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A N N U A L R E P O R T
O F T H E
P U B L I C E M P L O Y E E
R E T I R E M E N T S T U D Y C O M M I S S I O N

Public Employee Retirement Study Commission
Commonwealth of Pennsylvania
March, 1988

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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

As required by the Public Employee Retirement Study Commission Act, this annual public report is issued to summarize the Commission's findings, recommendations, and activities for the year 1987.

During 1987, the Commission authorized the attachment of twenty-one actuarial notes to forty-one bills at the request of the various committees of the General Assembly. This report summarizes this activity and contains a synopsis of each of these notes. This report also contains a summary of the Commission's reviews of the State Employees' Retirement System, Public School Employees' Retirement System, and Pennsylvania Municipal Retirement Systems; describes research conducted during 1987; and summarizes the Commission's administrative activities under the Municipal Pension Plan Funding Standard and Recovery Act, Act 293 of 1972, and Act 53 of 1987.

On behalf of the Public Employee Retirement Study Commission and its staff, I am pleased to submit the fifth annual public report of the Commission. The Commission hereby expresses its thanks and appreciation to all persons, organizations, and agencies whose assistance and cooperation contributed to the work of the Commission during 1987.

Sincerely,

A handwritten signature in cursive script that reads "Dale D. Stone".

Dale D. Stone
Chairman

DEDICATION

*The members of the Public Employee Retirement Study Commission and its staff
dedicate this fifth annual public report to*

MR. RICHARD L. WITMER

*an original member of the Commission, whose term expired on October 28, 1987.
Mr. Witmer rendered a valuable service to this Commonwealth by helping to
establish the Commission on a firm foundation. His colleagues on the
Commission will miss him. We thank him for his time, efforts, and contributions.*

INTRODUCTION

The Public Employee Retirement Study Commission was created in 1981 by the Public Employee Retirement Study Commission Act. The Commission is composed of nine members, five of whom are appointed by the Governor with the advice and consent of the Senate and four of whom are appointed by the leadership of the General Assembly.

Under the Public Employee Retirement Study Commission Act, the Commission has two main responsibilities. The one is to review legislation affecting public employee retirement systems. The other is to study, on a continuing basis, public employee retirement system policy as implemented at both the Commonwealth and local government level, the interrelationships of the several systems, and their actuarial soundness and cost.

Under the Municipal Pension Plan Funding Standard and Recovery Act, adopted in 1984, the Commission has three additional responsibilities. The first is to administer the actuarial valuation reporting program for municipal retirement systems that entails monitoring and enforcing compliance with the legislatively mandated actuarial funding standard. The second is to annually certify municipal pension cost data used in allocating the General Municipal Pension System State Aid money of over \$96 million. The last is to administer the Financially Distressed Municipal Pension Systems Recovery Program that involves the annual determination and certification of distress data used in allocating the Supplemental State Assistance of up to \$35 million.

One of the other responsibilities of the Commission under the Public Employee Retirement Study Commission Act is to issue an annual public report to the Governor and the General Assembly. The first three reports were issued on a fiscal year basis. This is the second report issued on a calendar year basis.

This report continues to use the changed format and content introduced last year, a format intended both to provide more information to readers and to make understanding the operation of the Commission easier for readers. An additional appendix this year is a listing of currently proposed legislation regarding public employee retirement system issues.

The Commission thanks those who actively participated in its meetings, the members of its Advisory Committees and the organizations they represent, and all others who have offered advice and support to the Commission during 1987.

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DUTIES AND RESPONSIBILITIES

OF THE

COMMISSION

PART I.

PREPARATION OF ACTUARIAL NOTES AND ADVISORY NOTES.

A. STATUTORY PROVISIONS.

The Public Employee Retirement Study Commission Act provides, in pertinent part:

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.

The requirement that an actuarial note be attached to public employee pension and retirement bills prior to their second consideration in either house of the General Assembly was a modification of the legislative processes. In response to this statutory mandate to prepare the required actuarial notes, the Commission and the leadership of the General Assembly developed and implemented legislative procedures. The standardization of these procedures makes it easier to expeditiously and efficiently provide the required actuarial information to the General Assembly. The procedures clarify the manner of attaching actuarial notes to bills, including floor amended bills and bills in the possession of the House and Senate Appropriations Committees upon the request of the respective chairman. The procedures also clarify the availability of the Commission's staff to provide technical assistance to members of the General Assembly on matters relating to public employee retirement system design, financing, and administration and provide for the preparation of advisory notes for committee chairmen.

The Commission uses an advisory note, as distinct from an actuarial note, for the analysis of proposed legislation when the bill is being considered by a committee of the General Assembly. The advisory note is prepared primarily by the Commission's staff with review or additional analysis by one of the Commission's consulting actuaries as deemed necessary.

The legislative procedures are included in this report as Appendix I.

B. SUMMARY OF 1987 ACTIVITY.

During 1987, the Commission authorized the attachment of twenty-one actuarial notes to forty-one bills. In addition, the Commission's staff provided the General Assembly with nine advisory notes.

C. SYNOPSIS OF ACTUARIAL NOTES.

A synopsis of each actuarial note containing a summary of each bill, its actuarial costs, and its disposition follows. These synopses are arranged by House and Senate Bill in numerical order.

Bill and Printer's Numbers: House Bill 251, Printer's Number 272

System: Second Class A City (Scranton) Nonuniformed System

Subject: Increase in Maximum Benefit

Synopsis of Bill

This bill amends the provisions governing the Scranton nonuniformed employees pension plan to authorize the City to increase the maximum monthly pension amount for employees retiring on or after January 1, 1987, from \$250 to \$350. The bill also increases the maximum member contributions to the plan from \$6 to \$12 per month.

Summary of Actuarial Cost Impact

- Increase in Unfunded Actuarial Accrued Liability	\$346,000
- Increase in Annual Cost (without consideration of phase-in under Municipal Pension Plan Funding Standard and Recovery Act recovery program)	
Normal Cost	\$ 21,000
Amortization (20 years)	<u>29,000</u>
Total	\$ 50,000

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- The current retirement benefit provided by the City of Scranton nonuniformed pension plan for career employees may be considered by some measures to be less than adequate.
- A significant portion of the normal cost of the plan is financed by member contributions.
- The benefit increase proposed in the legislation will not become effective unless implemented by ordinance adopted by the City of Scranton.
- The City of Scranton is participating in level III (severely distressed) of the Municipal Pension Plan Funding Standard and Recovery Act recovery program. The police officers' and paid firefighters' retirement systems are significantly underfunded. The nonuniformed system is a very low cost plan and has not developed significant funding difficulties.

Commission Recommendation

On May 13, 1987, the Commission voted to attach the actuarial note to this bill and to express the Commission's concern about the ability of the City of Scranton to undertake the additional cost associated with the proposed legislation in light of the city's status as a severely distressed municipality under the Municipal Pension Plan Funding Standard and Recovery Act recovery program for financially distressed municipal retirement systems.

Legislative Status on December 31, 1987

House Bill 251, Printer's Number 272, was amended and re-reported by the House Appropriations Committee on June 22, 1987. Printer's Number 1943 was signed into law on December 3, 1987, becoming Act 1987-84.

Bill and Printer's Numbers: Senate Bill 540, Printer's Number 600, and House Bill 252, Printer's Number 273

System: Second Class A City (Scranton) Pension Systems

Subject: Military Service Purchase

Synopsis of Bill

These two identical bills amend the Home Rule Charter and Optional Plans Law to authorize a city of the second class A (Scranton) to permit all municipal employees to purchase prior military service time as a credit for pension purposes.

Summary of Actuarial Cost Impact

These bills represent general enabling legislation. Specific provisions relating to the purchase of military service would be set forth in ordinances adopted by the City of Scranton to implement the authority granted under the bills. Actuarial cost estimates would be required to be prepared for City Council prior to enactment of the ordinances. The actuary has made the following general observations:

- Military service purchase provisions do have significant employer cost.
- The nonuniformed system would be less affected by the military service purchase provision than the police officers' and firefighters' systems.
- As an example of the potential military service existing in a city pension system, a recent survey of another city's police force found that 52 officers out of 87 had military service with an average of 3 years each.

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

In reviewing these bills, the Commission identified the following policy considerations:

- The pension systems of the City of Scranton have substantial unfunded liabilities. The city is participating in level III (severely distressed) of the Municipal Pension Plan Funding Standard and Recovery Act.
- The military service purchase authorized in the legislation will not become effective unless implemented by ordinance adopted by the City of Scranton.
- Amending the Home Rule Charter and Optional Plans Law may not be the most appropriate legislative drafting approach for accomplishing the intent of the proposed legislation.

Commission Recommendation

On May 13, 1987, the Commission voted to attach the actuarial note to each of the bills and to recommend that the General Assembly refrain from taking any affirmative action with respect to these bills because of the potential actuarial cost and significant policy concerns raised by the proposed legislation. Of particular concern to the Commission was the propriety of making benefit improvements in the pension systems of a municipality classified as severely distressed and participating in level III of the Municipal Pension Plan Funding Standard and Recovery Act recovery program for financially distressed municipal pension systems. The Commission also expressed concern about the appropriateness of the legislative drafting approach used for the proposed legislation.

Legislative Status on December 31, 1987

Senate Bill 540, Printer's Number 600, was laid on the Senate Table on June 2, 1987.

House Bill 252, Printer's Number 273, was re-committed to the House Appropriations Committee on April 28, 1987.

Bill and Printer's Numbers: House Bill 363, Printer's Number 396

System: State Employees' Retirement System (SERS)

Subject: Expansion of Special Public Safety Employee Benefit Coverage

Synopsis of Bill

This bill would expand the number of persons covered under the correction officer classification of the State Employees' Retirement System. The expansion would extend to members employed by the Departments of Corrections or 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 department. The affected departments would be required to certify to the State Employees' Retirement System the names of the employees affected by the act within 30 days of its effective date.

Summary of Actuarial Cost Impact

The actuarial cost estimate presents a range of cost based on two potential interpretations of the number of employees who may be included under the expanded definition of "corrections officer." The Bureau of Personnel, Office of Administration, indicated that an additional 858 employees would be affected based on the least expansive interpretation of this bill's language and that under a more expansive interpretation 1,181 employees may be affected. The estimated actuarial cost is as follows:

	Least Expansive Interpretation (858 Employees Affected)	Most Expansive Interpretation (1,181 Employees Affected)
- Increase in Unfunded Actuarial Accrued Liability	\$6,100,000	\$8,540,000
- Increase in Annual Cost		
Normal Cost	\$ 492,860	\$ 682,210
Amortization	459,140	639,790
Total	\$ 952,000	\$1,322,000

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- the increased cost of 4.85% of the payroll of the affected employees in the Departments of Corrections and Public Welfare;

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

Commission Recommendation

On October 14, 1987, the Commission voted to attach the actuarial note to this bill and express the Commission's concern about the actuarial impact of this bill on the employer pension cost of the State Employees' Retirement System, the appropriateness of extending this early retirement provision to this group of employees, 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, and the significant drafting ambiguities contained in the proposed legislation. The Commission also took note of the number of bills it has been requested to review that propose to extend the special public safety employee benefit coverage of the State Employees' Retirement System and directed the staff to include a history of such proposals with the transmittal of the actuarial note.

Legislative Status on December 31, 1987

House Bill 363, Printer's Number 396, was re-committed to the House Appropriations Committee on September 30, 1987.

Bill and Printer's Numbers: House Bill 366, Printer's Number 399

System: Second Class County (Allegheny) Pension System

Subject: Calculation of Retirement Benefits and Interest

Synopsis of Bill

This bill would amend the portion of the Second Class County Code governing the Allegheny County Retirement System to exclude overtime compensation from the calculation of the retirement benefit, provide for inclusion of a partial year in computing an employee's service time, and refine the interest calculation to conform with a recent court decision.

Summary of Actuarial Cost Impact

OVERTIME CALCULATION

The actuarial cost to the Allegheny County Retirement System 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 is not possible because the actuary does not have data as to what percentage of the employees receive overtime in their final average pay or the relationship of overtime to normal pay. The actuary determined that the cost to the retirement system will be less since the benefits are less.

PARTIAL SERVICE YEAR

- Increase in Unfunded Actuarial Accrued Liability	\$887,000
- Increase in Annual Cost	
Normal Cost	\$ 74,000
Amortization	<u> N/A*</u>
Total	\$ 74,000

* The system is not funded on an actuarial basis. The effect of the amendment will be to slightly extend the date by which full funding of the unfunded liability is expected.

INTEREST CALCULATION

Based on the January 1, 1985, actuarial report, the unfunded present value of accrued and future benefits would decline by \$240,000. The following is 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 Benefits 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.

Commission Recommendation

On May 13, 1987, the Commission voted to attach the actuarial note to this bill and to transmit the actuarial cost information without further comment.

Legislative Status on December 31, 1987

House Bill 366, Printer's Number 399, was re-committed to the House Appropriations Committee on December 7, 1987.

Bill and Printer's Numbers: House Bill 498, Printer's Number 1037

System: State Employees' Retirement System (SERS)

Subject: Creditable Nonstate Service

Synopsis of Bill

This bill would amend section 5304(c) of Title 71 of the Pennsylvania Consolidated Statutes 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. The bill requires that the member make the election to purchase within one year of the authorization and that the purchase price be equal to the full actuarial cost of the increased benefit obtained through the purchase.

Summary of Actuarial Cost Impact

This bill requires that the purchase price paid by the member be the full actuarial cost of the increased benefit. A procedure does not currently exist for performing such calculations. The actuarial note sets forth a suggested approach for calculating the purchase price and indicates that if an approach similar to the one suggested is used, there will not be any actuarial cost to the State Employees' Retirement System attributable to this bill.

Actuarial Note prepared by Milliman and Robertson, Inc.

Policy Considerations

In reviewing this bill, the Commission identified the following considerations:

- This bill does not limit the time within which the purchase payment must be made and does not exclude the purchase payment from Option 4 withdrawal.
- This bill may serve as a precedent for other members of the State Employees' Retirement System that are in similar situations.

Commission Recommendation

On May 13, 1987, the Commission voted to attach the actuarial note to this bill and to express the Commission's concern about the absence of a time limit for making the purchase payment, the absence of a restriction on the withdrawal of the purchase payment under Option 4, and the potential that the legislation may serve as a precedent for similarly situated members to seek service purchase authorizations. In addition, the Commission was concerned that this bill does not set forth a specific formula for calculating the purchase price based on the full actuarial cost of the increased benefit and noted that the actuarial impact

of this bill would be dependent on the procedure developed for performing such calculations.

Legislative Status on December 31, 1987

House Bill 498, Printer's Number 1037, was re-reported as amended by the House Appropriations Committee on June 22, 1987. Printer's Number 1889 passed the House on June 24, 1987, and was referred to the Senate Finance Committee on June 29, 1987.

