

COMMONWEALTH OF PENNSYLVANIA
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HOUSE REPUBLICAN POLICY COMMITTEE
SENATE MAJORITY POLICY COMMITTEE

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STATE CAPITOL
HOUSE REPUBLICAN CAUCUS ROOM 418
HARRISBURG, PENNSYLVANIA

WEDNESDAY, MARCH 24, 2010
9:00 A.M.

* * *
JOINT PUBLIC POLICY HEARING
ON
PENNSYLVANIA'S PENSION SYSTEMS

BEFORE:

HONORABLE STANLEY E. SAYLOR, Chairman
HONORABLE EDWIN B. ERICKSON, Chairman
HONORABLE TINA PICKETT
HONORABLE GLEN R. GRELL
HONORABLE SCOTT W. BOYD
HONORABLE DAN MOUL
HONORABLE MIKE REESE
HONORABLE TIM KRIEGER
HONORABLE JOHN D. PAYNE
HONORABLE MARGUERITE QUINN
HONORABLE DOUGLAS G. REICHLEY
HONORABLE MAUREE GINGRICH
HONORABLE KERRY A. BENNINGHOFF
HONORABLE JERRY KNOWLES
HONORABLE SHERYL M. DELOZIER
HONORABLE JERRY STERN
HONORABLE MICHAEL PEIFER
HONORABLE GORDON DENLINGER
HONORABLE MARIO M. SCAVELLO
HONORABLE KEITH GILLESPIE
HONORABLE GENE YAW
HONORABLE ELDER A. VOGEL, JR.
HONORABLE MIKE BRUBAKER
HONORABLE PATRICK M. BROWNE
HONORABLE LLOYD K. SMUCKER

APPEARANCES:Pension System:

PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM
Leonard Knepp, Executive Director

PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM
Bob Gentzel, Director of Communications & Policy

PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM
John Winchester, Chief Investment Officer

HAY GROUP
Brent Mowery, Actuary

Retirees and Employees:

RETIRED PENN STATE UNIVERSITY FACULTY AND STAFF
Donald Rung

PSSU/SEIU
Lawrence French, Retiree Chair

ASSOCIATION OF PENNSYLVANIA STATE COLLEGE AND
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Wayne Burton, Vice President

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YORK COUNTY TAXPAYERS COUNCIL
Joel Sears, President

OXFORD AREA SCHOOL DISTRICT
Kurt Haegele, School Director

OXFORD AREA TAXPAYERS ALLIANCE
Joe Scheese

1 CHAIRMAN SAYLOR: I want to get us started
2 here this morning. I want to stay on time. The
3 House goes in session at 11 o'clock, so we'll try
4 and keep everything on a schedule. If I get
5 behind, Senator Erickson will keep me pushing us
6 all along. I hope. Keep me in line this morning.

7 CHAIRMAN ERICKSON: I didn't realize that
8 was my job.

9 CHAIRMAN SAYLOR: You picked up a new job
10 this morning. I want to welcome everybody for
11 coming today to our first public hearing on the
12 pension crisis that we have here in Pennsylvania,
13 and I'm looking forward to hearing ideas and some
14 solutions to what people think should take place in
15 the next few months to year or two in fixing our
16 problems here in Pennsylvania when it comes to
17 dealing with our pension system and looking forward
18 to also having an opportunity by our members who
19 are here today to ask questions on how we got here
20 and where can we get back to having a sound fiscal
21 pension system in Pennsylvania.

22 At this point I will turn it over to
23 Senator Erickson for any comments, and we can move
24 forward.

25 CHAIRMAN ERICKSON: Thank you,

1 Representative Saylor. It's a pleasure to be here.
2 I thank you for posting this on your side of the
3 building, and it's wonderful that you're doing
4 this. As you stated, we're simply trying to bring
5 attention to an existing problem that we have and
6 then we hope that, of course, it culminates in a
7 solution to the rate spike that we see coming at us
8 pretty rapidly.

9 I'd like to recognize the presence today
10 of Lloyd Smucker, one of my fellow Senators. He
11 has great interest in this process and this issue,
12 so I'd introduce him to you as well.

13 CHAIRMAN SAYLOR: We'll do that. I'm
14 going to let each of the members starting with Tina
15 introduce themselves and the counties they're from.

16 REPRESENTATIVE PICKETT: Good morning.
17 I'm Representative Tina Pickett, Bradford, Sullivan
18 and Susquehanna Counties.

19 REPRESENTATIVE GRELL: Good morning.
20 Representative Glen Grell from Cumberland County,
21 87th District.

22 REPRESENTATIVE BOYD: Scott Boyd from the
23 43rd District, which is a portion of Lancaster
24 County.

25 SENATOR YAW: Gene Yaw. I represent the

1 23rd Senatorial District, which is Lycoming, Union,
2 Bradford, Sullivan and Susquehanna Counties.

3 REPRESENTATIVE MOUL: Good morning. I'm
4 Dan Moul. I represent Adams and part of Franklin
5 Counties.

6 REPRESENTATIVE REESE: Good morning. I'm
7 Mike Reese. I represent Westmoreland and Fayette
8 Counties.

9 CHAIRMAN SAYLOR: Okay. We are just being
10 joined also by Representative Tim Krieger, who has
11 Westmoreland County as well. The first panel,
12 whoever wishes to start may start the process.

13 MR. KNEPP: Thank you for having us here
14 today to discuss this very important issue. I have
15 with me today, to the far right is John Winchester.

16 CHAIRMAN SAYLOR: Is your microphone on?

17 MR. KNEPP: John Winchester. John is the
18 Chief Investment Officer at SERS. Next to me is
19 Brent Mowery. Brent is with the Hay Group. They
20 are the actuaries for the SERS fund. And to my
21 left is Bob Gentzel. Bob is the Director of Policy
22 and Communication for SERS. He spends a lot of
23 time working with you and your staff on dealing
24 with issues such as this for SERS.

25 What I plan to do today is walk us through

1 this presentation, this PowerPoint presentation,
2 and at the end of the presentation I would like to
3 open it up for any questions you may have. If you
4 have any questions throughout, feel free to
5 interrupt.

6 Okay. If we move right on to slide 3,
7 this slide provides a general benefit formula here
8 at SERS, and the point I'd like to make is at the
9 bottom of the slide on the far right you will see
10 that the benefits for the current employees is a
11 debt of the Commonwealth backed by the full faith
12 and credit of the Commonwealth.

13 Moving to slide 4, some of the key facts
14 I'd like to point out. As of 12-31-09 we had
15 220,000 members, 110,000 active and approximately
16 109,000 retired. We paid out approximately
17 \$2.2 billion last year.

18 This pie chart on this slide represents
19 the funding sources for the last ten years. You
20 will notice that the investment income has
21 accounted for approximately 69 percent of the
22 funding, while the member contributions have
23 accounted for 21, and the employer over the last
24 ten years have accounted for 10 percent of the
25 funding.

1 The next slide provides additional
2 discussion regarding the three funding sources.
3 You will see that under employee contributions, the
4 basic contribution rate is 6 1/4 percent. Under
5 the investment earnings discussion, a point I'd
6 like to make, last year after a lot of discussion
7 by the Board, staff, consultants and the actuary,
8 the Board adopted an 8 percent assumed rate of
9 return, reducing it from an 8 1/2 percent rate of
10 return. Go ahead.

11 MR. GENTZEL: Thank you. Len asked me to
12 spend a little time with this slide, slide 7, which
13 gives you a long historical look at the funding of
14 the pension system and the cost of the pension
15 system. I think it's quite striking. The red line
16 shows the increase in benefit payments over the
17 last 30 years, and we've gone from just under \$300
18 million a year in total payouts to now \$2.5 billion
19 a year in total payouts.

20 In that same time, employee contributions
21 have grown. Actually tripled. It doesn't look at
22 that on the line, but that's what the numbers show.
23 The employee contributions have tripled, and the
24 employer contribution over the last 30 years has
25 actually declined. The employer contribution rate

1 in dollars today is approximately \$20 million less
2 than the employer contribution rate in 1980.

3 That's in part due to the fact that
4 throughout the '90s we had strong investment
5 returns and we were able to reduce the employer
6 contribution rate. More recently, it's because of
7 the rate has been suppressed, as we'll talk about
8 in more detail as we go on.

9 MR. KNEPP: This is the data that supports
10 what Bob was just discussing, and let me point out
11 in 1980 are the actual numbers. You can see that
12 the member contributions were 110 million in 1980.
13 Today, last year they were 348. A three-fold
14 increase.

15 And you will also see benefit expenses of
16 297 million in 1980. We paid out over \$2.2 billion
17 last year while the employer contributions have
18 actually dropped over a 30-year period.

19 This chart represents the activity over
20 the last ten years. One of the items that we added
21 are the investment earnings of the fund. Even
22 after 2001-2002 losses and 2008, the fund still
23 made, earned approximately \$10 billion.

24 This chart shows the projected numbers for
25 the next 25 years. It also includes the funded

1 status and the unfunded actuarial accrued
2 liability. You will notice that the funded status,
3 which as of 2008 was approximately 89 percent,
4 that's projected to drop to 65 percent in 2012.

5 You can see the rates in 2012 going from
6 approximately or jumping to 26.9 percent from 7.8.
7 This chart shows the history of the employer rate.
8 The black line going through the chart represents
9 what we call the normal cost. You will see that
10 over the last 15 years the area below is the
11 employer, represents the employer rate, what we
12 refer to now as the underfunding of the fund. In
13 fact, two of those years you will notice that the
14 rate was set at zero.

15 This chart represents the projected
16 numbers as far as the employer rate is concerned.
17 It's no longer considered a spike. It spikes in
18 2012, and it stays up. We're referring to it as a
19 plateau.

20 Now, what we list here are the various
21 causes of the 2012 increase. You will see under
22 the unfunded liability, these are what we know as
23 being the causes. We have the investment earnings
24 in 2000 to 2002, plus the 2008 losses. We have the
25 Act 9 increases, and we have the Act 38 COLA. We

1 also have the Act 40 change, and what Act 40 did,
2 it took the amortization periods and divided it in
3 two pieces. One is it brought in this huge credit
4 that we had built up and brought it in over
5 10 years.

6 Then the other piece, it took all the
7 costs, subsequent costs from Act 9, and the costs
8 related to Act 9 and spread that over 30 years.
9 That separation ends in 2012.

10 MR. GENTZEL: We thought this next slide,
11 slide 14, it would be helpful to spend a little bit
12 of time on because it talks about the components of
13 the rate, the pieces of the cost that we're dealing
14 with here and why the rate ends up being what it is
15 today, so starting at the top, there is a section
16 there on the cost of benefits.

17 As Mr. Knepp mentioned, the employer
18 normal rate, that is, the amount that you would be
19 paying currently to cover the current costs for the
20 people who are at work today, is 9.51 percent. If
21 you started the plan new, we didn't have any
22 unfunded liabilities, we made our 8 percent, the
23 employer contribution rate would have to be 9.51 to
24 keep from falling behind.

25 Of course, it's not. It's only -- it's

1 4 percent. In addition, we're still dealing with a
2 cost from Act 9 for the retroactive component of
3 Act 9. As I think you all understand, people under
4 Act 9 got a benefit increase going forward, but
5 they also got that same increase in value for all
6 their prior service and at no cost to them, so that
7 adds another almost 4 percent to the rate.

8 We are still paying for COLAs. In fact,
9 we're still paying for COLAs going back to 1984
10 because they have been repeatedly reamortized, so
11 those old COLAs have not been paid off. You're
12 still paying for them or should be if the rate was
13 where it should be, and then we're also paying, of
14 course, still for the 2002-2003 COLAs.

15 So you have, as you add all those up, the
16 normal cost, the cost of Act 9, the cost of the
17 COLAs, it comes to 18 percent. So that just to pay
18 the benefits that are in place would be 18 percent.

19 Moving on then, we have a couple of
20 actuarial adjustments, one reflecting as Mr. Knepp
21 said the reduction in the assumed rate of return,
22 there's an actuarial cost to that, and another
23 minor adjustment due to some experience factors.

24 Then we have a cost associated with the
25 recent investment performance since 2001. That

1 adds another 4 percent to the rate. Adding all of
2 those costs up, you're at a 24 percent rate to
3 cover the benefits, the actuarial adjustments and
4 the investment, the recent investment losses.

5 But then the reason the rate is not
6 24 percent today is because of Act 40, which as
7 we've discussed has been suppressing the rate, and
8 it's been suppressing it for ten years, and those
9 ten years end in 2012. So basically these are the
10 numbers that Hay Group goes through in arriving at
11 our rate, and when they did that for the current
12 year, adding all these things up, then taking off
13 the cost of -- the reduction factor of Act 40, the
14 actual actuarially calculated rate came in at
15 3.63 percent. The rate the Board set is 4 percent,
16 because that's the statutory floor, but you can
17 really see dramatically there how Act 40 is holding
18 the rate down temporarily.

