

1984 ANNUAL REPORT
OF THE
PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION



COMMONWEALTH OF PENNSYLVANIA
September, 1984

PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION
117B Transportation and Safety Building
Harrisburg, PA 17120
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COMMONWEALTH OF PENNSYLVANIA

PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION

HARRISBURG
17120

To: Members of the Pennsylvania General Assembly and
Governor Thornburgh

In compliance with Act 66 of 1981, the following annual report is presented to summarize the activity of the Public Employee Retirement Study Commission from July 1, 1983, to June 30, 1984. During this period, the Commission authorized the attachment of actuarial notes to nineteen bills and provided "advisory notes," consisting of staff analysis and actuarial data, for nine bills at the request of various committees of the General Assembly. Early in 1984, the Commission conducted its second annual review of the State Employees' Retirement System, the Public School Employees' Retirement System and the Pennsylvania Municipal Retirement System and published a comprehensive statistical review of approximately 2,300 municipal employee pension plans. The Commission continued to advocate and work towards the enactment of legislation, developed in response to a priority established by the General Assembly, to mandate actuarial funding standards for all municipal pension systems and to establish a recovery program for distressed municipal pension systems. In the period covered by this report, the Commission also made progress toward the policy development and project goals adopted in June of 1983 by beginning the compilation of data for a comprehensive study of public employee pensions as a component of public sector compensation and by completing a short term priority project to develop guidelines on post retirement adjustments for public employee pension systems.

On behalf of the Public Employee Retirement Study Commission and its staff, I am pleased to submit the second annual report of the Commission for your information. The Commission wishes to express appreciation to all persons, organizations and agencies whose assistance and cooperation contributed to the work of the Commission in the past year.

Sincerely,

A handwritten signature in cursive script, appearing to read "G. B. Seavers".

Gilmore B. Seavers
Chairman

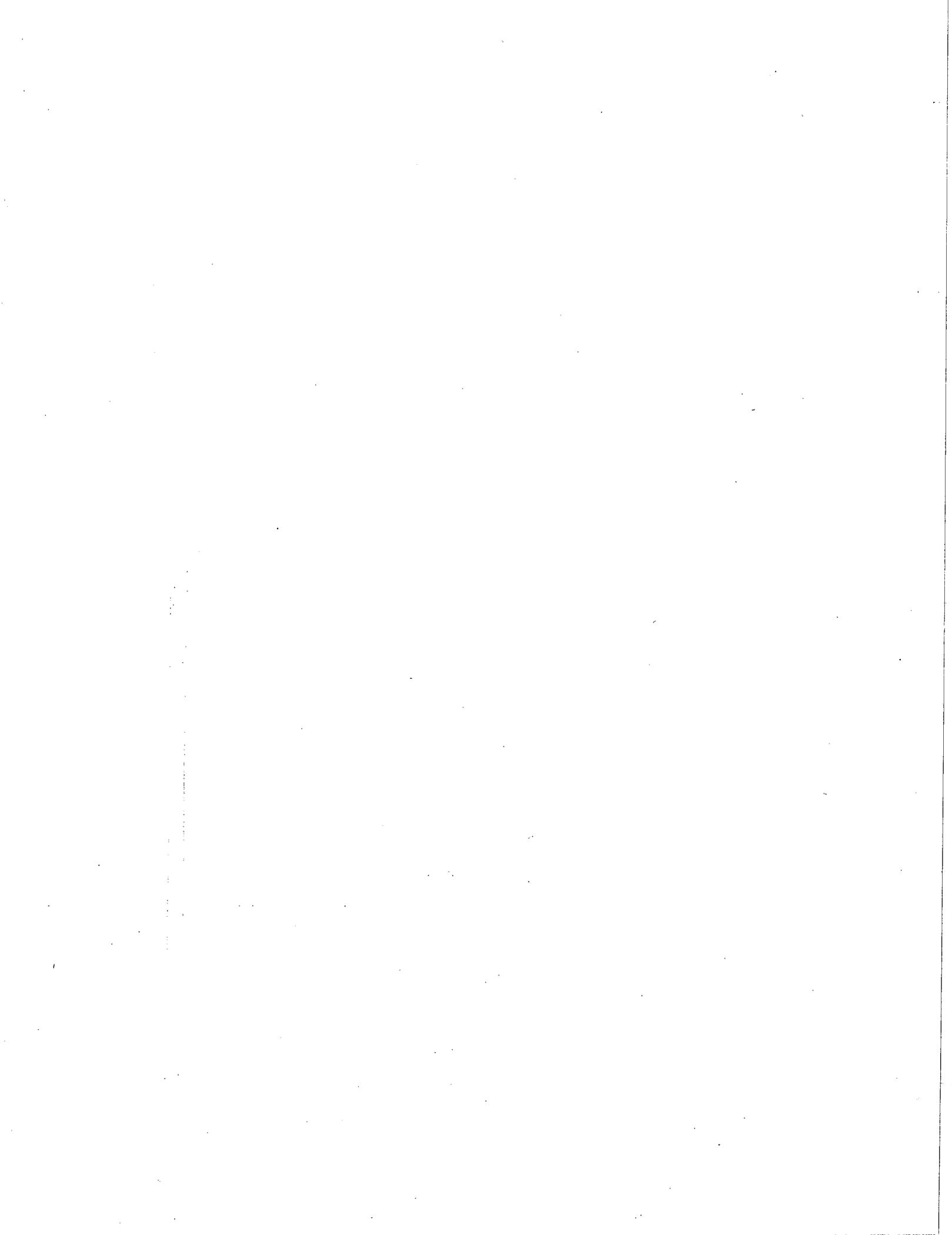


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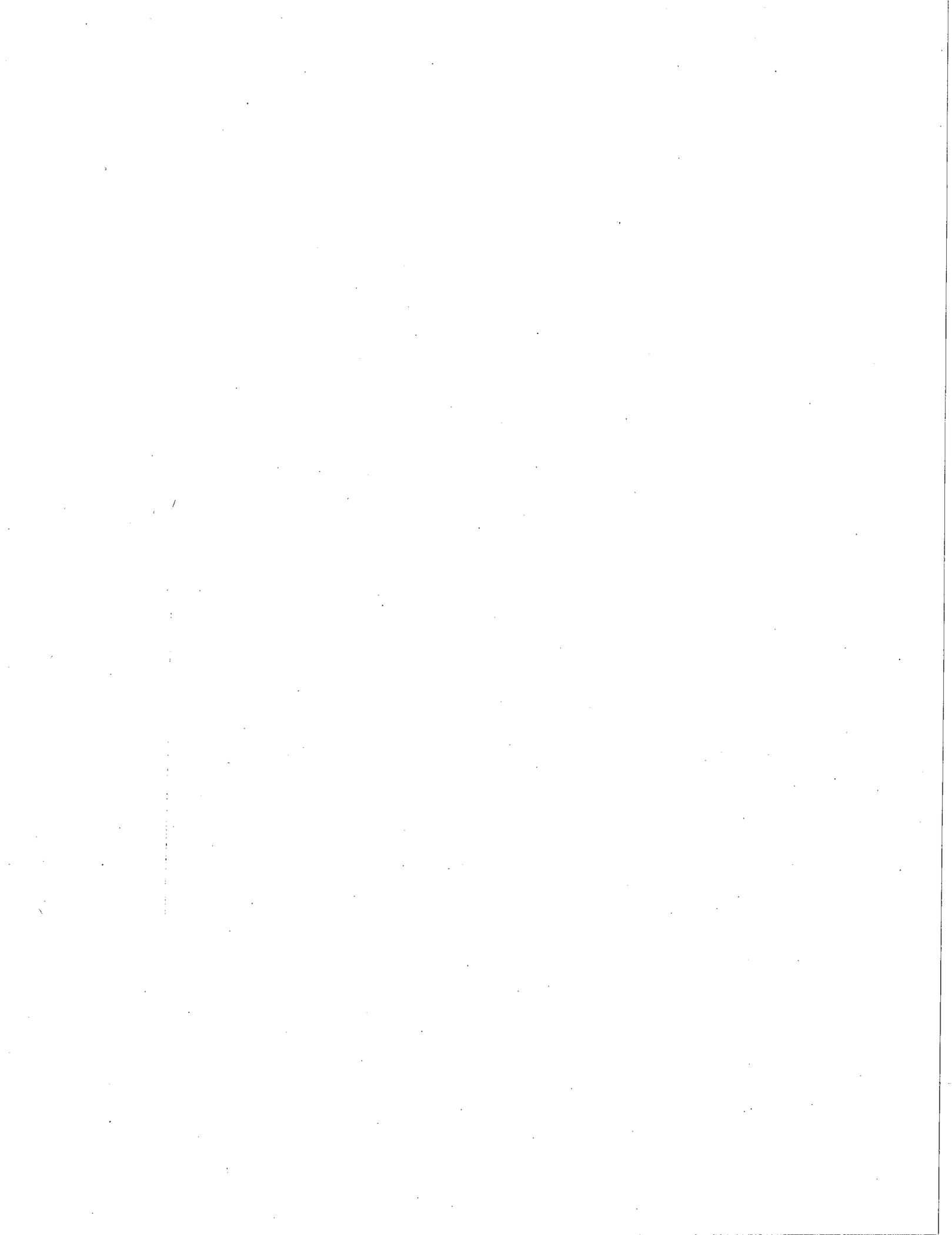
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ORGANIZATION OF THE COMMISSION

MEMBERSHIP

Section 5. Commission membership.

(a) Legislative members.

(1) The President pro tempore of the Senate, after consultation with the Senate Minority Leader, shall appoint two members of the Senate, one from the majority and one from the minority, to serve on the commission.

(2) The Speaker of the House of Representatives, after consultation with the House Minority Leader, shall appoint two members of the House, one from the majority and one from the minority, to serve on the commission.

(3) The legislative members of the commission shall serve on the commission for the duration of the terms for which they were elected.

(b) Gubernatorial appointments.

(1) The Governor shall appoint five additional members to the commission, no more than three of whom shall be of the same political party, with the advice and consent of a majority of the Senate pursuant to the procedure established in section 207.1, act of April 9, 1929 (P.L.177, No.175), known as "The Administrative Code of 1929."

(2) The members appointed by the Governor shall be representatives from the general public, one of whom shall be an active or retired member of a public employee pension or retirement plan. The members shall be skilled and knowledgeable in the area of pension or retirement system management.

(3) The members of the commission appointed by the Governor shall serve terms of six years, except those members initially selected, one of whom shall serve for two years, one of whom shall serve for three years, one for four years, one for five years and one for six years.

- Act 66 of 1981

With the enactment of Act 66 of 1981, the Public Employee Retirement Study Commission was established. The gubernatorial appointees were confirmed by the Senate on October 27, 1981. Eight of the nine original members of the Commission continue to serve and include:

DR. GILMORE B. SEAVERS, Chairman

Dr. Seavers was appointed to a five-year term on the Commission by Governor Dick Thornburgh in October of 1981. He is the retired President of Shippensburg University of Pennsylvania, having served from 1970 to 1980. During his more than 42 years of public education service in Pennsylvania, he held various other positions including superintendent of Cumberland Valley School System, Dean of Student Personnel at Shippensburg University and Vice-President for Administration at Shippensburg University.

He has been an active member of many professional and other organizations. He has served on State Advisory Councils for Adult Education, for Community Education and for Vocational Education. He is currently a member of the board of the Pennsylvania Association of Adult and Continuing Education (PAACE). He is a past President and remains a member of the board of the South Central Education Broadcasting Council. He is a member of the board of directors of Capital Blue Cross, Harrisburg, the United Telephone Company of Pennsylvania, and the Cumberland Valley Savings and Loan Association.

