



SME Consulting

Allegheny County Employee Retirement System Working Group on Pension Funding & Modernization

Presentation of Final Recommendations to the Retirement Board of Allegheny County

June 18, 2026



SME Consulting

Table of Contents

Working Group Overview.....	3
Summary of Findings.....	4
Guiding Principles.....	16
Option Evaluation.....	17
Revenues.....	18
Plan Design.....	20
Investments & Transparency	24
Recommendations.....	26
Appendix	29

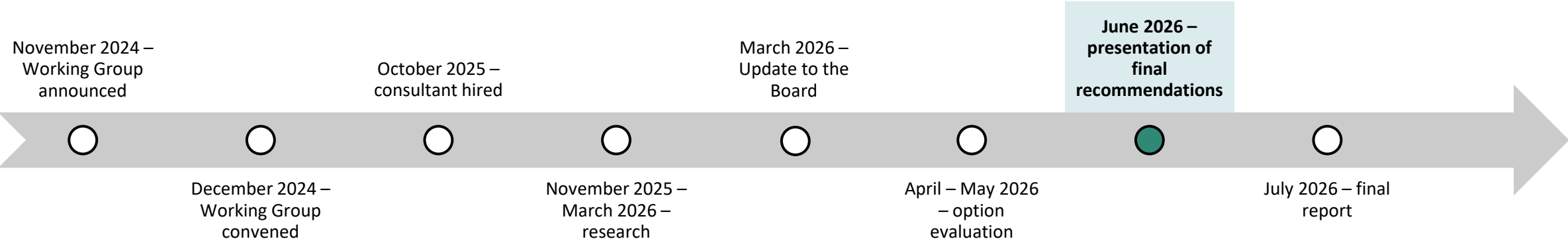
Working Group Overview

Working Group Members

- Erica Rocchi Brusselars, County Treasurer (convenor)
- Amy Weise Clements, Acting Controller
- Timothy Cox, Director, Management and Budget
- Grant Gittlen, Chief of Staff to the County Executive
- Jennifer Liptak, Deputy Executive Director/Chief Operating Officer for the Southwestern Pennsylvania Commission
- Sarah Roka, County Council Budget Manager

Working Group Support & Presentations

- Walt Szymanski & Carol Uminski, Allegheny County Employee Retirement System (ACERS)
- Brian Gabriel, Solicitor
- Mariner Institutional, Investment Consultant
- Acrisure, Actuary
- SME, Consultant
- Outside help: National Association of State Retirement Administrators; Pew Charitable Trusts; University of Chicago; City of Philadelphia; and retired regional and statewide expert practitioners.



Summary of Findings

- The Allegheny County Employee Retirement System (ACERS) faces an unfunded liability of \$1.4 billion. This debt represents a **commitment to retirees and employees, and it must be paid.**
- Plan insolvency is caused by a variety of factors, but the **primary factor is that for over two decades, there has not been enough money going into the fund to fully fund the plan.**
 - Though the County's contributions were sufficient to meet the requirements of the pension law, they have been **insufficient to make a dent in the unfunded liability for the past 22 years.**
- The only option that can improve plan funding and address the crisis is to **adopt an actuarially determined contribution (ADC) of \$140 - \$150 million annually** for the next 20 years.
 - Of this amount, an estimated **\$11 - \$13 million is required by the Allegheny County Airport Authority (ACAA).**
- The County's share of ADC **must come from Allegheny County** upon securing a new revenue source, and **not from County employees who already pay significantly more** than most public employees do for similar benefits.
- The County and ACAA operate in a constrained budget environment and must **secure new revenues** to meet the ADC.
- While paying down the pension debt is the priority, there are other changes that should be considered to **strengthen investment management and transparency, improve risk-sharing, reduce employer costs, and modernize benefits.**

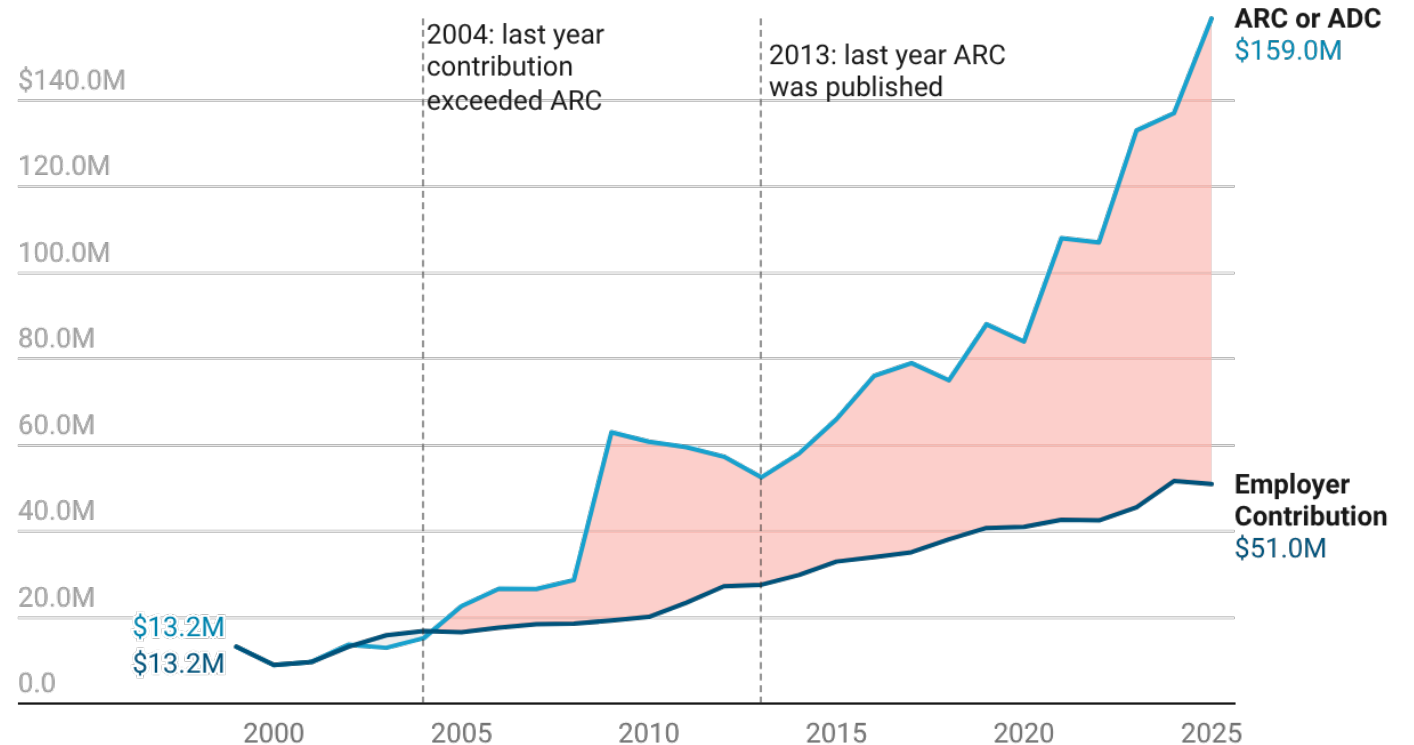


Key Findings: Cause of the Debt

Though the County's contributions have always met the statutorily required amount, they have **not been sufficient to fully fund the plan since 2004.**

An annual required contribution (ARC)* or actuarially determined contribution (ADC)* has not been published since 2013 due to changes in governmental accounting standards.

Employer Contributions v. ARC



Data: RBAC Actuarial Reports, Acrisure. Chart: SME.

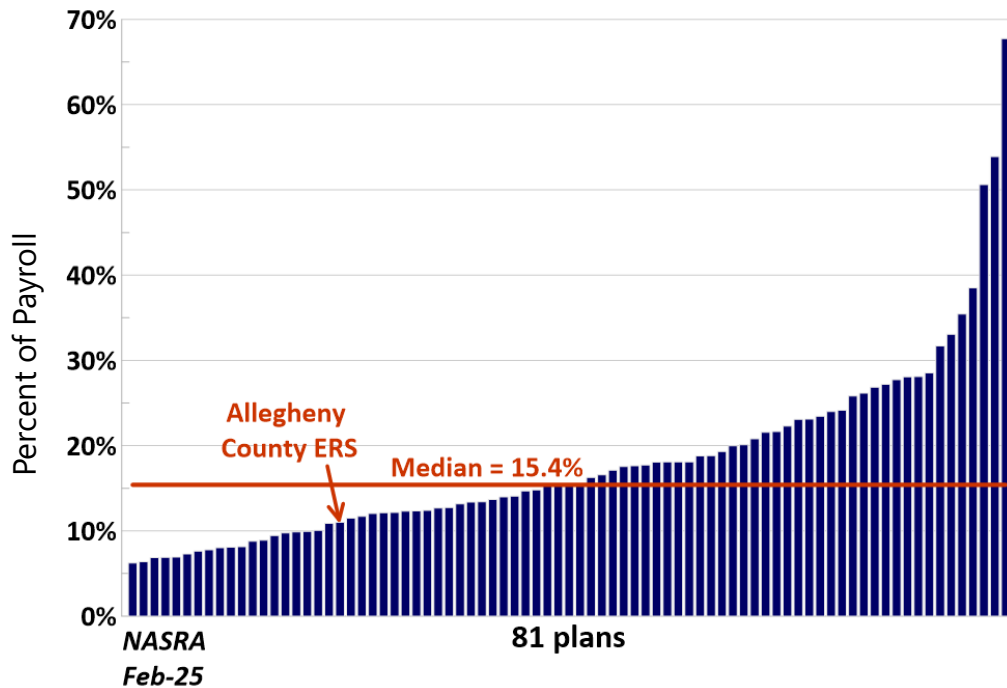
*Through 2013, standards set by the Governmental Accounting Standards Board (GASB) required the publication of an ARC even for plans with fixed contribution rates, such as ACERS. The ARC was calculated on a 15-year amortization during this time. From 2014 through 2025, Acrisure calculated an actuarially determined contribution amount using a 20-year amortization period per widely accepted practices..



