Senate Finance

May 29, 2013

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Meeting Type:	Public Hearing
Subject:	Comprehensive Pension Reform
Bills Discussed:	SB 922, HB 1350, Act 120 of 2010
Keyword(s):	Pensions, PSEA, AFSCME, direct contribution, direct benefit, liability, pension obligation bonds
Testimony:	Charles Zogby, Budget Secretary David Fillman, Executive Director, Council 13, American Federation of State, County, and Municipal Employees (AFSCME) Gerard Oleksiak, Vice President, Pennsylvania State Education Association Rich Hiller, Senior Vice President, Government Market, TIAA-CREF Ted Kennedy, Assistant General Counsel, Office of State Relations, AIG David Volpe, Managing Director, Emerald Advisers, Inc Luke Martel, Senior Policy Specialist, National Conference of State Legislatures AFT Pennsylvania National Tax Sheltered Accounts Association and American Society of Pension Professionals and Actuaries Pennsylvania School Boards Association Commonwealth Foundation
Members Present:	Chairman Michael Brubaker (R-Lancaster), Minority Chairman John Blake (D-Lackawanna), and Senators John Eichelberger (R-Blair), Robert Teplitz (D-Dauphin), Patricia Vance (R-Cumberland), and John WozWozniak (D-Cambria).

The committee held a public hearing on comprehensive pension reform and legislation implementing Gov. Tom Corbett's proposed pension changes.

SB 922 Brubaker, Michael - (PN 1079) Amends Titles 24 (Education), 51 (Military Affairs) and 71 (State Government) extensively revising pension provisions: for the Public School Employees' Retirement System, in the areas of preliminary provisions, of membership, contributions and benefits, of School Employees' Defined Contribution Plan, of administration and miscellaneous provisions and of health insurance for retired school employees; for military pensions, in the area of military leave of absence; for the State Employees' Retirement System, in the areas of preliminary provisions, of membership, credited service, classes of service and eligibility for benefits, of School Employees' Defined Contribution Plan and of contributions, of benefits, administration, funds, accounts, general provisions; and providing, as to the revisions, for construction, applicability, funding, amortization, re-amortization, recertification, liability and legal challenge.

HB 1350 Ross, Chris - (PN 1760) Amends Titles 24 (Education), 51 (Military Affairs), & 71 (State Government) extensively revising pension provisions for both the State Employee Retirement System and the Public School Employee Retirement System. As described, the legislation: contains no changes to current retiree pensions; keeps current employees and retirees in the same type of retirement plan, a defined benefit plan; respects current employees by protecting retirement benefits already accrued and allowing contribution flexibility to opt out of future benefit recalculations; automatically enrolls new employees in a defined contribution plan, starting in 2015; recalculates future benefits for current employees through capping how much of current employees' future wages and overtime can be used to calculate their pensionable income and fixing the formula to adjust the way that monthly pension benefits are paid out if an employee takes a lump sum payment when leaving employment; and limits the amount by which employer contributions can be increased to provide short-term budgetary relief.

Chairman Brubaker commented, "By listening to the testimony we can hopefully take the first step in reaching a consensus on key details of pension reform such as what is the real unfunded liability to the Commonwealth and whose benefits will be affected should Senate Bill 922 pass." He said, "Whether you agree pension reform is needed or not, it is impossible to deny that Pennsylvania is facing a real pension debt of at least $47 billion and by some estimates that number grows to $107 billion of unfunded liability." Chairman Brubaker pointed out, "There have been arguments made that Act 120 of 2010 reformed the pension system and we don't need any additional pension reform." He agreed that Act 120 was a "great step in the right direction" but went onto say that he continues to believe "Act 120 was one step in a multi-step process." Chairman Brubaker told the committee, "I agree that how we got here is an unfortunate tale of underfunding the pension system by the state and a major economic decline which accounts for the majority of our unfunded liability." He added, "But the fact remains the same, this $47 to $107 billion of unfunded liability is a real debt and it needs to be honored and we need to pay for it." Chairman Brubaker explained that is the reason he decided to introduce Senate Bill 922. He added that he is "happy to publicly vet this proposal as well as other ideas that have been part of the pension discussion for quite some time."

