Report on

Municipal Pension Funds

Updated: January 2015 with latest data

From the

Department of the Auditor General

562 municipalities administer pension plans that are "distressed" and underfunded by at least $7.7 billion

Municipalities risk: pension agreements not honored, financial condition adversely impacted, debt funding threatened

Introduction

In February 2014, the Department of Auditor General released a report on local government pension plans detailing the funding challenges faced by Pennsylvania's local governments. The report noted that 573 municipalities that administer pension plans are distressed and underfunded, posing a total liability to taxpayers of $6.7 billion. The actuarial data in that report was based on January 2011 reports submitted to the Public Employee Retirement Commission (PERC).

Total underfunding of distressed plans increased by $1 billion in 2 years.

This updated report includes newly available actuarial data from January 2013 and shows that the unfunded liability has increased by approximately $1 billion, to $7.7 billion. Of the 1,223 municipal governments that administer pension plans, 562 now have pension plans that are distressed. The problem is not going away. Clearly the underfunded municipal pension liability must be addressed before the long-ignored crisis cripples state and local taxpayers.

Until recently, it has been the prevailing wisdom that pension benefits are constitutionally protected promises made by the employer that must be paid under all circumstances, regardless of the financial condition of the municipality. However, the deteriorating solvency of local governments throughout the country and the potential threat of bankruptcy are challenging these long-held assumptions. It is possible that retirees may be treated as creditors and receive a reduced pension benefit during a bankruptcy case.[1]

[1] As of February 21, 2014, Detroit's bankruptcy plan proposes to cut police and firefighters' pension payments by 10 percent and to cut all other city employees' pensions by as much as 34 percent.

Throughout Pennsylvania, municipalities have been facing severe financial challenges in providing necessary governmental services while trying to meet their pension benefit obligations. This condition is particularly acute in cities, which account for the top 10 municipalities with the largest unfunded aggregated pension liabilities, as illustrated in Addendum 2 contained in this report. For those municipalities whose pension plans have become so underfunded that the plans are rated as "distressed," the promised retirement commitments are at risk. This imminent risk was highlighted in our Department's recent audit of the City of Scranton Aggregate Pension Fund. The audit report disclosed that, based on actuarial projections, annual benefit payments owed to plan beneficiaries, at current funding levels the city's police plan has assets to fund less than 5 years of benefit payments, while the Firemen's and non-uniformed plans have assets to fund less than 3 years of benefit payments.

The burden of the underfunded and distressed municipal pension plans are the legal responsibility of the taxpayers of each municipality with a distressed plan. Without immediate action by the governor and state legislature to intervene, current recipients of pensions could be at risk of not realizing their lifetime pension payments, and current employees are at risk for their payments to be reduced, or possibly to receive no payments from their pensions.

The size of the problem in Pennsylvania

562 municipalities, or 46 percent of the 1,223 local governments[2] in the state that administer pension plans, have pension plans that have been classified as "distressed." The pension plans of these 562 municipalities were underfunded by $7.7 billion as of the January 1, 2013, valuation date.

This distressed classification is determined by the Public Employee Retirement Commission (PERC) based on the combined level of funding of all the pension plans offered by a municipality.

Funding status considers both the actuarial value of assets and liabilities. A pension plan is fully funded if the actuarial value of its assets is sufficient to pay the projected actuarial accrued liabilities, which represents the future pension benefits that the municipality has agreed to pay from that plan. When a pension plan's assets are not sufficient to pay its projected liabilities, the plan is underfunded.

The value of the assets when compared to the value of the liabilities

[2] Each municipality may offer more than one pension plan. The 1,223 local municipalities that administer pension plans offer approximately 2,600 pension plans in total, of which 1,935 are defined-benefit plans that are audited by the Department of the Auditor General. More than half of those plans have ten or fewer members.

results in a funded ratio for pension plans. The funded ratio is used when determining whether the plan(s) should be labeled as "distressed."

562 Municipalities with Distressed Pension Plans:

438 @ Level 1

102 @ Level 2

22 @ Level 3

PERC's most recent analysis of the combined funded ratio of each of the 1,223 municipalities' pension plans is based on the plans' January 1, 2013, actuarial valuation reports.

