



## Sen. Eichelberger Pension Proposal

*Comprehensive, fair and affordable municipal pension reform for taxpayers and uniformed unions*

### CURRENT UNFUNDED LIABILITY

The 2016 Municipal Pension Plan Data Report (based on 2014 data) shows municipal unfunded liability for all plan types has surpassed \$8 billion.

The municipal pension problem is not just a city problem. Pension stress is equally found in boroughs and townships in rural, suburban and urban areas. In fact, sixty-six of Pennsylvania's 67 counties have at least one municipality with a pension plan that is under a high level of financial stress. And about one-third of Pennsylvanians live in a municipality with a distressed pension plan.

### MUNICIPAL PUBLIC SAFETY PENSION UNDERFUNDING IS WIDESPREAD

Scores of fire and police pension plans in cities, townships and boroughs are underfunded. This means they do not have adequate funds to cover their employee pensions. While plan assets will not be needed all at one time, all municipal personnel deserve to have a pension plan that is fully funded.

Even if a pension police or fire plan is adequately funded, the municipality is making a large annual payment to keep the plan funded. Public safety is easily the largest expense in a municipal budget, oftentimes exceeding 50% of expenditures.

Underfunded plans risk further decline as the expense of making a plan whole grows beyond municipal means. Market influences, as well as unpredictable benefit enhancements through Act 111 can quickly erode plan assets.

### PENSION UNDERFUNDING IMPACTS EVERYONE

- **Residents and businesses** – pension distress leads to higher taxes and reduced services. Quality of life items often suffer, such as recreation, code enforcement, blight remediation, economic development and even public safety.
- **Municipal governments** – increasing shares of budgets are devoted to legacy costs.
- **Police and Fire** – financially stressed pension plans threaten retirement and employment security.

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## SENATOR EICHELBERGER'S PLAN:

Senator Eichelberger's proposal offers a **comprehensive approach** to reform public safety pensions. It combines several aspects of prior proposals in an effort to generate broad appeal. First, it applies most of the **good government recommendations** from the Auditor General's 2015 Task Force Report to current (where applicable) and future pension plans. Second, it looks at the current funding status of each plan to determine future pension plan design. The proposal offers a **level of local plan choice** – defined benefit, cash balance, or defined contribution – to all but the severely distressed plans. Severely distressed plans, underfunded at 50% or below, are required to enter PMRS for current and future plan administration. The provisions are as follows:

### **All municipal employers with uniformed union pension plans shall implement the following Auditor General Task Force recommendations for both existing and new plans where applicable:**

- Shall within 10 years use an assumed actuarial rate of return not to exceed the PMRS rate + 1.5%. (PMRS plans shall maintain the PMRS rate.)
- Shall pay the annual MMO in full or lose Act 205 funding.
- Shall limit total compensation so as not to exceed 110% of base salary annually. (New hires only.)
- Shall calculate final average salary on the average monthly compensation for the 60 months preceding retirement. (New hires only.)
- Shall not use state aid for administrative fees.
- Shall not authorize DROPs. (New hires only.)
- Shall adopt GASB No. 68 accounting standards.
- Shall publicly disclose pension data bi-annually.
- Shall not be permitted to enhance or diminish current or future pension plans including through collective bargaining or arbitration.

### **TIER 1: Municipalities with uniformed union pension plans funded at 90% and higher:**

- May maintain current DB pension plan structure or choose from below for new hires:
  - Cash Balance Defined Benefit Plan, or
  - Defined Contribution Benefit Plan

### **TIER 2: Municipalities with uniformed union pension plans funded at 51% to 89%:**

- Shall choose one of two pension plan structures for new hires.
  - Cash Balance Defined Benefit Plan, or
  - Defined Contribution Benefit Plan

### **TIER 3: Municipalities with uniformed union pension plan funded at 50% and below:**

- Shall shift current and future plans to PMRS. Current employees maintain existing plans, under PMRS management, while future hires receive a PMRS-designed and managed Cash Balance Defined Benefit Plan. Provisions are included to hold the line on MMO payment spikes due to entering PMRS.

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