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Analysis of Pennsylvania's Municipal Pension Plans by Employee Category

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Summary and Key Findings

This report analyzes data from the 2008 report on Pennsylvania's Local Government Pensions prepared by the Public Employee Retirement Commission. While our previous report *(#09-01*) examined the pension plans of the state's ten largest cities, this report segments pension data by employee classification—police (963 plans), fire (79 plans), and non-uniformed (1,524 plans)—to determine whether differences among the three types as gauged by the ratio of retirees to active members and the ratio of assets to plan liabilities. The study examines the data with Philadelphia and Pittsburgh in the total and with the two cities removed. It also looks at home rule municipalities as compared to the non-home rule municipalities in terms of pension plan measurements.

- Taken in the aggregate, Pennsylvania's municipal pension plans have 137,692 total members (roughly 77k active, 61k retired), along with $12.4 billion in assets and $17.1 billion in accrued liabilities

- Thus, the statewide ratio of retired to active members is 0.79 to 1 and the statewide ratio of plan assets to accrued liabilities is 0.72 to 1 or in other words, 72 percent funded.

- In the aggregate Pennsylvania's police and fire pension plans have a higher ratio of retired to active members than the total for all municipal plans. Moreover, the statewide aggregates for police and fire plans show more retirees than active members.

- When the pension plans of Philadelphia and Pittsburgh are omitted from the statewide totals, the ratio of retired to active members falls dramatically while the ratio of assets to accrued liabilities rise substantially.

- The aggregate of municipal plans excluding Philadelphia and Pittsburgh were divided into home rule and non-home rule. The only significant difference found was for police plans. The home rule municipality average ratio of retired to active members was much higher than the non-home rule plans, while the funded ratio for the home rule plans was significantly lower than the non-home rule plans.

- Conclusion: The preponderance of problems with the state's municipal pensions can be attributed to the Commonwealth's two largest cities.

Introduction

A previous report delved into the membership and financial characteristics of pension plans in the state's ten largest municipalities. That report found that this group was far out of step with the remainder of pension plans in the state on four indicators: the members per 1000 people, the ratio of retirees to active members, the unfunded liability per member, and the funded ratio (assets divided by liabilities).

Using that same data set provided by the Public Employee Retirement Commission (PERC) this short report looks at pension plans by employee class.[1] As has been stated before, municipalities that do offer pension plans segment their employees along the lines of their collective bargaining units or type. These classifications are fire, police, and non-uniformed employees. In the biggest cities there are three or even more pension plans separated along these lines. In smaller towns there may be only one plan with many of those towns just providing a non-uniformed plan while having the state or a neighboring town provide police service.

The purpose of this analysis is to try and discern any causes or recurring characteristics by plan type.

Methodology

Using the PERC database the municipal pension plans were divided by employee class—police, fire, and non-uniformed. Totals for active members, retired members, assets, and liabilities were obtained and two performance indicators were calculated: first, the ratio of retired members to active members in order to see how many people are collecting pensions vs. how many are in the pipeline and upon which state pension aid is based and second, the funded ratio, which is the plan's assets divided by the plan's liabilities and expressed as a percentage, which gives a measurement of the plan's health. A ratio of 100 means the assets are equal to the liabilities.

Two other adjustments were then made. First, Philadelphia and Pittsburgh, the state's two largest cities and the source of over 90 percent of the aggregate unfunded liabilities of all municipal pension plans, were removed to see what happened to the two ratios as a result. Second, the remaining plans in each employee class were separated into whether they are home rule or not. Again, this was done to see if there is any impact from being home rule in terms of the two ratios.

[1] Public Employee Retirement Commission "Status Report on Local Government Pension Plans", 2008 edition (www.perc.state.pa.us).

Here is the baseline data on all municipal (counties and authorities not included) plans in Pennsylvania from the 2008 PERC report:

Data for All Municipal Plans[2]

Variable	2007 Data
Total Members	137,692
Active	76,993
Retired	60,699
Assets	$12,380,701,000
Liabilities	$17,169,962,000
Retired to Active	*0.79/1*
AA/AAL	*72%*

The performance indicators of retired to active (0.79/1) and funded ratio (72%) will serve as benchmarks for the pension plans by employee class.

