Pension Woes of Alabama Town a Warning to Others

The city of Prichard, Alabama, is the best proof that more states need Governors such as New Jersey's Chris Christie, who is willing to take on a pension crisis. For years, Prichard was warned that if no changes were made to its pension fund, the money would be gone by 2009. The warnings went unheeded, and now the pension funds have disappeared. When the monies dried up, Prichard stopped sending pension checks to its 150 retired workers — a violation of state law. Meanwhile, those who once collected pension checks found themselves struggling financially.

According to the *New York Times*, Prichard's experience should serve as a "warning to cities like Philadelphia, and states like Illinois, where pension funds are under great strain." Prichard proved that money can in fact run out of pension funds, and when it does, turmoil results.

For example, Netti Banks, 68, is a retired Prichard police and fire dispatcher who was forced to file for bankruptcy after Prichard could no longer continue to pay her pension. Likewise, Alfred Arnold, 66, needed to go back to work as a shopping mall security guard in order to keep his house after his pension was cut off. One retired fire marshal, too young to collect Social Security, was discovered to have no electricity or running water in his home after his pension stopped.

Particularly frustrating for some is the notion that they are paying into pension funds that may not be around by the time they retire.

The *New York Times* reports that it is not solely individual misery that results when pension funds run out:

> If a city tried to follow the law and pay its pensioners with money from its annual operating budget, it would probably have to adopt large tax increases, or make huge service cuts, to come up with the money.

Prichard's situation is now provoking the scrutiny of bankruptcy lawyers, labor leaders, and credit officials across the country to determine if Prichard's situation may set a legal precedent that would allow distressed cities to legally cut or reduce pensions.

Michael Aguirre, former San Diego City attorney, explains, "Prichard is the future. We're all on the same conveyor belt. Prichard is just a little further down the road."

For example, New York City's pension payments are now twice the amount they were five years ago, totaling $8.3 billion. Illinois is actually borrowing money in order to keep up with its pension payments. Maryland is currently considering a proposal to raise the retirement age to 62 in order to maintain control of its growing pension crisis. In Colorado, Minnesota and South Dakota, the cost-of-living increases were cut from the pensions of current retirees, prompting lawsuits.

Last September, Governor Christie unveiled a sweeping package of reform measures that would make New Jersey's pension plan sustainable. NJToday.net describes the plan:

> The governor's proposal would roll back a 9 percent benefit increase that was authorized in 2001. For teachers and government workers with fewer than 25 years of service, the retirement age would be raised to 65. Employees with 30 years of service would be eligible for early retirement, but would suffer a 3 percent per year penalty. The employee's average annual salary for the highest five years would be used to calculate their benefit rate, instead of the highest three years as under the current system.
>
> Police and firefighters with less than 25 years of service would have their benefits calculated using the average annual salary over their highest three years, rather than the highest single year.
>
> All current employees would be required to contribute 8.5 percent to their pensions. Some pay as little as 3 percent now. Cost of living adjustments would be eliminated for current and future retirees.
>
> Workers would also be required to pay 30 percent of the cost of their health care coverage.

Governor Christie said of his proposal, "I know these reforms will not be popular with everyone. I also know that failure to follow through with dramatic pension reform will imperil the system for everyone, and that failure will continue to eat away at our state and local budgets. We must reverse the damage caused by fairy tale promises that have fattened benefits and pensions to unsustainable levels while ballooning unfunded liabilities to breathtaking levels."

NJToday.net observes that without meaningful reform, New Jersey's unfunded pension liability would "spike from $46 billion today, to $181 billion by 2041."

Unfortunately, Governor Christie has elected to skip this year's payment of $3.1 billion into the pension system because the state is currently in a "budget crunch."

If cities and states are unwilling to make the tough choices regarding pension funds, more places will go the route of Prichard.

According to Troy Ephriam, a council member who became chair of the Prichard's pension fund just before it went broke, admits, "I think the biggest disappointment is that there was not a strong enough effort to put something in there. And that's the reason that it's hard for me to look these people in the face: because I am not certain we really gave our all to prevent this."