1999

ANNUAL REPORT

OF THE

PUBLIC EMPLOYEE

RETIREMENT COMMISSION

Public Employee Retirement Commission
Commonwealth of Pennsylvania
April 2000

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COMMONWEALTH OF PENNSYLVANIA

PUBLIC EMPLOYEE RETIREMENT COMMISSION

HARRISBURG

17120

April 2000

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 1999.

During 1999, the Commission authorized the attachment of twenty-seven actuarial notes to twenty-five bills, and two amendments at the request of the various committees of the General Assembly. This report contains a synopsis of each of these notes and contains a summary of the Commission's reviews of the State Employees' Retirement System and the Public School Employees' Retirement System. This report also describes research conducted during 1999 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 seventeenth 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 1999.

Sincerely,

Paul D. Halliwell

Paul D. Halliwell
Chairman

INTRODUCTION

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

Under the Public Employee Retirement Commission Act, the Commission has two main responsibilities. One is to issue the required actuarial notes for proposed legislation affecting public employee retirement systems. The other is to study, on a continuing basis, public employee retirement system policy, the interrelationships of the several systems, and their actuarial soundness and cost.

Under the Municipal Pension Plan Funding Standard and Recovery Act, adopted in 1984, the Commission has three additional responsibilities. The first is to administer the actuarial valuation reporting program for municipal retirement systems, which entails monitoring and enforcing compliance with the statutorily mandated actuarial funding standard. The second is to certify annually municipal pension cost data used in allocating the General Municipal Pension System State Aid money of over $125 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 fourteenth 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 1999.

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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 1999 ACTIVITY.

During 1999, the Commission authorized the attachment of twenty-seven actuarial notes to twenty-five bills, and two amendments. In addition, the Commission's staff provided the General Assembly with five advisory notes.

C. SYNOPSES OF ADVISORY NOTES.

- House Bill Number 164, Printer's Number 152. At the request of Representative Lynn B. Herman, Chairman, House Local Government Committee, on February 1, 1999, the Commission staff provided an advisory note on House Bill Number 164, Printer's Number 152. The bill would amend section 112 of the Pennsylvania Municipal Retirement Law (Act 15 of 1974) retroactive to January 1, 1995, to extend to calendar years 1995, 1996, 1997, 1998, 1999, and 2000 the authority of the Pennsylvania Municipal Retirement System to use interest earnings in excess of the "regular interest" to pay administrative expenses not covered by the $20 a member a year assessments.

- House Bill Number 330, Printer's Number 343. At the request of Representative Lynn B. Herman, Chairman, House Local Government Committee, on November 4, 1999, the Commission staff provided an advisory note on House Bill Number 330, Printer's Number 343. The bill would amend the County Pension Law (Act 96 of 1971) to reduce the age and service requirements for normal retirement and regular early retirement for members less than 60 years of age from 55 years of age and 20 years of service to 50 years of age and 15 years of service and for special early retirement with ten years of service from 55 years of age to 50 years of age.

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

- House Bill Number 587, Printer's Number 613. At the request of Representative Roy Reinard, Chairman, House Urban Affairs Committee, on May 25, 1999, the Commission staff provided an advisory note on House Bill Number 587, Printer's Number 613. The bill would amend both the police officer and firefighter pension plans in The Third Class City Code (Act 317 of 1931) to increase the limit on the service increment paid to a retired public safety employee, in addition to the retirement allowance, from $100 a month to $500 a month and the active member contribution for the service increment from $1 a month to $5 a month.

- House Bill Number 1639, Printer's Number 2004. At the request of Representative Lynn B. Herman, Chairman, House Local Government Committee, on September 27, 1999, the Commission staff provided an advisory note on House Bill Number 1639, Printer's Number 2004. The bill would amend section 1(a) of the Municipal Police Pension Law (Act 600 of 1955) to provide that the surviving spouse of an active or retired police officer shall continue to receive a survivor spouse pension even if the surviving spouse remarries.

- House Bill Number 1685, Printer's Number 2071. At the request of Representative Lynn B. Herman, Chairman, House Local Government Committee, on October 8, 1999, the Commission staff provided an advisory note on House Bill Number 1685, Printer's Number 2071. The bill would amend the Municipal Police Pension Law (Act 600 of 1955) to permit the borough, town, or township ordinance or resolution establishing a police pension plan to provide for a rebate to a retired police officer (retiree) who made contributions to the pension trust fund and was eligible to receive benefits on January 1, 1999, or a surviving spouse who is the surviving spouse of a retiree who made contributions to the pension trust fund and was eligible to receive benefits on January 1, 1999, if the borough, town, or township actuary certifies that the pension trust fund had a funding ratio of at least 200 percent both before and after payment of the rebate, and provide for the withdrawal from the assets of the pension trust fund, in any given year, of an amount, the value of which cannot be in excess of two percent of the actuarial accrued liability of the system, to be used to reimburse the retirees for their contributions to the pension trust fund.

D. SYNOPSES OF ACTUARIAL NOTES.

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

Bill ID: Senate Bill Number 3, Printer's Number 632

System: State Employees' Retirement System

Subject: Transfer of County-Level Court Administrators from County Employee Retirement Systems

SYNOPSIS

Senate Bill Number 3, Printer's Number 632, would amend both the Judicial Code and the State Employees' Retirement Code to prescribe the procedures to be followed in transferring county-level court administrative employees who currently are members of the county employee retirement systems into the State Employees' Retirement System as well as transferring their annual and sick leave balances all 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.2d 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 Employees' Retirement System. An incumbent in one of these positions is a member of a county employee 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 made the following recommendations:

> 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 on 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 Bill

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 Employees' Retirement System, 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. Using the proposal of the Administrative Office as a basis, the sponsors of the bill have developed the bill, which only applies to district court administrators, deputy court administrators, special courts administrators, associate and assistant court administrators, and similar positions (county-level court administrators), that is, only court employees in Phase I of the master's report.

All county-level court administrators will be transferred as a group on a date to be fixed by the Supreme Court. On that date, all transferred employees will be required to cease being active members of the county employee retirement systems 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 employee 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 employee 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 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 when filed with SERS but not sooner than the date of the transfer of the employee. To prevent a loss of benefits available 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, and superannuation retirement 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.

Notwithstanding provisions to the contrary in the County Pension Law, the Pennsylvania Municipal Retirement Law, or the Second Class County Code, a transferred employee may leave the employees' contributions to the county retirement system, together with interest earned to the date of transfer, in the county retirement system where it will continue to earn interest until the employee retires. When the employee terminates state service, the employee will be treated as though the employee had terminated county service and will be granted whatever rights and benefits, including an immediate lump sum distribution or an annuity based upon the balance in the employees' account, to which a terminating county employee would be entitled. Because the provision is permissive, the transferred employee could choose to have the contributions and accrued interest paid immediately by transfer to an individual IRA, as a retirement annuity, or as a lump sum. It would be possible, therefore, for a transferred employee working as a county-level, state paid, court administrator to be an active member of SERS with credit in SERS for prior service as a county employee while receiving an annuity from the county based upon contributions made by the employee during the same period of service.

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 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 an amount 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 calculated amount plus interest to SERS no later than 180 days after certification by SERS to the county of the amount due SERS. 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 to within 30 days following the employee's termination date.

An individual newly employed in a position after it has been transferred will be a state employee and a member of the State Employees' Retirement System (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 employee 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.

An outstanding domestic relations order that meets the criteria for an Approved Domestic Relations Order under the Code will remain in effect in SERS. An order that does not meet the criteria will not be effective in SERS until it is amended to satisfy the provisions of 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 employee retirement system, a county may experience either an actuarial gain or an actuarial loss on the transfers.

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:

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 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 Companion Bills. 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 from just the Code and the bill as enacted 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.

Unified Judicial System Transferred County-Level Administrator Leave Fund. In providing for the terminal, residual equity transfer from the Unified Judicial System Transferred County-Level Administrator Leave Fund, proposed section 2396(f) of the Judicial Code contains archaic accounting terminology. Draft wording for an amendment to clarify the subsection is attached.

Mandatory and Optional Membership. In prohibiting a transferred county-level court administrator from remaining a member of county employee retirement systems, proposed section 5301(e) contains a drafting ambiguity. Draft wording for an amendment to clarify the subsection is attached.

Domestic Relations Order. In defining "domestic relations order," proposed section 5953.5(c), contains a drafting ambiguity. Draft wording for an amendment to clarify the subsection is attached.

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.

COMMISSION RECOMMENDATION

On March 4, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

As Printer's Number 1244, Senate Bill Number 3 was signed into law by the Governor as Act 1999-12 on June 22, 1999.

Bill ID: Senate Bill Number 224, Printer's Number 220

System: Public School Employees' Retirement System

Subject: Purchase of Service Credit for Nonschool Service as a Peace Corps Volunteer

SYNOPSIS

Senate Bill Number 224, Printer's Number 220, would amend section 8304(b) of the Public School Employees' Retirement Code to permit an active member or an active multiple service member to purchase up to two years of service credit in the Public School Employees' Retirement System for nonschool service as a Peace Corps volunteer performed under the Peace Corps Act.

DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 1998, there were 640 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. As of June 30, 1998, there were 220,703 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 bill would expand the list of purchasable nonschool service to include up to two years of service credit for nonschool service as a Peace Corps volunteer under the Peace Corps Act. The effect of the additional service credit would be to add an amount equal to up to four percent of the highest three years' salary to the value of the basic benefit prior to modification and may accelerate retirement eligibility.

Created by the Peace Corps Act, the Peace Corps provides a body of trained personnel sent by the federal government as volunteers, particularly to underdeveloped nations. The Peace Corps employs regular career civil service employees, high level non-civil service employees, and what the Peace Corps Act refers to as "volunteers." Regular career civil service employees are members of one of the federal government retirement systems for civilian employees. Volunteers are not members of any of these retirement systems but may obtain service credit in one of them if, after their volunteer service, they become regular career civil servants of the federal government. It is for nonschool service as a volunteer that the bill would permit the purchase of service credits in PSERS.

Peace Corps volunteers normally serve a two year tour of duty. Occasionally, the tour is shortened because of either personal reasons or conditions in the host country. Under certain circumstances, volunteers are permitted to extend their tours for another year. The bill would restrict the purchase to the actual time of volunteer service served not to exceed two years.

Because no provision is made in the bill for the contribution to purchase service credit for this nonschool service, the provisions of section 8324(d) of the Code will apply. Under section 8324(d), the contribution is determined by applying the member's basic contribution rate plus the normal contribution rate as provided in section 8328 of the Code at the time of the member's entry into school service subsequent to such creditable nonschool service to the member's total compensation during the first year of subsequent credited school service and multiplying the product by the number of years and fractional part of a year of creditable nonschool service being purchased together with statutory interest of four percent a year compounded annually during all periods of subsequent school or state service to the date of purchase. This method of determining the member's contribution has the effect of providing these benefits to the member at a cost to the member significantly less than the total actuarial value of the retirement benefits purchased.

SUMMARY OF ACTUARIAL COST IMPACT

The staff of the Commission estimated the number of active members and active multiple service members of PSERS who would be eligible under the bill from data received from the Peace Corps reflecting the total number of Pennsylvania residents that have thus far joined the Peace Corps. The demographics of these members are not known to the staff of the Commission. Based on this estimate, the Commission requested its consulting actuary to assume a current range of 400 to 600 active members and 10 to 15 eligible individuals who will become active members every year. The consulting actuary assumed that, on average, the purchasing member would have a salary of $50,000 a year, an average past salary growth of 6.0 percent, an employer normal contribution rate of 7.75 percent at the time of entry into school service, would purchase two years of service credit, and make the purchase just prior to retirement.

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

	Amounts
Increase in Unfunded Actuarial Accrued Liability	$4,300,000 — $6,400,000

	Amounts	As a % of Total Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$100,000 — $200,000	0.001% — 0.002%
Amortization Payment[2]	300,000 — 500,000	0.004% — 0.006%
Total Increase in Employer Annual Costs[3]	$400,000 — $700,000	0.005% — 0.008%

	Amounts
Total Amortization Payments	$9,919,786 — $16,532,977

[1] Paid in part by the Commonwealth and in part by the school districts and other educational employers.
[2] First year cost. Cost increases 5% a year for 20 years.
[3] First year costs only.

POLICY CONSIDERATIONS

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

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

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 preemployment 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 Peace Corps Volunteer. 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 bill would permit purchase of service credit for a situation which is not among the situations that the Commission views as warranting service purchase authorizations.

Cost Effectiveness of 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 credit purchase amount required to be paid by an employee includes amounts representing both employer and employee costs attributable to the purchased service credit, 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 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 associated with the authorization to purchase credit for this nonschool service. Draft wording for an amendment that would impose the three-year limitation and restrict the Option 4 withdrawal is attached.

Adequacy of Purchase Payments. The statutory method for calculating the member contribution to purchase service credit for nonschool service when no other method is prescribed results in a member paying less than the full actuarial cost of the increased benefit acquired through the service credit purchase. The service credit purchase results in an increase in the unfunded actuarial accrued liability of PSERS and increased amortization payments by the employers and the Commonwealth 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 bill 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 and the Commonwealth. Draft wording for an amendment to require payment of the full actuarial cost is attached.

COMMISSION RECOMMENDATION

On April 22, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

Senate Bill Number 224, Printer's Number 220, was referred to the Senate Finance Committee on January 25, 1999.

Bill ID: Senate Bill Number 309, Printer's Number 538

System: Public School Employees' Retirement System

Subject: Purchase of Service Credit for Nonschool Service in the Cadet Nurse Corps, and Return to Service without Cessation of Pension or Forfeiture of 10% Incentive

SYNOPSIS

Senate Bill Number 309, Printer's Number 538, would amend the Public School Employees' Retirement Code to:

> Reduce from two years to one year the minimum amount of nonschool service in the Cadet Nurse Corps needed to purchase service credit in the Public School Employees' Retirement System (PSERS) for this nonschool service;
>
> Modify the restriction on the purchase of service credit for nonschool service in the Cadet Nurse Corps from active members, active multiple service members, and retirees who were active members after December 31, 1988, to only retirees who left school service after January 1, 1984, and before September 1, 1998; and
>
> Permit an annuitant (retiree) to be employed by a school district, intermediate unit, or area vocational school under a separate contract as a coach, director, or sponsor of a school activity without being subject to cessation of annuity or forfeiture of the ten percent retirement incentive if the contract specifies that no service credit will be earned in PSERS and no contributions are made to PSERS by the retiree, the public school employer, or the Commonwealth for the work under the contract.

DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 1998, there were 640 participating employers, 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. As of June 30, 1998, there were 220,703 active members, 43,591 inactive and vested members, 5,177 disabled annuitants and 115,488 retired annuitants (retirees).

Purchase of Service Credit for Nonschool Service in the Cadet Nurse Corps

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 and active multiple service 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 bill would change the provisions regarding purchase of service credit for nonschool service in the Cadet Nurse Corps in two ways:

> The minimum amount of nonschool service in the Cadet Nurse Corps necessary to qualify to purchase service credit would be reduced from two years to one year; and
>
> Active members, active multiple service members, and annuitants who left school service after August 31, 1998, no longer would be permitted to purchase service credit for nonschool service in the Cadet Nurse Corps, but just annuitants who left school service after January 1, 1984, and before September 1, 1998, would be permitted to purchase the service credit.

The Cadet Nurse Corps was a professional training program that provided civilian, not military, service during World War II and was funded for the period June 1943 through December 1946. Apparently, some of the cadets spent less than two years in the program either because they were judged to be adequately trained and were "graduated," or because the program ended in December 1946. Reducing the minimum amount of this nonschool service necessary to be eligible to purchase service credit will permit those who left the program with at least one but less than two years of service to purchase the service credit.

When the Code was amended by Act 23 of 1991 to permit the purchase of service credit for this nonschool service, the permission was made retroactive to January 1, 1989, the effective date of similar permission in the State Employees' Retirement Code under Act 112 of 1988. This retroactive provision, however, was limited just to annuitants who were active members after December 31, 1988. The staff of PSERS has informed the staff of the Commission that 136 individuals (active members, active multiple service members, and retirees) have purchased service credit for this nonschool service. The public pension policy rationale for the bill's restricting the purchase option only to certain retirees is not apparent. Individuals who left school service after January 1, 1984, and before January 1, 1989, never were active members of PSERS when service credit could be purchased for nonschool service in the Cadet Nurse Corps. The restriction probably is an unconstitutional impairment of the pension plan contract for those active members, active multiple service members, and retirees who left school service after August 31, 1998, who have been eligible to, but have not yet, purchased this service.

Permitting retirees to purchase service credit in public employee retirement systems is most unusual. Normally, the retiring member's pension is determined and fixed as of the date of the member's termination of service. Under the Code, permitting a retiree to purchase this service credit, in effect, amounts to an automatic ad hoc postretirement adjustment because the purchase contribution required to be paid to PSERS by the retiree could be immediately withdrawn under Option 4. Therefore, after an eligible retiree has documented Cadet Nurse Corps Service, PSERS collects no member contribution but just increases the retiree's pension.

The bill is silent in regard to the starting date for the increased pension to be paid as a result of such a purchase. Act 23 of 1991 clearly provided that the increased pension to be received by a retiree as a result of such a purchase would begin on the date of the purchase. The bill contains no such provision.

Return to School Service as a Coach, Director, or Sponsor

Under the Code, if a member retires and later returns to school service, the member's annuity ceases and the value of the annuity is frozen as of that date. In addition, if a member retired during the period of May 15, 1992, to August 31, 1993, taking the additional ten percent service credit early retirement incentive ("Mellow Bill") and later returns to school service, the member must forfeit the additional ten percent service credit. This special provision was part of the "Mellow Bill" and apparently was designed to discourage public school employers and public school employees from abusing the early retirement incentive program by allowing an employee to gain an additional ten percent in the annuity and then resume school employment. The only exceptions to the freezing and forfeiture provisions are in an emergency or a shortage of appropriate subject certified teachers, but then the exception is only for a period of not more than 95 full-day sessions in any school year. Since independent contractors and individuals compensated on a fee basis are excluded from membership in PSERS, the bill apparently intends to provide for actual reemployment for an indefinite period, if the employee performs the specified types of service and does not participate as an active employee in PSERS.

The public employee retirement policy of the Commonwealth as expressed both in the Code and in the State Employees' Retirement Code has been that, except in emergencies, and then only for a short period of time, a retiree returning to school or state service ceased to receive a pension and became an active, contributing member of the retirement system. The bill would enact a fundamental change in this policy by permitting a PSERS retiree to return to school service in nonemergency situations for an unlimited period of time and be paid while still receiving a PSERS pension.

Because complement reduction was an assumed objective of the recent early retirement incentives ("30 and Out" and Additional 10% Service Credit), permitting retirees who may have received early retirement incentives to be reemployed to perform the same service, or a modified component of that service, appears to be inconsistent from a retirement policy perspective. From a personnel policy perspective, the use of a retiree plus a lower paid employee may be less costly than retaining one higher paid employee, depending on the level of compensation provided to the retiree. Authorizing a retiree to return indefinitely to school service in one of the specified positions in a nonemergency situation permits a retiree to receive supplemental retirement income from the employer that, in effect, provides an additional incentive to retire.

PSERS has at least 120,665 annuitants (early, early incentive, disability, and regular retirees) of whom about 14,900 retired under the "Mellow Bill." The proposal in the bill would apply only to those retirees who return to school service in one of the specified positions. The proposal would not apply to other retirees who might wish to or be asked to return to other types of school employment.

SUMMARY OF ACTUARIAL COST IMPACT

Purchase of Service Credit for Nonschool Service in the Cadet Nurse Corps

The consulting actuary of the Commission provided an estimate for a range of 10 to 20 retirees who would purchase the service credit.

	Amounts
Increase in Unfunded Actuarial Accrued Liability	\$50,000 — \$100,000

	Amounts
Increase in Employer Annual Costs[1]	
Normal Cost	\$ 0 — \$ 0
Amortization Payment[2]	3,500 — 8,000
Total Increase in Employer Annual Costs[3]	\$3,500 — \$8,000

	Amounts
Total Amortization Payments	\$115,730 — \$264,527

[1] Paid in part by the Commonwealth and in part by the school district or other educational employer.
[2] First year cost. Payments increase 5% a year for 20 years.
[3] First year only.

Return to School Service as a Coach, Director or Sponsor

Except for the potential for the loss of a de minimis actuarial gain, the proposal in the bill will have no actuarial effect upon the Public School Employees' Retirement System.

POLICY CONSIDERATIONS

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

Unusual Benefit Design. It is very unusual to permit retirees to purchase service credit and even more unusual to restrict those permitted to purchase service credit to certain retirees only, particularly retirees who never were active members during a time period in which the service credit could be purchased. The public pension policy rationale for this restriction is not evident.

Unconstitutional Impairment of Contract. Since 1991, active members, active multiple service members, and retirees who retired after December 31, 1988, have been able to purchase service credit for nonschool service in the Cadet Nurse Corps. The bill would repeal this permission and restrict the purchase option just to retirees who left school service after January 1, 1984, but before September 1, 1998. This repeal and restriction probably is an unconstitutional impairment of the pension plan contract with those active members, active multiple service members, and retirees who currently are eligible to purchase this service credit but have not yet done so.

Inconsistent Retirement Policy. Because complement reduction was an assumed objective of the recent early retirement incentives, permitting retirees who may have received early retirement incentives to be reemployed to perform the same service, or part of the same service, appears to be inconsistent from a retirement policy perspective.

Personnel Policy Flexibility. From a personnel policy perspective, the use of a retiree and a lower paid regular employee may be less costly than retaining one higher paid regular employee, depending on the level of compensation provided to the retiree.

Additional Early Retirement Incentive. Authorizing a retiree to return indefinitely to school service in a nonemergency situation permits a retiree to receive supplemental retirement income from the employer that, in effect, provides an additional incentive to retire.

Lack of Uniformity. The bill would apply only to those retirees returning to school service to perform services in one of the specified positions. Annuitants returning to school service to perform any other school service would remain subject to the cessation of their pensions and forfeiture of the ten percent retirement incentive.

Fundamental Change in Public Employee Retirement Policy. The bill would enact a fundamental change in public employee retirement policy by permitting retirees to return to school service in nonemergency situations for unlimited periods of time and receive compensations while still receiving their pensions.

Technical Problems.

Drafting Ambiguity. The bill does not specify that the effective date of the increased pension to be paid to a retiree because of the purchase of service credit for nonschool service in the Cadet Nurse Corps shall be the date the retiree exercises the purchase option.

Misleading Title. The description provided in the title of the bill regarding the provisions relating to returning to school service is misleading. It is not a bill providing "for the termination of annuities." It is actually a bill providing "for certain employment by annuitants" through "exceptions to the termination of annuities and forfeitures of early retirement incentives." Draft wording for an amendment to clarify the title is attached.

COMMISSION RECOMMENDATION

On April 22, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

As Printer's Number 1187, Senate Bill Number 309 was vetoed by the Governor in Veto Number 2 on June 25, 1999, and was laid on the table in the Senate on September 27, 1999.

Bill ID: Amendment Number 1977 to Senate Bill Number 309, Printer's Number 538

System: Public School Employees' Retirement System

Subject: Granting a 15-Day Extension of "30 and Out"

SYNOPSIS

Amendment Number 1977 to Senate Bill Number 309, Printer's Number 538, would amend section 8313 of the Public School Employees' Retirement Code to grant a 15-day extension (to July 15, 1999) of the three-month period (April 1, 1999, through June 30, 1999) during which a member of the Public School Employees' Retirement System with 30 or more eligibility points may retire and receive an annuity that is not reduced because of a retirement age that is under superannuation age ("30 and Out").

DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits to public school employees. As of June 30, 1998, there were 640 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS. Membership in PSERS is mandatory for most school employees. Certain other employees are not required but are given the option to participate. As of June 30, 1998, PSERS had 220,703 active members. 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 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 permit members with 30 or more years of service to retire at any age and receive full retirement benefits with no benefit reduction for retiring prior to the superannuation or normal retirement age. The most recent special early retirement provisions will expire June 30, 1999. The special early retirement provisions were adopted in 1984 and revised and extended in, 1986, 1987, 1988, 1991, 1994 (retroactive to 1993), and 1998.

In adopting the original 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, 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 that expires on June 30, 1999.

DISCUSSION (CONT'D)

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 and again for parts of 1998 and 1999, a new normal retirement pattern was established based on the availability of the provisions.

SUMMARY OF ACTUARIAL COST IMPACT

Based upon data provided by the staff of PSERS, the staff of the Commission estimates that an additional 100 to 125 members of PSERS will become eligible under the proposed July 1 through July 15, 1999, extension of the "30 and Out" window. The consulting actuary of the Commission has determined that, if the early retirement provisions are allowed to expire on July 15, 1999, the amendment will result in the following range of costs.

	Range of Amounts
Increase in Unfunded Actuarial Accrued Liability[1]	\$882,000 – \$1,102,000

	Range of Amounts	Range as a % of Payroll
Increase in Employer Annual Costs[2]		
Normal Cost[3]	\$11,000 – \$14,000	0.0001% – 0.0002%
Amortization Payment[4]	68,000 – 85,000	0.0008% – 0.0009%
Total Increase in Employer Annual Costs[5]	\$79,000 – \$99,000	0.0009% – 0.0011%

	Range of Amounts
Total Amortization Payments	\$2,248,485 – \$2,810,606

1 The total cost of the amendment to PSERS is the increase in unfunded actuarial accrued liability plus the present value of the one year increase in the normal cost.
2 Paid in part by the Commonwealth and in part by the school districts and other educational employers.
3 Paid for first two years only.
4 First year payment only. Amortization payments increase five percent a year for 20 years.
5 First year costs only.

POLICY CONSIDERATIONS

In reviewing the amendment, the Commission did not identify any policy considerations as the proposed short extension of the special early retirement provisions does not initiate a significant extension of the current provisions.

COMMISSION RECOMMENDATION

On May 19, 1999, the Commission voted to attach the actuarial note to the amendment.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

As Printer's Number 1187, Senate Bill Number 309 was vetoed by the Governor in Veto Number 2 on June 25, 1999, and was laid on the table in the Senate on September 27, 1999.

Bill ID: Senate Bill Number 767, Printer's Number 832

System: Pennsylvania Municipal Retirement System

Subject: Mandated Allocation of "Excess" Interest

SYNOPSIS

Senate Bill Number 767, Printer's Number 832, would amend section 110 of the Pennsylvania Municipal Retirement Law (Act 15 of 1974) to mandate that, in situations in which

> a municipal retirement plan is created by a municipal authority,
>
> the authority is dissolved under the laws of the Commonwealth or the operating functions are transferred back to the creating municipality,
>
> 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 required for allocation to the regular interest accounts and expense accounts on an equalized basis among the municipal account, the vested members' accounts, and the retired members' reserve accounts based upon the present values of the accounts.

DISCUSSION

The Pennsylvania Municipal Retirement System 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.

There are 603 member municipal defined benefit plans and 114 municipal defined contribution plans in PMRS. Of these plans, about 23 of the 603 defined benefit plans and about two of the 114 defined contribution plans have no active participants. Of the 717 plans, authorities and other units represent about 136 of the 603 defined benefit plans and about 25 of the 114 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 but would be considered moribund under the bill.

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 among the municipal account, the vested members' accounts, and retired members' reserve accounts using only an equalized basis based upon the present values of the 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 only an "equalized basis" allocation of "excess" interest under the bill and, thus, expose the successor municipality to potential future actuarial costs for which it has no reserves; and
>
> 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 may be less than it otherwise would have been, which is a cost to that successor municipality.

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 Retirees. Under the proposal in the bill, retirees and vestees of the plan of a terminated or moribund authority must receive an "equalized basis" share of the "excess" interest available for allocation while all other retirees and vestees of PMRS plans will receive only the "excess" interest allocations as determined by the sponsoring municipality. For example, in the same community, retirees of a terminated or moribund authority will have to receive a statutorily mandated allocation of "excess" interest while retirees of another, active, authority or of the creating municipality may receive more or less. The public policy rationale for this distinction is not apparent.

COMMISSION RECOMMENDATION

On May 19, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

Senate Bill Number 767, Printer's Number 832, passed Second Consideration in the Senate on October 25, 1999, and was laid on the table in the Senate on November 30, 1999.

Bill ID: Senate Bill Number 801, Printer's Number 872

System: State Employees' Retirement System

Subject: Permitting Community College Educators to Purchase Service Credit for Nonstate Public Educator Service

SYNOPSIS

Senate Bill Number 801, Printer's Number 872, would amend section 5304(c)(3) of the State Employees' Retirement Code to:

> permit an academic administrator, teacher or instructor (educator) in a community college to purchase up to ten years of service credit for nonstate service as an academic administrator, teacher or instructor in public education (public educator) in another state or as an academic administrator, teacher or instructor in the field of education with the federal government; and
>
> liberalize the limit on the nonstate service that may be purchased by including service as an educator in a community college after June 30, 1971, in the determination of the member's instate service as an educator

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits to employees of the Commonwealth and certain independent agencies. As of December 31, 1997, there were 107 participating state and other organizations. Membership in SERS is mandatory for most state employees. Certain other employees are not required but are given the option to participate. As of December 31, 1997, SERS membership consisted of 85,457 retirees and beneficiaries currently receiving benefits, 4,643 terminated employees entitled to benefits but not yet receiving them, and 108,684 active members.

Under the 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. Generally speaking, 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. Permitting members to receive credit for service with another employer benefits the members because the retirement benefit is enhanced and, in some cases, retirement eligibility is accelerated.

Active members and active multiple service 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, 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 of the entire agency to the Commonwealth.

Under the Public School Code of 1949 (School Code), a community college is a public college or technical institute that is established and operated in accordance with the terms of the School Code. There are 15 community colleges that employed approximately 2,250 full-time instructional faculty and other professional employees in 1997-98.

