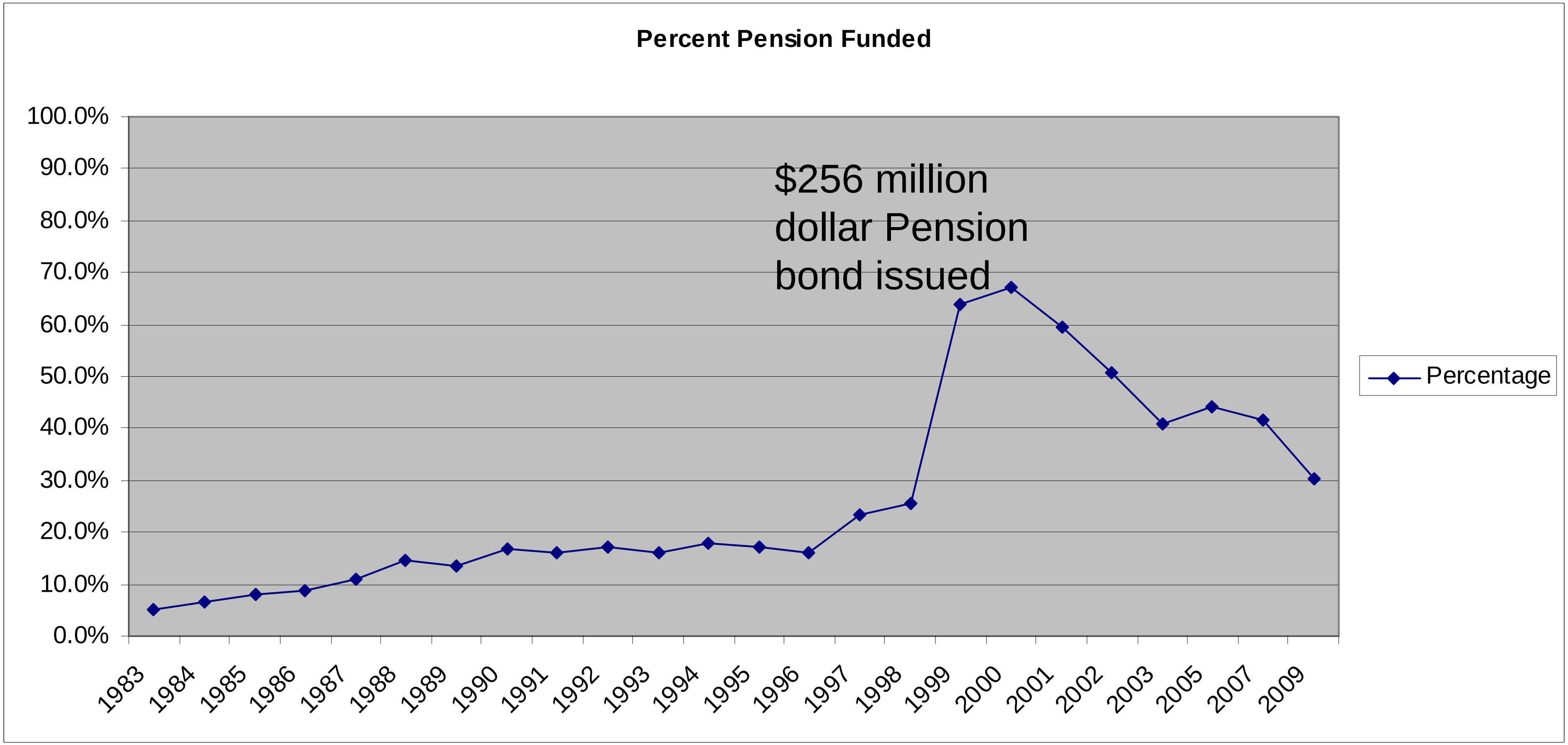
# PENSION CRISIS?



