

1985 ANNUAL REPORT
OF THE
PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION



COMMONWEALTH OF PENNSYLVANIA

April, 1986

Gubernatorial Appointees

Dr. Gilmore B. Seavers, Chairman
Dr. J. Richard Aronson
Mr. Paul D. Halliwell
Mr. Dale D. Stone
Mr. Richard L. Witmer

Legislative Appointees

The Honorable Harold F. Mowery, Jr., Vice-Chairman
The Honorable Edward L. Howard
The Honorable H. Craig Lewis
The Honorable Terry E. Van Horne

PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION
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Harrisburg, PA 17120
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COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT
STUDY COMMISSION
HARRISBURG
17120

To: Governor Thornburgh and
Members of the Pennsylvania General Assembly

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, 1984, to December 31, 1985.

During this period, the Commission authorized the attachment of actuarial notes to 23 bills and provided "advisory notes," consisting of staff analysis and actuarial data, for 9 bills at the request of various committees of the General Assembly.

Throughout 1984, 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. The Commission's priority goal was achieved when the Municipal Pension Plan Funding Standard and Recovery Act was passed by the General Assembly during the final days of the 1983-84 legislative session and was signed by the Governor on December 18, 1984, making it Act 205 of 1984. During the period since the enactment of Act 205, the Commission's efforts have focused on providing information and assistance to municipalities in complying with the provisions of the Act and on implementing the various administrative duties assigned to the Commission under the Act.

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 continuing the compilation of data for a comprehensive study of public employee pensions as a component of public sector compensation and by undertaking a study of the issues associated with public pension plan fiduciary responsibility and liability. The Commission continued its practice of conducting annual reviews of the State Employees' Retirement System and the Public School Employees' Retirement System and performed its administrative duties under Act 293 of 1972 by collecting data on 312 municipal pension plans maintained by Pennsylvania's larger municipalities.

On behalf of the Public Employee Retirement Study Commission and its staff, I am pleased to submit the third 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 during the period covered by this report.

Sincerely,

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

Gilmore B. Seavers
Chairman

TABLE OF CONTENTS

Letter of Transmittal 1

I. Organization of the Commission

 A. Membership 1

 B. Organization and Committees 7

 C. Staff and Consultant Services 9

II. Responsibilities and Duties of the Commission

 A. Preparation of Actuarial Notes 11

 B. Municipal Pension System Reform 13

 C. Public Pension Policy Development
 and Coordination 15

 D. Administration of Act 293 of 1972 17

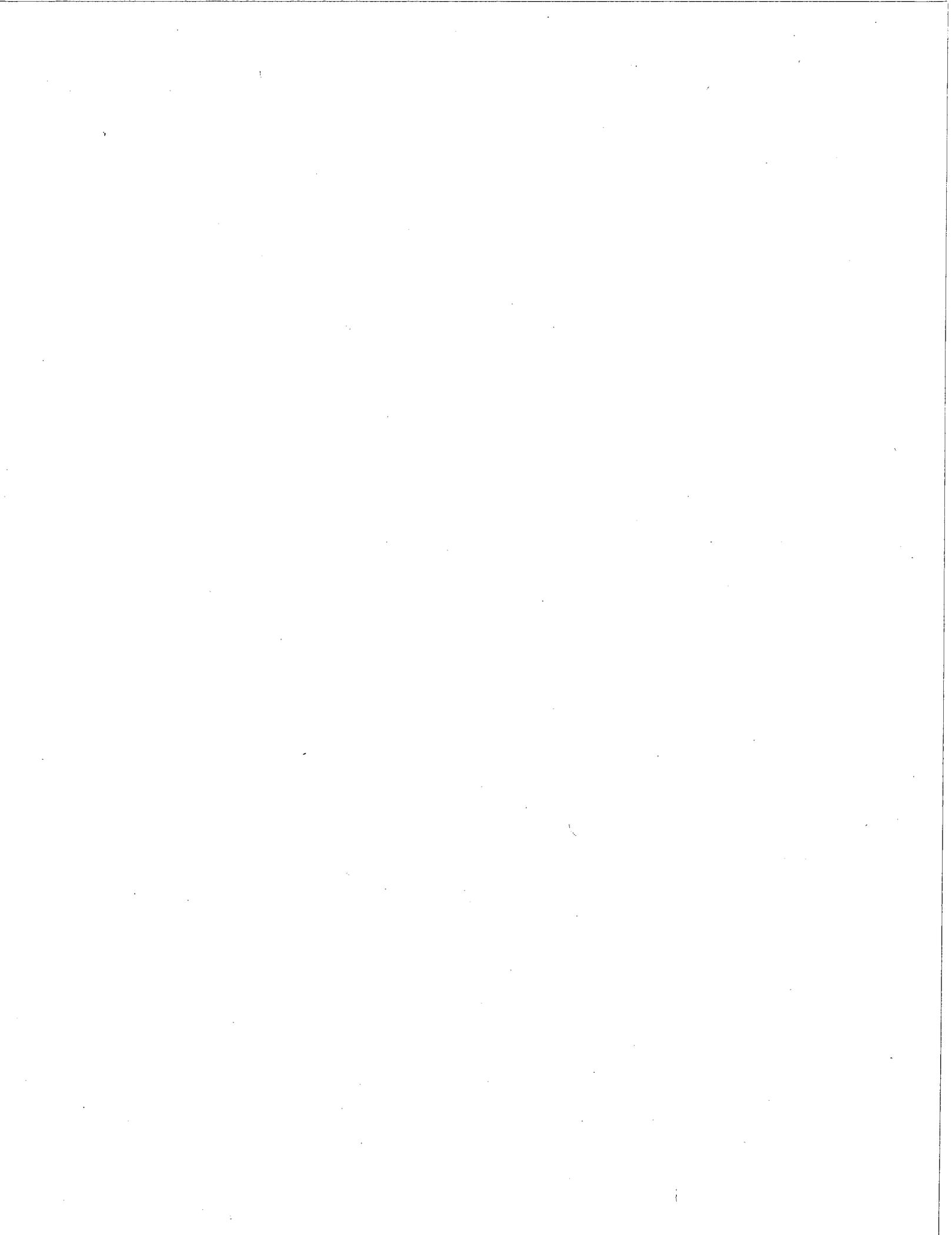
III. Appendices

 A. Synopsis of Actuarial Notes 21

 B. Legislative Procedures 51

 C. Policy Development and Project Goals 57

 D. By-Laws 63



PART I
ORGANIZATION OF THE COMMISSION

A. 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

The Public Employee Retirement Study Commission was established with the enactment of Act 66 of 1981. Act 66 provides that the Commission be composed of nine members; five members appointed by the Governor and four members appointed by the Legislative leadership. The members of the Commission as of December 31, 1985 are:

DR. GILMORE B. SEEVERS, 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 member emeritus of the board of WITF, Inc. He is a member of the board of Capital Blue Cross, Harrisburg, the United Telephone Company of Pennsylvania, and the Central Region of Hill Financial Savings Associations. He is also a charter member of the board of directors of CRIME STOPPERS for the Commonwealth of Pennsylvania, and of the Fund for the Advancement of the State System of Higher Education of Pennsylvania.

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 and 1985-86 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.

Dr. J. RICHARD ARONSON, Commissioner

Dr. Aronson was appointed to serve a six year term on the Commission in 1984 by Governor Dick Thornburgh. He is the William L. Clayton Professor of Business and Economics at Lehigh University. He is also the Director of the Fairchild-Martindale Center for the study of private enterprise. Dr. Aronson has taught at Lehigh University since 1965.

He is the author of various publications and articles concerning public finance and is manuscript referee for various economics journals. Dr. Aronson belongs to several professional organizations including the American Economic Association, the American Finance Association, and the Royal Economic Society. Since his graduation from Clark University in 1964, Dr. Aronson has received numerous honors and teaching awards including the Stabler Award and the Deming Lewis Award.

Dr. Aronson holds a bachelors degree and a doctorate from Clark University, and a masters degree from Stanford University. He has been visiting lecturer at Clark University and a visiting scholar at the University of York in England. Dr. Aronson was also a Fulbright Research Scholar at The University of York in 1978.

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 also a Director of St. Clair Memorial Hospital and a member of the Bethel-St. Clair Rotary Club. He is a graduate of Ohio University.

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 was reappointed for the 1983-84 and 1985-86 Session of the General Assembly. He has represented the 10th District in Bucks County since he was first elected in 1970. He is Chairman of the Senate Finance Committee and a member of the Appropriations, Law and Justice, State Government and Rules and Executive Nomination 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 also serves on 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 was reappointed for the 1983-84 and 1985-86 Session of the General Assembly. He has represented the 6th District since 1974. He is the Minority Chairman of the Senate Local Government Committee.

Senator Lewis was Chairman of the special Senate Committee on Municipal Retirement Systems in 1980.

He was graduated from Millersville State College and 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 is Chairman Emeritus of the Board of Associated United Ways of Pennsylvania and New Jersey, he is a member of the Executive Committee of the Advisory Board of the Salvation Army and is on the Board of the Main Line Red Cross.

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.

REPRESENTATIVE TERRY E. VAN HORNE, Commissioner

Representative Van Horne was appointed to serve on the Commission during the 1985-86 Session of the General Assembly by the Speaker of the House, K. Leroy Irvis. He has represented the 54th Legislative District since 1980. He serves as the Chairman of the House Urban Affairs Sub-Committee on Third Class Cities and Counties and is a member of the House Business and Commerce, Finance, and Consumer Affairs Committees.

A graduate of Duquesne University where he earned a B.A. in Economics, Representative Van Horne is a former Councilman and President of the Chamber of Commerce for the city of Arnold. Currently he serves on the Advisory Board of the Alle-Kiski Community Development Corporation.

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 and for a subsequent term ending October, 1987. 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.

* * * * *

B. 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.

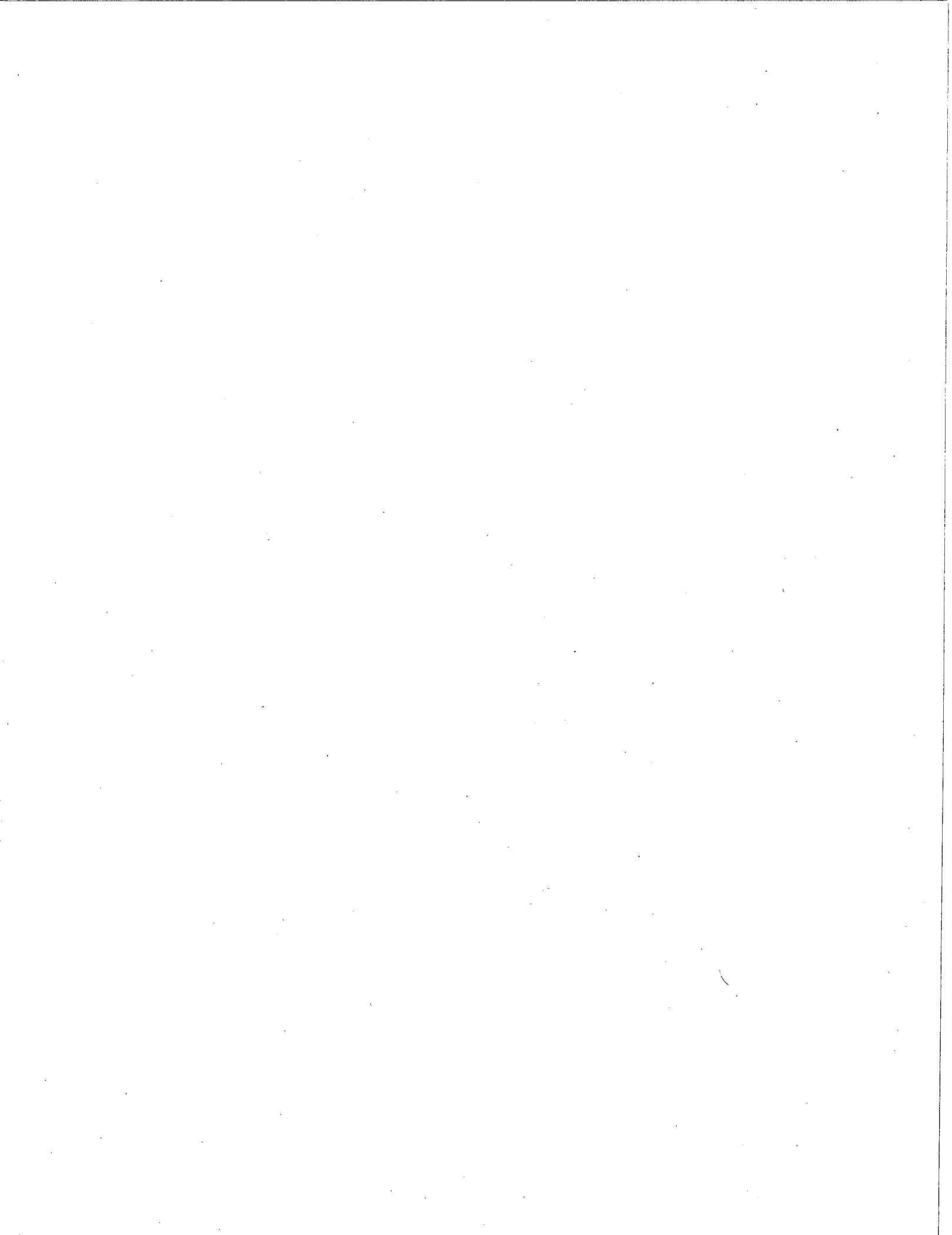
(b) Municipal Employee Pension Advisory Committee.--The commission shall appoint an advisory committee representing municipal employees nominated by each of the following associations: the Pennsylvania Chiefs of Police Association; the Pennsylvania State Firefighters Association; the Pennsylvania State 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 1985, 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 1985 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.