Bill and Printer's Numbers: House Bill 508, Printer's Number 1039

System: State Employees' Retirement System (SERS)

Subject: Additional Service Credit Early Retirement Incentive

Synopsis of Bill

This bill would amend the State Employees' Retirement Code by adding provisions relating to credited service as retirement incentive. This bill would provide, during the period of June 30, 1987, through September 30, 1987, for the crediting of an additional three years of Class A service for an active member, other than a judge, justice, legislator, or other elected official, who has at least ten eligibility points, has attained age 55, and upon termination of service has filed an application for retirement. The additional liability attributable to this bill would be funded on a level dollar basis over a five year period from July 1, 1989.

Summary of Actuarial Cost Impact

	<u>Estimate by SERS Actuary</u>	<u>Estimate by Commission's Consulting Actuary</u>
- Utilization Assumption	Eligible for full retirement, 75% Eligible for reduced retirement, 33%	Age 65 or over, 90% Age 60-64, 20 + yrs service, 60% Age 60-64, lt 20 yrs service, 20% Age 55-59, 30 + yrs service, 40% Age 55-59, 20-29 yrs service, 25% Age 55-59, lt 20 yrs service, 15%
- Increase in Unfunded Actuarial Accrued Liability	\$202,048,000	\$259,000,000
- Increase in Annual Cost		
Normal Cost	\$ 0	\$ 0
Amortization (5 years)	<u>49,900,000</u>	<u>55,000,000</u>
TOTAL	\$ 49,900,000	\$ 55,000,000

NOTE: The actual cost of the incentive program will be dependent on the utilization pattern experienced. The Commission's consulting actuary has indicated that there is insufficient history upon which to base an accurate assumption concerning probable utilization. The actuarial note prepared by the Commission's consulting actuary presents a range of cost estimates based on low, moderate, and high utilization patterns. The estimated net increase in annual cost ranges from \$55 million under the low utilization scenario to \$96 million under the high utilization scenario. The actuary has indicated that, in his best professional judgment, the low utilization assumption is most probable and produces the most accurate cost estimate.

Actuarial Note prepared by Milliman and Robertson, Inc.

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- The economic rationale of the proposal is highly dependent on retirements without replacement to effect salary savings that offset the actuarial cost of the proposal. The generally applicable early retirement incentive program, including agencies where no permanent reduction in the workforce is likely or desirable, may reduce the salary savings potential of the program.
- Granting of temporary early retirement incentive may result in demands that program be repeated or made permanent and may serve as an incentive for similar programs for other retirement systems.
- In addition to the actuarial cost of granting 3 additional years of credited service, this bill may generate cost associated with future cost-of-living adjustments. Employees retiring earlier than normal due to the incentive program may become entitled to additional cost-of-living adjustments during their extended retired lifetimes. Also, any cost-of-living adjustments for employees retiring under the program that are based on a percentage increase in retirement benefits will be more costly due to the higher base amount attributable to the incentive program.
- Many of the retiring employees will become eligible for Commonwealth-paid medical coverage. In cases where the positions vacated by the retiring employees are filled, the Commonwealth will be providing medical coverage for both the retiree and the active employee.
- More than half of the employees eligible to retire during the window period would be eligible for full retirement benefits without the three additional years of credited service. For these employees, this bill provides a bonus for retiring during the window period rather than an incentive for retiring early.
- The incentive program is expected to cost the Commonwealth approximately one-quarter of a billion dollars. The value of this expenditure to the Commonwealth is difficult to assess, since it is not clear what purpose the program is intended to serve.
- This bill provides the largest proportional increase in pension benefits for eligible employees who have served the shortest careers with the Commonwealth.

Commission Recommendation

On June 10, 1987, the Commission voted to attach the actuarial note to this bill and to express the Commission's concern about:

- the extent to which a broadly applicable retirement incentive program that includes agencies where no permanent reduction in the workforce is likely or desirable will be able to achieve any significant salary savings to offset the actuarial cost of the proposal;
- the potential that granting of the retirement incentive will serve as a precedent for similar programs for other retirement systems and will result in demands that the program be repeated or made permanent;
- the potential that the program will generate cost, in addition to the actuarial cost of the 3 year service grant, associated with future cost-of-living adjustments and medical coverage;
- the limited value of offering a retirement incentive to a group of employees the majority of whom would be eligible for full retirement benefits without the additional credited service and many of whom would be expected to retire in the absence of the incentive program;
- the unclear purpose of this bill, making it difficult to assess the value to the Commonwealth of the substantial expenditure required to pay for the program; and
- the design of the incentive program, which provides the largest proportional increase in pension benefits for eligible employees who have served the shortest careers with the Commonwealth.

Legislative Status on December 31, 1987

House Bill 508, Printer's Number 1039, was re-committed to the House Appropriations Committee on April 8, 1987.

Bill and Printer's Numbers: House Bill 530, Printer's Number 580

System: Public School Employes' Retirement System (PSERS)

Subject: Normal Retirement at Any Age with 30 Years of Service

Synopsis of Bill

This bill would amend the Public School Employes' Retirement Code (PSERS) to provide for earlier normal retirement eligibility by reducing from 35 years to 30 years the service required for normal retirement at any age.

Summary of Actuarial Cost Impact

- Increase in Unfunded Actuarial Accrued Liability	\$771,000,000
- Increase in Annual Cost	
Normal Cost	\$ 38,000,000 (0.84% of covered payroll)
Amortization (30 years, increasing at 4%/year)	<u>34,000,000</u> (0.75% of covered payroll)
Total	\$ 72,000,000 (1.59% of covered payroll)

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- The expanded early retirement eligibility would increase the retirees' exposure to the erosion of purchasing power resulting from inflation thereby potentially increasing requests for postretirement cost-of-living adjustments.
- This bill establishes a generally applicable early normal retirement provision that is not based on any assessment by individual PSERS employing entities of the need for encouraging early retirement or the potential benefit of net salary savings that may result from early retirement.
- This bill does not require any increase in the PSERS member contribution rate to assist in funding the actuarial cost of the benefit modification.
- The granting of the proposed PSERS benefit modification will potentially serve as a precedent for similar benefit modifications for other Pennsylvania public pension plans.
- A valid comparison of actuarial cost and the potential for offsetting salary savings from a long term perspective is not available.

Commission Recommendation

On April 8, 1987, the Commission voted to attach the actuarial note to this bill and to express the Commission's concern about:

- the potential that increasing access to early normal retirement will lead to increased requests for postretirement cost-of-living adjustments;
- the appropriateness of establishing a generally applicable early normal retirement provision that is not based on any assessment by individual PSERS employing entities of the need for encouraging early retirement or the potential benefit of net salary savings that 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 plans; and
- the absence of quantifiable information on the potential for payroll savings, which could be produced only through the performance of an actuarial open group projection.

Legislative Status on December 31, 1987

House Bill 530, Printer's Number 580, was re-committed to the House Appropriations Committee on April 7, 1987.

Bill and Printer's Numbers: House Bills 591 through 615,
Printer's Numbers 640-644, 1042, and 646-664

System: Various Municipal Employee Retirement Systems

Subject: Technical Amendments for Conformance with the
Municipal Pension Plan Funding Standard and Recovery Act

Synopsis of Bill

These bills represent a package of technical amendments to various Pennsylvania statutes governing municipal employee retirement systems to effect conformity with the various provisions of the Municipal Pension Plan Funding Standard and Recovery Act. A listing of each bill, the retirement system law affected, the type of municipality and pension plan involved, and the general nature of the conforming change was included with the actuarial note.

Summary of Actuarial Cost Impact

As determined by the Commission, these bills contain amendments of a technical nature to various laws governing municipal employee retirement systems to reduce or eliminate conflict or overlap with the Municipal Pension Plan Funding Standard and Recovery Act and have no actuarial cost or impact within the meaning of the Public Employee Retirement Study Commission Act.

Commission Recommendation

On May 13, 1987, the Commission voted to attach the actuarial note to these bills and to recommend passage of the proposed legislation.

Legislative Status on December 31, 1987

All of these bills except for House Bills 595, 600, and 615 were re-committed to the House Appropriations Committee on April 8, 1987. House Bills 595, 600, and 615 remained in the House Finance Committee to which they were referred on March 3, 1987.

Bill and Printer's Numbers: House Bill 796, Printer's Number 866

System: State Employees' Retirement System (SERS)

Subject: Expansion of Special Public Safety Employee Benefit Coverage

Synopsis of Bill

This bill expands the number of persons covered under the enforcement officer classification of the State Employees' Retirement System. The expansion would extend 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 the State Employees' Retirement System.

Summary of Actuarial Cost Impact

- Increase in Unfunded Actuarial Accrued Liability	\$1,315,609
- Increase in Annual Costs	
Normal Cost	\$ 109,739 (2.61% of applicable payroll)
Amortization	93,762 (2.23% of applicable payroll)
Total	\$ 203,501 (4.84% of applicable payroll)

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- 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; and
- the appropriateness of the change in the benefit coverage for the affected employees.

Commission Recommendation

On October 14, 1987, the Commission voted to attach the actuarial note to this bill and to express the Commission's concern about the actuarial impact of this bill on the employer pension cost of the State Employees' Retirement System, 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 the actuarial cost of the expanded benefit coverage. The Commission also took note of the number of bills it has been requested to review that propose to extend the special public safety employee

benefit coverage of the State Employees' Retirement System and directed the staff to include history of such proposals with the transmittal of the actuarial note.

Legislative Status on December 31, 1987

House Bill 796, Printer's Number 866, was re-committed to the House Appropriations Committee on September 30, 1987.

Bill and Printer's Numbers: House Bill 1291, Printer's Number 2256

System: Public School Employees' Retirement System (PSERS)

Subject: Postretirement Medical Coverage

Synopsis of Bill

This bill would amend the Public School Employees' Retirement Code to provide for the payment by the Commonwealth of the cost of a medicare supplement, major medical, and hospitalization insurance coverage for superannuation annuitants, annuitants with 25 or more years of credited service, and disability annuitants.

Summary of Actuarial Cost Impact

This bill provides for the funding of the additional benefit on a current disbursements (or "pay-as-you-go") basis rather than on an actuarial funding basis.

ESTIMATE OF FIRST YEAR COST

Annual Premium Per Person	\$	588.72	
Number of Eligible Annuitants		x 77,033	
Annual Outlay	\$	45,350,863	(0.99% of active payroll)

PROJECTION OF FUTURE COST

Year	Active Payroll	Eligible Recipients	Annual Premium	Annual Outlay	Outlay as % Payroll
1991	\$ 5,659,000,000	87,607	\$1,028.88	\$ 90,137,000	1.59
1996	\$ 7,394,000,000	102,983	\$1,657.08	\$107,651,000	2.31
2001	\$ 9,665,000,000	121,192	\$2,323.08	\$281,539,000	2.91
2006	\$12,633,000,000	142,793	\$2,964.96	\$423,376,000	3.35

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- This bill provides for the financing of the postretirement medical coverage on a current disbursements or pay-as-you-go basis rather than on an actuarial funding basis. This is viewed by many as an inappropriate financing method for retirement benefits.
- The benefit is not coordinated with postretirement medical coverage that may be provided by individual school districts under collective bargaining agreements.

- This bill does not provide for an increase in member contributions to assist in financing the cost of the additional benefit.
- This bill does not provide for the employing school districts to participate in the financing of the benefit. This is not consistent with the usual structure of PSERS funding in which the employer cost is shared equally by the Commonwealth and the school districts.
- The legislation may lead to future requests for expanded coverage in order to make the PSERS postretirement medical coverage comparable to the coverage provided for retired SERS members.
- This bill contains substantial drafting ambiguities that can lead to various interpretations of the type and extent of coverage provided with a wide range of costs associated with the different interpretations. Clarification of the language prior to further consideration is essential.

Commission Recommendation

On November 17, 1987, the Commission voted to attach the actuarial note to the bill and to express the Commission concern about:

- the absence of any requirement for actuarial funding of the proposed benefit;
- the lack of coordination with other employer paid medical coverage that may be provided by individual school districts;
- the lack of allocation of any portion of the cost of the benefit to PSERS members;
- the absence of school district participation in the financing of the benefit;
- the potential that the legislation will serve as a precedent for future requests for expanded coverage in order to achieve parity with the postretirement medical coverage provided to SERS members; and
- the substantial drafting ambiguities contained in the proposed legislation.

Legislative Status on December 31, 1987

House Bill 1291, Printer's Number 2256, was re-committed to the House Appropriations Committee on October 19, 1987.

Bill and Printer's Numbers: House Bill 1571, Printer's Number 1874

System: Pennsylvania Municipal Retirement System (PMRS)

Subject: Administrative Expenses

Synopsis of Bill

This bill would amend the Pennsylvania Municipal Retirement Law to extend to calendar years 1988, 1989, and 1990 the authority to use excess interest earnings to pay administrative expenses.

Summary of Actuarial Cost Impact

This bill authorizes no modification in benefits provided by PMRS and authorizes no increase in PMRS administrative expenses beyond the budget submitted to the General Assembly for approval. The bill represents a reauthorization of the current practice for financing the PMRS administrative expenses and has no actuarial cost impact within the meaning of the Public Employee Retirement Study Commission Act.

Actuarial Note prepared by Conrad M. Siegel, Inc.

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- The current procedure for financing PMRS administrative expenses allows for potentially inequitable apportionment of the burden to pay administrative costs among the various municipalities participating in PMRS.
- The utilization of investment income in excess of the actuarial interest assumption to pay administrative expenses places a constriction on selecting the most appropriate economic assumptions for PMRS.
- The current procedure is not authorized on a permanent basis. Periodic statutory reauthorizations are required in order to prevent expiration of the authority to use excess investment income to pay administrative expenses.
- Development of a viable, stable, and appropriate long-term financing procedure for meeting the administrative expenses of PMRS would be desirable.

Commission Recommendation

On December 9, 1987, the Commission voted to attach the actuarial note to this bill indicating that the bill has no actuarial cost or actuarial impact within the meaning of the Public Employee Retirement Study Commission Act and to express the Commission's concern about:

- The potential that the current procedure may result in an inequitable apportionment of the administrative costs of PMRS among the member municipalities;
- The constriction that the payment of administrative expenses from excess interest places on selecting the most appropriate economic actuarial assumptions for PMRS;
- The lack of stability inherent in the need to have periodic statutory reauthorizations of the current procedure; and
- The need to develop a viable, stable, and appropriate long-term financing procedure for meeting the administrative expenses of PMRS.

Legislative Status on December 31, 1987

House Bill 1571, Printer's Number 1874, was re-committed to the House Appropriations Committee on November 23, 1987.