# In the City of Pittsburgh's entire recorded history (since 1983), the Pension has never been funded



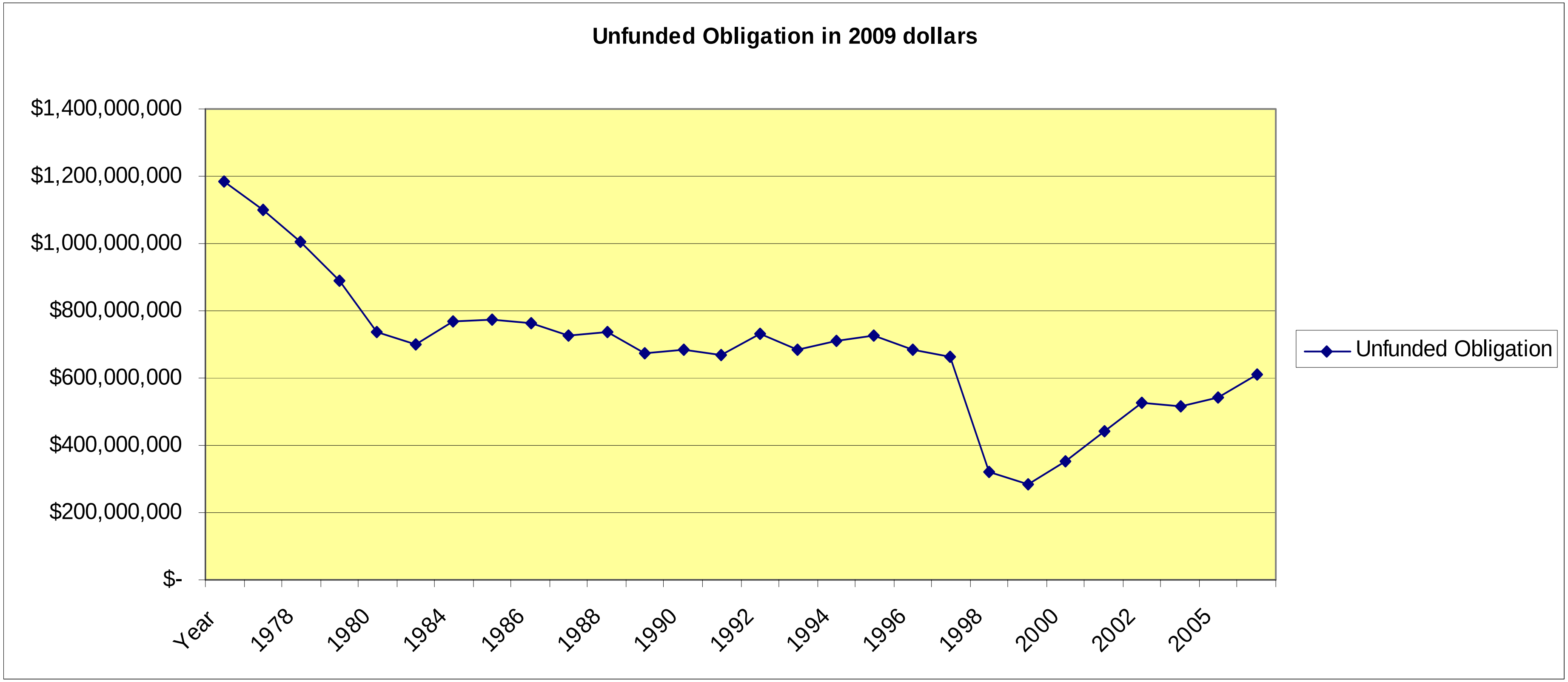
# Sometimes the Pension was literally 100% unfunded

- From the Pittsburgh Press, November 30, 1977:
- “This [pension problem] came about because of a pay-as you go funding system which, although cheaper in the short run, poses considerable risks in the long run”
- That’s right, from at least 1971 to 1978, the municipal pension was 0% funded!

