1986 ANNUAL REPORT

OF THE

PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION

COMMONWEALTH OF PENNSYLVANIA

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COMMONWEALTH OF PENNSYLVANIA

PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION

HARRISBURG
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To: Governor Casey and
Members of the Pennsylvania General Assembly

In compliance with Act No. 1981-66, the following annual report is presented to summarize the activity of the Public Employee Retirement Study Commission during 1986.

During this period, the Commission authorized the attachment of actuarial notes to nineteen bills at the request of various committees of the General Assembly. The Report summarizes this activity and contains a synopsis of each actuarial note. The Report also contains a summary of reviews conducted by the Commission of the State Employes' Retirement System and the Public School Employes' Retirement System, a review of research conducted during 1986 and a summary of the Act 205 regulatory activity of the Commission.

On behalf of the Public Employee Retirement Study Commission and its staff, I am pleased to submit the fourth 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,

Dale D. Stone

Dale D. Stone
Chairman

DEDICATION

The members of the Public Employee Retirement Study Commission and its staff dedicate this edition of the Annual Report to Dr. Gilmore B. Seavers, the Commission's first Chairman, who resigned on September 30, 1986. Dr. Seavers, serving as chairman from 1981-1986, performed a valuable service to this Commonwealth by establishing a firm foundation for all future Commission deliberations. He opened dialogue with all parties concerned about public pension policy and in all matters coming before the Commission demonstrated integrity and strong leadership. He left the Commission with a legacy of excellence. With Dr. Seavers as its first Chairman, the Commission was certain to have an auspicious beginning. We sincerely thank him for his time, his effort and his eloquence.

INTRODUCTION

The Public Employee Retirement Study Commission was established in 1981 with the enactment of Act No. 1981-66. Act 66 provides that the Commission be composed of nine members, five of which are appointed by the Governor and four by the leadership of the General Assembly.

Pursuant to Act 66 the Commission has two primary responsibilities. First, is to monitor public retirement plans in the Commonwealth and to assure their actuarial viability through a review of any proposed legislative changes in those plans. Second, is to study the subject of the retirement needs of public employees in order to formulate principles, develop objectives and recommend legislation

With the passage of Act 205 in 1984, the Commission became responsible for monitoring and enforcing compliance with a legislatively mandated actuarial funding standard, certifying municipal pension cost data annually to effect the allocation of over $70 million of state aid to municipalities, enforcing legislatively mandated standards and obligations under the Financially Distressed Municipal Pension System Recovery Program and determining which municipal pension plans are financially distressed. The Commission also provides technical assistance to Pennsylvania's municipal pension systems.

In addition, Act 66 requires the Commission to prepare an annual public report for presentation to the Governor and General Assembly. Previously, annual reports were issued on the basis of a fiscal as opposed to calendar year. This edition marks our commitment to publish the annual report every year on a calendar year basis.

We have also made some changes in the format and content of the Report. Those familiar with previous editions will have noticed, for example, that we have enlarged its dimensions in order to make it easier to read. In addition, we have simplified the form of the actuarial note summaries and added a section containing summaries of the most recent valuation reports for the State Employes' Retirement System and the Public School Employes' Retirement System. The Commission hopes the new format and increased content of the Report facilitate a more thorough understanding of the operation of the Commission.

The Commission would like to express its sincere gratitude to those who actively participated in its public meetings, the various organizations composing its Advisory Committees, and to all who have offered valuable advice and support to the Commission.

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RESPONSIBILITIES AND DUTIES OF THE COMMISSION

PART I

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

A. SUMMARY OF 1986 ACTIVITY

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 No. 1981-66, 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 standardization of these procedures facilitates the transference of actuarial information on legislation to the General Assembly in a manner which is both expeditious and efficient. The procedures clarify the manner of attaching actuarial notes to legislation including floor amended legislation and while in the possession of the House or Senate Appropriations Committees upon the request of the Committee chairman. They 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 and provide for the preparation of "advisory notes" for committee chairman. The current legislative procedures of the Commission are attached as an appendix to this report.

During 1986, the Commission authorized the attachment of actuarial notes to nineteen bills. A synopsis of the actuarial notes containing a summary of each bill, its actuarial costs and its disposition follows.

B. SYNOPSIS OF ACTUARIAL NOTES

The following pages contain a synopsis of each of the nineteen actuarial notes attached to legislation during 1986. The synopses are arranged alphabetically by the particular pension system or code amended, then by Senate or House Bill in chronological order. If the legislation did not amend a current code or affect a pension system already in existence the actuarial note will be found grouped in a miscellaneous section at the end of this subpart.

Bill Number: House Bill 1957, Printer's Number 2632

System: Municipal Pension Plan Funding Standard and Recovery Act

Subject: Clarification of the Amortization Period for Distressed Communities

Synopsis of Bill

The bill would have expanded an exception from an accelerated amortization requirement applicable to severely distressed municipal pension systems to include moderately distressed municipal pension systems.

Summary of Actuarial Cost Impact

The bill would have corrected a technical deficiency in Act No. 1984-205, and would not have affected the amount or extent of any municipal pension plan benefit coverage and, therefore, had no actuarial cost and impact within the meaning of Act No. 1981-66.

Commission Action

The Commission attached an actuarial note on January 8, 1986 indicating the bill had no cost and noted a substantial similarity between this proposed legislation and Senate Bill 1260, Printer's Number 1674 which had passed the Senate on December 11, 1985 and been sent to the House of Representatives for consideration. Senate Bill 1260 contained the amendment proposed in House Bill 1957 and also remedied an initial year practical implementation difficulty arising out of Act 205 by authorizing certain measurably distressed municipalities 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.

Final Legislative Status

House Bill 1957, Printer's Number 2632 was referred to the House Appropriations Committee on December 9, 1985.

NOTE: A similar bill, Senate Bill 1260, Printer's Number 1674 was signed into law as Act No. 1986-9.

Bill Number: House Bill 2025, Printer's Number 2760

System: Public School Employee's Retirement Code

Subject: Early Retirement (30 years of service, age 53)

Synopsis of Bill

The bill provided for the election of early retirement by members with credit for 30 years of service who were at least 53 years of age with no actuarial reduction in the member's annuity and by members with credit for at least 30 years of service who were at least 50 but not more than 53 years of age with a reduction in the member's annuity of one quarter of one percent for each month which the effective date of retirement preceded the attainment of age 53.

Summary of Actuarial Cost Impact

The actuarial note was based on the assumption that all plan participants would retire when first eligible for unreduced benefits.

Increase in Unfunded Actuarial Accrued Liability	$800,000,000
Increase in Annual Cost	
Normal Cost	$ 21,000,000
Amortization (30 years)	52,000,000
Total	$ 73,000,000 (1.98% of covered payroll)

Actuarial Note prepared by Towers, Perrin, Forster & Crosby

Policy Considerations

In reviewing the bills, the Commission identified the following issues:

- the appropriateness of increasing access to early normal retirement;
- the lack of coordination with existing early retirement incentive programs which may have been locally implemented by various PSERS employing units;
- the appropriateness of establishing a generally applicable early normal retirement provision which is not based on any assessment by individual PSERS employing units of the need for encouraging early retirement or the potential benefit of net salary savings which may result from early retirement;

- the appropriateness of not requiring any increase in the PSERS member contribution rate to assist in funding the actuarial cost of the benefit modification;

- the potential that granting of the proposed PSERS benefit modification will serve as a precedent for similar benefit modifications for other Pennsylvania public pension plan;

- the timeliness of considering the enactment of a permanent PSERS early retirement provision before an analysis can be made of the results of the temporary early retirement window currently in effect; and

- drafting ambiguities contained in the proposed legislation.

Commission Action

The Commission attached an actuarial note on June 11, 1986 indicating that the actuary's assumption that one hundred percent of the plan participants would exercise the early retirement option when first eligible for unreduced benefits produced the maximum potential cost attributable to the benefit modification and that the actual cost of the early retirement program would be less than the actuary's estimate to the extent that utilization of the option was less than one hundred percent. The Commission noted that utilization by eligible PSERS members of temporary early retirement options during two "window" periods had been substantially less than one hundred percent.

The note included a supplementary analysis indicating that the actuarial cost of the early retirement program potentially could be offset by salary savings if many of the retiring teachers were not replaced. The Commission also expressed concern about all policy considerations listed above.

Final Legislative Status

House Bill 2025, Printer's Number 2760 was recommitted to the House Appropriations Committee on March 12, 1986.

Bill Number: House Bill 2106, Printer's Number 2877

System: Public School Employee's Retirement Code

Subject: Early Retirement (30 years of service, age 53)

Synopsis of Bill

The bill proposed the election of early retirement by members with credit for 30 years of service who were at least 53 years of age with no actuarial reduction in the member's annuity and by members with credit for at least 30 years of service who were at least 50 but not more than 53 years of age with a reduction in the member's annuity of one quarter of one percent for each month which the effective date of retirement precedes the attainment of age 53. It also provided for a 20 year amortization period for any Public School Employes' Retirement System cost of living supplemental annuity granted in 1986.

