Protecting Seniors: Cost of Living Adjustment for Public Retirees

PA Joint Democratic Policy Committee Hearing

Hearing Room 8-EA | Pennsylvania State Capitol

March 21, 2023, 12:00 PM

Opening Remarks (12:00 - 12:10)

- **Senator Katie Muth**, Senate Democratic Policy Committee Chair
- **Representative Ryan Bizzarro**, House Democratic Policy Committee Chair
- **Senator John Kane**
- **Representative Steven Malagari**
- **Representative Daniel Deasy**

Panel 1: Public Education (12:10 - 1:10)

- **S. Thomas Curry**, Retired Educator
- **Arthur G. Steinberg**, President - PA American Federation of Teachers
- **Aaron Chapin**, Vice President - Pennsylvania State Educators Association

Panel 2: State Employees (1:10 - 1:50)

- **J. David Henderson**, Executive Director - AFSCME Council 13
- **Stephen Catanese**, President - SEIU Local 668

Closing Remarks (1:50 - 2:00)

Senator John Kane

Representative Steve Malagari

Representative Daniel Deasy

Representative Ryan Bizzarro, House Democratic Policy Committee Chair

Senator Katie Muth, Senate Democratic Policy Committee Chair

PA Association of School Retirees (PASR)
Written Testimony for the Joint House & Senate Policy Committee Meeting
March 21, 2023

Thank you, Chairwoman Muth, Chairman Bizzarro and members of both the House and Senate Policy Committees, for the opportunity to speak today about a cost-of-living adjustment for retired school personnel.

My name is S. Thomas Curry, (I respond to "Tom" in conversations).

I'm a retired school teacher from the Punxsutawney Area School District in Jefferson County. There, I had the privilege of teaching art for 40 years – 10 at the junior high and 30 at the senior high school. I have many fond memories of my public service.

During my tenure, I had the opportunity to educate students and help and encourage them to expand their creativity through art – hundreds once a week in junior high, and more daily in the elective program at the high school level. For me, I appreciated the time of connecting with others who also shared a passion for education, and that includes valuable support personnel.

Without a thought, the years passed by. I was fortunate enough, with good health, to retire in July 1999 with the ability to draw on my pension. My wife and I were prepared to experience the future with a fixed income, with savings arranged for emergencies, and a budget adjusted to control costs for the uncertain future ahead.

However, my pension has not been able to stretch as far in recent years as it had in the early part of my retirement and the same can be said for many of my fellow retirees. That has to be especially true for the secretaries, cafeteria workers, custodians, etc. who didn't have the salary of a professional school employee. Rising health care costs and inflation certainly are contributing factors, but a large component of that challenge is the lack of cost-of-living adjustments that should coincide with these increased market costs.

It has been 20 years since the last cost-of-living adjustment for school retires, which is in stark contrast to the previous three decades where school retires in education received a COLA (if I may use that word) - usually every 4 to 5 years. Retirees are being asked to do more with less because we have not been able to keep pace. Retirees who dedicated much of their lives to public service, realizing it wasn't a high-paying professional salary, deserve to live a dignified retirement life and not have to choose how to divide their income to pay bills each month, put away savings if possible, and support the community (the people who really had been their employers as taxpayers).

Teaching was, and still is, an extremely rewarding profession. I'm proud to be a part of that - how the students and communities were served, how the teachers I've known have lived with a positive attitude under the circumstance that the cost of living has become more expensive since retirement. It is not just for teachers and administrators. It's the others – the support staff – the non-professionals as well. I appreciated their public service, and they deserve to not to be forgotten.

Teacher benefits have historically been a balancing factor for compensation – a state pension being a major component to ensure we were all afforded retirement security. At a time where the Commonwealth is facing a significant teacher shortage, I believe that providing a guarantee of a sustainable retirement could have a positive impact in recruitment and retention.

I'm sure all school employees who have retired understand there is a fiscal impact to our request and appreciate the difficult budgetary decisions members of the General Assembly must make. We are not looking for a path to wealth in our request. We are simply looking for your help to ensure school employees in retirement can sustain a comfortable living and continue to contribute to our communities, as much as possible in good health, in our retirement.

I appreciate your time today, and for your patience and consideration for this, in my opinion, long overdue cost-of-living adjustment.

Respectfully submitted,
S. Thomas Curry

AFT Pennsylvania
President Arthur Steinberg

Testimony to the
PA Senate & House Democratic Policy Committees
On Cost of Living Adjustment for Public Retirees
Tuesday, March 21th, 2023 | Written Testimony

Thank you, Chairpersons Muth and Bizzarro, Senator Kane, Representatives Deasy, Malagari and all of the members of the Senate and House Democratic Policy Committees for inviting AFT Pennsylvania to testify on the important topic of Cost of Living Adjustment (COLA) for Public Retirees.

I am Arthur Steinberg, President of AFT Pennsylvania, the Pennsylvania affiliate of the American Federation of Teachers. I am proud to submit the following testimony on behalf of our 36,000 educators, paraprofessionals, school staff, higher education faculty and state workers across 64 locals.

Teaching is a noble profession. As an educator myself, I know many of us got into teaching because we realized that we could make a difference in a child's life, maybe we were inspired by a teacher or parent in the profession, maybe we realized that we excelled in instructing others, that we wanted to give back to our community, or we just fell into the profession.

As public-school educators, we recognize that we will not make the kind of money that we could in the private sector, especially with all of the higher education we need to advance, however, we realize that we have the ability to mold the minds for several generations. We also know that there is a sense of job security with being an educator and that the ebbs and flows of the economy rarely affect our employment. But the deal society has made with educators, as well as an overwhelming majority of public sector workers, is that we agree to modest pay for the task of keeping our children safe every day and shaping the minds that will guide the future of our world, we are rewarded with a secure and dignified retirement.

However, for many current and retired educators, that secure and dignified retirement is slipping away. The defined benefit plans that educators, along with taxpayers, have contributed to with the purpose of ensuring that security have required periodic Cost of Living Adjustments (COLAs) to keep pension payments in line with the overall cost of living in the United States. These COLAs have occurred far too infrequently and are typically a political bargaining chip in our state legislature. And that is why we are here today.

