2000
ANNUAL REPORT
OF THE
PUBLIC EMPLOYEE
RETIREMENT COMMISSION

Public Employee Retirement Commission
Commonwealth of Pennsylvania
March 2001

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COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
HARRISBURG
17120

March 2001

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 2000.

During 2000, the Commission authorized the attachment of twenty-four actuarial notes to sixteen bills, two bills as amended by an amendment, and seven 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 2000 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 eighteenth 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 2000.

Sincerely,

Paul D. Halliwell

Paul D. Halliwell
Chairman

DEDICATION

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

DR. GILMORE B. SEAVERS

the Commission's first chairman, who died in December 1999. Dr. Seavers served as the chairman of the Commission from its beginning in 1981, until his resignation in 1986, performing a valuable service to the Commonwealth by establishing a firm foundation for all future Commission deliberations and actions. He opened dialogue with all parties concerned about public employee retirement policy and, in all matters coming before the Commission, demonstrated integrity and strong leadership. He left the Commission with a legacy of excellence. With Dr. Seavers as its first chairman, the Commission had an auspicious beginning. We remember him for his time, his efforts, and his eloquence.

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 $133 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 fifteenth 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 2000.

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DUTIES AND RESPONSIBILITIES OF THE COMMISSION

PART I

PREPARATION OF ACTUARIAL NOTES AND ADVISORY NOTES

A. STATUTORY PROVISIONS.

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

Section 6. Powers and duties.

(a) In general - The commission shall have the following powers and duties:

(13) To issue actuarial notes pursuant to section 7.

Section 7. Actuarial notes.

(a) Note required for bills. - Except as otherwise provided in subsection (f)(1), no bill proposing any change relative to a public employee pension or retirement plan shall be given second consideration in either House of the General Assembly, until the commission has attached an actuarial note prepared by an enrolled pension actuary which shall include a reliable estimate of the cost and actuarial effect of the proposed change in any such pension or retirement system.

(b) Note required for amendments. - Except as otherwise provided in subsection (f)(2), no amendment to any bill concerning any public employee pension or retirement plan shall be considered by either House of the General Assembly until an actuarial note prepared by an enrolled pension actuary has been attached.

(c) Preparation of note. - The commission shall select an enrolled pension actuary to prepare an actuarial note which shall include a reliable estimate of the financial and actuarial effect of the proposed change in any such pension or retirement system.

(d) Contents of a note. - The actuarial note shall be factual, and shall, if possible, provide a reliable estimate of both the immediate cost and effect of the bill and, if determinable or reasonably foreseeable, the long-range actuarial cost and effect of the measure.

(e) Notes for proposed constitutional amendments. - The commission shall issue an actuarial note, prepared by an enrolled pension actuary, for any joint resolution proposing an amendment to the Constitution of Pennsylvania which initially passes either House of the General Assembly. If said joint resolution is subsequently amended and passes either House of the General Assembly, a new actuarial note shall be prepared.

A. STATUTORY PROVISIONS. (CONT'D)

The requirement that an actuarial note be attached to public employee pension and retirement bills prior to their second consideration in either house of the General Assembly was a modification of the legislative process. In response to this statutory mandate to prepare the required actuarial notes, the Commission and the leaders of the General Assembly developed and implemented legislative procedures. The standardization of these procedures makes it easier to expeditiously and efficiently provide the required actuarial information to the General Assembly. The procedures clarify the manner of attaching actuarial notes to bills, including floor amended bills and bills in the possession of the House and Senate Appropriations Committees upon the request of the chairman. The procedures also clarify the availability of the Commission's staff to provide technical assistance to members of the General Assembly on matters relating to public employee retirement system design, financing, and administration. The legislative procedures also provide for the preparation of advisory notes for committee chairmen. The Commission uses an advisory note, as distinct from an actuarial note, for the analysis of proposed legislation when the bill is being considered by a committee of the General Assembly. The advisory note is prepared primarily by the Commission's staff with review or additional analysis by one of the Commission's consulting actuaries as deemed necessary.

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

B. SUMMARY OF 2000 ACTIVITY.

During 2000, the Commission authorized the attachment of twenty-four actuarial notes to sixteen bills, two bills as amended by an amendment, and seven amendments. In addition, the Commission's staff provided the General Assembly with four advisory notes.

C. SYNOPSES OF ADVISORY NOTES.

- Senate Bill Number 1177, Printer's Number 1534. At the request of Senator Vincent J. Hughes, Minority Chairman, Senate Communications and High Technology and Senate Public Health and Welfare Committees, on January 5, 2000, the Commission staff provided an advisory note on Senate Bill Number 1177, Printer's Number 1534. The bill would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to increase the accrual rate used in calculating the annuities of public school and state employees from two percent to three percent effective January 1, 2000.

- House Bill Number 1327, Printer's Number 1547. At the request of Representative Lynn B. Herman, Chairman, House Local Government Committee, on May 30, 2000, the Commission staff provided an advisory note on House Bill Number 1327, Printer's Number 1547. The bill would amend the Municipal Police Pension Law (Act 600 of 1955) by reducing the service requirement for retirement eligibility from 25 years to not less than 20 years and by reducing the age requirement for superannuation eligibility from age 55 (or, if feasible, age 50) to age 50, if any minimum age is prescribed.

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

- House Bill Number 2089, Printer's Number 2703. At the request of Representative Lynn B. Herman, Chairman, House Local Government Committee, on January 31, 2000, the Commission staff provided an advisory note on House Bill Number 2089, Printer's Number 2703. The bill would amend the Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988) to mandate that municipalities pay ad hoc postretirement adjustments to the surviving spouses of certain municipal public safety employees retroactive to January 1, 2000, and to repeal the provisions of the Act specifying the ad hoc postretirement adjustments municipalities have been mandated to pay to retirees of municipal public safety employees' retirement systems since January 1, 1989.

- House Bill Number 2103, Printer's Number 2723. At the request of Representative Lynn B. Herman, Chairman, House Local Government Committee, on January 31, 2000, the Commission staff provided an advisory note on House Bill Number 2103, Printer's Number 2723. The bill would amend the Municipal Police Pension Law (Act 600 of 1955) to permit optional forms of the retirement benefit, other than a lump sum, that are the actuarial equivalent of the regular retirement benefit and to permit a late retirement benefit for a member retiring after the superannuation age and service date that is calculated to reflect the later commencement of the retirement benefit.

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 121, Printer's Number 114

Systems: Volunteer Firefighters' Relief Associations

Subject: Establishing Money Purchase Deferred Benefit Plans for Volunteer Firefighters

SYNOPSIS

Senate Bill Number 121, Printer's Number 114, would amend the Volunteer Firefighters' Relief Association Act (Act 84 of 1968) to authorize a volunteer firefighters' relief association to establish a program to provide money purchase deferred benefits (compensation) to volunteer firefighters paid for, at least in part, by money allocated by the Commonwealth from the proceeds of the Foreign Fire Insurance Premium Tax.

DISCUSSION

The primary purposes of volunteer firefighters' relief associations are to provide:

> financial assistance to ameliorate the conditions of volunteer firefighters who have been injured in the fire service and of the families of volunteer firefighters who have been killed in the fire service,
>
> safeguards for volunteer firefighters to reduce the frequency and severity of such injuries and the frequency of such deaths, and
>
> insurance against the legal liabilities of volunteer firefighters for losses and expenses from claims arising out of the performance of fire service duties.

For these reasons, the associations are regarded as charitable corporations for all purposes including the right to establish exemption from the operation of certain taxes.

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

Money to provide for the annual contributions to the deferred benefit accounts would come from Commonwealth allocations received each year by relief associations from the tax on premiums for fire insurance sold in Pennsylvania by out-of-state ("foreign") insurance companies. The bill

authorizes a relief association to use up to one-half of its allocation received in any year for funding the deferred benefit plan. If a relief association already has accumulated cash assets, an equal contribution may be made from the cash assets on hand. Each year the relief association would determine the total amount of money to be contributed to the deferred benefit accounts and would allocate that amount among the accounts of eligible members. During the first ten years that the deferred benefit plan is in effect, the formula for allocating the annual contribution to member accounts may, at the option of the relief association, provide for weighted allocations to the accounts of members with past service. After the first ten years, equal contributions are allocated to each eligible member's account.

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

Because of the uncomplicated administrative operations of the proposed money purchase deferred benefit, there is no need for additional reporting to the Auditor General or the municipality. Because Commonwealth money is used, the plans will be subject to routine audits by the Auditor General.

SUMMARY OF ACTUARIAL COST IMPACT

Because the funding commitment to the money purchase deferred benefits plan is determined each year based on available resources, no long-term fiscal analysis is possible. The maximum expenditure in 1999, without consideration of the optional match from previously accumulated cash assets, would have been $20,977,697, which was one-half of the total Commonwealth allocation of Foreign Fire Insurance Premium Tax to volunteer firefighters' relief associations.

POLICY CONSIDERATIONS

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

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

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

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

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

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

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

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

COMMISSION RECOMMENDATION

On June 21, 2000, the Commission voted to attach the Commission's analysis to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal and expressing its view that the bill was the most effective means to respond to requests for retirement benefits for volunteer firefighters.

FINAL LEGISLATIVE STATUS

Senate Bill Number 121, Printer's Number 114, was re-referred to the Senate Appropriations Committee on May 15, 2000.

Bill ID: Amendment Number 2360 to
Senate Bill Number 121, Printer's Number 114

Systems: Volunteer Firefighters' Relief Associations

Subject: Establishing Retirement Plans for Volunteer Firefighters

SYNOPSIS

Amendment Number 2360 to Senate Bill Number 121, Printer's Number 114, would amend the Volunteer Firefighters' Relief Association Act (Act 84 of 1968) to authorize volunteers' firefighters' relief associations to establish, maintain, and fund defined benefit retirement plans and defined contribution retirement plans.

DISCUSSION

The primary purposes of volunteer firefighters' relief associations are to provide:

financial assistance to ameliorate the conditions of volunteer firefighters who have been injured in the fire service and of families of volunteer firefighters who have been killed in the fire service,

safeguards for volunteer firefighters to reduce the frequency and severity of such injuries and the frequency of such deaths, and

insurance against the legal liabilities of volunteer firefighters for losses and expenses from claims arising out of the performance of fire service duties.

For these reasons, the associations are regarded as charitable corporations for all purposes including the right to establish exemption from the operation of certain taxes.

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

Maximum Benefit for a Defined Benefit Plan—$20 a month for each year of volunteer firefighting service; and

Maximum Contribution for a Defined Contribution Plan—$2,000 a year per eligible volunteer firefighter.

Other features specified for the retirement benefit plans include:

A five-year vesting requirement;

Granting of up to ten years of service credit for prior service, at the option of the relief association, after one additional year of volunteer fire service;

A minimum retirement age of 55; and

The provision of death or disability benefits under the retirement plan, at the option of the relief association.

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

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

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

The amendment sets forth a procedure for an individual volunteer fire company to use in determining what constitutes a "year of fire service" to be credited under a retirement benefit plan, which will be administered by its volunteer firefighters' relief association.

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

The administration of a defined benefit retirement plan is a very complex undertaking that involves regular actuarial analysis and the risk of adverse mortality exposure. For this reason, the Commonwealth established extensive technical guidelines for the operation of defined benefit retirement plans operated by local governments. The amendment does not provide for similar guidelines for the proposed defined benefit retirement plans to be operated by volunteer firefighters' relief associations. For example, providing defined benefits requires actuarial assumptions

regarding mortality, withdrawal, disablement, interest earnings, entry age, retirement age, etc. Parameters for economic assumptions for interest earnings are not provided in the amendment, there are no provisions for specification of an appropriate range by regulation, and the amendment specifically exempts these plans from the provisions of the Municipal Pension Plan Funding Standard and Recovery Act, which establishes standard parameters of the interest assumptions of municipal retirement systems. The amendment also permits the actuarial assumptions to be "reasonable in the aggregate." Municipal defined benefit retirement systems are required under the Municipal Pension Plan Funding Standard and Recovery Act to use actuarial assumptions that are the "best available estimate of future occurrences" in the case of each assumption. The Commonwealth pre-Act 205 experience indicates that provision of detailed technical guidelines and reporting requirements is necessary for the proper management of defined benefit retirement plans.

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

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

The amendment permits a retirement benefit at a very early retirement age of 55 years, which substantially increases the cost of providing the stated benefit. For example, a volunteer firefighter with 30 years of service could retire at age 55 with a retirement benefit of $7,200 a year for life. This substantial retirement benefit exceeds the retirement benefit earned by many full-time municipal employees after a career in public service. Municipal defined benefit retirement systems for nonuniformed employees (excluding Philadelphia) currently are paying an average benefit of about $7,770 a year. The proposed $7,200 retirement benefit for a volunteer firefighter with 30 years of service is over 92 percent of the average benefit for municipal nonuniformed employees. More detailed information on the potential benefits under the amendment is provided in the following chart.

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

Notes: 1. Assumes maximum past service of ten years is granted.
2. Assumes accumulation at 7.0% interest.
3. Based on 7.0% interest and 1993 Group Annuity Mortality Table for males.

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

There is a great deal of administrative complexity associated with the amendment by virtue of the potential for variety in plan design and administrative structure. This administrative burden may be inappropriate for volunteer firefighters who lack full-time personnel. Preparation, submission, and review of actuarial valuation reports are required to ensure proper funding and operation. Based upon actuarial valuation reports received by the Commission from more than 2,900 local government employee retirement systems, as of January 1, 1997, the average administrative cost of a retirement plan with 11 to 100 active members is at least $450 a year for each member. Most of the substantial monies that would be spent on administration of defined benefit retirement plans would be available for providing actual retirement benefits to volunteer firefighters if a defined contribution retirement plan were utilized. The complexity and cost associated with establishing and maintaining defined benefit pension plans for volunteer firefighters may not be warranted to attract and retain volunteer firefighters, which is the stated purpose of the amendment.

SUMMARY OF ACTUARIAL COST IMPACT

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

the maximum benefit, and the second scenario is that all members are covered by defined contribution plans receiving the maximum contribution per member.

Maximum Defined Benefit Plan Costs

	Amount
Increase in Unfunded Actuarial Accrued Liabilities	$1,161,400,000

	Amount
Volunteer Firefighter's Relief Association Annual Costs	
Normal Costs	$ 37,200,000
Amortization Payments [1]	154,500,000
Interest to end of Year	13,400,000
Total Volunteer Firefighters' Relief Association Annual Costs	$ 205,100,000

[1] Level dollar payments of $154,500,000 a year for ten years.

Maximum Defined Contribution Plan Costs

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

Maximum Available Annual Funding

The maximum funding available to volunteer firefighters' relief association under the amendment is one-half of the total Commonwealth allocation of Foreign Fire Insurance Premium Tax to volunteer firefighter's relief associations. Based on 1999 data, the maximum available funding is as shown below.

	Amount
One-half of 1999 Allocation of Foreign Fire Insurance Premium Tax Proceeds to Volunteer Firefighters' Relief Associations	$ 20,977,697

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

POLICY CONSIDERATIONS

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

Complex Benefit Authorized. The amendment authorizes a volunteer firefighter's relief association to establish a defined benefit retirement plan with the benefit payable in the form of a monthly annuity for life or a lump sum. This is a very complex type of retirement plan, involving the risk of adverse mortality exposure and variable funding requirements,

which may not be appropriate for administration by volunteer firefighters' relief associations.

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

Level of Benefit. The defined benefits payable under the amendment are very high. The benefits are higher than those currently being paid by municipal defined benefit pension plans for nonuniformed employees who were full-time employees.

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

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

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

Technical and Drafting Deficiencies.

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

Provisions Limiting Number of Retirement Benefit Plans. In proposed Section 3.3(e) of Act 84, the amendment provides that compliance with the specified maximum benefit provision shall be determined considering the total benefits provided under all of the retirement benefit plans sponsored by the volunteer firefighters' relief associations. Proposed Section 3.2 of Act 84 indicates that "no more than one retirement benefit plan may be established or maintained by a single volunteer

firefighters' relief association. The inconsistent language makes the amendment's intent regarding the potential number of retirement benefit plans unclear.

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

Provisions Regarding Lump Sum Payments. The provisions of the amendment authorizing lump sum payments by defined benefit plans need clarification with respect to how the amount is to be determined.

Provisions for Specification of Defined Benefit. Proposed Section 3.3(e)(1)(i) of Act 84 is intended to authorize volunteer firefighters' relief associations to set the defined benefit formula, subject to the prescribed maximum benefit amount of $20 a month for each year of volunteer firefighter service. The actual language, however, indicates that the relief association shall set "the maximum benefit amount payable" rather than the benefit accrual formula to be used in determining the retirement benefits.

Provisions Regarding Disability and Death Benefits. Proposed Section 3.3(g) of Act 84 indicates that the retirement benefit plan may provide for disability or death benefits. There are no guidelines provided in the amendment concerning the benefit amount or its commencement and duration. Because death and disability benefits provided through insurance coverage currently are authorized and, under the amendment, would be mandated, the apparent intent of the language is to authorize the payment of the value of the accrued retirement benefit to volunteer firefighters in instances of disability and to the survivor(s) of volunteer firefighters in instances of death. The language of the amendment is not clear regarding this appropriate limit on the liability of the retirement benefit plan.

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

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

COMMISSION RECOMMENDATION

On June 21, 2000, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal and expressing concern regarding the unnecessary complexity of the proposed retirement benefit plans.

Senate Bill Number 121, Printer's Number 114, was re-referred to the Senate Appropriations Committee on May 15, 2000.

Bill ID: Amendment Number 3410 to Senate Bill Number 1101, Printer's Number 1916

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

Subject: Service Credit for Allegheny County Redevelopment Authority Service

SYNOPSIS

Amendment Number 3410 to Senate Bill Number 1101, Printer's Number 1916, would amend section 1710(j) of the Second Class County Code to permit a member of the Allegheny County Employees' Retirement System (System) who formerly was employed by the Allegheny County Redevelopment Authority and subsequently became an employee of Allegheny County (County) and a member of the System to purchase service credit in the System after electing to make the purchase within three years of the effective date of the amendment upon contributing to the pension trust fund the amount the member would have contributed if the member had been a County employee from the date of original employment with the Authority. The County also would have to contribute the same amount of money to the pension trust fund.

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 retirement plan. Under the pension plan, eligibilities for voluntary normal retirement, involuntary normal retirement, early retirement, disability retirement, and deferred vested retirement all are determined based upon credited service. Under the pension plan, the length-of-service increment paid in addition to the basic pension is calculated based upon credited service.

Under the Code, members of the System are able or have been able to purchase service credit for the following types of service: intervening and nonintervening military service, city institution district service if the institution district was consolidated with the County Institution District, city department of health service if the department was consolidated with the County Department of Health, municipal service of a member who subsequently was employed by the County Department of Health, Pennsylvania Department of Health service of a member who was subsequently employed by the County Department of Health, and County capital improvement financing authority service.

The bill would expand the list of purchasable service credit to include service credit for previous service with the Allegheny County Redevelopment Authority. The proposed purchase appears to be patterned after existing section 1710(j) provisions added by Act 75 of 1989 authorizing the purchase of service credit for prior service as an employee of a county improvement financing authority. Under the amendment, the member would have to elect to make the purchase within three years of the effective date of the amendment upon contributing to the pension trust fund the amount the member would have contributed if the member had been a County employee from the date of original employment with the Authority. The County also must then contribute the same amount of money to the pension trust fund. The amendment does not provide for the type of payment, that is, lump sum or installment payments, for interest on the contributions from the date they would have been made as an Authority employee to the date of payment, and, if there are to be installment payments, the maximum period for making the contributions.

DISCUSSION (CONT'D)

In addition to the direct actuarial cost to the County for the increased System benefit under the amendment, there may be other retirement benefit costs incurred. By purchasing service credit in the System for Authority service, a member either may become eligible for other postretirement benefits sooner than otherwise or may receive eligibility for these benefits when the member could not otherwise do so.

SUMMARY OF ACTUARIAL COST IMPACT

The Allegheny County Employees' Retirement System has identified three of its members who would be affected by the proposal and provided the Commission certain demographic data regarding them that did not include their compensation histories while employees of the Authority. There may be other active members who would be affected that the System has not identified and there could be other individuals who could be employed in the future and be affected. Using these data and the January 1, 1999, actuarial valuation report of the System, actuarial assumptions consistent with the consulting actuary of the System (8.0% interest 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 calculates that the proposal in the amendment will have the following actuarial cost impacts.

	Amount	As a % of Covered Payroll
Initial, One-Time County Matching Contribution	49,3944	5.78%

After the employees have made their purchase contributions and the County has made its initial, one-time matching contribution into the pension trust fund.

	Amount
Decrease in Unfunded Actuarial Accrued Liability	$73,000

	Amount	As a % of Covered Payroll
Increase in Employer Annual Costs		
Normal Cost	$11,500	10.67%
Amortization Payment[1]	(6,900)	(6.40%)
Total Increase in Employer Annual Costs	$ 4,600	4.27%

[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 $73,000 decrease in the unfunded actuarial accrued liability is amortized on a level dollar basis over 10 years, the resulting amortization payment will be ($10,100) a year or (9.37%) of the covered payroll resulting in a total increase in employer annual costs of $1,400 a year or 1.30% of covered payroll.

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

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

Inequity of Certain Service Purchase Authorizations. The Commission recommended that service credit purchase authorizations not be employed as a means of recognizing the past education, training, or work experience of public employees. Recognition of these 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 Redevelopment Authority Service. The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The amendment would permit purchase of service for a situation that is not among the situations that the Commission views as warranting service credit purchase authorizations.

Adequacy of Required Member Contribution. The method for calculating the member contribution to purchase service credit for Redevelopment Authority service proposed in the amendment results in a member paying less than 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.

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 amendment does not contain such a provision.

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 amendment limits the election period to within three years of the effective date of the amendment. This conforms to the Commission's recommendation for active

members, but results in a shorter election period for eligible individuals who are employed within the three-year period and excludes eligible individuals who are employed after the three-year period. The public pension policy rational for this inequitable treatment is not apparent. The amendment does not limit the time within which the member must complete making contributions nor does it provide for interest on these contributions from the date of election to the date of payment.

Potential for Other Retirement Benefits Costs. In addition to the direct actuarial cost to the County for the service credit purchase under the amendment, there may be other retirement benefit costs incurred by the County.

COMMISSION RECOMMENDATION

On September 21, 2000, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

Senate Bill Number 1101, Printer's Number 1916, passed the Senate on May 9, 2000, and was re-referred to the House Rules Committee on September 25, 2000.

Bill ID: Senate Bill Number 1113, Printer's Number 1362

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

Subject: Permitting Expanded Choice of Employer-Approved, Alternate, Retirement Plans

SYNOPSIS

Senate Bill 1113, Printer's Number 1362, would amend section 2013-A of the Public School Code of 1949 to change the provisions regarding retirement plans for employees of the State System of Higher Education (SSHE) to expand the list of employer-approved, alternate retirement plans that an employee may choose as an alternative to either the Public School Employees' Retirement System or the State Employees' Retirement System from the Teachers' Insurance and Annuity Association of America—College Retirement Equities Fund to include insurance companies authorized to issue annuity contracts in Pennsylvania and selected by the SSHE under a request-for-proposal process.

DISCUSSION

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

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

The reason the Public School Code of 1949 (School Code) refers to section 8301 of the Public School Employees' Retirement Code rather than section 5301(a) of the State Employees' Retirement Code probably is that, when the School Code article regarding the State System of Higher Education was added to the School Code in 1982, many of the then existing employees of the institutions that became part of the State System of Higher Education had been public school teachers and members of PSERS before obtaining advanced degrees and accepting employment in one of the institutions. The provisions of section 2013-A as adopted in 1982, therefore, reflect

that many employees of the institutions at that time had been members of PSERS and had joined TIAA—CREF upon employment by the institutions.

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

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

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

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

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

Permitting the State System of Higher Education to choose one or more insurance companies as additional, employer-approved, alternate, retirement programs is consistent with the provisions of the Retirement Codes that permit the employer to approve an alternate retirement program but at variance with the Retirement Codes in that the choice of the State System of Higher Education is limited to insurance companies to the exclusion of other providers of defined contribution plans such as banks, brokerage firms, and mutual fund families. Leaving the specifics of the design of the defined contribution retirement plan to the State System of Higher Education is consistent with the provisions of the Retirement Codes but at variance both with the specificity in the defined

DISCUSSION (CONT'D)

benefit retirement plans under the Retirement Codes and section 457(b) deferred compensation plans under sections 8.2 and 8.3 of Act 99 of 1811.

SUMMARY OF ACTUARIAL COST IMPACT

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

POLICY CONSIDERATIONS

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

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

Additional Choices Limited to Insurance Companies. The bill would restrict the possible additional providers of pension coverage to insurance companies only. It is a matter of public policy to be determined by the General Assembly whether this restriction of choice is appropriate. Under the Retirement Codes, an alternate retirement program for employees of other higher education institutions only need be approved by the employer.

COMMISSION RECOMMENDATION

On November 21, 2000, the Commission voted to recommend that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

Senate Bill Number 1113, Printer's Number 1362, was re-referred to the Senate Appropriations Committee on November 20, 2000.

Bill ID: Senate Bill Number 1177, Printer's Number 1534

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

Subject: Increasing the Accrual Rate by 50 Percent

SYNOPSIS

Senate Bill Number 1177, Printer's Number 1534, would amend both section 8102 of the Public School Employees' Retirement Code and section 5102 of the State Employees' Retirement Code to increase the accrual rate used in calculating the annuities of retired public school and state employees from two percent to three percent effective January 1, 2000.

DISCUSSION

Pension Plans

Both the Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) 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, 1999, there were 108 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, 1999, there were 223,495 active members in PSERS, and as of December 31, 1999, there were 108,308 active members in SERS.

Calculation of Basic Pension

Generally speaking, a member's basic pension is calculated as the product of the accrual rate multiplied by the member's years of credited service multiplied by the member's final average (highest three years) salary multiplied by the member's class of service multiplier. (Except for certain employees of the court system, members of SERS enrolled after February 28, 1974, are in Class A, which has a multiplier of 1.000.) After the member's basic pension is calculated, the member's actual pension is calculated using actuarial adjustments for early retirement, if any, and the pension payment option chosen. The bill would increase the accrual rate from two percent to three percent. This change would increase the basic pension by 50 percent. For example:

Current Accrual Rate

Years of Service	x	Accrual Rate	x	Class Multiplier	x	Final Average Salary	=	Basic Pension
25	x	2%	x	1.000	x	$40,000	=	$20,000

Proposed Rate

Years of Service	x	Accrual Rate	x	Class Multiplier	x	Final Average Salary	=	Basic Pension
25	x	3%	x	1.000	x	$40,000	=	$30,000

The Proposal

The bill would amend both Codes to increase the accrual rate used in calculating the pensions of public school and state employees from two percent to three percent retroactive to January 1, 2000. The new single life annuity formula would apply to all service performed or credited both before and after the effective date of the bill.

Because the bill would change the definition of the standard single life annuity in the State Employees' Retirement Code, judges, justices, district justices, and Class D-3 legislators would receive the benefits of the bill as well as Class A members. Officers of the Pennsylvania State Police with 20 or more years of service will not receive the benefit, however, because, under and arbitration award, they receive a benefit of 50 percent or 75 percent of high year salary instead of a standard life annuity.

Changing the standard single life annuity formula also will change the disability benefit formula in the Codes. The baseline disability benefit would become approximately one-half of the final average salary rather than the current approximately one-third of final average salary.

Replacement of Preretirement Income

One of the basic issues of public pension policy is how much of an employee's preretirement income should the pension benefit replace. Suggested replacement values vary based both upon assumptions and the financial situations of individuals. Generally speaking, however, no suggested replacement values exceed 100 percent of preretirement income.

Percentage of Preretirement Income Replaced by Pension plus Social Security. Under the current Codes, a superannuation age member with a class of service multiplier of 1.000 who retires with 33 years of service is entitled to a basic pension of 66 percent of the member's final average salary, while the member would be entitled to a basic pension of 99 percent of the member's final average salary under the bill

In addition to the retirement benefits paid to public employees under the Codes, employees who would be affected by the bill are covered by Social Security, to which both employers and employees also contribute. The amount of preretirement income replaced by Social Security old-age benefit payments is a function of an individual's years of employment and compensation through the working lifetime. While Social Security old-age benefits depend, to some extent, on how much money an employee earns over the employees' lifetime, the benefit formula is weighted to favor lower-paid workers. Social Security old-age benefits can replace from about 10 percent to about 65 percent of an employee's final compensation, but, for purposes of illustration in this actuarial note transmittal, it is assumed that Social Security old-age benefits probably will replace about 25 percent of an individual's preretirement income. Thus, using the example above of an individual retiring with 33 years of service, when one considers the pension of 66 percent of final average salary and the Social Security old-age benefits of 25 percent of final average salary, the total retirement benefit that has been jointly funded by the employer and the employee

currently would be about 91 percent of final average salary, while under the bill the total of the two benefits would be about 124 percent of final average salary.

Considering the Social Security old-age benefits, a pension based upon a three percent accrual rate replaces more of a member's preretirement income than is necessary to meet most reasonable measures of adequacy.

Postretirement Income Equivalency to Preretirement Income. The effect of the tax laws is such that a retired member of PSERS or SERS who is living in Pennsylvania would need a pension plus Social Security old-age benefits totaling about 88.5 percent of preretirement income to provide 100 percent of preretirement income level. This is because the pension and the Social Security old-age benefit payments are exempt from the 6.2 percent Social Security tax, the 1.45 percent Medicare Tax, the 2.8 percent state income tax, and the 1.0 percent earned income tax.

In addition to this tax-free status, the pension and the Social Security old-age benefit payments are not subject to the employee contribution requirements under the retirement system Codes, which range from 5.0 percent to 6.25 percent of compensation. A pension plus Social Security old-age benefits totaling 83.5 percent of preretirement income would, therefore, approximate 100 percent of the retiree's income level before retirement.

Statutory Limit of 100 Percent of Final Compensation. Generally speaking, the Codes prohibit payment of a pension that is in excess of 100 percent of a member's highest preretirement compensation. Since the accrual rate would increase by 50 percent, more members will be affected by the 100 percent of highest compensation limitation on pensions.

Increased Employee Turnover

The bill will impact on the retention of experience, skilled personnel. It is reasonable to anticipate that the enactment of the bill will result in public employees retiring earlier than they do now. The shortened working careers would produce a change in the retirement patterns of affected public employees. The employer cost of other retirement related benefits, such as postretirement medical insurance, would increase. In addition, employers would incur increased costs in recruiting and training replacement employees.

Cost Sharing Under Contributory Plans

The pensions provided under the Codes appear relatively generous when compared with the private sector only until the contributory nature of the Codes is contrasted with the noncontributory nature of most private sector plans. PSERS members contributed about 47 percent of their system's normal cost during Fiscal Year 1999-2000 and SERS members about 36 percent. These rates of sharing, of course, are subject to change with each annual valuation report. Employees and employers each currently contribute 50 percent of the Social Security contribution. The bill contains no cost sharing and would impose the entire cost of the significantly improved benefit upon the employers.

SUMMARY OF ACTUARIAL COST IMPACT

Public School Employees' Retirement System

	Amount
Increase in Unfunded Actuarial Accrued Liability	$12,600,000,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$ 555,000,000	5.2%
Amortization Payment[2]	995,000,000	9.3%
Total Increase in Employer Annual Costs[3]	$1,550,000,000	14.5%

[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.

State Employees' Retirement System

	Amount
Increase in Unfunded Actuarial Accrued Liability	$4,900,000,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$285,000,000	6.4%
Amortization Payment[1]	355,000,000	8.0%
Total Increase in Employer Annual Costs[2]	$640,000,000	14.4%

[1] First year's cost. Cost increases 5% a year for 20 years.
[2] First year's costs only.

POLICY CONSIDERATIONS

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

Replacement of Preretirement Income. The combined effect of the tax laws and the Codes is that a retired member of PSERS or SERS probably needs to replace, at most, 83.5 percent of preretirement income with the combined effect of a pension and social security old-age benefits.

Increased Direct Cost of Employee Turnover. To the extent that the bill results in public employees retiring sooner than now, the employer cost of recruiting and training replacement employees will increase.

POLICY CONSIDERATIONS (CONT'D)

Increased Cost of Postretirement Benefits Other Than Pensions. The employer cost of retirement related benefits other than pensions, such as postretirement medical insurance, will increase.

Absence of Cost Sharing for Enhanced Benefit. The bill does not provide for any sharing by the members of the cost of providing the significant benefit improvement.