The Municipal Pension Plan Funding Standard and Recovery Act (Act 205), as amended in 2009[3], provides criteria for determining the level of financial distress based on the funded ratio. Act 205 established the following levels of distress:

Level	Indication	Percentage of liabilities that are funded
0	Not distressed	90% or greater
1	Minimal distress	70-89%
2	Moderate distress	50-69%
3	Severe distress	Less than 50%

The tables on the following page provide the total actuarial value of the assets and liabilities of the 562 distressed municipality plans. Because the pension plans maintained by the cities of Philadelphia and Pittsburgh comprise three-fourths of the total pension underfunding for these 562 municipalities, the information is first presented with those two plans included, and then with those two plans excluded.

Acknowledgement: The Department of the Auditor General would like to acknowledge the contributions of the PERC in the development of this report. The Department continues to benefit from a productive and cooperative working relationship with PERC and its staff, who are an invaluable source of information regarding the administration of local government pension plans.

PERC distress scores for all municipalities can be downloaded here:
http://www.portal.state.pa.us/portal/server.pt/community/perc_home/2513/act_205_distress_scores/735168

[3] Municipal Pension Plan Funding Standard and Recovery Act, Act of December 18, 1984 (P.L. 1005, No. 205), as amended, 53 P.S. § 895.101 et seq.

Distress levels determined by PERC based on January 1, 2013, actuarial valuation reports[4] (**Including** city of Philadelphia and city of Pittsburgh)					
Distress level	**# of munic. with distressed plans**	**Actuarial value of assets**	**Actuarial accrued liabilities**	**Unfunded actuarial accrued liability**	**Average funded percentage**
1	438	$3,685,231,204	$ 4,684,742,009	$ 999,510,805	78.7%
2	102	1,820,122,244	3,004,223,691	1,184,101,447	60.6%
3	22	4,867,442,234	10,374,121,056	5,506,678,822	46.9%
Total	562	$10,372,795,683	$18,063,086,757	$7,690,291,074	57.4%

Distress levels determined by PERC based on January 1, 2013, actuarial valuation reports (**Excluding** city of Philadelphia and city of Pittsburgh)					
Distress level	**# of munic. with distressed plans**	**Actuarial value of assets**	**Actuarial accrued liabilities**	**Unfunded actuarial accrued liability**	**Average funded percentage**
1	438	$3,685,231,204	$4,684,742,009	$ 999,510,805	78.7%
2	101	1,144,669,845	1,844,181,125	699,511,280	62.1%
3	21	68,182,234	247,966,056	179,783,822	27.5%
Total	560	$4,898,083,284	$6,776,889,191	$1,878,805,907	72.3%

Distress levels determined by PERC based on actuarial valuation reports Philadelphia city and Pittsburgh city only				
City	**Actuarial value of assets**	**Actuarial accrued liabilities**	**Unfunded actuarial accrued liability**	**Average funded percentage**
Philadelphia	$4,799,260,000	$10,126,155,000	$5,326,895,000	47.4%
Pittsburgh	675,452,399	1,160,042,566	484,590,167	58.2%
Total for two cities	$5,474,712,399	$11,286,197,566	$5,811,485,167	48.5%

Addendum 2 lists the 25 municipalities with the largest unfunded aggregate pension liabilities. Addendum 4 is a map pinpointing the 562 municipalities with distressed pension plans.

[4] Data for the city of Philadelphia is based on the fund's July 1, 2013, actuarial valuation report.

Causes of underfunding

Municipalities fund pension plans from three sources of revenue: employee contributions, municipal (as employer, may include state aid) contributions, and investment income. Ideally, income from all three sources should provide enough revenue to fund the liabilities of the plan. When these revenues fall short of meeting the total obligations, a plan is considered underfunded. Numerous factors can cause a municipal pension plan to be underfunded, and the most common factors are outlined below.

Use of excessive rates of return negatively impacts pension plan funding levels

Excessive projected rates of return create a false representation of the true funding status.

Each municipality relies on an actuary to determine the annual contribution amount that the municipality should pay into its defined-benefit pension plan(s) in order to keep the plan(s) funded. The actuary calculates this amount using various economic assumptions, and one of the most important economic assumptions is the investment "rate of return." The rate of return is the interest rate at which the actuary believes each plan's investment assets will earn.

If the assumed rate of return is not attained, the earnings on investments will fall short of expectations, and the plan could be underfunded. The shortfall in earnings will have to be offset by an increase in contributions by employees and/or the municipality. If not, the plan will remain underfunded.

