An Analysis of Local Government Pension Plans in Pennsylvania

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Key Findings and Recommendations

- There are more than 3,000 local government pension plans in Pennsylvania, representing about one quarter of the total number of public pension plans in the nation.

- Many municipalities offer more than one pension plan, often separating employees into uniformed (police and fire) and non-uniformed plans.

- The majority of plans are self-insured, defined benefit plans.

- When considered in aggregate, the total unfunded liabilities of all local government plans in the Commonwealth approached $5 billion as of January 2005. The unfunded obligations of Philadelphia's and Pittsburgh's pension plans accounted for 75 percent of this total.

- The state provides funding for municipal pension plans through a tax on out-of-state fire and casualty insurance companies. Revenues from the tax have grown from $62 million in 1985 to $190 million in 2005.

- In Allegheny County, there are 294 municipal, municipal authority, and association pension plans. The majority are self-insured, defined benefit plans. In aggregate, these plans reported $1.1 billion in assets and $1.6 billion in liabilities in 2005.

- The City of Pittsburgh's three municipal pension plans were 45 percent funded as of January 2005.

- The state distributed close to $30 million in pension aid to Allegheny County's municipalities in 2005, with over half of this going to the City of Pittsburgh.

- In order to come to grips with the problem of unfunded liabilities, the state should embrace such changes as:
  - moving to defined contribution plans for new employees
  - setting up an agency like the Pension Guaranty Corporation to assume pension plans
  - selling assets such as the liquor stores to eliminate unfunded liabilities

Introduction

It seems there is a pension "time bomb" getting closer to detonation in southwestern Pennsylvania. Some signs have appeared and more are likely on the way. Consider the following: in the private sector, the region has endured the bankruptcy of U.S. Airways and their employees are now under the oversight of the Federal Pension Benefit Guaranty Corporation (PBGC). In July of 2005, the Pittsburgh Brewing Company reported that its pension deficit was $5.6 million. This, among other financial troubles, led PBGC to take control of the plan in May of 2006.[1] More recently with union concessions, a new ownership group plans to replace the current pension plan with a defined contribution 401k plan.

In the public sector, the pension issue has come home to roost for the City of Pittsburgh. Our 2002 report showed the issues with the City's funding status (to be discussed within) and upon entrance into distressed status under Act 47, the coordinator's report noted that "the extremely weak funding status of the pension funds threaten the ongoing stability of retiree benefits as well as the City's finances".[2]

And with all of the talk of service cuts and fare increases at the Port Authority, costs associated with employee pensions and the controversial deferred retirement option plan for managers have highlighted the out of line costs of the transit provider.[3]

So to describe the pension problem as a ticking device would be appropriate. An Associated Press series in late 2006 outlined the pension liabilities of the systems covering state and school employees and the looming benefit increases thanks to promises made by the General Assembly in 2001 and 2002.[4] That has significant impacts for local school districts and the state tax bill when the charges come due, assuming that there is not a tremendous rise in the stock market.

With the pension problems in the private sector, the City of Pittsburgh and the Port Authority, it is appropriate and timely to examine the condition of pension plans in the other municipalities and authorities in Allegheny County and the region. This report describes the current state of local pensions, the state system of assistance for municipalities, and the financials of the pension plans.

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[1] David Templeton "Pittsburgh Brewing Union OKs Concessions" Pittsburgh Post-Gazette, January 22, 2007: PBGC Public Affairs "PBGC Assumes Pension Plan of Pittsburgh Brewing Inc." May 23, 2006 http://www.pbgc.gov/media/news-archive/2006/pr06-48.html

[2] Department of Community and Economic Development, Governor's Center for Local Government Services, Municipalities Financial Recovery Act, Recovery Plan for the City of Pittsburgh

[3] Steve Massey "Transit Plans: Painful, But Needed" Pittsburgh Post-Gazette, January 7, 2007. The article notes that "Pension and health-care costs alone for employees and retirees are projected to be three times higher in 2011 than they were a decade before, according to Port Authority projections, and will account for 36 cents for every $1 of revenue by then".

[4] Mark Scolforo "Series of Decisions Created Looming Funding Crisis", Associated Press, December 17, 2006

Nature of the System

Unlike the State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS), there is no single retirement system in the state that covers local government employees. The closest thing is the Pennsylvania Municipal Retirement System, which is optional and local governments can establish a plan with the system or transfer its plan there.

