2001

Annual Report

of the

Public Employee Retirement Commission

Public Employee Retirement Commission
Commonwealth of Pennsylvania
February 2002

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COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
HARRISBURG
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February 2002

To: Governor Schweiker
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 2001.

During 2001, the Commission authorized the attachment of forty actuarial notes to thirty-two bills and ten 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 review of the State Employees' Retirement System. This report also describes research conducted during 2001 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 nineteenth 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 2001.

Sincerely,

Paul D. Halliwell
Chairman

INTRODUCTION

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

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

Under the Municipal Pension Plan Funding Standard and Recovery Act, adopted in 1984, the Commission has three additional responsibilities. The first is to administer the actuarial valuation reporting program for municipal retirement systems, which entails monitoring and enforcing compliance with the statutorily mandated actuarial funding standard. The second is to certify annually municipal pension cost data used in allocating the General Municipal Pension System State Aid money of over $134 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 sixteenth 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 2001.

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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 2001 ACTIVITY.

During 2001, the Commission authorized the attachment of forty actuarial notes to thirty-two bills and ten amendments. In addition, the Commission's staff provided the General Assembly with six advisory notes.

C. SYNOPSES OF ADVISORY NOTES.

- <u>Amendment Number 4381 to Senate Bill Number 16, Printer's Number 1217</u>. At the request of Representative Lynn B. Herman, Majority Chairman, House Local Government Committee, on December 4, 2001, the Commission staff provided an advisory note on Amendment Number 4381 to Senate Bill Number 16, Printer's Number 1217. Amendment Number 4381 would amend Senate Bill Number 16, Printer's Number 1217, amending the Municipal Police Pension Law (Act 600 of 1955) to: 1) mandate (rather than permit) payment to the surviving spouse or surviving child or children, if no spouse survives, of a survivor benefit calculated at no less than 50 percent (rather than at 50 percent) of the pension the deceased member was entitled to receive or was receiving; 2) include a surviving child 23 years of age in the surviving children above 18 years of age to be eligible to continue receiving a survivor benefit, if the child is attending college on or after the effective date of the bill, rather than stopping the benefit at age 22 as is presently proposed in the bill; and 3) mandate that the retirement benefits payable to members be calculated at no less than half and no more than 65 percent of the member's monthly average salary.

C. SYNOPSES OF ADVISORY NOTES. (Cont'd)

- House Bill Number 440, Printer's Number 477. At the request of Representative Lynn B. Herman, Majority Chairman, House Local Government Committee, on February 28, 2001, the Commission staff provided an advisory note on House Bill Number 440, Printer's Number 477. House Bill Number 440, Printer's Number 477, would amend section 1(a) of the Municipal Police Pension Law (Act 600 of 1955) to provide that the surviving spouse of an active or retired police officer shall continue to receive a survivor spouse pension even if the surviving spouse remarries.

- House Bill Number 457, Printer's Number 492. At the request of Representative Lynn B. Herman, Majority Chairman, House Local Government Committee, on March 15, 2001,the Commission staff provided an advisory note on House Bill Number 457, Printer's Number 492. House Bill Number 457, Printer's Number 492, would amend the Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988) to grant ongoing special ad hoc postretirement adjustments to certain retired municipal firefighters and police officers retroactive to January 1, 1998, with the retirees' adjustments being paid for out of the proceeds of the premium tax on casualty insurance sold in Pennsylvania by out-of-state insurance companies.

- House Bill Number 530, Printer's Number 573. At the request of Representative Lynn B. Herman, Majority Chairman, House Local Government Committee, on May 17, 2001, the Commission staff provided an advisory note on House Bill Number 530, Printer's Number 573. House Bill Number 530, Printer's Number 573, would amend the Municipal Police Pension Law (Act 600 of 1955) to: 1) increase the permitted survivor's benefit from 50 percent to 60 percent of the pension the deceased, retired member is receiving when the member dies or the deceased active member would have been eligible to receive had the member been retired at the time of the member's death; 2)reduce the minimum time period over which a member's final average salary is computed for purposes of computing the member's pension from the last 36 months to 24 months of employment; 3) increase the maximum length of service increment for service in excess of 25 years that may be paid to a retiree in addition to the basic pension from $100 a month to $600; and 4) increase the limit on cost-of-living adjustments that may be paid to a retiree so that the total cost-of-living adjustment plus the pension cannot exceed 80 percent of the retiree's final average salary rather than the current 75 percent.

- House Bill Number 1042, Printer's Number 1187. At the request of Representative Lynn B. Herman, Majority Chairman, House Local Government Committee, on April 30, 2001, the Commission staff provided an advisory note on House Bill Number 1042, Printer's Number 1187. House Bill Number 1042, Printer's Number 1187, would amend the Municipal Police Pension Law (Act 600 of 1955) to: 1) 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 bill; 2) 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 bill, rather than stopping the benefit at age 18 as is presently required; 3) mandate payment to the surviving spouse or surviving child or children, if no spouse survives, of a survivor benefit of 50 percent of the

C. SYNOPSES OF ADVISORY NOTES. (Cont'd)

pension the deceased member was entitled to receive or was receiving; 4) 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; 5) 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; 6) 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 bill; 7) 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 bill; and 8) 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 bill.

- <u>House Bill Number 1064, Printer's Number 1223</u>. At the request of Representative Lynn B. Herman, Majority Chairman, House Local Government Committee, on July 23, 2001, the Commission staff provided an advisory note on House Bill Number 1064, Printer's Number 1223. House Bill Number 1064, Printer's Number 1223, would amend section 112 of the Pennsylvania Municipal Retirement Law retroactive to January 1, 2001, to extend to calendar years 2001, 2002, 2003, 2004, and 2005 the authority of the Pennsylvania Municipal Retirement System (PMRS) to use interest earnings in excess of the "regular interest" to pay administrative expenses not covered by the $20 a member a year assessments.

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 16, Printer's Number 10

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

Subject: Enhanced Benefits

SYNOPSIS

Senate Bill Number 16, Printer's Number 10, 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 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;
>
> 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;
>
> 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; and
>
> 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.

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, 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 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 section 1(a)(2) that provides definitions for "attending college" and "college" appear to be warranted.

Mandatory Survivor Benefits

Under 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 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. If the language that appears to grant benefits for the survivors of nonvested members is intended to provide the same benefits as are mandated for vested and retired members, which would appear to be the effect of the current language, the Commission's actuary indicated that substantial additional costs would result.

Surviving Spouse's Benefits Ceasing Upon Remarriage

Under 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 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 also provides some guidance on the interpretation and implementation of the proposal by defining the terms "attending college" and "college."

Amount of Survivor Benefits

Under 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

The intent of section 1 (a) (4) (i) (A) of the bill is unclear. The bill appears to create a new benefit entitlement for the beneficiaries of nonvested members by mandating the payment of pension benefits, without regard to the eligibility status of the member. Just how these benefits would be calculated is unclear, as the bill is silent on this point. 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. If the intent of the bill is to provide a survivor benefit to the beneficiaries of a nonvested member beyond the return of member contributions and interest, the approach for doing so should be more clearly articulated in the language of the bill.

Monthly Retirement Benefit

Under 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 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.

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 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 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. The use of the funded condition of the retirement fund to determine the benefit level to be provided in two-year periods will result in variations and accompanying inequities in benefit levels for members within individual pension plans.

SUMMARY OF ACTUARIAL COST IMPACT

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

	Amount
Changes in Unfunded Actuarial Accrued Liability	
Mandatory Survivor Benefits	$ 3,000,000 [2]
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 Change in Unfunded Actuarial Accrued Liabilities	$ 90,600,000 [2]

	Amount	As a % of Payroll
Increase in Employers' Annual Costs		
Normal Costs		
Mandatory Survivor Benefits	$ 140,000 [2]	
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% [2]
Amortization Payments[1]	8,130,000	2.65% [2]
Total Initial Increases in Employers' Annual Costs	$14,670,000	4.78% [2]

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

[2] If the language that appears to grant benefits for the survivors of nonvested members is intended to provide the same benefits as are mandated for vested and retired members, which would appear to be the effect of the current language, the Commission's actuary indicated that substantial additional costs would result.

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.

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 bill, 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 should 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.

Ambiguous Nonvested Survivor Benefit Provisions. The language in the bill appears to grant enhanced survivor benefits to the beneficiaries of nonvested members and is unclear as to the benefit amount. If the intent of the bill is to provide a survivor benefit to the beneficiaries of a nonvested member beyond the return of member contributions and interest, the benefit to be paid should be more clearly expressed in the language of the bill. As currently drafted, the Commission's consulting actuary did not estimate the potential costs of this benefit enhancement, which he indicated could be substantial with certain interpretations.

COMMISSION RECOMMENDATION

On March 14, 2001, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy considerations identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

Senate Bill Number 16, Printer's Number 10, was reported as amended from the Senate Finance Committee on May 22, 2001.

Bill ID: Amendment 4381 to Senate Bill Number 16, Printer's Number 1217

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

Subject: Enhanced Benefits

SYNOPSIS

Amendment 4381 would amend Senate Bill Number 16, Printer's Number 1217, to:

> Provide that the survivor benefit mandated by the bill be calculated at no less than 50 percent (rather than at 50 percent) of the pension the deceased member was entitled to receive or was receiving if an active police officer dies, if an officer who was eligible for a pension but had not begun collecting the pension dies;
>
> Include a surviving child 23 years of age in the surviving children above 18 years of age to be eligible to continue receiving a survivor benefit, if the child is attending college on or after the effective date of the bill, rather than stopping the benefit at age 22 as is presently proposed in the bill;
>
> Provide that the retirement benefits payable to members be calculated at no less than 50 percent and no more than 65 percent of the member's monthly average salary (rather than at 50 percent);
>
> Remove language in the bill providing for immediate survivor benefits to non-vested members and for variable survivor benefits based on the actuarial condition of the pension fund;
>
> Remove conditional language in the Law that limits the ability of the governing body of the municipality to annually set the rate of member contributions to the police pension fund; and
>
> Make various language clarifications to language in the bill.

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, 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.

Surviving Child's Benefits

Under current Law, if survivor benefits are being paid to a surviving child, the benefits are payable only so long as the child is less than age 18. The amendment would require that a surviving child 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.

Amount of Survivor Benefits

Under current Law, the optional survivor benefit is ***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 mandates the survivor benefit of 50 percent and the amendment would provide that the survivor benefit be ***no less than*** 50 percent. In the experience of the Commission's consulting actuary, the majority of Act 600 pension plans already provide the survivor's benefit currently provided as an option under the law. In preparing the following actuarial cost estimate, the Commission's actuary assumed that, on average, Act 600 police pension plans would increase the amount of the survivor benefits to 60 percent from the current 50 percent survivor benefit.

Monthly Retirement Benefits

Under 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 would change Act 600 to provide that the monthly pension benefit payable to retired members be calculated to be ***no less than*** one-half and ***not more than*** 65 percent of the members monthly average salary. It is difficult to determine a state-wide, overall actuarial cost with respect to this benefit change because the change to the normal retirement benefit is optional, because the benefit can be increased to any level from 50 percent to a maximum of 65 percent, and because implementation will occur through the collective bargaining process over many years.

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

Monthly Retirement Benefit Increase[2]

	Maximum Implementation For 50% of Members		Maximum Implementation For 100% of Members	
Increase in Unfunded Actuarial Accrued Liability	$100,000,000		$200,000,000	
	Amount	**As a % of Payroll**	**Amount**	**As a % of Payroll**
Increase in Employer Annual Costs[1]				
Normal Cost	$ 6,500,000	1.87%	$13,000,000	3.74%
Amortization Payment	13,600,000	3.91%	27,200,000	7.82%
Total	$20,100,000	5.78%	$40,200,000	11.56%

Survivor's Benefit Increase

	Amount
Increase in Unfunded Actuarial Accrued Liability	$15,000,000 - $16,000,000

	Amount	As a % of Total Payroll
Increase in Employer Annual Costs		
Normal Cost	$500,000	0.14%
Amortization Payment	$2,044,000 - $2,180,000	0.59% - 0.63%
Total	$2,544,000 - $2,680,000	0.73% - 0.77%

1 The increases in aggregate normal costs, when stated as percentages of payroll could be viewed as roughly approximating cost increases and would be most accurate where the demographics of the individual plan is the same as the average statewide demographics. The increases in amortization, when expressed as percentages of payroll, could be viewed as roughly approximating funding increases where an unfunded actuarial accrued liability exists in the plan.

2 There is some cost mitigation in those instances where the municipal pension plans have automatic cost-of-living provisions, which was considered in the actuary's analysis of the cost.

POLICY CONSIDERATIONS

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

Benefit Level. Increasing the monthly retirement benefit above 50 percent of salary may result in total retirement benefits, including Social Security benefits, that exceed pre-retirement income. The General Assembly must determine whether the proposed change is appropriate within the context of total post-retirement income.

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 statutorily required increased contributions by the benefitted members. However, there are many municipalities that may increase member contributions, subject to collective bargaining, as current member contributions are less than the mandated maximum specified in the Law.

Clarification of Provisions. The amendment clarifies language in the bill, removes unclear language that provided for immediate survivor benefits to non-vested members, and removes language in the bill providing variable survivor benefits based on the actuarial condition of the police pension fund.

Administrative Improvement. The amendment removes the conditions of an actuarial study and the absence of municipal contributions as necessary before the governing body of the municipality is permitted to set the member contribution rate, making the process more compatible with the collective bargaining process and less costly.

COMMISSION RECOMMENDATION

On December 6, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

Senate Bill Number 16, Printer's Number 1217, passed the Senate on June 20, 2001, and was reported as amended from the House Local Government Committee on December 5, 2001.

Bill ID: Amendment 4542 to Senate Bill Number 16, Printer's Number 1217

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

Subject: Enhanced Benefits

SYNOPSIS

Amendment 4542 would amend Senate Bill Number 16, Printer's Number 1217, to:

> Provide that the survivor benefit mandated by the bill be calculated at no less than 50 percent (rather than at 50 percent) of the pension the deceased member was entitled to receive or was receiving if an active police officer dies, if an officer who was eligible for a pension but had not begun collecting the pension dies;
>
> Include a surviving child 23 years of age in the surviving children above 18 years of age to be eligible to continue receiving a survivor benefit, if the child is attending college on or after the effective date of the bill, rather than stopping the benefit at age 22 as is presently proposed in the bill;
>
> Remove language in the bill providing for immediate survivor benefits to non-vested members and for variable survivor benefits based on the actuarial condition of the pension fund;
>
> Remove conditional language in the Law that limits the ability of the governing body of the municipality to annually set the rate of member contributions to the police pension fund; and
>
> Make various language clarifications to language in the bill.

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, 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.

Surviving Child's Benefits

Under current Law, if survivor benefits are being paid to a surviving child, the benefits are payable only so long as the child is less than age 18. The amendment would require that a surviving child 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.

Amount of Survivor Benefits

Under current Law, the optional survivor benefit is ***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 mandates the survivor benefit of 50 percent and the amendment would provide that the survivor benefit be ***no less than*** 50 percent. In the experience of the Commission's consulting actuary, the majority of Act 600 pension plans already provide the survivor's benefit currently provided as an option under the law. In preparing the following actuarial cost estimate, the Commission's actuary assumed that, on average, Act 600 police pension plans would increase the amount of the survivor benefits to 60 percent from the current 50 percent survivor benefit.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission reviewed Amendment Number 4381 to Senate Bill Number 16, Printer's Number 1217, which contains a survivor benefit increase identical to that provided in Amendment Number 4542 to Senate Bill Number 16, Printer's Number 1217. Based upon his review, he estimates that the survivor's benefit increase provided for in the amendment would have the following actuarial cost impact.

Survivor's Benefit Increase

	Amount
Increase in Unfunded Actuarial Accrued Liability	$15,000,000 - $16,000,000

	Amount	As a % of Total Payroll
Increase in Employer Annual Costs		
Normal Cost	$500,000	0.14%
Amortization Payment	$2,044,000 - $2,180,000	0.59% - 0.63%
Total	$2,544,000 - $2,680,000	0.73% - 0.77%

POLICY CONSIDERATIONS

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

Clarification of Provisions. The amendment clarifies language in the bill, removes unclear language that provided for immediate survivor benefits to non-vested members, and removes language in the bill providing variable survivor benefits based on the actuarial condition of the police pension fund.

POLICY CONSIDERATIONS (CONT'D)

Administrative Improvement. The amendment removes the conditions of an actuarial study and the absence of municipal contributions as necessary before the governing body of the municipality is permitted to set the member contribution rate, making the process more compatible with the collective bargaining process and less costly.

COMMISSION RECOMMENDATION

On December 6, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

Senate Bill Number 16, Printer's Number 1217, passed the Senate on June 20, 2001, and was reported as amended from the House Local Government Committee on December 5, 2001. Senate Bill 16 as amended by Amendment Number 4542 passed the House on December 11, 2001, and was referred to the Senate Rules and Executive Nominations Committee as Senate Bill Number 16, Printer's Number 1585 on December 12, 2001.

Bill ID: Senate Bill Number 129, Printer's Number 136

System: State Employees' Retirement System

Subject: Enhanced Retirement Benefits for Prison Security Officers

SYNOPSIS

Senate Bill Number 129, Printer's Number 136, 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 106 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 108,035 active members in SERS.

Among the 106 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. There are 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 enhanced benefits are premised on the hazardous nature of public safety employment and the physical and psychological demands 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 by the years of credited 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 be eligible to receive a Social Security benefit in retirement. 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. For State Police Officers, 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 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 or successor classification determined by the State Employees' Retirement Board to be functionally the same as one of the listed classifications.

One basic issue of public pension policy involves determining the extent to which an employee's preretirement income should be replaced by the pension benefit. Suggested replacement values vary based both upon the assumptions and 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 the employer and employee contribute. The amount of preretirement income replaced by Social Security benefit payments is a function of an individual's years of employment and compensation through the working lifetime. Social Security 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 benefits probably will replace about 25 percent of an individual's preretirement income. Because the SERS pension benefit payments and Social Security benefit payments are exempt from Social Security, Medicare, state income, and local earned income taxes, a retired member of SERS living in Pennsylvania probably needs to replace 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 benefit of 25 percent would provide a total retirement benefit under the bill of about 100 percent of final compensation.

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 the field of public penal institutions would appear to be outside the area of expertise of the Board. Instead, the Bureau of Human Resources & Management of the Office of Administration would appear to be the state entity with the appropriate classification expertise.

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

SUMMARY OF ACTUARIAL COST IMPACT

On January 24, 2000, the consulting actuary of the Commission prepared an actuarial note for a proposal substantially similar to Senate Bill Number 129, Printer's Number 136 (House Bill Number 2072, Printer's Number 2725, of the 1999-2000 legislative session) and concluded that the bill would have the following annual cost impact.

	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 Code 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 Human Resources & Management of the Office of Administration appears to be the state agency better suited to make these classification determinations.

Potential for Inequality. Under the bill, the employee classifications defining prison security officers excludes the classification of corrections officer 5. The public pension policy reason for this exclusion is not apparent. In addition, there are other State employees involved in hazardous public safety work that are not included in the proposed benefit enhancement.

Potential for Promotional Problems. Because the job classification of 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 a corrections officer 4 to corrections officer 5 because of the loss of a materially enhanced pension benefit upon promotion.

Potential for Salary Manipulation. The use of the *highest annual* salary rather than the use of the *final average* salary (highest three years of compensation) in the calculation of a member's annuity may result in the artificial inflation of the member's salary for the purpose of enhancing the final pension benefit amount, and may not be readily accounted for in the determination of the actuarial funding requirements.

Impact of Calendar-Year Salary Base. Because the salary base used in determining the pension benefit is based on the calendar-year, rather than any twelve consecutive months, the retirement pattern may be compressed into the period immediately following the end of each calendar-year.

Design Consideration. The non-linear benefit progression between 20 years and 25 years of service contained in section 4(1)(ii) of the bill is unusual and not consistent with generally accepted designs that provide for incrementally increased benefits for each additional year of service.

COMMISSION RECOMMENDATION

On April 26, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

Senate Bill Number 129, Printer's Number 136, was referred to the Senate Finance Committee on January 29, 2001.

Bill ID: Senate Bill Number 190, Printer's Number 197

System: Public School Employees' Retirement System

Subject: Purchase of Service Credit for Nonschool Service for Vocational Teacher Work Experience

SYNOPSIS

Senate Bill Number 190, Printer's Number 197, would amend the Public School Employees' Retirement Code to permit an active member or active multiple service member to purchase up to three years of service credit at the rate of one year 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: 1) the member contributes a sum equivalent to the present value of the full actuarial cost of the increase in the projected superannuation annuity caused by the additional service credit because of the purchase; and 2) the member is prohibited from withdrawing the contribution made for the service purchase as a lump sum under PSERS Retirement Option 4.

Members would have three years from the effective date of the Act to elect to purchase the service credit.

DISCUSSION

Public School Employees' Retirement System

The Public School Employees' Retirement System (PSERS) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of PSERS is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 1999, there were 664 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, 1999, there were 223,495 active members of PSERS.

Under the PSERS Code, a member may retire at age 60 with 30 years of service credit, age 62 with one year of service credit, or at any age with 35 years of service credit. The pension is the product of two percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Public employee defined benefit pension plan provisions that permit a member to receive credit for service with another employer are of value to the member because they enhance the retirement benefit and also may accelerate retirement eligibility.

Active members and active multiple service members of PSERS currently are able to purchase service credit for the following types of nonschool service: approved leaves of absence without pay, intervening and nonintervening military service, service in public education in another state or with the federal government, service in public education in a community college under the Community College Act, service with a county school board where administrative duties or the agency was transferred to some other governmental entity with PSERS coverage, service as a county nurse, service for time spent on a mandated maternity leave prior to 1978, and certain service performed while in the Cadet Nurse Corps during World War II.

Work Experience Required for Permanent Certification as a Vocational Teacher

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

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

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

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

* Figures based on 1998 data.

Member's Contribution

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

SUMMARY OF ACTUARIAL COST IMPACT

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

Although there will be no direct actuarial cost to the employers for the increased PSERS benefits under the bill, there may be other retirement benefit costs incurred by the employers. By purchasing service credit in PSERS for nonschool service, a member either may become eligible for other postretirement benefits sooner than otherwise or may achieve eligibility when the member could not otherwise do so. Such benefits may include special early retirement or employer-subsidized postretirement medical insurance.

POLICY CONSIDERATIONS

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

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

Inequity of Certain Service Purchase Authorizations. The Commission recommended that service credit purchase authorizations not be employed as a means of recognizing the past education, training, or work experience of public employees. The use of service credit purchase authorizations on an ad hoc basis to recognize past education, training, or experience requires policy makers to make arbitrary determinations concerning what types of past service should be purchasable and results in inequitable treatment of public employees.

Appropriateness of Credit for Vocational Teacher Experience. 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 type of service to be made purchasable under the bill is not among these types of service.

Adequacy of Purchase Payments. The bill requires payment by a member of the full actuarial cost of the increased benefit obtained by virtue of the service credit purchase, thus preventing an actuarial cost to the employers.

Prohibition of Option 4 Withdrawal of Purchase Contribution. For service credit purchase authorizations to be at the full actuarial cost, the authorization must prohibit a lump sum withdrawal of the purchase contribution under Option 4 by the member upon retirement or upon leaving employment with entitlement to a vested deferred benefit. The bill contains such a prohibition.

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

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

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

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

COMMISSION RECOMMENDATION

On March 14, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

Senate Bill Number 190, Printer's Number 197, was referred to the Senate Finance Committee on January 30, 2001.

Bill ID: Senate Bill Number 210, Printer's Number 218

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

Subject: Granting New "30 and Out" Windows

SYNOPSIS

Senate Bill Number 210, Printer's Number 218, 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").

Under Senate Bill Number 210, Printer's Number 218, an eligible individual would be either:

> A member of PSERS who has at least 30 eligibility points, terminates service and files an application for an annuity with an effective date of retirement during the period July 1, 2001, to June 30, 2004; or
>
> A member of SERS who has at least 30 eligibility points, terminates service and files an application for an annuity with an effective date of retirement during the period July 1, 2001, to June 30, 2004.

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, 1999, there were 664 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
>
> 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 accrued actuarial 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 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. Based on the historical record, terminating the provisions and granting them again for members of PSERS and SERS will not produce an incentive for members to change this 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. Frequently granting short-period early retirement windows 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-year, two-year, three-year and permanent extensions of the special early retirement provisions, assuming retirement rates of 5, 10, and 15 percent. In addition, PSERS 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, based on an extrapolation of these data to June 30, 2004, has determined that the new early retirement provisions contained in the bill will result in the following costs.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$490,000,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs [1]		
Normal Cost	$ 8,000,000	0.08%
Amortization Payment [2]	39,000,000	0.39%
Total Increase in Employer Annual Costs [3]	$47,000,000	0.47%

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

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

[3] First year costs only.

State Employees' Retirement System

The consulting actuary of the State Employees' Retirement System has estimated the cost for a three-year "30 and Out" retirement window. The estimate has been reviewed by the consulting actuary of the Commission who has determined that, if SERS were not prefunding "30 and Out," the bill would result in the following cost.

	Amount
Increase in Unfunded Actuarial Accrued Liability [1]	$265,800,000

[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 employer contributions of about 0.65 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 a new special early retirement for members of PSERS and SERS so soon after the expiration of the previous provisions 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 and SERS.

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 14, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

Senate Bill Number 210, Printer's Number 218, was referred to the Senate Finance Committee on January 31, 2001.

Bill ID: Senate Bill Number 274, Printer's Number 276

System: Public School Employees' Retirement System

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

SYNOPSIS

Senate Bill Number 274, Printer's Number 276, would amend section 8304(b) of the Public School Employees' Retirement Code to permit an active member or an active multiple service member to purchase up to two years of service credit in the Public School Employees' Retirement System for nonschool service as a Peace Corps volunteer performed under the Peace Corps Act.

DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 2000, there were 695 participating units, generally school districts, area vocational-technical schools, charter 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, 2000, there were 234,210 active members of PSERS.

Under the Code as amended through Act 9 of 2001, members may retire at age 60 with 30 years of service credit, age 62 with one year of service credit, or at any age with 35 years of service credit. The retirement benefit is the product of 2.5 percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Public employee defined benefit pension plan provisions that permit members to receive credit for service with another employer are of value to the members because they enhance the retirement benefit and also may accelerate retirement eligibility.

Active members of PSERS may currently purchase credit for the following types of nonschool service: approved leaves of absence without pay, intervening and nonintervening military service, service in public education in another state or with the federal government, service in public education in a community college under the Community College Act, service with a county school board where administrative duties or the agency was transferred to some other governmental entity with PSERS coverage, service as a county nurse, service for time spent on a mandated maternity leave prior to 1978, and service in the Cadet Nurse Corps during World War II.

The bill would expand the list of purchasable nonschool service to include up to two years of service credit for nonschool service as a Peace Corps volunteer under the Peace Corps Act. The effect of the additional service credit would be to add an amount equal to up to five percent of the highest three years' salary to the value of the basic benefit prior to modification and may accelerate retirement eligibility.

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

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

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

SUMMARY OF ACTUARIAL COST IMPACT

The staff of the Commission estimated the number of active members and active multiple service members of PSERS who would be eligible under the bill based upon data received from the Peace Corps reflecting the total number of Pennsylvania residents that have thus far joined the Peace Corps. The demographics of these members are not known to the staff of the Commission. Based on this estimate, the Commission requested its consulting actuary to assume a current range of 400 to 600 active members and 10 to 15 eligible individuals who will become active members every year. The consulting actuary assumed that, on average, the purchasing member would have a salary of $50,000 a year, an average past salary growth of 6.0 percent, an employer normal contribution rate of 7.40 percent at the time of entry into school service, would purchase two years of service credit, and make the purchase just prior to retirement.

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

	Amounts
Increase in Unfunded Actuarial Accrued Liability	$4,500,000 - $6,700,000

	Amounts	As a % of Affected Payroll
Increase in Employer Annual Costs [1]		
Amortization Payment [2]	$700,000 - $1,100,000	3.7%
Total Increase in Annual Costs [3]	$700,000 - $1,100,000	3.7%

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

[2] Amortization calculated as level dollar payments over ten years, with ongoing diminimus annual increases attributable to new entrants.

[3] Initial amortization payments cease after 10 years.

POLICY CONSIDERATIONS

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

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

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

Appropriateness of Credit for Service as a Peace Corps Volunteer. The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The bill would permit purchase of service credit for a situation which is not among the situations that the Commission views as warranting service purchase authorizations.

Cost Effectiveness of Technical Provisions. For service credit purchase authorizations of this type, the Commission recommended that employees be required to exercise the purchase option within three years of becoming eligible to do so. The Commission also recommended that, in cases where the service credit purchase amount required to be paid by an employee includes amounts representing both employer and employee costs attributable to the purchased service credit, the portion of the payment representing employer cost be precluded from withdrawal by a member upon retirement or upon leaving employment with entitlement to a vested deferred benefit. The bill does not limit the time within which the member must exercise the purchase option nor does it exclude the portion of the purchase payment representing employer contributions from Option 4 lump sum withdrawal. The absence of both a limitation on the time that the purchase option is available and a restriction on withdrawal of the purchase amount under Option 4 will increase the costs to PSERS associated with the authorization to purchase credit for this nonschool service.

Adequacy of Purchase Payments. The statutory method for calculating the member contribution to purchase service credit for nonschool service when no other method is prescribed results in a member paying less than the full actuarial cost of the increased benefit acquired through the service credit purchase. The service credit purchase results in an increase in the unfunded actuarial accrued liability of PSERS and increased amortization payments by the employers and the Commonwealth. A service credit purchase transaction that favors a member at the expense of the retirement system is viewed by the Commission as appropriate only where necessary for the purpose of equity. If the bill were to be changed to require payment by a member of the full actuarial cost of the increased benefit obtained by virtue of the service credit purchase, there would be no actuarial cost to the employers and the Commonwealth.

COMMISSION RECOMMENDATION

On October 4, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

Senate Bill Number 274, Printer's Number 276, was referred to the Senate Finance Committee on February 5, 2001.

Bill ID: Senate Bill Number 381, Printer's Number 394

System: Public School Employees' Retirement System

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

SYNOPSIS

Senate Bill Number 381, Printer's Number 394, would amend the Public School Employees' Retirement Code to:

> Reduce from two years to one year the minimum amount of nonschool service in the Cadet Nurse Corps needed to purchase service credit in the Public School Employees' Retirement System (PSERS) for this nonschool service; and
>
> Modify the restriction on the purchase of service credit for nonschool service in the Cadet Nurse Corps from active members, active multiple service members, and retirees who were active members after December 31, 1988, to only retirees who left school service after January 1, 1984, and before September 1, 1998.

DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 1999, there were 664 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 in PSERS.

Under the Code, members may retire at age 60 with 30 years of service credit, age 62 with one year of service credit, or at any age with 35 years of service credit. The pension is the product of two percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Public employee defined benefit pension plan provisions that permit members to receive credit for service with another employer are of value to the members because they enhance the retirement benefit and also may accelerate retirement eligibility.

Active members and active multiple service members of PSERS currently are able to purchase credit for the following types of nonschool service: approved leaves of absence without pay, intervening and nonintervening military service, service in public education in another state or with the federal government, service in public education in a community college under the Community College Act, service with a county school board where administrative duties or the agency was transferred to some other governmental entity with PSERS coverage, service as a county nurse, service for time spent on a mandated maternity leave prior to 1978, and service in the Cadet Nurse Corps during World War II.

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

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

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

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

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

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

SUMMARY OF ACTUARIAL COST IMPACT

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

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

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

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

[2] First year cost. Payments increase 5% a year for 20 years.

[3] First year only.

POLICY CONSIDERATIONS

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

Unusual Benefit Design. It is very unusual to permit retirees to purchase service credit and even more unusual to restrict those permitted to purchase service credit to certain retirees only, particularly retirees who never were active members during a time period in which the service credit could be purchased.

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

Technical Problem.

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

COMMISSION RECOMMENDATION

On March 14, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

Senate Bill Number 381, Printer's Number 394, was referred to the Senate Finance Committee on February 8, 2001.

Bill ID: Senate Bill Number 485, Printer's Number 512

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

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

SYNOPSIS

Senate Bill Number 485, Printer's Number 512, 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 mutual fund companies with investment options meeting the requirements of a qualified plan under the Internal Revenue Code. The alternative retirement plans are to be 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 and mutual fund companies as additional, employer-approved, alternate, retirement programs.

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 companies approved by their employers as an alternative to TIAA—CREF.

Drafting Error. There is an apparent, inadvertent drafting error that should be corrected by striking out "or" in line 2 of page 2 of the bill and inserting "or in" after "Commonwealth," in line 4 of page 2.

COMMISSION RECOMMENDATION

On May 7, 2001, the Commission voted to recommend that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

Senate Bill Number 485, Printer's Number 512, was amended on second consideration in the Senate on June 4, 2001. A later version of the bill, Senate Bill Number 485, Printer's Number 1236, was signed into law as Act 35 of 2001 on June 22, 2001.

Bill ID: Senate Bill Number 486, Printer's Number 513

System: State Employees' Retirement System

Subject: Defined Contribution Retirement Plan Alternative

SYNOPSIS

Senate Bill Number 486, Printer's Number 513, 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.

Under the provisions of the bill, 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 may 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

On August 29, 2000, the Commission's consulting actuary prepared an actuarial note on Senate Bill Number 1459, Printer's Number 1982, a bill which is substantially identical to Senate Bill Number 486, Printer's Number 513. The following summarizes the findings of the actuary.

State Employees' Retirement System

The bill will have no actuarial cost impact on the State Employees' Retirement System. In the long-term, the dollar amount of 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**
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.

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.

Lack of Uniformity. The General Assembly usually has attempted to retain uniformity between the benefits in the State Employees' Retirement System and the Public School Employees' Retirement System. With each system's board being given the authority to approve one or more of its own defined contribution plans, there is the possibility of differences in plan provisions both within the same system and between the two systems.

COMMISSION RECOMMENDATION

On May 7, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

Senate Bill Number 486, Printer's Number 513, was referred to the Senate Appropriations Committee on April 2, 2001.

Bill ID: Senate Bill Number 487, Printer's Number 514

System: Public School Employees' Retirement System

Subject: Defined Contribution Retirement Plan Alternative

SYNOPSIS

Senate Bill Number 487, Printer's Number 514, 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

On August 29, 2000, the Commission's consulting actuary prepared an actuarial note on Senate Bill Number 1458, Printer's Number 1981, a bill which is substantially identical to Senate Bill Number 487, Printer's Number 514. The following summarizes the findings of the actuary.

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 dollar amount of 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.

<u>Plan Design</u>. 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.

<u>Allocation of Costs of Future Benefit Improvements in PSERS</u>. 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.

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.

Lack of Uniformity. The General Assembly usually has attempted to retain uniformity between the benefits in the State Employees' Retirement System and the Public School Employees' Retirement System. With each system's board being given the authority to approve one or more of their own contribution benefit plans, there is the possibility of differences in plan provisions both within the same system and between the two systems.

COMMISSION RECOMMENDATION

On May 7, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

Senate Bill Number 487, Printer's Number 514, was referred to the Senate Appropriations Committee on April 2, 2001.

Bill ID: Senate Bill Number 608, Printer's Number 738

Systems: State Employees' Retirement System

Subject: Purchase of Credit
for Nonstate Service as a Municipal or Federal Employee

SYNOPSIS

Senate Bill Number 608, Printer's Number 738, would amend sections 5304(c) and 5505 of the State Employees' Retirement Code (Code) to permit an active member or an active multiple service member to purchase service credit in the State Employees' Retirement System (SERS) for previous nonstate service as an employee of a Pennsylvania municipality or as an employee of the federal government, provided that:

The election is made from July 1, 2001, through June 30, 2003;

The member was a member of or was eligible to join as a member of a Pennsylvania municipal retirement system, to include the retirement system of any county, city, borough, incorporated town or township; or the member was a member of or was eligible to join as a member of a federal retirement system;

The member could not, upon leaving municipal or federal service, have drawn any type of retirement benefit, excluding the return of employee contributions and interest;

The nonstate service credit purchased does not exceed the lesser of five years or one-half of the member's state service at the time of application for the credit; and

The member's purchase contribution for the service credit is determined in the same manner as nonintervening military service under section 5505(b).

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 106 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 108,035 active members in SERS.