Dr. Seavers holds a bachelor's degree from Shippensburg University, a master's degree from Duke University and a doctorate from The Pennsylvania State University. He was awarded the honorary degree, Doctor of Laws by the Dickinson School of Law in June, 1981, and was named Honorary Graduate, United States Army War College, Carlisle, in July, 1981. A World War II veteran, Dr. Seavers attained the rank of captain in the U. S. Air Force before leaving the service in 1946.

REPRESENTATIVE HAROLD F. MOWERY, JR., Vice-Chairman

Representative Mowery was initially appointed to serve on the Commission during the 1981-82 Session of the General Assembly by Speaker Matthew J. Ryan and was reappointed for the 1983-84 Session of the General Assembly. He has represented the 87th District in Cumberland County since he was first elected in 1976. He is Chairman of the Education Sub-Committee of the Appropriations Committee and is a member of the Insurance Committee. He was the prime sponsor of the legislation creating the Public Employee Retirement Study Commission in 1981.

Representative Mowery has been actively involved in the insurance business since 1959, and upon becoming a Chartered Life Underwriter in 1966 formed Mowery Associates. He has authored articles published in various insurance journals.

Representative Mowery was a member of the Camp Hill School Board for seven years serving as President during his tenure. He received a Bachelor of Arts degree from Dickinson College in 1954.

MR. PAUL D. HALLIWELL, Commissioner

Mr. Halliwell was initially appointed to a two-year term on the Commission and was re-appointed to a six-year term on the Commission by Governor Dick Thornburgh in November of 1983. He is President of Halliwell and Associates, Inc., an actuarial consulting firm with offices in Pittsburgh. Prior to founding Halliwell and Associates, Inc. in 1974, he was engaged in actuarial work for more than thirteen years including employment by the Phoenix Mutual Life Insurance Company and the Nationwide Insurance Company prior to being Senior Actuary and Vice-President for a national consulting firm.

Mr. Halliwell is a member of the American Academy of Actuaries, a Fellow in the Conference of Actuaries in Public Practice, an Associate in the Society of Actuaries and an Enrolled Actuary. He is also a member of the American Academy of Actuaries Professional Conduct Committee.

In the winter of 1983, Mr. Halliwell was appointed to the Board of Directors of the Pittsburgh Ballet Theatre. He is a graduate of Ohio University and currently is serving as a Director of St. Clair Memorial Hospital.

SENATOR EDWARD L. HOWARD, Commissioner

Senator Howard was initially appointed to serve on the Commission during the 1981-82 Session of the General Assembly by the President Pro Tempore of the Senate, Henry G. Hager, and he was reappointed for the 1983-84 Session of the General Assembly. He has represented the 10th District in Bucks County since he was first elected in 1970. He is Senate Policy Committee Chairman, Chairman of the Finance Committee and a member of the Appropriations, Public Health and Welfare, Urban Affairs and Housing, and Rules and Executive Nominations Committees.

Senator Howard has been actively involved in public pension issues for several years. He served as a member of the Special Joint Committee to review Cost-of-Living Supplements and Funding Sources in 1981-82, and the Special Senate Committee on Municipal Retirement Systems in 1980. He has recently been appointed by the President Pro Tempore of the Senate to the Public School Employees' Retirement Board, the State Employees' Retirement Board, and the Committee on Pensions of the State-Federal Assembly of the National Conference of State Legislatures.

Senator Howard graduated from the University of Minnesota in 1951. He served in the Provost Office of the United States Army in 1945-46.

SENATOR H. CRAIG LEWIS, Commissioner

Senator Lewis of Bucks County was initially appointed to serve on the Commission during the 1981-82 Session of the General Assembly by the President Pro Tempore of the Senate, Henry G. Hager, and he was reappointed for the 1983-84 Session of the General Assembly. He has represented the 6th District since 1974. He is the Minority Chairman of the Appropriations Committee.

Senator Lewis was Chairman of the special Senate Committee on Municipal Retirement Systems in 1980, and he is currently a member of the Pennsylvania Intergovernmental Council.

He was graduated from Millersville State College and the Temple University School of Law.

REPRESENTATIVE ROBERT W. O'DONNELL, Commissioner

Representative O'Donnell was initially appointed to serve on the Commission during the 1981-82 Session of the General Assembly by the Speaker of the House, Matthew J. Ryan, and was reappointed for the 1983-84 Session of the General Assembly. He has represented the 198th District in Philadelphia since he was first elected in 1974. He is the Majority Whip of the House of Representatives and serves on the Rules Committee.

Representative O'Donnell is a former member of the Pennsylvania MILRITE Council.

He attended LaSalle College, New York University Law School, Hague Academy of International Law and graduated from the Temple University School of Law.

MR. DALE D. STONE, Commissioner

Mr. Stone was appointed to a four-year term on the Commission by Governor Dick Thornburgh in October of 1981. He retired in 1982 from the Sun Company, Inc., where he served as Senior Vice-President for Human Resources and Administration. With his Sun Company experience and prior employment with the Sunray DX Oil Company, Mr. Stone has more than 26 years experience in personnel management.

Mr. Stone currently serves as a senior lecturer for the Department of Management of the University of Pennsylvania's Wharton School. He is a member of the Executive Committee of the Advisory Board of the Salvation Army.

In 1948, Mr. Stone was graduated cum laude from the University of Wisconsin, with a Bachelor of Science degree. He was awarded a Master of Science degree from the same university in 1950.

He served in the United States Army for four years, rising to the rank of Staff Sergeant, and received the Bronze Star.

MR. RICHARD L. WITMER, Commissioner

Mr. Witmer was appointed to a three-year term on the Commission by Governor Dick Thornburgh in October of 1981. He is the retired Secretary of the Pennsylvania State Employees' Retirement System, having served from 1969 to 1979. In 1978 and 1979, he served as the first National President of the Coordinating Council on Public Retirement, and was previously a Trustee for the National Conference on Public Employee Retirement Systems. He has also served as Regional Vice-President, Treasurer and Secretary of the National Association of State Retirement Administrators.

Prior to his tenure with the Pennsylvania State Employees' Retirement System, Mr. Witmer served as Director of the Bureau of County Collections, Pennsylvania Department of Revenue. He served as President of the Sparta Merged School Board for ten years and as President of the Crawford County Board of Education. He is currently serving as Chairman of the Board of Trustees of the Sparta Medical Association.

Mr. Witmer served in the United States Army for five years, rising to the rank of Captain.

* * * * *

Mr. William H. Hansell, Jr. was appointed to a six-year term on the Commission by Governor Dick Thornburgh in October of 1981 and served as a member of the Commission from October 27, 1981, to September 30, 1983. The vacancy created by Mr. Hansell's resignation has not been filled.

ORGANIZATION AND COMMITTEES

Section 5. Commission membership.

(d) Organization.--The commission shall meet within 60 days of its establishment for the purpose of organizing and selecting officers who shall be chosen from its membership. Thereafter, the commission shall meet as necessary at the call of the commission chairman, but in no case less than six times per year.

Section 8. Municipal Pension Advisory Committees.

(a) Municipal Pension Advisory Committee.--The commission shall appoint a Municipal Pension Advisory Committee composed of one municipal official or employee nominated by each of the following municipal associations: the Pennsylvania League of Cities; the Pennsylvania State Association of Boroughs; the Pennsylvania State Association of Township Supervisors; the Pennsylvania State Association of Township Commissioners; the Pennsylvania State Association of County Commissioners and the Pennsylvania Municipal Authorities Association.

(b) Municipal Employee Pension Advisory Committee.--The commission shall appoint an advisory committee representing municipal employees nominated by each of the following associations: the Pennsylvania Chiefs of Police Association; the Pennsylvania State Firefighters Association; the Pennsylvania State Education Association; the American Federation of State, County and Municipal Employees; and the Pennsylvania Fraternal Order of Police.

(c) Organization of committees.--Members of the advisory committees may not be members of the commission. The committees shall organize by electing their own officers and by establishing rules of procedure. The advisory committees shall meet with the commission at stated times fixed by the commission, but not less than once a year, at which time the activities of the commission will be discussed and the committees may present information and make recommendations. The advisory committees may meet at such other times as they may determine and may forward information and recommendations to the commission. Committee members shall be reimbursed only for actual expenses incurred in connection with their official duties.

- Act 66 of 1981, as amended

The Public Employee Retirement Study Commission meets monthly in Harrisburg. An organizational meeting is held each January to elect a chairman and vice-chairman and to appoint the Committees of the Commission. In January of 1984, Dr. Gilmore B. Seavers and Representative Harold F. Mowery, Jr. were re-elected to serve as chairman and vice-chairman respectively. The committees of the Commission appointed for 1984 include the Committee on By-Laws, the Committee on Legislative Relations and the Committee on Actuarial Services. A liaison with the statewide retirement systems was also appointed. A copy of the by-Laws of the Commission are attached as an appendix to this report.

The Commission's office is located in Room 117B of the Transportation and Safety Building, Harrisburg. The office is open from 8:30 A.M. to 5:00 P.M. Monday through Friday. The Commission's mailing address is P. O. Box 1323, Harrisburg, PA 17105.

In accordance with Section 8 of Act 66 of 1981, as amended, the Commission appoints a Municipal Pension Advisory Committee and a Municipal Employee Pension Advisory Committee. Both advisory committees are appointed annually from nominations submitted by organizations of municipalities and municipal

employees respectively and meet with the Commission at least once each year to discuss the activities of the Commission and to present information or recommendations. The members of the advisory committees for calendar year 1984 and their sponsoring organizations are as follows:

MUNICIPAL PENSION ADVISORY COMMITTEE

Mr. Ray E. Trimmer, Chairman
Pennsylvania State Association of Township Commissioners

Ms. Karen A. Miller, Vice-Chairman
Pennsylvania League of Cities

Mr. Gerald C. Godwin, Member
Pennsylvania State Association of Boroughs

Mr. B. Kenneth Greider, Member
Pennsylvania State Association of Township Supervisors

Mr. Douglas E. Hill, Member
Pennsylvania State Association of County Commissioners

Mr. William J. Woll, Member
Pennsylvania Municipal Authorities Association

MUNICIPAL EMPLOYEE PENSION ADVISORY COMMITTEE

Mr. Francis W. Walker, Chairman
Pennsylvania Fraternal Order of Police

Mr. Russell P. Cerami, Vice-Chairman
Pennsylvania State Firefighters Association

Mr. Harry J. Gaab, Secretary
Pennsylvania Chiefs of Police Association

Ms. Nancy J. Noonan, Commission Liaison
Pennsylvania State Education Association

Mr. David Antle, Member
American Federation of State, County and Municipal Employees

STAFF AND CONSULTANT SERVICES

Section 6. Powers and Duties.

(7) To hire an executive director and other appropriate staff such as actuaries, legal counsel, research analysts, secretarial assistance and contract for consultant services as may be within the limits of the appropriations available.

- Act 66 of 1981

Staff -

Members of the Commission's staff are as follows:

Lawrence A. Martin,
Executive Director

Ray L. Martin,
Deputy Executive Director

Susan B. Rossman,
Research Associate

Martha J. Lingle,
Administrative Assistant

Sandra L. St. Clair,
Clerk Typist/Receptionist

Actuarial Services -

Guidelines under which actuarial services are to be provided to the Commission were developed by the actuarial services committee and adopted on June 2, 1982. The actuarial services guidelines establish the educational and experience standards for the selection of actuarial consultants and provide for the utilization of three actuarial consultants by the Commission. Engaging multiple actuarial consultants was considered appropriate to provide for geographical proximities to potential work assignments, to provide the Commission with an enhanced scope of actuarial experience and a greater response capacity, and to avoid potential conflicts of interest. The actuarial consultants engaged by the Commission are:

Eastern Pennsylvania

TOWERS, PERRIN, FORSTER & CROSBY
Stanley R. Freilich

Central Pennsylvania

CONRAD M. SIEGEL, INC.
Conrad M. Siegel

Western Pennsylvania

JOHNSON & HIGGINS
Kent E. Levihn
(July, 1983 to October, 1983)
Leland J. Buchele
(November, 1983 to June 30, 1984)

Legal Counsel -

Deputy General Counsel Charles L. Sieck served as the Commission's acting legal counsel from January of 1982 until October of 1983. Deputy General Counsel John P. Krill has served as acting legal counsel for the Commission since November of 1983.

