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What's ahead for Allegheny County's pensions?

Summary: The release of a final report of findings and recommendations and a pending lawsuit could have significant impact on the Allegheny County Retirement System (system), which provides pension benefits to employees of the county and the Allegheny County Airport Authority (ACAA).

"[The system] has more active workers than inactive workers; both the employer and the employees are contributing at a higher percentage than the year before; and the funded ratio is lower than it was a decade ago. In fact, if the [system] was measured by the 'distress levels' for municipal plans under Act 44 [of 2009], it would be considered 'moderately distressed'."

The above quote is from a 2012 Allegheny Institute *Report*. In 2010, the system's funded ratio (assets divided by liabilities) was 58.3 percent. In 2013 the General Assembly passed Act 125, which amended Article XVII of the Second Class County Code (Article XVII). This made changes to final average salary, overtime calculation, vesting and length of service for employees hired on or after Feb. 21, 2014, to receive full retirement benefits.

We updated data in *Policy Brief, Vol. 21, No.7.* In early 2021, over 40 percent of the county's workforce were working under the Act 125 benefit structure. We noted "… it is troubling nonetheless to see the funded ratio fall as it has over the past two decades."

The most recent available Actuarial Report for the system (as of Jan.1, 2025) contains historical information and trends which shows the following for the years 2021 to 2025:

- The total number of active and inactive participants averaged 12,309. In 2021, the ratio of active to inactive was 1.29 to 1. In 2025 the ratio was 1.14 to 1.
- The funded ratio was 50.4 percent in 2021, with $1.0 billion in assets divided by $1.99 billion in liabilities. By 2025, the ratio stood at 39.8 percent, with assets of $947.6 million and liabilities of $2.38 billion. If the system was subject to the municipal pension distress typology under Act 44, it would be "severely distressed."

- From 2021 to 2024 the assumed rate of return was 7.75 percent, which was lowered to 7 percent for 2025.
- The combined contribution rate, an equal share between the county and employees, rose from 21 percent to 22 percent in 2024.

At the end of 2024, two separate efforts commenced that could affect the system.

Working group final report

Announced in November 2024 and approved at a board meeting the following month, the Retirement Board of Allegheny County Working Group on Plan Funding & Modernization issued its final report in July 2026. The report covers many aspects of the system: its history and funding with notes on changes to the contribution rate, cost-of-living adjustments, Act 125, the investment mix and benefit payments compared with contributions.

The report stated that "for over two decades, there has not been enough money going into the fund to fully fund the plan" and the "**contribution policy is highly unusual among public pension plans**, with its requirement for fixed contribution rates (rather than actuarially determined rates, which adjust annually based on plan funding levels) that are furthermore required to match between employees and employers" as key problems (bold in original).

To deal with the $1.4 billion unfunded liability—based on the 2025 actuarial data noted above—the report stated the system "requires an actuarially determined contribution (ADC) of at least $140-$150 million annually to fully fund the plan within 20 years, which is an additional $90-$100 million or more per year than current employer contributions." That amount is equivalent to the entire 2026 budget for the Court of Common Pleas.

The report's 23 revenue options are categorized as four "Broad-Based Stable Options That Can Generate $100 [million] +" with three requiring state approval; six "New County-Wide Taxes or Fees"; three "Rate Increases"; four "Options That Relate to the ACAA"; three "Options That May Not Require Legislation" and three "Options That Rely on State Tax Base Expansion."

There are 17 "Options to Change Contributions, Benefits, & Plan Design or Administration" including adopting the ADC and "other risk-sharing options"; three "Options to Better Align Costs with Benefits" six "Options to Reduce Employer Costs Through Benefit Reductions (Assumed to Apply to New Employees)"; four "Plan Design Changes (Assumed to Apply to New Employees)" like defined contribution and hybrid plans, and two "Options to Change Pension Administration", such as ACAA setting up its own pension plan or consolidating the system with others.

System lawsuit

Filed by the county's district attorney in December 2024, the complaint in *Commonwealth of Pennsylvania, et al v. The Retirement Board of Allegheny County, et al*, stated "[f]or years … annual actuarial valuations have demonstrated the erosion of the System's long-term viability" and that "the System is projected to be insolvent as early as 2040." The complaint stated "[u]nless the County contributions are changed to reflect a typical pension funding policy, there is no adequate mechanism to pay off the unfunded liability and protect against potential future losses as they occur over time."

The preliminary objections stated "the General Assembly's grant of statutory discretion to the [system's board] relative to funding is limited to annually determining the contribution rate and the investment of plan monies." The objections noted the funding standards required of municipal and other county pension plans in Pennsylvania.

Filings in the case covered the legislative history of the system, pension studies and previous lawsuits related to pension funding.

In a September 2025 opinion, the judge summarized the complaint—"… within approximately fifteen years [the system] will have no moneys left to pay its retirees the retirement benefits that are due to them" and the preliminary objections—[d]oes the Second Class County Code impose a legal duty upon the county to keep its retirement fund fully funded?"—with one of the key issues determining what is required under Article XVII.

Two months later, the judge ordered "a hearing addressing the issue of the correct interpretation of Article XVII … in particular, whether [Article XVII] imposes a duty upon the County of Allegheny and its Retirement Board to eliminate or reduce the unfunded liability of the County's Employee Retirement Plan." Evidence that would be submitted included payment data, meeting minutes and actuarial reports going back many decades.

Oral arguments were made June 30. A news article summarized the positions as insolvency would jeopardize county pensions for employees as opposed to Article XVII's language on the county and employees required only to make equal contributions to the plan. The latest entry on the docket in the case was the submission of the history of the employee contribution rate and the final report of the working group.

Discussion

The course of action for the system is best described as undetermined. A ruling in the lawsuit (and any possible appeals), state legislative action on revenues and/or plan design, and/or actions by the retirement board could have an impact. In a sense, the pension issue is similar to another large looming issue of a countywide property reassessment, where a court ruling, Government Review Commission recommendation, County Council ordinance or state legislation could define what happens next.

Taxpayers should not have to dig deeper to fund pensions after the large county tax increase for 2025. There must be a concerted effort on streamlining services, finding savings, using existing revenue sources at their existing rates, not embarking on economic development projects that are going to divert anticipated revenues and focusing on getting the system to a stronger level of funding.

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