This presents a situation where, just as there are differences between municipalities in the state, there are differing numbers of plans per municipality covering different classes of employees, differences in the levels of funded and unfunded liabilities, various types of benefits, and varying levels of state aid to fund pensions. This section covers the legal and descriptive nature of municipal pensions in the Commonwealth. For purposes of this report, the term municipality refers to a city, borough, or township. Counties and authorities will be labeled as such.

Legal Requirements

There are a variety of statutes in force—at least 15—that have an impact on municipal pension plans. Here are some of the requirements. A borough or township that employs three or more full-time police officers must provide a defined benefit pension plan for those officers under the terms of Act 600 of 1956. If they have less than three officers, providing a pension is optional, as are offering pension plans for non-uniformed employees or paid firefighters. Cities of the third class must provide a defined benefit pension plan to police and firefighters.[5]

The main statute is Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act. This act addressed the following issues:

- Standardized actuarial and financial reporting
- Minimum employer contribution requirements
- The allocation formula for distributing state aid to pension plans
- Recovery plan and additional state aid for distressed pension plans
- Revision of the distribution to volunteer firefighter associations.[6]

So what does this act require? Two of its main provisions are; first, each municipality and authority must have an actuarial report prepared for each defined benefit plan and second, plan valuations have to be performed every other year. These reports are filed with the Public Employee Retirement Commission, which was created by the state to oversee local pension plans.[7] Second, each Chief Administrative Officer of each pension plan must annually determine the total financial requirement and the Minimum Municipal

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[5] Governor's Center for Local Government Services, Pension Manual for Pennsylvania Local Government
[6] Ibid. According to an official from the Public Employee Retirement Commission, the provisions for distressed pensions had a fixed term and expired in 2003.
[7] Ibid

Obligation (MMO), which represents the municipality's annual funding requirement, for the following year.[8]

Number of Plans

According to PERC, as of January 2005 there were 3,129 local (county, municipal, and authority) pension plans in the state. This number represents approximately 25 percent of the public pension plans in the U.S. and is a doubling of the number of pension plans that existed in 1974, when there were 1,600.[9] Since municipalities often establish separate plans for police, fire, and non-uniformed employees, it is easy to see how there are a multitude of plans. For instance, though there are 56 cities in the state, PERC reported that there were 166 city pension plans in January of 2005. The table below shows the number of plans broken down by class.

Local Government Pension Plans in PA as of January 2005[10]

Class	Police	Fire	Non-Uniformed	Total
City	58	44	64	**166**
Borough	492	20	553	**1065**
Township, First Class	88	7	103	**198**
Township, Second Class	299	7	775	**1081**
Authority	0	0	486	**486**
County	0	0	72	**72**
Council of Govt	34	0	27	**61**
	971	**78**	**2080**	**3129**

Types of Plans

PERC also notes that over 2,200 of these plans (71%) were self-insured, defined benefit plans. This means that some or all of the risk of providing pension benefits remains with the employer, the municipality. Half of the new plans established since 2001 are self-insured, defined benefit plans as well.[11] The employee distribution by plan type is far and away slanted toward self-insured, defined benefit plans with 126,856 (93%) of municipal, county, and authority employees covered by this type.

Funded and Unfunded Liabilities

In actuarial terms, when a pension plan's actuarial assets (AA) are less than the plan's accrued actuarial liabilities (AAL), the pension plan is said to have unfunded actuarial accrued liabilities (UAAL). The ratio of AA to AAL, expressed as a percentage, is referred to as the funded ratio. A ratio of 100.1 percent or more means that AA exceed AAL, and a ratio of 99.9 or less implies that AA are less than AAL.

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[8] Ibid
[9] Public Employee Retirement Commission, Status Report on Local Government Pension Plans, November 2006 (www.perc.state.pa.us)
[10] Ibid
[11] Ibid

When considered in the aggregate, the reported UAAL for local government pension plans was $4.7 billion as of January 2005, resulting in a funded ratio of 77 percent. Counties account for a very small fraction of this overall total. Again, since there is a multitude of plans at the local level, the UAAL and fund ratios vary widely. Indeed, municipalities with multiple pension plans can see different levels of UAAL and funded ratio for each plan.