19 MR. KNEPP: Now, this chart illustrates
20 the history of the spike. The thick line, the
21 29.5, is the projected rate for 2012 as it stands
22 now. The dotted line represents pre Act 40, and
23 the orange colored line that you see there is post
24 Act 40. The lower line is where the rate was, the
25 projected spike, as of 2007.

1 This chart displays the last 15 years of
2 investment performance for this fund. Notice that
3 over the last -- the orange line going through it
4 represents the assumed rate of return, which was
5 8 1/2. It's now 8, and over the last 15 years, 11
6 of those years the fund's performance has exceeded
7 that assumed rate of return. The current rate or
8 the current return over 20 years, it is 8.6
9 percent, so over the last 20 years the fund has
10 earned 8.6 percent.

11 Now, what options are available to us?
12 You can do one of three things: Increase the
13 funding, decrease liabilities, defer liabilities.
14 As for increasing the funding, investment returns,
15 we're already set at 8 percent. As I said earlier,
16 the return for the last 20 years has been 8.6
17 percent. The time line is a lot shorter than it
18 was in 2002. So the likelihood of us earning our
19 way out of it this time will be very difficult.

20 The next item is employee contributions,
21 increasing those. Now, there is case law out there
22 to support the fact that you cannot increase
23 employees, you can only do it prospectively. So
24 the help of converting to a different employee rate
25 would not help with the spike. You also can

1 increase employer contributions, but you're already
2 in the upper 20s, so it doesn't seem to be
3 practical at this point.

4 Other discussions have been to seek
5 additional other types of funding. We understand
6 that the Federal Stimulus money, it's still unclear
7 whether that could be used for pension funding.
8 Also, we could look at having direct revenues from
9 another source such as House Bill 2307. This would
10 redirect funds from the Johnson Flood Tax. And
11 then, of course, we have Pension Obligation Bonds,
12 POBs as they're referred to. These are very risky,
13 and we understand that there are legal issues as
14 far as whether we can do it or not, and it's also
15 very difficult out there to find a success story as
16 it relates to POBs.

17 The bottom section of this slide we
18 provided to give you an idea of what kind of
19 dollars we're talking about, and just I'd like to
20 point out the first part of this, these are one-
21 time lump sum payments that would bring the rate
22 down. The bottom part at 20 percent just to bring
23 the initial spike down to under 20 percent would
24 require approximately a \$4.5 billion one-time
25 payment. To bring all the rates under 20 percent

1 would require 6.3.

2 REPRESENTATIVE BOYD: Just SERS?

3 MR. KNEPP: Just SERS. This does not
4 include PSERS. None of this information does.
5 Now, one of the other options we discuss is
6 decrease the costs associated with this plan, and
7 one of the ways we do that there is discussion out
8 there would be to convert to a DC type plan or the
9 hybrid plan.

10 Again based on what I said earlier, this
11 could only be done prospectively, so this would
12 again not help with the spike. There are also ways
13 of modifying the actuarial methods that we use. We
14 provided a table of the impact of those changes,
15 what they would bring, and we show going from a
16 five-year vesting period, which we currently use,
17 to a ten-year vesting period.

18 We also show decreasing the multiplier,
19 which is currently 2 1/2 percent for most
20 employees, going to a 2 percent, which was pre
21 Act 9, or a one percent. Again, these have minimal
22 impact on the funds, and again, they would be done
23 prospectively.

24 Another option we discussed earlier is to
25 defer the liabilities, and what we have on this

1 slide are the various options that we could look
2 at. What you do is actually change the actuarial
3 methods that we use. At the bottom table you'll
4 see some of those items being presented. Asset
5 smoothing is one of the items we discussed before.
6 That, currently we have a five-year period that we
7 bring the gains and losses from the investments
8 into the system, 20 percent a year. We're looking
9 to do, go to a 10-year period. That would be
10 bringing in the gains and losses over a 10-year
11 period, 10 percent.

12 The collar, the discussion regarding the
13 collar, this only allows the rate to increase by a
14 certain percentage. In this presentation we use a
15 3 percent collar, so if the rate is at 4 percent
16 now, it can only, regardless of what the actuary
17 calculates, it can only go to 7 percent. What that
18 does is also defer the costs.

19 And then we have the fresh start. You
20 hear a lot of discussion about that, the
21 liabilities. It's just like refinancing a
22 mortgage. It's taking the entire liabilities of
23 the system and refinancing it to another 30-,
24 20-year period, whatever it is.

25 The next slide is using the same

1 assumptions, same changes in methodology. However,
2 it's a different cost method that would be used.
3 The primary method that's used in the public sector
4 funds is entry age normal, which is what we use.
5 About 75 percent of the funds use that.

6 Another method is projected unit credit,
7 which there has been discussion around. It's just
8 another methodology that's used, but the point I
9 wanted to make is that if you compare the numbers
10 between what we call a PUC and an entry age normal,
11 it has minimal impact on this fund. I just wanted
12 to let you know that.

13 And another method of deferring the cost
14 or the liabilities to the fund is the Governor's
15 proposal. We wanted to present that. What the
16 primary components of this proposal, there are two
17 items. One is he is fresh starting the
18 liabilities, recommending that we fresh start the
19 liabilities, and also he's using a collar. He's
20 using a one percent collar the first year, 3
21 percent every year after that, and the green line
22 represents the Governor's proposal.

23 You can see that it is a smoother
24 transition to the peak. However, let me point out
25 again that it does defer the cost, and it also

1 increases the cost of this fund. The dotted line
2 below shows the change in the growth of the funded
3 status.

4 And, of course, the last table represents
5 the data to support the previous chart. And that
6 completes our presentation. At this point I'd like
7 to open it up to any questions that you have.

8 CHAIRMAN SAYLOR: Before we move to
9 questions, I wanted to recognize the people, the
10 individuals that we have been joined by. We've
11 been joined by Representative Mauree Gingrich,
12 Senator Vogel, Representative Payne, Representative
13 Quinn, Representative Knowles, Representative
14 Benninghoff, Representative Reichley,
15 Representative Gillespie and Senator Brubaker. I
16 don't believe I've missed anybody at this point.

17 At this point, questions from the Members
18 and Senators. Representative Boyd.

19 REPRESENTATIVE BOYD: Thank you,
20 Mr. Chairman. One of the -- in your presentation
21 on slide 14 you specifically identify the problems
22 that were created by Act 40 and the implications to
23 that. Please comment -- I mean, the logical
24 analysis from a lay person would be, well, just
25 repeal Act 40 and it all goes away, right? I know

1 for me it's rhetorical, but I want it on the record
2 why repealing Act 40 now, it's too late.

3 MR. KNEPP: Exactly. Act 40, what it did
4 was suppress the rate, so let me just give you an
5 analogy that won't tie to these numbers. Instead
6 of the rate being set, let's say, at 8 percent, it
7 would be set at the 4 percent, so you're
8 underfunding the system. You're not allowing the
9 fund to generate earnings off those underfundings.
10 That would be the problem. So you've already lost
11 those years. We're talking a 10-year period.
12 We've incorporated eight years already into our
13 plan. You've lost those eight years.

14 REPRESENTATIVE BOYD: All right. So, in
15 essence, because of Act 40 we've underfunded --
16 we've artificially lowered the employer
17 contribution rate for eight years. We can't get
18 those eight years back without in essence
19 artificially inflating the number that we'd need to
20 make up those losses.

21 MR. KNEPP: You cannot, and you did
22 underfund the system for eight years, yes.

23 REPRESENTATIVE BOYD: Right. Okay. Thank
24 you. Mr. Chairman.

25 MR. KNEPP: You're welcome.

1 CHAIRMAN SAYLOR: Representative Pickett.

2 REPRESENTATIVE PICKETT: Thank you,
3 Mr. Chairman. I note that the funds are funded
4 representatively at 89 percent and 79.2 percent.
5 The projections that are made, do they take the
6 fund to 100 percent funding, and in light of the
7 potential of investment improvements over the next
8 years as the stock market hopefully climbs back up,
9 is it necessary to go completely to 100 percent if
10 that's what these projections do?

11 MR. MOWERY: I'm Brent Mowery from Hay
12 Group, actuary for SERS. All of the material that
13 you've seen assumes that the future investment
14 returns will be the 8 percent actuarial assumption
15 that's in use now, and if you observe that funded
16 ratio progression into the future, most everything
17 you see in here shows downward movement and then a
18 reversal and upward movement.

19 Certainly to the extent that investment
20 returns that are actually earned in the future
21 exceed the assumed 8 percent, the behavior of that
22 funded ratio will be higher than is projected here.
23 The funded ratio improvement is going to happen as
24 a consequence of the actuarial funding method and
25 the goal of advance funding the system. That is,

1 having the funding in essence complete by the time
2 an active participant reaches retirement, that
3 there's been sufficient funds set aside for each
4 individual.

5 Because of the suppressed funding that has
6 occurred, it's basically a case of we've gotten off
7 schedule. It's no longer consistent with actuarial
8 funding methods' goal of achieving full funding for
9 participants by the time they reach their
10 retirement.

11 In response to your question, the costs
12 that have been laid out here and presented to you
13 of what's projected in the future really does grow
14 out of the actuarial funding methodology what is
15 required in order to have appropriate advance
16 funding for SERS, and the fact that it takes a long
17 time to approach 100 percent is typical of plans
18 across the country now covering statewide
19 populations, and a lot of it has come about as a
20 result of the 2008 downturn that consistently
21 funded ratios have been pulled down. They're going
22 to even decline further as the 2008 returns are
23 recognized, those very unfavorable returns that
24 were kind of experienced across the country. What
25 you're looking at though in the way of the

1 projected funded ratios is appropriate and driven
2 by the actuarial funding methodology.

3 MR. KNEPP: If I could make a point, also,
4 to elaborate, the schedule that you're talking
5 about probably is schedule 10, the slide 10, and
6 just two statements I'd like to make. One is
7 that's assuming that we hit the 8 percent return
8 for these years and also that we receive the
9 employer contributions that are listed there, so
10 those two assumptions are driving what's here.

11 MR. GENTZEL: And with those assumptions,
12 staying on 10, you can see that assuming that
13 you're paying these kinds of rates, and the reason
14 that we're here is because you're concerned that
15 you can't, that you'd be paying 26 percent in 2012
16 and 29 percent and so forth, assuming all those
17 payments get made on schedule, by the time -- we're
18 still taking out to 2033, and the fund is still not
19 back to 90 percent funded, so it's not a matter
20 that we're planning to jump back up to 100 percent
21 immediately. It's going to be a long, slow climb
22 back up towards 100 percent.

23 CHAIRMAN SAYLOR: Representative Quinn.

24 REPRESENTATIVE QUINN: Thank you. Thank
25 you for being here this morning. I see in one of

1 your slides that it's unclear if we could legally
2 direct Federal Stimulus dollars to this fund.
3 Where is the lack of clarity? Is it because this
4 Administration is spending the dollars, directing
5 them elsewhere, or are we lacking an answer from
6 the Feds?

7 MR. KNEPP: The last thing I heard or read
8 was that there was an attempt made by another
9 state, I believe it was South Carolina, to have
10 funds directed and they were not permitted. That's
11 the last thing. I'm not aware of the
12 Administration pursuing this, no.

13 REPRESENTATIVE QUINN: Thank you.

14 CHAIRMAN SAYLOR: Representative Grell.

15 REPRESENTATIVE GRELL: Thank you. Does
16 the SERS Board establish a rate each year --

17 MR. KNEPP: Yes.

18 REPRESENTATIVE GRELL: -- for employer
19 contribution?

20 MR. KNEPP: Yes.

21 REPRESENTATIVE GRELL: And has that been
22 done for next year?

23 MR. KNEPP: The initial discussion will be
24 held at the April 28th Board meeting.

25 REPRESENTATIVE GRELL: What do you project

1 that to be?

2 MR. KNEPP: Well, the rate right now,
3 we're in the area -- they're finalizing their work
4 with the valuation. It's projected right now to be
5 in the ballpark of 5.4 is what we have to 5.7.

6 REPRESENTATIVE GRELL: Okay. Because the
7 suppression formula still applies?

8 MR. KNEPP: You still have this credit
9 being brought in, that's right.

10 REPRESENTATIVE GRELL: Do you know what
11 amount was proposed in the Governor's budget to
12 cover SERS employer contributions and how that
13 matches up with the 5.4?

14 MR. KNEPP: Well, we're at 4, so if his
15 budget included his proposal for funding, it would
16 be a one percent increase, so it would be the
17 5 percent.