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RESPONSIBILITIES AND DUTIES OF THE COMMISSION

PREPARATION OF ACTUARIAL NOTES

Section 6. Powers and duties.

- (a) In general.--The commission shall have the following powers and duties:
- (13) To issue actuarial notes pursuant to section 7.

Section 7. Actuarial notes.

(a) Note required for bills.--Except as otherwise provided in subsection (f)(1), no bill proposing any change relative to a public employee pension or retirement plan shall be given second consideration in either House of the General Assembly, until the commission has attached an actuarial note prepared by an enrolled pension actuary which shall include a reliable estimate of the cost and actuarial effect of the proposed change in any such pension or retirement system.

(b) Note required for amendments.--Except as otherwise provided in subsection (f)(2), no amendment to any bill concerning any public employee pension or retirement plan shall be considered by either House of the General Assembly until an actuarial note prepared by an enrolled pension actuary has been attached.

(c) Preparation of note.--The commission shall select an enrolled pension actuary to prepare an actuarial note which shall include a reliable estimate of the financial and actuarial effect of the proposed change in any such pension or retirement system.

(d) Contents of a note.--The actuarial note shall be factual, and shall, if possible, provide a reliable estimate of both the immediate cost and effect of the bill and, if determinable or reasonably foreseeable, the long-range actuarial cost and effect of the measure.

(e) Notes for proposed constitutional amendments.--The commission shall issue an actuarial note, prepared by an enrolled pension actuary, for any joint resolution proposing an amendment to the Constitution of Pennsylvania which initially passes either House of the General Assembly. If said joint resolution is subsequently amended and passes either House of the General Assembly, a new actuarial note shall be prepared.

- Act 66 of 1981

The requirement that an actuarial note be attached to public pension bills prior to second consideration in either House of the General Assembly, initiated with the enactment of Act 66 of 1981, represented a modification to the legislative process used to analyze and consider public pension legislation. To meet the legislative mandate to prepare the required actuarial notes, the Commission developed and implemented legislative procedures in cooperation with the General Assembly. The original legislative procedures were adopted in February of 1982 and transmitted to all committee chairmen by the Speaker of the House and the President Pro Tempore of the Senate.

The legislative procedures were revised in January of 1983 with the cooperation of the leadership of the General Assembly. The revisions clarified the procedure for the attachment of actuarial notes to floor amended

legislation and provided for the preparation of "advisory" notes for public pension legislation being considered in committee upon the request of the Committee chairman. The revisions also clarified the availability of the Commission's staff to provide technical assistance to members of the General Assembly on matters pertaining to retirement plan design, financing and administration. The legislative procedures were also modified in April of 1984, to provide for the preparation of an actuarial note for bills while in the possession of the House or Senate Appropriations Committees upon the request of the Committee chairman. The current legislative procedures of the Commission are attached as an appendix to this report.

During the period covered by this report, the Commission authorized attachment of actuarial notes to nineteen bills. A synopsis of the actuarial notes containing a summary of each bill, its actuarial costs and its disposition is attached as an appendix to this report. In several instances, proposed public pension legislation passed one or both Houses of the General Assembly without the actuarial note required by Act 66 of 1981. In three of those instances, the proposed legislation contained language to override the statutory provisions of Act 66 requiring the attachment of actuarial notes to proposed public pension legislation.

The revised legislative procedures adopted by the Commission provide for analysis and actuarial data to be available to committees of the General Assembly in the form of an "advisory note" as the committees consider public pension legislation. The Commission staff prepared "advisory notes" for nine bills during the period covered by this report.

* * * * *

MUNICIPAL PENSION SYSTEM REFORM

Section 6. Powers and duties.

(a) In general.--The Commission shall have the following powers and duties.

(14) To formulate and recommend passage of legislation, within one year of the initial meeting of the commission, to mandate actuarial funding standards and establish a recovery program for municipal pension systems determined to be financially distressed.

(b) Priority.--The commission shall carry out all of its powers and duties imposed by this act by first addressing and completing its duties with regard to the municipal government retirement systems before exercising any of its powers and duties with regard to the other retirement plans enumerated in section 3.

- Act 66 of 1981

In enacting Act 66 of 1981, the General Assembly found municipal pension system reform to be necessary in the Commonwealth and directed the Commission to formulate specified legislative remedies within one year of its initial meeting. The General Assembly instructed the Commission to formulate legislation mandating actuarial funding standards for all municipal pension systems and establishing a recovery program for financially distressed municipal pension systems.

The Commission approved recommendations to the General Assembly and the Governor on December 8, 1982, and transmitted a formal report on January 25, 1983, entitled "Recommendation of Actuarial Funding Standards and a Recovery Program for Municipal Pension Systems." Copies of the report may be obtained by contacting the Commission's office.

Legislation to implement the Commission's recommendations was introduced in both the House (H.B. 857) and Senate (S.B. 546) by the legislative members of the Commission and others early in the 1983-84 Session of the General Assembly. The municipal pension system legislation recommended by the Commission requires municipalities to comply with an actuarial funding standard to arrest the continuing financial deterioration of municipal pension funds in Pennsylvania. As the General Assembly directed, the legislation also provides for a comprehensive remedial program for financially distressed municipal pension systems which entails implementation of reform measures by the municipalities and short-term state financial assistance in meeting the mandated actuarial funding requirements.

In September of 1983, the Commission presented testimony at a hearing on Senate Bill 546 conducted by the Senate Local Government Committee. Early in 1984, the Commission appointed a working group to address the political issues identified as impeding movement of House Bill 857 and Senate Bill 546. The working group included representatives of the municipal associations, the employee groups and the Commission. In March of 1984, the working group endorsed and recommended proposed amendments to the legislation that were subsequently adopted by the Commission. The Commission appeared before the

House Finance Committee in May of 1984 to respond to questions on House Bill 857. In June of 1984, House Bill 857 was reported with amendments from the House Finance Committee. The bill was referred to the House Appropriations Committee for the attachment of a fiscal note and remained in the Appropriations Committee during the summer recess of the General Assembly.

* * * * *

PUBLIC PENSION POLICY DEVELOPMENT AND COORDINATION

Section 4. Public Employee Retirement Study Commission created.

There is hereby created the Public Employee Retirement Study Commission to review legislation affecting public employee pension and retirement plans and to study on a continuing basis public employee pension and retirement policy as implemented at both the State and local level, the interrelationships of the several systems and their actuarial soundness and cost.

Section 6. Powers and duties.

(a) In general.--The commission shall have the following powers and duties:

(1) To study generally the subject of retirement, income after retirement, disability and death benefits and the retirement needs of public employees. The commission shall have responsibility to formulate principles and objectives applicable thereto and to recommend any new legislation it deems advisable.

(2) To analyze on its own or upon request from either the legislative or executive branch any bill relating to public employee retirement or pension policy and issue a report thereto in a timely fashion. Such a report shall be submitted to the General Assembly and the Governor and shall include an assessment of the actuarial soundness, feasibility and cost of such legislation.

(9) To monitor and evaluate from time to time all the laws and systems thereunder which relate to public employee pension and retirement policy in the Commonwealth.

(10) To study the relationship of retirement and pension policy to other aspects of public personnel policy and to the effective operation of government generally.

(11) To examine the interrelationships among public employee pension and retirement systems throughout the State.

- Act 66 of 1981

In recognition of the absence of comprehensive oversight for the various public employee pension systems in the Commonwealth, the Commission determined that conducting periodic reviews of the actuarial and financial reports of the various public employee pension systems was appropriate. The second review of the State Employees' Retirement System, the Public School Employees' Retirement System and the Pennsylvania Municipal Retirement System was conducted early in 1984. The review of the more than 2,300 municipal employee pension systems was conducted in March of 1984 when the Commission compiled and published a comprehensive statistical report on municipal pension plan data submitted pursuant to Act 293 of 1972. The Commission also determined that its oversight function appropriately includes both coordinating the provision of information on legal and administrative matters to the various public employee pension systems and monitoring compliance by the various pension systems with federal, state and common law requirements.

The Commission also determined that the coordination of policy and reform in the Commonwealth on the subject of public employee pensions is an appropriate Commission function. Rather than attempting to reform public pension policy by levels of government and employee classifications, the Commission concluded that reform of public pension policy can best be addressed on the basis of broad policy issues. After evaluating potential issues or projects, the Commission adopted a work plan schedule for completing various policy development goals. In July of 1983, the Commission initiated a long term priority project that entails a comprehensive study of public employee

pensions as a component of public sector compensation. Much of the data necessary to complete the compensation study was compiled in the period covered by this report, and completion of the compensation study is expected early in 1985. The Commission adopted four short term priority projects to formulate the Commission's policy on the broad policy issues of post retirement adjustments, fiduciary responsibility and liability, intrastate portability of service credits and investments and asset management. The Commission completed the first of its short-term priority projects in February of 1984. The Commission's policy guidelines on post retirement adjustments for public employee pension systems were transmitted to the General Assembly, the Governor and local governments providing employee pension benefits in a report entitled "Report of the Public Employee Retirement Commission on Post Retirement Adjustments." Copies of the report may be obtained by contacting the Commission office. The Commission's policy and recommendations on the issues involved with each of the remaining short term priority projects will be communicated to the General Assembly and the Governor at the conclusion of each project. The Commission's Statement of Policy Development and Project Goals is attached as an appendix to this report.

In response to requests, the Commission initiated two special study projects in the spring of 1984. County pension systems and post retirement adjustments for municipal police officers and municipal firefighters are the subjects for the special study projects which are currently in progress.

* * * * *

ADMINISTRATION OF ACT 293 OF 1972

Section 6. Powers and duties.

(a) In general.--The commission shall have the following powers and duties:

(15) To perform the functions and have all the powers and duties heretofore vested in the Department of Community Affairs pursuant to the act of December 6, 1972 (P.L.1383, No.293), entitled "An act requiring municipal pension systems to have an actuarial investigation of the fund made by an actuary who shall report his findings to the Department of Community Affairs."

