

# LIMITED PROCEDURES ENGAGEMENT

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## Allegheny County Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

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May 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Board of Directors  
Allegheny County Police Pension Plan  
Allegheny County  
Pittsburgh, PA 15237

We conducted a Limited Procedures Engagement (LPE) of the Allegheny County Police Pension Plan for the period January 1, 2012 to December 31, 2014 to determine its compliance with applicable provisions of Act 205 of 1984, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 *et seq.*) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- × Whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the engagement period.
- × Whether retirement benefits calculated pursuant to the supplemental police pension plan for selected plan members who retired during the engagement period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Allegheny County Police Pension Plan was not being administered in compliance with applicable provisions of Act 205 of 1984, regulations, contracts, administrative procedures, and local ordinances and policies.

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The Allegheny County Police Pension Plan should continue to maintain documentation related to this pension plan.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this letter were discussed with officials of the Allegheny County Police Pension Plan and, where appropriate, their responses have been included in this letter. We would like to thank Allegheny County Police Pension Plan officials for the cooperation extended to us during the conduct of this LPE.

May 2, 2016

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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## **BACKGROUND**

The Allegheny County Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of a plan document dated January 1, 1989, as amended. The pension plan was established to provide supplemental pension benefits to eligible police officers and beneficiaries in addition to any pension benefits provided through the Allegheny County Employees' Retirement System. The plan is also subject to the provisions of Act 293 of 1972 (P.L. 1383, No. 293).

ALLEGHENY COUNTY POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 2 and 3 reflect the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEAR ENDED DECEMBER 31, 2014

Total Pension Liability	
Service cost	\$ 709,750
Interest	3,007,424
Difference between expected and actual experience	(775,565)
Changes in benefit terms	962,774
Changes in assumptions	2,477,361
Benefit payments, including refunds of member contributions	(3,026,716)
Net Change in Total Pension Liability	3,355,028
Total Pension Liability – Beginning	47,054,696
Total Pension Liability - Ending (a)	\$ 50,409,724
Plan Fiduciary Net Position	
Contributions – Commonwealth of Pennsylvania	\$ 1,525,836
Net investment income	2,767,372
Benefit payments, including refunds of member contributions	(3,026,716)
Administrative expense	(53,553)
Net Change in Plan Fiduciary Net Position	1,212,939
Plan Fiduciary Net Position – Beginning	48,824,097
Plan Fiduciary Net Position - Ending (b)	\$ 50,037,036
Net Pension Liability - Ending (a-b)	\$ 372,688
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	99.26%
Estimated Covered Employee Payroll	\$ 18,481,594
Net Pension Liability as a Percentage of Covered Employee Payroll	2.02%

ALLEGHENY COUNTY POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Allegheny County Police Pension Plan, calculated using the revised discount rate of 6.0% as of January 1, 2015, as well as what the Allegheny County Police Pension Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (5.0%)	Current Discount Rate (6.0%)	1% Increase (7.0%)
Net Pension Liability	\$ 6,138,548	\$ 372,688	\$ (4,467,284)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2015	6.16%
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ALLEGHENY COUNTY POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 293 biennially. The historical information, beginning as of January 1, 2010, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-10	\$ 41,003,706	\$ 43,316,535	\$ 2,312,829	94.7%
01-01-12	42,952,073	45,935,503	2,983,430	93.5%
01-01-14	45,546,775	47,772,644	2,225,869	95.3%

Note: The market values of the plan's assets at 01-01-10 and 01-01 12 have been adjusted to reflect the smoothing of gains and/or losses over a 3-year averaging period. The market value of the plan's assets at 01-01-14 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. These methods will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

ALLEGHENY COUNTY POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

ALLEGHENY COUNTY POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2009	\$ 1,288,742	None
2010	1,332,755	None
2011	2,350,501	None
2012	1,451,901	None
2013	1,538,206	None
2014	1,525,836	None

ALLEGHENY COUNTY POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	10 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	Not disclosed

ALLEGHENY COUNTY POLICE PENSION PLAN  
DISTRIBUTION LIST

This letter was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. James M. Hasara**  
President, Board of Directors

**Mr. Norbert J. Kowalski**  
Chairperson, Board of Directors

**Mr. Edward Adams**  
Secretary/Treasurer

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