Under the Code, most members are eligible to retire and receive full, unreduced retirement benefits at age 60 with three years of service credit, or at any age with 35 years of service credit. The pension is the product of two percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Public employee defined benefit pension plan provisions that permit a member to receive additional service credits are of value to the member because they enhance the retirement benefit and also may accelerate retirement eligibility.

The bill would expand the list of purchasable nonstate service to include service as an employee of a Pennsylvania municipality or employee of the federal government, subject to certain restrictions. A member could not purchase more nonstate service than one-half of the credited State service that the member has at the time of purchase, and in no event, more than five years. The effect of the additional service credit would be to increase the member's SERS annuity by an amount equal to two percent of the member's final average salary for every year of service credit purchased.

The bill requires that, in order to be eligible to purchase credit for the nonstate service, the member must either have been a member of the former employer's retirement system or been eligible to join the former employer's retirement system. Many Pennsylvania municipalities have no retirement system for nonuniformed employees. Under the bill, a member who had worked in such a municipality would not be eligible to purchase credit for the municipal service, while a member who elected not to join a municipal retirement system would be eligible to purchase credit for the municipal service.

Under section 5304 of the Code, a member cannot purchase credit for nonstate service for which the member is entitled to receive, eligible to receive now or in the future, or is receiving retirement benefits under a retirement system administered and wholly or partially paid for by any other governmental agency. In order to be eligible to purchase credit for nonstate service under the bill, a member either already will have surrendered, or will be required to surrender, retirement system rights in the municipal or federal retirement system in order to purchase credit in SERS for the nonstate service. Granting the purchase option to a SERS member who could have been a member of a municipal or federal retirement system may necessitate a difficult, after-the-fact determination by SERS of whether the individual could have joined the former retirement system.

The bill limits the exercise of the proposed purchase option to the two-year period of July 1, 2001, through June 30, 2003. The bill also proposes to use the section 5505(b) method to compute the member's purchase contribution, which means that in order to exercise the proposed purchase option, a member will have to have become a member of SERS before July 1, 2000, because the purchase contribution must be based on the member's average annual rate of compensation over the first three years of state service subsequent to the prior service being purchased. In public employee retirement systems, purchase of service credit options normally are available to any member who joins the system with the permitted prior service regardless of the date of entering the system. The public policy rationale for limiting the purchase option to individuals who became members prior to July 1, 2000, is not evident.

The bill would limit the time during which the proposed purchase option could be exercised to the two-year period from July 1, 2001, through June 30, 2003. Limiting the time during which a purchase of service credit option may be exercised in a public employee retirement system is not uncommon and is a prudent provision that reduces the actuarial loss to the system caused by the purchases.

The most appropriate means of specifying a time limit for a purchase of nonstate service credit is to require that the purchase option be exercised within a period of time after the member first becomes eligible to purchase the service credit. Unless the service for which credit is to be purchased was rendered previously during a finite period of time, the time limit usually is not implemented through specification of a termination date for the purchase option. Specification of a termination date where the type of service to be purchased is ongoing, as proposed in the bill, serves to restrict the purchasable service to service rendered prior to the specified termination date. Although this approach to a time limit for the service credit purchases reduces the costs of the proposal, there is a high probability that increased costs will be incurred through future extensions of the specified termination date because there is no apparent public pension policy rationale for the artificial distinction between prior and future service.

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

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

> Under the Code, a member under age 60 must have 35 years of service credit to retire and receive a full pension. The bill, therefore, would permit a 57-year-old member with 30 years of Commonwealth service to purchase five years of service credit for nonstate service 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, immediately terminate service and receive Commonwealth fully paid medical insurance for life.

SUMMARY OF ACTUARIAL COST IMPACT

The following table illustrates the estimated percentage of the full actuarial cost paid by the member for selected age and service combinations. The estimates are based on average career salary increases of 6.0% from time of entry to time at purchase. The consulting actuary of the Commission has estimated this percentage for a range of Commonwealth normal contribution rates at time of entry. These rates have ranged from a low of 3.60% to a high of 10.73%. As the Commonwealth normal contribution rate at time of entry increases, the percentage of the total cost paid by the member also increases.

Estimated Percentage of Total Cost Paid by the Member				
Current Age	**Current Service with SERS**	**Normal Contribution Rate = 3.60%**	**Normal Contribution Rate = 7.00%**	**Normal Contribution Rate = 10.73%**
30	5	47%	65%	84 %
40	10	66	92	120
50	20	48	67	88
60	30	32	45	58

The consulting actuary of the Commission also examined the effect of alternative average career salary growth rates on the estimated percentage paid by the member. The following table illustrates the effect of average career salary growth of 4.0%, 6.0%, and 8.0%, and assumes a Commonwealth normal contribution rate of 7.0% at time of entry. As the average career salary scale increases, the percentage of total cost paid by the member decreases.

Estimated Percentage of Total Cost Paid by the Member				
Current Age	**Current Service with SERS**	**Average Salary Increase of 4%**	**Average Salary Increase of 6%**	**Average Salary Increase of 8%**
30	5	70%	65%	61 %
40	10	109	92	78
50	20	96	67	47
60	30	77	45	26

The consulting actuary of the Commission has estimated the increase in the unfunded actuarial accrued liability due to these possible service purchases based on an average current annual salary of $40,000, average past salary growth of 6.0%, and a Commonwealth normal contribution rate of 7.0% at time of entry. The consulting actuary also assumed that, on average, members would purchase 2.5 years of service and that the members who purchase service would be those who advance their superannuation age. These estimates are summarized in the following table.

Estimated Actuarial Cost to the Commonwealth			
Number of Eligible Members who Purchase Service	**Estimated Increase in Unfunded Actuarial Accrued Liability**	**First Year Amortization Payment**	
		Amount	**% of Payroll**
200	$2,000,000	$ 100,000	0.00 %
600	6,000,000	400,000	0.01
1,000	10,000,000	700,000	0.02
2,000	20,000,000	1,500,000	0.03

POLICY CONSIDERATIONS

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

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

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

Appropriateness of Credit for Municipal/Federal 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 service for which credit is to be made purchasable under the bill does not occur under any of these situations. For the Commonwealth, the service credit authorization would represent permission to purchase credit for service with another government, a government that enjoyed an actuarial gain when the member terminated service or will enjoy an actuarial gain when the employee surrenders retirement system rights in order to purchase this service credit in SERS. The SERS fund will suffer an actuarial loss in permitting these purchases unless the bill is amended to require an employee to pay the full actuarial cost.

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

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

<u>Unequal Treatment of Similarly Situated Individuals</u>. The bill limits eligibility to purchase credit for the Pennsylvania municipal service to those individuals who were either members of or eligible to join the former employer’s retirement system, thereby preventing an individual who worked for a Pennsylvania municipality with no retirement system coverage from purchasing the credit.

<u>Documentation Problems</u>. In the case of a member applying to purchase credit for municipal or federal service that occurred many years prior to the purchase, the member, the municipal or federal entity, and SERS may encounter difficulty in documenting that the prior nonstate service was rendered.

<u>Exclusion from Early Retirement Provisions</u>. 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 an additional restriction to proposed section 5304(c)(9) to preclude members from applying the service credit purchased under this bill to qualify for any type of early retirement incentive.

COMMISSION RECOMMENDATION

On April 26, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

Senate Bill Number 608, Printer's Number 738, was referred to the Senate Finance Committee on March 20, 2001.

Bill ID: Senate Bill Number 988, Printer's Number 1199

System: Public School Employees' Retirement System

Subject: Purchase of Service Credit for Nonschool Service as an Elected County Official

SYNOPSIS

Senate Bill Number 988, Printer's Number 1199, would amend section 8304 of the Public School Employees' Retirement Code to permit an active member to purchase up to four years of service credit in the Public School Employees' Retirement System for previous nonschool service as an elected official of a Pennsylvania county pursuant to a valid leave of absence as provided for in section 11-1182 of the Public School Code of 1949. The bill would also make a leave of absence for serving as an elected county official an exception to the provision contained in section 11-1182 specifically prohibiting the crediting of service credit for time spent on a leave of absence for the purpose of holding elective public office.

DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 2000, there were 695 participating units, generally school districts, area vocational-technical schools, charter 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, 2000, there were 234,210 active members of PSERS.

Under the Code as amended through Act 9 of 2001, members may retire at age 60 with 30 years of service credit, age 62 with one year of service credit, or at any age with 35 years of service credit. The retirement benefit is the product of 2.5 percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Public employee defined benefit pension plan provisions that permit members to receive credit for service with another employer are of value to the members because they enhance the retirement benefit and also may accelerate retirement eligibility.

Active members of PSERS may currently purchase credit for the following types of nonschool service: approved leaves of absence without pay, intervening and nonintervening military service, service in public education in another state or with the federal government, service in public education in a community college under the Community College Act, service with a county school board where administrative duties or the agency was transferred to some other governmental entity with PSERS coverage, service as a county nurse, service for time spent on a mandated maternity leave prior to 1978, and service in the Cadet Nurse Corps during World War II.

The bill would expand the list of purchasable nonschool service to include up to four years service credit for previous service as an elected official of a Pennsylvania county in connection with an authorized leave of absence as provided for in section 11-1182 of the Public School Code of 1949. Under the Public School Code, any full-time employee of a school entity who has been an employee for at least five years and who has been elected to public office in any county of the Commonwealth, is entitled to an unpaid leave of absence for the first four years of the elected period of service. Section 11-1182 of the Public School Code currently prohibits employees from eligibility for retirement credit or the purchase of retirement credit at any future date for time spent on a leave of absence. The bill would repeal the portion of section 11-1182 that prohibits school employees from purchasing retirement credit for time spent on a leave of absence.

The effect of the additional service credit would be to increase the annuity of a PSERS member by 2.5 percent of the member's final average salary for every year of service credit purchased. (For example, a purchase of four 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 nonschool service credit is the method specified in section 8324(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 level dollar amortization payments over a 10-year period.

In addition to the direct actuarial cost to the Commonwealth for the increased PSERS benefits under the bill, there may be other retirement benefit costs incurred by the Commonwealth. By purchasing service credit in PSERS for nonschool service, a member either may become eligible for other postretirement benefits sooner than otherwise or may achieve eligibility for these benefits when the member could not otherwise do so. Also, under certain current Executive Board actions and collective bargaining agreements, total years of service credit in PSERS are used to determine eligibility for some ancillary retirement benefits that are not provided for in the Code.

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

SUMMARY OF ACTUARIAL COST IMPACT

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

In estimating the percentage to be paid by the member, the Commission's consulting actuary assumed that, on average, four years of service would be purchased, and that purchases would occur just prior to the member's retirement from PSERS. Because the member can withdraw his contributions under Option 4 immediately upon retirement, it is financially advantageous for the member to wait until just before retirement to elect to purchase the service credits.

The following table shows the estimated percentage of the actuarial cost paid by a member who was hired at age 25, left at some point in his career for a 4-year authorized leave of absence as an elected official, and returned to school service for selected ages at re-entry into school service. The estimates are based on average career salary increases of 6.0% from time of re-entry to time at purchase and assume that the member purchases four years of service, and that the member has elected the increased benefit under Act 9 of 2001. The table also shows estimated percentages for a range of employer normal contribution rates at the time of entry. These rates have ranged from a low of 5.63% to a high of 9.16%. As the employer normal contribution rate at the time of re-entry increases, the percentage of the cost paid by the member increases.

Age at Re-Entry into School Service	Age at Retirement	Normal Contribution Rate = 5.63%	Normal Contribution Rate = 7.40%	Normal Contribution Rate = 9.16%
		Estimated Percentage of Total Cost Paid by Member		
40	60	35%	40%	46%
45	60	39%	44%	50%
40	60	43%	49%	55%
55	60	47%	54%	61%

The Commission's consulting actuary also looked at the effect of alternative average career salary increase rates on the estimated percentage paid by the member. The following table illustrates the effect of average career salary increases of 4.00%, 6.00%, and 8.00% and an employer normal contribution rate at time of re-entry of 7.40%. As shown below, as the average career salary scale increases, the percentage of the cost paid by the member decreases.

Age of Re-Entry into School Service	Age at Retirement	Average Salary Increase of 4%	Average Salary Increase of 6%	Average Salary Increase of 8%
		Estimated Percentage of Total Cost Paid by Member		
40	60	59%	40%	28%
45	60	59%	44%	34%
50	60	59%	49%	41%
55	60	59%	54%	49%

Note that as the amount of service being purchased increases, the percentage of the cost being paid by the member does not vary significantly. However, if the service purchase allows the member to retire earlier than he could have without the service purchase, the portion of the full actuarial cost of the increased benefit paid by the member decreases from the above figures.

Also note that a member contribution rate of 6.25% was used in developing the above percentages. This is the rate assumed at the time of re-entry into school service. If the member purchasing service contributed at re-entry into school service based on a contribution rate of 5.25%, the percentage of the total cost paid by the member would decrease. If the member purchasing service contributed based on a contribution rate of 6.50% or 7.50%, the percentage of the total cost paid by the member would increase. If the member did not elect the increased benefits under Act 9, the percentage of the total cost paid by the member would increase.

The Commission's consulting actuary estimated the increase in the unfunded actuarial accrued liability due to these possible purchases based on an average salary of $50,000, average past salary growth of 6.0%, an average member contribution rate of 6.25% and an average employer normal contribution rate of 7.40% at time of entry. These estimates are summarized in the following table.

Number of Eligible Members who Purchase Service Just Prior to Retirement	**Estimated Increase in Unfunded Actuarial Accrued Liability at Retirement**
5	$120,000
15	$360,000
30	$720,000

Any increase in the unfunded actuarial accrued liability will be amortized over 10 years by level dollar amortization payments. The first year amortization of the above estimated increases ranges from $20,000 (or approximately 8.0% of affected payroll) to $120,000 (or approximately 8.0% of affected payroll).

Cost of Ancillary 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 PSERS for nonschool service, a member either may become eligible for other postretirement benefits, such as fully state-paid health 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 PSERS Members. The bill does not treat all similarly situated PSERS members equally. The purchase of service option is restricted to prior intervening service as an elected official of a Pennsylvania county and thereby excludes other types of prior service in counties and 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 intervening service as an elected official of a Pennsylvania county to be purchased. The bill may serve as a precedent for other PSERS members with previous public employment service in counties and other local governments in Pennsylvania and elsewhere to request the option to purchase service credit for that nonschool 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 initiated 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 PSERS 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.

Policy Modification. The Public School Code currently prohibits granting service credit for time spent on a leave of absence for the purpose of holding elective public office. The bill would make an exception to this policy by allowing service credit for time spent on a leave of absence if the leave of absence was taken to serve in an elected county office.

COMMISSION RECOMMENDATION

On November 15, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

Senate Bill Number 988, Printer's Number 1199, was referred to the Senate Finance Committee on June 14, 2001.

Bill ID: House Bill Number 8, Printer's Number 611

System: Public School Employees' Retirement System

Subject: Various Benefit Enhancements

SYNOPSIS

House Bill Number 8, Printer's Number 611, would amend the Public School Employees' Retirement Code to:

> Reduce the employee contribution rate from the current rate of 6.25% to 5.25% beginning July 1, 2002.
>
> Increase health insurance premium assistance benefits to eligible annuitants from the current $55 per month to $150 per month, and to redefine "eligible annuitant" to include members with 15 or more eligibility points and who are age 65 or older.
>
> Provide for the crediting of additional service credit (called "enhanced year service credit") to employees who work more than the standard 180-day school year.
>
> Permit an annuitant to return to school service as a coach, director, advisor, coordinator or sponsor without being subject to the cessation of annuity provisions.
>
> Permit an annuitant to return to school service in the event of emergency without being subject to the cessation of annuity provisions.
>
> Permit an active member or active multiple service member to purchase up to three years of service credit at the rate of one year 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.
>
> Establish the "30 and Out" early retirement incentive as a permanent benefit provision.

An Overview of the Public School Employees' Retirement System

The Public School Employees' Retirement System (PSERS) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of PSERS is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 1999, there were 664 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, 1999, there were 223,495 active members of PSERS, there were also 121,064 regular and early retirees, 5,384 disability retirees, and 6,421 survivor beneficiaries receiving benefits from PSERS.

Under the PSERS Code, a member may retire at age 60 with 30 years of service credit, age 62 with one year of service credit, or at any age with 35 years of service credit. The pension is the product of two percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Public employee defined benefit pension plan provisions that permit a member to receive additional service credits are of value to the member because they enhance the retirement benefit and also may accelerate retirement eligibility.

Active members and active multiple service members of PSERS may purchase service credit for the following types of nonschool service: approved leaves of absence without pay; intervening and nonintervening military service; service in public education in another state or with the federal government; service in public education in a community college under the Community College Act; service with a county school board where administrative duties or the agency was transferred to some other governmental entity with PSERS coverage; service as a county nurse; service for time spent on a mandated maternity leave prior to 1978; and certain service performed while in the Cadet Nurse Corps during World War II.

Reduction in Employee Contribution Rate.

SYNOPSIS

The proposal would amend section 8102 of the Public School Employees' Retirement Code (Code) to reduce the basic (member) contribution rate from 6.25 percent of compensation to 5.25 percent of compensation commencing July 1, 2002.

DISCUSSION

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

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

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

Act 31 of 1983 also amended the State Employees' Retirement Code to provide that the additional member contribution of 1.25 percent of compensation would continue "until such time as the actuary certifies that all accrued liability contributions have been completed in accordance with the actuarial cost method . . . ." The December 31, 1992, actuarial valuation report for SERS showed that all actuarial accrued liabilities had been completed in accordance with the statute and, therefore, the additional 1.25 percent member contribution was discontinued effective July 1, 1993. No such provision was amended into the PSERS Code, although section 13 of Act 31 of 1983 provided that "[i]ncreased contributions to the Public School Employees' Retirement Fund as a result of the increase in the basic contribution rate shall be used to improve the actuarial soundness of the fund by reducing accrued liability."

Health Insurance Premium Assistance

SYNOPSIS

The proposal would: 1) beginning July 1, 2001, amend the definition of "eligible annuitant" in section 8102 of the PSERS Code, which sets forth eligibility criteria for participation in the Health Insurance Premium Assistance Program under section 8509, to include members with 15 or more eligibility points who are age 65 or older; and 2) amend section 8509 of the Code by increasing health insurance premium assistance payments from the lesser of $55 per month or the amount of the participant's actual monthly premium, to the lesser of $150 per month or the amount of the participant's actual monthly premium.

DISCUSSION

Eligibility Criteria. Under the PSERS 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 proposal would amend the Code to change the third eligibility category in two ways.

> Beginning July 1, 2001, any retiree with 15 or more but less than 24½ years of service and who 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.)

DISCUSSION (CONT'D)

Health Insurance Premium Assistance Program. The proposal would increase current health insurance premium assistance payments from the lesser of $55 per month or the amount of the participant’s actual monthly premium, to the lesser of $150 per month or the amount of the participant’s 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.

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.

Enhanced-Year Service Credit

SYNOPSIS

The proposal would amend the Public School Employees’ Retirement Code (Code) to permit the crediting of additional service credit (termed “enhanced-year service credit”) to a member who has been employed for at least five years, during which time the member has worked at least 200 work days (or 1,500 hours) per year, excluding time worked under a supplemental contract. The intent of the proposal appears to be to grant additional service credit to administrative employees and other employees who work longer than the normal 180 day school year.

DISCUSSION

Section 8302 of the Public School Employees’ Retirement Code governs the crediting of school service for the purpose of determining retirement benefits for PSERS members. Under current law, a full-time salaried school employee receives one year of service credit for each full school year for which retirement contributions have been made. For the purposes of crediting service, a school year is defined as at least 180 full-day sessions or 1,100 hours of employment. A per diem or hourly employee receives one year of service credit for each nonoverlapping period of 12 consecutive months in which he is employed and for which contributions have been made. In no case may a member receive more than one year of service credit for any 12-month period of employment.

The proposal would amend the PSERS Code to permit the granting of additional service credit to school employees who work longer than the 180-day school year, with the following conditions:

That the employee is an active or vested member of PSERS who has been employed for a minimum of five years, during which time the employee worked a minimum of 200 work days or 1,500 hours per year, excluding time worked under the terms of a supplemental contract;

That the enhanced-year service credit shall be added only for the purpose of calculating an annuity and not for the purpose of adding eligibility points for an annuity; and

That the enhanced-year service credit is limited to a maximum of three years of additional service credit.

A member would receive enhanced-year service credit based on the following formula:

200-215 days worked per year (1,500 to 1,620 hours)	=	0.15	Multiplied by (x)	Years worked
215.1-235 days worked per year (1,620.1 to 1,770 hours)	=	0.20	Multiplied by (x)	Years worked
More than 235 days worked per year (More than 1,770 hours)	=	0.33	Multiplied by (x)	Years worked

The proposal represents a shift away from the current method of granting service credit and toward a more incremental method, possibly creating disparity between the PSERS and SERS methods of crediting service.

Because enhanced-year service credits can only be credited to a member for the purpose of calculating an annuity, and not for the purpose of adding eligibility points for an annuity, the enhanced-year service credits earned by members would need to be tallied separately from regular service credits, creating potential administrative burdens for both school employers and PSERS.

Return to Service Without Cessation of Annuity

SYNOPSIS

The proposal would amend the Public School Employees' Retirement Code to permit an annuitant (retiree) to be employed by a school district, intermediate unit, or area vocational school under a separate contract as a coach, director, or sponsor of a school activity without being subject to cessation of annuity or forfeiture of the ten percent retirement incentive if the contract specifies that no service credit will be earned in the Public School Employees' Retirement System (PSERS) and no contributions are made to PSERS by the retiree, the public school employer, or the Commonwealth for the work under the contract.

DISCUSSION

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

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

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

As of June 30, 1999, PSERS had 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 bill would apply only to those retirees who return to school service in one of the specified positions. The proposal would not apply to other retirees who might wish to or be asked to return to other types of school employment.

Return to School Service in an Emergency or During a Shortage of Appropriately Certified Personnel

SYNOPSIS

The proposal would amend the emergency return to service provisions of the PSERS Code by extending the current 95 day limit on the number of full-day school sessions per school year for which an annuitant (retiree) of PSERS may return to school service either in an emergency or during a shortage of "appropriately-certified personnel," if the additional time is used to complete an assignment as a substitute teacher filling a position that is temporarily vacant for more than one-half school term. During the return to service, 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. The proposal also limits the emergency return to service to not more than once every two years.

DISCUSSION

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 proposal would extend the number of allowable full-day sessions beyond the current 95 day limit in cases where work as a substitute teacher is being performed, additional time is required to complete a specific assignment, and the teaching position being filled has been temporarily vacant for one-half school term. The proposal also appears to liberalize the certification requirements by replacing the current requirement for "appropriate subject-certified teachers," with the somewhat more vague requirement for "appropriately certified personnel."

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 beyond 95 days could enable public schools to obtain the services of needed, experienced employees in certain critical situations.

Service Purchase for Work Experience to Obtain Certification as a Vocational Teacher

SYNOPSIS

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

DISCUSSION

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

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

Of the active members of PSERS, based on 1998 data, approximately 7,791 are vocational administrators, supervisors, or classroom teachers. About 1,000 of these individuals would be eligible under the purchase of service credit authorization proposed in the bill (17 with only a high school diploma, 726 with less than a bachelor's degree, and about 257 with a bachelor's or higher degree) all of whom have at least two years of work experience. In addition, about 45 to 50 individuals are so certified every year.

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

Establishment of "30 and Out" as a Permanent Benefit Provision

SYNOPSIS

The proposal would amend the Public School Employees' Retirement Code by establishing the "30 and Out" special early retirement incentive as a permanent benefit provision.

DISCUSSION

Under the proposal an eligible individual would be an active member of PSERS who has at least 30 eligibility points, terminates service, and files an application for an annuity with an effective date of retirement on or after the effective date of the Act.

Temporary provisions of the Code 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 special early retirement provisions were first adopted in 1984 and revised and extended in 1985 (SERS only), 1986, 1987, 1988, 1991, 1994 (retroactive to 1993), and 1998. The most recent special early retirement provisions expired June 30, 1999.

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

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.

SUMMARY OF ACTUARIAL COST IMPACT

Reduction in Employee Contribution Rate

	Amount
Change in Unfunded Actuarial Accrued Liability	$(35,000,000)

	Amount	As a % of Payroll
Increase in Employer Annual Costs [1]		
Normal Cost	$46,000,000	0.46 %
Amortization Payment [2]	(3,000,000)	(0.03)%
Total Increase in Employer Annual Costs [3]	$43,000,000	0.43 %

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

[2] First year amortization. Amount increases 5% a year for 20 years.

[3] First year costs only.

Enhanced-year Service Credits

	Amount
Increase in Unfunded Actuarial Accrued Liability	$1,514,100,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs [1]		
Normal Cost	$ 31,000,000	0.31%
Amortization Payment [2]	121,000,000	1.21%
Total Increase in Employer Annual Costs [3]	$152,000,000	1.52%

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

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

[3] First year costs only.

Permanent "30 and Out"

	Amount
Increase in Unfunded Actuarial Accrued Liability	$1,058,000,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs [1]		
Normal Cost	$ 27,000,000	0.27%
Amortization Payment [2]	84,000,000	0.84%
Total Increase in Employer Annual Costs [3]	$111,000,000	1.11%

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

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

[3] First year costs only.

Premium Assistance
Estimated Total Annual Increase in Pay-As-You-Go Costs[1]
($ Amounts in Millions)

	Employer Contribution Under Current Law		Increase in Employer Contribution Under H. B. 8		Employer Contribution if H. B. 8 is Enacted	
	% of Pay	Amount	% of Pay	Amount	% of Pay	Amount
Fiscal Year 2001-2002	.32%	$32.0	1.75%	$175.0	2.07%	$207.0
Fiscal Year 2002-2003	.38%	$39.3	.90%	$ 93.1	1.28%	$132.4

[1] Based on the assumption that 71.5 percent of eligible annuitants will elect to participate.

The cost of providing increased postretirement medical insurance premium assistance to an increased number of retired public school employees as proposed in the bill would not be funded on an actuarial basis. The bill essentially requires a pay-as-you go basis, with funding provided one year in advance. 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 bill, the Commission identified the following policy considerations:

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

Change in Public Policy Regarding Postretirement Medical Insurance. *(Health Insurance Premium Assistance)* The proposal in the bill 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.

Inconsistent Retirement Policy. (*Return to Service*) Because complement reduction was an assumed objective of previous 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. (*Return to Service*) From a personnel policy perspective, the use of a retiree and a lower paid regular employee may be less costly than retaining one higher paid regular employee, depending on the level of compensation provided to the retiree.

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

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

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

> *Inequity of Certain Service Purchase Authorizations*. The Commission recommended that service credit purchase authorizations not be employed as a means of recognizing the past education, training, or work experience of public employees. The use of service credit purchase authorizations on an ad hoc basis to recognize past education, training, or experience requires policy makers to make arbitrary determinations concerning what types of past service should be purchasable and results in inequitable treatment of public employees.
>
> *Appropriateness of Credit for Vocational Teacher Experience*. The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The types of service to be made purchasable under the bill are not among these types of service.
>
> *Adequacy of Purchase Payments*. The bill requires payment by a member of the full actuarial cost of the increased benefit obtained by virtue of the service credit purchase, thus preventing an actuarial cost to the employers.
>
> *Prohibition of Option 4 Withdrawal of Purchase Contribution.* For service credit purchase authorizations to be at the full actuarial cost, the authorization must prohibit a lump sum withdrawal of the purchase contribution under Option 4 by the member upon retirement or upon leaving employment with entitlement to a vested deferred benefit. The bill contains such a prohibition.

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

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

Presence of Duplicating Provisions Prohibiting Double Crediting. (*Purchase of Service*) The bill fails to repeal existing prohibitions against double crediting of service credit currently contained in section 8324(e). These prohibitions duplicate similar ones contained in section 8304(a); the repeal of the duplicating provisions would help prevent administrative problems associated with conflicting provisions of the same statute and possible inequitable results.

Inconsistencies in Crediting of Service.(*Enhanced-year Service Credit*) The proposal in the bill to grant additional or "enhanced-year" service credits to certain school employees is in conflict with the General Assembly's long practice of providing substantially identical pension plans to the members of the two statewide retirement systems. The proposal represents a shift away from the current method of granting service credit, possibly creating significant disparities between the PSERS and SERS methods of crediting service.

Absence of Cost Sharing. (*Enhanced-year Service Credit*) The proposal to give additional service credit to school employees who work longer than the normal 180 day school year would provide enhanced benefits to the affected employees without the accompanying requirement for additional employee contributions.

Drafting Inconsistency. (*Enhanced-year Service Credit*) The proposal in the bill appears to conflict with section 8302(a), which limits a member to no more than one year of service credit for any period of 12 consecutive months.

Potential Administrative Burdens. (*Enhanced-year Service Credit*) Because enhanced-year service credits can only be credited to a member for the purpose of calculating an annuity, and not for the purpose of adding eligibility points for an annuity, the enhanced-year service credits earned by members would need to be tallied separately from regular service credits, creating potential administrative burdens for both employers and PSERS.

Fundamental Benefit Enhancement. (*30 and Out*) The proposed adoption of "30 and Out" as a permanent benefit provision differs significantly in purpose from the now expired, previous, temporary early retirement windows that were intended to function as an incentive to induce early retirement. The purpose of the bill shifts from providing an early retirement incentive to providing a fundamental benefit enhancement. In order to encourage early retirements in the future, temporary early retirement provisions based only on the service credits accumulated would need to provide for unreduced retirement earlier than the previous "30 and Out" windows.

Impact on Cost-of-Living Adjustments. (*30 and Out*) To the extent that members take advantage of the early retirement benefit enhancement, they will tend to retire earlier and with smaller pensions that will be exposed to erosion of purchasing power resulting from inflation over longer retired lifetimes. This aspect of providing "30 and Out" as a permanent benefit enhancement could result in an increased need for future ad hoc postretirement cost-of-living adjustments.

POLICY CONSIDERATIONS (CONT'D)

Impact of Postretirement Health Insurance Costs. (*30 and Out*) To the extent that members take advantage of the benefit enhancement, retirements will tend to begin earlier and at a younger age than is currently the case. The additional years on retirement will likely increase the cost of providing postretirement health insurance benefits to those members.

COMMISSION RECOMMENDATION

On March 14, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 8, Printer's Number 611, was tabled by the House on December 13, 2001.

Bill ID: House Bill Number 26, Printer's Number 615

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

Subject: Reducing Vesting Period, Changing Method of Collecting Employer Contributions from Charter Schools, Extending Terms of Legislative Members, and Changing Venture Capital Investment Provisions

SYNOPSIS

House Bill Number 26, Printer's Number 615, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code by:

Reducing the vesting requirement from ten-year cliff vesting to five-year cliff vesting;

Changing the way employer's contributions are made to the Public School Employees' Retirement System for a charter school;

Permitting board members who are legislators to serve for 30 days past the convening of the next regular session of the General Assembly after the expiration of their legislative terms or until appointment of their successors, whichever occurs first; and

Changing the provisions on permitted venture capital investments.

DISCUSSION

Retirement Systems

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) (Systems) are to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. As of June 30, 1999, there were 660 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 1999, there were 106 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 108,035 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.

Vesting

An employee's right to receive a present or a future pension is said to vest when the right no longer is contingent upon the employee remaining in the service of the employer. Many public employee pension plans, including the Codes, provide for employee contributions, which are always fully vested. Under the Codes most active members with less than ten years of service are vested only in their contributions and the accrued interest on these contributions. After ten years of service, active members also become vested in the employer-funded component of their retirement benefits.

Vested employees with ten or more years of service may terminate service and either vest their retirement benefits or retire and receive early retirement benefits.

The vesting provided in the Codes is called cliff vesting because the member is not vested in any portion of the employer-funded portion of the retirement benefit until the prescribed service requirement is satisfied. As soon as the prescribed service requirement is satisfied, the member is fully (100%) vested in the employer-funded portion of the accrued retirement benefit. When cliff vesting is utilized in private sector retirement plans, the Employee Retirement Income and Security Act (ERISA) requires that the cliff vesting period cannot exceed five years. (Prior to changes effective in 1989, the maximum number of years was ten under ERISA.) The bill would bring the Codes into conformity with private sector practice by reducing the vesting to five-year cliff vesting.

Administration and Investment

Payment by a Charter School of Employer and Pickup Contributions

The bill would amend the Public School Employees' Retirement Code to change the method of payment by a charter school to the Public School Employees' Retirement Fund of the employer and the pickup (employee) contributions:

> From one, under the Charter School Law, in which the charter school pays the amount of the contributions directly into the Public School Employees' Retirement Fund in the same manner that as all other participating employers do
>
> To one, under the Public School Employees' Retirement Code, in which the Secretary of Education and the State Treasurer would:
>
> > Deduct the amount of the contributions out of funds appropriated to the Department of Education for basic education in the chartering school district of a charter school and
> >
> > Pay the amount of the contributions directly into the Public School Employees' Retirement Fund.

This proposal apparently is drafted to prevent both the loss of service credits in PSERS by charter school employees who are members of PSERS and the loss of employer and pickup (employee) contributions by the Public School Employees' Retirement Fund in the event a charter school suffers severe cash flow problems or goes out of business with insufficient assets to liquidate all of its liabilities in full.

Terms of Legislative Members

The boards of both Systems have legislative members. Under the Codes, the terms of these members are for the duration of the terms for which they were elected. Because these terms expire on November 30 of even-numbered years and the successor members (or reappointments) are not appointed until sometime in January of odd-number years, the boards may be without several members for a two or three month period. To prevent this, the bill would amend the Codes to provide that the terms would extend for 30 days after the convening of the next regular session of the General Assembly or until a successor is appointed, whichever occurs first. This is consistent with the practice for appointed members of many public boards and commissions whose terms are set for a fixed period of time or until their successors are appointed and qualified.

Venture Capital Investments

The bill would amend the Codes by:

Repealing the current

limit on venture capital investments of not more than two percent of the book value of the total assets of the fund, and

restrictions on venture capital investments; and

Permitting the retirement board, under the limits and restrictions of the Retirement Code's prudent person rule, to make any venture capital investment, private placement investment, or other alternative investment.

Both Systems are approaching the current limit on venture capital investments of two percent of total assets, in part because of the success of these investments. SERS is nearer the limit, in part because it has only about one-half as many assets as PSERS. The bill is designed to remove the limit and restrictions for the two Systems, thus continuing the General Assembly's historical policy of making as many provisions of the two Codes as possible the same.

The bill would amend both the Codes by revising the provisions relating to authorized investments by the retirement system boards in venture capital by repealing the current limits and restrictions and adopting a prudent person rule. The Commission's position on investment flexibility for retirement systems is reflected in its February 1989 report on *Fiduciary Responsibility and Liability for Pennsylvania Local Government Employee Retirement Systems*. In the report, the Commission supports wide investment discretion within the "prudent expert rule" for public employee retirement systems that use investment advisors and investment managers. The Commission's position is consistent with the objectives of the bill.

SUMMARY OF ACTUARIAL COST IMPACT

The proposals regarding payments by charter schools, terms of legislative members, and venture capital investments do not propose any modifications in the benefit plan provisions, actuarial cost calculations, or funding requirements of either retirement system. The impacts of the proposals are not actuarial. The proposals regarding decreasing the cliff vesting period from ten years to five years do have actuarial cost impacts, which are as follows:

Public School Employees' Retirement System

	Amount
Increase (Decrease) in Unfunded Actuarial Accrued Liability	($509,200,000)

	Amount	As a % of Payroll
Increase in Employer Annual Costs [1]		
Normal Cost	$82,100,000	0.85%
Amortization Payment [2]	(40,600,000)	(0.42%)
Total Increase in Employer Annual Costs [3]	$41,500,000	0.43%

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

[2] First year's payment only. Amortization payments increase five percent a year for 20 years.

[3] First year's costs only.

State Employees' Retirement System

	Amount
Increase (Decrease) in Unfunded Actuarial Accrued Liability	($143,700,000)

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$ 17,200,000	0.38%
Amortization Payment [1]	(10,500,000)	(0.23%)
Total Increase in Employer Annual Costs [2]	$ 6,700,000	0.15%

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

[2] First year's costs only.

POLICY CONSIDERATIONS

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

Vesting Period. Decreasing the cliff vesting periods under the Codes is consistent with required practice for defined benefit plans in the private sector.