Minority Chairman Blake commended Chairman Brubaker for introducing the legislation but expressed disagreement with the "fiscal prudence of the proposal." He added, "Echoing the Chairman's remarks, I believe that the obligation for us as legislators is to fully vet the options at our disposal and try to make sure we're doing the best we can by our Pennsylvania workers and by our taxpayers." Chairman Blake pointed out that the legislation and the governor's proposal has been "reviewed by other objective and empirical sources" that indicate the unfunded liability will be increased by the proposed cutoff of funding to the existing plan. He also noted that there has been some risk experienced in other states with increased taxes as a result of the transition from a direct benefit plan to a direct contribution plan.

Charles Zogby, Budget Secretary, offered an overview of the pension problem facing the commonwealth, and the Corbett Administration's plan for a remedy. He stated that at the end of 2011, the State Employee Retirement System (SERS) and the Public School Employees' Retirement System (PSERS) had a combined unfunded liability of $41 billion, which increased to over $47 billion by the end of 2012; an increase amounting to $510 million each month. Sec. Zogby reported the unfunded liability is expected to grow to over $65 billion by 2018. By 2017-18, he said the "taxpayers' bill to SERS and PSERS is expected to rise to $3.35 billion in General Fund contributions."

Such increasing contribution costs, Sec. Zogby warned, will eat away at the state's ability to fund other core services such as public safety and infrastructure repair. The problem, if left unchecked, will also harm the state's credit rating, student achievement and other areas, he said. Sec. Zogby defended the pension reform plan contained in Senate Bill 922, commented "its passage would result in less debt and that debt being paid off sooner than current law."

Sec. Zogby said the plan "will save taxpayers nearly $12 billion in contributions and more than $40 billion in plan costs over the next 30 years," while instituting reforms "including a defined contribution plan for new employees that will ensure that current situation we face can never repeat itself again." He emphasized the plan does not impact the benefits of current employees in any way, will not put future employees' retirement benefits at risk, will not increase the cost of the system and will not cut off funding to the defined benefit plan.

Speaking to the concept of pension obligation bonds (POBs), Sec. Zogby noted SB 922 does not provide for the use of POBs. Though he acknowledged the issuance of a POB could reduce the unfunded liability of the pension funds, Sec. Zogby contended "it would negatively impact the general fund by significantly increasing required debt service payments."

"Issuing POBs in the hope that investment returns would outpace our debt service payments carries a significant level of risk that must be carefully evaluated," Sec. Zogby said.

Chairman Brubaker wanted to know if in Sec. Zogby's opinion or analysis the roughly 50 percent of the unfunded liability emerged from the financial decline in the system. Sec. Zogby responded that a significant percentage of the unfunded liability is due to the economic weaknesses during the period of 2000 to 2010. He noted PSERS includes a pie chart in its annual report which indicates that 40 percent of the liability in their system is from employer deferrals; 25 percent from investment performance; and 31 percent from unfunded benefit enhancements. Chairman Brubaker noted that in Sec. Zogby's written testimony it is stated that this year more than 60 cents of every new General Fund revenue dollar will be spent on employer pension contributions. Sec. Zogby explained that the pension report his office released in the fall projected that over the next three fiscal years the amount goes from 62 cents in 2013-2014 to 66 cents by fiscal year 2015-2016.