The last time the Commonwealth of Pennsylvania made a cost-of-living adjustment to its retirement plan payments, in 2002, the average cost of a dozen large eggs was $1.21, a pound of ground beef cost and average of $2,20, a gallon of gas was under $1.70. I don't think I need to tell this panel that over the last 20 years, the prices of all of these items have at least doubled, while the payments for retirees has stayed the same.[i]

In the last two years, an after-effect of the pandemic has created some of the highest inflation rates that we have not seen since the early 1980s. According to the March 2023 US government CPI data report, since the Commonwealth's last cost-of-living adjustment (COLA) occurred, inflation has risen 67.2%. What that means is that our retirees have to do more with much less. Just an example of this is the U.S. Labor

Department's Bureau of Labor Statistics (BLS) stated as recently as August 2022, the food inflation rate at 11.4% was the highest since May 1979. Those who live on their pension, live on fixed incomes, and their dollars are forcing them to choose whether they can eat, travel around town, pay for medication, and keep their homes in working order.

The Bureau of Labor Statistics recently compared 22 major MSAs (Metropolitan Statistical Areas) across two key metrics related to the Consumer Price Index, which measures inflation. They compared the Consumer Price Index for the latest month for which BLS data is available to two months prior and one year prior to getting a snapshot of how inflation has changed in the short and long term. Southeast Pennsylvania had the second highest increased rate of inflation in the nation.

In addition to the immediate effects of inflation, people have been living longer lives for decades; I know for a fact we have members who retired 30 to 40 years ago and still collecting their pensions. When they were employed, they were not making the salaries that current educators or recent retirees made. They were not contributing at the same contribution rate either. These people now are having to make tough decisions. Some are being forced out of their homes because they cannot afford to heat, cool, maintain, or power the home they lived in. Others are either not taking their medications or are rationing them due to the high costs of prescriptions. Some are hungry or lacking proper nutrition because they cannot afford the high costs of food. Without having an ongoing COLA we are leaving these people behind.

Worse yet, many retirees are on defined benefit plans with lower multipliers—the percentage used to determine per annum benefit payments. These retirees are living on even less.

When the Pennsylvania Public School Employees Retirement System was created in 1917, it was the Commonwealth's way to make sure that those who worked on behalf of the children of Pennsylvania would not have to worry about financial pitfalls in their "Golden Years". The Commonwealth has failed these dedicated workers. Constant underfunding of our pension systems over many years, and investment returns coming in lower than projected due to using high-priced investment managers and risky private equity investments.

Recommendations:

AFT Pennsylvania recommends that the General Assembly pass an immediate COLA for all annuitants who are collecting currently to help offset the struggles of these current inflationary times. Secondly, the legislature must pass a bill that pegs COLAs to the Consumer Price Index. This will ensure that payments more accurately reflect the economic reality of the times and will prevent future legislatures from holding retirees hostage in budget debates.

State lawmakers should also require that pension boards change asset allocation targets to reduce private equity's share of total fund assets invested, replacing private equity with a lower-fee, equivalent-risk alternative. These boards should be required to evaluate each proposed private equity investment against a low-fee, equivalent-risk alternative. Lawmakers should require that funds publicly disclose all private equity fees—management fees, carried interest, and all other fees—annually in their annual report, where the public can access it easily. And they should enact legislation to require pension funds to immediately cap fees for new private equity investments at a 1 percent management fee and 10 percent performance fee, effectively cutting fees in half. The New Jersey Division of Investment, which oversees the public pension fund assets of seven New Jersey public pension funds, referred to collectively as the New Jersey Pension Fund instituted this fee structure for hedge fund investments in 2016 and has reported no adverse impacts.

State lawmakers should also take action to ensure that the investment fees that boards payout never exceed regular, required employee contributions. And they should require that boards evaluate best practices in board governance that correlate with high performance and seek reforms that bring pension boards more into line. The PSERS board, for example, is comparatively large, which can make decision-making and effective oversight challeng-ing. Lawmakers should enact legislation to increase stakeholder representation on the PSERS board and ensure diversity of representation among benefi-ciary groups, as Illinois has recently done. And they should increase board demographic and profession-al diversity.

Closing

Thank you again for inviting us to give you, our testimony. AFT Pennsylvania wants our State pension plans to strengthen in ways that increase the income replacement ratio for seniors to reduce poverty among seniors and help Pennsylvania attract and retain a stable, quality workforce so our members can properly educate the next generation of Pennsylvanians, so they can reach their potential.

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[i] https://www.bls.gov/charts/consumer-price-index/consumer-price-index-average-price-data.htm

House and Senate Democratic Policy Committees Joint Hearing
Cost of Living Adjustment for Public Retirees
AFSCME Council 13 – Executive Director J. David Henderson
March 21, 2023

Members of the committee, my name is Dave Henderson. I am proud to be the Executive Director of AFSCME Council 13, a union representing tens of thousands of public employees in Pennsylvania. Thank you for inviting me here today and for your attention to this important matter.

Yesterday, I testified in favor of measures to improve the safety and security of Pennsylvania's current public workforce through public sector OSHA. Today, I am here to urge you to improve the safety and security of Pennsylvania's public retirees in a different way – through a Cost of Living Adjustment (COLA). Much like public sector OSHA, action on a COLA in this state is desperately needed and long overdue.

Retirees are active and vital parts of our communities, and the same is true for our retiree members within AFSCME. Our union has its own retiree chapter of more than 10,000 members, the Retired Public Employees of Pennsylvania (RPEP) Chapter 13.