Funding Status of Local Government Pension Plans Compared to State and School Systems[12]

Pension Plan	Active Members	AA (000s)	AAL (000s)	AA-AAL (000s)	AA/AAL
Local Government Employees	137,092	$ 16,140,105	$ 20,891,712	$ (4,751,607)	77%
State Employees	108,405	$ 26,900,026	$ 27,999,026	$ (1,099,000)	96%
Public School Employees	247,901	$ 52,094,500	$ 57,123,000	$ (5,028,500)	91%

In comparison with the two retirement systems for state employees and school employees, the aggregate funded ratio for local government employees is relatively low. But separating out the more than 3,000 plans shows enormous variation in funded ratios, ranging from fully funded to worrisomely low.

Here is the two decade trend in UAAL according to PERC. In 1985, the aggregate UAAL was $2.8 billion. In 1997, UAAL had climbed to $3.8 billion, an increase of 36 percent. By 2005, the combined UAAL had risen to almost $5 billion, 70 percent higher than the 1985 level.[13] A significant portion (67 percent) of the aggregate UAAL for local governments is accounted for by the City of Philadelphia, whose UAAL for police, fire, and non-uniformed pension plans totaled $3.2 billion at the beginning of 2005.[14]

Changes in state law in 1994 permitted municipalities to issue general obligation bonds to shore up their pension funds and reduce liabilities. PERC data shows that nineteen municipalities, including Philadelphia and Pittsburgh, reduced their UAAL by nearly $2 billion through the issuance of debt.

State Aid to Municipalities

One of the other changes made by Act 205 was to revise the way the Commonwealth distributes pension aid to municipalities. The aid comes from a special fund based on taxes paid on out-of-state fire and casualty insurance premiums.[15]

Revenues from the tax have more than doubled from $62 million in 1985 to $190 million in 2005.

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[12] Ibid. Data also from Comprehensive Annual Financial Reports of the State Employees Retirement System (www.sers.state.pa.us) and the Public School Employee Retirement System (www.psers.state.pa.us). Local systems considered as aggregate. About 67 percent of the local pension plans reported had a funded ratio of 95 percent or greater as of January 2005.
[13] PERC
[14] Ibid
[15] Ibid

Each year municipalities complete a form (AG-385) and submit it to the Auditor General's office. The information includes the total number and earnings of full-time police officers, paid firefighters, and non-uniformed employees who are members of a municipal pension plan.[16] The amount each municipality receives depends on the financial need of its plans, the number of full time employees participating in a plan, whether the plan is an eligible plan, if it has been in effect for three or more years, and forms filed, etc.[17]

Some municipal plans are not eligible for state aid (deferred compensation plans, plans that have not been funded for three years, IRAs, plans not in compliance). County and authority plans are not eligible for state aid.[18]

Dividing the funds among municipalities is based on a system referred to as "unit value". All municipalities calculate the number of its "units" by counting each police and fire employee as two units and each non-uniformed employee as one unit. The state's "unit value" is determined by dividing the amount of available funds generated by the insurance tax by the aggregate number of units of all eligible municipal plans. By way of example, the unit value was $1,146 in 1985 and stood at $3,088 in 2006.[19] Then, the allocation for each municipality is calculated by multiplying the "unit value" by the number of units.

There are some wrinkles in the formula. Philadelphia cannot receive more than 25 percent of the total amount of aid available. A municipality cannot receive more than 100 percent of its pension cost (the amount required from the municipality over and above the employees' contribution) in a given year. If the municipality's pension cost is lower than its unit value allocation , a situation can arise where the municipality receives "pension cost" or the entire pension cost covered in that year. In other words, the Auditor General's office is awarding the municipality's annual state aid between the lesser of unit value or aggregate pension costs.[20] The PERC report explains it as such:

> "The Act 205 allocation formula limits all individual State aid allocations to 100 percent of the annual pension costs payable by the recipient municipality. This "cost cap" on the annual allocations was included in the Act 205 formula because of the wide variation in municipal pension costs…a cost basis allocation occurs when a municipality's allocation is subjected to the cost cap and, as a result, fully funds the recipient municipality's pension costs. A unit basis allocation occurs when a municipality's allocation is determined by the standard formula (total units x unit value = allocation) and, as a result, partially funds the recipient municipality's pension costs…the undesirable change [of cases where pensions

[16] Office of Auditor General, Instructions for General Municipal Pension System State Aid Program
[17] Ibid. Conversations with Office of the Auditor General
[18] Pension Manual
[19] PERC report
[20] E-mail conversation with Office of the Auditor General

are fully funded] was caused by the large, unanticipated growth in the state revenues used to provide aid and the corresponding increases in unit value".[21]

The table below shows the changes, since 1985, in the total amount of state aid available, the corresponding unit value, and the number and percentage of municipalities that received aid for their pension plans getting cost (full reimbursement) and those getting unit value (or partial reimbursement).

