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*Allegheny County's Pension System:  
Solid Ground or Shaky Foundation?*

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## Key Findings

- Allegheny County's retirement system provides retirement benefits for the County's active and retired workers. Based on the number of active members (over 7,400) it is the largest County pension system in Pennsylvania.
- The funding method for the plan requires the County and its employees to contribute the exact same percentage into the pension system. In 2012, the County government puts in 8 percent and each County employee is required to put in 8 percent.
- The plan had a funded ratio (plan assets / plan liabilities) of 100 percent around the year 2000, but the ratio has slipped and stood at 58 percent as of 2010. Note that with the ongoing improvement in the stock market the funding ratio is likely to have improved somewhat since 2010. How much will depend on the portfolio distribution of the assets and other factors.
- The near term goal of the County's retirement board and its actuaries is to have the County and its employees increase contributions to a total of 20 percent (10 percent from the County and 10 percent from its employees).
- The General Assembly has proposed changes to the pension system, including lengthening the time of service to qualify for a pension, raising retirement ages, changing the time period to determine final average salary, and eliminating the inclusion of overtime in pension calculations. The reform measures do not involve switching new employees into a defined contribution type system. These changes would apply to new hires of the County only.

## Introduction

Notwithstanding all the news garnered by the legacy cost problems of the City of Pittsburgh and the Port Authority in recent years the pension system of Allegheny County not been placed “under the microscope” so to speak. In news reports or in public forums, the system has been characterized as being in pretty good shape. But is that characterization accurate?

In recent years there have been increases to contributions to the pension system and efforts by the General Assembly to make significant changes to the system in terms of length of service, vesting requirements, and the inclusion of overtime in determining pension payouts. Are those changes needed or are they unnecessary?

This report will detail the characteristics of the County’s pension system, efforts at changing it, and what the future might hold for the system.

## The Allegheny County Retirement System

### *Establishment*

The Retirement System in Allegheny County (the System) dates back to 1915. Under the Second Class County Code, the General Assembly in 1953 instructed Allegheny County to “...provide a county employees retirement system for county employees and shall establish and regulate a retirement fund in connection therewith”.<sup>1</sup>

The System is a single-employer defined benefit plan that covers nearly every employee in County government. As of 2010 there were more than 7,400 employees in the System, making it the largest County plan in the Commonwealth.<sup>2</sup>

The statutory language places direction and administration of the fund with the Retirement Board (Board). The language still reflects the government prior to the switch to home rule by mentioning the county commissioners, but the current makeup of the seven member Board, according to the Retirement Office’s website, includes the County Executive, the Controller, Treasurer, one member appointed by the Executive, one member appointed by County Council, and two members elected by the County’s employees and retirees.<sup>3</sup>

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<sup>1</sup> 16 PS, 4702

<sup>2</sup> Allegheny County Employees’ Retirement System Audit for December 31, 2010 and 2009. Performed by Case Sabatini. Note 2, Plan Description (<http://www.alleghenycounty.us/retirement/report2011.aspx>). Pennsylvania Public Employee Retirement Commission Status Reports on County pension reporting under Act 293. Philadelphia pensions counted as a municipal system and not a county system. PERC lists four plans total for Allegheny County, but an actuary of the system pointed out that those plans are not sponsored by the County. Therefore this report will focus on the Systems as one large unified plan ([http://www.portal.state.pa.us/portal/server.pt/community/publications/3194/municipal\\_pension\\_plan\\_report/525535](http://www.portal.state.pa.us/portal/server.pt/community/publications/3194/municipal_pension_plan_report/525535))

<sup>3</sup> 16 PS, 4703; Allegheny County Retirement Office, List of Board members (<http://www.alleghenycounty.us/retirement/bmembers.aspx>) ; Allegheny County list of Boards, Authorities and Commissions (<http://www.alleghenycounty.us/boards/index.asp?Board=191&button1=View>)

*Funding*

The County’s pension arrangement is different from municipal plans in that the County—as the employer—puts in an identical percentage to that of the employee so that in aggregate the dollar contributions are the same. This is based on actuarial analysis that determines whether a contribution increase is required to meet the obligations of the fund.