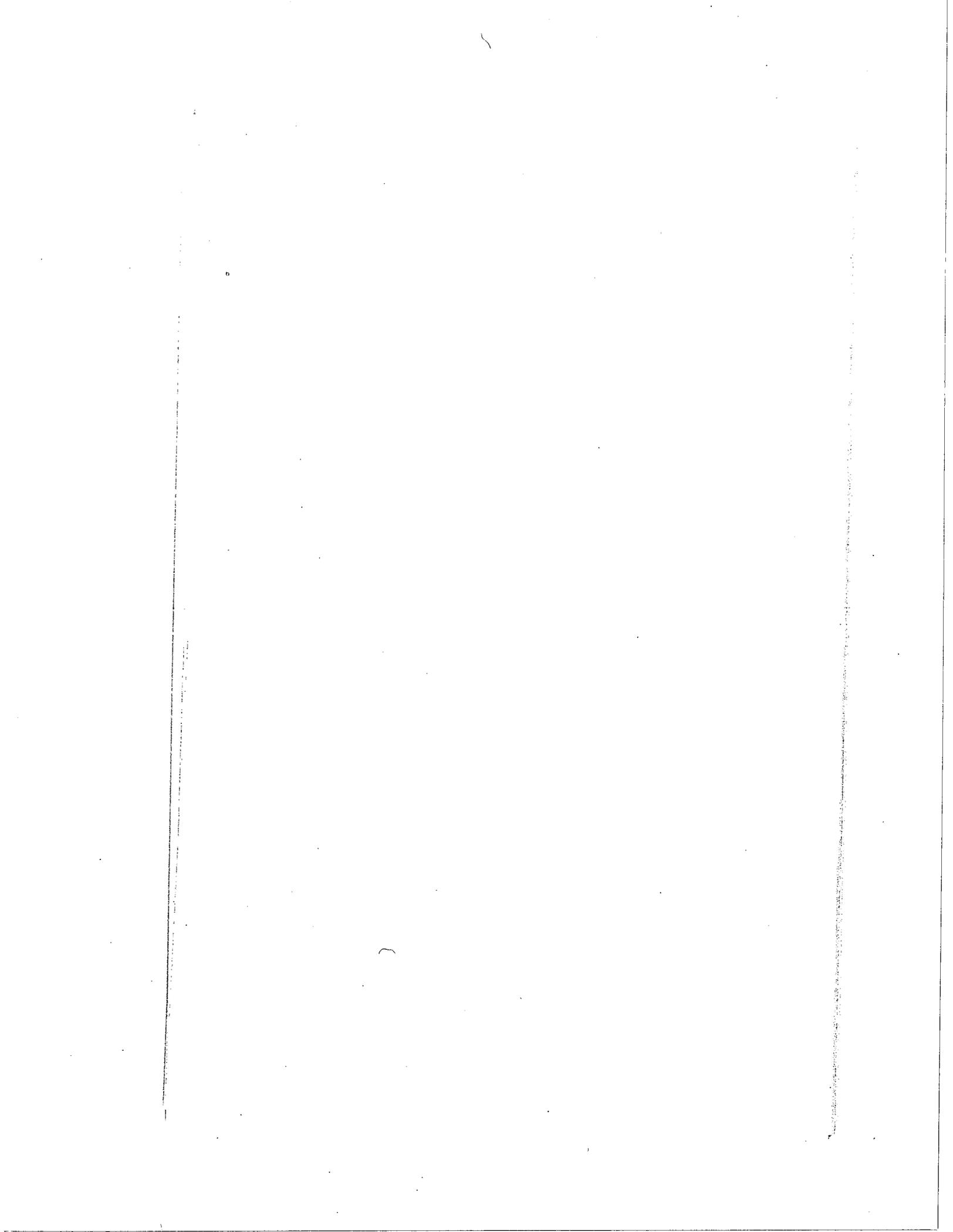
- Act 66 of 1981

The administration of Act 293 of 1972, as amended, was transferred from the Department of Community Affairs to the Commission with the enactment of Act 66 of 1981. The Act 293 program entails the periodic submission of actuarial valuation reports on municipal pension systems for police officers, firefighters and non-uniformed employees. Municipalities with 50 or more members in any one of their employee pension systems are required to submit biennial reports, while municipalities with less than 50 members in each of their employee pension systems are required to file reports every 4 years. The data provided through the Act 293 program represents the only means to assess and monitor the actuarial condition and general characteristics of the over 2,300 municipal pension systems in the Commonwealth.

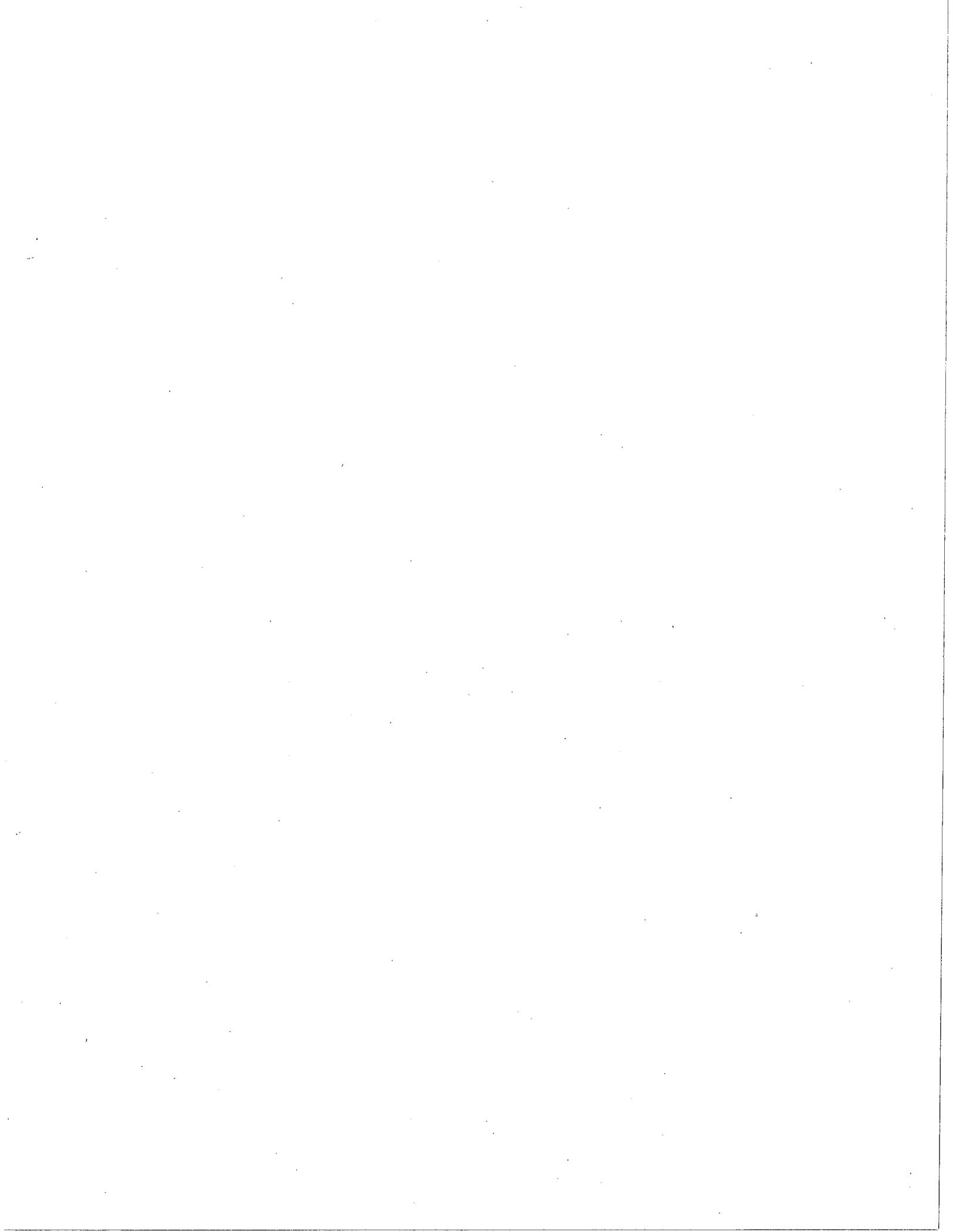
For reporting years involving all local governments, filing notices and reporting forms are prepared and mailed to approximately 4,500 local governments. Preparation of the filing notices and reporting forms entails printing twelve items comprised of over 78,000 printed pages. The program's administrative procedures also entail construction of files and logs to store and record the receipt of the approximately 18,000 reports required under the program's current rules and regulations. The Act 293 program also requires transmitting over 5,000 individualized letters to local governments to facilitate compliance with the Act's filing requirements. The Commission is required to apply the penalty provisions of Act 293 if the required reports are not submitted.

Section 9 of Act 66 of 1981 requires the Commission to publish comprehensive statistical reports on the municipal pension system data submitted under the Act 293 program. The extent of the delinquencies in complying with the program's March 31, 1984, filing deadline delayed preparation and publication of the statewide report until March of 1984. The Commission's first Act 293 Report identified and provided statistical information for 2,284 local government pension systems. In transmitting the report to the General Assembly and the Governor, the Commission urged passage of legislation to address the documented need for a mandated actuarial funding standard for municipal pension systems in Pennsylvania.

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APPENDICES



SYNOPSIS OF ACTUARIAL NOTES

1983-1984 Legislative Session

Actuarial notes attached
July 1, 1983 through June 30, 1984



SENATE BILLS

SENATE BILL 474

Bill Summary

Senate Bill 474, Printer's Number 1513, amends the Pennsylvania Municipal Retirement Law to: (1) increase the maximum annual amount of administrative expenses which may be paid from excess interest (interest earnings of the fund in excess of the regular interest credited to the municipal and member's accounts) from .5% to .6% of the total asset value of the fund; (2) extend to calendar years 1984 and 1985 the authorization for the use of excess interest for administrative expenses; (3) require annual approval for the budget of the Pennsylvania Municipal Retirement System (PMRS) by the Senate and House Local Government Committees; (4) provide for the position of assistant secretary as a board appointed position; (5) require prior board approval of all appointments of employees by the secretary; and (6) exclude the positions of secretary and assistant secretary from the requirement that employees of PMRS be under the classified service.

Commission Action

The Commission attached an actuarial note, applicable to Printer's Number 1105, on July 13, 1983, indicating that the bill does not have an actuarial cost or long term actuarial impact within the meaning of Act 66 of 1981. On December 14, 1983, the Commission reviewed Senate Bill 474, Printer's Number 1513, and re-attached the original actuarial note to the amended version of the bill.

Final Legislative Status

Senate Bill 474, Printer's Number 1513, was signed into law on February 1, 1984, as Act 1 of 1984.

SENATE BILL 495

Bill Summary

Senate Bill 495, Printer's Number 542, is a proposed amendment to the County Pension Law to remove the provision limiting the salary based used in calculating benefits and determining member contributions to an amount not exceeding the highest salary paid to any elected county official, applicable to employment occurring and salary earned after January 1, 1984.

Commission Action

The Commission attached an actuarial note on November 16, 1983, indicating that the benefit increase resulting from the elimination of the salary limitation would have a very limited effect on the annual actuarial cost of the county pension systems involved. The increased annual employer pension cost for the affected county pension systems sampled for the actuarial note ranged from \$340 for a county of the eighth class (2 members affected) to \$10,625 for a county of the fifth class (18 members affected). The Commission expressed its policy judgment that salary limitations for contribution and benefit calculation purposes applicable to county pension systems governed by Act 96 of 1971 have inappropriate effects on pension system funding and benefit levels and should be eliminated if possible.

Legislative Status as of September 15, 1984

Senate Bill 495, Printer's Number 542, was tabled in the Senate on July 6, 1983. The contents of the bill were amended into House Bill 1342 which was signed into law on December 12, 1983, as Act 75 of 1983.

SENATE BILL 639

Bill Summary

Senate Bill 639, Printer's Number 1154, amends the provisions of the State Employees' Retirement Code which define the term "state employee" for the purpose of specifying coverage by the system and which govern the purchase of creditable non-state service credit to provide for the inclusion of employees of the Applied Research Laboratory of the Pennsylvania State University in the retirement coverage of the State Employees' Retirement System (SERS).

Commission Action

The Commission attached an actuarial note on November 16, 1983, indicating that as a result of the inclusion of additional employees with varying amounts of prior service, SERS would undertake an additional actuarial accrued liability of \$14,987,519, to be funded by the Pennsylvania State University through an initial transfer of \$5,015,303 and future required amortization contributions of 9.30% of the payroll of employees of the Applied Research Laboratory in addition to employer normal cost contributions. Information supplementing the actuarial note was transmitted to the General Assembly and the Governor on November 30, 1983. The supplemental information indicated the number of active employees of the Applied Research Laboratory to have their retirement coverage transferred to SERS, the status of current retirement benefit recipients of the Applied Research Laboratory Retirement System and the intended use by the Pennsylvania State University of asset amounts remaining following the transfer of assets to SERS to accompany the transfer of retirement coverage.