Charter School Contributions. Changing the method of paying employer and pickup contributions due to PSERS by charter schools would prevent both the loss of service credits in PSERS by charter school employees who are members of PSERS and the loss by the Public School Employees' Retirement Fund of employer and pickup contributions in the event a charter school suffers severe cash flow problems or goes out of business with insufficient assets to liquidate all of its liabilities in full.

Legislative Member Terms. Extending the terms of legislative members until their successors are appointed and qualified assures that the Systems will have continuous participation of legislative members of the boards.

Venture Capital Investments. The bill would amend both the Codes by revising the provisions relating to authorized investments in venture capital by the boards of the Systems by repealing the current limits and restrictions and adopting a prudent person rule. The proposal is consistent with the Commission's position in its February 1989 report on *Fiduciary Responsibility and Liability for Pennsylvania Local Government Employee Retirement Systems*.

COMMISSION RECOMMENDATION

On February 8, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 26, Printer's Number 615, was amended on third consideration in the House on March 13, 2001.

Bill ID:	Amendment 0426 to House Bill Number 26, Printer's Number 615 Amendment 0427 to House Bill Number 27, Printer's Number 616 Amendment 0428 to House Bill Number 28, Printer's Number 436
System:	Public School Employees' Retirement System
Subject:	Reduction in Member Contribution Rate

SYNOPSIS

The amendments would amend section 8102 of the Public School Employees' Retirement Code to reduce the basic (member) contribution rate from 6.25 percent of compensation to 5.25 percent of compensation commencing July 1, 2002.

DISCUSSION

The Public School Employees' Retirement Code (PSERS Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 1998, there were 640 participating units, generally school districts, area vocational-technical schools, and intermediate units in PSERS. Membership in PSERS is mandatory for most public school employees. Certain other employees are not required, but are given the option, to participate. As of June 30, 1998, there were 220,703 active members in PSERS.

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

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

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

Act 31 of 1983 also amended the State Employees' Retirement Code to provide that the additional member contribution of 1.25 percent of compensation would continue "until such time as the actuary certifies that all accrued liability contributions have been completed in accordance with the actuarial cost method . . . ." The December 31, 1992, actuarial valuation report of SERS showed that all actuarial accrued liabilities had been completed in accordance with the statute and, therefore, the additional 1.25 percent member contribution was discontinued effective July 1, 1993. No such provision was amended into the PSERS Code, although section 13 of Act 31 of 1983 provided that "[i]ncreased contributions to the Public School Employees' Retirement Fund as a result of the increase in the basic contribution rate shall be used to improve the actuarial soundness of the fund by reducing accrued liability."

SUMMARY OF ACTUARIAL COST IMPACT

	Amount
Change in Unfunded Actuarial Accrued Liability	($35,000,000)

	Amount	**As a % of Payroll**
Increase in Employer Annual Costs [1]		
Normal Cost	$46,000,000	0.46%
Amortization Payment [2]	(3,000,000)	(0.03%)
Total Increase in Employer Annual Costs [3]	$43,000,000	0.43%

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

[2] First year's amortization. Amount increases 5% a year for 20 years.

[3] First year's costs only.

POLICY CONSIDERATIONS

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

Parity between PSERS and SERS. The proposal in the bill to reduce the basic contribution rate to the rate it was prior to July 22, 1983, is in accordance with the General Assembly's long practice of providing substantially identical pension plans to the members of the two statewide retirement systems. The additional member contribution for SERS members

POLICY CONSIDERATIONS (CONT'D)

imposed under Act 31 of 1983 was removed in 1993 when SERS had eliminated its unfunded actuarial accrued liability.

COMMISSION RECOMMENDATION

On March 15, 2001, the Commission voted to attach the actuarial note to the amendments, recommending that the General Assembly and the Governor consider the policy issue identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 26, Printer's Number 615, was amended on third consideration in the House on March 13, 2001; House Bill Number 27, Printer's Number 616, passed the House on March 12, 2001, and was re-reported to the Senate Appropriations Committee on December 11, 2001; and House Bill Number 28, Printer's Number 1033, passed the House on March 14, 2001, and was referred to the Senate Finance Committee on March 20, 2001.

Bill ID: Amendment Number 1841
to House Bill Number 26, Printer's Number 1749

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

Subject: Various Amendments

SYNOPSIS

Amendment Number 1841 to House Bill Number 26, Printer's Number 1749, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes).

The amendment would amend both Codes to:

Confirm the authority of the Public School Employees' Retirement Board and the State Employees' Retirement Board to permit active members of the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) who wish to purchase service credit for nonschool or nonstate service to defer payment until retirement when the entire purchase amount may be paid as an actuarial debt;

Lengthen the time period available for members of PSERS and SERS to elect multiple service membership after beginning school or state service from 30 to 365 days;

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

Open a special, 2½-year election period ("window") ending December 31, 2003, for active members who have service in both systems and who have not yet elected multiple service to do so; and

Impose the limits of section 415(b) of the Internal Revenue Code on the benefits of all PSERS and SERS members employed after June 30, 2001, and all Class T-D, Class AA and Class D-4 Members, except that the benefits of existing employees will not be less than they would have received had they remained in Class T-C or Class A.

Restructure amortization payments effective July 1, 2002, so that the total of the then existing unfunded actuarial accrued liabilities will be funded over a ten-year period beginning July 1, 2002, on a level dollar basis, and so that the total of all changes in the unfunded actuarial accrued liability caused by actuarial experience and benefit modifications effective during each successive fiscal year will be funded over a ten-year period beginning the July 1 of the following fiscal year on a level dollar basis.

The amendment would amend the Public School Employees' Retirement Code to:

Create a new class of membership in the Public School Employees' Retirement System (PSERS), Class T-D, that would result in all Class T-D members receiving an annuity of 2.5 percent of their final average salaries for all credited school service effective July 1, 2001, and effective January 1, 2002, contributing 6½ percent of their compensation if they currently are contributing 5¼ percent or contributing 7½ percent of their compensation if they currently are contributing 6¼ percent;

Reduce the ten-year cliff vesting to five-year cliff vesting;

Require all new school employees employed after June 30, 2001, to become Class T-D members;

Permit all current active, inactive, and multiple service members of PSERS to become Class T-D members;

Increase health insurance premium assistance benefits to eligible annuitants from the current $55 a month to $100 a month; and

Change the way employers' contributions are made to PSERS for a charter school.

The amendment would amend the State Employees' Retirement Code to:

Create a new class of membership in the State Employees' Retirement System (SERS), Class AA, that would have a multiplier of 1.25, which would result in all Class AA members receiving an annuity of 2.5 percent of their final average salaries for all credited state service effective July 1, 2001, and effective January 1, 2002, contributing 6.25 percent of their compensation to the State Employees' Retirement Fund;

Create a new class of membership in SERS, Class D-4, that would have a multiplier of 1.5, which would result in all Class D-4 members receiving an annuity of 3.0 percent of their final average salaries for all credited state service effective July 1, 2001, and effective July 1, 2001, contributing 7.5 percent of their compensation to the State Employees' Retirement Fund;

Reduce to five-year cliff vesting both the regular ten-year cliff vesting and the special eight-year cliff vesting;

Require all new state employees employed after June 30, 2001, who are not Pennsylvania State Police Officers or eligible for another class (such as justices, judges, district justices, and legislators) to become Class AA members;

Permit all individuals who become members of the General Assembly after June 30, 2001, and elect SERS membership, to become or Class D-4 members;

Permit all current active, inactive, and multiple service members of SERS (except for members who became Pennsylvania State Police Officers after June 30, 1989, and members of classes other than Class A), to become Class AA members;

Permit all current members of the General Assembly (except for members of classes other than Class A), who are members of SERS to elect to become Class D-4 member or Class AA Members; and

Prevent the actuarial present value of a member's retirement benefits from declining after the member reaches age 70.

Retirement Systems

The Codes are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) are to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. As of June 30, 1999, there were 660 participating employers, generally school districts, area vocational-technical schools, and intermediate units, in PSERS, and as of December 31, 1999, there were 106 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 108,035 active members. The general annual retirement benefit is the product of two percent of the member's three-year average salary multiplied by the member's years of service.

Multiple Service

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

If an individual elects multiple service membership, the individual receives credit for each type of service in the respective retirement system. An individual cannot receive a combined total of service credit in the two systems of more than one year for service in any one calendar year. The individual's record of service, contributions, and interest in each system remains in that system until the individual applies for a refund or retirement. When the individual applies for retirement, each system calculates the individual's retirement annuity for that system. The annuity is calculated based on the average of the individual's three highest years salary in either system and the individual's contributions, interest, and years of credited service in the calculating system. The amount necessary to purchase this annuity payable by the first system then is transferred to the system in which the individual was last active. The two annuities are combined into one monthly check and paid from the last system.

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

Health Insurance Premium Assistance

Under the Public School Employees' Retirement 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 PSERS retiree must have at least 24½ years of service credit, 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 amendment would increase the health insurance premium assistance payments from the lesser of $55 a month or the amount of the participant's actual monthly premium to the lesser of $100 a month or the amount of the participant's 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 of the long-term cost level.

Vesting

An employee's right to receive a present or a future pension is said to vest when the right no longer is contingent upon the employee remaining in the service of the employer. Many public employee pension plans, including PSERS and SERS, provide for employee contributions, which are always fully vested. Under the Codes, most active members who terminate service with less than ten years of credited service are entitled only to a return of their member contributions and the accrued interest on those contributions. After ten years of service, active members become vested in the employer-funded component of their retirement benefits. Vested employees with ten or more years of service may terminate service and vest their retirement benefits by leaving them in the PSERS or SERS fund, or they may retire and receive early retirement benefits.

The vesting provided in the Codes is called cliff vesting because the member is not vested in any portion of the employer-funded portion of the retirement benefit until the prescribed service requirement is satisfied. As soon as the prescribed service requirement is satisfied, the member is fully (100%) vested in the employer-funded portion of the accrued retirement benefit. In private sector retirement plans, the Employee Retirement Income and Security Act (ERISA) requires that the cliff vesting period cannot exceed five years (Prior to changes effective in 1989, the maximum number of years was ten under ERISA). The amendment would bring the Codes into conformity with private sector practice by reducing the required vesting period to five-year cliff vesting.

Classes of Service and Multipliers

Most active members of PSERS currently are members of Class T-C and most members of SERS currently are members of Class A. Class T-C members include most regular school employees, and Class A members include most regular state employees, employees of certain Commonwealth commissions and authorities. Employees of the state university system may be members of PSERS, SERS, or TIAA-CREFF).

Under the State Employees' Retirement Code, the class of service multiplier has an effect both on the calculation of the regular member contributions and on the member's annuity.

> The regular member contribution is the product of the basic contribution rate of five percent of compensation multiplied by the class of service multiplier; and
>
> 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 (highest three years) salary multiplied by the member's class of service multiplier.

Class T-D Membership

Effective July 1, 2001, the amendment would create a new membership class in PSERS, Class T-D, and would permit all current Class T-C active and multiple service members to become Class T-D members. The newly created class, Class T-D would result in all Class T-D members receiving an annuity of 2.5 percent of their final average salaries for all credited service. Effective January 1, 2002, the amendment would also increase the member contribution rate to the Public School Employees' Retirement Fund for Class T-D members to 6½ percent of compensation for those currently contributing 5¼ percent and to 7½ percent of compensation for those currently contributing 6¼ percent. The amendment also requires all new school employees to become Class T-D members.

Class AA Membership

Effective July 1, 2001, the amendment would create a new membership class, Class AA, and would permit all current Class A active multiple service regular vestee, and special vestee members (except for members who became Pennsylvania State Police Officers after June 30, 1989, and members of classes other than Class A) to become Class AA members. The newly created class, Class AA, would have a class of service multiplier of 1.25, which would result in all Class AA members receiving an annuity of 2.5 percent of their final average salaries for all credited service. Effective January 1, 2002, the amendment would also increase the member contribution rate to the State Employees' Retirement Fund for Class AA members from 5.0 percent to 6.25 percent of compensation. The amendment also requires all new state employees who are not Pennsylvania State Police Officers and who are not eligible to become members of another class (such as justices, judges, district justices, and legislators) to become Class AA members.

Class D-4 Membership

Effective July 1, 2001, the amendment would create another new membership class, Class D-4, and would permit all current members of the General Assembly to become Class D-4 members, if they so elect before July 1, 2001. This newly created class, Class D-4 would have a class of service multiplier of 1.5, which would result in all Class D-4 members receiving an annuity of 3.0 percent of their final average salaries for all credited Class D-4 service. Effective July 1, 2001, the amendment also would increase the member contribution rate to the State Employees' Retirement Fund for Class D-4 members from 5.0 percent to 7.5 percent of compensation. The amendment also requires all new members of the General Assembly after July 1, 2001, who join SERS to become members of Class D-4.

Amortization of Unfunded Actuarial Accrued Liabilities

Since July 1, 1991, when the existing unfunded actuarial accrued liabilities were totaled and amortization began over a 20-year period increasing five percent a year, the unfunded actuarial accrued liabilities of SERS resulting both from actuarial experience and from ad hoc postretirement adjustments and other benefits changes for each succeeding fiscal year have been amortized over a 20-year period beginning the following July 1 with the payments increasing five percent a year. The amendment would restructure this approach by totaling all unfunded actuarial accrued liabilities on July 1, 2002, and amortizing them over a ten-year period on a level dollar basis and by totaling all changes in the unfunded actuarial accrued liability in each succeeding fiscal year and, beginning with July 1 of the following fiscal year, funding the total over a ten-year period on a level dollar basis. The changed amortization approach would reduce the total of the required amortization payments associated with future actuarial experience and benefit changes, lessen the potential for the compounding of amortization payments attributable to future benefit changes, and increase inter-generational equity by reducing the time elapsed between the service of the members or retirees of PSERS or SERS and the funding for the benefit changes.

SUMMARY OF ACTUARIAL COST IMPACT

The PSERS staff provided the Commission staff with certain data regarding an increase in the health insurance premium assistance from which the following data were extracted.

PSERS Health Insurance Premium Assistance
Estimated Total Annual Increase in Pay-As-You-Go Costs[1]
($ Amounts in Millions)

	Employers' Contributions Under Current Law		Increase in Employers' Contributions Under Amendment		Employers' Contributions if Amendment is Enacted	
	% of Pay	**Amount**	**% of Pay**	**Amount**	**% of Pay**	**Amount**
Fiscal Year 2001-02	0.32%	$32.0	.77%	$77.0	1.09%	$109.0
Fiscal Year 2002-03	0.38%	$39.3	.51%	$52.7	.89%	$ 92.0

[1] Based on the assumption of an 81% participation level as of January 1, 2002.

PSERS Class of Service and Vesting Change

The consulting actuary of the Public School Employees' Retirement System prepared an estimate of the actuarial cost of the amendment on PSERS, which is presented below.

Table 1
PSERS - Development of Estimated Total Employer Cost of Proposed Legislation (Dollars in Millions)
2.5% Benefit Accrual Rate effective 7/1/2001
5 Year Vesting effective immediately
Additional 1.25% Member Rate effective 1/1/2002

	6/30/00 Actuarial Valuation	Change Due to Proposed Legislation	6/30/00 Costs, Including Proposed Legislation	6/30/00 Costs, Including Proposed Legislation and a Change to 10-Year Level Dollar Amortization
Total Pension and Health Care Accrued Liability	$39,823	$5,020	$44,843	$44,843
Actuarial Value of Assets	$49,293		$49,293	$49,293
Unfunded Liability	$(9,470)	$5,020	$(4,450)	$(4,450)
* FY 2002/2003 Annual Payment on Unfunded Liability	$(756)	$412	$(344)	$(728)
Annual Payment as a Percent of Payroll	-7.31%	3.98%	-3.33%	-7.04%
Employer Normal Cost	5.61%	1.61%	7.22%	7.22%
Total Employer Pension Cost	-1.70%	5.59%	3.89%	0.18%
* FY 2002/2003 Payroll	$10,347	$10,347	$10,347	$10,347
Total Employer Cost (millions)	$(176)	$578	$402	$19

* Fiscal Year 2002/2003 equals the period 7/1/2002 through 6/30/2003.

Buck Consultants
May 5, 2001

SERS Classes of Service and Vesting Changes

The consulting actuary of the State Employees' Retirement System prepared an estimate of the actuarial cost impact of the amendment on SERS, which is presented below.

Table 1
SERS - Development of Estimated Total Employer Cost of Proposed Legislation (Dollars in Millions)
(after removal of "30 & Out" funding)

	Preliminary 12/31/00 Actuarial Valuation	Change Due to Proposed Legislation	12/31/00 Costs, Including Proposed Legislation	12/31/00 Costs, Including Proposed Legislation and a Change to 10-Year Level Dollar Amortization
Present Value of Future Benefits	$26,816	$4,583	$31,399	$31,399
Present Value of Future Contributions	7,155	1,369	8,524	8,524
Actuarial Value of Assets	26,100		26,100	26,100
Unfunded Liability	(6,439)	3,214	(3,225)	(3,225)
Annual Payment on Unfunded Liability	(497)	234	(263)	(490)
Annual Payment as a Percent of Payroll	10.43%	4.90%	-5.53%	-10.3%
Employer Normal	8.72%	2.18%	10.90%	10.9%
Total Employer Cost	-1.71%	7.08%	5.37%	0.61%*
Payroll	4,769	4,769	4,769	4,769
Total Employer Cost (millions)	$ (82)	$ 338	$ 256	$ 29

* If funding of the proposed legislation does not begin until July 1, 2002, the total employer cost will be negative so the effective employer contribution will be zero.

Hay Group, Inc.
May 4, 2001

POLICY CONSIDERATIONS

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

Installment Payment Permitted. The change to include installment payments, in addition to lump sum payments within 90 days of billing, proposed in the amendment permits more eligible individuals to make the necessary payments to the systems to obtain multiple service status.

Length of Election Period for Future Members. By increasing the election period for newly employed individuals from 30 to 365 days, the proposal in the amendment will provide time during which an individual can become aware of the election option and make an informed choice regarding the best personal course of action.

Vesting Period. Decreasing the cliff vesting period in PSERS and SERS is consistent with current practice for defined benefit plans in the private sector.

Fundamental Benefit Enhancement. Increasing the accrual rate to 2½ percent for PSERS members and the multipliers to 1.25 and 1.5 for SERS members will, in effect, enhance retirement benefits (and pre-retirement death benefits) for most PSERS and SERS members by 25 percent over current levels and for most members of the General Assembly by 50 percent.

Provision for Cost Sharing. The provisions in the amendment requiring an increase in the member contribution rate from 5.0 percent to 6.25 percent or 7.5 percent of compensation appears to be a reasonable public pension policy approach.

Restructuring Amortization Approach. The changed amortization approach would reduce the total of the required amortization payments associated with future actuarial experience and benefit changes, lessen the potential for the compounding of amortization payments attributable to future benefit changes, and increase inter-generational equity by reducing the time elapsed between the service of the PSERS and SERS members or retirees and the funding for the benefit changes.

COMMISSION RECOMMENDATION

On May 7, 2001, the Commission voted to attach the work of the respective Systems' consulting actuaries to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 26, as amended by Amendment Number 1841, became House Bill Number 26, Printer's Number 1905, which was signed into law by the Governor as Act 9 of 2001 on May 17, 2001.

Bill ID: House Bill Number 27, Printer's Number 616

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

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

SYNOPSIS

House Bill Number 27, Printer's Number 616, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code provisions on payment methods for purchase of service credit and election of and purchase of service credit under Multiple Service Membership Status to:

> Confirm the authority of the Boards of the respective Systems to permit active members who wish to purchase service credit for retirement purposes to defer payment until retirement when the entire purchase amount is paid as an actuarial debt;
>
> Lengthen the time period available for members to elect multiple service membership after beginning school or State service from 30 to 365 days;
>
> Provide that members electing multiple service membership may pay for any credit to be reinstated or purchased through installment payments; and
>
> Open a special three-year election period (or "window") ending December 31, 2003, for active members who have service in both systems and who have not yet elected multiple service.

DISCUSSION

Purchase of Service

Active members of both the Public School Employees' Retirement System and the State Employees' Retirement System may purchase certain types of service credit for retirement purposes. The types of service that may be purchased include prior school and state service. Additionally, various types of nonschool and nonstate service may be purchased by members and credited to them for retirement purposes. Historically, service purchases of all types have been paid for, in part or in full, by active members through either payroll deductions or in lump-sum payments. House Bill 27 confirms the authority of the Boards of the respective Systems to suspend the requirement for such payments and, in effect, permit active members who wish to purchase service credit for retirement purposes to defer payment until retirement and effect the payments through satisfaction of an actuarial debt, payable at the time of retirement.

Multiple Service

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

If an individual elects multiple service membership, the individual receives credit for each type of service in the respective retirement system. An individual cannot receive a combined total of service credit in the two systems of more than one year for service in any one calendar year. The individual's record of service, contributions, and interest in each system remains in that system until the individual applies for a refund or retirement. When the individual applies for retirement, each system calculates the individual's retirement annuity for that system. The annuity is calculated based on the average of the individual's three highest years salary in either system and the individual's contributions, interest, and years of credited service in the calculating system. The amount necessary to purchase this annuity payable by the first system then is transferred to the system in which the individual was last active. The two annuities are combined into one monthly check and paid from the last system.

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

Multiple Service Election Period

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

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

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

2) Another problem involves the necessity of making any necessary payments within 90 days of being billed. In some cases, this is more money than the individual has available immediately in one lump sum. The bill seeks to prevent this type of problem by permitting those who elect multiple service to make the necessary payments through installment payments to the systems in much the same way as members now may pay

for other nonschool or nonstate service for which they purchase service credit. Because the installment payments are made at the statutory four percent interest rate, there are costs to the extent that the actual investment earnings of the systems exceed four percent.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission indicated that in the absence of data on the typical frequency of service purchases, the number of years credit typically purchased, the ages of the typical members purchasing service and other factors, an actuarial estimate of the cost to be incurred in allowing the deferred payment of the purchase amounts until retirement was not possible. The Commission staff was advised by representatives of the retirement systems that their analysis indicates that allowing the deferred payment of the purchase amounts would not have significant actuarial cost. The Commission's actuary previously estimated the actuarial cost of increasing the election period for multiple service from 30 to 365 days, allowing payroll deduction installment payments for multiple service purchases, and providing a one-time window ending December 31, 2003, for current active members to elect multiple service membership if they have the requisite service. That cost data, updated by the Commission staff to reflect the December 31, 2000, payroll for SERS and the June 30, 2000, payroll for PSERS, is as follows:

Public School Employees' Retirement System

	Amount
Increase in Unfunded Actuarial Accrued Liability	$18,600,000

	Amount	**As a % of Payroll**
Increase in Employer Annual Costs [1]		
Normal Cost	de minimus	0.00%
Amortization Payment [2]	$1,760,000	0.02%
Total Increase in Employer Annual Costs [3]	$1,760,000	0.02%

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

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

[3] First year costs only.

State Employees' Retirement System

	Amount
Increase in Unfunded Actuarial Accrued Liability	$29,800,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$2,060,000	0.045%
Amortization Payment [1]	2,060,000	0.045%
Total Increase in Employer Annual Costs [2]	$4,120,000	0.09 %

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

[2] First year only.

POLICY CONSIDERATIONS

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

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

Adequacy of Purchase Payments. The statutory method for calculating the member contributions to purchase service credit for nonstate service in most instances results in a member paying less than the full actuarial cost of the increased benefit acquired through the service credit purchase, which results in an increase in the unfunded actuarial accrued liability of SERS and increased amortization payments by the Commonwealth. A service purchase transaction that favors a member at the expense of the retirement system is viewed by the Commission as being appropriate only where necessary for the purpose of equity. For members that would otherwise have made payments before retirement, utilization of the proposed deferred payment will result in the systems not having the opportunity for investment gains on the purchase amount to offset the unfunded actuarial accrued liabilities incurred with the service purchases.

Cost Effective Technical Provisions. For service purchase authorizations other than those involving the transfer of a governmental function, the Commission recommended that employees be required to exercise the purchase option within three years of becoming eligible to do so. The time limit generally serves to reduce the unfunded actuarial accrued liability incurred by the retirement system. The Commission also recommended that, in cases where the service purchase amount required to be paid by an employee includes amounts representing both employer and employee costs attributable to the purchased service, the portion of the payment representing employer cost be precluded from withdrawal by a member upon retirement. The absence of a restriction on withdrawal of the purchase amount under Option 4 increases the cost to SERS and PSERS associated with the authorizations to purchase credit. The proposed payment deferral option will assure the effective withdrawal of the employer portion of the purchase payment.

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

Length of Election Period for Future Members. By increasing the election period for newly employed individuals from 30 days to 365 days, the proposal in the bill will provide time during which an individual can become aware of the election option and make an informed choice regarding the best personal course of action.

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

Potential Disparity Between Systems. Under the proposal in the bill, each system would fix, by regulation, the period of 365 days, during which an eligible new member could elect multiple service membership. Each system would also independently promulgate regulations governing the deferred payment service purchase procedures. This could result in the two systems fixing materially different time periods and procedures for similarly situated individuals.

COMMISSION RECOMMENDATION

On February 8, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 27, Printer's Number 616, passed the House on March 12, 2001, and was re-reported to the Senate Appropriations Committee on December 11, 2001.

Bill ID: Document No. 6931

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

Subject: Cost-of-living Adjustment

SYNOPSIS

Document Number 6931 would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to grant a cost-of-living adjustment (COLA) (called a supplemental annuity in the Codes) beginning July 1, 2002, payable to all annuitants of both the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS), who have attained age 65 and have been on annuity for at least three years or are disability annuitants and who began receiving retirement benefits before July 2, 2001.

DISCUSSION

The Retirement Codes and Systems

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, 2000, there were 695 participating employers, generally school districts, area vocational-technical schools, charter schools, and intermediate units in PSERS. As of December 31, 2000, there were 106 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, 2000, PSERS had 234,210 active members and 134,058 annuitants and beneficiaries. As of December 31, 2000, SERS had 109,469 active members and 88,392 annuitants and beneficiaries.

Under the Public School Employees' Retirement Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service. Under the State Employees' Retirement Code, superannuation or normal retirement age for most members is age 60 with three years of service or any age with 35 years of service, while age 50 is the normal retirement age for members of the General Assembly and certain public safety employees.

Cost-of-Living Adjustments (COLAs)

Cost-of-living adjustments in public employee retirement systems are granted for the purpose of maintaining the adequacy of the retirement benefits after retirement occurs. In the absence of cost-of-living adjustments, the purchasing power of the retirement benefits is diminished over time due to the effects of inflation. Because one commonly accepted goal of a public employee retirement system is to provide a benefit at retirement that is adequate to meet the needs of the retirement system's retired members, the provision of cost-of-living adjustments to ensure the adequacy of the benefit throughout retirement represents a logical extension of this goal.

Historically, cost-of-living adjustments (COLAs) have been authorized by the Pennsylvania General Assembly for both PSERS and SERS retirees on an ad hoc basis every four or five years since 1968, with the incurred unfunded actuarial accrued liabilities being amortized over a 20-year period. The passage of Act 9 of 2001 altered this amortization schedule. The Codes of both SERS and PSERS, as amended by Act 9 of 2001, now require that the unfunded liabilities of COLAs be amortized over a 10-year period, with the amortization payments calculated on a level dollar basis. This more rapid amortization approach will serve to reduce the total amount of the required amortization payments associated with future COLAs, lessen the potential for the compounding of amortization payments attributable to multiple COLAs, and increase inter-generational equity by reducing the time elapsed between the service of the COLA recipients and the funding for the COLA benefits.

Ad hoc COLAs may be desirable from an employer perspective because of the limited duration of the benefit, which permits the predetermination of fixed costs. The finite nature of the costs and the discretion in the benefit amount provide the potential for the employer to match the costs to the available financing when implementing ad hoc COLAs. Because their implementation represents a change in the benefit provisions of the retirement system, ad hoc COLAs provide limited potential for the costs incurred to be prefunded. The costs of an ad hoc COLA are usually added to the unfunded accrued liability of the retirement system and funded prospectively by amortization payments. Since active members will receive no benefit from an ad hoc COLA, the amortization payments are generally made exclusively by the employer.

The proposal would amend both the PSERS and SERS Codes to provide an ad hoc COLA to annuitants of both systems. To be eligible for the COLA, superannuation and withdrawal annuitants must have attained age 65, and they will receive the COLA beginning on the first day of July coincident with or following the annuitant's third anniversary of becoming an annuitant. Disability annuitants are eligible to receive the COLA at any age, beginning the first of July coincident with or following the annuitant's third anniversary of becoming an annuitant. The COLA benefit will be paid beginning July 1, 2002, and the unfunded accrued liability resulting from the benefit increase will be amortized through level dollar payments over a period of 10 years beginning July 1, 2003.

The benefit payment structure is similar to that used in the 1998 COLA design, in that it is designed to provide that all annuitants will receive cumulative COLAs that equal at least 50 percent of the inflation that has occurred between the year of retirement and June 30, 2002. The amount of the COLA is based on the annuitant's most recent effective date of retirement and will be paid in accordance with the schedule contained in the following table.

Most Recent Effective Date	
July 2, 2000 through July 1, 2001	2.56%
July 2, 1999 through July 1, 2000	4.34%
July 2, 1998 through July 1, 1999	5.80%
July 2, 1997 through July 1, 1998	6.70%
July 2, 1994 through July 1, 1997	7.00%
July 2, 1988 through July 1, 1994	8.00%
July 2, 1983 through July 1, 1988	10.00%
July 2, 1980 through July 1, 1983	15.00%
Prior to July 2, 1980	25.00%

Each System's consulting actuary has provided the following estimate of the actuarial cost impact of the COLA on the system.

Public School Employees' Retirement System (PSERS)
(not payable before age 65 and 3 years on annuity)

	Amount
Increase in Unfunded Actuarial Accrued Liability	$996,800,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Amortization Payment [1]	$178,800,000	1.67%

[1] Amortization calculated as level dollar payments over ten years; amortization payments cease after 10 years. Paid in part by the Commonwealth and in part by the school districts and other educational employers.

State Employees' Retirement System (SERS)
(not payable before age 65 and 3 years on annuity)

	Amount
Increase in Unfunded Actuarial Accrued Liability	$499,200,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Amortization Payment [1]	$86,000,000	1.69%

[1] Amortization calculated as level dollar payments over ten years; amortization payments cease after 10 years.

If the provision in the document is amended to eliminate the three year waiting period for COLA eligibility, as has been suggested, the actuarial cost would be as follows:

Public School Employees' Retirement System (PSERS)
(not payable before age 65)

	Amount
Increase in Unfunded Actuarial Accrued Liability	$998,100,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Amortization Payment [1]	$179,100,000	1.68%

[1] Amortization calculated as level dollar payments over ten years; amortization payments cease after 10 years. Paid in part by the Commonwealth and in part by the school districts and other educational employers.

State Employees' Retirement System (SERS)
(not payable before age 65)

	Amount
Increase in Unfunded Actuarial Accrued Liability	$503,100,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Amortization Payment [1]	$86,600,000	1.70%

[1] Amortization calculated as level dollar payments over ten years; amortization payments cease after 10 years.

POLICY CONSIDERATIONS

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

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.

Conformance with Policy Guidelines. In response to Senate Resolution 103, the Public Employee Retirement Commission released a report titled *Funding Cost-of-Living Adjustments* in November 2000. The proposal conforms to some, and does not conform to other of the Commission's recommendations in the report with respect to the funding of ad hoc cost-of-living adjustments.

General Funding Approach. Both the citizens and the policymakers of the Commonwealth benefit when the costs of any proposed benefit modification in a public employee retirement plan are funded in a straightforward manner. The Commonwealth has used a direct funding approach consistently since the initial ad hoc cost-of-living adjustment was implemented in 1968. An ad hoc cost-of-living adjustment is a modification in the benefit provisions of the Commonwealth's statewide retirement plans that has a definite, determinable cost. Utilization of a direct funding approach is necessary to provide a discernable relationship between the costs incurred in implementing an ad hoc cost-of-living adjustment and the increased funding requirements attributable to those costs. The proposal utilizes a direct funding approach for the liabilities incurred in the provision of the COLA.

Accelerated Amortization. The use of a shorter amortization period reduces the interval between the point in time when the liability is incurred and the point in time when the liability is funded and thereby reduces the degree of inter-generational cost transfer. The increased contributions in the early years of a shorter amortization period provide an opportunity for additional investment income which would otherwise not be available to reduce the aggregate contributions required to fund the retirement plan. The use of a shorter amortization period reduces the total amount of the amortization payments required to fund the liability, and limits the potential for compounded amortization payments attributable to multiple cost-of-living adjustments. The proposal continues to utilize a 10-year level dollar amortization approach in compliance with Act 9 of 2001 and the Commission's recommendations.

Partial Pre-funding of COLA Liabilities. Senate Resolution Number 103 declared that the General Assembly is concerned with funding cost-of-living adjustments in the most economical manner, and efficiency in governmental operations is viewed as an appropriate objective by the citizens of the Commonwealth. In its report, the Commission recommended that the SERS and PSERS Codes be amended to provide a specified percentage of payroll contribution to be included in the annual determinations of the employer contribution rates as a means to provide advance direct funding for future COLAs and that the resulting contributions be placed in restricted accounts and used to partially pre-fund the liabilities of future cost-of-living adjustments. The systematic accumulation of monies within SERS and PSERS dedicated to reduce the unfunded liabilities incurred in the provision of future cost-of-living adjustments is a reasonable mechanism to achieve modified advance direct funding. The proposal contains no provision for the partial pre-funding of future COLAs.

Need Determination Factor. Change in the Consumer Price Index (CPI) during an applicable period of retirement is the predominate basis for determining the amount of COLAs provided in public employee retirement plans. The proposal in the bill appears to take into account an appropriate need factor based upon the CPI.

Benefit Eligibility Criteria. Historically, COLA benefit payments have been provided to members upon the attainment of normal (superannuation) retirement age, and disability retirees normally receive the benefit increase immediately. The COLA design contained in the proposal delays payment of the benefit increase for superannuation and withdrawal annuitants until the member has attained the age of 65 years and has been on annuity for three years. Disability annuitants of any age may receive the benefit increase, but they also must be on annuity for three years before receiving the COLA.

Delayed Funding. The proposal delays beginning amortization of the accrued liability associated with the provision of the COLA until July 1, 2003, increasing the dollar amount of the amortization payments required to fund the liabilities incurred.

COMMISSION RECOMMENDATION

On December 6, 2001, the Commission voted to attach the work of the respective Systems' consulting actuaries to the document, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

Bill ID: Document Numbers 6932 and 7004

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

Subject: Increasing Period of Permitted Emergency Return to Service, Age-50 Service Credit for Certain Employees Transferred from the Department of Education to the Department of Corrections, Qualified Excess Benefit Plan, Enhanced Service Credit for Non-Judicial Service of Class E-1 Members, and various technical, administrative and editorial changes

SYNOPSIS

Document Numbers 6932 and 7004 would amend:

1) The Public School Employees' Retirement Code to increase from 95 to 120 days the number of days a year during which a retiree may return to school in an emergency without having the member's pension stopped and being required to resume active membership in the retirement system;

2) The State Employees' Retirement Code to permit former employees of the Department of Education who were transferred to the Department of Corrections pursuant to Act 15 of 1999 to elect membership in the State Employees' Retirement System and receive SERS age 50 retirement credits in connection with their new status as corrections employees;

3) The State Employees' Retirement Code to establish a Qualified Excess Benefit Plan in accordance with Internal Revenue Code Section 415(m) in order to pay member benefits that would otherwise be non-payable due to the limitations imposed by IRC Section 415(b), without jeopardizing the fund's tax qualification status;

4) The State Employees' Retirement Code to provide enhanced service credit (Class AA) to all class E-1 members (Judges) for periods of non-judicial service; and

5) Both the Public School Employees' Retirement Code and the State Employees' Retirement Code to make various other changes of a technical, administrative or editorial nature.

DISCUSSION

The Retirement Codes and Systems

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, 2000, there were 695 participating employers, generally school districts, area vocational-technical schools, charter schools, and intermediate units in PSERS. As of December 31, 2000, there were 106 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, 2000, PSERS had 234,210 active members and 134,058 annuitants and beneficiaries. As of December 31, 2000, SERS had 109,469 active members and 88,392 annuitants and beneficiaries.

Under the Public School Employees' Retirement Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service. Under the State Employees' Retirement Code, superannuation or normal retirement age for most members is age 60 with three years of service or any age with 35 years of service, while age 50 is the normal retirement age for members of the General Assembly and certain public safety employees.