A simple example of how the assumed rate of return can impact the funding status of a pension plan is to assume an employee is promised a one-time pension payment of $146.93 in five years. To meet this commitment, the employer contributes $100 into the pension plan the first year. If the plan assumes, and earns, an 8 percent rate of return over the five years, after the first year the pension balance would be $108.00. Continuing at that 8 percent rate each of the next four years, after five years the plan will be worth $146.93 which means the pension commitment is fully funded.

However, if the plan's investments only earned a 5 percent rate of return each year instead of 8 percent, the balance after five years would be $127.63. As a result, the plan would be $19.30 underfunded. The municipality would still have the obligation to pay the unfunded amount of $19.30, which would require the municipality to use some other source of local funds.

While this example is simple and small in amount, it illustrates the importance of using a realistic, attainable rate of return in the actuarial calculations.

Nearly one of every five municipal defined-benefit pension plans that assumed they would earn a 7.0 percent or higher rate of return are funded below 70 percent.

1-1-13 assumed rates of return for municipalities with 5 highest net unfunded liabilities:

Philadelphia 7.85%

Pittsburgh 7.5%

Allentown 8.0%, 5.5% (NUPP –PMRS)

Scranton 8.0%

Reading 7.5%

Pennsylvania law[5] currently requires the actuarial rate of return assumption for municipal pension plans to be at least 5 percent but not more than 9 percent.[6] The table below shows the rate of return assumed by 1,935[7] defined-benefit municipal pension plans as of 2013. This table also shows the number of defined-benefit plans using a rate of return greater than and less than, 7 percent, the mid-point between the legal range of 5 percent to 9 percent. Finally, the table shows the number of plans that are funded below 70 percent for each assumed rate of return (distress levels 2 and 3).

Assumed Rate of Return	Number of defined-benefit plans	Number of plans funded below 70%	Percentage of plans funded below 70%
8.50%	8	5	62.5%
8.25%	4	2	50.0%
8.00%	247	64	25.9%
7.85%	3	3	100.0%
7.75%	42	10	23.8%
7.50%	377	63	16.7%
7.25%	102	13	12.7%
7.00%	268	43	16.0%
Subtotal	**1,051**	**203**	**19.3%**
6.75%	15	2	13.3%
6.50%	81	15	18.5%
6.25%	7	1	14.3%
6.00%	114	9	7.9%
5.75%	10	0	0.0%
5.50%	560	26	4.6%
5.25%	2	0	0.0%
5.00%	32	3	9.4%
4.50%	56	17	30.4%
4.10%	1	0	0.0%
4.00%	5	1	20.0%
3.00%	1	0	0.0%
Subtotal	**884**	**74**	**8.4%**
Total	**1,935**	**277**	**14.3%**

[5] Section 203.3(b)(2) of Part IV of Title 16 of the Pennsylvania Code.

[6] The assumed rate of return can be above or below the regulatory rate if a municipality receives approval from PERC. Approval is based on an explanation provided by the actuary for the need for the deviation.

[7] We presented information on 1,935 pension plans because that is the number of defined-benefit municipal pension plans subject to audit by the Department of the Auditor General. Of the 3,200 municipal pension plans offered throughout the commonwealth, the Department of the Auditor General audits approximately 2,600, which are both defined-benefit and defined-contribution plans. The 600 that are not audited by the Department of the Auditor General are county and municipal authority plans.

As the table shows, generally speaking, those pension plans that assumed a higher rate of return are more likely to be underfunded. Many pension and investment professionals agree that any rate above 7 percent is too high for a rate of return assumption, and assuming a higher rate can create a false representation of the true funding status of the pension plan(s). Consequently, the actual extent of the crisis in funding levels of many distressed pension plans currently utilizing overly optimistic long-term term investment return assumptions is actually understated in the short-term which will result in increased financial obligations to municipalities and their taxpayers.

Considering recent dramatic fluctuations in the stock market, pension plan officials must continually review the rate of return assumptions used by the plans' actuaries. Such a review allows each municipality to ensure that the assumed rate of return is reasonable for the plans' investment portfolios and the municipalities' investment policies.

The stock market is not your grandfather's stock market anymore. Massive changes have transformed the markets and investment management practices. A fund manager beating the market is no longer a realistic objective, and few active fund managers outperform the market by more than one percent over the long term. In fact, fund managers underperform the market nearly twice as often as those who outperform the market.