Summary of Actuarial Cost Impact

The actuarial note was based on the assumption that all plan participants would retire when first eligible for unreduced benefits.

Increase in Unfunded Actuarial Accrued Liability	$800,000,000	
Increase in Annual Cost		
Normal Cost	$ 21,000,000	
Amortization (30 years)	52,000,000	
Total	$ 73,000,000	(1.98% of covered payroll)

Actuarial Note prepared by Towers, Perrin, Forster & Crosby

Policy Considerations

In reviewing the bills, the Commission identified the following issues:

- the appropriateness of increasing access to early normal retirement;
- the lack of coordination with existing early retirement incentive programs which may have been locally implemented by various PSERS employing units;
- the appropriateness of establishing a generally applicable early normal retirement provision which is not based on any assessment by individual PSERS employing units of the need for encouraging early retirement or the potential benefit of net salary savings which may result from early retirement;

- the appropriateness of not requiring any increase in the PSERS member contribution rate to assist in funding the actuarial cost of the benefit modification;
- the potential that granting of the proposed PSERS benefit modification will serve as a precedent for similar benefit modifications for other Pennsylvania public pension plan;
- the timeliness of considering the enactment of a permanent PSERS early retirement provision before an analysis can be made of the results of the temporary early retirement window currently in effect; and
- drafting ambiguities contained in the proposed legislation.

Commission Action

The Commission attached an actuarial note on June 11, 1986 indicating that the actuary's assumption that one hundred percent of the plan participants would exercise the early retirement option when first eligible for unreduced benefits produced the maximum potential cost attributable to the benefit modification and that the actual cost of the early retirement program would be less than the actuary's estimate to the extent that utilization of the option was less than one hundred percent. The Commission noted that utilization by eligible PSERS members of temporary early retirement options during two "window" periods had been substantially less than one hundred percent.

The note included a supplementary analysis indicating that the actuarial cost of the early retirement program potentially could be offset by salary savings if many of the retiring teachers were not replaced. The Commission also expressed concern about all policy considerations listed above.

Final Legislative Status

House Bill 2106, Printer's Number 2877 was recommitted to the House Appropriations Committee on March 12, 1986. The legislation was amended and re-reported from appropriations on June 23, 1986. Printer's Number 3754 was re-referred to the House Education Committee on September 29, 1986.

Bill Number: House Bill 2400, Printer's Number 3335

System: Public School Employes' Retirement System

Subject: Social Responsibility Investing

Synopsis of Bill

The bill proposed the establishment of a separate Social Responsibility Fund within the Public School Employes' Retirement System. Members of the system would have the option of directing their retirement contributions to the Social Responsibility Fund. The fund would have been prohibited from investing in corporations doing business in the Republic of South Africa or Namibia and been required to invest only in enterprises concerned with the social impact of their products and services.

Summary of Actuarial Cost Impact

The decision to participate in the Social Responsibility Fund would not have affected pension benefits. Therefore, it was estimated that one-half to two-thirds of the plan members were likely to select inclusion in the Social Responsibility Fund. The potential adverse investment experience could not be measured with mathematical precision. The actuarial note recommended immediate increases in employer contributions to the system of 2 - 3% of covered payroll as a margin against any adverse investment performance attributable to the proposed legislation.

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

The Commission identified the following policy issues:

- the appropriateness of restricting the investment authority of PSERS;
- the possible administrative difficulties of identifying the applicable corporations doing business with South Africa or Namibia;
- the possible administrative difficulties of defining and identifying enterprises which are concerned with the social impact of their products and services and make a significant contribution to society;
- the possible administrative difficulties of establishing two investment funds for the system and having the size of each fund determined by active members.

Commission Action

The Commission attached an actuarial note to the bill on September 17, 1986 indicating concern about the additional employer pension cost attributable to the legislation which would be borne by Pennsylvania taxpayers, the potential administrative difficulties associated with implementation of the legislation and the precedent for future investment restrictions of implementing a social responsibility fund.

Final Legislative Status

House Bill 2400, Printer's Number 3335 was recommitted to the House Appropriations Committee on May 5, 1986.

Bill Number: House Bill 2277, Printer's 3154

System: Second Class County

Subject: Calculation of Retirement Benefits and Interest

Synopsis of Bill

The bill proposed an amendment to the Allegheny County Retirement Act excluding overtime compensation from the calculation of the retirement benefit and refining the interest calculation to conform with a recent court decision.

Summary of Actuarial Cost Impact

OVERTIME CALCULATION

The actuarial cost to the Allegheny County Employees Retirement Plan of including overtime in the benefit calculation depends on the frequency with which it occurs and the degree to which the overtime increases the benefit. An exact determination was not possible because the actuary did not have data as to what percentage of the employees received overtime in their final average pay or the relationship of overtime to normal pay. The actuary determined that the cost of the pension plan would be less since the benefits were less.

INTEREST CALCULATION

Based on a January 1, 1985 actuarial report, the unfunded present value of accrued and future benefits would have declined by $240,000. The following would be the cost savings from offsetting effects of two changes in interest calculation:

° Change in Actuarial Present Value of Projected Benefits due to "correcting" interest on employee contribution refunds	- $495,000
° Change in Actuarial Present Value of Projected Benefit due to paying interest on the contribution of the first two years	+ $255,000
° Net change in Actuarial Present Value of Projected Benefits	- $240,000

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

The Commission identified the following policy issues:

- both portions of the amendment tended to lower plan cost;
- the cost to the plan of inclusion of overtime could vary greatly depending on the amount of retirement benefit based on average compensation inflated by overtime and the average inflated benefit;
- the interest calculation amendment was developed because of a recent class action court case.

Commission Action

On September 17, 1986, the Commission attached an actuarial note to the bill recommending that it be enacted.

Final Legislative Status

House Bill 2277, Printer's Number 3154 passed the House on November 18, 1986 and was referred to the Senate Local Government Committee on November 19, 1986.

Bill Number: Senate Bill 1564, Printer's Number 2232

System: State Employes' Retirement System

Subject: Transfer of Pension Service of Former County Employees to SERS

Synopsis of Bill

Act No. 1985-49 shifted the personnel staff of appellate court judges from county employment to state employment. This bill would have transferred the pension service credit for these employee's to SERS.

Summary of Actuarial Cost Impact

Increase in Unfunded Actuarial Accrued Liability	$370,000
Increase in Annual Cost	
Normal Cost	$ 0
Amortization (20 years)	29,305
Total	$ 29,305

Actuarial Note prepared by Towers, Perrin, Forster & Crosby

Policy Considerations

The Commission identified the following policy issues:

- the bill required that the accumulated employee contribution transferred into SERS was the amount that would have been accumulated if the participant had been a member of SERS;
- the bill did not require the actual amounts accumulated in the county plans.

Commission Action

The Commission attached an actuarial note on November 12, 1986, and indicated concern about the appropriateness of the mechanism provided under the legislation for determining asset amounts to be transferred from county pension systems to SERS in connection with the service transfer.

Final Legislative Status

Senate Bill 1564, Printer's Number 2232 passed the Senate on November 19, 1986, and was referred to the House State Government Committee on November 24, 1986.

Bill Number: House Bill 667, Printer's Number 3245

System: State Employes' Retirement System

Subject: Credited Service as Retirement Incentive

Synopsis of Bill

The bill would have given an additional three years of service credit to each active SERS member (other than a judge, a legislator or an elected official) who had attained the age of at least 55 years, had credit for at least ten years of service and who retired between June 30, 1986 and September 30, 1987. Any person making use of the special early retirement incentive and subsequently returned to state service or to school service would have forfeited the additional three years of service credit and have the frozen present value of the retirement annuity adjusted accordingly. The grant of additional service credit would not have required any contribution or payment on the part of retiring SERS members.

Summary of Actuarial Cost Impact

The note indicated that the bill would result in an increase in the unfunded accrued liability and amortization requirement of the State Employes' Retirement System.

The actuarial cost of the proposed legislation depended on the extent of the utilization of the early retirement service credit grant program. Based on an analysis of the various factors influencing the decision to retire, two estimates of potential utilization were developed for estimating actuarial cost. The lower rate is based upon utilization by 38% and the higher rate by 51.75% of the eligible members.

	Lower Utilization	Higher Utilization
Increase in Unfunded Actuarial Accrued Liability	$97,500,000	$132,700.00
Increase in Annual Cost Amortization (5 years)	$22,700,000	$ 30,900.00
As percent of payroll	.92%	1.25%

The actuary's analysis indicated that salary savings would offset the actuarial cost of the early retirement program only if relatively few retiring members were replaced.