C. 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

Lawrence A. Martin,
Executive Director

Susan B. Rossman, Deputy Executive Director
William P. Boehm, Research Associate
Martha J. Lingle, Administrative Assistant
Todd W. Hummel, Management Technician
Sandra L. Gable, Clerk Typist/Receptionist

Legal Counsel

The Commission utilizes the Office of General Counsel for legal services. Deputy General Counsel John P. Krill, Esq. has served as legal counsel for the Commission since November of 1983. Jeffery S. Snively, Esq. serves as assistant legal counsel.

Actuarial Services

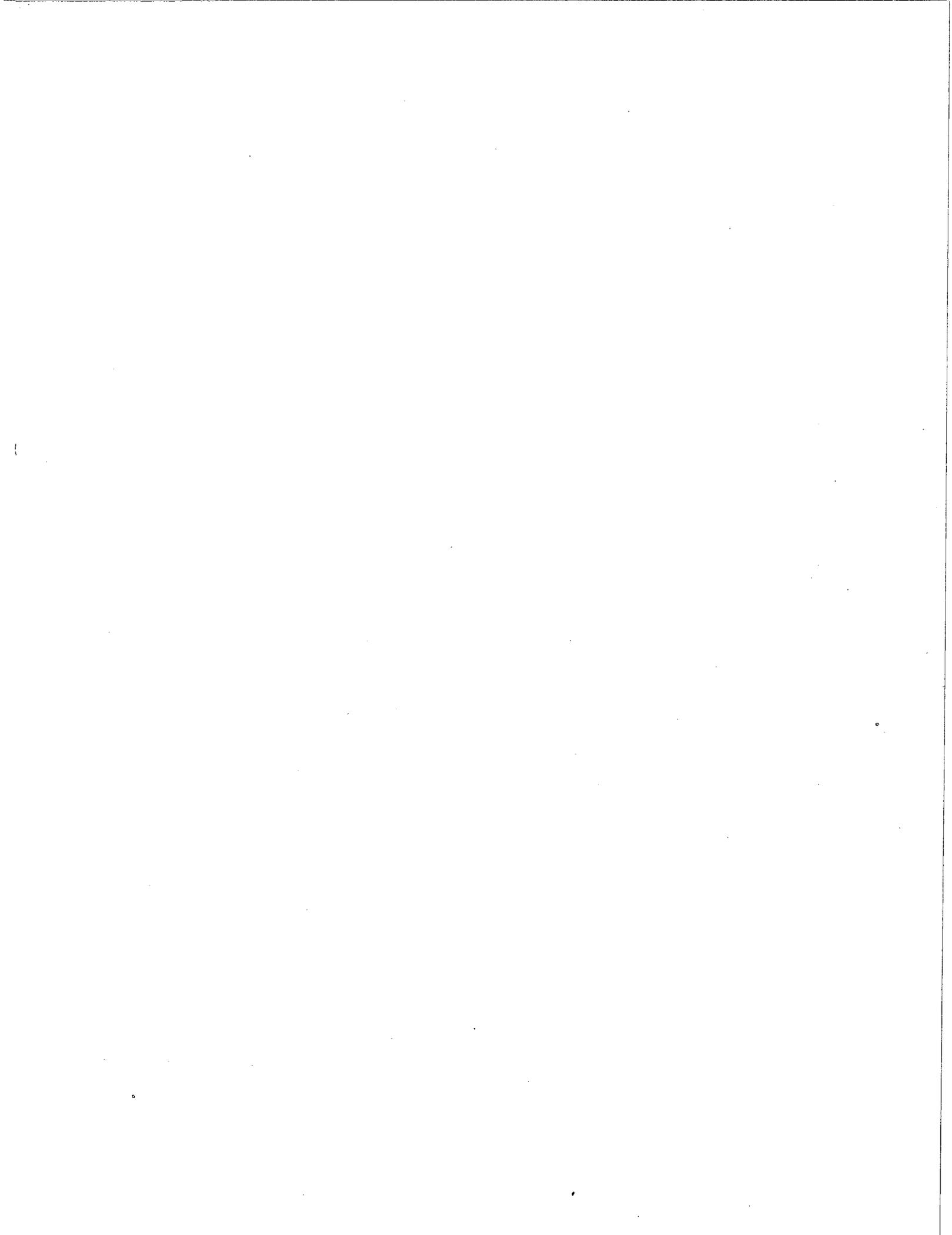
The actuarial services committee developed and adopted guidelines for providing actuarial services to the Commission on June 2, 1982. These guidelines establish the educational and experience standards for the selection of actuarial consults. The engagement of multiple actuarial consultants was considered appropriate to provide geographical proximity 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
Mr. Stanley R. Freilich

Central Pennsylvania: Conrad M. Siegel, Inc.
Mr. Conrad M. Siegel

Western Pennsylvania: John S. Agatston Actuarial Services
Mr. John S. Agatston

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PART II

RESPONSIBILITIES AND DUTIES OF THE COMMISSION

A. 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.

Since then, the legislative procedures have been revised several times with the cooperation of the leadership of the General Assembly. The revisions clarify the procedure for the attachment of actuarial notes to floor amended legislation and provide for the preparation of "advisory" notes for public pension legislation being considered in committee upon the request of the Committee chairman. The Commission staff prepared "advisory notes" for nine bills during the period covered by this report.

The new legislative procedures also clarify 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. They further 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 twenty-three 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.

B. 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.

By December of 1982 the Commission had approved recommendations to the General Assembly and the Governor and by January of 1983 had transmitted a formal report entitled "Recommendation of Actuarial Funding Standards and a Recovery Program for Municipal Pension Systems."

Legislation to implement the Commission's recommendations was introduced in both the House and Senate by the legislative members of the Commission and others early in the 1983-84 Session of the General Assembly. Throughout 1983 and 1984 the Commission worked with various municipal associations, employee groups and others for the passage of this particular legislation. In November of 1984, the legislation passed both the House and the Senate. It was signed into law by the Governor on December 18, 1984, making it Act 205 of 1984 (for more information see Senate Bill 713 in the Appendix). Act 205, known as the "Municipal Pension Plan Funding Standard and Recovery Act" requires municipalities to comply with an actuarial funding standard, provides for the periodic filing of actuarial valuation reports, a General Municipal Pension System State Aid program, and 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. Act 205 has been recognized as the most significant achievement of the 1984 Legislative Session.

The Commission initiated plans for implementation of Act 205 immediately after its passage in order to facilitate the efficient filing of the municipal pension plan actuarial valuation reports by March 31, 1986 and to meet the other requirements of the Act. Early in 1985, it began work in four basic areas: the establishment of guidelines, the preparation of training and

informational materials, the development of the necessary reporting forms and the drafting of conforming amendments to acts affected by Act 205.

Work on developing rules and regulations and informational materials for Act 205 commenced in January of 1985. In March, the Commission reviewed a draft of the rules and regulations proposed by the staff and adopted them as preliminary guidelines. These guidelines as well as the summary packets, containing Act 205 informational materials, were mailed to the General Assembly, the Commission's consulting actuaries and all municipalities in March. Revised guidelines were reviewed and adopted by the Commission on April 10, 1985. In April and May of 1985, the Commission staff attended and instructed several Act 205 training sessions held by the Department of Community Affairs at various locations throughout the state.

In the last half of the year, the Commission concentrated its efforts on developing and distributing the Act 205 Questionnaire and Reporting Form Request and the actuarial valuation reporting forms. The Questionnaire was designed in order to obtain information from municipalities concerning what type(s) of pension plans were in force. The questionnaires were mailed out to all municipalities in mid-August of 1985. Of the 4,582 questionnaires mailed out, 2,492 had been returned appropriately completed by the end of December. Act 205 actuarial reporting forms were mailed out to each municipality as they returned an appropriately completed questionnaire.

In November and December of 1985, the Commission staff drafted conforming amendments to those Pennsylvania statutes affected by the passage of Act 205 of 1984. Twenty-five proposed amendments to various statutes were adopted by the Commission at the December, 1985 Commission meeting.

Other Act 205 projects completed in 1985 include the preparation of over 2,300 cost certifications to the Department of the Auditor General for the General Municipal Pension System State Aid program and the processing of distress determination applications from 85 municipalities.

* * * * *

C. 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 Commission conducted reviews of the State Employees' Retirement System, and the Public School Employees' Retirement System in December of 1984 and October of 1985. A review of the Pennsylvania Municipal Retirement System was conducted early in 1985. 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.

In addition, the Commission 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. During the period covered by this report, the

Commission worked on the comprehensive study of public employee pensions as a component of public sector compensation which it had initiated in 1983 as a long term priority project. During this period, the Commission continued to collect data and began preparation of the portion of the report covering the pension component of the total public employee compensation. In addition, the Commission utilized the services of the Pennsylvania Economy League to collect data for the non-pension portion of the compensation study. The Commission anticipates final completion of the compensation study by the end of 1986.

As indicated in the previous annual report, 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. Having completed the first of its short-term priority projects, post retirement adjustments in early 1984, the Commission initiated work on the second of its short-term priority projects, fiduciary responsibility and liability in 1985. The Commission reviewed staff memos on the various aspects of the topic and is currently considering a series of recommendations for legislation. 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 addition to the long and short term priority projects the Commission continued two special study projects initiated in the spring of 1984. Throughout 1984 and 1985 the Commission conducted a study of county pension systems. A special advisory task force composed of members broadly reflective of the varying perspectives and interests concerning county pension systems was appointed in September of 1984. Commission staff worked closely with the task force in a series of meetings held over a one year period to analyze current plan design and formulate any modification in county pension system benefit plans which would serve the interests of sound pension policy. In December of 1985 the Commission accepted the report entitled "The Report of the Special Advisory Task Force on Act 96 of 1971 to the Public Employee Retirement Study Commission."

The second special study concerned post retirement adjustment for municipal police officers and firefighters. The study was conducted during the latter part of 1984 and was completed in October of that year. Copies of both special study reports may be obtained by contacting the Commission office.

* * * * *

D. 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

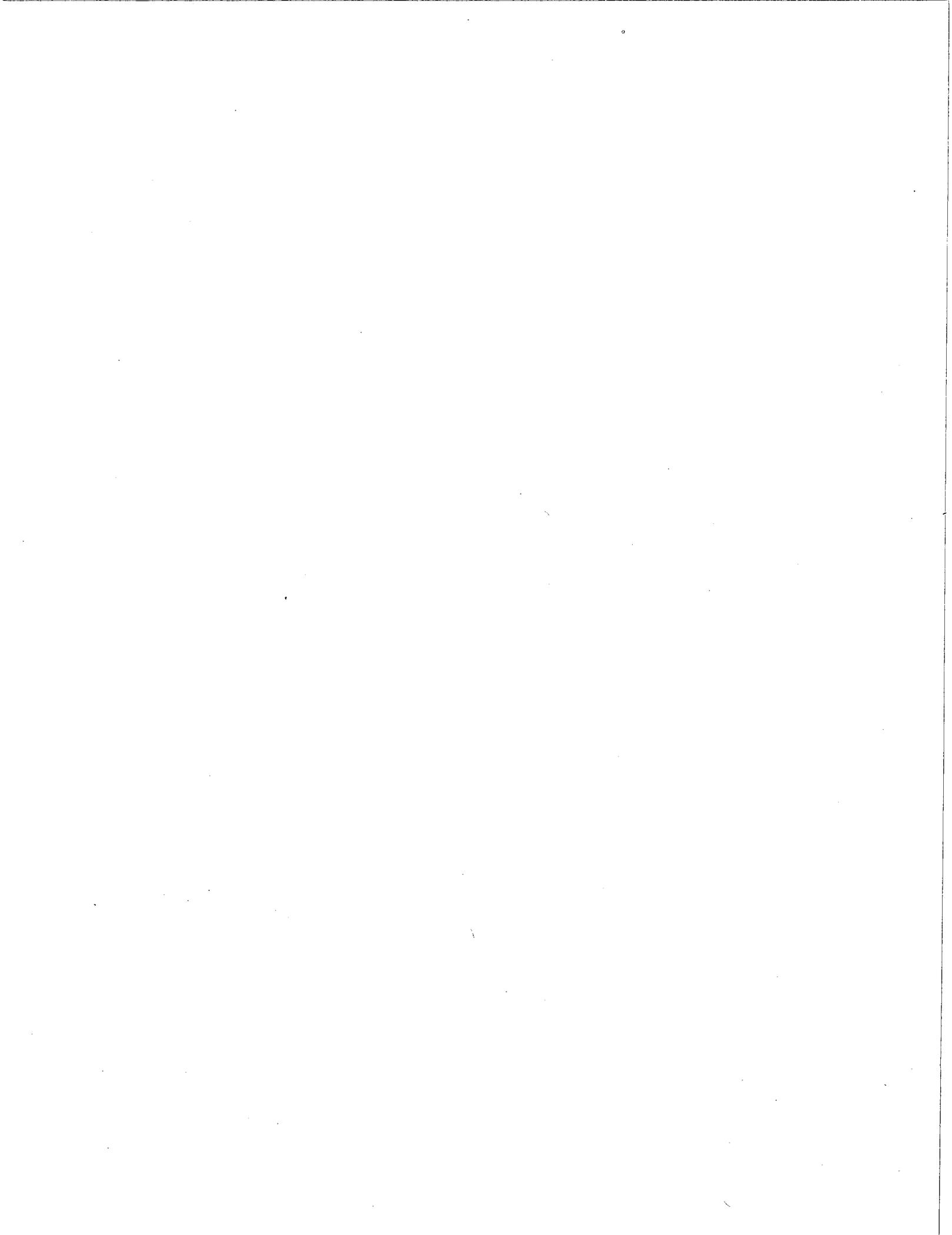
The administration of Act 293 of 1972, as amended, was transferred from the Department of Community Affairs to the Commission with the enactment of Act 66 of 1981.

