PSEA House of Delegates

PENNSYLVANIA STATE EDUCATION ASSOCIATION

TREASURER'S REPORT

December 2022

Dear Fellow Delegates:

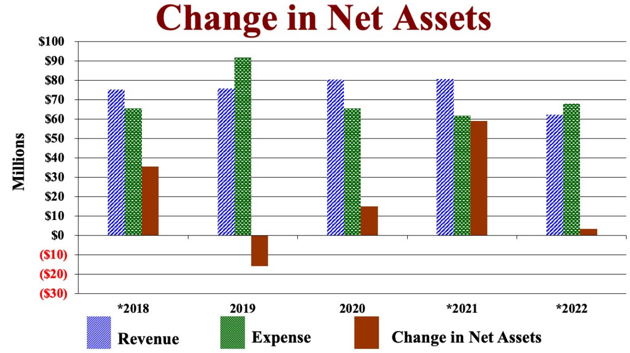
PSEA's fiscal health continues to be on solid ground as we execute the disciplined financial plan adopted by the Board of Directors several years ago. The 2021-2022 fiscal year continued to present challenges as we continue to maneuver through the pandemic. The financial strategy that we have implemented will play an even greater role in maintaining the fiscal stability of PSEA in these unprecedented times. The four key elements of the plan continue to be:

- **Increasing Revenue.** Increasing (or maintaining) revenue is a function of maintaining members via a commitment to internal and external organizing initiatives especially in the current environment, planning for demographic changes in our membership, and expanding alternative sources of revenue.
- **Managing Expenses.** Controlling our expenses by slowing the rate of increase in operating expenses and closely monitoring the budget to ensure the efficient allocation of financial resources.
- **Maintaining Reserves.** Maintaining our reserves by implementing a disciplined savings strategy in order to maintain our reserve funds to be able to absorb short-term or long-term financial impacts.
- **Reducing Debt.** Making adequate contributions to the PSEA employee pension plan.

Maintaining PSEA's long-term financial health is critical as we address the ongoing and evolving challenges we face. Financial stability is necessary now more than ever to ensure PSEA has the resources to continue to be a strong and powerful advocate for the members we serve and the students who learn in our schools. As indicated in **Chart 1**, PSEA's net assets continue the steady annual upward trend of recent years. **Chart 1** shows that, for the 2021-2022 fiscal year, revenues decreased by $18.4 million to $62.4 million almost solely as a result of losses on investments. Total expenses, not including the change in pension liability, increased by $7.9 million to $74 million. Net assets increased by $3.3 million, from $147.0 million to $150.3 million. PSEA continues to transition out of the pandemic and has implemented learned technologies over the past three years to maximize our efficiencies while continuing to provide high-quality service to our members. The PSEA operating expenses exceeded operating revenues by $11.6 million; however, that was a result of a $14.2 million net loss on investments.

Chart 1

Revenue, Expense, & Change in Net Assets



*In 2018, 2021, and 2022 Expenses do not include the positive Pension/PRM liability adjustment ($25.9M, $40.1M and $8.9M respectively).

PSEA continues to face financial challenges into the 2022-2023 fiscal year as the impact of the pandemic and the economic markets continues. Despite the challenges we have faced over the past four years, including the loss of fair share and the impact of the pandemic, PSEA gained 59 EA members during the 2021-2022 membership year, but lost 1,679 ESP members. EA membership stands at 110,915 members and ESP membership at 27,748 members. PSEA-Retired membership continues to be stable at 30,750 members, Student PSEA membership grew to 6,868 members, and HealthCare-PSEA membership declined to 339 members.

PSEA's future depends on our financial stability, and our relatively conservative planning and discipline which has enabled us to overcome significant membership and fiscal challenges. I am pleased to report that our organization remains in an excellent financial position, and we will continue to strive to achieve our financial goals and the goals of PSEA.

