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How municipal pensions fared during the pandemic

Summary: The Pennsylvania Auditor General's Office recently published distress scores for municipal pensions. The report found that a large majority of pension plans were in good shape.

Act 44 of 2009 established distress 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. Scores are published biennially by the Auditor General's Office based on the actuarial reports of the previous year. In other words, 2022's scores are based on the January 2021 valuation, which would have taken place during the pandemic.

Act 44 Distress Typology and 2022 Scores

Aggregate Funded Ratio of Pension Plans	Distress Level	Distress Score	Pennsylvania Municipalities	Allegheny County Municipalities
90% or >	No Distress	0	1,090	99
70-89%	Minimal Distress	1	269	31
50-69%	Moderate Distress	2	40	3
49% or <	Severe Distress	3	4	0

Scores were assigned to 1,403 municipalities statewide in 2022. Over 75 percent of municipalities had a score of 0, or no distress. Four municipalities had a score of 3, or severe distress, ranging from 47 percent-to 13 percent-funded.

If the individual municipal plans were consolidated into a single plan similar to those for state employees or public-school employees, the plan would have $21.2 billion in assets, $28.4 billion in liabilities and a funded ratio of 75 percent—placing it in minimal distress and a score of 1. Remove Philadelphia and Pittsburgh and the ratio rises to 92 percent.

Of the 133 municipalities scored in Allegheny County, none were in severe distress. In fact, no municipality in the county has received a score of 3 since 2016. In 2022, there were 99 municipalities at the level of no distress (74 percent); of those, 66 had a funded ratio of 100 percent or greater. Municipalities in the county with a score of 0 include Rankin Borough (funded ratio of 402 percent), East Pittsburgh Borough (funded ratio of 290 percent) and East Deer Township (funded ratio of 270 percent).

Municipalities with moderate distress and at the low end of funded ratio include Homestead Borough (funded ratio of 67 percent), the City of Pittsburgh (funded ratio of 63 percent) and Oakdale Borough, which had the lowest funded ratio in the county (60 percent).

An analysis of the data shows 131 municipalities in the county were scored in both 2020 and 2022. Of those, two moved up two scores (from 2 to 0), 19 moved up one score (two from 2 to 1, 17 from 1 to 0), 109 remained at the same score and one moved down one score (from 1 to 2).

Of the 109 that stayed at the same distress level, there could be increases or decreases to the funded ratio. This happened with 87 municipalities, where either the funded ratio increased (80) or decreased (7). For example, the City of Pittsburgh had a 2020 funded ratio of 57 percent, based on $761.3 million in assets and $1.3 billion in liabilities. Two years later, assets were $930.8 million and liabilities $1.5 billion and the funded ratio grew to 63 percent.

As mentioned in a *Policy Brief* earlier this year (*Vol. 22, No. 4*), when Pittsburgh's funded ratio (based on the 2019 valuation) rose above 70 percent, Pittsburgh officials decided to restore benefits for non-uniformed employees that were reduced when the city was under state financial supervision. It would have been wiser to wait and see if the funded ratio was going to climb higher in the minimal distress range.

It is also worth looking at the revenue sources that fund employer contributions to pension plans and how those were affected during the pandemic. State pension aid comes from taxes levied on out-of-state insurance policy premiums. Aid is distributed to municipalities based on a statutory formula. In 2019 statewide, pension aid totaled $328.2 million and in 2021 was $317.1 million, a decrease of 3.4 percent.

In 2019, municipalities in Allegheny County received $50.7 million in pension aid. Last year the total fell to $48.8 million, a 3.6 percent decrease.

Roughly half of the aid sent to the county goes to the City of Pittsburgh. Through the pandemic, aid to the city fell from $26.4 million to $24.1 million, or 8.7 percent, more sharply than the state and county decrease. (It should be noted that 2019's total included $855,776 for underpayment of state aid due to how the city submitted employee counts. Without that amount, the city's total aid would have been $25.6 million; and the decrease from 2019 to 2021 would be 5.6 percent).

The city also dedicates a substantial portion of parking taxes and its local share assessment from the Rivers Casino to pensions. Parking taxes were significantly affected by the pandemic, falling from $61 million to $31.9 million, or 48 percent, from 2019 to 2021. However, due to city ordinances, the city has to contribute $26.8 million a year, backed by the city's full faith and credit. Due to a court decision and a state law change, Pittsburgh's local share assessment from the Rivers Casino did not waver from $10 million annually even though casinos, including Rivers, were shuttered for a time during the pandemic.

Pittsburgh made its required pension contribution and an additional contribution, making payments of $95.2 million, $99.1 million and $98.9 million from 2019 through 2021.

Will the strong health of municipal pensions continue? Pensions are reliant on investments and the performance of the stock market which is beyond the control of municipal governments. Major stock indices (Dow Jones, NASDAQ and S&P 500) have fallen significantly from January through September, with the Dow Jones Industrial average down 19 percent as of Sept. 23.

All municipalities have now received their entire American Rescue Plan (ARP) payments from the federal government. While U.S. Treasury guidelines note "no recipient may use this funding to make a deposit to a pension fund," could municipalities use ARP dollars for other public purposes and substitute that money to bolster pension funding in the coming two years when the money has to be obligated?

Looking for ways to economize, provide local services efficiently, moving new hires to defined-contribution plans and not making overly generous pension promises that have to be paid at some point are certainly within the purview of those governing bodies.

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