18 REPRESENTATIVE GRELL: At 5, okay, because
19 of the step-up.

20 MR. KNEPP: Right.

21 REPRESENTATIVE GRELL: Okay. Turning then
22 to that exhibit or slide 23 where you show the
23 effect of the Administration's funding proposal,
24 obviously there is a cost to deferring that step-
25 up.

1 MR. KNEPP: Right.

2 REPRESENTATIVE GRELL: Have you calculated
3 what that cost would be out at least to the end of
4 this chart?

5 MR. KNEPP: I believe we did. I don't
6 have it here with me what the ultimate cost would
7 be. We can see something like that.

8 REPRESENTATIVE GRELL: Yes. I mean, if
9 we're going to consider deferring it, it's
10 important to put a price tag on what the cost to
11 that deferral would be, so that would be very
12 helpful to me. Thank you very much.

13 MR. KNEPP: You're welcome.

14 CHAIRMAN SAYLOR: Representative Krieger.

15 REPRESENTATIVE KRIEGER: Thank you,
16 Mr. Chairman. If I understand what I've heard so
17 far, the assumed rate of return is embedded in all
18 of these other projections?

19 MR. KNEPP: Right.

20 REPRESENTATIVE KRIEGER: Could you take --
21 two-part question. Could you take us through your
22 thinking on the adjustment of the assumed rate of
23 return down to 8 percent, and second part, could
24 you give us some sense if say the real rate of
25 return is something closer to say 6 percent, could

1 you give us some sense to how bad these numbers
2 will look in that eventuality?

3 MR. KNEPP: Well, there is a tremendous
4 amount of discussion involved between staff, the
5 actuaries, the Board regarding this number. Last
6 year they met in March, they met in April and then
7 finalized in June, so there is a lot of discussion
8 based on the economic environment, the maturity of
9 the plan, because of the liquidity concerns that we
10 would have going forward, we thought, the Board
11 thought it was appropriate to adjust that rate down
12 to 8.

13 That seems to be -- in addition, we didn't
14 do it because of the other funds, but if you look
15 at other funds, we are within the range of an
16 acceptable rate at this point. Now, this is
17 something we look at every year. We will be
18 looking at it again this year. At the end of this
19 year we go through a five-year evaluation where
20 we'll take a more in-depth look at it, but we're
21 doing this right now on a year-by-year basis. We
22 will assess it.

23 Now, as far as if we'd earn 6 percent
24 versus the 8 percent, well, it's 2 percent, and the
25 funding payroll is 600 million. The only way you

1 would make that loss up, 2 percent of 600 million,
2 or \$6 billion, is 120 million per percent -- or,
3 for 2 percent, so you're losing \$120 million. Now,
4 again, I don't have my calculator with me, but I
5 believe that's pretty ballpark.

6 REPRESENTATIVE KRIEGER: And if I could
7 just follow up. How often will you revisit that?
8 Will you look at this every year?

9 MR. KNEPP: The rate of return?

10 REPRESENTATIVE KRIEGER: Yes.

11 MR. KNEPP: Every year we look at that.

12 REPRESENTATIVE KRIEGER: Thank you.

13 CHAIRMAN SAYLOR: Representative Payne.

14 REPRESENTATIVE PAYNE: Thank you,
15 Mr. Chairman. I have three short questions. The
16 first one would be, on Page 16 of our handout, it's
17 the chart, the graph chart, if you will, versus the
18 pie chart. To a person who's not a financial
19 advisor, you'd look at this and say you made
20 25 percent, 15, 15, 15, 20.

21 You had a lot of good years, and then we
22 had one arguably bad year where we lost almost
23 30 percent. How did we lose all the good years in
24 one year? Is it through lack of employee
25 contribution keeping up? Was it, you know,

1 somebody didn't see the market changing and didn't
2 shift the funds to more conservative funds?

3 I mean, I know in my own account, I lost
4 some money, but I pretty quickly called my advisor
5 and said, you know, "We got to shift some stuff
6 around or I'm going to lose a lot." And I think
7 one of my concerns is, how did this happen in one
8 year?

9 MR. WINCHESTER: This is John Winchester,
10 the Chief Investment Officer. This one year was
11 really quite extraordinary because in fact what we
12 had was a worldwide financial meltdown, and we had
13 grave concerns that the world was going to fall
14 into depression, that the financial markets were
15 going to collapse, et cetera, so 2008 was, A, an
16 extraordinary year.

17 But more importantly, we are a very large
18 investor. We had \$35 billion at the start of 2008.
19 We ended the year with 24 billion. Being a fund
20 that large, we are just not that nimble that we can
21 move that much in assets to, you know, reposition
22 the portfolio. Furthermore, that would be a market
23 timing event. Market timing has proved to be a
24 losers' game, especially for large funds of our
25 size.

1 We take a very rigorous process every year
2 evaluating what asset allocation is best for the
3 fund to take a long-term view, ten years' minimum,
4 longer, to achieve the actuarial interest rate
5 return, either achieve it or exceed it if possible
6 at the lowest possible level of risk.

7 So we go through this process, and in
8 doing that, as the markets move in different --
9 they don't move in lockstep let me just say. They
10 move in different rates, so we rebalanced the
11 portfolio over the long term. This has worked very
12 well for the fund. As Len pointed out, over I
13 believe it's 20 years --

14 MR. KNEPP: 20 years.

15 MR. WINCHESTER: -- it was 8.6 percent,
16 which achieved our 8.5 percent goal, so the fund in
17 fact achieved the charge that it was given and
18 provided assets to meet benefit obligations. If
19 you look back over 25 years, the fund earned
20 9.7 percent. There is a recent news article that
21 said public funds as a whole achieved over 25 years
22 about 1.25 percent over their actuarial return
23 assumptions, so we're right on the mark as far as
24 that goes.

25 REPRESENTATIVE PAYNE: Thank you.

1 Mr. Chairman, I have a second question. All the
2 graphs that we see and everything that we're
3 projecting for the future is based on the market
4 providing a certain return again over those 20
5 years or 25 years or whether we're spreading out
6 that increase or whatever we do, it's all looking
7 at the positive.

8 Do we have any plan that if 10 years from
9 now, 15 years from now there is another market
10 decline or are we just going into this blindsided
11 saying the market is always going to return another
12 8 percent over the next 20 years?

13 MR. WINCHESTER: There's been a lot of
14 talk here this morning about earning 8 percent per
15 year on the actuarial return assumption. I've got
16 to make it clear that the markets are a reflection
17 of the economy, and we all know the economy has
18 cycles.

19 It goes through a boom and it goes through
20 a bust. Well, the financial markets follow these
21 very same cycles because they are a reflection of
22 it. In fact, if you bear with me, I brought some
23 statistics. Given the current asset allocation or
24 expected return of 8 percent, a risk posture of
25 just under 11 percent, at any given year we can

1 expect this fund to return anywhere from a positive
2 40 percent to a minus 24 percent.

3 But again, we're long term investors.
4 What does this mean long term? Over ten years we
5 can expect the fund with the same assumptions to
6 return anywhere from a positive 18 percent to a
7 minus 2 percent. Now, of course, anything under
8 the 8 percent, of course, we're underfunding. But
9 our objective, of course, is to achieve that 8
10 percent. We have over the long term, and we strive
11 to do that.

12 But again, there is going to be volatility
13 in return, and you're going to have to accept the
14 fact, and that's one of the reasons we use a
15 smoothing in order to avoid significant changes in
16 the funding rate year over year.

17 REPRESENTATIVE PAYNE: And I appreciate
18 that. I guess volatility when I talk to my
19 financial advisor with my money is one thing.
20 Volatility with taxpayers' money is another thing,
21 and I would be looking for our investors to try
22 to -- I mean, in the reality of my lifetime I've
23 seen the markets go up and down. That's just the
24 way the markets are.

25 But we can't be faced with another crisis

1 of this magnitude when we finally come up with the
2 bailout plan. Whatever that is, however we fix
3 this system, if we suffer another catastrophic
4 event in that 20-year time frame, I don't know what
5 we do, and I'm just looking for you as the experts
6 in the financial world to say, well, we're building
7 some safeguards, we're going to look at this
8 massive fund that we have and find ways to be more
9 flexible or maybe chop up that fund.

10 Mr. Chairman, the last question I have is
11 we've talked about the Federal Stimulus money, and
12 I haven't heard a concrete, definitive: No, we
13 can't. I've heard: Well, a state, they think
14 somebody tried and they were told no.

15 If the Governor won't ask, maybe we should
16 as a legislative body ask what are the guidelines
17 of that money and can that money be used? Because
18 if it can't be used, we are faced with a very, very
19 steep price to pay to fix a system that I'm
20 concerned over the next 20 years is still not going
21 to be fixed, and if we have another market decline,
22 different people will be sitting here probably on
23 both sides of the table. Thank you.

24 CHAIRMAN SAYLOR: Senator Brubaker.

25 SENATOR BRUBAKER: Thank you,

1 Mr. Chairman. I'm looking at a March 10 press
2 release from SERS. It states, SERS Chairman
3 reports on the 2009 Investment Performance Report.
4 It says, "It's an encouraging indication that the
5 fund has weathered the global economic collapse and
6 is positioned to benefit if, as we hope, the
7 economic recovery continues."

8 I think you've had quite a bit of
9 conversation about that already. And then it went
10 on to add, "At the same time we have liquidity
11 measures in place to guard against the risk of
12 another downturn." And I came in halfway through
13 this presentation. Have you spoken about your
14 liquidity strategy at some level of length, and if
15 not, could you elaborate on that, please?

16 MR. WINCHESTER: Surely. When we went
17 into 2008, I was very concerned about a liquidity
18 squeeze. I started to raise cash. Of course, then
19 in the fourth quarter the market had a, you know,
20 severe collapse. At that point I worked with and
21 staff worked with our investment advisors, and we
22 developed a redemption schedule so that we had
23 sufficient cash flow in order to meet all the
24 benefit and investment expenses for the years of
25 2009 and 2010.

1 We met, of course, all of our benefit
2 obligations last year. We are well on our way to
3 meeting those in 2010, and very soon we will be
4 looking to see what we need to do to ensure that we
5 have those funds available in 2011.

6 This has become something of a conflicting
7 goal because we need to achieve the best rate of
8 return we can to meet these obligations on the one
9 hand, but we have, as you've seen in these tables,
10 ever-increasing benefit obligations that we need to
11 meet, and so we have to have a certain level of
12 liquidity, so we need to balance our risk posture
13 and our investments with our need to meet those
14 cash flow needs.

15 CHAIRMAN SAYLOR: Senator Smucker.

16 SENATOR SMUCKER: Thank you, Mr. Chairman.
17 I have two questions. Before I do that, I just
18 want to thank the Chairman and Chairman Erickson.
19 I am not a member of the Policy Committee in the
20 Senate, so I'm a guest here today, and I appreciate
21 the opportunity to be here. I know this is an
22 issue that will have tremendous impact on the state
23 and municipalities and school districts across the
24 state, so it's an issue I'm very interested in.

25 Two questions. One, referring to Page 20,

1 this is the page whereby or on which you project
2 the impact of various proposals of changes that
3 will be made to the system going forward, and I
4 think clearly part of the discussion will be -- and
5 we can talk about what happened in the past, but at
6 some point we got to get to what are we going to do
7 going forward, how can we solve this problem or at
8 least mitigate it to some extent? And it will be a
9 series -- it will be multifaceted. There is no
10 silver bullet here, there is no one thing that we
11 can do to mitigate the problem that we have.

12 But I think a part of the discussion will
13 need to be benefits going forward and how should
14 they be changed. My personal view is we need to
15 change the system so that it's closer to what is
16 available to employees in the private sector, and I
17 think there is a gap there now, so that's my
18 personal view.

19 But one of -- and this was a question I
20 raised during the budget hearings as well. There
21 is not a lot of information about the impact of
22 various proposals that have been suggested in terms
23 of how it would impact the rate going forward.
24 This page that you presented here is the first that
25 I've seen the impact of say a 2 percent multiplier,

1 a one percent multiplier, and so on and so forth.

2 You mentioned here the defined
3 contribution plan, you aren't projecting the impact
4 of those because I understand why, the system can
5 vary quite a bit. But my question is this, and I'm
6 sorry it took so long to get to the question, but
7 the question is this.

8 Do we have the ability within our
9 projections within our computer systems to project,
10 if we come to you with a plan and say this plan
11 will include this aspect and this, do you have the
12 ability to put forth projections on plans that we
13 bring to you?

14 MR. KNEPP: Yes.

15 SENATOR SMUCKER: Okay.

16 MR. KNEPP: Yes, we do.

17 SENATOR SMUCKER: How would we go about --

18 MR. KNEPP: With the assistance, of
19 course, of Hay.

20 SENATOR SMUCKER: Okay. Very good. So I
21 would expect over the next few months there will be
22 a lot of that going on over the next year as we
23 work to resolve this, so I appreciate that. The
24 second question, and it's back to the rate of
25 return, and we're projecting 8 percent.