In Solidarity,

Jeff Ney

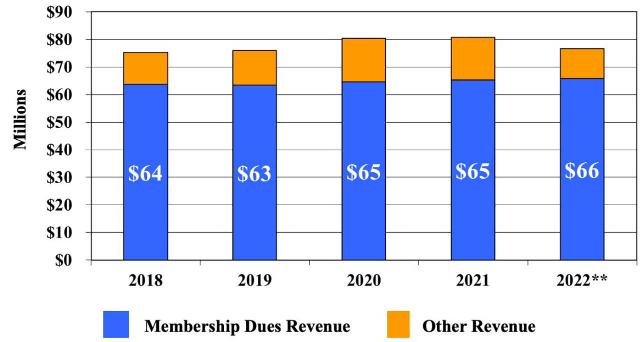
PSEA Treasurer

Revenue

Revenue for 2021-2022, net of investment losses, was approximately $62.4 million, a decrease of $18.4 million from the previous fiscal year. **Chart 2** shows revenue earned during the five-year period ending August 31, 2022. The decrease in revenue for the 2021-2022 fiscal year is a result of a net loss on investments due to the negative performance of investments, offset by a small increase in dues revenue. Membership Dues Revenue, our primary source of revenue, increased by $491,000.

Other Revenue also includes both recurring revenue (i.e., conference income and NEA program subsidies) and non-recurring revenue (i.e., NEA grants, member benefits income, miscellaneous revenue).

Chart 2
Revenue



**Excludes realized and unrealized investment losses.

Chart 3 examines the PSEA Dues Rate over the past 10 years. Increases in the dues rate, on average, have generally kept pace with inflation. The elevated inflation rates for the 2020-2021 and 2021-2022 fiscal years are worth note. The annual change in the dues rate is formula-driven and is based on the increase in the average statewide instructional salary.

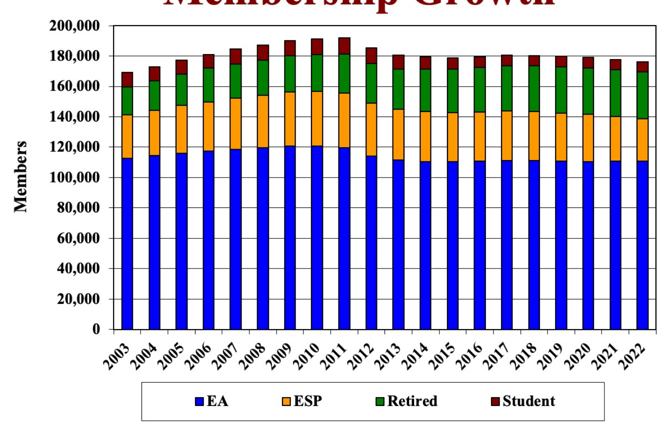
Chart 3
Dues Rate

Fiscal Year	PSEA Dues	% Change	% CPI Change
2012-2013	$489	2.73%	1.99%
2013-2014	$498	1.84%	1.18%
2014-2015	$506	1.61%	1.66%
2015-2016	$511	0.99%	(0.04%)
2016-2017	$517	1.17%	1.46%
2017-2018	$523	1.16%	2.23%
2018-2019	$532	1.72%	2.28%
2019-2020	$542	1.88%	1.71%
2020-2021	$553	2.03%	1.37%
2021-2022	$564	1.99%	5.25%
2022-2023	$573	1.60%	8.20%

The average instructional salary is expected to increase slowly for the next several years, primarily due to the current economic and bargaining environment and changing membership demographics. There are countervailing forces affecting the average salary. On the upside, an unusually healthy state funding year, an ongoing spend-down of federal pandemic aid, and expectations for a high – and rising – Act 1 index will put district finances on better footing. On the downside, while salary settlements have increased marginally over the past decade, a slowdown in the overall economy due to the Federal Reserve increasing interest rates is inevitable. A slower economy will effectively put a brake on millage increases. Moreover, while up to this point, an increase in retirements has not been seen, that could change given reports of burnout and decreased job satisfaction as a result of workplace demands, political pressure, and stress. An increase in retirements will slow the increase in the average salary as more senior, higher-paid members are replaced by new educators with lower salaries.

Historically, the key factor in the increase of our Membership Dues Revenue has been membership growth. In **Chart 4**, we examine that growth over the past 20 years. During the earlier years illustrated in this chart, PSEA enjoyed continuous membership growth which allowed us to improve and expand our program services to members.

Chart 4
Membership Growth



This pattern of membership growth came to a halt in 2011-2012 as a result of the recession and freezes in state funding.