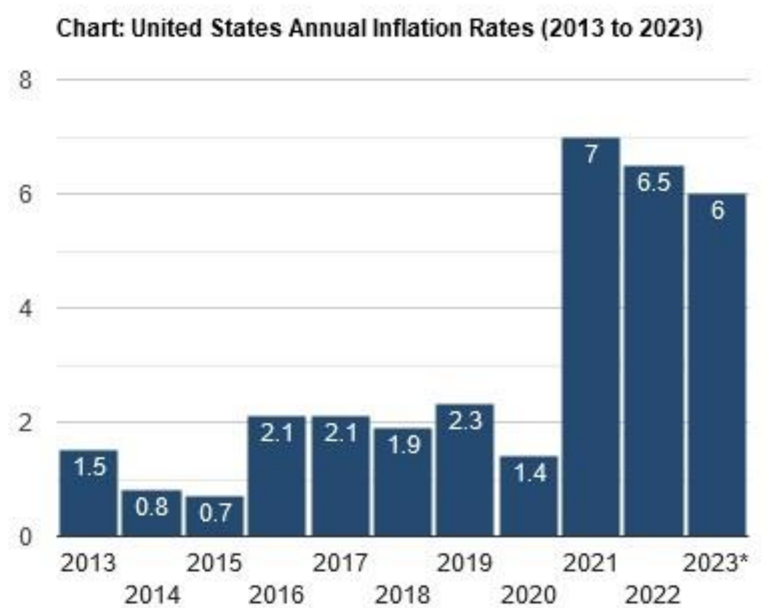
Those RPEP members served our Commonwealth dutifully with the promise of a secure retirement, but sadly, due to more than 20 years of inaction by lawmakers, that promise is being broken.

As you know, there have been no COLAs approved by the General Assembly since 2002, which is outrageous considering the drastic increase in inflation rates and overall cost of living not only since then, but even just in the last few years.

From 1968 to 2002, the Pennsylvania General Assembly passed legislation every 4 or 5 years granting SERS and PSERS annuitants COLAs that typically made up for at least half of the rate of inflation.

Retirees who depend on fixed incomes are particularly vulnerable to inflation. A COLA would help offset the effects of inflation and ensure that retirees can maintain their standard of living over time.

The annual inflation rate for the United States is 6% for the 12 months ended February 2023 after rising 6.5% previously, and 7% before that, according to U.S. Labor Department data published on March 14.[i]



It’s no wonder that by law, Pennsylvania lawmakers get an annual cost of living increase tied to the inflation rate, with an 8% increase coming their way this year. Meanwhile many of those same legislators oppose any increase for our state retirees after more than two decades of stagnation.

Providing a COLA recognizes the service that retirees provided to our state and its citizens and helps ensure that they receive a fair and just retirement income, but this is also about the current workforce.

The Commonwealth has a hiring and retention crisis, and a COLA can help attract and retain the strong workforce we need. State jobs have long been viewed as stable, financially secure employment options, but that reputation is being damaged by the lack of a COLA in over 20 years. Passing a COLA would send a message to all Pennsylvanians that Commonwealth employment still offers potentially *lifelong* stability.

And let’s remember that the Pennsylvania State Constitution requires that public pensions be protected from impairment or diminution. Providing a COLA helps fulfill this legal obligation and ensures that public pensions remain a reliable source of retirement income for public employees.

At the end of the day, what we are talking about is public retirees, senior citizens, who are active members in their communities and beloved figures in their families, and they are struggling to make ends meet. They are our parents and grandparents. They are being forced to make decisions between medicine or meals, or even paying a light bill.

Retirees would be likely to spend any additional income they receive, which provides much-needed stimulus for small businesses and local economies. Plus, a COLA could ease the burden on family members who might be financially supporting a struggling parent or grandparent.

The reasons are endless, but the point is this: twenty years, no COLAs. It’s wrong, and we all know it. It’s time for a raise for our retirees.

The Commonwealth is projecting an $8 billion revenue surplus, the “rainy day fund” is sitting on a sizable balance, and the pension funds can absolutely absorb a modest, but impactful COLA for retired Pennsylvanians.

A COLA for our public retirees would show that we are a state that cherishes its elderly, that honors its workforce, and that keeps its promises.

I commend the members of this committee who are leading the charge to finally get a COLA passed into law. AFSCME Council 13, as well as our retiree chapter, stand ready to work with you in this effort.

Thank you for your commitment to this issue and thank you for the opportunity to speak on it today.

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[i] https://www.usinflationcalculator.com/inflation/current-inflation-rates/

Testimony of Service Employees International Union (SEIU), Local 668

Presented to the
Senate and House Democratic Policy Committees
Tuesday, March 21, 2023
Steve Catanese, President

Please accept this testimony on behalf of the Service Employees International Union Local 668 and our members across Pennsylvania. My name is Steve Catanese, and I am the President of SEIU Local 668. I want to thank the members of the Democratic Policy Committee for the opportunity to testify today. Our union represents around 19,000 health and human services workers, including those who work as social workers, employment and youth counselors, corrections and probation officers, ChildLine and 911 operators, drug and alcohol counselors, court employees, and many other professions. The Commonwealth of Pennsylvania employs approximately half of our membership, and another 9,000 work for municipal, county, and private employers across the state.

Our retired members spent their careers providing essential services to our most vulnerable Pennsylvanians. They processed claims and answered questions in County Assistance Offices and Unemployment Compensation centers, ensuring people in need could access services and resources to keep families afloat. They worked as counselors and therapists at state hospitals providing psychiatric care to mental health consumers and in Vocational Rehabilitation. They assisted high school students and adults with disabilities in building brighter lives for themselves. They often worked in positions that put them at specific occupational risks, such as counselors working in the prison system and juvenile justice. Their careers focused on making the lives of others better.

After these workers serve the Commonwealth for decades, they retire with the expectation that their pension will pay their bills and put food on the table, but unfortunately, that is not always the case. As a result, many of our retirees struggle to make ends meet.

The Last Cost Of Living Adjustment and Precedence

Between 1968 and 2002, the General Assembly granted eight cost of living adjustments (COLAs) to pension payments, averaging every five years. 2023 marks 21 years since the last COLA, and many things have changed in the past two decades. Below is a description of the past COLAs from the State Employee Retirement Website[1] with the corresponding yearly inflation rate calculated by the Consumer Price Index (CPI).[2]

[1] "Past COLAs." Pennsylvania Employees' Retirement System. Pennsylvania Employees' Retirement System, March 16, 2023. https://sers.pa.gov/DefinedBenefitPlan-RetiredMembers-COLAS.html.
[2] "Historical U.S. Inflation Rate Table (1913 to 2017)." CPI Inflation Calculator. January 1, 2023. https://cpiinflationcalculator.com/historical-tables/.

