

**1988**  
**ANNUAL REPORT**  
**OF THE**  
**PUBLIC EMPLOYEE RETIREMENT**  
**STUDY COMMISSION**

Public Employee Retirement Study Commission  
Commonwealth of Pennsylvania  
March, 1989

## **PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION**

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### **Gubernatorial Appointees**

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Lehigh University

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Mr. Albert L. Hydeman, Jr.  
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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 1988.

During 1988, the Commission authorized the attachment of sixteen actuarial notes to seventeen bills at the request of the various committees of the General Assembly. This report contains a synopsis of each of these notes and contains a summary of the Commission's reviews of the Public School Employees' Retirement System, State Employees' Retirement System, and Pennsylvania Municipal Retirement System. This report also describes research conducted during 1988 and summarizes the Commission's administrative activities under the Municipal Pension Plan Funding Standard and Recovery Act and Act 293 of 1972.

On behalf of the Public Employee Retirement Study Commission and its staff, I am pleased to submit the sixth annual public report of the Commission. The Commission hereby expresses its thanks and appreciation to all individuals, organizations, and agencies whose assistance and cooperation contributed to the work of the Commission during 1988.

Sincerely,

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

Dale D. Stone  
Chairman

James P. Green

## 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 leaders of the General Assembly.

Under the Public Employee Retirement Study Commission Act, the Commission has two main responsibilities. One is to review proposed legislation affecting public employee retirement systems. The other is to study, on a continuing basis, public employee retirement system policy, 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, which entails monitoring and enforcing compliance with the statutorily mandated actuarial funding standard. The second is to certify annually municipal pension cost data used in allocating the General Municipal Pension System State Aid money of over \$109 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 report to the Governor and the General Assembly. The first three reports were issued on a fiscal year basis. This is the third report issued on a calendar year basis.

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 1988.



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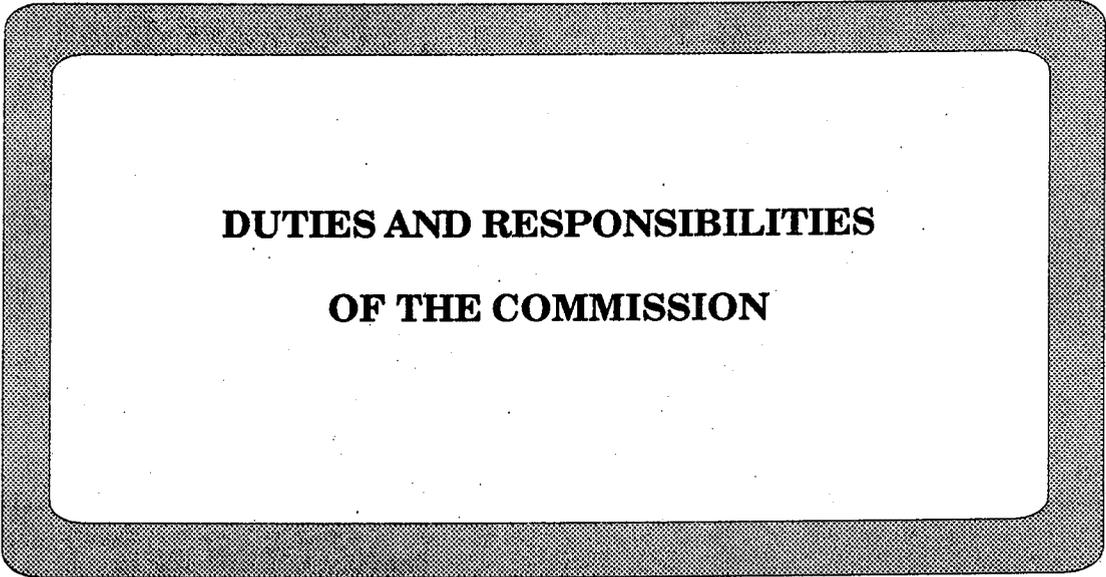
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**DUTIES AND RESPONSIBILITIES  
OF THE COMMISSION**



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**PREPARATION OF  
ACTUARIAL NOTES  
AND  
ADVISORY NOTES**

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## 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 process. In response to this statutory mandate to prepare the required actuarial notes, the Commission and the leaders 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 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. The legislative procedures also 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 B.

#### **B. SUMMARY OF 1988 ACTIVITY.**

During 1988, the Commission authorized the attachment of sixteen actuarial notes to seventeen bills. In addition, the Commission's staff provided the General Assembly with four advisory notes.

#### **C. SYNOPSES 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:** H.B. 134, P.N. 143

**System:** State Employees' Retirement System (SERS)

**Subject:** Military Service Credit

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**Synopsis of Bill**

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The bill would amend the State Employees' Retirement Code to make two changes relating to the purchase of military service. The first change would permit a member to make two purchases of nonintervening military service rather than only one purchase as currently authorized. The second change, relating to payment for purchasing intervening military service, would specify a 60-month period for payment in cases where the member elects salary deductions as the method of payment.

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**Summary of Actuarial Cost Impact**

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**SECOND PURCHASE OF NONINTERVENING MILITARY SERVICE:** Due to the absence of data with respect to the number of members eligible to make a second purchase of military service, the actuary was not able to estimate the potential cost of this provision.

**60-MONTH LIMIT ON SALARY DEDUCTION PAYMENTS FOR INTERVENING MILITARY SERVICE:** The actuarial note indicates that, because members are permitted to wait until shortly before or at retirement before purchasing intervening military service, the amendment would not have a measurable impact on the cost of such purchases.

Actuarial note prepared by William A. Reimert of Milliman & Robertson, Inc.

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**Policy Considerations**

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

- The purpose of the provision authorizing a second purchase of military service is unknown. It is unclear what problem is being addressed by this change.
- The bill contains drafting ambiguities which can lead to two different interpretations concerning the total amount of nonintervening military service which may be purchased.
- If the bill is interpreted as permitting two purchases of up to five years each, for a total of up to ten years of service credit for nonintervening military service, the policy question of whether it is appropriate to authorize a nonstate service purchase of this magnitude should be considered.

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### Policy Considerations - Cont'd

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- The bill imposes a 60-month limit in the period for salary deduction payments for the purchase of intervening military service, but allows the current unlimited period to remain applicable to the purchase of nonintervening military service and other categories of purchasable nonstate service. The rationale for making such a distinction for intervening military service is unclear.
  
- The bill limits the time period for salary deduction payments for intervening military service, but continues to allow members to postpone exercising the option to purchase such service until at or near retirement. If the objective of the amendment is to require members to complete purchases at an earlier date, a limit on the time period within which a member may apply for the service purchase after entering or reentering service would be more effective and would reduce the cost to the Commonwealth of such service purchases.

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### Commission Recommendation

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On March 9, 1988, the Commission voted to attach the actuarial note to the bill and to express the Commission's concern about:

- (a) the unclear reason for allowing a second purchase of nonintervening military service and the lack of information on the number of SERS members who may be able to take advantage of this provision;
  
- (b) the drafting ambiguities contained in the bill which can lead to different interpretations concerning the total amount of nonintervening military service which may be purchased;
  
- (c) the magnitude of the nonstate service purchase authorized if the bill is interpreted as allowing the purchase of a total of ten years of nonintervening military service;
  
- (d) the lack of clear rationale for distinguishing between intervening military service and other types of purchasable nonstate service in limiting the period for salary deduction payments; and
  
- (e) the absence of a time limit on the period within which nonstate service purchases may be made.

The Commission indicated that its review of the bill was impaired by the lack of information on the purpose of the proposed legislation and the SERS members who may be affected by the changes in the military service purchase provisions. The Commission directed the staff to request additional information on these matters from the bill's prime sponsor and to transmit the additional information to the Governor and the General Assembly as a follow-up to this actuarial note.

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**Commission Recommendation - Cont'd**

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The Commission noted that the public policy issues associated with service purchase authorizations under public employee pension plans would be comprehensively reviewed in connection with its study on the topic of pension credit portability which is scheduled to be undertaken in the near future. The Commission recommended that consideration of this bill be delayed until the results of the study are available.

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**Final Legislative Status**

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House Bill 134, Printer's Number 143, was re-committed to the House Appropriations Committee on December 1, 1987.

**Bill and Printer's Numbers:** H.B. 860, P.N. 941

**System:** Public School Employees' Retirement System (PSERS)

**Subject:** Purchase of Service

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**Synopsis of Bill**

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House Bill 860 amends the Public School Employees' Retirement Code to authorize the purchase of three additional categories of creditable nonschool service. The bill would authorize the purchase of prior nonschool service for (1) a mandatory maternity leave of absence occurring prior to May 17, 1975; (2) work experience required for permanent certification as a vocational teacher; and (3) teaching service at accredited Pennsylvania nonpublic schools. Contributions for the purchase of credit for the maternity leave of absence would be required to be equal to the member's contribution rate and the employer's normal cost rate at the time of return to public school service applied to the member's salary at the time of return to service plus statutory (4%) interest to the date of purchase. Contributions for the vocational work experience and the Pennsylvania nonpublic teaching service would be required to be equal to the full actuarial cost of the increased benefit obtained by virtue of the service purchase.

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**Summary of Actuarial Cost Impact**

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**MATERNITY LEAVE OF ABSENCE:** Due to the absence of demographic data on the PSERS members who may be eligible to purchase this service, a refined estimate of the actuarial cost of the proposed legislation could not be made. Based on an analysis of a large number of hypothetical cases, the actuary concluded that the purchase amount paid by the member would be equal to only one-half of the increase in the present value of benefits resulting from the service purchase, with the remainder increasing the unfunded accrued liability of PSERS. If it is assumed that the total years of additional service to be bought is equal to 0.25% to 1.00% of the total PSERS credited service the following cost estimate would be applicable to the service purchase authorization:

	<u>Range of Potential Cost</u>	
Increase in Unfunded Actuarial Accrued Liability	\$ 18,550,000	\$ 74,200,000
Increase in Annual Cost		
Normal Cost	\$ 0	\$ 0
Amortization	\$ 1,276,225	\$ 5,104,900
<b>TOTAL ANNUAL COST INCREASE</b>	<b>\$ 1,276,225</b>	<b>\$ 5,104,900</b>

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**Summary of Actuarial Cost Impact - Cont'd**

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**WORK EXPERIENCE FOR VOCATIONAL CERTIFICATION AND PENNSYLVANIA NONPUBLIC TEACHING SERVICE:** These service purchase authorizations require that the purchase price paid by the member be equal to the full actuarial cost of the benefit obtained by virtue of the purchase and should not therefore have a detrimental actuarial effect on the Public School Employees' Retirement System.

Actuarial note prepared by Conrad M. Siegel of Conrad M. Siegel, Inc.

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**Policy Considerations**

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

- Authorizing purchases of prior service credit represents a piecemeal approach to the issue of portability of pension credit.
- The service purchase authorization applicable to a maternity leave of absence requires a purchase payment by the member in an amount less than the full actuarial value of the increased benefit. This type of arrangement is appropriate only in cases where necessary for the purpose of equity.
- The service purchase authorization applicable to the maternity leave of absence lacks any time limit on the exercise of the purchase option. Increased actuarial cost is associated with delays in making purchases of creditable prior service.
- Because the purchase payment specified for the maternity leave of absence is less than the full actuarial value of the increased benefit, the purchase transaction favors the member at the expense of PSERS. A requirement for contributions equal to the full actuarial cost with an equitable allocation of the required purchase amount between the member and the employing school district would be appropriate.
- There is considerable administrative complexity associated with implementation of the proposed service purchases.
- The proposed legislation includes a drafting inconsistency in specifying the contributions required for the purchase of the maternity leave of absence which must be resolved prior to further consideration.

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**Commission Recommendation**

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On March 9, 1988, the Commission voted to attach the actuarial note and to express the Commission's concern about:

- (a) the piecemeal approach to the issue of pension portability which the proposed legislation represents;
- (b) the appropriateness of the practice of authorizing service purchases, especially in instances where the full actuarial cost of the increased benefit is not required as the purchase payment amount;
- (c) the lack of a time limit for exercising the option to purchase the maternity leave of absence;
- (d) the lack of any allocation of a portion of the cost of providing service credit for the maternity leave of absence to the employing school district;
- (e) the administrative complexity inherent in implementing the service purchases; and
- (f) the significant drafting problem in specifying the required contributions for the purchase of the maternity leave of absence.

The Commission noted that the public policy issues associated with service purchase authorizations under public employee pension plans would be comprehensively reviewed in connection with its study on the topic of pension credit portability which is scheduled to be undertaken in the near future. The Commission recommended that consideration of legislative proposals authorizing purchase of service credit in public employee pension systems be delayed until the results of the study are available.

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**Final Legislative Status**

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House Bill 860, Printer's Number 941, was re-committed to the House Appropriations Committee on May 27, 1987.

**Bill and Printer's Numbers:** H.B. 1150, P.N. 1298  
**System:** Municipal, Third Class City Police  
**Subject:** Duty-Related Disability Benefit

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**Synopsis of Bill**

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The bill amends the police pension plan provisions of the Third Class City Code to provide that any police officer suffering a duty-related disability shall be deemed to be fully vested in the police pension fund and eligible for immediate retirement benefits.

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**Summary of Actuarial Cost Impact**

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Cost estimate for sample plan with 165 active members and 118 benefit recipients (Level III Distress)

Increase in Unfunded Actuarial Accrued Liability	\$576,584
Increase in Annual Cost	
Normal Cost	\$ 27,331
Amortization (20 years)	52,612
<b>TOTAL ANNUAL COST INCREASE</b>	<b>\$ 79,943</b>

Actuarial note prepared by Conrad M. Siegel of Conrad M. Siegel, Inc.

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**Policy Considerations**

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

- The bill would require all third class cities to provide a duty-related disability benefit under the police pension plan. The practice of the Commonwealth mandating municipalities to provide benefit increases is open to question.
- Duty-related disability pension benefit provisions are an appropriate option for municipal pension plans for public safety personnel.
- The benefit provided under the bill is coordinated with Workers' Compensation and Enforcement Officer Disability Benefits, but is not coordinated with any duty-related long term disability coverage which may be provided by the city or with social security disability benefits for which some police officers may be eligible.

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**Policy Considerations - Cont'd**

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- The proposed legislation does not provide any member contribution increase in connection with the benefit increase.

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**Commission Recommendation**

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On March 9, 1988, the Commission voted to attach the actuarial note to the bill indicating that the Commission considers the provisions of duty-related disability pension benefits to be an appropriate option for municipal public safety employee pension plans, but expressing concern about the practice of mandating municipalities to provide benefit improvements. The Commission also expressed concern about the lack of coordination with other disability benefit coverage already locally provided or with social security disability benefits for which some police officers may be eligible and about the absence of a member contribution increase accompanying the benefit increase. The Commission specifically recommended that the portion of the bill which provides for offsets against the disability pension benefit for workers compensation and enforcement officer disability benefits be expanded to provide for the offset of benefits provided through employer-paid long term disability insurance and social security disability benefits.