COMMISSION RECOMMENDATION

On January 27, 2000, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

Senate Bill Number 1177, Printer's Number 1534, was referred to the Senate Finance Committee on November 29, 1999.

Bill ID: Senate Bill Number 1314, Printer's Number 1692

Systems: Municipal Police Pension Law (Act 600 of 1955)

Subject: Enhanced Benefits

SYNOPSIS

Senate Bill Number 1314, Printer's Number 1692, would amend the Municipal Police Pension Law (Act 600 of 1955) to:

Permit a surviving spouse to continue to receive a survivor spouse benefit for life even if the surviving spouse remarries;

Permit a surviving child to continue to receive a survivor benefit until reaching age 23, if the child is attending college, rather than stopping the benefit at age 18 as is presently required;

Mandate, retroactive to June 23, 1970, if an active police officer dies, an active police officer who was eligible for a pension but had not begun collecting a pension dies, or a retiree dies, payment to the surviving spouse or surviving child or children, if no spouse survives, of a survivor benefit of 50 percent of the retiree's pension;

Mandate that the 50 percent survivor spouse and survivor child benefits be 100 percent, if the actuarial value of the assets exceeds the actuarial present value of future benefits;

Mandate that, if a nonvested member dies, the surviving spouse or surviving child or children, if no spouse survives, receive a refund of the member's contributions made by the member plus interest or other increases in value;

Permit a retiree's pension to exceed the current Act 600 limits, if the actuarial value of the assets exceeds the actuarial present value of future benefits;

Mandate a disability benefit for permanently injured members of at least 50 percent of the member's salary at the time the disability was incurred; and

Mandate an ongoing death benefit for the families of members killed in service equal to 100 percent of the member's salary at the time of death.

DISCUSSION

Municipal Police Pension Law

The Municipal Police Pension Law (Law) governs the establishment of the police officers' retirement system in every borough, town, or township with three or more full-time police officers and in every regional police department (municipality). At its option, a municipality with fewer than three full-time police officers also may establish a police officer's retirement system under the Municipal Police Pension Law. As of January 1, 1997, there were at least 610 municipal police officers' retirement systems with three or more members operating under the Municipal Police Pension Law.

In addition, there also were some one- and two-officer systems that were operating under the Municipal Police Pension Law. The 610 systems covered 6,960 active municipal police officers.

Mandated Prescription of Benefits

The intent of the proposed amendments to section 1(a)(2) is unclear. Section 1(a)(1) already requires the adoption of the police pension plan by an ordinance or a resolution, and the proposed mandated benefits are provided for subsequently in the section. As drafted, the proposed amendments to section 1(a)(2) are not necessary.

Mandatory Survivor Benefits

Under the current Law, if an active police officer or a retired police officer dies, the officer's surviving spouse may be entitled to a survivor pension. If no spouse survives, or if the spouse survives and subsequently dies or remarries, the survivor pension is payable to any surviving child or children under the age of 18. The bill would mandate the provision of the survivor benefits. In the experience of the consulting actuary of the Commission, the majority of Act 600 police pension plans already provide the survivor benefits. For purposes of the actuarial note, he assumed that only five percent of Act 600 police pension plans would be forced to add the survivor benefits under the bill, and estimated that this would result in an increase in aggregate unfunded actuarial accrued liabilities of about $3,000,000 and an increase in aggregate normal costs of about $140,000.

Surviving Spouse's Benefits Ceasing Upon Remarriage

Under the current Law, survivor benefits are payable to a surviving spouse during the spouse's lifetime or until the spouse remarries and if the spouse remarries, the survivor benefits are payable to any surviving child or children under the age of 18. The bill would permit a surviving spouse to continue to receive the survivor benefits for life even if the surviving spouse remarries. This would remove provisions in the Law that were based on an orientation toward survivor benefits that no longer is appropriate. In the experience of the consulting actuary of the Commission, instances in which survivor benefits to a surviving spouse have ceased under the Law because of a remarriage are rare, and the current contribution rates used by him are based upon the assumption that all surviving spouses will receive their full benefits for their entire lives and ignore the possibility of termination because of a remarriage. He does not believe that there will be a material actuarial cost impact as a result of the proposed change in this provision of the Law.

Surviving Child's Benefits

Under the current Law, if survivor benefits are being paid to a surviving child, the benefits are payable only so long as the child is under age 18. The bill would permit a surviving child to continue to receive survivor benefits until reaching age 23 if the child is attending college. In the experience of the consulting actuary of the Commission, there are few instances in which survivor benefits under the Law are being paid to a surviving child, and he assumes that there will be no material actuarial cost impact as a result of the proposed change in this provision of the Law.

The bill creates considerable potential administrative problems for Act 600 plan administrators, however, by failing to provide any guidance on the interpretation and implementation of the proposal. As the consulting actuary of the Commission points out, not even the terms "attending college" and "college" are defined. The recent adoption of the Police Officer, Firefighter, Correction Employee and National Guard Member Child Beneficiary Education Act (Act 129 of 1998) indicates

that the General Assembly has public policy concerns with such issues and the careful definition of terms.

Retroactive Survivor Benefits

Under the current Law, if an active police officer or a retired police officer dies, the officer's surviving spouse may be entitled to a survivor pension. If no spouse survives, or if the spouse survives and subsequently dies or remarries, the survivor pension is payable to any surviving child or children under the age of 18. The bill mandates, retroactive to June 23, 1970, that, if a retired police officer dies or died or if an active police officer dies or died, the survivor benefit shall be paid to the surviving spouse or surviving child or children, if no spouse survives.

The proposed amendment of the Law implies that all Act 600 police pension plans that have not provided survivor benefits since June 23, 1970, would be required to determine whether there were any eligible surviving spouses or children of retired police officers or active police officers who were eligible for retirement at the time of death if the officer died within the last 29+ years. This would be an administratively arduous task, especially in those municipalities that do not have comprehensive personnel and pension records going back at least 30 years.

It may be that this retroactive provision is the result of a drafting error caused by attempting to supply the effective date of a previous amendment of the Law. For example, Amendment Number 0951 to House Bill Number 1639, Printer's Number 2766, and House Bill Number 2442, Printer's Number 3286, are substantially identical to the subject bill except for the insertion of the June 23, 1970, date that leads to retroactivity. If it is intended that the survivor benefits required by the proposed provision be provided prospectively only, that intention should be made clear.

Based upon his assumption that the retroactive survivor benefits would be paid prospectively only, the consulting actuary of the Commission estimates that this change in the Law would result in an increase in the aggregate actuarial accrued liabilities of less than $500,000.

Amount of Survivor Benefits

Under the current Law, the survivor benefit is a pension equal to 50 percent of the pension the member was receiving, or would have been receiving, had the member been retired at the time of death. The bill would mandate that, if the actuarial value of the assets of the police officers' pension trust fund exceeds the actuarial present value of future benefits, that, rather than the 50 percent survivor benefit, a survivor benefit of 100 percent be paid to the surviving spouse or surviving child or children.

The proposal is unclear regarding whether the enhanced benefit would be granted if granting it caused the actuarial value of the assets to fall below the actuarial present value of future benefits. If the enhanced benefit is granted and the actuarial value of assets later falls below the actuarial present value of future benefits, it is unclear whether the enhanced benefit must be reduced to the regular rate, raising issues of impairment of constitutionally protected contract and property rights. It is unclear whether the enhanced benefit must be paid to surviving spouses and children currently receiving the regular benefit. It is unclear whether the enhanced benefit is retroactive to June 23, 1970, a particularly difficult concept to implement because actuarial valuation reports prepared under the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) have been prepared only since 1985.

The proposal is objectionable from a public pension policy perspective. Payment of the enhanced benefit is dependent solely upon a funded condition of the retirement system, a funded condition that will vary both from time to time and from municipality to municipality. The funded condition will vary markedly from time to time especially in a small system, and more than 75 percent of the systems with such a funded condition in 1997 had ten or fewer members. With such an approach, the survivor benefits are not certain but are determined solely by the funded condition on the date the member dies or, perhaps, are redetermined with every actuarial valuation. Thus, the proposal is contrary to the existing public pension policy of the Commonwealth that requires defined benefit pension plans to provide fixed benefits that are actuarially prefunded. Also, otherwise identically situated survivors in the same system or in neighboring systems will receive materially different benefits determined solely by the funded condition on the date the member dies or, perhaps, are redetermined with every actuarial valuation report.

Based upon the language in the proposal and data furnished by the Commission from actuarial valuation reports filed with the Commission, the consulting actuary of the Commission estimates that enactment of the proposal will result in an increase of aggregate unfunded actuarial accrued liabilities of about $14,000,000 and an increase in aggregate normal costs of about $600,000.

Nonvested Benefits

Under section 9 of the current Law, if a nonvested member dies, the member's contributions, plus all interest earned by the contributions, are refunded to the beneficiary designated by the member or, in the absence of a designation, to the estate of the member. The bill would amend section 1 of the Law to mandate that, if a nonvested member dies, the surviving spouse or surviving child or children, if no spouse survives, receive a refund of the member's contributions made by the member plus interest or other increases in value.

At best, the proposed change is an unnecessary duplication of nonvested benefits' provisions and, at worst, repeals an existing benefit of members and creates a conflict of statutory provisions. The public pension policy reason for the proposed change is not apparent.

The consulting actuary of the Commission believes that there will be no actuarial cost associated with this proposed change to the Law.

Monthly Retirement Benefit

Under the current Law, a police officer may retire after a total of 25 years of service with the same municipality when the officer reaches age 55. If an actuarial valuation shows it is feasible, this age may be reduced to 50. The monthly pension, other than length of service increments and cost-of-living adjustments, is one-half of the monthly salary of the officer averaged over the last 36 to 60 months of employment. If a retiree's position as a police officer was covered by an agreement under the Social Security Act of 1935, the retirement system may reduce the monthly pension to the retiree by up to 75 percent of the amount of social security payable because of that retiree's age and service as a police officer. In addition to the monthly pension or retirement allowance, the municipality may pay a length of service increment to a retiree for each completed year of service beyond 25 years. The maximum length of service increment is $100 a month. The municipality may provide for a cost-of-living allowance for a retiree. The cost-of-living allowance cannot exceed the percentage increase in the Consumer Price Index from the year in which the retiree retired and cannot cause the total pension to exceed 75 percent of the salary used for computing that retiree's retirement benefits. The total cost-of-living allowance may not exceed 30 percent. If the assets of the police officer's pension trust fund exceed the present value of future benefits, the municipality

may grant a cost-of-living increase that exceeds the limits in the Law to retirees who have been retired for at least 20 years, but, if the total benefits exceed $10,000 a year, the resulting total benefits cannot exceed 100 percent of the salary used for computing the retiree's pension.

The bill permits a retiree's pension to exceed the current limits in the Law, if the actuarial value of the assets exceeds the actuarial present value of future benefits. No maximum benefit level is prescribed, however. The proposal is unclear regarding whether the enhanced benefit could be granted if granting it caused the actuarial value of the assets to fall below the actuarial present value of future benefits. If the enhanced benefit is granted and the actuarial value of assets later falls below the actuarial present value of future benefits, it is unclear whether the enhanced benefit must be reduced to the regular pension, raising issues of impairment of constitutionally protected contract and property rights.

In a municipality that currently provides both an Act 600 police pension plan and Social Security coverage to its police officers, a retired police officer receives a total retirement income from the retirement system and Social Security, once the retiree is eligible for Social Security benefits, of about 70 to 85 percent of the retiree's salary during the retiree's final year of employment. This generally is considered to be an adequate level for the employer provided retirement income, which is to permit a retiree to maintain the standard of living to which the retiree became accustomed throughout a working career. If a municipality were to amend its pension plan to provide a normal retirement pension benefit significantly in excess of 50 percent of average monthly salary at the time of retirement and the municipality also provides Social Security coverage for its active police officers, it would be possible for a member to receive total retirement income from the retirement system and from Social Security, when the member becomes eligible to receive Social Security benefits, that will be greater than the amount of compensation the member was receiving during the member's last year of employment.

Based upon the assumption that all municipalities with the specified funded condition will increase the monthly pension to 75 percent of final average salary, the consulting actuary of the Commission estimates that there would be an increase in the aggregate unfunded actuarial accrued liabilities of about $66,000,000 and an increase in the aggregate normal costs of about $4,600,000.

Disability Benefits

Under the current Law, a municipality may provide for disability retirement benefits. All disability pensions must conform to a uniform scale. The bill would mandate a disability benefit for permanently injured members of at least 50 percent of the member's salary at the time the disability was incurred.

Although in context the service related nature of the disability benefit is clear, inserting the phrase "incurred in service" after the words "permanent injuries" will insure that there is no confusion since the phrase "in service" follows the word "killed." In the experience of the consulting actuary of the Commission, most Act 600 police officers' pension plans provide a service related disability benefit that is at least 50 percent of the member's salary at the time of disability. It is also his experience in many cases, however, that the benefit is offset by payments received from Social Security or Workers' Compensation. As a matter of public personnel management, some offsets to disability benefits are desirable so that a situation does not arise in which a member receives disability benefits from all sources, including the Act 600 police officers' retirement system, that exceed the member's income prior to the member's disability. As drafted, the proposal is undesirable because it mandates a disability benefit that does not take into account other benefits

that may be payable to the member due to the member's service-related disability, to which the municipality also will have contributed.

Based upon the assumption that 50 percent of all Act 600 police officers' pension plans currently provide a service-related disability benefit of 50 percent of the member's salary at the time of disability, without any offset for Social Security or Workers' Compensation benefits received, the consulting actuary of the Commission estimates the actuarial cost impact associated with the proposal would be an increase in the aggregate unfunded actuarial unfunded liabilities of about $7,500,000 and an increase in the aggregate normal costs of about $700,000.

Killed in Service Benefits

Under the current Law, if a police officer dies, the officer's spouse may be entitled to a survivor pension. The bill would mandate a death benefit for the family of a police officer killed in service of 100 percent of the officer's salary at the time of death.

In the experience of the consulting actuary of the Commission, there are many Act 600 police officers' pension plans that provide benefits for the families of police officers killed in service. In some instances, these benefits are 100 percent of the officer's salary at the time of death, but in most instances, the benefits are equal to 50 percent of the officer's salary at the time of death. In addition to the killed in service benefits under the Law, the family is entitled to lump sum payments under the federally-funded Public Safety Officers' Benefit Act of 1976 and the Commonwealth-funded Emergency and Law Enforcement Personnel Death Benefits Act.

The consulting actuary of the Commission estimates that the actuarial cost impact of the proposal would be an increase in aggregate unfunded actuarial accrued liabilities of about $3,400,000 and an increase in aggregate normal costs of about $500,000.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission reviewed the bill when it was still in its document form as 1999 Document 05487. Based upon his review, he estimates the bill would have the following actuarial cost impact.

	Amount
Increases in Unfunded Actuarial Accrued Liabilities	
Mandatory Survivor Benefits	$ 3,000,000
Survivor Benefits for Current Survivors[1]	500,000
Amount of Survivor Benefits	14,000,000
Monthly Retirement Benefits	66,000,000
Disability Benefits	7,500,000
Killed in Service Benefits	3,400,000
Total Increases in Unfunded Actuarial Accrued Liabilities	$94,400,000

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

	Amount	As a % of Payroll
Increases in Employers' Annual Costs		
Normal Costs		
Mandatory Survivor Benefits	$ 140,000	
Amount of Survivor Benefits	600,000	
Monthly Retirement Benefits	4,600,000	
Disability Benefits	700,000	
Killed in Service Benefits	500,000	
Total Increases in Normal Costs	$ 6,540,000	2.13%
Initial Amortization Payments[2]	8,497,000	2.77%
Total Initial Increases in Employers' Annual Costs	$15,037,000	4.90%

[1] Assumes that the increased Retroactive Survivor Benefits are paid prospectively only.

[2] Level dollar payments of $8,497,000 a year for 10 years, and level dollar payments of $8,430,000 a year for an additional 10 years, both calculated using the weighted average interest rate assumption of 7.25%.

POLICY CONSIDERATIONS

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

Commonwealth Mandates to Municipalities. The bill mandates a number of retirement benefit changes for all Municipal Police Pension Law plans. The appropriateness of the Commonwealth mandating municipalities to provide specific pension benefits is questionable from a public policy standpoint due to the wide variation in local conditions.

Absence of Cost Sharing. Municipal Police Pension Law plans historically have been contributory, with the members contributing toward their retirement benefits. The material costs resulting from the proposals in the bill would be imposed entirely upon the affected municipalities without any increased contributions by the benefitted members.

Removal of Outdated Surviving Spouse Provisions. The proposal to permit a surviving spouse to continue to receive a survivor spouse benefit for life even if the surviving spouse remarries removes provisions in the Law that were based on an orientation toward survivor benefits that no longer is appropriate.

Retroactivity of Survivor Benefits for Current Survivors. Making the mandated survivors benefits retroactive to June 23, 1970, would be expensive because up to 30 years of benefits would have to be paid—benefits that the municipalities have not had an opportunity to actuarially prefund. It also would be an administratively arduous task, especially in those municipalities that do not have comprehensive personnel and pension records going back at least 30 years.

Impact of Funded Condition Benefit Determination. The proposed use of the funded condition of a retirement system to determine the benefit level involves several policy concerns.

Benefit Inequality. One basic objective of a public retirement system is benefit equality. Under the proposal, a municipality (or municipalities) may be required to provide similarly situated employees with widely varying pension benefits even though the municipality (or municipalities) involved may want to and can afford to provide the same benefit.

Actuarial Funding Difficulty. The bill makes the provision of enhanced benefits contingent on the funded condition of the retirement system that will vary over time. The resulting variation in the benefit is contrary to the public pension policy objective requiring fixed benefits in defined benefit retirement systems to permit the mandated actuarial prefunding to occur.

Propriety of Policy Making Process. Municipal employers perform the management role in fashioning the compensation and benefits provided to their employees, operating within the framework of a legislatively sanctioned collective bargaining process. Because determining the appropriate benefit level in the retirement system requires evaluation of many factors, mandating a benefit change when one factor, the funded condition, meets an arbitrary level is not consistent with the established policy making process.

Lack of Clarity Regarding Granting Enhanced Benefits. The proposals to grant enhanced survivor benefits and enhanced retiree benefits dependent upon the funded condition of the retirement system needs to be clarified regarding (1) the result if granting the enhanced benefit causes the ratio to fall below the permitted amount, (2) the result upon benefits in payment status if the funded condition later falls below the permitted amount, and (3) the applicability to current survivors and retirees.

Conflicting Nonvested Benefits Provisions. At best, the proposed additional nonvested benefits provisions are an unnecessary duplication of provisions and, at worst, repeal an existing benefit for members and creates a conflict of statutory provisions.

Suggested Technical Corrections.

Definition of Term "Attending College." In section 1 of the bill in section 1 of the Act, the term "attending college" should be defined.

Definition of Term "College." In section 1 of the bill in section 1 of the Act, the term "college" should be defined.

Insertion of Incurred in Service. In section 2 of the bill in section 5(e) of the Act on line 20 of page 5 of the bill, the phrase "incurred in service" should be inserted after the word "injuries".

COMMISSION RECOMMENDATION

On April 26, 2000, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

As Printer's Number 2200, Senate Bill Number 1314, was re-referred to the Senate Appropriations Committee on October 10, 2000.

Bill ID: Senate Bill Number 1314, Printer's Number 1692, as amended by Amendment Number 3081

Systems: Municipal Police Pension Law (Act 600 of 1955)

Subject: Enhanced Benefits

SYNOPSIS

Senate Bill Number 1314, Printer's Number 1692, as amended by Amendment Number 3081, would amend the Municipal Police Pension Law (Act 600 of 1955) to:

Permit a surviving spouse to continue to receive a survivor spouse benefit for life even if the surviving spouse remarries on or after the effective date of the amended bill;

Permit a surviving child to continue to receive a survivor benefit until reaching age 23, if the child is attending college on or after the effective date of the amended bill, rather than stopping the benefit at age 18 as is presently required;

Mandate payment to the surviving spouse or surviving child or children, if no spouse survives, of a survivor benefit of 50 percent of the pension the deceased member was entitled to receive or was receiving if an active police officer dies, or if an officer who was eligible for a pension but had not begun collecting the pension dies, or a retiree dies on or after the effective date of the amended bill;

Mandate that the 50 percent survivor spouse and survivor child benefits be 100 percent if the actuarial value of the assets exceeds the actuarial present value of future benefits;

Mandate that the surviving spouse or surviving child or children, if no spouse survives, receive a refund of the member's contributions made by the member plus interest or other increases in value, if a nonvested member dies, unless the member has designated another beneficiary for this purpose;

Permit a retiree's pension to exceed the current Act 600 limits, if the actuarial value of the assets exceeds the actuarial present value of future benefits and the member retires on or after the effective date of the amended bill;

Mandate a disability benefit for permanently injured members of at least 50 percent of the member's salary at the time the disability was incurred in service on or after the effective date of the amended bill; and

Mandate an ongoing death benefit equal to 100 percent of the member's salary at the time of death for the families of members killed in service on or after the effective date of the amended bill.

Municipal Police Pension Law

The Municipal Police Pension Law (Law) governs the establishment of the police officers' retirement system in every borough, town, or township with three or more full-time police officers and in every regional police department (municipality). At its option, a municipality with fewer than three full-time police officers also may establish a police officer's retirement system under the Municipal Police Pension Law. As of January 1, 1999, there were at least 618 municipal police officers' retirement systems with three or more members operating under the Municipal Police Pension Law. In addition, there also were some one- and two-officer systems that were operating under the Municipal Police Pension Law. The 618 systems covered 7,289 active municipal police officers.

Mandated Prescription of Benefits

The intent of the proposed amendments to section 1(a)(2) is unclear. Section 1(a)(1) already requires the adoption of the police pension plan by an ordinance or a resolution, and the proposed mandated benefits are provided for subsequently in the section. Only the language in the proposed amendments to section 1(a)(2) that provide definitions for "attending college" and "college" appear to be warranted.

Mandatory Survivor Benefits

Under the current Law, if an active police officer or a retired police officer dies, the officer's surviving spouse may be entitled to a survivor pension. If no spouse survives, or if the spouse survives and subsequently dies or remarries, the survivor pension is payable to any surviving child or children under the age of 18. The amended bill would mandate the provision of the survivor benefits. In the experience of the consulting actuary of the Commission, the majority of Act 600 police pension plans already provide the survivor benefits. For purposes of the actuarial note, he assumed that only five percent of Act 600 police pension plans would be forced to add the survivor benefits under the amended bill, and estimated that this would result in an increase in aggregate unfunded actuarial accrued liabilities of about $3,000,000 and an increase in aggregate normal costs of about $140,000.

Surviving Spouse's Benefits Ceasing Upon Remarriage

Under the current Law, survivor benefits are payable to a surviving spouse during the spouse's lifetime or until the spouse remarries and if the spouse remarries, the survivor benefits are payable to any surviving child or children under the age of 18. The amended bill would permit a surviving spouse to continue to receive the survivor benefits for life even if the surviving spouse remarries. This would remove provisions in the Law that were based on an orientation toward survivor benefits that no longer is appropriate. In the experience of the consulting actuary of the Commission, instances in which survivor benefits to a surviving spouse have ceased under the Law because of a remarriage are rare, and the current contribution rates used by him are based upon the assumption that all surviving spouses will receive their full benefits for their entire lives and ignore the possibility of termination because of a remarriage. He does not believe that there will be a material actuarial cost impact as a result of the proposed change in this provision of the Law.

Surviving Child's Benefits

Under the current Law, if survivor benefits are being paid to a surviving child, the benefits are payable only so long as the child is under age 18. The bill would permit a surviving child to continue to receive survivor benefits until reaching age 23 if the child is attending college. In the

experience of the consulting actuary of the Commission, there are few instances in which survivor benefits under the Law are being paid to a surviving child, and he assumes that there will be no material actuarial cost impact as a result of the proposed change in this provision of the Law. The amended bill provides some guidance on the interpretation and implementation of the proposal by defining the terms "attending college" and "college."

Amount of Survivor Benefits

Under the current Law, the survivor benefit is a pension equal to 50 percent of the pension the member was receiving, or would have been receiving, had the member been retired at the time of death. The bill would mandate that, rather than the 50 percent survivor benefit, a survivor benefit of 100 percent be paid to the surviving spouse or surviving child or children if the actuarial value of the assets of the police officers' pension trust fund exceed the actuarial present value of future benefits at the beginning of the two-year period during which the member dies. The enhanced benefit would be granted only if granting it did not cause the actuarial value of the assets to fall below the actuarial present value of future benefits.

Based upon the language in the proposal and data furnished by the Commission from actuarial valuation reports filed with the Commission, the consulting actuary of the Commission estimates that enactment of the proposal will result in an increase of aggregate unfunded actuarial accrued liabilities of about $10,700,000 and an increase in aggregate normal costs of about $600,000.

Funded Condition Benefit Determination

Payment of the proposed, mandated, enhanced benefits for survivors and the proposed, optional, enhanced benefits for members is dependent solely upon a funded condition of the retirement system, a funded condition that will vary both from time to time and from municipality to municipality. The funded condition will vary markedly from time to time especially in a small system, and more than 75 percent of the systems with such a funded condition in 1997 had ten or fewer members. With such an approach, the amount of the benefits is not certain but is determined solely by the funded condition on the date the member dies, becomes eligible or, perhaps, is redetermined with every actuarial valuation. Thus, the proposal is contrary to the existing public pension policy of the Commonwealth that requires defined benefit pension plans to provide fixed benefits that are actuarially prefunded. Also, otherwise identically situated members or survivors in the same system or in neighboring systems will receive materially different benefits determined solely by the funded condition on the date of eligibility.

Nonvested Benefits

Under section 9 of the current Law, if a nonvested member dies, the member's contributions, plus all interest earned by the contributions, are refunded to the beneficiary designated by the member or, in the absence of a designation, to the estate of the member. The amended bill would amend section 1 of the Law to mandate that, unless the member has designated another beneficiary for this purpose, upon the death of a nonvested member, the municipal Act 600 system must refund to the surviving spouse or surviving child or children, if no spouse survives, the member's contributions made by the member plus interest or other increases in value.

The proposed change is an unnecessary duplication of nonvested benefits' provisions. If the public pension policy reason for the proposed change is to substitute the surviving spouse or surviving child or children for the estate of the member in situations in which the member has failed to

designate a beneficiary in the event the member dies before vesting, section 9 should be amended not section 1(a).

The consulting actuary of the Commission believes that there will be no actuarial cost associated with this proposed change to the Law.

Monthly Retirement Benefit

Under the current Law, a police officer may retire after a total of 25 years of service with the same municipality when the officer reaches age 55. If an actuarial valuation shows it is feasible, this age may be reduced to 50. The monthly pension, other than length of service increments and cost-of-living adjustments, is one-half of the monthly salary of the officer averaged over the last 36 to 60 months of employment. If a retiree's position as a police officer was covered by an agreement under the Social Security Act of 1935, the retirement system may reduce the monthly pension to the retiree by up to 75 percent of the amount of social security payable because of that retiree's age and service as a police officer. In addition to the monthly pension or retirement allowance, the municipality may pay a length of service increment to a retiree for each completed year of service beyond 25 years. The maximum length of service increment is $100 a month. The municipality may provide for a cost-of-living allowance for a retiree. The cost-of-living allowance cannot exceed the percentage increase in the Consumer Price Index from the year in which the retiree retired and cannot cause the total pension to exceed 75 percent of the salary used for computing that retiree's retirement benefits. The total cost-of-living allowance may not exceed 30 percent. If the assets of the police officer's pension trust fund exceed the present value of future benefits, the municipality may grant a cost-of-living increase that exceeds the limits in the Law to retirees who have been retired for at least 20 years, but, if the total benefits exceed $10,000 a year, the resulting total benefits cannot exceed 100 percent of the salary used for computing the retiree's pension.

The amended bill permits a retiree's pension to exceed the current limits in the Law, if the actuarial value of the assets exceeds the actuarial present value of future benefits at the beginning of a two-year period during which the member retires. No maximum benefit level is prescribed, however. The enhanced benefit could not be granted if granting it caused the actuarial value of the assets to fall below the actuarial present value of future benefits. If the enhanced benefit is granted and the actuarial value of assets later falls below the actuarial present value of future benefits, the enhanced benefit could not be reduced for those retirees receiving it but could be eliminated or reduced for those members who have not yet retired.

In a municipality that currently provides both an Act 600 police pension plan and Social Security coverage to its police officers, a retired police officer receives a total retirement income from the retirement system and Social Security, once the retiree is eligible for Social Security benefits, of about 70 to 85 percent of the retiree's salary during the retiree's final year of employment. This generally is considered to be an adequate level for the employer provided retirement income, which is to permit a retiree to maintain the standard of living to which the retiree became accustomed throughout a working career. If a municipality were to amend its pension plan to provide a normal retirement pension benefit significantly in excess of 50 percent of average monthly salary at the time of retirement and the municipality also provides Social Security coverage for its active police officers, it would be possible for a member to receive total retirement income from the retirement system and from Social Security, when the member becomes eligible to receive Social Security benefits, that will be greater than the amount of compensation the member was receiving during the member's last year of employment.

Based upon the assumption that all municipalities with the specified-funded condition will increase the monthly pension to 75 percent of final average salary, the consulting actuary of the Commission estimates that there would be an increase in the aggregate unfunded actuarial accrued liabilities of about $66,000,000 and an increase in the aggregate normal costs of about $4,600,000.

Disability Benefits

Under the current Law, a municipality may provide for disability retirement benefits. All disability pensions must conform to a uniform scale. The bill would mandate a disability benefit for members permanently injured in service of at least 50 percent of the member's salary at the time the disability was incurred.

In the experience of the consulting actuary of the Commission, most Act 600 police officers' pension plans provide a service related disability benefit that is at least 50 percent of the member's salary at the time of disability. It is also his experience in many cases, however, that the benefit is offset by payments received from Social Security or Workers' Compensation. As a matter of public personnel management, some offsets to disability benefits are desirable so that a situation does not arise in which a member receives disability benefits from all sources, including the Act 600 police officers' retirement system, that exceed the member's income prior to the member's disability. As drafted, the proposal is undesirable because it mandates a disability benefit that does not take into account other benefits that may be payable to the member due to the member's service-related disability, to which the municipality also will have contributed.

Based upon the assumption that 50 percent of all Act 600 police officers' pension plans currently provide a service-related disability benefit of 50 percent of the member's salary at the time of disability, without any offset for Social Security or Workers' Compensation benefits received, the consulting actuary of the Commission estimates the actuarial cost impact associated with the proposal would be an increase in the aggregate unfunded actuarial unfunded liabilities of about $7,500,000 and an increase in the aggregate normal costs of about $700,000.

Killed in Service Benefits

Under the current Law, if a police officer dies, the officer's spouse may be entitled to a pension equal to 50 percent of the pension the officer would have been receiving had the member been retired at the time of death. The bill would mandate a death benefit for the family of a police officer killed in service of 100 percent of the officer's salary at the time of death.

In the experience of the consulting actuary of the Commission, there are many Act 600 police officers' pension plans that provide benefits for the families of police officers killed in service. In some instances, these benefits are 100 percent of the officer's salary at the time of death, but in most instances, the benefits are equal to 50 percent of the officer's salary at the time of death. In addition to the killed in service benefits under the Law, the family is entitled to lump sum payments under the federally-funded Public Safety Officers' Benefit Act of 1976 and the Commonwealth-funded Emergency and Law Enforcement Personnel Death Benefits Act.

The consulting actuary of the Commission estimates that the actuarial cost impact of the proposal would be an increase in aggregate unfunded actuarial accrued liabilities of about $3,400,000 and an increase in aggregate normal costs of about $500,000.

DISCUSSION (CONT'D)

Period of Enhanced Benefits

Some of the enhanced benefits provided for under the amended bill are contingent upon the funded condition of the retirement system. Based upon the wording of the amended bill and oral comments to the Commission when it considered the unamended bill, it appears that the enhanced benefits are to be determined for a two-year period coinciding with actuarial valuation reports filed with the Commission under the Municipal Pension Plan Funding Standard and Recovery Act. Although the reports are dated January 1 of odd numbered years, there are variable dates on which the consulting actuary signs the report, the municipal official signs the report, and the Commission accepts the report as correct. For example, in one affected municipality, the January 1, 1997, report was signed by the actuary on November 10, 1997, signed by the municipal official on December 2, 1997, and accepted by the Commission on December 8, 1997, while the January 1, 1999, report was signed by the actuary on February 7, 2000, signed by the municipal official on March 8, 2000, and accepted by the Commission on March 16, 2000. The amended bill is silent, however, regarding when a period begins and ends and how to compute retirement benefits pending an actuarial determination of the funding status for the period.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission reviewed the amended bill. Based upon his review, he estimates the amended bill would have the following actuarial cost impact.