Actuarial Note prepared by Towers, Perrin, Forster & Crosby

House Bill 667 (Cont'd)

Policy Considerations

The Commission identified the following policy issues:

- the appropriateness of an early retirement program being applicable to a broad group of employees including agencies where a salary savings are not practical because a reduction in the work force is not desirable;
- the establishment of a precedent for similar programs or extensions.

Commission Action

The Commission attached an actuarial note on June 11, 1986, indicating concern about (1) the extent to which a broadly applicable early retirement incentive program, which included agencies where no permanent reduction in the work force is likely or desirable, would be able to achieve the intended salary savings to offset the actuarial cost of the proposal; and (2) the potential that granting an early retirement incentive would serve as a precedent for similar programs for other pension plans thereby creating demands that the program be repeated or made permanent.

Final Legislative Status

House Bill 667, Printer's Number 3245 was recommitted to the House Appropriations Committee on April 16, 1986.

Bill Number: House Bill 821, Printer's Number 4018

System: State Employes' Retirement System

Subject: Employer Contribution Rates

Synopsis of Bill

The bill proposed an amendment to Title 71 of the Pennsylvania Consolidated Statutes, Section 5301(a)(12) redefining for fiscal year 1986-87 the employer contribution rate for members of independent retirement systems to be the greater of 7% or the State Employes' Retirement System normal contribution rate. In addition, the bill directed the Public Employee Retirement Study Commission to study the most appropriate method to set optional annual employer contribution rates to retirement systems and report the results to the Governor and General Assembly on or before March 31, 1987.

Summary of Actuarial Cost Impact

The note indicated that there were approximately 4,700 public employees in Pennsylvania optional alternate retirement programs. These systems are defined contribution plans whose employer contribution rate is determined by the State Employes' Retirement System normal cost rate. The December 31, 1985 actuarial valuation of the State Employes' Retirement System contained a reduction in the normal cost rate from 6.42% to 3.60%, thus greatly reducing the contribution rate ceiling for these optional alternate retirement programs. The proposed legislation would have established a rate of the greater of 7% or the employer normal contribution rate for SERS.

The following represents the estimated cost difference between the current 3.6% contribution rate and the proposal in the bills for an alternative 7% contribution rate.

Organization	Estimated Number of Affected Employees	Estimated Payroll of Affected Employees	Cost Difference 3.6% and 7% Rate
State System of Higher Education	1,460	$ 41,000,000	$1,400,000
Pennsylvania State University	3,200	$103,000,000	$3,500,000
State Department of Education	30	$ 840,000	$ 28,000
Total Estimated Cost Difference			$4,928,000

Actuarial Note prepared by Conrad M. Siegel, Inc.

House Bill 821 (Cont'd)

Commission Action

On October 8, 1986, the Commission attached an actuarial note to the bill and transmitted the actuarial cost information without further comment.

Final Legislative Status

House Bill 821, Printer's Number 4018 was signed into law December 15, 1986, becoming Act No. 1986-176.

Bill Number: House Bill 864, P.N. 990

System: State Employes' Retirement System

Subject: Age 50 Retirement for
Delaware River Port Authority Police

Synopsis of Bill

The bill would have included police officers of the Delaware River Port Authority in the early (age 50) superannuation age provision applicable to members of the General Assembly, correction officers, enforcement officers, psychiatric security aides or state police officers.

Summary of Actuarial Cost Impact

A Commission consulting actuary reviewed an actuarial cost estimate originally prepared by the SERS actuary in connection with an earlier bill identical to House Bill 864 and subsequently updated by the Commission staff for the preparation of an advisory note on House Bill 864. The reviewing actuary indicated that the updated cost estimate presented in the February 6, 1986 advisory note seemed reasonable and represented the best available estimate at the time.

Increase in Unfunded Accrued Liability	$3,000,000
Increase in Annual Costs	
Amortization	$125,496 (3.51% of affected payroll)
Normal Cost	71,116 (1.99% of affected payroll)
Total	$196,612 (5.5% of affected payroll)

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

The Commission identified the following policy issues:

- appropriateness of extending the age 50 early retirement provision to this group of employees;
- appropriateness of not requiring any increase in member contributions to finance a portion of the actuarial cost of the expanded benefit coverage.

Commission Action

The Commission attached an actuarial note on October 8, 1986 expressing concern about the actuarial impact of the bill on the employer pension cost of the Delaware River Port Authority, the appropriateness of extending this early retirement provision to this group of employees and the absence of an increase in the member contributions of the affected employees to finance a portion of

House Bill 864 (Cont'd)

the actuarial cost of the expanded benefit coverage. In addition, the Commission directed that a study be undertaken by the Commission staff of issues associated with the provision of special retirement coverage for employees performing potentially hazardous duties.

Final Legislative Status

House Bill 864, Printer's Number 990 was recommitted to the House Appropriations Committee on May 5, 1986.

Bill Number: House Bill 1029, Printer's Number 1182

System: State Employes' Retirement System

Subject: Cost-of-Living Adjustment

Synopsis of Bill

The bill proposed an amendment to the law governing the State Employes' Retirement System (SERS), by providing a supplemental cost-of-living adjustment annuity for SERS benefit recipients, other than beneficiaries, of an amount equal to two percent of the current benefit amount, not to exceed $12 per month, effective July 1, 1985 or immediately, whichever is later.

Summary of Actuarial Cost Impact

Increase in Unfunded Accrued Liability	$55,000,000
Increase in Annual Cost Amortization (20 years)	$ 4,360,000
Increase in Benefits Payable (1st year)	$ 5,300,000

Actuarial Note prepared by Towers, Perrin, Forster & Crosby

Policy Considerations

The Commission identified the following policy issues:

- the appropriateness of granting an ad hoc post retirement adjustment within such a short period of time following the last adjustment;
- the amortization period would be longer than the average remaining lifetime of the benefit recipients;
- the potential that granting the proposed COLA will serve as a precedent for a similar benefit increase for the other statewide plans (PSERS).

Commission Action

On June 11, 1986 the Commission attached an actuarial note indicating the above listed actuarial costs and policy considerations.

Final Legislative Status

House Bill 1029, Printer's Number 1182 was recommitted to the House Appropriations Committee, April 9, 1986.

Bill Number: House Bill 1069, Printer's Number 2214

System: State Employes' Retirement System Code

Subject: Expansion of Public Safety Coverage

Synopsis of Bill

The bill would have amended that portion of the State Employes' Retirement System Code which defines various terms, by expanding the definition of the term "correction officer" used to govern special SERS public safety employee benefit coverage to include full time State employees assigned to the Department of Corrections or the Department of Public Welfare who provide direct therapeutic treatment to inmates in a facility for the criminally insane or a secure youth detention facility operated by either the Department of Corrections or the Department of Public Welfare. The affected departments would have been required within 30 days of effective date of the act to certify to SERS the names of the employees affected by the act.

Summary of Actuarial Cost Impact

The note indicated that the bill would increase in unfunded accrued liability, normal cost and amortization requirement of the State Employees' Retirement System (SERS).

The actuarial estimate of the increase in the SERS unfunded accrued liability varied depending on the potential interpretation of the ambiguous generic language of the proposed legislation.

	Least Expansive	Most Expansive
Increase in Unfunded Actuarial Accrued Liability	$6,100,000	$8,500,000
Increase in Annual Cost (first year)		
Normal Cost	$ 492,860	$ 682,210
Amortization (20 years)	459,140	639,790
Total	$ 952,000	1,322,000

The actuary also estimated that the financial impact on the affected departments, the Department of Corrections and the Department of Public Welfare, was more significant. The initial year increase in the financing requirement for the Department of Corrections was estimated at $237,421 to $500,548 and for the Department of Public Welfare $700,959 to $821,258. The average increases in the SERS unfunded accrued liability per affected employee for the Department of Corrections and the Department of Public Welfare are $7,834 and $6,894 (least expansive interpretation) or $7,968 and $6,979 (most expansive interpretation), respectively.

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

The Commission identified the following policy issues:

- the appropriateness of the extension of special SERS public safety employee benefit coverage to positions whose duties may or may not be sufficiently hazardous and for which the need to encourage the recruitment and retention of exceptionally vigorous and able individuals may or may not be sufficiently great to justify the extension;

- the precedent which this extension of special SERS public safety employee benefit coverage may set for demands for similar extensions;

- the substantial drafting ambiguities contained in the proposed legislation by virtue of the unspecific manner in which the relevant definition is framed.

Commission Action

On March 4, 1986 the Commission attached an actuarial note and recommended that the General Assembly refrain from taking any affirmative action with respect to the legislation during the legislative session and await the completion of a study and review of the issue of special retirement benefit coverage for various public safety employees, which is scheduled to commence later.

