

Pennsylvania: Democrats move to cut state worker and teacher pensions

Samuel Davidson
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Democratic governor Tom Wolf took a step closer to cutting the pensions of Pennsylvania state workers and teachers. The move comes as part of a deal with Republican lawmakers to enact a state budget that is now more than eight weeks overdue.

Last week, Wolf met with leaders of the state legislature and presented a proposal that would place the highest paid newly hired teachers and state workers into a 401(k)-style pension agreement. While this would affect 4 percent of newly hired teachers and 6 percent of newly hired state workers, it opens cuts to pensions as part a budget deal.

Eyeing their opening, Republican lawmakers countered on Tuesday by agreeing to the governor's request to increase education spending by \$400 million if Wolf would agree to ending defined benefit pension plans and moving all newly hired state workers and teachers into a 401(k)-style plan.

On Thursday, Wolf called the proposal "very positive" and praised the Republicans for making a proposal. He cancelled several public appearances and meetings he had scheduled, saying he was studying the plan. Meetings between Wolf and the Republican lawmakers are scheduled to take place on Monday.

Wall Street has also stepped in and is demanding massive cuts be made to both the pensions and other social programs in the state. Fitch Rating service, which rates Pennsylvania's bonds and other debts, issued a statement on Thursday saying it wasn't concerned about the state not having a budget since the state must continue paying its debts and interest payments to bondholders.

Instead, the rating agency stated that when a budget is passed it must address Pennsylvania's "structurally unbalanced budget, depleted reserves, and a rapidly growing pension contribution burden following years

of contribution underfunding and market-driven investment declines."

Pennsylvania has been without a state budget since June 30, when the 2014-2015 budget ended. The government has continued what it calls essential services, mainly state police, prisons and the parole system. Payments for most social programs, to county governments and local school districts have all stopped.

The media is presenting the dispute over the budget as negotiations between opposing sides. In reality, both Democrats and Republicans agree that workers throughout Pennsylvania must be made to pay for the crisis. The only difference is that Wolf wants to work with the state workers and teachers' unions in imposing the cuts while the Republicans favor a more frontal assault.

The Republican plan does not offer a funding source for the increased education spending. Instead, they say other social services such as health care, funding for libraries and museums, and assistance to the elderly would have to be cut. They are also seeking the sell-off of the state-run liquor stores, which would mean firing more than 5,000 workers.

Wolf is proposing an increase in the personal income tax and sale tax rates, taxes that fall disproportionately upon low-income workers and the poor. Wolf is also seeking to tax the gas industry, which has enjoyed a massive growth in fracking during the past decade.

Even if funding is found for education, it would still leave funding for local school districts over \$200 million short of just what would be needed to restore funding to levels before the onset of the 2008 financial collapse. Nor would it do anything to make up the nearly \$3 billion in funding shortfall that accumulated during the past five years due to the cuts.

The major unions representing state workers—the

American Federation of State County and Municipal Employees and Service Employees International Union, as well as those representing teachers and school employees, the Pennsylvania Federation of Teachers and the Pennsylvania State Education Association—are basically keeping quiet about the proposals. They have already endorsed Wolf’s proposal for increasing the sales and income tax and will undoubtedly support the cuts in pensions with the argument that it is the best that can be done under the economic circumstances.



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