During the 2021-2022 membership year, we experienced a slight increase in EA membership (59 members), but a significant decline in ESP membership of nearly 6% (1,679 members), primarily a lingering result of the pandemic and current economic conditions.

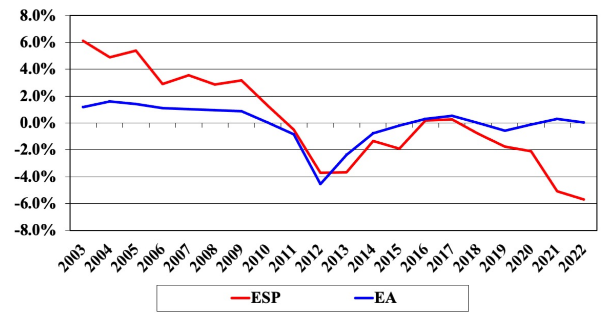
Despite increased state funding in recent years, school districts continue to grapple with pension expenses as well as the impact of inflation and the pandemic on operating expenses. The opportunity for growth in EA local associations has been, and will continue to be, limited due to the already high levels of union membership within that population. While we continue to seek membership growth opportunities and commit financial resources to this endeavor, the impact of program and staff reductions, subcontracting, furloughs, the loss of fair share, and the impact of the pandemic on our members and their families will affect our membership retention efforts. We will continue to battle these issues and anti-union attacks to ensure our members understand the value of a strong union on their compensation and their profession. The 2022-2023 budget projects a loss of 750 EA and 1,500 ESP members which will impact the revenue available to fund programs for our members.

It is also important to note that our PSEA-Retired membership has continued to grow during this period as a direct result of the ongoing and extraordinary efforts of the PSEA-Retired leadership.

In **Chart 5**, we provide a more detailed analysis of the growth rates of our EA and ESP membership categories as they have the largest financial impact. The steep decline in membership growth which began in 2010-2011 reversed its trend with slight membership growth in 2015-2016, 2016-2017, and 2017-2018, followed by relatively level membership in 2018-2019. The pandemic has caused substantial decline in ESP membership starting in 2019-2020 and going through the 2021-2022 fiscal years. Membership growth and retention will be challenging in the coming years, however, PSEA will continue to commit both the human and financial resources necessary to ensure we maintain our membership.

Chart 5

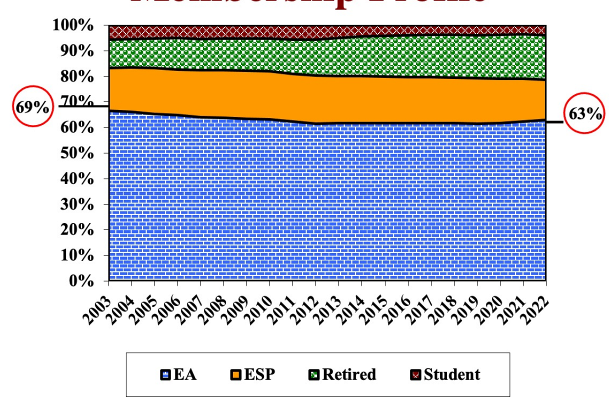
Membership Growth Rates



The long-term average rate of increase in the PSEA-Retired membership category has, along with a significant decline in ESP membership, exceeded the rate of growth in the EA membership, changing the profile of PSEA's membership over the past 20 years. In 2003, as noted in **Chart 6**, PSEA membership consisted of approximately 66 % EA members, with ESP, PSEA-Retired, and Student PSEA members making up the remaining 34%. In 2022, EA membership has declined to 63% of the total PSEA membership while the other categories make up 37% of PSEA's 176,000 total membership.

Chart 6

Membership Profile



A higher rate of growth in a lower membership dues category has caused the average dues per member (total dues revenue divided by total number of members) to remain relatively flat in recent years despite formula-based dues rate increases.

Over the past five years, the average dues paid per member has increased only slightly from year to year and is currently $370. If this trend continues, PSEA will need to develop the capacity to serve more members and a more diverse membership with potentially declining financial resources.