Year	**Increase**	**Average Benefit Increase**	**Yearly Inflation Rate**
1968	A percentage of the maximum benefit, based on the year of retirement	*Increases ranged from 1% to 150%	4.2
1974	A percentage of the monthly benefit, based on the effective date of retirement	*Increase ranged from 5% to 30%	11
1979	A percentage of the first $1,000 of the monthly benefit based on the effective date of retirement	*Increase ranged from 5% to 31%	11.3
1984	(2% of the monthly annuity ($20 cap as of 7/1/84)) + ($1 x Years of Credited Service) + ($2 x Years on Retirement)	9.94%	4.3
1989	($2 x Years of Credited Service) + ($.50 x Years on Retirement)	8.41%	4.8
1994	A percentage of the first $3,000 of the monthly benefit based on the effective date of retirement + additional increase is paid to members who retired before 7/1/84 with 20 or more years of service	6.48%	2.6
1998	A percentage of monthly benefit from 1.86% to 25% based on the effective date of retirement	9.6%	1.6
2002	Phase 1 - A percentage of monthly benefit from 8% to 25%, effective 7/1/02, and granted to members who had already reached SERS normal retirement age when they retired prior to 7/2/90.	Phase 1 - 13.86% Phase 2 - 6.99%	1.6

	Phase 2 - A percentage of monthly benefit from 2.27% to 9%, effective 7/1/03, and granted to members who had already reached SERS normal retirement age when they retired between 7/2/90 and 7/2/02.		

Since the last time, the General Assembly approved an increase in retirement payments, our economy and society have weathered significant changes. Most notably for household budgets and the overall costs of everyday life, the Great Recession following the banking crisis in 2008, and our recent global pandemic, which universally impacted our lives, the consequences of which have led to our current economic situation with dramatic inflation increases and lingering supply chain effects. It should be noted that our senior citizens were subject to exceptionally high health risks throughout the pandemic, and many of those who would have supplemented their income through part-time employment were unable to.

Inflation and the Rising Costs of Living

The economic impact of the last four years has been jarring for many of us, especially those on fixed incomes. Inflation and rising prices have exacerbated an already challenging situation for retired public employees who have not had a cost of living increase in their retirement payments since 2002. The last year alone has dramatically affected everyone's household budget, and those on fixed incomes have had little recourse.

Consider groceries, for example:[3]

- In January 2003, one dozen eggs cost $1.18;
  - as of January 2023, it was $4.82, an increase of 408%;
- In January 2003, milk per gallon was $ 2.69;
  - as of January 2023, it was $4.21, an increase of 156%.;
- In January 2003, oranges per pound were $0.71;
  - as of January 2023, it was $1.51, an increase of 212%;
- In January 2003, ground beef per pound was $2.13;
  - as of January 2023, it was $4.64, an increase of 217%.

The Consumer Price Index (CPI), tracked by the Bureau of Labor and Statistics, measures the average cost of items over a time period.[4] The CPI found an overall 9.1 percent increase in all items tracked over twelve months ending in June 2022; this was the highest 12-month increase since November

[3] "Graphics for Economic News Releases." U.S Bureau of Labor Statistics. https://www.bls.gov/charts/consumer-price-index/consumer-price-index-average-price-data.htm.
[4] "Consumer Price Index." U.S Bureau of Labor Statistics. https://www.bls.gov/cpi/.

1981.[5] The 2022 inflation rate is far greater than the rate in years when the General Assembly passed COLAs outside of the 1970s.

Patti Defibaugh, Chair of our Local 668 retiree committee, who has been retired for three years, saw a substantial increase in her grocery bill since retirement. She used to spend $100 on groceries, but now the items cost $175. Additionally, her doctor appointments and pharmacy are 34 miles round trip from home. Due to high gas prices, she tries to schedule her appointments and pharmacy trips on the same day. When you combine these costs with the increase in utility bills, inflation has impacted every aspect of her life.

> *"I cannot imagine how I will make the amount of my current pension cover my expenses 5 to 10 years into the future. I live a modest life and am purchasing a modest home.*
> *My goal is to stay in my home as long as I am physically able. I have watched other seniors like myself spend all of their savings on monthly living expenses and need to sell their homes & move into subsidized housing. This is heart-wrenching for those who worked their entire lives to need to make these types of decisions and lose their homes.*
> *I have not touched yet on the potential increases in health care premiums, copays for doctor appointments & prescriptions, glasses, dental and hearing aids." – Patti Defibaugh, Blair County*

Patti's story is the struggle of many public sector retirees across the Commonwealth. They carefully planned for their retirement after years of serving their communities, and now they must face difficult decisions to buy groceries or make a mortgage payment. Our senior citizens should not be struggling with these decisions, but data and real-life testimonials show they are.

Disproportionate Economic Impact on Senior Citizens

A 2020 report published by the United Way's ALICE project, (Asset-Limited, Income-Constrained, Employed), provides a look at the cost of living in Pennsylvania for various types of households and geographic regions. The 2020 report estimates a baseline of expenses for Pennsylvania Seniors with the Senior Survival Budget. In 2018, the Senior Survival Budget in Pennsylvania was $26,436. Adjusting for inflation with the CPI calculator, that Survival Budget would be at least $32,085 in 2023.[6] According to the State Employee Retirement Supplemental 2023 budget book, the average yearly amount retired members receive is $30,712.[7]

This budget methodology "reflects the fact that seniors have lower food costs than younger adults, travel fewer miles for work and family responsibilities, and have increasing health needs and out-of-pocket health care expenses . . . Despite having Medicare, seniors have greater out-of-pocket health care costs, largely due to increased spending on chronic health issues like heart disease and diabetes." In Pennsylvania in 2018, 51% of Senior households were below the ALICE level, approximately 700,000 households across our Commonwealth.