Chairman Brubaker observed that Transportation Secretary Barry Schoch often talks about the cost of doing nothing regarding transportation funding and some argue that Act 120 should be allowed to work. Chairman Brubaker noted the information provided to the committee from The Commonwealth Foundation indicating a significant increase in school property taxes if nothing is done about the pension system. He asked Sec. Zogby if the numbers provided by the Foundation are accurate. Sec. Zogby responded, "I think they are." He added that taxpayers will be facing a "double whammy." He said there will be significant increases in property taxes that can be ascribed to increasing pension costs for school districts. Sec. Zogby noted several news articles from across the state indicating property taxes increase due to increased pension costs. He added that school districts will be forced to raise property taxes or make significant budget cuts. Chairman Brubaker pointed out that some are arguing that there are huge costs for going from a direct benefit plan to a direct contribution plan. Sec. Zogby responded analysis by his department suggests those arguments are "red herrings." He added that under the proposal the state would continue to make contributions to the direct benefit plan for the next several decades. Sec. Zogby also noted the governor's plan does not increase the unfunded liability. He went onto describe the plan as a "critical step" and "a huge boon for taxpayers."

Chairman Blake told Sec. Zogby, "Just because empirical and objective analysis of this proposal doesn't align with your argument, I wouldn't call them red herrings." He added local taxpayers are facing a "triple whammy" because of state cuts to public education. Chairman Blake argued pension costs are not the only factor driving up property taxes. He disputed Sec. Zogby's assertion that there is no cost for closing the defined benefit plan and noted the Hay Group's analysis for SERS indicated no savings over the thirty year period of time. Chairman Blake wanted to know how to maintain a rate of return during the period of closure. Sec. Zogby responded, "The governor has put out a very detailed analysis and we put out all of our numbers for public inspection." He told the committee members, "What we see are attacks in the form of press releases and white papers that have very little or no analysis or numbers behind them." Sec. Zogby noted, "We have reached out to some of these organizations and asked for the numbers and they are not forthcoming." He added that Milliman used an objective standard with the liquidity ratio. Sec. Zogby pointed out the Hay Group report included changing investment returns every ten years without any analysis or reasoning for doing so. He added it did not look at the "enormous cost and risk reduction" under the governor's proposal. Chairman Blake expressed concern with the proposal's affect on the future benefits of current employees and the risk of this being rejected by the courts. Sec. Zogby explained that the administration is not asking the court to overrule itself and acknowledges there will be litigation, but is confident of the arguments. Sec. Zogby further explained offsetting policy concerns that the court would have to consider.

Sen. Vance noted the Governor's proposal does not include pension obligation bonds. Sec. Zogby explained that the Administration is not absolutely opposed to POBs but "they have a high hurdle to clear." He said the bonds become a hard liability and also noted the amount of risk involved in issuing such bonds. Sen. Vance asked if the bonds would be more expensive if the Commonwealth's rating was downgraded. Sec. Zogby said it would go down. Sen. Vance asked about liquor privatization and its impact on the pension system because of the loss of state employees. Sec. Zogby said he has not looked at it but it is a concern.

Noting Sec. Zogby's comments about protecting taxpayers, Sen. Wozniak observed, "State employees are taxpayers, too." He then asked what the average pension is for state employees. According to Sec. Zogby, it is $24,000 to $25,000 per year. Sen. Wozniak commented a shift from a direct benefit plan to a direct contribution plan should apply to all three branches of government. He asked about the shifting to a direct contribution plan and how it reduces the unfunded liability. Sec. Zogby explained that the move to a direct contribution plan removes the risk to taxpayers in future liabilities.

Chairman Brubaker asked about the change to a direct contribution plan under Senate Bill 922 and who would it apply to. Sec. Zogby explained the change applies to all employees in all branches of government.

Sen. Wozniak asked how many states have moved from a direct benefit plan to a direct contribution plan. Sec. Zogby responded that he is aware of Alaska, Michigan, and some other states but he would have to get the information. Chairman Brubaker interrupted to point out a representative of the National Conference of State Legislatures will be providing that information later in the hearing. Sen. Wozniak said he understands that New York has made changes and is now solvent regarding its state pension system. He wanted to know what New York did. Sec. Zogby did not know and said he has not looked directly at New York.

