



**TESTIMONY BY
THE PENNSYLVANIA STATE ASSOCIATION OF
TOWNSHIP SUPERVISORS**

**BEFORE THE
SENATE FINANCE COMMITTEE**

ON

HOUSE BILLS 1874 AND 1884

PRESENTED BY

**ELAM M. HERR
ASSISTANT EXECUTIVE DIRECTOR**

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HARRISBURG, PA**

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Chairman Browne and members of the Senate Finance Committee:

Good afternoon. My name is Elam Herr, and I am the assistant executive director for the Pennsylvania State Association of Township Supervisors. Thank you for the opportunity to appear before you today on behalf of the 1,455 townships in Pennsylvania represented by the Association.

Townships comprise 95 percent of the commonwealth's land area and are home to more than 5.4 million Pennsylvanians, nearly 42 percent of all state residents. These townships are very diverse, ranging from rural, agricultural communities with fewer than 200 residents to more urban, populated communities with populations approaching 70,000 residents.

We are here today to discuss the state of our municipal pension system and the changes that HB 1874 (*PN 2522*) and HB 1884 (*PN 2523*) would make to the system to address short-term funding issues, as well as the long-term issue of fiscally distressed municipal pension plans.

We thank the members of the Public Employee Retirement Commission and their executive director, Mr. James McAneny, for their efforts on this issue and, specifically, for their willingness hear our concerns and to work towards a compromise on various components of these proposals in order to accomplish both short-term solutions and long-term reforms.

We believe that the earlier testifiers have adequately explained these complex bills to the committee. As such, our comments will focus on the current issues impacting township pension plans and a few issues that we believe should be fine-tuned.

The serious downturn of the stock market over the last year and the credit crisis have caused serious problems for local government pension portfolios. With the collapse of the stock market, public pension portfolios have diminished in value significantly and townships are faced with reporting these large losses, many for the first time. In fact, municipal pension funds have lost as much as 40 percent of their value. We want to emphasize that the majority of these pension plans have been properly managed and, up until the collapse of the markets, were adequately funded.

Complicating this situation is the fact that municipalities are currently required to amortize pensions over a 15-year period. Combining this relatively short amortization period with significant market losses in pensions funds is creating a situation where, without legislative adjustments to the amortization requirements, plan participants and the municipalities that employ them will be forced to provide unprecedented levels of contributions to meet the requirements of Act 205 of 1985 in the Actuarial Valuation Report. Clearly, this would cause budgetary issues for many municipalities.

As such, we believe that HB 1874's provision for a temporary "smoothing" period is greatly needed. As written, the bill would give all pension plans the 2009-2010 actuarial cycle to value their assets and attain a funding level of no less than 70 percent of the fair market value. However, we are concerned that this time frame will not be sufficient since we are already more than halfway through 2009 and indications are that the markets will not rebound sufficiently to

make up for the severe losses that pension systems have recently experienced. As such, we are asking for an amendment to extend the smoothing cycle for an additional two years for all levels. We believe that this amendment will reduce the current minimum municipal obligation and help to keep more pensions actuarially sound.

In addition to short-term solutions to address the impact of the market collapse on municipal pension plans, the proposal contains long-term solutions for distressed pension plans. We believe that any such a proposal should address those situations where the municipality has failed to adequately fund the benefits that it has given to its employees, but should not go so far as to impact those systems that are sound. It is important to note that the world of municipal pension plans is significantly varied across the commonwealth based on need, resources, state mandates, and what benefits have been awarded over the years. Municipalities have the responsibility to properly administer their plans and fulfill the terms of their minimum municipal obligations. We believe that, in most cases, the current system works and that a one-size-fits all solution would not.

We feel that this legislation does propose reasonable long-term solutions for distressed pension plans. With that said, we are asking for a few amendments that we feel would fine-tune several issues.

We believe that an amendment to HB 1874 is needed to address concerns regarding the treatment of new pension plans under this proposal, especially non-uniform plans that would include employees that have worked for the municipality for years. This is a concern because these new pension plans are considered to be underfunded from their inception due to the fact that existing employees must be included in the plan. This creates a legacy cost, which the municipality must fully fund over a few years time. As such, we are asking for an amendment to *not* impose the mandatory remedies in the bill on any pension plan that has existed for less than six years prior to the audit date or that has not received a distress determination score of 3 in two successive audit cycles. We feel that this amendment would give newly formed pension plans time to adequately fund their liabilities.

We point out that this proposal would require certain mandated remedies for severely distressed pension plans, including the mandatory inclusion of new employees in a statewide pension program. Generally, the Association opposes any requirement for a mandatory statewide pension system because it takes away control from municipal officials to give their employees only those benefits that they can afford. However, we can accept this narrow provision as a remedy for those severely distressed plans.

However, an amendment to House Bill 1884 is needed to clarify that the benefit provisions for this new system are in line with the benefit provisions of the Municipal Police Pension Law (*Act 600 of 1955, as amended*). Act 600 provides that the employee is entitled to a pension benefit of 50 percent of the final 36-month average final salary. The amendment we are seeking would clarify that in no event shall the benefit exceed 50 percent of the member's final salary. We believe this amendment would help retain uniformity.

In closing, we believe these proposals, with a few amendments, would fairly address the short-term and long-term issues with our municipal pension system.

Thank you for the opportunity to testify before you today. We will now attempt to answer any questions that you may have.