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**Final Legislative Status**

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House Bill 1150, Printer's Number 1298, passed the House on May 2, 1988, passed the Senate on September 26, 1988, and was signed into law on October 3, 1988, becoming Act 1988-104.

**Bill and Printer's Numbers:** H.B. 1151, P.N. 1299

**System:** Municipal, Third Class City Police

**Subject:** 12-Year Vesting

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**Synopsis of Bill**

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The bill amends the police pension plan provisions of the Third Class City Code to provide for vesting of a proportional retirement benefit amount with 12 years of service as an optional benefit.

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**Summary of Actuarial Cost Impact**

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

Actuarial note prepared by Conrad M. Siegel of Conrad M. Siegel, Inc.

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**Policy Considerations**

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

- The current long vesting requirement for third class city police officers is consistent with long practice nationwide for police pension plans and reflects the goal of employee retention. A shorter vesting requirement, as proposed in this bill, reflects the goal of accommodating increased employment mobility.
- The proposed legislation allows the shorter vesting requirement to be implemented at the option of each third class city following the preparation of an actuarial cost estimate of the effect of the proposed change.
- In the actuary's view, the bill may be desirable from the standpoint of encouraging limited-duty police officers to accept a vested, deferred pension rather than remaining on the payroll until eligible for full retirement.
- The proposed benefit increase is not accompanied by a member contribution increase. Consideration should be given as to whether the magnitude of the benefit improvement is sufficient to warrant any increase in member contributions.

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**Policy Considerations - Cont'd**

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- Clarification of the salary base to be used in computing the benefit payable to a vested police officer would be desirable.

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**Commission Recommendation**

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On March 9, 1988, the Commission voted to attach the actuarial note to the bill without further comment to the Governor and the General Assembly.

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**Final Legislative Status**

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House Bill 1151, Printer's Number 1299, was reported as amended as Printer's Number 3075 by the House Appropriations Committee on April 6, 1988, was further amended and passed the House as Printer's Number 3330 on May 23, 1988, and after passing second consideration in the Senate on July 6, 1988, was re-referred to the Senate Appropriations Committee on September 27, 1988.

**Bill and Printer's Numbers:** H.B. 1616, P.N. 1993

**System:** State Employes Group Life Insurance Program

**Subject:** Retiree Coverage

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**Synopsis of Bill**

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House Bill 1616 would amend the State Employes Group Life Insurance Law by requiring continuation of group term life insurance for state employees after either their regular or disability retirement. Extension of this coverage to retirees would be retroactive to October 1, 1976. This insurance coverage now is paid for entirely by the Commonwealth and, except where the termination is caused by permanent and total disability, stops on the termination of employment with the Commonwealth.

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**Summary of Actuarial Cost Impact**

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A literal interpretation of the language of the bill would require that all current living retirees be covered under the group life insurance program and that the life insurance benefit be retroactively applicable to retirees dying on or after October 1, 1976. Based on this literal interpretation, the following cost estimate applies:

**5-YEAR PROJECTION OF DISBURSEMENTS**

<u>Year</u>	<u>Annual Life Insurance Claims for Retirees</u>
1988	\$ 307,300,000 *
1989	\$ 35,600,000
1990	\$ 37,400,000
1991	\$ 39,400,000
1992	\$ 41,500,000

*\* 1988 amount includes payment of \$273,500,000 for deaths after October 1, 1976 and prior to January 1, 1988.*

**ACTUARIAL COST OF PRE-FUNDING BENEFIT**

Past Service Liability	\$ 824,000,000
Annual Cost	
Normal Cost	\$ 17,500,000
Amortization (30 years)	\$ 53,800,000
Interest to End of Year	\$ 3,900,000
<b>TOTAL ANNUAL COST</b>	<b>\$ 75,200,000</b>
1988 Cost	
Annual Contribution	\$ 75,200,000
Single Sum Payment Required for Deaths between 10/1/76 & 1/1/88	\$ 273,500,000
<b>TOTAL 1988 CONTRIBUTION</b>	<b>\$ 348,700,000</b>

According to the bill's sponsor, the intent in proposing the legislation was to provide group life insurance coverage only for retirees who retired on or after October 1, 1976 and to provide no retroactive death benefit. If the current proposal were redrafted to accomplish this intent, the applicable cost estimate would be as follows:

**5-YEAR PROJECTION OF DISBURSEMENTS**

<u>Year</u>	<u>Annual Life Insurance Claims for Retirees</u>
1988	\$ 10,900,000
1989	\$ 12,500,000
1990	\$ 14,200,000
1991	\$ 16,200,000
1992	\$ 18,300,000

**ACTUARIAL COST OF PRE-FUNDING BENEFIT**

Past Service Liability	\$ 566,000,000
Annual Cost	
Normal Cost	\$ 17,500,000
Amortization (30 years)	\$ 36,900,000
Interest to End of Year	\$ 3,000,000
<b>TOTAL ANNUAL COST</b>	<b>\$ 57,400,000</b>

Actuarial note prepared by Stanley R. Freilich of TPF&C.

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## Policy Considerations

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

- The amount of the death benefit for an active employee is based on the employee's annual pay rate. The bill is unclear as to the basis for determining the amount of coverage for a retiree.
- The inclusion of a large number of older participants in a group life insurance contract greatly increases the expected mortality in any given year resulting in a substantial increase in the term premium which the Commonwealth must pay for the coverage. Since ultimate payment of the death benefit has become a certainty for this group, thereby eliminating the unknown risk factor characteristic of term insurance, a more rational approach for the Commonwealth would be to self-insure for this benefit.
- The need of a retiree for term life insurance coverage is not comparable to the need of an active Commonwealth employee. The financial security of the retiree's survivors is already well protected by Commonwealth financed benefit coverage.
- The bill would provide retiree term life insurance coverage retroactive to October 1, 1976. If interpreted literally, this provision would require retroactive payment of a death benefit for all retirees who died on or after October 1, 1976, resulting in a large, one time cost to the Commonwealth. Providing this benefit also would lead to administrative problems, since no specific designation of beneficiary was in effect for this purpose at the time of the retiree's death. Since the bill's sponsor has indicated that the proposal is not intended to provide this retroactive death benefit, but rather to limit the life insurance coverage to those retiring on or after October 1, 1976, the provision relating to retroactivity needs to be redrafted to assure that the legislation meets its intended purpose.
- While Section 26 of Article 3 of the Constitution of Pennsylvania permits increases of retirement allowances or pensions for retired Commonwealth employees, it also prohibits giving extra compensation to these employees after services have been rendered. The retroactive provision for the payment of a death benefit to the survivors of a dead retiree may be constitutionally prohibited extra compensation.
- The bill does not provide for prefunding the liabilities associated with the benefits. The Commonwealth's recent experience with other retirement benefit costs strongly suggests that funding the costs of non-pension postretirement benefits may become burdensome in the future unless the costs are funded as they accrue over the working lifetimes of the employees.
- The bill contains drafting ambiguities regarding coverage of disabled retirees and individuals over 70.

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**Commission Recommendation**

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On June 15, 1988, the Commission voted to attach the actuarial note to the bill and express the Commission's concern about:

- (a) the need to clarify the amount of life insurance coverage to be provided to retirees under the bill;
- (b) the cost impact of including a large number of older participants in a group life insurance contract;
- (c) the limited need by retirees for the protection provided by term life insurance;
- (d) the cost and administrative problems associated with the provision of a retroactive death benefit;
- (e) the potential that the retroactive death benefit may be constitutionally prohibited;
- (f) the failure to provide for actuarial funding of this postretirement benefit; and
- (g) the drafting ambiguities regarding coverage of disabled retirees and individuals over 70.

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**Final Legislative Status**

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House Bill 1616, Printer's Number 1993, was re-committed to the House Appropriations Committee on May 2, 1988.

**Bill and Printer's Numbers:** H.B. 1676, P.N. 2086

**System:** Municipal, Act 600 Police Pension Plans

**Subject:** Military Service Purchase

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**Synopsis of Bill**

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House Bill 1676 amends the Municipal Police Pension Law (Act 600) to authorize the purchase of pension credit for up to three years of military service which occurred either prior to or in an intervening period between police service. The purchase payment required would be five percent of the police salary which would otherwise have been payable to the person at the time of the military service if the person had been employed as a police officer plus interest at the rate of five percent of the total purchase payment amount.

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**Summary of Actuarial Cost Impact**

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The actuarial note presents the cost of adding the military service purchase proposed in the bill for twenty-five representative Act 600 pension plans. The actuary indicates that a reliable estimate of the cumulative actuarial cost of all Act 600 pension plans is not possible due to the small size of the sample, the impact of widely varying demographic patterns and funded positions of the affected pension plans and the lack of information concerning pension plan members with military service and their status under the current military service purchase provisions of Act 600. The actuary indicates that the estimated cost impact on the individual sample plans should provide a basic impression of the magnitude of the costs involved.

Actuarial note prepared by Stanley R. Freilich of TPF&C.

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**Policy Considerations**

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

- The service purchase authorization requires a purchase payment by the member in an amount less than the full actuarial value of the increased benefit. Such purchases are appropriate only when necessary for the purpose of equity.
- The provisions of the bill conflict with existing military service purchase provisions of Act 600.

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**Policy Considerations - Cont'd**

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- The service purchase authorization lacks any time limit on the exercise of the purchase option. This increases the potential actuarial cost exposure of the affected Act 600 pension plans.
- As drafted, the bill presents potential problems associated with the contribution rate used to determine the purchase payment amount, the salary base to which it will be applied and the manner in which interest is potentially calculated.
- The bill mandates benefit modifications for certain municipal pension plans. The appropriateness of state mandated benefit changes is open to question.
- The bill contains drafting ambiguities which create uncertainty about the manner in which the service purchase authorization will be administered.

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**Commission Recommendation**

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On May 11, 1988, the Commission voted to attach the actuarial note to the bill and express the Commission's concern about:

- (a) the potential actuarial cost of this purchase of service credit for prior service;
- (b) the practice of authorizing purchases of service credit in Pennsylvania public pension plans, especially in instances where the full actuarial cost of the benefits obtained by the purchase of service credit is not required as the purchase payment amount;
- (c) the lack of a time limit for the exercise of the purchase option;
- (d) potential problems associated with the contribution rate used to determine the purchase payment amount, the salary base to which it will be applied and the manner in which interest is potentially calculated;
- (e) the appropriateness of the practice of the Commonwealth mandating benefit increases for municipal pension plans;
- (f) the drafting ambiguities which create considerable uncertainty about the manner in which this new purchase of service credit authorization will be utilized.

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**Commission Recommendation - Cont'd**

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The Commission noted that it will undertake a study in the near future to comprehensively review the public policy issues associated with service purchase authorizations under public employee pension plans and recommended that consideration of this bill be delayed until the results of the study are available.

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**Final Legislative Status**

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House Bill 1676, Printer's Number 2086, was re-committed to the House Appropriations Committee on April 13, 1988.

**Bill and Printer's Numbers:** H.B. 1837, P.N. 2305

**System:** State Employees' Retirement System (SERS)

**Subject:** Purchase of Credit for Nonstate Service in Cadet Nurse Corps

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**Synopsis of Bill**

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House Bill 1837 amends the State Employees' Retirement Code to authorize the purchase of up to three years nonstate service credit for service in the Cadet Nurse Corps.

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**Summary of Actuarial Cost Impact**

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	Low Estimate (50 Eligible Nurses)	High Estimate (80 Eligible Nurses)
<b>Increase in Unfunded</b>		
Actuarial Accrued Liability	\$ 1,100,000	\$ 1,800,000
<b>Increase in Annual Cost</b>		
Normal Cost	\$ 0	\$ 0
Amortization (13 and 18 years)	\$ 93,500	\$ 153,000
<b>TOTAL ANNUAL COST</b>	\$ 93,500	\$ 153,000
	(6.45% of affected payroll)	(6.59% of affected payroll)

Actuarial note prepared by William A. Reimert of Milliman & Robertson, Inc.

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**Policy Considerations**

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

- The amount of the required purchase payment is less than the full actuarial value of the increased benefit.
- The bill does not limit the time within which the purchase payment must be made and does not exclude the purchase payment from Option 4 lump sum withdrawal. This enables an employee who is eligible to purchase creditable nonstate service to make the purchase payment very close to the time of retirement, become entitled to an increased retirement benefit, and receive an almost immediate return of the purchase amount as part of the Option 4 withdrawal.

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**Policy Considerations - Cont'd**

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- Congress recently authorized federal employees with Cadet Nurse service to purchase service credit under the federal retirement system. For the federal government, this represented an authorization to purchase prior, previously unrecognized, civilian service with the same government. For the Commonwealth, the service purchase authorization would represent permission to purchase credit for civilian service with another governmental entity.
- The bill may serve as a precedent for other members of the State Employees' Retirement System who are in similar situations.
- The bill is likely to serve as a precedent for members of the Public School Employees' Retirement System who have service in the Cadet Nurse Corps to seek a similar service purchase authorization.

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**Commission Recommendation**

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On May 11, 1988, the Commission voted to attach the actuarial note to the bill and express the Commission's concern about:

- (a) the specification of a purchase price which is less than the full actuarial value of the increase in the benefit obtained by the service purchase;
- (b) the absence of restrictions on the time within which the purchase transaction must be made and withdrawal of the purchase amount under Option 4;
- (c) the appropriateness of authorizing the purchase of this federal service as creditable nonstate service;
- (d) the potential that the bill will serve as a precedent for other SERS members who are in similar circumstances; and
- (e) the potential that the bill will serve as a precedent for PSERS members who have Cadet Nurse Corps service to seek a similar service purchase authorization.

The Commission noted that it will undertake a study in the near future to comprehensively review the public policy issues associated with service purchase authorizations under public employee pension plans.

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**Final Legislative Status**

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House Bill 1837, Printer's Number 2305, was re-committed to the House Appropriations Committee on May 2, 1988. A Cadet Nurse Corps provision was included in Senate Bill 1441, Printer's Number 2447, that was signed into law on October 21, 1988, becoming Act 1988-112.

**Bill and Printer's Numbers:** H.B. 1854, P.N. 2864

**System:** Volunteer Fire Relief Associations

**Subject:** Authorizing Establishment of Retirement Plans  
for Volunteer Firefighters

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**Synopsis of Bill**

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House Bill 1854 amends the Volunteer Firemen's Relief Association Act to authorize volunteer fire relief associations to establish and maintain retirement plans for volunteer firefighters. The bill authorizes the expenditure of relief association money to fund the volunteer firefighter retirement plans.

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**Summary of Actuarial Cost Impact**

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The actuary's estimate of the statewide cost attributable to funding the retirement benefits authorized under the bill is based on providing benefits to members of 2,700 volunteer fire companies with an average of 32 active members per fire company. The assumed age and service distribution and other assumptions used in the cost estimate are set forth in the attached actuarial note. The actuarial note presents cost estimates for three scenarios. The first scenario is that all members are covered by defined benefit plans, the second scenario is that all members are covered by defined contribution plans, and the third scenario is that relief associations with younger firefighters establish defined contribution plans and relief associations with older firefighters establish defined benefit plans.

