



Plethora of local public pensions in Pa. adds costs, burdens

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By Mark Scolforo, The Associated Press

HARRISBURG -- Taxpayers in Pennsylvania support more municipal pension plans than in any other state, an inefficient system that has resulted in high administrative costs and what experts say are sometimes bewildering investment decisions.

And even as private employers have moved away from traditional pensions guaranteeing monthly benefits for life, local governments have been steadily adding such plans.

Remarkably, the state's 3,129 local-government pension plans -- which benefit about 273,000 active and retired firefighters, police officers and government workers -- represent more than a quarter of the national total.

The staying power of local pension plans reflects Pennsylvania's tradition of local government control and the nearly \$200 million a year in subsidies provided by a state tax on certain out-of-state insurance companies. In nearly half the plans, the state pays so much that local taxpayers do not contribute a dime.

Efforts to consolidate the local pension funds, which collectively hold about \$16 billion in assets, have gone nowhere.

Outside experts warn that such small pension funds are expensive to administer and that people who oversee them can lack the knowledge necessary to run them and keep them financially sound.

Pittsburgh labor law attorney Robert E. Durrant recalls having to explain to officials in one city that, in issuing a pension-obligation bond, they had only shifted their costs and would limit their ability to borrow in the future.

"That's how unsophisticated they were in trying to deal with this very difficult problem," he said.

Harrisburg lawyer Gary M. Lightman, who represents police unions, said the decisions local officials make in investing pension funds can be astounding. Overseers of some plans have even invested in low-interest certificates of deposit, he said.

"It's unbelievable some of the terrible investment policies and procedures." Mr. Lightman said.

PENSIONS: THE SERIES

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THURSDAY: With options limited, taxpayers likely to take hit.

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About one-third of the municipal funds have "unfunded actuarial accrued liabilities" -- a red flag that indicates potential future financial problems. Those liabilities total more than \$5 billion, for which taxpayers could eventually find themselves on the hook.

Lancaster County Treasurer Craig A. Ebersole, a board member of the Pennsylvania Association of Public Employee Retirement Systems, said more local plans have begun taking bigger investment risks in hopes of collecting high returns.

"Should the market turn against them, it could cause extraordinary pain," he said.

More than a quarter of the local plans are managed by the Pennsylvania Municipal Retirement System. Among the 3,300 retirees covered by those plans, the average pension is about \$900 a month -- much less than the \$1,400 paid to the average state-government retiree but more than the national median for private-sector retirees.

Most of the local plans cover 10 or fewer active employees. The state Public Employee Retirement Commission, which gathers information about the local plans and advises the Legislature on pension issues, says it costs about \$1,400 a year per person to administer the smallest plans, but only \$300 for plans with more than 500 active members.

The commission, which regards the existing system as inefficient and inequitable, backed police unions' effort to consolidate the state's 971 police pension plans under the State Employees' Retirement System.

Officers sometimes feel their pensions amount to "golden handcuffs" that prevent them from changing jobs, proponents said. The bill would have allowed officers to take their pension credits with them.

"I'm sure it would work here if it works in every other state in the country," said Mark Koch, president of the 41,000-member Pennsylvania State Lodge of the Fraternal Order of Police.

But the bill died in the face of opposition from local municipalities and the financial consultants paid to manage the plans. They say they fear consolidation could lead to greater investment risk, and that well-funded plans might end up pooled with financially troubled ones.

"If you take away the local control, that interferes with the ability of the investment managers for those plans to retain their relationship with their clients," said Dan Reisteter, vice president of government relations for the Pennsylvania Bankers Association.

In recent years state auditors have caught local plans doling out illegal benefits, misusing dormant pension funds and failing to make millions of dollars in required payments.

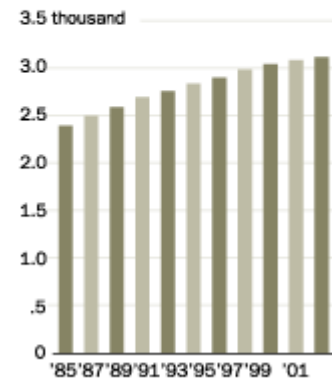
Hazleton was accused by the auditor general's office in August of improperly spending \$1.5 million of special municipal pension tax proceeds for retiree health care and to buy back unused vacation and sick days from city workers who took early retirement.

The city of Allentown had to go to court to force a settlement earlier this year after dozens of its police officers were allowed to manipulate overtime to qualify for unusually large

Plans on the rise

State taxpayers supported 3,129 local government pension plans in 2005, about one-fourth of all such plans in the U.S.

Local government-supported pension plans



Source: The Public Employee Retirement Commission AP

pensions that reached as much as \$91,000 a year.

Small townships and boroughs have taken devastating financial hits when their police officers have died on duty without having killed-in-service insurance. In most cases, the officer's spouse qualifies for a full-salary pension for life, which can be very expensive.

The Newtown Borough Council faced such a dilemma last year when Officer Brian S. Gregg was fatally shot in a hospital emergency room. Only departments of at least five members are required to pay death benefits, and Newtown's four-man department didn't offer them. But after his death the Bucks County borough decided to grant the lifetime pension, increasing taxes to pay for it.

A rash of early retirements or disability cases can play havoc with a small plan. Neville Township disbanded its four-man police department in March after two took early retirement, one went on worker's compensation and the fourth died.

Instead of having four active employees, the township was suddenly facing four unexpected liabilities.

"Now it's become a drain on the budget because nothing's going in," said township secretary Denise Moore.

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