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Pension Plans in Allegheny County:
A Review of the 2009 Data

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Allegheny Institute Report #11-02
March 2011

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Key Findings

- There are close to 300 separate pension plans in Allegheny County that cover local government workers (not including school teachers) employed by the County, municipalities, authorities, and associations.

- When the employees and the financials of these plans are lumped together as one, there is 1.3 active members for every 1 retired member and assets sufficient to cover 64 percent of the promised liabilities.

- In 2009, close to 60 percent of all the plans have a funded ratio of 90 percent or higher. Eight plans, including all three administered by the City of Pittsburgh, have a funded ratio of 49 percent or less.

- Over 80 percent of the 299 plans are the defined benefit type of pension plan in which a specific retirement benefit is negotiated based on compensation and term of service.

- Plans covering non-uniformed employees have the highest funded ratio as a group but it is well outside of the acceptable range of what would be considered healthy for a pension plan.

- Plans covering employees not working for Allegheny County, the City of Pittsburgh, or any authority related to either of these governments have the healthiest funded ratio as a group.

Introduction

Allegheny County is home to close to 300 separate local government pension plans that house retirement benefits for workers for the County, City of Pittsburgh, other cities, boroughs, townships, authorities, and associations. These workers are elected and appointed officials, police and fire personnel, and white- and blue-collar employees. Most of the plans are of the defined benefit type, while others are defined contribution plans. The largest has more than 7,000 active employees, while many have a single employee. When considered as an aggregate "system" total membership would rival that of a mid-sized Allegheny County community.

This report aims to analyze the most recently audited local government pension data available from the Pennsylvania Public Retirement Commission's (PERC) 2011 report which shows the health and characteristics of these pension plans as of January 2009. By doing so we can examine the pension health in Allegheny County and its composite local governments and draw conclusions about the need for broad-based pension reform in Harrisburg and close to home.

The Nature of Local Government Pensions in Pennsylvania

There are three main pension "systems" in the Commonwealth of Pennsylvania: two are actual unified pension systems in which employees of a specific class participate while the third is a loose amalgamation of plans that cover a variety of employee classes with a myriad of statutes and regulations governing them.

The unified system for those employed directly by the state (110,000 active members) is the State Employees' Retirement System (SERS); for those employed by one of the state's 500 school districts or by state universities, community colleges, etc. the Public School Employee Retirement System (PSERS) applies (there are 282,000 active members in this plan).

And then there are the more than 3,000 local government pension plans that are directly administered by officials of county, municipal, authority, or association leadership. These plans, in total, represent about 25 percent of all pension plans in the entire U.S. and cover 136,000 active members across Pennsylvania. Over 900 local plans are administered by the Pennsylvania Municipal Retirement System (PMRS), a voluntary organization that has its own staff and investment principles. Whether with PMRS or the local governing body, every two years audited actuarial data is reported to PERC who then issues a report detailing the characteristics of these 3,000 plans.[1]

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[1] Pennsylvania Public Employee Retirement Commission, 2011 Status Report on Local Government Pension Plans (http://www.portal.state.pa.us/portal/server.pt/community/publications/3194/municipal_pension_plan_report/525535) The report notes "Pennsylvania's local government pension plans comprise more than 25 percent of the public employee pension plans in the United States" . Since this is the most recent status report the audited financial data will be treated as current throughout the report.

Methodology

Perhaps the most important benchmark measure reported by PERC is the funded ratio, which is the plan's actuarial assets divided by the plan's actuarial liabilities, expressed as a percentage (denoted as AA/AAL in the report's tables). A funded ratio of 100 percent means the plan has $1 in assets (AA) set aside for $1 in liabilities (AAL).

A funded ratio of 100 percent or greater means the assets are more abundant than the liabilities at the time of measurement. The plan's health is still maintained into the range of 80 percent or higher. Lower than that raises cause for concern, while dropping below 50 percent ($.50 in assets for $1 in liabilities) means a crisis, as is evidenced in the current situation in the City of Pittsburgh, where the combined funded ratio of the plans for fire, police, and non-uniformed plans is barely above 30 percent.