SUMMARY OF ACTUARIAL COST IMPACT

Return to Service in an Emergency

The proposal would amend the emergency return to service provisions of the PSERS Code by extending from 95 to 120 days the current limit on the number of full-day school sessions per school year for which an annuitant (retiree) of PSERS may return to school service either in an emergency or during a shortage of appropriate subject certified teachers. During the return to service, 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 early retirement incentive.

Increasing the number of days during which a retired member may return to service during an emergency without the member's pension being stopped and the member becoming an active member again will result in de minimus forgone actuarial gains that will have no material actuarial cost impact on the Public School Employees' Retirement System.

Provision of Age-50 Service Credit for Certain Employees of the Department of Education Transferred to the Department of Corrections Pursuant to Act 15 of 1999

The proposal would clarify and expand the language contained in Act 15 of 1999, which addressed the administrative transfer of certain employees from the Department of Education to the Department of Corrections, which impacted upon the retirement benefits of the transferred employees. The proposal corrects benefit inequities resulting from the transfer and would permit corrections employees affected by the transfer to convert credited school and nonschool service with PSERS to state and nonstate service with SERS, and obtain age 50 service credit for the service. The provisions are effective January 1, 2002, and include a supplemental postretirement adjustment for members affected by Act 15 of 1999 who have retired.

The consulting actuary of the State Employees' Retirement System has provided the following cost estimate for this benefit change.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$16,085,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Amortization Payment [1]	$2,451,000	0.05%

[1] Amortization calculated as level dollar payments over ten years; amortization payments cease after 10 years.

Qualified Excess Benefit Plan

The Small Business Job Protection Act of 1994 authorized governmental employers to establish Qualified Excess Benefit Plans (QEBPs). Benefits provided under a QEBP are not considered in determining whether the pension plan meets IRC Section 415 requirements. QEBP benefits cannot be paid from a trust that is part of the governmental plan, unless the trust is maintained exclusively for the purpose of providing QEBP benefits. The proposal would authorize the SERS Board to establish a QEBP in accordance with IRC Section 415(m). establishing a mechanism to provide retirement benefit payments that exceed the limits imposed by IRC 415(b).

Implementation of the QEBP requires a range of decisions to be made by the SERS Board. Because of the number of potential variables involved, the consulting actuary of SERS was unable to provide a cost estimate of the potential cost impact of implementing a QEBP on the future funding requirements of SERS. The QEBP will not be effective until the Internal Revenue Service determines that it conforms with IRC Section 415(m).

Enhanced Accrual Rate for Non-Judicial Service of Class E-1 Members

Act 9 of 2001 amended the SERS Code to significantly increase the value of members' pension benefits by increasing the accrual rate from 2.0% to 2.5% for most employees. The accrual rate change equates to an approximate 25% increase in the value of most members' pension benefits. However, certain classes of employees, including members of the judiciary, and Pennsylvania State Police Officers, were excluded from receiving the enhanced benefit under Act 9.

Judges are a special class of member (Class E-1) within the State Employees' Retirement System. The basic formula used in determining the annuity of a Class E-1 member is obtained by multiplying the standard single-life annuity by a class of service multiplier of 2.0. Judges contribute employee contributions of 10 percent of pay for each of the first 10 years of judicial service and 7.50 percent for each year of judicial service thereafter. The proposal would amend the SERS Code to provide Class AA service credit to class E-1 members for all periods of non-judicial state service, excluding service as a Pennsylvania State Police Officer, and would have the effect of increasing the accrual rate for these members from 2.0 percent to 2.5 percent for all periods of regular state service. Current E-1 members will have a 90 day election period within which to elect Class AA service credit for prior Class A service.

The consulting actuary of the State Employees' Retirement System has provided the following cost estimate for this benefit change.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$2,024,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Amortization Payment [1]	$308,500	0.006%

[1] Amortization calculated as level dollar payments over ten years; amortization payments cease after 10 years.

Technical and Editorial Amendments

The proposal makes various changes to both the Public School Employees' Retirement Code and to the State Employees' Retirement Code that are technical, administrative or editorial in nature. It appears that these amendments will have no immediate actuarial impact upon the Systems.

POLICY CONSIDERATIONS

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

Removal of Funding Period Applicable to Future COLAs. The default language in section 8328(d) of the PSERS Code providing that the amortization of COLAs enacted after June 30, 2002, will commence "from July 1, coincident with or next following the effective date of such legislation" is deleted in the document. This change will require that all future COLA legislation specify a commencement date for the amortization payments, which has not been prior practice.

Design Authority for QEBP. The variables involved in the design of a qualified excess benefit plan under the section 415(m) of the Internal Revenue Code are numerous and have benefit implications. The absence of legislative direction with respect to the design of the QEBP limits the input of state policymakers.

Clarification of Provisions. The proposal in the document clarifies language in the respective retirement Codes designed to ease administrative complexity and associated costs, and ensure conformance and consistency with Act 15 of 1999 and Act 9 of 2001.

COMMISSION RECOMMENDATION

On December 6, 2001, the Commission voted to attach the work of the respective Systems' consulting actuaries to the documents, recommending that the General Assembly and the Governor consider the policy issues identified above.

Bill ID: House Bill Number 28, Printer's Number 436

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

Subject: Partial Prefunding and Amortization Period For COLAs

SYNOPSIS

House Bill 28, Printer's Number 436, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to implement partial prefunding for future cost-of-living adjustments (COLAs) (called supplemental annuities in the Codes) and specify 10-year level dollar amortization for the unfunded actuarial accrued liabilities incurred with future COLAs.

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, 1999, there were 660 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 1999, there were 106 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 108,035 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.

Cost-of-living adjustments have been provided in both PSERS and SERS on an ad hoc basis every four or five years since 1968, and the incurred unfunded actuarial accrued liabilities have been amortized over a 20-year period. The amortization payments were calculated on a level dollar basis until the enactment of Act 23 of 1991, which specified the current level percentage basis for calculating the amortization payments. The bill would require that the unfunded liabilities of COLAs enacted after December 31, 2000, be amortized over a 10-year period, with the amortization payments calculated on a level dollar basis. The more rapid amortization approach would reduce the total amount of the required amortization payments associated with future COLAs, lessen the potential for the compounding of amortization payments attributable to multiple COLAs, and increase inter-generational equity by reducing the time elapsed between the service of the COLA recipients and the funding for the COLA benefits.

Where COLAs are provided on an automatic basis, the necessary funding is almost always accumulated in advance of the actual benefit disbursement. The advance funding is possible because the COLAs are scheduled and specified in advance, permitting the actuarial liabilities to be calculated and reflected in the ongoing contribution requirements of the system. Because of the unscheduled and unspecified nature of ad hoc COLAs, the actuarial liabilities can not be calculated in advance. For that reason, the Commonwealth, as well as most other employers providing ad hoc COLAs, does not provide advance funding for the actuarial liabilities associated with COLAs. Advance funding reduces the total amount of the contributions required to finance the COLAs, primarily because of interest earnings on the advance contributions, and results in a more predictable cost incidence pattern.

The bill proposes that the Commonwealth initiate a mechanism to partially advance fund the liabilities of future COLAs. The proposed partial advance mechanism would function by specifying 25% of the estimated future COLA liabilities as the advance funding target and requiring the calculation of an advance funding contribution rate after each subsequent COLA is enacted. Until the next COLA is enacted, the bill provides for the advance funding contribution rate to be set at 0.3 percent of payroll. The contributions resulting from application of the advance funding contribution rate are to be reserved and, together with actual interest earnings, accumulated until the next COLA when the reserved balance will be used to offset the unfunded actuarial accrued liabilities of the COLA being implemented. For each future COLA, the partial advance funding mechanism will reduce the amount of the unfunded actuarial accrued liabilities to be amortized by about 25 percent, substantially reducing the total amount of the necessary amortization payments due to the lower interest costs.

SUMMARY OF ACTUARIAL COST IMPACT

The bill does not have an actuarial cost impact, but it will have a significant positive impact on the cash flow requirements.

Impact of Proposed Change in Amortization Approach

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

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

The following chart shows the initial year's cash flow requirements for implementation of the proposed partial advance funding mechanism by SERS and PSERS.

Impact of Proposed Implementation of Partial Advance Funding Mechanism

	Amount	As a % of Payroll
Initial Year's Cash Flow Requirement[1]		
State Employees' Retirement System	$14,675,633[2]	0.3%
Public School Employees' Retirement System	$28,195,819[3]	0.3%

[1] Due to payroll growth, the dollar amount of the cash flow requirement will increase each year of the initial advance funding accumulation period. The percentage of payroll cash flow requirement will not change during the initial accumulation period but will be subject to change after each subsequent COLA is enacted.

[2] Based on salary projected to December 31, 2001.

[3] Based on salary projected to June 30, 2001, and 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 staff identified the following policy considerations.

Allocation of Costs. The proposed amortization approach in the bill would provide for the unfunded actuarial accrued liabilities caused by future ad hoc COLAs to be funded over a more appropriate period approximating the period of the bulk of the benefit disbursements and increase inter-generational equity in funding COLA costs.

Reduction in Long-Term Cash Flow Needs. The proposed amortization approach in the bill would reduce the probability of compounding the employer contributions required to finance future ad hoc COLAs and lower the total amount of the required amortization payments.

Policy Consistency. The bill would establish an amortization approach for the unfunded actuarial accrued liabilities of future COLAs provided by SERS and PSERS that is the same as the amortization approach mandated for all municipal employee retirement systems under the Municipal Pension Plan Funding Standard and Recovery Act.

Reduction in Interest Costs. The proposed amortization approach and the proposed partial advance funding mechanism would both function to reduce the interest costs associated with funding the unfunded actuarial accrued liabilities of the Commonwealth's ad hoc COLAs.

POLICY CONSIDERATIONS (CONT'D)

Funding Flexibility. The funding provided by the proposed advance funding mechanism will be adjusted automatically to reflect recent practice with respect to the provision of COLAs.

Impact on Budget Process. The bill proposes to initiate the partial advance funding contribution rate in fiscal year 2001-02, which may not be easily accommodated in the normal budget adoption process.

COMMISSION RECOMMENDATION

On February 8, 2001, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor favorably consider the bill due to the efficiency and policy advantages identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 28, Printer's Number 436, was amended in the House on third consideration.

Bill ID: House Bill Number 84, Printer's Number 69

System: Public School Employees' Retirement System

Subject: Purchase of Service Credit for Service as a Special Education Teacher or Instructor in an Accredited Pennsylvania-Approved Private School

SYNOPSIS

House Bill Number 84, Printer's Number 69, would amend the Public School Employees' Retirement Code to permit an active member or an active multiple service member of the Public School Employees' Retirement System (PSERS) to purchase up to five years of service credit at the rate of one year for every three years of previous nonschool service as a school teacher or instructor of special education classes in an accredited, Pennsylvania-approved, private elementary or secondary (special education) school, if the member was entitled to a provisional or professional certificate to teach in the public schools of Pennsylvania at the time the service was rendered, purchases the service credit within three years of becoming eligible to do so, and pays the full actuarial present value of the increase in the superannuation benefit resulting from the purchase.

DISCUSSION

The Public School Employees' Retirement System (PSERS) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of PSERS is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 1999, there were 664 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, 1999, there were 223,495 active members of PSERS, there were also 121,064 regular and early retirees, 5,384 disability retirees, and 6,421 survivor beneficiaries receiving benefits from PSERS.

Under the PSERS Code, a member may retire at age 60 with 30 years of service credit, age 62 with one year of service credit, or at any age with 35 years of service credit. The pension is the product of two percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Public employee defined benefit pension plan provisions that permit a member to receive additional service credits are of value to the member because they enhance the retirement benefit and also may accelerate retirement eligibility.

Active members and active multiple service members of PSERS may purchase service credit for the following types of nonschool service: approved leaves of absence without pay; intervening and nonintervening military service; service in public education in another state or with the federal government; service in public education in a community college under the Community College Act; service with a county school board where administrative duties or the agency was transferred to some other governmental entity with PSERS coverage; service as a county nurse; service for time spent on a mandated maternity leave prior to 1978; and certain service performed while in the Cadet Nurse Corps during World War II.

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

Special education includes clinical, remedial, and guidance services for exceptional children, that is, both gifted children and children with severe disabilities. For example, an individual holding a certificate endorsed in one of the four special education areas is qualified to teach students with disabilities how to understand, overcome, compensate for and/or adjust to their disabilities through the use of adaptive instructional strategies, instructional accommodations, individualized learning activities, and specially designed services. Data provided by the Department of Education show that in 1999-2000 there were 14,547 public school teachers certified in special education plus 1,918 certified as speech correctionists.

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

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

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

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

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

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission prepared an actuarial note dated October 16, 1998, on Amendment 3185 to Senate Bill Number 803, Printer' Number 1819, 1997-98 Sessions, that contained a proposal identical to the proposal in House Bill Number 84, Printer's Number 69.

If the bill is changed to prohibit a lump sum withdrawal of the purchase contribution under Option 4, the bill will have no actuarial cost impact upon the Public School Employees' Retirement System. If the bill is not changed to prohibit such an Option 4 withdrawal, the Commonwealth and public school employers will pay all or almost all of the actuarial cost of the increased benefit.

Although there will be no direct actuarial cost to the employers for the increased PSERS benefits under the bill, if it is changed to prohibit lump sum withdrawals under Option 4, there may be other retirement benefit costs incurred by the employers. By purchasing service credit in PSERS for nonschool service, a member either may become eligible for other postretirement benefits sooner than otherwise or may achieve eligibility when the member could not otherwise do so. Such benefits might include special early retirement or employer-subsidized postretirement medical insurance.

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

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

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

Appropriateness of Credit for Service as a Special Education Teacher in a Private School. The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The bill would permit purchase of service for a situation that is not among the situations which the Commission views as warranting service credit purchase authorizations.

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

Time Limit on Exercise of Purchase Option. For service credit purchase authorizations of this type, the Commission has recommended that employees be required to exercise the purchase option within three years of becoming eligible to do so. The language in the bill appears to impose this restriction.

No Prohibition on Option 4 Withdrawal of Purchase Contribution. For the service credit purchase authorizations to be at the full actuarial cost, the bill must prohibit a lump sum withdrawal of the purchase contribution under Option 4 by the member upon retirement or upon leaving employment with entitlement to a vested deferred benefit. The bill does not contain such a prohibition. A service credit purchase transaction that favors a member at the expense of the retirement system is viewed by the Commission as appropriate only where necessary for the purpose of equity. Suggested wording of an amendment to prohibit a lump sum withdrawal of the service credit purchase contribution is attached.

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

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

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

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

COMMISSION RECOMMENDATION

On April 26, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 84, Printer's Number 69, was reported as amended from the House Education Committee on November 19, 2001.

Bill ID: House Bill Number 84, Printer's Number 2913

System: Public School Employees' Retirement System

Subject: Purchase of Service Credit for Service as a Certified Professional in an Approved Private School

SYNOPSIS

House Bill Number 84, Printer's Number 2913, would amend the Public School Employees' Retirement Code to permit an active member or an active multiple service member of the Public School Employees' Retirement System (PSERS) to purchase an unlimited amount of service credit at the rate of one year for every year of previous nonschool service as a certified professional employed in an approved private school as defined in 22 PA. Code section 171.11, if the member was entitled to a provisional or professional certificate to teach in the public schools of Pennsylvania at the time the service was rendered and pays the full actuarial present value of the increase in the superannuation benefit resulting from the purchase.

DISCUSSION

The Public School Employees' Retirement System (PSERS) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of PSERS is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 2000, there were 695 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, 2000, there were 234,210 active members of PSERS.

Under the PSERS Code, a member may retire at age 60 with 30 years of service credit, age 62 with one year of service credit, or at any age with 35 years of service credit. The pension is the product of two and one-half percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Public employee defined benefit pension plan provisions that permit a member to receive additional service credits are of value to the member because they enhance the retirement benefit and also may accelerate retirement eligibility.

Active members and active multiple service members of PSERS may purchase service credit for the following types of nonschool service: approved leaves of absence without pay; intervening and nonintervening military service; service in public education in another state or with the federal government; service in public education in a community college under the Community College Act; service with a county school board where administrative duties or the agency was transferred to some other governmental entity with PSERS coverage; service as a county nurse; service for time spent on a mandated maternity leave prior to 1978; and certain service performed while in the Cadet Nurse Corps during World War II.

The bill would expand the list of purchasable nonschool service to include an unlimited amount of service credit for service as a certified professional in an approved private school as defined in 22 PA. Section 171.11, if the member was entitled to a provisional or professional certificate to teach in the public schools of Pennsylvania at the time the service was rendered and pays the actuarial present value of the increase in the superannuation benefit resulting from the purchase.

Special education includes clinical, remedial, and guidance services for exceptional children, that is, both gifted children and children with severe disabilities. For example, an individual holding a certificate endorsed in one of the four special education areas is qualified to teach students with disabilities how to understand, overcome, compensate for and/or adjust to their disabilities through the use of adaptive instructional strategies, instructional accommodations, individualized learning activities, and specially designed services. Data provided by the Department of Education show that in 1999-2000 there were 14,547 public school teachers certified in special education plus 1,918 certified as speech correctionists.

The bill would restrict the service that could be purchased to service in a Pennsylvania-approved private school. In the Department of Education, the term "approved private school" is a term of art defined in 22 PA. Code Section 171.11, describing a private school, the mission of which, is to provide special education to children with exceptional needs. There are about 31 of these schools that are licensed by the State Board of Private Academic Schools and also approved by the Bureau of Special Education of the Department of Education. Educators in the "approved private schools" must hold public school certification.

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

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission prepared an actuarial note dated November 28, 2001, and determined that the increase in the unfunded actuarial accrued liability will depend on the method selected by the PSERS Board of Trustees, based on the advice of the PSERS actuary, to determine the full actuarial cost paid by the member and that there will be no increase in the unfunded actuarial accrued liability if the full actuarial cost is determined using the same methodology and assumptions used by the PSERS consulting actuary for the PSERS annual valuation.

Although there will be no direct actuarial cost to the employers for the increased PSERS benefits under the bill, there may be other retirement benefit costs incurred by the employers. By purchasing service credit in PSERS for nonschool service, a member either may become eligible for other postretirement benefits sooner than otherwise or may achieve eligibility when the member could not otherwise do so. Such benefits might include special early retirement or employer-subsidized postretirement medical insurance.

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

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

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

Appropriateness of Credit for Service as a Certified Professional Teacher in a Private School. The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The bill would permit purchase of service for a situation that is not among the situations which the Commission views as warranting service credit purchase authorizations.

Adequacy of Purchase Payments. The bill appears to require payment by a member of the full actuarial cost of the increased benefit obtained by virtue of the service credit purchase thus preventing an actuarial cost to the public school employers.

Absence of Time Limit on Exercise of Purchase Option. For service credit purchase authorizations of this type, the Commission has recommended that employees be required to exercise the purchase option within three years of becoming eligible to do so. The language in the bill does not impose such a restriction.

Absence of Limit on Amount of Service Purchased. A limit on the length of service which may be purchased in connection with a service purchase authorization serves to assure that a public employee's retirement benefit will be based principally on the amount of time served with the employer providing the benefit. In the absence of any such limit, some public employees may be able to purchase virtually all of the service credit required for vesting or for superannuation retirement and become eligible to receive a retirement benefit from an employer to whom they provided an insignificant period of service. The bill contains no restriction on the amount of service that may be purchased by an employee.

POLICY CONSIDERATIONS (CONT'D)

Prohibition on Option 4 Withdrawal of Purchase Contribution. 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. For the service credit purchase authorizations to be at the full actuarial cost, the bill must prohibit a lump sum withdrawal of the purchase contribution under Retirement Option 4 by the member upon retirement. The bill contains such a prohibition.

Potential for Other Ancillary Benefit Costs. Although there may be no direct actuarial cost to the employers for the increased benefits under the bill, there may be other retirement benefit costs incurred by the employers. By purchasing service credit in PSERS for nonschool service, a member either may become eligible for other postretirement benefits sooner than otherwise or may achieve eligibility when the member could not otherwise do so. Such benefits might include special early retirement, early vesting or employer-subsidized postretirement medical insurance.

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

COMMISSION RECOMMENDATION

On December 6, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 84, Printer's Number 2913, was tabled in the House on November 19, 2001.

Bill ID: House Bill Number 100, Printer's Number 84

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

Subject: Granting New "30 and Out" Windows

SYNOPSIS

House Bill Number 100, Printer's Number 84, 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").

Under House Bill Number 100, Printer's Number 84, an eligible individual would be either:

> A member of PSERS who has at least 30 eligibility points, terminates service from April 1, 2001, through June 30, 2001, or from April 1, 2002, through June 30, 2002, or from April 1, 2003, through June 30, 2003, and files an application for an annuity with an effective date of retirement not later than July 1, 2003; or
>
> A member of SERS who has at least 30 eligibility points, terminates service from July 1, 2001, through June 30, 2003, and files an application for an annuity with an effective date of retirement not later than July 1, 2003.

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, 1999, there were 664 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
>
> 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 accrued actuarial 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 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. Based on the historical record, terminating the provisions and granting them again for members of PSERS and SERS will not produce an incentive for members to change this 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 frequent, short-period early retirement windows 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-year, two-year, three-year and permanent extensions of the special early retirement provisions, assuming retirement rates of 5, 10, and 15 percent. In addition, PSERS 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 the new early retirement provisions contained in the bill will result in the following costs.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$402,000,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs [1]		
Normal Cost	$ 7,000,000	0.07%
Amortization Payment [2]	32,000,000	0.32%
Total Increase in Employer Annual Costs [3]	$39,000,000	0.39%

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

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

[3] First year costs only.

State Employees' Retirement System

The consulting actuary of the State Employees' Retirement System has estimated the cost for a two-year "30 and Out" retirement window. The estimate has been reviewed by the consulting actuary of the Commission who has determined that, if SERS were not prefunding "30 and Out," the bill would result in the following cost.

	Amount
Increase in Unfunded Actuarial Accrued Liability [1]	$206,000,000

[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 employer contributions of about 0.65 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 a new special early retirement for members of PSERS and SERS so soon after the expiration of the previous provisions is to induce a reduction in the personnel complement or to provide enhanced retirement benefits

POLICY CONSIDERATIONS (CONT'D)

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 and SERS.

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 14, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 100, Printer's Number 84, was referred to the House State Government Committee on January 23, 2001.

Bill ID: House Bill Number 223, Printer's Number 210

System: State Employees' Retirement System

Subject: Reducing Vesting Period and Increasing the Class of Service Multiplier

SYNOPSIS

House Bill Number 223, Printer's Number 210, would amend the State Employees' Retirement Code to:

> Reduce the regular ten-year cliff vesting to six-year cliff vesting;
>
> Reduce the special eight-year cliff vesting to six-year cliff vesting;
>
> Create a new class, Class AA, that would have a multiplier of 1.25, which would result in all Class AA members receiving an annuity of 2.5 percent of their final average salaries for all credited service and, effective January 1, 2002, contributing 6.25 percent of their compensation to the State Employees' Retirement Fund;
>
> Require all new state employees who are not Pennsylvania State Police Officers or eligible for another class (such as justices, judges, and district justices) to become Class AA members; and
>
> Make all current active, multiple service, regular vestee, and special vestee members (except for members who became Pennsylvania State Police Officers after June 30, 1989, and members of classes other than Class A), Class AA members unless they elect not to be so reclassified before January 1, 2002.

DISCUSSION

State Employees' Retirement System

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 state employees. As of December 31, 1999, SERS had 108,035 active members, and there were 106 state and other employer organizations participating in SERS. Membership in SERS is mandatory for most state employees. Certain other employees are not required but are given the option to participate. The general annual retirement benefit is the product of two percent of the member's high three-year average salary multiplied by the member's years of service.

Vesting

An employee's right to receive a present or a future pension is said to vest when the right no longer is contingent upon the employee remaining in the service of the employer. Many public employee pension plans, including SERS, provide for employee contributions, which are always fully vested. Under the Code, most active members who terminate service with less than ten years of credited service are entitled only to a return of their employee contributions and the accrued interest on those contributions. After ten years of service, active members become vested in the employer-funded component of their retirement benefits. Vested employees with ten or more years of service may terminate service and vest their retirement benefits by leaving them in the SERS fund, or they may retire and receive early retirement benefits.

The vesting provided in the Code is called cliff vesting because the member is not vested in any portion of the employer-funded portion of the retirement benefit until the prescribed service requirement is satisfied. As soon as the prescribed service requirement is satisfied, the member is fully (100%) vested in the employer-funded portion of the accrued retirement benefit. In private sector retirement plans, the Employee Retirement Income and Security Act (ERISA) requires that the cliff vesting period cannot exceed five years (Prior to changes effective in 1989, the maximum number of years was ten under ERISA). The bill would bring the Code closer to conformity with private sector practice by reducing the required vesting period to six-year cliff vesting.

In the bill, the special eight-year cliff vesting is reduced to five-year cliff vesting in sections 5101 and 5705(a) but to six-year cliff vesting in sections 5308(b) and 5309 while the regular ten-year cliff vesting is reduced to six-year cliff vesting in sections 5101, 5308(b), and 5309.

Class of Service Multiplier

Under the current Code, the basic formula used to calculate the standard, single life annuity for most Class A members is two percent of the member's highest three years of compensation multiplied by the member's years of credited service. Additionally, the annuity for other membership classes is obtained by multiplying the standard single-life annuity by a class of service multiplier.

The class of service multiplier for Class A members is 1.0, and most active members of SERS are members of Class A. Class A members include most regular State employees, employees of certain Commonwealth commissions and authorities, and certain employees of the state university system (unless such employees have elected membership in PSERS or TIAA-CREF), and all employees who became members (or who returned to state service) on or after March 1, 1974.

The bill would create a new membership class, Class AA, and would require all current Class A active, multiple service, regular vestee, and special vestee members (except for members who became Pennsylvania State Police Officers after June 30, 1989, and members of classes other than Class A), to become Class AA members unless they elect not to be so reclassified before January 1, 2002. The newly created class, Class AA, would have a class of service multiplier of 1.25, which would result in all Class AA members receiving an annuity of 2.5 percent of their final average salaries for all credited service. Effective January 1, 2002, the bill would also increase the employee contribution rate to the State Employees' Retirement Fund for Class AA members from 5.0 percent to 6.25 percent of compensation. The bill also requires all new state employees who are not Pennsylvania State Police Officers and who are not eligible to become members of another class (such as justices, judges, and district justices) to become Class AA members. Since the bill would increase the value of retirement benefits by 25%, more members will be affected by the 100% of compensation limitation on annuity benefits set forth in section 5702(c) of the Code.

Additionally, because most state employees are covered by Social Security, the effect of the bill could be to increase total retirement income (SERS pension benefit plus Social Security benefit) of a large percentage of retirees who retire at superannuation (normal retirement age minus age 60 for most members) to 100% or more of compensation.

The language contained in section 14 of the bill suggests that the sponsors may intend to make the bill's provisions effective retroactively. Accordingly, the Commission's consulting actuary provided cost estimates for the bill assuming the following two enactment scenarios: 1) assuming the bill is effective retroactively to November 29, 2000; and 2) assuming the bill is effective upon enactment. The consulting actuary also assumed that the fiscal year 2002- 2003 contribution would first reflect the increased costs and that the bill would be enacted before July 1, 2001.

The consulting actuary estimated the increase in unfunded actuarial accrued liability, the normal cost, and the first-year amortization payment for both the retroactive and prospective enactment scenarios. These estimates are summarized in the following two tables.

Estimated Actuarial Cost with
Retroactive Effective Date of November 29, 2000

	Amount	
	With 6-Year Vesting	**With 5-Year Vesting**
Increase in Unfunded Actuarial Accrued Liability	$2,800,000,000	$2,750,000,000

	With 6-Year Vesting		With 5-Year Vesting	
	Amount	**As a % of Payroll**	**Amount**	**As a % of Payroll**
Increase in Employer Annual Costs				
Normal Cost	$127,000,000	2.55%	$129,500,000	2.60%
Amortization Payment[1]	203,800,000	4.09%	200,100,000	4.02%
Total Increase in Employer Annual Costs[2]	$330,800,000	6.64%	$329,600,000	6.62%

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

[2] First year's costs only.

Estimated Actuarial Cost
with Effective Date Upon Enactment

	Amount	
	With 6-Year Vesting	**With 5-Year Vesting**
Increase in Unfunded Actuarial Accrued Liability	$2,725,000,000	$2,675,000,000

	With 6-Year Vesting		With 5-Year Vesting	
	Amount	**As a % of Payroll**	**Amount**	**As a % of Payroll**
Increase in Employer Annual Costs				
Normal Cost	$127,000,000	2.55%	$129,500,000	2.60%
Amortization Payment[1]	198,300,000	3.98%	194,700,000	3.91%
Total Increase in Employer Annual Costs[2]	$325,300,000	6.53%	$324,200,000	6.51%

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

[2] First year's costs only.

POLICY CONSIDERATIONS

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

Vesting Period. Decreasing the cliff vesting period under the Code is more nearly consistent with current practice for defined benefit plans in the private sector.

Drafting Ambiguities. The Commission staff noted the following drafting ambiguities.

Vesting. The special eight-year cliff vesting is reduced to five-year cliff vesting in sections 5101 and 5705(a) but to six-year cliff vesting in section 5308(b) and 5309 while the regular ten-year cliff vesting is reduced to six-year cliff vesting in sections 5101, 5308(b), and 5309.

Effective Date. Under section 15 of the bill, the amendments to the State Employees' Retirement Code would be effective immediately upon enactment of the bill. Section 14 of the bill appears to make provision for the bill to be made retroactive to November 29, 2000.

Fundamental Benefit Enhancement. Increasing the multiplier to 1.25 will, in effect, enhance retirement benefits (and pre-retirement death benefits) for most SERS members by 25 percent over current levels.

Equity between SERS and PSERS. The bill does not include similar proposed amendments to the Public School Employees' Retirement Code, although the usual practice of the General Assembly has been to make similar amendments to both Codes at the same time and in the same bill.

Effects of Enhanced Benefits. Since retirement benefits would increase by 25%, more members will be affected by the 100% of compensation limitation on annuity benefits set forth in Section 5702 (c) of the Code. Additionally, since most state employees are covered by Social Security, the effect of this bill could be to increase total retirement income (SERS pension benefit plus Social Security benefit) of a significant percentage of retirees who retire at superannuation (normal retirement age – age 60 for most members) to 100% or more of pre-retirement compensation.

Provision for Cost Sharing. The provision in the bill requiring an increase in the employee contribution rate from 5.0% to 6.25% of compensation appears to be a reasonable public policy approach in view of the significantly increased costs that will be incurred by the Commonwealth to fund the benefit enhancements contained in the bill.

COMMISSION RECOMMENDATION

On April 26, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 223, Printer's Number 210, was referred to the House State Government Committee on January 25, 2001.

Bill ID: House Bill Number 420, Printer's Number 457

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

Subject: Granting "30 and Out" as a Permanent Benefit Enhancement

SYNOPSIS

House Bill Number 420, Printer's Number 457, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code by establishing the "30 and Out" special early retirement incentive as a permanent benefit enhancement.

Under House Bill Number 420, Printer's Number 457, an eligible individual would be either:

> A member of PSERS who has at least 30 eligibility points, terminates service, and files an application for an annuity with an effective date of retirement after the completion of the school term (as defined in section 8324 (c) of the bill), but no earlier than May 15, nor later than the ensuing July 15 of any year after the effective date of the Act; or
>
> A member of SERS who has at least 30 eligibility points, terminates service, and files an application for an annuity in any year after the effective date of the Act.

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, 1999, there were 664 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
>
> 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.

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 the provision of "30 and Out" as a permanent benefit enhancement. The estimate has been reviewed by the consulting actuary of the Commission who has determined that the new early retirement provisions contained in the bill will result in the following costs.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$1,058,000,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs [1]		
Normal Cost	$ 27,000,000	0.27%
Amortization Payment [2]	84,000,000	0.84%
Total Increase in Employer Annual Costs [3]	$111,000,000	1.11%

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

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

[3] First year costs only.

State Employees' Retirement System

The consulting actuary of the State Employees' Retirement System has estimated the cost for the provision of "30 and Out" as a permanent benefit enhancement. The estimate has been reviewed by the consulting actuary of the Commission who has determined that, if SERS were not prefunding "30 and Out," the bill would result in the following cost.

	Amount
Increase in Unfunded Actuarial Accrued Liability [1]	$331,500,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs [1]		
Normal Cost	$ 6,100,000	0.13%
Amortization Payment [2]	24,100,000	0.52%
Total Increase in Employer Annual Costs [3]	$30,200,000	0.65%

[1] The annual funding requirements for the increased actuarial accrued liability attributable to the bill are being satisfied by current employer contributions due to the system's assumption that the benefit provided in the bill is already in effect.

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

[3] First year costs only.

POLICY CONSIDERATIONS

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

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

Impact on Cost-of-Living Adjustments. To the extent that members take advantage of the benefit enhancement, they will tend to retire with smaller pensions that will be exposed to erosion of purchasing power resulting from inflation over longer retired lifetimes. This aspect of providing "30 and Out" as a permanent benefit enhancement could result in an increased need for future ad hoc postretirement cost-of-living adjustments.

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

COMMISSION RECOMMENDATION

On March 14, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 420, Printer's Number 457, was referred to the House State Government Committee on February 5, 2001.

Bill ID: House Bill Number 821, Printer's Number 913

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 821, Printer's Number 913, 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 2001 to retired municipal firefighters and police officers who began receiving a retirement benefit before January 1, 1996, with the State reimbursements for 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 2001, 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, 1996, 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, 2001, the special adjustment is reduced annually by 65 percent of the total amount of the retiree's locally provided postretirement adjustment paid in the preceding year.

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
2000 Reimbursement	=	$4,690,772.08

The affected municipalities will have to initially pay a lump-sum amount representing the mandated postretirement adjustments between January 1, 2001, and the date the bill is implemented locally. 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 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 2001 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 2001 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.

There is one technical drafting issue raised by the bill. 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.

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. 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, 2001, actuarial valuation reports and amortization payments beginning January 1, 2002.

	Amount
Increases in Unfunded Actuarial Accrued Liability	$74,784,000

	Amount	**As a % of Payroll**
Increases in Employers' Annual Costs		
Normal Cost	$ 0	0.0%
Amortization Payments [1]	11,271,000	1.1%
Total Increases in Employers' Annual Costs	$11,271,000	1.1%

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

Four-Year Schedule of Projected Reimbursements

	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]	$11,271,000
Total Projected 2003 Reimbursements	$14,371,000

	Amount
Projected Reimbursements for 2004	
2003 Payments under the Original Act	$ 2,710,000
2003 Amortization Payments under the Bill [1]	$11,271,000
Total Projected 2003 Reimbursements	$13,981,000

[1] Amortization payments are the same amounts each year for ten years commencing in 2002, with all reimbursements beginning in 2003. If the bill is not enacted before the latter half of 2001, the increases in the unfunded actuarial accrued liabilities will be recognized in the January 1, 2002, actuarial valuation reports (for municipalities filing annual actuarial valuation reports) and January 1, 2003, actuarial valuation reports (for municipalities filing biennial actuarial valuation reports); and in the case of municipalities filing biennial reports, reimbursements of the resulting amortization payments will not begin until 2005. With that later commencement of some of the amortization payments, the annual amortization payment reimbursement would be less in 2003 and 2004 and more in 2005.

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.

POLICY CONSIDERATIONS

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

Postretirement Adjustments. Increasing the pension benefits after retirement to reflect the erosion of the 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. 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 initial 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.

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 Correction. A technical amendment to the bill would be beneficial.

> *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.

COMMISSION RECOMMENDATION

On March 14, 2001, 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.

House Bill Number 821, Printer's Number 913, was referred to the House Local Government Committee on February 27, 2001.

Bill ID: House Bill Number 869, Printer's Number 968

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

Subject: Service Credit for Allegheny County Redevelopment Authority Service and Conditional Automatic COLAs

SYNOPSIS

House Bill Number 869, Printer's Number 968, would amend sections 1710(j) and 1708(e) 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 bill 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, with the County being required to contribute the same amount of money to the pension trust fund; and
>
> mandate the provision of annual cost-of-living increases in the retirement benefits of retired members if a prescribed level of actuarial funding for the retirement system is achieved and maintained.

DISCUSSION

General

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.

