

COMPLIANCE AUDIT

City of Erie Aggregate Pension Fund Erie County, Pennsylvania For the Period January 1, 2019 to December 31, 2020

September 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and City Council
City of Erie
Erie County
Erie, PA 16501

We have conducted a compliance audit of the City of Erie Aggregate Pension Fund for the period January 1, 2019 to December 31, 2020. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was to determine if the aggregate pension fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objective identified above. To determine whether the aggregate pension fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined 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 period under audit.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plans' governing document and applicable laws and regulations by examining the municipality's calculation of the plans' annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plans as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plans in accordance with the plans' governing documents and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plans' governing documents in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plans.
- We determined whether retirement benefits calculated for 9 of 22 police officers, 9 of 24 firefighters and all 23 non-uniformed employees who retired or elected to vest during the current audit period and through the completion of our fieldwork procedures, 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 benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable to the recipients.¹
- We determined whether the January 1, 2019 actuarial valuation report was prepared and submitted by March 31, 2020 in accordance with Act 205 and whether selected information provided on this report is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether the pension fund is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plans' governing documents.

¹ We selected plan members randomly from each plan's population of members who retired or elected to vest during the current audit period, and through the completion of our fieldwork procedures, in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedures are not, and should not be, projected to the population.

The City of Erie contracted with an independent certified public accounting firm for audits of the financial statements of each of the city's retirement plans for the year ended December 31, 2020 and 2019, which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Erie Aggregate Pension Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

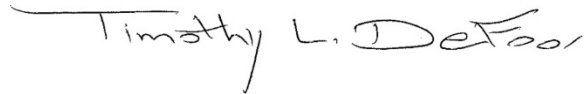
The results of our procedures indicated that, in all significant respects, the City of Erie Aggregate Pension Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

As previously noted, the objective of our audit City of Erie Aggregate Pension Fund was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Among several provisions relating to municipal pension plans, Act 205, which was amended on September 18, 2009, through the adoption of Act 44 of 2009, provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. However, we are extremely concerned about the funded status of the city's pension plans contained in the schedules of funding progress included in this report which indicates the non-uniformed plan's funded ratio is 69.2%, the police plan's funded ratio is 59.7%, and the firemen's plan's funded ratio is 59.0% as of January 1, 2019. Based on this information, the Municipal Pension Reporting Program issued a notification that the city is currently in Level II moderate distress status. We encourage city officials to monitor the funding of its pension plans to ensure its long-term financial stability.

The contents of this report were discussed with officials of the City of Erie and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

August 19, 2021

Timothy L. DeFoor
Auditor General

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). 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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the City of Erie Aggregate Pension Fund is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

Act 399 - Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq.

The city's pension plans are single-employer defined benefit pension plans locally controlled by Article 145 (Officers' and Employees'), Article 147 (Police), and Article 149 (Firemen's) of the city's codified ordinances. The plans are also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees, police officers, and firefighters.

The officers' and employees' pension plan was established May 23, 1944. Active members are required to contribute 6.5 percent of compensation to the plan. As of December 31, 2020, the plan had 303 active members, 21 terminated members eligible for vested benefits in the future, and 362 retirees receiving pension benefits.

The police pension plan was established June 20, 1950. Active members hired prior to January 1, 1981 are required to contribute 5 percent of base and longevity pays, plus \$1 per month, to the plan. Members hired on or after January 1, 1981 are required to contribute 6 percent of base and longevity pays, plus \$1 per month, to the plan. As of December 31, 2020, the plan had 166 active members, 8 terminated members eligible for vested benefits in the future, and 260 retirees receiving pension benefits.

BACKGROUND – (Continued)

The firemen's pension plan was established December 22, 1965. Active members are required to contribute 6 percent of base and longevity pays, plus \$1 per month, to the plan. As of December 31, 2020, the plan had 134 active members, no terminated members eligible for vested benefits in the future and 202 retirees receiving pension benefits.

CITY OF ERIE AGGREGATE PENSION FUND
 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 205 biennially. The historical information, beginning as of January 1, 2015, is as follows:

OFFICERS' AND EMPLOYEES' PENSION PLAN

	(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)
01-01-15	\$ 88,840,964	\$ 104,706,677	\$ 15,865,713	84.9%
01-01-17	96,257,193	112,275,675	16,018,482	85.7%
01-01-19	103,109,743	148,989,712	45,879,969	69.2%

Note: The market value of the plan's assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. 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.