Prior to Act 31 of 1985, community colleges operated under a separate Community College Act of 1963. Act 322 of 1965 amended the Community College Act of 1963 to make all administrative personnel, faculty, and other employees of the community colleges in the Commonwealth eligible, as of July 1, 1965, for inclusion in the Public School Employees' Retirement System (PSERS) or any independent retirement program approved by the board of trustees of the college and the Secretary of Education. Act 55 of 1972 further amended the Community College Act of 1963 to make these individuals also eligible for inclusion in SERS as of July 1, 1971. Act 31 of 1985 repealed the Community College Act of 1983 and enacted the current community college provisions as article XIX-A of the School Code that are similar to the repealed act, including the three retirement system possibilities. As a result there were members of SERS or PSERS who were administrative personnel, faculty, or other employees of these community colleges prior to July 1, 1971, who did not have SERS or PSERS service credit for this service. Act 112 of 1988 amended both the Code and the Public School Employees' Retirement Code effective January 1, 1989, to permit certain active members and certain active multiple service members of SERS and of PSERS to purchase nonstate or nonschool service credit in SERS or PSERS for this earlier community college service.

The bill 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 educator 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 bill would permit an active member or an active multiple service member who is an educator employed in a community college to purchase the service credit also.
>
> Currently, an eligible active member or an eligible 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 educator in the Department of Education, State System of Higher Education, a State-owned educational institution or The Pennsylvania State University. Under the bill, the restriction is liberalized by adding service as an educator in a community college after June 30, 1971, to the list of public educational institutions.

Under section 5505(d) of the 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 members 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.

SUMMARY OF ACTUARIAL COST IMPACT

The staff of SERS has informed the staff of the Commission that it does not know how many members of SERS would be eligible under the bill but that each year, over the last three years, about eight members employed in community colleges have applied to purchase service credit for nonstate service as a public educator in another state or with the federal government and have been denied. The staff of SERS presumes that there are other members who would be eligible under the bill who have not applied to purchase the service credit because they know that it is not permitted under the Code.

In an actuarial note on a recent proposal to amend the Code provisions regarding purchase of service credit by members of SERS for nonstate service as a public educator in another state or with the federal government in another way but with the same member contribution provisions, the consulting actuary of the Commission indicated that the statutory method for calculating the members' contributions to purchase the service credit for the nonstate service will result in the members paying from about 17 percent to about 64 percent of the full actuarial cost of the increased benefit acquired through the purchase of the service credit. The age and normal contribution at the time of employment determine the percentage of the cost paid by the members. Because the members will contribute less than the full actuarial cost to purchase the service credit, the Commonwealth will incur an unfunded actuarial accrued liability, necessitating increased amortization payments increasing five percent a year over a 20-year period.

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

POLICY CONSIDERATIONS

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

> Parity for Educator Members of SERS. Currently, the provisions permitting the purchase of service credit for nonstate service as public educators provide limited portability of retirement benefits for other public educator service to most of the members of SERS making a career of public education. Under the proposal in the bill, additional active members and active multiple service members of SERS who are making a career of public education and are employed in community colleges also would be permitted to purchase the service credit. The bill would provide more nearly equitable purchase of nonstate public educator service credit options to the educator members of SERS.

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

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 preemployment 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 Permitting Educators in Community Colleges to Purchase Service Credit for Nonstate Service as a Public Educator. 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 administrative actions.

Cost Effectiveness of 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 credit purchase amount required to be paid by an employee includes amounts representing both employer and employee costs attributable to the purchased service credit, 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, and it does not exclude the portion of the purchase payment that represents 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 SERS associated with the authorization to purchase credit for this nonstate service. This is, however, the method the General Assembly prescribes for other educator members of SERS making purchases of service credit for nonstate public educator service.

Adequacy of Purchase Payments. The statutory method for calculating the member contribution to purchase service credit for nonstate service when no other method is prescribed results in a member paying less than the full actuarial cost of the increased benefit acquired through the service credit purchase. The service credit purchase results in an increase in the unfunded actuarial accrued liability of SERS

POLICY CONSIDERATIONS (CONT'D)

and increased amortization payments by the employers and the Commonwealth 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.

COMMISSION RECOMMENDATION

On May 19, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER31, 1999

Senate Bill Number 801, Printer's Number 872, was referred to the Senate Finance Committee on April 13, 1999.

Bill ID: Senate Bill Number 1093, Printer's Number 1324

System: State Employees' Retirement System

Subject: Purchase of Service Credit for State Service with the Delaware River Joint Free Bridge Commission

SYNOPSIS

Senate Bill Number 1093, Printer's Number 1324, would amend section 5303 of the State Employees' Retirement Code to permit an active member who is an employee of the Delaware River Joint Toll Bridge Commission on the effective date of the amendment to purchase service credit for the other one-half of the member's previous service with the former Delaware River Joint Free Bridge Commission during the period after April 11, 1976, and before July 1, 1987, during which time the member received only one-half service credit in the State Employees' Retirement System, if the member applies to make the purchase within three years of the effective date of the bill and contributes an amount calculated as equal to the amount the member contributed to the State Employees' Retirement Fund (Fund) during the period, together with interest at the statutory rate of four percent to the date of purchase, to the Fund.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. As of December 31, 1998, there were 107 participating state and other organizations. Membership in SERS is mandatory for most state employees. Certain other employees are not required, but are given the option, to participate. As of December 31, 1998, SERS membership consisted of 108,893 active members, 3,785 terminated employees entitled to benefits but not yet receiving them, and 85,834 retirees and beneficiaries currently receiving benefits.

Under the Code, superannuation or normal retirement age for most members is age 60 with three or more years of service credit or 35 years of service credit. Generally speaking, 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. Permitting members to receive credit for service with another employer benefits the member because the retirement benefit is enhanced and, in some cases, retirement eligibility is accelerated.

Active members and active multiple service members of SERS currently are able to purchase service credit for the following types of service: approved leaves of absence without pay, intervening or nonintervening military service, service as a public educator 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 in World War II, service as a justice of the peace prior to January 1970, and service with a governmental agency other than the Commonwealth where employment was terminated because of the transfer by law of the administration or the service of the entire agency to the Commonwealth.

The bill would expand the list of purchasable state service to include service credit for previous service with the former Delaware River Joint Free Bridge Commission (Free Bridge Commission) during a time period when employees of the Free Bridge Commission were members of both SERS and a State of New Jersey public employee retirement system and received one-half a year of service credit in SERS for every year of service to the Free Bridge Commission.

According to the records of the Membership Division of SERS Bureau of Benefit Administration, employees of the Free Bridge Commission became members of SERS in the early 1940s. Beginning April 12, 1976, these employees received only half time service credit in SERS with half pay annualized to full pay. Before then they had received full time service credit in SERS but with only half pay. The other half of the service was credited as service in one of the public employee retirement systems of the State of New Jersey to which the employees also contributed. On July 1, 1987, employees of the Free Bridge Commission were transferred to the Delaware River Joint Toll Bridge Commission (Toll Bridge Commission) and began receiving full time service credit in SERS with recognition of full pay and were no longer members of one of the New Jersey systems.

The records of the Division show that, in May 1987, just before the transfer of the employees of the Free Bridge Commission to the Toll Bridge Commission, an actuarial study was done. The study identified 49 employees to be transferred. The records for 48 of the 49 employees also show that, at the time of the transfer, 13 employees retired, six vested, and 29 withdrew from the New Jersey public employee retirement system, but the records do not indicate which of the 48 did what. Of the original 49 transferees, 20 are still active, contributing members of SERS and one is a vestee.

In order to promote shared interests and encourage mutual cooperation with other states, Pennsylvania has entered into a number of interstate compacts and agreements. These arrangements serve to foster the continued planning and protection of joint resources and to discourage the fragmentation and duplication of the respective states' programs. The former Free Bridge Commission and the current Toll Bridge Commission have been among these interstate agencies. Thus it was that the employees of the Free Bridge Commission were transferred to the Toll Bridge Commission and began receiving their retirement benefits only through SERS not through any voluntary transfer of employment and membership on their part but through an involuntary transfer of a governmental function and the manner of providing it as a matter of the jointly agreed upon public policy of Pennsylvania and New Jersey.

The method for calculating the member's contribution to purchase the state service credit is one that will result in the member contributing the rest of what the member would have contributed had the member been receiving full year service credit in SERS during the specified period together with the statutory interest of four percent to the date of the service credit purchase. Because the method results in the member paying less than the full actuarial cost of the increased benefit, the residual unfunded actuarial accrued liability would be funded by the Commonwealth through amortization payments calculated as a level percentage of payroll increasing five percent a year over a 20-year period.

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

SUMMARY OF ACTUARIAL COST IMPACT

Using actuarial assumptions that are consistent with the assumptions used by the consulting actuary of SERS for its December 31, 1998, actuarial valuation, except for disability and turnover, the consulting actuary of the Commission estimates that the bill will have the following actuarial cost impact.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$162,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Normal Cost	$19,200	2.5%
Amortization Payment[1]	10,900	1.4%
Total Increase in Employer Annual Costs	$30,100	3.9%

	Amount
Total Amortization Payments	$360,418

[1] First year cost. Amortization payments increase 5% a year for 20 years.

POLICY CONSIDERATIONS

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

Substantial 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 service credit purchases. The bill substantially conforms to the recommendations in this report concerned with authorizing, funding, and structuring service credit purchases.

Appropriateness of Service Credit for Service with the Free Bridge Commission. 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 credit following a break in service, and remedying inequalities caused by employer administrative actions. The service for which credit is to be made purchasable under the bill is among these types of service.

Time Limit on Exercise of Service Credit Purchase Option. For service credit purchases applicable to a governmental transfer, the Commission recommended that the former public employee retirement system notify the members of their rights and obligations within 60 days of the authorization and that the member be required to make the election within the following three months. Because one of the former retirement systems is not in Pennsylvania and because the transfer took place more than 12 years ago, the bill follows the Commission's recommendation for all other types of service credit purchases and requires the election be made within three years.

Required Member Contribution. For service credit purchases applicable to governmental transfer, the Commission recommended that the employee make the required contribution in a lump-sum within 60 days of election. Because the transfer took place more than 12 years ago, the bill follows the Commission's recommendation for all other types of service credit purchases and requires the contribution be payable within 60 days of election in a lump sum or in accordance with a schedule of installment payments.

Prohibition of Double Benefit. The Commission recommended that an employee who, at the time of the exercise of the purchase option, is entitled to receive, is eligible to receive then or in the future, is receiving or has received retirement benefits under a retirement system administered and wholly or partially paid for by any other governmental entity for the service for which credit is sought to be purchased, be prohibited from purchasing service credit in the new public employee retirement system. The bill contains such a provision.

COMMISSION RECOMMENDATION

On September 30, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

Senate Bill Number 1093, Printer's Number 1324, was referred to the Senate Finance Committee on September 16, 1999.

Bill ID: Senate Bill Number 1101, Printer's Number 1341

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

Subject: Removal of "Cap" on Pensions and Contributions

SYNOPSIS

Senate Bill Number 1101, Printer's Number 1341, would amend the Second Class County Code in the following four ways:

> Amend section 1712(a) by removing the $4,333.33 a month compensation limit that currently is used in the calculation of average salaries for purposes of computing benefits;
>
> Amend section 1708(a) by removing the corresponding $4,333.33 a month compensation limit used for purposes of calculating employee and employer contributions to the pension trust fund;
>
> Amend section 1712(a) by adding provisions requiring that, in order to receive a pension calculated including compensation in excess of $4,333.33 a month, a member must make contributions on the member's compensation in excess of $4,333.33 a month, but permitting a member who retires before making contributions for at least five years on the member's compensation in excess of $4,333.33 a month to elect to receive a pension calculated on the member's compensation in excess of $4,333.33 a month by making a lump sum contribution to the pension trust fund equal to the applicable employee contribution rate on all compensation in excess of $4,333.33 a month received by the member during the five-year period prior to retirement on which the member did not make contributions to the pension trust fund; and
>
> Amend section 3107-C by making the county charter subject to the employees' retirement system under Article 17 and by making the system unaffected by the county home rule charter.

DISCUSSION

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

Article 17 creates a contributory, defined benefit, public employee pension plan. Under the pension plan, benefit amounts for voluntary normal retirement, involuntary normal retirement, early retirement, disability retirement, and deferred vested retirement, are all calculated as a function of the employee's final average salary. The final average salary is computed as the highest 24 months of compensation in the last 48 months preceding retirement subject to a monthly limitation (or "cap") of $4,333.33 a month ($52,000 a year). The proposal in the bill would remove the limitation.

Under the pension plan, a member contributes six percent of "covered" compensation to the pension trust fund, and Allegheny County contributes an equal amount. "Covered" compensation is all compensation up to a limit of $4,333.33 a month. The proposal in the bill would remove the limitation.

For those members retiring during the five years after the proposed bill becomes effective who have salaries in excess of $4,333.33 a month, the proposal in the bill would permit the granting of a pension based upon the higher salary if the member makes a lump sum contribution to the pension trust fund in an amount calculated by applying the applicable contribution percentage rate to all compensation in excess of $4,333.33 a month received by the member during the prior five-year period on which contributions have not been made.

The current cap of $52,000 a year was imposed under Act 75 of 1989, which increased the cap from $32,000 a year. Prior to the $32,000 a year cap, the cap had been $18,000 a year. These caps probably reflect an attempt to limit both the county's pension funding costs at a time when its pension fund had a funded ratio of about 56 percent and the amount of money paid to any county employee in retirement. There are practical problems in capping the pension benefit and the member contributions. Inherent in any named dollar limit is the change in purchasing power over a long period of time. For example, about $70,650 is needed to purchase what $52,000 would have purchased in December 1989 when Act 75 was signed into law. As a result of the change in purchasing power, pensions have become relatively less valuable because of the cap. Salaries of active employees tend to increase along with inflation so that active employees retain approximately the same purchasing power. As more and more employees earn salaries in excess of the limit, the pressure for extending or removing the cap increases. By eliminating the cap, the proposal in the bill provides for all current and future Allegheny County employees earning more than $52,000 a year to make member contributions to the pension fund on their full compensation and to receive a pension based on their full compensation.

The proposed removal of the cap was approved by the Retirement Board of Allegheny County on March 11, 1999. The benefit modification was accounted for in the January 1, 1999, Allegheny County Employees' Retirement System Actuarial Report No. 20 issued June 7, 1999. Administrative considerations may delay full implementation until January 1, 2001.

Article 31-C of the Code provides the Second Class County Charter Law. Among the limitations on the county home rule charter, section 3107-C(i)(3) of the Code provides that the county does not have "the power to diminish the rights or privileges of any former employe entitled to benefits or any present employe in that former or present employe's pension or retirement system." Section 3101-C(b) of the Code provides that, with certain exceptions, the Second Class County Charter Law "shall be considered and construed in pari materia with" the Home Rule Charter and Optional Plans Law (Law). Among the limitations on municipal powers, section 2962(c)(3) of the Law provides that a municipality is not "authorized to diminish the rights or privileges of any former municipal employee entitled to benefits or any present municipal employee in his pension or retirement system." The proposal in the bill would amend section 3107-C of the Code by adding a new subsection (m) providing that the "charter shall be subject to and shall not affect the employes' retirement system under Article XVII."

Section 2962(c)(3) of the Law generally has been understood to mean that a home rule charter or optional plan municipality could not reduce the retirement benefits of existing active or retired employees although it probably could increase the benefits. The staff of the Commission understands that a more narrow construction of prohibiting either reductions or increases in benefits has been the reading in certain counties. Because section 3107-C(i)(3) of the Code is very similar to section 2962(c)(3) of the Law and because the two sections are in pari materia, the two sections should be construed together, if possible, as one statute with the probable result being that section 3107-C(i)(3) of the Code will be given the same construction as section 2962(c)(3) of the Law. The effect of the wording of proposed section 3107-C(m) of the Code is not clear, however. Because it is markedly different from section 3107-C(i)(3) of the Code and Section 2962(c)(3) of the Law and because both it and proposed section 3107-C(m) are in the same section of the Code, it probably would be construed to have a different meaning. One possible interpretation would be that the Allegheny County government could make no changes whatsoever in the pension plan under its home rule charter powers and that all amendments to the pension plan would continue to be made by acts of the General Assembly.

SUMMARY OF ACTUARIAL COST IMPACT

Using the January 1, 1999, actuarial valuation report of the Allegheny County Employees' Retirement System, actuarial assumptions consistent with the consulting actuary of the system (8.0% interest, 4.0% salary scale, and 1983 Group Annuity Mortality Table), and turnover and retirement rates similar to those used by the consulting actuary of the system, the consulting actuary of the Commission has calculated that the proposal in the bill will have the following actuarial cost impact upon the system.

	Amount
Increase in Actuarial Accrued Liability	$56,876,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$4,587,000	2.27%
Amortization Payment[1]	5,364,000	2.66%
Total Increase in Employer Annual Costs	$9,951,000	4.93%

	Amount
Total Amortization Payments[1]	$107,280,000

[1] This assumes that the amortization payments will be made on a level dollar basis over a 20-year period as is required of municipalities under section 202(b)(4)(iii) of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984). The amortization of unfunded actuarial accrued liabilities in the Allegheny County Employees' Retirement System is not controlled by Act 205, however. The Allegheny County Retirement Board considers the Allegheny County Employees' Retirement System to be a well-funded, mature system, which the board expects to fluctuate between being slightly over funded and slightly under funded. As a matter of public pension policy, therefore, the board has adopted a 10-year period over which to amortize any unfunded actuarial accrued liability, believing this to be a realistic, rational, and reasonable (if not conservative) objective to embrace. If the $56,876,000 unfunded actuarial accrued liability is amortized on a level dollar basis over 10-years, the resulting amortization payment will be $7,848,000 a year or 3.80% of the payroll with a resulting total amortization payments of $78,480,000.

POLICY CONSIDERATIONS

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

Retirement Benefit Based on Full Compensation. By removing the salary cap on member contributions and benefit computations, the proposal in the bill provides for all current and future Allegheny County employees earning more than $52,000 a year to make member contributions on their full compensation and to receive a retirement benefit based on their full compensation.

Cost Sharing for Future Benefits. The total contribution to the pension trust fund currently is being equally shared by the county and its employees. The increased benefit to be provided in the future under the proposal in the bill also would be paid for in the same cost sharing way.

Cost Sharing for Imminent Benefits. The total contribution to the pension trust fund currently is being equally shared by the county and its employees. Employees retiring during the five years after the benefit improvement contained in the proposal in the bill becomes effective will receive the improved benefit only if they contribute what they would have contributed during the previous five years if there had been no cap thus requiring a kind of cost sharing in order to receive the improved benefits.

Intention of Proposed Section 3107-C(m). Proposed section 3107-C(m) of the Code should be reviewed by legal counsel to definitively determine its meaning. Preventing the county government from improving retirement benefits under its home rule charter powers would seem to be counter to the spirit of home rule.

COMMISSION RECOMMENDATION

On September 30, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

Senate Bill Number 1101, Printer's Number 1341, was reported as committed from the Senate Finance Committee and re-referred to the Senate Rules and Executive Nominations Committee on December 7, 1999.

Bill ID: House Bill Number 147, Printer's Number 131, and
House Bill Number 146, Printer's Number 130

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

Subject: Removing Effect of Frozen Present Values from the Pensions of Certain Retirees

SYNOPSIS

House Bill Number 147, Printer's Number 131, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to remove the effect of frozen present values upon the annuities of annuitants who were once active members, but not multiple service members, of the Public School Employees' Retirement System or the State Employees' Retirement System, retired and began drawing their annuities, were reemployed for three or more years (becoming active members again, resulting in a stopping of their annuities and the freezing of the present values of their annuities), and retired and began drawing annuities again before July 1, 1994. House Bill Number 146, Printer's Number 130, would make the same amendment but only to the Public School Employees' Retirement Code.

DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) (Systems) are to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. As of June 30, 1998, there were 640 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 1997, there were 107 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. As of June 30, 1998, PSERS had 115,488 annuitants, and as of December 31, 1997, SERS has 85,457 retirees and beneficiaries currently receiving benefits.

When a retiree returns to school service or state service in a non emergency situation or when the return is under an emergency situation and the service exceeds the statutory limit of 95 days, the retiree's pension ceases and the present value of the retiree's retirement account is frozen. Any additional service credit earned by the reemployed member during the period of reemployment accumulates separately from the member's original benefit. Upon subsequent termination of service, the new pension is calculated in one of two ways depending upon the length of the reemployment service.

> If the period of reemployment is less than three years, the new monthly benefit is computed as the sum of two portions: the frozen portion (based on the original retirement allowance, which was based on the original service and salary) and the new portion (based on the reemployment service and salary). The frozen portion takes into consideration the lapse in time between the return to service and the second retirement date. The frozen portion of the benefit, therefore, is slightly higher than the original monthly check. The

disadvantage of a frozen benefit is that the member cannot have the System combine the two periods of service for purposes of calculating the new pension using the latest final average salary.

> If the period of employment is three years or longer, the new monthly benefit may be computed to eliminate any negative effect of their frozen present values. Eliminating the effect of a frozen present value means that, when the member leaves service the next time, the member's new pension is calculated by combining the members' service credit from both periods of employment. The System will calculate the member's pension both including and excluding the frozen present value, and the member receives the higher benefit provided that the value of all prior annuity payments, plus interest, is recouped through an actuarial adjustment.

The current provisions of the Codes regarding frozen present values are effective for retirees returning to service after June 30, 1994. Before July 1, 1994, from the dates of the enactment of the present Codes in 1975 and 1974, all reemployed retirees had the present values of their pensions frozen, their pensions stopped, and upon subsequent retirement again had their new pensions calculated in the way that now applies only to those who return to service for less than three years.

Prior to the 1975 and 1974 enactments of the present Codes, which was a part of the pension reforms enacted by the General Assembly in the early and mid 1970s, when a retiree returned to service, the retiree's pension ceased, but upon subsequent reretirement, the member's new pension was calculated counting all years of service and using the most recent final average salary. This method of calculating the new pension permitted the reretiring member to exercise financial anti-selection, mortality anti-selection, or both. The financial anti-selection occurred if the period of additional service was long enough to significantly increase the final average salary. The mortality anti-selection occurred when a joint and survivor annuity had been chosen at the time of the member's initial retirement, the contingent annuitant subsequently died, and the reretiring member elected some other form of annuity, such as a maximum single life annuity. The mortality anti-selection resulted because calculations of joint and survivor annuities assume that actuarial gains experienced on spouses who die early are offset by actuarial losses on spouses who survive well beyond the life expectancy. Because there was no minimum length of time for reemployment to make a member eligible for the newly calculated pension, the provisions were open to abuse by retirees arranging to return to service for very short periods of time. It was these anti-selection dangers and the short-term reemployment to change benefits abuses that the General Assembly sought to end in 1975 and 1974.

The bills would retroactively extend the current provisions for the elimination of the effect of frozen present values for those retirees who had retired, been reemployed, and retired again before July 1, 1994, when the current provisions became effective. These retirees returned to service knowing that their new pensions would reflect the effect of frozen present values. From a public employee pension policy standpoint, it is highly unusual to allow a benefit modification for active employees to be applied retroactively to retired employees. Since the retirement of these members, the length of time used to calculate final average salary has been shortened, actuarial factors have become unisex or topped-up, and ad hoc postretirement adjustments have been granted to retirees to reduce the effects of the erosion of the purchasing power of the pensions caused by inflation. Reflecting these changed conditions in the calculation of new pensions for affected retirees will be administratively complex, and it will increase the costs of the Systems.

When the Codes were amended by Act 29 of 1994 to permit "thawing" of frozen present values for retirees returning to service after June 30, 1994, the permission was restricted only to retirees who had not elected multiple service. This restriction was removed by Act 77 of 1995. Like Act 29 of 1994, the bills would restrict the removal of frozen present values only to retirees who have no multiple service credit.

SUMMARY OF ACTUARIAL COST IMPACT

The costs to the State Employees' Retirement System are higher than those to the Public School Employees' Retirement System due to the greater frequency of reemployment after retirement in the State Employees' Retirement System.

Public School Employees' Retirement System under House Bill Numbers 147 and 146

	Amount
Increase in Unfunded Actuarial Accrued Liability	$8,300,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$ 0	0.00%
Amortization Payment[2]	600,000	0.01%
Total Increase in Employer Annual Costs[3]	$600,000	0.01%

	Amount
Total Amortization Payments	$19,839,572

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

State Employees' Retirement System under House Bill Number 147

	Amount
Increase in Unfunded Actuarial Accrued Liability	$56,100,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$ 0	0.00%
Amortization Payment[1]	3,900,000	0.10%
Total Increase in Employer Annual Costs[2]	$ 3,900,000	0.10%

	Amount
Total Amortization Payments	$128,957,221

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

[2] First year only.

POLICY CONSIDERATIONS

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

Benefit Modification for Retirees. It is highly unusual for a benefit modification for active employees to be applied retroactively to retired employees. The benefit payable to a retired member is usually viewed as fixed at the time of retirement, other than cost-of-living adjustments.

Inherent Additional Pension Increases.

Different Final Average Salaries. Some of the affected retirees may have retired during a time when benefits were based upon the average salary over the highest five years (before the 1975 and 1974 enactments of the present Codes) and then may have been reemployed and retired again when benefits were based upon the average salary over the highest three years (after the 1975 and 1974 enactments of the present Codes). "Thawing" the pensions based upon the five-year average and recalculating the entire pensions based upon the three-year average will produce a significant benefit increase, caused not only by the normal inflationary progression in salaries but also by the redefinition of the final average salary.

Different Actuarial Factors. As a result of the court's holding in the 1983 case of *Norris v. Arizona*, unisex or topped-up actuarial factors are used by the Systems. These factors generally are liberalized over the early factors, especially in PSERS. Application of these factors to all service would result in a benefit improvement for affected retirees.

Problems with Ad Hoc Postretirement Adjustments. The cumulative ad hoc postretirement adjustments apply to the newly recalculated annuities. The actual computation of the adjustments will be particularly difficult to accomplish because the Systems have had so many different ways of calculating the adjustments in the past and the computation methodology will be open to many different interpretations.

Possible Unequal Treatment of Retirees. Although retirees who were either regular or multiple service members and return to service and reretire after June 30, 1994, currently may have the effects of their frozen present values eliminated, the bill would restrict the retroactive provision of this benefit to those who did so before July 1, 1994, and who were regular but not multiple service members. The public pension policy rationale for excluding multiple service members is not apparent and should be examined before passage in light of the need to enact Act 77 of 1995 to remove a similar restriction imposed by Act 29 of 1994.

Universal Application. Affected retirees will not have to elect to have their pensions recalculated. The Systems automatically will make the calculations for all affected retirees to determine whether the recalculated pensions are greater than the current pensions ensuring equity in the provision of the benefit but requiring voluminous calculations by the Systems.

COMMISSION RECOMMENDATION

On May 19, 1999, the Commission voted to attach the actuarial note to the bills, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

House Bill Number 146, Printer's Number 130, was referred to the House Education Committee and House Bill Number 147, Printer's Number 131, was referred to the House State Government Committee on January 26, 1999.

Bill ID: House Bill Number 158, Printer's Number 146

System: Public School Employees' Retirement System

Subject: Purchase of Service Credit for Educator Service in an Accredited Pennsylvania Nonpublic (Religious) School

SYNOPSIS

House Bill Number 158, Printer's Number 146, would amend the Public School Employees' Retirement Code to permit an active member or an active multiple service member to purchase up to five years of service credit for previous nonschool service as a school employee, teacher, or instructor in an accredited Pennsylvania nonpublic elementary or secondary (religious) school at the rate of one year of service credit for every three years of such nonschool service if the member was entitled to a provisional or professional certificate to teach in the public schools of Pennsylvania at the time of the nonschool service. To purchase the service credit, a member would have to contribute the present value of the full actuarial cost of the increase in the projected superannuation annuity caused by the additional service credited and could not withdraw the contribution as a lump sum under section 8345(a)(4)(iii) (Option 4).

DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 1998, there were 640 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. As of June 30, 1998, there were 220,703 active members in PSERS.

Under the Code, a member 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 a member to receive credit for service with another employer are of value to the member because they enhance the retirement benefit and also may accelerate retirement eligibility.

Active members and active multiple service members of PSERS currently are able to purchase service 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 of a mandated maternity leave prior to 1978, and service in the Cadet Nurse Corps during World War II.

The bill would expand the list of purchasable nonschool service to include up to five years of service credit for previous service as a school employee, teacher, or instructor in an accredited Pennsylvania nonpublic elementary or secondary school at the rate of one year of service credit for every three years of such nonschool service if the member was entitled to a provisional or professional certificate to teach in the public schools of Pennsylvania at the time of the nonschool service. To purchase the service credit, a member will have to contribute the present value of the full actuarial cost of the increase in the projected superannuation annuity caused by the additional service credit and will be prohibited from withdrawing the contribution as a lump sum under section 8345(a)(4)(iii) of the Code (Option 4). The effect of the additional service credit will be to add an amount equal to up to ten percent of the highest three years' average salary to the value of the basic benefit prior to modification.

Among other ways, the bill would restrict the service that could be purchased to service in a "Pennsylvania nonpublic elementary or secondary school, . . ." In the Department of Education, the term "nonpublic nonlicensed school" is a term of art describing a religious school registered with the Department to provide educational programs for elementary students or secondary students or both elementary and secondary students. No certification is required by the Commonwealth for educators in religious schools. Another way in which the bill restricts the service that could be purchased is to limit it to service in an "accredited" school. In the Department of Education, the term "accredited school" is a term of art describing a school accredited by meeting the standards set by one of the national or regional accrediting agencies approved by the State Board of Education. The Department of Education does not "accredit" schools, however. If the sponsors of the bill intend to offer the purchase of service credit option to members of PSERS who were educators in other types of schools, the bill will have to be amended to make the intention clear.

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 Social Security or a military pension system, from purchasing the service credit. 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 removed as should be the last sentence of section 8324(e), which the bill proposes to make section 8324(e)(1).

The bill would permit not only members of PSERS who held provisional or permanent teaching certificates but also members who only were eligible for such certificates to purchase service credit. This eligibility criterion will require an after-the-fact determination of whether a member would have been eligible for certification at some previous time. The responsibility for evaluating candidates for professional educator certification is part of the mission of the Bureau of Teacher Certification and preparation of the Department of Education. The Bureau has indicated to the staff of the Commission that evaluating an individual's eligibility for certification under standards that existed some years ago is an arduous task, requiring several hours of research through the appropriate standards. The current fee established for an application is $15 but that fee probably would not cover the administrative cost of an evaluation which required that degree of attention.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission has determined that the bill will not increase the normal cost of PSERS. The consulting actuary also has determined that the increase in the unfunded actuarial accrued liability of PSERS will depend on the method selected by the Public School Employees' Retirement Board based on the advice of the actuary of PSERS, to determine the full actuarial cost paid by the member. The bill will not increase the unfunded actuarial accrued liability if the full actuarial cost is determined using the same methodology and assumptions used by the consulting actuary of PSERS for the annual actuarial valuation of PSERS, provided that any purchases made on an installment basis are paid using the investment return assumption used in the valuation and not the statutory four percent interest rate. If, however, the method or assumptions or both the method and the assumptions used in determining full actuarial cost differ from the current valuation methodology and assumptions, there could be an increase or a decrease in the unfunded actuarial liability caused by the service credit purchase.

