

# PUBLIC EMPLOYEE RETIREMENT COMMISSION



2003 ANNUAL REPORT

**Commonwealth of Pennsylvania**



2003  
Annual Report  
of the  
Public Employee Retirement Commission



Public Employee Retirement Commission  
Commonwealth of Pennsylvania  
March 2004

# PUBLIC EMPLOYEE RETIREMENT COMMISSION

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## ***Gubernatorial Appointees***

Mr. Paul D. Halliwell  
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*Consulting Actuary*

Mr. A. Carville Foster, Jr.  
Vice Chairman  
*Retired Legislator*

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COMMONWEALTH OF PENNSYLVANIA  
PUBLIC EMPLOYEE RETIREMENT COMMISSION  
HARRISBURG  
17120

*March 2004*

To: *Governor Rendell  
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 2003.*

*During 2003, the Commission authorized the attachment of twenty-seven actuarial notes to nineteen bills, two documents, one bill as amended, and five 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 and the Public School Employees' Retirement System. This report also describes research conducted during 2003 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 twenty-first 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 2003.*

*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 and the interrelationships, actuarial soundness and costs of the retirement systems.*

*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 General Municipal Pension System State Aid that exceeds \$150 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.*

*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 eighteenth 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 2003.*



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**DUTIES AND RESPONSIBILITIES  
OF THE COMMISSION**



**PART I**

**PREPARATION OF ACTUARIAL NOTES  
AND ADVISORY NOTES**

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**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 2003 ACTIVITY.**

During 2003, the Commission authorized the attachment of twenty-seven actuarial notes to nineteen bills, two documents, five amendments and one bill as amended. In addition, the Commission's staff provided the General Assembly with three advisory notes.

## **C. SYNOPSES OF ADVISORY NOTES.**

- House Bill Number 812, Printer's Number 947. At the request of Representative Lynn B. Herman, Majority Chairman, House Local Government Committee, on June 18, 2003, the Commission staff provided an advisory note on House Bill Number 812, Printer's Number 947. House Bill Number 812, Printer's Number 947, 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 member would have been receiving had the member been retired at the time the deceased member dies, 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.

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

- House Bill Number 813, Printer's Number 948. At the request of Representative Lynn B. Herman, Majority Chairman, House Local Government Committee, on June 18, 2003, the Commission staff provided an advisory note on House Bill Number 813, Printer's Number 948. House Bill Number 813, Printer's Number 948, would amend section 3 of the Municipal Police Pension Law by 1) reducing the service requirement for normal retirement eligibility from 25 years to not less than 20 years, and 2) eliminating the age requirement (currently age 55 or, if feasible, age 50) for normal retirement eligibility.
- House Bill Number 1338, Printer's Number 1644. At the request of Representative Lynn B. Herman, Majority Chairman, House Local Government Committee, on November 18, 2003, the Commission staff provided an advisory note on House Bill Number 1338, Printer's Number 1644. House Bill Number 1338, Printer's Number 1644, would amend Title 53 (Municipalities Generally) of the Pennsylvania Consolidated Statutes by permitting the establishment of a statewide, tax qualified, defined contribution retirement plan for tax collectors in the Commonwealth. The Pennsylvania Municipal Retirement System (PMRS) would serve as administrator of the plan.

### **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 document, Senate and House bill in numerical order. A subject index to the actuarial notes is provided in Appendix E.

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**Bill ID:** Document Number 5598

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

**Subject:** Change in Amortization Periods

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SYNOPSIS

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Document Number 5598 would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code.

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

- 1) Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001, for the outstanding balances of the net actuarial losses incurred in fiscal year 2000-2001 and fiscal year 2001-2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar;
- 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities, the Act 38 of 2002 asset valuation method change, and for future benefit changes and cost-of-living adjustments (COLAs);
- 3) Beginning July 1, 2004, establish a 3.75% minimum employer contribution rate inclusive of the premium assistance contribution rate; and
- 4) Mandate that the annual employer contribution rate shall in no case be less than the greater of 1% plus the premium assistance contribution rate or the annual contribution required in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 25 plus the premium assistance contribution rate.

The proposed legislation would amend the State Employees' Retirement Code to:

- 1) Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001, for the outstanding balances of the net actuarial losses incurred in calendar year 2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar;
- 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities and for future benefit changes and cost-of-living adjustments (COLAs); and
- 3) Mandate that the annual employer contribution rate shall in no case be less than the greater of 1% or the annual contribution required in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 25.

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DISCUSSION

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### 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 purpose of the

Systems is to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. As of June 30, 2002, there were approximately 695 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 2002, there were approximately 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, 2002, there were 242,616 active members and 141,414 annuitant members of PSERS, and as of December 31, 2002, there were 111,059 active members and 91,228 annuitant members of SERS. In general, the annual retirement benefit for both Systems is equivalent to the product of 2.5 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. 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.

#### **Amortization Periods and Actuarial Approach**

With the passage of Act 23 of 1991, beginning July 1, 1991, the existing unfunded actuarial accrued liabilities of the Systems were totaled and amortization payments increasing five percent a year commenced over a 20-year period. The unfunded actuarial accrued liabilities resulting both from actuarial experience and from ad hoc postretirement adjustments and other benefits changes in each succeeding fiscal year were amortized over a 20-year period beginning the following July 1 with the payments increasing five percent a year. Act 9 of 2001 restructured this amortization 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. The changes in the unfunded actuarial accrued liability in each succeeding fiscal year were amortized over a ten-year period on a level dollar basis beginning the following July 1. The amendment would restructure the amortization periods of both PSERS and SERS effective July 1, 2004, to provide that as of July 1, 2004, the amortization period for 1) the increased liabilities of Act 9 of 2001, 2) the outstanding balances of the net actuarial losses incurred by PSERS in fiscal years 2000-01 and 2001-02 and by SERS in calendar year 2002, and 3) the gains and losses experienced in all future years would be 30 years rather than 10 years, with the affected amortization contributions being calculated as level-dollar payments. Amortization of the remaining balance of the pre-Act 9 of 2001 unfunded actuarial accrued liability, the existing and future unfunded actuarial accrued liabilities attributable to ad hoc COLAs, and in the case of PSERS, the gains and losses attributable to the change in the asset valuation methodology under Act 38 of 2002, would continue to be amortized over 10 years on a level-dollar basis, as prescribed by Act 9 of 2001.

For PSERS, the proposal would also provide for a minimum employer contribution rate for fiscal year 2004-05 equal to 3.75%, including the premium assistance contribution rate. The increased minimum employer contribution rate would function to further level employer contributions over time.

In establishing the actuarial funding standard for all municipal retirement systems through the enactment of the Municipal Pension Plan Funding Standard and Recovery Act in 1985, the Commonwealth viewed 15 years as an appropriate period over which to amortize the annual gains and losses of the Commonwealth's 3,000 municipal retirement systems. The annual actuarial gains and losses of SERS and PSERS are currently amortized over 10 years. Changing the amortization period for annual gains and losses to 30 years may be viewed as a significant modification in Commonwealth policy and that effects an amortization period for these annual adjustments to the funding requirements that is longer than the norm in public pension plan

actuarial funding methodology. Shorter amortization periods for gains and losses result in the funding requirements being more closely related to the events occurring during an employee's period of employment

**Governmental Accounting Standards Board Compliance**

Formed in 1984, the Governmental Accounting Standards Board (GASB) was organized to establish and continually improve standards of financial accounting and reporting for state and local governmental entities. In November of 1994, the GASB issued Statement No. 25, which became effective in 1996. The GASB Statement No. 25 requires certain reporting standards to be met for the annual financial reports of defined benefit pension plans. The Statement defines the annual required contribution to be equal to the retirement system's normal cost plus amortization of the unfunded actuarial accrued liability. The maximum acceptable period for amortizing the unfunded actuarial accrued liability is currently 40 years. However, beginning in 2006, the maximum acceptable amortization period will be reduced to 30 years. When the components of the unfunded actuarial accrued liability are separately amortized over different periods, as is the case under the proposed legislation, the Statement requires the resulting equivalent single amortization period for all components combined to not exceed the maximum acceptable amortization period.

Under current provisions of both the SERS and PSERS Codes, all unfunded actuarial accrued liability components are amortized over 10 years, and therefore, the contributions determined under current statutory provisions meet the GASB requirements. The proposed legislation would amend both the SERS and PSERS Codes to mandate that in no case may the employer contribution rates be less than the GASB minimum annual required contributions. This change to the Codes would serve to ensure future compliance with minimum GASB standards.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary reviewed the proposed legislation and determined that the proposed legislation would effect the employer contribution rates in the manner displayed in the following table. The data presented was prepared by the actuaries of the retirement systems and was reviewed by the Commission's actuary.

**Summary of Estimated Future Employer Contribution Rates**  
 Comparison of Current and Proposed Amortization Schedules

Contribution Year	SERS		PSERS	
	Current Amortization	Proposed Amortization	Current Amortization	Proposed Amortization
2003	1.04%	1.04%	3.77%	3.77%
2004	3.48%	1.00%	10.51%	9.47%
2005	10.50%	9.69%	16.31%	12.28%
2006	16.47%	12.31%	21.98%	15.22%
2007	19.88%	14.06%	25.12%	16.66%
2008	20.32%	14.45%	26.20%	17.21%
2009	20.46%	14.73%	26.34%	17.36%

**Summary of Estimated Future Employer Contribution Rates**  
 Comparison of Current and Proposed Amortization Schedules  
 (Continued)

Contribution Year	SERS		PSERS	
	Current Amortization	Proposed Amortization	Current Amortization	Proposed Amortization
2010	20.34%	14.93%	26.26%	17.44%
2011	20.08%	15.08%	25.96%	17.41%
2012	28.64%	20.73%	33.38%	23.75%
2013	24.95%	19.78%	28.47%	21.75%
2014	22.56%	18.57%	22.81%	20.40%
2015	17.15%	18.25%	17.78%	20.04%
2016	12.51%	17.93%	12.86%	19.64%
2017	9.83%	17.63%	9.99%	19.25%
2018	9.20%	17.34%	8.76%	18.86%
2019	8.80%	17.05%	8.31%	18.46%
2020	8.60%	16.78%	8.08%	18.09%
2021	8.50%	16.51%	7.94%	17.69%
2022	8.47%	16.25%	7.89%	17.32%
2023	8.45%	16.00%	7.85%	16.93%
2024	8.44%	15.76%	7.84%	16.59%
2025	8.43%	15.53%	7.82%	16.24%
2026	8.43%	15.30%	7.80%	15.90%
2027	8.43%	15.08%	7.80%	15.59%
2028	8.43%	14.87%	7.79%	15.28%
2029	8.43%	14.66%	7.78%	14.99%
2030	8.43%	14.46%	7.78%	14.72%
2031	8.43%	14.27%	7.76%	14.43%
2032	8.43%	12.32%	7.76%	14.17%
2033	8.43%	11.45%	7.75%	13.91%

In reviewing the proposed legislation, the Commission staff identified the following policy considerations.

Change in Amortization for Gains and Losses. Changing the amortization period for annual gains and losses from 10 to 30 years may be viewed as a significant modification in Commonwealth policy and that effects an amortization period for these annual adjustments to the funding requirements that is longer than the norm in public pension plan actuarial funding methodology.

Standard Funding Methodology. Historically, the General Assembly has engaged in the practice of establishing substantially similar provisions for both SERS and PSERS. The amendment continues to provide a consistent approach for the amortization of liabilities in both systems.

GASB Compliance. The changes to the amortization periods of both Systems proposed in the draft legislation would result in employer contributions that maintain compliance with the annual required contribution standard set forth in GASB Statement No. 25.

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 amendment 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 policy makers 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 proposed legislation retains a direct funding approach for the liabilities incurred in the provision of COLAs.

*Amortization.* With respect to COLAs, 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 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 retains the 10-year level dollar amortization approach for COLA liabilities.

*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

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POLICY CONSIDERATIONS (CONT'D)

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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.

Change in Amortization Methodology. The Commonwealth's policy makers must determine whether the proposed change in amortization methodology is consistent with the Commonwealth's actuarial funding and fiscal management goals.

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COMMISSION RECOMMENDATION

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On July 16, 2003, the Commission voted to attach the actuarial notes provided by the Systems and the Commission's consulting actuary to the document, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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**Bill ID:** Document Number 5599

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

**Subject:** Change in Amortization Periods

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SYNOPSIS

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Document Number 5599 would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code.

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

- 1) Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001, for the outstanding balances of the net actuarial losses incurred in fiscal year 2000-2001 and fiscal year 2001-2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar;
- 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities, the Act 38 of 2002 asset valuation method change, and for future benefit changes and cost-of-living adjustments (COLAs); and
- 3) Beginning July 1, 2004, establish a 3.75% minimum employer contribution rate inclusive of the premium assistance contribution rate.

The proposed legislation would amend the State Employees' Retirement Code to:

- 1) Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001, for the outstanding balances of the net actuarial losses incurred in calendar year 2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar; and
- 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities and for future benefit changes and cost-of-living adjustments (COLAs).

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DISCUSSION

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### 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 purpose of the Systems is to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. As of June 30, 2002, there were approximately 695 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 2002, there were approximately 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, 2002, there were 242,616 active members and 141,414 annuitant members of PSERS, and as of December 31, 2002, there were 111,059 active members

and 91,228 annuitant members of SERS. In general, the annual retirement benefit for both Systems is equivalent to the product of 2.5 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. 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.

### **Amortization Periods and Actuarial Approach**

With the passage of Act 23 of 1991, beginning July 1, 1991, the existing unfunded actuarial accrued liabilities of the Systems were totaled and amortization payments increasing five percent a year commenced over a 20-year period. The unfunded actuarial accrued liabilities resulting both from actuarial experience and from ad hoc postretirement adjustments and other benefits changes in each succeeding fiscal year were amortized over a 20-year period beginning the following July 1 with the payments increasing five percent a year. Act 9 of 2001 restructured this amortization 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. The changes in the unfunded actuarial accrued liability in each succeeding fiscal year were amortized over a ten-year period on a level dollar basis beginning the following July 1. The amendment would restructure the amortization periods of both PSERS and SERS effective July 1, 2004, to provide that as of July 1, 2004, the amortization period for 1) the increased liabilities of Act 9 of 2001, 2) the outstanding balances of the net actuarial losses incurred by PSERS in fiscal years 2000-01 and 2001-02 and by SERS in calendar year 2002, and 3) the gains and losses experienced in all future years would be 30 years rather than 10 years, with the affected amortization contributions being calculated as level-dollar payments. Amortization of the remaining balance of the pre-Act 9 of 2001 unfunded actuarial accrued liability, the future unfunded actuarial accrued liabilities attributable to benefit changes and ad hoc COLAs, and in the case of PSERS, the gains and losses attributable to the change in the asset valuation methodology under Act 38 of 2002, would continue to be amortized over 10 years on a level-dollar basis, as prescribed by Act 9 of 2001.

For PSERS, the proposal would also provide for a minimum employer contribution rate for fiscal year 2004-2005 equal to 3.75%, including the premium assistance contribution rate. The increased minimum employer contribution rate would function to further level employer contributions over time.

In establishing the actuarial funding standard for all municipal retirement systems through the enactment of the Municipal Pension Plan Funding Standard and Recovery Act in 1985, the Commonwealth viewed 15 years as an appropriate period over which to amortize the annual gains and losses of the Commonwealth's 3,000 municipal retirement systems. The annual actuarial gains and losses of SERS and PSERS are currently amortized over 10 years. Changing the amortization period for annual gains and losses to 30 years may be viewed as a significant modification in Commonwealth policy and that effects an amortization period for these annual adjustments to the funding requirements that is longer than the norm in public pension plan actuarial funding methodology. Shorter amortization periods for gains and losses result in the funding requirements being more closely related to the events occurring during an employee's period of employment

### **Governmental Accounting Standards Board Compliance**

Formed in 1984, the Governmental Accounting Standards Board (GASB) was organized to establish and continually improve standards of financial accounting and reporting for state and local

governmental entities. In November of 1994, the GASB issued Statement No. 25, which became effective in 1996. The GASB Statement No. 25 requires certain reporting standards to be met for the annual financial reports of defined benefit pension plans. The Statement defines the annual required contribution to be equal to the retirement system's normal cost plus amortization of the unfunded actuarial accrued liability. The maximum acceptable period for amortizing the unfunded actuarial accrued liability is currently 40 years. However, beginning in 2006, the maximum acceptable amortization period will be reduced to 30 years. When the components of the unfunded actuarial accrued liability are separately amortized over different periods, as is the case under the proposed legislation, the Statement requires the resulting equivalent single amortization period for all components combined to not exceed the maximum acceptable amortization period.

Under current provisions of both the SERS and PSERS Codes, all unfunded actuarial accrued liability components are amortized over 10 years, and therefore, the contributions determined under current statutory provisions meet the GASB requirements. However, the proposed legislation would produce employer contribution rates that are less than the GASB minimum in certain years. This is because the credit components of the unfunded actuarial accrued liability (pre-Act 9 unfunded liability for both Systems and Act 38 asset method change for PSERS) are amortized over 10 years, while the charge components (Act 9 cost and future losses) are amortized over 30 years.

The implications of GASB non-compliance, which may be significant, have yet to be fully ascertained by the independent auditors and consulting actuaries of the Systems. The exact nature of the consequences of GASB non-compliance should be fully understood by Commonwealth policymakers prior to the enactment of the proposed legislation.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary reviewed the proposed legislation and determined that the proposed legislation would effect the employer contribution rates in the manner displayed in the following table. The data presented was prepared by the actuaries of the retirement systems and was reviewed by the Commission's actuary.

**Summary of Estimated Future Employer Contribution Rates**  
 Comparison of Current and Proposed Amortization Schedules

Contribution Year	SERS		PSERS	
	Current Amortization	Proposed Amortization	Current Amortization	Proposed Amortization
2003	1.04%	1.04%	3.77%	3.77%
2004	3.48%	1.00%	10.51%	3.75%
2005	10.50%	2.03%	16.31%	4.92%
2006	16.47%	5.76%	21.98%	8.32%
2007	19.88%	8.13%	25.12%	10.44%
2008	20.32%	8.64%	26.20%	11.28%

**Summary of Estimated Future Employer Contribution Rates**  
 Comparison of Current and Proposed Amortization Schedules  
 (Continued)

Contribution Year	SERS		PSERS	
	Current Amortization	Proposed Amortization	Current Amortization	Proposed Amortization
2009	20.46%	8.94%	26.34%	11.52%
2010	20.34%	9.09%	26.26%	11.63%
2011	20.08%	9.14%	25.96%	11.61%
2012	28.64%	24.36%	33.38%	28.84%
2013	24.95%	23.29%	28.47%	27.72%
2014	22.56%	21.96%	22.81%	26.21%
2015	17.15%	21.53%	17.78%	25.68%
2016	12.51%	21.12%	12.86%	25.11%
2017	9.83%	20.71%	9.99%	24.55%
2018	9.20%	20.32%	8.76%	23.97%
2019	8.80%	19.94%	8.31%	23.39%
2020	8.60%	19.57%	8.08%	22.84%
2021	8.50%	19.22%	7.94%	22.27%
2022	8.47%	18.87%	7.89%	21.72%
2023	8.45%	18.54%	7.85%	21.17%
2024	8.44%	18.22%	7.84%	20.66%
2025	8.43%	17.90%	7.82%	20.16%
2026	8.43%	17.60%	7.80%	19.66%
2027	8.43%	17.31%	7.80%	19.21%
2028	8.43%	17.02%	7.79%	18.77%
2029	8.43%	16.75%	7.78%	18.34%
2030	8.43%	16.48%	7.78%	17.94%
2031	8.43%	16.23%	7.76%	17.53%
2032	8.43%	14.22%	7.76%	17.16%
2033	8.43%	13.28%	7.75%	16.78%

In reviewing the proposed legislation, the Commission staff identified the following policy considerations.

Change in Amortization for Gains and Losses. Changing the amortization period for annual gains and losses from 10 to 30 years may be viewed as a significant modification in Commonwealth policy and that effects an amortization period for these annual adjustments to the funding requirements that is longer than the norm in public pension plan actuarial funding methodology.

Standard Funding Methodology. Historically, the General Assembly has engaged in the practice of establishing substantially similar provisions for both SERS and PSERS. The amendment continues to provide a consistent approach for the amortization of liabilities in both systems.

Implications of GASB Non-Compliance. The changes to the amortization periods of both Systems proposed in the draft legislation would result in employer contributions in certain years that are less than the minimum annual required contributions determined in accordance with GASB Statement No. 25. Non-compliance with the GASB funding requirements may have a significant, but as yet undetermined, financial impact upon the Commonwealth and school employers. Although it is the understanding of the Commission that this issue is currently under review by both the independent auditors and consulting actuaries of both Systems, the full implications of non-compliance have yet to be ascertained. The exact nature of the consequences of GASB non-compliance should be fully understood by Commonwealth policymakers prior to the enactment of the proposed legislation.

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 amendment 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 policy makers 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 proposed legislation retains a direct funding approach for the liabilities incurred in the provision of COLAs.

*Amortization.* With respect to COLAs, 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 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 retains the 10-year level dollar amortization approach for COLA liabilities.

*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.

Change in Amortization Methodology. The Commonwealth's policy makers must determine whether the proposed change in amortization methodology is consistent with the Commonwealth's actuarial funding and fiscal management goals.

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COMMISSION RECOMMENDATION

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On July 16, 2003, the Commission voted to attach the actuarial notes provided by the Systems and the Commission's consulting actuary to the document, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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**Bill ID:** Senate Bill Number 25, Printer's Number 20

**System:** Public School Employees' Retirement System

**Subject:** Purchase of Service Credit for Unused Sick Leave

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SYNOPSIS

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Senate Bill Number 25, Printer's Number 20, would amend the Public School Employees' Retirement Code to permit an active member or active multiple service member of the Public School Employees' Retirement System (PSERS) to purchase school service credit for unused sick leave accumulated prior to the member's effective date of retirement. Under the bill, a member would be permitted to purchase the service credit at the time of filing an application for retirement and would receive school service credited as Class T-C. The bill mandates that the contributions required to purchase the Class T-C service credit for creditable sick leave will be the sum of the member's basic contribution rate and the employer normal contribution rate at the time the creditable sick leave is purchased based on the member's per diem salary for the year in which the service is purchased.

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DISCUSSION

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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, 2002, there were approximately 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 given the option to participate. As of June 30, 2002, there were 242,616 active members and 141,414 annuitant members of 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. Generally, 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 have 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 additional service credit without actually rendering service to the public employer are of value to the members because they enhance the retirement benefit and also may accelerate eligibility for retirement and certain ancillary benefits related to retirement (such as eligibility for postretirement health care benefits).

In computing the credited school service of an active member of PSERS for the determination of benefits under Section 8302 of the Code, a full-time salaried school employee is credited with one year of credit for each school year, or corresponding fraction of a year, in accordance with the proportion of the full school year for which the required member contributions have been made. A per diem or hourly school employee receives one year of credited service for each nonoverlapping period of 12 consecutive months of employment, and for which required contributions are made, for at least 180 full-day sessions or 1,100 hours of employment. If a member is employed and contributions are made for less than 180 days or 1,100 hours of employment, the member receives credit for a fractional portion of a year. Members may also receive credited school service for approved leaves of absence and for periods of activated military service.

The bill would amend the Code by permitting school employees to purchase credited school service for any unused sick leave accrued by the member prior to retirement. The effect of the additional service credit would be to add to the value of the basic retirement benefit prior to modification and may accelerate retirement eligibility.

Currently, school employees are permitted to receive payment for all or a portion of the value of their accumulated sick and annual leave at retirement. The exact nature of these leave “payouts” varies according to the personnel and leave policies of the individual school employer. The bill would permit a member to continue to receive sick leave payouts from the school employer at retirement and also receive retirement service credit in PSERS for the same unused sick leave.

Due in part to the decentralized nature of public school employment in the Commonwealth, the nature of the collective bargaining process and the resulting wide variation in contractual agreements among the more than 500 public school districts and nearly 200 other school employers that participate in PSERS, the Commission staff was unable to obtain reliable data on the sick leave accumulation rates and leave payout policies of school employers. The Commission staff was able to obtain a 1991 study by the Pennsylvania School Boards Association entitled “Teacher Absenteeism: Professional Staff Absence Study - School Year 1990-91.” A review of this study and related materials revealed that: 1) the public School Code of 1949 mandates that public school employees be permitted a minimum of 10 days of sick leave per year, although school employers may, and generally do, provide for more liberal sick leave allocations; and 2) on average, teachers used 5.5 days of sick leave per year, including sick family days. These data would suggest that public school employees will on average accrue a minimum of 4.5 days of unused sick leave per year over the course of their careers. Based upon a 180-day year, and an average career length of 23.88 years, members would be eligible to purchase service credit for at least an additional 0.60 years of school service.

Under the bill, the member’s contribution required to purchase the additional school service credit would be the sum of the member’s basic contribution rate and the normal contribution rate at the time the creditable sick leave is purchased based upon the member’s per diem salary for the year in which the service is purchased. The bill provides for the crediting of the purchasable sick leave as Class T-C only and makes no provision for the crediting of the service as Class T-D (membership in which provides a benefit enhancement of 25% over Class T-C service), despite the fact that most members of PSERS have elected membership in Class T-D. Therefore, the bill appears to require the member to pay for the additional service credit at the higher Class T-D contribution rate while providing only Class T-C service credit. It is unclear whether this is the intent of the bill sponsors or is merely a drafting error. Finally, the employer normal contribution rate, which is a factor in the purchase amount, also reflects the cost of Class T-D service rather than Class T-C service.

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SUMMARY OF ACTUARIAL COST IMPACT

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Based upon information received from the Public School Employees’ Retirement System, the Pennsylvania School Boards Association and other sources, the Commission requested its consulting actuary to assume that each member would accumulate a minimum of 4.5 days of unused sick leave per year over an average career length of 23.88 years. The Commission’s consulting actuary also assumed that 9,900 members would retire each year, an average member salary of \$45,000, an employer normal contribution rate of 7.25%, and that all eligible members would elect to purchase the school service credit for their unused sick leave.

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SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

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Based on these assumptions, the consulting actuary of the Commission determined that the service purchase authorization provided under the bill would have the following costs.

	<u>Amount</u>	
First Year Increase in Unfunded Actuarial Accrued Liability <sup>1</sup>	\$25,000,000	
	<u>Amount</u>	<u>As a % of Pay- roll</u>
Increase in Employer Annual Costs <sup>3</sup>		
First Year Increase in Amortization Payment <sup>1</sup>	\$ 4,100,000	.04%
Projected Increase in Amortization Payment <sup>2</sup>	\$65,695,000	.35%

<sup>1</sup> The unfunded actuarial liability will increase annually by \$25,000,000. For each day that the per member average accumulated sick leave is increased, \$5 million is added to the estimated annual increase in the unfunded actuarial accrued liability.

<sup>2</sup> Approximate increase in amortization payment after ten years.

<sup>3</sup> Paid in part by the Commonwealth and in part by the school districts and other educational employers.

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POLICY CONSIDERATIONS

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

*Appropriateness of Service Credit for Unused Sick Leave.* 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. Currently, as a matter of personnel policy, school employees are permitted to receive cash payouts at retirement for periods of unused sick leave and for other types of accumulated, unused leave, but no provisions are made in the PSERS Code to permit school service credit for such periods of unused sick leave. The bill would expand the service credit provisions of the Code to include periods of unused sick leave, a type of service credit not among those recommended by the Commission.

*Adequacy of Purchase Payments.* The method for calculating the member contributions to purchase service credit for school service proposed in the bill will result in the 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 PSERS and in increased amortization payments.

*Cost Effective Technical Provisions.* For service purchase authorizations of this type, the Commission recommended that, in cases where the service purchase amount required to be paid by an employee includes amounts representing both employer and employee costs attributable to the purchased service, the portion of the payment representing employer cost be precluded from withdrawal by a member upon retirement. The bill contains no prohibition from withdrawal of the service purchase amount under retirement Option 4.

Disparity in Benefit Between SERS and PSERS. The bill proposes to permit purchases of service credit for periods of unused sick leave by members of PSERS and not members of the State Employees' Retirement System (SERS). This approach is a departure from the General Assembly's long-standing practice of providing substantially identical benefits to members of both statewide systems.

Potential for Abuse. It is possible that permitting members to purchase service credit for unused sick leave could stimulate a change in personnel policy on the part of school employers, whereby school employers could offer excessively liberal sick leave accrual policies while eliminating or restricting sick leave cash payouts. This would have the effect of shifting the costs associated with sick leave policies from the school employer to PSERS.

Redundant Service Credit. The proposal would result in members receiving double service credit for the service time represented by the unused sick leave.

Drafting Ambiguities. In reviewing the bill, the Commission staff noted the following drafting ambiguities.

*Class T-C Service Credit for School Service.* The bill appears to require payment of Class T-D member contributions (6.5% or 7.5%) while crediting members with Class T-C (member contribution rate of either 5.25 or 6.25) service credit. It is unclear whether this provision was the intent of the bill sponsors or a drafting error.

*Administrative Reporting Requirements.* Normally, school employers are required to report to PSERS any information that would impact the retirement benefits of members. The bill should be amended to require school employers to regularly report unused accumulated sick leave of employees to PSERS, since this information could impact the calculation of the member's retirement benefit.

Departure from Current Public Pension Policy. Initiating the practice of providing service credit for unused leave accumulation at retirement would establish a new public pension policy in the Commonwealth.

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COMMISSION RECOMMENDATION

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On May 22, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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Senate Bill Number 25, Printer's Number 20, was referred to the Senate Finance Committee on January 21, 2003.