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[5] "TED: The Economics Daily." U.S Bureau of Labor Statistics. https://www.bls.gov/opub/ted/2022/consumer-prices-up-9-1-percent-over-the-year-ended-june-2022-largest-increase-in-40-years.htm.
[6] "United For ALICE." Research Center State Reports. https://www.unitedforalice.org/state-reports-mobile.
[7] "Budget Binder 2022." Pennsylvania State Employee' Retirement System. https://sers.pa.gov/pdf/Supplemental_Budget_Book/budgetbinder2022.pdf.

Being on a fixed income when you retire means sticking to a strict budget. Our retired member Lawrence Funk who retired in 2006, has seen his budget stretched to the max with inflation eating away at his pension. As a state employee, Lawrence worked at the County Assistance Office. He implemented and explained complex policies to vulnerable members of the public. Now he worries about paying for his basic living expenses. His rent increased by two hundred dollars this year, gas and utility bills have risen by forty, and car insurance is now two hundred more. After he pays the bills, he has very little left over for groceries and other living expenses.

> *"Retired state public workers chose to work for the Commonwealth and help vulnerable populations in their communities. State employees are tasked with making complex state regulations work and explaining the policies to clients. It is time for the Commonwealth to assist them with a cost of living increase for their pensions. We need to take care of our retired workers and ensure they can stay in their homes, buy groceries and pay medical bills." – Lawrence Funck, Lebanon County*

For retired public service workers like Lawrence, covering basic living expenses on a fixed pension income is impossible. For example, in 2006, an item that cost $200 would cost $301.73 today.[8] Our retired workers are stretching their dollars to the max, and the economic situation is not improving.

Conclusion

Ultimately, it is very clear that current retirement payments are not keeping pace with the changing economy. What was considered a sustainable retirement income in 2003 does not equate to even a survival budget in 2023. The cost of living in the 21st century is not the same as it was in the 20th.

In 1995, the General Assembly amended the Public Offical Compensation Law, which gave lawmakers yearly cost of living adjustments determined by the CPI. Lawmakers in the state legislature have also approved their own pay raises multiple times since the last increase in retiree payments. How can we justify to senior citizens that they do not deserve the same consideration from their elected leaders?

In short, Pennsylvania's retirees feel they are at the mercy of the General Assembly. Public employees deserve the opportunity to retire with dignity. At the very least, it is time for the General Assembly to ensure that retired public service workers have a pension that covers daily living expenses.

[8] "CPI Inflation Calculator." U.S. Bureau of Labor Statistics. https://www.bls.gov/data/inflation_calculator.htm.

Testimony of the

Pennsylvania State Education Association (PSEA)

Joint Public Hearing Regarding

Cost of Living Adjustments

For Public Retirees

Presented to the

House and Senate Democratic Policy Committees

March 21, 2023

By

Aaron Chapin

PSEA Vice President

Good afternoon, Chairwoman Muth, Chairman Bizzarro, and members of the House and Senate Democratic Policy Committees. I am Aaron Chapin, Vice President of the Pennsylvania State Education Association (PSEA). On behalf of the 31,000 retired public school employees whom PSEA represents, as well as thousands more who dedicated decades of their lives in service to our schools, our students, and our communities, thank you for inviting me here today to impart upon you the importance of keeping the promise to our retired public servants.

By way of background, automatic cost-of-living adjustments, or COLAs, are not part of the benefits package that Pennsylvania has granted to retired members of the Public School Employees' Retirement System (PSERS) or retired members of the State Employees' Retirement System (SERS). As a result, any changes to these benefits, including granting of a COLA, require a legislative amendment to the retirement codes and the designation of a source of funding to pay for the increased cost of benefits. I know you are keenly aware of this as a sponsor of COLA legislation we have worked on together, Sen. Muth.

From 1968 to 2002, the Pennsylvania General Assembly passed legislation every 4 or 5 years granting PSERS and SERS annuitants COLAs that typically made up for at least half of the intervening rate of inflation. This was expected and relied upon by retirees. However, the last COLA was received in 2002 and 2003, and the General Assembly has not approved a further COLA in the last 20 years.

Since then, the cost of food has increased 88%. Housing has gone up 85%. And medical care has gone up 111%. All of this means that a pension frozen in 2003 is worth much, much less today than it was then.

While pension benefits for PSERS and SERS annuitants have been frozen for two decades, the General Assembly actually *increased* pension benefits for *active* members of PSERS and SERS by 25% in 2001 with the passage of Act 9. So, those annuitants who retired prior to Act 9, the so-called pre-Act 9 members, have a significantly lower monthly pension benefit than those who retired after Act 9 was passed. Act 9's increase in multiplier also applied retroactively to service that was already provided. This created a system in which members who retired prior to July 1, 2001, did not get the same service credit for previous service years that members who remained active received – even for the same periods of service.

At the same time, the Commonwealth took a "holiday" from paying its share into the state's pension fund. That, coupled with the financial collapse of 2008-2009, led to a historic spike in unfunded pension liabilities.

As a result, the very idea of a COLA became anathema and pre-Act 9 employees were all but forgotten—a unique generation that retired too early to receive a multiplier increase and too late to receive a regular cost of living adjustment.

All of this can appear very academic and abstract. But these are real people, just trying to survive.

Remember, an employee who retired prior to 2001 had a much lower average salary than what educators earn today. In fact, their average pension benefit is less than $20,000 per year and their average age is 84.

In addition, a number of the pre-Act 9 annuitants did not participate in Social Security. As a result, these annuitants have not received any cost-of-living adjustment since 2002. The COLAs granted to Social Security participants have increased benefits by 36.7% since 2002. What is more, while many state workers qualify for post-retirement health care, this was never a benefit extended to retired school employees.

Let me share a specific example of how real retired educators are impacted by the lack of a cost-of-living adjustment.