Although there will be no direct actuarial cost to the employers for the increased PSERS benefits under the bill, there may be other retirement benefits 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. Such benefits might include special early retirement or employer-subsidized postretirement medical insurance.

POLICY CONSIDERATIONS

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

<u>Departure from and Conformance with Policy Guidelines</u>. 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 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 pubic employees. Recognition of these preemployment 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 an 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 bill would expand the purchase of service credit provisions to include service credit for service as an educator in a private school, a type of service not among those recommended by the Commission.

Adequacy of Purchase Payments. The bill requires 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 former employers.

Prohibition of Option 4 Withdrawal of Purchase Contribution. For service credit purchase authorizations to be at the full actuarial cost, the authorization 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 bill contains such a prohibition.

Potential for Other Retirement Benefits Costs. Although there will be no direct actuarial cost to the employers for the increased benefits under the bill, there may be other retirement benefit costs incurred by the employers.

Determination of Eligibility. Considerable administrative problems and expense will be caused for both members and the Department of Education in determining whether a member who was not certified was eligible for certification.

Restriction on Eligibility. Unless amended, the purchase of service provisions of the bill probably will be interpreted by the Department of Education to apply only to those individuals who served as educators in a religious school that had been accredited by a national or regional accrediting agency.

Limitations on Eligibility. The limitations on eligibility provided by the bill in the second sentence of proposed section 8324(e)(2) and existing section 8324(e) of the Code should be removed to avoid the administrative problems associated with the quasi-duplication of the existing limitations on eligibility contained in section 8304(a) of the Code. Draft wording for an amendment to remove the limitations is attached.

COMMISSION RECOMMENDATION

On April 22, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

House Bill Number 158, Printer's Number 146, was referred to the House Education Committee on January 27, 1999.

Bill ID: House Bill Number 164, Printer's Number 152

System: Pennsylvania Municipal Retirement System

Subject: Administrative Expenses

SYNOPSIS

House Bill Number 164, Printer's Number 152, would amend section 112 of the Pennsylvania Municipal Retirement Law (Law) retroactive to January 1, 1995, to extend to calendar years 1995, 1996, 1997, 1998, 1999, and 2000 the authority of the Pennsylvania Municipal Retirement System (PMRS) to use interest earnings in excess of the "regular interest" to pay administrative expenses not covered by the $20 a member a year assessments.

DISCUSSION

PMRS is an agent governmental multiple-employer retirement system created by the Commonwealth under the Law for the purpose of administering municipal employee retirement systems for municipalities on a contracted basis. Responsibility for the organization and administration of PMRS is vested in its 11-member Pennsylvania Municipal Retirement Board (Board). The Commonwealth appoints all 11 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.

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

"Regular interest" means the rate fixed by the Board, from time to time, on the basis of earnings on investments. Under section 110 of the Law, the Board annually credits "regular interest" to each contributor's account, municipal account, retired member's 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.

There are two sources for the payment of the administrative expenses of PMRS, which are:

> An annual assessment per member levied on participating municipal employing entities as set by the Board, which is not to exceed $20 an active member; and
>
> A charge against the PMRS investment income in excess of the actuarial interest assumption set by the Board, which is not to exceed six-tenths of one percent of the total value of the assets of PMRS.

DISCUSSION (CONT'D)

The statutory authorization to use interest earnings above the actuarial assumption is applicable for a limited period of years, subject to periodic legislative extensions, and it is applicable only if the annual per member assessment is insufficient to cover the total amount of PMRS administrative expenses. Experience evidences that the annual per member assessment normally is insufficient to pay the total administrative expenses of PMRS.

SUMMARY OF ACTUARIAL COST IMPACT

The bill authorizes no modification in benefits provided by municipalities participating in PMRS and authorizes no increase in PMRS administrative expenses beyond the budget submitted to the General Assembly for approval. The bill represents a reauthorization of the current practice for financing the system's administrative expenses and has no significant actuarial cost impact on PMRS.

POLICY CONSIDERATIONS

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

> Reauthorization Required. The current financing procedure for the administrative expenses of PMRS is not authorized on a permanent basis. Periodic statutory reauthorizations, which in this case are partially retroactive, are required in order to prevent expiration of the authority to use a portion of the Pennsylvania Municipal Retirement Fund's income to pay the administrative expenses of PMRS. Development of a viable, stable, and appropriate long-term financing procedure for meeting the administrative expenses of PMRS would be desirable. Under such a procedure, the administrative expenses simply would be a component of the annual costs determined for each of the participating municipalities.

COMMISSION RECOMMENDATION

On March 4, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issue identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

House Bill Number 164, Printer's Number 152, passed the House of Representatives (194-0) on March 17, 1999, and was reported as committed from the Senate Finance Committee and re-referred to the Senate Rules and Executive Nominations Committee on December 7, 1999.

Bill ID: House Bill Number 166, Printer's Number 154

System: All Pennsylvania Public Employee Retirement Systems

Subject: Increasing the Benefits of Surviving Spouses

SYNOPSIS

House Bill Number 166, Printer's Number 154, is a joint resolution that would amend section 26 of article 3 of the Constitution of Pennsylvania to permit the General Assembly to increase the retirement benefits or pensions payable to beneficiaries who are spouses of members of a public employee retirement system if the increases are certified to be "actuarially sound."

DISCUSSION

From the adoption of the 1874 Constitution of Pennsylvania, the Constitution had prohibited enactment of legislation giving extra compensation to any public officer, servant, or employee after that individual's service had been rendered. The Supreme Court of Pennsylvania interpreted this section to hold unconstitutional legislation granting increases in retirement pay to already retired public employees. [*Koehnlein v. Allegheny County Employees' Retirement System*, 373 Pa. 535, 97 A.2d 88 (1953); *Jameson v. City of Pittsburgh*, 318 Pa. 386, 113 A.2d 454 (1955).] In a 1955 opinion, relying, in part, upon *Koehnlein*, the Attorney General of Pennsylvania reached the same conclusion. [1955 & 56 Op. Att'y Gen. of Pa. 20 (No.656) (1955).] In response to these readings, the Constitution was amended in 1955 specifically to permit increases in retirement allowances or pensions for members of Pennsylvania's public employee retirement or pension systems after the termination of the services of these members. The language of the 1955 amendment has been interpreted to authorize postretirement adjustments only for retired public employees.

Since the 1955 amendment became effective, the General Assembly has enacted and the Governor has signed into law a number of statutes requiring or permitting ad hoc postretirement adjustments in the retirement pay of retired public employees. None of these statutes, however, have granted an increase in the benefits paid to the survivors of deceased, retired public employees. In most instances, the benefits initially paid to survivors reflect the postretirement adjustments provided to the retired public employee prior to the retiree's death.

A proposal to amend section 26 of article 3 "to permit the General Assembly to legislate that increases in retirement benefits or pensions payable to members of a retirement or pension system of the Commonwealth, its political subdivisions, agencies or instrumentalities, be extended to beneficiaries who are spouses of members of such system" was submitted to the voters at the municipal election on November 3, 1981, and was rejected. [618,857 voted yes and 928,699 voted no.] The bill would submit a similar proposal to the voters of Pennsylvania.

In the experience of the consulting actuary of the Commission, employers typically include surviving spouses in their postretirement adjustments. The only group of benefit recipients that is routinely excluded is the terminated vested group—those who left employment before retirement eligibility. Lump sum benefit recipients (those not receiving any regular payments) also are typically excluded.

The rationales for including surviving spouses in postretirement adjustments are that:

> Their need for inflation protection is at least as great after the retiree's death as before, and
>
> Since the retiree presumably worked a full career with this employer, it is not presumed that there are sufficient other retirement income resources to cover inflation-related needs.

The bill makes the granting of increased benefits to surviving spouses contingent upon being "certified to be actuarially sound." An actuarially sound public employee retirement system is any system that is being funded using an appropriate actuarial cost method. Because almost all public employee retirement systems in Pennsylvania use one of these methods, the inclusion of the proviso implies, incorrectly, that there are instances in which the systems would not be able to pay the increased benefits to the surviving spouses of deceased members of the systems. The phrase "Provided, that such increases are certified to be actuarially sound" is meaningless and should be deleted to avoid confusion.

SUMMARY OF ACTUARIAL COST IMPACT

The constitutional amendment proposed in the bill would permit the General Assembly to enact legislation granting increased benefits to surviving spouses in one or more public employee retirement systems. The constitutional amendment does not mandate the granting of these benefits or any particular benefit design. Accordingly, there will be no actuarial cost impact associated with the constitutional amendment.

Any future postretirement adjustment will cost more if extended to surviving spouses. The consulting actuary of the Commission expects roughly the following percentage cost increases would result depending upon the postretirement adjustment design selected:

Retirement System	Fixed % Increase	% per Year Retired	$ per Year Retired	$ per Year of Service
PSERS	2%	3%	5%—6%	4%—5%
SERS	4%—5%	6%—7%	10%—12%	8%—10%
County	3%—4%	5%	7%—8%	6%—7%
Municipal	10%—12%	12%—15%	30%—40%	25%—30%

In preparing these estimates, the consulting actuary assumed that surviving spouses receive the same dollar increase a year as retirees. If the dollar amount is lower, the applicable cost will be proportionately reduced.

If the Constitutional amendment were to be adopted and a bill proposed granting increased benefits to surviving spouses of deceased, retired members of a public employee retirement system, the bill would have an actuarial cost impact. Under the Public Employee Retirement Commission Act, the Commission would attach an actuarial note to the bill that, among other things, would provide an estimate of the actuarial cost impact of the bill. Likewise, under the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), an actuarial cost estimate would be provided to the municipal governing body for any proposed benefit increase for surviving spouses.

POLICY CONSIDERATIONS

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

> Need for Inflation Protection. The need of surviving spouses for inflation protection is at least as great after the retiree's death as before.
>
> Insufficient Alternative Retirement Income. Since the retiree presumably worked a full career with the employer, it is presumed that there is not sufficient other retirement income to cover inflation-related needs of surviving spouses.
>
> Mirrors Private Sector Practice. In the experience of the consulting actuary of the Commission, employers in the private sector that provide postretirement adjustments typically include surviving spouses in their postretirement adjustments.
>
> Increased Cost of Postretirement Adjustments. Postretirement adjustments will cost more if extended to surviving spouses.
>
> Drafting Ambiguity. The phrase "Provided, that such increases are certified to be actuarially sound" is meaningless and should be deleted to avoid confusion. Draft wording for an amendment to delete the phrase is attached.

COMMISSION RECOMMENDATION

On March 4, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

House Bill Number 166, Printer's Number 154, was referred to the House State Government Committee on January 27, 1999.

Bill ID: House Bill Number 190, Printer's Number 178

System: Philadelphia City Police

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

SYNOPSIS

House Bill Number 190, Printer's Number 178, would:

> Prohibit the City of Philadelphia Municipal Retirement System from denying any benefit, including pension payments, service-connected death benefits, or service-connected health care benefits to a surviving spouse of a police officer or police employee, including police pensioner and employee of the police division, as a result of the remarriage or subsequent marriage of the surviving spouse;
>
> Repeal Act 242 of 1915 insofar as it is inconsistent with the prohibition in the bill; and
>
> Repeal the First Class City Home Rule Act (and, as a result, the home rule charter adopted under the act and ordinances adopted under the charter) insofar as it is inconsistent with the prohibition in the bill.

DISCUSSION

Act 242 of 1915 (Act 242) was among the statutes that established the pension plan for Philadelphia police officers and other municipal employees before the adoption of the City's home rule charter under the First Class City Home Rule Act. In pertinent part, section 4.1 of Act 242 provides that:

> The pension to be paid to such surviving spouse shall begin on the first day of the month in which the death of the deceased spouse occurs or[1] the first day of the month following the surviving spouse's attainment of the age of fifty-five, whichever is the later, and shall continue to and terminate upon the death of such surviving spouse, unless such surviving spouse shall re-marry, in which event the payment of his or her survivor's pension shall thereupon be terminated.

[1] "on" in the original.

Under its home rule charter, the City has legislated for its Municipal Retirement System in the Retirement System Ordinance approved December 3, 1956, and the Municipal Retirement Benefit Plan Ordinance effective January 8, 1987. The bill would repeal the provisions of Act 242, the First Class City Home Rule Act, the City's home rule charter, and the ordinances adopted under the enabling act and charter that are inconsistent with the bill's provision permitting surviving spouses to continue to receive pensions until they die regardless of whether they remarry.

According to the actuarial valuation report filed with the Public Employee Retirement Commission, on July 1, 1997, there were 6,957 active police members of the Municipal

Retirement System and 49 members who had terminated service with vested or deferred benefits, and the system was paying retirement benefits to 4,901 retired members, disability benefits to 2,321 members, surviving spouse benefits to 1,935 surviving spouses, and surviving child benefits to 182 surviving children.

Section 4.1 of Act 242 applies to all employees of Philadelphia not just to police officers and police employees, although the bill proposes to repeal it only with regard to surviving spouses of police officers and police employees. Similar provisions for pensions payable to the surviving spouse of an active or retired municipal employee to cease on a remarriage also exist for police officers and firefighters in the City of Pittsburgh, police officers in the City of Scranton, nonuniformed employees under The Third Class City Code, nonuniformed employees under the statute relating to the optional retirement systems for nonuniformed employees in cities of the third class, and police officers in boroughs, incorporated towns, townships, and regional police departments under the Municipal Police Pension Law (Act 600). Similar provisions also used to exist for paid firefighters and police officers under The Third Class City Code, but they were repealed by Act 74 of 1992 and Act 140 of 1994. Under the pension plans for nonuniformed employees of the City of Scranton and the standard pension plans administered by the Pennsylvania Municipal Retirement System, at the time of retirement, a retiring municipal employee may elect to receive a single life annuity or, if the retiring employee wishes to provide financial assistance for dependents who may outlive the retiree's life, a retiring municipal employee may elect to receive a pension in one of three optional ways provided. In neither plan do any of the three options terminate the retirement system benefits to a surviving spouse upon a remarriage.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission indicates that there will be no significant actuarial cost increase to the City of Philadelphia Municipal Retirement System as a result of passage of this bill.

The consulting actuary of the City of Philadelphia has informed the Commission that he currently does not value the probability of remarriage for surviving spouses of deceased police officers in preparing the actuarial valuations of the police officers' retirement system. Accordingly, there will be no change in the funding requirements of the City of Philadelphia upon enactment of the bill.

POLICY CONSIDERATIONS

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

Uniformity and Equity of Pension Benefits. The same termination of surviving spouses' benefits upon remarriage provisions in Act 242 apply to the surviving spouses of deceased firefighters and nonuniformed employees of the City of Philadelphia as well as to police officers. Similar termination of the pensions of surviving spouses upon remarriage provisions for paid firefighters and police officers in cities of the third class were repealed by Act 74 of 1992 and Act 140 of 1994. Similar termination of the pensions of surviving spouses upon remarriage provisions continue in effect for paid firefighters and police officers in the City of Pittsburgh, police officers in the City of Scranton, police officers in boroughs, incorporated towns, townships, and regional police departments under the Municipal Police Pension Law (Act 600), nonuniformed employees under The Third Class

City Code, and nonuniformed employees under the statute relating to the optional retirement system for nonuniformed employees in cities of the third class. If the proposal in the bill is determined to be appropriate, the same modification of survivor benefit provisions should be extended to all public employees. Draft wording for an amendment to make this bill apply to all employees of the City of Philadelphia is attached.

Removal of Outdated Provisions. The bill removes provisions in Act 242 that were based on an orientation toward survivor benefits that is no longer appropriate.

Outdated Provisions Retained. The bill does not remove the provisions in Act 242 that require the surviving spouse to have married the member at least five years before retirement in order to be eligible for a surviving spouse benefit nor does it remove the provisions in Act 242 that require the surviving spouse to be dependent in order to receive survivor benefits. If the removal of outdated survivor provisions is viewed as desirable, these provisions also should be removed.

COMMISSION RECOMMENDATION

On March 4, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS OF DECEMBER 31, 1999

House Bill Number 190, Printer's Number 178, was reported as committed from the House Urban Affairs Committee on November 16, 1999.

Bill ID: House Bill Number 275, Printer's Number 597

System: Public School Employees' Retirement System

Subject: Return to Service without Cessation of Pension or Forfeiture of Ten Percent Incentive

SYNOPSIS

House Bill Number 275, Printer's Number 597, would amend the Public School Employees' Retirement Code to permit an annuitant (retiree) to be employed by a school district, intermediate unit, or area vocational school under a separate contract as a certain specified type of school employee without being subject to cessation of annuity or forfeiture of the ten percent retirement incentive if the contract specifies that no service credit will be earned in the Public School Employees' Retirement System (PSERS) and no contributions are made to PSERS by the retiree, the public school employer, or the Commonwealth for the work under the contract. The specified types of school service are:

> School service as a coach, director, or sponsor of a school activity, and
>
> School service as a less-than-full-time instructor or administrator of an adult or basic literacy education program if the program is conducted outside the regular instructional hours, is not part of a program or curriculum mandated by state law, and does not require state certification of the administrators or instructors conducting the program.

DISCUSSION

Under the Public School Employees' Retirement Code (Code), if a member retires and later returns to school service, the annuity ceases and the value of the annuity is frozen as of that date. In addition, if a member retired during the period of May 15, 1992, to August 31, 1993, taking the additional ten percent service credit early retirement incentive ("Mellow Bill") and later returns to school service, the member must forfeit the additional ten percent service credit. This special provision was part of the "Mellow Bill" and apparently was designed to discourage public school employers and public school employees from abusing the early retirement incentive program by allowing an employee to gain an additional ten percent in the annuity and then resume school employment. The only exceptions to the freezing and forfeiture provisions are in an emergency or a shortage of appropriate subject certified teachers, but then the exception is only for a period of not more than 95 full-day sessions in any school year.

Since independent contractors and individuals compensated on a fee bases are excluded from membership is PSERS, the bill apparently intends to provide for actual reemployment for an indefinite period, if the employee performs certain specified types of service and does not participate as an active employee in PSERS.

The public employee retirement policy of the Commonwealth as expressed both in the Code and in the State Employees' Retirement Code has been that, except in emergencies, and then only for a short period of time, a retiree returning to school or state service ceased to receive a pension and became an active, contributing member of the retirement system. The bill would enact a fundamental change in this policy by permitting a Public School Employees' Retirement System (PSERS) retiree to return to school service in nonemergency situations for an unlimited period of time and be paid while still receiving a PSERS pension.

Because complement reduction was an assumed objective of the recent early retirement incentives ("30 and Out" and "Additional 10% Service Credit"), permitting retirees who may have received early retirement incentives to be reemployed to perform the same service, or a modified component of that service, appears to be inconsistent from a retirement policy perspective. From a personnel policy perspective, the use of a retiree plus a lower paid employee may be less costly than retaining one higher paid employee, depending on the level of compensation provided to the retiree. Authorizing a retiree to return indefinitely to school service in one of the specified positions in a nonemergency situation permits a retiree to receive supplemental retirement income from the employer that, in effect, provides an additional incentive to retire.

PSERS has at least 118,137 annuitants (early, early incentive, disability, and regular retirees) of whom about 14,900 retired under the "Mellow Bill." The proposal in the bill would apply only to those retirees who return to school service in one of the specified positions. The proposal would not apply to other retirees who might wish to or be asked to return to other types of school employment.

SUMMARY OF ACTUARIAL COST IMPACT

Except for the potential for the loss of a de minimis actuarial gain, the proposal in the bill will have no actuarial effect upon the Public School Employees' Retirement System.

POLICY CONSIDERATIONS

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

Inconsistent Retirement Policy. Because complement reduction was an assumed objective of the recent early retirement incentives, permitting retirees who may have received early retirement incentives to be reemployed to perform the same service, or part of the same service, appears to be inconsistent from a retirement policy perspective.

Personnel Policy Flexibility. From a personnel policy perspective, the use of a retiree and a lower paid regular employee may be less costly than retaining one higher paid regular employee, depending on the level of compensation provided to the retiree.

Additional Early Retirement Incentive. Authorizing a retiree to return indefinitely to school service in a nonemergency situation permits a retiree to receive supplemental retirement income from the employer that, in effect, provides an additional incentive to retire.

Lack of Uniformity. The bill would apply only to those retirees returning to school service to perform services in one of the specified positions. Annuitants returning to school service to perform any other school service would remain subject to the cessation of their pensions and forfeiture of the ten percent retirement incentive.

Fundamental Change in Public Employee Retirement Policy. The bill would enact a fundamental change in public employee retirement policy by permitting retirees to return to school service in nonemergency situations for unlimited periods of time and receive compensation while still receiving their pensions.

Drafting Ambiguity. The description of the bill provided in the title is misleading. It is not a bill "providing for the termination of annuities." It is actually a bill "providing for certain employment by annuitants" through "exceptions to the termination of annuities and forfeiture of early retirement incentives." Draft wording for an amendment to clarify the title is attached.

COMMISSION RECOMMENDATION

On March 4, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

As Printer's Number 1043, House Bill Number 275 passed the House of Representatives (194-0) on March 17, 1999, and was referred to the Senate Finance Committee on March 24, 1999.

Bill ID: House Bill Number 295, Printer's Number 292

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

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

SYNOPSIS

House Bill Number 295, Printer's Number 292, 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 Employees' Retirement System and the State Employees' 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.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission prepared an actuarial note dated February 12, 1998, on House Bill Number 2052, Printer's Number 2695, 1997-98 Sessions, a bill that was identical to House Bill Number 295, Printer's Number 292.

Public School Employees' Retirement System

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

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$ 0	0.00%
Amortization Payment[2]	1,300,000	0.02%
Total Increase in Employer Annual Costs[3]	$1,300,000	0.02%

	Amount
Total Amortization Payments	$42,985,740

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

[2] First year cost. Cost increases 5% a year for 20 years.

[3] First year costs only.

State Employees' 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]	1,900,000	0.45%
Total Increase in Employer Annual Costs[2]	$3,800,000	0.90%

	Amount
Total Amortization Payments	$62,825,312

[1] First year cost, increasing 5% a year for 20 years.

[2] First year only.

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 6, 1999, the less complex approach of making it effective in 180 days with the one-time window closing on December 31, 2002, could be used.

COMMISSION RECOMMENDATION

On April 22, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

As Printer's Number 2346, House Bill Number 295 passed the House of Representatives (202-0) on October 5, 1999, and was referred to the Senate Finance Committee on October 14, 1999.

Bill ID: Amendment Number 3404
to House Bill 295, Printer's Number 2346

Systems: Public School Employees' Retirement System
and the State Employees' Retirement System

Subject: Reducing Service Requirement for Normal Retirement to 30 Years

SYNOPSIS

Amendment Number 3404 to House Bill Number 295, Printer's Number 2346, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to reduce the number of years of service credit needed by most members for a superannuation or normal retirement to 30 years.

DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code are governmental, cost-sharing, multiple-employer, contributory, defined benefit pension plans. The designated purposes of the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) are to provide retirement allowances and other benefits, including disability and death benefits, to employees of public school entities, the Commonwealth, and certain independent agencies. As of June 30, 1998, there were 640 participating entities, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 1998, there were 107 participating state and independent agencies in SERS. Membership in PSERS is mandatory for most public school employees and in SERS for most state employees. Certain other employees are not required but are given the option to participate in one of the Systems. As of June 30, 1998, there were 220,703 active members in PSERS, and as of December 31, 1998, there were 108,893 active members in SERS. Generally speaking the annual retirement benefit is the product of two percent multiplied by the member's high three-year average salary multiplied by the member's years of service credit.

Under the Codes, superannuation or normal retirement age is that date on which a member may terminate employment and receive a regular formula pension without reduction because of age or service.

Under the Public School Employees' Retirement Code, superannuation or normal retirement age depends upon the member's class of service:

Class of Service	Superannuation Age
T-A	62 or any age upon accrual of 35 eligibility points
T-B	62
T-C	62 or age 60 provided the member has at least 30 eligibility points or any age upon accrual of 35 eligibility points

The majority of PSERS members are in Class T-C. Anyone enrolled as a member of PSERS after July 1, 1967, is automatically a member of Class T-C. Most members of PSERS who joined prior to July 1, 1967, have converted to Class T-C membership. If the amendment is enacted, the PSERS superannuation age would be reduced for Class T-A and T-C members to 62 or any age upon accrual of 30 eligibility points.

Under the State Employees' Retirement Code, superannuation or retirement age is any age upon accrual of 35 eligibility points or age 60, except for members of the General Assembly and certain public safety employees, for which it is age 50. If the amendment is enacted, the superannuation age would be reduced to any age upon accrual of 30 eligibility points or age 60, except for the members of the General Assembly and certain public safety employees, for which it would remain age 50.

Reducing the superannuation retirement age means that the anticipated pension will be less than before the reduction because of fewer years of service credit. Reducing the superannuation retirement age means that a member who terminates service with a vested benefit before superannuation retirement age will receive a larger pension because of the fewer years of actuarial reduction because of the member's early retirement. This is because, in calculating the actuarial reduction, the systems assume that such a retiree would have continued employment until superannuation retirement age. For example, a member who terminates employment at age 40 with 17 eligibility points now has a superannuation retirement age of 58—the age at which the member would have completed 35 years of service if the member had continued employment. If the amendment is enacted, the systems would assume a superannuation retirement age of 53 with the corresponding decrease in the actuarial reduction. With both superannuation and early retirement, reducing the superannuation retirement age also means that both systems must assume five fewer years time during which to accumulate the necessary assets from employer contributions, employee contributions, and investment earnings to pay the anticipated pension and five more years over which the anticipated pension will have to be paid.

Reduction in Superannuation Retirement Age

Public School Employees' Retirement System

	Amount
Increase in Unfunded Actuarial Accrued Liability	$1,600,000,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$ 67,000,000	0.8%
Amortization Payment[2]	126,000,000	1.6%
Total Increase in Employer Annual Costs[3]	$193,000,000	2.4%

	Amount
Total Amortization Payments	$4,166,310,217

[1] Paid in part by the Commonwealth and in part by the school districts and other educational employers.
[2] First year's cost. Cost increases 5% a year for 20 years.
[3] First year's cost only.

State Employees' Retirement System[1]

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

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$20,000,000	0.5%
Amortization Payment[2]	28,000,000	0.6%
Total Increase in Employer Annual Costs[3]	$48,000,000	1.1%

	Amount
Total Amortization Payments	$925,846,714

[1] The summary of the actuarial cost impact reflects the total gross increased cost of the enactment of the amendment upon SERS. Because the annual funding requirements for SERS are based upon the assumption that the "30 and Out" benefit will be continued effectively forever, an assumption that no longer would apply if the amendment were to be enacted, the total net increased cost of the enactment of the amendment upon SERS would be an increase in Unfunded Actuarial Accrued Liability of $60,000,000, an increased Normal Cost of $7,000,000 representing 0.2 percent of payroll, a first year's Amortization Payment of $4,000,000 representing 0.1 percent of payroll, a first year's Total Increase in Employer Annual Cost of $11,000,000 representing 0.3 percent of payroll, and a Total Amortization Payment of $132,263,816.
[2] First year's cost. Cost increases 5% a year for 20 years.
[3] First year's cost only.

Permanent "30 and Out" Early Retirement Incentive

For purposes of illustration, the consulting actuary of the Commission also estimated the increased actuarial costs to the two systems if, rather than reducing the superannuation or normal retirement age to 30 years of service credit, the "30 and Out" early retirement incentive provisions, which expired on July 1, 1999, were to be made permanent. (The superannuation retirement age would remain unchanged, but a member could retire with 30 or more years of service credit without the member's pension being actuarially reduced for retiring before the member's superannuation retirement date.)

Public School Employees' Retirement System

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

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$ 42,000,000	0.5%
Amortization Payment[2]	100,000,000	1.2%
Total Increase in Employer Annual Costs[3]	$ 142,000,000	1.7%

	Amount
Total Amortization Payment	$3,306,595,410

[1] Paid in part by the Commonwealth and in part by the school districts and other educational employers.
[2] First year's cost. Cost increases 5% a year for 20 years.
[3] First year's cost only.

State Employees' Retirement System[1]

	Amount
Increase in Unfunded Actuarial Accrued Liability[1]	$325,000,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$13,000,000	0.3%
Amortization Payment[2]	24,000,000	0.5%
Total Increase in Employer Annual Costs[3]	$37,000,000	0.8%

	Amount
Total Amortization Payments	$793,582,898

[1] The annual funding requirements for the normal cost and increased actuarial liability attributable to such a change are being satisfied by current normal cost contributions of about 0.75 percent of payroll currently being paid due to the system's assumption that the benefit provided in the change has been implemented previously.
[2] First year's cost. Cost increases 5% a year for 20 years.
[3] First year's cost only.

POLICY CONSIDERATIONS

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

Fundamental Benefit Enhancement. The proposed reduction in the superannuation retirement age differs in purpose from the now expired, previous, temporary early retirement windows that were provided to function as an incentive to induce early retirement. In reducing the superannuation retirement age, the purpose of the amendment shifts from providing an early retirement incentive to providing a fundamental benefit enhancement. In order to encourage early retirements in the future, temporary, early retirement provisions based only on the service credits accumulated would have to provide for unreduced retirement earlier than the previous "30 and Out" windows.

Impact on Cost-of-Living Adjustments. To the extent that members take advantage of the reduced superannuation retirement age, they will tend to retire with smaller pensions that will be exposed to erosion of purchasing power resulting from inflation over longer retired lifetimes. This aspect of reducing superannuation retirement age could result in an increased need for future ad hoc postretirement cost-of-living adjustments.