Service Credit Purchase Authorization

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 bill, the member would have to elect to make the purchase within three years of the effective date of the bill 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 bill 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.

In addition to the direct actuarial cost to the County for the expanded service purchase authorization under the bill, 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.

Cost-of-Living Adjustments

A postretirement adjustment is a special type of retirement benefit implemented as an increase in the amount of the retirement benefit that was initially payable at retirement. Postretirement adjustments may be granted for a number of reasons, but the most common reason for a postretirement adjustment is to adjust the retirement benefits to reflect part of the increase in the cost of living after retirement occurred. For this reason, this type of postretirement adjustment is most often called a cost-of-living increase or a COLA.

The County's retirement system board (Board) is currently authorized to increase the monthly retirement benefits of all members retired for at least one year, using the annual actuarial valuation of the retirement system as a source of guidance. The bill requires the Board to increase the monthly retirement benefits of all members retired for at least one year based on the annual actuarial valuation and a prescribed actuarial indicator calculated in conjunction with the preparation of each actuarial valuation. The actuarial indicator, which is to be known as the Total Funded Status Ratio (TFSR), is to be calculated as the sum of the fair market value of assets and the actuarial present value of total projected future contributions expressed as a percentage of the sum of the actuarial present value of future benefits and the actuarial present value of future expenses.

If the actuarial indicator (TFSR) calculated in an actuarial valuation is under 110 percent, the mandated increase in the monthly retirement benefits is zero percent, but the Board, at its discretion, may provide an increase of any percent without restriction. If the actuarial indicator calculated in an actuarial valuation is 110 percent or above, the mandated increase in the monthly benefits is two percent, but the Board, at its discretion, may provide an increase at any percent above two percent provided the actuarial indicator remains at or above 110 percent after being recalculated to reflect the proposed increase. The reason for restricting the increase when the actuarial indicator is initially 110 percent or above, denoting a well funded condition, and not restricting the increase when the actuarial indicator is initially under 110 percent, denoting a less well funded condition, is not apparent.

The conditional limit on the cost-of-living increases that is applicable when the actuarial indicator is 110 percent or more may be interpreted in various ways due to lack of clarity in the language of the bill. It may be interpreted as: 1) applicable only to the mandated two percent increases; 2) applicable only to the discretional increases above the mandated two percent increases; or 3) applicable to the aggregate increases including both the mandated two percent increases and the discretional increases. If the first interpretation is made, the board retains discretion with respect to the provision of a cost-of-living increase even when the actuarial indicator drops to below 110 percent. If the second interpretation is made, the board has no discretion with respect to the provision of a cost-of-living increase when the actuarial indicator drops to below 110 percent, and the mandated two percent cost-of-living increase is provided even if the actuarial indicator drops below 110 percent. If the third interpretation is made, then the operation of the conditional limit appears to preclude any cost-of-living increase when the actuarial indicator is initially equal to 110 percent and to restrict the aggregate (mandated and discretional combined) cost-of-living increase to the level sufficient to avoid the actuarial indicator falling below 110 percent when recalculated to reflect the proposed cost-of-living increase.

Once the percentage increase in the retirement benefits is determined under the proposed mechanism, the percentage is applied to the average monthly retirement benefit payment during the month of December preceding the actuarial valuation to produce a monthly dollar amount that is added to the retirement benefit of all eligible recipients.

The proposed mechanism for providing COLAs appears to be based on a premise that COLAs must be given when they are affordable. As a result, the operation of the proposed mechanism may operate under certain economic conditions to provide COLAs that are not needed to offset the effect of inflation on the retirement benefits in the preceding year, and at other times the mechanism may operate to provide COLAs that are not sufficient to offset the effect of inflation. From the perspective of the retirement system's members, the proposed mechanism establishes a more reliable means to effect COLAs for retired members provided that a well funded condition is achieved and maintained.

SUMMARY OF ACTUARIAL COST IMPACT

Service Credit Purchase for Certain Redevelopment Authority Service

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 bill will have the following actuarial cost impacts.

	Amount	As a % of Covered Payroll
Initial, One-Time County Matching Contribution	$49,394	45.78%

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.

Conditional Automatic Cost-of-Living Increases

If the actuarial indicator specified in the bill is less than 110 percent in all future years, there will be no increase in the unfunded actuarial accrued liability attributable to the two percent cost-of-living increases mandated when the actuarial indicator is 110 percent or above. The consulting actuary of the Commission, however, calculated that an actuarial cost impact to the fund that would arise under the assumption that the minimum level (2%) increase, which would be mandated if the specified actuarial indicator continues to be 110 percent, would be adopted in all future years *regardless of the funding level.* Because of the retained discretion of the County's pension board to grant increases irrespective of the funding level, the Commission's actuary felt these numbers should be calculated. An increase in the unfunded actuarial accrued liability would occur, however, only if 2% cost-of-living increases are granted in future years and the funding level falls below 100%. If increases are restricted solely to years in which the actuarial indicator is 110% or above, no increase in the unfunded actuarial accrued liability will occur because existing assets will be sufficient to offset the actuarial accrued liability being incurred.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$95,140,000

	Amount	**As a % of Covered Payroll**
Increase in Employer Annual Costs [1]		
Normal Cost	$ 5,650,000	2.55%
Amortization Payment	13,130,000	5.93%
Total Increase in Employer Annual Costs	$18,780,000	8.48%

[1] The cost data are calculated using the entry age normal actuarial cost method and presented to provide a common basis for comparison. The County's contributions are determined by a method that is independent of the actuarial cost method. Therefore, the data shown as employer annual cost will not be the actual impact on the County's annual contributions.

POLICY CONSIDERATIONS

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

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

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 bill would permit purchase of service for a situation that is 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 bill results in a member paying the equivalent of what would have been the member's contributions to the County's retirement system for the period of employment with the Redevelopment Authority. The bill requires the County to match the purchase amount contributed by the employee. The bill does not limit the time within which the member must complete making contributions, and it does not provide for interest on these contributions from the date of election to the date of payment. Also, the Commission views the County's payment of the employer portion of the purchase amount appropriate only if the member received no retirement benefits from the Redevelopment Authority. If the member received retirement benefits, which is probable given the Authority's operation of a defined contribution retirement plan as late as the mid-1990's, the portion of the retirement benefits funded by the Redevelopment Authority would appropriately be used to offset the County's required contribution under the bill.

Prohibition of Double Benefit. The Commission recommended that an employee who, at the time of the exercise of the purchase option, is entitled to receive, is eligible to receive then or in the future, is receiving or has received retirement benefits under a retirement system administered and wholly or partially paid for by any other governmental entity for the service for which credit is sought to be purchased, be prohibited from purchasing service credit in the new public employee retirement system. The bill contains language to preclude the service purchase if retirement benefits attributable to the service being purchased will be received in the future, but the language fails to preclude the service purchase if retirement benefits attributable to the service being purchased have already been received. This omission is particularly significant since it is probable that retirement benefits were provided for service with the Redevelopment Authority.

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 bill limits the election period to within three years of the effective date of the bill. This conforms to the Commission's recommendation for active members, but may exclude eligible individuals who may be employed after the three-year period. To avoid this potential inequity, the bill could be amended on page 4, line 10, to specify that *The person shall make application to the board within three years of the effective date of this clause* ***or the initial date of his county employment, whichever occurs later,****.*

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

Postretirement Adjustments. Increasing pension benefits after retirement commences to reflect the erosion of the pension benefit caused by inflation is a common practice in public sector pension plans.

Basis for Implementing and Determining COLAs. The bill requires that COLAs be implemented when a specified funding level exists and that the COLAs above the mandated level be limited based on the funded condition in those instances when the specified funding level exists and the mandated COLAS are implemented. The COLAs provided through the function of this mechanism may not necessarily coincide with the need for cost-of-living increases as determined by the change in the Consumer Price Index.

Drafting Ambiguity. The language in section 1 of the bill establishing the mechanism for implementing cost-of-living increases is unclear with respect to the operation of the conditional limit on the cost-of-living increases when the actuarial indicator is 110 percent or more. It may be interpreted: 1) as applicable only to the mandated two percent increases, 2) as applicable only to the discretional increases above the mandated two percent increases, or 3) as applicable to the aggregate increases including both the mandated two percent increases and the discretional increases. Because there is potential for both administrative and programmatic difficulties to occur under the various interpretations of this language, amending the bill to clarify the intended operation of the conditional limit is warranted.

COMMISSION RECOMMENDATION

On April 26, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 869, Printer's Number 968, was amended in the House on third consideration on June 12, 2001. House Bill Number 869, Printer's Number 2598, was signed into law as Act 80 of 2001 on October 30, 2001.

Bill ID: Amendment 1257 to House Bill Number 869, Printer's Number 968

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

Subject: Granting Public Safety
Employee Retirement Benefits to County Detectives

SYNOPSIS

Amendment 1257 to House Bill Number 869, Printer's Number 968, would amend the Second Class County Code to permit a county detective of Allegheny County to retire voluntarily and receive a full retirement allowance at age 50 or older with 20 or more years of service.

DISCUSSION

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

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

The proposed legislation provides for an expansion of the group of Allegheny County employees entitled to the special retirement benefit provided for a firefighter or police officer. The Allegheny County employees to be newly included in the special public safety employee benefit coverage are county detectives. The special coverage to be provided would permit a county detective to retire voluntarily and receive a normal retirement benefit after attaining age 50 with at least 20 years of service, which is 10 or 15 years earlier than under the current provisions that specify age 60 or age 65 depending upon the member's date of employment. Approximately 22 county detectives are employed by Allegheny County.

SUMMARY OF ACTUARIAL COST IMPACT

	Amount
Increase in Unfunded Actuarial Accrued Liability	$300,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Normal Cost	$ 0	0.0%
Amortization Payment [1]	41,400	4.0%
Total Increase in Employer Annual Costs	$41,400	4.0%

[1] Amortization payments are the same amount each year for 10 years.

POLICY CONSIDERATIONS

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

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

Precedent for Similar Requests. The bill may serve as a precedent for other members of the Allegheny County Retirement System with various classifications related to public safety functions to seek the special coverage currently provided only to police officers and firefighters.

COMMISSION RECOMMENDATION

On May 7, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 869, Printer's Number 968, was amended in the House on third consideration on June 12, 2001. House Bill Number 869, Printer's Number 2598, was signed into law as Act 80 of 2001 on October 30, 2001.

Bill ID: House Bill Number 1016, Printer's Number 1161

System: Public School Employees' Retirement System

Subject: Public School Retirees' Health Insurance Act

SYNOPSIS

House Bill Number 1016, Printer's Number 1161, would:

> Beginning January 1, 2002, amend the definition of "eligible annuitant" in section 8102 of the Public School Employees' Retirement Code (Code), which sets forth eligibility criteria for participation in the Health Insurance Premium Assistance Program under section 8509, to include members with 15 or more eligibility points who are age 65 or older;
>
> 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 Code but will now exist under the new 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 System (PSERS) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of PSERS is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 1999, there were 664 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, 1999, there were 223,495 active members of PSERS. There were also 121,064 regular and early retirees, 5,384 disability retirees, and 6,421 survivor beneficiaries 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 from the Health Insurance Account equal to the lesser of $55 a month or the actual monthly premium. 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. The bill would amend the Code to change the eligibility criteria in two ways:

> Beginning January 1, 2002, any retiree with 15 or more but less than 24½ years of service and who 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; and

> 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.

Currently, 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 it is anticipated that the covered group of retirees will be relatively stable and because the benefit amounts have not been indexed, this approach has provided a reasonable estimate of the long-term cost level.

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:

> 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 2001-2002, 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 2002, 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 July 1, 2002, 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 2002 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 after June 30, 2002, 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.

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 in 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

In a letter to the Commission dated March 8, 2001, the Commission's consulting actuary conveyed a cost estimate on House Bill Number 8, Printer's Number 611, which contains a premium assistance proposal substantially identical to the proposal in House Bill Number 1016, Printer's Number 1161.

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 estimated levels of participation by eligible 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.

Premium Assistance
Estimated Total Annual Increase in Pay-As-You-Go Costs[1]
($ Amounts in Millions)

	Employer Contribution Under Current Law		Increase in Employer Contribution Under H. B. 8		Employer Contribution if H. B. 8 is Enacted	
	% of Pay	Amount	% of Pay	Amount	% of Pay	Amount
Fiscal Year 2001-2002	.32%	$32.0	1.75%	$175.0	2.07%	$207.0
Fiscal Year 2002-2003	.38%	$39.3	.90%	$ 93.1	1.28%	$132.4

[1] Based on the assumption that 71.5 percent of eligible annuitants will elect to participate.

Establishment of Restricted Reserve Account

In a letter to the Commission dated May 12, 1999, the Commission's consulting actuary conveyed a cost estimate on House Bill Number 1401, Printer's Number 1643, as amended by Amendment A0548 of the 1999-2000 sessions. The proposal in the bill created a Public School Retiree's Health Insurance Fund and a restricted reserve account within that fund, which is substantially similar to the proposal currently contained in House Bill Number 1016, Printer's Number 1161.

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. 2001-2002)	$65,000,000	0.65%

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 bill.
>
> Potential Effect upon Employer Provided Postretirement Benefits. Some of the employers participating in PSERS provide 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.

COMMISSION RECOMMENDATION

On April 26, 2001, 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.

House Bill Number 1016, Printer's Number 1161, was referred to the House Education Committee on March 15, 2001.

Bill ID: House Bill Number 1043, Printer's Number 1188

System: State Employees' Retirement System

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

SYNOPSIS

House Bill Number 1043, Printer's Number 1188, would amend section 5303 of the State Employees' Retirement Code to permit an active member who is an employee of the Delaware River Joint Toll Bridge Commission to purchase service credit for the other one-half of the member's previous service with the former Delaware River Joint Free Bridge Commission during the period after April 11, 1976, and before July 1, 1987, during which time the member received only one-half service credit in the State Employees' Retirement System, if the member applies to make the purchase within three years of the effective date of the bill and contributes an amount calculated as equal to the amount the member would have contributed to the State Employees' Retirement Fund (Fund) during the period, together with interest at the statutory rate of four percent to the date of purchase, to the Fund.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. As of December 31, 2000, there were 106 state and other organizations participating 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, 2000, SERS membership consisted of 109,469 active members, and 88,392 retirees and beneficiaries currently receiving benefits.

Under the Code, superannuation or normal retirement age for most members is age 60 with three or more years of service credit or at any age with 35 years of service credit. Generally, the pension benefit is the product of 2.5 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 permitted to purchase service credit for the following types of service: approved leaves of absence without pay, intervening or nonintervening military service, service as a public educator in another state or with the federal government, service as a temporary federal employee assigned to a Commonwealth agency, service in a community college under the Community College Act, service in the Cadet Nurse Corps in World War II, service as a justice of the peace prior to January 1970, and service with a governmental agency other than the Commonwealth where employment was terminated because of the transfer by law of the administration or the service of the entire agency to the Commonwealth.

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

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

In May 1987, just before the transfer of the employees of the Free Bridge Commission to the Toll Bridge Commission, an actuarial study was performed. The study identified 49 employees to be transferred. Of the original 49 transferees, 19 are still active, contributing members of SERS.

In order to promote shared interests and encourage mutual cooperation with other states, Pennsylvania has entered into a number of interstate compacts and agreements. These arrangements serve to foster the continued planning and protection of joint resources and to discourage the fragmentation and duplication of the respective states' programs. The former Free Bridge Commission and the current Toll Bridge Commission have been among these interstate agencies.

The employees of the Free Bridge Commission were transferred to the Toll Bridge Commission and began receiving their retirement benefits only through SERS not through any voluntary transfer of employment and membership on their part, but rather through an involuntary transfer of a governmental function as a result of the jointly agreed upon public policy of Pennsylvania and New Jersey.

The method for calculating the member's contribution to purchase the state service credit contained in the bill is one that will result in the member contributing the rest of what the member would have contributed had the member been receiving full year service credit in SERS during the specified period plus statutory interest of four percent to the date of the service credit purchase. Because this method results in the member paying less than the full actuarial cost of the increased benefit, the residual unfunded actuarial accrued liability would be funded by the Commonwealth through level-dollar amortization payments over a 10-year period.

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

SUMMARY OF ACTUARIAL COST IMPACT

Using actuarial assumptions that are consistent with the assumptions used by the SERS consulting actuary for its December 31, 2000, actuarial valuation, except for disability and turnover, the Commission's consulting actuary estimates that the bill will have the following actuarial cost impact.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$286,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Normal Cost	$20,100	2.7%
Amortization Payment [1]	40,200	5.5%
Total Increase in Employer Annual Costs [2]	$60,300	8.2%

[1] Amortization calculated as level dollar payments over ten years

[2] Amortization payments cease after 10 years.

POLICY CONSIDERATIONS

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

Substantial Conformance with Policy Guidelines. In March 1997, the Public Employee Retirement Commission published *Service Purchase Authorizations for Pennsylvania Public Employee Retirement Systems*, a report recommending policy guidelines for authorizing, funding, and structuring service credit purchases. The bill substantially conforms to the recommendations in this report concerned with authorizing, funding, and structuring service credit purchases.

Appropriateness of Service Credit for Service with the Free Bridge Commission. The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credit following a break in service, and remedying inequalities caused by employer administrative actions. The service for which credit is to be made purchasable under the bill is among these types of service.

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

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

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

COMMISSION RECOMMENDATION

On October 4, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 1043, Printer's Number 1188, was referred to the House State Government Committee on March 15, 2001.

Bill ID: House Bill Number 1116, Printer's Number 1292

System: State Employees' Retirement System

Subject: Age 50 Superannuation Retirement Benefits for Police Officers Employed by a State-owned or State-related University

SYNOPSIS

House Bill Number 1116, Printer's Number 1292, would amend section 5102 of the State Employees' Retirement Code to permit police officers employed by a state-owned or state-related university in the Commonwealth of Pennsylvania to retire at age 50 with full retirement benefits.

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, 2000, there were 106 state and independent agencies participating 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, 2000, there were 109,469 active members of SERS.

Special retirement coverage for various public safety employees often is provided in public employee retirement systems. The enhanced benefits are premised on the hazardous nature of public safety employment and the physical and psychological demands of public safety work. Under the Code, the special retirement benefit for Commonwealth public safety employees is the eligibility to retire at age 50 with full retirement benefits. Normal retirement for most employees is age 60 or any age with 35 years of service. Because the death benefit for any Commonwealth employee is dependent on the retirement age, the special public safety employees' retirement coverage also increases the death benefit.

Under the Code, the employees currently eligible for the special benefit 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 Services capitol police officers; Department of Conservation and Natural Resources park rangers; waterways conservation officers of the Pennsylvania Fish and Boat Commission; and Pennsylvania state police officers.

Under section 2416 of The Administrative Code of 1929, on the grounds and in the buildings of state colleges and universities, state aided or related colleges and universities, and community colleges, campus police officers enforce good order, protect the property of the Commonwealth, exclude all disorderly persons, exercise the same powers as the police in municipalities in which the educational institutions are located, order off the grounds and out of the buildings all vagrants, trespassers, and persons under the influence of illicit substances or alcohol, and if necessary, remove them by force, and arrest any individual who damages, mutilates, or destroys the trees, plants, shrubbery, turf, grass-plots, benches, buildings, or structures or commits any other offense. Campus police officers at The Pennsylvania State University are subject to the provisions of the Municipal Police Education and Training Law (Act 120 of 1974), but campus police officers at community colleges and the State System of Higher Education are not.

In addition to campus police officers, there are campus security officers and community service officers who are not commissioned under section 2416 of The Administrative Code of 1929 but who are responsible for the routine security work of patrolling the buildings and grounds of educational institutions to protect and guard property or individuals from fire, theft, trespass, or other hazards. Their work may involve regulating the activities of individuals and may include performing limited police duties. Community service officers at The Pennsylvania State University are not armed and may or may not have arrest authority. The bill is unclear as to whether these additional, non-commissioned security personnel classifications are to be included in the proposed reduced retirement age.

SUMMARY OF ACTUARIAL COST IMPACT

The following estimate reflects the actuarial assumptions used in the December 31, 2000, Actuarial Valuation of the State Employees' Retirement System. The plan provisions reflected include those summarized in the December 31, 2000, Actuarial Valuation and the benefit changes mandated by Act 9 of 2001. The estimate also reflects the demographic data submitted by the educational institutions that includes both commissioned and non-commissioned security personnel currently employed.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$910,000

	Amount	**As a % of Affected Payroll**
Increase in Employer Annual Costs		
Normal Cost	$270,000	2.6%
Amortization Payment [1]	140,000	1.4%
Total Increase in Employer Annual Costs [2]	$410,000	4.0%

[1] Amortization calculated as level dollar payments over ten years

[2] Amortization payments cease after 10 years.

POLICY CONSIDERATIONS

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

Appropriateness of Benefit Coverage. Traditionally, special public safety employee retirement coverage is deemed appropriate for a group of employees if the nature of the duties of the employees is sufficiently hazardous and the need for an exceptionally able and vigorous workforce is sufficiently great. The positions proposed to be included under the special benefit coverage are employees who exercise the same powers as the police in the municipalities in which these educational institutions are located. In considering the proposed legislation, Commonwealth policymakers must determine whether the special benefit coverage is warranted for this group of employees based on the degree of hazard encountered by these members in the performance of their duties and the need for an exceptionally vigorous workforce in this area.

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

<u>Drafting Ambiguity</u>. Because “police officer” is not a defined term in the language of the bill, the intent of the bill is unclear with respect to the treatment of those employees who may be classified as “security officers,” “patrol officers,” “community service officers,” or some other security-related classification and who may not be commissioned under section 2416 of The Administrative Code. The bill should be amended to define the term “police officer” in order to clarify that non-commissioned security personnel are not to receive the enhanced benefit provided for in the bill.

COMMISSION RECOMMENDATION

On December 6, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 1116, Printer's Number 1292, was referred to the House State Government Committee on March 21, 2001.

Bill ID: House Bill Number 1296, Printer's Number 1526

System: Public School Employees' Retirement System

Subject: Purchase of Service Credit for Service as a Special Education Teacher or Instructor in an Accredited Pennsylvania-Approved Private School

SYNOPSIS

House Bill Number 1296, Printer's Number 1526, would amend the Public School Employees' Retirement Code to permit an active member or an active multiple service member of the Public School Employees' Retirement System (PSERS) to purchase service credit at the rate of one year for every year of previous nonschool service as a school teacher or instructor of special education classes in an accredited, Pennsylvania-approved, private elementary or secondary (special education) school, if the member was entitled to a provisional or professional certificate to teach in the public schools of Pennsylvania at the time the service was rendered, purchases the service credit within three years of becoming eligible to do so, and pays the full actuarial present value of the increase in the superannuation benefit resulting from the purchase.

DISCUSSION

The Public School Employees' Retirement System (PSERS) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of PSERS is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 1999, there were 664 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, 1999, there were 223,495 active members of PSERS, there were also 121,064 regular and early retirees, 5,384 disability retirees, and 6,421 survivor beneficiaries receiving benefits from PSERS.

Under the PSERS Code, a member may retire at age 60 with 30 years of service credit, age 62 with one year of service credit, or at any age with 35 years of service credit. The pension is the product of two percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Public employee defined benefit pension plan provisions that permit a member to receive additional service credits are of value to the member because they enhance the retirement benefit and also may accelerate retirement eligibility.

Active members and active multiple service members of PSERS may purchase service credit for the following types of nonschool service: approved leaves of absence without pay; intervening and nonintervening military service; service in public education in another state or with the federal government; service in public education in a community college under the Community College Act; service with a county school board where administrative duties or the agency was transferred to some other governmental entity with PSERS coverage; service as a county nurse; service for time spent on a mandated maternity leave prior to 1978; and certain service performed while in the Cadet Nurse Corps during World War II.

The bill would expand the list of purchasable nonschool service to include service credit for service as a school teacher or instructor of special education classes in an accredited, Pennsylvania-approved, private elementary or secondary special education school, if the member was entitled to a provisional or professional certificate to teach in the public schools of Pennsylvania at the time the service was rendered, begins to make the purchase within three years of becoming eligible to do so, and pays the actuarial present value of the increase in the superannuation benefit resulting from the purchase.

Special education includes clinical, remedial, and guidance services for exceptional children, that is, both gifted children and children with severe disabilities. For example, an individual holding a certificate endorsed in one of the four special education areas is qualified to teach students with disabilities how to understand, overcome, compensate for and/or adjust to their disabilities through the use of adaptive instructional strategies, instructional accommodations, individualized learning activities, and specially designed services. Data provided by the Department of Education show that in 1999-2000 there were 14,547 public school teachers certified in special education plus 1,918 certified as speech correctionists.

The amount of service credit that may be purchased by a member under the Code is typically limited to a specific period of service. However, language limiting the length of service credit which may be purchased by the member is absent from the bill. Limits on the length of service which may be purchased in connection with a service purchase authorization serve to assure that a public employee's retirement benefit will be based principally on the amount of time served with the employer providing the benefit. In the absence of any such limit, some public employees may be able to purchase virtually all of the service credit required for vesting or for superannuation retirement and become eligible to receive a retirement benefit from an employer to whom they provided an insignificant period of service.

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

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

It is not apparent why it is appropriate to require members with previous service as a county employee as a nurse to pay the full actuarial cost without the opportunity to withdraw that amount under Option 4 but to allow school teachers or instructors of special education classes to make such a withdrawal at retirement after having paid the same full actuarial cost. In previous actuarial notes, the consulting actuary of the Commission has discussed the desirability of restricting Option 4 withdrawals under circumstances such as these. A strict, literal interpretation of the last sentence of proposed section 8324(e)(2) would prohibit any active member or active multiple service member who is eligible to receive an annuity of any type from any other pension system, except for Social Security or a military pension system, from purchasing the service credit. The public pension policy rationale for this prohibition is not evident. If the intent of the prime sponsor is to prohibit such purchases if the member is entitled to receive, eligible to receive now or in the future, or is receiving retirement benefits for such service under a retirement system administered and wholly or partially paid for by any other governmental agency, or by any private employer, or a retirement program approved by the employer as an alternative to PSERS in accordance with section 8301(a)(1), such a prohibition already is contained in section 8304(a) of the Code. To prevent administrative problems associated with conflicting provisions of the same statute and to prevent inequitable results, the proposed sentence should be deleted as should be the last sentence of section 8324(e), which the bill proposes to make section 8324(e)(1).

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

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission prepared an actuarial note dated October 16, 1998, on Amendment 3185 to Senate Bill Number 803, Printer' Number 1819, 1997-98 Sessions, that contained a proposal substantially identical to the proposal in House Bill Number 1296, Printer's Number 1526.

If the bill is changed to prohibit a lump sum withdrawal of the purchase contribution under Option 4, the bill will have no actuarial cost impact upon the Public School Employees' Retirement System. If the bill is not changed to prohibit such an Option 4 withdrawal, the Commonwealth and public school employers will pay all or almost all of the actuarial cost of the increased benefit.

Although there will be no direct actuarial cost to the employers for the increased PSERS benefits under the bill, if it is changed to prohibit lump sum withdrawals under Option 4, there may be other retirement benefit costs incurred by the employers. By purchasing service credit in PSERS for nonschool service, a member either may become eligible for other postretirement benefits sooner than otherwise or may achieve eligibility when the member could not otherwise do so. Such benefits might include special early retirement or employer-subsidized postretirement medical insurance.

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

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

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

Appropriateness of Credit for Service as a Special Education Teacher in a Private School. The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The bill would permit purchase of service for a situation that is not among the situations which the Commission views as warranting service credit purchase authorizations.

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

Time Limit on Exercise of Purchase Option. For service credit purchase authorizations of this type, the Commission has recommended that employees be required to exercise the purchase option within three years of becoming eligible to do so. The language in the bill appears to impose this restriction.

Limits on Length of Service Purchased. Language limiting the length of service which may be purchased by the member is absent from the bill. Limits on the length of service which may be purchased in connection with a service purchase authorization serve to assure that a public employee's retirement benefit will be based principally on the amount of time served with the employer providing the benefit. In the absence of any such limit, some public employees may be able to purchase virtually all of the service credit required for vesting or for superannuation retirement and become eligible to receive a retirement benefit from an employer to whom they provided an insignificant period of service. Suggested wording of an amendment to limit the length of service to be purchased is attached.

No Prohibition on Option 4 Withdrawal of Purchase Contribution. For the service credit purchase authorizations to be at the full actuarial cost, the bill must prohibit a lump sum withdrawal of the purchase contribution under Option 4 by the member upon retirement or upon leaving employment with entitlement to a vested deferred benefit. The bill does not contain such a prohibition. A service credit purchase transaction that favors a member at the expense of the retirement system is viewed by the Commission as appropriate only where necessary for the purpose of equity. Suggested wording of an amendment to prohibit a lump sum withdrawal of the service credit purchase contribution is attached.

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

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

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

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

COMMISSION RECOMMENDATION

On April 26, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 1296, Printer's Number 1526, was referred to the House Education Committee on April 26, 2001.

Bill ID: House Bill Number 1362, Printer's Number 1685

System: Pennsylvania Municipal Retirement System

Subject: Liberalization of Disability Retirement Provisions for Police Officers

SYSNOPSIS

House Bill Number 1362, Printer's Number 1685, would amend section 212(a) of the Pennsylvania Municipal Retirement Law (Law) to change the disability retirement provisions for police officers only from being "unable to engage in any gainful employment" to being "unable to perform the regular and routine duties of" a police officer.

DISCUSSION

The Pennsylvania Municipal Retirement System (PMRS) is a governmental multiple-employer retirement system created by the Commonwealth under the Law for the purpose of administering municipal retirement systems for municipalities on a contracted basis. Responsibility for the organization and administration of PMRS is vested in its 11-member Pennsylvania Municipal Retirement Board (Board). The Commonwealth appoints all 11 Board members, but the Commonwealth is not financially accountable as there is no imposition of will, no financial benefit/burden, nor fiscal dependency associated with PMRS. PMRS, therefore, is considered a related organization of the Commonwealth.

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

In the unfortunate event of a disabling accident or illness that could end an employee's working career, employers provide a long-term disability benefit, which provides a continuing source of income for the remainder of the disabled employee's life. In the private sector, it is fairly unusual to have a disability benefit as part of a retirement plan. Most private sector employers who provide long-term disability benefits provide them through either health care coverage or long-term disability insurance policies. For a variety of reasons, in the public sector, it is common practice to provide the benefit under the retirement plan. PMRS writes retirement plans without a disability benefit, but more than 90 percent of the plans it administers provide some type of continuing income for disabled employees.

If the disability results from a work-related injury, there typically is no service requirement and the benefit is designed to provide a larger portion of the disabled employee's needed income, typically 50 percent of the employee's final average salary. Such a benefit by itself is not a guarantee of an adequate source of income to the employee. In the case of work-related disability, however, there also usually is a worker's compensation benefit under which the employee can receive up to two-thirds of the employee's final average salary for the remainder of the employee's life and there also may be a Social Security benefit. To prevent the total of these benefits from being "over adequate" and, thus, encouraging employees to take disability retirements, retirement plans usually include a worker's compensation benefit offset and may include a Social Security benefit offset.

Some plans include a non-service connected disability benefit. These benefits usually have a service requirement and are not as generous in providing for the employee's continuing income. The typical PMRS benefit provides for a guarantee of 30 percent of the disabled employee's final average salary for the remainder of the employee's life if the employee had at least ten years of credited service.

In addition to determining whether a disability is service-related or non-service related, the employer must determine whether the disability is a permanent disability and to what degree the disability exists. One of the most restrictive provisions of the Law is the requirement that all plans written by PMRS must have a disability qualification of "unable to perform gainful employment." The courts have interpreted gainful employment to mean providing income consistent with the individual's educational background and previous working experience.

The bill would substitute a less restrictive definition of disability, with disability being "'unable to perform the regular and routine duties of" a police officer. This more liberal definition would apply to police officers only, however, and not to other public safety employees such as firefighters or to other municipal employees such as nonuniformed employees. The public policy rationale for this limited liberalization in benefits is not apparent. If the bill is adopted, the Board will have to be careful to formally establish by regulation a uniform, state-wide interpretation of "unable to perform the regular and routine duties of" a police officer in order to prevent the interpretation from becoming variable. A variable definition that is different for each employee would cause increased administrative costs for medical examinations and administrative deliberations and appeals and would tend to impair severely the pooling of disability experience among municipalities.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission indicated that the bill will have an actuarial cost. The actuarial cost will be a function of the number of individuals who suffer a disability that renders them unable to perform the regular and routine duties of a police officer but are still able to engage in gainful employment, which would make them ineligible to receive a disability retirement under the current law. However, because the instances of this occurrence would appear to be rare based on the recent experience of PMRS, the actuary estimates that the actuarial cost of the bill will be negligible.

POLICY CONSIDERATIONS

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

<u>Limited Application</u>. The more liberal definition applies only to police officers. The public pension policy rational for excluding firefighters and nonuniformed employees is not apparent.

<u>Need for Specification of Standard Definition</u>. To prevent the new definition from becoming a variable definition, the bill should require the Board to establish a standard meaning of the new definition through the issuance of a regulation.

POLICY CONSIDERATIONS (CONT'D)

Administrative Impact. The bill would require PMRS to establish a second disability pool to accommodate the new definition of disability.

Drafting Error. The bill amends section 212 of the Law, which governs the pension plans for non-uniformed employees, rather than sections 313 and 411, which govern the pension plans for police officers.

COMMISSION RECOMMENDATION

On May 7, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 1362, Printer's Number 1685, was amended in the House on June 13, 2001.

Bill ID: Amendment 1800 to House Bill Number 1362, Printer's Number 1685

System: Pennsylvania Municipal Retirement System

Subject: Liberalization of Disability Retirement Provisions for Public Safety Employees

SYNOPSIS

House Bill Number 1362, Printer's Number 1685, as amended by Amendment 1800, would amend section 212(a) of the Pennsylvania Municipal Retirement Law (Law) to change the disability retirement provisions for police officers and firefighters from being "unable to engage in any gainful employment" to being "unable to perform the regular and routine duties of" their offices.

DISCUSSION

The Pennsylvania Municipal Retirement System (PMRS) is a governmental multiple-employer retirement system created by the Commonwealth under the Law for the purpose of administering municipal retirement systems for municipalities on a contracted basis. Responsibility for the organization and administration of PMRS is vested in its 11-member Pennsylvania Municipal Retirement Board (Board). The Commonwealth appoints all 11 Board members, but the Commonwealth is not financially accountable as there is no imposition of will, no financial benefit/burden, nor fiscal dependency associated with PMRS. PMRS, therefore, is considered a related organization of the Commonwealth.

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

In the unfortunate event of a disabling accident or illness that could end an employee's working career, employers provide a long-term disability benefit, which provides a continuing source of income for the remainder of the disabled employee's life. In the private sector, it is fairly unusual to have a disability benefit as part of a retirement plan. Most private sector employers who provide long-term disability benefits provide them through either health care coverage or long-term disability insurance policies. For a variety of reasons, in the public sector, it is common practice to provide the benefit under the retirement plan. PMRS writes retirement plans without a disability benefit, but more than 90 percent of the plans it administers provide some type of continuing income for disabled employees.

If the disability results from a work-related injury, there typically is no service requirement and the benefit is designed to provide a larger portion of the disabled employee's needed income, typically 50 percent of the employee's final average salary. Such a benefit by itself is not a guarantee of an adequate source of income to the employee. In the case of work-related disability, however, there also usually is a worker's compensation benefit under which the employee can receive up to two-thirds of the employee's final average salary for the remainder of the employee's life and there also may be a Social Security benefit. To prevent the total of these benefits from being "over adequate" and, thus, encouraging employees to take disability retirements, retirement plans usually include a worker's compensation benefit offset and may include a Social Security benefit offset.

Some plans include a non-service connected disability benefit. These benefits usually have a service requirement and are not as generous in providing for the employee's continuing income. The typical PMRS benefit provides for a guarantee of 30 percent of the disabled employee's final average salary for the remainder of the employee's life if the employee had at least ten years of credited service.

In addition to determining whether a disability is service-related or non-service related, the employer must determine whether the disability is a permanent disability and to what degree the disability exists. One of the most restrictive provisions of the Law is the requirement that all plans written by PMRS must have a disability qualification of "unable to perform gainful employment." The courts have interpreted gainful employment to mean providing income consistent with the individual's educational background and previous working experience.