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**Bill ID:** Senate Bill Number 58, Printer’s Number 58

**System:** All Pennsylvania Public Employee Retirement Systems

**Subject:** Permitting Increases in Benefits of Surviving Spouses

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SYNOPSIS

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Senate Bill Number 58, Printer’s Number 58, is a joint resolution that would amend Section 26 of Article 3 of the Constitution of Pennsylvania to permit the General Assembly to increase the retirement benefits payable to beneficiaries who are spouses of members of a public employee retirement system, if the increases are certified to be “actuarially sound.”

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DISCUSSION

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

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

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

One rationale for including surviving spouses in postretirement adjustments is that their need for inflation protection is at least as great as that of retirees. In the experience of the consulting actuary of the Commission, employers typically include surviving spouses in their postretirement adjustments. The only group of benefit recipients that is routinely excluded is the terminated vested group—those who left employment before retirement eligibility. Lump-sum benefit recipients (those not receiving any regular payments) also are typically excluded.

The bill makes the granting of increased benefits to surviving spouses contingent upon the increase being certified as “actuarially sound.” The term “actuarially sound” is not a precisely defined concept and there is no generally accepted definition of the phrase within the actuarial profession. An actuarially sound public employee retirement system may be defined as any system that is being funded using an appropriate actuarial cost method, without regard to the time period over which unfunded actuarial accrued liabilities are to be amortized. However, an “actuarially sound” plan may also be defined more stringently as one in which combined employee and employer contributions are sufficiently large to fully fund the normal cost and amortize any unfunded actuarial accrued liabilities over some specified time period. Therefore, because the phrase, “Provided, that such increases are certified to be actuarially sound,” has no generally accepted meaning within the actuarial profession, it should be deleted from the bill to avoid confusion.

SUMMARY OF ACTUARIAL COST IMPACT

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

Clearly, any future postretirement adjustment will cost more if extended to surviving spouses. The consulting actuary of the Commission estimates that the additional liability resulting from future postretirement adjustments will be increased by the following percentages for each of the four design formats.

Retirement System	Increase in Liability to be Incurred in Providing Future Postretirement Adjustments			
	Fixed % Increase	% per Year Retired	\$ per Year Retired <sup>1</sup>	\$ per Year of Service <sup>1</sup>
PSERS	2% — 3%	3% — 5%	5% — 10%	3% — 5%
SERS	3% — 5%	10% — 15%	20% — 25%	7% — 10%
County	3% — 5%	10% — 15%	15% — 20%	5% — 10%
Municipal	5% — 10%	15% — 30%	30% — 60%	15% — 30%

<sup>1</sup> In preparing these estimates, the consulting actuary assumed that surviving spouses receive the same dollar increase a year as retirees. If the dollar amount is lower, the applicable cost will be proportionately reduced.

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

actuarial cost estimate would be provided to the municipal governing body for any proposed benefit increase for surviving spouses.

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POLICY CONSIDERATIONS

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

Need for Inflation Protection. The need of surviving spouses for inflation protection is at least as great as that of retirees.

Reflects Wider Public Sector Practice. In the experience of the consulting actuary of the Commission, most public sector employers in other states that provide postretirement adjustments typically include surviving spouses in their postretirement adjustments.

Increased Cost of Postretirement Adjustments. Postretirement adjustments will cost more if extended to surviving spouses.

Limitation to Surviving Spouses Only. A strict interpretation of the bill would seem to restrict the payment of increases in postretirement adjustments to beneficiaries who are spouses, and would seem to preclude the payment of such increases to other survivor beneficiaries in the absence of or instead of a spouse beneficiary. Because it is not uncommon for retirees to name beneficiaries other than spouses or to designate contingent beneficiaries, the policy rationale for restricting the payment of increases in postretirement adjustments to spouse beneficiaries is unclear.

Drafting Ambiguity. The phrase “Provided, that such increases are certified to be actuarially sound” has no standard meaning and should be deleted to avoid confusion.

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COMMISSION RECOMMENDATION

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On February 12, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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Senate Bill Number 58, Printer's Number 58, was referred to the Senate Finance Committee on January 24, 2003.

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**Bill ID:** Senate Bill Number 106, Printer's Number 144

**System:** State Employees' Retirement System

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

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SYNOPSIS

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Senate Bill Number 106, Printer's Number 144, 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 previously 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.

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DISCUSSION

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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, 2002, there were approximately 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, 2002, there were 111,059 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 known 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 approximately 200 full-time WCOs. All full-time WCOs are

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DISCUSSION (CONT'D)

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graduates of the Game Commission's Ross Leffler School of Conservation. WCOs 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."

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SUMMARY OF ACTUARIAL COST IMPACT

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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 220 employees would be eligible for the special public safety employee benefit coverage.

The following estimate reflects the actuarial assumptions used in the December 31, 2002, Actuarial Valuation of the State Employees' Retirement System.

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability	\$1,350,000	
	<u>Amount</u>	<u>As a % of Affected Payroll</u>
Increase in Employer Annual Costs		
Normal Cost	\$300,000	2.8%
Amortization Payment <sup>1</sup>	<u>205,000</u>	<u>1.9%</u>
Total Increase in Employer Annual Costs <sup>2</sup>	\$505,000	4.7%

<sup>1</sup> Amortization calculated as level dollar payments over 10 years.

<sup>2</sup> Amortization payments cease after 10 years.

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POLICY CONSIDERATIONS

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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, the General Assembly must determine whether the special benefit coverage is warranted for this group of employees based on the degree of hazard encountered by these individuals in the performance of their duties and the need for an exceptionally vigorous workforce in this area.

Definition of Covered Positions. The bill uses the phrase "game commission officers and commissioned law enforcement personnel" to define the employees to be eligible for the special public safety benefits providing full retirement at age 50. This definition is broadly applicable to personnel throughout the Game Commission including high ranking administrative positions because of the potential to retain the technical requirements to be "law enforcement personnel" after terminating service as a Wildlife Conservation Officer.

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.

Benefit Parity. The special public safety benefit coverage (age 50 retirement) has been provided to Waterways Conservation Officers of the Pennsylvania Fish and Boat Commission not substantially different from those performed by the Wildlife Conservation Officers that are to receive the special public safety benefit coverage under the bill.

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COMMISSION RECOMMENDATION

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On December 17, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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Senate Bill Number 106, Printer's Number 144, had first consideration in the Senate on October 27, 2003, and was re-referred to the Senate Appropriations Committee on October 29, 2003.

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**Bill ID:** Senate Bill Number 117, Printer's Number 114

**System:** State Employees' Retirement System

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

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SYNOPSIS

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Senate Bill Number 117, Printer's Number 114, would amend the State Employees' Retirement Code (Code) to permit an active member or active multiple-service member of the State Employees' Retirement System (SERS) to purchase up to three years of nonstate service credit for periods of time spent on furlough.

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DISCUSSION

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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, 2001, there were approximately 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, 2001, SERS membership consisted of 109,716 active members and 89,217 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. Normal retirement age for certain other members, including certain public safety employees and members of the General Assembly, is age 50. Generally, the pension benefit is equivalent to 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 purchase retirement service credit 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, 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, and for certain periods of service with the former Delaware River Joint Free Bridge Commission.

Historically, Commonwealth employees have occasionally been subject to non-disciplinary separations from employment most often due to changes in departmental function, budgetary constraints or for other, primarily operational reasons that have been deemed necessary by a Commonwealth employer. A dismissal of this type is generally referred to as a "furlough" in the parlance of state government employment. A furlough generally constitutes a temporary separation from state service, and in most cases employees are eventually returned to state service at a pay grade and in a position comparable to the position that was vacated by the employee

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DISCUSSION (CONT'D)

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during the furlough period. Additionally, all civil service employees and many non-civil service employees enjoy certain reinstatement rights following a furlough. However, during all such periods of furlough, employees do not make contributions to SERS and cease to accrue service credit for retirement purposes. The bill attempts to remedy this situation by expanding the list of purchasable nonstate service to include up to three years of service credit for time spent on furlough.

Under the bill, the purchase contribution amount required for each year of nonstate service credit would be an amount equal to the present value of the full actuarial cost of the increase in the projected superannuation annuity resulting from the additional service credited on account of the service purchase. Because the contribution requirement under the bill is equal to the full actuarial cost of the additional service credit, no additional unfunded actuarial accrued liability would be created.

Although there would be no direct actuarial cost impact due to the increased benefits provided under the bill, there may be certain other retirement benefit costs incurred by the Commonwealth. By purchasing service credit in SERS, a member either may become eligible for postretirement benefits sooner than otherwise or may achieve eligibility for 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 SERS are used to determine eligibility for certain ancillary retirement benefits that are not provided for in the Code. Examples include payment by the Commonwealth to the employee for a portion of earned, unused periods of sick leave, and full payment by the Commonwealth for retired employee health insurance coverage.

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SUMMARY OF ACTUARIAL COST IMPACT

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The consulting actuary of the Commission has reviewed the bill and determined that there would be no increase in unfunded actuarial accrued liability attributable to the service purchase authorization, provided the full actuarial cost is determined using the same methodology and assumptions used by the System's actuary in conducting the annual valuation of the System.

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POLICY CONSIDERATIONS

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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 to some and does not conform to other recommendations in the report concerned with authorizing, funding, and structuring service purchases.

*Appropriateness of Credit for Periods of Furlough.* The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The Code provides for the restoration of service credits earned before an intervening furlough upon reentry into state service, but no provisions are made to effect service credit for the period of the furlough. The bill would expand the purchase of service credit

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

*Adequacy of Purchase Payments.* The statutory method for calculating the member contributions to purchase service credit for nonstate service proposed in the bill will result in the member paying the full actuarial cost of the increased benefit acquired through the service credit purchase. This service credit purchase price will not result in an increase in the unfunded actuarial accrued liability of SERS and increased amortization payments by 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 bill imposes such a limit on the time frame within which the purchase option may be exercised. The Commission also recommended that, in cases where the service purchase amount required to be paid by an employee includes amounts representing both employer and employee costs attributable to the purchased service, the portion of the payment representing employer cost be precluded from withdrawal by a member upon retirement. The bill contains a prohibition from withdrawal of the service purchase amount.

Disparity in Benefit Between SERS and PSERS. The bill proposes to permit purchases of service credit for periods of furlough by members of SERS and not members of the Public School Employees' Retirement System (PSERS). This approach is a departure from the General Assembly's long-standing practice of providing substantially identical benefits to members of both statewide systems.

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COMMISSION RECOMMENDATION

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On March 27, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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Senate Bill Number 117, Printer's Number 114, was referred to the Senate Finance Committee on February 3, 2003.

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**Bill ID:** Senate Bill Number 118, Printer's Number 115

**System:** Public School Employees' Retirement System

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

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SYNOPSIS

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Senate Bill Number 118, Printer's Number 115, 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. The bill requires eligible members to elect the service purchase option within three years of becoming eligible to do so.

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DISCUSSION

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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, 2002, there were approximately 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, 2002, there were 242,616 active members and 141,414 annuitant members of 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. Generally, 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 retirement 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 non-

civil 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 that is significantly less than the total actuarial value of the retirement benefits purchased.

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SUMMARY OF ACTUARIAL COST IMPACT

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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.

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SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

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	<u>Amounts</u>	
	<u>Amounts</u>	<u>As a % of Affected Payroll</u>
Increase in Unfunded Actuarial Accrued Liability	\$4,500,000 – \$6,700,000	
Increase in Employer Annual Costs <sup>1</sup>		
Amortization Payment <sup>2</sup>	\$700,000 – \$1,100,000	3.7%
Total Increase in Annual Costs <sup>3</sup>	\$700,000 – \$1,100,000	3.7%

<sup>1</sup> Paid in part by the Commonwealth and in part by the school districts and other educational employers.

<sup>2</sup> Amortization calculated as level dollar payments over ten years, not reflecting ongoing annual increases attributable to new entrants estimated to be between \$100,000 to \$200,000.

<sup>3</sup> Initial amortization payments cease after 10 years.

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POLICY CONSIDERATIONS

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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 all recommendations contained in the Commission’s 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 bill does contain a provision requiring members to exercise the service purchase option within three years of the effective date of the bill or within three years of entry into school service.

*Restriction on Withdrawal of Purchase Payments.* 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 exclude the portion of the purchase payment representing employer contributions from Option 4 lump sum withdrawal. The absence of 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.

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COMMISSION RECOMMENDATION

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On February 12, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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Senate Bill Number 118, Printer's Number 115, was referred to the Senate Finance Committee on February 3, 2003.

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**Bill ID:** Senate Bill Number 200, Printer's Number 200

**System:** Public School Employees' Retirement System

**Subject:** Return to School Service Without Cessation Of Annuity

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SYNOPSIS

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Senate Bill Number 200, Printer's Number 200, would amend Section 8346(b) of the Public School Employees' Retirement Code to permit an annuitant (retiree) of the Public School Employees' Retirement System (System) who is a certified teacher to return to school service under nonemergency conditions for an indefinite period without being subject to the cessation of annuity provisions of the Code. The bill would have the effect of rescinding the current authorization for annuitants who are not certified teachers to return to school service without having their annuity payments stopped during a limited renewed period of school employment.

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DISCUSSION

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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. 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. Generally, 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. As of June 30, 2002, there were approximately 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, 2002, there were 242,616 active members and 141,414 annuitant members of PSERS.

Currently, 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 offered under the "Mellow" 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 in a school year and at least one of the two following conditions is met: 1) the employer has determined that an emergency or shortage exists that creates an increase in the work load so that there is a serious impairment of service to the public; or 2) no other certified teachers are available within the required subject area after a "good-faith" effort by the employer to first secure nonretired personnel. 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.

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DISCUSSION (CONT'D)

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The bill would remove both the current 95-day limit and the requirement that an “emergency” exist. It appears that the exemption from forfeiture of the additional ten percent service credit provided under the “Mellow Bill” would also remain unaltered. The bill would also have the effect of narrowing the qualification requirements for annuitants returning to service by permitting the return of only “certified teachers.”

To date, the public employee retirement policy of the Commonwealth as expressed both in the Public School Employees’ Retirement Code and in the State Employees’ Retirement Code has been that, except in emergencies, and then only for limited periods of time, a retiree returning to school or state service ceased to receive a pension and became an active, contributing member of the retirement system. The bill would enact a fundamental change in this policy by permitting a PSERS retiree who is a certified teacher to return to school service in nonemergency situations for an unlimited period of full-time service during which the retiree would presumably receive a full-time salary and simultaneously receive retirement benefit payments from PSERS.

From a personnel policy perspective, the use of a retiree may be less costly than retaining the employee as an active employee, depending on the level of compensation provided to the retiree. Authorizing a retiree to return to school service for what could be indefinite periods of time permits a retiree to receive supplemental retirement income from the employer that, in effect, provides an additional incentive to retire. The proposal to increase the number of full-days of service by annuitants beyond 95 days could enable public schools to obtain the services of needed, experienced employees in certain critical situations.

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SUMMARY OF ACTUARIAL COST IMPACT

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Because current contribution rates are based on the assumption that all annuitants will receive their full retirement benefits for their entire lives without any periods during which payments might be suspended due to a return to school service, the bill will have no actuarial cost impact upon the Public School Employees’ Retirement System except for the potential for the loss of a de minimis actuarial gain.

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POLICY CONSIDERATIONS

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

Fundamental Change in Public Employee Retirement Policy. The fundamental purpose of a public employee retirement system is to provide retirement benefit payments to a retirement system member following the conclusion of a career in public service. This arrangement presupposes the employee’s retirement and separation from service. The bill would enact a fundamental change in public employee retirement policy by permitting certain retirees to return to school service in nonemergency situations for unlimited periods of time while receiving regular, full-time compensation and continuing to receive retirement benefit payments.

Ambiguous Technical Provisions. The bill would have the effect of “blurring the line” between active school employees and retirees by permitting a retiree to resume employment, possibly in the same employment position recently vacated by the retiree, while continuing to receive retirement benefit payments. The bill does not address the issue of whether an annuitant so employed will be entitled to earn additional service credit in the Public School Employees’ Retirement System (PSERS) during the new period of employment, nor does the bill address the issue of whether contributions will be made to PSERS

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POLICY CONSIDERATIONS (CONT'D)

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by the retiree, the employer, or the Commonwealth for the work performed during the renewed period of employment. Permitting an annuitant who has returned to service under the provisions of the bill to earn additional service credits in the System while simultaneously receiving annuity payments and a full-time salary could jeopardize the tax-qualified treatment of the System.

Limited Authorization. The bill would have the effect of limiting the return to service without cessation of annuity provision in the Code to annuitants who are certified teachers. Any other annuitant who lacks the required credentials would be precluded from returning to school service without the cessation of the member's annuity payments. The policy rationale for excluding skilled administrative, managerial, support or other personnel whose expertise may also be highly valued and needed by school employers is unclear. The limited authorization may lead to requests for legislation to expand the list of employee classifications eligible for the enhanced return to service provision.

Additional Early Retirement Incentive. Authorizing a retiree to return to school service for lengthy or indefinite periods permits a retiree to receive supplemental retirement income from the employer that has the effect of providing an additional incentive to retire.

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COMMISSION RECOMMENDATION

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On December 17, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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Senate Bill Number 200, Printer's Number 200, had first consideration in the Senate on October 27, 2003, and was re-referred to the Senate Appropriations Committee on October 29, 2003.

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**Bill ID:** Senate Bill Number 443, Printer's Number 966

**System:** State Employees' Retirement System

**Subject:** State Police Deferred Retirement Option Plan Act

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SYNOPSIS

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Senate Bill Number 443, Printer's Number 966, would authorize the establishment of a Deferred Retirement Option Plan (DROP) under which an eligible sworn member of the Pennsylvania State Police could elect to participate, defer receipt of retirement benefit payments and continue employment as a member of the Pennsylvania State Police.

The operational DROP provisions of the bill would:

Authorize establishment of a DROP for sworn eligible members of the Pennsylvania State Police, to be administered by the "retirement system";

Permit a member of the State Police who is or will be eligible for a normal retirement benefit to elect to participate in the DROP;

Require that DROP participants agree to forego active membership in the "retirement system" and any growth in the salary base used for calculating the DROP participant's retirement benefits;

Provide for DROP election forms;

Provide for early termination of DROP participation by a participant without a penalty;

Require that DROP participation begin the day after retirement and continue for a period of not more than five years;

Require the establishment of a DROP participant account and its separate subsidiary accounts that are to be held in trust;

Require that the normal retirement benefits of a DROP participant, together with interest, be credited to a separate subsidiary account;

Establish the interest rate of 4% to be credited to a participant's DROP account;

Require payment of the balance in the member's DROP account to either the member or a beneficiary within 45 days after termination of DROP participation as either a lump-sum or a tax-sheltered rollover distribution;

Provide protection of DROP benefits to DROP participants including protection from State and municipal taxation but permitting claims under the Public Employee Pension Forfeiture Act and qualified domestic relations orders;

Require that a DROP participant continue to be eligible for most pre-retirement benefits that are provided to active State Police employees; and

Provide for the crediting and payment of benefits if a DROP participant dies during the period of DROP participation.

The bill would also repeal Sections 5301(d) and 5706(a) of the State Employees' Retirement Code (pertaining to return to service and termination of annuities) insofar as they are inconsistent with the State Police Deferred Retirement Option Plan Act authorized by the bill.

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DISCUSSION

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### **The State Employees' Retirement Code and System**

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, 2002, there were approximately 108 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, 2002, SERS membership consisted of 111,059 active members and 91,228 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. Normal retirement age for certain other members, including certain public safety employees and members of the General Assembly, is age 50. Generally, the pension benefit is equivalent to 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. Officers of the Pennsylvania State Police, however, are entitled to a special retirement benefit equal to: 1) 50 percent of the member's highest year's earnings for a member with at least 20 but less than 25 years of credited service; or 2) 75 percent of the member's highest year's earnings for those with 25 years or more of credited service. For a member to be eligible to receive a benefit equal to 50 percent or 75 percent of their highest year's earnings, the member must have been covered by the State Police collective bargaining unit on or after July 1, 1989. Additionally, certain State Police Officers who are members of Class C and have remained continuously in the same job category since before March 1, 1974, are entitled to an additional benefit component in the form of Social Security Integration (SSI) coverage, if the member elected SSI coverage prior to March 1, 1974.

### **Deferred Retirement Option Plans**

Deferred Retirement Option Plans (DROPs) provide an optional way to pay retirement benefits. They permit an employee who is eligible for normal retirement to continue employment and continue to receive wages or salary as usual. But, instead of deferring retirement, the employee's regular monthly retirement payments commence and are deposited into an interest bearing account. At the conclusion of employment, which coincides with the end of the DROP participation period, the employee leaves service, receives the balance in the interest bearing DROP account and begins to directly receive the previously determined regular monthly retirement benefit payments. The ability to continue employment at full salary, after retirement benefits commence, allows the employee to accumulate resources for use in retirement that would otherwise not be available. Under a DROP, the employee forgoes somewhat higher ultimate monthly pension benefits but gains the right to accumulate lump-sum pension benefits while still employed.

A DROP may benefit employers by allowing the employer to retain more senior/skilled employees who might otherwise retire. Also, the transition and replacement process for retiring employees is more predictable. From an employee perspective, the ability to accumulate additional resources

to be used in retirement is the primary attraction. Also, employees will experience increased take-home pay because pension contributions by the employee are not required during the DROP period. DROPs are particularly advantageous to employees who are members of pension plans that do not provide for additional benefit accrual after retirement eligibility.

Most DROPs increase employer administrative costs, and all DROPs delay the reduction of payroll costs associated with replacing retired employees at lower salaries. In the absence of carefully crafted legislation, compliance with federal anti-discrimination rules and the Internal Revenue Code could be problematic.

The bill would authorize the establishment of a Deferred Retirement Option Plan (DROP) for members of the Pennsylvania State Police. It appears that the State Employees' Retirement System (SERS) would administer the plan. However, the language of the bill is vague on this point. The bill is replete with numerous technical and drafting irregularities. Most importantly, the bill would create a stand-alone act that would implement a major change in the Commonwealth's public pension policy without amending the appropriate retirement statute, which in this case is the State Employees' Retirement Code. The bill should be amended or redrafted to amend the State Employees' Retirement Code. The language of the redrafted bill should be carefully crafted to ensure proper integration with other provisions of the State Employees' Retirement Code.

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SUMMARY OF ACTUARIAL COST IMPACT

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In reviewing the actuarial analysis prepared by SERS, the Commission's consulting actuary noted that the SERS actuary assumed that the full cost attributable to the bill would be borne by the budget of the Pennsylvania State Police. The Commission's consulting actuary reviewed the bill and determined that, if enacted, the bill would have the following actuarial cost impact.

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability	\$73,000,000	
	<u>Amount</u>	<u>As a % of Affected Payroll</u>
Increase in Employer Annual Cost		
Normal Cost	\$ 2,500,000	0.9%
Amortization Payment <sup>1</sup>	<u>11,100,000</u>	<u>4.0%</u>
Total Increase in Employer Annual Costs <sup>2</sup>	\$13,600,000	4.9%

<sup>1</sup> 10-year level dollar amortization payments. Payments cease after 10 years.

<sup>2</sup> Based upon a projected 2003-04 State Police payroll of \$278,715,000.

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POLICY CONSIDERATIONS

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

Inconsistency in Retirement Policy. Currently, a State Police Officer is entitled to a full, unreduced retirement benefit upon attaining age 50, or at any age upon accumulating 20 years of credited service. The reduced superannuation age and service requirements for these and other law enforcement classifications is predicated upon the physically and psychologically demanding nature of law enforcement duties and on the need of employers to maintain an unusually vigorous and able work force that is capable of carrying out those duties in an optimal manner. However, the bill establishes a program that would systematically induce employees to defer retirement and continue employment in law enforcement for up to five years beyond the time at which the employee would normally have retired.

Retention of Experienced Police Officers. A DROP may benefit the employer by allowing the employer to retain more senior/skilled police officers who, due to the nature of the benefit structure, would have no financial incentive to remain in service after attaining normal retirement eligibility in the absence of a DROP or other incentive program.

Technical and Drafting Irregularities. The bill would create a stand-alone act to be known as the State Police Deferred Retirement Option Plan Act, authorizing the establishment of a Deferred Retirement Option Plan that affects members of SERS without amending the applicable retirement statute. It is very unusual and irregular to provide a pension benefit change other than by amending the applicable retirement statute. The bill should be amended or redrafted to amend the SERS Code, and special attention should be paid to the proper integration of the DROP into the SERS Code.

Personnel and Budgetary Implications. Implementation of the DROP may increase employer administrative costs and delay the reduction of payroll costs associated with replacing more highly compensated retired employees with lower paid employees. Because the DROP would effectively extend employment for any eligible member who chooses to participate by as much as five years, the bill could increase State Police personnel budgets.

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COMMISSION RECOMMENDATION

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On July 16, 2003, 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 Commission's actuarial note transmittal.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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Senate Bill Number 443, Printer's Number 966, had first consideration in the Senate on June 16, 2003, and was re-referred to the Senate Appropriations Committee on June 17, 2003.

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**Bill ID:** Senate Bill Number 686, Printer's Number 789

**System:** State Employees' Retirement System

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

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SYNOPSIS

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Senate Bill Number 686, Printer's Number 789, would amend sections 5304 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, 2003, through June 30, 2005;

The member was a member of or was eligible to join as a member of a Pennsylvania municipal (county, city, borough, incorporated town or township) retirement system; 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).

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DISCUSSION

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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, 2002, there were approximately 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, 2002, there were 111,059 active members and 91,228 annuitant members of 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 benefit is equivalent to 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 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 could the member purchase 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 2.0 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 would have already surrendered, or would be required to surrender, retirement system rights in the municipal or federal retirement system. 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, 2003, through June 30, 2005. 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, 2002, 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 service purchase. 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, 2002, 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, 2003, through June 30, 2005. Limiting the time during which a purchase of service credit option may be exercised in a public employee retirement system is not uncommon because it reduces the actuarial loss to the system caused by the purchases. However, 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 of the type being purchased.

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.

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 the proposed type of 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 payment by the Commonwealth throughout retirement for the retiree's medical insurance.

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.

<b>Estimated Percentage of Total Cost Paid by the Member</b>				
<b>Current Age</b>	<b>Current Service with SERS</b>	<b>Normal Contribution Rate = 3.60%</b>	<b>Normal Contribution Rate = 7.00%</b>	<b>Normal Contribution Rate = 10.73%</b>
30	5	41%	57%	75 %
40	10	76	105	138
50	20	49	69	90
60	30	32	45	59

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

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.

<b>Estimated Percentage of Total Cost Paid by the Member</b>				
<b>Current Age</b>	<b>Current Service with SERS</b>	<b>Average Salary Increase of 4%</b>	<b>Average Salary Increase of 6%</b>	<b>Average Salary Increase of 8%</b>
30	5	62%	57%	53%
40	10	125	105	89
50	20	99	69	48
60	30	78	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 \$43,000, 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. The consulting actuary has estimated the first year amortization payment attributable to the service purchase authorization both as a dollar amount and as a percentage of total payroll. These estimates are summarized in the following table.

<b>Estimated Actuarial Cost to the Commonwealth</b>			
<b>Number of Eligible Members who Purchase Service</b>	<b>Estimated Increase in Unfunded Actuarial Accrued Liability</b>	<b>First Year Amortization Payment</b>	
		<b>Amount</b>	<b>% of Payroll</b>
200	\$ 3,000,000	\$ 500,000	0.01%
600	9,000,000	1,400,000	0.03
1,000	15,000,000	2,300,000	0.05
2,000	30,000,000	4,600,000	0.09

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 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. 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 bill 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.

Unequal Treatment of Similarly Situated Individuals. 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 service credit.

Documentation Problems. 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 and that the member joined, or was eligible to join, the municipal/federal government retirement system.

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COMMISSION RECOMMENDATION

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On October 23, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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Senate Bill Number 686, Printer's Number 789, was referred to the Senate Finance Committee on May 2, 2003.

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**Bill ID:** Amendment Number 3401 to  
Senate Bill Number 696, Printer's Number 1048

**System:** Borough Pension Systems

**Subject:** Pension System Membership Status of Borough Employees Transferred to a Wastewater Authority and Distribution of General Municipal Pension System State Aid under Act 205 of 1984

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SYNOPSIS

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Amendment Number 3401 would amend Senate Bill Number 696, Printer's Number 1048, to in turn amend Title 53 (Municipalities Generally) of the Pennsylvania Consolidated Statutes, Chapter 21, Subchapter E, by adding a section (Section 2182) that would: 1) permit certain employees of a wastewater authority established pursuant to Chapter 56 (relating to municipal authorities) and that commenced operation after December 1, 2001, who were formerly employees of the borough or township that established the wastewater authority, to elect to retain membership in the borough retirement system; and 2) permit a borough to treat all eligible employees of the wastewater authority who elect to retain membership in the borough retirement system as borough employees for the purpose of determining the annual allocation of General Municipal Pension System State Aid according to the distribution formula set forth in the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984).

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DISCUSSION

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Act 205 of 1984 is applicable to every borough, city, incorporated town, township, municipal authority, and council of governments in the Commonwealth of Pennsylvania. The Act requires actuarial reporting by municipal retirement systems, establishes a minimum funding standard for every municipal pension plan, provides for the allocation of General Municipal Pension System State Aid, and establishes a recovery program for financially distressed municipal retirement systems.