State Aid Allocations, 1985-2005[22]

Year	Total Allocation (000s)	Unit Value	Municipalities Receiving Cost (Full Reimbursement)	Municipalities Receiving Unit (Partial Reimbursement)
1985	$ 62,300	$ 1,146	758 (75%)	253 (25%)
1990	$ 115,900	$ 2,501	824 (87%)	120 (13%)
1995	$ 125,600	$ 2,311	799 (69%)	361 (31%)
2000	$ 133,300	$ 2,751	983 (71%)	401 (29%)
2005	$ 190,500	$ 2,927	702 (48%)	767 (52%)

Allegheny County Municipal and Municipal Authority Pension Plans

The preceding information describes the nature of local government pensions in the Commonwealth. Now we look at the situation in Allegheny County and its municipalities and municipal authorities. We know that there are severe problems with the City of Pittsburgh's three pension plans. Are there any other pension plans reaching a crisis stage? How many are in good shape? How much money did the state distribute to municipalities and how many of those municipalities receive full reimbursement? This section aims to answer those questions.

Number of Plans

As of January 2005, there were 294 municipal pension plans, nine percent of the state total, in Allegheny County (County and county-directed authorities such as ALCOSAN or PAT are not included in this total, but are outlined in the appendix).

Of the 294 plans, 245 are municipal plans, about evenly divided between pensions for uniformed personnel and non uniformed personnel. With few exceptions, most municipalities in Allegheny County reported two pension plans, one for police and one for non-uniformed personnel. The largest municipal plan (by active membership) is the City of Pittsburgh's non-uniformed pension plan, covering 1,819 members as of January 2005. There were 42 plans for municipal authorities, and the small remainder belonged to associations like municipal leagues or for dispatch centers.

As far as the County itself is considered, it administers one self-insured, defined benefit plan covering 7,500 employees and was 92 percent funded as of January 2005.[23]

[21] Ibid
[22] Ibid

Municipal Pension Plans in Allegheny County[24]

Unit of Measurment	# of Pension Plans	# that are SI, DB	Active Members	AA (000s)	AAL (000s)	AA-AAL (000s)	AA/AAL
Municipalities, Authorities, and Associations	294	241 (82%)	8,099	$1,152,032	$1,654,012	($501,980)	70%
Municipalities	245	206 (84%)	6,574	$1,012,311	$1,511,324	($499,013)	67%
Authorities	42	31 (74%)	1,440	$136,831	$140,111	($3,280)	98%
Municipal Police	113	110 (97%)	2,055	$531,776	$790,694	($258,918)	67%
Municipal Fire	8	8 (100%)	809	$170,725	$284,849	($114,124)	60%
Municipal Non-U	124	88 (70%)	3,710	$309,809	$435,780	($125,971)	71%

Types of Plans

The majority of plans in the County are self-insured, defined benefit plans, with municipal police and fire plans almost exclusively so due to the legal requirements outlined earlier in the report. Among municipal non-uniformed plans and authority plans, nearly three-quarters are self-insured, defined benefit plans.

Funded and Unfunded Liabilities

With $1.152 billion in aggregate assets and $1.654 billion in aggregate liabilities, the municipal pension systems in Allegheny County are under-funded by $501 million with a combined funded ratio of 70 percent.

Of course, we know that with the multitude of governing bodies and pension plans that the overall picture is not descriptive of all municipalities. The table below separates pension plans into the City of Pittsburgh and all other municipalities offering pension plans (based on PERC data, 13 municipalities in the County offered no pension plan).

