# 1997

# ANNUAL REPORT

# OF THE

# PUBLIC EMPLOYEE

# RETIREMENT COMMISSION

Public Employee Retirement Commission
Commonwealth of Pennsylvania
March 1998

# PUBLIC EMPLOYEE RETIREMENT COMMISSION

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COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
HARRISBURG
17120

March 1998

To: Governor Ridge
and Members of the Pennsylvania General Assembly

As required by the Public Employee Retirement Commission Act, this annual public report is issued to summarize the Commission's findings, recommendations, and activities for the year 1997.

During 1997, the Commission authorized the attachment of twenty-five actuarial notes to twenty-five bills and four amendments 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 State Employes' Retirement System and the Public School Employes' Retirement System. This report also describes research conducted during 1997 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 Commission and its staff, I am pleased to submit the fifthteenth 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 1997.

Sincerely,

Paul D. Halliwell
Chairman

# INTRODUCTION

The Public Employee Retirement Commission was created in 1981 by the Public Employee Retirement 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 Commission Act, the Commission has two main responsibilities. One is to issue the required actuarial notes for 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 $131 million. The last is to administer the Financially Distressed Municipal Pension System 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 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 twelfth 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 1997.

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# DUTIES AND RESPONSIBILITIES OF THE COMMISSION

# PART I

## PREPARATION OF ACTUARIAL NOTES AND ADVISORY NOTES

### A. STATUTORY PROVISIONS.

The Public Employee Retirement 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.*

## A. STATUTORY PROVISIONS. (CONT'D)

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 1997 ACTIVITY.

During 1997, the Commission authorized the attachment of twenty-five actuarial notes to twenty-five bills and four amendments. In addition, the Commission's staff provided the General Assembly with ten advisory notes.

## C. SYNOPSES OF ADVISORY NOTES.

- House Bill 21, Printer's Number 25. At the request of Representative Lynn B. Herman, Chairman, House Local Government Committee, on March 17, 1997, the Commission staff provided an advisory note on House Bill 21, Printer's Number 25. The bill would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to modify the procedure prescribed in the Act for calculating the amortization contribution component of the actuarial funding requirements for all future years for municipal pension plans in which the ratio of the actuarial value of assets to the actuarial accrued liability exceeds 0.70 by providing for an alternate method for calculating the amortization contribution required under the Act and establishing the resulting alternate amortization contribution as the maximum amortization contribution required in any given year.

- House Bill 88, Printer's Number 96. At the request of Representative Paul I. Clymer, Chairman, House State Government Committee, on March 21, 1997, the Commission staff provided an advisory note on House Bill 88, Printer's Number 96. The bill would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to extend for an additional four years, from July 1, 1997, to July 1, 2001, the termination date of the period during which a member with at least 30 eligibility points may retire at any age and receive an annuity that is not reduced because the member is under superannuation age ("30 and Out").

- House Bill 88, Printer's Number 96, as amended by Amendment 0302. At the request of Representative Paul I. Clymer, Chairman, House State Government Committee, on March 25, 1997, the Commission staff provided an advisory note on House Bill 88, Printer's Number 96, as amended by Amendment 0302. The amended bill would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to extend for an additional three years from July 1, 1997, to July 1, 2000, the termination date of the period during which a member with at least 30 eligibility points may retire at any age and receive an annuity that is not reduced because the member is under superannuation age ("30 and Out").

- House Bill 280, Printer's Number 310. At the request of Representative Lynn B. Herman, Chairman, House Local Government Committee, on February 7, 1997, the Commission staff provided an advisory note on House Bill 280, Printer's Number 310. The bill would amend section 112 of the Pennsylvania Municipal Retirement Law (Act 15 of 1974) retroactive to January 1, 1995, to extend to calendar years 1995, 1996, 1997, 1998, and 1999 the authority to use interest earnings in excess of the regular interest to pay administrative expenses not covered by the $20 a member a year assessments.

- House Bill 595, Printer's Number 660. At the request of Representative Lynn B. Herman, Chairman, House Local Government Committee, on March 17, 1997, the Commission staff provided an advisory note on House Bill 595, Printer's Number 660. The bill would amend the Municipal Police Pension Law (Act 600 of 1955) by requiring each affected municipality to provide an early retirement benefit that would permit a municipal police officer to retire with at least 20 years of service but before reaching the officer's superannuation retirement date and to receive an actuarially reduced annuity reflecting both the officer's years of actual service in relation to the years of service required to reach the officer's superannuation retirement date and the commencement of the pension benefit before the officer's superannuation retirement date.

- Amendment 1708 to House Bill 595, Printer's Number 660. At the request of Representative Michael R. Veon, House Democratic Policy Chairman, on September 10, 1997, the Commission staff provided an advisory note on Amendment 1708 to House Bill 595, Printer's Number 660. The amendment would amend sections 3 and 5 of and add section 5.1 to the Municipal Police Pension Law (Act 600 of 1955) to:

  Reduce the service requirement for retirement eligibility from 25 to not less than 20 years;

Reduce the age 55 (or, if feasible, age 50) requirement for retirement eligibility to no specified age or to age 50 when a minimum age is prescribed; and

Change from a permissive service increment for each completed year of service in excess of 25 years, not to exceed $100 a month, to a mandated service increment, not to exceed $100 a month, computed as the product of the retiring officer's retirement allowance multiplied by 1/40 multiplied by the number of whole years of service in excess of the minimum service until the officer reaches age 65 or retires, paid for, in part, by active members contributing an additional monthly amount, not to exceed $1 a month, equal to one-half percent of their salaries until they reach age 65 or retire.

- <u>Amendment 1780 to House Bill 595, Printer's Number 660.</u> At the request of Representative Michael R. Veon, House Democratic Policy Chairman, on September 4, 1997, the Commission staff provided an advisory note on Amendment 1780 to House Bill 595, Printer's Number 660. The amendment would amend section 5 of the Municipal Police Pension Law (Act 600 of 1955) to require a municipality, in addition to the pension benefits payable under the Act, to pay the premium for health insurance coverage for every member who retires on or after the member's superannuation retirement age, with the type of insurance coverage required to be the same as is in effect on the date of the member's retirement and continuing for the life of the member.

- <u>Amendment 1781 to House Bill 595, Printer's Number 660.</u> At the request of Representative Michael R. Veon, House Democratic Policy Chairman, on August 4, 1997, the Commission staff provided an advisory note on Amendment 1781 to House Bill 595, Printer's Number 660. The amendment would amend section 5 of the Municipal Police Pension Law (Act 600 of 1995) to:

  Reduce the service requirement for retirement eligibility from 25 to 20 years;

  Reduce the age 55 (or, if feasible, age 50) requirement for retirement eligibility to age 50; and

  Change the monthly pension or retirement benefit, excluding length of service increments, from one-half of the monthly average salary during the last 36 to 60 months of employment to one-half of the highest monthly salary during the officer's career.

- <u>Amendment 1782 to House Bill 595, Printer's Number 660.</u> At the request of Representative Michael R. Veon, House Democratic Policy Chairman, on August 5, 1997, the Commission staff provided an advisory note on Amendment 1782 to House Bill 595, Printer's Number 600. The amendment would amend section 5 of the Municipal Police Pension Law (Act 600 of 1955) to:

Repeal the age 55 (or, if feasible, age 50) requirement for retirement eligibility resulting in the only requirement being 25 years of service; and

Change the monthly pension or retirement benefit, excluding length of service increment, from one-half of the monthly average salary during the last 36 to 60 months of employment to one-half of the highest monthly salary during the officer's career.

- House Bill 1282, Printer's Number 1451. At the request of Representative Roy Reinard, Chairman, House Urban Affairs Committee, on July 10, 1997, the Commission staff provided an advisory note on House Bill 1282, Printer's Number 1451. The bill would amend Act 351 of 1965, one of the statutes providing the police officers' pension plan in cities of the second class A (the City of Scranton), by providing that the surviving spouse shall continue to receive a surviving spouse pension even if the surviving spouse remarries.

- House Bill 1411, Printer's Number 1669. At the request of Representative Roy Reinard, Chairman, House Urban Affairs Committee, on July 10, 1997, the Commission staff provided an advisory note on House Bill 1411, Printer's Number 1669. The bill would amend section 1710(b) of the Second Class County Code to permit an Allegheny County employee, who is a probation officer, to retire and receive a full retirement allowance at age 55, or older, with twenty or more years of service.

## D. SYNOPSES OF ACTUARIAL NOTES.

A synopsis of each actuarial note containing a summary of each bill, its actuarial costs, and the disposition follows. These synopses are arranged by Senate and House Bill in numerical order. A subject index to the actuarial notes is provided in Appendix E.

**Bill ID:** Senate Bill 114, Printer's Number 111

**System:** Volunteer Firefighters' Relief Associations

**Subject:** Establishment of Money Purchase Deferred Benefit Plans for Volunteer Firefighters

## SYNOPSIS

Senate Bill 114, Printer's Number 111, would amend the Volunteer Firefighters' Relief Association Act to authorize volunteer firefighters' relief associations to establish a program to provide money purchase deferred benefits (compensation) to volunteer firefighters paid for, at least in part, by money allocated by the Commonwealth from the Foreign Fire Insurance Premium Tax.

## DISCUSSION

The primary purposes of volunteer firefighters' relief associations are: to provide financial assistance to ameliorate the conditions of volunteer firefighters who have been injured or killed in the fire service, to reduce the frequency and severity of such injuries and deaths by providing safeguards for volunteer firefighters, and to provide insurance against legal liabilities of volunteer firefighters for losses and expenses from claims arising out of the performance of fire service duties. For these reasons, the associations are regarded as charitable corporations for all purposes including the right to establish exemption from the operation of certain taxes.

The bill would authorize volunteer firefighters' relief associations to establish a program to provide deferred benefits to volunteer firefighters. Under the program, a relief association, usually using the administrative services of a qualified insurance company, bank, or employee benefits administrator, would establish an account for each eligible volunteer firefighter. The relief association would make a discretional contribution each year to the account for each firefighter who maintained eligibility through a defined level of participation in fire company activities. A firefighter's eligibility for the annual contribution would be based on a system of points given for various firefighting, training, and administrative activities associated with the volunteer fire service. A volunteer firefighter would be eligible to begin receiving benefits from the account upon leaving the volunteer fire service and reaching age 55 or a later minimum age specified by the relief association. The amount payable would be dependent on the amount of money accumulated in the account, with interest, during the years of active volunteer fire service. Benefits would be payable either in lump sum or in periodic payments, depending on the options for payment specified in the document governing the plan. Members would be 100 percent vested in the value of their accounts from the time the accounts are established.

Money to provide for the annual contributions to the deferred benefit accounts would come from Commonwealth allocations received each year by relief associations from the tax on premiums for fire insurance sold in Pennsylvania by out-of-state ("foreign") insurance companies. The bill authorizes a relief association to use up to one-half of the allocation received in any year for funding the deferred benefit plan. Where relief associations already have accumulated cash assets, an equal contribution may be made from the cash assets on hand. Each year the relief association would determine the total amount of money to be contributed to the deferred benefit accounts and would allocate that amount among the accounts of eligible members. During the first ten years that the deferred benefit plan is in effect, the formula for allocating the annual contribution to member accounts may, at the option of the relief association, provide for weighted allocations to the accounts of members with past service. After the first ten years, equal contributions are allocated to each eligible member's account.

Since the funding committed to the program is determined each year based on available resources, no multi-year obligation is undertaken. This "money purchase" plan design avoids the potential that future liabilities for either the cost of funding promised benefits or the cost of making contributions at promised levels will exceed the revenue available to volunteer firefighters' relief associations. The absence of a defined benefit assures that there will be no unfunded liabilities in the future that could become the obligation of municipal governments or the Commonwealth. In addition, by limiting the portion of the annual foreign fire insurance premium tax allocation that may be spent for the purpose of the deferred benefit plans, the bill assures that some of the relief association's financial resources remain available for the current purposes of providing casualty benefit coverage, health safeguards, and safety devices for volunteer firefighters.

Because of the uncomplicated administrative operations of the proposed money purchase deferred benefit, there is no need for additional reporting to the Auditor General or the municipality. Because Commonwealth money is used, the plans will be subject to routine audits by the Auditor General. The proposal, however, does require that a detailed annual statement be prepared and given to each member.

## SUMMARY OF ACTUARIAL COST IMPACT

Since the funding commitment to the money purchase deferred benefits plan is determined each year based on available resources, no long-term fiscal analysis is possible. The maximum expenditure in 1995 without consideration of the optional match from previously accumulated cash assets, would have been $21,207,041 or one-half of the total Commonwealth allocation for Foreign Fire Insurance Premium Tax to the volunteer firefighters' relief associations.

## POLICY CONSIDERATIONS

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

Single Year Financial Obligations. **(+)** Since the funding commitment to the proposed program is determined and fully funded each year, no multi-year obligation is undertaken. Multi-year funding obligations may not be appropriate for volunteer firefighters' relief associations that have both variable revenues and unpredictable levels of expenditures required to maintain existing programs. The proposed program's plan design accommodates the need for discretional annual funding by permitting an individual volunteer firefighters' relief association to determine the resources available to finance its deferred benefit plan each year and setting the liability to the deferred benefit plan equal to the annual funding determinations.

Simplified Reporting Requirements. **(+)** The nature of the program's plan design eliminates the need for any actuarial reporting requirements and the associated costs, although the use of Commonwealth money will be subject to routine audits by the Auditor General.

Prior Service Recognition. **(+)** Unlike the typical defined contribution plan, the program established by the bill provides for weighted allocations in recognition of past service, if the relief association wishes to recognize prior service.

Administrative Simplicity. **(+)** The simplicity of the proposed program's administration and its general understandability make it particularly appropriate for volunteer firefighters' relief associations.

Targeted Use of Available Money. **(+)** Because of the easier and less costly administration associated with the program established by the bill, almost all of the available funding is used to provide the actual retirement benefits to volunteer firefighters.

Inequity in Benefits and Coverage. **(-)** The wide variation in retirement benefits permitted under the bill is likely to produce inequitable benefit levels among volunteer fire companies in close proximity. Because membership in the volunteer fire company with the highest retirement benefits will be elected more often, the inequity in retirement benefits authorized by the bill may diminish interest in membership in some volunteer fire companies and exacerbate recruitment and retention efforts. The bill does not address situations where one volunteer firefighters' relief association serves the members of multiple volunteer fire companies and one or more of the volunteer fire companies elect not to participate in the retirement plan.

Multiplicity of Plans. **(-)** By authorizing each volunteer firefighters' relief association to establish a pension plan, the bill creates the potential for an additional 2,000 public pension plans in Pennsylvania. The further decentralization of public pension plans in the Commonwealth may be questionable from a public pension policy standpoint.

## COMMISSION RECOMMENDATION

On February 26, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above and expressing its view that the bill is the most effective means to respond to requests for retirement benefits for volunteer firefighters.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

Senate Bill 114, Printer's Number 111, was re-referred to the Senate Rules and Executive Nominations Committee on June 17, 1997.

**Bill ID:** Senate Bill 284, Printer's Number 283

**System:** Financially Distressed Municipal Public Employees' Retirement Systems Receiving Supplemental State Assistance

**Subject:** Correction of Problem in Allocation Formula for Supplemental State Assistance

## SYNOPSIS

Senate Bill 284, Printer's Number 283, would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to correct a problem in the allocation formula for Supplemental State Assistance (SSA) that is provided to financially distressed municipal public employee systems under the Act by requiring that allocations be based on what the municipal contribution to its pension trust fund should have been rather than on what the municipal contribution actually was.

## DISCUSSION

The SSA program, which is funded through the General Fund of the Commonwealth, was established by the Act as a temporary means to accelerate asset accumulation in financially distressed municipal retirement systems and thereby lessen the possibility of default. As anticipated, the total SSA allocation has decreased from $26 million in 1988 to $2 million in 1996. The allocation formula of the program provides allocations based on the difference between the actual level of municipal contributions and the full funding requirements of the Act. The SSA program will terminate the earlier of 2003 or the year in which there are no eligible recipients.

In administering the Act, the staff of the Public Employee Retirement Commission has become aware of a problem in the allocation of SSA. The program's allocations to individual municipalities, in some instances, are now very small or even zero. In the early years of the program when the allocations to individual municipalities were large, the allocation formula had the potential to be self-adjusting. In instances in which a municipality was delinquent in making its required contributions, the resulting low level of contributions produced an artificially higher SSA allocation for that municipality. In the following year, however, the high level of contributions that resulted from the payment of both the current and the delinquent contributions correspondingly produced an artificially lower SSA allocation for that same municipality.

Now that the SSA allocations have become relatively small, situations may occur in which the current year's allocation to a municipality is not sufficient to offset an artificially higher allocation that it received in the prior year. In other words, municipalities failing to satisfy the funding requirements of the Act may receive SSA allocations in excess of what they are entitled to receive because the self-adjusting mechanism in the SSA formula is no longer operable.

Because municipalities may now receive SSA allocations either when they are entitled to none or that are higher than appropriate, the situation provides the potential for manipulation by participants in the SSA program in order to receive higher allocations than they would have if they had properly funded their obligations. Because administrative remedies are not available to address the problem, this corrective legislation is necessary.

## SUMMARY OF ACTUARIAL COST IMPACT

The correction of the allocation formula for Supplemental State Assistance contained in the bill will have no actuarial cost impact upon municipal employees' retirement systems and will remove an incentive to intentionally underfund them.

## POLICY CONSIDERATIONS

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

> Proper Allocation of SSA. **(+)** The correction of the allocation formula assures that municipalities will not receive more Supplemental State Assistance than they are entitled to receive.
>
> Elimination of Incentive for Underfunding. **(+)** The correction of the allocation formula removes an inadvertent statutory incentive to intentionally underfund municipal retirement systems in order to increase the amount of Supplemental State Assistance.

## COMMISSION RECOMMENDATION

On February 26, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

As Printer's Number 1521, Senate Bill 284, passed the House of Representatives (193-0) on December 10, 1997.

**Bill ID:** Senate Bill 704, Printer's Number 742
and House Bill 789, Printer's Number 889

**System:** Public School Employes' Retirement System

**Subject:** Purchase of Service Credit for Nonschool Work Experience Required
for Permanent Certification as a Vocational Teacher

## SYNOPSIS

Senate Bill 704, Printer's Number 742, and House Bill 789, Printer's Number 889, both would amend the Public School Employees' Retirement Code to permit an active member or an active multiple service member to purchase up to three years of service credit for nonschool service at the rate of one year for every two years of previous work experience used to obtain certification as a vocational teacher under a nonbaccalaureate program, with the purchase beginning within three years of eligibility, being the increase in the present value calculated on the basis of the average salary received during the first three years of school service after the work experience, and not withdrawable under Option 4.

## DISCUSSION

Professional employees certified to serve in the schools of the Commonwealth usually have earned a baccalaureate degree in an appropriate field. Candidates for certification must pass tests in basic skills, general knowledge, professional knowledge, and knowledge of the subject matter(s) in which they seek certification.

There is no work experience required for a Vocational Instructional II Certificate, a permanent certificate. One of the requirements to obtain a Vocational Instructional II Certificate, however, is three years of satisfactory teaching on a Vocational Instructional I Certificate, a temporary certificate. The requirements to obtain a Vocational Instructional I Certificate in one of the about 111 vocational instruction programs vary. In the absence of an appropriate degree, an alternative certification process is available in some vocational instruction programs and is the only process for certification in some other instruction programs.

The Commonwealth's defined benefit pension plans have retirement benefits based on a predetermined formula that is a function of the final average salary and years of credited service. Eligibility requirements for receiving full benefits under the plans are based on the attainment of a specified age and the crediting of a specified number of years of service. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement as well as other benefits such as vesting, disability retirement, and death benefits. Public employee defined benefit pension plan provisions that permit members to receive credit for additional years of service are of value to members because they enhance the retirement benefit or accelerate retirement eligibility or both.

Under the Public School Employees' Retirement Code, members may retire at age 60 with 30 years of service credit, age 62 with one year of service credit, or at any age with 35 years of service credit. The pension is the product of two percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary.

## DISCUSSION (CONT'D)

Active members of the Public School Employe's Retirement System (PSERS) currently are able to purchase credit for the following types of nonschool service: approved leaves of absence without pay; intervening and nonintervening military service; service in public education in another state or with the federal government, including service in a community college under the Community College Act; service with a county school board where administrative duties or the agency was transferred to some other governmental entity with PSERS coverage; service as a county nurse; service for time spent on a mandated maternity leave prior to 1973; and service in the Cadet Nurse Corps during World War II.

Of the 213,906 active members of PSERS, 7,917 are vocational administrators, supervisors, or classroom teachers. About 1,000 of these individuals would be eligible under the purchase of service credit authorization proposed in the bills (20 who are high school graduates, 745 who have less than a bachelor's degree, and 235 who have a bachelor's degree or higher). In addition, about 50 individuals are so certified every year. The purchase would be limited to not more than three years of service credit. The effect of the additional service credit would be to add an amount equal to up to six percent of the final average salary to the amount of the basic benefit prior to modification. The purchase payment amount required for the service credit would be the increase in the actuarial present value at the time of purchase attributable to the additional service calculated on the basis of the average annual compensation for the first three years of credited public school service subsequent to the purchasable nonschool work experience. Because the payment amount would be less than the actuarial value of the additional service credit, a residual unfunded actuarial accrued liability would be created, and it would by funded by the school district or other educational employer and the Commonwealth over a 20 year period with payments increasing five percent a year.

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission estimated that 50 percent to 75 percent of those eligible actually would purchase the service credit and would purchase one year of service credit.

| | Range of Increase |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $ 2,700,000 – $ 4,000,000 |

| | Range of Employer Costs | | | Range As a % of Payroll |
|---|---|---|---|---|
| Increase in Employer Annual Costs[1] | | | | |
| Normal Cost | $ 0 | – | $ 0 | 0.0% – 0.0% |
| Amortization Payment for Current Employees[2] | 190,000 | – | 280,000 | 0.4% – 0.6% |
| Total Increase in Employer Costs (First year only) | $190,000 | – | $280,000 | 0.4% – 0.6% |

| | Range of Payments |
|---|---|
| Total Amortization Payments for Current Employees[2] | $6,282,531 – $9,258,467 |

1) Paid in part by the Commonwealth and in part by the school district or other educational employer.

2) First year only. Amortization payments increase five percent a year for 20 years. The consulting actuary of the Commission indicates that, in addition, further cost increases may be expected in future years as new employees are hired and become eligible to make the service purchase.

## POLICY CONSIDERATIONS

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

Conformance with and Departure from Policy Guidelines. In March of 1997, the Public Employee Retirement Commission published *Service Purchase Authorizations for Pennsylvania Public Employee Retirement Systems*, a report recommending policy guidelines for authorizing, funding, and structuring purchases of service credit. The bills conform with some and do not conform with other recommendations in the report concerning authorizing, funding, and structuring purchases of credit for service.

*Inequity of Certain Service Credit Purchase Authorizations.* (-) The Commission recommended that service credit purchase authorizations not be employed as a means of recognizing the past education, training, or work experience of public employees. Recognition of these activities represents a departure from the conventionally recognized role of public employee retirement system, which is to provide an employment-related benefit to employees devoting a substantial career to public service. The use of service purchase authorizations on an ad hoc basis to recognize past education, training, or experience requires policy makers to make arbitrary determinations concerning what types of past service should be purchasable and results in inequitable treatment of public employees.

*Appropriateness of Service Credit for Vocational Teacher Work Experience.* **(-)** The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. Retirement system coverage or noncoverage is part of the salary and benefits package provided to employees concurrent with employment. The proposed service credit purchase authorization would represent permission for public school employees to purchase service credit for past service with an employer in private industry.

*Determination of Purchase Payments.* **(-)** The bills do not use the specific method for determining payment amounts that is recommended in the Commission's report in instances where payment of both member and employer cost is warranted.

*Adequacy of Purchase Payments.* **(-)** The funding method in the proposals represents a partial payment by the member that would be less than the full actuarial cost of the increased benefit. A purchase transaction that favors the member at the expense of the retirement system is appropriate only in the limited cases where the service credit purchase is necessary for the purpose of equity.

*Purchase Payments Precluded from Withdrawal.* **(+)** In cases where the service credit purchase amount required to be paid by an employee includes amounts representative of both employer and employee cost, the Commission recommended that the portion of the payment representing employer cost be precluded from withdrawal by a member upon retirement or upon leaving employment with entitlement to a vested deferred benefit. The bills contain such a provision.

*Equity.* **(-)** Under the bills, only vocational-technical education personnel who actually used their previous nonschool work experience to obtain certification may purchase service credit for the experience. Other vocational-technical personnel, who have both a baccalaureate or higher degree and have the same type of nonschool work experience, would not be permitted to purchase service credit for the experience. There is no apparent public pension policy rationale for distinguishing between two types of vocational teachers in authorizing service credit purchases for nonschool work experience.

## COMMISSION RECOMMENDATION

On May 7, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

Senate Bill 704, Printer's Number 742, was referred to the Senate Finance Committee on March 13, 1997, and House Bill 789, Printer's Number 889, was referred to the House Education Committee on March 12, 1997.

**Bill ID:** Amendment 2603 to
Senate Bill 991, Printer's Number 1114

**System:** State Employes' Retirement System

**Subject:** Granting 5-Year Vesting to Certain Employees
of the Penn State Hershey Medical Center

## SYNOPSIS

Amendment 2603 to Senate Bill 991, Printer's Number 1114, would amend the State Employees' Retirement Code to grant 5-year vesting instead of the usual 10-year vesting to employees of the Penn State Hershey Medical Center who will be terminated from State service on June 30, 1997, by the transfer of their jobs to the Penn State Geisinger Health System but withhold eligibility for pre-superannuation death benefits and early retirement benefits.

## DISCUSSION

The State Employes' Retirement System (SERS) is a cost-sharing multiple-employer retirement system established by the Commonwealth to provide pension benefits for employees of the Commonwealth and certain independent agencies. At December 31, 1995, there were 109 participating state and other employer organizations. Membership in SERS is mandatory for most state employees. Certain other employees are not required but are given the option to participate. At December 31, 1995, SERS membership consisted of 84,928 retirees, beneficiaries, and terminated employees entitled to benefits and 112,637 active members.

Under the State Employees Retirement Code (Code), active members with less than ten years of service are vested only in their contributions and the accrued interest on those contributions. After ten years of service, active members also become vested in the employer funded component of their retirement benefits. Vested employees with ten or more years of service may terminate service and either vest their retirement benefits or retire and receive early retirement benefits.

The vesting provided in the Code is called cliff vesting because the member is not vested in any portion of the employer funded portion of the retirement benefit until the prescribed service requirement is satisfied. As soon as the prescribed service requirement is satisfied, the member is fully (100%) vested in the employer funded portion of the accrued retirement benefit. When cliff vesting is utilized in private retirement plans, the Employee Retirement Income and Security Act requires that the cliff vesting period be five years.

The amendment would provide special full vesting to state employees of the Pennsylvania State University who have five, but less than ten, years of service and who terminate service on June 30, 1997, because of the transfer or elimination of the position or duties to a private sector controlled organization of the Penn State Geisinger Health System. SERS estimates indicate that 300 members would be eligible for the special full vesting. To achieve and maintain eligibility for the special full vesting, (1) the member must be certified as eligible by Pennsylvania State University, (2) the member is precluded from returning to State service in any other capacity, (3) the member must file an application to vest on or before September 30, 1997, and (4) the member must elect not to withdraw the member's contributions and accrued interest and to defer the receipt of monthly retirement benefits until superannuation age. The amendment would also preclude the payment of pre-superannuation death benefits to the members utilizing the special full vesting provisions.

The provision of the special full vesting would increase the cost of SERS because the affected members would be eligible for a vested retirement benefit when they would otherwise be entitled to only the return of their employee contributions with accrued interest. Since SERS benefit provisions are in almost all instances available to all members, the costs of the system are generally shared by all participating employers. The benefit provisions proposed by the amendment would only be available to certain employees of the Pennsylvania State University, and cost sharing would not be appropriate. The amendment provides for the payment of the increased cost directly attributable to the special full vesting to be paid by the Pennsylvania State University, the employer gaining financially from the transaction prompting the need for the benefit provision proposed by the amendment. The amendment makes no provisions for Pennsylvania State University to pay the significant potential costs that may be incurred by SERS for members with ten or more years of service who terminate service and retire early. Those costs have not been determined because they are not related to the provision of the special full vesting.

The amendment provides retirement benefits to a very restricted group of State employees and may be subject to challenge on the basis of equal protection. Given general layoffs or other more targeted layoffs, both in the past and in the future, the rational basis for the special treatment of these particular employees of Pennsylvania State University will have to be made apparent if an equal protection challenge is made by aggrieved parties. In addition to concerns regarding equal protection, the special treatment provided to this restricted group of State employees may also establish a policy precedent in the event that similar situations or targeted layoffs occur in the future.

## SUMMARY OF ACTUARIAL COST IMPACT[1]

The increase in the unfunded actuarial accrued liability resulting from the enactment of the amended bill will be determined by the consulting actuary as part of the first annual valuation made after June 30, 1997, certified by the State Employees' Retirement Board to The Pennsylvania State University, and paid by The Pennsylvania State University in a lump sum to the board within 90 days of the certification.

| | **Amount** |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $600,000 |

| | **Amount** |
|---|---|
| Lump Sum Payment by The Pennsylvania State University | $600,000 |

1) The actuarial cost analysis is limited to the impact of providing the special full vesting proposed in the amendment. Significant potential actuarial costs that are not reflected may be incurred due to increased early retirements anticipated to be taken by Pennsylvania State University employees with ten or more years of service who will terminate State service due to the privatization of Penn State Hershey Medical Center.

## POLICY CONSIDERATIONS

In reviewing the amendment, the Commission identified the following policy considerations:

Appropriate Cost Assessment. **(+)** The amendment provides for the costs to be incurred in the provision of the special full vesting provisions to be paid by the employer benefiting from their implementation.

Inequitable Treatment of Similarly Situated Employees. **(-)** The proposed special full vesting provisions will be available to Penn State employees who will terminate State service with more than five and less than ten years of service. Penn State employees who will terminate State service with less than five years of service will not be eligible under the proposed special full vesting provisions.

Incomplete Disclosure of Potential Costs. **( )** There may be significant costs incurred by SERS due to the privatization of the Penn State Hershey Medical Center that are not related to the proposed special full vesting and therefore not disclosed.

Policy Precedent. **( )** Employees terminating service in instances of future general or targeted layoffs may request that similar special full vesting provisions be made available.

Cost Effective Modification of Standard Vesting Provision. **(+)** By precluding early retirement by the members who elect the special full vesting, the amendment substantially reduces the cost of lowering the vesting service requirement for the affected members being required to terminate State service.

Potential Constitutional Challenge. **( )** Because of the very restricted group of State employees eligible for the proposed pension benefit, the proposed statute may be subject to challenge on the basis of equal protection provisions. If a constitutional challenge is successful, the entire amended bill will be null and void as if never enacted.

## COMMISSION RECOMMENDATION

On June 5, 1997, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

Senate Bill 991, Printer's Number 1114, was laid on the table in the Senate on June 16, 1997.

**Bill ID:** Senate Bill 997, Printer's Number 1146

**System:** State Employes' Retirement System

**Subject:** Purchase of Credit for Nonstate Service as a County Employee

## SYNOPSIS

Senate Bill 997, Printer's Number 1146, would amend sections 5304(c) and 5505 of the State Employees' Retirement Code (Code) to permit an active member or an active multiple service member to purchase service credit in the State Employes' Retirement System (SERS) for previous nonstate service as an employee of a Pennsylvania County, provided that:

> The election is made from July 1, 1998, through July 1, 2000;
>
> The member was a member of or was eligible to join as a member of the county retirement system;
>
> The nonstate service credit purchased does not exceed the lesser of five years or one-half of the member's state service at the time of application for the credit; and
>
> The member's contribution to purchase the credit for nonstate service is determined in the same manner as nonintervening military service under section 5505(b).

## DISCUSSION

The Commonwealth's defined benefit pension plan has a retirement benefit based on a predetermined formula that is a function of the final average salary and years of credited service. Eligibility requirements for receiving full benefits under the plan are based on the attainment of a specified age and the crediting of a specified number of years of service. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Public employee defined benefit pension plan provisions that permit members to receive credit for service with another employer are of value to members because they enhance the retirement benefit and also may accelerate retirement eligibility.

Active members and active multiple service members of SERS currently are able to purchase credit for the following types of nonstate service: approved leaves of absence without pay, intervening and nonintervening military service, service as public educators in another state or with the federal government, service as a temporary federal employee assigned to a Commonwealth agency, service in a community college under the Community College Act, service in the Cadet Nurse Corps during World War II, service with a government agency other than the Commonwealth where employment was terminated because of the transfer by law of the administration or the service or the entire agency to the Commonwealth.