The Commonwealth imposes a tax on the premiums of casualty and fire insurance policies sold in Pennsylvania by out-of-state ("foreign") insurance companies. Act 205 establishes a General Municipal Pension System State Aid (GMPSSA) program financed from the proceeds of the foreign casualty insurance premium tax and a portion of the foreign fire insurance premium tax. The act provides for the annual allocation of these funds to municipalities based, in part, upon the number of full-time employees participating in municipal retirement systems. Counties and authorities are not eligible to receive General Municipal Pension System State Aid under Act 205.

The amendment appears to be an attempt to address a specific situation in which a particular borough established a wastewater authority and wishes to permit employees of the wastewater authority who previously were borough employees to retain membership in the borough retirement system and thereby permit the wastewater authority employees to be treated as borough employees for the purpose of calculating the borough's annual allocation of General Municipal Pension System State Aid. Therefore, the amendment would result in the inequitable distribution of State aid under Act 205 by permitting a borough to receive State aid for individuals who are no longer in its employ.

The amendment reflects an approach used to address one previous situation where authority employees were permitted to continue to be treated as eligible units for State aid under Act 205. That situation was addressed by Act 49 of 1992.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary reviewed the amendment and determined that there would be no cost impact on the borough's retirement system. The actuary indicated, however, that the amendment would result in the inequitable distribution of General Municipal Pension System State Aid by permitting a particular borough to receive State aid allocations for employees of a municipal authority.

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POLICY CONSIDERATIONS

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

Potential for Inequitable Distribution of State Aid. Act 205 of 1984 provides a formula for the equitable distribution of State aid to all eligible municipalities based upon need. The amendment would distort the intended purpose of the State aid allocation process by only permitting certain municipalities to receive State aid for individuals who are employed by ineligible municipal authorities.

Restricted Applicability. The amendment restricts the proposed eligibility of municipal authority employees for State aid determination purposes to only employees of wastewater authorities and only those wastewater authorities created after December 1, 2001. All of the employees of water, sewer and other authorities would remain ineligible for State aid allocations. There is no public pension policy rationale for excluding any municipal authority employees from the State aid allocations.

Limited State Aid Impact. The authority employees who would be made eligible units for the purpose of State aid allocations under the amendment were previously eligible units for the purpose of State aid allocations as employees of a borough. Future employees of the authority will not be made eligible units for State aid purposes.

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COMMISSION RECOMMENDATION

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On October 23, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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Senate Bill Number 696, Printer's Number 1048, passed the Senate on June 17, 2003, had second consideration in the House on July 2, 2003, and was re-committed to the House Appropriations Committee on November 25, 2003.

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**Bill ID:** House Bill Number 85, Printer's Number 104  
**System:** State Employees' Retirement System  
**Subject:** Benefit Enhancement for Philadelphia Municipal Court Bail Commissioners

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SYNOPSIS

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House Bill Number 85, Printer's Number 104, would amend the State Employees' Retirement Code (Code) to permit an active member or an active multiple service member who is a bail commissioner of the Philadelphia Municipal Court to elect Class E-2 membership for all future bail commissioner service.

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DISCUSSION

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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, 2001, there were approximately 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, 2001, SERS membership consisted of 109,716 active members and 89,217 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 equivalent to the product of a 2.5 percent benefit accrual rate 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.

Prior to March 1, 1974, there were a number of special classes of membership in SERS, each of which had its own class of service multiplier. As part of the Commonwealth's pension reform efforts of the early 1970s, which also included the adoption of Act 293 of 1972 and of a new Public School Employees' Retirement Code on October 2, 1975, on March 1, 1974, a new State Employees' Retirement Code was adopted that, among other things, placed all individuals joining SERS after February 28, 1974, in Class A, for which the class of service multiplier is 1.0. One of the reasons for this change was to ensure that SERS would continue to be treated as a qualified pension plan under section 401(a) of the Internal Revenue Code by removing a source of possible discrimination. Individuals who were members of a special class of membership prior to March 1, 1974, and who remained continuously in the same job category, would continue to receive retirement service credit for the special membership class until they moved into a different job category or left Commonwealth employment. Regardless of their dates of employment, however, members of the judiciary retain the option to elect special class membership in SERS (Class E-1 membership for judges, and Class E-2 membership for district justices) for all periods of judicial service. This benefit provision is not provided for in the Code, but instead is the result of a series of court cases in which the constitutionality of some of the 1974 Code changes were challenged, the most salient of these cases being the "Goodheart" Supreme Court decisions (see *Goodheart v. Casey*, 521 Pa. 316 (1989); 523 Pa. 188 (1989)). See also *Klein v. State Employees' Retirement System*, 521 Pa. 330, 555 A.2d 1216, 1221 (1989)). Essentially, the Supreme Court of Pennsylvania ruled that the 1974 amendments to the Code, which eliminated the option to elect

special class membership, were unconstitutional as applied to members of the judiciary. The Supreme Court ruled that, in order to preserve an independent judiciary, judges must be adequately compensated, pension benefits are part of compensation, and all members of a single level/court performing similar functions and exercising similar authority must be compensated at the same rate. As a result, all individuals who became members of the judiciary following the 1974 amendments to the SERS Code must be permitted to elect special class (Class E-1 or E-2) membership, make the required additional member contributions, and receive the higher pension benefit attributable to their membership class.

Among many other benefit changes, Act 9 of 2001 created a new class of service, known as Class AA. Under Act 9, state employees who were members of Class A had the option of electing Class AA membership. Although a small percentage of state employees who were eligible to elect Class AA have elected not to do so, the majority of state employees are now members of Class AA. The class of service multiplier for Class AA members is 1.25, which effectively increases the value of members' retirement benefits by 25% over those of Class A members, and includes a corresponding increase in the employee contribution rate from 5.0% to 6.25% of pay. According to the data supplied to the Commission by the Administrative Office of Pennsylvania Courts and the benefit staff of SERS, all members currently employed as bail commissioners of the Philadelphia Municipal Court have elected membership in Class AA.

The bill would provide an enhancement to the pension benefits of bail commissioners by permitting these members to elect Class E-2 membership prospectively for all periods of employment as a bail commissioner performed following the effective date of the bill. Under the bill, currently employed bail commissioners would have 30 days from the effective date of the bill to elect Class E-2, and new employees would have 30 days from the date of hire. The benefit enhancement would place bail commissioners in the same pension benefit category as district justices.

The class of service multiplier has an effect both on the calculation of the regular member contributions and on the member's annuity. The annuity for Class E-2 members is obtained by multiplying the standard single-life annuity by a class of service multiplier. The class of service multiplier for Class E-2 is 1.5, and the employee contribution rate for Class E-2 is 7.50 percent. The bail commissioner (Class E-2 under the bill) component of the member's final pension benefit would be added to any prior or future Class AA service credit earned by the member through another type of state or school service, and any Class A service credit accruing to the member through purchases of nonstate service in determining the member's final pension benefit.

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

The duties of the bail commissioners as specified in section 1123(a)(5) of the Judicial Code are similar to those of district justices as specified in section 1414(a)(4) of the Judicial Code. If, therefore, the General Assembly intends bail commissioners to receive salary and emoluments, including pension benefits, equal to those of an existing class of judicial officer (in this case, district justices), then the bill is the best method to accomplish this end, and classification as Class E-2 would appear to be consistent with established precedents.

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SUMMARY OF ACTUARIAL COST IMPACT

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The consulting actuary of the Commission reviewed the bill and estimated the increase in the unfunded actuarial accrued liability, the increase in normal cost, and the amortization payments due to the benefit enhancement provided for in the bill. The increase in the unfunded actuarial accrued liability will be amortized over 10 years through level dollar payments. Amortization payments will cease after 10 years. These cost estimates are summarized in the following table.

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability	\$20,000	
		<b>As a % of Affected Payroll</b>
	<u>Amount</u>	<u>As a % of Affected Payroll</u>
Increase in Employer Annual Costs		
Normal Cost	\$2,600	0.8%
Amortization Payment <sup>1</sup>	<u>3,100</u>	<u>1.0%</u>
Total Increase in Employer Annual Costs	<u>\$5,700</u>	1.8%

<sup>1</sup> Level dollar payments for ten years.

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POLICY CONSIDERATIONS

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

Legislative Intent. Under the State Employees' Retirement Code, since 1974, it has been clear that the legislative intent of the General Assembly has been that all individuals newly employed by the executive, legislative or judicial branch be precluded from special class membership and that individuals employed after March 1, 1974, be classified similarly for retirement benefit purposes. If, in light of the Pennsylvania Supreme Court decisions extending Class E-1 or Class E-2 eligibility to all judicial officers regardless of the date of employment or election, the General Assembly wishes to treat bail commissioners similarly to district justices in terms of pension benefits, the bill is an appropriate way to accomplish that objective. If, however, the General Assembly wishes to retain its 1974 position, the bill would represent a departure from legislative intent.

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COMMISSION RECOMMENDATION

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On February 12, 2003, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issue identified in the actuarial note transmittal.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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A later version of House Bill Number 85 (Printer's Number 3060) was eventually signed into law by the Governor as Act 40 of 2003 on December 10, 2003.

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**Bill ID:** Amendment Number 0218 to  
House Bill Number 85, Printer's Number 104

**System:** State Employees' Retirement System

**Subject:** Benefit Enhancement for Certain Class C Members

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SYNOPSIS

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Amendment Number 0218 to House Bill Number 85, Printer's Number 104, would amend the State Employees' Retirement Code (Code) to create a new class of service within the State Employees' Retirement System (SERS), to be known as Class C-1, which would have a class of service multiplier of 1.25, and to permit certain current and former Class C members of SERS (Liquor Control Enforcement Officers) to elect membership in Class C-1 and receive Class C-1 service credit for all periods of Class C service, except for Class C service performed as a Pennsylvania State Police Officer, provided the member files a written election notice with the State Employees' Retirement Board prior to January 1, 2004, or prior to termination of state service, or in the case of a member of the Public School Employees' Retirement System (PSERS), prior to termination of school service, whichever first occurs.

Under the provisions of Amendment Number 0218, an eligible member would be:

- 1) a state employee who on July 1, 2003, is an active or inactive Class C member of SERS;
- 2) a former state employee who was formerly a member of Class C, and on July 1, 2003, is a multiple service member, a school employee and a member of PSERS; or
- 3) a former state employee who was formerly a member of Class C, who is a school employee and who after July 1, 2003, becomes a multiple service member.

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DISCUSSION

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The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of SERS is to provide retirement allowances and other benefits, including disability and death benefits to state employees. As of December 31, 2001, there were approximately 108 participating state and other organizations in SERS. Membership in SERS is mandatory for most state employees. Certain other employees are not required to become members but are given the option to participate. As of December 31, 2001, there were 109,716 active members and 89,217 annuitant members of SERS. 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. Normal retirement age for certain other members, including certain public safety employees and members of the General Assembly, is age 50. Generally, the pension benefit is equivalent to 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.

Since the passage of Act 9 of 2001, most active members of SERS currently are members of Class AA, which has a class of service multiplier of 1.25. Class AA members include most regular state employees, and employees of certain Commonwealth commissions and authorities. Under the 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.

The Class C membership class was one of several pre-1974 special classes of SERS membership. As part of the Commonwealth's pension reform efforts of the early 1970s, a new Code was adopted that, among other things, imposed uniformity on the system by placing all individuals joining SERS after February 28, 1974, in Class A, for which the class of service multiplier is 1.0. One of the reasons for this change was to ensure that SERS would continue to be treated as a qualified pension plan under section 401(a) of the Internal Revenue Code by removing a source of possible discrimination. Individuals who were members of a special class prior to March 1, 1974, and who remained continuously in the same job category, continue to receive retirement service credit for the special membership class until they move into a different job category or leave Commonwealth employment. Members of Class C include certain public safety employees who are employed as enforcement officers of the Pennsylvania State Police and Pennsylvania Liquor Control Board and who have remained continuously employed in the same job classification since prior to March 1, 1974. Any such employee who became a member of SERS after February 28, 1974, was classified as a member of Class A, and most of these employees have subsequently elected Class AA membership under the provisions of Act 9 of 2001.

Because Class C members were unaffected by Act 9 of 2001, the basic pension benefit formula used to determine the standard single-life annuity for Class C members remains 2% X final average salary X years of Class C service. Section 5702(a)(3) of the Code provides that, in addition to the standard single life annuity, a member of Class C is entitled to a "member's annuity," which is actuarially equivalent to the member's accumulated member contributions (also called "accumulated deductions") plus statutory (4%) interest at retirement calculated as though the member had retired at age 60. Under Section 5702(a)(2), a Class C member may also be eligible for a third benefit component in the form of Social Security Integration (SSI) coverage, if the member elected SSI coverage prior to March 1, 1974. According to demographic data supplied by the staff of SERS, there currently are 27 employees who are either active contributing or inactive members of Class C and who would be affected by the benefit provisions of Amendment 0218.

Effective July 1, 2003, the amendment would create a new membership class, Class C-1, and would permit all active or inactive employees who are now, or who have been, members of Class C (excluding Pennsylvania State Police Officers) to elect Class C-1 membership for all periods of Class C service. The newly created class, Class C-1, would have a class of service multiplier of 1.25, which would result in all Class C-1 members receiving an annuity equivalent to 2.5 percent of their final average salaries for all Class C-1 service at retirement. The net effect of the amendment would be to enhance the basic pension benefit calculation applied to all periods of Class C service by 25 percent. However, it appears from the language of the amendment that a Class C member who elects Class C-1 would forego eligibility for the "member's annuity" component currently provided to Class C members. Lastly, the amendment would also have the effect of establishing a member contribution rate to the State Employees' Retirement Fund for Class C-1 members of 6.25 percent of compensation.

The amendment appears to be an attempt to rectify a perceived benefit inequity resulting from the exclusion of Class C members from the increased benefit accrual rate provided to most other state employees by Act 9 of 2001 and to correct potential benefit inequities between similarly situated employees.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission’s consulting actuary has reviewed Amendment Number 0218 and estimated the actuarial cost impact attributable to the amendment. The estimate is based on census data, provided by SERS, for the 27 known Class C enforcement officers who would be eligible to elect Class C-1 membership. In addition to these members, there may be a number of other members and former members of either SERS or PSERS who would be eligible under the amendment. The staffs of SERS and PSERS were unable to provide the Commission staff with census data on other potential eligible members. However, it is believed that the number of additional potentially eligible members is quite small.

Amendment 0218 requires the Pennsylvania Liquor Control Board and the Pennsylvania State Police to bear the full amount of the liability attributable to the benefit enhancement. For this reason, the increase in normal cost and amortization payment figures displayed in the following table are expressed as a percentage of affected payroll.

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability	\$440,000	
		<u>As a % of Af- fected Payroll</u>
	<u>Amount</u>	
Increase in Employer Annual Cost		
Normal Cost	\$ 5,000	0.3%
Amortization Payment <sup>1</sup>	<u>67,000</u>	<u>4.0%</u>
Total Increase in Employer Annual Costs	\$72,000	4.3%

<sup>1</sup> Ten-year level dollar amortization. Payments cease after 10 years.

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POLICY CONSIDERATIONS

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

Significant Benefit Enhancement. Providing a class of service multiplier of 1.25 for Class C-1 will, in effect, enhance retirement benefits (and pre-retirement death benefits) for members electing Class C-1 service by 25 percent over the current maximum single life annuity calculation used for members of Class C.

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

Elimination of Benefit Inequity. Among its various other provisions, Act 9 of 2001 requires that all employees who become members of SERS on or after July 1, 2001, become members of Class AA, which has a class of service multiplier of 1.25. Therefore, a newly hired Class AA enforcement officer would be provided with a retirement benefit formula that is more lucrative than that for a Class C enforcement officer, creating a retirement benefit disparity between similarly situated employees. However, it should be noted that due to the effects of the additional benefit component provided to Class C members under Section 5702(a)(3), it is possible, though unlikely, that some Class C members would not benefit from electing Class C-1 membership.

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COMMISSION RECOMMENDATION

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On May 22, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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A later version of House Bill Number 85 (Printer's Number 3060) was eventually signed into law by the Governor as Act 40 of 2003 on December 10, 2003.

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**Bill ID:** House Bill Number 130, Printer's Number 122

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

**Subject:** Early Retirement Incentive ("30 and Out")

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SYNOPSIS

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House Bill Number 130, Printer's Number 122, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to permit active members or active multiple service members of the Public School Employees' Retirement System or the State Employees' Retirement System (Systems) to retire during various periods of time with 30 eligibility points without the member's annuity being reduced on account of a retirement age that is under superannuation age ("30 and out").

Under the bill, an eligible member would be:

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 not later than July 1, 2003, during the period from the effective date of the bill or April 1, 2003, whichever is later, through July 1, 2003;

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 not later than July 1, 2004, during the period from April 1, 2004, through July 1, 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 not later than July 1, 2003, during the period July 1, 2003, through July 1, 2005. (Note: The Commission staff has been advised that the requirement to file an application for retirement by July 1, 2003, is a typographical error in the bill and that the intended date was July 1, 2005).

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DISCUSSION

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The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purpose of the Systems is to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. As of June 30, 2002, there were approximately 695 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 2001, there were approximately 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, 2002, there were 242,616 active members and 141,414 annuitant members of PSERS, and as of December 31, 2001, there were 109,716 active members and 89,217 annuitant members of SERS. In general, the annual retirement benefit for both Systems is equivalent to the product of 2.5 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. Under the State Employees' Retirement Code, superannuation or

normal retirement age is age 60 with three years of credited 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. Previously, temporary provisions of the Codes 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. 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 both the public and private sectors, early retirement incentive programs (ERIPs) have frequently been used as tools for achieving long-term work force reductions for strategic reasons or short-term payroll reductions for budgetary reasons. Despite their relative popularity, the savings potential directly attributable to an ERIP occurs only during the period that begins the day the employee retires and ends the day the employee would have retired had the incentive not occurred. In most instances, the total savings potential resulting from an ERIP occurs within no more than three to five years after the ERIP becomes effective. Any savings that occur in the longer term because of a permanent reduction in the work force could instead be achieved through a policy of attrition without the added pension costs of the ERIP.

Because the direct savings attributable to an ERIP occur rapidly and the pension costs are recognized slowly, budgetary savings frequently occur for a short period of time immediately after implementation of an ERIP. However, those short-term savings may be less than the pension costs incurred, particularly when amortization costs are considered. The net financial impact of an ERIP is largely determined by the number of vacated positions that are filled and the salary differential between the retirees and the replacement employees. These two factors, the replacement rate and the salary differential, must be effectively controlled for an ERIP to have the potential to result in net long-term cost savings.

The period of time during which the employee must leave service in order to receive the incentive is often referred to as an early retirement "window." Ideally, the window and the related election period should be long enough to allow employees to access retirement counselors, make informed decisions and plan for the transition to retirement. If the window is for too long a period, includes a period of retroactivity or is continuously renewed, the effect is to merely provide bonuses to employees who would have retired anyway.

As discussed above, the temporary "30 and Out" 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 extension that expired on June 30, 1999. The effectiveness of ERIPs as an incentive for accelerating retirements within a window period is diminished by making them available either continuously or frequently. Granting frequent, short-period early retirement windows or granting early retirement windows continuously constitutes a defacto benefit liberalization rather than an incentive to retire.

Because there have been no ERIPs in effect for school and state employees since the closure of the last "30 and Out" window in 1999, the reopening of such a window at this time would likely result in an initial surge of early retirements.

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SUMMARY OF ACTUARIAL COST IMPACT

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The consulting actuary of the Commission has reviewed the bill and the actuarial cost estimates supplied to the Commission by the consulting actuaries of the Systems. These estimates were prepared on two sets of member election assumptions and are based upon the Systems' experience with previous "30 and Out" early retirement incentives. The election rates shown describe

percentages of eligible members anticipated to retire under the provisions of the bill. The Commission's consulting actuary judged the "low" election assumptions to be reasonable, and indicated that the "high" election assumptions are useful to illustrate the potential for costs to be significantly higher than those shown under the "low" election assumptions.

**Public School Employees' Retirement System  
(Window period ending June 30, 2004)**

	<u>"Low" 46% Election Rate</u>		<u>"High" 64% Election Rate</u>	
	<u>Amount</u>		<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability	\$681,700,000		\$980,700,000	
	<u>Amount</u>	<u>As a % of Payroll</u>	<u>Amount</u>	<u>As a % of Payroll</u>
Increase in Employer Annual Costs <sup>1</sup>	\$ 7,600,000	0.07%	\$ 9,800,000	0.09%
Normal Cost	<u>112,700,000</u>	<u>1.04%</u>	<u>162,200,000</u>	<u>1.49%</u>
Amortization Payment <sup>2</sup>				
Total Increase in Employer Annual Costs	\$120,300,000	1.11%	\$172,000,000	1.58%

<sup>1</sup> Paid in part by the Commonwealth and in part by the school districts and other educational employers.

<sup>2</sup> 10-year amortization period. Payments cease after 10 years.

**State Employees' Retirement System  
(Window period ending June 30, 2005)**

	<u>"Low" 49% Election Rate</u>		<u>"High" 68% Election Rate</u>	
	<u>Amount</u>		<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability	\$586,400,000		\$830,900,000	
	<u>Amount</u>	<u>As a % of Payroll</u>	<u>Amount</u>	<u>As a % of Payroll</u>
Increase in Employer Annual Costs				
Normal Cost	\$ 0	0.00%	\$ 0	0.00%
Amortization Payment <sup>1</sup>	<u>97,000,000</u>	<u>1.84%</u>	<u>137,400,000</u>	<u>2.61%</u>
Total Increase in Employer Annual Costs	\$97,000,000	1.84%	\$137,400,000	2.61%

<sup>1</sup> 10-year amortization period. Payments cease after 10 years.

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POLICY CONSIDERATIONS

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

Purpose of the ERIP. Early retirement incentive programs usually are implemented as a policy tool for achieving long-term work force reductions or the restructuring of the work force at current levels for strategic reasons, or to achieve short-term payroll savings for budgetary reasons. The bill should clearly articulate the policy objectives of the early retirement incentive.

Undetermined Ancillary Costs. In addition to the direct actuarial cost impact attributable to the ERIP, there may be other indirect costs associated with its implementation. The ERIP may result in increased demand for future cost-of-living adjustments, due to the earlier retirement and longer retired lifetimes of affected employees. There may also be increased employer costs associated with longer periods of postretirement health care and earlier sick and annual leave payouts.

Impact on Services. It should be recognized that school districts and state government agencies are not homogeneous with respect to their staffing and budgetary requirements. Some may have greater or lesser staffing needs than others. It is desirable to have provisions which will serve employing units that have a need to encourage employees to retire without impairing the ability of others to retain senior employees who may be difficult to replace. Early retirement incentive programs that fail to take these differences into consideration may impose greater staffing challenges and negatively impact on public services.

Drafting Error. The Commission staff has been advised that the date of "July 1, 2003", which appears on page 4, line 5, of the bill is a drafting error, and that the bill sponsor intended the date to be July 1, 2005. The bill should be amended to reflect the intended date.

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COMMISSION RECOMMENDATION

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On May 22, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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House Bill Number 130, Printer's Number 122, was referred to the House State Government Committee on February 3, 2003.

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**Bill ID:** House Bill Number 225, Printer's Number 254

**System:** Public School Employees' Retirement System

**Subject:** Emergency Return to School Service

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SYNOPSIS

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House Bill Number 225, Printer's Number 254, would amend section 8346(b) of the Public School Employees' Retirement Code to permit an annuitant (retiree) to return to school service in an emergency under a separate contract without being subject to the cessation of annuity provisions of the Code. The bill requires that the annuitant be hired under a separate contract, the terms of which are to be arrived at in consultation with the employee organization representing professional employees in the school district. Under the bill, an annuitant so employed shall not be entitled to earn additional service credit in the Public School Employees' Retirement System (PSERS) and no contributions shall be made to PSERS by the retiree, the employer, or the Commonwealth for the work under the contract.

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DISCUSSION

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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. 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. Generally, 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. As of June 30, 2002, there were approximately 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, 2002, there were 242,616 active members and 141,414 annuitant members of PSERS.

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 offered under the "Mellow" 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 in a school year and at least one of the two following criteria is met:

The employer has determined that an emergency or shortage 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.

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DISCUSSION (CONTD)

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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 bill would extend the number of allowable full-day sessions beyond the current 95 day limit to a period not to “extend beyond the school year during which the emergency or shortage occurs.” It appears that the exemption from forfeiture of the additional ten percent service credit provided under the “Mellow Bill” would remain unaltered. The bill also appears to liberalize the qualification requirements for annuitants returning to service by permitting the return of “other personnel” in addition to the current requirement for “appropriate subject-certified teachers.” This change in the qualification requirements for returning annuitants appears to permit the return to service of a broad range of non-teaching staff in addition to teaching staff.

The public employee retirement policy of the Commonwealth as expressed both in the Public School Employees’ Retirement Code and in the State Employees’ Retirement Code has been that, except in emergencies, and then only for limited periods of time, a retiree returning to school or state service ceased to receive a pension and became an active, contributing member of the retirement system. The amendment would enact a fundamental change in this policy by permitting a PSERS retiree to return to school service in emergency situations for what could be an unlimited period of full-time service and be paid while simultaneously receiving a PSERS pension.

From a personnel policy perspective, the use of a retiree may be less costly than retaining the employee as an active employee, depending on the level of compensation provided to the retiree. Authorizing a retiree to return to school service for what could be indefinite periods of time permits a retiree to receive supplemental retirement income from the employer that, in effect, provides an additional incentive to retire. The proposal to increase the number of full-days of service by annuitants beyond 95 days could enable public schools to obtain the services of needed, experienced employees in certain critical situations.

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SUMMARY OF ACTUARIAL COST IMPACT

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Because current contribution rates are based on the assumption that all annuitants will receive their full retirement benefits for their entire lives without any periods during which payments might be suspended due to a return to school service, the bill will have no actuarial cost impact upon the Public School Employees’ Retirement System except for the potential for the loss of a de minimis actuarial gain,

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POLICY CONSIDERATIONS

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

Fundamental Change in Public Employee Retirement Policy. The bill would enact a fundamental change in public employee retirement policy by permitting retirees to return to school service for potentially unlimited periods of time and receive compensation while continuing to receive retirement benefit payments.

Personnel Policy Flexibility in Certain Critical Situations. The bill could provide increased managerial flexibility in obtaining the services of experienced retired public employees in emergencies and shortages of subject-certified teachers and skilled administrative, professional or technical personnel.

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POLICY CONSIDERATIONS (CONT'D)

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Potential for Personnel Cost Containment. From a personnel policy perspective, using the services of a retiree under a separate contract may be less costly than retaining the employee as an active employee, depending on the level of compensation provided to the retiree.

Additional Early Retirement Incentive. Authorizing a retiree to return to school service for lengthy or indefinite periods permits a retiree to receive supplemental retirement income from the employer that, in effect, provides an additional incentive to retire.

Disparity in Benefit Between SERS and PSERS. The bill proposes to permit the liberalization of the emergency return-to-service provision for members of PSERS and not members of the State Employees' Retirement System (SERS). This approach is a departure from the General Assembly's long-standing practice of providing substantially identical benefits to members of both statewide systems.

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COMMISSION RECOMMENDATION

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On March 27, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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House Bill Number 225, Printer's Number 254, was reported as amended from the House Education Committee on June 3, 2003. The amended bill (Printer's Number 1898) passed the House on June 17, 2003, and was referred to the Senate Finance Committee on June 27, 2003.

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Bill ID: House Bill Number 333, Printer's Number 379

System: State Employees' Retirement System

Subject: Actuarial Debt Interest Rate

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SYNOPSIS

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House Bill Number 333, Printer's Number 379, would amend Section 5706(c) of the State Employees' Retirement Code to reduce the interest rate charged to a member in connection with the elimination of the effect of a member's frozen present value from the System's actuarial assumed rate of return (currently 8.5%) to the Code's statutory interest rate (4%).

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DISCUSSION

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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, 2002, there were approximately 108 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, 2002, SERS membership consisted of 111,059 active members and 91,228 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. Normal retirement age for certain other members, including certain public safety employees and members of the General Assembly, is age 50. Generally, the pension benefit is equivalent to 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.

For a variety of reasons, members of SERS who are eligible for a normal or early retirement benefit may choose to retire from state service, begin receiving retirement benefits for a period of time, and later return to state service or enter service as a public school employee and elect multiple service in the Public School Employees' Retirement System (PSERS). Under the SERS Code, upon any annuitant's return to regular, full-time service, the annuity payments to which the member is entitled as an annuitant cease and the present value of the member's annuity is "frozen" as of that date. When the member again retires at some future date, the frozen present value annuity is added to the value of the new retirement benefit earned during the member's second period of service.

A member who has returned to service and remained in service for a period of at least three years has the opportunity to eliminate or "thaw" the frozen present value annuity attributed to the member's previous period of service. By having the effect of the frozen present value from the previous period of service eliminated, the member will usually receive a final benefit upon subsequent re-retirement that is greater than if the present value of the member's annuity had remained frozen. This higher benefit approximates the benefit that would be paid if the member had not had a break in service.

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DISCUSSION (CONT'D)

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Although eliminating a frozen present value is usually of benefit to a member, the process is not cost-free. To eliminate a frozen present value, all annuity payments (including Option 4 withdrawals) paid to a member during all previous periods of retirement, plus interest until the date of re-retirement, must be returned to the Fund. The interest rate charged to a member is equal to the Fund's actuarial assumed rate of return (currently 8.5%) as determined annually by the Board in consultation with the System's consulting actuary. The bill would amend the Code by reducing the interest rate charged to the member from the actuarial assumed rate of return to the Fund's statutory interest rate, as defined in the Code. In the Code, "statutory interest" is a defined term and is equal to four percent per annum, compounded annually. Under current Code provisions, the member does not physically repay any monies to the Fund. Instead, the repayment takes the form of an actuarial debt that is satisfied through an adjustment to the member's subsequent retirement benefit.