The Commission continued to seek compliance from those municipalities who failed to meet the actuarial report requirements of Act 293 for their 1982 valuation reports. Subpoenas were issued to delinquent municipalities to obtain the information necessary to prepare their pension plans reports. By November 1984 all delinquent municipalities had filed reports and the Commission had issued and distributed a supplement to the 1982 Act 293 Report released in the spring of the year.

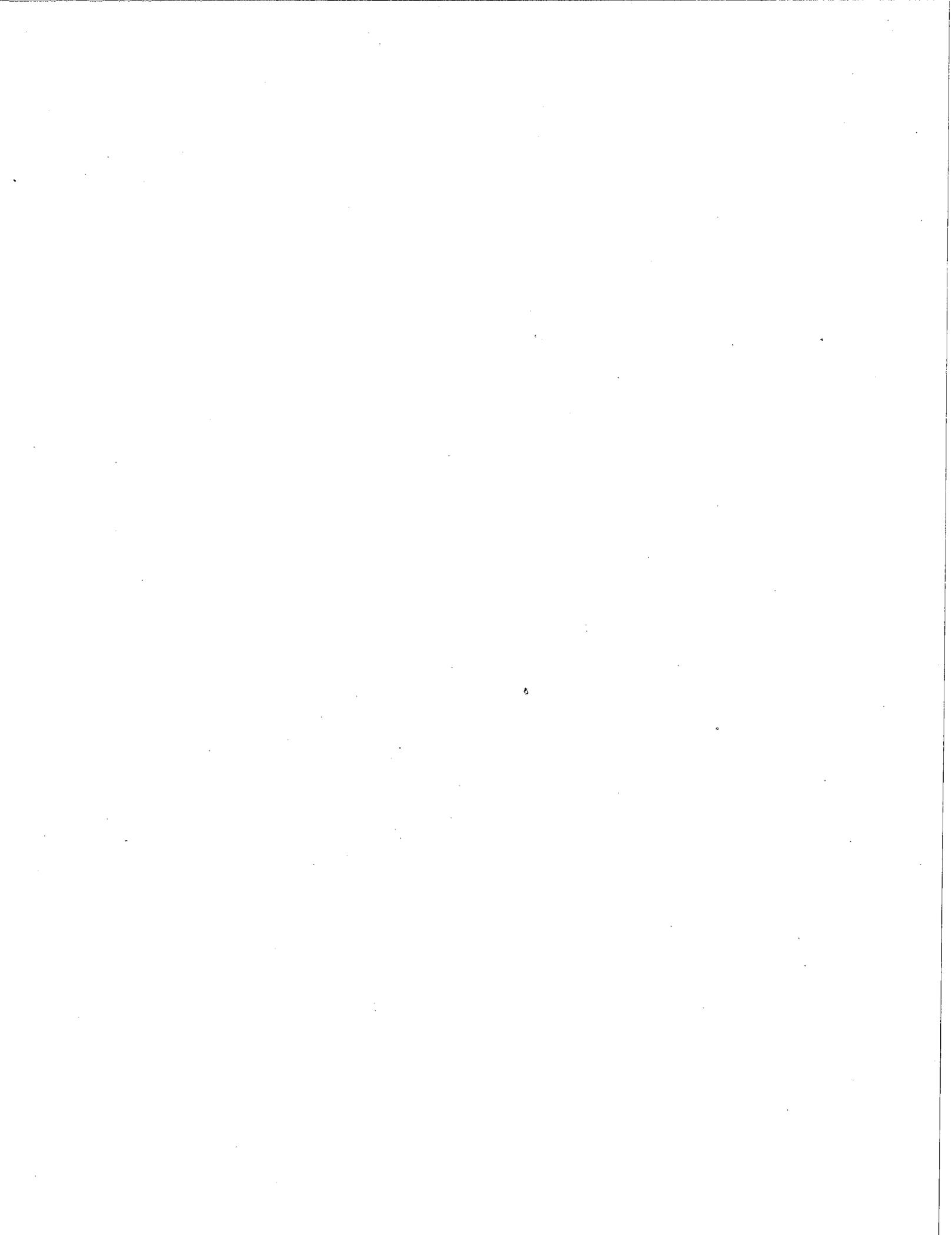
In 1985, those municipalities with fifty (50) or more members in any one of their pension plans were required to file a 1984 valuation report by March 31st. One hundred thirty of the one hundred sixty nine municipalities required to report complied with the deadline. By the end of 1985 all but two municipalities had filed their 1984 valuation report. In December, the Commission authorized the issuance of subpoenas to these two delinquent municipalities to obtain demographic and financial data necessary to prepare the required pension plan valuation reports.

The actuarial reporting requirements of Act 293 were replaced by Act 205 of 1984 for all municipalities except counties. Counties will continue to file actuarial reports under Act 293.

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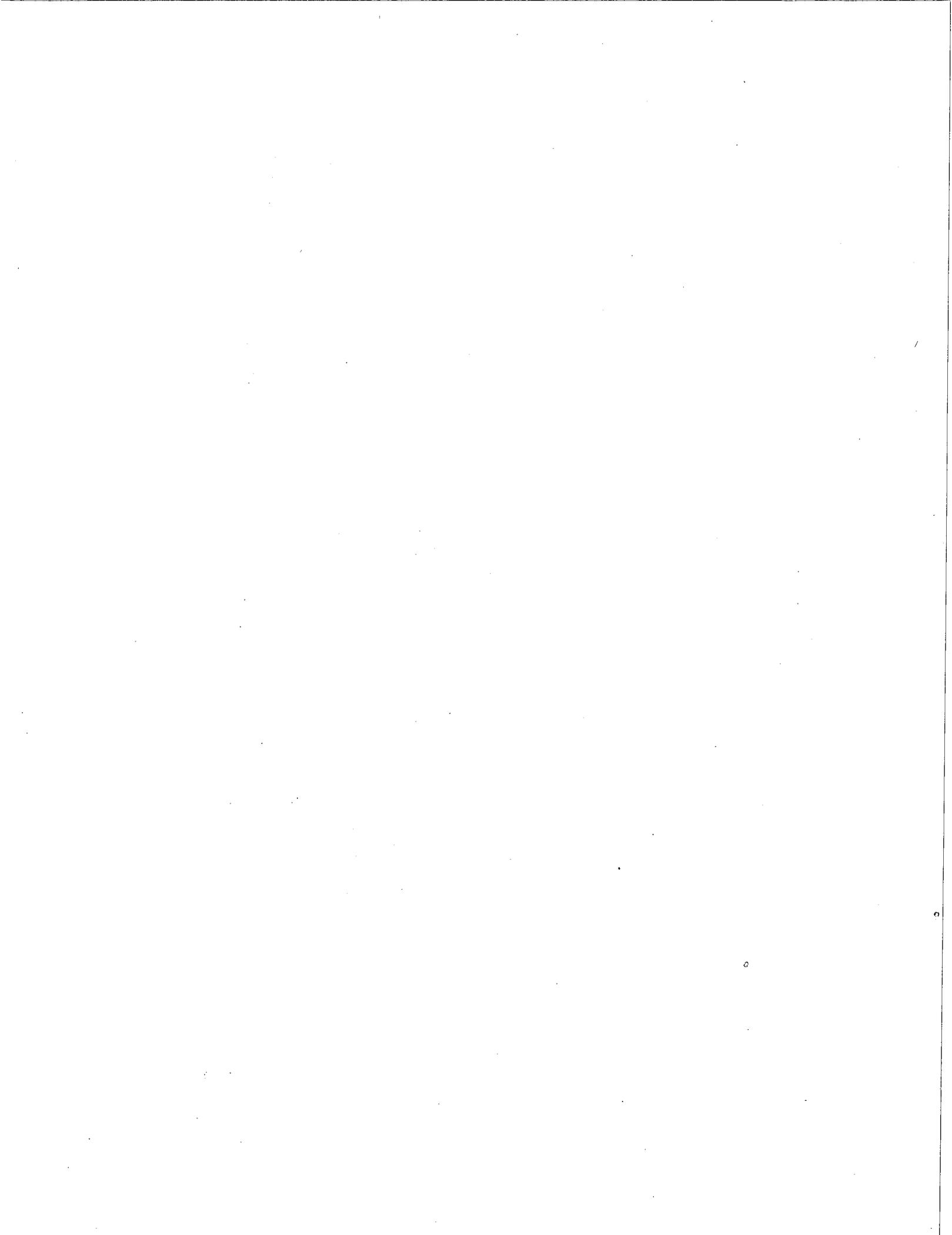
PART III
APPENDICES



A. SYNOPSIS OF ACTUARIAL NOTES

1983-1984 Legislative Session

Actuarial notes attached
July 1, 1984 through December 31, 1984



SENATE BILLS

SENATE BILL 713

Bill Summary

Senate Bill 713, Printer's Number 2455 proposed the Municipal Pension Plan Funding Standard and Recovery Act, which mandates an actuarial funding standard for municipal pension systems and establishes a recovery program for municipal pension systems which are determined to be financially distressed.

As amended prior to House passage, Senate Bill 713, Printer's Number 2480 included an amendment to delete a provision pertaining to pension plan cost stabilization in distressed municipalities.

Commission Action

The Commission attached an actuarial note on November 26, 1984 applicable to Printer's Number 2455 indicating that the bill caused no actuarial cost or long term actuarial impact within the meaning of Act 66 of 1981, 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. After the bill was amended, the Commission re-attached the original actuarial note to the amended version of the bill, Printer's Number 2480.

Final Legislative Status

Senate Bill 713, Printer's Number 2480 was signed into law on December 18, 1984, becoming Act 205 of 1984.

SENATE BILL 1002

Bill Summary

Senate Bill 1002, Printer's Number 1257 amends the County Pension Law to authorize a member who is eligible to retire with a superannuation or involuntary retirement allowance or a voluntary retirement allowance after 20 years of service to elect, as an optional form for the payment of the retirement benefit, to receive a lump sum payment of the member's accumulated deductions in addition to a county annuity paid in the form of a single life annuity or an actuarially equivalent optional annuity form.

Commission Action

The Commission attached an actuarial note on November 14, 1984 indicating that the effect of the bill would be to reduce an actuarial experience gain which results primarily from interest earned on accumulated member contributions above the creditable interest rate limit of between 4 and 5.5 percent. The interest gain would be used at the discretion of the county retirement board either to reduce the county contribution requirement of the plan or to provide post retirement adjustments to retired county pension plan members. The actuarial note indicated that the reduction in the actuarial experience gain attributable to the lump sum withdrawals authorized by Senate Bill 1002 would result in an overall increase in the county contribution rate for county pension plans governed by the County Pension Law, Act 96 of 1971. The amount of the statewide increase in the county contribution rate would be dependent on the manner in which counties would elect to use the excess interest experience gain. The actuarial note estimated that the statewide increase in the county contribution rate attributable to the bill would range from .25 percent of covered payroll if all counties used the interest gain to provide annual 4 percent post retirement adjustments to retirees, to 1.07 percent of covered payroll if all counties used the interest gain to reduce the county contribution requirement of the pension plan. The resulting statewide annual increase in county retirement plan contributions, based on the 1982 covered payroll for all Act 96 county pension plans, would range from \$1,014,277 to \$4,341,108. The Commission also expressed concern that the bill included a number of drafting ambiguities which should be clarified if the bill was to receive further consideration. The Commission indicated that it had recently commenced a study of county pension plans governed by Act 96 which would examine issues concerning benefit coverage.

Final Legislative Status

Senate Bill 1002, Printer's Number 1257 was tabled in the Senate on November 28, 1984.

SENATE BILL 1009

Bill Summary

Senate Bill 1009, Printer's Number 2091 proposes the Workers Compensation Public Pension Deduction Act which would require that any public employer deduct from the public employer's contribution to the public employee's pension payment an amount equal to any workers compensation benefits representing compensation for lost wages.