Sen. Teplitz noted he worked in the Auditor General's office and had extensive involvement in state and local pension programs. He agreed with Sec. Zogby on the causes of the pension problem but expressed concern that the people advocating change were part of the effort ten years ago which led to the current problem. Sen. Teplitz also noted local pension programs across the Commonwealth with direct contribution plans that also have problems. He went on to point out that the $47 billion liability would only come into play if every teacher and employee retires at once. Sec. Zogby responded that the changes made ten years ago were "done because it could be done" based on projections on the money available at that time. He pointed out the previous administration underfunded the systems by $6 billion. Sec. Zogby argued that direct benefit put taxpayers fully at risk while the direct contribution puts the risk on the contributor. Sen. Teplitz argued "it is not fair to demonize teachers and public employees." Sec. Zogby said he has not demonized teachers or state employees. He asserted the current system is not sustainable and there are many people to blame. Sec. Zogby added that the Governor is "trying to make reforms to make the system sustainable."

W. Gerard Oleksiak, Vice President of the Pennsylvania State Education Association (PSEA), discussed how the funding challenges have affected school districts and particularly noted 20,000 education jobs have been lost and programs have been cut. "Anyone who feels that school employees have somehow been cosseted from the impact of rising pension costs has been sadly misinformed," he stated. He reviewed the major changes made by Act 120 and said the act will result in a $33 billion future benefit cost savings over the next 30 years. He lamented proponents of proposed pension reform in 2013 "are attempting to walk away from the commitments made in 2010" and argued that the proposal contained in SB 922 and HB 1350 has several faults, with the primary problem being that the proposal is unconstitutional. Furthermore, Oleksiak argued, the proposal treats PSEA members disparately. He concluded, "PSEA is willing to entertain any meaningful pension reform proposals, as long as they are fair to our current and future members, as long as they are constitutional, and as long as they do not simply pass the buck to future taxpayers at a greater overall cost. The governor's plan, unfortunately, fails to meet any of these three criteria, and we are adamantly opposed to that plan."

David Fillman, Executive Director of AFSCME Council 13, said the proposals contained in Senate Bill 922 and House Bill 1350 "will negatively affect both our current and future members." Fillman contended that if either of the bills were enacted as written, they would be illegal. "The Courts of Pennsylvania have ruled that the State Constitution prohibits any reduction to the contractually owed defined benefit pension to all current members and annuitants of SERS as well as PSERS," he said. Fillman argued Act 120 of 2010 is working as intended and should be allowed to continue to work. He pointed out Treasurer Rob McCord's office has estimated that the governor's plan will increase the state's pension debt by $25 billion dollars by 2046, and said moving to a defined contribution will lower retirement benefits for public employees and will also not include disability retirement. "There's a natural cycle to this system," Fillman remarked. "And Act 120 makes certain that we will bounce back."

Chairman Brubaker asked Oleksiak and Fillman if Act 120 is currently working. Both responded, "Yes." Chairman Brubaker then asked if Act 120 is economically sustainable. Oleksiak said yes. Chairman Brubaker noted that in Fillman's testimony he said, "When Act 120 was enacted nobody said more was needed to be done down the road and nothing has changed." He then read to Fillman his statement on the floor of the Senate when Act 120 was considered, at which time he described the bill as a good first step and with more needing to be done. Fillman explained he did not know about the Chairman's comments and if he had known he would have corrected his testimony. Chairman Brubaker pointed out that in his testimony Oleksiak said Senate Bill 922 is unconstitutional. He asked Oleksiak, "Are you a constitutional scholar?" Oleksiak responded, "I am just a special ed teacher." He went to explained that his testimony is on behalf of PSEA, whose legal team believes it is unconstitutional and that is "our opinion as an organization."

