

Fixes considered for police and fire retirement funds

Unions, Baltimore officials agree situation is dire because of rising costs but remain far apart on remedial action

Annie Linskey, Baltimore Sun, March 20, 2009

Union leaders and Baltimore officials have begun discussing major changes intended to restore viability to police and firefighter retirement funds weakened by huge losses.

While both sides agree that the situation is dire, no agreement emerged at a City Council hearing yesterday on the best course of action. None of the proposed fixes under consideration would fill the growing hole that pension costs are boring into the city's budget.

Taxpayers are projected to pay \$110 million to the retirement fund in the budget year that begins July 2010, up from \$82 million next year.

"There is no way on God's green earth we can meet the demands to put in the amount we have to pay," said the city's finance director, Edward Gallagher. "We do not have the resources to make those huge increases."

The \$28 million projected increase due in 2010, Gallagher said, would be equivalent to firing 368 police officers. Or it could mean practically wiping out the entire budget for the Department of Recreation and Parks, which would mean closing every recreation center and pool in the city.

"We have got to reduce the cost of retirement," Gallagher said.

The finance director's comments were met by boos from the hundreds of retired police officers and firefighters, some of whom were bused in to attend the hearing in the City Council chambers.

The roughly 6,000 fire and police retirees collect an average of \$33,000 a year, officials said, with widows or widowers receiving \$15,400 a year on average.

In explaining the financial problem, Deputy Mayor Christopher Thomaskutty displayed slides showing that 80 percent of the fire and police retirees live outside Baltimore. Twenty percent of them live out of the state.

"I am not casting judgment," Thomaskutty said.

"Yes, you are," some of the retirees in the audience shot back.

A City Council committee is considering legislation that would curtail a lucrative benefit that rewards retirees in years when the stock market performs well and then carries the increases forward in years when the fund's performance is weak.

The Dixon administration wants to replace that so-called variable annuity benefit with a 1.5 percent annual cost-of-living increase.

But the proposal wouldn't save money in the short run. It would add \$7.5 million a year to the city's ballooning pension payments, on top of already predicted increases.

Officials say, however, that the change would make future payments more predictable.

Unions acknowledge that the variable annuity should go but want it replaced with a COLA higher than 1.5 percent. However, such an increase would trigger matching clauses that would enable other city retirees to receive more money.

Unions also offered to increase employee contributions to 9 percent from the current 6 percent.

The retirees "know the plan is in trouble," said Thomas B. Lowman, an actuary hired by the police and fire unions. "The cost is going to go up. It needs more money."

Market losses in the past year have whittled the fund to half of what it should be to continue paying benefits.

To make up for that, the city should be paying about \$62 million more than current projections each year to properly fund retiree benefits, Lowman said, though he acknowledged that the city probably cannot do that.

Lamented City Councilman William H. Cole IV, acting chairman of the Finance and Taxation Committee: "I don't know that we have a Band-Aid big enough to fix this."