Commission Action

The Commission attached an actuarial note on October 10, 1984 indicating that there was the potential for an actuarial cost savings by virtue of the proposed pension legislation if the proposed legislation results in an offset of the amount of any workers compensation benefit for lost wages from the amount of any pension benefits payable to public employees receiving workers compensation. The potential actuarial cost savings in total for all public pension plans in the Commonwealth was estimated at \$31.6 million dollars annually, or approximately four-tenths of one percent of total covered payroll. The Commission also expressed concern about the drafting ambiguities contained in the proposed pension legislation and the potential unconstitutionality of attempting to make the proposed legislation applicable to current pension plan members as currently drafted. The Commission suggested that the drafting ambiguities and potential unconstitutionality of its application be further reviewed and resolved prior to final consideration of the bill.

Final Legislative Status

Senate Bill 1009, Printer's Number 2091 was tabled in the Senate on June 28, 1984.

HOUSE BILLS

HOUSE BILL 482

Bill Summary

House Bill 482, Printer's Number 543 proposed an amendment to both the State Employees' Retirement Code and the Public School Employees' Retirement Code which would modify restrictions on the purchase of certain types of non-state or non-school service by providing an exception from those restrictions for the purchase of non-intervening military service which represents a combination of active military duty and nonactive military duty with a reserve or national guard armed forces component.

Commission Action

The Commission attached an actuarial note on April 10, 1985, indicating that the exception to restrictions on the purchase of prior service credit for the combination of active military and reserve or national guard military service specified in House Bill 482 had the potential for causing a substantial increase in the unfunded accrued liabilities for the State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS) and the amortization requirements of the two systems. The actuarial note demonstrated that the actuarial impact would differ depending on the amount of the service authorized for purchase pursuant to the proposed legislation. On the lower end of the range of actuarial cost, if the combination military service credit purchased by virtue of the proposed legislation equals five percent of the total service credited by SERS and PSERS, there would be an increase in the SERS unfunded accrued liability of \$200 million, with a first year amortization requirement of \$8.2 million, and an increase in the PSERS unfunded accrued liability of \$350 million, with a first year amortization requirement of \$14.3 million. On the higher end of the range of actuarial cost, if the combination military service credit purchased by virtue of the proposed legislation reached 40 percent of the total service credited by SERS and PSERS, there would be an increase in the SERS unfunded accrued liability of \$800 million, with a first year amortization requirement of \$32.7 million, and an increase in the PSERS unfunded accrued liability of \$1.4 billion, with a first year amortization requirement of \$57.2 million. The Commission noted that all amortization requirements, pursuant to current law, provided for a 30 year amortization period for benefit increases such as the bill provided with amortization on a level percentage of increasing payroll basis. The dollar amount of the amortization requirement would increase over the 30 year amortization period and could be expected to be approximately 3.25 times greater in the thirtieth year than in the first year.

In transmitting the actuarial note, the Commission expressed concern regarding the appropriateness of permitting the purchase of prior service credit which was likely to duplicate pension coverage for the same service provided by the federal military retirement system, when no readily apparent equities argue for such duplicative coverage. The Commission also questioned the lack of appropriate limitations, such as a time limitation following commencement of SERS or PSERS covered service by which any purchase would have to be made and a clarification to what extent optional annuity form number four withdrawals of accumulated member contributions and interest should apply to payments for the purchase of prior service credit. The Commission recommended

HOUSE BILL 482
(Continued)

that any consideration of any type of proposed legislation similar to House Bill 482 which may be introduced during the legislative session be deferred until the Commission had an opportunity to undertake and complete a study of topics relative to the proposed legislation.

Final Legislative Status

House Bill 482, Printer's Number 543 was re-committed to the House Appropriations Committee on November 21, 1984.

HOUSE BILL 2103

Bill Summary

House Bill 2103, Printer's Number 2846 proposed an amendment to the County Pension Law authorizing the county retirement boards to provide an additional optional form for the payment of the retirement benefit which authorizes a member who is eligible to retire with a superannuation or involuntary retirement allowance or a voluntary retirement allowance after 20 years of service to elect to receive a lump sum payment of member's accumulated deductions in addition to a county annuity paid in the form of a single life annuity or an actuarially equivalent optional annuity form.

As amended by the Senate Local Government Committee House Bill 2103, Printer's Number 3708 included amendments to provide for optional implementation by individual counties of the withdrawal option and to limit application of the provision to members eligible to retire with a superannuation or involuntary retirement allowance or a voluntary retirement allowance after twenty years of service.

Commission Action

The Commission attached an actuarial note applicable to Printer's Number 2846 on November 14, 1984 noting that the effect of the bill would be to reduce an actuarial experience gain resulting primarily from interest earned on accumulated member contributions above the creditable interest rate limit of between 4 percent and 5.5 percent. The interest gain would be used at the discretion of the county retirement board either to reduce the county contribution requirement of the plan or to provide post retirement adjustments to retired county pension plan members. The actuarial note indicated that the reduction in the actuarial experience gain attributable to the lump sum withdrawals authorized by House Bill 2103 would result in an overall increase in the county contribution rate for county pension plans governed by Act 96 of 1971. The note demonstrated that the amount of the statewide increase in the county contribution rate was dependent on the manner in which counties elected to use the excess interest experience gain. The actuarial note estimated that the statewide increase in the county contribution rate attributable to the bill would range from .25 percent of covered payroll if all counties used the interest gain to provide annual 4 percent post retirement adjustments to retirees, to 1.07 percent of covered payroll if all counties used the interest gain to reduce the county contribution requirement of the pension plan. The resulting statewide annual increase in county retirement plan contributions, based on the 1982 covered payroll for all Act 96 county pension plans, would range from \$1,014,277 to \$4,341,108. On November 27, 1984 the Commission reviewed House Bill 2103, 3708 and reattached the original actuarial note feeling that it still provided a reasonable estimate of the potential actuarial cost of the bill. The Commission explained that it had recently commenced a substantial study of county pension plans governed by Act 96 that would examine issues concerning benefit coverage.

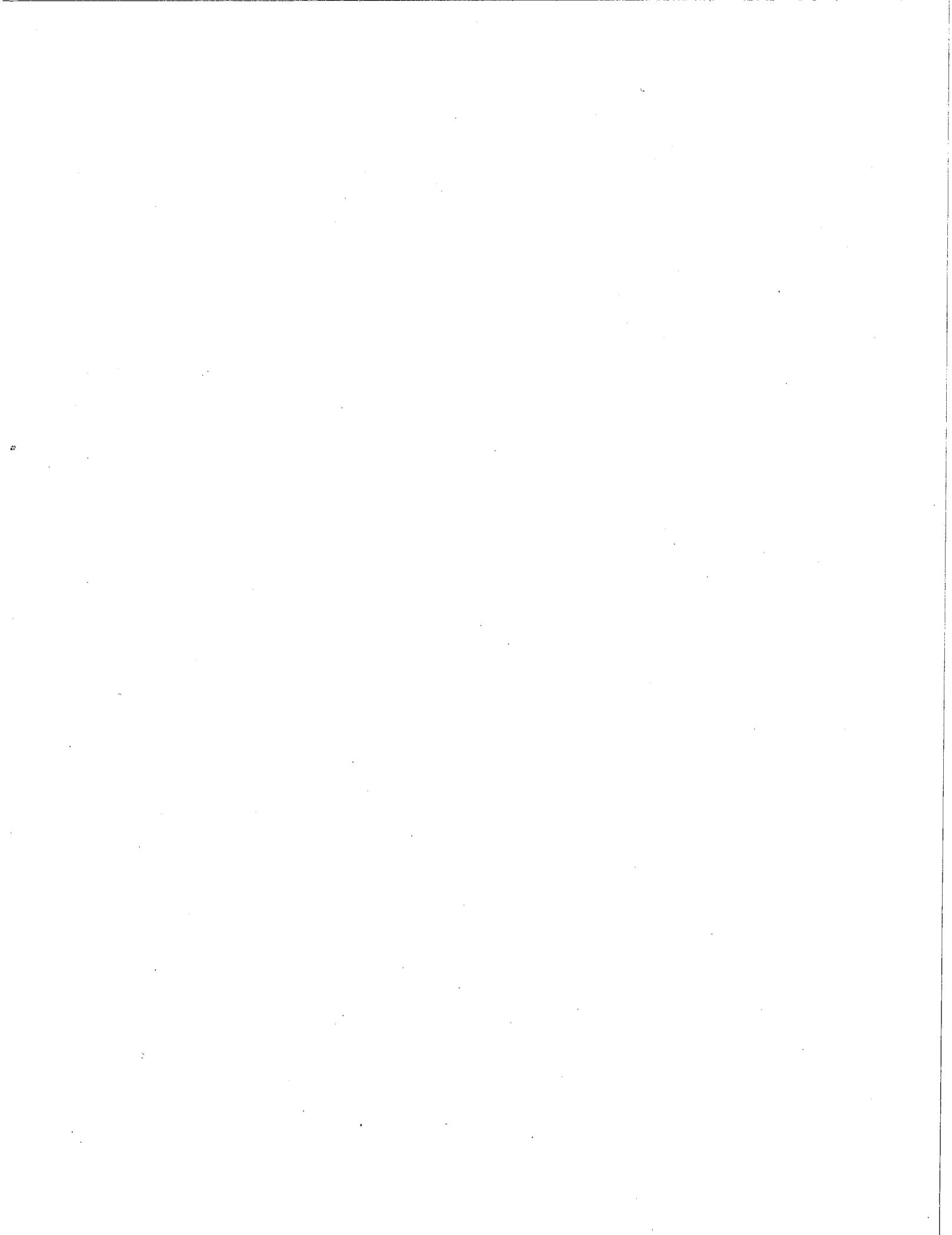
Final Legislative Status

House Bill 2103, Printer's Number 3708 passed the House on October 2, 1984. The legislation was amended and passed in the Senate on November 28, 1984. House concurrence on Printer's Number 3708 was not voted prior to session end.

SYNOPSIS OF ACTUARIAL NOTES

1984-1985 Legislative Session

Actuarial notes attached
January 1, 1985 through December 31, 1985



SENATE BILLS

SENATE BILL 123

Bill Summary

Senate Bill 123, Printer's Number 457 amended the County Pension Law, Act 96 of 1971 to authorize county retirement boards, at their option, to allow a member who is eligible to retire with a superannuation or involuntary retirement allowance or a voluntary retirement allowance after 20 years of service to elect, as an optional form for the payment of the retirement benefit, to receive a lump sum payment of member's accumulated deductions in addition to a county annuity paid in the form of a single life annuity or an actuarially equivalent optional annuity form.

Commission Action

On April 10, 1985 the Commission attached an actuarial note indicating that the effect of the proposed legislation would be to significantly reduce a future actuarial experience gain resulting primarily from interest earned on accumulated member contributions above the creditable interest rate limit set by the county retirement board of between 4 percent and 5.5 percent. The interest gain would be used at the discretion of the county retirement board either to reduce the county contribution requirement of the plan or to provide post retirement adjustments to retired county pension plan members. The reduction in the future actuarial experience gain during the period of future high investment returns would result in an overall increase in the effective county contribution rate for county pension plans governed by Act 96 of 1971. The amount of the statewide increase in the aggregate county contribution rate would be dependent on the manner in which counties elected to use the future actuarial experience gain from excess interest. The actuarial note estimated that the statewide increase in the aggregate county contribution rate attributable to the proposed legislation would range from 2.19 percent of covered payroll if all counties used the interest gain to provide annual 4 percent post retirement adjustments to retirees, to 2.63 percent of covered payroll if all counties used the interest gain to reduce the county contribution requirement of the pension plan. The resulting statewide annual increase in county retirement plan contributions, based on the 1984 covered payroll for all Act 96 county pension plans, would range from \$10,074,284 to \$12,098,342. The Commission also noted that it had recently commenced a substantial study of county pension plans governed by Act 96 that would examine issues concerning benefit coverage.

Legislative Status as of December 31, 1985

Senate Bill 123, Printer's Number 457 was signed into law on July 3, 1985, becoming Act 35 of 1985.

SENATE BILL 244

Bill Summary

Senate Bill 244, Printer's Number 279 amended the Public School Employees' Retirement Code and the State Employees' Retirement Code by clarifying duties of the boards regarding disability applications, to clarify application of special early retirement provisions, and by authorizing installment payments, at the election of a member, of withdrawn accumulated deductions or option 4 lump sum benefit payments. The bill also amended the State Employees' Retirement Code to clarify provisions for the purchase of creditable service for previous service with the Applied Research Laboratory of the Pennsylvania State University and to modify eligibility for the special early retirement "window" by requiring accrual of at least 30 eligibility points, including military and other purchasable nonstate service, rather than 30 years of credited service.

As amended by the House Finance Committee, Senate Bill 244, Printer's Number 703 included an amendment to the State Employees' Retirement Code to authorize the purchase of creditable nonstate service for previous service with a county, city, borough, incorporated town or township.

