

Ormond Beach must tackle soaring pension costs

OUR VIEW

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The can stops here.

That would be a good motto for Ormond Beach commissioners as they look at perhaps the biggest problem facing their city: a \$40 million unfunded liability in the city's pension plans.

Referring to the soaring cost of pension benefits for retired city employees, Mayor Ed Kelley said: "There's going to have to be some adjustments. We can't keep kicking this can down the road."

The mayor is right. If Ormond Beach leaders don't take on the pension issue now, financial disaster will await the city's future leaders.

In 2000, the city's unfunded pension liabilities totaled \$4.7 million. That cost wasn't even a blip on the City Commission's radar screen. But after an almost nine-fold increase in pension liabilities in a little over a decade, the commission can't ignore — or can't afford to ignore — the approaching crisis.

It's small comfort to Kelley and the commissioners, but Ormond Beach is not alone in dealing with ballooning costs for defined-benefit public employee pension plans.

As of 2011, Port Orange was facing combined liabilities of \$46 million. Daytona Beach has an unfunded liability of about \$56 million.

Other cities in Florida are in even worse shape. The LeRoy Collins Institute, a bipartisan think tank based in Tallahassee, described local governments' pension obligations as "a ticking time bomb."

You can hear the sound of the ticking in Ormond Beach. This year, The News-Journal reported, the city's contribution to three pension plans is consuming more than half of property tax revenue.

City leaders can't continue that level of pension funding and provide adequate services for residents. Some of the city's top pension recipients are receiving more than \$90,000 a year. How is the city going to provide decent pay for its working police and firefighters if it keeps handing out pension checks that large?

An economic recovery that increases property values and property tax revenue will relieve some of the pressure on Ormond Beach and other cities. So will improvements in the rate of return on pension plan investments.

But the problem is larger than the weakness of the economy. As a report recently presented to the **Halifax Area Civic League** noted, the number of retirees is increasing and retirees are living longer. Some police officers and firefighters are eligible for retirement before the age of 50. So cities could be issuing pension checks to the average recipient for almost 30 years.

Mayor Kelley talked about the need for "some adjustments." Such adjustments should take into account changing demographics and longer lifespans.

In a report that focused on the public pension issue in Florida, the Collins Institute suggested raising the retirement age; eliminating certain pension sweeteners, such as including overtime pay in pension calculations; and prohibiting double dipping that allows retirees to draw a pension while working another full-time job.

For several decades, private-sector employers have been moving employees into "defined contribution" plans. In most defined contribution plans, including 401(k) accounts, the employer and the employee contribute to investments selected by the employee. Under these plans, the company does not assume any obligation for a "defined benefit."

In recent years, local governments around the country have shifted to defined contribution pension plans. This is the only way to ensure that taxpayers aren't on the hook for huge pension plan liabilities.

The Ormond Beach City Commission needs to examine its options for reducing the \$40 million liability. And union officials who represent police and firefighters need to work with the city on coming up with solutions that will protect the long-term viability of the pension plans.

Further can-kicking by the commission will become an unconscionable evasion of responsibility to city taxpayers and city employees. Pension reform must become an urgent priority for Ormond Beach's elected leaders.