

**Testimony of Les Neri, President, Fraternal Order of Police, PA State Lodge Before  
Pennsylvania House and Senate Local Government Committees  
January 22, 2018 – Retirement Security for Municipal Police Officers**

Good morning. My name is Les Neri. I am proud to serve as President of the Fraternal Order of Police, Pennsylvania State Lodge, which represents approximately 40,000 active and retired law enforcement officers and their families throughout the Commonwealth of Pennsylvania. Before my election as President of the FOP, I served as a municipal Police Officer and Detective for more than 26 years in Tredyffrin Township, Chester County. In addition to my Pennsylvania duties, I am also proud to serve as National 2nd Vice President of the Fraternal Order of Police.

On behalf of the members of the Fraternal Order of Police and our families, I would like to thank Committee members for your consideration of retirement issues affecting law enforcement, and for your longstanding support of Pennsylvania's police officers. My remarks will present the view of the Fraternal Order of Police on the importance of maintaining fair and secure retirement benefits for the men and women who risk their lives each day to keep Pennsylvanians safe.

I understand that the purpose of this hearing is to consider the issue of municipal pension reform. Of course, any fair consideration of reform must include a review of how well the current system works. In other words, do we need reform in the first place? Our review of Pennsylvania's municipal pension system reveals that the system works very well in its current form, and that the system has improved significantly since the last municipal pension reform effort in 2009.

Act 44 is Working Well – Municipal Pensions Are Thriving

Act 44 of 2009 was signed into law in September 2009, and it made numerous, significant changes to the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984). Act 44 provided new actuarial tools that generated short-term fiscal relief to local governments operating public pension plans. It provided a new stress-test for municipal pension plans, with stronger remedies for struggling plans. And it established conduct and disclosure standards for professional service contracts applicable to municipal pension systems.

Act 44 has proven a great success. Since its passage, Pennsylvania's municipal pension system has experienced remarkable improvement. For example, since 2010, there has been a **43% reduction in the number of distressed municipal pension systems** (899 to 509). When Act 44 was passed there were twenty-six (26) "severely distressed" municipal pension systems in Pennsylvania. Today, there are only twelve. The number of even moderately distressed systems has fallen significantly (152 to 80), and the number of municipal pension systems that are fully-funded has grown to almost 1000 plans (761 to 948).

This is substantial progress by any measure, and tells us that Pennsylvania's municipal pension system is much stronger today than it was in 2009. As that relates to the question of reform, the Committee members may wish to consider that the best reform may be to exercise restraint and simply let Act 44 continue to work.

HB 1268 Represents Modest and Meaningful Pension Reform

Of course, the fact that most municipal pension systems (and particularly police plans) are in excellent shape does not necessarily mean that the system cannot be improved. The Pennsylvania Fraternal Order of Police does not oppose pension reform. To this extent, the PA

FOP has endorsed House Bill 1268, which will save tens of millions by establishing a statewide pension program for municipal police officers. The initiative solves the problem that PERC, the Auditor General and other experts have lamented for decades – **that there are simply too many municipal pension plans in Pennsylvania.**

House Bill 1268 provides a modest, defined benefit pension plan that features higher employee contributions, minimum employer funding requirements and more conservative management practices. The statewide plan would be mandatory for new police officers (outside of Philadelphia, Pittsburgh and the State Police) and optional for current police departments. The Bill would foster the gradual consolidation of Pennsylvania's 900+ police pension plans to secure savings, encourage regionalization of police services, and remove unnecessary labor market restrictions that limit departments' ability to recruit officers from competing police departments. In sum, House Bill 1268 provides a modest and cost effective pension benefit for Pennsylvania's police officers.

#### Positives and Negatives of Proposed Bill

The Pennsylvania FOP has also reviewed the proposed legislation that was distributed to stakeholders in advance of today's hearing (No. 2017D07648). I am pleased to report that the FOP can support some of the concepts identified in the proposal, and that we look forward to working with other stakeholders to develop a consensus on whether and how to change the current pension system.

Perhaps most significant to us is that the proposed bill abandons the concept of defined contribution pensions, which by now are generally-accepted as a poor fit for public safety personnel. That's a good start. We also support the draft bill's modernization of vesting and portability rules for municipal pension plans. We suggest an even lower vesting period, to encourage competition within the labor market for personnel. We also support the elimination of pension "spiking." Municipal pensions should accurately reflect compensation in final years of service, no more and no less.

On the issue of funding, the FOP supports the draft bill's emphasis on improving funding for the Pennsylvania's few struggling plans via a new municipal pension bond program. We recommend additional funding improvements, too, such as increasing the pool of state pension aid available under Act 205.

On the issue of management, the FOP supports the draft bill's call for tighter oversight on local plan management, particularly its new limits on actuarial assumptions. To be fair, we should note that since 2009 local plan management has improved, and that actuarial assumptions on return and mortality have become more conservative. This makes the improved funding levels in local plans since 2009 even more impressive.

The Pennsylvania FOP does have several concerns with the draft pension proposal starting with the proposed legislative findings language. These findings unfairly and inaccurately seek to blame all municipal budget problems on pensions and other retirement benefits. We believe this language is counterproductive and should not be included in a reform bill.

The FOP also opposes the proposed substandard benefit for certain plans, which is basically a 30% pension after 25 years of service. There is no reason to provide a standard police benefit of less than 50%. This is especially true considering how many police officers are not permitted to participate in Social Security.

We are also deeply troubled by the absence of meaningful disability protections in the proposal for police officers who sustain permanent disabilities in the line of duty. No police officer in Pennsylvania should ever receive less than 50% pension if they incur a permanent service disability.

The FOP opposes any attempt to eliminate Act 44's transparency requirements for professional service contracts. Those "pinstripe patronage" protections were one of Act 44's major reforms, and they should not be eliminated.

In conclusion, I would like to thank the Committee members for considering the issue of municipal pension systems for public workers like police officers. Although we have listed some of our concerns in this testimony, we also believe the proposed legislation contains some positive ideas that warrant more consideration, and we look forward to working on those issues and concepts with all stakeholders and Committees. We are pleased that this consideration will be taking place in the context of a much-improved municipal pension landscape.

Thank you for your consideration of this important issue. I would be happy to answer any questions.