The bill would expand the list of purchasable nonstate service for members who entered state service before July 2, 1997, to include certain service as an employee of a Pennsylvania county subject to certain restrictions. A member could not purchase more nonstate service than one-half of the credited State service that the member has at the time of purchase and, in no event, more than five years. The effect of the additional service credit would be to increase a member's SERS annuity by an amount equal to two percent of the member's final average salary for every year of service credit purchased. (For example, a purchase of five years of service credit would increase the annuity by ten percent of the member's final average salary.)

The bill requires that a SERS member must either have been a member, or have been eligible to join as a member, of a county employees' retirement system in order to purchase service credit for the nonstate service as a county employee. Under the County Pension Law, which covers all counties except Allegheny and Philadelphia, and Article 17 of the Second Class County Code, which covers Allegheny County, almost all county employees and officers must be or are eligible to become members of the county employees' retirement system. Under section 5304 of the Code, a member cannot purchase credit for nonstate service for which the member is entitled to receive, eligible to receive now or in the future, or is receiving retirement benefits under a retirement system administered and wholly or partially paid for by any other governmental agency. In order to be eligible to purchase credit for nonstate service as a county employee under the bill, therefore, a member either already will have surrendered or will have to surrender retirement system rights in the county employees' retirement system in order to purchase credit in SERS for the nonstate service as a county employee. Granting the purchase option to a SERS member who could have been a member of the county employees' retirement system may necessitate a difficult, after-the-fact determination by SERS of whether the individual could have joined the county employees' retirement system.

The bill limits the exercise of the proposed purchase option to the two-year period of July 1, 1998, through July 1, 2000. The bill also proposes to use the section 5505(b) method to compute the member's purchase contribution, which means that, in order to exercise the proposed purchase option, a member will have to have become a member of SERS before July 2, 1997, because the purchase contribution must be based on the member's average annual rate of compensation over the first three years of state service subsequent to the prior county service being purchased. In public employee retirement systems, purchase of service credit options normally are available to any member who joins the system with the permitted nonsystem service regardless of the date of entering the system. The public policy rationale for limiting the purchase option just to individuals who became members prior to July 2, 1997, is not evident.

The bill also limits the amount of purchasable nonstate service as a county employee to the lesser of five years or one-half of the member's state service at the time of application for the credit. Taken together with the July 1, 2000, last day for exercising the option mentioned above, this means that a member with five or more years of otherwise eligible prior county service will need to have become a member of SERS before July 2, 1990, in order to purchase credit for the entire five years. The public pension policy rationale for limiting the purchase of the maximum five years of credit to individuals who become SERS members before July 2, 1990, is not evident.

The amendment would limit the time during which the proposed purchase option could be exercised to the two-year period from July 1, 1998, through July 1, 2000. Limiting the time during which a purchase of service credit option may be exercised in a public employee retirement system is not uncommon and is a prudent provision that reduces the actuarial loss to the system caused by the purchases. The most appropriate means of specifying a time limit for a purchase of non-state service credit is to require that the purchase option be exercised within a period of time after the member first becomes eligible to purchase the service credit. Unless the service for which credit is to be purchased was rendered previously during a finite period of time, the time limit usually is not implemented through specification of a termination date for the purchase option. Specification of a termination date where the type of service to be purchased is ongoing, as proposed in the amendment, serves to restrict the purchasable service to only county service rendered prior to the specified termination date. Although this approach to a time limit for the service credit purchases reduces the costs of the proposal, there is a high probability that increased costs will be incurred through future extensions of the specified termination date because there is no apparent public pension policy rationale for the artificial distinction between prior and future county service.

The bill provides for the purchase of credit for local government service in a Pennsylvania county during a particular period. It does not provide for the purchase of credit for Pennsylvania county service during other time periods or for other local government service in Pennsylvania boroughs, cities, municipal authorities, regional local government entities (for example, councils of governments and regional police departments), towns, or townships. There is no apparent public pension policy rationale for this differentiation in the treatment of Pennsylvania local government service.

Currently, one of the most frequently cited weaknesses of the current structure of government employee retirement systems in Pennsylvania is the absence of statewide provisions for portability of service credits. The Commission identified and reported on this and other weaknesses in its December 1992 *Special Report: Study of the Current Structure of Local Government Retirement Systems and Recommended Establishment of a Statewide Retirement System.* The amendment would provide a one-way, limited form of intergovernmental pension portability to a very small group of public employees. A comprehensive solution to deal with the need for intergovernmental pension portability is contained in Senate Bill 287, Printer's Number 286, which would expand the SERS into a Government Employees' Retirement System providing retirement benefits to all State and local government employees in Pennsylvania.

Under section 5505(b) of the Code, the statutory method for calculating the member contribution to purchase service credit for the prior county service will be to apply the member's basic contribution rate, plus the Commonwealth normal contribution rate for active members at the time of entry of the member into state service to the member's average annual rate of compensation over the first three years of subsequent state service and multiplying the result by the years of service being purchased together with interest at the statutory interest rate of four percent during all periods of subsequent state and school service to the date of purchase. The residual unfunded actuarial accrued liability will be funded by the Commonwealth through amortization payments calculated as a level percentage of payroll increasing five percent a year over a 20-year period.

In addition to the direct actuarial cost to the Commonwealth for the increased SERS benefits under the bill, there may be other retirement benefit costs incurred by the Commonwealth. By purchasing service credit in SERS for nonstate service, a member either may become eligible for other postretirement benefits sooner than otherwise or may achieve eligibility for those benefits when the member could not otherwise do so.

> Under the Code, a member under age 60 must have 35 years of service credit to retire and receive a full pension. The bill, therefore, would permit a 57-year-old member with 30 years of Commonwealth service to purchase five years of service credit for nonstate service as a county employee and immediately retire with a full pension, although the member would not be eligible for full retirement under standard Code provisions.
>
> Under certain current Executive Board actions and collective bargaining agreements, total years of service credit in SERS are used to determine eligibility for some ancillary retirement benefits that are not provided for in the Code. Examples of the ancillary retirement benefits include payment by the Commonwealth to the employee at retirement for a portion of earned,

unused sick leave and full payment by the Commonwealth throughout retirement for the retiree's medical insurance. The amendment, therefore, would permit a 47-year-old member with 20 years of Commonwealth service to purchase five years of service credit for nonstate service as a county employee and immediately terminate service and receive Commonwealth fully paid medical insurance for life.

## SUMMARY OF ACTUARIAL COST IMPACT

The proposed method for calculating the member contributions to purchase the service credit for nonstate service as a county employee will result in the members paying from about 32 percent to about 120 percent of the full actuarial cost of the increased benefit acquired through the purchase of service credit. The age and normal contribution at the time of employment determine the percentage of the cost paid by the members. The following chart provides the estimated percentages of the cost paid by members at various entry ages and normal cost rates.

**Estimated Percentage of Full Actuarial Cost Paid by Member**

| Current Age | Current Service with SERS | Normal Contribution Rate = 3.60% | Normal Contribution Rate = 7.00% | Normal Contribution Rate = 10.73% |
|---|---|---|---|---|
| 30 | 5 | 47% | 65% | 84% |
| 40 | 10 | 66% | 92% | 120% |
| 50 | 20 | 48% | 67% | 88% |
| 60 | 30 | 32% | 45% | 58% |

The consulting actuary of the Commission has estimated the increase in the unfunded actuarial accrued liability due to these possible service purchases based on an average current salary of $35,900, average past salary growth of 6.0 percent, and a Commonwealth normal cost rate of 7.00 percent. The consulting actuary also assumed that, on average, members would purchase 2.5 years of service, the members who purchase service would be those who advance their superannuation age, and that the "30 and Out" retirement provision would be extended.

**Estimated Actuarial Costs to Commonwealth**

| Number of Eligible Members who Purchase Service | Estimated Increase in Unfunded Actuarial Accrued Liability | First Year Amortization Payment | |
|---|---|---|---|
| | | Amount | % of Payroll |
| 300 | $ 2,600,000 | $ 200,000 | 0.00% |
| 1,500 | $13,000,000 | $ 900,000 | 0.02% |
| 3,000 | $25,900,000 | $1,900,000 | 0.05% |

If the contribution provisions were to require payment of the full actuarial cost of the increased benefit obtained by virtue of the purchase, as was done with members who had been temporary federal employees assigned to an air quality control complement of the Department of Environmental Resources, there will be no material actuarial cost to the Commonwealth, although a potential for the other retirement benefit costs to be incurred would remain.

## POLICY CONSIDERATIONS

In reviewing the amendment, the Commission identified the following policy considerations:

Departure from Policy Guidelines. ( ) In March of 1997, the Public Employee Retirement Commission published *Service Purchase Authorizations for Pennsylvania Public Employee Retirement Systems*, a report recommending policy guidelines for authorizing, funding, and structuring service purchases. The bill conforms in part to one of the recommendations and does not conform to other recommendations in the report concerned with authorizing, funding, and structuring service purchases.

*Inequity of Certain Service Purchase Authorizations.* The Commission recommended that service purchase authorizations not be employed as a means of recognizing past education, training, or work experience of public employees based on the public policy determination that the recognition of these activities represents a departure from the conventional role of a public employee retirement system as an employment-related benefit maintained principally in the interest of those devoting a substantial career to service for the public employer. The use of service purchase authorizations on an ad hoc basis to recognize past education, training, or experience requires policy makers to make arbitrary determinations concerning what types of past service should be purchasable and results in inequitable treatment of public employees.

*Appropriateness of Credit for Service with a County Government.* The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The amendment would permit certain SERS members to purchase credit only for prior "nonstate service" as an employee of Pennsylvania county government. SERS members with previous service in other types of public employment in other Pennsylvania local governments could not purchase service credit for that service. For the Commonwealth, the service credit authorization would represent permission to purchase credit for service with another government, a government that enjoyed an actuarial gain when the member terminated service or will enjoy an actuarial gain when the employee surrenders retirement system rights in order to purchase this service credit in SERS. The Commonwealth will suffer an actuarial loss in permitting the purchase unless the amendment is amended to require an employee to pay the full actuarial cost.

*Adequacy of Purchase Payments.* The statutory method for calculating the member contributions to purchase service credit for nonstate service with a Pennsylvania county proposed in the amendment may result in a member paying less than the full actuarial cost of the increased benefit acquired through the service credit purchase. This service credit purchase price will result in an increase in the unfunded actuarial accrued liability of SERS and increased amortization payments by the Commonwealth calculated as a level percentage of payroll increasing five percent a year over a 20-year period. A service purchase transaction that favors a member at the expense of the retirement system is viewed by the Commission as being appropriate only where necessary for the purpose of equity. If the amendment were to be amended to require payment by a member of the full actuarial cost of the increased benefit obtained by virtue of the service credit purchase, there would be no actuarial cost to the Commonwealth.

*Cost Effective Technical Provisions.* For service purchase authorizations of this type, the Commission recommended that employees be required to exercise the purchase option within three years of becoming eligible to do so. The amendment proposes a specific two-year period during which the purchase option may be exercised. Unless the service credit to be purchased was rendered during a previous, finite period of time, the time limit is not usually implemented through specification of a termination date for the purchase option. Specification of a termination date where the type of service for which credit is to be purchased is ongoing, as proposed in the amendment, serves to restrict the purchasable service to only county service rendered prior to the specified termination date. The Commission also recommended that, in cases where the service purchase amount required to be paid by an employee includes amounts representing both employer and employee costs attributable to the purchased service, the portion of the payment representing employer cost be precluded from withdrawal by a member upon retirement. Unless the amendment is amended to exclude the employer portion of the purchase payment from Option 4 lump sum withdrawal, it will enable an eligible member to receive the service credit and have the entire purchase amount returned as part of the Option 4 withdrawal. The absence of a restriction on withdrawal of the purchase amount under Option 4 will increase the cost to SERS associated with the authorization to purchase credit for this nonstate service.

Unequal Treatment of SERS Members. (-) The amendment does not treat all similarly situated SERS members equally. The purchase option is restricted just to prior service in a Pennsylvania county rather than including other public employment in other Pennsylvania local governments.

Precedent for Similar Requests. (-) The amendment would initiate a public pension policy in the Commonwealth by allowing service credits for prior service in a Pennsylvania county to be purchased. The amendment may serve as a precedent for other SERS members with previous public employment service in other local governments in Pennsylvania and elsewhere, to request the option to purchase service credit for that nonstate service. The amendment also may prompt future members of SERS with previous county service to request the option to purchase service credit for that nonstate service.

Documentation Problems. ( ) In the case of a member applying to purchase credit for county service taking place many years prior to the purchase, the member, the county, and SERS may encounter difficulty in demonstrating that the service was rendered.

Exclusion from Early Retirement Provisions. ( ) In order to prevent an increase in the unfunded actuarial accrued liability of SERS caused by the use of the service credit purchased under this amendment to qualify for an early retirement program, the General Assembly may wish to add an additional restriction to proposed section 5304(c)(9) prohibiting the use of the service credit purchased under this amendment to qualify for any type of retirement except superannuation, disability, and nonsuperannuation.

## COMMISSION RECOMMENDATION

On October 1, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

Senate Bill 997, Printer's Number 1146, was referred to the Senate Finance Committee on June 9, 1997.

**Bill ID:** House Bill 21, Printer's Number 25

**Systems:** All Municipal Retirement Systems

**Subject:** Modification of Procedure for Calculating Amortization Payments

## SYNOPSIS

House Bill 21, Printer's Number 25, would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to modify the procedure prescribed in the Act for calculating the amortization contribution component of the actuarial funding requirements for all future years for municipal pension plans in which the ratio of the actuarial value of assets to the actuarial accrued liability exceeds 0.70 by providing for a modified method for calculating the amortization contribution required under the Act and establishing the resulting modified amortization contribution as the maximum amortization contribution required in any given year.

## DISCUSSION

The modified procedure proposed in the bill for determining the amortization contribution required under the funding standard of the Act requires that the maximum amortization contribution be determined in each actuarial valuation as the amount that would amortize the aggregate unfunded liabilities of the pension plan over a period of ten years on a level dollar basis. If enacted as law, the modified procedure will serve to reduce the amortization contributions that otherwise would be required in instances where the standard procedure involves unfunded liability bases that are approaching their payoff dates. The modified procedure will result in the re-amortization of the residual portion of unfunded liability bases that were scheduled to be paid off sooner than the end of the ten-year period initiated under the modified procedure. Therefore, in instances where this re-amortization occurs, there will be a deferral in funding the pension plan's unfunded liabilities.

The modified procedure proposed in the bill would apply only to relatively well funded plans, where the actuarial value of assets exceeds 70 percent of the actuarial liabilities. About 80 percent of the over 2,800 municipal pension plans have fund ratios at or above 70 percent. In these well funded plans, the funding deferral that may result from application of the modified procedure may be considered appropriate from a fiscal management perspective. By implementing a rolling, short amortization period as a mechanism to establish the maximum required amortization contribution, the modified procedure will serve to moderate what would otherwise be wide fluctuations in municipal funding requirements characterized by very high contributions one year and very low contributions the next. These fluctuations result when the final amortization payment associated with a significant unfunded liability base is made and the following year's amortization payment for that unfunded liability base is zero.

Utilization of rolling amortization periods is an accepted actuarial funding approach to moderate fluctuations in annual funding requirements. The rolling amortization period specified in the modified procedure established by the bill is equal to the shortest amortization period prescribed by the standard procedure. (The standard procedure under the funding standard of the Act specifies a ten year amortization period for unfunded actuarial accrued liabilities attributable to postretirement adjustments.)

As drafted, the modified procedure would continue to be used in every year after the year in which the funding ratio first exceeded 70 percent. If the fund ratio were to fall significantly below 70 percent, the continued application of the modified procedure would still be authorized. The modified procedure should be applicable only in years in which the fund ratio exceeds 70 percent, and in all other years the current statutorily prescribed procedure should continue to be applicable. Draft wording for an amendment to restrict utilization of the modified procedure to the years in which the prerequisite fund ratio is maintained is attached.

Application of the modified procedure could result in a reduction the municipality's required pension fund contributions in the near term because of the funding deferral inherent in initiating utilization of a rolling amortization period. As discussed above, application of the modified procedure will have the effect of leveling a municipality's pension fund contributions over time. With a ten-year rolling amortization period, the overall impact on the funding provided to a municipality's pension trust funds will not be detrimental from an actuarial perspective if the bill is amended to require use of the modified calculation only in years in which the funding ratio is over 70 percent.

As the consulting actuary of the Commission points out, if it is intended that the modified procedure supersede all other amortization provisions in section 202(b)(4), the amendment proposed in the bill might be better placed in the section than where it is currently proposed to be placed. Draft wording for an amendment to make this relocation is attached.

The proposal should be clarified to make it clear that the modified procedure only applies to actuarial exhibits of additional funding costs associated with the amortization of any unfunded actuarial accrued liability prepared for plan years beginning after the effective date of the bill. Draft wording for an amendment to make this clarification is attached.

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission indicates that, while the bill may result in lower levels of funding for pension plans where the ratio of the actuarial value of assets to the actuarial accrued liability exceeds 70 percent, he does not view the proposed change as being detrimental from an actuarial funding perspective.

## POLICY CONSIDERATIONS

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

> Accepted Actuarial Procedure. ( ) Utilization of rolling amortization periods is an accepted actuarial funding approach to moderate fluctuations in annual funding requirements.
>
> Remedial Amendment Needed. (-) The bill should be amended to permit the modified calculation only in years in which the funding ratio is over 70 percent, to clarify that proposal only applies to actuarial exhibits prepared after the effective date of the bill, and to relocate the proposal in the section. Suggested wording for such an amendment is attached.

## COMMISSION RECOMMENDATION

On April 9, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

As Printer's Number 2521, House Bill 21 was signed into law by the Governor as Act 61 of 1997 on December 19, 1997.

**Bill ID:** House Bill 40, Printer's Number 50

**System:** State Employes' Retirement System

**Subject:** Improved Benefit for Philadelphia
Municipal Court Bail Commissioners

## SYNOPSIS

House Bill 40, Printer's Number 50, would amend the State Employees' Retirement Code to permit active members who are bail commissioners of the Philadelphia Municipal Court to elect for their future service as bail commissioners to be Class E-2 Members with a class of service multiplier of 1.5 rather than being Class A Members with a class of service multiplier of 1.

## DISCUSSION

The State Employes' Retirement System (SERS) is a cost-sharing multiple-employer retirement system established by the Commonwealth to provide pension benefits for employees of the Commonwealth and certain independent agencies. At December 31, 1995, there were 109 participating state and other organizations. Membership is SERS is mandatory for most state employees. Certain other employees are not required but are given the option to participate. At December 31, 1995, SERS membership consisted of 84,928 retirees, beneficiaries, and terminated employees entitled to benefits and 112,637 active members.

Before March 1, 1974, there were a number of classes of membership in SERS each of which had its own class of service multiplier. As part of the Commonwealth's pension reform efforts of the early 1970s, which also included the adoption of Act 293 of 1972 and a new Public School Employees' Retirement Code on October 2, 1975, on March 1, 1974, a new State Employees' Retirement Code was adopted that, among other things, placed all individuals joining SERS after February 28, 1974, in Class A, for which the class of service multiplier is one. One of the reasons for this change was to insure that the SERS would continue to be treated as a qualified pension plan under section 401(a) of the Internal Revenue Code by removing a source of possible discrimination.

The class of service multiplier has an effect both on the calculation of the regular member contributions and on the member's annuity. Under section 5102 of the State Employee's Retirement Code, the regular member contribution is the basic contribution rate of five percent of payroll multiplied by the class of service multiplier. In the case of bail commissioners under the bill, that would mean that their regular member contribution would increase from 5.0 percent of payroll to 7.5 percent of payroll upon election of the benefit. Under section 5702 of the Code, the maximum single life annuity of a member is the product of two percent multiplied by the member's years of credited service multiplied by the member's final average salary multiplied by the member's class of service multiplier. In the case of bail commissioners under the bill, that would mean a maximum single life annuity calculated as the product of two percent multiplied by years of service as a bail commissioner multiplied by $54,352 multiplied by 1.5, to which would be added any annuity for service in another class. For example, service as a Class A Member before electing Class E-2 Membership would be calculated as the product of two percent multiplied by years of Class A service multiplied by the final average salary multiplied by 1.0 and added to the Class E-2 maximum single life annuity to calculate the member's maximum single life annuity.

Individuals who were members of another class of membership before March 1, 1974, and have remained continuously in the same job category continue to be credited in the special membership class until they move into a different job category or leave Commonwealth employment. However, regardless of their dates of employment, all justices and judges are Class E-1 Members and all district justices are Class E-2 Members because the Supreme Court of Pennsylvania has ruled that within the Commonwealth's unified judicial system all members "of a single level/court performing similar functions and exercising similar authority [must] be paid at the *same rate of compensation.*" *Klein v. State Employees' Retirement System*, 521 Pa. 330, 555 A.2d 1216, 1221 (1989).

Justices, judges, and district justices all are judicial offices that existed on March 1, 1975. Bail commissioners in the Philadelphia Municipal Court did not exist on that date. In 1984, section 1123(a)(5) of the Judicial Code was amended to permit the judges of the Philadelphia Municipal Court to appoint for four-year terms up to six bail commissioners who become employees of the Commonwealth. The 1984 statutory provisions providing for the bail commissioners speak of their receiving "an annual salary equal to the salary of an associate judge of the Traffic Court of Philadelphia." The statute does not speak of "salary and emoluments" nor does it speak of "compensation." The State Employees Retirement Code has been amended about eleven times since 1984, but in none of these amendments has section 5306, Classes of service, been amended. The State Employes' Retirement System, therefore, has classified the bail commissioners in Class A because of the 1974 statutory requirement in section 5306 that a Commonwealth employee "who becomes a member of the system subsequent to the effective date of [the Code] shall be classified as a Class A member . . . ."

The duties of the bail commissioners as specified in section 1123(a)(5) of the Judicial Code are similar to those of district justices as specified in section 1414(a)(4) of the Judicial Code. If, therefore, the General Assembly intends bail commissioners to receive salary and emoluments, including pension benefits, equal to those of some existing class of judicial officer, the bill is the best method to accomplish this, and classification as Class E-2 Members would appear to be appropriate. If, however, the General Assembly intends that, after 1974, all newly employed executive and legislative employees and all newly created judicial officers shall be classified as Class A Members, the bill would be a departure from the legislative intent.

## SUMMARY OF ACTUARIAL COST IMPACT

| | **Amount** |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $ 75,000 |

| | **Amount Range** | **Range as a % of Affected Payroll** |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Net Amortization Payment[1] | $7,000 - $8,000 | 4.3% – 4.9% |
| Total Increase in Employer Annual Costs[1] | $7,000 - $8,000 | 4.3% – 4.9% |

| | **Amount Range** |
|---|---|
| Total Amortization Payments | $ 231,461 – $ 264,527 |

1) First year only. Amortization payments increase five percent a year for 20 years.

## POLICY CONSIDERATIONS

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

Legislative Intent. ( ) Under the State Employees' Retirement Code, since 1974, it has been clear that the legislative intent of the General Assembly was that all individuals newly employed by the executive, legislative, or judicial branch be classified as Class A Members. If, in light of the court decision placing all judicial offices existing in 1974 in Class E-1 or E-2 Membership regardless of date of employment or election, the General Assembly wishes to make bail commissioners similar to district justices in terms of pension benefits, the bill is an appropriate way to do this. If, however, the General Assembly wishes to retain its 1974 position, the bill would represent a departure from legislative intent.

Optional Prospective Application. ( ) Under the bill, bail commissioners would be permitted, but not required, to elect Class E-2 Membership and then only on a prospective basis.

## COMMISSION RECOMMENDATION

On May 7, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 40, Printer's Number 50, was referred to the House State Government Committee on January 28, 1997.

**Bill ID:** House Bill 42, Printer's Number 52

**System:** Volunteer Firefighters' Relief Associations

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

## SYNOPSIS

House Bill 42, Printer's Number 52, would amend the Volunteer Firefighters' Relief Association Act to authorize volunteer firefighters' relief associations to establish, maintain, and fund defined benefit retirement plans and defined contribution retirement plans.

## DISCUSSION

The primary purposes of volunteer firefighters' relief associations are: to provide financial assistance to ameliorate the conditions of volunteer firefighters who have been injured or killed in the fire service, to reduce the frequency and severity of such injuries and deaths by providing safeguards for volunteer firefighters, and to provide insurance against legal liabilities of volunteer firefighters for losses and expenses from claims arising out of the performance of fire service duties. For these reasons, the associations are regarded as charitable corporations for all purposes including the right to establish exemption from the operation of certain taxes.

The bill would authorize volunteer firefighters' relief associations to establish, maintain, and fund defined benefit retirement plans and defined contribution retirement plans, subject to the following benefit or contribution limits:

> <u>Maximum Benefit for a Defined Benefit Plan</u>—$20 per month for each year of volunteer firefighting service;
>
> <u>Maximum Contribution for a Defined Contribution Plan</u>—$2,000 annually per eligible volunteer firefighter.

Other features specified for the retirement benefit plans include:

> A five-year vesting requirement;
>
> Granting of up to ten years of prior service at the option of the relief association after one additional year of volunteer fire service;
>
> A minimum retirement age of 55; and
>
> The provision of death or disability benefits under the retirement plan at the option of the relief association.

By authorizing each volunteer firefighters' relief association to establish a retirement plan, the bill creates the potential for an additional 2,000 public employee pension plans in Pennsylvania. Rather than having about one-fourth of all public employee retirement systems in the country, this proliferation of retirement plans would result in Pennsylvania having approximately 40 percent of them. The provision of this benefit on a decentralized basis using multiple individual retirement plans is administratively inefficient and continues the practice of highly uncoordinated public retirement policy in the Commonwealth.

Money to provide for the annual contributions to the retirement plans would come from the annual Commonwealth allocations made to relief associations from the tax on premiums for fire insurance sold in Pennsylvania by out-of-state ("foreign") insurance companies. The tax is levied under the Tax Reform Act of 1971 and the allocations are made under Chapter 7 of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984). The bill authorizes a relief association to use up to one-half of their allocation received in any year for funding the retirement plan. As a pre-condition to the establishment of a volunteer firefighters' retirement plan, the bill requires that minimum insurance coverage of $30,000 for accidental deaths and $100 in weekly disability income be provided.

The bill requires that actuarial valuation reports be filed every three years with the Department of the Auditor General. The actuarial valuation reports are to be prepared by a "certified actuary," but the bill does not define the term "certified actuary." The bill specifies funding requirements for defined benefit retirement plans based on the actuarial valuation reports, and it indicates that the financial requirements of defined contribution plans will be determined by the plan document. For defined contribution plans, the bill also indicates that the procedures for determining the financial requirements may be specified by the Department of the Auditor General, although such a function may be in conflict with the Department's audit responsibilities.

The bill sets forth a procedure for determining what constitutes a "year of fire service" to be credited under a retirement benefit plan, which will be administered by the individual volunteer fire companies.

The bill authorizes a volunteer firefighters' relief association to establish a defined benefit retirement plan with the benefit payable in the form of a monthly annuity for life or a lump sum. The method of determining the lump sum benefit is not specified in the bill. A lump sum retirement benefit is very unusual in public pension plans due to policy and funding considerations. A lump sum benefit provision will increase needed contributions because there will be no investment earnings earned after retirement to help pay the retirement benefit. In a small retirement system, particularly in its earlier years, when several members retire and take a lump sum benefit in the same year, the resulting financial impact will be significant and may result in a large increase in required contributions.

The administration of a defined benefit retirement plan is a very complex undertaking that involves the risk of adverse mortality exposure and regular actuarial analysis. For this reason, the Commonwealth established extensive technical guidelines for the operation of defined benefit retirement plans operated by local governments. The bill does not provide for similar guidelines for the proposed defined benefit retirement plans to be operated by volunteer firefighters' relief associations. For example, providing defined benefits requires actuarial calculations by a consulting actuary using an actuarial cost method and actuarial assumptions on mortality, withdrawal, disablement, interest earnings, entry age, retirement age, etc. Parameters for the economic assumptions for interest earnings are not provided the bill, there are no provisions for specification of an appropriate range by regulation, and the bill specifically exempts these plans from the provisions of the Municipal Pension Plan Funding Standard and Recovery Act, which establishes standard parameters for the interest assumptions. The bill also permits the actuarial assumptions to be "reasonable in the aggregate." Municipal defined benefit retirement plans are required under Act 205 to use actuarial assumptions that are the "best available estimate of future occurrences" in the case of each assumption. The Commonwealth's pre-Act 205 experience indicates that provision of detailed technical guidelines and reporting requirements is necessary for the proper management of defined benefit retirement plans.

The establishment of a defined benefit retirement plan creates a financial liability that is permanent, variable, and ongoing and that the relief association may not be able to afford in future years. The bill provides for the elimination of benefit accruals in any year in which the required funding is not provided and for the prospective reduction of the promised retirement benefits for current plan members. Both of these provisions reduce the funding requirements of the retirement plan and are intended to function as a means to accommodate the variable funding requirements of defined benefit retirement plans and the limited revenues of volunteer firefighters' relief associations. However, given the well established view of the Pennsylvania courts concerning the inviolability of retirement benefits promised to public employees, suspensions or decreases in accrual rates applicable to existing plan members may not be possible under Pennsylvania case law.

Another remedial provision of the bill intended to address financial difficulties requires liquidation of a retirement plan in situations in which the required contribution to the plan has not been made by the relief association within two years of its due date. If a retirement plan is liquidated, the contractual liabilities for the retirement promises made by the retirement plan to volunteer firefighters, some of whom may already be retired, may well exceed the value of the available assets. Given the bill's nonforfeitable right provision and the well established view of the Pennsylvania courts concerning the inviolability of retirement benefits promised to public employees, it is reasonable to anticipate successful litigation seeking payment by the relief association, the volunteer fire company, the municipality, and any other available public funding source. Accordingly, the bill's assumed remedy for underfunding retirement benefit plans may not be realized, and unfunded financial obligations may be more prevalent than is anticipated by the bill.

The bill permits a retirement benefit at a very early retirement age of 55 years, which substantially increases the cost of providing the stated benefit. For example, a volunteer firefighter with 30 years of service could retire at age 55 with a retirement benefit of $7,200 a year for life. This substantial retirement benefit exceeds the retirement benefit earned by many full-time municipal employees after a career in public service. Currently, municipal defined benefit plans for non-uniformed employees (excluding Philadelphia) are paying an average benefit of only about $7,120 a year. More detailed information on the potential benefits under the bill are provided in the following chart.

**POTENTIAL BENEFITS TO VOLUNTEER FIREFIGHTERS**

| | | Defined Benefit Plan | Defined Contribution Plan | |
|---|---|---|---|---|
| Age | Years of Past Service Credit | Life Annuity Payable at Age 55[1] | Accumulated Account Balance at Age 55[2] | Life Annuity Equivalent of Account Balance[3] |
| 25 | 5 | $8,400 | $202,100 | $17,800 |
| 35 | 10 | 7,200 | 87,700 | 7,700 |
| 45 | 10 | 4,800 | 29,600 | 2,600 |
| 55 | 10 | 2,400 | ____ | ____ |

Notes:

1. Assumes maximum past service of 10 years is granted.
2. 7.0% assumed interest accumulation.
3. Based on 7.0% Interest and 1983 Group Annuity Mortality table for males.

The bill authorizes the recognition of up to ten years of prior service after a volunteer firefighter has served for one year under the retirement plan. As a result, it would be possible for a volunteer firefighter to serve only one year under the plan and to retire with a retirement benefit based upon 11 years of service. With the limited financial resources available to volunteer firefighters' relief associations, providing for the prior service credit to be limited to years of service subsequent to establishment of the retirement plan may be more manageable.

There is a great deal of administrative complexity associated with the bill by virtue of the potential for variety in plan design and administrative structure. This administrative burden may be inappropriate for volunteer firefighters who lack full-time personnel. Preparation, submission, and review of actuarial reports is required to ensure proper funding and operation. Based upon actuarial valuation reports received by the Commission from over 2,800 local government employees' retirement systems, as of January 1, 1995, the average administrative cost of a retirement plan with 11 to 100 active members is at least $460 a year. Most of the substantial monies that would be spent on administration of defined benefit retirement plans would be available for providing actual retirement benefits to volunteer firefighters if a defined contribution retirement plan were utilized. The complexity and cost associated with establishing and maintaining defined benefit pension plans for volunteer firefighters may not be warranted to attract and retain volunteer firefighters, which is the stated purpose of the bill.

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission has prepared an estimate of the statewide cost attributable to funding the retirement benefits authorized under the bill to members of 2,000 volunteer firefighters' relief associations with an assumed average of 32 active members each. The assumed age and service distribution and other assumptions used in the estimate are set forth in the attached actuarial note. The actuarial note presents cost estimates for two scenarios. The first scenario is that all members are covered by defined benefit plans providing the maximum benefit, and the second scenario is that all members are covered by defined contribution plans receiving the maximum contribution per member.