1 Over the last 30 years -- you may have
2 mentioned this earlier -- what is our actual rate
3 of return in the plan for 30 years or some long
4 period of time? Is it 8?

5 MR. WINCHESTER: I have a 25-year number,
6 and that's 9.7. I think I have a -- it's just shy
7 of 30 years, but that's 9.9 percent.

8 SENATOR SMUCKER: Okay.

9 MR. KNEPP: And then over 20, it's 8.6.

10 SENATOR SMUCKER: So over 20 it's 8.6, and
11 it's 9.7, 9.9 going forward. I guess my question
12 would be, and I'd just like to address this.
13 Clearly as we reduce the projected return going
14 forward, if we would use a 7 percent, now our rate
15 spike's going to go up even more.

16 MR. KNEPP: Correct.

17 SENATOR SMUCKER: And, of course, if we
18 would use 9, our spike comes down, and you're not
19 really deferring the compensation, you're actually
20 using a rate that is closer to what we have seen
21 over the past long period of time, and so I guess
22 my question to you is this.

23 It seems to me -- and you even hate to
24 mention this because obviously we just came through
25 a very, very rough time, but is 8 percent the right

1 number going forward? I question whether we
2 shouldn't be getting closer to our actual rate of
3 return over time.

4 MR. KNEPP: Well, again, we spent a
5 tremendous amount of time looking at this, and
6 based on what we see going forward, it's not the
7 same environment until it's the liquidity
8 discussions that we had earlier. When you go out
9 and have to deal with the liquidity, of course you
10 have to lower your rate of return. It has an
11 impact on the rate of return when you prepare for
12 liquidity. So we feel right now that 8 percent is
13 the appropriate number.

14 One point I'd like to make from the
15 employer rate standpoint, we understand that if you
16 lower the rate, let's say, going from an 8 to a 7,
17 that one percent drop has an 8 percent increase in
18 the employer rate, so if we're projected to be at
19 5 percent, it would be 13 percent. So it's a
20 one-to-eight ratio, somewhere in there.

21 MR. WINCHESTER: If I might just interject
22 very quickly. As part of the process I mentioned
23 that we do a rigorous process every year to
24 generate an annual plan, and in that annual plan
25 the consultant derives for us what they are

1 expecting long term risks and return for each asset
2 class. And it's based on that where we develop a
3 portfolio that we think can achieve that at the
4 least risk to the fund. Right now at a reasonable
5 risk level, we feel we can achieve that 8 percent.
6 Now, if there are significant changes in the
7 economy, et cetera, you know, they're constantly
8 reviewing those assumptions. That would impact the
9 analysis that we do every year for determining that
10 actuarial interest rate assumption, but at this
11 point that's part of what's driving this 8 percent
12 return.

13 MR. GENTZEL: I wanted to add, if I could,
14 on the liquidity issue, if you go back to Page 8 in
15 the table there, and this is with the contributions
16 in the past, one of the important points to notice
17 is that going back to 1980 and up until the
18 beginning of the '90s the contributions more than
19 cover the amount that we had to pay out in benefits
20 every year, so you could invest in ways that you
21 didn't have to worry much about the liquidity
22 issues of the invested money because you were
23 always going to get enough from the contributions
24 to pay for what you had to pay for that year.

25 We're currently in a position where we're

1 no place close to that where the combined
2 contributions don't come anyplace close to paying
3 the annual benefits, so every year the investment
4 office has to be prepared to pay out billions of
5 dollars from the corpus of the fund to cover that
6 year's benefits, so that's something else that
7 drives this liquidity discussion and forces some
8 additional conservatism on the asset allocation.

9 SENATOR SMUCKER: Will that change going
10 forward if, for instance, the employer
11 contributions go up to the projected 8.2 percent?
12 Will that provide that additional liquidity that we
13 need?

14 MR. GENTZEL: It would certainly provide
15 more liquidity, yes.

16 MR. WINCHESTER: According to the table on
17 Page 8, yes, it would.

18 SENATOR SMUCKER: Thank you.

19 CHAIRMAN SAYLOR: Representative Reese.
20 Will you please keep it short. We're running on
21 time.

22 REPRESENTATIVE REESE: I will. Thank you,
23 Mr. Chairman. Can you please explain the risks
24 associated with Pension Obligation Bonds and
25 perhaps compare those risks with the cost to

1 deferring this payment?

2 MR. KNEPP: Okay, I'm not an expert on
3 POBs as we call them, but I will say the risk is,
4 again, it's such a long term investment and
5 whatever the rate is that you float it at, that you
6 issue it at, if you're not meeting, your investment
7 return doesn't exceed that rate, you're actually
8 compounding the problem.

9 So, in other words, if you release it at 4
10 and you only earn -- you have a year like last
11 year, you've just compounded the problem. That's
12 one of the risks. And also, the timing of those is
13 also part of the risk, when they go out and what
14 extent they go out.

15 REPRESENTATIVE REESE: And how would that
16 compare to the cost of actually deferring?

17 MR. KNEPP: I don't have a one for one
18 comparison.

19 REPRESENTATIVE REESE: I'm sorry?

20 MR. KNEPP: I don't have a comparison
21 between the two.

22 REPRESENTATIVE REESE: I think that would
23 be an important part of this discussion, because as
24 many members have said, there's maybe no silver
25 bullet to solve this issue.

1 MR. KNEPP: Right.

2 REPRESENTATIVE REESE: But perhaps a
3 Pension Obligation Bond or perhaps deferment is
4 going to be a part of that solution, and I think we
5 need to know what the costs are with those two
6 possible solutions, so that's something I'm very
7 interested in. Thank you.

8 MR. KNEPP: Thank you. And if I could
9 add, at the last hearing we did discuss that could
10 be part of a solution. That is not the solution.

11 CHAIRMAN SAYLOR: Okay. We've been joined
12 by Representative Delozier, Representative Stern
13 and Senator Browne. And now, Senator Browne.

14 SENATOR BROWNE: Gentlemen, thank you
15 again for your participation. You've been asked
16 many times to present our challenges and potential
17 solutions, and you've been very accommodating all
18 along, so I wanted to thank you for that.

19 There has been from several parties
20 suggestions on how to manage the unfunded balance
21 that we have without injecting additional capital,
22 without using Pension Obligation Bonds, that smooth
23 the liability over time, use collars to manage the
24 increase over time to the point that we get to the
25 higher contribution rate.

1 Have you assuming -- that all assumes, of
2 course, that we are able to sustain the assumed
3 rate of return that we have at this point. I think
4 a lot of the projections are based on that. Have
5 you done any pressure testing on that to see what
6 different scenarios will do as far as investment
7 returns and the funding ratio of the plan and also
8 what that will do to your investment portfolio?
9 Have you done any analysis on that yet?

10 MR. KNEPP: We have done some stress
11 testing on a few of the alternatives. Again, I
12 don't have that with me today. We can make that
13 available.

14 SENATOR BROWNE: Okay. Because I'm
15 concerned, I think though in looking at your
16 numbers at this point, it's a likelihood that the
17 funding ratio with that management plan would
18 decrease to close to 50 percent.

19 Now, if we have a downturn in investment
20 returns over the next ten years, it could put the
21 funding ratio significantly at risk, so I think
22 we're going to need to at least evaluate like we've
23 experienced in the last 10 years what an investment
24 return below 8 percent would do to that to see if
25 that's a reasonable and viable option.

1 MR. KNEPP: If I recall, the stress
2 testing that we did, it included, it looked at
3 repeating 2000, 2001, 2002 years against our fund,
4 what that would do, but we can make those numbers
5 available to you.

6 CHAIRMAN SAYLOR: If you would send those
7 to Senator Erickson and myself, and we'll see that
8 the members get those.

9 SENATOR BROWNE: And just one more
10 question, Mr. Chairman. Have you done any
11 projections as to what would happen to the
12 contribution rate, the unfunded liability, if the
13 current defined benefit plan was capped at its
14 current plan membership component and the new
15 members were put into a defined contribution plan?

16 Have you done any projections on that?

17 MR. KNEPP: We did look at that, yes.

18 SENATOR BROWNE: What was the result of
19 that?

20 MR. KNEPP: I don't have those here, but
21 one of the confusing parts of the numbers that we
22 originally provided was to compare apples to
23 apples, so to speak, and look at the true cost. We
24 didn't know what the other side would be. We were
25 asked to look at what would happen if everyone

1 prospectively was moved into a DC type plan, and we
2 looked at that, how we would fund the existing DB
3 plan, and we have those numbers. Again, I don't
4 have those today.

5 SENATOR BROWNE: Could you present those
6 to the Chairmen of the Committee, please?

7 MR. KNEPP: Of course.

8 SENATOR BROWNE: Okay, thank you.

9 CHAIRMAN SAYLOR: At this point I turn it
10 over to Senator Erickson.

11 CHAIRMAN ERICKSON: Thank you,
12 Representative. We appreciate you being here,
13 gentlemen. Thank you. Question. Can you break
14 out that portion of the unfunded liability that is
15 attributable to the increase in the multiplier?

16 MR. GENTZEL: Back on slide 14 you can see
17 that there is one component of it shown there, and
18 that is that the retroactive cost of Act 9 is
19 adding almost 4 percent a year to the rate. That's
20 the people having gotten all their prior service
21 bumped up in value at no cost to them.

22 There is an additional cost to Act 9
23 that's embedded in the employer normal rate. The
24 normal employer normal rate is higher -- Brent, is
25 it safe to say it's 25 percent higher or is it not

1 that simple?

2 MR. MOWERY: If you're not already looking
3 at Page 14, that's what Bob's referring to.
4 Actually, the prospective increase in funding
5 requirement when Act 9 was adopted led to an
6 increase in normal costs from around 8 1/2 percent
7 of payroll to 9 1/2 percent of payroll, so you
8 might think of it in terms of an additional percent
9 of payroll to fund the increment improvement
10 benefit looking forward, and the 3 point
11 approximately 8 percent was what was the percent of
12 payroll to fund the retroactive aspect of Act 9.

13 If you sum the two of those, you might say
14 it was about a 4.8 percent increase overall for
15 that improvement in benefit.

16 CHAIRMAN ERICKSON: I can appreciate that.
17 And last question. The types of asset allocation,
18 can you give us an overview of the instruments that
19 you're invested in, the fund is invested in?

20 MR. WINCHESTER: The list is very long.

21 CHAIRMAN ERICKSON: I'm sure. But how
22 about in categories of?

23 MR. WINCHESTER: Well, we have Domestic
24 stocks and, of course, across all capitalization
25 ranges. We have International stocks across all

1 capitalization ranges, including Emerging Markets.
2 We have Fixed Income. We have High Yield. We have
3 some Commercial Mortgage Backed Securities. We
4 have Emerging Market Debt. We have real estate.
5 We have Private Equity Venture Capital and some
6 Active Commodity exposure.

7 CHAIRMAN ERICKSON: When you say real
8 estate, can you be a little more specific about
9 that, please?

10 MR. WINCHESTER: These are direct
11 investments in real estate properties and
12 buildings, et cetera. These are not mortgage
13 backed loans. Does that help?

14 CHAIRMAN ERICKSON: Yes, that does. Thank
15 you.

16 CHAIRMAN SAYLOR: Just one question
17 quickly before we move on here is one of the things
18 that we do under our current system is when
19 employees retire from the system, of all the
20 systems that we have, PSERS, SERS and so forth,
21 they take their money out probably 80, 90 percent
22 of the time that they put into the system.

23 What if we were to change that allowance
24 and say you cannot remove your contribution to
25 receive a pension from the State of Pennsylvania?

1 Could you give us an idea of what effect that would
2 have on the rate spike as well in going into the
3 future?

4 REPRESENTATIVE BOYD: And liquidity.

5 CHAIRMAN SAYLOR: And liquidity, yes.

6 MR. KNEPP: Okay. I'll start this off,
7 and when we go into the actuarial science I'll turn
8 it over to Brent, but approximately, you were
9 right, approximately 90 percent of our annuitants
10 when they retire withdraw all or a portion of their
11 moneys and interest. So approximately 90 percent.

12 However, the difference, I understand it
13 is not common within the industry to allow option
14 4, which is what we're talking about. And one of
15 the other points, when a person withdraws their
16 money, there is an actuarial reduction to their
17 benefit, so if they take out \$10,000, there is a
18 reduction of their PB of 10,000. Though there is a
19 difference between that and the actual funding
20 rate, so there is a loss to the system. I can say
21 it that far then.

22 Now, if you need it to go any deeper, I
23 can turn it over to Brent, but I mean, there is a
24 loss to the system. Will it as we say move the
25 dial? No.