Impact of Postretirement Health Insurance Costs To the extent that members take advantage of the reduced superannuation retirement age, they will have longer retired lifetimes. The additional years on retirement will increase the cost of providing postretirement health insurance benefits to those members.

COMMISSION RECOMMENDATION

On October 28, 1999, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

House Bill Number 295, Printer's Number 2346, passed the House of Representatives (202-0) on October 5, 1999, and was referred to the Senate Finance Committee on October 14, 1999.

Bill ID: House Bill Number 303, Printer's Number 310

System: Public School Employees' Retirement System

Subject: Purchase of Service Credit for Special Educator Service in an Accredited Pennsylvania-Approved Private (Special Education) School

SYNOPSIS

House Bill Number 303, Printer's Number 310, would amend the Public School Employees' Code to permit an active member or an active multiple service member of the Public School Employees' 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 (special education) 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, 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. The designated purpose of PSERS is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 1998, there were 640 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. As of June 30, 1998, there were 220,703 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 of a mandated maternity leave prior to 1978, and service in the Cadet Nurse Corps during World War II.

The bill 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 three years' average salary to 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.

Among other ways, the bill would restrict the service that could be purchased to service in a "Pennsylvania-approved private elementary or secondary school, . . ." In the Department of Education, the term "approved private school" is a term of art describing a private school whose mission is to provide special education to children with exceptional needs. There are about 31 of these schools that are licensed by the State Board of Private Academic Schools and also approved by the Bureau of Special Education of the Department of Education. Educators in the "approved private schools" must hold public school certification. Another way in which the bill restricts the service that could be purchased is to limit it to service in an "accredited" school. In the Department of Education, the term "accredited school" is a term of art describing a school accredited by meeting the standards set by one of the national or regional accrediting agencies approved by the State Board of Education. The Department of Education does not "accredit" schools, however. If the sponsors of the bill intend to offer the purchase of service credit option to members of PSERS who were special educators in other types schools, the bill will have to be amended to make the intention clear.

The bill 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 bill 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 bill proposes to make section 8324(e)(1).

The bill would permit not only members of PSERS who held provisional or permanent teaching certificates but also members who only were eligible for such certificates to purchase service credit. This eligibility criterion will require an after-the-fact determination of whether a member would have been eligible for certification at some previous time. The responsibility for evaluating candidates for professional educator certification is part of the mission of the Bureau of Teacher Certification and Preparation of the Department of Education. The Bureau has indicated to the staff of the Commission that evaluating an individual's eligibility for certification under standards that existed some years ago is an arduous task, requiring several hours of research through the appropriate standards. The current fee established for an application is $15 but that fee probably would not cover the administrative cost of an evaluation which required that degree of attention.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission prepared an actuarial note dated October 16, 1998, on Amendment 3185 to Senate Bill Number 803, Printer' Number 1819, 1997-98 Sessions, that contained a proposal identical to the proposal in House Bill Number 303, Printer's Number 310.

If the bill is changed to prohibit a lump sum withdrawal of the purchase contribution under Option 4, the bill will have no actuarial cost impact upon the Public School Employees' Retirement System, although there may be other retirement benefit costs incurred by the employers. If the bill 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.

Although there will be no direct actuarial cost to the employers for the increased PSERS benefits under the bill, 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. Such benefits might include special early retirement or employer-subsidized postretirement medical insurance.

POLICY CONSIDERATIONS

In reviewing the bill, 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 bill 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 preemployment 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 bill would permit purchase of service for a situation that is not among the situations which the Commission views as warranting service credit purchase authorizations.

Adequacy of Purchase Payments. On its face, the bill 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 bill is changed to prohibit a lump sum withdrawal of the purchase contribution under Option 4.

Time Limit on Exercise of Purchase Option. 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 bill 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 bill 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 bill 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 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.

Potential for Other Retirement Benefits Costs. Although there may be no direct actuarial cost to the employers for the increased benefits under the bill, there may be other retirement benefits costs incurred by the employers.

Determination of Eligibility. Considerable administrative problems and expense will be caused for both members and the Department of Education in determining whether a member who was not certified was eligible for certification.

Restriction on Eligibility. Unless amended, the purchase of service provisions of the bill probably will be interpreted by the Department of Education to apply only to those individuals who served in a special education school that had been accredited by a national or regional accrediting agency.

Limitations on Eligibility. The limitations on eligibility provided by the bill in the second sentence of proposed section 8324(e)(2) and existing section 8324(e) of the Code should be removed to avoid the administrative problems associated with the quasi-duplication of the existing limitations on eligibility contained in section 8304(a) of the Code. Draft wording for an amendment to remove the limitations is attached.

COMMISSION RECOMMENDATION

On April 22, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

House Bill Number 303, Printer's Number 310, was referred to the House Education Committee on February 3, 1999.

Bill ID: House Bill Number 738, Printer's Number 1048

System: Public School Employees' Retirement System and State Employees' Retirement system

Subject: Granting a Two-Year Extension of "30 and Out"

SYNOPSIS

House Bill Number 738, Printer's Number 1048, would amend both section 8313 of the Public School Employees' Retirement Code and section 5308.2 of the State Employees' Retirement Code to permit a member of the Public School Employees' Retirement System (PSERS) or the State Employees' Retirement System (SERS) to retire during certain periods of time with 30 eligibility points without the member's annuity being reduced because of a retirement age that is under superannuation age ("30 and Out"). An eligible individual would be either:

> A member of PSERS who has at least 30 eligibility points, terminates service from April 1, 2000, through June 30, 2000, or April 1, 2001, through June 30, 2001, and files an application for an annuity with an effective date of retirement not later than July 1, 2000, or July 1, 2001; or

> A member of SERS who has at least 30 eligibility points, terminates service from July 1, 1999, through June 30, 2001, and files an application for an annuity with an effective date of retirement not later than July 1, 2001.

DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of PSERS and SERS (Systems) are to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. As of June 30, 1998, there were 640 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 1997, there were 107 participating state and other organizations in SERS. Membership in the Systems is mandatory for most school and state employees. Certain other employees are not required but are given the option to participate. As of June 30, 1998, PSERS had 220,703 active members, and as of December 31, 1997, SERS had 108,684 active members. 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 Public School Employees' Retirement Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service, and 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 Codes 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 the superannuation or normal retirement age. The most recent special early retirement provisions will expire June 30, 1999. The special early retirement provisions were adopted in 1984 and revised and extended in 1985 (SERS only), 1986, 1987, 1988, 1991, 1994 (retroactive to 1993), and 1998.

In adopting the original special early retirement windows 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, and
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> 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 that expires on June 30, 1999.

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 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. If the special early retirement provisions of PSERS are to be granted frequently, PSERS also should make a similar change in its funding methodology. Only if the early retirement windows are granted less frequently than once every five years would the current PSERS funding approach be appropriate.

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 and again for parts of 1998 and 1999, 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 three-month retirement times of PSERS members for the next two years and continuing them for the entire following two years for SERS 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 in PSERS with an increase in early retirements during the two proposed three-month windows in PSERS. Granting short-period early retirement windows more frequently than once every five years or granting early retirement windows continuously is the provision of a benefit enhancement rather than an incentive to retire.

The consulting actuary of the Public School Employees' Retirement System has estimated the cost for a two-year extension of the special early retirement provisions, assuming retirement rates of 5, 10, and 15 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 2001, a 15 percent utilization rate is most likely to be representative of the actual utilization patterns and will result in the following costs.

Public School Employees' Retirement System

	Amount
Increase in Unfunded Actuarial Accrued Liability[1]	$331,300,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[2]		
Normal Cost[3]	$ 3,600,000	0.04%
Amortization Payment[4]	26,300,000	0.29%
Total Increase in Employer Annual Costs[5]	$29,900,000	0.33%

	Amount
Total Amortization Payments	$869,634,593

1 The total cost of the bill to PSERS is the increase in unfunded actuarial accrued liability plus the present value of the two years of increases in normal cost.
2 Paid in part by the Commonwealth and in part by the school districts and other educational employers.
3 Paid for first two years only.
4 First year payment only. Amortization payments increase five percent a year for 20 years.
5 First year costs only.

State Employees' Retirement System

The consulting actuary of the State Employees' Retirement System has estimated the cost for House Bill Number 738, Printer's Number 1048. The estimate has been reviewed by the consulting actuary of the Commission who has determined that, if SERS were not prefunding "30 and Out," the bill would result in the following cost.

	Amount
Increase in Unfunded Actuarial Accrued Liability[1]	$136,300,000

1 The total cost of the bill to SERS is the increase in the unfunded actuarial accrued liability. The annual funding requirements for the increased actuarial accrued liability attributable to the bill are being satisfied by current normal cost contributions of about 0.75 percent of payroll due to the system's assumption that the benefit provided in the bill will be continued indefinitely.

POLICY CONSIDERATIONS

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

Purpose of Granting Extension of Special Early Retirement Provisions. Policy makers may wish to consider whether the purpose of granting two three-month windows for special early retirement in PSERS so soon after the expiration of the previous provisions and of granting a two-year continuation of the current one-year window for special early retirement in SERS is to induce a reduction in the 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 Incentives. 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 ones as to make them available almost continuously.

COMMISSION RECOMMENDATION

On May 19, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

House Bill Number 738, Printer's Number 1048, was referred to the House State Government Committee on March 22, 1999.

Bill ID: House Bill Number 845, Printer's Number 903

System: Public School Employees' Retirement System

Subject: Purchase of Service Credit for Nonschool Service for Vocational Teacher Work Experience and In-State Private Educator Work Experience

SYNOPSIS

House Bill Number 845, Printer's Number 903, would amend the Public School Employees' Retirement Code to permit an active member or an active multiple service member to purchase service credit for nonschool service for two types of currently uncreditable previous nonschool service if the member contributes the present value of the full actuarial cost of the increase in the projected superannuation annuity caused by the additional service credit because of the purchase and cannot withdraw the contribution as a lump sum under Option 4. The two types of additional creditable nonschool service would be the following:

> Up to three years of service credit at the rate of one year of service credit for every two years of work experience used by the member to obtain certification as a vocational teacher under a nonbaccalaureate program excluding time served in an apprenticeship, and
>
> Up to five years of service credit at the rate of one year of service credit for every three years of service 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 Pennsylvania public schools at the time the service was rendered.

The bill also would repeal the double crediting prohibitions in section 8324(e).

DISCUSSION

Public School Employees' Retirement System

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 1998, there were 640 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. As of June 30, 1998, there were 220,703 active members in PSERS.

Under the Code, a member 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 a member to receive credit for service with another employer are of value to the member because they enhance the retirement benefit and also may accelerate retirement eligibility.

Active members and active multiple service members of PSERS currently are able to purchase service 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.

Work Experience Required for Permanent Certification as a Vocational Teacher

The bill would expand the list of purchasable nonschool service to include up to three years of service credit at the rate of one year of service credit for every two years of work experience used by the member to obtain certification as a vocational teacher under a nonbaccalaureate program excluding time served in an apprenticeship. The effect of the additional service credit will be to add an amount equal to up to six percent of the highest three years' average salary to the basic benefit prior to modification.

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

There is no work experience required for a Vocational Instructional II Certificate, a permanent certificate. One of the requirements to obtain a Vocational Instructional II Certificate, however, is three years of satisfactory teaching on a Vocational Instructional I Certificate, a temporary certificate. The requirements to obtain a Vocational Instructional I Certificate in the about 108 vocational instructional programs vary. In the absence of an appropriate degree, an alternative certification process is available in some vocational instruction programs and is the only process for certification in some other instruction programs.

Of the 220,703 active members of PSERS, 7,791 are vocational administrators, supervisors, or classroom teachers. About 1,000 of these individuals would be eligible under the purchase of service credit authorization proposed in the bill (17 with only a high school diploma, 726 with less than a bachelor's degree, and about 257 with a bachelor's or higher degree) all of whom have at least two years of work experience. In addition, about 45 to 50 individuals are so certified every year.

Service in an Accredited Pennsylvania Nonpublic (Religious) School

The bill would expand the list of purchasable nonschool service to include up to five years of service credit at the rate of one year of service credit for every three years of nonschool service 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 of Pennsylvania at the time of the nonschool service. The effect of the additional service credit will be to add an amount equal to up to ten percent of the highest three years' average salary to the basic benefit prior to modification.

The bill would restrict the service that could be purchased to service in a "Pennsylvania nonpublic elementary or secondary school, . . ." In the Department of Education, the term "nonpublic nonlicensed school" is a term of art describing a religious school registered with the Department to provide educational programs for elementary students or secondary students. No certification is required by the Commonwealth for educators in religious schools. Another way in which the bill restricts the service that could be purchased is to limit it to service in an "accredited" school. In the Department of Education, the term "accredited school" is a term of art describing a school accredited by meeting the standards set by one of the national or regional accrediting agencies approved by the State Board of Education. If the sponsors of the bill intend to offer the purchase of service credit option to members of PSERS who were educators in other types of schools, the bill will have to be amended to make the intention clear.

The bill would permit not only members of PSERS who held provisional or permanent teaching certificates but also members who were eligible for such certificates to purchase service credit. This eligibility criterion will require an after-the-fact determination of whether a member would have been eligible for certification at some previous time. The responsibility for evaluating candidates for professional educator certification is part of the mission of the Bureau of Teacher Certification and Preparation of the Department of Education. The Bureau has indicated to the staff of the Commission that evaluating an individual's eligibility for certification under standards that existed some years ago is an arduous task, requiring several hours of research through the appropriate standards. The current fee established for an application is $15, but that fee would not cover the administrative cost of an evaluation which required that degree of attention.

Member's Contribution

To purchase either of these two types of service credit, a member will have to contribute the present value of the full actuarial cost of the increase in the projected superannuation annuity caused by the additional service credit and will be prohibited from withdrawing the contribution as a lump sum under section 8345(a)(4)(iii) of the Code (Option 4).

Clarification of Double Crediting Prohibition

Section 8324(e) currently prohibits any active member or active multiple service member who is eligible to receive an annuity of any type from any other pension system, except Social Security or a military pension system, from purchasing the service credit for nonschool service, which is similar to the prohibition also currently contained in section 8304(a) of the Code. To prevent the administrative problems associated with conflicting provisions of the same statute and to prevent possible inequitable results, the bill would repeal the duplicating wording in section 8342(e).

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission has determined that the bill will not increase the normal cost of PSERS. The consulting actuary also has determined that the increase in the unfunded actuarial accrued liability of PSERS will depend on the method selected by the Public School Employees' Retirement Board, based on the advice of the actuary of PSERS, to determine the full actuarial cost paid by the member. The bill will not increase the unfunded actuarial accrued liability if the full actuarial cost is determined using the same methodology and assumptions used by the consulting actuary of PSERS for the annual actuarial valuation of PSERS, provided that any purchases made on an installment basis are paid using the investment return assumption used in the valuation and not the statutory four percent interest rate. If, however, the method or the assumptions or both the method and the assumptions used in determining full actuarial cost differ from the current valuation methodology and assumptions, there could be an increase or a decrease in the unfunded actuarial liability caused by the service credit purchase.

Although there will be no direct actuarial cost to the employers for the increased PSERS benefits under the bill, there may be other retirement benefits 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. Such benefits might include special early retirement or employer-subsidized postretirement medical insurance.

POLICY CONSIDERATIONS

In reviewing the bill, 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 bill 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 pubic employees. 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 Vocational Teacher Experience and Service as an 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 types of service to be made purchasable under the bill are not among these types of service.

Adequacy of Purchase Payments. The bill requires 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.

Prohibition of Option 4 Withdrawal of Purchase Contribution. For service credit purchase authorizations to be at the full actuarial cost, the authorization 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 bill contains such a prohibition.

Potential for Other Retirement Benefits Costs. Although there will be no direct actuarial cost to the employers for the increased benefits under the bill, there may be other retirement benefit costs incurred by the employers.

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

Determination of Eligibility. Considerable administrative problems and expense will be caused for both members and the Department of Education in determining whether a member who was not certified was eligible for certification.

Scope of Eligibility. Unless amended, the purchase of service provisions of the bill probably will be interpreted by the Department of Education to apply only to those individuals who served as educators in religious school that had been accredited by a national or regional accrediting agency.

Elimination of Duplicating Provisions Prohibiting Double Crediting. The bill would repeal the prohibitions against double crediting of service credit currently contained in section 8324(e). These prohibitions duplicate similar ones contained in section 8304(a), and the repeal of the duplicating provisions should prevent the administrative problems associated with conflicting provisions of the same statute and possible inequitable results.

COMMISSION RECOMMENDATION

On October 28, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

House Bill Number 845, Printer's Number 903, was referred to the House Education Committee on March 10, 1999.

Bill ID: House Bill Number 966, Printer's Number 1074

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

Subject: Granting a Three-Year Extension of "30 and Out"

SYNOPSIS

House Bill Number 966, Printer's Number 1074, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to permit a member of the Public School Employees' Retirement System (PSERS) or the State Employees' Retirement System (SERS) to retire during certain periods of time with 30 eligibility points without the member's annuity being reduced because of a retirement age that is under superannuation age ("30 and Out"). An eligible individual would be either:

> A member of PSERS who has at least 30 eligibility points, terminates service from April 1, 2000, through June 30, 2000, or April 1, 2001, through June 30, 2001, or from April 1, 2002, through June 30, 2002, and files an application for an annuity with an effective date of retirement not later than July 1, 2000, or July 1, 2001, or July 1, 2002; or
>
> A member of SERS who has at least 30 eligibility points, terminates service from July 1, 1999, through June 30, 2002, and files an application for an annuity with an effective date of retirement not later than July 1, 2002.

DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of PSERS and SERS (Systems) are to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. As of June 30, 1998, there were 640 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 1997, there were 107 participating state and other organizations in SERS. Membership in the Systems is mandatory for most school and state employees. Certain other employees are not required but are given the option to participate. As of June 30, 1998, PSERS had 220,703 active members, and as of December 31, 1997, SERS had 108,684 active members. 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 Public School Employees' Retirement Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service, and 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 Codes 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 the superannuation or normal retirement age. The most recent special early retirement provisions will expire June 30, 1999. The special early retirement provisions were adopted in 1984 and revised and extended in 1985 (SERS only), 1986, 1987, 1988, 1991, 1994 (retroactive to 1993), and 1998.

In adopting the original special early retirement windows 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, and
>
> 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 that expires on June 30, 1999.

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 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. If the special early retirement provisions of PSERS are to be granted frequently, PSERS also should make a similar change in its funding methodology. Only if the early retirement windows are granted less frequently than once every five years would the current PSERS funding approach be appropriate.

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 and again for parts of 1998 and 1999, 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 three-month retirement times of PSERS members for the next three years and continuing them for the entire following three years for SERS 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 in PSERS with an increase in early retirements during the three proposed three-month windows in PSERS. Granting short-period early retirement windows more frequently than once every five years or granting retirement windows continuously is the provision of a benefit enhancement rather than an incentive to retire.

Public School Employees' Retirement System

The consulting actuary of the Public School Employees' Retirement System has estimated the cost for a two-year extension of the special early retirement provisions, assuming retirement rates of 5, 10, and 15 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 2002, a 15 percent utilization rate is most likely to be representative of the actual utilization patterns and will result in the following costs.

	Amount
Increase in Unfunded Actuarial Accrued Liability[1]	$501,200,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[2]		
Normal Cost[3]	$ 5,400,000	0.06%
Amortization Payment[4]	39,900,000	0.44%
Total Increase in Employer Annual Costs[5]	$45,300,000	0.50%

	Amount
Total Amortization Payments	$1,319,331,568

[1] The total cost of the bill to PSERS is the increase in unfunded actuarial accrued liability plus the present value of the three years of increases in normal cost.
[2] Paid in part by the Commonwealth and in part by the school districts and other educational employers.
[3] Paid for first two years only.
[4] First year payment only. Amortization payments increase five percent a year for 20 years.
[5] First year costs only.

State Employees' Retirement System

The consulting actuary of the State Employees' Retirement System has estimated the cost for House Bill Number 966, Printer's Number 1074. The estimate has been reviewed by the consulting actuary of the Commission who has determined that, if SERS were not prefunding "30 and Out," the bill would result in the following cost.

	Amount
Increase in Unfunded Actuarial Accrued Liability[1]	$201,100,000

[1] The total cost of the bill to SERS is the increase in the unfunded actuarial accrued liability. The annual funding requirements for the increased actuarial accrued liability attributable to the bill are being satisfied by current normal cost contributions of about 0.75 percent of payroll due to the system's assumption that the benefit provided in the bill will be continued indefinitely.

POLICY CONSIDERATIONS

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

Purpose of Granting Extension of Special Early Retirement Provisions. Policy makers may wish to consider whether the purpose of granting three three-month windows for special early retirement in PSERS so soon after the expiration of the previous provisions and of granting a three-year continuation of the current one-year window for special early retirement in SERS is to induce a reduction in the 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 Incentives. 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 ones as to make them available almost continuously.

COMMISSION RECOMMENDATION

On May 19, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

House Bill Number 966, Printer's Number 1074, was referred to the House State Government Committee on March 22, 1999.

Bill ID: House Bill Number 1401, Printer's Number 1643

System: Public School Employees' Retirement System

Subject: Public School Retirees' Health Insurance Act

SYNOPSIS

House Bill Number 1401, Printer's Number 1643, would do two things:

> Enact the Public School Retirees' Health Insurance Act (Act) that would provide for health insurance premium assistance for certain public school retirees and others in addition to the current premium assistance, which has existed under the Public School Employees' Retirement Code but will now exist under the Act, provide for the sponsorship and administration of the group health insurance program, provide for the powers and duties of the Public School Employees' Retirement Board under the Act, and establish the Public School Retirees' Health Insurance Fund; and
>
> Repeal certain of the existing provisions in the Public School Employees' Retirement Code providing for health insurance premium assistance and enact them as part of the Public School Retirees' Health Insurance Act.

DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability benefits and death benefits, to public school employees. As of June 30, 1998, there were 640 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. As of June 30, 1998, there were 115,488 regular and early retirees, 5,177 disability retirees, and 6,149 survivors receiving benefits from PSERS.

Under the Code, health insurance premium assistance benefits are provided to retired members who meet specified length-of-service and age requirements. To be eligible for the Health Insurance 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 have both 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 employers and 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 has been anticipated to be relatively stable and the benefit's amount has not been indexed, this approach has provided a reasonable estimate on the long-term cost level.

About 53,000 retirees are expected to receive health insurance premium assistance payments during Fiscal Year 2000—01 with an expected annual outlay of $35,000,000. An additional 33,000 retirees will meet the requirements for the premium assistance payments but either are enrolled in nonapproved plans or will not purchase coverage and, therefore, will not receive premium assistance payments.

The bill would enact the Public School Retirees' Health Insurance Act (Act), which would provide for increases in the maximum health insurance premium assistance amount and a funding mechanism to pay for the increased benefit. Among other things, the Act would:

> In addition to the authority of the Public School Employees' Retirement Board (Board) under the Code to sponsor a participant-funded group health insurance program for annuitants, spouses of annuitants, survivor annuitants, and their dependents, authorize the Board to sponsor a group health insurance program to be funded by and for eligible persons and to administer the program itself or through any legal entity authorized by law to do so;
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> Establish the Public School Retiree's Health Insurance Fund and a restricted reserve account within the fund;
>
> In Fiscal Year 1999-2000, require the Commonwealth to contribute 0.72 percent of the payroll into the restricted reserve account to provide the initial funding of the reserve account;
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> In each calendar year beginning with Calendar Year 2000, require the Board to determine through its consulting actuary the amount necessary to maintain the reserve account at a sufficient level to pay at least 50 percent of the expected claims experience of the program on a self-funded basis either by adjusting the premium rates or through other available sources or both;
>
> In each fiscal year beginning with Fiscal Year 2000-01, in addition to the employer contribution to fund the current Health Insurance Premium Assistance Program, require the public school employers to contribute an additional 0.72 percent of payroll to the Health Insurance Account in the Public School Employees' Retirement Fund for payment of the additional premium assistance under the Act;
>
> In any fiscal year, beginning with Fiscal Year 2001-02, in which the total-covered payroll declines from that of the previous year, increase the employer contribution beyond the proposed additional 0.72 percent of the payroll to a rate adequate to retain total employer contributions at the same dollar amount as the previous year;
>
> In Calendar Year 2000 and all calendar years thereafter, increase the monthly premium assistance
>
> > from the lesser of $55 a month or the participant's actual monthly premium

to the lesser of the participant's actual monthly premium or a Board predetermined monthly maximum amount equal to the basic $55 a month premium assistance plus an additional premium assistance (called an "annual inflation adjustment") of at least $95 a month as determined by the Board upon the advice of its consulting actuary based upon an equitable apportionment of the amount of money available from the additional employer contribution of 0.72 percent of the payroll after retaining an amount for apportionment in future calendar years to ensure the financial integrity of the program and the premium assistance benefit;

For each school year, beginning with the 2000-01 school year, require the Commonwealth to reimburse each public school employer for its contribution of 0.72 percent of the payroll in an amount calculated as the product of one-half of the contribution multiplied by the market value/income aid ratio of the employer with no employer being reimbursed in an amount that is less than one-fourth of the contribution; and

Permit the Public School Employees's Retirement Board to contract for the service of an independent legal counsel regarding its rights, duties, responsibilities, and administration of the group health insurance program under the Act rather than using the Office of Chief Counsel under the Code and the Commonwealth Attorneys Act.

The language in proposed section 9101 describing the premium assistance is ambiguous, confusing, and can be read in more than one way. The description of the proposed premium assistance provided in this actuarial note transmittal is consistent with the intention of the sponsors of the bill and with one reading of the proposed section. The section should be redrafted to remove its ambiguities, confusing provisions, and the possibility of more than one meaning.

The additional health insurance premium assistance to be provided under the bill is termed an "inflation adjustment," but it is not linked directly to any measure of the Consumer Price Index or Medical Cost Index. Basically, the additional premium assistance per participant will be a function of both the amount of money available and the number of eligible participants. The amount of money available will be a function of both compensation per member and number of members. Although compensation per member probably will be positively correlated to the Consumer Price Index and the Medical Cost Index, the number of PSERS members and the number of retiree participants may not have such a correlation. Thus, the resulting "inflation adjustment" per participant will not be linked directly to the probable increases in postretirement medical insurance.

Some migration by participants to higher cost plans probably should be expected under the improved premium assistance program in the bill. If there were no migration, the consulting actuary of the Commission estimates that the average per participant cost of the program would be below the $150 a month level, probably about $140 a month, based on 1999 premium levels. Because of the combined effects of future inflation and the expected migration to higher cost plans, the consulting actuary of the Commission expects the average per participant cost to rise to almost $150 a month within a few years.

The bill probably will cause a significant increase in participation in the Health Insurance Premium Assistance Program, particularly for Medicare-eligible participants for whom the proposed level of premium assistance will cover most of the cost for extremely comprehensive supplemental coverage. The consulting actuary of the Commission expects this increase to be in the range of 25 percent to 50 percent of currently eligible, nonparticipating members with the number increasing by about three percent a year. The cost of providing the basic benefit of not more than $55 a month, therefore, would be expected to increase based on the level of plan participation. Assuming that a range of 25 to 50 percent of currently eligible nonparticipants elect to participate, the consulting actuary of the Commission estimates that the basic employer contribution rate would increase from about 0.37 percent of the payroll to a range of about 0.44 percent to 0.48 percent of the payroll, excluding reserve adjustments.

The proposed maximum benefit level of at least $150 a month probably is not sustainable without increasing the additional employer contribution to more than 0.72 percent of the payroll if large numbers of new participants are attracted to the program. For example, if 50 percent of the current eligible, nonparticipating members elect to participate, the consulting actuary of the Commission estimates that the additional employer contribution rate would have to be increased from the proposed 0.72 percent of the payroll into the range of 0.80 to 0.85 percent of the payroll in order to fund a maximum benefit of $150 a month. If the maximum benefit amount is increased by the Board, these percentages will also increase.

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 employer is not automatically subjected to the unpredictable inflation of the cost of medical insurance coverage in the future. Also, because of the high costs involved, many employers have utilized cost sharing provisions and service requirements for eligibility in the design of their programs for postretirement medical insurance.

Under the bill, the members of the Board, in their capacity as trustees of the Public School Retirees' Health Insurance Fund and administrators of the group health insurance program, in exercising their rights and powers, are not bound by the provisions of The Administrative Code of 1929, The Fiscal Code, and the Commonwealth Attorneys Act. For example, under the bill, the Board may contract for the services of an independent legal counsel rather than using the Office of Chief Counsel as they must under the Commonwealth Attorneys Act. This would appear to create the potential for the members of the board to operate two programs, one covered by The Administrative Code of 1929, The Fiscal Code, and the Commonwealth Attorneys Act and the other not, and to receive conflicting legal advice regarding these operations. The public policy rationale for this is not apparent.

SUMMARY OF ACTUARIAL COST IMPACT

The additional premium assistance adjustments proposed in the bill would not be funded on an actuarial basis. The bill essentially dictates the percentage of payroll costs except in the unlikely event that payroll decreases from year to year. Based upon two levels of participation by currently eligible but nonparticipating retirees and the current payroll, the consulting actuary of the Commission estimates the following employer contributions would be required in the first year assuming a maximum benefit amount of $150 a month.

Increase in Participation	Increase in Annual Cost for Current Benefit		Increase in Annual Cost for Additional Benefit		Total Increase in Annual Cost	
	Amount	As a % of Payroll	Amount	As a % of Payroll	Amount	As a % of Payroll
25%	$6,000,000	0.07%	$58,000,000	0.72%	$64,000,000	0.79%
50%	$9,000,000	0.11%	$58,000,000	0.72%	$67,000,000	0.83%

POLICY CONSIDERATIONS

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

Restricted Additional Financial Commitment. To provide the additional premium assistance, the Act provides for an additional employer contribution specified as a fixed percentage of the payroll. In this way, the employer is not automatically subjected to the unpredictable inflation of the cost of medical insurance coverage in the future.

Funding Adequacy. It would appear that, in the long run, the proposed additional employer contribution of 0.72 percent of the payroll may not be adequate to provide an additional assistance payment which would result in a total premium assistance maximum of $150 a month if approximately 50 percent or more of currently eligible nonparticipants elect to participate. If the Board increases the maximum benefit amount above $150 a month, the specified employer contributions will be inadequate sooner.

