Democrats, Republicans attack municipal pensions in Pennsylvania

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State politicians in Pennsylvania are on the verge of passing municipal pension “reform” that would terminate defined-benefit pension plans for all future city, township and other municipal firefighters, emergency medical service (EMS) personnel and cops. Pennsylvania officials claim that the cutbacks are needed to “save” the municipal pension system, which they claim has an aggregate debt of $8 billion.

Democratic Auditor General Eugene DePasquale, backed by Governor Tom Wolf, also a Democrat, is going further, demanding that pensions for all municipal workers be drastically reduced.

The bills known as HB 316 and SB 755, if passed and approved by Wolf, will force new hires to be enrolled into a 401k-style plan as early as 2016. They will not be eligible for the defined-benefit pension plan that workers now receive. In addition, benefits for current employees will be frozen and pension benefits will be removed from collective bargaining. The retirement age will also be pushed back by five years.

State House and Senate Republicans have introduced the bill, but Democratic mayors have thrown their full support behind it. In a written statement, Mayor Kim Bracey of York City wrote, “I am thrilled to see movement and leadership by our Republican House members on this municipal pension reform bill. Since 2011 we have only ever asked for the tools needed to control the spiraling costs mandated by the state legislation. We are not, and have not, asked for funding, only for needed structural reform.”

The Democratic mayor of Lancaster, Rick Gray, admonished politicians who have not supported the bill yet and cynically claimed that public services could not be provided without curtailing supposedly unsustainable pension costs. “Democratic lawmakers do not understand that cities can no longer afford to pay guaranteed pensions,” Gray stated.

The Pennsylvania Municipal League, which includes elected officials from both major parties, is ecstatic over the pending passage of the bills. On its website, the PML declares that the organization “has been working hard to deliver much needed municipal pension reform.”

Business leaders are also praising the bills. Ellen Horan, President and CEO of the Greater Reading Chamber of Commerce and Industry, issued a public statement saying, “We in the business community are proud to be partnering with our municipal leaders on the issue of municipal public safety pension reform… These reforms are critical to helping our struggling, local economies, all of which are negatively affected by rapidly increasing municipal distress. No one wants to live, work, or grow a business in an over-taxed, under-served, and fiscally unstable community.”

Both of these bills come after a municipal pension debt report issued by Democratic Auditor General Eugene DePasquale in which he detailed the debts that some municipalities are facing. The frontrunners are major cities such as Scranton, Philadelphia, York, Pittsburgh, and Reading. Scranton, the sixth-largest city in the state, will face bankruptcy in a couple of years due to pensions being underfunded by 77 percent, DePasquale claimed.

Appointed by Wolf to head a task force to remedy the pension debt, DePasquale has made public his findings on how to solve the pension debt in the report, *Pennsylvania’s Municipal Pension Challenges: Recommendations from Governor Tom Wolf’s Task Force on Municipal Pensions.* The auditor plays fast and loose with supposed unfunded pension figures, the modus operandi of every politician across the country who equates long-term debt with immediate deficits.

Moreover, DePasquale says nothing about the loss of tax revenue from corporate tax breaks and the economic downturn, or the diversion of pension resources to cover budget shortfalls, which are at the heart of problem. Rejecting any proposals to raise corporate taxes, he declares, “The task force recommends that any proposed revenue enhancements be considered only if structural changes are made to the plans.”

In the proposals themselves, all municipal pension plans will be removed from collective bargaining, and different accounting and management practices will be used. More extreme measures are proposed for underfunded plans, such as capping overtime used to determine pension payments, adopting “realistic rate-of-return assumptions,” forbidding any pension increase if plans are not solvent and forbidding lump-sum payments.

Perhaps the harshest measure is the creation of a new statewide benefit structure for new hires that will significantly pay less per month upon retirement compared to current and retired workers. The rate will be determined after “consulting with a public employee pension design expert who can recommend a fair and predictable benefit plan design based on nationally accepted best practices and tailored to our specific circumstances.”

Philadelphia and Pittsburgh, if refusing to join the recommendations above, will need to formulate their own plans or face the threat that state aid will dry up. These cities represent a combined $6 billion of the debt. City officials could recommend 401k-style plans to workers.

Municipal workers are generally lower-paid workers, but they rely on better benefits such as pensions. These payments, which entire networks of family members rely on, are already woefully inadequate. According to the Pennsylvania Municipal Retirement System (PMRS), a non-uniformed worker who makes $25,000 a year and has 20 years of service only receives a yearly pension income of $6,250. By doubling the salary and stretching the years of service to four decades, a retiree will still receive just $25,000 a year.

The political establishment is using the example of Detroit, where state and local officials conspired to force the city into bankruptcy to tear up the city’s pension obligations. Republican Seth Grove, a sponsor of the bill, has said, “This is a tough one. I don’t think we want to see a Detroit coming to Pennsylvania.”

On the federal level, the Obama administration has recently announced plans to eviscerate pension benefits of hundreds of thousands workers invested in multiemployer pension funds.

Last month, the Pennsylvania Senate passed a pension reform bill that would impact over 350,000 state workers and public school employees. Like the bills for municipal workers, the Senate plan would end the defined benefit pension and force workers into a 401k-style plan with vastly reduced benefits.

Reports have indicated that municipal pension reform will not be a part of the budget negotiations, which have already passed the June 30 deadline, potentially impacting state employees who depend on state funds for their jobs. Wolf and the state legislature have pledged to come to an agreement in the near future.