Chairman Brubaker then pointed out that Oleksiak's testimony was critical of the proposal to have senior judges determine the constitutionality of the two proposals. Steven Nickol, a former legislator and PSEA's head of retirement programs, said the legislation calls for the appointment of seven senior judges from the courts of common pleas and the state appellate courts. Chairman Brubaker asked, "So you are uncomfortable with them making this determination?" Oleksiak responded that it should ultimately be decided by the State Supreme Court.

Chairman Blake asked about the number of studies regarding the closure of direct benefit programs. Oleksiak said there have been 11 studies from various states. Chairman Blake commented that it is not appropriate to use the term "lavish" when describing the pensions. He asserted, "The point is direct contribution could cost twice as much with the same benefits." Chairman Blake expressed concern with shifting the risk to employees. He then asked if the direct benefit plan improves the Commonwealth's ability to recruit new employees. Fillman responded, "Yes." He went onto express concern with what he termed as "pension envy throughout America." Fillman argued that cutting public pensions will put pressure on other parts of the budget such as Medicaid and other welfare programs as retired employees are forced to use those programs because of cuts in their pensions.

Sen. Teplitz said it is his understanding that current state law makes a clear distinction between current employees and new employees and the governor's proposal would "cut that clear line." Oleksiak responded, "That is our understanding." Fillman added that Act 120 addressed the unfunded liability in the future while the Governor's Office is "saying they can what they want in the future." Sen. Teplitz expressed concern that litigation is inevitable.

Sen. Wozniak asked how many states have cost-of-living adjustments (COLA) for public employees. Fillman responded that he believes there are more than 30 but he would need to get the information. Sen. Wozniak complimented AFSCME for "being fair to taxpayers" during negotiations. He wanted know how a shift to a direct contribution plan would impact a potential retiree. Nickol offered a detailed explanation on how an employee would receive less under a direct contribution plan versus a direct benefit plan.

Chairman Brubaker commented that he is receiving calls from current employees who are being told to retire now because of the potential pension changes. Nickol explained that he conducts workshops for the members of PSEA. He noted, "The governor has filled the workshops." Nickol said school employees are very anxious about the potential changes but they are being advised not to make decisions now based on the governor's proposal.

Sen. Eichelberger said he is also receiving telephone calls and letters containing the same phraseology and the misinformation is coming from PSEA members. He said the commonwealth cannot afford Act 120. Sen. Eichelberger expressed the need to clarify what is fact and what is fiction. Fillman commented that his reputation is at stake if he would put out misinformation. Oleksiak said, "We are proud of the quality of our research." He added PSEA is using the message "keep the promise" which he said urges the commonwealth to keep its contractual obligations.

Rich Hiller, Senior Vice President, Government & Religious Markets, TIAA-CREF Financial Services, testified, "While the existing unfunded liabilities have to be addressed in order to put the state on sound financial footing, a pension plan for future state employees that provides benefit adequacy but avoids the likelihood of new unfunded liabilities must be implemented." He further commented, "A reasonable path to consider is to utilize defined contribution as a primary retirement plan component or in a defined benefit/defined contribution hybrid design." Hiller provided an overview of a core direct contribution (DC) plan. He explained that such a plan could be open only to new employees or to both new employees and select existing participants. Hiller pointed out, "Some governments have reservations about migrating from the traditional defined benefit (DB) structure to a core DC format." He said plan sponsors cite a variety of risks including inadequate savings and confusing investment choices. Hiller emphasized that a core DC plan's objective should include providing employees with the means to build sufficient savings and ensuring participation in the plan. Regarding a DB/DC hybrid design, Hiller commented, "A properly defined hybrid plan couples a degree of guaranteed benefits through a smaller traditional defined benefit plan with a risk-managed defined contribution plan that is focused on income adequacy in retirement as its primary goal." He explained the hybrid plan.