**ESTIMATE OF POTENTIAL STATEWIDE COST**

	All firefighters covered by defined benefit plans	All firefighters covered by defined contribution plans	Combination of defined benefits and defined contributions
Statewide Past Service Liability	\$ 1,605,000,000	NA	\$ 1,552,000,000
Annual Statewide Cost			
Normal Cost	\$ 73,700,000	\$172,800,000	\$ 89,200,000
Amortization	\$ 201,900,000	NA	\$ 195,100,000
Interest to End of Year	\$ 15,200,000	NA	\$ 13,900,000
<b>TOTAL ANNUAL</b>			
STATEWIDE COST	\$ 290,800,000	\$172,800,000	\$ 298,200,000

**Summary of Actuarial Cost Impact - Cont'd**

The cost estimate applicable to an individual 32-member fire company is as follows:

**ESTIMATE OF POTENTIAL COST FOR INDIVIDUAL FIRE COMPANY**

	Defined Benefit Plan	Defined Contribution Plan
Past Service Liability	\$594,444	NA
Annual Cost		
Normal Cost	\$ 27,296	\$64,000
Amortization	\$ 74,778	NA
Interest to End of Year	\$ 5,630	NA
TOTAL ANNUAL COST	\$107,704	\$64,000

In addition to the actuarial cost estimate, the actuarial note presents demonstrations of potential benefit levels under the two basic types of plans which are authorized under the bill.

**POTENTIAL BENEFITS UNDER DEFINED BENEFIT PLAN**

Firefighter's Age When Plan Established	Years of Past Service	Annual Benefit Payable at Age 55	Annual Benefit Payable at Age 60
25	5	\$ 8,400	\$ 9,600
35	10	\$ 7,200	\$ 8,400
45	20	\$ 4,800	\$ 6,000
55	30	\$ 2,400	\$ 3,600

**POTENTIAL BENEFITS UNDER DEFINED CONTRIBUTION PLAN**

Firefighter's Age When Plan Established	Accumulated Account Balance at Age 55	Life Annuity Equivalent of Account Balance	Accumulated Account Balance at Age 60	Life Annuity Equivalent of Account Balance
25	\$ 152,800	\$ 12,400	\$ 211,500	\$ 19,200
35	\$ 73,600	\$ 6,000	\$ 107,900	\$ 9,800
45	\$ 27,200	\$ 2,200	\$ 47,300	\$ 4,300
55	\$ 2,000	\$ 200	\$ 11,800	\$ 1,100

Actuarial note prepared by Stanley R. Freilich of TPF&C.

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## Policy Considerations

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

- By authorizing each volunteer fire relief association to establish a pension plan, the bill creates the potential for an additional 2,062 public pension plans in Pennsylvania. The provision of this benefit on a decentralized, multiple pension plan basis is administratively inefficient and continues the practice of highly uncoordinated public pension policy in the Commonwealth.
- The bill authorizes a volunteer fire relief association to establish a defined benefit pension plan with the benefit payable in the form of a monthly annuity for life. This is a very complex type of pension plan, involving the risk of adverse mortality exposure, and may not be the type of benefit structure which most volunteer firefighters would prefer.
- The method established in the bill for setting the benefit accrual rate under the defined benefit plan is of questionable validity.
- The bill provides for potential benefit accrual rate decreases applicable to prospective service of existing plan members. The apparent intent of this provision is to allow the plan sponsors to control accruing pension plan liabilities or to respond to changes in their financial situation. Given the well established view of the Pennsylvania courts concerning the inviolability of pension benefits promised to public employees, decreases in accrual rates applicable to existing plan members may not be possible.
- The provision of the bill authorizing the recognition of up to 10 years of past service needs clarification and lacks standards for past service credits. The provision is extremely liberal.
- The plans may not be considered "qualified plans" for purposes of exemption from federal income tax. If the plans are at any time determined to be disqualified, contributions made by the relief associations on behalf of firefighters will be considered taxable income to the firefighters at the time the contributions are made.
- If the intent of the bill is to provide for retention of volunteer firefighters, a longer vesting requirement may be appropriate.
- The pension benefits payable under the bill are very generous. The potential benefits are higher than those earned by most full time municipal employees after a career in public service.

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**Policy Considerations - Cont'd**

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- The annual costs of funding the benefits authorized under the bill exceed the revenues available to volunteer fire relief associations by more than six times. A substantial portion of the liabilities for the promised benefits may become the responsibility of the Commonwealth or its political subdivisions.
- The bill requires that specified amounts of accidental death benefits and disability income benefits be provided before any relief association can establish a retirement plan. The financial resources needed to provide these prerequisite benefits would be substantial, particularly considering the likely cost of casualty insurance applicable to individuals engaged in an activity as hazardous as fire fighting. Therefore, a significant portion of the revenues available to relief associations (\$28.4 million in 1987) would be committed to the prerequisite benefits and the remaining amounts available for retirement plans would be extremely limited.
- There is a great deal of administrative complexity associated with the proposal by virtue of the variety in plan design and administrative structure. The complex structure will affect both the sponsors of the plans and the Commonwealth in its monitoring activities.
- The reporting and funding requirements established in the proposal are inadequate given the complexity of the plans involved.
- The proposal contains numerous technical and drafting deficiencies.

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**Commission Recommendation**

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On April 13, 1988, the Commission voted to attach the actuarial note to the bill and to express the Commission's concern about:

- (a) the appropriateness of authorizing this benefit to be provided on a decentralized, multiple pension plan basis;
- (b) the significant pension benefit design considerations raised by the proposed legislation;
- (c) the magnitude of the pension benefits authorized under the bill and the equity question arising when the potential benefits under the bill are compared with benefits typically payable to career municipal employees;

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Commission Recommendation - Cont'd

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- (d) the extent to which the potential liabilities which may be undertaken under the bill exceed the financial resources available to volunteer fire relief associations and the potential that the Commonwealth or its political subdivisions could become responsible for funding liabilities for promised benefits which cannot be met by relief associations;
- (e) the substantial financial resources needed to fund the prerequisite accidental death and disability income benefits required under the bill;
- (f) the administrative complexity associated with the proposal;
- (g) the lack of adequate reporting and funding standards in light of the complexity of the pension plans authorized under the bill; and
- (h) the numerous technical and drafting deficiencies contained in the proposed legislation.

The Commission further recommended that the bill be substantially redrafted to implement one of the following alternatives:

**STATEWIDE DEFINED CONTRIBUTION PLAN:** Establish a uniform statewide, centrally administered defined contribution plan with a modest contribution structure. Participation in the plan would be at the option of each volunteer fire relief association.

**CONTRIBUTIONS TO INDIVIDUAL RETIREMENT ACCOUNTS:** Authorize volunteer fire relief associations to make modest annual contributions to Individual Retirement Accounts on behalf of volunteer firefighters.

**STATEWIDE LUMP SUM SEVERANCE BENEFIT PLAN:** Establish a uniform statewide, centrally administered plan providing for a modest lump sum benefit at retirement based on a dollar amount multiplied by years of firefighting service. Participation in the plan would be at the option of each volunteer fire relief association.

The Commission offered the assistance of the Commission staff in drafting one of the alternative proposals presented above at the request of the General Assembly or Governor's Office.

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**Final Legislative Status**

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House Bill 1854, Printer's Number 2864, was re-committed to the House Appropriations Committee on February 24, 1988.

**Bill and Printer's Numbers:** H.B. 1875, P.N. 2365

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

**Subject:** Purchase of Credit for Cadet Nurse Corps Service

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**Synopsis of Bill**

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House Bill 1875 amends the Public School Employees' Retirement Code and the State Employees' Retirement Code to authorize the purchase of nonschool or nonstate service credit for service in the Cadet Nurse Corps.

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**Summary of Actuarial Cost Impact**

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	PSERS (32 to 50 Eligible Nurses)	SERS (50 to 80 Eligible Nurses)
Increase in Unfunded Accrued Liability	\$700,000 to \$1,150,000	\$1,100,000 to \$1,800,000
Increase in Annual Cost		
Normal Cost	\$ 0	\$ 0
Amortization	\$ 44,000 to \$ 70,000	\$ 93,500 to \$ 153,000
<b>TOTAL ANNUAL COST</b>	<b>\$ 44,000 to \$ 70,000</b>	<b>\$ 93,500 to \$ 153,000</b>
	(4.88% to 4.96% of affected payroll)	(6.45% to 6.59% of affected payroll)

Actuarial note prepared by William A. Reimert of Milliman & Robertson, Inc.

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**Policy Considerations**

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

- Purchases of prior service in public employee retirement systems should be limited to situations where the service purchase is necessary for the purpose of equity.
- Congress recently authorized federal employees with Cadet Nurse service to purchase service credit under the federal retirement system. For the federal government, this represented an authorization to purchase prior, previously unrecognized, civilian service

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**Policy Considerations - Cont'd**

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with the same government. For the school districts and the Commonwealth, the service purchase authorization would represent permission to purchase credit for civilian service with another governmental entity.

- The bill does not limit the time within which the purchase payment must be made and does not exclude the purchase payment from Option 4 lump sum withdrawal. This enables an employee who is eligible to purchase creditable nonstate service to make the purchase payment very close to the time of retirement, become entitled to an increased retirement benefit, and receive an almost immediate return of the purchase amount as part of the Option 4 withdrawal.
  
- Any purchase of service credit for Cadet Nurse Corps service should be limited to members that are not entitled to receive, eligible to receive now or in the future, or are receiving retirement benefits for such service under a retirement system administered and wholly or partially paid for by any other governmental agency or by any private employer in accordance with statutes relating to mandatory and optional membership. This limitation will prevent a member from receiving retirement system credit for the same service in two different public employee retirement systems.

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**Commission Recommendation**

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On September 14, 1988, the Commission voted to attach the actuarial note to the bill and express the Commission's concern about:

- (a) the appropriateness of authorizing the purchase of this federal service as creditable nonschool or nonstate service;
  
- (b) the absence of restrictions on the time within which the purchase transaction must be made and withdrawal of the purchase amount under Option 4; and
  
- (c) the potential for Cadet Nurse Corps members to receive retirement credit from two different public employee retirement systems.

The Commission noted that it is currently undertaking a study to comprehensively review the public policy issues associated with service purchase authorizations under public employee pension plans.

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**Final Legislative Status**

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House Bill 1875, Printer's Number 2365, was re-reported as committed by the House Rules Committee and was tabled on September 27, 1988. An SERS cadet nurse corps provision was included in Senate Bill 1441, Printer's Number 2447, that was signed into law on October 21, 1988, becoming Act 1988-112.

**Bill and Printer's Numbers:** H.B. 2433, P.N. 3245 and H.B. 2434, P.N. 3246

**System:** Municipal, Second Class A City (Scranton), Police, Fire and Nonuniformed

**Subject:** Removal of Statutory Time Limit for Purchase of Nonintervening Military Service

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**Synopsis of Bill**

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House Bill 2433 would amend the law governing the police and fire pension plans of the City of Scranton and House Bill 2434 would amend the law governing the nonuniformed employees' pension plan of the City of Scranton. The bills would remove the three-year time limit within which a member must commence employment with the City following military service in order to be eligible to purchase credit for nonintervening military service. The bill would authorize the governing body to establish a time limit by ordinance or resolution.

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**Summary of Actuarial Cost Impact**

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These bills represent general, enabling legislation. Specific provisions relating to the purchase of nonintervening military service would be set forth in the ordinance or resolution adopted by the city council of the City of Scranton to implement the authority granted under the bills. Under the Municipal Pension Plan Funding Standard and Recovery Act, actuarial cost estimates would be required to be prepared for the city council before it enacted the ordinances or resolutions. The Commission's consulting actuary has made the following general observations:

- Nonintervening military service purchase provisions do have material employer costs.
- The nonuniformed employees retirement system would be less affected by the nonintervening military service purchase provision than the police officers or paid firefighters systems.
- As an example of the potential military service existing in a city police officers retirement system, a recent survey of another city's police force found that 52 police officers out of 87 had military service with an average of three years each.
- While the additional liberalization caused by these two bills will not have a major effect on the pension funds, the cost of liberalization is not presently measurable due to the lack of data as to the number of persons who would benefit. The general funding condition of two out of the three pension funds is very poor.

Actuarial note prepared by Conrad M. Siegel of Conrad M. Siegel, Inc.

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## Policy Considerations

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

- The extension of nonintervening military service purchase time authorized in these bills does not become effective unless implemented by ordinances or resolutions adopted by the city council after it has received actuarial cost estimates of the extensions.
- The cost of expanding eligibility for employees of the City of Scranton to purchase nonintervening military service credit is increased by the inadequacy of the purchase payment amount, the lack of a time limit on exercising the purchase option, and the absence of a requirement that interest from the date of employment to the date of purchase be included with the purchase payment.
- The public employee retirement systems of the City of Scranton have substantial unfunded actuarial accrued liabilities, so substantial that the City has been determined to be a severely distressed municipality (Level III, the highest level of distress) under the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984).

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## Commission Recommendation

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On June 15, 1988, the Commission voted to attach the actuarial note to the bill and to express the Commission's concern about the expansion of eligibility for employees of the City of Scranton to purchase credit for nonintervening military service due to the inadequacy of the purchase payment amount, the lack of a time limit on exercising the purchase option, and the absence of a requirement that interest from the date of employment to the date of purchase be included with the purchase payment. The Commission expressed particular concern about the propriety of making benefit improvements in the pension plans of a municipality classified as severely distressed and participating in Level III of the Act 205 recovery program for financially distressed municipal pension systems. In addition, the Commission directed staff to transmit with the actuarial note suggested amendments to House Bills 2433 and 2434 to require that interest from the date of employment to the date of purchase be included with the purchase payment for nonintervening military service credit.

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## Final Legislative Status

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House Bill 2433, Printer's Number 3245, and House Bill 2434, Printer's Number 3246, were amended and passed by the House on June 20, 1988, and as Printer's Numbers 3508 and 3509 were referred to the Senate Local Government Committee on June 27, 1988.

**Bill and Printer's Numbers:** H.B. 2571, P.N. 3583

**System:** Municipal, Police and Fire

**Subject:** Ad Hoc Postretirement Adjustment

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**Synopsis of Bill**

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House Bill 2571 is a proposed Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act. The bill would require all municipalities with retired police officers or paid firefighters to provide pension benefit increases based on the following formula:

<u>Years on Retirement as of 1/1/89</u>	<u>Amount of Increase</u>
At least 5 but less than 10	\$ 25 per month
Less than 10 and fully disabled	\$ 50 per month
At least 10 but less than 20	\$ 75 per month
20 or more	\$150 per month

Postretirement adjustments previously granted by the municipality would be offset against the benefit increase amount. The bill requires that the postretirement increase be funded by the applicable municipalities on an actuarial basis with the actual benefit payments for the first ten years reimbursed by the Commonwealth on a pay-as-you-go basis. Funds for the Commonwealth reimbursement would be derived from proceeds of the foreign casualty insurance premiums tax.

