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What Does the Future Hold for Allegheny County's Pensions?

The audited data for Allegheny County's Retirement System shows that from 2005 until 2011 the system has slipped in health and the County is putting in a smaller percentage of what is required to keep the pension system on track for a strong funded position.

Earlier this year we produced a full length report on the characteristics of the Retirement System and not long after that the firm that audits the County's pensions released its most recent audit that provides the key information on the system for the County's taxpayers, employees, and the stewards of the plan, i.e., the seven member Retirement Board. For 2011, the County and its employees added $46.9 million in contributions while investments and other income brought total additions to $59 million. That same year $73.2 million was deducted from the plan to cover benefit payments ($68 million), employee refunds ($4 million), and just over $1 million in expenses related to the administration of the plan.

At the beginning of 2011 the plan had $699 million in actuarial assets against $1,191 million in actuarial liabilities. Measured as a ratio of assets to liabilities known as the funded ratio, the System was 58.7 percent funded. Since 2005, based on tables at the end of the audit, the value of assets increased and then took a bit hit in 2008, falling from $798 million as of January 1, 2008 to $582 million as of January 1, 2009. Liabilities have steadily increased over that same time frame, and the funded ratio, which was an enviable 85 percent in 2005 stood below 60 percent last year.

There has to be a silver lining somewhere in that finding. It could be that the County has been here before: our report obtained pension data going back to 1986 when the funded ratio was barely above 50 percent. It climbed steadily and surpassed 100 percent in 2000. If there were good fiduciary practices in place separate from investment performance that drove that solid record, then history could be a guide for the County's pension managers. The County also has a favorable situation where there are more active workers than retired workers in the plan, the exact opposite situation at the City and the Port Authority where retirees greatly outnumber active employees.

However, it is important to counterbalance those two positive attributes with another more troubling one to go along with the slipping funded ratio. Specifically, as a percentage of its annual required contribution (ARC), the County has been putting much lower amounts in recent years (see table below). As defined by the Governmental Accounting Standards Board, the ARC is the amount the employer would be required to contribute in order to fund adequately the accrued liability over thirty years.

Year	ARC (000s)	Actual County Contribution (000s)	% of ARC
2005	$22,582	$16,484	73
2006	$26,636	$17,579	66
2007	$26,549	$18,318	69
2008	$28,662	$18,630	65
2009	$62,952	$19,515	31
2010	$60,760	$20,050	33
2011	$59,490	$23,201	39

That's not to say that the County is not putting in a bigger dollar amount, quite the opposite as shown in the table. In 2005 the County put in $16.4 million, or about three-quarters of the ARC amount of $22.5 million. This past year, the County put in $23.2 million but its ARC was much higher at $59.4 million, no doubt as a result of the drop in asset value and the growth in liabilities. This resulted in a contribution level of 39 percent, somewhat higher than the low point of the period in 2009 when the County contributed just 31 percent of its ARC. Note that in the years covered in the audit the County never fully contributed the ARC amount.

While the County's pensions have been overshadowed by the status of many other pension plans from the state level down to the local level, there have been efforts to either get more money into the System or reform it. For the last several years, most recently last December, the Retirement Board has raised the percentage of salary a County employee has to put toward pensions from 7 to 8 percent effective at the start of this year. It is not yet known if another increase will be coming for 2013.

Under state law, the County is required to match the employee contribution level, so, in effect, a Board action to raise the employee amount means the County has to put in more money as well. At the meeting last December it was noted that the eventual target was a 20 percent level with 10 percent from both the County and its employees.

At the same time there is legislation in the General Assembly that would amend the minimum length of service to qualify for pensions for new County employees from 20 years to 25 years and would try to prevent "spiking" by stretching out the period for which final average salary is counted and eliminating overtime from final salary. At present an employee counts the highest two years of the last four years before retirement as final average salary, which encourages those employees who can to work a lot of overtime to do so. The legislation would change this to the highest four years of the last eight. An actuarial analysis performed by the Public Employee Retirement Commission projected that the costs of the Retirement System would come down gradually if the changes were implemented.

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