Fox Rothschild LLP
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EDUCATION

ALERT

DOES MR. TESTERMAN REALLY BELIEVE THAT THE RECENTLY ADOPTED PUBLIC PENSION BILL SOLVES THE "PENSION" CRISIS?

On Monday, November 15, 2010, the Pennsylvania House voted 165-31 to make a number of changes to the State's public sector pension plans. The legislation increased from 5 to 10 years the time it takes for an employee to become vested, moved the retirement age back to 65, and ended the practice of withdrawing lump sum payments upon retirement. The legislation also spreads out the unfunded accrued liability over 24 years for the teachers' pension system and over 30 years for the state workers' system. Under the terms of the legislation, the following will be the contribution rates based upon salaries for pensions moving forward, which are obviously lower from what they were, but are still extraordinarily high:

2010-2011	5.64%
2011-2012	8.72%
2012-2013	12.22%
2013-2014	16.71%
2014-2015	21.20%
2015-2016	24.24%
2016-2017	25.13%
2017-2018	25.92%
2018-2019	26.83%

The President of PSEA, James P. Testerman, commented on the bill by stating that it "resolves the pension crisis in a responsible manner and over time will save the taxpayers billions of dollars. It also keeps the promise of a secure retirement for current and future workers."

Mr. Testerman is definitely correct that the bill will keep "the promise of a secure retirement for current and future workers" who are fortunate enough to be covered under the pension program. However, the bill falls far short of resolving the "pension crisis" in a responsible manner.

The contribution rates moving forward are still extraordinarily huge obligations on the part of the taxpayers of the Commonwealth of Pennsylvania and given the fragile state of the overall economy, I cannot see how public entities moving forward will be able to meet these obligations without availing themselves of protection under Act 47 and Chapter 9 of the Bankruptcy Code.

Though the move of our State Legislature was certainly in the "right direction," the "pension crisis" is far from over and still will represent a huge obligation moving forward in the worst economy since the Great Depression.

If you have questions about this Alert, please contact Jeffrey T. Sultanik at jsultanik@foxrothschild.com or 610.397.6515 or any member of Fox Rothschild's Education Practice.