As amended prior to passage, Senate Bill 244, Printer's Number 1039 deleted the amendments to the State Employees' Retirement Code contained in Printer's Number 703 authorizing the purchase of creditable nonstate service for prior municipal service.

Commission Action

The Commission attached an actuarial note applicable to Printer's Number 279 on February 13, 1985 indicating that the legislation had no unexpected discernible cost. The Commission noted, however, that while it recognized that the change proposed in the bill was necessary to provide balance in the special early retirement of the two state retirement systems, it was concerned 1) about the continued practice of recognizing purchased service credit when determining eligibility for special temporary early retirement programs, 2) that the proposed change in SERS and PSERS disability determination procedures should not be viewed as authorization for any weakening in the nature of medical documentation required to accompany a disability application or the minimum standard to be met when a disability is determined, and 3) about the authorization of installment payments of lump sum amounts which could result in the loss of a potential future federal income tax disincentive which could reduce or eliminate the use of optional annuity form number four in PSERS and SERS.

On April 10, 1985, the Commission attached an actuarial note applicable to Printer's Number 703 indicating that the bill had an actuarial cost impact attributable to the amendments authorizing purchase of credit for prior municipal service. The actuarial note demonstrated that the bill would have a range in its actuarial cost depending on the utilization of the municipal service credit purchase provision. If utilization was at a five percent rate, there would be an increase in the SERS unfunded accrued liability of \$93.6 million, with a first year amortization requirement of \$3.9 million. If utilization was at a ten percent rate, there would be an increase in the SERS unfunded accrued liability of \$187.2 million, with a first year amortization requirement of \$7.8 million. If utilization was as high as the 40 percent rate, there would be an increase in the SERS unfunded accrued liability of \$748.8 million, with a first year amortization requirement of \$30.6 million. All amortization requirements provided for a 30 year amortization period on a level percentage of increasing payroll basis pursuant to current law. The dollar amount of the amortization requirement would increase over the 30 year amortization period and could be expected to be approximately 3.25 times greater in the thirtieth year than in the first year. The actuarial note reiterated the Commission's concerns about the issues referred to above.

SENATE BILL 244
(Continued)

Legislative Status as of December 31, 1985

Senate Bill 244, Printer's Number 1039 was signed into law on June 13, 1985, becoming Act 19 of 1985.

SENATE BILL 1260

Bill Summary

Senate Bill 1260, Printer's Number 1674 amends sections 202, 604, and 607 of the Municipal Pension Plan Funding Standard and Recovery Act, which govern appropriate amortization periods and municipal pension system distress determinations, by expanding an exception from an accelerated amortization requirement currently applicable to severely distressed municipalities to include moderately distressed municipalities. The bill authorizes certain measurably distressed municipalities and in the minimally distressed category for a one year period to utilize the remedies for moderately distressed municipalities relating to a ten year phased-in implementation of the funding standard, the deviation from any applicable limit on municipal pension plan contributions and a special dedicated taxing authority.

Commission Action

On December 11, 1985, the Commission attached an actuarial note indicating the bill did not affect the amount or extent of any municipal pension plan benefit coverage and had no actuarial impact within the meaning of Act 66 of 1981.

Legislative Status as of December 31, 1985

Senate Bill 1260, Printer's Number 1674 passed the Senate on December 11, 1985. No referral had been made in the House of Representatives.

HOUSE BILLS

HOUSE BILL 4

Bill Summary

House Bill 4, Printer's Number 1588 would amend the Public School Employees' Retirement Code by prohibiting the PSERS board from investing in corporations doing business in South Africa or Namibia and to require divestment of such investments within one year of enactment of the prohibition.

Commission Action

The Commission attached an actuarial note on September 11, 1985 indicating that the bill had the potential for increasing the actuarial cost actually experienced by the Public School Employees' Retirement System (PSERS) through anticipated reduced future investment performance by virtue of the constraint on PSERS investment authority provided in the bill and of substantial investment transaction costs by virtue of the divestment of current investments required by the bill. The Commission reported that, although the reviewing actuary was unable to provide any specific mathematical computation of this potential future adversely affected investment performance, the actuary had recommended an immediate increase in PSERS employer contributions of three percent of covered payroll as a margin against any future adverse investment experience or other actuarial experience losses, which would require an additional annual contribution for this fiscal year of \$55.3 million by the Commonwealth and \$55.3 million by the various school districts. The Commission also expressed concern about the precedent of constraining the Public School Employees' Retirement System (PSERS) investment authority by adding an investment prohibition or limitation which is not based on traditional economic or investment criteria and about the administrative difficulty which PSERS was likely to incur in attempting to implement the future investment prohibition and the divestment of various current investment securities.

Legislative Status as of December 31, 1985

House Bill 4, Printer's Number 1588 was tabled in the House on October 29, 1985.

HOUSE BILL 5

Bill Summary

House Bill 5, Printer's Number 1589 would amend the State Employees' Retirement Code by prohibiting the SERS board from investing in corporations doing business in South Africa or Namibia and to require divestment of such investments within one year of enactment of the prohibition.

Commission Action

The Commission attached an actuarial note on September 11, 1985 indicating that the bill had the potential for increasing the actuarial cost actually experienced by the State Employees' Retirement System (SERS) through anticipated reduced future investment performance by virtue of the constraint on SERS investment authority provided in the bill and of substantial investment transaction costs by virtue of the divestment of current investments required by the bill. The Commission reported that although the reviewing actuary was unable to provide any specific mathematical computation of this potential future adversely affected investment performance, the actuary had recommended an immediate increase in SERS employer contributions of three percent of covered payroll as a margin against any future adverse investment experience or other actuarial experience losses, which would require an additional annual contribution for this fiscal year of \$73.9 million by the Commonwealth. The Commission also expressed concern about the precedent of constraining the State Employees' Retirement System (SERS) investment authority by adding an investment prohibition or limitation which is not based on traditional economic or investment criteria and about the administrative difficulty which SERS was likely to incur in attempting to implement the future investment prohibition and the divestment of various current investment securities.

Legislative Status as of December 31, 1985

House Bill 5, Printer's Number 1589 was tabled in the House on October 29, 1985.

HOUSE BILL 60

Bill Summary

House Bill 60, Printer's Number 64 proposes an amendment to the County Pension Law, Act 96 of 1971, which authorized county retirement boards, at their option, to allow a member who is eligible to retire with a superannuation or involuntary retirement allowance or a voluntary retirement allowance after 20 years of service to elect, as an optional form for the payment of the retirement benefit, to receive a lump sum payment of member's accumulated deductions in addition to a county annuity paid in the form of a single life annuity or an actuarially equivalent optional annuity form.

Commission Action

On May 8, 1985 the Commission attached an actuarial note indicating that the effect of the proposed legislation would be to significantly reduce a future actuarial experience gain resulting primarily from interest earned on accumulated member contributions above the creditable interest rate limit set by the county retirement board of between 4 percent and 5.5 percent. The interest gain would be used at the discretion of the county retirement board either to reduce the county contribution requirement of the plan or to provide post retirement adjustments to retired county pension plan members. The reduction in the future actuarial experience gain during the period of future high investment returns would result in an overall increase in the effective county contribution rate for county pension plans governed by Act 96 of 1971. The amount of the statewide increase in the aggregate county contribution rate would be dependent on the manner in which counties elected to use the future actuarial experience gain from excess interest. The actuarial note estimated that the statewide increase in the aggregate county contribution rate attributable to the proposed legislation would range from 2.19 percent of covered payroll if all counties used the interest gain to provide annual 4 percent post retirement adjustments to retirees, to 2.63 percent of covered payroll if all counties used the interest gain to reduce the county contribution requirement of the pension plan. The resulting statewide annual increase in county retirement plan contributions, based on the 1984 covered payroll for all Act 96 county pension plans, would range from \$10,074,284 to \$12,098,342. The Commission also noted that it had recently commenced a substantial study of county pension plans governed by Act 96 that would examine issues concerning benefit coverage.

Legislative Status as of December 31, 1985

House Bill 60, Printer's Number 64 passed the House on June 19, 1985 and was referred to the Senate Local Government Committee on June 24, 1985.

NOTE: The Senate version of this bill (S.B. 123, P.N. 457) was signed into law on July 3, 1985.

HOUSE BILL 461

Bill Summary

House Bill 461, Printer's Number 520 proposes an amendment to Title 24, Pennsylvania Consolidated Statutes, Sections 8304 and 8324, the portions of the Public School Employees' Retirement Code governing the types of purchasable prior service credit and the amounts payable for those purchases, first by removing a restriction on the current purchase of out-of-state teaching service credit provision if the teacher has waived any pension eligibility in the out-of-state teachers retirement system and secondly, by newly authorizing a purchase of prior non-public school teaching service by certificated teachers.

Commission Action

The Commission attached an actuarial note on June 12, 1985, indicating that the expansion of one service purchase authorization and the addition of another service purchase authorization as proposed in House Bill 461 should not have a detrimental actuarial effect on the Public School Employees' Retirement System because the purchase payment amount required to be made by the PSERS member electing to make the purchase is to be equal to the full actuarial cost of the benefit obtained by virtue of the purchase. In reviewing the bill, the Commission noted that it raised the broad policy question of the portability of public pension plan service credit within the Commonwealth. The Commission also expressed concern about the piecemeal approach to this complex and important subject which House Bill 461 represented and explained that it planned to undertake a study of the topic of pension credit portability in the near future as one of its priority topics for consideration.

Legislative Status as of December 31, 1985

House Bill 461, Printer's Number 520 was re-committed to the House Appropriations Committee on May 8, 1985.

HOUSE BILL 462

Bill Summary

House Bill 462, Printer's Number 521 proposed an amendment to Title 24, Pennsylvania Consolidated Statutes, Sections 8304 and 8324, the portions of the Public School Employees' Retirement Code governing the types of purchasable prior service credit and the amounts payable for those purchases, first by removing a restriction on the current purchase of out-of-state teaching service credit provision if the teacher has waived any pension eligibility in the out-of-state teachers retirement system and secondly, by newly authorizing a purchase of prior non-teaching non-apprenticeship work experience by vocational teachers of the type required for permanent certification.

Commission Action

The Commission attached an actuarial note on June 12, 1985 indicating that the expansion of one service purchase authorization and the addition of another service purchase authorization as proposed in House Bill 462 should not have a detrimental actuarial effect on the Public School Employees' Retirement System because the purchase payment amount required to be made by the PSERS member electing to make the purchase is to be equal to the full actuarial cost of the benefit obtained by virtue of the purchase. In reviewing the bill, the Commission noted that it raised the broad policy question of the portability of public pension plan service credit within the Commonwealth. The Commission expressed concern about the piecemeal approach to this complex and important subject which House Bill 462 represented and indicated that it planned to undertake a study of the topic of pension credit portability in the near future as one of its priority topics for consideration.

Legislative Status as of December 31, 1985

House Bill 462, Printer's Number 521 was re-committed to the House Appropriations Committee on May 8, 1985.

HOUSE BILL 714

Bill Summary

House Bill 714, Printer's Number 812 would amend the portion of Title 24 of the Pennsylvania Consolidated Statutes governing the Public School Employees' Retirement System (PSERS) and provides for the establishment of an automatic post retirement adjustment mechanism for PSERS annuitants, providing PSERS annuitants who have been receiving benefits for at least 24 months with an annual increase based on one-half of the increase in the federal Consumer Price Index, with a maximum increase of six percent per year. The proposed legislation has an effective date of July 1, 1985 and provides for the payment of a post retirement adjustment as of that date.

Commission Action

The Commission attached an actuarial note on September 11, 1985, indicating that the bill would result in a substantial increase in the unfunded accrued liability, normal cost and amortization requirement of the Public School Employees' Retirement System (PSERS). The Commission noted that, assuming three percent average annual increases provided by the mechanism for current and future PSERS retirees, the PSERS unfunded accrued liability would be increased by between \$3.34 and \$4.0 billion, the PSERS normal cost would be increased by between 3.34 and 4.01 percent of covered payroll (\$123.1 million to \$147.8 million in 1985) and the PSERS amortization requirement would be increased by between 4.03 and 5.73 percent of covered payroll (\$148.5 million to \$211.2 million in 1985), for a total increase in PSERS annual cost in 1985 of between \$296.3 million and \$334.3 million. The note also indicated that PSERS annual cost would increase as total PSERS covered payroll grows and, since no increase in PSERS member contributions is provided for by the bill, will be the sole obligation of the Commonwealth and of the various school districts. In reviewing House Bill 714, the Commission was seriously concerned about several pension policy implications and impacts of the bill. First the bill, would provide a precedent for authorizing automatic post retirement adjustment mechanisms for other public employee pension plans in the Commonwealth. Second, there were no limitations on the dollar amount of any annual adjustments pursuant to the automatic post retirement adjustment mechanism in a departure from past practice in PSERS ad hoc post retirement adjustments. Third, there was no requirement for an increase in member contributions by active PSERS members to finance a portion of the increase in the PSERS normal cost attributable to the proposed PSERS automatic post retirement adjustment mechanism. Finally, the Commission had serious concern about the length of the amortization period provided in connection with the portion of the increase in the PSERS unfunded accrued liability which is attributable to the automatic post retirement adjustment mechanism for current PSERS benefit recipients, since the amortization period set in law is longer than the expected remaining average retired lifetime of these individuals. The Commission recommended that the General Assembly refrain from taking any affirmative action with respect to this bill during the 1985-1986 Legislative Session.

