

Community Connection

PSERS: Not Just Another Education Acronym, A Potential Crisis

Every year at budget season the Easton Area School District is trying to determine future costs. Some are discretionary (supplies and services), some are contractually bound (salaries and benefits), and some are mandated by the state. Slight changes in any category can tip the scale even in a good budget year. Dramatic changes in a mandated category risk throwing the entire budget into a tailspin where the educational objectives of a district become difficult to meet. There is a very real potential of this happening in Easton if the PSERS issue is not addressed.

The following Q&A excerpts are from the Pennsylvania School Boards Association published "School Leader News" bulletin of January 22, 2010. The 5th question highlights the problem we face.

What is PSERS?

PSERS, the Public School Employees Retirement System is the pension system that covers public school employees in Pennsylvania.

How is PSERS funded?

PSERS is funded with employer (school employer and state) contributions, employee contributions and investment earnings.

How are the employer and employee contribution rates set?

The employer contribution rate is set each December by the PSERS Board of Directors and is calculated by the system's actuaries to be the contribution needed to pay for its unfunded liability when combined with the employee contributions. The employee contribution is set by law.

What are the current rates?

The 2009-10 employer contribution rate is 4.78%. The employer rate is split approximately 53%-48% between the commonwealth and school employers. That means that school employers must contribute an amount to the system that is equal to about 2.25% of the payroll for member school employees. The employee rate is 7.5% for most school employees. For some who have been in the system longer, the rate is 6.5%. The employee rate is a percentage of their wages earned as a school employee.

*****What are the projected employer contribution rates for the next several years?***

The latest unofficial projections are 8.40% for 2010-11; 10.70% for 2011-12; 29.55% for 2012-13; 32.45% for 2013-14 and 33.95% for 2014-15.

Why is the employer contribution rate scheduled to increase by so much?

There are several factors that have contributed to the projected increase in employer contribution rate. First, the stock market, from which PSERS receives the bulk of its investment revenue, has performed very poorly over the last two years. The rate of return on PSERS investments was -26.54% for the fiscal year ended June 30, 2009 (FY 2009)

and -2.82% for the fiscal year ended June 30, 2008 (FY 2008) resulting in a devaluation of PSERS assets. Second, legislation approved during the previous decade that increased employee benefits and subsequent legislation, which re-amortized the system's liabilities had the effect of pushing off liability to the future in exchange for providing fiscal relief to school employers and the commonwealth during recessions at the time. These liabilities are now becoming due.

How can PSERS mitigate these rate increases?

Fundamentally, there are only three things that can be done: 1) increase the funding for the system, 2) decrease or cut the costs of the liabilities of the system or 3) defer the liabilities of the system.

What is likely to happen?

*Because the projected increases in employer contribution are so steep, it is likely that all three tools will be used to some extent. **The extent to which they are used will depend on legislative action and the performance of the stock market.***

We cannot control the stock market, but we can call for legislative action. The EASD's Board of School Directors has contacted local and state legislators to discuss the seriousness of this crisis and the impact it will have on school budgets and local tax payers in the near future. The Pennsylvania School Boards Association has offered potential short and long term solutions.

Our legislators are asked to devote time and resources to many issues. It is imperative that this be on the top of their lists. Please consider contacting your local and state representatives and ask them to make the PSERS crisis a priority.

The following link from the PA School Boards Association provides numerous resources for further consideration:

<http://www.psba.org/issues-advocacy/issues-research/pension-reform/index.asp>

We recognize that much work lies ahead on our current budget and that cuts are the only way to make ends meet this year. Our attention to the PSERS issue is not an attempt to divert responsibility for our own internal expenses, but to highlight the extent to which cuts will be necessary year after year if the projected PSERS payment schedule becomes a reality.

Thank you for your time.

- EASD Board of School Directors

Legislator Contact Info:

Representative Robert Freeman: <http://www.pahouse.com/freeman/contact.asp>

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Governor Edward Rendell: http://sites.state.pa.us/PA_Exec/Governor/govmail.html