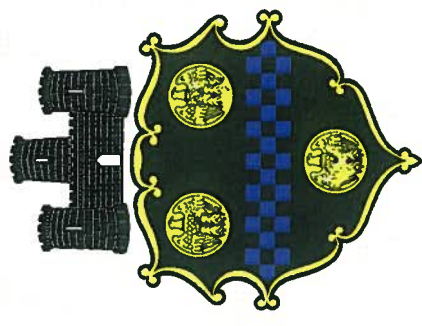


# City of Pittsburgh Municipal Pension Reform

---

Presentation to the  
Senate Urban Affairs & Housing Committee  
Senate Finance Committee

September 8, 2008



# City of Pittsburgh

---

- The City of Pittsburgh's finances have improved significantly since being declared distressed under Act 47 in 2003.
- By responsibly driving down the cost of government, the City is on the path towards financial stability.
- Even with all of this progress, much work remains and any discussion of full recovery must begin by discussing unfunded pension liabilities, a problem that is not unique to Pittsburgh.

# Unfunded Pension Liabilities

---

- According to the University of Pittsburgh Institute of Politics, there are at least 200 under-funded pension plans in Pennsylvania.
- The combined local government retirement systems in Pennsylvania have a total unfunded liability of \$5.2 Billion.
- The largest funding gaps are attributable to demographic shifts in urban areas:
  - Large cities with declining populations may have as many retirees as current employees.
  - In addition to a shrinking tax base, these pension funds are paying out more money than they are receiving in current employee contributions.

# Unfunded Pension Liabilities - Pittsburgh

---

- These demographic shifts in Pittsburgh have led to an unfunded pension liability of more than 50%.

## Declining Tax Base

- Pittsburgh's current population of 311,200 is a decrease of more than 58,000 since 1990.
- While the City's population has decreased, the municipal functions the City provides to the region, including public safety and public works, have not.
- Pittsburgh's economy is becoming more focused around higher education and health care non-profit institutions that benefit the entire region. As these groups thrive, residents of the City of Pittsburgh are required to bear a disproportionate and constantly increasing share of the tax burden.

## Demographic Shifts

- As Pittsburgh makes necessary personnel reductions to reflect population loss, we are left with more retirees receiving benefits than current employees contributing into the system, further exacerbating our pension liabilities.

# Unfunded Pension Liabilities - Pittsburgh

- Despite opponents criticizing overly generous retiree packages, the City of Pittsburgh's retiree payments remain modest, particularly for the non-uniformed members of the pension system.

*(Note: Fire & Police do not pay in or receive Social Security for service)*

City of Pittsburgh - Average Pension Benefits		
Unit	Monthly Payment	Annual Total
Fire	\$2,420	\$29,040
Police	\$2,060	\$24,720
Municipal	\$810	\$9,720

# Consensus Process

---

- Unfunded pension liabilities are not unique to Pittsburgh
- My administration is committed to working collaboratively with other municipalities and stakeholders to develop a consensus action plan
- Member and Chair of the PLCM Pension Committee along with Mayors from Meadville, Allentown, Murrysville & Lock Haven
- My staff has worked closely with the University of Pittsburgh Institute of Politics Pension Subcommittee chaired by State Senator Jane Orié and State Representative Dan Frankel.

# Overview of Reform Proposals

---

- ❑ Revise the State Aid Pension Formula
- ❑ Prevent Spiking
- ❑ Permit/encourage Defined Contribution or Hybrid Plans
- ❑ Allow for the consolidation of Plans

