

Testimony for Public Hearing on Municipal Pension Issues

Senate Finance Committee

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Good morning. Thank you for the opportunity to speak this morning regarding Pennsylvania's municipal pension situation and the need for the General Assembly to make beneficial reforms that will foster pension fund solvency and avoid the looming danger of tax increase and/or service reductions that could result from inaction. My name is Brian Jensen. I am a senior vice president at the Allegheny Conference on Community Development where I manage the Civic Policy Program and the Deputy Director of the Pennsylvania Economy League of Southwestern Pennsylvania. The goal of the Civic Policy Program is to increase the fiscal accountability and effectiveness of Pennsylvania local government, particularly that of southwestern Pennsylvania, Allegheny County and the City of Pittsburgh.

The Pennsylvania Economy League has promoted the value of better government for over seventy years. From the early 1950s, when our organization staffed a state commission that recommended a complete rationalization of functions and service delivery within Allegheny County local government to our extensive early 1990s program to promote functional consolidation between Allegheny County and the City of Pittsburgh to our recent work to foster structural consolidation of Allegheny County and the City of Pittsburgh, the Economy League has actively sought to further intergovernmental cooperation to enhance effectiveness and cost efficiency.

It is in the light of the Pennsylvania Economy League's tradition of researching and promoting good government management practices and structures that several years ago and last year we undertook an analysis of Pennsylvania's municipal pension situation. We believe that municipal pension reform is critical to the financial health of Pennsylvania municipalities and central to Pennsylvania's future generally. This morning, I would like to convey to the committee some of the highlights of our research and offer some conclusions on what we think it means for the discussion on HB 1874 and HB 1884.

Pennsylvania is an extreme outlier among the fifty states with our radical decentralization of municipal pension plans. Our state has over four times as many public employee pension plans as any other state. Twenty-five percent of the nation's public employee pension plans belong to Pennsylvania's local governments and special districts. I think this point is worth repeating: one-quarter of the nation's public employee pension plans belong to Pennsylvania's local governments and special districts. Our overly-fragmented municipal pension mishmash – it would be inaccurate to call it a “system” because there is nothing systematic about it – continues to grow with the number of local pension plans increasing steadily each year.

One consequence of having so many local government pension plans is that they tend to be very small. Two-thirds of our state's public pension plans have ten or fewer members and nearly half have five or fewer members.

The relatively high administrative costs that result from such radical fragmentation exacerbate the dire fiscal condition of many of our municipal pension plans. According to the Pennsylvania Public Employee Retirement Commission, in 2007, the unfunded accrued liability of our municipal pension plans was nearly \$5.2 billion. Excluding Philadelphia and Pittsburgh, the unfunded liability totaled nearly \$1 billion, roughly equal to the entire combined payroll of the host municipalities.

The incidence of underfunded pension plans is geographically widespread in Pennsylvania. Even before the economic downturn of late-2008 that lingered into the first quarter of 2009, 190 pension plans in 169 municipalities were less than 70% funded. Around one-third of Pennsylvanians in 2007 lived in a municipality with a distressed pension plan – given market conditions, the current number is likely to be even higher.

It cannot be stressed enough that the current recession is turning the existing pension problem into a crisis. Existing law will require municipalities to base 2011 and possibly 2010 pension plan contributions on asset valuations in place in January 2009 when markets were at their lowest. If legislative reforms are not passed before the end of the year, the January 2009 market values will lock into place for determining municipal pension asset valuations. As a result, the minimum amount a municipality has to pay annually towards its pension obligations will increase drastically. Quick action is needed to avert the resulting higher taxes and/or reduced services.

According to estimates based on an average 25 percent decrease in market value of pension fund assets, nearly 200 municipalities will see their minimum municipal obligations double in 2011 if the corrective action provided by HB 1874 is not implemented. Another 80 municipalities will see their MMOs triple, and yet another 50 will quadruple, at a minimum.

Pennsylvania needs to act within the next few months to correct its mounting local government pension problems. HB 1874 and HB 1884 provide distressed pension plans with varying levels of voluntary and mandatory remedies including fund aggregation, reduced amortization payments and asset smoothing tools. For critically distressed plans, state intervention (but not state assumption of costs) is mandatory.

Taking it a step further, the full consolidation of pension plans provided in HB 1884 for Level 3 municipalities would make it easier to rationalize local government. One of the biggest obstacles to the consolidation of police departments and to broader municipal consolidation has been the challenge of resolving differing pension provisions. Fewer, better funded, better outfitted and better staffed police departments would be a happy consequence of a unified municipal pension system.

Thank you Mr. Chairman, and Committee members. I would be happy to try to address any questions you may have.