Final Legislative Status

Senate Bill 639, Printer's Number 1154, was signed into law on April 4, 1984, as Act 42 of 1984.

SENATE BILL 808

Bill Summary

Senate Bill 808, Printer's Number 937, proposed to amend the portion of the Second Class County Code which governs the Allegheny County Retirement System to increase the required service period for entitlement to receive a retirement annuity from 8 years to 15 years, applicable to county employees hired after the effective date of the change.

As amended prior to enactment, Senate Bill 808, Printer's Number 1516, changes the normal retirement age under the Allegheny County Retirement System from 60 years to 65 years and increases the required service period for entitlement to receive a retirement annuity from 8 years to 10 years, applicable to county employees, other than members of the police force or fire department, hired after the effective date of the change. The amended version of the bill also changes various deadlines for payment into the retirement fund of contributions required in order to receive credit for previous service.

Actuarial Note Summary

The Commission attached an actuarial note, applicable to Printer's Number 937, on September 14, 1983. The actuarial note was based on an actuarial cost estimate prepared by the plan actuary using an open-group projection procedure which projects receipts and disbursements of the pension fund into the future assuming the replacement of existing plan members by identically situated new plan members. The actuarial note set forth the projected annual ending balances through the year 2011 under the current plan and under the plan with the proposed increase in the minimum service requirement. The consulting actuary retained by the Commission to review the cost estimate prepared by the plan actuary indicated several difficulties present in using the open-group projection as a substitute for, rather than as a supplement to, the traditional closed-group actuarial methods. In transmitting the actuarial note, the Commission expressed concern regarding the appropriateness of the substantial increase in the service requirement for vesting proposed in the bill noting the deviation from current practice in both public and private sector pension plans. The Commission also noted the possibility that the potential long term cost reduction resulting from the legislation may be used to finance the short term actuarial cost increase attributable to one or more post retirement adjustments that may be implemented without additional legislative review.

On December 14, 1983, the Commission attached an actuarial note, applicable to Printer's Number 1516, indicating that the bill would result in a future actuarial cost reduction, attributable to the increase in the normal retirement age and service requirements for new entrants, and that an annual increase in the normal cost of the plan of \$86,925 would also result from the bill, attributable to the county employees who are likely to make use of the reauthorization for the repayment of refunded contributions or purchases of previously uncredited service.

Final Legislative Status

Senate Bill 808, Printer's Number 1516, was signed into law on February 9, 1984, as Act 6 of 1984.

HOUSE BILLS

HOUSE BILL 98

Bill Summary

House Bill 98, Printer's Number 2119, is a proposed amendment to the Public School Employees' Retirement Code to provide for a 25% increase in the disability annuity payable to a member who has sustained a physical injury resulting from an assault or from attempting to maintain discipline during the course of employment and to provide, in the case of such injury, for members with five years or less of service to be given the same benefits as members with five to ten years of service.

Commission Action

The Commission attached an actuarial note on March 14, 1984, indicating that the actuarial cost of the proposal is entirely dependent upon the extent of utilization of the benefit increase and that there is insufficient accumulated experience concerning the Public School Employees' Retirement System (PSERS) to allow a reliable estimate of future utilization. The actuarial note estimated the increased actuarial cost for a range of potential future utilization patterns. The actuarial cost estimates ranged from .017% of payroll if 5% of all future disability retirements qualified for the increased disability annuity to .17% of payroll if 50% of all future disability retirements qualified. In transmitting the actuarial note, the Commission noted that the bill raises policy questions concerning the rationale for the additional benefit coverage, the coordination of the additional benefit coverage with other disability benefit coverage already provided and the appropriate apportionment between employer and employees of the financing of this additional benefit coverage. The Commission also indicated that the bill, as drafted, required clarification in order to avoid any future unintended results. The Commission recommended that the General Assembly postpone further consideration of the bill until the Commission has had an opportunity to make a more complete study of the general topic of disability benefits provided by Pennsylvania public employee retirement plans, the appropriateness of providing additional duty related disability benefit coverage to PSERS members, and the appropriate additional PSERS member contribution requirement which should accompany any PSERS disability benefit increase.

Legislative Status as of September 15, 1984

House Bill 98, Printer's Number 2119, was re-committed to the House Appropriations Committee on November 16, 1983.

HOUSE BILL 124

Bill Summary

House Bill 124, Printer's Number 2228, is a proposed amendment to the Public School Employees' Retirement Code to remove a restriction on the purchase of credit for out-of-state teaching service if the teacher has waived any pension eligibility in the out-of-state teachers retirement system and to newly authorize a purchase of credit for prior nonpublic teaching service in Pennsylvania if the member was certified to teach in Pennsylvania public schools at the time.

Commission Action

The Commission attached an actuarial note, applicable to Printer's Number 138, on June 8, 1983, indicating that the exact cumulative effect of the out-of-state teaching service purchase authorized under the bill cannot be estimated because the purchase of service is elective by the eligible plan members any time prior to retirement and the number of potentially eligible plan members is unknown. The actuarial note demonstrated, through illustrations for two hypothetical employees, both with and without the use of optional annuity form number four, the range of effect on individual plan members from an actuarial loss for older plan members to an actuarial gain for younger members. The Commission expressed concern over the cost impact of the provision on the Public School Employees' Retirement System, since utilization of the service purchase option is more likely by older plan members and this adverse selection against the pension fund would result in a series of increases in the unfunded accrued liability of the fund. Further concern was expressed over the inability to identify the persons who could potentially utilize the modified purchase and the cost impact potential of the use of optional annuity form number four (lump sum withdrawal of member contributions at retirement) in connection with the modified purchase. With respect to the provision of the bill authorizing purchase of service credit for prior non-public teaching service, the actuarial note indicated that there should not be any detrimental effect on the pension plan by the authorized purchase because purchase payments equal to the full actuarial cost are required. On November 16, 1983, the Commission reviewed House Bill 124, Printer's Number 2120, and re-attached the original actuarial note to the amended version of the bill, expressing continued concern over the potential cost impact of the bill.

Legislative Status as of September 15, 1984

House Bill 124 was amended prior to passage by the House on November 30, 1983. Under the House-passed version of the bill, purchase payments equal to the full actuarial cost are required for the out-of-state teaching service purchase authorized under the bill. House Bill 124, Printer's Number 2228, is in the Senate Finance Committee.

HOUSE BILL 125

Bill Summary

House Bill 125, Printer's Number 2229, is a proposed amendment to the Public School Employees' Retirement Code to remove a restriction on the purchase of credit for out-of-state teaching service if the teacher has waived any pension eligibility in the out-of-state teachers retirement system and to newly authorize a purchase of credit for previous work experience, excluding apprenticeship, of the type required for permanent certification as a vocational teacher.

Commission Action

The Commission attached an actuarial note, applicable to Printer's Number 412, on June 8, 1983, indicating that the exact cumulative effect of the out-of-state teaching service purchase authorized under the bill cannot be estimated because the purchase of service is elective by the eligible plan members any time prior to retirement and the number of potentially eligible plan members is unknown. The actuarial note demonstrated, through illustrations for two hypothetical employees, both with and without the use of optional annuity form number four, the range of effect on individual plan members from an actuarial loss for older plan members to an actuarial gain for younger members. The Commission expressed concern over the cost impact of the provision on the Public School Employees' Retirement System, since utilization of the service purchase option is more likely by older plan members and this adverse selection against the pension fund would result in a series of increases in the unfunded accrued liability of the fund. Further concern was expressed over the inability to identify the persons who could potentially utilize the modified purchase and the cost impact potential of the use of optional annuity form number four (lump sum withdrawal of member contributions at retirement) in connection with the modified purchase. With respect to the provision of the bill authorizing purchase of service credit for prior required vocational teacher work experience, the actuarial note indicated that there should not be any detrimental effect on the pension plan by the authorized purchase because purchase payments equal to the full actuarial cost are required. On November 16, 1983, the Commission reviewed House Bill 125, Printer's Number 2121, and re-attached the original actuarial note to the amended version of the bill, expressing continued concern over the potential cost impact of the bill.

Legislative Status as of September 15, 1984

House Bill 125 was amended prior to passage by the House on November 30, 1983. Under the House-passed version of the bill, purchase payments equal to the full actuarial cost are required for the out-of-state teaching service purchase authorized under the bill. House Bill 125, Printer's Number 2229, is in the Senate Finance Committee.

HOUSE BILL 129

Bill Summary

House Bill 129, Printer's Number 413, is a proposed amendment to the Public School Employees' Retirement Code to newly authorize the purchase of one year of service credit for every three years of prior service as a nurse in county employment, not to exceed five years of service credit, with the purchase amount set at the full current actuarial value of the benefit obtained by the purchase.

Commission Action

The Commission attached an actuarial note on August 10, 1983, indicating that there should not be any detrimental effect on the pension plan by the prior service purchase authorized by the bill because purchase payments equal to the full actuarial cost are required.

Legislative Status as of September 15, 1984

House Bill 129, Printer's Number 413, passed the House on September 28, 1983, and is in the Senate Finance Committee.

HOUSE BILL 382

Bill Summary

House Bill 382, Printer's Number 432, proposed to amend the Public School Employees' Retirement Code by changing the definition of "superannuation or normal retirement age" to provide for retirement at any age after a member has accrued 30 eligibility points with no actuarial reduction in the member's annuity and by increasing the actuarial assumption with respect to investment earnings from 5.5% to 7.5%.

Commission Action

The Commission attached an actuarial note on August 10, 1983, indicating that the increased access to early normal retirement would increase the total annual cost of the Public School Employees' Retirement System (PSERS) to the Commonwealth and the various school districts by 1.66% of current and future payroll, or an estimated increase of \$59.8 million for the 1983-84 plan year and increasing as a dollar amount over time. In transmitting the actuarial note, the Commission expressed its conclusion that the proposed legislation was not desirable due to a number of serious actuarial and other policy concerns. The Commission questioned the affordability to the Commonwealth and school districts of the increased annual actuarial cost resulting from the legislation when the full annual actuarial cost of the present Public School Employees' Retirement System is not currently being met. The Commission also expressed concern that the enhanced early retirement authority provided in the bill would lead to increased future demands for cost-of-living adjustments, would cause an initial large reduction in PSERS assets through retirement allowance payments and lump sum withdrawals under option four, would generate similar requests with respect to the State Employees' Retirement System and other public pension systems in the Commonwealth, and would function as other than true retirement by presenting an opportunity for a subsequent career. The Commission also questioned the appropriateness of modifying actuarial assumptions at the same time as making benefit improvements, rather than considering each issue independently on its own merits. The Commission expressed its view that a revision in the PSERS actuarial assumption concerning interest should not be considered without consideration of a similar revision in the PSERS actuarial assumption concerning salary increases.

Legislative Status as of September 15, 1984

House Bill 382, Printer's Number 432, was re-committed to the House Appropriations Committee on September 21, 1983. A temporary early retirement option under the Public School Employees' Retirement System and the State Employees' Retirement System was enacted under House Bill 2114, Printer's Number 3400, signed into law on June 29, 1984, as Act 95 of 1984.

HOUSE BILL 508

Bill Summary

House Bill 508, Printer's Number 569, proposed to amend the portion of the Second Class County Code which governs the Allegheny County Retirement System to increase the required service period for entitlement to receive a retirement annuity from 8 years to 15 years, applicable to county employees hired after the effective date of the change.