# Were the Pensions ever funded?

- 1924 – Unsustainable Fire pension fund reorganized due to insufficient revenue
- 1933 – Fire pension fund goes bankrupt
- 1935 – Police pension fund on verge of running out of money and being taken by state
- 1971-1978 – Municipal fund out of money. More accurately, there <u>WAS NO FUND</u>

# $600 million unfunded? Peanuts!




In 1998 the City transferred $256 million dollars from Pension liability to debt liability by issuing a pension bond

- In 1973, Joseph S. Lenchner, vice president of Western Pennsylvania National Bank, had this to say to the Home Rule Charter Committee:

  *“Pittsburgh’s employee pension fund is ‘financially unsound’ and ‘potential fiscal suicide’”*

# City Council's 1974 budget

*"…it must be recognized that the City of Pittsburgh is in no way responsible for the circumstance creating this pension crisis and should not be looked to for pension increases in a regular or annual basis…"*

*"…Remedies lie with the State Legislatures and not with the city taxpayer"*

*John P. Lynch, Finance Chairman*

# The State Complicates PGH Pension

- 1935 – State legislative action changes formula for payments to Fire and Police pensions funds from a tax base to a straight dollar amount.  Increased cost to the City - $400,000 ($6.2 million in 2009).
- 1947 – State increases Police pensions by up to 30% - cost to the City, $600,000 per year ($5.7 million today)
- 1949 – State withholds Police pension aid statewide, including $229,745 to the City, due to 'trick legislation.' Legislation said payments could only be made if there was money available at the end of the 1949 fiscal state year – the state operated on a biennial budget at the time, so there was no 1949 fiscal year, so they didn't pay out
- 1951 – State increases police and fire pension benefits at a cost of $370,175 per year ($3 million in 2009 money)
- 1953 – State passes an unconstitutional (as ruled in 1955) increase in pension payments tied to inflation and cost-of-living increases
- 1953 – Increased payments to retired Police officers
- 1955 – State sets cap to the amount Pittsburgh Police employees can contribute to their retirement funds.  Also sets 20 years of service and benefit of half of the monthly salary during their highest 5 years of employment
- 1955 – State allows firefighters to get increased benefits ($5 more per month) if they work in excess of 20 years
- 1956 – State increases benefits for retired City employees
- 1957 – State house raises payments to retired Police and Fire employees $27-$35 per month
- 1959 – State Senate increases pension benefits to police, fire and municipal employees – an additional $164,533 burden ($1.2 million in 2009 money)
- 1963 – state mandates pension payments to Police and Fire widows (state tells City they don't need to put any more money into the pension funds until 1974)
- 1967 – state attempt to give Police and Fire employees of the City of Pittsburgh – and only the City of Pittsburgh - credit for time served in military fails by one vote (Republican from McCandless of all places was the swing vote – who is in that seat now?)
- 1967 – state increases City retirees monthly benefits $10
- 1972 – State raises the monthly pension payment to police and fire pensioners who had been retired for more than 5 years by $35 per month – Cost to the City, $250,000 per year ($1.3 million in 2009 money)
- 1974 – state raises the monthly pension payment to City workers who had been retired for more than 5 years by $40 per month

# Legislative Mandates Add $400,000 To Pittsburgh's Annual Budget

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## City Officials Alarmed at Practice of Public Employes Who Obtain Passage of Statutes Meeting Demands for Increases in Salary, Pensions and Compensation

By KERMIT McFARLAND

THE HABIT of public employes, especially firemen and policemen, of going to the State Legislature and obtaining statutes to meet their demands for salaries, injury compensation and pensions, has reached the stage where it is alarming city officials.

Mr. McFarland

Legislative mandates, enacted at the 1935 session, have added more than $400,000 to the city's budget, and authorities at City Hall forecast the full effects of these new laws will not be felt for two or three more years.

Carried to its potential conclusion, as some City Hall authorities fear it may be, this practice eventually would reduce the Mayor and City Council to the status of mere detail agents in executing functions set up for them by the Legislature.