Pittsburgh and Non-Pittsburgh Pension Plans[25]

Unit of Measurment	# of Pension Plans	# that are SI, DB	Active Members	AA (000s)	AAL (000s)	AA-AAL (000s)	AA/AAL
Pittsburgh	6	4 (66%)	4,041	$417,361	$886,871	($469,510)	47%
Allegheny, Non-Pgh	288	237 (82%)	4,058	$734,671	$767,141	($32,470)	96%

Pittsburgh's data includes its three municipal plans (fire, police, non-uniformed) along with those of Parking, Redevelopment, and Housing Authorities. The City's pension plans (note that all of the City's authorities are fully funded) are responsible for virtually all of the combined municipal pension funding shortfall. Removing the Pittsburgh numbers from the County shows the other combined systems to be 96 percent funded.

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[23] Ibid. According to PERC data and conversations with officials at the Allegheny County Retirement Office and Human Resources, there are three additional optional pension programs that employees can enroll in, but all employees must belong to this one defined benefit plan.

[24] PERC data, author's calculations. 53 of these pension plans are under the guidance of the Pennsylvania Municipal Retirement System—24 municipal non-uniformed, 10 municipal police, 1 municipal fire, 16 authority plans, and 2 dispatch centers

[25] Ibid

The data in the table below shows that ten years after the Competitive Pittsburgh Task Force made the observation that "there are a number of problems that threaten the viability of the [City's] pension plans" and recommended that the City "pursue the use of pension bonds…to reduce the City's pension liabilities" and "use any immediate savings…to reduce future pension obligations", the situation looks no better than it did prior to the City issuing debt.[26]

City of Pittsburgh and Pittsburgh Authority Pension Plans[27]

Pension Plan	Type	Active Members	AA (000s)	AAL (000s)	AA-AAL (000s)	AA/AAL
Pittsburgh Fire	SI,DB	737	$145,995	$ 255,769	$ (109,774)	57
Pittsburgh Non-Uniformed	SI,DB	1,819	$109,791	$ 234,133	$ (124,342)	47
Pittsburgh Police	SI,DB	804	$117,821	$ 353,479	$ (235,658)	33
Pittsburgh City Housing Authority	DC	538	$ 31,466	$ 31,466	$ -	100
Pittsburgh City Redevelopment Authority	DC	76	$ 5,697	$ 5,697	$ -	100
Pittsburgh Public Parking Authority	SI,DB	67	$ 6,588	$ 6,324	$ 264	104

Nor is it a great improvement over the last assessment of the pensions in 2004 when Aon Consulting conducted a review for the oversight board. The firm noted that

> "…the three pension plans were approximately 40 percent funded as of January 1, 2003. This amount is very low compared to other large municipal or statewide plans as well as to private corporations. There is no immediate danger of not meeting pension payments in the future, but the low funding levels represent a shifting of plan costs to future generations of taxpayers".[28]

As of January 2005 the average fund ratio of the City's three pension plans was 45 percent, a scant improvement over where they were at the time the state granted oversight.

More than half of the 288 non-Pittsburgh plans had a funded ratio of 100 percent or greater as of January 2005. If we were to identify a threshold that puts a pension plan on a "watch list", say 69 percent funded or lower (or lower than the Allegheny County average for its municipal, municipal authority, and association plans), 22 plans in Allegheny County would be on this list. Few non-Pittsburgh plans had a low fund ratio in the range of the City of Pittsburgh average. These included Crafton's non-uniformed plan (30% funded), Braddock Hills' police plan (51% funded), and Clairton's police plan (56% funded).[29]

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[26] Competitive Pittsburgh Task Force report October, 1996

[27] Ibid

[28] Aon Consulting, "Pension Plan Review conducted for the Intergovernmental Cooperation Authority for Cities of the Second Class", May 2004

[29] The PERC status report identifies pension plans (all are self-insured, defined benefit plans) that reported funding deficiencies in 2004. Eleven plans in Allegheny County (six municipal police plans and five municipal non-uniformed plans) were on this list. Their funded ratio was a wide range with four plans greater than 100 percent funded.

