SMC Business Councils

GOVERNMENT NEWS

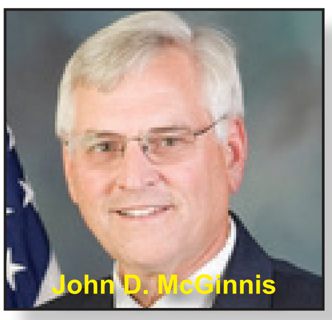
www.smc.org Issue 11/December 2016

STATE NEWS

Reform of the State's two pension systems has been SMC's # 1 issue for the past several years. As part of SMC's continuing effort to educate members, we've invited 3 lawmakers to give their viewpoints on the pension issue. All 3 will write about "Achievable Pension Reform in 2017." First we hear from Rep. John McGinnis an expert on the issue who comes from the world of academia. In February look for essays by Senator Pat Browne, Majority Chair of Appropriations, and Rep. Dan Frankel, Democratic Caucus Chair.

Achievable Pension Reform in 2017

By John D. McGinnis, State Representative of the 79th District, Blair County and author of "Future Forsaken: Pennscam and the Demise of the Commonwealth"


John D. McGinnis

Fifteen years ago our state pension systems had a collective surplus of $15 billion and funding ratios in excess of 125%. Following Act 9 (2001), Act 38 (2002), Act 40 (2003), and Act 120 (2010), and all with bi-partisan support, that surplus has been replaced with a growing debt of $70 billion and funding ratios are near 50% and falling. (The ratio = assets to liabilities. A ratio below 1 indicates that the fund is either unable to make payments or is in danger of not being able to do so).

Our Commonwealth is on a path to pension insolvency (the complete depletion of pension assets). When will that insolvency come about and what will its impact be? The second of those questions is the easier and scarier to answer.

Insolvency means that benefits to retired state and school employees will have to be paid entirely out of the general fund. In the current fiscal year about $10 billion is being paid to retirees, an amount equivalent to about 1/3 of general fund revenues. Payments to retirees are growing at a faster rate than state revenues, so when insolvency arrives we can expect that 35% to 45% of general fund revenues will be necessary to cover those payments. All of the responsibilities and services of state government will have to be covered with that much less.

*Continued on page **2***

Remember...Small business is the backbone of the PA economy

- 98% of all employers in PA are small businesses defined as less than 500 employees.
- There are more than 226,000 small businesses in PA.
- Of those 87% (197,000) have LESS than 20 employees.
- Small businesses employed nearly 47% of PA's private-sector labor force in 2013 (2.4 million).

.....U.S. Small Business Office of Advocacy-most recent Pennsylvania profile.

STATE NEWS

Cont. from page 1

The question of when insolvency arrives is one that depends on variables not knowable at present. However, reasonable estimates have been made by actuaries and economists and it is likely that insolvency will occur in 15 years or sooner.

Of course, the political problem here is that 15 years is several election cycles away and of little interest to current officeholders, who tend to obsess on only immediate matters. But given how pension dynamics play out, there is actually very little time for action to avert this financial catastrophe.

The past four years saw attempts at marginal improvements in pension design for future employees. None of these efforts addressed the growing debt problem. The claim with each plan was that it would be a "first step" in the right direction. However, if you are on a beach with a tsunami soon to hit, one step in the right direction isn't going to make any difference.

It is imperative that the governor and the legislature commit in 2017 to a 20-year amortization schedule for the unfunded liabilities of SERS and PSERS. Twenty years is roughly the time until the average public sector employee will retire and thus sets the limit for fully paying off our debt. Any longer amortization makes for a mismatch of benefits and funding and risks insolvency.

A second thing we need to do is eliminate (not moderate) the root cause of pension debt—public sector defined-benefit plans and politics are a toxic mix that leave taxpayers indemnifying overly generous retirement plans for public sector employees, while their own retirement needs are relegated as secondary. Who's the servant and who's the master in this relationship?

Is either of these steps politically achievable in 2017? With the future of Pennsylvania in the balance, the answer must be yes. ■

Need Some PA Stats to Grow Your Business? Try the Pennsylvania State Data Center (PaSDC)

The Commonwealth's Official Source for Population and Economic Statistics

For instance you can find census profiles: 2010, the "Inaugural Annual Survey of PA Entrepreneurs," "Pennsylvania Facts 2016" and much more.

"The Pennsylvania State Data Center www.pasdc.hbg.psu.edu is Pennsylvania's official source of population and economic statistics and services. Designed to improve access to statistical resources concerning the commonwealth, PaSDC provides assistance on a wide variety of business initiatives.

The PaSDC website contains demographic and economic information on Pennsylvania counties and municipalities, metropolitan areas and political jurisdictions. Directories of other economic development and business assistance resources and organizations, recently released research briefs, marketing opportunities and maps depicting recent trends around the state are also available."

SAVE THE DATE!

February 16, 2017

SMC MEMBER MIXER

Watch for details!