In the City Charter and in scores of other statutes the Legislature has fixed the duties, many of the salaries and detailed the operating methods of the principal officials of the city. In late years it even has taken to making certain appropriations mandatory on City Council and telling Council how much to appropriate.

Gradually, the discretion of city officials has been curtailed more and more by Acts of Assembly. It is this legislation which has aroused the cry of "too much local government at Harrisburg" and brought about efforts to enact new "home rule" measures, relaxing the legislative restrictions on municipalities and giving their officials room in which to meet peculiarly local conditions.

IN "by-passing" City Council and jamming through the Legislature laws governing their pension and compensation funds, Pittsburgh's police and firemen may have stirred up a hornet's nest.

The large additional sums required in the 1936 budget are sufficient in size to become targets for tax-reducing agitation.

On their way through the Legislature, these bills attracted little attention. They concerned only Pittsburgh, and legislators from other sections of the state were not interested. At home, of course, similar measures in City Council would have been the objects of extensive study and all members of Council would have been directly and vitally concerned in acting on them.

Firemen and policemen are organized, like labor unions. Their union representatives lobby throughout every session of the Legislature.

The voting strength of the police and fire forces always has been regarded as an important factor by politicians at campaign time. In backing preferential measures for the police and firemen, then, legislators are not prone to overlook this theory.

However, I doubt if John J. Baker, Democratic chairman of the Sixteenth Ward, and the legislator who sponsored the recent police pension fund act, can testify to any formidable assistance for his ticket from policemen and firemen in the last campaign. Mayor William N. McNair, boss of the police and firemen, was opposed to Mr. Baker's ticket.

Mr. Baker's bill, nevertheless, will cost the city an increased appropriation of nearly $300,000 in 1936.

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HERETOFORE, the police pension fund received from the City 1½ per cent of all taxes collected, after sufficient amounts had been extracted to pay interest and principal on debts. Now, the Baker Act requires the city to carry the full burden of pensions for all retired policemen, a burden it is estimated will cost $416,000 in 1936.

Acts of Assembly also required the city to appropriate $420,000 for firemen's pensions in 1936 and $400,000 for the pensions of other employes.

Police and firemen also get preferential treatment in the matter of compensation for injuries. A law sponsored by Representative William J. Eroe, New Castle Democrat, forces all municipalities to pay full salary to any injured policeman or fireman for the full time of his incapacity and to pay all hospital and medical costs, without limit.

Other employes, whether they work for the city or a private corporation, are allowed a maximum compensation of only $15 a week, and that for a limited time; hospital and medical bills for the first 30 days only, and a maximum of $100 for medical costs.

IN FOUR years, it is estimated, this act will double the annual cost for compensation, since some policemen and firemen are incapacitated for many months. For 1936, Council has appropriated $140,000 for compensation claims, more than $40,000 in excess of 1935 expenditures.

In an effort to meet these additional requirements, Council is considering the Effeciency and Economy Commission's recommendation that a special bureau be set up in the Controller's office to "crack down" on compensation claims.

Hitherto, such claims have been handled in a perfunctory manner by assistants in the City Law Department. Young Thomas L. Jones, however, a few months ago was acquired as an assistant solicitor, and handed the intricate job of untangling these claims. Mr. Jones has been in hot water ever since and has been before Council urging a special bureau to keep injustices out of payments and save the city a maximum of cash.

The Efficiency and Economy Commission predicts that the investigating bureau it recommends could save the city 40 per cent of its compensation costs by thoroughly probing all claims and keeping complete records.

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ENACTMENT of the pension and compensation laws at the last session was not the first time police and fire representatives had gone to Harrisburg to help themselves. In the 1929 Legislature, they obtained an act which fixed a new salary schedule for every man in each bureau, from the police superintendent and the fire chief down to patrolmen and hose-and-laddermen.

The act provided that this schedule should be submitted to the electors for approval. In the boom days of prosperity and the Republican Organization, the schedule was overwhelmingly approved.