Pension Plan by Employee Class: Measuring the Impact of Philadelphia and Pittsburgh

Fire

Of the three types of pension plans by employee class, firefighter plans are the smallest group by number of plans, assets and liabilities, and members. Most communities in the state are served by volunteer companies and there are no requirements in borough or township statutes to offer a firefighter pension plan. If a community does offer one, therefore, there are no guidelines as to a limit on pension benefits.

The baseline data for firefighter plans as of the latest PERC report is as follows:

Data for Fire Plans[3]

Variable	All Municipal Fire Plans	W/O Phil and Pgh
Total Members	11,600	4,129
Active	4,594	1,853
Retired	7,006	2,276
Assets	$1,322,573,785	$658,385,686
Liabilities	$2,063,843,315	$778,458,913
Retired to Active	*1.52/1*	*1.22/1*
AA/AAL	*64%*	*85%*

When considered in aggregate, the ratio of retired to active firefighters (1.52/1) is nearly double that of the total municipal plans ratio and the funded ratio (64%) is lower than the total municipal plans funded ratio (72%).

So what happened when the data was adjusted to remove Philadelphia and Pittsburgh? Both the funded ratio and the ratio of retired to active members improved markedly. The funded ratio increases from 64 percent to 85 percent—a 21 percentage point gain that

[2] PERC report, author's calculations
[3] PERC report, author's calculations

puts the adjusted aggregate fire funded ratio into a much more acceptable range. The ratio of retired to active members fell from 1.52 to 1.22.

Police

According to the PERC data, there are 963 police plans—most are administered by single municipalities but there are also a few joint or multi-municipal forces.

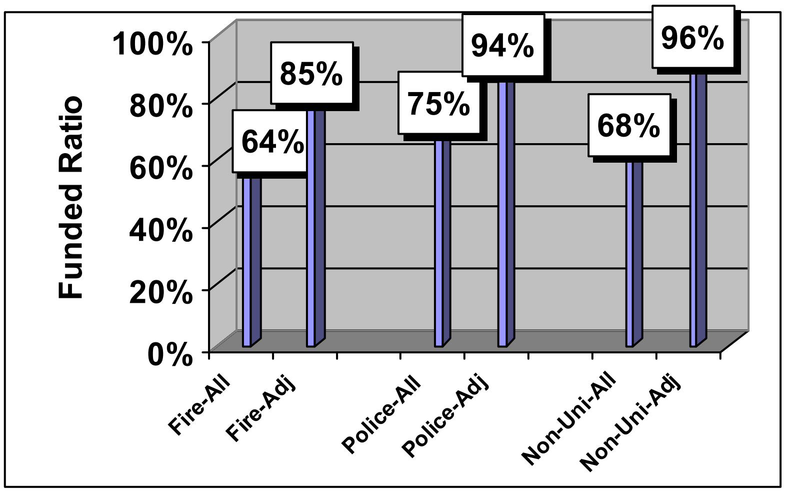
Data for Police Plans[4]

Variable	All Municipal Police Plans	W/O Phil and Pgh
Total Members	37,360	18,327
Active	18,071	10,796
Retired	19,289	7,531
Assets	$4,989,843,334	$3,532,856,267
Liabilities	$6,650,944,637	$3,742,124,647
Retired to Active	*1.07/1*	*0.70/1*
AA/AAL	*75%*	*94%*

The aggregate police data shows that the police classification is a bit higher than the Pennsylvania municipal aggregate funded ratio (75% to 72%) but it is quite higher on the retired to active ratio (1.07/1 to 0.79/1).

Again, in order to adjust for the impact of Philadelphia and Pittsburgh, these two cities were omitted from the police total to get adjusted performance indicators: the funded ratio rose from 73 percent to 94 percent and the retired to active ratio fell from 1.07/1 to 0.70/1.

Funded Ratio by Employee Class



The funded ratio for plans labeled "all" includes all plans by that employee type. "Adj" means adjusted with pension data for Philadelphia and Pittsburgh removed.