Final Legislative Status

House Bill 1069, Printer's Number 2214 was recommitted to the House Appropriations Committee on October 15, 1985.

Bill Number: House Bill 1793, Printer's Number 2302

System: State Employes' Retirement System

Subject: Creditable nonstate service

Synopsis of Bill

The bill would have amended Title 71 of the Pennsylvania Consolidated Statutes, Section 5304(c) by expanding the definition of creditable nonstate service to include service as a temporary Federal employee assigned to an air quality control complement for the Pennsylvania Department of Environmental Resources at any time during the period of 1970 through 1975.

Summary of Actuarial Cost Impact

Increase in Actuarial Accrued Liability	$117,366
Increase in Annual Cost	
Normal Cost	$ 0
Amortization (14.5 & 19.5 years)	9,104
Total	$ 9,104

Actuarial Note prepared by Milliman & Robertson, Inc.

Policy Considerations

The Commission identified the following policy issues:

- the bill does not set forth a procedure for an employee to purchase the credit so it is assumed that the procedure would be the same as current state law;
- the bill does not require that the service purchase payment amount be the full actuarial cost of the increased benefit, does not limit the time within which the purchase option may be exercised, and does not exclude the purchase payment from Option 4 withdrawal;
- the bill may serve as a precedent for other members of the State Employes' Retirement System that are in similar situations;
- current members are ineligible for creditable nonstate service if they are eligible for a pension from another retirement plan for such service. It is assumed that this limitation would also apply to this proposal.

Commission Action

On November 12, 1986 the Commission attached the actuarial note to the bill indicating the above costs and expressed the Commission's concern about the absence of a requirement that the purchase payment be the full actuarial cost of the increased benefit, the absence of a time limit for exercising the purchase option, the absence of a restriction on the withdrawal of the purchase payment under Option 4 and the potential that the legislation may service as a precedent for similarly situated members to seek service purchase authorizations.

Final Legislative Status

House Bill 1793, Printer's Number 2302 was recommitted to the House Appropriations Committee on September 24, 1986.

Bill Number: House Bill 2401, Printer's Number 3336

System: State Employes' Retirement System

Subject: Social Responsibility Investing

Synopsis of Bill

The bill proposed the establishment of a separate Social Responsibility Fund within the State Employes' Retirement System. Members of the system would have the option of directing their retirement contributions to the Social Responsibility Fund. The fund would have been prohibited from investing in corporations doing business in the Republic of South Africa or Namibia and been required to invest only in enterprises concerned with the social impact of their products and services.

Summary of Actuarial Cost Impact

The decision to participate in the Social Responsibility Fund would not have affected pension benefits. Therefore, it was estimated that one-half to two-thirds of the plan members were likely to select inclusion in the Social Responsibility Fund. The potential adverse investment experience could not be measured with mathematical precision. The actuarial note recommended immediate increases in employer contributions to the system of 2 - 3% of covered payroll as a margin against any adverse investment performance attributable to the proposed legislation.

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

The Commission identified the following policy issues:

- the appropriateness of restricting the investment authority of SERS;
- the possible administrative difficulties of identifying the applicable corporations doing business with South Africa or Namibia;
- the possible administrative difficulties of defining and identifying enterprises which are concerned with the social impact of their products and services and make a significant contribution to society;
- the possible administrative difficulties of establishing two investment funds for the system and having the size of each fund determined by active members.

Commission Action

The Commission attached an actuarial note to the bill on September 17, 1986 indicating concern about the additional employer pension cost attributable to the legislation which would be borne by Pennsylvania taxpayers, the potential administrative difficulties associated with implementation of the legislation and the precedent for future investment restrictions of implementing a social responsibility fund.

Final Legislative Status

House Bill 2401, Printer's Number 3336 was recommitted to the House Appropriations Committee on May 5, 1986.

Bill Number: House Bill 2429, Printer's Number 3632

System: State Employes' Retirement System

Subject: Expansion of Special Public Safety Employee Benefit Coverage

Synopsis of Bill

The bill would have expanded the number of persons covered under the enforcement officer classification of the State Employes' Retirement System. The expansion would have extended to members employed as enforcement or investigative employees of the Attorney General vested with police power and authority. The expanded definition would increase retirement, early retirement, death and other benefits under SERS.

Summary of Actuarial Cost Impact

Increase in Unfunded Accrued Liability	$1,315,609

Increase in Annual Costs	
Amortization (20 years)	$ 93,762 (2.23% of payroll)
Normal Cost	109,739 (2.61% of payroll)
Total	$203,501 (4.84% of applicable payroll)

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

The Commission identified the following policy issues:

- the increased cost of 4.84% of the Attorney General's payroll for employees affected by the benefit change;
- the absence of any increase in member contributions in the proposed legislation;
- the appropriateness of the change in the benefit coverage for the affected employees.

Commission Action

On October 8, 1986, The Commission attached an actuarial note to the bill expressing concern about the actuarial impact of the bill on the employer pension cost of the State Employes' Retirement System, the appropriateness of extending the early retirement provision to this group of employees and the absence of an increase in the member contributions of the affected employees to finance a portion of the actuarial cost of the expanded benefit coverage. In addition, the Commission directed that a study be undertaken by the Commission staff of issues associated with the provision of special retirement coverage for employees performing potentially hazardous duties.

Final Legislative Status

House Bill 2429, Printer's Number 3632 passed the House on October 7, 1986 and was referred to the Senate Finance Committee.

Bill Number: House Bill 2733, Printer's Number 3931

System: State Employes' Retirement System

Subject: Employer Contribution Rates

Synopsis of Bills

The bill would have amended Section 5301(a)(12) of the State Employes' Retirement Code by redefining for fiscal year 1986-87 the employer contribution rate for members of independent retirement systems to be the greater of 7% or the State Employes' Retirement System normal contribution rate. In addition, the bill directed the Public Employee Retirement Study Commission to study the most appropriate method to set optional annual employer contribution rates to retirement systems and report the results to the Governor and General Assembly on or before March 31, 1987.

Summary of Actuarial Cost Impact

The actuarial note indicated that there were approximately 4,700 public employees in Pennsylvania optional alternate retirement programs. These systems are defined contribution plans whose employer contribution rate is determined by the State Employes' Retirement System normal cost rate. The December 31, 1985 actuarial valuation of the State Employes' Retirement System contained a reduction in the normal cost rate from 6.42% to 3.60%, thus greatly reducing the contribution rate ceiling for these optional alternate retirement programs. The proposed legislation established a rate of the greater of 7% or the employer normal contribution rate for SERS.

The following represents the estimated cost difference between the current 3.6% contribution rate and the proposal in the bills for an alternative 7% contribution rate.

Organization	Estimated Number of Affected Employees	Estimated Payroll of Affected Employees	Cost Difference 3.6% & 7% Rate
State System of Higher Education	1,460	$ 41,000,000	$1,400,000
Pennsylvania State University	3,200	$103,000,000	$3,500,000
State Department of Education	30	$ 840,000	$ 28,000
Total Estimated Cost Difference			$4,928,000

Actuarial Note prepared by Conrad M. Siegel, Inc.

Commission Action

On October 8, 1986 the Commission attached an actuarial note to the bill and transmitted the actuarial cost information without further comment.

Final Legislative Status

House Bill 2733, Printer's Number 3931 was passed by the House on September 24, 1986 and was referred to the Senate Finance Committee on September 30, 1986.

NOTE: Another version of this bill (H.B. 821, P. N. 4018) was signed into law on December 15, 1986.

Bill Number: House Bill 81, Printer's Number 85

System: Third Class City Police

Subject: Earlier Vesting for Police Officers

Synopsis of Bill

The bill provided for vesting of a proportional retirement benefit amount with 12 years of service as an optional benefit provision if it would not impair the actuarial soundness of the pension plan.

Summary of Actuarial Cost Impact

The actuarial note indicated that, because of the relatively low probability of withdrawal in police employment with between 12 and 20 years of service, there would be a relatively negligible cost implication to providing for 12-year vesting compared to 20-year vesting. The actuary estimated that a maximum increase of 1% in employer pension cost would result from the proposed legislation.

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

The Commission identified the following policy issue:

> drafting ambiguities exist in the legislation caused mainly from extracting language with few modifications from the Municipal Police Pension Law.

Commission Action

The Commission attached an actuarial note on June 11, 1986, indicating the actuarial cost and noted several drafting ambiguities which required clarification. The Commission recommended that the various drafting ambiguities contained in the proposed legislation be corrected or clarified prior to further consideration of the bill.

Final Legislative Status

House Bill 81, Printer's Number 85 was recommitted to the House Appropriations Committee on April 15, 1986.

Bill Number: House Bill 82, Printer's Number 86

System: Third Class City Police

Subject: Immediate Vesting for Duty Related Total Disability

Synopsis of Bill

House Bill 82 provided that any police officer who suffered a total disability in the line of duty should be deemed to be fully vested for a retirement benefit regardless of the length of previous service.

