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Auditor General DePasquale Says Audit Shows Financial Downturn in Allentown's Employee Pension Plans

Recent examination noted an increase in unfunded liability, annual pension payments

ALLENTOWN — Auditor General Eugene DePasquale said today that he is concerned Allentown's unfunded pension liability increased by more than \$27 million since the city made a \$150 million cash infusion to improve the health of its employee pension plans.

"I urge Allentown leaders to keep their eyes on the ball and not become complacent," DePasquale said. "Allentown officials took extraordinary measures to vastly improve the city's severely distressed pension plans in 2013. It is important now to remain vigilant in protecting and preserving the health of the employee pension plans.

"Deficits can escalate quickly and no one wants to see Allentown slide into the hole city leaders worked so hard to escape," he said.

Allentown also saw a \$4 million increase in required pension contributions in just two years as the city's minimum municipal obligation (MMO) nearly doubled from 2014 to 2016, according to the auditor general's recently completed audit.

The audit examined the pension plans from Jan. 1, 2015, to Dec. 31, 2016, and found the funding levels of three of the four city employee pension plans dropped since 2014.

Funded Ratio	2014	2017
Firefighter Pension Plan	89.1 percent	84 percent
Police Pension Plan	89.4 percent	81.6 percent
Officers' and Employees' Pension Plan (pre-Aug. 5, 1981)	91.9 percent	93.5 percent
Officers' and Employees PMRS	93.6 percent (2013)	90.8 percent

A pension plan is considered severely distressed when it drops below 50 percent funded; moderately distressed when funded 50-69 percent; and minimally

distressed when 70-89 percent funded.

These were the first noted declines in the pension plans since Allentown infused the pension plan with \$150 million in 2013 from the proceeds of leasing the city's water system, DePasquale said.

Before the cash infusion, the police and firefighter plans were severely distressed at 40.9 percent and 38.5 percent funded, respectively.

After the cash infusion, Allentown's annual required pension contributions for all plans fell from \$13.3 million in 2012 to \$5.6 million in 2014. This audit found that the annual payments again jumped to more than \$9.5 million in 2016, a nearly \$4 million spike in two years.

The audit found that Allentown's unfunded pension liability jumped from \$39.7 million in 2014 to \$66.7 million in 2017.

Even the traditionally stable Officers & Employee plan, which is managed by Pennsylvania Municipal Retirement System, noted a \$6 million increase in the unfunded pension liability from 2013 to 2017 while experiencing a drop in funding levels from 93.6 percent to 90.8 percent. The MMO in O&E plan managed by PMRS also jumped by nearly \$1 million to \$2.23 million from 2013 to 2016.

DePasquale said several factors may have contributed to the downturn, including:

- Pension benefit payments and expenditures exceeded \$21 million while contributions were less than \$9 million in 2016.
- The pension board reduced the anticipated investment rates of return, including a drop from 7.75 percent to 7.5 percent for police and fire and from 6.75 percent to 6.5 percent for O&E.
- There are more retirees in the city's four pension plans, 1,120, than there are active members contributing to these plans, 756.

The audit does not include the impact of the 2017 investment returns.

The audit had four findings. Two are related to language in the plan that was not in compliance with Third Class City Code, and two others are for an overpayment of state aid because of incorrect data.

In their responses to the findings — which are included in the audit reports — city officials said they intend to address the contract language and to reimburse the commonwealth \$53,991, plus interest, for the overpayment of state aid in 2016 and 2017. The auditor general's office verified that the reimbursement was made in February 2018, including \$1,936 in interest.

The City of Allentown municipal pension audit reports are available online:

- [City of Allentown Aggregate Pension Trust Fund](#)
- [City of Allentown Officers' and Employees' PMRS Pension Plan](#)

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