**Maximum Defined Benefit Plan Costs**

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $1,161,400,000 |
| Volunteer Firefighters' Relief Association Annual Costs | |
| Normal Costs | 37,200,000 |
| Amortization Payments (Ten year, level dollar) | 154,500,000 |
| Interest to end of Year | 13,400,000 |
| Total Annual Costs | $ 205,100,000 |

**Maximum Defined Contribution Plan Costs**

| | Amount |
|---|---|
| Total Volunteer Firefighters' Relief Association Annual Costs | $128,000,000 |

The maximum funding available to volunteer firefighters' relief association is one-half of the total Commonwealth allocation for Foreign Fire Insurance Premium Tax. Based on 1995 data, the maximum available funding is as shown below.

**Maximum Available Annual Funding**

| | Amount |
|---|---|
| One-half 1995 Allocation of Foreign Fire Insurance Premium Tax | $21,200,000 |

The disparity between the maximum costs of the proposal and the maximum revenues available to fund those costs is significant and demonstrates a potential for funding difficulties.

## POLICY CONSIDERATIONS

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

Complex Benefit Authorized. (-) The bill authorizes a volunteer firefighters' relief association to establish a defined benefit retirement plan with the benefit payable in the form of a monthly annuity for life or a lump sum. This is a very complex type of retirement plan, involving the risk of adverse mortality exposure and variable funding requirements, which may not be appropriate for administration by volunteer firefighters' relief associations.

Difficulty in Reducing Benefit Accrual Rate. (-) The bill provides for potential benefit accrual rate decreases applicable to prospective service of existing plan members. Given the well-established view of the Pennsylvania courts concerning the inviolability of retirement benefits promised to public employees, decreases in accrual rates applicable to existing plan members may not be possible.

Technical and Drafting Deficiencies. (-)

*Provisions for Elections Not to Participate.* The bill provides that individual members may make an irrevocable election not to participate in the retirement benefit plan, which would require a young volunteer firefighter to make a decision that would be binding over the next 30 years. The provision may be unreasonable due to the likely changes in the situation of the volunteer firefighter over that period.

*Provisions Limiting Number of Retirement Benefit Plans.* In Section 3.3(d) the bill provides that compliance with the specified maximum benefit provision shall be determined considering the total benefits provided under all of the retirement benefit plans sponsored by the volunteer firefighters' relief association. Section 3.2 of the bill indicates that "no more than one retirement benefit plan may be established or maintained by a single volunteer firefighters' relief association." The inconsistent language makes the bill's intent regarding the potential number of retirement benefit plans unclear.

*Provisions Regarding Prior Service Recognition.* The provision of the bill authorizing recognition of up to ten years of prior service does not provide for prior service credit to be in proportion to current service and does not specify standards for past service credit.

*Provisions Regarding Lump Sum Payments.* The provision of the bill authorizing lump sum payments by defined benefit plans needs clarification with respect to how the amount is to be determined.

*Provisions for Specification of Defined Benefit.* Section 3.3(e)(1)(i) of the bill is intended to authorize volunteer firefighters' relief associations to set the defined benefit formula, subject to the prescribed maximum benefit amount of twenty dollars per month for each year of fire service. However, the actual language indicates that the relief association shall set "the maximum benefit amount payable" rather than the benefit accrual formula to be used in determining the retirement benefits.

*Provisions Regarding Disability and Death Benefits.* Section 3.3(g) of the bill indicates that the retirement benefit plan may provided for disability or death benefits. There are no guidelines provided in the bill concerning the benefit amount or its commencement and duration. Since death and disability benefits provided through insurance coverage are currently authorized and would be mandated under the bill, the apparent intent of the language is to authorize the payment of the value of the accrued retirement benefit to the member in instances of death and to the survivor in instances of death. The language of the bill is not clear regarding this appropriate limit on the liability of the retirement benefit plan.

*Provisions for Annual Statements for Defined Contribution Plans.* The provisions in the bill governing defined contribution plans do not provide for the members to receive individual annual statements disclosing the beginning value, the additions, the subtractions and the ending balance of their accounts, which is a routine procedure for defined contribution plans.

*Provisions for Actuarial Reports and Funding Requirements.* The provisions in the bill prescribing the contents of actuarial reports and specifying the funding requirement use terminology and language that may lead to confusion.

Level of Benefit. **(-)** The defined benefits payable under the bill are very high. The potential benefits are higher than those currently being paid by municipal defined benefit plans for retired non uniformed employees who were full-time employees.

Costly Administrative Complexity. **(-)** There is a great deal of administrative complexity and resulting costs associated with the bill by virtue of the variety in plan design and administrative structure. The complex structure will increase costs incurred by the relief associations in administration and the Commonwealth in its monitoring activities.

Inequity of Benefits and Coverage. **(-)** The wide variation in retirement benefits permitted under the bill is likely to produce inequitable benefit levels among volunteer fire companies in close proximity. Because membership in the volunteer fire company with the highest retirement benefits may be elected most often, the inequity in retirement benefits authorized by the bill may diminish interest in membership in some volunteer fire companies and exacerbate recruitment and retention efforts. The bill does not address situations where one volunteer firefighters' relief association serves the members of multiple volunteer fire companies and one or more of the volunteer fire companies elect not to participate in the retirement plan or elect different criteria for determining an eligible year of volunteer fire service.

Multiplicity of Plans. **(-)** By authorizing each volunteer firefighters' relief association to establish a retirement benefit plan, the bill creates the potential for an additional 2,000 public retirement plans in Pennsylvania. The further decentralization of public retirement plans in the Commonwealth may be questionable from a public retirement policy standpoint.

## COMMISSION RECOMMENDATION

On February 26, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above and expressing concern regarding the unnecessary complexity of the proposed retirement benefit plans.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 42, Printer's Number 52, was referred to the House Veterans Affairs and Emergency Preparedness Committee on January 28, 1997.

**Bill ID:** House Bill 88, Printer's Number 96

**Systems:** Public School Employes' Retirement System and State Employes' Retirement System

**Subject:** Extending the "30-and-Out" Window Until July 1, 2001

## SYNOPSIS

House Bill 88, Printer's Number 96, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to extend for an additional four years, from July 1, 1997, to July 1, 2001, the termination date of the period during which a member with at least 30 eligibility points may retire at any age and receive an annuity that is not reduced because the member is under superannuation age ("30-and-Out").

## DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are cost-sharing multiple-employer pension plans, and the designated purposes of the Public School Employes' Retirement System (PSERS) and the State Employes' Retirement System (SERS) are to provide retirement allowances and other benefits including disability and death benefits to school and state employees. As of June 30, 1996, there were 636 participating employers, generally school districts, in PSERS, and as of December 31, 1995, there were 109 participating state and other organizations in SERS. Membership in PSERS is mandatory for substantially all full-time public school employees in the Commonwealth, and membership in SERS is mandatory for most state employees, members and employees of the General Assembly, and certain elected officials in the executive branch. Certain other employees are eligible for membership in the Systems. As of June 30, 1995, PSERS membership consisted of about 154,000 retirees, beneficiaries, and terminated employees entitled to benefits and about 211,000 active members, and as of December 31, 1995, SERS membership consisted of about 84,928 retirees, beneficiaries, and terminated employees entitled to benefits and about 112,637 active members. The general annual retirement benefit is two percent of the member's high-three year average salary multiplied by years of service.

Under the Public School Employees' Retirement Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service. Under the State Employees' Retirement Code, superannuation or normal retirement age for most members is age 60 with three years of service or any age with 35 years of service, while age 50 is normal retirement age for members of the General Assembly and certain public safety officers. Existing temporary provisions of the Codes also permit members with 30 or more years of service to retire at any age and receive full retirement benefits with no benefit reduction for retiring prior to superannuation or normal retirement age. These existing special early retirement provisions will expire on July 1, 1997. The special early retirement provisions were adopted in 1984 and revised and extended for SERS in 1985 and for both Systems in 1986, 1987, 1988, 1991, and 1994 (retroactive to 1993).

In adopting the original PSERS special early retirement window in 1984, the General Assembly indicated that it was its intention, during a period of reduced student population in the public school districts, changing governmental services, and of fiscal restraint, to avail the school districts and the

Commonwealth of cost-saving opportunities and to reduce the need for the school districts and the Commonwealth to furlough employees by granting eligible employees a temporary option for early retirement. Likewise, in adopting the original SERS special early retirement window in 1984, the General Assembly indicated that it was its intention, during a period of changing governmental services and of fiscal restraint to avail the Commonwealth of cost-saving opportunities and to reduce the need for the Commonwealth to furlough State employees by granting eligible State employees a temporary option for early retirement. As discussed above, these temporary early retirement windows, which originally were from July 1, 1985, to June 30, 1986, have been extended and revised a number of times until the present ones, which expire on July 1, 1997.

In the past, both the consulting actuary of the Commission and the consulting actuary of the SERS have raised the issue of appropriate funding for continuing extensions of the special early retirement provisions. In fact, beginning with its last actuarial valuation report, SERS changed its actuarial assumptions to reflect the de facto indefinite continuation of the benefit modification, resulting in the inclusion of the provision in the development of the normal costs as well and the amortization payment of SERS rather than limiting it to recognition in amortization payments for unfunded actuarial accrued liabilities after an extension is granted. If the special early retirement provisions of PSERS are to be extended again, PSERS also should give consideration to making a similar change in its funding methodology.

## SUMMARY OF ACTUARIAL COST IMPACT

### Public School Employes' Retirement System

The consulting actuary of the Public School Employes' Retirement System has estimated the costs for two, four, and six year extensions of the special early retirement provisions. The estimate has been reviewed by the consulting actuary of the Commission who has determined that the most probable utilization rate assumption is about 15 percent, and that a four year extension would result in the following costs.

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $385,000,000 |

| | Amount | As a % of Payroll |
|---|---|---|
| Increase in Employer Annual Costs[1] | | |
| Normal Cost[2] | $ 6,000,000 | 0.07% |
| Amortization Payment[3] | 30,000,000 | 0.35% |
| Total Increase in Employer Annual Costs[3] | $36,000,000 | 0.42% |

| | Amount |
|---|---|
| Total Amortization Payments | $991,978,623 |

1) Paid in part by the Commonwealth and in part by the school districts and other educational employers.
2) Payable only for the four years of the extension of the special early retirement provisions.
3) First year only. Amortization payments increase five percent a year for 20 years.

## State Employes' Retirement System

The consulting actuary of the State Employes Retirement System has estimated the costs for a four year extension of the special early retirement provisions. The estimate has been reviewed by the consulting actuary of the Commission, who has determined that a four year extension would result in the following costs.

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $87,000,000 |

| | Amount | As a % of Payroll |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $ 0 | 0.00% |
| Amortization Payment[1] | 6,000,000 | 0.16% |
| Total Increase in Employer Annual Costs[1] | $6,000,000 | 0.16% |

| | Amount |
|---|---|
| Total Amortization Payments | $198,395,724 |

1) First year only. Amortization payments increase five percent a year for 20 years.

## POLICY CONSIDERATIONS

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

Purpose of Extending Special Early Retirement Provisions. **( )** Policy makers may wish to consider whether the purpose of extending the special early retirement provisions is to induce a reduction in personnel complement or to provide enhanced retirement benefits on a quasi-permanent basis. If the latter purpose is intended, the ad hoc extensions function to preclude timely recognition of the actuarial costs incurred.

Effectiveness of Special Early Retirement Provisions as Incentive. **(-)** The effectiveness of the special early retirement provisions as an incentive for accelerating retirements within a window period is diminished by making them available continuously.

Impact of Terminating Special Early Retirement Provisions. **( )** Because the special early retirement provisions have been in effect continuously since 1986, a new normal retirement pattern has been established based on the availability of the provisions. Terminating the provisions will produce a disincentive for some members to retire and result in a temporary decrease in the number of retirements.

Financing of Special Early Retirement Provisions. (-) If the special early retirement provision of PSERS is to be extended again, the actuarial funding methodology of PSERS should be changed to reflect the de facto indefinite continuation of this benefit, as SERS has already done. Recognition of indefinite continuation of the provision would increase PSERS' annual cost by an estimated 2% of payroll.

## COMMISSION RECOMMENDATION

On April 9, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 88, Printer's Number 96, was referred to the House State Government Committee on January 28, 1997.

**Bill ID:** House Bill 88, Printer's Number 96, as amended by Amendment 0302, and House Bill 162, Printer's Number 1067

**Systems:** Public School Employes' Retirement System and State Employes' Retirement System

**Subject:** Extending the "30-and-Out" Window Until July 1, 2000

## SYNOPSIS

House Bill 88, Printer's Number 96, as amended by Amendment 0302, and House Bill 162, Printer's Number 1067, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to extend for an additional three years, from July 1, 1997, to July 1, 2000, the termination date of the period during which a member with at least 30 eligibility points may retire at any age and receive an annuity that is not reduced because the member is under superannuation age ("30-and-Out").

## DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are cost-sharing multiple-employer pension plans, and the designated purposes of the Public School Employes' Retirement System (PSERS) and the State Employes' Retirement System (SERS) are to provide retirement allowances and other benefits including disability and death benefits to school and state employees. As of June 30, 1996, there were 636 participating employers, generally school districts, in PSERS, and as of December 31, 1995, there were 109 participating state and other organizations in SERS. Membership in PSERS is mandatory for substantially all full-time public school employees in the Commonwealth, and membership in SERS is mandatory for most state employees, members and employees of the General Assembly, and certain elected officials in the executive branch. Certain other employees are eligible for membership in the Systems. As of June 30, 1995, PSERS membership consisted of about 154,000 retirees, beneficiaries, and terminated employees entitled to benefits and about 211,000 active members, and as of December 31, 1995, SERS membership consisted of about 84,928 retirees, beneficiaries, and terminated employees entitled to benefits and about 112,637 active members. The general annual retirement benefit is two percent of the member's high-three year average salary multiplied by years of service.

Under the Public School Employees' Retirement Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service. Under the State Employees' Retirement Code, superannuation or normal retirement age for most members is age 60 with three years of service or any age with 35 years of service, while age 50 is normal retirement age for members of the General Assembly and certain public safety officers. Existing temporary provisions of the Codes also permit members with 30 or more years of service to retire at any age and receive full retirement benefits with no benefit reduction for retiring prior to superannuation or normal retirement age. These existing special early retirement provisions will expire on July 1, 1997. The special early retirement provisions were adopted in 1984 and revised and extended for SERS in 1985 and for both Systems in 1986, 1987, 1988, 1991, and 1994 (retroactive to 1993).

In adopting the original PSERS special early retirement window in 1984, the General Assembly indicated that it was its intention, during a period of reduced student population in the public school districts, changing governmental services, and fiscal restraint, to avail the school districts and the Commonwealth of cost-saving opportunities and to reduce the need for the school districts and the Commonwealth to furlough employees by granting eligible employees a temporary option for early retirement. Likewise, in adopting the original SERS special early retirement window in 1984, the General Assembly indicated that it was its intention, during a period of changing governmental services and fiscal restraint to avail the Commonwealth of cost-saving opportunities and to reduce the need for the Commonwealth to furlough State employees by granting eligible State employees a temporary option for early retirement. As discussed above, these temporary early retirement windows, which originally were from July 1, 1985, to June 30, 1986, have been extended and revised a number of times until the present ones, which expire on July 1, 1997.

In the past, both the consulting actuary of the Commission and the consulting actuary of the SERS have raised the issue of appropriate funding for continuing extensions of the special early retirement provisions. In fact, beginning with its last actuarial valuation report, SERS changed its actuarial assumptions to reflect the de facto indefinite continuation of the benefit modification, resulting in the inclusion of the provision in the development of the normal cost as well and the amortization payment of SERS rather than limiting it to recognition in amortization payments for unfunded actuarial accrued liabilities after an extension is granted. If the special early retirement provisions of PSERS are to be extended again, PSERS also should give consideration to making a similar change in its funding methodology.

## SUMMARY OF ACTUARIAL COST IMPACT

### Public School Employes' Retirement System

The consulting actuary of the Public School Employes' Retirement System has estimated the costs for two, four, and six year extensions of the special early retirement provisions. The estimate has been reviewed by the consulting actuary of the Commission, who has determined that the most probable utilization rate assumption is about 15 percent and that a three year extension would result in the following costs.

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $290,000,000 |

| | Amount | As a % of Payroll |
|---|---|---|
| Increase in Employer Annual Costs[1] | | |
| Normal Cost[2] | $ 4,000,000 | 0.05% |
| Amortization Payment[3] | 22,000,000 | 0.26% |
| Total Increase in Employer Annual Costs[3] | $ 26,000,000 | 0.31% |

| | Amount |
|---|---|
| Total Amortization Payments | $727,450,990 |

1) Paid in part by the Commonwealth and in part by the school districts and other educational employers.

2) Payable only for the three years of the extension of the special early retirement provisions.

3) First year only. Amortization payments increase five percent a year for 20 years.

## State Employes' Retirement System

The consulting actuary of the State Employes Retirement System has estimated the costs for a three year extension of the special early retirement provisions. The estimate has been reviewed by the consulting actuary of the Commission who has determined that a three year extension would result in the following costs.

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $ 65,000,000 |

| | Amount | As a % of Payroll |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $ 0 | 0.00% |
| Amortization Payment[1] | 5,000,000 | 0.12% |
| Total Increase in Employer Annual Costs[1] | $ 5,000,000 | 0.12% |

| | Amount |
|---|---|
| Total Amortization Payments | $165,329,770 |

1) First year only. Amortization payments increase five percent a year for 20 years.

## POLICY CONSIDERATIONS

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

<u>Purpose of Extending Special Early Retirement Provisions</u>. ( ) Policy makers may wish to consider whether the purpose of extending the special early retirement provisions is to induce a reduction in personnel complement or to provide enhanced retirement benefits on a quasi-permanent basis. If the latter purpose is intended, the ad hoc extensions function to preclude timely recognition of the actuarial costs incurred.

<u>Effectiveness of Special Early Retirement Provisions as Incentive</u>. (-) The effectiveness of the special early retirement provisions as an incentive for accelerating retirements within a window period is diminished by making them available continuously.

<u>Impact of Terminating Special Early Retirement Provisions</u>. ( ) Because the special early retirement provisions have been in effect continuously since 1986, a new normal retirement pattern has been established based on the availability of the provisions. Terminating the provisions will produce a disincentive for some members to retire and result in a temporary decrease in the number of retirements.

<u>Financing of Special Early Retirement Provisions</u>. (-) If the special early retirement provision of PSERS is to be extended again, the actuarial funding methodology of PSERS should be changed to reflect the de facto indefinite continuation of this benefit, as SERS has already done. Recognition of indefinite continuation of the provision would increase PSERS' annual cost by an estimated 2% of payroll.

## COMMISSION RECOMMENDATION

On April 9, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 88, Printer's Number 96, was referred to the House State Government Committee on January 28, 1997, and House Bill 162, Printer's Number 2077, was referred to the Senate Rules and Executive Nominations Committee on June 17, 1997.

**Bill ID:** House Bill 114, Printer's Number 1478

**System:** State Employes' Retirement System

**Subject:** Mandatory Retirement Age for Judiciary

## SYNOPSIS

House Bill 114, Printer's Number 1478, would, in pertinent part, amend section 16(b) of article 5 of the Constitution of Pennsylvania to provide that justices, judges, and district justices must retire on the last day of the calendar year in which they attain the age of 70 rather than upon attaining age 70 as the Constitution now requires.

## DISCUSSION

On April 23, 1968, the electorate adopted Proposal No. 7 of the limited constitutional convention of 1967-68 to repeal the old and adopt a new Judiciary Article for the Constitution of Pennsylvania, Article 5. Since then section 16(b) of article 5 has provided in pertinent part that: "Justices, judges and justices of the peace shall be retired upon attaining the age of 70 years." Section 3351 of the Judicial Code, which is derived from this constitutional provision, provides that: "Judges and district justices shall be retired upon attaining the age of 70 years."

Although the dates upon which justices, judges, and district justices will attain the age of 70 years are known in advance, these dates fall randomly throughout the year and can cause certain administrative problems with the replacement of judges, and sometimes some of their personal staff, in the midst of terms of court. Mandatory retirement at the end of a calendar year moves the retirement and replacement events to a date between terms of court and to a date when many other changes already occur related to the ending of the calendar year.

The December 31, 1995, actuarial valuation report of the State Employes' Retirement System indicated that this change in mandatory retirement age would affect 909 individuals with an average age of 52 years, average service of 13 years, and average salary of $71,506.

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission indicates that, on average, there will be no retirement benefit advantage to the judicial employee or disadvantage to the Commonwealth by delaying retirement.

## POLICY CONSIDERATIONS

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

> Facilitated Administration. **(+)** The new mandatory retirement date would reduce the administrative problems with the replacement of judges, and sometimes some of their personal

staff, by moving these events to a date between terms of court and to a date when many other changes already occur related to the ending of the calendar year.

Delayed Mandatory Retirement. ( ) The new mandatory retirement date could delay mandatory retirement for justices, judges, and district judges until age 71, but, on average, they will remain in office only 5½ additional months.

## COMMISSION RECOMMENDATION

On May 7, 1997, the Commission voted to attach the actuarial note to the bill recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 114, Printer's Number 1919, was re-referred to the Senate Rules and Executive Nominations Committee on June 17, 1997.

**Bill ID:** House Bill 162, Printer's Number 178

**System:** Public School Employes' Retirement System

**Subject:** Extending the "30 and Out" Window Three Years Until July 1, 2000

## SYNOPSIS

House Bill 162, Printer's Number 178, would amend the Public School Employees' Retirement Code to extend for an additional three years, from July 1, 1997, to July 1, 2000, the termination date of the period during which a member with at least 30 eligibility points may retire at any age and receive an annuity that is not reduced because the member is under superannuation age ("30 and Out").

## DISCUSSION

The Public School Employees' Retirement Code (Code) is a cost-sharing multiple-employer pension plan, and the designated purposes of the Public School Employes' Retirement System (PSERS) are to provide retirement allowances and other benefits including disability and death benefits to school employees. As of June 30, 1996, there were 636 participating employers, generally school districts. Membership in PSERS is mandatory for substantially all full-time public school employees in the Commonwealth. Certain part-time employees are eligible for membership in PSERS. As of June 30, 1995, membership consisted of about 154,000 retirees, beneficiaries, and terminated employees entitled to benefits and about 211,000 active members. The general annual retirement benefit is two percent of the member's high-three year average salary multiplied by years of service.

Under the Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service. An existing temporary provision of the Code also permits members with 30 or more years of service to retire at any age and receive full retirement benefits with no benefit reduction for retiring prior to superannuation or normal retirement age. This existing special early retirement provision will expire of July 1, 1997. The special early retirement provision was adopted in 1984 and revised and extended in 1986, 1987, 1988, 1991, and 1994 (retroactive to 1993).

In adopting the original special early retirement window in 1984, the General Assembly indicated that it was its intention, during a period of reduced student population in the public school districts, changing governmental services, and of fiscal restraint, to avail the school districts and the Commonwealth of cost-saving opportunities and to reduce the need for the school districts and the Commonwealth to furlough employees by granting eligible employees a temporary option for early retirement. As discussed above, this temporary early retirement window, which originally was from July 1, 1985, to June 30, 1986, has been extended and revised a number of times until the present one, which expires on July 1, 1997.

In the past, both the consulting actuary of the Commission and the consulting actuary of the State Employes' Retirement System (SERS) have raised the issue of appropriate funding for continuing extensions of special early retirement provisions. In fact, beginning with its last actuarial valuation report, the SERS changed its actuarial assumptions to reflect the de facto indefinite continuation of the benefit modification, resulting in the inclusion of the provision in the development of the normal costs of SERS rather than limiting it to recognition in amortization payments for unfunded actuarial accrued liabilities. If the special early retirement provisions of PSERS are to be extended again, PSERS also should give consideration to making a similar change in its funding methodology.

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Public School Employes' Retirement System has estimated the costs for two, four, and six year extensions of the period during which a member with at least 30 years of service may retire at any age and receive an annuity that is not reduced because the member is under superannuation age. The estimate has been reviewed by the consulting actuary of the Commission, who has determined that the most probable utilization rate assumption is about 15 percent, and that a three year extension would result in the following costs.

| | **Amount** |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $290,000,000 |

| | **Amount** | **As a % of Payroll** |
|---|---|---|
| Increase in Employer Annual Costs* | | |
| Normal Cost | $ 4,000,000 | 0.05% |
| Amortization Payment** | 22,000,000 | 0.26% |
| Total Increase in Employer Annual Costs** | $ 26,000,000 | 0.31% |

| | **Amount** |
|---|---|
| Total Amortization Payments* | $727,450,990 |

* Paid in part by the Commonwealth and in part by the school districts and other educational employers.
** First year only, amortization payments increase five percent a year for 20 years.

For purposes of illustration, the consulting actuary of the Commission has prepared an estimate of the order of magnitude of the actuarial cost impact if the actuarial funding methodology of PSERS were to be changed to reflect the de facto indefinite continuation of this benefit. He estimates that the System's unfunded actuarial accrued liability would increase by $1.7 billion and that the normal cost and first year amortization cost would increase by $50 million (0.6 % of payroll) and $140 million (1.6% of payroll) respectively.

## POLICY CONSIDERATIONS

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

Appropriateness of Extending Special Early Retirement Provisions. ( ) Policy makers may wish to consider whether the purpose of extending the special early retirement provision is to induce a reduction in personnel complement or to provide enhanced retirement benefits on a quasi-permanent basis. If the latter purpose is intended, the ad hoc extension functions to preclude timely recognition of the actuarial costs incurred.

Financing of Special Early Retirement Provisions. (-) If the special early retirement provision of PSERS is to be extended again, the actuarial funding methodology of PSERS should be changed to reflect the de facto indefinite continuation of this benefit.

## COMMISSION RECOMMENDATION

On February 26, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 162, Printer's Number 2077, was referred to the Senate Rules and Executive Nominations Committee on June 17, 1997.

**Bill ID:** House Bill 846, Printer's Number 946, and
Amendment 1668 to House Bill 329, Printer's Number 1590

**System:** Second Class (Allegheny) County Employees' Retirement System

**Subject:** Reduction in Age and Service Requirements for Early Retirement

## SYNOPSIS

House Bill 846, Printer's Number 946, and Amendment 1668 to House Bill 329, Printer's Number 1590, both would amend section 1710 of the Second Class County Code to lower the eligibility for certain early retirement benefits for members of the Allegheny County Employees' Retirement System employed after April 13, 1984, from 10 or more but less than 20 years of service beginning at age 65 to 8 or more but less than 20 years of service beginning at age 60.

## DISCUSSION

Article 17 of the Second Class County Code (Code) provides the pension plan for all employees of Allegheny County. The pension plan provisions for the employees of all other Pennsylvania counties (except Philadelphia) are contained in the County Pension Law.

Under the Code, there are early retirement provisions for an employee who voluntarily terminates service with less than the normal service or at less than the normal age. A county employee hired after April 13, 1984, who has attained age 50 and has completed at least 10 but less than 20 years of service is eligible to retire and receive an early retirement benefit beginning at age 65. A county employee hired before April 14, 1984, who has attained age 50 and has completed at least 8 but less than 20 years of service is eligible to retire and receive an early retirement benefit beginning at age 60. Under the legislative proposals, all county employees would be entitled to a reduced early retirement benefit regardless of date of employment after reaching age 50 and completing eight years of service, with the benefit commencing at age 60 for general employees and at age 55 for certain public safety employees.

Normal retirement for nonuniformed employees hired after April 14, 1984, is available after at least 20 years of service and attaining age 65, so that under the legislative proposals as currently drafted, an employee with 21 years of service would have to reach age 65 in order to retire but an employee with at least 8 but less than 20 years of service could receive retirement benefits after reaching age 60. This could lead to irregular retirement patterns and probably is not the intended result of the proposals. The legislative sponsor of the proposals indicates that the intent is to reduce both the early and normal retirement ages to 60 years.

The present two-tier early retirement provisions were enacted in 1984 as part of the pension reforms intended to place the Allegheny County Employees' Retirement System on a firmer financial basis. The January 1, 1997, Actuarial Valuation indicates that an improved financial basis for the system has been accomplished, and that the Retirement Board believes there could be three changes made in the pension plan: 8-year cliff vesting, $15 a month COLA to participants in pension pay status before January 1, 1996, and restructuring of employee contribution rate to 7.5 percent of salary with limited grandfathering of the prior structure. The implementation of uniform 8-year cliff vesting would make the vesting period for county employees hired after April 13, 1984, closer to the standard 5-year cliff vesting required of many private sector retirement systems under the Employee Retirement Income Security Act of 1974. However, the legislative proposals would go beyond integrating the 8-year cliff vesting suggested by the Retirement Board. The proposals would lower the age for the commencement of early retirement benefits from 65 to 60 for all general employees hired after April 13, 1984, who have between 8 and 20 years of service prior to termination of service. The change would result in the provision of the same early retirement option for all similarly situated employees regardless of the date of employment. Although not reflected in the current language, the proposals, as intended by the sponsor, would also lower the normal retirement age for all general employees hired after April 13, 1984, from 65 to 60 with 20 years of service. The change would, therefore, also establish the same normal retirement eligibility provision for all similarly situated employees regardless of the date of employment.

## SUMMARY OF ACTUARIAL COST IMPACT

### Change in Early Retirement Eligibility

For general employees hired after April 13, 1984, the proposals as currently drafted lower the age for early retirement from 65 to 60 and reduce the minimum service for early retirement from 10 years to 8 years. The consulting actuary of the Commission has provided a range of estimates for the actuarial impact of reducing the age and service requirements for early retirement with the low end calculated assuming that retirement rates remain unchanged and the high end assuming that retirement rates between ages 60 and 64 increase by 20 percent.

| | Range of Amounts |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $ 1,289,000 – $ 1,430,000 |

| | Range of Amounts | Range as a % of Payroll |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $186,000 - $204,000 | 0.09% – 0.10% |
| Amortization Payment[1] | 178,000 - 197,000 | 0.09% – 0.10% |
| Total Increase in Employer Annual Costs | $364,000 - $401,000 | 0.18% – 0.20% |

| | Range of Amounts |
|---|---|
| Total Amortization Payments | $ 1,780,000 – $ 1,970,000 |

1) Amortization payments are the same amount each year for ten years.

### Change in Early and Normal Retirement Eligibility

As intended by the legislative sponsor, the proposals would change the eligibility requirements for both normal and early retirement benefits for members employed after April 14, 1984. For normal retirement, the age requirement would be reduced from age 65 to age 60. For early retirement the age requirement would be reduced from age 65 to age 60 and the service requirement would be reduced from 10 years to 8 years. The consulting actuary has provided a range of estimates for the actuarial impact of this construction with the low end calculated assuming that retirement rates remain unchanged and the high end calculated assuming that retirement rates between ages 60 and 64 increase by 20 percent. However, the actual costs may not fall within the range presented below if unusual events occur that impact the retirement rates.

| | **Range of Amounts** |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $ 4,025,000 – $ 4,482,000 |

| | **Range of Amounts** | | | **Range as a % of Payroll** |
|---|---|---|---|---|
| Increase in Employer Annual Costs | | | | |
| Normal Cost | $746,000 | – | $803,000 | 0.38% – 0.41% |
| Amortization Payment[1] | 555,000 | – | 618,000 | 0.28% – 0.31% |
| Total Increase in Employer Annual Costs | $1,301,000 | – | $1,421,000 | 0.66% – 0.72% |

| | **Range of Amounts** |
|---|---|
| Total Amortization Payments | $ 5,550,000 – $ 6,180,000 |

1) Amortization payments are the same amount each year for ten years.

POLICY CONSIDERATIONS

In reviewing the bill and the amendment, the Commission identified the following policy considerations:

Equal Treatment. **(+)** The legislative proposals would provide the same early retirement option to similarly situated Allegheny County employees regardless of the date of employment.

Commonwealth Mandate to County. **(-)** The legislative proposals mandate a retirement benefit change for Allegheny County. The appropriateness of the Commonwealth mandating municipalities to provide specific retirement is questionable from a public policy standpoint. Authorizing the proposed benefit structure modification as an option may be more appropriate than mandating it.

Administrative Considerations. **(+)** The move to uniform early retirement provisions will facilitate the administrative operation of the system.

## POLICY CONSIDERATIONS (CONT'D)

Irrational Result. (-) The legislative proposals establish early retirement provisions that would be available to members with 8 to 20 years of service and deny early retirement provisions to members with more than 20 years of service.

Drafting Ambiguity. (-) The proposals are not clear regarding the retirement age for members with more than 20 years of service. The intent to reduce the normal retirement age is not reflected in the proposed language that deals only with early retirement.

## COMMISSION RECOMMENDATION

On June 6, 1997, the Commission voted to attach the actuarial note to the bill and the amendment, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

As Printer's Number 1794, House Bill 329 was signed into law by the Governor as Act 12 of 1997 on May 20, 1997, and House Bill 846, Printer's Number 946, was referred to the House Urban Affairs Committee on March 12, 1997.

**Bill ID:** House Bill 595, Printer's Number 660

**Systems:** Municipal Police Pension Law (Act 600)

**Subject:** Early Retirement Benefit

## SYNOPSIS

House Bill 595, Printer's Number 660, would amend the Municipal Police Pension Law (Act 600) by requiring each affected municipality to permit a municipal police officer to retire early with at least 20 years of service but before reaching the officer's superannuation retirement date and to receive an annuity reflecting both the officer's years of actual service in relation to the years of service required to reach the officer's superannuation retirement date and the actuarial reduction attributable to the commencement of the retirement benefit earlier than the officer's superannuation retirement date.