As the chart at the end of our written testimony shows, the average monthly pension benefit for a PSERS annuitant retiring in June 1992 was $847 in 2002. It's worth repeating that benefit has not increased in more than 20 years. For a PSERS annuitant with an average monthly benefit of $847, maintaining health insurance and paying for medical care is perhaps the biggest challenge. If the PSERS annuitant is living in Philadelphia and enrolled in PSERS HOP Medical Plan with Basic RX, the cost of premiums would be $434 a month, which would be deducted from the annuitant's pension check, leaving them just $413 a month, or $4,956 per year, on which to live. So, more than half of their monthly pension check would go to pay for their health insurance, not considering any out-of-pocket expenses for copayments or over-the-counter medications. For more than 20 years, these retirees have been struggling to make ends meet, all while the cost of goods and services continues to skyrocket and inflation eats away at their promise of a secure retirement. It is unconscionable that some policymakers have ignored the plight of these Pennsylvanians for so long. Inaction from lawmakers has forced thousands of seniors — people who did everything right, who served their community, who always paid their share of retirement benefits – into abject poverty.

It is long past time for policymakers to restore the promise to our retired public servants. Thank you, Senators Muth and Kane, and Representatives Malagari and Deasy, for leading the charge to enact a cost-of-living increase for retired public employees. While all annuitants certainly deserve a COLA to keep up with the impact of inflation, we understand that the cost of a full COLA for all annuitants is estimated to be in the tens of billions. However, state budgets reflect priorities, and we simply cannot accept a state budget this year that fails to direct assistance to those annuitants in the greatest need. The estimated cost of a moderate pre-Act 9 COLA is just $550 million over 10 years. Meanwhile, the Commonwealth is projecting an $8 billion revenue surplus, the "rainy day fund" is sitting on a sizable balance, and the pension funds can absolutely absorb a modest, but impactful, COLA for this shrinking universe of retired Pennsylvanians.

PSEA stands ready to work with you to enact a COLA for our dedicated, retired public servants, especially for our pre-Act 9 retirees. Thank you.

Year of Retirement	Av. Monthly Benefit at Retirement	Cumulative Previous COLAs	Current Monthly Benefit	Lost Purchasing Power
2000-2001	$1,241	3%	$1,278	26%
1999-2000	1,225	5%	$1,286	27%
1998-1999	1,183	6%	$1,254	29%
1997-1998	1,151	8%	$1,243	29%
1996-1997	1,011	8%	$1,092	30%
1995-1996	977	10%	$1,075	30%
1994-1995	952	11%	$1,057	32%
1993-1994	939	14%	$1,070	32%
1992-1993	831	16%	$ 964	32%
1991-1992	718	18%	$ 847	33%
1990-1991	693	22%	$ 845	33%
1989-1990	678	22%	$ 827	36%
Average Monthly Benefit = Maximum Single Life Annuity; COLAs granted in 1994, 1998, 2002/2003; Lost Purchasing Power = CPI-U from year of retirement to January 2018				

PENNSYLVANIA ASSOCIATION OF RETIRED STATE EMPLOYEES

State Association Office

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March 21, 2023

Joint Policy Committee

Protecting Seniors: Cost of Living Adjustment for Public Retirees

Senate Policy Chair Muth and House Policy Chair Bizzarro and members of the Senate and House Democratic Policy Committee, thank you for the opportunity to present written testimony to the PA Senate Democratic Policy Committee related to "Protecting Seniors: Cost of Living Adjustment for Public Retirees".

My name is Tom Judge, and I am the President of the PA Association of Retired State Employees (PARSE) and I believe I am uniquely qualified to provide input to your committee. PARSE is an IRS approved 501c(5) non-profit that has been in existence for 50 years. The PARSE mission is to serve the retirees of the Commonwealth. PARSE has 34,000 members in 27 chapters throughout the Commonwealth. I have been with the organization for almost 12 years, and I am in my 8th year as President.

I am originally from Philadelphia and attended St Joseph's College (University). My wife and I moved to Central PA in 1972 about a year after we were married. I worked for 36 years with the Commonwealth, 32 years with Human Services and 4 years with the Governor's Office. My career was all in the IT field and I retired as a Bureau Director.

Any state retiree collecting a pension is eligible for PARSE membership. PARSE represents retirees' interests with the Governor's Office for medical benefits and with you, our elected officials, for any legislation of importance to retirees. PARSE also offers group dental and vison insurance; we work with a local insurance company PISI (Professional Insurance Services Inc.) which was founded by the late Senator Hal Mowery and remains in his family.

When I speak to anyone as President of PARSE, I am addressing the needs/concerns of not only our actual members but also every state retiree from the Commonwealth.

My retirees were the dedicated employees who performed the day-to-day work to provide the Commonwealth services for all citizens. They were the PENNDOT employees who repaired the roads and bridges and cleared the snow in the winter. The Human Services employees who helped the most vulnerable citizens. The Fish and Boat Commission staff who helped provide safe leisure activities for all. The list goes on, but these were the workers who kept the mechanism of the Commonwealth working. Commonwealth retirees lived their entire working lives in Pennsylvania and helped drive their local economies. Studies have shown that most retiree pension income goes back into the local economy driving businesses and tax revenues. The problem is that someone who retired before 2000 has seen the spending power of their pension decrease in the last 20+ years by a significant factor.

Our PARSE dues are $20 per year per member. I am constantly surprised by the number of checks returned from banks for non-sufficient funds. While members ultimately make good on those checks, undoubtedly after a costly service charge to their bank, it points out how close to the margin many PARSE members find themselves month to month. Many members pay their insurance monthly via an automatic withdrawal from a checking account; PISI also reports that many of these transactions are initially denied while the member arranges to have sufficient fund for the monthly premium. Members don't want to lose their dental insurance in particular because of the long-term health implications associated with dental health.

We all have read about the significant number of Americans who are only a $300 to $500 unexpected bill away from a crisis. This is a harsh reality for many PARSE members.

All that brings me to why I am submitting this testimony for your consideration.