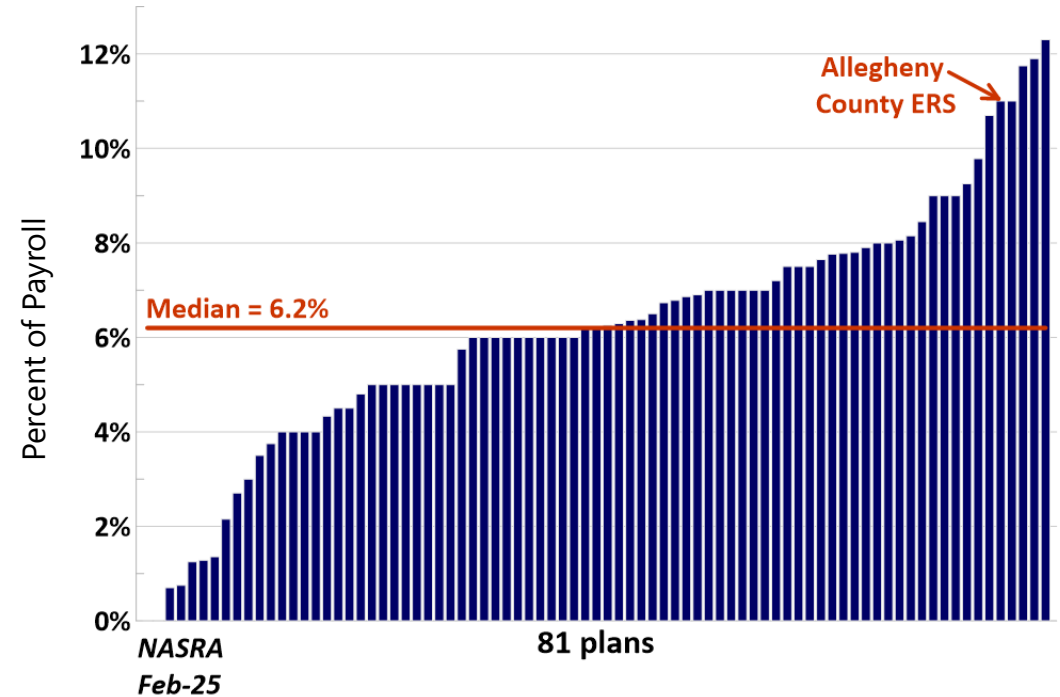
Key Findings: Contribution Rates

The County (and ACAA) **contribute less as employers** than typical large public DB plans (left), while **employees contribute significantly more** than other employees (right).

Distribution of FY 24 Employer Contribution Rates
(Social Security Eligible General Employees & Teachers)



Distribution of FY 24 Employee Contribution Rates
(Social Security Eligible General Employees & Teachers)

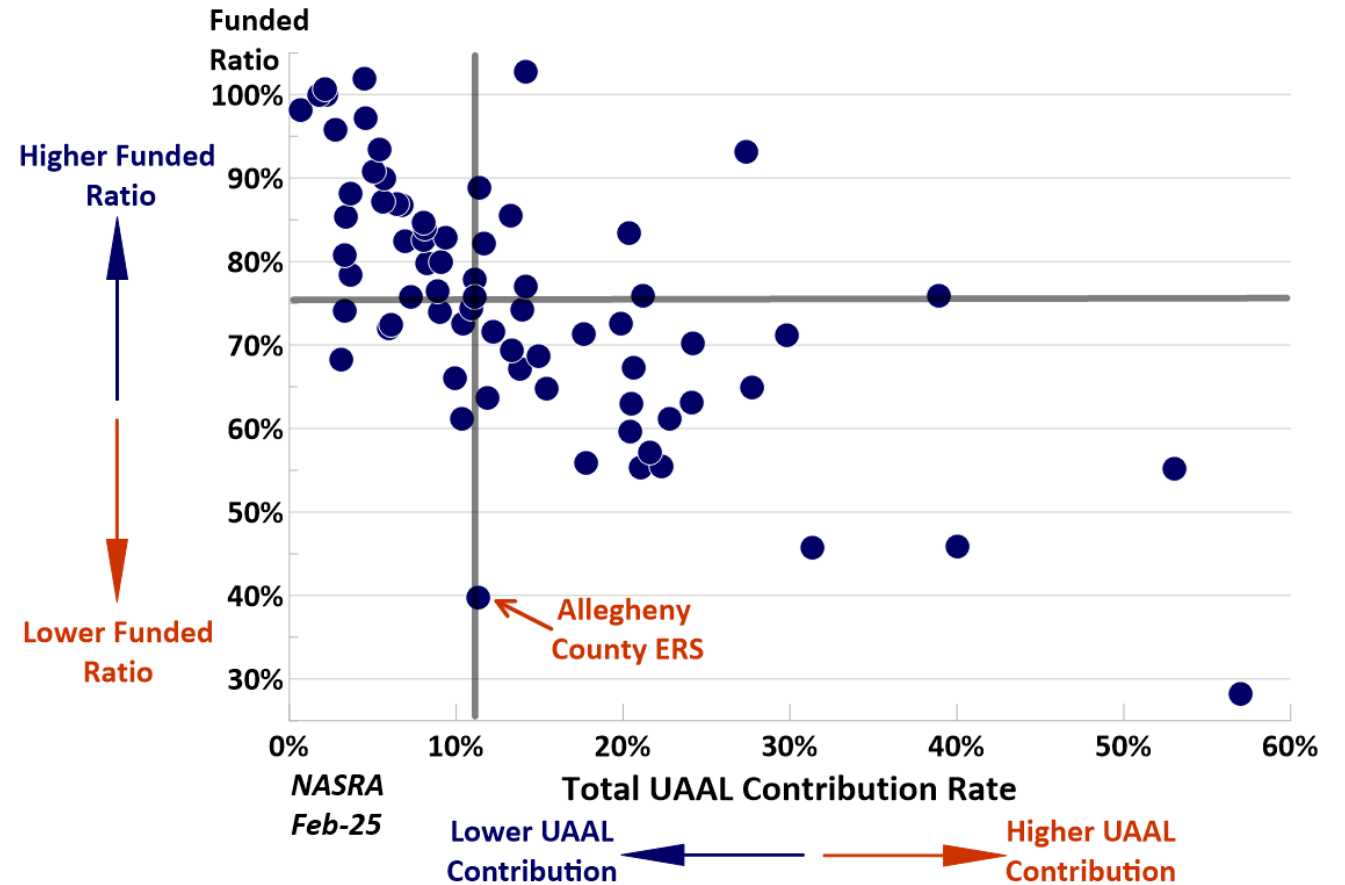


Key Findings: Contribution Rates

Distribution of Plan Funded Ratios and Employer UAAL Contribution Rates, FY 24
(Social Security Eligible General Employees & Teachers)

Underfunded pension systems tend to have **much higher employer contribution** rates than ACERS.

In the NASRA analysis, **ACERS had the lowest contribution rates of all other plans funded below 60%** (actuarial assets as a share of actuarial liabilities).



Key Findings: Cost of Benefits

The **pensions of some County employees cost more than others.**

These data points are a function of assumptions related to benefit earnings, employee turnover (and withdrawals), and salaries.

Employee Normal Cost* as a Percent of Payroll

Employee Group	Hired Pre-Act 125*	Hired After Act 125
Non-Uniform	9.1%	11.2%
Sheriffs, Guards, Parole Officers	10.9%	10.8%
Police and Fire	15.5%	12.5%

Source: Acrisure.

