Pension funds must be fixed

Pennsylvania has a $65 billion funding hole in the retirement pensions of state and school workers. AP

What happens w h e n a n alarm goes off and everyone ignores the sound for years? Look to the pension funds for state and school workers of Pennsylvania. The cost for both funds have been of concern for years. Those pension payments have increased from $1.2 billion in 2014 to $3.2 billion just four years later. That's why lawmakers should pay attention to an upcoming report on pension reform.

They should also start insisting on transparency from the funds, which have been hiding billions paid to private investment firms, according to September hearings of the Public Pension Management and Asset Review Commission. Over the last decade, private investment managers made $3.8 billion in hidden payments from the funds, according to Ludovic Philippou, an Oxford University finance professor who testified.

Earlier this month, the school pension fund reported that its private investment firms had taken in more than $5 billion since 1980. The state worker fund has yet to issue a similar disclosure, and it should.

In a Nov. 12 opinion piece, commission vice chairman and state Treasurer Joe Torsella rightly argued for tougher negotiations with fund consultants, noting that the fees are money that doesn't go into paying pensions. Knowing about payments to consultants would also help the public know the full costs of carrying these funds.

Established in 2017, the commission is charged with recommending improvements to both the SERS fund, which covers state workers, and the PSERS fund, which covers school workers. The commission, chaired by Rep. Mike Tobash (R., Dauphin), has been examining investment performance and fees. Its top priority is to save money and protect retirees' pensions and the taxpayers. The commission has been holding public hearings since the summer, which hint at what the report may recommend when it's issued in December.

In an October commission hearing, consultant Ashby Monk, who heads a Stanford University research center and advises the University of California and others, suggested that the pension boards' trustees are ill-equipped to make complex investment decisions and recommended creation of an investment panel composed of business people with a background in investing large chunks of money. Delaware, Wisconsin, and Florida use this model and have more stable funds as a result.

For years, the state has tinkered around the edges of shoring up the funds. Gov. Wolf fully paid the state's additional contribution of $275 million to the funds in his current budget. He and the legislature created a hybrid pension plan aimed at saving taxpayer money. They raised the retirement age and reduced benefits to future employees. But these changes have not convinced bond rating agencies that Pennsylvania is on the road to pension stability. That's important because the agencies set our bond ratings. The lower the rating, the more it costs for Pennsylvania to borrow money.

The state needs to balance its contractual obligation to pay retirees their pensions and to protect taxpayers from excessive costs. If the governor and legislature want real pension reform, then 2019 is the year to do it. Armed with the commission's report, they'll have no excuse not to.

 | EDITORIAL If the governor and legislature want pension reform, 2019 is the year to do it. An upcoming

report will help guide the way.