The proposed reduction in interest charged to members returning to service will result in the System experiencing an actuarial loss due to the difference between the higher actuarial assumed rate of return and the statutory interest rate. However, the interest rate reduction corrects an apparent inequity among employees that incur actuarial debt. Retired members returning to active service who elect to eliminate a frozen present value are required to pay the valuation interest rate (8.5%) on the actuarial debt incurred, while members who elect to complete a "service purchase" transaction are required to pay the statutory interest rate (4%) on the actuarial debt incurred. This disparity in interest rates applied to actuarial debt was created with the passage of Act 9 of 2001 and is particularly significant in that "service purchase" transactions usually involve the provision of credit for nonstate service.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary reviewed the bill and determined that, if enacted, the bill would have the actuarial cost impact displayed in the table below.

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability	\$50,000,000	
	<u>Amount</u>	<u>As a % of Payroll</u>
Increase in Employer Annual Cost		
Normal Cost	\$ 0	0.00%
Amortization Payment	<u>7,600,000</u>	<u>0.15%</u>
Total Increase in Employer Annual Costs	<u>\$7,600,000</u>	<u>0.15%</u>

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POLICY CONSIDERATIONS

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

Equity in Interest Applied in Calculating Actuarial Debt. Currently, statutory interest (4%) is charged to members in connection with service purchases authorized by the Code. However, members who were formerly Commonwealth employees and who wish to eliminate the effects of a frozen present value annuity upon subsequent re-employment are charged a significantly higher (currently 8.5%) interest rate. The policy rationale for this

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POLICY CONSIDERATIONS (CONT'D)

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apparent disparity in interest charged to similarly situated employees is unclear. The bill would rectify this interest inequity by reducing the interest rate charged to thaw a member's frozen present value to the same level charged to members who wish to purchase service credit. Alternatively, for the sake of equity and in order for the System to avoid resultant actuarial losses, the interest rate charged to members for service credit purchases could be increased from the statutory interest rate (4%) to the valuation interest rate (8.5%).

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COMMISSION RECOMMENDATION

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On July 16, 2003, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issue identified in the actuarial note transmittal.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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House Bill Number 333, Printer's Number 379, was referred to the House State Government Committee on February 18, 2003.

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**Bill ID:** House Bill Number 545, Printer's Number 647

**System:** Act 96 County Pension Plans

**Subject:** Reduced Vesting Period and Optional Benefit Enhancement

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SYNOPSIS

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House Bill Number 545, Printer's Number 647, would amend the County Pension Law (Act 96 of 1971) to: 1) reduce vesting from eight-year cliff vesting to five-year cliff vesting; 2) establish a twelve month period following enactment of the legislation during which the county retirement boards may provide enhanced benefits through adopting, by rule, a 1/40th or 1/50th membership class; and 3) permit the county retirement boards to authorize, by rule, the retroactive application of the enhanced membership class to the prior service credit of members.

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DISCUSSION

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The County Pension Law (Law) applies to all counties of the Second Class-A through Eighth Class. Under the Law, a county retirement system is established by a resolution of the county commissioners and is administered by a county retirement board, which has full power to invest and manage the assets of the retirement system. As of January 1, 2000, there were 68 county pension plans operating under the Law with total aggregate assets of approximately \$4.2 billion. Combined, these county pension plans had approximately 49,213 active members and 14,680 retirees currently receiving benefits. Members are vested upon attaining eight years of credited service. The normal retirement age is age 60, or age 55 if a member has completed 20 years of service. Membership is mandatory for all employees who work or are expected to work 1,000 hours or more per year, and elected county officials have the option to participate.

An employee's right to receive a present or a future pension is said to vest when the right no longer is contingent upon the employee remaining in the service of the employer. Many public employee pension plans provide for employee contributions, which are always fully vested. Under the Law active members with less than eight years of service are vested only in their contributions and the accrued interest on these contributions. After eight years of service, active members also become vested in the county-funded component of their retirement benefits. With respect to the county annuity, a member who is involuntarily discontinued from service after having completed eight years of total service, or who voluntarily discontinues service after having completed 20 years of total service, but who has not yet reached normal retirement age, may elect either to withdraw the balance in that member's annuity reserve account, or to receive an early retirement allowance. Alternatively, a member who separates from county service after completing eight or more years of credited service, may leave the accumulated deductions credited to the member's account in the pension trust fund and receive a full retirement allowance upon reaching superannuation age. In addition to the county annuity, the member would be eligible to receive the "member's annuity," which would be the actuarial equivalent of the balance in the member's defined contribution account at the time of separation from county service.

The vesting provided for under the Law 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.) With the passage of Act

9 of 2001, the vesting requirements for both of the Commonwealth's state-wide retirement plans, the State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS), were also reduced from ten years to five years. The bill would bring the Law into conformity with both private sector practice and the Commonwealth's two state-wide retirement plans by reducing the vesting requirement to five-year cliff vesting.

Under current Law, a member of the retirement system must contribute to the county pension trust fund a percentage of salary based upon the following schedule:

Class 1/120	-	5%
Class 1/100	-	6%
Class 1/80	-	7%
Class 1/70	-	8%
Class 1/60	-	9%

At any time, the county retirement board may authorize 1) a transfer from one membership class to another or 2) a reduction in individual member contributions to any rate applicable to one of the other membership classes. The retirement benefit consists of two components: 1) a "member's annuity," which is a defined contribution plan annuity that is derived from member contributions based on class and is the actuarial equivalent of the balance, with interest, in the member's annuity reserve account at the time of retirement; and 2) a "county annuity," which is a formula-based defined benefit plan annuity. The county annuity is made up of a portion of the member's final salary, based on member class (1/120 Class, 1/100 Class, etc.) and multiplied by the period of total service for which the member contributed at a particular rate.

The bill would amend the Law by opening a one-year window, beginning on the effective date of the bill, within which any county pension board administering a pension plan under the provisions of Act 96 may establish a 1/50th or 1/40th membership class with an employee contribution rate of 9% of pay for both membership classes. The bill would also permit the retirement board to apply the higher membership class to all prior credited service with the county.

The following example is intended to serve as an illustration of how this provision could enhance a member's county annuity:

A county employee has 25 years of credited service as a 1/60th Class member, has a final salary of \$50,000 and has achieved normal retirement age. Under current Law, the member's county annuity would be calculated as 1/60th of the member's final salary multiplied by the period of total service for which the member contributed at the 1/60th rate. Under this calculation, the member would be entitled to an annual county annuity of \$20,000. If the same member is transferred to the newly created 1/40th Class provided for in the bill, the transfer is made just prior to retirement, and the board retroactively applies the 1/40th Class benefit calculation to all prior county service, the member's county annuity would be equal to 1/40th of the member's final \$50,000 salary multiplied by 25 years of service, resulting in an annual annuity of \$31,250.

### **Reduced Vesting Provision**

The Commission's consulting actuary calculated the increase in the present value of future benefits to be paid under the affected pension plans and determined the aggregate increase in the

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

annual cost for the reduced vesting requirements under the bill utilizing the aggregate actuarial cost method. The results are as follows:

	<b><u>Amount</u></b>	
Increase in Present Value of Future Benefits	\$12,000,000	
	<b><u>Amount</u></b>	<b><u>As a % of Payroll</u></b>
Increase in Annual Cost <sup>1</sup>	\$1,500,000	0.11%

<sup>1</sup> Calculated using the aggregate actuarial cost method.

**Membership Class Provisions**

The establishment of the new membership classes and the retroactive application of the enhanced membership class to include all credited service are both optional benefit provisions under the bill. For this reason, the Commission's consulting actuary prepared cost estimates based upon the assumption that 50% of the active members covered by the 68 affected county plans would receive benefits under the new membership classes. The Commission's consulting actuary provided cost estimates for the proposed 1/40th and 1/50th membership classes, assuming both prospective only and retroactive application of the benefit liberalization for both member classes. These estimates are summarized as follows:

**Prospective Application of Proposed Membership Classes**

	Range of Costs <sup>1</sup>	
	1/50 Class	1/40 Class
Increase in Present Value of Future Benefits	\$98,000,000	- \$244,000,000
Increase in Annual Cost <sup>2</sup>	\$12,000,000 (0.86% of pay)	- \$ 29,000,000 (2.09% of pay)

**Retroactive and Prospective Application of Proposed Membership Classes**

	Range of Costs <sup>1</sup>	
	1/50 Class	1/40 Class
Increase in Present Value of Future Benefits	\$240,000,000	- \$563,000,000
Increase in Annual Cost <sup>2</sup>	\$ 28,000,000 (2.02% of pay)	- \$ 67,000,000 (4.82% of pay)

<sup>1</sup> The low end of the range assumes that all of the members estimated to be affected by the new membership classes will participate in the 1/50 class, while the high end of the range assumes that all of the members estimated to be affected by the new membership classes will participate in the 1/40 class.

<sup>2</sup> Calculated using the aggregate actuarial cost method.

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POLICY CONSIDERATIONS

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

Vesting Period. Decreasing the cliff vesting period under the law from eight to five years is consistent with current practice at the state level for both SERS and PSERS and for ERISA covered defined benefit plans in the private sector.

Significant Benefit Liberalization. The creation of a 1/40 class in a county pension plan would provide members with a county annuity that, in effect, is equal to a 2.5% accrual rate with respect to the employer-provided defined benefit component. Since these county plans also include a member-provided defined contribution component, the total retirement benefit would significantly exceed that provided to members of SERS and PSERS.

Restricted Implementation Period. The bill provides authorization for county retirement boards to provide enhanced retirement benefits but restricts the authorization to the year following the date of the bill's enactment. If there is merit to providing the option, restricting implementation to a finite period is questionable from a public pension policy perspective.

Optional Implementation. The bill authorizes rather than mandates county retirement boards to provide enhanced retirement benefits, allowing for local determinations of the need for and feasibility of the enhanced benefits.

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COMMISSION RECOMMENDATION

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On March 27, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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House Bill Number 545, Printer's Number 647, was signed into law by the Governor on December 16, 2003, as Act 43 of 2003.

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**Bill ID:** House Bill Number 652, Printer's Number 758,  
as amended by Amendment Number 3341

**System:** State Employees' Retirement System

**Subject:** Membership in the State Employees' Retirement System for Individuals  
Employed as "Crewleaders" with the Pennsylvania Conservation Corps

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SYNOPSIS

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House Bill Number 652, Printer's Number 758, as amended by Amendment Number 3341, would amend the Pennsylvania Conservation Corps Act (Act of 1984, P. L. 561, No. 112) to, beginning January 1, 2004, provide for membership in the State Employees' Retirement System for employees classified as "crewleaders" in the Pennsylvania Conservation Corps pursuant to the Pennsylvania Conservation Corps Act, and requiring that service as a crewleader rendered prior to January 1, 2004, be considered purchasable as nonschool or nonstate service. House Bill Number 1975, Printer's Number 2580, which amends the Public School Employees' Retirement Code and the State Employees' Retirement Code, is intended to serve as a companion bill that specifically addresses the purchases of service for service as a crewleader rendered prior to January 1, 2004. (Refer to the Commission's actuarial note transmittal dated October 23, 2003, on House Bill Number 1975, Printer's Number 2580, for details on the service purchase issue). House Bill Number 652 also addresses the provision of Commonwealth-funded medical benefits to crewleaders.

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DISCUSSION

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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, 2002, there were 106 participating state and other organizations 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, 2002, SERS had 111,059 active members and 91,228 annuitants and beneficiaries.

Under the Code, superannuation or normal retirement age for most members is age 60 with three years of service or any age with 35 years of service, while age 50 is the normal retirement age for members of the General Assembly and certain public safety employees. Temporary provisions of the Code also have permitted members with 30 or more years of service credit 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.

### **Pennsylvania Conservation Corps**

The Pennsylvania Conservation Corps (PCC) was created in July 1984 by the Pennsylvania Conservation Corps Act (Act 112 of 1984). Administered by the Department of Labor and Industry, the mission of the PCC is to develop the workplace skills, life skills and self-confidence of corps members, and to instill in corps members a sense of citizenship and community service through participation in conservation projects, historical work and various other projects of public benefit. Since 1984, the PCC has undertaken more than 900 projects in urban, suburban and rural areas

statewide. Entities that are eligible to sponsor PCC projects include: local governments; community-based non-profit organizations; the Pennsylvania Emergency Management Agency; the Pennsylvania Game Commission; the Pennsylvania Fish and Boat Commission; the Historical and Museum Commission; and the Departments of Aging, Corrections, Education, Public Welfare, Military and Veterans Affairs, Community and Economic Development, and Conservation and Natural Resources.

Corps members are Pennsylvania residents, between the ages of 18 and 25. Preference in enrollment is given to the economically disadvantaged. Corps members enroll for an initial one-year term of service, with the possibility of extending for an additional six to twelve months of service. Corps members are paid the minimum wage, with a 10 percent pay increase after six months on the job. Corps members who complete a year of service are eligible to receive a one-time cash bonus of \$1,000. While enrolled, Corps members receive on-the-job vocational training, including carpentry, masonry, electrical work, landscaping and a variety of other trades. Corps members work in crews under the supervision of crewleaders who have experience in the building trades and are skilled in motivating and training young adults.

Crewleaders are supervisory personnel employed by the Department of Labor and Industry pursuant to the Pennsylvania Conservation Corps Act. To be eligible for employment as a crewleader, an individual must be a Pennsylvania resident, be registered with the local Job Center for employment, and be physically and mentally capable of performing labor intensive work and supervisory duties. Crewleader candidates are referred to the PCC by the Bureau of State Employment, and preference in hiring is given to honorably discharged military veterans. Crewleaders are full-time, temporary employees, and receive a starting wage of \$10.45 per hour. Examples of work performed by crewleaders include: interviewing and enrolling corps members, planning, organizing, scheduling and assigning work to corps members, directing crew activities, evaluating corps members' work performance, and compiling and submitting periodic reports. Crewleaders are initially employed for a one-year term of service, which may be extended, at the option of the Department of Labor and Industry, for an unlimited number of additional one-year terms. Crewleaders are not, however, entitled to any of the employee benefits normally provided to regular Commonwealth employees, except for paid Commonwealth holidays and workmen's compensation.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary determined that there would be no increase in unfunded actuarial accrued liability due to the bill, but there will be an increase in the dollar amount of employer normal cost. The estimate of the normal cost increase is based upon the census data provided by the Department of Labor and Industry, which indicates there are currently 46 employees classified as crewleaders who would be affected by the bill, with a total reported payroll for these employees of \$1,000,610.

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SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

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	<u>Amount</u>	
Change in Unfunded Actuarial Accrued Liability	\$0	
		<b>As a % of</b>
	<u>Amount</u>	<u>Affected</u>
		<u>Payroll</u>
Additional Employer Annual Costs		
Normal Cost	\$90,000	9.0%
Amortization Payment	<u>0</u>	<u>0.0%</u>
Total Additional Increase in Employer Annual Costs <sup>1</sup>	\$90,000	9.0%

<sup>1</sup> The employer normal cost will increase as a dollar amount, but this additional employer annual cost will not actuarially affect the system-wide employer normal cost as a percentage of payroll because the payroll of the affected members will be newly included in the calculation.

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POLICY CONSIDERATIONS

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

Drafting Irregularity. The bill amends the Pennsylvania Conservation Corps Act to provide for membership in SERS and authorizes a service purchase affecting both SERS and PSERS without amending the applicable retirement statutes. It is very unusual and irregular to provide for retirement benefits by amending a statute other than the applicable retirement Codes.

Drafting Redundancy. The service purchase language in the bill has the effect of duplicating the service purchase authorization for service as a crewleader rendered prior to January 1, 2004, contained in the companion bill (House Bill Number 1975, Printer's Number 2580). The language should be deleted to avoid redundancy and to ensure that House Bill Number 652 is not enacted without the necessary specifications contained in the companion bill.

Mandatory and Optional Membership. Section 5301 of the SERS Code addresses the issue of System membership. For most full-time state employees of Commonwealth departments, membership in the System is mandatory. Certain other employees, including the Governor, members of the General Assembly, and heads of departments and commissions, have the option to become members, but are not required to do so. Others, including most part-time employees, are specifically excluded from membership in SERS. The Pennsylvania Conservation Corps Act defines crewleaders as employees of the Department of Labor and Industry. Policymakers must determine whether mandatory membership in the System is appropriate for this class of employee.

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COMMISSION RECOMMENDATION

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On October 23, 2003, the Commission voted to attach the actuarial note to the bill as amended, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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A later version of House Bill Number 652 (Printer's Number 3008) passed the House on November 24, 2003, and was referred to the Senate Labor and Industry Committee on November 26, 2003.

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**Bill ID:** House Bill Number 655, Printer's Number 761  
**System:** Pennsylvania Municipal Retirement System  
**Subject:** Liberalization of Disability Retirement Provisions for Public Safety Employees

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SYNOPSIS

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House Bill Number 655, Printer's Number 761, would amend sections 313(a) and 411(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 return to or perform the duties of his office."

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DISCUSSION

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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 return to or perform the 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 bill is adopted, the Board will have to be careful to formally establish by regulation, a uniform, state-wide interpretation of unable "to return to or perform the 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.

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SUMMARY OF ACTUARIAL COST IMPACT

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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 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 bill will be negligible.

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POLICY CONSIDERATIONS

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

Limited Application. The more liberal definition applies only to public safety employees. The public pension policy rationale for excluding nonuniformed employees is not apparent.

Need for Specification of Standard Definition. 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.

Administrative Impact. The bill would require PMRS to establish a second disability pool to accommodate the new definition of disability.

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COMMISSION RECOMMENDATION

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On March 27, 2003, 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.

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FINAL LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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House Bill Number 655, Printer's Number 761, passed the House on May 12, 2003, and was referred to the Senate Finance Committee on May 21, 2003.

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**Bill ID:** House Bill Number 698, Printer's Number 826

**System:** All Municipal Pension Systems

**Subject:** Distribution of General Municipal Pension System State Aid under Act 205 of 1984

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SYNOPSIS

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The bill would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to modify the formula used for calculating and distributing General Municipal Pension System State Aid (GMPSSA) for calendar years 2003 through 2007 by providing for a secondary State aid distribution that is based upon the presence of an unfunded actuarial accrued liability in a municipal pension plan.

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DISCUSSION

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

Act 205 of 1984 is applicable to every borough, city, incorporated town, township, municipal authority, and council of governments in the Commonwealth of Pennsylvania. The Act requires actuarial reporting by municipal retirement systems, establishes a minimum funding standard for every municipal pension plan, provides for the allocation of General Municipal Pension System State Aid, and establishes a recovery program for financially distressed municipal retirement systems.

The Commonwealth imposes a tax on the premiums of casualty and fire insurance policies sold in Pennsylvania by out-of-state ("foreign") insurance companies. Act 205 establishes a General Municipal Pension System State Aid (GMPSSA) program financed from the proceeds of the foreign casualty insurance premium tax and a portion of the foreign fire insurance premium tax. The act provides for the annual allocation of these funds to municipalities, other than counties and authorities, based upon the number of full-time employees participating in municipal retirement systems. For a municipality's employees to be considered in the allocation formula, the municipal retirement system in which they participate must have been established before January 1, 1985, or maintained by the municipality for three plan years.

Under the current Act 205 State aid allocation formula, the total amount of funds available each year are required to be distributed to all eligible municipalities to offset employer pension costs. The City of Philadelphia receives an allocation equal to 25% of the amount available for distribution. After Philadelphia's allocation is deducted, the remaining amount in the fund is distributed based on the lesser of "unit value" or "cost." Each nonuniformed employee is counted as one unit and each uniformed employee is counted as two units for purposes of the allocation formula. Because the amount available changes each year and the entire fund is allocated using a formula that considers both unit value and employer pension costs, the unit value fluctuates each year. The unit value has ranged from \$2,200 to \$2,763 in the past ten years. Each eligible municipality receives an annual allocation that is the lesser of either an allocation equal to that year's unit value multiplied by the number of units applicable to that municipality or an allocation

equal to the aggregate actual funding requirements of the municipality's pension plans (cost). By law, in no case may an allocation under the formula exceed the total pension costs of the municipality.

Eligible municipalities that have aggregate annual pension costs that are **less** than the calculated unit value allocation receive State aid allocations equal to full pension costs. As they are limited to that amount, these municipalities are referred to as being "capped at cost." All eligible municipalities that have aggregate annual pension costs that are **greater** than the calculated unit value receive an allocation equal to the calculated unit value multiplied by the number of units in that municipality. These municipalities are referred to as "unit value recipients." The following example may serve to further illustrate the distinction between municipalities that are "capped at cost" and those that are "unit value recipients." In 2002, when the unit value was calculated to be \$2,763, if a hypothetical municipality were administering a pension plan for one nonuniformed employee and the municipality's total annual pension costs were equal to \$2,600, the municipality would receive \$2,600 in State aid and would be termed "capped at cost." If, however, the same hypothetical municipality had total annual pension costs of \$2,900 (costs exceeding the unit value), the municipality would receive \$2,763 in State aid and would be referred to as a "unit value recipient."

Under the bill, during calendar years 2003 through 2007, a portion of the amount of available State aid would be distributed under a modified formula. The bill establishes the 2003 allocation of State aid as a base amount, and provides that for the years 2003 through 2007 any growth in the amount of State aid would be allocated to municipal pension plans that have unfunded actuarial accrued liabilities, based on the number of units applicable to each plan.

The language of the bill does not consider that the amount of State aid available for distribution during calendar years 2003 through 2007 may be less than the amount of State aid available in the "base year" of 2003. In addition, the language of Section 402(e)(9) of the bill, which allocates the additional State aid on the basis of units certified by municipal pension plans with an unfunded actuarial accrued liability, does not appear to consider the possibility that such an allocation may result in a pension plan receiving State aid in excess of the aggregate actual financial requirements. The receipt of State aid in excess of pension costs would conflict with existing language in Act 205, which limits the allocation of State aid to pension costs. The bill would also distribute the additional State aid component directly to municipal pension plans rather than to municipalities, which conflicts with Act 205 and Commonwealth practice with respect to State aid allocations to local governments.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary reviewed the bill and determined that the additional allocations called for would result in the distribution of State aid in a manner that is not closely linked to the actual annual costs of a municipal pension plan based upon the calculation of the minimum municipal obligation under Act 205. Moreover, the additional allocations provided for in the bill would unnecessarily complicate the State aid allocation formula and could cause the inequitable distribution of State aid.

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

Potential for Inequitable Distribution of State Aid. Act 205 of 1984 provides a formula for the equitable distribution of State aid to all municipalities based upon need. The bill would alter this formula in a manner that would distort the intended purpose of the State aid allocation by targeting certain municipalities for additional aid allocations. Furthermore, the additional State aid allocations would be allocated on a basis unrelated to the criteria (unfunded accrued liability) used to determine eligibility for the additional State aid, a condition that would produce serious inequities.

Impact on State Aid Allocations. The proposed modification in the distribution of State aid will detrimentally impact many municipalities that receive State aid allocations based on unit values. Municipalities that have no pension plans with unfunded actuarial accrued liabilities (UAAL) will be detrimentally impacted because the unit value will be reduced due to the diversion of monies to fund the UAAL allocation. Municipalities that have pension plans with UAAL will be impacted because the unit value will be reduced due to the diversion of monies to fund the UAAL allocation, and their individual UAAL allocations may be more or less than the reductions in their unit value allocations. The impact on the State aid allocations is very difficult to ascertain due to the variables in the existing allocation formula, which is being further complicated by the proposed modification, and it is therefore possible that the proponents of the bill will not obtain the anticipated increase in the aggregate amount of their State aid and UAAL allocations.

Availability of Less Complex Alternative Approach. The bill proposes to modify the allocation formula for State aid provided to municipalities to offset employee pension costs in a complex manner that would potentially benefit some municipalities and certainly harm others. That same objective could be realized in a simple, programmatically sound way that would insure increased State aid allocations to municipalities that receive State aid allocations that are considerably less than 100% of their pension costs, while reducing the State aid allocations to municipalities that receive State aid allocations equal to 100% of their pension costs. This alternative would simply revise the current State aid allocation formula to limit the allocations to a percentage of costs that is less than the current 100% limit.

Conflicts with Current Law. Section 402(f)(2) of Act 205 prohibits the distribution of State aid to municipalities in excess of the aggregate actual financial requirements of a municipality's pension plans. The bill would provide an additional allocation based on the presence of an unfunded actuarial accrued liability in a municipal pension plan. The additional allocation provided for in the bill could result in allocations to pension plans that exceed actual costs.

Technical Concerns. In reviewing the bill, the Commission staff noted the following technical concerns:

*State Aid Distribution.* The bill appears to distribute State aid directly to municipal pension plans rather than to municipalities as currently required by Act 205. The financial structure of most local government pension plans is not compatible with the direct receipt of State aid allocations.

*Lack of Reallocation Provisions.* The modified formula does not provide for the reentry of additional allocations into the allocation formula where the additional allocations cannot be distributed to eligible municipalities due to individual municipal cost cap limitations. The proposal should provide that these "excess allocations" either be reentered into the formula to increase the amounts available to eligible recipients or returned to the fund for distribution the subsequent year.

*Availability of State Aid not Constant.* The bill appears to assume that the amount of State aid available for distribution during calendar years 2003 through 2007 will always be greater than the amount of State aid available in the “base year” of 2003. The unit value fluctuates from year-to-year based both upon the availability of funds and municipal pension costs. The bill does not appear to consider the possibility that available State aid may remain flat or may actually decline during calendar years 2003 through 2007.

*Time Sensitivity.* Because the bill proposes a modification to the State aid allocation for a specific five-year period commencing in the fall of 2003, the bill will need to be enacted by the summer of 2003 or sooner to allow administrative procedures to be modified. Otherwise, the bill will need to be amended to reflect the passage of time.

*Inappropriate Eligibility Criterion.* The bill proposes to allocate State aid to municipal pension plans with unfunded actuarial accrued liabilities (UAAL). There is no relationship between the existence of a UAAL and the need for supplemental State aid.

Drafting Irregularities. In reviewing the bill, the Commission staff noted the following drafting irregularities:

*Inadvertent Removal of Statutory Authority for Past Allocations.* On page 2, line 9, and on page 5, line 19, the bill proposes to amend Section 402(e)(1) of Act 205. The amendatory language appears to inadvertently remove the statutory authority for the State aid allocations made from 1997 through 2002.

*Inconsistent References to Applicable Period of Formula Modification.* It would appear from a reading of the bill that the intended period of the proposed State aid modification provided for under the bill begins in 2003 and ends in 2007. However, in reviewing the bill, the Commission staff noted several inconsistencies that appear to be drafting errors. The staff offered the following editorial corrections:

- 1) On page 3, lines 10 and 11, the referenced years should be changed to 2002, 2008 and 2008;
- 2) On page 4, lines 3 and 4, the referenced years should be changed to 2003 and 2007;
- 3) On page 4, line 8, the referenced year should be changed to 2002; and
- 4) On page 8, lines 11 and 12, the referenced years should be changed to 2003 and 2007.

Potential for Program Redundancy. The bill provides additional allocations of State aid to municipal pension plans based upon the existence of unfunded actuarial accrued liabilities in those plans. This provision of the bill appears to be based, in part, upon the premise that unfunded actuarial accrued liabilities are not reflected in the current State aid allocation formula. In fact, the amortization costs associated with unfunded actuarial accrued liabilities in municipal pension plans are already considered in the existing State aid allocation formula.

Potential for Manipulation. The State aid allocation formula provided for in the bill could provide a disincentive for municipalities with pension plans that have unfunded actuarial accrued liabilities to fully amortize those liabilities because the bill would provide additional State aid allocations to plans that continue to have unfunded liabilities.

City of Philadelphia Excluded. Under Act 205, the City of Philadelphia receives an allocation not to exceed 25 percent of State aid that is available in any calendar year. It appears that pension plans in the City of Philadelphia were not considered in the bill and would not benefit from the additional State aid allocations provided for in the bill.

Treatment With Respect to Bonded Debt. Municipalities that have issued debt to fund unfunded actuarial accrued liabilities would be excluded from receiving the additional allocations under the bill. Even though Act 205 treats these municipalities as though they had not funded their unfunded actuarial accrued liabilities for distribution of General Municipal Pension System State Aid and for Supplemental State Assistance, the bill would penalize municipalities that have eliminated unfunded actuarial accrued liabilities through the issuance of bonded debt.

Limited-Term Modification. If there is reason for the bill's proposed modification in the allocation formula for the State aid used to offset municipal pension costs, there is no public pension policy rationale for limiting the modification to a five-year period.

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COMMISSION RECOMMENDATION

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On March 27, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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House Bill Number 698, Printer's Number 826, was referred to the House Local Government Committee on March 6, 2003.

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**Bill ID:** House Bill Number 989, Printer's Number 1162

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

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

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SYNOPSIS

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House Bill Number 989, Printer's Number 1162, 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.

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DISCUSSION

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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, 2001, there were at least 621 municipal police officer retirement systems with three or more members operating under the Municipal Police Pension Law, covering 7,561 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 is entitled to a survivor's pension equal to at least 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. If no spouse survives, or if the spouse survives and subsequently dies, the survivor's pension is payable to any child or children under the age of 18 or, if the child or children are attending college, under or attaining the age of 23 years.

