



### **Pension Battle Still Simmering**

Is Pittsburgh wearing rose colored glasses when it comes to estimating the rate of return on its pension plan investments? If so, should the City lower that estimate?

This was one topic brought up at the most recent meeting of the Intergovernmental Cooperation Authority (oversight board). Right now the assumption is 8 percent. One participant at the meeting, the Executive Director of the Public Employee Retirement Commission (PERC), stated that 8 percent was high and that “nobody carries 8 anymore”.

In fact, Pennsylvania’s five largest cities (Philadelphia, Pittsburgh, Allentown, Erie, and Reading) all use an 8 percent figure, with the exception of the police plan in Reading, which utilizes 7.5 percent. Allegheny County uses 8 percent. The state employees’ system and the public school employees’ system both lowered their rates to 7.5 percent during 2011. On the low end is the Pennsylvania Municipal Retirement System (PMRS) which uses a 6 percent anticipated rate of return. If Pittsburgh’s plan to get pension funding above 50 percent had failed, its plans would have ended up with PMRS, though it would have utilized a 7.5 percent rate of return.

What does this all mean? Lower the anticipated return on investment and raise the amount of money needed to go into the pension system in order to maintain an adequate asset to liabilities ratio. The City’s Finance Director noted “putting additional cash into the fund each year would require difficult decisions about how to finance other city priorities”. That comment could encompass any and all payments for legacy costs—pensions, retiree health care, debt, etc.

The rate of return assumption determines what the amount of unfunded liabilities looks like. The Center for Retirement Research at Boston College produced a schematic for 126 public pension plans that showed unfunded liabilities of \$3.6 trillion based on an 8 percent rate of return. Lower that rate to 6 percent and the liabilities grow to \$4.7 trillion. A 4 percent rate doubles the initial dollar figure.

The City Controller, one member of the City’s seven member pension board, stated in an article that he’ll recommend the City adopt a 7 percent rate of return. The other members of the board—the Mayor, a Mayoral appointee, a City Council member, and three representatives of employee groups—would hear that recommendation. Again, lowering the rate means putting more money in, and the City has already committed itself to pledging parking tax money above and beyond the minimal obligation for the next thirty years, an action taken by ordinance at the end of 2010 to avoid having the state take over City pensions. So investment returns use the 8 percent rate of return applied to assets that include nearly thirty more years of pledged parking tax disbursements.

What is to keep current or future City officials from deciding that other spending priorities must take precedence and enact a new ordinance repealing the parking tax pension commitment?

According to the Executive Director of PERC—that agency also performed the valuation of the pledge that raised the City’s funded ratio above the minimum 50 percent level in Act 44—they might not be able to back out. “Property transfers are final upon the transfer: a future council cannot renege and take the property back. Moreover, our courts have consistently held that the assets of a pension fund cannot be removed for any reason other than paying pension benefits and expenses, even if the original deposit was made in error. It is the position of this Commission that, once the transfer ordinance was enacted and the plan custodian booked the asset, the City of Pittsburgh is no longer the owner of the subject revenue stream and has no authority to alter the arrangement.”

That position might get tested somewhere down the line should the debate about a decision made in 2010 surface in the years to come. If the City were to be in severe financial straits and it decided to withhold some or all the entire pledged amount, who would have standing to file suit and get a court order to stop the renege? Moreover, with a City in financial distress would the courts take that into account and grant the City some leeway?

Bottom line, there is some probability greater than zero that the funding level being used to calculate the returns on investment is too high, which compounds the problem of using 8 percent as the estimate of return on investment.

There are sure to be fireworks over the rate of return debate and the ICA, as an oversight board, will undoubtedly have its own thoughts about the matter.

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