Commission Action

The Commission attached an actuarial note on October 12, 1983, based on an actuarial cost estimate prepared by the plan actuary using an open-group projection procedure which projects receipts and disbursements of the pension fund into the future assuming the replacement of existing plan members by identically situated new plan members. The actuarial note set forth the projected annual ending balances through the year 2011 under the current plan and under the plan with the proposed increase in the minimum service requirement. The consulting actuary retained by the Commission to review the cost estimate prepared by the plan actuary indicated several difficulties present in using the open-group projection as a substitute for, rather than as a supplement to, the traditional closed-group actuarial methods. In transmitting the actuarial note, the Commission expressed concern regarding the appropriateness of the substantial increase in the service requirement for vesting proposed in the bill noting the deviation from current practice in both public and private sector pension plans. The Commission also noted the possibility that the potential long term cost reduction resulting from the legislation may be used to finance the short term actuarial cost increase attributable to one or more post retirement adjustments that may be implemented without additional legislative review.

Legislative Status as of September 15, 1984

House Bill 508, Printer's Number 569, was re-committed to the House Appropriations Committee on December 12, 1983.

HOUSE BILL 598

Bill Summary

House Bill 598, Printer's Number 2175, is a proposed amendment to the Tax Reform Code of 1971 to provide for an additional tax of 1% on foreign fire insurance premiums and to require that the additional revenues generated by the tax be distributed in accordance with the Foreign Fire Insurance Premium Tax Allocation Law, with the portion allocated to paid firemen reallocated and distributed to firemen's pension funds agreeing to provide, as of January 1, 1984, a cost-of-living adjustment to existing pensioners and spouses of deceased firemen. The bill provides for the additional tax revenues to be allocated to each qualified pension fund in proportion to its number of pensioners.

Commission Action

The Commission attached an actuarial note on May 9, 1984, based on a sampling of the 77 municipal paid firefighters pension plans. The primary sampling included four municipal paid firefighters pension plans, reflecting a variety of actuarial funding and demographic conditions, with partial results presented for two additional municipal firefighters pension plans. The actuarial note set forth the actuarial effect of the bill based on (1) a determination of the full actuarial funding requirement for a full 100% replacement of the annual increase in the Consumer Price Index (CPI), assuming two different rates of future inflation, and a comparison of the funding requirement with the additional tax revenue provided under the bill, (2) a determination of the portion of the CPI increase which could be replaced on an automatic adjustment full actuarial funding basis by the additional revenue provided by the bill, and (3) a determination of the portion of the CPI increase which could be replaced on an ad hoc adjustment "pay-as-you-go" financing basis by the additional revenue provided by the bill. In transmitting the actuarial note, the Commission noted that the bill raises policy questions concerning the appropriateness of the financing source chosen, the lack of any required interrelationship between this benefit and any existing cost-of-living adjustment practices, the adequacy of the financing provided, the appropriateness of the basis for the allocation of the tax proceeds and the potential unconstitutionality of extending coverage of this benefit to surviving beneficiaries. The Commission also expressed concern that the bill includes a number of drafting ambiguities which, if the bill is to receive further consideration, should be clarified.

At the time of attaching the actuarial note to House Bill 598, the Commission initiated a special study of the issue of providing cost-of-living post retirement adjustments to retired municipal firefighters and retired municipal police officer, scheduled to be transmitted to the Governor and the General Assembly by October 1, 1984.

Legislative Status as of September 15, 1984

House Bill 598, Printer's Number 2175, was re-committed to the House Appropriations Committee on November 30, 1983.

HOUSE BILL 728

Bill Summary

House Bill 728, Printer's Number 810, proposed to amend the Public School Employees' Retirement Code to:

(1) authorize the board to set the valuation interest rate under the advice of the actuary taking into consideration the actual interest earnings of the system for preceding years and the probable earnings of the system in the future;

(2) provide for the payment of a cost-of-living supplement to annuitants, beginning July 1, 1983, based on a percentage of the first \$15,000 of the annual annuity as of December 31, 1982, with the percentage determined according to the effective date of retirement as follows:

<u>Effective date of retirement</u>	<u>Percentage factor</u>
July 1, 1981 through July 1, 1982	3%
July 1, 1980 through July 1, 1981	8%
July 1, 1979 through July 1, 1980	15%
July 1, 1978 through July 1, 1979	21%
On or prior to July 1, 1978	24%

(3) require that the additional liability attributable to the cost-of-living supplement be funded by level annual payments over a period of 20 years beginning July 1, 1983.

As amended by the House Appropriations Committee, House Bill 728, Printer's Number 2482, also included an amendment to the Public School Employees' Retirement Code to change the definition of "superannuation or normal retirement age" to provide for retirement at any age after a member has accrued 30 eligibility points with no actuarial reduction in the member's annuity.

As amended prior to House passage, House Bill 728, Printer's Number 2505, also included amendments to the Public School Employees' Retirement Code to reenact the provision defining "basic contribution rate" as the rate of 6½% and to provide for investments in venture capital limited partnerships and private placement separate accounts.

Commission Action

The Commission attached an actuarial note, applicable to Printer's Number 810, on November 16, 1983, indicating that the post retirement adjustment proposed in the bill would increase the Public School Employees' Retirement System (PSERS) unfunded actuarial accrued liability to be amortized by the Commonwealth and the various school districts by \$735 million. The annual amortization contribution over the 20 year amortization period provided for in the bill would be \$69.5 million. Over an alternative 15 year amortization period, the resulting amortization contribution would be \$80.4 million and over an alternative 10 year amortization period, the resulting amortization contribution would be \$103.3 million.

On February 8, 1984, the Commission attached an actuarial note, applicable to Printer's Number 2482, indicating, in addition to the above information on the post retirement adjustment proposed in the bill, that the increased access to early normal retirement would increase the total annual cost of PSERS to the Commonwealth and the various school districts by 1.66% of current and future payroll, or \$53.9 million currently and increasing as a dollar amount over time.

HOUSE BILL 728
(Continued)

Legislative Status as of September 15, 1984

House Bill 728, Printer's Number 2505, passed the House on February 8, 1984, and is in the Senate Finance Committee. Legislation amending the Public School Employees' Retirement Code and the State Employees' Retirement Code to implement a post retirement adjustment, provide a temporary early retirement option and authorize venture capital investments was enacted under House Bill 2114, Printer's Number 3400, signed into law on June 29, 1984, as Act 95 of 1984.

HOUSE BILL 749

Bill Summary

House Bill 749, Printer's Number 832, is a proposed amendment to the State Employees' Retirement Code to change the definition of "superannuation age" to include Delaware River Port Authority policemen among members eligible to retire at age 50.

Commission Action

The Commission attached an actuarial note on January 11, 1984, indicating that the bill would have a substantial impact on the required contributions of the Delaware River Port Authority to the State Employees' Retirement System (SERS), while it would have only a nominal impact on the actuarial condition of SERS. According to the actuarial note, the benefit improvement proposed in the bill would cause a 33% increase in the required annual contribution to be made by the Delaware River Port Authority, or an additional amount of \$185,324 in the first year and increasing over time. The increase in the accrued liability of SERS by virtue of the proposed change would be approximately \$3,000,000, or an average of \$21,429 for each of the 140 affected active members.

Legislative Status as of September 15, 1984

House Bill 749, Printer's Number 832, passed the House on February 13, 1984, and is in the Senate Finance Committee.

HOUSE BILL 857

Bill Summary

House Bill 857, Printer's Number 3102, is a proposed Municipal Pension Plan Funding Standard and Recovery Act, mandating an actuarial funding standard for municipal pension systems and establishing a recovery program for municipal pension systems which are determined to be financially distressed.

Commission Action

The Commission attached an actuarial note on June 25, 1984, indicating that there is no actuarial cost or long term actuarial impact within the meaning of Act 66 of 1981 caused by the bill, but that a fiscal impact on the Commonwealth would result from the legislation. The Commission estimated the fiscal impact on the Commonwealth to be \$10.5 million annually by virtue of a change in state aid to all municipal pension plans effective in 1985 and an additional \$35 million annually by virtue of the establishment of the state funded Supplemental State Assistance Fund effective in 1988 and terminating in 2003. In transmitting the actuarial note, the Commission strongly recommended the proposed legislation as a necessary step in addressing the deteriorating financial condition of many municipal pension systems in the Commonwealth and in preventing a similar situation from being permitted to develop in the remaining Commonwealth municipal pension systems.

Legislative Status as of September 15, 1984

House Bill 857, Printer's Number 3102, was reported from the House Finance Committee on June 5, 1984, and was referred to the House Appropriations Committee for the attachment of a fiscal note.

HOUSE BILL 1342

Bill Summary

House Bill 1342, Printer's Number 1608, amends the County Pension Law to authorize a county to elect, by resolution of the county commissioners or governing authority, to "pick up" member contributions to the county retirement system and to provide for "pickup contributions" to be treated as the county's contribution in order to exempt the contributions from Federal income taxation at the time of payment of the contributions into the retirement fund.

As amended prior to enactment, House Bill 1342, Printer's Number 2209, also removes the provision from the County Pension Law which limited the salary base used in calculating benefits and determining member contributions to an amount not exceeding the highest salary paid to any elected county official. The change is applicable to employment occurring and salary earned after January 1, 1984.

Commission Action

The Commission attached an actuarial note, applicable to Printer's Number 1608, on September 14, 1983, indicating that there should not be any significant retirement plan benefit cost associated with the proposed change and that retirement system administrative costs would be limited to initial reprogramming costs.

The provision added to the bill in Printer's Number 2209 was derived from Senate Bill 495, to which the Commission had attached an actuarial note on November 16, 1983, indicating that the benefit increase resulting from the elimination of the salary base limitation would have a very limited effect on the annual actuarial cost of the county pension systems involved.

Final Legislative Status

House Bill 1342, Printer's Number 2209, was signed into law on December 20, 1983, as Act 75 of 1983.

HOUSE BILL 1451

Bill Summary

House Bill 1451, Printer's Number 2292, amends the portion of the Second Class County Code which governs the Allegheny County Retirement System to authorize the county to elect, by resolution of the commissioners, to "pick up" member contributions to the retirement system and to provide for the "pickup contributions" to be treated as the county's contributions in order to exempt the contributions from Federal income taxation at the time of payment of the contributions into the retirement fund.

As amended prior to passage, House Bill 1451, Printer's Number 3182, also includes an amendment pertaining to tax levying authority under the Second Class County Code which is unrelated to the retirement system portion of the Code.

Commission Action

The Commission attached an actuarial note, applicable to Printer's Number 2292, on December 14, 1983, indicating that there should not be any significant retirement plan benefit cost associated with the proposed change and that retirement system administrative costs would be limited to initial reprogramming costs.

Final Legislative Status

House Bill 1451, Printer's Number 3182, was signed into law on July 6, 1984, as Act 131 of 1984.

HOUSE BILL 1596

Bill Summary

House Bill 1596, Printer's Number 2151, is a proposed amendment to the Public School Employees' Retirement Code to newly authorize a purchase of service credit by an employee of a school district of the first class for prior service as an employee of a political subdivision of the Commonwealth or as a civilian employee of the federal government, with the purchase amount set at the full projected actuarial cost.

Commission Action

The Commission attached an actuarial note on January 11, 1984, indicating that, because the purchase price paid will equal the new actuarial liability undertaken by the Public School Employees' Retirement System, no unfunded accrued liability will be produced. The actuarial note, based on hypothetical purchasers of prior service, demonstrated a wide variation in the actual purchase price depending on the salary level, sex, entry age and date of purchase for each purchaser. The Commission expressed its policy judgment that the purchase of prior service credit proposed in the bill is a poorly designed means to effect intrastate and interstate pension credit portability and recommended that the General Assembly postpone further consideration of the legislation until the Commission completes its study, scheduled to be undertaken in the near future, on the topic of pension credit portability.

