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Are Public Sector Pension Changes Coming?

It is not going to get any easier on the pension front in Pennsylvania. Just this week, as the state put the final touches on the 2012-13 budget, the warning bells on the costs associated with the two statewide pension systems (one for state employees, the other for school employees) tolled louder. Doing nothing means the percentage of the state's budget dedicated to pensions will grow to 10 percent according to one published newspaper report.

In addition to those two massive pension systems are the multitude of county, municipal, and authority plans that proliferate across the state. Governed by state law, the administration of those 3,000 plans lies largely with local bodies (unless they are voluntarily placed in the PA Municipal Retirement System). In Allegheny County alone there are close to 300 plans, from the 7,000 member Allegheny County Retirement System down to a handful of plans with a few participants.

The purpose of this *Brief* is to highlight what is on the horizon for plans belonging to Allegheny County, the City of Pittsburgh, and the Port Authority.

***Allegheny County Retirement System*:** The General Assembly has for the past several years tried to pass legislation that would change the pension benefits for newly-hired County employees, from non-uniformed to deputy sheriffs and jail guards. The changes would include lengthening years of service to qualify for a pension from the current 20 years to a new 25 years, ending the inclusion of overtime in pension calculations, changing the calculation of final average salary, and lengthening the period of vesting from eight years to ten years. Testimony from actuaries and a fiscal note from the Public Employee Retirement Commission (PERC) stated that as new employees replace current ones the future costs of the pension system will begin to come down. As of the 2011 Comprehensive Annual Financial Report the County pension system had a funded ratio (plan assets/plan liabilities) of 59 percent. As of July 13th the legislation has been approved by the House and is in a Senate committee.

***City of Pittsburgh Plans*:** As a result of the pension bailout plan that was crafted under Act 44 and the dedication of additional revenues over the next thirty years, the funded ratio of the three plans in aggregate rose to 62 percent as of the PERC valuation in September 2011. That means under Act 44 Pittsburgh moved from "severe distress" to "moderate distress". There are two mandatory requirements for the City under that level of distress. First is to aggregate its pension plans, which was done many years ago under the City's Comprehensive Municipal Trust Fund. Second is to submit a plan of administrative improvement, which requires disclosure of costs related to the plans, details on the actuarial assumptions of the plan, a cash flow analysis, and a summary of any other changes. According to PERC, there is a plan on file from Pittsburgh, but it was submitted prior to Act 44 and is now dated. If Pittsburgh gets its funded ratio to 70 percent it achieves “minimal distress”; falling to 49 percent or less places it back into “severe distress”.

Port Authority: The Authority has three pension plans and changes have been implemented to the one covering cashiers and the one covering police and non-represented employees. In September 2011 the defined benefit plan option for non-represented and police was closed and new hires were placed into a new defined contribution plan in which the Authority makes a non-elective contribution to the plan and makes a partial match up to a certain contribution level. This change was made by a vote of the Authority Board of Directors. At recent count, there are currently 235 employees under the defined benefit plans and 26 under the new defined contribution plan.

Then in January of 2012, as a result of collective bargaining, the defined benefit plan for the members of the IBEW plan was closed and a new defined contribution plan for new hires was established. Its features are virtually identical to that of the non-represented/police plan. Any changes to the pension plan for the Authority’s largest bargaining unit, the Amalgamated Transit Union, won’t be known until the recently expired contract is renegotiated and voted upon. Consider that if the funded ratio is used as the best barometer of a pension fund’s health, the Port Authority is in the best shape of the three (City, County and PAT) with an aggregate ratio of 84 percent as of 2011.

There could be more significant changes in the offing if the Legislature decides that pension reforms need to go beyond the plans for state and school employees. That would involve rewriting a slew of existing state statutes that govern pension qualifications and benefits or drafting an all-encompassing law that would apply to all new hires, state and local. It is certainly well past the time to solve this long running and financially dangerous problem. Taxpayers will find little to be happy about if they hear they have been spared from tax increases to fund pension shortfalls in the statewide systems only to have to cough up more money for local pensions.

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