1998
ANNUAL REPORT
OF THE
PUBLIC EMPLOYEE
RETIREMENT COMMISSION

Public Employee Retirement Commission
Commonwealth of Pennsylvania
March 1999

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COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
HARRISBURG
17120

March 1999

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 1998.

During 1998, the Commission authorized the attachment of twenty-five actuarial notes to twelve bills, fourteen amendments and one document 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 1998 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 sixteenth 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 1998.

Sincerely,

Paul D. Halliwell

Paul D. Halliwell
Chairman

DEDICATION

The members of the Public Employee Retirement Commission and its staff dedicate this sixteenth annual public report to:

ALBERT L. HYDEMAN, JR.

who died on October 11, 1998. A member of the Commission since 1988, Mr. Hydeman's nomination to the Commission was confirmed on February 22, 1988, his re-nomination was confirmed on April 19, 1994, and he served as Vice Chairman of the Commission from 1992 through 1995. Long active in the public affairs of the Commonwealth and the City of York, he had been, among other things, Executive Deputy Secretary and Secretary of the Commonwealth's Department of Community Affairs and Vice Chairman of the Planning Commission, member of the City Council, and Director of Economic and Community Development of the City of York.

The Commission appreciates Mr. Hydeman's service to the Commission and his work in ensuring sound administration of the pension plans of the public employees of Pennsylvania.

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 $129 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 thirteenth 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 1998.

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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 1998 ACTIVITY.

During 1998, the Commission authorized the attachment of twenty-five actuarial notes to twelve bills, fourteen amendments, and one document. In addition, the Commission's staff provided the General Assembly with four advisory notes.

C. SYNOPSES OF ADVISORY NOTES.

- House Bill 2052, Printer's Number 2695. At the request of Representative Paul I. Clymer, Chairman, House State Government Committee, on February 18, 1998, the Commission staff provided an advisory note on House Bill 2052, Printer's Number 2695. The bill would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code provisions on election of and purchase of service credit under Multiple Service Membership status to lengthen the time period available for members to elect multiple service membership after beginning school or state service from 30 to up to 365 days, provide that members electing multiple service membership may pay for any service credit to be reinstated or purchases through installment payments, and open a window of between three and four years during which current active members who have not elected multiple service membership but have service in both systems, may elect multiple service membership.

C. SYNOPSES OF ADVISORY NOTES. (CONT'D)

- House Bill 2142, Printer's Number 2819. At the request of Representative Lynn B. Herman, Chairman, House Local Government Committee, on March 19, 1998, the Commission staff provided an advisory note on House Bill 2142, Printer's Number 2819. The bill would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to mandate that, before any borough, city (except Philadelphia), incorporated town, or township could issue debt to fund some or all of the unfunded actuarial accrued liabilities of one or more of its employee retirement systems, the municipality would have to seek financing for the amount from the Pennsylvania Economic Development Financing Authority and could only issue the debt on its own in the open, competitive market for the portion that the Authority did not finance.

- House Bill 2575, Printer's Number 3521. At the request of Representative John E. Barley, Chairman, House Appropriations Committee, on June 3, 1998, the Commission staff provided an advisory note on House Bill 2575, Printer's Number 3521. The bill would amend the State Employees' Retirement Code to permit an active member or an active multiple service member to purchase service credit for up to ten years of full-time nonstate service in a state government other than the Commonwealth if the member makes the purchase after at least ten years of service with the Commonwealth but within three years of becoming eligible and pay the full actuarial cost and to prohibit the member from withdrawing under Option 4 the portion of the purchase price attributable to employer cost.

- 1998 Document 00764. At the request of Representative Paul I. Clymer, Chairman, House State Government Committee, on March 10, 1998, the Commission staff provided an advisory note on 1998 Document 00764. The document would amend the State Employees' Retirement Code to grant ad hoc postretirement adjustments beginning July 1, 1998, to annuitants who retired before July 1, 1997.

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: Amendment 0794 to Senate Bill 284, Printer's Number 1521

System: Pittsburgh Employees' Retirement Systems

Subject: Granting Pittsburgh Special, One-Time Modification of the Act 205 Actuarial Funding Standard

SYNOPSIS

Amendment 0794 to Senate Bill 284, Printer's Number 1521, would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) by adding a new chapter to permit the City of Pittsburgh to modify its statutorily prescribed funding standard under certain circumstances. Under the proposed chapter, if during 1998 the City of Pittsburgh sells enough pension bonds and deposits the proceeds of the bonds into its pension trust funds to increase the ratio of the actuarial value of assets to the actuarial accrued liability of its pension trust funds by more than 0.25, the City will be permitted to modify the 26 years remaining on its current 40-year level percentage of payroll amortization payments for its unfunded actuarial accrued liabilities adopted in 1985 by implementing a new 40-year level dollar amortization payment schedule for the remaining unfunded actuarial accrued liabilities.

DISCUSSION

Under the Municipal Pension Plan Funding Standard and Recovery Act, every year a municipality must budget and contribute the full amount of its obligation to each of its retirement systems. These obligations include both the ongoing normal cost of the pension plans and, where applicable, the amortization contributions sufficient to amortize the unfunded actuarial accrued liabilities of the plans by the target dates established under Act 205.

Upon passage of Act 205, the City of Pittsburgh elected to participate in the Recovery Program for Financially Distressed Municipal Pension Systems and was determined to be severely distressed. Under the provisions of the Recovery Program, the City chose to amortize all of its $430 million unfunded actuarial accrued liability over 40 years on a level percentage of payroll basis rather than over 30 years on a level dollar basis, which is the statewide standard. This delayed funding approach means that in the early years the unfunded actuarial accrued liability continues to increase although it ultimately will be reduced to zero at the end of the amortization period. This delayed funding approach also means that the amount of the amortization payment increases every year over the amortization period because the amount of the payroll is assumed to increase every year. (In the case of Pittsburgh, this assumed rate of increase is four percent a year and the amortization period has 26 years remaining.)

After issuing about $250 million of pension bonds, the City's remaining unfunded actuarial accrued liability will be about $273 million. Under the proposed chapter, the City of Pittsburgh could extend the remaining payment period for its unfunded actuarial accrued liabilities from 26

to 40 years and calculate the annual amortization payments on a level dollar basis as if each payment would earn a ten percent rate of return. The City's actuarial interest rate assumption is 8.75 percent. In any year in which the payment would earn more or less than the target ten percent, the deviation would be considered an actuarial gain or loss and amortized over a 15-year period under the existing Act 205 provisions that are applicable to all municipalities. The proposal will require an annual payment of about $16 million in 1998, and absent gains or losses on the contributions, will remain $16 million for 40 years.

Amendment 0794 contains the correction suggested by the consulting actuary of the Commission in his actuarial note on Amendment 0756.

SUMMARY OF ACTUARIAL COST IMPACT

The amendment will have no actuarial cost impact upon the retirement systems of the City of Pittsburgh, because, ultimately, the City will pay its retirement systems all of the actuarial costs due. The amendment, however, will have an effect upon the contribution requirements of the City's retirement systems.

POLICY CONSIDERATIONS

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

Funding Approach. ( )

Level Dollar Method. The level dollar method of calculating the amortization payments provided in the amendment will fund the remaining unfunded actuarial accrued liabilities without the escalation in amortization payments that would occur under the level percentage of payroll method originally chosen by the City of Pittsburgh.

Amortization. Although use of a separate interest rate assumption is not a common approach for calculating amortization payments, the Commission's consulting actuary indicates that the approach proposed in the amendment is an acceptable approach.

Extended Amortization Period. The proposal in the amendment will extend the amortization period for the City of Pittsburgh from approximately 26 years to 40 years.

COMMISSION RECOMMENDATION

On February 26, 1998, 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.

FINAL LEGISLATIVE STATUS

As Printer's Number 2028, Senate Bill 284 was signed into law by the Governor as Act 1998-82 on June 18, 1998.

Bill ID: Amendment 3688 to Senate Bill 287, Printer's Number 286

System: All Municipal Employee Retirement Systems

Subject: Mandated Five-Year Vesting

SYNOPSIS

Amendment 3688 to Senate Bill 287, Printer's Number 286, would amend Title 53 (Municipalities Generally) of the Pennsylvania Consolidated Statutes by adding a new section 4101 that would mandate any municipality required to submit actuarial valuation reports for a defined benefit municipal pension plan under section 202(b) of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to provide for the active members of the pension plan to be fully vested in their accrued annual pension benefits upon completion of five years of pension plan membership and, thereby, subsequently permitted to elect to receive their vested benefits on a deferred basis if their employment terminates prior to their normal retirement dates.

DISCUSSION

An employee's right to receive a present or a future pension is said to vest when the right no longer is contingent upon the employee remaining in the service of the employer. Many public employee pension plans provide for employee contributions (that is, they are contributory), and employee contributions always are fully vested; however, interest upon the employee's contributions may not be vested or may be paid at a specified rate, depending upon the provisions of the pension plan. A vested benefit is most frequently paid as a deferred annuity upon retirement.

There are two kinds of vesting—cliff vesting and graded vesting.

> Cliff vesting provides for full (100%) vesting after a certain number of years of service. For example, cliff vesting under the amendment would mean full vesting after five years of service.
>
> Graded vesting provides a vesting schedule that calls for partial vesting after a specific length of service with the vesting portion increasing each year until it reaches 100 percent. For example, a graded vesting schedule under the amendment could provide for 20 percent vesting after one year of service, 40 percent after two, and so forth ending with 100 percent vesting after five years.

Retirement income traditionally is viewed as coming from three sources: personal savings, social security, and pensions. Whenever an individual changes employment from one employer to another, the individual's personal savings and social security coverage move with the individual to the new job. If the individual was employed by the first employer for only a short period and was

a member of a defined benefit retirement system, the individual probably will lose all retirement benefits accrued to the date of termination of service. If, however, the individual was employed by the first employer long enough, the individual probably has accrued benefits under that employer's retirement system that have become nonforfeitable and are termed "vested." The individual, thus, has a right to receive a present or future pension benefit for service with the first employer. However, the total of all pensions that an individual receives in retirement from two or more such vested benefits is not as large as if the individual had spent an entire career with one employer.

In the private sector, if a pension plan provides for cliff vesting, an active member must be 100 percent vested after completion of no more than five years of service. The amendment would mandate that vesting for municipal defined benefit pension plans provide for five-year vesting, similar to the five-year cliff vesting requirement that applies to private pension plans. As a general rule, this should improve the positions of municipalities in their efforts to attract new employees from other Pennsylvania municipalities since municipal pension plans now generally require an active member to complete more than five years of service to be fully vested. A reduction in the period required for full vesting also should allow for increased mobility among municipal workers. These results generally may be viewed as positive results of the amendment; however, a municipality that loses an employee sooner because of a decrease in the period required for full vesting under the pension plan will be faced with expending additional time and money to recruit and train another individual to replace the departing employee.

A municipality that operates under a Home Rule Charter or Optional Charter has the ability to provide for 100 percent vesting after five years of service; however, few municipal plans provide for full vesting after only five years of service. Under the Municipal Police Pension Law (Act 600) and The Third Class City Code, if a police officer's pension plan provides a vesting benefit, full vesting only can occur after completion of 12 years of service. Therefore, 12-year cliff vesting is most prevalent among pension plans for municipal police officers. Most employees covered by pension plans in the City of Philadelphia are 100 percent vested after completion of ten years of service. The vesting provisions of other pension plans for firefighters and non-uniformed employees vary greatly due to the lack of legislation that prescribes vesting provisions. In some instances, the amendment will have no effect upon municipal pension plans that provide vesting after completion of five or fewer years of service; however, for most municipal pension plans, the amendment will mandate shorter vesting periods

The amendment is mandatory. It does not contain a provision for the payment by the Commonwealth to the municipalities of the costs associated with the reduced period for full vesting. The amendment may be viewed as undesirable by many municipalities because the benefit is mandated by the Commonwealth while the municipalities must fund all of the resulting costs. Changing the proposal to make the vesting provision optional rather than mandatory might increase support for this legislation by municipalities. If the provision is optional, however, it may take many years for the majority of municipal pension plans to change to five-year vesting, if such a change occurs at all.

SUMMARY OF ACTUARIAL COST IMPACT

	Range of Amounts
Increase in Unfunded Actuarial Accrued Liabilities	$4,000,000 - $4,500,000

	Range of Amounts	As a % of Payroll
Increase in Employers' Annual Costs		
Normal Costs	$2,400,000 - $2,600,000	0.105%
Amortization Payments[1]	350,000 - 400,000	0.016%
Total Increase in Employers' Annual Costs	$2,750,000 - $3,000,000	0.121%

	Range of Amounts
Total Amortization Payments	$7,000,000 - $8,000,000

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

POLICY CONSIDERATIONS

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

Easier Recruitment of Municipal Employees. **(+)** The amendment should improve the positions of municipalities in their efforts to attract new employees from other Pennsylvania municipalities.

Improved Employee Mobility. **(+)** The amendment should allow for increased mobility among municipal workers.

Closer Approximation to Private Sector. **(+)** The amendment would mandate five-year vesting similar to the five-year vesting requirement that applies to private sector pension plans.

Vesting/Portability. **( )** An individual who has worked for two or more employers long enough to be vested under their defined benefit pension plans will receive pensions under multiple pension plans. The total of all of these pension increments generally will not be as large as the one pension that would be payable if the individual had been able to transfer within a multiple-employer retirement system upon the changes in employment with true, pension portability.

POLICY CONSIDERATIONS (CONT'D)

Commonwealth Mandate to Municipalities. **(-)** The amendment mandates a retirement benefit change for most affected local government employees' retirement systems. The appropriateness of the Commonwealth mandating local governments to provide specific pension benefits is questionable from a public policy standpoint due to the wide variation in local conditions.

COMMISSION RECOMMENDATION

On November 5, 1998, 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.

FINAL LEGISLATIVE STATUS

Senate Bill 287, Printer's Number 286, was referred to the Senate Finance Committee on January 29, 1997.

Bill ID: Senate Bill 716, Printer's Number 753

System: State Employes' Retirement Code

Subject: Purchase of Service Credit for Nonstate Service During Intervening Furlough

SYNOPSIS

Senate Bill 716, Printer's Number 753, would amend section 5505(h) of the State Employees' Retirement Code to provide for the contribution required from an active member or active multiple service member of the State Employes' Retirement System to purchase service credit for up to three years of nonstate service during an intervening furlough.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan with the designated purpose of the State Employes' Retirement System (SERS) being to provide retirement allowances and other benefits including disability and death benefits to state employees. At December 31, 1996, there were 108 participating state and other organizations in SERS. 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 SERS. At December 31, 1996, membership in SERS included 110,992 active members.

The Commonwealth's defined benefit pension plan has a retirement benefit based on a pre-determined 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.

All members of 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.

The bill would expand the list of purchasable nonstate service to include up to three years of service on an intervening furlough. The effect of the additional service credit would be to add an amount equal to up to six percent of the highest salary to the value of the basic benefit prior to modification. The purchase contribution amount required for each year of nonstate service credit would be the member's contribution rate at the time of the furlough and throughout the period of the furlough applied to the salary of the member at some undesignated time. 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.

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 the Code, a member under age 60 must have 35 years of service credit to retire and receive a full pension. From July 1, 1998, through June 30, 1999, a member with 30 years of service credit may retire and receive a full pension regardless of age. The bill, therefore, would permit a 55-year-old state employee member or multiple service member with 27 years of Commonwealth service to purchase three years of service credit for nonstate service on an intervening furlough 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 bill contains several drafting problems that should be corrected before the bill receives further consideration by the General Assembly.

The bill does not contain an amendment to section 5304(c) specifically authorizing the purchase of service credit for nonstate service on an intervening furlough.

The bill requires that the contribution to purchase the service credit be determined by applying the member's contribution rate for active members for the time of the furlough throughout the period of the furlough until reentry as an active member. The intent probably is to require that it be the member's contribution rate at the time of the furlough. If that is the drafting intent, the bill should be amended accordingly. Otherwise problems could arise for furloughs during which the member's contribution rate changed, as it did in 1993.

The bill requires that the contribution rate to purchase the service credit be determined by applying the member's contribution rate as described above. The bill, however, does not specify whether it is the member's compensation at the time of going onto furlough, the

member's compensation immediately after returning to active state service after the furlough, or the member's compensation at the time of the purchase.

The bill makes no provision for the addition of interest during all periods of subsequent state and school service from the date of reentry into active service until the date of the purchase.

The phrase "and the fractional part of a year of creditable nonstate service being purchased" on lines 17 and 18 of page 1 of the bill are unclear in that location. Presumably, the intent of the bill is that a member may purchase both whole years and the fractional part of a year during which the member was on intervening furlough not to exceed three years in total.

SUMMARY OF ACTUARIAL COST IMPACT

The Bureau of Personnel, Office of Administration, provided the Commission with year-by-year data on employees furloughed and employees returned from furlough for calendar years 1987 through calendar year 1997 and for calendar year 1998 to March 21, 1998, together with the average compensation and average length of time on furlough data as follows. Because the average length of service of a member of SERS is less than 13 years, these data, which represent more than 11 years, provide an adequate sample for an estimate of the actuarial cost impact of the bill.

Calendar Year	Furloughed Employees	Employees Returned from Furlough
1987	57	27
1988	50	21
1989	48	24
1990	57	9
1991	977	395
1992	471	140
1993	15	50
1994	15	28
1995	241	69
1996	302	139
1997	111	106
1998[1]	53	26

[1] To March 21, 1998.

Average Compensation of Employees at Time of Furlough = $23,073.47
Average Compensation of Employees at Time of Return from Furlough = $26,211.94
Average Length of Time on Furlough = 224 days

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

Based upon these data, and going back to 1977, the consulting actuary of the Commission assumed that there will be about 2,000 members eligible under the retroactive provisions of the bill, each of whom will purchase eight months of service credit, and that about 100 employees a year in the future who will return from furlough, each of whom will purchase about eight months of service, have a current salary of $30,000 a year, be age 37, and have six years of service. Using these assumptions, the consulting actuary developed the following estimate of the actuarial cost impact of the bill:

	Amount
Increase in Unfunded Actuarial Accrued Liability	$3,500,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$100,000	0.002%
Amortization Payment[1]	250,000	0.006%
Total Increase in Employer Annual Costs[1]	$350,000	0.008%

	Amount
Total Amortization Payments	$8,266,488

[1] First year cost, increasing five percent a year for 20 years.

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.

Appropriateness of Credit for Service on Intervening Furlough. 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 prior service credits following a break in service, and remedying inequalities caused by employer actions. The Code already provides for the restoration of service credits earned before an intervening furlough upon reentry into state service. The bill would expand the purchase of

service credit provisions to include service during the intervening furlough, a type of service credit not among those recommended by the Commission.

Adequacy of Purchase Payments. The method for calculating the member's contributions to purchase service credit for nonstate service on intervening furlough 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.

Cost Effectiveness of Technical Provisions. For 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 or upon leaving employment with entitlement to a vested deferred benefit. The bill does not limit the time within which the member must exercise the purchase option nor does it 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.

Disparity in Benefit between SERS and PSERS. **(-)** The bill only proposes to permit purchases of service credit for nonstate service on an intervening furlough to members of SERS and not to members of the Public School Employes' Retirement System (PSERS). This approach is not in accordance with the General Assembly's long practice of providing substantially identical benefits to members of the two statewide systems. Permitting purchases of the service credit only by members of SERS would lead to requests from members of PSERS for parity by permitting them to purchase service credit for nonschool service on an intervening furlough.

Need for Clarifying Amendments. **(-)**

Authorization of Purchase. The bill should be amended to also amend section 5304(c) to specifically authorize the purchase for service for nonstate service on an intervening furlough.

Clarification of Contribution Rate to be used in Calculation. The bill should be amended to make clear which employee's contribution rate is to be used in calculating the employee purchase contribution.

POLICY CONSIDERATIONS (CONT'D)

Specification of Compensation to be used in Calculation. The bill should be amended to make clear to what compensation of the employee the employee's contribution rate will be applied in calculating the employee purchase contribution.

Interest. The bill should be amended to specify that either no interest is to be paid by the member on the purchase contribution or what interest is to be paid.

Meaning of Fractional Part of Year Phrase. The bill should be amended to make clear the meaning of the phrase regarding the fractional part of a year.

COMMISSION RECOMMENDATION

On April 16, 1998, 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.

FINAL LEGISLATIVE STATUS

Senate Bill 716, Printer's Number 753, was referred to the Senate Finance Committee on March 14, 1997.

Bill ID: Senate Bill 803, Printer's Number 1807

System: Public School Employes' Retirement System

Subject: Granting Two "30 and Out" Windows

SYNOPSIS

Senate Bill 803, Printer's Number 1807, would amend the Public School Employees' Retirement Code to add section 8313 permitting members of the Public School Employes' Retirement System to retire at any age with 30 eligibility points without the annuity being reduced on account of a retirement age that is under superannuation age ("30 and Out") during two periods of time. Eligible members would include:

> Members who terminate school service on or after the effective date of the bill and before July 11, 1998, and file an application for retirement with an effective date of retirement not later than July 11, 1998; and
>
> Members who terminate school service after March 31, 1999, and before July 1, 1999, and file an application for retirement with an effective date of retirement not later than July 1, 1999.

In addition, the bill would amend section 8502 to restrict the power of the Public School Employees' Retirement Board to fix the compensation of all officers and employees who are not covered by a collective bargaining agreement by requiring that the compensation must be consistent with the standards of compensation established by the Executive Board of the Commonwealth.

DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental cost-sharing multiple-employer pension plan with the designated purpose of the Public School Employes' Retirement System (PSERS) being to provide retirement allowance and other benefits including disability and death benefits to school employees. As of June 30, 1997, there were 635 participating employers, generally school districts, vocation-technical schools, and intermediate units. 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, 1997, membership in PSERS consisted of 124,124 retirees, beneficiaries, and terminated employees entitled to benefits and 215,077 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. Temporary provisions of the Code also have permitted 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 retirement age. The most recent special early retirement provisions expired on July 1, 1997. The special early retirement provisions were adopted in 1984 and revised and extended 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 the intention of the General Assembly, 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, was extended and revised a number of times until the most recent one, which expired 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 1995 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 of SERS rather than limiting it to recognition in amortization payments for unfunded actuarial accrued liabilities. A similar action by PSERS would increase the employer contribution rate by 1.5 to 2.0 percent of payroll. If the special early retirement provisions of PSERS are to be granted frequently, PSERS also should make a similar change in its funding methodology.

The effectiveness of special early retirement provisions as an incentive for accelerating retirements within a window period is diminished by making them available either continuously or frequently. Because the special early retirement provisions were in effect continuously from 1985 to 1997, a new normal retirement pattern was established based on the availability of the provisions. Terminating the provisions and granting them again after only nine months at the normal retirement times of PSERS members will not produce an incentive for members to change their new normal retirement pattern and will result in only a temporary, nine-month decrease in the number of retirements with an increase in early retirements during the two proposed three-month windows. Granting short-period early retirement windows more frequently than once every five or so years is the provision of a benefit enhancement rather than an incentive to retire.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Public School Employes' Retirement System has estimated the costs for two three-month windows for the special early retirement provisions, assuming retirement rates of 10, 20, and 30 percent. The estimate has been reviewed by the consulting actuary of the Commission who has determined that, if the early retirement provisions are allowed to expire in

1999, a 20 percent utilization rate is likely to be representative of the actual utilization patterns and will result in the following costs.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$218,000,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$ 7,000,000	0.08%
Amortization Payment[2]	17,000,000	0.20%
Total Increase in Employer Annual Costs[2]	$24,000,000	0.28%

	Amount
Total Amortization Payments	$562,121,219

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

[2] 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 Granting Two Three-Month Special Early Retirement Provisions. ( ) Policy makers may wish to consider whether the purpose of granting two three-month windows for special early retirement provisions so soon after the expiration of the previous 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, granting recurring "windows" on an ad hoc basis functions 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 granting them so soon after expiration of the previous one as to make them available almost continuously.

COMMISSION RECOMMENDATION

On March 24, 1998, 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.

FINAL LEGISLATIVE STATUS

As Printer's Number 1819, Senate Bill 803 passed the Senate on March 24, 1998, and as Printer's Number 2074, Senate Bill 803 passed the House and was referred to the Senate Rules and Executive Nominations Committee on June 8, 1998.

Bill ID: Amendment 3132 to Senate Bill 803, Printer's Number 1819

System: Public School Employes' Retirement System

Subject: Mandated Postretirement Medical Insurance for PSERS Annuitants with Costs Paid 50% by the Commonwealth and 50% by the Participants

SYNOPSIS

Amendment 3132 to Senate Bill 803, Printer's Number 1819, would amend the Public School Employees' Retirement Code to require the Public School Employes' Retirement Board to sponsor a group health insurance program for annuitants, spouses of annuitants, survivor annuitants, and their dependents with one-half of the costs paid by the Commonwealth and one-half of the costs paid by the participants.

DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan with the designated purpose of the Public School Employes' Retirement System (PSERS) being to provide retirement allowances and other benefits including disability and death benefits to public school employees. At June 30, 1997, there were 635 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS. Membership in the system is mandatory for most employees. Certain other employees are not required but are given the option to participate. At June 30, 1997, membership in PSERS included 215,077 active members, 40,028 inactive members and vestees, and 124,229 annuitants and survivor annuitants.

Under the Code, certain health care benefits are provided for retired employees who meet specified length-of-service and age requirements. To be eligible for the Health Insurance Assistance Program, retired PSERS members must

have at least 24½ years of service credit, or

be disability annuitants, or

have at least 15 years of service credit and both have terminated school service and retired after attaining superannuation age.

Under the program, participating eligible annuitants receive health insurance premium assistance payments from the Health Insurance Account equal to the lesser of $55 a month or the actual monthly premium.

All administrative expenses necessary to operate the Health Insurance Premium Assistance Program are funded by the Health Insurance Account. The Health Insurance Account is credited with the contributions of the Commonwealth and the employers. For the calendar year ended December 31, 1996, the Account received $92,240,000 in contributions from the Commonwealth and employers and paid medical benefits totaling $77,564,235.

The Health Insurance Premium Assistance Program is funded on a current disbursements ("pay-as-you-go") basis, with the cost determined in the valuation process based on the expected annual disbursements and funded for one year in advance of actual disbursements. Because the covered group of retirees is anticipated to be relatively stable and the benefit amount is not indexed, this approach should provide a reasonable estimate of the long-term cost level.

Employers' annual contributions to the Health Insurance Premium Assistance Program have been as follows:

Fiscal Year	As a % of Payroll
1998-1999	0.15%
1997-1998	0.15%
1996-1997	0.60%
1995-1996	0.62%
1994-1995	0.45%
1993-1994	0.25%
1992-1993	0.50%
1991-1992	0.50%

When the Health Insurance Premium Assistance program was established in essentially its present form by Act 23 of 1991, PSERS already was operating a Group Health Insurance Program for annuitants who had attained age 65. Upon creation of the Health Insurance Premium Assistance Program, PSERS evaluated its existing Group Health Insurance Program and the Health Insurance Premium Assistance Program and concluded that to control increasing premium costs and prevent adverse selection, the Public School Employees' Retirement Board (Board) would only approve health insurance premium assistance reimbursements under the Health Insurance Premium Assistance Program to retirees who chose coverage either through the Board's Health Options Program or through an insurance carrier program offered by one of the employers participating in PSERS. Although section 8509(c) of the Code as enacted by Act 23 of 1991 speaks of a health insurance carrier approved by the Board, it is not clear that the General Assembly intended such a restrictive approval rather than the more general approval of any insurance carrier licensed to provide such health insurance in Pennsylvania. With the addition of section 8502.1 to the Code by Act 88 of 1998, the Board now has specific statutory authority to sponsor a participant-funded group health insurance program for annuitants, spouses of annuitants, survivor annuitants, and their dependents.

The proposed section 8502.1 contained in the amendment is identical to that enacted by Act 88 of 1998 with two significant exceptions:

Sponsorship by the Board of a group health insurance program for annuitants, spouses of annuitants, survivor annuitants, and their dependents is made *mandatory* rather than being *permissive*; and

The cost of the group health insurance program is to be paid *50 percent by the Commonwealth and 50 percent by the participants* rather than *100 percent by the participants* with certain participants receiving premium assistance under the Health Insurance Premium Assistance Program.

Since the amendment does not specify who would be eligible, what benefits would be provided, etc., the Board would be responsible for determining these program provisions. Because the amendment does not specify the scope of health insurance coverage offered, the amendment, in effect, provides no upper limit on the Commonwealth's cost.

The amendment would materially change the current cost sharing approach to PSERS benefits. Historically, members have contributed a statutorily fixed percentage of their compensation toward benefits with the remaining cost of benefits being paid by the participating employers and the Commonwealth on a 50-50 basis. Currently, these employers' costs are paid 100 percent by the participating employers and then the public school entities are reimbursed by the Commonwealth using the market value/income aid ratio defined in section 2501(14.1) of the Public School Code of 1949 with a minimum reimbursement of 50 percent. The proposal in the amendment would shift the entire employers' cost for the proposed benefit to the Commonwealth.

In his March 10, 1998, testimony before the Subcommittee on Oversight, Committee on Ways and Means, United States House of Representatives, Mr. William J. Scanlon, Director, Health Financing and Systems Issues, Health, Education, and Human Services Division, United States General Accounting Office, provided the following background on retiree health insurance:

> Because of the cost, retiree health benefits are a concern to both employers and older Americans. Employers recognize that these benefits help to retain an experienced workforce but must also consider the cost of providing coverage. Older Americans approaching or at retirement age consume a higher level of medical services, and as a result, their health care is commensurately more expensive. For workers under age 65 and not yet eligible for Medicare, the decision to retire may turn on the continuation of health benefits by an employer. For those 65 or older living on a fixed income, employer-based benefits may help fill coverage gaps in Medicare, such as deductibles and co-payments or the lack of a prescription drug benefit.

In general, the provision of postretirement medical insurance benefits for public employees should be approached with the knowledge that the costs are significant and likely to increase. Because it is difficult or impossible to accurately estimate the future cost of medical insurance coverage, there is considerable merit in providing a specified dollar value that currently would pay some or all of the cost of the coverage rather than providing the coverage. In this way, the Commonwealth is not automatically subjected to the unpredictable inflation of the cost of medical insurance in the future. Also, because of the high cost involved, many employers have utilized service requirements for eligibility in the design of their programs for postretirement medical insurance.

The Internal Revenue Service issued a determination letter dated March 3, 1978, that stated that the plan contained in the Code and its underlying trust qualify under the provisions of section 501(a) of the Internal Revenue Code (IRC) and, therefore, are exempt from federal income taxes. The Code has been amended since receiving that determination letter. In the opinion of PSERS, however, the plan has operated within the terms of the plan and remains qualified under applicable provisions of the IRC. The Commission assumes that PSERS is, or will be treated by the Internal Revenue Service as if it were, a qualified pension plan under section 401(a) of the IRC and, under section 501(a), exempt from federal income taxes. This status brings important tax benefits for the system, the most important of which is that the members are not taxed each year on the retirement benefits they earn as public employees. The tax liability is deferred until the members retire, when they are taxed on the annual income from their annuities. The choice of a specific funding approach for the proposed benefits has implications for the administration, taxation, and legal status of the assets accumulated. Decisions in this regard are, therefore, of critical importance. At least four approaches are possible: IRC § 401(h) retiree medical pension accounts, IRC § 501(c)(9) voluntary employees' beneficiary association trusts, state-law grantor trusts, and employer general asset accounts.

IRC § 401(h) retiree medical pension accounts allow funding of postretirement medical insurance within a pension trust fund but with certain restrictions, including limiting these benefits to retired employees and their families, no use of existing pension trust fund assets to fund these benefits, separate funding and accounting for these benefits, and keeping these benefits "subordinate" to the retirement benefits, which means that the contributions to fund these benefits cannot exceed 25 percent of the contributions for all benefits (excluding prior-service costs). (This last restriction could become a problem with such a potentially expensive benefit as the one proposed in the amendment.)

IRC § 501(c)(9) voluntary employees' beneficiary association trust allows separate funding for "life, sickness, accident or other benefits" to members of the association or their dependents or designated beneficiaries. All assets and earnings must be specifically used for the sole purpose of providing the intended benefits and there are limits on the types of benefits.

State-law grantor trusts may be limited to the exclusive benefits of the members and, depending upon state laws, may allow greater design and funding flexibility than the two approaches discussed above, but, unfortunately, the view of the Internal Revenue Service on these is not yet settled.

Employer general asset accounts offer the simplicity of not requiring a formal trust vehicle and being held in the general account of the employer but with the disadvantage that the assets could be used for nonplan purposes and could be subject to the claims of general creditors, something the prime sponsor of the amendment clearly does not intend.

Employer contributions to any of these generally will be non-taxable to the employee when made. The retirees' medical benefits payable from these assets are non-taxable to retirees under IRC § 105 and IRC § 106. The General Assembly should have the amendment carefully reviewed by legal counsel to ensure that the proposed provision of additional benefits does not jeopardize the qualified status of PSERS under the Internal Revenue Code.

DISCUSSION (CONT'D)

The wording of section 8502.1 as proposed in the amendment is not identical to the wording of section 8502.1 as enacted by Act 88 of 1998. To prevent the administrative complexity of construing irreconcilable provisions of two statutes through the use of section 1935 of the Statutory Construction Act of 1972, it would be preferable to amend the amendment to reflect section 8502.1 as enacted by Act 88 of 1998. Suggested wording for such an amendment is attached.

SUMMARY OF COST IMPACT

Because the amendment does not specify the design of the health insurance program, the consulting actuary of the Commission assumed that the Board would continue to use the same eligibility requirements as under the current Health Insurance Premium Assistance Program. The consulting actuary also assumed that, in order for the survivor annuitants to be eligible, the member must have met the eligibility requirements prior to the member's death. In order to estimate the costs of the benefits provided under the program, the consulting actuary assumed that the costs would be the same as for the current Health Options Program offered by PSERS. Because the Commonwealth will pay for a larger portion of total plan cost, the consulting actuary assumed that coverage will be elected by 100 percent of disabled annuitants and 80 percent of eligible, nondisabled annuitants, and that two-thirds of the retirees electing coverage also would elect coverage for their spouse. The consulting actuary assumed the rate of increase in future medical cost was five percent a year, which is consistent with the June 30, 1997, PSERS Actuarial Valuation assumptions of four percent price inflation and one percent productivity growth.

Actuarial Funding Cost Impact

An actuarial cost method is the systematic means to finance the costs of the retirement benefit by allocating and funding them over the working careers of the members. Equity requires that costs incurred in the current period be recognized in the current period and assigned to the taxpayers receiving the services that generated the costs. The public policy of the Commonwealth requires an actuarial cost method for funding material retirement benefits. This is expressed in such statutes as the County Pension Law, the Municipal Pension Plan Funding Standard and Recovery Act, the State Employees' Retirement Code, and the Code. If the Code's current actuarial cost method of funding were to be used, the consulting actuary estimates that the following would be the actuarial cost impact.