Legislative Status as of December 31, 1985

House Bill 714, Printer's Number 812 was re-committed to the House Appropriations Committee on April 24, 1985.

HOUSE BILL 715

Bill Summary

House Bill 715, Printer's Number 813 would amend the Public School Employees' Retirement Code by providing for a 25 percent increase in the disability annuity payable to a member of the Public School Employees' Retirement System (PSERS) who has sustained a physical injury resulting from an assault or from attempting to maintain discipline during the course of employment and by providing, in the case of such injury, for a PSERS member with five or less years of service to be given the same disability benefit as a PSERS member with five to ten years of service.

Commission Action

On June 12, 1985, the Commission attached an actuarial note indicating that the actuarial cost of this proposal depends entirely upon the extent of utilization of the benefit increase. The actuarial note analyzes a range of potential utilization patterns and estimates the applicable increased actuarial cost. The actuarial estimates of the increase in the full amortization financing requirement of the Public School Employees' Retirement System attributable to House Bill 715 ranged from .017% of covered payroll if the increased disability benefit applies to 5% of all future disabilities to .17% of covered payroll if the increased disability benefit applies to 50% of all future disabilities. In reviewing House Bill 715, Printer's Number 813, the Commission expressed serious concern about the appropriateness of this extension of disability benefit coverage in the Public School Employees' Retirement System, the manner in which the extended coverage is funded and the failure to provide any offsets against other disability benefit coverage. The Commission also noted that there were potential drafting difficulties with the bill which merit further review and may require clarification.

Legislative Status as of December 31, 1985

House Bill 715, Printer's Number 813 was re-committed to the House Appropriations Committee on May 8, 1985.

HOUSE BILL 716

Bill Summary

House Bill 716, Printer's Number 1668 would amend Title 24, Pennsylvania Consolidated Statutes, Sections 8304 and 8324, the portions of the Public School Employees' Retirement System (PSERS) law which govern the purchase of credit for non-public school service, by authorizing the purchase of credit for a period spent on furlough from employment by an employing unit covered by PSERS. The amount of credit purchasable would be limited to a maximum of three years and the purchase may only be made upon return to active PSERS membership and if application is made within one year of the return to active PSERS membership. The purchase payment amount would be the present value of the full actuarial cost of the benefit increase resulting from the purchase.

Commission Action

The Commission attached an actuarial note on September 11, 1985 indicating that the bill should not have a detrimental actuarial effect on the Public School Employees' Retirement System (PSERS) because the purchase payment amount required to be made by the PSERS member electing to make the purchase is to be equal to the full actuarial cost of the benefit obtained by virtue of the purchase, as indicated in the actuarial note summary and actuarial note. In transmitting the actuarial note, the Commission expressed concern about the piecemeal approach to this complex and important subject of the purchase of credit for periods of prior service or other periods. The Commission was also concerned about 1) the administrative complexities which purchase of service credit provisions introduce into the Public School Employees' Retirement System even when the full actuarial cost of the benefits obtained by the purchase of service credit is required as a payment amount, 2) the question of whether or not equity really demands the authorization of a purchase of service credit for this period during the career of a PSERS member and, 3) the lack of a statutory definition of the term "furlough", which may allow the provision to be interpreted to cover unintended periods of voluntary leaves of absence and dismissals for unacceptable performance in addition to the likely intended periods of layoffs resulting from school district complement reduction. The Commission recommended that the General Assembly defer any action on this bill during the 1985-1986 Legislative Session until the Commission had an opportunity to conduct a complete study of the actuarial cost and public pension policy impact of authorizing purchases of service credit for prior service and for other related periods of time.

Legislative Status as of December 31, 1985

House Bill 716, Printer's Number 1668 was re-committed to the House Appropriations Committee on September 30, 1985.

HOUSE BILL 802

Bill Summary

House Bill 802, Printer's Number 902 proposes a new enactment to be known as the "Special Ad Hoc Municipal Police and Firefighters Postretirement Adjustment Act" to provide a one time percentage postretirement increase to every former municipal police officer or firefighter who has been retired for more than three years. The special postretirement increase of 3.125 percent per year on retired status is a mandatory provision for all municipalities with police or paid firefighters pension plans which have benefit recipients. The postretirement increase is required to be funded by the applicable municipalities on an actuarial basis with reimbursement of a portion of the actuarial funding reimbursed by the Commonwealth if the applicable municipal police or paid firefighter pension plan has a substantial current unfunded accrued liability.

As amended prior to House passage, House Bill 802, Printer's Number 2534 included an amendment to reduce the ad hoc post retirement adjustment if any post retirement adjustment had been previously granted.

Commission Action

The Commission attached an actuarial note applicable to Printer's Number 902 on November 13, 1985, indicating that the bill would result in an increase in the unfunded accrued liabilities and the amortization requirements of the 386 municipal police and paid firefighter pension plans which have at least one retired member and would require an increase in Commonwealth funding of municipal pension plans. The actuarial estimate of the increase in the unfunded accrued liabilities of the affected municipal police and paid firefighter pension plans ranged between \$89.7 million and \$119.7 million. The increase in amortization requirements would range between three and four percent of payroll, or \$13.4 million and \$17.8 million in the first year. The note also indicated that the bill provided for the assumption by the Commonwealth of a substantial portion of the responsibility to fund the actuarial cost of the bill, which was estimated to range between \$7.7 million and \$10.3 million in the year following enactment. The affected 326 municipalities would be responsible for the balance of the additional actuarial cost, which is estimated to range between \$5.7 million and \$7.5 million in the year following enactment. The amortization requirements were calculated pursuant to the requirements of Act 205 of 1984 with a ten year amortization period. The Commission noted that, while it was sympathetic to the need to address the issue of providing appropriate postretirement increases to current retired police officers and paid firefighters, it was concerned about several pension policy implications and impacts of the bill. First, the bill lacked sufficient eligibility requirements for the postretirement increase in the case of retired police officers and paid firefighters who retired at relatively young ages. Second, it lacked sufficient modifications in the amount of the postretirement increase to account for those applicable municipal police and paid firefighter pension plans which had previously granted postretirement increases. Third, the Commission was concerned about the appropriateness of the practice of the Commonwealth mandating benefit increases for municipal pension plans and the appropriateness of the significant share of the financing of the postretirement increase provided for the bill.

Legislative Status as of December 31, 1985

House Bill 802, Printer's Number 2534 passed the House on November 20, 1985. It was referred to the Senate Finance Committee on November 27, 1985.

HOUSE BILL 803

Bill Summary

House Bill 803, Printer's Number 903 proposed a new enactment to be known as the "Special Automatic Municipal Police and Firefighters Postretirement Adjustment Mechanism Act" and establishes an ongoing mechanism to provide for annual postretirement increases to former municipal police officers and firefighters who have been retired for at least three years. A postretirement increase would be payable if there had been a minimum two percent increase in the federal Consumer Price Index, and the increase would be one-half of the increase in the federal Consumer Price Index, but not to exceed an increase of four percent in any year. The establishment of the special automatic postretirement adjustment mechanism would be mandatory for all municipalities having a municipal police pension plan or a municipal firefighters pension plan and the adjustment would be applicable to all current benefit recipients and all future benefit recipients who met the eligibility requirements. The automatic postretirement adjustment mechanism would be funded by the applicable pension plan members and the applicable municipalities on an actuarial basis, with additional actuarial funding by the Commonwealth if the applicable municipal police or paid firefighter pension plan had a substantial pension funding problem.

Commission Action

On November 13, 1985, the Commission attached an actuarial note indicating that the bill would result in a substantial increase in the unfunded accrued liabilities, normal cost and amortization requirements of the 1,056 municipal police and paid firefighter pension plans and would require a substantial increase in Commonwealth funding of municipal pension plans. The Commission noted that 1) the actuarial estimate of the increase in the unfunded accrued liabilities of the affected municipal police and paid firefighter pension plans is \$664.5 million, 2) the estimated increase in the normal cost of the affected plans is \$26.7 million, or 5.28 percent of the aggregate covered payroll of the total active membership, and 3) the estimated increase in the amortization requirements for the affected plans is \$69.9 million, or 13.81 percent of the aggregate covered payroll, resulting in a total initial year requirement of \$96.6 million, or 19.09 percent of the aggregate covered payroll. The actuarial note also indicated that the bill provided for the assumption by the Commonwealth of a substantial portion of the responsibility to fund the actuarial cost of the bill in addition to increased member contributions and increased municipal requirements. The estimated allocation of the initial year actuarial cost was the requirement of additional Commonwealth funding of \$77.6 million, an increase in member contributions of \$8.9 million and an increase in municipal requirements of \$10.1 million. The funding requirements were calculated pursuant to the requirements of Act 205 of 1984. In transmitting the actuarial note, the Commission expressed concern about several pension policy implications and impacts of the bill. First, it was concerned about the precedent which this bill, if enacted, would provide for authorizing automatic postretirement adjustment mechanisms for other public employee pension plans in the Commonwealth. Second, there was a lack of sufficient eligibility requirements for the postretirement adjustment mechanism in the case of retired police officers and paid firefighters who retired at relatively very young ages and the lack in the bill of sufficient modification in the newly authorized postretirement adjustment mechanism for future postretirement increases provided by any existing postretirement adjustment mechanisms. Third, the Commission was concerned about the appropriateness of the practice of the Commonwealth in mandating benefit increases for municipalities and municipal pension plans and the appropriateness of the significant participation of the Commonwealth in financing of the automatic postretirement adjustment mechanism. The Commission recommended that the General Assembly refrain from taking any affirmative action with respect to this bill during the 1985-86 Legislative Session.

HOUSE BILL 803
(Continued)

Legislative Status as of December 31, 1985

House Bill 803, Printer's Number 903 was re-committed to the House Appropriations Committee on May 8, 1985.

HOUSE BILL 804

Bill Summary

House Bill 804, Printer's Number 904 would amend Section 3 of the Municipal Police Pension Law, Act 600 of 1955, which governs the normal retirement age for municipal police pension plans, to authorize the purchase of pension credit by members of those plans for up to three years of military service which occurred either prior to or in an intervening period between police service. The purchase payment required would be five percent of the police salary which would otherwise have been payable to the person at the time of the military service if the person had been employed as a police officer plus interest at the rate of five percent of the total purchase payment amount.

Commission Action

On December 11, 1985, the Commission attached an actuarial note indicating that the bill would result in an increase in the unfunded accrued liabilities and the amortization requirements of the 591 municipal police pension plans governed by Act 600 of 1955, the Municipal Police Pension Law. The actuarial estimate in the increase in the unfunded accrued liabilities of the affected municipal police pension plans would range from \$10.5 million (25% utilization) to \$42.0 million (100% utilization). The increase in amortization requirements would range from six-tenths of one percent of covered payroll (25% utilization) to 2.25 percent of covered payroll (100% utilization), or \$0.7 million to \$2.9 million respectively in the first year. The responsibility for the financing of that amortization requirement for each affected municipal police pension plan would be that of the applicable municipality. The amortization requirements were calculated pursuant to the requirements of Act 205 of 1984 to the extent possible, utilizing a 20-year amortization period prescribed for increases in unfunded accrued liabilities attributable to benefit increases for active police pension plan members. In reviewing the bill the Commission was concerned broadly about the continuing practice of authorizing the purchase of credit for prior service in Pennsylvania public pension plans, especially in those instances, similar to this proposed legislation, where the full actuarial cost of the benefits obtained by the purchase of service credit is not required as the purchase payment amount. The Commission was concerned specifically about the potential actuarial cost of this purchase of credit for prior or intervening military service and about the various drafting ambiguities which cause considerable uncertainty over the manner in which this purchase authorization might be utilized. In addition, the Commission was concerned about the practice of the mandating of benefit increases in municipal pension plans by Commonwealth legislation. The Commission indicated it would be undertaking a study of the question of the need for portability of pension credit among the various Pennsylvania public pension plans.

Legislative Status as of December 31, 1985

House Bill 804, Printer's Number 904 was re-committed to the House Appropriations Committee on September 30, 1985.

HOUSE BILL 821

Bill Summary

House Bill 821, Printer's Number 940 would amend Title 24 of the Pennsylvania Consolidated Statutes, Sections 8102, 8304(b) and 8344, portions of the Public School Employees' Retirement System law governing purchasable prior service, by authorizing a purchase of a maximum of two years service credit for involuntary periods of maternity leaves of absence which occurred prior to May 17, 1975. The purchase payment amount for each year or portion of a year to be purchased would be an amount equal to the member's contribution rate and the employer normal cost contribution rate at the time of the return to public school service applied to the member's salary at the time of the return to public school service plus interest at the statutory (four percent) interest rate and would be restricted from inclusion in the optional annuity form number four withdrawal of accumulated member contributions and interest.

