COUNTY OF ALLEGHENY

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In the fall of 2024, in response to a whistleblower complaint dated 5/1/24 alleging misappropriation of pension funding, and after undertaking our due diligence, I met with the Allegheny County Executive ("ACE"), Sara Innamorato, and her staff and explained to her that the Allegheny County Employees Pension Fund was badly run and woefully underfunded. I asked that we work together to fix it. My offer was ignored. When this matter was not made an issue in the budget process, and it became clear that the Executive did not want a public discussion, I was forced to file a complaint against Allegheny County and the Retirement Board of Allegheny County ("Retirement Board") to fund and maintain the pension fund in an "actuarially sound manner", as required by law.

Last week, the Retirement Board released a report from its consultant ("Status Report"). The first half of the Status Report borrowed heavily from the allegations and information contained in my DA Complaint, while the other half is an incomplete laundry list of options that mimic what Philadelphia considered several years ago to solve its pension crisis, almost all of which require intervention of the State Legislature.

While the Status Report is titled, "A Path to Financial Soundness for the Allegheny County Employees' Retirement System", its key findings focus on the unfunded liability and in essence concludes that the $1.4 billion unfunded pension liability was caused by an inflexible contribution policy, as well as ". . . 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."

I disagree with this Status Report conclusion because it does not fully address the root causes of the Allegheny County Pension disaster, such as: a conflicted Retirement Board; the $197 million of illiquid investments in the Pension Fund as of March 31, 2026, representing 20% of the Pension Fund's total assets; and, the December 2024 Memorandum of Understanding between the Pension Fund and the Allegheny County Airport Authority that jeopardizes the entire Pension Plan.

It is important for the Taxpayers of Allegheny County, the employees of Allegheny County who are contributing 11% of their wages to the Pension Fund, and the retirees who rely on the Pension Fund, to have the complete picture. It's not pretty.

Allegheny County Taxpayers will be asked to shoulder over $100 million dollars in some form of additional taxes to pay for the Pension Fund shortfall that was circumvented for decades by Retirement Board members who "kicked the can down the road". A euphemism that means that the Retirement Board did not make needed Pension Fund contributions in the years when the County employees actually performed the services that created the pension obligations. Thus, they allowed the deficit to grow and become a crushing liability for future generations of Allegheny County Taxpayers, which in and of itself is an unlawful act.1

Why did this happen? It comes down to the control of Retirement Board, which consists of seven (7) members. By statute, three (3) Retirement Board members are: the Allegheny County Executive (ACE), the Controller, and the Treasurer, all politicians elected to four (4) year terms. The ACE appoints a Retirement Board member and another member is appointed by County Council. Two (2) more are elected by the Pension Fund participants. So, five (5) of the seven (7) members are politicians or political appointees.

To properly meet the Pension Fund's obligations, the Retirement Board would need to ask for more public money which could imperil personal political careers. Hence, there is an inherent conflict between the fiduciary duties to the Pension Fund and political careers. That's why they "kicked the can down the road". It's just not good politics to ask taxpayers for more money, even if it's to meet fiduciary obligations. Clearly, this conflict is a compelling reason why the current Retirement Board structure must be replaced as soon as possible. Allegheny County needs independent unconflicted representatives to restructure the Pension Fund, fully disclose its issues, and evaluate new revenue streams.

The national "Great Recession" of 2008 impacted all pension funds. In a few years thereafter, almost all pension funds returned to financial health with prudent investments; but not the Allegheny County Pension Fund. It charted a different course. Around the year 2012, the Retirement Board changed its investment policy and rebalanced from stocks into real estate partnerships and private equity investments that promised large returns. High risk and perhaps high rewards. For this advice, the Retirement Board hired a swarm of investment managers to fee feast on the pension corpus. (In fact, the Status Report concedes there were too many managers.) Yet, some of this advice now appears to have been imprudent.

As of March 31, 2026, the Pension Fund reported that over $197 million of the Pension Fund's total assets are illiquid (illiquid means they cannot be converted to cash without a significant loss in value) and are mostly private equity and real estate investments. This represents about twenty (20%) percent of the roughly $990 million of total Pension Fund assets, leaving about $800 million in liquid assets. It is unknown, and the Status Report mentions but lacks clarity on, how much of the $197 million illiquid investments is expected to be collected. The Taxpayers of Allegheny County and the Pension Fund participants need an independent evaluation of these $197 million illiquid investments in order to determine the real depth of this problem.

The Status Report leaves the impression it scoured decades of the Retirement Board's history to reach its conclusions. Nonetheless, it missed news articles from spring 2023 that report Retirement Board members clashed at a meeting over Pension Fund investments and the pay-to-play dynamics of political contributions from the swarm of fee feasting managers.