## DISCUSSION

The Municipal Police Pension Law governs the establishment of police officers' retirement systems in every borough, incorporated town, or township (municipality) with three or more full-time police officers. At its option, a municipality with fewer than three full-time police officers also may establish a police offices' retirement system under the Municipal Police Pension Law. As of January 1, 1995, there were about 855 municipal police officers' retirement systems operating under the Municipal Police Pension Law.

Under the Municipal Police Pension Law, a police officer may retire after a total of 25 years of service with the same municipality when the officer reaches age 55. If an actuarial valuation shows it is feasible, the retirement age may be reduced to 50. The amount of the monthly pension, other than length of service increments and cost-of-living adjustments, is specified as 50 percent of the monthly salary of the officer averaged over the last 36 to 60 months of employment.

In the ordinance or resolution that creates the police pension plan, the municipality may provide for vesting retirement benefits. Under the authorized provisions, a police officer who completes 12 years of total service and ceases to be a full-time police officer of the municipality before reaching the required superannuation retirement age and service may vest his retirement benefits, provided that the officer files a written notice of intention to vest with the local government's governing body. When the vestee reaches what would have been the superannuation retirement date, had the vestee continued in full-time police service with the municipality, the retirement system pays the vestee a partial superannuation retirement allowance. The partial superannuation retirement allowance is proportionate to the number of years actually worked, as compared to the superannuation retirement years, and is calculated using the monthly average salary during the appropriate period prior to termination of employment.

The bill would require each affected municipality to permit a municipal police officer to retire before reaching the officer's superannuation retirement date provided the officer has at least 20 years of service. The early retirement benefit would be the normal retirement benefit adjusted to reflect the officer's years of actual service in relation to the years of service required to reach the officer's superannuation retirement date and the commencement of the retirement benefit at an age less than the officer's superannuation retirement date. The actuarial equivalent of the officer's partial superannuation retirement benefit, which is to be calculated to reflect early payment of the benefit, would be determined using the actuarial assumptions reported in the last actuarial valuation report filed with the Public Employee Retirement Commission under the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984).

The bill addresses the situation of certain police officers who are employed in mid life and do not satisfy the 25-year service requirement until well after the plan's specified retirement age. For example, a police officer hired at 37 years of age would not be eligible to receive retirement benefits until age 62 under the current provisions of the Act. The bill would permit that officer to retire at age 57 and immediately receive a partial retirement benefit actuarially reduced to reflect its commencement before age 62, which would have been the officer's superannuation retirement date.

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission indicates that the bill will have no actuarial cost impact upon the affected municipal police officers' retirement systems.

## POLICY CONSIDERATIONS

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

Retirement Benefits for Police Officers Hired at Older Ages. **(+)** The bill accommodates municipal police officers with 20 or more years of service who were employed in mid life and wish to retire but whose 25 years of service will not be completed until after an age greater than the plan's superannuation retirement age by permitting them to begin receiving early retirement benefits immediately upon termination of service.

Commonwealth Mandate to Municipalities. **(-)** The bill mandates a retirement benefit change for all affected municipal police officers' retirement systems. The appropriateness of the Commonwealth mandating municipalities to provide specific pension benefits is questionable from a public policy standpoint due to the wide variation in local conditions. Authorizing the proposed benefit structure modification as an option may be more appropriate than mandating it.

## COMMISSION RECOMMENDATION

On April 9, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 595, Printer's Number 660, was re-referred to the Senate Appropriations Committee on June 16, 1997.

**Bill ID:** House Bill 810, Printer's Number 910

**System:** Second Class (Allegheny) County Employees' Retirement System

**Subject:** Granting Public Safety Employee Retirement Benefits to County Detectives

## SYNOPSIS

House Bill 810, Printer's Number 910, would amend section 1710(b) of the Second Class County Code to permit a county detective of Allegheny County to retire voluntarily and receive a full retirement allowance at age 50 or older with 20 or more years of service.

## DISCUSSION

Article 17 of the Second Class County Code provides the pension plan for all employees of Allegheny County. For the various types of public safety employees who are employed by Allegheny County, special retirement coverage is provided through the county employees' pension plan. The special coverage provided to firefighters and police officers is to retire voluntarily and receive a normal retirement benefit if the employee has attained age 50 and has at least 20 years of service. The special coverage provided to the sheriff, deputy sheriffs, and prison guards is to retire voluntarily and receive a normal retirement benefit if the employee has attained age 55 and has at least 20 years of service. The regular coverage provided to all other employees is to retire voluntarily and receive a normal retirement benefit if the employee has attained age 65 and has at least 20 years of service (or age 60 with at least 20 years of service for those employed before April 14, 1984).

In public employee pension plans, it is common practice to provide special retirement coverage for various types of public safety employees. The special treatment beyond the pension plan treatment applicable to general employees can include a number of items, including an earlier age for retirement with a retirement benefit unreduced for early retirement, a greater annual retirement benefit accrual rate leading to a greater replacement of average salary with shorter service, or enhanced disability benefit or survivor coverage. The special treatment for public safety employees is premised on the need to maintain an exceptionally vigorous and able public safety employee workforce.

The proposed legislation provides for an expansion of the group of Allegheny County employees entitled to the special retirement benefit provided for a firefighter or police officer. The Allegheny County employees to be newly included in the special public safety employee benefit are county detectives. The special coverage to be provided would permit a county detective to retire voluntarily and receive a normal retirement benefit after attaining age 50 with at least 20 years of service, which is 10 or 15 years earlier than under the current provisions depending upon the member's date of employment.

## SUMMARY OF ACTUARIAL COST IMPACT

The method used by the Allegheny County Employees' Retirement System to determine annual funding requirements is unique to the system. For the purposes of comparison, the consulting actuary of the Commission used the entry age normal actuarial cost method. The increase in unfunded actuarial accrued liability data presented below will be the actual impact on Allegheny County. The data on increases in employer annual costs and total amortization payments presented below will not be the actual impact on Allegheny County, however, because the annual funding requirements of the Allegheny County Employees' Retirement System are not determined by the entry age normal actuarial cost method.

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $230,000 |

| | Amount | As a % of Affected Payroll |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $ 0 | 0.0% |
| Amortization Payment[1] | 31,700 | 3.9% |
| Total Increase in Employer Annual Costs | $31,700 | 3.9% |

| | Amount |
|---|---|
| Total Amortization Payments | $317,000 |

1) Amortization payments are the same amounts each year for 10 years.

## POLICY CONSIDERATIONS

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

Appropriateness of Special Benefit Coverage. ( ) Special public safety employee retirement benefit coverage typically is provided for employees who work in areas in which it is necessary to maintain an exceptionally able and vigorous workforce.. The bill would extend this public safety employee retirement benefit coverage to the county detectives of Allegheny County.

## COMMISSION RECOMMENDATION

On June 5, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issue identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 810, Printer's Number 910, was referred to the House Urban Affairs Committee on March 12, 1997.

**Bill ID:** Amendment 3367 to House Bill 846, Printer's Number 946

**System:** Second Class (Allegheny) County Employees' Retirement System

**Subject:** Reduction in Service Requirement for Early Retirement

## SYNOPSIS

Amendment 3367 to House Bill 846, Printer's Number 946, would amend section 1710(a) of the Second Class County Code to lower the eligibility for certain early retirement benefits for members of the Allegheny County Employees' Retirement System employed after April 13, 1984, from 10 or more but less than 20 years of service beginning at age 65 to 8 or more but less than 20 years of service beginning at age 65.

## DISCUSSION

Article 17 of the Second Class County Code (Code) provides the pension plan for all employees of Allegheny County. Under the Code, there are early retirement provisions for an employee who voluntarily terminates service with less than the normal service or at less than the normal age. A county employee hired after April 13, 1984, who has attained age 50 and has completed at least 10 but less than 20 years of service is eligible to retire and receive an early retirement benefit beginning at age 65. A county employee hired before April 14, 1984, who has attained age 50 and has completed at least 8 but less than 20 years of service is eligible to retire and receive an early retirement benefit beginning at age 60. Under the amendment, all county employees would be entitled to a reduced early retirement benefit regardless of date of employment after reaching age 50 and completing eight years of service, with the benefit commencing at age 65 (or age 60 for those employed before April 14, 1984) and at age 55 for certain public safety employees.

The present two-tier early retirement provisions were enacted in 1984 as part of the pension reforms intended to place the Allegheny County Employees' Retirement System on a firmer financial basis. The implementation of uniform eight-year cliff vesting would make the vesting period for county employees hired after April 13, 1984, closer to the standard five-year cliff vesting required of many private sector retirement systems under the Employee Retirement Income Security Act of 1974.

The prime sponsor of the amendment and the bill has indicated that he intends the amendment "only to address the issue of unified vesting at 8 years for employees of Second Class Counties, regardless of their date of hire." In preparing this actuarial note the Commission has assumed, and instructed its consulting actuary to assume, that section 1710(b) also will be amended to reduce the service requirement to eight years for all early retirements taken by individuals employed after April 13, 1984. Suggested wording for such an amendment is attached.

## SUMMARY OF ACTUARIAL COST IMPACT

The method used by the Allegheny County Employees' Retirement system to determine annual funding requirements is unique to the system. For the purposes of comparison, the consulting actuary of the

Commission used the entry age normal actuarial cost method. The increase in unfunded actuarial accrued liability data presented below will be the actual impact on Allegheny County. The data on increases in employer annual costs and total amortization payments presented below will not be the actual impact on Allegheny County, however, because the annual funding requirements of the Allegheny County Employees' Retirement System are not determined by the entry age normal actuarial cost method.

| | **Amount** |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $30,000 |

| | **Amount** | **As a % of Affected Payroll** |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $28,000 | 0.014% |
| Amortization Payments[1] | 4,100 | 0.002% |
| Total Increase in Employer Costs | $32,100 | 0.016% |

| | **Amount** |
|---|---|
| Total Amortization Payments | $41,000 |

1) Amortization payments are the same amounts each year for ten years.

## POLICY CONSIDERATIONS

In reviewing the amendment, the Commission identified the following policy considerations:

More Nearly Equal Treatment. **(+)** The amendment would provide the same service requirement for the early retirement option to similarly situated Allegheny County employees regardless of the date of employment.

Administrative Considerations. **(+)** The move toward uniform early retirement provisions will facilitate the administrative operation of the system.

Drafting Ambiguity. **(-)** To accomplish the intent of the prime sponsor, section 1710(b) also should be amended. Suggested wording for such an amendment is attached.

## COMMISSION RECOMMENDATION

On October 1, 1997, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified above.

House Bill 846, Printer's Number 946, was referred to the House Urban Affairs Committee on March 12, 1997.

**Bill ID:** House Bill 908, Printer's Number 1016, and Amendment 1902 to House Bill 162, Printer's Number 1067

**System:** Public School Employes' Retirement System

**Subject:** Repeal to Time Limit on Purchase of Certain Maternity Leaves

## SYNOPSIS

House Bill 908, Printer's Number 1016, and Amendment 1902 to House Bill 162, Printer's Number 1067, both would amend section 8304(b)(7) of the Public School Employees' Retirement Code by repealing the within one year of eligibility restriction on a purchase of up to two years of service credit for nonschool service on a mandatory maternity leave of absence prior to May 17, 1975, to permit the purchase at any time prior to termination of active service.

## DISCUSSION

Since at least 1973, the courts of Pennsylvania have held that it is a violation of section 5(a) of the Pennsylvania Human Relations Act for a school district to force a pregnant public school teacher onto maternity leave. [See, for example, *Cerra v. East Stroudsburg Area School District*, 450 Pa. 207, 299 A.2d 277 (1973); *Freeport Area School District v. Pennsylvania Human Relations Commission*, 18 Pa. Commw. Ct. 400, 355 A.2d 873 (1975); and *Leechburg Area School District v. Pennsylvania Human Relations Commission*, 19 Pa. Commw. Ct. 614, 339 A.2d 850.] On Saturday, May 17, 1975, an order of the Pennsylvania Human Relations Commission adopting regulations regarding employment policies relating to pregnancy, childbirth, and childbearing became effective by publication in the *Pennsylvania Bulletin*. [5 Pa. Bul. 1298-99 (May 17, 1975).] The regulations may be found at 16 Pa. Code §§ 41.101-41.104. Among other things, the regulations make a "written or unwritten employment policy or practice which excludes from employment applicants or employes because of pregnancy" a "prima facie violation of the Pennsylvania Human Relations Act . . . ." [*Id.* at § 41.102.]

Act 23 of 1991 amended the Public School Employees' Retirement Code (Code) by adding sections 8304(b)(7) and 8324 that, effective November 3, 1991, expanded the list of purchasable nonschool service under the Code to include up to two years of a mandatory maternity leave of absence occurring prior to May 17, 1975 (the date of adoption of the order of the Pennsylvania Human Relations Commission).

In its March 1997 report, *Service Purchase Authorizations for Pennsylvania Public Employee Retirement Systems*, the Public Employee Retirement Commission recommended that purchases of prior service credit in public employee retirement systems be limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. Employer-mandated leaves required by some school districts in the past have since been determined to be contrary to public policy. Failure to recognize the period of mandated leave as credited service in the Public School Employes' Retirement System may, therefore, be considered to be an unfair impairment of the pension rights of affected employees. The authorization in Act 23 of 1991 to purchase credit for previously unrecognized service was an appropriate remedy for an employer-caused inequity in cases where no administrative remedy was available.

In its 1997 report, the Commission also recommended that, for purchases of credit for service such as maternity leaves, employees be required to exercise the purchase option within three years of becoming eligible to do so. The restriction in Act 23 of 1992 to make the purchase within one year of eligibility is consistent with the recommendation. Where there is no time limit, such as is proposed in the legislation, employees routinely defer electing to purchase the service and delay making any contributions associated with the service credit purchase until the latest opportunity, which, in the case of the Public School Employes' System (PSERS), would be just before retirement.

The imposition of a time limit on the exercise of the service credit purchase option serves to limit the potential actuarial liability associated with the purchase. The timely exercise of the purchase option enables more appropriate actuarial funding of the benefit increase attributable to the purchased service credit by increasing the accuracy of the data concerning the amount of service on which the employee's pension eventually will be based. In addition, to the extent to which assets are required to be contributed by the employee in connection with the service purchase, the interest earned on these assets becomes an additional source of funding for the benefit increase.

Under the proposals in the legislation, otherwise eligible members of PSERS who failed to exercise their purchase option will be rewarded for their failures by being permitted to purchase service credit later in their lives when, on a time value of money basis, the purchases will be less expensive to the members and more expensive to the school districts, other educational employers, and the Commonwealth, while those who exercised their option within the specified period will have paid relatively more and cost the employers relatively less. The public pension policy for this unequal treatment of PSERS members is not apparent.

Under section 8304(b)(7) of the Code as adopted in 1991, the member must prove to the Public School Employes' Retirement System (System) that the maternity leave of absence was required by the employer. In practice, the Public School Employes' Retirement System has found this requirement very difficult to administer. Because of the destruction of school district records in the normal course of business, consolidation of school districts, failure to retain or destruction of personal records, and the frequently informal nature of these employer mandates, many members could not sustain their burden of proof to the normal administrative law standard as to either the mandated nature of their maternity leaves of absence or the time of beginning or the time of ending or both of the mandated part of their maternity leaves of absence. The System, therefore, has chosen to grant eligibility to purchase service credit to most of the members who were on a maternity leave of absence prior to May 17, 1975, based on the presumption that at least some portion of most of these leaves was mandatory.

If the policy makers of the Commonwealth feel it necessary to grant another opportunity to purchase service credit for this nonschool service to the members of PSERS who were eligible to but failed to do so, providing a second opportunity of one year duration during which the option could be exercised would be more equitable and less costly to the System than the approach used in the proposals.

## SUMMARY OF ACTUARIAL COST IMPACT

Because the Commission has no information on how many members of the Public School Employes' Retirement System would be eligible to purchase this service credit nor how much service credit they would be eligible to purchase, an exact estimate of the actuarial cost of the proposals cannot be made. The staff of the System has been able to identify 94 members who claim to have been required to take mandatory maternity leaves of absence before May 17, 1975, and who did not purchase service credit for this nonschool service within one year of becoming eligible to do so. The staff of the System also reports that, under section 8304(b)(7), 4,968 members have made purchases of about 1.96 years of service per purchase at an average employee contribution per purchase of about $4,762.

The consulting actuary of the Commission has estimated the percentage of the full actuarial cost of the increased benefit that will be paid by the member under section 8324(f) as modified by the proposed legislation. The percentage paid by the member can vary significantly based on the individual member's situation. One factor that can vary the percentage paid by the member includes the member's salary increases from time of re-entry to time of purchase. The consulting actuary's estimates are based on the actuarial assumptions utilized in the June 30, 1996, PSERS actuarial valuation report.

The following table shows the estimated percentage of the full actuarial cost paid by the member for four combinations of ages at re-entry into school service and at retirement. The consulting actuary has estimated the percentage of the full actuarial cost paid by the member for average career salary increases of four percent, six percent, and eight percent. As shown below, when the average career salary scale increases, the percentage of the cost paid by the member decreases. The actuary also provided estimates of the potential unfunded actuarial accrued liability attributable to the bill based on three utilization scenarios.

**Estimated Percentage of Total Cost Paid by Member**

| Age at Re-entry into School Service | Age at Retirement | Average Salary Increase of 4% | Average Salary Increase of 6% | Average Salary Increase of 8% |
|---|---|---|---|---|
| 25 | 57 | 78% | 42% | 23% |
| 30 | 60 | 81% | 46% | 26% |
| 35 | 62 | 83% | 50% | 30% |
| 40 | 62 | 83% | 55% | 36% |

**Estimated Increase in Unfunded Actuarial Accrued Liability**

| Number of Eligible Members who Purchase Service Just Prior to Retirement | Estimated Increase in Unfunded Actuarial Accrued Liability at Retirement |
|---|---|
| 25 | $200,000 |
| 50 | $300,000 |
| 100 | $700,000 |

## POLICY CONSIDERATIONS

In reviewing the bill and the amendment, the Commission identified the following policy considerations:

<u>Nonconformance with Policy Guideline</u>. (-) In March of 1997, the Public Employee Retirement Commission published *Service Purchase Authorizations for Pennsylvania Public Employee Retirement Systems*, a report recommending policy guidelines for authorizing, funding, and structuring purchases of service credit. The proposals do not conform with the recommendation

in the report concerning time limits on purchases of service credit. The Commission recommended that, for purchase options of this type, employees be required to exercise the purchase option within three years of becoming eligible to do so. The proposals repeal the original one year time limit and would permit a purchase at any time until the employee terminates service.

Unequal Treatment of Similarly Situated PSERS Members. **(-)** The proposals would reward those PSERS members who failed to exercise their purchase of service credit option within the statutory time period by granting them the right to make the purchase at any time prior to retirement at a cost that, on a time value of money basis, is less expensive to the members and more expensive to the employers then otherwise identical purchases made by those eligible members who made their purchases within the time period. The public pension policy reason for this unequal treatment is not apparent.

Alternative Remedy. **( )** If the policy makers of the Commonwealth feel it necessary to grant another opportunity to purchase service credit for this nonschool service to the members of PSERS who were eligible to but failed to do so, a more equitable alternative with less cost to the System would be to provide a second opportunity of one year duration during which the option could be exercised.

## COMMISSION RECOMMENDATION

On June 5, 1997, the Commission voted to attach the actuarial note to the bill and the amendment, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 162, Printer's Number 2077, was referred to the Senate Rules and Executive Nominations Committee on June 17, 1997, and House Bill 908, Printer's Number 1016, was re-referred to the House Appropriations Committee on November 24, 1997.

**Bill ID:** House Bill 1133, Printer's Number 1279

**System:** State Employes' Retirement System

**Subject:** Purchase of Service Credit by Pennsylvania State Police Officers for Nonstate Service as a Pennsylvania Municipal Police Officer

## SYNOPSIS

House Bill 1133, Printer's Number 1279, would amend section 5304(c) of the State Employees' Retirement Code to permit an active member or an active multiple service member who is a Pennsylvania State Police Officer to purchase up to five years of service credit for previous nonstate service as a municipal police officer within Pennsylvania.

## DISCUSSION

The Commonwealth's defined benefit pension plan has a retirement benefit based on a predetermined formula that is a function of the final average salary and years of credited service. Eligibility requirements for receiving full benefits under the plan are based on the attainment of a specified age and the crediting of a specified number of years of service. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Public employee defined benefit pension plan provisions that permit members to receive credit for service with another employer are of value to members because they enhance the retirement benefit and also may accelerate retirement eligibility.

Under an award by a board of arbitration, members of the Pennsylvania State Police are entitled to a retirement benefit equal to a percentage of their highest annual salary, excluding their year of retirement. The benefit is 50 percent of salary for 20 to 24.9 years of service and 75 percent of salary for 25 or more years of service.

All members of the State Employes' Retirement System (SERS) currently are able to purchase credit for the following types of service: approved leaves of absence without pay, intervening and nonintervening military service, service as public educators in another state or with the federal government, service as a temporary federal employee assigned to a Commonwealth agency, service in a community college under the Community College Act prior to July 1, 1971, service in the Cadet Nurse Corps during World War II, service with a government agency other than the Commonwealth that was terminated because of the transfer by statute of the administration of the service or of the entire agency to the Commonwealth, and service as a justice of the peace prior to 1970.

About 4,067 of the 110,922 members of SERS are employed as members of the Pennsylvania State Police. The bill would expand the list of purchasable nonstate service only for these members to include service as a municipal police officer within Pennsylvania. The purchase would be limited to not more than five years of service credit. The effect of the additional service credit would be to add an amount equal to up to 25 percent of the highest salary to the value of the basic benefit prior to modification. The purchase contribution amount required for each year of service credit would be the member's contribution rate plus the Commonwealth normal contribution rate at the time of entry into Commonwealth service applied to the salary of that first year of subsequent Commonwealth service plus interest at the statutory rate of four percent. Because the contribution amount would be less than the actuarial value of the additional service credit, a residual unfunded actuarial accrued liability would be created, and it would be funded by the Commonwealth over a 20-year period with payments increasing five percent a year.

The advantage that the proposed option to purchase service credit for nonstate service would confer upon certain SERS members can be illustrated by a few examples. Under the bill:

> A member of the Pennsylvania State Police with 20 years of Commonwealth service, who already is eligible for a full pension of 50 percent of highest salary, if eligible, could buy five years of service credit for nonstate service as a municipal police officer and immediately retire with a pension of 75 percent of highest salary;
>
> A member of the Pennsylvania State Police with 15 years of Commonwealth service, if eligible, could buy five years of service credit for nonstate service as a municipal police officer and immediately retire with a pension of 50 percent of highest salary; or
>
> A member of the Pennsylvania State Police with ten years of Commonwealth service, if eligible, could buy five years of service credit for nonstate service as a municipal police officer and five years of service credit for nonintervening military service and immediately retire with a pension of 50 percent of highest salary.

In addition to the direct actuarial cost to the Commonwealth for the increased SERS benefits under the bill, there may be other retirement benefit costs incurred by the Commonwealth. By purchasing service credit in SERS for nonstate service, a member either may become eligible for other postretirement benefits sooner than otherwise or may achieve eligibility when the member could not otherwise do so.

Under section 5705(a)(4)(iii) of the State Employees' Retirement Code, a retiring member may withdraw, as a component of an optional form of retirement benefit, a lump sum amount equal to the member's total accumulated deductions. This provision would enable an eligible member to effect the proposed service credit purchase very close to the time of retirement, become entitled to an increased retirement benefit, and receive an almost immediate return of the entire purchase amount as part of the withdrawal. The offset to the member's pension benefit in this situation will be less than the full value of the purchased benefit, thus generating an additional loss in excess of the increase in the unfunded actuarial accrued liability caused by purchasing the service credit at less than full cost. The combined effect gives the member a significantly increased pension at essentially no cost to the member.

## SUMMARY OF ACTUARIAL COST IMPACT

The Pennsylvania State Police estimate that approximately five to ten percent of its members previously were employed as municipal police officers in Pennsylvania. The estimate of the actuarial cost impact of the bill has been revised to reflect the current affected payroll.

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

| | Range of Amounts |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $10,000,000 – $20,000,000 |

| | Range of Amounts | Range as a % of Payroll |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $ 0 – $ 0 | 0.00% – 0.00% |
| Amortization Payment[1] | 750,000 – 1,500,000 | 0.38% – 0.76% |
| Total Increase in Employer Annual Costs[2] | $750,000 – $1,500,000 | 0.38% – 0.76% |

| | Range of Amounts |
|---|---|
| Total Amortization Payments | $24,799,465 – $49,598,931 |

1) First year cost, increasing five percent a year for 20 years.
2) First year only.

POLICY CONSIDERATIONS

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

Departure from Policy Guidelines. (-) In March 1997, the Public Employee Retirement Commission published *Service Purchase Authorizations for Pennsylvania Public Employee Retirement Systems*, a report recommending policy guidelines for authorizing, funding, and structuring purchases of credit for service. The bill does not conform to the recommendations in the report concerning authorizing, funding, and structuring purchases of credit for service.

*Inequity of Certain Service Credit Purchase Authorizations.* The Commission recommended that service credit purchase authorizations not be employed as a means of recognizing the past education, training, or work experience of public employees. Recognition of these pre-employment activities represents a departure from the conventional role of a public employee retirement system as an employment-related benefit maintained principally in the interest of those devoting a substantial career to service for the public employer. The use of service purchase authorizations on an ad hoc basis to recognize past education, training, or experience requires policy makers to make arbitrary determinations concerning what types of past service should be purchasable and results in inequitable treatment of public employees.

*Appropriateness of Credit for Service as a Municipal Police Officer.* The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The situation of State Police Officers is not among those identified as appropriate for the use of service purchase authorizations. The service credit authorization would represent permission to purchase credit for service with another government, a government that enjoyed an actuarial gain when the member terminated service or will enjoy an actuarial gain when the employee surrenders retirement system rights in order to purchase this service credit in SERS.

*Adequacy of Purchase Payments.* The statutory method for calculating the members' contributions to purchase service for nonstate service as a municipal police officer in Pennsylvania will result in members paying less than the full actuarial cost of the increased retirement benefit acquired through the service credit purchase. This service credit purchase contribution will result in an increase in the unfunded actuarial accrued liability of SERS and increased amortization payments by the Commonwealth over the 20-year amortization period. A service purchase transaction that favors the member at the expense of the retirement system is viewed by the Commission as appropriate only where necessary for the purpose of equity. The Commonwealth will suffer an actuarial loss in permitting the purchase unless the bill is amended to require an employee to pay the full actuarial cost.

*Cost Effectiveness of Technical Provisions.* For service purchase authorizations of this type, the Commission recommended that employees be required to exercise the purchase option within three years of becoming eligible to do so. The Commission also recommended that, in cases where the service purchase amount required to be paid by an employee includes amounts representing both employer and employee costs attributable to the purchased service, the portion of the payment representing employer cost be precluded from withdrawal by a member upon retirement. The bill does not limit the time within which the member must exercise the purchase option and does not exclude the purchase payment from Option 4 lump sum withdrawal. The absence of both a limitation on the time that the purchase option is available and a restriction on withdrawal of the purchase amount under Option 4 increases the cost to SERS associated with the authorization to purchase credit for this nonstate service.

<u>Unequal Treatment of SERS Members</u>. (-) The bill does not treat all similarly situated Commonwealth employees equally. The purchase option for municipal police service is restricted just to members of the Pennsylvania State Police rather than including other public safety employees such as investigators of the Office of Attorney General, officers of the Capitol Police, correction officers, enforcement officers, psychiatric security aids, officers of the Delaware River Port Authority, and waterways conservation officers. The proposal would permit certain Commonwealth employees to purchase credit for nonstate service as municipal police officers. Other Commonwealth employees with municipal police service could not purchase credit for that service nor could Commonwealth employees purchase service credit for other municipal service.

<u>Precedent for Similar Requests</u>. (-) The bill would initiate a public pension policy in the Commonwealth by allowing nonstate service credit for municipal service to be purchased. The bill may serve as a precedent for other Commonwealth employees with previous municipal police service and for all Commonwealth employees with any type of previous municipal service to request the option to purchase nonstate service credit for that municipal service.

<u>Retirement Benefit Portability</u>. ( ) The bill represents a limited means to provide partial intergovernmental portability of retirement benefits from almost 1,000 municipal police officer retirement systems to the State Employes' Retirement System. In December 1992, the Public Employee Retirement Commission published *Special Report: Study of the Current Structure of Local Government Employee Retirement Systems and Recommended Establishment of a Statewide Retirement System*, a report recommending, among other things, a comprehensive

solution to the problem of portability of service among the more than 2,800 public employees' retirement systems in Pennsylvania. These recommendations are reflected in Senate Bill 287, Printer's Number 286.

Need for Clarifying Amendments. (-)

*County Police Officers.* At the time of the enactment of the State Employees' Retirement Code, the term municipality did not include counties, but it does include counties in statutes finally enacted after December 31, 1974, as the bill would be. To prevent confusion, the language should clearly indicate whether county police service is intended to be included and, if so, whether service in a county sheriff's department or as a county detective is to be considered municipal police service.

*Municipal Police Officer.* "Service as a municipal police officer" is a vague phrase and should be further defined by restricting it to full-time, sworn municipal employees who are legislatively authorized to act as police with the power, among other things, to enforce municipal ordinances and the Crimes Code.

## COMMISSION RECOMMENDATION

On November 13, 1997, the Commission voted to attach the actuarial note to the bill, expressing serious concern about the public pension policy impact of the bill and recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 1133, Printer's Number 1279, was referred to the House State Government Committee on April 2, 1997.

**Bill ID:** House Bill 1160, Printer's Number 1316

**System:** State Employes' Retirement System

**Subject:** Expansion of Special Public Safety Employee Benefit Coverage to Certain Employees of the Pennsylvania Fish and Boat Commission

## SYNOPSIS

House Bill 1160, Printer's Number 1316, would amend the State Employees' Retirement Code to expand the definition of enforcement officer to include waterways conservation officers and other commissioned law enforcement personnel employed by the Pennsylvania Fish and Boat Commission who are not waterways conservation officers but who have and exercise the same law enforcement powers as waterways conservation officers (assistant regional supervisors, waterways conservation officer managers, and the director of law enforcement), excluding deputy waterways conservation officers. The affected employees would become eligible for increased retirement, early retirement, death, and other benefits.

## DISCUSSION

The State Employes' Retirement System (SERS) is a cost-sharing multiple-employer retirement system established by the Commonwealth to provide pension benefits for employees of the Commonwealth and certain independent agencies. At December 31, 1995, there were 109 participating state and other employer organizations. Membership in SERS is mandatory for most state employees. Certain other employees are not required but are given the option to participate. At December 31, 1995, SERS membership consisted of 84,928 retirees, beneficiaries, and terminated employees entitled to benefits and 112,637 active members.

Special retirement coverage for various public safety employees often is provided in public employee retirement systems. The special treatment is based on the hazardous nature of public safety employment and the physical and psychological requirements of public safety work.

Under the State Employees' Retirement Code, the special retirement coverage for Commonwealth public safety employees is the eligibility to retire at age 50 with full retirement benefits. Normal retirement for general employees is age 60 or any age with 35 years of service. Since the death benefit provided under the retirement system for any Commonwealth employee is dependent on the retirement age; the special public safety employee retirement coverage also increases the death benefit.

The employees currently eligible for this special coverage include Liquor Control Board enforcement officers and investigators, Office of Attorney General special agents, narcotics agents, asset forfeiture agents, medicaid fraud agents, and senior investigators of the hazardous prosecutions unit, Pennsylvania Board of Probation and Parole parole agents, Department of Corrections correctional officers, Department of Public Welfare psychiatric security aides, Delaware River Port Authority policemen, Department of General Services Capitol Police Officers, Department of Conservation and Natural Resources park rangers, and Pennsylvania State Police Officers.

## DISCUSSION (CONT'D)

Under the Fish and Boat Code, waterways conservation officers enforce all laws of the Commonwealth relating to fish and watercraft as well as game, parks, and forestry, and they also may enforce the Crimes Code. The enforcement powers of these officers generally include powers to arrest, execute warrants and search warrants, serve subpoenas, stop and search vehicles and watercraft, carry firearms, seize evidence, etc. Deputy waterways conservation officers also may be appointed with identical powers except that they cannot enforce the Crimes Code and, unless detailed in writing for duty by the executive director of the Pennsylvania Fish and Boat Commission, are not entitled to any salary, compensation, or expenses from the Commonwealth for their services. The bill excludes deputy waterways conservation officers from being defined as "enforcement officers."

## SUMMARY OF ACTUARIAL COST IMPACT

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $1,503,000 |

| | Amount | As a % of Class Payroll |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $ 92,000 | 2.12% |
| Amortization Payment[1] | 116,000 | 2.67% |
| Total Increase in Employer Annual Costs[1] | $ 208,000 | 4.79% |

| | Amount |
|---|---|
| Total Amortization Payments | $3,835,650 |

1) First year only. Amortization payments increase five percent a year for 20 years.