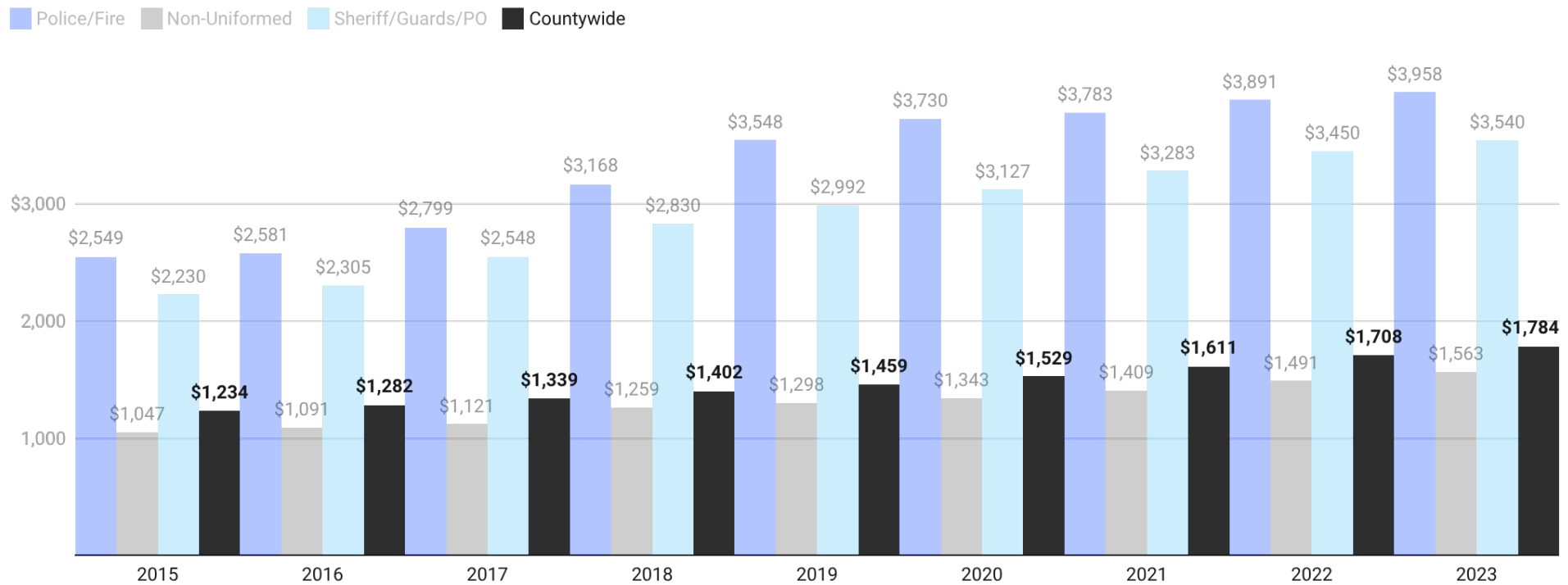
*Normal cost is the cost of current benefits taken as a percent of payroll. Act 125 of 2013 was major pension reform legislation which lengthened vesting threshold, increased the years of service required for a full benefit, broadened the averaging period used to calculate final average salary, and capped pension-eligible overtime. These changes applied to employees hired on or after February 21, 2014.



Key Findings: Benefit Comparison

Uniformed pension benefits cost more than non-uniformed pensions due to higher salaries, use of overtime*, and earlier retirement age.

Median Monthly Retirement Benefit by Employee Group



Source: Acrisure, SME. *Act 125 capped pension-eligible overtime, but the benefits shown here include retirees who were hired before Act 125.

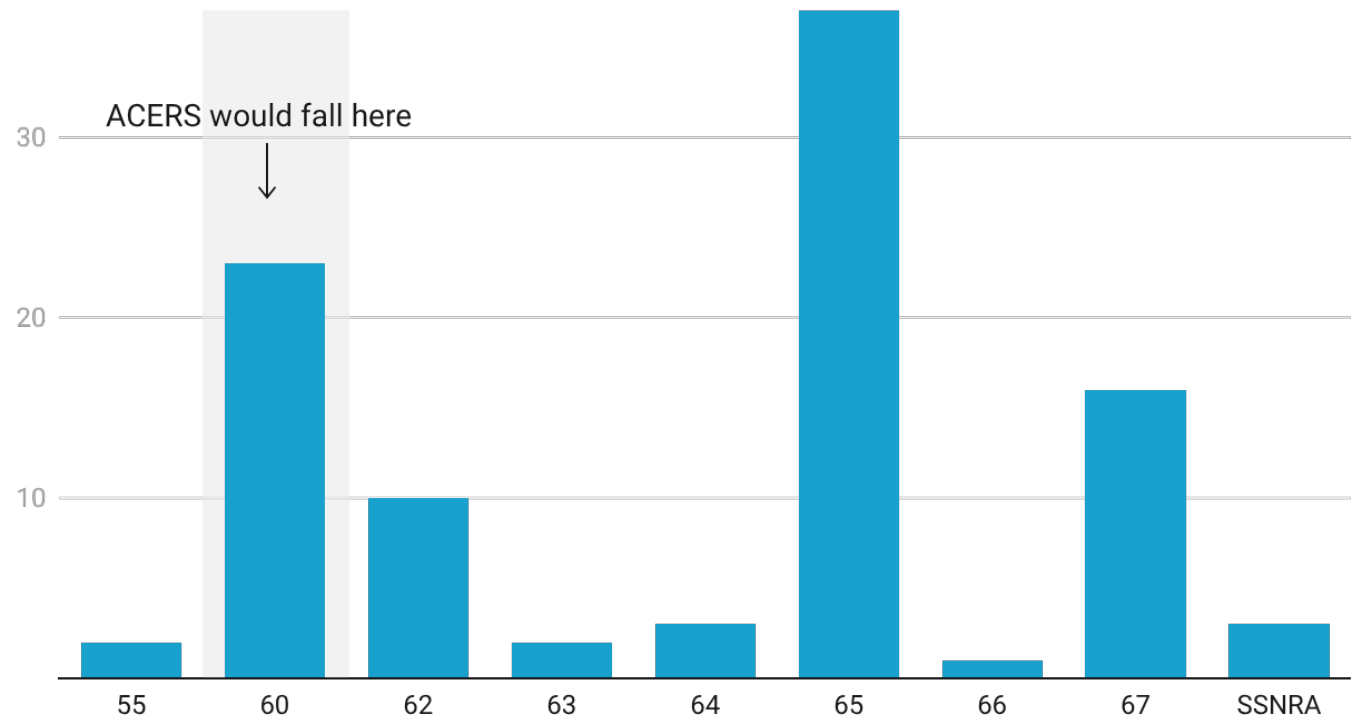


Key Findings: Benefit Comparison

ACERS is somewhat **more generous in terms of normal retirement age** (right) and somewhat **less generous in terms of required years of service** to retire at age 60 with a full benefit compared to other state and municipal non-uniform DB plans.

Normal Retirement Age

Number of Plans by Retirement Age (n = 97)

