

My name is Joe Scheese and I represent the taxpayers in the Oxford Area Taxpayer Alliance. I am also a school director in the Oxford Area School District, but today, I do not speak for the school board. My position as a school director does afford me a perspective and first hand knowledge of the PSERs issue.

Currently it is estimated that there is a One Trillion Dollar short fall in all public pension systems nationwide. Every system is treated as an entitlement. It is simply not sustainable.

When I think of this problem and the potential solutions I try to find a simple analogy that put the issue into perspective. Imagine you returning home from an evening out to find 3 inches of water on your basement floor and water flowing from a burst pipe. A person with any common sense would first turn off the water and then begin to address the cleanup. This is exactly the problem facing all Pennsylvanians today with the public pension systems. We need to turn off the water and then address cleaning up the mess.

There is no value in debating how, when or why the pipe burst. I see no value in rehashing the subject of how the pension got to its current state. We are here and we need to do something now.

The only way to stop the flow is to borrow a plan from the private sector. Almost every major company has addressed this problem in the recent past and the legislature should look at these examples for a solution.

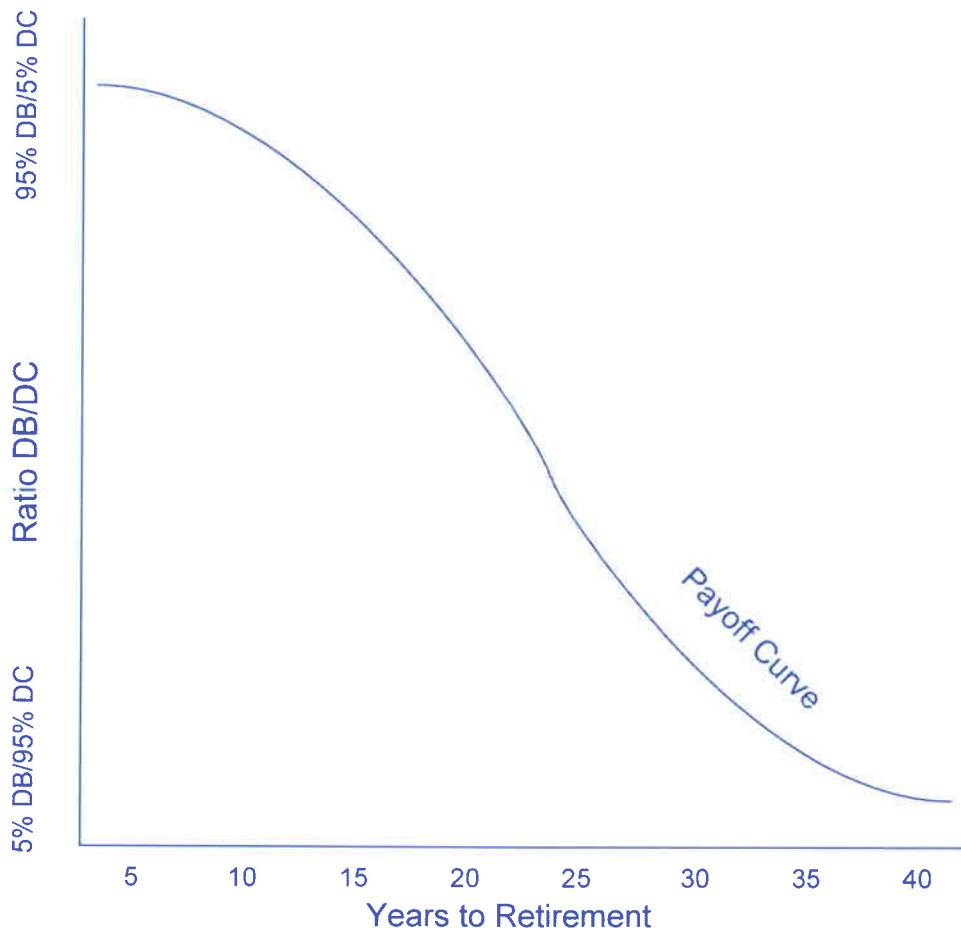
I know of no private company that offers a defined benefit pension today. Every new employee hired after a given date is offered a defined contribution system. Pick a date and every employee hired after that date would receive a contribution of some percentage of the current salary regardless of their contribution to their retirement account. Employees would be allowed to contribute pretax or after tax money up a maximum percentage, perhaps 20% of their salary.

Most private companies honor their commitment to those employees close to retirement age and already receiving retirement benefits. An example in this case could be for those employees within 5 years of retirement and those receiving their pension benefit, you honor the commitment.

For employees with less than 5 years in the system, you simply buy them out with a cash deposit to their private retirement account.

The difficulty now becomes how to transition the remaining people with more than 5 years in the system and more than 5 years from retirement.

One option for conversion is handled by a ratio of defined benefit and defined contribution based on years until a given retirement age. This simple graph shows a possible example:



Convert every employee with more than 5 years until retirement to a combination of a defined benefit and a defined contribution. While this method still has the taxpayer on the hook for the defined benefit portion, the system will purge itself over time and will become a defined contribution only system.

Another option, using the same type of graph, would be to calculate the cash value for every participant in the system, take the one time hit, and make a cash deposit to the individuals retirement account. From that point forward, the system becomes a defined contribution only system.

Other possible solutions are being offered such as HB2135/SB1185. This hybrid system does nothing to eliminate the defined benefit over time and only perpetuates the problem while offering some relief to the taxpayers. For the taxpayers I represent this is not acceptable.

Actions that could be taken immediately would be eliminating part-time worker eligibility for PSERs. I know of a track coach with a non-school district fulltime job that is eligible for a PSERs pension. Eliminate the ability for a retiree to withdraw their full contributions at a guaranteed rate of return of 4%. This

reduces available capital for future earnings to help cover the cost of people receiving benefits.

Because of the short fall in the current pension systems, any solution will require additional funding from some source. Sales Tax revenue should not be used to fund any pension solution, but should be reserved for the original intent of funding public education. The co-opting of this revenue source could jeopardize any future Education Funding Reform so greatly needed in Pennsylvania. Perhaps the long awaited gambling funds could be earmarked to this problem until they system is completely converted to a defined contribution system.

It will require political courage to come up with a final solution. Any solution must put the public sector employee on par with the private sector employee. Any solution that can accomplish this task will not favor well with the special interest groups such as the PSBA, and the PSEA. This is where courage will be required. The voters, most who are not members of these special interest groups, but will suffer the tax increases if this problem is not addressed, will not forget those legislators that favored the special interests over the common taxpayer.

Joe Scheese  
302-229-7174 (cell)  
[scheesjl@zoominternet.net](mailto:scheesjl@zoominternet.net)