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Any Major Changes with Local Pensions in Recent Years?

There is a strong likelihood that pension reform will be a significant topic in Harrisburg this coming year, but it is clear that if pensions are to be discussed the focus will be on the “big two”—SERS and PSERS, the plans that cover state workers and school employees. The big two are facing a serious funding crisis. Local government plans are unlikely to be on the Legislature’s agenda.

Act 44 of 2009 was concerned with Pennsylvania’s 3,000-plus municipal, association, and authority plans that cover personnel delivering local services. In Allegheny County alone there are close to 300 pension plans that offer a fascinating case study of analysis regarding the size of the plans, their characteristics, and financial health.

We first wrote on municipal pension plans in 2007, and every two years thereafter we have presented a full-length report on the pension plans within Allegheny County. This year will be no exception with a report scheduled to be released in two or three weeks. In the meantime this *Policy Brief* will highlight a few of the most interesting findings from the newest data (it reflects 2013 reporting by local governments to the state’s Public Employee Retirement Commission) as it compares with how things stood in 2009, specifically on the types of pension plans as well as measures of pension health.

A review of the types of plans—where most of the difference depends on whether the plan is a defined benefit plan where the pension benefits are based on age and years of service, or defined contribution, where the contribution rate is agreed upon by the employer and the employee—shows the makeup of the plans in Allegheny County has not changed much. In 2009, roughly 82 percent of the nearly 300 plans were defined benefit plans, and 18 percent of the plans were not (either defined contribution or similar arrangement). In 2013 those percentages repeated.

There was a significant change to the County’s own defined benefit pension plan when the state enacted changes at the end of 2013 on vesting period, service years, final average salary calculations, and overtime for new hires of the County.

Non-defined benefit plans are found mostly in the ranks of employees that are non-uniform, meaning they are not police officers or firefighters. Close to twenty municipalities reported offering a non-defined benefit type plan for non-uniformed employees while offering defined benefit plans for police employees. In recent years the Port Authority closed two defined benefit pension plans and new hires are now enrolled in plans the Authority's financial statements describe as "…similar to private sector 401(k) plans."

Act 44 also placed a distress score on local pensions based on the funding ratio (assets divided by liabilities) with a sliding scale of distress from "none" to "severe". This latter classification applies to municipalities with plans funded at 49 percent or less. In 2009 eight pension plans had a funding ratio in this range, including the three large plans administered by the City of Pittsburgh.

Readers of our *Policy Briefs* will recall that Act 44 specifically directed Pittsburgh to get its aggregate funding ratio to 50 percent or above by the end of 2010 (the aggregate ratio was 35 percent in 2009's data) or face a state takeover of the pension system. After a proposal to have a long-term lease of the City's parking system, the adopted plan was an "infusion of value" that made a 30 year pledge of parking tax revenue above and beyond what was already dedicated to the pension system. So the state takeover was averted and as of 2013 the aggregate funding ratio for the City of Pittsburgh's plans stood at 58 percent, moving the three plans to the "moderately distressed" category. Pittsburgh's move out of the "severely distressed" category will be accompanied by an increased amount of parking tax revenue going to the pension system in the coming years. Then too, the late 2013 decision to lower the anticipated rate of return on investments from 8 percent to 7.5 percent means that a lot more money will be going to the City's pensions.

Three other plans in the County, all for non-uniformed employees in Crafton Borough, Indiana Township, and Ohio Township likewise moved from the "severe distress" category to improved standing. As of 2013 two police employee plans (Braddock Hills and Clairton) lingered in the "severely distressed" category.

Most of the pension plans in Allegheny County are in good shape, meaning that there are but two plans in the most troubling category of distress—clearly positive news compared to the disastrous situation facing state level pensions.

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