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**Summary of Actuarial Cost Impact**

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**MUNICIPAL COST:** Municipalities would be required to fund the actuarial liability attributable to the benefit increases by level annual payments over 10 years. The estimated actuarial cost impact of the benefit increases is as follows:

<b>Increase in Unfunded Actuarial</b>	
Accrued Liability	\$ 35,380,000
<b>Increase in Annual Cost</b>	
Normal Cost	\$ 0
Amortization (10 years)	\$ 4,990,000
<b>TOTAL</b>	\$ 4,990,000

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**Summary of Actuarial Cost Impact - Cont'd**

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**COMMONWEALTH REIMBURSEMENTS:** The Commonwealth would reimburse municipalities annually for a period of 10 years for 100% of the actual benefit payments made during the preceding calendar year. The first year pay-as-you-go amount reimbursable by the Commonwealth is estimated to be \$4,930,000. This amount is expected to decline about 5% each year.

Actuarial note prepared by Gerard C. Mingione of TPF&C.

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**Policy Considerations**

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

- The design of the benefit increase proposed in the legislation targets the most assistance to those benefit recipients who have experienced the greatest erosion in benefit adequacy. This bill addresses a long unmet need.
- The bill mandates benefit increases for certain municipal retirement systems. The appropriateness of Commonwealth mandated benefit increases is open to question.
- The Commonwealth has not previously had direct financial involvement in financing benefit increases in municipal pension plans. The legislation differs from prior proposals in that it provides for the Commonwealth contributions to be drawn from a revenue source already targeted for municipal pension purposes rather than committing Commonwealth general fund revenue to this new purpose. In the aggregate, local governments will receive no additional intergovernmental revenue under this proposal. Specific local governments, however, will receive more or less than they would have otherwise.
- The bill provides a 10-year limit on Commonwealth reimbursements. Benefit payments from the applicable pension funds will continue as long as eligible benefit recipients remain alive. Particularly in municipalities with very young normal retirement ages, substantial amounts of benefit payments will extend beyond ten years and will not be subject to reimbursement by the Commonwealth. Extending the period of Commonwealth reimbursement to 15 years would serve to reduce the gap between the municipal funding requirement and the benefit payment amounts reimbursable by the Commonwealth.
- The 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 funding to finance the benefit increases.

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**Commission Recommendation**

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On September 14, 1988, the Commission voted to attach the actuarial note to the bill indicating that the legislation addresses a recognized need to provide more adequate retirement benefits for long retired municipal public safety employees who have not received previous adjustments in a very effective manner. In addition, the Commission recommended that the Governor and the General Assembly consider the following policy issues:

- (a) The benefit design is very appropriate in that it targets recipients who have experienced the greatest erosion in their pension benefits.
- (b) The appropriateness of the practice of the Commonwealth mandating benefit increases for municipal pension plans is open to question.
- (c) The legislation differs from prior proposals in that the Commonwealth contributions are drawn from funds already targeted for municipal pension purposes, however, no new revenue is provided.
- (d) Some municipalities may not be reimbursed for a substantial amount of cost attributable to the benefit increase due to the 10-year limit on the Commonwealth reimbursements.
- (e) 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 funding to finance the benefit increases.

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**Final Legislative Status**

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House Bill 2571, Printer's Number 3583, was re-committed to the House Appropriations Committee on September 28, 1988. A special ad hoc Municipal Police and Firefighter Postretirement Adjustment Act was adopted as Senate Bill 941, Printer's Number 2541, and was signed into law by the Governor on December 14, 1988, as Act 1988-147.

**Bill and Printer's Numbers:** S.B. 640, P.N. 1816  
**System:** Public School Employees' Retirement System (PSERS)  
**Subject:** Postretirement Medical Coverage

**Synopsis of Bill**

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

**Summary of Pay-As-You-Go Cost Impact**

The 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
<b>ANNUAL OUTLAY</b>	<b>\$45,350,868</b>
	(.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 Cost Impact**

The actuary estimates that the cost of funding this benefit on a prefunded, actuarial basis would be in the range of 7% to 10% of covered payroll.

Actuarial note prepared by Conrad M. Siegel of Conrad M. Siegel, Inc.

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**Policy Considerations**

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

- The bill provides for the funding 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 funding method for retirement benefits.
- The benefit is not coordinated with postretirement medical coverage which may be provided by individual school districts under collective bargaining agreements.
- The bill does not provide for an increase in member contributions to assist in financing the cost of the additional benefit.
- The 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.
- The language in the bill providing for a Commonwealth contribution at a "pegged rate" in the case of an insurance carrier other than Capitol Blue Cross/Blue Shield is unclear. This language should be clarified prior to further consideration of the proposal.

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**Commission Recommendation**

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On April 13, 1988, the Commission voted to attach the actuarial note to the bill and express the Commission's concern about:

- (a) the absence of any requirement for actuarial funding of the proposed benefit;
- (b) the lack of coordination with other employer paid medical coverage which may be provided by individual school districts;
- (c) the lack of allocation of any portion of the cost of the benefit to PSERS members;
- (d) the absence of school district participation in the financing of the benefit;

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**Commission Recommendation - Cont'd**

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- (e) 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
  
- (f) the need to clarify the language concerning a Commonwealth contribution at a "pegged rate."

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**Final Legislative Status**

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Senate Bill 640, Printer's Number 1816, was re-referred to the Senate Appropriations Committee on March 15, 1988.

**Bill and Printer's Numbers:** S.B. 641, P.N. 2174

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

**Subject:** Automatic Postretirement Adjustment Mechanism

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**Synopsis of Bill**

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Senate Bill 641 would amend the Public School Employees' Retirement Code and the State Employees' Retirement Code to establish an automatic postretirement adjustment mechanism for the two systems. The bill would provide PSERS and SERS annuitants who have been receiving benefits for at least 24 months with an annual increase based on one-half of the increase in the federal Consumer Price Index (CPI), with a maximum annual increase of 3%.

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**Summary of Actuarial Cost Impact**

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Cost Estimate for 1.5% Annual Adjustment  
(Annual CPI Increase of 3%)

	PSERS	SERS	TOTAL
Increase in Unfunded Accrued Liability	\$2,130,000,000	\$1,170,000,000	\$3,300,000,000
Increase in Annual Cost			
Normal Cost	\$ 84,000,000	\$ 40,000,000	\$ 124,000,000
Amortization	120,000,000	90,000,000	210,000,000
TOTAL	\$ 204,000,000 (4.62% of pay)	\$ 130,000,000 (5.17% of pay)	\$ 334,000,000

Cost Estimate for 3% Annual Adjustment  
(Annual CPI Increase of 6% or greater)

	PSERS	SERS	TOTAL
Increase in Unfunded Accrued Liability	\$5,000,000,000	\$2,620,000,000	\$7,620,000,000
Increase in Annual Cost			
Normal Cost	\$ 194,000,000	\$ 93,000,000	\$ 287,000,000
Amortization	280,000,000	210,000,000	490,000,000
TOTAL	\$ 474,000,000 (10.74% of pay)	\$ 303,000,000 (12.04% of pay)	\$ 777,000,000

Actuarial note prepared by Stanley R. Freilich of TPF&C.

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## Policy Considerations

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

- The establishment of an automatic postretirement adjustment mechanism for an existing plan is extremely costly. If, however, there is not an automatic mechanism, there may be future ad hoc cost-of-living adjustment, which also will have costs of an unknown magnitude. Once enacted, an automatic postretirement adjustment affords no discretion to the General Assembly and Governor on the topic. The benefit becomes part of the retirement benefit contract and is beyond subsequent modification to the detriment of current members. The granting of an automatic postretirement adjustment mechanism will not prevent future requests for additional ad hoc cost-of-living adjustments.
- Replacement of one-half of the CPI increase is consistent with the general practice of the Commonwealth in granting ad hoc postretirement adjustments in the last two decades. The adequacy of the CPI as a measure of the impact of inflation on retirees has been criticized. However, the CPI remains the most viable average measure of the effects of increases in the cost-of-living.
- The postretirement adjustment mechanism presents the potential for very minimal benefit increases in periods of low inflation. The specification of a minimum CPI increase before the postretirement adjustment is triggered would avoid this potential.
- The bill does not provide for any modification in the amount of the postretirement adjustment in the case of benefit recipients with medical coverage financed in whole or in part by the former employer. Because medical coverage is a major cost-of-living item experienced by retirees, it may be appropriate to consider some modification when this coverage is provided by the employer as a postretirement benefit.
- The bill provides a benefit increase applicable to active members, but does not provide for an increase in member contributions to assist in financing the cost of the additional benefit.
- The amortization procedure used to fund the benefit defers a significant amount of the cost to the future.

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## Commission Recommendation

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On September 14, 1988, the Commission voted to attach the actuarial note to the bill and express the Commission's views about:

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**Commission Recommendation - Cont'd**

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- (a) the significant cost associated with establishing an automatic postretirement adjustment for PSERS and SERS must be compared to the cost of future ad hoc cost-of-living adjustments and while an automatic postretirement adjustment will limit future discretion by the General Assembly and the Governor, it will not prevent future requests for ad hoc cost-of-living adjustments;
- (b) the appropriateness of providing minimal annual adjustments during periods of negligible inflation;
- (c) the lack of any adjustment in the amount of the benefit increase in cases where medical coverage is provided by the employer as a postretirement benefit;
- (d) the absence of a requirement for additional member contributions by active PSERS and SERS members to finance a portion of the increase in normal cost attributable to the benefit increase; and
- (e) the appropriateness of the amortization period used to fund the unfunded accrued liability attributable to the benefit increase for retired lives.

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**Final Legislative Status**

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Senate Bill 641, Printer's Number 2174, was re-referred to the Senate Appropriations Committee on June 13, 1988. An ad hoc cost-of-living adjustment provision for both the PSERS and SERS was included in Senate Bill 1441, Printer's Number 2447, that was signed into law on October 21, 1988, becoming Act 1988-112.

**Bill and Printer's Numbers:** S.B. 700, P.N. 1948 with amendment A2481

**System:** Municipal, Second Class County

**Subject:** Contributions, Computation of Benefits,  
Interest Calculation

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Synopsis of Bill

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Senate Bill 700 would amend the portion of the Second Class County Code governing the Allegheny County Retirement System to:

- Establish a standard of fiduciary care and liability for board members;
- Increase the cap on salary to which member contributions and benefit computations apply from \$32,000 to \$52,000 per year;
- Change statutory contribution rates specified under Section 1708(a) to conform with rates actually in effect as established by the board under authority of Section 1708(d) empowering board to modify employee contribution rates based on the results of the annual actuarial valuation;
- Exclude overtime compensation from the calculation of the retirement benefit;
- Provide for inclusion of a partial year in computing an employee's service time;
- Refine the interest calculation to conform with a recent court decision; and
- Extend deadlines for reinstatement of reemployed members and receipt of credit for certain previous county service.

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Summary of Actuarial Cost Impact

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**INCREASE IN SALARY CAP FOR MEMBER CONTRIBUTIONS  
AND BENEFIT COMPUTATIONS**

Increase in Unfunded Actuarial Accrued Liability	\$28,958,500
Increase in Annual Cost	
Normal Cost	\$ 2,091,897
Amortization	NA *

\* *The effect of the amendment will be to extend the date by which full funding of the unfunded liability is expected. The actuary estimates that this benefit change will increase the projected time required to fully fund the unfunded liability from 14 years to 22 years.*

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Summary of Actuarial Cost Impact - Cont'd

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OVERTIME CALCULATION

The actuarial cost to the Allegheny County Employees Retirement Plan of including overtime in the benefit calculation depends on the frequency with which it occurs and the degree to which the overtime increases the benefit. An exact determination 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 has determined that the cost of the pension plan 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	NA *

\* 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 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:

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

Actuarial note prepared by Conrad M. Siegel of Conrad M. Siegel, Inc.

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## Policy Considerations

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

- By increasing the salary cap on member contributions and benefit computations from \$32,000 to \$52,000 annually, the bill provides for all Allegheny County employees earning less than \$52,000 annually to make future member contributions on their full compensation and to receive a retirement benefit based on their full compensation.
- A drafting oversight in the bill needs to be corrected in order to assure that a consistent salary base is used for member contributions and benefit computations. Section 1712, relating to amount of retirement allowances, should be amended to specify the salary cap of \$4,333.33 monthly.
- Two of the proposed changes, those dealing with the exclusion of overtime compensation and the interest calculation, tend to lower plan cost.
- The change relating to recognition of a partial year of service would not affect the employer contributions to the plan, but would slightly extend the expected date for full funding of the unfunded liability.
- The cost to the plan of inclusion of overtime can vary greatly depending on the amount of retirement benefit currently based on average compensation inflated by overtime and the average inflated benefit.
- The interest calculation amendment was developed because of a recent class action court case.

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## Commission Recommendation

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On June 15, 1988, the Commission voted to attach the actuarial note to the bill and to advise the Governor and the General Assembly that a drafting oversight in the bill needs to be corrected in order to assure that a consistent salary base is used for member contributions and benefit computations. The revision necessary to correct the oversight would be to amend Section 1712, relating to amount of retirement allowances, to specify the salary cap of \$4,333.33 monthly.

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**Final Legislative Status**

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Senate Bill 700, Printer's Number 1948, was amended and re-reported as Printer's Number 2482, by the House Appropriations Committee on November 14, 1988, when it also received second consideration in the House.

**Bill and Printer's Numbers:** S.B. 941, P.N. 2424

**System:** Municipal, Police and Fire

**Subject:** Ad Hoc Postretirement Adjustment

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**Synopsis of Bill**

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Senate Bill 941, as amended, is a proposed Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act. The bill would require all municipalities with retired police officers or paid firefighters to provide pension benefit increases based on the following formula:

<u>Years on Retirement as of 1/1/89</u>	<u>Amount of Increase</u>
At least 5 but less than 10	\$ 25 per month
Less than 10 and fully disabled	\$ 50 per month
At least 10 but less than 20	\$ 75 per month
20 or more	\$150 per month

Postretirement adjustments granted in the future by municipalities would be offset against the benefit increase amount. The bill requires that the postretirement increase be funded by the applicable municipalities on an actuarial basis with the actual benefit payments for the first ten years reimbursed by the Commonwealth on a pay-as-you-go basis. Funds for the Commonwealth reimbursement would be derived from proceeds of the foreign casualty insurance premiums tax.

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**Summary of Actuarial Cost Impact**

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**MUNICIPAL COST:** Municipalities would be required to fund the actuarial liability attributable to the benefit increases by level annual payments over 10 years. The estimated actuarial cost impact of the benefit increases is as follows:

Increase in Unfunded Actuarial Accrued Liability	\$70,570,000
Increase in Annual Cost	
Normal Cost	\$ 0
Amortization (10 years)	<u>\$ 9,890,000</u>
TOTAL	\$ 9,890,000

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**Summary of Actuarial Cost Impact - Cont'd**

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**COMMONWEALTH REIMBURSEMENTS:** The Commonwealth would reimburse municipalities annually for a period of 10 years for 100% of the actual benefit payments made during the preceding calendar year. The first year pay-as-you-go amount reimbursable by the Commonwealth is estimated to be \$9,650,000. This amount is expected to decline about 5% each year.