As discussed above, Act 600 provides for a single life annuity 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, with the passage of Act 30 of 2002, a pension plan subject to the Act must also provide a survivor annuity that is equal to at least 50 percent of the retired police officer's annuity at the time of death. Prior to the passage of Act 30, police pension plans subject to Act 600 were permitted to provide a survivor benefit. The current mandated survivor benefit is a separate benefit component and, under Act 600, would be provided without regard to other optional forms of pensions permitted by the bill. Because Act 600 now mandates a survivor annuity, the Commission presumes that the intent of the bill is to provide for optional forms of

pensions in situations in which the retiree wishes to provide for a survivor annuity that is in addition to the already mandated 50 percent survivor annuity, or in which there is no surviving spouse or child but some other surviving individual for whom the retiree wishes to provide.

Although neutral from a cost perspective and generally desirable from a policy perspective, the need for optional forms is somewhat mitigated by the now mandated 50 percent survivor annuity provided under Act 600. The optional forms permitted under the bill could, therefore, result in a survivor receiving benefits comprised of both a separate survivor annuity (under the current Law) and a joint and survivor annuity (under the bill).

The proposed optional forms of pensions 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 a municipality could approve an optional form while another disapprove the same optional form.

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

As was typical at the time of its enactment, 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 incentive for remaining in service longer under a conventional "formula-based" approach.

The disincentive in Act 600 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 20 after the word “by” and all of lines 21 and 22.

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 2 after the word “determined” and all of lines 3 through 6 and inserting words to the effect of “as of the effective date of the member’s retirement that the retirement benefit calculated in the normal manner using the member’s actual final average salary is greater than the amount calculated as the late retirement benefit under this subsection, the member shall receive the higher retirement benefit.”

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission’s consulting actuary has reviewed the bill and determined that 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 impact.

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SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

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	<u>Amount</u>	
	<u>Amount</u>	<u>As a % of Payroll</u>
Increase in Unfunded Actuarial Accrued Liabilities	\$57,000,000 – \$62,000,000	
Increases in Employers' Annual Costs		
Normal Costs	\$3,000,000 – \$ 3,500,000	0.77% – 0.90%
Amortization Payments <sup>1</sup>	<u>6,045,000 – 6,575,000</u>	<u>1.55% – 1.69%</u>
Total Increases in Employers' Annual Costs	\$9,045,000 – \$10,075,000	2.32% – 2.59%

<sup>1</sup> Fifteen year level-dollar payments assuming a 7.62% interest rate.

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POLICY CONSIDERATIONS

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

Propriety of Optional Forms of Pensions. 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 generally appropriate and desirable from a public pension policy perspective.

Conflict with Current Provisions The need for optional forms of the retirement benefit under Act 600 municipal police pension plans is somewhat mitigated by the now mandated 50 percent survivor annuity currently provided. The simultaneous operation of optional forms and the mandated, stand alone survivor benefits may result in administrative difficulties and would not establish the benefit parity for retiring police officers that optional forms are designed to provide.

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.

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COMMISSION RECOMMENDATION

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On December 17, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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House Bill Number 989, Printer's Number 1162, was referred to the House Local Government Committee on March 26, 2003.

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**Bill ID:** House Bill Number 990, Printer's Number 1649

**System:** State Employees' Retirement System

**Subject:** Reduced Superannuation Requirements for District Justices

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SYNOPSIS

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House Bill Number 990, Printer's Number 1649, would amend section 5102 of the State Employees' Retirement Code to provide superannuation retirement benefit eligibility to district justices upon attaining age 50 and accumulating 24 years of credited service. Under current law, superannuation age for district justices, and most other State Employees' Retirement System members, is age 60 or at any age upon accrual of 35 years of credited service.

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DISCUSSION

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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, 2001, there were 108 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, 2001, SERS membership consisted of 109,716 active members and 89,217 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. Normal retirement age for certain other members, including certain public safety employees and members of the General Assembly, is age 50. Generally, the pension benefit is equivalent to 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. District justices have the option of electing either Class A or Class E-2 membership in SERS for all periods of judicial service. As members of Class E-2, district justices receive an enhanced pension benefit. The annuity for Class E-2 members is obtained by multiplying the standard single-life annuity by a class of service multiplier. The class of service multiplier for Class E-2 is 1.5, which in effect makes the pension benefit equal to three percent times the years of service times the final average salary. The employee contribution rate for Class E-2 is 7.50 percent. Members of the judiciary, including district justices, were not effected by the benefit changes provided by Act 9 of 2001.

In Pennsylvania, Special Courts (also called minor courts) are the first level of courts in the Commonwealth's unified judicial system. In all counties (except Philadelphia), these courts are presided over by district justices, formerly known as justices of the peace. District justices have jurisdiction over summary offenses, landlord-tenant disputes and other relatively minor civil actions. They may also accept guilty pleas of misdemeanors of the third degree under certain circumstances, preside at arraignments, fix and accept bail, issue warrants and perform duties of a similar nature. Although district justices must meet certain citizenship and residency requirements to be elected to office, they are not required to be members of the Bar of the Pennsylvania Supreme Court. District justices are elected to six-year terms of office. Vacancies occurring during a term of office may be filled by gubernatorial appointment until the next election. The complement of district justices in office currently totals 544.

Prior to March 1, 1974, there were a number of special classes of membership in SERS, each of which had its own class of service multiplier that was used in the calculation of the special class member's pension benefit. As part of the Commonwealth's pension reform efforts of the early 1970s, a new State Employees' Retirement Code was adopted that, among other things, placed all individuals joining SERS after February 28, 1974, in Class A, for which the class of service multiplier is 1.0. One of the reasons for this change was to ensure that SERS would continue to be treated as a qualified pension plan under section 401(a) of the Internal Revenue Code by removing a source of possible discrimination. Individuals who were members of a special class of membership prior to March 1, 1974, and who remained continuously in the same job category, would continue to receive retirement service credit for the special membership class until they move into a different job category or left Commonwealth employment. Regardless of their dates of employment, however, members of the judiciary retain the option to elect special class membership in SERS (Class E-1 membership for judges, and Class E-2 membership for district justices) for all periods of judicial service. This benefit provision is not provided for in the Code, but instead is the result of a series of court cases in which the constitutionality of some of the 1974 Code changes were challenged, the most salient of these cases being the "Goodheart" Supreme Court decisions (See *Goodheart v. Casey*, 521 Pa. 316 (1989); 523 Pa. 188 (1989), and *Klein v. State Employees' Retirement System*, 521 Pa. 330, 555 A.2d 1216, 1221 (1989)). Essentially, the Supreme Court of Pennsylvania ruled that the 1974 amendments to the Code, which eliminated the option to elect special class membership, were unconstitutional as applied to members of the judiciary. The Supreme Court ruled that, in order to preserve an independent judiciary, judges must be adequately compensated, pension benefits are part of compensation, and all members of a single-level court performing similar functions and exercising similar authority must be compensated at the same rate. As a result, all individuals who became members of the judiciary following the 1974 amendments to the SERS Code must be permitted to elect special class (Class E-1 or E-2) membership, make the required higher member contributions, and receive the higher pension benefit attributable to their membership class.

Currently under the SERS Code, the only members eligible for superannuation retirement other than members of the General Assembly before age 60 are public safety personnel, who have been granted an earlier retirement age based on the premise that the physical requirements of their duties warrant the maintenance of an exceptionally able and vigorous work force.

SUMMARY OF ACTUARIAL COST IMPACT

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

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability	\$900,000	
		<b>As a % of</b>
	<u>Amount</u>	<u>Affected Payroll</u>
Increase in Employer Annual Costs		
Normal Cost	\$110,000	0.34%
Amortization Payment <sup>1</sup>	<u>140,000</u>	<u>0.43%</u>
Total Increase in Employer Annual Costs <sup>2</sup>	\$250,000	0.77%

<sup>1</sup> Amortization calculated as level dollar payments over ten years.

<sup>2</sup> Amortization payments cease after 10 years.

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POLICY CONSIDERATIONS

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

Appropriateness of Benefit Coverage. Generally, eligibility for full retirement benefits with reduced age and service requirements has been extended to 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. In considering the proposed legislation, Commonwealth policymakers must determine whether the special benefit coverage is warranted for this group of employees.

Absence of Cost Sharing. The proposed legislation provides a benefit enhancement 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.

Policy Deviation. The bill would implement a policy change within SERS by extending reduced age and service requirements for superannuation retirement to members other than public safety personnel and members of the General Assembly. The public pension policy justification for initiating this practice is not apparent.

Benefit Disparity. The bill would provide a substantially reduced age requirement for superannuation retirement of district justices (Class E-2). Other members of the judiciary, or judges (Class E-1), would not be included in the benefit enhancement. The public pension policy rationale for the creation of this benefit disparity among similar types of employees is not apparent, and the disparity may result in requests for the benefit enhancement to be extended to other members of the judiciary.

Drafting Ambiguity. The wording of the language in the bill is somewhat ambiguous and could be interpreted to require that district justices (Class E-2) have 24 years of service in order to be eligible for retirement since the proposed retirement eligibility criteria (age 50 and 24 years of service) are an exception to the standard age 60 criterion.

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COMMISSION RECOMMENDATION

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On May 22, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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A later version of House Bill Number 990 (Printer's Number 3090) passed the House on December 15, 2003, and was referred to the Senate Finance Committee on December 24, 2003.

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**Bill ID:** House Bill Number 1432, Printer's Number 1778

**System:** All Municipal Pension Systems

**Subject:** Deferred Retirement Option Plans (DROPs) and  
Technical Amendments to Act 205 of 1984

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SYNOPSIS

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The bill would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to provide for the establishment and administration of Deferred Retirement Option Plans (DROPs), to be known and cited as In-Service Retirement Option Plans (IROPs) in local governments in the Commonwealth of Pennsylvania, and to make certain necessary technical amendments.

The In-Service Retirement Option Plan (IROP) provisions of the bill would:

Authorize a local government with a defined benefit pension plan to establish an IROP as part of the plan;

Permit a member of such a pension plan who is or will be eligible for normal retirement to elect to participate in the IROP;

Provide for IROP election forms;

Provide for early termination of IROP participation by a member without a penalty;

Require that IROP participation begin the day after normal retirement and continue for the period specified in the IROP ordinance;

Require that the normal retirement benefits of an IROP participant, together with interest, be credited to a separate subsidiary account;

Require payment of the balance in the account to either the member or a beneficiary within 45 days after termination of IROP participation as either a lump sum or a tax-sheltered rollover distribution;

Provide protection of IROP benefits to IROP participants including protection from State and municipal taxation but permitting claims under the Public Employee Pension Forfeiture Act and qualified domestic relations orders;

Require that an IROP participant be eligible for all postretirement benefits and for most pre-retirement benefits that are restricted to active employees;

Provide for the crediting and payment of benefits if an IROP participant dies during the period of IROP participation;

Permit a former IROP participant to be re-employed by the local government after the elected participation period ends;

Require the establishment of an IROP participant account and its separate, subsidiary accounts that are to be held in trust;

Provide for the establishment of IROPs by the Pennsylvania Municipal Retirement System for its participating local governments;

Provide for a transition period for existing plans to conform with the IROP provisions;

Provide for rectifying future noncompliance with the IROP provisions; and

Prohibit IROP participants and their compensation from being reported as active members and active member payroll for purposes of actuarial valuation reporting under Act 205.

The technical amendments contained in the bill would:

Provide for the Commission to certify pension cost data based on the latest report required to be filed under Chapter 2 of Act 205;

Explicitly provide authority to the Auditor General to withhold State aid in instances of funding deficiencies until the deficiencies are resolved;

Upon the expiration of the Supplemental State Assistance (SSA) Program in 2003, provide for the cessation of determinations of distress for municipalities, provide for the cessation of certifications to the General Assembly of needed SSA appropriations, and provide for the cessation of certifications to the Auditor General of the SSA for each eligible municipality; and

Authorize continuation of any Recovery Program remedy previously elected and implemented that is being used by an eligible municipality on December 31, 2003.

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DISCUSSION

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

Act 205 of 1984 affects every borough, city, incorporated town, township, municipal authority, and council of governments in the Commonwealth of Pennsylvania. The Act requires actuarial reporting by municipal retirement systems, establishes a minimum funding standard for every municipal pension plan, provides for the allocation of General Municipal Pension System State Aid, and establishes a recovery program for financially distressed municipal retirement systems.

**Act 205 Technical Amendments**

In addition to the annual distributions of General Municipal Pension System State Aid (GMPSSA) to municipalities, Act 205 provides for a Supplemental State Assistance (SSA) Program for municipalities participating in the Recovery Program for Financially Distressed Municipal Pension Plans. Under the Act, the SSA program began in 1988 and is scheduled to terminate after 15 years. To be eligible for assistance, municipalities participating in the SSA program must file annual actuarial valuation reports with the Commission. The program is financed by annual general fund appropriations. The allocations under the program were intended to accelerate improvement in the actuarial condition of financially distressed municipal retirement systems. The

amount of assistance is directly related to the degree of financial distress in the individual municipal retirement system.

The bill makes necessary technical amendments to Act 205 in connection with the scheduled expiration of the SSA program in 2003, by providing for the cessation of determinations of distress to municipalities, providing for the cessation of certifications to the General Assembly of needed SSA appropriations, and providing for the cessation of certifications to the Auditor General of the SSA for each eligible municipality.

The bill also provides for the Public Employee Retirement Commission to certify pension cost data to the Department of the Auditor General for use in the determination of State aid (GMPSSA) allocations and for the Department of the Auditor General to withhold State aid in instances of funding deficiencies under Act 205. In both cases, the language simply reflects current practices.

### **Deferred Retirement Option Plans**

Deferred Retirement Option Plans (DROPs) provide an optional way to pay retirement benefits. They permit an employee who is eligible for normal retirement to continue employment and continue to receive wages or salary as usual. But, instead of deferring retirement, the employee's regular monthly retirement payments commence and are deposited into an interest bearing account. At the conclusion of employment, which coincides with the end of the DROP participation period, the employee leaves service, receives the balance in the interest bearing account and begins to receive regular monthly retirement benefit payments. The ability to continue employment at full salary, after retirement benefits commence, allows the employee to accumulate resources for use in retirement that would otherwise not be available.

A DROP benefits employers by allowing the employer to retain more senior/skilled employees who might otherwise retire. Also, the transition and replacement process for retiring employees is more predictable, and the employer is able to provide employees with a desirable retirement benefit option at little or no cost. From an employee perspective, the ability to accumulate additional resources to be used in retirement is the primary attraction. Also, during the DROP period, employees may experience increased take-home pay because pension contributions typically are not required. DROPs are particularly advantageous to employees who are members of pension plans that do not provide for additional benefit accrual after retirement eligibility.

Most DROPs increase employer administrative costs and all delay the reduction of payroll costs associated with replacing retired employees at lower salaries. Incorrectly designed DROPs or those created in the absence of statutory guidance have the potential to be unexpectedly expensive and conflict with municipal codes, Act 205 and the Municipal Police Pension Law. In the absence of carefully crafted legislation, compliance with federal anti-discrimination rules and the Internal Revenue Code could be problematic as well. Under a DROP, the employee forgoes somewhat higher ultimate monthly pension benefits, but gains the right to accumulate lump-sum pension benefits while still employed.

Because DROPs established by both public and private sector employers are undefined by statute, the individual design features of DROPs are extremely diverse in nature. Usually, a member must be eligible for full retirement in order to participate. Maximum DROP participation periods between two and five years are common. Typically, neither benefit accruals nor contributions take place during the DROP participation period. Most DROPs allow for the lump-sum payout of the balance in the accumulation account and many allow the participant to choose between various payout methods.

Because of the potential diversity of DROPs, it is unlikely that, in the absence of enabling legislation, DROPs created in Pennsylvania would conform to existing State statutes. While compatibility with State statutes in many states may pose no significant problem for municipal

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DISCUSSION (CONT'D)

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pension plans, non-conformance with Pennsylvania's Municipal Pension Plan Funding Standard and Recovery Act (Act 205), for example, would have the potential to cause inequitable allocations in the annual distribution of more than \$130 million in General Municipal Pension System State Aid. Pennsylvania currently has no enabling legislation or guidelines for the implementation of DROPs administered by local governments. The bill would amend Act 205 by adding a chapter specifically addressing this issue by creating a uniform Pennsylvania local government DROP structure known as the In-service Retirement Option Plan.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary reviewed the bill and determined that adding an IROP to a local government defined benefit plan could either increase or decrease the long-term cost of the defined benefit plan. Key factors will be:

- 1) the extent to which members would elect an IROP in the future relative to the extent to which members currently defer their retirement past first eligibility for normal retirement;
- 2) the rate of interest credited on IROP accounts;
- 3) anticipated (or already negotiated) salary increases; and
- 4) the level of continued benefit accruals under the plan after normal retirement for members who do not participate in the IROP.

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POLICY CONSIDERATIONS

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

Substantial Conformance with Policy Guidelines. In March 2002, the Commission released a special report entitled, *Deferred Retirement Option Plans (DROPs): Authorization and Guidelines for Implementation of DROPs by Local Governments in Pennsylvania*, a report recommending policy guidelines for authorizing, designing and implementing Deferred Retirement Option Plans (DROPs) in Pennsylvania local governments. The bill conforms to the policy recommendations contained in the Commission's special report.

*Statutory Authority and Guidance.* The bill would provide necessary statutory authority and guidance by providing statewide legislation specifically authorizing the implementation of DROPs by Pennsylvania local governments.

*Uniform Design.* The bill would provide a single, uniform, statewide DROP program that fully integrates DROPs into existing statutes.

*Program Nomenclature.* The bill would provide that DROPs established by local governments in the Commonwealth be cited and referred to as In-service Retirement Option Plans (IROPs).

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COMMISSION RECOMMENDATION

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On May 22, 2003, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal and favorably consider enactment of the bill.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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House Bill Number 1432, Printer's Number 1778, was tabled in the House on December 18, 2003.

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**Bill ID:** Amendment Number 2133 to  
House Bill Number 1432, Printer's Number 1778

**System:** All Municipal Pension Systems

**Subject:** Continuation of Recovery Program Remedies under the  
Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984)

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SYNOPSIS

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The bill would amend Section 607 of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to preserve the remedies available to municipalities enrolled in the financially distressed municipal pension system recovery program if a municipality elected, implemented and used the remedy or remedies *before* December 31, 2003. Amendment 2133 would permit the implementation and use of the various remedies *after* December 31, 2003, if a municipality participating in the recovery program increases its aggregate contributions to all of its defined benefit pension plans by the greater of 25% or \$20,000 in the immediately preceding year and the governing body of the municipality takes formal action to elect, implement and utilize the remedy or remedies.

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DISCUSSION

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

Act 205 of 1984 is applicable to every borough, city, incorporated town, township, municipal authority, and council of governments in the Commonwealth of Pennsylvania. The Act requires actuarial reporting by municipal retirement systems, establishes a minimum funding standard for every municipal pension plan, provides for the allocation of General Municipal Pension System State Aid, and establishes a recovery program for financially distressed municipal retirement systems.

Act 205 establishes the procedure for determining financial distress in municipal retirement systems for municipalities considering participation in the Recovery Program for Financially Distressed Municipal Pension Systems. This distress determination is based on a quantified evaluation of both the aggregate actuarial condition of a municipality's retirement systems and the general fiscal condition of the municipality. (This is not the same as distress under Act 47 of 1987, known as the Municipalities Financial Recovery Act (53 P.S. §§ 11701.101-11701.501).

The Recovery Program for Financially Distressed Municipal Pension Systems is established by the act. There are various remedies available to a municipality depending upon the extent of the financial distress of its retirement system. Remedies applicable to municipalities determined to be moderately distressed or severely distressed include interim relaxation of the actuarial funding standard, expansion of municipal capacity to raise revenue to meet future retirement system obligations, revision of pension plans to reduce future municipal costs, and mandated administrative reform measures. The bill authorizes municipalities enrolled in the Recovery Program to continue to use remedies that were implemented before December 31, 2003, when the formal Recovery Program ends.

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DISCUSSION (CONT'D)

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The amendment would permit municipalities who have not elected to implement and utilize certain remedies under Section 607 of Act 205 to do so after December 31, 2003, if a municipality participating in the Recovery Program increases its aggregate contributions to all of its defined benefit pension plans by the greater of 25% or \$20,000 in the immediately preceding year and the governing body of the municipality takes formal action to elect, implement and utilize the remedy or remedies. In effect, the amendment makes access to Recovery Program remedies by participating municipalities permanent, even though the remedies available through the Recovery Program were originally intended for use on a temporary basis to assist municipalities experiencing a degree of financial distress at the time Act 205 was enacted into law. Among these remedies is the power to invoke special taxing authority, which permits a municipality to increase taxes on earned income or real property above the maximum rates otherwise provided by applicable law.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary reviewed the amendment and determined that the amendment would have no actuarial cost impact upon the pension plans maintained by the affected municipalities.

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POLICY CONSIDERATIONS

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

Appropriateness of Permanent Access to Recovery Program Remedies. The effect of the amendment would be to make permanent the availability of Recovery Program remedies, including the special taxing authority, to municipalities participating in the Recovery Program that are not currently utilizing such remedies. The amendment may conflict with the original intent of the act, which was to make available, on a temporary basis, certain remedies to municipalities experiencing a degree of financial distress at the time Act 205 was enacted. Policymakers must determine the appropriateness of permanently preserving measures that were originally intended to be temporary in nature and in view of the potential impact of such action upon the taxpayers of the Commonwealth.

Drafting Ambiguities. The amendment does not clearly indicate that the authorization to use Recovery Program remedies after December 31, 2003, is restricted to only municipalities that were participating in the Recovery Program as of December 31, 2003. The amendment also does not clearly indicate that the required increase in "aggregate contributions" means "aggregate general fund contributions", which is necessary for the conditional phrase to be meaningful and free of the potential for distortion.

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COMMISSION RECOMMENDATION

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On October 23, 2003, 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.

House Bill Number 1432, Printer's Number 1778, was tabled in the House on December 18, 2003.

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**Bill ID:** Amendment Number 2861 to  
House Bill Number 1432, Printer's Number 1778

**System:** All Pittsburgh Public Employee Retirement Systems

**Subject:** Modification of Actuarial Funding Standard

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SYNOPSIS

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Amendment Number 2861 to House Bill Number 1432, Printer's Number 1778, would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to implement a modification of the actuarial funding requirements for the City of Pittsburgh.

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DISCUSSION

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The City of Pittsburgh has three pension plans: one for police officers, one for firefighters, and one for all other city employees. As of January 1, 2002, the three retirement systems combined had a total of 4,338 active members and approximately \$381 million in assets.

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

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

Under Act 205 of 1984, every year a municipality must budget and contribute the full amount of its obligation to each of its retirement systems. These obligations include both the ongoing normal cost of the pension plans and, where applicable, the amortization contributions sufficient to amortize the unfunded actuarial accrued liabilities of the plans by the target dates established under Act 205. A municipality's minimum financial obligation, referred to as the minimum municipal obligation (MMO), is the full actuarial cost of the retirement system reduced by the expected amount of any member contributions. The minimum municipal obligation is calculated using the results of the standardized actuarial reports prepared and submitted to the Commission. The municipality must appropriate the minimum municipal obligation for each of its retirement systems in its budget, and the budgeted contributions must be made. If a municipality does not make a required annual contribution to a retirement system by the end of the year, Act 205 requires that the amount of the omitted contribution, plus applicable interest, be added to the minimum municipal obligation for the following year.

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

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

Act 82 of 1998 amended Act 205 by adding a new chapter (Chapter 9) that permitted only the City of Pittsburgh to modify its statutorily prescribed funding standard under certain circumstances. Under Chapter 9, if the City of Pittsburgh (City) sold enough pension bonds to increase the ratio of the actuarial value of assets to the actuarial accrued liability of its pension trust funds by more than 25 percent and deposited the proceeds of the bonds into its pension trust funds during 1998, the City would be permitted to modify the 26 years then remaining on its 40-year level percentage of payroll amortization payment schedule for its unfunded actuarial accrued liabilities adopted in 1985 by implementing a new 40-year modified level dollar amortization payment schedule for the remaining unfunded actuarial accrued liabilities. The 40-year amortization payment schedule would be modified so that each annual payment is reduced, and a rate of investment return greater than the assumption rate of the City's pension plans is assumed to be earned on each payment. Through Act 82 of 1998, the City sold approximately \$256 million in pension bonds, made the deposit and implemented the new modified 40-year amortization schedule. Accordingly, the funded status and the funding requirements of the City's pension plans changed significantly. While Act 82 provided the City with special relief from the Act 205 funding standard, the funding standard remains applicable to all other municipalities in the Commonwealth. The following data summarizes the financial condition, the funding requirements and contributions of the City's three pension plans as of the most recent Act 205 reporting period.

**City of Pittsburgh  
Pension Data  
Prepared from the January 1, 2002, Act 205 Actuarial Valuation Reports**

	<u>Police</u>	<u>Fire</u>	<u>Non- uniformed</u>	<u>Total</u>
<u>Funded Status</u>				
Accrued Liability (Millions)	\$314	\$233	\$205	\$752
Assets (Millions)	133	136	112	381
Unfunded Liabilities (Millions)	181	97	94	372
Fund Ratio	42%	58%	54%	51%
<u>2003 Funding Requirements</u>				
Normal Cost	\$ 6.6	\$5.4	\$4.0	\$16.0
Amortization Requirement	11.9	6.0	7.0	24.9 <sup>1</sup>
Administrative Expense	.9	.8	.7	2.4
Member Contributions	(3.61)	(3.3)	(3.4)	(10.3)
Subtotal				30.0
Debt Service	8.2	5.3	3.1	16.6
Total (23.4% of Payroll)				46.6
<u>Contributions – 2001 Plan Year<sup>2</sup></u>				
State Aid	\$8.4	\$4.6	\$3.0	\$16.0
Local Pension Contribution	2.6	1.2	.8	4.6
2001 MMO				20.2
Local Pension Bond Debt Service	8.2	5.3	3.1	16.6
Total (18.5% of Payroll)				36.8
<u>Principal Balance of Bonded Pension Debt</u>				\$253

History of Pittsburgh's State Aid Allocations

2002 – \$17	1998 – \$15	1994 – \$16	1990 – \$18
2001 – 16	1997 – 14	1993 – 16	1989 – 24
2000 – 16	1996 – 14	1992 – 16	1988 – 20
1999 – 13	1995 – 16	1991 – 18	

<sup>1</sup> 2001 amortization contributions were \$13.5.<sup>2</sup> Does not include \$2.3 million to a supplemental plan.

As drafted, the amendment would permit a three-year period of deferral of a portion of the City's statutorily required minimum municipal obligations, which would be followed by a fifteen year repayment period. The amount deferred in each of the three years of the deferral period (\$10,970,000) represents the difference between the City's total 1989 allocation of General Municipal Pension System State Aid and Supplemental State Assistance (State aid) and the City's 2002 allocation of State aid. The deferral of required pension contributions proposed in the amendment is contrary to the maintenance of the statewide Act 205 minimum funding standard. The General Assembly must determine whether the proposed deferral of approximately one-third of the City's contributions to its retirement systems is an appropriate means to afford fiscal relief to the City that is preferable to other forms of fiscal relief or budgetary modifications.

The General Assembly must also determine whether the proposed deferral of required pension contributions is a remedy for fiscal distress that should be available only to one municipality. In

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DISCUSSION (CONT'D)

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making that determination, the General Assembly must examine the impact that expanding the remedy beyond one municipality would have on the actuarial funding standard implemented under Act 205.

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SUMMARY OF ACTUARIAL COST IMPACT

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Based on the current funding status of the City's three pension plans, the Commission's consulting actuary indicated that the proposed payment deferral in Amendment Number 2861 will not jeopardize the ability of the pension plans to make benefit payments to retirees and will have no actuarial effect on the pension plans at the end of the period of contribution modification in 2020, if the assumed investment earnings are realized. He also indicated that he believed exempting one municipality from the Act 205 actuarial funding standard was flawed from a policy standpoint and may lead to requests for similar exemptions for other municipalities with fiscal problems.

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POLICY CONSIDERATIONS

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

Departure from Mandated Funding Standard. Between 1974 and 1985, prior to the enactment of Act 205, the aggregate unfunded actuarial accrued liability of municipal pension plans in the Commonwealth grew at a rate of approximately 10% annually. Largely due to the funding standard imposed by Act 205, this unchecked growth in unfunded actuarial accrued liabilities has been halted. The deferral of required pension contributions proposed in the amendment is contrary to the maintenance of the Act 205 actuarial funding standard.

Appropriate Nature of Relief. The General Assembly must determine whether the proposed deferral of required City contributions to its pension trust funds is preferable to other relief available to the City such as decreasing other expenditures or increasing revenues.

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

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COMMISSION RECOMMENDATION

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On July 16, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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House Bill Number 1432, Printer's Number 1778, was tabled in the House on December 18, 2003.

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**Bill ID:** House Bill Number 1975, Printer's Number 2580

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

**Subject:** Purchase of Nonschool or Nonstate Service as a  
Crewleader with the Pennsylvania Conservation Corps

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SYNOPSIS

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House Bill Number 1975, Printer's Number 2580, would amend the Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) to permit an active member or active multiple service member of either the Public School Employees' Retirement System (PSERS) or the State Employees' Retirement System (SERS) to purchase up to five years of nonschool or nonstate service credit for service as a crewleader with the Pennsylvania Conservation Corps rendered prior to January 1, 2004. Under the bill, members would be required to exercise the service purchase option within three years of becoming eligible to do so, would be required to pay the present value of the full actuarial cost of the increase in the projected superannuation annuity caused by the additional service credit, and would be precluded from withdrawing the amount paid for the service purchase upon retirement under Retirement Option 4. House Bill Number 1975, Printer's Number 2580, is a companion bill to House Bill Number 652, Printer's Number 758, as amended by Amendment Number 3341. House Bill Number 652, as amended, addresses the issue of prospective membership in the State Employees' Retirement System for crewleaders. (Refer to the Commission's actuarial note transmittal on the amended bill for details on that issue.)