In fact, a central part of Act 44 of 2009 was to label levels of distress from none (90% or above) and minimal (70-89%) to moderate (50-69%) to severe (49% or lower) and prescribe a series of voluntary and mandatory remedies based on the level of distress.

The funded ratio will provide a snapshot of the relative health of plans in Allegheny County. How many plans can be considered healthy? Which ones would not be? Are plans for police officers in better shape than those for firefighters? Are those for non-uniformed workers better or worse off than those two employee groups? Are the plans associated with County government better off than those of the City? Are all City-related plans in bad shape?

A secondary measure will be the worker ratio of active workers (those currently employed, drawing a paycheck, and paying something into the pension fund) to retired workers (those receiving a pension, whether by retiring, being terminated with some benefits intact, or being the beneficiary of a pension by marriage, family relation, etc.). Again, as with funded ratio, the worker ratio is healthiest at 1 or greater: this means there are more active workers than those collecting benefits. A plan with more people collecting benefits than contributing or paying in could be cause for concern.

Data from the PERC report was obtained and the information pertaining to Allegheny County was separated out. Gaps were filled in by examining other sources such as the County's annual financial report and the Port Authority's single audit, as well as conversations with officials at that agency.

The report will proceed from the general—treating the nearly 300 pensions as one unified plan—to the specific, examining the characteristics of plans specifically related to the City of Pittsburgh and Allegheny County.

Pension Plans in Allegheny County

"There is a lot of discussion going on about big-city pension plans in Harrisburg, but municipalities should be a part of that discussion and we here in Allegheny County should lead that effort"—Chief Executive Dan Onorato at a June 2009 pension summit[2]

"That's incredible that it's that fragmented…Clearly, what I will say, is that some sort of consolidation has to happen."—Pittsburgh Mayor Luke Ravenstahl at a September 2008 Senate hearing[3]

While there has been a lot of talk about the fragmented nature of the local pensions system and that some type of consolidation would be in order, there has been little action. Much of the talk surrounding the last ill-fated discussion of a merger of the City of Pittsburgh and Allegheny County was focused on the issue of the City's underfunded pensions and how those costs would affect residents of the County living outside of the City. As such, the 299 pension plans that exist within Allegheny County remain quite separate.

Plans in Aggregate

If the 299 separate plans in Allegheny County currently with the City, other municipalities, authorities, associations, and the County itself were merged or consolidated into one, the resulting plan would be smaller (in terms of active members) than only the 20,000 member plan for Philadelphia's non-uniformed workers. Taken as a whole, the system would have close to $2.6 billion in assets and $4 billion in liabilities, leaving $1.4 billion in unfunded liabilities and a funded ratio of 64 percent. This would be well out of the optimal range for a healthy pension funded ratio. Its funded ratio would be in much better shape than the aforementioned plan in Philadelphia.

Plan	Actives	Retirees	*Active/ Retiree*	AA (000s)	AAL (000s)	*AA-AAL (000s)*	*AA/AAL (%)*
All Plans in Allegheny County (299)	18,394	14,402	1.3	$2,580,468	$ 4,023,891	($1,443,423)	64

Obviously the funded ratio is the average for the aggregated group: all plans are not as poorly funded as the average. The table below segments the 299 plans into funded ratio ranges. The Act 44 levels apply into this typology as well.[4]

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[2] Karamaji Rujumba "Onorato Urges Municipalities to Merge their Pension Funds" Pittsburgh Post-Gazette, June 24, 2009.

[3] Rich Lord "Ravenstahl Reveals Plan to Fix Pension Gap" Pittsburgh Post-Gazette, September 9, 2008.

[4] PERC Status Report, Allegheny County Controller's Office 2009 Comprehensive Annual Financial Report "Schedule of Funding Progress for the Retirement System" , Port Authority 2009 Single Audit "Schedule of Funding Progress" and Port Authority data on actives and retirees.