Actuarial note prepared by Gerard C. Mingione of TPF&C.

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**Policy Considerations**

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

- The design of the benefit increase proposed in the legislation targets the most assistance to those benefit recipients who have experienced the greatest erosion in benefit adequacy.
- The bill mandates benefit increases for certain municipal retirement systems. The appropriateness of Commonwealth mandated benefit increases is open to question.
- The Commonwealth has not previously had direct financial involvement in financing benefit increases in municipal pension plans. The legislation differs from prior proposals in that it provides for the Commonwealth contributions to be drawn from a revenue source already targeted for municipal pension purposes rather than committing new Commonwealth general fund revenue to this purpose.
- The bill provides a 10-year limit on Commonwealth reimbursements. Benefit payments from the applicable pension funds will continue as long as eligible benefit recipients remain alive. Particularly in municipalities with very young normal retirement ages, substantial amounts of benefit payments will extend beyond ten years and will not be subject to reimbursement by the Commonwealth. Extending the period of Commonwealth reimbursement to 15 years would serve to reduce the gap between the municipal funding requirement and the benefit payment amounts reimbursable by the Commonwealth.
- The 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 funding to finance the benefit increases.

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**Commission Recommendation**

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On October 12, 1988, the Commission voted to attach the actuarial note to the bill indicating that the legislation addresses a recognized need to provide more adequate retirement benefits for long retired municipal public safety employees who have not received previous adjustments and recommending that the Governor and the General Assembly consider the following policy issues:

- (a) The benefit design targets recipients who have experienced the greatest erosion in their pension benefits.
- (b) The appropriateness of the practice of the Commonwealth mandating benefit increases for municipal pension plans is open to question.
- (c) The legislation differs from prior proposals in that the Commonwealth contributions are drawn from funds already targeted for municipal pension purposes; no new Commonwealth revenue is provided.
- (d) Some municipalities may not be reimbursed for a substantial amount of cost attributable to the benefit increase due to the 10-year limit on the Commonwealth reimbursements.
- (e) 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 funding to finance the benefit increases.

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**Final Legislative Status**

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Senate Bill 941, Printer's Number 2424, passed the Senate as Printer's Number 1226 on June 29, 1987; was amended and passed the House as Printer's Number 2541 on November 22, 1988; was re-referred to the Senate, which concurred in the House amendments on November 29, 1988; and was signed into law by the Governor on December 14, 1988, as Act 1988-147.

**Bill and Printer's Numbers:** S.B. 1136, P.N. 1984

**System:** Municipal, County Pension Law

**Subject:** Installment Payment of Accumulated  
Deductions at Retirement

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**Synopsis of Bill**

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Senate Bill 1136 would amend the County Pension Law to authorize a member electing withdrawal of accumulated deductions after retirement to receive the amount in not more than four installments with the last payment not later than 36 months following the date of retirement. The bill would also further provide for circumstances considered to be involuntary withdrawal from county service.

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**Summary of Actuarial Cost Impact**

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The Commission's consulting actuary indicates that the effect of the bill's provisions for withdrawal of accumulated member contributions in not more than four installments would result in a gain to county retirement systems as compared to a lump sum distribution because the county would benefit from the excess interest earnings on the declining balance in the employee's contribution account for an additional three years. The actuary also indicates that the bill's provisions expanding the definition of involuntary retirement would be expected to result in a marginal increase in county retirement system cost.

Actuarial note prepared by Conrad M. Siegel of Conrad M. Siegel, Inc.

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**Policy Considerations**

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

- The proposed withdrawal provision provides a tax planning benefit to county employees at no cost to the county.
- The withdrawal provision is similar to a provision enacted in recent years for members of the State Employees' Retirement System.
- At only a marginal cost to the county, the proposed clarification of involuntary termination of service provision clarifies situations that probably were treated that way in the past.

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**Commission Recommendation**

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On June 15, 1988, the Commission voted to attach the actuarial note to the bill without further comment to the Governor and the General Assembly.

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**Final Legislative Status**

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Senate Bill 1136, Printer's Number 1984, passed the Senate on July 6, 1988, and was referred to the House Local Government Committee on July 12, 1988.

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**PUBLIC EMPLOYEE  
RETIREMENT SYSTEM  
ADMINISTRATION**

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## PART II

### PUBLIC EMPLOYEE RETIREMENT SYSTEM ADMINISTRATION

#### A. ACT 205 OF 1984

##### 1987 Filing Period

March 31, 1988, was the filing deadline for the 1987 municipal pension plan reports. Of the 4,500 local governments submitting questionnaire responses, over 1,600 indicated that they had established one or more pension plans. More than one-third (588) of the local governments required to submit employee pension plan reports failed to meet the statutory filing deadline. Through transmitting multiple delinquency notices, the Commission was able to significantly reduce the number of delinquent local governments that were not included in the initial certification to the Department of the Auditor General on August 15th. Only 186 local governments remained delinquent as of the date of initial certification, representing a 47% reduction from the number of delinquent local governments occurring in the previous filing period. As of December 31, 1988, only 30 local governments remained delinquent in submitting their 1987 employee pension plan reports, and the Commission was actively engaged in enforcing the reporting requirements.

With 75% of the over 2,400 municipal pension plan actuarial valuation reports received near the filing deadline, the Commission initiated computer assisted review procedures and improved other processing techniques to expedite the review of the incoming reports. The data extracted from the reporting forms was verified using Electronic Data Processing. The Commission will issue its *Status Report on Local Government Pension Plans* based on the 1987 Act 205 data early in 1989. Even though municipal pension reports have been submitted since 1974, publication of the Commonwealth's municipal pension data within one year of the filing deadline has not been previously accomplished.

##### Municipal Pension Cost Certification

In the summer of 1988, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 1988 allocation of General Municipal Pension System State Aid. In 1988, the State aid provided to municipalities to offset their employee pension costs totalled more than \$109 million. Calculation of the municipal pension cost data for more than 1,200 municipalities was accomplished through the municipal employee pension plan data base that is maintained by the Commission through the data extracted from the over 2,400 pension plan reports submitted by municipalities.

## **Recovery Program**

The Commission determined the 1988 distress scores for over 50 municipalities participating in the Financially Distressed Municipal Pension System Recovery Program and transmitted distress determination notices to the affected municipalities. In December of 1988, the Commission also certified the payment of over \$27 million in Supplemental State Assistance for 1988 and notified the Governor and General Assembly that a \$17 million appropriation would be needed to provide the Supplemental State Assistance payable in December of 1989.

In the fall of 1988, the Commission transmitted filing notices and reporting forms to the 30 municipalities required to submit 1988 actuarial valuation reports for their employee pension plans due to their participation in the Supplemental State Assistance Program.

## **B. ACT 293 OF 1972**

### **1988 Filing Period**

The Commission transmitted filing notices and reporting forms to the 66 counties required to submit employee pension plan reports for 1988. The reports are due March 31, 1989.

### **Amendments**

Commission-drafted legislation to amend Act 293 was introduced early in the 1987-88 Session of the General Assembly. The proposed amendment would have changed the reporting year for the biennial reports on county employee pension plans to odd numbered years. If the amendment had been enacted, county employee pension plan reports submitted under Act 293 and all other local government employee pension plan reports submitted under Act 205 would have been filed for the same years. In an effort to synchronize the Commonwealth's local government pension plan reporting programs, the Commission will again seek introduction and passage of the necessary amendment to Act 293 of 1972 in the 1989-90 Session of the General Assembly.

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**PUBLIC EMPLOYEE RETIREMENT SYSTEM**

**POLICY DEVELOPMENT**

**AND COORDINATION**

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## 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.

##### **Public Employee Retirement Laws for Pennsylvania Local Governments.**

During the second half of 1987, an outline was prepared and research begun on a publication entitled *Public Employee Retirement Laws for Pennsylvania Local Governments*. The publication was completed during the first half of 1988 and issued in June 1988. A copy of the

publication was sent to the over 1,600 local governments with a public employee retirement system in the Commonwealth.

The Commission intends this publication to be a nontechnical description of the statutes regulating the public employee retirement systems of most Pennsylvania local governments aimed at the average governing body member. It does 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).

### **Fiduciary Responsibility and Liability for Pennsylvania Local Government Retirement Systems.**

The subject of fiduciary responsibility and liability is not well addressed in Pennsylvania statutes governing local government employee retirement systems. 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. During the second half of 1987 and the first half of 1988 a draft report together with accompanying draft legislation was prepared. Two draft versions of the report were then circulated for comment not only to the members of the Commission and its statutory advisory committees but also to other interested parties. Based upon comments received from these reviews, a draft report was prepared and publicly considered by the Commission at its December 14, 1988, meeting. The final report was then issued in February 1989. It contains a set of recommendations as a frame of reference for the formulation of proposed legislation on the topic and provides draft legislation as a point of departure for further discussion and action.

The fiduciary legislation is needed in Pennsylvania to establish, in one place, a clear standard for all administrative aspects of local government employee retirement systems. Specifically designed local government employee retirement system fiduciary standards protect the revenue payers by increasing the probability that the retirement systems they are funding will be prudently run thus preventing unexpected demands for additional revenues and by placing clear responsibility in the event of problems. Fiduciary standards also protect active and retired public employees by requiring that their retirement systems be operated exclusively for the purpose of providing retirement benefits, by increasing the probability that the retirement systems will be able to pay their retirement benefits, and by making it clear whom to hold responsible in the event of problems. In addition, fiduciary standards help public officials to know in advance what is to be done and what is acceptable behavior.

## **C. RESEARCH BEGUN AND CONTINUED.**

### **Policy Recommendations for Service Purchases in Public Employee Retirement Systems.**

Among the more frequently recurring subjects in the proposed legislation that the Commission has been requested to review since 1982 are authorizations to purchase service credits in public employee retirement systems for various types of currently noncreditable service. In order to establish a consistent policy framework within which to evaluate these proposals, the Commission saw a need to study the subject in some depth. In the second half of 1988, therefore, the Commission began a study to analyze the issues associated with service purchase authorizations and to formulate policy recommendations relating to criteria for authorizing service purchases and standards for structuring the purchase transaction. The Commission intends its recommendations to be prospective in nature, providing a policy framework for the Commission in reviewing the many proposals presented to it on this subject and providing guidance to the policymakers in the executive and legislative branches in discussing, developing, and adopting future changes in purchase of service credit provisions. The Commission expects to issue this report during 1989.

### **Municipal Postretirement Medical Benefits.**

As 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, in the second half of 1988, the Commission began research on its study. The Commission expects to issue this report in 1989.

### **Status Report on Local Government Pension Plans.**

During the second half of 1988, research began on the Commission's second 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. This report will be a summary and analysis of actuarial valuation reports as of January 1, 1987, submitted to the Commission under the Act. The data in the report will be extracted from the individual pension plan reports containing actuarial, financial, and demographic information.

The Commission expects that the report will contain an analysis of the funding status and compliance of pension plans, a discussion of the Commonwealth's financial assistance, information on the number and nature of pension plans, and a discussion of insurance as a funding mechanism. The Commission also expects the report to contain a preliminary assessment of the impact of the actuarial funding standard imposed by the Municipal Pension Plan Funding Standard and Recovery Act. The Commission expects to issue this report early in 1989.

#### **D. FUTURE RESEARCH.**

##### **Structure of Local Government Retirement Systems.**

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.

#### **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 Public School Employees' Retirement System (PSERS) in September 1988, the State Employees' Retirement System (SERS) in October 1988, and the Pennsylvania Municipal Retirement System (PMRS) in December 1988.

##### **Commission Review of PSERS Actuarial Valuation Report.**

At the September 14, 1988, meeting of the Commission, the staff presented a summary of the June 30, 1987, actuarial valuation report of the Public School Employees' Retirement System. The following are some significant facts contained in that report.

### **Funding Facts**

Since the prior valuation the employer contribution rate has decreased by .06 percent of payroll.

Since the prior valuation the unfunded accrued liability decreased by \$276,637,000.

Since the prior valuation the funding ratio increased 4.91 percent.

Since the prior valuation the current assets have increased by \$1,692,916,000.

### **Discussion of Status of Unfunded Accrued Liability**

As stated, the unfunded accrued liability decreased by \$276,637,000, which was \$131,000,000 greater than expected.

The following is the actuary's explanation of the net decrease in the unfunded accrued liability:

	Millions
Interest surplus	(\$826)
Salary Increase above expected	590
Retirement and other separation	85
Pensioners mortality experience	<u>20</u>
Net experience loss (gain)	(\$131)

### **Membership**

The membership (201,415) increased by 1,844 or .92% since the prior valuation.

The payroll \$4,378,680,591 increased by \$274,141,222.

The number of annuitants 90,377 increased by 4.31% and the annual annuitants increased by 6.51% since the prior valuation.

The Commission reviewed this report with Mr. James A. Perry, PSERS Executive Director, and Mr. John Thompson, PSERS consulting actuary. Mr. Thompson made a presentation on behalf of PSERS, which further detailed the status of the system and provided additional information.

The following is a summary of the June 30, 1987 actuarial valuation of PSERS and a comparison of the 1987 results with those of 1986.

**SUMMARY OF ACTUARIAL VALUATION**  
**PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM <sup>1</sup>**  
as of  
June 30, 1987

	<u>6/30/86</u>		<u>6/30/87</u>	
<b><u>MEMBERSHIP</u></b>				
Active Members	199,571		201,415	
Inactive and Vested Members	22,583		23,252	
Retired Members	79,583		83,043	
Disabled Members	3,497		3,614	
Survivors and Beneficiaries	3,562		3,717	
<b><u>PAYROLL AND ANNUITIES PAYABLE</u></b>				
Total Annual Payroll	\$4,104,539,365		\$4,378,680,591	
Annual Annuities and Benefits	\$ 571,187,000		\$ 608,388,448	
<b><u>VALUATION DATA</u></b>				
Accrued Liability	\$15,995,500,000		\$17,411,779,000	
Assets <sup>2</sup>	<u>9,458,315,000</u>		<u>11,151,231,000</u>	
Unfunded Accrued Liability <sup>3</sup>	\$ 6,537,185,000		\$ 6,260,548,000	
Funding Ratio	59.13%		64.04%	
<b><u>FUNDING COSTS</u></b>				
Normal Cost	\$577,098,235	14.06%	\$613,015,283	14.00%
Interest on UAL <sup>4</sup>	<u>359,545,175</u>	<u>8.76</u>	<u>344,330,140</u>	<u>7.86</u>
Minimum Actuarial Funding	\$936,643,410	22.82%	\$957,345,423	21.86%
Normal Cost	\$ 577,098,235	14.06%	\$ 613,015,283	14.00%
Amortization <sup>5</sup>	<u>444,111,159</u>	<u>10.82</u>	<u>465,891,615</u>	<u>10.64</u>
Full Actuarial Funding	\$1,021,209,394	24.88%	\$1,078,906,898	24.64%
<b><u>SUPPORT</u></b>				
Member <sup>6</sup>	\$ 219,182,402	5.34%	\$ 235,135,148	5.37%
School District	401,013,496	9.77	421,885,875	9.635
Commonwealth	<u>401,013,496</u>	<u>9.77</u>	<u>421,885,875</u>	<u>9.635</u>
Total Support	\$1,021,209,394	24.88%	\$1,078,906,898	24.64%
<b><u>ADEQUACY OF SUPPORT</u></b>				
Frozen Deficit Financing	\$ 936,643,410	22.82%	\$ 957,345,423	21.86%
Total Support	<u>1,021,209,394</u>	<u>24.88</u>	<u>1,078,906,898</u>	<u>24.64</u>
Deficiency (Surplus)	(\$ 84,565,984)	( 2.06%)	(\$ 121,561,475)	( 2.78%)
Full Amortization Financing	\$1,021,209,394	24.88%	\$1,078,906,898	24.64%
Total Support	<u>1,021,209,394</u>	<u>24.88</u>	<u>1,078,906,898</u>	<u>24.64</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 \$276,637,000 between 6/30/86 and 6/30/87.
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 portions attributable to the 1979 and 1984 cost-of-living post retirement adjustments are required by law to be amortized on a level dollar basis over a 20-year period from the date each adjustment was granted. The remaining portion is apportioned based on the source of the unfunded accrued liability 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 unfunded accrued liability was recognized.