Increased life expectancy of retirees and current employees raises future pension costs since benefits have to be paid over a longer period of time

Life expectancy has increased from age 60 in the 1930s, when some local municipal pension laws were written, to nearly age 80 in 2012.

The applicable local government pension statutes were written as far back as the 1930s. At the time these laws were written, life expectancy was approximately 60 years of age. Therefore, when those laws allowed a person to retire at age 50, or even after just 20 years of service, it was expected that pension payments would be made for only 10 to 20 years. Current life expectancy is nearly 80 years of age.[8] Nevertheless, persons are still eligible to retire at age 50, which means that pension payments could continue for 30 or more years—20 years longer than when the statute was originally passed.

Actuarial assumptions used to calculate a municipality's contribution amount into a pension plan should be based on current life expectancy figures. If realistic life expectancy assumptions are not used then,

[8] 2012 report on mortality in the USA from the Centers for Disease Control and Prevention's National Center for Health Statistics.

each time a retiree lives longer than the assumed life expectancy, the pension plan incurs an additional liability. Without additional payments into the plan, the plan becomes underfunded as its participants age.

For example, if a pension plan has been funded based on the employees' anticipated average life expectancy of 70 years, that plan will incur a unfunded liability if a retiree lives until the age of 85, paying pension costs for 15 more years than anticipated. For every employee who lives past the assumed age, this liability will multiply.

Further, as life expectancy increases, the ratio of retirees to active members has been increasing. At the same time that retirees live longer, municipalities have made personnel cuts to save on costs, resulting in fewer active members paying into the pension plan(s).

Inclusion of sizeable accrued lump-sum leave and excessive overtime payments drains pension assets farther than projected

Through collective bargaining agreements, municipal employees can be permitted to include any earnings from overtime and accrued leave payments when determining final salary levels that will be used in the pension calculation. The inclusion of excess overtime in the last few years and unpaid, but accrued, leave payments in pension benefit determinations can lead to an abuse known as "spiking." Spiking means that employees do not use their allotted leave allowances, and they may also work as much overtime as possible in their last few years of employment, to gain the benefit of having their base salary artificially inflated for calculating pension benefits. This practice can actually result in employees being paid a higher monthly pension benefit than what their actual monthly regular salary was during their working years.

If these excess overtime and accrued leave payments are not taken into consideration by actuaries when calculating annual pension contribution amounts, or if the amount of overtime "spikes" higher than the actuaries' assumptions, then pension plans can quickly become underfunded.

The following example using a base annual salary of $60,000 ($30 an hour) shows the impact of spiking. If no overtime or accrued leave payments were incurred, that person's final salary for pension calculation purposes would be $60,000.

Possible Effects of Underfunded pension plans:

- Increases in property tax, per capita tax, earned income tax, permit fees, license fees
- Imposition of a dedicated pension tax on earned income
- Deterioration of municipal services due to the necessity to meet ever increasing pension obligations
- Possible losses of pension benefits to municipal employees and their beneficiaries
- Reduction of municipal bond rating

However, if that employee were to incur 20 hours of overtime each month and accrue 10 days of leave, that employee would earn an additional $9,600 that year, increasing the annual salary to $69,600. When that overtime and accrued leave is allowed to be included for purposes of calculating pension benefits, pension benefits would be based on a salary of $69,600 instead of $60,000. That additional $9,600 in income can have a significant impact on the pension plan considering that pension benefits can be paid for 20 or 30 years or more. And when this spiking occurs for many participants in a pension plan, the impact multiplies dramatically.

To further illustrate, a 2013 study conducted by Allegheny County officials found that 30 retirees "spiked" their pension benefits by including overtime payments in their pension calculations. The impact of the inclusion of spiking overtime for these 30 persons increased the county's pension costs by nearly $1 million each year.

Legal provisions allow elimination of employee contributions which shifts burden of pension plan funding to municipalities and taxpayers

Various state and local laws[9] govern the state's municipal pension plans. Of significant note is a provision in Act 600 of 1956, which governs many municipal police pension plans. This act allows the employee contributions to be reduced or eliminated merely through the passage of an annual municipal ordinance or resolution.

When employee contributions are reduced or eliminated altogether, the municipality must provide additional funding streams into the pension plan to maintain an adequate funding level to meet pension obligations—or risk the likelihood that the plan will be underfunded.