Planning for success in the face of these new economic realities continues to be challenging. We continue to focus our financial and human resources on internal organizing within existing local associations and on maintaining our current membership levels, particularly during this pandemic environment. We also continue our focus on external organizing initiatives including efforts to organize charter schools and other educational entities.

We continuously examine our service delivery model to ensure that we have the capacity to provide the level and quality of service our members deserve and expect while adapting our existing services, systems, and structures to meet the needs and expectations of a more diverse membership and an organization with declining revenues.

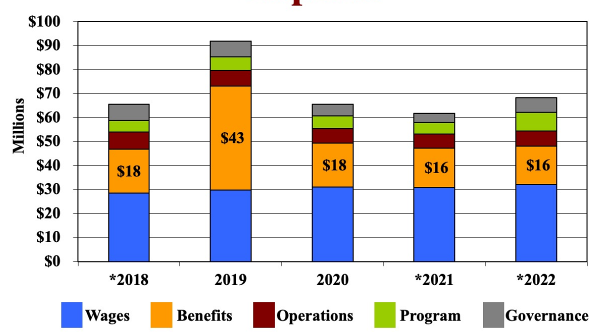
Expense

Chart 7 shows total expenses increasing by approximately $6.5 million from the previous fiscal year. Note the decline in the pension liability is intentionally omitted from this calculation. The pension liability decline is reflected in the audited financial statements and directly impacts PSEA's net assets. See the Pension Plan section of this report for more information.

Program expenses increased by almost $3 million for the 2021-2022 fiscal year, as a result of both the resumption of operations to pre-pandemic levels and normal increases in compensation and benefits.

Chart 7

Expense



*In 2018, 2021, and 2022 Benefits do not include the positive Pension/PRM liability adjustment ($25.9M, $40.1M, and $8.9M respectively).

The net pension asset and post-retirement medical liability continue to be volatile which can have a major impact on the annual expenditures, the annual budget process, and PSEA audited financial statements. The Board of Directors, officers, and staff continue to identify more efficient processes to accomplish our responsibilities as we prioritize the services and programs we provide to our members. **Chart 7** further depicts how we have controlled expenses in all areas outside of employee benefits (represented by the orange segment of each bar).

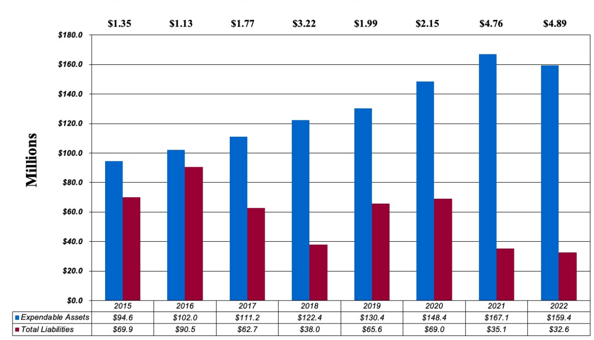
Debt

In **Chart 8**, we present an important indicator of our ability to meet our obligations, the ratio of Expendable Assets to Total Liabilities, commonly referred to as the Operating Strength Ratio. This ratio reflects the concept that a basic determinant of the financial strength of an organization is the availability of sufficient cash and investments to meet both short-term and long-term financial obligations.

PSEA's expendable assets, depicted by the blue bars, include PSEA's cash and investments in all funds. This includes our Special Purpose Funds such as the Local Association Assistance Fund, Retirement Repayment Fund, and Preservation of Public Education Fund.

Chart 8

Operating Strength Ratio



PSEA-All Funds

PSEA's liabilities, depicted by the maroon bars, include all liabilities in all funds. Historically, the vast majority of our debt is associated with our employee pension and post-retirement medical plans, recognizing the pension liability has historically been extremely volatile. As of August 31, 2022, the pension asset continued to grow while the post-retirement medical liability declined. This was primarily a result of the increase in interest rates used to calculate the pension liability which offset the decline in the bond and equity investment markets. Having a net pension asset instead of a liability is an admirable position for any defined benefit pension plan and reflects the proactive approach PSEA has taken since the 2008 recession to ensure the pension plan does not become a burden to the organization. This does not mean the pension volatility is gone, but we are in a good position to absorb any significant fluctuations in the market.