Summary of Actuarial Cost Impact

The actuarial note estimated the additional cost attributable to adding the duty related total disability benefit to a sample third class city police pension plan. The sample plan had 165 active members and 118 benefit recipients and was eligible to participate in Level III of the Act 205 Recovery Program. For the sample plan, the increase in the municipality's cost for normal cost and amortization of unfunded liability attributable to the added benefit would equal 1.91% of the plan's covered payroll.

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

In reviewing the bill, the Commonwealth identified the following policy issues:

- lack of a clear definition for the term disability;
- the absence of a procedure for determining disabled status;
- the lack of coordination with other disability benefit coverage which may be provided;
- the absence of any increase in employee contributions;
- the appropriateness of the Commonwealth mandating benefit increases for local government employees;
- consideration of recent challenges to the historically accepted policy of a public employers special obligation to public safety personnel having hazardous duty;
- the existence of drafting ambiguities.

Commission Action

The Commission attached an actuarial note on June 11, 1986, indicating the costs listed above and concern about the absence of a clear definition of disability

House Bill 82 (Cont'd)

resulting in entitlement to the benefit, the lack of a specified procedure for making initial and subsequent determinations of disability, the lack of coordination of the additional benefit coverage with other disability benefit coverage already provided, the absence of a member contribution increase accompanying the benefit increase, the appropriateness of mandating municipalities to provide benefit increases challenges to historical assumptions concerning a public employer's obligation to public safety personnel, and drafting ambiguities contained in the proposed legislation.

Final Legislative Status

House Bill 82, Printer's Number 86 was recommitted to the House Appropriations Committee on April 15, 1986.

Bill Number: Senate Bill 1047, Printer's Number 1841

System: Volunteer Firemen's Relief Association

Subject: Volunteer Firefighter's Retirement Income Plans

Synopsis of Bill

The bill would have amended Act No. 1968-84, the Volunteer Firemen's Relief Association Act, to authorize volunteer firemen's relief associations to establish on an optional basis retirement benefit plans for relief association members for the purpose of providing retirement benefits to retired volunteer firefighters and to specify various minimum and maximum requirements for those retirement benefit plans. The requirements for volunteer firefighter retirement benefit plans include minimum requirements for eligibility, vested benefits, normal retirement age, retirement benefit plan reporting, annual funding, fiduciary responsibility, plan disclosure, and minimum and maximum benefit or contribution requirements. The exercise of the authority by a volunteer firemen's relief association was conditioned on the provision of minimum insurance coverage of $30,000 for accidental deaths and $100 weekly income for disabilitants.

Summary of Actuarial Cost Impact

The actuarial note set forth the pattern of benefit payments, available financing, plan assets, normal cost and post service liability for three hypothetical volunteer firefighter retirement income plans for the first 32 years of the plans' operation. The data was based on the provision of the maximum allowable benefit for a defined benefit plan established under the bill. The actuarial note also assumed that the primary source of available financing for the plans, the State aid distributed to volunteer fire relief associations, would increase at a rate of 10% per year and that all available financial resources of the volunteer fire relief association in excess of amounts needed to pay the premium for mandatory insurance coverage would be committed to funding the retirement income plan irrespective of the funding requirements of the plan. As a result, the actuarial note demonstrated a pattern of funding in excess of the actuarial funding requirements of the plans occurring throughout the time period presented in the case of the two larger plans and beginning in the eleventh year and continuing through the remainder of the period presented for the 10-member plan.

Actuarial Note prepared by Agatston Actuarial Services

Policy Considerations

The Commission identified the following pension policy issues:

- the appropriateness of providing this type of benefit as a recruitment and retention incentive to volunteer firefighters given Pennsylvania's long history of not providing this type of benefit coverage to volunteer firefighters;

Senate Bill 1047 (Cont'd)

- the appropriateness of providing this coverage to volunteer firefighters, when Pennsylvania did not have a tradition of comprehensively providing pension coverage to all of its full time paid municipal employees;

- the advisability of authorizing the establishment of a multiplicity of local pension plans for volunteer firefighters. Pennsylvania led the nation as the state with the largest number of public employee pension plans.

Commission Action

The Commission attached an actuarial note on April 9, 1986 indicating the cost data listed above and while acknowledging the desirability of providing some form of inducement to attract and retain qualified volunteer firefighters, questioned whether the retirement benefit proposed in the bill was the most appropriate means of providing this inducement.

The Commission also expressed concern that if the bill were enacted over 2,500 volunteer firefighter relief associations would be eligible to establish a new pension plan, thus bringing the total number of local pension plans in Pennsylvania to over 4,800. Because Pennsylvania already has from one quarter to one third of all of the public pension plans in the nation and the experience of Pennsylvania with respect to the current public employee pension plans has been a situation of highly uncoordinated pension policy, administrative inefficiencies and funding irregularities the Commission concluded that some consideration should be given to an optional course of action, such as the establishment of a single statewide volunteer firefighters pension plan for all interested volunteer firefighter relief associations or utilizing the Pennsylvania Municipal Retirement System (PMRS) to administer any pension plans established by volunteer firefighters relief associations. It was the Commission's view that these alternative approaches would achieve greater pension policy coordination, provide administrative and investment professionalism and produce economies of scale which would be impossible to achieve on a local basis.

Final Legislative Status

Senate Bill 1047, P.N. 1841 passed the Senate on March 17, 1986 and was referred to the House State Government Committee.

Bill Number: Senate Bill 1299, Printer's Number 2072 thru
Senate Bill 1323, Printer's Number 1763

System: Miscellaneous: Various Municipal Pension Systems

Subject: Conforming Amendments to Act No. 1984-205

Synopsis of Bill

These bills constituted a package of technical amendments to various Pennsylvania statutes governing municipal pension plans to effect conformity with the various provisions of Act No. 1984-205, the Municipal Pension Plan Funding Standard and Recovery Act.

Summary of Actuarial Cost Impact

The Commission determined that the bills contained amendments of a technical nature to various laws governing municipal pension plans to reduce or eliminate conflict or overlap with Act No. 1984-205 and had no actuarial cost or impact within the meaning of Act No. 1981-66.

Commission Action

The Commission attached an actuarial note on May 14, 1986 indicating there was no actuarial cost associated with these bills.

Final Legislative Status

All bills in this package passed the Senate and were referred to the House Finance Committee.

PART II.

MUNICIPAL PENSION PLAN ADMINISTRATION

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.

(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."

(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

A. ADMINISTRATION OF THE MUNICIPAL PENSION PLAN FUNDING STANDARD AND RECOVERY ACT OF 1984

In enacting Act No. 1981-66, the General Assembly found municipal pension system reform to be necessary in the Commonwealth and directed the Commission to formulate, within one year of its initial meeting, legislation mandating actuarial funding standards for all municipal pension systems and establishing a recovery program for financially distressed municipal pension systems.

In accordance with this legislative directive, the Commission drafted and worked for the passage of the Municipal Pension Plan Funding Standard and Recovery Act, which was signed into law on December 18, 1984, making it Act No. 1984-205. Act 205 replaced the actuarial reporting requirements of Act No. 1972-293 for all Pennsylvania municipalities except counties (see subpart B).

Act 205 establishes a reliable method to identify and monitor the financial condition of municipal pension plans, provides a remedial program for those plans in need of assistance, and requires contribution levels sufficient to assure that future problems do not occur. A description of the major provisions of Act 205 follows:

<u>Actuarial Valuation Reports</u>--The Act requires each municipality maintaining a pension plan to have an actuarial evaluation of the plan(s) at least every two years (or every year if the municipality is receiving supplemental state aid for pension plans). Minimum contents for the reports are established. The reports must be based on a uniform actuarial cost method, and the actuarial assumptions used must

be within acceptable ranges specified in the rules and regulations issued by the Commission.

The Commission is the agency responsible for administering the Act 205 actuarial reporting program.

Minimum Funding Standards--The Act requires annual contributions to be made at the level necessary to meet the plan's normal cost (as determined using the actuarial assumptions mentioned above) and administrative expense, and to amortize any unfunded liability which exists or might develop within specified periods. Failure to make adequate contributions can be remedied through legal proceedings against the municipality in courts. These proceedings can be initiated by any plan member or beneficiary, a fiduciary of the plan, elected or appointed officials of the municipality, or the Commission. The Commission is required to annually report all instances of non-compliance with the minimum funding standard to the Governor and the General Assembly.

General Municipal Pension System State Aid Program--The Act establishes the General Municipal Pension System State Aid Program to provide financial aid to municipalities maintaining pension plans for their employees. The purpose of the program is to allocate all of the proceeds of the foreign casualty insurance premiums tax and the portion of the proceeds of the foreign fire insurance premiums tax applicable to paid firefighters. These allocations can be used as contributions to pension plans for non-uniformed employees, police employees and paid fire employees. Prior to Act 205, these allocations could only be used for police and paid fire employee plans.