	Total Amount
Increase in Unfunded Actuarial Accrued Liability	$5,351,000,000

	Commonwealth's Annual Costs [1]		Total Annual Costs	
	Amount	As a % of Payroll	Amount	As a % of Payroll
Increase in Annual Costs				
Normal Cost	$ 83,000,000	0.97%	$165,000,000	1.93%
Amortization Payment[2]	212,000,000	2.48%	423,000,000	4.95%
Total Increase in Annual Cost[2]	$295,000,000	3.45%	$588,000,000	6.88%

	Total Amount
Total Amortization Payments	$13,386,898,585

[1] One-half of costs.
[2] First year cost only. Payments increase five percent a year for 20 years.

First Year "Pay-as-You-Go" Funding Cost Impact

The current $55 a month Health Insurance Premium Assistance Program is funded on a pay-as-you-go basis, with the cost determined in the valuation process based on the expected annual disbursements and funded for one year in advance of actual disbursements. Because the covered group of retirees is anticipated to be relatively stable and the benefit amount is not indexed, this approach provided a reasonable estimate of the long-term cost level. Because the cost of the proposal in the amendment is related to the cost of medical insurance rather than a fixed dollar amount of premium assistance, a pay-as-you-go basis is not appropriate for funding it. If, however, a pay-as-you-go basis were to be used, the consulting actuary estimates that the following would be the first year cost impact.

	Commonwealth's 50 Percent Share[1]	Total Amount
First Year Premium Payments	$112,000,000	$224,000,000

[1] One-half of premium payments.

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

Lack of Policy Guidance. **(-)** The amendment does not provide policy guidance to PSERS in determining how to handle the complex eligibility and benefit design issues associated with implementing the amendment, nor does the amendment indicate the funding methodology for the proposed health insurance benefit.

Lack of Initial Funding. **(-)** The proposal in the amendment fails to provide for the initial funding necessary to pay the expected costs of the program until sufficient contributions are received and to maintain an adequate reserve.

Unrestricted Financial Commitment. **(-)** Because the proposed group health insurance benefit is not a function of years of service and average salary, a function of the accumulation of fixed dollar contributions, or of a fixed dollar payment amount, the cost of the proposed benefit is restricted only by the forces of the marketplace. In other words, there is no other upper limit on the cost to the Commonwealth.

Change in Cost Sharing. **(-)** Historically, after payment of the employees' contributions, the remaining costs of PSERS have been paid on a basis of about 50-50 by the public school employers and the Commonwealth. The proposal in the amendment would require the Commonwealth to pay 100 percent of the remaining costs of PSERS for the postretirement medical insurance benefit after the retirees have made their 50 percent of cost contributions. The public policy rationale for this change in cost sharing is not evident.

Incentive to Shift Costs. **(-)** The absence of participation of public school employers in financing the proposed benefit could provide an incentive for school districts, vocational-technical schools, intermediate units, and other PSERS participating public education employers to reduce or eliminate the health insurance coverage that they currently provide to retirees.

Amortization Approach. **(-)** If an actuarial funding approach is used, the resulting unfunded actuarial accrued liabilities will be paid by amortization payments over a 20-year period increasing five percent a year, which is the default provision of section 8328(c) of the Code. A 20-year period is longer than the remaining average lifetimes of the retirees involved, meaning that a portion of the funding for benefits will be provided after the death of a significant number of the retirees. A more prudent pension funding policy would provide for the liabilities for the retirees to be amortized over a shorter period, typically ten years, and for the amortization payments to be calculated on a level dollar basis. This funding policy is prescribed for all municipal pension systems in the Commonwealth in section 202(b)(4) of the Municipal Pension Plan Funding Standard and Recovery Act.

Potential Understatement of Cost. **( )** The actuarial note assumes that the current retirement utilization patterns will continue if the amendment is enacted. The availability of less costly postretirement medical insurance may result in affected public school employees retiring at younger ages and with less service than in the past. To the extent that such a change in retirement utilization patterns occurs, the actuarial note understates the cost of the amendment.

POLICY CONSIDERATIONS (CONT'D)

Treatment of Proposal under the Internal Revenue Code. ( ) The General Assembly should have the postretirement health insurance benefit proposed in the amendment carefully reviewed by legal counsel to ensure that the provision of these additional benefits does not jeopardize the qualified status of PSERS under the Internal Revenue Code.

Drafting Ambiguity. (-) As drafted, the section 8502.1 proposed in the amendment conflicts with the section 8502.1 enacted by Act 88 of 1998. To prevent problems with irreconcilable statutes passed by the same General Assembly, the proposed section should be amended. Suggested wording for such an amendment is attached.

COMMISSION RECOMMENDATION

On September 29, 1998, the Commission voted to attach the actuarial note to the amendment, expressing concern about the public pension policy impact of the amendment and recommending that the General Assembly and the Governor consider the policy issues identified above.

FINAL LEGISLATIVE STATUS

As Printer's Number 1819, Senate Bill 803 passed the Senate on March 24, 1998, and as Printer's Number 2074, Senate Bill 803 passed the House and was referred to the Senate Rules and Executive Nominations Committee on June 8, 1998.

Bill ID: Amendment 3185 to Senate Bill 803, Printer's Number 1819

System: Public School Employes' Retirement System

Subject: Purchase of Service Credit for Nonschool Service as a Special Educator in an Accredited, Pennsylvania-Approved, Private Elementary or Secondary School

SYNOPSIS

Amendment 3185 to Senate Bill 803, Printer's Number 1819, would amend the Public School Employees' Retirement Code to permit an active member or an active multiple service member of the Public School Employes' Retirement System (PSERS) to purchase up to five years of service credit at the rate of one year for every three years of previous nonschool service as a school teacher or instructor of special education classes in an accredited, Pennsylvania-approved, private elementary or secondary school, if the member was entitled to a provisional or professional certificate to teach in the public school of Pennsylvania at the time the service was rendered, purchases the service credit within three years of becoming eligible to do so, and pays the full actuarial present value of the increase in the superannuation benefit resulting from the purchase.

DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan with the designated purpose of PSERS being to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. At June 30, 1997, there were 645 participating units, generally school districts, area vocational-technical schools, and intermediate units in PSERS. Membership in PSERS is mandatory for most public school employees. Certain other employees are not required, but are given the option, to participate. At June 30, 1997, there were 215,077 active members in PSERS.

Under the 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. 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 the members because they enhance the retirement benefit and also may accelerate retirement eligibility.

Active members of 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, service in public education 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 1978, and service in the Cadet Nurse Corps during World War II.

The amendment would expand the list of purchasable nonschool service to include up to five years of service credit for up to 15 years of service as a school teacher or instructor of special education classes in an accredited, Pennsylvania-approved, private elementary or secondary school, if the member was entitled to a provisional or professional certificate to teach in the public schools of Pennsylvania at the time the service was rendered, begins to make the purchase within three years of becoming eligible to do so, and pays the actuarial present value of the increase in the superannuation benefit resulting from the purchase. The effect of the additional service credit would be to add an amount equal to up to ten percent of the highest salary to the value of the basic benefit prior to modification.

Special education includes clinical, remedial, and guidance services for exceptional children, that is, both gifted children and children with severe disabilities. For example, an individual holding a certificate endorsed in one of the four special education areas is qualified to teach students with disabilities how to understand, overcome, compensate for and/or adjust to their disabilities through the use of adaptive instructional strategies, instructional accommodations, individualized learning activities, and specially designed services. Data provided by the Department of Education show that in 1997 there were 13,488 public school teachers certified in special education plus 1,771 certified as speech correctionists.

Although there will be no direct actuarial cost to the employers for the increased PSERS benefits under the amendment if it is changed to prohibit lump sum withdrawals under Option 4, there may be other retirement benefit costs incurred by the employers. By purchasing service credit in PSERS for nonschool 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.

The amendment would insert the proposal into the same subsection that now permits the purchase of service credit for nonschool service as a county nurse. The language of the proposal is substantially similar to the language regarding county nurses with the significant exception that the language does not contain the restriction that prevents a member from withdrawing the purchase contribution as a lump sum under Option 4 at retirement. Unless the amendment is changed to include such a prohibition, it will enable an eligible member to purchase the service credit either (1) very close to the time of retirement, become eligible to an increased retirement benefit, and receive an almost immediate return of the purchase contribution as part of a lump sum withdrawal under Option 4 or (2) some time before retirement, become eligible to an increased retirement benefit, and receive a return of the purchase contribution as part of a lump sum withdrawal under Option 4. In either event, the withdrawal makes the payment of full actuarial cost a nullity because the member receives the increased benefit resulting from the service credit purchase either at virtually no cost or at only the cost of the forgone interest income on the purchase contribution between the time of the purchase and the retirement date. The absence of this restriction will impose all or almost all of the cost associated with the authorization to

purchase credit for this nonschool service upon the Commonwealth and the public school employers.

It is not apparent why it is appropriate to require members with previous service as a county employee as a nurse to pay the full actuarial cost without the opportunity to withdraw that amount under Option 4 but to allow school teachers or instructors of special education classes to make such a withdrawal at retirement after having paid the same full actuarial cost. In previous actuarial notes, the consulting actuary of the Commission has discussed the desirability of restricting Option 4 withdrawals under circumstances such as these.

A strict, literal interpretation of the last sentence of proposed section 8324(e)(2) would prohibit any active member or active multiple service member who is eligible to receive an annuity of any type from any other pension system, except for Social Security or a military pension system, from purchasing the service credit. The public pension policy rationale for this prohibition is not evident. If the intent of the prime sponsor is to prohibit such purchases if the member is entitled to receive, eligible to receive now or in the future, or is receiving retirement benefits for such service under a retirement system administered and wholly or partially paid for by any other governmental agency, or by any private employer, or a retirement program approved by the employer as an alternative to PSERS in accordance with section 8301(a)(1), such a prohibition already is contained in section 8304(a) of the Code. To prevent administrative problems associated with conflicting provisions of the same statute and to prevent inequitable results, the proposed sentence should be deleted as should be the last sentence of section 8324(e), which the amendment proposes to make section 8324(e)(1).

SUMMARY OF ACTUARIAL COST IMPACT

If the amendment is changed to prohibit a lump sum withdrawal of the purchase contribution under Option 4, the amendment will have no actuarial cost impact upon the Public School Employes' Retirement System, although there may be other retirement benefit costs incurred by the employers. If the amendment is not changed to prohibit such an Option 4 withdrawal, the Commonwealth and public school employers will pay all or almost all of the actuarial cost of the increased benefit.

POLICY CONSIDERATIONS

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

Departure from and Conformance with 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 amendment does not conform to some and conforms to some of the recommendations in the report.

Inequity of Certain Service 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 re-retirement and inter-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 credit 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 Special Educator in a Private School. 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 expand the purchase of service credit provisions to include service credit as a special educator in a private school, a type of service not among those recommended by the Commission.

Adequacy of Purchase Payments. On its face, the amendment appears to require payment by a member of the full actuarial cost of the increased benefit obtained by virtue of the service credit purchase thus preventing an actuarial cost to the employers although the purchase may result in an actuarial gain for the private schools that were the former employers. In reality, however, the member will pay almost nothing for the increased benefit unless the amendment is changed to prohibit a lump sum withdrawal of the purchase contribution under Option 4.

Time Limit on Exercise of Purchase Option. For 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 imposes such a three-year deadline.

No Prohibition of Option 4 Withdrawal of Purchase Contribution. For the service credit purchase authorizations to be at the full actuarial cost, the amendment must prohibit a lump sum withdrawal of the purchase contribution under Option 4 by the member upon retirement or upon leaving employment with entitlement to a vested deferred benefit. The amendment does not contain such a prohibition. A service credit 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. Suggested wording of an amendment to prohibit a lump sum withdrawal of the service credit purchase contribution is attached.

POLICY CONSIDERATIONS (CONT'D)

Exclusion from Early Retirement Provisions. ( ) In order to prevent an increase in the unfunded actuarial accrued liabilities of PSERS caused by the use of the service credit purchased under the amendment to qualify for an early retirement program, the General Assembly may wish to add restrictions prohibiting the use of the service credit purchased under the amendment to qualify for a temporary, early retirement window or incentive.

Drafting Ambiguities. (-)

Limitations on Eligibility. The limitations on eligibility proposed in the amendment for the second sentence of proposed section 8324(e)(2) and existing section 8324(e) of the Code should be stricken to avoid the administrative problems associated with the quasi-duplication of the existing limitations on eligibility contained in section 8304(a) of the Code.

Appropriate Printer's Number or Bill. The amendment is proposed as an amendment to Senate Bill 803, Printer's Number 1819. Printer's Number 1819 was substantially amended by the House of Representatives and as Printer's Number 2074 is now before the Senate Rules and Executive Nominations Committee. In order to be effective, the amendment must be redrafted as an amendment either to Printer's Number 2074 or to some other appropriate bill.

COMMISSION RECOMMENDATION

On November 5, 1998, 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.

FINAL LEGISLATIVE STATUS

As Printer's Number 1819, Senate Bill 803 passed the Senate on March 24, 1998, and as Printer's Number 2074, Senate Bill 803 passed the House and was referred to the Senate Rules and Executive Nominations Committee on June 8, 1998.

Bill ID: Senate Bill 1206, Printer's Number 1953

System: Pennsylvania Municipal Retirement System

Subject: Mandated Allocation of "Excess" Interest

SYNOPSIS

Senate Bill 1206, Printer's Number 1953, would amend section 104(12.1) of the Pennsylvania Municipal Retirement Law (Act 15 of 1974) to mandate that, in situations in which

> a municipal plan is created by a municipal authority,
>
> the authority is dissolved under the laws of the Commonwealth,
>
> there are no active members left in the plan, and
>
> the plan has no unfunded actuarial accrued liability as of the most recently filed actuarial report required under the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984),

the successor municipality responsible for any remaining financial obligations of the plan, including, but not limited to, the administrative fees associated with any vested or retired member of the plan, must allocate the investment earnings in excess of the regular interest on an equalized basis among the vested members and retired members of the plan based upon the present values of their accounts.

DISCUSSION

The Pennsylvania Municipal Retirement System (PMRS) is an agent governmental multiple-employer retirement system created by the Commonwealth under the Pennsylvania Municipal Retirement Law for the purpose of administering local government employees' retirement systems for local governments on a contracted basis. Responsibility for the organization and administration of PMRS is vested in its eleven-member Pennsylvania Municipal Retirement Board (Board). The Commonwealth appoints all eleven governing board members, but the Commonwealth is not financially accountable as there is no imposition of will, no financial benefit/burden, nor fiscal dependency associated with PMRS. PMRS, therefore, is considered a related organization of the Commonwealth.

Participation in PMRS is optional for Pennsylvania's local governments and there are variations among different local government pension plans. Any borough, city, county, incorporated town,

township, municipal authority, or institution supported and maintained by one of these local governments is eligible to join PMRS.

Participating local governments are financially responsible only for their own plan obligations. PMRS is maintained by contributions from local governments, payroll deductions and other contributions of employees, and by earnings from the investments of the system. While the monies of individual local governments are accounted for separately, they are pooled for investment experience. PMRS also pools certain cost experiences, including the cost of administration, disability experience, and retiree life experience.

PMRS offers various plan designs: defined benefit, defined contribution, and hybrid. The annual benefit is dependent upon the individual local government's contracted benefit package because of flexible pension plan design based on each local government's individual retirement policies. Benefits provided to local government employees through PMRS typically include both age and service requirements, vesting, disability benefits, survivor benefits, and death benefits. The plan cost is determined by individual plan characteristics.

At January 1, 1996, there were 560 member local government defined benefit plans and 81 member local government defined contribution plans, including 23 defined benefit plans and two defined contribution plans in which there were no active participants. Of these 641 plans, authorities and other units represented 134 of the 560 defined benefit plans and 25 of the 81 defined contribution plans. The Commission staff understands from PMRS that at least one of the authority defined benefit plans represents a situation in which it is claimed that the authority has been dissolved and in which there are no active members but there are retirees and survivors receiving benefits. In the one known situation, however, no approved certificate of termination has been filed with the Department of State under section 14 of the Municipality Authorities Act of 1945; thus, the authority has not been dissolved under the laws of the Commonwealth.

Under section 110 of the Pennsylvania Municipal Retirement Law, the Board annually credits regular interest to each contributor's account, municipal account, retired members reserve account, and total disability reserve account. The regular interest rate is fixed by the Board annually, with the advice of its consulting actuary and currently is fixed at 6.5 percent. After crediting regular interest and paying administrative expenses, the Board may determine an amount of the remaining difference, if any, between the regular interest and the actual investment earnings of PMRS to be allocated as each local government decides to the credit of the municipal accounts, member's accounts, members' excess investment accounts, retired member's reserve accounts, and total disability reserve accounts. In the specified situations, the proposal in the bill would remove the local government's discretion in the allocation of the investments earnings and instead compel allocation only among vested members' excess investment accounts and retired members' reserve accounts on an equalized basis based upon the present values of their accounts.

SUMMARY OF ACTUARIAL COST IMPACT

In reviewing the bill, the consulting actuary of the Commission pointed out that:

Because the municipality's liability for a retiree is satisfied at the time of retirement, subsequent mortality experience with retirees has no actuarial cost to the municipality;

Because the successor municipality's liability for a vestee is not satisfied until the vestee retires, subsequent mortality experience has an actuarial cost to the successor municipality that must be paid out of the municipal account, which will be receiving no "excess" interest under the bill and, thus, expose the successor municipality to potential future actuarial costs for which it has no reserves;

When all of the liabilities of the municipal plan have been satisfied, the amount in the municipal account available for reversion to the successor municipality that is the successor to an employer that contributed toward the benefits will be less than it otherwise would have been, which is a cost to that successor municipality; and

If the bill is amended to require that some of the "excess" interest is to be allocated to the municipal account and only a portion allocated to the vested and retired members accounts, which may be its intent, the negative financial impact upon the plan and the successor municipality would be reduced.

POLICY CONSIDERATIONS

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

Commonwealth Mandate to Local Governments. **(-)** The bill mandates a retirement benefit change for all affected local government employees' retirement systems. The appropriateness of the Commonwealth mandating local governments to provide specific pension benefits is questionable from a public policy standpoint due to the wide variation in local conditions.

Unequal Treatment of Employers. **(-)** As employers, municipalities have contributed toward the benefits provided to retirees and beneficiaries through PMRS. Under the Act, these employers normally get to share in any "excess" interest realized. Under the proposal in the bill, the successor municipality that has assumed all the assets and liabilities of a terminated authority no longer will be able to share in any "excess" interest, although the successor municipality's taxpayers, as customers of the authority, helped pay for the retirement benefits. The public policy rationale for denying the successor municipality any return on its contributions toward retirement benefits is not apparent.

Unequal Treatment of Retirees. **(-)** Under the proposal in the bill, retirees and vestees of the plan of a terminated authority must receive all "excess" interest available for allocation while all other retirees and vestees of PMRS plans will receive "excess" interest allocations

as determined by the sponsoring municipality. The public policy rationale for this distinction is not apparent.

Drafting Ambiguities. **(-)**

Clarification that Proposal Allocates "Excess" Interest Only. The allocation of "regular" interest is provided for elsewhere in Act 15. The proposal in the bill is intended to provide for the allocation of "excess" interest only. To make this clear, the bill should be amended on page 2, line 16, by inserting "excess" after the word "the" where it appears the first time.

Clarification that Proposal Allocates All "Excess" Interest. If the proposal in the bill is intended to provide for the allocation of all "excess" interest allowed by the board to a dissolved authority's pension plan and to include the municipal account, these intentions should be made clear by amending the bill on page 2, lines 16 and 17 by striking out "on the accounts of the vested members and retired members" and inserting "allowed by the board to the dissolved authority's pension plan", and on page 2, line 18, by inserting "municipality," after the word "the".

Placement in Act. The bill would amend section 104(12.1). Section 104 deals with the general powers of the Pennsylvania Municipal Retirement Board and subsection 12.1 deals with the board's duties when municipalities allocate some of their "excess" interest to cost-of-living adjustments for retired members. It would appear that a more logical placement of the amendment would be as a third paragraph of section 110, which deals with the allocation of "excess interest" by municipalities. Draft wording for an amendment to make this placement and clarify the other drafting ambiguities is attached.

COMMISSION RECOMMENDATION

On May 28, 1998, 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.

FINAL LEGISLATIVE STATUS

Senate Bill 1206, Printer's Number 1953, was re-referred to the Senate Appropriations Committee on June 1, 1998.

Bill ID: Senate Bill 1269, Printer's Number 1623

System: Public School Employes' Retirement System

Subject: Ad Hoc Postretirement Adjustments in Annuities and Establishment of a Supplemental Annuity Reserve Account

SYNOPSIS

Senate Bill 1269, Printer's Number 1623, would amend the Public School Employees' Retirement Code (Code) to grant ad hoc postretirement adjustments to annuitants beginning July 1, 1998, and to provide for the creation, funding, and use of a Supplemental Annuity Reserve Account.

Ad Hoc Postretirement Adjustment

The basic postretirement adjustment would be calculated based on the most recent effective date of retirement and by applying the percentage factor to the first $3,000 of annuity a month as follows:

Most Recent Effective Date of Retirement	Percentage Factor
Before July 2, 1993	7.00%
July 2, 1993, through July 1, 1994	5.50%
July 2, 1994, through July 1, 1995	4.20%
July 2, 1995, through July 1, 1996	2.80%
July 2, 1996, through July 1, 1997	1.35%

In addition to the basic postretirement adjustment, certain annuitants also would receive one of the following two longevity postretirement adjustments:

An annuitant whose most recent effective date of retirement is after July 1, 1980, and before July 2, 1988, also would receive a longevity postretirement adjustment calculated as the product of 0.25 percent multiplied by the first $3,000 of annuity a month multiplied by the annuitant's number of eligibility points greater than ten; and

An annuitant whose most recent effective date of retirement is before July 2, 1980, also would receive a longevity postretirement adjustment calculated as:

the product of five percent multiplied by the first $3,000 of annuity a month multiplied by the number of full years as of July 1, 1982, that have elapsed since the annuitant most recently began receipt of an annuity and during which the annuitant received an annuity, plus

the product of 0.50 percent multiplied by the first $3,000 of annuity a month multiplied by the annuitant's number of eligibility points greater than ten.

Supplemental Annuity Reserve Account

The Supplemental Annuity Reserve Account provisions would:

Establish a Supplemental Annuity Reserve Account (i.e., Fund Balance—Reserved for Supplemental Benefits) within the Public School Employees' Retirement Fund (Fund) from which payments for the 1998 and all future supplemental annuities (COLAs) will be paid;

Divert ("set-aside") interest earnings on the Annuity Reserve Account (i.e., Fund Balance—Reserved for Benefits) of the Fund in excess of the actuarial interest rate assumption (currently 8½ percent) to the Supplemental Annuity Reserve Account beginning June 30, 1997;

At the end of any year beginning July 1, 1997, or thereafter in which the Fund's time-weighted rate of return is less than the board's actuarial interest rate assumption, debit the Supplemental Annuity Reserve Account and credit the State Accumulation Account (Fund Balance—Reserved for Employer Contributions) for the difference in the interest rate multiplied by the mean amount in the Supplemental Annuity Reserve Account for the preceding year; and

Require employer amortization payments into the Supplemental Annuity Reserve Account sufficient to fund the unfunded liabilities incurred in providing the 1998 and all future supplemental annuities.

DISCUSSION

The Public School Employes' Retirement System (PSERS) is the administrator of a governmental cost-sharing multiple-employer retirement plan established by the Commonwealth to provide retirement, disability, death, and health care benefits to its members. Membership in the System is mandatory for substantially all full-time public school employees in the Commonwealth. Certain other employees are not required, but are given the option, to participate. At June 30, 1997, there were 635 participating units, generally school districts, area vocational-technical schools, and intermediate units in PSERS. The general annual retirement benefit is the product of two percent of the member's high three-year average salary multiplied by the member's years of service.

Ad Hoc Postretirement Adjustments

It has been the historical practice of the Commonwealth to grant periodic ad hoc postretirement increases to PSERS and State Employes' Retirement System (SERS) annuitants to reflect part of the increase in the cost of living. These ad hoc postretirement adjustments have been granted

roughly every five years during the period from 1967-68 to 1994. The following sets forth the history of prior postretirement adjustments.

	Year Enacted	
No.	PSERS	SERS
1.	1967 & 1970	1968
2.	1975	1974 & 1975
3.	1979	1979
4.	1984	1984
5.	1988	1988
6.	1994	1994

The amounts of these postretirement adjustments were based roughly on one-half to two-thirds of the increase over the applicable period in the Consumer Price Index for all Urban Consumers (CPI-U), which is calculated by the Bureau of Labor Statistics of the United States Department of Labor and which is a frequently used measure of changes in the cost of living nationally. At June 30, 1997, there were 118,138 retirees currently receiving benefits from PSERS.

Supplemental Annuity Reserve Account

The PSERS contribution policy is set by the Code and required contributions are made by active members, employers, and the Commonwealth. On a statewide basis, in the aggregate, employers and the Commonwealth equally share the cost of required contributions. The Code sets the rate of contribution for active members joining PSERS before July 22, 1983, at 5.25 percent of the member's compensation and for active members joining PSERS after July 21, 1983, at 6.25 percent of the member's compensation. The contributions required of employers and the Commonwealth are based upon an actuarial valuation, using the entry age normal actuarial cost method, computed as a percentage of the total compensation of all active members during the period for which the amount is determined.

The public employee pension trust fund created under the Code is the Public School Employees' Retirement Fund (Fund). Among the equity accounts of the Fund are four accounts designated by the Code: Member's Saving Account (i.e., fund balance reserved for member contributions), State Accumulation Account (i.e., fund balance reserved for employer contributions), Annuity Reserve Account (i.e., fund balance reserved for benefits), and Health Insurance Account (i.e., fund balance reserved for postretirement medical insurance). Because the Code provides for disability benefits, there also is a Reserve for Disabilities Account (i.e., fund balance reserved for disability).

The State Accumulation Account is credited with the contributions of the Commonwealth and the employers. Additionally, interest earnings of PSERS (after crediting the Member's Savings Account with four percent interest and the Annuity Reserve Account and Reserve for Disabilities Account with 8.5 percent interest) are credited to this account. Each year, the necessary amounts, as determined by the actuary for the payment of retirement and

death benefits, are transferred from the State Accumulation Account to the Annuity Reserve Account and the Reserve for Disabilities Account. All administrative expenses necessary for the operation of PSERS, except for the Health Insurance Account expenses, are charged to the State Accumulation Account.

The Annuity Reserve Account represents the amounts transferred from the Member's Savings Account and the State Accumulation Account, plus additional contributions made by the Commonwealth and employers for the payment of supplemental annuities. All death and retirement benefits are charged to the account. Annual interest of 8.5 percent is credited to the account.

The Reserve of Disabilities Account represents the amounts transferred from the Member's Savings Account and the State Accumulation Account, plus additional contributions made by the Commonwealth and employers for the payment of supplemental annuities. All disability benefits are charged to the account. Annual interest of 8.5 percent is credited to the account.

The Health Insurance Account is credited with contributions of the Commonwealth and the employers. Participating eligible annuitants receive health insurance premium assistance payments equal to the lesser of $55 a month or the actual monthly premium that are charged to the account. All administrative expenses necessary to operate the health insurance premium assistance program also are charged to the account.

The bill would establish a new equity account to be called the Supplemental Annuity Reserve Account.

The Supplemental Annuity Reserve Account rather than the Annuity Reserve Account would be credited with future contributions made by the Commonwealth and employers for the payment of the 1998 and all future supplemental annuities.

The July 1, 1998, and all future supplemental annuities would be charged to the Supplemental Annuity Reserve Account rather than to the Annuity Reserve Account.

Beginning June 30, 1997, divert interest earnings on the Annuity Reserve Account in excess of the actuarial interest rate assumption to the Supplemental Annuity Reserve Account.

Beginning July 1, 1997, at the end of any year in which the Fund's time-weighted rate of return is less than the board's actuarial interest rate assumption, debit the supplemental Annuity Reserve Account and credit the State Accumulation Account for the difference in the interest rate multiplied by the mean amount in the Supplemental Annuity Reserve Account for the preceding year.

If the Public School Employees' Retirement Board's actuarial assumptions are correct, the long-term effect of the proposal in the bill will be neutral. The proposal will neither increase nor decrease total employer contributions. Over time, the crediting of certain interest earned over the actuarial interest rate assumption and the charging for certain interest earned under the actuarial

interest rate assumption to the Supplemental Annuity Reserve Account will be offset in equal part by higher or lower employer contributions to fund the other liabilities of PSERS.

Among the economic actuarial assumptions is one for interest. The current rate of 8.5 percent was adopted by the Public School Employees' Retirement Board (Board) after reviewing its most recent five-year (July 1, 1990, to June 30, 1996) experience review and the recommendations of its consulting actuary. Based upon PSERS almost 80 years of experience, about 70 years of investment market data, the asset mix of the Fund, the Board's other actuarial assumptions, and other information, 8.5 percent represents the Board's expectation of the mean long-term return on the investments of PSERS. If future five-year experience reviews reveal that the interest rate assumption should be adjusted, the Board may change it.

The economic actuarial assumption for interest represents a long-term expectation that investment returns will be over the assumed rate about one-half of the time, will be under the assumed rate about one-half of the time, and will revert to a mean value of the assumed rate. In the short term, however, there will be periods of earnings over and under the long-term rate. A significant positive balance in the Supplemental Annuity Reserve Account after a cycle of rising interest earnings could lead to the contention that a substantial supplemental annuity should be granted. A significant negative balance in the account after a cycle of falling interest earnings could lead to the contention that, no matter what increases have occurred in the cost of living, no supplemental annuities should be granted. The result could be that the public pension policy of the Commonwealth regarding the granting of supplemental annuities would be driven by the recent interest earnings of PSERS rather than need-related factors.

Pre-funding of any employee retirement benefit is desirable. If supplemental annuities are to be pre-funded, however, there must be new funding provided. The proposed crediting and charging of investment earnings over and under the actuarial interest rate assumption provides no new funding to PSERS. It diverts existing funding for a restricted purpose.

The proposal in the bill will do nothing to alter the ultimate cost of supplemental annuities granted to retired public school employees. The timing of the payment of these costs would be modified, but the total costs of the benefits will be the same. Utilization of the "excess interest" concept sometimes is misconstrued as reducing the costs to be incurred.

Ad Hoc Postretirement Adjustments

	Amount
Increase in Unfunded Actuarial Accrued Liability	$960,200,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$ 0	0.0%
Amortization Payment	69,800,000	0.8%
(First year cost, increasing 5% a year for 20 years)		
Total Increase in Employer Annual Costs (First year only)[1]	$69,800,000	0.8%

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

	Amount
Total Amortization Payments	$2,308,003,596

Supplemental Annuity Reserve Account

The consulting actuary of the Commission advises that, based on fundamental economics, the bill will not cause a change in the aggregate amount of employer contributions over the long term. The bill creates a separate reserve account within the existing Fund and provides a mechanism to transfer credits and debits between accounts. As the bill does not, per se, increase or reduce benefits, expenses, or investment returns, the aggregate contribution requirements of PSERS should not be affected.

The consulting actuary further states that, in the current mechanism, all plan benefits are funded and expensed in a uniform fashion and, except for disability benefits, charged to a single reserve account. Therefore, the consulting actuary indicates that the existence of another reserve account essentially will "muddy the waters" in terms of the cost/benefit relationship.

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

Design of Postretirement Adjustments. ( ) In the postretirement increases granted prior to 1984, the amount of the adjustment was set to uniformly replace one-half to two-thirds of the increase in the Consumer Price Index. The 1984 postretirement increase was designed to maximize the adjustment for long service employees and those who had been on retirement for the longest period. The 1988 postretirement increase was designed to maximize the adjustment for long service employees. The 1994 postretirement adjustment was designed to replace some of the increase in the cost of living since the 1988 postretirement increase for all retirees with an additional adjustment for long retired, long service retirees. The formula to calculate the postretirement adjustment proposed in the bill continues the 1994 approach.

Disparity in Benefit between PSERS and SERS. (-) The bill only proposes to grant ad hoc postretirement supplemental annuities to retired members of PSERS and not to members of SERS. This approach is not in accordance with the General Assembly's long practice of providing substantially identical benefits to members of the two statewide systems. Providing no supplemental annuities to retirees of SERS would lead to requests for parity from SERS retirees.

Financing of Postretirement Adjustments. (-) The bill requires that the unfunded actuarial accrued liabilities attributable to the ad hoc postretirement adjustments be funded over a 20-year period. A 20-year period is longer than the remaining average retired lifetimes of the benefit recipients involved, meaning that a portion of the funding for benefits will be provided after the death of a significant number of the benefit recipients. A more prudent pension funding policy would provide for the liabilities of the postretirement adjustments to be amortized over a shorter period, typically ten years, and for the amortization payments to be calculated on a level dollar basis. This funding policy is evident in section 202(b)(4)(iv) of the Municipal Pension Plan Funding Standard and Recovery Act, under which a municipality must amortize such an unfunded actuarial accrued liability by level dollar amortization payments over ten years.

Complexity of Cost/Benefit Relationship. (-) The proposal in the amended bill establishes a complicated method of funding the costs incurred in the provision of supplemental annuities to retired public school employees. As the ultimate costs to the Commonwealth and the employers are neither increased nor decreased, there appears to be no public pension policy rationale for replacing the straightforward funding approach currently prescribed.

Policy Distortion Potential. (-) The proposal in the bill would tend to make the granting of supplemental annuities a function of the balance in the Supplemental Annuity Reserve Account rather than a function of the needs of the System's retirees as reflected in the change in the cost of living.

POLICY CONSIDERATIONS (CONT'D)

Funding for Supplemental Annuities. (-) The proposal contained in the bill will do nothing to alter the ultimate cost of supplemental annuities provided to retired public school employees because there is no new funding provided through the operation of the proposed Supplemental Annuity Reserve Account. The timing of the payment of the costs will be modified, but the total costs of the benefits will be the same.

COMMISSION RECOMMENDATION

On March 5, 1998, the Commission voted to attach the actuarial notes to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

FINAL LEGISLATIVE STATUS

As Printer's Number 1972, Senate Bill 1269 was signed into law by the Governor as Act 1998-88 on June 18, 1998.

Bill ID: Amendment 1899 to Senate Bill 1269, Printer's Number 1623

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

Subject: Ad Hoc Postretirement Adjustments

SYNOPSIS

Amendment 1899 to Senate Bill 1269, Printer's Number 1623, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to grant ad hoc postretirement adjustments beginning July 1, 1999, to annuitants whose most recent effective dates of retirement were prior to July 2, 1998. The postretirement adjustment would be calculated based on the most recent effective date of retirement by applying the percentage factor to the annuity being received on June 30, 1999. The adjustment would be paid to annuitants who have reached superannuation age, disability annuitants, and early retirement annuitants when they reach superannuation retirement age. The percentage factor would be as follows:

Effective Date of Retirement	Percentage Factor
Before July 1, 1969	25.00%
July 1, 1969, through June 30, 1979	20.00%
July 1, 1979, through June 30, 1992	10.00%
July 1, 1992, through June 30, 1993	9.55%
July 1, 1993, through June 30, 1994	7.96%
July 1, 1994, through June 30, 1995	6.45%
July 1, 1995, through June 30, 1996	5.05%
July 1, 1996, through June 30, 1997	3.28%
July 1, 1997, through June 30, 1998	1.86%

DISCUSSION

The Public School Employes' Retirement System (PSERS) and the State Employes' Retirement System (SERS) are the administrators of governmental, cost-sharing, multiple-employer retirement plans established by the Commonwealth to provide retirement, disability, and death benefits for all full-time public school employees in Pennsylvania and for all employees of state government and certain independent agencies. At June 30, 1997, there were 635 participating units, generally school districts, area vocational-technical schools, and intermediate units, in PSERS, and at December 31, 1996, there were 108 participating state and independent agencies in SERS.

