



**PSBA Pension Reform Proposal**  
**Presented to the House Republican Policy Committee**  
**March 25, 2010**  
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**PSBA President and Parkland School District School Board Member**

Good afternoon, Chairman Saylor and members of the House Republican Policy Committee. Thank you for allowing me to offer testimony on the important issue of pension reform. My name is Roberta Marcus and I am the Pennsylvania School Boards Association president and a Master School Board member of Parkland School District.

While my co-testifier, Jeffrey Sultanik, will be able to delve into the effect the pension crisis will have on school districts on a larger scale in his testimony, I would like to take this opportunity to discuss the actual impact that the employer contribution rate “spike” and subsequent plateau will have on an individual school district. Taking a look at Parkland School District as an example, the employer contribution rate at 8.22% will cost the district an additional projected \$1.2 million (gross) for the 2010-2011 school year. The following school year, 2011-2012, calculating at a projected employer contribution rate of 10.59% will cost the school district an additional projected \$1.8 million (gross) and the projection of 29.22% for the 2012-2013 school year will amount to an additional projected \$13.5 million (gross).<sup>1</sup> The additional net cost to Parkland School District will be approximately \$6.7 million or 2.87 mills.<sup>2</sup>

What tangible impact do these figures have on Parkland School District? I am not overstating in saying that if nothing is done to mitigate the impending increase in employer contribution rates that are being projected, the school district will be forced to examine and consider cuts to every expenditure it makes, from nonessential programs to class-size to personnel.

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<sup>1</sup> The projected dollar amounts for Parkland School District for the 2010-2011, 2011-2012, and 2012-2013 school years are provided as gross figures. The gross figures represent the amount the Commonwealth and school district will be responsible for, combined. The school district is reimbursed for fifty percent of the gross amount by the Commonwealth.

<sup>2</sup> Please note that projections for Parkland School District were calculated assuming a three percent increase in payroll per year. These numbers provide for a reasonable assumption of growth for the school district but are obviously subject to change based upon actual growth.

As Mr. Sultanik will further explain, the economic crisis that the entire country has been battling has had and will continue to have an impact on the financial state of school districts in the Commonwealth. The largest funding source for Parkland School District, providing 71% of the district's total funding, is the local real estate tax, with the next largest local source of revenue, 7 % of the district's total funding, being derived from the collection of the Earned Income Tax (EIT).<sup>3</sup> Employment trends in the Parkland School District are worrisome, affecting EIT collections, and the district has certainly felt the effects of the downturn in the real estate market. Interest rates have moved downward meaning that, for budgeting purposes, earnings from investments for 2010-2011 will decrease based on current and projected interest rate movement. It is also important to note that other budgetary issues must be considered when evaluating the school district's overall financial state, including the Governor's budget proposal to level-fund special education for the second year in a row.

Parkland School District is not alone in the impact that will be felt. Attached to my testimony, you will find the projected PSERS pension increases occurring in the school year 2012-2013 as compared to 2008-2009 for school districts located in Lehigh and Northampton counties, including numbers for career and technical centers, area vocational technical schools and intermediate units that serve these counties. For the school districts located in Lehigh County, the net employer contribution in dollars for the 2008-2009 school year is more than \$6.6 million; the net employer contribution in dollars for the 2012-2013 school year is projected to be more than \$45.6 million, for an increase of more than \$39 million. For school districts in Northampton County, the numbers are very similar, with the net employer contribution in dollars for 2008-2009 at more than \$6.3 million and the net employer contribution in dollars for 2012-2013 at more than \$46.2 million, there will be an increase of nearly \$40 million. That means that by the 2012-2013 school year, the net employer contribution will have increased by 590.56% and 626.93% for Lehigh County and Northampton County, respectively.<sup>4</sup> These are obviously not small increases—these are valuable dollars that the district will not be able to spend

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<sup>3</sup> Please note that the EIT collections are the second largest source of *local* revenue. Parkland School District receives 10.8 percent of its funding from the Commonwealth.

<sup>4</sup> The total figures for Lehigh and Northampton counties were calculated by PSBA staff using projections and calculations provided by PSERS for each individual school district (see attachment). The PSERS projections were calculated using an anticipated percentage of growth of payroll that differed from those used specifically for Parkland School District, based on the pension system as a whole, which may account for some discrepancies between the numbers provided by PSERS and those provided by Parkland School District.

on programs to improve the academic achievement and learning experience of its students making them workforce or college ready.<sup>5</sup>

Also attached to my testimony today, you will find an outline of the short-term and long-term solutions proposed by PSBA in response to the PSERS pension crisis. The long-term solution is embodied in House Bill 2135 introduced by Representative Glen Grell and Senate Bill 1185 introduced by Senator Gene Yaw. These bills create a hybrid pension system for future public school employees, changing the current system from a 100% defined benefits system to a hybrid defined benefits/defined contribution system. This hybrid system proposed by PSBA would still provide a viable pension benefit to school employees, providing individuals at the time of retirement with the benefits earned by both the defined benefit investments and their defined contribution benefits of the system.

