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562 Pa. Municipalities Categorized as Having 'Distressed' Pension Funds.

Pittsburgh Finance Director Paul Leger can draw a line from the problems of the city's underfunded pension to its recent property tax increase: Pension payments went up by $11 million and the millage rate increased 0.5 mills.

"That's $11 million you can't spend somewhere else, so you either have to move $11 million out of other expenditures for services or you have to increase revenues," Leger said. "What we did was increase revenues, a large portion of which went to that pension payment."

Pittsburgh is one of 562 Pennsylvania municipalities with distressed pension funds, according to figures Auditor General Eugene DePasquale released Wednesday.

About 1,200 municipalities in Pennsylvania administer their own pension plans. Collectively, they were $7.7 billion underfunded through 2012, up from $6.7 billion the year before.

"It's gone up by $1 billion with no sight of action yet by the Legislature," DePasquale said. "There's no way around it; we need a statewide solution."

Most of the shortfall was in Philadelphia, where the city's unfunded liabilities surpass $5.3 billion, according to July 2013 figures. Pittsburgh was the second-highest as of January 2013 at about $484 million.

Western Pennsylvania governments with plans among the 25 largest unfunded liabilities in dollars included Penn Hills, Monroeville, New Castle and Erie. Of the top 25 worst-funded plans by percentage, Braddock Hills made the list at 46 percent funded.

DePasquale recommends some short-term fixes. Governments should prohibit employees from "spiking" their pensions by working extra overtime, increase age and service requirements in accordance with increased life expectancies, and ensure all plans require members to contribute.

Long term, DePasquale wants local plans consolidated into a state system with job-specific classes: police officers, firefighters and non-uniformed employees.

"If you live in any of these municipalities, if it's not addressed, you're going to be dealing with tax hikes or cuts to public safety or a combination of it," DePasquale said.

DePasquale plans to release an audit on Pittsburgh's pension plan next month.

The city has taken steps to shore up its fund, including lowering its assumed rate of return on investments and paying more than its minimum required payments. But ever-increasing costs to meet obligations continue to put pressure on the budget, Leger said.

"We have to remember the promise to current employees that pension income will be available to them, but we also have to assure the taxpayers that all of their tax dollars will not eventually be going to pay pensions instead of providing services," he said. "It is a difficult tightrope to walk."

According to city data, the unfunded liability was $511 million in November; the plan is 57 percent funded.

Pension plans funded at 90 percent or higher are considered healthy, according to state criteria. Anywhere below that is under "minimal," "moderate" or "severe" distress.

Brian Jensen, senior vice president at the Allegheny Conference for Community and Economic Development, said unfunded liabilities can result from a decrease in employees, which means fewer pay into the system, or a decrease in government payments into the fund. This causes fewer dollars to go into the plan, although the payments still must be made. Other budget problems, such as employee costs, tax-exempt properties and shifting tax bases, exacerbate the problem, Jensen said.

Eileen Norcross, a senior research fellow with the Mercatus Center at George Mason University who studies public finance, said pensions are "the Pac-Man of budgets," eating into other areas with increasing costs to cover. In the extreme case of one Rhode Island municipality with a weak tax base, pensions were cut for retirees when Central Falls could not make payments.

"You're going to see the possibility of service cuts and other changes to these local budgets in order to make good on these pension benefits," Norcross said.

By Melissa Daniels

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