If the Board decides, as they did this past December, to order a contribution increase for employees (the rate went from 7% of pay to 8% of pay beginning January 1, 2012) then the County is therefore required to “match” that contribution increase. The code language states “at their annual budget session the county...shall make such an appropriation as will enable them to pay...a sum of money...which shall be equal to the amount paid into the retirement fund by county employees”.<sup>4</sup>

*Compensation and Qualifications for Pension*

The statute defines what counts as compensation as “pickup contributions plus salary or wages received per day, weekly, biweekly, semi monthly, monthly, annually, or during an official term year”. There are varying levels of age of normal retirement for the classes of employees, but all must have twenty years of service for the County in order to get the retirement benefit of 50 percent of final average salary (plus length of service increments for service of more than twenty but less than forty years). The final average salary is the monthly average of the 24 highest months of compensation in the last 48 months of employment prior to retirement.<sup>5</sup>

**County Employees by Class<sup>6</sup>**

Class	# Vested as of December 31, 2010	Age to Qualify for Normal Retirement	Length of Service to Qualify for Normal Retirement
Non Uniformed	3745	60	20
Police/Fire	155	50	20
Deputy Sheriffs, Jail Guards, Probation Officers	489	55	20

Over much of the decade the ratio of those working towards a pension and those receiving a pension—active to inactive—has remained well above 1.5 to 1, a reverse of the situation faced by the City and PAT, both which have more retirees than active workers.

*Health of the Pension System*

“The schedule of funding progress...present[s] multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the [long term liabilities] for benefits”. In short, it presents to policymakers, employees, and the public a view of how well the pension plan is doing on an actuarial basis. A funded ratio (a plan’s assets

<sup>4</sup> 16 PS, 4709. According to the director of the Public Employee Retirement Commission counties in the second class A through eighth class also have matching requirements ranging from 5 to 9%.

<sup>5</sup> 16 PS 4701, Audit

<sup>6</sup> Audit

divided by its liabilities) of 100 percent implies a fully funded plan with \$1 in assets for every \$1 in liabilities

The table below shows the actuarial assets (AA), actuarial liabilities (AAL), the difference between the two (AA-AAL) and the funded ratio (AA/AAL) which shows the relative health of the pension plan for the System back to 1986.<sup>7</sup>

The data shows that the funding health of the System has fluctuated quite a bit back to the mid-1980s. What was regularly a plan with a funded ratio of at or near 80 percent or better took a major hit as a result of market conditions and in 2009 was just over 50 percent funded. Based on funded ratio, its strongest year was 2000 while its weakest was 1986.

**Schedule of Funding Progress, 1986-2010<sup>8</sup>**

Year	AA (000s)	AAL (000s)	AA-AAL (000s)	AA/AAL
1986	\$ 133,232	\$ 250,151	\$ (116,919)	53.3
1988	\$ 172,727	\$ 304,568	\$ (131,841)	56.7
1990	\$ 224,135	\$ 365,538	\$ (141,403)	61.3
1992	\$ 292,671	\$ 407,718	\$ (115,047)	71.8
1994	\$ 362,443	\$ 464,207	\$ (101,764)	78.1
1996	\$ 454,472	\$ 483,304	\$ (28,832)	94.0
1998	\$ 588,362	\$ 547,999	\$ 40,363	107.4
2000	\$ 732,271	\$ 633,417	\$ 98,854	115.6
2002	\$ 646,157	\$ 693,110	\$ (46,953)	93.2
2004	\$ 718,073	\$ 780,615	\$ (62,542)	92.0
2005	\$ 705,892	\$ 831,067	\$ (125,175)	84.9
2006	\$ 707,475	\$ 863,695	\$ (156,220)	81.9
2007	\$ 757,476	\$ 915,208	\$ (157,732)	82.8
2008	\$ 798,203	\$ 979,599	\$ (181,396)	81.5
2009	\$ 582,099	\$ 1,067,015	\$ (484,916)	54.6
2010	\$ 652,643	\$ 1,119,326	\$ (466,683)	58.3

So is the System headed for trouble based on the years of 2009 and 2010? The historical record would show that the System was in bad shape in the mid to late 1990s and eventually got in better shape through the 1990s. Improvement in the stock market in 2010 probably has helped. So it might be fair to say that the System has been here before and worked its way out of it.<sup>9</sup>

Public statements by County officials have not indicated any major problems. But it is unclear if that is just a denial of reality. The former County Executive stated in April of 2010 that the

<sup>7</sup> Ibid

<sup>8</sup> Actuarial valuations for 2002 or earlier come from the PERC Status Reports on County pension reporting under Act 293

([http://www.portal.state.pa.us/portal/server.pt/community/publications/3194/municipal\\_pension\\_plan\\_report/525535](http://www.portal.state.pa.us/portal/server.pt/community/publications/3194/municipal_pension_plan_report/525535)) 2004 through 2010 valuations from audit "Schedule of Funding Progress"