Commission Action

On June 12, 1985, the Commission attached an actuarial note indicating that a refined estimate of the actuarial cost of the proposed legislation was difficult because of the lack of data on maternity leaves by members of the Public School Employees' Retirement System and the optional nature of the service purchase authorization. The general conclusion reached by the actuary retained by the Commission in analyzing a large number of hypothetical cases was that the current service credit payment requirement is likely to be equal to only approximately one half of the increase in the present value of benefits resulting from the service credit purchase, with the remainder increasing the unfunded accrued liability of the Public School Employees' Retirement System. The actuarial projections concerning the potential increase in the unfunded accrued liability and the full amortization financing requirement attributable to the proposed legislation range from \$18.6 million and .04% of covered payroll, respectively, if the total mandatory maternity leave to be purchased equals one quarter of one percent of the total service currently credited by PSERS to \$74.2 million and .15% of covered payroll, respectively, if the total mandatory maternity leave to be purchased equals one percent of the total service currently credited by PSERS. In reviewing House Bill 821, the Commission expressed concern about the practice of authorizing purchases of service credit in Pennsylvania public pension plans, especially in instances where the full actuarial cost of the benefits obtained by the purchase of service credit is not required as the purchase payment amount. The Commission recommended that the General Assembly defer any action on this bill during the legislative session until the Commission had an opportunity to conduct a complete study of the actuarial cost and public pension policy impact of authorizing purchases of service credit for prior service and other related periods of time. If the General Assembly would take affirmative action on the bill, the Commission felt that the bill should be amended so that the full actuarial cost of the benefits obtained by the purchase of service credit is required as the purchase payment amount in the manner provided for in section 5 of Act 226 of 1984.

Legislative Status as of December 31, 1985

House Bill 821, Printer's Number 940 passed the House on October 21, 1985, and was referred to the Senate Finance Committee on October 23, 1985

HOUSE BILL 1075

Bill Summary

House Bill 1075, Printer's Number 1237 would amend Title 24 of the Pennsylvania Consolidated Statutes, the law governing the Public School Employees' Retirement System (PSERS), by providing for an additional benefit amount of \$30 per month as a contribution towards the cost of medical insurance coverage to be received by PSERS annuitants who have attained the age of at least 65 years with at least five years of PSERS service credit or have attained any age with at least 25 years of PSERS service credit or are receiving a disability benefit. The additional benefit amount for the initial year would be funded on a current disbursements basis by a \$25.2 million appropriation from the General Fund of the Commonwealth to the Public School Employees' Retirement Fund.

Commission Action

On September 11, 1985, the Commission attached an actuarial note indicating the bill resulted in a considerable increase in the unfunded accrued liability and annual full actuarial funding requirement of the Public School Employees' Retirement System (PSERS). The additional benefit provided would result in an increase of \$410.6 million in the PSERS unfunded accrued liability and a three quarters of one percent increase in the PSERS annual full actuarial funding requirement, or \$28.2 million for fiscal year 1985. In transmitting the actuarial note the Commission expressed concern about several issues. These were, 1) the lack of any requirement for actuarial funding or even ongoing current disbursements (pay-as-you-go) financing for the proposed PSERS benefit increase, 2) the lack of coordination of this new medical insurance premium contribution benefit with any similar coverage currently provided to some PSERS benefit recipients by the various school districts, 3) the lack of any provision in the bill for the sharing of a portion of the actuarial cost of the benefit increase by the various school districts, which currently contributed one half of the total PSERS employer support, or by the current and future active PSERS membership, who currently contribute slightly over one third of the PSERS normal cost, 4) the potential precedent value of this bill, if enacted, for extensions in the amount of the benefit for PSERS or extensions of the coverage to other public employee retirement plans in the Commonwealth, and 5) the benefit increase was poorly designed to provide a contribution towards the cost of medical insurance coverage from a federal income taxation standpoint because the medical insurance premium contribution provided in the bill was directly taxable to the PSERS benefit recipient upon receipt, which it would not be if it were payable to the insurance carrier providing the medical coverage.

Legislative Status as of December 31, 1985

House Bill 1075, Printer's Number 1237 was re-committed to the House Appropriations Committee on September 30, 1985.

HOUSE BILL 1335

Bill Summary

House Bill 1335, Printer's Number 1584 would amend Section 112 of Act 15 of 1974, the provision governing the assessment of the administrative expenses of the Pennsylvania Municipal Retirement System (PMRS), by reauthorizing for calendar years 1986 and 1987 the current practice of the payment of that portion of administrative expenses not covered by a per member assessment on participating municipalities from investment income in excess of the actuarial interest assumption and by providing that the retired members reserve account is subject to this charge against investment income.

Commission Action

On October 9, 1985, the Commission attached an actuarial note indicating that the bill authorized no modification in benefits provided by the Pennsylvania Municipal Retirement System (PMRS) and no increase in PMRS administrative expenses beyond the budget submitted to the General Assembly for approval, and, therefore, would have no actuarial cost or impact within the meaning of Act 66 of 1981. In transmitting House Bill 1335, Printer's Number 1584 the Commission expressed concern about the need to develop a viable, stable and appropriate long term financing procedure for meeting the administrative expenses of the of the Pennsylvania Municipal Retirement System (PMRS) as a replacement for the current financing procedure. The current procedure in the opinion of the Commission, allowed for a potentially inequitable allocation of the burden to finance PMRS administrative costs among the various municipalities participating in PMRS. The Commission believed that the current procedure, in utilizing investment income in excess of the actuarial assumed interest rate, placed an undesirable restriction on selecting the appropriate economic actuarial assumptions for the system. The Commission offered assistance to the General Assembly, the Governor or any other interested parties in developing an improved procedure for financing PMRS administrative costs.

Legislative Status as of December 31, 1985

House Bill 1335, Printer's Number 1584 was signed into law by the Governor on December 18, 1985 becoming Act 94 of 1985.

HOUSE BILL 1621

Bill Summary

House Bill 1621, Printer's Number 2067 would amend Section 30 of Act 96 of 1971, the County Pension Law, governing supplemental cost of living increases by replacing a reference to a "member's annuity" with a reference to a "county annuity" in the provision specifying entitlement by retired county pension plan members to a supplemental cost of living increase.

As amended prior to House passage, House Bill 1621, Printer's Number 2569 included an amendment to adjust the amount of the cost-of-living increase to reflect any withdrawal of a member's annuity.

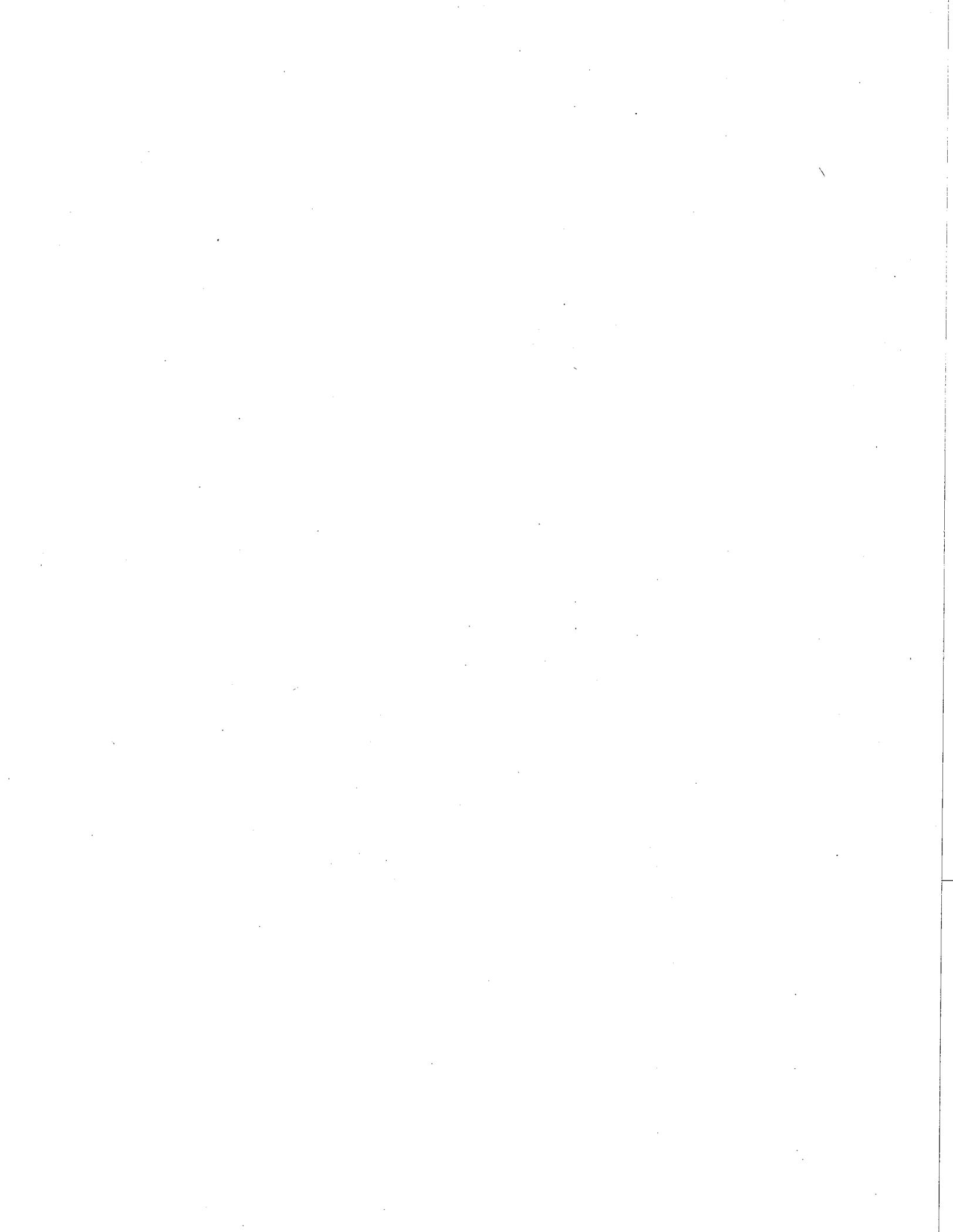
Commission Action

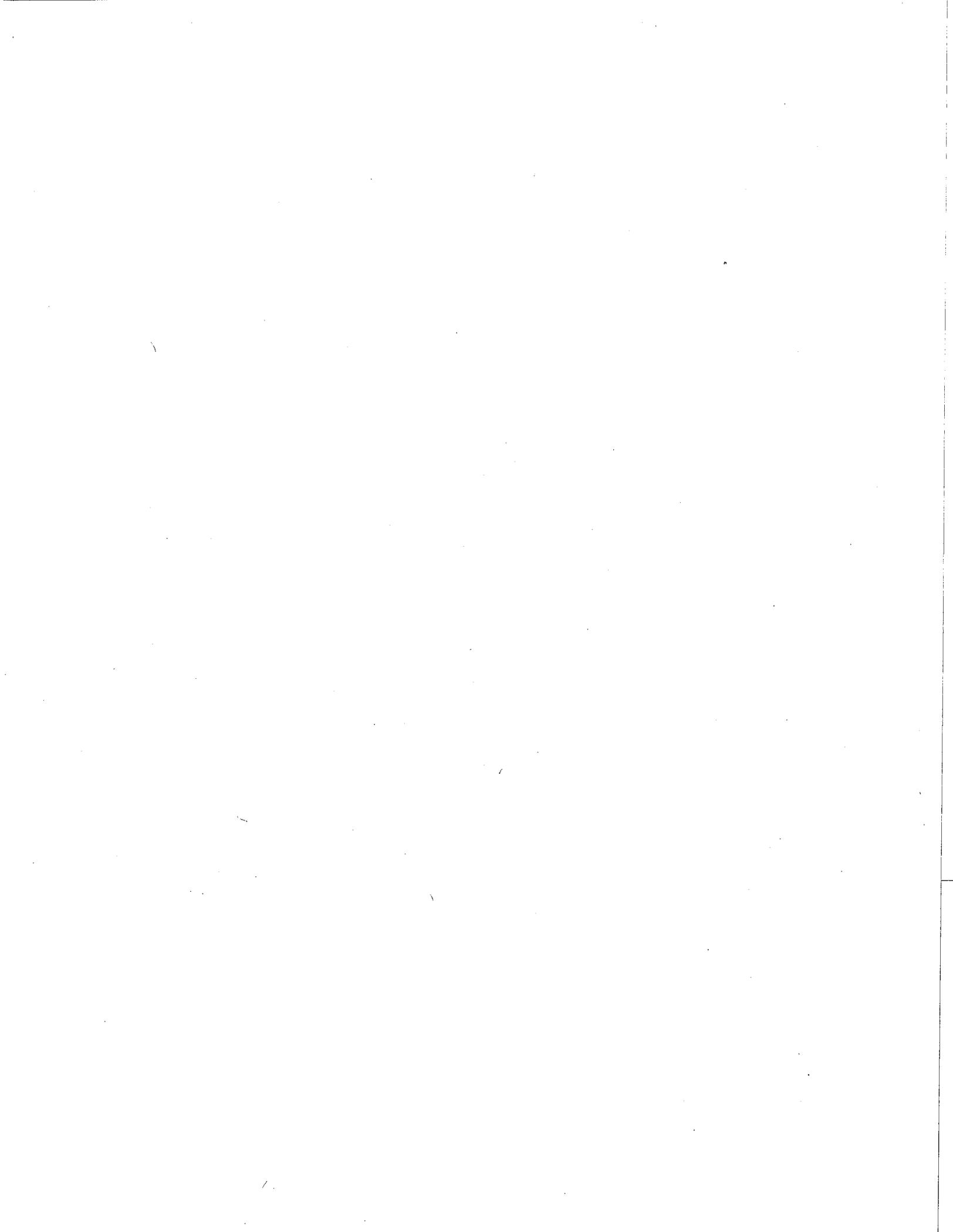
On November 13, 1985, the Commission attached an actuarial note indicating that the bill had no actuarial cost or impact within the meaning of Act 66 of 1981.

