PSATS

TESTIMONY BY
THE PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP SUPERVISORS

BEFORE THE
HOUSE LOCAL GOVERNMENT COMMITTEE
&
HOUSE URBAN AFFAIRS COMMITTEE

ON

HB 32 *(PN 1205)*
&
HB 974 *(PN 1230)*

PRESENTED BY

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ASSISTANT EXECUTIVE DIRECTOR

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KING OF PRUSSIA, PA

Chairman Harper, Chairman Petri and members of the House Local Government and House Urban Affairs Committees.

Good morning. My name is Elam M. Herr, and I am the Assistant Executive Director of the Pennsylvania State Association of Township Supervisors. Thank you for affording me the opportunity to appear before you today on behalf of the 1,454 townships in Pennsylvania represented by the Association.

Townships comprise 95 percent of the Commonwealth's land area and are home to 5.5 million Pennsylvanians — 44 percent of the state's population. These townships are diverse, ranging from rural communities with fewer than 200 residents to more populated communities with more than 60,000 residents.

The Municipal Police Pension Law *(Act 600 of 1955, as amended)*, which applies to municipalities with three or more police employees, entitles officers to a defined benefit pension plan which provides participants with 50 percent of their final 36-month average salary payable at age 55 after 25 years of service. Note that age and years of service can be reduced to 50 and 20 respectively if certain criteria are met and these terms are negotiated.

In addition to Act 600's mandatory pension benefits, supplemental pension benefits are currently subject to arbitration, which means that any awards granted by arbitration are on top of the mandated benefits. These awards can be very generous, including medical benefits for retirees; significant sick leave accumulation payable at retirement; significant accrual of vacation time, often with no maximum limit and payable at retirement; and establishment of Deferred Retirement Option Programs (DROPs).

While some municipalities have managed to fund these benefits up to this point, reform is needed to restore balance so that quality benefits can be provided in the future at sustainable costs for the valuable and professional service of our police. Without reform, more municipalities will be forced to reduce their forces or become fiscally distressed, which doesn't benefit the municipality or the police.

While the current unfunded cost for municipal pensions pales in comparison to the Commonwealth's pension crisis for state and school district employees, both of these issues need to be addressed and soon. We believe that the mandated process that yields generous municipal employee benefits must be addressed in order to truly bring relief to already troubled municipal pension plans, as well as protecting those that are presently viable and sound.

HB 32 *(PN 1205)* would amend the Pennsylvania Municipal Retirement Law *(PMRS), Act 15 of 1974*, by creating a new Article IV-A to establish a mandatory statewide defined benefit municipal police pension plan for all new full-time police officers. The proposal would allow existing full-time municipal police officers to join the new plan if 100% of the existing full-time police officers enrolled in the current plan vote to participate. However, this provision does not address the concern that by increasing the member's superannuation retirement benefit, an unfunded liability is created that must be paid off over the remaining working years of the existing employees. A municipality that has been meeting its municipal obligation to provide 50% of final salary pension would now need to increase the amortization requirement to meet this new unfunded mandate.

The plan would be administered by PMRS. This requirement creates a major concern for our membership since the majority are meeting their obligation to properly fund their pension systems.

And, although HB 32 provides some interesting aspects to the municipal pension debate, we believe that the problematic provisions and the retention of a mandatory defined benefit plan outweigh the potential positive gains. With that said, the provisions prohibiting collective bargaining and arbitration awards from changing the provisions of this law (Section 201-A (b)), attempt to limit the exposure of the municipality to future unfunded awards, which we support. However, Section 404-A (a)(2) states that municipal contributions shall equal the amount necessary to fund the benefit at *no less than* 7.5%, which implies that the final amount could increase and the municipality would be obligated to fund the additional cost.

We must oppose Section 406-A, which lowers the superannuation retirement requirements from 55 years of age and 25 years of service to 50 years of age and 20 years of service, while increasing the retirement benefit from 50% of final average salary to 65% of final average salary. These benefit enhancements for new members will further increase the municipality's normal cost.

Finally, mandating that a municipality provide a "new" defined benefit pension plan and **not** allowing other pension plans for new employees that can be funded adequately, such as defined contribution plans which would help a municipality avoid and recover from having a distressed pension plan, is unacceptable to our membership.

HB 974 would require municipalities with severely distressed pension plans, defined by the Municipal Pension Plan Funding Standard and Recovery Act *(Act 205 of 1984)* as municipal pension plans that have a plan ratio of assets to liabilities of less than 50%, to develop a pension recovery proposal which would elevate them from severely distress to moderate distress over a maximum period of ten years. If the municipality did not meet the obligations of the legislation, and the Pennsylvania Employees Retirement Commission (PERC) finds that they are in non-compliance, PERC may direct the Auditor General to file a petition with the Commonwealth Court to appoint a receiver for the municipal plan.

PSATS has no issue with the concept behind HB 974, yet the legislation presents numerous concerns that need to be addressed before we can support the bill. And, although this legislation would only affect a very limited number of our members, it is vital that the legislation be drafted properly if it is to address the issue of severely distressed municipalities, as well as avoid any unintended consequences. First we must question why the legislation, in its attempt to address the unfunded liability of a municipal pension plan, stipulates in Section 1202 (3) that a severely distressed municipal plan "should" be required to enter into the program. This provision seems to imply that this program is optional on the part of the municipality and not a mandatory requirement.

The proposal does not take into consideration that over half of the 23 severely distressed plans have been in existence for less than 10 years and most have given past service credits to existing employees. By providing past service credits, the plan creates an unfunded liability that needs to be paid off over the remaining working years of the employee. This shorter working period increases the amortization requirement, which increases the municipality's liability and its minimum municipal obligation. Would it not be better to allow for an appropriate time frame that is specific to each municipality?

It should be noted that Section 1203 (b) requires the municipality, in reducing its total unfunded liability, to contribute a yearly minimum of 1% of the total unfunded liability for the 10 years of the recovery plan. This amount, although it may be excessive to a municipal budget, will, on its own, not substantially reduce the unfunded liability and satisfy the requirements of the legislation.

The legislation does not provide any new state funding, but would authorize municipalities to lease or sell assets or issue bonds to generate additional revenue *(Section 1203 (c)(1))* to pay down unfunded liability. For many municipalities, these options are not available as they have no assets to lease or sell and they may need their bond authority for other obligations. As an alternative the state should consider providing assistance to these municipalities.

Finally, we need to question how long a municipality will be in the recovery program. Section 607.1 (b) stipulates that when all severely distressed pension plans have paid down sufficient unfunded liabilities and are classified as moderately distressed then all moderately distressed pension plans must comply with these mandatory provisions, including the receivership provisions. This means that even if a municipality does all that is required to reduce the unfunded liability of its pension plan, it could continue to be caught under the mandates of this legislation for decades. This provision alone will increase the number of plans that could be under receivership.

In closing, PSATS and its members appreciates the efforts to address systemic municipal pension reforms, but have major issues with both HB 32 and HB 974 as they are currently written. PSATS is willing to work with the sponsors and both committees to address not only the issues we raised today but other concerns that will arise with the legislation.

I appreciate the opportunity to appear before you today. I would be happy to answer any questions that you may have.