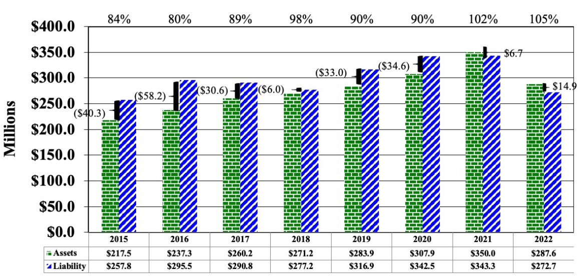
Chart 8 shows that as of August 31, 2022, PSEA had $4.89 of expendable assets for every dollar of debt. This is a modest increase from the $4.76 ratio from last year and represents an extremely healthy and respectable financial position. In 2015, our ratio was only $1.35, meaning we owed more than we owned. This vast improvement is reflective of the long-term strategy utilized to manage the PSEA Pension Plan liability and its impact on the overall financial position of the organization. Rebuilding and maintaining our reserves continues to be a major priority in our long-term strategy to ensure that PSEA has sufficient resources to meet challenges to the organization and continue to serve as strong advocates for public education and public education employees.

Pension Plan

Chart 9 shows the funded status of the PSEA Employee Pension Plan as presented in the PSEA financial statements. In 2021-2022, the pension asset increased from $6.7 million to $14.9 million, an increase of $8.2 million. As of August 31, 2022, our Employee Pension Plan is 105% funded. Over the past 10 years, we have taken a proactive approach to funding the PSEA Pension Plan and meeting our commitment to our staff. These numbers reflect the success of that strategy.

Chart 9

Pension Assets and Liabilities



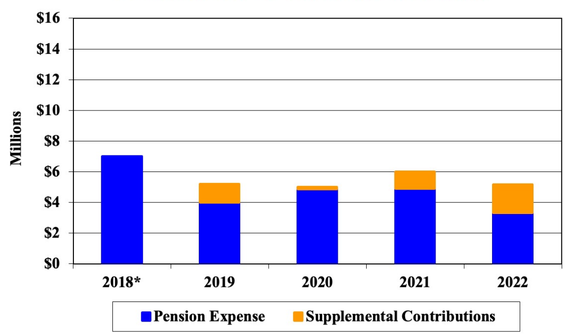
	2015	2016	2017	2018	2019	2020	2021	2022
Assets	$217.5	$237.3	$260.2	$271.2	$283.9	$307.9	$350.0	$287.6
Liability	$257.8	$295.5	$290.8	$277.2	$316.9	$342.5	$343.3	$272.7

The funded status of the pension plan is primarily due to the asset allocation of the portfolio, increasing the ratio at which assets and liabilities are hedged, and increasing interest rates, which decreased the pension liability. The combination of a diversified portfolio, hedging strategies, and rising interest rates have helped the plan weather an otherwise downward trending market. The PSEA Board of Directors took proactive action to make significant cash contributions to the pension plan and improve the funded status of the plan over the past 10 years. This infusion of cash and the positive investment performance over the past 10 years has resulted in a significant and steady increase in pension plan assets. It is important to note that both the equity and bond markets remain volatile.

Chart 10 shows the substantial contributions PSEA made to the Employee Pension Plan over the past five years. Under the Pension Protection Act (PPA), any organization with a pension plan that does not achieve certain specified levels of funding will become subject to various punitive provisions of the law. Plans that fall below the first specified level of funding will be prohibited from increasing benefits. Plans that fall below the second specified level of funding may be

Chart 10

Pension Contributions

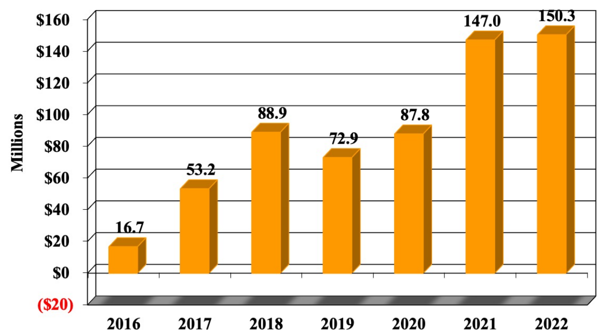


*In 2018 the Pension Expense of 7.04M exceeded the contributions into the Plan of $7.0M designated "at risk" and subject to accelerated funding requirements. Required contributions to "at risk" plans will be significantly higher because the law requires that the funding shortfall be computed using worst-case assumptions. In addition, if an "at risk" plan falls below the third specified level of funding, the plan may be frozen, meaning no additional benefits can accrue. As a result of the significant contributions PSEA has made to the PSEA Employee Pension Plan over the past several years, it continues to meet the funding requirements of the PPA.