In my 12 years with PARSE, I have never suggested a Cost-of-Living Adjustment (COLA). I understand the reality of the unfunded liability; a situation that was in no way caused by the retirees. The actions that lead to the unfunded liability are long in the past and hopefully never to be repeated. The retirees, however, have been held hostage to that issue and the consequence has been no COLAs. I respectfully request that you consider several options that I will list below.

1. A 13th payment or stipend/stimulus for retirees: PARSE believes a 13th payment or stipend/stimulus would help our retirees with expenses or to get up to date on outstanding bills as prices soar.
    - The 13th payment or stipend stimulus I believe is something for serious consideration. The Commonwealth currently has surplus funds available that could be directed to Commonwealth retirees as an inflationary adjustment. While we realize the COVID stimulus funds received were by law not to be used for pensions, a stipend/stimulus payment to retirees would be a legitimate use of some of those resources. This would be a one-time distribution to retirees. An option to consider could be a 2-tiered distribution approach with perhaps a higher payment for pre 2001 retirees who have the greatest need.

2. COLA for retirees prior to 2001: PARSE strongly feels a COLA to members who retired prior to the multiplier in 2001 would not overly burden the retirement system.
   - This option would be some form of traditional COLA for the pre 2001 retirees. Because this is a smaller group of retirees, and their numbers are declining, the long-term impact on the retirement system could be manageable.

3. Traditional COLA: PARSE would support a traditional COLA for all members, but this is probably not prudent because the impact COLA would have on unfunded liability.
   - While I know all retirees would readily embrace a COLA it is most important to preserve the long-term fiscal soundness of the pension funds.

I appreciate the opportunity to present this testimony to you and offer my time and any PARSE resources that would assist your work in aiding the retirees from the Commonwealth.

Sincerely,

Thomas B Judge

Thomas B. Judge

President, PARSE

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Senate & House Democratic Policy Committees:

Thank you for hosting a hearing to discuss a cost-of-living adjustment (COLA) for public retirees. The Pennsylvania Association of School Retirees (PASR), who represents more than 35,000 retired school personnel, would like to express its support for a COLA for PSERS annuitants.

PASR members spent their careers contributing to the development of this Commonwealth by shaping the intellectual, emotional, psychological, and physical development of its citizens. Moreover, many of our members have continued to contribute to their local communities and the Commonwealth during their retirement. For example, our members provide tens of thousands of volunteer hours each year towards helping veterans, contributing to food shelters, providing grants to Pennsylvania teachers and scholarships to students, supporting local libraries, and a plethora of other philanthropic activities that allow Pennsylvania to prosper. These annuitants deserve to live a dignified and financially secure retirement. Unfortunately, many PASR members are now faced with daily financial challenges, as their pensions have not seen a COLA in decades – a fact that has left many of them feeling that their contributions and service have been forgotten, undervalued, and unappreciated.

It has been widely reported that **inflation has reduced purchasing power by more than 50% since the last COLA was enacted for PSERS annuitants**. The U.S. Bureau of Labor Statistics[1] calculator shows a 71% inflation rate from January 2001 to February 2023. Utilizing either inflation figure leads to the inexorable conclusion that PSERS annuitants' incomes have taken a serious blow that endangers the ability of these annuitants to live a dignified and financially secure retirement. In addition to the inflation rate, please consider that the pay rate upon which many retirees' pensions are based were much smaller than the final salaries of those working today, especially for the members of this population that were employed as bus drivers, aides, cafeteria employees, custodial workers and other school personnel. Of further concern are those who retired prior to the passage of Act 9[2] of 2001 which increased the multiplier used to calculate pension benefits from 2 to 2.5. While Act 9 was welcomed and has benefitted some retirees, **it has been more than two decades since they too have received a COLA**.

Starting in 1999-2000 and for nearly a decade thereafter, the General Assembly agreed to state budgets that contributed less than the full contribution rate [3] to PSERS while school employees continued to make their full contributions to the PSERS system. This "holiday" allowed the state and school districts to benefit from lower expenditures, which allowed these funds to be spent elsewhere. In essence, the state borrowed against the pension fund to support other priorities. Now that retirees are asking for this loan to be repaid, they are often confronted with sympathy, but also the refrain that the PSERS system is underfunded.

The PSERS system was 124% funded in 2000 [4] prior to this contribution holiday, which greatly contributed to the underfunding of the system. This matter has been well-documented in recent years.

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[1] (https://www.bls.gov/data/inflation_calculator.htm)
[2] https://www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=2001&sessInd=0&act=9
[3] (https://www.psers.pa.gov/Employers/Documents/Employer%20rates%20from%201960%2012-14-17.pdf)
[4] (https://www.psers.pa.gov/FPP/Publications/General/Documents/BudgetHearing/2022-23%20Final%20Budget%20Hearing%20Section%201.pdf)

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While stock market downturns in 2001 and 2009 added to the underfunding of PSERS, the decision to refrain from fully funding the system during budget discussions has most directly impacted the unfunded liability. PSERS has an annualized average return on investment of 7.69% over the past 25 years[5]- which aligns with expected returns. Had the state made its full contributions, the PSERS system would likely be at – or close to -- a fully-funded status.

Unfortunately, now as retirees continue to advocate for a COLA, they are often met with resistance from lawmakers who reference the system's funding ratios. PASR members are being held at bay for actions that took place a decade ago that were well beyond their control. This matter prompts frustration and concern, as the state possesses nearly $5 billion in a 'rainy day' fund and is projected to carry another significant surplus this fiscal year. **The money is available to support a COLA**.

In 1967, 1970, 1971, 1975, 1979, 1984, 1989, 1994, 1998, and 2002-03 the Legislature saw fit to provide a COLA to school retirees, which established a tacit understanding that the Legislature would periodically provide a COLA (approximately every 4 to 5 years on average). Given the widely reported disparity between the salaries of educators and similarly credentialed professionals, this implicit promise provided justification for working for less than what other professionals were making; they sacrifice in the present for an assured sense of security in the future. Sadly, **these same retirees, many in their late-70s and early-80s are now struggling to make ends meet as the value of their pensions continue to decline.**

COLAs have long remained a standard component in public service compensation. They are not unique as legislators and executive office officials have COLAs tied to their salaries via statute. Each year, an inflation-based adjustment is calculated for these public servants, and those who are members of the state's SERS pension system see that adjustment reflected in their retirement calculations. Additionally, programs like Social Security see regular adjustments as well. PASR understands why these adjustments are made, and the organization merely wants the same consideration for retired school employees.

