Reps. Greiner/Grove
Cash Balance Plan

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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REPS. GREINER/GROVE: MUNICIPAL SUSTAINABILITY ACT

Proposes a cash balance plan for new hires only. Employees continue to receive a defined benefit pension, however they are required to contribute to their pensions and interest earnings are capped to allow earnings above the cap to be used to **pay down the current unfunded liability**. Once fully funded, the interest earnings are credited to the employees. This plan also **reduces spiking** by keeping the impact of overtime to a minimum. Furthermore, utilizing one plan design **allows pensions to be portable**. Finally, the Greiner plan applies most of the **good government recommendations** from the Auditor General's 2015 Task Force Report to current (where applicable) and future pension plans.

Here are the details:

- All current employees are held harmless and retain existing rights and benefits at current levels
- Takes pensions off the table in collective bargaining for *both* current and future employees – must do both to ensure expenses level off
- Eliminates spiking by calculating the benefit on base pay; caps overtime at 10% of base pay
- Requires a contribution from both the employer and employee
  - Employer – 4.5%
  - Employee – 6% w/social security; 9% w/o social security
- Employer is also responsible for a guaranteed interest credit tied to the 30-year treasury note with a cap of 4.5%
- Sets retirement age at 55 and 25 years of service
- Allows municipalities to establish 457 Plans as an additional investment tool, but does not require an employer to make contributions
- Provides employee option of receiving a lump sum payment or an annuity at retirement

The Auditor General's Task Force Recommendations:

- Requires assumed actuarial rate of return to be reduced over 10 years to PMRS rate plus 1.5%
- Requires full payment of MMO obligation
- Prohibits use of state aid for plan administrative fees
- Requires adoption of accounting standards
- Requires public disclosure of pension data bi-annually
- Prohibits plan changes that would reduce plan funding below 90%.