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DISCUSSION

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The Public School Employees' Retirement Code and the State Employees' Retirement Code 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, 2002, there were approximately 695 participating employers, generally school districts, area vocational-technical schools, charter schools, and intermediate units in PSERS. As of December 31, 2002, there were approximately 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, 2002, PSERS had 242,616 active members and 141,414 annuitants and beneficiaries. As of December 31, 2002, SERS had 111,059 active members and 91,228 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.

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 may enhance the retirement benefit, may accelerate retirement eligibility, and also may accelerate eligibility for other types of state-paid benefits.

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.

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 nonschool service (in the case of PSERS members) and nonstate service (in the case of SERS members) to include service credit for service as a crewleader with the Pennsylvania Conservation Corps rendered prior to January 1, 2004.

### **Pennsylvania Conservation Corps**

The Pennsylvania Conservation Corps (PCC) was created in July 1984 by the Pennsylvania Conservation Corps Act (Act 112 of 1984). Administered by the Department of Labor and Industry, the mission of the PCC is to develop the workplace skills, life skills and self-confidence of corps members, and to instill in corps members a sense of citizenship and community service through participation in conservation projects, historical work and various other projects of public benefit. Since 1984, the PCC has undertaken more than 900 projects in urban, suburban and rural areas statewide. Entities that are eligible to sponsor PCC projects include: local governments; community-based non-profit organizations; the Pennsylvania Emergency Management Agency; the Pennsylvania Game Commission; the Pennsylvania Fish and Boat Commission; the Historical and Museum Commission; and the Departments of Aging, Corrections, Education, Public Welfare, Military and Veterans Affairs, Community and Economic Development, and Conservation and Natural Resources.

Corps members are Pennsylvania residents, between the ages of 18 and 25. Preference in enrollment is given to the economically disadvantaged. Corps members enroll for an initial one-year term of service, with the possibility of extending for an additional six to twelve months of service. Corps members are paid the minimum wage, with a 10 percent pay increase after six months on the job. Corps members who complete a year of service are eligible to receive a one-time cash bonus of \$1,000. While enrolled, Corps members receive on-the-job vocational training, including carpentry, masonry, electrical work, landscaping and a variety of other trades. Corps members work in crews under the supervision of crewleaders who have experience in the building trades and are skilled in motivating and training young adults.

Crewleaders are supervisory personnel employed by the Department of Labor and Industry pursuant to the Pennsylvania Conservation Corps Act. To be eligible for employment as a crewleader, an individual must be a Pennsylvania resident, be registered with the local Job Center

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DISCUSSION (CONT'D)

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for employment, and be physically and mentally capable of performing labor intensive work and supervisory duties. Crewleader candidates are referred to the PCC by the Bureau of State Employment, and preference in hiring is given to honorably discharged military veterans. Crewleaders are full-time, temporary employees, and receive a starting wage of \$10.45 per hour. Examples of work performed by crewleaders include: interviewing and enrolling corps members, planning, organizing, scheduling and assigning work to corps members, directing crew activities, evaluating corps members' work performance, and compiling and submitting periodic reports. Crewleaders are initially employed for a one-year term of service, which may be extended, at the option of the Department of Labor and Industry, for an unlimited number of additional one-year terms. Crewleaders are not, however, entitled to any of the employee benefits normally provided to regular Commonwealth employees, except for paid Commonwealth holidays and workmen's compensation.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary determined that there would be no increase in unfunded actuarial accrued liability or in the employer normal cost due to the bill, if the full actuarial cost is determined in accordance with the methodology and assumptions used by the Systems' actuaries for their respective annual actuarial valuations.

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POLICY CONSIDERATIONS

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In reviewing the bill, the Commission staff 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.

*Adequacy of Purchase Payments.* 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. As written, the bill appears to require payment by the member of the full actuarial cost of the increased benefit obtained by virtue of the service credit purchase in a lump sum, and therefore, there would be no immediate actuarial impact upon the Systems. Contributions to purchase other types of service under the Codes may be paid by the member in lump sum, installment payments, or through the deferral of the payment amount and the deduction of the purchase amount from the member's present value of future benefits (actuarial debt). The installment payment and deferral options are to be amortized at the statutory interest rate of four percent from the time the member elects to purchase the service. If the General Assembly should decide to amend the bill to permit these additional payment options for the purchase of crewleader service, and if the General Assembly also wishes the member to pay the full actuarial cost of the service purchase, the interest rate charged should be equal to the actuarial assumed rate of return on the Systems' investments, and not the statutory interest rate of four percent. Otherwise, the member would not be paying the full actuarial cost of the service purchase.

*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 bill contains such a time limit. The Commission also recommended that, in cases where the service purchase amount required to be paid by an employee includes amounts representing both employer and employee costs attributable to the purchased service, the portion of the payment representing employer cost be precluded from withdrawal by a member upon retirement. The bill contains a provision prohibiting the withdrawal of service purchase amount at retirement under Retirement Option 4.

Documentation Problems. The Department of Labor and Industry has maintained a centralized payroll system for crewleaders since July 1991. Prior to 1991, crewleaders were employed by the agencies sponsoring specific projects in which they were engaged. Because employment records were decentralized prior to 1991, the member, the employing agency, and the Systems may encounter difficulty in documenting that the prior service was rendered in cases where the service occurred prior to 1991.

Collateral Benefit Eligibility. Although there would be no immediate actuarial cost impact upon the Systems resulting from the bill as written, there may be other retirement benefit costs incurred by the Commonwealth. Through service purchases, a member may become eligible for certain postretirement benefits sooner than otherwise, or may achieve eligibility for certain benefits, including retirement benefits, when the member could not otherwise do so.

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COMMISSION RECOMMENDATION

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On October 23, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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House Bill Number 1975, Printer's Number 2580, passed the House on December 8, 2003, and was referred to the Senate Finance Committee on December 19, 2003.

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**Bill ID:** Amendment Number 3875 to  
House Bill Number 2109, Printer's Number 2826

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

**Subject:** Change in Amortization Periods

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SYNOPSIS

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Amendment Number 3875 to House Bill Number 2109, Printer's Number 2826, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code.

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

- 1) Beginning July 1, 2004, change the amortization period for the outstanding balance of the increased liabilities of Act 9 of 2001, for the outstanding balances of the net actuarial losses incurred in fiscal year 2000-2001 and fiscal year 2001-2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 20-year level dollar;
- 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities, the Act 38 of 2002 asset valuation method change, and for future benefit changes and cost-of-living adjustments (COLAs); and
- 3) For the fiscal year beginning July 1, 2004, mandate a 3.75% minimum employer contribution rate inclusive of the premium assistance contribution rate.

The proposed legislation would amend the State Employees' Retirement Code to:

- 1) Beginning July 1, 2004, change the amortization period for the outstanding balance of the increased liabilities of Act 9 of 2001, for the outstanding balances of the net actuarial losses incurred in calendar year 2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 20-year level dollar; and
- 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities and for future benefit changes and cost-of-living adjustments (COLAs).

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DISCUSSION

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### 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 purpose of the Systems is to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. As of June 30, 2002, there were approximately 695 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS, and as of December 31, 2002, there were approximately 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, 2002, there were 242,616 active members and 141,414

annuitant members of PSERS, and as of December 31, 2002, there were 111,059 active members and 91,228 annuitant members of SERS. In general, the annual retirement benefit for both Systems is equivalent to the product of 2.5 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. 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.

### **Amortization Periods and Actuarial Approach**

With the passage of Act 23 of 1991, beginning July 1, 1991, the existing unfunded actuarial accrued liabilities of the Systems were totaled and amortization payments increasing five percent a year commenced over a 20-year period. The unfunded actuarial accrued liabilities resulting both from actuarial experience and from ad hoc postretirement adjustments and other benefits changes in each succeeding fiscal year were amortized over a 20-year period beginning the following July 1 with the payments increasing five percent a year. Act 9 of 2001 restructured this amortization 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. The changes in the unfunded actuarial accrued liability in each succeeding fiscal year were amortized over a ten-year period on a level dollar basis beginning the following July 1. The amendment would restructure the amortization periods of both PSERS and SERS effective July 1, 2004, to provide that as of July 1, 2004, the amortization period for 1) the outstanding balance of the increased liabilities of Act 9 of 2001, 2) the outstanding balances of the net actuarial losses incurred by PSERS in fiscal years 2000-01 and 2001-02 and by SERS in calendar year 2002, and 3) the gains and losses experienced in all future years would be 20 years rather than 10 years, with the affected amortization contributions being calculated as level-dollar payments. Amortization of the remaining balance of the pre-Act 9 of 2001 unfunded actuarial accrued liability, the future unfunded actuarial accrued liabilities attributable to future benefit changes and ad hoc COLAs, and in the case of PSERS, the gains and losses attributable to the change in the asset valuation methodology under Act 38 of 2002, would continue to be amortized over 10 years on a level-dollar basis, as prescribed by Act 9 of 2001.

### **Governmental Accounting Standards Board Compliance**

Formed in 1984, the Governmental Accounting Standards Board (GASB) was organized to establish and continually improve standards of financial accounting and reporting for state and local governmental entities. In November of 1994, the GASB issued Statement No. 25., which became effective in 1996. The GASB Statement No. 25 requires certain reporting standards to be met for the annual financial reports of defined benefit pension plans. The Statement defines the annual required contribution to be equal to the retirement system's normal cost plus amortization of the unfunded actuarial accrued liability. The maximum acceptable period for amortizing the unfunded actuarial accrued liability is currently 40 years. However, beginning in 2006, the maximum acceptable amortization period will be reduced to 30 years. When the components of the unfunded actuarial accrued liability are separately amortized over different periods, as is the case under the proposed legislation, the Statement requires the resulting equivalent single amortization period for all components combined to not exceed the maximum acceptable amortization period.

Under current provisions of both the SERS and PSERS Codes, all unfunded actuarial accrued liability components are amortized over 10 years, and therefore, the contributions determined under current statutory provisions meet the GASB requirements. However, the proposed legislation would produce employer contribution rates that are less than the GASB minimum in certain years. This is because the credit components of the unfunded actuarial accrued liability

(pre-Act 9 unfunded liability for both Systems and Act 38 asset method change for PSERS) are amortized over 10 years, while the charge components (Act 9 cost and future losses) are amortized over 20 years.

The implications of GASB non-compliance, which may be significant, have yet to be fully ascertained by the independent auditors and consulting actuaries of the Systems. The exact nature of the consequences of GASB non-compliance should be fully understood by Commonwealth policymakers prior to the enactment of the proposed legislation.

## SUMMARY OF ACTUARIAL COST IMPACT

The Systems' consulting actuaries reviewed the amendment and determined that the proposed legislation would effect the employer contribution rates in the manner displayed in the following table.

**Summary of Estimated Future Employer Contribution Rates  
Comparison of Current and Proposed Amortization Schedules**

Contribution Year	SERS		PSERS	
	Current Amortization	Proposed Amortization	Current Amortization	Proposed Amortization
2003	1.04%	1.04%	3.77%	3.77%
2004	3.48%	1.00%	10.51%	3.75%
2005	10.50%	3.73%	16.31%	7.21%
2006	16.47%	7.94%	21.98%	11.22%
2007	19.88%	10.54%	25.12%	13.56%
2008	20.32%	11.03%	26.20%	14.45%
2009	20.46%	11.30%	26.34%	14.67%
2010	20.34%	11.40%	26.26%	14.74%
2011	20.08%	11.39%	25.96%	14.65%
2012	28.64%	26.53%	33.38%	31.82%
2013	24.95%	25.40%	28.47%	30.63%
2014	22.56%	24.01%	22.81%	29.04%
2015	17.15%	23.51%	17.78%	28.44%
2016	12.51%	23.03%	12.86%	27.79%
2017	9.83%	22.57%	9.99%	27.13%
2018	9.20%	22.12%	8.76%	26.47%
2019	8.80%	21.68%	8.31%	25.80%

**Summary of Estimated Future Employer Contribution Rates  
Comparison of Current and Proposed Amortization Schedules  
(Continued)**

Contribution Year	SERS		PSERS	
	Current Amortization	Proposed Amortization	Current Amortization	Proposed Amortization
2020	8.60%	21.26%	8.08%	25.17%
2021	8.50%	20.85%	7.94%	24.50%
2022	8.47%	17.60%	7.89%	19.61%
2023	8.45%	16.12%	7.85%	17.41%
2024	8.44%	15.37%	7.84%	14.85%
2025	8.43%	12.73%	7.82%	12.36%
2026	8.43%	10.48%	7.80%	9.97%
2027	8.43%	9.13%	7.80%	8.60%
2028	8.43%	8.81%	7.79%	8.02%
2029	8.43%	8.62%	7.78%	7.81%
2030	8.43%	8.51%	7.78%	7.70%
2031	8.43%	8.47%	7.76%	7.63%
2032	8.43%	8.45%	7.76%	7.61%
2033	8.43%	8.44%	7.75%	7.60%

POLICY CONSIDERATIONS

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

Standard Funding Methodology. Historically, the General Assembly has engaged in the practice of establishing substantially similar provisions for both SERS and PSERS. The amendment continues to provide a consistent approach for the amortization of liabilities in both systems.

Implications of GASB Non-Compliance. The changes to the amortization periods of both Systems proposed in the draft legislation would result in employer contributions in certain years that are less than the minimum annual required contributions determined in accordance with GASB Statement No. 25. Non-compliance with the GASB funding requirements may have a significant financial impact upon the Commonwealth and school employers.

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POLICY CONSIDERATIONS (CONT'D)

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Change in Amortization Methodology. The Commonwealth's policy makers must determine whether the proposed change in amortization methodology is consistent with the Commonwealth's actuarial funding and fiscal management goals.

Funding Inconsistency. The need for increased contributions in future years is not consistent with the reduction in the SERS and PSERS contribution rates for fiscal year 2004-05 that results from the proposed amortization schedules. This inconsistency may be avoided through mandating minimum contribution rates equal to at least the contribution rates for fiscal year 2003-04.

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COMMISSION RECOMMENDATION

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On October 23, 2003, 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.

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2003

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A later version of House Bill Number 2109 (Printer's Number 3020) had second consideration in the House on December 8, 2003, was re-referred to the House Appropriations Committee on December 8, 2003, and was reported from the House Appropriations Committee with amendments (Printer's Number 3111) on December 16, 2003.

## PART II

### PUBLIC EMPLOYEE RETIREMENT SYSTEM ADMINISTRATION

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#### A. ACT 205 OF 1984.

- **2001 Filing Period**

In April of 2003, the Commission issued its *Status Report on Local Government Pension Plans* based on the data contained in the 2001 Act 205 local government pension plans. In addition to statistical information, the report disclosed that 75 of the 3,055 (2.5%) 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.

- **2003 Filing Period**

In August of 2003, 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 2003. The filing deadline for the 2003 Act 205 reports will be March 31, 2004.

- **Municipal Pension Cost Certification**

In the summer of 2003, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 2003 allocation of General Municipal Pension System State Aid. In 2003, the State aid provided to municipalities to offset their employee pension costs totaled \$162 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**

With the scheduled termination of the Supplemental State Assistance Program, the Commission calculated the 2003 allocations of Act 205 Supplemental State Assistance and certified the allocation amounts to the Department of the Auditor General to permit the final disbursement of Supplemental State Assistance allocations totaling \$329,000 in December of 2003.

**B. ACT 293 OF 1972.**

- **2002 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 2002 actuarial reports on these systems were filed in 2003. 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 2005.

**PART III**

**PUBLIC EMPLOYEE RETIREMENT SYSTEM**

**POLICY DEVELOPMENT AND COORDINATION**

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**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 2002, research began on the Commission's ninth 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

## **B. RESEARCH. (Cont'd)**

completed in early 2003, and in April 2003, the Commission issued its report. The report is a summary and analysis of municipal employee retirement actuarial valuation reports as of January 1, 2001, submitted to the Commission under Act 205 and of county employee retirement system actuarial valuation reports as of January 1, 2000, 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 continued 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 incentives to contain costs, the lack of fiduciary responsibility and liability standards and the deficient retirement codes.

- **Statewide Volunteer Firefighter Pension Plan**

On November 24, 2003, the Pennsylvania House of Representatives adopted House Resolution Number 452, which directed the Commission to undertake a study to identify the public pension policy and funding considerations associated with the implementation of a Statewide volunteer firefighter retirement system, to be funded by the Commonwealth and administered by a single agency. The resolution directed the Commission to review the benefit structures and funding considerations of retirement systems in other governmental units that have established pension plans for volunteer firefighters, to work with the Pennsylvania Emergency Management Agency on plan design consideration and eligibility criteria, and to report the Commission's findings and recommendations to the House of Representatives by June 30, 2004.

Work on the study was completed in late 2003, and the Commission plans to issue its report early in 2004.

## **C. STATEWIDE PUBLIC EMPLOYEE RETIREMENT SYSTEM REVIEWS.**

Under the Public Employee Retirement Commission Act, the Commission conducts periodic reviews of the actuarial and financial reports of the various public employees' retirement systems. The Commission conducted its review of the Public School Employees' Retirement System (PSERS) in February 2003, and of the State Employees' Retirement System (SERS) in October 2003.

## **Commission's Review of the PSERS Actuarial Valuation Report**

At the February 12, 2003, meeting of the Commission, the staff presented a summary of the June 30, 2001 (Revised), and the June 30, 2002, Actuarial Valuation Reports of the Public School Employees' Retirement System issued September 10, 2002, and January 30, 2003, and reviewed some significant facts concerning the condition of the System since the prior valuation.

### **Revised June 30, 2001, Actuarial Valuation**

The valuation was revised to reflect Act 38 of 2002. Act 38 made the following changes:

- ▶ Established 1% floor on the pension rate commencing with 2002/2003 fiscal year contributions;
- ▶ Established 1.15% cap on the total rate for 2002/2003 fiscal year only; and
- ▶ Changed the method of calculating the actuarial value of assets from a three-year smoothing method to a five-year smoothing method.

#### **• General Funding Information**

Act 38 changes to the June 30, 2001, Actuarial Valuation:

- ▶ Increased the actuarial value of assets by \$5,581,827,765;
- ▶ Decreased the negative unfunded accrued liability from \$(2,274,700,000) to \$(6,913,006,000);
- ▶ Increased the fund ratio from 104.7% to 114.4%; and
- ▶ Decreased the employer contribution rate by 7.50%.

These four changes are the results of increasing the smoothing method to five years, thereby spreading recent investment losses over a longer time period.

This change lowered the employer contribution rate from 4.67% to (2.83)% of payroll. However, Act 38 directed that a .18% of payroll contribution be made for pension benefits.

### **June 30, 2002, Actuarial Valuation**

#### **• General Funding Facts**

- ▶ The employer contribution rate increased from 1.15% for fiscal year 2002/2003 to 3.77% for fiscal year 2003/2004. The increase is due to the following reasons:

— Increase due to change in normal rate	.05%
— Decrease for members who did not elect T-D service	(.19)
— Increase due to payroll growth	.31
— Increase due to July 1, 2002, COLA under Act 38	.73
— Increase due to actuarial loss on assets	4.85
— Increase due to actuarial loss on liabilities	.06
— Decrease due to change in health increase contribution rate	(.18)
— Decrease due to floor and cap on contribution rate under Act 38	<u>(3.01)</u>
Total	2.62%

- ▶ The contribution rate of 3.77% of payroll includes 2.98% of payroll for pension benefits plus .79% of payroll for the Health Insurance Premium Assistance Program.

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

• **Changes in Employer Contribution Rate**

Fiscal Year	Member Contributions	Normal Cost	Unfunded Accrued Liability	Health Care	Total Employer Rate
2003/2004	7.08%	7.25%	(4.27)%	.79%	3.77%
2002/2003	7.10%	7.20%	(10.03)%	.97%	1.15%
2001/2002	6.43%	5.63%	(6.05)%	1.09%	1.09%
2000/2001	5.77%	6.29%	(4.65)%	.30%	1.94%
1999/2000	5.72%	6.40%	(2.04)%	.25%	4.61%

• **Reasons for Increase in Unfunded Accrued Liability**

▸ Experience (Gains) Losses

— Loss from investment return on actuarial value of assets	\$3,097,890,000
— Gain from salary increases less than expected	(162,903,000)
— Loss from retirement and other separation experience	128,154,000
— Loss from annuitants mortality experience	<u>69,901,000</u>

Total \$3,133,042,000

• **Legislative Changes**

Act 38 provides for a split COLA to be paid commencing July 1, 2002, for members retired before July 2, 1990, and commencing July 1, 2003, for members retired from July 2, 1990, through July 1, 2002. Funding for the COLA will begin July 1 following each effective date.

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The Commission reviewed this report with Mr. Dale H. Everhart, Executive Director, Mr. Alan VanNord, Chief Investment Officer, and Ms. Kim M. Nicholl, Consulting Actuary, of the Public School Employees' Retirement System.

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

**Summary of Actuarial Valuation  
Public School Employees' Retirement System  
as of June 30, 2001 (Revised) and June 30, 2002**

The following is a summary of the June 30, 2001 (Revised), Actuarial Valuation and the June 30, 2002, Actuarial Valuation of the Public School Employees' Retirement System and a comparison of the 2001 (Revised) and 2002 results with those of 2001.

	<u>6/30/01</u>		<u>6/30/01 Revised</u>		<u>6/30/02</u>	
<b><u>Membership</u></b>						
Active Members	243,311		243,311		242,616	
Inactive and Vested Members	53,979		53,979		61,295	
Retired Members	120,108		120,108		128,203	
Disabled Members	5,773		5,773		6,097	
Survivors and Beneficiaries	6,835		6,835		7,114	
<b><u>Payroll and Annuities Payable</u></b>						
Total Annual Payroll	\$9,414,884,000		\$9,414,884,000		\$9,378,944,000	
Annual Annuities and Benefits	\$1,871,995,000		\$1,871,995,000		\$2,248,291,000	
<b><u>Valuation Data</u></b>						
Accrued Liability <sup>1</sup>	\$47,917,294,000		\$47,917,294,000		\$51,796,511,000	
Assets <sup>2</sup>	<u>50,191,994,000</u>		<u>54,830,300,000</u>		<u>54,296,368,000</u>	
Unfunded Accrued Liability <sup>1</sup>	\$ (2,274,700,000)		\$ (6,913,006,000)		\$ (2,499,857,000)	
Fund Ratio	104.7%		114.4%		104.8%	
<b><u>Funding Costs</u></b>						
Normal Cost	\$1,346,328,412	14.30 %	\$1,346,328,412	14.30 %	\$1,344,002,675	14.33 %
Amortization <sup>3</sup>	<u>(238,196,565)</u>	<u>(2.53)%</u>	<u>(944,312,865)</u>	<u>(10.03)%</u>	<u>(400,480,909)</u>	<u>(4.27)%</u>
Full Actuarial Funding	\$1,108,131,847	11.77 %	\$ 402,015,547	4.27 %	\$ 943,521,766	10.06 %
<b><u>Support</u></b>						
Member	\$ 668,456,764	7.10 %	\$668,456,764	7.10 %	\$664,029,235	7.08%
School District	219,837,541.5	2.335%	<u>(133,220,608.5)</u> <sup>5</sup>	<u>(1.415)%</u>	139,746,265.5	1.49%
Commonwealth	<u>219,837,541.5</u>	<u>2.335%</u>	<u>(133,220,608.5)</u> <sup>5</sup>	<u>(1.415)%</u>	<u>139,746,265.5</u>	<u>1.49%</u>
Total Support <sup>4</sup>	\$1,108,131,847	11.77 %	\$402,015,547	4.27 %	\$943,521,766	10.06%

1. Includes liability for health care payments.

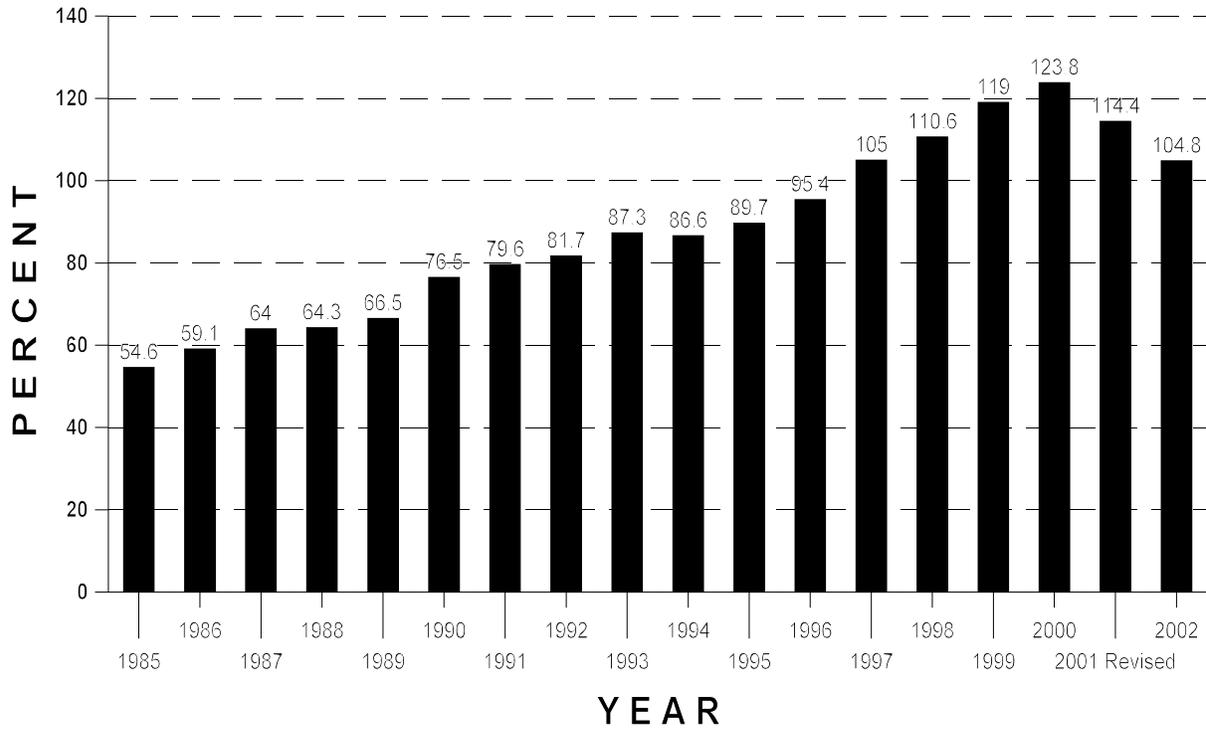
2. The smoothing period for recognizing realized and unrealized gains and losses was changed to 5 years by Act 38 of 2002.

3. Act 23 of 1991 provided for additional liabilities to be payable over a twenty-year period with the dollar amount of the annual payment increasing at five percent per year. Act 9 of 2001 provided for the outstanding balance of the unfunded accrued liability as of June 30, 2001, and future additional liabilities to be amortized over a 10-year period on a level dollar basis.

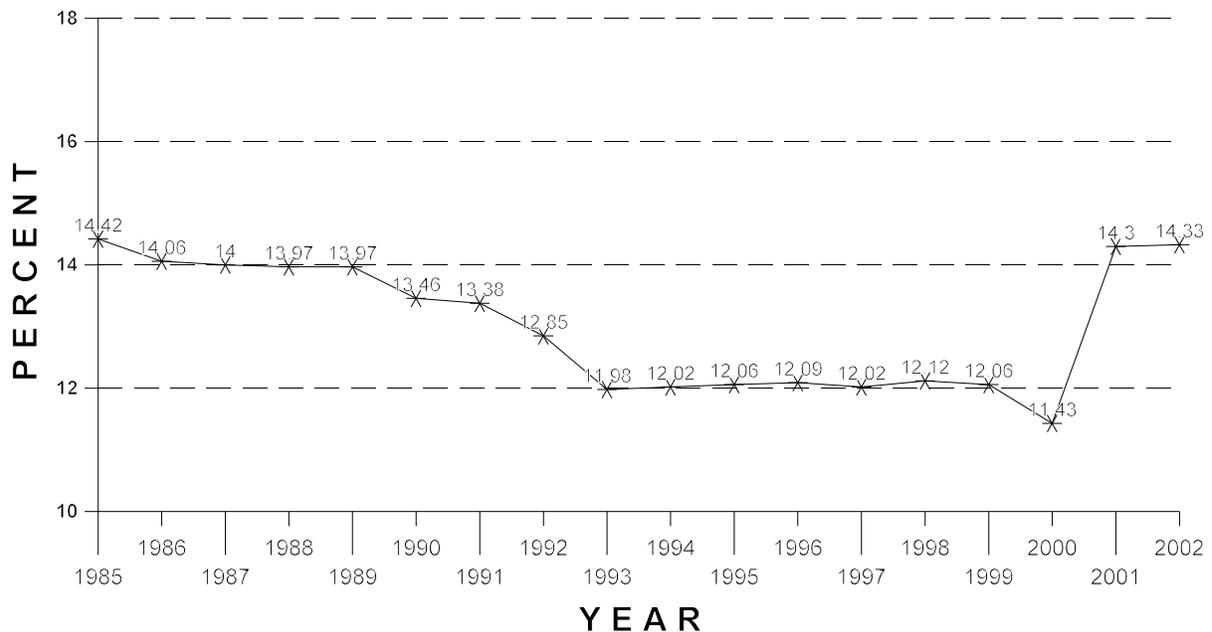
4. The employer health care contribution rate is not included in this total.