Membership in the systems is mandatory for most employees. Certain other employees are not required, but are given the option, to participate. The general annual retirement benefit is the product of two percent of the member's high three-year average salary multiplied by the member's years of service. At June 30, 1997, there were 118,138 retirees currently receiving benefits from PSERS, and at December 31, 1996, there were 75,609 retirees currently receiving benefits from SERS.

It has been the historical practice of the Commonwealth to grant periodic ad hoc postretirement increases to PSERS and SERS annuitants to reflect part of the increase in the cost of living. These ad hoc postretirement adjustments have been granted roughly every five years during the period from 1967-68 to 1994. The following sets forth the history of prior postretirement adjustments.

	Year Enacted	
No.	**PSERS**	**SERS**
1.	1967 & 1970	1968
2.	1975	1974 & 1975
3.	1979	1979
4.	1984	1984
5.	1988	1988
6.	1994	1994

The amounts of these postretirement adjustments were based roughly on one-half of the increase over the applicable period in the Consumer Price Index for all Urban Consumers (CPI-U), which is calculated by the Bureau of Labor Statistics of the United States Department of Labor and which is a frequently used measure of changes in the cost of living nationally.

In the postretirement adjustments granted prior to 1984, the amount of the adjustment was set to uniformly replace about one-half of the increase in the Consumer Price Index. The 1984 postretirement adjustment was designed to maximize the adjustment for long service employees and those who had been on retirement for the longest period. The 1988 postretirement increase was designed to maximize the adjustment for long service employees. The 1994 postretirement adjustment was designed to replace some of the increase in the cost of living since the 1988 postretirement increase for all retirees, with an additional adjustment for long retired, long service retirees. The formula to calculate the postretirement adjustment proposed in the amendment is designed to replace about one-half of the increase in the cost of living since the cut off date for the 1994 increase, with additional adjustments for longer retired annuitants. The postretirement adjustments provided in the amendment for longer retired annuitants are calculated based on established percentages rather than on individual determinations.

Public School Employes' Retirement System

The consulting actuary of the Public School Employes' Retirement System has estimated the costs for the ad hoc postretirement adjustments in the amendment. The estimate has been reviewed by the consulting actuary of the Commission who has determined that the adjustments would result in the following actuarial cost impact.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$987,600,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$ 0	0.00%
Amortization Payment[2]	77,800,000	0.86%
Total Increase in Employer Annual Costs[2]	$77,800,000	0.86%

	Amount
Total Amortization Payments	$2,572,531,229

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

[2] 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 the ad hoc postretirement adjustments in the amendment. The estimate has been reviewed by the consulting actuary of the Commission who has determined that the adjustments would result in the following actuarial cost impact.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$455,300,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$ 0	0.00%
Amortization Payment[1]	33,100,000	0.76%
Total Increase in Employer Annual Costs[1]	$33,100,000	0.76%

	Amount
Total Amortization Payments	$1,094,483,081

[1] First year only; amortization payments increase five percent a year for 20 years.

POLICY CONSIDERATIONS

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

Financing of Postretirement Adjustment. **(-)** The amendment requires that the unfunded actuarial accrued liabilities attributable to the ad hoc postretirement adjustments be funded over a 20-year period. A 20-year period is longer than the remaining average retired lifetimes of the benefit recipients involved, meaning that a portion of the funding for benefits will be provided after the death of a significant number of the benefit recipients. A more prudent pension funding policy would provide for the liabilities of the postretirement adjustments to be amortized over a shorter period, typically ten years, and for the amortization payments to be calculated on a level dollar basis. This funding policy is prescribed for all municipal pension systems in the Commonwealth in section 202(b)(4)(iv) of the Municipal Pension Plan Funding Standard and Recovery Act.

POLICY CONSIDERATIONS (CONT'D)

Drafting Ambiguity. ( ) Proposed sections 8348.5(g) and 5708(g) define an eligible benefit recipient to include an annuitant whose most recent effective date of retirement was on July 1, 1998, but the percentage factor tables in proposed sections 8348.5(b) and 5708.5(b) end with those annuitants whose most recent effective date of retirement was June 30, 1998. As a result, an annuitant whose most recent effective date of retirement was July 1, 1998, will be an eligible benefit recipient but no supplemental annuity is proposed for the annuitant.

COMMISSION RECOMMENDATION

On April 16, 1998, 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.

FINAL LEGISLATIVE STATUS

As Printer's Number 1972, Senate Bill 1269 was signed into law by the Governor as Act 1998-88 on June 18, 1998.

Bill ID: Amendment 1927 to Senate Bill 1269, Printer's Number 1623

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

Subject: Ad Hoc Postretirement Adjustments

SYNOPSIS

Amendment 1927 to Senate Bill 1269, Printer's Number 1623, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to grant ad hoc postretirement adjustments beginning July 1, 1998, to annuitants whose most recent effective dates of retirement were prior to July 2, 1997. The postretirement adjustment would be calculated based on the most recent effective date of retirement by applying the percentage factor to the annuity being received on July 1, 1998. The adjustment would be paid to annuitants who have reached superannuation age, disability annuitants, and early retirement annuitants when they reach superannuation retirement age. The percentage factor would be as follows:

Effective Date of Retirement	Percentage Factor
Before July 1, 1969	25.00%
July 1, 1969, through June 30, 1979	20.00%
July 1, 1979, through June 30, 1992	10.00%
July 1, 1992, through June 30, 1993	7.97%
July 1, 1993, through June 30, 1994	6.42%
July 1, 1994, through June 30, 1995	4.95%
July 1, 1995, through June 30, 1996	3.59%
July 1, 1996, through June 30, 1997	1.86%

DISCUSSION

The Public School Employes' Retirement System (PSERS) and the State Employes' Retirement System (SERS) are the administrators of governmental, cost-sharing, multiple-employer retirement plans established by the Commonwealth to provide retirement, disability, and death benefits for all full-time public school employees in Pennsylvania and for all employees of state government and certain independent agencies. At June 30, 1997, there were 635 participating units, generally school districts, area vocational-technical schools, and intermediate units, in PSERS, and at December 31, 1996, there were 108 participating state and independent agencies in SERS.

Membership in the systems is mandatory for most employees. Certain other employees are not required, but are given the option, to participate. The general annual retirement benefit is the

product of two percent of the member's high three-year average salary multiplied by the member's years of service. At June 30, 1997, there were 118,138 retirees currently receiving benefits from PSERS, and at December 31, 1996, there were 75,609 retirees currently receiving benefits from SERS.

It has been the historical practice of the Commonwealth to grant periodic ad hoc postretirement increases to PSERS and SERS annuitants to reflect part of the increase in the cost of living. These ad hoc postretirement adjustments have been granted roughly every five years during the period from 1967-68 to 1994. The following sets forth the history of prior postretirement adjustments.

	Year Enacted	
No.	**PSERS**	**SERS**
1.	1967 & 1970	1968
2.	1975	1974 & 1975
3.	1979	1979
4.	1984	1984
5.	1988	1988
6.	1994	1994

The amounts of these postretirement adjustments were based roughly on one-half of the increase over the applicable period in the Consumer Price Index for all Urban Consumers (CPI-U), which is calculated by the Bureau of Labor Statistics of the United States Department of Labor and which is a frequently used measure of changes in the cost of living nationally.

In the postretirement adjustments granted prior to 1984, the amount of the adjustment was set to uniformly replace about one-half of the increase in the Consumer Price Index. The 1984 postretirement adjustment was designed to maximize the adjustment for long service employees and those who had been on retirement for the longest period. The 1988 postretirement increase was designed to maximize the adjustment for long service employees. The 1994 postretirement adjustment was designed to replace some of the increase in the cost of living since the 1988 postretirement increase for all retirees, with an additional adjustment for long retired, long service retirees. The formula to calculate the postretirement adjustment proposed in the amendment is designed to replace about one-half of the increase in the cost of living since the cut off date for the 1994 increase, with additional adjustments for longer retired annuitants. The postretirement adjustments provided in the amendment for longer retired annuitants are calculated based on established percentages rather than on individual determinations.

Ad Hoc Postretirement Adjustments Effective July 1, 1998

Public School Employes' Retirement System

The consulting actuary of the Public School Employes' Retirement System has estimated the costs for the ad hoc postretirement adjustments in the amendment. The estimate has been reviewed by the consulting actuary of the Commission who has determined that the adjustments would result in the following actuarial cost impact.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$1,024,300,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$ 0	0.00%
Amortization Payment[2]	80,500,000	0.89%
Total Increase in Employer Annual Costs[2]	$80,500,000	0.89%

	Amount
Total Amortization Payments	$2,661,809,305

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

[2] 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 the ad hoc postretirement adjustments in the amendment. The estimate has been reviewed by the consulting actuary of the Commission who has determined that the adjustments would result in the following actuarial cost impact.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$ 478,000,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$ 0	0.00%
Amortization Payment[1]	34,800,000	0.80%
Total Increase in Employer Annual Costs[1]	$34,800,000	0.80%

	Amount
Total Amortization Payments	$1,150,695,202

[1] First year only; amortization payments increase five percent a year for 20 years.

Ad Hoc Postretirement Adjustments Effective January 1, 1999

Public School Employes' Retirement System

The consulting actuary of the Public School Employes' Retirement System also has estimated the costs for ad hoc postretirement adjustments beginning January 1, 1999, for members who retired before January 1, 1998, as an alternative possibility. The estimate has been reviewed by the consulting actuary of the Commission who has determined that the adjustments would result in the following actuarial cost impact.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$1,004,500,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$ 0	0.00%
Amortization Payment[2]	79,600,000	0.88%
Total Increase in Employer Annual Costs[2]	$79,600,000	0.88%

	Amount
Total Amortization Payments	$2,632,049,946

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

[2] First year cost only; amortization payments increase five percent a year for 20 years.

State Employes' Retirement System

The consulting actuary of the State Employes' Retirement System also has estimated the costs for ad hoc postretirement adjustments beginning January 1, 1999, for members who retired before January 1, 1998. The estimate has been reviewed by the consulting actuary of the Commission who has determined that the adjustments would result in the following actuarial cost impact.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$ 470,400,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$ 0	0.00%
Amortization Payment[1]	34,200,000	0.79%
Total Increase in Employer Annual Costs	$34,200,000	0.79%

	Amount
Total Amortization Payments	$1,130,855,630

[1] First year cost only; amortization payments increase five percent a year for 20 years.

POLICY CONSIDERATIONS

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

Financing of Postretirement Adjustment. **(-)** The amendment requires that the unfunded actuarial accrued liabilities attributable to the ad hoc postretirement adjustments be funded over a 20-year period. A 20-year period is longer than the remaining average retired lifetimes of the benefit recipients involved, meaning that a portion of the funding for benefits will be provided after the death of a significant number of the benefit recipients. A more prudent pension funding policy would provide for the liabilities of the postretirement adjustments to be amortized over a shorter period, typically ten years, and for the amortization payments to be calculated on a level dollar basis. This funding policy is prescribed for all municipal pension systems in the Commonwealth in section 202(b)(4)(iv) of the Municipal Pension Plan Funding Standard and Recovery Act.

POLICY CONSIDERATIONS (CONT'D)

Drafting Ambiguity. ( ) Proposed sections 8348.5(g) and 5708.5(g) define an eligible benefit recipient to include an annuitant whose most recent effective date of retirement was on July 1, 1997, but the percentage factor tables in proposed sections 8348.5(b) and 5708.5(a) end with those annuitants whose most recent effective date of retirement was June 30, 1997. As a result, an annuitant whose most recent effective date of retirement was July 1, 1997, will be an eligible benefit recipient but no supplemental annuity is proposed for the annuitant.

COMMISSION RECOMMENDATION

On April 16, 1998, 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.

FINAL LEGISLATIVE STATUS

As Printer's Number 1972, Senate Bill 1269 was signed into law by the Governor as Act 1998-88 on June 16, 1998.

Bill ID: Amendment 2604 to Senate Bill 1269, Printer's Number 1972

System: State Employes' Retirement System

Subject: Extending Eligibility to Purchase Credit for Nonstate Service as a Public Educator

SYNOPSIS

Amendment 2604 to Senate Bill 1269, Printer's Number 1972, would amend in two ways the provisions of section 5304(c)(3) of the State Employees' Retirement Code that permit active members and active multiple service members to purchase service credit for nonstate service as public educators in another state or with the federal government:

> For active multiple service members only, by removing the requirement that the member must have service as a public educator employed in the Department of Education, State System of Higher Education, a State-owned educational institution, or The Pennsylvania State University; and
>
> For all active members and active multiple service members eligible to purchase service credit for the nonstate service, by liberalizing the restriction on the service credit purchased from an amount that cannot exceed the lesser of ten years or years of service as a public educator employed in one of the listed Commonwealth public educational entities to an amount that cannot exceed the lesser of ten years or years *as a Commonwealth employee* or as a public educator employed in one of the listed Commonwealth public educational entities.

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 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,

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 current provisions permitting the purchase of service credit for nonstate service as public educators in another state or with the federal government provide limited nationwide portability of retirement benefits to those who are making a career of public education. The amendment would liberalize in two ways the conditions under which an active member or an active multiple service member may purchase service credit for nonstate service as a public educator in another state or with the federal government.

Currently, an active member or an active multiple service member must be or have been an academic administrator, teacher or instructor employed in the Department of Education, the State System of Higher Education, a State-owned educational institution, or The Pennsylvania State university in order to be eligible to purchase the service credit. The amendment would permit an active member who has credited service in the Public School Employes' Retirement System and who has elected to combine that service with SERS credited service (that is, an active multiple service member), to purchase the service credit even though the active multiple service member has never been employed as a public educator in the Department of Education, the State System of Higher education, a State-owned educational institution, or The Pennsylvania State University.

Currently, an eligible active member or active multiple service member purchasing service credit for nonstate service as a public educator in another state or with the federal government may not purchase credit in an amount that exceeds the lesser of ten years or the number of years of active SERS membership as an academic administrator, teacher, or instructor in the Department of Education, State System of Higher Education, a State-owned educational institution or The Pennsylvania State University. Under the amendment, the restriction is liberalized to become the lesser of ten years or the number of years of SERS service *as a Commonwealth employee* or as a public educator under SERS, thus allowing service other than as a public educator in SERS to be counted toward the purchase limitation.

Under section 5505(d) of the State Employees' Retirement Code (Code), for each year of service credit being purchased, the method for calculating the member's contribution to purchase service credit for nonstate service when no other method is prescribed is the product of the sum of the member's contribution rate plus the Commonwealth's normal contribution rate at the time of the member's entry into Commonwealth service subsequent to the nonstate service multiplied by the salary of the first year of subsequent Commonwealth service multiplied by the nonstate service time being purchased multiplied by four percent interest compounded annually from the date the member became an active SERS member following the nonstate service until the date of purchase. The residual unfunded actuarial accrued liability is funded by the employer 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 amendment, there may be other retirement benefit costs incurred by the Commonwealth. By

purchasing service credit in SERS of 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 the Code, a member under age 60 must have 35 years of service credit to retire and receive a full pension. From July 1, 1998, through June 30, 1999, a member with 30 years of service credit may retire and receive a full pension regardless of age. The amendment, therefore, would permit a 52-year-old member with 20 years of Commonwealth service to purchase ten years of service credit for nonstate service as a public educator in another state or with the federal government and immediately retire with a full pension, although the member would not be eligible for full retirement under standard Code provisions.

Under 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 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 15 years of Commonwealth service to purchase ten years of service credit for nonstate service as a public educator in another state or with the federal government and immediately terminate service and receive Commonwealth fully paid medical insurance for life.

SUMMARY OF ACTUARIAL COST IMPACT

The statutory method for calculating the member's contributions to purchase the service credit for nonstate service will result in the members paying about 17 percent to about 64 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.

Because there is no information on the exact number of members eligible, the consulting actuary of the Commission estimated the increases in unfunded actuarial accrued liability for a range of possible eligible employees due to these possible purchases based on an average of three years of credit being purchased, an average salary of $34,900, an average past salary growth of six percent, and an employer normal contribution rate of seven percent at the time of entry.

Number of Eligible Members who Purchase Service	Estimated Increase in Unfunded Actuarial Accrued Liability
50	$ 800,000
100	$1,600,000
200	$3,300,000

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

In subsequent years after the amendment is passed and effective, the consulting actuary estimates that, if 15 members become eligible and elect the option each year, the unfunded actuarial accrued liability will increase about $200,000 a year.

POLICY CONSIDERATIONS

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

Unequal Treatment of SERS Members. **(-)** Before the amendment, the provisions permitting the purchase of service credit for nonstate service as public educators provided limited nationwide portability of retirement benefits to those who were making a career of public education. Under the proposal in the amendment, an active multiple service member who has had no public educator service as a member of SERS would be eligible to purchase up to ten years of nonstate public educator service although a regular active member still would be required to have public educator service as a member of SERS in order to purchase service credit for nonstate public educator service. The public policy rationale for this limited expansion and unequal treatment is not evident.

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 service credit purchases. The amendment does not conform to the recommendations in this report concerned with authorizing, funding, and structuring service credit purchases.

Inequality of Certain Service Purchase Authorizations. The Commission recommended that service credit 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 credit 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 Nonstate Service as a Public Educator for SERS Members Who Are Not Public Educators. Career public educators already are eligible to purchase credit for nonstate service as public educators in another state or with the federal government. The amendment would liberalize the existing provision to permit active multiple service members to purchase credit for this nonstate service in SERS regardless of whether they have ever served as public educator members of SERS and to liberalize the purchase restriction from matching just public

educator service under SERS to matching both Commonwealth and public educator service under SERS.

Adequacy of Purchase Payments. The statutory method for calculating the member's contributions to purchase service credit for nonstate service when no other method is prescribed will result in many members paying less than the full actuarial cost of the increased benefit acquired through the service credit purchase. The service credit purchase price will result in an increase in the unfunded actuarial accrued liability of SERS and increased amortization payments by the employers calculated as a level percentage of payroll increasing five percent a year over a 20-year period. A service credit purchase transaction that favors a member at the expense of the retirement system is viewed by the Commission as 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 purchase, there would be no actuarial cost to the Commonwealth.

Cost Effective Technical Provisions. For service credit 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 or upon leaving employment with entitlement to a vested deferred benefit. The amendment does not conform to either of these recommendations.

COMMISSION RECOMMENDATION

On May 28, 1998, the Commission voted to attach the actuarial note to the amendment, expressing concern that the amendment does not conform with the Commission's policy guidelines for service purchase authorizations and recommending that the General Assembly and the Governor consider the policy issues identified above.

FINAL LEGISLATIVE STATUS

As Printer's Number 1972, Senate Bill 1269 was signed into law by the Governor as Act 1998-88 on June 18, 1998.

Bill ID: Senate Bill 1376, Printer's Number 1785

System: State Employes' Retirement System

Subject: Granting One-Year "30 and Out" Window

SYNOPSIS

Senate Bill 1376, Printer's Number 1785, would amend the State Employees' Retirement Code to add section 5308.2, permitting a member of the State Employes' Retirement System with at least 30 eligibility points who terminates state service after June 30, 1998, and before July 1, 1999, and files and application for retirement with an effective date of retirement before July 2, 1999, to retire without the annuity being reduced on account of retirement age that is under superannuation age ("30 and Out"). The bill also would amend section 5902 to restrict the power of the State Employees' Retirement Board to fix the compensation of all officers and employees who are not covered by a collective bargaining agreement by requiring that the compensation must be consistent with the standards of compensation established by the Executive Board of the Commonwealth.

DISCUSSION

The State Employees' Retirement Code is a governmental cost-sharing multiple-employer pension plan with the designated purpose of the State Employes' Retirement System (SERS) being to provide retirement allowances and other benefits including disability and death benefits to state employees. At December 31, 1996, there were 108 participating state and other organizations in SERS. 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 system. As of December 31, 1996, membership in SERS consisted of 87,461 retirees, beneficiaries, and terminated employees entitled to benefits and 110,992 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 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 the normal retirement age for members of the General Assembly and certain public safety employees. Temporary provisions of the Code also have permitted 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. The most recent special early retirement provisions expired on July 1, 1997. The special early retirement provisions were adopted in 1984 and revised and extended in 1985, 1986, 1987, 1988, 1991, and 1994 (retroactive to 1993).

DISCUSSION (CONT'D)

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, were extended and revised a number of times until the most recent one expired on July 1, 1997.

In the past, both the consulting actuary of the Commission and the consulting actuary of SERS have raised the issue of appropriate funding for continuing extensions of the special early retirement provisions. In fact, beginning with its 1995 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 the amortization payment of SERS rather than limiting it to recognition in amortization payments for unfunded actuarial accrued liabilities after an extension is granted. This action increased the employer contribution rate of SERS by 0.75 percent of payroll. Only if the early retirement windows are granted less frequently than once every five years would this funding approach be appropriate.

The effectiveness of the special early retirement provisions as an incentive for accelerating retirements within a window period is diminished by making them available either continuously or frequently. Because the special early retirement provisions were in effect continuously from 1986 to 1997, a new normal retirement pattern was established based on the availability of the provisions. Terminating the provisions and granting them again after only one year will not produce an incentive for members to change their new normal retirement pattern and will result in only a temporary, one-year decrease in the number of retirements with a doubling of early retirements during the proposed one-year window. Granting long-period early retirement windows more frequently than once every five or so years is the provision of a benefit enhancement rather than an incentive to retire.

SUMMARY OF ACTUARIAL COST IMPACT

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

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

	Amount
Increase in Unfunded Actuarial Accrued Liabilities	$66,700,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$ 0	0.00%
Amortization Payments[1]	4,900,000	0.11%
Total Increase in Employer Annual Costs[1]	$4,900,000	0.11%

	Amount
Total Amortization Payments	$162,023,174

[1] First year only. Amortization payments increase five percent a year of 20 years.

POLICY CONSIDERATIONS

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

Purpose of Granting One-Year Special Early Retirement Provisions. ( ) Policy makers may wish to consider whether the purpose of granting a one-year window for special early retirement provisions so soon after the expiration of the previous 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, granting recurring "windows" on an ad hoc basis functions 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 granting them so soon after expiration of the previous one as to make them available almost continuously.

COMMISSION RECOMMENDATION

On March 24, 1998, 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.

FINAL LEGISLATIVE STATUS

Senate Bill 1376, Printer's Number 1785, passed the Senate on March 24, 1998, and was referred to the House State Government Committee on March 26, 1998.

Bill ID: Senate Bill 1417, Printer's Number 1884

System: Public School Employes' Retirement System

Subject: Purchase of Service Credit for Nonschool Service to Correct Errors in the Benefit Determinations

SYNOPSIS

Senate Bill 1417, Printer's Number 1884, would amend the Public School Employees' Retirement Code to permit a member to purchase up to two years of nonschool service credit for erroneous crediting of service, the discovery of which has or will cause a reduction in the member's annuity.

DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan with the designated purpose of the Public School Employes' Retirement System (PSERS) being to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. At June 30, 1997, there were 635 participating units, generally school districts, area vocational-technical schools, and intermediate units in PSERS. These employers are the source of information regarding such things as full- or part-time status, salaries actually paid, and member contributions withheld. Membership in PSERS is mandatory for most public school employees. Certain other employees are not required, but are given the option to participate. At June 30, 1997, membership in PSERS included 215,077 active members.

This 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 are of value to members because they enhance the retirement benefit and also may accelerate retirement eligibility.

Active members of PSERS and multiple service members 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, 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.

The bill would expand the list of purchasable nonschool service credit to include up to two years of nonschool service credit for service credit removed from the member's record as a result of the correction of a member's annuity. Eligibility to purchase the service credit would depend upon the existence of each of the following four conditions:

The Public School Employes' Retirement System did not notify the member of a correction of an error in the accrual of eligibility points contained in the member's retirement records until after the application for an annuity was filed by the member;

The difference between the monthly annuity as corrected and the monthly annuity calculated with the error is either

more than five percent or

more than $100 or

the error results in the member losing eligibility for a benefit other than an annuity (for example, "30 and Out" or Health Insurance Premium Assistance);

The error was not caused by any conduct of the member, including, but not limited to, a misrepresentation or an error resulting from a severance or other agreement between the employer and the member designed to artificially inflate the member's retirement annuity; and

The member has at least five years of credited school service, including multiple service.

The permission also would be retroactively applied to a member who meets the following criteria, but the benefits resulting from the purchase of service credit would be paid prospectively only:

Filed an application for an annuity prior to the date of enactment of the bill;

Requested to be paid a benefit based on information provided to the member by the system before the member filed the application for an annuity;

Appealed the system's denial; and

Otherwise satisfies the conditions of the proposal.

The employee's contribution to purchase the service credit is to be calculated as the product of the sum of the member's basic contribution rate plus the employer's normal cost rate multiplied by the member's final average salary multiplied by the amount of service credit being purchased. The employee's contribution would be paid out of the member's account. Presumably, if there is not enough in the member's account, the member will have to pay the system directly. 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 and the employers over a 20-year period with payments increasing five percent a year.

Mistakes in member's records and benefits calculations do occur in PSERS. These mistakes may be intentional or unintentional. These mistakes may involve a mistake in the understanding or application of the law, the member data used to permit retirement or calculate benefits, or the processing or calculation of benefits. These mistakes may be made by the individual member, the member's employer, or PSERS.

The actual, final calculation of PSERS benefits is made after the member retires and the system receives the final salary and service data from the employer and reviews the entire record of the member. Although these final data may be received within about two weeks from an employer in the State Employes' Retirement System, it can take as long as three months for PSERS to receive them. It is during the processing and review of the entire record of the member following the filing of the member's application for retirement that errors in service credits normally are discovered.

Retirement benefits under the Code represent constitutionally protected contract and property rights for the member. It is for this reason that the Code provides that whenever a mistake is discovered, the correct benefit is calculated and arrangements made either retroactively to pay the greater benefit to the annuitant or retroactively to pay the lesser benefit to the annuitant by making an actuarial reduction in future benefit payments.

If a mistake results in an overpayment, the member clearly has received benefits larger than those provided by law and larger than those for which the member and the employer have paid. Under the Code, the correct amount is calculated, and the overpayment collected by a reduction in the benefit from the incorrect, larger amount to an actuarially calculated amount that results in a repayment of the overpayment over a period of time. The bill would permit the member to purchase credit for additional service to receive the incorrect, higher amount.

Under the Code, all members receive the retirement benefit to which they are entitled by an act of the General Assembly, and willful failure to provide required information and willful provision of erroneous information are subject to civil penalties. A member, therefore, has an incentive to correct erroneous information quickly. Although the bill would not permit the purchase of service credit by a member where the error was caused by any conduct of the member, the bill could serve as an incentive to ignore over credited service credit where the error was caused by the employer or PSERS because, if undetected until after the member's application for annuity was filed, the member could purchase credit for the unearned service credit.

It is hard to understand how a member can be unaware of an over crediting of a year of more of service that has been reported to the member for five or more years, but it is possible to understand how an over crediting of lesser amounts can be overlooked, especially in situations such as those involving multiple service with the State Employes' Retirement System, leaves of absence, part-year or part-time service, and purchase of service credits. A minor correction in the service credit normally will cause a relatively minor change in the annuity. Under certain circumstances, however, service related reporting errors can have a dramatically negative financial impact on the amount of a member's annuity or opportunity to obtain some other benefit such as "30 and Out" or Health Insurance Premium Assistance. The reduction in the annuity is particularly severe in instances in which an administrative adjustment denies a member the benefit of the "30 and Out" full pension early retirement option. A reduction factor is applied for normal early retirement although the member retired believing that the member had 30 years of service credit in PSERS,

DISCUSSION (CONT'D)

a belief perhaps caused by detrimental reliance upon reports from PSERS. The bill attempts to remedy these situations by limiting the amount of service credit that may be purchased to two years and to situations involving either a material reduction in the normal annuity (more than five percent or more than $100 a month) or loss of eligibility for a benefit other than an annuity.

SUMMARY OF ACTUARIAL COST IMPACT

The Public School Employes' Retirement System has been able to identify 13 individuals who could be affected by the bill together with their required contributions to purchase the service credit, the increase in actuarial accrued liability due to the purchases, and the resulting increase in the unfunded actuarial accrued liability. The consulting actuary of the Commission has reviewed the bill and the data, and estimated the actuarial cost impact as follows:

	Amount
Increase in Unfunded Actuarial Accrued Liability	$991,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$ 0	00.0%
Amortization Payment[2]	66,500	11.3%
Total Increase in Employer Annual Costs[2]	$66,500	11.3%

	Amount
Total Amortization Payments	$2,198,886

[1] Paid in Part by the Commonwealth and in part by the school districts and other educational employers.
[2] First year cost only; amortization payments increase five percent a year for 20 years.

POLICY CONSIDERATIONS

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

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

POLICY CONSIDERATIONS (CONT'D)

purchases of credit for service. 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 prior service credits following a break in service, and remedying inequalities caused by employer actions. The policy makers of the Commonwealth must determine whether errors in the service credit records of PSERS represent an employer action that results in an inequity which should be remedied by a purchase of service credit.

Unequal Treatment of PSERS Members. **(-)** The bill does not treat all similarly situated public employees equally. The purchase option is restricted to members whose retirement system records contained errors until after the member filed an application for an annuity and to similarly situated annuitants who appealed the determination by PSERS. PSERS annuitants who did not appeal unfavorable PSERS determinations are not permitted to purchase the service credit that was excluded in their benefit determinations.

Rewarding Nondisclosure of Erroneous Information. **(-)** The proposal in the bill would reward members who know that there has been an error in their favor made by PSERS and elect to remain silent.

COMMISSION RECOMMENDATION

On April 16, 1998, 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.

FINAL LEGISLATIVE STATUS

Senate Bill 1417, Printer's Number 1884, was referred to the Senate Finance Committee on April 9, 1998.

Bill ID: Senate Bill 1536, Printer's Number 2159

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

Subject: Expanding Choice of Employer-Approved Alternate, Retirement Plans

SYNOPSIS

Senate Bill 1536, Printer's Number 2159, would amend section 2013-A of the Public School Code of 1949 to change the provisions regarding retirement plans for employees of the State System of Higher Education to expand the list of employer-approved, alternate retirement plans that an employee may choose as an alternative to either the Public School Employes' Retirement System or the State Employes' Retirement System from the Teachers' Insurance and Annuity Association of America—College Retirement Equities Fund to include insurance companies that meet certain proposed criteria.

DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Retirement Codes) are governmental, cost-sharing, multiple-employer pension plans with the designated purposes of the Public School Employes' Retirement System (PSERS) and the State Employes' Retirement System (SERS) being to provide retirement allowances and other benefits including disability and death benefits to public school and state employees. Membership in the systems is mandatory for most employees. Certain other employees are not required but are given the option to participate. Under the Retirement Codes, the annual retirement benefit generally is the product of two percent of the member's high-three-year average salary multiplied by the member's years of service.

Under the Retirement Codes, certain employees of institutions of higher education are eligible to choose coverage under an employer-approved, retirement program as an alternative to PSERS or SERS retirement coverage. The retirement program that has been approved by the employers to provide the alternate retirement coverage is the Teachers' Insurance and Annuity Association of America—College Retirement Equities Fund (TIAA—CREF). In part, this approval probably was due to TIAA—CREF being the oldest and largest retirement program used nationally throughout the higher education community. During the time the option to choose an employer-approved, alternate retirement program has been available, both The Pennsylvania State University and the State System of Higher Education have experienced significantly increased membership in TIAA—CREF.

The reason the Public School Code of 1949 (School Code) refers to section 8301 of the Public School Retirement Code rather than section 5301(a) of the State Employees' Retirement Code probably is that, when the School Code article regarding the State System of Higher Education was

added to the School Code in 1982, many of the then existing employees of the institutions that became part of the State System of Higher Education had been public school teachers and members of PSERS before obtaining advanced degrees and accepting employment in one of the institutions. The provisions of section 2013-A as adopted in 1982, therefore, reflect that many employees of the institutions at that time had been members of PSERS and had joined TIAA—CREF upon employment by the institutions.

The two types of pension plans with which this actuarial note transmittal is concerned are representative of the two broad types of benefit plans. The Retirement Codes provide for defined benefit plans. TIAA—CREF and the proposed additional employer-approved, alternate retirement plans are defined contribution plans. Among the distinguishing aspects between the two types of plans are the elements that are fixed or variable and who bears the risk of investment earnings that are above or below those anticipated.

In a defined benefit plan, the amount of the eventual pension benefit is fixed based on a predetermined benefit formula and the financing of the plan is dependent on the actuarial funding method. The actuarial funding method provides a systematic plan for accumulating assets that will be adequate to pay the pension benefits that have been promised. The retirement system and, ultimately, the employer bears the investment earnings risk. If earnings are greater than anticipated, there will be a reduction in future employer contributions, and if the earnings are less than anticipated, there will be an increase in future employer contributions.

In a defined contribution plan, the financing of the pension plan is fixed as a set dollar amount or percentage of pay, and the amount of the eventual pension benefit is variable. The amount of the pension benefit is dependent chiefly on the amount of financing, including contributions and investment earnings, available at retirement to fund the benefit. The employee bears the investment earning risk. Two employees with identical service, salary, and contribution histories may receive two different pensions based upon the investment alternatives that they select.

For a defined contribution plan, the actual financing provided to the plan has a direct impact on the amount of the benefit that will be paid at retirement. For a defined benefit plan, the employee's benefit is not affected by the actual financing provided to the plan. The financing is actuarially determined based on an actuarial cost method and assumptions concerning expected future economic and demographic occurrences. If the financing that is provided is determined to have been more than adequate or less than adequate due to actual experience differing from experience expected under the assumptions, actuarial adjustments are made through the recognition of actuarial gains or losses. None of these actuarial adjustments impact on the amount of the ultimate benefit payable to the employee, which is preestablished based on the benefit formula.

TIAA—CREF is the best known, oldest, and largest of defined contribution plans in the field of education. TIAA began in 1918 as a seller of fixed-rate annuities, and CREF began in 1952 as the first variable-annuity company in the United States. TIAA—CREF allows transfers to and from competing pension plans. The bill would amend the School Code to grant employees of the State System of Higher Education a limited choice among insurance companies as employer-approved, alternate, retirement programs.

DISCUSSION (CONT'D)

The bill would impose several requirements regarding (1) the conditions to be met by an insurance company in order to become an employer-approved, alternate, retirement program, (2) provisions of the insurance company contract, (3) education an insurance company must provide to employee-participants, and (4) criteria to be considered by an employer in approving an alternate retirement program provider.

Members of PSERS and SERS enjoy membership in retirement systems that provide pensions which are guaranteed by the Commonwealth and paid through a retirement system that is reviewed both by the General Assembly and the Commission. Because pensions provided under an insurance company contract enjoy neither the guarantee nor the reviews, proposed section 2013-A(b), among other things, requires that, in order to be approved, an insurance company must be in good standing with the Insurance Department, maintain high financial ratings, be participating in similar plans in at least ten other states, and have one agent designated as the authorized insurance company representative at each institution of the State System of Higher Education. The bill neither defines high financial ratings nor specifies what rating agencies are to be used. The bill neither specifies whether a single agent may be the authorized insurance company representative at more than one institution nor specifies whether an agent must exclusively service the institution or may have other clients. Of necessity, therefore, the employer must make these determinations.