Effects of underfunded pensions on taxpayers and municipalities

The ultimate burden for the underfunded municipal pension plans is currently not a direct responsibility of the commonwealth. The legal burden is borne by the municipality, and ultimately the municipal taxpayers will have to make up for the underfunded obligations. No relief is currently in sight without legislative changes.

Because pension plans rely on three sources of revenue—employee contributions, municipal (employer) contributions, and investment income—for funding, there is the assumption that if one revenue source falls short, the other two revenue sources will need to be increased in order to keep the pension plan adequately funded.

[9] For a list of various state statutes that govern Pennsylvania's local municipal pension plans, see Addendum 3.

With the recently poor economy, investment earnings were not a strong revenue source for pension plans. Further, when employees are able to waive their contributions (as Act 600 of 1956 allows), the primary source of revenue into pension plans is the employer's own contributions. Ultimately, the employer's contribution is the one guaranteed payment into the plan, and that payment will increase over time if the plan remains underfunded.

When municipalities do not have enough revenues in their General Funds to cover pension expenses, they pass that expense on to taxpayers. Taxpayers have to bear the burden with an increase in taxes, including the imposition of a dedicated pension tax on earned income that is allowed by law if pension plans are in distress. Municipalities may also charge taxpayers higher permit and licensing fees.

GASB 67 & 68 reporting requirements effective 2014-15 will impact municipalities' balance sheets. Possibly causing:

- Bond ratings to be lowered
- Bond financing harder to obtain
- Bond financing more expensive

Moving beyond their annual pension plans' contributions, municipalities are facing new financial reporting requirements that will affect their financial statements and financial position as reported on those statements. The Governmental Accounting Standards Board (GASB) has issued Statement Nos. 67 and 68 (effective 2014-15) which will require municipalities and pension plans to include a "net pension liability" on their balance sheets showing the actual amount of the unfunded pension liability. This will be the first time that the true pension liability will be reported as part of the municipalities' financial statements for the taxpayer to see.

The presentation of the net pension liability will have a direct and immediate impact on the balance sheet of all municipalities. It might also have negative consequences when a municipality seeks loans or bond financing. Bond rating agencies, such as Standard & Poor's, review municipal financial statements. They typically consider such liabilities as debt-like in nature and take this obligation into consideration when rating bonds. The lower a municipality's bond rating, the harder, and more expensive, it will be to obtain debt financing.

Conclusion

The commonwealth's challenge of underfunded public pension plans is also a national issue as state and local governments across the nation face increasing pressures to ensure the long-term financial stability of their public pension plans.

The market crash of 2007-2009 took a substantial toll on pension plans because the low rates of return in those years prevented pension plans from achieving the actuarial projected, assumed rates of return required to meet long-term funding requirements. Thus, in many cases

low returns during the crash without a reduction in payouts contributed to significant shortfalls in the total value of the plans. While recent market rates of return have been higher, it took from 2009 until 2013 for pension plans to regain the market valuation lost in the 2007-2009 crash.

Today, over one-third of the municipal pension plans that are funded below 70 percent are still using projected rates of return for their investments that are very difficult to achieve over multiple years (e.g. over 200 plans are still using an 8 percent projected return). The use of an unrealistic rate of return camouflages how much a pension plan is truly underfunded because it masks the size of the problem when funding projections are based on inflated returns. In other words, it allows a municipality to put off addressing the underfunded pension, possibly until it is too late and funds are not available to pay benefits to the employees who earned them.

As local governments reduce the number of staff they employ, the number of active employees making contributions into the pension plans decreases at the same time the number of retirees continue to increase, thereby forcing municipalities to make up the shortfall by increasing their annual contributions into the plans just to meet minimum funding standards. The higher minimum pension payments will therefore consume a higher percentage of a municipality's total budget. Without effective legislative reform municipalities may ultimately have no choice but to:

- decrease pension payments to retirees,
- pass the increased burden on to taxpayers, or
- some combination of both options.

The time to act is now!

The unfunded liability increased by $1 billion in just 2 years.

The longer it takes to address underfunded pension plans, the larger the shortfall will become. And that shortfall will increase rapidly.

In Pennsylvania, as of 2013, 562 municipalities have pension plan(s) classified as distressed by PERC. These plans were underfunded by $7.7 billion as of the valuation date of Jan. 1, 2013. A $7.7 billion liability burden could be every taxpayer's nightmare.