## POLICY CONSIDERATIONS

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

<u>Appropriateness of Benefit Coverage</u>. ( ) Traditionally, special public safety employee retirement coverage is deemed appropriate for a group of employees if the nature of the duties of the employees is sufficiently hazardous and the need for an exceptionally able and vigorous work force is sufficiently great. The positions in the Pennsylvania Fish and Boat Commission proposed to be included under the special benefit coverage are waterways conservation officers and other commissioned law enforcement personnel who are not waterways conservation officers but who have and exercise the same law enforcement powers as waterways conservation officers, excluding deputy waterways conservation officers. In considering the proposed legislation, Commonwealth policymakers must determine whether the special benefit coverage is warranted for this group of employees based on the degree of hazard encountered by these members in the performance of their duties and the need for exceptionally vigorous work forces in these areas.

Member Contributions. ( ) The proposed legislation provides a benefit increase applicable to active SERS members and, therefore, increases the normal cost of the retirement system. It may be appropriate for a portion of the cost of the benefit increase to be allocated to active members through increased member contributions. Other SERS members with special public safety employee benefit coverage are not required to contribute at a higher rate than general state employees, however.

## COMMISSION RECOMMENDATION

On June 5, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

As Printer's Number 1981, House Bill 1160 was signed into law by the Governor as Act 41 of 1997 on June 25, 1997.

**Bill ID:** House Bill 1279, Printer's Number 1448

**System:** All Municipal Firefighters' and Police Officers' Retirement Systems

**Subject:** Granting Retroactive Ongoing Ad Hoc Postretirement Adjustments to Certain Retired Municipal Firefighters and Police Officers

## SYNOPSIS

House Bill 1279, Printer's Number 1448, would amend the Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988) to grant, continue, and increase ongoing special ad hoc postretirement adjustments to certain retired municipal firefighters and police officers retroactive to the first municipal pension payment in 1996, with the retirees' adjustments being paid for out of the proceeds of the premium tax on casualty insurance sold in Pennsylvania by out-of-state insurance companies.

## DISCUSSION

A postretirement adjustment is a special type of retirement benefit. It is an increase in the amount of retirement benefit that initially was payable at retirement. Postretirement adjustments may be granted for a number of reasons, but the most common is to increase retirement pay to reflect part of the increase in the cost of living since an individual retired. The decision to pay a postretirement adjustment generally is made either by the governing body of the retirement system or by the governing body of the governmental entity that established and maintains the public employees' retirement system.

In 1988, the General Assembly and the Governor enacted the Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act. The Act required every Pennsylvania municipality that maintained a paid firefighters' or police officers' retirement system which had one or more retired or disabled members to provide special ad hoc postretirement increases in the pension benefits for certain retirees. The mandated state-funded special postretirement adjustments were provided without regard to the provision of postretirement adjustments by the individual municipal retirement systems. Consequently, the combined postretirement adjustments received by retirees either could have continued to be inadequate or been made overly adequate. The formula for the adjustments was based on years on retirement using three benefit groupings (5—10 years, 10—20 years, and 20 or more years), and it included a special benefit grouping for disabled retirees with less than ten years on retirement. The formula generally provided, in cliff fashion, higher adjustments as the years on retirement increased. The Act, as amended, requires a reduction in the special ad hoc postretirement adjustments provided by the municipal retirement system if the total pension fund assets of the municipality are less than 50 percent of its aggregated actuarial accrued liabilities.

When viewed from a public pension policy perspective, there are several design considerations raised by the formula. The formula does not provide postretirement adjustments related to the original retirement benefit, which functions as a means to relate the amount of the adjustment to the service rendered. With its cliff-type benefit groupings, the formula does not provide adjustments directly related to the change in the cost of living subsequent to retirement. There is no apparent justification for providing higher postretirement adjustments to individuals on disability retirement than are provided to individuals on normal retirement.

The Act specifies that part of the proceeds of the premium tax on casualty insurance sold in Pennsylvania by out-of-state insurance companies is to be used to pay for this ongoing benefit increase, with the remainder of the proceeds continuing to be used for General Municipal Pension System State Aid. In effect, the funding for the special ad hoc postretirement adjustment program reduces the general state aid available for allocation to municipalities to offset their employer pension costs. The history of these payments to date is as follows:

1990 Commonwealth Reimbursement = $8,536,986.96
1991 Commonwealth Reimbursement = $7,574,888.94
1992 Commonwealth Reimbursement = $7,366,275.94
1993 Commonwealth Reimbursement = $6,925,867.57
1994 Commonwealth Reimbursement = $6,477,425.95
1995 Commonwealth Reimbursement = $6,136,171.87
1996 Commonwealth Reimbursement = $5,877,213.79
1997 Commonwealth Reimbursement = $5,525,560.79

The bill would, retroactive to the first municipal pension payment in 1996, grant, continue, and increase special ad hoc postretirement adjustments to retired municipal firefighters and police officers who began receiving retirement pay before January 1, 1992, as follows:

Grant a $25 a month adjustment to retired municipal public safety employees who retired in 1986, 1987, 1988, 1989, and 1990;

Grant a $50 a month adjustment to totally disabled municipal public safety employees who retired in 1986, 1987, 1988, 1989, 1990, and 1991;

Grant a $75 a month adjustment to retired municipal public safety employees who retired in 1984 and 1985;

Increase the adjustment from $50 a month to $75 a month to totally disabled retired municipal public safety employees who retired in 1979, 1980, 1981, 1982, 1983, and 1984;

Increase the adjustment from $25 a month to $75 a month to retired municipal public safety employees who retired in 1979, 1980, 1981, 1982, and 1983;

Continue the adjustment of $75 a month to retired municipal public safety employees who retired in 1976, 1977, and 1978;

Increase the adjustment from $75 a month to $150 a month to retired public safety employees who retired in 1969, 1970, 1971, 1972, 1973, 1974, and 1975; and

Continue the adjustment of $150 a month to retired municipal public safety employees who retired before 1969.

The money to pay for these additional and continued retiree adjustments would continue to come from the proceeds of the premium tax on casualty insurance sold by out-of-state insurance companies that otherwise would be allocated as General Municipal Pension System State Aid.

The proposed changes in dates in sections 303, 502(a), and 901(a) would appear to result in confusion regarding the existing adjustments under the Act.

## SUMMARY OF ACTUARIAL COST IMPACT

The actuarial cost impact of the bill will vary substantially from municipality to municipality depending upon the average retirement age, the number of retired members, and the average length of time during which these individuals have been retired. With the cooperation of a number of consulting actuaries, the Commission received and compiled certain demographic data on the affected public safety employees' retirement systems, including those of the Cities of Philadelphia and Pittsburgh. For municipalities other than Philadelphia, the data represent about 81 percent of both the regular retired public safety employees and the disability retired public safety employees. Using these data, the consulting actuary of the Commission provides the following estimate of the aggregate statewide actuarial cost impact of the bill.

| | **Amount** |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $38,500,000 |

| | **Amount** | **As a % of Affected Payroll** |
|---|---|---|
| Increase in Employers' Annual Costs | | |
| Normal Costs | $ 0 | 0.00% |
| Amortization Payments[1] | 5,700,000 | 0.60% |
| Total Increase in Employers' Annual Costs | $5,700,000 | 0.60% |

| | **Amount** |
|---|---|
| Total Amortization Payments | $57,000,000 |

1) Amortization payments are the same amounts each year for ten years.

Projected Commonwealth Reimbursements for 1998, 1999, and 2000

| | **Amount** |
|---|---|
| 1998 Commonwealth Reimbursements | $5,200,000 |
| 1999 Commonwealth Reimbursements | |
| 1998 Payments under Original Act | $ 4,900,000 |
| 1996 and 1997 Retroactive Adjustments under Amended Act | 10,200,000 |
| 1998 Adjustments added by Amended Act | 5,000,000 |
| Total 1999 Commonwealth Reimbursements | $20,100,000 |
| 2000 Commonwealth Reimbursements | |
| 1999 Payments under Original Act | $4,600,000 |
| 1999 Adjustments added by Amended Act | 4,750,000 |
| Total 2000 Commonwealth Reimbursements | $9,350,000 |

## POLICY CONSIDERATIONS

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

Postretirement Adjustments. (+) Increasing the pension benefits after retirement to reflect the erosion of the value of the pension benefit caused by inflation is a common practice in the public sector. Because municipalities may not have exercised the optional provisions for cost-of-living increases or may be precluded from granting additional cost-of-living increases due to statutory limits, the bill may address the need for postretirement adjustments in some instances.

Benefit Design. (-) The proposed benefit increases are not proportional to the retirement benefit, they are not related to the change in the cost of living over the period of retirement, and they do not treat the previously designated groups of retirees equally.

Commonwealth Mandates to Municipalities. (-) The bill mandates benefit increases for all municipal public safety employees' retirement systems. The appropriateness of the Commonwealth mandating municipalities to provide specific pension benefits is questionable from a public policy standpoint due to the wide variation in local situations.

Equity Among Municipal Employees. (-) The bill is limited in application to retired municipal public safety employees. There is limited policy rationale for the Commonwealth to distinguish between municipal public safety employees and other municipal employees in mandating postretirement benefit increases, particularly when substantial state government shared revenue financing is involved.

State Pension Aid. (-) The bill would result in reducing the foreign casualty insurance premium tax receipts that would be available through the General Municipal Pension System State Aid (GMPSSA) to municipalities to offset their employee pension costs. The resulting shortfall in state government shared revenues will have to be made up out of municipal tax revenues. The retroactive implementation of the adjustments mandated by the bill will result in an exceptionally large reduction in GMPSSA in 1999 that may be problematic for many municipalities.

Drafting Ambiguities. (-)

*Section 303.* The proposed change in date in section 303 results in confusion regarding the existing adjustments under the Act. The section should be amended to make it clear that it is the "modified" adjustments required by the amendatory act that begin in 1996.

*Section 502(a).* The proposed change in date in section 502(a) is not needed and causes confusion regarding Commonwealth reimbursements made prior to 1998.

*Section 901(a).* The proposed change in date in section 901(a) results in confusion regarding the existing adjustments under the Act. The modification to the date in section 901(a) should not be made.

## COMMISSION RECOMMENDATION

On November 13, 1997, the Commission voted to attach the actuarial note to the bill, expressing serious concern about the public pension policy impact of the bill and recommending that the General Assembly and the Governor consider the policy issues identified above.

House Bill 1279, Printer's Number 1448, was referred to the House Local Government Committee on April 10, 1997.

**Bill ID:** House Bill 1280, Printer's Number 1449

**Systems:** Municipal Police Pension Law

**Subject:** Continuation of Surviving Spouse's Benefit until Death Regardless of Remarriage

## SYNOPSIS

House Bill 1280, Printer's Number 1449, would amend the Municipal Police Pension Law (Act 600) to provide that the survivor spouse shall continue to receive a survivor spouse pension even if the survivor spouse remarries.

## DISCUSSION

The Municipal Police Pension Law governs the establishment of police officers' retirement systems in every borough, incorporated town, township, or regional police department (municipality) with three or more full-time police officers. At its option, a municipality with fewer than three full-time police officers also may establish a police officers' retirement system under the Municipal Police Pension Law. As of January 1, 1995, there were about 860 municipal police officers' retirement systems operating under the Municipal Police Pension Law. The 860 systems covered about 7,035 active police officers.

Under section 1(a) of the Municipal Police Pension Law, if an active or retired police officer dies, the officer's surviving spouse may be entitled to a pension equal to 50 percent of the pension the officer was receiving, or would have been receiving had the officer been retired at the time of death. The pension is payable during the surviving spouse's lifetime or until the surviving spouse remarries. If no spouse survives, or if the spouse survives and subsequently dies or remarries, the pension is payable to any child or children under the age of 18. The bill would remove the requirement for the pension payments to a surviving spouse to stop if the surviving spouse remarries.

Similar provisions for pensions payable to the surviving spouse of an active or retired municipal employee to cease on remarriage also exist for paid firefighters and police officers in the City of Pittsburgh, police officers in the City of Scranton, nonuniformed employees under The Third Class City Code, and nonuniformed employees under the statute relating to the optional retirement systems for nonuniformed employees in cities of the third class. Similar provisions also used to exist for paid firefighters and police officers under The Third Class City Code, but they were repealed by Act 74 of 1992 and Act 140 of 1994. Under the pension plans for nonuniformed employees of the City of Scranton and the standard pension plans administered by the Pennsylvania Municipal Retirement System, at the time of retirement, a retiring municipal employee may elect to receive a single life annuity or, if the retiring employee wishes to provide financial assistance for dependents who may outlive the retiree and is willing to receive a smaller monthly retirement allowance during the rest of the retiree's life, a retiring municipal employee may elect to receive retirement pay in one of three optional ways provided. In neither plan do any of the three options terminate the retirement system benefit to a surviving spouse upon remarriage.

The Municipal Police Pension Law provides for a single life annuity or, if there is a surviving spouse, a joint and 50 percent survivor annuity that terminates when a surviving spouse remarries. A single life annuity for a retiring police officer with no spouse has a lower present value than a joint and survivor annuity for a retiring police officer with a surviving spouse.

Because not all retiring local government employees have the same situation with dependents and finances, the availability of various retirement options of equal present value is appropriate. The General Assembly may wish to consider legislation providing a uniform set of equal present value optional retirement benefits for local government employees regardless of job or local government classification.

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission indicates that the actuarial cost impact of the bill upon affected police officers' retirement systems, if any, will be insignificant.

## POLICY CONSIDERATIONS

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

Uniformity and Equity of Pension Benefits. **( )** Similar termination of surviving spouses' benefits upon remarriage provisions for paid firefighters and police officers in cities of the third class were repealed by Act 74 of 1992 and Act 140 of 1994. Similar termination of surviving spouses' pensions continue in effect for paid firefighters and police officers in the City of Pittsburgh and for police officers in the City of Scranton. If this proposal is determined to be appropriate, the same modification of survivor benefit provisions should be extended to paid firefighters and police officers in the City of Pittsburgh and police officers in the City of Scranton as well.

Removal of Outdated Provisions. **(+)** The proposal removes provisions in Act 600 that were based on an orientation toward survivor benefits that is no longer appropriate.

## COMMISSION RECOMMENDATION

On October 1, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 1280, Printer's Number 1449, was referred to the House Local Government Committee on April 10, 1997.

**Bill ID:** House Bill 1281, Printer's Number 1450

**System:** Pittsburgh City Police Pension Plan

**Subject:** Survivor Benefits

## SYNOPSIS

House Bill 1281, Printer's Number 1450, would amend the Second Class City Policemen Relief Law, one of the statutes providing the police officers pension plan in the City of Pittsburgh by providing that the surviving spouse of a police officer who dies as a result of injuries received in the performance of the officer's duties shall be paid a pension for life rather than 500 weeks, that the surviving spouse of either a police officer who dies as a result of injuries received in the performance of the officer's duties or a retired police officer shall continue to receive a survivor spouse pension even if the surviving spouse remarries, and that a surviving child shall continue to receive a survivor child pension until age 18 even if the surviving child marries.

## DISCUSSION

The Second Class City Policemen Relief Law is one of the statutes governing the police officers pension plan in the City of Pittsburgh. The statutes provide for the establishment of a defined benefit pension plan for police officers.

Service Connected Death. Under the Act, if a police officer dies as a result of injuries received in the performance of the officer's duties and

Is survived by a spouse, the surviving spouse receives a survivor spouse pension of 50 percent of the officer's salary at the time of death that continues for 500 weeks or until the surviving spouse remarries or dies, whichever first occurs; or

If there is no surviving spouse, or the survivor spouse pension is terminated due to the expiration of 500 weeks or the remarriage or death of the surviving spouse, and there is a surviving child, the surviving child receives a survivor child pension of 25 percent of survivor spouse pension until the child reaches age 18, marries, or dies, whichever first occurs, or if the surviving child is a dependent, incompetent individual, the survivor child pension is paid indefinitely.

Death of Retiree. Under the Act, if a retired police officer dies and

Is survived by a spouse to whom the retiree had been married at least two years and who was dependent upon the retiree, the surviving spouse receives a survivor spouse pension of 50 percent of the retired officer's pension that continues for life unless the surviving spouse remarries; or

If there is no surviving spouse or the survivor spouse pension is terminated due to remarriage or death and there is a surviving child, the surviving child receives a survivor child pension of 25 percent of the retiree's pension until the child reaches age 18, marries, or dies, whichever first occurs, or if the surviving child is a dependent, incompetent individual, the survivor child pension is paid indefinitely.

The bill would remove the requirement for the pension payment to a surviving spouse of a police officer who dies as a result of injuries received in the performance of duties to stop after 500 weeks, the requirement for the pension payments to a surviving spouse to stop if the surviving spouse remarries, and the requirement for the pension payments to a surviving child to stop if the child marries before age 18.

According to the actuarial valuation report filed with the Public Employee Retirement Commission, on January 1, 1995, there were 1,245 active members in this retirement system, and the system was paying retirement benefits to 758 retired members, disability benefits to 313 retired members, surviving spouse benefits to 473 surviving spouses, and surviving child benefits to 2 surviving children.

Similar provisions for pensions payable to the surviving spouse of an active or retired municipal employee to cease on remarriage also exist for paid firefighters in the City of Pittsburgh, nonuniformed employees under The Third Class City Code; for nonuniformed employees under the statute relating to the optional retirement systems for nonuniformed employees in cities of the third class; and police officers in boroughs, towns, and townships with three or more full time police officers under the Municipal Police Pension Law (Act 600). Similar provisions also used to exist for paid firefighters and police officers under The Third Class City Code, but they were repealed by Act 74 of 1992 and Act 140 of 1994. Under the pension plans for nonuniformed employees of the City of Scranton and the standard pension plans administered by the Pennsylvania Municipal Retirement System, at the time of retirement, a retiring municipal employee may elect to receive a single life annuity or, if the retiring employees wishes to provide financial assistance for dependents who may outlive the retiree and is willing to receive a smaller monthly retirement allowance during the rest of the retiree's life, a retiring municipal employee may elect to receive retirement pay in one of three optional ways provided. In neither plan do any of the three options terminate the retirement system benefit to a surviving spouse upon remarriage.

The police pension plan for the City of Pittsburgh provides for a single life annuity or, if there is a surviving spouse and the officer has so elected, a joint and 50% survivor annuity that terminates when a surviving spouse remarries. A single life annuity for a retiring police officer with no spouse has a lower present value than a joint and survivor annuity for a retiring police officer with a surviving spouse.

Because not all retiring local government employees have the same situation with dependents and finances, the availability of various retirement options of equal present value is appropriate. The General Assembly may wish to consider legislation providing a uniform set of equal present value optional retirement benefits for local government employees regardless of job or local government classification.

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission indicates that the total actuarial cost to the City of Pittsburgh of both increased normal costs and amortization payments attributable to the proposed liberalization of the conditions under which survivors may receive their retirement system benefits will not exceed one percent of payroll. Expressed in terms of the January 1, 1995, annual payroll, the maximum annual increase in the city's pension contributions that could result from the proposal is approximately $503,000.

## POLICY CONSIDERATIONS

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

Plan Design. (+) The 500 week limit on the survivor benefit payments in the event of service connected death of a member is arbitrary and not related to the potential need of the surviving spouse. Its removal will result in a plan design more consistent with the general practice in public employee pension plans.

Uniformity and Equity of Pension Benefits. (+) Similar termination of surviving spouses' pensions upon remarriage provisions for paid firefighters and police officers in cities of the third class were repealed by Act 74 of 1992 and Act 140 of 1994. Similar termination of surviving spouses' pensions continue in effect for paid firefighters in the City of Pittsburgh. If this proposal is determined to be appropriate, the modification of survivor benefit provisions should be extended to the paid firefighters of the City of Pittsburgh as well.

## COMMISSION RECOMMENDATION

On May 7, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 1281, Printer's Number 1450, was referred to the House Urban Affairs Committee on April 10, 1997.

**Bill ID:** House Bill 1282, Printer's Number 1451

**System:** Police Officers in the City of Scranton

**Subject:** Continuation of Surviving Spouse's Benefit until Death Regardless of Remarriage

## SYNOPSIS

House Bill 1282, Printer's Number 1451, would amend Act 351 of 1965, one of the statutes providing the police officers pension plan in cities of the second class A (the City of Scranton), by providing that the surviving spouse shall continue to receive a survivor spouse pension even if the surviving spouse remarries.

## DISCUSSION

Act 351 of 1965, is one of the statutes providing the police officers pension plan in cities of the second class A (the City of Scranton). The statutes provide for the establishment of a defined benefit pension plan for police officers. Under the Act, a police officer may elect the survivor spouse provisions providing the police officer is married and contributes an additional one percent of the officer's earned compensation in addition to all other contributions to the police officers' pension trust fund. Under the Act, the surviving spouse of a retired police officer is entitled to a monthly pension of one-half of the pension the retired officer was receiving at the time of death, provided that:

> The police officer and spouse had been married for not less than five years prior to the date of the officer's retirement;
>
> The spouse is dependent upon the retired police officer at the time of the officer's death; and
>
> The spouse does not remarry.

The bill would remove the requirement for the pension payment to a surviving spouse to stop if the surviving spouse remarries.

According to the actuarial valuation report filed with the Public Employee Retirement Commission, on January 1, 1995, there were 139 active members in this retirement system, and the system was paying retirement benefits to 106 retired members, disability benefits to 15 retired members, and surviving spouse benefits to 52 surviving spouses.

Similar provisions for pensions payable to the surviving spouse of an active or retired municipal employee to cease on remarriage also exist for nonuniformed employees under The Third Class City Code; for nonuniformed employees under the statute relating to the optional retirement systems for nonuniformed employees in cities of the third class; and police officers in boroughs, towns, and townships with three or more full time police officers under the Municipal Police Pension Law (Act 600). Similar provisions also used to exist for paid firefighters and police officers under The Third Class City Code, but they were repealed by Act 74 of 1992 and Act 140 of 1994. Under the pension plans for nonuniformed employees of the City of Scranton and the standard pension plans administered by the

Pennsylvania Municipal Retirement System, at the time of retirement, a retiring municipal employee may elect to receive a single life annuity or, if the retiring employees wishes to provide financial assistance for dependents who may outlive the retiree and is willing to receive a smaller monthly retirement allowance during the rest of the retiree's life, a retiring municipal employee may elect to receive retirement pay in one of three optional ways provided. In neither plan do any of the three options terminate the retirement system benefit to a surviving spouse upon remarriage.

The police pension plan for the City of Scranton provides for a single life annuity or, if there is a surviving spouse and the officer has so elected, a joint and 50% survivor annuity that terminates when a surviving spouse remarries. A single life annuity for a retiring police officer with no spouse has a lower present value than a joint and survivor annuity for a retiring police officer with a surviving spouse.

Because not all retiring local government employees have the same situation with dependents and finances, the availability of various retirement options of equal present value is appropriate. The General Assembly may wish to consider legislation providing a uniform set of equal present value optional retirement benefits for local government employees regardless of job or local government classification.

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission, who also was the consulting actuary of the City of Scranton, indicates that the historical contribution rates were based on the assumption that all surviving spouses will receive their full benefits for their entire lives and ignored the probability of termination because of remarriage. The consulting actuary also indicates that the actuarial cost impact of the bill, if any, will be insignificant.

## POLICY CONSIDERATIONS

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

<u>Uniformity and Equity of Pension Benefits</u>. ( ) Similar termination of surviving spouses' annuities upon remarriage provisions for paid firefighters and police officers in cities of the third class were repealed by Act 74 of 1992 and Act 140 of 1994. No such termination provisions exist for nonuniformed employees in the City of Scranton. Similar termination of surviving spouses' pensions continue in effect for paid firefighters and police officers in the City of Pittsburgh and for police officers in boroughs, incorporated towns, townships, and regional police departments with three or more full-time police officers (Act 600). If this proposal is determined to be appropriate, the same modification of survivor benefit provisions should be extended to paid firefighters and police officers in the City of Pittsburgh and police officers in Act 600 systems.

<u>Removal of Outdated Provisions</u>. (+) The proposal removes provisions in the Act that were based on an orientation toward survivor benefits that is no longer appropriate.

<u>Outdated Provisions Retained</u>. ( ) The proposal does not remove the provisions in the Act that require the surviving spouse to be dependent in order to receive survivor benefits. If the removal of outmoded survivor provisions is viewed as desirable, these provisions also should be removed.

## COMMISSION RECOMMENDATION

On October 1, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 1282, Printer's Number 1451, was referred to the House Urban Affairs Committee on April 10, 1997.

**Bill ID:** House Bill 1411, Printer's Number 1669

**System:** Allegheny County Employees' Retirement System

**Subject:** Granting Public Safety Employee Retirement Benefits to Probation Officers

## SYNOPSIS

House Bill 1411, Printer's Number 1669, would amend section 1710(b) of the Second Class County Code to permit an Allegheny County employee who is a probation officer to retire and receive a full retirement allowance at age 55 or older with 20 or more years of service.

## DISCUSSION

Article 17 of the Second Class County Code provides the pension plan for all employees of Allegheny County. For the various types of public safety employees who are employed by Allegheny County, special retirement benefit coverage is provided through the county employees' pension plan. The special coverage provided to firefighters and police officers is to retire voluntarily and receive a normal retirement benefit if the employee has attained at least age 50 and has at least 20 years of service. The special coverage provided to a sheriff, deputy sheriff, or prison guard is to retire voluntarily and receive a normal retirement benefit if the employee has attained at least age 55 and has at least 20 years of service. The regular coverage provided to all other employees is to retire voluntarily and receive a normal retirement benefit if the employee has attained at least age 65 and has at least 20 years of service (or at least age 60 with at least 20 years of service for those employed before April 14, 1984).

In public employee pension plans, it is common practice to provide special retirement coverage for various types of public safety employees. The special treatment beyond the pension plan treatment applicable to general employees can include a number of items, including an earlier age for retirement with a retirement benefit unreduced for early retirement, a greater annual retirement benefit accrual rate leading to a greater replacement of average salary with shorter service, or enhanced disability benefit or survivor coverage. The special treatment for public safety employees is premised on the need to maintain an exceptionally vigorous and able public safety employee workforce.

The proposed legislation provides for an expansion of the group of Allegheny County employees entitled to the special retirement benefit provided for a sheriff, deputy sheriff or prison guard. The Allegheny County employees to be newly included in the special public safety employee benefit are probation officers. The special coverage to be provided would permit a probation officer to retire voluntarily and receive a normal retirement benefit after attaining at least age 55 with at least 20 years of service, which is five or ten years earlier than under the current provisions, depending upon the member's date of employment.

## SUMMARY OF ACTUARIAL COST IMPACT

As the actuarial note indicates, the method used by the Allegheny County Employees' Retirement System to determine annual funding requirements is unique to the system. For purposes of comparison, the consulting actuary of the Commission used the entry age normal actuarial cost method, which is the method statutorily required to be used by all municipal employee retirement systems, the Public School Employes' Retirement System and the State Employes' Retirement System. The increase in unfunded actuarial accrued liability data presented below will be the actual impact on Allegheny County. The increase in the employer normal cost data and amortization payment data presented below will not be the actual impact on Allegheny County, however, because the annual funding requirements of the Allegheny County Employees' Retirement System are not determined by the entry age normal actuarial cost method.

| | **Amount** |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $1,074,000 |

| | **Amount** | **As a Percent of Affected Payroll** |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $ 56,000 | 2.2% |
| Amortization Payment[1] | 98,000 | 3.8% |
| Total Increase in Employer Annual Costs | $154,000 | 6.0% |

1) Amortization payment is the same amount each year for 20 years.

## POLICY CONSIDERATION

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

> Appropriateness of Special Benefit Coverage. ( ) Special public safety employee retirement benefit coverage typically is provided for employees who work in areas where it is necessary to maintain an exceptionally able and vigorous workforce. Public policy makers must decide whether it is appropriate to extend this public safety employee retirement benefit coverage to the probation officers of Allegheny County.

## COMMISSION RECOMMENDATION

On November 13, 1997, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issue identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 1411, Printer's Number 1669, was referred to the House Urban Affairs Committee on April 30, 1997.

**Bill ID:** House Bill 1627, Printer's Number 2005

**System:** Municipal Police Pension Law (Act 600)

**Subject:** Increase in Normal Retirement Benefits

## SYNOPSIS

House Bill 1627, Printer's Number 2005, would amend section 3 of the Municipal Police Pension Law (Act 600) to:

> Reduce the service requirement for retirement eligibility from 25 to not less than 20 years; and
>
> Reduce the age 55 (or, if feasible, age 50) requirement for retirement eligibility to age 50 if any minimum age is prescribed.

## DISCUSSION

The Municipal Police Pension Law governs the establishment of police officers' retirement systems in every borough, incorporated town, township, or regional police department (municipality) with three or more full-time police officers. At its option, a municipality with fewer than three full-time police officers also may establish a police officers' retirement system under the Municipal Police Pension Law. As of January 1, 1995, there were about 860 municipal police officers' retirement systems operating under the Municipal Police Pension Law. The 860 systems covered about 7,035 active police officers.

Under the Municipal Police Pension Law, a police officer may retire after a total of 25 years of service with the same municipality when the officer reaches age 55. If an actuarial valuation shows it is feasible, the retirement age may be reduced to 50. The amount of the monthly pension, excluding length of service increments, is specified as one-half of the monthly salary of the officer averaged over the last 36 to 60 months of employment.

The bill would amend section 3 of the Municipal Police Pension Law to require each affected municipality to amend the ordinance or resolution establishing its police officers' pension plan to increase the existing normal retirement benefits by:

> Reducing the service requirement for retirement eligibility from 25 to not less than 20 years; and
>
> Reducing the age 55 (or, if feasible, age 50) requirement for retirement eligibility to age 50 if any minimum age is prescribed.

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission reviewed a sample of 83 municipal police officers' retirement systems subject to the benefit provisions of the Municipal Police Pension Law. These sample plans represent approximately ten percent of the total number of systems throughout the Commonwealth that operate under Act 600. From his review, the consulting actuary estimates the following statewide cost impact.

**Reduction in Service Requirement**

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $80,000,000 — $85,000,000 |

| | Amount | As a Percent of Affected Payroll |
|---|---|---|
| Increase in Employers' Annual Costs | | |
| Normal Cost | $2,000,000 — $2,300,000 | 0.70% — 0.81% |
| Amortization Payments[1] | 7,060,000 — 7,500,000 | 2.49% — 2.64% |
| Total Increase in Employers' Annual Costs | $9,060,000 — $9,800,000 | 3.19% — 3.45% |

1) Amortization payments are the same amounts each year for 20 years.

| | Amount |
|---|---|
| Total Amortization Payments | $141,200,000 — $150,000,000 |

**Reduction in Age Requirement**

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $10,000,000 — $12,000,000 |

| | Amount | As a Percent of Affected Payroll |
|---|---|---|
| Increase in Employers' Annual Costs | | |
| Normal Cost | $ 500,000 — $ 600,000 | 0.18% — 0.21% |
| Amortization Payments[1] | 880,000 — 1,060,000 | 0.31% — 0.37% |
| Total Increase in Employers' Annual Costs | $1,380,000 — $1,660,000 | 0.49% — 0.56% |

1) Amortization payments are the same amounts each year for 20 years.

| | Amount |
|---|---|
| Total Amortization Payments | $17,600,000 — $21,200,000 |

**Total Actuarial Cost Impact of the Bill**

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $90,000,000—$97,000,000 |

| | Amount | As a Percent of Affected Payroll |
|---|---|---|
| Increase in Employers' Annual Costs | | |
| Normal Cost | $ 2,000,000 — $ 2,900,000 | 0.88% — 1.02% |
| Amortization Payments[1] | 7,940,000 — 8,560,000 | 2.80% — 3.01% |
| Total Increase in Employers' Annual Costs | $10,440,000 — $11,460,000 | 3.68% — 4.03% |

1) Amortization payments are the same amounts each year for 20 years.

| | Amount |
|---|---|
| Total Amortization Payments | $158,800,000—$171,200,000 |

POLICY CONSIDERATIONS

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

Level of Retirement Benefit. ( ) The bill would permit a maximum pension that is the equivalent of the product of two and one-half percent (2.5%) multiplied by 20 years of service multiplied by the final average salary supplemented by length of service increments, cost-of-living allowances, and Social Security benefits, all of which are funded in whole or in part through municipal contributions.

State Aid Impact. (-) The bill potentially would result in annual costs being incurred by municipal police officers' retirement systems that currently have no or reduced funding requirements under the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984). Since the affected municipalities may become eligible for increased General Municipal Pension System State Aid allocations, there is potential for the bill to reduce the amount of aid available for allocation to municipalities that receive allocations based on the unit value.

Commonwealth Mandate to Municipalities. (-) The bill mandates retirement benefit changes for all affected municipal police officers' retirement systems. The appropriateness of the Commonwealth mandating municipalities to provide specific pension benefits is questionable from a public policy standpoint due to the wide variation in local conditions. Authorizing the proposed benefit structure modifications as options, which is already in place for the reduction of the age requirement, may be more appropriate.