Ted Kennedy, Assistant General Counsel, Office of State Relations, AIG, testified, "My goal today based upon my 24 years of experience working with public sector retirement plans is to urge you to strengthen your public pension plans while preserving existing voluntary supplemental plans." He then offered the lawmakers a detailed analysis of the proposed legislation. Kennedy told committee members they should "do no harm in developing your new pension program regarding the complimentary plans." He also commented, "I do not feel if you go with a direct contribution plan that you need to navigate unchartered waters." Kennedy explained that direct contribution plans have been in the public sector for more than 100 years with higher education employees, which was before direct benefit plans were created. He also warned of "another looming but never mentioned issue," pointing out that average 50 percent of public employees never vest in the existing retirement plans.

Chairman Blake asked if enough has been done to build some controls to mitigate the risk of the diversity of financial literacy of the future workers and the vagaries of the market. Hiller responded that the controls are in the bill but more will come when the plan is actually designed. He added there is nothing in the bill that precludes education of the workers as being part of the plan design and "they certainly should be written in." Hiller expressed concern with the adequacy of the contribution rate. He did suggest, "When you are looking at a comparison of the contribution rates be sure to compare total contribution rates and not just the normal costs in a defined benefit plan."

Sen. Teplitz asked Kennedy about his comment that the bill is adverse to his company's client. Kennedy explained that what he meant is his client, primarily the teachers, are opposed to the legislation as being adverse to their interests. He further explained that his testimony is not necessarily in favor of this position or proposals. Kennedy said he was pointing out that "there is a good 100-year record using direct contribution plans as a pension program." Sen. Teplitz asked, "Neither of you are advocating this plan?" Hiller responded, "That is correct." Sen. Teplitz commented, "Direct contribution is not a panacea." Hiller pointed out that "any retirement plan is an exercise in risk management." Noting that Kennedy is an attorney, Sen. Teplitz asked if he was arguing the legal issue or constitutionality of the legislation. Kennedy said, "No."

Chairman Brubaker asked about Social Security versus pension plans. Kennedy explained Social Security is a direct benefit plan which applies to everybody except certain public employees. He also said most people have a combination of Social Security, pension, and personal savings. Hiller added that a goal in retirement is to have an income which is 75 percent of the pre-retirement income. Chairman Brubaker wanted to know if the panelists had any recommendation on the formula to solve the unfunded liability. Hiller said he would avoid making any recommendations in that regard. Kennedy said, "Don't lay the liability on the feet of existing employees."

David Volpe, Managing Director, Emerald Advisers, Inc., discussed the pros and cons of pension obligation bonds, which he explained "are taxable issues that are used to refinance all or a portion of a pension plan's unfunded accrued actuarial liability." He stated POBs have been in use since the 1980s and have generally been used in jurisdictions that need to reduce their unfunded actuarial accrued liability payments due to budgetary stress or to restructure amortization payments. He suggested POBs are rarely used by well-funded pension systems. Discussing the experience of Philadelphia with POBs, he stated the city's bonds in 1999 were issued at 6.61 percent, but "given the timing of the bond issuance it is no surprise in hindsight that the leverage worked against the pension fund." Volpe offered the following considerations for the issuance of POBs:

- Financial - the success of the POB depends on the premise that pension returns are more than the cost of financing the debt;
- Market timing - POBs involve considerable timing risk;
- Flexibility - the issuance of a POB changes the nature of the indebtedness and pension bond payments become inflexible;
- Political - While the issuance of POBs may be politically expedient in the face of benefit cuts, elected officials must recognize the potential political risk associated with calls for benefit increases after POBs are issued and pension plans are seen as better funded.

Volpe also pointed out that Moody's has stated POBs "rarely improve the credit quality of the issuer…most pension bonds have, at best, a neutral impact on our overall assessment of an issuer's credit quality." However, he added, Moody's has also said that POBs "could be part of a broader credit-positive effort aimed at restoring balance between the pension's actuarial liabilities and asset values and achieving affordability." Volpe argued entities with "significant political will to make POBs just one part of a broader overall strategy to manage pension expenses may be candidates for POB issuance," adding that the political will to forgo benefit increases is "probably the most critical element" in determining the likely success of the bond. Additionally, he said entities should consider using POBs when they have the financial strength and flexibility to float the bonds and budgetary flexibility to choose the time to issue the bonds.