Non-Pittsburgh Pension Plans Ranked By Funded Ratio[30]

AA/AAL Range	Number of Pension Plans
101% or >	114
100%	53
99-90%	35
89-80%	36
79-70%	26
69-60%	15
59-50%	5
49% or <	2
No AAL	2
	288

State Aid to Allegheny County Municipalities

In 2005, the state distributed close to $30 million in pension aid to 109 municipalities in Allegheny County, over half of that amount ($17 million) going to the City of Pittsburgh. The aid can be used for any pension plan (police, fire, or non-uniformed) and ranged from the $17 million in Pittsburgh down to little more than a hundred dollars in West Elizabeth. The municipalities that did not receive an allocation either do not offer any pension plan or are so well funded that they do not require state aid.[31]

State Pension Aid to Allegheny County Municipalities, 2005
Five Highest and Five Smallest Allocations[32]

Municipality	2005 State Pension Aid	Municipality	2005 State Pension Aid
Pittsburgh	$ 17,165,521	W Homestead	$ 1,152
McKeesport	$ 628,523	Verona	$ 674
Mt Lebanon	$ 617,549	Blaw nox	$ 430
Monroeville	$ 602,915	Whitaker	$ 327
Penn Hills	$ 485,844	W Elizabeth	$ 142

The distribution between those communities that received unit value (partial reimbursement) or cost (full reimbursement) was slanted toward the former, with 68 municipalities getting unit value and 42 getting cost.[33]

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30 PERC report and author's calculations
31 Office of the Auditor General, Allocations by County, 2005, author's calculations. Recent years show that the City of Pittsburgh has received in the range of $17-18 million in state aid from 2002 through 2005
32 Ibid. In some cases the municipality's aid is counted as a regional payment and is forwarded on to a multi-municipal police force that the municipality participates in.
33 Data obtained from Office of the Auditor General

Recommendations

The quote provided by Aon Consulting, that "low funding levels represent a shifting of costs to future generations of taxpayers", illustrates the problem with bringing pensions under control at all levels of government in Pennsylvania. There is some recognition of the problem, but it is competing for time in the policy debate along with tax reform, transportation, etc. But legacy costs like pensions are, in many cases, driving those other issues. No one wants to take it on.

What can be done? Let's look at what has been the plan of action for the state's second largest City, Pittsburgh, whose pension plans account for a significant share of the UAAL in Allegheny County's aggregate pension total. As noted previously, in 1996 the Competitive Pittsburgh Task Force recommended this: "sell bonds to reduce liabilities and use the savings for the future". That's what the City did, and its fund ratio for its pension plans is no better than before. After being declared distressed under Act 47, the Recovery Plan made these recommendations for the City's pensions:

- Make contributions during the first quarter of each year in order to have a favorable impact on the long-term
- Pursue state legislative action, including the ability to lengthen the amortization period and a "hold harmless" position when the City's headcount falls
- Apply any windfall fiscal improvements to the improvement of the pension funds
- A moratorium on further improvements to pension benefits[34]

We have yet to see any significant improvement. Given the long history of study and attention given to the City, what is to be done to solve the long term problems with the multitude of other, smaller local government—and by extension, school and state—pension plans? Here are some recommendations.

Move to defined contribution instead of defined benefit plans. This would require legislative change. In Pennsylvania it would require amending all of the statutes applicable to the local level, specifically those that mandate defined benefit plans for employees like police.

Other states have tried to take this on, noting that it cannot happen overnight and cannot be targeted at current employees. A New Jersey pension plan proposal would be a "two tier" structure under which new employees would enter a pension system that's different from the one current employees are in, possibly into a 401-k.[35] A state senator in Illinois has also proposed a similar idea, but he and other experts have noted the difficulty in achieving such changes[36]

[34] Act 47 Recovery Plan
[35] Steve Stanek "New Jersey's Pension System Needs 'Serious Restructuring'" Budget and Tax News, March 2007
[36] Steve Stanek "Senator Sees Big Benefits in Defined Contributions" and "Illinois Government Pension Debt Deepens" Budget and Tax News, March 2007. The Illinois state senator plans to offer legislation that would offer new workers a defined contribution plan, while realizing the opposition of organized labor and

Set up something similar to the Federal Pension Benefit Guaranty Corporation. This organization would exist to take over pension costs and pay a percentage of benefits. This makes sense since the provisions governing distressed pensions are no longer in effect and there may need to be some type of state agency that will serve as an overseer for municipal and authority pensions that are in trouble.

Sell assets, such as the liquor stores, and use the proceeds for retiring UAAL. This type of bailout would have to be done on the pre-condition that all new employees be hired under a defined contribution pension plan. The money gained from this type of sale could not be viewed as recurring and would be a "one-time fix" coupled with the necessary systemic changes for the long term.

