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Pennsylvania's Largest Municipal Pension Plans in Serious Trouble

New data from the state's Public Employee Retirement Commission (PERC) provides the 2007 actuarial valuations and other related statistics (membership, number of plans, etc.) on Pennsylvania's local government pension plans. There are over 3,100 pension plans administered at the county, municipal, and authority level.

We examined the 2007 data, focusing on the state's ten largest municipalities (Philadelphia, Pittsburgh, Allentown, Erie, Reading, Scranton, Bethlehem, Lancaster, Harrisburg, and Altoona). The population counts range from 1.4 million in Philadelphia to 46,000 in Altoona.

In aggregate, the municipalities administer 35 pension plans covering 81,164 active and retired members. The group's combined liabilities ($10.5 billion) and assets ($6.0 billion) results in unfunded liabilities of $4.5 billion and a funded ratio (assets/liabilities) of 57 percent.

Within the group's aggregated numbers there is a great deal of variation with Philadelphia accounting for the lion's share of group totals for membership (78%) and unfunded liabilities (83%). Combined, Philadelphia and Pittsburgh (unfunded liability $523 million), represent 90 percent of the total unfunded liability of all municipal plans (not including county plans) in Pennsylvania—$4.289 billion out of $4.789 billion.

Overall, the ten largest cities group (with 81,164 members and a combined population of 2.3 million) averaged 34 plan participants per 1,000 people. Philadelphia was higher than this average at 44. One reason for Philadelphia's very high number is that the government provides both city and county services. Pittsburgh was the highest of the other nine cities with 25 plan members per 1,000 people. Other municipalities in the sample group fell in the 12 to 22 range with most clustered around 15 to 16 members per 1,000 people.

An important factor in a pension plan's financial picture is the ratio of retirees collecting pensions to the number of members still working and paying into the system. Here again the latest PERC data shows wide variation among the ten largest city plans. In total, the sample group reported 44,354 retirees and 36,810 active members, a ratio of 1.2 retirees to each member. In Pittsburgh the ratio was 1.37. Altoona (1.33), Erie (1.27) and Philadelphia (1.25) were all above the sample average. Meanwhile, several of the cities

had ratios well below 1.0 retiree per active member including Harrisburg (0.72), Bethlehem (0.70), and Lancaster (0.28).

All told, the unfunded liability of the combined ten cities' plans on a per member basis stood at $55,939. Not surprisingly Pittsburgh ($67,947) and Philadelphia ($59,101) were above average. Scranton ($54,005) was just below. When these three cities are omitted the unfunded liability per member drops to $21,580 for the remaining seven cities. The three municipalities with the worst per member unfunded liabilities were also at the bottom of the sample group in terms of the assets to liabilities funded ratio. Pittsburgh was the lowest with a funded ratio of 42 percent.

There is a general pattern discernible in the troubled plans as compared to financially better performing municipal pension plans. Municipalities with the highest plan membership per 1,000 population and the highest ratio of retired workers to active members tend to have the worst numbers on unfunded liabilities (both total and per member) and the funded ratio. Some of the cities within the sample group display the opposite characteristics of the poorest performers. For instance, the City of Harrisburg reported a positive balance with assets exceeding liabilities. Moreover, half the sample group had funded ratios of 90 percent or greater, indicating that they are in pretty good shape. It basically comes down to Philadelphia, Pittsburgh and Scranton who are desperate for state assistance. Although, with the recent stock market problems there will probably be a few others joining the queue.

When the pension plans of these ten municipalities are compared to the remainder of the state's municipal and municipal authority plans the differences could not be starker.

Pension Plan Performance Indicators

Variable	Sample Group	Remainder
AA/AAL (%)	57	96
Ratio of Retired to Active	1.2 to 1	0.41 to 1
Members per 1000 people	34.6	5.6
Unfunded Liability per Member ($)	55,565	4,941

On every indicator the sample group turned in a worse showing than the plans contained in the remainder of the municipalities in Pennsylvania. That points out how out of line this group of plans—largely because of Philadelphia, Scranton and Pittsburgh—is with the rest of the state. Thus, it would seem unlikely that efforts to build a broad based municipal coalition across the state to ask the General Assembly for a state funded bailout will meet with a lot of support. Taxpayers in municipalities having pension plans on solid financial footing and prudently managed will not look favorably on paying more taxes to solve Philadelphia's and Pittsburgh's problems.

Given these differences in pension plan performance are there any recommendations for reform that could fix the worst problems? There are at least two possibilities. First, since

nearly all of the members statewide are enrolled in self insured defined benefit plans where the pension risk lies with the employer and not the employee, the state would be wise to amend all of the necessary statutes and set a date after which all employees hired will be enrolled in a defined contribution or 401k plan.

Longer term, the state might want to think about rewriting necessary statutes and maybe a Constitutional amendment to allow bankruptcy as an option for municipalities where the pension burden has created an effectively bankrupt situation. It would have to be the option of last resort since a declaration of bankruptcy would entail draconian financial oversight and perhaps management control. And it would mean retirees might receive only a fraction of expected pension benefits.

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