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Are Pittsburgh's pension changes prudent?

The City of Pittsburgh has revised its employee pension program. But whether the moves were prudent remains an open question, concludes an analysis by the Allegheny Institute for Public Policy.

It was in December that outgoing Mayor Bill Peduto signed ordinances that eliminated a pension reduction for some city employees, modified the employee contribution rate and extended the number of years that the city will dedicate parking taxes to those pensions.

But first, a little background.

Back in the day of state-overseen fiscal distress -- beginning in late 2003 and precipitated by woefully underfunded municipal pensions – one change involved reducing the pension benefit of those hired after June 30, 2004, by 50 percent when they reached age 65 and were Social Security-eligible.

Additionally, seven years later, in 2010, the city pledged a stream of its parking tax revenue for 31 years (until 2041) to prevent a state takeover of its pensions.

One of the latest ordinances, the parking tax pledge -- $26.8 million annually – was extended by a decade, to 2051, making the total pledge at just over $1 billion in present value terms.

As of last September, the pensions were funded at 71.8 percent.

"While not yet at an exemplary level for a funding ratio, moving above 70 percent put the city just over the low end of the 'minimal distress' level (70 to 89 percent funding ratio)," recounts Eric Montarti, research director at the Pittsburgh think tank (in *Policy Brief Vol. 22, No. 4*).

All this said, new ordinances return and/or add more city employees to the pension plans' liabilities, increasing them from $87.9 million to $96.9 million, based on an actuarial analysis. And they assume a robust recovery in post-pandemic parking tax revenue to meet the pledged contribution to the pension plans.

But do remember that the 2010 ordinance states that the city's full faith and credit are pledged to meet the parking tax obligation. "That means other sources of tax or non-tax revenue may be called upon if needed," Montarti says.

"If the city can reach an 80 percent funding ratio without the inclusion of the parking tax pledge, then it is possible that the dedication of the revenue to the pensions may end earlier than 2051, based on language in the new ordinances," he says.

But, again, we must ask if these latest moves were prudent?

"Of course, the city can go a long way to curbing its pension expense by following the recommendations we have made previously, and recently as the new mayor was about to take office," Montarti stresses.

"Look at operational efficiencies and outsourcing non-core functions so that the city can reduce the size of its workforce," he says, reminding how the city's full-time headcount this year is budgeted to grow by 27 to 3,373 total employees, which adds to the overall pension expense.

Pittsburgh's newest pension-related ordinances passed just under four years since it exited Act 47 and shortly after reaching "minimal distress" status.

"Why not wait until the pension funding ratio was further into that range or, even better, actually met the level of 'no distress' (of 90 percent or above)?" Montarti asks. "What if the stock market underperforms and the city's pensions lose ground?"

And, just as pertinent: "More bargaining units will be angling for enhancements in the future, and city officials will have to find a way to pay for them if granted," Montarti cautions.

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