Keep pension benefits in line with the private sector and what the municipality can afford. Pension enhancements and costs to the taxpayer should not be out of line with the area and what the taxpayers helping to fund the municipality's obligations can afford to contribute.

Cut overhead by moving local government plans to a single statewide pension system. Since many of the municipal plans contain few members and the administrative cost is quite high as a result, there is some sense in moving all employees to the Municipal Retirement System. It would help with police officers that transfer from one municipality to another. However, this is unlikely to happen as previous attempts have been made to move to a statewide system.[37] And if it appears to be done just to bail out under-funded pension plans, it will be non starter in Harrisburg.[38]

With taxpayers likely to absorb a tax bill for enhanced pensions for state employees and teachers and because of the long-term costs coming from the municipal side, the state needs to start coming up with a viable plan for controlling the impact from pension costs.

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the current Governor of the state. David John, a senior fellow at the Heritage Foundation, notes that "in the long run, a change to a defined contribution plan [like a 401K] would help, but the problem is that you cannot take an individual who is in a defined benefit plan and put that person into a defined contribution plan". As described by another author, "defined contribution plans limit employer and taxpayer exposure to investment risk because ultimate retirement benefits under a defined contribution plan are determined by the performance of an employee's retirement investments. By contrast, defined benefit plans pay a set pension amount regardless of a fund's investment performance, with taxpayers picking up the tab for any deficiency". William Eggers "Solving the Pension Crisis" in States of Transition, William Eggers and Robert N Campbell, editors, a Deloitte Research Book, 2006

[37] Mark Scolforo "Plethora of Local Public Pensions in PA Adds Costs, Burdens" Associated Press, December 19, 2006. The article notes that "Efforts to consolidate the local pension funds, which collectively hold about $16 billion in assets, have gone nowhere". A bill that would have allowed a consolidation of police plans into the State Employees Retirement System "died in the face of opposition from local municipalities and the financial consultants paid to manage the plans". Rich Lord "Pittsburgh City Council to Lobby State for Pension Changes" Pittsburgh Post-Gazette, January 27, 2007. City officials visited the state legislature to promote a plan where the local pensions could be merged into the state system. The article notes that "[Council President] Shields said the state has been considering that possibility but hasn't yet been able to overcome legal barriers".

[38] The results of the City visit (mentioned in the footnote above) was that the state is looking at its own pension problems and would not be interested in folding municipal plans in at the present time.

Appendix

Allegheny County's Pension Plans and Plans for Major County Authorities[39]

Unit	# of Pension Plans	# that are SI, DB	Active Members	AA (000s)	AAL (000s)	AA-AAL (000s)	AA/AAL
Allegheny County	1	1 (100%)	7,499	$ 718,073	$ 780,615	$ (62,542)	92%
PAT	3	3 (100%)	3,025	$ 789,894	$ 820,651	$ (30,757)	96%
SEA	1	0	12	$ 693	$ 693	$ -	100%
ALCOSAN	2	2 (100%)	302	$ 87,459	$ 75,000	$ 12,459	116%

Aggregate Municipal, Municipal Authority, and Association Pension Plans in the Pittsburgh Metro Region[40]

County	# of Pension Plans (Municipal, Authority, and Association)	# that are SI, DB	Active Members	AA (000s)	AAL (000s)	AA-AAL (000s)	AA/AAL
Armstrong	42	23 (55%)	160	$12,477	$11,855	$622	105%
Beaver	89	64 (71%)	638	$90,464	$96,586	($6,122)	94%
Butler	45	31 (69%)	442	$59,714	$57,542	$2,172	104%
Fayette	66	27 (41%)	332	$40,858	$34,520	$6,338	118%
Washington	91	57 (63%)	688	$87,661	$85,813	$1,848	102%
Westmoreland	95	73 (77%)	1,120	$171,201	$177,785	($6,584)	96%

[39] Data for Allegheny County, SEA, and ALCOSAN from PERC status report. PAT data from Port Authority of Allegheny County Single Audit, June 30, 2005 and Financial Statements and Required Supplementary Information, Retirement and Disability Allowance Plan for Employees not Represented by a Union and for Employees Represented by Local 85 of the Amalgamated Transit Union, Years ended December 31, 2005 and 2004

[40] PERC status report