Proposed section 2013(A)(c)(2) requires intrastate and interstate portability without defining portability. A participant who accepts employment outside the State System of Higher Education will have a vested right in the member's contributions and the employers' contributions under the plan together with interest to the date of termination of service. Whether the accumulated assets may be transferred into another employer's retirement plan will depend upon the laws of the jurisdiction in which the new employer is located and that employer's retirement plan. If the new employer's retirement plan is a defined benefit plan, there may be no way in which accrued retirement benefits may be transferred into that plan. If the new employer is not located within a state where the insurance company participates in similar pension plans, there may be no way in which accrued retirement benefits may be transferred into the new employer's retirement plan.

SUMMARY OF ACTUARIAL COST IMPACT

Employees choosing participation in an employer-approved, alternate, retirement program are not acquiring pension benefits under the Retirement Codes while participating in the alternate retirement program and, therefore, the financing of their pension benefits does not impose an actuarial cost upon either PSERS or SERS.

POLICY CONSIDERATIONS

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

Additional Choices among Optional, Alternate Retirement Programs. **(+)** The bill would grant employees of the State System of Higher Education, who wish to obtain their pension benefits from some other source other than PSERS or SERS, the right to choose among certain insurance companies approved by their employers as an alternative to TIAA—CREF.

Potential of Increased Mobility of Higher Education Employees. **(+)** Although public employee retirement plans traditionally have been defined benefit plans, defined contribution plans are well established in institutions of higher education, both public and private, for a number of reasons including the mobility of higher education employees. The increased choice offered under the bill should marginally increase the number of higher education employees choosing participation in defined contribution plans as an alternative to membership in one of the retirement systems and, therefore, the number of employees who may readily move to other institutions of higher education in the public sector in other states and in the private sector both in Pennsylvania and in other states may increase.

Need for Employers to Define Certain Provisions. **( )** Because the bill does not provide definitions or policy guidance for certain of the proposed restrictions, the State System of Higher Education, among other things, will have to determine what is a high financial rating, who is a recognized rating agency, what constitutes a single agent designated as the authorized insurance company representative at an institution, and what constitutes intrastate and interstate portability.

Additional Choices Limited to Insurance Companies. **( )** The bill would restrict the possible additional providers of pension coverage to insurance companies only. It is a matter of public policy to be determined by the General Assembly and the Governor whether this restriction of choice is appropriate.

COMMISSION RECOMMENDATION

On November 5, 1998, the Commission voted to recommend that the General Assembly and the Governor consider the policy issues identified above.

FINAL LEGISLATIVE STATUS

Senate Bill 1536, Printer's Number 2159, was referred to the Senate Finance Committee on September 25, 1998.

Bill ID: Amendment 0798 to House Bill 162, Printer's Number 2077

System: Public School Employes' Retirement System

Subject: Granting Service Credit for Terminal Leave of Absence for Restoration of Health

SYNOPSIS

Amendment 0798 to House Bill 162, Printer's Number 2077, would amend section 8102 of the Public School Employees' Retirement Code to give service credit to an active member of the Public School Employes' Retirement System for a paid leave for restoration of health granted by an employer under the Public School Code of 1949.

DISCUSSION

The Public School Employes' Retirement System (PSERS) is the administrator of a governmental, cost-sharing, multiple-employer, retirement plan established by the Commonwealth under the Public School Employees' Retirement Code (Retirement Code) to provide retirement, disability, death, and health care benefits to its members. Membership in PSERS is mandatory for substantially all full-time public school employees in the Commonwealth. Certain other employees are not required, but are given the option, to participate. At June 30, 1997, there were 635 participating units, generally school districts, area vocational-technical schools, and intermediate units in PSERS. The general annual retirement benefit is the product of two percent of the member's high three-year average salary multiplied by the member's years of service.

Under the Retirement Code, creditable school service includes an approved leave of absence. An approved leave of absence includes a leave for activated military service, employer approved sabbatical leave, employer approved leave for service as an exchange teacher, employer approved leave with a collective bargaining organization, and employer approved leave for professional study. Under the Retirement Code, the compensation of a member, which is used both in calculating employee and employer contributions and in calculating member benefits, cannot include any payment for unused vacation or sick leave nor can it include any additional compensation contingent upon retirement, including payments in excess of the scheduled or customary salaries provided for members within the same governmental entity with the same educational and experience qualifications who are not terminating service. Under the Retirement Code, compensation also cannot include any other payment or emolument that may be provided for in a collective bargaining agreement which may be determined by the Public School Employees' Retirement Board to be for the purpose of enhancing compensation as a factor in the determination of final average salary.

Under the Public School Code of 1949 (School Code), a sabbatical leave of absence cannot be granted to an individual unless the individual agrees to return to employment with the school

district for a period of not less than one school term immediately following the leave of absence. Under the School Code, if the employee resigns or fails to return to employment, unless prevented by illness or physical disability, the employee forfeits all benefits to which the employee would have been entitled for the period of the leave and the amount contributed by the school district to the Public School Employees' Retirement Fund is deducted from the refund payable to the employee and is refunded to the school district.

The Commission staff has been informed that the intention of the amendment is to make a leave of absence for restoration of health an approved leave of absence for which a member of PSERS may receive school service credit even if the approved leave of absence is a terminal leave. PSERS currently gives school service credit to a member who goes on sabbatical leave for restoration of health and returns to employment as well as to a member who goes on sick leave and returns to employment. PSERS denies the service credit only in situations in which the leaves of absence are terminal leaves and the members do no return to employment.

By the act of June 28, 1996, P.L. 430, No. 66 (Act 66 of 1996), the School Code was amended to further provide for sabbatical leaves and for rights during a leave of absence. Under Act 66 of 1996, a sabbatical leave for restoration of health may be granted after the individual has at least five consecutive years of service in the school district, unless the school board allows a shorter time. After the individual returns to school service, one sabbatical leave for restoration of health may be allowed after each seven years of service. Under the School Code, a leave of absence cannot be granted unless the individual agrees to return to employment with the school district for a period of at least one school term immediately following the leave of absence. Before Act 66 of 1996, upon expiration of a sabbatical leave, by consent of the school board, the requirement that the individual return to the service of the school district or to the same position in the same school that the individual occupied prior to the leave could be waived. Act 66 of 1996 repealed this provision and amended the School Code to provide that if the individual fails to return to employment, unless prevented by illness or physical disability, the employee must forfeit all benefits to which the individual would have been entitled under the provisions of the School Code for the period of the leave.

Upon enactment of Act 66 of 1996, the Public School Employees' Retirement Board, reading the amended provisions of the School Code together with the provisions of the Retirement Code, began refusing to grant service credit for a sabbatical leave of absence for restoration of health unless the individual returned to school service or was prevented from doing so by illness or physical disability. The refusal is consistent with the two codes. The refusal has resulted in about five individuals a year being denied about one year of service credit each because their nonsabbatical leaves of absence for reasons of health were terminal leaves and they did not return to school service. It usually is at the employer's initiation that these leaves are terminal, and the leaves usually are granted to superintendents of schools, business managers, and similar senior school administrators.

It is the intention of the amendment to repeal the effect of Act 66 of 1996. The amendment would make a leave for restoration of health under the School Code an approved leave of absence under the Retirement Code, which is the interpretation PSERS now gives to nonterminal leaves of absence for reasons of health under the Retirement Code. The amendment, however, does not make a terminal leave of absence for restoration of health an exception to the prohibitions against

DISCUSSION (CONT'D)

including in compensation for purposes of computing the retirement benefit any severance payments or any other payment or emolument for the purpose of enhancing compensation.

If the amendment were to be adopted, PSERS anticipates a material increase in the utilization of terminal sabbatical leaves of absence for restoration of health. Employees will see the amendment as an opportunity to obtain an additional year of service credit toward retirement at the end of their careers increasing their retirement benefits by two percent of a final average salary. School districts will see the amendment as an easier way to terminate older, senior staff members than by terminating employment, which, in some cases, includes paying amounts for the remainder of uncompleted contracts.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission assumed that employees electing service credit for terminal leaves for restoration of health typically will be 54 years old with 24 years of service and final average salaries of $50,000, and provided an estimate of the actuarial cost impact for a range of utilization from 25 to 50 employees a year.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$20,000,000 - $40,000,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$1,000,000 - $2,000,000	0.012% - 0.024%
Amortization Payment	1,400,000 - 2,800,000	0.017% - 0.034%
Total Increase in Employer Annual Costs [2]	$2,400,000 - $4,800,000	0.029% - 0.058%

	Amount
Total Amortization Payments	$46,292,335 - $92,584,671

[1] Paid in part by the Commonwealth and in part by the school districts and other educational employers.
[2] First year only; amortization payments increase five percent a year for 20 years.

POLICY CONSIDERATIONS

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

Reversal of Act 66 of 1996. **( )** The pension plan of the Retirement Code provides for retirement benefits to be based upon school service. Act 66 of 1996 amended the School Code to prevent a terminal leave of absence for restoration of health from being considered school service for purposes of the Retirement Code. Adoption of the amendment would reverse the intent of Act 66 of 1996.

Inducement for Greater Utilization. **(-)** If service credit toward retirement is granted for terminal leaves of absence for restoration of health, there will be more such leaves because employees will find it an opportunity to obtain an additional year of service credit toward retirement at the end of their careers and school districts will find it an easy way to induce retirement of older, senior staff members.

Drafting Deficiencies. **(-)** The amendment does not amend the Retirement Code to make a terminal leave of absence for restoration of health an exception to the prohibitions against including in compensation, for purposes of computing the retirement benefit, any severance payments or any other payment or emolument for the purpose of enhancing compensation.

COMMISSION RECOMMENDATION

On April 16, 1998, 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.

FINAL LEGISLATIVE STATUS

As Printer's Number 3299, House Bill 162 was signed into law by the Governor as Act 1998-41 on April 12, 1998.

Bill ID: Amendment 0586 to House Bill 908, Printer's Number 1016

System: Pubic School Employes' Retirement System

Subject: Retroactive Increase in Health Insurance Premium Assistance and Prohibiting PSERS Board from Restricting Choice of Insurance Carriers

SYNOPSIS

Amendment 0586 to House Bill 908, Printer's Number 1016, would amend section 8509 of the Public School Employees' Retirement Code in two ways:

Retroactive to July 1, 1992, increase the health insurance premium assistance to eligible annuitants from $55 a month to $162 a month; and

Prohibit the Public School Employees' Retirement Board from restricting the annuitant's choice of insurance carriers under the health insurance premium assistance program.

DISCUSSION

The Public School Employes' Retirement System (PSERS) is the administrator of a governmental cost-sharing multiple-employer retirement plan established by the Commonwealth to provide retirement, disability, death, and health care benefits to its members. Membership in PSERS is mandatory for substantially all full-time public school employees in the Commonwealth. Certain other employees are not required, but are given the option, to participate. At June 30, 1997, there were 635 participating units, generally school districts, area vocational-technical schools, and intermediate units in PSERS.

Under the Public School Employees' Retirement Code, certain health care benefits are provided for retired employees who meet specified length-of-service and age requirements. To be eligible for the Health Insurance Premium Assistance Program, retired PSERS members must

have at least 24½ years of service, or

be disability annuitants, or

have at least 15 years of service and both have terminated school service and retired after attaining superannuation age.

Under the program, participating eligible annuitants receive health insurance premium assistance payments from the Health Insurance Account equal to the lesser of $55 a month or the actual monthly premium. Amendment 0586 would increase this $55 a month by $107 a month to $162 a month retroactive to July 1, 1992. In addition to the cost of providing six years of retroactive

benefits there will be an administrative cost and problem in determining just how much of a benefit each eligible annuitant should receive. The amendment is not clear about how to handle situations

in which an eligible annuitant opted out of the program at $55 a month but would have partici pated at $162 a month, nor is it clear about how to handle situations where an annuitant died after opting into the Health Insurance Premium Assistance Program but before the effective date of the amendment.

All administrative expenses necessary to operate the Health Insurance Premium Assistance Program are funded by the Health Insurance Account. The Health Insurance Account is credited with the contributions of the Commonwealth and the employers. For the calendar year ended December 31, 1996, the Account received $92,240,000 in contributions from the Commonwealth and employers and paid medical benefits totaling $77,564,235.

The Health Insurance Premium Assistance Program is funded on a pay-as-you-go basis, with the cost determined in the valuation process based on the expected annual disbursements and funded for one year in advance of the actual disbursements. Because the covered group of retirees is anticipated to be relatively stable and the benefit amount is not indexed, this approach should provide a reasonable estimate of the long-term cost level.

Employers' annual contributions to the Health Insurance Premium Assistance Program have been as follows:

Fiscal Year	As a % of Payroll
1998-1999	0.15%
1997-1998	0.15%
1996-1997	0.60%
1995-1996	0.62%
1994-1995	0.45%
1993-1994	0.25%
1992-1993	0.50%
1991-1992	0.50%

When the Health Insurance Premium Assistance Program was established in essentially its present form by Act 23 of 1991, PSERS already was operating a Group Health Insurance Program for annuitants who had attained age 65. Upon the creation of the Health Insurance Premium Assistance Program, PSERS evaluated its existing Group Health Insurance Program and the Health Insurance Premium Assistance Program and concluded that, to control increasing premium costs and prevent adverse selection, the Public School Employees' Retirement Board (Board) only would approve health insurance premium assistance reimbursements under the Health Insurance Premium Assistance Program to retirees who chose coverage either through one of the Board's preapproved insurance carrier programs (Health Options Program) or through an insurance carrier program offered by one of the employers participating in PSERS. Although section 8509(c) of the Code as enacted by Act 23 of 1991 speaks of a health insurance carrier approved by the Board, it is not clear that the General Assembly intended such a restrictive approval rather than the more

DISCUSSION (CONT'D)

general approval of any insurance carrier licensed to provide such health insurance in Pennsylvania. The Code does not provide for the establishment or administration of a Health Options Program. Amendment 0586 would prohibit the Board from continuing to restrict annuitants' choices of postretirement health insurance carrier programs.

There are two cost ramifications to eliminating the Board's restrictive preapprovals.

One cost will be increased costs to the Commonwealth and the employers. This cost increase will be caused by increased participation in the Health Insurance Premium Assistance Program by eligible annuitants. Currently only about two-thirds of the eligible annuitants participate under the program, and with no Board restrictive preapprovals, the number of participants probably would increase.

The other potential cost will be increased costs to participants in the Health Options Program being operated by PSERS. If retirees in relatively good health participate in low cost/low benefit alternatives at first but, as they age and their need for health care services increases, they later choose to participate in the PSERS Health Options Program, the resulting adverse selection probably will cause premium costs to increase.

SUMMARY OF ACTUARIAL COST IMPACT

Retroactive Increase in Health Insurance Premium Assistance

	Amount	As a % of Payroll
One-Time Retroactive Cost Paid in Initial Year	$280,000,000	3.25%

Increase in Employer Annual Cost Paid in Initial and All Future Years

	Amount	As a % of Payroll
Prospective Increase in Health Insurance Premium Assistance	$ 62,000,000	0.72%
Liberalizing Choice of Plans Eligible for Reimbursement	43,000,000	0.50%
Total Increase in Employer Annual Cost Paid in Initial and All Future Years	$105,000,000	1.22%

POLICY CONSIDERATIONS

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

Intent of Health Insurance Premium Assistance Program. ( ) The policy makers of the Commonwealth must decide whether they wish PSERS and its participating employers to be the sole approved sources of postretirement medical insurance coverage for which the Commonwealth provides premium assistance. While Act 23 of 1991 spoke of a health insurance carrier approved by the Board, it is unclear whether the General Assembly intended a restrictive list of PSERS preapproved insurance carrier programs rather than any insurance carrier licensed to offer such health insurance programs in Pennsylvania.

Retroactivity. (-) Under the amendment, the increase in the health insurance premium assistance would be retroactive to July 1, 1992. There is no apparent public employee retirement policy rationale for making the improved retirement benefit retroactive.

Administrative Complexity. (-) Calculating the amount of the retroactive payment to each eligible annuitant will impose a material administrative burden and cost upon PSERS.

Lack of Policy Guidance. (-) The amendment provides no policy guidance to PSERS in determining how to handle complex eligibility issues associated with implementing the amendment.

COMMISSION RECOMMENDATION

On February 13, 1998, 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.

FINAL LEGISLATIVE STATUS

As Printer's Number 2956, House Bill 908 passed the House on February 10, 1998, and as Printer's Number 3689, House Bill 908 was re-referred to the Senate Rules and Executive Nominations Committee on November 23, 1998.

Bill ID: Amendment 1712 to House Bill 1289, Printer's Number 3300

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

Subject: Purchase of Service Credit for Nonschool and Nonstate Service as a Nurse for the U. S. Department of Veterans Affairs

SYNOPSIS

Amendment 1712 to House Bill 1289, Printer's Number 3300, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to permit an active member or an active multiple service member to purchase service credit for up to three years of nonschool or nonstate service as a nurse for the United States Department of Veterans Affairs or its predecessor agency, the former United States Veterans' Administration.

DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans with the designated purposes of the Public School Employes' Retirement System (PSERS) and the State Employes' Retirement System (SERS) being to provide retirement allowances and other benefits including disability and death benefits to public school and state employees. At June 30, 1997, there were 635 participating units, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and at December 31, 1996, there were 108 participating state and other organizations in SERS. Membership in the systems is mandatory for most employees. Certain other employees are not required, but are given the option to participate. At June 30, 1997, membership in PSERS included 215,077 active members, and at December 31, 1996, membership in SERS included 110,992 active members.

The Commonwealth's defined benefit pension plans have 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 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. 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 of 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.

Active members of 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.

The amendment would expand the list of purchasable nonschool and nonstate service to include up to three years of service as a nurse for the U. S. Department of Veterans Affairs. The effect of the additional service credit would be to add an amount equal to up to six percent of the highest salary to the value of the basic benefit prior to modification. For each year of service credit being purchased under the Codes, the method for calculating the member contribution to purchase service credit for nonschool or nonstate service when no other method is prescribed is the member contribution rate plus the employer normal contribution rate at the time of entry into public school or state service subsequent to the nonschool or nonstate service applied to the salary of the first year of subsequent public school or state service plus interest at the statutory interest rate of four percent a year from the date of entry into public school or state service to the date of the purchase. 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 employer over a 20-year period with payments increasing five percent a year.

In addition to the direct actuarial costs to the employers for the increased PSERS and SERS benefits under the amendment, there may be other retirement benefit costs incurred by the employers. By purchasing service credit in PSERS or SERS for nonschool or 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 the Codes, a member under age 60 must have 35 years of service credit to retire and receive a full pension. From April 2, 1998, through July 10, 1998, and from April 1, 1999, through June 30, 1999, for PSERS, and from July 1, 1998, through June 30, 1999, for SERS, a member with 30 years of service credit may retire and receive a full pension regardless of age. The amendment, therefore, would permit a 55-year-old public school employee or state employee member or multiple service member with 27 years of service to purchase three years of service credit for nonschool or nonstate service as a nurse for the U. S. Department of Veterans Affairs and immediately retire with a full pension, although the member would not be eligible for full retirement under standard Code provisions.

A member of PSERS who retires at age 62 or older with at least 15 years of service credit is entitled to health insurance premium assistance of up to $55 a month. The amendment, therefore, would permit a 62-year-old public school employee with 12 years of public school service to purchase three years of service credit for nonschool service as a nurse for the

DISCUSSION (CONT'D)

U. S. Department of Veterans Affairs and immediately retire with health insurance premium assistance in addition to an annuity.

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 50-year-old state employee with 22 years of Commonwealth service to purchase three years of service credit for nonstate service as a nurse for the U. S. Department of Veterans Affairs and immediately terminate service and receive Commonwealth fully paid medical insurance for life.

SUMMARY OF ACTUARIAL COST IMPACT

Because there is no information available on how many members will be eligible to purchase the service credit now or in the future, how much service credit they will be eligible to purchase, or the extent to which they would utilize this opportunity, the actuarial cost of the amendment cannot be estimated.

The statutory methods for calculating the member contributions to purchase the service credit of nonschool and nonstate service will result in a member paying less than 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 member. Based upon an actuarial note prepared by the consulting actuary of the Commission for another purchase of a service credit proposal, the following chart provides the estimated percentages of the cost paid by members of SERS at various entry ages and normal cost rates.

Estimated Percentage of Full Actuarial Cost paid by Member

State Employes' Retirement System

Age at Entry into Service	Normal Contribution Rate = 3.6%	Normal Contribution Rate = 7.00%	Normal Contribution Rate = 10.73%
25	23%	31%	40%
30	25%	34%	43%
35	27%	37%	47%
40	30%	40%	51%
45	32%	44%	55%
50	35%	47%	60%
55	38%	52%	65%

POLICY CONSIDERATIONS

In reviewing the amendment, 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 amendment does not conform to the recommendations in the report concerning authorizing, funding, and structuring purchases of credit for service.

Inequity of Certain Service 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 and inter-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 Nurse for the U. S. Department of Veterans Affairs. 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 expand the purchase of service credit provisions to include service as a nurse for the U. S. Department of Veterans Affairs, a type of service credit not among those recommended by the Commission.

Adequacy of Purchase Payments. The statutory method for calculating the member contributions to purchase service credit for nonschool and nonstate service when no other method is prescribed will 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 for PSERS or SERS and increased amortization payments by the employer 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 appropriate only where necessary for the purpose of equity. If the amendment were to be changed 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 employers.

Cost Effectiveness of Technical Provisions. For 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 or upon leaving employment with entitlement to a vested deferred benefit. The amendment does not limit the time within which the member must exercise the purchase option nor does it exclude the portion of the purchase payment representing employer contributions 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 will increase the costs to PSERS and SERS associated with the authorization to purchase credit for this nonschool and nonstate service.

Exclusion from Early Retirement Provisions. ( ) In order to prevent an increase in the unfunded actuarial accrued liabilities of PSERS and SERS caused by the use of the service credit purchased under the amendment to qualify for an early retirement program, the General Assembly may wish to add restrictions prohibiting the use of the service credit purchased under the amendment to qualify for a temporary early retirement window or incentive.

Restrictive Intent. ( ) As drafted, the amendment permits any active member or any active multiple service member who has previous service as a nurse with the U. S. Department of Veterans' Affairs at any time to purchase up to three years of nonschool or nonstate service credit for that service. If it is the intent of the prime sponsor to limit this purchase

POLICY CONSIDERATIONS (CONT'D)

to members who as nurses for the U. S. Veterans' Administration supervised the training of cadet nurses during World War II, the amendment should be changed to add the restriction.

COMMISSION RECOMMENDATION

On April 16, 1998, 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.

FINAL LEGISLATIVE STATUS

House Bill 1289, Printer's Number 3300, was recommitted to the House Appropriations Committee on May 6, 1998.

Bill ID: House Bill 2052, Printer's Number 2695

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

Subject: Election and Purchase of Service Credit
under Multiple Service Membership Status

SYNOPSIS

House Bill 2052, Printer's Number 2695, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code provisions on election of and purchase of service credit under Multiple Service Membership Status to:

Lengthen the time period available for members to elect multiple service membership after beginning school or State service from 30 to up to 365 days;

Provide that members electing multiple service membership may pay for any credit to be reinstated or purchased through installment payments; and

Open a window of between three and four years during which current active members, who have not elected multiple service membership but have service in both systems, may elect multiple service membership.

DISCUSSION

Multiple service membership is the combining of service in a public school system in Pennsylvania and service as an employee of the Commonwealth for retirement purposes. An individual entering one of these types of employment and its retirement system who formerly was employed in the other type of employment may request multiple service membership. The multiple service membership election is a voluntary decision on the part of the individual.

If an individual elects multiple service membership, the individual receives credit for each type of service in the respective retirement system. An individual cannot receive a combined total of service credit in the two systems of more than one year for service in any one calendar year.

The individual's record of service, contributions, and interest in each system remain in that system until the individual applies for a refund or retirement. When the individual applies for retirement, each system calculates the individual's retirement annuity for that system. The annuity is calculated based on the average of the individual's three highest years salary in either system and the individual's contributions, interest, and years of credited service in the calculating system. The amount necessary to purchase this annuity payable by the first system then is transferred to the system in which the individual was last active. The two annuities are combined into one monthly check and paid from the last system.

In some cases, the individual either withdrew contributions and interest from the first retirement system upon terminating service or had purchasable nonschool or nonstate service credit in the first retirement system that never was purchased. Upon electing multiple service membership in the second retirement system, the individual must repay the first system for any withdrawn contributions and interest in order to reinstate the service credit or purchase the nonschool or nonstate service credit.

If an individual wishes to elect multiple service membership, the individual must request multiple service membership in writing within 30 days of entering the second type of employment and its retirement system. In addition, the individual must make any payments necessary to obtain multiple service membership status within 90 days after being billed. The billing, if any is necessary, occurs shortly after electing multiple service membership. If the individual does not make an election within the initial 30 days or does not pay within 90 days of being billed, the individual is prohibited from electing multiple service or purchasing the nonschool or nonstate service at a later date unless the individual has a bonafide break in service.

Both the Public School Employes' Retirement System and the State Employes Retirement System have experienced two types of problems with the election of multiple service membership.

The one type of problem involves the 30-day election period. Some individuals choose not to elect multiple service membership and later regret the choice. Others overlook the option in the midst of other matters in the first 30 days of employment with a new employer. Still others are not, or at least claim that they were not, properly counseled regarding the option. The bill seeks to prevent this type of problem in the future by permitting the systems to choose a longer period not to exceed 365 days. The extension of the existing window of opportunity will result in an increase in employer normal cost. The bill also seeks to rectify any past problems with understanding the election option by giving all eligible active members a one-time election period of between three and four years to make the election, if they have not already done so. This provision would result in an increase in the unfunded actuarial accrued liability that will be amortized over 20 years with the amount increasing five percent each year.

The other type of problem involves the necessity of making any necessary payments within 90 days of being billed. In some cases, this is more money than the individual has available immediately in one lump sum. The bill seeks to prevent this type of problem by permitting those who elect multiple service to make the necessary payments through installment payments to the systems in much the same way as members now may pay for other nonschool or nonstate service for which they purchase service credit. Because the installment payments are made at the statutory four percent interest rate, there are costs to the extent that the actual investment earnings of the systems exceed four percent.

Public School Employes' Retirement System

	Amount
Increase in Unfunded Actuarial Accrued Liability	$16,300,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$ 0	0.00%
Amortization Payment	1,300,000	0.02%
(First year cost, increasing 5% a year for 20 years)		
Total Increase in Employer Annual Costs (First year only)	$1,300,000	0.02%

	Amount
Total Amortization Payments	$42,985,740

State Employes' Retirement System

	Amount
Increase in Unfunded Actuarial Accrued Liability	$25,900,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$1,900,000	0.45%
Amortization Payment	1,900,000	0.45%
(First year cost, increasing 5% a year for 20 years)		
Total Increase in Employer Annual Costs (First year only)	$3,800,000	0.90%

	Amount
Total Amortization Payments	$62,825,312

POLICY CONSIDERATIONS

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

Installment Payments Permitted. **(+)** The change to include installment payments, in addition to lump sum payments within 90 days of billing, proposed in the bill permits more eligible individuals to make the necessary payments to the systems to obtain multiple service membership status.

Length of Election Period for Future Members. **(-)** By increasing the election period for newly employed individuals from 30 days to up to 365 days, the proposal in the bill will provide time during which an individual can become aware of the election option and make an informed choice regarding the best personal course of action. In reviewing similar legislation in 1995, the Public Employee Retirement Commission indicated that it believed a change from a 30-day to a 90-day period provided an adequate election period.

Length of Relief Period for Current Members. **(-)** By granting a one-time election period of between three and four years for current active members, who have not elected multiple service but have service in both systems, the proposal in the bill will provide relief to any active members who did not make the election because they did not receive timely, adequate counseling upon entry into the second retirement system as well as those who could not afford to make a lump sum payment and those who chose not to make the election and now regret their choice. If the proposed 365-day election period is reasonable for newly employed individuals, the public policy reason for granting current members a three- to four-year window is not apparent.

Potential Disparity Between Systems. **(-)** Under the proposal in the bill, each system would fix, by regulation, the period, up to 365 days, during which an eligible new member could elect multiple service membership. This could result in the two systems fixing materially different time periods for similarly situated individuals.

Drafting Complexity. **(-)** The bill proposes to take effect 180 days after enactment but retroactive to the date of enactment with the one-time window expiring on the fourth December 31 coincident with or following the effective date. If the bill is enacted before July 5, 1998, the less complex approach of making it effective in 180 days with the one-time window closing on December 31, 2001, could be used.

COMMISSION RECOMMENDATION

On March 5, 1998, 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.

House Bill 2052, Printer's Number 2695, was referred to the House State Government Committee on December 10, 1997.

Bill ID: House Bill 2186, Printer's Number 2882

System: Public School Employes' Retirement System

Subject: Public School Retirees' Health Insurance Act

SYNOPSIS

House Bill 2186, Printer's Number 2882, would become the Public School Retirees' Health Insurance Act (Act) that would provide for the sponsorship and administration of a group health insurance program for certain public school retirees and other individuals, provide for the powers and duties of the Public School Employes' Retirement Board under the Act, establish the Public School Retirees' Health Insurance Fund, and provide for health insurance premium assistance to the affected individuals.

DISCUSSION

The Public School Employes' Retirement System (PSERS) is the administrator of a governmental cost-sharing multiple-employer retirement plan established by the Commonwealth to provide retirement, disability, death, and health care benefits to its members. Membership in PSERS is mandatory for substantially all full-time public school employees in the Commonwealth. Certain other employees are not required, but are given the option, to participate. At June 30, 1997, there were 635 participating units, generally school districts, area vocational-technical schools, and intermediate units in PSERS.

Under the Public School Employees' Retirement Code, health insurance premium assistance benefits are provided for retired employees who meet specified length-of-service and age requirements. To be eligible for the Health Insurance Premium Assistance Program, retired PSERS members must

have at least 24½ years of service, or

be disability annuitants, or

have at least 15 years of service and both have terminated school service and retired after attaining superannuation age.

Under the program, participating eligible annuitants receive health insurance premium assistance payments from the Health Insurance Account equal to the lesser of $55 a month or the actual monthly premium.

All administrative expenses necessary to operate the Health Insurance Premium Assistance Program are funded by the Health Insurance Account. The Health Insurance Account is credited with the contributions of the Commonwealth and the employers. For the calendar year ended December 31, 1996, the Account received $92,240,000 in contributions from the Commonwealth and employers and paid medical benefits totaling $77,564,235.

The Health Insurance Premium Assistance Program is funded on a pay-as-you-go basis, with the cost determined in the valuation process based on the expected annual disbursements and funded for one year in advance of the actual disbursements. Because the covered group of retirees is anticipated to be relatively stable and the benefit amount is not indexed, this approach should provide a reasonable estimate of the long-term cost level.

Employers' annual contributions to the Health Insurance Premium Assistance Program have been as follows:

Fiscal Year	As a % of Payroll
1998-1999	0.15%
1997-1998	0.15%
1996-1997	0.60%
1995-1996	0.62%
1994-1995	0.45%
1993-1994	0.25%
1992-1993	0.50%
1991-1992	0.50%

When the Health Insurance Premium Assistance Program was established in essentially its present form by Act 23 of 1991, PSERS already was operating a Group Health Insurance Program for annuitants who had attained age 65. Upon the creation of the Health Insurance Premium Assistance Program, PSERS evaluated its existing Group Health Insurance Program and the Health Insurance Premium Assistance Program and concluded that, to control increasing premium costs and prevent adverse selection, the Public School Employees' Retirement Board (Board) only would approve health insurance premium assistance reimbursements under the Health Insurance Premium Assistance Program to retirees who chose coverage either through one of the Board's preapproved insurance carrier programs (Health Options Program) or through an insurance carrier program offered by one of the employers participating in PSERS. Although section 8509(c) of the Code as enacted by Act 23 of 1991 speaks of a health insurance carrier approved by the Board, it is not clear that the General Assembly intended such a restrictive approval rather than the more general approval of any insurance carrier licensed to provide such health insurance in Pennsylvania. The Code does not provide for the establishment or administration of a Health Options Program.

The proposed Act would:

Establish the legal and operating authority of the Public School Employees' Retirement Board for a group health insurance program.

For the year July 1, 1998, to June 30, 1999, require the Commonwealth to contribute 0.55 percent of the total covered payroll (approximately $48 million) to the Public School Retirees' Health Insurance Fund to provide initial funding for a restricted reserve account.

For the calendar year 1999, increase the health insurance premium assistance from $55 a month to $70 a month.

Beginning, July 1, 1999, require employers to contribute 0.55 percent of payroll, subject to modification, to fund an annual inflation adjustment in premium assistance.

For the calendar year 2000, increase the health insurance premium assistance from $70 a month to $100 a month.

For the calendar year 2001 and all calendar years thereafter, grant health insurance premium assistance that cannot total less than $100 a month comprised of the basic health insurance premium assistance of $55 a month plus an annual inflation adjustment.

In any year in which the total covered payroll declines from that of the previous year, permit an increase in the employers' contribution rate adequate to retain the total employers' contributions at the same dollar amount as the previous year.

The effect of the enactment of the proposed Public School Retirees' Health Insurance Act and the operation of the existing provisions of the Code regarding the Health Insurance Premium Assistance Program would be:

The Board would have legal authority to sponsor and administer a group health insurance program for PSERS retirees that together with similar insurance sponsored by PSERS participating employers would continue to be the only insurance for which health insurance premium assistance would be made available.

A separate Public School Retirees' Health Insurance Fund would be "seeded" with about $48 million from the Commonwealth on a one time basis in fiscal year 1998-1999 and some or all of the "seeded" monies would be kept as a reserve sufficient to pay at least 50 percent of the expected claims experience of the group health insurance program that may be sponsored by the Board.

Beginning with fiscal year 1999-2000, employers will contribute 0.55 percent of payroll into the Health Insurance Account in the Public School Employees' Retirement Fund to fund the annual inflation adjustments to be provided in addition to the basic $55 a month health insurance premium assistance. These contributions would be about $50 million in 1999-2000, $52 million in 2000-2001, and $54 million in 2001-2002.

In addition, employers would continue to be required to make contributions into the Health Insurance Account to fund the basic $55 a month health insurance premium assistance. The needs of the current Health Insurance Premium Assistance Program are expected to be about $31 million in calendar year 1999, $32 million in 2000, and $33 million in 2001.

DISCUSSION (CONT'D)

Although the employer contribution for this need in fiscal year 1998-99 is 0.15 percent of payroll, it has averaged over 0.40 percent of payroll since beginning in 1991-92.

In calendar year 1999, the health insurance premium assistance would be increased to $70 a month.

In calendar year 2000, the health insurance premium assistance would be increased to $100 a month.

After calendar year 2000, the health insurance premium assistance would be the sum of $55 a month plus an inflation adjustment but total at least $100 a month. The proposal does not provide for the methods for deriving the inflation adjustment nor, more importantly, the date from which is will be measured.