It added $600,000 to the payroll and gave employes of the Police Bureau and the Fire Bureau an average pay raise of $440 a year. While the act specified that the voters' indorsement of the salary schedule did not make its enactment mandatory on Council, Council so construed the results.

As a result, the appropriation for police salaries zoomed to $3,214,488 in 1931 and the appropriation for firemen's salaries to $2,402,577 in the same year.

The next year, City Hall acutely felt the depression and Council severely pruned the police and fire payroll, but the rate of pay has not been diminished.

In addition to attempts to make reforms in methods designed to produce economies which will balance the mandatory increases provided by Acts of Assembly, members of City Council are considering a plan to send their own lobby to Harrisburg in future sessions.

# The State Complicates Collective Bargaining

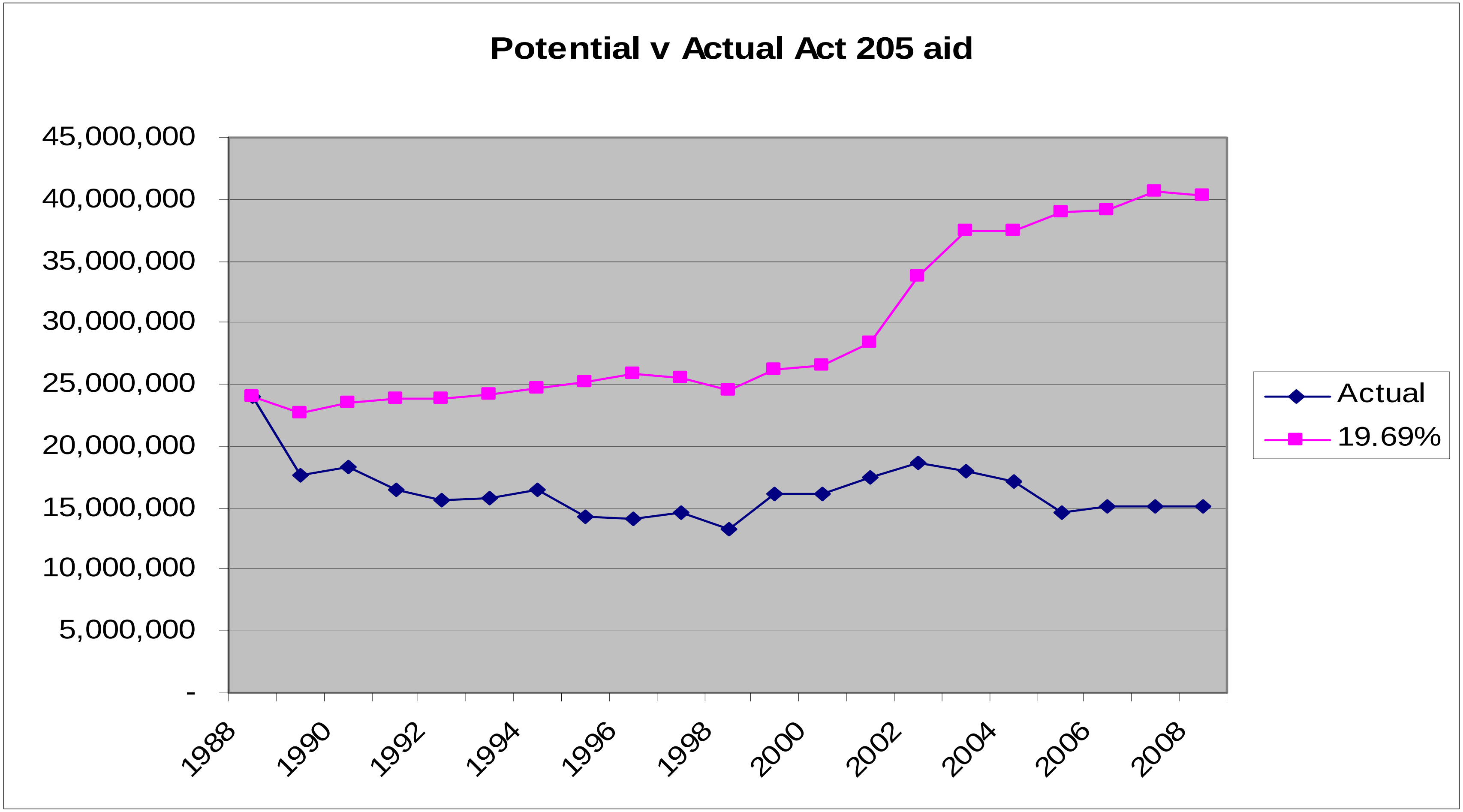
- Act 111.  Simply put, the Union and City must go to binding arbitration for almost every contract.
- 1929 – State sets salary schedule for every employee in Police and Fire bureau – adding $800,000 ($10 million today) to the City budget months before the Great Depression.
- 1935 - State liberalizes workers comp claims, removing cap on medical payments and mandating full pay while on disability
- 1936 – State increases Police & Fire budgets by $400,000 ($6.2 million today)
- 1947 – State reduces firefighter work day to 8 hours – cost to the City, $1.2 million ($11.5 million today)
- 1953 – State decreases firefighter work week from 60 to 55 hours
- 1972 – state lowers retirement age of municipal workers from 60 to 55