These portions by source of the unfunded accrued liability, the remaining unfunded accrued liability and the applicable amortization period with the comparable figures for 6/30/86 are as follows:

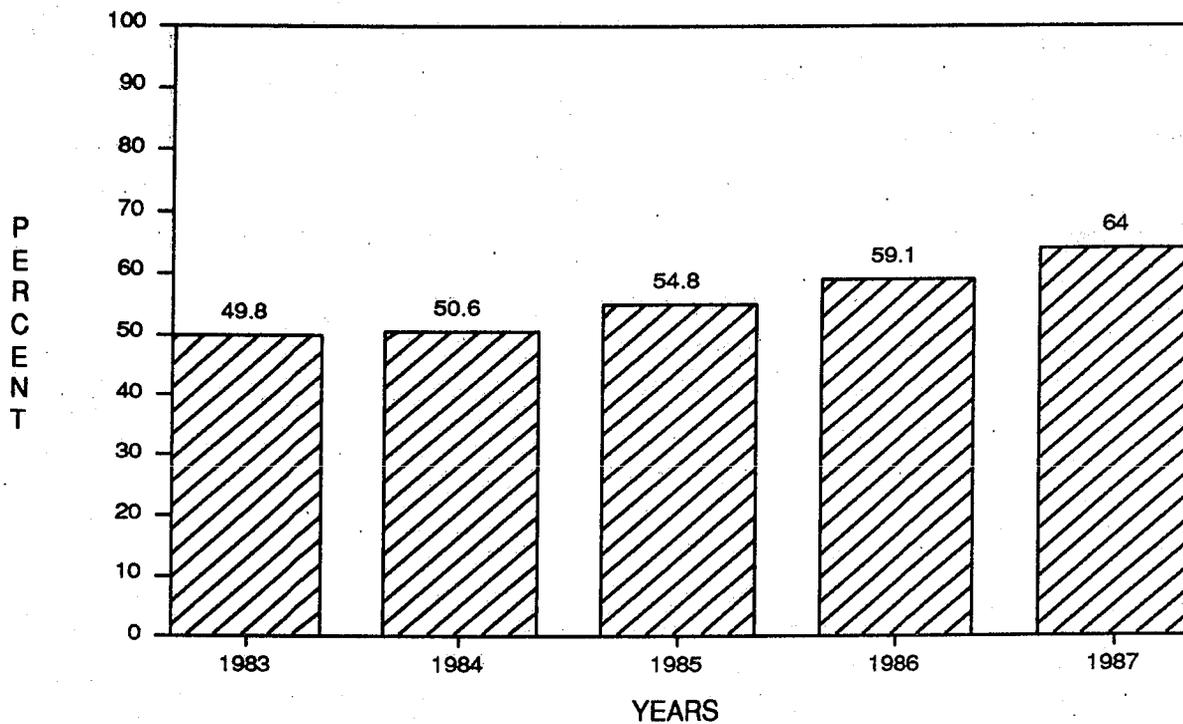
Unfunded Accrued Liability	<u>6/30/86</u>	<u>6/30/87</u>
<b>A. Portion Attributable to Prior Cost-of-living Post Retirement Adjustments</b>		
<b>Pre 1979 Post Retirement Adjustments</b>		
Amount	\$331,621,000	\$289,400,000
Amortization Period	6 years	5 years
<b>1979 Post Retirement Adjustments</b>		
Amount	\$533,871,000	\$506,801,000
Amortization Period	14 years	13 years
<b>1984 Post Retirement Adjustments</b>		
Amount	\$317,060,000	\$306,305,000
Amortization Period	18 years	17 years

**B. Portion Attributable to Other Sources**

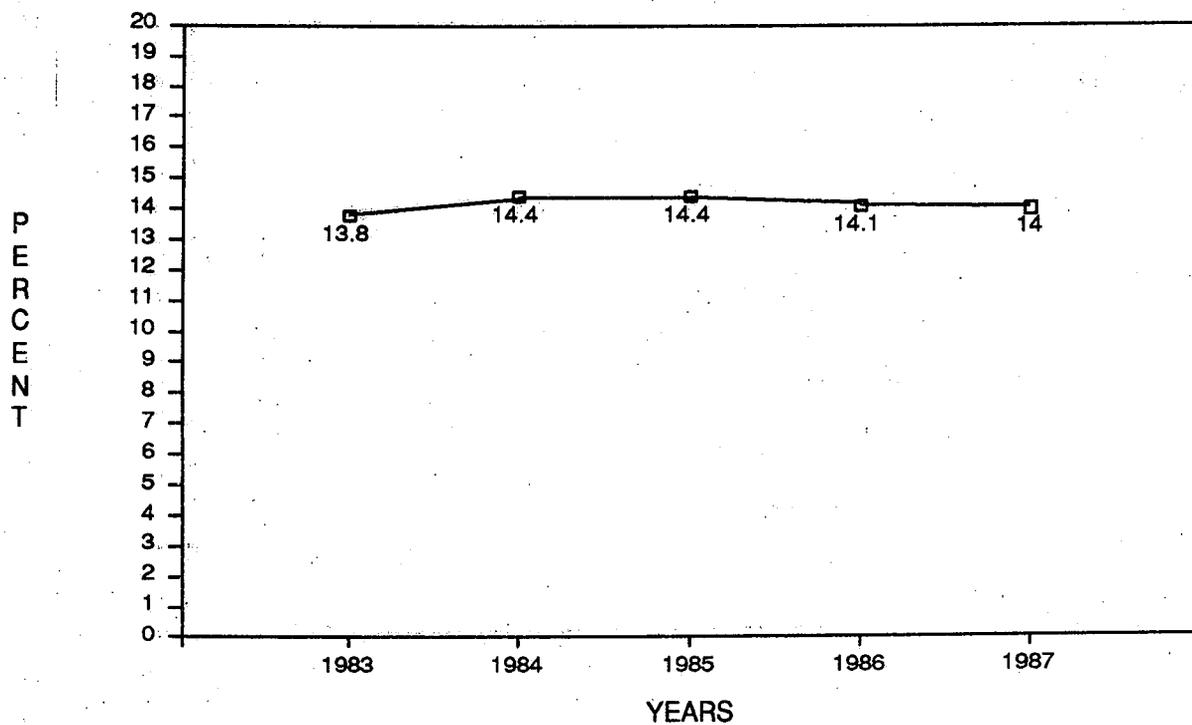
<b>Pre-1975 Benefit Increase</b>		
Amount	\$4,289,216,000	\$4,094,232,000
Amortization Period	21 years	18 years
<b>1975 Benefit Increase</b>		
Amount	\$599,338,000	\$592,708,000
Amortization Period	18 years	17 years
<b>1982 Benefit Increase</b>		
Amount	\$47,692,000	\$47,854,000
Amortization Period	24 years	23 years
<b>1983 Unisex Mortality Factors</b>		
Amount	\$43,779,000	\$44,138,000
Amortization Period	27 years	26 years
<b>1986 Benefit Increase</b>		
Amount	\$37,000,000	\$37,445,000
Amortization Period	30 years	29 years
<b>1986 Assumption Change</b>		
Amount	\$337,608,000	\$341,665,000
Amortization Period	30 years	29 years

6. The indicated member contribution for 6/30/87 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 6/30/87 is the average of those two groups as presently constituted.

## PSERS FUNDING RATIO TREND



## PSERS NORMAL COST TREND



## Commission Review of SERS Actuarial Valuation Report.

At the October 12, 1988, meeting of the Commission, the staff presented a summary of the December 31, 1987, actuarial valuation report of the State Employees' Retirement System. The following are some significant facts contained in that report.

### FUNDING FACTS

Since the prior valuation the employer contribution rate has remained unchanged at 13.09% of payroll. This is the second year the employer contribution rate has not changed.

Since the prior valuation the unfunded accrued liability decreased by \$98,496,160.

Since the prior valuation the funding ratio increased 3.03 percent.

Since the prior valuation the current assets have increased by \$707,147,807.

### MEMBERSHIP

The active membership increased by 45 since the prior valuation.

The payroll increased by \$144,874,000 since the prior valuation.

The number of annuitants 69,515 increased by 2,027 since the prior valuation.

### SUMMARY OF CONTRIBUTIONS

	<u>12/31/87</u>	<u>12/31/86</u>
Normal Cost	4.73%	4.45%
Amortization of Unfunded Actuarial Accrued Liability	6.79	6.96
Amortization of Supplemental Annuities	<u>1.57</u>	<u>1.68</u>
<b>TOTAL EMPLOYER CONTRIBUTIONS</b>	<b>13.09%</b>	<b>13.09%</b>

The actuarial report states that 1985/86 assumptions would have produced an employee cost lower than 13.09%. But the SERS board expressed concern that a reduced employer cost would not provide enough margin of safety against possible adverse experience. The board was concerned about:

the uncertainty of the value of equities.

the potential liability of proposed cost-of-living allowances.

salary increases higher than those expected in the valuation.

Therefore, the Board modified the assumption to produce the same employer cost in 1987 as in the 1986 valuation. The cost was produced by increasing the salary growth assumption by .25 percent of pay-per-year.

The Commission reviewed this report with Mr. John R. Brosius, SERS Executive Director, Mr. Dale H. Everhart, SERS Assistant Executive Director, and Mr. Edwin C. Hustead, SERS consulting actuary.

The following is a summary of the December 31, 1987, actuarial valuation of the SERS and a comparison of the 1987 results with those of 1986.

**SUMMARY OF ACTUARIAL VALUATION**  
**STATE EMPLOYEES' RETIREMENT SYSTEM**  
as of  
December 31, 1987

	<u>12/31/86</u>		<u>12/31/87</u>	
<b><u>MEMBERSHIP</u></b>				
Active Members	109,454		109,499	
Inactive and Vested Members	3,178		2,871	
Retired Members	58,591		60,255	
Disabled Members	3,660		3,831	
Survivors and Beneficiaries	5,237		5,429	
<b><u>PAYROLL AND ANNUITIES PAYABLE</u></b>				
Total Annual Payroll	\$2,518,206,000		\$2,663,080,000	
Annual Annuities and Benefits	\$ 352,978,810		\$ 371,274,432	
<b><u>VALUATION DATA</u></b>				
Accrued Liability	\$8,465,938,567		\$9,074,590,214	
Assets <sup>1</sup>	<u>6,009,365,263</u>		<u>6,716,513,070</u>	
Unfunded Accrued Liability <sup>2</sup>	\$2,456,573,304		\$2,358,077,144	
Funding Ratio	70.98%		74.01%	
<b><u>FUNDING COSTS</u></b>				
Normal Cost <sup>3</sup>	\$269,448,042	10.70%	\$292,406,184	10.98%
Interest on UAL <sup>4</sup>	<u>135,111,532</u>	<u>5.37</u>	<u>129,694,243</u>	<u>4.87</u>
Minimum Actuarial Funding	\$404,559,574	16.07%	\$422,100,427	15.85%
Normal Cost	\$269,448,042	10.70%	\$292,406,184	10.98%
Amortization <sup>5</sup>	<u>217,572,998</u>	<u>8.64</u>	<u>222,633,488</u>	<u>8.36</u>
Full Actuarial Funding	\$487,021,040	19.34%	\$515,039,672	19.34%
<b><u>SUPPORT</u></b>				
Member <sup>3</sup>	\$157,387,875	6.25%	\$166,442,500	6.25%
Commonwealth	<u>329,633,165</u>	<u>13.09</u>	<u>348,597,172</u>	<u>13.09</u>
Total Support	\$487,021,040	19.34%	\$515,039,672	19.34%
<b><u>ADEQUACY OF SUPPORT</u></b>				
Frozen Deficit Financing	\$404,559,574	16.07%	\$422,100,427	15.85%
Total Support	<u>487,021,040</u>	<u>19.34</u>	<u>515,039,672</u>	<u>19.34</u>
Deficiency (Surplus)	(\$ 82,461,466)	( 3.27%)	(\$ 92,939,245)	( 3.49%)
Full Amortization Financing	\$487,021,040	19.34%	\$515,039,672	19.34%
Total Support	<u>487,021,040</u>	<u>19.34</u>	<u>515,039,672</u>	<u>19.34</u>
Deficiency (Surplus)	\$ 0	0.00%	\$ 0	0.00%

**INVESTMENT YIELD**

12/31/86

12/31/87

Net Investment Income as  
Percent of Mean Assets<sup>6</sup>

7.15%

6.67%

**EXPLANATORY FOOTNOTES**

1. The figure is the actuarial asset value not the market value.
2. The unfunded accrued liability figure includes \$369,366,994 for the amortization of supplemental annuities. The SERS unfunded accrued actuarial liability decreased between the 12/31/86 actuarial valuation and the 12/31/87 actuarial valuation. The SERS 1987 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 the 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 Liability	<u>12/31/86</u>	<u>12/31/87</u>
----------------------------	-----------------	-----------------

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

Pre 1969 Post Retirement Adjustments

Amount	\$1,497,899	\$914,163
Amortization Contribution	624,882	620,221
Amortization Period	3.5 years	2.5 years

1974 Post Retirement Adjustments

Amount	\$45,982,928	\$40,554,555
Amortization Contribution	7,253,686	7,199,574
Amortization Period	8.5 years	7.5 years

1979 Post Retirement Adjustments

Amount	\$171,397,949	\$160,292,011
Amortization Contribution	18,320,496	18,183,841
Amortization Period	13.5 years	12.5 years

1984 Post Retirement Adjustments

Amount	\$175,072,972	\$167,606,265
Amortization Contribution	15,010,471	14,898,507
Amortization Period	18.5 years	17.5 years