1 CHAIRMAN SAYLOR: Not a percent, half a
2 percent? That's what I'm kind of questioning. Is
3 it worthwhile looking at it?

4 MR. MOWERY: Again, the review that we've
5 done of this in the past has shown no more than a
6 percent of payroll relief we believe would arise
7 from discontinuing the availability of that
8 feature.

9 CHAIRMAN SAYLOR: Okay. Thank you,
10 gentlemen. Due to time we'll move on to the next
11 panel, and I want to thank you also for taking the
12 time. This is a problem that you guys have been
13 aware of for a long time, and I really wanted to
14 thank you for all you're doing trying to help us
15 solve this problem.

16 MR. KNEPP: Thank you.

17 REPRESENTATIVE SAYLOR: Thank you. We
18 have been joined by Representative Peifer and
19 Representative Scavello at this point, and we will
20 move forward with the next group of testifiers.
21 They are Donald Rung, who is Retired Penn State
22 University Faculty and Staff. We have Lawrence
23 French, who is a retired chairman or chair of the
24 PSSU and SEIU Union; Wayne Burton, who is
25 Vice-President of the Association of Pennsylvania

1 State College and University Retired Faculties; and
2 David Fillman, who is the Executive Director of
3 AFSCME Council 13.

4 Gentlemen, you may start once you're
5 seated and ready to go. Gentlemen, you may begin.

6 MR. RUNG: Are you ready? Good morning,
7 Chairman Erickson, Chairman Saylor, members of the
8 Senate and House Republican Policy Committees.
9 Thank you for the opportunity to testify before
10 this Committee regarding important pension issues.

11 My name is Donald Rung, and I am a member
12 of the COLA Coalition and represent the Penn State
13 Faculty/Staff Retiree Club. I am joined today by
14 three colleagues from the coalition, Lawrence
15 French, representing Service Employees
16 International Union; Wayne Burton, President-Elect
17 of the Association of Pennsylvania State College
18 and University Retired Faculty; and David Fillman,
19 Executive Director of AFSCME Council 13.

20 The COLA Coalition represents eleven
21 organizations of retired state and school employees
22 in Pennsylvania whose membership totals over
23 230,000. The present COLA Coalition has been
24 meeting since 2006 to advocate a cost of living
25 adjustment COLA for state and school retirees.

1 The COLA Coalition is here today to urge
2 the General Assembly to enact legislation to both
3 solve the state and school pension spike issues and
4 to provide for a cost of living adjustment for our
5 state and school retirees. In our ongoing
6 discussions with state lawmakers and with the staff
7 of both SERS and PSERS, we realize that the needed
8 COLA will not be viable until the looming pension
9 spike issue is resolved.

10 As you well know, unless the spike issue
11 is addressed, there will be a steep increase in
12 employer contribution rates in the fiscal year
13 2012-13. The COLA Coalition stands ready to work
14 with the Legislature and with SERS and PSERS to
15 assist in any reasonable solution to the spike
16 problem.

17 The coalition extends an offer of help to
18 the General Assembly in this issue even as we
19 advocate a COLA for our pensioners. As you know,
20 there are several proposed solutions to this spike
21 issue, to wit, raise the employer contribution
22 rates gradually over several years to meet the two
23 systems' ongoing cost obligations or both systems
24 are required by law to use five-year smoothing
25 methods. Consideration should be given to

1 extending the smoothing period to 10 years and
2 implementing temporary caps on annual rate
3 increases or decreases.

4 Implement a fresh start refinancing of the
5 two retirement systems. This would require the
6 requirement boards to recalculate their existing
7 unfunded liabilities based upon its current
8 measurement of liabilities and comparing this
9 amount with the actual market value of its assets
10 as of its most recent actuarial valuation.

11 Or restore equal 30-year amortization for
12 their recognition of annual investment gains and
13 losses for the funding of active member
14 liabilities. Or, authorize state-issued Pension
15 Obligation Bonds to help the debt and begin the
16 process of pre-funding future COLAs.

17 And lastly, in April 2009, Representative
18 John Galloway called for the creation of a
19 Speaker's Commission on the state and school
20 pensions. A similar suggestion is to establish a
21 special commission of persons knowledgeable with
22 the retirement systems and charge them with
23 determining possible solutions together with a
24 proposed course of action for the Legislature with
25 a specific time frame for implementation.

1 While we do not endorse any specific
2 solution, we stand ready to work with you to
3 resolve the spike issue as soon as possible. We
4 strongly urge the Legislative leaders to provide a
5 COLA to the state and school employees as part of
6 any legislative remedy to the spike issue.

7 We are now in our eighth year since the
8 last COLA, which was Act 38 of 2002, after passing
9 COLA legislation every five years since the late
10 1960s. Pennsylvania public retirees are alone
11 among all states in not having any COLA adjustment
12 since 2002. Our retirees, especially those who
13 retired before 2001, have suffered a significant
14 erosion of their pension income over the last seven
15 years, especially given the high inflation rate of
16 health costs during this period.

17 A COLA for retirees will stimulate the
18 economy. The National Institute of Retirement
19 Security recently published a study quantifying the
20 economic impact of public employee pension
21 disbursements in all fifty states. The results for
22 Pennsylvania showed that each dollar of pension
23 payments to state and school retirees supported
24 over \$9 of total output in the Commonwealth.

25 You can believe that any additional

1 increase in a retiree's pension check will directly
2 affect and benefit the local community and will
3 boost the economy of Pennsylvania in a very dynamic
4 way. In short, this is money well spent.
5 Pennsylvania can support the enactment of a COLA.

6 A COLA can be provided as part of
7 refinancing of the retirement systems without
8 imposing any undue obligations on Pennsylvania
9 taxpayers, and the COLA Coalition urges the
10 Legislature to do so. It is the right thing to do.
11 Thank you.

12 MR. FILLMAN: Thank you, Mr. Chairman and
13 the rest of the Committee for this opportunity to
14 address this pressing issue. My name is David
15 Fillman. I'm the Executive Director of the
16 American Federation of State, County, Municipal
17 Employees, AFSCME, Council 13.

18 Council 13 represents over 65,000 members
19 in Pennsylvania, of whom 45,000 are employees of
20 the Commonwealth of Pennsylvania, and 20,000 work
21 for various counties, townships, boroughs, cities,
22 authorities, school districts and non-profit
23 employers.

24 We do represent a majority of Commonwealth
25 of Pennsylvania employees who are members of the

1 State Employees Retirement Systems, SERS, as well
2 as thousands of school district employees, who are
3 members of the Pennsylvania School Employees
4 Retirement System, or PSERS. So the problems of
5 both SERS and PSERS affect about 75 percent of the
6 membership of AFSCME Council 13.

7 Additionally, I sit on the Board of the
8 SERS as an appointment of the Governor and have had
9 that privilege since the year 2000. I realize
10 you've had many days of hearings, so I will try to
11 not repeat so much of what has been said
12 previously.

13 First, a portion of the funding problem
14 was the ability for the Commonwealth and school
15 district employers to take advantage of
16 "contribution reductions" during years of
17 significant return on our investments. This was
18 perfectly legal. However, during those
19 contribution reductions, the employees continued to
20 contribute fully their required contribution even
21 though their contributions were also a part of the
22 high returns that employees were receiving.

23 As we discuss the 2012 spike, which has
24 been explained in previous testimony, some of the
25 discussions generated are scrapping the defined

1 benefit, or DB plan, for new employees to be placed
2 in a defined contribution, or DC plan, or even a
3 hybrid DB plan.

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

10 But I do want to state the disadvantages
11 of changing from a DB plan to a DC plan. First, as
12 a member of SERS, the investments of a large scale,
13 single plan, as SERS or PSERS, has helped to
14 provide seed money for many businesses here in
15 Pennsylvania. As an appointee to SERS, I would
16 like to keep as much money invested in businesses
17 in Pennsylvania, so they can grow, as, too, our
18 investments.

19 I believe a few years ago when pensions
20 again were being discussed and heard in hearings,
21 various business owners in Pennsylvania came
22 forward to say their businesses would not be where
23 it is today without the investments from the
24 various public employee pension plans.

25 There is already a history of downsides

1 from other states' conversions from DB to DC plans.
2 The Illinois Municipal Retirement Funds general
3 counsel had concluded that their expenses under a
4 DC plan would be \$315 million versus 65 million
5 they paid under a DB plan.

6 West Virginia closed their teachers DB
7 plan in 1991 but re-opened it in 2008 all due to
8 funding problems. Given a choice, 75 percent of
9 West Virginia teachers transferred back to the DB
10 plan, clearly the plan of choice for these
11 professionals.

12 And a real concern that could happen in
13 Pennsylvania in a DB to DC conversion happened in
14 Alaska. In 2005 Alaska converted from a DB plan to
15 a DC plan. The employer and employee contributions
16 no longer went into that existing DB pool, so all
17 those contributions were spread out in thousands of
18 individual DC accounts, losing the advantage of the
19 employer's contributions having returns to a larger
20 scale.

21 So if Pennsylvania converted, the 2012
22 spike is aggravated due to the loss of both
23 employer and employee contributions for new
24 employees. This loss to the DB plan pool increases
25 as new employees are continually hired.

1 Although portability has always come up as
2 an issue with DB plans, portability really becomes
3 a non-issue for a majority of public employees.
4 This is due to the stability of public employees in
5 the work force. A stable work force has ancillary
6 savings for any employer, as high turnover of
7 employees and transition and training costs is a
8 tradeoff for employees with longevity.

9 And finally, public employment comes with
10 inherit physical demands. We know this when we
11 take a public sector job, be it an LPN or a
12 Certified Nursing Assistant or an RN with work
13 related back injuries or a client who acted up. Or
14 a correctional officer or law enforcement officer
15 with its obvious life-threatening risks. Or a
16 highway worker who is subject to a car crashing in
17 a work zone, or worse, of the 100 AFSCME highway
18 workers who lost their lives in the last 30 years.

19 A DB plan has provisions for a disability
20 retirement. This is the least we should provide
21 for employees who put their lives on the line for
22 the citizens of Pennsylvania on a daily basis.
23 Additionally, an effective way to reduce the number
24 of employees which has been used over the years in
25 Pennsylvania, outside of furloughs, is the offering

1 of early retirement provisions. Both the
2 disability retirement or early retirement options
3 are not attainable in a DC plan.

4 My last statistic will sum up the
5 shortfalls of DC plans. The Employee Benefit
6 Research Institute showed that 54 percent of
7 workers have less than \$25,000 for their entire
8 retirement, and 27 percent have less than \$1,000,
9 putting a strain on our Public Assistance programs.

10 AFSCME is fully prepared to work to help
11 resolve this crisis, yet we are committed to
12 maintain a quality pension benefit for the
13 thousands of school and state employees. Thank you
14 for my opportunity to be here today.

15 CHAIRMAN SAYLOR: Any questions?
16 Representative Quinn, question?

17 REPRESENTATIVE QUINN: Thank you very
18 much. Mr. Rung.

19 MR. RUNG: Yes.

20 REPRESENTATIVE QUINN: You discussed --
21 thank you for being here, gentlemen. You discussed
22 that Pennsylvania is the only state in the nation
23 that has not granted COLAs since 2002?

24 MR. RUNG: Yes.

25 REPRESENTATIVE QUINN: But my

1 understanding is that the other states allow
2 withdrawals of contributions. Do not allow the
3 withdrawal of contributions, whereas we do.

4 MR. RUNG: Yes. Interestingly enough,
5 if you -- presently there is a COLA Bill actually
6 originally authored by Representative Steve Nickol
7 in 2008 -- seven, which is now in the Senate. I
8 think it's House Bill 1970. I only mention it
9 because if you look at the rates that we propose
10 for a COLA, they're half COLAs.

11 I mean, we have not really proposed a full
12 COLA at all, and part of the argument is that the
13 person has the money available having had taken it
14 out and that, you know, it could be used for
15 increase in the markets up till last couple years,
16 but in the long run, yes, and so I think if people
17 have to -- if they had to leave the money in, you
18 would have to I think couple that with some kind of
19 a more automatic COLA than we have now is my
20 thought.

21 REPRESENTATIVE QUINN: Leaving the money
22 in helps fund the COLA.

23 MR. RUNG: Yes. I was interested to the
24 question today about that, which was what one
25 percent of income. So it isn't a help, and I think

1 it ought to be considered, all right, but I don't
2 know if it's the big help. Anyway, yes.

3 REPRESENTATIVE QUINN: It's just
4 frustrating to sit here and to hear two speakers,
5 one's, hey, we need a COLA, and the other saying
6 that we should not go to a defined DC plan, because
7 I mean, what option -- you are not willing to make
8 a change and yet asking for more, and I recognize
9 fully that you've been -- that it's very difficult,
10 especially in an area like I represent, Bucks
11 County, the cost of living's high. It's tough to
12 stay in the area without a COLA, but we're
13 looking at constituents who are saying we don't
14 want to pay more tax.