Legislative Status as of December 31, 1985

House Bill 1621, Printer's Number 2569 passed the House on December 11, 1985 and was referred to the Senate Local Government Committee on December 17, 1985.

B. LEGISLATIVE PROCEDURES





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.

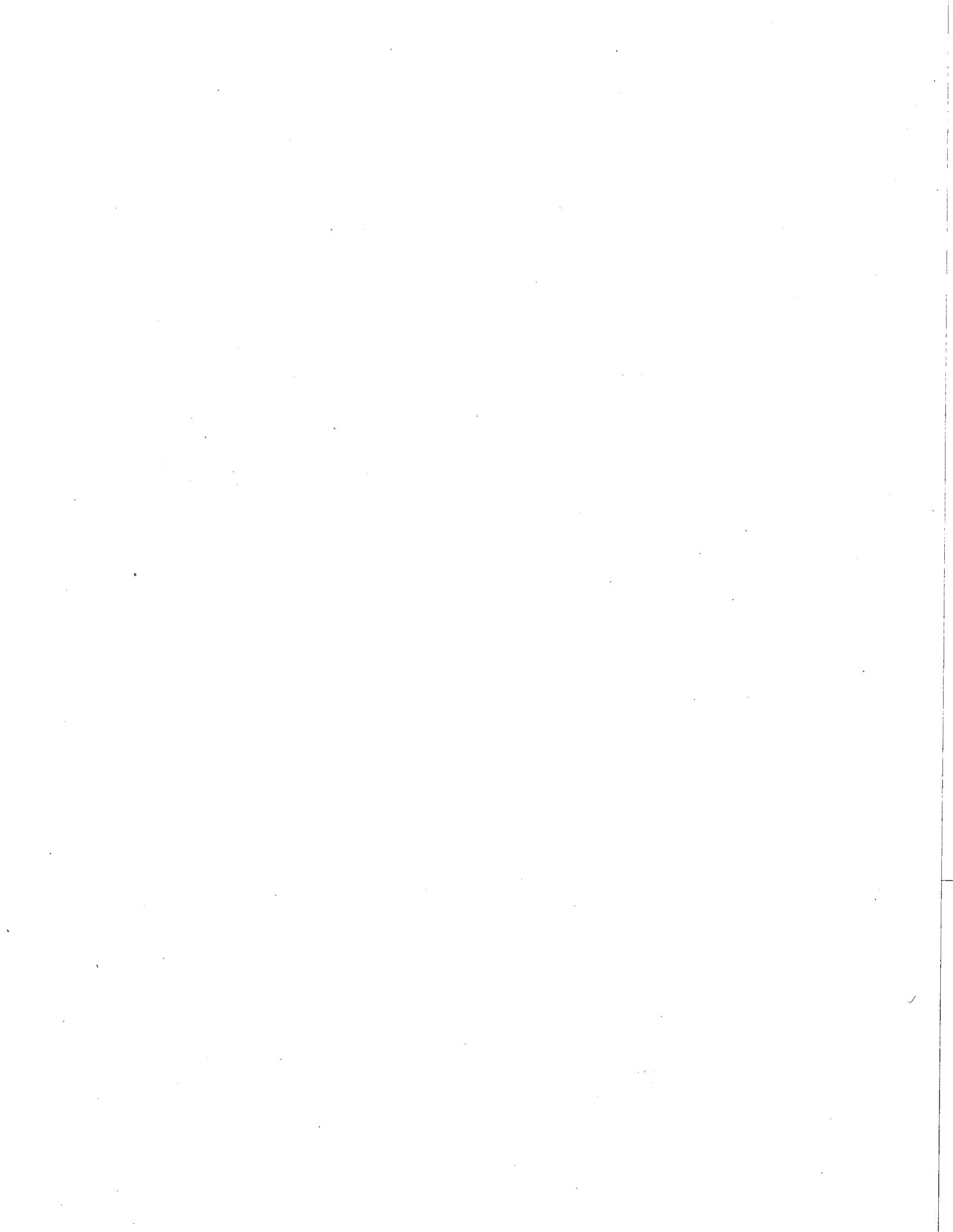
II. RESPONSE BY THE COMMISSION

- 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.

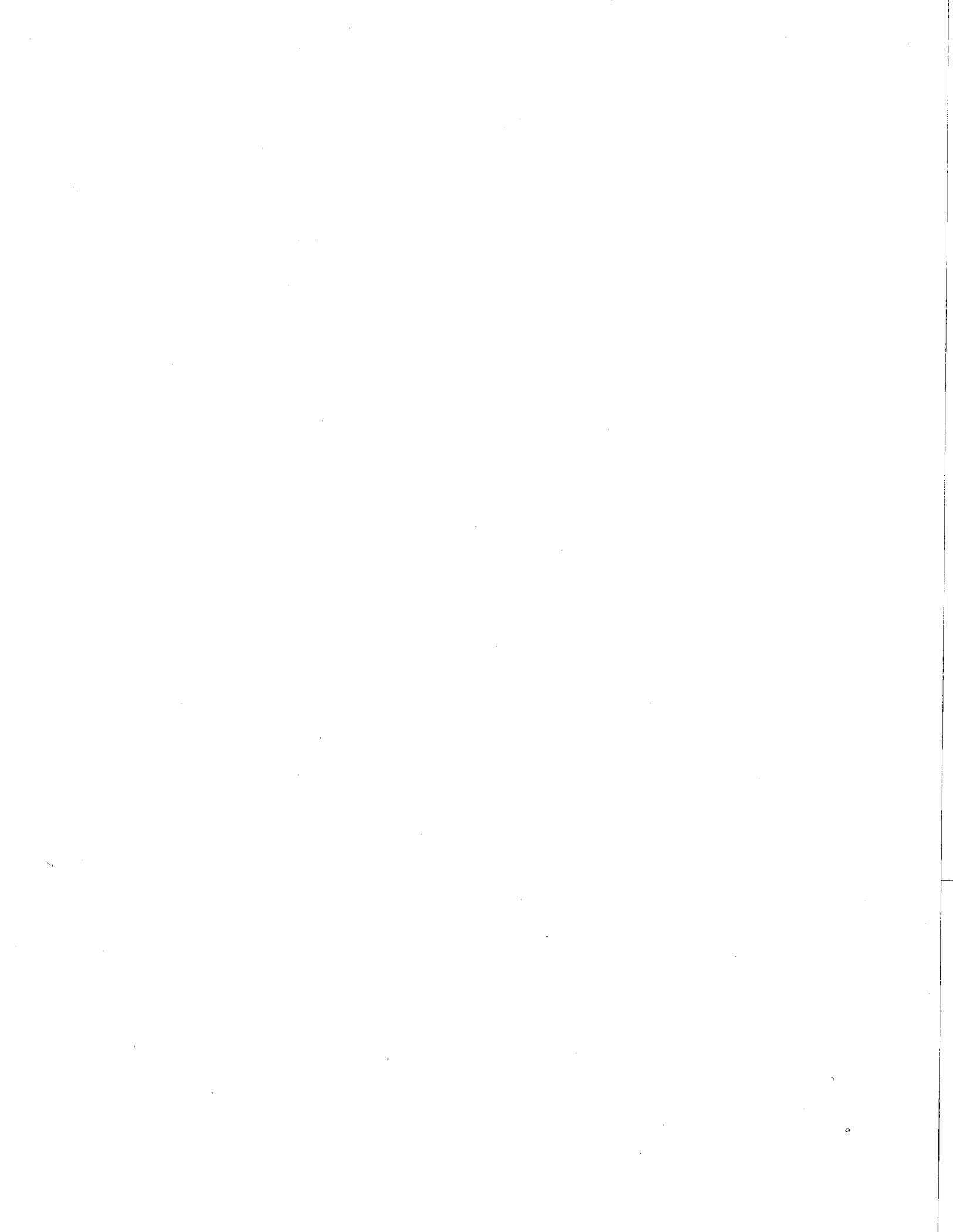
- E. The Commission staff provides advice and counsel to members of the General Assembly on relevant matters pertaining to retirement plan design, financing, and administration.
- F. The Commission provides actuarial notes or advisory notes only to appropriate officials of the legislative and executive 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 10, 1985

(Note: Legislative Procedures originally adopted February 17, 1982; Revised January 12, 1983, April 11, 1984 and April 10, 1985)



C. 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

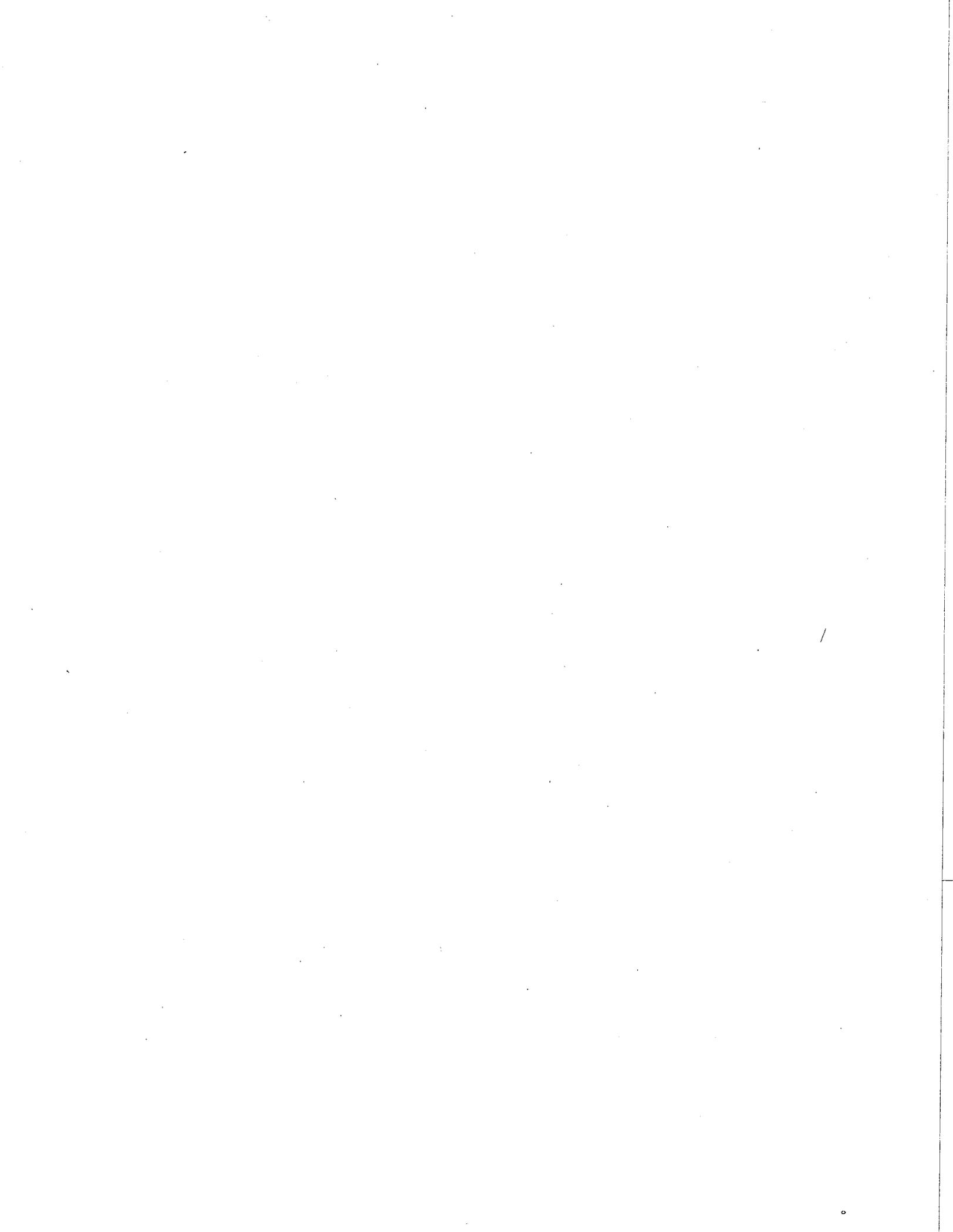
- a. Commission staff memo on current practice in Pennsylvania and other jurisdictions. Commission consideration of appropriateness of authorizing the benefits.
- b. Commission staff memo on policy considerations present in specific aspects of providing intrastate portability and interrelationship with 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).

Adopted June 8, 1983



D. 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 or 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