The amended bill would substitute a less restrictive definition of disability, with disability being "unable to perform the regular and routine duties of" a policeman or a firefighter. This more liberal definition would apply to policemen and firefighters only, however, and not to other municipal employees such as nonuniformed employees. The public policy rationale for this limited liberalization in benefits is not apparent.

If the amended bill is adopted, the Board will have to be careful to formally establish by regulation a uniform, state-wide interpretation of "unable to perform the regular and routine duties of" a policeman and a firefighter in order to prevent the interpretation from becoming variable. A variable definition that is different for each employee would cause increased administrative costs for medical examinations and administrative deliberations and appeals and would tend to impair severely the pooling of disability experience among municipalities.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission indicated that the amended bill will have an actuarial cost. The actuarial cost will be a function of the number of individuals who suffer a disability that renders them unable to perform the regular and routine duties of a policeman or firefighter but are still able to engage in gainful employment, which would make them ineligible to receive a disability retirement under the current law. However, because the instances of this occurrence would appear to be rare based on the recent experience of PMRS, the actuary estimates that the actuarial cost of the amended bill will be negligible.

POLICY CONSIDERATIONS

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

> Limited Application. The more liberal definition applies only to public safety employees. The public pension policy rational for excluding nonuniformed employees is not apparent.
>
> Need for Specification of Standard Definition. To prevent the new definition from becoming a variable definition, the amended bill should require the Board to establish a standard meaning of the new definition through the issuance of a regulation.

POLICY CONSIDERATIONS (CONT'D)

Administrative Impact. The amended bill would require PMRS to establish a second disability pool to accommodate the new definition of disability.

Drafting Error. The proposed amendment and the bill amend section 212 of the Law, which governs the pension plans for non-uniformed employees, rather than sections 313 and 411, which govern the pension plans for police officers and firefighters.

COMMISSION RECOMMENDATION

On May 7, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 1362, Printer's Number 1685, was amended in the House on June 13, 2001. House Bill Number 1362, Printer's Number 2226, passed the House on June 20, 2001, and was referred to the Senate Finance Committee on June 21, 2001.

Bill ID: House Bill Number 1363, Printer's Number 1686

System: Police Officer and Firefighter Retirement Systems in Cities of the Third Class

Subject: Increase in Limits of Service Increments

SYNOPSIS

House Bill Number 1363, Printer's Number 1686, would amend both the police officer and the firefighter pension plans in The Third Class City Code to increase

> the limit on the service increment paid to a retired public safety employee, in addition to the retirement allowance, from $100 a month to $500 a month and
>
> the amount of the active member contribution for the service increment benefit from $1 a month to $5 a month.

DISCUSSION

Under articles 43(a) and 43(b) of The Third Class City Code, a city of the third class must establish a retirement system for its police officers and firefighters (public safety employees) by ordinance. All members of the city police force and all full-time, paid firefighters must be members of the retirement systems. As of January 1, 1999, there were 57 police officer retirement systems in cities of the third class with 2,468 active members and 44 firefighter retirement systems with 1,599 active members.

Under The Third Class City Code, a public safety employee may retire on a superannuation (normal, full) retirement after 20 years of service. The ordinance does not have to prescribe a minimum age, but if one is prescribed, it must be age 50. A retiree's retirement pay is computed as the greater of one-half of the final rate of pay or of one-half of the monthly average salary of the public safety employee during the employee's five highest years. The city also may pay a retired public safety employee a service increment of 1/40 of the retirement benefit for each year of service in excess of 20 years rendered to the city before the retiree reached age 65. The service increment cannot be more than $100 a month, and it is this limit that the bill would increase to $500 a month.

As was typical at the time of their enactment, the pension plans for public safety employees in cities of the third class resemble pension plans for military personnel with half-pay pensions after 20 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 the years of service multiplied by a benefit accrual rate. Under an historic "fixed benefit" public safety employee pension plan, there is a disincentive to remain in public service after completing the minimum service (20 years in the case of cities of the third class), while there is an appropriate incentive for remaining in service longer under a conventional "variable benefit" approach. In an attempt to remedy the disincentive inherent with the "fixed benefit" approach, the pension plan for police officers in cities of the third class was amended by Act 596 of 1951 (enacted January 18, 1952) to add service increments. In Act 242 of 1959, the pension plan for firefighters was amended to permit service increments, and in Act 204 of 1968, to mandate the current service increment provisions. The result was that skilled public safety employees had a retirement-related incentive to continue service beyond 20 years.

When the service increments were added to the pension plans, they were limited to a maximum of $100 a month. Inherent in any named dollar limit is the change in the purchasing power over a long period of time. For example, in March 2001, about $569 was needed to purchase what $100 would have purchased in January 1952 when the police officer pension plan was amended to add the service increment. 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 mandates an increase in the limit from $100 a month to $500 a month, thus requiring cities of the third class to pay retiring public safety employees an increment of up to an additional $400 a month. An alternative would be to authorize the cities to increase the limit on service increments as an optional benefit subject to collective bargaining. In optional retirement systems for nonuniformed employees in cities of the third class, the city council is authorized, but not mandated, to grant a similar service increment.

When the provisions granting a service increment limited to $100 a month were added to The Third Class City Code, provisions also were added requiring public safety employees to make a service increment contribution of not more than $1 a month until reaching age 65. The bill would increase the limit of $100 a month to $500 a month and also mandate a similar increase in employee contributions from $1 a month to $5 a month. An alternative would be to authorize the cities to increase the public safety employee increment contribution from $1 a month to the greater of

> $1 a month per $100 a month of service increment benefit being implemented or
>
> one-third of the increase in the normal cost attributable to the increase in the service increment being implemented.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission studied a sample of twelve police officer retirement systems and nine firefighter retirement systems in cities of the third class. Applying the average increase in costs as a percentage of the payroll to the total reported payrolls of all public safety employees in cities of the third class produces the following statewide data.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$52,000,000

	Amount	**As a % of Affected Payroll**
Statewide Increase in Employers' Annual Costs		
Normal Cost	$1,600,000	0.94 %
Amortization Payment [1]	5,300,000	3.10 %
Employees' Contributions	(200,000)	(0.12)%
Total Statewide Increase in Employers' Annual Costs	$6,700,000	3.92 %

[1] Level dollars for the lesser of 20 years or average remaining future service of active members.

POLICY CONSIDERATIONS

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

Need for Remedial Action. Periodic modification of the flat dollar limits on service increments is appropriate because of the erosion of the value of the limits that has resulted since they initially were established.

Presence of Cost Sharing. The proposed benefit increase is accompanied by a proportionate member contribution increase. Supplemental member contributions as a flat dollar amount were implemented simultaneously with the original service increment benefits to fund a portion of the cost of the service increment benefits.

Commonwealth-Mandated Benefit. The bill mandates a benefit modification of police officer and firefighter retirement systems in cities of the third class. The appropriateness of the Commonwealth mandating local governments to provide specific pension benefits is questionable from a public policy standpoint.

Uniformity of Pension Benefits. A similar service increment is authorized in retirement systems for nonuniformed employees in cities of the third class under the optional retirement law. If this proposal is determined to be appropriate, the authorization of a similar service increment should be extended to retirement systems for nonuniformed employees in cities of the third class that operate under article 43(c) of The Third Class City Code.

Impact on Actuarial Conditions. As proposed, the bill mandates a benefit increase with the potential for increasing the unfunded actuarial accrued liabilities in some of the affected retirement systems. Authorization of local flexibility in the modification of the service increment limit would permit consideration of the varying actuarial conditions in retirement systems for public safety employees in cities of the third class.

COMMISSION RECOMMENDATION

On May 7, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 1363, Printer's Number 1686, was amended in the House on June 12, 2001. House Bill Number 1363, Printer's Number 2183, passed the House on June 20, 2001, and was referred to the Senate Finance Committee on June 21, 2001. House Bill Number 1363, Printer's Number 2183, was reported as amended from the Senate Finance Committee on December 11, 2001, had first consideration in the Senate, and was re-referred to the Senate Appropriations Committee on December 12, 2001.

Bill ID: House Bill Number 1414, Printer's Number 1660

System: State Employees' Retirement System

Subject: Expansion of Special Public Safety Employee Benefit Coverage to Certain Employees of the Pennsylvania Game Commission

SYNOPSIS

House Bill Number 1414, Printer's Number 1660, would amend the State Employees' Retirement Code to expand the definition of enforcement officer to include full-time Pennsylvania Game Commission Officers and other employees who are graduates of the Game Commission's Ross Leffler School of Conservation and serve or served as wildlife conservation officers empowered to enforce or investigate alleged violations of the Pennsylvania Crimes Code and the Game and Wildlife Code. Deputy game commission officers are excluded from eligibility for the enhanced retirement benefits.

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, 2000, there were 106 state and independent agencies participating 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, 2000, there were 109,469 active members of SERS.

Special retirement coverage for various public safety employees often is provided in public employee retirement systems. The enhanced benefits are premised on the hazardous nature of public safety employment and the physical and psychological demands of public safety work. Under the State Employees' Retirement Code, the special retirement benefit for Commonwealth public safety employees is the eligibility to retire at age 50 with full retirement benefits. Normal retirement for most employees is age 60 or any age with 35 years of service. Because the death benefit for any Commonwealth employee is dependent on the retirement age, the special public safety employees retirement coverage also increases the death benefit.

Under the Code, the employees currently eligible for the special benefit 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 Services capitol police officers; Department of Conservation and Natural Resources park rangers; waterways conservation officers of the Pennsylvania Fish and Boat Commission; and Pennsylvania state police officers. The bill would amend the Code to include certain employees of the Game Commission in the definition of "enforcement officers."

Under the Game and Wildlife Code, wildlife conservation officers (WCOs), also referred to simply as "Game Commission Officers," are empowered to enforce all laws of the Commonwealth relating to game and wildlife, the Fish and Boat Code, Forestry Laws, and the Pennsylvania Crimes Code.

The Game Commission currently employees over 200 full-time WCOs. All full-time WCOs are graduates of the Game Commission's Ross Leffler School of Conservation. Officers are uniformed and receive extensive law enforcement and wildlife management training.

Game Commission personnel records reveal that a number of full-time Game Commission employees who formerly served in the field as WCOs are now employed as managers and administrators. Although these employees are primarily engaged in managerial or administrative work, the Game Commission continues to classify these employees as WCOs. The employees are required to attend Game Commission continuing education programs in order to maintain their WCO certification status and may exercise the same powers as WCOs employed in the field. The language of the bill appears to include these employees in the definition of "enforcement officer," and they would be eligible to receive the special retirement benefit.

The Game Commission also utilizes the services of nearly 700 deputy wildlife conservation officers. Deputy wildlife conservation officers may be appointed with similar enforcement powers, except that they cannot enforce the Crimes Code, and generally are not entitled to compensation for either time or expenses. The language of the bill specifically excludes deputy wildlife conservation officers from being defined as "enforcement officers."

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary estimated the costs of the benefit enhancement contained in the bill based upon demographic and payroll data provided by the Pennsylvania Game Commission. The data indicate that 208 employees would be eligible for the special public safety employee benefit coverage.

The following estimate reflects the actuarial assumptions used in the December 31, 2000, Actuarial Valuation of the State Employees' Retirement System. The plan provisions reflected include those summarized in the December 31, 2000, Actuarial Valuation and the benefit changes mandated by Act 9 of 2001.

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

	Amount	**As a % of Affected Payroll**
Increase in Employer Annual Costs		
Normal Cost	$280,000	2.8%
Amortization Payment [1]	200,000	2.0%
Total Increase in Employer Annual Costs [2]	$480,000	4.8%

[1] Amortization calculated as level dollar payments over ten years.

[2] Amortization payments cease after 10 years.

POLICY CONSIDERATIONS

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

> Appropriateness of Benefit Coverage. Traditionally, special public safety employee retirement coverage is deemed appropriate for a group of employees if the nature of the duties of the employees is sufficiently hazardous and the need for an exceptionally able and vigorous workforce is sufficiently great. The positions in the Pennsylvania Game Commission proposed to be included under the special benefit coverage are employees who are empowered to enforce or investigate alleged violations of the Game and Wildlife Code. In considering the proposed legislation, Commonwealth policymakers must determine whether the special benefit coverage is warranted for this group of employees based on the degree of hazard encountered by these members in the performance of their duties and the need for an exceptionally vigorous workforce in this area.
>
> Member Contributions. The proposed legislation provides a benefit increase applicable to active SERS members and, therefore, increases the normal cost of these members' benefits to the retirement system. It may be appropriate for a portion of the cost of the benefit increase to be allocated to active members through increased member contributions. However, other SERS members with special public safety employee benefit coverage are not required to contribute at a higher rate than general state employees.

COMMISSION RECOMMENDATION

On October 4, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 1414, Printer's Number 1660, had first consideration in the House on June 5, 2001, was tabled in the House on September 24, 2001, reconsidered on November 14, 2001, and re-tabled on November 14, 2001.

Bill ID: House Bill Number 1443, Printer's Number 2336

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

Subject: Annual Cost-of-Living Adjustments

SYNOPSIS

House Bill Number 1443, Printer's Number 2336, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to permit annual cost-of-living adjustments (COLAs) (called supplemental annuities in the system Codes) beginning January 1, 2001, and payable to all annuitants of both the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS), who have attained superannuation age and who have been receiving retirement benefits for at least 24 consecutive months. The amount of the annual supplemental annuity, if any, will be left to the discretion of the boards of trustees of the respective systems following a determination of the fiscal impact of the supplemental annuity on the fund.

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, 2000, there were 695 participating employers, generally school districts, area vocational-technical schools, charter schools, and intermediate units in PSERS. As of December 31, 2000, there were 106 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, 2000, PSERS had 234,210 active members and 134,058 annuitants and beneficiaries. As of December 31, 2000, SERS had 109,469 active members and 88,392 annuitants and beneficiaries.

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 provision expired June 30, 1999.

Cost-of-Living Adjustments (COLAs)

Cost-of-living adjustments in public employee retirement systems are granted for the purpose of maintaining the adequacy of the retirement benefits after retirement occurs. In the absence of cost-of-living adjustments, the purchasing power of the retirement benefits is diminished over time due to the effects of inflation. Because one commonly accepted goal of a public employee retirement system is to provide a benefit at retirement that is adequate to meet the needs of the retirement system's retired members, the provision of cost-of-living adjustments to ensure the adequacy of the benefit throughout retirement represents a logical extension of this goal.

Historically, cost-of-living adjustments (COLAs) have been authorized by the Pennsylvania General Assembly for both PSERS and SERS retirees on an ad hoc basis every four or five years since 1968, with the incurred unfunded actuarial accrued liabilities being amortized over a 20-year period. The passage of Act 9 of 2001 altered this amortization schedule. The Codes of both SERS and PSERS, as amended by Act 9 of 2001, now require that the unfunded liabilities of COLAs be amortized over a 10-year period, with the amortization payments calculated on a level dollar basis. This more rapid amortization approach will serve to reduce the total amount of the required amortization payments associated with future COLAs, lessen the potential for the compounding of amortization payments attributable to multiple COLAs, and increase inter-generational equity by reducing the time elapsed between the service of the COLA recipients and the funding for the COLA benefits.

Ad hoc COLAs may be desirable from an employer perspective because of the limited duration of the benefit, which permits the predetermination of fixed costs. The finite nature of the costs and the discretion in the benefit amount provide the potential for the employer to match the costs to the available financing when implementing ad hoc COLAs. Because their implementation represents a change in the benefit provisions of the retirement system, ad hoc COLAs provide limited potential for the costs incurred to be prefunded. The costs of an ad hoc COLA are usually added to the unfunded accrued liability of the retirement system and funded prospectively by amortization payments. Since active members will receive no benefit from an ad hoc COLA, the amortization payments are generally made exclusively by the employer.

If a COLA is automatic, it is provided on an ongoing basis, usually both to currently eligible retirees and to retirees who subsequently become eligible. An automatic COLA can take many forms – it may be one of a scheduled series of percentage or dollar increases, or it may be a percentage or dollar increase implemented due to the occurrence of a certain condition, such as a predefined increase in salaries or the Consumer Price Index. An automatic COLA is implemented in the normal course of the retirement system's operation because it is provided pursuant to the existing benefit provisions of the retirement system.

Where COLAs are provided on an automatic basis, the necessary funding typically is accumulated in advance of the actual benefit disbursement. Advance funding reduces the total amount of the contributions required to finance the COLAs, primarily because of interest earnings on the advance contributions, and results in more predictable costs. The advance funding is possible because the COLAs are scheduled and specified in advance, permitting the actuarial liabilities to be calculated and reflected in the ongoing contribution requirements of the system. However, because of the unspecified nature of the COLAs called for in the bill, the actuarial liabilities can not be calculated in advance without making actuarial assumptions with respect to the amounts of future COLAs. Accordingly, the ongoing contribution requirements for the retirement systems attributable to COLAs may vary with the discretional assumptions utilized by the actuaries of the retirement systems.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary initially determined that it would not be possible to provide an actuarial analysis based on the current language of the bill. Because the amount of any future COLAs proposed in the bill is not readily determinable from the language of the bill, and because of the generally ambiguous nature of the proposal, the Commission's actuary was asked to provide actuarial estimates based upon an assumed 3% automatic, annual COLA for both PSERS and

SERS retirees. Given the relatively low levels of inflation that have been experienced in recent years, a 3% annual COLA was viewed as a reasonable assumption for the upper limit of the average post-retirement adjustments that may occur under the bill. The estimates for both retirement systems are summarized below.

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)

	Amount
Increase in Unfunded Actuarial Accrued Liability	$11,000,000,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Normal Cost	$ 279,000,000	2.70%
Amortization Payment [1]	1,819,000,000	17.58%
Total Increase in Employer Annual Costs [2]	$2,098,000,000	20.28%

[1] Amortization calculated as level dollar payments over ten years.

[2] Amortization payments cease after 10 years.

STATE EMPLOYEES' RETIREMENT SYSTEM (SERS)

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

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Normal Cost	$114,000,000	2.40%
Amortization Payment [1]	762,000,000	15.98%
Total Increase in Employer Annual Costs [2]	$876,000,000	18.38%

[1] Amortization calculated as level dollar payments over ten years.

[2] Amortization payments cease after 10 years.

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

Fundamental Policy Change. Historically, the General Assembly has chosen to retain authority in the timing and amount of COLAs provided to retirees of the two statewide retirement systems by granting periodic ad hoc COLAs. The bill proposes to implement automatic, annual COLAs and to transfer authority for determining the amount of these future COLAs from the General Assembly to the Boards of the respective retirement systems. Policymakers must consider whether this policy change is an appropriate delegation of legislative authority.

Lack of a Specific COLA Design. The bill lacks several elements of a specific COLA design, leaving decisions in such matters as: the amount of the COLA, the provision of proportional or non-proportional adjustments, and the provision of simple or compound adjustments to the discretion of the respective retirement boards. Specific design criteria are desirable because they avoid inequities, unnecessary costs, and implementation difficulties.

Funding Approach. In response to Senate Resolution 103, the Public Employee Retirement Commission released a report titled *Funding Cost-of-Living Adjustments* in November 2000. In that report, the Commission indicated that advance direct funding for COLAs results in substantial reductions in the total contributions required to fund COLAs, and that true advance direct funding may only be implemented where COLAs are provided on an automatic basis. If the Boards of PSERS and SERS direct their actuaries to assume the provision of future COLAs at some level when they calculate the annual funding requirements, the bill would result in the Commonwealth making a transition from its previous practice of after-the-fact direct funding of COLAs to advance direct funding. However, the level of funding would be determined through actuarial assumptions, possibly resulting in variations in the assumed COLA amounts and associated funding requirements, both within and between the retirement systems. Specifying that the provision of future COLAs be included in the actuarial assumptions made by both PSERS and SERS would eliminate the potential for differing funding approaches to be employed by PSERS and SERS.

Lack of Cost Sharing. The bill would provide a significant benefit enhancement in the form of an automatic, annual COLA that would benefit current active members. The cost of the benefit enhancement would be borne entirely by the employer, since the bill does not provide for an increase in employee contributions.

Potential for Benefit Disparity. Historically, the General Assembly has sought to provide identical or nearly identical benefits to members of the two state-wide retirement systems. By charging the Boards of the respective systems with the task of independently determining and providing automatic, annual COLAs to retirees, school and state retirees could receive COLAs that differ in amount and design.

Basis for COLA Determination. The language in the bill requires that the annual cost-of-living increase mandated in the bill be made "*as the board shall determine based on an actual determination of the fiscal impact of the cost-of-living adjustment on the fund.*" The Commission staff believes that this may be a reference to the funded condition of the retirement systems. If so, this language is predicated on faulty assumptions concerning how COLAs may be funded. There is a prevalent misconception that the funded status of the pension plan affects the cost of a benefit change. Whether the pension plan is fully-funded, over-funded or under-funded, the cost of a pension benefit change remains the same, and the cost always results in an increase in the required employer contributions to the pension plan. The funded status of the pension plan does affect the options available to the employer in making the contributions necessary to pay the cost of the benefit change. If the assets of the pension plan exceed the amount the actuary estimates should be in the pension fund at a given point in time, an actuarial surplus exists and functions to allow some or all of the required increase in employer contributions to be satisfied indirectly in future years rather than commencing at the time of the benefit improvement. If the Commonwealth is to initiate a policy whereby the funded condition of the retirement systems is to be a significant determining factor in the provision of COLAs, the bill should be amended to clearly specify both the actuarial indicators and the methodology for making those indicators available and to prescribe how those indicators impact the COLA amounts.

Absence of Need Determination Factor. Change in the Consumer Price Index (CPI) during an applicable period of retirement is the predominate basis for determining the amount of COLAs provided in public employee retirement plans. The absence of this measure of need from the factors specified in the bill for determining the annual COLA amount is questionable from a public pension policy perspective.

COMMISSION RECOMMENDATION

On October 4, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 1443, Printer's Number 2336, had first consideration in the House on June 20, 2001, was tabled in the House on September 24, 2001, reconsidered on November 14, 2001, and re-tabled on November 14, 2001.

Bill ID: House Bill Number 1749, Printer's Number 2214

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 1749, Printer's Number 2214, would amend section 5 of the Municipal Police Pension Law (Act 600 of 1955) to permit:

1) Optional forms of the retirement benefit, other than a lump sum, that are the actuarial equivalents of the regular retirement benefit; and

2) A late retirement benefit for a member retiring after the normal retirement age and service date that is calculated to reflect the later commencement of the retirement benefit.

DISCUSSION

The Municipal Police Pension Law (Act 600) 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, 1999, there were at least 618 municipal police officer retirement systems with three or more members operating under the Municipal Police Pension Law, covering 7,289 active municipal police officers. In addition, there also are some one- and two-officer plans that operate under the Municipal Police Pension Law.

Under the Municipal Police Pension Law, a police officer may retire after a total of 25 years of service with the same municipality when the officer reaches age 55. If an actuarial valuation shows it is feasible, this age requirement may be reduced to age 50. The monthly pension (excluding 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 and 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 at the time of death. 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, Act 600 provides for a single life annuity. In addition, a pension plan may provide, but is not required to provide, a 50 percent survivor annuity that terminates when the surviving spouse dies or remarries. If a survivor annuity is provided, the aggregate retirement benefit for a retiree with no spouse has a lower actuarial present value than a retirement benefit 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 Act 600 could be amended to be made applicable only in those plans in which provisions for a survivor annuity have been implemented before the effective date of the optional forms provided for in the bill. As the Commission has indicated in previous actuarial note transmittals regarding proposed amendments to Act 600 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 Act 600 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 wishes 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 5 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, Act 600 resembles pension plans for military personnel with half-pay pensions after 25 years of service. This “fixed benefit” approach differs from the usual “formula-based”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 the current “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 “formula-based” 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 provide 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 normal manner 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 normal retirement age, actuarially increased to reflect the shorter lifetime over which the benefit will be paid because of the retiree's late retirement. All calculations would be 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 (Act 205 of 1984). 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 Act 600.

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 by remaining in service. 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 21 after the word "by" and all of lines 22 and 23.
>
> The proposal's description of the calculation of the actuarial increase should be amended to require that the calculation be made by an approved actuary under Act 205. 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 3 after the word "determined" and all of lines 4 through 7 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

On March 2, 2000, the Commission's consulting actuary provided an actuarial note for a substantially identical proposal contained in House Bill Number 2103, Printer's Number 2723, of the 1999-2000 legislative session.

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 than 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 Liability	$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.

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

COMMISSION RECOMMENDATION

On November 15, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 1749, Printer's Number 2214, was referred to the House Local Government Committee on June 13, 2001.

Bill ID: House Bill Number 2043, Printer's Number 2693

System: State Employees' Retirement System

Subject: Transfer of certain Shippensburg University Employees to the Juvenile Court Judges' Commission

SYNOPSIS

House Bill Number 2043, Printer's Number 2693, would amend section 5301 and 5303 of the State Employees' Retirement Code to permit an employee of the Shippensburg University of Pennsylvania who is transferred to the Juvenile Court Judges' Commission due to an interagency transfer of staff approved by the Office of Administration and who, while an employee of Shippensburg University, had elected membership in an independent retirement program (TIAA-CREF) approved by the employer, to continue to participate in the alternative retirement program following the administrative transfer, or at the discretion of the employee, to elect membership in the State Employees' Retirement System (SERS) within 90 days of the transfer. If the employee elects membership in SERS, the employee will remain a member of SERS until termination of state service and will begin to accrue service credit in SERS for all state service performed after the election, but will be prohibited from receiving service credit in SERS for state service performed before becoming a member of SERS. If the employee does not elect membership in SERS within 90 days of the transfer, the employee will automatically retain membership in the alternative retirement program and will be prohibited from joining SERS in the future unless or until the employee terminates employment with the Juvenile Court Judges' Commission and becomes a state employee with another state employer that participates in SERS.

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, 2000, there were 106 state and independent agencies participating in SERS. 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. As of December 31, 2000, there were 109,469 active members of SERS.

Although rare, transfers of governmental function do occur, and in some cases, may impact the retirement system membership status of transferred employees. Some recent examples include the transfer of county-level court administrators from membership in county retirement systems to SERS membership by Act 12 of 1999, and the transfer of Department of Education employees involved in the training and education of inmates to the Department of Corrections by Act 15 of 1999. In January 2002, 13 employees of Shippensburg University will be administratively transferred to the Juvenile Court Judges' Commission due to a similar transfer of governmental function. Currently, the affected employees are employed within the Juvenile Court Judges' Commission's Statistical Analysis Center, which is funded through a memorandum of understanding between Shippensburg University and the Juvenile Court Judges' Commission. Of the 13 affected employees, nine are currently members of the Teachers' Insurance and Annuity

Association – College Retirement Equities Fund (TIAA-CREF), which is an employer approved alternative retirement program.

The bill would amend the Code to permit an individual administratively transferred to the Juvenile Court Judges' Commission from Shippensburg University on or after the effective date of the bill, to retain membership in the approved alternative defined contribution retirement plan, known as TIAA-CREF. 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. The bill also provides a 90-day election period within which employees may elect membership in SERS in lieu of retaining membership with TIAA-CREF. Those employees who elect SERS membership would begin to earn retirement credit with SERS prospectively, but would be prohibited from receiving credit with SERS for prior state service rendered during the time they were members of TIAA-CREF.

A reasonable time period is necessary for a new employee to make an informed decision on retirement system membership. The SERS experience with the much simpler choice regarding the election of multiple service membership with the Public School Employees' Retirement System has been that a 30-day election period is too short. The Commission has consistently maintained that a 90-day period is an adequate election period for making retirement membership decisions; the bill contains such a provision.

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. Employees who remain members of TIAA-CREF, as provided for under the bill, would not be SERS members and, therefore, would not be eligible for these ancillary retirement benefits.

SUMMARY OF ACTUARIAL COST IMPACT

On November 2, 2001, the Commission's consulting actuary prepared an actuarial note on House Bill Number 2043, Printer's Number 2693, and determined that the bill will have no actuarial cost impact on the State Employees' Retirement System.

POLICY CONSIDERATIONS

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

> Adequacy of Election Period. The bill specifies a 90-day election period for employees to make a decision on the retirement plan they wish to join. The Commission believes that a 90-day election period is adequate and desirable.
>
> Equity in Employment Transfer. In most cases of a transfer of governmental function, the issue of equity or fairness in the treatment of employees in the matter of pension plan coverage is easily judged in cases where the change in employment is beyond the discretion of the employee, where there has been no fundamental change in the nature of duties, lines of supervision, standards of performance or basis of compensation, and where retirement benefit coverage was part of the employee's compensation package. The bill appears to treat employees in a fair and equitable manner in the matter of pension plan coverage.

COMMISSION RECOMMENDATION

On November 15, 2001, 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.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2001

House Bill Number 2043, Printer's Number 2693, was referred to the House State Government Committee on October 17, 2001.

PART II

PUBLIC EMPLOYEE RETIREMENT SYSTEM ADMINISTRATION

A. ACT 205 OF 1984.

1999 Filing Period

In April of 2001, the Commission issued its *Status Report on Local Government Pension Plans* based on the data contained in the 1999 Act 205 local government pension plans. In addition to statistical information, the report disclosed that 91 of the 2,995 (3%) local government pension plans were reported to have funding deficiencies. The Commission enforced compliance with the actuarial funding standard in all instances. The *Status Report on Local Government Pension Plans* also disclosed significant municipal pension policy issues for consideration by the Governor and the General Assembly.

2001 Filing Period

In August of 2001, the Commission transmitted filing notices to the 4,500 local governments required to file employee pension plan reports pursuant to Act 205. Several follow-up notices were sent to local governments that failed to respond to the filing notice in the fall of 2001. The filing deadline for the 2001 Act 205 reports will be March 29, 2002.

Municipal Pension Cost Certification

In the Summer of 2001, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 2001 allocation of General Municipal Pension System State Aid. In 2001, the State aid provided to municipalities to offset their employee pension costs totaled approximately $134 million. More than 1,400 individual allocations of General Municipal Pension System State Aid were determined by the cost data certified by the Commission.

Recovery Program

The Commission calculated and certified distress determinations for the 46 municipalities participating in the Act 205 Recovery Program for Financially Distressed Municipal Pension Systems. The Commission calculated the 2001 allocations of Act 205 Supplemental State Assistance and certified the allocation amounts to the Department of the Auditor General to permit the disbursement of Supplemental State Assistance Allocations totaling $478,000 in December of 2001. The Commission also notified the Governor and the General Assembly that a $331,000 appropriation would be needed to provide the Supplemental State Assistance payable in December of 2002.

B. ACT 293 OF 1972.

2000 Filing Period

Since the passage of the Municipal Pension Plan Funding Standard and Recovery Act, the actuarial reporting program under Act 293 has only been applicable to county employee retirement systems. The 2000 actuarial reports on these systems were filed in 2001. The financial, demographic, and actuarial data contained in the reports has been reviewed and will be summarized in the *Status Report on Local Government Pension Plans* to be published by the Commission in the spring of 2003.

PART III

PUBLIC EMPLOYEE RETIREMENT SYSTEM POLICY DEVELOPMENT AND COORDINATION

A. STATUTORY PROVISIONS.

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

Section 6. Powers and Duties.

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

(1) To study generally the subject of retirement, income after retirement, disability and death benefits and the retirement needs of public employees. The Commission shall have responsibility to formulate principles and objectives applicable thereto and to recommend any new legislation it deems advisable.

(2) To analyze on its own or upon request from either the legislative or executive branch any bill relating to public employee retirement or pension policy and issue a report thereto in a timely fashion. Such report shall be submitted to the General Assembly and the Governor and shall include an assessment of the actuarial soundness, feasibility and cost of such legislation.

(9) To monitor and evaluate from time to time all the laws and systems thereunder which relate to public employee pension and retirement policy in the Commonwealth.

(10) To study the relationship of retirement and pension policy to other aspects of public personnel policy and to the effective operation of government generally.

(11) To examine the interrelationships among public employee pension and retirement systems throughout the State.

B. RESEARCH.

Status Report on Local Government Pension Plans

During the second half of 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 (Act 205 of 1984). Research was completed in early 2001, and in May 2001, the Commission issued its report. The report is a summary and analysis of municipal employee retirement actuarial valuation reports as of January 1, 1999, submitted to the Commission under Act 205 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 were extracted from the individual pension plan reports containing actuarial, financial, and demographic information. The report clearly demonstrated that Act 205 had addressed and continues to address the funded condition of municipal pension plans, the maintenance of a municipal pension plan funding standard, and the equitable distribution of state government shared revenue. The report also indicated problems that evidence the need for reform outside the parameters of Act 205, particularly the proliferation of small plans, the lack of an incentive to contain cost, and the deficient retirement codes.

Defined Benefit and Defined Contribution Retirement Plans

On June 21, 2001, the Pennsylvania House of Representatives adopted House Resolution Number 266, which directs the Commission to undertake a study of the relative advantages and disadvantages of defined benefit and defined contribution plans, and to report its findings to the General Assembly by December 31, 2002. More specifically, House Resolution Number 266 directs the Commission to study and report on the following:

1) Projections of comparative benefits under the current defined benefit pension plans versus possible defined contribution plans and options using various demographic and financial scenarios to show the positive and negative impact of each plan option on employers and employees.

2) Employer cost considerations given the current fully funded status of the Public School Employees' Retirement System and the State Employees' Retirement System and estimated future contribution rates pursuant to recently enacted legislation.

3) National trends and studies on the degree to which employees terminating employment under defined contribution plans liquidate their funds instead of maintaining them for retirement as well as related defined benefit plan issues including the number of participants who enter the Public School Employees' Retirement System and the State Employees' Retirement System, the number who earn a full benefit, who earn a reduced or partial benefit and who receive no benefit.

4) An analysis of the exposure to liability on the part of the Commonwealth and school employers arising out of providing employees a choice between and/or a right to convert to either a defined benefit or defined contribution plan, including any liability for poor investment performance in a defined contribution plan and possible contract impairment issues.

5) An analysis of any changes in the fiduciary responsibilities and duties of the Commonwealth and school employers that may result from instituting a defined contribution plan.

B. RESEARCH. (Cont'd)

6) A national review of defined contribution plan implementation in the public sector from a structural standpoint including hybrid structure solutions.

7) Implementation considerations and any other issues pertinent to the General Assembly's consideration, such as recruitment benefits of defined contribution plans and the State's future employment needs.

The Commission plans to issue its report in compliance with the December 31, 2002, deadline established by House Resolution Number 266.

Deferred Retirement Option Plans

Deferred Retirement Option Plans (DROPs) have gained substantial popularity in recent years among public sector pension plans. Generally, these programs permit employees who are eligible for full retirement benefits to remain employed for a specific period of time, continue to receive full-time wages, and at the same time have pension benefit payments set aside in an interest-bearing account for later distribution. Through the administration of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), and through discussions with local government officials and actuarial consultants, the Commission has become aware of substantial activity and interest in the establishment of DROPs by Pennsylvania local governments and employee organizations. These DROPs have been established in the absence of enabling legislation. The Commission is concerned DROPs established without statutory authority will conflict with existing legislation, including the administration of Act 205. For these reasons, the Commission elected to undertake a study and issue a Special Report on DROPs. Research began in mid-year 2001 and the Commission's report should be released by mid-year 2002. The Commission's report will include a description of the design issues associated with the implementation of DROPs, provide a framework for the integration of DROPs into existing State law, recommend the enactment of enabling legislation for the implementation of DROPs by local governments and will include draft legislation for the consideration of the General Assembly.

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 State Employees' Retirement System (SERS) in November 2001.

Commission's Review of the SERS Actuarial Valuation Report

At the November 15, 2001, meeting of the Commission, the staff presented a summary of the December 31, 2000, Actuarial Valuation Report of the State Employees' Retirement System issued June 6, 2001, and reviewed some significant facts concerning the condition of the System since the prior valuation.

- **Summary of Changes**

  — The employer contribution rate for fiscal year 2001-2002 (current year) will be 0.00 percent of payroll. This is a 1.39 percent reduction from the previous rate.

