Pennsylvania Democrat calls for cuts to pensions for municipal workers

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Pennsylvania Auditor General Eugene DePasquale, a Democrat, is calling for cuts to the pensions benefits of tens of thousands of municipal workers throughout the state, which are underfunded by $7.7 billion. The alternative, he warned, was a Detroit-style bankruptcy.

DePasquale refrained from using the word cuts, but his proposals amount to a reduction in pension payments to recipients. His ideas on how to "save" pensions are as follows: elimination of counting overtime work and accrued leave payments towards pensions; raising the eligibility age, along with the length of service, needed to collect benefits; increase employee contributions; and most insidiously, combining the pensions into a statewide system "segregated by classes" of workers such as firefighters and emergency medical technicians and non-uniformed employees, which simplify and facilitate pension reductions in the future.

A separate report issued by the Pennsylvania Intergovernmental Cooperation Authority (PICA), an overseer and financial adviser to the city of Philadelphia, has called for more drastic measures. The pension system would be eliminated and replaced with a 401(k)-type plan, while increasing employee contributions and terminating the deferred retirement option. All in all, current and future municipal workers would have smaller pensions and paychecks and face a battle to keep pensions in the future.

The proposed pension cuts are contained in the report "Municipal Pension Funds" issued in January by DePasquale, and a separate report titled "Philadelphia's Pension System: Reducing Risk and Achieving Fiscal Stability" by the PICA, a group of former state and local officials.

The auditor general report purposely stokes up a sense of fear to give an impetus to an immediate "reform" of municipal pensions. "Without effective legislative reform municipalities may ultimately have no choice but to: decrease pension payments to retirees, pass the increased burden on to taxpayers, or some combination of both option," DePasquale warned. He continued, "We should not allow our retirees to live in fear of their pension payments being reduced. ... Ultimately a delayed solution will impact the retired public employees and every taxpayer in the commonwealth."

To augment his fear-mongering, DePasquale told the media in a news conference, "The problem is too big to ignore. We saw what happened in Detroit: Retirees got 10 cents on the dollar. Basically, they got screwed." It is significant that the report uses Detroit as a reference, warning workers if they do not accept these reactionary proposals, they will lose even more in the future.

In a similar fashion, the PICA points out that the Pennsylvania Constitution does not explicitly guarantee an obligation by the city of Philadelphia to uphold the contract with municipal workers, holding out the prospect that even retired workers could see their pensions cut. For instance, it says, "Since there is no explicit constitutional provision mandating pensions or any other retirement benefit in this state, statutory provisions are enough to reform pension plans. No constitutional amendment is necessary."

The Auditor General report classifies pensions on three levels of distress based on their current assets and how much growth is expected versus how much expected benefits will be paid. Level one municipalities are underfunded by 10 to 30 percent and labeled "minimally distressed," whereas level 2 ones are 30 to 50 percent underfunded ("moderately distressed"). Level 3 are over 50 percent underfunded ("severely distressed"). Overall, 438 municipalities are level one, 102 at level two, and 22 at level 3.

The most distressed municipalities are located in or around major cities such as Scranton and Philadelphia. Philadelphia has less than 50 percent funded and owes more than $5 billion in pension obligations. Out of the 10 most populous cities in the US, Philadelphia ranks second from the bottom, above only Chicago. Scranton is the worst off in the state, only 23 percent funded (77 percent underfunded), and the city has the possibility of facing bankruptcy in three to five years. Pittsburgh fares only a bit better with a little over half of its pension obligations funded.

In reality, however, the situation is worse as each city's projections are based on overly optimistic returns on investments: Scranton 8 percent; Philadelphia 7.85 percent; and Pittsburgh 7.5 percent. If more realistic rates of 5 to 7 percent were used, each city would be in even worse shape.

The shortfall has risen by $1 billion in a two-year timeframe and will continue to climb dramatically as local governments don't make the needed payments to keep the plans solvent.

A bill already in the legislature attacking municipal pensions will be given an impetus by these reports. Representative Seth Grove, a Republican from the city of York, has sponsored it and been joined by other politicians, business and municipal governments. It would set up a 401(k)-type plan, which almost all local governments will have to adhere to if it becomes law. The retirement age will also be extended and no health benefits will be paid to retirees.

While the two reports and the legislation are directed against municipal workers, similar cuts to pensions face the 77,000 state workers and tens of thousands of teachers throughout the state, whose pensions are underfunded by more than $50 billion.

New Democratic Governor Tom Wolf has pledged to fix the problem by working with the various government employee and teachers unions to impose cuts to benefits on their members and increase employee contributions. (See: Pennsylvania's new Democratic Party governor prepares austerity measures)

On top of this, Wolf may have to deal with a spillover effect from the scandal involving former State Treasurer Rob McCord, a Democrat who has been indicted on charges of corruption during his failed campaign for governor in 2014.

State and municipal pensions will be one of the first items on the agenda for the Democratic governor and the Republican-controlled state House and Senate. Republican Jake Corman, the Senate majority leader, told the *Wall Street Journal*: "Pension reform is our No. 1 issue. It's something that has to be done …We're not going to have any discussion on revenue until we get expenditures under control."