The Actuarial Accrued Liability as of 01-01-19 reflects increases due to changes in actuarial assumptions and the lowering of the assumed rate of interest and salary scale decrease to reflect current economic conditions.

CITY OF ERIE AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS – (Continued)

POLICE PENSION PLAN

	(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)
01-01-15	\$ 88,362,785	\$ 127,214,426	\$ 38,851,641	69.5%
01-01-17	97,499,619	135,670,383	38,170,764	71.9%
01-01-19	109,451,033	183,338,100	73,887,067	59.7%

Note: The market value of the plan’s assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. 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.

The Actuarial Accrued Liability as of 01-01-19 reflects increases due to changes in actuarial assumptions, assumed retirement experience, cost-of-living benefits for Post-83 hires and the lowering of the assumed rate of interest and salary scale decrease to reflect current economic conditions.

CITY OF ERIE AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS – (Continued)

FIREMEN’S PENSION PLAN

	(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)
01-01-15	\$ 69,721,302	\$ 101,468,226	\$ 31,746,924	68.7%
01-01-17	77,694,300	112,397,965	34,703,665	69.1%
01-01-19	89,506,938	151,790,228	62,283,290	59.0%

Note: The market value of the plan’s assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. 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.

The Actuarial Accrued Liability as of 01-01-19 reflects increases due to changes in actuarial assumptions, assumed retirement experience, cost-of-living increases and the lowering of the assumed rate of interest and salary scale decrease to reflect current economic conditions.

CITY OF ERIE AGGREGATE PENSION FUND
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.

CITY OF ERIE AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2011	\$ 2,060,284	\$ 2,108,004	\$ (47,720)	\$15,363,270	13.7%
2012	2,073,598	2,121,322	(47,724)	15,766,175	13.5%
2013	2,458,545	2,506,265	(47,720)	16,615,451	15.1%
2014	2,456,199	2,503,919	(47,720)	16,506,472	15.2%
2015	3,087,286	3,130,198	(42,912)	17,458,372	17.9%
2016	3,129,417	3,129,417	-	17,372,080	18.0%
2017	3,048,028	3,048,028	-	17,727,081	17.2%
2018	3,308,899	3,308,899	-	18,005,057	18.4%
2019	3,356,780	3,356,780	-	18,100,866	18.5%
2020	7,318,887	7,318,886	1	18,734,200	39.1%

CITY OF ERIE AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

POLICE PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2011	\$ 2,658,837	\$ 2,658,837	\$ -	\$10,543,454	25.2%
2012	2,698,115	2,698,115	-	11,140,468	24.2%
2013	3,988,557	3,988,557	-	11,807,462	33.8%
2014	4,004,714	4,004,714	-	12,057,786	33.2%
2015	4,888,047	4,888,047	-	15,661,713	31.2%
2016	4,940,860	4,940,860	-	17,370,976	28.4%
2017	5,945,568	5,945,568	-	14,015,389	42.4%
2018	7,150,737	7,150,737	-	14,525,366	49.2%
2019	7,186,308	7,186,308	-	17,149,390	41.9%
2020	12,552,752	12,552,752	-	14,821,339	84.7%

CITY OF ERIE AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

FIREMEN’S PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2011	\$ 2,583,586	\$ 2,583,586	\$ -	\$8,726,837	29.6%
2012	2,618,602	2,618,602	-	8,735,814	30.0%
2013	3,642,281	3,642,281	-	9,535,816	38.2%
2014	3,703,438	3,703,438	-	9,595,242	38.6%
2015	4,370,193	4,370,193	-	10,708,529	40.8%
2016	4,443,702	4,443,702	-	10,618,049	41.9%
2017	5,357,018	5,357,018	-	11,466,628	46.7%
2018	6,389,725	6,389,725	-	11,896,982	53.7%
2019	6,438,082	6,438,082	-	14,025,943	45.9%
2020	10,323,075	10,323,075	-	11,335,463	91.1%

CITY OF ERIE AGGREGATE PENSION FUND
 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:

OFFICERS' AND EMPLOYEES' PENSION PLAN

Actuarial valuation date	January 1, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period:	
Established January 1, 1985	6 years
After January 1, 1985	13 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	3.5%
Cost-of-living adjustments	None assumed

CITY OF ERIE AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	10 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	3.5%
Cost-of-living adjustments	2.66%

CITY OF ERIE AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	10 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	3.5%
Cost-of-living adjustments	2.66%

CITY OF ERIE AGGREGATE PENSION FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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