<sup>9</sup> Audit; the system has to have at least 25% of its portfolio in fixed income securities and the remaining portion primarily in stocks and equities

System was well funded, despite the actuarial tables showing a funded ratio of less than 60 percent at the time. According to a media report the Executive and the Treasurer, both members of the Board, chose to focus on another measure calculated by the actuaries called the “total funded status” instead of the more commonly accepted actuarial schedule of funding progress stating that the latter measure was “not significant to them”.<sup>10</sup>

## **Proposed Changes to the Retirement System**

Here is where the System stands as of 2012: it has more active workers than inactive workers; both the employer and the employees are contributing at a higher percentage than the year before; and the funded ratio is lower than it was a decade ago. In fact, if the County’s pension plan was measured by the “distress levels” for municipal plans under Act 44, it would be considered “moderately distressed”.

### *Internal Changes*

Clearly, internal change to the system results from an action of the Board when it changes the contribution level that the County and its employees have to put into the system. Since 2001, contributions have been increased four times and now stand at 8 percent by both the County and the employees.<sup>11</sup>

In 2010 the budget chair of County Council expressed some worry as to whether the Retirement Board would vote to increase contributions noting that “a 1 percent increase translates into a \$3 million expense for the County”. Annual reports from the Retirement Office show that the contributions from the County and its employees have risen from \$16.7 million in 2003 to \$20.1 million at the end of 2010. The budget director noted that each department would shift money to cover the additional pension expense.<sup>12</sup>

A presentation at the December 2011 Board meeting—when the contribution rate was raised to 8 percent—noted “based upon the projections and the numbers going forward...that ultimately [the County and its employees] get to a total of 20 percent split evenly”.<sup>13</sup>

### *External Changes*

Externally, changes have been proposed to the retirement system through state legislation that would amend the language of the second class county code. These changes are centered upon what counts as compensation for pension calculations, length of service, and time for vesting and

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<sup>10</sup> Debra Erdley “Onorato’s Boast about Pension Fund Solvency Raises Eyebrows” Pittsburgh Tribune Review, April 6, 2010 ([http://www.pittsburghlive.com/x/pittsburghtrib/news/pittsburgh/s\\_675076.html](http://www.pittsburghlive.com/x/pittsburghtrib/news/pittsburgh/s_675076.html))

<sup>11</sup> “Briefs: Pension Fund Pay in Rates to Take Jump” *Pittsburgh Tribune Review* (December 13, 2002) [http://www.pittsburghlive.com/x/pittsburghtrib/news/regional/s\\_107530.html](http://www.pittsburghlive.com/x/pittsburghtrib/news/regional/s_107530.html); News Releases from the Allegheny County Retirement Office “Retirement Board Increases 2003 Contribution Level to 6%” <http://www.allegHENYcounty.us/retirement/retire0212.pdf> ; “Retirement Board Increases 2011 Contribution Level to 7%” <http://www.allegHENYcounty.us/retirement/retire2011.pdf> ; “Retirement Board Increases 2012 Contribution Level to 8%” <http://www.allegHENYcounty.us/retirement/2012ContributionRate.pdf>

<sup>12</sup> Len Barcoucky “County Prepares to Grapple with Budget” *Pittsburgh Post-Gazette* (November 15, 2010) <http://www.post-gazette.com/pg/10319/1103395-455.stm>

<sup>13</sup> Allegheny County Retirement Board Meeting Minutes of December 2011 <http://www.allegHENYcounty.us/retirement/minutes/2011/201112.pdf>

early retirement benefits. Interestingly, despite many recommendations from various analysts none of the proposed reforms have involved placing new employees into a defined contribution type system. The measures have been introduced in the current legislative session and in previous ones; earlier efforts failed to make it out of committee.

Changes would apply to employees hired after the effective date of the legislation, a common measure for reforms to pensions and other benefits where the newer, less generous provisions often exempt current employees and instead apply to newly hired ones. That means savings from changes are put off longer into the future.