As can be seen, over half the plans are funded at 90 percent or better based on the last actuarial valuation of January 2009. Add those falling into the range of 70 percent to 89 percent and the share of well-funded plans rises to nearly 90 percent of all plans (meaning these plans would be considered to have no or minimal distress under Act 44).

AA/AAL	Act 44 Level of Distress	# of Plans	% of Total
90% or >	None	172	57
89-70%	Minimal	95	32
69-50%	Moderate	24	8
49% or <	Severe	8	3
Total		299	100%

Most troubling are the eight plans that fall below 49 percent. This group (severely distressed under Act 44) includes the three plans belonging to the City of Pittsburgh and five plans belonging to five other municipalities (police plans in Braddock Hills and Clairton, and non-uniformed plans in Crafton, Indiana, and Ohio).

By Plan Type

Far and away the majority of plans are self-insured, defined benefit type plans where the pension benefit is an agreed upon amount based on length of service. The state's *Municipal Pension Handbook* states that "in a defined benefit plan, the employer promises a definite benefit, usually a percentage of compensation, and funds the plans accordingly". Investment gains may "reduce, or eliminate, the need for employer contributions to the plan" while losses do just the opposite. Under a defined contribution plan the "employer only promises to make the contribution, it does not promise any specific level of benefit".[5]

According to PERC, among the 3,000 local plans statewide the distribution is 71 percent defined benefit, 25 percent defined contribution, and 4 percent other.[6] How does Allegheny County's

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[5] Commonwealth of Pennsylvania, Department of Community and Economic Development, Governor's Center for Local Government Services Municipal Pension Handbook, October 2007. See also Eli Lehrer and Steve Stanek "The State Public Pension Crisis: A 50 State Report Card" which notes "a defined benefit plan guarantees workers a specific sum of money, often paid monthly, after working for an employer for a certain period of time. A defined contribution plan, on the other hand, involves the employer giving employees a specific 'up front' sum for a retirement account and leaving the employee to manage it"; the National Conference of State Legislatures report "State Retirement System Defined Contribution Plans" says "…defined benefit plans, provide a guaranteed life-time retirement benefit based on an employee's years of service and final salary, which can be defined in different ways…defined contribution plans, in contrast, provide a retirement benefit that is based on an account an employee has built up through the years of employment".

[6] PERC Status Report

299 plans compare? The data shows that 244 plans (82%) are defined benefit leaving 55 plans (18%) that are not.[7]

Plan	Actives	Retirees	*Active/Retiree*	AA (000s)	AAL (000s)	*AA-AAL (000s)*	*AA/AAL (%)*
Defined Benefit Plans (244)	17,116	14,247	1.2	$2,511,017	$ 3,954,440	$ (1,443,423)	64
Other Plans (55)	1,278	155	8.2	$ 69,450	$ 69,450	$ -	100

Taken in aggregate, the defined benefit plans contain $2.5 billion in assets, have $3.9 billion in liabilities, which leaves close to $1.5 billion in unfunded liabilities, and a funded ratio of 64 percent. The non-defined benefit plans are significantly smaller with $69 million in combined assets. The worker ratio in the non-defined benefit category is much healthier than that of the defined benefit group, with 8.2 actives for every 1 retiree in the former and a close to 1-1 ratio in the latter.

By Employee Class

Plans are separated by type of employee: most municipalities have at least two plans, one that covers police and one that covers non-uniformed employees. In the small number of municipalities that have a paid firefighter component, these employees also have their own pension plan. The County's plan does cover both non-uniformed employees and some police in one plan, and since the majority of employees are non-uniformed that plan will be classified as such.

Non-Uniformed

By employee type the largest employee total resides in the non-uniformed category, everyone from managers, clerks, analysts, and legal personnel to bus drivers, garbage collectors, and road crews. Of the three groups separated by employee class the non-uniformed plans have the highest funded ratio at 68 percent, still in a range that would be considered unhealthy. This group is also the only one of the three to post a worker ratio that is positive, with more actives than retirees.