5. Due to Act 38 of 2002, the actual retirement support from school districts and the Commonwealth was .18% of payroll.

### PSERS FUNDED RATIO TREND



### PSERS NORMAL COST TREND



## **Commission's Review of the SERS Actuarial Valuation Report**

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At the October 23, 2003, meeting of the Commission, the staff presented a summary of the December 31, 2002, Actuarial Valuation Report of the State Employees' Retirement System issued April 23, 2003, and reviewed some significant facts concerning the condition of the System since the prior valuation.

### ● **General Discussion**

The valuation includes the impact of Act 38 of 2002 which established a two-stage cost-of-living adjustment by date of retirement.

#### ▶ Benefit Changes

- Annuitants who retired on or before July 1, 1990, received an additional annuity in July 2002; annuitants who retired after July 1, 1990, but on or before July 1, 2002, received an additional annuity in July 2003.

#### ▶ Funding Changes

- The employer contribution rate has increased from zero to 1.04 percent.

### ● **Summary of Changes**

The following elements affected the employer contribution rate:

	<b>Normal Cost</b>	<b>Unfunded Liabilities</b>	<b>Total</b>
▶ Loss from Investment Earnings		3.60%	3.60%
▶ Change in Demographics of New Entrants	0.03%	- 0.05%	- 0.02%
▶ Pay Increase Greater than Assumptions		0.07%	0.07%
▶ Change in Actuarial Methods and Assumptions	- 0.24%	0.08%	- 0.16%
▶ Gain from Contributions		- 0.44%	- 0.44%
▶ Act 2002-38 Cost-of-Living Adjustment		0.77%	0.77%
▶ Change in Amortization due to Higher Payroll		0.52%	0.52%
▶ Other Differences Between Experience and Assumptions		0.09%	0.09%
▶ Total Change	- 0.21%	4.64%	4.43%
December 31, 2002, Valuation	8.43%	- 7.39%	1.04%

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

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The following elements affected the amount of the unfunded liability:

▶ Loss from Investment Earnings	\$1,204,242,279
▶ Change in Demographics of New Entrants	(15,797,556)
▶ Pay Increase Greater than Assumptions	23,957,188
▶ Change in Actuarial Methods and Assumptions	27,505,504
▶ Gain from Contributions	(148,463,188)
▶ Act 2002-38 Cost of Liability	256,500,000
▶ Other Differences Between Experience and Assumptions	<u>27,613,861</u>
▶ Total Change	\$1,375,558,089

December 31, 2002, Unfunded Liability \$(2,211,875,220)

● **Employer Normal Cost Rate**

– Normal Cost Rate for New Active Members:	
▶ Superannuation and Withdrawal	12.54%
▶ Disability	0.98%
▶ Death	0.74%
▶ Refunds	<u>0.42%</u>
▶ Total	14.68%
– Member Contributions	6.25%
– Employer Normal Cost	8.43%

\* \* \* \* \*

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

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

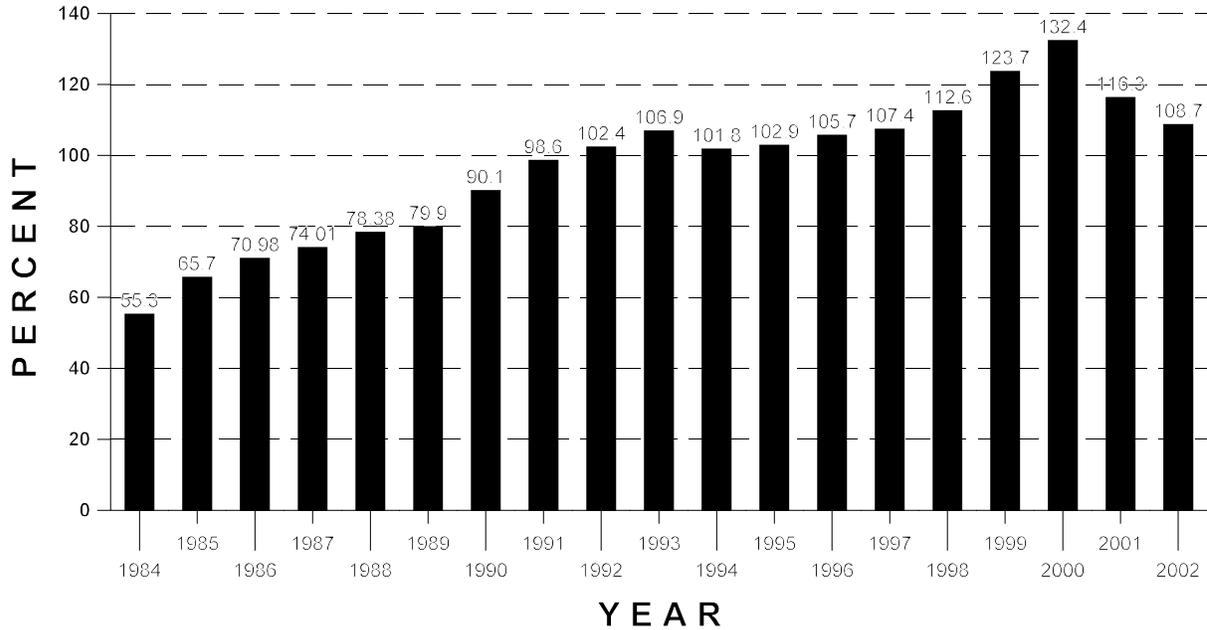
**SUMMARY OF ACTUARIAL VALUATION  
STATE EMPLOYEES' RETIREMENT SYSTEM  
AS OF DECEMBER 31, 2002**

The following is a summary of the December 31, 2002, actuarial valuation of the State Employees' Retirement System and a comparison of the 2002 results with those of 2001.

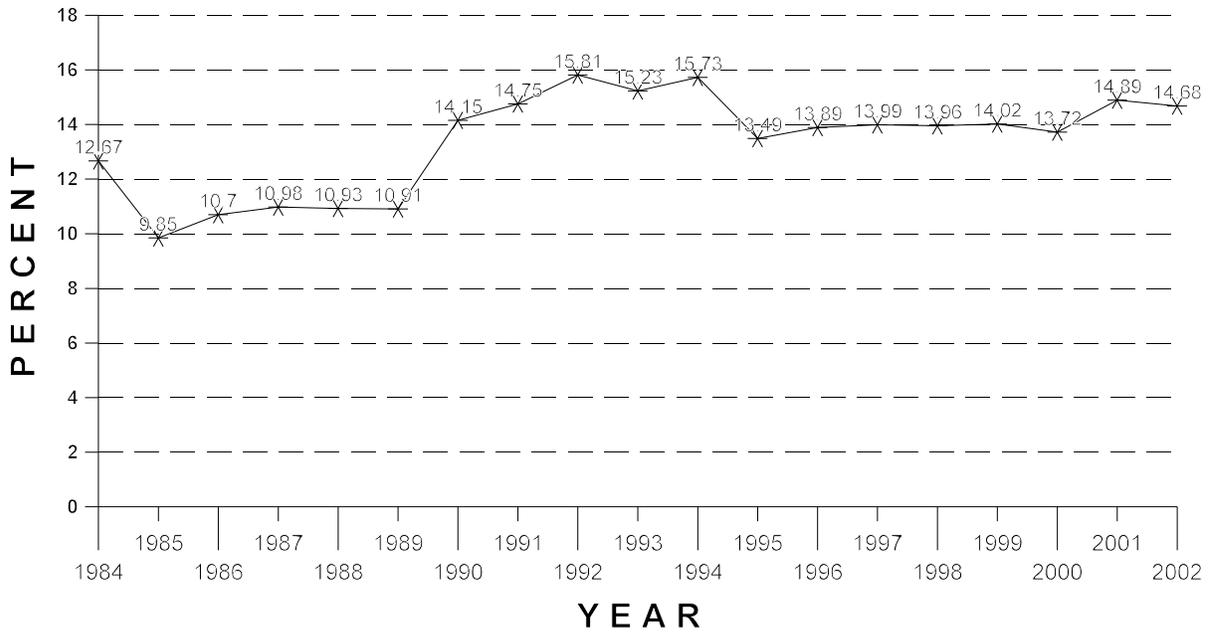
	<u>12/31/01</u>		<u>12/31/02</u>	
<b><u>Membership</u></b>				
Active	109,716		111,059	
Inactive	4,877		5,216	
Retired	74,947		76,574	
Disabled	5,964		6,231	
Survivors and Beneficiaries	8,306		8,423	
<b><u>Payroll and Annuities Payable</u></b>				
Total Annual Payroll	\$4,626,943,000		\$4,845,615,000	
Annual Annuities and Benefits	\$1,035,957,692		\$1,169,299,912	
<b><u>Valuation Data</u></b>				
Accrued Liability <sup>1</sup>	\$23,658,756,647		\$25,285,589,041	
Assets <sup>2</sup>	<u>27,505,493,986</u>		<u>27,497,464,261</u>	
Unfunded Accrued Liability	\$ (3,846,737,339)		\$ (2,211,875,220)	
Funded Ratio	116.3%		108.7%	
	<u>12/31/01</u>		<u>12/31/02</u>	
<b><u>Funding Costs</u></b>				
Normal Cost <sup>3</sup>	\$ 688,951,813	14.89%	\$711,336,282.0	14.68%
Amortization <sup>4</sup>	<u>\$ 556,621,243</u>	<u>(12.03)%</u>	<u>\$358,090,948.5</u>	<u>(7.39)%</u>
Full Actuarial Funding	\$ 132,330,570	2.86%	\$353,245,333.5	7.29%
<b><u>Support</u></b>				
Member	\$ 289,183,938	6.25%	\$302,850,937.5	6.25%
Commonwealth <sup>5</sup>	<u>\$(156,853,368)</u>	<u>(3.39)%</u>	<u>\$ 50,394,396.0</u>	<u>1.04%</u>
Total Support	\$ 132,330,570	2.86%	\$353,245,333.5	7.29%

1. The accrued liabilities do not include a liability of approximately \$364,800,000 for the second stage of the Act 38 COLA which becomes payable in July 2003 for which funding begins July 1, 2004.
2. The asset figure is the actuarial value not the market value.
3. 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 new member less the portion of the cost to be funded by member contributions.
4. Act 9 of 2001 established that, effective July 1, 2002, the amortization of both existing unfunded actuarial accrued liabilities and any future changes caused by actuarial experience and benefit modifications are to be funded over a ten-year period on a level dollar basis.
5. The 1.04% Commonwealth support contribution is the total for the SERS plan contribution, and does not include .03% contribution for the newly established Benefits Completion Plan.

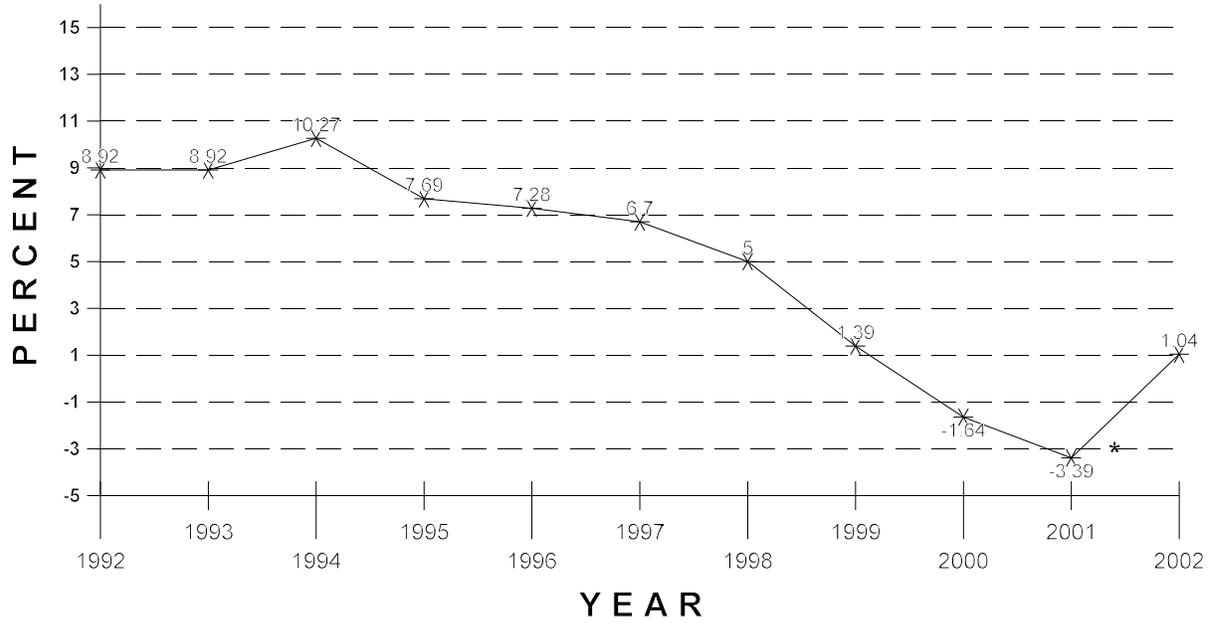
### SERS FUNDED RATIO TREND



### SERS NORMAL COST TREND



### SERS EMPLOYER CONTRIBUTION RATE



\* Negative contribution rates are effectively 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 2003 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 BOROUGHES

Ms. Amy C. Sturges  
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

Ms. Jennifer L. Case  
PENNSYLVANIA MUNICIPAL AUTHORITIES ASSOCIATION

#### **MUNICIPAL EMPLOYEE PENSION ADVISORY COMMITTEE**

Mr. George Tomasak, Chairman  
PENNSYLVANIA PROFESSIONAL FIRE FIGHTERS' ASSOCIATION

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

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

Mr. Joseph Stemple  
PENNSYLVANIA CHIEFS OF POLICE ASSOCIATION

Mr. James R. Weaver  
PENNSYLVANIA STATE EDUCATION ASSOCIATION

**ADVISORY COMMITTEES  
AND CONSULTING ACTUARIES (Cont'd)**

**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 2003 were:

*Conrad Siegel Actuaries*  
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

**LEGISLATIVE PROCEDURES UNDER SECTION 7  
OF THE PUBLIC EMPLOYEE RETIREMENT COMMISSION ACT (Cont'd)**

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.

**BY-LAWS OF THE  
PUBLIC EMPLOYEE RETIREMENT COMMISSION (Cont'd)**

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.

**BY-LAWS OF THE  
PUBLIC EMPLOYEE RETIREMENT COMMISSION (Cont'd)**

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 2003 - 2004 SESSIONS LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES DECEMBER 31, 2003

<b>BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)</b>	<b>SUBJECT</b>	<b>CONCISE HISTORY AND STATUS</b>	<b>DATE</b>
D. L. 5598 P. N. 5598 (N/A)	Document Number 5598 would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code. The proposed legislation would amend the Public School Employees' Retirement Code to: 1) Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001, for the outstanding balances of the net actuarial losses incurred in fiscal year 2000-2001 and fiscal year 2001-2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar; 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities, the Act 38 of 2002 asset valuation method change, and for future benefit changes and cost-of-living adjustments (COLAs); 3) Beginning July 1, 2004, establish a 3.75% minimum employer contribution rate inclusive of the premium assistance contribution rate; and 4) Mandate that the annual employer contribution rate shall in no case be less than the greater of 1% plus the premium assistance contribution rate or the annual contribution required in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 25 plus the premium assistance contribution rate. The proposed legislation would amend the State Employees' Retirement Code to: 1) Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001, for the outstanding balances of the net actuarial losses incurred in calendar year 2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar; 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities and for future benefit changes and cost-of-living adjustments (COLAs); and 3) Mandate that the annual employer contribution rate shall in no case be less than the greater of 1% or the an-	<b>Actuarial Note</b> (Doc. #5598)	07/16/03

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	nual contribution required in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 25.		
D. L. 5599 P. N. 5599 (N/A)	Document Number 5599 would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code. The proposed legislation would amend the Public School Employees' Retirement Code to: 1) Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001, for the outstanding balances of the net actuarial losses incurred in fiscal year 2000-2001 and fiscal year 2001-2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar; 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities, the Act 38 of 2002 asset valuation method change, and for future benefit changes and cost-of-living adjustments (COLAs); and 3) Beginning July 1, 2004, establish a 3.75% minimum employer contribution rate inclusive of the premium assistance contribution rate. The proposed legislation would amend the State Employees' Retirement Code to: 1) Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001, for the outstanding balances of the net actuarial losses incurred in calendar year 2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar; and 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities and for future benefit changes and cost-of-living adjustments (COLAs).	<b>Actuarial Note</b> (Doc. #5599)	07/16/03
H. B. 69 P. N. 84 (Herman)	Constitution of Pennsylvania, amending section 26 to permit the General Assembly to authorize increases in retirement benefits to beneficiaries who are spouses of members of public employee retirement systems, provided such increases are certified to be "actuarially sound."	Referred to House State Government Committee <b>Commission Letter</b> (P. N. 84)	01/30/03 02/25/03
H. B. 85 P. N. 3060 (O'Brien)	PSERS and SERS, the bill would amend the PSERS Code to: 1)Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001 for the outstanding balances of the net actuarial losses incurred in fiscal year 2000-2001 and fiscal year 2001-2002,	Referred to House State Government Committee <b>Actuarial Note</b> (P. N. 104) First Consideration Second Consideration Third Consideration and Final Passage (198-0)	02/03/03 02/12/03 04/07/03 04/28/03 04/30/03

**BILL NUMBER**  
**PRINTER'S NUMBER**  
**(PRIME SPONSOR)**

**SUBJECT**

**CONCISE HISTORY AND STATUS**

**DATE**

and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar; 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities, the Act 38 of 2002 asset valuation method change, and for future benefit changes and cost-of-living adjustments (COLAs); and 3) Beginning July 1, 2004, increase from 1% to 4.0% the minimum employer contribution rate exclusive of the premium assistance contribution rate. The bill would amend the SERS Code to: 1) Beginning July 1, 2004, change the amortization period for the increased liabilities of Act 9 of 2001 for the outstanding balances of the net actuarial losses incurred in calendar year 2002, and for the future gains and losses experienced in all future years from 10-year level dollar to 30-year level dollar; 2) Retain the current 10-year level dollar amortization period for all pre-Act 9 of 2001 unfunded liabilities and for future benefit changes and cost-of-living adjustments (COLAs); 3) Increase the 1% minimum employer contribution rate in the following manner: 2% for the year beginning July 1, 2004; 3% for the year beginning July 1, 2005; and 4% for the year beginning July 1, 2006; and 4) Permit 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 Senate Finance Committee 05/01/03  
**Actuarial Note** (A. 0218) 05/22/03  
 First Consideration 10/27/03  
 Second Consideration 10/29/03  
 Referred to Senate Appropriations 10/29/03  
**Commission Letter** (A. 4482) 12/09/03  
 Third Consideration and Final Passage 12/09/03  
 Referred to House Rules Committee 12/09/03  
 Reported as amended 12/09/03  
 Signed by Governor (Act 40 of 2003) 12/10/03

H. B. 101  
 P. N. 119  
 (Markosek)

PSERS, opening a progressive early retirement incentive, entitling an eligible member to receive an unreduced maximum single life annuity for any member who, during the period from April 1, 2003, through June 30, 2003, has accumulated 34 years of credited service; for the period from April 1, 2004, through June 30, 2004, has accumulated 33 years of credited service; for the period from April 1, 2005, through June 30, 2005, has accumulated 32 years of credited service; for the period from April 1, 2006, through June 30, 2006, has accumulated 31 years of credited service; for the period from April 1, 2007, through June 30, 2007, has accumulated 30 years of credited service.

Referred to House Education Committee 02/03/03

<b>BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)</b>	<b>SUBJECT</b>	<b>CONCISE HISTORY AND STATUS</b>	<b>DATE</b>
H. B. 130 P. N. 122 (Daley)	PSERS and SERS, reopening the "30 and Out" early retirement incentive for active members of PSERS for the period from the effective date of the bill or April 1, 2003, whichever is later, through July 1, 2003, and again from April 1, 2004, through July 1, 2004; and for active members of SERS, for the period from July 1, 2003, through July 1, 2005.	Referred to House State Government Committee <b>Actuarial Note</b> (P. N. 122)	02/03/03 05/22/03
H. B. 152 P. N. 166 (Solobay)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), amending section 704 of the Act by adding a subsection that sets the minimum distribution of state aid to municipalities under the act at \$10,000.	Referred to House Finance Committee	02/06/03
H. B. 153 P. N. 167 (Solobay)	Volunteer Firefighters' Relief Association Act, enumerating additional permitted expenditures of firefighter relief association funds and permitting the funds of any volunteer firefighters' relief association to be used to create a "defined benefit pension plan" or "defined contribution pension plan" as these terms are defined in Act 205 of 1984.	Referred to House Veterans Affairs and Emergency Preparedness Committee	02/06/03
H. B. 167 P. N. 187 (Sather)	Municipal Pension Plan Funding Standard and Recovery Act, amending the distribution formula in Section 704 of the Act to mandate a \$5,000 minimum distribution of General Municipal Pension System State Aid to each municipality.	Referred to House Finance Committee	02/10/03
H. B. 178 P. N. 207 (Lederer)	SERS, permitting members of the Judiciary, who are active members of the System, to purchase up to 10 years of nonstate service credit for prior service with any Pennsylvania county.	Referred to House State Government Committee	02/11/03
H. B. 225 P. N. 1898 (Perzel)	PSERS, amending the emergency return to service and cessation of annuity provisions of the Code by permitting an annuitant member of the System to return to school service for a period of up to a full school year without the cessation of the member's annuity.	Referred to House Education Committee <b>Actuarial Note</b> (P. N. 254) Reported as Amended First Consideration <b>Commission Letter</b> (P. N. 1898) Second Consideration Third Consideration and Final Passage (199-0) Referred to Senate Finance Committee	02/11/03 03/27/03 06/03/03 06/03/03 06/04/03 06/09/03 06/17/03 06/27/03
H. B. 226 P. N. 255 (Bard)	PSERS, requiring the Commonwealth to pay the full amount of the required employer contribution that, in any given year, exceeds 1.15%.	Referred to House Education Committee	02/11/03
H. B. 333 P. N. 379 (Boyes)	SERS, amending section 5706 of the Code by changing the interest rate charged to a member in connection with	Referred to House State Government Committee <b>Actuarial Note</b> (P. N. 379)	02/18/03 07/16/03

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	the elimination of the effect of a frozen present value from the System's actuarial assumed rate of return (currently 8.5%) to the statutory interest rate (4%).		
H. B. 484 P. N. 562 (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	02/25/03
H. B. 487 P. N. 565 (Lewis)	Confidence in Government Pensions Act, prohibiting vendors from offering and certain government officials associated with government pensions from accepting gratuities.	Referred to House State Government Committee	02/25/03
H. B. 503 P. N. 597 (Harhart)	PSERS, providing for the creation, funding and operation of a Supplemental Annuity Reserve Account within the Fund from which all future supplemental annuities (COLAs) will be paid.	Referred to House Education Committee	02/26/03
H. B. 545 P. N. 647 (Bunt)	County Pension Law (Act 96 of 1971), reducing required service for vesting from eight to five years; and empowering the county retirement board to establish, by rule, additional member classes of 1/50 class and 1/40 class with a required 9% employee contribution for each class, and permitting current members of the retirement system to transfer to these new classes.	Referred to House Local Government Committee <b>Actuarial Note</b> (P. N. 647) First Consideration Second Consideration Third Consideration and Final Passage (197-0) Referred to Senate Finance Committee First Consideration <b>Commission Letter</b> (P. N. 2916) Motion to revert to prior Printer's No. 647 Second Consideration Third Consideration and Final Passage (48-1) Signed by Governor (Act 43 of 2003)	03/03/03 03/27/03 04/08/03 05/07/03 05/12/03 05/21/03 11/18/03 11/21/03 12/08/03 12/08/03 12/09/03 12/16/03
H. B. 558 P. N. 1259 (Lewis)	PSERS and SERS, requiring the Boards of the Systems to develop and maintain written policies to be followed in connection with shareholder proxy voting and establishing reporting requirements.	Referred to House State Government Committee First Consideration Reported as Amended <b>Commission Letter</b> (P. N. 1259) Second Consideration Third Consideration and Final Passage (198-0) Referred to Senate Finance Committee	03/03/03 04/07/03 04/07/03 04/25/03 04/28/03 04/30/03 05/01/03
H. B. 561 P. N. 663 (Nickol)	Pennsylvania Securities Act (Act 284 of 1972), amending the act to exclude municipal pension plans from the definition of institutional investor, and to specify prohibited advisory activities and transactions related to municipal pension plans.	Referred to House Committee on Commerce First Consideration Second Consideration Third Consideration and Final Passage (199-0) Referred to Senate Banking and Insurance Committee	03/03/03 03/05/03 03/11/03 04/29/03 05/01/03

<b>BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)</b>	<b>SUBJECT</b>	<b>CONCISE HISTORY AND STATUS</b>	<b>DATE</b>
H. B. 583 P. N. 685 (McGeehan)	Public Employee Pension Forfeiture Act, amending listed offenses to include offenses related to identity theft and theft of confidential government information.	Referred to House Judiciary Committee	03/03/03
H. B. 643 P. N. 750 (Frankel)	PSERS, amending sections 8304 and 8324 of the Code to permit eligible members to receive Class T-D service credit for creditable maternity leave.	Referred to House Education Committee	03/04/03
H. B. 652 P. N. 3008 (Baker)	The bill would amend the Pennsylvania Conservation Corps Act (Act of 1984, P. L. 561, No. 112) to, beginning January 1, 2004, provide for membership in the State Employees' Retirement System for employees classified as "crewleaders" in the Pennsylvania Conservation Corps pursuant to the Pennsylvania Conservation Corps Act, and requiring that service as a crewleader rendered prior to January 1, 2004, be considered purchasable as nonschool or nonstate service. The bill also addresses the provision of Commonwealth-funded medical benefits to crewleaders.	Referred to House Environmental Resources and Energy First Consideration Second Consideration Referred to Appropriations <b>Actuarial Note</b> (H. B. 652, P. N. 758, as amended by A. 3341) Reported as amended Third Consideration and final passage (199 to 0) Referred to Senate Committee on Labor and Industry	03/04/03 06/17/03 06/23/03 06/23/03 10/23/03 11/24/03 11/24/03 11/26/03
H. B. 655 P. N. 761 (S.H. Smith)	PMRS, reducing the eligibility requirement for disability retirement for police officers and firefighters from being unable to engage in any gainful employment to being unable to perform the duties of that office.	Referred to House Local Government Committee <b>Actuarial Note</b> (P. N. 761) First Consideration Second Consideration Third Consideration and Final Passage (197-0) Referred to Senate Finance Committee	03/04/03 03/27/03 04/08/03 04/30/03 05/12/03 05/21/03
H. B. 698 P. N. 826 (Frankel)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205), modifying the formula used for calculating and distributing state aid.	Referred to House Local Government Committee <b>Actuarial Note</b> (P. N. 826)	03/06/03 03/27/03
H. B. 721 P. N. 848 (Travaglio)	SERS, permitting the spouse of a deceased member who was an active officer of the Pennsylvania State Police to purchase service credit for any unpurchased military service.	Referred to House State Government Committee	03/06/03
H. B. 798 P. N. 930 (O'Brien)	An act prohibiting any municipal pension or retirement system in a First Class City from denying retirement and other benefits to surviving spouses of police officers and other police employees if the surviving spouse remarries.	Referred to House Urban Affairs Committee	03/10/03
H. B. 812 P. N. 947 (Casorio)	Municipal Police Pension Law (Act 600), increasing the mandated survivor pension benefit from an amount not less than 50% of the pension the member was receiving or entitled to receive at the time of death to an amount not less than 60%; changing the period over which a	Referred to House Local Government Committee <b>Advisory Note</b> (P. N. 947)	03/11/03 06/18/03

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	member's pension benefit is to be calculated from a period of not more than sixty nor less than the last thirty-six months of employment, to not more than sixty nor less than twenty-four months; increasing the permissible length of service increment from an amount not to exceed \$100 to an amount not to exceed \$600; and increasing the maximum permissible pension benefit payable to a member from 75% of salary to 80% of salary.		
H. B. 813 P. N. 948 (Casorio)	Municipal Police Pension Law (Act 600), reducing the standard age and service requirement for retirement eligibility from 25 years of service and age 55 to 20 years of service at any age.	Referred to House Local Government Committee <b>Advisory Note</b> (P. N. 948)	03/11/03 06/18/03
H. B. 836 P. N. 971 (Maitland)	Municipal Police Pension Law (Act 600), exempting benefits payable under the act from state and local taxation.	Referred to House Finance Committee	03/11/03
H. B. 838 P. N. 973 (Readshaw)	Second Class County Code, permitting county coroners and deputy coroners to retire with full benefits at age 55 with 20 years of service.	Referred to House Urban Affairs Committee	03/11/03
H. B. 887 P. N. 1043 (Marsico)	Volunteer Firefighter's Relief Association Act, amending the act to provide retirement benefits to current and future volunteer firefighters, providing for the establishment and administration of both defined benefit and defined contribution pension plans by volunteer firefighter relief associations to be funded through the annual disbursements of foreign fire insurance moneys to volunteer firefighter relief associations, establishing membership eligibility criteria, vesting requirements, establishing funding standards, actuarial cost method, actuarial reporting requirements, and exempting the Commonwealth from liability associated with the establishment of pension plans under the act.	Referred to House Veterans Affairs and Emergency Preparedness Committee	03/13/03
H. B. 946 P. N. 1112 (B. Smith)	SERS, amending the definition of "enforcement officer" in section 5102 of the Code to include full time employees who are Game Commission Officers of the Pennsylvania Game Commission.	Referred to House Committee on Game and Fisheries	03/20/03
H. B. 989 P. N. 1162 (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	Referred to House Local Government Committee <b>Actuarial Note</b> (P. N. 1162)	03/26/03 12/17/03