Commencement of Retirement Benefit. ( ) The bill would permit the elimination of an age requirement for retirement eligibility and, thereby, permit full retirement as early as age 41.

## COMMISSION RECOMMENDATION

On November 13, 1997, the Commission voted to attached the actuarial note to the bill, expressing serious concern about the public pension policy impact of the bill and recommending that the General Assembly and the Governor consider the policy issues identified above.

## LEGISLATIVE STATUS ON DECEMBER 31, 1997

House Bill 1627, Printer's Number 2005, was referred to the House Local Government Committee on June 10, 1997.

# PART II

## PUBLIC EMPLOYEE RETIREMENT SYSTEM ADMINISTRATION

### A. ACT 205 of 1984

#### 1995 Filing Period

In March of 1997, the Commission issued its Status Report on Local Government Pension Plans based on the data contained in the 1995 Act 205 local government pension plans. In addition to statistical information, the report disclosed that 141 of the 2,848 (4.9%) local government pension plans were reported to have funding deficiencies. The Commission enforced compliance with the actuarial funding standard in all instances. The *Status Report on Local Government Pension Plans* also disclosed significant municipal pension policy issues for consideration by the Governor and the General Assembly.

#### 1997 Filing Period

In August of 1997, the Commission transmitted filing notices to the 4,500 local governments required to file employee pension plan reports pursuant to Act 205. Several follow-up notices were sent to local governments that failed to respond to the filing notice in the fall of 1997. The filing deadline for the 1997 Act 205 reports will be March 31, 1998.

#### Municipal Pension Cost Certification

In the summer of 1997, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 1997 allocation of General Municipal Pension System State Aid. In 1997, the state aid provided to municipalities to offset their employee pension costs totalled more than $131 million. Over 1,200 individual allocations of General Municipal Pension System State Aid were determined by the cost data certified by the Commission.

#### Recovery Program

The Commission calculated and certified distress determinations for the 47 municipalities participating in the Act 205 Recovery Program for Financially Distressed Municipal Pension Systems. The Commission calculated the 1997 allocations of Act 205 Supplemental State Assistance and certified the allocation amounts to the Department of the Auditor General to permit the disbursement of the $549 thousand Supplemental State Assistance Allocations in December of 1997.

## B. ACT 293 of 1972

### 1996 Filing Period

Since the passage of the Municipal Pension Plan Funding Standard and Recovery Act, the actuarial reporting program under Act 293 has only been applicable to county employee retirement systems. The 1996 actuarial reports on these systems were filed in 1997. The financial, demographic, and actuarial data contained in the reports has been reviewed and will be summarized in the Status Report on Local Government Pension Plans to be published by the Commission in the spring of 1999.

# PART III

## PUBLIC EMPLOYEE RETIREMENT SYSTEM POLICY DEVELOPMENT AND COORDINATION

### A. STATUTORY PROVISIONS.

The Public Employee Retirement 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.

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

Retirement systems for employees of local governments in Pennsylvania are authorized for all classes of local government. The General Assembly has required the establishment of pension or retirement systems for most police officers and firefighters. Systems for other classes of employees and officials are optional, and the establishment of such systems is left to the discretion of the individual local governments. In June 1988, the Commission issued its publication intended to be a nontechnical description of certain statutes regulating the public employees' retirement systems of most of Pennsylvania's local governments. The Commission updated the publication in early 1993 and reissued it in June 1993. During the latter half of 1997, the Commission staff reviewed changes in laws since 1993 and prepared an updated version of the publication, which will be issued early in 1998.

**Service Purchase Authorizations for Pennsylvania Public Employee Retirement Systems.**

Among the more frequently recurring subjects in the proposed legislation that the Commission has been requested to review are authorizations to purchase service credits in public employee retirement systems for various types of currently noncreditable service. The Commission studied the subject in some depth in order to establish a consistent policy framework within which to evaluate these proposals. In June 1989, the Commission issued its report, which contained the Commission recommendations as guidance to the policy makers in the executive and legislative branches in discussing, developing, and adopting future changes in purchase of service credit provisions. At the direction of Chairman Halliwell, during 1996, the staff of the Commission reviewed the report and identified several minor technical revisions and two substantive revisions of a technical nature that were needed. The Commission reissued its report containing these revisions in March 1997.

**Status Report on Local Government Plans.**

During the second half of 1996, research began on the Commission's sixth 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 (Act 205 of 1984). Research was completed in early 1997, and in March 1997, the Commission issued its report. The report is a summary and analysis of municipal employee retirement system actuarial valuation reports as of January 1, 1995, submitted to the Commission under Act 205 and of county employee retirement system actuarial valuation reports as of January 1, 1994, submitted to the Commission under Act 293 of 1972. The data in the report was extracted from the individual pension plan reports containing actuarial, financial, and demographic information. The report clearly demonstrated that Act 205 has addressed and continues to address the funded condition of municipal pension plans, the maintenance of a municipal pension plan funding standard, and the equitable distribution of state government shared revenue. The report also indicated problems that evidence the need for reform outside the parameters of Act 205, particularly the proliferation of small plans, the lack of an incentive to contain cost, and the deficient retirement codes.

## C. STATEWIDE PUBLIC EMPLOYEES' RETIREMENT SYSTEM REVIEWS.

Under the Public Employee Retirement Commission Act, the Commission conducts periodic reviews of the actuarial and financial reports of the various public employees' retirement systems. The Commission conducted its review of the Public School Employes' Retirement System (PSERS) in May 1997 and of the State Employes' Retirement System (SERS) in October 1997.

## Commission Review of PSERS Actuarial Valuation Report

At the May 7, 1997, meeting of the Commission, the staff presented and briefly reviewed the June 30, 1996, Actuarial Valuation Report of the Public School Employes' Retirement System issued January 24, 1997, and reviewed some significant facts concerning the condition of the system since the prior valuation.

### General Funding Facts

Since the prior valuation:

- The employer contribution rate decreased from 10.60% for fiscal year 1996-1997 to 8.76% for fiscal year 1997-1998. The decrease of 1.84% is due to the following changes:

| | |
|---|---|
| — Decrease due to actuarial gain on assets | (1.02%) |
| — Decrease due to health care rate | (0.45%) |
| — Decrease due to actuarial gains/losses on liabilities | (0.37%) |
| Total: | (1.84%) |

### Changes in Contribution Rates

| | 1994 | 1995 | 1996 |
|---|---|---|---|
| Normal Cost Rate | 6.43% | 6.44% | 6.44% |
| Health Care Rate | .62% | .60% | .15% |
| Unfunded Actuarial Accrued Liability Rate | 4.67% | 3.56% | 2.17% |
| | 11.72% | 10.60% | 8.76% |

### Reasons For Decrease In Unfunded Accrued Liability

| | |
|---|---|
| • Gain from investment return on actuarial value of assets | ($1,106,653,000) |
| • Gain from salary increases less than expected | ( 379,306,000) |
| • Gain from retirement and other separation experience | ( 78,881,000) |
| • Gain from annuitants' mortality experience | ( 4,556,000) |
| Total: | ($1,569,396,000) |

**Demographics - Increase in Number of Active Members**

- The valuation shows that the number of active members increased by 3,123.
- The membership has increased by 15,909 in the past three years.

The Commission reviewed this report with Mr. James A. Perry, Executive Director, Mr. Arthur J. Granito, Assistant Executive Director, and Ms. Kim Nichol, Consulting Actuary, of the Public School Employes' Retirement Commission.

**SUMMARY OF ACTUARIAL VALUATION**
**PUBLIC SCHOOL EMPLOYES' RETIREMENT SYSTEM**
**as of**
**June 30, 1996**

The following is a summary of the June 30, 1996, actuarial valuation of the Public School Employes' Retirement System and a comparison of the 1996 results with those of 1995.

| | 6/30/95 | | 6/30/96 | |
|---|---|---|---|---|
| **Membership** | | | | |
| Active Members | 210,783 | | 213,906 | |
| Inactive and Vested Members | 38,164 | | 39,743 | |
| Retired Members | 105,840 | | 108,164 | |
| Disabled Members | 4,669 | | 4,843 | |
| Survivors and Beneficiaries | 5,451 | | 5,719 | |
| **Payroll and Annuities Payable** | | | | |
| Total Annual Payroll | $7,378,342,000 | | $7,616,585,000 | |
| Annual Annuities and Benefits | $1,221,143,000 | | $1,295,013,000 | |
| **Valuation Data** | | | | |
| Accrued Liability | $30,072,732,000 | | $31,629,822,000 | |
| Assets[1] | 26,971,214,000 | | 30,170,885,000 | |
| Unfunded Accrued Liability | $ 3,101,518,000 | | $ 1,458,937,000 | |
| Fund Ratio | 89.7% | | 95.4% | |
| **Funding Costs** | | | | |
| Normal Cost | $ 889,828,045 | 12.06% | $ 920,845,127 | 12.09% |
| Amortization[2] | 262,668,975 | 3.56% | 165,279,894 | 2.17% |
| Full Actuarial Funding[3] | $1,152,497,020 | 15.62% | $1,086,125,021 | 14.26% |
| **Support** | | | | |
| Member | $ 414,662,820 | 5.62% | $ 430,337,053 | 5.65% |
| School District | 368,917,100 | 5.00% | 327,893,984 | 4.305% |
| Commonwealth | 368,917,100 | 5.00% | 327,893,984 | 4.305% |
| Total Support[3] | $1,152,497,020 | 15.62% | $1,086,125,021 | 14.26% |

• • • • • • • • • • • • • • • • • • • •

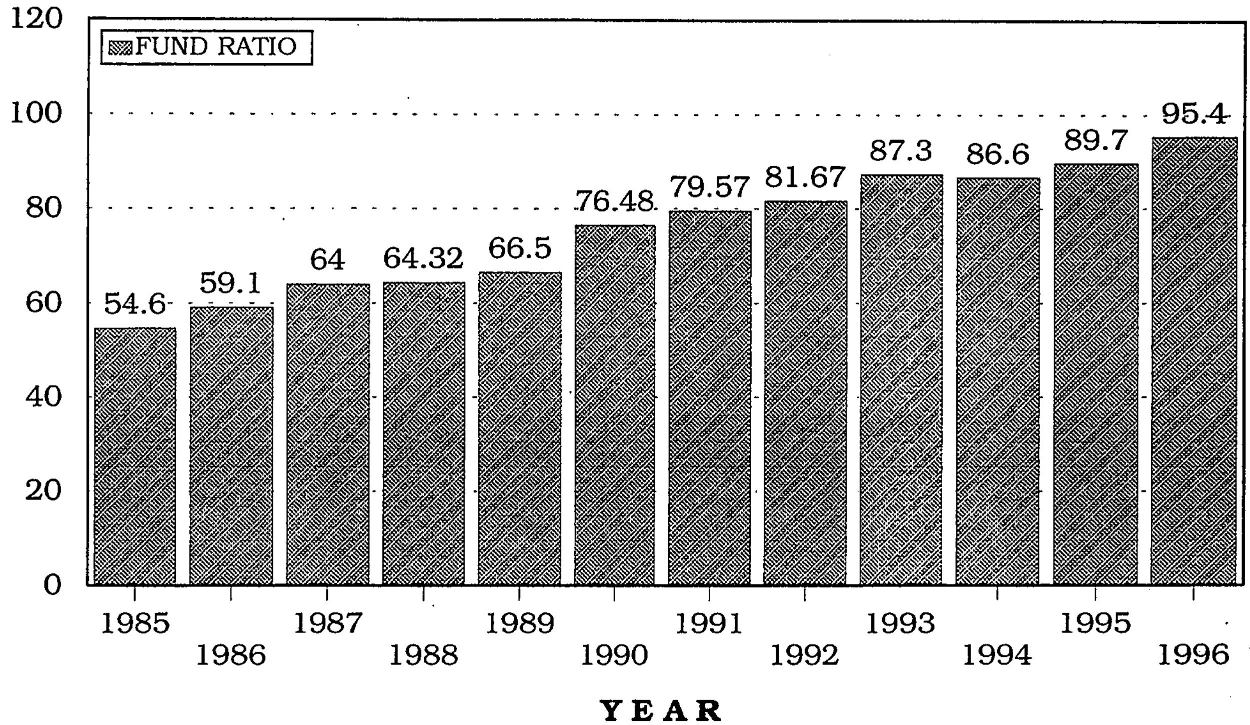
**EXPLANATORY FOOTNOTES**

1. The smoothing period for recognizing realized and unrealized gains and losses is 3 years.

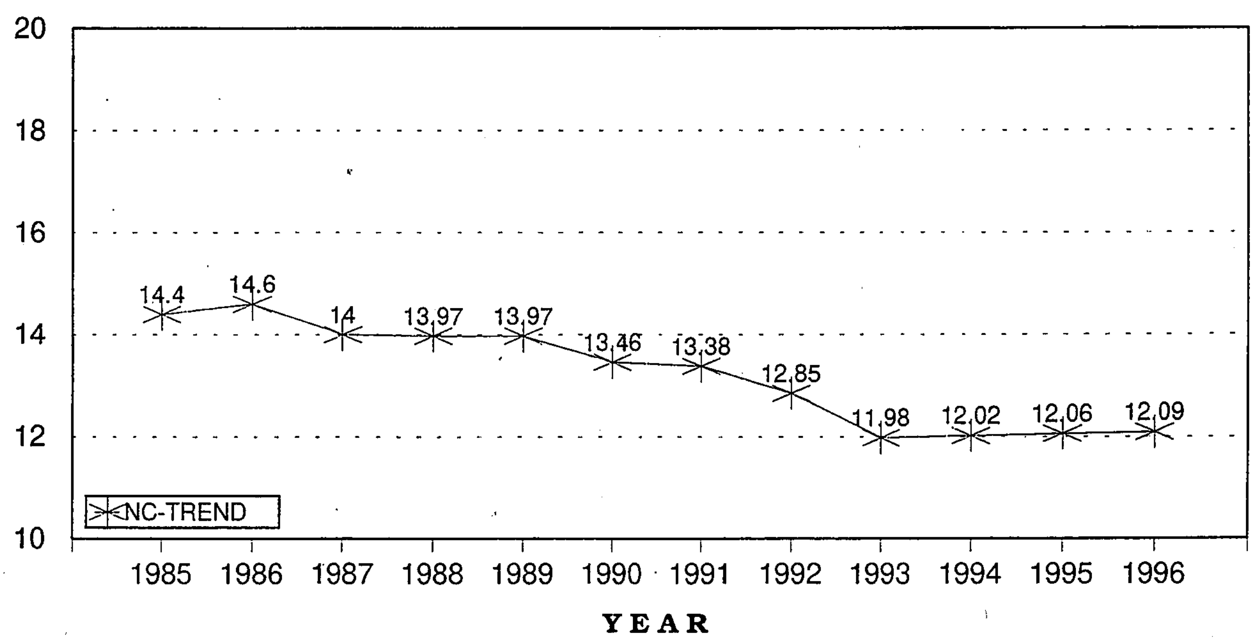
2. Act 23 of 1991 established payment for additional liabilities to be payable over a twenty-year period with the dollar amount of the annual payment increasing at five percent per year over the twenty-year period.

3. The employer health care contribution rate of .15% is not included in this total.

# PSERS FUNDING RATIO TREND




# PSERS NORMAL COST TREND



## Commission Review of SERS Actuarial Valuation Report

At the October 1, 1997, meeting of the Commission, the staff presented a summary of the December 31, 1996, Actuarial Valuation Report of the State Employes' Retirement System issued May 7, 1997, and reviewed some significant facts concerning the condition of the system since the prior valuation.

### Summary of Changes

- The employer contribution rate will be 7.28 percent. This is a .41 percent decrease from the previous year's contribution rate.

- The following elements affected the employer contribution rate:

  1) Excess investment earnings of $397 million reduced the employer cost by .69 percent.

  2) The employer cost was increased by .34 percent due to salaries increasing one percent more than expected.

  3) The employer cost also increased .07 percent due to changes in demographics of new entrants.

  4) The total negative unfunded liability adjustment increased from .80 percent of payroll in 1995 to 1.61 percent of payroll in the 1996 valuation.

  5) The current employer contribution rate funds the "30 year early retirement benefit" as if it were a permanent feature of the retirement system. The "30 year early retirement benefit" expired June 30, 1997. The cost of "30-and-out" is .75 percent of payroll.

## Analysis of Change in Employer Contribution Rate

| | | Normal Cost | Unfunded Liabilities | Total |
|---|---|---|---|---|
| I) | December 31, 1995, Valuation | 8.49% | (0.80%) | 7.69% |
| II) | Changes - December 31, 1996, Valuation: | | | |
| | 1) Gain from investment earnings | | (0.69%) | (0.69%) |
| | 2) Change for accelerated contributions | | (0.04%) | (0.04%) |
| | 3) Change in demographics of new entrants | 0.40% | (0.33%) | 0.07% |
| | 4) Higher than expected salaries | | 0.34% | 0.34% |
| | 5) Other differences between actual experience and actuarial assumptions | | (0.09%) | (0.09%) |
| | 6) Total change | 0.40% | (0.81%) | 0.41% |
| III) | December 31, 1996, Valuation | 8.89% | (1.61%) | 7.28% |

## Analysis of Change in Unfunded Liability

| | | |
|---|---|---|
| I) | December 31, 1995, Unfunded Liability | $ (443,104,333) |
| II) | Expected Amortization Payment | (32,049,784) |
| III) | Expected Liability as of December 31, 1996 [(I) x 1.085 - (II)] | (448,718,417) |
| IV) | Change in Liability Due to: | |
| | 1) Gain from investment earnings | (396,986,211) |
| | 2) Change for accelerated contributions | (23,675,612) |
| | 3) Change in demographics in new entrants | (190,629,700) |
| | 4) Higher than expected salaries | 196,567,933 |
| | 5) Other differences between actual experience and actuarial assumptions | (41,010,300) |
| | 6) Total change | $ (455,733,960) |
| V) | December 31, 1996, Unfunded Liability (III) + (IV) | $ (904,452,377) |

The Commission reviewed this report with Mssrs. John Brosius, Executive Director, Dale H. Everhart, Assistant Executive Director, John C. Winchester, Director of Public Markets, N. Joseph Marcucci, Investments Counsel, and Edwin C. Hustead, Consulting Actuary of the State Employes' Retirement System.

**SUMMARY OF ACTUARIAL VALUATION**
**STATE EMPLOYES' RETIREMENT SYSTEM**
**as of**
**December 31, 1996**

The following is a summary of the December 31, 1996, Actuarial Valuation of the State Employes' Retirement System and a comparison of the 1996 results with those of 1995.

| | **12/31/95** | **12/31/96** |
|---|---|---|
| **Membership** | | |
| Active | 112,637 | 110,922 |
| Inactive | 3,724 | 4,379 |
| Retired | 69,421 | 70,668 |
| Disabled | 4,689 | 4,941 |
| Survivors and Beneficiaries | 7,094 | 7,477 |
| **Payroll and Annuities Payable** | | |
| Total Annual Payroll | $3,859,844,716 | $3,975,373,256 |
| Annual Annuities and Benefits | $ 703,568,068 | $ 749,274,115 |
| **Valuation Data** | | |
| Accrued Liability | $15,067,205,087 | $15,936,616,670 |
| Assets [1] | 15,510,309,420 | 16,841,069,047 |
| Unfunded Accrued Liability | $ (443,104,333) | $ (904,452,377) |
| Funding Ratio | 102.9% | 105.7% |

**Funding Costs**

| | 12/31/95 | | 12/31/96 | |
|---|---|---|---|---|
| Normal Cost [2] | $520,693,052 | 13.49% | $552,179,345 | 13.89% |
| Amortization [3] | (30,878,758) | (0.80%) | (64,003,509) | (1.61%) |
| Full Actuarial Funding | $489,814,294 | 12.69% | $488,175,836 | 12.28% |

**Support**

| | 12/31/95 | | 12/31/96 | |
|---|---|---|---|---|
| Member | $192,992,236 | 5.00% | $198,768,663 | 5.00% |
| Commonwealth | 296,822,058 | 7.69% | 289,407,173 | 7.28% |
| Total Support | $489,814,294 | 12.69% | $488,175,836 | 12.28% |

• • • • • • • • • • • • • • • • • • •

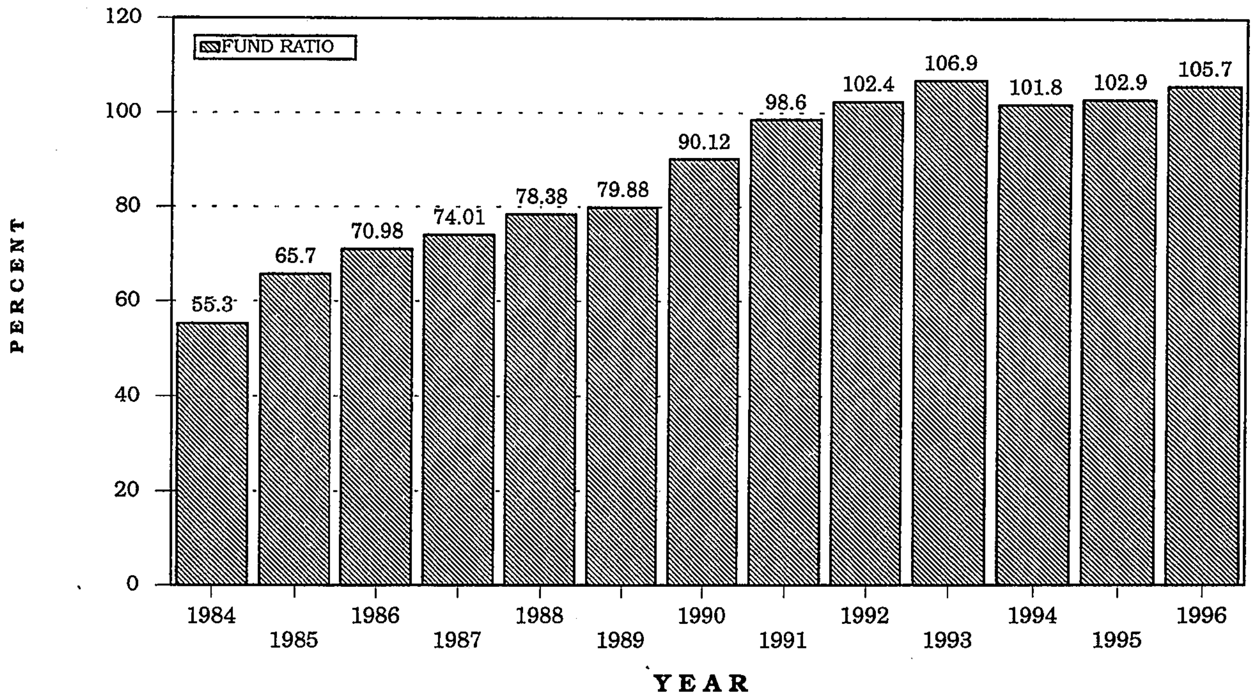
**EXPLANATORY FOOTNOTES**

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

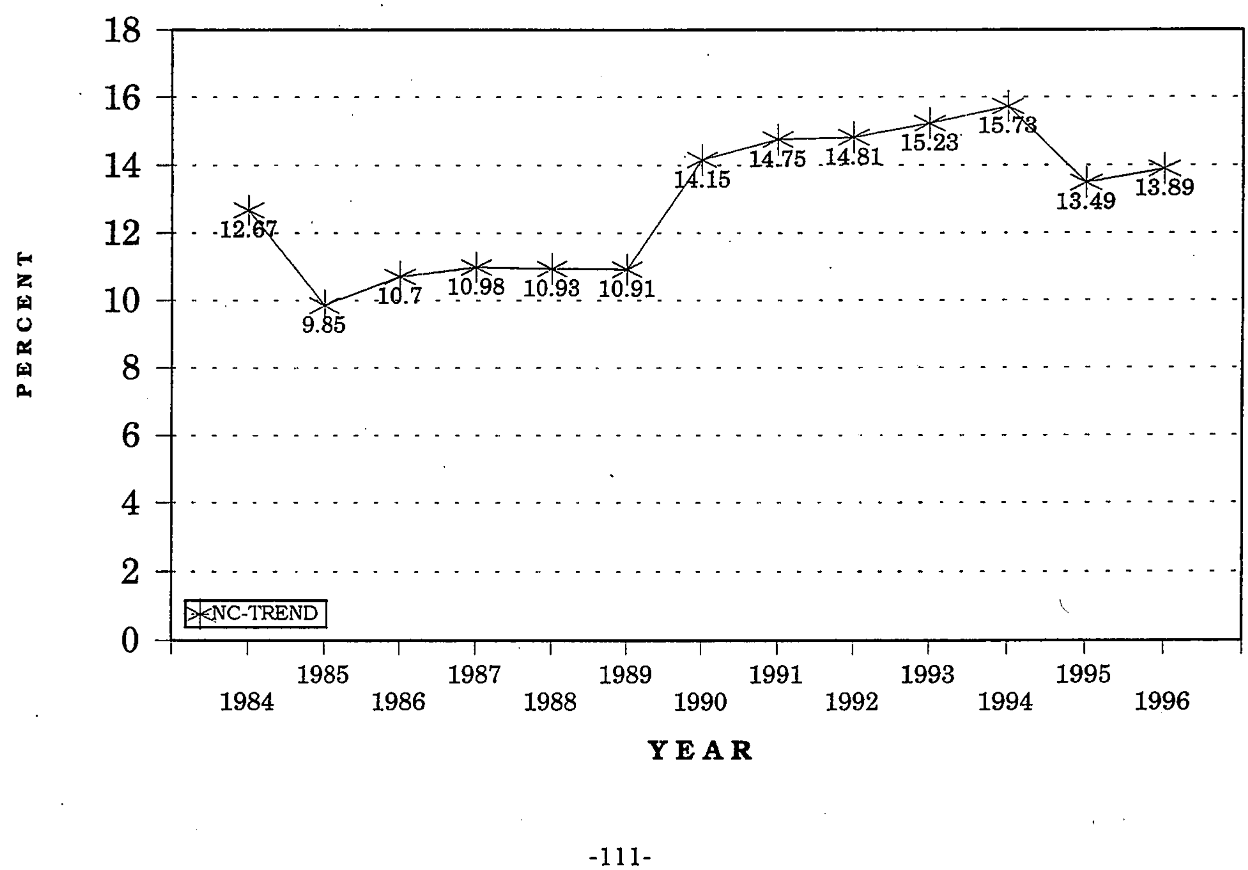
2. The State Employes' Retirement Code requires that the employer normal contribution rate be based on the level percentage of payroll normal cost determined under the entry age normal actuarial cost method for the average new member less the portion of the cost to be funded by member contributions.

3. Act 23 of 1991 established payment for additional liabilities to be payable over a 20-year period with the dollar amount of the annual payment increasing at 5 percent per year over the 20-year period.

## SERS FUNDED RATIO TREND




## SERS NORMAL COST TREND



# APPENDICES

# APPENDIX A

## ADVISORY COMMITTEES AND CONSULTING ACTUARIES

### Advisory Committees

Under Section 8 of the Public Employee Retirement 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 1997 and their sponsoring organizations were as follows:

**MUNICIPAL PENSION ADVISORY COMMITTEE**

Mr. Lee J. Janiczek - Chairman
PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP COMMISSIONERS

Mr. John E. Gardner, Jr. - Vice-Chairman/Secretary
PENNSYLVANIA STATE ASSOCIATION OF BOROUGHS

Mr. John A. Garner, Jr.
PENNSYLVANIA LEAGUE OF CITIES AND MUNICIPALITIES

Mr. B. Kenneth Greider
PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP SUPERVISORS

Mr. Douglas E. Hill
COUNTY COMMISSIONERS ASSOCIATION OF PENNSYLVANIA

Mr. William J. Woll
PENNSYLVANIA MUNICIPAL AUTHORITIES ASSOCIATION

**MUNICIPAL EMPLOYEE PENSION ADVISORY COMMITTEE**

Mr. Robert Stowman - Chairman
PENNSYLVANIA FRATERNAL ORDER OF POLICE

Mr. Thomas S. Haines - Vice Chairman
PENNSYLVANIA PROFESSIONAL FIRE FIGHTERS' ASSOCIATION

Mr. Patsy Tallarico - Secretary
PENNSYLVANIA STATE EDUCATION ASSOCIATION

Mr. Carl W. Miers
PENNSYLVANIA CHIEFS OF POLICE ASSOCIATION

No Nominee
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 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 1997 were:

*Towers Perrin*
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 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 20 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 20 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 COMMISSION

Title 4. Administration

Part XII. Public Employee Retirement 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 Commission Act."