Plan	Actives	Retirees	*Active/ Retiree*	AA (000s)	AAL (000s)	*AA-AAL (000s)*	*AA/AAL (%)*
Non-Uniformed Plans (181)	15,529	10,518	1.5	$1,870,682	$ 2,741,295	$ (870,613)	68

The largest plan in this class is the County's pension plan.

[7] The majority of these plans are defined contribution type plans. Twelve of the 55 are Taft-Hartley multi-employer plans bargained under terms of ERISA.

Of this employee class 129 plans are defined benefit and 52 are not. Several municipalities (Findlay, Jefferson Hills, McCandless, O'Hara, Pittsburgh, Swissvale, and Upper St. Clair) and one municipal authority (Fox Chapel Authority) have a mixture of non-uniformed plan types in which one plan is a defined benefit and the other is not.

Police

The second largest category, when defined by employee type, is that of police plans. In this class there are more retirees than active workers, and the funded ratio is at 62 percent. Only two of the 100 plans are not defined benefit plans, and they cover a total of 3 officers in two municipalities. With close to 900 active members and almost twice as many retirees, the City of Pittsburgh's police plan is the largest and one of the most underfunded (only Braddock Hills' plan at 23% was lower).

Plan	Actives	Retirees	*Active/ Retiree*	AA (000s)	AAL (000s)	*AA-AAL (000s)*	*AA/AAL (%)*
Police Plans (110)	2,153	2,590	0.8	$ 566,140	$ 917,614	$ (351,474)	62

Six other plans are funded at less than 70 percent, meaning the majority of police plans are in good shape.

Fire

The smallest category by employee class is that of firefighter plans, obviously owing to the very strong presence of volunteers and volunteer companies. Again, as with police, the City of Pittsburgh's plan has a significant impact here: with a funded ratio of 35 percent it drastically colors the health of fire plans as a group. Only one other municipality (Swissvale) had a funded ratio that could be considered poor (68%).

Plan	Actives	Retirees	*Active/ Retiree*	AA (000s)	AAL (000s)	*AA-AAL (000s)*	*AA/AAL (%)*
Fire Plans (8)	712	1,294	0.6	$ 143,645	$ 364,980	$ (221,334)	39

The fire plan class has the lowest worker ratio of the three classes with 0.6 active to every 1 retired member, slightly less than that of the police plan group.

By Level of Government

Moving away from the classification by employee class, we can now look at plans assigned to a specific governing entity. The focus here will be threefold: plans related to Pittsburgh, plans related to Allegheny County, and all remaining plans in the County.

Plans Related to City of Pittsburgh

The City administers three plans that are in very poor condition. These were the three plans that would have been taken over by the Commonwealth under the terms of Act 44 of 2009 and, as a consequence, the plans the Mayor wanted to resuscitate through a lease of parking garages, lots, and meters, some of which are owned by the separate Parking Authority. That authority's plan is one of three at the City's related authorities. And it is in much better shape than any of the plans of the City.

Two plans are defined contribution type—one for the URA and one for the City's Housing Authority. It should be noted that the funding ratio and the worker ratio of the plans with the three authorities are in much better shape than those with the City.[8]

Plan	Actives	Retirees	*Active/Retiree*	AA (000s)	AAL (000s)	*AA-AAL (000s)*	*AA/AAL (%)*
Pittsburgh--Fire	642	1,165	0.6	$ 118,292	$ 334,059	($215,767)	35
Pittsburgh--Non-Uniformed	1,783	1,606	1.1	$ 115,322	$ 267,615	($152,293)	43
Pittsburgh--Police	898	1,592	0.6	$ 105,564	$ 387,857	($282,293)	27
Parking Authority	72	16	4.5	$ 8,381	$ 8,780	($399)	95
Redevelopment Authority	*82*	-	0.0	*$ 5,514*	*$ 5,514*	*$0*	*100*
Housing Authority	*347*	*40*	8.7	*$ 23,887*	*$ 23,887*	*$0*	*100*
Total	3,824	4,419	0.9	$ 376,960	$ 1,027,712	($650,752)	37

Plans Related to Allegheny County

Along with the one plan administered by Allegheny County for its employees, there are plans for the related authorities in charge of mass transit (Port Authority), public housing (Housing Authority) as well as two joint City-County authorities (ALCOSAN and Sports and Exhibition Authority) that are counted here since their functions could be considered more countywide than City-specific in nature. That's eight plans in all that could be considered as "county" pension plans.