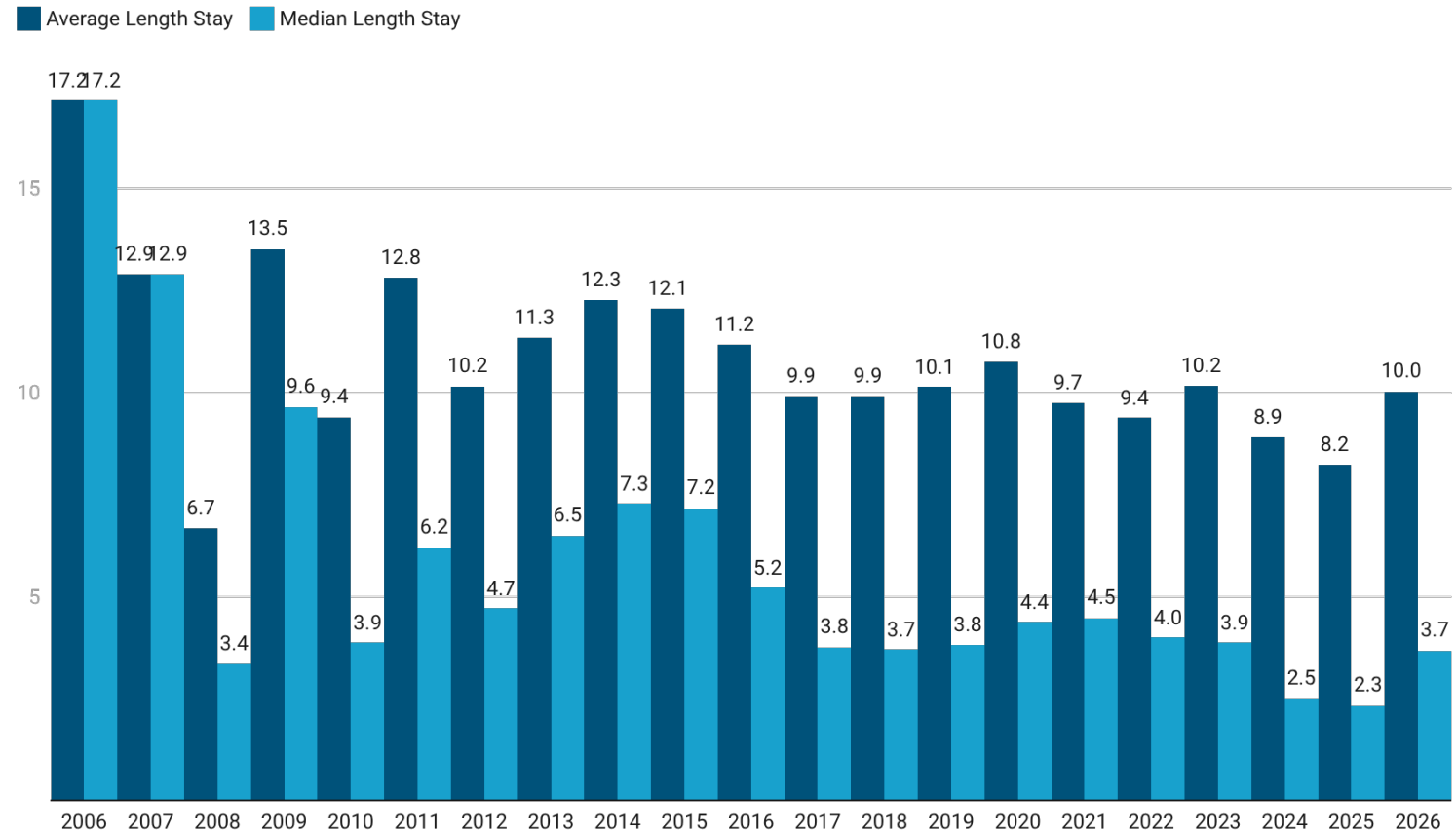


SME analysis of NASRA data, 2026



Key Findings: the County's Changing Workforce

Average & Median Length of Stay, by Year of Termination



Source: SME analysis of Allegheny County data

The County's workforce is **changing**. In 2009, the typical employee stayed for ten years. Now the **median tenure is only 4 years**.

This means that refunds (withdrawals from the plan) are also increasing, which hurts individual retirement security, depletes plan assets, and decreases the interest that the plan earns on employee funds.



Key Findings: ACERS Members

There is no “typical” County or ACAA employee. The workforce varies in terms of salary, overtime compensation, and tenure by department and by position. In general, ACAA employees and public safety employees have higher salaries, public safety employees receive more overtime compensation, and employees hired before Act 125 tend to stay with the County for longer than those who were hired later.

County Employees by Functional Area

Function	Employees	Average Salary	Average Tenure	OT as a % of Salary
Culture & Recreation	784	\$41,814	3.0	2%
Economic Development	64	\$65,291	7.7	1%
General Government	1,598	\$65,079	9.6	2%
Health & Welfare	420	\$62,734	7.4	1%
Human Services	1,686	\$57,089	10.5	12%
Public Safety	1,601	\$76,056	8.7	19%
Public Works	243	\$57,951	9.2	7%
County-wide	6,396	\$62,446	8.6	10%

Median Salary and Median Tenure, Select Positions

December 2025 Payroll

	Median Salary	Median Tenure
Correctional officer	\$81,356	6.8 years
Deputy sheriff	\$103,138	8.21 years
Telecommunication officer 2	\$57,800	4.26 years
Laborer, airport	\$62,242	?
Laborer, County	\$41,600	6.78 years
Airport director	\$165,068	?

Sources: SME analysis of Allegheny County and Allegheny County Airport Authority December 2025 payroll data

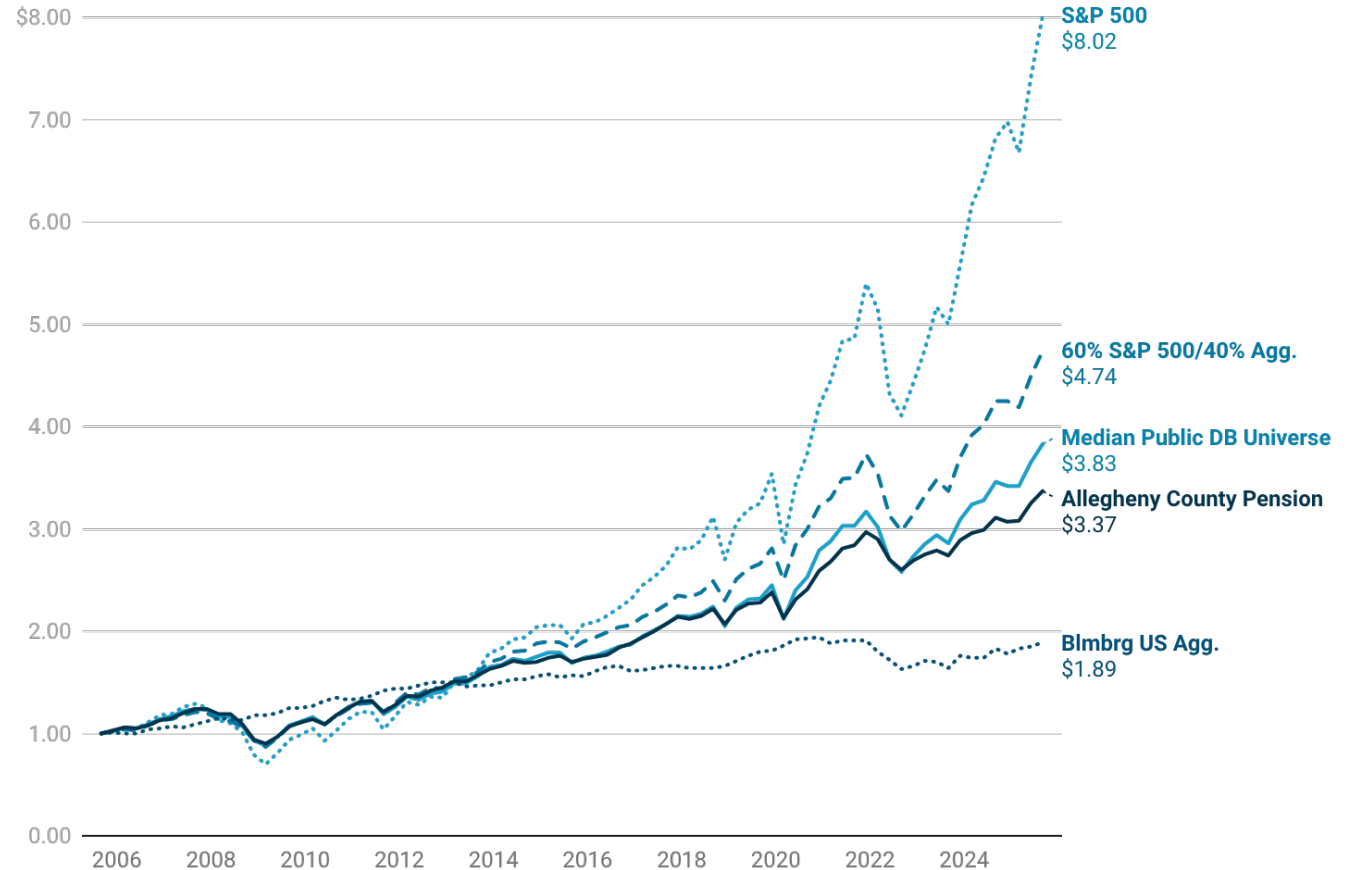


Key Findings: Investment Management

Over the long term, the plan's performance is **lower than the median public plan** and than an **indexed fund**.

Legacy complex investment allocations continue to hurt fund liquidity, increase costs, and dampen performance.

Growth of \$1 Dollar, 2000 - 2025



Source: Mariner, February 2026



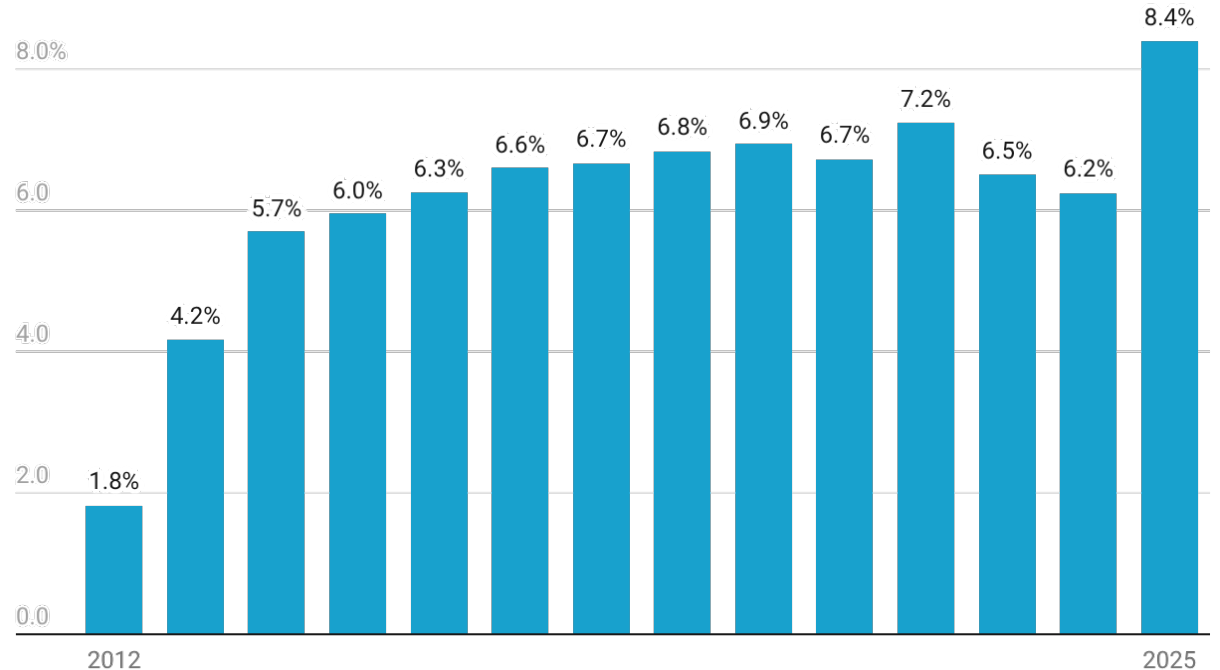
Key Findings: County Fiscal Conditions

The County faces significant **budgetary challenges**, with growth in operating costs outpacing growth in ongoing revenues.