Potential Understatement of Cost. The actuarial note assumes that the current retirement utilization patterns will continue if the bill is enacted. The availability of a more generous postretirement health insurance premium assistance program 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.

Potential Effect upon Employer Provided Postretirement Benefits. Some of the employers participating in PSERS provide some sort of postretirement medical insurance or premium assistance either as a matter of policy or under a collective bargaining agreement or arbitration award. The additional premium assistance that would be provided under the bill will have an unknown effect upon these benefits. To the extent that the additional premium assistance is better than the local option, retirees will elect the PSERS program, thus reducing the cost of the local option, but retirees also may request that the cost savings be used to provide some other benefit. Because the bill will impose additional costs upon the employers, the employers may reduce or eliminate some locally provided postretirement benefits.

Drafting Ambiguities. The language describing the premium assistance in section 9101 of the proposed Act is ambiguous, confusing, and can be read in more than one way. The section should be redrafted to remove its ambiguities, confusing provisions, and the possibility of more than one meaning.

Potentially Conflicting Statutory Guidelines. In operating the health insurance premium assistance program under the Act, the Board would not be bound by The Administrative Code of 1929, The Fiscal Code, or the Commonwealth Attorneys Act. This creates the potential for the Board operating two, separate but related, programs under two sets of statutory guidelines and receiving conflicting legal advice regarding these operations. The public policy rationale for this is not apparent.

Impeded Administrative Flexibility. As drafted, the premium assistance maximum may only be increased by the Board. Giving the Board the flexibility to reduce the premium assistance maximum would permit the Board to accommodate short falls in the program's funding. (This could be effected by changing the word "increased" in proposed section 9101(b)(1) on line 9, page 11, to "adjusted".)

COMMISSION RECOMMENDATION

On September 30, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

House Bill Number 1401, Printer's Number 1643, was referred to the House Education Committee on April 28, 1999.

Bill ID: House Bill Number 1402, Printer's Number 1644

System: Public School Employees' Retirement System

Subject: Reduction in Member Contribution Rate

SYNOPSIS

House Bill Number 1402, Printer's Number 1644, would amend section 8102 of the Public School Employees' Retirement Code in two ways:

> To reduce the basic (member) contribution rate from 6.25 percent of compensation to 5.25 percent of compensation, and
>
> To provide that, if the actuary certifies that the funded ratio of the Public School Employees' Retirement Fund is 90 percent or below, the rate shall return to 6.25 percent beginning with the fiscal year immediately following the certification.

DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 1998, there were 640 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. As of June 30, 1998, there were 220,703 active members in PSERS.

As is typical in public sector defined benefit pension plans, the Code establishes a contributory pension plan, which means that employees (members), as well as employers, must contribute to the pension trust fund. 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 the annual, covered payroll, such that they, along with member contributions and an actuarially determined rate of investment return, are enough to accumulate adequate assets to pay benefits when due. The current basic contribution rates, which are multiplied by the member's compensation to obtain the amount of the regular member contribution, are as follows:

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

From the adoption of the current Code by Act 96 of 1975, until the enactment of Act 31 of 1983, the basic rate was 5.25 percent of compensation. Act 31 of 1983 amended section 8102 of the Code to increase the basic contribution rate by 1.00 percent of compensation from 5.25 percent to 6.25 percent and amended the State Employees' Retirement Code to add section 5505.1 that required members of the State Employees' Retirement System (SERS) to pay an additional member contribution of 1.25 percent of compensation in addition to the basic contribution rate of 5.00 percent for a total member contribution of 6.25 percent. As a result of subsequent litigation, the effect of Act 31 of 1983 was determined to be to increase the rates only for those members of both systems who were employed after July 21, 1983. Basically, the courts held that increasing the rates for current active members, both vested and nonvested, without increasing the benefits would be an unconstitutional impairment of their contract rights. [See, for example, American Federation of State, County and Municipal Employees, AFL-CIO by Keller v. Commonwealth, 77 Pa. Commw. Ct. 37, 465 A.2d 62 (1983): American Federation of State, County and Municipal Employees, AFL-CIO v. Commonwealth of Pennsylvania, 80 Pa. Commw. Ct. 611, 472 A.2d 746 (1984), *aff'd sub nom* Association of Pennsylvania State College and University Faculties v. State System of Higher Education, 505 Pa. 369, 479 A.2d 962 (1984); and Pennsylvania Federation of Teachers v. School District of Philadelphia, 80 Pa. Commw. Ct. 608, 472 A.2d 749 (1984), *aff'd* 506 Pa. 196, 484 A.2d 751 (1984).]

Act 31 of 1983 also amended the State Employees' Retirement Code to provide that the additional member contribution of 1.25 percent of compensation would continue "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 Act 31 of 1983 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 and 1998, actuarial valuation reports of PSERS indicate 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.

PSERS Valuation as of June 30	**Unfunded Actuarial Accrued Liability**	**Funded Ratio**
1995	$3,101.500,000	89.7%
1996	$1,458,980,000	95.4%
1997	($1,663,100,000)	105.0%
1998	($3,832,800,000)	110.6%

Because, under the bill, the continuation of the reduction in the basic contribution rate is made conditional upon the funded ratio of the Public School Employees' Pension Fund, rather than being unconditional after elimination of the unfunded actuarial accrued liability as was done for SERS, the bill raises issues regarding benefit improvements, actuarial assumptions or methods, and constitutionally protected contract and property rights of PSERS members.

Benefit Improvement Issue

The holdings of the courts in the cases arising under Act 31 of 1983 suggest that the basic contribution rate may be increased for an active member only if there is a benefit improvement for the member. If a benefit improvement would cause the funded ratio to drop to 90 percent or below, there could be equity or legal issues to consider for four groups of active members whose basic contribution rate could be increased to 6.25 percent: those hired before July 22, 1983, those hired after July 21, 1983, and before the effective date of the bill, those hired on or after the effective date of the bill and before the effective date of the reduction to 5.25 percent, and those hired on or after the effective date of the reduction to 5.25 percent but before the effective date of the increase to 6.25 percent. For example:

> if the benefit improvement were to benefit retired members only (for example, an ad hoc postretirement adjustment), active members might indirectly pay for these increased benefits through higher member contributions, or
>
> if the benefit improvement were to benefit active members hired before a given date (for example, a "30 and Out" early retirement window), active members hired after the date might indirectly pay for this increased benefit through higher member contributions.

If the proposal to implement a conditional change in the basic contribution rate is determined to be appropriate, modifying the proposal to continue to specify 6.25 percent as the basic contribution rate, with a reduction to 5.25 percent if the funded ratio goes above 90 percent, would be less likely to result in legal challenges.

Actuarial Assumptions and Methodology Issue

The Public School Employees' Retirement Board may be placed in an awkward position in choosing whether to adopt proposed new actuarial assumptions or methods that might be more realistic but that would lower the funded ratio to or below the 90 percent threshold. In previous actuarial notes and actuarial note transmittals the consulting actuary and the Commission have recommended that PSERS finance the "30 and Out" provision as if it were a permanent plan provision because of its repeated renewal as SERS has done. The bill would create a disincentive to reflect this provision in the actuarial valuation.

As drafted, the bill does not specify how the proposed conditional changes in the basic contribution rate are to be implemented. The funded ratio is proposed to be determined one year with the resulting basic contribution rate applied in the following year. However, the bill does not specify which basic member contribution rate is to be used in calculating the funded ratio that determines whether the basic member contribution rate is to be changed in the following year. For example, if (1) the basic member contribution rate is 6.25 percent for a given year, (2) *the funded ratio is calculated in that year using the* ***current 6.25*** *percent rate*, and (3) the funded ratio is higher than 90 percent, then the basic member contribution rate would be reduced to 5.25 percent in the following year. If (1) the basic member contribution rate is 6.25 percent for a given year, (2) *the funded ratio is calculated in that year using the* ***prospective 5.25*** *percent rate*, and (3) the funded ratio is lower than 90 percent, then the basic contribution rate would remain at 6.25 percent. Whether the sponsors intended for the current or the prospective basic member contribution rate to be used in calculating the funded ratio, there is a possibility that the basic member contribution rate will alternate between 6.25 percent and 5.25 percent every other year, if the system's funded ratio reaches and remains near 90 percent. This undesirable situation results because the funded ratio "trigger" for changes in the member contribution rate is directly impacted when the basic contribution rate is changed.

Constitutional Contract and Property Rights Issue

Events other than benefit improvements affect the actuarial accrued liability of a retirement system. Among these events are deviations from assumed investment income and asset appreciation, separations from active service before and after vesting, mortality before and after retirement, disablement, and rate of the compensation increase. It would be possible for a combination of such events rather than a benefit enhancement to reduce the funded ratio to or below 90 percent. Because no benefit increase would be involved, a legal issue could arise regarding increasing the basic contribution rate of some active members.

SUMMARY OF ACTUARIAL COST IMPACT

	Amount
Increase in Unfunded Actuarial Accrued Liability	$18,700,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$29,800,000	0.32%
Amortization Payment[2]	1,500,000	0.02%
Total Increase in Employer Annual Costs[3]	$31,300,000	0.34%

	Amount
Total Amortization Payments	$49,598,931

[1] Paid in part by the Commonwealth and in part by the school districts and other educational employers.
[2] First year's cost. Cost increases 5% a year for 20 years.
[3] First year's costs only.

POLICY CONSIDERATIONS

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

Parity between PSERS and SERS. The proposal in the bill to reduce the basic contribution rate to the rate it was prior to July 22, 1983, is in accordance with the General Assembly's long practice of providing substantially identical pension plans to the members of the two statewide retirement systems. The additional member contribution for SERS members imposed under Act 31 of 1983 was removed in 1993 when SERS had eliminated its unfunded actuarial accrued liability.

Potential Legal and Equity Issues. Equity or legal issues could arise for some active members due to the proposed increase in the basic contribution rate if the funded ratio were to drop to 90 percent or below because of either a benefit improvement that did not benefit these members or an adverse actuarial experience.

Impact on Actuarial Assumptions or Methods. The proposal in the bill to increase the basic contribution rate if the funded ratio drops to 90 percent or below could serve as a disincentive to the adoption of new actuarial assumptions or methods that might be more realistic.

Implementation Problems. The bill does not specify the basic member contribution rate to be assumed in determining the funded ratio "trigger" and may result in very frequent changes in the basic member contribution rate if the funded ratio of PSERS reaches and remains near 90 percent.

COMMISSION RECOMMENDATION

On September 30, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

House Bill Number 1402, Printer's Number 1644, was referred to the House Education Committee on April 28, 1999.

Bill ID: House Bill Number 1426, Printer's Number 1680

System: Municipal Police Pension Law (Act 600)

Subject: Purchase of Service Credit for Previous Pennsylvania Municipal Police Service

SYNOPSIS

House Bill Number 1426, Printer's Number 1680, would amend the Municipal Police Pension Law to mandate that the ordinance establishing the police pension fund provide that service on the police force in another Pennsylvania borough, town, or township shall be counted to determine a police officer's minimum period of total service if the police officer agrees to pay into the fund the amount the police officer would have contributed if the police officer had been a member of the municipal police force while serving on a police force in the other borough, town, or township.

DISCUSSION

The Municipal Police Pension Law (Act 600 of 1955) governs the establishment of the police officer retirement system in a borough, incorporated town, or township with three or more full-time police officers and in a regional police department (municipality). At its option, a borough, incorporated town, or township with fewer than three full-time police officers also may establish a police pension plan under Act 600. The staff of the Public Employee Retirement Commission has identified 610 municipal police officer pension systems with three or more full-time police officer members having a total membership of 6,960 active members.

If an active member of an Act 600 system terminates employment with a municipality before completing 12 years of service as a police officer with the municipality, the member is not entitled to any pension benefits from the system. The member is entitled to only a refund of any contributions the member has made to the pension trust fund along with interest credited on the contributions.

A municipality may provide for a vesting benefit. If it does so, this vesting benefit must provide that, when a police officer who has completed 12 years of total service ceases to be a full-time police officer of the municipality before reaching the required superannuation retirement age and service, the officer is entitled to vest the officer's retirement system benefits. When the vestee reaches what would have been the superannuation retirement date, had the vestee continued in full-time police service with the municipality, the retirement system pays the vestee a partial superannuation retirement allowance. The partial superannuation retirement allowance is proportionate to the number of years actually worked, as compared to the superannuation retirement years, and is calculated using the monthly average salary during the appropriate period prior to termination of employment.

Under Act 600, the pension paid to a retiree, is based upon the individual's final average monthly compensation. When a police officer has been employed by the same municipality for that officer's entire career, the officer's pension benefit is based upon the officer's final average compensation with that municipality. If, on the other hand, the officer works for two or more municipalities during the officer's career and qualifies for a pension under each pension plan in which the officer participated, the officer ultimately receives pensions that, in the aggregate, cover the officer's entire career. The pension the officer will receive from each of the retirement systems maintained by the officer's former municipal employers will be based upon the officer's final average compensation with each municipality. Thus, the total pension generally will be less when a police officer has worked for two or more municipalities during the officer's career because compensation tends to increase throughout an employee's career.

The bill is an attempt to provide a kind of portability among Act 600 police officer retirement systems by using service credit purchase provisions. Generally, portability refers to the ability of an employee to transfer pension rights in conjunction with a change in employment. Although there may be a need or it may be desirable to provide greater opportunities for pension credit portability among Pennsylvania public employee retirement systems, the authorization to purchase prior service does not represent a well-designed mechanism to achieve this goal. The use of service credit purchase authorizations represents a piecemeal approach to the issue of portability. The bill, for example, does not provide true portability, does not appear to deal equitably with the issue of the allocation of the incurred cost, creates the possibility for an officer to reap a financial windfall by switching employers several times throughout the officer's career, and may have the effect of hindering rather than helping police officer job mobility.

In order to purchase the service credit for previous police officer service, the bill requires the officer to pay the pension trust fund the amount the officer would have contributed if the officer had been a member of the municipal system while the officer was working as a police officer in the other borough, town, or township. There are many Act 600 retirement systems in which the members currently do not contribute to the pension trust fund and have not done so for many years. In some instances, the members of the system never have contributed to the fund. The provisions proposed in the bill imply that, under these plans, the member would receive service credit for the member's service with another borough, town, or township without contributing anything to the pension trust fund. As a result, the entire cost of granting the service credit for such a member would be paid by the current employer.

Because of the variation over time and between employers in the required amount of employee contributions, a police officer who contributed to the fund of the first employer might not be required to contribute to the fund of the second employer in order to purchase service credit for service with the first employer, or an officer who was not required to contribute into the pension trust fund of the first employer might be required to contribute to the fund of the second employer in order to purchase service credit for service with the first employer. In a situation in which the member would be required to make a contribution to purchase the service credit, the bill does not require that interest on the contribution be paid from either the dates the contributions would have been made or the date on entry into membership of the retirement system in which the service credit is being purchased until the date of purchase.

Regardless of whether the officer obtaining the service credit makes a contribution, the provisions in the bill will result in an increase in the retirement system's unfunded actuarial accrued liability, with the required amortization payments paid entirely by the current employer. Unless the officer is vested in the retirement system of the former employer, the former employer will enjoy an actuarial gain.

The bill places no limit on the amount of service credit that may be purchased by a member. This implies that a member could work for a final employer municipality for one year and become eligible for a full pension benefit because the officer could purchase service credit for 24 years of police officer service in another borough, town, or township. This is possible because the bill neither limits the amount of service credit that may be purchased nor prohibits receiving a pension from two or more Act 600 systems for the same service. If a member has a vested benefit in one borough, town, or township and then is employed by a second municipality, the member could purchase service credit in the retirement system of the second municipality resulting in two pensions for the same period of time. The lack of such a prohibition could lead to severe abuses of Act 600 retirement systems by those police officers who are able to switch employers through their careers.

The bill would require permitting the purchase of service credit for previous police officer service with a previous employer that was a borough, town, or township. No provision is made for previous service with a regional police department although the retirement system of a regional police department would have to permit the purchase of service credit for service in a borough, town, or township. In addition, the bill makes no provision for previous police officer service with some other type of Pennsylvania public employer such as a city or the Commonwealth. The public pension policy rationale for this restriction is not apparent.

As drafted, the mandatory purchase of service credit provisions in the bill probably will be counter productive and have the net effect of reducing mobility of employment by experienced police officers. This is because potential second and later public employers will refuse to employ police officers who have any significant service elsewhere because of the considerable pension benefit costs and inequities associated with the mandated purchase of service credit provisions.

One of the most frequently cited weaknesses of the current structure of public employee retirement systems in Pennsylvania is the absence of statewide provisions for portability of service credits. The Commission identified and reported on this and other weaknesses in its December 1992 *Special Report: Study of the Current Structure of Local Government Retirement Systems and Recommended Establishment of a Statewide Retirement System.* The bill would provide a limited form of intergovernmental pension portability to a small group of public employees. A comprehensive solution to deal with the need for intergovernmental pension portability was contained in Senate Bill Number 287, Printer's Number 286, 1997-98 Sessions, which would have created a Government Employees' Retirement System providing retirement benefits to all state and local government employees in Pennsylvania.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission made two sets of aggregate actuarial cost estimates, one assuming no purchase contributions by police officers and the other assuming that officers would contribute, on average, two percent of compensation for each year of service credit purchased. In both cases, the consulting actuary assumed that the bill would be amended to prohibit double crediting, that 20 percent of all active members would purchase service credit, that, on average, the amount of service credit purchased by these members would be five years, and that amortization payments would be calculated using a seven percent interest rate assumption.

No Employee Purchase Contribution

	Amount
Increase in Unfunded Actuarial Accrued Liabilities	$56,300,000

	Amount	As a % of Payroll
Increase in Employers' Annual Costs		
Normal Costs	$ 5,100,000	1.72%
Amortization Payments[1]	7,500,000	2.52%
Total Increase in Employers' Annual Costs	$12,600,000	4.24%

	Amount
Total Amortization Payments	$75,000,000

[1] Level dollar payments for ten years.

Employee Purchase Contribution of Two Percent of Compensation

	Amount
Increase in Unfunded Actuarial Accrued Liabilities	$50,400,000

	Amount	As a % of Payroll
Increase in Employers' Annual Costs		
Normal Costs	$ 5,100,000	1.72%
Amortization Payments[1]	6,700,000	2.25%
Total Increase in Employers' Annual Costs	$11,800,000	3.97%

	Amount
Total Amortization Payments	$67,000,000

[1] Level dollar payments for ten years.

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

Inequitable Restriction in Purchasable Prior Service. The bill does not treat all similarly situated Act 600 retirement system members equally. The purchase of service option is restricted to prior police officer service in a Pennsylvania borough, town, or township and thereby excludes prior police officer service in other Pennsylvania local governments.

Unequal Impact on Members and Municipalities. Due to variations in the more than six hundred (600) locally administered police officer pension systems governed by Act 600, the bill will result both in members paying widely divergent amounts to purchase the same amount of prior service and in municipalities incurring widely divergent amounts of unfunded actuarial accrued liabilities upon the purchase of the same amount of prior service by similarly situated members.

Precedent for Similar Requests. The bill would initiate a public pension policy in the Commonwealth by allowing service credit for prior service in a Pennsylvania borough, town, or township to be purchased. The bill may serve as a precedent for other Act 600 retirement system members with previous police officer service in other local governments in Pennsylvania and elsewhere to request the option to purchase service credit for that service.

Probability of Abuse. The absence of both a limit on the service credit that may be purchased and a prohibition on receiving service credit in more than one retirement system for the same service will provide opportunity for abuses.

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

Inequity of Certain Service Credit 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. 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.

Cost Effectiveness of 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, be limited in the amount of service credit that may be purchased, and be prohibited from receiving service credit for the same service in more than one retirement system. The bill does not limit the time within which the member must exercise the purchase option, the amount of service credit that may be purchased, or the number of retirement systems in which an individual may receive service credit for the same service. The absence of these provisions in the bill will increase the costs to municipalities associated with the proposed service credit purchase authorization.

Adequacy of Purchase Payments. The method in the bill for calculating the member's contribution to purchase the service credit results in a member paying less than or none of the full actuarial cost of the increased benefit acquired through the service credit purchase. 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.

Documentation Problems. In the case of a member applying to purchase credit for Pennsylvania police service that took place many years prior to the purchase, the member, the former employer, and the current employer may encounter difficulty in demonstrating that the service was rendered.

COMMISSION RECOMMENDATION

On October 28, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

House Bill Number 1426, Printer's Number 1680, was referred to the House Local Government Committee on May 4, 1999.

Bill ID: House Bill Number 1448, Printer's Number 1712

System: Pittsburgh City Police Pension Plan

Subject: Survivor Benefits

SYNOPSIS

House Bill Number 1448, Printer's Number 1712, would amend the Second Class City Policemen Relief Law, one of the statutes providing the police officer pension plan in the City of Pittsburgh, by providing that:

> the surviving spouse of a police officer who dies as a result of injuries received in the performance of the officer's duties shall be paid a pension for life rather than for 500 weeks,
>
> the surviving spouse of either a police officer who dies as a result of injuries received in the performance of the officer's duties or a retired police officer shall continue to receive a survivor spouse pension even if the surviving spouse remarries, and
>
> a surviving child shall continue to receive a survivor child pension until age 18 even if the surviving child marries.

DISCUSSION

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

<u>Service Connected Death</u>. Under the Law, if a police officer dies as a result of injuries received in the performance of the officer's duties and

> is survived by a spouse, the surviving spouse receives a survivor spouse pension of 50 percent of the officer's salary at the time of the officer's death that continues for 500 weeks or until the surviving spouse remarries or dies, whichever first occurs, or
>
> if there is no surviving spouse, or the survivor spouse pension is terminated due to the expiration of 500 weeks or the remarriage or death of the surviving spouse, and there is a surviving child, the surviving child receives a survivor child pension of 25 percent of the survivor spouse pension until the child reaches age 18, marries, or dies, whichever first occurs, or if the surviving child is a dependent, incompetent individual, the survivor child pension is paid indefinitely.

<u>Death of Retiree</u>. Under the Law, if a retired police officer dies and

> is survived by a spouse to whom the retiree had been married at least two years and who was dependent upon the retiree, the surviving spouse receives a survivor

spouse pension of 50 percent of the retired officer's pension that continues for life unless the surviving spouse remarries, or

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

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

According to the actuarial valuation report filed with the Public Employee Retirement Commission, as of January 1, 1998, there were 1,135 active members and 3 members with vested or deferred benefits in this retirement system, and the system was paying retirement benefits to 789 retired members, disability benefits to 306 retired members, and survivor spouse benefits to 491 surviving spouses. The report indicated that there were no surviving children to whom the system was paying survivor child benefits.

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

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

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

DISCUSSION (CONT'D)

optional retirement benefits for local government employees regardless of job or local government classification.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission indicates that the total actuarial cost to the City of Pittsburgh of both increased normal cost and amortization payments attributable to the proposed liberalization of the conditions under which survivors may receive their retirement system benefits will range from zero to one percent of payroll.

POLICY CONSIDERATIONS

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

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

<u>Removal of Outdated Provisions</u>. The bill removes provisions in the Second Class City Policemen Relief Law that were based on an orientation toward survivor benefits that is no longer appropriate.

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

COMMISSION RECOMMENDATION

On October 28, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

House Bill Number 1448, Printer's Number 1712, was reported as committed from the House Urban Affairs Committee on November 16, 1999.

Bill ID: House Bill Number 1639, Printer's Number 2004

System: Municipal Police Pension Law

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

SYNOPSIS

House Bill Number 1639, Printer's Number 2004, would amend section 1(a) of the Municipal Police Pension Law (Act 600) to provide that the surviving spouse of an active or retired police officer shall continue to receive a survivor spouse pension even if the surviving spouse remarries.

DISCUSSION

The Municipal Police Pension Law governs the establishment of retirement systems for police officers in every borough, incorporated town, township, or regional police department (municipality) with three or more full-time police officers. At its option, a municipality with fewer than three full-time police officers also may establish a police officer retirement system under the Municipal Police Pension Law. As of January 1, 1997, there were at least 610 municipal police officer retirement systems with three or more members operating under the Municipal Police Pension Law. In addition, there also are some one- and two-officer plans that operate under the Municipal Police Pension Law. The 610 plans covered 6,960 active municipal police officers.

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

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

DISCUSSION (CONT'D)

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

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

SUMMARY OF ACTUARIAL COST IMPACT

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

POLICY CONSIDERATIONS

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

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

Removal of Outdated Provisions. The proposal removes provisions in the Municipal Police Pension Law that were based on an orientation toward survivor benefits that no longer is appropriate.

Drafting Error. It appears that, in line 24 of page 2 of the bill, the bracket denoting the beginning of some words to be repealed inadvertently has been placed before rather than after the word "dies." Wording for a suggested amendment to correct this apparent error is attached.

COMMISSION RECOMMENDATION

On October 28, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER 31, 1999

As Printer's Number 2776, House Bill Number 1639 was reported from the House Local Government Committee on December 7, 1999.

Bill ID: House Bill Number 1731, Printer's Number 2136

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

Subject: Amortization Payments for Future Cost-of-Living Adjustments

SYNOPSIS

House Bill Number 1731, Printer's Number 2136, would amend section 8328(d) of the Public School Employees' Retirement Code and section 5508(e) of the State Employees' Retirement Code to shorten the period of and to change the method of calculating amortization payments for unfunded actuarial accrued liabilities caused by the granting of future ad hoc postretirement adjustments from a 20-year period with payments calculated as a level percentage of payroll increasing five percent a year to a 10-year period with payments calculated as a level dollar amount.

DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code are governmental, cost-sharing, multiple-employer, contributory, defined benefit pension plans. The designated purposes of the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) are to provide retirement allowances and other benefits, including disability and death benefits, to employees of public school entities, the Commonwealth, and certain independent agencies. As of June 30, 1998, there were 640 participating entities, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 1998, there were 107 participating state and independent agencies in SERS. Membership in PSERS is mandatory for most public school employees and in SERS for most state employees. Certain other employees are not required but are given the option to participate in one of the Systems. As of June 30, 1998, there were 220,703 active members, 43,591 inactive members and vestees, and 126,814 annuitants and survivor annuitants in PSERS, and as of December 31, 1998, there were 108,893 active members, 3,785 inactive participants, and 85,834 annuitants and beneficiaries in SERS.

It has been the historical practice of the Commonwealth to grant periodic ad hoc postretirement increases in annuities to annuitants of PSERS and SERS to reflect part of the increase in the cost of living since the annuitants retired. These ad hoc postretirement adjustments have been granted roughly every four to five years during the period from 1967-68 to 1998.

Amortization is a concept used in actuarial funding. It is analogous to mortgage payments—a series of level or otherwise regular payments that pay off the principal plus the interest accruing over the period of payment. Usually, a longer amortization period results in smaller annual payments and larger total payments. A public employee retirement system funding schedule should allocate the pension costs to the time period when the benefit is being accrued. This sometimes is referred to as the matching principal in accounting because it enables the costs of an accounting period to be matched with the revenues of the period. This also is sometimes referred to as inter generational equity because those who received the services of public employees pay for the benefits provided to these employees.

The normal cost allocates the costs of the benefits being earned each year by active employees. When an unfunded actuarial accrued liability occurs because of some other factor such as investment or demographic experience different from the actuarially assumed rates, or a change in actuarial assumptions, or a benefit enhancement for active or retired members, however, some period must be selected over which to amortize the liability—a period that neither unfairly accelerates nor unfairly delays the cost allocation. For example, under section 202(b)(4) of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) a municipal employee retirement system must amortize using level dollar payments over a

20-year period for a modification in an actuarial assumption,

20-year period for a modification in the benefit plan applicable to active members,

15-year period for an actuarial experience gain or loss, and

10-year period for a modification in the benefit plan applicable to retirees and other beneficiaries.

Act 23 of 1991 amended each Code to aggregate the then existing unpaid portions of unfunded actuarial accrued liabilities together with the unfunded actuarial accrued liabilities created by the benefit enhancements under the Act into one amount for each System and to "refinance" that amount over a 20-year period beginning July 1, 1991, with the amortization payments increasing five percent a year. Act 23 also provided that all unfunded actuarial liabilities created thereafter, regardless of their source, be established annually as the liabilities occur and be amortized over a 20-year period with the amortization payments increasing five percent a year.

The rationale for the cost recognition approach under Act 23 of 1991 is to determine a cost that will remain a level percentage of the payroll over time. This rationale would be a reasonable approach for pricing a one-time improvement to a pension plan, with the intent of spreading the cost increase over the entire working lifetime of the employee group (and a similar generation of taxpayers) expected to benefit from the improved program.

Whether this rationale also is reasonable and appropriate for pricing a series of periodic plan improvements is debatable. The cost for a series of ad hoc postretirement adjustments could aggregate over time and unfairly burden future taxpayers for the costs of multiple generations of retirees.

Because retirees already have served their full work life at the time that an ad hoc postretirement adjustment is granted and because the typical retiree has a relatively short remaining life expectancy (for example, the average SERS retiree is about age 74.3), there is a strong rationale for reflecting the additional cost of such adjustments over a relatively short period of years. The fact that ad hoc postretirement adjustments historically have been granted to PSERS and SERS retirees about every four to five years also speaks to faster cost recognition.

The current cost recognition policy results in an initial amortization payment that is much less than it would be if the unfunded actuarial liability were to be funded over a 10-year period on a level dollar basis. This approach may have been useful in managing employers' cash flows at a time when the retirement systems were under funded and employers' contributions to fund the unfunded actuarial accrued liabilities were large. At the time that Act 23 was signed into law, the ratio of the actuarial value of assets to the actuarial value of liabilities (the funding ratio) in

PSERS was about 79 percent and in SERS it was about 94 percent. Since both systems are fully funded now (PSERS at 110.6% and SERS at 112.6%), adopting a cost recognition policy that conforms more closely with accepted actuarial funding goals by providing for liabilities arising from future ad hoc postretirement adjustments to be funded over the appropriate period is more feasible.

SUMMARY OF ACTUARIAL COST IMPACT

The bill will not have an actuarial cost impact. It will, however, have an impact upon the cash flows of employers.

Comparison of Amortization Approaches

For purposes of illustration, the staff of the Commission developed a twenty-year scenario based upon the work of the consulting actuary of the Commission in which an ad hoc postretirement adjustment costing $500,000,000 is granted to retirees and the cost recognized under both approaches. The data are presented in Table I and indicate that the total amortization payments under the current approach exceed the total amortization payments under the bill's revised approach by $423,300,000.