Bill and Printer's Numbers: House Bill 1785, Printer's Number 2220

System: Public School Employees' Retirement System (PSERS)

Subject: Cost of Living Increase

Synopsis of Bill

This bill would amend the Public School Employees' Retirement Code to provide for the payment of supplemental annuities effective July 1, 1987, to annuitants who began receiving an annuity on or prior to July 1, 1986. It would provide that the amount of the monthly supplemental annuity be the total of:

- \$1.00 times years of credited service, plus
- \$3.00 times years on retirement, plus
- 2% of the monthly annuity as of 7/1/87, up to \$20.00

Summary of Actuarial Cost Impact

-Increase in Unfunded Actuarial Accrued Liability	\$494,200,000
-Increase in Annual Cost	
Normal Cost	\$ 0
Amortization (20 years)	<u>41,400,000</u>
Total	\$ 41,400,000 (0.93% of covered payroll)

Annual cost is payable one-half by the Commonwealth and one-half by the school districts.

Actuarial Note prepared by Towers, Perrin, Forster, and Crosby.

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- This bill may serve as a precedent for postretirement increases to be granted on a more frequent basis than in the past. Increases have been granted roughly every five years during the period from 1967 to 1984. The increase proposed in this bill would be effective three years from the date of the last increase.
- The amount of the overall increase in benefits payable to eligible recipients would replace in excess of 100% of the inflation occurring since the last postretirement increase.

- PSERS benefit increase:	11.73%
- CPI-U increase, 7/1/84 to 7/1/87:	9.4 %

- The amortization period specified in the proposed legislation exceeds the remaining average retired lifetime of the benefit recipients. In the early years of the amortization period, the increased benefits payed out will exceed the amount of financing provided.
- The proposed COLA for PSERS is likely to serve as a precedent for a similar benefit increase for SERS.

Commission Recommendation

On November 17, 1987, the Commission voted to attach the actuarial note to this bill and to express the Commission's concern about:

- the potential that granting the proposed postretirement increase within three years of the last increase may serve as a precedent for future increases on a more frequent pattern than has been the past practice;
- the magnitude of the postretirement increase;
- the appropriateness of funding the postretirement adjustment over a period longer than the remaining average retired lifetime of the benefit recipients; and
- the likelihood that the legislation will serve as a precedent for a similar benefit increase for SERS.

Legislative Status on December 31, 1987

House Bill 1785, Printer's Number 2220, was re-committed to the House Appropriations Committee on October 13, 1987.

Bill and Printer's Numbers: Senate Bill 139, Printer's Number 804

System: State Employees' Retirement System (SERS)

Subject: Transfer of Pension Service of Former County Employees to the State Employees' Retirement System

Synopsis of Bill

Act 1985-49 shifted the personal staff of appellate court judges from county employment to state employment. The bill transfers the pension service credit to the State Employees' Retirement System.

Summary of Actuarial Cost Impact

- Increase in Unfunded Actuarial Accrued Liability	\$370,000
- Increase in Annual Cost	
Normal Cost	\$ 0
Amortization (20 years)	29,350
Total	\$ 29,350

Actuarial Note prepared by Towers, Perrin, Forster, and Crosby

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- This bill requires that the accumulated employee contribution transferred into the State Employees' Retirement System be the amount that would have been accumulated if the participant had been a member of the State Employees' Retirement System.
- This bill does not require the actual amounts accumulated in the county systems to be transferred.

Commission Recommendation

On May 13, 1987, the Commission voted to attach the actuarial note to the bill and to express the Commission's concern about the appropriateness of the mechanism provided under the legislation for determining asset amounts to be transferred from county retirement systems to the State Employees' Retirement System in connection with the service transfer. The Commission was concerned that the proposed mechanism results in the transfer of assets by counties in amounts less than their reduction in accrued liability attributable to the service transfer and that the data required to calculate the asset amounts to be transferred are not generated under the actuarial cost method currently used by most counties. The Commission recommended that this bill be amended prior to further consideration in

order to resolve these concerns and offered the assistance of the staff of the Commission in developing the recommended changes.

Legislative Status on December 31, 1987

Senate Bill 139, Printer's Number 804, was amended in the Senate. Printer's Number 1268 was signed into law on July 13, 1987, becoming Act 1987-53.

Bill and Printer's Numbers: Senate Bill 165, Printer's Number 266

System: Municipal Police Officers' and Firefighters' Retirement Systems

Subject: Ad Hoc Postretirement Adjustment

Synopsis of Bill

This bill, a proposed "Special Ad Hoc Municipal Police and Firefighters Postretirement Adjustment Act," would provide a one time percentage postretirement increase to every former municipal police officer and firefighter who has been retired for more than three years. The special postretirement increase would be a mandatory provision for all municipalities with police officers or paid firefighters retirement systems that have benefit recipients. This bill requires that the postretirement increase be paid for by the applicable municipalities on an actuarial basis with a portion of the actuarial funding reimbursed by the Commonwealth if the applicable municipal police officers' or paid firefighters' retirement system has a substantial current unfunded accrued liability.

Summary of Actuarial Cost Impact

-Increase in Unfunded Actuarial Accrued Liability	\$64,200,000
-Increase in Annual Cost	
Normal Cost	\$ 0
Amortization (10 years)	<u>8,500,000</u>
Total	\$8,500,000
-Allocation of Annual Actuarial Cost	
Member Contributions	\$ 0
Municipal Contributions	4,100,000
Commonwealth Contribution	<u>4,400,000</u>
Total	\$8,500,000

Actuarial Note prepared by Towers, Perrin, Forster, and Crosby.

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- The broadly applicable proportional increase in retirement benefits is relatively costly. It may be desirable to give some consideration to alternative benefit designs that would be less costly and that would target the benefit increase to those currently receiving potentially inadequate benefit amounts.

- The amount of the postretirement increase represents approximately one-half of the compound annual increase in the Consumer Price Index over the twenty year period from 1964 to 1984.
- The bill mandates benefit increases for certain municipal retirement systems. The appropriateness of Commonwealth mandated benefit increases is open to question.
- The amount of Commonwealth contribution that would be required under this bill represents a substantial commitment and level of expenditure in an area where the Commonwealth has not previously had direct financial involvement.
- This bill is limited in application to retired members of municipal police officers' and paid firefighters' retirement systems. There is limited policy rationale for the Commonwealth to distinguish between municipal public safety employees and other municipal employees in mandating postretirement benefit increases and in providing substantial Commonwealth money to finance the benefit increases.
- This bill contains substantial technical and drafting problems that should be addressed if the bill is to receive further consideration.

Commission Recommendation

On April 8, 1987, the Commission voted to attach the actuarial note to this bill and to express the Commission's concern about:

- the need to consider alternative designs for postretirement adjustments that would be less costly and that would target the benefit increase to those benefit recipients currently receiving small, potentially inadequate benefit amounts;
- the appropriateness of the practice of the Commonwealth mandating benefit increases for municipal retirement systems;
- the significant participation by the Commonwealth in the financing of the postretirement increase;
- the lack of policy rationale for the Commonwealth to distinguish between municipal public safety employees and other municipal employees in mandating postretirement benefit increases and in providing substantial Commonwealth funding to finance the benefit increases; and
- the substantial technical and drafting problems existing in the proposed legislation.

Legislative Status On December 31, 1987

Senate Bill 165, Printer's Number 266, was re-reported as amended by the Senate Appropriations Committee on June 1, 1987. Printer's Number 1041 passed the Senate on June 2, 1987, and was referred to the House State Government Committee on June 8, 1987.

Bill and Printer's Numbers: Senate Bill 165, Printer's Number 266

Amendment Number: A0933

System: Municipal Police Officers' and Firefighters' Retirement Systems

Subject: Ad Hoc Postretirement Adjustments

Synopsis of Bill

This amended bill, a proposed "Special Ad Hoc Municipal Police and Firefighters Postretirement Adjustment Act," would provide an increase to every retired municipal police officer and paid firefighter based on the following formula:

Retired at least 5 but less than 10 years	\$ 25 per month
Retired less than 10 years and fully disabled	\$ 50 per month
Retired at least 10 but less than 20 years	\$ 75 per month
Retired 20 years or more	\$150 per month

The special postretirement increase would be a mandatory provision for all municipalities with police officers or paid firefighters retirement systems that have benefit recipients. This bill requires that the postretirement increase be funded by the applicable municipalities on an actuarial basis with a portion of the actual benefit payments reimbursed by the Commonwealth if the retirement system has a substantial current unfunded liability.

Summary of Actuarial Cost Impact

-Increase in Unfunded Actuarial Accrued Liability	\$52,200,000
-Increase in Annual Cost	
Normal Cost	\$ 0
Amortization (10 years)	<u>7,100,000</u>
Total	\$7,100,000
-Allocation of Annual Actuarial Cost	
Member Contributions	\$ 0
Municipal Contributions	2,400,000
Commonwealth Contribution	<u>4,700,000</u>
Total	\$7,100,000

Actuarial Note prepared by Towers, Perrin, Forster, and Crosby.

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- The amended bill does not provide for modification of the postretirement adjustment amount for previously granted postretirement increases. The lack

of an offset for prior increases adds to the cost of the proposal and may provide inappropriate increase amounts in the case of retirees who have already received substantial increases in their retirement benefits.

- The amended bill does not provide for any eligibility requirements or modification in the amount of the postretirement adjustment in the case of benefit recipients who retired at very young ages or with relatively short service.
- This bill mandates benefit increases for certain municipal retirement systems. The appropriateness of Commonwealth mandated benefit increases is open to question.
- The amount of Commonwealth contribution that would be required under this bill represents a substantial commitment and level of expenditures in an area where the Commonwealth has not previously had direct financial involvement.
- This bill is limited in application to retired members of municipal police officers' and paid firefighters' retirement systems. There is limited policy rationale for the Commonwealth to distinguish between municipal public safety employees and other municipal employees in mandating postretirement benefit increases and in providing substantial Commonwealth money to finance the benefit increases.
- This bill contains substantial technical and drafting problems that should be addressed if the bill is to receive further consideration.

Commission Recommendation

On June 10, 1987, the Commission voted to attach the actuarial note and to express the Commission's concern about:

- the lack of an offset of previously granted increases in the amount of the postretirement adjustment, which adds to the cost of the proposal and may provide inappropriate increased amounts in the case of retirees who have already received substantial increases in their retirement benefits;
- the absence of any eligibility requirements or modification in the amount of the postretirement adjustment in the case of benefit recipients who retired at very young ages or with relatively short service;
- the appropriateness of the practice of the Commonwealth mandating benefit increases for municipal retirement systems;
- the significant participation by the Commonwealth in the financing of the postretirement increase;
- the lack of policy rationale for the Commonwealth to distinguish between municipal public safety employees and other municipal employees in mandating postretirement benefit increases and in providing substantial Commonwealth money to finance the benefit increases; and

- substantial technical and drafting problems existing in the proposed legislation.

Legislative Status on December 31, 1987

Senate Bill 165, Printer's Number 266, was re-reported as amended by the Senate Appropriations Committee on June 1, 1987. Printer's Number 1041 passed the Senate on June 2, 1987, and was referred to the House State Government Committee on June 8, 1987.

Bill and Printer's Numbers: Senate Bill 165, Printer's Number 266

Amendment Number: A1039

System: Municipal Police Officers' and Firefighters' Retirement Systems

Subject: Ad Hoc Postretirement Adjustments

Synopsis of Bill

This amended bill, a proposed "Special Ad Hoc Municipal Police and Firefighters Postretirement Adjustment Act," would provide a one time percentage postretirement increase to every former municipal police officer or paid firefighter who has been retired for more than three years. The special postretirement increase would be a mandatory provision for all municipalities with police officers' or paid firefighters' retirement systems that have benefit recipients. This bill requires that the postretirement increase be funded by the applicable municipalities on an actuarial basis with the actual benefit payments reimbursed by the Commonwealth on a pay-as-you-go basis.

Summary of Actuarial Cost Impact

- Increase in Unfunded Actuarial Accrued Liability	\$64,200,000
- Increase in Annual Cost	
Normal Cost	\$ 0
Amortization (10 years)	<u>8,500,000</u>
Total	\$8,500,000

NOTE: The amounts indicated above slightly understate the liability attributable to the proposed legislation. The amendment includes retired members of county police officers' or paid firefighters' retirement systems as eligible recipients of the special ad hoc postretirement adjustment. The liability attributable to these retired members (approximately 42 members retired from the Allegheny County police officers' retirement system) is not reflected in the actuarial cost estimate.

FUNDING PROCEDURE

Municipalities would be required to fund the actuarial liability attributable to the benefit increases by level annual payments over 10 years.

The Commonwealth would reimburse municipalities annually for 100% of the actual amount of special ad hoc postretirement adjustment payments made during the preceding calendar year.

Actuarial Note prepared by Towers, Perrin, Forster, and Crosby.

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- The broadly applicable proportional increase in retirement benefits is relatively costly. It may be desirable to give some consideration to alternative benefit designs that would be less costly and that would target the benefit increase to those currently receiving potentially inadequate benefit amounts.
- The amount of the postretirement increase represents approximately one-half of the compound annual increase in the Consumer Price Index over the twenty year period from 1964 to 1984.
- The bill mandates benefit increases for certain municipal retirement systems. The appropriateness of Commonwealth mandated benefit increases is open to question.
- The amount of Commonwealth contribution that would be required under this bill represents a substantial commitment and level of expenditure in an area where the Commonwealth has not previously had direct financial involvement.
- This bill is limited in application to retired members of municipal police officers' and paid firefighters' retirement systems. There is limited policy rationale for the Commonwealth to distinguish between municipal public safety employees and other municipal employees in mandating postretirement benefit increases and in providing substantial Commonwealth money to finance the benefit increases.
- This bill contains substantial technical and drafting problems that should be addressed if this bill is to receive further consideration.

Commission Recommendation

On April 8, 1987, the Commission voted to attach the actuarial note to this bill and to express the Commission's concern about:

- the need to consider alternative designs for postretirement adjustments that would be less costly and that would target the benefit increase to those benefit recipients currently receiving small, potentially inadequate benefit amounts;
- the appropriateness of the practice of the Commonwealth mandating benefit increases for municipal retirement systems;
- the significant participation by the Commonwealth in the financing of the postretirement increase;

- the lack of policy rationale for the Commonwealth to distinguish between municipal public safety employees and other municipal employees in mandating postretirement benefit increases and in providing substantial Commonwealth funding to finance the benefit increase.

Legislative Status on December 31, 1987

Senate Bill 165, Printer's Number 266, was re-reported as amended by the Senate Appropriations Committee on June 1, 1987. Printer's Number 1041 passed the Senate on June 2, 1987, and was referred to the House State Government Committee on June 8, 1987.