*These are examples of the State superseding the City and influencing the city's pension obligations – not all State actions regarding labor should be viewed negatively.*

# Act 205 to Help?

- 1983 Act 205 is written to begin to set up accountability for Pensions and included a funding source
- Allowed for a temp commuter tax if fund went broke
- Included intricate formulas for determining State Aid
- Pittsburgh received $24 Million in 1988 or 19.7% of the pool
- Loophole allows other municipalities to opt in diluting the pool
- 2003 Act eliminates formula and bases aid strictly on number of active employees regardless of municipal contribution to the plan
- Pittsburgh receives less than 7.5% of pool. Wealthy communities receive large subsidy and contribute $0

# If % was kept City would receive $40 Million in Pension Aid



# Act 205 to Help?

- Act 205 provides aid to most all municipalities regardless of need
- Based on number of active employees instead of retirees…. Not as much aid as a handout.
- When a municipality is in contraction – there will be more retirees than active employees – this is when they need assistance
- Funding stream should be developed to aid not only Pittsburgh but all urban job centers with distressed pension in PA.

# Pension began the year 42% Funded

| | Accrued Liability | Unfunded | # of Retirees | # Paying In |
|---|---|---|---|---|
| POLICE | $ 353,522,000 | $ (238,633,000) | 1,635 | 848 |
| FIRE | $ 308,412,000 | $ (165,625,000) | 1,202 | 622 |
| MUNICIPAL | $ 237,314,000 | $ (119,622,000) | 1,701 | 1,778 |
| | | | | |
| TOTAL | $ 899,248,000 | $ (523,880,000) | 4,538 | 3,248 |