Most of the plans are defined benefit in nature, with the exception of the Housing and Sports and Exhibition authorities, which are defined contribution plans.

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[8] Pittsburgh also reports a defined contribution plan for non-uniformed personnel, but that plan has no active or retired members, no assets or liabilities.

Plan	Actives	Retirees	*Active/Retiree*	AA (000s)	AAL (000s)	*AA-AAL (000s)*	*AA/AAL (%)*
Allegheny County	7,343	4,613	1.6	$ 582,099	$ 1,067,015	($484,916)	55
PAT-ATU	2,342	2,441	1.0	$ 624,449	$ 774,856	($150,407)	81
PAT-IBEW	73	71	1.0	$ 18,565	$ 23,613	($5,048)	79
PAT-Non Union	285	324	0.9	$ 57,197	$ 100,652	($43,455)	57
Sanitary Authority	93	44	2.1	$ 20,308	$ 24,403	($4,095)	83
Sanitary Authority	257	143	1.8	$ 67,812	$ 68,102	($290)	100
Housing Authority	*159*	-	0	*$ 13,477*	*$ 13,477*	*$0*	*100*
Sports & Exhibition Authority	*13*	*15*	0.9	*$ 592*	*$ 592*	*$0*	*100*
Total	10,565	7,651	1.4	$1,384,499	$ 2,072,710	*($688,211)*	67

It is quite surprising to see that, as of the last valuation, the three pension plans at the Port Authority each had a better funded ratio than that of the Allegheny County plan.

Non-Pittsburgh, Non-County Plans

The table below contains the last segment of plans, those not attached to the City of Pittsburgh or the County government. In other words, the aggregate of the 285 plans remaining when the 14 plans closely linked to the City and County are left out of the measurement.

Plan	Actives	Retirees	*Active/ Retiree*	AA (000s)	AAL (000s)	*AA-AAL (000s)*	*AA/AAL (%)*
Non-City, Non-County Plans	4,005	2,332	1.7	$ 819,004	$ 923,463	($104,459.00)	89

This group would include non-uniformed plans, police plans, and a handful of fire plans as well as those for municipal, sanitary, housing, and water authorities outside the purview of the two larger governments of the City and the County.

The non-City, non-County plans have the best overall funded ratio by far (89%) and also have the highest worker ratio (1.7) of the three comparison groups. Thus it is plain to see why there has been and would be much trepidation to a merger or consolidation that would involve mixing the pension plans of the City with the plans of the areas outside of the City.

Conclusion

It is not clear when the General Assembly intends to take up pension reform again. Many questions abound when the topic is raised: will the next reform effort just cover the SERS and PSERS systems, which were granted permission to restate liabilities at the end of 2010 to avoid a rate spike? Will the next reform effort just cover the local pensions, where the last reform effort gave Philadelphia an extra 1 percent on its sales tax and granted Pittsburgh the opportunity to lease garages as a way to fund pensions? Or will it involve all three legs of the stool?

The next step will be determining if Pittsburgh's hurriedly cobbled plan enacted on December 31 actually met the funding requirements under Act 44. If it did, then business as usual will continue and the City will dedicate a substantial portion of its parking tax revenues to pensions for the next three decades. If it did not then management and administration of the pensions will transfer to PMRS.

But it appears there is no movement on the horizon—absent state imposed mandates—to consolidate pension plans in Allegheny County or spearhead a movement toward consolidation statewide by starting in Allegheny County.