2. Portion Attributable to Other Sources

1969 Benefit Increase

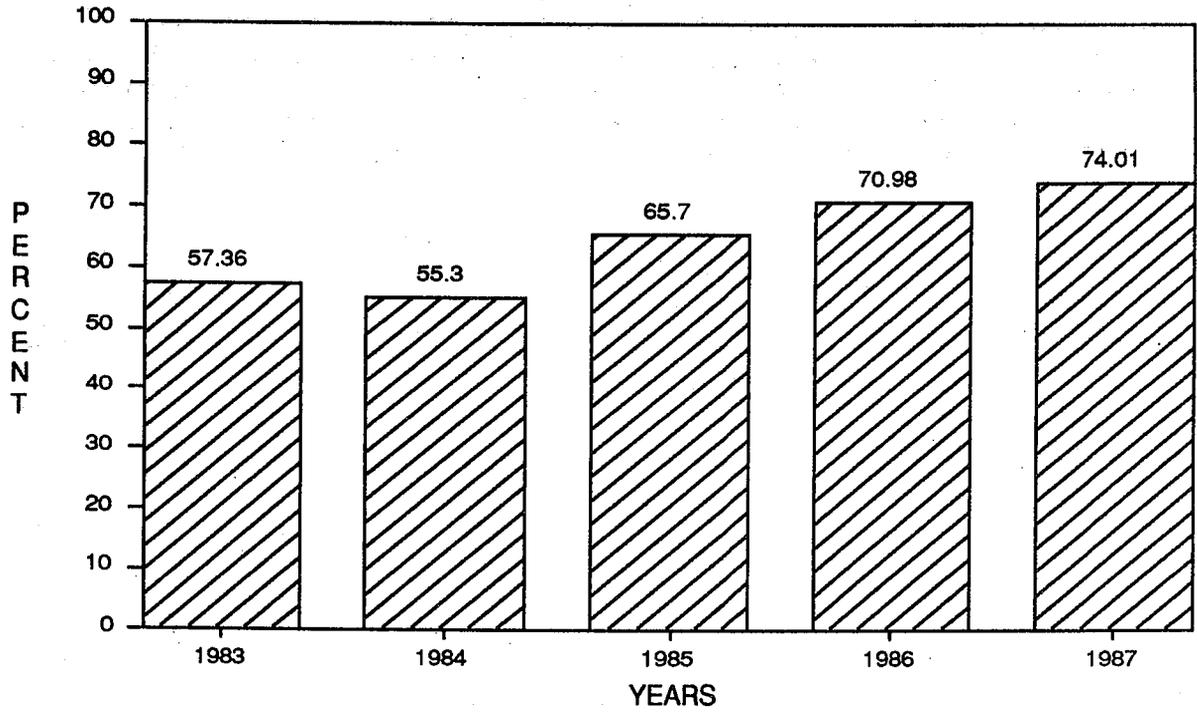
Amount	\$1,419,309,779	\$1,357,574,249
Amortization Contribution	127,624,294	131,732,982
Amortization Period	13.5 years	12.5 years

1974 Benefit Increase

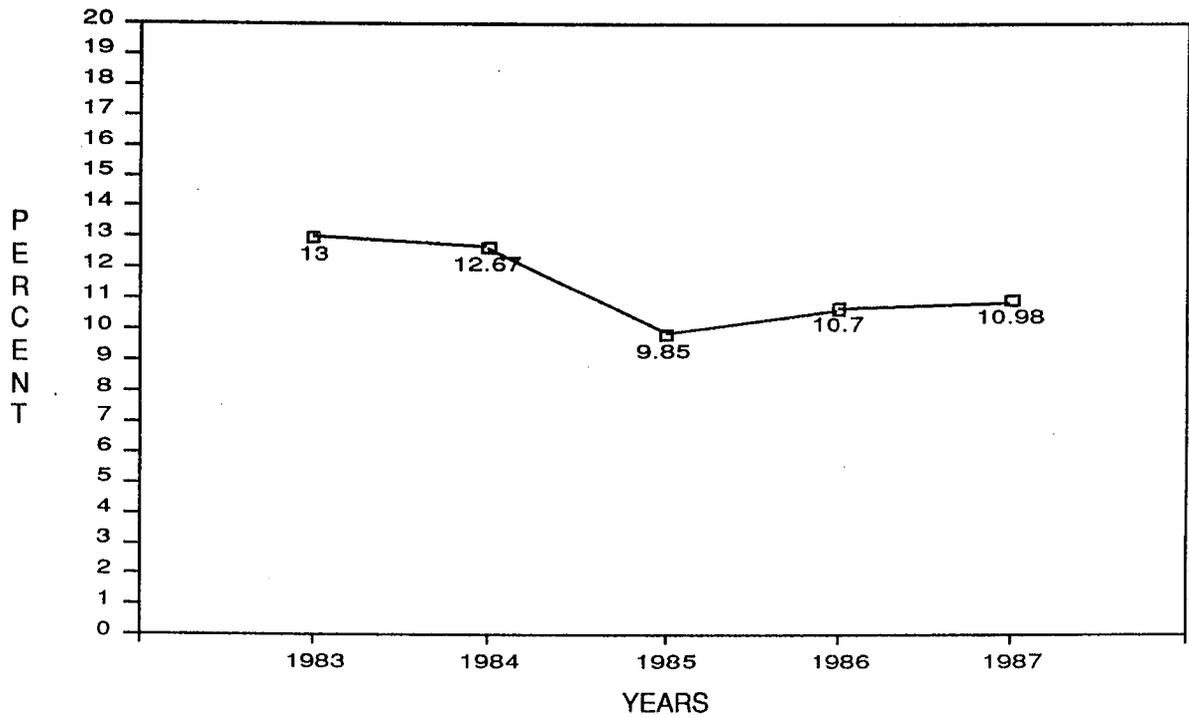
Amount	\$643,311,777	\$631,135,901
Amortization Contribution	42,807,544	44,231,264
Amortization Period	18.5 years	17.5 years

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, 1987 and 1986 audited financial statements.

## SERS FUNDING RATIO TREND



## SERS NORMAL COST TREND



## **Commission Review of PMRS Actuarial Valuation Report.**

At the December 14, 1988, meeting of the Commission, the staff presented a summary of the 1/1/87 actuarial valuation report of the Pennsylvania Municipal Retirement System. The following are some significant facts contained in that report.

The Pennsylvania Municipal Retirement System (PMRS) was established to provide pension administrative services to any municipality or authority within the Commonwealth that elected to join the system. While PMRS is referred to as a "retirement system" each member municipality has considerable flexibility in constructing the benefit plan it prefers. Each participating municipal plan is maintained as a separate entity and is self-insured except in the areas of investment return experience, one year term disability cost, administrative expenses and common risk of mortality loss or gain on retired life reserves.

The PMRS actuarial valuation broadly covers the condition of the system. It serves primarily to summarize information. Because each actuarial item is calculated separately for each municipality and affects only the contribution rate for that municipality, the actuary for the system decided not to include in the valuation data on the accrued liability and the funding costs of the system.

The Commission reviewed this report with Mr. James B. Allen, PMRS Secretary, and Mr. Eli Greenblum, PMRS consulting actuary.

The actuarial valuation summarizes the following information:

1. the demographic data of all PMRS active members and benefit recipients;
2. the actuarial assumptions and methods used;
3. the actuarial value of the PMRS assets and the changes in the assets since the prior valuation;
4. the investment status of the assets; and
5. the excess interest to be allocated to municipalities.

**SUMMARY OF ACTUARIAL VALUATION  
PENNSYLVANIA MUNICIPAL RETIREMENT SYSTEM**

as of  
January 1, 1987

	<u>1/1/86</u>	<u>1/1/87</u>
<b><u>MEMBERSHIP</u></b>		
Active Members	6,640	6,847
Number of Municipalities	N/R	429
Deferred Vested Members	57	77
Retired Members	1,095	1,364
Survivors & Beneficiaries	86	223
Disabled	109	105
<b><u>PAYROLL AND ANNUITIES</u></b>		
Total Annual Payroll	\$121,312,600	\$132,103,400
Annual Annuities and Benefits	\$5,229,240	\$6,362,481
<b><u>FUNDING COSTS</u></b>		
	N/R	N/R
<b><u>VALUATION DATA</u></b>		
Accrued Liability	N/R	N/R
Assets	\$149,352,640	\$172,797,162
Unfunded Accrued Liability	N/R	N/R
<b><u>SUPPORT</u></b>		
Member	5,009,502	5,419,728
Municipal	12,969,251	15,318,226
<b><u>INVESTMENT YIELD</u></b>		
	15.77%	9.79% <sup>1</sup>

<sup>N/R</sup> Indicates that the data item was not reported in the actuarial valuation report.

<sup>1</sup> 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 realized and unrealized investment gains and losses based on the market value of the total investment portfolio of the system.

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**APPENDICES**

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## **APPENDIX A**

### **ADVISORY COMMITTEES AND CONSULTING ACTUARIES**

#### **ADVISORY COMMITTEES**

Under 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 1988 and their sponsoring organizations were as follows:

#### **MUNICIPAL PENSION ADVISORY COMMITTEE**

Mr. Lee Janiczek - Chairman

PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP COMMISSIONERS

Mr. John E. Gardner - Vice-Chairman/Secretary

PENNSYLVANIA STATE ASSOCIATION OF BOROUGHES

Mr. John A. Garner

PENNSYLVANIA LEAGUE OF CITIES

Mr. B. Kenneth Greider

PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP SUPERVISORS

Mr. Douglas E. Hill

PENNSYLVANIA STATE ASSOCIATION OF COUNTY COMMISSIONERS

Mr. William J. Woll

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. James W. Stevens - Secretary  
PENNSYLVANIA STATE EDUCATION ASSOCIATION

Mr. Patrick B. McCabe  
PENNSYLVANIA CHIEFS OF POLICE ASSOCIATION

Mr. Richard Toth - Commission Liaison  
AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES

**CONSULTING ACTUARIES**

The actuarial services committee developed and adopted guidelines for providing actuarial services to the Commission on June 2, 1982. The guidelines establish the educational and experience standards for the selection of consulting actuaries. 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 1988 were:

Towers, Perrin, Forster & Crosby

Mr. Stanley R. Freilich

Mr. Gerard Mingione

Conrad M. Siegel, Inc.

Mr. Conrad M. Siegel

Milliman & Robertson, Inc.

Mr. William A. Reimert

**APPENDIX B**  
**LEGISLATIVE PROCEDURES**  
**UNDER SECTION 7 OF THE**  
**PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION ACT**

**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 exists 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.

Revised November 17, 1987



## APPENDIX D

### LISTING OF LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES 1987-1988 SESSION

Bill Number Printer's Number (Sponsor)	Subject	Final Legislative Status
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. 136 P. N. 2558 (Rhoades)	Financially Distressed Municipalities Act, adding nonpayment of budgeted minimum municipal obligation under § 303 or 602 of the Municipal Pension Plan Funding Standard and Recovery Act to the distress determination criteria	Act 1988-157, signed by the Governor, 12/19/88
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. 1041 (Salvatore)	Special Ad Hoc Municipal Police and Firefighters Postretirement Adjustment Act [see S. B. 941]	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	Act 1987-81, signed by the Governor, 11/6/87
S. B. 281 P. N. 295 (Madigan)	PSERS, retirement with 30 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)	PSERS and SERS, providing for further additional cost-of-living adjustments [see S. B. 1441]	Passed Senate, 11/17/87; referred to House Appropriations Committee, 11/23/87

<b>Bill Number Printer's Number (Sponsor)</b>	<b>Subject</b>	<b>Final Legislative Status</b>
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 180 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 (Scranton) 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
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 180 days of unused sick leave	Referred to Senate Finance Committee, 3/13/87

Bill Number Printer's Number (Sponsor)	Subject	Final Legislative Status
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. 1816 (Rhoades)	PSERS, contributions by Commonwealth toward medical, major medical, and hospitalization insurance coverage	Reported from Senate Finance Committee, 2/23/88; re-referred to Senate Appropriations Committee, 3/15/88
S. B. 641 P. N. 2174 (Rhoades)	PSERS and SERS, further providing for cost-of-living increases to annuitants [see S. B. 1441]	Reported from Senate Finance Committee, 6/8/88; re-referred to Senate Appropriations Committee, 6/13/88
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. 700 P. N. 2482 (Brightbill)	Second Class County Code, making certain changes with respect to retirement by adding definitions and providing for the standard of care and liability of retirement board members, payments and appropriations to the pension trust fund, the amount of retirement allowances, interest on contributions, and requirements for credit for previous service	Passed Senate, 6/23/87; passed Second Consideration in House, 11/14/88
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
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

<b>Bill Number Printer's Number (Sponsor)</b>	<b>Subject</b>	<b>Final Legislative Status</b>
S. B. 773 P. N. 900 (Rhoades)	PSERS, further providing for cost-of-living increases to annuitants [see S. B. 1441]	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 of \$5,723,000	Act 1987-5A, signed by the Governor, 6/30/87
S. B. 812 P. N. 969 (Tilghman)	PSERS, 1987-88 appropriation for expenses of board of \$10,755,000	Act 1987-6A, signed by the Governor, 6/30/87
S. B. 834 P. N. 1005 (Fumo)	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 (Philadelphia)	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. 941 P. N. 2541 (Shaffer)	Special Ad Hoc Municipal Police and Fire-fighter Postretirement Adjustment Act	Act 1988-147, signed by the Governor, 12/14/88
S. B. 977 P. N. 2363 (Moore)	Volunteer Firemen's Relief Association Act, further providing for volunteer firefighters' retirement plans	Passed Senate, 3/15/88; re-referred to House Appropriations Committee, 10/13/88

<u>Bill Number Printer's Number (Sponsor)</u>	<u>Subject</u>	<u>Final Legislative Status</u>
S. B. 1098 P. N. 1470 (Shaffer)	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. 1984 (Wenger)	County Pension Law, authorizing the withdrawal of accumulated deductions at retirement in not more than 4 installments	Passed Senate, 7/6/88; referred to House Local Government Committee, 7/12/88
S. B. 1160 P. N. 1570 (Stout)	SERS, authorizing retirement credit for members of the Cadet Nurse Corps [see S. B. 1441]	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 [see S. B. 1441]	Referred to Senate Finance Committee, 11/18/87
S. B. 1379 P. N. 1967 (Salvatore)	An act requiring all state, school, and local government retirement systems to pay retirees with at least 20 years service an amount equal to at least the federal poverty level	Referred to Senate Finance Committee, 4/18/88
S. B. 1436 P. N. 2161 (Tilghman)	SERS, 1988-89 appropriation for expenses of board of \$6,031,000	Act 1988-11A, signed by the Governor, 7/6/88