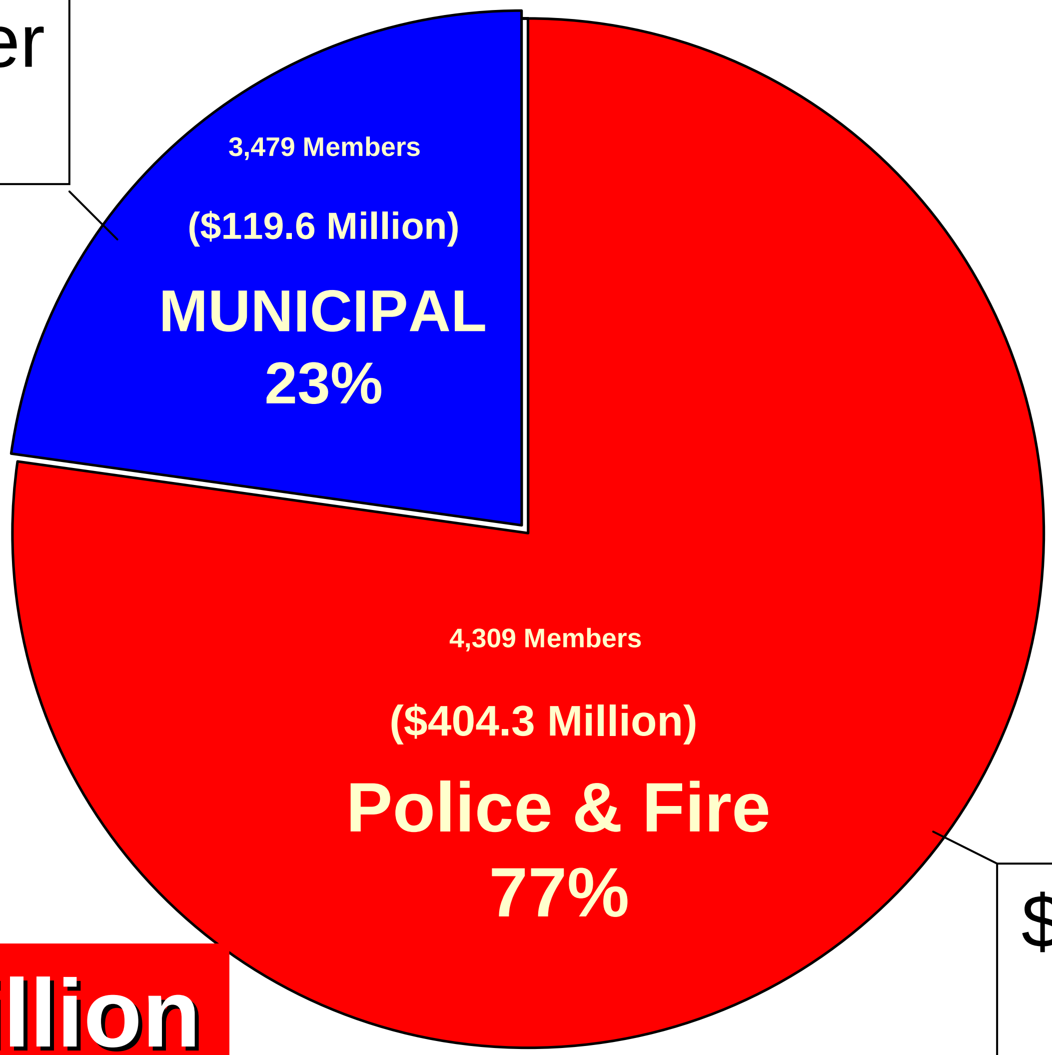
- **Police and Fire have only a combined 1,472 employees paying into to support 2,837 Pensioners**
- **Public Safety Pensioners can retire at age 50 significantly increases liability**

***It must be noted that Police and Fire are high risk occupations that logically should carry better benefits. Additionally, neither Police or Fire receive the benefit of Social Security making it necessary for the pension to provide old age benefits and protection for surviving spouses that would typically be covered by the SSI system.***

***2007 City of Pittsburgh pp. 64, 95-102 CAFR**

# Distribution of Liability

$34,378 per member




$93,827 per member

**-$524 Million**

# Changes to 205?

- 205 or new legislation should develop a single pension system for all municipalities
- Employee and municipality should contribute at least 1/3rd each – State should contribute aid an additional 1/3rd
- If Defined benefit, it must be static – no changes by state, bargaining or arbitration
- 6%+6%+6%=18% of salary = 30 year retirement

# Currently not our reality

- Act 44 creates a special fund for Pittsburgh that provides no additional funds from the State
- Requires us to sell assets and dedicate portions of our dwindling revenue to fund
- Benefits are enhanced for public safety and severely diminished for municipal
- State aid will continue to dwindle and the City’s obligation of tax dollars will grow.