

Senator Jane C. Orié

Thank you for the opportunity to be here today to speak on Senate Bill 596, which I introduced to establish a statewide pension system for local police officers.

Pennsylvania taxpayers support more municipal pension plans than in any other state

Pennsylvania's 3,129 local government pension plans comprise over 25 percent of the total number of public employee pension plans in the entire United States. Seventy-one percent of these local pension plans are self-insured, defined benefit plans.

67 percent of the plans have ten or fewer members, 29 percent have three or fewer active members.

With regard to local law enforcement, Pennsylvania has 971 pension plans for municipal police employees. Those pension plans, excluding Philadelphia, have an average of only twelve (12) active members per plan. And, one-third of the police pension plans have three or fewer active members.

Senate Bill 596 would consolidate a portion of these plans- those pertaining to municipal police- to save our local municipalities' money. Under the bill,

- these varying benefit systems would be standardized into four classes..a municipality would select the class for their officers which most closely resembles their current plan...or if there is no plan, the municipality could join the system and select a class
- all full-time officers in that municipality from that point on would be required to join the statewide system, and
- part-time officers would be offered only a defined contribution plan, if any plan is offered

According to the Pennsylvania Employees Retirement Commission (PERC), the average administrative costs of small plans is \$1,378 per member, versus \$300 per member for larger plans.

It is clear that, the smaller the plan, the more expensive it is to manage.

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In addition to cost, there are other detrimental impacts of trying to administer large numbers of very small plans. In many cases, those who administer small pension funds simply don't have the expertise necessary to ensure that they are financially sound.

Local municipal policies with regard to their obligation to fund their plans is also not uniform. As such, the adequacy of funding to meet liabilities varies widely throughout the Commonwealth. For example, in some municipalities overseers of plans have invested in low-interest certificates of deposit. There are other examples of the detriments of these plans to both municipalities and their police officers:

- The city of Allentown had to go to court to force a settlement after dozens of its police officers were allowed to manipulate overtime to qualify for unusually large pensions that reached as much as \$91,000 a year.
- Some small townships and boroughs have been hit hard when their police officers have died on duty without having killed-in-service insurance. In most cases, the officer's spouse qualifies for a full-salary pension for life, which can be very expensive.
- Early retirements or disability cases can also be devastating to small pension systems. If a police department has a complement of five or six officers and one dies, one retires and one goes on disability, it could literally wipe out the system.

These small plans also hurt employees with regard to their lack of benefit portability, the disparity in benefits among plans, and the uncertainty of whether their plan is adequately funded.

I believe that consolidating local police pension systems makes sense. It is a move that is long overdue and could save Commonwealth municipalities millions of dollars annually, while improving efficiency. It would ensure that all local police officers have a pension system that meets set standards, so they aren't at financial risk.

That's not to say that there still aren't numerous issues to be addressed and questions to be answered with regard to this legislation.

Prior efforts to consolidate the local pension funds, which collectively hold about \$16 billion in assets, have gone nowhere – in part because many communities do not want to let go of their local authority, but also in part due to some serious questions about how such a consolidation would work

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- some municipalities have expressed concern that in a consolidation, properly funded pension plans would subsidize pension systems that are unfunded, possibly due to the irresponsibility of other municipalities
- Others are concerned that it limits their collective bargaining power
- And still others have said that portability will result in some municipalities training new officers who will then leave to work elsewhere

I am very open to this Committee's determinations of how to proceed to address these issues and concerns

In some ways, this bill and the issues that will surround it are a microcosm of the broader pension issues faced by both state and local governments:

- Lack of adequate funding and controlling future pension liabilities;
- Addressing administrative costs;
- Ensuring adequate return on investments through best management practices; and
- Portability and competitiveness.

As has been widely reported in the media, it is vital to the future of the Commonwealth and its local governments that the looming problems with regard to government pensions be addressed head-on and soon. This bill is only one small step in that regard, but I believe is a very positive step.

I want to commend and thank you, Mr. Chairman and this Committee for beginning the discussion on my bill and this critical issue.