Bill and Printer's Numbers: Senate Bill 165, Printer's Number 266

Amendment: A1105

System: Municipal Police Officers' and Firefighters' Retirement Systems

Subject: Ad Hoc Postretirement Adjustment

Synopsis of Bill

This amended bill, a proposed "Special Ad Hoc Municipal Police and Firefighters Postretirement Adjustment Act," would provide an increase to every retired municipal police officer or paid firefighter based on the following formula:

Retired at least 5 but less than 10 years	\$ 50 per month
Retired less than 10 years and fully disabled	\$ 50 per month
Retired at least 10 but less than 20 years	\$ 75 per month
Retired 20 or more years	\$150 per month

The special postretirement increase would be a mandatory provision for all municipalities with police officers' or paid firefighters' retirement systems that have benefit recipients. This bill requires that the postretirement increase be funded by the applicable municipalities on an actuarial basis with the actual benefit payments reimbursed by the Commonwealth on a pay-as-you-go basis.

Actuarial Note prepared by Towers, Perrin, Forster, and Crosby.

Summary of Actuarial Cost Impact

- Increase in Unfunded Actuarial Accrued Liability	\$58,800,000
- Increase in Annual Cost	
Normal Cost	\$ 0
Amortization (10 years)	<u>8,300,000</u>
Total	\$8,300,000

FUNDING PROCEDURE

Municipalities would be required to fund the actuarial liability attributable to the benefit increases by level annual payments over 10 years.

The Commonwealth would reimburse municipalities annually for 100% of the actual amount of special ad hoc postretirement adjustment payments made during the preceding calendar year.

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- The amended bill does not provide for modification of the postretirement adjustment amount for previously granted postretirement increases. The lack of an offset for prior increases adds to the cost of the proposal and may provide inappropriate increase amounts in the case of retirees who have already received substantial increases in their retirement benefits.
- The amended bill does not provide for any eligibility requirements or modification in the amount of the postretirement adjustment in the case of benefit recipients who retired at very young ages or with relatively short service.
- The benefit increase is payable to all eligible retired municipal police officers and paid firefighters without regard to the amount of pension benefits payable at retirement. It would be appropriate to provide some limitation on the postretirement adjustment in cases where the retirement benefit payable at retirement can be considered to have been extremely generous.
- This amended bill mandates benefit increases for certain municipal retirement systems. The appropriateness of Commonwealth mandated benefit increases is open to question.
- The amount of Commonwealth money that would be required under this bill represents a substantial commitment and level of expenditure in an area where the Commonwealth has not previously had direct financial involvement.
- This amended bill requires actuarial funding of the benefit increase that is not integrated with the generally applicable funding standard set forth in the Municipal Pension Plan Funding Standard and Recovery Act. Under the specified funding procedure, municipalities with substantial accumulations of assets in excess of accrued liabilities will be required to directly fund the liability for the postretirement adjustment rather than recognizing a portion of the excess assets as partially or fully funding the additional liability.
- Reimbursement by the Commonwealth for benefit increases for retirees of municipal retirement systems that have substantial accumulations of assets in excess of accrued liabilities or in excess of the value of all projected future benefits payable under the plan is questionable from a policy and fiscal standpoint.
- This amended bill is limited in application to retired members of municipal police officers' and paid firefighters' retirement systems. There is limited policy rationale for the Commonwealth to distinguish between municipal public safety employees and other municipal employees in mandating postretirement benefit increases and in providing substantial Commonwealth money to finance the benefit increases.

Commission Recommendation

On June 10, 1987, the Commission voted to attach the actuarial note and to express the Commission's concern about:

- the lack of an offset in the amount of the postretirement adjustment for previously granted increases that adds to the cost of the proposal and may provide inappropriate increase amounts in the case of retirees who have already received substantial increases in their retirement benefits;
- the absence of any eligibility requirements or modification in the amount of the postretirement adjustment in the case of benefit recipients who retired at very young ages or with relatively short service;
- the absence of any limitation on the amount of the postretirement adjustment payable to retirees who received extremely generous benefits at retirement;
- the appropriateness of the practice of the Commonwealth mandating benefit increases for municipal retirement systems;
- the significant participation by the Commonwealth in the financing of the postretirement increase;
- the municipal funding procedure specified in this amended bill that results in an unnecessary funding requirement for overfunded retirement systems;
- the Commonwealth reimbursement procedure specified under this amended bill that results in Commonwealth funding of benefit increases for retirement systems that already have sufficient assets to fund all benefits on an actuarial basis; and
- the lack of policy rationale for the Commonwealth to distinguish between municipal public safety employees and other municipal employees in mandating postretirement benefit increases and in providing substantial Commonwealth money to finance the benefit increases.

Legislative Status on December 31, 1987

Senate Bill 165, Printer's Number 266, was re-reported as amended by the Senate Appropriations Committee on June 1, 1987. Printer's Number 1041 passed the Senate on June 2, 1987, and was referred to the House State Government Committee on June 8, 1987.

Bill and Printer's Numbers: Senate Bill 165, Printer's Number 1041

System: Municipal Police Officers' and Firefighters' Retirement Systems

Subject: Ad Hoc Postretirement Adjustment

Synopsis of Bill

This bill, a proposed "Special Ad Hoc Municipal Police and Firefighters Postretirement Adjustment Act," would provide a one time percentage postretirement increase to every former municipal police officer or firefighter who has been retired for more than three years. The special postretirement increase would be a mandatory provision for all municipalities with police officers' or paid firefighters' retirement systems that have benefit recipients. This bill requires that the postretirement increase be funded by the applicable municipalities on an actuarial basis with the actual benefit payments reimbursed by the Commonwealth on a pay-as-you-go basis.

Summary of Actuarial Cost Impact

- Increase in Unfunded Actuarial Accrued Liability	\$64,200,000
- Increase in Annual Cost	
Normal Cost	\$ 0
Amortization (10 years)	8,500,000
Total	\$ 8,500,000

NOTE: The amounts indicated above slightly understate the liability attributable to the proposed legislation. The amended version includes retired members of county police officers' or paid firefighters' retirement systems as eligible recipients of the special ad hoc postretirement adjustment. The liability attributable to these retired members (approximately 42 members retired from the Allegheny County police officers' retirement system) is not reflected in the actuarial cost estimate.

FUNDING PROCEDURE

Municipalities would be required to fund the actuarial liability attributable to the benefit increases by level annual payments over 10 years.

The Commonwealth would reimburse municipalities annually for 100% of the actual amount of special ad hoc postretirement adjustment payments made during the preceding calendar year.

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- The proposed benefit design provides the greatest postretirement adjustment to recipients with the longest time on retirement and receiving the largest current benefit amounts. Serious consideration should be given to alternative designs that would be less costly and that would target benefit increases to those recipients now receiving small, potentially inadequate benefit amounts.
- The amount of the postretirement increase represents approximately one-half of the compound annual increase in the Consumer Price Index over the 20 year period from 1964 to 1984.
- This bill mandates benefit increases for municipal retirement systems that have retired members. The appropriateness of a Commonwealth mandated benefit increase for municipal retirement systems that are locally established and administered is questionable.
- The amount of Commonwealth money that would be required under this bill represents a substantial commitment and level of expenditure in an area where the Commonwealth has not previously had financial involvement. The proposal may provide a precedent for future Commonwealth funding.
- This bill requires the municipality to fund the benefit increase in a manner not integrated with the generally applicable funding standard set forth in the Municipal Pension Plan Funding Standard and Recovery Act (mandating actuarial funding standards for municipal retirement systems). Under the proposed funding procedure, municipalities with assets substantially greater than liabilities will be required to directly fund the new liability rather than utilizing a portion of their excess assets to partially or fully fund the new liability. This results in an unnecessary funding requirement for overfunded retirement systems.
- The Commonwealth reimbursement procedure specified in this bill results in the Commonwealth funding the benefit increases for systems that already have sufficient assets to fund all future projected benefits. This is questionable from a fiscal and policy standpoint.
- There is limited policy rationale for the Commonwealth to distinguish between municipal public safety employees and other municipal employees in mandating and funding this benefit increase.

Commission Recommendation

On September 16, 1987, the Commission voted to attach the actuarial note to this bill and to express the Commission's concern about:

- the need to consider alternative designs for postretirement adjustments that would be less costly and that would target the benefit increase to those benefit recipients currently receiving small, potentially inadequate benefit amounts;
- the appropriateness of the practice of the Commonwealth mandating benefit increases for municipal retirement systems;

- the significant participation by the Commonwealth in the financing of the postretirement increase;
- the municipal funding procedure specified in this bill that results in an unnecessary funding requirement for overfunded retirement systems;
- the Commonwealth reimbursement procedure specified under this bill that results in Commonwealth funding of benefit increases for retirement systems that already have sufficient assets to fund all benefits on an actuarial basis; and
- the lack of policy rationale for the Commonwealth to distinguish between municipal public safety employees and other municipal employees in mandating postretirement benefit increases and in providing substantial Commonwealth funding to finance the benefit increases.

Legislative Status on December 31, 1987

Senate Bill 165, Printer's Number 1041, passed the Senate on June 2, 1987, and was referred to the House State Government Committee on June 8, 1987.

Bill and Printer's Numbers: Senate Bill 347, Printer's Number 1039

System: Public School Employees' Retirement System (PSERS) and
State Employees' Retirement System (SERS)

Subject: Cost of Living Increases

Synopsis of Bill

This bill would amend the Public School Employees' Retirement Code and the State Employees' Retirement Code to provide for the payment of supplemental annuities effective July 1, 1987, to annuitants who began receiving an annuity on or before July 1, 1986. It would provide that the amount of the monthly supplemental annuity be the total of:

- \$1.00 times years of credited service
- \$3.00 times years on retirement.
- 2% of the monthly annuity as of 7/1/87, up to \$20.

Summary of Actuarial Cost Impact

	<u>PSERS</u>	<u>SERS</u>	<u>TOTAL</u>
- Increase in Unfunded Actuarial Accrued Liability	\$494,200,000	\$290,000,000	\$784,200,000
- Increase in Annual Cost			
Normal Cost	\$ 0	\$ 0	\$ 0
Amortization (20 years)	<u>41,400,000</u>	<u>23,000,000</u>	<u>64,400,000</u>
Total	\$ 41,400,000*	\$ 23,000,000	\$ 64,400,000
	(0.93% of covered payroll)	(0.91% of covered payroll)	

* Payable one-half by Commonwealth and one-half by school districts.

Actuarial Note prepared by Towers, Perrin, Forster, and Crosby.

Policy Considerations

In reviewing this bill, the Commission identified the following policy considerations:

- The bill may serve as a precedent for postretirement increases to be granted on a more frequent basis than in the past. Increases have been granted roughly every five years during the period from 967 to 984. The increase proposed in the bill would be effective three years from the date of the last increase.

- The amount of the overall increase in benefits payable to eligible recipients would replace in excess of 100% of the inflation occurring since the last postretirement increase.
 - o PSERS benefit increase: 11.73%
 - o SERS benefit increase: 9.84%
 - o CPI-U increase, 7/1/84 to 7/1/87: 9.4 %

- The amortization period specified in the proposed legislation exceeds the remaining average retired lifetime of the benefit recipients. In the early years of the amortization period, the increased benefits payed out will exceed the amount of financing provided.

Commission Recommendation

On October 14, 1987, the Commission voted to attach the actuarial note and to express the Commission's concern about:

- the potential that granting the proposed postretirement increase within three years of the last increase may serve as a precedent for future increases on a more frequent pattern than has been the past practice;
- the magnitude of the postretirement increase; and
- the appropriateness of paying for the postretirement adjustment over a period longer than the remaining average retired lifetime of the benefit recipients.

Legislative Status on December 31, 1987

Senate Bill 347, Printer's Number 1039, passed the Senate on November 17, 1987, and was referred to the House Appropriations Committee on November 23, 1987.

Bill and Printer's Numbers: Senate Bill 852, Printer's Number 1113

System: State Employees' Retirement System (SERS)

Subject: Employer Contribution Rate for Members of an Independent Retirement System

Synopsis of Bill

This bill amends the State Employees' Retirement Code by establishing the employer contribution rate for members of independent retirement systems at a rate of 8.95%. In addition, this bill directs the Public Employee Retirement Study Commission to study the rate four years after it was last set and recommend to the Governor and the General Assembly a rate for the next five years.

Background

This bill addresses the issue of employer contributions for retirement coverage for approximately 4,700 employees of the State System of Higher Education, Pennsylvania State University, and the Pennsylvania Department of Education who have elected to participate in an independent defined contribution retirement program in lieu of membership in the State Employees' Retirement System. Between 1974 and 1986, employer contributions on behalf of employees covered by the alternate plan have been limited to the employer normal cost contribution rate for SERS. In 1986, the General Assembly recognized the need to evaluate the current method of setting contribution rates for employees participating in the alternate retirement program and directed the Public Employee Retirement Study Commission to "undertake a study to ascertain the most appropriate method to set annual employer contribution rates to optional alternate retirement programs so as to ensure parity between employer contribution rates" to SERS and the alternate program. This bill is based on the recommendations contained in the Commission's study presented to the Governor and the General Assembly in March 1987.

Cost Estimate

The estimated financial impact on the Commonwealth is based on the difference between 8.95%, the rate proposed in Senate Bill 852, and 7.08%, the average employer contribution rate under the prior method.

Organization	Estimated Number of Affected Employees	Estimated Payroll of Affected Employees	Cost Difference Between 7.08% and 8.95% Rates
State System of Higher Education	1,460	\$ 41,000,000	\$ 766,700
Pennsylvania State University	3,200	103,000,000	1,926,100
State Department of Education	30	840,000	15,708
Estimated Total Annual Cost Difference			\$2,708,508

Policy Considerations

In reviewing this bill, the Commission identified the following policy issues:

- This bill is consistent with the recommendations set forth in the Commission's study of March 1987. In the study, the Commission recommended: (1) that a set rate for employer contributions to approved optional retirement programs be established for a period of five to ten years and that the contribution rate be reviewed at the close of the established period to determine whether any modifications are warranted; and (2) that the initial contribution rate be set in the range of 7% to 9%, with the 7% rate approximating the value of the regular SERS benefit plan and the 9% rate additionally reflecting the approximate value of postretirement cost-of-living increases likely to be granted to SERS members.
- The 8.95% rate proposed in this bill reflects the approximate value of periodic postretirement adjustments typically granted to SERS members. The Commission recommended that the selection of a contribution rate within the 7% to 9% range be based on a determination by the Commonwealth policymakers concerning the extent to which it is considered appropriate in achieving the goal of parity to include the value or any portion of the value of future ad hoc postretirement increases that are likely to be granted to SERS members.
- The criterion specified by the General Assembly for the Commission's initial study of employer contribution rates to alternate retirement programs was to ensure parity between employer contribution rates to SERS and the alternate retirement program. This bill provides that future studies be based on the criterion of producing parity of benefits between SERS and the alternate program. This revised wording represents a significant policy difference that warrants careful evaluation by Commonwealth policymakers. For example, the same amount of employer financing to the two plans is unlikely to produce comparable retirement benefits for career Commonwealth employees. This occurs because of the dissimilar benefit structures of the plans. The alternate plan, a defined contribution plan with full immediate vesting, pays a higher proportion of overall benefits to employees who withdraw, while SERS, a defined benefit plan with a ten-year vesting requirement, focuses its benefits on those who retire. Therefore, in order to provide parity of benefits for the career employee under the two plans, a substantially higher employer contribution rate to the alternate plan would be needed.
- The policy, administrative, actuarial, and technical complications inherent in attempting to achieve parity of benefits between a defined contribution plan and a defined benefit plan with dissimilar plan provisions regarding vesting, portability, postretirement adjustments, interest crediting, annuity forms, age and service requirements, etc. may prove to be insurmountable.