Legislative Status as of September 15, 1984

House Bill 1596, Printer's Number 2151, passed the House on February 7, 1984, and is in the Senate Finance Committee

HOUSE BILL 1662

Bill Summary

House Bill 1662, Printer's Number 2102, amends the Public School Employees' Retirement Code to require the board to transfer to the pension system of a third class county the full amount of employer contributions with accumulated interest for a former member who has involuntarily transferred to the employment of a third class county and who deposited the withdrawn employee contributions with the county pension system. The bill is a companion to Act 54 of 1983 (House Bill 7, Printer's Number 13), which amends the County Pension Law to authorize the purchase of service credit in a county pension system for prior public school district employment by any person who was a public school district employee prior to July 1, 1982, who was involuntarily transferred to employment with the county after July 1, 1982, who commenced employment with the county within 30 days after leaving the school district, who has been employed by the county for at least one month, who contributes to the county pension fund the total amount of accumulated employee contributions withdrawn from the Public School Employees' Retirement System (PSERS) and for whom the Public School Employees' Retirement Board transfers to the county fund the total amount of employer contributions with interest.

Commission Action

The Commission attached an actuarial note on December 14, 1983, estimating that the bill, in conjunction with Act 54 of 1983, would result in a gain accruing to the affected county pension system (Erie County Pension System) through the transfer of assets from the PSERS in an amount exceeding the accrued liability attributable to the transferred employees by \$21,144 and indicating that House Bill 1662 would have no substantial actuarial impact on the Public School Employees' Retirement System.

Final Legislative Status

House Bill 1662, Printer's Number 2102, was signed into law on February 9, 1984, as Act 10 of 1984.

HOUSE BILL 1906

Bill Summary

House Bill 1906, Printer's Number 2489, proposed to amend the State Employees' Retirement Code to:

- (1) change the definition of "superannuation age" to provide for retirement at any age after a member has accrued 30 eligibility points with no actuarial reduction in the member's annuity;
- (2) authorize the board to set the valuation interest rate under the advice of the actuary taking into consideration the actual interest earnings of the system for preceding years and the probable earnings of the system in the future;
- (3) provide for the payment of a cost-of-living supplement to annuitants, beginning July 1, 1983, based on a percentage of the first \$15,000 of the annual annuity as of December 31, 1982, with the percentage determined according to the effective date of retirement as follows:

<u>Effective date of retirement</u>	<u>Percentage factor</u>
July 1, 1981 through July 1, 1982	3%
July 1, 1980 through July 1, 1981	8%
July 1, 1979 through July 1, 1980	15%
July 1, 1978 through July 1, 1979	21%
On or prior to July 1, 1978	24%

- (4) require that the additional liability attributable to the cost-of-living supplement be funded by level annual payments over a period of 20 years beginning July 1, 1983; and
- (5) provide for investments in venture capital limited partnerships and private placement separate accounts.

Commission Action

The Commission attached an actuarial note on April 11, 1984, indicating that the post retirement adjustment proposed in the bill would increase the State Employees' Retirement System (SERS) unfunded actuarial liability to be amortized by the Commonwealth by \$439.5 million. The annual amortization contribution over the 20 year amortization period provided for in the bill would be \$31.5 million. Over an alternative 15 year amortization period, the resulting amortization contribution would be \$48.1 million and over an alternative 10 year amortization period, the resulting amortization contribution would be \$61.8 million.

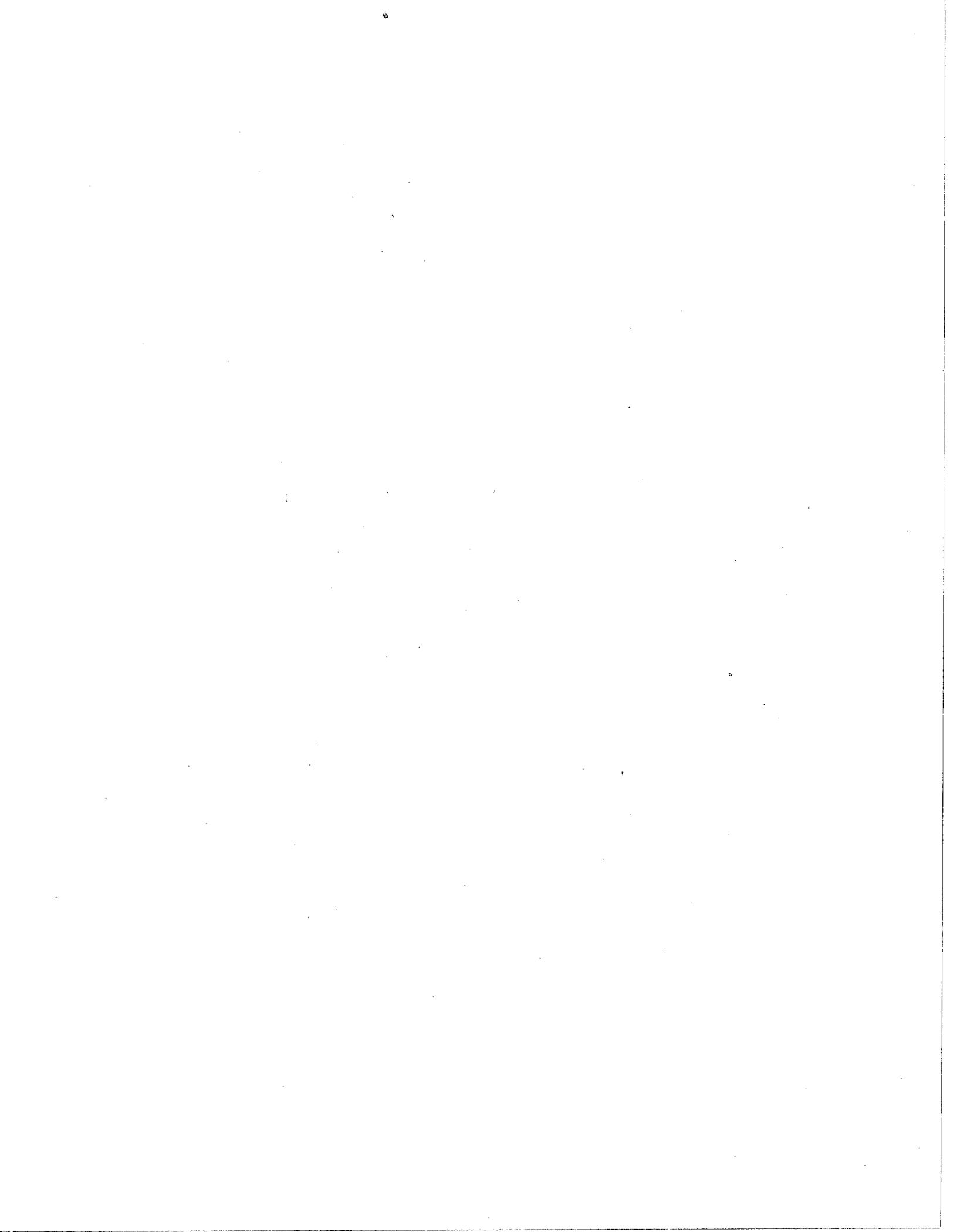
The actuarial note also indicated that the increased access to early normal retirement would increase the SERS unfunded accrued liability by \$333 million, resulting in a total annual increased cost of 1.25% of current and future payroll, or \$30.3 million currently and increasing as a dollar amount over time.

In transmitting the actuarial note, the Commission expressed concern about the affordability of the Commonwealth undertaking the additional cost involved and the appropriateness of allowing this enhancement of early unreduced retirement. The Commission also questioned the appropriateness of delegating to the SERS Board the authority to change the interest rate assumption without requiring an examination of a corresponding increase in the salary assumption and the appropriateness of mandating various types of pension fund investments rather than merely authorizing them.

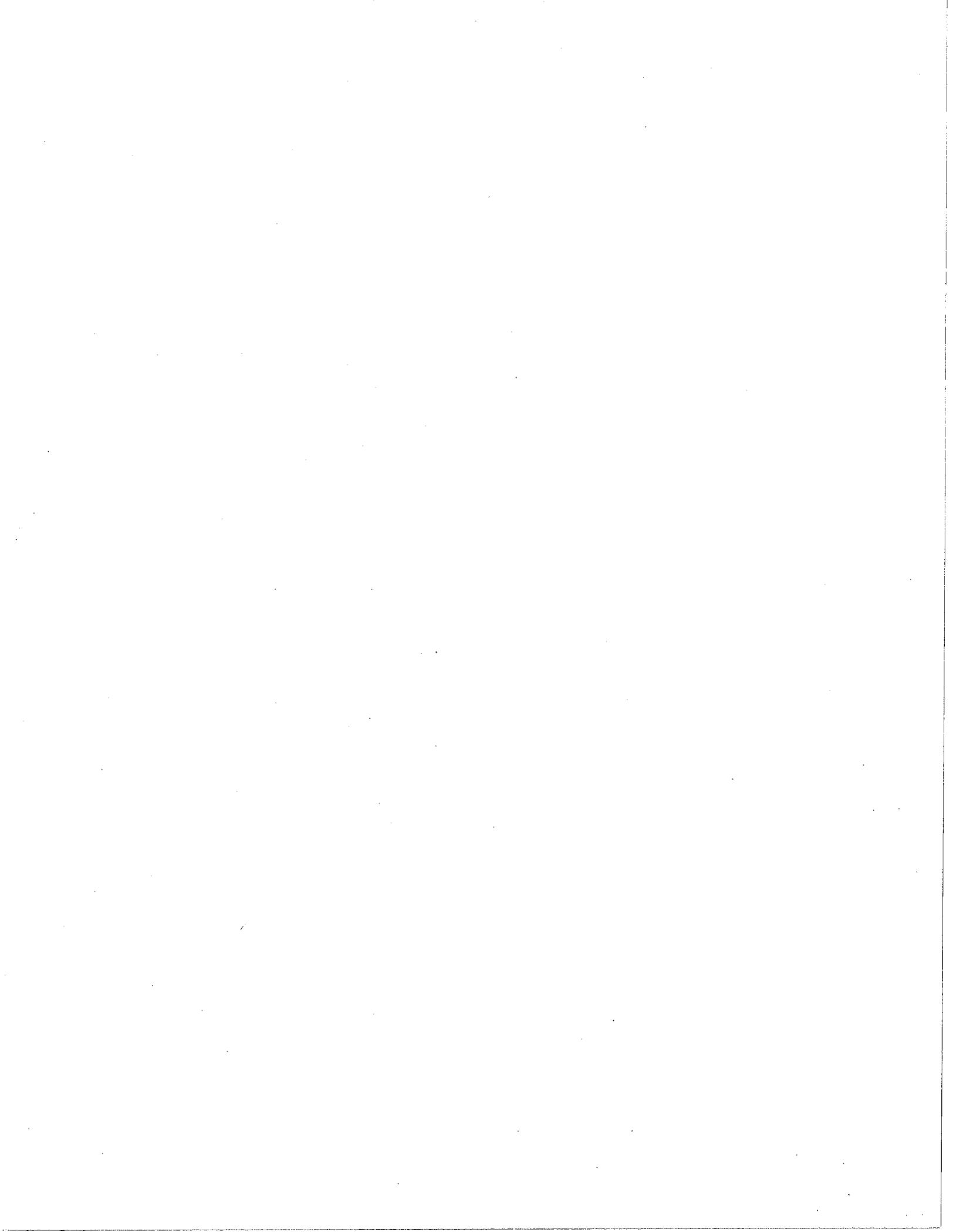
HOUSE BILL 1906
(Continued)

Legislative Status as of September 15, 1984

House Bill 1906, Printer's Number 2489, is in the House Appropriations Committee. Legislation amending the State Employees' Retirement Code and the Public School Employees' Retirement Code to implement a post retirement adjustment, provide a temporary early retirement option and authorize venture capital investments was enacted under House Bill 2114, Printer's Number 3400, signed into law on June 29, 1984, as Act 95 of 1984.



