



Pension Health is Key to Pennsylvania Municipal Viability

TOO MANY GROSSLY UNDERFUNDED MUNICIPAL PENSION PLANS

Pennsylvania has over 3,200 separate local government pension plans, 25 percent of all such plans in the nation. Two-thirds of the plans have ten or fewer active members, and many are grossly underfunded.

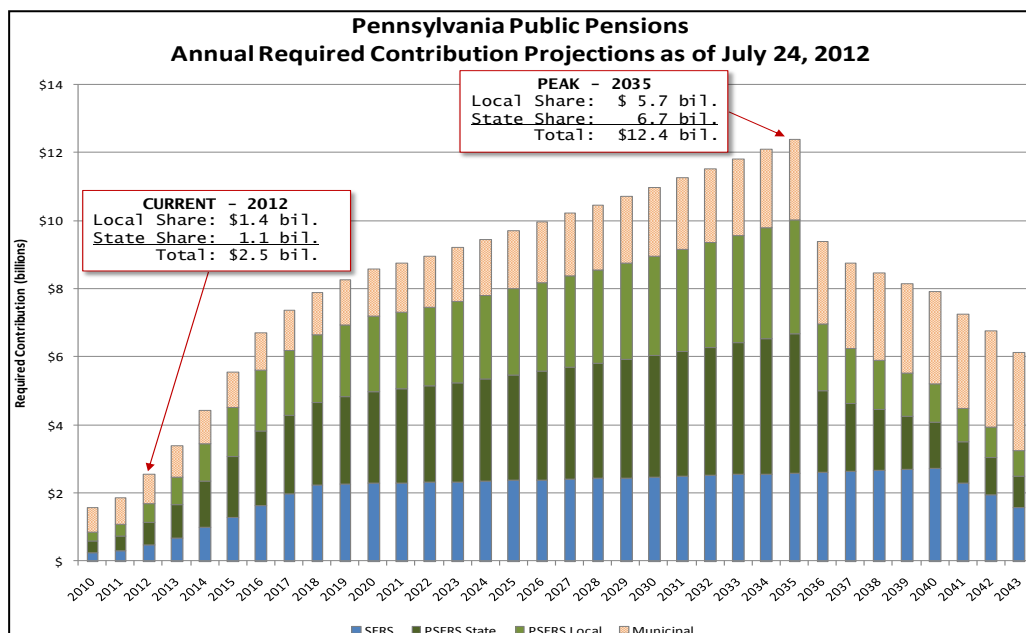
Unfunded accrued liabilities (2009):

- Philadelphia – \$4.8 billion
- Pittsburgh – \$0.4 billion
- Balance of PA – \$1.4 billion
- **PA Total – \$6.6 billion**

THE PENSION PROBLEM IS WIDESPREAD AND GROWING

The pension problem is not just a city problem – pension stress can be found in boroughs and townships in rural, suburban and urban areas. Sixty-six of Pennsylvania’s 67 counties have at least one municipality with a pension plan that is under a high level of financial stress. Around one-third of Pennsylvanians live in a municipality with a distressed pension plan.

It’s also not just a municipal problem. The State Employees Retirement System (SERS) and Public School Employees Retirement System (PSERS) will have unfunded liabilities of \$65 billion by 2021. By 2035, local school district pension costs will be 14 times higher than today.



* Official municipal projections unavailable; PELSW estimated 5% annual increase

EVERYONE SUFFERS

- Businesses and residents – pension distress leads to higher taxes and/or reduced services.
- Municipal governments – increasing shares of budgets are devoted to legacy costs.
- Labor – financially stressed pension plans do not provide retirement and employment security.

THE GROWING PENSION CRISIS NEEDS TO BE ADDRESSED LEGISLATIVELY

The problem has been recognized for many years. Yet, recent legislation has addressed only short-term budgetary issues while ignoring long-term cost containment.

For example: Act 44 of 2009

What was achieved:

- Asset smoothing
- Amortization changes
- Reduced mandatory payments
- Special taxing authority

What was left out:

- Sustainable benefit structure for new hires
- Realistic earnings assumptions
- Anti-spiking provisions
- Authority to offer optional defined contribution plans
- State administration of severely distressed plans

WE NEED TO BRING REALITY TO OUR PENSION PRACTICES, LEST OUR MUNICIPALITIES FAIL

- For new hires, shift from defined pension benefit to a hybrid plan – more modest defined benefit supplemented by a defined contribution plan;
- Require pensions to be calculated on base pay only, eliminating “spiking”;
- Remove pension benefits from the collective bargaining process;
- Freeze benefits for existing public safety personnel;
- Provide a service related disability benefit;
- Establish pension plan portability options for new hires; and
- Decrease vesting period, increase retirement age and length of service.

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