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What will be the impact of Pittsburgh's 2021 pension actions?

Summary: In December the now-former mayor of Pittsburgh signed four ordinances that eliminated a pension reduction that applied to certain city employees, modified the employee contribution rate and extended the number of years the city will dedicate parking taxes to pensions.

The City of Pittsburgh was declared fiscally distressed under Act 47 on Dec. 29, 2003. When the first recovery plan was written, much attention was given to workforce and collective bargaining. Within that area, the dismal health of the city's pensions was rightfully pointed out. The combined funding ratio (assets divided by liabilities) of the three pension plans (police, fire and municipal) was 40.8 percent as of Jan. 1, 2003.

One change put into place was for employees in the municipal plan hired after June 30, 2004. Those employees would see a reduction in their pension benefit of 50 percent when they reached age 65 and became eligible for Social Security. This was referred to as the Social Security offset.

In 2019 a proposal to exempt the 11 elected officials of the city from the offset failed to pass. In December of that year the city's funded ratio stood at 62.6 percent. This increase was a combination of growth in the city's invested portfolio as well as the value of the parking asset, which was a 31-year pledge of parking tax revenue to the pension funds made in a 2010 ordinance as a way to prevent a state takeover of the pensions.

Updates from 2021's meetings of the city's Comprehensive Municipal Pension Trust Fund (CMPTF) board of the combined pension funding ratio showed growth: in March, 69.1 percent, in June, 71.7 percent and in September 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) based on the state's Act 44 of 2009 municipal pension distress typology.

Reaching that level provided an impetus to eliminate the Social Security offset. A 2017 ordinance prohibited enhancements "to existing pension benefits, including retroactive benefits outside the collective bargaining/arbitration process" unless the plan being modified was deemed to be in “minimal distress” or “no distress” (funding ratio of 90 percent or greater).

2021 ordinances

One ordinance amended the 2017 pension enhancement prohibition to not apply to the Social Security offset for non-union employees in the municipal plan. Based on a news article there are about 400 such employees, which, according to the city’s first Act 47 plan, are primarily executive and managerial employees (there were 495 non-represented employees in 2004 according to the plan). Removing the offset would increase the actuarial liability accounted for by those employees from $87.9 million to $96.9 million based on an actuarial analysis.

Another ordinance established a contribution rate for non-union hires who join the city on or after Jan. 1, 2022 or current non-union employees who opt-in (6 percent of salary or wages). Other municipal employees contribute either 4 or 5 percent of salary and wages depending on when they were hired. And two extended the number of years of the aforementioned 31-year pledge of parking tax revenue.

Under the 2010 ordinance, the city made an irrevocable pledge of $735.7 million in parking tax revenue from 2011 through 2041. In the first seven years an annual amount of $13.4 million was paid ($93.6 million in total). In 2018 the amount doubled to $26.8 million ($107 million total went toward pensions from 2018 through 2021). The $26.8 million annual amount was to continue for the next twenty years (a total of $535 million).

With the new ordinances, the $26.8 million annual pledge was extended through 2051. Tacking on an additional 10 years, 2042 to 2051, adds $267.5 million in parking tax revenue and brings the grand total of the parking tax pledge to just over $1 billion in present value terms.

Recent and projected parking tax revenue

City officials are apparently bullish on the parking tax recovering from the impacts COVID has had on people driving into the city to park for work, shopping and events. The 2022 five-year forecast shows that the city projects parking tax collections to grow annually and reach $65.2 million in 2026. The cumulative collections of the parking tax from January through November 2021 were $29.4 million, just a shade over what is required for the pension diversion. Cumulative collections through November 2020 were $31.2 million.

Both years were a far cry from 2019, when the city collected $55.4 million through November of that year. 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.

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.

Conclusion

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

The city's ordinances passed just under four years since it exited Act 47 and shortly after reaching "minimal distress". Why not wait until the pension funding ratio was further into that range or, even better, actually met the level of "no distress"? What if the stock market underperforms and the city's pensions lose ground? 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.

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