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Commonsense pension reforms still prudent
By Colin McNickle

A large majority of municipal pension plans in Allegheny County are in good shape. But the coronavirus pandemic, which has caused tremendous economic damage, could challenge those plans' health and deepen the woes of plans already struggling, concludes an analysis by the Allegheny Institute for Public Policy.

"With the fiscal effects of the coronavirus making themselves known on state and local finances in the past few months and projected for the remainder of 2020 and possibly beyond, municipalities that are worried about their general operations and capital projects are also likely concerned about funding pensions," says Eric Montarti, research director at the Pittsburgh think tank (in *Policy Brief Vol. 20, No. 34*).

Act 44 of 2009 established distress levels and scores for municipalities based on the health of their pensions. The term "municipalities" also includes municipal authorities, regional police forces, dispatch centers and other associations.

A municipality's distress score is determined by the aggregate funded ratio -- assets divided by liabilities -- of all pension plans provided by the municipality. The scores are published biennially by the state Auditor General's office, based on the actuarial reports of the prior year.

"None of the 138 municipalities in Allegheny County were severely distressed" in the 2020 report, Montarti notes. "Of the 84 municipalities at the level of no distress, 49 had a funded ratio of 100 percent or greater."

Allegheny County municipalities with no distressed pensions include Rankin Borough (with a funded ratio of 386 percent in two plans with two active members), East Deer Township (with a funded ratio of 270 percent in two plans with four active members) and Versailles Borough (funded with a ratio of 228 percent in two plans with three active members).

Municipalities with pensions in moderate distress include Braddock Hills Borough (funded with a ratio of 61 percent in one plan with two active members). The City of Pittsburgh's pension funding remains weak (with a funded ratio of 57 percent in three plans with 3,317 active members).

The lowest pension funded ratio in Allegheny County was Plum Borough Municipal Authority (56 percent in two plans with 21 active members).

Money for municipalities' employer contributions to pensions plans comes from several sources, among them, tax receipts on out-of-state insurance policy premiums and local revenues, such as property, wage, local-service and deed-transfer taxes.

For the City of Pittsburgh, a substantial portion of pension funding comes from parking taxes and the "local share assessment" from the Rivers Casino, "two revenue sources that have been hit hard this year" because of the pandemic, Montarti notes.

Pension funds also receive money from investments, whose rise (or fall) depends on the national economy and stock market performance.

But the general administration of pensions also plays a key role in their overall health. And years'-old reform recommendations made by the Governor's Task Force on Municipal Pensions have languished in the General Assembly.

"These included controlling management fees, capping overtime and excluding accumulated leave from pension calculations, limiting benefit enhancement and creating a new statewide defined-benefit structure for all new hires in underfunded plans," Montarti reminds.

The state *has* in recent years enacted changes for newly hired Allegheny County workers (regarding vesting period, final average salary and years of service for normal retirement) and newly hired state workers and public school teachers (with hybrid or defined-contribution plans).

But, "Considering the weakened situation state and local finances face in 2021, the General Assembly and the governor need to address commonsense reforms that will help in both the near term and long term to shore up weak performers and ease the burden of pension obligations on strong performers," Montarti concludes.

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