that will cut the pensions of new and current state workers and teachers.

On top of the passage of the Senate bill, the House approved a tax reform bill along similar lines to Wolf’s budget and his assault on the working class. It plans on raising personal income and sales taxes. The Governor expressed warm support for this legislation upon its passage.

As the July 1 budget deadline approaches, the various pieces of the budget, including the possibility of privatizing the state-owned wine and liquor stores, will need to be “reconciled.” There is not the shadow of a doubt that both parties will unite in the end to attack the hard-fought gains of the working class.