Educating our communities remains a priority for PSERS annuitants. While not active educators, PASR's members spent their careers centered on bettering the lives of students and preparing them for the future. And with the current concerns surrounding a shortage of teachers in the education system, our members cannot help but wonder if the obvious concerns about retirement security are impacting those who may consider entering the classroom.

There is a moral and ethical foundation upon which one may justify a COLA for school retirees. There is also an economic argument to be made for granting a COLA as well. According to Pensionomics for the National Institute on Retirement Security as reported by PSERS[6], **94% of pension payments are directly injected into Pennsylvania's local and the state economies resulting in economic benefits for the entire Commonwealth**. Each dollar spent in PSERS payments to retirees results in over two dollars in economic benefit for the state in the form of higher tax revenue and the sustainment of jobs.

[5] https://www.psers.pa.gov/FPP/Publications/General/Documents/BudgetHearing/2022-23%20Final%20Budget%20Hearing%20Section%201.pdf)
[6] https://www.psers.pa.gov/FPP/Publications/General/Documents/BudgetHearing/2022-23%20Final%20Budget%20Hearing%20Section%201.pdf)

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The median pension for a pre-Act 9 annuitant is approximately $18,400.00 and $23,400.00 for a post-Act 9 annuitant**. According to PASR data received from PSERS, 84% of PSERS annuitants receive less than $50,000.00 per year, 66% receive less than $36,000.00 per year, and 48% receive less than $20,000.00 per year.** The U.S. Department of Health and Human Services reports that the federal poverty line for an individual is approximately $13,400.00. The median PSERS annuity is not far from the federal poverty line. Moreover, according to an MIT report[7], an annual income of $34,128.00 is needed for an individual to meet their basic needs in Pennsylvania; PSERS annuitants' pensions clearly fall well below this threshold.

According to the Social Security Administration [8] the average retired worker receives $21,900.00 annually. If this amount is added to the average pre-Act 9 annuity, it yields an annual income of approximately $40,000.00, which is just above the minimum necessary to meet expenses and does not factor in the increased health care expenses (whose rising costs tend to outpace overall inflation) that many retirees must grapple with each year. Those who have dedicated their lives to improving the lives of others deserve much more than barely scraping by.

It is for all these reasons that PASR has continually advocated for a COLA for PSERS annuitants. PASR believes that all PSERS annuitants should have some sense of financial security in the form a guaranteed COLA. As such, we have supported and advocated for an automatic COLA to be granted every three years to all annuitants that served for at least ten years and have been retired for five or more years. The COLA would be determined by a three-year average of the CPI-U for PA, NJ, and MD (the same measure used to determine the annual legislator COLA) and it would only be granted on the amount of the annuity that falls beneath the median PA individual income as determined by the U.S. Census. The COLA would also be limited to a maximum of 7% and a minimum of 1% at each three-year interval.

PASR believes that this proposal will allow annuitants to live a dignified retirement while being mindful of the additional cost to the state. PASR recognizes that there are competing fiscal priorities in a zero-sum budgeting dynamic hence the qualifiers inherent in this proposal to limit a COLA to those who served a significant amount of their careers in service to the state and a period after retirement wherein a COLA would not be granted. It is our hope that using a three year average and collars will also help the pension system be more predictable. The cap on the dollar amount upon which a COLA would be granted reflects the understanding that the pension system is not meant to make recipients wealthy, but is, instead, meant to allow these public servants to live a dignified retirement.

The proposal outlined above, however, must also include a one-time additional increase for pre-Act 9 annuitants for reasons discussed throughout this statement. PASR proposes an increase starting at 4.5% for those that retired at then end of the 2001 school year and increasing to 15% for those that retired prior to July 2, 1982. The pre-Act 9 population comprises approximately 19% of the PSERS annuitant population and is shrinking each year; consequently, time is of the essence if relief is to be provided to this aging population. Furthermore, if an automatic COLA along the lines of what PASR is proposing is not passed, then the pre-Act 9 population must be granted larger increases immediately as the proposed increases don't even begin to match the loss in purchasing power that this population has incurred.

[7] (https://livingwage.mit.edu/states/42)

[8] (https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf)

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PASR offers its gratitude to the committees for examining this issue and urges you to make the utmost effort to ensure that this well-deserved and long overdue COLA is granted. Our members are a segment of the state's elderly population for which concern is often expressed but not always acted upon. Now is the time for action.

Sincerely,

Kristen Holjes
PASR Executive Director

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SCHOLASTIC TECHNICAL-SERVICES EMPLOYEES

TEAMSTERS LOCAL UNION NO. 8

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INTERNATIONAL BROTHERHOOD OF TEAMSTERS

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February 23, 2023

Senator Kane,

This letter is in supportive response to your drafted legislation to provide a COLA to SERS Retirees.

As the President and Principal Officer of Teamsters Local 8, I represent 2600 workers across the State. Our members work at University Park and 23 Commonwealth Campus locations throughout Pennsylvania. Presently, we have well over 1700 retirees who collect their pension from SERS. This amendment would make a great impact on those retirees who have endured inflation without any relief of a raise. There has not been a COLA since 2001; this is hard to imagine how they have managed in our current times.

My Union experience and fighting for better wages for our members over the last 17 years has been the greatest honor I can partake in as a Union official. I strive to make our members lives better and increase their standard of living. At one time, our retirees helped to fight for their wage increases while they were actively employed. Let us not forget them once they retiree.

Thank you for your fight for those who do not have the resources they once had while actively employed. Teamsters Local Union 8 is in full support of this amendment. Please contact me at 814-548-1429 ext. 101 for any assistance I can be on this matter.

Sincerely,

Jonathan Light
President/ Business Agent
Teamsters Local 8