Commission Recommendation

On September 16, 1987, the Commission voted to attach the cost estimate to this bill and to recommend to the General Assembly and Governor that the bill be amended prior to further consideration to provide for future studies of employer contribution rates to alternate retirement programs to be based on the goal of providing parity between employer contribution rates. The Commission noted the likelihood that a substantially higher employer contribution rate would be necessary to achieve the goal of parity of benefits as currently provided under this bill and expressed concern that significant policy, administrative, actuarial, and technical complications would be encountered in attempting to set an employer contribution rate on that basis.

Legislative Status on December 31, 1987

Senate Bill 852, Printer's Number 1113, was reported as amended by the House Appropriations Committee on September 29, 1987. Printer's Number 1368 was signed into law on October 30, 1987, becoming Act 1987-78.

PART II.

PUBLIC EMPLOYEE RETIREMENT SYSTEM ADMINISTRATION.

A. ADMINISTRATION OF THE MUNICIPAL PENSION PLAN FUNDING STANDARD AND RECOVERY ACT (ACT 205 OF 1984).

1. 1985 Filing Period.

Because more than 125 municipalities remained delinquent in filing their 1985 actuarial valuation reports in January of 1987, the Commission committed significant resources throughout 1987 to enforce compliance by the delinquent municipalities. Through numerous delinquency notices and extensive telephone solicitations, the delinquencies were reduced to one by October. In November, the Commission, as required by the Municipal Pension Plan Funding Standard and Recovery Act, assigned an actuarial firm to prepare the remaining delinquent report.

2. 1987 Filing Period.

The Municipal Pension Plan Funding Standard and Recovery Act actuarial valuation reporting forms were subjected to extensive review and subsequent revision to facilitate review by the Commission staff, to improve the quality of the data provided to municipalities and the Commonwealth, and to reduce the effort and costs associated with completing the reporting forms. The initial filing notice was transmitted to over 4,500 local governments in September of 1987. A second filing notice to approximately 2,000 municipalities not responding to the initial filing notice was sent in December of 1987. As of the end of December, the distribution of the actuarial valuation reporting forms, which entails processing approximately 4,500 reporting form requests (Form PC-200), was progressing as planned.

3. Financially Distressed Municipal Pension System Recovery Program.

In August of 1987, the Commission calculated the distress scores for the 53 municipalities participating in the Financially Distressed Municipal Pension System Recovery Program and provided notifications of the results to the individual municipalities. The municipalities participating in the Supplemental State Assistance Program were notified by the Commission in March of 1987 that documentation showing compliance with the mandatory reform measures of the Recovery Program was due on or before September 30, 1987. The Commission reviewed the documentation submitted and certified 28 municipalities for participation in the Supplemental State Assistance Program in December of 1987. As required by the Municipal Pension Plan Funding Standard and Recovery Act, the 1988 Supplemental State Assistance amounts, totalling more than \$25 million, were calculated by the Commission and certified to the Governor and the General Assembly on December 1, 1987.

4. Municipal Pension Cost Certification.

In July of 1987, the Commission certified the pension cost data for over 1,200 individual municipalities to the Department of the Auditor General. The certification permitted the allocation of the 1987 General Municipal Pension System State Aid, which exceeded \$96 million. The certification was based on the municipal employee retirement system data base that is maintained by the Commission from the actuarial valuation reports submitted under the Municipal Pension Plan Funding Standard and Recovery Act.

5. Rules and Regulations.

The Commission drafted and, in June of 1987, adopted proposed rules and regulations for the administration of the Municipal Pension Plan Funding Standard and Recovery Act. These proposed rules and regulations were transmitted to the various reviewing agencies and approved without revision by the Independent Regulatory Review Commission on October 23, 1987. Notice of the final adoption of these rules and regulations was published in the Pennsylvania Bulletin in December 1987.

6. Status Report.

The Commission compiled and analyzed the data contained in the 1985 Municipal Pension Plan Funding Standard and Recovery Act actuarial valuation reports and issued a Status Report on Local Government Pension Plans to the Governor and the General Assembly in December of 1987. A synopsis of the status report is presented on page ?? of this report. Copies of this report may be obtained by contacting the Commission's office.

B. ADMINISTRATION OF ACT 293 OF 1972.

Since the passage of the Municipal Pension Plan Funding Standard and Recovery Act, the actuarial reporting program under Act 293 has only been applicable to county employee retirement systems. The 1986 actuarial reports on these systems were filed in 1987. The financial, demographic, and actuarial data contained in the 69 reports were reviewed and summarized in the Status Report on Local Government Pension Plans published by the Commission in December of 1987.

Commission drafted legislation to amend Act 293 was introduced early in the 1987-88 Session of the General Assembly. The proposed amendment would change the reporting year for the biennial actuarial reports on county employee retirement systems to odd numbered years. If the amendment is enacted, county employee retirement system actuarial reports submitted under Act 293 and all other local government employee retirement system reports submitted under the Municipal Pension Plan Funding Standard and Recovery Act will be filed for the same years.

C. ADMINISTRATION OF ACT 53 OF 1987.

In 1985, legislation was enacted that transferred the employment of the personal staff of appellate court judges from the various counties to the Commonwealth. Act 53 of 1987 established the mechanism for transferring the pension service credit of these court employees to the State Employees' Retirement System. Act 53 provided for the transfer of both member contributions and employer contributions in order for these employees to receive credit in the State Employees' Retirement System for the prior service with the county retirement system. Under the act, the Public Employee Retirement Study Commission was given the responsibility of determining the appropriate amount of employer contributions to be transferred on behalf of each employee.

In order to obtain the data necessary to calculate the employer contributions required to be transferred, the Commission staff requested each of the eight affected counties to provide information, certified by the actuary for the county retirement system, on the accrued liability attributable to each employee eligible to transfer service credit. In order to assure uniformity of the data submitted by the various counties, the Commission specified instructions for the actuarial calculations. Additional information needed in the determination of amounts required to be transferred was provided by the staff of the State Employees' Retirement System.

On December 8, 1987, the Commission certified to the State Employees' Retirement System the employer amounts required to be transferred by the eight affected counties on behalf of 33 former county employees eligible to receive service credit in the State system.

PART III.

PUBLIC EMPLOYEE RETIREMENT SYSTEM POLICY DEVELOPMENT AND COORDINATION.

A. STATUTORY PROVISIONS.

The Public Employee Retirement Study Commission Act provides, in pertinent part:

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 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.

B. RESEARCH COMPLETED.

1. Study of Method for Setting Employer Contributions Rates to Alternate Retirement Programs.

Section 2 of the act of December 15, 1986 (P.L. 1597, No. 1986-176) directed the Commission to "undertake a study to ascertain the most appropriate method to set annual employer contribution rates to optional alternate retirement programs so as to insure parity between employer contribution rates to the State Employees' Retirement System and alternate employee retirement programs." A report on this study and the Commission's recommendations to the Governor and the General Assembly was due not later than March 31, 1987.

In March 1987, the Commission issued its report. The report analyzed the problems inherent in the then present method for setting employer contribution rates to alternative retirement programs and set forth the Commission's recommendation for a more appropriate method that would continue to reflect the current policy of maintaining parity in employer contributions for retirement coverage for all Commonwealth employees.

a. In summary, the main conclusions reached by the Commission in its study were:

(1) The current method of determining employer contributions to optional, independent retirement programs based on the employer normal rate for the State Employees' Retirement System (SERS) achieves the goal of "parity between employer contribution rates" only if the normal cost is calculated using valid long-term assumptions that produce a stable cost pattern that is likely to fund the benefits of SERS without significant future supplemental contributions;

(2) The economic actuarial assumptions used in preparing the annual SERS valuations may not produce the desirable stable long-term normal cost pattern that would be appropriate for determining contributions to optional, defined contribution pension plans;

(3) State employees who have elected participation in an optional, defined contribution plan should be provided with an employer contribution rate that has a measure of stability and predictability and provides for parity in employer contributions from a long-term rather than a short-term perspective; and

(4) In determining contributions on behalf of participants in optional retirement programs, some consideration of the value of periodic ad hoc postretirement adjustments granted to SERS members would be consistent with the goal of providing parity in employer contributions.

b. The Commission's recommendations were based on actuarial calculations designed to approximate the State Employees' Retirement System normal cost rate using economic actuarial assumptions considered to be valid long-term assumptions within commonly accepted actuarial practice. In summary, the Commission recommended:

(1) That a set rate for employer contributions to approved, optional, independent retirement programs such as the Teachers Insurance Annuity Association/College Retirement Equities Fund be established and continued without modification for a period of five to ten years and that the contribution rate be reviewed at the close of each established period of years to determine whether any modifications are warranted; and

(2) That the initial contribution rate be set in the range of 7% to 9% of payroll, with the 7% rate approximating the value of the regular SERS benefit plan and the 9% rate additionally reflecting the approximate value of postretirement cost-of-living increases likely to be granted to SERS members.

Senator Gibson E. Armstrong, a member of the Commission, introduced Senate Bill 852 to implement the Commission's recommendations. The bill was adopted by the General Assembly and approved by the Governor on October 30, 1987, becoming Act No. 1987-78. The rate is now fixed at 8.95% for fiscal year 1987-88 and all fiscal years thereafter. In addition, the Commission is directed to study this rate in 1991 and to recommend to the Governor and the General Assembly a rate for the following five years. This recommendation must be designed to produce parity of contributions between the alternate retirement program and the SERS program.

2. A Comprehensive Study of the Pennsylvania State Employees' Retirement System (SERS), Public School Employees' Retirement System (PSERS) (PSERS) and Statewide Public Retirement Systems in Other States.

In April 1986, the Commission joined with the Office of the Budget and the State Employees' Retirement System (SERS) in sponsoring a comparative study of SERS and the Public School Employees' Retirement System (PSERS) (PSERS) and other states' retirement systems. The study was conducted by the State Division of the Pennsylvania Economy League, Inc.

The study had four major purposes. The first was to provide information to increase the level of familiarity with and understanding of public employee retirement system terms, provisions, procedures, trends, and conditions. The second was to determine the relative costs and benefit levels of the SERS and PSERS plans as compared to similar plans in other states and to identify any significant excesses or deficiencies existing in the Pennsylvania plans. The third was to examine the special nature and conditions of service for certain employee groups to determine validity and criteria for separate benefit provisions for these groups. The last was to identify and provide analysis of the fundamental issues serving as the basis for the establishment of public employee retirement system policy or guidelines.

This study was issued in May 1987. The following significant findings were made:

- (1) At present, no pension policy or policy framework exists on which to guide or base decisions regarding benefit provisions or levels;
- (2) SERS and PSERS generally have a more liberal benefit structure than most of the other state retirement systems used for comparison; and
- (3) Service retirement benefits provided to SERS and PSERS annuitants, when added to social security benefits, were found to replace in excess of 100 percent of typical long-service retiree's net income in the final year of active service, and for some of the examples used in the study, these "replacement rates" range from 115% to 120% of the final year's take-home pay.

3. A Study of the Total Compensation of Pennsylvania Public Employees.

A total compensation study was initiated in 1983 as a long term project of the Commission. The report provides a broad view of the total compensation practices of public employees in Pennsylvania and contrasts those practices with those of other public and private employer groups. In releasing the report, Commission Chairman Dale D. Stone stressed the importance of viewing public pensions in the context of the total compensation package provided to the public employee. "Policymakers faced with decisions on pension benefits for public employees must recognize that the pension benefit is just one component of the employees' total compensation. Evaluation and comparison of pension levels can only be made in that framework," Stone said.

The study analyzed the cash, retirement system, and noncash components of compensation for Pennsylvania state and local government employees, federal government employees, public employees in four states contiguous to Pennsylvania, and private sector employees. When possible, data were obtained directly from the employer. Aggregate data for employee groups were taken from published sources. Employer cost data for pensions and benefits were expressed as a percentage of average pay. Comparisons of data were made to reveal differences in either the types or levels of compensation provided and findings were developed.

Preliminary work relating to the retirement system benefit portion of the study was completed in March 1986. The Commission contracted with the State Division of the Pennsylvania Economy League, Inc. for the completion of the cash and noncash components of the study. All three portions were integrated into a final report that was issued in June 1987.

The study had three major findings.

(1) On average, Pennsylvania state and local government employees receive total compensation packages that are neither the highest nor lowest among those compared. This is in part the result of mid to lower ranked average salaries offset by comparatively more generous benefit and pension provisions.

(2) The Commonwealth and its employees have taken steps to contain or reduce the cost of benefits. Recent data indicate some success. As a result, the Commonwealth's current cost of benefits would likely be more competitive with those of the other employers compared.

(3) From a policy standpoint, the implications of the relative ranking of the total compensation packages are that, on average, there are neither serious deficiencies or extravagances that must be addressed by changes to pensions or other compensation components. One possible exception to this would be the relatively low Commonwealth cash compensation practices at the higher pay ranges.

4. Status Report on Local Government Pension Plans.

The Commission's first report on the status of the Commonwealth's local government retirement systems since the enactment of the Municipal Pension Plan Funding Standard and Recovery Act was issued in December 1987. That act was reform legislation that successfully addressed the Commonwealth's urgent need to implement an actuarial funding standard for municipal pension plans. The report was a summary and analysis of data submitted under both the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) and the act of December 6, 1972 (No. 293).

The data presented in the report were extracted from the individual pension plan reports containing actuarial, financial, and demographic information. The municipal pension plan reports submitted under the Municipal Pension Plan Funding Standard and Recovery Act covered the 1985 plan year while the county pension plan reports submitted under Act 293 of 1972 covered the 1986 plan year. Throughout the filing periods, the Commission endeavored to ensure the reported data were complete and accurate. The data provided in the individual reports were reviewed for completeness and internal consistency.