- Best practice fund balance: 2-3 months of expenditures, or 17% - 25%.
- County's fund balance as of 2025: 8.4%, or 1 month.

County Fund Balance, 2012 - 2025

Unassigned Fund Balance / Expenditures



Source: Allegheny County, SME



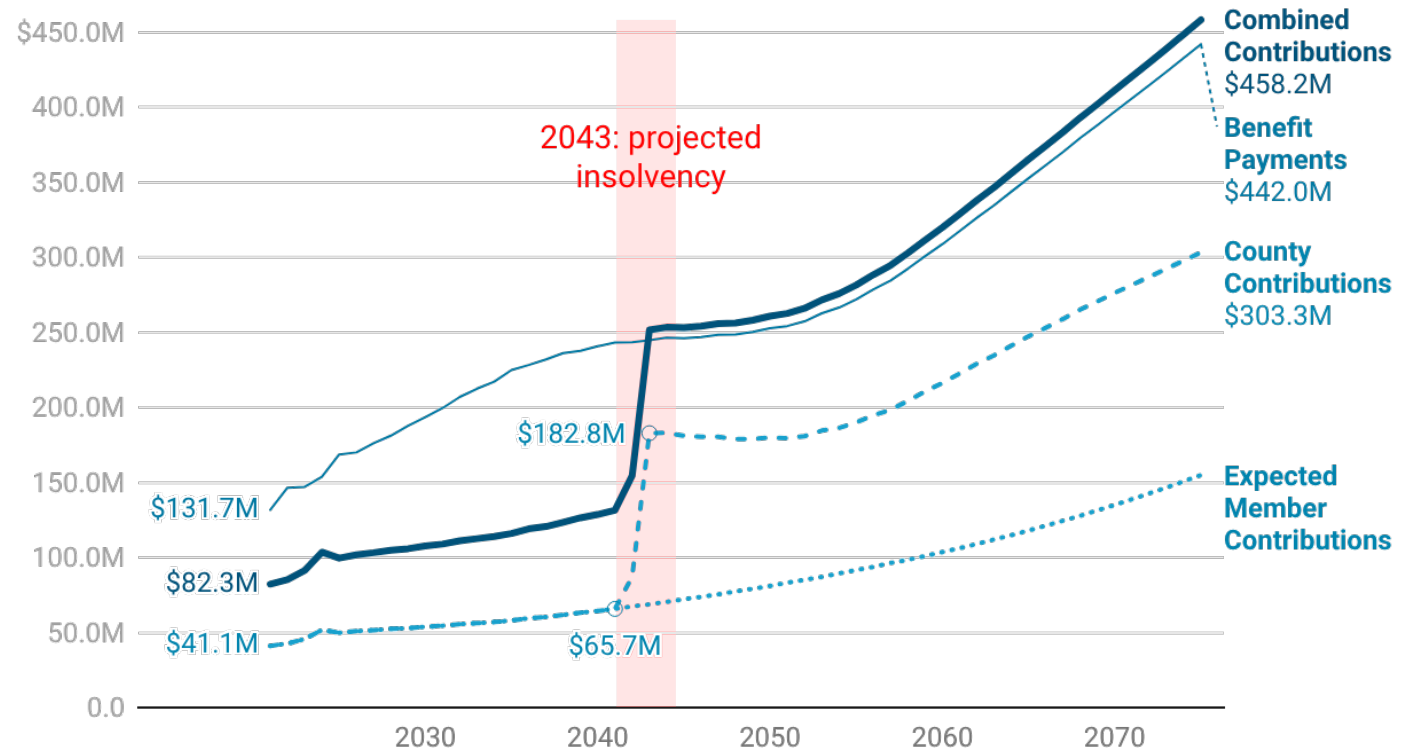
Key Findings: Cost of the Status Quo

If action is not taken to address the pension funding gap, the **County and ACA** will eventually need to fund benefits on a pay-as-you-go system.

An increase in obligation of this size will have **substantial budget impacts** (for example: property tax increases, layoffs, and/or service cuts).

This scenario **forces future generations of taxpayers to pay off a debt** that has been building since 2004.

Expected Benefits & Contributions 2021 - 2075



Source: Acrisure, SME



Guiding Principles

Public pensions reform should balance **employee retirement security** with **employer workforce goals and fiscal stewardship**. The Working Group used the following principles as a guidepost to evaluate options to better balance costs, align benefits, and share risks.

I. Pay off the debt

II. Reduce future financial risk to the County

III. Better align costs with benefits and risks

IV. Maintain or improve employee retirement security

V. Simplify investments and reduce costs

VI. Improve transparency

VII. Shared problem, shared solution

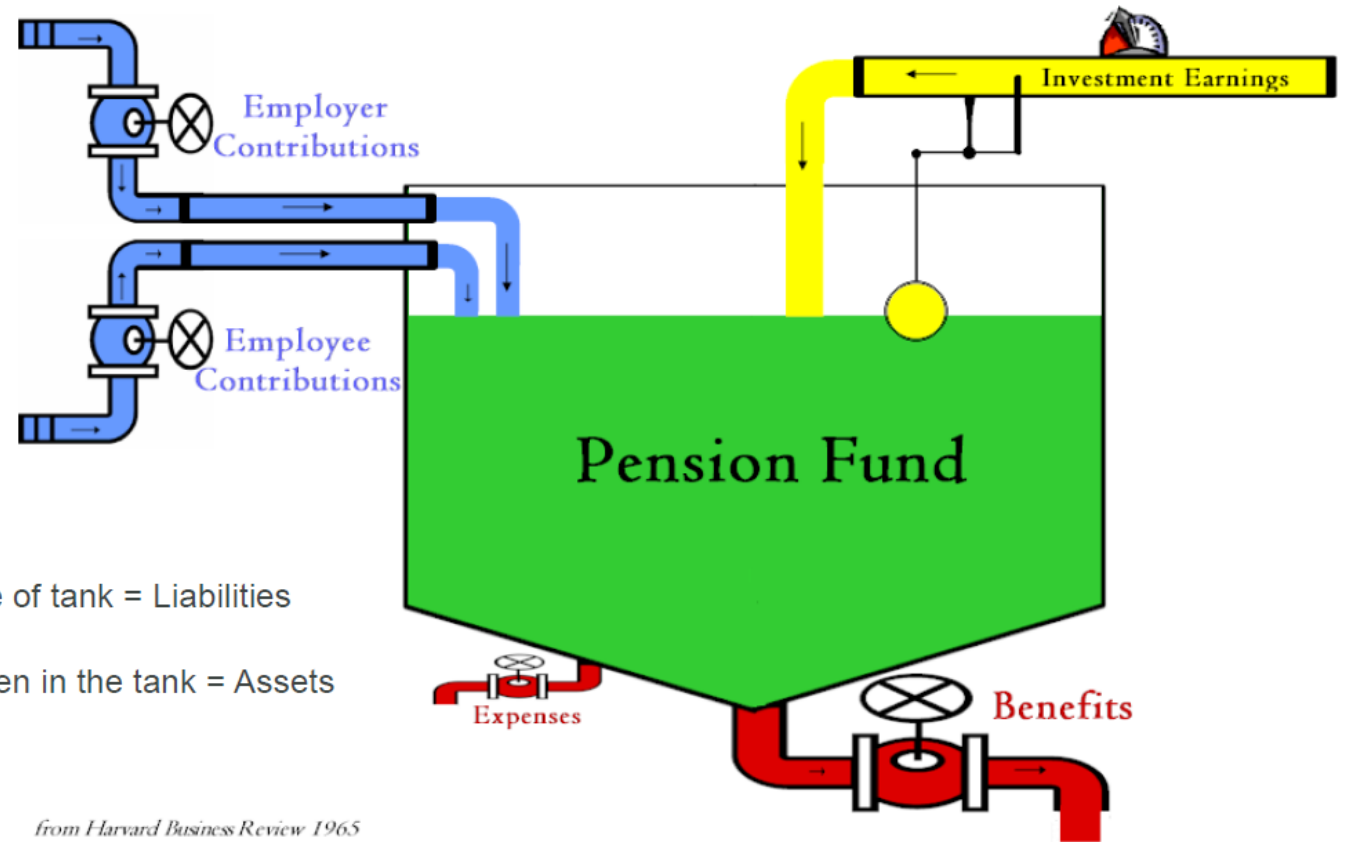


Option Evaluation

The Working Group evaluated options to improve all aspects of the pension plan.