	Amount
Increases in Unfunded Actuarial Accrued Liabilities	
Mandatory Survivor Benefits	$ 3,000,000
Amount of Survivor Benefits	10,700,000
Monthly Retirement Benefits	66,000,000
Disability Benefits	7,500,000
Killed in Service Benefits	3,400,000
Total Increases in Unfunded Actuarial Accrued Liabilities	$90,600,000

	Amount	As a % of Payroll
Increases in Employers' Annual Costs		
Normal Costs		
Mandatory Survivor Benefits	$ 140,000	
Amount of Survivor Benefits	600,000	
Monthly Retirement Benefits	4,600,000	
Disability Benefits	700,000	
Killed in Service Benefits	500,000	
Total Increases in Normal Costs	$ 6,540,000	2.13%
Amortization Payments[1]	8,130,000	2.65%
Total Initial Increases in Employers' Annual Costs	$14,670,000	4.78%

[1] Level dollar payments of $8,130,000 a year for 20 years calculated using the weighted average interest rate assumption of 7.25%.

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

Commonwealth Mandates to Municipalities. The bill mandates a number of retirement benefit changes for all Municipal Police Pension Law plans. The appropriateness of the Commonwealth mandating municipalities to provide specific pension benefits is questionable from a public policy standpoint due to the wide variation in local conditions.

Absence of Cost Sharing. Municipal Police Pension Law plans historically have been contributory, with the members contributing toward their retirement benefits. The material costs resulting from the proposals in the bill would be imposed entirely upon the affected municipalities without any increased contributions by the benefitted members.

Removal of Outdated Surviving Spouse Provisions. The proposal to permit a surviving spouse to continue to receive a survivor spouse benefit for life even if the surviving spouse remarries removes provisions in the Law that were based on an orientation toward survivor benefits that no longer is appropriate.

Impact of Funded Condition Benefit Determination. The proposed use of the funded condition of a retirement system to determine the benefit level involves several policy concerns.

Benefit Inequality. One basic objective of a public retirement system is benefit equality. Under the proposal, a municipality (or municipalities) may be required to provide similarly situated employees with widely varying pension benefits even though the municipality (or municipalities) involved may want to and can afford to provide the same benefit.

Actuarial Funding Difficulty. The bill makes the provision of enhanced benefits contingent on the funded condition of the retirement system that will vary over time. The resulting variation in the benefit is contrary to the public pension policy objective requiring fixed benefits in defined benefit retirement systems to permit the mandated actuarial prefunding to occur.

Propriety of Policy Making Process. Municipal employers perform the management role in fashioning the compensation and benefits provided to their employees, operating within the framework of a legislatively sanctioned collective bargaining process. Because determining the appropriate benefit level in the retirement system requires evaluation of many factors, mandating a benefit change when one factor, the funded condition, meets an arbitrary level is not consistent with the established policy making process.

Lack of Clarity Regarding Two-Year Valuation Period. The proposals to grant enhanced survivor benefits and enhanced retiree benefits dependent upon the funded condition of the retirement system needs to be clarified regarding the beginning and ending dates of the two-year valuation period during which the enhanced benefits are available and how to compute retirement benefits pending determination of the funded status.

Conflicting Nonvested Benefits Provisions. Section 9 currently provides for nonvested benefits. The amended bill inserts into section 1 similar provisions that provide for a situation in which a member fails to designate a beneficiary thereby creating possible

POLICY CONSIDERATIONS (CONT'D)

confusion. To prevent the possible confusion, the amendment should be made to section 9.

COMMISSION RECOMMENDATION

On September 21, 2000, the Commission voted to attach the actuarial note to the amended bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

As Printer's Number 2200, Senate Bill Number 1314, was re-referred to the Senate Appropriations Committee on October 10, 2000.

Bill ID: Senate Bill Number 1458, Printer's Number 1981

System: Public School Employees' Retirement System

Subject: Defined Contribution Retirement Plan Alternative

SYNOPSIS

Senate Bill Number 1458, Printer's Number 1981, would amend section 8301 of the Public School Employees' Retirement Code to permit a new school employee employed by the Commonwealth and a new school employee employed by another public school employer, if the employer permits it, to elect participation in a defined contribution alternate retirement plan offered by a provider approved by the Public School Employees' Retirement Board to which the employer must contribute an amount equal to 9.29 percent of the participant's compensation.

DISCUSSION

The two pension plans with which this actuarial note is concerned are representative of the two broad types of retirement benefit plans. The Public School Employees' Retirement Code (Code) provides for a defined benefit plan. The bill would permit a defined contribution retirement plan as an alternative. Among the distinguishing aspects between the two types of plans are the elements that are fixed or variable and who bears the risk of investment earnings that are above or below those anticipated.

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

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

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

Under the Code, 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 employees of the Commonwealth and certain independent agencies. These retirement benefits enjoy both a statutory and constitutional state guarantee. As of June 30, 1999, there were 660 participating employers, generally school districts, area vocational technical schools, and intermediate units. Membership in PSERS is mandatory for most school employees. Certain employees of state higher education institutions (Community Colleges, Department of Education, State System of Higher Education, and The Pennsylvania State University) are eligible to elect coverage under an employer-approved independent retirement program as an alternative to PSERS retirement coverage. The bill would amend the Code to permit an individual becoming a school employee on or after the effective date of the bill to elect coverage under a Public School Employees' Retirement Board (Board) approved defined contribution retirement plan as an alternative to PSERS retirement coverage, if the employer has elected to authorize participation in the defined contribution plan. A participant would not be eligible to receive service credit in PSERS for any service for which contributions had been made to the defined contribution plan.

Other than providing that neither the Commonwealth nor the Board shall be liable for any investment loss incurred in a defined contribution retirement plan or for the failure of any investment to earn any specific or expected return or as much as any other investment opportunity, the bill leaves the specifics of the design of the defined contribution retirement plan to the Board. This lack of design provisions is at variance both with the specificity in the defined benefit retirement plan under the Code and the section 457(b) deferred compensation plans under section 8.2 and 8.3 of Act 99 of 1811. It also is at variance with the independent retirement program plans for which there was a tacit understanding that the plan, or one of the plans, would be TIAA/CREF and the employer retained ultimate control over the approval. Under the bill, it is the Board that designs and approves the defined contribution plan(s) at its sole discretion and the Commonwealth and employers electing to offer a Board-approved plan to their employees are mandated to make the employer contributions for their employees who have elected to participate in a defined contribution plan.

The employer contribution rate of 9.29 percent of the employee's compensation specified in the bill presumably is based upon section 5301(12) of the State Employees' Retirement Code that permits the employer contribution rate for fiscal years after 1991-92 to be not more than 9.29 percent for those state employees who have elected membership in an independent retirement program. This rate was set by Act 112 of 1992 in response to the Commission's October 1991 report entitled *Study of Employer Contribution Rate for Optional Alternate Retirement Program under Act 78 of 1987.* Subsequently, in its October 1994 report entitled *Rate of Employer Contribution for the Alternate Retirement Program*, the Commission recommended an employer contribution rate of 10.52 percent, which the General Assembly did not enact. These rates were designed to provide parity of employer contribution rates with SERS taking into account the retirement benefit under the Code, including the periodic ad hoc postretirement adjustments, disability pensions, and death benefits, and an employee contribution rate of five percent. The bill makes no provisions for employee contributions.

The PSERS defined benefit retirement plan would continue to exist along with the new defined contribution retirement plan. The bill does not address allocation of the costs incurred for future PSERS benefit improvements. Arguably, some of these costs (for example, those applicable to active PSERS members) should be paid by the employers for PSERS members, while other costs (for example, those applicable to retired PSERS members) should be paid by employers for both PSERS members and participants in a defined contribution plan. Employers need to understand that the potential for a per employee contribution requirement is inherent in the bill. It would be

preferable for the bill to provide a procedure of cost allocation when benefit improvements are implemented in the future.

The bill does not provide for the vesting provisions that would apply to employer contributions to a defined contribution retirement plan. Presumably employee contributions, if any, plus accrued interest would be fully vested at all times. Plans could be established with either an immediate or delayed vesting provision. If the plan provides for deferred vesting rather than full, immediate vesting in the employer's contributions, the net cost will be less than 9.29 percent of compensation to an employer for an employee who becomes a plan participant and terminates service prior to vesting to the extent that the employer contributions are forfeited upon the early termination.

The bill does not provide for the length of time during which a new employee must elect either membership in PSERS or participation in a defined contribution retirement plan. A reasonable time period is necessary to the making of an informed decision by a new employee. Some individuals will later regret their choices. Others may not be, or at least will claim that they were not, properly counseled regarding the option. PSERS experience with the much simpler choice regarding multiple service membership has been that a 30-day election period is too short. In reviewing proposed legislation to lengthen this 30-day period, the Commission has indicated that it believes that a 90-day period is an adequate election period.

Under the Code, health insurance premium assistance benefits are provided to retired PSERS members who meet specified length-of-service and age requirements. Under collective bargaining agreements, total years of service credit in PSERS may be used to determine eligibility for some ancillary retirement benefits that are not provided for in the Code. Examples of ancillary retirement benefits would be payment by the employer to the employee at retirement for a portion of earned, unused sick leave and payment by the employer of retiree medical insurance benefits. Participants in a defined contribution retirement plan under the bill would not be PSERS members and, therefore, would not be eligible for these statutory and ancillary retirement benefits without statutory and regulatory changes.

Under the bill, the availability of the alternative defined contribution plan is determined by the individual public school employers. As a result, school employees who have elected to participate in the alternative defined contribution plan while employed by an employer that has authorized participation may be precluded from continuing participation upon moving to another employer that has not authorized participation. The lack of statewide availability of the alternative defined contribution plan and the accompanying limited portability of participation is not a problem with the current defined benefit plan because it is available statewide. The limited portability of participation to be experienced in the proposed alternative defined contribution plan is contrary to the portability concept that has been a significant factor in the recent growth of defined contribution plans.

SUMMARY OF ACTUARIAL COST IMPACT

Public School Employees' Retirement System

The bill will have no actuarial cost impact on the Public School Employees' Retirement System. In the long-term, the cost to employers for contributions to the Public School Employees' Retirement Fund will tend to decrease as participation decreases.

Alternative Defined Contribution Retirement Plan

In the short term (the next ten years or more), permitting new employees to elect to join a defined contribution retirement plan under the bill as an alternative to the Public School Employees' Retirement System would increase employer costs because the bill requires employers to contribute 9.29 percent of payroll for each employee who elects to join the defined contribution plan instead of the 0.00 percent of payroll projected as the employers' contributions to the Public School Employees' Retirement Fund. If about 50 percent of new employees were to make the election, the contributions by employers would be increased as follows.

Projection of Employers' Contributions to Defined Contribution Plan if Hypothetical 50 percent of New Employees elect to join a Defined Contribution Plan	
Fiscal Year	**Employer Contributions[1]**
2002	$21,000,000
2003	$42,000,000
2004	$62,000,000
2005	$83,000,000
2006	$104,000,000
2007	$140,000,000
2008	$175,000,000
2009	$211,000,000
2010	$246,000,000
2011	$282,000,000

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

POLICY CONSIDERATIONS

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

Plan Design. Rather than the General Assembly designing the defined contribution retirement plan, the bill permits the Board to design the plan or plans at its sole discretion.

Allocation of Costs of Future Benefit Improvements in PSERS. The bill is silent regarding the allocation of the costs of future benefit improvements in PSERS among participating employers. Under certain circumstances, it might be more equitable to allocate the costs on a per active PSERS member basis, but in others, it might be more equitable to allocate the costs on a per employee basis regardless of whether the employee has elected membership in PSERS or a defined contribution plan.

POLICY CONSIDERATIONS (CONT'D)

Vesting. The bill is silent regarding vesting. If the defined contribution plan provides for deferred rather than immediate vesting in employer contributions, the net cost to employers will be less than 9.29 percent of compensation to the extent the participants terminate employment before vesting.

Employee Contribution. The bill is silent regarding required employee contributions to a defined contribution plan. If there is no required employee contribution, the employer's contributions may not be sufficient to provide a retirement benefit comparable to PSERS while the lack of a requirement may serve as an incentive to elect participation in a defined contribution plan in lieu of membership in PSERS.

Parity between Employer Contribution Rates. The 9.29 percent of compensation rate proposed in the bill as the employer's contribution rate to the defined contribution plans reflects the approximate values of PSERS pensions, periodic postretirement adjustments typically granted to PSERS members, and PSERS disability benefits and death benefits if employees contribute five percent of compensation.

Election Period. The bill does not specify the length of time during which a new employee must elect either membership in PSERS or participation in a defined contribution plan.

Change of Employers. The bill does not provide continuity of coverage for situations in which a public school teacher changes employers, where one employer has elected participation in PSERS and the other employer has not.

COMMISSION RECOMMENDATION

On September 21, 2000, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

Senate Bill Number 1458, Printer's Number 1981, was referred to the Senate Finance Committee on May 26, 2000.

Bill ID: Senate Bill Number 1459, Printer's Number 1982

System: State Employees' Retirement System

Subject: Defined Contribution Retirement Plan Alternative

SYNOPSIS

Senate Bill Number 1459, Printer's Number 1982, would amend section 5301 of the State Employees' Retirement Code to permit a new state employee to elect participation in a defined contribution alternate retirement plan offered by a provider approved by the State Employees' Retirement Board to which the employer must contribute an amount equal to 9.29 percent of the participant's compensation.

DISCUSSION

The two pension plans with which this actuarial note is concerned are representative of the two broad types of retirement benefit plans. The State Employees' Retirement Code (Code) provides for a defined benefit plan. The bill would permit a defined contribution retirement plan as an alternative. Among the distinguishing aspects between the two types of plans are the elements that are fixed or variable and who bears the risk of investment earnings that are above or below those anticipated.

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

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

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

Under the Code, 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. These retirement benefits enjoy both a statutory and constitutional state guarantee. As of December 31, 1999, there were 106 participating state and other organizations. Membership in SERS is mandatory for most state employees. Certain employees of state higher education institutions (Community Colleges, Department of Education, State System of Higher Education, and The Pennsylvania State University) are eligible to elect coverage under an employer-approved independent retirement program as an alternative to SERS retirement coverage. The bill would amend the Code to permit an individual becoming a state employee on or after the effective date of the bill to elect coverage under a State Employees' Retirement Board (Board) approved defined contribution retirement plan as an alternative to SERS retirement coverage. A participant would not be eligible to receive service credit in SERS for any service for which contributions had been made to the defined contribution plan.

Other than providing that neither the Commonwealth nor the Board shall be liable for any investment loss incurred in a defined contribution retirement plan or for the failure of any investment to earn any specific or expected return or as much as any other investment opportunity, the bill leaves the specifics of the design of the defined contribution retirement plan to the Board. This lack of design provisions is at variance both with the specificity in the defined benefit retirement plan under the Code and the section 457(b) deferred compensation plans under section 8.2 and 8.3 of Act 99 of 1811. It also is at variance with the independent retirement program plans for which there was a tacit understanding that the plan, or one of the plans, would be TIAA/CREF and the employer retained ultimate control over the approval. Under the bill, it is the Board that designs and approves the defined contribution plan(s) at its sole discretion and the employer of the participant is mandated to make the employer contribution.

The employer contribution rate of 9.29 percent of the employee's compensation specified in the bill presumably is based upon section 5301(12) of the Code that permits the employer contribution rate for fiscal years after 1991-92 to be not more than 9.29 percent for those school employees of the state who have elected membership in an independent retirement program. This rate was set by Act 112 of 1992 in response to the Commission's October 1991 report entitled *Study of Employer Contribution Rate for Optional Alternate Retirement Program under Act 78 of 1987*. Subsequently, in its October 1994 report entitled *Rate of Employer Contribution for the Alternate Retirement Program*, the Commission recommended an employer contribution rate of 10.52 percent, which the General Assembly did not enact. These rates were designed to provide parity of employer contribution rates with SERS taking into account the retirement benefit under the Code, including the periodic ad hoc postretirement adjustments, disability pensions, and death benefits, and an employee contribution rate of five percent. The bill makes no provision for employee contributions.

The SERS defined benefit retirement plan would continue to exist along with the new defined contribution retirement plan. The bill does not address allocation of the costs incurred for future SERS benefit improvements. Arguably, some of these costs (for example, those applicable to active SERS members) should be paid by the employers for only SERS members, while other costs (for example, those applicable to retired SERS members) should be paid by employers for SERS members and participants in a defined contribution plan. Employers need to understand that the potential for a per employee contribution requirement is inherent in the bill. It would be preferable for the bill to provide a procedure for cost allocation when benefit improvements are implemented in the future.

The bill is silent regarding the vesting provisions that would apply to employer contributions to a defined contribution retirement plan. Presumably employee contributions, if any, plus accrued interest would be fully vested at all times. Plans could be established with either an immediate or

delayed vesting provision. If the plan provides for deferred vesting rather than full, immediate vesting in the employer's contributions, the net cost will be less than 9.29 percent of compensation to an employer for an employee who becomes a plan participant and terminates service prior to vesting to the extent that the employer contributions are forfeited upon the early termination.

The bill is silent regarding the length of time during which a new employee must elect either membership in SERS or participation in a defined contribution retirement plan. A reasonable time period is necessary to the making of an informed decision by a new employee. Some individuals will later regret their choices. Others may not be, or at least will claim that they were not, properly counseled regarding the option. SERS experience with the much simpler choice regarding multiple service membership has been that a 30-day election period is too short. In reviewing proposed legislation to lengthen this 30-day period, the Commission has indicated that it believes that a 90-day period is an adequate election period.

Under certain Executive Board actions and collective bargaining agreements, total years of service credit in SERS are used to determine eligibility for some ancillary retirement benefits that are not provided for in the Code. Examples of ancillary retirement benefits include payment by the Commonwealth to the employee at retirement for a portion of earned, unused sick leave and full payment by the Commonwealth through retirement for the retiree's medical insurance. Participants in a defined contribution retirement plan under the bill would not be SERS members and, therefore, would not be eligible for these ancillary retirement benefits without regulatory changes.

SUMMARY OF ACTUARIAL COST IMPACT

State Employees' Retirement System

The bill will have no actuarial cost impact on the State Employees' Retirement System. In the long-term, the cost to employers for contributions to the State Employees' Retirement Fund will tend to decrease as participation decreases.

Alternative Defined Contribution Retirement Plan

In the short term (the next ten years or more), permitting new employees to elect to join a defined contribution retirement plan under the bill as an alternative to the State Employees' Retirement System would increase employer costs because the bill requires employers to contribute 9.29 percent of payroll for each employee who elects to join the defined contribution plan instead of the 0.00 percent of payroll projected as the employers' contributions to the State Employees' Retirement Fund. If about 50 percent of new employees were to make the election, the contributions by employers would be increased as follows.

Projection of Employers' Contributions to Defined Contribution Plan if Hypothetical 50 percent of New Employees elect to join a Defined Contribution Plan	
Calendar Year	**Employer Contributions**
2001	$5,000,000
2002	$10,000,000
2003	$16,000,000
2004	$21,000,000
2005	$26,000,000
2006	$34,000,000
2007	$44,000,000
2008	$51,000,000
2009	$60,000,000
2010	$68,000,000

POLICY CONSIDERATIONS

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

Plan Design. Rather than the General Assembly designing the defined contribution retirement plan, the bill permits the Board to design the plan or plans at its sole discretion.

Allocation of Costs of Future Benefit Improvements in SERS. The bill is silent regarding the allocation of the costs of future benefit improvements in SERS among participating employers. Under certain circumstances, it might be more equitable to allocate the costs on a per active SERS member basis, but in others, it might be more equitable to allocate the costs on a per employee basis regardless of whether the employee has elected membership in SERS or a defined contribution plan.

Vesting. The bill is silent regarding vesting. If the defined contribution plan provides for deferred rather than immediate vesting in employer contributions, the net cost to employers will be less than 9.29 percent of compensation to the extent the participants terminate employment before vesting.

Employee Contribution. The bill is silent regarding required employee contributions to a defined contribution plan. If there is no required employee contribution, the employer's contributions may not be sufficient to provide a retirement benefit comparable to SERS while the lack of a requirement may serve as an incentive to elect participation in a defined contribution plan in lieu of membership in SERS.

POLICY CONSIDERATIONS (CONT'D)

Parity between Employer Contribution Rates. The 9.29 percent of compensation rate proposed in the bill as the employer's contribution rate to the defined contribution plans reflects the approximate values of SERS pensions, periodic postretirement adjustments typically granted to SERS members, and SERS disability benefits and death benefits if employees contribute five percent of compensation.

Election Period. The bill does not specify the length of time during which a new employee must elect either membership in SERS or participation in a defined contribution plan.

COMMISSION RECOMMENDATION

On September 21, 2000, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

Senate Bill Number 1459, Printer's Number 1982, was referred to the Senate Finance Committee on May 26, 2000.

Bill ID: House Bill Number 188, Printer's Number 176

System: State Employees' Retirement System

Subject: Improved Benefit for Philadelphia Municipal Court Bail Commissioners

SYNOPSIS

House Bill Number 188, Printer's Number 176, would amend the State Employees' Retirement Code to permit an active member or an active multiple service member who is a bail commissioner of the Philadelphia Municipal Court to elect for the member's future service as a bail commissioner to be a Cass E-2 Member with a class of service multiplier of 1.5 rather than a Class A member with a multiplier of 1.0, which the member is now.

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 of 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.

Before March 1, 1974, there were a number of classes of membership in SERS, each of which had its own class of service multiplier. As part of the Commonwealth's pension reform efforts of the early 1970s, which also included the adoption of Act 293 of 1972 and of a new Public School Employees' Retirement Code on October 2, 1975, on March 1, 1974, a new State Employees' Retirement Code was adopted that, among other things, placed all individuals joining SERS after February 28, 1974, in Class A, for which the class of service multiplier is 1.0. One of the reasons for this change was to ensure that SERS would continue to be treated as a qualified pension plan under section 401(a) of the Internal Revenue Code by removing a source of possible discrimination.

The class of service multiplier has an effect both on the calculation of the regular member contributions and on the member's annuity. Under section 5102 of the Code, the regular member contribution is the basic contribution rate of five percent of compensation multiplied by the class of service multiplier. In the case of bail commissioners under the bill, the regular member contribution would increase from 5.0 percent of compensation to 7.5 percent of compensation upon election of the benefit. Under section 5702 of the Code, the maximum single life annuity of a member is the product of two percent multiplied by the member's years of credited service multiplied by the member's final average salary multiplied by the member's class of service multiplier. In the case of bail commissioners under the bill, a maximum single life annuity would be calculated as the product of two percent multiplied by years of service as a bail commissioner after election of the benefit multiplied by the final average salary (currently about $59,320) multiplied by 1.5, to which would be added any annuity for service in another class. For example, service as a Class A Member before electing Class E-2 Membership would be calculated as the product of two percent multiplied by years of Class A service multiplied by the final average salary

multiplied by 1.0 and added to the Class E-2 maximum single life annuity to calculate the member's total maximum single life annuity.

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

Justices, judges, and district justices all are judicial offices that existed on March 1, 1974. Bail commissioners in the Philadelphia Municipal Court did not exist on that date. In 1984, section 1123(a)(5) of the Judicial Code was amended to permit the judges of the Philadelphia Municipal Court to appoint up to six bail commissioners for four-year terms who become employees of the Commonwealth. The provisions of Act 187 of 1984 providing for the bail commissioners speak of their receiving "an annual salary equal to the salary of an associate judge of the Traffic Court of Philadelphia." The statutory provisions do not speak of "salary and emoluments" nor do they speak of "compensation." SERS, therefore, has classified the bail commissioners in Class A because of the 1974 Code requirement that a Commonwealth employee "who becomes a member of the system subsequent to the effective date of [the Code] shall be classified as a Class A member . . . ."

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

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission is unable to determine the percentage of the total benefit value that may be reflected as an increase in unfunded actuarial accrued liability to be paid by an increase in amortization payments vs. an increase in future normal costs. He estimates the following effect on annual cost, which he believes to be a reasonable estimate.

	Range of Amounts	As a % of Affected Payroll
Increase in Annual Cost	$15,000 — $20,000	6%

POLICY CONSIDERATIONS

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

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

Optional Prospective Application. Under the bill, bail commissioners would be permitted, but not required, to elect Class E-2 Membership on a prospective basis. There is considerable public pension policy justification for mandating the change in the membership classification for all eligible members if the change is determined to be warranted.

COMMISSION RECOMMENDATION

On March 8, 2000, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 188, Printer's Number 176, was referred to the House State Government Committee on January 27, 1999.

Bill ID: House Bill Number 430, Printer's Number 450

System: State Employees' Retirement System

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

SYNOPSIS

House Bill Number 430, Printer's Number 450, would amend sections 5102 and 5505 of the State Employees' Retirement Code to permit an active member or active multiple service member of the State Employees' Retirement System (SERS) to purchase up to five years of service credit in SERS for previous nonstate service as an employee of a Pennsylvania county.

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, 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 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 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 and 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 during World War II, service as a justice of the peace prior to January 1970, and 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.

The bill would expand the list of purchasable nonstate service to include up to five years service credit for pervious service as a Pennsylvania county employee. The effect of the additional service credit would be to increase the annuity of a SERS member by two percent of the member's final average salary for every year of service credit purchased. (For example, a purchase of five years of service credit would increase the member's annuity by ten percent of the member's final average salary.)

The method for calculating the member's contribution to purchase the nonstate service credit is the one specified in section 5505(d) of the Code for situations in which no other method is prescribed. Because the method results in the member paying significantly less than the full actuarial cost of the increased benefit, a residual unfunded actuarial accrued liability will result. The resulting residual unfunded actuarial accrued liability would be funded by the Commonwealth through amortization payments calculated as a percentage of payroll increasing five percent a year over a 20-year period.

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

Under the Code, a member under age 60 must have 35 years of service credit to retire and receive a full pension. The bill, therefore, would permit a 57-year-old member with 30 years of Commonwealth service to purchase five years of service credit for nonstate service as a Pennsylvania county employee and immediately retire with a full pension, although the member would not be eligible for full retirement under standard Code provisions.

Under certain current Executive Board actions and collective bargaining agreements, total years of service credit in SERS are used to determine eligibility for some ancillary retirement benefits that are not provided for in the Code. Examples of the ancillary retirement benefits include payment by the Commonwealth to the employee at retirement for a portion of earned, unused sick leave and full payment by the Commonwealth throughout retirement for the retiree's medical insurance. The bill, therefore, would permit a 47-year-old member with 20 years of Commonwealth service to purchase five years of service credit for nonstate service as a Pennsylvania county employee and immediately terminate service and receive Commonwealth fully paid medical insurance for life.

The bill provides for the purchase of service credit for service in a Pennsylvania county. It does not provide for the purchase of credit for other Pennsylvania local government service in a borough, city, municipal authority, regional local government entity (for example, a council of governments or a regional police department), town, or township. There is no apparent public pension policy rationale for this differentiation in the treatment of local government service.

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 one-way, 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 expanded SERS into a Government Employees' Retirement System providing retirement benefits to all state and local government employees in Pennsylvania.

Because there is no information available on how many members will be eligible to purchase the service credit now or in the future, how much service credit they will be eligible to purchase, or the extent to which they would utilize the opportunity, the actuarial cost of the bill cannot be definitively determined. The following actuarial estimates were prepared using general data and assumptions.

Estimated Percentage of Full Actuarial Cost Paid by a Member of SERS

The statutory method for calculating the member contribution to purchase the service credit for the nonstate service will result in a member paying less than 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 payed by the member.

Age at Entry into State Service	Age at Retirement	Normal Contribution Rate = 3.60%	Normal Contribution Rate = 7.00%	Normal Contribution Rate = 10.73%
25	55	23%	31%	40%
35	60	27%	36%	46%
45	60	32%	43%	55%
55	60	38%	51%	64%

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

Estimated Cost for Purchases by Current, Active Members of SERS

Because there is no information on the exact number of members eligible currently, the consulting actuary of the Commission assumed four utilizations and estimated the increases in the unfunded actuarial accrued liability due to service purchases under the bill based on the following assumptions: an average salary of $37,000, average past salary growth of six percent, a Commonwealth normal contribution of seven percent at the time of entry into Commonwealth service, and a purchase of three years of service credit on the average.

Number of Members who Purchase Service Credit Just Prior to Retirement	Estimated Increase in Unfunded Actuarial Accrued Liability at Retirement
250	$ 4,000,000
500	$ 8,000,000
1,000	$16,000,000
2,000	$32,000,000

Cost of Other Retirement Benefits

In addition to the direct actuarial cost to the Commonwealth of 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:

Unequal Treatment of SERS Members. The bill does not treat all similarly situated SERS members equally. The purchase of service option is restricted to prior service in a Pennsylvania county and thereby excludes prior service in other Pennsylvania local governments.

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 county to be purchased. The bill may serve as a precedent for other SERS members with previous public employment service in other local governments in Pennsylvania and elsewhere to request the option to purchase service credit for that nonstate service.

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 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.

Appropriateness of Service Credit for Service with a Pennsylvania County. 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. The service to be made purchasable under the bill is not among these types of service.

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 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 these provisions in the bill will increase the costs to SERS associated with the proposed service credit purchase authorization.

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. 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 county service that took place many years prior to the purchase, the member, the county, and SERS may encounter difficulty in demonstrating that the service was rendered.

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

COMMISSION RECOMMENDATION

On January 27, 2000, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 430, Printer's Number 450, was referred to the House State Government Committee on February 9, 1999.

Bill ID: House Bill Number 966, Printer's Number 2962

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

Subject: Granting New "30 and Out" Windows

SYNOPSIS

House Bill Number 966, Printer's Number 2962, 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 March 1, 2000, through June 30, 2000, or January 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
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> A member of SERS who has at least 30 eligibility points, terminates service from July 1, 2000, 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, 1999, there were 108 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, 1999, PSERS had 223,495 active members, and as of December 31, 1999, SERS had 108,308 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 expired 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-sharing 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-sharing 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 expired 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 continued 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. The current PSERS funding approach is appropriate only if there is at least a five year interval between early retirement windows.

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 for PSERS members after only eight months during the last four months of the 1999-2000 school year and after only six months during the last six months of the 2000-2001 school year and granting them again after only one year for the entire following year for SERS members will not produce an incentive for members to change their new normal retirement pattern and will result in only a temporary decrease in the number of retirements in PSERS and SERS with an increase in early retirements during the proposed windows. Granting short-period early retirement windows more often than once every five years or granting early retirement windows continuously is the provision of a benefit enhancement rather than an incentive to retire.

SUMMARY OF ACTUARIAL COST IMPACT

Public School Employees' Retirement System

The consulting actuary of the Public School Employees' Retirement System has estimated the cost for one-, two-, and three-year extensions of the special early retirement provisions, assuming retirement rates of 5, 10, and 15 percent. In addition, the System has provided the Commission with a tabulation of the number of retirements during the 11 calendar years, 1986 through 1996,

among members who were eligible for "30 and Out" and elected to retire. The estimate and the tabulation have 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.

	Amount
Increase in Unfunded Actuarial Accrued Liability[1]	$278,600,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[2]		
Normal Cost[3]	$ 4,600,000	0.05%
Amortization Payment[4]	22,200,000	0.24%
Total Increase in Employer Annual Costs[5]	$26,800,000	0.29%

[1] The total cost of the bill to PSERS is the increase in unfunded actuarial accrued liability plus the present value of the one year of 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 the first year 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, and Printer's Number 1074 of House Bill Number 966. In addition, the System has provided the Commission with a tabulation of the number of retirements during the 13 calendar years, 1985 through 1997, among members who were eligible for the prior "30 and Out" windows and retired. The estimate and the tabulation have 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 windows for special early retirement

POLICY CONSIDERATIONS (CONT'D)

in PSERS so soon after the expiration of the previous provisions and of granting a 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 in PSERS.

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 March 8, 2000, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 966, Printer's Number 2962, was re-referred to the House Appropriations Committee on February 9, 2000.