Chairman Brubaker said the subject of POBs has come up in previous discussions and the reaction has been mostly negative. He asked what would be the maximum percentage the commonwealth should consider if it chooses to pursue a POB. Volpe responded "there is no tried and true number or percentage." Chairman Brubaker commented on the need to do a "thoughtful study" of POBs and wanted to know how long it would take to identify the various variables in the system. Volpe responded it could be done in about three to four months.

Sen. Eichelberger expressed concern that if the Commonwealth did get involved with POBs it would lead to a sense of complacency and the General Assembly would not make the necessary changes. He also expressed concern that the additional moneys would lead to increased pressure to increase benefits similar to what happen ten years ago.

Chairman Brubaker commented that if the POBs were included then there would be a need to tighten the language to control the spending of the money from the bonds.

Luke Martel, Senior Policy Specialist, National Conference of State Legislatures (NCSL), provided an overview of retirement systems across the nation, noting there are 3,418 governmental retirement systems representing only six percent of the total number of systems but 88 percent of active members. He stated the vast majority of governmental retirement systems are traditional defined benefit designs.

Martel stated pension-related legislation is being considered in at least 53 different states, territories, or DC and 144 bills have been enacted in 30 states this year. He discussed major pension reforms enacted in various states since 2009, specifically touching on changes in employee contributions enacted in New York and Kansas; higher age and service requirements adopted in Alabama and Wyoming; post-retirement benefit changes, noting that 30 states have an automatic COLA; hybrid plans adopted in Virginia and Rhode Island; a defined contribution plan adopted in Michigan, Alaska, and Utah; and cash balance plans adopted in Kentucky, Kansas, and Louisiana.

Chairman Blake expressed his appreciation for the data provided, remarking that the assessment of other states is critically important to the committee's deliberations. He pointed to increases in the unfunded liability in Alaska when that state transitioned to a DC plan as well as problems that arose in West Virginia and cautioned these experiences may not be a predictor of what may happen in Pennsylvania but the commonwealth needs to be aware of the potential danger.

Sen. Teplitz asked for clarification that Martel was not advocating for or against the proposed pension reform plan. Martel replied he is not, confirming that NCSL provides neutral research assistance and information. Sen. Teplitz then asked if research is available that compares Pennsylvania's contract impairment law to similar provisions in other states. Martel cited the availability of research on that issue generally, but was not sure if it addresses Pennsylvania specifically. He confirmed each state's contract protections are unique.

Sen. Eichelberger asked if NCSL considers Pennsylvania to be an automatic COLA state. Martel replied it does not, noting Pennsylvania is listed as "ad hoc" in the information he provided to the committee. Sen. Eichelberger also asked how Pennsylvania's multiplier of 2.5 ranks compared to other states, noting that it seems high based on those that Martel provided in his testimony. Martel agreed it seems high based on the numbers he had, but noted he did not have information for all states at hand and could not speak to Pennsylvania's overall placement. He suggested this information should be available online and agreed to provide the answer to the committee.

Sen. Wozniak asked if any states with DB plans are doing it well. Martel replied NCSL does not track the funding levels of state funds, but suggested other organizations have done that research. Sen. Wozniak remarked on the number of local pension systems in Pennsylvania and asked if any other states have incorporated their local plans into the state system. Martel was not familiar with any specific instances but offered to provide information on public safety pension plans to the committee. He said he would research specifics for the committee. Sen. Wozniak speculated on the efficiencies of scale that could be gained by absorbing some of the local plans into the state system.

Written testimony was submitted by:

- AFT Pennsylvania
- National Tax Sheltered Accounts Association and American Society of Pension Professionals and Actuaries
- Pennsylvania School Boards Association
- Commonwealth Foundation