Full evaluation of all options will be included in the final report.

Sources: City of Philadelphia, SME



Retirement security!!!!

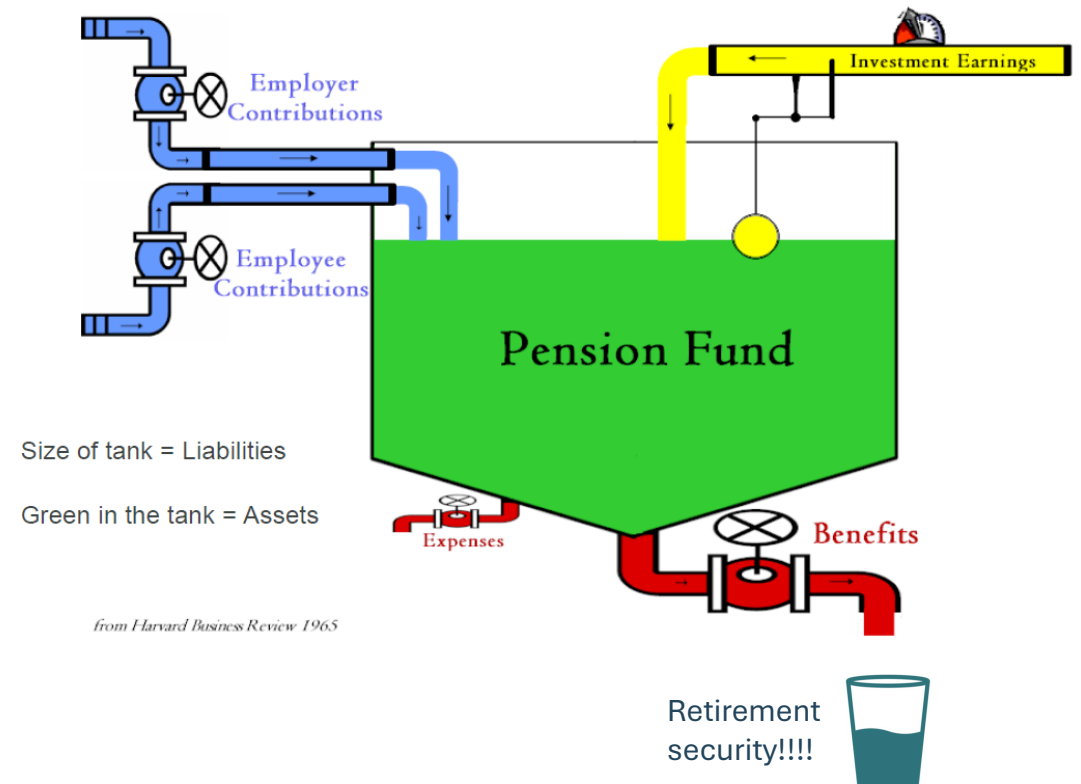


Revenue Option Evaluation

ACERS requires an additional **\$90 - \$100 million in revenue annually to fully fund the plan within 20 years.**

The Working Group worked with the University of Chicago Center for Municipal Finance to evaluate options that could supplement the current level of employer contributions to the pension fund to help meet an ADC going forward.

Revenue options were evaluated for fiscal impact, feasibility, and other considerations. (Criteria appear in the appendix.)



Revenue Option Evaluation

Only four options generate **annual revenue significant enough to meet an ADC** on their own: sales tax, earned income tax, payroll tax, and a property tax increase.

\$90 M - \$100 M

Revenue target: ARC of \$140M - \$150M less current employer contribution of ~\$50M

Broad-based, stable options that can generate \$100M+

- Sales tax
- Earned income tax
- Payroll tax
- Property tax increase

New County-wide taxes or fees

- Sugary sweetened beverages
- Rideshare tax or fee
- Delivery tax or fee
- Skill games
- Sugary sweetened beverages
- Commercial parking tax
- Metered parking

Rate increases

- Foreign casualty tax insurance rate increase
- Hotel tax (rate increase extension & redirection to pensions)
- Alcohol tax increase (and redirection of increase)

Options that relate to the ACAA

- ACAA parking fee
- Pension administration charge-back (for County as well)
- Examine charge-back of County employee time to ensure full cost of pension is covered

Options that may not require legislation

- Pursue state funding of county courts
- Issue a pension obligation bond (POB)
- Pursue revenue sharing of municipal commercial parking tax
- Negotiate payment in lieu of tax (PILOT) agreements

Options that rely on state tax base expansion

- Sales tax base expansion
- Recreational marijuana sales
- Recreational marijuana excise



Evaluation of Plan Design, Benefit, and Contribution Changes

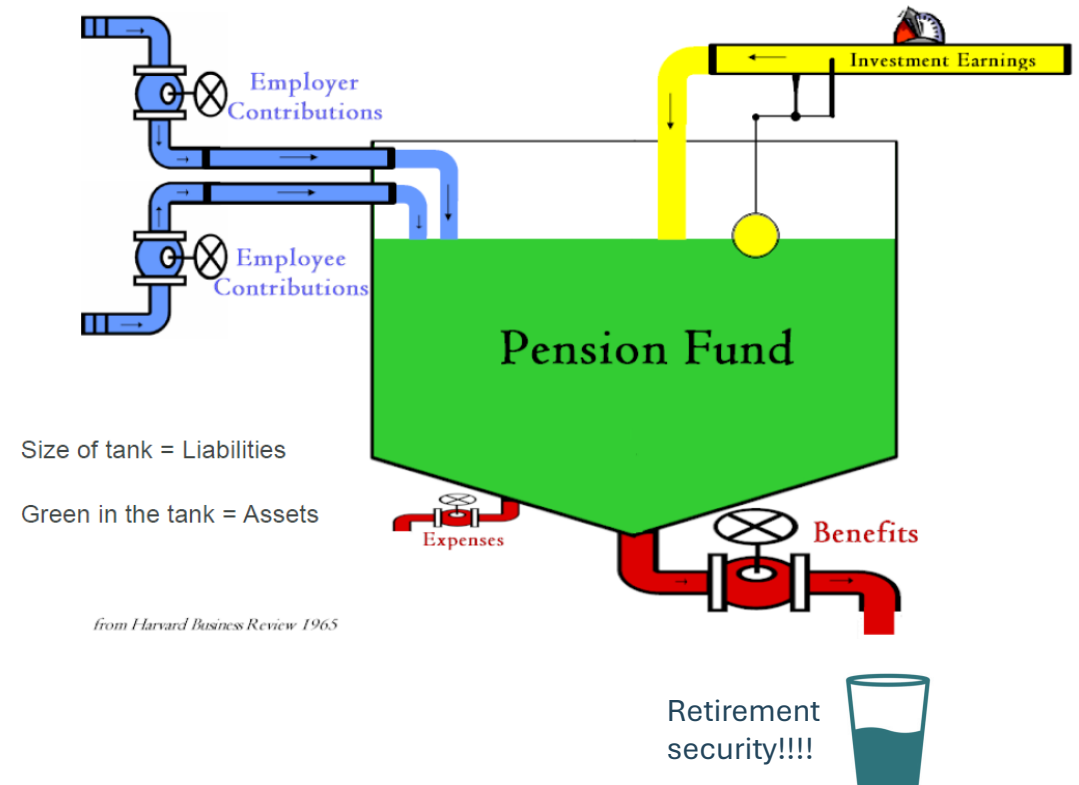
Plan design changes must **balance the needs of multiple perspectives and priorities**:

- Employees and retirement security;
- Employers and hiring, workforce, and management goals; and
- Taxpayers and the need for efficient delivery of public services.

There is a tremendous range among employees of tenure, wages, and access to savings. **There will be no one-size-fits-all solution.**

Changes to the ACERS benefit structure are necessary to improve and modernize, but **identifying a path forward requires collaboration and planning.**

The Working Group worked with Acrisure and the Pew Charitable Trusts to understand the impact to costs, retirement security, and risk-sharing under various scenarios (full criteria, definitions in the appendix).