We believe that the short-term solution to the spike will take a combination of finding a temporary source of new revenue for the fund and employing some deferral of the system's liability. Therefore, a comprehensive solution to the pension crisis will involve a combination of three actions; first, reducing benefit levels for future employees, second, finding a new source of revenue for the system and third, deferring the system's liabilities. Most importantly, however, is the reality that any one of these three potential solutions without employing the other two will not completely resolve the problem. Both the rate spike and the ensuing rate plateau must be addressed and that can only be done by implementing all three actions.

At this time, I would like to turn it over to Mr. Sultanik who will discuss the challenges facing districts overall, such as the impact the current economic recession has and will have on school districts and the considerations those districts will have to make when addressing collective bargaining issues. Again, I would like to thank the committee for the opportunity to present testimony here today and I and Beth Winters from PSBA's Governmental and Member Relations department would be happy to address any questions that you may have.

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<sup>5</sup> The net amounts provided in this testimony are the amounts the school districts alone are responsible for, calculated by taking the total employer contribution amounts less the Commonwealth's share.



# *the* **PENSION CRISIS**

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## **Talking points -Pension Hybrid Legislation – HB 2135, SB 1185**

HB 2135 (Grell – R- Cumberland) and SB 1185 (Yaw – R- Lycoming) represent PSBA's long term solution to the pension issue. These bills call for the creation of a hybrid pension system for school employees, one that combines the advantages of a defined benefit and a defined contribution system.

The bills would do the following:

- Create a new class of employees, T-E, comprised of individuals who join the system after June 30, 2010. These employees would be enrolled in the new hybrid system rather than the current defined benefit system
- Class T-E employees would earn the benefits of a defined benefit system, albeit at a lower benefit level. Changes in the DB portion of the hybrid plan are:
  - Multiplier lowered from 2.5% to 1%
  - Vesting time increased from 5 years to 10 years
  - Employee contribution lowered from 7.5% to 3.25%
- Would create a defined contribution program to accompany the defined benefits portion. The defined contribution plan would:
  - Require a minimum 3% contribution on the part of school employees
  - Require a 2% maximum contribution on the part of school employers
  - Require PSERS to create a series of investment portfolios so that members could invest their contributions. At least one of the investment packages would be designated a default investment should a member not choose any specific investment
  - Requires PSERS to set the rules and regulations for investing in the D/C fund
- Sets a minimum employer contribution so that even when system is fully funded, the lowest the employer rate could go would be 4%
- Provides that increases in school district contributions to the pension system would be capped at the Act 1 index. Should the increase in the school district share of the employer contribution rate exceed the current year Act 1 index, the state would pick up the difference between the new employer contribution rate and the index.

**Advantages to taxpayers, school employers and the commonwealth:**

- System would gradually reduce the employer contribution rate as more members of the current system retire and are replaced with members of the new hybrid plan
- A reduction in the liability of taxpayers, school employers and the commonwealth to ensure the provision of pension benefits
- Provides a sensible method of reducing system costs and liabilities while continuing to provide an adequate pension

**Advantages to school employees:**

- Provides a sensible method of reducing system costs and liabilities while continuing to provide an adequate pension.
- Will provide anywhere from 53% to 63% of final average salary depending on stock market performance and amount invested
- Provides a pension system that is better than most private employers

**2012-13 Employer Contribution Projections  
Showing Increase for  
Total Employer Contributions, Commonwealth Share & Net Employer Share  
Over 2008-09 Year**