In summary, the report noted four major conditions:

(1) The number of reported local government pension plans has continued to grow at a significant rate from 1,600 in 1974 through 1,991 in 1978 and 2,284 in 1982 to 2,372 in 1985;

(2) Over 250 local governments have begun providing some form of non-pension postretirement benefit;

(3) In many of the 39 "fully insured" and 412 "split funded" municipal pension plans, there were instances where insurance premiums were being paid when the plan's assets exceeded the present value of future benefits, a questionable public policy; and

(4) The money available for allocation by the General Municipal Pension System State Aid program grew to over \$96 million in 1987 from about \$61 million in 1985.

The Commission plans to study these conditions and report its findings.

C. RESEARCH BEGUN AND CONTINUED.

1. Fiduciary Responsibility and Liability.

The subjects of fiduciary responsibility and liability are not well addressed in the various statutory provisions that govern the wide variety of public employee retirement systems in Pennsylvania. In 1985,

the Commission reviewed staff memoranda on the various aspects of this topic. In the first half of 1986, the recommendations of the Commission's staff were transmitted to the Commission's statutory advisory committees for review and comment, and during the second half of 1986, staff work began on the integration of these materials into a single document. The Commission's goals are to provide a set of recommendations as a frame of reference for the formulation of proposed legislation on the topics and to provide draft legislation as a point of departure for further discussion and action. The Commission expects to issue this document during 1988.

2. Municipal Retirement System Laws.

During the second half of 1987, an outline was prepared and research begun on a proposed publication entitled Pension Laws for Pennsylvania Local Governments. The Commission intends this publication as a nontechnical description of some of the statutes regulating the public employee retirement systems of most Pennsylvania local governments aimed at the average governing body member. It will not include the special cases of the Cities of Philadelphia, Pittsburgh, and Scranton, the County of Allegheny, and the Public School Employees' Retirement System (PSERS). The Commission expects to issue this publication during 1988.

D. FUTURE RESEARCH.

Based upon its first five years of experience, the Commission has identified three public employee retirement system issues for future study. These are discussed below in the order that the Commission expects to deal with them.

1. Paying for Municipal Non-Pension Postretirement Benefits.

As a part of a nationwide trend in employee benefits, local governments in Pennsylvania are beginning to provide their employees with non-pension postretirement benefits such as retiree health insurance. The statutory authority to do this is not clear, and there are no statutory provisions for pre-funding the liabilities associated with these benefits. The Commonwealth's experience with public employee retirement systems strongly suggests that paying for the costs of non-pension postretirement benefits will be extremely burdensome in the future if done on a "pay as you go" basis rather than paying for these costs as they accrue. To help the Commonwealth's public policymakers in considering this issue, the Commission will study the statutory provisions for such benefits and issue a special report on the subject. The Commission expects to issue this report in 1988.

2. Continued Creation and Administration of Public Employee Retirement Systems by Individual Local Governments.

The Commonwealth has an extraordinarily large number of local government employee retirement systems, and the growth in the number of these systems is likely to continue at a significant rate. The basic issue

that the Commonwealth's public policymakers must face is whether the current structure of local government employee retirement systems should be maintained. If this structure is to be maintained, a comprehensive review and revision of all local government employee retirement system statutes must be begun. If this structure is not to be maintained, a replacement structure must be designed and implemented. To facilitate the Commonwealth's resolution of this issue, the current structure of local government retirement systems will be the subject of a special report by the Commission.

3. Intrastate Portability of Service Credits.

Mobility of skilled local government employees within Pennsylvania is severely restrained by the inability of these employees to transfer the service credit of retirement benefits they have earned in one entity to another along with the assets to pay for these benefits. This is a hardship for both employees in seeking advancement and employers in seeking proven employees. The Commission's goal is to recommend a policy that will be fair to the employee, the old employer, and the new employer. No timetable has been adopted for this project.

E. STATEWIDE PUBLIC EMPLOYEE RETIREMENT SYSTEM REVIEWS.

Under the Public Employee Retirement Study Commission Act, the Commission conducts periodic reviews of the actuarial and financial reports of the various public employee retirement systems. The Commission conducted a review of the State Employees' Retirement System in October 1987, the Public School Employees' Retirement System (PSERS) in September 1987, and the Pennsylvania Municipal Retirement System in May 1987.

1. Commission Review of SERS Actuarial Valuation Report.

At the October 14, 1987, meeting of the Commission, the staff presented a summary of the December 31, 1986, actuarial valuation report of the State Employees' Retirement System. The following are some significant facts contained in that report.

a. Funding.

(1) Since the prior valuation, the employer contribution rate has remained unchanged at 13.09% of payroll;

(2) Since the prior valuation, the unfunded accrued liability decreased by \$320,142,686;

(3) Since the prior valuation, the funding ratio increased by 5.25%; and

(4) Since the prior valuation, the current assets have increased by \$690,354,470.

b. Membership.

(1) The active membership of 109,454 had declined by 2,016 since the prior valuation;

(2) The payroll of \$2,518,206,000 had increased by \$91,409,000 since the prior valuation; and

(3) The 67,488 annuitants had increased by 3,266 since the prior valuation.

c. Summary of Employer Contribution Rates.

	<u>12/31/85</u>	<u>12/31/86</u>
Normal Cost	3.60%	4.45%
Amortization of Unfunded Actuarial Accrued Liability	7.75	6.89
Amortization of Supplemental Annuities	<u>1.74</u>	<u>1.68</u>
Total	<u>13.09%</u>	<u>13.09%</u>

This report was reviewed by the Commission with the SERS executive staff and actuary. During the review, discussion centered on the economic actuarial assumptions used in preparing the valuation. The two major assumptions discussed were the interest assumption and the salary scale. The Commission expressed concern that these assumptions would lead to increased contribution rates in the future and stressed the importance of cost stability as an essential funding goal for public employee retirement systems.

The following is a summary of the December 31, 1986, actuarial valuation of the SERS and a comparison of the 1986 results with those of 1985.

**SUMMARY OF ACTUARIAL VALUATION
STATE EMPLOYES' RETIREMENT SYSTEM
as of December 31, 1986**

The following is a summary of the December 31, 1986 actuarial valuation of the State Employees' Retirement System and a comparison of the 1986 results with those of 1985.

	<u>12/31/85</u>		<u>12/31/86</u>	
<u>Membership</u>				
Active	111,480		109,454	
Inactive Vested	3,080		3,178	
Retired	55,653		58,591	
Disabled	3,532		3,660	
Survivors and Beneficiaries	5,037		5,237	
<u>Payroll and Annuities Payable</u>				
Total Annual Payroll	\$2,426,797,000		\$2,518,206,000	
Annual Annuities and Benefits	324,097,257		352,978,810	
<u>Valuation Data</u>				
Accrued ₁ Liability	\$8,095,726,824		\$8,465,938,567	
Assets	<u>5,319,010,834</u>		<u>6,009,365,263</u>	
Unfunded Accrued Liability ²	\$2,776,715,990		2,456,573,304	
Funding Ratio	65.7%		70.98%	
<u>Funding Costs</u>				
Normal Cost ³	\$239,039,505	9.85%	\$269,448,042	10.70%
Interest on UAL ⁴	<u>152,719,379</u>	<u>6.29</u>	<u>135,111,532</u>	<u>5.37</u>
Minimum Actuarial Funding	\$391,758,884	16.14%	\$404,559,574	16.07%
Normal Cost ⁵	\$239,039,505	9.85%	\$269,448,042	10.70%
Amortization	<u>230,303,034</u>	<u>9.49</u>	<u>217,572,998</u>	<u>8.64</u>
Full Actuarial Funding	\$469,342,539	19.34%	\$487,021,040	19.34%
<u>Support</u>				
Member ³	\$151,674,812	6.25%	\$157,387,875	6.25%
Commonwealth	<u>317,667,727</u>	<u>13.09</u>	<u>329,633,165</u>	<u>13.09</u>
Total Support	\$469,342,539	19.34%	\$487,021,040	19.34%
<u>Adequacy of Support</u>				
Frozen Deficit Financing	\$391,758,884	16.14%	\$404,559,574	16.07%
Total Support	<u>\$469,342,539</u>	<u>19.34%</u>	<u>487,021,040</u>	<u>19.34</u>
Deficiency (Surplus)	(\$ 77,583,655)	(3.2%)	(\$ 82,461,466)	(3.27%)
Full Amortization Financing	\$469,342,539	19.34%	\$487,021,040	19.34%
Total Support	<u>469,342,539</u>	<u>19.34</u>	<u>487,021,040</u>	<u>19.34</u>
Deficiency (Surplus)	0	0.00	0	0.00

12/31/85

12/31/86

Investment Yield

Net Investment Income as Percent of Mean Assets ⁶	8.23%	7.15%
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EXPLANATORY FOOTNOTES

1. The figure is the actuarial asset value not the market value.
2. The unfunded accrued liability figure includes \$393,951,748 for the amortization of supplemental annuities.

The SERS unfunded accrued actuarial liability decreased between the 12/31/85 actuarial valuation and the 12/31/86 actuarial valuation. The SERS 1986 actuarial valuation states that the reduction was caused by the following:

- (a) Excess investment earnings
- (b) Change in normal cost rate

3. The State Employees' 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 Employees' 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.
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.

The following is the remaining unfunded accrued liability and the required amortization contribution and time period:

Unfunded Accrued Liability12/31/8512/31/86

1. Portion Attributable to Prior Cost-of-living Post Retirement Adjustments

1969 Post Retirement Adjustment

Amount	\$2,047,630	\$1,497,899
Amortization Contribution	\$ 625,779	624,882
Amortization Period	4.5 years	3.5 years

1974 Post Retirement Adjustment

Amount	\$50,912,496	\$45,982,928
Amortization Contribution	\$ 7,264,113	7,253,686
Amortization Period	9.5 years	8.5 years

1979 Post Retirement Adjustment

Amount	\$181,042,945	\$171,397,949
Amortization Contribution	\$ 18,346,840	18,320,496
Amortization Period	14.5 years	13.5 years

1984 Post Retirement Adjustment

Amount	\$181,216,608	\$175,072,972
Amortization Contribution	\$ 15,032,061	15,010,471
Amortization Period	19.5 years	18.5 years

2. Portion Attributable to Other Sources

1969 Benefit Increase

Amount	\$1,636,122,044	\$1,419,309,779
Amortization Contribution	\$137,201,010	127,624,294
Amortization Period	14.5 years	13.5 years

1974 Benefit Increase

Amount	\$725,374,267	\$643,311,777
Amortization Contribution	\$ 45,978,149	42,807,544
Amortization Period	19.5 years	18.5 years

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 Employees' Retirement System based on the December 31, 1986 and 1985 audited financial statements.

2. Commission Review of PSERS Actuarial Valuation Report.

At the September 16, 1987, meeting of the Commission, the staff presented a summary of the June 30, 1986, actuarial valuation report of the Public School Employees' Retirement System (PSERS). The following are some significant facts contained in that report.

a. Funding.

(1) Since the prior valuation, the employer contribution rate had decreased by 0.36% of payroll;

(2) Since the prior valuation, the unfunded accrued liability had decreased by \$27,900,000;

(3) Since the prior valuation, the funding ratio had increased by 4.23%; and

(4) Since the prior valuation, the current assets had increased by \$1,465,515,000.

b. Membership.

(1) The membership of 199,571 had declined 1.07% since the prior valuation;

(2) The \$4,066,880 payroll had increased 4.59% since the prior valuation; and

(3) The 86,646 annuitants had increased 4.53% and the \$571,187,000 of annual annuities had increased 5.15% since the prior valuation.

c. Change in Unfunded Accrued Liability. While the unfunded accrued liability had decreased by \$27,900,000, the expected decline was \$98,000,000. The actuary's explanation of the increase above the expected unfunded accrued liability was as follows:

(1) Experience:

Interest surplus	(\$667.7)
Salary increases above expected	304.9
Retirement and other separation	35.0
Pensioners mortality experience	23.9
Net experience loss (gain)	(303.9)

(2) Change in actuarial assumption 337.0

(3) 1986 early retirement window 37.0

(4) Total net increase \$ 70.1

This report was reviewed by the Commission with the PSERS executive staff and consulting actuary. Mr. John W. Thompson, the PSERS consulting actuary, made a presentation on behalf of PSERS that further detailed the assumption changes contained in the report.

After the review of this report, Mr. Thompson presented an overview of the PSERS 30-year Retirement Forecast Study prepared for the PSERS board at the suggestion of the Commission. Mr. Conrad M. Siegel, consulting actuary to the Commission, presented his comments on the study.

The following is a summary of the June 30, 1986, actuarial valuation of the PSERS and a comparison of the 1986 results with those of 1985.

**SUMMARY OF ACTUARIAL VALUATION
PUBLIC SCHOOL EMPLOYES' RETIREMENT SYSTEM
as of June 30, 1986**

The following is a summary of the June 30, 1986 actuarial valuation of the Public School Employees' Retirement System (PSERS)¹ and a comparison of the 1986 results with those of 1985.

	<u>6/30/85</u>		<u>6/30/86</u>	
<u>Membership</u>				
Active Members	201,735		199,571	
Inactive and Vested Members	23,916		22,583	
Retired Members	76,109		79,583	
Disabled Members	3,394		3,497	
Survivors and Beneficiaries	3,381		3,562	
<u>Payroll and Annuities Payable</u>				
Total Annual Payroll	\$3,887,867,000		\$4,104,539,365	
Annual Annuities and Benefits	543,181,614		571,187,000	
<u>Valuation Data</u>				
Accrued ₂ Liability	\$14,557,900,000		\$15,995,500,000	
Assets	<u>7,992,800,000</u>		<u>9,458,300,000</u>	
Unfunded Accrued Liability ³	\$ 6,565,100,000		\$ 6,537,200,000	
Funding Ratio	54.90%		59.13%	
<u>Funding Costs</u>				
Normal Cost	\$560,630,421	14.42%	\$577,098,235	14.06%
Interest on UAL ⁴	<u>361,080,500</u>	<u>9.29</u>	<u>359,546,000</u>	<u>8.76</u>
Minimum Actuarial Funding	\$921,710,921	23.71%	\$936,644,235	22.82%
Normal Cost ⁵	\$560,630,421	14.42%	\$ 577,098,235	14.06%
Amortization ⁵	<u>418,723,276</u>	<u>10.77</u>	<u>444,111,159</u>	<u>10.82</u>
Full Actuarial Funding	\$979,353,697	25.19%	\$1,021,209,394	24.88%
<u>Support</u>				
Member ⁶	\$205,668,164	5.29%	\$ 219,182,402	5.34%
School District	386,842,766	9.95	401,013,496	9.77
Commonwealth	<u>386,842,767</u>	<u>9.95</u>	<u>401,013,496</u>	<u>9.77</u>
Total Support	\$979,353,697	25.19%	\$1,021,209,394	24.88%
<u>Adequacy of Support</u>				
Frozen Deficit Financing	\$921,710,921	23.71%	\$ 936,644,235	22.82%
Total Support	<u>979,353,697</u>	<u>25.19</u>	<u>1,021,209,394</u>	<u>24.88%</u>
Deficiency (Surplus)	(\$ 57,642,776)	(1.48%)	(\$ 84,565,159)	(2.06%)
Full Amortization Financing	\$979,353,697	25.19%	\$1,021,209,394	24.88
Total Support	<u>979,353,697</u>	<u>25.19</u>	<u>1,021,209,394</u>	<u>24.88%</u>
Deficiency (Surplus)	\$ 0	0.00%	\$ 0	0.00%

* * * * *

EXPLANATORY FOOTNOTES

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 \$27,900,000 between 6/30/85 and 6/30/86.
4. The figure represents 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 periods 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.

