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Alabama Town’s Failed Pension Is a Warning

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PRICHARD, Ala. — This struggling small city on the outskirts of Mobile was warned for years that if it did nothing, its pension fund would run out of money by 2009. Right on schedule, its fund ran dry.

Then Prichard did something that pension experts say they have never seen before: it stopped sending monthly pension checks to its 150 retired workers, breaking a state law requiring it to pay its promised retirement benefits in full.

Since then, Nettie Banks, 68, a retired Prichard police and fire dispatcher, has filed for bankruptcy. Alfred Arnold, a 66-year-old retired fire captain, has gone back to work as a shopping mall security guard to try to keep his house. Eddie Ragland, 59, a retired police captain, accepted help from colleagues, bake sales and collection jars after he was shot by a robber, leaving him badly wounded and unable to get to his new job as a police officer at the regional airport.

Far worse was the retired fire marshal who died in June. Like many of the others, he was too young to collect Social Security. “When they found him, he had no electricity and no running water in his house,” said David Anders, 58, a retired district fire chief. “He was a proud enough man that he wouldn’t accept help.”

The situation in Prichard is extremely unusual — the city has sought bankruptcy protection twice —

but it proves that the unthinkable can, in fact, sometimes happen. And it stands as a warning to cities like Philadelphia and states like Illinois, whose pension funds are under great strain: if nothing changes, the money eventually does run out, and when that happens, misery and turmoil follow.

It is not just the pensioners who suffer when a pension fund runs dry. 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.

Current city workers could find themselves paying into a pension plan that will not be there for their own retirements. In Prichard, some older workers have delayed retiring, since they cannot afford to give up their paychecks if no pension checks will follow.

So the declining, little-known city of Prichard is now attracting the attention of bankruptcy lawyers, labor leaders, municipal credit analysts and local officials from across the country. They want to see if the situation in Prichard, like the continuing bankruptcy of Vallejo, Calif., ultimately creates a legal precedent on whether distressed cities can legally cut or reduce their pensions, and if so, how.

“Prichard is the future,” said Michael Aguirre, the former San Diego city attorney, who has called for San Diego to declare bankruptcy and restructure its own outsize pension obligations. “We’re all on the same conveyor belt. Prichard is just a little further down the road.”

Many cities and states are struggling to keep their pension plans adequately funded, with varying success. New York City plans to put $8.3 billion into its pension fund next year, twice what it paid five years ago. Maryland is considering a proposal to raise the retirement age to 62 for all public workers with fewer than five years of service.

Illinois keeps borrowing money to invest in its pension funds, gambling that the funds’ investments will earn enough to pay back the debt with interest. New Jersey simply decided not to pay the $3.1 billion that was due its pension plan this year.

Colorado, Minnesota and South Dakota have all taken the unusual step of reducing the benefits they pay their current retirees by cutting cost-of-living increases; retirees in all three states are suing.

No state or city wants to wind up like Prichard.

Driving down Wilson Avenue here — a bleak stretch of shuttered storefronts, with pawn shops and beauty parlors that operate behind barred windows and signs warning of guard dogs — it is hard to see vestiges of the Prichard that was a boom town until the 1960s. The city once had thriving department stores, two theaters and even a zoo. “You couldn’t find a place to park in that city,” recalled Kenneth G. Turner, a retired paramedic whose grandfather pushed for the city’s incorporation in 1925.

The city’s rapid decline began in the 1970s. The growth of other suburbs, white flight and then middle-class flight all took their tolls, and the city’s population shrank by 40 percent to about 27,000 today, from its peak of 45,000. As people left, the city’s tax base dwindled.

Prichard’s pension plan was established by state law during the good times, in 1956, to supplement Social Security. By the standard of other public pension plans, and the six-figure pensions that draw outrage in places like California and New Jersey, it is not especially rich. Its biggest pension came to about $39,000 a year, for a retired fire chief with many years of service. The average retiree got around $12,000 a year. But the plan allowed workers to retire young, in their 50s. And its benefits were sweetened over time by the state legislature, which did not pay for the added benefits.

For many years, the city — like many other cities and states today — knew that its pension plan was underfunded. As recently as 2004, the city hired an actuary, who reported that “the plan is projected to exhaust the assets around 2009, at which time benefits will need to be paid directly from the city’s annual finances.”

The city had already taken the unusual step of reducing pension benefits by 8.5 percent for current retirees, after it declared bankruptcy in 1999, yielding to years of dwindling money, mismanagement and corruption. (A previous mayor was removed from office and found guilty of neglect of duty.) The city paid off its last creditors from the bankruptcy in 2007. But its current mayor, Ronald K. Davis, never complied with an order from the bankruptcy court to begin paying $16.5 million into the pension fund to reduce its shortfall.

A lawyer representing the city, R. Scott Williams, said that the city simply did not have the money. “The reality for Prichard is that if you took money to build the pension up, who’s going to pay the garbage man?” he asked. “Who’s going to pay to run the police department? Who’s going to pay the bill for the street lights? There’s only so much money to go around.”

Workers paid 5.5 percent of their salaries into the pension fund, and the city paid 10.5 percent. But the fund paid out more money than it took in, and by September 2009 there was no longer enough left in the fund to send out the $150,000 worth of monthly checks owed to the retirees. The city stopped paying its pensions. And no one stepped in to enforce the law.

The retirees, who were not unionized, sued. The city tried to block their suit by declaring bankruptcy, but a judge denied the request. The city is appealing. The retirees filed another suit, asking the city to pay at least some of the benefits they are owed. A mediation effort is expected to begin soon. Many retirees say they would accept reduced benefits.

Companies with pension plans are required by federal law to put money behind their promises years in advance, and the government can impose punitive taxes on those that fail to do so, or in some cases even seize their pension funds.

Companies are also required to protect their pension assets. So if a corporate pension fund falls below 60 cents’ worth of assets for every dollar of benefits owed, workers can no longer accrue additional benefits. (Prichard was down to just 33 cents on the dollar in 2003.)

And if a company goes bankrupt, the federal government can take over its pension plan and see that its retirees receive their benefits. Although some retirees receive less than they were promised, no retiree from a federally insured plan in the private sector has come away empty-handed since the federal pension law was enacted in 1974. The law does not cover public sector workers.

Last week several dozen retirees — one using a wheelchair, some with canes — attended the weekly City Council meeting, asking for something before Christmas. Mary Berg, 61, a former assistant city clerk whose mother was once the city’s zookeeper, read them the names of 11 retirees who had died since the checks stopped coming.

“I hope that on Christmas morning, when you are with your families around your Christmas trees, that you remember that most of the retirees will not be opening presents with their families,” she told them.

The budget did not move forward. Mayor Davis was out of town.

“Merry Christmas!” shouted a man from the back row of the folding chairs. The retirees filed out. One woman could not hold back her tears.

After the meeting, Troy Ephriam, a council member who became chairman of the pension fund when it was nearly broke, sat in his office and recalled some of the failed efforts to put more money into the pension fund.

“I think the biggest disappointment I have is that there was not a strong enough effort to put something in there,” he said. “And that’s the reason that it’s hard for me to look these people in the face: because I’m not certain we really gave our all to prevent this.”