The allocations are based on the relative number of covered employees (expressed as units weighted for police and paid fire employees) to the state total. For the first 10 years, the allocations to any municipality have a "grandfathered" lower limit equal to the lesser of either its allocation in 1982 or its actual annual financial requirements.

The Commission annually calculates and certifies municipal pension cost data to the Auditor General for use in the allocation formula for General Municipal Pension System State Aid.

Procedure to Determine Financial Distress--The Act establishes a method to determine the degree of financial distress of a municipal pension plan. The method is based on the use of objective factors. It requires the analysis to be based on pension data aggregated for all plans maintained by the municipality and on financial data assessing the fiscal capacities of the individual municipalities. The municipal distress determinations are made annually by the Commission.

The Act establishes three levels of distress as determined by the procedures referred to above.

Recovery Program for Financially Distressed Plans--The Act establishes a recovery program for those municipalities having pension plans determined to be financially distressed. The recovery program has three levels which correspond to the established levels of distress. Supplemental state assistance will be provided in direct relation to the degree of distress determined to exist. To qualify for the supplemental assistance, the municipality first has to adopt the mandatory reform measures of the recovery program. Some of the reform mandatory measures specified include the following: aggregation of all pension trust funds in a municipality; establishment of revised plans for new hires; and, implementation of full actuarial funding on a scheduled basis.

The supplemental state aid will be funded through a general fund appropriation in an amount not to exceed $35 million annually. The funds can be used as allocations for pension plans in distress or as emergency loans to avoid default of pension plans.

The Commission is the agency responsible for administering the Act 205 Recovery Program.

Municipalities submitted actuarial valuation reports to the Commission pursuant to Act 205 for the first time in 1986. As indicated in the previous annual report, the Commission mailed an Act 205 Questionnaire to all municipalities in order to obtain information about what types of pension plans were in effect. Act 205 actuarial valuation reporting forms were mailed out to each municipality as they returned an appropriately completed questionnaire. At the beginning of 1986, 54% or 2,492 of the 4,582 questionnaires which had been mailed, were appropriately completed and filed with the Commission. By March 31, 1986, the deadline to file actuarial valuation reports, the Commission had received 80% or 3,793 questionnaires and over 1,200 reporting forms.

Throughout the year, Commission staff reviewed the reports and sought compliance from those municipalities who had not filed a questionnaire or valuation report by the statutory deadline. At the close of 1986, 4,363 or 95% of all questionnaires had been returned. The questionnaires indicated that 2,765 municipalities provided no pension coverage and 1,598 municipalities maintained at least one pension plan. Of the 1,598 municipalities indicating they had one or more pension plans, 1,437 (90%) filed completed actuarial valuation reports. The Commission reviewed over 2,200 actuarial valuation reports submitted by these municipalities during 1986.

The Commission, in accordance with Act 205, calculated and certified pension cost data to the Auditor General for the distribution of over $70 million in General Municipal Pension System State Aid for those municipalities in compliance with the Act. State Aid allocations were based on either a unit value allocation determined by the relative number of covered employees or the lesser of a municipalities 1982 police and fire aid amount or actual annual pension costs. In 1986, municipalities who filed their actuarial valuation reports by the statutory deadline received an allocation based on a unit value of $1,624.04. Municipalities filing after the deadline received their allocation based on an adjusted unit value of $1,316.44. Of the 1,437 municipalities in compliance with the reporting requirements of Act 205 at the end of 1986, 1,131 were eligible for State Aid and certified as such by the Commission to the

Office of the Auditor General. The remaining 306 pension plans were municipal authorities which are ineligible to receive state aid pursuant to Act 205.

In late November, 1986, the Commission mailed compliance orders to over 250 local governments which had not submitted the required reporting form(s) at that time. This effort proved quite successful since by years end only 161 municipalities remained delinquent. Seventy-three were cities, boroughs or townships and 88 were municipal authorities. In addition, 201 municipalities (183 of which are authorities) had yet to file questionnaires.

In addition, to reviewing actuarial reports under the Act 205 program, the Commission processed distressed determination applications for 73 municipalities in 1986. All municipalities electing to participate in levels II and III of the recovery program and requesting supplemental state assistance must file an actuarial valuation report annually.

At the end of 1986, the Commission, in accordance with Act 205, initiated work on a report to the General Assembly detailing the financial condition of municipal pension plans in the Commonwealth. The report is targeted for release in the spring of 1987.

B. ADMINISTRATION OF ACT 293 OF 1972

Act 66 transferred the administration of Act No. 1972-293 from the Department of Community Affairs to the Commission. In 1985, when Act No. 1984-205 became effective, it replaced the actuarial reporting requirements of Act 293 for all municipalities except counties. County governments continue to file actuarial report pursuant to Act 293. Counties with fifty or more members in any one of their employee pension systems are required to submit biennial reports, while counties with less than fifty members in each of their employee pension systems must file a report every four years.

During 1986, the Commission continued to seek compliance from two municipal authorities who had failed to file their 1984 valuation reports. These reports were filed in the early part of the year.

In addition, the Commission prepared for the next filing of Act 293 actuarial valuation reports since all counties will be required to file a 1986 report in 1987. The Commission updated and revised the Act 293 reporting form to accommodate changes effected by the passage of Act 205. The Commission also mailed filing notices to 66 county governments advising them of their obligation to file an actuarial valuation report by March 31, 1987.

PART III.

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

A. RESEARCH IN PROGRESS

One of the major functions of the Commission is the coordination of public employee pension policy and reform in the Commonwealth. Rather than attempting to reform public pension policy by levels of government and employee classifications, the Commission has concluded that reform of public pension policy can best be addressed on the basis of broad policy issues. In June of 1983, after evaluating potential issues or projects, the Commission adopted a work plan schedule for completing various policy development goals. The Commission's Statement of Policy Development and Project Goals is attached as appendix C to this report.

During the period covered by this report, the Commission worked on five major research projects. A description of the status and progress of each project follows.

1. The Study of Total Compensation for Pennsylvania Public Employees

At the January, 1986 meeting of the Public Employee Retirement Study Commission, the Commission made the completion of the Pennsylvania Public Employee Total Compensation Study a priority activity for 1986.

The total compensation study was initiated in 1983 as a long term project. It is intended to result in a report which will assist the Commission, the General Assembly and the Executive Branch in focusing attention on the appropriateness of current and proposed pension benefit coverage practices for Pennsylvania public employees by providing coherent and usable information on current and comparative total compensation practices as the context in which pension benefit coverage practices do, and proposed pension benefit coverage practices will, operate.

The total compensation study will focus on public employee pension coverage as a component of the total public sector compensation package. The study will summarize and compare the current public sector total compensation practice in Pennsylvania among the various levels of government and between the various types of employees in the Commonwealth. It will also compare the current public sector practice in Pennsylvania with the common private sector practice both nationally, and to the extent possible, within Pennsylvania. The study will be composed of three sections - pension benefit coverage, other typical identifiable components of cash compensation and identifiable components of non-cash compensation.

A preliminary report relating to the pension benefit portion of the Total Compensation Study was completed in March of 1986. With the increased workload of the Commission staff caused by review of municipal actuarial reports and the resignation of its' Executive Director, the Commission decided to contract with the Pennsylvania Economy League for the completion of the cash and non-cash compensation components of the study. The Economy League submitted the cash compensation portion of the study to the Commission for its review at the meeting held September 17, 1986. The remaining component of the study, the non-cash compensation portion is scheduled for completion by the end of February, 1987. At that point all three portions will be integrated into a draft final report and reviewed by the Commission. If approved, the study will be distributed to interested parties by early spring of 1987.

2. The Comparative Study of SERS and PSERS and Other States' Retirement Systems

In April of 1986, the Commission joined with the State Employes' Retirement System (SERS) and the Office of the Budget in sponsoring a comparative study of SERS and PSERS and other states' retirement systems being conducted by the Pennsylvania Economy League. The Commission felt a study of this nature was necessary since decisions regarding public employee pension plans were being made in the absence of a comprehensive policy and objectives and there was a lack of information and understanding of the complex benefit and contribution structures.

The study has four major purposes. First, it will provide information to increase the level of familiarity and understanding of pension plans terms, provisions, procedures, trends and conditions. Second, it will determine the relative costs and benefit level of the SERS and PSERS plans as compared to similar plans in other states and identify any significant excesses or deficiencies existing in the Pennsylvania plans. Third, the study will examine the special nature and conditions of service for certain employee groups to determine validity and criteria for separate benefit provisions for these groups. Fourth, it will identify and provide analysis of the fundamental issues serving as the basis in the establishment of public pension plan policy or guidelines. A review of reform actions taken in other states will be included in this analysis.