SUMMARY OF ACTUARIAL COST IMPACT

The actuarial note prepared by the consulting actuary of the Commission indicates that the 0.55 percent of payroll contribution by the employers required under the proposal will be more than adequate to fund the annual inflation adjustment and will be almost enough to fund the entire health insurance premium assistance program.

Employers' Annual Costs[1]

Year	Current Program and Participants	Effect of Proposed Benefit Increases		Combined Program Benefits[1]	
		Additional Benefit to Current Participants	Total Benefit to Additional Participants	Amount	As a % of Payroll
FY 1998	$30,000,000	$48,000,000[2]		$78,000,000	0.90%
CY 1999	$31,000,000	$ 8,000,000	$1,000,000	$40,000,000	0.46%
CY 2000	$32,000,000	$26,000,000	$4,000,000	$62,000,000	0.66%
CY 2001	$33,000,000	$27,000,000	$5,000,000	$65,000,000	0.65%

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

[2] One-time "seed" funding requirement paid by the Commonwealth.

POLICY CONSIDERATIONS

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

Statutory Authority to Provide Group Health Insurance Program. **(+)** The Act would provide clear statutory authority to the Public School Employees' Retirement Board to sponsor a group health insurance program. It is unclear whether such explicit authority now exists in the Public School Employees' Retirement Code.

Intent of Health Insurance Premium Assistance Program. **( )** The policy makers of the Commonwealth must decide whether they wish the Public School Employees' Retirement Board to sponsor a group health insurance program for public school retirees and, if so, whether they wish the program and those of the participating employers in PSERS to be the sole approved sources of postretirement medical insurance coverage for which the Commonwealth provides premium assistance.

Bifurcated Statutory Provisions for One Program. **( )** The bill would enact a separate, stand alone act that would have to be read together with the Code in order to access the entire statutory framework for the postretirement health insurance program. Either the proposal in the bill should be integrated in the Code or the Code provisions regarding health insurance premium assistance should be repealed and reenacted as part of the proposal in the bill.

Funding Adequacy. **(-)** It would appear that the proposed contribution of 0.55 percent of payroll contribution for the annual inflation adjustment is more than adequate.

Lack of Specificity Regarding Computation of Annual Inflation Adjustment. **(-)** The proposal in the bill does not specify the method for deriving the annual inflation adjustment nor the date from which it would be measured.

COMMISSION RECOMMENDATION

On March 5, 1998, 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.

FINAL LEGISLATIVE STATUS

House Bill 2186, Printer's Number 2882, was referred to the House Education Committee on February 4, 1998.

Bill ID: House Bill 2187, Printer's Number 2883

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

Subject: Ad Hoc Postretirement Adjustment in Annuities and
Reduction in PSERS Member Contribution Rate

SYNOPSIS

House Bill 2187, Printer's Number 2883, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to grant ad hoc postretirement adjustments beginning July 1, 1998, and would amend the Public School Employees' Retirement Code to reduce the basic contribution rate from 6.25 percent to 5.25 percent beginning July 1, 1998, for active members employed after July 21, 1983.

The basic postretirement adjustment would be calculated based on the most recent effective date of retirement and by applying the percentage factor to the first $3,500 of annuity a month as follows:

Most Recent Effective Date of Retirement	Percentage Factor
Before July 1, 1994	6.2%
July 1, 1994, through June 30, 1995	5.5%
July 1, 1995, through June 30, 1996	4.1%
July 1, 1996, through June 30, 1997	2.3%

In addition to the basic postretirement adjustment, certain annuitants also would receive one of the following two longevity postretirement adjustments:

An annuitant whose most recent effective date of retirement is after June 30, 1969, and before July 1, 1984, and who has 20 or more eligibility points also would receive a longevity postretirement adjustment calculated as the product of 0.25 percent multiplied by the first $3,500 of annuity a month times the number of years on retirement; and

An annuitant whose most recent effective date of retirement is before July 1, 1969, and who has 20 or more eligibility points also would receive a longevity postretirement adjustment calculated as:

the product of 0.25 percent multiplied by the first $3,500 of annuity a month multiplied by the number of years on retirement between July 1, 1969, and July 1, 1989, plus

the product of 0.50 percent multiplied by the first $3,500 of annuity a month multiplied by the years on retirement before July 1, 1969.

The Public School Employes' Retirement System (PSERS) and the State Employes' Retirement System (SERS) are the administrators of governmental cost-sharing multiple-employer retirement plans established by the Commonwealth to provide retirement, disability, and death benefits for all full-time public school employees in Pennsylvania and for all employees of state government and certain independent agencies. At June 30, 1997, there were 635 participating units, generally school districts, in PSERS, and at December 31, 1996, there were 108 participating state and independent agencies in SERS. Membership in the systems is mandatory for most employees. Certain other employees are not required, but are given the option, to participate. The general annual retirement benefit is the product of two percent of the member's high three-year average salary multiplied by the member's years of service.

Ad Hoc Postretirement Adjustments

It has been the historical practice of the Commonwealth to grant periodic ad hoc postretirement increases to PSERS and SERS annuitants to reflect part of the increase in the cost of living. These ad hoc postretirement adjustments have been granted roughly every five years during the period from 1967-68 to 1994. The following sets forth the history of prior postretirement adjustments.

	Year Enacted	
No.	**PSERS**	**SERS**
1.	1967 & 1970	1968
2.	1975	1974 & 1975
3.	1979	1979
4.	1984	1984
5.	1988	1988
6.	1994	1994

The amounts of these postretirement adjustments were based roughly on one-half to two-thirds of the increase over the applicable period in the Consumer Price Index for all Urban Consumers (CPI-U), which is calculated by the Bureau of Labor Statistics of the United States Department of Labor and which is a frequently used measure of changes in the cost of living nationally. At June 30, 1997, there were 118,138 retirees currently receiving benefits from PSERS, and at December 31, 1996, there were 75,609 retirees currently receiving benefits from SERS.

Reduction in Basic Contribution Rate in PSERS

The Public School Employees' Retirement Code (Code) establishes a contributory pension plan, which means that employees must contribute as well as employers. PSERS contribution policy is set by the Code and requires contributions by active members, employers, and the Commonwealth. PSERS funding policy provides for periodic employer and Commonwealth contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate adequate asserts to pay benefits when due. At June 30, 1997, there were

214,000 active members in PSERS. Contribution rates for these active members are set by the Code. The current contribution rates, which are based on qualified member compensation, are as follows:

Active members hired before July 22, 1983	5.25 percent
Active members hired after July 21, 1983	6.25 percent

Act No. 31 of 1983 (Act) amended section 8102 of the Code to increase the basic contribution rate by 1.00 percent from 5.25 percent to 6.25 percent for members employed after July 21, 1983. At the same time, the Act amended the State Employees' Retirement Code to add section 5505.1 that required SERS members employed after July 21, 1983, to pay an additional member contribution of 1.25 percent in addition to the basic contribution rate of 5.00 percent for a total member contribution of 6.25 percent. Section 5505.1, however, provided that the additional member contribution of 1.25 percent would be made "until such time as the actuary certifies that all accrued liability contributions have been completed in accordance with the actuarial cost method. . . ." The December 31, 1992, actuarial valuation report of SERS showed that all actuarial accrued liabilities had been completed in accordance with the statute and, therefore, the additional 1.25 percent member contribution was discontinued effective July 1, 1993. No such provision was amended into the Code, although section 13 of the Act provided that "[i]ncreased contributions to the Public School Employees' Retirement Fund as a result of the increase in the basic contribution rate shall be used to improve the actuarial soundness of the fund by reducing accrued liability." The June 30, 1997, actuarial valuation report of PSERS indicates that the actuarial value of assets now exceeds the actuarial value of liabilities, which means that PSERS now is "fully funded" and has eliminated its unfunded actuarial accrued liability.

Ad Hoc Postretirement Adjustments

Public School Employes' Retirement System

	Amount
Increase in Unfunded Actuarial Accrued Liability	$654,500,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$ 0	0.0%
Amortization Payment	47,600,000	0.6%
(First year cost, increasing 5% a year for 20 years)		
Total Increase in Employer Annual Costs (First year only)[1]	$47,600,000	0.6%

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

	Amount
Total Amortization Payments	$1,573,939,415

State Employes' Retirement System

	Amount
Increase in Unfunded Actuarial Accrued Liability	$365,700,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$ 0	0.0%
Amortization Payment	24,500,000	0.6%
(First year cost, increasing 5% a year for 20 years)		
Total Increase in Employer Annual Costs (First year only)	$24,500,000	0.6%

	Amount
Total Amortization Payments	$810,115,875

Reduction in PSERS Members' Contribution Rate

	Amount
Increase in Unfunded Actuarial Accrued Liability	$17,500,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$26,500,000	0.30%
Amortization Payment	1,400,000	0.02%
(First year cost, increasing 5% a year for 20 years)		
Total Increase in Employer Annual Costs (First year only)[1]	$27,900,000	0.32%

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

	Amount
Total Amortization Payments	$46,292,335

POLICY CONSIDERATIONS

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

Design of Postretirement Adjustments. **( )** In the postretirement increases granted prior to 1984, the amount of the adjustment was set to uniformly replace one-half to two-thirds of the increase in the Consumer Price Index. The 1984 postretirement increase was designed to maximize the adjustment for long service employees and those who had been on retirement for the longest period. The 1988 postretirement increase was designed to maximize the adjustment for long service employees. The 1994 postretirement adjustment was designed to replace some of the increase in the cost of living since the 1988 postretirement increase for all retirees, with an additional adjustment for long retired, long service retirees. The formula to calculate the postretirement adjustment proposed in the bill continues the 1994 design.

Financing of Postretirement Adjustments. **(-)** The bill requires that the unfunded actuarial accrued liabilities attributable to the ad hoc postretirement adjustments be funded over a 20-year period. A 20-year period is longer than the remaining average retired lifetimes of the benefit recipients involved, meaning that a portion of the funding for benefits will be provided after the death of a significant number of the benefit recipients. A more prudent pension funding policy would provide for the liabilities of the postretirement adjustments to be amortized over a shorter period, typically ten years, and for the amortization

POLICY CONSIDERATIONS (CONT'D)

payments to be calculated on a level dollar basis. This funding policy is evident in section 202(b)(4)(iv) of the Municipal Pension Plan Funding Standard and Recovery Act, under which a municipality must amortize such an unfunded actuarial accrued liability by level dollar amortization payments over ten years.

Drafting Peculiarity. **(-)** The proposal in the bill would base longevity increases for retirees who retired after June 30, 1969, on the number of years on retirement through June 30, 1998, but limit years on retirement for retirees who retired prior to that date to the period ending July 1, 1989. The public pension policy rationale for this distinction is not apparent.

Uniformity in Benefits between PSERS and SERS **(+)** The proposal in the bill to reduce the basic contribution rate by 1.00 percent of compensation is in accordance with the General Assembly's long practice of providing substantially identical benefits to members of the two statewide systems. The additional member contribution of 1.25 percent for SERS members was removed in 1993 when SERS had eliminated its unfunded actuarial accrued liability.

COMMISSION RECOMMENDATION

On March 5, 1998, 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.

FINAL LEGISLATIVE STATUS

House Bill 2187, Printer's Number 2883, was referred to the House State Government Committee on February 4, 1998.

Bill ID: House Bill 2317, Printer's Number 3127

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

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

SYNOPSIS

House Bill 2317, Printer's Number 3127, would amend the Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988) to grant ongoing special ad hoc postretirement adjustments to certain retired municipal firefighters and police officers retroactive to January 1, 1998, 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 enacted and the Governor signed into law the Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act. The Act requires every Pennsylvania municipality that maintains a paid firefighters' or police officers' retirement system which has one or more retired or disabled members to provide special ad hoc postretirement adjustments in the pension benefits for certain retirees. The state-mandated special postretirement adjustments are provided without regard to the provision of postretirement adjustments by the individual municipal retirement systems. The formula for the adjustments in the Act as adopted in 1988 is based upon years on retirement using three benefit groupings (5—10 years, 10—20 years, and 20 or more years), and it includes a special benefit grouping for disabled retirees with less than ten years on retirement. The formula for the adjustments proposed in the bill uses an identical format except for the beginning and ending dates for the benefit groupings. The Act, as subsequently amended, requires a reduction in the special ad hoc postretirement adjustments for future 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 existing and proposed formulas. The formulas do 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 their cliff-type benefit groupings, the formulas do not provide adjustments directly related to the change in the cost of living subsequent to retirement. Also, there is no apparent justification for providing higher postretirement adjustments to certain 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. Because no new money is appropriated, the Act and the bill are, in the aggregate, unfunded mandates. The history of these payments to date is as follows:

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

The bill would, retroactive to the first municipal pension payment in 1998, grant special ad hoc postretirement adjustments to retired municipal firefighters and police officers who began receiving retirement pay before January 1, 1994, as follows:

Grant a $25 a month adjustment to retired municipal public safety employees who retired in 1988, 1989, 1990, 1991, and 1992;

Grant a $50 a month adjustment to totally disabled municipal public safety employees who retired in 1988, 1989, 1990, 1991, 1992, and 1993;

Grant a $75 a month adjustment to retired municipal public safety employees who retired in 1978, 1979, 1980, 1981, 1982, 1983, 1984, 1985, 1986, and 1987; and

Grant a $150 a month adjustment to retired municipal public safety employees who retired before 1978.

The money to pay for these additional retiree adjustments would continue to come from the proceeds of the premium tax on casualty insurance sold by out-of-state insurance companies, money that otherwise would be allocated as General Municipal System State Aid. The bill provides for municipalities to receive annual reimbursements equal to the actual benefit payments in the previous year, which will total 100% of the actuarial costs incurred to provide the retiree adjustments mandated by the bill. This funding approach impacts the GMPSSA program and recipient municipalities in several ways.

For municipalities with retired firefighters or police officers eligible for the retiree adjustments under the bill, the impacts are as follows:

- **Where the GMPSSA allocations of municipalities are "capped" at their total pension costs, the municipalities will receive:**

  1) increased GMPSSA allocations, with the increase equal to the annual actuarial costs incurred because of the retiree adjustments mandated by the bill and

  2) annual State-funded reimbursements that are equal to the actual benefit payments made in the prior year.

  With respect to funding the liabilities mandated by the bill, these municipalities will in the end have received aggregate State funding (GMPSSA and State-funded reimbursements) for the liabilities that is 200% of the liabilities incurred to provide the benefits mandated by the bill.

  With respect to the amount of aggregate State funding (GMPSSA and State-funded reimbursements) in absolute terms, under the bill these municipalities will receive increased State funding, both individually and as a group, on an annual basis and in total.

- **Where the GMPSSA allocations of municipalities are not "capped" at their total pension costs (unit-based allocations), the municipalities will receive:**

  1) decreased GMPSSA allocations, with the decrease resulting from the decrease in the unit value caused by the use of GMPSSA program revenues to fund the State-funded reimbursements and

  2) annual State-funded reimbursements under the bill that are equal to the actual benefits payments made in the prior year.

  With respect to funding the liabilities mandated by the bill, because even the decreased GMPSSA allocations will fund variable percentages of the total annual pension costs of the municipalities, including the costs incurred under the bill, these municipalities will in the end receive aggregate State funding (GMPSSA and State-funded reimbursements) that is more than 100% but less than 200% of liabilities incurred to provide the benefits mandated by the bill.

  With respect to the amount of aggregate State funding (GMPSSA and State-funded reimbursements) in absolute terms, under the bill these municipalities as a group will receive decreased State funding on an annual basis and in total.

- **Where the GMPSSA allocation is limited by statute to 25% of the total GMPSSA allocation (City of Philadelphia), the City will receive:**

  1) decreased GMPSSA allocations, with the decrease resulting from the decrease in the total GMPSSA allocation caused by the use of GMPSSA program revenues to fund the State-funded reimbursements and

  2) annual State-funded reimbursements under the bill that are equal to the actual benefit payments made in the prior year.

  With respect to funding the liabilities mandated by the bill, because even the decreased GMPSSA allocation will fund a percentage of the total annual pension costs of the City, including the costs incurred under the bill, the City will in the end receive aggregate State funding that exceeds 100% of the liabilities that it incurs to provide the benefits mandated by the bill.

  With respect to the amount of aggregate State funding (GMPSSA and State-funded reimbursements), the City will receive more than it would otherwise be eligible to receive under the GMPSSA allocation maximum specified in Act 205 of 1984.

For municipalities with no retired firefighters or police officers eligible for the retiree adjustments under the bill, the impacts are as follows:

- **Where GMPSSA allocations of municipalities are "capped" at their total pension costs, the municipalities will receive:**

  1) allocations of GMPSSA that will be the same as they would have been otherwise and

  2) no State-funded reimbursements.

- **Where GMPSSA allocations of municipalities are not "capped" at their total pension costs (unit-based allocations), the affected municipalities, which will be small in number, will receive:**

  1) decreased GMPSSA allocations, with the decrease resulting from the decrease in the unit value caused by the use of GMPSSA program revenues to fund the State-funded reimbursements and

  2) no State-funded reimbursements.

If the State-funded reimbursements were provided on the basis of the amortization costs attributable to the bill that are not paid with GMPSSA rather than on the basis of the actual benefit payments, the funding needed for the State-funded reimbursements would be reduced by approximately 20%, and the provision of aggregate state funding in excess of 100% of the costs incurred would cease. Using revenues other than the revenues otherwise dedicated to the GMPSSA program to fund the reimbursements would eliminate the inherent inequity that occurs

when GMPSSA program revenues are used to fund the reimbursements, which shifts the affected portion of the revenues from a per employee allocation to a per retiree allocation. This shift produces inequity because the ratio of employees to retirees is not constant among municipal pension plans and because there is a more direct statistical relationship between pension costs and employees than between pension costs and retirees.

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 Liabilities	$106,400,000

	Amount	As a % of Affected Payroll
Increase in Employers' Annual Costs		
Normal Costs	$ 0	0.00%
Amortization Payments[1]	15,400,000	1.78%
Total Increase in Employers' Annual Costs	$15,400,000	1.78%

	Amount
Total Amortization Payments	$154,000,000

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

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

	Amount
Projected Reimbursements for 1999	
1998 Payments under Original Act	$ 4,900,000
1998 Payments added by House Bill 2317	13,800,000
Total 1999 Reimbursements	$18,700,000

After 1999, the reimbursement payments under the original act decrease 6.0 percent a year and the reimbursement payments added by the bill decrease at 2.5 percent a year.

Because it is late in this session of the General Assembly, it is possible that there will not be enough time in which to enact the bill. If a bill proposing the same postretirement adjustments beginning January 1, 1999, were to be introduced in the next session, the consulting actuary estimates that the enactment of the bill would increase the unfunded actuarial accrued liabilities by $100,800,000, which would result in amortization payments of $14,600,000 a year for ten years and a first year increase in benefit payments of $13,500,000 a year.

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. There may be no need for the benefit increase due to the provision of cost-of-living adjustments by the local retirement system, and there may be no need for the Commonwealth reimbursement if the local retirement system is over funded. The propriety of the Commonwealth mandating municipalities to provide increased pension benefits to their employees also may be considered an encroachment upon the employer-employee relationships within municipalities.

POLICY CONSIDERATIONS (CONT'D)

Duplicative Payment by the Commonwealth. **(-)** In the case of municipalities whose allocations of General Municipal Pension System State Aid (GMPSSA) under the Act 205 of 1984 formula are "capped" at their total pension costs, the municipalities will receive increased State aid that is equal to the actuarial costs incurred by their pension funds because of the benefits mandated by the bill. The same municipalities also will receive annual State-funded reimbursements equal to the actual benefits payments made in the prior year. These municipalities will receive State funding that is double the liabilities being mandated by the bill. In the case of all other municipalities receiving both GMPSSA and the State-funded reimbursements, they will receive state funding that is more than 100% (but less than 200%) of the liabilities being mandated by the bill.

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 to municipalities to offset their employee pension costs. These annual shortfalls in state government shared revenues, which will be equal to the total annual State-funded reimbursements provided to certain municipalities under the bill, will have to be made up out of municipal tax revenues.

Inequitable Treatment of Retired 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 payment benefit increases, particularly when substantial state government shared revenue financing is involved.

Potential Statutory Conflict. **( )** The bill mandates cost-of-living increases for certain retired members of police pension funds that may exceed the limit for such increases specified in the Municipal Police Pension Law (Act 600), which governs most borough and township police pension funds. Providing language in the bill to clarify that the increases provided in the bill are to be implemented not withstanding the provisions of other statutes may be appropriate.

COMMISSION RECOMMENDATION

On November 5, 1998, 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.

FINAL LEGISLATIVE STATUS

House Bill 2317, Printer's Number 3127, was referred to the House Local Government Committee on March 12, 1998.

Bill ID: Amendment 3409 to House Bill 2408, Printer's Number 3385

System: State Employes' Retirement System

Subject: Ad Hoc Postretirement Adjustments in Annuities

SYNOPSIS

Amendment 3409 to House Bill 2408, Printer's Number 3385, would amend section 5708.5 of the State Employees' Retirement Code to grant a supplemental annuity beginning with the first monthly annuity payment after July 1, 1998, to annuitants whose most recent effective dates of retirement were after June 30, 1997, and before July 1, 1998. The supplemental annuity would be determined on the basis of the most recent effective date of retirement, payable on the first $3,500 of the annuity received per month, and calculated as 1.1 percent of the annuity.

DISCUSSION

The State Employes' Retirement System (SERS) is the administrator of a governmental cost-sharing multiple-employer retirement plan established by the Commonwealth to provide retirement, disability, and death benefits for all employees of state government and certain independent agencies. At December 31, 1996, there were 108 participating state and independent agencies in SERS. Membership in the system is mandatory for most employees. Certain other employees are not required, but are given the option, to participate. The general annual retirement benefit is the product of two percent of the member's high three-year average salary multiplied by the member's years of service.

It has been the historical practice of the Commonwealth to grant periodic ad hoc postretirement increases to annuitants of the Public School Employes' Retirement System (PSERS) and SERS to reflect part of the increase in the cost of living. These ad hoc postretirement adjustments have been granted roughly every four to five years during the period from 1967-68 to 1998. The following sets forth the history of prior postretirement adjustments.

	Year Enacted	
No.	**PSERS**	**SERS**
1.	1967 & 1970	1968
2.	1975	1974 & 1975
3.	1979	1979
4.	1984	1984
5.	1988	1988
6.	1994	1994
7.	1998	1998

The amounts of these postretirement adjustments were based roughly on one-half of the increase over the applicable period in the Consumer Price Index for All Urban Consumers (CPI-U), which is calculated by the Bureau of Labor Statistics of the United States Department of Labor and which is a frequently used measure of changes in the cost of living nationally. At December 31, 1997, there were 77,667 retirees currently receiving benefits from SERS.

The supplemental annuity proposed in the amendment departs from the historical practice of the Commonwealth. Under the amendment, an individual who retired on June 30, 1998, is given a supplemental annuity beginning the next day. In that supplemental annuities are provided to compensate for the impact of inflation on retirement benefits, the historical practice has been to grant supplemental annuities only to those who have been retired for at least one year. Under the amendment, the supplemental annuity is calculated using a percentage factor of 1.1.

There is a conflict between subsection (a) of section 5708.5 as proposed in the amendment and subsection (g) as proposed in the bill. Under subsection (g) as proposed in the bill, an annuitant eligible to receive the postretirement adjustment must have commenced receipt of an annuity prior to July 1, 1997. A member whose most recent effective date of retirement was after June 30, 1997, and prior to July 1, 1998, for whom the amended subsection (a) proposed in the amendment would provide a postretirement adjustment, will not have commenced receipt of an annuity prior to July 1, 1997. In order for the amendment to accomplish its intended purpose, the date in the definition of "eligible benefit recipient" in subsection (g) as proposed in the bill would have to be changed to July 1, 1998.

Act 88 of 1998 amended both the Public School Employees' Retirement Code and the State Employees' Retirement Code to grant ad hoc postretirement adjustments beginning July 1, 1998, to annuitants whose most recent effective dates of retirement were prior to July 1, 1997. The postretirement adjustments granted under Act 88 are different from those that would be granted by House Bill 2408, Printer's Number 3385. To prevent problems with irreconcilable statutes passed by the same General Assembly, the additional supplemental annuity proposed in the amendment would have to be proposed as a bill amending section 5708.5 as enacted by Act 88.

SUMMARY OF ACTUARIAL COST IMPACT

	Amount
Increase in Unfunded Actuarial Accrued Liability	$ 5,900,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$ 0	0.0%
Amortization Payment[1]	400,000	0.1%
Total Increase in Employer Annual Cost	$400,000	0.1%

	Amount
Total Amortization Payments	$13,226,381

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

POLICY CONSIDERATIONS

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

Design of Postretirement Adjustments. **( )** In the postretirement increases granted prior to 1984, the amount of the adjustment was set to uniformly replace about one-half of the increase in the Consumer Price Index. The 1984 postretirement increase was designed to maximize the adjustment for long service employees and those who had been on retirement for the longest period. The 1988 postretirement increase was designed to maximize the adjustment for long service employees. The 1994 postretirement adjustment was designed to replace part of the increase in the cost of living since the 1988 postretirement increase for all retirees, with an additional adjustment for long retired, long service retirees. The formula to calculate the postretirement adjustment proposed in the bill and the amendment continues the 1994 design.

Immediate Supplemental Annuity. **(-)** Under the amendment, an individual who retired on June 30, 1998, is given a supplemental annuity beginning the next day. The historical practice of the Commonwealth has been to grant supplemental annuities only to those who have been retired for a period of time sufficient to have been impacted by inflation.

Disparity in Benefit between PSERS and SERS. **(-)** The amendment and the bill only propose to grant ad hoc supplemental annuities to retired members of SERS and not to retirees of PSERS. This approach is not in accordance with the General Assembly's long practice of providing substantially identical benefits to members of the two statewide

systems. Providing no supplemental annuities to retirees of PSERS would lead to requests for parity from PSERS retirees.

Financing of Postretirement Adjustments. **(-)** The bill requires that the unfunded actuarial accrued liabilities attributable to the ad hoc postretirement adjustments be funded over a 20-year period. A 20-year period is longer than the remaining average retired lifetimes of the benefit recipients involved, meaning that a portion of the funding for benefits will be provided after the death of a significant number of benefit recipients. A more prudent pension funding policy would provide for the liabilities of the postretirement adjustments to be amortized over a shorter period, typically ten years, and for the amortization payments to be calculated on a level dollar basis. This funding policy is evident in section 202(b)(4)(iv) of the Municipal Pension Plan Funding Standard and Recovery Act, under which a municipality in the Commonwealth must amortize an unfunded actuarial accrued liability attributable to a benefit increase for retired members.

Drafting Ambiguities. **(-)**

Conflict within Proposed Section 5708.5. As drafted, the July 1, 1997—June 30, 1998, retirees whose ad hoc supplemental annuity calculation is provided for under section 5708.5(a) as proposed by the amendment would not be eligible to receive an ad hoc supplemental annuity under section 5708.5(g) as proposed in the bill. In order for the amendment to accomplish its intended purpose, the date in the definition of "eligible benefit recipient" in section 5708.5(g) as proposed in the bill should be changed to July 1, 1998.

Conflict between Enacted and Proposed Section 5708.5. As drafted, the section 5708.5 proposed in the bill conflicts with the section 5708.5 enacted by Act 88 of 1998. To prevent problems with irreconcilable statutes passed by the same General Assembly, the supplemental annuity proposed in the amendment should be proposed in a bill amending section 5708.5 as enacted by Act 88.

COMMISSION RECOMMENDATION

On September 29, 1998, 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.

FINAL LEGISLATIVE STATUS

House Bill 2408, Printer's Number 3385, was re-referred to the House Appropriations Committee on June 10, 1998.

Bill ID: House Bill 2505, Printer's Number 3376

System: Philadelphia Employees' Retirement Systems

Subject: Financing of Unfunded Actuarial Accrued Liabilities under the Economic Development Financing Law

SYNOPSIS

House Bill 2505, Printer's Number 3376, would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) in three ways.

First, the bill would define an "alternative unfunded actuarial accrued liability funding mechanism" ("funding mechanism"). A funding mechanism is defined as a method adopted by the City of Philadelphia to fund the unfunded actuarial accrued liabilities of its retirement systems using:

A service agreement with an authority established under the Economic Development Financing Law, or

The sale of some of the City's retirement systems' revenue to an authority established under the Economic Development Financing Law.

Second, if the City funds some or all of its unfunded actuarial accrued liabilities through a "funding mechanism," the bill would treat the City in the same manner as a municipality that has issued bonds or notes under the Local Government Unit Debt Act to fund an unfunded actuarial accrued liability.

Last, the bill would exclude the City's obligations to make payments under a "funding mechanism" from being considered part of the debt of the City.

DISCUSSION

Unfunded Actuarial Accrued Liabilities

A pension trust fund in which the value of the actuarial accrued liabilities exceeds the actuarial value of assets has an unfunded actuarial accrued liability. The three employees' retirement systems of the City of Philadelphia reported unfunded actuarial accrued liabilities totaling almost $2.7 billion as of July 1, 1997.

Municipal Pension Plan Funding Standard and Recovery Act

The Municipal Pension Plan Funding Standard and Recovery Act (Act 205) affects every borough, city, incorporated town, township, municipal authority, and council of governments. Act 205 requires actuarial reporting by municipal retirement systems, establishes a minimum funding standard for every municipal pension plan, provides for the allocation of General Municipal Pension System State Aid, and establishes a recovery program for financially distressed municipal retirement systems. Under Act 205, every year a municipality must budget and contribute at least the full amount of its obligation to each of its retirement systems. These obligations include both the ongoing normal cost of the retirement systems and, where applicable, the amortization contribution sufficient to amortize the unfunded actuarial accrued liability of the system by the target dates established under Act 205.

The Commonwealth imposes a tax on the premiums of casualty and fire insurance policies sold by out-of-state ("foreign") insurance companies in Pennsylvania. Act 205 establishes a General Municipal Pension System State Aid Program financed from the proceeds of the premium tax and provides for the allocation of this money to municipalities, other than counties and authorities, based on the number of full-time employees participating in municipal retirement systems. An allocation under the formula may not exceed either the total pension cost of the municipality or 25 percent of the total statewide allocation. Act 205 provides for the submission of standardized actuarial valuation reports on all municipal retirement systems every two years to the Public Employee Retirement Commission, which certifies data from these reports to the Auditor General for use in calculating General Municipal Pension System State Aid allocations.

Beginning in 1988 and continuing for a maximum of 15 years, Act 205 establishes a Supplemental State Assistance Program for municipalities participating in the Recovery Program for Financially Distressed Municipal Pension Plans. The program is financed by annual general fund appropriations not exceeding $35 million. The annual allocations under the program are to accelerate improvement in the actuarial condition of financially distressed municipal retirement systems. The amount of assistance is directly related to the degree of financial distress in the individual municipal retirement system.

Pension Bonds

In 1994 the Local Government Unit Debt Act was amended by Act 169 to permit a local government unit to issue debt for the purposes of reducing or eliminating the unfunded actuarial accrued liability in one or more of its retirement systems. The Local Government Unit Debt Act implements section 10 of article 9 of the Constitution of Pennsylvania by providing the exclusive and uniform system for the issuance of debt by affected local governments, including all boroughs, cities other than Philadelphia, towns, and townships. Act 169 did not amend the laws affecting debt of councils of governments and authorities nor did Act 169 amend the laws providing for the issuance of debt by the City of Philadelphia (the laws implementing section 12 of article 9 of the Constitution of Pennsylvania).

The effect of exercising the option to issue debt for these purposes is to exchange one kind of debt, money owed to municipal employees and their beneficiaries, for another kind of debt, money owed to bond holders, at a lower interest rate. Active and retired members of the retirement systems

and their beneficiaries benefit from the permission because a more nearly fully funded or fully funded system is more secure and has the immediate opportunity to invest all of the assets. The municipality benefits from the permission as long as the investment income rate from the assets exceeds the interest rate being paid to the debt holders.

Since the Local Government Unit Debt Act was amended to give the permission, municipalities have issued pension bonds as follows:

Date	Municipality	Amount
December 1995	City of Harrisburg	$ 35,734,415.65
December 1995	City of York	$ 31,673,834.55
February 1996	City of Allentown	$ 37,935,000.00
December 1996	City of Easton	$ 17,170,000.00
December 1996	City of Pittsburgh	$ 37,710,000.00
December 1996	City of Lancaster	$ 16,035,000.00
March 1997	City of Duquesne	$ 6,255,000.00
July 1997	City of New Castle	$ 14,650,000.00
November 1997	City of Washington	$ 10,785,000.00
December 1997	City of McKeesport	$ 24,995,000.00
December 1997	City of Harrisburg	$ 37,731,772.00[1]
February 1998	City of Pittsburgh	$255,865,000.00

[1] Refunding of December 1995 Bond Issue.

At the same time that the Local Government Unit Debt Act was amended to grant the permission, the Municipal Pension Plan Funding Standard and Recovery Act was amended to hold harmless, with respect to the receipt of state aid, a municipality, including the City of Philadelphia, that elects to use the proceeds of a debt issue to reduce or eliminate the unfunded actuarial accrued liabilities in one or more of its retirement systems.

Economic Development Financing Law

Under the Economic Development Financing Law (Law), an "authority" is an industrial and commercial development authority that is created by the governing body of a municipality under the Law. Under the Law, a "financing authority" is the Pennsylvania Economic Development Financing Authority that is created by the Commonwealth under the Law. There are 229 industrial development authorities, industrial development corporations, and economic development corporations in Pennsylvania, three of which are located in Philadelphia.

Industrial and commercial development authorities are created to promote the health, safety, morals, employment, business opportunities, economic activity, and general welfare of the people of Pennsylvania by promoting economic activity and efficiency, by alleviating or eliminating unemployment, blight, and other unhealthy conditions, and by otherwise providing public benefit and prosperity, regardless of whether the project, the project applicant, or the project user is public or private or done with a profit or not-for-profit purpose. The Law is intended to be liberally

construed and the terms "finance" and "financing" are to be given the broadest possible interpretation and include, but are not limited to, refinance and refinancing.

Industrial and commercial development authorities may obtain resources from donations and gifts, borrowing money and accepting grants and other funds from other governmental entities, and by issuing taxable and tax exempt bonds. Bonds issued by an authority are revenue bonds, and an authority cannot pledge the general credit or taxing power of the Commonwealth or any political subdivision of the Commonwealth. If, however, a political subdivision pledges some of its general credit or taxing power with respect to a specific public project, the authority may pledge the municipally pledged credit or taxing power. Because municipal pension bonds are taxable under the Internal Revenue Code, it is to be anticipated that an authority would issue the financing bonds as taxable bonds. Because industrial and commercial development authorities are precluded from pledging the Commonwealth's taxing authority toward the repayment of the debt and may pledge a municipality's taxing authority only to a limited extent under certain circumstances, authority bonds probably would need bank support. The bondholders' assurance of repayment would be the commitment of a bank toward the repayment. On the other hand, in selling bonds or notes, a municipality may pledge its taxing authority, and if it desires to enhance its credit rating, it may either use a letter of credit bank or purchase municipal bond insurance.