For purposes of illustration, the consulting actuary of the Commission developed a twenty-five year scenario in which ad hoc postretirement adjustments costing $500,000,000 (in 1999 dollars assuming benefit indexation of four percent a year and an interest rate of 8.5 percent a year) were granted to retirees every five years and costs recognized under both approaches. The staff of the Commission developed an extension of the illustration to year 30. The data are presented in Table II and indicate that the dollar amount of the required contribution increases by approximately 1,296 percent over the 29 year period with the current amortization approach and by approximately 386 percent over the 29 year period with the bill's revised amortization approach.

Table I

Year	Cost of Retiree Increase Granted	Recognized Cost: Current Amortization Approach (20-year, level % of payroll)	Recognized Cost: Revised Amortization Approach (10-year, level $)	Difference in Recognized Cost
1	$500,000,000	$34,900,000	$73,200,000	$38,300,000
2		$36,700,000	$73,200,000	$36,500,000
3		$38,500,000	$73,200,000	$34,700,000
4		$40,400,000	$73,200,000	$32,800,000
5		$42,500,000	$73,200,000	$30,700,000
6		$44,600,000	$73,200,000	$28,600,000
7		$46,800,000	$73,200,000	$26,400,000
8		$49,200,000	$73,200,000	$24,000,000
9		$51,600,000	$73,200,000	$21,600,000
10		$54,200,000	$73,200,000	$19,000,000
11		$56,900,000		($56,900,000)
12		$59,800,000		($59,800,000)
13		$62,700,000		($62,700,000)
14		$65,900,000		($65,900,000)
15		$69,200,000		($69,200,000)
16		$72,600,000		($72,600,000)
17		$76,300,000		($76,300,000)
18		$80,100,000		($80,100,000)
19		$84,100,000		($84,100,000)
20		$88,300,000		($88,300,000)
Total	$500,000,000	$1,155,300,000	$732,000,000	($423,300,000)

Table II

Year	Cost of Retiree Increase Granted	Recognized Cost		Annual Difference in Recognized Cost	Cumulative Difference in Recognized Cost
		Current Amortization Approach (20-year, level % of payroll)	Revised Amortization Approach (10-year level $)		
1	$500.000.000	$34,900,000	$73,200,000	$38,300,000	$38,300,000
2		$36,700,000	$73,200,000	$36,500,000	$74,800,000
3		$38,500,000	$73,200,000	$34,700,000	$109,500,000
4		$40,400,000	$73,200,000	$32,800,000	$142,300,000
5		$42,500,000	$73,200,000	$30,700,000	$173,000,000
6	$608,000,000	$87,100,000	$162,200,000	$75,100,000	$248,100,000
7		$91,400,000	$162,200,000	$70,800,000	$318,900,000
8		$96,000,000	$162,200,000	$66,200,000	$385,100,000
9		$100,800,000	$162,200,000	$61,400,000	$446,500,000
10		$105,800,000	$162,200,000	$56,400,000	$502,900,000
11	$740,000,000	$162,800,000	$197,300,000	$34,500,000	$537,400,000
12		$170,900,000	$197,300,000	$26,400,000	$563,800,000
13		$179,500,000	$197,300,000	$17,800,000	$581,600,000
14		$188,500,000	$197,300,000	$8,800,000	$590,400,000
15		$197,900,000	$197,300,000	($600,000)	$589,800,000
16	$900,000,000	$270,700,000	$240,000,000	($30,700,000)	$559,100,000
17		$284,400,000	$240,000,000	($44,100,000)	$515,000,000
18		$298,400,000	$240,000,000	($58,400,000)	$456,600,000
19		$313,400,000	$240,000,000	($73,400,000)	$383,200,000
20		$329,000,000	$240,000,000	($89,000,000)	294,200,000
21	$1,096,000,000	$329,300,000	$292,100,000	($37,200,000)	$257,000,000
22		$345,800,000	$292,100,000	($53,700,000)	$203,300,000

Table II (Cont'd)

Year	Cost of Retiree Increase Granted	Recognized Cost		Annual Difference in Recognized Cost	Cumulative Difference in Recognized Cost
		Current Amortization Approach (20-year, level % of payroll)	Revised Amortization Approach (10-year level $)		
23		$363,100,000	$292,100,000	($71,000,000)	$132,000,000
24		$381,200,000	$292,100,000	($89,100,000)	$43,200,000
25		$400,300,000	$292,100,000	($108,200,000)	($65,000,000)
26	$1,333,000,000	$400,800,000	$355,400,000	($45,400,000)	($110,400,000)
27		$420,800,000	$355,400,000	($65,400,000)	($175,800,000)
28		$441,900,000	$355,400,000	($86,500,000)	($262,300,000)
29		$464,000,000	$355,400,000	($108,600,000)	($370,900,000)
30		$487,200,000	$355,400,000	($131,800,000)	($502.700,000)

POLICY CONSIDERATIONS

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

Appropriate Allocation of Cost. The bill would provide for the unfunded actuarial accrued liabilities caused by future ad hoc postretirement adjustments to be funded over an appropriate period approximating the period of the benefit disbursements.

Conformity with Actuarial Funding Goals. The bill would cause the amortization payments for future ad hoc postretirement adjustments to more closely conform with accepted actuarial funding goals.

Reduction in Long-Term Cash Flow Needs. The bill would reduce the probability of compounding the employer contributions required to finance future ad hoc postretirement adjustments.

Consistent with Mandated Municipal Method. The bill would cause the amortization payments for future ad hoc postretirement adjustments to be calculated in the same manner as required for similar adjustments in all municipal employee retirement systems under the Municipal Pension Plan Funding Standard and Recovery Act.

COMMISSION RECOMMENDATION

On September 30, 1999, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified above.

LEGISLATIVE STATUS AS OF DECEMBER31, 1999

House Bill Number 1731, Printer's Number 2136, was referred to the House State Government Committee on June 21, 1999.

PART II

PUBLIC EMPLOYEE RETIREMENT SYSTEM ADMINISTRATION

A. ACT 205 of 1984

1997 Filing Period

In April of 1999, the Commission issued its Status Report on Local Government Pension Plans based on the data contained in the 1997 Act 205 local government pension plans. In addition to statistical information, the report disclosed that 107 of the 2,913 (3.7%) local government pension plans were reported to have funding deficiencies. The Commission enforced compliance with the actuarial funding standard in all instances. The *Status Report on Local Government Pension Plans* also disclosed significant municipal pension policy issues for consideration by the Governor and the General Assembly.

1999 Filing Period

In August of 1999, the Commission transmitted filing notices to the 4,500 local governments required to file employee pension plan reports pursuant to Act 205. Several follow-up notices were sent to local governments that failed to respond to the filing notice in the fall of 1999. The filing deadline for the 1999 Act 205 reports will be March 31, 2000.

Municipal Pension Cost Certification

In the summer of 1999, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 1999 allocation of General Municipal Pension System State Aid. In 1999, the state aid provided to municipalities to offset their employee pension costs totalled approximately $125 million. Over 1,300 individual allocations of General Municipal Pension System State Aid were determined by the cost data certified by the Commission.

Recovery Program

The Commission calculated and certified distress determinations for the 46 municipalities participating in the Act 205 Recovery Program for Financially Distressed Municipal Pension Systems. The Commission calculated the 1999 allocations of Act 205 Supplemental State Assistance and certified the allocation amounts to the Department of the Auditor General to permit the disbursement of Supplemental State Assistance Allocations totalling $113,000 in December of 1999. The Commission also notified the Governor and the General Assembly that a $424,000 appropriation would be needed to provide the Supplemental State Assistance payable in December of 2000.

B. ACT 293 of 1972

1998 Filing Period

Since the passage of the Municipal Pension Plan Funding Standard and Recovery Act, the actuarial reporting program under Act 293 has only been applicable to county employee retirement systems. The 1998 actuarial reports on these systems were filed in 1999. The financial, demographic, and actuarial data contained in the reports has been reviewed and will be summarized in the Status Report on Local Government Pension Plans to be published by the Commission in the spring of 2001.

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 (Act 205 of 1984). Research was completed in early 1999, and in April 1999, the Commission issued its report. The report is a summary and analysis of municipal employee retirement actuarial valuation reports as of January 1, 1997, submitted to the Commission under Act 205 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 were extracted from the individual pension plan reports containing actuarial, financial, and demographic information. The report clearly demonstrated that Act 205 had

Status Report on Local Government Pension Plans (Cont'd)

addressed and continues to address the funded condition of municipal pension plans, the maintenance of a municipal pension plan funding standard, and the equitable distribution of state government shared revenue. The report also indicated problems that evidence the need for reform outside the parameters of Act 205, particularly the proliferation of small plans, the lack of an incentive to contain cost, and the deficient retirement codes.

Study of the Funding of Cost-of-Living Adjustments for Retired State and Public School Employees.

On October 26, 1999, the Senate of Pennsylvania adopted Senate Resolution Number 103 requesting the Commission to undertake a study of the funding methods that have been utilized for cost-of-living adjustments in Pennsylvania and for retired state and public school employees by other states and to report its findings and recommendations concerning the funding of cost-of-living adjustments in Pennsylvania to the General Assembly by December 28, 2000. During the remainder of 1999, research began on this study and report. The research will be completed during the first half of 2000, and the report will be issued in the last quarter of 2000.

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 Employees' Retirement System (PSERS) in September 1999 and of the State Employees' Retirement System (SERS) in October 1999.

Commission's Review of the PSERS Actuarial Valuation Report

At the September 30, 1999, meeting of the Commission, the staff presented a summary of the June 30, 1998, Actuarial Valuation Report of the Public School Employees' Retirement System issued February 4, 1999, and reviewed some significant facts concerning the condition of the system since the prior valuation.

General Funding Facts

- The employer contribution rate decreased from 6.04% for fiscal year 1998-1999 to 4.61% for fiscal year 1999-2000. The decrease of 1.43% is due to the following reasons:

▸ Decrease due to actuarial gains on assets	(2.49)%
▸ Decrease due to actuarial gains on liabilities	(.16)%
▸ Increase due to health insurance contribution rate	.10%
▸ Increase due to annuitant COLA	.83%
▸ Increase due to early retirement windows	.29%
Total	(1.43)%

- The contribution rate of 4.61% of payroll includes 4.36% of payroll for pension benefits plus .25% of payroll for the health insurance premium assistance program.

Changes in Employer Contribution Rates

	Fiscal Years				
	95/96	96/97	97/98	98/99	99/00
Normal Cost Rate	6.43%	6.44%	6.44%	6.33%	6.40%
Health Care Rate	.62%	.60%	.15%	.15%	.25%
Unfunded Accrued Liability	4.67%	3.56%	2.17%	(0.44%)	(2.04)%
Total	11.72%	10.60%	8.76%	6.04%	4.61%

Reasons for Decrease in Unfunded Accrued Liability

Experience (Gains) Losses ($000)

• Gain from Investment Return on Actuarial Value of Assets	($ 2,864,353)
• Gain from Salary Increases Less than Expected	(245,371)
• Loss from Retirement and Other Separation Experience	16,609
• Loss from Annuitants' Mortality Experience	62,935
Sub-Total	($ 3,030,180)

Changes in Benefit Provisions ($000)

• Act 88 Cost-of-Living Adjustment	$ 956,799
• Act 41 Early Retirement Windows	231,180
Sub-Total	$ 1,187,979
Total	$(1,842,201)

Demographics

- The number of active members increased by 5,625 or 2.62%.
- The number of annuitant and survivor annuitant members increased by 2,690.

The Commission reviewed this report with Mr. Dale H. Everhart, Executive Director, Mr. Jeffrey B. Clay, Deputy Executive Director, Mr. John C. Lane, Chief Investment Officer, and Ms. Kim Nickol, Consulting Actuary, Public School Employees' Retirement System and some significant facts concerning the condition of the Public School Employees' Retirement System since the prior valuation.

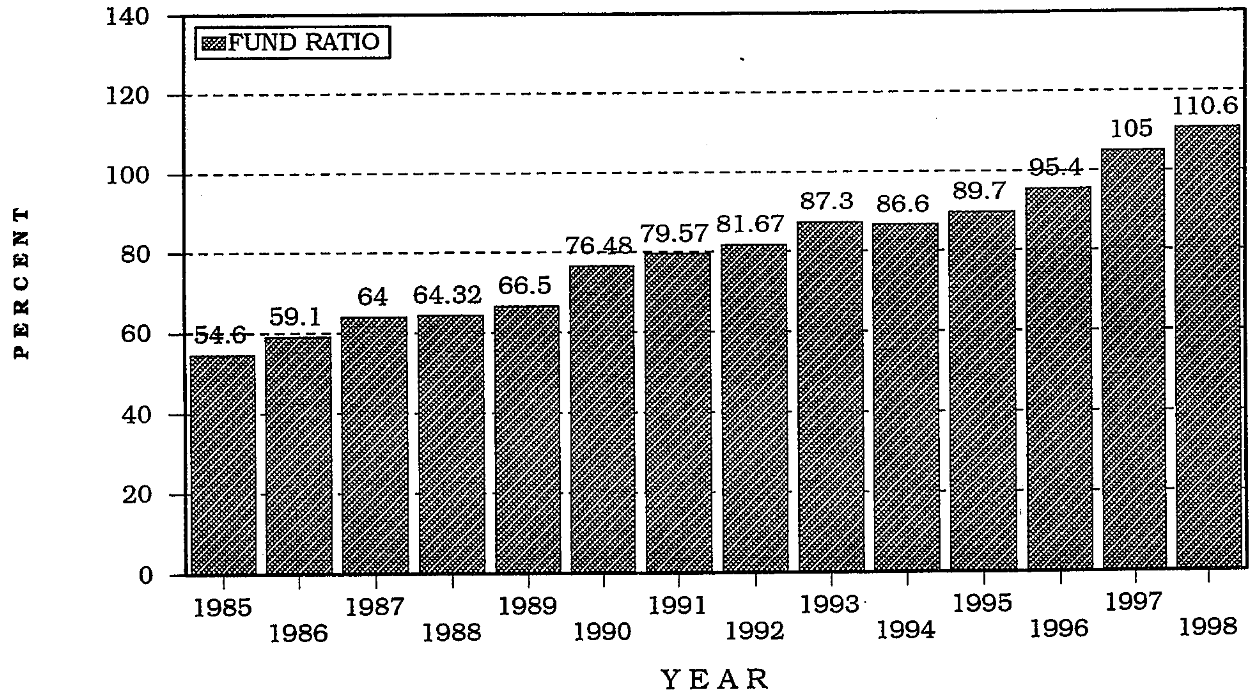
SUMMARY OF ACTUARIAL VALUATION
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
as of
June 30, 1998

The following is a summary of the June 30, 1998, actuarial valuation of the Public School Employees' Retirement System and a comparison of the 1998 results with those of 1997.

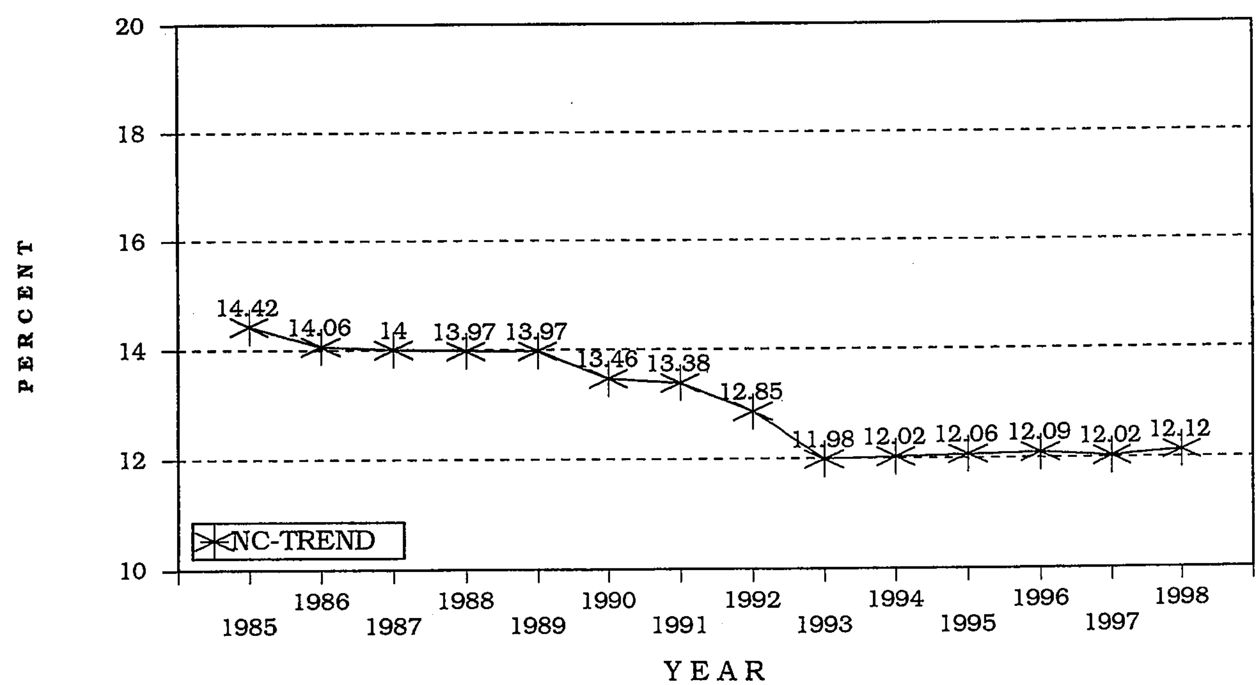
	6/30/97		6/30/98	
Membership				
Active Members	215,077		220,703	
Inactive and Vested Members	40,028		43,591	
Retired Members	113,094		115,488	
Disabled Members	5,043		5,177	
Survivors and Beneficiaries	5,987		6,149	
Payroll and Annuities Payable				
Total Annual Payroll	$7,745,001,000		$8,091,481,000	
Annual Annuities and Benefits	$1,447,037,000		$1,652,645,000	
Valuation Data				
Accrued Liability	$33,209,493,000		$36,136,163,000	
Assets[1]	34,872,643,000		39,968,957,000	
Unfunded Accrued Liability	$(1,663,150,000)		$(3,832,794,000)	
Fund Ratio	105.0%		110.6%	
Funding Costs				
Normal Cost	$930,949,120	12.02%	$980,687,497.2	12.12%
Amortization[2]	(34,078,004)	(.44%)	(165,066,212.4)	(2.04%)
Full Actuarial Funding	$896,871,116	11.58%	$815,621,284.8	10.08%
Support				
Member	$440,690,557.0	5.690%	$462,832,713.2	5.72%
School District	228,090,279.5	2.945%	176,394,285.8	2.18%
Commonwealth	228,090,279.5	2.945%	176,394,285.8	2.18%
Total Support[3]	$896,871,116.0	11.580%	$815,621,284.8	10.08%

[1] The smoothing period for recognizing realized and unrealized gains and losses is 3 years.
[2] Twenty-year period with the dollar amount of the annual payment increasing at five percent per year.
[3] The employer health care contribution rate of .15% is not included in this total.

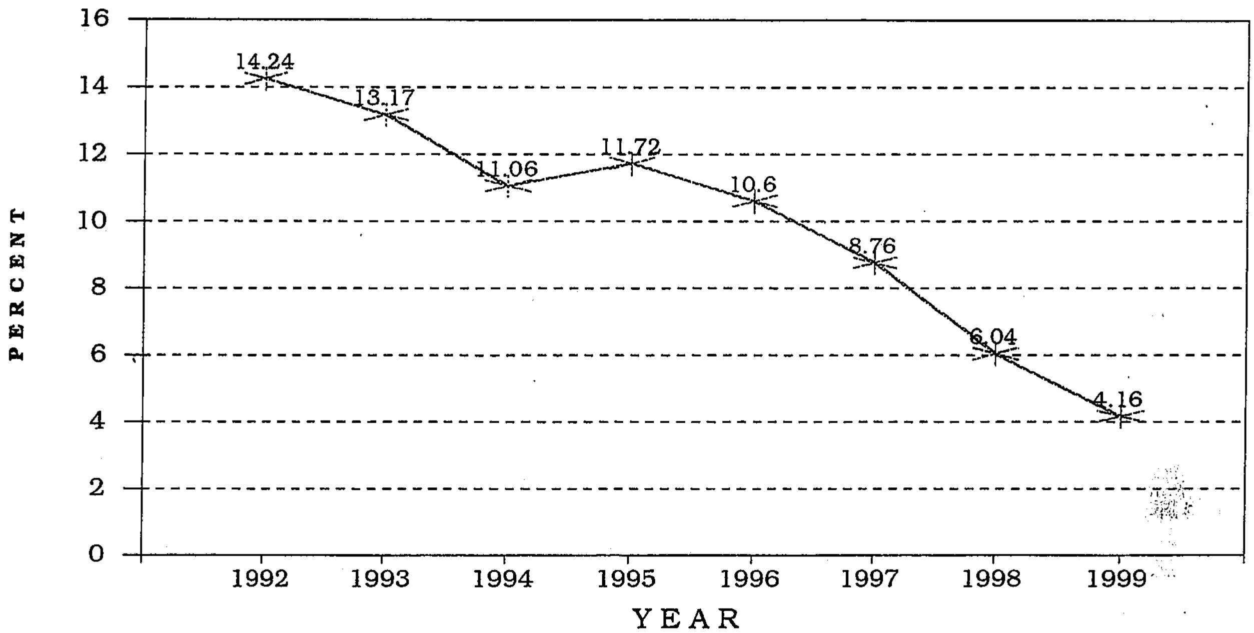
PSERS FUNDING RATIO TREND



PSERS NORMAL COST TREND



PSERS EMPLOYER CONTRIBUTION RATE*



* Includes Health Care Rate

Commission's Review of the SERS Actuarial Valuation Report

At the October 28, 1999, meeting of the Commission, the staff presented a summary of the December 31, 1998, Actuarial Valuation Report of the State Employees' Retirement System issued May 5, 1999, and reviewed some significant facts concerning the condition of the system since the prior valuation.

- **Summary of Changes**

— The employer contribution rate will be 5.0 percent of payroll. This is a 1.7 percent of payroll reduction from the previous rate of 6.7 percent.

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

	Normal Cost	Unfunded Liabilities	Total
▸ Gain from investment earnings		(1.80%)	(1.80%)
▸ Change in demographics of new entrants	(0.03%)	0.02%	(0.01%)
▸ Pay increase different than assumptions		0.32%	0.32%
▸ Other differences between actual experience and actuarial assumptions	———	(0.21%)	(0.21%)
Total Change	(0.03)%	(1.67%)	(1.70%)

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

▸ Gain from investment earnings	$ (1,099,094,652)
▸ Change in demographics in new entrants	14,751,688
▸ Pay increase different than assumptions	193,944,936
▸ Other differences between actual experience and actuarial assumptions	(133,684,485)
Total Change	$ (1,024,082,513)

The Commission reviewed this report with Mr. John Brosius, Executive Director, Mr. Peter M. Gilbert, Chief Investment Officer, Mr. John C. Winchester, Director of Public Markets, and Mr. Edwin C. Hustead, Consulting Actuary, of the State Employees' Retirement System.

SUMMARY OF ACTUARIAL VALUATION
STATE EMPLOYEES' RETIREMENT SYSTEM
as of
December 31, 1998

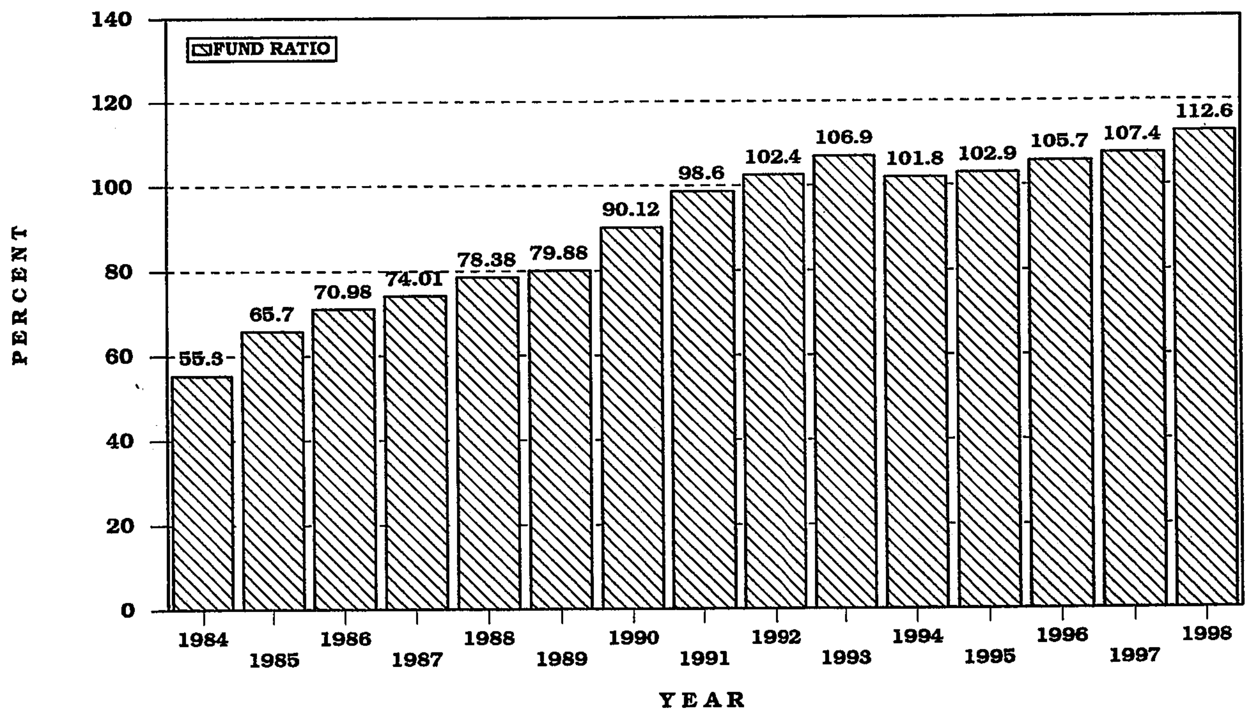
The following is a summary of the December 31, 1998, actuarial valuation of the State Employees' Retirement System and a comparison of the 1998 results with those of 1997.

	12/31/97		12/31/98	
Membership				
Active Members	108,684		108,893	
Inactive Members	4,643		3,785	
Retired Members	72,485		72,696	
Disabled Members	5,182		5,321	
Survivors and Beneficiaries	7,790		7,817	
Payroll and Annuities Payable				
Total Annual Payroll	$4,013,265,384		$4,235,719,914	
Annual Annuities and Benefits	$ 801,778,597		$ 898,593,605	
Valuation Data				
Accrued Liability	$17,288,412,994		$18,357,899,288	
Assets[1]	18,565,135,501		20,670,711,370	
Unfunded Accrued Liability	$(1,276,722,507)		$(2,312,812,082)	
Funded Ratio	107.4%		112.6%	
Funding Costs				
Normal Cost	$561,455,827	13.99%	$591,306,500	13.96%
Amortization[2]	(91,903,777)	(2.29%)	(167,734,508)	(3.96)%
Funding	$469,552,050	11.70%	$423,571,992	10.00%
Support				
Member	$200,663,269	5.00%	$211,785,996	5.00%
Commonwealth	268,888,781	6.70%	211,785,996	5.00%
Total Support	$469,552,050	11.70%	$423,571,992	10.00%

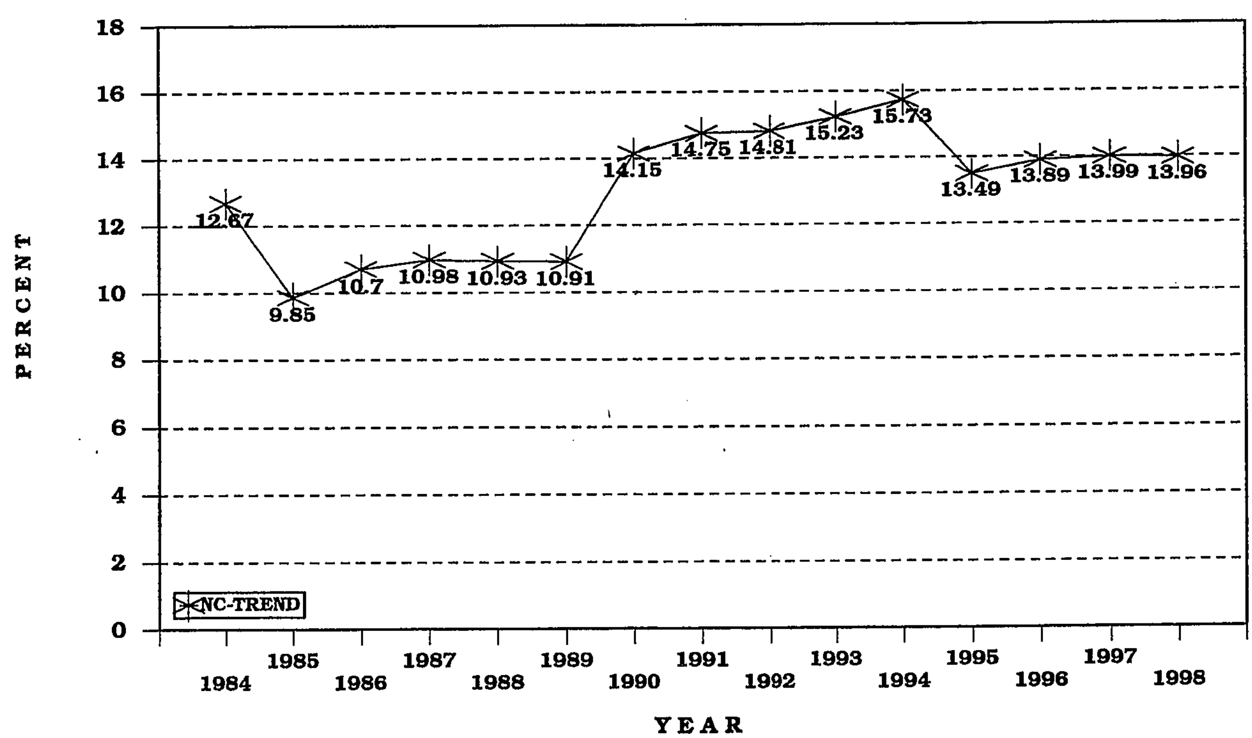
1 The figure is the actuarial value not the market value.

