ALLEGHENY INSTITUTE FOR PUBLIC POLICY

December 11, 2012 **Policy Brief: Volume 12, Number 61**

Allegheny County Pension Reform Won't Happen This Year

While the Governor and the General Assembly are engaged in something of a tussle over the two large pension plans covering state employees and public school employees (817,000 active and retired members in total) and who should lead on specifics to reform them, a legislative proposal in Harrisburg to change the retirement system covering Allegheny County's 7,400 active members has died. If it is to be resuscitated in its present or slightly different form it will have to happen in the next legislative session that begins in January.

Here's the point. If the Legislature cannot bring itself to change a pension plan affecting one county, it seems the chances of major alterations in the two big statewide plans might be very slim. The County's retirement system is governed by a Retirement Board and administered by a Retirement Office locally, but its existence is embedded and enabled in the Second Class County Code. Significant changes to the system have to occur in Harrisburg.

There have been several attempts at reforming the Allegheny County code relating to pensions going back several years. Three of the past four legislative sessions have seen bills introduced in both the House and the Senate. With the exception of this session's House proposal, all have died in committee in the chamber the legislation was initiated. The bill that passed the House made it no further than the Senate Appropriations Committee.

Testimony was taken by the House Finance Committee in Pittsburgh in March of 2009 where one member of Allegheny County's legislative delegation stated the intent of the legislation was to "…keep the Allegheny County pension fund actuarially sound and produce significant cost savings in future years for the Allegheny County retirement system". That intent has presumably stayed the same as legislative sessions have come and gone.

As described in our report earlier this year, by making changes that would require a longer period of service to the County, eliminating the ability to count overtime into pension calculations, stretching out the period of an employee's final average salary determination, and instituting a slightly longer vesting period, the hope for reformers was to keep the system solvent. At the 2009 Pittsburgh hearing an actuary stated that a current non-uniformed employee retiring at age 65 with 25 years of service would collect a monthly pension of $2,028. An employee under the amended system retiring at the same age and with the same years of service would get $1,781. As more employees came under the new rules the costs to the County would gradually decrease.

All of these changes would affect new employees hired after the effective date of the legislation. In Pennsylvania, pension benefits cannot be taken away from existing employees by passing a law. That's from the state Constitution's language on contract impairment and has been upheld by the courts. So that shifts the discussion on pension reform and other retirement benefits to those not yet participating in the system. New hires of the City of Pittsburgh, Port Authority, Shaler Township, and even the two statewide systems have been hired with the understanding that they might not have retiree health care, be in a defined contribution plan, pay a higher contribution rate, or have to reach a higher retirement age than existing employees. That's happened in other states and that's what would have been the situation with Allegheny County's pensions. It also stretches out the time period in which the costs come down since it relies on existing employees getting to retirement age and being replaced by new employees.

Is there any reason to believe that those in favor of reform in Harrisburg will again take up the cause next year? Perhaps since the House bill actually made it to the Senate will give them encouragement. The latest audit of 2011 showing that the funded ratio of the plan (assets/liabilities) has slipped to 58 percent (it was 85% funded in 2005) might give them additional impetus. Equally important will be the decision of the Retirement Board on whether the contribution rate will be increased for 2013. State law requires that the County match what the employees put into the pension system. Last December the rate was boosted to 8 percent (it was increased four times since 2001) and will certainly increase the amount Allegheny County puts in as its employer share (it put in $23 million in 2011 when the contribution rate was 7 percent).

This much is clear: in the discussion started by the Governor's report on the pension problem it speaks only to the two statewide plans. At this point, that leaves over 3,000 county, municipal, and authority plans out of the picture. Who knows whether or not that will change? As of now, if Allegheny County's retirement system is to be reformed, it will be a separate legislative issue.

Eric Montarti, Senior Policy Analyst

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org