These portions by source of the unfunded accrued liability, the remaining unfunded accrued liability and the applicable amortization period with the comparable figures for 6/30/85 are as follows:

Unfunded Accrued Liability6/30/856/30/86

A. Portion Attributable to Prior Cost-of-living Post Retirement Adjustments

Pre 1979 Post Retirement Adjustments

Amount	\$376,295,000	\$331,621,000
Amortization Period	7 years	6 years

1979 Post Retirement Adjustments

Amount	\$559,529,000	\$533,871,000
Amortization Period	15 years	14 years

1984 Post Retirement Adjustments

Amount	\$327,254,000	\$317,060,000
Amortization Period	19 years	18 years

B. Portion Attributable to Other Sources

Pre-1975 Benefit Increase

Amount	\$4,604,405,000	\$4,289,216,000
Amortization Period	24 years	21 years

1975 Benefit Increase

Amount	\$606,470,000	\$599,338,000
Amortization Period	19 years	18 years

1982 Benefit Increase

Amount	\$47,604,000	\$47,692,000
Amortization Period	25 years	24 years

1983 Unisex Mortality Factors

Amount	\$43,496,000	\$43,779,000
Amortization Period	28 years	27 years

1986 Benefit Increase

Amount		\$37,000,000
Amortization Period		30 years

1986 Assumption Change

Amount		\$337,608,000
Amortization Period		30 years

6. The indicated member contribution for 6/30/86 reflects a member contribution rate increase enacted on July 22, 1983, which was subsequently determined by the Pennsylvania Supreme Court to be unconstitutional as it applied to PSERS members hired prior to July 22, 1983. 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. The indicated member contribution for 6/30/86 is the average of those two groups as presently constituted.

3. Commission Review of PMRS Actuarial Valuation Report.

At the May 13, 1987, meeting of the Commission, the staff presented a summary of the January 1, 1986, actuarial valuation report of the Pennsylvania Municipal Retirement System. The following are some significant facts contained in that report.

a. Membership.

(1) The membership of 6,640 had increased by 0.42% since the prior valuation;

(2) The payroll \$121,312,600 had increased by 5.90% since the prior valuation;

(3) The annual annuities payable of \$5,229,240 had increased by 70.42% since the prior valuation; and

(4) The 1,290 annuitants had increased by 6.79% since the prior valuation;

b. Valuation Data and Funding. Because each actuarial item was calculated separately for each local government and affected only the contribution rate for that entity, the PMRS actuary did not include data on accrued liability and funding costs of PMRS in the report;

c. Excess Interest. Since the prior valuation, PMRS had developed a new method for the annual calculation of excess interest; and

d. Actuarial Value of Assets. Since the prior valuation, PMRS had developed a new method for the annual determination of the actuarial value of assets.

This report was reviewed by the Commission with the PMRS secretary and consulting actuary. The three major issues discussed were the calculation of excess interest, the number of plans being administered, and the determination of the actuarial value of assets. The statutory basis for the new method of calculating excess interest was questioned.

The following is a summary of the January 1, 1986, actuarial valuation of the PMRS and a comparison of the 1986 results with those of 1985.

**SUMMARY OF ACTUARIAL VALUATION
PENNSYLVANIA MUNICIPAL RETIREMENT SYSTEM (PMRS)**

	<u>1/1/85</u>	<u>1/1/86</u>
<u>Membership</u>		
Active Members	6,612	6,640
Deferred Vested Members	37	57
Retired Members	1,018	1,095
Survivors & Beneficiaries	80	86
Disabled	110	109
 <u>Payroll and Annuities</u>		
Total Annual Payroll	\$114,557,100	\$121,312,600
Annual Annuities and Benefits	\$ 3,068,138	\$ 5,229,240
 <u>Funding Costs</u>		
	N/R ¹	
 <u>Valuation Data</u>		
Accrued Liability	N/R ¹	N/R ¹
Assets	\$118,076,131	\$149,352,640
Unfunded Accrued Liability	N/R ¹	N/R ¹
 <u>Support</u>		
Member	4,608,207	5,009,502
Municipal	9,690,054	12,969,251
 <u>Investment Yield</u>		
	7.26%	15.77%

Since the prior valuation, PMRS has developed a new method for the annual calculation of excess interest and the determination of the actuarial value of fund assets.

¹ N/R indicates that the particular data item was not included in the actuarial valuation report.

APPENDICES

APPENDIX A

ADVISORY COMMITTEES AND ACTUARIAL SERVICES

Advisory Committees

In accordance with Section 8 of the Public Employee Retirement Study Commission Act, 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 1987 and their sponsoring organizations were as follows:

MUNICIPAL PENSION ADVISORY COMMITTEE

Mr. Lee Janiczek, Chairman
Pennsylvania State Association of Township Commissioners

Mr. Jack Gardner, Vice-Chairman/Secretary
Pennsylvania State Association of Boroughs

Mr. Jack Garner, Member
Pennsylvania League of Cities

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

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

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

MUNICIPAL EMPLOYEE PENSION ADVISORY COMMITTEE

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

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

Mr. Patrick B. McCabe, Member
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 consults. The engagement of multiple actuarial consultants was considered appropriate to provide geographical proximity to potential work assignments, to provide the Commission with an enhanced scope of actuarial experience and a greater response capacity, and to avoid potential conflicts of interest. The actuarial consultants engaged by the Commission during 1987 were:

Towers, Perrin, Forster & Crosby
Mr. Stanley R. Freilich

Conrad M. Siegel, Inc.
Mr. Conrad M. Siegel

Milliman & Robertson, Inc.
William A. Reimert

APPENDIX B
LEGISLATIVE PROCEDURES
FOR THE
PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION
PURSUANT TO
SECTION 7 of ACT NO. 1981-66

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

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 vacancy or long term disability 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 February 17, 1983
Amended March 9, 1983
Amended December 10, 1986
Amended November 17, 1987

APPENDIX D

LISTING OF LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES

Bill Number Printer's Number (Sponsor)	Subject	Status as of December 31, 1987
S. B. 62 P. N. 67 (Holl)	SERS, expansion of public safety employee coverage to certain Corrections and Public Welfare employees	Referred to Senate Finance Committee, 1/15/87
S. B. 139 P. N. 1268 (Stauffer)	SERS, transfer of pension service credit for certain county judicial employees and defining superannuation age to include police officers of the Delaware River Port Authority	Act 1987-53, signed by the Governor, 7/13/87
S. B. 146 P. N. 151 (Greenleaf)	County Pension Law, transfer of service credit and funds for certain first class county school employees to PSERS	Referred to Senate Finance Committee, 1/15/87
S. B. 165 P. N. 141 (Saivatore)	Special Ad Hoc Municipal Police and Firefighters Adjustment Act	Passed Senate, 6/2/87; referred to House State Government Committee, 6/8/87
S. B. 209 P. N. 1416 (Greenleaf)	Authorizing deferred compensation programs for officers and employees of the Commonwealth and political subdivisions and authorizing the payment of certain commissions	Act 1987-81, signed by the Governor, 11/6/87
S. B. 281 P. N. 295 (Madigan)	PSERS, retirement with 3 eligibility points at any age	Passed Senate, 6/22/87; referred to House Appropriations Committee, 6/24/87
S. B. 347 P. N. 1039 (Brightbill)	SERS and PSERS, providing for further additional cost-of-living adjustments	Passed Senate, 11/17/87; referred to House Appropriations Committee, 11/23/87
S. B. 412 P. N. 446 (Mellow)	SERS, adding provisions relating to credited service as a retirement incentive	Referred to Senate Finance Committee, 2/24/87
S. B. 473 P. N. 519 (Moore)	PSERS, granting service credit for up to 18 days of unused sick leave	Referred to Senate Finance Committee, 3/4/87
S. B. 540 P. N. 600 (Mellow)	Home Rule Charter and Optional Plans Law, authorizing cities of the second class A to permit all employees to purchase prior military service time as a credit for pension purposes	Reported from Senate Local Government Committee, 4/29/87; laid on Senate table, 6/2/87

LISTING OF LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES (Cont'd)

Bill Number Printer's Number (Sponsor)	Subject	Status as of December 31, 1987
S. B. 544 P. N. 604 (Romanelli)	SERS, placing limitations on investments in companies doing business in or with Northern Ireland	Referred to Senate Finance Committee, 3/11/87
S. B. 545 P. N. 605 (Romanelli)	PSERS, placing limitations on investments in companies doing business in or with Northern Ireland	Referred to Senate Finance Committee, 3/11/87
S. B. 546 P. N. 606 (Romanelli)	Municipal Pension Plan Funding Standard and Recovery Act (Act 1984-205), imposing restrictions on investments in Northern Ireland	Referred to Senate Finance Committee, 3/11/87
S. B. 547 P. N. 607 (Romanelli)	PMRS, imposing restrictions on investments in Northern Ireland	Referred to Senate Finance Committee, 3/11/87
S. B. 575 P. N. 637 (Rhoades)	PSERS, contributions by Commonwealth toward medical, major medical, and hospitalization insurance coverage	Referred to Senate Finance Committee, 3/13/87
S. B. 578 P. N. 640 (Andrezeski)	PSERS, granting service credit for up to 18 days of unused sick leave	Referred to Senate Finance Committee, 3/13/87
S. B. 600 P. N. 665 (Greenleaf)	PSERS, making maternity leave required by employer prior to May 17, 1975, approved leave of absence	Referred to Senate Finance Committee, 3/16/87
S. B. 640 P. N. 722 (Rhoades)	PSERS, contributions by Commonwealth toward medical, major medical, and hospitalization insurance coverage	Referred to Senate Finance Committee, 3/19/87
S. B. 641 P. N. 723 (Rhoades)	SERS, further providing for cost-of-living increases to annuitants	Referred to Senate Finance Committee, 3/19/87
S. B. 650 P. N. 732 (Pecora)	SERS, requiring investment in Northern Ireland in accordance with the MacBride Principles	Referred to Senate Finance Committee, 3/19/87
S. B. 712 P. N. 811 (Romanelli)	PSERS, providing an additional limitation on purchase of credit for teaching service outside Pennsylvania public schools	Referred to Senate Finance Committee, 4/8/87

LISTING OF LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES (Cont'd)

Bill Number Printer's Number (Sponsor)	Subject	Status as of December 31, 1987
S. B. 760 P. N. 883 (Salvatore)	SERS, permitting superannuation of Delaware River Port Authority police officers at age 50 [see S. B. 139]	Referred to Senate Finance Committee, 4/28/87
S. B. 768 P. N. 891 (Mellow)	Unemployment Compensation Law, eliminating retirement pay as a setoff against the amount of unemployment compensation paid	Referred to Senate Labor and Industry Committee, 4/28/87
S. B. 773 P. N. 900 (Rhoades)	PSERS, further providing for cost-of-living increases to annuitants	Referred to Senate Finance Committee, 4/30/87
S. B. 793 P. N. 937 (Hess)	SERS, further providing for creditable nonstate service	Referred to Senate Finance Committee, 5/5/87
S. B. 811 P. N. 968 (Tilghman)	SERS, 1987-88 appropriation for expenses of board	Act 1987-5A, signed by the Governor, 6/30/87
S. B. 812 P. N. 969 (Tilghmar)	PSERS, 1987--88 appropriation for expenses of board	Act 1987-6A, signed by the Governor, 6/30/87
S. B. 834 P. N. 1005 (Fumo)	The Administrative Code of 1929, unlimited accrual of sick leave and partial payment at retirement	Referred to Senate State Government Committee, 5/20/87
S. B. 836 P. N. 1007 (Greenleaf)	PSERS, transfer of pension service credit and contributions for first class county school employees from first class county employees pension trust fund	Referred to Senate Finance Committee, 5/20/87
S. B. 851 P. N. 1028 (Greenleaf)	PSERS, transfer of pension service credit and contributions for first class county school employees from first class county employees pension trust fund	Referred to Senate Finance Committee, 5/27/87
S. B. 852 P. N. 1368 (Armstrong)	SERS, providing an employer contribution of 8.95% for members of independent retirement systems after 1986-87	Act 1987-78, signed by the Governor, 10/30/87
S. B. 977 P. N. 1298 (Moore)	Volunteer Firemen's Relief Association Act, further providing for volunteer firefighters' retirement plans	Referred to Senate Finance Committee, 7/13/87

LISTING OF LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES (Cont'd)

Bill Number Printer's Number (Sponsor)	Subject	Status as of December 31, 1987
S. B. 198 P. N. 1470 (Shaffer)	The Third Class City Code, requiring certain cities to use GAAP accounting in their General Funds and making willful violators ineligible for state funding under the Municipal Pension Plan Funding Standard and Recovery Act	Referred to Senate Local Government Committee, 10/15/87
S. B. 1136 P. N. 1527 (Wenger)	County Pension Law, authorizing the withdrawal of accumulated deductions at retirement in not more than 4 installments	Referred to Senate Local Government Committee, 10/26/87
S. B. 1160 P. N. 157 (Stout)	SERS, authorizing retirement credit for members of the Cadet Nurse Corps	Referred to Senate Finance Committee, 10/29/87
S. B. 1161 P. N. 1571 (Stout)	PSERS, authorizing retirement credit for members of the Cadet Nurse Corps	Referred to Senate Finance Committee, 10/29/87
S. B. 1174 P. N. 1611 (Greenleaf)	SERS, further providing that military service shall include service in the Cadet Nurse Corps	Referred to Senate Finance Committee, 11/18/87
H. B. 11 P. N. 1332 (Richardson)	PMRS, further providing for divestiture of investments with corporations having business operations in South Africa or Namibia	Reported from House Finance Committee, 4/28/87; laid on House table, 6/24/87
H. B. 13 P. N. 1334 (Richardson)	SERS, prohibiting investments in corporations having business operations in the Republic of South Africa or Namibia	Reported from House Finance Committee, 4/28/87; laid on House table, 6/24/87
H. B. 16 P. N. 1337 (Richardson)	PSERS, prohibiting investments in corporations having business operations in the Republic of South Africa or Namibia	Reported from House Finance Committee, 4/28/87; laid on House table, 6/23/87
H. B. 18 P. N. 21 (Richardson)	Municipal Pension Plan Funding Standard and Recovery Act (Act 1984-205), prohibiting investments in corporations doing business in South Africa or Namibia	Referred to House Finance Committee, 1/28/87
H. B. 134 P. N. 143 (Johnson)	SERS, changing provisions relating to purchase of credit for nonintervening military service by permitting 2 such purchases and extending the payment time to 5 years	Reported from House Military and Veterans Affairs Committee, 11/23/87; re-committed to House Appropriations Committee, 12/1/87