  — The following elements affected the employer contribution rate:

	Normal Cost	Unfunded Liabilities	Total
▸ Gains from investment earnings		-1.98%	-1.98%
▸ Change in demographics of new entrants	0.12%	-0.09%	0.03%
▸ Pay increases different than assumptions		0.04%	0.04%
▸ Removal of “30 and Out” provision	-0.13%	-0.52%	-0.65%
▸ New assumptions and other experience	-0.29%	-0.23%	-0.52%
▸ Amount of payment increasing at a rate different than funding payroll		0.05%	0.05%
▸ Total Change	-0.30%	-2.73%	-3.03%
December 31, 2000, Valuation	8.72%	-10.36%	-1.64%

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

▸ Gain from investment earnings	$ (1,294,334,937)
▸ Change in demographics of new entrants	(61,091,829)
▸ Pay increases different than assumptions	(28,655,250)
▸ Removal of “30 and Out” provision	(340,797,972)
▸ New assumptions and other experience	(151,443,064)
▸ Total Change	$ (1,819,012,552)
December 31, 2000, Unfunded Liability	$ (6,392,028,230)

- **Employer Normal Cost Rate**

  — Normal Cost Rate for new active members:

▸ Superannuation and withdrawal	11.61%
▸ Disability	0.90%
▸ Death	0.66%
▸ Refunds	0.55%
▸ Total	13.72%
— Member Contributions	5.00%
— Employer Normal Cost	8.72%

The Commission reviewed this report with Mr. John Brosius, Executive Director, Mr. John Winchester, Director of Public Markets, 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, 2000

The following is a summary of the December 31, 2000, actuarial valuation of the State Employees' Retirement System and a comparison of the 2000 results with those of 1999.

	12/31/99	12/31/00
Membership		
Active	108,035	109,469
Inactive	3,664	3,777
Retired	74,550	74,547
Disabled	5,545	5,742
Survivors and Beneficiaries	7,948	8,103
Payroll and Annuities Payable		
Total Annual Payroll	$ 4,288,773,430	$4,500,270,590
Annual Annuities and Benefits	$ 963,766,896	$ 987,422,521
Valuation Data		
Accrued Liability	$ 19,091,840,309	$19,702,278,063
Assets [1]	23,624,267,185	26,094,306,293
Unfunded Accrued Liability	$ (4,532,426,876)	$ (6,392,028,230)
Funded Ratio	123.7%	132.4%

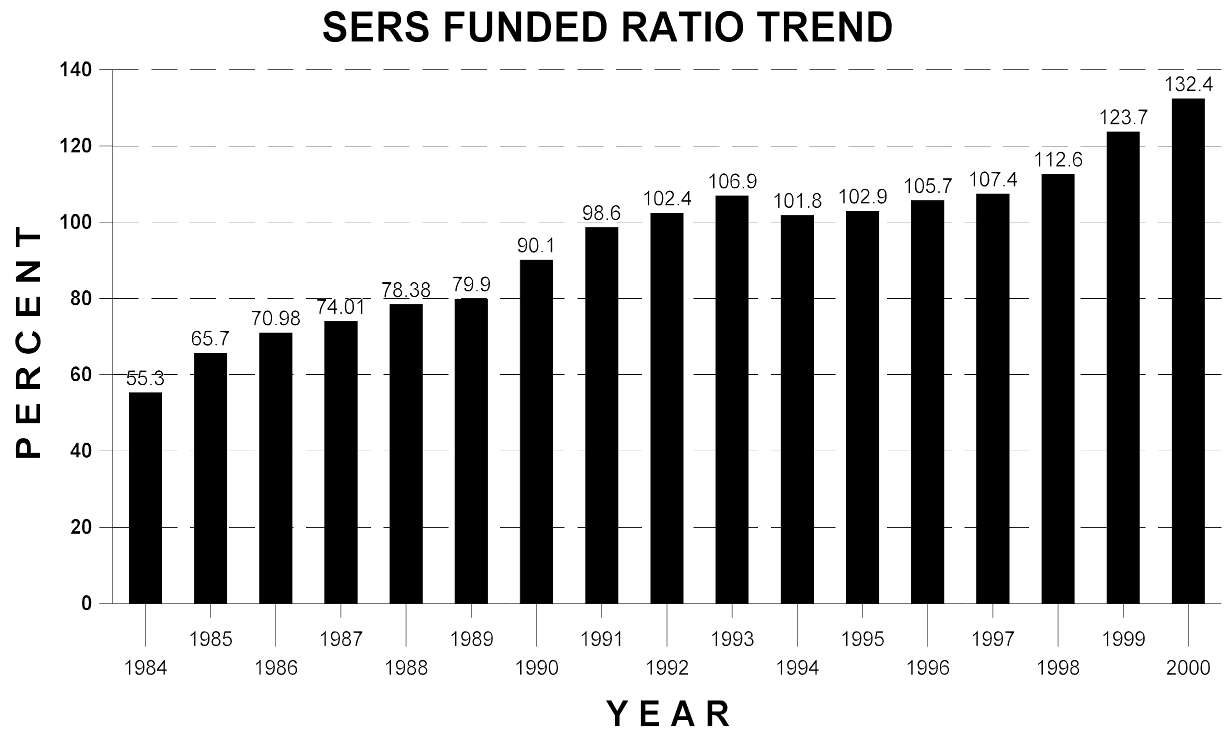
Funding Costs	12/31/99		12/31/00	
Normal Cost [2]	$601,286,035	14.02%	$617,437,125	13.72%
Amortization [3]	327,233,413	(7.63%)	466,228,033	(10.36%)
Full Actuarial Funding	$274,052,622	6.39%	$151,209,092	3.36%

Support	12/31/99		12/31/00	
Member	$214,438,671	5.00%	$225,013,530	5.00%
Commonwealth	59,613,951	1.39%	(73,804,438)	(1.64%)
Total Support	$274,052,622	6.39%	$151,209,092	3.36%

[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 FUNDED RATIO TREND
PERCENT
YEAR
140
120
100
80
60
40
20
0
55.3
65.7
70.98
74.01
78.38
79.9
90.1
98.6
102.4
106.9
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107.4
112.6
123.7
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SERS NORMAL COST TREND
PERCENT
YEAR
18
16
14
12
10
8
6
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2
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12.67
9.85
10.7
10.98
10.93
10.91
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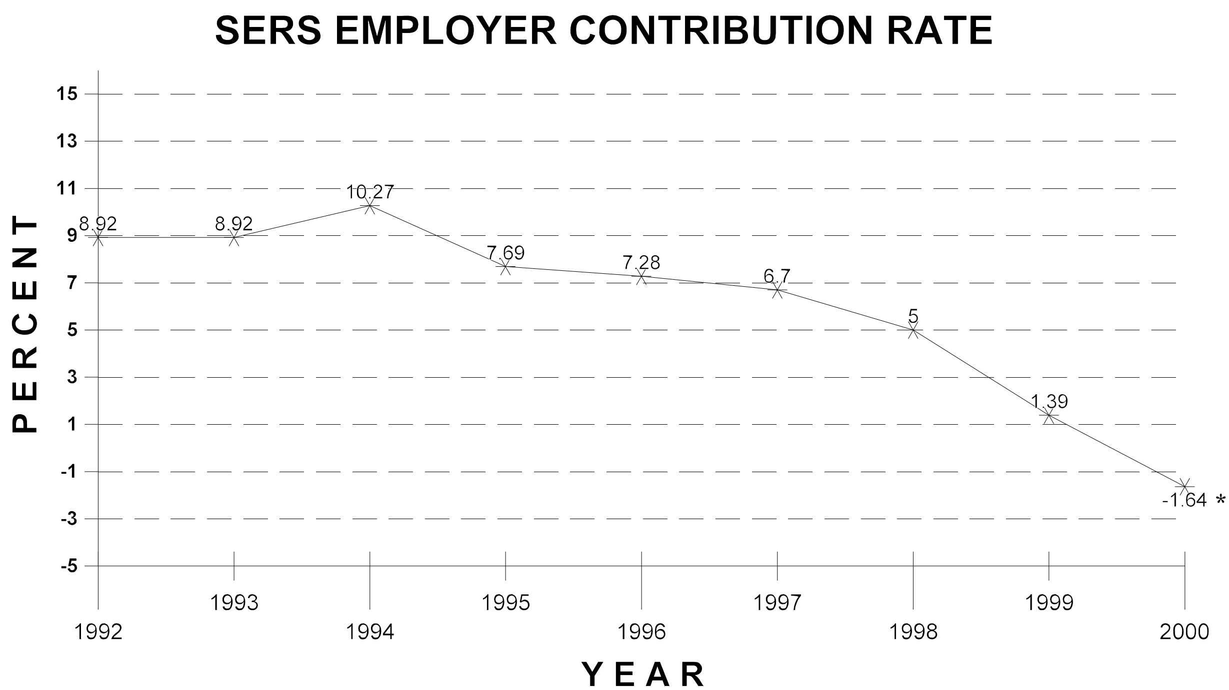

* Calculated employer contribution rate; effective employer contribution rate is zero.

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 2001 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 2001 were:

Conrad M. Siegel, Inc.
Mr. David H. Killick

Milliman USA, Inc.
Mr. William A. Reimert

APPENDIX B

LEGISLATIVE PROCEDURES UNDER SECTION 7 OF THE PUBLIC EMPLOYEE RETIREMENT COMMISSION ACT

I. Implementation by the General Assembly.

A. At the beginning of each legislative session of the General Assembly, the Speaker of the House and the President Pro Tempore of the Senate formally advise the chairmen of each standing committee in their respective chamber of the actuarial review provisions implemented by Act No. 1981-66.

B. Both chambers of the General Assembly adopt procedures most consistent with their operating rules to ensure that committee approved bills or floor amended bills are not considered prior to receipt of an actuarial note from the Commission or the passage of 20 legislative days from the date of first consideration or adoption of the floor amendment.

1. Actuarial Note Requests for Committee Approved Bills.-

   The Committee chairman in either chamber of the General Assembly shall notify the Commission upon reporting a bill to the floor which proposes any change relative to a public employee pension system and request preparation of an actuarial note.

2. Actuarial Note Requests for Floor Amended Bills.-

   The majority leader of either chamber of the General Assembly shall request preparation of an actuarial note for the floor amended bill on behalf of the respective chamber. The Commission shall provide the actuarial note as expeditiously as possible.

3. Actuarial Note Requests for Bills Referred by Other Chamber.-

   When a committee in either chamber of the General Assembly approves without amendment a bill to the floor which has had an actuarial note attached in the other chamber, preparation of a new actuarial note is unnecessary. Where an amendment to the bill has been approved by the committee, the chairman shall notify the Commission and request preparation of a new actuarial note. The Commission shall provide the actuarial note as expeditiously as possible.

4. Actuarial Note Requests from the House or Senate Appropriations Committees.-

   Whenever a request is received by the Commission from the chairman of either the House Appropriations Committee or the Senate Appropriations Committee for an actuarial note on a bill in the possession of the committee, the Commission shall formally authorize preparation of the actuarial note, as opposed to an advisory note, and transmit the actuarial note to the requesting committee as expeditiously as possible.

II. Response by the Commission.

A. The Commission acknowledges receipt of requests for the preparation of actuarial notes for committee approved bills and floor amended bills to the presiding officer of the requesting chamber of the General Assembly within 48 hours.

B. The Commission transmits the requested actuarial notes to the presiding officer of each chamber of the General Assembly as promptly as possible, recognizing that the 20 legislative days permitted for the preparation of actuarial notes is a maximum rather than a norm. Where there are no substantive actuarial or policy implications, the Commission will communicate that fact as the requested actuarial note.

C. The Commission provides copies of the transmittals of the requested actuarial notes to the following:

1. the chairman and minority chairman of the requesting committee;
2. the majority and minority leaders;
3. the majority and minority whips;
4. the majority and minority caucus chairmen;
5. the majority and minority appropriation committee chairmen;
6. the prime sponsor of the bill;
7. the Secretary of the Senate;
8. the Chief Clerk of the House; and
9. the Director of the Legislative Reference Bureau.

D. Upon the request of the committee chairman, the Commission staff may whenever possible provide supplemental reviews for bills prior to consideration by a committee. The information is transmitted to the committee chairman and minority chairman. Such assistance may contain actuarial data, but is considered to be an "advisory note" not constituting or substituting for the required actuarial note.

E. The Commission staff provides advice and counsel to members of the General Assembly on relevant matters pertaining to retirement plan design, financing, and administration.

F. The Commission provides actuarial notes or advisory notes only to appropriate officials of the legislative and executive branches.

G. The Commission transmits notice of its meetings to the Secretary of the Senate and Chief Clerk of the House for publication on the Senate and House daily meeting calendars.

Adopted April 10, 1985.

APPENDIX C

BY-LAWS OF THE PUBLIC EMPLOYEE RETIREMENT COMMISSION

Title 4. Administration

Part XII. Public Employee Retirement Commission

Section 401.1. Definitions.

The following words and terms, when used in this part shall have the following meanings, unless the context clearly indicates otherwise:

Act - the act of July 9, 1981 (P.L. 208, No. 66), known as the "Public Employee Retirement Commission Act."

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

Commission - the Public Employee Retirement Commission created under the Act.

Member - a member of the Commission.

Chapter 402. By-Laws

Section 402.1. Meetings

Meetings of the Commission shall be held as necessary at the call of the chairman, but in no case less than six times per year. Meetings shall be held on the dates and at the times and locations specified by the chairman in the notice of the meeting. Notices of meetings shall contain an itemized agenda in reasonable detail. Notice of meetings shall be given to all members in writing at least seven days prior thereto; provided that such notice may be given at least twenty-four hours prior to such meeting where deemed necessary by the chairman under the circumstances. The chairman shall call a meeting upon the request in writing of five or more members.

Section 402.2. Quorum and Voting.

Five members shall constitute a quorum for meetings. The majority vote of the members present at a meeting or otherwise entitled to vote pursuant to these By-Laws shall constitute official action of the Commission. In the event that one or more vacancy or long-term disability exists four members shall constitute a quorum. A Commission member who is a member of the Senate or House of Representatives of the Commonwealth of Pennsylvania may, from time to time, appoint a designee in writing. A designee may cast a vote for a member on any matter pending before the Commission relating to an agenda item; provided that the member has set forth in writing with reasonable particularity the position of the member on the agenda item and the vote of the designee is not inconsistent therewith. Otherwise, a member may only vote in person. The Commission may take official action on any matter properly before a meeting whether or not mentioned in the notice of the meeting.

Section 402.3. Open Meetings.

Meetings of the Commission shall be held and notice thereof shall be given in accordance to Act No. 1986-84 relating to public meetings, as applicable.

Section 402.4. Minutes.

Minutes shall be kept of all meetings of the Commission and shall be filed in the office of the Commission, subject to the Act of June 21, 1957 (P.L. 390) §§ 1-4, as amended, (65 P. S. §§ 66.1-66.4) relating to the inspection and copying of public records, as applicable.

Section 402.5. Officers.

The Commission shall annually elect a chairman, a vice-chairman and such other officers as it finds necessary or desirable at the first meeting of the Commission occurring in each calendar year. All such officers shall be members and shall serve until the election of a successor. Election shall also occur in the event of a vacancy in any office. The chairman shall preside over all meetings of the Commission at which he is present, or in his absence the vice-chairman, or in both of their absence a member chosen by the Commission. In the event that the Chairman is unable to act hereunder for any reason, the vice-chairman may do so.

Section 402.6. Office.

The Commission may establish an office for the use of the Commission in the conduct of its official business.

Section 402.7. Committees.

The Commission may, from time to time, establish such committees as it deems necessary or desirable in the conduct of its official business. Appointments to committees shall be made by the chairman. The term of each committee shall be coterminous with that of the chairman. For the purposes of this section, any liaison shall be deemed to be a committee.

Section 402.8. Advisory Committees.

The Commission shall appoint each advisory committee pursuant to the applicable law no later than the third meeting of the Commission occurring in each calendar year. The term of each advisory committee shall be for one calendar year or until the appointment of a successor, whichever occurs later.

Section 402.9. Budget.

The executive director of the Commission shall annually submit a proposed budget to the Commission for approval prior to the submission date under budget guidelines applicable to Commonwealth agencies.

Section 402.10. Miscellaneous.

The Commission may, from time to time, do such other things and take such other actions as it deems necessary or desirable in the conduct of its official business.

Section 402.11. Amendment.

The Commission may, from time to time, amend these By-Laws by majority vote of the members present at a meeting or otherwise entitled to vote pursuant to these By-Laws; provided that notice of the meeting shall have set forth at least the general nature of the amendment.

Revised November 17, 1987

APPENDIX D

PUBLIC EMPLOYEE RETIREMENT COMMISSION
COMPREHENSIVE LIST OF 2001-2002 SESSIONS LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES
DECEMBER 31, 2001

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 16 P. N. 1585 (Holl)	Municipal Police Pension Law (Act 600); Permitting 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 bill; permitting 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 bill, rather than stopping the benefit at age 18 as is presently required; mandating payment to the surviving spouse or surviving child or children, if no spouse survives, of a survivor benefit of no less that 50 percent of the pension the deceased member was entitled to receive or was receiving if an active police officer dies, if an officer who was eligible for a pension but had not begun collecting the pension dies, or if a retiree dies on or after the effective date of the bill; mandating a disability pension benefit for members permanently injured in service of no less than 50 percent of the member's salary at the time the disability was incurred; mandating an offset or reduction in the disability benefit that is equal to the amount of the Social Security disability benefit received by the member in the event the disabled member is also eligible to receive a Social Security disability benefit for the same injuries; and mandating a survivor 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.	Referred to Senate Finance Committee	01/22/01
		Actuarial Note (P. N. 10)	03/14/01
		Reported as amended	05/22/01
		First consideration	05/22/01
		Re-referred to Appropriations	06/04/01
		Commission Letter (P. N. 1039)	06/08/01
		Reported as amended	06/18/01
		Commission Letter (P. N. 1217)	06/18/01
		Second consideration	06/19/01
		Third consideration and final passage (49-0)	06/20/01
		In the House	
		Referred to House Local Government Committee	06/22/01
		Advisory Note (A. 4381)	12/04/01
		Reported as amended	12/05/01
		First consideration	12/05/01
		Actuarial Note (A. 4381)	12/06/01
		Actuarial Note (A. 4542)	12/06/01
		Commission Letter (P. N. 1585)	12/07/01
		Second consideration	12/10/01
		Third Consideration and final passage (192-01)	12/11/01
		In the Senate	
		Referred to Rules and Executive Nominations Committee	12/12/01
S. B. 44 P. N. 42 (Bell)	Tax Reform Code of 1971 (Act 2 of 1971), requiring that the taxes paid by Pennsylvania fire insurance companies under the act be deposited into the Fire Insurance Tax Fund.	Referred to Senate Finance Committee	01/22/01
S. B. 80 P. N. 73 (Holl)	Volunteer Firefighters' Relief Association Act (Act 84 of 1968), permitting volunteer firefighters' relief associations to provide for financial assistance to volunteer firefighters who have actively participated in the fire service for	Referred to Senate Finance Committee	01/23/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	20 years and who have attained the age of 65.		
S. B. 89 P. N. 97 (Holl)	SERS, permitting qualified veterans with 20 years of State service who are 50 years of age or older to enroll in the health insurance plan for state retirees upon termination from service.	Referred to Senate Finance Committee	01/29/01
S. B. 93 P. N. 101 (Holl)	PSERS, providing for indexing of the earnings limitation threshold used to calculate reductions in disability annuities caused by earned income of the annuitant, and in effect, to ensure that the annuitant suffers no reduction in benefits.	Referred to Senate Finance Committee	01/29/01
S. B. 117 P. N. 134 (Tilghman)	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, and permitting surviving spouse to receive survivor pension for life regardless of remarriage.	Referred to Senate Finance Committee First consideration Re-referred to Appropriations **Commission Letter** (P. N. 134)	01/29/01 05/22/01 06/04/01 06/12/01
S. B. 129 P. N. 136 (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	Referred to Senate Finance Committee **Actuarial Note** (P. N. 136)	01/29/01 04/26/01

	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.		
S. B. 142 P. N. 147 (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	01/29/01
S. B. 172 P. N. 178 (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	01/30/01
S. B. 173 P. N. 179 (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	01/30/01
S. B. 186 P. N. 194 (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	01/30/01
S. B. 190 P. N. 197 (Rhoades)	PSERS, permitting active members or active multiple service members to purchase up to three years of service	Referred to Senate Finance Committee **Actuarial Note** (P. N. 197)	01/30/01 03/14/01

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	credit at the rate of one year of nonschool 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 calculated on the basis of the average of the first three years of school service following the creditable work experience, and precluding the withdrawal of the contributions for such service as a lump sum under Option 4.		
S. B. 192 P. N. 199 (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	01/30/01
S. B. 210 P. N. 218 (Rhoades)	PSERS and SERS, reopening the "30 and Out" special early retirement incentive from July 1, 2001 until June 30, 2004.	Referred to Senate Finance Committee **Actuarial Note** (P. N. 218)	01/31/01 03/14/01
S. B. 274 P. N. 276 (Mellow)	PSERS, providing for the purchase of up to two years of Peace Corps service.	Referred to Senate Finance Committee **Actuarial Note** (P. N. 276)	02/05/01 10/04/01
S. B. 281 P. N. 287 (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 PSERS Board under the Act, establishing the Public School Retirees' Health Insurance Fund, providing for health insurance premium assistance to the affected individuals, and providing for funding.	Referred to Senate Finance Committee	02/05/01
S. B. 283 P. N. 289 (Greenleaf)	PSERS and SERS, reopening of the "30 and Out" early retirement incentive. For PSERS, from April 1, 2001 through June 30, 2001; and from April 1, 2002 through June 30, 2002. For SERS, retroactive to July 1, 1999 through June 30, 2002.	Referred to Senate Finance Committee	02/05/01
S. B. 284 P. N. 290 (Greenleaf)	Constitution of Pennsylvania, amending § 26 of article 3 to permit the General Assembly to authorize increase of	Referred to Senate Finance Committee	02/05/01

	retirement benefits to beneficiaries who are spouses of members of public employee retirement systems.		
S. B. 315 P. N. 320 (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 Reported as committed First consideration	02/06/01 12/11/01 12/11/01
S. B. 340 P. N. 352 (Mowery)	Volunteer Firefighters' Relief Association Act, providing for volunteer firefighters' money purchase deferred benefits plans.	Referred to Senate Finance Committee	02/06/01
S. B. 347 P. N. 362 (Mowery)	PSERS, providing for adjustment of the current 6¼ percent employee contribution rate to offset the cost of future benefit enhancements.	Referred to Senate Finance Committee	02/07/01
S. B. 381 P. N. 394 (Conti)	PSERS, permitting annuitants who left school service between 1/1/1984 and 9/1/1988 to purchase up to three years of service in the Cadet Nurse Corps with respect to periods of training as a student or graduate nurse, provided the total period of training was at least one year.	Referred to Senate Finance Committee **Actuarial Note** (P. N. 394)	02/08/01 03/14/01
S. B. 382 P. N. 395 (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 Retirees' Health Insurance Fund, providing for health insurance premium assistance to the affected individuals, and providing for funding.	Referred to Senate Finance Committee	02/08/01
S. B. 383 P. N. 396 (Conti)	PSERS and SERS, providing for the amortization of COLAs commencing 6/30/1998 or later through annual level dollar installments over a period of 10 years.	Referred to Senate Finance Committee	02/08/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 387 P. N. 400 (Kukovich)	PSERS and SERS, permitting retroactive payment of the 1998 ad hoc post-retirement adjustment (COLA) to eligible survivor beneficiaries.	Referred to Senate Finance Committee	02/08/01
S. B. 388 P. N. 401 (Rhoades)	PSERS and SERS, effective July 1, 2001, granting an ad hoc post-retirement adjustment (COLA).	Referred to Senate Finance Committee	02/08/01
S. B. 422 P. N. 430 (Armstrong)	PSERS and SERS, reducing 10-year cliff vesting to five-year cliff vesting, and reducing eight-year cliff vesting to five-year cliff vesting.	Referred to Senate Finance Committee	02/12/01
S. B. 485 P. N. 1236 (Armstrong)	Public School Code of 1949, providing various non-pension amendments to the Code – school voucher program, testing, aid to distressed districts, etc; and permitting school employees to participate in a private "alternative retirement plan" as an alternative to membership in PSERS, SERS or TIAA-CREF.	Referred to Senate Finance Committee	02/15/01
		Reported as committed	03/27/01
		First consideration	03/27/01
		Re-referred to Senate Appropriations Committee	04/02/01
		Actuarial Note (P. N. 512)	05/07/01
		Second consideration with amendments	06/04/01
		Third Consideration and Final Passage (49-0)	06/05/01
		In the House	
		Referred to House Committee on Finance	06/11/01
		Reported as committed	06/12/01
		First consideration	06/12/01
		Second consideration	06/13/01
		Re-referred to Appropriations	06/13/01
		Commission Letter (P. N. 1089)	06/15/01
		Commission Letter (A. 2777)	06/18/01
		Third Consideration and final passage (194-0)	06/19/01
		In Senate	
		Re-reported on concurrence as committed	06/20/01
		Senate non-concurred in House amendments	06/20/01
		Conference committee report presented and adopted in Senate	06/20/01
		In House	
		House insists on its amendments – non-concurred in Senate	06/20/01
		Conference Committee report presented in the House	06/20/01
		Conference Committee adopted by House	06/21/01
		Signed in Senate	06/21/01
		Signed in House	06/21/01
		Signed by Governor (Act 35 of 2001)	06/22/01

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
S. B. 486 P. N. 513 (Armstrong)	SERS, permitting certain state employees to participate in a private defined contribution alternative retirement plan as an alternative to membership in SERS; providing for membership eligibility, employee contributions, and powers and duties of the SERS board.	Referred to Senate Finance Committee Reported as committed First consideration Re-referred to Senate Appropriations Committee **Actuarial Note** (P. N. 513)	02/15/01 03/27/01 03/27/01 04/02/01 05/07/01
S. B. 487 P. N. 514 (Armstrong)	PSERS, permitting certain school employees to participate in a private defined contribution alternative retirement plan as an alternative to membership in PSERS, SERS or TIAA-CREF; providing for membership eligibility, employee contributions, and powers and duties of the PSERS board.	Referred to Senate Finance Committee Reported as committed First consideration Re-referred to Senate Appropriations Committee **Actuarial Note** (P. N. 514)	02/15/01 03/27/01 03/27/01 04/02/01 05/07/01
S. B. 494 P. N. 521 (Armstrong)	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, 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	02/15/01
S. B. 582 P. N. 608 (Tilghman)	Emergency and Law Enforcement Death Benefits Act (Act 101 of 1976), providing a death benefit for the spouse or beneficiary of a fire marshal killed in the performance of duty.	Referred to Senate Labor and Industry Committee	03/06/01
S. B. 608 P. N. 738 (Stout)	SERS, permitting an active member or an active multiple service member to purchase service credit for previous nonstate service as an employee of a Pennsylvania municipality or an employee of the Federal Government, provided that: the election is made from July 1, 2001, through June 30, 2003; the member was a member of or was eligible to join as a member of a Pennsylvania municipal retirement system, to include the retirement system of any county, city, borough, incorporated town or township; the member was a member of or was eligible to join as a member of a Federal retirement system; the member could not, upon leaving municipal or Federal service, have drawn any type of retirement benefit, excluding the return of	Referred to Senate Finance Committee **Actuarial Note** (P. N. 738)	03/20/01 04/26/01

Bill Number / Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	employee contributions and interest; the nonstate service credit purchased does not exceed the lesser of five years or one-half of the member's state service at the time of application for the credit; and the member's purchase contribution for the service credit is determined in the same manner as nonintervening military service under section 5505(b).		
S. B. 632 P. N. 615 (Tilghman)	SERS, fiscal year 2001-2002 appropriations bill for $20,078,000.	Referred to Senate Appropriations Committee	03/09/01
		Reported as committed	03/12/01
		First consideration	03/12/01
		Second Consideration	03/14/01
		Third Consideration and final passage (47-0)	03/20/01
		In House	
		To House Appropriations Committee	03/21/01
		First Consideration	04/30/01
		Second Consideration	05/01/01
		Re-referred to Appropriations	05/02/01
S. B. 633 P. N. 616 (Tilghman)	PSERS, fiscal year 2001-2002 appropriations bill for $34,297,000.	Referred to Senate Appropriations Committee	03/09/01
		Reported as committed	03/12/01
		First consideration	03/12/01
		Second Consideration	03/14/01
		Third Consideration and final passage(47-0)	03/20/01
		In House	
		To House Appropriations Committee	03/21/01
		First Consideration	04/30/01
		Second Consideration	05/01/01
		Re-referred to Appropriations	05/02/01
S. B. 673 P. N. 710 (Schwartz)	Creating the Tobacco Free Investment and Divestiture Act, requiring divestiture of tobacco company stocks and holdings by all Commonwealth funds	Referred to Senate Finance Committee	03/19/01
S. B. 687 P. N. 746 (Rhoades)	PSERS, granting additional retirement benefits of up to 3 years of service credit, entitled "enhanced-year service credit" to certain administrative employees who work longer than the normal 180 day school year	Referred to Senate Finance Committee	03/21/01
		Commission Letter (P. N. 746)	03/28/01
S. B. 690 P. N. 751 (Schwartz)	PSERS, extending from 95 to 120 days the period during which an annuitant may return to school service in an emergency; permitting an annuitant to return to school service under a sepa-	Referred to Senate Finance Committee	03/22/01

	rate contract during non-emergency conditions if the service provided is service as a substitute teacher on a less than full-time basis; if the contracted period does not exceed 120 days; and if the contract stipulates that the annuitant will receive no additional service credit nor make employee contributions to PSERS during the contracted period.		
S. B. 711 P. N. 852 (Hughes)	PSERS and SERS, changing the formula used in the calculation of the standard single life annuity from 2% x Years of Service x Final Average Salary to 3% x Years of Service x Final Average Salary.	Referred to Senate Finance Committee	04/03/01
S. B. 748 P. N. 827 (Schwartz)	Third Class City Code, increasing the limit on the service increment payable to a retired police officer from $100 per month to $500 per month; and providing for a $5 per month employee contribution to be made to the pension fund in addition to the normal monthly employee contribution.	Referred to Senate Local Government Committee	03/29/01
S. B. 757 P. N. 832 (Piccola)	PSERS, permitting members to purchase up to five years of service credit for work experience as a school employee, teacher or instructor of an accredited Pennsylvania nonpublic or private school, provided the member bears the full actuarial cost of the service to be purchased and is precluded from withdrawing the contributions made to purchase the prior service as a lump sum under Option 4.	Referred to Senate Finance Committee	04/02/01
S. B. 830 P. N. 936 (Mellow)	PSERS and SERS, providing for the establishment of the "30 and Out" early retirement incentive as a permanent benefit enhancement.	Referred to Senate Finance Committee	04/30/01
S. B. 865 P. N. 1008 (Logan)	Second Class County Code, mandating age 50 retirement benefits for Allegheny County Detectives	Referred to Senate Finance Committee	05/17/01
S. B. 867 P. N. 1010 (Wozniak)	Third Class City Code, increasing the limit on the service increment payable to a retired police officer from $100 per month to $500 per month; and providing for a $5 per month employee contribution to be made to the pension	Referred to Senate Urban Affairs Committee	05/17/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	fund in addition to the normal monthly employee contribution.		
S. B. 908 P. N. 1069 (Orie)	Second Class County Code, mandating formula-based retirement allowance increases for retired members; and establishing a 3-year election period during which county employees may purchase retirement service credit for service with the former Allegheny County Redevelopment Authority.	Referred to Senate Finance Committee First Consideration Referred to Senate Appropriations Committee	05/29/01 06/11/01 06/12/01
S. B. 963 P. N. 1211 (Kasunic)	PSERS and SERS, providing an automatic COLA for annuitants of both systems based upon and equal to the annual CPI, and providing for amortization of the additional unfunded liability through annual installments over a period of 20 years increasing 5% per year.	Referred to Senate Rules and Executive Nominations Committee	06/15/01
S. B. 973 P. N. 1212 (Logan)	PSERS and SERS, effective January 1, 2001, and annually thereafter, providing an annual minimum 3% COLA to annuitants of both systems who have been retired for at least 24 months.	Referred to Senate Rules and Executive Nominations Committee	06/15/01
S. B. 981 P. N. 1194 (Boscola)	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.	Referred to Senate Finance Committee	06/14/01
S. B. 988 P. N. 1199 (D. White)	PSERS, permitting active members and active multiple service members to purchase up to four years of nonschool service credit for service as an elected county official of the Commonwealth	Referred to Senate Finance Committee **Actuarial Note** (P. N. 1199)	06/14/01 11/15/01
S. B. 1092 P. N. 1373 (Piccola)	Municipal Police Pension Law (Act 600), reducing the minimum age and service requirement for eligibility for full retirement from age 55 to age 50 and from 25 years to 20 years service; and authorizing payment of service increments to members serving longer than 20 years, with the amount of such service increments limited to a maximum of 25% of the member's monthly average salary.	Referred to Senate Finance Committee	10/09/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 1151 P. N. 1433 (Kukovich)	PSERS and SERS, providing an ad hoc COLA to all annuitants of both systems equal to 25% of the member's annuity beginning July 1, 2001; the amount of the additional liability is to be amortized over 10-years using level dollar payments beginning July 1, 2005.	Referred to Senate Rules and Executive Nominations Committee	10/15/01
S. B. 1170 P. N. 1481 (Bell)	PSERS, beginning with the first monthly annuity payment after July 1, 2002, providing a COLA to annuitants equal to the greater of 25% of the gross monthly annuity in effect on June 30, 2001; or an amount calculated by the PSERS board that is necessary to restore the purchasing power of annuitants' monthly annuities that annuitants' earned at the time of retirement.	Referred to Senate Rules and Executive Nominations Committee	10/29/01
S. B. 1224 P. N. 1640 (Dent)	Third Class City Code, increasing the pension benefit calculation from one-half to no less than one-half of a member's annual salary.	Referred to Senate Finance Committee	12/21/01
S. B. 1251 P. N. 1635 (Bell)	SERS, beginning July 1, 2001, providing a COLA to all eligible benefit recipients equal to the greater of 25% of the gross monthly annuity in effect on June 30, 2001; or an amount calculated by the Board necessary to restore the purchasing power of annuitants' monthly pensions to the level that annuitants received at the time of retirement. An "eligible benefit recipient" is defined as a superannuation, withdrawal or disability annuitant who is receiving an annuity on January 1, 2002, and whose most recent effective date of retirement is prior to July 2, 2002. Withdrawal annuitants are not eligible to receive the COLA until the first day of July coincident with or following the attainment of superannuation age. Funding of the COLA will commence July 1, 2006, and will be amortized through level dollar payments over a period of 10 years.	Referred to Senate Rules and Executive Nominations Committee	12/13/01
H. B. 8 P. N. 611 (Stairs)	PSERS, 1) amending the definition of "eligible annuitant," effective July 1, 2001, to include members with 15 or more eligibility points who are 65 years of age or older; 2) granting additional retirement benefits of up to 3 years of service credit, entitled "enhanced-year	Referred to House Education Committee Reported as amended First consideration Laid on table **Actuarial Note** (P. N. 611) **Commission Letter** (A. 0590)	01/24/01 02/07/01 02/07/01 06/18/01 03/14/01 03/20/01

	service credit" to certain administrative employees who work longer than the normal 180 day school year; 3) 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; 4) 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 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; 5) effective July 1, 2001, increasing monthly medical premium assistance payments for "eligible annuitants" from $55 to $150; and 6) providing for a "30 and out" early retirement incentive as a permanent benefit enhancement.	Removed from table	10/23/01
		Laid on table	10/23/01
		Removed from table	12/13/01
		Laid on table	12/13/01
H. B. 26 P. N. 1905 (Strittmatter)	PSERS and SERS, multiplier/accrual rate increase for members of PSERS and SERS, including members of the General Assembly; reducing vesting to 5-years for all members; changing amortization period from 20 year to 10 years amortization; changing the way the employer contribution is made to PSERS for a charter school; membership eligibility for charter school employees; permitting board members to serve for 30 days past the end of their legislative terms or until appointment of their successors; changing the provisions on permitted venture capital investments; various other benefit changes.	Referred to House State Government Committee	01/31/01
		Reported as amended	02/07/01
		First consideration	02/07/01
		Re-referred to House Appropriations Committee	02/07/01
		Actuarial Note (P. N. 615)	02/08/01
		Re-reported as committed	02/12/01
		Second consideration	02/12/01
		Commission Letter (A. 0546)	03/12/01
		Commission Letter (A. 0622)	03/12/01
		Commission Letter (A. 0598)	03/12/01
		Commission Letter (A. 0599)	03/13/01
		Third consideration, with amendments	03/13/01
		Final passage (196-0)	03/13/01
		Actuarial Note (A. 0426)	03/14/01
		Referred to Senate Finance Committee	03/20/01
		Reported as committed	03/27/01
		First consideration	03/27/01
		Re-referred to Senate Appropriations Committee	04/02/01
		Commission Letter (P. N. 1081)	04/11/01
		Re-reported as amended	04/30/01
		Third consideration and final passage (49-0)	05/02/01
		In House	

