| | |
|---|---|
| **March 7, 2018** | **Allegheny Institute Op-Ed** |

**500 words**

**Markets, reforms & Pittsburgh's pensions**

**By Colin McNickle**

Though still in "moderate distress," the health of Pittsburgh's employee pensions has vastly improved over the last decade. But it's no excuse to ignore badly needed fundamental reforms, say researchers at the Allegheny Institute for Public Policy.

"Using the recent boost in pension asset value due to increasing equity prices and other investment gains as an excuse not to adopt long-term measures that reduce the growth in pension liabilities would be a tragic mistake," say Jake Haulk, president of the Allegheny Institute for Public Policy, and Eric Montarti, a senior policy analyst at the Pittsburgh think tank.

Pittsburgh's top pension officials, organized as a board overseeing the Comprehensive Municipal Pension Trust Fund, reported in February that the city's pensions have a funding ratio of 62.2 percent.

The ratio is determined by dividing actuarial assets by actuarial liabilities. As of last month's report, Pittsburgh had pension liabilities of $1.2 billion with assets of $749 million. It's the highest ratio since 2009's low point of 34.2 percent. The ratio in 2013 stood at 58.2 percent.

"Bear in mind that most of the jump in the funded ratio from 2009 to 2013 was the result of the city pledging parking taxes to the pension plans, a total of $735 million in annual payments," the think tank scholars remind (*in Policy Brief Vol. 18, No. 10*). That infusion helped to stave off a state takeover.

At the end of 2017, the parking tax pledge accounted for 40 percent of Pittsburgh's pension fund assets. That parking tax commitment, by the way, doubles to $26 million annually beginning this year.

Investments have served the pension plans well. For instance, the value of the portfolio increased 11 percent from Dec. 31, 2016, to Dec. 31, 2017. That's up from the 7 percent gain posted in the prior year.

Still, caution must remain the byword, as the city's finance director, also a trust fund board member, reminded: "We are at the whim of the market just like any other investor."

And while investment performance is critical – to wit, between 1997 and 2007, investment earnings provided up to 70 percent or more of the average public pension plan's funding – ancillary reforms must be tackled.

"There is still a long way to go for the funded ratio to reach responsible levels," Haulk and Montarti say. "Getting to minimal or no distress – a funded ratio of 70 percent or higher -- will almost certainly require reform of pension benefits.

"The city must continue to work diligently to find ways to curb pension liability growth."

To that end, a city ordinance now prohibits a variety of pension sweeteners. But the commonwealth must also "amend existing law to allow defined-contribution plans for new hires and reducing the number of people on the payroll," Haulk and Montarti say.

*Colin McNickle is a senior fellow and media specialist at the Allegheny Institute for Public Policy (cmcnickle@alleghenyinstitute.org).*

---



Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org