LISTING OF LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES (Cont'd)

Bill Number Printer's Number (Sponsor)	Subject	Status as of December 31, 1987
H. B. 147 P. N. 165 (Lloyd)	County Pension Law, further providing for retirement board membership of one retired and one current employee	Referred to House Local Government Committee, 2/4/87
H. B. 148 P. N. 166 (Lloyd)	County Pension Law, authorizing members to reduce their contributions	Referred to House Local Government Committee, 2/4/87
H. B. 197 P. N. 215 (Hutchinson)	County Pension Law, further providing for retirement board membership, retired employee added	Referred to House Local Government Committee, 2/4/87
H. B. 251 P. N. 1943 (Cawley)	Increases pension amounts and contributions in cities of the second class A	Act 1987-84, signed by the Governor, 12/3/87
H. B. 252 P. N. 273 (Cawley)	Home Rule Charter and Optional Plans Law, service credit for military service, cities of the second class A	Reported from House Urban Affairs Committee, 4/23/87; re-committed to House Appropriations Committee, 4/28/87
H. B. 346 P. N. 379 (Lashinger)	Municipal Police Pension Law (Act 600), further providing for requirements for receipt of a pension	Referred to House Local Government Committee, 2/23/87
H. B. 363 P. N. 396 (Michlovic)	SERS, expansion of public safety employee coverage to certain Corrections and Public Welfare employees	Reported from House State Government Committee, 6/30/87; re-committed to House Appropriations Committee, 9/30/87
H. B. 366 P. N. 399 (Cowell)	Second Class County Code, further providing for the amount of retirement allowances and for interest on contributions	Reported from House Urban Affairs Committee, 11/22/87; re-committed to House Appropriations Committee, 12/7/87
H. B. 377 P. N. 410 (Mayernik)	Special Ad Hoc Municipal Police and Firefighters Postretirement Adjustment Act	Referred to House Finance Committee, 2/23/87
H. B. 414 P. N. 2610 (Mowery)	The Administrative Code of 1929, providing for the continuation of medical insurance coverage for SERS survivor-spouse annuitants	Passed House, 12/15/87; referred to Senate Finance Committee, 12/17/87
H. B. 456 P. N. 1725 (Sweet)	Authorizes deferred compensation programs for state and local government officers and employees [see S. B. 209]	Passed House, 6/8/87; referred to Senate State Government Committee, 6/12/87

LISTING OF LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES (Cont'd)

Bill Number Printer's Number (Sponsor)	Subject	Status as of December 31, 1987
H. B. 475 P. N. 513 (Vroon)	Act regulating investments/divestments of public pension or retirement system monies	Referred to House Finance Committee, 2/25/87
H. B. 498 P. N. 1889 (Itkin)	SERS, purchase of service credit, temporary federal service assigned to air quality control for the Department of Environmental Resources	Passed House, 6/24/87; referred to Senate Finance Committee, 6/29/87
H. B. 508 P. N. 139 (Burns)	SERS, adding provisions relating to credited service as a retirement incentive and the accrued liability contribution rate	Reported from House State Government Committee, 4/6/87; re-committed to House Appropriations Committee, 4/8/87
H. B. 530 P. N. 580 (Cowell)	PSERS, retirement with 30 eligibility points at any age	Reported from House Education Committee, 3/18/87; re-committed to House Appropriations Committee, 4/7/87
H. B. 538 P. N. 588 (Mayernik)	Municipal Police Pension Law (Act 600), providing for a transfer of credit for service on a police force in another borough, town, or township	Referred to House State Government Committee, 3/2/87
H. B. 544 P. N. 594 (Mayernik)	Second Class County Code, providing for an additional member on the retirement board	Re-referred to House Local Government Committee, 3/11/87
H. B. 591 P. N. 640 through H. B. 615 P. N. 664 (Van Horne)	These 25 bills contain technical amendments to various statutes bringing them into conformity with the Municipal Pension Plan Funding Standard and Recovery Act (Act 1984-205)	H. B.s 595, 600, & 615 referred to House Finance Committee, 3/3/87. All others reported from House Finance Committee, 4/6/87; re-committed to House Appropriations Committee, 4/8/87
H. B. 684 P. N. 743 (Herman)	PSERS and SERS, extending provision for retirement at age 53 with 30 eligibility points to June 30, 1988 [see H. B. 1289]	Referred to House State Government Committee, 3/9/87
H. B. 703 P. N. 762 (Lucyk)	SERS, further providing for the purchase of military service time	Referred to House Military and Veterans Affairs Committee, 3/9/87
H. B. 796 P. N. 866 (Levdansky)	SERS, including enforcement officers and investigators in the Office of the Attorney General within the definition of "enforcement officer" for retirement purposes	Reported from House State Government Committee, 6/10/87; re-committed to House Appropriations Committee, 9/30/87

LISTING OF LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES (Cont'd)

Bill Number Printer's Number (Sponsor)	Subject	Status as of December 31, 1987
H. B. 860 P. N. 941 (Burns)	PSERS, making maternity leave required by employer prior to May 17, 1975, approved leave of absence and providing for creditable nonschool service	Reported from House Education Committee, 5/12/87; re-committed to House Appropriations Committee, 5/27/87
H. B. 871 P. N. 952 (Hutchinson)	The Second Class Township Code, providing for inclusion of supervisors in pension or annuity plan	Referred to House Local Government Committee, 3/17/87
H. B. 872 P. N. 953 (Hutchinson)	PSERS, further providing for automatic cost-of-living increases for annuitants	Referred to House Education Committee, 3/17/87
H. B. 886 P. N. 967 (Kosinski)	SERS, including Delaware River Port Authority police officers in super-annuation at age 50 [see S. B. 139]	Referred to House State Government Committee, 3/17/87
H. B. 895 P. N. 976 (Noye)	SERS, providing for limitations on recovery of overpayments	Referred to House State Government Committee, 3/17/87
H. B. 949 P. N. 1031 (Murphy)	Municipal Pension Plan Funding Standard and Recovery Act (Act 1984-205), imposing restrictions on investments in Northern Ireland	Reported from House Finance Committee, 11/10/87; re-committed to House Appropriations Committee, 11/17/87
H. B. 1079 P. N. 1201 (Murphy)	SERS, placing limitations on investments in companies doing business in or with Northern Ireland	Reported from House Finance Committee, 11/10/87; re-committed to House Appropriations Committee, 11/17/87
H. B. 1080 P. N. 1202 (Murphy)	PMRS, imposing restrictions on investments in Northern Ireland	Reported from House Finance Committee, 11/10/87; re-committed to House Appropriations Committee, 11/17/87
H. B. 1081 P. N. 1203 (Murphy)	PSERS, placing limitations on investments in companies doing business in or with Northern Ireland	Reported from House Education Committee, 12/2/87; re-committed to House Appropriations Committee, 12/8/87
H. B. 1142 P. N. 1290 (Trello)	Municipal Police Pension Law (Act 600), providing for a credit for service on a police force in another borough, town, or township	Referred to House Local Government Committee, 4/27/87
H. B. 1150 P. N. 1298 (Caltagirone)	The Third Class City Code, providing for the immediate vesting of certain disabled police officers in pension systems	Referred to House Urban Affairs Committee, 4/27/87

LISTING OF LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES (Cont'd)

Bill Number Printer's Number (Sponsor)	Subject	Status as of December 31, 1987
H. B. 1151 P. N. 1299 (Caitagirone)	The Third Class City Code, permitting pension benefits in police pension trust funds to vest after 12 years	Referred to House Urban Affairs Committee, 4/27/87
H. B. 1220 P. N. 1392 (Stevens)	Ad Hoc cost-of-living adjustment for retired Pennsylvania State Police Officers, Capitol Police Officers, and Pennsylvania Liquor Control Board Enforcement Officers	Referred to House State Government Committee, 4/29/87
H. B. 1263 P. N. 1445 (Herman)	SERS, for those who retire between June 30 and September 30, 1987, with at least 10 eligibility points and age 55, crediting with 3 additional years service	Referred to House State Government Committee, 5/4/87
H. B. 1289 P. N. 2057 (Plevsky)	SERS and PSERS, extending the early retirement "window" to June 30, 1989, and providing for payment by the Commonwealth to school districts for one-half of the employer's tax established by the Social Security Act	Act 1987-69, signed by the Governor, 7/13/87
H. B. 1291 P. N. 2256 (Colafellia)	PSERS, providing for eligibility, notification, and payment for medical, major medical, and hospitalization insurance	Reported from House Education Committee, 10/6/87; re-committed to House Appropriations Committee, 10/13/87 10/13/87
H. B. 1404 P. N. 1639 (Trello)	Municipal Pension Plan Funding Standard and Recovery Act (Act 1984-205), providing for the distribution of foreign fire insurance tax in counties of the second class	Referred to House Finance Committee, 5/27/87
H. B. 1408 P. N. 1651 (Herman)	SERS, providing an additional category of and an additional limitation on creditable nonstate service (nonpublic higher education institution)	Referred to House State Government Committee, 6/1/87
H. B. 1409 P. N. 1652 (Herman)	SERS, further providing for creditable nonstate service (education manager in agency or department of U. S. Government)	Referred to House State Government Committee, 6/1/87
H. B. 1410 P. N. 1653 (Herman)	SERS, further providing for creditable nonstate service (federal civil service)	Referred to House State Government Committee, 6/1/87

LISTING OF LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES (Cont'd)

Bill Number Printer's Number (Sponsor)	Subject	Status as of December 31, 1987
H. B. 1411 P. N. 1654 (Herman)	SERS, further providing for creditable nonstate service (merchant marine)	Referred to House State Government Committee, 6/1/87
H. B. 1412 P. N. 1655 (Herman)	SERS, further providing for creditable nonstate service (reserves and National Guard)	Referred to House State Government Committee, 6/1/87
H. B. 1571 P. N. 1874 (Melio)	PMRS, further providing for the payment of administrative expenses from excess interest earnings when municipal assessments are insufficient	Reported from House Local Government Committee, 11/17/87; re-committed to House Appropriations Committee, 11/23/87
H. B. 1577 P. N. 2672 (Foster)	The Second Class Township Code, further providing for the compensation of supervisors and for the purchase of insurance, clarifying pension and insurance benefits for supervisors, and making editorial changes	Passed House, 12/15/87
H. B. 1616 P. N. 1993 (Argall)	State Employees Group Life Insurance Law, further providing that benefits shall continue and not be reduced upon retirement	Referred to House Insurance Committee, 6/30/87
H. B. 1665 P. N. 2075 (Punt)	PSERS, regulating purchase of retirement credit-accumulated sick leave	Referred to House Education Committee, 7/2/87
H. B. 1676 P. N. 2086 (Mayernik)	Municipal Police Pension Law (Act 600), providing for credit for military service	Referred to House Local Government Committee, 7/2/87
H. B. 1706 P. N. 2116 (Gruppo)	Providing a \$100 per month pension for 100% disabled veterans	Referred to House Military and Veterans Affairs, Committee, 7/2/87
H. B. 1712 P. N. 2130 (Burns)	PSERS, further providing for purchase of up to 3 years service with another employer while on furlough but only within one year of return to active membership	Referred to House Education Committee, 9/28/87
H. B. 1739 P. N. 2164 (Evans)	Permitting investments of money by State administrative departments, boards, commissions, and officers in obligations of the African Development Bank	Passed House, 12/9/87; referred to Senate Finance Committee, 12/17/87

LISTING OF LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES (Cont'd)

Bill Number Printer's Number (Sponsor)	Subject	Status as of December 31, 1987
H. B. 1742 P. N. 2167 (Stuban)	PMRS, further providing for qualifications for disability and purchase of military time, changing provisions relating to pay-out of contributions and excess investment moneys, and making technical changes,	Referred to House Local Government Committee, 9/29/87
H. B. 1748 P. N. 2179 (Wilson)	SERS, providing for the recomputation of annuities where a survivor annuitant predeceases a member	Referred to House State Government Committee, 9/30/87
H. B. 1765 P. N. 2200 (Seventy)	City of Pittsburgh, providing for eligibility for pension benefits after 30 years of nonuniformed service regardless of age	Referred to House Labor Relations Committee, 10/5/87
H. B. 1766 P. N. 2201 (Coy)	SERS, providing for creditable nonstate service credit for up to 5 years service with a borough, city, county, town, or township	Referred to House Local Government Committee, 10/5/87
H. B. 1785 P. N. 2220 (Cowell)	PSERS, providing for further additional cost-of-living adjustments	Reported from House Education Committee, 10/6/87; re-committed to House Appropriations Committee, 10/13/87
H. B. 1820 P. N. 2272 (Fischer)	SERS and PSERS, providing for further additional cost-of-living adjustments	Referred to House Education Committee, 1/7/87
H. B. 1837 P. N. 2305 (Mayernik)	SERS, providing that service in the Cadet Nurse Corps shall constitute creditable nonstate service	Referred to House State Government Committee, 1/14/87
H. B. 1854 P. N. 2323 (Hutchinson)	Volunteer Firemen's Relief Association Act, further providing for volunteer fire-fighters' retirement plans	Referred to House Local Government Committee, 10/19/87
H. B. 1862 P. N. 2331 (Evars)	PSERS, further providing for return to school service by a PSERS annuitant during emergencies and in the event of a shortage of appropriate subject certified teachers for not more than 120 full-day sessions without loss of annuity	Referred to House Education Committee, 10/19/87
H. B. 1875 P. N. 2365 (Josephs)	SERS and PSERS, providing that service in the Cadet Nurse Corps shall constitute creditable nonschool service and creditable nonstate service	Referred to House Education Committee, 1/26/87

LISTING OF LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES (Cont'd)

Bill Number Printer's Number (Sponsor)	Subject	Status as of December 31, 1987
H. B. 1918 P. N. 2428 (E. Z. Taylor)	SERS, providing for further additional cost-of-living adjustments	Referred to House State Government Committee, 10/28/87
H. B. 1922 P. N. 2440 (Corrigan)	PSERS, further providing for creditable nonschool service as a school employee, teacher, or instructor in any private or parochial school in Pennsylvania or any other state, territory, or area under the jurisdiction of the United States	Referred to House Education Committee, 11/1/87
H. B. 2028 P. N. 2594 (Daley)	Volunteer Firemen's Relief Association Act, further providing for the expenditure of money for a limited pension program	Referred to House Local Government Committee, 12/1/87

