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News for Immediate Release

Dec. 7, 2016

Auditor General DePasquale Says Major Improvements Needed to Address Severely Distressed Pension Plans in City of Chester

Delaware County city owes \$15 million in pension payments, as funds fall dangerously low

CHESTER, Delaware County – Auditor General Eugene DePasquale said today that the City of Chester’s employee pension plans desperately need major improvements to avoid running out of money.

At the end of the year, Chester will owe more than \$15 million to its three employee pension plans, including nearly \$9 million in outstanding contributions and interest to its police pension plan.

“Chester cannot manage this pension problem alone,” DePasquale said. “The state may have to step in to guarantee retirees continue to get the benefits they earned and to stop one of Pennsylvania’s cities from becoming insolvent. Without changes, the current situation is just not sustainable.”

Compounding the problem is the practice of police officers and firefighters working excessive overtime to increase, or spike, their retirement pension benefits. For example, one police officer allegedly worked more than 3,500 hours of overtime in a year to nearly triple his pension benefit to more than \$10,000 a month.

Twenty-five police and firefighters retired on non-disability pensions during and after the current audit, which covered Jan. 1, 2013 to Dec. 31, 2015. The overtime for these 25 retirees alone costs Chester an additional \$843,504 per year in pension payments, which could add nearly \$9 million in additional benefits every 10 years.

- Seven of the 14 police retirees have annual pensions of more than \$90,000, including three who have pensions of more than \$100,000 a year.
 - One police officer raised his monthly pension from \$3,618 to \$10,272 by working 3,504.50 hours of overtime in a 12-month period. The officer earned \$155,808 for additional hours, which raised his yearly salary to \$240,525. His annual pension is now \$123,264.
 - Based on a seven-day work week, the police officer had to work 15.3 hours a day, every day, for 365 days in a row.
- By working overtime, eight of 11 firefighter retirees added at least \$1,230 a month to their pension benefits, including two retirees who added more than \$3,000 a month to their pensions.
 - One firefighter worked 2,012 hours of overtime in a year to raise his monthly retirement pension from \$3,917 to \$7,660. This retiree earned \$89,840 in overtime to earn a salary of \$188,844. His annual pension is now \$91,920.

“Police and firefighters work hard and put their lives on the line for the communities they serve,” DePasquale said. “But, some of the overtime reported here in Chester is just unbelievable. It is not humanly possible to work double shifts for an entire year with no days off. If legitimate, these sort of hours are unhealthy and potentially dangerous to the employee, co-workers and the public’s safety.”

Chester has deep and lingering financial issues. The city had one of the highest unfunded pension liabilities in the state at \$61.2 million in 2015. Chester has been an Act 47 financially distressed city since 1995.

Chester owes approximately \$9 million, plus accruing interest, for not fully paying its required employer contributions to the police fund in 2014 and 2015. By Dec. 31, the city owes another \$6 million of employer contributions to its three employee plans for 2016. If the current obligations are not paid by the end of the year, interest will begin to accrue on those delinquent contributions as well. The failure to fully fund the municipal contributions due could result in the withholding of future state pension aid.

“I suspect that Chester does not have an extra \$15 million lying around,” DePasquale said. “We are extremely concerned that Chester’s police and officers and employees pension plans may be the first in the state to run out of money.”

The aggregate funding levels of Chester’s pension plans are less than 50 percent funded, which places the city in severe distress status. The respective plan’s funding levels are as follows:

Pension Plan Funded Ratio	2013	2015
Firefighter Pension Plan	108.3 percent	96.3 percent
Police Pension Plan	38 percent	31.4 percent
Officers and Employee Pension Plan	9.6 percent	10.9 percent

As of January 2015, the officers and employees plan is one of the worst-funded plans in the state at 10.9 percent funded; the police plan is 31.4 percent funded; the firefighter’s plan is 96.3 percent funded.

Municipal pension plans are ranked based on their funded ratio.	
Funded Ratio	Distress Level
90 percent or more	Not Distressed
70 to 89 percent	Minimal Distress
50 to 69 percent	Moderate Distress
Less than 50 percent	Severe Distress

The police and officers and employees pension plans are so badly depleted that, based on current funding levels and benefit obligations, they will run out of money in less than 60 and 18 months, respectively.

The latest audits contained nine findings, including some previous issues which were not addressed. There were six findings in the police plan, two in the firefighters, and one in the officer and employees plan.

The findings include:

- There is inconsistent benefit language with the Third Class City Code in all three plans. These were previous findings.
- Chester failed to fully pay its minimum municipal obligation to the police plan in 2014 and 2015 and owes the plan \$8.9 million, which continues to accrue interest.
- Incorrect certification data error in the police plan which resulted in a \$7,746 underpayment of state aid.
- Chester did not timely deposit \$1.02 million in state aid to the police plan in 2014 and 2015.
- A pension benefit was modified in the police and firefighter plans without conducting a cost analysis to document the impact on the plans.

“City and state leaders must work together to save Chester’s pension plans,” DePasquale said. “Retirees, employees and the unions need to be part of the solution before the plans lack the funds to pay the city’s pension benefit obligations. The solution must include a long-term strategic plan crafted by local and state leaders and compromises negotiated through the collective bargaining process.”

The City of Chester’s pension audit reports are available online (www.PaAuditor.gov) at:

- [City of Chester Police Pension Plan](#)
- [City of Chester Firefighters’ Pension Plan](#)
- [City of Chester Officers and Employees Pension Plan](#)

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