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

Commission - the Public Employee Retirement 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

## PUBLIC EMPLOYEE RETIREMENT COMMISSION

### COMPREHENSIVE LIST OF 1997-1998 SESSIONS LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES
### December 31, 1997

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SUBJECT | CONCISE HISTORY AND STATUS | DATE |
|---|---|---|---|
| S. B. 2<br>P. N. 441<br>(Hart) | Optional Local Tax Enabling Act, local tax reform bill, including provisions exempting political subdivisions from acts requiring them to spend new or additional money under certain circumstances but exempting any funding formula that exists on the effective date of the Act or any funding necessary to supply any pension benefit that exists on the effective date of the Act | Referred to Senate Finance Committee<br>Reported as committed<br>Re-referred to Senate Appropriations Committee<br>Re-reported as committed<br>Second Consideration<br>Amended and Passed Senate (37-10)<br>Referred to House Finance Committee | 01/29/97<br>02/04/97<br>02/04/97<br>02/05/97<br>02/05/97<br>02/10/97<br>02/12/97 |
| S. B. 4<br>P. N. 702<br>(Hart) | Constitution of Pennsylvania, amending § 18 of article 8 to impose spending limitations upon the Commonwealth but excluding, among other things, expenditures for funding the unfunded pension liabilities existing on the effective date of the amendment | Referred to Senate Finance Committee | 03/12/97 |
| S. B. 48<br>P. N. 42<br>(Holl) | An Act prohibiting certain persons and corporations from bidding on municipal contracts, for three years after conviction of certain crimes, debarring enterprises from bidding on municipal contracts | Referred to Senate Local Government Committee | 01/15/97 |
| S. B. 51<br>P. N. 45<br>(Holl) | SERS, permitting qualified veterans with 20 years of State service who are age 50 or older, upon termination of service, to elect to convert their medical, major medical, and hospitalization coverage to the plan for State annuitants | Referred to Senate Finance Committee | 01/15/97 |
| S. R. 9<br>P. N. 54<br>(Salvatore) | Resolution memorializing Congress to enact legislation requiring states that receive moneys under the Federal Violent Crime Control and Law Enforcement Act of 1994 to provide health insurance to law enforcement and public safety employees injured and disabled in the line of duty and to their immediate and dependent survivors | Referred to Senate Intergovernmental Affairs Committee | 01/15/97 |
| S. B. 58<br>P. N. 57<br>(Holl) | Volunteer Firefighters' Relief Association Act, permitting volunteer firefighters' relief associations to spend money for financial assistance to volunteer firefighters who have actively participated in the fire service for 20 years and who have attained the age of 65 | Referred to Senate Finance Committee | 01/17/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| S. B. 59<br>P. N. 58<br>(Holl) | Sunset Act of 1997, providing the evaluation, termination, and continuation of State agencies, establishing the Sunset Leadership Committee and providing for its powers and duties, and making repeals, under which December 31, 2005, would be the Sunset Date for the Municipal Pension Advisory Committee and the Public Employee Retirement Commission | Referred to Senate State Government Committee | 01/17/97 |
| S. B. 67<br>P. N. 65<br>(Holl) | PSERS, requiring the indexing of the maximum disability annuity to reflect any cost-of-living adjustments so that the disability annuitant does not suffer any reduction in annuity benefits | Referred to Senate Finance Committee | 01/17/97 |
| S. B. 68<br>P. N. 66<br>(Holl) | SERS, redefining "correction officer" to include listed specific employees of the Department of Corrections and the Department of Public Welfare | Referred to Senate Finance Committee | 01/17/97 |
| S. B. 79<br>P. N. 77<br>(Holl) | SERS, authorizing the board, subject to the approval of the Senate by a majority vote, to appoint six managers to assist it in carrying out its responsibilities and requiring the board to report to the General Assembly every six months | Referred to Senate Finance Committee | 01/17/97 |
| S. B. 86<br>P. N. 84<br>(Holl) | An act conferring the powers of police officers on sheriffs and their deputies in certain instances | Referred to Senate Judiciary Committee | 01/21/97 |
| S. B. 107<br>P. N. 104<br>(Mowery) | PSERS, requiring the 6¼% basic contribution rate to be adjusted each year to pay ½ of the additional cost of any newly created benefit or any existing retirement benefit modified to increase the benefit or expanded eligibility | Referred to Senate Finance Committee | 01/21/97 |
| S. B. 112<br>P. N. 109<br>(Mowery) | Constitution of Pennsylvania, adding section 33 to article 3 to authorize the use of the indirect initiative and indirect referendum | Referred to Senate State Government Committee | 01/21/97 |
| S. B. 114<br>P. N. 111<br>(Mowery) | Volunteer Firefighters' Relief Association Act, permitting volunteer firefighters' relief associations to establish money purchase deferred benefit plans | Referred to Senate Finance Committee<br>**Actuarial Note** (P. N. 111)<br>Reported as committed<br>Re-referred to Senate Appropriations Committee<br>Re-reported as committed<br>Second Consideration<br>Re-referred to Senate Rules and Executive Nominations Committee | 01/21/97<br>02/26/97<br>04/02/97<br>04/08/97<br>04/28/97<br>05/13/97<br>06/17/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| S. B. 123 P. N. 1174 (Mowery) | Public School Code of 1949, enacting the Charter School Law, under which, among other things, all employees of a charter school must be enrolled in PSERS unless at the time of applying for a charter the sponsoring district or charter school has a retirement program that covers the employees or the employee currently enrolled in another retirement program | Referred to Senate Education Committee | 01/21/97 |
| | | Reported as amended | 06/02/97 |
| | | Re-referred to Senate Appropriations Committee | 06/02/97 |
| | | Re-reported as amended | 06/02/97 |
| | | Second Consideration | 06/03/97 |
| | | Passed Senate (49-0) | 06/04/97 |
| | | Referred to House Ingergovernmental Affairs Committee | 06/09/97 |
| | | Reported as committed | 06/09/97 |
| | | Re-referred to House Appropriations Committee | 06/09/97 |
| | | Re-reported as committed | 06/09/97 |
| | | Second Consideration | 06/10/97 |
| | | Amended and Passed House (182-16) | 06/11/97 |
| | | Referred to Senate Rules and Executive Nominations Committee | 06/11/97 |
| | | Re-reported, on concurrence, as amended | 06/11/97 |
| | | Senate concurred in House amendments, as amended by the Senate (30-18) | 06/11/97 |
| | | Referred to House Rules Committee | 06/11/97 |
| | | Re-reported on concurrence, as commited | 06/11/97 |
| | | House concurred in Senate amendments to House amendments (137-57) | 06/11/97 |
| | | Act 1999-22 | 06/19/97 |
| S. B. 125 P. N. 1173 (Corman) | The County Code, among other things, enacting the Southwestern Pennsylvania Regional Renaissance Initiative Act that among other things, creates a Regional Renaissance Authority with the power, among others, to enroll its employees in a retirement system, including an existing retirement system of a participating county or any other governmental entity located within a participating county | Referred to Senate Local Government Committee | 01/21/97 |
| | | Reported as amended | 02/05/97 |
| | | Second Consideration | 02/11/97 |
| | | Re-referred to Senate Appropriations Committee | 03/10/97 |
| | | Re-reported as committed | 03/11/97 |
| | | Passed Senate (47-1) | 03/17/97 |
| | | Reconsidered | 03/17/97 |
| | | Passed Senate (46-2) | 03/18/97 |
| | | Referred to House Finance Committee | 03/19/97 |
| | | Reported as committed | 06/03/97 |
| | | Re-referred to House Appropriations Committee | 06/03/97 |
| | | Re-reported as committed | 06/10/97 |
| | | Second Consideration | 06/10/97 |
| | | Amended and Passed House (132-67) | 06/11/97 |
| | | Referred to Senate Rules and Executive Nominations Committee | 06/11/97 |
| | | Re-reported on concurrence, as committed | 06/11/97 |
| | | Senate concurred in House amendments (36-12) | 06/11/97 |
| | | Act 1997-18 | 06/18/97 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SUBJECT | CONCISE HISTORY AND STATUS | DATE |
|---|---|---|---|
| S. B. 129<br>P. N. 126<br>(Heckler) | Public Employe Relations Act (Act 195), permitting an exclusive representative to be elected by a majority of all public employees in the bargaining unit, agency contracts between an exclusive representative and public employees, and agency fees not to exceed 1½% of pay, requiring majority votes for strikes, prohibiting restraining, limiting, or eliminating competition between employee organizations for membership or exclusive representation and retaliation for not striking, etc. | Referred to Senate Labor and Industry Committee | 01/21/97 |
| S. B. 130<br>P. N. 127<br>(Heckler) | Public Employe Relations Act (Act 195), prohibiting strikes and providing for penalties and remedies | Referred to Senate Labor and Industry Committee | 01/21/97 |
| S. B. 142<br>P. N. 139<br>(Salvatore) | An act providing health insurance benefits at the expense of the employer to seriously injured or disabled law enforcement officers and public safety officers and to the immediate surviving dependents of a deceased officer | Referred to Senate Banking and Insurance Committee | 01/21/97 |
| S. B. 179<br>P. N. 1030<br>(Piccola) | The Administrative Code of 1929, among other things permitting a school district to ask the court of common pleas to appoint police officer(s) for the school district | Referred to Senate Judiciary Committee | 01/21/97 |
| | | Reported as committed | 02/04/97 |
| | | Second Consideration | 02/10/97 |
| | | Re-referred to Senate Appropriations Committee | 02/11/97 |
| | | Re-reported as amended | 03/11/97 |
| | | Amended and Passed Senate (47-1) | 03/18/97 |
| | | Referred to House Judiciary Committee | 03/19/97 |
| | | Reported as amended | 04/08/97 |
| | | Re-referred to House Appropriations Committee | 04/08/97 |
| | | Re-reported as amended | 04/14/97 |
| | | Re-committed to House Appropriations Committee | 04/16/97 |
| | | Re-reported as amended | 04/29/97 |
| | | Re-committed to House Appropriations Committee | 05/12/97 |
| S. B. 233<br>P. N. 311<br>(Thompson) | An act establishing the Mandate Review Advisory Board within the Local Government Commission and adding powers and duties upon the Local Government Commission | Referred to Senate State Government Committee | 01/31/97 |
| S. B. 238<br>P. N. 239<br>(Bell) | An act requiring Commonwealth funds to award brokerage service contracts by competitive bidding | Referred to Senate Finance Committee | 01/29/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
| --- | --- | --- | --- |
| S. B. 243 P. N. 244 (Bell) | PMRS, forbidding investments in stocks, securities, or other obligations of a corporation that is incorporated in a state that prohibits investment of its state funds or public employe retirement system funds in corporations incorporated in this Commonwealth | Referred to Senate Local Government Committee | 01/29/97 |
| S. B. 250 P. N. 251 (Bell) | PSERS and SERS, forbidding investments in stocks, securities, or other obligations of a corporation that is incorporated in a state that prohibits investment of its state funds in corporations incorporated in this Commonwealth | Referred to Senate Finance Committee | 01/29/97 |
| S. B. 284 P. N. 1521 (Mowery) | Municipal Pension Plan Funding Standard and Recovery Act (Act 205), providing for the special actuarial valuation reporting by a municipality that has issued debt to fund some or all of the unfunded actuarial accrued liability in one or more of its employees' retirement systems to clarify that the exhibit is to provide the actuarial asset value that would have existed if borrowing had not been done, and correcting a problem in the allocation formula for Supplemental State Assistance (SSA) by requiring that SSA allocation to be based on what should have been contributed rather than on what actually was contributed | Referred to Senate Finance Committee | 01/29/97 |
| | | **Actuarial Note** (P. N. 283) | 02/26/97 |
| | | Reported as amended | 04/02/97 |
| | | Re-referred to Senate Appropriations Committee | 04/08/97 |
| | | **Commission Letter** (P. N. 932) | 04/09/97 |
| | | Re-reported as committed | 06/02/97 |
| | | Second Consideration | 06/09/97 |
| | | Passed Senate (49-0) | 06/16/97 |
| | | Referred to House Finance Committee | 06/17/97 |
| | | Reported as committed | 11/26/98 |
| | | Re-referred to House Appropriations Committee | 11/26/97 |
| | | **Commission Letter** (P. N. 932, A. 4675) | 12/01/97 |
| | | **Commission Letter** (P. N. 932) | 12/02/97 |
| | | **Commission Letter** (P. N. 932, A. 4675) | 12/02/97 |
| | | Re-reported as amended | 12/08/97 |
| | | Second Consideration | 12/08/97 |
| | | Passed House (193-0) | 12/10/97 |
| | | Referred to Senate Rules and Executive Nominations Committee | 01/06/98 |
| S. B. 287 P. N. 286 (Mowery) | PSERS and SERS, creating one statewide public employee retirement system for all municipal employees as part of what now is the State Employes' Retirement System | Referred to Senate Finance Committee | 01/29/97 |
| S. B. 310 P. N. 303 (Hart) | Tax Reform Code of 1971, excluding from the definition of "compensation" for personal income tax purposes payments made under a cafeteria plan qualifying under § 125 of the Internal Revenue Code of 1986 and payments made by employers or labor unions for employe benefit programs covering social security or retirement | Referred to Senate Finance Committee | 01/29/97 |
| | | Reported as committed | 03/11/97 |
| | | Re-referred to Senate Appropriations Committee | 03/12/97 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SUBJECT | CONCISE HISTORY AND STATUS | DATE |
|---|---|---|---|
| S. B. 336 P. N. 345 (Tilghman) | An act exempting political subdivisions from compliance with certain laws that require political subdivisions to spend funds or that limit the ability of political subdivisions to raise revenue but exempting, among other things, any funding formula that exists on the effective date of the act and any funding necessary to supply any pension benefit that exists on the effective date of the act | Referred to Senate Finance Committee | 02/03/97 |
| S. B. 382 P. N. 1522 (Tilghman) | Second Class County Code, among other things, amending the Allegheny County Employees' Pension Plan provisions by defining members to include employees of an authority or any such other second class county entity created after 01/01/98, if the retirement system and the county commissioners approve, providing for the payment of employer contributions into the pension trust fund by the authority or any such other Allegheny County entities for their employees, lowering the eligibility for early retirement benefits for members employed after 04/13/84 from 10 or more but less than 20 years of service beginning at age 65 to 8 or more but less than 20 years of service beginning at age 60, lowering the age for eligibility for normal retirement benefits for members employed after 04/13/84 from age 65 to age 60, changing the calculation of the service increment for a normal retiree, retroactive to 01/01/89 from being based on the number of whole years completed by the member in excess of 20 years up to a maximum of 20 additional years to being based on the number of whole years and whole months of service completed by the member in excess of 20 years up to a maximum of 20 additional years, changing the eligibility requirements for retirement upon involuntary termination of service from 20 or more years of service and age 50 or older to 20 or more years of service and less than age 60, and changing the calculation of retirement benefit for a member who is less than 60 years old and who is involuntarily separated with 20 or more years of service retroactive to 01/01/89 to include service increment but still limiting the total benefit to 70% of the benefits the mem- | Referred to Senate Local Government Committee | 02/06/97 |
| | | Reported as committed | 06/17/97 |
| | | Re-referred to Senate Rules and Executive Nominations Committee | 06/17/97 |
| | | Re-reported as committed | 09/22/97 |
| | | Second Consideration | 09/29/97 |
| | | Re-referred to Senate Appropriations Committee | 09/29/97 |
| | | Re-reported as committed | 10/20/97 |
| | | Third Consideration | 10/27/97 |
| | | Amended and Passed Senate (47-0) | 11/18/97 |
| | | Referred to House Local Government Committee | 11/21/97 |
| | | **Commission Letter** (P. N. 1471, A. 4716) | 11/25/97 |
| | | Reported as amended | 11/26/97 |
| | | Re-referred to House Appropriations Committee | 11/26/97 |
| | | **Commission Letter** (P.N. 1515) | 12/01/97 |
| | | **Commission Letter** (P. N. 1515, A. 4987) | 12/08/97 |
| | | Re-reported as amended | 12/08/97 |
| | | Second Consideration | 12/08/97 |
| | | **Commission Letter** (P. N. 1515, A. 5134) | 12/09/97 |
| | | **Commission Letter** (P. N. 1522. A. 5222) | 12/09/97 |
| | | Passed House (124—71) | 12/09/97 |
| | | Referred to Senate Rules and Executive Nominations Committee | 12/10/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | ber would be entitled to receive had the member continued to be employed until age 60 | | |
| S. B. 385 P. N. 399 (Fumo) | Constitution of Pennsylvania, exempting municipalities from compliance with certain laws that require them to spend funds or that limit their ability to raise revenue but exempting, among other things, any funding formula that exists on the effective date of the amendment and any funding necessary to supply any pension benefit that exists on the effective date of the amendment | Referred to Senate Local Government Committee | 02/06/97 |
| S. B. 406 P. N. 421 (Musto) | Enforcement Officer Disability Benefits Law, extending benefits to county corrections officers of counties of the third class whose principal duty is the care, custody, and control of inmates of any county jail or prison | Referred to Senate Labor and Industry Committee | 02/07/97 |
| S. B. 459 P. N. 480 (Greenleaf) | Enforcement Officer Disability Benefits Law, extending benefits to sheriffs and deputy sheriffs | Referred to Senate Labor and Industry Committee | 02/12/97 |
| S. B. 464 P. N. 485 (Greenleaf) | Emergency and Law Enforcement Personnel Death Benefits Act, adding death as a direct result of stress or strain injuries to the reasons for payment of benefits under the Act | Referred to Senate Labor and Industry Committee | 02/12/97 |
| S. B. 513 P. N. 542 (Gerlach) | Constitution of Pennsylvania, authorizing the use of an initiative process to amend the Constitution and a referendum process to repeal statutes, as powers reserved to the people | Referred to Senate State Government Committee | 02/25/97 |
| S. B. 525 P. N. 554 (Bell) | Act 11 of 1906, which regulates deposits of State funds, prohibiting investment of State funds in stocks, securities, or other obligations of a corporation that is incorporated in a state that prohibits investment of its state funds or public employee retirement funds in corporations incorporated in Pennsylvania | Referred to Senate Finance Committee | 02/25/97 |
| S. B. 640 P. N. 1524 (Greenleaf) | Judicial Code, amending section 8124 to add certain transfers and rollovers between retirement or annuity funds provided for under IRC §§ 401(a), 403(a), 403(b), 408, or 409 of a judgment debtor from attachment or execution on a judgment | Referred to Senate Judiciary Committee | 03/07/97 |
| | | Reported as committed | 03/18/97 |
| | | Second Consideration | 04/02/97 |
| | | Re-referred to Senate Appropriations Committee | 04/02/97 |
| | | Re-reported as committed | 04/02/97 |
| | | Amended on third consideration | 05/05/97 |
| | | Passed Senate (39—9) | 06/03/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | | Referred to House Judiciary Committee | 06/09/97 |
| | | Reported as committed | 06/09/97 |
| | | Re-referred to House Appropriations Committee | 06/09/97 |
| | | Re-reported as committed | 06/09/97 |
| | | Second Consideration | 06/10/97 |
| | | Re-committed to House Appropriations Committee | 09/23/97 |
| | | Re-reported as amended | 12/08/97 |
| S. B. 685 P. N. 728 (Delp) | Charter School Entity Law, providing local school districts, intermediate units, joint schools, and area vocational-technical schools, or a portion thereof, the power to adopt a charter providing for self-governance, subject to certain limitations, including a requirement that the charter contain a provision for the right to continued pension coverage | Referred to Senate Education Committee | 03/13/97 |
| S. B. 704 P. N. 742 (Madigan) | PSERS, permitting the purchase of up to 3 years of service credit at the rate of 1 year for every 2 years of previous work experience used to obtain certification as a vocational teacher under a nonbaccalauareate program with the purchase beginning within 3 years of eligibility and being the increase in the present value calculated on the basis of the average salary received during the first 3 years of school service after the work experience and not withdrawable under Option 4 | Referred to Senate Finance Committee | 03/13/97 |
| | | **Actuarial Note** (P. N. 742) | 05/07/97 |
| S. B. 716 P. N. 753 (Belan) | SERS, providing for the member contribution to purchase service credit for nonstate service on an intervening furlough of active service to be calculated as the member contribution rate during the time of the furlough but limiting the credit purchased to a maximum of 3 years | Referred to Senate Finance Committee | 03/14/97 |
| S. B. 775 P. N. 831 (Greenleaf) | Public Official Compensation Law, repealing provisions restricting the compensation of a senior judge in any year to an amount that added to retirement income paid by the Commonwealth equals the compensation of a judge then in regular active service | Referred to Senate Judiciary Committee | 04/01/97 |
| S. B. 794 P. N. 850 (Greenleaf) | Public School Code of 1949, repealing provisions permitting strikes and lockouts and providing for final best-offer arbitration instead | Referred to Senate Labor and Industry Committee | 04/01/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| S. B. 803 P. N. 859 (Rhoades) | PSERS, extending for an additional 3 years, from 07/01/97 to 07/01/00, the termination date of the period during which a member with at least 30 eligibility points may retire at any age and receive an annuity that is not reduced because the member is under superannuation age ("30 and Out") | Referred to Senate Finance Committee | 04/01/97 |
| S. B. 817 P. N. 882 (Greenleaf) | Municipal Police Pension Law (Act 600), permitting member who has vested with 12 or more but less than 25 years of service to receive a partial superannuation retirement allowance beginning at age 65 | Referred to Senate Local Government Committee | 04/01/97 |
| S. B. 844 P. N. 909 (Greenleaf) | SERS, granting $55 a month health insurance premium assistance to an annuitant who is 65 years of age or older, has 15 or more eligibility points, and is not enrolled in a Commonwealth-sponsored health insurance plan | Referred to Senate Finance Committee | 04/01/97 |
| S. B. 851 P. N. 916 (Greenleaf) | PSERS and SERS, for recipients of the 1994 supplemental annuity, making the "effective date of retirement" the most recent date of termination of service, i.e., the last day of work | Referred to Senate Finance Committee | 04/01/97 |
| S. B. 869 P. N. 874 (Tilghman) | SERS, fiscal year 1997-98 appropriation bill for $18,335,000 | Referred to Senate Appropriations Committee | 04/01/97 |
| | | Reported as committed | 04/02/97 |
| | | Second Consideration | 04/08/97 |
| | | Passed Senate (50-0) | 04/09/97 |
| | | Referred to House Appropriations Committee | 04/10/97 |
| | | Reported as committed | 04/14/97 |
| | | Second Consideration | 04/15/97 |
| | | Re-committed to House Appropriations Committee | 04/16/97 |
| | | Re-reported as committed | 05/05/97 |
| | | Passed House (196-0) | 05/12/97 |
| | | Act 1997-41A | 05/20/97 |
| S. B. 870 P. N. 1054 (Tilghman) | PSERS, fiscal year 1997-98 appropriation bill for $25,277,000 | Referred to Senate Appropriations Committee | 04/01/97 |
| | | Reported as committed | 04/02/97 |
| | | Second Consideration | 04/08/97 |
| | | Passed Senate (50-0) | 04/09/97 |
| | | Referred to House Appropriations Committee | 04/10/97 |
| | | Reported as committed | 04/14/97 |
| | | Second Consideration | 04/15/97 |
| | | Re-committed to House Appropriations Committee | 04/16/97 |
| | | Re-reported as amended | 05/05/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | | Passed House (196-0) | 05/12/97 |
| | | Referred to Senate Rules and Executive Nominations Committee | 05/12/97 |
| | | Re-reported on concurrence, as amended | 06/09/97 |
| | | Senate concurred in House amendments, as amended by the Senate (49-0) | 06/09/97 |
| | | Referred to House Rules Committee | 06/10/97 |
| | | Re-reported on concurrence, as committed | 06/10/97 |
| | | House concurred in Senate amendments to House amendments (199-0) | 06/10/97 |
| | | Act 1997-42A | 06/18/97 |
| S. B. 976<br>P. N. 1090<br>(Mowery) | PSERS, requiring the member contribution rate to be increased by one-half of the total increase in the normal cost that results from a significant benefit increase | Referred to Senate Finance Committee | 05/12/97 |
| S. B. 977<br>P. N. 1091<br>(Thompson) | Southeastern Pennsylvania Cultural and Scientific Asset District Act, creating the Southeastern Pennsylvania Cultural and Scientific Asset District and providing for its rights and powers, including enrolling its employees in a retirement system, including an existing retirement system of the county, city or other governmental entity | Referred to Senate Intergovernmental Affairs Committee | 05/12/97 |
| S. B. 991<br>P. N. 1114<br>(Brightbill) | SERS, granting 5-year cliff vesting instead of the usual 10-year cliff vesting to employees of the Penn State Hershey Medical Center who will be terminated from State service on June 30, 1997, by the transfer of their jobs to the Penn State Geisinger Health System but withhold eligibility for pre-superannuation death benefits and early retirement benefits (See H. B. 1160) | Referred to Senate Finance Committee | 05/28/97 |
| | | Reported as amended | 06/04/97 |
| | | Re-referred to Senate Appropriations Committee | 06/04/97 |
| | | **Actuarial Note** (P. N. 1114, A. 2603) | 06/05/97 |
| | | Re-reported as committed | 06/09/97 |
| | | Second Consideration | 06/09/97 |
| | | Laid on the table | 06/16/97 |
| S. B. 997<br>P. N. 1146<br>(Stout) | SERS, permit certain active members to purchase service credit for up to 5 years of previous nonstate service as a county employee | Referred to Senate Finance Committee | 06/09/97 |
| | | **Actuarial Note** (P. N. 1146) | 10/01/97 |
| S. B. 999<br>P. N. 1082<br>(Mowery) | Charter School Law, providing for the establishment of charter schools, including a provision that all employees of a charter school shall be enrolled in PSERS unless at the time of the application for the charter school the sponsoring entity or the board of trustees of | Referred to Senate Education Committee | 05/07/97 |
| | | Reported as amended | 06/02/97 |
| | | Re-referred to Senate Appropriations Committee | 06/02/97 |
| | | Re-reported as amended | 06/03/97 |
| | | Second Consideration | 06/04/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | the charter school has a retirement program that covers the employee or an employee currently is enrolled in another retirement program (See S. B. 123) | Laid on the table | 06/16/97 |
| S. B. 1004 P. N. 1164 (Hart) | Constitution of Pennsylvania, authorizing the use of the initiative and referendum as powers reserved to the people | Referred to Senate State Government Committee | 06/10/97 |
| S. B. 1052 P. N. 1244 (Delp) | The Third Class City Code, authorizing city councils to permit school boards, upon their requests, to employ special school police who do not come within the civil service provision of the City Code, fall under the bargaining unit of the school district, are not employees under the School Code, not entitled to any benefits under the School Code or other plans hereafter effective | Referred to Senate Education Committee | 07/11/97 |
| S. B. 1055 P. N. 1241 (Bell) | SERS, decreasing from 10 to 7 years the minimum amount of service required before a member may terminate State service and leave the member's accumulated deductions in the fund as a vestee and defer receipt of an annuity and decreasing from 10 to 7 years the minimum amount of service required before a vestee, active member, or inactive member may terminate State service and be entitled to receive a withdrawal annuity | Referred to Senate Finance Committee | 07/03/97 |
| S. B. 1068 P. N. 1257 (Kasunic) | The Second Class Township Code, permitting a township supervisor to be appointed as a member of the township police force | Referred to Senate Local Government Committee | 07/24/97 |
| S. B. 1108 P. N. 1299 (Schwartz) | Tobacco Free Investment and Divestiture Act, prohibiting certain funds, including PMRS, PSERS, and SERS, from investing in tobacco companies and requiring the funds to divest any investment in those companies | Referred to Senate Finance Committee | 09/23/97 |
| S. B. 1120 P. N. 1312 (Salvatore) | PSERS, extending the provisions for purchase of service credit for nonschool service on an employer mandated maternity leave of absence commencing prior to May 17, 1975, to include adoption by the member | Referred to Senate Finance Committee | 09/24/97 |
| S. B. 1126 P. N. 1316 (Salvatore) | Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988), requiring that | Referred to Senate Finance Committee | 09/24/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | the special ad hoc adjustment be added to the base pension for all pension computation purposes | | |
| S. B. 1143<br>P. N. 1356<br>(Hart) | Constitution of Pennsylvania, prohibiting the imposition or increase in a tax or license fee except with a 2/3 vote of the General Assembly but excluding situations in which the Commonwealth has defaulted on debt principal or interest payments | Referred to Senate Rules and Executive Nominations Committee | 10/01/97 |
| S. B. 1170<br>P. N. 1421<br>(Armstrong) | Act 99 of 1811, appropriate amendments needed in Commonwealth's enabling act for IRC § 457 deferred compensation plans as a result of amendments of § 457 by the Small Business Job Protection Act | Referred to Senate Finance Committee | 10/22/97 |
| S. B. 1182<br>P. N. 1448<br>(Greenleaf) | Constitution of Pennsylvania, amending article 3 to authorize the use of the initiative and referendum as processes under certain circumstances | Referred to Senate State Government Committee | 10/28/97 |
| S. B. 1206<br>P. N. 1502<br>(Greenleaf) | PMRS, providing that, if a municipal authority creates a PMRS retirement plan and then is legally dissolved leaving no active members in the system, the successor municipality responsible for any remaining financial obligations of the system shall allocate the investment earnings on an equalized basis among the vested and retired members, if there is no unfunded actuarial accrued liability | Referred to Senate Finance Committee | 11/24/97 |
| S. B. 1215<br>P. N. 1536<br>(Greenleaf) | Constitution of Pennsylvania, amending section 26 of article 3 to permit the General Assembly to increase the retirement benefits or pensions payable to members or beneficiaries who are spouses of members of a retirement or pension system if the increases are certified to be actuarially sound | Referred to Senate Finance Committee | 12/08/97 |
| H. B. 8<br>P. N. 2075<br>(Stairs) | Public School Code of 1949, various amendments including one further providing for the powers and duties of school police under which school police officers are made employees of the school district entitled to all of the rights and benefits accruing therefrom | Referred to House Education Committee<br>Reported as amended<br>Re-referred to House Appropriations Committee<br>Re-reported as committed<br>Second Consideration<br>Amended and Passed House (196-0)<br>Referred to Senate Education Committee<br>Reported as committed | 01/27/97<br>02/03/97<br>02/03/97<br>04/07/97<br>04/07/97<br>04/08/97<br>04/10/97<br>06/04/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | | Re-committed to Senate Education Committee | 06/04/97 |
| | | Re-reported as amended | 06/09/97 |
| | | Second Consideration | 06/09/97 |
| | | Re-referred to Senate Appropriations Committee | 06/09/97 |
| | | Re-reported as committed | 06/10/97 |
| | | Passed Senate (49-0) | 06/10/97 |
| | | Referred to House Rules Committee | 06/10/97 |
| | | Reported as amended | 06/11/97 |
| | | House concurred in Senate amendments, as further amended by the House (171-23) | 06/11/97 |
| | | Referred to Senate Rules and Executive Nominations Committee | 06/16/97 |
| | | Re-reported on concurrence, as committed | 06/16/97 |
| | | Senate concurred in House Amendments to Senate Amendments (48-0) | 06/16/97 |
| | | Act 1997-30 | 06/25/97 |
| H. B. 21<br>P. N. 2521<br>(Nickol) | Municipal Pension Plan Funding Standard and Recovery Act (Act 205), modifying the procedure prescribed in the Act for calculating the amortization contribution component of the actuarial funding requirements for municipal pension plans in which the ratio of the actuarial value of assets to the actuarial accrued liability exceeds 0.70 by providing for an alternate method for calculating the amortization contribution required under the Act and establishing the resulting alternate amortization contribution as the maximum amortization contribution required in any given year | Referred to House Local Government Committee | 01/27/97 |
| | | **Advisory Note** (P. N. 25) | 03/17/97 |
| | | **Actuarial Note** (P. N. 25) | 04/09/97 |
| | | Reported as amended | 09/30/97 |
| | | Re-referred to House Appropriations Committee | 10/01/97 |
| | | Re-reported as amended | 10/06/97 |
| | | Second Consideration | 10/06/97 |
| | | **Commission Letter** (P. N. 2359, A. 4382) | 10/28/97 |
| | | Amended and Passed House (196-1) | 10/28/97 |
| | | Referred to Senate Finance Committee | 10/30/97 |
| | | Reported as committed | 11/17/97 |
| | | **Commission Letter** (P. N. 2521) | 11/24/97 |
| | | Second Consideration | 11/24/97 |
| | | Re-referred to Senate Appropriations Committee | 11/25/97 |
| | | Re-reported as committed | 12/08/97 |
| | | Passed Senate (50—0) | 12/10/97 |
| | | Act 1997—61 | 12/19/97 |
| H. B. 36<br>P. N. 1588<br>(Stairs) | Charter School Act, providing for the establishment of charter schools, including requiring charter schools employees to be members of PSERS | Referred to the House Education Committee | 01/27/97 |
| | | Reported as amended | 04/28/97 |
| | | Re-referred to House Appropriations Committee | 06/12/97 |
| H. B. 40<br>P. N. 50<br>(O'Brien) | SERS, permitting active members who are bail commissioners of the Philadelphia Municipal Court to elect for their future service as bail commissioners to be Class E-2 Members with a class of service multiplier of 1.5 rather than | Referred to House State Government Committee | 01/28/97 |
| | | **Actuarial Note** (P. N. 50) | 05/07/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | being Class A Members with a class of service multiplier of one | | |
| H. B. 42<br>P. N. 52<br>(O'Brien) | Volunteer Firefighters' Relief Association Act, permitting volunteer fire fighters' relief associations to establish either defined benefit or defined contribution pension plans | Referred to House Veterans Affairs and Emergency Preparedness Committee<br>**Actuarial Note** (P. N. 52) | 01/28/97<br>02/26/97 |
| H. B. 59<br>P. N. 68<br>(Lloyd) | PSERS, expanding purchase of nonschool service provisions to include up to two years of a mandatory maternity leave of absence occurring after May 16, 1975, and before November 1, 1978 | Referred to House Education Committee | 01/28/97 |
| H. B. 82<br>P. N. 90<br>(Tangretti) | Enforcement Officer Disability Benefits Law, extending benefits to certain county sheriffs and deputy sheriffs | Referred to House Local Government Committee | 01/28/97 |
| H. B. 88<br>P. N. 96<br>(Herman) | PSERS and SERS, extending permission to retire at any age with 30 years of service without the annuity being reduced on account of a retirement age that is under superannuation age ("30 and Out") for four years from July 1, 1997, to July 1, 2001 | Referred to House State Government Committee<br>**Advisory Note** (P. N. 96)<br>**Actuarial Note** (P. N. 96)<br>**Actuarial Note** (P. N. 96 as amended by A. 0302) | 01/28/97<br>03/21/97<br>04/09/97<br>04/09/97 |
| H. B. 114<br>P. N. 1919<br>(Godshall) | Constitution of Pennsylvania, requiring retirement of justices, judges, and justices of the peace on the last day of the calendar year in which they attain age 70 rather than on the day they attain age 70 | Referred to House Judiciary Committee<br>Reported as committed<br>Re-referred to House Appropriations Committee<br>Re-reported as committed<br>Second Consideration<br>Amended and Passed House (193-3)<br>Referred to Senate Judiciary Committee<br>**Actuarial Note** (P. N. 1478)<br>Reported as amended<br>Re-referred to Senate Rules and Executive Nominations Committee | 01/29/97<br>03/18/97<br>03/18/97<br>04/07/97<br>04/07/97<br>04/14/97<br>04/15/97<br>05/07/97<br>06/03/97<br>06/17/97 |
| H. B. 158<br>P. N. 2485<br>(Conti) | Tax Reform Code of 1971, effective 01/01/98, creating Keystone Investment and Retirement Plans, including plans under IRC §§ 408(a), 408(k), 408(p), 457, and 7701(a)(37), and making distributions from them exempt from the personal income tax under certain circumstances | Referred to House Finance Committee<br>Reported as amended | 02/03/97<br>10/22/97 |
| H. B. 162<br>P. N. 2077<br>(Allen) | PSERS and SERS, extending permission to retire at any age with 30 years of service without the annuity being reduced on account of a retire- | Referred to House Education Committee<br>**Actuarial Note** (P. N. 178)<br>Reported as amended | 02/03/97<br>02/26/97<br>03/18/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | ment age that is under superannuation age ("30 and Out") for three years from July 1, 1997, to July 1, 2000 | Re-referred to House Appropriations Committee | 03/18/97 |
| | | **Actuarial Note** (P. N. 1067) | 04/09/97 |
| | | Re-reported as committed | 04/29/97 |
| | | Second Consideration | 04/29/97 |
| | | **Commission Letter** (P. N. 1067, A. 0710) | 05/01/97 |
| | | **Actuarial Note** (P. N. 1067, A. 1902) | 06/05/97 |
| | | **Commission Letter** (P. N. 1067, A. 2869) | 06/10/97 |
| | | Amended and Passed House (195-0) | 06/11/97 |
| | | Referred to Senate Rules and Executive Nominations Committee | 06/17/97 |
| H. B. 167 P. N. 183 (Tigue) | PSERS, changing the superannuation retirement provisions permanently to provide for retirement at any age with 30 years of service for all Class T-C members rather than with 35 years of service | Referred to House Education Committee | 02/03/97 |
| H. B. 195 P. N. 218 (Lescovitz) | Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988), retroactive to 01/01/96, retaining, increasing, and granting special ad hoc postretirement adjustments to certain retired municipal public safety officers | Referred to House Local Government Committee | 02/04/97 |
| H. B. 202 P. N. 224 (M. N. Wright) | PSERS, permitting a non multiple service member who was an annuitant on 07/01/94, returns to school service for at least 3 years, and retires again to have the effect of the frozen present value upon the resulting annuity eliminated | Referred to House Education Committee | 02/04/97 |
| H. B. 203 P. N. 225 (M. N. Wright) | PSERS and SERS, permitting a non multiple service member who was an annuitant on July 1, 1994, returns to service for at least three years and retires again to have the effect of the frozen present value upon the resulting annuity eliminated | Referred to House State Government Committee | 02/04/97 |
| H. B. 204 P. N. 226 (M. N. Wright) | PSERS, repealing requirement that an annuitant who has 15 or more eligibility points and an effective date of retirement after superannuation age to be eligible for postretirement health insurance premium assistance program | Referred to House Education Committee | 02/04/97 |
| H. B. 239 P. N. 261 (Bishop) | Enforcement Officer Disability Benefits Law, adding coverage for psychiatric and psychological care for the officer | Referred to House State Government Committee | 02/04/97 |