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	of the police force who terminates employment after reaching normal retirement age.		
H. B. 990 P. N. 3090 (Reichley)	SERS, reducing superannuation age for district justices to any age upon accrual of 24 years of service and age 50, or age 60, or at any age with 35 years of service, if the member is within three years of completing a term of office.	Referred to House State Government Committee <b>Actuarial Note</b> (P. N. 1649) First Consideration Reported as Amended Second Consideration <b>Commission Letter</b> (P. N. 2112) <b>Commission Letter</b> (A. 4105) <b>Commission Letter</b> (A. 4161) <b>Commission Letter</b> (A. 4554) Third Consideration with Amendments (184-12) Final Passage (184-12) Referred to Senate Finance Committee	03/26/03 05/22/03 06/18/03 06/18/03 09/17/03 09/26/03 11/25/03 12/09/03 12/12/03 12/15/03 12/15/03 12/24/03
H. B. 1031 P. N. 1206 (Lewis)	SERS, permitting the purchase of up to four years of nonstate service for prior service as an elected county official pursuant to a valid leave of absence.	Referred to House State Government Committee	04/02/03
H. B. 1163 P. N. 1381 (Bebko-Jones)	Optional Third Class City Law (Act 362 of 1945), mandating rather than permitting the payment of postretirement adjustments to retired members of an optional retirement system established in a city of the third class.	Referred to House Urban Affairs Committee	04/15/03
H. B. 1175 P. N. 1391 (Boyes)	PSERS, mandating the establishment of an "employer contribution reserve fund" in each school district of the Commonwealth, and establishing criteria for the crediting of payments to and withdrawals from the employer contribution reserve fund.	Referred to House Education Committee	04/15/03
H. B. 1180 P. N. 1396 (Benninghoff)	SERS, amending section 5302 of the Code by adding to the definition of creditable leaves of absence all periods of paid leave during which a member serves as an appointed or elected full-time official or officer at his union rate of compensation in a state-wide organization under the Policeman and Fireman Collective Bargaining Act.	Referred to House State Government Committee <b>Commission Letter</b> (P. N. 1396)	04/15/03 04/24/03
H. B. 1226 P. N. 1473 (Coleman)	PSERS, providing for the purchase of up to four years of nonschool service credit for service as an elected county official pursuant to a valid leave of absence as provided in section 1182 of the Public School Code of 1949.	Referred to House Education Committee	04/24/03

<b>BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)</b>	<b>SUBJECT</b>	<b>CONCISE HISTORY AND STATUS</b>	<b>DATE</b>
H. B. 1333 P. N. 1640 (Belfanti)	Act 600, reducing the normal retirement age and service requirements from age 55 and 25 years of service to 20 years of service at any age, but in no case greater than age 50.	Referred to House Local Government Committee	05/05/03
H. B. 1338 P. N. 1644 (Nickol)	Title 53, Municipalities Generally, adding a section to provide for the establishment of defined contribution pension plans for local tax collectors.	Referred to House Local Government Committee <b>Advisory Note</b> (P. N. 1644)	05/05/03 11/19/03
H. B. 1358 P. N. 1677 (Markosek)	PSERS, establishing a new early retirement incentive program under which active members and active multiple service members of PSERS would be eligible to retire during various periods of time and with various service requirements without any reduction in benefit for retirement under superannuation.	Referred to House Education Committee	05/06/03
H. B. 1370 P. N. 1698 (Argall)	Making an appropriation from the State Employees' Retirement Fund in the amount of \$22,162,000 to the State Employees' Retirement Board for the fiscal year beginning July 1, 2003.	Referred to House Appropriations Committee	05/06/03
H. B. 1371 P. N. 1699 (Argall)	Making an appropriation from the Public School Employees' Retirement Fund in the amount of \$42,947,000 to the Public School Employees' Retirement Board for the fiscal year beginning July 1, 2003.	Referred to House Appropriations Committee	05/06/03
H. B. 1413 P. N. 1747 (Freeman)	Act 600, permitting overfunded pension plans to provide additional retirement benefits to members.	Referred to House Local Government Committee	05/07/03
H. B. 1432 P. N. 1778 (Nickol)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), providing for the establishment of in-service retirement option plans by local governments and making various amendments of a technical, editorial or administrative nature.	Referred to House Local Government Committee <b>Actuarial Note</b> (P. N. 1778) First Consideration <b>Actuarial Note</b> (A. 2861) Second Consideration <b>Actuarial Note</b> (A. 2133) <b>Commission Letter</b> (A. 3642) <b>Commission Letter</b> (A. 3753)	05/12/03 05/22/03 07/01/03 07/16/03 09/16/03 10/23/03 10/27/03 10/27/03
H. B. 1443 P. N. 1799 (Reichley)	SERS, reducing superannuation age for district justices to age 50 and 24 years of credited service.	Referred to House State Government Committee <b>Commission Letter</b> (P. N. 1799)	05/13/03 06/10/03
H. B. 1450 P. N. 1825 (Armstrong)	SERS, amending the definition of "enforcement officer" in section 5102 of the Code to include full time employees who act as Game Commission Officers of the Pennsylvania Game Commission.	Referred to House Game and Fisheries Committee	05/14/03
H. B. 1467 P. N. 1853 (T. Stevenson)	SERS, permitting an annuitant of the System to return to service as a certified instructor in the Municipal Police Officers' Education and Training Program without cessation of annuity.	Referred to House State Government Committee	05/22/03

<b>BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)</b>	<b>SUBJECT</b>	<b>CONCISE HISTORY AND STATUS</b>	<b>DATE</b>
H. B. 1477 P. N. 1863 (Coy)	SERS, defines "campus police officer;" amends the definition of superannuation age to provide age 50 normal retirement eligibility to campus police officers, creates a new membership class - "class P" and provides for the transfer of campus police officers to class P; and provides for an enhanced benefit for campus police officers equal to 50% of the member's final average salary for at least 20 but less than 25 years service, and 75% of the member's final average salary for member's with 25 or more years service credit, with no reduction for age if the member retires prior to superannuation age (age 50).	Referred to House Finance Committee Re-referred to State Government Committee	05/29/03 07/08/03
H. B. 1570 P. N. 1977 (McIlhattan)	PSERS, permitting an active member to purchase up to three years of nonschool service credit for previous work experience used by the member to obtain certification as a vocational teacher under a nonbaccalaureate program.	Referred to House Education Committee	06/10/03
H. B. 1625 P. N. 2052 (Bard)	PSERS, amending the Code to, beginning with the 2003-2004 school year, eliminate the requirement for school employers to make contributions on behalf of active members and requiring the Commonwealth to make all necessary contributions to the system on behalf of active members.	Referred to House Education Committee	06/16/03
H. B. 1700 P. N. 2198 (Godshall)	PSERS, increasing the minimum employer contribution rate from not less than 1% to not less than 3.75%, plus the premium assistance contribution rate.	Referred to House Education Committee	06/25/03
H. B. 1811 P. N. 2355 (Nickol)	PSERS, providing for the qualifications and status of designees appointed by Board members.	Referred to House Education Committee	07/07/03
H. B. 1833 P. N. 2391 (Grucela)	Municipal Police Pension Law (Act 600 of 1955), permitting the in-service return of member contributions to active members of the pension plan.	Referred to House Finance Committee	07/09/03
H. B. 1903 P. N. 2487 (Bebko-Jones)	County Pension Law (Act 96 Of 1971), reducing superannuation retirement eligibility requirements from age 55 with 20 years service to age 50 with 15 years service; and reducing the minimum eligibility requirements for special early retirement incentives from age 55 with at least 10 years service to age 50 with at least 10 years service.	Referred to House Finance Committee	08/04/03
H. B. 1922 P. N. 2515 (Hutchinson)	PSERS, permitting active members to purchase up to 5 years of nonschool service credit for previous service as a county employee.	Referred to House Education Committee	08/15/03

<b>BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)</b>	<b>SUBJECT</b>	<b>CONCISE HISTORY AND STATUS</b>	<b>DATE</b>
H. B. 1951 P. N. 2545 (Dally)	PMRS, liberalizing the service purchase eligibility criteria for intervening military service by removing language in sections 204 and 305 of the Law which currently requires the service to be purchased to have occurred during a time of war, armed conflict or national emergency proclaimed by the President of the United States.	Referred to House Finance Committee	09/08/03
H. B. 1975 P. N. 2580 (Baker)	PSERS and SERS, permitting the purchase of up to 5 years of creditable non-school or nonstate service credit for service as a crewleader with the Pennsylvania Conservation Corps rendered prior to January 1, 2004, providing: 1) the member elects to purchase the service credit within 3 years of becoming eligible to do so; 2) the member bears the full actuarial cost associated with the service purchase authorization; and 3) the member is prohibited from withdrawing contributions for the service purchase under Option 4.	Referred to House Finance Committee <b>Actuarial Note</b> (P. N. 2580) First Consideration Second Consideration Third Consideration and Final Passage (198-0) Referred to Senate Finance Committee	09/11/03 10/23/03 11/24/03 11/25/03 12/08/03 12/19/03
H. B. 1984 P. N. 2602 (Frankel)	The bill would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to implement a modification of the actuarial funding requirements for the City of Pittsburgh.	Referred to House Finance Committee	09/16/03
H. B. 1990 P. N. 2608 (Travaglio)	SERS, permitting active members to convert to state service up to five years of previous service as an elected official of any county or third class city within 90 days of entering state service.	Referred to House Finance Committee	09/16/03
H. B. 1998 P. N. 2646 (Hanna)	PSERS, amending the definition of superannuation age applicable to all active members from age 62 to age 60 or any age upon accrual of 35 eligibility points.	Referred to House Education Committee	09/29/03
H. B. 2006 P. N. 2804 (Turzai)	An act providing for intergovernmental cooperation in the City of Pittsburgh and establishing an intergovernmental authority. A. 4625 would amend the bill to in turn amend Act 205 to implement a modification of the actuarial funding requirements for the City of Pittsburgh.	Referred to House Finance Committee First Consideration Second Consideration <b>Commission Letter</b> (A. 4625)	10/16/03 11/24/03 12/09/03 12/16/03
H. B. 2052 P. N. 2702 (Flick)	SERS, permitting active members to purchase up to five years of nonstate service credit for previous service with a county, city, borough, incorporated town or township.	Referred to House Finance Committee	09/30/03
H. B. 2109 P. N. 3111 (Nickol)	SERS, the bill would amend the SERS Code to: increase the minimum employer contribution rate to 4% beginning July 1, 2006, and for each subsequent year	Referred to House State Government Committee <b>Commission Letter</b> (P. N. 2826) <b>Actuarial Note</b> (A. 3875)	10/21/03 10/21/03 10/23/03

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	thereafter; create a new class of service within SERS, to be known as Class C-1, which would have a class of service multiplier of 1.25, and to permit certain current and former Class C members of SERS (Liquor Control Enforcement Officers) to elect membership in Class C-1 and receive Class C-1 service credit for all periods of Class C service; reduce the interest rate charged to a member in connection with the elimination of the effect of a member's frozen present value from the System's actuarial assumed rate of return (currently 8.5%) to the Code's statutory interest rate (4%); liberalize the provisions of Section 5302(b) of the Code pertaining to creditable leaves of absence by permitting an active member of the State Employees' Retirement System (SERS) to serve as an appointed or elected official or officer of a statewide employee organization which is a collective bargaining representative under the Policeman and Fireman Collective Bargaining Act or the Public Employee Relations Act for an unlimited number of consecutive terms of office, receive compensation at the member's union rate of pay, and continue to accrue service credit in SERS during the creditable leave of absence; remove language in the Code authorizing the establishment of an independent retirement program by the Juvenile Court Judges' Commission; and make certain other amendments to the Code which are technical, administrative, or corrective in nature.	Reported as amended First Consideration Second Consideration Re-referred to Appropriations <b>Commission Letter</b> (A. 4714) <b>Commission Letter</b> (A. 4557) <b>Commission Letter</b> (A. 4729) Re-reported as amended	11/25/03 11/25/03 12/08/03 12/08/03 12/15/03 12/16/03 12/16/03 12/16/03
H. B. 2187 P. N. 2975 (Gordner)	PSERS, amending the Code to increase the number of annuitant members of the Board from one to three.	Referred to House Education Committee	11/24/03
H. B. 2220 P. N. 3017 (Mustio)	PSERS, permitting an annuitant to return to school service under a separate contract by a public or charter school in an extracurricular position performed primarily outside of regular instructional hours without cessation of the member's annuity.	Referred to House Education Committee	11/25/03
H. B. 2255 P. N. 3086 (Stern)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), the bill would amend the Act by making certain technical amendments to the Act. The technical amendments contained in the bill would: 1) provide for the Public Employee Retirement Commission to certify pension cost data based on the latest report required to be filed under Chapter 2 of Act 205; 2) ex-	Referred to House Finance Committee <b>Commission Letter</b> (P. N. 3086)	12/11/03 12/16/03

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	<p>PLICITLY provide authority to the Auditor General to withhold State aid in instances of funding deficiencies until the deficiencies are resolved; 3) upon the expiration of the Supplemental State Assistance (SSA) Program in 2003, provide for the cessation of determinations of distress for municipalities, provide for the cessation of certifications to the General Assembly of needed SSA appropriations, and provide for the cessation of certifications to the Auditor General of the SSA for each eligible municipality; 4) authorize continuation of any Act 205 Recovery Program remedy previously elected and implemented that is being used by an eligible municipality on December 31, 2003; and 5) limit the special taxing authority currently available to certain municipalities under the Recovery Program by preventing the application of increases in the earned income tax on nonresidents otherwise subject to a municipality's earned income tax.</p>		
<p>H. B. 2269 P. N. 3120 (Nickol)</p>	<p>Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), amending the act to require affected municipalities to specifically include the remaining balance of each increment of unfunded actuarial accrued liability attributable to the provision of certain survivor benefits payable pursuant to Act 600 of 1955 in the municipal pension plan's actuarial valuation reported; provide for the Commission to certify pension cost data based on the latest report required to be filed under Chapter 2 of Act 205; and explicitly provide authority to the Auditor General to withhold State aid in instances of funding deficiencies until the deficiencies are resolved.</p>	<p>Referred to House Finance Committee</p>	<p>12/17/03</p>
<p>H. R. 170 P. N. 1261 (Tangretti)</p>	<p>A concurrent resolution establishing a select committee to consider and report on issues related to a uniform municipal police pension system and portability among police pension plans, and directing the Public Employee Retirement Commission to provide expertise and staff assistance to the select committee.</p>	<p>Referred to House Rules Committee</p>	<p>04/08/03</p>
<p>H. R. 263 P. N. 1580 (Hasay)</p>	<p>A resolution directing the Legislative Budget and Finance Committee to study and annually report its findings to the General Assembly on the global security risk assessment procedures of SERS, PSERS and the State Treasury in order to determine if these funds hold invest-</p>	<p>Referred to House Rules Committee Adopted (198-0)</p>	<p>05/05/03 05/07/03</p>

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	ments tied to known terrorist states or organizations.		
H. R. 343 P. N. 2281 (Lewis)	PSERS and SERS, a House resolution urging the Boards of the respective Systems to cooperate fully with the Attorney General's section 402 Fiscal Code ruling and with the Auditor General's special performance audit of the Systems.	Referred to House Finance Committee	06/30/03
H. R. 361 P. N. 2447 (Lewis)	A House resolution urging the respective Boards of SERS and PSERS to cooperate fully with the Auditor General's special performance audits of the Systems in a timely and professional manner.	Referred to House Rules Committee Adopted (187-12)	07/17/03 07/18/03
H. R. 452 P. N. 2801 (Good)	A resolution directing the Public Employee Retirement Commission to study the implementation of a statewide retirement system for volunteer firefighters, and to report the Commission's findings and recommendations to the House of Representatives by June 30, 2004.	Referred to House Finance Committee Adopted (199-0)	10/16/03 11/24/03
S. B. 25 P. N. 20 (Rhoades)	PSERS, permitting the purchase of service credit for unused sick leave.	Referred to Senate Finance Committee <b>Actuarial Note</b> (P. N. 20)	01/21/03 05/22/03
S. B. 56 P. N. 56 (Greenleaf)	PSERS and SERS, reopening the "30 and Out" early retirement incentive for members of PSERS for the period from April 1, 2003, through June 30, 2003; and again from April 1, 2004, through June 30, 2004; and for members of SERS retroactively from July 1, 1999, through June 30, 2004.	Referred to Senate Finance Committee	01/24/03
S. B. 58 P. N. 58 (Greenleaf)	Constitution of Pennsylvania, amending section 26 to permit the General Assembly to authorize increases in retirement benefits to beneficiaries who are spouses of members of public employee retirement systems, provided such increases are certified to be "actuarially sound."	Referred to Senate Finance Committee <b>Actuarial Note</b> (P. N. 58)	01/24/03 02/12/03
S. B. 85 P. N. 83 (Mowery)	Volunteer Firefighters' Relief Association Act, providing for volunteer firefighters' money purchase deferred benefits plans.	Referred to Senate Finance Committee	01/28/03
S. B. 99 P. N. 97 (Logan)	Third Class City Code, increasing the limit on the service increment payable to public safety officers 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	01/29/03
S. B. 101 P. N. 101 (Logan)	Second Class County Code, providing age 50 retirement benefits to county detectives	Referred to Senate Finance Committee	02/03/03

<b>BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)</b>	<b>SUBJECT</b>	<b>CONCISE HISTORY AND STATUS</b>	<b>DATE</b>
S. B. 106 P. N. 144 (Helfrick)	SERS, amending section 5102 of the SERS Code by adding Game Commission Officers to the definition of "Enforcement Officer."	Referred to Senate Finance Committee First Consideration Re-referred to Appropriations <b>Actuarial Note</b> (P. N. 144)	02/03/03 10/27/03 10/29/03 12/17/03
S. B. 117 P. N. 114 (Mellow)	SERS, permitting active members to purchase up to three years of nonstate service for time spent on furlough, provided the member pays the full actuarial cost of the increase in the projected superannuation annuity caused by the additional service credit, and providing contributions on account of the service purchase are prohibited from withdrawal as a lump sum under retirement Option 4.	Referred to Senate Finance Committee <b>Actuarial Note</b> (P. N. 114)	02/03/03 03/27/03
S. B. 118 P. N. 115 (Mellow)	PSERS, permitting an active member to purchase up to two years of nonschool service for service as a Peace Corps volunteer.	Referred to Senate Finance Committee <b>Actuarial Note</b> (P. N. 115)	02/03/03 02/12/03
S. B. 130 P. N. 126 (Mellow)	PSERS and SERS, establishing a permanent "30 and Out" early retirement incentive for active members of PSERS, provided the member files an application for retirement following the completion of the "school term" as that term is defined in the Public School Code of 1949, but in no case earlier than May 15 nor later than the ensuing July 15 of any year; and for active members of SERS, beginning with the effective date of the bill.	Referred to Senate Finance Committee	02/03/03
S. B. 160 P. N. 165 (Costa)	Second Class County Code, permitting deputy sheriff's to retire upon attaining age fifty with 25 years service.	Referred to Senate Finance Committee	02/04/03
S. B. 200 P. N. 200 (A. Williams)	PSERS, permitting an annuitant who is a certified teacher to return to school service for an unlimited period without cessation of the member's annuity.	Referred to Senate Finance Committee First Consideration Re-referred to Appropriations <b>Commission Letter</b> (A. 3959) <b>Actuarial Note</b> (P. N. 200)	02/06/03 10/27/03 10/29/03 11/19/03 12/17/03
S. B. 249 P. N. 254 (O'Pake)	PMRS, reducing the eligibility 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	02/07/03
S. B. 334 P. N. 418 (Logan)	PSERS and SERS, beginning January 1, 2003, providing a minimum annual COLA to all annuitants who have been on annuity for at least 24 months.	Referred to Senate Finance Committee	03/05/03

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 359 P. N. 372 (Stack)	PSERS and SERS, effectively instituting a permanent "30 and Out" early retirement incentive for active members of PSERS and SERS beginning with the effective date of the bill.	Referred to Senate Finance Committee	03/03/03
S. B. 360 P. N. 373 (Stack)	PSERS and SERS, beginning July 1, 2004, providing an annual COLA to annuitants of both systems that is calculated by annually applying the percentage change in the CPI-U.	Referred to Senate Finance Committee	03/03/03
S. B. 367 P. N. 380 (D. White)	PSERS, permitting the purchase of up to four years of nonschool service for service as an elected county official performed pursuant to a valid leave of absence as provided in section 1182 of the Public School Code of 1949.	Referred to Senate Finance Committee	03/03/03
S. B. 388 P. N. 399 (Piccola)	PSERS, permitting members to purchase up to five years of service credit for previous service as a school employee, teacher or instructor in an accredited Pennsylvania nonpublic elementary or secondary school, an accredited Pennsylvania private school, or for previous service as a teacher or instructor of special education classes in an accredited Pennsylvania approved private elementary or secondary school, provided the member was entitled to a provisional or professional teaching certificate, and further provided that the member bears the full actuarial cost associated with 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	03/03/03
S. B. 389 P. N. 483 (Piccola)	SERS, amending section 5706 of the Code by changing the interest rate charged to a member in connection with the elimination of the effect of a frozen present value from the System's actuarial assumed rate of return (currently 8.5%) to the statutory interest rate (4%).	Referred to Senate Finance Committee	03/12/03
S. B. 443 P. N. 966 (Armstrong)	An act providing for the right of sworn members of the Pennsylvania State Police to enter into deferred retirement option programs and establishing the deferred retirement option program in state government for members of the Pennsylvania State Police.	Referred to Senate Finance Committee Reported as Amended First Consideration Re-referred to Appropriations <b>Actuarial Note</b> (P. N. 966)	03/13/03 06/16/03 06/16/03 06/17/03 07/16/03
S. B. 454 P. N. 471 (Greenleaf)	County Pension Law (Act 96 of 1971), reducing the vesting requirements from eight to five years and empowering the county retirement board to establish 1/50 and 1/40 membership classes.	Referred to Senate Local Government Committee	03/11/03

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 474 P. N. 505 (Kasunic)	PSERS and SERS, beginning July 1, 2004, providing a COLA to all eligible annuitants, the amount of which shall be equal to the increase in the CPI for the immediately preceding year; the increase in the unfunded actuarial accrued liability resulting from the COLA will be amortized over 20 years increasing 5% per year.	Referred to Senate Finance Committee	03/12/03
S. B. 528 P. N. 576 (Dent)	Municipal Police Pension Law (Act 600), increasing the maximum permissible service increment from an amount not to exceed \$100 to an amount not to exceed \$500.	Referred to Senate Finance Committee	03/24/03
S. B. 610 P. N. 709 (Tartaglione)	SERS, opening an election period from 7/1/03 to 6/30/05, during which an active member of the system may purchase up to five years of nonstate service credit for prior service with any municipality of the Commonwealth.	Referred to Senate Finance Committee	04/21/03
S. B. 629 P. N. 667 (Thompson)	SERS, making an appropriation from the SERS Fund in the amount of \$22,162,000 to provide for expenses of the SERS Board for the fiscal year 7/1/03 to 6/30/04.	Referred to Senate Appropriations Committee First Consideration Second Consideration Third Consideration and Final Passage (49-0) Referred to House Appropriations Committee First Consideration Second Consideration Third Consideration and Final Passage (199-0) Signed by Governor (Act No. 8A of 2003)	04/17/03 04/21/03 04/22/03 04/23/03 04/24/03 06/23/03 06/24/03 06/30/03 07/06/03
S. B. 630 P. N. 668 (Thompson)	PSERS, making an appropriation from the PSERS Fund in the amount of \$42,947,000 for the expenses of the PSERS Board for the fiscal year 7/1/03 to 6/30/04.	Referred to Senate Finance Committee First Consideration Second Consideration Third Consideration and Final Passage (49-0) Referred to House Appropriations Committee First Consideration Second Consideration Third Consideration and Final Passage (200-0) Signed by Governor (Act No. 2A of 2003)	04/17/03 04/21/03 04/22/03 04/23/03 04/24/03 06/23/03 06/24/03 06/25/03 06/30/03
S. B. 686 P. N. 789 (Stout)	SERS, providing for the purchase of up to 5 years nonstate service credit for previous service as an employee or officer of any municipality in the Commonwealth or for service as an employee of the Federal Government.	Referred to Senate Finance Committee <b>Actuarial Note</b> (P. N. 789)	05/02/03 10/23/03

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 694 P. N. 794 (Kukovich)	PSERS and SERS, amending the PSERS and SERS Codes to permit the payment of future cost-of-living adjustments to the beneficiary or survivor of a deceased retired member.	Referred to Senate Finance Committee	05/02/03
S. B. 696 P. N. 1048 (Thompson)	Amending Title 53 (Municipalities Generally) providing for prohibition on political activity relating to police officers and for the powers and duties of the Municipal Police Officers Education and Training Commission. Amendment Number 3401 would amend Senate Bill Number 696, Printer's Number 1048, to in turn amend Title 53 (Municipalities Generally) of the Pennsylvania Consolidated Statutes, Chapter 21, Subchapter E, by adding a section (Section 2182) that would: 1) permit certain employees of a wastewater authority established pursuant to Chapter 56 (relating to municipal authorities) and that commenced operation after December 1, 2001, who were formerly employees of the borough or township that established the wastewater authority, to elect to retain membership in the borough retirement system; and 2) permit a borough to treat all eligible employees of the wastewater authority who elect to retain membership in the borough retirement system as borough employees for the purpose of determining the annual allocation of General Municipal Pension System State Aid according to the distribution formula set forth in the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984).	Referred to Senate Law and Justice Committee First Consideration Second Consideration Third Consideration and Final Passage Referred to House Local Government Committee Reported as amended First Consideration Second Consideration <b>Actuarial Note</b> (A. 3401) Re-committed to Appropriations	05/02/03 06/10/03 06/16/03 06/17/03 06/23/03 07/01/03 07/01/03 07/02/03 10/23/03 11/25/03
S. B. 732 P. N. 850 (Piccola)	Municipal Police Pension Law (Act 600), reducing the age and service requirements for normal retirement eligibility to age 50 with 20 years of service; and increasing the maximum amount of the service increment that may be paid to a member to an amount not to exceed 25% of the member's monthly average salary.	Referred to Senate Finance Committee	05/12/03
S. B. 753 P. N. 909 (Lavalle)	Municipal Police Pension Law (Act 600 of 1955), amending Section 5(h) of the Act to require pension plans that provide a vested benefit to members who have separated from employment after completing 12 years of service to begin paying benefits to the member beginning at age 62 or upon attainment of the member's superannuation retirement date, whichever is sooner.	Referred to Senate Finance Committee	06/03/03

<b>BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)</b>	<b>SUBJECT</b>	<b>CONCISE HISTORY AND STATUS</b>	<b>DATE</b>
S. B. 812 P. N. 979 (Greenleaf)	SERS, amending the Code to provide for a Deferred Retirement Option Plan for eligible active members.	Referred to Senate Finance Committee	06/17/03
S. B. 873 P. N. 1095 (Costa)	The bill would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to implement a modification of the actuarial funding requirements for the City of Pittsburgh.	Referred to Senate Finance Committee	07/15/03
S. B. 904 P. N. 1152 (Greenleaf)	SERS, amending the Code by changing the name of "district justice" to "magisterial district judge."	Referred to Senate Judiciary Committee	09/15/03
S. B. 906 P. N. 1153 (D. White)	PSERS, amending section 8346 of the Code to permit an annuitant of the system to be reemployed by a public or charter school in an "extracurricular position" performed primarily outside regular instructional hours and which is not part of the mandated course curriculum without loss of annuity.	Referred to House Finance Committee	09/15/03
S. B. 940 P. N. 1314 (Orie)	An act providing for intergovernmental cooperation in the City of Pittsburgh and establishing an intergovernmental authority. A. 4626 would amend the bill to in turn amend Act 205 to implement a modification of the actuarial funding requirements for the City of Pittsburgh.	Referred to Senate Finance Committee Reported as amended First Consideration Second Consideration Amended on third consideration Third Consideration and Final Passage (41-8) Referred to House Finance Committee Reported as amended First Consideration Second Consideration <b>Commission Letter</b> (A. 4626) Third Consideration with amendments Final Passage (116-79) Referred to Senate Rules and Executive Nominations Committee Reported on concurrence as committed Vetoed by the Governor (Veto No.1 of 2003)	10/23/03 11/18/03 11/18/03 11/19/03 11/25/03 11/25/03 12/08/03 12/10/03 12/10/03 12/11/03 12/16/03 12/18/03 12/18/03 12/19/03 12/19/03 12/30/03
S. B. 944 P. N. 1251 (Conti)	Volunteer Firefighters' Relief Association Act, authorizing a volunteer firefighter's relief association in a Second Class-A County to expend relief association funds to provide a qualified retirement plan for volunteer firefighters.	Referred to Senate Finance Committee	11/03/03
S. B. 963 P. N. 1286 (Dent)	PSERS, amending the Code by increasing the number of annuitant members of the Board from one to three.	Referred to Senate Finance Committee	11/24/03

BILL NUMBER	PRINTER'S NUMBER	(PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. R. 132	P. N. 1142	(Dent)	PSERS and SERS, a resolution urging the Boards of the respective Systems to cooperate fully with the Auditor General's performance audit.	Referred to Senate Finance Committee	09/02/03

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