2 Twenty-year period with the dollar amount of the annual payment increasing at five percent per year.

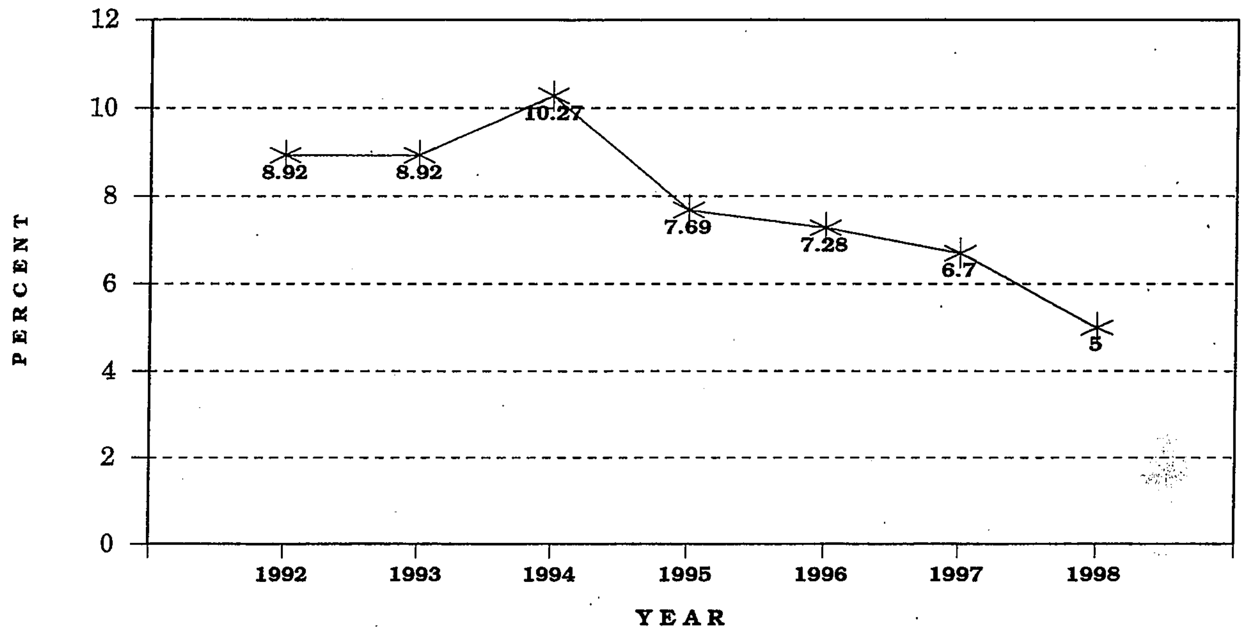
SERS FUNDED RATIO TREND



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 1999 and their sponsoring organizations were as follows:

MUNICIPAL PENSION ADVISORY COMMITTEE

Mr. David W. Hayes
PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP COMMISSIONERS

Mr. John E. Gardner, Jr.
PENNSYLVANIA STATE ASSOCIATION OF BOROUGHS

Mr. Christopher J. Moonis
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. Carl W. Miers, Chairman
PENNSYLVANIA CHIEFS OF POLICE ASSOCIATION

Mr. Daniel C. Zakraysek, Vice-Chairman
PENNSYLVANIA FRATERNAL ORDER OF POLICE

Mr. William Dando, Secretary
AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES

Mr. Patsy J. Tallarico
PENNSYLVANIA STATE EDUCATION ASSOCIATION

Mr. George Tomasak
PENNSYLVANIA PROFESSIONAL FIRE FIGHTERS' ASSOCIATION

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 1999 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. Meetings 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 1999-2000 SESSIONS LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES
DECEMBER 31, 1999

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 3 P. N. 1244 (Jubelirer)	Judicial Code and SERS, prescribing the procedures to be followed in transferring county-level court administrative employees who currently are members of the county employee retirement systems into SERS as well as transferring their annual and sick leave balances	**Actuarial Note** (P. N. 632)	03/04/99
		Referred to Senate Judiciary Committee	03/10/99
		Reported as amended	03/16/99
		Second Consideration	03/17/99
		Re-referred to Senate Appropriations Committee	03/17/99
		Re-reported as committed	03/22/99
		Passed Senate (46-4)	04/12/99
		Referred to House Judiciary Committee	04/13/99
		Reported as committed	06/08/99
		Re-referred to House Appropriations Committee	06/09/99
		Re-reported as committed	06/14/99
		Second Consideration	06/14/99
		Amended and Passed House (108-93)	06/15/99
		Referred to Senate Rules and Executive Nominations Committee	06/15/99
		Re-reported on concurrence, as amended	06/16/99
		Senate concurred in House amendments, as amended by the Senate (50-0)	06/16/99
		Referred to House Rules Committee	06/16/99
		Re-reported on concurrence, as committed	06/16/99
		House non-concurred in Senate amendments to House amendments (63-136)	06/16/99
		House reconsidered vote on non-concurrence in Senate amendments to House amendments (145-51)	06/16/99
		House concurred in Senate amendments to House amendments (117-74)	06/16/99
		Act 1999—12	06/22/99
S. B. 40 P. N. 35 (Holl)	SERS, authorizing "qualified" veterans with 20 or more years of state service who are 50 years of age 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	01/07/99
S. B. 41 P. N. 36 (Holl)	Volunteer Firefighters' Relief Association Act, permitting funds of a volunteer firefighters' relief association to be spent for financial assistance to volunteer firefighters who have actively	Referred to Senate Finance Committee	01/07/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	participated in the fire service for 20 years and who have attained the age of 65 or older		
S. B. 42 P. N. 37 (Holl)	Sunset Act of 1999, providing for evaluation, termination, and continuation of state agencies, establishing the Sunset Leadership Committee, providing for the committee's powers and duties, and making repeals, which, among other things, would provide for the termination of the Municipal Pension Advisory Committee and the Public Employee Retirement Study Commission on 12/31/07, unless reestablished or continued	Referred to Senate State Government Committee	01/07/99
S. B. 44 P. N. 39 (Holl)	PSERS, requiring the indexing of the earnings limitation threshold for purposes of calculating reductions in disability annuities caused by earned income of the annuitant	Referred to Senate Finance Committee	01/07/99
S. B. 70 P. N. 65 (Holl)	An act conferring the powers of police officers on sheriffs and their deputies in certain instances	Referred to Senate Judiciary Committee	01/08/99
S. B. 82 P. N. 77 (Bell)	PMRS, prohibiting investments by the pension trust fund 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 pension trust funds in corporations incorporated in Pennsylvania	Referred to Senate Local Government Committee	01/08/99
S. B. 83 P. N. 78 (Bell)	PSERS and SERS, prohibiting investments by the pension trust fund 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 pension trust funds in corporations incorporated in Pennsylvania	Referred to Senate Finance Committee	01/08/99
S. B. 84 P. N. 79 (Bell)	Act 11 of 1906, 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 pension trust funds in corporations incorporated in Pennsylvania	Referred to Senate Finance Committee	01/08/99
S. B. 121 P. N. 114 (Mowery)	Volunteer Firefighters' Relief Association Act, providing for volunteer firefighters' money purchase deferred benefits plans	Referred to Senate Finance Committee	01/12/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
S. B. 129 P. N. 123 (Mowery)	Optional Local Tax Enabling Act, county and municipal tax reform legislation, which, among other things, excludes the imposition of a real estate tax under § 607(f) of Act 205 of 1984 from a referendum on a real estate tax increase and permits the imposition of a personal income tax instead of an earned income tax	Referred to Senate Finance Committee	01/12/99
S. B. 174 P. N. 168 (Greenleaf)	Probate, Estates and Fiduciaries Code, among other things, adding a new chapter 72 providing a Prudent Investor Rule and amending existing chapter 73 so that its provisions only apply to municipal employee pension trust funds	Referred to Senate Judiciary Committee Reported as committed Second Consideration Passed Senate (50-0) Referred to House Judiciary Committee Reported as committed Re-referred to House Appropriations Committee Re-reported as committed Second Consideration Passed House (200-0) Act 1999—28	01/20/99 02/02/99 02/09/99 03/09/99 03/15/99 05/04/99 06/08/99 06/14/99 06/14/99 06/15/99 06/25/99
S. B. 184 P. N. 231 (Hart)	General Local Government Code, adding § 4101 that would mandate a maximum vesting period of 5 years for all municipal defined benefit pension plans	Referred to Senate Finance Committee	01/26/99
S. B. 190 P. N. 185 (O'Pake)	PMRS, reducing the requirement for disability retirement for police officers only from being unable to engage in any gainful employment to being unable to perform the regular and routine duties of that office	Referred to Senate Finance Committee	01/21/99
S. B. 224 P. N. 220 (Mellow)	PSERS, authorizing the purchase of service credit for up to 2 years of non-school service as a Peace Corps volunteer	Referred to Senate Finance Committee **Actuarial Note** (P. N. 220)	01/25/99 04/22/99
S. B. 231 P. N. 241 (Conti)	Constitution of Pennsylvania, amending § 16(b) of article 5 to provide that justices, judges, and district justices must retire on the last day of the calendar year in which they attain the age of 70 rather than upon attaining age 70 as the Constitution now requires [Prior passage of H. B. 114, P. N. 3694, 97-98 Sessions, as Joint Resolution Number 3 of 1998, for which the Commission attached an **Actuarial Note** to H. B. 114, P. N. 1478, on 05/07/97]	Referred to Senate Judiciary Committee Reported as committed Re-referred to Senate Appropriations Committee	01/28/99 02/02/99 02/08/99
S. B. 304 P. N. 320 (Gerlach)	Optional County Tax Enabling Act, county tax reform legislation, which, among other things, excludes the im-	Referred to Senate Finance Committee	02/03/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	position of a real estate tax under § 697(f) of Act 205 of 1984 from a referendum on a real estate tax increase and permits the imposition of a personal income tax instead of an earned income tax		
S. B. 309 P. N. 1187 (Conti)	PSERS, permitting an annuitant who left school service after 01/01/84 and before 09/01/98 and active members and active multiple service members to purchase up to 3 years of service credit for nonschool service in the Cadet Nurse Corps during World War II if the annuitant had at least 1 year of such service, permitting an active member or active multiple service member to purchase up to 2 years of service credit for nonchool service as a Peace Corps Volunteer if the purchase is made within 3 years of eligibility, the member pays the full actuarial cost of the increased benefit, and the member cannot withdraw the purchase contribution in a lump sum under Option 4, extending the existing "30 and Out" window from July 1, 1999, to July 16, 1999, and permitting an annuitant to be employed by a school district, intermediate unit, or area vocational school as a coach, director, or sponsor of a school activity or on a less-than-full-time basis as an instructor or administrator of an adult education or basic literacy education program under a separate contract without being subject to cessation of annuity or forfeiture provisions if the contract specifies that no PSERS service credit will be earned and no contributions are made to PSERS	Referred to Senate Finance Committee Reported as amended Re-referred to Senate Appropriations Committee **Actuarial Note** (P. N. 538) **Actuarial Note** (P. N. 538, A. 1977) **Commission Letter** (P. N. 538, A. 2253) Re-reported as amended Second Consideration Amended and Passed Senate (50—0) Referred to House Education Committee **Commission Letter** (P. N. 1197) Reported as committed Re-referred to House Appropriations Committee Re-reported as committed Second Consideration Passed House (197-1) Veto No. 2 Laid on the table	02/03/99 03/08/99 03/23/99 04/22/99 05/19/99 06/07/99 06/07/99 06/07/99 06/08/99 06/09/99 06/14/99 06/14/99 06/14/99 06/14/99 06/15/99 06/16/99 06/25/99 09/27/99
S. B. 310 P. N. 323 (Conti)	PSERS, permitting an annuitant who left school service after 01/01/84 and before 09/01/98 to purchase up to 3 years of service credit for nonschool service in the Cadet Nurse Corps during World War II if the annuitant had at least 1 year of such service	Referred to Senate Finance Committee	02/03/99
S. B. 371 P. N. 383 (Mowery)	PSERS, requiring the basic contribution rate (now 6¼%) be adjusted annually to require additional employee contribution equal to ½ of the additional cost of any newly created retirement benefit or any existing retirement modified to increase the benefit or expand eligibility by the General As		

Bill Number. Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	sembly with the additional cost determined in an actuarial note prepared by the PSER Board	Referred to Senate Finance Committee	02/11/99
S. B. 395 P. N. 404 (Thompson)	An act establishing the Mandate Review Advisory Board within the Local Government Commission	Referred to Senate State Government Committee	02/12/99
S. B. 443 P. N. 462 (O'Pake)	Foreign Casualty Insurance Premium Tax Allocation Law (Act 120 of 1943), providing that in situations in which a municipality merges, consolidates, or otherwise joins into or with another municipality so that it ceases to exist as a separate political subdivision after 06/30/98 the successor municipality may treat unspent moneys as having been originally distributed to it	Referred to Senate Local Government Committee	02/23/99
S. B. 460 P. N. 470 (Schwartz)	Tobacco Free Investment and Divestiture Act, requiring boards of PMRS, PSERS, and SERS, among others to divest their investments in securities of tobacco companies within 60 days or, under certain circumstances, within the following 18 months, and prohibiting them from investing in the securities of tobacco companies	Referred to Senate Finance Committee	02/24/99
S. B. 484 P. N. 499 (Tilghman)	SERS, Fiscal Year 1999-2000 appropriations bill for $20,068,000	Referred to Senate Appropriations Committee	02/25/99
		Reported as committed	03/15/99
		Second Consideration	03/16/99
		Passed Senate (50-0)	03/17/99
		Referred to House Appropriations Committee	03/18/99
		Reported as committed	05/04/99
		Second Consideration	05/05/99
		Passed House (193-0)	05/10/99
		Act 1999—5A	05/13/99
S. B. 485 P. N. 500 (Tilghman)	PSERS, Fiscal Year 1999-2000 appropriations bill for $27,110,000	Referred to Senate Appropriations Committee	02/25/99
		Reported as committed	03/15/99
		Second Consideration	03/16/99
		Passed Senate (50-0)	03/17/99
		Referred to House Appropriations Committee	03/18/99
		Reported as committed	05/04/99
		Second Consideration	05/05/99
		Passed House (192-0)	05/10/99
		Act 1999—6A	05/13/99
S. B. 509 P. N. 519 (Musto)	Enforcement Officer Disability Benefits Law (Act 193 of 1935), extending benefits to county corrections officers in counties of the third class	Referred to Senate Labor and Industry Committee	03/05/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
S. B. 580 P. N. 606 (Belan)	SERS, adding § 5505(h) to provide that the contribution to purchase up to 3 years of service credit for nonstate service on an intervening furlough shall use the contribution rate for active members during the time of the furlough	Referred to Senate Finance Committee	03/15/99
S. B. 636 P. N. 672 (Greenleaf)	Public Official Compensation Law, repealing the provision in § 2.1(h) that restricts the annual compensation of a senior judge, at $315 a day, to an amount that added to the judge's pension equals the compensation of a judge in regular active service	Referred to Senate Judiciary Committee Reported as committed	03/22/99 12/07/99
S. B. 680 P. N. 736 (Salvatore)	PSERS, amending § 8102 to change definition of maternity leave of absence to include an involuntary leave of absence required by an employer because of an adoption by the member commencing before 05/17/75	Referred to Senate Finance Committee	03/24/99
S. B. 729 P. N. 885 (Stout)	SERS, amending §§ 5304(c) & 5505 to permit an active member or active multiple service member, from 7/1/99 through 7/1/01, to purchase up to 5 years of service credit for nonstate service as a county employee if the member was a member of or, if permitted could have joined the county retirement system, the member's purchase contribution is computed as though the nonstate county service were intervening military service, and the member repays the county all of the employer's vested share actually paid to the member since separating from county service and surrenders all future rights in the county system	Referred to Senate Finance Committee	04/04/99
S. B. 767 P. N. 832 (Greenleaf)	PMRS, requiring that, in situations in which a municipal plan is created by a municipal authority, the authority is dissolved under the laws of the Commonwealth or the operating functions have been transferred back to the creating municipality, there are no active members left in the plan, and the plan has no unfunded actuarial accrued liability as of the most recently filed Act 205 report, 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	Referred to Senate Finance Committee Reported as committed **Actuarial Note** (P. N. 832) Re-referred to Senate Appropriations Committee Re-reported as committed Second Consideration	04/12/99 05/04/99 05/19/99 06/08/99 10/18/99 10/25/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	municipal account, the vested member's accounts, and the retired members' reserve accounts based upon the present values of the accounts		
S. B. 801 P. N. 872 (Mellow)	SERS, permitting an educator in a community college to purchase up to 10 years of service credit for nonstate service as a public educator in another state or with the federal government and liberalizing the limitation on purchase by educators employed in the Department of Education, the State System of Higher Education, any state-owned educational institution, The Pennsylvania State University, and community colleges of service credit for nonstate public educator service in another state or with the federal government by adding service as an educator in a community college after 06/30/71 to the types of state service the purchaser must have in order to make the purchase	Referred to Senate Finance Committee **Actuarial Note** (P. N. 872)	04/13/99 05/19/99
S. B. 830 P. N. 913 (Stout)	SERS, amending §§ 5304(c) & 5505 to permit an active member or active multiple service member, between 07/01/99 and 07/01/01 to purchase up to 5 years of service credit for nonstate service as a county employee if the member was a member of or, if permitted, could have joined the county retirement system and the member's purchase contribution is computed as though the nonstate county service were nonintervening military service	Referred to Senate Finance Committee **Commission Letter** (P. N. 913)	04/19/99 05/27/99
S. B. 885 P. N. 988 (Greenleaf)	Enforcement Officer Disability Benefits Law (Act 193 of 1935), extending benefits to sheriffs and deputy sheriffs	Referred to Senate Labor and Industry Committee	04/28/99
S. B. 904 P. N. 1017 (Greenleaf)	Constitution of Pennsylvania, amending § 26 of article 3 to permit the General Assembly to authorize increase of retirement benefits to beneficiaries who are spouses of members of public employee retirement systems	Referred to Senate Finance Committee	05/03/99
S. B. 908 P. N. 1023 (Greenleaf)	PSERS and SERS, retroactive to July 1, 1998, granting the 1998 supplemental annuities to members whose last day of work was July 1, 1998	Referred to Senate Finance Committee	05/03/99
S. B. 911 P. N. 1026 (Greenleaf)	SERS, providing $55 a month health insurance premium assistance to retirees who are 65 or older, retired with 15 or more years of service credit, and are not enrolled in a Common-	Referred to Senate Finance Committee	05/03/99

	wealth-sponsored health insurance plan		
S. B. 924 P. N. 1051 (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	05/05/99
S. B. 970 P. N. 1250 (Wenger)	The Administrative Code of 1929 (Act 175 of 1929), among other things, providing for the retirement system membership of employees of the Department of Education employed in connection with the provision of inmate education and training transferred to the Department of Corrections	Referred to Senate Agriculture and Rural Affairs Committee	05/11/99
		Reported as committed	05/11/99
		Second Consideration	06/07/99
		Passed Senate (50-0)	06/08/99
		Referred to House Appropriations Committee	06/08/99
		Reported as committed	06/14/99
		Second Consideration	06/15/99
		Amended and Passed House (199-0)	06/16/99
		Referred to Senate Rules and Executive Nominations Committee	06/16/99
		Re-reported on concurrence, as amended	06/16/99
		Senate concurred in House amendments, as amended by the Senate (47-3)	06/16/99
		Referred to House Rules Committee	06/16/99
		Re-reported on concurrence, as Committed	06/16/99
		House concurred in Senate amendments to House amendments (199-0)	06/16/99
		Act 1999—15	06/22/99
S. B. 1010 P. N. 1208 (Kukovich)	PSERS, making the 1998 ad hoc postretirement adjustment payable to beneficiaries and survivors of members who died before July 1, 1998	Referred to Senate Finance Committee	06/14/99
S. B. 1028 P. N. 1255 (Boscola)	Municipal Police Pension Law (Act 600), permitting rebates to retirees of systems in which the funding ratio is greater than 200% if granting the rebates will not reduce the ratio to less than 200%	Referred to Senate Finance Committee	06/17/99
S. B. 1071 P. N. 1301 (Kukovich)	SERS, repealing subsection prohibiting payment of the 1998 COLA to beneficiaries or survivor annuitants of a member who died before July 1, 1998	Referred to Senate Finance Committee	08/27/99
S. B. 1082 P. N. 1314 (Conti)	PSERS and SERS, shortening period of and changing method of calculating amortization payments for unfunded actuarial accrued liabilities caused by granting future postretirement adjustments from a 20-year period with payments calculated as a level percentage of payroll increasing 5% a year to	Referred to Senate Finance Committee	09/08/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	a 10-year period with payments calculated as a level dollar amount		
S. B. 1089 P. N. 1321 (Bell)	SERS, reducing vesting from 10 year cliff vesting to 8 year cliff vesting	Referred to Senate Finance Committee	09/16/99
S. B. 1093 P. N. 1324 (Gerlach)	SERS, permitting active member who is an employee of the Delaware River Joint Toll Bridge Commission to purchase service credit for the other ½ of the member's previous service with the former Delaware River Joint Free Bridge Commission during the period after 04/11/76 and before 07/01/87 under certain circumstances	Referred to Senate Finance Committee **Actuarial Note** (P. N. 1324)	09/16/99 09/30/99
S. B. 1101 P. N. 1341 (Costa)	Second Class County Code, removing the $52,000 a year cap that currently is used in calculating the average salaries and member contributions for purposes of computing benefits in the Allegheny County Employees' Retirement System, making the county home rule charter subject to the employees' retirement system, and making the system unaffected by the county home rule charter [See H. B. 2081]	Referred to Senate Finance Committee **Actuarial Note** (P. N. 1341) Reported as committed Re-referred to Senate Rules and Executive Nominations Committee	09/28/99 09/30/99 12/07/99 12/07/99
S. B. 1113 P. N. 1362 (Armstrong)	Public School Code of 1949, amend § 2013-A to change provisions regarding retirement plans for the State System of Higher Education (SSHE) to expand the list of employer-approved, alternate retirement plans that an employee may choose as an alternative to either PSERS or SERS from TIAA-CREF to include insurance companies authorized to issue annuity contracts in Pennsylvania and selected by the SSHE under an RFP	Referred to Senate Finance Committee	10/01/99
S. R. 103 P. N. 1444 (Tilghman)	Resolution requesting the Public Employee Retirement Commission to undertake a study relating to the funding of cost-of-living adjustments for retired state and public school employees and to report its findings and recommendations to the General Assembly by December 28, 2000	Referred to Senate Finance Committee Reported as amended Adopted	10/01/99 10/25/99 10/26/99
S. B. 1161 P. N. 1455 (Boscola)	Municipal Police Pension Law (Act 600 of 1955), permitting cost-of-living allowances in excess of the 75% of the salary used to compute retirement benefits and of the 30% limits if the pension trust fund assets exceed the present value of future benefits such that members are not required to contribute	Referred to Senate Finance Committee	10/26/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
S. B. 1174 P. N. 1464 (Mowery)	PSERS, permitting a retiree to return to school service under a separate contract without cessation of annuity or forfeiture of special early retirement benefits if the retiree has not retired under an early retirement provision within 2 years of the beginning of the contract, the school service is in an extracurricular position outside regular instructional hours and not part of a mandated curriculum, under the contract, neither the retiree nor the employer contribute to PSERS for such service, the retiree waives any potential retirement benefit arising under the contract, and the retiree releases the employer and the board from any obligation	Referred to Senate Finance Committee	10/29/99
S. B. 1176 P. N. 1466 (Piccola)	PSERS, permitting active member or active multiple service member to purchase service credit for up to 5 years of previous nonschool service as an educator in an accredited Pennsylvania nonpublic school or licensed private school if the member was entitled to a teaching certificate, makes a purchase contribution of the present value of the full actuarial cost of the increase in the projected superannuation annuity, and cannot withdraw the contribution under Option 4	Referred to Senate Finance Committee	11/08/99
S. B. 1177 P. N. 1534 (Hughes)	PSERS and SERS, increasing the accrual rate from 2% to 3% effective with pensions beginning after 12/31/99	Referred to Senate Finance Committee	11/29/99
S. B. 1191 P. N. 1503 (Costa)	Second Class County Code, reducing the age and service at which an Allegheny County deputy sheriff may retire and receive a full retirement allowance from age 55 or older with 20 or more years of service only to either age 50 or older with 25 or more years of service or age 55 or older with 20 or more years of service	Referred to Senate Finance Committee	11/16/99
S. B. 1205 P. N. 1527 (Salvatore)	Public Employe Relations Act (Act 194 of 1970), adding law enforcement officers of limited jurisdiction who are not covered under the Policemen and Firemen Collective Bargaining Act (Act 111 of 1968) to those public employees prohibited from striking and entitled to binding arbitration	Referred to Senate Labor and Industry Committee	11/18/99