It is imperative that the commonwealth's system of local government pension plans, as well as their administration, be reformed immediately. We should not allow our retirees to live in fear of their pension payments being reduced. Local government pension plans must be adequately funded and properly administered to ensure that all retirees receive their pension payments as they were promised.

As clearly demonstrated by a $1 billion liability increase in just two years, allowing time to pass without an effective solution does not reduce the magnitude of the problem. Ultimately a delayed solution will impact the retired public employees and every taxpayer in the commonwealth.

Recommendations

To address **underfunding** of pension plans, the following recommendations should be considered:	To address **systemic issues** associated with pension plans, the following recommendations should be considered:
➢ Exclude "spiking" overtime and lump-sum payments for accrued leave when determining pension benefits. ➢ Update age and service requirements for normal retirement eligibility to account for increased life expectancy. ➢ Establish consistent member contribution provisions. ➢ Narrow the range of acceptable investment rate of return assumption options to reflect current economic conditions. ➢ Establish a new distress recovery program that would amend the current formula of state aid distribution to provide for additional state aid based on distress level. Additional aid should only be provided if municipalities meet certain requirements such as funding plans in accordance with Act 205 standards, agreeing not to provide any benefit increases to current employees, and establishing a revised benefit structure for new hires. ➢ Set limits on the amount of pension costs that may be reimbursed by the commonwealth, thus ensuring that municipalities contribute a portion of a plan's annual pension costs exclusive of state aid allocations. ➢ Mandate that each municipality publish its annual pension costs, by plan, for public review. ➢ Reduce administrative and management fee expenses.	➢ Consolidation of local government pension plans into a statewide system plan segregated by different classes of employees, e.g., police officers, firefighters, and non-uniformed employees. ➢ Absent plan consolidation, all plans should consider using a low cost, conservative method of investing based on index investing. Such a practice would eliminate wild fluctuations or poor investment returns. Investment companies such as Vanguard Group (a Pennsylvania based firm), Fidelity, etc. all provide index investing at an extremely low cost to the pension plan. ➢ Consolidation of the administration of the local government pension plans by one entity while maintaining the existing system of individual pension plans. This overall administrator could be entities such as the Pennsylvania Municipal Retirement System (PMRS), the State Employees' Retirement System (SERS), or another large multiple-employer plan administrator. ➢ Develop portability options for existing municipal employees to allow changing municipal jobs without fear of forfeiting accrued pension benefits. ➢ Mandate a state agency, such as DCED's Bureau of Local Government Services, to have responsibility for providing guidance to municipalities for compliance with applicable state statutory provisions. This agency could also establish best practices, develop manuals, and offer training to municipalities related to pension plan administration.

Addendum 1

Municipalities with the 25 largest percentage of unfunded pension liabilities[10]

Rank	Municipality	County	Assets	Liabilities	Funded Percentage	Distress Level
1	Thornbury Township	Chester	$6,985.00	$31,584.00	22	Severely Distressed
2	Scranton City	Lackawanna	$43,762,008.00	$194,041,288.00	23	Severely Distressed
3	Summit Township	Crawford	$23,898.00	$76,046.00	31	Severely Distressed
4	Ellsworth Borough	Washington	$13,618.00	$38,225.00	36	Severely Distressed
5	Young Township	Indiana	$131,954.00	$349,548.00	38	Severely Distressed
6	Millbourne Borough	Delaware	$321,939.00	$781,854.00	41	Severely Distressed
7	New Milford Township	Susquehanna	$121,045.00	$294,492.00	41	Severely Distressed
8	East St Clair Township	Bedford	$20,630.00	$48,911.00	42	Severely Distressed
9	Forest Lake Township	Susquehanna	$18,395.00	$43,909.00	42	Severely Distressed
10	Winslow Township	Jefferson	$100,090.00	$232,229.00	43	Severely Distressed
11	East Carroll Township	Cambria	$26,660.00	$60,067.00	44	Severely Distressed
12	Johnstown City	Cambria	$21,514,855.00	$47,422,975.00	45	Severely Distressed
13	Roaring Brook Township	Lackawanna	$328,409.00	$723,987.00	45	Severely Distressed
14	London Grove Township	Chester	$428,412.00	$926,793.00	46	Severely Distressed
15	Braddock Hills Borough	Allegheny	$259,309.00	$558,585.00	46	Severely Distressed
16	Philadelphia City	Philadelphia	$4,799,260,000.00	$10,126,155,000.00	47	Severely Distressed
17	Colwyn Borough	Delaware	$685,026.00	$1,447,179.00	47	Severely Distressed
18	Lower Frederick Township	Montgomery	$242,588.00	$521,230.00	47	Severely Distressed
19	Lamar Township	Clinton	$33,056.00	$69,742.00	47	Severely Distressed
20	Susquehanna Depot Borough	Susquehanna	$86,017.00	$179,016.00	48	Severely Distressed
21	Foster Township	Schuylkill	$38,869.00	$80,982.00	48	Severely Distressed
22	Miller Township	Perry	$18,471.00	$37,414.00	49	Severely Distressed
23	Hazleton City	Luzerne	$30,505,126.00	$61,532,109.00	50	Moderately Distressed
24	Salem Township	Westmorement	$754,879.00	$1,509,910.00	50	Moderately Distressed
25	Addison Township	Somerset	$113,795.00	$225,932.00	50	Moderately Distressed

