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Defuse pension bombs

State lawmakers need to give cities more flexibility to reduce their obligations to retirees.

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In the parade of horribles confronting Florida legislators this year — including a huge budget gap, double-digit unemployment and cash-starved schools — it's easy to overlook the rising cost of municipal pension plans for police and firefighters. Yet the Florida League of Cities accurately describes this problem as "a looming crisis." Others have likened it to a time bomb planted in city budgets.

Here's why: State law forces cities to offer their cops and firefighters traditional pension plans. Cities contribute to a fund, which pays checks to retirees.

Businesses began switching years ago from these plans to more affordable 401(k)-style defined contribution plans.

But over the past decade or so, legislators have gone in the opposite direction. They've passed laws to sweeten retirement benefits for police and firefighters. But local governments, not Tallahassee, are on the hook for bankrolling those pensions.

Retiree costs are taking a bigger and bigger bite out of municipal budgets. In Orlando, the city's contribution to police and fire pensions has shot up from $3.7 million to $20.6 million over the past decade, a 456 percent increase. That compares with a rise in the city's overall budget in the same period of 64 percent.

City police and fire pension benefits are financed from four sources: contributions from cities, contributions from employees, earnings on investments and revenue from taxes on property insurance premiums. Yes, your homeowners insurance includes a tax to pay for police and fire pensions.

Orlando's contributions rocketed as it hired more police and firefighters, and as earnings on its investments declined.

But spending on police and fire pensions for cities also has been driven higher by state laws — especially one passed in 1999. That noxious law, approved under heavy lobbying from police and fire unions, requires cities to set aside any increase in insurance tax collections to jack up pension checks, rather than cover existing costs.

When legislators first passed the law in 1998, then-Gov. Lawton Chiles vetoed the bill. He knew what it would do to local budgets.

But legislators passed it again the next year under Gov. Jeb Bush, who signed it. No wonder. Mr. Bush was elected with the support of police and fire unions.

Since its passage, the law has forced local governments to spend, or at least reserve, $345 million for additional police and fire pension benefits, according to the League of Cities. Orlando alone has had to set aside more than $14 million for enhanced benefits, instead of using that money to help pay current benefits and lighten the load on taxpayers.

Local governments and unions negotiate police and fire pension plans, but cities are hamstrung by state law. The state not only forbids defined contribution plans, it sets mandatory minimum benefits.

Legislators in the House and Senate are sponsoring bills to give local governments more leeway to negotiate pensions that taxpayers can afford.

The bills would let cities join the state retirement system, or create 401(k)-like plans for police and firefighters. They would require better reporting of the financial health of pension plans so local leaders will be more realistic when negotiating contracts.

Although these measures might need some changes, pension reform is long overdue. Legislators helped create this crisis for cities. They need to help fix it.