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
		Referred to House Rules Committee	05/02/01
		Actuarial Note (A. 1841)	05/07/01
		Reported as amended	05/08/01
		House concurred in Senate amendments, as amended by the House (176-23)	05/08/01
		In the Senate	
		Referred to Rules and Executive Nominations	05/08/01
		Re-reported on concurrence, as committed	05/08/01
		Senate concurred in House amendments to Senate amendments (41-8)	05/08/01
		Signed in House	05/08/01
		Signed in Senate	05/08/01
		In hands of the Governor	05/08/01
		Signed by Governor, Act 9 of 2001	05/17/01
H. B. 27 P. N. 616 (Herman)	PSERS and SERS, permitting members purchasing service credit to defer payment amounts until termination of school or state service, extending the multiple service election period from 30 to 365 days, and opening a three year window for those members who wish to elect multiple service but who have not yet done so.	Referred to House State Government Committee	01/31/01
		Reported as amended	02/07/01
		First consideration	02/07/01
		Re-referred to House Appropriations Committee	02/07/01
		Actuarial Note (P. N. 616)	02/08/01
		Re-reported as committed	02/12/01
		Second consideration	02/12/01
		Final Passage (201-0)	03/12/01
		Actuarial Note (A. 0427)	03/14/01
		Referred to Senate Finance Committee	03/19/01
		Reported as committed	03/27/01
		First consideration	03/27/01
		Referred to Senate Appropriations Committee	04/02/01
		Actuarial Note (Doc. #6931)	12/11/01
		Actuarial Note (Doc. #6932 and 7004)	12/11/01
		Re-reported as committed	12/11/01
		Second consideration	12/11/01
		Re-committed to Senate Appropriations Committee	12/11/01
		Commission Letter (A. 4926)	12/12/01
		Commission Letter (A. 4927)	12/12/01
		Commission Letter (A. 4928)	12/12/01
H. B. 28 P. N. 1033 (Lewis)	PSERS and SERS, implementing recommendations of the Public Employee Retirement Commission regarding COLAs issued under Senate Resolution Number 103 of 1999 by providing for partial pre-funding of COLAs and changing the amortization for COLAs from 20-year level percentage of payroll to 10-year level dollar; and extending from 95 to 120 days the	Referred to House State Government Committee	01/31/01
		Reported as committed	02/07/01
		First consideration	02/07/01
		Re-referred to House Appropriations Committee	02/07/01
		Actuarial Note (P. N. 436)	02/08/01
		Re-reported as committed	02/12/01
		Second consideration	02/12/01
		Commission Letter (P. N. 436)	02/13/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	period during which an annuitant may return to school service in an emergency without loss of annuity.	Third consideration, with amendments Final passage (200-1) **Actuarial Note** (A. 0428) Referred to Senate Finance Committee	03/12/01 03/14/01 03/14/01 03/20/01
H. B. 84 P. N. 2913 (Curry)	PSERS, permitting an active member or an active multiple service member to purchase an unlimited amount of service credit for previous nonschool service as a certified professional in an accredited Pennsylvania approved private (special education) school by making a payment of the full actuarial cost of the purchase.	Referred to House Education Committee **Actuarial Note** (P. N. 69) Reported as amended First consideration Laid on Table **Actuarial Note** (P. N. 2913)	01/23/01 04/26/01 11/19/01 11/19/01 11/19/01 12/06/01
H. B. 97 (P. N. 82 (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 law enforcement officers of the Pennsylvania Game Commission.	Referred to House Education Committee	01/23/01
H. B. 98 P. N. 83 (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 an employee of a public, private, or parochial school and changing the short title of the act to reflect this expansion.	Referred to House Education Committee	01/23/01
H. B. 100 P. N. 84 (McGill)	PSERS and SERS, granting "30 and Out" in PSERS for the April 1 through June 30 quarters of 2001, 2002, and 2003, and in SERS for the two-year period from July 1, 2001, through June 30, 2003.	Referred to House State Government Committee **Actuarial Note** (P. N. 84)	01/23/01 03/14/01
H. B. 148 P. N. 131 (Orie)	Second Class County Code (Act 230 of 1953), reducing the age and service at which an Allegheny County deputy sheriff may retire and receive a full retirement allowance from only age 55 or older with 20 or more years of service 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 House Urban Affairs Committee	01/23/01
H. B. 129 P. N. 988 (Benninghoff)	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	Referred to House State Government Committee	03/12/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	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 actuarial accrued liability being paid by the Department of Corrections		
H. B. 223 P. N. 210 (Michlovic)	SERS, reducing the 10-cliff vesting to 6-year cliff vesting and 8-year cliff vesting to 5-year cliff vesting and creating new class, Class AA, with a multiplier of 1.25.	Referred to House State Government Committee **Actuarial Note** (P. N. 210)	01/25/01 04/26/01
H. B. 390 P. N. 407 (Clark)	PSERS, adding maternity leave to the definition of "creditable nonschool service" and limited to those members placed on mandatory maternity leave by their employers during the period October 31, 1978 and July 1, 1979.	Referred to House Education Committee	01/31/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 420 P. N. 457 (LaGrotta)	PSERS and SERS, providing for the establishment of the "30 and Out" early retirement incentive as a permanent benefit enhancement.	Referred to House State Government Committee **Actuarial Note** (P. N. 457)	02/05/01 03/14/01
H. B. 433 P. N. 470 (Strittmatter)	SERS, lifting the current two percent cap on venture capital investments.	Referred to House State Government Committee Reported as committed First consideration Re-referred to House Appropriations Committee **Commission Letter** (P. N. 470) **Commission Letter** (A. 0730) **Commission Letter** (A. 0731) Second consideration Third Consideration and Final Passage (200-0) In Senate Referred to Senate Finance Committee	02/05/01 02/07/01 02/07/01 02/07/01 03/19/01 03/19/01 03/19/01 03/19/01 04/02/01 04/04/01
H. B. 440 P. N. 477 (Kaiser)	Municipal Police Pension Law (Act 600 of 1955), permitting spouse beneficiaries to continue to receive benefit payments in the event of remarriage.	Referred to House Local Government Committee **Advisory Note** (P. N. 477)	02/05/01 02/28/01
H. B. 456 P. N. 491 (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	02/05/01
H. B. 457 P. N. 492 (O'Brien)	Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988), mandating certain additional postretirement adjustments for certain retired municipal public safety officers.	Referred to House Local Government Committee **Advisory Note** (P. N. 492)	02/05/01 03/15/01
H. B. 523 P. N. 566 (O'Brien)	SERS, permitting Bail Commissioners of the Philadelphia Municipal Court to elect class E-2 service within 30 days of the date of employment or within 30 days of the effective date of the act, and setting the class of service multiplier of 1.5 for class E-2 service.	Referred to House Judiciary Committee	02/07/01
H. B. 530 P. N. 573 (Casorio)	Municipal Police Pension Law (Act 600 of 1955), increasing the maximum permissible pension benefit from 75% to 80% of final salary, reducing the time period for calculating final average salary from the last 36 months to the last 24 months of service, and increas-	Referred to House Local Government Committee **Advisory Note** (P. N. 573)	02/07/01 05/17/01

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	ing the maximum service increment from $100 a month to $600 a month.		
H. B. 562 P. N. 605 (Colafella)	PSERS, providing for the establishment of the "30 and Out" early retirement incentive as a permanent benefit enhancement.	Referred to House Education Committee	02/07/01
H. B. 638 P. N. 694 (Belfanti)	Municipal Police Pension Law (Act 600), reducing the service required to receive a pension from 25 years to 20 years of service.	Referred to House Local Government Committee	02/12/01
H. B. 657 P. N. 730 (T. 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 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 House Education Committee	02/13/01
H. B. 780 P. N. 869 (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	02/20/01
H. B. 783 P. N. 872 (Bebko-Jones)	Act 362 of 1974, effecting cities of the third class, mandating post-retirement adjustments for nonuniformed officers and employees based on the CPI and limiting the total allowance to 50% of compensation.	Referred to House Urban Affairs Committee	02/20/01
H. B. 793 P. N. 882 (E. Z. Taylor)	PSERS, providing for the establishment of the "30 and Out" early retirement incentive as a permanent benefit enhancement.	Referred to House Education Committee	02/20/01
H. B. 821 P. N. 913 (O'Brien)	Special Ad Hoc Municipal Police and Firefighter Postretirement Act (Act 147 of 1988), granting an additional special adjustment effective January 1, 2001 to retired public safety employees who	Referred to House Local Government Committee **Actuarial Note** (P. N. 913)	02/27/01 03/14/01

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	retired before January 1, 1996 calculated as ($0.15/month x years of service x years retired) x [1 + (.025 x years retired to 25) + (.075 x years retired over 25)].		
H. B. 842 P. N. 936 (Stetler)	PSERS, extending from 95 to 120 days the period during which an annuitant may return to school service in an emergency without loss of annuity.	Referred to House Education Committee	03/06/01
H. B. 869 P. N. 2598 (Orie)	Second Class County Code, mandating formula-based retirement allowance increases for retired members; providing for the housing of juvenile offenders, and miscellaneous other non-pension provisions	Referred to House Urban Affairs Committee	03/08/01
		First Consideration	04/04/01
		Actuarial Note (P. N. 968)	04/26/01
		Actuarial Note (A. 1257)	05/07/01
		Second consideration	06/05/01
		Referred to Appropriations	06/05/01
		Re-reported as committed	06/11/01
		Third Consideration with amendments	06/12/01
		Final Passage (197-0)	06/12/01
		Commission Letter (P. N. 2188)	06/18/01
		In Senate	
		First Consideration	06/18/01
		Second consideration with amendments	06/19/01
		Re-referred to Appropriations	06/20/01
		Third consideration with amendments	06/21/01
		Final passage (47-0)	06/21/01
		Referred to Rules	06/21/01
		House non-concurred in Senate amendments (100-91)	
		Vote on non-concurrence reconsidered (98-89)	06/21/01
		House concurred in Senate Amendments, as amended by the House (201-0)	06/21/01
		In the Senate	10/02/01
		Referred to Senate Rules Committee	
		Re-reported on concurrence as committed	10/09/01
		Senate concurred in House amendments to Senate amendments (47-0)	10/09/01
		Signed in House	10/10/01
		Signed in Senate	10/22/01
		Signed by Governor (Act 80 of 2001)	10/22/01
			10/30/01
H. B. 1011 P. N. 1156 (Micozzie)	Mandate Review and Relief Act, mandating legislative review and oversight of the costs of Public School and State employees' health benefit programs by the Legislative Budget and Finance Committee.	Referred to House State Government Committee	03/15/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 1015 P. N. 1160 (Evans)	PSERS, reducing the employee contribution rate from 6.25% to 5.25% beginning July 1, 2002.	Referred to House Education Committee **Commission Letter** (P. N. 1160)	03/15/01 03/19/01
H. B. 1016 P. N. 1161 (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 PSERS Board under the Act, establishing the Public School Retirees' Health Insurance Fund, providing for health insurance premium assistance to the affected individuals, and providing for funding	Referred to House Education Committee **Actuarial Note** (P. N. 1161)	03/15/01 04/26/01
H. B. 1042 P. N. 1187 (L. I. Cohen)	Municipal Police Pension Law (Act 600), mandating rather then 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, 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 unless the member has designated another beneficiary for this purpose, and permitting both a regular retiree's pension and a disability retiree's pension to exceed 50% of the 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. 1187)	03/15/01 04/30/01
H. B. 1043 P. N. 1188 (Dally)	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 House State Government Committee **Actuarial Note** (P. N. 1188)	03/15/01 10/04/01

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
H. B. 1046 P. N. 1200 (E. Z. Taylor)	SERS, permitting an active member to purchase up to 5 years of service credit for previous nonstate service with the American Red Cross.	Referred to House State Government Committee	03/19/01
H. B. 1049 P. N. 1203 (Casorio)	Municipal Police Pension Law (Act 600), reducing the age and service at which a municipal police officer may retire and receive a full retirement allowance from age 55 or older with 25 or more years of service, to 20 years of service with no minimum age requirement.	Referred to House Local Government Committee	03/19/01
H. B. 1061 P. N. 1220 (Caltagirone)	SERS, permitting members to purchase up to five years of nonstate service as an employee of any political subdivision of the Commonwealth or as a Federal employee.	Referred to House State Government Committee	03/20/01
H. B. 1062 P. N. 1221 (Caltagirone)	PSERS, permitting members to purchase up to five years of nonstate service as an employee of any political subdivision of the Commonwealth or as a Federal employee.	Referred to House Education Committee	03/20/01
H. B. 1064 P. N. 1223 (Herman)	PMRS, extending the period during which the board may use excess investment earnings of the fund to pay for the system's administrative expenses to 2001through 2005.	Referred to House Local Government Committee **Advisory Note** (P. N. 1223)	03/20/01 07/23/01
H. B. 1116 P. N. 1292 (Hanna)	SERS, providing campus police officers with age 50 superannuation retirement.	Referred to House State Government Committee **Actuarial Note** (P. N. 1292)	03/21/01 12/06/01
H. B. 1156 P. N. 1338 (Nickol)	Act 293 of 1972, requiring municipal pension systems to have an actuarial investigation of the fund, the results of which are to be reported to the Public Employee Retirement Commission; and establishing reporting deadlines and time frames.	Referred to House Rules Committee	03/26/01
H. B. 1161 P. N. 1347 (Lucyk)	SERS, permitting members to purchase up to five years of nonstate service as a county employee	Referred to House State Government Committee	03/26/01
H. B. 1173 P. N. 1360 (Frankel)	Act 205 of 1984 (Municipal Pension Plan Funding Standard and Recovery Act), further providing for the distribution of state aid to distressed municipalities under the Act.	Referred to House Local Government Committee	03/27/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 1180 P. N. 1367 (Barley)	PSERS, fiscal year 2001-2002 appropriations bill for $34,297,000.	Referred to House Appropriations Committee First Consideration Second Consideration Third consideration and final passage (198-0) In the Senate First consideration Second Consideration Third Consideration and Final Passage (49-0) In hands of the Governor Signed by Governor (Act 3A of 2001)	03/27/01 04/03/01 04/04/01 04/23/01 04/30/01 05/02/01 05/07/01 05/08/01 05/17/01
H. B. 1182 P. N. 1369 (Barley)	SERS, fiscal year 2001-2002 appropriations bill for $20,078,000.	Referred to House Appropriations Committee First Consideration Second Consideration Third consideration and final passage (198-0) In the Senate First consideration Second Consideration Third Consideration and Final Passage (49-0) In hands of the Governor Signed by Governor (Act 2A of 2001)	03/27/01 04/03/01 04/04/01 04/23/01 04/30/01 05/02/01 05/07/01 05/08/01 05/17/01
H. B. 1224 P. N. 1415 (Travaglio)	PSERS, increasing premium assistance under the Health Insurance Premium Assistance Program from $55 to $162 per month, effective retroactively to July 1, 1992.	Referred to House Education Committee	03/29/01
H. B. 1296 P. N. 1526 (C. Williams)	PSERS, permitting an active member or an active multiple service member to purchase an unlimited amount 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, the payment of which begins within 3 years of eligibility.	Referred to House Education Committee **Actuarial Note** (P. N. 1526)	04/09/01 04/26/01
H. B. 1320 P. N. 1549 (Wojnaroski)	Third Class City Code (Act of 1931), increasing the maximum service increment from $100 per month to $500 per month, and increasing the employee service increment contribution from a maximum of $1 per month to $5 per month.	Referred to the House Urban Affairs Committee	04/09/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 1322 P. N. 1570 (Flick)	SERS, permitting an active member or an active multiple service member to purchase up to five years of service credit for previous nonstate service as an employee of any county, city, borough, incorporated town or township, the member was a member of or was eligible to join as a member of a local government retirement system, to include the retirement system of any county, city, borough, incorporated town or township.	Referred to House State Government Committee	04/09/01
H. B. 1334 P. N. 1561 (Travaglio)	SERS, permitting the surviving spouse of a deceased PA State Police Officer to purchase nonintervening military service under section 5505(b) if the officer member failed to do so prior to his or her death.	Referred to House State Government Committee	04/12/01
H. B. 1348 P. N. 1579 (Coy)	SERS, granting campus police officers Class P service credit for all campus police officer service with the pension - for 20 to 25 years of service calculated as 50% of the member's final average salary, for 25 or more years of service calculated as 75% of the final average salary; granting Class P members age 50 superannuation age; and mandating that the amortization payments for the resulting increase in unfunded actuarial accrued liability be paid by the State System of Higher Education.	Referred to House State Government Committee	04/17/01
H. B. 1354 P. N. 1585 (Belardi)	Constitutional Amendment, permitting the payment of post-retirement adjustments to spouse beneficiaries, providing such payments are found to be actuarially sound.	Referred to House State Government Committee	04/17/01
H. B. 1360 P. N. 1683 (S. Smith)	Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147), mandating that municipalities pay an additional post-retirement adjustment to retired municipal firefighters and police officers.	Referred to House Local Government Committee	04/25/01
		Commission Letter (P. N. 1683)	04/30/01
		First consideration	06/13/01
		Second consideration	06/18/01
		Third consideration and Final Passage (196-0)	06/20/01
		In Senate	
		Referred to Senate Finance Committee	06/21/01
		Reported as committed	12/11/01
		First consideration	12/11/01
		Re-referred to Appropriations	12/12/01

H. B. 1361 P. N. 2225 (S. Smith)	Act 600, 1) Permitting 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 bill; 2) permitting 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 bill, rather than stopping the benefit at age 18 as is presently required; 3) mandating payment to the surviving spouse or surviving child or children, if no spouse survives, of a survivor benefit of no less than 50 percent of the pension the deceased member was entitled to receive or was receiving at the time of death; 4)in the case of a deceased member who is not entitled to a retirement benefit at the time of death, mandate the return of the deceased member's employee contributions (plus interest) to the deceased member's spouse or surviving child or children or other designated beneficiary; 5) mandate a disability pension benefit for permanently injured members of no less than 50 percent of the member's salary at the time the disability was incurred in service; 6) mandate the offset or reduction of the disability benefit to prevent the disability benefit from exceeding 100 percent of pre-retirement salary in the event the disabled member is also eligible to receive a Social Security disability benefit for the same injuries; 7) mandate a survivor 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; and 8) eliminate the conduct of an actuarial study as a precondition for the annual reduction or elimination of member contributions.	Referred to House Local Government Committee	04/25/01
		Commission Letter (P. N. 1684)	04/30/01
		Commission Letter (A. 1804)	05/02/01
		Reported as amended	06/13/01
		First consideration	06/13/01
		Commission Letter (P. N. 2225)	06/14/01
		Second consideration	06/18/01
		Third consideration and Final Passage (196-0)	06/20/01
		In Senate	
		Referred to Senate Finance Committee	06/21/01
H. B. 1362 P. N. 2226 (S. Smith)	PMRS, liberalizing the standard for qualification for a disability retirement from the inability to engage in any gainful employment to, in the case of a police officer, the inability to perform the regular and routine duties.	Referred to House Local Government Committee	04/25/01
		Actuarial Note (P. N. 1685)	05/07/01
		Actuarial Note (A. 1800)	05/07/01
		Commission Letter (A. 2158)	06/04/01
		Reported as amended	06/13/01
		First consideration	06/13/01
		Commission Letter (P. N. 2226)	06/14/01

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
		Second consideration	06/18/01
		Third consideration and Final Passage (196-0)	06/20/01
		In Senate	
		Referred to Senate Finance Committee	06/21/01
H. B. 1363 P. N. 3059 (S. Smith)	Third Class City Code, increasing the permissible service increment for police officers and firefighters from $100 to not more than $500 per month and increasing the additional employee contribution from $1 to not more than $5 per month. Increasing the pension benefit calculation from one-half to *no less than* 50% of a member's annual salary.	Referred to House Urban Affairs Committee	04/25/01
		Actuarial Note (P. N. 1686)	05/07/01
		Commission Letter (A. 2210)	06/04/01
		Reported as amended	06/12/01
		First consideration	06/12/01
		Re-reported to Rules	06/12/01
		Commission Letter (P. N. 2183)	06/14/01
		Second consideration	06/18/01
		Third consideration and Final Passage (196-0)	06/20/01
		In Senate	
		Referred to Senate Finance Committee	06/21/01
		Reported as amended	12/11/01
		First consideration	12/11/01
		Re-referred to Appropriations	12/12/01
H. B. 1379 P. N. 1609 (Hanna)	SERS, providing age 50 superannuation for campus police officers.	Referred to House State Government Committee	04/23/01
H. B. 1403 P. N. 1649 (Walko)	Second Class City Policemen Relief Law, mandating the continuation pension payments to the spouse of a deceased member in the event of remarriage.	Referred to House Urban Affairs Committee	04/24/01
H. B. 1414 P. N. 1660 (Surra)	SERS, adding Game Commission Officers to the definition of "enforcement officer" under section 5102.	Referred to House Game and Fisheries Committee	04/24/01
		First consideration	06/05/01
		Re-referred to Rules	06/05/01
		Re-reported as committed	09/24/01
		Laid on Table	09/24/01
		Actuarial Note (P. N. 1660)	10/04/01
		Removed from table	11/14/01
		Laid on table	11/14/01
H. B. 1418 P. N. 1664 (Armstrong)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205), amending section 706(b)(2) of the Act to mandate that for the first five years following the merger or consolidation of one or more fire companies, the governing body shall distribute funds from the foreign fire insurance premium tax to the various relief associations in the same proportions as the	Referred to House Local Government Committee	04/24/01
		Commission Letter (P. N. 1664)	05/14/01
		Reported as committed	06/13/01
		First consideration	06/13/01
		Second consideration	06/18/01
		Third consideration and final passage (193-0)	06/21/01
		In Senate	
		Referred to Senate Finance Committee	06/21/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	year prior to the merger or consolidation.		
H. B. 1443 P. N. 2336 (Herman)	PSERS and SERS, mandating an annual COLA for all annuitants of both systems who have been on annuity for at least 24 months, beginning January 1, 2001. The amount of the COLA shall be as may be determined by the respective system boards.	Referred to House Education Committee Reported as amended First consideration Re-committed to Rules Re-reported as committed Laid on Table **Actuarial Note** (P. N. 2336) Removed from table Laid on table	04/25/01 06/20/01 06/20/01 06/20/01 09/24/01 09/24/01 10/04/01 11/14/01 11/14/01
H. B. 1484 P. N. 1803 (Wilt)	PSERS, adding subsection (d) to section 8509 of the Code by permitting eligible annuitants to elect to participate in the health insurance premium assistance program by filing an election to be covered by a health insurance carrier.	Referred to House Education Committee	05/02/01
H. B. 1485 P. N. 1804 (T. Stevenson)	PSERS, permitting members to purchase up to two years of nonschool service for time spent on a leave of absence in connection with the adoption of a child or immediately following adoption to provide care to the adoptive child.	Referred to House Education Committee	05/02/01
H. B. 1512 P. N. 1836 (Belardi)	PSERS, permitting members to purchase nonschool service for time spent on a maternity leave of absence taken as regular leave due to employer policy, and for time spent on a leave of absence in connection with the adoption of an infant child.	Referred to House Education Committee	05/03/01
H. B. 1513 P. N. 1837 (Michlovic)	PSERS, creating a new class of service, Class T-D with an accrual rate of 2.5%; reducing 10-year cliff vesting to 6-year cliff vesting.	Referred to House Education Committee	05/03/01
H. B. 1525 P. N. 1852 (Coy)	PSERS and SERS, effective July 1, 2001, providing a COLA for all annuitants of both systems whose effective date of retirement is on or before June 30, 2000; the amount of the COLA will be a percentage of the member's current monthly annuity and will be paid based upon the annuitants effective date of retirement..	Referred to House Education Committee	05/07/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 1529 P. N. 1856 (McIlhattan)	PSERS, permitting active members to purchase up to three years of creditable nonschool service for work experience used by the member to obtain certification as a vocational teacher.	Referred to House Education Committee	05/07/01
H. B. 1533 P. N. 2288 (Belfanti)	PSERS and SERS, effective July 1, 2001, providing a COLA for all annuitants of both systems whose effective date of retirement is on or before July 1, 2001; the amount of the COLA will be a percentage of the member's current monthly annuity and will be paid based upon the annuitants effective date of retirement..	Referred to House State Government Committee	05/07/01
H. B. 1545 P. N. 1891 (Freeman)	Municipal Police Pension Law (Act 600), authorizing municipalities to pay a rebate of member contributions to retired members in cases where the police pension fund has been certified to be 100% overfunded.	Referred to House Local Government Committee	05/08/01
H. B. 1547 P. N. 2789 (M. Baker)	Pennsylvania Conservation Corps Act (Act 112 of 1984), providing that service as a Pennsylvania Conservation Corps Crew Leader will be treated as state service for the purpose of calculating retirement benefits under both the SERS and PSERS Codes, and that crew leaders will be entitled to state health benefits.	Referred to House Environmental Resources and Energy Committee First consideration Second consideration Third consideration with amendments Final passage (200-0) In Senate Referred to Senate Labor and Industry Committee	05/08/01 10/03/01 10/15/01 10/30/01 10/30/01 11/13/01
H. B. 1594 P. N. 1948 (Dally)	Municipal Police Pension Law (Act 600), mandating that full-time police officers receive up to five years of service credit for prior part-time service.	Referred to House Local Government Committee	05/10/01
H. B. 1604 P. N. 1961 (Caltagirone)	SERS, reducing superannuation age for district justices to any age upon accrual of 24 years of service or age 50.	Referred to House State Government Committee	05/17/01
H. B. 1606 P. N. 1963 (Tulli)	PSERS, increasing from 95 to 120 days the period during which an annuitant may return to school service in an emergency without loss of annuity.	Referred to House Education Committee	05/17/01
H. B. 1613 P. N. 1970 (Petrone)	Second Class County Code, providing eligibility for full retirement benefits at age 50 with 20 years of service to Allegheny County Detectives.	Referred to House Urban Affairs Committee	05/17/01
H. B. 1618 P. N. 1975 (Sather)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205), amending Section 704 of the Act by	Referred to House Finance Committee	05/17/01

	adding a subsection that sets the minimum distribution to each municipality at $5,000.		
H. B. 1648 P. N. 2015 (Lederer)	SERS, permitting members of the judiciary who are active members of SERS to purchase up to 10 years of service credit for former county employment; contributions on account of credit for county service shall be determined in the same manner as provided for nonintervening military service in section 5505(b).	Referred to House State Government Committee	05/22/01
H. B. 1723 P. N. 2138 (Schroder)	PSERS, permitting a member to purchase service nonschool service for time spent on a maternity leave of absence required by the employer in connection with the adoption of a child prior to November 1, 1978. A member may purchase up to two years of service per leave period commencing within one year of the member's eligibility to purchase the creditable nonschool service.	Referred to House Education Committee	06/11/01
H. B. 1749 P. N. 2214 (Curry)	Municipal Police Pension Law (Act 600), providing for optional forms of pension benefit payments, each being actuarially equivalent of the form set forth in the actuarial valuation report filed with the Public Employee Retirement Commission applicable to the period; and providing for a late retirement benefit to a member of the police force who terminates employment after reaching normal retirement age.	Referred to House Local Government Committee **Actuarial Note** (P. N. 2214)	06/13/01 11/15/01
H. B. 1784 P. N. 2279 (Bunt)	Second Class County Code, permitting Allegheny County to provide a COLA to retirees that equals or exceeds the CPI.	Referred to House Urban Affairs Committee Reported as committed Re-reported to Local Government	06/19/01 06/20/01 06/20/01
H. B. 1789 P. N. 2304 (Grucela)	Municipal Police Pension Law (Act 600), adding a provision to permit the return of member contributions to former members and annuitants if such action is deemed to be actuarially sound.	Referred to House Local Government Committee	06/19/01
H. B. 1874 P. N. 2436 (Harhai)	PSERS and SERS, beginning January 1, 2001, providing an annual 3% COLA for all annuitants of both systems who have been on annuity for at least 24 months unless the boards of the re-	Referred to House State Government Committee	08/01/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	spective systems determine that such an increase would jeopardize the fully funded status of the system.		
H. B. 1886 P. N. 2448 (Frankel)	PSERS, amending section 8304 by requiring that maternity leave be credited as class T-D service.	Referred to House Education Committee	08/20/01
H. B. 1889 P. N. 2451 (Lucyk)	PSERS and SERS, amending section 8302 of the PSERS Code and section 5102 of the SERS Code to provide for the crediting of nonintervening military service purchased by active members as class T-D and class AA respectively.	Referred to House State Government Committee	08/20/01
H. B. 1930 P. N. 2508 (Herman)	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, provided such increases are deemed to be actuarially sound.	Referred to House State Government Committee	09/25/01
H. B. 1965 P. N. 2551 (Caltagirone)	SERS, reducing the superannuation age and service requirements for District Justices to any age upon accrual of 24 years credited service or age 50.	Referred to House State Government Committee	09/26/01
H. B. 1977 P. N. 2570 (Costa)	Second Class County Code, mandating formula-based retirement allowance increases for retired members; and permitting employees to purchase service with the county for prior service with the former Allegheny County Redevelopment Authority within three years of the effective date of the bill.	Referred to House Urban Affairs Committee	10/01/01
H. B. 2004 P. N. 2628 (Caltagirone)	Act 362 of 1945, permitting members of any third class city's retirement system to begin to receive the service increment authorized by the Act at any time, provided that the member (contributor) pays to the retirement fund a sum equal to the total contributions that would have been paid into the system plus any required monthly contributions pursuant to the Act.	Referred to House Urban Affairs Committee	10/05/01
H. B. 2025 P. N. 2664 (Wansacz)	PSERS and SERS, adding nonintervening military service to the definition of credited school and credited state service, having the effect of crediting such service as Class AA and T-D for retirement credit purposes.	Referred to House State Government Committee	10/16/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 2034 P. N. 2672 (Coy)	PSERS, beginning with the first monthly annuity payment after July 1, 2002, providing a COLA to annuitants equal to the greater of 25% of the gross monthly annuity in effect on June 30, 2001; or an amount calculated by the PSERS board that is necessary to restore the purchasing power of annuitants' monthly annuities that annuitants earned at the time of retirement.	Referred to House Education Committee	10/16/01
H. B. 2035 P. N. 2673 (Schuler)	PSERS, beginning with the first monthly annuity payment after January 1, 2002, providing a COLA to annuitants that is an amount calculated by the PSERS board that is necessary to restore the purchasing power of annuitants' monthly annuities that annuitants earned at the time of retirement, and beginning July 1, 2002, and annually thereafter, a COLA equal to the increase in the CPI for the immediately preceding calendar year, not to exceed 3%.	Referred to House Education Committee	10/16/01
H. B. 2041 P. N. 2691 (DeLuca)	SERS, amending section 5304 of the SERS Code to permit the purchase of up to five years of service credit for service as an officer or employee of a county authority.	Referred to House State Government Committee	10/17/01
H. B. 2043 P. N. 2693 (Nickol)	SERS, excluding from mandatory membership in SERS, those employees of Shippensburg University who are transferred to the Juvenile Court Judges' Commission as a result of an interagency transfer and who had previously elected membership in an independent retirement program approved by the employer. The aforementioned employees may, however, elect to become members of SERS by filing an application for membership within 90 days of becoming employees of the Juvenile Court Judges' Commission. Employees who fail to elect SERS membership within 90 days will remain members of the alternative retirement plan and be precluded from receiving service credit in SERS for service with the Juvenile Court Judges' Commission, should the employee obtain other state employment eligible for membership in SERS at some future date.	Referred to House State Government Committee **Actuarial Note** (P. N. 2693)	10/17/01 11/15/01

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 2103 P. N. 2813 (L.I. Cohen)	PSERS, permitting the purchase of service credits for an unlimited number of years of service as a teacher of special education classes in an approved private school as defined in 22Pa. Code section 171.111.	Referred to House Education Committee	10/31/01
H. B. 2113 P. N. 2826 (Stern)	SERS, permitting the purchase of service credit for up to 10 years of nonstate service as an employee of a state government other than the Commonwealth, providing that the member has accrued ten eligibility points in SERS at the time of purchase, elects to purchase the service within three years of eligibility to do so, bears the full actuarial cost of the service purchase, and is precluded from receiving a lump sum distribution under Option 4.	Referred to House State Government Committee	11/13/01
H. B. 2128 P. N. 2840 (Coy)	SERS, beginning with the first monthly annuity payment after July 1, 2002, providing a COLA to annuitants equal to the greater of 25% of the gross monthly annuity in effect on June 30, 2001; or an amount calculated by the SERS board that is necessary to restore the purchasing power of annuitants' monthly annuities that annuitants earned at the time of retirement.	Referred to House State Government Committee	11/13/01
H. B. 2141 P. N. 2867 (Haluska)	PSERS and SERS, beginning with the first monthly annuity payment after July 1, 2001, providing a COLA to superannuation annuitants equal to the increase in the CPI for the immediately preceding calendar year; and providing that the additional liability for the increase in benefits be amortized over 20 years through annual payments increasing 5% each year.	Referred to House State Government Committee	11/15/01
H. B. 2148 P. N. 2878 (Browne)	Third Class City Code, changing the basis used to determine pension benefits and service increments from one-half of the member's salary to <u>no less than</u> one-half of the member's salary.	Referred to House Urban Affairs Committee	11/15/01
H. B. 2150 P. N. 2971 (Hasay)	SERS, prohibiting investments in entities identified by the U.S. government as sponsors of terrorism.	Referred to House Committee on Commerce and Economic Development First consideration Second consideration Re-referred to House Appropriations Committee	11/15/01 11/19/01 11/20/01 11/20/01

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
		Reported as amended	12/03/01
		Commission Letter (A. 4400)	12/03/01
		Third consideration and final passage(198-0)	
		In the Senate	12/04/01
		Referred to Senate Finance Committee	12/07/01
H .B. 2151 P. N. 2972 (Hasay)	PSERS, prohibiting investments in entities identified by the U.S. government as sponsors of terrorism.	Referred to House Committee on Commerce and Economic Development	11/15/01
		First consideration	11/19/01
		Second consideration	11/20/01
		Re-referred to House Appropriations Committee	11/20/01
		Reported as amended	12/03/01
		Commission Letter (A. 4401)	12/03/01
		Third consideration and final passage(193-0)	12/04/01
		In the Senate	
		Referred to Senate Finance Committee	12/07/01
H. B. 2162 P. N. 2897 (Hanna)	PSERS, amending the definition of superannuation age in section 8102 by reducing the normal retirement age for class T-A, T-B, T-C and T-D members from age 62 to age 60.	Referred to House Education Committee	11/19/01
H. B. 2187 P. N. 2947 (M. Baker and Nickol)	PSERS and SERS, providing for up to 5 years of creditable nonstate or nonschool service for service as a crewleader with the Pennsylvania Conservation Corps rendered prior to July 1, 2002, providing the member elects to purchase the service within three years of eligibility to do so, that the member pays the full actuarial cost of the benefit enhancement and that the member is prohibited from withdrawing contributions for the service purchase under Option 4.	Referred to House State Government Committee	11/26/01
H. B. 2194 P. N. 2959 (Coleman)	PSERS, permitting the purchase of up to four years of nonschool service as an elected county official of any county in the Commonwealth pursuant to a valid leave of absence.	Referred to House Education Committee	12/03/01
H. B. 2227 P. N. 3051 (Lucyk)	SERS, providing that both intervening and nonintervening military service be credited as the class of service the member is in at the time of the service purchase election.	Referred to House State Government Committee	12/11/01

Bill Number Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
H. R. 123 P. N. 1343 (Tangretti)	Establishing and directing a select committee of the General Assembly to consider issues related to a uniform municipal pension system and portability among municipal police pensions; and directing the Public Employee Retirement Commission to assist the select committee by providing staff and technical expertise.	Referred to House Rules Committee	03/23/01
H. R. 266 P. N. 2371 (Nickol)	Directing the Public Employee Retirement Commission to undertake a study relating to the nature of defined benefit vs. defined contribution retirement plans and to report its findings to the General Assembly by December 31, 2002.	Introduced as non-controversial resolution under Rule 35 Adopted (189-0)	06/21/01 06/21/01

APPENDIX E

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