[4] PERC report, author's calculations

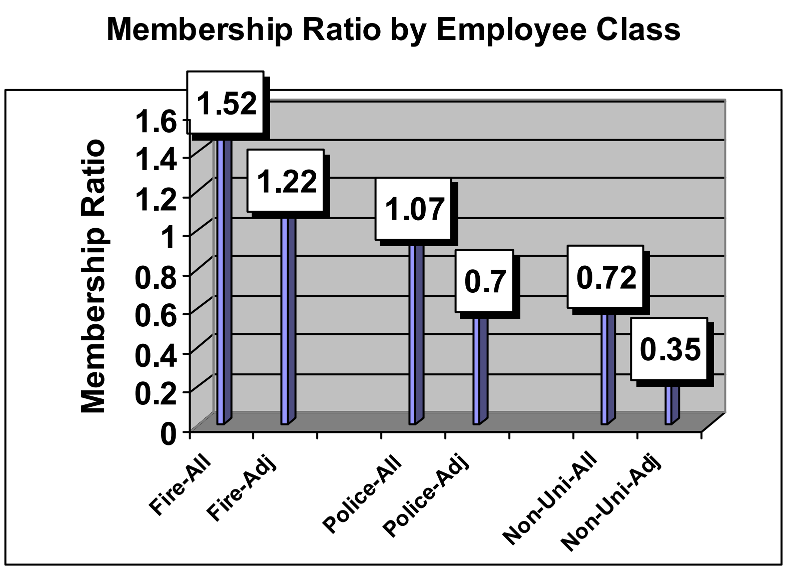
Non-Uniformed

Far and away the majority of the state's municipal pension plans are for non-uniformed employees. This would be for every employee not covered by police or firefighter plans—from the local Mayor, council member, and manager down to secretarial and administrative assistant. For purposes of this report, data for municipal authorities and associations (dispatch centers, councils of government, local municipal leagues, etc.) were omitted so as to focus on the municipal plans covering non-uniformed employees in general purpose municipal governments.

Data for Non-Uniformed Plans[5]

Variable	All Municipal Non-Uni Plans	W/O Phil and Pgh
Total Members	74,201	29,114
Active	43,212	21,626
Retired	30,989	7,488
Assets	$4,902,183,395	$2,226,255,837
Liabilities	$7,217,949,236	$2,315,696,050
Retired to Active	*0.72/1*	*0.35/1*
AA/AAL	*68%*	*96%*

The non-uniformed category is the only grouping of the three (fire, police, and non-uniformed) that had more active members than retired members, resulting in a ratio of 0.72/1. Its funded ratio (68%) was lower than the statewide aggregate ratio. When Philadelphia and Pittsburgh are removed from the group, the retired to active ratio falls to 0.35/1 and the funded ratio increases to 96 percent.



The membership ratio for plans labeled "all" includes all plans by that employee type. "Adj" means adjusted with pension data for Philadelphia and Pittsburgh removed.

[5] PERC report, author's calculations

What can be discerned from separating pension plans out according to employee class?

- Firefighter pension plans had the lowest funded ratio of the three
- Both public safety pension plan groups had more retired members than active members
- None of the three aggregate plans had funded ratios that would be considered in very good shape as just the police plan group was barely above the state aggregate funded ratio
- Only the non-uniformed group had a lower retired to active ratio than the statewide aggregate ratio

There is no over emphasizing the fact that when the pension plan data from Philadelphia and Pittsburgh are removed from the equation two things happen: funded ratio increases and the ratio of retired to active members decreases. Funded ratio went up a minimum of 20 percentage points in each employee class—the greatest increase coming in non-uniformed pension plans with a 28 percentage point jump. The ratio of retired to active fell by half in the non-uniformed category.

Pension Plan by Employee Class: Measuring the Impact of Home Rule

The second adjustment with the data was to take the remaining plans (not counting Philadelphia and Pittsburgh) and separating them into home rule municipalities and non-home rule municipalities. Omitting the state's two largest cities (they are both home rule) leaves 63 municipalities that are home rule.[6]

Home rule is sort of a limited independence for municipalities: a municipality adopting a home rule charter can do anything not prohibited by the U.S. or Pennsylvania constitutions or general law whereas non-home rule municipalities can only do things expressly granted to them. But home rule municipalities still have to abide by pension limitations set forth in general law.