Evaluation of Plan Design, Benefit, and Contribution Changes



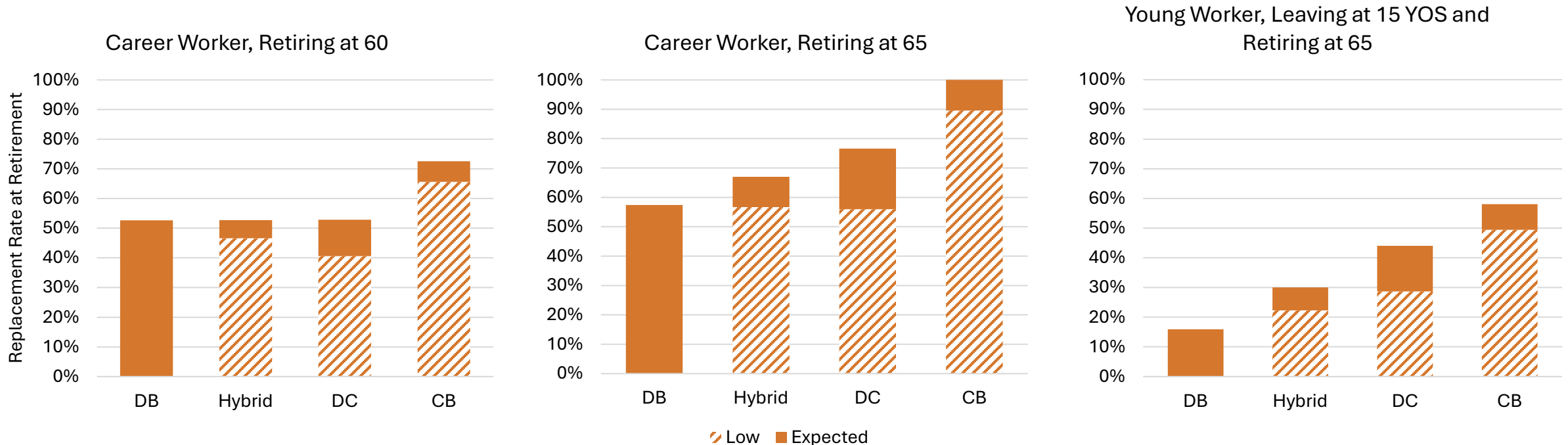
Meeting an ADC and improving risk-sharing are necessary first steps to any potential plan design changes. Benefit and employee contribution change scenarios did not significantly reduce an employer ADC. Impacts of these changes deserve future conversation, reflection, and analysis.

Necessary first steps	Options to better align costs with benefits	Plan design change options	Options to limit benefits	Changing pension administration
<ul style="list-style-type: none">• Fully fund the plan by adopting an employer ADC• Adopt other risk-sharing options (such as linking retiree COLAs to investment returns or determining employee rates on an actuarial basis)	<ul style="list-style-type: none">• Reduce (some?) employee contribution rates• Tiered contributions based on salary• Higher contributions for uniformed employees• Higher contributions for ACAA employees	<ul style="list-style-type: none">• Defined contribution plan• Stacked hybrid (defined benefit up to a cap, then defined contribution) – similar to Philadelphia• Side-by-side hybrid plan (defined benefit and defined contribution plan)• Cash balance plan	<ul style="list-style-type: none">• Cap on pensionable compensation• Cap on pensionable salary• Limiting pensions to a % of base pay• Separating final paychecks (base pay and buy-outs)• Increasing retirement age• Reducing benefit multiplier (% of final salary)	<ul style="list-style-type: none">• ACAA plan spin-off• ACERS merge or consolidate with another plan• ACERS consolidation with Pennsylvania Municipal Retirement System



Replacement Income Ratio Varies by Plan Design

Researchers from the Pew Charitable Trusts analyzed the current defined benefit (DB) plan compared to example side-by-side hybrid DB and defined contribution (DC), DC plan, and cash balance (CB) plans.* The current **DB plan does relatively well for career workers who start young and retire at age 60, but not if that worker retires at age 65. Portable, non-DB plans perform much better for young workers** who do not stay their full career (recall median tenure at the County is declining).



Source: Pew Charitable Trusts, May 2026. YOS = years of service. *In this scenario, contributions for the DC and CB are designed to match the current employer normal cost (5.5%) for the employer contribution and the current employee contribution (11%) for employee contributions. Different inputs would give different results.

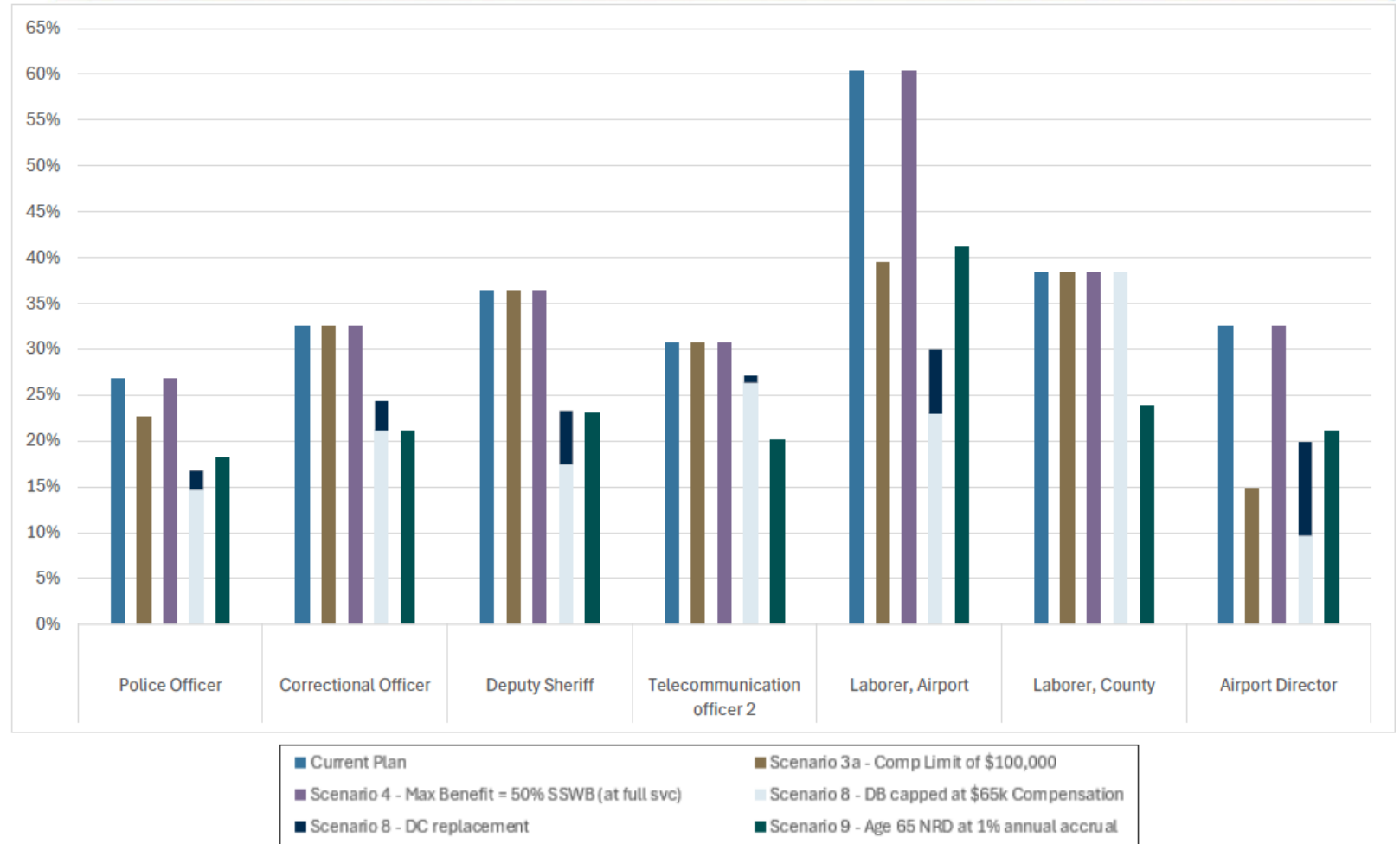


Replacement Income Ratio Varies by Employee Group

Acrisure analyzed retirement security for example employees under various plan design changes: limiting pensionable compensation to \$100k, limiting pension benefits to 50% of the maximum Social Security Wage Benefit, a stacked hybrid capping the DB at \$65k of compensation, a DC plan, and an increase in retirement age with a decrease in the multiplier.

Impacts vary widely across position types based on differences in salary, age, and length of service.

