May 28, 2015

The Honorable Daryl D. Metcalfe
Chair
State Government Committee
Pennsylvania House of Representatives
240 Ryan Office Building
Harrisburg, Pennsylvania 17120-2217

Dear Mr. Chairman:

I am writing to you on behalf of the National Council on Teacher Retirement (NCTR) in connection with your June 4, 2015, hearing on Senate Bill 1, proposed legislation that I understand would establish a defined contribution retirement benefit plan applicable to all newly-hired Pennsylvania public employees as well as add a cash balance retirement benefit tier to the existing defined benefit structure.

NCTR, founded in 1924, is an independent 501(c)(6) association dedicated to safeguarding the integrity of public retirement systems in the United States and its territories to which teachers belong, and to promoting the rights and benefits of all present and future members of these systems. NCTR membership includes 68 state, territorial, and local pension systems—including the Pennsylvania Public School Employees’ Retirement System—which serve more than 19 million active and retired teachers, non-teaching personnel, and other public employees, with combined assets of over $2 trillion in their trust funds.

NCTR believes that all Americans should have access to a pension plan that will provide adequate and reliable retirement security, and one of our primary purposes, as set forth in our constitution, is to provide guidance in the development and management of financially sound and equitable retirement plans for qualified career public employees, and to promote benefit levels for members and beneficiaries that will assure economic security.

In this regard, NCTR specifically supports public pension plans that are designed to:

- Assure self-sufficiency for retirees by providing a predictable benefit that is guaranteed for life, including cost-effective disability and survivor benefits.
- Create a high performance workforce by providing a benefit that will attract and retain quality and highly trained public employees.
• Lower overall benefit costs by pooling the risk of outliving retirement benefits and of investment losses over the total number of participants.

• Invest plan assets at a low cost in order to produce (1) predictable cash flow for payment of recipient benefits that contribute to state and local economies; (2) earnings that reduce future employer and employee contributions; and (3) a large pool of capital that provides entrepreneurial funding that would not otherwise be available to strengthen the economy.

• Provide flexibility that helps state and local governments maintain an effective workforce.

NCTR would therefore encourage your committee to keep these tenants in mind as it considers possible changes to the existing retirement security model for Pennsylvania’s public employees. While NCTR believes that public employees should also have access to voluntary participation in employer-sponsored defined contribution plans which can play a meaningful role in providing supplemental, tax-deferred retirement savings, we are convinced that any restructuring of Pennsylvania’s public pension system that does not retain the design features noted above will ultimately be unsuccessful for both the Commonwealth’s taxpayers as well as its teachers and other dedicated, hard-working public employees.

In short, NCTR would strongly urge the Committee to “do no harm” in its work on pensions, particularly with regard to the important need to provide Pennsylvania’s children with the best quality education by continuing to attract and retain the best possible teachers. In this regard, we believe that the role of the retirement security model currently in use in Pennsylvania in doing so should be carefully, completely and independently documented, and the impact of changes similar to those under consideration on employee turnover should be fully examined before any major modifications are considered.

NCTR would also encourage your Committee to closely examine the work of the National Institute on Retirement Security in assessing the most cost-effective manner in which to provide whatever level of retirement benefits the legislature deems appropriate for Pennsylvania’s public employees. NIRS’ work has consistently shown that pension plan designs similar to that currently in use in Pennsylvania are a far more cost-efficient means of providing retirement income as compared to individual defined contribution accounts. Without clear and convincing evidence to the contrary, we would urge the Committee to be very cautious in abandoning a tried and tested model, when properly implemented, in favor of a new design that may promise to cap costs, but in practice will only cut benefits and, in doing so, ultimately diminish the overall quality of public services.

Finally, NCTR would like to commend the legislation’s focus on enhanced trustee education. NCTR is strongly committed to the ongoing education of our member system trustees, and provides an annual educational conference for system trustees; our 2014 conference was held in affiliation with the UC Berkeley Center for Executive Education at the Haas School of Business, University of California, Berkeley, and our 2015 trustee education conference will be
in partnership with the Trustee Leadership Forum at the Initiative for Responsible Investment at the Hauser Institute for Civil Society at the Harvard Kennedy School. We want to particularly note the work of two trustees of the Pennsylvania Public School Employees' Retirement System (PSERS), Melva Vogler and Jim Sando, in the development and success of our trustee education program.

In summary, I would like to reiterate that in the governmental sector, public pension plans are designed to provide a core retirement benefit that will help assure vital taxpayer services by providing cost-effective retirement benefits that attract and retain qualified employees. Public pension systems such as PSERS ensure a stable retirement income for those who dedicate their career to serving the public, and I would again caution the Committee to be very careful in making fundamental changes in the successful model currently in use in Pennsylvania.

Thank you for this opportunity to comment.

Sincerely,

Meredith Williams
Executive Director