The Proposal

The proposal in the bill would be enacted as amendments to the Municipal Pension Plan Funding Standard and Recovery Act rather than as amendments to the statutes governing the issuance of debt by the City of Philadelphia or as a new, separate statute. Until this bill takes effect, the acts implementing section 12 of article 9 of the Constitution of Pennsylvania will have been the exclusive and uniform system for the issuance of debt by the City of Philadelphia under the Constitution. The City, financial advisors, bond counsel, underwriters, and lenders, therefore, have needed to consult only these statutes. Until this bill takes effect, the Municipal Pension Plan Funding Standard and Recovery Act will have been the exclusive and uniform system for actuarial reporting, actuarial funding, and state aid for affected local governments. It would, therefore, be more appropriate to enact those parts of the proposal that authorize the City to enter into a "funding mechanism" and exclude payment obligations under it from the definition of debt as an amendment of one of the statutes implementing section 12 of article 9 of the Constitution or as a new, separate statute authorizing Philadelphia to enter into a "funding mechanism." It also would be more appropriate to restrict the amendment of the Municipal Pension Plan Funding Standard and Recovery Act to amendments of section 404 making that section applicable to a City of Philadelphia "funding mechanism."

For many years, the City of Philadelphia, with the assistance of its financial advisors, bond counsel, and underwriters, has been going into the debt market and successfully selling municipal debt. Pennsylvania local governments affected by the Local Government Unit Debt Act have been able to sell pension bonds since December 1994. If the statutes covering the issuance of debt by the City of Philadelphia are considered not to authorize pension bonds, perhaps the authorization should be given. If, in addition or as an alternative, the use of a "funding mechanism" is to be authorized, the authorization should be either in the same issuance of debt statutes or in a new, separate statute. It is undesirable to insert into the Municipal Pension Plan Funding Standard and Recovery Act a provision excluding payments by the City under a "funding mechanism" from the

definition of debt, and most of the other provisions of the proposal in the bill needlessly complicate Act 205.

The term of existence of an industrial and development authority cannot exceed 50 years, and the authority may not issue bonds with a maturity date later than the life of the authority. The proposal in the bill provides for no other limitation on the length of time over which the City of Philadelphia would be obligated to make payments under a "funding mechanism." The payment period should be limited to not longer than the period over which the City would have amortized its unfunded actuarial accrued liability under the Municipal Pension Plan Funding Standard and Recovery Act. A longer payment period is not prudent and results in the City continuing to pay for the benefits of members and their beneficiaries after most of them have died.

In order to assure that the Public Employee Retirement Commission is able to administer the hold harmless provisions of the Municipal Pension Plan Funding Standard and Recovery Act regarding debt issued to fund unfunded actuarial accrued liabilities, the Local Government Unit Debt Act provides for the filing with the Commission of certain debt issuance documents, thus assuring timely notification of the Commission. The proposal in the bill contains no comparable requirement for notice by filing with the Commission.

The proposal in the bill would make amounts payable under the provisions of a "funding mechanism" part of the minimum municipal obligation of the City to its retirement systems. No such provision was made for the debt service for pension bonds issued under the Local Government Unit Debt Act, and debt service and similar payment obligations are not contributions to a retirement system. The amounts, like debt service, need only be taken into account for the hold harmless provisions of Act 205. There already are adequate legal provisions under the debt acts for bond holders, trustees, financiers, and other lenders to obtain and secure adequate legal protection for money provided to the City. This proposed provision distorts the meaning of the minimum municipal obligations provisions of Act 205.

The proposal in the bill apparently would make both the board of pensions and retirement and the industrial and commercial development authority persons beneficially interested in the City's retirement systems for purposes of enforcing the funding standard by mandamus action. The authority would have no beneficial interest in the retirement system. The board already is provided for under Act 205 because the board and its members serve in the position of fiduciaries with respect to the systems and members of the board are elected or appointed officials of the City. Presumably, the provision is intended to enable the authority to enforce the payment of the amounts payable under the provisions of a "funding mechanism" that the bill would make part of the minimum municipal obligation. This proposed provision distorts the meanings of persons beneficially interested and enforcement of the funding standard provisions of Act 205. If the industrial and development authority needs enforcement provisions in Act 205 for the collection of payments due under a "funding mechanism," they must be provided as separate provisions that do not distort the meaning or enforcement of the minimum municipal obligation.

Although, under the Economic Development Financing Law, an industrial and commercial development authority may finance a wide variety of "projects" and pay for a wide variety of costs of the projects," including refinancing, it is unclear whether a "project" could include the funding of the unfunded actuarial accrued liability of the City of Philadelphia even under the most liberal

DISCUSSION (CONT'D)

construction of the Law. It may be that the definition of "project" in section 3 of the Law also will have to be amended.

SUMMARY OF ACTUARIAL COST IMPACT

If the City of Philadelphia elects to reduce or eliminate the unfunded actuarial accrued liability in one or more of its retirement systems through the proposed mechanism, it will place the system on a more nearly fully funded or fully funded basis and reduce or eliminate the amortization payments it has been making toward eliminating the unfunded actuarial accrued liabilities. The City would incur debt service costs if it issues pension bonds or payment obligations if it enters into a "funding mechanism." As long as the investment earnings rate on the pension trust fund assets exceeds the interest rate on the pension bonds or payment obligations, the City and its taxpayers will benefit financially. Industrial and commercial development authority financing, therefore, will be useful only if it offers interest rates that are less than both the investment earnings rate on the pension trust fund assets and the interest rate on pension bonds available to the City on its own in the municipal bond market.

POLICY CONSIDERATIONS

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

Statutory Approach. **(-)** The bill would amend the Municipal Pension Plan Funding Standard and Recovery Act, which does not concern the issuance of debt or the entering into of financing arrangements by the City of Philadelphia. If the proposal in the bill is to be enacted, the best approach is either the amendment of one of the existing debt acts for Philadelphia or the enactment of a new, separate statute accompanied by the necessary amendments of Act 205. If neither of these two best approaches is possible, a better approach than the bill would be to amend Act 205 by adding a new chapter authorizing a "funding mechanism" and making necessary amendments to the existing provisions of Act 205. Draft wording for an Act 205 amendment to do this and deal with some of the other policy considerations is attached.

Unrestricted Payment Period. **(-)** The bill does not restrict the period during which the City would be obligated to make payments under a "funding mechanism." The payment period should be limited to not longer than the period during which the City would have amortized its unfunded actuarial accrued liability under Act 205.

Lack of Notice Provisions. **(-)** In order to assure that the Public Employee Retirement Commission is able to administer the hold harmless provisions of Act 205, it needs timely notification of the creation of a "funding mechanism" and the timely submission of various data. The bill does not contain such notice requirements and should be amended to do so.

POLICY CONSIDERATIONS (CONT'D)

Distortion of Minimum Municipal Obligation. **(-)** The bill would distort the Act 205 provisions regarding minimum municipal obligations to retirement systems by adding amounts payable under a "funding mechanism." Adequate legal remedies already exist in the debt statutes affecting the City or, if necessary, could be inserted in one of them or in a new, separate statute.

Economic Development Financing Law Definition of "Project". **(-)** It is unclear whether the definition of "project" in the Economic Development Financing Law includes the funding of the unfunded actuarial accrued liability of the City of Philadelphia. It may be necessary to amend the Law to authorize an industrial and commercial development authority to undertake such a "project."

COMMISSION RECOMMENDATION

On May 28, 1998, 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.

FINAL LEGISLATIVE STATUS

House Bill 2505, Printer's Number 3376, was referred to the House Urban Affairs Committee on April 15, 1998.

Bill ID: Amendments 3016, 3387, and 3388 to House Bill 2505, Printer's Number 3376

System: All Municipal Retirement Systems

Subject: Medical Insurance for Members of Retirement Systems, Their Spouses, and Their Dependents

SYNOPSIS

Amendment 3016 to House Bill 2505, Printer's Number 3376, would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to permit any pension plan subject to the act to pay for the expense of medical insurance coverage for its plan members if the expense of the coverage does not impair the actuarial soundness of the plan. Amendment 3388 would also permit coverage of spouses of members, and Amendment 3387 would also permit coverage of spouses of members and their dependents.

DISCUSSION

Municipal Pension Plan Funding Standard and Recovery Act

The Municipal Pension Plan Funding Standard and Recovery Act (Act 205) affects every borough, city, incorporated town, township, municipal authority, and council of governments. Act 205 requires actuarial reporting by municipal retirement systems, establishes a minimum funding standard for municipal pension plans, provides for the allocation of General Municipal Pension System State Aid, and establishes a recovery program for financially distressed municipal retirement systems.

The Proposals

The proposals in the amendments would be enacted as amendments to the Municipal Pension Plan Funding Standard and Recovery Act rather than as amendments to the various municipal codes (for example, The Borough Code, The First Class Township Code, the Municipality Authorities Act of 1945, The Second Class Township Code, and The Third Class City Code), as amendments to existing separate pension plan statutes (for example, the Municipal Police Pension Law and the Pennsylvania Municipal Retirement Law), or as a new, separate statute. Currently, the municipal codes and separate pension plan statutes are the exclusive pension plan statutes of the Commonwealth. Public employers and public employees, therefore, need to consult only one or two of these statutes to ascertain the benefit structure of their pension plan. Currently, the Municipal Pension Plan Funding Standard and Recovery Act is the exclusive and uniform statute governing actuarial reporting, actuarial funding, and State Aid allocation for affected local governments and not a statute prescribing retirement benefits. It would, therefore, be more appropriate to enact one of

the proposals either as a new, separate stand alone statute or as amendments to the existing municipal codes and pension plan statutes.

The proposals in the amendments are not clear regarding whether they intend to provide for the payment of health insurance coverage only for members who retire under an affected pension plan or whether they also cover members who terminate service with a vested benefit and active members of the pension plan. Given both the nature of municipal pension plans, under which benefits are provided for members after the members have terminated employment with the municipality that sponsors the plan, and the federal income tax considerations discussed below, it is logical to assume that the health insurance coverage provided under the proposals would apply only to members after the members have terminated employment with the sponsoring municipality and have begun receipt of their pension benefits. The amendments refer to plan members, which generally include active employees, vested former employees, and retired employees.

The proposals also are not clear regarding the actual health insurance coverage to be provided by the affected municipal pension plans. There are many types of health insurance benefits that could be provided to members under a plan. Under the language of the proposals, any benefit that is considered to be a health insurance benefit could be covered by a pension plan. For example, a plan could pay premiums to a health insurance carrier or pay actual claims submitted by plan members. If the types of health insurance coverage to be provided by the plans are to be restricted in any manner, the restrictions should be amended into the proposals.

The proposals do not specify how the cost of the health insurance coverage is to be funded and reported by the municipal pension plans. The public policy of the Commonwealth requires an actuarial cost method for funding retirement benefits. Act 205 requires municipal pension plans to use the entry age normal actuarial cost method to fund their systems, and because the proposals refer to the "actuarial soundness of the" plans, it is logical to assume that the cost of any health insurance coverage provided by the plans would be funded in the same manner as the pension benefits provided by the plans. The proposals use the phrase "provided that the expense of the coverage does not impair the actuarial soundness of the plan." An actuarially sound municipal pension plan is any plan that is being funded using an appropriate actuarial cost method. Because Act 205 mandates this funding approach, the inclusion of the proviso implies, incorrectly, that there are instances in which the plan would not be able to pay the expense of health insurance coverage for its members.

The proposals do not indicate whether the cost of the health insurance coverage to be provided by the pension plans will be included in the definition of cost for purposes of calculating the amount of General Municipal Pension System State Aid (GMPSSA) provided under Act 205. Including the health insurance cost in the calculation of GMPSSA would have the effect of reducing the allocations made to municipalities that did not provide health insurance coverage or that provided less expensive health insurance coverage.

Federal Income Tax Considerations

The Commission assumes that municipal employees' pension plans are, or will be treated by the Internal Revenue Service as if they were, qualified pension plans under section 401(a) of the

Internal Revenue Code (IRC) and, under section 501(a), exempt from federal income taxes. This status brings important tax benefits for the systems, the most important of which is that the members are not taxed each year on the retirement benefits they earn as public employees. The tax liability is deferred until the members retire, when they are taxed on the annual income from their annuities. Although, under the IRC, there are several approaches to employer funding of health insurance coverage, only one of these applies to public employees' retirement plans. IRC § 401(h) allows funding of postretirement medical insurance within a pension trust fund but with certain restrictions, *including limiting these benefits to retired employees and their families*, no use of existing pension trust fund assets to fund these benefits, separate funding and accounting for these benefits, and keeping these benefits "subordinate" to the retirement benefits, which means that the contributions to fund these benefits cannot exceed 25 percent of the contributions for all plan benefits (excluding prior-service costs) after the date on which the postretirement medical insurance benefit is established. (This last restriction could become a problem with such a potentially expensive benefit as those in the proposals.)

Active employees receiving employer-paid health insurance coverage are not subject to federal income tax on the benefit. Under IRC § 105(b), an employee can exclude from gross income amounts received from an employer, directly or indirectly, as reimbursement for expenses for medical care for the employee, the employee's spouse, and the employee's dependents. Under IRC § 106, an employee also can exclude from gross income the cost (that is, premiums paid) of employer-provided coverage under an accident or health plan. Because, under IRC § 401(h), paying for health insurance coverage for active employees out of a municipal employees' pension trust fund would subject all members of the plan (active, vested, and retired) to immediate taxation of their accrued and accruing benefits but paying for health insurance coverage for active employees out of some other, proper fund and paying for health insurance coverage for retirees out of the pension trust fund would prevent the immediate taxation of retirement benefits problem, the Commission believes that the prime sponsor intends that the proposals only provide for the payment of health insurance coverage for retirees, spouses of retirees, and the dependents of retirees (postretirement health insurance). Therefore, to prevent tax problems, the proposals should be amended to make it clear that only this restricted coverage is permitted.

The proposals permit the payment of health insurance coverage only if it "does not impair the actuarial soundness of the plan." Because, under IRC § 401(h), existing municipal employees' pension trust fund assets cannot be used to pay for postretirement health insurance coverage, the only "actuarially sound" manner to obtain the necessary assets and implement the prime sponsor's intention is prefunding this benefit using an actuarial cost method.

Postretirement Health Insurance

In general, the provision of postretirement medical insurance benefits for public employees should be approached with the knowledge that the costs are significant and likely to increase. Because it is difficult or impossible to accurately estimate the future cost of medical insurance coverage, there is considerable merit in providing a specified dollar value that currently would pay some or all of the cost of the coverage rather than providing the coverage. In this way, the municipal pension plans are not automatically subjected to the unpredictable inflation of the cost of medical insurance in the future. Also, because of the high cost involved, many employers have utilized

service requirements for eligibility or cost-sharing provisions in the design of their programs for postretirement medical insurance.

SUMMARY OF ACTUARIAL COST IMPACT

Because the proposals do not specify the design of the health insurance to be provided, the consulting actuary of the Commission assumed that the coverage provided in all instances would be a traditional plan based on Blue Cross full coverage, Blue Shield UCR 100, and Major Medical with a $250 deductible or managed care coverage based on a $10 co-pay. The consulting actuary used a single premium for the different types of coverage based upon a survey of community-rated premiums throughout the Commonwealth weighted by geography and also weighted by traditional versus managed care coverage. The premium for the health insurance coverage in the analysis of the consulting actuary:

> For single coverage is $215 a month for members prior to age 65 and $88 a month for the 65-Special Medicare supplement for members who are age 65 or older;
>
> For husband and wife coverage is $521 a month for members prior to age 65 and $176 a month for the 65-Special Medicare supplement for members who are age 65 or older; and
>
> For family coverage is $561 a month for members prior to age 65 and for parent and children coverage is $452 a month for members prior to age 65.

The actuarial assumptions utilized in the consulting actuary's calculations include an interest rate of seven percent, salary scale of five percent, mortality based upon the 1983 Group Annuity Mortality Table, and moderate turnover. For purposes of determining the annual funding requirements under the entry age normal cost method, the consulting actuary assumed an average normal retirement age of 59 and that premiums for health insurance coverage will increase at the rate of five percent a year.

AMENDMENT 3016

Health Insurance for Active, Vested, and Retired Members Only

	Amount
Increase in Unfunded Actuarial Accrued Liabilities	$1,539,000,000

	Amount	As a % of Payroll
Increase in Annual Costs		
Postretirement Coverage		
Normal Costs	$ 43,000,000	2.0%
Amortization Payments[1]	165,000,000	7.7%
Preretirement Coverage		
Active Members Premium Payments[2]	236,000,000	11.0%
Total Increase in Annual Costs	$444,000,000	20.7%

	Amount
Total Amortization Payments	$2,410,000,000

[1] First year cost only. The entire $165,000,000 a year is paid in level dollar amounts for ten years and then $76,000,000 a year is paid in level dollar amounts for another ten years.

[2] Applicable if the proposal is construed to permit the provision of health insurance coverage to active members. First year cost only. Annual costs increase five percent a year.

AMENDMENT 3387

Health Insurance for Active, Vested, and Retired Members, Their Spouses, and Their Dependents

	Amount
Increase in Unfunded Actuarial Accrued Liabilities	$2,959,000,000

	Amount	As a % of Payroll
Increase in Annual Costs		
Postretirement Coverage		
Normal Costs	$ 84,500,000	3.9%
Amortization Payments[1]	317,600,000	14.8%
Preretirement Coverage		
Active Members Premium Payments[2]	468,000,000	21.9%
Total Increase in Annual Costs	$870,100,000	40.6%

	Amount
Total Amortization Payments	$4,464,000,000

[1] First year cost only. The entire $317,600,000 a year is paid in level dollar amounts for ten years and then $147,000,000 a year is paid in level dollar amounts for another ten years.

[2] Applicable if the proposal is construed to permit the provision of health insurance coverage to active members, their spouses, and their dependents. First year cost only. Annual costs increase five percent a year.

AMENDMENT 3388

Health Insurance for Active, Vested, and Retired Members and Their Spouses

	Amount
Increase in Unfunded Actuarial Accrued Liabilities	$2,936,000,000

	Amount	As a % of Payroll
Increase in Annual Costs		
Postretirement Coverage		
Normal Costs	$ 84,000,000	3.9%
Amortization Payments[1]	315,000,000	14.7%
Preretirement Coverage		
Active Members Premium Payments[2]	440,000,000	20.6%
Total Increase in Annual Costs	$839,000,000	39.2%

	Amount
Total Amortization Payments	$4,610,000,000

[1] First year cost only. The entire $315,000,000 a year is paid in level dollar amounts for ten years and then $146,000,000 a year is paid in level dollar amounts for another ten years.

[2] Applicable if the proposal is construed to permit the provision of health insurance coverage to active members and their spouses. First year cost only. Annual costs increase five percent a year.

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

Statutory Approach. (-) The amendments would amend the Municipal Pension Plan Funding Standard and Recovery Act, which does not concern the benefit design of municipal pension plans. If the proposals in the amendments are to be enacted, the better approach is either the amendment of the statutes specifically providing the pension plans of the affected municipalities or the adoption of a separate, stand alone statute.

Unrestricted Provision of Health Insurance Coverage. (-) The proposals are not clear regarding whether they intend to provide for the payment of health insurance coverage only for members who retire under an affected pension plan or whether they also cover members who terminate service with a vested benefit and active members. To prevent serious federal income tax problems and to preserve the historic nature of municipal pension plans as the providers of benefits to members who have terminated employment, the proposals should be amended to restrict the provision of health insurance coverage to retirees and, if desired, the spouses of retirees or the dependents of retirees, or both.

Types of Health Insurance Coverage to be Provided. (-) The proposals are not clear regarding the actual health insurance coverage to be provided. If the types of health insurance coverage to be provided are to be restricted in any manner, the restrictions should be amended into the proposals.

Funding and Reporting of Health Insurance Coverage. (-) The proposals do not specify how the cost of the health insurance coverage is to be funded and reported. Specifying prefunding using the entry age normal actuarial cost method would be appropriate.

Lack of Appropriate Funding Status Threshold. (-) The phrase "provided that the expense of the coverage does not impair the actuarial soundness of the plan" is meaningless and should be deleted to avoid confusion.

Impact on State Aid. (-) The proposals do not indicate whether the cost of the health insurance coverage will be included in the definition of cost for purposes of calculating the amount of General Municipal Pension System State Aid under Act 205. Including the cost of these benefits in the definition of cost for purposes of calculating State Aid introduces substantial inequity in the municipal allocations and implements a compelling financial inducement to provide health insurance coverage.

Cost Sharing. (-) The proposals provide a benefit increase applicable to active members of municipal pension plans and, therefore, increase the normal costs of the pension plans. It may be appropriate for a portion of the cost of the benefit increase to be allocated to active members through increased member contributions.

Treatment of Proposals under the Internal Revenue Code. ( ) The General Assembly should have the health insurance coverage benefit proposed in the amendments carefully reviewed by legal counsel to ensure that the provision of these additional benefits in the manner

POLICY CONSIDERATIONS (CONT'D)

specified does not jeopardize the qualified status of municipal pension plans under the Internal Revenue Code.

COMMISSION RECOMMENDATION

On September 29, 1998, the Commission voted to attach the actuarial note to the amendments, expressing concern about the public pension policy impact of the amendments and recommending that the General Assembly and the Governor consider the policy issues identified above.

FINAL LEGISLATIVE STATUS

House Bill 2505, Printer's Number 3376, was referred to the House Urban Affairs Committee on April 15, 1998.

Bill ID: 1998 DOCUMENT 01697

System: State Employes' Retirement System

Subject: Transfer of Judicial Employees from County Employees' Retirement Systems

SYNOPSIS

1998 Document 01697 (bill), would amend the State Employees' Retirement Code to prescribe the procedures to be followed in transferring judicial employees who currently are members of the county employees' retirement systems into the State Employes' Retirement System as part of the process of making these individuals employees of the Commonwealth rather than employees of the counties, which is part of the implementation of the *Interim Report of the Master on the Transition to State Funding of the Unified Judicial System.*

DISCUSSION

Constitution and Court Cases

Effective January 1, 1969, section 1 of article 5 of the Constitution of Pennsylvania vests the judicial power of the Commonwealth in a unified judicial system. In 1985, a county brought an action for declaratory judgment seeking, among other things, to have the statutes defining its responsibility to support the county court system declared unconstitutional. After deciding that the counties of Pennsylvania had no obligations to provide such support, the Supreme Court of Pennsylvania delayed ordering the transition to state funding so that the General Assembly could formulate a plan and enact the necessary legislation to make the change to state funding. [*County of Allegheny v. Commonwealth of Pennsylvania*, 517 Pa. 65, 534 A.2d 760 (1987, reargument denied 1988), enforcement denied 534 Pa. 8, 626 A.2nd 492 (1993).] After five years, an action in mandamus was filed that sought to enforce the original order. The result in this case was an order by the Supreme Court of Pennsylvania mandating the Commonwealth to financially support the county court system as part of the constitutional requirement for a unified judicial system. [*Pennsylvania State Association of County Commissioners v. Commonwealth of Pennsylvania*, 545 Pa. 324, 681 A.2d 699 (1996).]

Master's Interim Report

As part of the process of enforcing its order, the Supreme Court appointed a master to report on how to accomplish judicial unification. The master has issued an *Interim Report of the Master on the Transition to State Funding of the Unified Judicial System.* Among other things, the master recommended that the transition to state funding be accomplished in four phases, during each of which specified court employees would be absorbed into the state payroll system.

In Phase I, which would be effective July 1, 1998, court administrators, deputy court administrators, assistant court administrators, and associate court administrators would become state employees. This group of individuals totals about 165.

In Phase II, which would be effective July 1, 2000, common pleas court judges and their personal staffs; district justices and their staffs; Pittsburgh Magistrates Court, Philadelphia Municipal Court and Traffic Court Judges and their staffs; court reporters; data processing personnel; masters, hearing officers, arbitrators, and parajudicial officials; and administrative support staff would become state employees.

In Phase III, which would become effective at a date to be determined in the future based upon experience in Phases I and II, domestic relations personnel, adult and juvenile probation and parole personnel, investigative and diagnostic services personnel, law library personnel, and miscellaneous services personnel would become state employees.

In Phase IV, which would become effective at a date to be determined in the future based upon experience in Phases I and II, clerks of court, prothonotaries, clerks of the orphans court, and registers of wills would become state employees.

An individual newly employed in one of the positions listed above after the effective date of the transition will be employed as a state employee and as a member of the State Employes' Retirement System. An incumbent in one of these positions is a member of a county employees' retirement system, and some provision must be made for the individual's retirement benefits that recognizes the membership and the individual's contractual and property rights in the benefits of the county employees' retirement system. The master recommended as follows:

> Statutorily defined pension benefits, and their concomitant funding, will be determined by the General Assembly, which should be urged to enact legislation protecting the retirement benefits of those individuals who might otherwise be adversely affected by the transition to state funding, and ensuring the financial integrity of the State Employees Retirement System. In consideration of the complexity and uniqueness of pension benefits applicable to any given employee, it will be extremely important for legislation to be enacted granting affected individuals the flexibility to exercise a variety of optional arrangements as may be necessary to protect their retirement rights and benefits in the context of their respective circumstances. Presuming such action, it is anticipated that all unified judicial system employees would ultimately transfer to membership in the State Employees' Retirement System as allowed and/or provided for by statute.
>
> An immediate need for consideration of the problems necessitating legislative action arises with assimilation of the trial court administrators group, who as county employees are members of their respective county retirement systems; membership in the State Employees Retirement system is statutorily mandated for all state employees. Options include permitting county retirement credits to be transferred to the state system or to be cashed in, alternatives offered when in 1985 various county judicial employees were transferred to the state payroll. Allowing vested

employees to remain part of their current plans, even on an interim basis, provides another option.

Interim Report at page 23.

The Proposal

As part of the process of implementing the master's report with respect to retirement system issues, the Administrative Office of Pennsylvania Courts formed an ad hoc group of advisors, consisting of representatives of the State Employes' Retirement System (SERS), the Pennsylvania Municipal Retirement System, and the Public Employee Retirement Commission, to meet with representatives of the Administrative Office. After consulting with the group, the Administrative Office developed its proposal on the pension aspects of the transfer of county employees to state employment, which the bill would enact.

All county judicial employees in each phase will be transferred as a group on a fixed date. From that date forward, all will be required to cease being active members of the county employees' retirement system and to become active members of SERS and will earn regular SERS service credit from the date of transfer. All transferred employees will have some prior county employees' retirement system service credit and some transferred employees may be SERS vestees or annuitants.

Transferred employees will have to make a one time irrevocable choice of what to do with their county employees' retirement system service credit. This choice must be made within 90 days of the date of transfer of the employees. The employees must make a one time irrevocable decision either to leave their service credit in the county retirement system as terminated employees (either as a vestee or as an annuitant) or to transfer all of their county retirement system service credit to SERS. If they choose to transfer, they will be given year for year service credit in SERS in a class of service with an appropriate multiplier that will result in a SERS annuity for that county service that is equivalent to what they would have received from the county retirement system.

If a transferred employee chooses a transfer of credit, the transfer will be effective as of the date of the transfer of the employees. To prevent a loss of benefits under the county retirement system, a transferred employee who elects to transfer county retirement system service credit will be entitled to special vesting, early retirement, superannuation retirement benefits, and defined contribution benefits.

The special vesting status will be eight years of service.

The special early retirement benefit will allow involuntary terminated employees to receive an early retirement benefit with eight years of service.

The special superannuation retirement benefit will be a superannuation age for converted service that will be age 55 with 20 years of service credit.

The special defined contribution retirement benefit will be to:

Transfer into SERS the employees' contributions to the county retirement system together with interest earned in the county retirement system to the date of the transfer,

Have the transferred amount earn 5½% interest in SERS until retirement, and

Receive the transferred amount in retirement either as an Option 4 withdrawal amount or as an amount determined as the actuarial equivalent and included as an additional part of the SERS retirement annuity.

A transferred employee who is a SERS annuitant must return to active membership in SERS and be otherwise treated as any other SERS annuitant returning to active membership. That is, the employee's SERS annuity will be stopped and a recalculation of the SERS annuity at the time of eventual re-retirement and three years of credit must be earned after the return to service in order to avoid the mandatory implementation of a "frozen present value" calculation. The employee will not be required to choose to transfer county retirement system service to SERS service, but if the employee chooses to transfer, the employee must return to SERS all SERS annuity payments for all periods of county service that are converted. The return can be made either by payment of money to SERS or through a debt and actuarial reduction at retirement. Converted service will count toward the three years necessary to "thaw" a frozen present value.

For each transferred employee who chooses to transfer service credit from a county retirement system to the SERS, the county will transfer to SERS the entire amount of the employees' contributions to the county system plus interest to the date of transfer. In addition, the county will transfer an amount to SERS as calculated by SERS that is the actuarial present value in SERS of the additional credit being transferred based upon the value of the credit in SERS at anticipated termination using SERS assumptions and factors. A county will pay the SERS actuarial assumption interest rate to SERS on the amount of the present value from the effective date of the conversion to the date of money transfer. A county must transfer the employee's contributions and the present value amount to SERS no later than the last day of the fourth full calendar quarter after the date the employee elects to transfer county service credit. If a transferred employee terminates Commonwealth service before the money is transferred from the county, the payment for that employee from the county to SERS is accelerated.

An individual newly employed in a position after it has been transferred will be a state employee and a member of SERS with standard retirement benefits under the State Employees' Retirement Code (Code). If the newly employed individual served as a county employee at some earlier time and still is entitled to benefits under a county employees' retirement system, the individual will retain those rights but cannot obtain service credit in SERS for the county service or receive any rights for that service under the Code.

SUMMARY OF ACTUARIAL COST IMPACT

Because SERS will be receiving amounts equal to the actuarial present values of all service credits transferred into SERS, the bill will impose no actuarial gain or loss upon SERS. Because a county will have to transfer an amount equal to the present values in SERS of the service credits being transferred, which probably will not be the actuarial present value of the service in the county employees' retirement system, a county may experience either an actuarial gain or an actuarial loss on the transfers in any given phase.

Although the transfer of service credits will impose no direct actuarial cost on the Commonwealth, there may be other retirement benefit costs incurred by the Commonwealth. By transferring service credits, judicial employee members either may become eligible for other postretirement benefits sooner than otherwise or may achieve eligibility when the member could not otherwise do so. Conversely, counties may experience gains by no longer having to provide certain other postretirement benefits to the transferred employees.

POLICY CONSIDERATIONS

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

Outstanding Domestic Relations Orders. **( )** The bill does not address the issue of outstanding domestic relations orders. Unless the intent is to simply permit the individual situations to be resolved by the courts, policy makers should consider either allowing, or requiring, amended orders or "grand fathering" all existing orders even if the existing orders do not meet the federal criteria for Qualified Domestic Relations Orders or the Code criteria for Approved Domestic Relations Orders.

Termination of Retirement Benefit Rights. **(-)** The bill would require all transferred judicial employees to cease active membership in their county employees' retirement systems and to become active members of SERS. As the Master observed, it is "extremely important for legislation to be enacted granting affected individuals the flexibility to exercise a variety of optional arrangements as may be necessary to protect their retirement rights and benefits in the context of their respective circumstances." By prohibiting continued active membership in county retirement systems for transferred employees, the bill may be terminating retirement benefit rights that traditionally have been viewed in Pennsylvania as constitutionally protected contractual and property rights.

Complex Solution. **(-)** The transfer of existing county judicial employees to Commonwealth employment necessarily involves complex issues. The bill offers one solution that probably is more complex than necessary. A less complex alternative would require all new employees to become members of SERS while transferred employees could either remain as active members in the county retirement system with the Commonwealth paying the employer's contribution to the system or to vest in the county retirement system and become active members of SERS. As the Master observed, "Allowing vested employees to remain part of their current plans, even on an interim basis, provides another option."

Lack of Enforcement Provisions. (-) The bill lacks provisions enabling SERS to enforce collection of payments due to the system from a county employees' retirement system or its sponsoring county. Failure to collect amounts due SERS will result in an actuarial loss to SERS that will have to be paid by all participating employers and also will result in an actuarial gain for the defaulting county employees' retirement system that will reduce its county's employer contribution requirements. The bill should be amended to provide SERS with explicit enforcement powers.

Lack of Companion Bills. (-) Presumably there will be companion bills to implement the Master's *Interim Report* by amending the Judicial Code and other statutes of the Commonwealth that are not retirement related. In addition, however, the bill should be accompanied by companion bills amending the County Pension Law, the Pennsylvania Municipal Retirement Law, the Second Class County Code, and the statute regarding Philadelphia judicial employees by making necessary changes in those statutes needed to implement the proposal in the bill. Otherwise, counties will have to take their guidance solely from the Code and, relying upon the rules of statutory construction in the case of conflicting statutes, do things that are inconsistent with the statutes authorizing and establishing their retirement systems.

Technical Problems. (-)

Nomenclature. The proposed terms "county accumulated deductions," "county contributions" and "county contributions annuity" would be less confusing if some such terms as "county employee's accumulated deductions," "county employee's contributions" and "county employee's contribution annuity" were to be used.

Contributions for Incomplete Payments to County Retirement Systems. Proposed section 5504.1 prohibits increasing the payment frequency or shortening the period for contributions to SERS from that originally set by the county retirement system for the completion of payments to a county retirement system. If this provision is intended only to prohibit the SERS Board from increasing the frequency or shortening the time period, the intent should be clarified. As the provision is written, it also would appear to prohibit the member from voluntarily choosing to increase the frequency or shorten the payment period.

Contributions Transferred by County Retirement Systems. Proposed section 5507(c) should be amended so that the phrase "transfer to the board the actuarial liability" in the first sentence reads "pay to the board an amount equal to the actuarial liability."

Responsibility to File Election with Board. In sections 5303.1(b), 5906(e.1), 5907(b), and others, the bill fails to treat in a consistent manner the responsibility to file with the board a transferred member's election to transfer county retirement system service credit to SERS. The filing with the board should be required of either the member or the department head.

POLICY CONSIDERATIONS (CONT'D)

Payment Deadline. The bill requires a county to transfer the prescribed amount of money not later than the last day of the fourth full calendar quarter after the date the employee elects to transfer county service credit. Because the transferred employee has a 90-day period during which to make the election, there could be as many as 90 separate payment deadlines. Presumably SERS will invoice a county for all transferred employees only once or, at most, a few times. To prevent multiple payment deadlines, the bill should be amended to require payment within one year of date of the SERS invoice.

COMMISSION RECOMMENDATION

On May 29, 1998, 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.

FINAL LEGISLATIVE STATUS

1998 Document 01697 never became a bill. A somewhat different and more limited proposal was introduced as Senate Bill 3, Printer's Number 2315, and referred to the Senate Rules and Executive Nominations Committee on November 24, 1998.

PART II

PUBLIC EMPLOYEE RETIREMENT SYSTEM ADMINISTRATION

A. ACT 205 of 1984

1997 Filing Period

March 31, 1998, was the deadline for the 1997 municipal pension plan reports. Of the 4,500 local governments submitting questionnaire responses, 1,839 indicated that they had established one or more pension plans. About 126 of the local governments required to submit employee pension plan reports failed to meet the statutory filing deadline. Through transmitting multiple delinquency notices, the Commission was able to significantly reduce the number of delinquent local governments that were not included in the initial certification to the Department of the Auditor General on August 15th. Only 28 municipalities remained delinquent as of the date of initial certification. As of December 31, 1998, only 4 municipalities remained delinquent in submitting their 1997 employee pension plan reports, and the Commission was actively engaged in enforcing the reporting requirements.