Replacement Ratio Comparisons



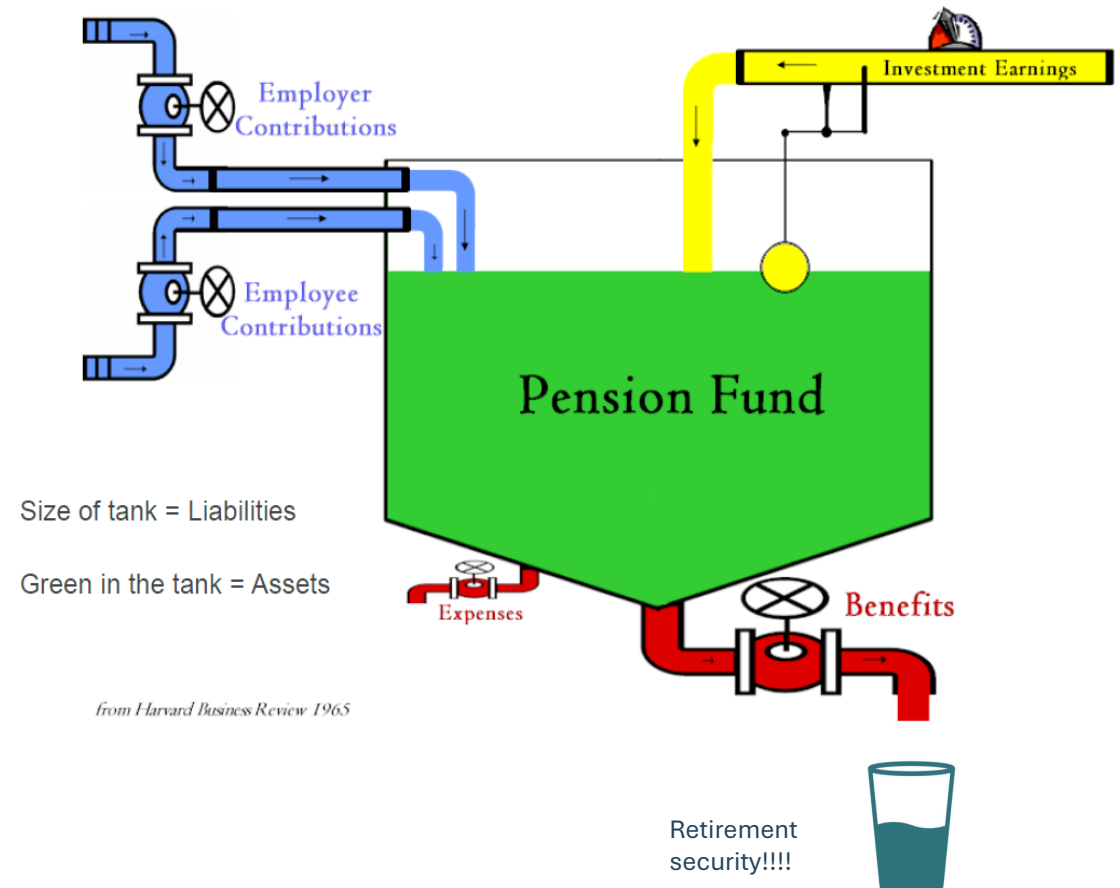
Evaluation of Options to Improve Investment and Pension Management

Market performance and previous investment decisions played a role in the pension debt.

The RBAC has taken **recent steps to improve investment management**, but there is still work to do.

The Working Group consulted with Mariner and outside experts to ask and answer the question:

How can management be improved to reduce costs, improve transparency, and maximize plan assets?



Evaluation of Options to Improve Investment and Pension Management



While many of the options below are worth further consideration and discussion by the RBAC, options to **simplify investments, increase transparency, reduce costs, and strengthen fiscal stewardship** should be prioritized while the fund regains financial footing.

Options to reduce costs, simplify investments, and reduce risk

- Continue to reduce allocation to emerging managers and direct private investments
- Index as much of the public portfolio of the fund as possible
- Reduce the number of managers to fewer than 12-15
- No new direct private investments unless making ADC or funding improves
- Implement stress testing as a regular practice

Options to change or improve the governance model

- Continue with one consultant or manager (rather than multiple)
- Ensure periodic rotation of investment consultant every 5 years
- Move to a chief investment officer model with in-house staff
- Move to an outsourced CIO model
- Examine board composition to ensure all relevant stakeholders are represented (e.g. employee categories, relevant fiscal staff, etc.)

Options to improve transparency

- Require consultants to produce 1-page, easy-to-read executive summary at each quarterly meeting (e.g., popular financial report)
- Reinstate an updated “member booklet” summarizing the plan so employees can better understand benefits and options

Options to improve fiduciary responsibility and fiscal stewardship

- Deposit estimated employer contributions at start of year based on an audited prior year amount
- Prohibit or limit (with a floor and a ceiling) *ad hoc* employee contribution rate increases or decreases
- Examine Board policy to ensure “best practices” are in place to define Board roles, safeguard investment decisions from politics, etc.



Consultant Recommendations

The following recommendations were guided by the Working Group principles and discussion, and informed by the input, feedback, and analysis of many valuable research partners, government practitioners, and outside experts.

These recommendations are intended to shape a strategy rather than provide an action plan.

The ACERS unfunded liability is a shared problem that will require shared solutions.



Recommendations

1. The RBAC should **publish an actuarially determined contribution (ADC)** in its annual actuarial reports and the County and ACAAA should **commit to a strategy to make the ADC annually until the plan is fully funded**.
2. The County and stakeholders should commit to **pursuing broad-based, stable revenue option(s)** that share the burden.
3. The RBAC should consider **reducing employee contribution rates** (at least for lower-wage and/or non-uniform employees), when a new revenue source is identified.
4. The County, ACERS, and the RBAC should work with ACAAA to ensure that the **airport is contributing the airport's share of ADC** and contributing true employer costs for County employees working OT at the airport.
5. **No benefit improvements** including cost of living adjustments (COLAs) for retirees should be made **until the plan is better funded**. Benefit improvements should never be made permanent **without an actuarially sound way to pay for them**.
6. The County should lead a collaborative process to consider **changing the plan design** (increasing retirement age and reducing multipliers, implementing a DC, hybrid, or cash balance plan) to **improve risk-sharing, reduce employer costs, and modernize benefits**.



Investment & Transparency Recommendations

1. The RBAC should continue to reallocate toward public equity, index more of the fund, and divest from direct investments and private equity.
2. The RBAC should consider rotating investment consultants every 3-5 years to ensure fresh perspectives.
3. Direct investments and emerging manager programs should continue to be put on hold permanently or at least until the fund achieves an agreed-upon funding status (no longer distressed).
4. The RBAC should require a regular “popular investment report” of investment consultants to ensure greater transparency and understanding of how assets are invested and how they are performing.
5. The RBAC should conduct a comprehensive review of Board policies to ensure “best practices” are in place to improve fiscal stewardship, transparency, accountability, and other goals.
6. The RBAC should incorporate stress testing as a regular practice to ensure that potential risks to plan funding are understood.





APPENDIX

Definitions


- **Annual required contribution (ARC) or actuarially determined contribution (ADC):** the annual contribution equal to the amount that covers growth in benefits for the year, operational expenses, and the pay-down of unfunded liabilities over a planned period of time.
 - Allegheny County Employee Retirement System does not have an ARC required by statute. Instead, the plan has fixed contribution rates that are set by the RBAC and required under statute to match employee contribution rates.
 - Recommendation 1 refers to adopting an ADC rather than an ARC because an ARC implies a statutory or other legal requirement, which the County does not currently have.
- **Replacement income ratio:** percentage of pre-retirement take-home pay covered by income from a state or city retirement plan benefit. When supplemented by Social Security benefits and adjusted for inflation, the threshold for retirement security identified by the Pew Charitable Trusts is 90 percent of take-home pay.
- **Social Security contribution and benefit base:** annually adjusted limit that applies to both the amount of earnings subject to Social Security taxation and to the computation of benefits. In 2026, the base is \$184,500.



Common Pension Plan Designs in the Public Sector

- **Traditional defined benefit (DB):** Workers receive guaranteed benefits in retirement, calculated as share of final salary based on years of service. The public employer typically takes on investment and other risks.
- **Risk-sharing defined benefit:** Traditional DB formula with features that share risk, typically through adjustable employee contribution rates or risk-sharing cost-of-living adjustment policies.
- **Hybrid:** A plan type that pairs a DB plan and a defined contribution (DC) plan, so risk is shared.
 - **Side-by-side hybrid:** A smaller DB is provided to workers, alongside a DC plan.
 - **Stacked hybrid:** A DB plan that covers up to a certain amount of salary is offered. Salary above that threshold is not included in the DB formula but is used to set contributions to a DC account.
- **Cash balance plan:** A DB plan type where a percentage of salary is credited to an employee retirement account, which also gets interest based on the pension fund's investment returns. Based on the value of the account at retirement, the plan provides a guaranteed lifetime annuity as a retirement benefit.
- **Defined contribution:** Individuals receive contributions to their retirement accounts. Employees are responsible for managing that money, though public employers can provide tools to help. Contributions are fixed and employers bear no risk.


Revenue Option Evaluation Criteria



	Revenue Capacity	Fiscal Sustainability	Feasibility / Political Difficulty	Connection to Pensions	Other Considerations
High	\$90M+	4%+ growth	Does not require legislation, easy to implement	Broad base, shared solution to shared problem	Space for other considerations (fairness, tax burden, history, etc)
Medium	\$20M+	2-4% growth	Expands county taxing authority for items already taxed locally	Connection to pensions through use of County resources; used previously or elsewhere to address pension issues	
Low	<\$20M	Volatile or <2% growth	Requires legislation, coalition-building, difficult to implement or administer	No connection	



Benefit, Contribution, Plan Design Option Criteria



	Funding Impact	Risk Improvement	Feasibility / Political Difficulty	Retirement Security	Other Considerations
High	Fully funded within 20 years	Improves risk-sharing and reduces future risk to the funding status of the plan	Does not require legislation, easy to implement	Improves retirement security for employees	Space for other considerations (fairness, history, etc).
Medium	Produces actuarial savings or reduces actuarial costs	No change to risk-sharing, no impact to future funding status of the plan	Requires local or state legislative action but easy to implement	No impact to retirement security	
Low	Costs the plan more (reduces funding)	Results in greater risk to the County or increases risk to the funding status of the plan	Requires legislation, difficult to implement or administer	Reduces retirement security for employees	

