

COMPLIANCE AUDIT

City of Scranton Aggregate Pension Fund

Lackawanna County, Pennsylvania

For the Period

January 1, 2022 to December 31, 2023

April 2025



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and City Council
City of Scranton
Lackawanna County
Scranton, PA 18503

We have conducted a compliance audit of the City of Scranton Aggregate Pension Fund for the period January 1, 2022 to December 31, 2023. 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 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 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 plan's governing document 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 the fund members who retired and the fund members who 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 plans' governing documents, applicable laws, and regulations by recalculating the amount of the 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.
- We determined whether the January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2024, in accordance with Act 205 and whether selected information provided on these reports 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.

The City of Scranton contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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 Scranton 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 Scranton 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 of the City of Scranton Aggregate Pension Fund was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. 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 the purpose of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it. Data from the January 1, 2019, January 1, 2021, and January 1, 2023 actuarial valuation reports filed with the Municipal Pension Reporting Program (MPRP) for the city's police, firemen's, and non-uniformed pension plans contained the following aggregated funding data:

<u>Valuation Date</u>	<u>Actuarial Valuation of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Funding Ratio</u>
01-01-19	\$ 99,661,353	\$ 170,509,066	58.4%
01-01-21	\$ 122,947,933	\$ 185,228,396	66.4%
01-01-23	\$ 117,928,328	\$ 189,865,106	62.1%

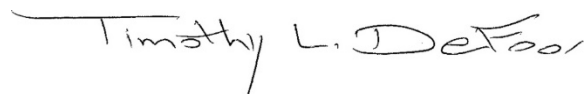
Based on this information, while the aggregate funding status of the city's plans improved slightly from the January 1, 2019 valuation to the January 1, 2023 valuation, the City of Scranton remains in Level II moderate distress status. **The funded statuses of the police, firemen's, and non-uniformed pension plans were 69.0%, 54.9%, and 66.5% funded, respectively, as of the January 1, 2023 actuarial valuation,** and we remain concerned regarding the long-term financial stability of the city's pension fund. The city's annual required contributions to its police, firemen's and non-uniformed pension plans were \$5,233,076, \$9,378,406 and \$603,214, respectively, in 2023.

Based on the annual benefit payments owed to beneficiaries as reported on the respective plans' January 1, 2023 actuarial valuation reports, at current funding levels, based on the plans' current benefit obligations and actuarial assumptions, the schedule below illustrates the years of benefit payments available for the respective plans, as follows:

Plan	Actuarial Valuation of Assets 01-01-23	Annual Benefit Payments Owed To Beneficiaries 01-01-23	Years of Benefit Payments That Can Be Funded By Assets Available 01-01-23
Police	\$ 60,995,507	\$ 5,587,107	10.92
Firemen's	\$ 49,529,601	\$ 6,679,890	7.41
Non-Uniformed	\$ 7,413,220	\$ 922,248	8.04

The department acknowledges the city's continued efforts to address the city's distressed status, and we encourage city officials to continue their efforts in the development and implementation of a long-term strategic plan to ensure the long-term financial stability of its pension fund.

The contents of this report were discussed with officials of the City of Scranton 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.



Timothy L. DeFoor
Auditor General
April 3, 2025

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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 two 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 Scranton 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

Act 400 - Second Class A Cities Pension Act, Act of September 23, 1959 (P.L. 970, No. 400), as amended, 53 P.S. § 30551 et seq.

The City of Scranton Police, Firemen's, and Non-Uniformed Pension Plans are single-employer defined benefit pension plans locally controlled by the provisions of Chapter 99 of the Code of the City of Scranton, adopted pursuant to Act 177. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers, firefighters, and non-uniformed employees.

BACKGROUND – (Continued)

Police Pension Plan

The police pension plan was established March 28, 1936. Active members hired on or before June 30, 1987, were required to contribute six and one-half (6.5) percent of compensation to the plan. Active members hired on or after July 1, 1987, were required to contribute six (6.0) percent of compensation to the plan. As of December 31, 2023, the plan had 131 active members, 1 terminated member eligible for vested benefits in the future, and 190 retirees receiving pension benefits.

Firemen's Pension Plan

The firemen's pension plan was established May 5, 1964. Active members hired on or before June 30, 1987 were required to contribute six and one-half (6.5) percent of compensation to the plan. Active members hired on or after July 1, 1987 were required to contribute six (6.0) percent of compensation to the plan. As of December 31, 2023, the plan had 138 active members, no terminated members eligible for vested benefits in the future, and 200 retirees receiving pension benefits.

