



### Municipal pensions in good shape: will they stay that way?

**Summary:** The Pennsylvania Auditor General’s office recently published municipal pension distress scores for the state’s municipalities. The report found that a large majority of pension plans were in good shape. That was also the case for municipalities in Allegheny County. In light of the tremendous economic damage caused by the coronavirus, will pension plans be negatively affected as well?

Act 44 of 2009 established distress levels and scores for municipalities (the term municipalities will be used even though municipal authorities, regional police forces, dispatch centers and other associations are included) based on the health of their pensions. 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 following table details the distress scores associated with various funded ratios. Municipality distress scores are published biennially by the Auditor General’s office *based on the actuarial reports of the previous year.*

**Act 44 Distress Typology and 2020 Scores**

Aggregate Funded Ratio of Pension Plans	Distress Level	Distress Score	Pennsylvania Municipalities	Allegheny County Municipalities
90% or >	No Distress	0	905	84
70-89%	Minimal Distress	1	460	48
50-69%	Moderate Distress	2	64	6
49% or <	Severe Distress	3	6	0

In the 2020 report, scores were assigned to 1,435 municipalities. The municipalities have plans that cover nearly 30,000 active members in Philadelphia (funded ratio of 50 percent and a score of 2) to one active member in close to 200 municipalities. Over 60 percent of the municipalities had a score of 0 (no distress). Only six municipalities had a score of 3 (severe distress).

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

Municipalities in the county with no distress include Rankin Borough (funded ratio of 386 percent in two plans with two active members), East Deer Township (funded ratio of 270 percent in two plans with four active members) and Versailles Borough (funded ratio of 228 percent in two plans with three active members). Municipalities with moderate distress include Braddock Hills Borough (funded ratio of 61 percent in one plan with 2 active members). The City of Pittsburgh's pension funding remains weak (funded ratio of 57 percent in three plans with 3,317 active members). The lowest funded ratio in the county was posted by Plum Borough Municipal Authority (56 percent in two plans with 21 active members).

The 2020 scores mark a decade since the first scores were published under Act 44. In that time have changes in the funded ratios of municipal plans been large enough to move municipalities from one distress level to another?

There were 133 municipalities in Allegheny County that received scores in both 2010 and 2020. Of those, 86 municipalities stayed at the same distress level while the remaining 47 were in a different distress level. Of those, 25 municipalities moved up one level and five moved up two levels. Seventeen municipalities, including Bellevue Borough and Collier Township, were one level lower than where they were in 2010. Around the time Act 44 passed there was a recession.

Thus the 2010 scores were based on the 2009 recession year data and the 2020 scores were based on 2019 performance—a good year economically for the commonwealth. However, the next scores in 2022 will be based on 2021 data. What will the economic and financial picture look like in 2021?

As has been well documented, the economic impact of the coronavirus in 2020 in terms of unemployment, lost production and tax revenues has been enormous. And while recovery is underway there is little question that the economy-slowng effects of the virus and the accompanying government mandated limitations on the economy will continue to be felt well into 2021.

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.

Funds for municipalities' employer contributions to pension plans come from several sources. One of these is state aid that is based on tax revenues on out-of-state insurance policy premiums that are distributed to municipalities based on a statutory formula. Based on prior news releases from the Auditor General's office, aid is typically sent in the fall. Last year, \$50 million in aid was distributed to municipalities in Allegheny County. It should be known soon if this revenue stream was affected by the coronavirus.

Other sources of funding for pensions include local tax revenues such as property, wage, local- service and deed-transfer taxes. In the case of Pittsburgh, a substantial portion is

raised through parking taxes and the local share assessment from the Rivers Casino, two revenue sources that have been hit hard this year. In 2019, a very good year economically, the city's actuarial-required contribution was \$51.1 million and the city put in \$95.2 million, with the excess coming from parking and casino dollars.

In addition to state aid and local revenues the pension fund assets receive revenue from investments as well as increases—or decreases—in investment asset valuations resulting from price fluctuations in investments. Much of this obviously depends on the national economy and stock market performance. How will those perform in a slow or sluggish economy and what will that mean for pension distress when the actuarial work is done in 2021?

With reasonable health exhibited in the majority of plans in Allegheny County and statewide, are there remaining useful pension reforms needed at the municipal level? Three years ago (see *Policy Brief Vol. 17, No.3*) we noted recommendations made by the Governor's Task Force on Municipal Pensions.

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. Legislation aimed at enacting the recommendations of the task force was introduced last November and remains in committee at this point.

In recent years the state 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 school teachers (hybrid or defined contribution plans). 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.

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