15 We've got to ask for some flexibility from
16 you. What are you coming to the table to say we're
17 willing to give on or solutions?

18 MR. RUNG: Well, it's interesting,
19 because, of course, I'm a retiree and have been for
20 almost 13 years now, and I'm not involved in the
21 debate of going forward. I probably would have
22 been had I been active, but I'm not now, so I don't
23 really have an answer in terms of what retirees are
24 asking for.

25 I don't think it's exorbitant, and I think

1 problem is we have to go to our taxpayers and say:
2 You need to pay more money to see to it that the
3 benefit structure is adequately funded. I believe
4 we have not just a legal but a moral responsibility
5 to meet the obligations, particularly, Mr. Rung,
6 for you and your fellow retirees. Specifically,
7 the commitments made when you retired.

8 I don't personally believe that a COLA was
9 ever promised to you when you retired. In fact,
10 I've been assured by both PSERS and SERS that on
11 exit interviews they're very clear that COLAs are
12 not a part of the retirement package in
13 Pennsylvania. They are subject to an act of the
14 Legislature.

15 So with that said, knowing the problem
16 that we have, and, Mr. Fillman, I would assume
17 you're still a working man and you are a taxpayer,
18 what are your solutions? And not some vague, "We
19 stand ready to help." What are you willing to give
20 up to help fund this moving forward? Because we
21 need to come up with, we already heard on the SERS
22 side, \$4 billion. The PSERS side is \$5 billion,
23 and that's just a fresh start. That's just to get
24 started.

25 That's not looking at the long-term

1 liabilities over 30 years. So please tell me what
2 you are willing to give up, what you're going to
3 bring to the table, so that I can go say to my
4 taxpayers when I ask them to pay, right now one
5 percent of income tax raises about \$3.5 billion, so
6 to meet this obligation, I need to double their
7 income taxes.

8 What are you willing to give me so that
9 when I go to sell that to them I can say: Here's
10 what we've got in exchange. How can you help us?

11 MR. FILLMAN: Well, to say that there are
12 people in this room brighter than me and who've
13 testified before you that are brighter than me
14 about this obligation, or the issue we have, no
15 one -- and I think I already heard it this morning.

16 There is no silver bullet to fix this
17 problem. We understand that. I wish we could turn
18 back time. I've heard two issues today. That the
19 employer had continued to pay what should have been
20 paid all along and would that problem with those
21 moneys in the investments we were making at the
22 time in double digit areas, would we be at the 2012
23 spike we're looking at now?

24 Before the market tanked year and a half,
25 two years ago, we were looking at that 2012 spike

1 starting to smooth out to a reasonable figure, and
2 unfortunately, we get presented before hearings
3 like this when the market is not doing well. When
4 we were doing a heck of a good job at SERS and
5 PSERS through the investments, no one asked us to
6 come before you and say, "Why are you doing such a
7 great job with your money?"

8 But we are in a problem. We understand
9 that. We are not missing that point. There are
10 legal obligations as far as what you can do
11 retroactively to employees. We understand that.
12 But as I said, you know, where do we start dropping
13 all of the benefits, all of the pays, everything
14 down to a lower and lower and lower level when we
15 don't have a stable work force which we've really
16 enjoyed over all these years? We've got a lot of
17 folks that have stayed with the State employment
18 for a long period of time. That's not a bad thing.

19 REPRESENTATIVE BOYD: I appreciate your
20 comments, and this is a public hearing, and I
21 appreciate what you said, but you didn't give me
22 any solutions. The solutions that we have are
23 simple. It's either -- it involves increasing
24 employer contribution. We can't undo Act 40.

25 I wish we could undo Act 40, too. And the

1 things that we have to do moving forward is we have
2 to look at one of three things: Increasing
3 employer contributions, decreasing benefits for
4 future hires, or maximizing investment returns.
5 That's the only way we keep these funds solvent.

6 MR. FILLMAN: And I think I -- I'm sorry.

7 REPRESENTATIVE BOYD: But which of
8 those -- are you willing to give up benefits for
9 future hires? Let me be very specific. In
10 exchange for keeping the fund solvent, are you
11 willing to give up benefits for future hires?

12 MR. FILLMAN: Well, I'm not going to
13 negotiate, Representative, where we're going. I
14 think I said in my testimony, there are some
15 downsides if we go that direction. If your point
16 is let us now as of tomorrow change all the
17 employees' retirement to a DC plan, we now start
18 losing that contribution into the DB plan which
19 suddenly stops, and is that going to exacerbate the
20 problem we're looking at in 2012?

21 REPRESENTATIVE BOYD: No.

22 MR. FILLMAN: I'm sorry?

23 REPRESENTATIVE BOYD: It won't. We can
24 structure a plan that won't. I believe Senator
25 Browne has been working on this for quite awhile.

1 MR. FILLMAN: But I think the 2012 spike
2 is based on our current obligations to people in
3 the DB plan. We understand that. So we can't --

4 REPRESENTATIVE BOYD: We're wholly
5 committed to fulfilling those obligations.

6 MR. FILLMAN: Okay. So given that fine
7 parameter that you give me, I agree with you,
8 there's very little wiggle room we can go at this
9 point, and I'm not going to place on the table
10 exactly where we're going -- I will join in
11 negotiations, if that's necessary, to talk about
12 where it is, because it affects my numbers, also.

13 REPRESENTATIVE BOYD: Thank you.

14 MR. RUNG: Could I make, since you asked
15 me --

16 CHAIRMAN SAYLOR: I really need to keep
17 moving at this point because we have a time
18 constraint of the House going into session at 11,
19 so I need to move on to some other questions.
20 Representative Delozier.

21 REPRESENTATIVE DELOZIER: Thank you,
22 Mr. Chairman. Actually, Representative Boyd did
23 cover partial of what I had. As a Representative
24 here in Central Pennsylvania, the 88th District,
25 obviously, as many of us in Central PA, represent a

1 huge number of State employees, and I can honestly
2 say that probably a week doesn't go by that I run
3 into a retired teacher or I run into a retired
4 State employee asking for a COLA into their
5 pension.

6 Most of them are very rational and do
7 understand the fact that where we are with our
8 state budget, where we are with our state spending
9 and the impending 2012 issue.

10 My question really comes in line as to the
11 fact of when the employees are told about what the
12 employer should have done over the last couple of
13 years, because I've gotten a number of e-mails that
14 really are very much saying, well, you didn't do
15 what you need to do being the employer, the State
16 Government.

17 I guess my question is, is it not
18 understood that what the employer would have done
19 in order to continue that input was raise taxes in
20 order to -- it was alleviated and not fulfilled
21 because they were trying not to raise taxes,
22 because the market was doing a good job and they
23 were balancing out the issues.

24 Now for us as the employer to go back and
25 do this, we now, the option is to raise taxes and

1 go back to the taxpayer once more. The e-mails
2 that I'm getting and the conversations we're having
3 is that you didn't do what you needed to do and now
4 you need to step up to the plate, and the only way
5 we as a government step up to the plate is with
6 taxpayers' dollars, and it's going to be their
7 dollars out of their pocket in higher taxes to step
8 up to the plate and do what we should have done in
9 the past. Is that not -- am I understanding that
10 correctly or is it --

11 MR. FILLMAN: Well, I guess my point I
12 tried to make was that the employees did not enjoy
13 that reduction, also. They contribute their entire
14 6 percent or whatever that rate would be the entire
15 time, so I understand what you're saying, and did
16 it mean that you would have to raise taxes to
17 contribute back when you were down at zero or one
18 percent at that time? I don't know if that -- I
19 think that money was diverted somewhere else.

20 I don't know if it was necessary to raise
21 taxes back then to make those contributions. I
22 honestly don't know the answer to that question.

23 REPRESENTATIVE DELOZIER: The only thing I
24 would say is that as many of us represent -- and we
25 do have to answer to both sides. We have to answer

1 to our public employees, and we also have to answer
2 to the private sector as well, and many of them
3 have e-mailed in and talked to us on numerous
4 occasions when we're out in the community saying
5 don't raise my taxes to pay for a COLA that I'm not
6 even receiving within my private industry, so we
7 have to do that balance, and I know what you're
8 advocating for.

9 Our State employees have done a phenomenal
10 job for the state, and they are owed what it is
11 that was promised, but I also think we need to look
12 long term and see where we can go with finding some
13 resolution, but thank you for being here and
14 answering my questions.

15 CHAIRMAN SAYLOR: Representative Reichley.

16 REPRESENTATIVE REICHLEY: Thank you,
17 Mr. Chairman. I'll try to make this fast because I
18 know we are pressing up against the next panel.
19 But, gentlemen, just to sort of follow up on what
20 Representative Boyd asked you, can you explicitly
21 tell us today if you're unwilling to concede the
22 reduction of benefits, is there a tax increase or
23 another infusion of revenue you're willing to put
24 your names behind which tax you would increase and
25 by how much?

1 MR. FILLMAN: If your question is which
2 revenue enhancements we would support, I think
3 you've already received a letter from AFSCME that
4 says we're supporting all of the revenue
5 enhancements the Governor has proposed in his
6 budget address.

7 REPRESENTATIVE REICHLEY: But the Governor
8 as I recall the budget address this year only
9 talked about a cap and collar method. There's been
10 no new revenue enhancements. The sales tax
11 expansion goes into the Stimulus Transition Fund.
12 The severance tax goes into the Stimulus Transition
13 Fund.

14 That's to take care of the two and a half
15 billion dollar deficit created from accepting
16 stimulus money that runs out next year. It doesn't
17 get referred at all in the pension situation.
18 There is no infusion of revenue from that tax
19 proposal from the Governor to address the pension
20 problem.

21 MR. FILLMAN: And if that's accurate, I
22 agree with you. However, if you're saying that
23 there should be another proposal somewhere that
24 would go towards the pension, then we would support
25 some other revenue enhancement, yes.

1 REPRESENTATIVE REICHLEY: Okay. So does
2 that mean sales tax, income tax, corporate tax,
3 which ones are you --

4 MR. FILLMAN: I haven't a specific
5 location where that revenue enhancement would come
6 from, but we would support that, and we'd be
7 willing to go into much discussion about that.

8 REPRESENTATIVE REICHLEY: My last
9 question, and it's not that I'm necessarily
10 endorsing this or I recommend it be seen as
11 draconian, but would it not create some savings
12 into the system with the layoffs of State
13 employees? Once they get laid off, there is no
14 longer any contribution for that individual
15 employee into the pension system, is that correct?
16 They still receive a pension for all the time
17 they've accrued in state service?

18 MR. FILLMAN: I'm not sure of your
19 question. If there's a layoff of State
20 employees --

21 REPRESENTATIVE REICHLEY: Right.

22 MR. FILLMAN: -- would there be a savings
23 to the pension?

24 REPRESENTATIVE REICHLEY: There is no more
25 money then being contributed --

1 MR. FILLMAN: That's correct.

2 REPRESENTATIVE REICHLEY: -- into the
3 pension fund for that individual.

4 MR. FILLMAN: That's correct.

5 REPRESENTATIVE REICHLEY: So there's less
6 money coming from the employer side.

7 MR. FILLMAN: That's correct.

8 REPRESENTATIVE REICHLEY: And from the
9 employee side.

10 MR. FILLMAN: Yes.

11 REPRESENTATIVE REICHLEY: Okay, thank you.

12 CHAIRMAN SAYLOR: We've been joined by
13 Representative Denlinger. The next question is
14 Senator Browne.

15 SENATOR BROWNE: Just a quick comment,
16 Mr. Chairman. We've had the opportunity to have
17 several hearings from the Senate Finance Committee
18 on this issue at this point, and i've been
19 accommodated by many of the stakeholders that are
20 involved in trying to offer solutions to our
21 problem, and I just wanted to try to keep things in
22 perspective regarding the information that everyone
23 has received and is available to everyone, because
24 if we go back to trying to decide who's to blame
25 for this, what's the primary reason why we are in

1 this dilemma, and as supported by basically our
2 asset balances in both plans, we essentially lost a
3 decade in investment earnings from 1999 to 2009,
4 and at 8 percent, that's just based on simple
5 interest, that's a 80 percent loss of total asset
6 build-up over that time, and 75 percent of this
7 problem and our need to contribute more is due to
8 that.

9 Even if we didn't do Act 40, our
10 contribution rates would still be in the mid 20s,
11 so what I'm pretty much saying is we're all in this
12 together. No one's at -- everyone, our taxpayers,
13 State Government, our workers, our retirees all
14 have to respond to a situation primarily that was
15 out of our control, and in formulating a solution
16 to this issue, I hope we keep that in mind, because
17 I think that's the only way that we can all come to
18 the table at the same level and offer solutions
19 that are in the best interest of all parties.
20 Thank you.