Bill ID: House Bill Number 1401, Printer's Number 1643, as amended by Amendment No. 0548

System: Public School Employees' Retirement System

Subject: Public School Retirees' Health Insurance Act

SYNOPSIS

House Bill Number 1401, Printer's Number 1643, as amended by Amendment Number 0548, would do two things:

Enact the Public School Retirees' Health Insurance Act (Act) that would increase health insurance premium assistance for certain public school retirees and others, 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 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 an increase 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;

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 0.65 percent of the payroll into the restricted reserve account to provide the initial funding of the reserve account;

In each calendar year beginning with Calendar Year 2001, require the Board to determine through its consulting actuary the amount necessary to maintain the restricted 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 2001-02, require public school employers to contribute to the Health Insurance Account of the Public School Employees' Retirement Fund the amount determined by the Board to be necessary to maintain the reserve plus the employer contribution to fund the Health Insurance Premium Assistance Program;

In Calendar Year 2001 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 $150 a month or the participant's actual monthly premium; and

For each school year, beginning with the 2001-02 school year, require the Commonwealth to reimburse each public school employer for its contribution to the Health Insurance Account 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.

DISCUSSION (CONT'D)

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 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.

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.

SUMMARY OF ACTUARIAL COST IMPACT

There would be a one-time cost to the Commonwealth to establish the restricted reserve account proposed in the bill.

	Amount	As a % of Payroll
One-Time Cost to the Commonwealth (F.Y. 2000-01)	$60,800,000	0.65%

The increased premium assistance proposed in the bill would not be funded on an actuarial basis. The bill essentially requires a pay-as-you-go basis. Based upon two levels of participation by currently eligible but nonparticipating retirees, 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 of Currently Eligible Non Participants	First Year Increase in Annual Cost (F.Y. 2001-02)	
	Amount	As a Percentage of Payroll
25%	$78,100,000 - $82,700,000	0.80% - 0.85%
50%	$88,500,000 - $93,500,000	0.91% - 0.96%

POLICY CONSIDERATIONS

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

Restricted Additional Financial Commitment for Premium Assistance. The Act specifies a maximum dollar amount of premium assistance, which is an increase over the currently specified maximum. In this way, the employer is not automatically subjected to the unpredictable inflation of the cost of medical insurance coverage in the future.

Unrestricted Additional Financial Commitment. The restricted reserve account established under the Act must be maintained at an amount sufficient to pay not less than 50 percent of the expected claims experience of the program. The Act would permit, but not require, the Board to administer the health insurance program on a self-funded basis. If the board were to establish the program on a self-funded basis or some other way that would have a claim upon the restricted reserve account, the school employers and the Commonwealth could be subjected to unpredictable costs to maintain the reserve account in future years.

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.

Transfers among Accounts. In section 3 of the bill in proposed section 8902(c) in line 28 on page 8, the word "between" probably should be deleted and the word "among" inserted.

Payments by Employers. In lines 18 through 21 on page 4 of Amendment 0548 that propose amendments in section 3 of the bill to proposed section 9103(a) in lines 4 and 5 on page 13 of the bill, the result of the proposed amendments appears to be to leave the sentence fragment "including members on activated military service leave." The intent of the sponsor, presumably, is to delete this fragment.

COMMISSION RECOMMENDATION

On March 8, 2000, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

As Printer's Number 3264, House Bill Number 1401 was laid on the table in the House on October 11, 2000.

Bill ID: Amendment Number 0993 to
House Bill Number 1401, Printer's Number 1643

System: Public School Employees' Retirement System

Subject: Increase in Annuitants Eligible for Health Insurance Premium Assistance

SYNOPSIS

Amendment Number 0993 to House Bill Number 1401, Printer's Number 1643, would amend, in two ways, the definition of "eligible annuitants" in section 8102 of the Public School Employees' Retirement Code (Code) that provides for which retirees are eligible for the health insurance premium assistance program under section 8509 of the Code, as amended by section 2 of the bill, and under the proposed Public School Retiree's Health Insurance Act, which would be enacted by section 3 of the bill:

> On December 31, 2000, ending the policy that began on January 1, 1995, of making a retired member of the Public School Employees' Retirement System (PSERS) who retired with 15 or more eligibility points an "eligible annuitant" if the member retired on or after the member's superannuation retirement age; and
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> Beginning January 1, 2001, making a retired member of PSERS who retired or retires with 15 or more eligibility points an "eligible annuitant" upon reaching age 65 regardless of the retiree's age when the retiree terminated school service.

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. Under the program, participating eligible annuitants receive health insurance premium assistance payments equal to the lesser of $55 a month or the participant's actual monthly premium. The remainder of the bill would enact the Public School Retirees' Health Insurance Act (Act), which would provide for an increase in the maximum health insurance premium assistance amount and a funding mechanism to pay for the increased benefit. Beginning in Calendar Year 2001, the proposed Act would increase the monthly premium assistance to the lesser of $150 a month or the participant's actual monthly premium. This actuarial note transmittal and its attached actuarial note only deals with Amendment Number 0993 of the bill. The Commission addressed the remainder of the bill in its March 5, 2000, actuarial note transmittal on House Bill Number 1401, Printer's Number 1643, as amended by Amendment Number 0548.

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 Premium Assistance Program, retired PSERS members must have at least 24½ years of service, or be disability annuitants, or have at least 15 years of service and have both terminated school service and retired after attaining superannuation age. It is the third eligibility category that the amendment would change. The change will have at least two effects:

> Members who retire after December 31, 2000, with 15 or more but less than 24½ years of service at or over superannuation retirement age but at an age less than 65 will not receive health insurance premium assistance until they reach age 65, and
>
> Members who retired or retire with 15 or more but less than 24½ years of service at less than superannuation retirement age will become eligible for health insurance premium assistance upon attaining age 65.

Under the Code, 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 the non approved plans or will not purchase coverage and, therefore, will not receive premium assistance payments. About 11,500 members who retired with 15 or more but less than 24½ years of service are not eligible under the Code but would become eligible under the amendment. Of these, about 5,700 would become eligible on January 1, 2000, under the amendment.

Currently there are about 228,500 active members in PSERS. Since January 1, 1999, some of these have been expecting to retire with 15 or more but less than 24½ years of service at or over age 62 but at less than age 65 and to begin receiving health insurance premium assistance upon retirement. Under the amendment, these individuals either will have to wait up to three years after retirement to begin receipt of health insurance premium assistance or will postpone retirement until they reach age 65. This result should be examined by legal counsel to determine whether the change will violate the constitutionally protected contract or property rights of these individuals.

The current provisions of the Code regarding eligibility for health insurance premium assistance are designed to provide postretirement medical insurance to retirees who either spent a medium to long career as an employee (at least 24½ years) or spent the end of their working lives in a medium length career (at least 15 years) as a school employee ending in retirement at superannuation age. The amendment would introduce a change in the provisions that would permit any individual who ever worked at least 15 years as a school employee and vested retirement rights when school service was terminated to receive health insurance premium assistance upon attaining age 65. For example, an individual who began work as a school employee at age 22 and ended it at age 37 and spent the remaining 27 years working elsewhere would be entitled to health insurance premium assistance under the amendment. As the maker of the Commonwealth's public policy, the General Assembly must determine to which former school employees it is appropriate to provide health insurance premium assistance and in what amount.

SUMMARY OF ACTUARIAL COST IMPACT

Estimated Increase in Pay-As-You-Go Costs

Year	Cost
2001	$ 5,000,000
2011	$10,000,000

POLICY CONSIDERATIONS

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

Change in Public Policy Regarding Postretirement Medical Insurance. The amendment would introduce a change in the public policy regarding postretirement medical insurance by permitting any individual who ever worked a medium length of time (at least 15 years but less than 24½ years) for a school employer and vested retirement benefits when school service was terminated to receive health insurance premium assistance upon attaining age 65 regardless of the retiree's age when the retiree terminated school service. As the maker of the Commonwealth's public policy, the General Assembly must determine to which former school employees it is appropriate to provide health insurance premium assistance and in what amount.

COMMISSION RECOMMENDATION

On April 26, 2000, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

As Printer's Number 3264, House Bill Number 1401 was laid on the table in the House on October 11, 2000.

Bill ID: Amendment Number 3359 to House Bill Number 1401, Printer's Number 3264

System: Public School Employees' Retirement System

Subject: Return to School Service in an Emergency or During a Shortage of Subject-Certified Teachers, and Return to School Service without a Cessation of a Pension or a Forfeiture of a 10% Early Retirement Incentive

SYNOPSIS

Amendment Number 3359 to House Bill Number 1401, Printer's Number 3264, would amend section 8346 of the Public School Employees' Retirement Code to do two things:

Increase from 95 to 120 days the number of full-day school sessions a school year for which an annuitant (retiree) of the Public School Employees' Retirement System (PSERS) may return to school service either in an emergency or during a shortage of subject-certified teachers during which time the retiree earns no service credit in PSERS for the retiree's service, the retiree, employer, and the Commonwealth make no contributions to PSERS for the retiree's service, and the retiree is not subject to cessation of the member's pension or forfeiture of the ten percent retirement incentive; and

Permit a PSERS retiree to be employed as a substitute teacher by a school district, intermediate unit, or area vocational-technical school under a separate contract on a less-than-full-time basis for a period not to exceed 120 full-day sessions 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 will be made to PSERS by the retiree, employer, or the Commonwealth for the service under the contract.

DISCUSSION

The Public School Employees' Retirement Code (Code) establishes 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, 1999, there were 660 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, 1999, there were 223,495 active members, 46,426 inactive and vested members, 5,348 disabled annuitants, and 121,064 retired annuitants.

Return to School Service in an Emergency or During a Shortage of Subject-Certified Teachers

Under section 8346 of 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 exception to the freezing and forfeiture provisions is a situation in which a retiree returns to school service for no more than 95 full-day sessions a school year and at least one of the two following criteria is met:

> The employer has determined that an emergency exists that creates an increase in the work load so that there is a serious impairment of service to the public, or
>
> No other certified teachers are available within the required subject area after a "good-faith" effort by the employer to secure nonretired personnel first.

In computing the number of days a retiree may return to school service, any amount of time less than one-half day is counted as one-half day. The provisions of section 8346(b) were substantially amended by Act 23 of 1991, which, among other things:

> Increased the number of days from 75 days to 95 full-day sessions,
>
> Added a shortage of appropriate subject-certified teachers as a reason, in addition to emergencies, for which a retiree could return to school service under section 8346(b), and
>
> Added the provision regarding computing time less than one-half a day as one-half a day.

The amendment would increase the number of allowable full-day sessions from 95 to 120.

The effect of the demographic composition of the population as shown in recent work force studies is that employers are going to have increasing difficulty in recruiting younger and retaining older employees. The proposal to increase the number of full-days to 120 could enable public schools to obtain the services of needed, experienced employees in certain critical situations.

Return to School Service as a Substitute Teacher

In addition to permitting a retiree to return to school service in an emergency or during a shortage of subject-certified teachers as discussed above, the amendment would permit a retiree to return to school service as a substitute teacher on a less-than-full-time basis under a separate contract. Because independent contractors and individuals compensated on a fee basis are excluded from membership in PSERS, the amendment apparently intends to provide for actual reemployment as a school employee for what could be an indefinite period of less-than-full-time service provided that the employee performs only the specified type of service and does not participate as an active employee in PSERS. Because the only time limit would be 120 full-day sessions, a reemployed retiree working less-than-full-time could never exceed the time limit in a school year.

The public employee retirement policy of the Commonwealth as expressed both in the Public School Employees' Retirement 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 amendment would enact a fundamental change in this policy by permitting a PSERS retiree to return to school service in nonemergency situations for what could be an unlimited period of less-than-full-time service and be paid while still receiving a PSERS pension.

DISCUSSION (CONT'D)

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 as a substitute teacher 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 121,412 annuitants (early, early incentive, disability, and regular retirees) of whom about 14,900 retired under the "Mellow Bill." The proposal in the amendment would apply only to those retirees who return to school service as less-than-full-time substitute teachers. 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

Because current contribution rates are based on the assumption that all annuitants will receive their full retirement benefits for their entire lives without any periods during which payments might be suspended due to a return to school service, except for the potential for the loss of a de minimis actuarial gain, neither of the proposals in the amendment will have an actuarial effect upon the Public School Employees' Retirement System.

POLICY CONSIDERATIONS

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

Personnel Policy Flexibility in Certain Critical Situations. The amendment could provide increased managerial flexibility in obtaining the services of experienced older public school employees in emergencies and shortages of subject-certified teachers.

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 in Containing Personnel Costs. From a personnel policy perspective, the use of a retiree as a substitute teacher under a separate contract 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.

Fundamental Change in Public Employee Retirement Policy. The amendment would enact a fundamental change in public employee retirement policy by permitting retirees to return

POLICY CONSIDERATIONS (CONT'D)

to school service in nonemergency situations for unlimited periods of time and receive compensations while still receiving their pensions.

Technical Problems.

Desirable Reference. The amendment fails to change section 8301(a)(2) of the Code to add proposed section 8346(e) to the list of school employees excluded from mandatory membership in PSERS. A reference should be included to prevent needless confusion.

Lack of Definition. The amendment fails to provide a definition of the term "less-than-full-time" nor is the term defined in the existing Code. Under the provisions of section 8302(a) the term would appear to mean employed for less than 1,100 hours a year. If some other meaning is intended, the amendment should be changed accordingly.

COMMISSION RECOMMENDATION

On September 21, 2000, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

As Printer's Number 3264, House Bill Number 1401 was laid on the table in the House on October 11, 2000.

Bill ID: Amendment Number 3502 to
House Bill Number 1401, Printer's Number 3264

System: Public School Employees' Retirement System

Subject: Increase in Annuitants Eligible for Health Insurance Premium Assistance

SYNOPSIS

Amendment Number 3502 to House Bill Number 1401, Printer's Number 3264, would amend the Public School Retirees' Health Insurance Act proposed to be enacted by the bill to make the postretirement health insurance premium assistance payments available to any eligible annuitant of the Public School Employees' Retirement System.

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, 1999, there were 660 employers participating in PSERS, generally school districts, area vocational-technical schools, and intermediate units. 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, 1999, there were 121,064 normal, early, and withdrawal retirees, 5,384 disability retirees, and 6,421 survivors and beneficiaries receiving benefits from PSERS.

Under the Code, Health Insurance Premium Assistance Program benefits are provided to retired members who meet specified length-of-service and age requirements. To be eligible for the Health Insurance Premium Assistance Program, a retired PSERS member must have at least 24½ years of service, or be a disability annuitant, or have at least 15 years of service and have terminated school service and retired after attaining superannuation age. The bill would amend the Code to change the third eligibility category in two ways.

> A member who retires after December 31, 2000, with 15 or more but less than 24½ years of service and is at or over superannuation retirement age but less than 65 years of age will not receive health insurance premium assistance until the member reaches age 65. (The member would receive health insurance premium assistance upon retirement under current Code provisions.)
>
> A member who retired or retires with 15 or more but less than 24½ years of service at less than superannuation retirement age will become eligible for health insurance premium assistance upon attaining age 65. (The member would not ever become eligible for health insurance premium assistance under current Code provisions.)

Under the Code, participating, eligible retired members receive health insurance premium assistance payments equal to the lesser of $55 a month or the actual monthly premium. The bill would enact the Public School Retirees' Health Insurance Act (Act), which would increase the health insurance premium payments to the lesser of $150 a month or the actual monthly premium.

When the Health Insurance Premium Assistance Program was established in essentially its present form by Act 23 of 1991, PSERS already was operating a Group Health Insurance Program for annuitants who had attained age 65. Upon the creation of the Health Insurance Premium Assistance Program, PSERS evaluated its existing Group Health Insurance Program and the Health Insurance Premium Assistance Program and concluded that, to control increasing premium costs and prevent adverse selection, the Public School Employees' Retirement Board (Board) would approve only health insurance premium assistance reimbursements under the Health Insurance Premium Assistance Program to retirees who chose coverage either through one of the Board's approved insurance carrier programs (Health Options Program) or through an insurance carrier program offered by one of the employers participating in PSERS. The Board's restrictive interpretation of the Code was upheld by the Commonwealth Court in affirming the Board's denial of premium assistance in a case in which an otherwise eligible annuitant sought reimbursement for premiums paid to a program that had not been approved by the Board but was provided by an insurance carrier providing a program approved by the Board, was denied, and appealed. *Hanna v. Public School Employes' Retirement Board,* 701 A.2d 800 (Pa. Commw. Ct., 1997).

The bill would repeal certain of the existing provisions in the Code providing for health insurance premium assistance and enact them as part of the proposed Act. Among the repealed and enacted provisions is the current Code restriction of the premium assistance to those retirees who choose coverage either through one of the Board's approved programs or a PSERS participating employer's program. The amendment would remove this restriction from the proposed Act.

Under the Code, about 55,800 retirees are expected to receive health insurance premium assistance payments during Fiscal Year 2000—01, with an expected annual outlay of about $37,565,000 including administrative expenses. An additional 34,200 retirees will meet the requirements for the premium assistance payments but either are enrolled in the non approved plans or will not purchase coverage and, therefore, will not receive premium assistance payments.

SUMMARY OF ACTUARIAL COST IMPACT

Estimated Total Annual Increase in Pay-As-You-Go Costs in Selected Years

Year	Unamended Bill	**Amendment**	Amended Bill
2001	$125,000,000	**$40,000,000**	$165,000,000
2006	$140,000,000	**$50,000,000**	$190,000,000
2011	$165,000,000	**$55,000,000**	$220,000,000

The cost of providing postretirement medical insurance premium assistance to an increased number of retired public school employees as proposed in the amendment would not be funded on an actuarial basis. The bill essentially requires a pay-as-you-go basis. The increased costs will be paid in part by the Commonwealth and in part by the school districts and other educational employers.

The proposed changes in the postretirement medical insurance premium assistance program could have an impact on the retirement rates of active members. The consulting actuary of the Commission did not attempt to estimate the effect of this potential impact.

POLICY CONSIDERATIONS

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

Change in Public Policy Regarding Postretirement Medical Insurance. The amendment would change public policy regarding eligibility for postretirement medical insurance premium assistance by permitting an otherwise eligible retired public school teacher to receive premium assistance regardless of whether the retiree elects to participate in one of the Board's Health Options Programs or a Board approved program offered by an employer participating in PSERS. The General Assembly must determine whether the current restriction in providers of health insurance programs is appropriate in the provision of health insurance premium assistance.

Risk of Adverse Selection. Providing postretirement medical insurance to retirees regardless of their health insurance program increases the probability of adverse selection against the PSERS operated Health Options Programs because the younger and healthier retirees may select another, less expensive program early in retirement and then migrate toward the more comprehensive coverage of the PSERS Health Options Program as they age and their health deteriorates thereby increasing the costs of the Health Options Programs.

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

COMMISSION RECOMMENDATION

On November 21, 2000, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

As Printer's Number 3264, House Bill Number 1401 was laid on the table in the House on October 11, 2000.

Bill ID: House Bill Number 2442, Printer's Number 3286, and Amendment Number 0951 to House Bill Number 1639, Printer's Number 2766

Systems: Municipal Police Pension Law (Act 600 of 1955)

Subject: Enhanced Benefits

SYNOPSIS

Amendment Number 0951 to House Bill Number 1639, Printer's Number 2766, and House Bill Number 2442, Printer's Number 3286, would amend the Municipal Police Pension Law (Act 600 of 1955) to:

Permit a surviving spouse to continue to receive a survivor spouse benefit for life even if the surviving spouse remarries;

Permit a surviving child to continue to receive a survivor benefit until reaching age 23, if the child is attending college, rather than stopping the benefit at age 18 as is presently required;

Mandate that if an active police officer dies or has died, an active police officer who was eligible for a pension but had not begun collecting a pension dies or died, or a retiree dies or died, payment to the surviving spouse or surviving child or children, if no spouse survives, of a survivor benefit of 50 percent of the retiree's pension;

Mandate that the 50 percent survivor spouse and survivor child benefits be 100 percent, if the actuarial value of the assets exceeds the actuarial present value of future benefits;

Mandate that, if a nonvested member dies, the surviving spouse or surviving child or children, if no spouse survives, receive a refund of the member's contributions made by the member plus interest or other increases in value;

Permit a retiree's pension to exceed the current Act 600 limits, if the actuarial value of the assets exceeds the actuarial present value of future benefits;

Mandate a disability benefit for permanently injured members of at least 50 percent of the member's salary at the time the disability was incurred; and

Mandate an ongoing death benefit for the families of members killed in service equal to 100 percent of the member's salary at the time of death.

DISCUSSION

Municipal Police Pension Law

The Municipal Police Pension Law (Law) governs the establishment of the police officers' retirement system in every borough, town, or township with three or more full-time police officers and in every regional police department (municipality). At its option, a municipality with fewer than three full-

time police officers also may establish a police officer's retirement system under the Municipal Police Pension Law. As of January 1, 1997, there were at least 610 municipal police officers' retirement systems with three or more members operating under the Municipal Police Pension Law. In addition, there also were some one- and two-officer systems that were operating under the Municipal Police Pension Law. The 610 systems covered 6,960 active municipal police officers.

Mandated Prescription of Benefits

The intent of the proposed amendments to section 1(a)(2) is unclear. Section 1(a)(1) already requires the adoption of the police pension plan by an ordinance or a resolution, and the proposed mandated benefits are provided for subsequently in the section. As drafted, the proposed amendments to section 1(a)(2) are not necessary.

Mandatory Survivor Benefits

Under the current Law, if an active police officer or a retired police officer dies, the officer's surviving spouse may be entitled to a survivor pension. If no spouse survives, or if the spouse survives and subsequently dies or remarries, the survivor pension is payable to any surviving child or children under the age of 18. The amendment and the bill would mandate the provision of the survivor benefits. In the experience of the consulting actuary of the Commission, the majority of Act 600 police pension plans already provide the survivor benefits. For purposes of the actuarial note, he assumed that only five percent of Act 600 police pension plans would be forced to add the survivor benefits under the amendment and the bill, and estimated that this would result in an increase in aggregate unfunded actuarial accrued liabilities of about $3,000,000 and an increase in aggregate normal costs of about $140,000.

Surviving Spouse's Benefits Ceasing Upon Remarriage

Under the current Law, survivor benefits are payable to a surviving spouse during the spouse's lifetime or until the spouse remarries and if the spouse remarries, the survivor benefits are payable to any surviving child or children under the age of 18. The amendment and the bill would permit a surviving spouse to continue to receive the survivor benefits for life even if the surviving spouse remarries. This would remove provisions in the Law that were based on an orientation toward survivor benefits that no longer is appropriate. In the experience of the consulting actuary of the Commission, instances in which survivor benefits to a surviving spouse have ceased under the Law because of a remarriage are rare, and the current contribution rates used by him are based upon the assumption that all surviving spouses will receive their full benefits for their entire lives and ignore the possibility of termination because of a remarriage. He does not believe that there will be a material actuarial cost impact as a result of the proposed change in this provision of the Law.

Surviving Child's Benefits

Under the current Law, if survivor benefits are being paid to a surviving child, the benefits are payable only so long as the child is under age 18. The amendment and the bill would permit a surviving child to continue to receive survivor benefits until reaching age 23 if the child is attending college. In the experience of the consulting actuary of the Commission, there are few instances in which survivor benefits under the Law are being paid to a surviving child, and he assumes that there will be no material actuarial cost impact as a result of the proposed change in this provision of the Law.

The amendment and the bill create considerable potential administrative problems for Act 600 plan administrators, however, by failing to provide any guidance on the interpretation and implementation of the proposal. As the consulting actuary of the Commission points out, not even the terms "attending college" and "college" are defined. The recent adoption of the Police Officer, Firefighter, Correction Employee and National Guard Member Child Beneficiary Education Act (Act 129 of 1998) indicates that the General Assembly has public policy concerns with such issues and the careful definition of terms.

Survivor Benefits for Current Survivors

Under the current Law, if an active police officer or a retired police officer dies, the officer's surviving spouse may be entitled to a survivor pension. If no spouse survives, or if the spouse survives and subsequently dies or remarries, the survivor pension is payable to any surviving child or children under the age of 18. The amendment and the bill mandate that, if a retired police officer dies or died or if an active police officer dies or died, the survivor benefit shall be paid to the surviving spouse or surviving child or children, if no spouse survives.

Based upon his assumption that the survivor benefits would be paid prospectively only, the consulting actuary of the Commission estimates that this change in the Law would result in an increase in the aggregate actuarial accrued liabilities of less than $500,000.

Amount of Survivor Benefits

Under the current Law, the survivor benefit is a pension equal to 50 percent of the pension the member was receiving, or would have been receiving, had the member been retired at the time of death. The amendment and the bill would mandate that, if the actuarial value of the assets of the police officers' pension trust fund exceeds the actuarial present value of future benefits, that, rather than the 50 percent survivor benefit, a survivor benefit of 100 percent be paid to the surviving spouse or surviving child or children.

The proposal is unclear regarding whether the enhanced benefit would be granted if granting it caused the actuarial value of the assets to fall below the actuarial present value of future benefits. If the enhanced benefit is granted and the actuarial value of assets later falls below the actuarial present value of future benefits, it is unclear whether the enhanced benefit must be reduced to the regular rate, raising issues of impairment of constitutionally protected contract and property rights.

The proposal is objectionable from a public pension policy perspective. Payment of the enhanced benefit is dependent solely upon a funded condition of the retirement system, a funded condition that will vary both from time to time and from municipality to municipality.

The funded condition will vary markedly from time to time especially in a small system, and more than 75 percent of the systems with such a funded condition in 1997 had ten or fewer members. With such an approach, the survivor benefits are not certain but are determined solely by the funded condition on the date the member dies or, perhaps, are redetermined with every actuarial valuation. Thus, the proposal is contrary to the existing public pension policy of the Commonwealth that requires defined benefit pension plans to provide fixed benefits that are actuarially prefunded. Also, otherwise identically situated survivors in the same system or in neighboring systems will receive materially different benefits determined solely by the funded condition on the date the member dies or, perhaps, are redetermined with every actuarial valuation report.

Based upon the language in the proposal and data furnished by the Commission from actuarial valuation reports filed with the Commission, the consulting actuary of the Commission estimates that enactment of the proposal will result in an increase of aggregate unfunded actuarial accrued liabilities of about $14,000,000 and an increase in aggregate normal costs of about $600,000.

Nonvested Benefits

Under section 9 of the current Law, if a nonvested member dies, the member's contributions, plus all interest earned by the contributions, are refunded to the beneficiary designated by the member or, in the absence of a designation, to the estate of the member. The amendment and the bill would amend section 1 of the Law to mandate that, if a nonvested member dies, the surviving spouse or surviving child or children, if no spouse survives, receive a refund of the member's contributions made by the member plus interest or other increases in value.

At best, the proposed change is an unnecessary duplication of nonvested benefits' provisions and, at worst, repeals an existing benefit of members and creates a conflict of statutory provisions. The public pension policy reason for the proposed change is not apparent.

The consulting actuary of the Commission believes that there will be no actuarial cost associated with this proposed change to the Law.

Monthly Retirement Benefit

Under the current Law, a police officer may retire after a total of 25 years of service with the same municipality when the officer reaches age 55. If an actuarial valuation shows it is feasible, this age may be reduced to 50. The monthly pension, other than length of service increments and cost-of-living adjustments, is one-half of the monthly salary of the officer averaged over the last 36 to 60 months of employment. If a retiree's position as a police officer was covered by an agreement under the Social Security Act of 1935, the retirement system may reduce the monthly pension to the retiree by up to 75 percent of the amount of social security payable because of that retiree's age and service as a police officer. In addition to the monthly pension or retirement allowance, the municipality may pay a length of service increment to a retiree for each completed year of service beyond 25 years. The maximum length of service increment is $100 a month. The municipality may provide for a cost-of-living allowance for a retiree. The cost-of-living allowance cannot exceed the percentage increase in the Consumer Price Index from the year in which the retiree retired and cannot cause the total pension to exceed 75 percent of the salary used for computing that retiree's retirement benefits. The total cost-of-living allowance may not exceed 30 percent. If the assets of the police officer's pension trust fund exceed the present value of future benefits, the municipality may grant a cost-of-living increase that exceeds the limits in the Law to retirees who have been retired for at least 20 years, but, if the total benefits exceed $10,000 a year, the resulting total benefits cannot exceed 100 percent of the salary used for computing the retiree's pension.

The amendment and the bill permit a retiree's pension to exceed the current limits in the Law, if the actuarial value of the assets exceeds the actuarial present value of future benefits. No maximum benefit level is prescribed, however. The proposal is unclear regarding whether the enhanced benefit could be granted if granting it caused the actuarial value of the assets to fall below the actuarial present value of future benefits. If the enhanced benefit is granted and the actuarial value of assets later falls below the actuarial present value of future benefits, it is unclear whether the enhanced benefit must be reduced to the regular pension, raising issues of impairment of constitutionally protected contract and property rights.

In a municipality that currently provides both an Act 600 police pension plan and Social Security coverage to its police officers, a retired police officer receives a total retirement income from the retirement system and Social Security, once the retiree is eligible for Social Security benefits, of about 70 to 85 percent of the retiree's salary during the retiree's final year of employment. This generally is considered to be an adequate level for the employer provided retirement income, which is to permit a retiree to maintain the standard of living to which the retiree became accustomed throughout a working career. If a municipality were to amend its pension plan to provide a normal retirement pension benefit significantly in excess of 50 percent of average monthly salary at the time of retirement and the municipality also provides Social Security coverage for its active police officers, it would be possible for a member to receive total retirement income from the retirement system and from Social Security, when the member becomes eligible to receive Social Security benefits, that will be greater than the amount of compensation the member was receiving during the member's last year of employment.

Based upon the assumption that all municipalities with the specified funded condition will increase the monthly pension to 75 percent of final average salary, the consulting actuary of the Commission estimates that there would be an increase in the aggregate unfunded actuarial accrued liabilities of about $66,000,000 and an increase in the aggregate normal costs of about $4,600,000.

Disability Benefits

Under the current Law, a municipality may provide for disability retirement benefits. All disability pensions must conform to a uniform scale. The amendment and the bill would mandate a disability benefit for permanently injured members of at least 50 percent of the member's salary at the time the disability was incurred.

Although in context the service related nature of the disability benefit is clear, inserting the phrase "incurred in service" after the words "permanent injuries" will insure that there is no confusion since the phrase "in service" follows the word "killed." In the experience of the consulting actuary of the Commission, most Act 600 police officers' pension plans provide a service related disability benefit that is at least 50 percent of the member's salary at the time of disability. It is also his experience in many cases, however, that the benefit is offset by payments received from Social Security or Workers' Compensation. As a matter of public personnel management, some offsets to disability benefits are desirable so that a situation does not arise in which a member receives disability benefits from all sources, including the Act 600 police officers' retirement system, that exceed the member's income prior to the member's disability. As drafted, the proposal is undesirable because it mandates a disability benefit that does not take into account other benefits that may be payable to the member due to the member's service-related disability, to which the municipality also will have contributed.

Based upon the assumption that 50 percent of all Act 600 police officers' pension plans currently provide a service-related disability benefit of 50 percent of the member's salary at the time of disability, without any offset for Social Security or Workers' Compensation benefits received, the consulting actuary of the Commission estimates the actuarial cost impact associated with the proposal would be an increase in the aggregate unfunded actuarial unfunded liabilities of about $7,500,000 and an increase in the aggregate normal costs of about $700,000.

Killed in Service Benefits

Under the current Law, if a police officer dies, the officer's spouse may be entitled to a survivor pension. The amendment and the bill would mandate a death benefit for the family of a police officer killed in service of 100 percent of the officer's salary at the time of death.

In the experience of the consulting actuary of the Commission, there are many Act 600 police officers' pension plans that provide benefits for the families of police officers killed in service. In some instances, these benefits are 100 percent of the officer's salary at the time of death, but in most instances, the benefits are equal to 50 percent of the officer's salary at the time of death. In addition to the killed in service benefits under the Law, the family is entitled to lump sum payments under the federally-funded Public Safety Officers' Benefit Act of 1976 and the Commonwealth-funded Emergency and Law Enforcement Personnel Death Benefits Act.

The consulting actuary of the Commission estimates that the actuarial cost impact of the proposal would be an increase in aggregate unfunded actuarial accrued liabilities of about $3,400,000 and an increase in aggregate normal costs of about $500,000.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission reviewed the proposal for the amendment and the bill when a substantially similar proposal (except for a retroactivity provision) was still in its document form as 1999 Document 05487. Based upon his review, he estimates the amendment and the bill would have the following actuarial cost impact.