With 75% of the over 2,900 municipal pension plan actuarial valuation reports received near the filing deadline, the Commission utilized its computer assisted review procedures to expedite the review of the incoming reports. The data extracted from the reporting forms was verified using electronic data processing. The Commission will issue its Status Report on Local Government Pension Plans based on the 1997 Act 205 data early in 1999.

Municipal Pension Cost Certification

In the summer of 1998, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 1998 allocation of General Municipal Pension System State Aid. In 1998, the state aid provided to municipalities to offset their employee pension costs totalled $129.2 million. Calculation of the municipal pension cost data for the 1,300 municipalities was accomplished through the municipal employee pension plan data base that is maintained by the Commission through the data extracted from the over 2,900 pension plan reports submitted by municipalities.

Recovery Program

The Commission determined the 1998 distress scores for 47 municipalities participating in the Financially Distressed Municipal Pension System Recovery Program and transmitted distress determination notices to the affected municipalities. In October of 1998, the Commission also certified the payment of $708,000 in Supplemental State Assistance for 1998 and notified the Governor and General Assembly that a $113,000 appropriation would be needed to provide the Supplemental State Assistance payable in December of 1999.

Recovery Program (Cont'd)

In the fall of 1998, the Commission transmitted filing notices and reporting forms to the 19 municipalities required to submit 1998 actuarial valuation reports for their employee pension plans due to their participation in the Supplemental State Assistance Program.

B. ACT 293 of 1972

1998 Filing Period

The Commission transmitted filing notices and reporting forms to the 66 counties required to submit employee pension plan reports for 1998. The reports are due March 31, 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.

Status Report on Local Government Pension Plans

During the second half of 1998, research began on the Commission's seventh 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. The research will be completed during the first half of 1999. The report will be a summary and analysis of municipal employee retirement system actuarial valuation reports as of January 1, 1997, submitted to the Commission under the Act and of county employee retirement system actuarial valuation reports as of January 1, 1996, submitted to the Commission under Act 293 of 1972. The data in the report will be extracted from the individual pension plan reports containing actuarial, financial, and demographic information. The report will contain both the Commission's comments on trends or conditions and the associated recommendations of the Commission.

C. STATEWIDE PUBLIC EMPLOYEE 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 September 1998 and of the State Employes' Retirement System (SERS) in November 1998.

Commission's Review of the PSERS Actuarial Valuation Report

At the September 29, 1998, meeting of the Commission, the staff presented and briefly reviewed the June 30, 1997, Actuarial Valuation Report of the Public School Employes' Retirement System issued January 16, 1998, 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 8.76% for fiscal year 1997-1998 to 6.04% for fiscal year 1998-1999. The decrease of 2.72% is due to the following reasons:

  - Decrease due to actuarial gains on assets (2.38%)
  - Decrease due to actuarial gains on liabilities (0.34%)

  Total: (2.72%)

- The contribution rate includes 5.89% of payroll for pension benefits plus .15% of payroll for the health insurance premium assistance program.

Changes in Employer Contribution Rates

	Fiscal Years			
	95/96	96/97	97/98	98/99
Normal Cost Rate	6.43%	6.44%	6.44%	6.33%
Health Care Rate	.62%	.60%	.15%	.15%
Unfunded Accrued Liability	4.67%	3.56%	2.17%	(0.44%)
Total:	11.72%	10.60%	8.76%	6.04%

Commission's Review of the PSERS Actuarial Valuation Report (Cont'd)

Reasons for Decrease in Unfunded Accrued Liability

• Gain from investment return on actuarial value of assets	($2,623,363)
• Gain from salary increases less than expected	(306,435)
• Gain from retirement and other separation experience	(58,667)
• Loss from annuitants' mortality experience	37,596
Total:	($2,950,869)

Demographics

- The number of active members increased by 1,171.
- The number of annuitant and survivor annuitant members increased by 5,398.

The Commission reviewed this report with Mr. Arthur J. Granito, Assistant Executive Director, Mr. James Grossman, Assistant Chief Investment Officer, and Ms. Lynn Hill, Consulting Actuary, of the Public School Employes' Retirement Commission.

SUMMARY OF ACTUARIAL VALUATION
PUBLIC SCHOOL EMPLOYES' RETIREMENT SYSTEM
as of
June 30, 1997

The following is a summary of the June 30, 1997, actuarial valuation of the Public School Employes' Retirement System and a comparison of the 1997 results with those of 1996.

	6/30/96	6/30/97
Membership		
Active Members	213,906	215,077
Inactive and Vested Members	39,743	40,028
Retired Members	108,164	113,094
Disabled Members	4,843	5,043
Survivors and Beneficiaries	5,719	5,987
Payroll and Annuities Payable		
Total Annual Payroll	$7,616,585,000	$7,745,001,000
Annual Annuities and Benefits	$1,295,013,000	$1,447,037,000
Valuation Data		
Accrued Liability	$31,629,822,000	$33,209,493,000
Assets[1]	30,170,885,000	34,872,643,000
Unfunded Accrued Liability	$ 1,458,937,000	$(1,663,150,000)
Fund Ratio	95.4%	105.0%

Funding Costs				
Normal Cost	$ 920,845,127	12.09%	$930,949,120	12.02%
Amortization[2]	165,279,894	2.17%	(34,078,004)	(.44%)
Full Actuarial Funding	$1,086,125,021	14.26%	$896,871,116	11.58%
Support				
Member	$ 430,337,053	5.65%	$440,690,557.0	5.69%
School District	327,893,984	4.305%	228,090,279.5	2.945%
Commonwealth	327,893,984	4.305%	228,090,279.5	2.945%
Total Support[3]	$1,086,125,021	14.26%	$896,871,116.0	11.58%

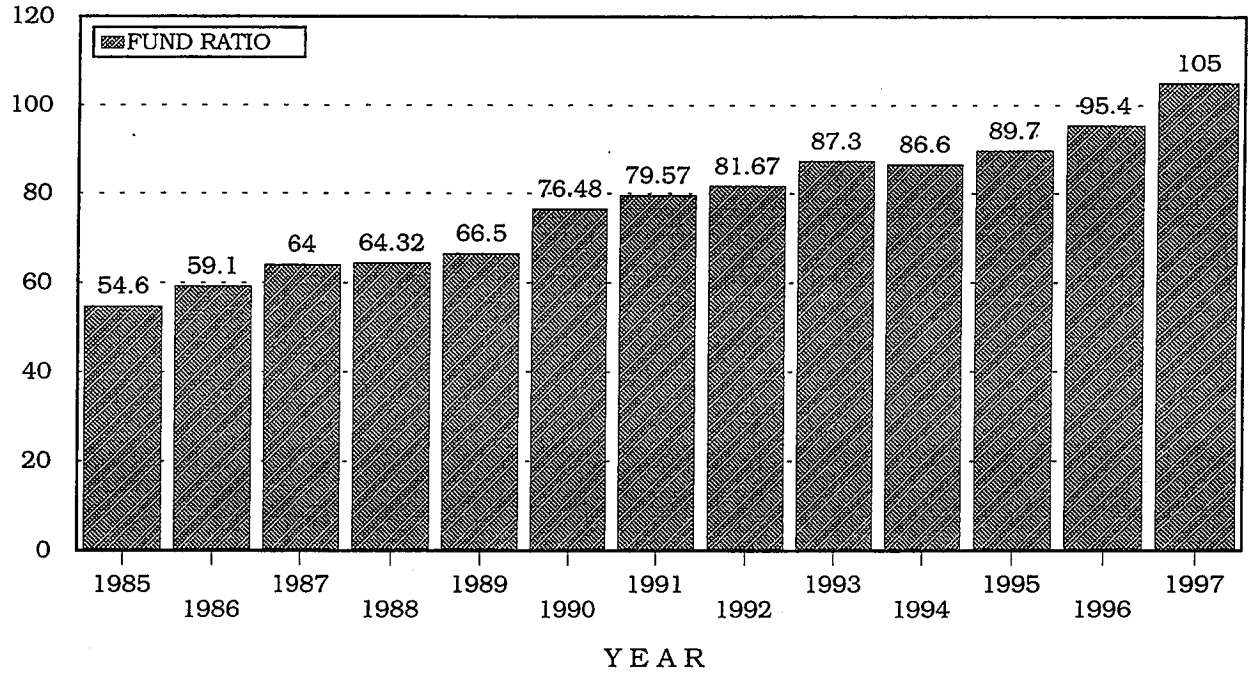
EXPLANATORY FOOTNOTES

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

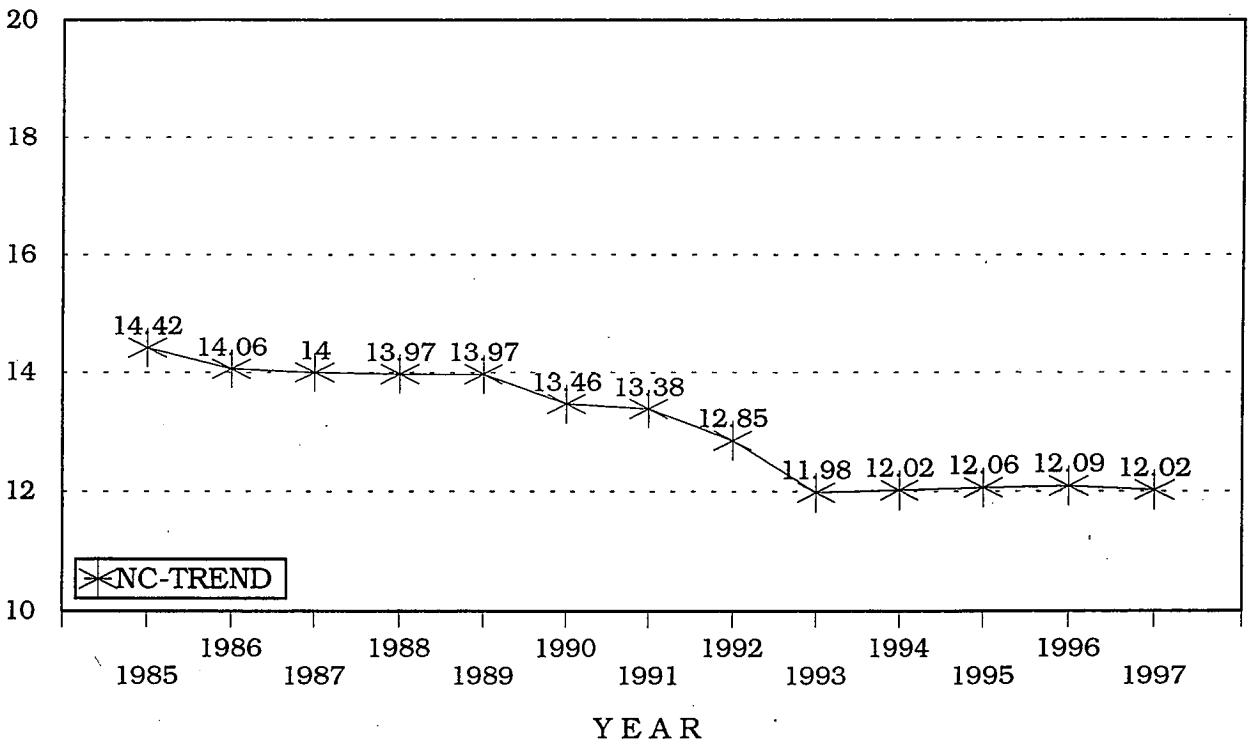
2. Act 23 of 1991 established payment for additional liabilities to be payable over a twenty-year period with the dollar amount of the annual payment increasing at five percent per year over the twenty-year period.

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

PSERS FUNDING RATIO TREND



PSERS NORMAL COST TREND



Commission's Review of the SERS Actuarial Valuation Report

At the November 5, 1998, meeting of the Commission, the staff presented a summary of the December 31, 1997, Actuarial Valuation Report of the State Employes' Retirement System issued May 6, 1998, and reviewed some significant facts concerning the condition of the system since the prior valuation.

- **Summary of Changes**

  — The employer contribution rate will be 6.7 percent of payroll. This is a .58 percent decrease from the previous year's contribution rate.

  — The following elements affected the *employer contribution rate:*

	Normal Cost	Unfunded Liabilities	Total
➤ Gain from investment earnings		(1.40%)	(1.40%)
➤ Change in demographics of new entrants	0.05%	(0.04%)	0.01%
➤ Pay increase different than assumptions		(0.14%)	(0.14%)
➤ Inclusion of step-rate bonus in retirement pay	0.05%	0.10%	0.15%
➤ Supplemental annuities		0.82%	0.82%
➤ Other differences between actual experience and actuarial assumptions		(0.02%)	(0.02%)[1]
➤ Total Change	0.10%	(0.68%)	(0.58%)
December 31, 1997, Valuation	8.99%	(2.29%)	6.70%

  — The following elements affected the amount of the *unfunded liability*:

➤ Gain from investment earnings	$ (814,467,624)
➤ Change in demographics in new entrants	(23,754,025)
➤ Pay increase different than assumptions	(83,252,525)
➤ Inclusion of step-rate bonuses in retirement pay	58,596,837
➤ Supplemental annuities	478,000,000
➤ Other differences from assumptions	22,669,803[1]
➤ Total Change	$ (362,207,534)
December 31, 1997, Unfunded Liability	$(1,276,722,507)

[1] The valuation's analysis of the employer contribution rate indicates that *differences from assumptions* produced a gain, while the valuation's analysis of the change in the unfunded liability indicates that *differences from assumptions* produced a loss.

Commission's Review of the SERS Actuarial Valuation Report (Cont'd)

The Commission reviewed this report Mr. John Brosius, Executive Director, Mr. Dale H. Everhart, Assistant Executive Director, Mr. John C. Winchester, Director of Public Markets, and Mr. Edwin C. Hustead, Consulting Actuary, of the State Employes' Retirement System.

SUMMARY OF ACTUARIAL VALUATION
STATE EMPLOYES' RETIREMENT SYSTEM
as of
December 31, 1997

The following is a summary of the December 31, 1997, Actuarial Valuation of the State Employes' Retirement System and a comparison of the 1997 results with those of 1996.

	12/31/96	12/31/97
Membership		
Active	110,922	108,684
Inactive	4,379	4,643
Retired	70,668	72,485
Disabled	4,941	5,182
Survivors and Beneficiaries	7,477	7,790
Payroll and Annuities Payable		
Total Annual Payroll	$3,975,373,256	$4,013,265,384
Annual Annuities and Benefits	$ 749,274,115	$ 801,778,597
Valuation Data		
Accrued Liability	$15,936,616,670	$17,288,412,994
Assets [1]	16,841,069,047	18,565,135,501
Unfunded Accrued Liability	$ (904,452,377)	$(1,276,722,507)
Funding Ratio	105.7%	107.4%

Funding Costs

	12/31/96		12/31/97	
Normal Cost [2]	$552,179,345	13.89%	$561,455,827	13.99%
Amortization [3]	(64,003,509)	(1.61%)	(91,903,777)	(2.29%)
Full Actuarial Funding	$488,175,836	12.28%	$469,552,050	11.70%

Support

	12/31/96		12/31/97	
Member	$198,768,663	5.00%	$200,663,269	5.00%
Commonwealth	289,407,173	7.28%	268,888,781	6.70%
Total Support	$488,175,836	12.28%	$469,552,050	11.70%

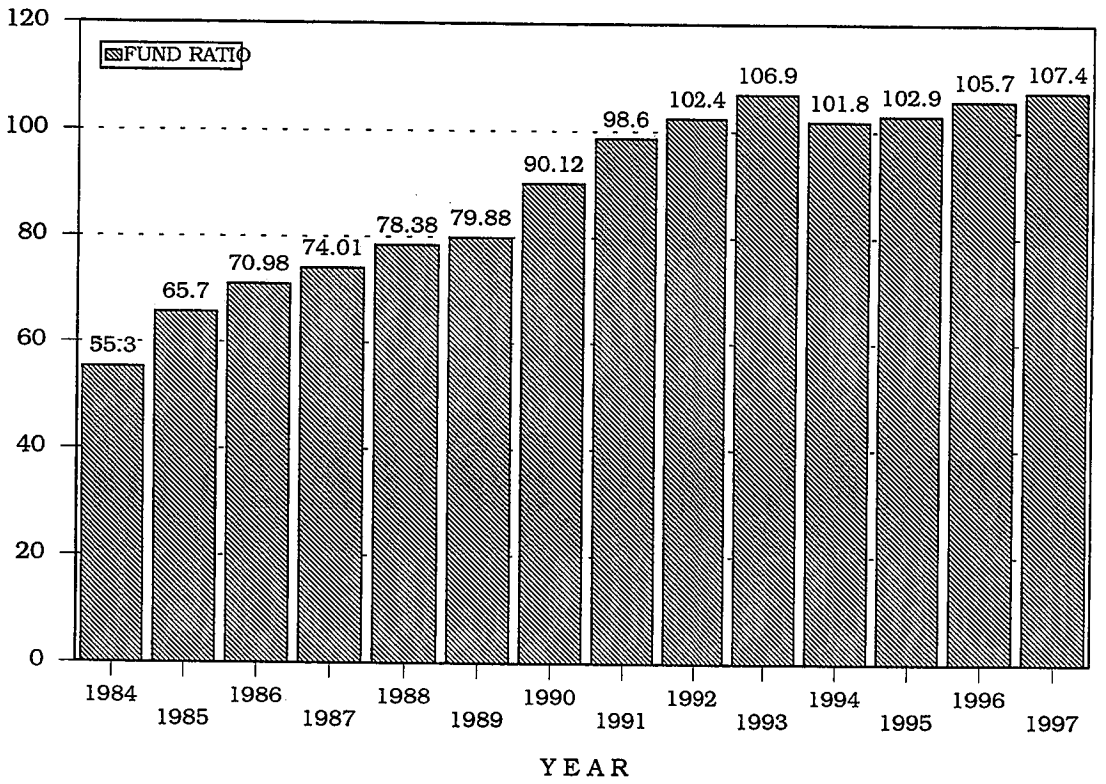
EXPLANATORY FOOTNOTES

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

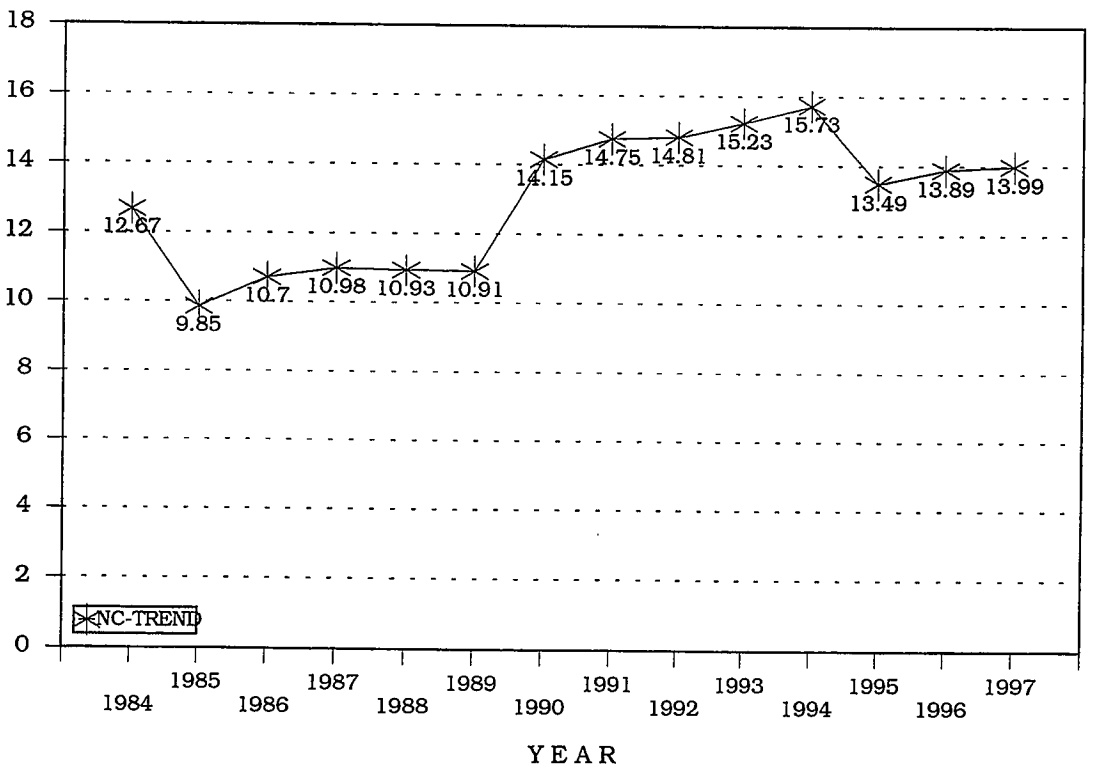
2. The State Employes' Retirement Code requires that the employer normal contribution rate be based on the level percentage of payroll normal cost determined under the entry age normal actuarial cost method for the average new member less the portion of the cost to be funded by member contributions.

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.

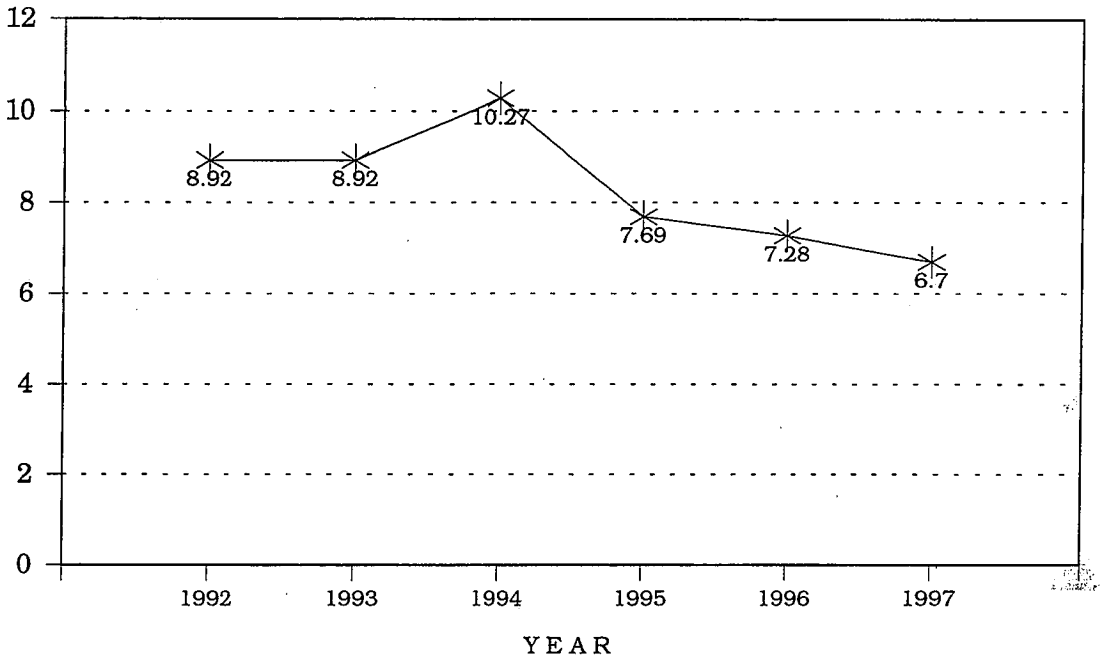
SERS FUNDED RATIO TREND



SERS NORMAL COST TREND



SERS EMPLOYER CONTRIBUTION RATE



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 1998 and their sponsoring organizations were as follows:

MUNICIPAL PENSION ADVISORY COMMITTEE

Mr. Pedrick M. Young, Sr. - Chairman
PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP COMMISSIONERS

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

Ms. Susan Trout
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. Douglas E. Bilheimer
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 1998 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, 1998

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 2 P. N. 1571 (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 Reported as committed Re-referred to Senate Appropriations Committee Re-reported as committed Second Consideration Amended and Passed Senate (37-10) Referred to House Finance Committee	01/29/97 02/04/97 02/04/97 02/05/97 02/05/97 02/10/97 02/12/97
S. B. 3 P. N. 2315 (Jubelirer)	Judicial Code and SERS, providing for the transfer of county-level court administrators from county to Commonwealth and the transfer of their annual leave, sick leave, and retirement benefits	Referred to Senate Rules and Executive Nominations Committee	11/24/98
S. B. 4 P. N. 702 (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 P. N. 42 (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 P. N. 45 (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 P. N. 54 (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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 58 P. N. 57 (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
S. B. 59 P. N. 58 (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 P. N. 65 (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 P. N. 66 (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 P. N. 77 (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 P. N. 84 (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 P. N. 104 (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 P. N. 109 (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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 114 P. N. 111 (Mowery)	Volunteer Firefighters' Relief Association Act, permitting volunteer firefighters' relief associations to establish money purchase deferred benefit plans	Referred to Senate Finance Committee	01/21/97
		Actuarial Note (P. N. 111)	02/26/97
		Reported as committed	04/02/97
		Re-referred to Senate Appropriations Committee	04/08/97
		Re-reported as committed	04/28/97
		Second Consideration	05/13/97
		Re-referred to Senate Rules and Executive Nominations Committee	
		Re-reported as committed	06/17/97
		Laid on the Table	02/09/98 03/18/98
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	06/03/97
		Second Consideration	06/03/97
		Passed Senate (49-0)	06/04/97
		Referred to House Intergovernmental 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 committed	06/11/97
		House concurred in Senate amendments to House amendments (137-57)	06/11/97
		Act 1997-22	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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
		Re-referred to House Appropriations Committee	06/03/97 06/10/97
		Re-reported as committed	06/10/97
		Second Consideration	06/11/97
		Amended and Passed House (132-67)	
		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 06/18/97
		Act 1997-18	
S. B. 129 P. N. 126 (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 P. N. 127 (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 P. N. 139 (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. 233 P. N. 311 (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 P. N. 239 (Bell)	An act requiring Commonwealth funds to award brokerage service contracts by competitive bidding	Referred to Senate Finance Committee	01/29/97
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 employee retirement system funds in corporations incorporated in this Commonwealth	Referred to Senate Local Government Committee	01/29/97

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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.2028 (Mowery)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205), (1) 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, (2) correcting a problem in the allocation formula for Supplemental State Assistance (SSA) by requiring that SSA allocation be based on what should have been contributed rather than on what actually was contributed, (3) adding a new chapter to permit the City of Pittsburgh to modify its statutorily prescribed funding standard, if during 1998 the City sells enough pension bonds and deposits the proceeds of the bonds into its pension trust funds to increase the fund ratio by more than 25%, by modifying the 26 years remaining on its current 40-year level percentage of payroll amortization payments by implementing a new 40-year level dollar amortization payment schedule, and (4) defining a "funding mechanism" as a method adopted by the City of Philadelphia to fund the unfunded actuarial accrued liabilities of its retirement systems using either a service agreement with an authority established under the Economic Development Financing Law or the sale of some of the City's retirement systems' revenue to an authority established under the Economic Development Financing Law, treating the City, if it funds some or all of its unfunded actuarial accrued liabilities through a "funding mechanism," in the same manner as a municipality that has issued debt under the Local Government Unit Debt Act to fund an unfunded actuarial accrued liability, and excluding the City's obligations to	Referred to Senate Finance Committee **Actuarial Note** (P. N. 283) Reported as amended Re-referred to Senate Appropriations Committee **Commission Letter** (P. N. 932) Re-reported as committed Second Consideration Passed Senate (49-0) Referred to House Finance Committee Reported as committed Re-referred to House Appropriations Committee **Commission Letter** (P. N. 932, A. 4675) **Commission Letter** (P. N. 932) **Commission Letter** (P. N. 932, A. 4675) Re-reported as amended Second Consideration Passed House (193-0) Re-referred to Senate Rules and Executive Nominations Committee **Actuarial Note** (P. N. 1521, A. 0794) Re-reported on concurrence, as amended Senate concurred in House amendments as amended by the Senate (50-0) Re-referred to House Rules Committee **Commission Letter** (P. N. 1987 as amended by A. 2965) Re-reported on concurrence, as amended House concurred in Senate Amendments, as amended by the House (198-0) Re-referred to Senate Rules and Executive Nominations Committee Re-reported on concurrence, as committed Senate concurred in House amendments to Senate amendments (48-0) Act 1998-82	01/29/97 02/26/97 04/02/97 04/08/97 04/09/97 06/02/97 06/09/97 06/16/97 06/17/97 11/26/97 11/26/97 12/01/97 12/02/97 12/02/97 12/08/97 12/08/97 12/10/97 01/06/98 03/05/98 05/04/98 05/05/98 05/05/98 06/01/98 06/01/98 06/01/98 06/01/98 06/09/98 06/09/98 06/18/98

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	make payments under a "funding mechanism" from being considered part of the debt of the City		
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 **Actuarial Note** (P. N. 286, A. 3688)	01/29/97 11/05/98
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 employee benefit programs covering social security or retirement	Referred to Senate Finance Committee Reported as committed Re-referred to Senate Appropriations Committee	01/29/97 03/11/97 03/12/97
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	Referred to Senate Local Government Committee Reported as committed Re-referred to Senate Rules and Executive Nominations Committee Re-reported as committed Second Consideration Re-referred to Senate Appropriations Committee Re-reported as committed Third Consideration Amended and Passed Senate (47-0) Referred to House Local Government Committee **Commission Letter** (P. N. 1471, A. 4716) Reported as amended Re-referred to House Appropriations Committee **Commission Letter** (P.N. 1515) **Commission Letter** (P. N. 1515, A. 4987) Re-reported as amended Second Consideration **Commission Letter** (P. N. 1515,	02/06/97 06/17/97 06/17/97 09/22/97 09/29/97 09/29/97 10/20/97 10/27/97 11/18/97 11/21/97 11/25/97 11/26/97 11/26/97 12/01/97 12/08/97 12/08/97 12/08/97

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	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 member would be entitled to receive had the member continued to be employed until age 60	A. 5134) **Commission Letter** (P. N. 1522. A. 5222) Passed House (124—71) Referred to Senate Rules and Executive Nominations Committee Re-reported on concurrence as committed Senate concurred in House Amendments (29—20) Act 1998-1	12/09/97 12/09/97 12/09/97 12/10/97 01/20/98 01/20/98 01/27/98
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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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. 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 **Actuarial Note** (P. N. 742)	03/13/97 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 **Actuarial Note** (P. N. 753)	03/14/97 04/16/98
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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 794 P. N. 850 (Greenleaf)	Public School Code of 1949, repealing provisions permitting strikes and lock-outs and providing for final best-offer arbitration instead	Referred to Senate Labor and Industry Committee	04/01/97
S. B. 803 P. N. 2074 (Rhoades)	PSERS and SERS, permitting purchase of up to 3 years of service credit for nonschool and nonstate service as a nurse for the U.S. Department of Veterans Affairs, and PSERS only, granting an additional period expiring 12/31/99 during which members who were placed on mandatory maternity leaves before 05/17/75 may purchase up to 2 years of service credit for this nonschool service, and requiring sponsorship of a group health insurance program for annuitants, spouses of annuitants, survivor annuitants, and their dependents paid 50% by the Commonwealth and 50% by the participants	Referred to Senate Finance Committee Reported as amended Re-referred to Senate Appropriations Committee Re-reported as amended Second Consideration **Actuarial Note** (P. N. 1807) Passed Senate (48-0) Referred to House State Government Committee Reported as committed **Commission Letter** (P. N. 1819, A. 3106) Second Consideration Re-referred to House Appropriations Committee **Commission Letter** (P. N. 1819) **Commission Letter** (P. N. 1819, A. 3105) **Commission Letter** (P. N. 1819, A. 3110) **Commission Letter** (P. N. 1819, A. 3122) **Commission Letter** (P. N. 1819, A. 3132) **Commission Letter** (P. N. 1819, A. 3133) **Commission Letter** (P. N. 1819, A. 3215) Re-reported as committed Amended and Passed House (186-0) Referred to Senate Rules and Executive Nominations Committee **Actuarial Note** (P. N. 1819, A. 3132) **Actuarial Note** (P. N. 1819, A. 3185)	04/01/97 03/18/98 03/18/98 03/23/98 03/23/98 03/24/98 03/24/98 03/26/98 06/02/98 06/03/98 06/03/98 06/03/98 06/05/98 06/05/98 06/05/98 06/05/98 06/08/98 06/08/98 06/08/98 06/08/98 06/08/98 06/08/98 09/29/98 11/05/98
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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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 Reported as committed Second Consideration Passed Senate (50-0) Referred to House Appropriations Committee Reported as committed Second Consideration Re-committed to House Appropriations Committee Re-reported as committed Passed House (196-0) Act 1997-41A	04/01/97 04/02/97 04/08/97 04/09/97 04/10/97 04/14/97 04/15/97 04/16/97 05/05/97 05/12/97 05/20/97
S. B. 870 P. N. 1157 (Tilghman)	PSERS, fiscal year 1997-98 appropriation bill for $29,185,000	Referred to Senate Appropriations Committee Reported as committed Second Consideration Passed Senate (50-0) Referred to House Appropriations Committee Reported as committed Second Consideration Re-committed to House Appropriations Committee Re-reported as amended Passed House (196-0) Referred to Senate Rules and Executive Nominations Committee Re-reported on concurrence, as amended Senate concurred in House amendments, as amended by the Senate (49-0) Referred to House Rules Committee Re-reported on concurrence, as committed House concurred in Senate amendments to House amendments (199-0) Act 1997-42A	04/01/97 04/02/97 04/08/97 04/09/97 04/10/97 04/14/97 04/15/97 04/16/97 05/05/97 05/12/97 05/12/97 06/09/97 06/09/97 06/10/97 06/10/97 06/10/97 06/18/97
S. B. 976 P. N. 1090 (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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 977 P. N. 1127 (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 Reported as amended Re-referred to Senate Appropriations Committee	05/12/97 06/03/97 06/09/97
S. B. 991 P. N. 1114 (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 Reported as amended Re-referred to Senate Appropriations Committee **Actuarial Note** (P. N. 1114, A. 2603) Re-reported as committed Second Consideration Laid on the table	05/28/97 06/04/97 06/04/97 06/05/97 06/09/97 06/09/97 06/16/97
S. B. 997 P. N. 1146 (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 **Actuarial Note** (P. N. 1146)	06/09/97 10/01/97
S. B. 999 P. N. 1141 (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 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)	Referred to Senate Education Committee Reported as amended Re-referred to Senate Appropriations Committee Re-reported as amended Second Consideration Laid on the table	05/07/97 06/02/97 06/02/97 06/03/97 06/04/97 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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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 the special ad hoc adjustment be added to the base pension for all pension computation purposes	Referred to Senate Finance Committee	09/24/97
S. B. 1143 P. N. 1356 (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 P. N. 1421 (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 P. N. 1448 (Greenleaf)	Constitution of Pennsylvania, amending article 3 to authorize the use of the	Referred to Senate State Government Committee	10/28/97