1/27/2010	PSERS EMPLR NBR	COUNTY NAME	NON-SCHL ENTITY? CHARTER SCHOOL?	EMPLOYER ENTITY NAME	2008-09 Tot Empl Cont (Rate = 4.76% of payroll)	2008-09 Comm Share	2008-09 Net Employer Share	2012-13 Projected Tot Emp Cont (Proj Rate = 29.22% of Payroll)	Projected 2012-13 Comm Share	Projected 2012-13 Net Emp Share	Projected 2012-13 Increase Over 2008-09 Tot Emp Cont	Projected 2012-13 Increase Over 2008-09 Comm Share	Projected 2012-13 Increase Over 2008-09 Net Emp Share
	5525	LEHIGH	SD	ALLENTOWN CITY SD	4,892,561.71	3,156,572.26	1,735,989.45	35,474,439.68	24,913,326.27	10,561,113.41	30,581,877.97	21,756,754.01	8,825,123.96
	5530	LEHIGH	SD	CATASAUQUA AREA SD	576,611.96	288,305.98	288,305.98	4,180,833.57	2,228,471.91	1,952,361.66	3,604,221.61	1,940,165.93	1,664,055.68
	5545	LEHIGH	SD	EAST PENN SD	2,261,972.09	1,130,986.04	1,130,986.04	16,400,854.42	8,200,427.21	8,200,427.21	14,138,882.33	7,069,441.17	7,069,441.17
	5565	LEHIGH	SD	NORTHERN LEHIGH SD	574,394.17	317,373.90	257,020.27	4,164,753.04	2,417,074.48	1,747,678.56	3,590,358.87	2,099,700.59	1,490,658.29
	5568	LEHIGH	SD	NORTHWESTERN LEHIGH SD	787,460.90	393,730.45	393,730.45	5,708,504.01	2,854,252.01	2,854,252.01	4,921,043.11	2,460,521.55	2,460,521.55
	5570	LEHIGH	SD	PARKLAND SD	2,852,376.42	1,426,188.21	1,426,188.21	20,682,081.84	10,341,040.92	10,341,040.92	17,829,705.42	8,914,852.71	8,914,852.71
	5575	LEHIGH	SD	SALISBURY TOWNSHIP SD	630,165.53	315,082.77	315,082.77	4,569,133.82	2,284,566.91	2,284,566.91	3,938,968.29	1,969,484.14	1,969,484.14
	5580	LEHIGH	SD	SOUTHERN LEHIGH SD	989,603.59	494,801.80	494,801.80	7,174,977.02	3,587,488.51	3,587,488.51	6,185,373.43	3,092,686.72	3,092,686.72
	5594	LEHIGH	SD	WHITEHALL-COPLAY SD	1,124,227.33	562,113.67	562,113.67	8,154,916.37	4,077,458.19	4,077,458.19	7,030,689.04	3,515,344.52	3,515,344.52
	6808	NORTHAM	SD	BANGOR AREA SD	1,027,067.16	580,153.35	446,913.81	7,446,943.75	4,305,883.50	3,141,060.25	6,419,876.60	3,725,730.16	2,694,146.44
	6818	NORTHAM	SD	BETHLEHEM AREA SD	4,505,507.83	2,252,753.91	2,252,753.91	32,668,954.83	16,334,477.42	16,334,477.42	28,163,447.00	14,081,723.50	14,081,723.50
	6852	NORTHAM	SD	EASTON AREA SD	2,589,799.42	1,326,538.69	1,263,260.72	18,774,721.61	9,387,360.81	9,387,360.81	16,184,922.19	8,060,822.11	8,124,100.08
	6901	NORTHAM	SD	NAZARETH AREA SD	1,263,388.00	631,694.00	631,694.00	9,160,432.54	4,580,216.27	4,580,216.27	7,897,044.53	3,948,522.27	3,948,522.27
	6910	NORTHAM	SD	NORTHAMPTON AREA SD	1,543,722.65	771,861.33	771,861.33	11,193,051.70	5,596,525.85	5,596,525.85	9,649,329.04	4,824,664.52	4,824,664.52
	6923	NORTHAM	SD	PEN ARGYL AREA SD	503,981.54	257,863.45	246,118.09	3,653,730.26	1,905,913.91	1,747,816.35	3,149,748.72	1,648,050.46	1,501,698.26
	6875	NORTHAM	SD	SAUCON VALLEY SD	831,760.01	415,880.00	415,880.00	6,028,117.58	3,014,058.79	3,014,058.79	5,196,357.57	2,598,178.79	2,598,178.79
	6978	NORTHAM	SD	WILSON AREA SD	674,138.15	340,883.24	333,254.92	4,887,965.59	2,443,982.80	2,443,982.80	4,213,827.44	2,103,099.56	2,110,727.88
	5554	LEHIGH	CTC	LEHIGH CAREER & TECHNICAL IN	532,528.40	266,264.20	266,264.20	3,861,197.44	1,935,646.49	1,925,550.95	3,328,669.03	1,669,382.28	1,659,286.75
	6819	NORTHAM	CTC	BETHLEHEM AVTS	229,107.00	114,553.50	114,553.50	1,661,183.43	830,591.71	830,591.71	1,432,076.43	716,038.21	716,038.21
	6963	NORTHAM	CTC	CAREER INSTITUTE OF TECHNOL	158,249.96	80,983.66	77,266.31	1,147,421.15	573,710.58	573,710.58	989,171.19	492,726.92	496,444.27
	9914		IU	CARBON-LEHIGH I U	1,612,626.28	812,835.11	799,791.17	11,692,650.40	5,965,017.64	5,727,632.76	10,080,024.12	5,152,182.53	4,927,841.59
	9922		IU	COLONIAL I U	1,656,103.74	890,672.74	765,431.00	12,007,891.95	6,351,751.21	5,656,140.73	10,351,788.21	5,461,078.48	4,890,709.73