	Amount
Increases in Unfunded Actuarial Accrued Liabilities	
Mandatory Survivor Benefits	$ 3,000,000
Survivor Benefits for Current Survivors[1]	500,000
Amount of Survivor Benefits	14,000,000
Monthly Retirement Benefits	66,000,000
Disability Benefits	7,500,000
Killed in Service Benefits	3,400,000
Total Increases in Unfunded Actuarial Accrued Liabilities	$94,400,000

	Amount	As a % of Payroll
Increases in Employers' Annual Costs		
Normal Costs		
Mandatory Survivor Benefits	$ 140,000	
Amount of Survivor Benefits	600,000	
Monthly Retirement Benefits	4,600,000	
Disability Benefits	700,000	
Killed in Service Benefits	500,000	
Total Increases in Normal Costs	$ 6,540,000	2.13%
Initial Amortization Payments[2]	8,497,000	2.77%
Total Initial Increases in Employers' Annual Costs	$15,037,000	4.90%

[1] Assumes that the increased Survivor Benefits are paid prospectively only.
[2] Level dollar payments of $8,497,000 a year for 10 years, and level dollar payments of $8,430,000 a year for an additional 10 years, both calculated using the weighted average interest rate assumption of 7.25%.

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

Commonwealth Mandates to Municipalities. The amendment and the bill mandate a number of retirement benefit changes for all Municipal Police Pension Law plans. The appropriateness of the Commonwealth mandating municipalities to provide specific pension benefits is questionable from a public policy standpoint due to the wide variation in local conditions.

Absence of Cost Sharing. Municipal Police Pension Law plans historically have been contributory, with the members contributing toward their retirement benefits. The material costs resulting from the proposals in the amendment and the bill would be imposed entirely upon the affected municipalities without any increased contributions by the benefitted members.

Removal of Outdated Surviving Spouse Provisions. The proposal to permit a surviving spouse to continue to receive a survivor spouse benefit for life even if the surviving spouse remarries removes provisions in the Law that were based on an orientation toward survivor benefits that no longer is appropriate.

Impact of Funded Condition Benefit Determination. The proposed use of the funded condition of a retirement system to determine the benefit level involves several policy concerns.

Benefit Inequality. One basic objective of a public retirement system is benefit equality. Under the proposal, a municipality (or municipalities) may be required to provide similarly situated employees with widely varying pension benefits even though the municipality (or municipalities) involved may want to and can afford to provide the same benefit.

Actuarial Funding Difficulty. The amendment and the bill make the provision of enhanced benefits contingent on the funded condition of the retirement system that will vary over time. The resulting variation in the benefit is contrary to the public pension policy objective requiring fixed benefits in defined benefit retirement systems to permit the mandated actuarial prefunding to occur.

Propriety of Policy Making Process. Municipal employers perform the management role in fashioning the compensation and benefits provided to their employees, operating within the framework of a legislatively sanctioned collective bargaining process. Because determining the appropriate benefit level in the retirement system requires evaluation of many factors, mandating a benefit change when one factor, the funded condition, meets an arbitrary level is not consistent with the established policy making process.

Lack of Clarity Regarding Granting Enhanced Benefits. The proposals to grant enhanced survivor benefits and enhanced retiree benefits dependent upon the funded condition of the retirement system needs to be clarified regarding (1) the result if granting the enhanced benefit causes the ratio to fall below the permitted amount, (2) the result upon benefits in payment status if the funded condition later falls below the permitted amount, and (3) the applicability to current survivors and retirees.

POLICY CONSIDERATIONS (CONT'D)

Conflicting Nonvested Benefits Provisions. At best, the proposed additional nonvested benefits provisions are an unnecessary duplication of provisions and, at worst, repeal an existing benefit for members and creates a conflict of statutory provisions.

Suggested Technical Corrections.

Definition of Term "Attending College." In section 1 of the Act, the term "attending college" should be defined.

Definition of Term "College." In section 1 of the Act, the term "college" should be defined.

Insertion of Incurred in Service. In section 5(e) of the Act, the phrase "incurred in service" should be inserted after the word "injuries".

Subsequent Events. House Bill Number 1639, Printer's Number 2766, was amended on third consideration in the House of Representatives and is now before the Senate Finance Committee as Printer's Number 3237. Amendment Number 0951 should be redrafted accordingly.

COMMISSION RECOMMENDATION

On April 26, 2000, the Commission voted to attach the actuarial note to the amendment and the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2442, Printer's Number 3286, was referred to the House Local Government Committee on April 3, 2000. As Printer's Number 4229, House Bill Number 1639 passed the Senate and was referred to and reported as committed from the House Rules Committee on November 21, 2000.

Bill ID: House Bill Number 1962, Printer's Number 2420

Systems: All County and Municipal Employee Retirement Systems and the Public School Employees' Retirement System

Subject: Service Credit for Retirement Purposes granted under Individual Severance Plans

SYNOPSIS

House Bill Number 1962, Printer's Number 2420, would amend Act 99 of 1811 by adding a new section, section 8.4, that would permit the governing body of any borough, city, county, county institution district, incorporated town, township, municipal authority, school district, or vocational school district, by contract, to agree with any employee to a voluntary, early severance plan that could include, among other things, service credit for retirement purposes.

DISCUSSION

In both the private and public sectors, early retirement incentive programs have become a popular means to achieve long term cost savings coupled with permanent reductions of work forces, short term budgetary reductions, and other personnel management related goals (e.g., work force reclassifications and revitalization). The bill would provide political subdivisions and municipal authorities with the authority to offer a variety of early retirement incentives to individual employees through voluntary, early severance plan contracts. Among the early retirement incentives that would be authorized are the payment of a portion of the employees' 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 leave, sick leave, or other leave, and confidential, third-party counseling. In addition, the bill would permit service credit for retirement purposes, which is the pension plan related incentive discussed in this actuarial note transmittal and its attached actuarial note.

A defined benefit pension plan has a definite formula by which the employee's benefits are calculated. The formula may provide that benefits be a particular percentage of the employee's average compensation over the employee's entire service or over a particular number of years of service; it may provide for a flat monthly payment; or it may provide a definite amount for each year of service, expressed either as a percentage of the employees' compensation for each year of service or as a flat dollar amount of each year of service. Because only defined benefit pension plans use years of service to calculate the pension benefits, it is presumed that the bill applies only to those affected political subdivisions and municipal authorities with defined benefit pension plans. About 2,080 public employee pension plans with more than 340,000 members potentially would be affected by the bill, based upon January 1, 1997, data.

The term "service credit for retirement purposes" is not defined in either the proposed section 8.4 or the existing sections of Act 99 of 1811 nor is it among the words and phrases defined in section 1991 of the Statutory Construction Act of 1972. Section 1903(a) of the Statutory Construction Act of 1972 provides, in part, that: "Words and phrases shall be construed . . . according to their common and approved usage; but technical words and phrases and such others as have acquired a peculiar and appropriate meaning . . . shall be construed according to such peculiar and appropriate meaning or definition."

The ninth edition of *Employee Benefit Plans: A Glossary of Terms* published by the International Foundation of Employee Benefit Plans in 1997 defined "Credited Service" as: "A period of employment before or after the effective date of the plan that is recognized as service for one or more plan purposes, such as determination of benefit amounts, entitlement to benefits and/or vesting." This definition is consistent with the two uses of the term in the provisions of the various public employee defined benefit pension plan statutes in Pennsylvania.

> One use is "credit for limited categories of service with another employer or previously noncredited service with the current employer" that the Commission discussed in its March 1997 publication entitled *Service Purchase Authorizations for Pennsylvania Public Employee Retirement Systems*.
>
> Another use is "credited service as [a] retirement incentive" such as was provided under section 8302(b.2) of the Public School Employees' Retirement Code and section 5302(c) of the State Employees' Retirement Code as a result of the adoption of Act 23 of 1991 ("Mellow Bill") and "credited with additional full years of service" as permitted under section 14.1 of the County Pension Law.

It is probable that an interpretation under section 1932 of the Statutory Construction Act of 1972 would give two meanings to the term "service credit for retirement purposes" in defined benefit pension plans.

Almost all the employees of school districts and area vocational-technical school districts are members of the Public School Employees' Retirement System (PSERS). In addition to the school districts and area vocational-technical school districts, some, or all, of the employees of 61 intermediate units, 30 colleges and universities, 5 charter schools, and 16 other public education related employers are members of PSERS. None of these entities are defined as political subdivisions in the Statutory Construction Act of 1972, and they would not be included under the bill. The General Assembly, historically, has tried to provide a uniform, defined benefit pension plan to the employees of all public school entities.

Among the most frequently recurring subjects in proposed legislation that the Commission has been requested to review since 1982 are authorizations for service credits for retirement purposes. Such bills consistently have represented about ten percent of the public employee retirement bills introduced into each session of the General Assembly. Many of these are not enacted, but some are enacted, sometimes after modification in the legislative process. Under the bill, service credit would be permitted through individual contracts in situations for which the General Assembly has chosen not to permit service credit.

In the early 1980s, the General Assembly enacted two statutes that, among other things, require the preparation of an actuarial cost estimate prior to a pension plan modification. The statutes are designed, in part, to assure that public policy makers understand the ramifications and costs when they make decisions regarding pension plan modifications. The statutes are the Public Employee Retirement Commission Act (Act 66 of 1981) and the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984). Under the Public Employee Retirement Commission Act, the Commission attaches an actuarial note to any bill proposing any change relative to a public employee pension or retirement plan before the bill goes on second consideration in the house of origin. Under the Municipal Pension Plan Funding Standard and Recovery Act, the chief administrative officer of a municipal retirement system must provide a cost estimate to the municipal governing body of any proposed pension plan benefit modification. Individual contracts entered into under the bill presumably would not be subject to the actuarial note provisions of the

Public Employee Retirement Commission Act because they would not be bills before the General Assembly. The bill is not clear regarding the status of individual contracts under the actuarial cost estimate requirements of the Municipal Pension Plan Funding Standard and Recovery Act. The bill, however, contains no provision requiring the preparation of an actuarial cost estimate prior to contracting to provide a service credit for retirement purposes.

A participating employer in the Public School Employees' Retirement System (PSERS) that grants service credit for retirement purposes will create a cost recognized as an increase in the unfunded actuarial accrued liability of PSERS. The Public School Employees' Retirement Code is a governmental, cost-sharing, multiple-employer, contributory defined benefit pension plan. Under the Code, the increased unfunded actuarial accrued liability will be paid off by 20 years of amortization payments increasing five percent a year. As a cost-sharing plan, these amortization payments are made by all employers participating in PSERS. Thus, a school district granting service credit for retirement purposes imposes the cost upon all employers participating in PSERS including those who do not need, do not want, or cannot afford to offer service credit for retirement purposes. In addition, because a portion of all employer contributions to PSERS is paid through the school aid process, the Commonwealth will pay a portion of any service credit for retirement purposes provided through individual contracts, whereas heretofore any service credit for retirement purposes was authorized by the General Assembly, which understood the cost implications to the Commonwealth of authorizing the service credit at the time of the authorization.

All boroughs, cities, towns, and townships with public employee pensions plans are eligible to receive General Municipal Pension System State Aid under the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984). If such a municipality grants service credit for retirement purposes, it creates a cost. In some of these municipalities, the cost will be paid entirely out of the General Fund. In other municipalities, however, some or all of the cost will be paid out of the General Municipal Pension System State Aid received from the Commonwealth thereby reducing the amount of aid available to other municipalities. Thus, municipalities that do not need, do not want, or cannot afford to grant service credit for retirement purposes will have their state aid reduced to pay for the service credit granted in other municipalities.

Under both the Policemen and Firemen Collective Bargaining Act (Act 111 of 1968) and the Public Employe Relations Act (Act 195 of 1970), through a contract agreed to under a collective bargaining agreement or through a contract awarded under an arbitration award, a local government governing body may or must agree to modifications of its public employee pension plan provisions that it legally may modify. The permission to provide service credit granted by the bill presumably would be subject to these collective bargaining agreement and arbitration award provisions.

Past practice in granting service credit for retirement purposes under such defined benefits pensions plans as those contained in the Municipal Police Pension Law, Public School Employees' Retirement Code, Second Class County Code, State Employees' Retirement Code, and The Third Class City Code generally has been to restrict the purchases to certain carefully defined types of service with certain maximum lengths of service (3 to 5 years) that never exceed the actual service with a former employer. Past practice also has provided that all service credits would not exceed the amount of service with the current employer and that the service credits would be available to all qualified members of the retirement system. The bill contains no such criteria.

The Public Employee Retirement Commission has studied the issue of both types of service credit for retirement purposes and issued reports on them.

DISCUSSION (CONT'D)

In March 1997, the 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.

In March 1995, the Commission published *Feasibility of Early Retirement Incentives in the Public Sector*, a report providing specific recommendations with respect to the design and implementation of any future early retirement incentive programs at the state level. The bill does not conform to the recommendations in the report.

SUMMARY OF ACTUARIAL COST IMPACT

In both public and private sectors, the additional actuarial accrued liability created in a retirement system by an early retirement incentive may be amortized over many years and will affect both budgeting and cash flow for that period of time. The savings time frame, however, is quite limited. The salary savings attributed to an early retirement incentive occur only during the period that begins the day the employee retires and ends the day the employee would have retired had the incentive not occurred. Any indirect savings that occur in the longer term because of a permanent reduction in the work force could be achieved through a policy of attrition without the added pension costs of the early retirement incentive.

Without specific guidelines on the amounts of service that could be credited under a voluntary early severance plan and the public employees who would be eligible to enter into a voluntary early severance plan contract, it is difficult to determine the actuarial costs associated with passage of the bill. The additional costs in the affected pension plans would result from the increase in the pension benefits due to additional service credits being utilized in the pension formula and, in some cases, the employees being able to retire at an earlier age.

For purposes of illustration, the consulting actuary of the Commission has provided the following statewide actuarial cost estimate for the affected current public employees based on the assumption that 20 percent of them enter into severance contracts. He also assumed that, under the severance contracts, the members receive, on average, five years of additional service credit for retirement purposes. The resulting increases in unfunded actuarial accrued liabilities are amortized over 20 years at seven percent interest.

	Amounts
Initial Increase in Unfunded Actuarial Accrued Liabilities	$2,500,000,000 - $3,000,000,000

	Amounts	**As a % of Payrolls**
Initial Increases in Employers' Annual Costs Amortization Payments	$220,000,000 - $265,000,000	1.8% - 2.2%
Total Initial Increases in Employers' Annual Costs	$220,000,000 - $265,000,000	1.8% - 2.2%

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

In addition to these initial increases in costs, all public employees who become members of affected public employee retirement systems in the future also will be eligible to enter into severance contracts including service credit for retirement purposes. As these contracts are entered into in the future, each one will result in an increase in the unfunded actuarial accrued liability of the affected retirement system that will have to be paid through amortization payments.

POLICY CONSIDERATIONS

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

Managerial Flexibility. Early retirement programs have become a popular means to achieve long term cost savings coupled with permanent reductions of work forces, short term budgetary reductions, and other personnel management related goals. The bill would provide political subdivisions and municipal authorities with the authority to offer a variety of early retirement incentives to individual employees through voluntary, early severance plan contracts.

Need to Define Term. The term "service credit for retirement purposes" is not defined in the proposed section 8.4, the existing sections of Act 99 of 1811, or the Statutory Construction Act of 1972. In order to prevent needless administrative and legal complexities, the term should be defined.

Different Treatment of Members of PSERS. Members of the Public School Employees' Retirement System (PSERS) who are employees of school districts and vocational school districts would be eligible for benefits under the bill but other members of PSERS who are employees of employers that are not political subdivisions would not be eligible.

Increased Complexity in Administration of PSERS. In the past, all service credit purchased or granted under the Public School Employees' Retirement Code has been administered by the Public School Employees' Retirement System. Under the bill, each separate participating employer will be able to authorize the purchase or granting of service credit for retirement purposes thus increasing complexity of administering benefit calculations by PSERS.

Granting of Service Credit for Previously Unauthorized Situations. Under the bill, service credit for retirement purposes could be granted in situations for which the General Assembly heretofore has not or refused to authorize service credit.

Potential for Inequality. Because of the individual nature of the severance contracts under the bill, not all similarly situated public employees covered by the same pension plan are required to be offered the same benefit.

Lack of Actuarial Cost Estimate Requirement. Although granting service credit for retirement purposes will increase the unfunded actuarial accrued liability of a retirement system, the bill contains no requirement for the employer to prepare an actuarial cost estimate prior to implementation.

Potential Cost Shifting. Because of the cost-sharing nature of the Public School Employees' Retirement Code and the use of cost in allocating General Municipal Pension System State Aid, public employers granting service credit for retirement purposes may be able to shift

part of the cost onto other employers that do not need, do not want, or cannot afford to grant their employees service credit for retirement purposes. The bill contains no requirement that the employer granting the service credit pay the entire cost of the benefit enhancement.

Potential for Mandated Service Credits. Although designed to provide political subdivisions and municipal authorities with administrative flexibility at their option, the permission granted by the bill presumably would be subject to collective bargaining agreement and arbitration award provisions mandating the granting of service credit against the will of the employer.

Lack of Criteria. In a departure from all past practice, the bill contains no criteria regarding the type of service credit to be granted, the length of service credit to be granted, the maximum amount of service credit to be granted, the periodicity of the grants, or the uniform availability of the service credit to all affected, qualified public employees.

Lack of Conformity with Commission Recommendations. The bill does not conform to the recommendations contained in the Commissions reports entitled either *Service Purchase Authorizations for Pennsylvania Public Employee Retirement Systems* or *Feasibility of Early Retirement Incentives in the Public Sector.*

Circumvention of Maximum Benefit Provisions. Where the affected pension plans have a benefit that is directly related to the length of service, the bill allows benefit increases to be implemented that effectively circumvent the maximum benefits specified in the various statutes governing the retirement systems.

Problematic Funding. Because the voluntary early severance plan contract would not be executed until the end of the employee's career, there will be no potential to accumulate the required funding for the service credits provided under the bill during the employee's working career. Consequently, an unfunded actuarial accrued liability will be created and funded only after the employee is no longer employed.

COMMISSION RECOMMENDATION

On January 27, 2000, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

As Printer's Number 3206, House Bill Number 1962 was signed into law by the Governor as Act Number 37 of 2000 on June 22, 2000.

Bill ID: House Bill Number 2072, Printer's Number 2725

System: State Employees' Retirement System

Subject: Enhanced Retirement Benefits for Prison Security Officers

SYNOPSIS

House Bill Number 2072, Printer's Number 2725, would amend the State Employees' Retirement Code, to grant enhanced retirement benefits to certain employees of the Department of Corrections. The enhanced benefit would provide an early and normal retirement benefit with

> 10 or more but less than 20 years of prison security officer service calculated as the product of two percent of the highest annual salary multiplied by years of prison security officer service with an actuarial reduction for early retirement,
>
> 20 or more but less than 25 years of prison security officer service calculated as 50 percent of the highest annual salary with no actuarial reduction for early retirement, and
>
> 25 or more years of prison security officer service calculated as 75 percent of the highest annual salary with no actuarial reduction for early retirement.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory, defined benefit 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, 1999, there were 108 participating state and independent agencies in SERS. 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, 1999, there were 108,308 active members in SERS.

Among the 108 state and independent agencies participating in SERS is the Department of Corrections. The Department is responsible for the management and supervision of the Commonwealth's adult correctional system. Included are all state correctional institutions and regional facilities, as well as community-oriented pre-release facilities, known as community corrections centers. These total 24 state correctional institutions, 15 community corrections centers, and one motivational boot camp with a total inmate population of more than 35,000 ranging in age from 14 to 87. The Department has more than 13,000 employees, of whom 6,684 would be affected by the bill.

Special retirement coverage for various public safety employees often is provided in public employee retirement systems. The special treatment is premised on the hazardous nature of public safety employment and the physical and psychological requirements of public safety work. Under the Code, the employees currently eligible for special coverage as public safety employees include the following: Liquor Control Board enforcement officers and investigators; Office of Attorney General special agents, narcotics agents, asset forfeiture agents, medicaid fraud agents, and senior investigators of the hazardous prosecutions unit; Pennsylvania Board of Probation and Parole parole agents; Department of Corrections corrections officers; Department of Public Welfare

psychiatric security aides; Delaware River Port Authority police officers; Department of General Service Capitol Police Officers; Department of Conservation and Natural Resources park rangers; and Pennsylvania State Police Officers.

The special retirement coverage for Capitol Police Officers and park rangers is retirement with full benefits at age 50 or older or with 20 or more years of Capitol Police or park ranger service. The special coverage for State Police Officers is retirement with full benefits at age 50 or older with 20 or more years of service. The special retirement coverage for all other public safety employees is retirement with full benefits at age 50 or older with three or more years of service. Since the death benefit provided under the Code for any Commonwealth employee is dependent on the retirement age, the special public safety employee retirement coverages also increase the death benefit.

Under the Code, the normal retirement benefit is calculated as the product of two percent multiplied by the member's highest three-year average salary multiplied years of service. In addition to the benefit under the Code, most employees of the Commonwealth also are covered by Social Security in their capacities as employees of the Commonwealth and will receive a Social Security old-age benefit. State Police Officers, however, are not covered by Social Security in their capacity as State Police Officers. Under an award by a board of arbitration, rather than under a legislatively adopted amendment to the Code, members of the Pennsylvania State Police are entitled to an enhanced retirement benefit equal to a percentage of their highest annual salary. The benefit is 50 percent of the member's highest annual salary if the member retires with 20 or more but less than 25 years of service and 75 percent of the member's highest annual salary if the member retires with 25 or more years of service.

The bill would grant an enhanced retirement benefit to certain members of SERS who would be termed prison security officer. A prison security officer would be a corrections officer who meets both of the following criteria:

> has not been an officer of the Pennsylvania State Police after June 30, 1989, and
>
> is classified under the Commonwealth's employee classification plan as a corrections officer trainee, corrections officer 1, corrections officer 2, corrections officer 3, corrections officer 4, or a predecessor of successor classification determined by the State Employees' Retirement Board to be functionally the same as one of the listed classifications.

One of the basic issues of public pension policy is how much of an employee's preretirement income should the pension benefit replace. Suggested replacement values vary based both upon assumptions and the financial situations of individuals. Generally speaking, however, no suggested replacement value exceeds 100 percent of preretirement income.

In addition to the enhanced retirement coverage provided under the bill, employees who would be affected by the bill are covered by Social Security, to which both their employer and they contribute. The amount of preretirement income replaced by Social Security old-age benefit payments is a function of an individual's years of employment and compensation through the working lifetime. Social Security old-age benefits can replace from about 10 percent to about 65 percent of an employee's final compensation, but, for purposes of illustration in this actuarial note transmittal, it is assumed that Social Security old-age benefits probably will replace about 25 percent of an individual's preretirement income. Because the SERS pension and the Social Security old-age benefit payments are exempt from the 6.2 percent Social Security tax, the 1.45 percent Medicare Tax, the 2.8 percent state income tax, the 1.0 percent earned income tax, and the 5.0 percent employee contribution to SERS requirement, a retired member of SERS living in

Pennsylvania probably needs to replace, at most, about 85 percent of preretirement income. Using the example of a prison security officer retiring with 25 years of service, the pension of 75 percent of highest annual salary under the bill and the Social Security old-age benefit of 25 percent would provide a total retirement benefit under the bill of about 100 percent of final compensation. Considering the Social Security old-age benefits, a pension under the bill replaces more of a member's preretirement income than is necessary to meet most reasonable measures of adequacy.

State Police Officers are not covered by Social Security in their capacity as State Police Officers. The 50 and 75 percent of highest annual compensation benefit, therefore, represents their entire retirement benefit for their State Police Officer service. Prison security officers, however, are covered by Social Security in their capacity as prison security officers. The 50 and 75 percent of highest annual compensation pension benefit proposed in the bill, therefore, represents only part of their retirement benefit for their prison security officer service. The entire retirement benefit will be about 75 to 100 percent of highest annual compensation, a material enhancement of their retirement benefits over those available to State Police Officers. In addition to Social Security benefits, a prison security officer retiring early with ten or more but less than 20 years of service will receive a higher pension than a similarly situated State Police Officer because the pension will be calculated using highest annual compensation rather than final average salary.

Premised on the hazardous nature of prison security officer employment and the physical and psychological requirements of prison security officer work, prison security officers currently are permitted to retire with full benefits at age 50 or older with three or more years of service. If obtaining and retaining physically and psychologically able prison security officers are problems, increasing their compensation, which also will increase their pension and Social Security old-age benefits, would address the problems without legislatively initiating enhanced retirement benefit provisions in the Code.

Under the bill, the State Employees' Retirement Board would be required to determine whether a predecessor or successor classification is functionally the same as the classifications constituting prison security officers in the bill. Personnel classification in field of public penal institutions would appear to be outside the area of expertise of the Board. The Bureau of Personnel of the Office of Administration would appear to be the state agency with the appropriate expertise.

The employee classifications constituting prison security officers in the bill do not include corrections officer 5. The pubic pension policy reason for this exclusion is not apparent. Excluding this classification probably will make it difficult for the Department of Corrections to promote corrections officers 4 to corrections officers 5 because of the loss of a materially enhanced pension benefit upon promotion.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the State Employees' Retirement System prepared an estimate of the actuarial cost impact of a somewhat similar proposal that excluded correction officer trainees. The consulting actuary of the Commission has reviewed the estimate and demographic data that included correction officer trainees and estimates that the bill will have the following annual cost impact.

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

	Amount
Increase in Unfunded Actuarial Accrued Liability	$364,000,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Normal Cost[1]	$ 9,000,000	3.3%
Amortization Payment[2]	17,500,000	6.4%
Total Increase in Employer Annual Costs[3]	$26,500,000	9.7%

[1] Permanent increase in employer annual cost.

[2] First year's cost. Cost increases 5% a year for 20 years. Under the bill, all of the amortization payments would be paid by the Department of Corrections.

[3] First year's costs only.

POLICY CONSIDERATIONS

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

Replacement of Preretirement Income. The combined effect of the tax laws and the Codes is that a retired member of SERS probably needs to replace, at most, 85 percent of preretirement income with the combined effect of pension and Social Security old-age benefits. The benefit enhancement granted by the bill could lead to the replacement of about 100 percent of preretirement income.

Determination of Job Classifications. The bill requires the State Employees' Retirement Board to determine whether a predecessor or successor classification is functionally the same as the classifications constituting prison security officers in the bill. The Bureau of Personnel of the Office of Administration would appear to be the state agency better suited to make these determinations.

Potential for Inequality. Under the bill, the employee classifications constituting prison security officers excludes corrections officer 5. The public pension policy reason for this exclusion is not apparent.

Potential for Promotional Problems. Because the job classification corrections officer 5 is not among the job classifications eligible for the enhanced benefit under the bill, the Department of Corrections may find it difficult to promote corrections officers 4 to corrections officers 5 because of the loss of a materially enhanced pension benefit upon promotion.

COMMISSION RECOMMENDATION

On January 27, 2000, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2072, Printer's Number 2725, was referred to the House State Government Committee on November 22, 1999.

Bill ID: Amendment Number 0681
to House Bill Number 2072, Printer's Number 2725

System: State Employees' Retirement System

Subject: Class P Service Credit for Previous State Service with the Department of Public Welfare

SYNOPSIS

Amendment Number 0681 to House Bill Number 2072, Printer's Number 2725, would amend the State Employees' Retirement Code to convert existing service credit for all previous state service as an employee of the Department of Public Welfare from Class A to Class P for an active member of the State Employees' Retirement System who, on the effective date of the amendment, is a prison security officer and whose previous position in the Department of Public Welfare was abolished.

DISCUSSION

The bill that Amendment Number 0681 would amend, House Bill Number 2072, Printer's Number 2725, would amend the State Employees' Retirement Code (Code) to grant enhanced retirement benefits (Class P) to certain active employees of the Department of Corrections. The enhanced benefit would provide an early and normal retirement benefit with

> 10 or more but less than 20 years of prison security officer service calculated as the product of two percent of the highest annual salary multiplied by years of prison security officer service with an actuarial reduction for early retirement,
>
> 20 or more but less than 25 years of prison security officer service calculated as 50 percent of the highest annual salary with no actuarial reduction for early retirement, and
>
> 20 or more years of prison security officer service calculated as 75 percent of the highest annual salary with no actuarial reduction for early retirement.

The bill would grant the enhanced retirement benefit to certain members of the State Employees' Retirement System (SERS) who would be termed prison security officers. A prison security officer would be a corrections officer who meets both of the following criteria:

> has not been an officer of the Pennsylvania State Police after June 30, 1989, and
>
> is classified under the Commonwealth's employee classification plan as a corrections officer trainee, corrections officer 1, corrections officer 2, corrections officer 3, corrections officer 4, or a predecessor classification determined by the State Employees' Retirement Board to be functionally the same as one of the listed classifications.

On January 27, 2000, the Commission voted to attach an actuarial note to the bill, and copies of the actuarial note transmittal, with a copy of the actuarial note and the bill attached, were provided to the leaders of the General Assembly and to the Governor and his staff. The actuarial note transmittal contains a complete description of the context and implications of the bill, an actuarial cost estimate for the bill, and policy considerations raised by the bill.

On the effective date of the enhanced retirement benefits under the bill, Amendment Number 0681 would convert the existing service credit for previous state service as an employee of the Department of Public Welfare from Class A to Class P for an active member of SERS who, on that date, is a prison security officer and whose previous position in the Department of Public Welfare has been abolished.

The amendment is intended to grant Class P service credit to affected corrections officers who previously were employed by the Department of Public Welfare at a state hospital operated by the Department of Pubic Welfare that subsequently was closed, converted, and reopened as an institution operated by the Department of Corrections, such as, for example, Somerset State Hospital which became State Correctional Institution—Laurel Highlands and Farview State Hospital which became State Correctional Institution—Waymart. Because of the 47-year interval and the reference to the Department of Public Welfare, the amendment probably would not affect former employees of penal and corrections institutions transferred from the Department of Welfare to the Department of Justice in 1953, before the former Departments of Welfare and Public Assistance became the Department of Public Welfare in 1958, and then from the Department of Justice to the Office of General Counsel in 1980, and finally from the Office of General Counsel to the Department of Corrections in 1984.

The amendment is not specific regarding the type of previous employment by the Department of Public Welfare and the reason for the job abolishment. To have the credited service converted, the public safety officer need only have worked for the Department of Public Welfare in a position that has since been abolished. The amendment does not restrict the converted service credit to service at a state hospital that was closed, converted, and reopened as a correctional institution or to service as an employee whose principal duty was the therapeutic treatment, care, custody, and control of inmates of a state hospital. The amendment does not require that the job abolishment be the result of the closing of a state hospital.

Under the amendment, only a member of SERS who is a prison security officer on the effective date of the amendment may have credit for previous service with the Department of Public Welfare converted. An individual with such previous service who is a state employee but not a prison security officer on the effective date would not be eligible to have the credit for the service converted upon subsequent employment as a prison security officer although other service as a corrections officer would be converted. The public pension policy rationale for this exclusion is not apparent.

Under the bill, prison security officers would have past state service as a corrections officer converted to Class P service. If it is the intention of the sponsor of the amendment for the conversion benefit to apply to an individual who had corrections officer type service with the Department of Public Welfare that would not be covered under the provisions of the bill, a better approach would be to redraft the amendment to cover either a current or a future prison security officer whose position as an employee of the Department of Public Welfare was considered to be a "correction officer" under the Code, for which the individual received Class A-50 service credit, whose position was not classified as correction officer under the Commonwealth's employee classification plan, and whose position was in a state hospital that subsequently was closed, converted, and reopened as a state correctional institution.

SUMMARY OF ACTUARIAL COST IMPACT

The sponsor of the amendment obtained and provided to the Commission certain data regarding 63 corrections officers employed at the State Correctional Institution—Laurel Highlands who probably would be affected by the amendment. These more refined data indicate that the original estimate of the actuarial cost impact was overstated because the consulting actuary of the Commission, in the absence of more complete data, had to assume that all service would be reclassified as Class P service.

In addition to the affected corrections officers at the State Correctional Institution—Laurel Highlands, there are an unknown number of other corrections officers who also will be affected, particularly at the State Correctional Institution—Waymart. Based upon informal conversations with the staff of SERS and an employee group, for purposes of this actuarial note transmittal, it is assumed that there might be as many as another 125 affected corrections officers.

The following summarizes the probable actuarial cost impact of the amendment. (Note: Because of the revised cost estimate for the actuarial cost impact of the bill upon the 63 individuals, the total cost of the bill as amended by the amendment would be about the same as originally estimated for the unamended bill.)

	Range of Amounts
Increase in Unfunded Actuarial Accrued Liability	$2,340,000 - $7,020,000

	Range of Amounts	**As a % of Affected Payroll**
Increase in Employer Annual Costs		
Normal Cost	$ 0 - $ 0	0.0%
Amortization Payments[1]	170,000 - 510,000	8.1%
Total Increase in Employer Annual Costs [2]	$170,000 - $510,000	8.1%

[1] First year's cost followed by 19 years of payments increasing 5% a year. Under the bill, all of the amortization payments would be paid by the Department of Corrections.

