POLICY BRIEF
An electronic publication of
The Allegheny Institute for Public Policy

August 19, 2009 **Volume 9, Number 49**

Pittsburgh Encounters Pension Reform and Doesn't Like It

If the health of Pittsburgh's three pension plans doesn't soon improve and if pending municipal pension reform legislation becomes state law, the City will see its oversight and administration of the plans transferred to the state and all future employees will become members of a new, uniform system of pension recipients.

The legislation would establish a Municipal Pension Recovery Program and the plans in the worst shape—a funded ratio (assets/liabilities) of less than 50 percent—would be classified as "severely distressed" and taken over by the state's Municipal Retirement System (PMRS). The legislation would not affect counties or the City of Philadelphia.

But that does not mean the slate is wiped clean for Pittsburgh and other troubled pension plans. The City would still have to pay its minimum municipal obligation to meet annual obligations (currently a $44 million expense) and possibly more (anywhere from $29 to $66 million additional) to handle its pension expense under the new program.

It is clear why the Mayor does not like the provisions of the legislation: not only could it require the City to contribute more money and remove its control over contract bargaining, it contains none of the four ideas he has put forward in past presentations to the General Assembly including, revising the state pension aid formula, eliminating the "spiking" of pensions by accumulating overtime, allowing for 401k type plans, or consolidating some or all of the state's local government plans. It is also clear that since Philadelphia would be exempt from the program (it is seeking a separate package of reforms including an additional percentage point increase to its sales tax rate) the Mayor probably feels that Pittsburgh should not serve as the poster child for pension problems in Pennsylvania.

As of the most recent pension valuation (2007) by the Public Employee Retirement Commission (PERC) the aggregate unfunded liabilities (assets-liabilities) of the 3,088 municipal pension plans was $4.8 billion. Philadelphia accounted for $3.7 billion (77%) of this total. Removing the state's only first class city from the pension overhaul leaves a $1.1 billion shortfall to be dealt with. Pittsburgh—with $523 million in liabilities as reported by PERC, an amount that has grown to $600 million since 2007—represents about half of the remaining statewide unfunded amount. Should both Philadelphia and Pittsburgh secure exemptions from the legislation, nearly 90 percent of the state's total municipal pension underfunding problem would not be included in the reform package.

A very small share of plans comprising the remaining $577 million in unfunded liabilities would actually fall under state control because they are "severely distressed"—a funded ratio (assets/actuarial liabilities) below 50 percent—as Philadelphia and Pittsburgh are. Our analysis of the state's ten largest cities shows that only Scranton's funded ratio of 57 percent comes close to the low level of funding in Pittsburgh and Philadelphia. A recent PERC estimate noted “there may be around 30 municipalities in that category”, that is, having pension plans below 50 percent funded.

Stated another way, the municipal pension problem will not be meaningfully addressed unless the underfunding in Philadelphia and Pittsburgh is dealt with. Pittsburgh obviously prefers to go it alone as opposed to being pulled into a statewide reform. The lynchpin of the Pittsburgh plan is to lease or sell parking garages and lots to generate a huge lump sum payment to put into the pensions.

Recently a published report noted that the City “could conceivably net $200 million” from the proposed deal. That would be the absolute minimum to get the pension funds to a 50 percent threshold (based on $251 million in assets and $899 million in liabilities) and possibly place the City out of the “severely distressed” category. An amount less than that would provide a boost but not enough for the City to escape the mandates placed on them by reform. And no one can say for sure what an actual lease or sale would bring in. As of yet no proposals have been received.

If Pittsburgh is exempted or the legislation does not become law, the City still needs to pursue the parking deal and will live under the dictates of the Act 47 plan, and that means having to contribute an additional $10-$14 million a year to shore up pensions. They might even be tempted to think about another issuance of pension bonds as they did in the late 1990—a gambit that went very sour.

There is no denying Pittsburgh’s pension problem has to be addressed in a substantive manner. This is a problem many observers and analysts—including the Act 47 team—believe has grown to “crisis proportions”.

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