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	initiative and referendum as processes under certain circumstances		
S. B. 1206 P. N. 1953 (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 based on the present value of the accounts, if there is no unfunded actuarial accrued liability	Referred to Senate Finance Committee Reported as amended **Actuarial Note** (P. N. 1053) Re-referred to Senate Appropriations Committee	11/24/97 04/28/98 05/28/98 06/01/98
S. B. 1215 P. N. 1536 (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
S. B. 1269 P. N. 1972 (Robbins)	PSERS and SERS, granting ad hoc postretirement adjustments beginning July 1, 1998, and changing civil service status of certain employees, and PSERS permitting Board, at its discretion, to waive some or all of an adjustment to an annuity caused by an error in crediting service, expanding list of nonschool service for which service credit may be purchased to include up to 2 years of a mandatory leave of absence occurring after May 16, 1975, and before November 1, 1978, and granting Board the authority to sponsor a participant funded group health insurance program for annuitants, spouses of annuitants, survivor annuitants, and their dependents.	Referred to Senate Finance Committee **Actuarial Note** (P. N. 1623) **Actuarial Note** (P. N. 1623, A. 1899) **Actuarial Note** (P. N. 1623, A. 1927) Reported as committed Re-referred to Senate Appropriations Committee Re-reported as amended Second Consideration Passed Senate (50-0) **Commission Letter** (P. N. 1972) Referred to House State Government Committee **Commission Letter** (P. N. 1972, A. 2798) **Actuarial Note** (P. N. 1972, A. 2604) **Commission Letter** (P. N. 1972, A. 2827) Reported as committed Re-referred to House Appropriations Committee Re-reported as committed Second Consideration **Commission Letter** (P. N. 1972, A. 3121) Passed House (185-1) Act 1998-88	02/02/98 03/05/98 04/16/98 04/16/98 04/27/98 04/27/98 04/28/98 04/28/98 04/29/98 04/29/98 04/29/98 05/14/98 05/28/98 05/28/98 06/01/98 06/01/98 06/01/98 06/02/98 06/04/98 06/08/98 06/18/98

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 1289 P. N. 1787 (Conti)	Tax Reform Code of 1971, for purposes of the state income tax, excluding certain amounts received under a Roth IRA, simplified employee pension, individual retirement plan, simple retirement account, or § 457 plan	Referred to Senate Finance Committee Reported as amended Second Consideration Re-referred to Senate Appropriations Committee	02/10/98 03/17/98 03/18/98 03/18/98
S. B. 1296 P. N. 2073 (Murphy)	Second Class County Code, permitting a probation officer to retire and receive a full retirement allowance at age 55 or older with 20 or more years of service	Referred to Senate Finance Committee Reported as committed **Commission Letter** (P. N. 1677) Re-referred to Senate Appropriations Committee Re-reported as committed Second Consideration Passed Senate (47-0) Referred to House Finance Committee Reported as committed Second Consideration Re-referred to House Appropriations Committee **Commission Letter** (P. N. 1677, A. 3129) Reported as committed Amended and Passed House (185-1) Re-referred to Senate Rules and Executive Nominations Committee Re-reported on concurrence, as committed Senate concurred in House amendments (48-0) Act 1998-89	02/13/98 03/25/98 04/24/98 04/27/98 06/01/98 06/01/98 06/02/98 06/02/98 06/02/98 06/03/98 06/03/98 06/05/98 06/08/98 06/08/98 06/08/98 06/09/98 06/09/98 06/18/98
S. B. 1303 P. N. 1722 (Mellow)	PSERS, permitting an active regular member or an active multiple service member to purchase up to 2 years of service credit for nonschool service as a Peace Corps volunteer	Referred to Senate Finance Committee	03/06/98
S. B. 1306 P. N. 1725 (Tilghman)	SERS, fiscal year 1998-99 appropriations bill for $18,386,000	Referred to Senate Appropriations Committee Reported as committed Second Consideration Passed Senate (48-0) Referred to House Appropriations Committee	03/06/98 03/09/98 03/11/98 03/16/98 03/18/98
S. B. 1307 P. N. 1726 (Tilghman)	PSERS, fiscal year 1998-99 appropriations bill for $26,051,000	Referred to Senate Appropriations Committee Reported as committed Second Consideration Passed Senate (48-0) Referred to House Appropriations Committee	03/06/98 03/09/98 03/11/98 03/16/98 03/18/98

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 1370 P. N. 1775 (Conti)	Municipal Police Pension Law (Act 600), repealing provision requiring an actuarial study before a municipality reduces or eliminates employee contributions	Referred to Senate Finance Committee	03/16/98
S. B. 1376 P. N. 1785 (Piccola)	SERS, granting 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") to members who terminate state service during the period from July 1, 1998, through June 30, 1999, and retire before July 2, 1999, and providing that compensation of officers and employees of SERS who are not covered by a collective bargaining agreement shall be established consistent with the standards of compensation established by the Executive Board of the Commonwealth [See S. B. 1269 and H. B. 162]	Referred to Senate Finance Committee Reported as committed Re-referred to Senate Appropriations Committee Re-reported as committed Second Consideration **Actuarial Note** (P. N. 1785) Passed Senate (48-0) Referred to House State Government Committee	03/16/98 03/18/98 03/18/98 03/23/98 03/23/98 03/24/98 03/24/98 03/26/98
S. B. 1417 P. N. 1884 (Rhoades)	PSERS, permitting a member to purchase up to 2 years of nonschool service credit for erroneous crediting of service, the discovery of which has or will cause a reduction in the member's annuity [See S. B. 1269]	Referred to Senate Finance Committee **Actuarial Note** (P. N. 1884)	04/09/98 04/16/98
S. B. 1438 P. N. 1967 (Stapleton)	Public School Code of 1949, amending § 1182 by making, rather than prohibiting, a public school employee elected to a county office and on leave of absence for the elected service eligible for retirement credit and for purchase of retirement credit at a future time for time spent on the leave of absence	Referred to Senate Education Committee	04/28/98
S. B. 1503 P. N. 2122 (Mowery)	Optional Local Tax Enabling Act, among other things, including taxes levied under § 607(f) of Act 205 of 1984 among the taxes excluded from the referendum requirement for increasing taxes if a municipality elects to participate under the Act, and excluding funding necessary to supply any pension benefit that exists on the effective date of the Act those situations in which a municipality is not bound by an act of the General Assembly to spend new or additional money	Referred to Senate Finance Committee	08/11/98
S. B. 1531 P. N. 2152 (O'Pake)	PMRS, for police officers only reducing the requirement for disability retirement from being unable to engage in	Referred to Senate Finance Committee	09/18/98

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	any gainful employment to being unable to perform the regular and routine duties of that office		
S. B. 1536 P. N. 2159 (Armstrong)	Public School Code of 1949, expanding permitted alternative retirement plan from just TIAA—CREF to include any approved insurance company subject to certain criteria	Referred to Senate Finance Committee **Actuarial Note** (P. N. 2159)	09/25/98 11/05/98
S. B. 1542 P. N. 2182 (Kukovich)	PSERS, repealing provision prohibiting payment of the 1998 supplemental annuity to beneficiaries and survivor annuitants of members who died before July 1, 1998, and permitting payment of the 1998 supplemental annuity to beneficiaries and survivor annuitants of members who died before July 1, 1998	Referred to Senate Finance Committee	10/02/98
H. B. 8 P. N. 2075 (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 Reported as amended Re-referred to House Appropriations Committee Re-reported as committed Second Consideration Amended and Passed House (196-0) Referred to Senate Education Committee Reported as committed Re-committed to Senate Education Committee Re-reported as amended Second Consideration Re-referred to Senate Appropriations Committee Re-reported as committed Passed Senate (49-0) Referred to House Rules Committee Reported as amended House concurred in Senate amendments, as further amended by the House (171-23) Referred to Senate Rules and Executive Nominations Committee Re-reported on concurrence, as committed Senate concurred in House Amendments to Senate Amendments (48-0) Act 1997-30	01/27/97 02/03/97 02/03/97 04/07/97 04/07/97 04/08/97 04/10/97 06/04/97 06/04/97 06/09/97 06/09/97 06/09/97 06/10/97 06/10/97 06/10/97 06/11/97 06/11/97 06/16/97 06/16/97 06/16/97 06/25/97
H. B. 21 P. N. 2521 (Nickol)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205), modifying the procedure prescribed in the Act for calculating the amortization	Referred to House Local Government Committee **Advisory Note** (P. N. 25) **Actuarial Note** (P. N. 25)	01/27/97 03/17/97 04/09/97

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	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	Reported as amended Re-referred to House Appropriations Committee Re-reported as amended Second Consideration **Commission Letter** (P. N. 2359, A. 4382) Amended and Passed House (196-1) Referred to Senate Finance Committee Reported as committed **Commission Letter** (P. N. 2521) Second Consideration Re-referred to Senate Appropriations Committee Re-reported as committed Passed Senate (50—0) Act 1997—61	09/30/97 10/01/97 10/06/97 10/06/97 10/28/97 10/28/97 10/30/97 11/17/97 11/24/97 11/24/97 11/25/97 12/08/97 12/10/97 12/19/97
H. B. 36 P. N. 1588 (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 Reported as amended Re-referred to House Appropriations Committee	01/27/97 04/28/97 06/12/97
H. B. 40 P. N. 50 (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 being Class A Members with a class of service multiplier of one	Referred to House State Government Committee **Actuarial Note** (P. N. 50)	01/28/97 05/07/97
H. B. 42 P. N. 52 (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 **Actuarial Note** (P. N. 52)	01/28/97 02/26/97
H. B. 59 P. N. 68 (Lloyd)	PSERS, expanding purchase of non-school 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 P. N. 90 (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 P. N. 96 (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	Referred to House State Government Committee **Advisory Note** (P. N. 96) **Actuarial Note** (P. N. 96) **Actuarial Note** (P. N. 96 as amended by A. 0302)	01/28/97 03/21/97 04/09/97 04/09/97

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	and Out") for four years from July 1, 1997, to July 1, 2001		
H. B. 114 P. N. 3694 (Godshall)	Constitution of Pennsylvania, providing for the selection of the chairman of the Legislative Reapportionment Commission, the effective date of newly reapportioned districts, and the election of Senators in certain circumstances, and 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 Reported as committed Re-referred to House Appropriations Committee Re-reported as committed Second Consideration Amended and Passed House (193-3) Referred to Senate Judiciary Committee **Actuarial Note** (P. N. 1478) Reported as amended Re-referred to Senate Rules and Executive Nominations Committee Re-reported as amended Second Consideration Passed Senate (27-21) Referred to House Rules Committee Reported on concurrence, as amended House concurred in Senate amendments, as amended by the House Re-referred to Senate Rules and Executive Nominations Committee Re-reported on concurrence, as committed Senate concurred in House amendments to Senate amendments (27-21) **Pamphlet Law Resolution No. 3**	01/29/97 03/18/97 03/18/97 04/07/97 04/07/97 04/14/97 04/15/97 05/07/97 06/03/97 06/17/97 06/02/98 06/02/98 06/03/98 06/08/98 06/08/98 06/08/98 06/08/98 06/09/98 06/09/98 06/10/98
H. B. 158 P. N. 2485 (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 Reported as amended Re-referred to House Appropriations Committee	02/03/97 10/22/97 01/27/98
H. B. 162 P. N. 3299 (Allen)	PSERS and SERS, grant 2 new "30 and Out" windows in PSERS and one new 1-year "30 and Out" window in SERS and provide for the standards of compensation for employees of both systems	Referred to House Education Committee **Actuarial Note** (P. N. 178) Reported as amended Re-referred to House Appropriations Committee **Actuarial Note** (P. N. 1067) Re-reported as committed Second Consideration **Commission Letter** (P. N. 1067, A. 0710) **Actuarial Note** (P. N. 1067, A. 1902)	02/03/97 02/26/97 03/18/97 03/18/97 04/09/97 04/29/97 04/29/97 05/01/97 06/05/97

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
		Commission Letter	06/10/97
		(P. N. 1067, A. 2869)	06/11/97
		Amended and Passed House (195-0)	
		Referred to Senate Rules and Executive Nominations Committee	06/17/97 03/25/98
		Reported as amended	
		Re-referred to Senate Appropriations Committee	03/25/98
		Commission Letter (P. N. 3299, A. 1722)	03/30/98 03/30/98
		Re-reported as committed	03/30/98
		Second Consideration	03/31/98
		Commission Letter (P. N. 3299)	03/31/98
		Passed Senate (47-0)	03/31/98
		Referred to House Rules Committee	03/31/98
		Reported as committed	
		House concurred in Senate amendments (200-1)	03/31/98 04/02/98
		Act 1998-41	
		Actuarial Note (P. N. 2077, A. 0798)	04/16/98
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	Referred to House Education Committee	02/04/97

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	be eligible for postretirement health insurance premium assistance program		
H. B. 239 P. N. 261 (Bishop)	Enforcement Officer Disability Benefits Law, adding coverage for psychiatric and psychological care for the officer and the officer's spouse and dependent children	Referred to House State Government Committee	02/04/97
H. B. 248 P. N. 278 (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 P. N. 289 (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 P. N. 293 (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 P. N. 4177 (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 **Advisory Note** (P. N. 310) Reported as committed Re-referred to House Appropriations Committee Re-reported as committed Second Consideration Amended and Passed House (201-0) Referred to Senate Finance Committee Reported as committed Re-referred to Senate Appropriations Committee **Commission Letter** (P. N. 848) Re-reported as committed Re-referred to Senate Rules and Executive Nominations Committee Re-reported as amended Second Consideration **Commission Letter** (P. N. 4177)	02/05/97 02/07/97 02/12/97 02/12/97 03/10/97 03/10/97 03/11/97 03/17/97 04/02/97 04/08/97 04/09/97 06/01/98 06/09/98 11/23/98 11/23/98 11/24/98

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 301 P. N. 330 (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 P. N. 356 (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
H. B. 329 P. N. 1794 (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 Reported as committed Re-referred to House Appropriations Committee Re-reported as amended Second Consideration Amended and Passed House (196-0) Referred to Senate Urban Affairs and Housing Committee Reported as committed Re-committed to Senate Urban Affairs and Housing Committee Re-reported as amended Second Consideration Re-referred to Senate Appropriations Committee Re-reported as committed Amended and Passed Senate (33-17) Re-referred to House Rules Committee Re-reported as committed House Concurred in Senate amendments as amended (121-74) Act 1997-12 **Actuarial Note** (P. N. 1590, A. 1668)	02/06/97 02/11/97 02/11/97 04/14/97 04/14/97 04/28/97 04/29/97 04/30/97 05/06/97 05/07/97 05/07/97 05/07/97 05/12/97 05/12/97 05/13/97 05/13/97 05/13/97 05/20/97 06/06/97
H. B. 336 P. N. 380 (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 P. N. 393 (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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 460 P. N. 511 (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 P. N. 512 (DeWeese)	PSERS and SERS, permitting a member to elect to waive a joint and survivor annuity with the written, notarized consent of the member's spouse	Referred to House State Government Committee	02/11/97
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 Reported as committed Re-referred to House Urban Affairs Committee	02/12/97 10/05/98 10/05/98
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. 2765 (Steil)	Municipal Police Pension Law (Act 600), authorizing 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 **Advisory Note** (P. N. 660) Reported as committed **Actuarial Note** (P. N. 660) Re-referred to House Appropriations Committee Re-reported as committed Second Consideration Passed House (198-3) Referred to Senate Finance Committee Reported as committed Second Consideration Re-referred to Senate Appropriations Committee **Advisory Note** (P. N. 660, A. 1781) **Advisory Note** (P. N. 660, A. 1782)	02/13/97 03/17/97 04/08/97 04/09/97 04/28/97 04/29/97 04/29/97 05/06/97 05/07/97 06/04/97 06/11/97 06/16/97 08/04/97 08/05/97

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
		Advisory Note (P. N. 660, A. 1780)	09/04/97
		Advisory Note (P. N. 660, A. 1708)	09/10/97
		Re-reported as amended	01/20/98
		Passed Senate (48—0)	02/02/98
		Referred to House Rules Committee	02/03/98
		Reported as committed	02/09/98
		House concurred in Senate amendments (196-0)	02/09/98
		Act 1998-24	02/18/98
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
H. B. 677 P. N. 745 (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 P. N. 828 (Pettit)	Public Employee 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 P. N. 869 (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 P. N. 3261 (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, and permitting the purchase of 5 years of service credit at the rate of 1 year for every 3 years of previous work experience as a school employee, teacher, or instructor in an accredited Pennsylvania nonpublic elementary or secondary school if the individual was entitled to a provisional or professional certificate to teach in Pennsylvania, beginning	Referred to House Education Committee	03/12/97
		Actuarial Note (P. N. 889)	05/07/97
		Reported as amended	03/23/98
		Re-referred to House Appropriations Committee	06/01/98

BILL NUMBER / PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	within 3 years of eligibility and being the present value of the full actuarial cost of the increase in the projected superannuation annuity		
H. B. 807 P. N. 907 (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 P. N. 908 (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 P. N. 910 (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 **Actuarial Note** (P. N. 910)	03/12/97 10/01/97
H. B. 846 P. N. 946 (Deluca)	Second Class County Code, reducing the early retirement age for certain nonuniformed employees in Allegheny County from age 65 with 10 to 20 years of service to age 60 with 8 to 20 years of service	Referred to House Urban Affairs Committee **Actuarial Note** (P. N. 946) **Actuarial Note** (P. N. 946, A. 3367)	03/12/97 06/05/97 10/01/97
H. B. 851 P. N. 953 (Barley)	SERS, fiscal year 1997-98 appropriation bill of $18,335,000	Referred to House Appropriations Committee Reported as committed Second Consideration Passed House (199-0) Referred to Senate Appropriations Committee Reported as committed Second Consideration Re-committed to Senate Appropriations Committee	03/12/97 03/18/97 03/19/97 04/01/97 04/02/97 04/09/97 04/14/97 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 Reported as committed Second Consideration Passed House (199-0) Referred to Senate Appropriations Committee Reported as committed Second Consideration Re-committed to Senate Appropriations Committee	03/12/97 03/18/97 03/19/97 04/01/97 04/02/97 04/09/97 04/14/97 04/15/97

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 908 P. N. 3689 (Fairchild)	PSERS, amending the requirement that credit for nonschool service on a mandatory maternity leave of absence prior to May 17, 1975, must be purchased within one year of the member's eligibility to grant another purchase opportunity that must be exercised before January 1, 2000	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
		Re-reported as committed	02/09/98
		Second Consideration	02/09/98
		Amended and Passed House (198-0)	02/10/98
		Referred to Senate Finance Committee	02/13/98
		Actuarial Note (P. N. 1016, A. 0586)	03/05/98
		Reported as amended	06/08/98
		Re-referred to Senate Rules and Executive Nominations Committee	06/09/98
		Re-reported as committed	11/23/98
		Second Consideration	11/23/98
		Re-referred to Senate Rules and Executive Nominations Committee	11/23/98
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
H. B. 1048 P. N. 2878 (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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
		Re-reported as amended	10/20/97
		Re-referred to Senate Appropriations Committee	10/22/97
		Re-reported as amended	01/20/98
		Amended on Third Consideration	02/03/98
		Passed Senate (46-1)	02/09/98
		Referred to House Rules Committee	02/10/98
		Reported as committed	02/10/98
		House concurred in Senate Amendments (198-0)	02/10/98
		Act 1998—26	02/18/98
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
H. B. 1154 P. N. 1310 (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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 1160 P. N. 1981 (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 Reported as committed **Actuarial Note** (P. N. 1316) **Commission Letter** (P. N. 1316, A. 2737) Re-referred to House Appropriations Committee Reported as amended Second Consideration Passed House (186-11) Referred to Senate Finance Committee Reported as committed Re-referred to Senate Appropriations Committee Reported as committed Second Consideration Passed Senate (49-0) Act 1997-41	04/03/97 05/12/97 06/05/97 06/06/97 06/09/97 06/09/97 06/09/97 06/11/97 06/11/97 06/11/97 06/16/97 06/16/97 06/16/97 06/17/97 06/25/97
H. B. 1193 P. N. 1614 (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 P. N. 1444 (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 P. N. 1448 (Civera)	Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988), retroactive to 01/01/97, retaining, increasing, and granting special ad hoc postretirement adjustments to certain retired municipal public safety officers	Referred to House Local Government Committee **Actuarial Note** (P. N. 1448)	04/10/97 11/13/97
H. B. 1280 P. N. 1449 (Civera)	Municipal Police Pension Law (Act 600), permitting benefits to be paid to a survivor spouse who remarries	Referred to House Local Government Committee **Actuarial Note** (P. N. 1449)	04/10/97 10/01/97

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 1281 P. N. 1450 (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 **Actuarial Note** (P. N. 1450) Reported as committed Laid on the table	04/10/97 05/07/97 09/28/98 09/28/98
H. B. 1282 P. N. 1451 (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 **Advisory Note** (P. N. 1451) **Actuarial Note** (P. N. 1451) Reported as committed Laid on the table	04/10/97 07/10/97 10/01/97 09/28/98 09/28/98
H. B. 1284 P. N. 1453 (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 P. N. 3300 (Harhart)	PSERS, granting ad hoc postretirement adjustments to annuitants beginning July 1, 1998, and providing for the creation, funding, and use of a Supplemental Annuity Reserve Account [See S. B. 1269]	Referred to House Education Committee Reported as amended Re-referred to House Appropriations Committee **Commission Letter** (P. N. 3300) **Commission Letter** (P. N. 3300, A. 1614) Re-reported as committed Second Consideration Amended **Commission Letter** (P. N. 3300, A. 1775) **Actuarial Note** (P. N. 3300, A. 1712) Re-committed to House Appropriations Committee **Commission Letter** (P. N. 3300, A. 2800)	04/10/97 03/25/98 03/25/98 03/27/98 03/30/98 03/30/98 03/30/98 03/31/98 03/31/98 04/16/98 05/06/98 06/15/98
H. B. 1290 P. N. 1459 (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 P. N. 1461 (Kirkland)	Housing Authorities Law, permitting housing authorities to appoint police officers	Referred to House Judiciary Committee	04/10/97
H. B. 1294 P. N. 1463 (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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 1298 P. N. 1467 (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
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	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. 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 executive and the two members of council elected at large	Referred to House Urban Affairs Committee	04/17/97
H. B. 1374 P. N. 1615 (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 P. N. 1669 (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 **Advisory Note** (P. N. 1669) **Actuarial Note** (P. N. 1669) Reported as committed Re-referred to House Appropriations Committee	04/30/97 07/10/97 11/13/97 04/22/98 09/29/98
H. B. 1478 P. N. 1768 (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 P. N. 1841 (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 P. N. 1956 (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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 1627 P. N. 2005 (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 **Actuarial Note** (P. N. 2005)	06/10/97 11/13/97
H. B. 1628 P. N. 4167 (Lucyk)	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 House State Government Committee Reported as committed Re-referred to House Appropriations Committee Re-reported as amended Second Consideration Passed the House (200-0) Referred to Senate Finance Committee Reported as committed Re-referred to Senate Appropriations Committee Re-reported as committed Re-referred to Senate Rules and Executive Nominations Committee Re-reported as amended Second Consideration Passed Senate (48-0) Referred to House Rules Committee Reported as amended House concurred in Senate amendments as amended by the House (202-0) Referred to Senate Rules and Executive Nominations Committee Reported on concurrence Senate concurred in House amendments to Senate amendments (48-0) Act 1998—162	06/10/97 09/23/97 10/06/97 10/20/97 10/20/97 10/21/97 10/23/97 12/09/97 01/20/98 04/27/98 06/09/98 11/09/98 11/10/98 11/17/98 11/17/98 11/23/98 11/23/98 11/23/98 11/23/98 11/24/98 12/21/98
H. B. 1648 P. N. 2050 (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 P. N. 2096 (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 P. N. 2098 (Butkovitz)	An act specifically authorizing collective bargaining between first-level supervisors and their public employ-	Referred to House Labor Relations Committee	06/16/97

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	ers, providing for arbitration in order to settle disputes rather than striking, and requiring compliance with collective bargaining agreements and findings of arbitrators		
H. R. 223 P. N. 210 (Belfanti)	A Resolution proposing certain sanctions against the Nike Corporation	Referred to House Rules Committee	06/16/97
H. B. 1714 P. N. 2138 (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 P. N. 2160 (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
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 by the survivor spouse to the Commonwealth's fiscal officer of the difference between the premium and the withholding	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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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 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	Referred to House Education Committee	09/30/97
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. 3702 (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 Reported as committed Passed House (186-0) House reconsidered vote, amended Resolution, and Passed House (184-1)	10/07/97 06/01/98 06/08/98 06/08/98
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	Referred to the House Judiciary Committee	10/07/97

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	witnesses and informants and witness or informant taking a bribe from the list of covered criminal offenses		
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 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	Referred to House State Government Committee **Advisory Note** (P. N. 2695) **Actuarial Note** (P. N. 2695)	12/10/97 02/18/98 03/05/98
H. B. 2142 P. N. 2819 (Nickol)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205), requiring a local government that receives General Municipal Pension System State Aid and intends to issue debt to fund unfunded actuarial accrued liabilities to give the Pennsylvania Economic Development Financing Authority the right of first refusal in the financing	Referred to House Local Government Committee **Advisory Note** (P. N. 2819)	01/27/98 03/19/98
H. R. 319 P. N. 2777 (Maitland)	A resolution directing the Legislative Budget and Finance Committee to examine the equity of the current formula for funding volunteer firefighters' relief associations contained in the Municipal Pension Plan Funding Standard and Recovery Act (Act 205)	Referred to House Rules Committee Reported as committed Passed House (194-0)	01/21/98 05/04/98 05/06/98

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 2171 P. N. 2861 (Pippy)	SERS, permitting a member to purchase service credit for nonstate service as an employee of the Allegheny County Department of Health after May 23, 1956, and before November 27, 1982, by making a payment calculated in the same manner as that for purchase of service credit for nonstate service as a temporary federal employee assigned to DER and prohibiting withdrawal of the payment under Option 4	Referred to House State Government Committee	02/03/98
H. B. 2186 P. N. 2882 (Nickol)	Public School Retirees' Health Insurance Act, providing for the sponsorship and administration of a group health insurance program for certain public school retirees and other persons, providing for powers and duties of the PSER Board, establishing the Public School Retirees' Health Insurance Fund, and providing for health insurance premium assistance	Referred to House Education Committee **Actuarial Note** (P. N. 2882)	02/04/98 03/05/98
H. B. 2187 P. N. 2883 (Evans)	PSERS and SERS, beginning July 1, 1998, granting COLAs in both systems and reducing members' contributions from 6¼% to 5¼% for PSERS members employed after July 22, 1983 [See S. B. 1269]	Referred to House State Government Committee. **Actuarial Note** (P. N. 2883)	02/04/98 03/05/98
H. B. 2237 P. N. 2959 (Lucyk)	SERS, permitting an active regular and an active multiple service member to purchase up to 5 years of service credit for nonstate service as a county employee in Pennsylvania	Referred to House State Government Committee	02/11/98
H. B. 2279 P. N. 3011 (O'Brien)	An act prohibiting any municipal pension or retirement system in the City of Philadelphia from denying certain benefits to surviving spouses of police officers or certain employees upon a subsequent remarriage of the surviving spouse and making repeals	Referred to House Urban Affairs Committee Reported as committed Laid on the table	03/04/98 09/28/98 09/28/98
H. B. 2317 P. N. 3127 (O'Brien)	Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988), in addition to the ad hoc postretirement adjustments granted by the Act in 1988, granting additional ad hoc postretirement adjustments to retired municipal public safety officers who began receiving their benefits before January 1, 1994	Referred to House Local Government Committee **Actuarial Note** (P. N. 3127)	03/12/98 11/05/98

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 2362 P. N. 3085 (Barley)	SERS, fiscal year 1998-99 appropriations bill for $18,386,000	Referred to House Appropriations Committee Reported as committed Second Consideration Passed House (194-0) Referred to Senate Appropriations Committee Reported as committed Second Consideration Passed Senate (47-0) Act 1998—2A	03/11/98 03/16/98 03/17/98 03/18/98 03/19/98 03/24/98 03/25/98 03/30/98 04/06/98
H. B. 2363 P. N. 3086 (Barley)	PSERS, fiscal year 1998-99 appropriations bill for $26,051,000	Referred to House Appropriations Committee Reported as committed Second Consideration Passed House (194-0) Referred to Senate Appropriations Committee Reported as committed Second Consideration Passed Senate (47-0) Act 1998—3A	03/11/98 03/16/98 03/17/98 03/18/98 03/19/98 03/24/98 03/25/98 03/30/98 04/06/98
H. B. 2408 P N. 3385 (Clymer)	SERS, granting ad hoc postretirement adjustments beginning July 1, 1998, to annuitants who retired before July 1, 1997	Referred to House State Government Committee. Reported as amended Re-referred to House Appropriations Committee **Actuarial Note** (P. N. 3385, A. 3409)	03/12/98 04/20/98 06/10/98 09/29/98
H. B. 2436 P. N. 3233 (Pippy)	An act repealing Act 258 of 1965, which provided a period during which certain individuals could join the pension fund and a means whereby an individual who had not received full credit toward a pension for service as a city employee could obtain the credit, which was a supplement to Act 259 of 1915, which required cities of the second class to establish a pension fund	Referred to House Urban Affairs Committee	03/18/98
H. B. 2505 P. N. 3376 (Nickol)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), treating Philadelphia, if it funds unfunded actuarial accrued liabilities through an Economic Development Financing Law authority, in the same manner as a municipality that has issued pension bonds and excluding these funding obligations from consideration as the debt of the City [See S. B. 284]	Referred to House Urban Affairs Committee **Actuarial Note** (P. N. 3376) **Actuarial Note** (P. N. 3376, As. 3016, 3387, & 3388)	04/15/98 05/28/98 09/29/98
H. B. 2543 P. N. 3456 (Stetler)	Tax Reform Code of 1971, defining "compensation" for personal income tax purposes to exclude certain distri-	Referred to House Finance Committee	04/22/98

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	butions transferred from IRAs into Roth IRAs		
H. B. 2576 P. N. 3521 (Stern)	SERS, permitting active members and active multiple service members to purchase up to 10 years of service credit for full-time nonstate service in a state government other than Pennsylvania if the purchase is made after 10 years of SERS service and within 3 years of eligibility, the member pays full actuarial cost for the service credit, and the member cannot withdraw the employer cost portion of the purchase payment under Option 4	Referred to House State Government Committee **Advisory Note** (P. N. 3521)	05/04/98 06/03/98
H. B. 2607 P. N. 3575 (Belardi)	Constitution of Pennsylvania, amending section 26 of article 3 to permit the General Assembly to authorize the increase of retirement benefits or pensions payable to beneficiaries who are spouses provided the increases are certified to be actuarially sound	Referred to House State Government Committee	05/06/98
H. B. 2649 P. N. 3638 (Veon)	PSERS, amending § 8304(b)(7) by granting an additional one-year period during which active members and active multiple service members who were required to take a maternity leave of absence prior to May 17, 1975, may purchase up to two years of service credit for each such period of nonschool service and granting active members and active multiple service members the right to purchase up to two years of service credit for each period of nonschool service on a mandated maternity leave of absence after May 16, 1975, and before November 1, 1978, if the purchase is made within one year of eligibility	Referred to House Education Committee	06/02/98
H. B. 2670 P. N. 3666 (Dally)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), changing the Foreign Fire Insurance Tax Distribution Law (Chapter 7) to provide for distribution of the moneys from the Township Volunteer Fire Company Account provided for under H. B. 2671, P. N. 3667, to each township of the second class that intends to purchase annuity benefits for active volunteer firefighters with distribution on a pro rata basis among the active volunteer firefighters, if the annuity benefits are intended for active volunteer firefighters with 20 or more	Referred to Veterans Affairs and Emergency Preparedness	06/03/98

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	years of active service and the benefits do not exceed $1,500 a year for each year of active service		
H. B. 2671 P. N. 3667 (Dally)	Tax Reform Code of 1971, increasing the foreign fire insurance tax from 2% to 2½% and designating the additional ½% tax for the Township Volunteer Fire Company Account for distribution as provided in H. B. 2670, P. N. 3666	Referred to House Finance Committee	06/03/98
H. R. 492 P. N. 3707 (Preston)	A resolution requesting the Auditor General to conduct a complete audit of any Allegheny County accounts that contain State moneys	Referred to House Rules Committee	06/09/98
H. B. 2707 P. N. 3749 (Forcier)	Tax Reform Code of 1971, increasing foreign fire insurance premium tax and foreign casualty insurance premium tax from 2% to 3%	Referred to House Finance Committee	06/10/98
H. B. 2717 P. N. 3759 (Preston)	Constitution of Pennsylvania, effective January 1, 2010, abolishing all county offices and government functions with the Commonwealth assuming responsibility for all functions and assuming all debt and contractual obligations	Referred to House State Government Committee	06/10/98
H. B. 2720 P. N. 3762 (Druce)	Tax Reform Code of 1971, for purposes of the State Income Tax, excluding from the definition of income from sources within this Commonwealth amounts received under a Commonwealth Investment and Retirement Plan, which would include an IRC § 408A Roth IRA, a § 408(k) simplified employee pension, a § 7701(a)(37) IRA, a § 408(p) simple retirement account, and a § 457 deferred compensation plan	Referred to House Finance Committee	06/10/98
H. B. 2735 P. N. 3778 (Stetler)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), permitting a municipality that is participating in the Financially Distressed Municipal Pension System Recovery Program to calculate the value of the participation by each plan in an aggregated pension trust fund more frequently than once a year	Referred to House Local Government Committee	06/15/98
H. B. 2738 P. N. 3782 (Stevenson)	PSERS, amending § 8346 to permit an annuitant to be employed as a coach, director, or sponsor of a school activity under a separate contract without being subject to cessation of annuity or forfeiture provisions if contract speci-	Referred to House Education Committee	06/22/98

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	fies that no PSERS service credit is to be earned and no contributions by the annuitant, employer, or Commonwealth are made to PSERS for the service		
H. B. 2776 P. N. 3829 (Bebko-Jones)	County Pension Law (Act 96 of 1971), reducing the alternative superannuation retirement age from 20 or more years of service at age 55 or older to 15 or more years of service at age 50 or older	Referred to House Local Government Committee	09/17/98
H. B. 2783 P. N. 3836 (Mundy)	PSERS and SERS, making the effective dates of retirement in order to be eligible for each percentage cohort of the 1998 COLA one day later	Referred to House State Government Committee	09/17/98
H. R. 541 P. N. 3999 (Sturla)	Resolution requesting the State Employees' Retirement Board and the Public School Employees' Retirement Board to inform prospective annuitants of certain ramifications of their choice of retirement date	Referred to House Rules Committee	10/07/98
H. B. 2949 P. N. 4103 (McCall)	PSERS, permitting the purchase of service credit for time spent on a maternity leave of absence after October 31, 1978	Referred to House Rules Committee	11/16/98
H. B. 2950 P. N. 4104 (McCall)	SERS, permitting the purchase of service credit for time spent on a maternity leave of absence after October 31, 1978	Referred to House Rules Committee	11/16/98
H. B. 2971 P. N. 4183 (Lloyd)	PSERS, permitting purchase of service credit for up to 30 days of nonschool service on an emergency medical leave of absence without pay before 7/1/99 if the member pays the full actuarial cost and granting service credit as school service for an emergency medical leave of absence after 6/30/99 if the member pays both the member's contribution and the employer's normal cost with interest to the date of purchase	Referred to House Rules Committee	11/24/98
98 D 01697	SERS, prescribing the procedures to be followed in transferring judicial employees who currently are members of the county employees' retirement systems into SERS as part of the process of making these individuals employees of the Commonwealth rather than employees of the counties [See S. B. 3]	**Actuarial Note**	05/29/98

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