

Issue Summary

Local Government Pensions in Pennsylvania

The Issue:

The growth in pension legacy costs is hitting the state's largest cities and will eventually affect all municipalities in the state unless changes are made.

What We Know:

There are more than 3,100 local government pension plans in the Commonwealth covering employees working for governments at the county, municipal, authority, and association level. Most employers offer multiple plans, segmenting employees by type, most often into police, fire, and non-uniformed plans. When considered in aggregate, the assets of these pension plans top \$16 billion and the liabilities are \$21 billion, leaving a shortfall (unfunded actuarial liabilities) of \$5 billion. The majority of these plans are self-insured, defined benefit type where the risk of providing benefits lies with the government entity. Philadelphia's unfunded liabilities account for about \$3 billion of the total local shortfall, and Pittsburgh's \$469 million shortfall is significant.

In Allegheny County, there are 294 pension plans. The shortfall among these plans is closer to \$500 million. When Pittsburgh's plans are removed from the equation, the remaining 288 pension plans share \$32 million in unfunded liabilities. There are few pension plans that would appear to be "in trouble", that is, those reporting a ratio of assets to liabilities of 69 percent or less. In fact, the majority are funded at 100 percent or greater. But though the rate and speed of descent into pension trouble is varied for these plans, problems are going to crop up. We know that concerns about the state's two pension plans (one for state employees, one for school employees) are present and could result in massive tax increases to pay for obligations.

The problem is that the "pension time bomb" is competing for attention on the policy agenda.

Recommendations:

So what can be done to head off the coming pension crisis? The Allegheny Institute is recommending three steps for consideration; (1) Move to a defined contribution system for newly-hired employees, (2) Establish an agency similar to the federal Pension Benefit Guaranty Corporation that could assume troubled pension plans and pay out fractional benefits to preserve the viability of plans from seriously distressed municipalities, and (3) Sell the state liquor stores and outsource other functions to provide a revenue stream for funding liabilities.

Public pension plans need to be brought more in line with private sector plans and what taxpayers can afford.

Allegheny Institute References:

An Analysis of Local Government Pension Plans in Pennsylvania. Report # 07-02.
www.alleghenyinstitute.org/reports/07_02.pdf

Pittsburgh's Pension Plan: The Black Hole That Won't Go Away. Report # 02-11.
www.alleghenyinstitute.org/reports/02_11.pdf

State Throws Cold Water on City Pension Aid Request. *Policy Brief:* Volume 7, No. 6.
www.alleghenyinstitute.org/briefs/vol7no6.pdf