



# Pennsylvania

**PENNSYLVANIA IS ONE OF SEVERAL STATES** that fell behind in funding its pension plans in the last several years—a recent trend that could cause trouble if it persists. The state’s pension funding level was among the highest in the country in 2000, but dropped more dramatically than most states between 2000 and 2006; factors included a declining stock market, increased benefits and decreased government contributions. While the state’s pension funding level is still higher than the 50-state average, the situation bears watching. On an aggregate basis, Pennsylvania contributed only 46% of the required amount in 2005 and 35% in 2006. On the non-pension side, the state was one of just 13 with any assets set aside as of 2006 for retiree health benefit obligations, and it is working aggressively to lower that long-term bill. As reflected in an October 2007 valuation, the Commonwealth has worked to reduce its \$13.8 billion liability for these benefits to \$9.4 billion. New labor agreements require retirees to contribute 1% of final salary for health costs, escalating to 3 percent by 2011.

## PENSIONS

TOTAL BILL COMING DUE: **\$92 billion**<sup>1</sup>

FUNDS SET ASIDE: **\$80 billion**

PORTION UNFUNDED: **\$12 billion**

PERCENT FUNDED: **87 as of 2006**<sup>2</sup>

TEN YEAR FUNDING HIGH: **127% in 2000**

TEN YEAR FUNDING LOW: **86.59% in 2005**


HOW IS THE STATE DOING IN PAYING ITS ANNUAL BILL? 

**ASSUMPTIONS:** Pennsylvania assumes one of the highest rates of interest for its pension investments (8.5%) compared to the 50-state median of 8%. It also assumes relatively low inflation (3%). This means it is expecting the highest real rate of return (5.5%) of the 50 states. It uses a five-year smoothing period to calculate the actuarial value of assets, similar to the majority of states. The amortization period conforms to accounting standards.


1 Pension funds include state employees and public school employees.

2 50-state mean was 82%.

KEY:  Top Performer

 Needs Improvement

 Below Par

 Non-Pension Benefits are Minimal

## OTHER BENEFITS

TOTAL BILL COMING DUE: **\$13.8 billion**<sup>1</sup>

FUNDS SET ASIDE: **\$277 million**

PORTION UNFUNDED: **\$13.5 billion**<sup>2</sup>

PERCENT FUNDED: **2 as of 2006**

HOW IS THE STATE DOING IN MANAGING THIS BILL? 

1 For state employees, as of a February 2007 valuation; reduced to \$9.4 billion in an October 2007 valuation.

2 \$9.1 billion as of October 2007; 238% of covered payroll, compared to a national median of 135%.

**REFORMS:** No recent pension reforms are cited by the National Conference of State Legislatures. On the non-pensions side, Pennsylvania has instituted a number of reforms to control retiree health care costs and negotiated labor agreements that require substantially more contributions from retirees. As of June 30, 2008, employees must serve 20 years to become eligible for full retiree health benefits, up from 15 years previously.

This fact sheet stems from a 50-state analysis of states’ retiree benefit obligations by Pew’s Center on the States. The full report and 50 state fact sheets can be found at [www.pewcenteronthestates.org](http://www.pewcenteronthestates.org).



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2005 Market Street, Suite 1700 | Philadelphia, PA 19103 | [www.pewtrusts.org](http://www.pewtrusts.org)