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## Pension rule helps West Penn

Pittsburgh Business Times - by [Kris B. Mamula](#)

A 2-year-old federal exemption is boosting **West Penn Allegheny Health System's** bottom line at a time when the region's second-largest health care system struggles with revenue accounting problems.

West Penn Allegheny's defined benefit pension plan has a total estimated obligation of around \$607 million and a shortfall of about \$148 million, according to the network's most recent financial report.

Some 13,000 people work for the hospital system, and an estimated 2,500 people receive pensions.

While federal law requires most pension plans to have enough money on hand to pay everyone covered by the benefit by 2013, West Penn Allegheny won't have to fully fund its pension until 2017, thanks to former U.S. Sen. Rick Santorum, who inserted an amendment in the Pension Protection Act of 2006 delaying compliance for a handful of organizations.

That will save the network millions of dollars in pension contributions that can be spent elsewhere in the system.

The issue will be raised during contract negotiations with registered nurses at Canonsburg General and Allegheny General hospitals when contracts expire next year, according to Zach Zobrist, vice president of **SEIU Healthcare Pennsylvania**, which represents some 1,460 nurses.

"Pensions are always an important issue in contract negotiations, and I expect it will be an important issue again," he said. "It's a system with challenges."

**Joseph Nicola, tax director at the Downtown offices of Sisterson & Co. Inc., wasn't familiar with the West Penn Allegheny exemption, but said such provisions in law were not unusual.**

**"That's a congressional grace," Nicola said, "which may not be considered a grace by those covered by the plan."**

West Penn Allegheny officials heralded the deal when it was announced in August 2006.

"Sen. Santorum's leadership on the Finance Committee clearly made the difference in securing this important provision, which will enable West Penn Allegheny to continue the positive financial recovery that began six years ago," David Samuel, former West Penn Allegheny senior vice president and CFO, said in a prepared statement at the time.

In the same written statement, Santorum said relief from the funding rule was necessary until the system could "refinance their bonds as part of their continued business recovery plan."

The relief was granted the same year West Penn Allegheny spent \$240,000 on political lobbying, according to the **Center for Responsive Politics**, a nonpartisan group based in Washington, D.C.

West Penn Allegheny refinanced \$752 million in bonds in 2007, a time when the unfunded part of its pension plan reached \$148 million, according to the network's financial reports.

"Every other plan across the country would have to make up that amount over seven years," said Art Hallett, an actuarial consultant with more than four decades experience and president of Sewickley-based **Hallett Associates Inc.**

Delaying compliance with the full-funding requirements of the Pension Protection Act means the hospital has more money available for things such as new medical equipment and salaries.

The grace is especially useful as West Penn Allegheny faces a possible \$73 million write-down in revenue, which includes \$67 million from a reduction in receivables that President and CEO Dr. Christopher Olivia announced July 28. The size of the reduction has yet to be verified by system auditors **Deloitte & Touche LLP**.

West Penn Allegheny's pension plan is about 74 percent funded, which experts say may be manageable.

"In today's market, it may not be too prohibitive if the plan is going to be sustained in the long run," said Michael Suchanick, COO of the Hospital & **Healthsystem Association of Pennsylvania**, a Harrisburg-based trade group. "You're seeing the adverse impact of a lot of things on these plans."

However, problems can arise when hospitals are required to make accelerated payments to comply with the law, Suchanick said, which begins for West Penn Allegheny in 2013.

A total of \$48 million was budgeted for pension plan payments in fiscal 2008, according to West Penn Allegheny's most recent financial report, and annual contributions of \$33 million to \$41 million were planned through 2012. But the health system anticipates accelerating payments to \$54 million annually from 2013 through 2017 as West Penn reduces the shortfall.

John Ziegler, 51, a surgical intensive care nurse at **Allegheny General Hospital** for 18 years, said Olivia recently addressed the pension issue in meetings with employees.

"He said it was safe for now," Ziegler said.

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