



Pennsylvania State Association of Boroughs

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Testimony before the Pennsylvania Senate Finance Committee

August 12, 2009

Re: Municipal Pension Reform

Introduction:

Chairman Browne and distinguished members of the Senate Finance Committee:

I wish to thank you for the opportunity to address your committee on the subject of municipal pension plans in the Commonwealth of Pennsylvania.

I am Chris Cap and I proudly serve as Deputy Executive Vice President of the Pennsylvania State Association of Boroughs. Our Association has been the primary advocate for Pennsylvania borough governments since 1911 and I appear before you today on behalf of 912 municipalities that comprise our statewide membership.

Municipal pension reform has been a topic of significant interest to our members for many years and I have testified on this matter several times before various Senate and House committees. Today's economic recession combined with poor equity market performances in 2002 and 2008 have contributed to the compounding fiscal stress a number of municipal pension plans are experiencing. A recent positive development has been the performance of major investment market indexes that have rebounded soundly in 2009. As an example, the Standard & Poors 500 Average is up 11.5% year-to-date or an 11.3% improvement over the 52-week floor trading range.

PSAB Policy Position & Objectives:

The latest investment performance is welcome news for local governments that sponsor pension plans, yet it does nothing in the near-term to ease the Minimum Municipal Obligation (MMO) burdens that will spike significantly in 2010. PSAB's immediate policy objective as it relates to pension plans is to secure legislative remedies that provide voluntary actuarial options which effectively promote MMO relief.

In surveying the fiscal turmoil that other state and municipal plans are experiencing today, PSAB also believes the primary pillars of any viable municipal pension reform initiative should include the use of defined contribution plans and a moratorium on benefit enhancements such as ad hoc cost of living adjustments (COLAS) .

The PSAB urges this committee to assist our municipal members in protecting public services, minimizing layoffs, and avoiding greater pressure on local property taxes. We support:

- 1) Asset Smoothing Improvements – This method for recognizing gains and losses is a key variable for determining the actuarial value of pension assets in a municipal fund. Local plans rely on this concept to avoid large year to year fluctuations in employer contribution requirements that may result from wide volatility in the investment markets as what occurred in 2002 and 2008. PSAB supports legislative proposals that increase the asset smoothing corridor from the existing level of 20% above or below the market value of assets, to at least 30% above or below the market value of assets. Municipal employer contribution volatility may then be managed more effectively and offset the immediate impact of market losses.

- 2.) Updating Amortization Schedules – Act 205 should be amended to revise amortization schedules that apply to all future liabilities. PSAB endorses provisions that promote voluntary acceleration of liability amortizations and simultaneously providing extended amortization of liabilities due to events that are beyond the local control of a municipality. Specifically, Actuarial gains or losses for amortization periods should increase to a maximum of 20 years (from 15 years); Changes in actuarial assumptions should be decreased to a 15 year maximum (from 20); and maximum amortization periods for active members decreased from 20 years to 10 years and for retired members to increase from 10 to 20 years. These changes are consistent with those proposed by the Public Employee Retirement Commission.

- 3.) Further Enabling Legislative Provisions for Defined Contribution Plans – The private sector has adopted defined contribution plans in place of traditional defined benefit plans with great frequency in recent years. Public plans have been slow to change their approach or are limited to consider the fiscal merits of such a change due to a lack of statutory authority. For those municipalities that have adopted this type of plan, they have successfully brought predictability and affordability into the budgeting process. Those municipalities that already utilize defined contributions are predominately limited to non-uniformed plans and non-Act 600 police plans (generally, less than 3 officers). Another attractive feature of this concept is their asset portability, which employees can easily transfer to another job opportunity (public or private). PSAB recognizes that

pension plans are an attractive employee benefit and human resources tool that may be used to attract and retain qualified employees. This is a key motivation for PSAB to seek remedies that ensure a viable municipal pension environment.

- 4) A Moratorium on Legislatively Mandated Benefit Enhancements - PSAB respectfully advocates a freeze on mandates to increase benefits such as COLAS. Despite the positive investment market rebound in 2009 (through August 12), we advocate for greater time in cooperation with the Public Employee Retirement Commission to gain a better understanding of other challenges that may occur in the short-medium term such as another investment market meltdown.

Conclusion:

In closing, I wish to reemphasize our position that more flexible asset smoothing and amortization schedules should be enacted in the near-term. Prompt enactment of these MMO actuarial relief provisions will give our members sufficient time to consult with their actuarial counsel in preparation for their 2010 budgets.

Again, PSAB is supportive of defined contribution plans being further introduced to the municipal employee benefit package in place of traditional defined benefit plans. We find this concept to be very attractive since these plans would equal assets at retirement and will be fully funded by virtue of their design. This will help protect taxpayers from exorbitant MMO's in future years and enable borough governments to have greater control over their investments in other community needs essential to their local constituencies.

Thank you Chairman Browne for this opportunity to testify today and I would welcome any questions from the Senate Finance Committee.