Addendum 2

Municipalities with the 25 largest dollar amount of unfunded aggregate pension liabilities[10]

County	Municipality	Population	Net Unfunded Liability
Philadelphia	Philadelphia City	1,526,006	5,326,895,000
Allegheny	Pittsburgh City	305,704	484,590,167
Lehigh	Allentown City*	118,032	171,035,684
Lackawanna	Scranton City	76,089	150,279,280
Berks	Reading City	88,082	85,233,480
Erie	Erie City	101,786	81,377,731
Northampton	Bethlehem City	74,982	69,744,102
York	York City	43,718	64,675,648
Delaware	Chester City	33,972	42,836,995
Luzerne	Wilkes-Barre City	41,498	40,313,122
Luzerne	Hazleton City	25,340	31,026,983
Northampton	Easton City	26,800	28,299,043
Blair	Altoona City	46,320	26,146,857
Cambria	Johnstown City	20,978	25,908,120
Delaware	Radnor Township	31,531	24,922,376
Delaware	Upper Darby Township	82,795	24,799,408
Lancaster	Lancaster City	59,322	24,530,441
Montgomery	Cheltenham Township	36,793	23,341,185
Lawrence	New Castle City	23,273	21,477,963
Lycoming	Williamsport City	29,381	20,656,138
Allegheny	Penn Hills Township	42,329	19,350,868
Delaware	Haverford Township	48,491	19,326,688
Montgomery	Norristown Borough	34,324	16,161,216
Allegheny	Monroeville Borough	28,386	16,156,492
Bucks	Falls Township	34,300	14,378,145

* *Proceeds from the sale of the municipal water/sewer authority were not reflected in the January 1, 2013 data.*

[10] Data obtained from *Status Report on Local Government Pension Plans: A summary and analysis of 2012 Municipal Pension Plan Data Based on January 1, 2013, Actuarial Valuation Reports submitted pursuant to Act 205 of 1984,* and *2011 County Pension Plan Data Based on the January 1, 2012, Actuarial Valuation Reports submitted pursuant to Act 293 of 1972,* published in December 2014 by the Public Employee Retirement Commission of the Commonwealth of Pennsylvania.

Addendum 3

In addition to Act 205 and Public Employee Retirement Commission regulations, various other state statutes govern Pennsylvania's local government pension plans, including:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended,
53 P.S. § 881.101 et seq.