Bill Number Printer's Number (Sponsor)	Subject	Final Legislative Status
S. B. 1441 P. N. 2447 (Tilghman)	PSERS and SERS: permitting purchase as creditable nonschool or nonstate service, Community College service prior to July 1, 1965; COLA beginning January 1, 1989, for members retired prior to July 1, 1987; and extending "early retirement windows" from June 30, 1989 to September 30, 1991; SERS: permitting purchase as creditable nonstate service either service as a temporary federal employee assigned to air quality control for DER or service in the Cadet Nurse Corps.	Act 1988-112, signed by the Governor, 10/21/88
S. B. 1489 P. N. 2145 (Lincoln)	SERS, further providing for cost-of-living adjustments to annuitants [see S. B. 1441]	Referred to Senate Finance Committee, 5/31/88
S. B. 1513 P. N. 2201 (Moore)	PSERS, permitting annuitants to work up to 90 days without loss of annuity and counting less than one-half day as one-half day	Referred to Senate Finance Committee, 6/20/88
S. B. 1514 P. N. 2202 (Lincoln)	PSERS, optional continuation of certain health insurance and additional supplemental annuities	Referred to Senate Finance Committee, 6/20/88
S. B. 1515 P. N. 2203 (Lincoln)	Financially Distressed Municipalities Act, adding nonpayment of budgeted minimum municipal obligation under § 303 or 602 of the Municipal Pension Plan Funding Standard and Recovery Act to the distress determination criteria [see S. B. 136]	Referred to Senate Local Government Committee, 6/20/88
S. B. 1560 P. N. 2318 (Andrezeski)	PSERS and SERS, making service in an out of state community college creditable nonschool or nonstate service	Referred to Senate Finance Committee, 7/13/88
S. B. 1561 P. N. 2319 (Andrezeski)	PSERS and SERS, making service at a community college prior to 1971 creditable nonschool or nonstate service [see S. B. 1441]	Referred to Senate Finance Committee, 7/13/88

<u>Bill Number</u> <u>Printer's Number</u> <u>(Sponsor)</u>	<u>Subject</u>	<u>Final Legislative Status</u>
S. B. 1565 P. N. 2324 (Loeper)	SERS, authorizing purchase of credit by district justices for service as justice of the peace prior to 1970	Referred to Senate Finance Committee, 7/14/88
S. B. 1656 P. N. 2475 (Greenleaf)	Constitution of Pennsylvania, amending section 16(b) of article V to change the mandatory retirement age for justices, judges, and district justices from 70 to 75	Referred to Senate Judiciary Committee, 11/14/88
S. B. 1663 P. N. 2542 (Salvatore)	SERS, providing for the recomputation of the annuity in cases where a survivor annuitant predeceases a member	Referred to Senate Finance Committee, 11/23/88
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 two such purchases and extending the payment time to five years	Reported from House Military and Veterans Affairs Committee, 11/23/87 committed to House Appropriations Committee, 12/1/87
H. B. 147 P. N. 165 (Lloyd)	County Pension Law, further providing retirement board membership of one retired and one current employee	Referred to House Local Government Committee, 2/4/87

<u>Bill Number Printer's Number (Sponsor)</u>	<u>Subject</u>	<u>Final Legislative Status</u>
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 (Scranton)	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 (Scranton)	Reported from House Urban Affairs Committee, 4/22/87; re-committed 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, 4/22/87; re-committed to House Appropriations Committee, 12/7/87
H. B. 377 P. N. 410 (Mayernik)	Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act [see S. B. 941]	Referred to House Finance Committee, 2/23/87
H. B. 414 P. N. 3952 (Mowery)	Administrative Code of 1929, providing for the continuation of medical insurance coverage for SERS survivor-spouse annuitants	Passed House, 12/15/87; amended and passed Senate, 11/30/88; House adjourned before concurring in Senate amendments

Bill Number Printer's Number (Sponsor)	Subject	Final Legislative Status
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
H. B. 475 P. N. 513 (Vroon)	Act regulating investments and disinvestments of public pension or retirement system assets	Referred to House Finance Committee, 2/25/87
H. B. 498 P. N. 3501 (Itkin)	PSERS and SERS, purchase of SERS service credit for temporary federal service assigned to air quality control for the Department of Environmental Resources, purchase of SERS service credit for service in the Cadet Nurse Corps, extending both the PSERS and SERS "early out window" to June 30, 1990, and giving a COLA to both PSERS and SERS annuitants [see S. B. 1441]	Passed House, 6/24/87; amended and passed Senate, 6/21/88; House adjourned without concurring in Senate amendments
H. B. 508 P. N. 1039 (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 years service at any age	Reported by 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	Reported from House Health and Welfare Committee, 3/11/87; re-referred to House Local Government Committee, 3/11/87

Bill Number Printer's Number (Sponsor)	Subject	Final Legislative Status
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)	All except H. B's 595, 600, & 615 reported from House Finance Committee, 4/6/87, and re-committed to House Appropriations Committee, 4/8/87; H. B. 600 reported as amended by House Finance Committee, 1/19/88, and re-committed to House Appropriations Committee, 1/25/88
H. B. 684 P. N. 743 (Herman)	PSERS and SERS, extending provision for retirement at age 53 with 30 years service to June 30, 1988 [see S. B. 1441 and 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	Reported from House State Government Committee, 6/10/87; re-committed to House Appropriations Committee, 9/30/87
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)	Second Class Township Code, providing for inclusion of supervisors in pension or annuity plan [see H. B. 1577]	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

<u>Bill Number</u> <u>Printer's Number</u> <u>(Sponsor)</u>	<u>Subject</u>	<u>Final Legislative Status</u>
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. 3647 (Murphy)	Municipal Pension Plan Funding Standard and Recovery Act (Act 1984-205), imposing restrictions on investments in Northern Ireland and the Republic of South Africa	Passed House, 7/12/88; referred to Senate Finance Committee, 7/18/88
H. B. 1079 P. N. 1201 (Murphy)	SERS, placing limitations on investments in companies doing business in or with Northern Ireland	Passed House, 7/12/88; referred to Senate Finance Committee, 7/18/88
H. B. 1080 P. N. 1202 (Murphy)	PMRS, imposing restrictions on investments in Northern Ireland	Passed House, 7/12/88; referred to Senate Finance Committee, 7/18/88
H. B. 1081 P. N. 1203 (Murphy)	PSERS, placing limitations on investments in companies doing business in or with Northern Ireland	Passed House, 7/12/88; referred to Senate Finance Committee, 7/18/88
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)	Third Class City Code, providing for the immediate vesting of certain disabled police officers in pension systems	Act 1988-104, signed by the Governor, 10/3/88
H. B. 1151 P. N. 3330 (Caltagirone)	Third Class City Code, permitting interests in police pension trust funds to vest after 12 years	Passed House, 5/23/88; re-referred to Senate Appropriations Committee, 9/27/88
H. B. 1220 P. N. 1392 (Stevens)	Ad hoc cost-of-living adjustment for Pennsylvania State Police Officers, Capitol Police Officers, and Pennsylvania Liquor Control Board Enforcement Officers	Referred to House State Government Committee, 4/29/87

<u>Bill Number Printer's Number (Sponsor)</u>	<u>Subject</u>	<u>Final Legislative Status</u>
H. B. 1263 P. N. 1445 (Herman)	SERS, for those who retire between June 30 and September 30, 1987, with at least ten years service and age 55, crediting with three additional years service	Referred to House State Government Committee, 5/4/87
H. B. 1289 P. N. 2057 (Pievsky)	PSERS and SERS, 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 [see S. B. 1441]	Act 1987-69, signed by the Governor, 7/13/87
H. B. 1291 P. N. 2256 (Colafella)	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
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
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

<u>Bill Number</u> <u>Printer's Number</u> <u>(Sponsor)</u>	<u>Subject</u>	<u>Final Legislative Status</u>
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	Act 1988-70, signed by the Governor, 5/26/88
H. B. 1577 P. N. 2672 (Foster)	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	Act 1988-41, signed by the Governor, 3/30/88
H. B. 1593 P. N. 3951 (B. Smith)	Judicial Code, among other things, providing that justices, judges, and district justices shall be retired on December 31 of the year in which they attain the age of 70 years rather than upon the date of becoming 70	Passed House, 4/13/88; amended and passed Senate, 11/30/88; House adjourned without concurring in Senate amendments
H. B. 1616 P. N. 1993 (Argall)	State Employes Group Life Insurance Law, further providing that benefits shall continue and not be reduced upon retirement	Reported from House Insurance Committee, 1/25/88; re-committed to House Appropriations Committee, 5/2/88
H. B. 1665 P. N. 2075 (Punt)	PSERS, regulating purchase of retirement credit for 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	Reported from House Local Government Committee, 4/6/88; re-committed to House Appropriations Committee, 4/13/88
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

<u>Bill Number Printer's Number (Sponsor)</u>	<u>Subject</u>	<u>Final Legislative Status</u>
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
H. B. 1742 P. N. 2167 (Stuban)	PMRS, further providing for qualifications for disability and purchase of military time, changing provisions relating to payout 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 [see S. B. 1441]	Reported from House Education Committee, 10/6/87; re-committed to House Appropriations Committee, 10/13/87
H. B. 1820 P. N. 2272 (Fischer)	PSERS and SERS, providing for further additional cost-of-living adjustments [see S. B. 1441]	Referred to House Education Committee, 10/7/87
H. B. 1837 P. N. 2305 (Mayernik)	SERS, providing that service in the Cadet Nurse Corps shall constitute creditable nonstate service [see S. B. 1441]	Reported from House State Government Committee, 4/12/88; re-committed to House Appropriations Committee, 5/2/88

<u>Bill Number Printer's Number (Sponsor)</u>	<u>Subject</u>	<u>Final Legislative Status</u>
H. B. 1854 P. N. 2864 (Hutchinson)	Volunteer Firemen's Relief Association Act, further providing for volunteer fire-fighters' retirement plans	Reported from House Local Government Committee, 2/22/88; re-committed to House Appropriations Committee, 2/24/88
H. B. 1862 P. N. 3595 (Evans)	PSERS, further providing for return to school service by a PSERS annuitant during emergencies or in the event of a shortage of appropriate subject certified teachers for not more than 95 full-day sessions without loss of annuity	Reported from House Education Committee, 6/29/88; re-committed to House Appropriations Committee, 11/16/88
H. B. 1875 P. N. 2365 (Josephs)	PSERS and SERS, providing that service in the Cadet Nurse Corps shall constitute creditable nonschool service and creditable nonstate service [see S. B. 1441]	Reported from House Education Committee, 6/7/88; laid on House table, 9/27/88
H. B. 1918 P. N. 2428 (E. Z. Taylor)	SERS, providing for further additional cost-of-living adjustments [see S. B. 1441]	Referred to House State Government Committee, 10/27/87
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, 11/10/87
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
H. B. 2132 P. N. 2767 (Dombrowski)	Optional retirement system for non-uniformed third class city employees, further providing for membership by a retired nonuniformed employee on the retirement board and authorizing cost-of-living increases at the discretion of the retirement board	Referred to House Urban Affairs Committee, 1/27/88

<b>Bill Number Printer's Number (Sponsor)</b>	<b>Subject</b>	<b>Final Legislative Status</b>
H. B. 2268 P. N. 3010 (Manmiller)	SERS, further providing for creditable non-state service of up to 10 years of service with a redevelopment authority	Referred to House State Government Committee, 3/21/88
H. B. 2413 P. N. 3212 (Pievsky)	PSERS, 1988-89 appropriation for expenses of Board of \$12,640,000	Act 1988-10A, signed by the Governor, 7/6/88
H. B. 2433 P. N. 3508 (Cawley)	Second class A city (Scranton) police and fire retirement system, providing for purchase of credit for nonintervening military service within time fixed by retirement system board	Passed House, 6/20/88; referred to Senate Local Government Committee, 6/27/88
H. B. 2434 P. N. 3509 (Cawley)	Second class A city (Scranton) nonuniformed retirement system, providing for purchase of credit for nonintervening military service within time fixed by the retirement system board	Passed House, 6/20/88; referred to Senate Local Government Committee, 6/27/88
H. B. 2499 P. N. 3369 (Schuler)	SERS, including parole and probation agents of Board of Probation and Parole within definition of correction officer	Referred to House Judiciary Committee, 5/25/88
H. B. 2501 P. N. 3594 (Cowell)	Public School Code of 1949, requiring all school districts to offer group health, hospitalization, and medical service insurance to retirees and dependents	Reported from House Education Committee, 5/29/88; laid on House table, 9/27/88
H. B. 2535 P. N. 3441 (Evans)	SERS, including parole and probation agents of Board of Probation and Parole within the definition of "correction officer" for retirement purposes	Referred to House Judiciary Committee, 6/8/88
H. B. 2568 P. N. 3563 (Maine)	Financially Distressed Municipalities Act, adding nonpayment of budgeted minimum municipal obligation under § 303 or 602 of the Municipal Pension Plan Funding Standard and Recovery Act to the distress determination criteria [see S. B. 136]	Passed House, 6/29/88; referred to Senate Local Government Committee, 7/6/88

Bill Number Printer's Number (Sponsor)	Subject	Final Legislative Status
H. B. 2571 P. N. 3583 (Trello)	Special Ad Hoc Municipal Police and Fire- fighter Postretirement Adjustment Act [see S. B. 941]	Reported from House Local Government Committee, 6/29/88; re-committed to House Appropriations Committee, 9/28/88
H. B. 2575 P. N. 3518 (Kasunic)	SERS, providing for cost-of-living adjust- ments for annuitants at 4.7% of December 31, 1988, annuity [see S. B. 1441]	Referred to House State Government Committee, 6/21/88
H. B. 2578 P. N. 3536 (Kosinski)	SERS, permitting SERS members and annuitants who are public school employees and PSERS members and annuitants to receive credit for certain nonstate service	Referred to House State Government Committee, 6/22/88
H. B. 2593 P. N. 3555 (Pistella)	Pittsburgh Nonuniformed Employees Retirement System, repealing provisions relating to reduction of amount of pension due to social security offset at age 65 for retirees employed after December 31, 1974	Referred to House Urban Affairs Committee, 6/27/88
H. B. 2618 P. N. 3626 (Mayernik)	An act requiring all state, school, and local government retirement systems to pay each annuitant with at least 20 years of credited service a pension equal to the federal poverty level	Referred to House State Government Committee, 7/5/88
H. B. 2620 P. N. 3641 (Mowery)	Volunteer Firemen's Relief Association Act, providing for volunteer firefighters' money purchase deferred benefit plans	Referred to House Local Government Committee, 7/6/88
H. B. 2709 P. N. 3777 (Nahill)	State-Mandated Local Programs Reimburse- ment Law, requiring the Commonwealth to provide full funding to local governments and school districts for state mandated new programs or increased levels of service	Referred to House Appropriations Committee, 10/4/88
H. B. 2717 P. N. 3785 (Livengood)	Borough Code, further providing for group health, hospitalization, and medical and surgical insurance for retirees	Referred to House Local Govern- ment Committee, 10/4/88

**Bill Number**  
**Printer's Number**  
**(Sponsor)**

**Subject**

**Final Legislative Status**

H. B. 2724  
P. N. 3815  
(D. W. Wright)

PSERS, establishing a procedure for  
payment of a court-ordered division of  
marital property involving an annuity or  
court-ordered alimony

Referred to House Judiciary  
Committee, 10/4/88

H. B. 2725  
P. N. 3816  
(D. W. Wright)

SERS, establishing a procedure for  
payment of a court-ordered division of  
marital property involving an annuity or  
court-ordered alimony

Referred to House Judiciary  
Committee, 10/4/88