The Status Report also does not address the effects of the Pension Fund cash burn. This matter is noted in the Pension Fund's Actuarial Report of January 1, 2025, that indicated the Pension Fund is spending $50-$60 million more in cash per year than it brings in. In the past, cash deficits were offset by increasing Allegheny County employee contributions, now at 11%, one of the highest in the nation. However, since siphoning more money from the County employees is impractical, and with annual benefits and costs shown to be increasing at $6-$7 million per year while investment income dwindles, it would seem that the $800 million liquid Pension Fund assets will be exhausted in the early 2030's. This would make the exigency of the Pension Fund crisis even more dire than the 2043 depletion date shown in the Status Report. We need an independent review of this issue.

After my DA Complaint was filed in December 2024, the ACE submitted her 2025 County budget without any increased funding for the Pension Fund, again "kicking the can down the road" while balancing the County budget on the backs of the County employees. The callousness of this action is underscored in the Status Report which notes that: "In 2013, 2014, and again in 2025, employee contributions were roughly equal to the normal cost – meaning employees were paying for their own benefits, without receiving any retirement contribution from the employer. And for the period from 2016 through 2024, the normal cost exceeded employee contribution rates – meaning employees were paying for more than the cost of their own benefits and were, in fact, partially funding the unfunded liability." For 12 years the Pension Fund was bleeding money with little or no benefit to the employees or taxpayers. This is why I had to act.

Conversely, in late December 2024, the Retirement Board took a much more generous approach for some of its well-heeled participants. That is, the Retirement Board entered into a Memorandum of Understanding ("MOU") with the Allegheny County Airport Authority ("ACAA"), a public entity, that permitted the ACAA to pay bonuses from public money to highly compensated ACAA employees ("HCE"s, employees making more than $150,000 per year) and allowed the highly compensated employees to opt out of making the otherwise

required 11% Pension Fund contribution from their public money bonuses. Incredibly, the Retirement Board and the ACAA agreed in the MOU that the Bonuses were not compensation, the ACAA would not deduct from the Bonuses an employee contribution to the Pension Fund, and in MOU Section 9 states, "The ACAA's offer of HCE Bonuses to Employees shall be conditioned upon the Employee's acknowledgement and waiver of any claims relating to treatment of such Bonuses under the Plan." The end result is to juice up the public money bonuses to highly compensated employees at the expense of the Pension Fund. The Status Report fails to address this critical issue and its impact on the Pension Fund. To benefit a few, the Retirement Board and ACAA may have jeopardized the whole. Rest assured, I am in the process of contacting the appropriate authorities to discuss this matter.

As to Retirement Board's historic lapses of transparency with the public, the Status Report notes that the Retirement Board used a 7.75% assumed investment rate of return that for many years that was unrealistic. It goes on to say this was later changed "to a more realistic 7%, an important transparency improvement which also had the effect of increasing the reported size of the unfunded liability." The Status Report fails to note this change only occurred after I filed the DA Complaint. As explained in the DA Complaint, the 7.75% assumed investment rate of return used by the Retirement Board for many years was far outside the norm and resulted in a much lower unfunded pension liability, masking the problem. Since my DA Complaint was filed, the Retirement Board has graciously decided on more "transparency" for the public and reduced its assumed investment rate of return to the normative, 7%, and appropriately disclose the real extent of its huge unfunded liability.

The Status Report while lifting information contained in my DA Complaint apparently does not understand it. This ignorance is displayed at "Key Finding" d. [the only Finding in bold lettering]: "Though the County and ACAA have always made the legally required employer contribution to the fund, the law does not require the plan to be fully funded." This finding misses the mark. My DA Complaint says the County and Retirement Board have a duty to maintain and ensure the Pension Fund is "actuarially sound," a term which a pension expert should know is diametrically different from fully funded.

What is more, the Status Report missed the 1973 statutory change, wherein the State Legislature imposed additional duties on Allegheny County beyond the County's existing duty to match employee contributions, when it amended Section 4709 of the Second Class County Code, (Act of June 1, 1973, P.L. 37, No. 19, Section 1709, 16 P.S. Section 4709) requiring the County to also: "[A]ppropriate annually sufficient funds, necessary to guarantee payment of all administrative costs, benefit commitments and legal obligations of the Employes' Retirement Board." Such professional oversights further reinforce my position that the public needs to have an independent review of these important Pension Fund issues.

In closing, we have a long road ahead in order to repair the "kicking the can down the road" damage done over two decades by the Retirement Board. In order to come to the best resolution for the Taxpayers of Allegheny County and the participants of the Pension Fund, I strongly recommend that immediate steps be taken by Allegheny County Council and the State Legislature to appoint independent oversight of the Retirement Board while consideration is given to the creation of new revenue streams, a new pension system, and a new unconflicted Retirement Board. The final resolution may involve integrating the Allegheny Pension Fund into the Act 205 system or something akin to it. But in the end, the Taxpayers of Allegheny County will be on the hook to pay for this continuing wasteful mess.

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