It is hoped that the development of this information will enhance the ability of legislators, administration officials, union officials, taxpayers and others to better understand the purpose, provisions and conditions of public employee pension systems. The Commission believes this to be a necessary first step toward the development of a comprehensive set of policy objectives and guidelines. This will enable decisions regarding plan revisions to be made with greater purpose, direction and certainty. The study was submitted to the Commission for review in December. It is scheduled for release early in 1987.

3. Fiduciary Responsibility and Liability Regulations

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 considered a series of recommendations for legislation. In 1986, the recommendations of the Commission staff were transmitted to the Commission's statutory advisory committees for review and comment. The Municipal Employee Pension Advisory Committee (MEPAC) formally reviewed the document at their meeting in January of 1986, and made suggestions which the Commission took under advisement. The staff recommendations were also included on the agenda of the scheduled February meeting of the Municipal Pension Advisory Committee (MPAC) which was not held for lack of a quorum. MPAC scheduled or held no other meeting during 1986.

In the fall of 1986, the Commission staff began work on the integration of commission memoranda and policy recommendations on fiduciary responsibility and liability into a unified document for final consideration by the Commission. The study is scheduled for completion in April, 1987.

4. Act 205 Study

The Commission initiated a study of Act 205 administration in August of 1986. The purpose of the study was to identify problems encountered in administering Act 205 and to provide a comprehensive survey of issues regarding these problems. An initial paper was completed in September, establishing a framework for a more detailed report which will present legislative solutions to these issues. A final report is expected to be completed during calendar year 1987.

5. Investment and Asset Management

In late 1986, the Commission took preliminary steps in starting another of its short term priority projects, investment and asset management (see number 3, above). It began discussion on topics to be considered, the scope of the study and methodology used. No timetable was adopted for completion of the project.

B. STATE SYSTEM PENSION REVIEW

Pursuant to Act 66, the Commission conducts periodic reviews of the actuarial and financial reports of the various public employee pension systems. The Commission conducted a review of the State Employes' Retirement System in October of 1986, and the Public School Employes' Retirement System in December of 1986.

1. Commission Review of the SERS Actuarial Valuation

At the Commission meeting held October 8, 1986 a summary of the December 31, 1985 actuarial valuation report of the State Employes' Retirement System (SERS) was presented by the staff. The following are a few of the significant features

The employer normal rate (the employer portion of the normal cost) has been reduced from 6.42% in 1984 to 3.60% in 1985. A history of the last seven valuations is shown below.

Valuation 12/31	Total Employer Rate	Employer Normal Rate
1979	14.41%	6.50%
1980	18.02	7.83
1981	18.87	8.35
1982	16.77	7.47
1983	16.57	6.84
1984	18.03	6.42
1985	13.09	3.60

The Commission's actuary cited improved investment performance which reflects in the actuarial asset value, changed demographic assumptions, and changed realistic interest and salary scale assumptions as reasons for the decrease.

The unfunded accrued liability decreased from $3,800,198,497 on 12/31/84 to $2,776,715,990 on 12/31/85. The State Employes' Retirement System 1985 actuarial valuation states that the reduction was caused by excess investment earnings, changed demographic assumptions, changed salary scale, and other miscellaneous changes.

During the review, Commission members inquired of the SERS actuary, Mr. Edwin Hustead, what procedures had been used in preparing the valuation and whether the assumptions used in the report could be considered within the mainstream of normal actuarial assumptions. The Commission expressed concern over the potential effects of such a drastic decrease in the employer normal cost rate from the previous valuation reports.

The following is a summary of the December 31, 1985 actuarial valuation of the State Employes' Retirement System and a comparison of the 1985 results with those of 1984.

SUMMARY OF ACTUARIAL VALUATION STATE EMPLOYES' RETIREMENT SYSTEM

	12/31/84		12/31/85	
Membership				
Active	113,831		111,480	
Inactive Vested	2,726		3,080	
Retired	52,729		55,653	
Disabled	3,388		3,532	
Survivors and Beneficiaries	4,847		5,037	
Payroll and Annuities Payable				
Total Annual Payroll	$2,463,711,799		$2,426,797,000	
Annual Annuities and Benefits	297,990,372		324,097,257	
Valuation Data				
Accrued Liability	$8,501,206,677		$8,095,726,824	
Assets [1]	4,701,008,180		5,319,010,834	
Unfunded Accrued Liability [2]	$3,800,198,497		$2,776,715,990	
Funding Ratio	55.3%		65.7%	
Funding Costs				
Normal Cost [3]	$312,152,285	12.67%	$239,039,505	9.85%
Interest on UAL [4]	209,010,917	8.48	152,719,379	6.29
Full Actuarial Funding	$521,162,202	21.15%	$391,758,884	16.14%
Normal Cost	$312,152,285	12.67%	$239,039,505	9.85%
Amortization [5]	286,036,940	11.61	230,303,034	9.49
Full Actuarial Funding	$598,189,225	24.28%	$469,342,539	19.34%
Support				
Member [3]	$153,981,988	6.25%	$151,674,812	6.25%
Commonwealth	444,207,237	18.03	317,667,727	13.09
Total Support	$598,189,225	24.28%	$469,342,539	19.34%
Adequacy of Support				
Frozen Deficit Financing	$521,162,202	21.15%	$391,758,884	16.14%
Total Support	598,189,225	24.28	469,342,539	19.34
Deficiency (Surplus)	($ 77,027,023)	(3.13%)	($ 77,583,655)	(3.2%)
Full Amortization Financing	$598,189,224	24.28%	$469,342,539	19.34%
Total Support	598,189,224	24.28	469,342,539	19.34
Deficiency (Surplus)	0	0	0	0
Investment Yield				
Net Investment Income as Percent of Mean Assets [6]	8.27%		8.23%	

EXPLANATORY FOOTNOTES (SERS)

1. The figure is the actuarial asset value not the market value.

2. The unfunded accrued liability figure includes $415,219,679 for the amortization of supplemental annuities.

   The SERS unfunded accrued actuarial liability decreased between the 12/31/84 actuarial valuation and the 12/31/85 actuarial valuation. The SERS 1985 actuarial valuation states that the reduction was caused by excess investment earnings, change in demographic assumptions, change in salary scale, and miscellaneous changes.

3. The State Employes' Retirement Code requires that the employer normal contribution rate be based on the level percentage of payroll normal cost determined under the entry age normal actuarial cost method for the average new active member less the portion of the cost to be funded by member contributions. The normal cost and member support data therefore assume a member contribution rate of 6.25% of payroll which is the rate applicable to members entering State service on or after July 22, 1983. Actual member contributions to the State Employes' Retirement System are based on member contribution rates of 5% for members in continuous service since July 21, 1983 and 6.25% for members employed or re-employed on or after July 22, 1983. Currently, approximately 88% of the total payroll for active members covers members contributing at the rate of 5% and 12% of the total payroll covers members contributing at the rate of 6.25%.

4. The figure represents interest on amount of the unfunded accrued liability at the 5.5 percent interest rate prescribed by law.

5. Different portions of the unfunded accrued liability are required by law to be amortized over various periods. The unfunded accrued liability is divided into a portion attributable to previously granted cost-of-living post retirement adjustments and a portion attributable to all other sources.

6. The investment yield rate represents the net dividend and interest earnings of the system taken as a percentage of the average actuarial value of the assets of the system for the year. The investment yield figure should not be confused with the total rate of return earned by the system, which recognizes all realized and unrealized investment gains and losses based on the market value of the total investment portfolio of the system. The figures for net dividend and interest earnings of the system were obtained from the State Employes' Retirement System based on the December 31, 1985 and 1984 audited financial statements.

2. Commission Review of the PSERS Actuarial Valuation

At the Commission meeting held December 10, 1986 the Commission staff presented a summary of the June 30, 1985 actuarial valuation report of the Public School Employes' Retirement System (PSERS). A few of the significant features of the actuarial valuation were as follows:

The total contribution rate payable by the employers for the fiscal year commencing July 1, 1986, should be 19.9% of payroll. The PSERS actuary stated that a rate of 19.9% of payroll payable by the employers was sufficient to:

(1) fully fund all current costs of the employees based on the applicable normal contribution rate, and

(2) liquidate all unfunded liabilities based on the level of contribution required to support the legislated amortization schedules.

The unfunded accrued liability as of June 30, 1985 amounted to $6,565,100,000; this was a reduction of $157,977,000 from the prior year.

The unfunded accrued liability decreased to an amount $109,200,000 below the expected amount. This net experience gain was attributable to higher interest surplus.