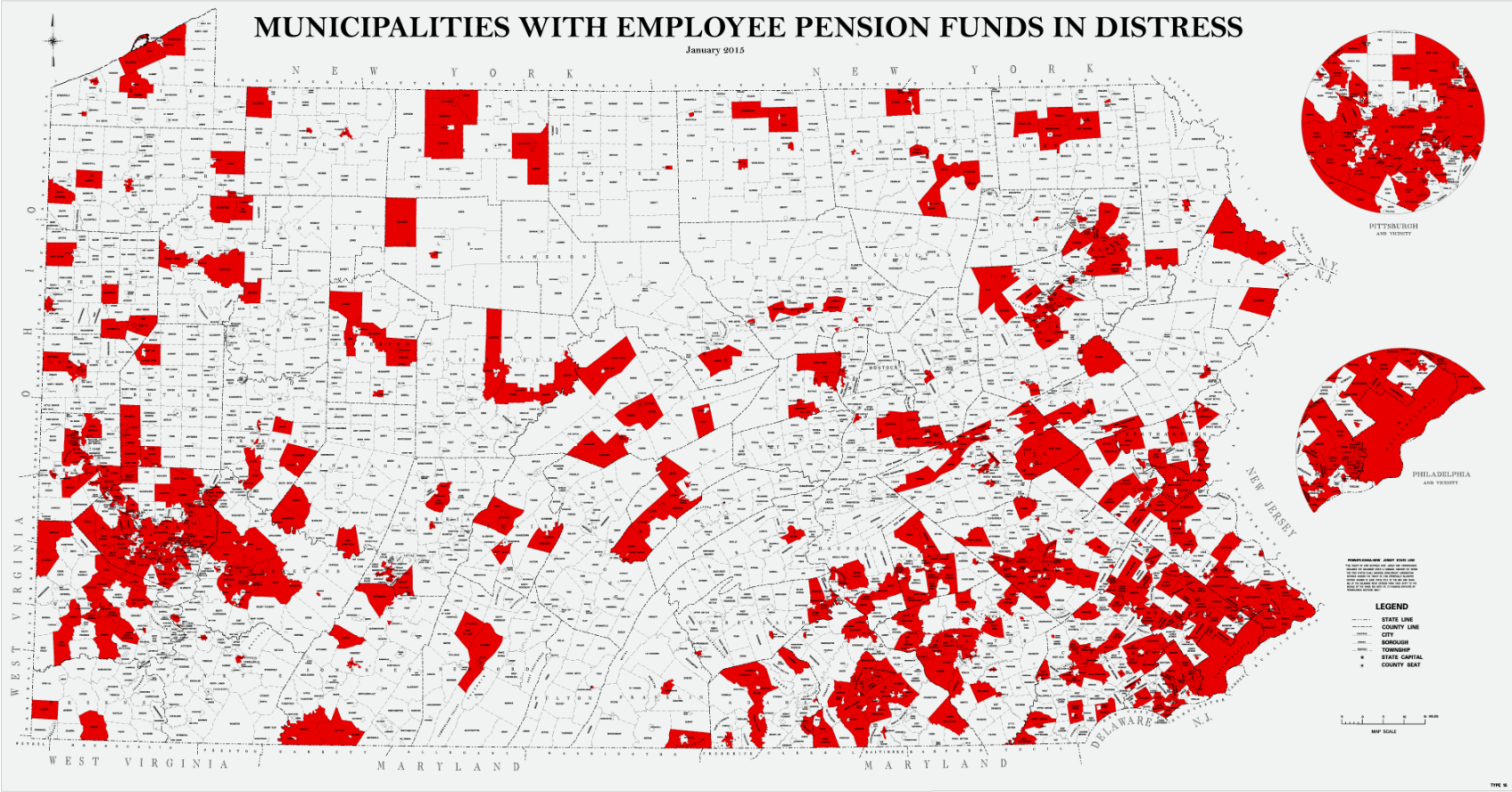
Act 69 - The Second Class Township Code, Act of May 1, 1933
(P.L. 103, No. 69), as reenacted and amended
53 P.S. § 65101 et seq.

Act 317 - The Third Class City Code, Act of June 23, 1931
(P.L. 932, No. 317), as amended
53 P.S. § 35101 et seq.

Act 581 - The Borough Code, Act of February 1, 1966
(P.L. 1656, No. 581), Article XI(f), Police Pension Fund in Boroughs
Having a Police Force of Less Than Three Members, as amended
53 P.S. § 46131 et seq.

Act 600 - Police Pension Fund Act, Act of May 29, 1956
(P.L. 1804, No. 600), as amended
53 P.S. § 767 et seq.

Addendum 4


MUNICIPALITIES WITH EMPLOYEE PENSION FUNDS IN DISTRESS
January 2015
NEW YORK
NEW YORK
WEST VIRGINIA
MARYLAND
MARYLAND
NEW JERSEY
DELAWARE
PITTSBURGH
AND VICINITY
PHILADELPHIA
AND VICINITY
LEGEND
STATE LINE
COUNTY LINE
CITY
BOROUGH
TOWNSHIP
STATE CAPITAL
COUNTY SEAT
MAP SCALE