Bill Number Printer's Number (Prime Sponsor)	**Subject**	**Concise History and Status**	**Date**
S. B. 1242 P. N. 1590 (Greenleaf)	PSERS and SERS, extending "30 and Out" in PSERS to the April 1 through June 30 quarters of 2000 and 2001 and in SERS to the 2 years from July 1, 1999, through June 30, 2001	Referred to Senate Finance Committee	12/09/99
S. B. 1247 P. N. 1595 (Rhoades)	PSERS and SERS, retroactive to July 1, 1999, extend "30 and Out" 4 years to June 30, 2003	Referred to Senate Finance Committee	12/16/99
S. B. 1250 P. N. 1598 (Rhoades)	PSERS and SERS, effective July 1, 2000, granting ad hoc postretirement adjustments	Referred to Senate Finance Committee	12/16/99
H. B. 146 P. N. 130 (M. N. Wright)	PSERS, eliminating the effect of the frozen present value upon the annuity of a non multiple service member who was an annuitant on 07/01/94, returned to school service for at least 3 years, and retired again	Referred to House Education Committee **Actuarial Note** (P.N. 130)	01/26/99 05/19/99
H. B. 147 P. N. 131 (M. N. Wright)	PSERS and SERS, eliminating the effect of the frozen present value upon the annuity of a non multiple service member who was an annuitant on 07/01/94, returned to service for at least 3 years and retired again	Referred to House State Government Committee **Actuarial Note** (P. N. 131)	01/26/99 05/19/99
H. B. 153 P. N. 141 (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	01/27/99
H. B. 158 P. N. 146 (L. I. Cohen)	PSERS, permitting an active member or an active multiple service member to purchase up to 5 years of service credit at the rate of 1 year of credit for every 3 years of previous nonschool work experience as an educator in an accredited Pennsylvania nonpublic elementary or secondary school, if the member was entitled to a provisional or professional certificate to teach in Pennsylvania public schools at the time of the nonschool service, makes the purchase within 3 years of eligibility, and pays the full actuarial cost of the purchase, and the member cannot withdraw the purchase contribution under Option 4	Referred to House Education Committee **Actuarial Note** (P. N. 146)	01/27/99 04/22/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
H. B. 164 P. N. 152 (Herman)	PMRS, amending § 112 retroactive to 01/01/95 to extend to calendar years 1995, 1996, 1997, 1998, 1999, and 2000 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. 152) Reported as committed **Actuarial Note** (P. N. 152) Re-referred to House Appropriations Committee Re-reported as committed Second Consideration Passed House (194-0) Referred to Senate Finance Committee Reported as committed Re-referred to Senate Rules and Executive Nominations Committee	01/27/99 02/01/99 02/03/99 03/04/99 03/10/99 03/15/99 03/15/99 03/17/99 03/22/99 12/07/99 12/07/99
H. B. 166 P. N. 154 (Herman)	Constitution of Pennsylvania, amending § 26 of article 3 to permit the General Assembly to increase the retirement benefits or pensions payable to beneficiaries who are spouses of members of a public employee retirement system	Referred to House State Government Committee **Actuarial Note** (P. N. 154)	01/27/99 03/04/99
H. B. 186 P. N. 174 (O'Brien)	Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988), retroactive to 01/01/98 mandating certain additional one time postretirement adjustments for certain retired municipal public safety officers	.Referred to House Local Government Committee	01/27/99
H. B. 188 P. N. 176 (O'Brien)	SERS, permitting a bail commissioner of the Philadelphia Municipal Court to elect Class E-2 membership within 30 days of the effective date of the bill or of employment whichever is later for service as a bail commissioner after the effective date of the bill	Referred to House State Government Committee	01/27/99
H. B. 190 P. N. 178 (O'Brien)	An act prohibiting a municipal employee retirement system of the City of Philadelphia from denying benefits to surviving spouses of police officers and police employees upon the subsequent remarriage of the surviving spouse	Referred to House Urban Affairs Committee **Actuarial Note** (P. N. 178) Reported as committed	01/27/99 03/04/99 11/16/99
H. B. 273 P. N. 270 (Lawless)	Judicial Code, adding retirement or annuity fund provided for under §§ 408A and 530 of the Internal Revenue Code to the assets of a judgment debtor exempt from attachment or execution on a judgment	Referred to House Judiciary Committee	02/02/99
H. B. 275 P. N. 1043 (Stevenson)	PSERS, permitting an annuitant to be employed by a school district, intermediate unit, or area vocational school as a coach, director, or sponsor of a school activity or on a less-than-full-time basis as an instructor or administrator of an adult education or basic literacy	Referred to House Education Committee Reported as amended **Actuarial Note** (P. N. 597) Re-referred to House Appropriations Committee Re-reported as amended	02/02/99 02/10/99 03/04/99 03/08/99 03/15/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	education program conducted outside the regular instructional hours that is not part of a program or curriculum mandated by state law and does not require state certification of the administrators or instructors under a separate contract without being subject to cessation of annuity or forfeiture provisions if the contract specifies that no PSERS service credit will be earned and no contributions are made to PSERS, establishing the School District Loan Fund and the School District Loan Program, and appropriating $72,000,000 for the Loan Fund	Second Consideration Amended and Passed House (194-0) **Commission Letter** (A. 0917, P. N. 983) Referred to Senate Finance Committee	03/15/99 03/17/99 03/19/99 03/24/99
H. B. 295 P. N. 2346 (Herman)	PSERS and SERS, amending provisions on election of and purchase of service credit under Multiple Service Membership Status to lengthen from 30 to 365 days the time period available for members to elect multiple service membership after beginning school or state service, to provide that members electing multiple service membership may pay for any credit to be reinstated or purchased through installment payments, and to open a window expiring December 31, 2002, during which current active members, who have not elected multiple service membership but have service in both systems, may elect multiple service membership, permitting board members to serve until appointment of their successors, and increasing investment flexibility of the boards	Referred to House State Government Committee **Actuarial Note** (P. N. 292) Reported as amended Re-referred to House Appropriations Committee **Commission Letter** (P. N. 2346) Re-reported as committed Second Consideration Passed House (202-0) Referred to Senate Finance Committee **Actuarial Note** (A. 3404, P. N. 2346)	02/02/99 04/22/99 09/29/99 10/04/99 10/04/99 10/04/99 10/04/99 10/05/99 10/14/99 10/28/99
H. B. 303 P. N. 310 (Curry)	PSERS, permitting an active member or an active multiple service member to purchase up to 5 years of service credit at the rate of 1 year of credit for every 3 years of previous nonschool work experience as a special educator in an accredited Pennsylvania nonpublic elementary or secondary school, if the member was entitled to a provisional or professional certificate to teach in Pennsylvania public schools at the time of the nonschool service, and makes the purchase within 3 years of eligibility, pays the full actuarial cost of the purchase, and the member cannot withdraw the purchase contribution under Option 4	Referred to House Education Committee **Actuarial Note** (P. N. 310)	02/03/99 04/22/99
H. B. 330 P. N. 343 (Bebko-Jones)	County Pension Law (Act 96 of 1971), reducing superannuation age from age 60 or age 55 with 20 years of service to age 60 or age 50 with 15 years of	Referred to House Local Government Committee **Advisory Note** (P. N. 343)	02/08/99 11/04/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	service and reducing minimum eligibility for special early retirement from age 55 with 10 years of service or 30 years of service to age 50 with 10 years of service or 30 years of service		
H. B. 332 P. N. 345 (Maitland)	SERS, adding § 5304(c)(9) to permit an active member or active multiple service member, under certain circumstances, to purchase up to 5 years of service credit for previous full-time nonstate service with a county, city, borough, incorporated town, or township	Referred to House State Government Committee	02/08/99
H. B. 343 P. N. 356 (Maitland)	SERS, adding § 5304(c)(9) to permit an active member or active multiple service member to purchase up to 5 years of service credit for nonstate service as a municipal police officer in Pennsylvania by a member of the Pennsylvania State Police	Referred to House State Government Committee	02/08/99
H. B. 430 P. N. 450 (Lucyk)	SERS, adding § 5304(c)(9) to permit an active member or an active multiple service member to purchase up to 5 years of service credit for previous nonstate service as a county employee	Referred to House State Government Committee	02/09/99
H. R. 34 P. N. 422 (Zug)	Resolution declaring that the House of Representatives deem the collective bargaining agreements between the Commonwealth and the four unions representing Pennsylvania Liquor Store employees breached and cease to provide state appropriations to the employee benefit funds unless by 06/10/99 an audit of the funds is completed in accordance with the collective bargaining agreement	Referred to House Rules Committee	02/09/99
H. B. 477 P. N. 497 (Lescovitz)	Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988), retroactive to 01/01/96 mandating certain additional one time postretirement adjustments for certain retired municipal public safety officers	Referred to House Local Government Committee	02/09/99
H. B. 490 P. N. 510 (Reinard)	Pennsylvania Tax and Expenditure Limitation Act, imposing limitations on the imposition or increase of state and political subdivision taxes or tax rates and on the levels of expenditures with certain exceptions, which would, among other things, exclude from the limitations on taxation by political subdivisions the costs that arise from mandated increases in pension or retirement costs, require future liabili-	Referred to House Finance Committee	02/09/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	ties resulting from the adoption of or contracting for new or improved deferred compensation or benefits or pensions by the Commonwealth or political subdivisions to be funded using an accepted advance funding actuarial method, prohibiting the Commonwealth from imposing upon local governments new programs or increased levels of service under existing programs unless the cost is fully funded by the Commonwealth, exclude the Commonwealth's Deferred Compensation Fund and Deferred Compensation Short-Term Portfolio Fund from the total Commonwealth spending computation, and prohibit interfund transfers between the Commonwealth's Deferred Compensation Short-Term Portfolio and pension trust funds to any other Commonwealth funds to circumvent the total Commonwealth spending computation		
H. B. 539 P. N. 563 (Tangretti)	Enforcement Officer Disability Benefits Law (Act 293 of 1935), extending benefits under the Law to certain county sheriffs and deputy sheriffs	Referred to House Local Government Committee	02/10/99
H. B. 587 P. N. 613 (Van Horne)	The Third Class City Code, increasing the maximum service increment for police officers and firefighters from \$100 a month to \$500 a month and increasing the maximum member contribution towards this benefit from \$1 a month to \$5 a month	Referred to House Urban Affairs Committee	02/16/99
H. B. 617 P. N. 650 (Van Horne)	The County Code, permitting certain counties of the third class to create or disband a county park police force, providing for the powers and duties of the police force, and expanding the powers and duties of existing county police and guards	Referred to House Local Government Committee Reported as committed	02/22/99 04/12/99
H. B. 648 P. N. 687 (Reinard)	State Payment for State Mandates Act, providing for mandatory funding of local mandates by the state government, providing for definitions, establishing the Office of Local Mandates, providing review requirements, requiring appropriations, establishing the Local Government Mandate Appeals Board, and providing compensation	Referred to Urban Affairs Committee	03/02/99
H. B. 677 P. N. 715 (Travaglio)	PSERS, retroactive to 07/01/92, increasing the maximum health insurance premium assistance from \$55 a month to \$162 a month	Referred to House Education Committee	03/02/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
H. B. 681 P. N. 719 (Travaglio)	SERS, retroactive to 07/01/91, permitting the surviving spouse of an officer of the Pennsylvania State Police to purchase service credit for the officer's nonstate service on intervening or nonintervening military service for which the deceased officer could have but failed to purchase service credit, if the surviving spouse makes the purchase within 90 days of the death of the officer or within 90 days of the effective date of the bill, whichever is later	Referred to House State Government Committee	03/02/99
H. B. 738 P. N. 1048 (Allen)	PSERS and SERS, extending "30 and Out" in PSERS to the April 1 through June 30 quarters of 2000 and 2001 and in SERS to the 2 years from July 1, 1999, through June 30, 2001	Referred to House State Government Committee **Actuarial Note** (P. N. 1048)	03/22/99 05/19/99
H. B. 760 P. N. 810 (Pesci)	Optional Local Tax Enabling Act, tax reform legislation for counties, municipalities, and school districts, that, among other things, waives the bill's revenue limitations on revenues needed to pay increases in pension fund requirements that are in excess of the annual average increase over the immediately preceding five fiscal years and exempts laws that amend funding formulas existing on the effective date of the bill and laws adopted to require funding of pension benefits existing on the effective date of the bill from the bill's limitations on spending	Referred to House Local Government Committee	03/09/99
H. B. 776 P. N. 826 (Lynch)	Enforcement Officer Disability Benefits Law (Act 193 of 1936), extending benefits to forest fire specialist supervisors employed by the Bureau of Forestry in the Department of Conservation and Natural Resources	Referred to House Judiciary Committee	03/09/99
H. B. 780 P. N. 830 (Wright)	PSERS, retroactive to 01/01/95 removing requirement that an annuitant with 15 or more years of service credit, must have terminated service on or after attaining superannuation retirement age to be an "eligible annuitant" for purposes of health insurance premium assistance	Referred to House Education Committee	03/09/99
H. B. 840 P. N. 898 (Tigue)	The Third Class City Code, adding § 4243.3 to permit the city, upon the recommendation of the custodians and managers of the nonuniformed employee pension fund, to grant ad hoc postretirement adjustments to retirees in conformity with a uniform scale, which may be based on the cost of	Referred to House Urban Affairs Committee	03/10/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	living, with the maximum pension not to exceed ½ the current salary of nonuniformed employees in the highest pay grade		
H. B. 845 P. N. 903 (Stairs)	PSERS, permitting active members and active multiple service members to purchase up to 3 years of service credit at the rate of 1 year for every 2 years of previous nonschool service work experience used to obtain certification as a vocational teacher under a nonbaccalaureate program and to purchase service credit at the rate of 1 year for every 3 years of previous nonschool service as an educator in an accredited Pennsylvania nonpublic elementary or secondary school, if the member was entitled to a provisional or professional certificate to teach in Pennsylvania public schools at the time of the nonschool service, and, in both cases, requiring the member to pay the present value of the full actuarial cost of the increase in the projected superannuation annuity and prohibiting the purchase contribution from withdrawal under Option 4	Referred to House Education Committee **Actuarial Note** (P. N. 903)	03/10/99 10/28/99
H. B. 850 P. N. 908 (Casorio)	PSERS and SERS, creating one statewide public employee retirement system for all municipal employees as part of what now is SERS	Referred to House Local Government Committee	03/10/99
H. R. 67 P. N. 993 (S. H. Smith)	Resolution directing the Center for Local Government Services to examine current levels of financial support by municipal governments for fire services provided by volunteer fire companies	Referred to House Rules Committee Reported as committed Passed House (197-0)	03/17/99 03/23/99 03/23/99
H. B. 962 P. N. 1070 (Pippy)	SERS, amending § 5304 to permit an active member or an active multiple service member with 10 or more years of service to purchase service credit for nonstate service as an employee of the Allegheny County Department of Health, if the purchase is made within 3 years of eligibility, if the member's purchase contribution is the full actuarial cost of the increased benefit obtained by the purchase, and if the purchase contribution cannot be withdrawn under Option 4	Referred to House State Government Committee	03/22/99
H. B. 966 P. N. 1074 (Wogan)	PSERS and SERS, extending "30 and Out" in PSERS to the April 1 through June 30 quarters of 2000, 2001, and	Referred to House State Government Committee **Actuarial Note** (P. N. 1074)	03/22/99 05/19/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	2002 and in SERS to the 2 year period from July 1, 2000, through June 30, 2002		
H. B. 1008 P. N. 1116 (Barley)	SERS, Fiscal Year 1999-2000 appropriations bill for $20,068,000	Referred to House Appropriations Committee	03/22/99
		Reported as committed	03/23/99
		Second Consideration	03/24/99
		Passed House (200-0)	04/12/99
		Referred to Senate Appropriations Committee	04/16/99
		Reported as committed	04/19/99
		Second Consideration	04/20/99
		Laid on the table	05/04/99
H. B. 1009 P. N. 1117 (Barley)	PSERS, Fiscal Year 1999-2000 appropriations bill for $27,110,000	Referred to House Appropriations Committee	03/22/99
		Reported as committed	03/23/99
		Second Consideration	03/24/99
		Passed House (200-0)	04/12/99
		Referred to Senate Appropriations Committee	04/16/99
		Reported as committed	04/19/99
		Second Consideration	04/20/99
		Laid on the table	05/04/99
H. B. 1034 P. N. 1161 (Hanna)	Public School Code of 1949, amending § 778 to provide for further powers of school police officers and, among other things, to provide that school police are employees of the school district at all times and entitled to all of the rights and benefits accruing therefrom	Referred to House Education Committee	03/23/99
H. B. 1035 P. N. 1162 (Hanna)	SERS, amending § 5102 to permit a campus police officer to retire with full benefits at age 50 for service on or after the effective date of the bill	Referred to House State Government Committee	03/23/99
H. B. 1065 P. N. 1211 (Santoni)	Foreign Casualty Insurance Premium Tax Allocation Law (Act 120 of 1943), providing that, in situations in which a municipality merges, consolidates, or otherwise joins into or with another municipality so that it ceases to exist as a separate political subdivision after 06/30/98, the successor municipality may treat unspent moneys as having been originally distributed to it	Referred to House Local Government Committee	03/24/99
H. B. 1095 P. N. 1241 (Stern)	SERS, amending §§ 5304(c), 5505(f), & 5705((a)(4)(iii) to permit an active member or an active multiple service member to purchase up to 10 years of service credit for full-time nonstate service in a state government other than Pennsylvania if the member already has at least 10 years of service credit in SERS, makes the purchase within 3 years of eligibility, pays the	Referred to House State Government Committee	03/24/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	full actuarial cost, and cannot withdraw under Option 4 the part of the purchase contribution representing employer cost		
H. B. 1100 P. N. 1248 (Lynch)	Enforcement Officer Disability Benefits Law (Act 477 of 1935), extending benefits to county sheriffs and deputy sheriffs and to certain employees of the Bureau of Forestry in the Department of Conservation and Natural Resources	Referred to House Judiciary Committee Reported as committed Re-referred to House Health and Human Services Committee	03/25/99 09/28/99 09/28/99
H. B. 1101 P. N. 1249 (Lynch)	Enforcement Officer Disability Benefits Law (Act 477 of 1935), extending benefits to certain employees of the Bureau of Forestry in the Department of Conservation and Natural Resources, waterways conservation officers of the Pennsylvania Fish and Boat Commission, and wildlife conservation officers of the Pennsylvania Game Commission	Referred to House Judiciary Committee Reported as committed Re-referred to House Health and Human Services Committee	03/25/99 09/28/99 09/28/99
H. B. 1102 P. N. 1250 (Lynch)	Enforcement Officer Disability Benefits Law (Act 477 of 1935), extending benefits to county sheriffs and deputy sheriffs, officers and employees of county emergency management agencies or the equivalent thereof, and to certain employees of the Bureau of Forestry in the Department of Conservation and Natural Resources	Referred to House Judiciary Committee Reported as committed Re-referred to House Health and Human Services Committee	03/25/99 09/28/99 09/28/99
H. B. 1126 P. N. 1274 (Hanna)	PSERS, reducing superannuation or regular retirement age for Class T-A from age 62 or any age with 35 or more years of service to age 60 or any age with at least 35 years of service, Class T-B from age 62 to age 60, and Class T-C from age 62 with at least 30 years of service to age 60 with at least 30 years of service	Referred to House Education Committee	03/29/99
H. B. 1148 P. N. 1297 (Dally)	Municipal Police Pension Law (Act 600), permitting a member with 6 or more months of full-time service as a police officer to purchase up to 5 years of service credit for previous part-time service as a police officer by paying the product of the statewide average normal cost for Act 600 systems not to exceed 10% multiplied by the member's average compensation over the first three years of municipal service multiplied by the number of years of part-time service being purchased with interest at 4¾% a year from initial entry into municipal police service until the purchase	Referred to House Local Government Committee	03/30/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
H. B. 1175 P. N. 1328 (Stevenson)	PSERS, permitting active members and active multiple service members to purchase up to 2 years of service credit for nonschool service time spent on a leave of absence taken in connection with the adoption of a child	Referred to House Education Committee	04/07/99
H. B. 1206 P. N. 1362 (Trello)	Volunteer Firefighters' Relief Association Act, permitting association funds to be expended for financial assistance to volunteer firefighters who have actively participated in the fire service for 20 years and who have attained age 65	Referred to House Veterans Affairs and Emergency Preparedness Committee	04/12/99
H. B. 1247 P. N. 1424 (Clark)	PSERS, permitting active members and active multiple service members to purchase up to 2 years of service credit per leave for nonschool service on a mandatory maternity leave of absence after October 31, 1978, and before July 1, 1979, if the member makes the purchase within one year of becoming eligible	Referred to House Education Committee	04/13/99
H. B. 1327 P. N. 1547 (Belfanti)	Municipal Police Pension Law (Act 600), reducing the minimum service for regular retirement from 25 years to not less than 20 years and reducing the minimum age for regular retirement from age 55 or, after an actuarial study, age 50 to age 50 when any minimum age is prescribed	Referred to House Local Government Committee	04/20/99
H. B. 1346 P. N. 2105 (Stairs)	PSERS, amending §§ 8304(b) & 8324(e) to permit an active member or an active multiple service member to purchase up to 3 years of service credit for previous nonschool service work experience used to obtain certification as a vocational teacher under a nonbaccalaureate program at the rate of 1 year of service credit for every 2 years of nonschool service or up to 5 years of service credit for previous nonschool service as a special educator in an accredited Pennsylvania-approved private (special education) school by making a payment of the full actuarial cost of the purchase that, in the case of the purchase of service credit for vocational teacher work experience, cannot be withdrawn under Option 4	Referred to House Education Committee Reported as amended Re-committed to House Rules Committee Re-reported as committed	04/20/99 06/16/99 06/16/99 09/27/99
H. B. 1372 P. N. 1605 (McGill)	Enforcement Officer Disability Benefits Law (Act 193 of 1935), extending benefits to county sheriffs and deputy sheriffs	Referred to House Judiciary Committee	04/21/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
H. B. 1392 P. N. 1634 (E. Z. Taylor)	PSERS, granting permanent "30 and Out" to members who retire between May 15 and July 15	Referred to House Education Committee	04/26/99
H. B. 1401 P. N. 1643 (Nickol)	PSERS and 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 individuals, providing for the powers and duties of the PSER Board under the Act, establishing the Public School Retirees' Health Insurance Fund, and providing for health insurance premium assistance to the affected individuals	Referred to House Education Committee **Actuarial Note** (P. N. 1643)	04/28/99 09/30/99
H. B. 1402 P. N. 1644 (Evans)	PSERS, reducing basic contribution rate from 6.25% to 5.25% but permitting a reversion to 6.25% in any year following an actuarial valuation report showing a fund ratio of 90% or below	Referred to House Education Committee **Actuarial Note** (P. N. 1644)	04/28/99 09/30/99
H. B. 1426 P. N. 1680 (Roberts)	Municipal Police Pension Law (Act 600), permitting a member to purchase service credit for previous police officer service in another Pennsylvania borough, town, or township if the member pays the pension trust fund the amount the member would have contributed to the fund if the member had been a member of the system during the time of the previous service with the other municipality	Referred to House Local Government Committee **Actuarial Note** (P. N. 1680)	05/04/99 10/28/99
H. B. 1435 P. N. 1689 (Tulli)	PSERS, extending the time period during which a member may return to service during an emergency without cessation of pension from 95 full-days to 120 full-days	Referred to House Education Committee	05/04/99
H. B. 1448 P. N. 1712 (Walko)	Second Class City Policeman 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 or survivor child under age 18 who remarries or marries	Referred to House Urban Affairs Committee **Actuarial Note** (P. N. 1712) Reported as committed	05/05/99 10/28/99 11/16/99
H. B. 1486 P. N. 1785 (Belardi)	Constitution of Pennsylvania, amending § 26 of article 3 to permit the General Assembly to authorize the increase of retirement benefits or pensions to beneficiaries who are spouses of members of a public employee retirement system	Referred to House State Government Committee	05/11/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
H. B. 1531 P. N. 1848 (Cappabianca)	Police Officer, Firefighter, Correction Employee and National Guard Member Child Beneficiary Education Act (Act 129 of 1998), expanding the scope of the act to cover Game Commission officers and deputy Game Commission officers and renaming the act the Law Enforcement Officer, Firefighter, Correction Employee and National Guard Member Child Beneficiary Education Act	Referred to House Education Committee	05/17/99
H. B. 1557 P. N. 1875 (McIlhattan)	PSERS, permitting an annuitant to be employed under a separate contract by a school entity on a less-than-full-time basis to provide services outside of regular instruction hours that are not part of a program or activity mandated by state law and do not require professional certification without being subject to cessation of annuity or forfeiture provisions if the contract specifies that no PSERS service credit will be earned and no contributions by the annuitant, the employer, or the Commonwealth will be made to PSERS for the service	Referred to House Education Committee	05/28/99
H. B. 1568 P. N. 1887 (Marsico)	Volunteer Firefighters' Relief Association Act, permitting volunteer firefighters' relief associations to establish either defined benefit or defined contribution pension plans	Referred to House Veterans Affairs and Emergency Preparedness Committee	06/03/99
H. B. 1571 P. N. 1915 (Casorio)	Municipal Police Pension Law (Act 600), increasing the survivor pension from 50% to 60% of the member's pension, reducing the minimum time period for calculating final average salary from the last 36 months to the last 24 months, and increasing the maximum service increment from \$100 a month to \$600 a month	Referred to House Local Government Committee	06/08/99
H. B. 1574 P. N. 1918 (Seyfert)	Enforcement Officer Disability Benefits Law (Act 193 of 1935), extending benefits for county sheriffs and deputy sheriffs, county coroners and deputy coroners, and to forest fire specialist supervisors of the Bureau of Forestry in the Department of Conservation and Natural Resources	Referred to House Judiciary Committee	06/08/99
H. B. 1608 P. N. 1952 (Kirkland)	Housing Authorities Law (Act 265 of 1937), providing for employment of security personnel and police	Referred to House Urban Affairs Committee	06/08/99

Bill Number Printer's Number (Prime Sponsor)	**Subject**	**Concise History and Status**	**Date**
H. B. 1630 P. N. 1985 (Tangretti)	Military Code, requiring public employers to continue benefits in effect for an employee called or ordered into active duty with the National Guard	Referred to House Veterans Affairs and Emergency Preparedness Committee	06/09/99
H. B. 1639 P. N. 2766 (Kaiser)	Municipal Police Pension Law (Act 600), providing that a survivor spouse shall continue to receive a survivor-spouse pension even if the survivor spouse remarries	Referred to House Local Government Committee **Advisory Note** (P. N. 2004) **Actuarial Note** (P. N. 2004) Reported as amended	06/14/99 09/27/99 10/28/99 12/07/99
H. B. 1669 P. N. 2044 (Bebko-Jones)	Act 362 of 1945 (optional pension plan for nonuniformed employees of cities of the 3rd class), mandating that the retirement system board and city council grant COLAs to retirees based upon the CPI and denying the mayor the power to veto the ordinance doing so	Referred to House Urban Affairs Committee	06/15/99
H. B. 1685 P. N. 2072 (Freeman)	Municipal Police Pension Law (Act 600), permitting rebates to retirees of systems in which the funding ratio is greater than 200% if granting the rebates will not reduce the ratio to less than 200%	Referred to House Local Government Committee **Advisory Note** (P. N. 2072)	06/16/99 10/08/99
H. B. 1709 P. N. 2095 (Belardi)	PSERS, permitting an active member or an active multiple service member to purchase service credit for up to 2 years of nonschool service on a maternity leave taken as regular leave because of employer policy and on leave because of the adoption of an infant child	Referred to House Education Committee	06/16/99
H. B. 1713 P. N. 2099 (Browne)	The Local Tax Enabling Act (Act 511 of 1965), permitting local authorities to treat old age and retirement benefits as a separate class of income in the definition of earned income as provided in §§ 301(a) and 303(a)(9) of the Tax Reform Code of 1971 (Act 2 of 1971)	Referred to House Local Government Committee	06/16/99
H. B. 1731 P. N. 2136 (Lynch)	PSERS and SERS, changing amortization method for future COLAs from 20-year level percentage of payroll to 10-year level dollar	Referred to House State Government Committee **Actuarial Note** (P. N. 2136)	06/21/99 09/30/99
H. B. 1737 P. N. 2142 (Casorio)	Municipal Police Pension Law (Act 600), reducing superannuation age from 25 years of service and age 55 or 50 if feasible to not less than 20 years of service with no minimum age	Referred to House Local Government Committee	06/21/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
H. B. 1738 P. N. 2143 (Casorio)	County Pension Law (Act 96 of 1971), permitting the superannuation age for county detectives to be 20 years with no minimum age rather than age 60 or 20 years of service and age 55	Referred to House Local Government Committee	06/21/99
H. B. 1778 P. N. 2185 (Mundy)	PSERS and SERS, for purposes of the 1998 COLAs only, making the effective date of retirement the most recent date of termination of service rather than the following day	Referred to House State Government Committee	06/20/99
H. B. 1784 P. N. 2190 (Stevenson)	SERS, permit a retiree to be employed as a certified instructor in the Municipal Police Officers' Education and Training Program without being subject to cessation of annuity or forfeiture of the ten percent retirement incentive if the retiree receives no service credit in SERS for the service and neither the retiree nor the Commonwealth contributes to SERS for the service	Referred to House State Government Committee	07/20/99
H. B. 1791 P. N. 2197 (Stetler)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), amending § 607(b)(1) to mandate that the value of the participation by each plan in the aggregated pension trust fund of a distressed municipality be calculated for accounting purposes at least annually rather than annually	Referred to House Local Government Committee	07/27/99
H. B. 1847 P. N. 2278 (Coy)	SERS, granting an employee of a State System of Higher Education university who is commissioned and trained as a police officer under § 2416 of The Administrative Code of 1929 the status of a Class P member both for such future service and for such past service if the member is an active member or inactive member on leave without pay on the effective date of the amendment, with a multiplier of 1, a superannuation age of 35 years of service credit or age 50, with a pension of 50% of final average salary after 20 years of service and 75% of final average salary after 25 years of service both unreduced because of retirement at an age younger than superannuation age (50), with the resulting increase in unfunded actuarial accrued liability to be paid by the State System of Higher Education through amortization payments made over a 20-year period as a level percentage of payroll increasing 5% a year	Referred to House State Government Committee	09/27/99

Bill Number Printer's Number (Prime Sponsor)	**Subject**	**Concise History and Status**	**Date**
H. B. 1861 P. N. 2292 (L. I. Cohen)	PSERS, amending § 8304(b)(7) to change the deadline for an active member or active multiple service member to purchase service credit for nonschool service on a mandated maternity leave of absence prior to May 17, 1975, from within one year of the employees' eligibility to purchase the service credit to prior to July 1, 2000	Referred to House Education Committee	09/27/99
H. B. 1962 P. N. 2420 (Herman)	Act 99 of 1811, authorizing the governing body of a political subdivision or municipality, by contract, to agree with an employee to a voluntary early severance plan that may include, but not be limited to, payment of a portion of the employee's former salary for a specified period of time, the continuation of a specified level of insurance benefits, payment at a specified rate for unused vacation days, sick leave, or other leave, service credit for retirement purposes, and confidential third-party counseling	Referred to House Local Government Committee Reported as committed	10/12/99 10/26/99
H. B. 1985 P. N. 2494 (Gladeck)	SERS, making certain employees of the Department of Revenue who are designated by the Secretary of Revenue as revenue agents and vested with police powers and administrative or supervisory employees of the Department of Revenue vested with police powers "Enforcement Officers" under the Code and, therefore, entitled to enhanced retirement benefits	Referred to House State Government Committee	10/20/99
H. R. 298 P. N. 2532 (Harhart)	Resolution requesting the Public Employee Retirement Commission to undertake a study relating to the funding of cost-of-living adjustments for retired state and public school employees and to report its findings and recommendations to the General Assembly by December 31, 2000	Referred to House Rules Committee	10/26/99
H. B. 2072 P. N. 2094 (Argall)	SERS, granting prison security officers Class P service credit for all past and future prison security officer and military service with the pension for less than 10 years of service calculated as 2% of final average salary multiplied by the years of service credit, for 10 to 20 years of service calculated as 2% of the highest annual salary multiplied by the years of service, for 20 to 25 years of service calculated as 50% of the highest annual salary, for 25 or more years of service calculated as 75% of the highest annual salary and	Referred to House State Government Committee	11/22/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	with the pension for those who terminate service, return to Class P service, and retire again with the pension for less than 10 years or less than 25 years if the member already had more than 20 but less than 25 years of service before returning to service or 25 or more years of service before returning to service calculated as 2% of final average salary during the member's entire period of service multiplied by years of subsequent prison security officer service, 10 or more but less than 20 years calculated as 2% of the member's highest annual salary during the member's entire period of service multiplied by years of subsequent prison security officer service, 20 or more but less than 25 years calculated as 2.5% of the member's highest annual salary during the member's entire period of service multiplied by years of subsequent prison security officer service, and 25 or more years calculated as 5% of the member's highest annual salary during the member's entire period of service multiplied by years of subsequent prison security officer service, with the amortization payments for the resulting increase in unfunded actuarial accrued liability being paid by the Department of Corrections		
H. B. 2081 P. N. 2696 (Trello)	Second Class County Code, removing the $52,000 a year cap that currently is used in calculating the average salaries and member contributions for purposes of computing benefits in the Allegheny County Employees' Retirement System, making the county home rule charter subject to the employees' retirement system, and making the system unaffected by the county home rule charter [See S. B. 1101]	Referred to House Urban Affairs Committee	11/17/99
H. B. 2089 P. N. 2703 (DeLuca)	Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988), beginning 01/01/00 extending the provisions of the act to include certain survivors of retired public safety employees with some or all of the ad hoc postretirement adjustments for survivors being paid for out of the General Fund of the Commonwealth and, apparently, repealing the ad hoc postretirement adjustments for retired public safety employees	Referred to House Local Government Committee	11/17/99

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
H. B. 2094 P. N. 2727 (Herman)	Title 53 of Pa.C.S. (Municipalities Generally), adding to subchapter on Intergovernmental Cooperation a § 2316 providing that all Commonwealth departments and agencies, in the performance of their administrative duties, shall deem a council of governments, consortia, or other similar entities established by two or more municipalities under the subchapter a legal entity	Referred to House Local Government Committee Reported as committed	11/22/99 12/07/99
H. B. 2103 P. N. 2723 (Curry)	Municipal Police Pension Law (Act 600), permitting optional forms of the normal retirement benefit that are the actuarial equivalent of the benefit and a late retirement benefit for members retiring after normal retirement age and service that is the actuarial equivalent of the normal retirement benefit and an increase reflecting the late retirement	Referred to House Local Government Committee	12/01/99
H. B. 2124 P. N. 2777 (Lynch)	Title 53 of Pa.C.S. (Municipalities Generally), amending subchapter on Municipal Police Education and Training by expanding the definitions of police department and police officer for purposes of municipal police education and training from the sheriff's office and deputy sheriffs in Allegheny County only to the sheriffs' offices and deputy sheriffs in all counties	Referred to House Local Government Committee	12/08/99

APPENDIX E

CONCISE INDEX TO ACTUARIAL NOTES

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PUBLIC SCHOOL EMPLOYEES' RETIREMENT CODE

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PUBLIC SCHOOL EMPLOYEES' RETIREMENT CODE (Cont'd)

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TRANSFER OF PENSION COVERAGE