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What Will a State Pension Takeover Mean for Pittsburgh?

"A City of the Second Class that is determined to be in Level III distress based upon the required actuarial valuation reports for a plan year beginning on January 1, 2011, shall transfer all existing benefit plans established by the City to the Pennsylvania Municipal Retirement Board solely for administration…Pension benefits and eligibility requirements shall continue to be subject to collective bargaining"—Act 44 of 2009, Section 902C

When the legislation that would become Act 44 was being debated the City of Pittsburgh was given an "either or" option. Either the funded ratio (assets/liabilities) of the City's pension plans reach 50 percent by January 2011 or the plans would be taken over by the Pennsylvania Municipal Retirement System (PMRS).

With the Council's preliminary vote to reject the Mayor's long-term parking lease proposal, a proposal that would have pushed the pension funding ratio above 50 percent, and the likelihood that the Controller's and Council's alternative plans cannot be implemented by December 31st, the probability of a state takeover has jumped significantly. Thus, examining what a transfer of pension plans to the state might mean has become the key question facing Council.

Who will be in charge of the City's pension system? A takeover means that the seven member Comprehensive Municipal Pension Trust Fund board of the City—a board that includes the Mayor, City Controller, Council President, and union representatives—would be stripped of administering the plans and the PMRS board, whose eleven members include the Secretary of the Commonwealth, the State Treasurer, and nine gubernatorial appointees (each of whom represent either a class of municipality or police or fire employees) would run the pensions. PMRS currently handles over 900 local pension plans from municipalities that have voluntarily transferred or established plans there. Pittsburgh would be the first involuntary member.

Perhaps having people not closely connected to City government and its labor unions administering the plans might be beneficial.

As stipulated in the Act 44 language, collective bargaining for the City's labor unions would remain with the City which is currently (and for the foreseeable future) under Act 47 supervision. Any negotiated contract cannot violate the terms of the recovery plan that is in place and, according to that plan, two unions have contracts that expire at the end of this year.

How will Pittsburgh's pensions affect PMRS' balance sheet? The PMRS board will administer three new pension plans that, in aggregate, have close to $700 million in unfunded liabilities and 1.3 retirees for every 1 active member. By contrast the plans administered by PMRS have assets that exceed liabilities by $88 million and the retiree to active ratio is 0.39/1. To say that Pittsburgh's pensions are in bad shape is a colossal understatement.

The table below shows what a PMRS balance sheet (a schedule of funding progress in pension terminology) would look like once Pittsburgh's plans were folded in. What is currently a pension system with more assets than liabilities would become one in which there is more money promised than is on hand.

Schedule of Funding Progress, PMRS and Pittsburgh

Pension System	Assets ($000s as of 2009)	Liabilities ($000s as of 2009)	Assets – Liabilities ($000s as of 2009)
PMRS	$1,540,152	$1,451,637	$88,515
Pittsburgh	$339,000	$989,400	($650,400)
Combined	$1,879,152	$2,441,037	($561,885)

It will be interesting to see the reaction of the PMRS board and other member municipalities to the way Pittsburgh's plans are treated since any action affecting Pittsburgh's plans will have significant effect on the aggregate health of the PMRS system.

How much will a takeover cost the City? Lifting pensions to a healthy condition will require adding substantially higher amounts of money to the funds either through winning concessions from workers and cutting spending or significant tax hikes. The possible severity of any of these actions has been the cause of much dispute.

Early in the process the Mayor stated that a takeover "…would require either unacceptable tax increases to the residents of the City of Pittsburgh or immediate, wide scale reductions across City departments". The administration later specifically quantified the takeover as necessitating a 22 percent property tax increase, a 44 percent wage tax increase, or a layoff of 400 police officers.

In a presentation before City Council on October 14th, the head of PMRS characterized the problem as "very, very serious" and said that last year "the plans paid out $30 million more in benefits and administrative costs than they took in from municipal and employee contributions. At that rate, the plans would be bankrupt in 10 years". By folding it into PMRS it is believed that some money would be saved on administrative expenses. In light of the severity of Pittsburgh's problem, the PMRS board might well conclude that immediate and aggressive steps must be taken in addressing the pension shortfall.

This year the City put $60 million into the pensions as its minimum obligation, following the recommendation of the Act 47 team. That's an increase from recent years when the contribution was closer to $44 million. But it is still well short of being adequate because of the imbalance in outflow and inflow of money into the pension funds. Recent years showed payouts to participants in the $80 million range. Thus, to prevent the ratio of assets to liabilities from sliding even further at least $25 million more annually will be required. Counting on supersized investment returns is not an option.

The City is undoubtedly facing a huge jump in required contributions to keep the pension funds from eroding further and to move the funded ratio to at least 70 percent, which might be considered as the minimum acceptable ratio for the City's pensions. Longer term, the ratio must be boosted even further.

Pittsburgh is heading inexorably toward a period of either much higher taxes or finally facing up to the need to make serious cuts in spending to free up $30 million or more a year to pour into pensions. There are no easy answers or cheap fixes to the problem. It would be egregiously imprudent to continue looking to Harrisburg for a bailout. The state does not have enough money to meet its own obligations.

Going forward, the City needs to be very careful about what it promises its employees. Maybe the Act 47 team and the Oversight Board could begin exercising some of their authority to help steer the City in that regard.

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