That statement is based on a bulletin from the Auditor General's office in July of 2001 stating the office's interpretation of a Commonwealth Court decision in Municipality of Monroeville vs. Monroeville Police Department Wage Policy Committee in which the court held that "municipalities which have adopted home rule charters under the Home Rule Charter and Optional Plans Law are precluded from providing pension benefits different than those prescribed in general law…because of the explicit limitation in 53 PA CS 2962c5 against home rule municipalities enacting provisions inconsistent with pre 1972 statutes affecting rights, benefits, or working conditions of employees."

The only statutory guidelines on the books are for police plans in boroughs and townships (both home rule or not) established under Act 600 and for Police, fire, and non-uniformed plans in third class cities (both home rule or not) established under the Third Class City code. That leaves firefighter and non-uniformed plans in boroughs and townships

[6] List of Home Rule Municipalities, Department of Community and Economic Development, Governor's Center for Local Government Services "Home Rule in Pennsylvania"

without any written guidelines or limitations on pension benefits as well as plans in second and first class cities whose pension guidelines were written prior to Act 600.[7]

Here's how the AG's office planned to enforce the "as to whether home rule municipalities were obliged to comply with applicable pension law…the department will not penalize a home rule municipality for granting benefits…to existing retirees or individuals who began full-time employment before January 24, 2001. However, the department expects the city to restrict pension benefits to those authorized…for all employees who began full time employment on or after that date."

So how do the home rule municipalities compare with non-home rule municipalities on the pension indicators of funded ratio and ratio of retired to active members?

Fire

On firefighter plans the home rule municipalities have nearly 1,700 total members, $252 million in assets, and $309 million in liabilities. Non-home rule municipalities have more members (2,433) and a greater amount of assets ($406 million) and liabilities ($469 million). On their performance indicators, there was not much noticeable difference. The retired to active ratio of 1.24/1 for home rule municipalities, 1.22 for non-home rule. The funded ratios were not far apart at 82 percent and 87 percent respectively.

Data for Fire Plans—All Municipalities except Philadelphia and Pittsburgh

Variable	Home Rule Municipalities	Non-Home Rule Municipalities
Total Members	1,696	2,433
Active	757	1,096
Retired	939	1,337
Assets	$252,373,322	$406,012,634
Liabilities	$309,044,839	$469,414,074
Retired to Active	*1.24/1*	*1.22/1*
AA/AAL	*82%*	*87%*

Police

Police plans offer the starkest contrast between home rule and non-home rule municipalities. The home rule group has nearly a one-to-one ratio on retired to active members and its funded ratio is 83 percent—a respectable level. But compared to non-home rule municipalities these indicators are lower. The retired to active ratio is 0.63 to 1 and the funded ratio is 99 percent—nearly enough assets for liabilities. There is a possibility that contracts awarded prior to the Monroeville decision could have resulted in some generous provisions in home rule police plans.

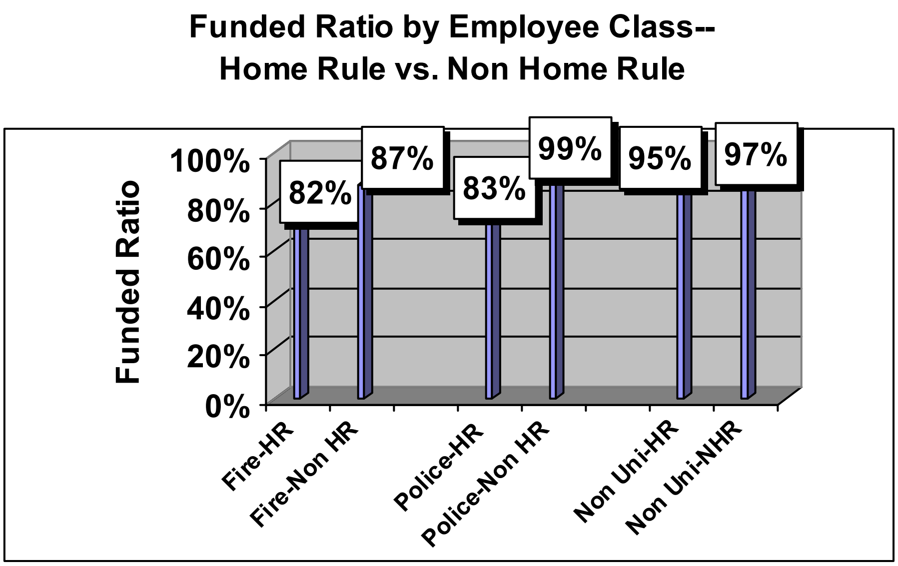
[7] Department of the Auditor General Municipal Pension Bulletin #2001-01 "Unauthorized, or Excess, Benefits". All plans are subject to the reporting and funding requirements of Act 205 of 1984 and the AG's office audits all plans that take state pension aid.