Non-Uniformed Pension Plan

The non-uniformed pension plan was established February 20, 1922. Active members hired on or before June 30, 1987 are required to contribute \$24 per month to the plan. Active members hired on or after July 1, 1987 are required to contribute \$22 per month to the plan. As of December 31, 2023, the plan had 122 active members, 5 terminated members eligible for vested benefits in the future, and 137 retirees receiving pension benefits.

CITY OF SCRANTON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF FUNDING PROGRESS

Historical trend information about the plans is presented herewith as supplementary information. It is intended to help users assess the plans' 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, 2019, is as follows:

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)
01-01-19	\$ 54,191,476	\$ 77,443,991	\$ 23,252,515	70.0%
01-01-21	65,886,168	84,984,487	19,098,319	77.5%
01-01-23	60,995,507	88,456,616	27,461,109	69.0%

Note: The market value of the plan's assets at 01-01-19 has been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method 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.

CITY OF SCRANTON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES 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)
01-01-19	\$ 38,484,057	\$ 82,537,191	\$ 44,053,134	46.6%
01-01-21	48,606,457	89,342,947	40,736,490	54.4%
01-01-23	49,529,601	90,256,267	40,726,666	54.9%

Note: The market value of the plan’s assets at 01-01-19 has been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method 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.

CITY OF SCRANTON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

NON-UNIFORMED 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)
01-01-19	\$ 6,985,820	\$ 10,527,884	\$ 3,542,064	66.4%
01-01-21	8,455,308	10,900,962	2,445,654	77.6%
01-01-23	7,413,220	11,152,223	3,739,003	66.5%

Note: The market value of the plan's assets at 01-01-19 has been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method 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.

CITY OF SCRANTON 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 SCRANTON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

POLICE PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution*	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 5,082,761	\$ 5,082,761	\$ -	\$8,700,000	58.4%
2015	5,170,561	5,170,561	-	9,700,000	53.3%
2016	6,274,672	6,274,672	-	10,100,000	62.1%
2017	7,996,779	7,996,779	-	11,000,000	72.7%
2018	4,042,020	4,042,020	-	10,800,000	37.4%
2019	3,858,001	3,858,001	-	11,000,000	35.1%
2020	4,163,946	4,163,946	-	12,800,000	32.5%
2021	4,306,814	4,306,814	-	11,500,000	37.5%
2022	5,090,180	5,090,180	-	11,000,000	46.3%
2023	5,233,076	5,233,076	-	11,300,000	46.3%

* The actuarially determined contribution for the years 2014 through 2016 reflects the 25 percent reduction of the amortization contribution the city was permitted to defer pursuant to Act 44 of 2009.

CITY OF SCRANTON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

FIREMEN'S PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution*	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 5,935,836	\$ 5,935,836	\$ -	\$7,800,000	76.1%
2015	6,023,553	6,023,553	-	9,000,000	66.9%
2016	7,111,152	7,111,152	-	9,100,000	78.1%
2017	9,501,455	9,501,455	-	10,500,000	90.5%
2018	5,909,496	5,909,496	-	10,500,000	56.3%
2019	5,784,744	5,784,744	-	10,700,000	54.1%
2020	6,288,055	6,288,055	-	11,800,000	53.3%
2021	7,453,174	7,453,174	-	11,000,000	67.8%
2022	9,129,293	9,129,293	-	11,500,000	79.4%
2023	9,378,406	9,378,406	-	11,500,000	81.6%

* The actuarially determined contribution for the years 2014 through 2016 reflects the 25 percent reduction of the amortization contribution the city was permitted to defer pursuant to Act 44 of 2009.

CITY OF SCRANTON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

NON-UNIFORMED 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>
2014	\$ 1,107,818	\$ 1,107,818	\$ -	\$5,300,000	20.9%
2015	1,107,868	1,107,868	-	5,300,000	20.9%
2016	1,014,228	1,014,228	-	5,400,000	18.8%
2017	1,313,328	1,313,328	-	5,800,000	22.6%
2018	754,924	754,924	-	5,800,000	13.0%
2019	679,159	679,159	-	5,900,000	11.5%
2020	821,931	821,931	-	6,000,000	13.7%
2021	708,942	708,942	-	6,000,000	11.8%
2022	609,700	609,700	-	6,000,000	10.2%
2023	603,214	603,214	-	5,500,000	11.0%

* The actuarially determined contribution for the years 2014 through 2016 reflects the 25 percent reduction of the amortization contribution the city was permitted to defer pursuant to Act 44 of 2009.

CITY OF SCRANTON 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:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2023
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	11 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5%

CITY OF SCRANTON 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:

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2023
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	11 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5%

CITY OF SCRANTON 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:

NON-UNIFORMED PENSION PLAN

Actuarial valuation date	January 1, 2023
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	8 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5%

CITY OF SCRANTON AGGREGATE PENSION FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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