# Revise the State Aid Pension Formula

---

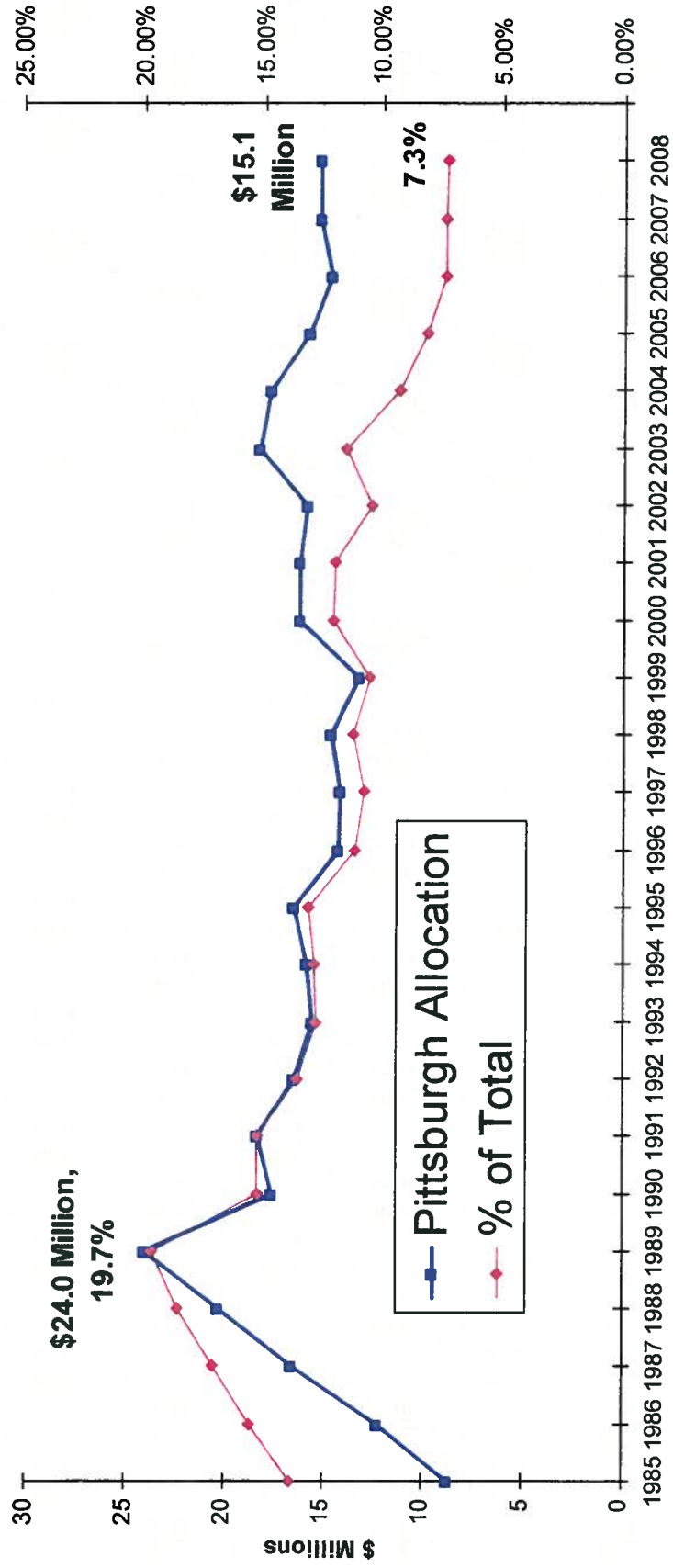
- Pennsylvania allocates state aid to municipal pension plans.
- The program fully funds nearly half of all participating plans, leaving those municipalities with little incentive to control benefits.
- Capping the reimbursement percentage would give municipalities greater incentive to control costs and could make some state funds available for other purposes, such as additional aid to under-funded plans or raising the per-unit reimbursement.

# Revise the State Aid Pension Formula

---

- Additionally, the State Pension Aid Formula has worked against city recovery efforts
- 1 Police Officer or 1 Firefighter = 2 Units
- Necessary reductions in Police & Fire personnel penalize the City by reducing pension aid
- ACT 205 does not account for EMS Paramedics in Public Safety allocation formula

# Revise the State Aid Pension Formula



- Since the high-water mark in 1989, State Pension Aid to Pittsburgh has decreased by \$9 million despite the total State allocation increasing to more than \$200 million during the same time period.

# Prevent Spiking

---

- ❑ Pension calculations for DB recipients are generally based on the employee's last three years of employment.
- ❑ This practice gives employees a double incentive to maximize income during their last three years of employment, since doing so results in both increased salary and increased pensions.
- ❑ The Third Class City Code prohibits counting overtime as salary for pension purposes.
- ❑ The General Assembly could apply this prohibition to all plans.

# Permit/ Encourage Defined Contribution or Hybrid Plans

---

- ❑ With the private sector moving away from DB plans, popular support for public sector DBs may decline.
- ❑ Pennsylvania currently requires counties, and second and third-class cities to provide DB plans.
- ❑ Moving from DB to DC reduces risk exposure, but does not necessarily reduce costs.

# Allow for the Consolidation of Plans

---

- ❑ There are more than 3,100 local government pension plans in the Commonwealth of Pennsylvania.
- ❑ This number represents over 25% of the public employee pension plans in the United States.
- ❑ Such fragmentation creates inefficiencies and higher overall administrative costs.
- ❑ Consolidation could be approached in several ways.

# Consolidation Options

---

- A) Offer Incentives for Plans to Join the Pennsylvania Municipal Retirement System
- The Pennsylvania Municipal Retirement System (PMRS) administers pension plans for local governments on a contracted basis.
  - PMRS currently has 864 participating plans.
  - Plans and benefit structures can vary.
  - Incentives could encourage additional plans to join PMRS.

# Consolidation Options

---

- B) Consolidate all municipal non-uniformed employee pension funds into a single statewide system
  - State Senator Jane Orie has proposed consolidation of police pension plans.
  - A similar consolidation could combine the municipal plans.
  - This consolidation would address administrative inefficiency, lack of portability, and (eventually) benefit disparity.

# Consolidation Options

---

- C) Other Consolidation Options
- Merge authorities' pension plans with those of the municipality within which they operate.
  - Require all plans with fewer than a specified number of members to consolidate with a county or state plan.