[2] First year's costs only.

POLICY CONSIDERATIONS

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

Potential Inequities Caused by Proposed Language. Individuals who had service with the Department of Public Welfare would be treated differently under the amendment as drafted. The public pension policy rationales for these inequitable results are not apparent.

Job Abolishment Requirement. The amendment requires the previous job position to have been abolished as a precondition of having the service credit converted to Class P. Because of this, two individuals with substantially similar prison security

officer type service would be treated differently if the previous job position of the one had since been abolished and the previous job position of the other had not.

Failure to Restrict Reason for Job Abolishment to State Hospital Closings. The amendment does not restrict the abolition of the previous job position just to the closing of a former state hospital that was then converted and reopened as a state correctional institution. An individual formerly employed by the Department of Public Welfare whose job was abolished for a reason other than closure of a state hospital would also be eligible for the enhanced benefit under the amendment.

Failure to Restrict Type of Former Service to be Converted to Prison Security Officer Type Service. The amendment does not restrict the type of former job for which service credit will be converted. Because of this, two individuals with previous service at a state hospital whose jobs were abolished because of the closing of the state hospital and its conversion and reopening as a state correctional institution both will have their service credit for their jobs converted even if the job of the one was of a prison security officer type and the job of the other was completely unrelated to prison security officer type of work. Under the bill, credit for all other conversions are restricted to previous prison security officer type of service.

Potential Inequity of Restricting Conversion of Service Credit to Currently Active Members. The amendment would grant the conversion of service credit only to those prison security officers who are active prison security officers on the effective date of the amendment. A member of the State Employees' Retirement System with identical prior state service, who on the effective date of the amendment either is employed elsewhere by the Commonwealth or is a vestee, and subsequently is employed as a prison security officer would not be entitled to the conversion. The public pension policy rational for this inequitable treatment is not apparent.

Equity of Policy Initiative. If the General Assembly views expanding the enhanced retirement benefit as proposed in the bill to be appropriate, the amendment, if properly drafted, would enact a consistent policy with respect to the treatment of service by employees whose principal duty was the therapeutic treatment, care, custody, and control of inmates in a state hospital.

COMMISSION RECOMMENDATION

On April 26, 2000, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2072, Printer's Number 2725, was referred to the House State Government Committee on November 22, 1999.

Bill ID: House Bill Number 2103, Printer's Number 2723

System: Municipal Police Pension Law (Act 600 of 1955)

Subject: Permitting Optional Forms of Pension Benefit and a Late Retirement Benefit

SYNOPSIS

House Bill Number 2103, Printer's Number 2723, would amend section 5 of the Municipal Police Pension Law (Act 600 of 1955) to permit:

> optional forms of the retirement benefit, other than a lump sum, that are the actuarial equivalents of the regular retirement benefit and
>
> a late retirement benefit for a member retiring after the superannuation age and service date that is calculated to reflect the later commencement of the retirement benefit.

DISCUSSION

The Municipal Police Pension Law governs the establishment of retirement systems for police officers in every borough, incorporated town or township with three or more full-time police officers and every regional police department. 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 the Municipal Police Pension Law, a police officer may retire after a total of 25 years of service with the same municipality when the officer reaches age 55. If an actuarial valuation shows it is feasible, this age may be reduced to 50. The monthly pension, other than length of service increments and cost-of-living adjustments, is an amount equal to one-half of the monthly salary of the officer averaged over the last 36 to 60 months of employment payable during the retiree's lifetime. In addition to the monthly pension, the municipality may pay a length of service increment to a retiree for each completed year of service beyond 25 years. The length of service increments cannot total more than $100 a month. If a retiree dies, the retiree's spouse may be entitled to a survivor's pension of 50 percent of the pension the retiree was receiving. The survivor's pension is payable during the surviving spouse's lifetime or until the surviving spouse remarries. If no spouse survives, or if the spouse survives and subsequently dies or remarries, the survivor's pension is payable to any child or children younger than age 18.

As discussed above, the Law provides for a single life annuity. In addition, the plan may provide a 50 percent survivor annuity that terminates when the surviving spouse dies or remarries. If the survivor annuity is provided, the aggregate retirement benefit for a retiree with no spouse has a lower actuarial present value than those provided for a retiree with a surviving spouse. Providing the optional forms of pensions will not remedy this inequity if the plan also provides a separate survivor annuity. To prevent the inequity that would result from further utilization of the provisions for a separate survivor annuity, the provisions for a separate survivor annuity currently in the Law could be amended to be made applicable only in those plans in which they have been implemented before the date the optional forms provided in the bill first will be effective. As the

Commission has indicated in previous actuarial note transmittals regarding proposed amendments to the Law and to other statutes providing only a single life annuity type of pension, because not all retiring municipal police officers have the same situation with dependents, the availability of various retirement options of equal actuarial present value is appropriate. Because the Law now permits a 50 percent survivor annuity, the Commission presumes that the intent of the bill is to provide for optional forms of pensions in situations in which the 50 percent survivor benefit is not provided, in which the retiree wishes to provide a higher or lower survivor annuity, or in which there is no surviving spouse or child but some other surviving individual for whom the retiree desires to provide.

The proposed optional forms of pensions, while neutral from a cost perspective and desirable from a policy perspective, should be listed and described in detail in the statute to ensure that there are no undesirable forms, such as time-certain benefits or severely front loaded disbursement schedules. This would make standard optional forms available to all retiring police officers of municipalities that have elected to provide optional forms of pensions in their retirement systems, avoiding the considerable potential for inequities that could arise otherwise. For example, at its discretion, a municipality could approve or disapprove any optional form proposed by the police officer, or one municipality could approve an optional form while another disapprove the same optional form. As there is no actuarial cost to an actuarially equivalent benefit, there is considerable public pension policy justification for requiring the optional forms to be available in all Act 600 police pension plans. The standard options offered might include the following: a single life annuity, a joint and 100 percent survivor annuity, a joint and 75 percent survivor annuity, and a joint and 50 percent survivor annuity. In the police pension plans that currently provide separate survivor annuity benefits, the optional forms permitted under the bill will result in the survivors receiving benefits comprised of both a separate survivor annuity (under the current Law) and a joint and survivor annuity (under the bill). Specification of the optional forms in the bill, therefore, should differentiate between police pension plans with and without the separate survivor annuity benefits.

The wording of the bill prescribing the method of calculating equal actuarial present values is not clearly drafted. What is intended, presumably, is wording inserted after "of" on line 4 of page 3 to the effect of "the pension otherwise payable under the act calculated by an approved actuary under the act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, using the actuarial assumptions reported in the most recent actuarial report filed with the Public Employee Retirement Commission under the Municipal Pension Plan Funding Standard and Recovery Act."

As was typical at the time of its enactment, the Municipal Police Pension Law resembles pension plans for military personnel with half-pay pensions after 25 years of service. This "fixed benefit" approach differs from the usual defined benefit pension plan in which the pension benefit is variable based on the product of years of service multiplied by a benefit accrual rate. Under an historic "fixed benefit" police officer pension plan, there is a disincentive to remain in public service after completing the minimum service (25 years in the case of Act 600 municipalities) while there is an appropriate incentive for remaining in service longer under a conventional "variable benefit" approach.

The disincentive is somewhat lessened by the fact that, in times of salary progression, the officer's pension is higher because of the higher final average salary if the officer defers retirement. In an attempt to remedy further the disincentive inherent with the "fixed benefit" approach, the Law was amended to add service increments. When the service increments were added to the Law, they were limited to a maximum of $100 a month. Inherent in any named dollar limit is the change in

the purchasing power of the amount over a long period of time. As a result of the change in the purchasing power, the service increment benefits have become relatively less valuable because of the $100 a month limit.

The bill would permit a municipality to provide a late retirement benefit in lieu of the existing service increments. The alternative late retirement benefit would be the greater of the retiree's retirement benefit calculated in the regular way on the retiree's date of retirement or a retirement benefit based upon the actuarial present value of the retiree's regular retirement benefit on the date of the member's superannuation age and service actuarially increased to reflect the shorter lifetime over which the benefit will be paid because of the retiree's late retirement with all calculations made using the actuarial assumptions reported in the last actuarial valuation report filed with the Public Employee Retirement Commission under the Municipal Pension Plan Funding Standard and Recovery Act. The provisions will add a degree of complexity to the calculation of the retirement benefit that may not be easily accommodated by some of the administrative arrangements used by the more than 600 pension plans governed by the Law.

Currently, if an officer delays retirement under a pension plan, the retirement system generally experiences an actuarial gain because the present value of the increased pension the officer receives upon delayed retirement is less than the present value of the earlier pension payments the officer foregoes. The provision, therefore, will have a significant cost in that the gain experienced by a retirement system when a member defers retirement will be lost.

The language in the proposed section 5(j) contains drafting difficulties, ambiguities, archaic language, etc. and should be redrafted.

The "in lieu of" wording in the first sentence of the proposed section 5(j) may cause confusion regarding whether both sections 5(f) and 5(j) are applicable and the rights police officers already may have in existing section 5(f) service increment plan provisions. The bill should be clarified by amending existing section 5(f) to permit its implementation only if the municipality has not implemented proposed section 5(j) and by amending proposed section 5(j) to make it apply only if the municipality has not implemented section 5(f).

The concept of a separate application for the late retirement benefit reflects archaic language. Either the proposed late retirement benefit is part of a municipal pension plan or it is not. If it is in the plan, the calculation should automatically be made for a late retiree upon retirement without the necessity for an application separate from the regular retirement notice and application.

On page 3, the description of the calculation should be simplified and clarified by striking out all of line 20 after the word "by" and all of lines 21 and 22.

The proposed description of the calculation of the actuarial increase should be amended to require that the calculation be made by an approved actuary under the Municipal Pension Plan Funding Standard and Recovery Act.

The proposed wording of the provisions for providing the retiree with a pension that is the greater of the normal pension or the late retirement benefit on page 4 should be clarified by deleting everything on line 2 after the word "determined" and all of lines 3 through 6 and inserting words to the effect of "as of the effective date of the member's retirement that the retirement benefit calculated in the normal manner using the member's actual final average salary is greater than the amount calculated as the late retirement benefit under this subsection, the member shall receive the higher retirement benefit."

SUMMARY OF ACTUARIAL COST IMPACT

The provision of actuarially equivalent optional forms of retirement benefits will have no actuarial cost impact.

The provision of the late retirement benefit will have an actuarial cost impact because the gain experienced by the retirement systems when members defer retirement will be lost. Assuming that all affected police pension plans will provide the late retirement benefit rather a service increment benefit and that the average officer will retire three years after the officer's superannuation retirement date, the consulting actuary of the Commission estimates that the bill will have the following actuarial cost.

	Amount
Increase in Unfunded Actuarial Accrued Liabilities	$76,500,000

	Amount	As a % of Payroll
Increases in Employers' Annual Costs		
Normal Costs	$ 4,100,000	1.34%
Amortization Payments[1]	10,200,000	3.32%
Total Increases in Employers' Annual Costs	$14,300,000	4.66%

[1] Ten year level dollar payments assuming a 7.0% interest rate. Under section 202(b)(4) of the Municipal Pension Plan Funding Standard and Recovery Act, the amortization period for a modification in a pension plan applicable to active members cannot exceed the average remaining active service period for active members. The average remaining active service period for Act 600 police officers is about ten years.

POLICY CONSIDERATIONS

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

Optional Forms of Pensions Desirable. Because not all retiring municipal police officers have the same situation with dependents and finances, the availability of various retirement options of equal actuarial present value is appropriate and desirable from a public pension policy perspective.

Availability of Optional Forms of Pensions. The bill should be amended to clarify its intent regarding optional forms of pensions in plans that already provide for joint and 50 percent survivor annuities.

Optional Forms Not Specified. The proposed optional forms of pensions should be listed and described in detail to ensure that there are no undesirable forms and to make standard optional forms available to all retiring police officers of municipalities that elect to provide optional forms of pensions, avoiding the potential for inequities that could arise otherwise.

Complexity of Calculations. The proposed additional late retirement benefit will add a degree of complexity to the calculation of retirement benefits that may be difficult to accommodate in some of the administrative arrangements used by pension plans under the Law.

POLICY CONSIDERATIONS (CONT'D)

Need for Extensive Redrafting. The language in the bill contains drafting difficulties, ambiguities, archaic language, etc. and should be extensively redrafted.

COMMISSION RECOMMENDATION

On March 8, 2000, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2103, Printer's Number 2723, was referred to the House Local Government Committee on December 1, 1999.

Bill ID: House Bill Number 2264, Printer's Number 2994

System: Third Class City Police Officers' Retirement Systems

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

SYNOPSIS

House Bill Number 2264, Printer's Number 2994, would amend the police officers' pension plan provisions of The Third Class City Code to permit a city police officer to purchase service credit for previous service on a police force in another Pennsylvania municipality if the officer pays into the pension trust fund the amount the officer would have contributed if the officer had been a member of the city police force while serving in the police force of the other municipality.

DISCUSSION

Under sections 4301 through 4308 of The Third Class City Code (Code), a city of the third class must establish, by ordinance, a retirement system for its police officers. All members of the city police force must be members of the retirement system. Actuarial valuation reports filed with the Public Employee Retirement Commission indicate, that, as of January 1, 1997, there were 55 police officer pension plans operating in 53 cities of the third class with a total of 2,242 active police officers.

If an active member of a police force of a city of the third class terminates employment with the city before completing 12 years of service as a police officer, the member is not entitled to any pension benefits from the system. The member is entitled only to a refund of any contributions the member has made to the pension trust fund without interest.

In the ordinance that creates the police pension plan, the city may provide for a vesting benefit. This vesting benefit provides that if a police officer who has completed 12 years of full-time service ceases to be a full-time police officer of the city before reaching the required superannuation retirement age and service, the officer is entitled to vest that 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 city, the retirement system pays the vestee a partial pension. The partial pension is proportional 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.

A police officer may retire after 20 years of service on superannuation retirement. The ordinance does not have to prescribe a minimum age, but if one is prescribed, it must be age 50. A retiree's pension is computed as one-half the final rate of pay or one-half of the monthly average pay of the police officer during the five highest years, whichever is greater. In addition to the monthly pension, the city must pay a retiree a service increment of 1/40 of the pension for each year of service, in excess of 20 years, before the retiree reaches age 65. This service increment cannot be more than $100 a month. The city must pay a pension to the surviving spouse of a superannuation retiree, or of a member who dies or is killed in service, during the surviving spouse's lifetime. If the surviving spouse dies, the pension is paid to any child until the child is age 18. The survivor's benefit is 50 percent of the pension the retiree was receiving, or the officer would have been receiving, had the officer been retired at the time of death. At the city's option, the survivor's benefit may be doubled.

As discussed above, under the Code, the pension paid to a retiree is based upon the individual's final monthly compensation or final average monthly compensation. When a police officer has been employed by the same city for that officer's entire career, the officer's pension benefit is based upon the officer's final monthly rate of compensation or the five highest years average monthly compensation. 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 employers will be based upon the officer's final compensation or 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 municipal police officers' retirement systems by using service credit 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, does not require the identification of the cost of the service credit purchase, does not relate the officer's purchase contribution to the cost of the service credit purchase, 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 city system while the officer was working as a police officer in the other municipality. There are at least one city retirement system and many other municipal police officers' retirement systems in which the members currently do not contribute to the pension trust fund and many other municipal systems in which the officers never have contributed to the fund. The provisions proposed in the bill imply that, under such a city plan, the officer would receive service credit for the officer's service with another municipality without contributing anything to the pension trust fund. As a result, the entire cost of granting the service credit for such an officer would be paid by the current employer.

Because of the variation over time and among 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 officer would be required to make a contribution to purchase the service credit, the bill does not require that interest on the contributions be paid from either the dates the contributions would have been made or the date of 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 city 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 when the officer terminates service with the former employer regardless of any subsequent purchase of service credit in another retirement system for this service.

The bill places no limit on the amount of service credit that may be purchased by an officer. This implies that an officer could work for a final employer city for one year and become eligible for a full pension benefit because the officer could purchase service credit for 19 years of police officer service in another municipality. 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 Pennsylvania police officers' retirement systems for the same service. If an officer has a vested benefit in another municipality and then is employed by a second municipality, the officer could purchase service credit in the retirement system of the second municipality resulting in two pensions for the same period. The lack of such a prohibition could lead to severe abuses of city 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 Pennsylvania municipality. No provision is made for previous service with a regional police department nor with some other type of Pennsylvania public employer such as an authority or the Commonwealth. The public pension policy rationale for this restriction is not apparent.

As drafted, the mandatory purchase of service 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 may 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

Using January 1, 1997, data and assuming that a member could purchase the service credit only if the member were not eligible to receive benefits under another pension plan as a result of such service and that 20 percent of all active members would purchase an average of five years of service credit, the consulting actuary of the Commission has made the following estimate of the actuarial cost impact of the bill.

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

	Amount
Increase in Unfunded Actuarial Accrued Liabilities	$19,100,000

	Amount	As a % of Payroll
Increases in Employers' Annual Costs		
Normal Cost	$1,700,000	1.92%
Amortization Payment[1]	2,500,000	2.82%
Total Increase in Employers' Annual Costs	$4,200,000	4.74%

[1] Ten year level dollar payments assuming a 7.0% interest rate. Under section 202(b)(4) of the Municipal Pension Plan Funding Standard and Recovery Act, the amortization period for a modification in a pension plan applicable to active members cannot exceed the average remaining active service period for active members. The average remaining active service period for city police officers is about ten years.

If it is assumed that the officers will have to contribute five percent of compensation on average for each year of service credit purchased, the increase in unfunded actuarial accrued liability will be reduced by about $4,400,000 to about $14,700,000, which would reduce the total increase in employers' annual costs by about $600,000 or 0.68 percent of payroll to about $3,600,000 or about 4.06 percent of payroll.

POLICY CONSIDERATIONS

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 members of police officers' retirement systems of cities of the third class equally. The purchase of service credit option is restricted to prior police service in a Pennsylvania municipality and thereby excludes prior police officer service with other Pennsylvania public employers.

Unequal Impact on Members and Cities. Due to variations in the 55 city of the third class administered police officer pension plans governed by The Third Class City Code, the bill will result in members paying divergent amounts to purchase the same amount of prior service and in cities incurring 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 municipality to be purchased. The bill may serve as a precedent for other members of police officers' pension plans in cities of the third class with previous police officer service with other Pennsylvania public employers 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.

POLICY CONSIDERATIONS (CONT'D)

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 an officer applying to purchase credit for Pennsylvania municipal police service that took place many years prior to the purchase, the officer, the former employer, and the current employer may encounter difficulty in demonstrating that the service was rendered.

COMMISSION RECOMMENDATION

On March 8, 2000, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2264, Printer's Number 2994, was referred to the House Urban Affairs Committee on February 15, 2000.

Bill ID: House Bill Number 2435, Printer's Number 3279

System: All Pittsburgh Public Employee Retirement Systems

Subject: "Emergency" Deferred Payment of Minimum Municipal Obligation

SYNOPSIS

House Bill Number 2435, Printer's Number 3279, would become the Second Class City Fiscal Authority Act that, among other things, would create the Second Class City Fiscal Authority and provide for its powers and duties, provide for certain special taxes, and make two provisions regarding the public employee retirement systems of the City of Pittsburgh:

In section 210(f)(3), prohibit the withholding by the Commonwealth from the City of Pittsburgh of "pension fund payments required by law"; and

In section 705, permit the "emergency" deferral of the payment of the minimum municipal obligation of the City of Pittsburgh.

DISCUSSION

The City of Pittsburgh has three pension plans: one for police officers, one for firefighters, and one for all other city employees. As of January 1, 1998, the three retirement systems had 4,287 active members, 5 members terminated with vested or deferred benefits, 2,584 retirees, 918 disability retirees, and 951 surviving spouses receiving survivor benefits.

Over a 12-year period from 1972 through 1984, the General Assembly enacted a number of laws regarding public employee pension reform in the Commonwealth. Under Act 293 of 1972, the Department of Community Affairs investigated local government retirement systems. In adopting the Public Employee Retirement Commission Act (Act 66 of 1981), the General Assembly declared that the Department had "found considerable serious and growing unfunded liabilities in local government pension funds." The causes of this serious and growing problem were several, but a very important one was the practice of certain local governments to defer necessary contributions to their pension trust funds.

Under Act 66 of 1981, the General Assembly directed the Public Employee Retirement Commission (Commission) to give priority to formulating and recommending passage of legislation, within one year of the initial meeting of the Commission, to mandate actuarial funding standards and establish a recovery program for municipal pension systems determined to be financially distressed. The resulting statute was the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984).

Under Act 205 of 1984, every year a municipality must budget and contribute at least the full amount of its obligation to each of its retirement systems. These obligations include both the ongoing normal cost of the pension plans and, where applicable, the amortization contributions sufficient to amortize the unfunded actuarial accrued liabilities of the plans by the target dates established under Act 205. A municipality's minimum financial obligation, referred to as the minimum municipal obligation, is the full actuarial cost of the retirement system reduced by the expected amount of any member contributions. The minimum municipal obligation is calculated using the results of the standardized actuarial reports prepared and submitted to the Commission.

The municipality must appropriate the minimum municipal obligation for each of its retirement systems in its budget, and the budgeted contributions must be made. If a municipality does not make a required annual contribution to a retirement system by the end of the year, Act 205 requires that the amount of the omitted contribution, plus compound interest, be added to the minimum municipal obligation for the following year.

If a municipality fails to comply with the specified funding standard for its retirement system(s), the Commission must notify the Governor and the General Assembly of this fact through an annual public report. In addition to this public disclosure of a noncompliance, Act 205 requires the Commission to issue an order compelling the municipality to comply with the funding standard. If the municipality fails to comply with the order of the Commission, the Commission may initiate legal proceedings for injunction, mandamus, or other appropriate remedy to secure compliance with its order and the funding standard.

A person who is beneficially interested in the affairs of the municipal retirement system also may initiate legal action seeking a court order to compel the municipality to satisfy the specified funding standard. A beneficially interested person can be, among other individuals: an active member, a retired member, another beneficiary, a union representative, or a municipal official. The Attorney General or the district attorney of the county in which the municipality is located also may initiate these legal proceedings.

The rapid growth rate (10%) in unfunded actuarial accrued liabilities prior to enactment of Act 205 has been stopped by Act 205. On January 1, 1997, the total of the unfunded actuarial accrued liabilities in municipal employee retirement systems was $3,700,000,000, reduced from $3,800,000,000 on January 1, 1995. In 1989, 60 percent of the total membership in defined benefit pension plans were members of poorly funded plans. In 1997, 18 percent of the participants in defined benefit municipal pension plans, including those of the City of Pittsburgh, were still covered by poorly-funded pension plans, however.

Act 82 of 1998 amended Act 205 of 1984 by adding a new chapter (Chapter 9) that permitted only the City of Pittsburgh to modify its statutorily prescribed funding standard under certain circumstances. Under Chapter 9, if the City of Pittsburgh sold enough pension bonds to increase the ratio of the actuarial value of assets to the actuarial accrued liability of its pension trust funds by more than 0.25 and deposited the proceeds of the bonds into its pension trust funds during 1998, the City would be permitted to modify the 26 years then remaining on its 40-year level percentage of payroll amortization payments for its unfunded actuarial accrued liabilities adopted in 1985 by implementing a new 40-year level dollar amortization payment schedule for the remaining unfunded actuarial accrued liabilities. The City sold the bonds, made the deposit, and implemented the new amortization payment schedule. Thus, the City already has received special relief for the funding of its retirement systems that was premised on the City's representations that the use of the new, long amortization period and an unusually high interest rate assumption of 10 percent would reduce its amortization payments and afford adequate cash flow relief to the City.

As drafted, the bill would permit the deferral of the City's statutorily required minimum municipal obligation for a given year, but the wording regarding the ultimate payment timing and payment amounts is confusing and unclear. The bill also would prohibit enforcement of Act 205's funding mandate by either the Commission or any other party. This would represent a return to the pre Act 205 situation.

If the General Assembly determines the deferral of some City contributions to its retirement systems to be necessary, the necessity should not extend beyond a short term. Allowing the

deferral for one year would seem to provide a reasonable period of time in which to resolve any fiscal emergency, and the bill should be clarified to provide for the authorized funding deferral term to end on a specific date with the payment of all unpaid, deferred contributions plus interest.

The General Assembly must determine whether the deferral of the required pension contributions is preferable to other potential expenditure reductions or revenue increases available to the City. The language in section 705(c)(1) presumes that this policy determination has been made and requires the Secretary of the Budget to determine whether paying the required pension contributions will result in a default on the City's debt payments, a reduction in the City's payroll, or a reduction in "any other payments necessary to protect the health and safety of the citizens of the city."

The General Assembly must determine whether the proposed deferral of required pension contributions is a remedy for fiscal distress that should be available only to one municipality. In making that determination, the General Assembly must examine the impact that expanding the remedy beyond one municipality would have on the actuarial funding standard implemented under Act 205. An actuarial funding standard is not consistent with the option of deferring pension contributions.

In the event that the City fails to comply with the financial plan under the proposed Act, section 210(e) requires the Commonwealth to withhold certain money from the City but section 210(f)(3) prohibits the withholding of "pension fund payments required by law." The meaning of this paragraph is not clear, but the intent probably is to prohibit certain payments made by the Commonwealth to the City either to assist in the financing of the City's retirement systems or to reimburse the City for payments made by the City to its retirement systems to fund state mandated cost-of-living adjustments to certain retired public safety employees.

The language in the bill incorrectly indicates that the City's pension systems operate on a fiscal year basis, and provisions specifying the contributions to be deferred and the period of the deferral are unclear as a result. As the City's retirement systems operate on a calendar year basis (as does the rest of the City as the Commission understands it), the bill should be amended to clearly indicate what contributions are being deferred and on what date the interest and interest penalty will become payable.

SUMMARY OF ACTUARIAL COST IMPACT

In the opinion of the consulting actuary of the Commission, so long as the minimum municipal obligations required under Act 205 and deferred under the proposed act are ultimately paid to the pension trust funds with interest to reflect the time of the contributions, there is no actuarial cost associated with the bill. The bill, however, will have an effect upon the contribution requirements of the City's retirement systems requiring increased contributions to the systems in future years.

POLICY CONSIDERATIONS

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

Short Term Deferral. If the General Assembly determines that the deferral of the City's contributions to its pension trust funds is necessary, the necessity should not extend beyond a short term. Allowing the deferral for one year would seem to be a reasonable term

to resolve a fiscal emergency, and the bill should be amended to provide for the authorized funding deferral term to end on a specific date with the payment of all unpaid, deferred contributions plus interest.

Nature of Relief. The General Assembly must determine whether the deferral of required City contributions to its pension trust funds is preferable to other relief available to the City such as decreasing other expenditures or increasing revenues. The bill presumes that this determination has been made.

Special Relief. The General Assembly must determine whether the proposed deferral of required City contributions to its pension trust funds should be available only to one municipality. The General Assembly must examine the impact that expanding the remedy would have on the actuarial funding standard implemented under Act 205.

Definition of "Pension Fund Payments Required by Law". The meaning of section 210(f)(3) of the proposed act on line 15 of page 47 of the bill is not clear. The paragraph should be amended to clarify what payments by the Commonwealth are intended.

Suggested Technical Corrections.

Fiscal Year. The bill incorrectly indicates that the City's retirement systems operate on a fiscal year basis, and provisions specifying the contributions to be deferred and the period of the deferral are unclear as a result. Because the systems operate on a calendar year basis, the bill should be amended to clearly indicate what contributions are being deferred and on what date the interest and interest penalty will become payable.

Actuarial Note. Section 705(e) of the Proposed Act is not needed because the attachment of the actuarial note to the bill satisfies the requirements of section 6(a)(13) and section 7 of the Public Employee Retirement Commission Act, and subsection (e) should be deleted.

COMMISSION RECOMMENDATION

On April 26, 2000, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal and expressing grave concern about the detrimental impact of the bill on the Commonwealth's uniform actuarial funding standard.

FINAL LEGISLATIVE STATUS

House Bill Number 2435, Printer's Number 3279, was referred to the House Urban Affairs Committee on April 3, 2000.

Bill ID: House Bill Number 2527, Printer's Number 3512

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

Subject: Mandating Municipalities to Pay an Additional Postretirement Adjustment to Certain Retired Municipal Public Safety Employees

SYNOPSIS

House Bill Number 2527, Printer's Number 3512, would amend the Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act to mandate municipalities to pay an additional postretirement adjustment beginning in January 1999 to retired municipal firefighters and police officers who began receiving a retirement benefit before January 1, 1994, with the retirees' adjustments being paid for out of the proceeds of the premium tax on casualty insurance sold in Pennsylvania by out-of-state insurance companies.

DISCUSSION

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

In 1988, the General Assembly enacted and the Governor signed into law the Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988). Act 147 mandates every Pennsylvania municipality that maintains a police officers' or paid firefighters' retirement system that has one or more retired or disabled members to provide special ad hoc postretirement adjustments in the pension benefits for certain of these retirees. The state-mandated special postretirement adjustments are provided without regard to the provision of postretirement adjustments by the individual retirement systems. Act 147 as subsequently amended requires a reduction in the special ad hoc postretirement adjustments for future postretirement adjustments provided by the municipal retirement system if the total assets in the pension trust fund of the municipality are less than 50 percent of its aggregate actuarial accrued liabilities.

The formula for the adjustments in Act 147 is based upon years on retirement using three benefit groupings (5—10 years, 10—20 years, and 20 or more years), and it includes a special benefit grouping for disabled retirees with less than ten years on retirement. The formula for the additional adjustments proposed in the bill is based upon the number of years retired and the number of years of service at retirement (but not upon the amount of the pension benefit).

Retroactive to January 1999, the bill would mandate every Pennsylvania municipality covered by Act 147 to pay an additional monthly ad hoc postretirement adjustment to retirees who began receiving a retirement benefit before January 1, 1994, calculated as the sum of a base adjustment and a longevity adjustment.

The base adjustment would be the product of 15 cents multiplied by the years of service multiplied by the years on retirement.

The longevity adjustment would be the product of the base adjustment multiplied by the sum of the products of multiplying 0.025 by the years on retirement and 0.05 by the years on retirement in excess of 25, if any.

Another way to express the formula is as follows:

[$0.15/month x years of service x years retired]
x
[1 + (0.025 x years retired to 25) + (0.075 x years retired more than 25)]

If a retiree would be entitled to be paid a special adjustment by more than one municipal retirement system, the amount of the adjustment would be reduced so that the total of all adjustments would not exceed the adjustment as calculated above. If the retiree received one or more postretirement adjustments from the local retirement system after December 31, 1988, and before January 1, 1999, the special adjustment is reduced by 65 percent of the total amount of the retiree's locally provided postretirement adjustment.

When viewed from a public pension policy perspective, one of the design considerations raised by the existing formula is that it does not provide postretirement adjustments related to the original retirement benefit. The adjustment calculated under the formula proposed in the bill is related to the number of years of service, which functions as a means to relate the amount of the adjustment roughly to the original retirement benefit. The addition to the adjustment for those retired 25 years or more recognizes that the original retirement benefits of these retirees were based upon salaries that were low by current standards. Another design consideration is that, with its cliff-type benefit groupings, the formula in Act 147 does not provide adjustments directly related to the change in the cost of living subsequent to retirement. The formula proposed in the bill is more directly related to the change, however.

The Commonwealth would reimburse the municipalities for the increase in their amortization contribution requirement attributable to the special adjustment. The reimbursement would be equal to the amortization contribution requirement attributable to the special adjustment that was paid from municipal revenues other than General Municipal Pension System State Aid. For purposes of the reimbursement, the increase in a municipality's amortization contribution requirement would be calculated as the amortization contribution requirement attributable to the special adjustment reflected in the determination of the financial requirements of the retirement system under chapter 3 of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) for the immediate prior year less the product of that amortization contribution requirement multiplied by the ratio of the amount of General Municipal Pension System State Aid allocated to the retirement system in the immediate prior year to the total amount of municipal contributions made to the retirement system from all sources other than employee contributions in the immediate prior year.

For a retirement system under a defined benefit pension plan for which the municipality determines the financial requirements under section 302 of Act 205, the term "amortization contribution requirement" would mean the amortization contribution requirement attributable to the special adjustment that was reflected in the financial requirements of the system determined for the immediate prior year.

For a retirement system under a pension plan without defined benefits for which the municipality determines the financial requirements under section 303 of Act 205, the term "amortization contribution requirement" would mean the sum of the payments made to the system in the immediate prior year in order to provide the special adjustment.