**Proposed Legislative Changes to Allegheny County Retirement System<sup>14</sup>**

Pension Factor	Current System	Proposed System
Length of Service for Normal Retirement	20 years	25 years
Status of Overtime in Pension Calculation	Counted	Not Counted
Final Average Salary	Monthly average of the highest 24 months of compensation in the last 48 months of employment preceding retirement	Monthly average of the highest 48 months of compensation in the last 96 months of employment preceding retirement
Vesting	8 years	10 years
Early Retirement	Between 8 and 20 years	Between 10 and 25 years

A hearing on a previous—but identical—version of the legislation was held in Pittsburgh in March of 2009 by the House Finance Committee. Aimed at keeping the “Allegheny County pension fund actuarially sound and...[to] save taxpayers and the county significant money”, the Committee discussed the legislation and took testimony from the system’s actuaries and employees of the County. Again, no current employee would have been affected by the changes.<sup>15</sup>

The actuaries of the system pointed out that counting overtime toward pensions and taking the highest twenty four months of the last forty eight months before retirement as final salary “encourages members who are able to work vast amounts of overtime in any 24 non-consecutive months to work that overtime and possibly increase their compensation”. This practice is known as “spiking”. Take overtime out of the calculation, lengthen the vesting period, spread out the

<sup>14</sup> Legislative synopses provided by the offices of State Senator Jay Costa and State Representative Matt Smith; House of Representatives legislative analysis; Public Employee Retirement Commission actuarial note; House Committee on Appropriations Fiscal Note

<sup>15</sup> Pennsylvania House of Representatives, Finance Committee. Transcript of hearing from March 26, 2009

period of determining final average salary and the costs of the pension system would be gradually lowered, argued the actuaries:

“We expect there will be significant savings to the pension fund, to the employees, to the taxpayers over the long-term. We expect the savings are going to start out very slowly. As this plan changes over, we call this current form versus the new formula. The new formula is going to come into play. The members under the current formula are really going to dominate the early years. But as that is replaced by new employees, the new formula will gradually take over. That is where you start to see the savings.”<sup>16</sup>

The actuarial note from the Public Employee Retirement Commission (PERC) echoed that sentiment, noting “since the benefit changes apply to employees hired on or after the effective date of the bill...future normal costs would gradually decrease as new employees are hired with benefits subject to changes spelled out in the bill”. The estimate by PERC was that the savings attributed to the changes to the pension system would lower the recurring normal cost of the contribution amount by \$2.2 million five years after implementation, rising to \$14 million by two decades after implementation.<sup>17</sup>

The analysis pointed out how the changes would affect a future retiree: a typical County employee who would retire at age 65 with 25 years of service under current rules would collect a pension of \$2,028 while a future employee retiring at the same age and same length of service under amended rules would collect a pension of \$1,781 a month (a 12% difference).<sup>18</sup>

The organized bargaining units whose future employees would be affected by the overtime omission and the lengthening of the final salary calculation the most—jail guards, County police, deputy sheriffs, and probation officers—all presented testimony opposing the legislation.

Their arguments against included that the fund was well funded enough that changes were not needed, that active union employees had no voice on the Retirement Board, that there is not adequate staffing and if there was the need for overtime would be reduced, that the legislation would harm the pension benefit without anything in return, and that management was to blame for the assignments of overtime and the overtime problem.

There was also opposition to the “two tier system” that would be created by having workers doing the same job living under different benefit structures (though it was noted by one of the representatives that currently some employees can work overtime and count it while others cannot). One presenter stated “every hour should be reflected in pension. Anything else smacks of a sweat shop and again is unfair to labor”.<sup>19</sup>

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<sup>16</sup> Ibid. In a separate editorial on the state of the City of Pittsburgh pensions, the City Controller referenced spiking and characterized as “pumping up compensation in the final working years to set higher pension levels” Michael Lamb “Its Time to Fix City Pensions” Pittsburgh Post-Gazette, October 13, 2011 (<http://www.post-gazette.com/pg/11286/1181696-109-0.stm>)

<sup>17</sup> PERC Actuarial note

<sup>18</sup> Ibid

<sup>19</sup> Ibid

## **Conclusion**

The warning bells on the condition of the Allegheny County Retirement System are not ringing right now; or, if they are, are not very loud. Consider that the situation with the Pittsburgh pension system and the two statewide retirement systems did not garner attention until things looked quite dire, so it is not to be expected that the System is at the crisis point as of yet.

But given that the funded ratio of the plan has slipped, that both the County and its employees are paying more into the system this year than they were the year before and will likely be required to pay in more in the future and there is an effort from Harrisburg to change much of the fundamental characteristics of the pension system, it is clear that there is attention focused now and there will be attention focused on the County's pensions as time progresses.

This is especially true given that the County has created two new taxes and increased property taxes this year to deal with its ongoing financial issues. Putting more money into pensions requires the funds to come from somewhere, and County taxpayers may be forced to dig deeper to deal with pension benefits. Recall that much of the very short-lived debate in 2008 about a possible City-County merger was dominated by County taxpayers not wanting to assume the problematic long-term legacy costs incurred by the City. Are County taxpayers going to see a County employee pension problem even without a merger with the City?