| Bill Number<br>Printer's Number<br>(Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | and the officer's spouse and dependent children | | |
| H. B. 248<br>P. N. 278<br>(Pesci) | Optional Local Tax Enabling Act, among other things, providing that no county, municipality, or school district be required to spend funds or to take an action requiring the expenditure of funds under certain circumstances, but excluding, among other things, laws that amend funding formulas existing on the effective date of the Act and laws adopted to require funding of pension benefits existing on the effective date of the Act | Referred to House Finance Committee | 02/05/97 |
| H. B. 259<br>P. N. 289<br>(Travaglio) | PSERS, retroactive to July 1, 1992, increasing the health insurance premium assistance from $55 to $162 a month | Referred to House Education Committee | 02/05/97 |
| H. B. 263<br>P. N. 293<br>(Travaglio) | SERS, permitting surviving spouse of State Police Officer, within 90 days, to purchase credit for military service that the officer would have been eligible to buy but did not | Referred to House State Government Committee | 02/05/97 |
| H. B. 280<br>P. N. 848<br>(Herman) | PMRS, retroactive to January 1, 1995, extending to calendar years 1995, 1996, 1997, 1998, and 1999, the authority to use interest earnings in excess of the regular interest to pay administrative expenses not covered by the $20 a member a year assessments | Referred to House Local Government Committee | 02/05/97 |
| | | **Advisory Note** (P. N. 310) | 02/07/97 |
| | | Reported as committed | 02/12/97 |
| | | Re-referred to House Appropriations Committee | 02/12/97 |
| | | Re-reported as committed | 03/10/97 |
| | | Second Consideration | 03/10/97 |
| | | Amended and Passed House (201-0) | 03/11/97 |
| | | Referred to Senate Finance Committee | 03/17/97 |
| | | Reported as committed | 04/02/97 |
| | | Re-referred to Senate Appropriations Committee | 04/08/97 |
| | | **Commission Letter** (P. N. 848) | 04/09/97 |
| H. B. 301<br>P. N. 330<br>(Maitland) | SERS, permitting active and multiple service members to purchase up to 5 years of credit for previous service with a county, city, borough, incorporated town, or township | Referred to House State Government Committee | 02/05/97 |
| H. B. 327<br>P. N. 356<br>(Rohrer) | An act providing for spending limitations on the Commonwealth but excluding, among other things, expenditures for funding the unfunded pension liabilities existing on the effective date of the act | Referred to House State Government Committee | 02/05/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| H. B. 329<br>P. N. 1794<br>(Pistella) | Second Class County Code, various amendments, including enactment of Second Class County Charter Law under which Allegheny County could adopt a home rule charter but could not be given the power to diminish the rights or privileges of any former employee entitled to benefits or any present employee in that former or present employee's pension or retirement system | Referred to House Veterans Affairs and Emergency Preparedness Committee | 02/06/97 |
| | | Reported as committed | 02/11/97 |
| | | Re-referred to House Appropriations Committee | 02/11/97 |
| | | Re-reported as amended | 04/14/97 |
| | | Second Consideration | 04/14/97 |
| | | Amended and Passed House (196-0) | 04/28/97 |
| | | Referred to Senate Urban Affairs and Housing Committee | 04/29/97 |
| | | Reported as committed | 04/30/97 |
| | | Re-committed to Senate Urban Affairs and Housing Committee | 05/06/97 |
| | | Re-reported as amended | 05/07/97 |
| | | Second Consideration | 05/07/97 |
| | | Re-referred to Senate Appropriations Committee | 05/07/97 |
| | | Re-reported as committed | 05/12/97 |
| | | Amended and Passed Senate (33-17) | 05/12/97 |
| | | Re-referred to House Rules Committee | 05/13/97 |
| | | Re-reported as committed | 05/13/97 |
| | | House Concurred in Senate amendments as amended (121-74) | 05/13/97 |
| | | Act 1997-12 | 05/20/97 |
| | | **Actuarial Note** (P. N. 1590, A. 1668) | 06/06/97 |
| H. B. 336<br>P. N. 380<br>(DeLuca) | Second Class County Code, reducing the normal retirement age for non-uniformed employees in Allegheny County from age 60 with 8 to 20 years of service and age 65 with 10 to 20 years of service to age 55 with 8 to 20 years of service | Referred to House Urban Affairs Committee | 02/10/97 |
| H. B. 349<br>P. N. 393<br>(Reber) | Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988), retroactive to January 1, 1989, reducing from 5 to 4 years the number of years a retiree had to be retired on January 1, 1989, to be eligible for an ad hoc postretirement adjustment under the Act | Referred to House Local Government Committee | 02/10/97 |
| H. B. 460<br>P. N. 511<br>(DeWeese) | The Second Class Township Code, permitting retired supervisors, regardless of whether they were employed by the township, and their dependents to be eligible for inclusion in group health, hospitalization, medical service and accident insurance plans paid in whole or part by the retired supervisor | Referred to House Local Government Committee | 02/11/97 |
| H. B. 461<br>P. N. 512<br>(DeWeese) | PSERS and SERS, permitting a member to elect to waive a joint and survi- | Referred to House State Government Committee | 02/11/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | vor annuity with the written, notarized consent of the member's spouse | | |
| H. B. 467 P. N. 531 (Belfanti) | Municipal Police Pension Law (Act 600), reducing minimum service from 25 to 20 years, reducing permitted minimum age from 55 to 50, and changing service increment to 1/40 of retirement allowance multiplied by years in excess of the minimum up to age 65 but not to exceed $100 a month | Referred to House Local Government Committee | 02/12/97 |
| H. B. 484 P. N. 548 (Reinard) | State Payment for State Mandates Act, providing for mandatory funding of local mandates by State governments, establishing the Office of Local Mandates, providing review requirements, requiring appropriations, establishing the Local Government Mandate Appeals Board, and providing compensation | Referred to House State Government Committee | 02/12/97 |
| H. B. 530 P. N. 593 (Hunt) | PSERS, permitting purchase of credit for up to five years of previous nonschool service as an administrator or teacher in a nonpublic primary or secondary school in Pennsylvania | Referred to House Education Committee | 02/12/97 |
| H. B. 595 P. N. 660 (Steil) | Municipal Police Pension Law (Act 600), requiring an early retirement benefit after 20 years of service calculated as the actuarial equivalent of the partial superannuation benefit that is calculated as the percentage of years of actual service to years of service required for superannuation retirement | Referred to House Local Government Committee | 02/13/97 |
| | | **Advisory Note** (P. N. 660) | 03/17/97 |
| | | Reported as committed | 04/08/97 |
| | | **Actuarial Note** (P. N. 660) | 04/09/97 |
| | | Re-referred to House Appropriations Committee | 04/28/97 |
| | | Re-reported as committed | 04/29/97 |
| | | Second Consideration | 04/29/97 |
| | | Passed House (198-3) | 05/06/97 |
| | | Referred to Senate Finance Committee | 05/07/97 |
| | | Reported as committed | 06/04/97 |
| | | Second Consideration | 06/11/97 |
| | | Re-referred to Senate Appropriations Committee | 06/16/97 |
| | | **Advisory Note** (P. N. 660, A. 1781) | 08/04/97 |
| | | **Advisory Note** (P. N. 660, A. 1782) | 08/05/97 |
| | | **Advisory Note** (P. N. 660, A. 1780) | 09/04/97 |
| | | **Advisory Note** (P. N. 660, A. 1708) | 09/10/97 |
| H. B. 660 P. N. 728 (DeLuca) | Volunteer Firefighters' Relief Association Act, permitting volunteer firefighters' relief associations to establish either defined benefit or defined contribution retirement plans | Referred to House Veterans Affairs and Emergency Preparedness Committee | 03/03/97 |

| BILL NUMBER<br>PRINTER'S NUMBER<br>(PRIME SPONSOR) | SUBJECT | CONCISE HISTORY AND STATUS | DATE |
|---|---|---|---|
| H. B. 677<br>P. N. 745<br>(DeLuca) | Tax Reform Code of 1971, exempting payments to a surviving spouse under pension, stock bonus, profit-sharing and other retirement plans from inheritance tax | Referred to House Finance Committee | 03/05/97 |
| H. B. 736<br>P. N. 828<br>(Pettit) | Public Employe Relations Act (Act 195), adding employees who are teachers in public schools to the list of those public employees prohibited from striking | Referred to House Labor Relations Committee | 03/11/97 |
| H. B. 769<br>P. N. 869<br>(Colafella) | Tax Reform Code of 1971, subjecting employee contributions to certain old-age or retirement benefits to the state income tax upon withdrawal in retirement rather than upon contribution while an active employee | Referred to House Finance Committee | 03/12/97 |
| H. B. 789<br>P. N. 889<br>(Stairs) | PSERS, permitting the purchase of up to 3 years of service credit at the rate of 1 year for every 2 years of previous work experience used to obtain certification as a vocational teacher under a nonbaccalaureate program, with the purchase beginning within 3 years of eligibility and being the increase in the present value calculated on the basis of the average salary received during the first 3 years of school service after the work experience and not withdrawable under Option 4 | Referred to House Education Committee<br>**Actuarial Note** (P. N. 889) | 03/12/97<br>05/07/97 |
| H. B. 807<br>P. N. 907<br>(Browne) | The Local Tax Enabling Act, permitting local authorities in defining earned income for purposes of the earned income tax to adopt the separate class of income for old age and retirement benefits provided in the Tax Reform Code of 1971 | Referred to House Finance Committee | 03/12/97 |
| H. B. 808<br>P. N. 908<br>(Browne) | Tax Reform Code of 1971, subjecting employee contributions to certain old-age and retirement benefits to the state income tax upon withdrawal in retirement rather than upon contribution while an active employee | Referred to House Finance Committee | 03/12/97 |
| H. B. 810<br>P. N. 910<br>(Petrone) | Second Class County Code, adding Allegheny County detectives to those county employees entitled to uniformed employees pension benefits | Referred to House Urban Affairs Committee<br>**Actuarial Note** (P. N. 910) | 03/12/97<br>10/01/97 |
| H. B. 846<br>P. N. 946<br>(Deluca) | Second Class County Code, reducing the early retirement age for certain nonuniformed employees in Allegheny County from age 65 with 10 to 20 | Referred to House Urban Affairs Committee<br>**Actuarial Note** (P. N. 946)<br>**Actuarial Note** (P. N. 946, A. 3367) | 03/12/97<br>06/05/97<br>10/01/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | years of service to age 60 with 8 to 20 years of service | | |
| H. B. 851 P. N. 953 (Barley) | SERS, fiscal year 1997-98 appropriation bill of $18,335,000 | Referred to House Appropriations Committee | 03/12/97 |
| | | Reported as committed | 03/18/97 |
| | | Second Consideration | 03/19/97 |
| | | Passed House (199-0) | 04/01/97 |
| | | Referred to Senate Appropriations Committee | 04/02/97 |
| | | Reported as committed | 04/09/97 |
| | | Second Consideration | 04/14/97 |
| | | Re-committed to Senate Appropriations Committee | 04/15/97 |
| H. B. 852 P. N. 954 (Barley) | PSERS, fiscal year 1997-98 appropriation bill of $25,277,000 | Referred to House Appropriations Committee | 03/12/97 |
| | | Reported as committed | 03/18/97 |
| | | Second Consideration | 03/19/97 |
| | | Passed House (199-0) | 04/01/97 |
| | | Referred to Senate Appropriations Committee | 04/02/97 |
| | | Reported as committed | 04/09/97 |
| | | Second Consideration | 04/14/97 |
| | | Re-committed to Senate Appropriations Committee | 04/15/97 |
| H. B. 908 P. N. 1016 (Fairchild) | PSERS, repealing the requirement that credit for nonschool service on a mandatory maternity leave of absence must be purchased within one year of the member's eligibility | Referred to House Education Committee | 03/13/97 |
| | | **Actuarial Note** (P. N. 1016) | 06/05/97 |
| | | Reported as committed | 06/09/97 |
| | | Re-committed to House Rules Committee | 06/09/97 |
| | | Re-reported as committed | 09/22/97 |
| | | Re-referred to House Appropriations Committee | 11/24/97 |
| H. B. 960 P. N. 1142 (Habay) | Second Class County Code, further providing authority to sell or lease real property | Referred to House Urban Affairs Committee | 03/25/97 |
| | | Reported as committed | 04/28/97 |
| | | Re-referred to House Appropriations Committee | 05/13/97 |
| | | Re-reported as committed | 06/02/97 |
| | | **Commission Letter** ( P. N. 1142, A. 2745) | 06/09/97 |
| | | Re-committed to House Appropriations Committee | 06/10/97 |
| H. B. 997 P. N. 1103 (Walko) | Act 87 of 1975, which is one of the acts providing for retirement benefits to the nonuniformed employees of the City of Pittsburgh, repealing the Social Security offset provisions for members with no credited service prior to January 1, 1975 | Referred to House Urban Affairs Committee | 03/19/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| H. B. 1048 P. N. 2442 (J. Taylor) | Judicial Code, among other things, exempting from attachment or execution on a judgment retirement funds and accounts provided for under IRC §§ 401(a), 403(a), 403(b), 408, or 409 | Referred to House Judiciary Committee | 03/25/97 |
| | | Reported as committed | 04/08/97 |
| | | Re-referred to House Appropriations Committee | 04/17/97 |
| | | Re-reported as committed | 04/28/97 |
| | | Second Consideration | 04/28/97 |
| | | Passed House (192—8) | 04/29/97 |
| | | Referred to Senate Judiciary Committee | 05/01/97 |
| | | Reported as committed | 06/03/97 |
| | | Second Consideration | 06/09/97 |
| | | Amended on Third Consideration | 06/16/97 |
| | | Re-referred to Senate Rules and Executive Nominations Committee | 06/17/97 |
| | | Re-reported as amended | 10/20/97 |
| | | Re-referred to Senate Appropriations Committee | 10/22/97 |
| H. B. 1074 P. N. 1220 (Baker) | Constitution of Pennsylvania, limiting increases in the Commonwealth's operating budget to not more than the average percentage increase in the personal income of the residents unless there is a 2/3 vote in each house of the General Assembly | Referred to House Appropriations Committee | 04/02/97 |
| H. B. 1086 P. N. 1232 (Hanna) | Constitution of Pennsylvania, permitting the General Assembly prospectively to establish differing retirement benefits or pensions for justices, judges, and district justices | Referred to House Judiciary Committee | 04/02/97 |
| H. B. 1099 P. N. 1245 (Hanna) | SERS, making the superannuation age for campus police officers age 50 | Referred to House State Government Committee | 04/02/97 |
| H. B. 1133 P. N. 1279 (Maitland) | SERS, permitting a Pennsylvania State Police Officer to purchase credit for nonstate service as a municipal police officer | Referred to House State Government Committee | 04/02/97 |
| | | **Actuarial Note** (P. N. 1279) | 11/13/97 |
| H. B. 1140 P. N. 1286 (Reinard) | Pennsylvania Tax and Expenditure Limitation Act, imposing limitations on the imposition or increase of taxes or tax rate by the Commonwealth of political subdivisions and on the levels of their expenditures, among other things, requiring future liabilities resulting from the adoption of or contracting for new or improved deferred compensation or benefits or pensions on or after the effective date of the Act to be fully funded in accordance with an accepted advance funding actuarial method using actuarial assumptions and asset valuation methods | Referred to House Finance Committee | 04/02/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| H. B. 1154<br>P. N. 1310<br>(M. N. Wright) | Uniform Municipal Police Identification Act, creating a uniform photo identification card system, giving the Governor discretion to withhold any and all moneys due the municipality that fails to meet the requirements of the Act | Referred to House Judiciary Committee | 04/03/97 |
| H. B. 1160<br>P. N. 1981<br>(Phillips) | SERS, making waterways conservation officers and other commissioned law enforcement personnel employed by the Pennsylvania Fish and Boat Commission "enforcement officers" and, thus, entitled to public safety employee benefits and grant 5-year vesting instead of the usual 10-year vesting to employees of the Penn State Hershey Medical Center who will be terminated from State service on June 30, 1997, by the transfer of their jobs to the Penn State Geisinger Health System but withhold eligibility for presuperannuation death benefits and early retirement benefits | Referred to House State Government Committee<br>Reported as committed<br>**Actuarial Note** (P. N. 1316)<br>**Commission Letter** (P. N. 1316, A. 2737)<br>Re-referred to House Appropriations Committee<br>Reported as amended<br>Second Consideration<br>Passed House (186-11)<br>Referred to Senate Finance Committee<br>Reported as committed<br>Re-referred to Senate Appropriations Committee<br>Reported as committed<br>Second Consideration<br>Passed Senate (49-0)<br>Act 1997-41 | 04/03/97<br>05/12/97<br>06/05/97<br>06/06/97<br>06/09/97<br>06/09/97<br>06/09/97<br>06/11/97<br>06/11/97<br>06/11/97<br>06/16/97<br>06/16/97<br>06/16/97<br>06/17/97<br>06/25/97 |
| H. B. 1193<br>P. N. 1614<br>(L. I. Cohen) | PSERS, permit active member or active multiple service member to purchase up to five years of service credit at the rate of one year for every three years of previous work experience as a school employee, teacher, or instructor in an accredited Pennsylvania private school before June 30, 1974, if the member was entitled to hold or held a provisional or professional certificate to teach in the public schools with the purchase price being the present value of the full actuarial cost of the increase in the projected superannuation annuity caused by the purchase and not withdrawable under Option 4 | Referred to House Education Committee | 04/29/97 |
| H. B. 1275<br>P. N. 1444<br>(Trello) | Volunteer Firefighters' Relief Association Act, permitting association money to be spent for financial assistance to volunteer firefighters who have actively participated in the fire service for 20 years and who have attained the age of 65 | Referred to House Veterans Affairs and Emergency Preparedness Committee | 04/10/97 |
| H. B. 1279<br>P. N. 1448<br>(Civera) | Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988), retroactive to 01/01/97, retaining, increasing, and | Referred to House Local Government Committee<br>**Actuarial Note** (P. N. 1448) | 04/10/97<br>11/13/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | granting special ad hoc postretirement adjustments to certain retired municipal public safety officers | | |
| H. B. 1280<br>P. N. 1449<br>(Civera) | Municipal Police Pension Law (Act 600), permitting benefits to be paid to a survivor spouse who remarries | Referred to House Local Government Committee<br>**Actuarial Note** (P. N. 1449) | 04/10/97<br>10/01/97 |
| H. B. 1281<br>P. N. 1450<br>(Civera) | Second Class City Policemen Relief Law, repealing the 500 week limit on payment of benefits to the survivor spouse of a Pittsburgh police officer who dies in the performance of duties and permitting benefits to be paid to a survivor spouse who remarries | Referred to House Urban Affairs Committee<br>**Actuarial Note** (P. N. 1450) | 04/10/97<br>05/07/97 |
| H. B. 1282<br>P. N. 1451<br>(Civera) | Act 351 of 1965, which provides pensions for surviving spouses of Scranton firefighters and police officers, permitting benefits to be paid to a survivor spouse who remarries | Referred to House Urban Affairs Committee<br>**Advisory Note** (P. N. 1451)<br>**Actuarial Note** (P. N. 1451) | 04/10/97<br>07/10/97<br>10/01/97 |
| H. B. 1284<br>P. N. 1453<br>(Krebs) | Constitution of Pennsylvania, authorizing the use of the indirect initiative and referendum | Referred to House State Government Committee | 04/10/97 |
| H. B. 1289<br>P. N. 1458<br>(Harhart) | PSERS, creating, funding, and use of supplemental annuity reserve account | Referred to House Education Committee | 04/10/97 |
| H. B. 1290<br>P. N. 1459<br>(Gruitza) | SERS, permitting the purchase of up to two years of service credit for nonstate service spent on a maternity leave of absence but requiring the purchase to begin within one year of eligibility | Referred to House State Government Committee | 04/10/97 |
| H. B. 1292<br>P. N. 1461<br>(Kirkland) | Housing Authorities Law, permitting housing authorities to appoint police officers | Referred to House Judiciary Committee | 04/10/97 |
| H. B. 1294<br>P. N. 1463<br>(Kirkland) | General Local Government Code, defining a police officer of a housing authority as a police officer subject to education and training by the Municipal Police Officers' Education and Training Commission | Referred to House Judiciary Committee | 04/10/97 |
| H. B. 1298<br>P. N. 1467<br>(Waugh) | Judicial Code, requiring volunteer firefighter companies to be treated as local agencies for purposes of actions against local parties involving such things as governmental immunity, official immunity, limitations on damages, and judgements | Referred to House Judiciary Committee | 04/10/97 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SUBJECT | CONCISE HISTORY AND STATUS | DATE |
|---|---|---|---|
| H. B. 1309 P. N. 1492 (L. I. Cohen) | PSERS, permit active member or active multiple service member to purchase up to five years of service credit at the rate of one year for every three years of previous work experience as a school employee, teacher, or instructor in an accredited Pennsylvania nonpublic elementary or secondary school, if the member was entitled to a provisional or professional certificate to teach in the public schools with the purchase beginning within three years of eligibility, being the present value of the full actuarial cost of the increase in the projected superannuation annuity caused by the purchase, and not withdrawable under Option 4 | Referred to House Education Committee | 04/15/97 |
| H. B. 1335 P. N. 1523 (Stetler) | The Third Class City Code, permitting a city council to permit a board of school directors to assume the hiring and oversight of the special school police, who will not come under the civil service provision of the Code, the bargaining unit of the school district under the Public School Code of 1949, any benefits as provided in the Public School Code of 1949, or any plans hereafter effective | Referred to House Urban Affairs Committee | 04/16/97 |
| H. R. 138 P. N. 1535 (Zug) | Resolution declaring that the House shall deem the collective bargaining agreement between the Commonwealth and the four unions representing Pennsylvania Liquor Store employees breached and shall cease to provide State appropriations to the employee benefit funds unless by 06/10/97 an audit of the funds is completed in accordance with the collective bargaining agreements | Referred to House Rules Committee | 04/16/97 |
| H. B. 1364 P. N. 1567 (Itkin) | Second Class County Code, permitting the adoption, by referendum, of an optional form of government, under which the three members of the Retirement Board who used to be the county commissioners would be the county executive and the two members of council elected at large | Referred to House Urban Affairs Committee | 04/17/97 |
| H. B. 1365 P. N. 1568 (Itkin) | Second Class County Code, permitting the adoption, by referendum, of an optional form of government, under which the three members of the Retirement Board who used to be the county commissioners would be the county | Referred to House Urban Affairs Committee | 04/17/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | executive and the two members of council elected at large | | |
| H. B. 1374<br>P. N. 1615<br>(McGill) | Enforcement Officer Disability Benefits Law, extending benefits to county sheriffs and deputy sheriffs | Referred to House Judiciary Committee | 04/29/97 |
| H. B. 1411<br>P. N. 1669<br>(Pistella) | Second Class County Code, permitting Allegheny County probation officer to retire and receive a full retirement allowance at age 55 or older with 20 or more years of service | Referred to House Urban Affairs Committee<br>**Advisory Note** (P. N. 1669)<br>**Actuarial Note** (P. N. 1669) | 04/30/97<br>07/10/97<br>11/13/97 |
| H. B. 1478<br>P. N. 1768<br>(Kenney) | Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class, extending coverage of the Act to the Philadelphia School District | Referred to House Finance Committee | 05/07/97 |
| H. B. 1519<br>P. N. 1841<br>(Pistella) | Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988), beginning 01/01/96, retaining, increasing, and granting special ad hoc postretirement adjustments to certain retired municipal public safety officers and granting special ad hoc postretirement adjustments to certain survivor spouses of active and retired municipal public safety officers paid for, in part, out of the General Fund of the Commonwealth | Referred to House Local Government Committee | 05/15/97 |
| H. B. 1600<br>P. N. 1956<br>(Van Horne) | Southwestern Pennsylvania Regional Renaissance Initiative Act, among other things, providing for the Southwestern Pennsylvania Regional Renaissance Initiative and establishing the Regional Renaissance Authority, with the power to enroll its employees in a retirement system, including an existing retirement system of a participating county or other governmental entity located within a participating county | Referred to House Local Government Committee | 06/04/97 |
| H. B. 1627<br>P. N. 2005<br>(Belfanti) | Municipal Police Pension Law (Act 600), reducing required service for retirement from 25 to 20 years and reducing minimum age for retirement where prescribed for 55 or 50 to 50 | Referred to House Local Government Committee<br>**Actuarial Note** (P. N. 2005) | 06/10/97<br>11/13/97 |
| H. B. 1628<br>P. N. 2436<br>(Lucyk) | Act 99 of 1811, appropriate amendments needed in Commonwealth's enabling act for IRC § 457 deferred compensation plans as a result of | Referred to House State Government Committee<br>Reported as committed<br>Re-referred to House Appropriations Committee | 06/10/97<br>09/23/97<br>10/06/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | amendments of § 457 by the Small Business Job Protection Act | Re-reported as amended<br>Second Consideration<br>Passed the House (200-0)<br>Referred to Senate Finance Committee<br>Reported as committed | 10/20/97<br>10/20/97<br>10/21/97<br>10/23/97<br>12/09/97 |
| H. B. 1648<br>P. N. 2050<br>(Lynch) | Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), correcting a problem in the allocations formula for Supplemental State Assistance (SSA) by providing for SSA allocations to be based on what should have been contributed rather than on what actually was contributed | Referred to House State Government Committee | 06/11/97 |
| H. B. 1679<br>P. N. 2096<br>(Daley) | Tax Reform Code of 1971, increasing the foreign casualty insurance premium tax and the foreign fire insurance premium tax from two to three percent | Referred to House Finance Committee | 06/16/97 |
| H. B. 1681<br>P. N. 2098<br>(Butkovitz) | An act specifically authorizing collective bargaining between first-level supervisors and their public employers, providing for arbitration in order to settle disputes rather than striking, and requiring compliance with collective bargaining agreements and findings of arbitrators | Referred to House Labor Relations Committee | 06/16/97 |
| H. R. 223<br>P. N. 2106<br>(Belfanti) | A Resolution proposing certain sanctions against the Nike Corporation | Referred to House Rules Committee | 06/16/97 |
| H. B. 1714<br>P. N. 2138<br>(Nickol) | Act 293 of 1972, changing references to DCA to references to PERC, defining actuarial valuation report to be one that complies with or is substantially equal to the requirements of the Municipal Pension Plan Funding Standard and Recovery Act, granting a 1-year transition period to the new reporting standard, and modifying the reporting cycle by providing for reports to be filed in plan years beginning in odd-numbered years rather than even-numbered years | Referred to House Local Government Committee | 07/11/97 |
| H. B. 1736<br>P. N. 2160<br>(Stetler) | Act 272 of 1933, permitting cities of the third class prospectively to require city residence as a precondition of employment as a paid firefighter | Referred to House Urban Affairs Committee | 08/14/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| H. B. 1770 P. N. 2207 (Dempsey) | The Administrative Code of 1929, repealing provisions concerning deduction of the medical insurance coverage premiums from the annuities of survivors of SERS annuitants and payment of the difference between the premium and the withholding by the survivor-spouse to the Commonwealth's fiscal officer | Referred to House State Government Committee | 09/23/97 |
| H. B. 1775 P. N. 2212 (Hanna) | Public School Code of 1949, giving school police the powers of municipal police and explicitly providing that school police are employees of the school district and entitled to all the benefits accruing therefrom | Referred to House Education Committee | 09/23/97 |
| H. B. 1781 P. N. 2218 (DeLuca) | Second Class County Code, lowering eligibility for certain early retirement benefits for members of the Allegheny County Employees' Retirement System employed after April 13, 1984, from 10 or more but less than 20 years of service beginning at age 65 to 8 or more but less than 20 years of service beginning at age 65 (See A. 3367 to H. B. 846, P. N. 946) | Referred to House Urban Affairs Committee | 09/23/97 |
| H. R. 235 P. N. 2229 (C. Williams) | A Resolution urging the Public School Employees' Retirement Fund, the State Employees' Retirement Fund, the Pennsylvania Municipal Retirement System and other public pension boards in Pennsylvania to divest the investments in tobacco industries and commending State Treasurer Barbara Hafer for diverting tobacco investments from the Tuition Account Program | Referred to House Rules Committee | 09/24/97 |
| H. B. 1786 P. N. 2238 (Herman) | Constitution of Pennsylvania, permitting increases in retirement benefits and pensions for both public employee retirement system retirees and spouses provided the increases are certified to be actuarially sound | Referred to House State Government Committee | 09/24/97 |
| H. B. 1797 P. N. 2249 (L. I. Cohen) | An act prohibiting certain funds, including PMRS, PSERS, and SERS, from investing in tobacco companies and requiring the funds to divest any investments in those companies | Referred to House Finance Committee | 09/24/97 |
| H. B. 1819 P. N. 2278 (Hanna) | PSERS, reducing superannuation or normal retirement age from age 62 or any age with 35 years of service to age 60 or any age with 35 years of service | Referred to House Education Committee | 09/30/97 |

| Bill Number Printer's Number (Prime Sponsor) | Subject | Concise History and Status | Date |
|---|---|---|---|
| | for Class T-A, from age 62 to age 60 for Class T-B, and from age 62 or age 60 with 30 years of service or any age with 35 years of service to age 60 with 30 years of service or any age with 35 years of service for Class T-C | | |
| H. B. 1865 P. N. 2346 (Bunt) | Constitution of Pennsylvania, amending article 11 by authorizing the use of an initiative process to amend the Constitution as a power reserved to the people | Referred to House State Government Committee | 10/06/97 |
| H. R. 271 P. N. 2369 (Steil) | A Resolution establishing a joint committee of the House Education and State Government Committees to study the impact of the extension and termination of the early retirement benefit for public school employees and State employees | Referred to House Rules Committee | 10/07/97 |
| H. B. 1886 P. N. 2380 (Tulli) | Public Employee Pension Forfeiture Act, adding theft by unlawful taking or disposition, intimidation of witness or victims, retaliation against witness or victims and removing tampering with witnesses and informants and witness or informant taking a bribe from the list of covered criminal offenses | Referred to the House Judiciary Committee | 10/07/97 |
| H. B. 1925 P. N. 2432 (Casorio) | County Pension Law, making superannuation retirement age for county detectives 20 years of service at any age | Referred to House Local Government Committee | 10/15/97 |
| H. B. 1926 P. N. 2433 (Casorio) | Municipal Police Pension Law (Act 600), reducing the superannuation retirement service from 25 to not less than 20 years and repealing the superannuation age requirement of 55, or, if feasible, 50 | Referred to House Local Government Committee | 10/15/97 |
| H. B. 1981 P. N. 2558 (Van Horne) | The Third Class City Code, increasing the service increment paid to retired firefighters and police officers from $100 to $300 a month and increasing the employee contribution for the service increment benefit from $1 a month to $3 a month | Referred to House Urban Affairs Committee | 11/03/97 |
| H. B. 2052 P. N. 2695 (Herman) | PSERS and SERS, lengthening the time period available for members to elect multiple service after beginning school or state service from 30 to 365 days, providing that members electing multiple service may pay for any credit to be reinstated or purchased through | Referred to House State Government Committee | 12/10/97 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SUBJECT | CONCISE HISTORY AND STATUS | DATE |
|---|---|---|---|
| | installment payments, and opening a 3 to 4 year window for current active members, who have not elected multiple service but have service in both systems, to elect multiple service | | |

# APPENDIX E

## CONCISE INDEX TO ACTUARIAL NOTES

## EARLY RETIREMENT



## EMPLOYER CONTRIBUTIONS

## JUDICIAL RETIREMENT BENEFITS



## MUNICIPAL PENSION PLAN FUNDING STANDARD AND RECOVERY ACT (ACT 205 OF 1984)



## MUNICIPAL POLICE PENSION LAW (ACT 600 OF 1955)



## PITTSBURGH CITY POLICE PENSION PLAN



PSERS — SEE PUBLIC SCHOOL EMPLOYEES' RETIREMENT CODE

## PUBLIC SAFETY EMPLOYEES' BENEFITS

**SERVICE CREDIT PURCHASE** (Cont'd)