The bill specifies that part of the proceeds of the premium tax on casualty insurance sold in Pennsylvania by out-of-state insurance companies is to be used to pay for this ongoing benefit increase, with the remainder of the proceeds continuing to be used for General Municipal Pension System State Aid. In effect, the funding for both the existing and the proposed special ad hoc postretirement adjustments reduces the general state aid available for allocation to municipalities to offset their employer pension costs. Because no new money is appropriated, Act 147 and the bill are, in the aggregate, unfunded mandates. The history of these payments to date is as follows:

1990 Reimbursement = $8,536,986.96
1991 Reimbursement = $7,574,888.94
1992 Reimbursement = $7,366,275.94
1993 Reimbursement = $6,925,867.57
1994 Reimbursement = $6,477,425.95
1995 Reimbursement = $6,136,171.87
1996 Reimbursement = $5,877,213.79
1997 Reimbursement = $5,525,560.79
1998 Reimbursement = $5,020,260.00
1999 Reimbursement = $4,906,284.51

By the time the bill is enacted, the affected municipalities will have to pay the mandated postretirement adjustments retroactive for at least 18 months. Because municipalities have not been anticipating making these payments, some pension trust funds may experience short-term cash flow problems caused by the necessity to liquidate long-term investments much sooner than planned in order to make the large, retroactive, lump-sum payments.

Under Act 147, municipalities whose allocations of General Municipal Pension System State Aid (GMPSSA) under the formula in Act 205 of 1984 were "capped" at their total pension costs receive increased State aid that is equal to the actuarial costs incurred by their pension funds because of the 1989 benefits mandated by Act 147. The same municipalities also receive annual State-funded reimbursements equal to the actual benefits payments made in the prior year. These municipalities receive State funding that is double the liabilities mandated by the Act. In the case of all other municipalities receiving both GMPSSA and the State-funded reimbursements, they receive State funding that is more than 100 percent (but less than 200 percent) of the liabilities mandated by Act 147. Under the bill, there will not be such duplicative payments by the Commonwealth for the mandated 1999 benefits. Under the bill, there is a different procedure to determine the amount a municipality will be reimbursed by the Commonwealth each year for the increase in its contributions attributable to amortization of the unfunded actuarial accrued liability of the mandated 1999 postretirement adjustments.

The bill mandates special ad hoc postretirement adjustments for certain members of police officers' retirement systems that together with the adjustments already provided under Act 147 and by the municipality that may exceed the limit for such increases specified in the Municipal Police Pension Law (Act 600 of 1955), which governs most borough, town, township, and regional police departments. Section 1102 of Act 147 provides that: "All acts and parts of acts are repealed insofar as they are inconsistent with this act." Although section 1102 would appear to prevent the potential limitation problem, in the past, the Commission has received oral comments indicating

that section 1102 does not adequately deal with the problem. The bill should be examined by legal counsel to determine whether providing language in the bill to clarify that the increases mandated in the bill are to be implemented notwithstanding the provisions of other statutes may be appropriate.

A few technical drafting issues are raised by the bill.

The bill provides for a new term, "retirement benefit," which is defined as the amount paid on a regular basis to a retired or disabled police officer or firefighter by a municipal retirement system established for police officers or firefighters, and then uses the term instead of the term "retirement annuity, retirement benefit, service pension or disability pension benefit granted or effective after active employment ceases" in redefining "special ad hoc municipal police and firefighter postretirement adjustment." The new term is not used in the proposed amendment of section 302(d) of Act 147. For consistency, it probably should be.

Act 147 was signed into law on December 14, 1988, and, under section 1103, took effect in 60 days, which was February 12, 1989. The proposed amendment of section 302(d) of Act 147, which is intended to supply the effective date of the original Act 147, should be changed, therefore, from February 12, 1988, to February 12, 1989. The incorrect date probably is an inadvertent drafting error, but it needlessly calls into question retirement benefits payable to retirees after February 11, 1988, and before February 12, 1989.

The proposal in the bill to make section 7 of the Public Employee Retirement Commission Act (Act 66 of 1981) apply to postretirement adjustments granted after December 31, 1998, is meaningless because section 7 and section 6(a)(13) of Act 66 deal with the attachment of actuarial notes to bills, amendments to bills, and constitutional amendments. Section 1101 of Act 147, therefore, is not needed in either its original form or its proposed amended form under the bill and should be repealed.

SUMMARY OF ACTUARIAL COST IMPACT

The actuarial cost impact of the bill will vary substantially from municipality to municipality depending upon the average retirement age, the number of retired members, and the average length of time during which these individuals have been retired. With the cooperation of a number of consulting actuaries, the Commission received and compiled certain demographic data on the affected public safety employees' retirement systems, including those of the cities of Philadelphia and Pittsburgh. For municipalities other than Philadelphia, the data represent about 81 percent of both the regular retired public safety employees and the disability retired public safety employees. Using these data and data from previous years, the consulting actuary of the Commission provided an estimate of the aggregate statewide actuarial cost impact of the bill assuming recognition in the January 1, 1999, actuarial valuation reports and amortization payments beginning January 1, 2000.

Because the bill cannot now be enacted before the latter half of 2000, the increases in the unfunded actuarial accrued liabilities cannot be recognized until the January 1, 2001, actuarial valuation reports, and the resulting amortization payments will not begin to be made until 2002, at the earliest. Using an interest rate assumption of 8.25 percent and a salary projection of 5.3 percent, the following is the estimate restated to reflect recognition in the January 1, 2001, actuarial valuation reports and amortization payments beginning January 1, 2002.

	Amount
Increases in Unfunded Actuarial Accrued Liabilities	$92,700,000

	Amount	As a % of Payroll
Increases in Employers' Annual Costs		
Normal Costs	$ 0	0.0%
Amortization Payments[1]	14,000,000	1.3%
Total Increases in Employers' Annual Costs	$14,000,000	1.3%

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

	Amount
Projected Reimbursements for 2000	
1999 Payments under Original Act	$4,280,000
Total Projected Reimbursements for 2000	$4,280,000

	Amount
Projected Reimbursements for 2001	
2000 Payments under Original Act	$3,890,000
Total Projected Reimbursements for 2001	$3,890,000

	Amount
Projected Reimbursements for 2002	
2001 Payments under Original Act	$3,500,000
Total Projected 2002 Reimbursements	$3,500,000

	Amount
Projected Reimbursements for 2003	
2002 Payments under Original Act	$ 3,100,000
2002 Amortization Payments under the Bill [1]	14,000,000
Total Projected 2003 Reimbursements	$17,100,000

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

After 2003, the reimbursement payments under the original act decrease about 6.857 percent a year and the reimbursement payments added by the bill continue at the same amount for another nine years. The large increase in reimbursements between 2002 and 2003 will result in a significant reduction in the allocations of General Municipal Pension System State Aid to municipalities whose allocations are not capped at cost. This reduction may result in budgetary problems for the affected municipalities.

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

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

Benefit Design. The proposed benefit increases are indirectly related to the retirement benefits, they are related to the change in the cost of living over the period of retirement, and they treat the members of the designated group of retirees equitably.

Commonwealth Mandates to Municipalities. The bill mandates benefit increases for all municipal public safety employees' retirement systems. The appropriateness of the Commonwealth mandating municipalities to provide specific pension benefits is questionable from a public policy standpoint due to the wide variation in local situations. There may be no need for the benefit increase due to the provision of cost-of-living adjustments by the local retirement system, and there may be no need for the Commonwealth reimbursements if the local retirement system is over funded. The propriety of the Commonwealth mandating municipalities to provide increased pension benefits to their employees also may be considered an encroachment upon the employer-employee relationships within municipalities.

Payments by Commonwealth. Under the bill, municipal reimbursements provided by the Commonwealth will not result in duplicative payments by the Commonwealth as occurs for the 1989 postretirement adjustments mandated by the original Act 147.

State Pension Aid. The bill would result in reducing the foreign casualty insurance premium tax receipts that would be available through General Municipal Pension System State Aid to municipalities to offset their employee pension costs. These annual shortfalls in state government shared revenues, which will be equal to the total annual state-funded reimbursements provided to certain municipalities under the bill, will have to be made up out of municipal tax revenues.

Inequitable Treatment of Retired Municipal Employees. The bill is limited in application to retired municipal public safety employees. There is limited policy rationale for the Commonwealth to distinguish between municipal public safety employees and other municipal employees in mandating payment benefit increases, particularly when substantial state government shared revenue financing is involved.

Potential Short-Term Cash Flow and Budgetary Problems. Because municipalities have not been anticipating making the mandated postretirement adjustment payments, some pension trust funds may experience short-term cash flow problems caused by the necessity to liquidate long-term investments much sooner than planned in order to make the large, retroactive, lump-sum payments. Also, in the initial year of the reimbursement payments under the bill, the allocations of General Municipal Pension System State Aid to certain municipalities will be significantly reduced and may cause budgetary problems.

POLICY CONSIDERATIONS (CONT'D)

Potential Limitation Problems. The bill should be examined by legal counsel to determine whether providing language in the bill to clarify that the increases mandated in the bill are to be implemented notwithstanding the provisions of other statutes may be appropriate.

Suggested Technical Corrections. A draft of suggested technical amendments to the bill intended to address certain identified technical concerns is attached.

Consistency. The new term, "retirement benefit," is not used in the proposed amendment of section 302(d) of Act 147, but it should be used for consistency.

Effective Date of Original Act 147. The proposed amendment of section 302(d) of Act 147, which is intended to supply the effective date of the original Act 147, should be changed from February 12, 1988, to February 12, 1989.

Section 1101. Section 1101 of Act 147 both as originally drafted and as proposed to be amended is meaningless and should be repealed.

COMMISSION RECOMMENDATION

On June 21, 2000, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2527, Printer's Number 3512, was referred to the House Local Government Committee on May 9, 2000.

PART II

PUBLIC EMPLOYEE RETIREMENT SYSTEM ADMINISTRATION

A. ACT 205 of 1984

1999 Filing Period

March 31, 2000, was the deadline for the 1999 municipal pension plan reports. Of the 4,500 local governments submitting questionnaire responses, 1,892 indicated that they had established one or more pension plans. About 118 of the local governments required to submit employee pension plan reports to be eligible for general municipal pension system state aid failed to meet the statutory filing deadline. Through transmitting multiple delinquency notices, the Commission was able to significantly reduce the number of delinquent local governments that were not included in the initial state aid certification to the Department of the Auditor General on August 15th. Only 31 municipalities remained delinquent as of the date of initial certification. As of December 31, 2000, only 2 municipalities remained delinquent in submitting their 1999 employee pension plan reports, and the Commission was actively engaged in enforcing the reporting requirements.

With 75% of the over 2,900 municipal pension plan actuarial valuation reports received near the filing deadline, the Commission utilized its computer assisted review procedures to expedite the review of the incoming reports. The data extracted from the reporting forms was verified using electronic data processing. The Commission will issue its *Status Report on Local Government Pension Plans* based on the 1999 Act 205 data early in 2001.

Municipal Pension Cost Certification

In the summer of 2000, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 2000 allocation of General Municipal Pension System State Aid. In 2000, the state aid provided to municipalities to offset their employee pension costs totalled $133.3 million. Calculation of the municipal pension cost data for the 1,400 municipalities was accomplished through the municipal employee pension plan data base that is maintained by the Commission through the data extracted from the over 2,900 pension plan reports submitted by municipalities.

Recovery Program

The Commission determined the 2000 distress scores for 46 municipalities participating in the Financially Distressed Municipal Pension System Recovery Program and transmitted distress determination notices to the affected municipalities. In October of 2000, the Commission also certified the payment of $424,000 in Supplemental State Assistance for 2000 and notified the Governor and General Assembly that a $479,000 appropriation would be needed to provide the Supplemental State Assistance payable in December of 2001.

Recovery Program (Cont'd)

In the fall of 2000, the Commission transmitted filing notices and reporting forms to the 18 municipalities required to submit 2000 actuarial valuation reports for their employee pension plans due to their participation in the Supplemental State Assistance Program.

B. ACT 293 of 1972

2000 Filing Period

The Commission transmitted filing notices and reporting forms to the 66 counties required to submit employee pension plan reports for 2000. The reports are due March 30, 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.

Public Employee Retirement Laws for Pennsylvania Local Governments

Retirement systems for employees of local governments in Pennsylvania are authorized for all classes of local government. The General Assembly has required the establishment of retirement systems for most police officers and firefighters. Systems for other classes of employees and officials are optional, and the establishment of such systems is left to the discretion of the individual local governments. In June 1988, the Commission issued its publication intended to be a nontechnical description of certain statutes regulating the public employee retirement systems for most of Pennsylvania's local governments. The Commission updated and reissued the publication in 1993 and 1998. During the first half of 2000, the Commission reviewed changes in laws since 1998 and prepared an updated version of the publication, which was issued in June 2000.

B. RESEARCH. (Cont'd)

Status Report on Local Government Pension Plans

During the second half of 2000, research began on the Commission's eighth report on the status of the Commonwealth's local government retirement systems since the enactment of the Municipal Pension Plan Funding Standard and Recovery Act. The research will be completed during the first half of 2001. The report will be a summary and analysis of municipal employee retirement system actuarial valuation reports as of January 1, 1999, submitted to the Commission under the Act and of county employee retirement system actuarial valuation reports as of January 1, 1998, submitted to the Commission under Act 293 of 1972. The data in the report will be extracted from the individual pension plan reports containing actuarial, financial, and demographic information. The report will contain both the Commission's comments on trends and conditions and the associated recommendations of the Commission.

Funding Cost-of-Living Adjustments

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 to provide cost-of-living adjustments for retired state and public school employees in Pennsylvania and in 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 the study and report, and during 2000, the research was completed and the report written. At its November 21, 2000, meeting, the Commission voted to issue the report. The report presents a general discussion of the issues involved in the provision of cost-of-living adjustments, a brief commentary on the Commonwealth's past practices with respect to cost-of-living adjustments, and a summary of the survey conducted by the Commission to determine the funding practices in other states that provide cost-of-living adjustments. The report also contains the Commission's recommendations on a method for funding the liabilities incurred in the provision of future cost-of-living adjustments in Pennsylvania.

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 June 2000 and of the State Employees' Retirement System (SERS) in September 2000.

Commission's Review of the PSERS Actuarial Valuation Report

At the June 21, 2000, meeting of the Commission, the staff presented a summary of the June 30, 1999, Actuarial Valuation Report of the Public School Employees' Retirement System issued December 1, 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 4.61% for fiscal year 1999-2000 to 1.94% for fiscal year 2000-2001. The decrease of 2.67% is due to the following reasons:

▸ Decrease due to actuarial gains on assets	(2.20)%
▸ Decrease due to actuarial gains on liabilities	(.52)%
▸ Increase due to change in health insurance contribution rate	.05%
Total	(2.67)%

- The contribution rate of 1.94% of payroll includes 1.64% of payroll for pension benefits plus .30% of payroll for the health insurance premium assistance program.

Changes in Employer Contribution Rates

Fiscal Year	Member Contributions	Normal Cost	Unfunded Accrued Liability	Health Care	Total Employer Rate
2000 - 2001	5.77%	6.29%	(4.65)%	.30%	1.94%
1999 - 2000	5.72	6.40	(2.04)	.25	4.61
1998 - 1999	5.69	6.33	(.44)	.15	6.04
1997 - 1998	5.65	6.44	2.17	.15	8.76
1996 - 1997	5.62	6.44	3.56	.60	10.60

Reasons for Decrease in Unfunded Accrued Liability

- Experience (Gains) Losses ($000)

▸ Gain from Investment Return on Actuarial Value of Assets	($ 2,577,747)
▸ Gain from Salary Increases Less than Expected	(232,794)
▸ Gain from Retirement and Other Separation Experience	(242,446)
▸ Loss from Annuitants' Mortality Experience	66,552
Total	($ 2,986,435)

Projection of Contribution Rates

Fiscal Year	Member Contributions	Employer Normal Cost	Unfunded Liability Rate	Health Insurance Rate	Total Employer Rate
2000 - 2001	5.77%	6.29%	(4.65)%	.30%	1.94%
2001 - 2002	5.78	6.26	(6.40)	.39	.39
2002 - 2003	5.79	6.25	(7.15)	.38	.38
2003 - 2004	5.81	6.24	(7.28)	.37	.37
2004 - 2005	5.82	6.23	(7.36)	.37	.37

These projections are based on the assumption that there are no actuarial gains or losses, no changes in demographics or economic assumptions and no changes in benefit provisions.

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, 1999

The following is a summary of the June 30, 1999, actuarial valuation of the Public School Employees' Retirement System and a comparison of the 1999 results with those of 1998.

	6/30/98		6/30/99	
Membership				
Active Members	220,703		223,495	
Inactive and Vested Members	43,591		46,426	
Retired Members	115,488		121,064	
Disabled Members	5,177		5,384	
Survivors and Beneficiaries	6,149		6,421	
Payroll and Annuities Payable				
Total Annual Payroll	$8,091,481,000		$8,247,602,000	
Annual Annuities and Benefits	$1,652,645,000		$1,830,582,000	
Valuation Data				
Accrued Liability[1]	$36,136,163,000		$37,499,115,000	
Assets[2]	39,968,957,000		44,606,526,000	
Unfunded Accrued Liability[1]	$(3,832,794,000)		$(7,107,411,000)	
Fund Ratio	110.6%		119%	
Funding Costs				
Total Normal Cost	$980,687,497.2	12.12%	$994,660,801	12.06 %
Amortization[3]	(165,066,212.4)	(2.04%)	383,513,493	(4.65)%
Full Actuarial Funding	$815,621,284.8	10.08%	$611,147,308	7.41 %
Support				
Member	$462,832,713.2	5.72%	$475,886,636	5.77%
School District	176,394,285.8	2.18%	67,630,336	0.82%
Commonwealth	176,394,285.8	2.18%	67,630,336	0.82%
Total Support[4]	$815,621,284.8	10.08%	$611,147,308	7.41%

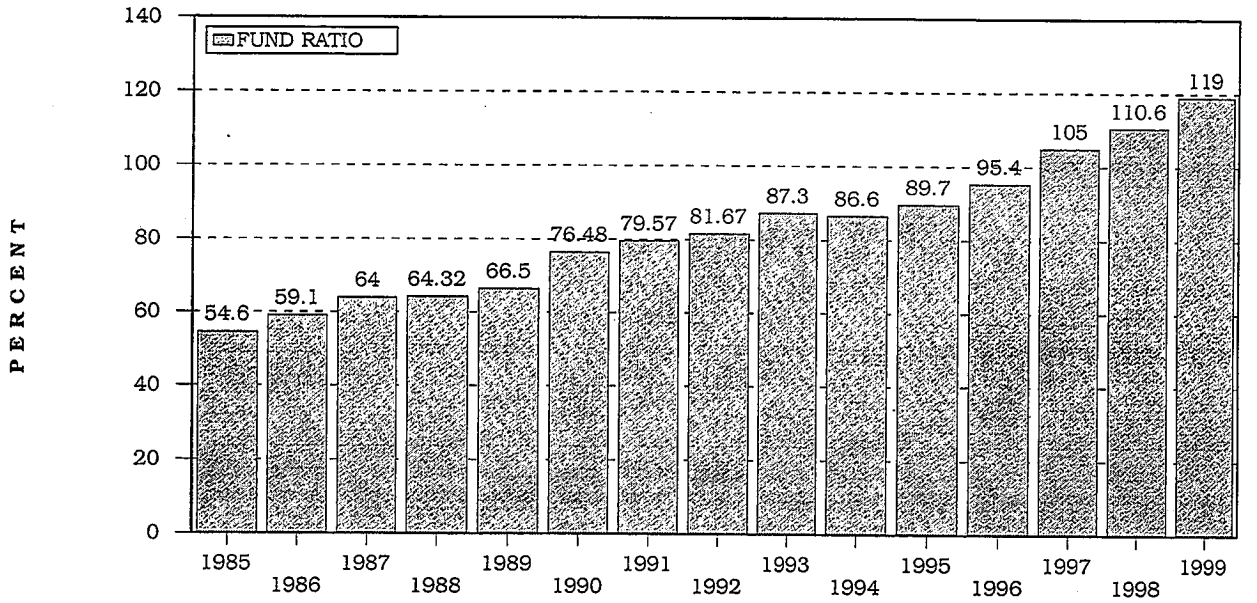
[1] Includes liability for health care payments.

[2] The smoothing period for recognizing realized and unrealized gains and losses is 3 years.

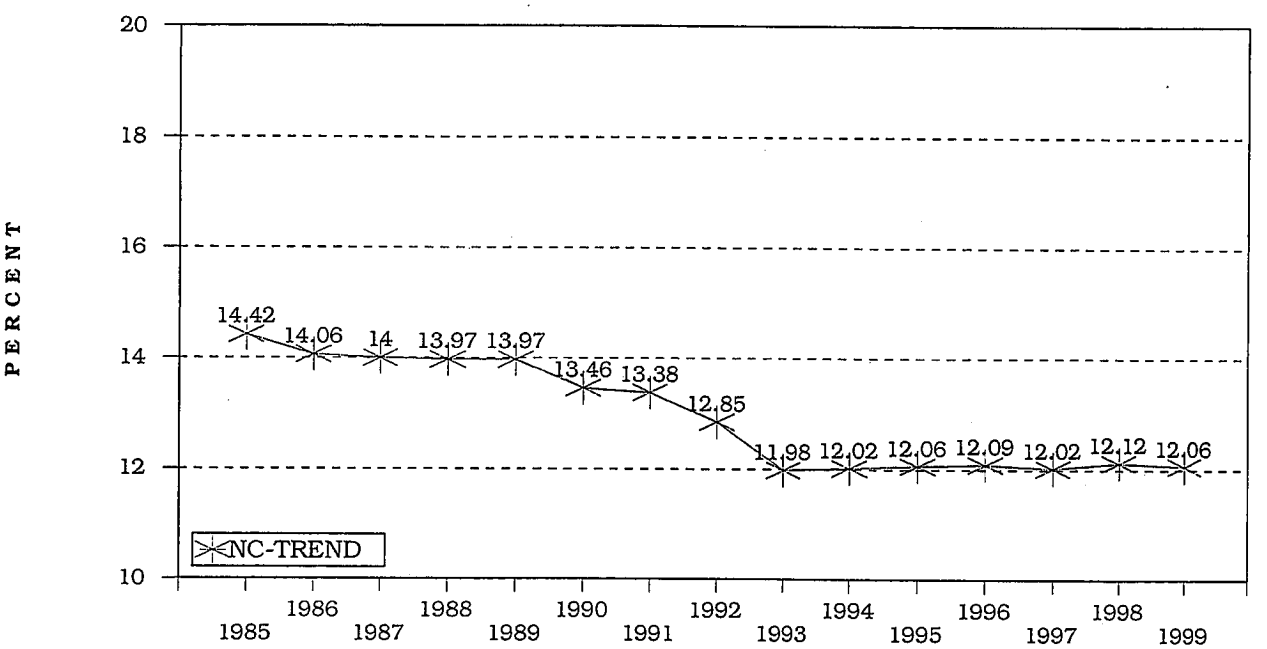
[3] Act 23 of 1991 established payment for additional liabilities to be payable over a twenty-year period with the dollar amount of the annual payment increasing at five percent per year over the twenty-year period.

[4] The employer health care contribution rate of .30% is not included in this total.

PSERS FUNDING RATIO TREND



PSERS NORMAL COST TREND



Commission's Review of the SERS Actuarial Valuation Report

At the September 21, 2000, meeting of the Commission, the staff presented a summary of the December 31, 1999, Actuarial Valuation Report of the State Employees' Retirement System issued May 3, 2000, and reviewed some significant facts concerning the condition of the system since the prior valuation.

- **Summary of Changes**

  — The employer contribution rate will be 1.39 percent of payroll. This is a 3.61 percent of payroll reduction from the previous rate of 5.0 percent.

  — The following elements affected the employer contribution rate:

	Normal Cost	Unfunded Liabilities	Total
▸ Gain from investment earnings		-3.18%	-3.18%
▸ Change in demographics of new entrants	0.06%	-0.05%	0.01%
▸ Pay increase different than assumptions		-0.27%	-0.27%
▸ Other differences between actual experience and actuarial assumptions		-0.05%	-0.05%
▸ Amount of payment increasing at a rate different than funding payroll		-0.12%	-0.12%
Total Change	0.06%	-3.67%	-3.61%
December 31, 1999, Valuation	9.02%	-7.63%	1.39%

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

▸ Gain from investment earnings	$ (1,971,870,302)
▸ Change in demographics of new entrants	(29,666,687)
▸ Pay increase different than assumptions	(165,851,692)
▸ Other differences between actual experience and actuarial assumptions	(31,499,240)
Total Change	$ (2,198,887,921)
December 31, 1999, Unfunded Liability	$ (4,532,426,876)

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

- **Employer Normal Cost Rate**

  — Normal Cost Rate for new active members:

▸ Superannuation and withdrawal	12.18%
▸ Disability	0.86%
▸ Death	0.65%
▸ Refunds	0.33%
Total	14.02%
— Member Deductions	5.00%
— Employer Normal Cost	9.02%

The Commission reviewed this report with Mr. John Brosius, Executive Director, Mr. Peter M. Gilbert, Chief Investment Officer, Mr. Nicholas Joseph Marcucci, Deputy Chief Counsel, 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, 1999

The following is a summary of the December 31, 1999, actuarial valuation of the State Employees' Retirement System and a comparison of the 1999 results with those of 1998.

	12/31/98	12/31/99
Membership		
Active	108,893	108,035
Inactive	3,785	3,664
Retired	72,696	74,550
Disabled	5,321	5,545
Survivors and Beneficiaries	7,817	7,948
Payroll and Annuities Payable		
Total Annual Payroll	$4,235,719,914	$4,288,773,430
Annual Annuities and Benefits	$ 898,593,605	$ 963,766,896
Valuation Data		
Accrued Liability	$18,357,899,288	$19,091.840,309
Assets[1]	20.670.711.370	23.624.267.185
Unfunded Accrued Liability	$(2,312,812,082)	$ (4,532,426,876)
Funded Ratio	112.6%	123.7%

Funding Costs

	12/31/98		12/31/99	
Normal Cost[2]	$591,306,500	13.96%	$601,286,035	14.02%
Amortization[3]	(167.734.508)	(3.96)%	(327.233.413)	(7.63%)
Full Actuarial Funding	$423,571,992	10.00%	$274,052,622	6.39%

Support

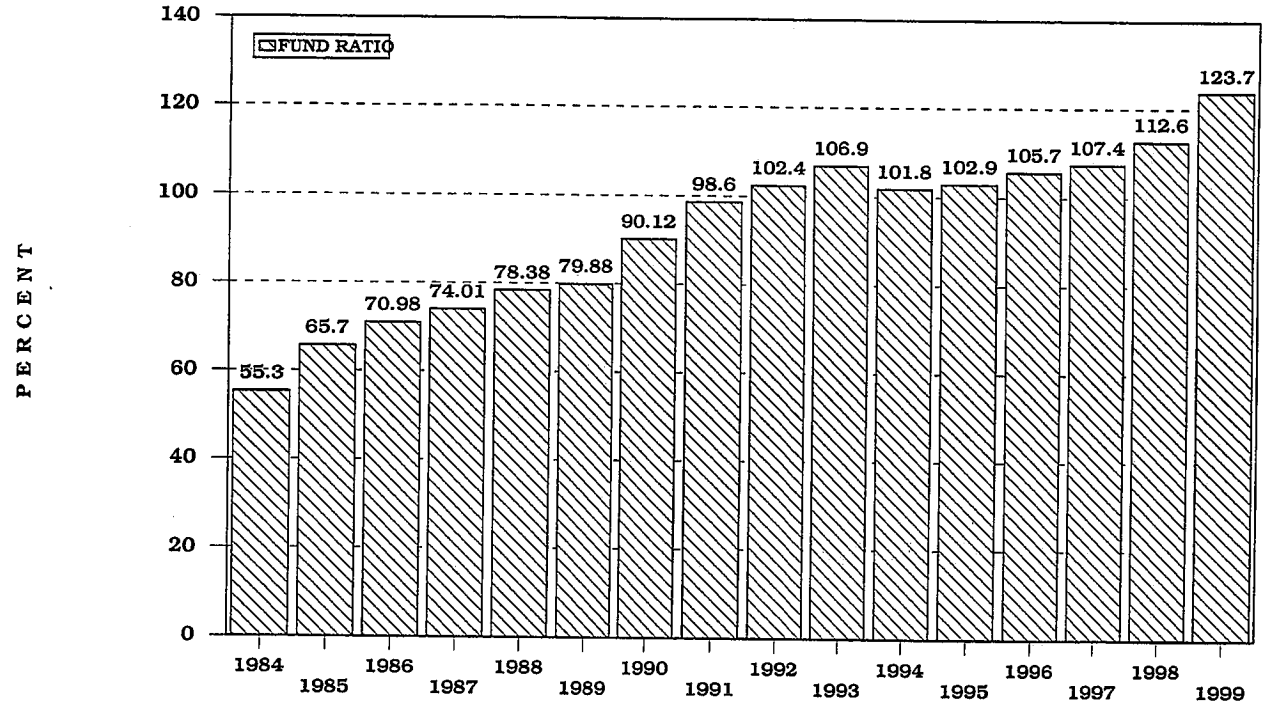
	12/31/98		12/31/99	
Member	$211,785,996	5.00%	$214,438,671	5.00%
Commonwealth	211.785.996	5.00%	59.613.951	1.39%
Total Support	$423,571,992	10.00%	$274,052,622	6.39%

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

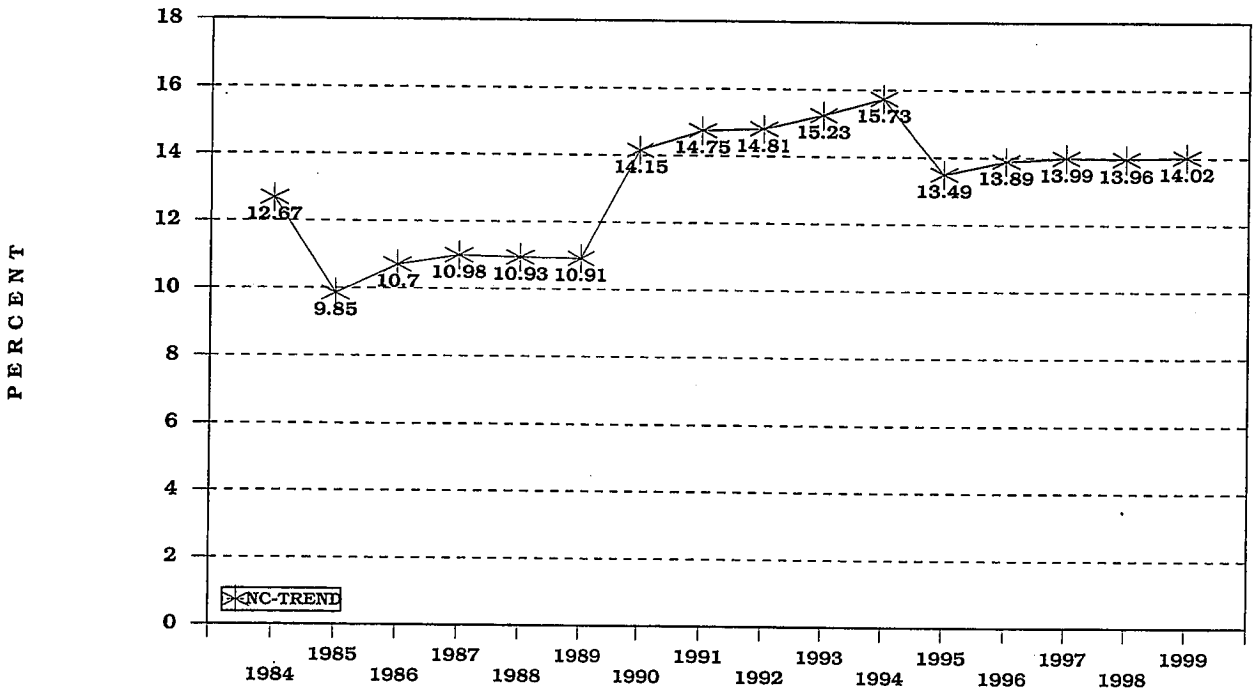
[2] The State Employees' Retirement Code requires that the employer normal contribution rate be based on the level percentage of payroll normal cost determined under the entry age normal actuarial cost method for the average new member less the portion of the cost to be funded by member contributions.

