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Pittsburgh Pension Misery: How Much Company Does It Have?

If the City of Pittsburgh ever hopes to get back on a truly sound financial footing and not merely post a couple of years of surplus, it must seriously address the long-term liabilities that are such an enormous drag on the City. These deadweight liabilities—bond debt, unfunded health care benefits for retirees, workers compensation, and unfunded pension liabilities—are far out of line with other cities around the country making the City appallingly uncompetitive in term of attracting private sector firms.

Pittsburgh has three separate plans; police, fire, and non-uniformed personnel. Data from the City Controller's most recent Comprehensive Annual Financial Report indicates those plans had funded ratios (assets to liabilities) of 33, 57, and 47 percent respectively (46% average) with total unfunded liabilities of $469 million. The report also shows that the pension plans required a minimum of $38 million in contributions for 2006. The City put in $23 million (57%) while the state contributed the remaining $15 million (43%).

Despite having received more than half of all the state pension aid distributed to Allegheny County municipalities in 2005 and having sold bonds in the late 1990s to shore up its pension system, the City's unfunded pension liabilities remain woefully large. Little wonder the Mayor is trying to curry favor with other municipalities around the state in a similar condition, labeling municipal pensions as "Pennsylvania's version of the national Social Security problem." His proposals for fixing the problem presumably would include one or more of the following solutions; (1) have the municipal plans folded into the state system, (2) create one mandatory unified municipal pension system, or, (3) have the state come up with the money to close the unfunded liabilities gap.

The Mayor's assessment is correct insofar as both Social Security and municipal pensions entail governments making promises of benefits and having to make sure the money for the benefits is there. But pensions such as Pittsburgh's three plans are not a pay as you go system such as Social Security that relies on taxing active workers to pay retiree benefits. Rather, pension plans accumulate funds from employees and employers, invest those funds in accounts for employees and pay out benefits to eligible retirees. On the other hand, Social Security is not subject to the collective bargaining power of public sector unions who have won extremely favorable benefit provisions that make it virtually impossible for some municipalities to meet their obligation. This is especially true for public safety unions who are able to use the extraordinary power conferred upon them by Act 111 to extract outrageously generous benefits in contract negotiations.

Some observers argue the problem is "not just Philadelphia or Pittsburgh." But our analysis on local government pensions in Pennsylvania shows Philadelphia ($3.2 billion) and Pittsburgh ($469 million) together accounting for 75 percent of the nearly $5 billion in total unfunded liabilities for all 3,100 municipal and authority plans. Any state scheme to bail out Pittsburgh would have to simultaneously deal with Philadelphia and its $3 billion unfunded gap. It is unlikely the Legislature and the Governor are prepared to scrounge up funds of that magnitude. Moreover, it is highly improbable a state bail out would correct the lack of discipline in the cities that produced the problems in the first place. Indeed, municipal unions on seeing the state capitulate would believe their political power led to the favorable result and therefore be emboldened to resume making exorbitant demands on the public treasury.

Shown here are the average funded ratios for the ten largest cities in the Commonwealth as reported to the Public Employee Retirement Commission for 2005: Philadelphia (55%), Pittsburgh (46%), Allentown (80%), Erie (82%), Reading (77%), Scranton (50%), Bethlehem (89%), Lancaster (90%), Harrisburg (118%), and Altoona (84%). Only Scranton and Philadelphia would be considered in the same boat as Pittsburgh. What's more, only 12 percent of all 3,100 municipal pension plans in Pennsylvania have a funded ratio of 69 percent or less. Certainly, it is not a widespread, deep problem for the state's municipalities in general.

Looking closer at Allegheny County—with its 294 individual municipal and municipal authority pension plans—shows 24 having a funded ratio of 69 percent or less. Viewed in the aggregate, the funded ratio is 70 percent. Taking Pittsburgh out of the group puts the funded ratio of combined non-Pittsburgh plans at 96 percent. Even the authorities related to the City of Pittsburgh (Housing, Parking, and URA) have funded ratios of 100 percent or more. Clearly, the City's pension plans reveal a long-term pattern of granting benefits that are out of line with other municipal plans and a failure to see that its share of funding was kept up to date.

If the proposal is for the state to simply bail out or take over the City's pension system and forgive the past practices that got Pittsburgh into the present situation, it will be a non-starter. Officials in the administration and the General Assembly have already made this known. One state legislator noted "they have put themselves in this (position)" and a state official previously said "we cannot simply erase bad decisions that former leaders of Pittsburgh made". Also, the state would be adding another level of obligation to its own troubled future. That's because the General Assembly has made enhancements to the pensions covering state workers (SERS) and school teachers (PSERS) that are expected to spike in 2013. This could result in massive tax increases to meet the employer contribution levels. Obviously, taking on municipal obligations will worsen the situation.

What can be done? The Act 47 team told the City to "apply any windfall to the improvement of pensions" and to enact "a moratorium on further improvements to pension benefits". But more drastic and innovative steps are needed. For one thing, the General Assembly ought to draft legislation mandating that new hires be placed in defined contribution plans, especially for municipalities whose pensions are seriously under funded. Second, Pittsburgh simply must find ways to reduce substantially its employee count and cut expenses. Eliminating workers is the best and surest way to stop the growth of pension liabilities as well as retiree health benefit liabilities. Recognizing and acting on this reality is absolutely key to coming to grips with the city's financial morass.

Pittsburgh must also recognize that bowing incessantly to public sector union pressures is a principal cause of its high tax, excessive spending legacy that have made the City uncompetitive economically and a place the middle class continues to abandon. As long as state government continues to bail out its excesses, Pittsburgh's elected officials will never undertake the reforms that are the key to real and lasting financial improvements.

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