21 CHAIRMAN SAYLOR: Senator Erickson.

22 CHAIRMAN ERICKSON: I don't have a
23 question, but I want to piggyback on what Senator
24 Browne just said, and we appreciate you being here
25 this morning and your willingness to work with us.

1 Believe me, we will be calling on you, and
2 we do need to engage you in this conversation, so
3 we thank you for your willingness to participate
4 with us.

5 CHAIRMAN SAYLOR: Gentlemen, thank you,
6 and we'll go to the next panel. The next panel is
7 made up of taxpayers groups across the
8 Commonwealth. I did want to make note for
9 everybody who is on the panel and others that are
10 here, it was interesting as my office contacted
11 different taxpayers and individuals throughout the
12 Commonwealth to come and talk today, we actually
13 had a hard time convincing some to come and testify
14 or find people who would, because most of the
15 comments we received was that many individuals and
16 taxpayers in Pennsylvania believe this is between
17 the Commonwealth, the General Assembly I should
18 say, and, of course, the unions, and I think it's
19 very important for us to hear from the taxpayers
20 who are going to be footing the bill as to their
21 input and any solutions they have as we move
22 forward.

23 So I want to thank you gentlemen for
24 coming today and taking time out of your busy
25 schedules to be with us. Have you decided which

1 one goes first? We're hearing from today, make
2 sure I get this right, Joel Sears, who is from the
3 York County Taxpayers Council from my area; Joe
4 Scheese, who is the Oxford Area Taxpayers Alliance
5 in Chester County.

6 And I believe our other testifier here, if
7 I pull it up, is, is it Mr. Kurt Haegele --

8 MR. HAEGELE: Haegele.

9 CHAIRMAN SAYLOR: Haegele, who is from
10 Oxford Area School District. He is a Director on
11 the School Board. Joel, please proceed.

12 MR. SEARS: Thank you. It's a privilege
13 to be here this morning and to represent myself in
14 a broader group. My name is Joel Sears. I am a
15 resident of York County, where I operate a small IT
16 firm. I'm also President of the York County
17 Taxpayers Council, which is a group of 350 citizens
18 in the county dedicated to tax policies based on
19 transparency, accountability and value.

20 We've heard a lot of discussion this
21 morning about those issues, and we'll try to play
22 on that theme. Our council is also a charter
23 member of the Pennsylvania Coalition of Taxpayer
24 Associations, which is composed of 36 regional
25 groups around the state and 50,000 members.

1 Essentially, that began three years ago at ground
2 zero, so we're 50,000 members now and growing.

3 I'm here this morning to provide some
4 testimony that underscores the severity of the
5 pension funding problem from a couple of different
6 perspectives. I will start by focusing on Carol, a
7 resident of the 94th Legislative District, whose
8 situation is shared by hundreds of thousands of
9 Pennsylvanians. They occupy the tip of one of the
10 largest fiscal icebergs in our history. I will
11 also provide data from my school district, York
12 Suburban, to illustrate in the starkest possible
13 terms the impact of this crisis on taxpayers
14 throughout the Commonwealth.

15 About a month ago I received a phone call
16 from Carol searching for help with her school
17 taxes. She's a 77-year-old widow who moved to
18 Pennsylvania in 2003 to care for her ailing sister.
19 Since then, her school property taxes, like those
20 of virtually every resident of York County, have
21 more than doubled. Hers have increased from 1,700
22 to 4,000 dollars per year. Her county and township
23 taxes add yet another \$900 to the burden.

24 Her financial situation is dire. You can
25 imagine receiving a telephone call at 9 o'clock in

1 the morning getting ready to go to work, and this
2 is what came in. Her Social Security income is
3 \$1164 a month. Her expenses are 1550, and this is
4 after a litany of work that she had done to cut her
5 expenses back. Her 1550 includes \$200 a month that
6 she uses to repay a loan that she took out last
7 year to pay her school taxes.

8 She is not alone. She's done everything
9 that she knows how to do to minimize her expenses,
10 including entering into a reverse mortgage that
11 essentially provides no payout, because she had no
12 equity in her home. How she did that I don't know,
13 but that is absolutely bizarre.

14 Knowing that she lived in his district, I
15 contacted Representative Saylor's office and turned
16 the matter over to them. About a week later I
17 received an e-mail from Jo Anna Shovlin, Stan's
18 Chief of Staff, who reported the steps that she had
19 taken to help with Carol's situation.

20 I provided a copy of the e-mail that
21 Jo Anna sent me. It's included as an exhibit in
22 the testimony. What I'd like to point out there
23 without reading it is that the steps that were
24 taken generated roughly \$1300 in rebate
25 eligibility, half from the State, half in matching

1 funds from her school district. Not all school
2 districts in the state do that. It's a district
3 level initiative.

4 However, the good news, that she was able
5 to get \$1300 in rebates, is great. The bad news is
6 that she still has property tax that consumes
7 27 percent of her income. 27 percent of her income
8 for school property taxes with no prospect of that
9 ever going down. As you all know, every dollar of
10 these rebates comes from other taxpayers. Neither
11 the state nor the district has a money tree or a
12 secret stash of money in the basement to finance
13 them.

14 You can rest assured that her school
15 district has not reduced its spending to offset the
16 rebates. To make matters worse, starting in just
17 two years every dollar of her rebate -- and I use
18 her as essentially a placeholder for all of us.
19 Every dollar of that rebate will be consumed by
20 additional taxes needed to fund the pensions in her
21 district. She is not alone.

22 Now let's shift gears to a slightly higher
23 level. The 5-year budget summary in front of you,
24 I call that Exhibit 2 in the testimony. And it's
25 this spreadsheet with the two red lines on it.

1 This is the best projection available from York
2 Suburban School District. It was provided a week
3 ago by Dennis Younkin, who's Director of Finance
4 and Support Services in that District.

5 Cutting to the chase here, now, this
6 starts with fiscal '09 actual, so that's the year
7 just ended, and it moves through fiscal '15
8 projected. The red line that's entitled employee
9 benefits as a percent of salaries runs at roughly a
10 30 to 35 percent level, which I think most
11 employers would think is reasonable for planning
12 purposes, and then it jumps to 60 percent, and it
13 stays there. In fact, it goes up.

14 So by the end of fiscal '15 we're talking
15 about 68.5 percent of salary being paid in
16 benefits. No business can sustain itself like
17 that. No other pension plan on the private side
18 and probably most in the public sector cannot
19 sustain those kinds of costs. That's the bottom
20 line on that.

21 And those numbers, as you've seen in
22 testimony earlier today, stay there forever. This
23 is not a spike. It's an uptick to a plateau that
24 will remain with us for years and years. In any
25 case, York Suburban has a financing profile that's

1 shared by 60 to 70 percent of Pennsylvania's 500
2 school districts in that it gets the majority of
3 its operating budget from local taxes.

4 As bad as the existing tax burden is, when
5 this pension bomb explodes, Suburban's ratio of
6 benefits to salaries I just said will more than
7 double from 31.4 percent to 68.5 percent by the end
8 of the budget horizon. Act 1 was supposed to
9 insulate taxpayers by limiting increases to an
10 inflation-based index, and you can see what the tax
11 increases are that are projected to cover this.

12 Suburban projects a shortfall of \$3.8
13 million in fiscal 2013, 100 percent of which will
14 be passed on to taxpayers through a 13 percent
15 property tax increase without referendum. By the
16 end of 2015 taxes will have increased by
17 54.9 percent on the average or the median home from
18 2935 to 4548 dollars a year. That's based on a
19 median value of 155,000 roughly.

20 The exhibit also -- there's another
21 exhibit that shows the impact on assessments of
22 100,000, 250,000 and 500,000 just to give you a
23 sense of what's really in store for typical
24 taxpayers not only in York County but around the
25 Commonwealth.

1 As bad as things are now they will worsen
2 dramatically unless the General Assembly takes
3 action to deal with the underlying structural
4 issues. They include -- and I think there's some
5 solutions here. One, the sustainability of defined
6 benefit plans. I don't think we've heard
7 compelling input today that suggests that defined
8 benefits are the only way to finance pensions in
9 the Commonwealth.

10 Second, the size and cost of government
11 payrolls. There was a suggestion earlier, I think
12 the adjective was draconian, to possibly think
13 about some layoffs, but there's a point at which
14 the sustainability of the payroll itself becomes
15 the issue. That's what drives the pension
16 contributions whether it be the employee or the
17 employer.

18 The size and cost of unfunded mandates.
19 In the case of school district financing, for
20 example, there are millions and millions of dollars
21 of Federal and State mandates that must be financed
22 at the local level because there is no other
23 option. That's where the ball rolls. That's the
24 end of the hill. And this is just another one of
25 those. So it exacerbates an already serious

1 problem.

2 Another is the relationship between
3 government and government services and the funding
4 itself. School taxes are probably one of the few
5 that are directly infused into the operation that
6 they are intended to finance, but there are dozens
7 and dozens of cases of taxes around the
8 Commonwealth and around the country that are raised
9 for one purpose and spent another way. So we'd
10 like to at least have some opportunity to find a
11 way to relate the taxes that are collected to the
12 services rendered, and in the case of public school
13 financing and the pensions in particular, whether
14 it be public school or State employees in general,
15 if the benefit is perceived to be a public benefit,
16 then the financing should come from the broadest
17 possible sources, namely income and sales taxes,
18 not property taxes. They're too highly targeted.

19 The means by which the taxing authorities
20 raise revenue is constrained. We have counties,
21 cities and school districts around the
22 Commonwealth, only two that I know of that have
23 exceptions, which are not permitted to raise sales
24 taxes. They have virtually no alternative.
25 They're hamstrung. They have property taxes, and

1 they've basically run that to the point that they
2 can't run it any further.

3 It's not in the testimony, but in the York
4 City, which is the nucleus of the area in which I
5 live, the total combined tax rate now is 49.8
6 mills. That's like paying a sales tax every year
7 on your property. Two-thirds of that from the
8 school district, the remaining from the city and
9 the county. It's unsustainable.

10 To illustrate the last point that I've
11 made about this over-dependence upon property tax,
12 which is I believe inequitable and
13 unconstitutional, I've given an exhibit that shows
14 assessments and taxes for all of the houses in
15 Carol's development to bring it back to that
16 example.

17 Assessments in York County are supposed to
18 reflect 100 percent of fair market value. The last
19 assessment was done in 2006. If you look at the
20 yellow column, which shows assessments as a
21 percentage of sale, you will see that there is a
22 huge variation, from 57 percent to 157.9.

23 Article VIII, Section 1 of the
24 Constitution -- I know you all know this by
25 heart -- states that all taxes shall be uniform

1 upon the same class of subjects. I would think
2 that somebody in a school district would represent
3 a class of subjects -- within the territorial
4 limits of the authority -- the school district --
5 levying the tax shall be levied and collected under
6 general laws.

7 A uniform rate of taxation, the millage
8 level, does not and cannot generate uniform
9 taxation if the assessments aren't uniform. And
10 because it is impossible to make them uniform, it's
11 impossible to construct a uniform tax, hence a
12 Constitutional tax, that's based on them.

13 So here we have it in a nutshell, 500
14 pension bombs, with their fuses lit almost ten
15 years ago, have rolled all the way downhill from
16 Harrisburg to every school district in the state.
17 When they explode, the vast majority of
18 Pennsylvania property owners and only property
19 owners will see their school taxes balloon by
20 25 percent or more with no relief in sight, unless
21 the General Assembly resolves to take ownership of
22 the problem and pass comprehensive legislation.

23 Here's the solution or at least a
24 solution. House Bill 1275, of which I know many of
25 the members here are co-sponsors, understand that

1 legislation well, to completely overall education
2 funding, control education costs and eliminate the
3 school property tax forever.

4 CHAIRMAN SAYLOR: Who's next?

5 MR. HAEGELE: It would be me. Good
6 morning, ladies and gentlemen. I would like to
7 take this opportunity to thank you for allowing me
8 to appear before you. Again, my purpose this
9 morning is to share with you the detriment that the
10 PSERS shortfalls are slated to cause and the
11 impending financial distress that will not only
12 befall upon the school district I currently serve
13 but all school districts throughout the
14 Commonwealth, as well as those supporting taxpayers
15 in each of those districts. The goal is to give
16 you some perspective from the school district and
17 local level.

18 As Mr. Sears stated, my name is Kurt
19 Haegele, and I currently serve as an Oxford Area
20 School Director in Chester County. I've been an
21 elected official for the school district for seven
22 years, and I currently serve as the Board Chair,
23 and I have also served as the PSBA Legislative
24 Representative for my district. My appearance here
25 is merely an attempt to convey to this panel what

1 is in store for school districts, as well as the
2 supporting taxpayers throughout the state, based on
3 my experience as a School Director. I'm using
4 Oxford School District as a model.