In reviewing the report, Commission members noticed the disparity between the PSERS employer normal cost rate and that of the State Employes' Retirement System. Commission members indicated that the PSERS valuation did not contain such a drastic reduction in the rate as did the SERS valuation and that the PSERS figure seemed to be a more indicative of probable long term pension plan cost.

The following is a summary of the June 30, 1985 actuarial valuation of the Public School Employes' Retirement System and a comparison of the 1985 results with those of 1984.

SUMMARY OF ACTUARIAL VALUATION PUBLIC SCHOOL EMPLOYES' RETIREMENT SYSTEM

	6/30/84		6/30/85	
Membership[1]				
Active Members	201,083		201,735	
Inactive and Vested Members	24,954		23,916	
Retired Members	73,203		76,109	
Disabled Members	3,307		3,394	
Survivors and Beneficiaries	3,206		3,381	
Payroll and Annuities Payable				
Total Annual Payroll	$3,685,611,000		$3,887,867,000	
Annual Annuities and Benefits	527,036,574		543,181,614	
Valuation Data				
Accrued Liability	$13,620,561,000		$14,557,900,000	
Assets[2]	6,897,484,000		7,992,800,000	
Unfunded Accrued Liability[3]	$ 6,723,077,000		$ 6,565,100,000	
Funding Ratio	50.64%		54.82%	
Funding Costs				
Normal Cost	$531,465,106	14.43%	$560,630,421	14.42%
Interest on UAL[4]	369,769,235	10.03	361,080,500	9.29
Minimum Actuarial Funding	$901,234,341	24.46%	$921,710,921	23.71%
Normal Cost	$531,465,106	14.43%	$560,630,421	14.42%
Amortization[5]	400,994,477	10.88	418,723,276	10.77
Full Actuarial Funding	$932,459,583	25.31%	$979,353,697	25.19%
Support				
Member[6]	$193,863,139	5.26%	$205,668,164	5.29%
School District	369,298,222	10.02	386,842,766	9.95
Commonwealth	369,298,222	10.02	386,842,767	9.95
Total Support	$932,459,583	25.30%	$979,353,697	25.19%
Adequacy of Support				
Frozen Deficit Financing	$901,234,341	24.45%	$921,710,921	23.71%
Total Support	932,459,583	25.30	979,353,697	25.19
Deficiency (Surplus)	($ 31,225,242)	(0.85%)	($ 57,642,776)	(1.48%)
Full Amortization Financing	$932,459,583	25.3%	$979,353,697	25.19%
Total Support	932,459,583	25.3	979,353,697	25.19
Deficiency (Surplus)	$ 0	0.00%	$ 0	0.00%

EXPLANATORY FOOTNOTES (PSERS)

1. The actuarial valuation report was prepared by John W. Thompson of George B. Buck Consulting Actuaries, Inc. The actuarial valuation is based on the entry age normal actuarial cost method with level percentage of payroll normal cost and an open-end unfunded accrued liability. The average entry age of new plan members is used in determining normal cost. The valuation is based on a 5.5 percent annual compound interest rate assumption as specified by law and a salary increase assumption which varies by age.

2. The assets of the system for actuarial valuation purposes are valued at their book value.

3. The figure for unfunded accrued liability decreased by $157,577,000 between 6/30/84 and 6/30/85.

4. The figure represets interest on the amount of the unfunded accrued liability at the 5.5 percent interest rate prescribed by law.

5. The various portions of the unfunded accrued liability are required by law to be amortized over different period and different procedures. Broadly, the unfunded accrued liability is separated into that portion attributable to previously granted cost-of-living post retirement adjustments and that portion attributable to all other sources (prior benefit increase for active members, actuarial gains and losses, prior funding deficiencies, etc). The portion attributable to cost-of-living post retirement adjustments granted prior to 1979 are required by law to be amortized on a level percentage of increasing total payroll (4 percent increase in total payroll assumed) over a 30 year period from the date on which the adjustment was granted. The portion attributable to the 1979 cost-of-living post retirement adjustment is required by law to be amortized on a level dollar basis over a 20 year period from 1979. The remaining portion is apportioned based on the unfunded accrued liability attributable to prior benefit increases to active members and each subportion is required by law to be amortized on a level percentage of increasing total payroll (4 percent increase in total payroll assumed) over a 30 year period from the date on which the benefit increase to active members was granted.

6. The PSERS member contribution rate reverted to the prior 5.25 percent rate for the affected PSERS members, but is 6.25 percent for all PSERS members initially employed on or after July 22, 1983 after the Pennsylvania Supreme Court determined that the rate increase was unconstitutional for member hired prior to July 22, 1983.

APPENDICES

APPENDIX A

ADVISORY COMMITTEES AND ACTUARIAL SERVICES

Advisory Committees

In accordance with Section 8 of Act No. 1981-66, as amended, the Commission appoints a Municipal Pension Advisory Committee and a Municipal Employee Pension Advisory Committee. Both advisory committees are appointed annually from nominations submitted by organizations of municipalities and municipal employees and meet with the Commission at least once each year to discuss the activities of the Commission and to present information or recommendations. The members of the advisory committees for calendar year 1986 and their sponsoring organizations were as follows:

MUNICIPAL PENSION ADVISORY COMMITTEE

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

Dr. Jack S. Pincus, Member
Pennsylvania State Association of Township Commissioners

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

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

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

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

MUNICIPAL EMPLOYEE PENSION ADVISORY COMMITTEE

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

Mr. Barry J. Buskey, Vice-Chairman
Pennsylvania State Firefighters Association

Mr. Patrick B. McCabe, Secretary
Pennsylvania Chiefs of Police Association

Mr. Richard Toth, Commission Liaison
American Federation of State, County and Municipal Employees

Mr. John M. Yarnovic, Member
Pennsylvania State Education Association

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 consultants. 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 during 1986 were:

Towers, Perrin, Forster & Crosby
Mr. Stanley R. Freilich
(1/86 - 12/86)

Conrad M. Siegel, Inc.
Mr. Conrad M. Siegel
(1/86 - 12/86)

John S. Agatston Actuarial Services
Mr. John S. Agatston
(1/1/86 - 6/30/86)

Milliman & Robertson, Inc.
William A. Reimert
(7/1/86 - 12/31/86)

APPENDIX B

LEGISLATIVE PROCEDURES FOR THE PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION

I. IMPLEMENTATION BY THE GENERAL ASSEMBLY

A. At the beginning of each legislative session of the General Assembly, the Speaker of the House and the President Pro Tempore of the Senate formally advise the chairmen of each standing committee in their respective chamber of the actuarial review provisions implemented by Act No. 1981-66.

B. Both chambers of the General Assembly adopt procedures most consistent with their operating rules to ensure that committee - approved bills or floor-amended bills are not considered prior to receipt of an actuarial note from the Commission or the passage of 25 legislative days from the date of first consideration or adoption of the floor amendment.

1. Actuarial Note Requests for Committee-Approved Bills -

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

2. Actuarial Note Requests for Floor-Amended Bills -

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

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

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

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

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

II. RESPONSE BY THE COMMISSION

A. The Commission acknowledges receipt of requests for the preparation of actuarial notes for committee-approved bills and floor-amended bills to the presiding officer of the requesting chamber of the General Assembly within 48 hours.

B. The Commission transmits the requested actuarial notes to the presiding officer of each chamber of the General Assembly as promptly as possible, recognizing that the 25 legislative days permitted for the preparation of actuarial notes is a maximum rather than a norm. Where there are no substantive actuarial or policy implications, the Commission will communicate that fact as the requested actuarial note.

C. The Commission provides copies of the transmittals of the requested actuarial notes to the following:

   1. the chairman and minority chairman of the requesting committee;

   2. the majority and minority leaders;

   3. the majority and minority whips;

   4. the majority and minority caucus chairmen;

   5. the majority and minority appropriation committee chairmen;

   6. the prime sponsor of the bill;

   7. the Secretary of the Senate;

   8. the Chief Clerk of the House; and

   9. the Director of the Legislative Reference Bureau.

D. Upon the request of the committee chairman, the Commission staff may whenever possible provide supplemental reviews for bills prior to consideration by a committee. The information is transmitted to the committee chairman and minority chairman. Such assistance may contain actuarial data, but is considered to be an "advisory note" not constituting or substituting for the required actuarial note.

E. The Commission staff provides advice and counsel to members of the General Assembly on relevant matters pertaining to retirement plan design, financing, and administration.

F. The Commission provides actuarial notes or advisory notes only to appropriate officials of the legislative and executive branches.

G. The Commission transmits notice of its meetings to the Secretary of the Senate and Chief Clerk of the House for publication on the Senate and House daily meeting calendars.

Adopted April 10, 1985

APPENDIX C

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, PEPPRA).

   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

APPENDIX D

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. In the event that one or more vacancies exist, four members shall constitute a quorum. A Commission 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 cast a vote for a member on 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 to Act No. 1986-84 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 December 10, 1986