Data for Police Plans—All Municipalities except Philadelphia and Pittsburgh

Variable	Home Rule Municipalities	Non-Home Rule Municipalities
Total Members	4,318	14,009
Active	2,214	8,582
Retired	2,104	5,427
Assets	$803,609,757	$2,729,246,510
Liabilities	$969,081,199	$2,733,043,448
Retired to Active	*0.95/1*	*0.63/1*
AA/AAL	*83%*	*99%*

Non-Uniformed

The last classification is the non-uniformed plans and there is some difference on the indicator of retired to active ratio (0.53/1 in home rule municipalities, 0.30/1 in non-home rule municipalities) but the funded ratios are basically the same (95% in both).

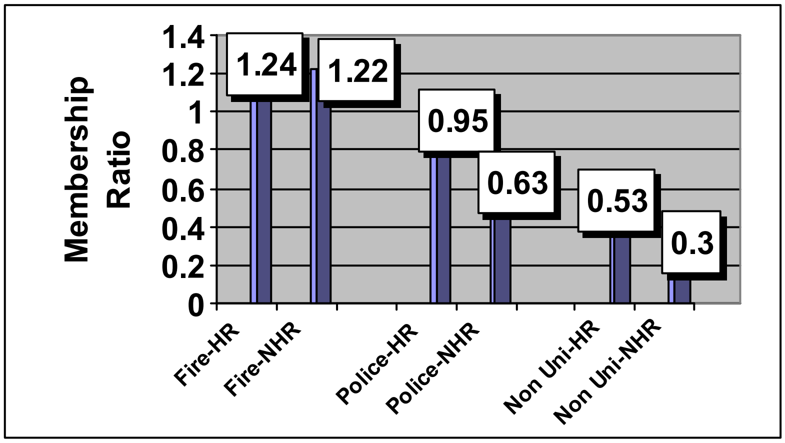


Data for Non-Uniformed Plans—All Municipalities except Philadelphia and Pittsburgh

Variable	Home Rule Municipalities	Non-Home Rule Municipalities
Total Members	6,397	22,717
Active	4,184	17,442
Retired	2,213	5,275
Assets	$576,069,520	$1,650,186,000
Liabilities	$607,268,849	$1,708,428,000
Retired to Active	*0.53/1*	*0.30/1*
AA/AAL	*95%*	*97%*

There are nearly four times as many members in non-uniformed plans in communities that are not home rule than in those that are.

Membership Ratio by Employee Class--
Home Rule vs. Non Home Rule



Conclusion

There is a wide variation in the health and characteristics of municipal pension plans in the Commonwealth of Pennsylvania. With as many as there are, that is not too surprising. But the purpose of this analysis was to determine if, when pension plans are separated into categories grouped around employee class, any variations in pension health appear.

Statewide, if all municipal pension plans were aggregated and their members, assets, and liabilities were treated as one uniform plan, there would be 0.79 retired members for each active member and there are 72 percent of the assets needed to retire liabilities set aside.

Compared to those two benchmarking indicators, fire and police plans had higher retired to active ratios and all three groups of plans had funded ratios near that statewide level.

As a first adjustment to the plans by employee class, the plans of the state's two largest cities were removed and both indicators increased dramatically. There is no overemphasizing this fact and it reaffirms what has been pointed out before—the majority of the municipal pension problem in the state is attributable to the six plans administered by the cities of Philadelphia and Pittsburgh.

A second adjustment to the data was to take all the other plans (omitting Philadelphia and Pittsburgh) and divide them along the lines of whether they were home rule or not. There was no great variation in the pension data when this separation was made except for the category of police plans where funded ratios for home rule communities are decidedly inferior to the non-home rule communities.