Written by **Bob Adelmann** on December 28, 2010

Unfunded Municipal Pensions: Conveyor Belt to Oblivion

For years the small town of Prichard, Alabama knew they were in trouble. Back in 2004, the city hired an actuary to analyze and summarize their employees' pension plan. He told the city the plan would run out of money by the summer of 2009: "The plan is projected to exhaust [all of its] assets around [the middle of] 2009." In September of that year, the city stopped mailing pension checks to its 150 beneficiaries because there was no more money in the account.

Nettie Brooks, who had retired from her position as Prichards police and fire dispatcher, was unable to keep up with her bills, and filed for bankruptcy. Alfred Arnold, a retired fire captain, took a position as a security guard at a local shopping mall. Eddie Ragland, a retired police captain, hired on as a police officer at the regional airport. And the retired fire marshall ended his life: When they found him, said David Anders, himself a retired district fire chief, he had no electricity and no running water in his house. He was a proud enough man that he wouldnt accept help.

The pensioners sued the city to keep their checks coming, even if they had to be paid out of the citys general revenue fund. The city officials filed for bankruptcy to keep that from happening. The judge threw out the bankruptcy filing. The city is appealing that ruling. Meantime, there are no checks.

Some of those whose checks have stopped coming attended a city council meeting just before Christmas, asking the council members to at least send them something before the holidays. Mary Berg, a former assistant city clerk, told them: I hope that on Christmas morning, when you are with your families around your Christmas trees, that you remember that most of the retirees will not be opening presents with their families. The council meeting adjourned without considering the plea.

What if the bankruptcy ruling stands? Prichards general revenues are not sufficient to pay the $150,000 monthly benefits. One of the council members floated a plan: dismantle the city. By dissolving the city, all obligations owed to the pensioners would disappear. Others on the council ignored the suggestion. Fire captain Nate Doss blames the past members of the council who voted in the benefits without determining how to pay for them. He still thinks there is room for negotiation: What I would really like to see is the city try to renegotiate its position and try to make payments where we can, based on what we have.

Central Falls, Rhode Island, is on the same conveyor belt to oblivion as Prichard. The state appointed Mark Pfeiffer, a retired Superior Court judge, to run the city after its officials declared it to be insolvent. After reviewing Central Falls books, Pfeiffer said that the underlying, built-in problems in the citys financesrequire significantly changing how municipal employee contracts and retirement benefits are handled. The problem in Central Falls is the same as Prichards, only the numbers are different. With an operating budget of about $16 million, it faces $32 million in health care costs for its retirees, plus an additional $48 million in pension benefits. Even after Pfeiffer was able to negotiate nearly $1 million in givebacks from the citys union and non-union workers, and increasing property and auto taxes and fees so that the average tax bill increased by one-fifth, there is still a $2.1 million shortfall. Pfeiffer is asking the state for help in covering that:

> The crisis in Central Falls has been growing for more than a decade. City administrations approved municipal employee contracts [it] could not afford and kept giving out pension and retirement benefits without figuring how to pay for them, and now the funds are running out of money. That situation was exacerbated over the years by municipal officials who ignored it when it was manageable and only reacted when it was too late.

The state of New Jersey is in the same boat, but on a much grander scale. Last year New Jerseys unfunded pension liability increased by 18 percent, while its funds have only 62 percent of the amount needed to pay future benefits, and that had declined from 66 percent the year before. Governor Chris Christie has been getting a lot of attention in his attempts to shore up the states finances, but it might be too late. He has reduced benefits to retirees by almost 10 percent, has increased the retirement age for teachers from 62 to 65, and is now requiring all state employees to contribute 8.5 percent of their salaries into the pension system, up from 3 percent some of them were paying before.

At present, municipalities that are in trouble are having the most success in raising property taxes by just enough to keep the taxpayers from revolting. For instance, Upper Moreland, Pennsylvania, raised property taxes by 13 percent, but that amounted to just $5 a month on the average home in that city. In Philadelphia, property taxes increased 9.9 percent earlier this year, but even that increased the average tax bill by only $42 a month. And Palatine, a suburb of Chicago, raised property taxes by 4 percent, but the average homeowners bill went up just $3 a month.

As more and more cities, towns and municipalities move along the conveyor belt to oblivion, higher taxes, fewer services, more receiverships and more requests for state and federal aid will result. But ultimately the price will be borne by those to whom promises were made by politicians, now long out of office, who relied on those promises for their political success. Politicians come and go, but taxpayers go on forever.