Ten years ago, PSEA had Net Assets of negative $8.2 million. **Chart 11** shows that as of August 31, 2022, PSEA has total Net Assets of $150.3 million, the highest Net Assets PSEA has ever had at the end of a fiscal year. This represents an increase of $3.3 million from the $147 million on August 31, 2021. The chart clearly indicates the volatility of Net Assets, and how it is directly related to and consistent with the volatility of the PSEA pension liability. As the pension liability increases, PSEA's Net Assets decrease. An $8.1 million increase in the pension asset contributed to this overall improvement in net assets.

Chart 11

Consolidated (All Funds) Net Assets



As previously noted, PSEA's future depends on our financial stability and our continued focus on both the short-term and long-term membership and fiscal challenges. PSEA is in an excellent financial position today, and we will focus our financial resources to ensure PSEA continues to be the voice of education in Pennsylvania for both our members and our students. We also recognize that these are unprecedented economic times as a result of the pandemic, inflation, and various other legal, legislative, and economic impacts which affect our financial stability. It is important to remain conservative in our financial decisions to ensure our long-term financial stability.

Preliminary Statements of Financial Position

Assets

	2022	2021
Cash and Cash Equivalents	$71,445,417	$76,511,425
Other Current Assets	$1,825,921	$1,607,333
Total Current Assets	$73,271,338	$78,118,758
Investments	$83,903,304	$86,373,735
Long-Term Net Pension Asset	$14,949,343	$6,803,862
Other Long-Term Assets	$2,242,717	$2,648,002
Property, Furniture, and Equipment (less accumulated depreciation)	$8,490,140	$8,165,726
Total Assets	$182,856,842	$182,110,083

Liabilities and Net Assets

Accounts Payable and Accrued Expenses	$2,793,771	$3,161,625
Accrued Leave	$4,224,184	$3,971,032
Unremitted National Education Association Dues	$766,667	$747,646
Current Deferred Revenue	$1,477,831	$1,457,025
Current Post-retirement Medical Insurance Cost (PRM)	$1,125,950	$1,128,542
Total Current Liabilities	$10,388,403	$10,465,870
Deferred Compensation/Accrued Leave	$9,347,263	$9,429,632
Deferred Revenue	$1,246,216	$1,239,885
Accrued Post-retirement Medical Insurance Cost (PRM)	$11,607,423	$13,998,466
Total Liabilities	$32,589,305	$35,133,853
Net Assets	$150,267,537	$146,976,230
Total Liabilities and Net Assets	$182,856,842	$182,110,083

Statements of Activities

Revenues and Gains

Membership Dues Revenue	$65,732,851	$65,241,617
Other Revenue and Investment (Losses) Gains	($3,298,770)	$15,553,454
Total Revenue and Gains	$62,434,081	$80,795,071

Expenses

Program Services	$61,795,754	$55,820,844
Supporting Activities (Administrative and General)	$12,236,076	$10,267,173
Total Expenses	$74,031,830	$66,088,017
Increase/(Decrease) in Net Assets from Operations	($11,597,749)	$14,707,054
Increase/(Decrease) in Net Assets Associated with Pension and PRM	$14,889,056	$44,504,030
Total Increase/(Decrease) in Net Assets	$3,291,307	$59,211,084

PSEA Officers

Rich Askey, President
Aaron Chapin, Vice President
Jeff Ney, Treasurer
James Vaughan, Executive Director

PSEA Budget Committee

Jeff Ney, PSEA Treasurer
Jena Brodhead, Eastern Region
Pam Brown, Southeastern Region
Holly Harrington, ESP Region
Debra Lee, Mideastern Region
David Taylor, Western Region
Rachael West, Southern Region

Staff Consultant

Joseph Howlett, Assistant Executive Director for Administrative Services