LEGISLATIVE PROCEDURES



LEGISLATIVE PROCEDURES
FOR THE
PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION
PURSUANT TO
SECTION 7 of ACT 66 of 1981

I. IMPLEMENTATION BY THE GENERAL ASSEMBLY

- A. At the beginning of each legislative session of the General Assembly, the Speaker of the House and the President Pro Tempore of the Senate formally advise the chairmen of each standing committee in their respective chamber of the actuarial review provisions implemented by Act 66 of 1981.
- B. Both chambers of the General Assembly adopt procedures most consistent with their operating rules to ensure that committee - approved bills or floor-amended bills are not considered prior to receipt of an actuarial note from the Commission or the passage of 25 legislative days from the date of first consideration or adoption of the floor amendment.

1. Actuarial Note Requests for Committee-Approved Bills -

The Committee chairman in either chamber of the General Assembly shall notify the Commission upon reporting a bill to the floor which proposes any change relative to a public employee pension system and request preparation of an actuarial note.

2. Actuarial Note Requests for Floor-Amended Bills -

The majority leader of either chamber of the General Assembly shall request preparation of an actuarial note for the floor amended bill on behalf of the respective chamber. The Commission shall provide the actuarial note as expeditiously as possible.

3. Actuarial Note Requests for Bills Referred by Other Chamber -

When a committee in either chamber of the General Assembly approves without amendment a bill to the floor which has had an actuarial note attached in the other chamber, preparation of a new actuarial note is unnecessary. Where an amendment to the bill has been approved by the committee, the chairman shall notify the Commission and request preparation of a new actuarial note. The Commission shall provide the actuarial note as expeditiously as possible.

4. Actuarial Note Requests from the House or Senate Appropriations Committees -

Whenever a request is received by the Commission from the chairman of either the House Appropriations Committee or the Senate Appropriations Committee for an actuarial note on a bill in the possession of the committee, the Commission shall formally authorize preparation of the actuarial note, as opposed to an advisory note, and transmit the actuarial note to the requesting committee as expeditiously as possible.

II. RESPONSE BY THE COMMISSION

- A. The Commission acknowledges receipt of requests for the preparation of actuarial notes for committee-approved bills and floor-amended bills to the presiding officer of the requesting chamber of the General Assembly within 48 hours.
- B. The Commission transmits the requested actuarial notes to the presiding officer of each chamber of the General Assembly as promptly as possible, recognizing that the 25 legislative days permitted for the preparation of actuarial notes is a maximum rather than a norm. Where there are no substantive actuarial or policy implications, the Commission will communicate that fact as the requested actuarial note.
- C. The Commission provides copies of the transmittals of the requested actuarial notes to the following:
 1. the chairman and minority chairman of the requesting committee;
 2. the majority and minority leaders;
 3. the majority and minority whips;
 4. the majority and minority caucus chairmen;
 5. the majority and minority appropriation committee chairmen;
 6. the prime sponsor of the bill;
 7. the Secretary of the Senate;
 8. the Chief Clerk of the House; and
 9. the Director of the Legislative Reference Bureau.
- D. Upon the request of the committee chairman, the Commission staff may whenever possible provide supplemental reviews for bills prior to consideration by a committee. The information is transmitted to the committee chairman and minority chairman. Such assistance may contain actuarial data, but is considered to be an "advisory note" not constituting or substituting for the required actuarial note.

- E. The Commission staff provides advice and counsel to members of the General Assembly on relevant matters pertaining to retirement plan design, financing, and administration.
- F. The Commission provides actuarial notes or advisory notes only to appropriate officials of the legislative and executive branches.
- G. The Commission transmits notice of its meetings to the Secretary of the Senate and Chief Clerk of the House for publication on the Senate and House daily meeting calendars.

Adopted April 11, 1984



POLICY DEVELOPMENT AND PROJECT GOALS



STATEMENT OF
PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION
POLICY DEVELOPMENT AND PROJECT GOALS

Long Term Priority Project

The study of public employee pensions as a component of public sector compensation will entail information gathering as the largest portion of its time commitment. The study will lead to the issuance of a final report on the subject, summarizing and comparing current public sector practice in Pennsylvania with selected private sector practice and including Commission recommendations concerning the appropriate role of public employee pensions as a component of public sector compensation.

The information gathering portion of the study will occur simultaneously with activities relating to the short term projects. Preliminary results and periodic updates on the progress of the study will be provided to the Commission. The Commission staff will initially undertake to conduct the information gathering required for the study, drawing upon the assistance of the Commonwealth Office of Administration, the Commonwealth Office of Budget, and the various local government associations. As the study progresses, the need to obtain additional assistance, either voluntary or contracted, will be assessed.

The scope of the study will be limited to Commonwealth government and selected local governmental units and the focus of the study will include pensions, total cash and non cash compensation. The following sets forth the broad approach for the conduct of the study:

1. Summary and comparison of pension benefits and other post retirement benefits.
 - a. provisions
 - b. cost
2. Summary and comparison of cash compensation component.
 - a. types of cash compensation
 - b. cost
3. Summary and comparison of non cash compensation component.
 - a. types of non cash compensation
 - b. cost
4. Integration of preliminary results into Preliminary Report.
5. Formulation of Commission Recommendations on appropriate role of public employee pensions as a component of total public sector compensation.
6. Approval of Final Report.

Short Term Priority Projects

The following short term priority projects will be undertaken in the order of presentation to formulate the Commission's policy and recommendations to the General Assembly and the Governor on the issues involved using the approach specified for each project.

1. FIDUCIARY RESPONSIBILITY AND LIABILITY

- a. Commission staff memo on current laws on fiduciary responsibility and liability and comparison with applicable federal law (ERISA and proposed PERISA, PEPRA).
- b. Commission staff memo on policy questions present in definition of fiduciary and in fiduciary standard of care and additional limitations.
- c. Commission staff memo on policy questions present in liability for fiduciary breaches and authorization of fiduciary insurance. Preliminary formulation of Commission recommendation on definition of fiduciary, and on fiduciary standard of care and additional limitations.
- d. Preliminary formulation of Commission recommendation on liability for fiduciary breaches and fiduciary insurance.
- e. Final Commission recommendations. Approval of draft legislation implementing Commission recommendations (if necessary).

2. INTRASTATE PORTABILITY OF SERVICE CREDIT

- a. Commission staff memo on current practice in Pennsylvania and other jurisdictions. Commission consideration of appropriateness of authorizing the benefits.
- b. Commission staff memo on policy considerations present in specific aspects of providing intrastate portability and interrelationship with other benefit provisions and personnel policies.
- c. Formulation of Commission recommendation on issue.
- d. Approval of draft legislation implementing Commission recommendation (if necessary).

3. ASSETS MANAGEMENT/INVESTMENTS

- a. Formation of special limited duration voluntary advisory committee from available local investment experts.
- b. Commission staff memo on current law on asset management and investments.
- c. Report of special advisory committee and issue paper on topic of investment authority.
- d. Report of special advisory committee and issue paper on topics of active or passive investment management, inside or outside (contracted) investment management and custody of, and legal title to, investment securities. Preliminary formulation of Commission recommendation on appropriate investment authority for the various sized public pension plans in the Commonwealth.

- e. Report of special advisory committee and issue paper on topics of portfolio mix and investment selection. Preliminary formulation of Commission recommendation on topics of active or passive investment management, inside or outside investment management and custody of, and legal title to, investment securities.
- f. Report of special advisory committee and issue paper on topic of investment performance measurement. Preliminary formulation of Commission recommendation on topics of portfolio mix and investment selection.
- g. Preliminary formulation of Commission recommendation on topic of investment performance measurement.
- h. Reaction of special advisory committee to preliminary Commission investment recommendations. Formulation of final Commission recommendation on investment topic.
- i. Approval of draft legislation implementing Commission recommendation (if necessary).



BY-LAWS



BY-LAWS OF THE
PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION

Title 4. Administration

Part XII. Public Employee Retirement Study Commission

Section 401.1. Definitions.

The following words and terms, when used in this part shall have the following meanings, unless the context clearly indicates otherwise:

Act - the act of July 9, 1981 (P.L. 208, No. 66), known as the "Public Employee Retirement Study Commission Act."

Advisory Committee - a municipal pension advisory committee established under the provisions of Section 8 of the Act.

Commission - the Public Employee Retirement Study Commission created under the Act.

Member - a member of the Commission.

Chapter 402. By-Laws

Section 402.1. Meetings

Meetings of the Commission shall be held as necessary at the call of the Chairman, but in no case less than six times per year. Meeting shall be held on the dates and at the times and locations specified by the Chairman in the notice of the meeting. Notices of meetings shall contain an itemized agenda in reasonable detail. Notice of meetings shall be given to all members in writing at least seven days prior thereto; provided that such notice may be given at least twenty-four hours prior to such meeting where deemed necessary by the Chairman under the circumstances. The Chairman shall call a meeting upon the request in writing of five or more members.

Section 402.2. Quorum and Voting.

Five members shall constitute a quorum for meetings. The majority vote of the members present at a meeting or otherwise entitled to vote pursuant to these By-Laws shall constitute official action of the Commission. A member who is a member of the Senate of House of Representatives of the Commonwealth of Pennsylvania may, from time to time, appoint a designee in writing. A designee may vote for a member of any matter pending before the Commission relating to an agenda item; provided that the member has set forth in writing with reasonable particularity the position of the member on the agenda item and the vote of the designee is not inconsistent therewith. Otherwise, a member may only vote in person. The Commission may take official action on any matter properly before a meeting whether or not mentioned in the notice of the meeting.

Section 402.3. Open Meetings.

Meetings of the Commission shall be held and notice thereof shall be given in accordance with the act of July 19, 1974 (P.L. 486, No. 175) §§1-9 (65 P.S. §§261-269) relating to public meetings, as applicable.

Section 402.4. Minutes.

Minutes shall be kept of all meetings of the Commission and shall be filed in the office of the Commission, subject to the act of June 21, 1957 (P.L. 390) §§1-4, as amended, (65 P.S. §§66.1 - 66.4) relating to the inspection and copying of public records, as applicable.

Section 402.5 Officers.

The Commission shall annually elect a Chairman, a Vice Chairman and such other officers as it finds necessary or desirable at the first meeting of the Commission occurring in each calendar year. All such officers shall be members and shall serve until the election of a successor. Election shall also occur in the event of a vacancy in any office. The Chairman shall preside over all meetings of the Commission at which he is present, or in his absence the Vice Chairman, or in both of their absence a member chosen by the Commission. In the event that the Chairman is unable to act hereunder for any reason, the Vice Chairman may do so.

Section 402.6 Office.

The Commission may establish an office for the use of the Commission in the conduct of its official business.

Section 402.7 Committees.

The Commission may, from time to time, establish such committees as it deems necessary or desirable in the conduct of its official business. Appointments to committees shall be made by the Chairman. The term of each committee shall be coterminous with that of the Chairman. For the purposes of this section, any liaison shall be deemed to be a committee.

Section 402.8 Advisory Committees.

The Commission shall appoint each advisory committee pursuant to the applicable law no later than the third meeting of the Commission occurring in each calendar year. The term of each advisory committee shall be for one calendar year or until the appointment of a successor, whichever occurs later.

Section 402.9 Budget.

The executive director of the Commission shall annually submit a proposed budget to the Commission for approval prior to the submission date under budget guidelines applicable to Commonwealth agencies.

Section 402.10 Miscellaneous.

The Commission may, from time to time, do such other things and take such other actions as it deems necessary or desirable in the conduct of its official business.

Section 402.11 Amendment.

The Commission may, from time to time, amend these By-Laws by majority vote of the members present at a meeting or otherwise entitled to vote pursuant to these By-Laws; provided that notice of the meeting shall have set forth at least the general nature of the amendment.

Adopted March 9, 1983