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Recent developments for Allegheny County's retirement system

Summary: This month marks seven years since pension reforms for Allegheny County's Retirement System (system) took effect. These reforms included lengthening the vesting and final average salary periods, years of service and capping overtime counted toward the pension benefit for employees hired on or after Feb. 21, 2014. The thrust of the reforms was to improve the long-term financial health of the system.

Based on audits and actuarial reports from the county's retirement office, on Jan. 1, 2013, the system had 7,526 active employees (vested and non-vested public safety, non-uniformed and others) and 4,585 non-actives (mostly retirees and beneficiaries). It had $758.4 million in assets and $1.27 billion in liabilities for an actuarial funded ratio of 59.5 percent. During 2013 the county contributed $27.6 million to the retirement plans and employees $27.9 million for a combined $55.5 million. Under the Second-Class County Code, employer and employee contribution percentages are required to match (the 2013 contribution rate for was 8 percent for both). Net investment income added $92.3 million. That put total additions to the plan at $147.8 million.

Deductions in 2013—benefit payments, refunds, etc.—were $80.5 million. That resulted in a positive $67.3 million net result and the retirement system's net position at the end of the year was $825.8 million. By the start of 2014 liabilities were $1.34 billion and the funded ratio was 61.4 percent (the net position in the audits is treated as the actuarial asset value in the actuarial reports).

In February 2014 new hires entered a pension plan that requires 10 years to be vested (instead of eight years); 25 years of service for normal retirement (instead of 20); final salary based on the highest 48 months of their final 96 months of work (instead of the highest 24 of the final 48) and only 10 percent of overtime earnings toward retirement (instead of no cap).

At a 2011 system board meeting a goal was adopted to raise over time the required contribution to 20 percent. Over the following years the county raised the pension contribution rate in 2014, 2015, 2018, 2019 and 2021. The rate currently stands at 21 percent, meaning the employees and the county each contribute 10.5 percent.

During 2019, the most recent audited year, the county contributed $40.8 million and employees $40.9 million, a total of $81.7 million, a 47 percent increase from 2013. As a percentage of pay, county employees are putting more into the system than City of Pittsburgh employees do for any of the three separate municipal pension funds.

Total additions in 2019 were $209.6 million and total deductions were $116.5 million. With investments performing quite well and the higher amount of money contributed, the net result was a positive $93.1 million and the net position at the end of the year was $968.6 million, or 17 percent higher than the end of 2013. At the same time liabilities had risen to $1.76 billion—31 percent higher than the end of 2013—for a funded ratio of 55.2 percent to begin 2020.

The annual count of active employees has fluctuated over the years since 2013 and by the start of 2019 there were 7,181, about 5 percent fewer than 2013. The number of inactive employees grew to 5,192, which was 13 percent higher than 2013. The average monthly pension payment for those in pay status rose from $1,363 in 2013 to $1,761 in 2019, a 29 percent increase.

According to the county's retirement office, at the end of January 2021 there were 3,081 active employees who have been hired since the Act 125 changes took effect in Feb. 2014. That means over 40 percent of the active count of employees (based on 2019's actives) are working toward a pension with the revised benefit structure.

Our 2012 report on the system *(#12-01)* showed that the funded ratio was at a similar funded ratio in the mid-1980s (it was 53.3 percent funded in 1986) and it rose to be 115.6 percent funded by the year 2000. However, over the past two decades the ratio has been falling and likely prompted the county's desire to see changes to benefit structure. While important changes were made to shore up the system, there was no effort to enact a more dramatic corrective step of instituting a defined contribution-type plan for new hires on or after a certain date.

The system is not subject to the municipal distress score typology under Act 44 of 2009. But it is troubling nonetheless to see the funded ratio fall as it has over the past two decades. Pre-Act 125, the system's actuaries noted at a legislative hearing that savings from the changes would "start out very slowly."

The county's actuaries annually calculate two additional ratios besides the actuarial measurement (called accrued benefit and total funded). But those two measures similarly put the system at a funded status of less than 80 percent in 2020, which has been described as an accepted standard for a publicly funded plan. It should be noted that the pension status reports published by the state Auditor General's Office use the actuarial measurement.

There has been no talk of a state pension takeover or leasing assets to shore up the system as was the case with Pittsburgh and its pensions over a decade ago. But much like Pittsburgh, as well as the state-level and municipal pension plans, the county certainly has to be aware of what effects the coronavirus and its impact on economic activity and, in turn, county finances could have on the retirement system.

In 2019 the system's investment mix outperformed its benchmark, according to the annual report. The most recent investment report (June 30, 2020) shows that of the 13 composites that make up the county's investments, four had a negative performance in the 12 months from the previous June. The tax and non-tax revenues that the county relies on to make its contribution could be affected going forward depending on the impacts of the virus.

In the uncertain environment there is more need than ever for the county to be looking at all opportunities to streamline services, consolidate departments and looking to possible privatization or outsourcing to the private and nonprofit sectors where there are functions that can be carried out more economically on behalf of the taxpayers.

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