ALLEGHENY INSTITUTE FOR PUBLIC POLICY

May 8, 2013 **Policy Brief: Volume 13, Number 24**

Legislature Restarts County Pension Reform Effort

Is this the year changes come to Allegheny County's Retirement System, a self-insured defined benefit plan covering more than 7,400 non-uniformed employees, jail guards, deputy sheriffs, and County police officers?

If that question sounds familiar, it should: in the 2011-12 session the House version of a reform bill passed that chamber unanimously but never got past the Senate Appropriations Committee (it made it there just about this time last year). Earlier attempts were likewise made in recent legislative sessions but the changes sought by proponents have proven elusive. We noted in a *Brief* in December (*Volume 12, Number 61*) that the proposal might come back.

Because Allegheny County system's guidelines are codified in the Second Class County Code, any substantive change has to come from Harrisburg. The General Assembly has done plenty of tinkering with the County's retirement statute over the last forty years. Consider that the statute as it existed in the 1950s required all employees to reach age 60 and have 20 years of service to attain normal retirement benefits. Amendments lowered the age of retirement for police to 50 (in 1974) and to 55 for the sheriff and deputy sheriffs (in 1989), prison guards (in 1992), and probation officers (in 1998).

Thus far, legislation has passed the House and is now in a Senate committee (there is an identical Senate companion bill that is in the same committee) and, based on a reading of the House's fiscal note on the 2013 bill, not much of the tenor has changed from earlier versions of the legislation. Should the reforms become law, new County hires would no longer be able to count overtime into their pension, would have to work more years for the County to be qualified for a pension (25 years instead of the current 20), would have a period to vest of ten years instead of eight, and would calculate final average salary from the highest two years of the final four to the highest four years of the final eight. With interpretation of the state's Constitutional language on the impairment of contracts taken to mean pensions for current workers cannot be touched, so savings are gradual and obtained by changes to future employees. As employees under the current system retire and new hires eventually replace them, there would be a corresponding decrease in the normal cost for the pension system (both the County and the employees contribute at the same rate) that would reach $16 million twenty years after the enactment.

It is easy to see how the argument is going to shape up. Those in favor of the reforms from the County government as well as the County's legislative delegation are looking at a system that was 85 percent funded in 2005 that is now 58 percent funded as of 2011 and have probably taken note of the pension problems encountered by the City of Pittsburgh and may want to head similar problems off before things get really bad. Every year that passes before changes apply to new hires postpones the time when cost savings would arrive.

Those opposed to the changes, on the other hand, have to make a convincing argument that employees who are not yet even employed by the County, don't bargain with the County, and have no standing should not have a different pension than the one in place. This is what happened in 2009 when a House committee took testimony in Pittsburgh on the changes and heard from heads of bargaining units. One made an argument about a "two-tier" system which "…is a dangerous thing between workforces, unions in the workplace in general. You have certain people that are able to benefit from something and others that are not. They do the same job, work the same hours, complete the same task…" Presumably the insinuation was that there might be intra-union conflict if employee A could count overtime into his pension and retire after 20 years of service while employee B could not. Of course anyone taking the job would be willingly accepting the differential—no one would be compelled to work for the County.

Maybe time will bear that out. In the intervening years since that testimony was taken several substantial changes have been made at the state and local level to differentiate new employees hired by the public sector:

- The state passed Act 120 in 2010 that created two new tiers of school employees hired after July 1, 2011 with a lower multiplier rate on final average salary, a longer vesting period and a higher retirement age (to 65 from 62) and a new tier in the state employees retirement system for those hired after January 1, 2011 which did the same with the multiplier and increased retirement age by five years (changing most to either 55 or 65 years of age). People hired since those dates are working alongside others who are not under those benefit structures.
- The Port Authority made changes to its plans for non-represented and IBEW employees where new hires are in defined contribution plans, with those employees working alongside employees in defined benefit plans. The Authority also negotiated a new contract with the ATU where new hires will only be eligible for three years of post-retirement health care, with those employees working alongside of current employees who are in various tiers of benefit qualifications tied to age and service requirements.
- The Act 47 recovery plan for Altoona eliminates retiree health care for employees hired on or after January 1, 2014 and Harrisburg's plan eliminates it for those hired after the adoption of the plan.

That's standard operating procedure: if pension benefits for current employees are viewed as sacrosanct and there are limitations for bankruptcy filings for local governments in steep trouble with generous retirement packages made by officials in previous years, then the gradual process of nurturing pensions back to health falls on new hires.

Whether the proposed changes to the County's system makes it through the legislative process this year will provide insight as to the Commonwealth's appetite to take on wholesale pension reform.

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