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TO: All Senators **Senate of Pennsylvania** **MAY 24 2012**

FROM: Senator Pat Browne
Senator Dominic Pileggi
Senator Jake Corman
Senator Mike Brubaker

RE: **Cosponsorship Memo: Defined Contribution Pension Legislation**

DATE: May 24, 2012

In the near future, we intend to re-introduce legislation that would move Pennsylvania from a defined benefit (DB) pension plan to a defined contribution (DC) retirement plan for all new employees, similar to a 401(k) or 403(b) plan. Key points of this legislation are:

- This pension system will be known as the Public Employees' Retirement System, and will be provided for all public employees hired on or after December 1, 2012.
- This pension plan will be provided to state employees and public school employees.
- The employee has ownership rights over the plan.
- The assets are portable and are not dependent upon the viability of the employer.
- Investment strategies can be tailored to the investment needs of individual employees and employees enjoy the full benefit of market returns.
- Every dollar gained is a dollar enjoyed by the employee.
- Employees are able to integrate the investment of these funds with the rest of his/her portfolio.

The Legislature needs to make significant policy decisions regarding Pennsylvania's pension system in the near future. When we compare state benefits to private sector benefits, it is evident that the private-sector is seeking predictability in the funding of their benefits and pursuing cost reductions on a regular basis. Without significant changes in the design of Pennsylvania's pension system, including a switch to a defined contribution system, the costs associated with the pension system in the long-run will be unaffordable to Pennsylvania taxpayers. Over the past few decades, the private sector has shifted to defined contribution plans. In addition, the federal government had made a similar change. It is time for Pennsylvania to do the same.

A switch to a defined contribution plan would benefit Pennsylvania taxpayers by eliminating future pension crises, retiree benefits will become predictable and sustainable, costs will be easily defined, and future liabilities will be fully funded.

If you are interested in cosponsoring this legislation, please contact my office at 787-1349, or via email to sconnors@pasen.gov.

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