

TESTIMONY OF
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AFSCME COUNCIL 13
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Thank you Mr Chairman, and the rest of the Committee, for this opportunity to address this pressing issue.

My name is David Fillman. I am the Executive Director of the American Federation of State, County and Municipal Employees (AFSCME), Council 13. Council 13 represents over 65,000 members in Pennsylvania, of whom 45,000 are employees of the Commonwealth of Pennsylvania, and 20,000 work for various Counties, Townships, Boroughs, Cities, Authorities, School Districts and non-profit employers.

We do represent a majority of Commonwealth of Pennsylvania employees who are members of the State Employees Retirement System (SERS) as well as thousands of School District employees, who are members of the Pennsylvania School Employees Retirement System (PSERS). So the problems of both SERS and PSERS affect about 75% of the membership of AFSCME Council 13. Additionally, I sit on the Board of SERS as an appointment of the Governor, and have had that privilege since the year 2000.

I realize you have had many days of hearings, so I will try not to repeat too much of what was said previously.

First, a portion of the funding problem was the ability for the Commonwealth and School District employers to take advantage of "contribution reductions" during years of significant return on our investments. This was perfectly legal. However, during these contribution reductions, the EMPLOYEES continued to contribute FULLY their required contribution, even though their contributions were also apart of the high returns that the

employers were enjoying.

As we discuss the 2012 spike, which has been explained in previous testimony, some of the discussions generated are scrapping the Defined Benefit (or DB) plan, for new employees to be placed into a Defined Contribution (or DC) plan, or even a hybrid DB plan.

As are most of us in this room, we came into public service hardly for the glamorous lifestyle or pay, but for a bit of retirement security in our future. Taking away the DB plan would be to take away a significant reason we have quality public employees today.

I do want to state the disadvantages of changing from a DB plan to a DC.

First, as a member of SERS, the investments of a large scale, single plan, as SERS or PSERS, has helped to provide seed money for many businesses here in Pennsylvania. As an appointee to SERS, I would like to keep as much money invested in businesses in Pennsylvania, so they can grow, as, too, our investment. I believe a few years ago, when pensions again were being discussed, various business owners in Pennsylvania came forward to say their business would not be where it is today, without the investments from the various public employees pension plans.

There is already a history of downsides from other states conversions from DB to DC plans.

The Illinois Municipal Retirement Funds general counsel had concluded that their expenses under a DC plan would be \$315 million versus \$65 million they paid under a DB plan.

West Virginia closed their teachers DB plan in 1991, but reopened it in 2008, all due to funding problems. Given the choice, 75% of W. Virginia teachers transferred back

to the DB plan. Clearly, the plan of choice for these professionals.

A real concern that could happen in a DB to DC conversion in PA, happened in Alaska. In 2005 Alaska converted from a DB to a DC plan. The EMPLOYER AND EMPLOYEE contributions no longer went into the DB pool, so all those contributions were spread out in thousands of individual DC accounts, losing the advantage of the employers contributions having returns of a larger scale. So if PA converted, the 2012 spike is aggravated due to the loss of both employer AND employee contributions (for new employees). This loss to the DB plan pool increases as new employees are continually hired.

Although portability has always come up as an issue with DB plans, portability really becomes a non-issue for a majority of public employees. This is due to the stability of public employees in the work force. A stable workforce has ancillary savings for any employer, as high turn-over of employees in transition and training costs is a trade off for employees with longevity.

Finally, public employment comes with inherent physical demands. We know this when we take a public sector job. Be it an LPN or Certified Nursing Assistant or RN with work related back injuries or a client who acted up. Or a Correctional Officer or Law Enforcement Officer with its obvious life threatening risks. Or a Highway Worker who is subject to a car crashing into a work zone or, worse, of the 100 AFSCME Highway Workers who lost their lives in the last 30 years. A DB plan has provisions for a disability retirement. This is the least we should provide for employees who put their lives on the line for the citizens of Pennsylvania on a daily basis.

Additionally, an effective way to reduce the number of employees, outside of furloughs, is the offering of early retirement provisions. Both the disability retirement or

early retirement options are NOT attainable in a DC plan.

My last statistic will sum up the shortfalls of DC plans. The Employee Benefit Research Institute showed that 54% of workers have less than \$25,000 for their entire retirement, and 27% have less than \$1,000, putting a strain on our public assistance programs.

AFSCME is fully prepared to work to help resolve this crisis, yet we are committed to maintain a quality pension benefit for the thousands of state and school district employees.

Thank you for my opportunity to be before you today.