5 I did not present a pie chart for our
6 funding, but for the Oxford Area School District
7 the breakdown is basically three pieces. We get
8 less than one percent from the Federal Government.
9 It's .9 percent. 33.6 percent comes from the
10 State. The balance is 66.5 percent from the local
11 tax base.

12 The concerns surrounding the PSERS crisis
13 is not by any means a new phenomenon. Beginning in
14 2004 as a PSBA Legislative Representative for our
15 school district, I recall many discussions
16 regarding potential increases that were going to be
17 imposed on all school districts throughout the
18 state. It was projected to be roughly in the range
19 of a 7 percent increase or basically 100 percent of
20 what the employing school districts were currently
21 contributing at that time.

22 This was the proposal that was being
23 considered as a resolution to close the widening
24 gap between the PSERS funds that were going to be
25 available in correlation to the retirees receiving

1 pension benefits and future recipients.

2 The concerns that were voiced then of the
3 imposing increase bear no comparison to what we
4 currently will face. The widening gap of
5 contributors versus the retirees going forward and
6 the billion dollar losses that the fund has
7 sustained in the recent years in retrospect bears
8 no comparison.

9 In hindsight, I believe that a lot of the
10 school districts probably, if not all, will
11 probably be more than willing to accept the
12 7 percent increase with minor grievance. However,
13 the PSERS contribution rates school districts have
14 received as employers for the coming years will not
15 only cripple our ability to educate our students
16 but will cause unsustainable financial burden for
17 an enormous amount of taxpayers.

18 I have provided two simple appendixes,
19 Appendix A and Appendix B, if you have a copy for
20 your review, and what they demonstrate is the
21 impact that PSERS increases will have, and I'm
22 using the Oxford Area School District as the
23 example. So if you look at Appendix A titled
24 Oxford Area School District PSERS Contribution,
25 what that reflects is the actual PSERS rates that

1 we have been given for the coming years through
2 2015 for the district as forwarded by our District
3 Business Manager, which he receives from the State.

4 The rates that are listed in the example
5 are the same for all districts across Pennsylvania,
6 so even though the dollar amounts are different,
7 percentages are the same per school district. Also
8 noted on this list are the impending cost increases
9 that will be impacted to our district on an annual
10 basis, as well as a cumulative total through the
11 year 2015. Of course, the dollar amounts will
12 differ from district to district.

13 So if you basically take that sheet, what
14 we've been given is our contribution rate in 2010
15 and 2011, which we are currently discussing our
16 budgets, goes from a 7 percent to an 8.22 percent,
17 and as you can read, by 2014-2015, we jump to
18 33.6 percent. It give an annual increase. You see
19 the totals there. But the cumulative cost, by 2014
20 and 2015 our cumulative cost is going to be
21 one-fifth of what our budget is today. We're
22 roughly a 50, 54 million dollar budget.

23 So that just gives you some perspective.
24 It's basically an average increase or impact in
25 2012, 2014 of about 400 to 600 dollars depending on

1 the assessed value of a person's home in our
2 district. And this does not end going forward
3 beyond 2015. Basically the projected increases
4 that we have been given are well above 20 percent
5 for the next 20 years going forward.

6 If you take a look at the example I've
7 given you in Appendix B, and that's titled the
8 Oxford Area School District Millage Increase, it's
9 just a sample that reflects an example of using
10 \$100,000 assessed value.

11 Now, the median assessed value for our
12 district I believe is between 155 and 158 thousand
13 dollars, but if you basically just look at the
14 total there, beginning in 2009 it's projected out
15 through 2020, and again, these figures were given
16 to us by our Business Manager based on what he's
17 been provided.

18 At the end of that time frame -- the spike
19 begins in 2012, 2013, and over that time frame it's
20 about a \$2700 increase per taxpayer, but that's
21 based on just 100,000 median assessed value. So
22 again, hopefully these examples will give you an
23 idea from our perspective.

24 Bear in mind that these examples provided
25 reflect only the increases for PSERS. They do not

1 include any increases that we will eventually need
2 by the school district to cover the educational
3 cost of the students, as well as the other various
4 financial obligations that we have.

5 What you also need to bear in mind, these
6 increases to our school district budgets will have
7 an adverse effect in artificially increasing the
8 amounts that are determined by the bottom line
9 totals of our overall budgets. And I give you an
10 example. What we contribute -- and I use charter
11 schools. What we contribute to charter schools is
12 based on our fiscal budget. If our fiscal budget
13 increases \$10 million, it's only continuing to
14 increase the charter schools.

15 CHAIRMAN SAYLOR: I don't mean to
16 interrupt you, and I understand. I think we all
17 understand all our school districts. We need to
18 move on, because I have to adjourn this meeting at
19 11 o'clock because the House goes in session, and I
20 want to make sure we get to Mr. Scheese.

21 MR. HAEGELE: Okay. That's really all I
22 had left to say, and I just in closing, I'm just
23 saying with the various speakers, it's clearly
24 apparent that action by our legislators needs to be
25 expedient. I've heard here the reference of no

1 silver bullet. I think that the thought process
2 should be more to the tune of biting the bullet.

3 Again, the burden the school district will
4 bear, as well as our supporting taxpayers, is going
5 to adversely affect that which is our primary
6 focus, the invaluable task of providing quality
7 education for our children. Thank you.

8 MR. SCHEESE: I'd like to thank the
9 Committee for the opportunity to speak here today.
10 I'll cut to the chase since I'm the guy with the
11 solution. I know of no private company that offers
12 a defined benefit pension today. Every new
13 employee hired after a given date is offered a
14 defined contribution system. Pick a date and every
15 employee hired after that date will receive a
16 contribution of some percentage of their current
17 salary regardless of the contribution to their own
18 retirement account. Employees would be allowed to
19 contribute pre-tax or after-tax money up to a
20 maximum percentage, perhaps 20 percent of their
21 salary.

22 Most private companies honor their
23 commitment to those employees close to retirement
24 age and already receiving retirement benefits. An
25 example in this case could be that those employees

1 within five years of retirement and those receiving
2 their pension benefits, we would honor our
3 commitment to them.

4 For employees with less than five years in
5 the system, simply buy them out. Put a cash
6 deposit into a private retirement account for them.
7 The difficulty now becomes how to transition the
8 remaining people with more than five years in the
9 system and more than five years from retirement.

10 One option for conversion is handled by a
11 ratio of a defined benefit and the defined
12 contribution based on years until a given
13 retirement age. The simple graph shown provides a
14 possible example. Convert every employee with more
15 than five years until retirement to a combination
16 of a defined benefit and a defined contribution.

17 While this method still has the taxpayer
18 on the hook for the defined benefit portion, the
19 system will eventually purge itself over time and
20 become a defined contribution system only. Another
21 option, using the same type of graph, would be to
22 calculate the cash value of every participant in
23 the system, take the one-time hit, and make a cash
24 deposit to individuals' retirement accounts. From
25 that point forward, the system becomes a defined

1 contribution system only.

2 Other possible solutions are being
3 offered, such as House Bill 2135/Senate Bill 1185.
4 This hybrid system does nothing to eliminate the
5 defined benefit over time and only perpetuates the
6 problem while offering some temporary relief to the
7 taxpayer. For the taxpayers that I represent, this
8 is not acceptable.

9 Actions that could be taken immediately
10 would be eliminate part-time worker eligibility for
11 PSERS and SERS pensions. I know of a track coach
12 with a nonschool district full-time job that is
13 eligible for a PSERS pension. Eliminating the
14 ability for a retiree to withdraw their full
15 contribution at a guaranteed rate of 4 percent.
16 This reduces available capital for future earnings
17 and to help cover the cost of receiving benefits.

18 And I've heard numbers that that would
19 only save one percent. Gentlemen, I'm also a
20 School Director in the Oxford Area School District.
21 For to us go to a zero tax increase, all we have to
22 do is decrease our budget and cut it one percent.
23 Every percent counts. Seriously.

24 Because of the shortfall in the current
25 pension systems, any solution will require

1 additional funding from some source. Sales tax
2 revenue should not be used to fund any pension
3 solution but should be reserved for the original
4 intent of the tax, funding public education.

5 The co-opting of this revenue source could
6 jeopardize any future educational funding reform so
7 greatly needed in Pennsylvania. Perhaps the long-
8 awaited gambling funds could be earmarked to solve
9 this problem until the system is completely
10 converted to a defined contribution system.

11 It will require political courage to come
12 up with the final solution. Any solution must put
13 the public sector employee on par with the private
14 sector employee. Any solution that can accomplish
15 this task will not favor well with the special
16 interest groups. This is where courage will be
17 required.

18 The voters, most who are not members of
19 these special interest groups, will suffer the tax
20 increase if this problem is not addressed and will
21 not forget those legislators that favored the
22 special interests over the common taxpayer.

23 In closing, I'd like to say I've lived 52
24 out of 55 years in the State of Pennsylvania. I'm
25 currently unemployed, I have no children, and

1 recently my wife and I lost our last parent, which
2 is the last tie we had here to Pennsylvania. I
3 have no reason to stay here anymore. So if you
4 guys can't fix this problem, in three years, I'm
5 not going to be able to afford to live in my house.
6 Thank you.

7 CHAIRMAN SAYLOR: First I want to
8 apologize to you, Kurt, Mr. Haegele. In cutting
9 you off, It's just I was trying to get everyone's
10 testimony in, and I always like to leave taxpayers
11 groups to the last because you can respond to other
12 comments that were made, and just because of time
13 constraints today we're a little short.

14 MR. HAEGELE: I fully understand. Thank
15 you.

16 CHAIRMAN SAYLOR: Are there any questions
17 from members? Representative Boyd.

18 REPRESENTATIVE BOYD: And I'll be really
19 brief. Joe, while I appreciate your testimony,
20 there has been no less than three times when the
21 Commonwealth has tried to roll back benefits for
22 current employees, current hires, and each time in
23 lawsuits the Courts have ruled it's a violation of
24 the contract clause --

25 MR. SCHEESE: I understand.

1 REPRESENTATIVE BOYD: -- of the
2 Constitution. So while I appreciate your
3 testimony --

4 MR. SCHEESE: Let me ask you this. Those
5 Judges, do they get a SERS pension?

6 REPRESENTATIVE BOYD: Respectfully, I hear
7 where you're going with that.

8 MR. SCHEESE: Do we not have a
9 Constitutional Convention and a way to modify the
10 Constitution?

11 REPRESENTATIVE BOYD: Yeah, and I
12 personally have been supportive of those efforts,
13 but we're facing something that we have to deal
14 with right now, and to go down a direction that we
15 know it will end up being tied up in a lawsuit and
16 ultimately overturned isn't going to solve the
17 problem.

18 MR. SCHEESE: Go after everything.

19 REPRESENTATIVE BOYD: So at the very
20 least, we've trying to focus on future hires and
21 get our arms around the current liability where
22 then we can fund it. So I just want you to know,
23 anybody that tells you that we can legally go after
24 current retirees --

25 MR. SCHEESE: I saw it in the handouts. I

1 understand where you're coming from, but I'm also
2 saying that you can amend the Constitution.

3 REPRESENTATIVE BOYD: Yes, we can.

4 MR. SCHEESE: And in the meantime you can
5 still convert everybody to a defined contribution
6 system that comes in new to the system.

7 REPRESENTATIVE BOYD: Actually,
8 respectfully, you would need to amend the
9 Constitution first, because if you do the Bill
10 first, the Constitution that's in place would
11 circumvent the current statue, and it would be
12 thrown out.

13 MR. SCHEESE: For new employees?

14 REPRESENTATIVE BOYD: Not for new hires.

15 MR. SCHEESE: I'm talking new hires. You
16 could do that today, right now. Turn the valve
17 off.

18 REPRESENTATIVE BOYD: Understood. I'm
19 just trying to be clear.

20 MR. SCHEESE: No, I understand where
21 you're coming from. Thank you.

22 CHAIRMAN SAYLOR: Any other questions from
23 members? Again, I really want to thank all three
24 of you gentlemen for coming in today because we're
25 going to continue hopefully listening to what the

1 taxpayers have to say as well as we go through in
2 trying to find solutions and as we make changes as
3 well. We welcome your input, and I know, Joel, you
4 will always make sure I get to hear what's going on
5 in the York County Taxpayers Council. Thank you.

6 (Whereupon, the proceedings were concluded
7 at 11 a.m.)

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CERTIFICATE

I hereby certify that the proceedings and evidence are contained fully and accurately in notes taken by me on the within proceedings, and that this copy is a correct transcript of the same.

4-1-10

Date

Cindy L. Reilly, Notary Public
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