

## **Capitolwire: Zogby says major reforms needed, but 401-k can go alone.**

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HARRISBURG (March 12) – Pennsylvania Budget Secretary Charles Zogby said today that if the Legislature will only replace its current pension plan with a 401-k plan for new employees and teachers, that would be worth doing by itself.

And, he said, it would avert major taxpayer risk if state investments disappoint again, and save state taxpayers more than \$2.6 billion.

But both the savings and other claims by the administration of Gov. Tom Corbett are spurious, said David Broderic, spokesman for the state's largest teacher's union, the Pennsylvania State Education Association.

Broderic also said there is, as yet, no legislation defining the governor's pension reform plan.

"So it is hard to know what they are actually proposing and what their numbers mean, until we see a bill," Broderic said.

While a 401-k plan is worth doing, the real savings comes from reducing future benefits of current employees and teachers, Zogby said in a detailed presentation to reporters on Corbett's pension reform plan.

But with sources saying support for even the 401-k plan now questionable in the House, Zogby was clearly trying to set out the case for it, and for current-employee reforms beyond it.

Zogby disputed assertions by public employee unions that a 401-k plan would cost more than the current plan. He said it would cost the state \$2.6 billion less over 30 years than the current plan, and avoid putting taxpayers at risk if state investments underperformed again.

This is a vital debate for the administration to win because House Republican support for the 401-k plan for new employees has ebbed as the PSEA and others have persuaded many lawmakers there are no net savings to be found in cutting the benefits of teachers and state employees.

Zogby and the governor's pension consultant, Eric Porter of the Milliman benefits consulting firm's Philadelphia office, said the state's employer contribution would average 4.5 or 4.6 percent of salary per employee, since state police and hazardous-job employees would get a higher employer match than the 4 percent most employees will get.

But that would be lower than the employer share for state employees in the SERS system which covers state employees. That contribution is higher than 5 percent. The cost of the defined contribution plan would be comparable to the 4.1 percent for full-time employees in the PSERS retirement system, for public school employees, Porter said.

PSERS has said their employer normal cost is 2.2 percent, just about half of the rate Porter cited. Porter said he did not know why PSERS and the state's teacher unions cited a rate so much lower than he claimed.

Zogby said he believed PSERS and the PSEA were both counting part-time employees, which made the rate seem lower than it would be if only full-time employees were counted.

Broderic said PSEA would be willing to estimate the cost per full-time employee if the governor's office put out a bill so the PSEA could find out how they were defining a full-time employee.

"And as with all of our numbers, before we released them, we would have them verified by PSERS as we have so far," Broderic said. "PSERS verified our numbers, the governor did not ask them to verify his. For his proposal, all we have to go on is a slide show.

"We came up with 2.2 percent. PSERS agreed. So until we see something more than a slide show, we don't know how their private consultant came up with those numbers.

"And we do know this: some states have tried to go to a defined contribution plan like the governor is proposing, some have looked at it. There is a lot of state experience with defined contribution plans and that experience is they cost more."

Rep. Glen Grell, R-Cumberland, heading the House GOP task force reviewing the governor's pension reform plan, attended the Zogby-Porter briefing. Asked whose estimate of the employer cost he believed for each plan, Grell e-mailed: "They could both be right. In general I think a defined contribution plan is less costly to administer, as it is most akin to a bank account (money in - money out).

"Defined benefit plans" such as those the state has now, "require benefits calculations, purchase of service issues, benefits determinations, appeals, etc.

"Specifically, it depends on the plan structure. A DC plan with a 6% employer contribution would be more expensive than a DB plan (like the Act 120 plan) with an employer normal cost of about 3%. The Governor's proposal for a 4% employer match would probably be about the same as the Act 120 plan; however the employers under the Corbett plan would also pay an extra assessment on the DC payroll to go toward the legacy DB unfunded liability."

Broderic made a similar point: "There is a big cost to closing a defined benefit plan and the slide show didn't show the cost of that."

Zogby concentrated on the fact that no matter what the state did, it was going to pay 25 to 30 percent of its payroll in pension costs for decades if the state enacted no more reforms.

But if the state was willing to reduce its future pension benefits by 20 percent a year for most current employees, 16 percent for lawmakers and 12 percent for state judges, it would save about \$8 billion over 30 years. The defined contribution plan would contribute another \$2.6 billion in savings. But by lowering the rate of employer contributions over the next five years, that cost is \$3 billion over 30 years, Milliman estimated.

The remaining Corbett reform proposals bring the total 30-year savings to \$11.6 billion:

- Paring down a proposal that lets employees take their contributions upon retirement and pays a higher pension than some actuaries believe is sound is the biggest remaining savings, Porter said, about \$3 billion over 30 years;
- Changing the calculation of highest average salary from three years to five years, limiting it to 110 percent of previous four year average and limiting it to Social Security taxable wages provide the remainder of the \$11.6 billion in total savings.

Broderic said it was hard to respond to such assertions without seeing more than a "slideshow," and again questioned why the administration did not have SERS and PSERS verify their numbers.