



**COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

December 11, 2015

Honorable Tom Wolf
Governor
225 Main Capitol Building
Harrisburg, PA 17120

Honorable Jay Costa
Senate Minority Leader
535 Main Capitol Building
Harrisburg, PA 17120

Honorable Joseph Scarnati
Senate President Pro Tempore
292 Main Capitol Building
Harrisburg, PA 17120

Honorable Mike Turzai
Speaker of the House
139 Main Capitol Building
Harrisburg, PA 17120

Honorable Frank Dermody
House Minority Leader
423 Main Capitol Building
Harrisburg, PA 17120

Honorable Jacob D. Corman
Senate Majority Leader
350 Main Capitol Building
Harrisburg, PA 17120

Honorable David Reed
House Majority Leader
110 Main Capitol Building
Harrisburg, PA 17120

Dear Gentlemen:

As directed by the enclosed Board Resolution¹, I am writing on behalf of the Public School Employees' Retirement System (PSERS) Board of Trustees and over 600,000 active, vested, and retired PSERS members who depend on PSERS to provide their pension benefits.

As you know, the Commonwealth and school employers have made significant progress toward meeting their pension funding obligations under Act 120 of 2010. Over the past five years the rate collars put in place under Act 120 of 2010 have incrementally increased the employer contribution rate toward the level necessary to begin to pay down the existing unfunded liability. On December 8, 2015 PSERS' Board certified the FY 2016-2017 employer contribution rate. This rate fully meets the actuarially required rate and the rate collars put in place under Act 120 of 2010 no longer apply.

Extending the use of rate collars, as provided in pending Senate Bill 1082 (P.N. 1460), reverts to the detrimental past practice of underfunding PSERS as a means to balance funding budgetary needs elsewhere. Underfunding of PSERS has been the largest contributor to the existing \$37.3 billion pension debt. While prior benefit enhancements and investment performance have also contributed to the unfunded liability, the artificial suppression of employer contribution rates far outweighs even the impact of two historic market downturns over the past 10 years.

¹ Senators Browne and Farnese did not participate in the discussion or Resolution due to pressing Senate business and the designee for Secretary Rivera did not participate due to illness.

Rate collars also limit the funds PSERS has available to invest and will cause further strain on PSERS' cash flow and increase the pension debt. With continued underfunding, PSERS also must maintain more liquidity and hold a larger cash allocation to pay over \$460 million each month in pension and healthcare benefit payments to PSERS' retirees.

In closing, PSERS Board of Trustees and staff have a fiduciary responsibility to the members of the System to maintain a financially sound System. We respectfully request that you reconsider the inclusion of rate collars in Senate Bill 1082 (P.N. 1460) or in any other pension legislation that will result in the underfunding of PSERS.

Sincerely,

A handwritten signature in black ink, appearing to read "Glen R. Grell". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

GLEN R. GRELL
Executive Director
PSERS

GRG/lak
Enclosure

PSERB Resolution 2015-65
Re: Board Authorization
December 08, 2015

WHEREAS, SB 1082, P.N. 1460, a pending pension reform bill, proposes the use of "rate collars" to lower the employer contribution rate for fiscal year (FY) 2016-2017 and thereafter, and thereby underfund the Public School Employees' Retirement System (PSERS); and

WHEREAS, the underfunding of PSERS has been the largest contributor to the existing \$37.3 billion pension debt; and

WHEREAS, extending the use of rate collars reverts to the detrimental past practice of underfunding PSERS which further strains PSERS cash flow and ability to invest and increases the pension debt; and

NOW THEREFORE IT IS RESOLVED, that the PSERS' Board of Trustees hereby authorizes the Board Secretary to send a letter to the Governor and House and Senate leadership to express their concern over the proposed use of rate collars in SB 1082, P.N. 1460 for FY 2016-2017 and thereafter, or any other pension legislation, and the resulting underfunding of PSERS.