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

SERS FUNDING RATIO TREND



SERS NORMAL COST TREND



APPENDICES

APPENDIX A

ADVISORY COMMITTEES AND CONSULTING ACTUARIES

Advisory Committees

Under Section 8 of the Public Employee Retirement Commission Act, the Commission appoints a Municipal Pension Advisory Committee and a Municipal Employee Pension Advisory Committee. Both advisory committees are appointed annually from nominations submitted by organizations of municipalities and municipal employees and meet with the Commission at least once each year to discuss the activities of the Commission and to present information or recommendations. The members of the advisory committees for calendar year 2000 and their sponsoring organizations were as follows:

MUNICIPAL PENSION ADVISORY COMMITTEE

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

Mr. Jeffrey L. Heishman
PENNSYLVANIA STATE ASSOCIATION OF BOROUGHS

Ms. Amy C. Sturgis
PENNSYLVANIA LEAGUE OF CITIES AND MUNICIPALITIES

Mr. Lester O. Houck
PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP SUPERVISORS

Mr. Mark K. Keller
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

Ms. Susan Houghton
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 2000 were:

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

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 participated in the fire service for 20 years and who have attained the age of 65 or older	Referred to Senate Finance Committee	01/07/99

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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 Reported as committed Re-referred to Senate Appropriations Committee **Actuarial Note** (P. N. 114) **Actuarial Note** (P. N. 114, A. 2360)	01/12/99 04/12/00 05/15/00 06/21/00 06/21/00

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. 2191 (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 Re-reported as amended Second Consideration Passed Senate (29-17) Referred to House Judiciary Committee Reported as committed Second Consideration Re-referred to House Appropriations Committee	01/28/99 02/02/99 02/08/99 10/03/00 10/10/00 10/11/00 10/12/00 11/14/00 11/15/00 11/15/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
		Re-reported as committed	11/20/00
		Passed House (104-88)	11/20/00
		Pamphlet Laws Resolution No. 1	11/22/00
S. B. 304 P. N. 320 (Gerlach)	Optional County Tax Enabling Act, county tax reform legislation, which, among other things, excludes the imposition 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	Referred to Senate Finance Committee	02/03/99
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 nonschool 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	02/03/99
		Reported as amended	03/08/99
		Re-referred to Senate Appropriations Committee	03/23/99
		Actuarial Note (P. N. 538)	04/22/99
		Actuarial Note (P. N. 538, A. 1977)	05/19/99
		Commission Letter (P. N. 538, A. 2253)	06/07/99
		Re-reported as amended	06/07/99
		Second Consideration	06/07/99
		Amended and Passed Senate (50—0)	06/08/99
		Referred to House Education Committee	06/09/99
		Commission Letter (P. N. 1197)	06/14/99
		Reported as committed	06/14/99
		Re-referred to House Appropriations Committee	06/14/99
		Re-reported as committed	06/14/99
		Second Consideration	06/15/99
		Passed House (197-1)	06/16/99
		Veto No. 2	06/25/99
		Laid on the table in the Senate	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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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 Assembly 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 Reported as committed Second Consideration Passed Senate (50-0) Referred to House Appropriations Committee Reported as committed Second Consideration Passed House (193-0) Act 1999—5A	02/25/99 03/15/99 03/16/99 03/17/99 03/18/99 05/04/99 05/05/99 05/10/99 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 Reported as committed Second Consideration Passed Senate (50-0) Referred to House Appropriations Committee Reported as committed	02/25/99 03/15/99 03/16/99 03/17/99 03/18/99 05/04/99

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
		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
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	03/22/99
		Reported as committed	12/07/99
		Re-referred to Senate Rules and Executive Nominations Committee	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. 706 P. N. 2226 (Conti)	Second Class County Code, among other things, 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 under the home rule charter subject to the restrictions and prohibitions concerning the employees' retirement system	Referred to Senate Local Government Committee	04/07/99
		Reported as committed	06/09/99
		Second Consideration	06/15/99
		Passed Senate (49-0)	06/16/99
		Referred to House Urban Affairs Committee	06/21/99
		Reported as amended	10/26/99
		Second Consideration	11/16/99
		Re-referred to House Appropriations Committee	11/16/99
		Re-reported as committed	02/14/00
		Amended on Third Consideration	03/21/00
		Commission Letter (A. 0660, P. N. 1449)	04/05/00
		Passed House (196-0)	04/12/00
		Referred to Senate Rules and Executive Nominations Committee	05/01/00
		Re-reported on concurrence, as amended	06/13/00
		Senate concurred in House amendments, as amended by the Senate (41-8)	06/13/00
		Referred to House Rules Committee	06/13/00
		Reported on concurrence as amended	06/13/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
		House concurred in Senate amendments to House amendments, as further amended by the House (112-78)	06/13/00
		Referred to Senate Rules and Executive Nominations Committee	06/14/00
		Re-reported on concurrence, as amended	10/10/00
		Senate Concurred in House Amendments to Senate Amendments, as amended by the Senate (46-0)	10/11/00
		Referred to House Rules Committee	10/11/00
		Re-reported on concurrence, as committed	10/11/00
		House Concurred in Senate Amendments to House Amendments (188-3)	10/11/00
		Act 2000—85	10/30/00
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 municipal account, the vested member's ac-	Referred to Senate Finance Committee	04/12/99
		Reported as committed	05/04/99
		Actuarial Note (P. N. 832)	05/19/99
		Re-referred to Senate Appropriations Committee	06/08/99
		Re-reported as committed	10/18/99
		Second Consideration	10/25/99
		Laid on the table in the Senate	11/30/99

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	counts, 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	Referred to Senate Finance Committee	05/03/99

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	or more years of service credit, and are not enrolled in a Commonwealth-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 Reported as committed Second Consideration Passed Senate (50-0) Referred to House Appropriations Committee Reported as committed Second Consideration Amended and Passed House (199-0) Referred to Senate Rules and Executive Nominations Committee Re-reported on concurrence, as amended Senate concurred in House amendments, as amended by the Senate (48-2) Vote on concurrence reconsidered Senate concurred in House amendments, as amended by the Senate (47-3) Referred to House Rules Committee Re-reported on concurrence, as Committed House concurred in Senate amendments to House amendments (199-0) Act 1999—15	05/11/99 05/11/99 06/07/99 06/08/99 06/08/99 06/14/99 06/15/99 06/16/99 06/16/99 06/16/99 06/16/99 06/16/99 06/16/99 06/16/99 06/16/99 06/16/99 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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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 a 10-year period with payments calculated as a level dollar amount	Referred to Senate Finance Committee	09/08/99
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) Reported as committed Re-referred to Senate Appropriations Committee Re-reported as committed Second Consideration Passed Senate (46-0) Referred to House State Government Committee	09/16/99 09/30/99 04/12/00 05/15/00 11/14/00 11/15/00 11/20/00 11/22/00
S. B. 1101 P. N. 1916 (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 S. B. 706 and 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 Re-reported as committed Re-referred to Senate Appropriations Committee Re-reported as committed **Commission Letter** (P. N. 1341, A. 1485) Second Consideration Amended on Third Consideration Passed Senate (46-0) Referred to House Urban Affairs Committee Reported as committed Second Consideration Re-referred to House Appropriations Committee Re-reported as committed **Actuarial Note** (P. N. 1916, A. 3410) Re-referred to House Rules Committee **Commission Letter** (P. N. 1916, A. 3217) **Commission Letter** (P. N. 1916, A. 3272) **Commission Letter** (P. N. 1916, A. 3997)	09/28/99 09/30/99 12/07/99 12/07/99 02/07/00 03/06/00 03/20/00 04/12/00 04/12/00 05/01/00 05/09/00 05/10/00 06/06/00 06/12/00 06/12/00 06/12/00 09/21/00 09/25/00 09/26/00 09/26/00 10/10/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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 Reported as committed Re-referred to Senate Appropriations Committee **Actuarial Note** (P. N. 1362)	10/01/99 11/14/00 11/20/00 11/21/00
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 ***Funding Cost-of-Living Adjustments***	10/01/99 10/25/99 10/26/99 11/21/00
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
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	Referred to Senate Finance Committee	11/08/99

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	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		
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 **Actuarial Note** (P. N. 1534)	11/29/99 01/27/00
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
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, extending "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
S. B. 1314 P. N. 2200 (Holl)	Municipal Police Pension Law (Act 600 of 1955), mandating rather than permitting municipal governing body to prescribe regulations for its police officer retirement system, mandating rather than permitting survivor benefits for surviving spouse or surviving children, permitting surviving spouse to receive survivor pension for life regardless of remarriage, extending period of payment of survivor pension to surviving child from age 18 to age 23 if	Referred to Senate Finance Committee **Actuarial Note** (P. N. 1692) **Actuarial Note** (P. N. 1692, A. 3081) Reported as amended Re-referred to Senate Appropriations Committee	02/29/00 04/26/00 09/21/00 10/04/00 10/10/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	the child is attending college, permitting the survivor pension to be 100% rather than 50% of the member's pension if the assets exceed the present value of future benefits, mandating repayment of the member contributions plus interest to the surviving spouse or child of a member who dies prior to vesting, and permitting both a regular retiree's pension and a disability retiree's pension to exceed 50% of final average salary if the value of assets exceeds the present value of future benefits		
S. B. 1355 P. N. 1756 (Tilghman)	SERS, Fiscal Year 2000-01 appropriations bill for $19,638,000	Referred to Senate Appropriations Committee Reported as committed Second Consideration Passed Senate (49-0) Referred to House Appropriations Committee Reported as committed Second Consideration Re-committed to House Appropriations Committee	03/17/00 03/20/00 03/21/00 04/10/00 04/11/00 05/01/00 05/02/00 05/03/00
S. B. 1356 P. N. 1757 (Tilghman)	PSERS, Fiscal Year 2000-01 appropriations bill for $30,512,000	Referred to House Appropriations Committee Reported as committed Second Consideration Passed Senate (49-0) Referred to House Appropriations Committee Reported as committed Second Consideration Re-committed to House Appropriations Committee	03/17/00 03/20/00 03/21/00 04/10/00 04/11/00 05/01/00 05/02/00 05/03/00
S. B. 1411 P. N. 1844 (Rhoades)	PSERS, permitting active member or active multiple service member to purchase up to three years of service credit at the rate of one year of non-school 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 if the member contributes the full actuarial cost of the increase in the projected superannuation annuity caused by the purchase and cannot withdraw the contribution as a lump sum under Option 4	Referred to Senate Finance Committee	04/10/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 1415 P. N. 1847 (Conti)	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 Retiree's Health Insurance Fund, and providing for health insurance premium assistance to the affected individuals	Referred to Senate Finance Committee **Commission Letter** (P. N. 1847)	04/10/00 07/25/00
S. B. 1432 P. N. 1902 (Corman)	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 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 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 actuar-	Referred to Senate Finance Committee	04/20/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	ial accrued liability being paid by the Department of Corrections [See H. B. 2072]		
S. B. 1458 P. N. 1981 (Armstrong)	PSERS. Permitting a new school employee, in lieu of membership in PSERS, irrevocably to elect membership in an alternate retirement plan with a board contracted provider of a defined contribution retirement plan to which the employer must contribute 9.29% of the member's compensation	Referred to Senate Finance Committee **Actuarial Note** (P. N. 1981)	05/26/00 09/21/00
S. B. 1459 P. N. 1982 (Armstrong)	SERS, Permitting a new state employee, in lieu of membership in SERS, irrevocably to elect membership in an alternate retirement plan with a board contracted provider of a defined contribution retirement plan to which the employer must contribute 9.29% of the member's compensation	Referred to Senate Finance Committee **Actuarial Note** (P. N. 1982)	05/26/00 09/21/00
S. B. 1473 P. N. 2030 (Mellow)	SERS, permitting active member or active multiple service member to purchase up to two years of service credit for service as a federal employee on leave without pay before March 1, 1974, who was studying under a federal grant approved by the head of his department	Referred to Senate Finance Committee	06/12/00
S. B. 1509 P. N. 2104 (Greenleaf)	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 and to the affected individuals	Referred to Senate Finance Committee	08/23/00
S. B. 1515 P. N. 2110 (Belan)	SERS, permitting an active member or an active multiple service member to purchase service credit for not more than three years of service with an urban redevelopment authority if the election is made within one year of the effective date of the bill and the member pays a purchase contribution amount equal to the full actuarial cost of the increased benefit obtained	Referred to Senate Finance Committee	09/05/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 1534 P. N. 2150 (Rhoades)	PSERS, permitting a retiring active or active multiple service member to purchase service credit for unused sick leave by contributing the sum of the member's basic contribution plus the employer's normal contribution rate	Referred to Senate Finance Committee	09/27/00
S. B. 1572 P. N. 2256 (Rhoades)	PSERS, granting additional retirement benefits of up to 3 years of service credit entitled "enhanced-year service credit" to certain certified administrative employees who have worked at least 5 years as an advisor, coach, or other activity outside of the normal school day	Referred to Senate Finance Committee	10/18/00
S. B. 1573 P. N. 2257 (Armstrong)	PSERS and SERS, reducing vesting from 10- and 8-year cliff vesting to 5-year cliff vesting	Referred to Senate Finance Committee	10/18/00
S. B. 1589 P. N. 2287 (Stout)	SERS, for the 2-year period of 2001 and 2002, permitting an active member or an active multiple service member to purchase service credit for up to 5 years of service as an employee or officer of a Pennsylvania municipality or of the federal government upon payment of a contribution calculated in the same manner as for the purchase of service credit for nonintervening military service	Referred to Senate Finance Committee	11/15/00
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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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
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 Re-reported as committed Re-referred to Senate Appropriations Committee Re-reported as committed Passed Senate (47-0) Act 2000—15	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 02/07/00 02/08/00 04/10/00 05/01/00 05/10/00
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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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 **Actuarial Note** (P. N. 176)	01/27/99 03/08/00
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 Second Consideration Re-referred to House Appropriations Committee Re-reported as committed Passed House (200-0) Referred to Senate Finance Committee	01/27/99 03/04/99 11/16/99 05/03/00 05/03/00 05/08/00 05/08/00 05/16/00
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 Reported as committed Second Consideration Re-referred to House Appropriations Committee Re-reported as committed Passed House (198-0) Referred to Senate Judiciary Committee	02/02/99 02/08/00 04/17/00 04/17/00 05/01/00 05/02/00 05/03/00
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 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	Referred to House Education Committee Reported as amended **Actuarial Note** (P. N. 597) Re-referred to House Appropriations Committee Re-reported as amended Second Consideration Amended and Passed House (194-0) **Commission Letter** (A. 0917, P. N. 983) Referred to Senate Finance Committee	02/02/99 02/10/99 03/04/99 03/08/99 03/15/99 03/15/99 03/17/99 03/19/99 03/24/99
H. B. 295 P. N. 4177 (Herman)	PSERS and SERS, amending provisions on election of and purchase of service credit under Multiple Service Membership Status to lengthen from	Referred to House State Government Committee **Actuarial Note** (P. N. 292)	02/02/99 04/22/99

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	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 for 30 days past the end of their legislative terms or until appointment of their successors, and increasing investment flexibility of the boards	**Commission Letter** (P. N. 292, A. 3112) 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) Reported as amended Second Consideration Re-referred to Senate Appropriations Committee Re-reported as committed	08/23/99 09/29/99 10/04/99 10/04/99 10/04/99 10/04/99 10/05/99 10/14/99 10/28/99 11/14/00 11/15/00 11/15/00 11/20/00
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 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	Referred to House Local Government Committee **Advisory Note** (P. N. 343)	02/08/99 11/04/99
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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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 **Actuarial Note** (P. N. 450)	02/09/99 01/27/00
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 liabilities 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	Referred to House Finance Committee	02/09/99

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	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 **Advisory Note** (P. N. 613)	02/16/99 05/25/99
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 Laid on the table in the House	02/22/99 04/12/99 11/15/00
H. B. 648 P. N. 2959 (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 Reported as amended Re-referred to House Appropriations Committee	03/02/99 02/09/00 02/09/00
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
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 or intervening or nonintervening military service for which the deceased officer could have but failed to purchase service credit, if the surviving spouse makes the pur-	Referred to House State Government Committee	03/02/99

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	chase within 90 days of the death of the officer or within 90 days of the effective date of the bill, whichever is later		
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 living, with the maximum pension not to exceed ½ the current salary of nonuniformed employees in the highest pay grade	Referred to House Urban Affairs Committee	03/10/99

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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. 2962 (Wogan)	PSERS and SERS, extending "30 and Out" in PSERS to the periods of March 1 through June 30, 2000, and January 1 through June 30, 2001, and in SERS to the 1 year period from July 1, 2000, through June 30, 2001	Referred to House State Government Committee **Actuarial Note** (P. N. 1074) Reported as amended Re-referred to House Appropriations Committee **Actuarial Note** (P. N. 2962)	03/22/99 05/19/99 02/09/00 02/09/00 03/08/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 1008 P. N. 1116 (Barley)	SERS, Fiscal Year 1999-2000 appropriations bill for $20,068,000	Referred to House Appropriations Committee Reported as committed Second Consideration Passed House (200-0) Referred to Senate Appropriations Committee Reported as committed Second Consideration Laid on the table in the Senate	03/22/99 03/23/99 03/24/99 04/12/99 04/16/99 04/19/99 04/20/99 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 Reported as committed Second Consideration Passed House (200-0) Referred to Senate Appropriations Committee Reported as committed Second Consideration Laid on the table in the Senate	03/22/99 03/23/99 03/24/99 04/12/99 04/16/99 04/19/99 04/20/99 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 full actuarial cost, and cannot withdraw under	Referred to House State Government Committee	03/24/99

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	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 **Advisory Note** (P. N. 1547)	04/20/99 05/30/00
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 Laid on the table in the House	04/20/99 06/16/99 06/16/99 09/27/99 09/25/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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
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. 3264 (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) **Actuarial Note** (P. N. 1643 as Amended by A. 0548) Reported as amended **Actuarial Note** (P. N. 1643, A. 0993) **Commission Letter** (P. N. 3264) **Actuarial Note** (P. N. 3264, A. 3359) **Commission Letter** (P. N. 3264, A. 3434) **Commission Letter** (P. N. 3264, A. 3469) **Commission Letter** (P. N. 3264, A. 3682) **Commission Letter** (P. N. 3264, A. 3693) Laid on the table in the House **Actuarial Note** (P. N. 3264, A. 3502)	04/28/99 09/30/99 03/08/00 03/22/00 04/26/00 07/25/00 09/21/00 09/25/00 10/02/00 10/04/00 10/04/00 10/11/00 11/21/00
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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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 Laid on the table in the House	05/05/99 10/28/99 11/16/99 09/25/00
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
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	Referred to House Local Government Committee	06/08/99

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	maximum service increment from $100 a month to $600 a month		
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
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. 4229 (Kaiser)	Municipal Police Pension Law (Act 600), mandating rather than permitting municipal governing body to prescribe regulations for its police officer retirement system, mandating rather than permitting survivor benefits for surviving spouse or surviving children, permitting surviving spouse to receive survivor pension for life regardless of remarriage, extending period of payment of survivor pension to surviving child from age 18 to age 23 if the child is attending college, permitting the survivor pension to be 100% rather than 50% of the member's pension if the assets exceed the present value of future benefits, mandating repayment of the member contributions plus interest to the surviving spouse or child of a member who dies prior to vesting, and permitting both a regular retiree's pension and a disability retiree's pension to exceed 50% of final average salary if the value of assets exceeds the present value of future benefits	Referred to House Local Government Committee **Advisory Note** (P. N. 2004) **Actuarial Note** (P. N. 2004) Reported as amended Second Consideration Re-referred to House Appropriations Committee **Commission Letter** (P. N. 2766) Re-reported as committed Amended and Passed House (196-0) Referred to Senate Finance Committee **Actuarial Note** (P. N. 2766, A. 0951) **Commission Letter** (P. N. 3237) Reported as committed Re-referred to Senate Appropriations Committee **Commission Letter** (P. N. 3237, A. 4213) Re-reported as amended Second Consideration Amended and Passed Senate (47-0) Referred to House Rules Committee Reported as committed	06/14/99 09/27/99 10/28/99 12/07/99 03/15/00 03/15/00 03/17/00 03/20/00 03/21/00 04/06/00 04/26/00 07/25/00 10/04/00 10/10/00 11/13/00 11/14/00 11/20/00 11/21/00 11/21/00 11/21/00
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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
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
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, permitting 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 Common-	Referred to House State Government Committee	07/20/99

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	wealth contributes to SERS for the service		
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
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. 3206 (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	Referred to House Local Government Committee Reported as committed **Actuarial Note** (P. N. 2420) **Commission Letter** (P. N. 2420, A. 0059) Second Consideration Re-referred to House Appropriations Committee Re-reported as amended	10/12/99 10/26/99 01/27/00 02/15/00 03/20/00 03/20/00 03/20/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	vacation days, sick leave, or other leave, and confidential third-party counseling	Passed House (195-0) Referred to Senate Local Government Committee Reported as committed Second Consideration Re-referred to Senate Appropriations Committee Re-reported as committed Passed Senate (49-0) Act 2000—37	04/17/00 04/24/00 05/01/00 05/16/00 06/05/00 06/12/00 06/13/00 06/22/00
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 [See S. R. 103]	Referred to House Rules Committee	10/26/99
H. B. 2072 P. N. 2725 (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 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	Referred to House State Government Committee **Actuarial Note** (P. N. 2725) **Actuarial Note** (P. N. 2725, A. 0681)	11/22/99 01/27/00 04/26/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	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 [See S. B. 1432]		
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. 706 and 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 **Advisory Note** (P. N. 2703)	11/17/99 01/31/00
H. B. 2094 P. N. 3152 (Herman)	Title 53 of Pa.C.S. (Municipalities Generally), among other things, adding to the subchapter relating to Intergovernmental Cooperation a new § 2316 providing that all Commonwealth departments and agencies, in the performance of their administrative duties, shall deem a council of governments,	Referred to House Local Government Committee Reported as committed Second Consideration Re-referred to House Appropriations Committee Re-reported as committed Amended and Passed House (195-0)	11/22/99 12/07/99 02/16/00 02/16/00 03/13/00 03/15/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	consortia, or other similar entities established by two or more municipalities under the subchapter a legal entity	Referred to Senate Local Government Committee Reported as committed Second Consideration Laid on the table in the Senate	03/22/00 05/01/00 05/15/00 06/07/00
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 **Advisory Note** (P. N. 2723) **Actuarial Note** (P. N. 2723)	12/01/99 01/31/00 03/08/00
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
H. B. 2197 P. N. 2872 (Nickol)	Act 293 of 1972, changing references to DCA to references to PERC, defining actuarial valuation report to be one that complies with or is substantially equal to the requirements of Act 205 of 1984, granting a 1-year transition period to the new reporting standard, and modifying the reporting cycle by providing for reports to be filed in plan years beginning in odd-numbered years rather than even-numbered years	Referred to House Local Government Committee	01/31/00
H. B. 2204 P. N. 2878 (Hanna)	SERS, reducing the superannuation age for police officers at state-owned or state-related universities from 35 years of service or age 60 to 35 years of service or age 50	Referred to House State Government Committee	01/31/00
H. B. 2245 P. N. 2954 (Steelman)	Pennsylvania Biomedical Research Authority Act, creating the Pennsylvania Biomedical Research Authority, providing for its powers and duties, and authorizing PSERS and SERS to invest through the Authority, make investments in conjunction with the Authority, and partner with the Authority in making investments in biomedicine	Referred to House Health and Human Services Committee	02/09/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 2264 P. N. 2994 (Roberts)	The Third Class City Code, permitting a police officer to purchase service credit for previous service on a police force in another Pennsylvania municipality if the officer pays into the pension trust fund the amount the officer would have contributed if the officer had been a member of the police force while serving in the police force of the other municipality	Referred to House Urban Affairs Committee **Actuarial Note** (P. N. 2994)	02/15/00 03/08/00
H. B. 2286 P. N. 3694 (Strittmatter)	SERS, repealing current provisions regarding investing in venture capital and enacting provisions permitting board, in its prudent discretion, to make any venture capital investment, private placement investment, or other alternative investment of any kind that meets the prudent person rule	Referred to House State Government Committee **Commission Letter** (P. N. 3027) Reported as amended Re-committed to House Rules Committee Re-reported as committed Second Consideration Re-referred to House Appropriations Committee Re-reported as committed Passed House (190-0) Referred to Senate Finance Committee	02/16/00 06/06/00 06/12/00 06/12/00 09/25/00 11/13/00 11/13/00 11/13/00 11/15/00 11/21/00
H. B. 2288 P. N. 3029 (B. Smith)	SERS, expanding the definition of enforcement officer to include officers and other commissioned law enforcement personnel employed by the Pennsylvania Game Commission thus entitling them to a superannuation age of 35 years of service or age 50	Referred to House State Government Committee	02/16/00
H. B. 2346 P. N. 3137 (Yudichak)	Volunteer Firefighter Relief Association Pension Act, creating the Volunteer Firefighter Relief Association Pension Fund administered by the Office of the State Fire Commissioner that shall grant up to $10,000 a year to each volunteer firefighter relief association for which $20,000,000 is appropriated for the Fiscal Year 2000-01	Referred to House Veterans Affairs and Emergency Preparedness Committee	03/15/00
H. B. 2348 P. N. 3139 (Solobay)	An act providing for an allocation of $5,000 a year to each volunteer firefighters' relief association, in addition to the amount received under § 704 of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), to be dedicated solely for the purchase of insurance under § 6(e)(2) of the Volunteer Firefighter's Relief Association Act (Act 84 of 1968) and to be paid out of $10,000,000 appropriated from the money received by Penn-	Referred to House Veterans Affairs and Emergency Preparedness Committee	03/15/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	sylvania under the Master Settlement Agreement with tobacco product manufacturers		
H. B. 2363 P. N. 3155 (Barley)	SERS, Fiscal Year 2000-01 appropriations bill for $19,638,000	Referred to House Appropriations Committee Reported as committed Second Consideration Passed House (194-1) Referred to Senate Appropriations Committee Reported as committed Second Consideration Passed Senate (45-0) Act 2000—1A	03/15/00 03/21/00 03/22/00 04/11/00 04/11/00 05/01/00 05/03/00 05/08/00 05/17/00
H. B. 2365 P. N. 3157 (Barley)	PSERS, Fiscal Year 2000-01 appropriations bill for $30,512,000	Referred to House Appropriations Committee Reported as committed Second Consideration Passed House (195-0) Referred to Senate Appropriations Committee Reported as committed Second Consideration Passed Senate (45-0) Act 2000—2A	03/15/00 03/21/00 03/22/00 04/11/00 04/11/00 05/01/00 05/03/00 05/08/00 05/17/00
H. B. 2435 P. N. 3279 (Robinson)	Second Class City Fiscal Authority Act, among other things, creating the Second Class City Fiscal Authority and providing for its powers and duties, providing for certain special taxes, providing for emergency deferrals of the minimum municipal obligation under Act 205 of 1984, and waiving review of the Act by the Commission under Act 66 of 1981	Referred to House Urban Affairs Committee **Actuarial Note** (P. N. 3279)	04/03/00 04/26/00
H. B. 2437 P. N. 3281 (L. I. Cohen)	Tobacco Free Investment and Divestiture Act, requiring SER Fund, PSER Fund, and PMR Fund, among others, to divest of all investments in tobacco companies and prohibiting such investments in the future	Referred to House Finance Committee	04/03/00
H. B. 2442 P. N. 3286 (Williams)	Municipal Police Pension Law (Act 600 of 1955), permitting a surviving spouse to continue receiving a survivor benefit for life even if the surviving spouse remarries, permitting a surviving child to continue to receive a survivor benefit until age 23, if the child is attending college, mandating that, if an active police officer dies or had died, an active police officer who was eligible for a pension but had not begun collecting a	Referred to House Local Government Committee **Actuarial Note** (P. N. 3286)	04/03/00 04/26/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	pension dies or died, or a retiree dies or died, payment to the surviving spouse or surviving child or children, if no spouse survives, of a survivor benefit of 50 percent of the member's pension, mandating that the 50 percent surviving spouse and surviving child survivor benefit be 100 percent if the actuarial value of the assets exceeds the actuarial present value of future benefits, mandate that, if a nonvested member dies, the surviving spouse or surviving child or children, if no spouse survives, receive a refund of the member's contributions made by the member plus interest or other increases in value, permitting a retiree's pension to exceed the current Act 600 limit, if the actuarial value of the assets exceeds the actuarial present value of future benefits, mandating a disability benefit for permanently injured members of at least 50 percent of the member's salary at the time the disability was incurred, and mandating an ongoing death benefit for the families of members killed in service equal to 100 percent of the member's salary at the time of death		
H. B. 2527 P. N. 3512 (O'Brien)	Special Ad Hoc Municipal Police and Firefighter Postretirement Act (Act 147 of 1988), granting an additional special adjustment beginning in January 1999 to retired public safety employees who retired before January 1, 1994 calculated as ($0.15/month x years of service x years retired) x [1 + (0.025 x years retired to 25) + (0.075 x years retired over 25)]	Referred to House Local Government Committee **Actuarial Note** (P. N. 3512)	05/09/00 06/21/00
H. B. 2577 P. N. 3616 (Nickol)	PSERS, repealing current provisions regarding investing in venture capital and enacting provisions permitting board, in its prudent discretion to make any venture capital investment, private placement investment, or other alternative investment of any kind that meets the prudent person rule	Referred to House State Government Committee **Commission Letter** (P. N. 3616) Reported as committed Re-committed to House Rules Committee Re-reported as committed Laid on the table in the House	05/22/00 06/06/00 06/12/00 06/12/00 09/25/00 09/25/00
H. B. 2640 P. N. 3770 (Herman)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), restricting the imposition of the permitted increase in the earned income tax above the statutory maximum by a distressed municipality to residents of the municipality only	Referred to House Local Government Committee	06/14/00

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 2653 P. N. 3788 (Stetler)	PSERS, increasing from 95 to 120 days the number of full-day school sessions a school year for which a PSERS retiree may return to school service in an emergency or during a shortage of subject-certified teachers and permitting a PSERS retiree to be employed as a substitute teacher by a school district, intermediate unit, or area vocational-technical school under a separate contract on a less-than-full-time basis for a period not to exceed 120 full-day sessions	Referred to House Education Committee	06/26/00
H. B. 2686 P. N. 3845 (DeWeese)	PSERS and SERS, mandating that 10% of the monetary value of all stock or options transactions traded in each fiscal year shall be traded through the Philadelphia Stock Exchange	Referred to House Finance Committee	08/09/00
H. B. 2694 P. N. 3854 (Nickol)	PSERS, changing method of payment by charter schools of contributions to PSERS from direct one like all other employers to indirect one in which Secretary of Education and State Treasurer deduct the amount from funds appropriated to Department of Education for basic education in chartering school district and pay amount to PSERS	Referred to House Education Committee **Commission Letter** (P. N. 3854)	08/21/00 08/22/00
H. B. 2703 P. N. 3863 (Orie)	Second Class County Code, permitting an officer or employee of Allegheny County who is a deputy sheriff to retire and receive a full retirement allowance at age 55 or older with 25 or more years of service or at age 55 or older with 20 or more years of service	Referred to House Urban Affairs Committee	08/30/00
H. B. 2733 P. N. 3904 (L. I. Cohen)	Municipal Police Pension Law (Act 600 of 1955), mandating rather than permitting municipal governing body to prescribe regulations for its police officer retirement system, mandating rather than permitting survivor benefits for surviving spouse or surviving children, permitting surviving spouse to receive survivor pension for life regardless of remarriage, extending period of payment of survivor pension to surviving child from age 18 to age 23 if the child is attending college, permitting the survivor pension to be 100% rather than 50% of the member's pension if the assets exceed the present value of future benefits, mandating repayment of the member contribu-	Referred to House Local Government Committee	09/25/00

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	tions plus interest to the surviving spouse or child of a member who dies prior to vesting, and permitting both a regular retiree's pension and a disability retiree's pension to exceed 50% of final average salary if the value of assets exceeds the present value of future benefits [see S. B. 1314, P. N. 1692, as amended by A. 3081]		
H. B. 2780 P. N. 3989 (Lynch)	SERS, permitting an active member or an active multiple service member to purchase service credit for nonintervening military service in the class of service to which the member is eligible at the time of purchase rather than in Class A	Referred to House State Government Committee	09/27/00
H. B. 2867 P. N. 4189 (Hanna)	PSERS and SERS, granting the 1998 ad hoc postretirement adjustments to beneficiaries and survivor annuitants of members who died before July 1, 1998	Referred to House State Government Committee	11/15/00
H. B. 2868 P. N. 4189 (Michlovic)	SERS, reducing the 10- and 8-year cliff vesting to 5-year cliff vesting and creating a new class, Class AA with a multiplier of 1.25	Referred to House State Government Committee	11/15/00

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