Joint Testimony from
Tom Baldrige, President and CEO, Lancaster Chamber of Commerce and Industry
and
David W. Patti, President and CEO, Pennsylvania Business Council

Hearing by the Senate Finance Committee, Thursday, June 18, 2015
SB 755 (Eichelberger) Alternative Municipal Public Safety Defined Contribution Pension

Chairman Eichelberger, Chairman Blake, and Honorable Members of the Senate Finance Committee: good morning and thank you for affording us the opportunity to testify before your committee on a matter critically important to our cities, towns and rural communities – and ultimately, to the overall business environment and economy.

On behalf of the more than 2,300 business members comprised of 117,000 employees of the Lancaster Chamber of Commerce and Industry as well as the more than 60 senior executives who make up the Pennsylvania Business Council's Policy Roundtable, we wish to convey our very strong support for comprehensive public safety municipal pension reform and SB 755. We believe that thriving communities are essential for a prosperous state and a healthy business environment. Our organizations, along with over 40 other business, municipal and community development organizations are partnering with the *Coalition for Sustainable Communities* in support of reforming public safety municipal pensions, which are by far the chief cost drivers in full service communities across the Commonwealth.

First, let us say that we appreciate the hard work, dedication, and courage of our uniformed and non-uniformed public employees. We value the work they do, often with slim resources, in difficult circumstances, and with little thanks or acclamation.

The business community recognizes that commitments must be honored and transitions to new systems and approaches must be fair to public employees.

Neither of our organizations seeks to blame anyone for the municipal pension crisis the Commonwealth must now confront. Policymakers, elected state and municipal leaders, professional administrators, and bargaining unit representatives all had a hand in many individual decisions made over a course of decades. Collectively, these decisions got us to where we are today. The important thing isn't blame, but solutions.

Both of our organizations became engaged in the effort to address local government reform, including public safety pensions and Act 111 of 1968, nearly five years ago. We appreciate the challenges our municipal leaders face. Structural deficits, state mandates, and Act 111 arbitration rules make their tasks nearly impossible. Admittedly, we are often quick to say, "Well they should run their government like a business." The truth, however, is that government and business are different. There are different goals, different rules, and different metrics of success. And, even the best managed businesses would be bankrupt if their chief executives were strapped with the same restrictions, mandates and unfair processes as our municipal governments.

Defined benefit municipal public safety pensions, as currently configured, make budget-planning and future fiscal forecasting unpredictable at best and unsustainable at worst. Amplifying these challenges at the local level is the fact that not only are public safety pension plans subject to the political process of regular collective bargaining, they are also subject to the Act 111 binding arbitration process where pension benefit enhancements are often awarded by an arbitrator.

These challenges are not just about large urban communities; indeed, while larger communities with full-time police and fire personnel are most impacted, any size community can have an underfunded pension plan. In fact, sixty-six of Pennsylvania's 67 counties have at least one municipality with a pension plan under a high level of financial stress. Earlier this year, Auditor General Eugene DePasquale released a report updating the Commonwealth on the crisis in our municipal pension system. In his report, the Auditor General detailed a statewide increase in the total unfunded liability of $1 billion over the last two years. Across Pennsylvania, the unfunded liability is now reaching $8 billion. While Philadelphia and Pittsburgh account for a large portion of this unfunded liability due to sheer size, the Auditor General's report showed that of the top 25 municipalities with the highest dollar amount of unfunded aggregate pension liability, eight were townships and boroughs. The same report showed that of the top 25 municipalities with the highest percentage of unfunded pension liabilities, 21 were townships and boroughs.

Historically, pension benefits were more generous in the public sector as compensation for salary structures and working conditions that were less favorable than the private sector. Public pensions were a tool to attract and retain workers to lower paying public jobs. This is no longer true for municipal public safety employees who are almost always the highest paid municipal employees. Today, municipal public safety pay and pensions far exceed the average private sector worker. Adding to the cost is the practice of firefighters and police officers to "spike" their final average salary pension calculations with targeted overtime for senior officers. The effect of increasing the final years' earnings is pension payments that were never funded because contributions were calculated on base pay. This forces municipalities and taxpayers to dig deeper, increasing local and regional commuter taxes, reducing the ranks of public safety employees and pulling money from roads, community parks and other local government needs, all while going deeper into debt. This is a threat to municipal governments as well as public safety retirees.

Municipal public safety pensions represent the largest and fastest growing budgetary cost to most full service municipalities. Local governments deserve certainty and predictability. Taxpayers deserve accountability. And, valued public safety employees deserve retirement security for their years of service. Currently none of the elements exist and the unsustainable costs associated with public safety pensions are both thinning the ranks of police and fire personnel as well as offering the promise of failed systems.

Though public safety unions have been resistant to structural reforms of their pensions, no legislation we are supporting, including SB 755, would affect current employees or current pensioners. SB 755 is prospective, focusing on future hires. It should be noted that a number of Democratic Mayors of major Pennsylvania cities join us in support of SB 755. All of them are friends of labor, but like many of our members in the business community, they are also chief executives, forced to make difficult decisions based on the challenges and facts immediately before them.

SB 755 aims to take corrective action now by giving municipal governments the tools needed to prevent widespread pension collapse and reverse the current deterioration in public safety services. Unlike the current Defined Benefit pension plans, the optional Defined Contribution plan offered in SB 755 will reduce employer costs by providing a reliable, fair and modern benefit structure, a modest benefit reduction for new employees, and the promise of eventually stabilizing municipal pensions so that unfunded liabilities can be eliminated. The current system is based on big promises that cannot be kept. The reforms embodied in SB 755 offer a fair bargain for all stakeholders - employers, employees and the taxpayers alike: responsibility from all and opportunity for all:

Under SB 755, local elected officials must affirmatively adopt the new plan via ordinance. If adopted:

- Current police and firefighters, as well as pensioners, retain all existing benefits;
- Future employees receive a fair and modern pension plan which is portable and based on contributions from both employees and employers. This eliminates the practice of salary spiking and reverses the current plan structure where employees make only marginal, and often no, contributions to their pensions;
- Non-Social Security employees must contribute a higher percent of their increased net income (due to lack of Social Security withholdings) to ensure their retirement security;
- All pensions, for current and future employees, are removed from the binding arbitration process so that municipal employers can predict costs based on sound actuarial data while slowly paying down their existing pension liability;
- Full vesting is reached at 10 years (reduced from 12 years in current statute). Vesting options are further enhanced to include 25 percent at four years, 50 percent at six years and 75 percent at eight years; and
- Improves job and pension security for current and future municipal uniformed union employees.

Like you, we share a deep respect for the men and women in uniform who help to make our communities safe for our residents and businesses alike. And while we recognize after years of working on these issues there remains resistance to municipal public safety pension reform, we also believe that inaction by the General Assembly to address this problem will only make matters worse for our communities and local economies. To allow the broken pension system to continue in its current state is the ultimate disservice to our public safety employees and to taxpayers. From a business perspective, we firmly believe that failure to address public safety pension costs will almost certainly result in higher taxes on employers and their employees and make it harder for municipalities to attract and retain businesses and a talented and skilled workforce, both of which are necessary for vibrant, thriving and prosperous communities. No one wants to live and work in an overtaxed, unsafe and underserved township, borough or city.

We urge the General Assembly to include municipal public safety pension reform as part of the final negotiated budget agreement. Action is required NOW. The business community is eager to play an active role in helping to shape a final agreement that can bring about consensus and meaningful reform for our public safety personnel and the communities they serve.

Thank you. We are happy to take questions.